THE CRISIS OF DEMOCRATIC CAPITALISM

MARTIN WOLF

ALSO BY MARTIN WOLF

The Shifts and the Shocks: What We've Learned—and Have Still to Learn—from the Financial Crisis

Fixing Global Finance

Why Globalization Works

The Resistible Appeal of Fortress Europe

India's Exports

THE CRISIS OF DEMOCRATIC CAPITALISM

Martin Wolf

PENGUIN PRESS
NEW YORK
2023

PENGUIN PRESS
An imprint of Penguin Random House LLC
penguinrandomhouse.com

Copyright © 2023 by Martin Wolf
Penguin Random House supports copyright. Copyright fuels creativity, encourages diverse voices, promotes free speech, and creates a vibrant culture. Thank you for buying an authorized edition of this book and for complying with copyright laws by not reproducing, scanning, or distributing any part of it in any form without permission. You are supporting writers and allowing Penguin Random House to continue to publish books for every reader.

Text Credits
This page: Excerpt from “Illiberal Democracy or Undemocratic Liberalism?” from *Project Syndicate*, 2016, by Yascha Mounk. Used by permission.
This page: Letter from J. M. Keynes to F. W. Pethick-Lawrence, June 21, 1942 (PETH 2/218). Used by permission of The Master and Fellows of Trinity College, Cambridge.
This page: Excerpt from “How Far Will International Economic Integration Go?” from *Journal of Economic Perspectives*, Winter 2000, by Dani Rodrik. Used by permission.

Image Credits
Data for figure 19, “Decadal average growth rate of output per hour”—Total Economy Database, The Conference Board, May 2017.
Data for figure 20, “Private debt over GDP in mature economies”—IIF Global Debt Monitor.
Data for table 3, “The three dimensions of British political loyalties”—Electoral Calculus.
Data for table 4, “The seven tribes of modern British politics”—Electoral Calculus.

LIBRARY OF CONGRESS CATALOGING-IN-PUBLICATION DATA

Names: Wolf, Martin, 1946– author.
Title: The crisis of democratic capitalism / Martin Wolf.
Description: New York: Penguin Press, [2023] | Includes bibliographical references and index.
Identifiers: LCCN 2022035909 (print) | LCCN 2022035910 (ebook) | ISBN 9780735224216 (hardcover) | ISBN 9780735224223 (ebook)
Subjects: LCSH: Democracy—Economic aspects. | Capitalism—Political aspects.
Classification: LCC JC423.W564 2023 (print) | LCC JC423 (ebook) | DDC 330.12/2—dc23/eng/20221117
LC record available at https://lccn.loc.gov/2022035909
LC ebook record available at https://lccn.loc.gov/2022035910

Cover design: Christopher Brian King

Designed by Amanda Dewey, adapted for ebook by Cora Wigen

While the author has made every effort to provide accurate telephone numbers, internet addresses, and other contact information at the time of publication, neither the publisher nor the author assumes any responsibility for errors or for changes that occur after publication. Further, the publisher does not have

any control over and does not assume any responsibility for author or third-party websites or their content.

btb__142435183_c0_r1

For my beloved grandchildren, Zach, Rebecca, Alexander, Anna, Abigail, and Eden.

May their generation do a better job than mine has.

ΜΗΔΕΝ ΑΓΑΝ

(Nothing in excess)

—This famous text appears at the shrine of Apollo at Delphi.

CONTENTS

PREFACE: Why I Wrote This Book

ONE: The Fire This Time

Part I ■ ON CAPITALISM AND DEMOCRACY

Prologue to Part I

TWO: Symbiotic Twins: Politics and Economics in Human History

THREE: The Evolution of Democratic Capitalism

Part II ■ WHAT WENT WRONG

Prologue to Part II

FOUR: It's the Economy, Stupid

FIVE: Rise of Rentier Capitalism

SIX: Perils of Populism

Part III ■ RENEWING DEMOCRATIC CAPITALISM

Prologue to Part III

SEVEN: Renewing Capitalism

EIGHT: Toward a "New" New Deal

NINE: Renewing Democracy

Part IV ■ A HINGE OF HISTORY

Prologue to Part IV

TEN: Democratic Capitalism in the World

CONCLUSION: Restoring Citizenship

Acknowledgments

Notes

Bibliography

Index

_142435183_

PREFACE

Why I Wrote This Book

> History does not repeat itself, but it rhymes.
>
> —*Attributed to Mark Twain*[1]

My opinions have altered as the world has unfolded. I make no apologies for this. Those who have not changed their opinions over a lifetime do not think. But my values have not altered. I inherited them from my parents, both refugees from Hitler's Europe. I believe in democracy and so in the obligations of citizenship, in individual liberty and so in the freedom of opinion, and in the Enlightenment and so in the primacy of truth. The role of the fourth estate is, in my view, to serve these great causes. I am proud to have been one of its servants."[2]

I made these remarks in New York on June 27, 2019, when I received the Gerald Loeb Lifetime Achievement Award for business journalism. They are my credo. This book is witness to where those unchanging values and evolving opinions have brought me at the beginning of the third decade of the twenty-first century.

In the middle of the eighth decade of my life, I see a long historical circle —a circle that includes not just my life but also those of my parents. This story of two generations began on April 23, 1910, with the birth of my father, Edmund Wolf, in the Polish city of Rzeszów, then part of the Austro-Hungarian Empire. By then the potent nineteenth-century mixture of industrialization, urbanization, class conflict, nationalism, imperialism, racism, and great-power rivalry had been at work for a long time. Four years

later, the First World War, the conflict that was to demolish European stability, began. My grandfather, Ignatz, fearful of the arrival of Russian armies, moved his family to Vienna, where my father grew up. My mother, Rebecca Wolf (née Wijnschenk), was born in Amsterdam on August 30, 1918, just over two months before the First World War ended, although the Netherlands itself remained neutral. The Bolshevik revolution was just over nine months old when she was born.

Monarchs fled. European empires fell. A new world was born. But the hopes that it would be a better one proved a fantasy. In its place came the chaos of the interwar years: in the 1920s, hyperinflations, a fragile and unbalanced economic recovery, and battles among democrats, communists, and fascists; in the 1930s, the Great Depression, the collapse of the gold standard, the rise to power of Adolf Hitler in Germany and Franklin Delano Roosevelt in the US, Japanese militarism, Stalin's show trials, the Spanish civil war, appeasement, and at the end of the decade, the Second World War. This surely had been a time of trouble.

My father, rightly fearful of what Hitler's Germany intended, left Austria in 1937. My mother fled the Netherlands with her parents and siblings in May 1940, as the Nazis invaded. My parents met in wartime London in the autumn of 1942, at a party given by Dutch Jewish friends of my mother to celebrate the return from internment of my father's closest friend, who had been interned in Australia as an "enemy alien," while my father had been similarly interned in Canada. My parents' marriage on October 21, 1943, led to my birth on August 16, 1946, and so to my life as a man brought up and educated in Britain. I have also spent all but sixteen years of this life as a Londoner.

Without the Second World War and the genocidal anti-Semitism of the Third Reich, my Austrian-Jewish father and my Dutch-Jewish mother would never have met. I and my brother, born in 1948, are, like many millions of others, children of catastrophe. My parents and their immediate families escaped the wreck. My father's family (his parents, brother, sister, and his brother's wife and daughter) did so by managing, with difficulty, to reach Palestine in 1939. My mother's family did so by reaching an English fishing

port on a trawler in May 1940. Their wider families of aunts, uncles, and cousins were murdered almost to the last individual. My mother's family had been large: her father, born poor in Amsterdam, was one of nine siblings. She told me that about thirty of her close relatives died during the Shoah, or Holocaust, as it is more usually known. She almost never spoke of this catastrophe. But I was aware that my parents' history was not like that of the other adults I knew, except for my parents' closest friends, who shared similar histories as refugees.

Not infrequently, people who read or hear me complain of my pessimism. To this criticism, I give three responses. The first is that my pessimism has made most of the surprises I have experienced pleasant ones. The second is that my biggest mistakes have come from overoptimism, most recently over the wisdom of finance and the good sense of electorates. The third and probably most important response is that my existence is due to the decisions of two pessimistic men: my father and my mother's father. My father took the opportunity afforded by the royalties he earned from early successes as a playwright in Vienna to leave for London on the way, he hoped, to America. My grandfather, who had left school in Amsterdam as a child and became a successful fish merchant in Ijmuiden on the coast of North Holland, was not only realistic, but also able to make quick decisions. As soon as the Germans invaded his country, he obtained a trawler and a captain (being a well-known fish merchant, he presumably found this not too difficult) and invited his relatives to join him and his family. He waited for some hours, but none of them came. In the end, the captain told him they had to go, presumably because of the speed of the German advance. My grandfather's combination of pessimism with quick wits saved his own family. But almost all their relatives perished. Pessimism saved him.

Yet these answers, while true, are not the whole story. My family history makes me aware of the fragility of civilization. Any moderately well-informed Jew should know this. But the connection to the Shoah reinforces it. Homo sapiens is prone to orgies of stupidity, brutality, and destruction. Humans naturally separate people into those who belong to "their" tribe and outsiders. They slaughter the latter gleefully. They have always done so. I

have never taken peace, stability, or freedom for granted and regard those who do as fools.

My childhood was, nevertheless, secure. I loved and trusted my parents—and rightly so. Postwar England was shabby: I still remember the bomb sites in the City of London. But the country felt to me stable, peaceful, democratic, and free. The Cold War was a shadow upon us and at some points, notably the Cuban missile crisis of 1962, was even terrifying. Yet the world seemed solid as I grew up.

My parents died in the 1990s, my mother in 1993 and my father in 1997. The world in which they died was far better than that of their youth and early adulthood. Their belief in a democratic and largely peaceful world seemed vindicated. The totalitarian shadows over Europe had vanished. Democracy was triumphant. Communist central and eastern Europe had emerged from behind the Iron Curtain. Europe was on its way to reunification. It even seemed conceivable that Russia was moving toward integration into a world of democracy and individual freedom. The great schisms—ideological, political, and economic—of the twentieth century and indeed back to the French Revolution seemed over.

Subsequent events have shown that this confidence was built on fragile foundations. Liberalized finance proved unstable. I realized this during the Asian financial crisis, as I explained in my book *Why Globalization Works*.[3] But the concern became even more compelling after the global financial crisis and Great Recession of 2007–09, which were the focus of a subsequent book, *The Shifts and the Shocks*. Moreover, the world economy was generating destabilizing macroeconomic imbalances. This was the theme of my *Fixing Global Finance*, written before *The Shifts and the Shocks*.[4] The financial instability we were seeing resulted, I argued, from the inability of the international monetary system to handle large net (and gross) cross-border capital flows in a reasonably safe manner. Moreover, financial instability was only one of the failings of Western economies. Also important were rising inequality, increasing personal insecurity, and slowing economic growth, especially after the Great Recession. Finally, largely as a result of all these calamities, partly brought about by their own moral and intellectual

failings, ruling elites—commercial, cultural, intellectual, political, and administrative—lost credibility in the eyes of the public.

Equally large shifts occurred in politics. The first big shock was the attacks on the US on September 11, 2001, which were followed by wars in Iraq and Afghanistan. The biggest change of all was a counterpart of the economic success of globalization, namely, the rise of China and, to a much lesser extent, India. This created a shift in the balance of global economic and so political power, away from the US and the liberal West toward China and its system of bureaucratic absolutism. Yet this was far from the only way in which global politics changed. As the twenty-first century progressed, we saw a shift away from liberal democracy toward systems that some have called "illiberal democracy" but might be better described as "demagogic autocracy." In a recent book, the Russian economist Sergei Guriev and the American political scientist Daniel Treisman call these systems "spin dictatorships," to distinguish them from the "fear dictatorships" of old.[5] Alas, the shift toward demagogic or "spin" systems is to be seen—so far, in nascent form—not only in new democracies, but also in some of the world's most established democracies, notably the US, where Donald Trump remained an embodiment of the aspiration for arbitrary power even after his defeat in 2020.[6] The rise of Trump, along with that of Boris Johnson in the UK, undermined the international credibility of the two countries and weakened Western cohesion. Above all, their demagogic approach to politics undermined the rule of law, the commitment to truth, and the credibility of international agreements, all fundamental underpinnings of liberal democracy. Outright despotism is the probable end point.

Today's challenges are beginning to look as significant as those of the first half of the twentieth century. We see fundamental shifts in global power—then from the UK and France toward Germany and the US, now from the US to China. We see huge crises—then the world wars, Spanish flu, the hyperinflations of central Europe in the early 1920s and the Great Depression of the 1930s, now the Great Recession, COVID-19, and Russia's invasion of Ukraine in February 2022. We see a collapse of democracies and rise of authoritarianism—then in Germany, Italy, Spain, and other continental

countries, now in the fragile democracies of developing countries and postcommunist countries in central and eastern Europe (including Russia). But this time, liberal democracy has been shaken even in Trump's US and Brexit Britain, countries that carried the banner of liberal democracy throughout the twentieth century.[7] Above all, we confront the risks of nuclear war and runaway climate change, the former largely unimagined before the 1940s and the latter barely considered before the 1980s.

We might have avoided the biggest mistakes of the first half of the twentieth century. But my parents would surely have heard loud echoes of their past. Not least among these has been Putin's determination to restore the Russian empire by force, so painfully reminiscent of Hitler's desire to bring the German-speaking peoples of Europe together under his totalitarian rule. Even war between Russia and NATO has become less inconceivable.

This book is a response to this new and troubling era. Its central argument is simple: when we look closely at what is happening in our economies and our polities, we must recognize the need for substantial change if core Western values of freedom, democracy, and the Enlightenment are to survive. But in so doing, we must also remember that reform is not revolution, but its opposite. It is not just impossible, but wrong, to try to re-create a society from scratch, as if its history counted for nothing. The outcome of such attempts has always been destruction and despotism. Only unbridled power can deliver a revolutionary overthrow of the existing order. But unbridled power is by its nature destructive: it shatters the security on which productive human relations can be based and decent lives lived. As Edmund Burke wrote in his response to the French Revolution, society is a "partnership not only between those who are living, but between those who are living, those who are dead, and those who are to be born."[8] Change is essential, both at home and abroad, but it must build on what is. Indeed, one cannot start anywhere else.

The motto of this book is "Never too much," as the ancient Greeks used to say.[9] The health of our societies depends on sustaining a delicate balance between the economic and the political, the individual and the collective, the national and the global. But that balance is broken. Our economy has

destabilized our politics and vice versa. We are no longer able to combine the operations of the market economy with stable liberal democracy. A big part of the reason for this is that the economy is not delivering the security and widely shared prosperity expected by large parts of our societies. One symptom of this disappointment is a widespread loss of confidence in elites. Another is rising populism and authoritarianism. Another is the rise of identity politics of both left and right. Yet another is loss of trust in the notion of truth. Once this last happens, the possibility of informed and rational debate among citizens, the very foundation of democracy, has evaporated. In *The Great Transformation*, published in 1944, the same year as Friedrich Hayek's *The Road to Serfdom*, Karl Polanyi argued that human beings would not long tolerate living under a truly free market system.[10] Experience of the past four decades has vindicated this point of view.

This need to reform the relationship between democratic politics and the market economy is not driven purely by domestic tensions, important though they are. It is made more urgent by the rise of autocracy worldwide and, above all, by the apparent success of China's despotic capitalism. Western nations must improve their economic, social, and political performance in response.

Even though domestic reform is essential, if we are to strengthen the solidarity on which the health of all societies depends, reform cannot be limited to the domestic. No country is an island. Indeed, never before in history have we so clearly shared a common destiny on our fragile planet. This tribal species has created problems that its tribalism will only make worse. Any insistence on a narrow and exclusive national sovereignty, democratic or not, will fail to protect citizens. COVID-19 has demonstrated this. Trump declared "America First." But the pandemic has demonstrated that even a country as powerful as America cannot fix its problems on its own. The same is true, to a far greater extent, of climate.

We should want democracy, the market economy, and the spirit of free inquiry to thrive in a new age. Currently, they are not. In trying to decide what we must do, I can only distill lessons from the events of my lifetime and those that came before it. But the aim is clear: we must resolve, as Abraham

Lincoln stated in the Gettysburg Address, that “government of the people, by the people, for the people, shall not perish from the earth.” Democracy is always imperfect. But tyranny is never the answer. It is up to each generation to resist its siren song. This is not happening to the extent I once took for granted. On the contrary, many are succumbing.

I have dedicated this book to my six grandchildren, Zach, Rebecca, Alexander, Anna, Abigail, and Eden. Now in my seventy-sixth year, I cannot have many left. But the children can reasonably hope to see the twenty-second century. I fear for what the world might then look like. I recognize the dangers of environmental catastrophe and thermonuclear war. But I fear just as much that they will end up in an Orwellian world of lies and oppression. This is the world emerging in China and in many other countries, even in leading democracies.

The twentieth was a century of monstrous dictators. The dictators have returned, if not ones as monstrous as the worst of the previous century. But Xi Jinping is one, as is Vladimir Putin. Donald Trump, Narendra Modi, and Jair Bolsonaro are would-be dictators. Given the size of their populations and economies, these are five of the world’s most important countries. With such leaders comes nightfall, for their goal is unbridled power. States that serve only power are a dead end. Humanity escaped that destiny in the twentieth century. But it was a close-run thing. Will it escape once again in the twenty-first?

CHAPTER ONE

The Fire This Time[1]

> What we may be witnessing is not just the end of the Cold War, or the passing of a particular period of post-war history, but the end of history as such: that is, the end point of mankind's ideological evolution and the universalization of Western liberal democracy as the final form of human government.
>
> —*Francis Fukuyama*[2]

When Francis Fukuyama wrote his essay "The End of History?," published as the Cold War ended, in 1989, many agreed with him that the Western synthesis of liberal democracy with the free market had won a decisive victory over its ideological enemies. The end of the last totalitarian ideology seemed to many not just an extraordinary and surprising event, but one that promised a better future for humanity. The era of totalitarian coercion and mass murder was over. Freedom—political and economic—had won.

Neither liberal democracy nor free-market capitalism seems at all triumphant today. This is true not just in developing, emerging, or former communist countries, but even in established Western democracies. Economic failings have shaken faith in global capitalism. Political failings have undermined trust in liberal democracy. The ascent of China, whose ruling communist party has rejected the link between capitalism and democracy, has also shaken the confidence *of* the West and confidence *in* the West.

Liberal democracy and free-market capitalism are both now in question. On the nationalist right, Donald Trump in the US, Nigel Farage in the UK,

Marine Le Pen in France, Matteo Salvini in Italy, Geert Wilders in the Netherlands, and Heinz-Christian Strache in Austria are shaping—or have shaped—political debate, even when not in power. Self-proclaimed "illiberal democrats"—a euphemism for authoritarians—have come to power in Hungary and Poland, two of the countries that benefited from the fall of the Soviet empire and the opportunity to enter the EU.[3] Following the political example of Vladimir Putin in Russia, Hungary's Viktor Orban and Poland's Jaroslaw Kaczynski set their embattled nations against the world and a purported "will of the people" against individual rights. These various leaders also object to at least one aspect (and frequently more than one) of contemporary global capitalism, be it free trade, free flows of capital, or relatively free movement of people. Inevitably, opposition to those things has also turned into suspicion of the European Union.

Crucially, the US possessed in Donald Trump a president who admired "strong men" and the politics of strong men, hated the free press, was indifferent to the survival of the Western alliance, intensely disliked the EU, was fiercely protectionist, and was happy to intervene arbitrarily in the decisions of individual businesses.[4] He had no ideological attachments to liberal democracy or free-market capitalism. He was populist, instinctively authoritarian, and nationalist. Worst of all, he promulgated the "big lie" that he won the November 2020 presidential election, which he lost by a large margin, thereby undermining the foundations of American democracy. Moreover, the US is not just any country: it is the creator of the post–Second World War liberal world order. Trump lacked the character, intellect, and knowledge needed to be president of a great democratic republic. His rise to power in 2016 and continuing influence over the Republican Party after his defeat in 2020 was (and remains) a worrying failure of the world's most important democracy.

This book will argue that economic disappointment is one of the chief explanations for the rise of left- and right-wing populism in high-income democracies.[5] Many point instead to cultural factors: status anxiety, religious belief, or outright racism. These are indeed important background conditions. But they would not have affected societies so deeply if the

economy had performed better. Furthermore, many of these supposedly cultural changes are also related to what has been happening economically: the impact of deindustrialization on the labor force and the pressures of economic migration on established populations are among the important examples. People expect the economy to deliver reasonable levels of prosperity and opportunity to themselves and their children. When it does not, relative to those expectations, they become frustrated and resentful. That is what has happened. Many people in high-income countries condemn the global capitalism of the past three of four decades for these disappointing outcomes. Instead of delivering prosperity and steady progress, it has generated soaring inequality, dead-end jobs, and macroeconomic instability. Predictably, they frequently blame this disappointment on outsiders—minorities at home and foreigners. Thus, one of the points on which populists of both left and right agree is the need to limit international trade. Many also see a need to restrict the movement of capital and workers.

In short, the liberal democracy and global capitalism that were triumphant three decades ago have lost legitimacy. This matters, because these are respectively the political and economic operating systems of today's West. Democracy vests sovereignty in electorates defined by citizenship. Capitalism vests decision-making in owners and managers of private businesses engaged in global competition. The potential for conflict between these political and economic systems is self-evident: democratic politics are national, while market economics are global; and democratic politics are based on the egalitarian idea of one person, one vote, while market economics is founded on the inegalitarian idea that successful competitors reap the rewards.

Today, the synthesis of democracy and capitalism—"democratic capitalism"—is in crisis.[6] The nature of that crisis and what should be done in response to it are the central themes of this book. The discussion focuses on the fate of democratic capitalism in the West, though it is not limited to that, since the future of the West cannot be separated from what is happening in the rest of the world. But the West is the heartland of democratic capitalism. Meanwhile, China, the world's rising superpower, stands for a

very different way of managing the links between political power and wealth generation, one we might call “authoritarian capitalism” or “bureaucratic capitalism.” Elsewhere, we see the emergence in countries like Brazil, India, Turkey, or even Russia of what might be called “demagogic capitalism” or “demagogic autocratic capitalism.” The Western system of democratic capitalism does, however, remain the world’s most successful political and economic system, in terms of its proven ability to generate prosperity, freedom, and measured happiness. It has also survived great challenges in the past, notably in the 1930s and 1940s, and then again during the Cold War. But it now needs to change again. It must, above all, find a new equilibrium between the market economy and democratic politics. If it does not do so, liberal democracy may collapse.

What do I mean by the terms *democracy* and *capitalism*? By *democracy*, I mean its dominant contemporary form—universal suffrage, representative democracy.[7] Thus, those who want to limit or narrow suffrage are acting antidemocratically.

To be more complete, I mean by *democracy* what Fukuyama called “liberal democracy.” The distinguished political scientist Larry Diamond, of the Hoover Institution, argues that liberal democracy has four individually necessary and collectively sufficient elements: free and fair elections; active participation of people, as citizens, in civic life; protection of the civil and human rights of all citizens equally; and a rule of law that binds all citizens equally.[8] All these elements are necessary and, in combination, sufficient to make a democracy liberal. Note the emphasis above on “citizens.” A liberal democracy is exclusive: it includes citizens, but excludes noncitizens. This does not mean noncitizens—foreigners and immigrants—lack all rights; far from it. It means they lack the political rights of citizens.

Crucially, liberal democracy is *not* just a way of deciding who runs the state, though it is that: the term also defines the sort of state it is. As John Stuart Mill insisted in his *Considerations on Representative Government*, democracy is, or should be, characterized by “liberty of discussion, whereby not merely a few individuals in succession, but the whole public, are made, to a certain extent, participants in the government, and sharers in the instruction

and mental exercise derived from it."[9] For a liberal democracy to work, then, citizens must be entitled to express their opinions, and fellow citizens must be prepared to tolerate opinions they disagree with and the people who hold them. In the terminology of Isaiah Berlin, as citizens, people enjoy *negative liberty*—the right to make up their own minds, free from coercion—and *positive liberty*—the right to participate in public life, including by voting.[10] Such a political system is inherently pluralist.[11] It cares about the political rights of minorities because it cares about the political rights of *all* citizens.

In essence, a liberal democracy is a competition for power between parties that accept the legitimacy of defeat. It is a "civilized civil war." Force is not permitted. But this means that winners do not seek to destroy the losers. A system in which gangsters seek to kill their opponents, trample on the rights of individuals, suppress the free press, and benefit financially from office, yet go through the motions of running rigged elections, is *not* liberal democracy. Nor is "illiberal democracy" democracy either.[12] Such a system should be called what it is: at best, a dictatorship of the majority, and at worst, "plebiscitary dictatorship." Putin's rule over Russia is a plebiscitary dictatorship, as is Erdogan's over Turkey and Orban's over Hungary. Indeed, increasingly these are just dictatorships, without qualification.

By *capitalism*, I mean an economy in which markets, competition, private economic initiative, and private property play central roles. This system is "market capitalism." The size, scope, and nature of government, with respect to regulatory intervention, taxation, and spending, vary across capitalist countries. Government intervention has also tended to intensify over time as societies became more democratic. This was inevitable, as the franchise widened to include people without significant assets. But it also reflected the growing complexity of economic life and the pervasiveness of what economists call "market imperfections"—situations in which market incentives may lead to socially or economically damaging results.

Yet, as was the case with "liberal democracy," the state, be it large and relatively intrusive or not, must be law-governed. Without the rule of law, there can be no market capitalism, just larceny. Moreover, capitalist

economies, thus defined, are also (and have always been) open to global trade and capital flows, at least to some degree. Capitalism is never entirely national, because the wider world offers a host of opportunities for profitable exchange.

More narrowly, by *market capitalism* I mean the form of market economy that has emerged over the past seventy years and particularly over the past forty, for which the word *globalization* provides a shorthand description.[13] In their economic lives, just as in their political ones, people should possess *freedom from* arbitrary coercion, especially but not exclusively, from the state, and *freedom to* buy and sell their labor and anything else they may legitimately own. Again, as is also true in political life, such freedoms are not absolute, but must be bounded by regulatory, legislative, and constitutional limits.

The rule of law is an essential shared underpinning of democracy and capitalism because it protects the freedoms essential to both. This means that "all persons and authorities within the state, whether public or private, should be bound by and entitled to the benefit of laws publicly made, taking effect (generally) in the future and publicly administered in the courts."[14] If some individuals or institutions are above the law, nobody without such privileges can be secure in exercising their freedoms. The law must be universally binding and protecting if liberal democracy and market capitalism are to thrive.

Both liberal democracy and market capitalism share a core value: a belief in the value and legitimacy of human agency, in political and economic life. In these respects, both systems rest on "liberal" ideas. But the workability of democratic capitalism also depends on the presence of certain virtues in the population at large and especially in elites. Neither politics nor the economy will function without a substantial degree of honesty, trustworthiness, self-restraint, truthfulness, and loyalty to shared political, legal, and other institutions. In the absence of these virtues, a cycle of mistrust will corrode social, political, and economic relations.

In short, the political and economic systems depend for their success on the prevalence of fundamental norms of behavior or, as they are sometimes

called, “social capital.” Today, however, liberal democracy and market capitalism are individually sick, and the balance between them has broken. The last chapter of my previous book, *The Shifts and the Shocks*, on the global financial crisis, bore the title “The Fire Next Time.”[15] The penultimate paragraph of that book argued that “the loss of confidence in the competence and probity of elites inevitably reduces trust in democratic legitimacy. People feel even more than before that the country is not being governed for them, but for a narrow segment of well-connected insiders who reap most of the gains and, when things go wrong, are not just shielded from loss but impose massive costs on everybody else. This creates outraged populism, on both the left and the right. Yet willingness to accept shared sacrifice is likely to be still more important in the years ahead than it was before the crisis. The economies of the Western world are poorer than they imagined ten years ago. They must look forward to a long period of retrenchment. Making that both be and appear fair matters.”[16]

I was wrong: the fire is not next time; it is now. Moreover, COVID and the impact of Russia’s war on Ukraine has made it burn even hotter. The fire is in substantial part the ignition of the slow-burning anger left by the last financial and economic crisis, coming, as that did, after a long period of mediocre performance and wrenching social changes in Western countries. Trump was a product of this process. He promised to drain the swamp, but, inevitably, made it an even worse quagmire. By his actions, his cynicism justified itself. It is conceivable that, as economies recover from the financial crisis and the pandemic, the fire will burn out. But that now seems almost inconceivable. Democratic global capitalism is caught between an unsatisfactory present and an even less satisfactory future of protectionism, populism, and plutocracy, culminating, possibly soon, in autocracy, most significantly in the US.

Restoring health to the Western system is among our biggest challenges. We may not succeed. But nothing good will be achieved if nothing is attempted. The rest of the book elaborates this argument. Part I analyzes the relationship between politics and economics and especially between democracy and capitalism, as I have defined them, in both theory and history.

Part II goes on to examine what has gone wrong in the capitalist economy and the democratic polity, as a result of the closely connected rise of predatory capitalism and demagogic politics. Part III analyzes the reforms needed if we are to create a more inclusive and successful economy and healthier democracies. Part IV then looks at how a reinvigorated alliance of democratic capitalist states should engage in the world to defend themselves, promote their core values, and protect global peace, prosperity, and the planet. Finally, the Conclusion returns to the core issue, namely, the responsibility of elites for safeguarding the fragile achievements of democratic capitalism, before they disappear in an incoming tide of plutocratic populism and tyranny.

Part I

ON CAPITALISM AND DEMOCRACY

Prologue to Part I

Democracy and the market have something fundamental in common: the idea of equality of status. In a democracy, everybody has the right to a voice in public affairs. In a free market, everybody has the right to buy and sell what they own. Market economies, with supportive governments, have created enormous increases in wealth and economic opportunity. They have also transformed economic and political systems.

In premodern agrarian economies, it was usually straightforward to exclude the greater part of the population from any role in guiding the polity. Indeed, anything else was usually considered unthinkable. In a modern market economy, the reverse became the case. It became necessary or at least highly advisable to share power. This, then, is why the evolution of wealthy market economies has brought with it, albeit slowly and painfully, greater political inclusion, culminating in universal adult suffrage.

In the past four decades, democracy went global. Never before had there been as many democracies and never before had the proportion of states that were democratic been as high as in the early 2000s. Unfortunately, this progress has subsequently stalled, partially even gone into reverse, in what is sometimes called “a democratic recession.”

Chapter 2 looks at the underlying relationship between democracy and the market economy. Chapter 3 examines what has happened over the past two centuries in practice.

CHAPTER TWO

Symbiotic Twins: Politics and Economics in Human History

> Man is by nature a political animal in a sense in which a bee is not, or any other gregarious animal.
>
> —*Aristotle*[1]

Economics provides the principal rationale for human cooperation. Politics provides the framework within which that cooperation works. Economics and politics are necessarily symbiotic. What, then, is the relationship between market capitalism and liberal democracy? The answer is that capitalism cannot survive in the long run without a democratic polity, and democracy cannot survive in the long run without a market economy. We might then think of market capitalism and liberal democracy as the "complementary opposites"—the "yin and yang"—of the world created by the market economy and modern science and technology. They are married to each other. But theirs is also a difficult marriage. Managing this productive, yet fraught, relationship requires awareness of these realities. Why and how this is so is the topic of this chapter.

How Economics and Politics Intertwine

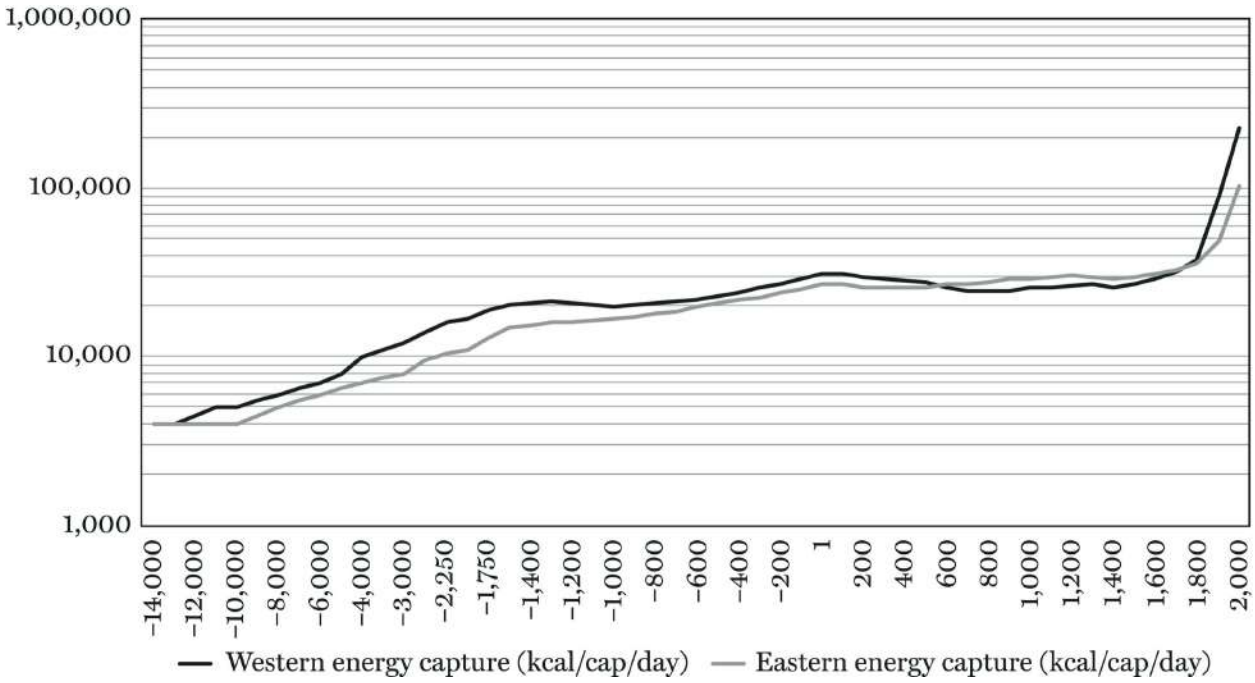
The economy human beings have created is complex, adaptable, and innovative. Yet it exists to do something simple: provide the resources people

need to thrive. We talk of “earning our living” for good reason. Since humans are imaginative, they also constantly redefine what a “living” is. It always means thriving within one’s society. But today that no longer just means sufficient food, shelter, clothing, and heating. In the high-income economies of today, it includes a range of goods and services unimaginable to anybody born two centuries ago. One estimate suggests that today we have access to something of the order of ten billion different goods and services.[2]

All the resources on which the human economy depends come from our planet and sun: the economy is embedded in nature, a truth that economists foolishly forgot. Yet the economy is also embedded in human society. By cooperating, human beings can support themselves and their families vastly better than they would be able to do on their own. That has been true since our hunter-gatherer ancestors. Cooperation allowed humans to create a complex division of labor and outcompete other animals far stronger and faster than they are.

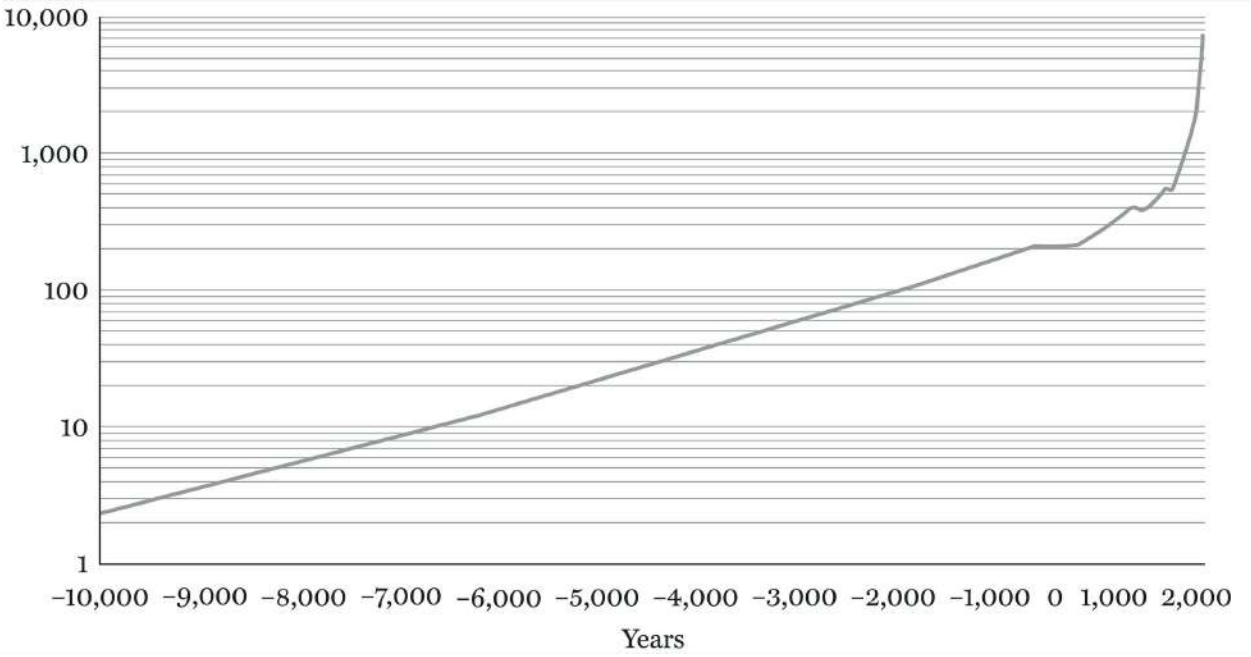
The historian Ian Morris of Stanford University has provided estimates of “energy capture” per head for advanced societies.[3] His data suggest that two economic revolutions have occurred since Homo sapiens emerged in Africa some 200,000–300,000 years ago.[4] The first was the slow shift from hunter-gatherer to agricultural economies. The second was the far swifter shift from predominantly agricultural to industrial economies. The agricultural revolution increased energy capture per head roughly sevenfold at its peak, relative to preagrarian societies. By 2000, the industrial revolution had raised energy capture per head another sevenfold relative to the agrarian past (see figure 1). In 2022, the human economy supported 7.9 billion people (and rising), up from roughly 1 billion in 1800 at the dawn of the industrial revolution, and maybe just 4 million 10,000 years ago at the dawn of the agricultural revolution. The recent increase in energy capture, driven by our extraction of fossilized sunlight, as opposed to the incident sunlight that drove preindustrial economies, is also why we now have a climate problem.

FIGURE 1. ENERGY CAPTURE PER HEAD AND PER DAY (KILOCALORIES)
(Source: Ian Morris)



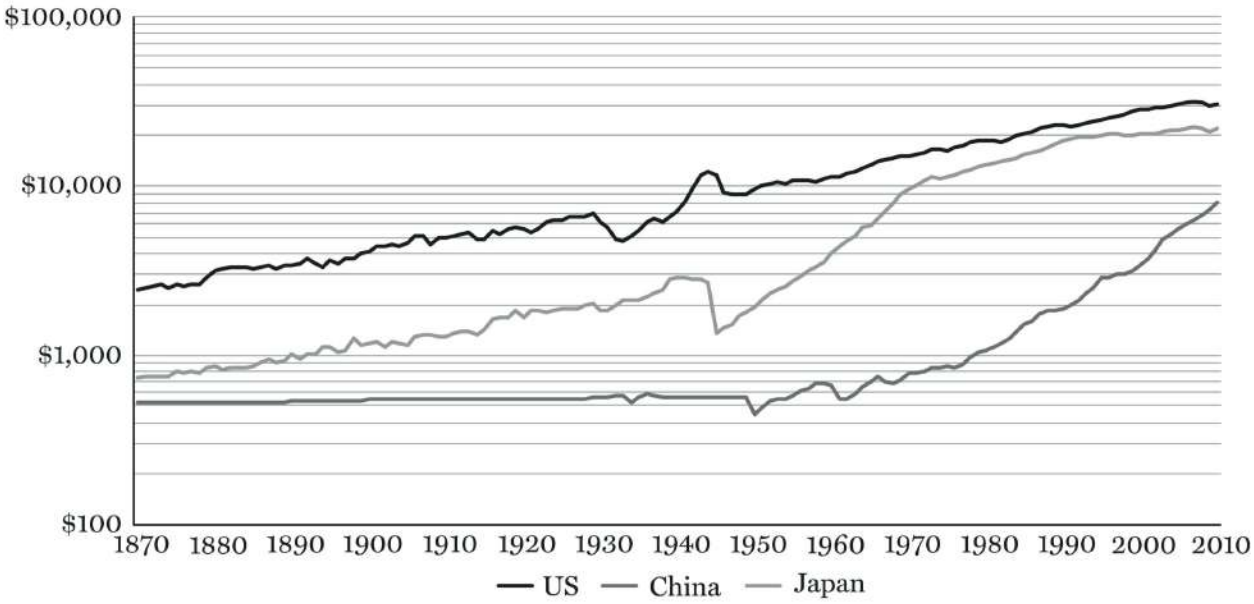
Humans have prospered mightily, while other primates have not: the planet contains fewer than 300,000 chimpanzees, 200,000 western gorillas, and 70,000 orangutans.[5] Human beings and the livestock they rear make up 96 percent of the mass of all mammals on the planet.[6] Life on earth, it is argued, has entered a "sixth extinction," with extinction rates thought to be 100 to 1,000 times higher than their background rate over the past tens of millions of years.[7] We can even think of the human economy as a giant cuckoo's hatchling now crowding many other species out of the planetary nest, while also fouling the nest itself, via climate change.

FIGURE 2. WORLD POPULATION (MILLIONS; SPLINE INTERPOLATION UNTIL 1950)
(Source: Our World in Numbers)



In its own terms, the modern human economy has been an astounding success. It has not only supported an ever-rising population (figure 2), but has given individual humans a far higher average standard of living than ever before (figure 3).[8] Between 1820 and 2008, the human economy expanded more than seventyfold, in real terms.[9] This expansion in human economic activity also brought enormous increases in inequality among countries: some prospered; others did not. In 1820, the average real income of the richest country in the world was about five times that of the poorest. By 2017, the ratio of average real income in the richest large country (the US) to the poorest (the Democratic Republic of the Congo) was 70 to 1.[10]

FIGURE 3. GDP PER HEAD
(PURCHASING POWER PARITY; 1990 INTERNATIONAL DOLLARS)
(Source: Maddison Project; Conference Board)



The three epochs of the human economy have come with distinct forms of social organization. The essential characteristic of the ancestral hunter-gatherer bands was cooperation through custom and personal relationships, that of the most powerful agrarian states was cooperation through coercion and hierarchy, and that of the most successful modern economies is cooperation through decentralized competition and democratic consent.

In a hunter-gatherer band, politics and economics fused. It was a large family. In this world, territory was readily available and access to it was either uncontrolled or managed by sanctified custom. Little permanent or fixed property existed and most property was personal (tools, weapons, clothing, and ornaments). Decision-making was informal and fluid, though some—the wiser, the more intelligent, the braver, and the more skilled—had more authority and influence than others. Such a band worked because everybody knew who belonged, was entitled to its protection, and could be trusted. The primary group was an extended family, including those taken in through marriage. To break the band's rules and customs was to risk banishment—a terrifying sanction.

Humanity's most remarkable characteristic is the ability to turn what it has imagined—gods, tribes, states, nations, money, companies—into social reality.[11] Our world is full of entities that are both real and invisible.

“France” is an idea or, more precisely, many ideas. So is “God,” “the gods,” “the law,” “the dollar,” “the president,” “Exxon,” and “the Treaty of Rome.” Humans may live in the physical world, like other animals, but their imagination gives the social world that controls our interaction with the physical world its form and movement. The first such imagined social and political entities were the tribes into which hunter-gatherer bands merged. A tribe was thought of as a family writ large. To give the tribe reality, people imagined the presence of long-dead ancestors.[12] These, then, were the first of humanity’s “imagined communities.” Nation-states are the predominant contemporary exemplars.[13]

Agriculture brought a far more complex division of labor and more sophisticated ideas, roles, and institutions. The details depended on the technology, terrain, reliance on trade, nature of warfare, and religious ideas. Behind the diversity, however, a remorseless logic drove the development of these new states: valuable and relatively immovable resources—workers, land, crops, irrigation systems, and stores of food—needed to be protected from bandits, external and internal. Agriculture also generated the resources needed to support the people providing that security, who inevitably became both protectors and predators.[14] The bigger and richer the states they created, the greater the power, wealth, and glory of these predatory protectors. Even if a state had no desire for expansion, it was vulnerable to others who did. War became a semipermanent activity of agrarian states. Not surprisingly, their leaders were also often warriors.

■ ■ ■

The late S. E. Finer suggested there are four potential players in the resulting games of domestic power: “the palace” (the royal house and its servants); “the nobility” (generally both landowners and warriors); “the church” in some form (as a source of religious legitimacy); and, finally, “the forum” (the body of citizens).[15] The palace polity was the predominant form. The great empires—the Persian, Chinese, and Roman—became the pinnacles of monarchical power. Agrarian states were also mostly

“patrimonial”: they were thought of as the property of the ruler and his family.[16] Wealth was concentrated in the hands of the royal family, though senior officials, priests, soldiers, and noble landowners often shared in the spoils. The most important of the nobles were also often close relatives of the monarch.

Human and animal labor provided the motive power for the economy. Thus, those at the top of society lived off the forced labor of those below them, the heavily taxed peasants, serfs tied to the soil, and slaves. Slavery was not an invention of European colonizers, as some seem to imagine. It was a nigh on universal institution. Stanford’s Walter Scheidel argues that such “pre-modern states generated unprecedented opportunities for the accumulation and concentration of material resources in the hands of the few, both by providing a measure of protection for commercial activities and by opening up new sources of personal gain for those most closely associated with the exercise of political power.”[17] The degree of inequality frequently reached the limit set by the need to leave the laboring poor with a subsistence income.[18]

These societies, then, were often almost as unequal as it was possible for them to be. Given these inequalities, the shift from the hunter-gatherer band to the agrarian state probably led to a lower standard of living and more cramped lives for the great mass of the people. But it also led to the survival of far more people. Once the agrarian revolution had occurred, there was no way back. Traditional hunter-gatherers were driven onto marginal land, conquered, or wiped out. Mounted nomads, in contrast, were able to develop effective predation on agrarian societies. Think of the Scythians, Huns, and Mongols, who descended on their horses from the Eurasian grasslands onto the settled populations to their south and west.

As Finer notes, the states of the agrarian societies were not identical. In some cases, their army consisted of the entire body of adult freemen (as in some of the city-states of ancient Greece and republican Rome). Such armies could constrain the centralization of power, at least for a while, and so create the “forum polities.” A merchant class (notably in the prosperous “free cities” of Italy and northern Europe) was another potential constraint, particularly if

the state depended on the taxes it could raise from these wealth creators and the latter operated across frontiers. Religious authority (such as that of the Roman Catholic Church) could provide yet another barrier to absolute power, particularly if the priests determined the monarch's legitimacy. Not coincidentally, the Western democracies originated out of medieval polities characterized by a complex balance of power among the palace, church, nobility, and free cities, with no ruler able to establish a centralized empire similar to the old Roman Empire.[19]

Any legal constraint imposed on the king could benefit ordinary people (in principle and, to some extent, even in practice), as well as the aristocrats. The Roman Republic—the paradigmatic forum polity—had elected officials and a precise division of power, with two holders of each magistracy, except in extreme crises, when an all-powerful "dictator" was chosen. A different version of the idea of representation emerged from a rebellion against the English king Henry III, led by Simon de Montfort. This resulted in the summoning of a parliament, which included not just the nobility, but representatives of "the commons" (two knights from each shire and two burgesses from each borough), in 1264.[20] In the seventeenth century, that parliament was strong and legitimate enough to defeat the monarchy in a civil war and execute the king. The representative parliament created the foundations on which modern representative democracies could ultimately be built.

England's subsequent role as world-girdling imperial power and first industrial country turned these developments in a small island on the western edge of Eurasia into events of global significance. They contributed to the birth of modern forms of democratic governance. Parliaments and the political parties that accompany them professionalized politics. They also facilitated the emergence of democratic rule in large and populous states. On these foundations—professional government, a rule of law, and electoral politics—today's liberal democracies were ultimately built.

How Market Capitalism Succeeded

The driving force behind the transformation in prosperity over the past two centuries was an economy that rewarded people for developing new commercial ideas in competition with one another. This was the system of "creative destruction" described by the Austrian economist Joseph Schumpeter.[21] A crucial element was the emergence of a fully monetized economy. The contemporary notion of an "industrious revolution" that preceded the industrial revolution is founded on the idea that households increasingly participated in market transactions for the sale of their labor in return for money, which then allowed them to purchase the commodities they needed. The existence of such markets made possible a reduction in the self-sufficiency of households, encouraging specialization and so creating ever greater market demand.[22] Policy makers also consciously created some particularly important markets, notably those in land and labor.[23]

As these markets developed, the old practices of forced labor became increasingly redundant. After long struggles, serfdom and slavery were both abolished. This was a huge and undeniable advance in human freedom, though in places where slavery coincided with a color bar, the liberation remained incomplete, as in the southern states of the US, where it was transformed into a division of caste. In time, even the age-old subordination of women began to erode, as they gained economic independence and political rights.

A large part of the debate on what began the rapid growth of the modern era is of the "how many angels can dance on the head of a pin?" variety. Some, for example, emphasize the availability of resources.[24] Others emphasize institutions.[25] Others emphasize ideas about what people are entitled to do as well as about what works.[26] Yet others emphasize changing prices of factors of production, notably of labor.[27] Others again point to racialized slavery, as both an institution and an extreme form of exploitation. Yet the notion that there should be just one cause seems absurd. Ideas animate institutions. They also show people how to exploit resources, including human resources. This said, the marriage of the market to

technology was crucial. The industrial transformation it caused was a great turning point in human economic history.

The socially and economically destabilizing rise of the market economy brought forth, in reaction, an alternative ideology, that of the socialist planned economy. The twentieth century delivered a decisive test of the merits of the market economy against the planned socialist alternative. It was not a test of some form of "pure" market capitalism against a planned alternative. On the contrary, capitalism had itself evolved, with the rise of welfare states and active developmental states. But the contrast between the economic performances of West Germany and East Germany, North Korea and South Korea, western Europe and eastern Europe, Taiwan and Maoist China proved decisive. It even persuaded the Soviet and Chinese communists themselves. Mikhail Gorbachev's "perestroika" and Deng Xiaoping's "reform and opening up" were the result. Deng knew well what he was doing and why. He looked at Hong Kong, Singapore, South Korea, and Taiwan and realized that this was the path China itself needed to follow.

History proved him spectacularly correct. Without the market, economies can generate neither the information nor the incentives needed to be dynamic. It was, accordingly, only after Deng's reforms that China began its staggering economic progress (see figure 3). Much the same is true of India's slow reforms in the 1980s and far faster reforms in the 1990s. In neither case did a competitive domestic economy exist prior to the reforms—in China not at all and in India only to a limited extent, given the stifling restrictions on business activity (the so-called Permit Raj, or License Raj).[28] The dynamic market economy, increasingly open to the world, proved a remarkable engine for sustained advance.

In sum, market capitalism drove economic growth. It started in countries that supplied enough of the basic preconditions for such a revolution: stable property rights; a commitment to scientific and technical progress; and a belief in the right of everybody in the country (initially only white men, but ultimately everybody) to make their way in the world on their merits.[29] This, then, began a process of rising output per head, unequally shared but still shared quite widely in the countries where that revolution began. This

was an economic and social revolution that unfolded and spread over the succeeding centuries. It was brutal and exploitative. It was also transformative.

How Market Capitalism Married Liberal Democracy

In the more economically successful countries, the rise of the market economy generated growing pressures for universal suffrage democracy. It is impossible to believe so profound a political transformation, from the societies run by monarchs and aristocrats of the eighteenth century to the universal suffrage democracies of the twentieth, was a mere accident. So why did this happen? The answers come in terms of ideology, aspirations, empowerment, elite self-interest, and finally, influence.

First, *ideology*. However different they may seem from each other, market capitalism and liberal democracy rest on the same underlying philosophical values. As Larry Siedentop argues, "Western beliefs privilege the idea of equality—of a premise that excludes permanent inequalities of states and ascriptions of authoritative opinion to any person or group—which underpins the secular state and the idea of fundamental or 'natural' rights. Thus, the only birth-right recognized by the liberal tradition is individual freedom."[30] The core belief underpinning a market economy is the right of individuals to change jobs, create businesses, lend and borrow money, and spend how and where they wish. It is an individualistic creed.

Historically, most civilized states rejected this notion of equality of status. Those with power were held to be inherently superior to those without it, as white southerners believed in relation to their enslaved Africans. Moreover, access to power brought wealth, while the absence of power guaranteed poverty. Even if, occasionally, people without political power achieved wealth, perhaps as merchants, they were always at risk of having it seized by a monarch or lord. Power and wealth were intimately connected,

and both were frequently the fruit of ascribed, not earned, status. This was particularly true when ownership of land (and so control over the people who worked it) was simultaneously the principal fruit of power and the chief source of wealth. The erosion of the idea of ascribed status in the modern society and economy changed all this. It took too long for that to become evident. But it did do so, in the end.

Crucially, once the notion of the equality of legal status had replaced the old one of the sanctity of inherited status, it became far more difficult to limit political rights. If all adult men (or, as was later understood, all adult men and women) had equal rights to read and learn, buy and sell, innovate and prosper and so benefit themselves, how could they not also have equal rights of political representation?[31] Attempts were long made to limit suffrage on grounds of wealth, race, or gender. But all of these demarcations came to seem arbitrary. Everybody should be entitled to a voice in politics because everybody is affected by political decisions, and everybody has interests to defend.

A limited franchise will always seem arbitrary and oppressive. What one would have is rule by the wealthiest or most powerful, not the "best," unless one accepts the beneficiaries' biased view of who are the best. Being arbitrary and unfair, the resulting franchise will fail to obtain the consent of the governed. The wider the franchise, the more oppressive the remaining restrictions become: how, for example, could one justify the denial of the vote to an educated woman when an uneducated man had it? How, similarly, could such rights be ascribed arbitrarily only to people of a certain skin color? That was transparently ridiculous. The obvious locus of sovereignty is *the adult population as a whole*, exercising its power either through direct votes or through indirect votes (via representative parliaments) or through lots (sortition).[32]

The shared idea underlying both the market and democracy is the right of people to shape their own lives wherever choices need to be made, individually and collectively. That does not guarantee equality of achievement or outcome. In a democratic political system, power is not distributed equally, and in a market economy, wealth is most certainly not

distributed equally. Yet those with political power are *accountable to* citizens, not just (as the Chinese Communist Party and, before it, the Chinese imperial state believed) *responsible for* them. Similarly, those who participate in markets must respond to the decisions of customers. Thus, the market and democracy both rest on the proposition that people's choices have inherent value. This ideal of equality of status among all adult citizens is one of the great moral and practical achievements of democratic modernity.

Second, *aspirations*. As Benjamin Friedman of Harvard University has argued, "a rising standard of living fosters openness, tolerance and democracy."[33] With machines doing much of the physical labor, the age-old exploitation of the drudgery of others became increasingly unnecessary. Serfdom and slavery, being no longer economically necessary, as well as increasingly abhorrent, were ultimately abolished. This general rise in prosperity also created a more self-confident and better-educated population that was increasingly unwilling to be subject to the political whims of those with higher ascribed status or greater wealth. In the UK, for example, the resulting political changes began with the demands of the middle classes for parliamentary representation, which was largely achieved in the Great Reform Act of 1832.[34] In the US, property qualifications for white men started to be eliminated even earlier.[35] As people became better off, their aims also changed. Instead of a life concerned mainly with survival, they became increasingly interested in securing more rewarding lives for themselves and their families. This aspiration naturally included a desire for a voice in social and political life. The formation of social groups in which people increasingly had the time to participate also strengthened the political salience of such desires.

Third, *empowerment*. The social upheavals associated with the market revolution included mass urbanization, the development of factories, and the rise of an organized working class. The institutions that emerged from this upheaval, notably trade unions, played a political role that had been impossible for the peasantry, who were scattered over the land and ceaselessly and brutally suppressed by the landowning warrior class and its parasitic descendants. The new groupings also acted to protect themselves

from the injustice, and insecurity associated with the rise of the capitalist economy. They found much of that protection in democratic politics.[36]

Fourth, *elite self-interest*. Industrialized warfare was another fruit of the industrial revolution. States needed motivated and literate soldiers and, they discovered, also the labor of women, who became the "home front" in both world wars. The need for—and possibility of—full mobilization of the population dramatically accelerated the shift toward universal adult suffrage. In many countries, not coincidentally, female suffrage directly followed the First World War. The new economy also demanded an educated workforce. This meant not just education, but education in "national values." In this way, nationalism played a crucial role in the creation of a modern state and economy. Over time, the spread of education led to the widespread dissemination of newspapers and the creation of a politically engaged populace. The expansion of education could also be justified politically. Thus, Lord Sherbrooke, a British aristocratic politician of the nineteenth century, responded to the passing of the Reform Act of 1867, which greatly widened the franchise, by arguing that "it will be absolutely necessary that you should prevail on our future masters [the newly enfranchised] to learn their letters."[37] This notion was popularly summarized as "We must educate our masters." The education promoted for such reasons was, in turn, essential to rising prosperity.

Yet, elite self-interest could cut both ways. While there were indeed powerful forces working toward democratization in the industrializing economies of the nineteenth and early twentieth centuries, democratization was not the universal outcome; far from it. The contrast between the United Kingdom and Germany is particularly striking, though a similar contrast exists between northern and southern Europe. Harvard's Daniel Ziblatt notes the point that "the relationship between a pre-existing concentration of social power, on the one hand, and inclusive political democracy, on the other, is inherently tension ridden." The difference between the successful transitions and the failures was "the ability of old-regime elites to forge a strong 'conservative political party,' a party that represents their interests in the new regime." This, he concludes, "is an essential factor in democratic

development."[38] The ability and willingness of oligarchies to create and sustain effective political coalitions while tolerating genuine democracy is central to the story in this book. This is not an outdated story. On the contrary, it is very much the story of today.

Finally, *influence*. The great power of the nineteenth century was the UK, and the great power of the twentieth century was the US, both of which were liberal societies, at least in principle, economically and politically. The progress of these powers toward universal suffrage liberal democracy, though halting, slow, and difficult (and in the case of African Americans disgraceful), was largely internally driven. Their military power in turn determined the outcomes of the two world wars and the Cold War. The US was able to force radical political changes on Germany and Japan. It failed, alas, in post–Soviet Russia, where the changes were far shallower than in post–World War II Germany and Japan, because the Soviet defeat had been peaceful, and the country was never occupied.

While market-driven economic advances created powerful forces in favor of the emergence of democratic political rights, this outcome might not have been inevitable. Without the First World War, would an authoritarian German Empire have continued its economic advance, or would the further development of its economy have led to democratization? The latter is at least quite plausible. After all, we have seen the emergence of (fairly) liberal democracies out of authoritarianism more recently, in the case of Taiwan and South Korea, both also highly economically successful. The Communist Party of China is betting on the opposite, however, namely that market-driven prosperity will reinforce, rather than undermine, the rule of an autocratic party. It is too soon to tell whether this will be true. Successful Chinese capitalists might in the long run exercise some influence in favor of legal and civil rights, even in China, perhaps because the economy turns out to stagnate under the growing repression of the Xi regime. Alternatively, the exercise of arbitrary state power might ruin its market capitalism.

Marriage of Markets to Democracy—for Better or Worse

It is no accident, then, that the high-income democracies have market economies, just as it was no accident that market economies brought forth universal suffrage democracy. But this marriage between these complementary opposites—the self-seeking of competitive markets to the collective decision-making of democracy—is always fragile. Above all, the survival of liberal democracy depends on the separation of control over economic resources from political power. Being hugely rich must be neither a necessary nor a sufficient condition for holding political power; and similarly, in a competitive market economy holding political power must be neither a necessary nor a sufficient condition for acquiring wealth. Just expressing it this way indicates how fragile such a system has to be. But it also indicates how different these relationships are from those in the hierarchical societies of old, in which wealth and power were two sides of one coin.

It is easy to see why the separation of power from wealth must hold by considering the opposite possibility. Suppose that wealth comes from gaining political power directly or from the favors of those who possess it. Then this can no longer be a competitive market economy in which wealth comes from success in attracting and serving customers. Wealth will come instead from being powerful or serving the powerful. This will become "crony capitalism" or "connections capitalism," in which the political system is exploited for the personal gain of the powerful and their relatives, favorites, and supporters. Now suppose, alternatively, that wealth buys office or the support of those who hold office. Then the political system will be a plutocracy, not a democracy. These plutocrats will surely destroy the competitive market economy, too: the one thing they will not tolerate is upstart competitors. Thus, democratic capitalism demands the separation of power from wealth and so of politics from the economy (and vice versa). Where this separation has not worked, as in so many emerging and developing countries, neither

democratic politics nor the market economy tends to thrive: being so closely intertwined, the political and economic systems strangle each other.

There are two main ways in which this delicate balance between politics and market can be destroyed: state control over the economy, and capitalist control over the state.

The extreme form of state control over the economy is socialism, defined here as a system in which the state owns, and the government controls, the principal means of production. Those who control the government will also control *all* economically valuable resources. In such a society, competitive politics will be impossible. If people are to act politically, they need resources of their own (individually or collectively) as well as the ability to influence and inform public opinion. If that is to happen, there need to be independent media organizations. The independence from government control implied by these preconditions for competitive democracy demands a plural market economy, with legally protected private property.[39]

Socialism makes this impossible. Those who control the state will also control the economy. Since they will control both the economy and the government, they will control politics. There can then be no fair competition either *for* political power or *in* economic activity. Thus, the idea of a socialist democracy is a chimera, a will-o'-the-wisp. Such a combination of economic and political power will end up, sooner or later, like the Venezuela of Hugo Chavez and Nicolas Maduro or the Soviet state. Even in China, arbitrary state power makes all private property insecure and so threatens the market economy.

The motivations of those who hold power also matter. In a market economy, loss of power does not necessarily mean loss of wealth or income: one can always work in the private sector, possibly for higher pay. But if the state controls the wealth, the powerful cannot afford to lose power, because there is no private sector for them to go to. The stakes of democratic politics become too high if there is not a large economic sphere independent of politics. Instead of a civilized civil war, politics then becomes a war of survival. Moreover, the holders of power in a socialist state must also find it relatively easy to prevent such a loss of power, because they control all

aspects of the economy. Full socialism is inherently antidemocratic and anticompetitive. This is because, at bottom, it is yet another system in which political power and control over valuable resources are fused.

Socialism is an extreme example of state control. But any elected leader who manages to subvert the legal and regulatory institutions that police the borderline between politics and the economy can gain effective control of the state's wealth, as well as the wealth of what then becomes only a notionally private sector. This leads to the crony capitalism evident in Putin's Russia or Orban's Hungary. In such a system the ruler can neither risk losing power nor, without a coup or abdication, be deprived of it, since he controls the machinery of politics and the wealth of the country. In such a system, the private economy exists on the sufferance of the state. It has no independent existence.

The second route to disaster is the opposite, not the capture of the economy by those who control the state, but the capture of the state by those who control the economy. What happens is, yet again, a fusion of economic and political power, but this time it comes from the former to the latter rather than from the latter to the former. Plutocracy is the natural outcome of a form of predatory capitalism that generates huge inequalities of income and wealth. As wealth and economic power become increasingly concentrated, liberal democracy inevitably comes under threat, as is happening today, particularly in the US, the most important democracy of all. But as plutocracy rises, there is also a good chance that the people will elect an autocrat, who turns out to be more rapacious and brutal than any of those plutocrats. In this way, plutocracy can result in autocracy. There are many contemporary examples. In sum, capitalism may lead to democracy, as argued in the previous section, but may then destroy it.

In sum, competitive markets do indeed protect democratic politics. This does not mean that economic and political freedoms are the same: the freedom to transact is different from the freedom to act politically. It is the difference between the right of people to influence what happens by engaging in, or disengaging from, a market (sometimes called "exit") and the right of people to influence what happens by expressing their opinion (sometimes

called “voice”).[40] These are two aspects of freedom—the freedom to make choices in the economy and the freedom to act in politics. But the two kinds of freedom are connected. It is no accident that competitive electoral politics occur only in countries with legally protected private economic activity. Democratic capitalism, always fragile, is the only form of democracy we are likely to see.

A degree of separation of the economic from the political systems and their protection from each other by independent institutions, accepted norms, and binding rules is a necessary condition for either system to function properly. Thus, these two partners in the marriage of capitalism with democracy need each other. But they must also allow each other a properly independent existence. It is this fragile balance that needs to be maintained if either is to thrive and their fusion—democratic capitalism—is to survive.

Making the Difficult Marriage Work

In their book *The Narrow Corridor*, Daron Acemoglu and James Robinson offer a complementary perspective on the fragile balances that allow a free society to work.[41] The challenge, they argue, is created by the need for a state—the “Leviathan” in the terminology of the seventeenth-century political philosopher Thomas Hobbes—strong enough to provide security and protection to the people, but not so strong as to deprive them of their freedoms. There is, then, a narrow corridor between the two extremes where the interaction between the state and civil society works. It is where a “shackled,” but strong, Leviathan and an engaged civil society exist side by side.[42] In other words, it is the liberal democracy discussed above.

Consider how societies may depart from this corridor. At one extreme, the departure will go toward a more “despotic Leviathan,” which controls everything and crushes civil society. In such a polity, there may be notionally private businesses, but they exist only on sufferance, because Leviathan grants no rights, only privileges that may be withdrawn at will. The most

prominent contemporary example of such a state is China. At the other extreme, the state is what Acemoglu and Robinson call a “paper Leviathan.” A paper Leviathan is both ineffective and oppressive. It fails to provide the essential services needed by the public, while its capacities are at the service of a predatory elite. Many Latin American countries fall into this category.

Paper Leviathans are quite similar to “neopatrimonial” states, that is, ones in which political power gives control over almost all the surplus generated by the economy. Putin’s Russia is a neopatrimonial state.[43] That has also been the story of many postcolonial countries, especially those possessing “point source” (and so relatively controllable) commodities, such as oil and gas. In those cases, political power has given a privileged few the access to the bulk of the country’s surplus wealth: think Angola or Nigeria. The results have been poor economic performance, extreme inequality, unstable polities, and dictatorships. Again, those with power cannot afford to lose elections in such economies, since their livelihoods depend on holding on to it. This is a recipe for unstable and violent politics. Too much is at stake for any other form of politics.

In the modern era, communist states have been the principal examples of despotic Leviathans. The hypercentralized Soviet version failed and ultimately collapsed. But the Chinese answer—an updated form of the age-old Chinese bureaucratic polity, alongside a form of market capitalism—appears to thrive, at least for the moment. As such, it may seem to offer the most credible alternative to democratic capitalism. But two essential qualifications must be made: the Chinese state has a unique history, and the economy is still quite poor. It is very unlikely that the Chinese model will be relevant elsewhere, except perhaps in Vietnam.

Several important aspects of the fragility of democratic capitalism are illuminated by this perspective. The first and most obvious is that democracy and a dynamic market economy depend on the existence of a shackled Leviathan—that is, a law-governed and effective state. The second is that there will be no shackled Leviathan without a balance between the political (democratic) and economic (market) aspects of civil society’s engagement with the state. The third is that creating and sustaining the politics and

economics of a shackled Leviathan is difficult and rare: having elections or liberalizing the economy is far from enough. That is why many attempts at democracy have failed. The last is that one of the most plausible ways for a society to leave the narrow corridor, in either direction, is for the balance between the state, people, and economy to break down. The walls keeping power and wealth apart may crumble, delivering plutocracy, demagogy, or autocracy, and so a departure from the narrow corridor.

How, in practice, have countries managed to stay in the narrow corridor? The answer is by compromise and cooperation among the social, economic, and political actors in democratic capitalism. Four aspects of this process of compromise and cooperation are particularly significant.

First, capitalist competition is *not* a free-for-all. A free-for-all is a synonym for gangsterism: Russia under Boris Yeltsin, for example. Proper market competition requires active cooperation in agreeing to the rules of the game. Politics are not the only way to set those rules. Many are set by actors in civil society via pressure from activists, employee trade unions, shareholders, or the media. But many of the rules of a complex modern economy are set by the state. It follows that these have to be set by a state that is not captured by the most powerful actors in the economy.

Second, the rules of the game are necessarily complex and evolving. They include the rules that created and then govern the most important actors in the contemporary market economy—corporations. They also include the rules governing the operation of markets: property rights, including intellectual property rights; labor markets; capital markets; competition and monopoly; environmental protection; international trade; and so on and so forth. Moreover, many of these rules take the form of regulations created and run by independent bureaucracies. As the economy has become more complex and intrusive, and politics have become more democratic and demanding, these rules and regulations have, inevitably and rightly, become more onerous. Yet they also may create excessive costs. Getting this balance right is an essential part of modern politics.

Third, a vast number of these rules are agreed upon internationally, to reflect the inescapably cross-border nature of a market economy. Competitive

capitalism is global capitalism. The need for international agreement was already understood in the nineteenth century. Today, there exists a vast number of internationally agreed rules that reflect the countless international repercussions of economic activity. The UK, for example, has signed over 14,000 treaties, many of which have economic implications.[44] Internationally agreed rules govern trade, banking and finance, intellectual property, product standards, travel, transport, telecommunications, the mail, the internet, and a host of other activities. Democratic accountability is essential. But sovereignty does not mean absolute control, because sovereignty ends at the border, even for superpowers.

Finally, and probably most crucially, a democratic electorate will demand a degree of economic security. The idea that economic outcomes will be a matter of indifference to the public at large will not survive in a universal suffrage democracy. People will demand insurance against unemployment, ill health, and old age. They will expect the state to help educate their children. They will demand laws that protect them from exploitation. They will expect action to limit macroeconomic instability. They will want the state to impose a limit to inequality of outcomes. Not least, they will expect the most economically successful and affluent to pay substantial taxes. Universal suffrage democracy leads to a big government by the standards of the nineteenth century. Such governments are consistent with the survival of competitive capitalism. The libertarian version of capitalism is, however, incompatible with universal suffrage democracy. People who want the former must openly admit their opposition to the latter.

Lessons from the Ancients on Democratic Fragility

We can also learn from the ancient Greeks about the fragility of democracy. Some of their most famous authors were hostile to the idea of rule by the uneducated masses. This is the argument of Plato's *Republic*.[45]

We do not have to agree with Plato's conservative perspective or his belief in philosopher kings (so similar to Confucianism), to realize that his warnings about oligarchy, democracy, demagogy, and tyranny are relevant to today's very different world. Plato argued that a reaction against a certain sort of oligarchy (plutocracy) risks turning democracy into tyranny. This is arguably what we witnessed in the US under the presidency of Donald Trump.[46] Similar things have been happening in other countries.

More precisely, Plato argued that ordinary people would seek a protector against the wealthy. How would such a "protector" behave? "[H]aving a mob entirely at his disposal, he is not restrained from shedding the blood of kinsmen; by the favorite method of false accusation he brings them into court and murders them; . . . some he kills and others he banishes, at the same time hinting at the abolition of debts and partition of lands; and after this, what will be his destiny? Must he not either perish at the hands of his enemies, or from being a man becomes a wolf—that is a tyrant."[47]

Plato's argument is (predictably) conservative.[48] Yet, underneath his antidemocratic prejudices lies a point that is correct. Very often the future tyrant presents himself (they have almost always been men) as the protector of the people against its enemies. Julius Caesar, the military despot whose heir (Octavian, later Augustus) terminated the Roman Republic, was leader of the popular party ("populares"), the party supposedly favoring the plebeians. As Plato warned, the "protector" of the people (his heir, in fact) then became the wolf.

Plato's idea that insecurity and fear are gateways to tyranny are correct. Stable, prosperous societies are unlikely to succumb to despotism from within, though they may be conquered from without. But societies riven by internal conflicts are quite likely to fall before a tyrant. In practice, as Plato also notes, the fear is often of the domestic elite or at least elements of that elite. The people then turn to someone who presents himself as their protector. But this protector is often an empty human being consumed with ambition.[49] Vested with power by the people, he turns himself into a despot. Historically, such a "protector" has often been a war leader, or at least a

general—that is, a “man on a white horse” (Caesar, Napoleon, Francisco Franco, and so forth).[50]

I have labeled the approach to politics that brought Trump to power “pluto-populism”—the exploitation of populist themes for plutocratic ends.[51] Trump is a logical outcome of the pluto-populism of the Republican Party. He captured the party in the name of the people. Yet whether Trump started out as servant or opponent of the plutocracy (he was in fact both), his core characteristic had always been rejection of constraints. Such a leader is as old as democracy itself. Plato would have recognized him at once as just another example of the demagogue as purported “protector” and would-be tyrant.

Aristotle, too, was suspicious of democracy.[52] By this, he meant a system in which the will of the people was unconstrained. We might call that system “demagogy,” “illiberal democracy,” or “tyranny of the majority.” For Aristotle, the system we have, with representative elections, constitutional protections, and individual rights, would not be democracy. Supporters of liberal democracy should, however, agree with Aristotle that a system in which “the will of the people,” as expressed in a vote on a particular date, is the final word, forever, is not liberal democracy.[53] It is rather a road to tyranny—a plebiscitary dictatorship, to be more precise. Constitutional constraints on temporary majorities are not antidemocratic, but an essential safeguard of democracy.

As both Plato and Aristotle noted, great inequality conflicts with the egalitarian premises of democratic government. This makes plutocracy—a system neither of these philosophers favored—a threat to democracy. But the ancient authors (by definition, members of a literate elite) also complained about the irresponsibility of the demagogues whom ordinary people favored. Similar rhetoric comes from conservatives today, when they protest against the irresponsibility of excessive “entitlement spending,” exorbitant taxation, and the potential bankruptcy of the state. These are age-old lines of conflict in states with highly unequal distributions of income and some form of democratic constitution.

Democratic Capitalism and National Identity

Democratic capitalism (the combination of liberal democracy with market capitalism) has proved a good answer—indeed, an inspiring one—to the challenges of creating trust-based economies and politics in which personal freedom and political rights are protected. In this system, politics are protected from the economy by being fenced in by norms, independent institutions, and laws governing elections, corruption, and the role of the state; and the economy is protected from politics by norms, independent institutions, and laws that protect rights to own and transact. This complex relationship between the market economy and the democratic polity is prone to failure, as we have seen.

Loyalty to the political community over loyalty to its component parts is a necessary condition for the health of any democratic political system. That depends on thinking of oneself as a citizen. That is exceptionally important for democracies, because a necessary condition is willingness to accept the loss of elections. Defeat is bearable only if the people who outvote you are people you trust. If not, civil war threatens. Nationhood—the creation of a notional family among tens of millions or even hundreds of millions of people who are unrelated and mostly will never know one another—is a powerful way of creating such a sense of identity. This sense of identity—of mutual belonging—then shapes a "demos": a people. People have fought and died for such imagined communities in the tens of millions.

In our modern world, then, we see a tension. Our economic institutions are designed to allow us to transact freely and with confidence with strangers not just in our own country, but all over the world. In contemporary economics, reliable institutions, including the rule of law, underpin trust. In contemporary politics, too, reliable institutions, including the rule of law, but also the notion of a national community, a "demos," underpin trust. The more the development of the economy disrupts that national identity, the more fraught politics and so economics, too, will become, and the harder it becomes to maintain the relationship between market capitalism and democracy.

This danger is now present across large parts of the world. Moreover, if authoritarianism of some kind were to replace liberal democracy, competitive market capitalism would be unlikely to survive. A corrupt form of neopatrimonialism would become far more likely. This is no remote danger. It is what Trump and his ilk embody.

The great story of democratic capitalism—the fragile marriage between competitive market capitalism and liberal democracy—may end quite soon. Do not assume otherwise. That would be foolishly complacent. What might be done about this looming danger will be the subject of part III of this book.

CHAPTER THREE

The Evolution of Democratic Capitalism

> It is true that we are called a democracy, for the administration is in the hands of the many and not of the few. But while there exists equal justice to all and alike in their private disputes, the claim of excellence is also recognized; and when a citizen is in any way distinguished, he is preferred to the public service, not as a matter of privilege, but as the reward of merit. Neither is poverty an obstacle, but a man may benefit his country whatever the obscurity of his condition.
>
> —*Thucydides*[1]

Universal suffrage representative democracy evolved over the last two centuries. This form of democracy was the product of a long struggle. Market capitalism demanded a more egalitarian politics. The force of this egalitarian idea of equality of status spread throughout society, delegitimizing class and sex, and ultimately race, as categories for determining political and social rights. The outcome was equal political rights for all adult citizens of a democratic state.

The previous chapter argued that market capitalism and liberal democracy are the "complementary opposites"—the "yin and yang"—of our world. But, potentially, complementary opposites may become mutually destructive if the balance between them is not maintained. This chapter will provide an overview of the development of democracy and capitalism, as well as of the relationship between the two over the last two centuries, before turning, in part II of the book, to how the relationship between the two,

always difficult, has indeed become dangerously unbalanced over the past four decades.

Brief History of Liberal Democracy

Democracy is not a new idea. As noted in chapter 2, governments accountable to—or even directed by—a sizable portion of the governed have existed in the past, most famously in Athens twenty-five hundred years ago. Monarchies destroyed some, as happened to Athens, conquered by the Macedonia of Philip II. Civil war destroyed others, as happened to the Roman Republic, which ended in the military dictatorship known as the Roman Empire. Athens and Rome had highly restricted franchises, excluding women and slaves. Rome's republic was also highly oligarchic. Nevertheless, these systems made rulers accountable and offered humble citizens opportunities to participate in public affairs, as Pericles claimed (in words reported, or perhaps put into his mouth, by Thucydides). These systems were different in these respects from the autocracies, theocracies, and aristocracies that have run most organized states over the past several thousand years. They perished.

Until the last two centuries or so, the idea of government directed by—or accountable to—a large portion of the public had little reality.[2] As noted in the previous chapter, the rise of such political systems to global significance is one of the revolutionary transformations of the period since the industrial revolution. A somewhat earlier one was the emergence of a global capitalist economy. In neither case has the movement been linear. The aim of this chapter is to demonstrate this historical linkage empirically, thereby complementing the more theoretical discussion of chapter 2.

Universal suffrage, representative, liberal democracy—what the West now means by democracy—is, even by the standards of humanity's brief experience with literate civilizations, a political mayfly. It first saw the light of day when New Zealand granted full suffrage (including to women) in

1893. Finland did so in 1906, Norway in 1913, Denmark in 1915, Germany, the Netherlands, and Sweden in 1919 (though Germany then notoriously lost its democracy between 1933 and 1945), Ireland in 1923, the UK in 1928 (though the peculiar university constituencies survived until 1950), Spain in 1933 (though female suffrage was then revoked by the Franco regime in 1937 and reinstated only after his death, in 1977), Austria, France, and Italy in 1945, Japan in 1947, Belgium in 1948, Canada in 1960 (when aboriginal Canadians acquired the vote), Australia in 1962 (when aboriginal Australians acquired the vote), and the US in 1965 (when the vote was extended to African Americans throughout the South, though restrictions on voting by ex-felons in some states have strongly discriminatory effects, and voter suppression and racial gerrymandering are also rife), Portugal in 1974, Switzerland in 1990 (with full suffrage at the federal level in 1971, but the last holdout canton was compelled to grant the vote to women only as late as 1990), and Taiwan in 1996.[3] It really is a remarkably recent development.

Arguably, the above list of countries and dates is too purist. As Larry Diamond of the Hoover Institution rightly notes: “democracy is in many ways a continuous variable.”[4] It falls on a continuum, not only in terms of the suffrage, but also in terms of institutional protections for the opposition, freedom of the media, and so forth. To take the suffrage alone, the extent to which the UK could be deemed democratic rose over a century, prior to full universal adult suffrage in 1928, as a series of legislative acts in the nineteenth and early twentieth centuries lifted restrictions on voting by religion, wealth, and gender. The further extension of the franchise to those over eighteen occurred only in 1970. Yet a wide suffrage of adult males is less undemocratic than if voting is restricted to a tiny proportion of property holders. Full suffrage of adult men and women is more democratic than if suffrage is restricted to men alone, even if ethnic minorities are still excluded. So the widening of the suffrage progressed in stages.

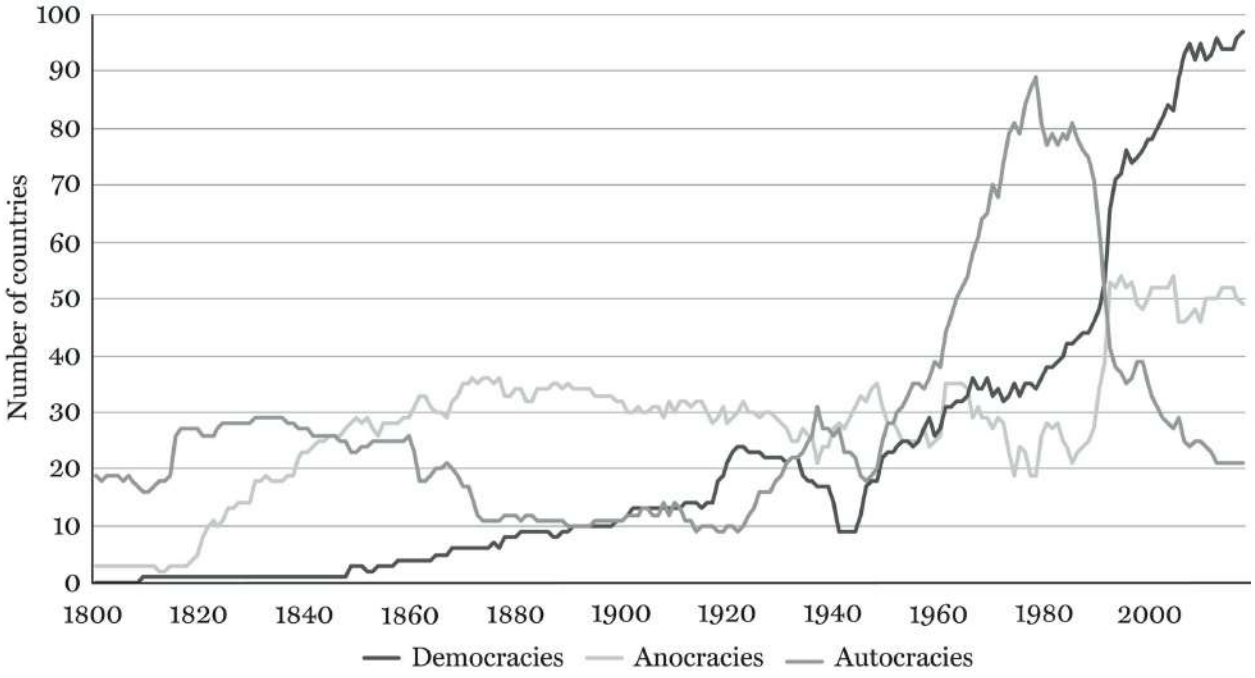
Realistically, democracy must be defined by a composite measure. That is what the Polity IV database from the Center for Systemic Peace does in assessing the rise of democracy since 1800.[5] At that early date, it judges, there were no democracies. Even in countries where elections did occur, the

electorate made up a very small portion of the population: even in the US, for example, established as a republic, voting was restricted to white male property owners. When George Washington was elected president, only 6 percent of the population of the United States could vote.[6]

According to the Polity IV database, the number of countries with reasonably democratic regimes rose from zero in 1800 to 12 in 1900 (though New Zealand was the only country with universal suffrage) and then shot up to 24 in 1922. Subsequently, the number collapsed to just 9 in 1940. The number of autocracies jumped from 10 in 1922, to 19 in 1929, and then on to 27 in 1940. The number of democracies was back to 18 in 1946 and then 23 in 1950. By 1989, it had reached 48. Thereupon, it jumped, quite suddenly, to 76 in 1994 and went on rising, to reach 97 in 2016. (See figure 4.)

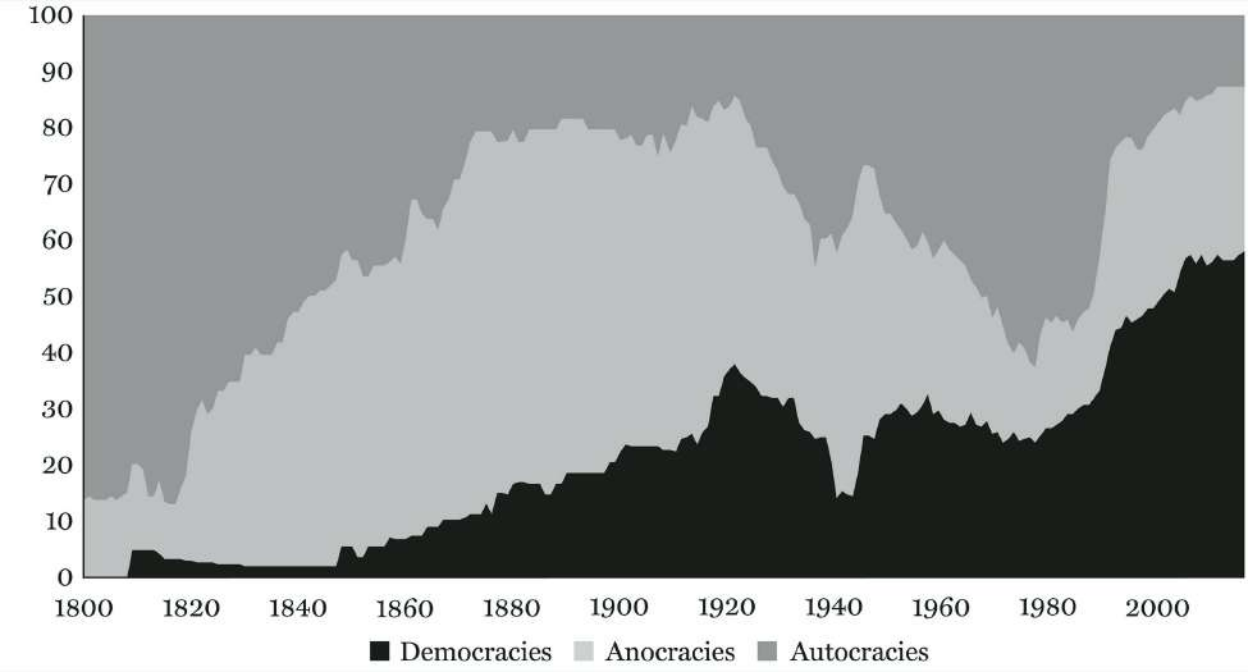
Also remarkable was the collapse in the number of autocracies over four decades, from a peak of 89 in 1977 to 62 in 1989 and then 35 in 1994 and 21 in 2016. While the collapse in the number of autocracies is welcome, less so is the rise in the number of what Polity IV calls “anocracies”—countries with incoherent, unstable, and ineffective governments. The number of anocracies has risen from 21 in 1984 and 39 in 1989 to 49 in 2016. In many cases, therefore, the fall of autocracy bequeathed not democracy but chaos, as in Libya and many other countries. Too often, it turns out, the opposite of autocracy is not democracy but brutal anarchy.

FIGURE 4. GLOBAL TRENDS IN GOVERNANCE
(Source: Center for Systemic Peace, Polity IV dataset)



Yet there are also far more states now than a century or more ago, as a result of the disappearance of colonial empires and the birth of a multiplicity of new states. Only 22 states appear in the Polity IV database for 1800. For 1945, there were 67. For 2016, there were 167. It is vital, therefore, to consider the *proportion* of states that are democracies. This rose from zero in 1800 to 22 percent in 1900, 36 percent in 1922, then down to 14 percent in 1940, back up to 33 percent in 1989, 47 percent in 1994, and 58 percent in 2016. The proportion of outright autocracies also fell from 43 percent in 1989 (virtually the same as it had been in 1940, but well down from the 63 percent in 1977) to just 13 percent in 2016. But the proportion of anocratic states has remained high. Chaos might now be a bigger enemy of democracy than autocracy. (See figure 5.)

FIGURE 5. GLOBAL TRENDS IN GOVERNANCE (PROPORTION OF COUNTRIES, PERCENT)
(Source: Center for Systemic Peace, Polity IV dataset)



So, what is the story?

The industrial revolution began in a world of autocracies or narrow oligarchies. In the nineteenth century, the number of countries with moderately wide franchises rose. The victory of the Western allies in World War I and subsequent collapse of the defeated autocracies led to a jump in the number of democracies. The franchise was also widened in many countries at that time, particularly to adult females, in part because women played a big role in the war efforts. But the chaotic political legacy of World War I and the Great Depression was devastating for fragile new democracies. Their number more than halved and dictatorships took their place. After the end of the Second World War, the number of democracies began its long upswing, as the allies liberated western Europe from the Nazis, and colonial empires disappeared. Indian independence in 1947 was a watershed moment for that. But the swiftest increase in the number of democracies came after the fall of the Soviet Union. That marked a true age of democratic transformation.

The Great Recession, which followed the transatlantic financial crisis of 2007–12, did not do anything like the same damage to democracy as the Great Depression did, perhaps because it was better managed. (At the time of writing this, in mid-2022, few have much idea what the longer-term political

impact of COVID-19 might be. But it has further reduced confidence in the authorities, with a few exceptions.) The relatively successful policy response to the global financial crisis (at least compared with the abject failure in the 1930s) should take some of the credit. Nevertheless, the rise in the number of democracies has halted and the quality of many—including the US, which had long been in the vanguard of democracy worldwide—is deteriorating. Indeed, it is possible the problem began a little earlier. Already in 2015, Diamond argued that "the world has been in a mild but protracted democratic recession since 2006."[7] Moreover, this democratic recession is multifaceted. It includes "the instability and stagnation of democracies, but also the incremental decline of democracy in 'gray zone' countries (which defy easy classification as to whether or not they are democracies), the deepening authoritarianism in the non-democracies, and the decline in the functioning and self-confidence of the world's established, rich democracies."[8]

In a similar vein, Freedom House, which adds measures of personal freedom to those of the political processes, is alarmed. In its 2021 report, for example, it stated:

> As a lethal pandemic, economic and physical insecurity, and violent conflict ravaged the world in 2020, democracy's defenders sustained heavy new losses in their struggle against authoritarian foes, shifting the international balance in favor of tyranny. Incumbent leaders increasingly used force to crush opponents and settle scores, sometimes in the name of public health, while beleaguered activists—lacking effective international support—faced heavy jail sentences, torture, or murder in many settings.
>
> These withering blows marked the 15th consecutive year of decline in global freedom. The countries experiencing deterioration outnumbered those with improvements by the largest margin recorded since the negative trend began in 2006. The long democratic recession is deepening.[9]

Indeed, after Trump's attempted coup against the 2020 presidential election in the US and, still more important, after the Republican Party's decision to support him in condemning the outcome of the election as illegitimate, without evidence, a "democratic recession" no longer seemed the right phrase. "On the verge of a democratic depression" seemed a better description of the state of US and global democracy in 2021.[10] Above all, in 2016, the US had elected a man to serve as their president who not only had

no idea what a liberal democracy was but despised the idea: winning and holding power was all. One must assume that those who voted for him agreed. With such an opposition, Joe Biden's attempt to revive the reputation of his country for democratic principle seemed quite likely to fail.

In a seminal 2016 paper, Roberto Foa and Yascha Mounk detailed with frightening clarity the erosion of belief in the core institutions of democracy:

> Over the last three decades, trust in political institutions such as parliaments or the courts has precipitously declined across the established democracies of North America and Western Europe. So has voter turnout. As party identification has weakened and party membership has declined, citizens have become less willing to stick with establishment parties. Instead, voters increasingly endorse single-issue movements, vote for populist candidates, or support "anti-system" parties that define themselves in opposition to the status quo. Even in some of the richest and most politically stable regions of the world, it seems as though democracy is in a state of serious disrepair.[11]

This is not just a matter of dissatisfaction with specific parties or governments, but rather with democratic regimes themselves. The World Values Survey Waves 5 and 6 (2005–14) showed that the proportion of people who believed it was essential to live in a democracy had collapsed. Of those born in the 1940s, just under 60 percent of Europeans and just over 60 percent of Americans believed it was essential to live in a democracy. For those born in the 1980s, the proportions were down to close to 45 percent and 30 percent, respectively. This was a cohort effect, not an age effect. The more recent cohorts appeared to be disenchanted and uninterested. Amazingly (and frighteningly) in 2011, 24 percent of US "millennials" (then in their late teens or early twenties) thought democracy a "bad" or "very bad" way to run a country.[12]

Not only did younger cohorts seem less committed to the idea of democracy, but interest in politics had markedly declined among them. Worst of all, evidence of rising support for authoritarianism also existed. In the US, for example, the proportion of citizens that thought it would be a "good" or "very good" thing for the army to rule had jumped from one in sixteen in 1995 to one in six in 2014. The relatively well-off had hugely increased their support for the idea of army rule. In the mid-1990s only 5 percent of upper-

income citizens thought army rule would be a “good” or “very good” idea. By 2014, that had risen to 16 percent.

In all, we could see a marked shift toward belief in that ancient chimera, a “strong leader,” with the biggest shifts in this direction among the younger cohorts and the well-off. In the latter case, many may wish to keep the grubby hands of the “hoi polloi” (the masses) off “their” money. As we considered in the previous chapter and will consider further below, once inequality becomes large enough, nothing is more likely than that the wealthy few will struggle to repress the democratic representation of the poor many.

Subsequent research confirmed this dire picture. A study published in 2020, for example, found that of the world’s “democratic citizenry,” which totaled 1.9 billion people, only a little over 2 percent lived in countries where more than three quarters of citizens were satisfied with their democracy. Another 21 percent lived in countries where between a half and three quarters of the citizenry were satisfied. But 57 percent lived in countries where only between a quarter and a half were satisfied, a group of countries that included France, Japan, Spain, the UK, and the US. Finally, 20 percent lived in countries where less than a quarter of the citizens were satisfied with their democracy. This was a picture of grim disenchantment.[13]

All this suggests that democracy has become fragile, not just in relatively poor democracies (such as those in sub-Saharan Africa), in middle-income countries with huge social, cultural, or ethnic divisions (such as Brazil, India, the Philippines, or Turkey), or in countries that have shifted only relatively recently from authoritarianism to democracy (such as Hungary and Poland), but even in well-established and prosperous Western democracies. Moreover, as Diamond wrote, “Much of the post–World War II liberal order is rooted in US leadership, so too is democracy worldwide anchored in democracy in America.”[14] The withdrawal of the US from defending democracy under Donald Trump, his hostility to democratic allies and democratic norms, and his contempt for the liberal global economic order are potentially transformative events.

Democracy has disappeared in the past. It would be silly to assume it could not do so again. If it does, we will live in a world of arbitrary

despotism, unbridled corruption and self-dealing, intimidation, and endless state-manufactured lies. We will live in a world in which the people are treated as perpetual children by whichever set of thugs is in charge.

Brief History of Market Capitalism[15]

Liberal democracy has swept across the world over the past two centuries but has done so with advances and retreats. Today, it is in a retreat. What, then, has been the evolution of market capitalism, especially in today's high-income countries?[16] The answer is more complex, but the broad story is not dissimilar.

The discussion below will separate domestic from global capitalism. In general, while capitalism has evolved in consistent directions, it has also gone through cycles of less and more government intervention. Today, we are moving into an era of greater government intervention, notably in regard to global integration. Thus, the spread of global capitalism has slowed, even reversed, and with COVID-19 and the breakdown in relations between the US and China, it seems likely to go into further retreat. This, then, is much the same story as for democracy. It is a troubled era for both systems.

Cycles of capitalism

Capitalism is not static, but rather a dynamic, even protean, system, which evolves in response to market and technological opportunities and also to political and social pressures. It has always been so. Provided the core attributes of competitive markets and protection of private property are maintained, the system itself—defined to include the institutional framework, relationship with civil society, and government policy—can alter profoundly.

Arguably, the most significant historical transformation of capitalism has been the shift from small businesses with unlimited liability of owner-

managers to the limited liability corporation (in US parlance) or company (in the UK's), with their professional managements. The aim of this highly significant institutional innovation was to create business entities that could finance and manage the new economic activities, which were characterized by huge economies of scale and correspondingly enormous capital requirements. In this way, capital and credit could be combined into eternal entities with a legal personality, indeed an economic life, all their own. In the middle of the nineteenth century, the UK allowed creation of such companies by a simple act of registration. This social and legal innovation was then copied in many other countries.[17]

The company has been a staggeringly successful innovation. But it has also turned out to be something of a Faustian bargain.

On the positive side, companies have become the heart of the modern economy: in the US, for example, corporations generated 56 percent of GDP in the first quarter of 2021.[18] Conceptually, a company is a system of command and control embedded within competitive markets.[19] Companies' success comes from their ability to coordinate resources and serve markets worldwide. They have, in the process, created and managed an immensely complex global division of labor. The birth of the company has also led to the creation of cadres of well-schooled and competent managers.[20] Companies generate the bulk of the innovation in our economies.[21] They have valuable brands and reputations to protect, which encourages them to behave responsibly. In sum, companies are engines of prosperity.

Yet, on the negative side, companies also possess enormous economic and political power, which they can and do abuse. Adam Smith himself was concerned that managers would ignore the interests of owners. More significantly, their scale and mobility create significant market power.[22] In addition, companies have been granted the privileges of personhood, including the political privileges of citizens.[23] Yet being so mobile and flexible, they can afford to be indifferent to the fate of their workers and the countries in which they are located and so become sophisticated avoiders of taxes and regulations.[24] Moreover, judicial systems find it almost impossible to hold them or their executives criminally liable, even in the

event of significant malfeasance. Shareholders bear the cost of fines imposed as a result of mistakes made by executives, even though the former frequently have limited ability to control the latter. In addition, partly guided by Milton Friedman's influential views of the goals of the company, its dominant purpose was long held to be maximizing shareholder value, to the exclusion of other objectives.[25] This can encourage behavior that borders on the sociopathic.

The invention of the company brought with it other institutional developments. Luca Pacioli invented double-entry bookkeeping in the late fifteenth century. But the training and certification of accountants emerged only in the nineteenth century.[26] In the twentieth century, official accounting standards, such as Generally Accepted Accounting Principles in the US and International Financial Reporting Standards were introduced. The primary aim of both was to clarify the performance of companies increasingly owned by outside shareholders.

Finance also evolved dramatically. The creation of limited liability joint stock banks in the nineteenth century changed the financing of companies, as did corporate bond markets. Institutional share ownership via unit trusts (mutual funds in the US), investment trusts, pension funds, and, more recently, exchange traded funds shifted the meaning of ownership. From a commitment to the long-term health of a specific business a title of "ownership" became little more than a liquid financial asset. A still greater degree of detachment from committed ownership occurred with the emergence of the index fund, whose point was diversifying risk and so limiting exposure to (and interest in the health of) any specific business. The result is "detached capitalism." Private equity and venture capital may be viewed as partial counterweights to these developments. Such institutional developments also caused the ceaseless reshaping of companies via an active market in corporate control through mergers and (often hostile) takeovers.

The rise of capitalism also created powerful countervailing forces. Among the most important were trade unions. Thus, during the nineteenth and early twentieth centuries, a sizable part of the labor force released by the rising productivity in agriculture found employment in large-scale

manufacturing and mining. These valuable stocks of physical capital had to be in constant use if their owners were to achieve the desired returns. These huge and concentrated labor forces were also relatively easy to organize; after long and bitter struggles, trade unions organized large parts of the labor force. Since strikes could inflict huge losses, they held leverage over employers.[27] In the end, they forced companies to share the exceptional profits generated by these productive new economic organizations with their workforces.[28]

Trade unions also played a political role by creating (as with the UK's Labour Party) or supporting (as with the Democrats in the US) center-left and left-wing political parties. These parties in turn shaped politics in the new era of wide and then universal suffrage. These new trade unions were also able to finance and organize political activity. This new political power forced business owners to share their profits, via taxation of incomes and wealth. These developments in turn created a well-paid industrial working class (which Americans call the middle class).

Yet much the most powerful countervailing force is the state. The state's role had long been to create the legal and regulatory environment within which a capitalist economy could operate—no rule of law, no market capitalism. But as standards of living grew to unprecedented levels, so did the resources available to the state. As the supply capacity of the state expanded, so did the demands upon it from the widening electorate, which was increasingly under the influence of the new mass trade unions and political parties. Voters demanded spending on education (as did business). They demanded spending on insurance against unemployment, penury in old age, and ill health. They demanded a modern infrastructure. They demanded full employment. They demanded regulation of the environment, labor markets, worker safety, soundness of financial institutions, anticompetitive behavior, product safety, and international commerce.

TABLE 1: SHARE OF GENERAL GOVERNMENT SPENDING IN GDP

	1870	1913	1937	1960	1980	2001	2019
Australia	18.3%	16.5%	14.8%	21.2%	31.6%	35.8%	38.3%
Belgium		13.8%	21.8%	30.3%	58.6%	49.4%	52.1%

France	12.6%	17.0%	29.0%	34.6%	46.1%	51.7%	55.5%
Germany		14.8%	34.1%	32.4%	47.9%	47.4%	45.2%
Italy	11.9%	11.1%	24.5%	30.1%	41.9%	47.3%	48.6%
Japan		8.3%	25.4%	17.5%	32.0%	35.5%	37.2%
Netherlands	9.1%	9.0%	19.0%	33.7%	55.2%	42.1%	41.3%
Norway	5.9%	9.3%	11.8%	29.9%	37.5%	43.3%	51.6%
Sweden	5.7%	10.4%	16.5%	31.0%	60.1%	51.7%	48.3%
UK	9.4%	12.7%	30.0%	32.2%	43.0%	34.8%	38.9%
US	7.3%	7.5%	19.7%	27.0%	31.8%	32.8%	35.7%

Source: WP/00/44, IMF World Economic Outlook Database

What voters demanded, governments delivered. As table 1 shows, the share of government spending in GDP has risen enormously since 1870, which was the dawn of the age of democratic capitalism. In the US, for example, that ratio rose from 7 percent to 27 percent in 1960 and then 36 percent in 2019. Yet the US share was the lowest of these countries. Some of these countries were spending close to half of GDP in 2019, just before the COVID-19 pandemic. The bulk of this increase in spending was for education, health, and social security (particularly pensions). The big jumps in public spending occurred during the First World War, the Great Depression, the Second World War, and the postwar period. After 1980, the spending of nearly all these governments stopped growing much if at all relative to GDP. The spending share even shrank a little in many (see table 2). Today, big governments seem to have reached limits—political, economic, or possibly both: the shrinkage of the state in the Netherlands and Sweden is particularly striking.

TABLE 2: RISE IN THE SHARE OF GOVERNMENT SPENDING IN GDP

	1913–1980	**1980–2019**	**1913–2019**
Australia	15.1%	6.7%	21.8%
Belgium	44.8%	-6.5%	38.3%
France	29.1%	9.4%	38.5%

Germany	33.1%	-2.7%	30.4%
Italy	30.8%	6.7%	37.5%
Japan	23.7%	5.2%	28.9%
Netherlands	46.2%	-13.9%	32.3%
Norway	28.2%	14.1%	42.3%
Sweden	49.7%	-11.8%	37.9%
UK	30.3%	-4.1%	26.2%
US	24.3%	3.9%	28.2%

Source: IMF World Economic Outlook Database data collected for table 1

The emergence of capitalism and democracy within broadly liberal societies—societies that treasure the principles of individual choice, free inquiry, and tolerance for others—did, of course, stimulate passionate discussion. Thinkers, historians, and polemicists, from Adam Smith and Karl Marx to John Maynard Keynes and Amartya Sen, have all engaged in such debates. In the high-income countries, however, the anticapitalist and antidemocratic ideas of the extreme left and authoritarian right have failed to take lasting hold, at least so far. The debate in these democracies has mainly been between “capitalism skeptics” of the left and “capitalism supporters” of the right, with both sides claiming to be pro-democracy. The result on the ground has been a compromise, with the dynamism of capitalism balanced by the intrusions of the state.

The interaction of ideas with events produced swings in the balance between market and government over the past one and a half centuries, from laissez-faire to a mixture of egalitarianism and interventionism, then back toward freer markets (described as neoliberalism by its opponents), and finally back toward somewhat greater interventionism.

The story starts with the predominantly free-market economies of the mid- to late nineteenth century (though the notion of industrial policy already existed in the catch-up powers, such as the US and, later, Germany and Japan). Already at that time, critical voices were growing louder. The First World War then brought a substantial state takeover of the economies of the combatants, as well as the communist revolution in Russia. The success of

“war socialism” was widely seen as justifying planning of the economy, an idea subsequently taken to its limits by Joseph Stalin. His first five-year plan covered the years 1928–32. The aim was to achieve forced industrialization by means of central planning of an entirely state-owned economy.[29] This approach became highly influential across the world after the Second World War, mostly in a diluted form, as the Soviet empire expanded and as developing countries, many of them freed from colonial empires after 1945, adopted ostensibly similar five-year development plans.

The agonies of the First World War strengthened the hold of socialist and nationalist ideas in Europe, on the far left and the authoritarian right. The failure to restore a stable global economy after the First World War and the economic collapse in the early 1930s severely damaged belief in the self-equilibrating properties of an economy driven by self-interest. The Great Depression then led to the abandonment of the old gold standard—a hallowed part of that self-equilibrating system—by many countries, notably including the UK in 1931. It also led to the New Deal in the US, the Nazis’ controlled economy in Germany, and finally World War II. The war further increased state control of economies of high-income countries, with total mobilization of resources for the war effort, notably in the UK.

By the late-1940s, Keynesian ideas of macroeconomic stabilization had achieved great influence, though not universal acceptance, especially in the US and postwar Germany. These ideas were to be seen in the objectives and policies of the International Monetary Fund, agreed at Bretton Woods, New Hampshire, in July 1944.[30] Many essential industries, such as railways, coal mining, and the main utilities, were nationalized (though not in the US). Government spending had increased both hugely and irreversibly. Tax rates on high incomes and wealth also reached punitive levels: thus, “in the 1930s, US policy makers invented—and then for almost half a century applied—top marginal income tax rates of 90 percent on the highest income earners. Corporate profits were taxed at 50 percent; large estates at close to 80 percent.”[31] In the UK, the top rate of income tax reached 99.25 percent during the Second World War and was around 90 percent during the 1950s and 1960s.[32]

These economies were, however, at most “mixed economies,” not socialized ones. In all, however, the old laissez-faire approach to the market economy had been largely discredited. France even adopted a widely admired system of “indicative planning.” In Europe, the closest to the old set of ideas were those of the social market economy, introduced in Germany. This embraced the old principles of private property, competition, and monetary stability, but also accepted social protection. Ludwig Erhard was the guiding force in introducing this policy system, first in the parts of Germany occupied by Western powers and then as finance minister of West Germany. It was an enormous and hugely influential success.

The period of the Keynesian mixed economy lasted until the 1970s. The combination of high inflation with high unemployment in the latter decade discredited Keynesian macroeconomics, while the combination of arbitrary price controls with weak profitability of companies, slowing productivity growth and poor performance of nationalized industries, discredited what was increasingly seen as an unworkably interventionist approach to the economy. The outcome was the “Reagan-Thatcher counterrevolution,” introduced by Ronald Reagan, elected US president in 1980, and Margaret Thatcher, elected UK prime minister in 1979. In the field of development economics, a not dissimilar set of ideas came to be known (rather misleadingly) as the “Washington Consensus.”[33] The core ideas of this counterrevolution were control of inflation through control over monetary aggregates and then through inflation targeting, deregulation—especially of product, labor, and financial markets—lower marginal tax rates, and privatization of nationalized companies. This represented a very partial turn toward laissez-faire. But governments remained very large, on all dimensions, the welfare state was not rolled back to any significant degree, and regulation in some important areas, notably the environment, even tended to increase. Nevertheless, the era of the mixed economy of the 1950s, 1960s, and 1970s changed into one of freer markets in the 1980s, 1990s, and early 2000s. The startling collapse of the Soviet Union and its empire between 1989 and 1991 reinforced this shift worldwide.

A series of financial crises in emerging economies, notably the Asian crisis of 1997–99, shook confidence in deregulated financial markets. But these could be blamed on unworkable fixed-exchange-rate regimes and crony capitalism. However, the transatlantic financial crisis of 2007–12 occurred in the core of the global financial system. This could not be so easily explained away. The response consisted of massive bailouts and substantial reregulation of the financial system. Business groups even started to shift away from their adherence to the mantra of "shareholder value maximization." Notably, the Business Roundtable, which represents 181 of the world's largest multinational companies, stated in 2019, "While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all our stakeholders."[34] Finally, COVID-19 brought another round of government intervention. The active state had returned.

In the long run, we can identify both a trend and a cycle in capitalism and its place in wider society. The trend has been toward a depersonalized and institutionalized capitalism, with the emergence of multinational corporations and regulated financial markets, and also of bigger and more intrusive states. Behind this trend has been a ceaseless debate over how society should be organized and, in particular, over the relationship between markets and government and also between companies and the rest of civil society. The cycle has been between reliance on free markets and reliance on active government intervention. Right now, we seem to be moving back toward the latter, though the shift is slow and modest by the standards of earlier periods, notably the 1930s. The disruptions caused by COVID, the Ukraine war, and the fundamental breakdown in relations between the US and China seem likely to accelerate this ongoing shift.

Cycles of globalization

A country is inherently a political rather than an economic entity. Yet this does not mean that countries do not matter economically. Almost nothing could be further from the truth. It does mean that the market economy is not

purely national. Capitalism turbocharged this reality by making the exploitation of new resources and new markets a point of competition among capitalists and, frequently, among their governments as well.

Karl Marx and Friedrich Engels understood this. In the *Communist Manifesto*, one of the most important documents of the nineteenth century, they described the emerging capitalist economy brilliantly:

> The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country. To the great chagrin of Reactionists, it has drawn from under the feet of industry the national ground on which it stood. All old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries, whose introduction becomes a life and death question for all civilized nations, by industries that no longer work up indigenous raw material, but raw material drawn from the remotest zones; industries whose products are consumed, not only at home, but in every quarter of the globe. In place of the old wants, satisfied by the production of the country, we find new wants, requiring for their satisfaction the products of distant lands and climes. In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal inter-dependence of nations. And as in material, so also in intellectual production. The intellectual creations of individual nations become common property. National one-sidedness and narrow-mindedness become more and more impossible, and from the numerous national and local literatures, there arises a world literature.[35]

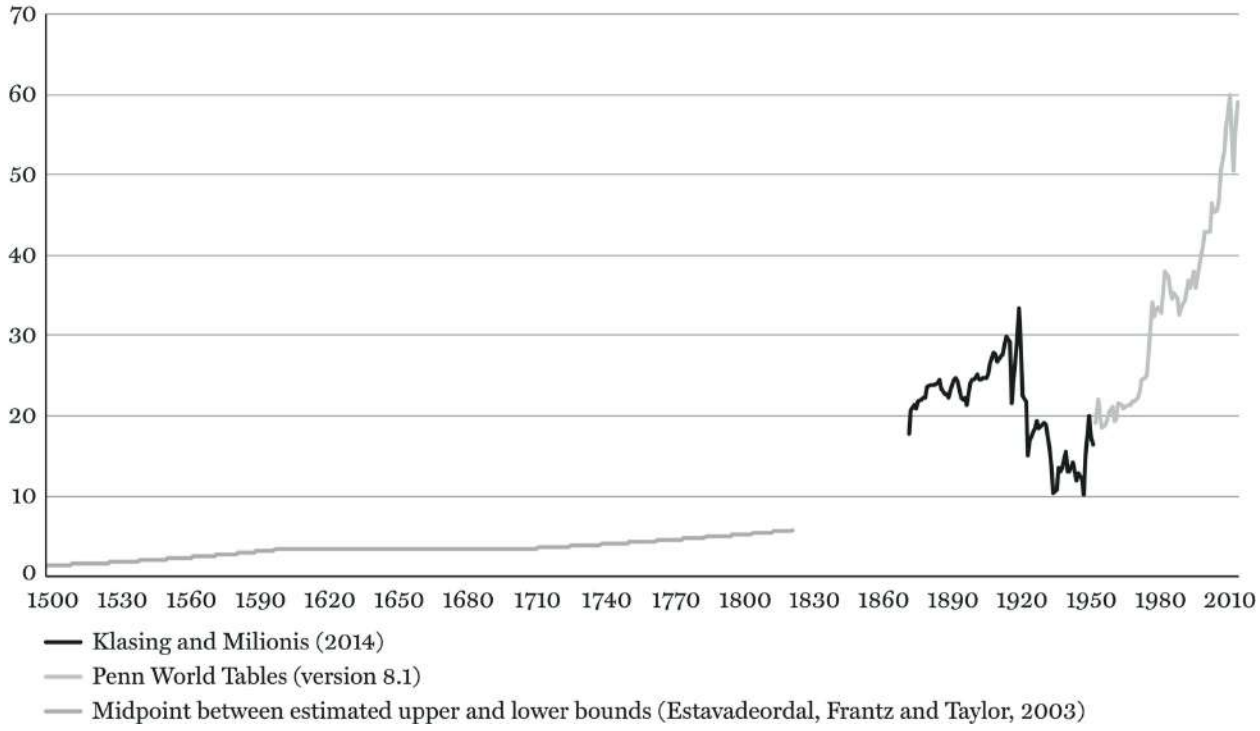
Capitalism is inherently global: profit-seeking capitalists will pursue their goals abroad, if allowed to do so, since that is where many good opportunities lie. Just as there had been democracies and republics before the modern era, so was there international commerce. Even before the European voyages of discovery of the fifteenth and sixteenth centuries, there existed a "complex pattern of linkages among wool from England and Spain, woolen cloth from Flanders and Italy, furs from Eastern Europe, gold from West Africa, cotton textiles and pepper from India, fine spices such as cloves and nutmeg from Southeast Asia and silk and porcelain from China that existed from at least a thousand years ago."[36] At that time, the most advanced parts of the global economy were China and the Muslim world. The silk route from China, the first long-distance trading system, originated with the Han Empire, two centuries before the Common Era.[37]

The difference in motivation between the Chinese, who felt they had little need of imports from the rest of the world, and the Europeans, who desired eastern commodities, explains why it was not the Ming Dynasty fleets of admiral Zheng He in the early fifteenth century, but those of Vasco de Gama (to India) and Cristoforo Colombo (to the Americas, while seeking a route to the Indies), in the late fifteenth century that created the first global economic network.[38] The subsequent period between 1500 and 1800 is sometimes thought of as the age of mercantilism. It was an era of competition among European states aimed at promoting exports and creating and protecting trade monopolies. In the seventeenth and eighteenth centuries, the Dutch and British East India companies played a powerful role not just in global trade, but in politics, in their homes and around the Indian Ocean. Adam Smith wrote *The Wealth of Nations* as an attack on this mercantilist system.[39]

Yet, while European explorers had brought the hitherto separate continents of North and South America into the global economic and political systems, European commerce did not dominate the world even during the mercantilist era. The Chinese, Indian, and Turkish empires continued to play a large role. Indeed, for the Europeans, a big part of the value of the Americas was that it provided silver with which to purchase goods from Asia, since they could offer little else of value to those sophisticated economies.

Trade grew faster than world output between 1500 and 1800.[40] Nevertheless, the ratio of trade to output is estimated at between 2 percent and 10 percent in 1820, far below levels subsequently reached in the late nineteenth and early twentieth centuries, let alone today (see figure 6).[41] The trade was also predominantly in noncompeting goods, though Europeans did manage to develop import-substituting industries in porcelain and textiles.

FIGURE 6. WORLD TRADE OVER WORLD OUTPUT
(EXPORTS PLUS IMPORTS, PERCENT)



The British textile industry—whose consequences included the development of cotton plantations worked by African slaves in the southern United States—was an early product of the industrial revolution. That was the beginning of the era of "Promethean growth," in which exploitation of fossil fuels and advances in technology successively transformed economies, societies, and politics.[42] This was also the era of the capitalist revolution, of which Marx and Engels wrote: "[The bourgeoisie] has been the first to show what man's activity can bring about. It has accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts, and Gothic cathedrals; it has conducted expeditions that put in the shade all former Exoduses of nations and crusades."[43]

In the nineteenth century, this global capitalism generated what is sometimes called "the first globalization" (which ended with the First World War) to differentiate it from the "second globalization" of the 1980s, 1990s, and early 2000s. In addition to technological advances, notably in transport and communications (the railway, steamship, and transcontinental cable), the policies of the mercantilist era were dismantled and trade barriers liberalized, especially in the second half of the nineteenth century. A decisive impulse

was the UK's adoption of unilateral free trade in 1846 and the subsequent treaties among the European powers to liberalize trade.[44] In that century, global commodity markets became integrated for the first time, as commodity prices converged under the forces of global competition.[45] There was, however, a modest reversal toward protectionism in the last two decades of the century.

The volume of world trade also grew faster than world output, which itself expanded far more quickly than ever before and, in the industrializing parts of the world, also generated sustained increases in real incomes per head, again, for the first time in history. By the First World War, the ratio of world trade to output (measured at purchasing power) had reached 30 percent, up from 20 percent in 1870, a ratio not seen again until the late 1970s. (See figure 6). As two experts write, "By 1913, international commodity markets were vastly more integrated than they had been in 1750; world trade accounted for a far higher share of world output; and a far broader range of goods, including commodities with a high bulk-to-value ratio, was being transported between countries."[46] Moreover, they add, "By the late nineteenth century there was a stark distinction between industrial and primary producing economies."[47] This was part of "the great divergence" between the rapidly industrializing countries of western Europe and North America and the relatively stagnant economies of the rest of the world, notably including almost all of Asia (except Japan in the second half of the nineteenth century).[48]

■ ■ ■

Already in the late nineteenth century, nationalism, protectionism, militarism, imperialism, socialism, and communism were both competing and cooperating with one another, while attacking nineteenth-century liberalism.[49] While the essential features of the late-nineteenth-century economic system—the gold standard and liberal trade (including the UK's free trade)—survived until the eve of the First World War, the war washed them away, never to return. Despite attempts, the corpse of the

nineteenth-century system could not be revived. In the interwar period, trade fell sharply, both absolutely and relative to world GDP, as a result of crippling protection and the Great Depression, coupled with post–First World War political fragility. The US, the reluctant new global economic hegemon, introduced the highly protectionist Smoot-Hawley tariff in 1930. The UK abandoned its long-standing policy of unilateral free trade and the gold standard in 1931, both for good. After 1933, Nazi Germany introduced comprehensive quantitative controls on trade, creating what one economist calls a "pernicious bilateralism."[50]

After the Second World War, world trade revived, to reach unparalleled heights. Yet the post–Second World War era differed from that of the nineteenth century in important respects. International institutions were created to contain and manage domestic policy making, in the interests of all. Important events on this journey were: establishment of the International Monetary Fund and the World Bank at the Bretton Woods Conference in 1944; the General Agreement on Tariffs and Trade in 1946 (which led to a series of global trade rounds that culminated in the Uruguay Round, the eighth such round, completed in 1994); creation of the Organization for European Economic Co-operation (later the Organization for Economic Co-operation and Development), designed to administer the Marshall Plan, in 1948; creation of the European Economic Community in 1957; creation of the World Trade Organization in 1995; and China's accession to the WTO in 2001.

The initial thrust of these developments, consciously encouraged by an enlightened US, was to open western European economies, first to one another and then to the wider world. In the 1980s and 1990s, however, the trade liberalization effort was not only extended to but enthusiastically embraced by many developing and emerging economies. This included China, whose policy of "reform and opening up" went back to Deng Xiaoping's rise to power in 1978, and India, in the aftermath of the foreign exchange crisis of 1991. These, then, were the crucial steps on the way to the "second globalization," with its explosive growth of world trade, which

reached a peak of 60 percent of world output in 2008 at the time of the transatlantic financial crisis.[51]

The technological revolution in transportation played a huge part in the first globalization. The transformation of transport has been less significant in the second globalization. The main transport changes here were the invention of the container ship and commercial jet aviation, both in the 1950s. These were important developments, just not quite as important as the invention of the railway and the steam ship in the nineteenth century. The driving force behind the explosive growth of world trade has rather been the liberalization of trade barriers and the fall in the cost of communication and data processing, which made possible an unprecedented integration of production across the globe.

In the high-income economies, visible trade barriers had fallen to very low levels prior to their reversal in the presidency of Donald Trump.[52] Nearly all emerging and developing countries still have substantially higher barriers to trade than high-income countries, partly because they postponed liberalization until the late twentieth century. In 2010, average unweighted mean tariffs on imports of manufactures were a mere 2.6 percent in high-income countries, but 6.1 percent in the world as a whole, 6.8 percent in developing countries in the East Asia and Pacific region, 7.2 percent in middle-income developing countries, 8.7 percent in developing countries in Latin America and the Caribbean, 9.7 percent in South Asia, and 11.6 percent in low-income developing countries.[53]

The explosive growth of world trade halted with the transatlantic financial crisis of 2007–12. Since then, there has not been a trade collapse, as in the 1930s, but stagnation. As the International Monetary Fund noted in 2016, “Between 1985 and 2007, real world trade grew on average twice as fast as global GDP, whereas over the past four years, it has barely kept pace.”[54] Average annual growth of world trade fell from 6.5 percent between 1965 and 2011 to 3.3 percent between 2012 and 2019. The average growth of world output was 3.5 percent in the second period.[55] Thus, not only did the rate of growth of world trade fall sharply even before COVID-19 hit the world economy, but the gap between the growth of trade and output

also narrowed sharply. This was not an era of deglobalization, at least in trade. But globalization slowed sharply.[56]

One explanation is that liberalization had run out of steam. The last global trade liberalization was the Uruguay Round, completed in the mid-1990s. The only significant liberalizing event since then was the accession of China to the WTO in 2001. After that, a series of important attempts—the Doha Round of multilateral trade negotiations, the Trans-Pacific Partnership (TPP) (rejected by Donald Trump in early 2017), and the Transatlantic Trade and Investment Partnership (TTIP, between the US and EU)—failed, were rejected, or languished.[57] Trump's repudiation of the TPP was unsurprising: he is a convinced protectionist who claimed that "protection will lead to great prosperity and strength" in his inaugural address on January 20, 2017.[58] His subsequent actions, notably his trade war against China, were indeed protectionist, a violation of WTO rules, and, not least, economically foolish.[59]

Even under Biden, no early reversal of Donald Trump's protectionist trade policies occurred.[60] There were, it is true, two successful efforts at multilateral trade liberalization: the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), signed in January 2018, which included all eleven members of the planned TPP apart from the US;[61] and the Regional Comprehensive Economic Partnership (RCEP), agreed in November 2020.[62] The principal protagonist of the CPTPP was Japan, and the principal protagonist of RCEP was China, though it did include Japan and South Korea. Neither agreement seems likely to have significant effects on trade.

A further explanation for the slowdown in trade is exhaustion of opportunities. From the 1990s, an important driver of world trade was the unbundling of global value chains—the division of production into successive stages located in different countries. This can be measured by the import content in a country's exports, together with the domestic content of exports used by trading partners in their own exports, all divided by gross exports. This ratio rose sharply until 2008, but then stagnated.

Brexit, too, represented deglobalization of trade.[63] The UK ended up with higher barriers to trade with its EU (and European Economic Area) partners than if it had remained a member. Given the fact that 43 percent of UK exports went to EU markets in 2016, at the time of the referendum, it was inconceivable that other forms of liberalization would offset this loss of market access, even in the medium term.[64]

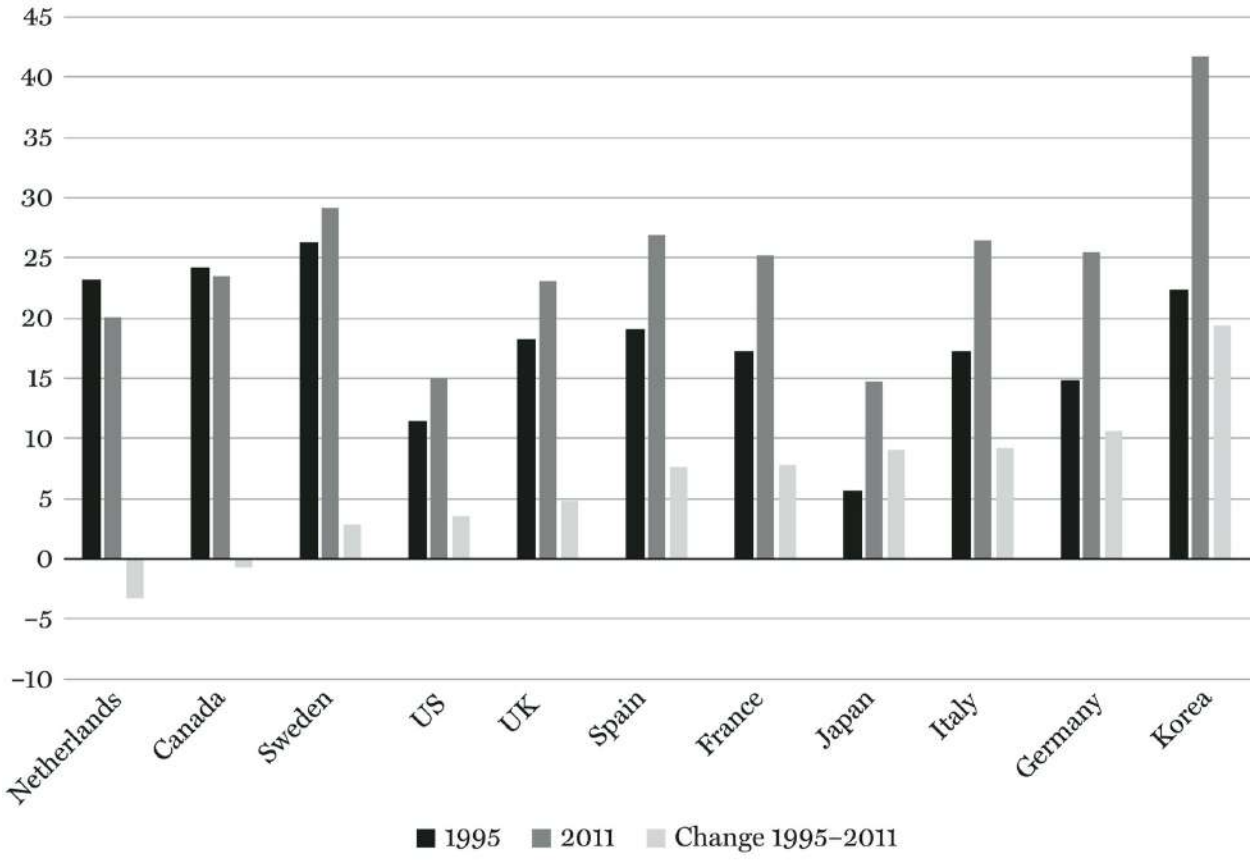
The nature of trade also changed over time. The old days of predominantly national businesses disappeared. In their place came global corporations. The "systems integrators," the global corporations, few in number and predominantly Western, that own both the relevant intellectual property and the capacity to organize global production and distribution came to dominate much of global trade and derive much of the gains from it.[65]

During the first globalization, in the late nineteenth century, the fall in the costs of transport of goods drove what was then an unprecedentedly rapid growth of world trade.[66] This facilitated a global exchange of manufactures against natural resources and agricultural products, the latter mainly from the Americas and Australasia, but also from poorer countries incorporated within colonial empires. In that era, it had been impossible to unbundle manufacturing. To compete in any given industry, a country had to master all the necessary skills. As a result, manufacturing, and with it the consequent gains from economies of scale and learning-by-doing, were concentrated in high-income economies. Modestly skilled workers in these countries enjoyed privileged access to the fruits of the knowledge developed within their economies and so shared a significant part of these gains—achieving, as a result, rising real incomes and substantial political influence.[67]

Until a few decades ago, the only way to break into this charmed circle was to develop competitive industries of one's own. Japan managed this and so, subsequently, did Taiwan and South Korea. But these were exceptional cases. In the second globalization, however, global communications became so reliable and cheap that it was possible to unbundle the production process across great distances. This allowed the production of components and final assembly to be spread across the world, under the control of manufacturers (or buyers) with the relevant knowledge. As an influential scholar put it, US

workers “are not competing with Mexican labor, Mexican capital and Mexican technology as they did in the 1970s. They are competing with a nearly unbeatable combination of US know-how and Mexican wages.”[68] One indicator of this change was the rise in the share of foreign value added in countries’ gross exports during the years of peak globalization, shown in figure 7. It had become far harder to identify the national origin of exports as trade in inputs became more intense. A more global form of market capitalism replaced the more national capitalism of old.

FIGURE 7. FOREIGN VALUE ADDED SHARE OF GROSS EXPORTS (PERCENT)
(Source: OECD)



This development has not been limited to goods. It also applies to services whose activities can easily be distributed across the globe, such as finance. An important consequence has been a widening divergence of interest between nationally bound workers on the one hand, and global corporations on the other. In the first globalization and even after the Second

World War, workers and corporations had shared interests against workers and corporations of other countries. In the second globalization, this was much less true. That, combined with the reduction in employment in manufacturing as a result of rapid productivity growth and the decline of trade unions, cast much of the old, relatively well paid and predominantly male working class adrift, with huge political consequences.[69]

Only a relatively small number of developing economies took full advantage of these new opportunities. The big successes were all in Asia. After its leaders' decision to open up the economy, the biggest success of all was China's. The rise of China created not just a new pole for world trade, but a new superpower. Yet this change must also be kept in proportion. If we look at shares of global gross domestic product at market prices, China's share jumped from 2 percent in 1990 to 16 percent in 2019. But the share of the high-income countries was still 60 percent in 2019 (down from 78 percent in 1990), with the US and the EU (the UK excluded) accounting for 25 and 18 percent, respectively.[70] Similarly, despite growing rapidly, China's share in global merchandise imports was only 13 percent in 2019, while the US and EU (excluding both intra-EU trade and the UK) still accounted for 30 percent of world imports.[71]

Nevertheless, the entry of China into the world economy had an unexpectedly large negative impact on US employment in manufacturing. It is estimated that import competition from China between 1999 and 2011 cost in the range of 2 to 2.4 million jobs.[72] This would have been roughly half of the actual job losses in manufacturing over that period: significant, but not overwhelming. Furthermore, jobs in manufacturing stabilized after that. But the local impact of job losses, again in the US, was longer lasting and more negative than might have been expected. Thus, concludes another study, "Adjustment in local labor markets is remarkably slow, with wages and labor-force participation rates remaining depressed and unemployment rates remaining elevated for at least a full decade after the China trade shock commences. Exposed workers experience greater job churning and reduced lifetime income."[73] This "China shock" was politically salient and, in the context of the US refusal to provide effective support and adjustment

assistance to the people who have lost their jobs, their families, or the communities in which they live, was inevitably and rightly so. It was not surprising, therefore, that this new dynamic of world trade brought—or at least helped bring—Trump to power. It was no surprise either that his protectionist actions were popular. Protection against imports is the only form of industrial assistance that Americans have generally regarded as legitimate. It also shifts the blame for predominantly domestic policy failure onto foreigners and, worse, in this case, the "yellow peril."

Now let us turn to the story of finance. Over the past two centuries, it rhymes with that of global trade—up, down, up, and after the transatlantic financial crisis, not merely stagnant but sharply down.[74]

Barriers to the flow of capital across borders fell dramatically in the nineteenth century, and flows of capital became enormous. Behind this were huge improvements in communications, especially the development of submarine cables and the security for investors created by the combination of the gold standard, British capital markets, and British power. Holdings of financial assets by foreigners was still just 7 percent of world output in 1870, but reached 19 percent by 1900, roughly where they remained in 1914. They then collapsed to 8 percent of world output in 1930 and on down to 5 percent in 1945. Exchange controls were adopted by many countries in the 1930s. The UK itself adopted them during World War II. They remained in effect on current transactions until 1961 and on capital transactions until 1979.[75] After World War II, capital flows rose again. The stock of foreign-held assets had reached 25 percent of world output by 1980, thus returning to where they had been in 1900. But they then reached 110 percent of world output in 2000 and an astonishing 185 percent in 2007, the year when the transatlantic financial crisis hit.[76] They then fell modestly back to 183 percent in 2016.[77]

A different way of looking at integration of capital markets is in terms of current account surpluses and deficits (which also represent net outflows and inflows of capital for countries). Between 1870 and 1889, Argentina, then a dynamic emerging economy, ran a current account deficit (that is, net capital inflow) averaging 19 percent of gross domestic product—an astonishingly

large figure. It then averaged 6.2 percent of GDP between 1890 and 1913. Australia and Canada were also huge capital importers at that time. Meanwhile, the UK's current account surplus averaged 4.6 percent of GDP between 1870 and 1913.[78] At its peak, British net overseas investment ran at 9 percent of GDP, well over half its capital accumulation at the time, while British claims on the rest of the world reached twice GDP.[79] No other large economy has had such high levels of cross-border net ownership of capital relative to its economy.

During the second globalization, current account surpluses and deficits became significant yet again. Between 1997 and 2007, for example, China's current account surplus averaged 4 percent of its rapidly growing GDP, and Germany's averaged 3 cent of GDP. China's surplus ultimately reached 8 percent of GDP in 2006, 10 percent in 2007, and 9 percent in 2008. Between 2008 and 2017, China's current account surplus averaged 3 percent of GDP, while Germany's averaged 7 percent of GDP, even bigger than the UK's in the heyday of the first globalization. Germany's surplus was even over 8 percent of GDP in 2015, 2016, and 2017.[80]

The big difference between the early twenty-first century and the early twentieth is who were the net borrowers. In the late nineteenth century, the net flow of finance went into ownership of real assets, often infrastructure and mines, in the emerging countries of that time with good investment opportunities, predominantly countries with surplus land, such as Argentina, Australia, Canada, and the US. This time the net flow mainly went to high-income countries in order to finance (debt-fueled) consumption, unsustainable housing booms, or both. The countries with the best opportunities for investment nowadays are the fast-growing Asian countries whose principal resource was (and is) cheap, hardworking labor. After the shock of the Asian financial crisis in 1997–98, these countries, which include China, chose to run current account surpluses and so became net exporters of capital, partly in order to accumulate reserves as a way to insure themselves against shocks emanating from the dollar-based global financial system.[81]

This shifted the biggest deficits onto a limited number of high-income countries. In absolute terms, the US has been far and away the biggest net

borrower. This was something Donald Trump's administration emphasized with displeasure.[82] Between 1997 and 2007 the US current account deficit averaged 4 percent of GDP. Between 2008 and 2017, it still averaged close to 3 percent of GDP. Spain also ran large and persistent current account deficits before the crisis, as did the UK between 1997 and 2007. Overall, high-income countries ran average current account deficits of 0.5 percent of global GDP between 1997 and 2007 and were then in balance, on average, between 2008 and 2017. Meanwhile, emerging and developing countries of East Asia and the Pacific consistently ran surpluses. These averaged 0.2 percent of global GDP between 1997 and 2007 and then 0.3 percent of global GDP between 2008 and 2017.[83]

In sum, this time, finance has increasingly created net flows of resources among rich countries or even from poor ones to richer ones, thereby becoming an enormously fragile element in the global economy. Indeed, this culminated in a huge financial crisis.

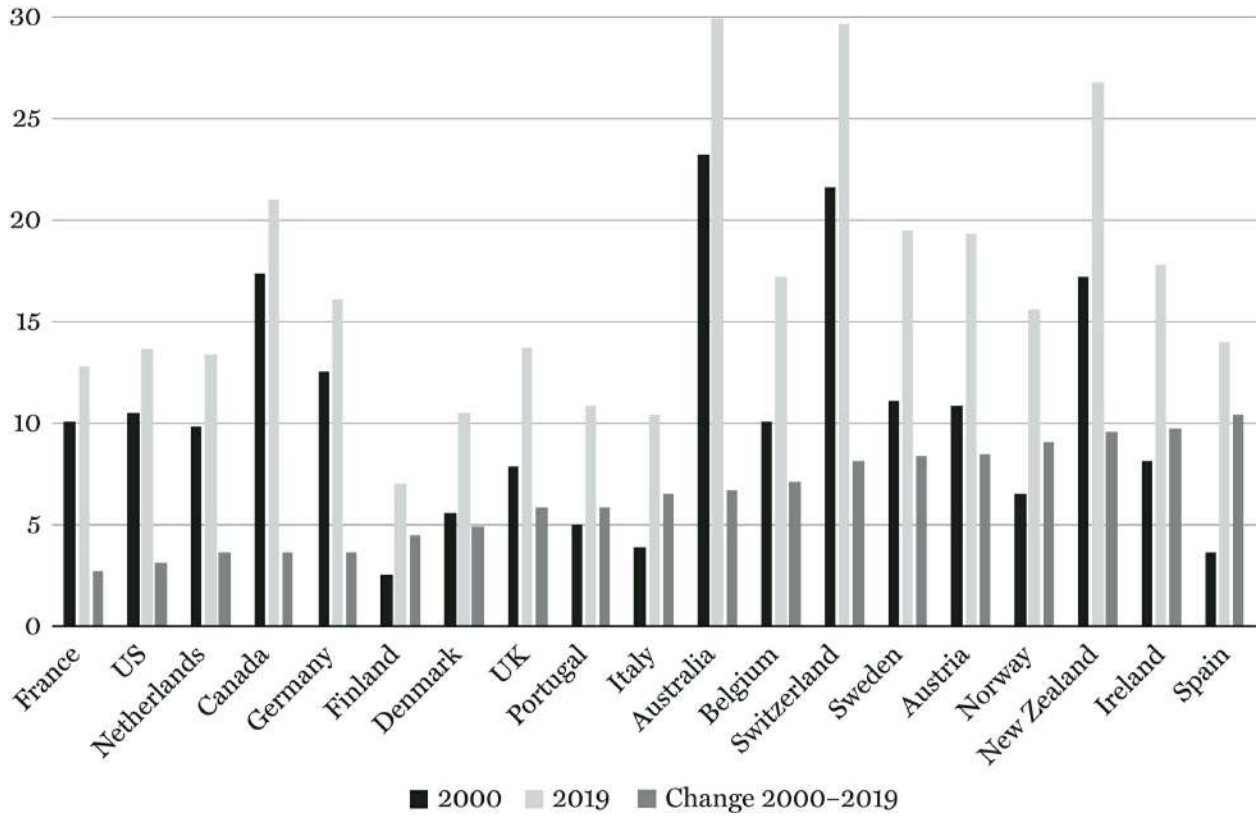
Migration shows much the same pattern as trade and finance: a huge surge in the late nineteenth and early twentieth centuries. In the decade of the 1890s, a high point for population movement, inflows of people into the US were 9 percent of the initial population—equivalent to an immigration of 29 million within a period of ten years today. In Argentina, the comparable figure was 26 percent; in Australia, it was 17 percent. In the same decade, the UK's outflow was 5 percent of the initial population, Spain's 6 percent, and Sweden's 7 percent.

Controls on immigration began to be introduced in the nineteenth and twentieth centuries, notably by the US, much the biggest net recipient of immigrants in absolute terms.[84] Between 1914 and 1945, migration was tightly constrained. After World War II, flows of people into the high-income countries were liberalized, with large increases in the proportion of the foreign-born population in most high-income countries. Nevertheless, controls on movement of people remained far tighter than on movement of goods, many services (other than those requiring movement of providers), and capital. Moreover, the political pressure has in general been in favor of restricting immigration further.[85]

One authoritative analysis of the impact of migration in the nineteenth century concludes that "all of the real wage convergence before World War I was attributable to migration, about two thirds of the GDP per worker convergence and perhaps one half of the GDP per capita convergence."[86] Nothing comparable has happened since then, with the possible exception of migration within the European Union, where free movement of labor is one of the four freedoms guaranteed by the founding treaty. Unfortunately, this principle also became one of the reasons for the UK's vote to leave the EU in the referendum of June 2016. Elsewhere (and from other origins into the EU), immigration into high-income countries is tightly controlled.

Nevertheless, flows of immigration into the high-income countries hit high levels again, even by nineteenth-century standards. In 1911, the foreign-born had been 14.7 percent of the population of the United States and 22 percent of Canada's.[87] European countries were sources of net emigration, not net recipients. In 2019, the high-income democracies with the highest shares of the foreign-born in the population were Australia, Switzerland, New Zealand, Canada, Sweden, Austria, and Ireland (see figure 8). Yet, of these countries, only Austria has had a large backlash against immigrants. Again, the countries with the largest increases in the proportion of foreign-born between 2000 and 2019 were Spain, Ireland, New Zealand, Norway, Austria, Sweden, Switzerland, Belgium, Australia, and Italy. Only in Austria and Italy was the backlash large. The increase in the proportion of foreign-born has certainly been socially and politically significant.[88] But, surprisingly perhaps, given all the political noise there, the increase in the proportion of foreign-born in the US between 2000 and 2016 was the second-*lowest* among high-income countries, ahead only of France, where immigration has also been a very politically salient issue.

FIGURE 8. FOREIGN-BORN AS SHARE OF POPULATION (PERCENT)
(Source: OECD)



The link between the levels of immigration and popular hostility is complex: it reflects the culture of the receiving country, especially embedded racism, the culture and ethnicity of the immigrants, economic conditions in the receiving country, and, not least, the behavior of politicians. The economics of immigration are complex and controversial, too.[89] It is clear, however, that many resent high levels of immigration, for a mixture of cultural, social, and economic reasons. Many also see high levels of immigration as eroding the value of what is, for many citizens of high-income societies, the most valuable asset they own: citizenship.

Yet, at the global level, the movement of people has been both modest and surprisingly stable. In 1960, 2.6 percent of the world's people were living in countries in which they had not been born. By 1990, this was 2.9 percent and in 2010 just 3.1 percent. While there have been large flows of refugees into some developing countries, it is the high-income countries that stand out as receiving large and consistent flows of immigrants in the recent past. Thus, just as in trade and finance, there was a surge in the impact of globalization

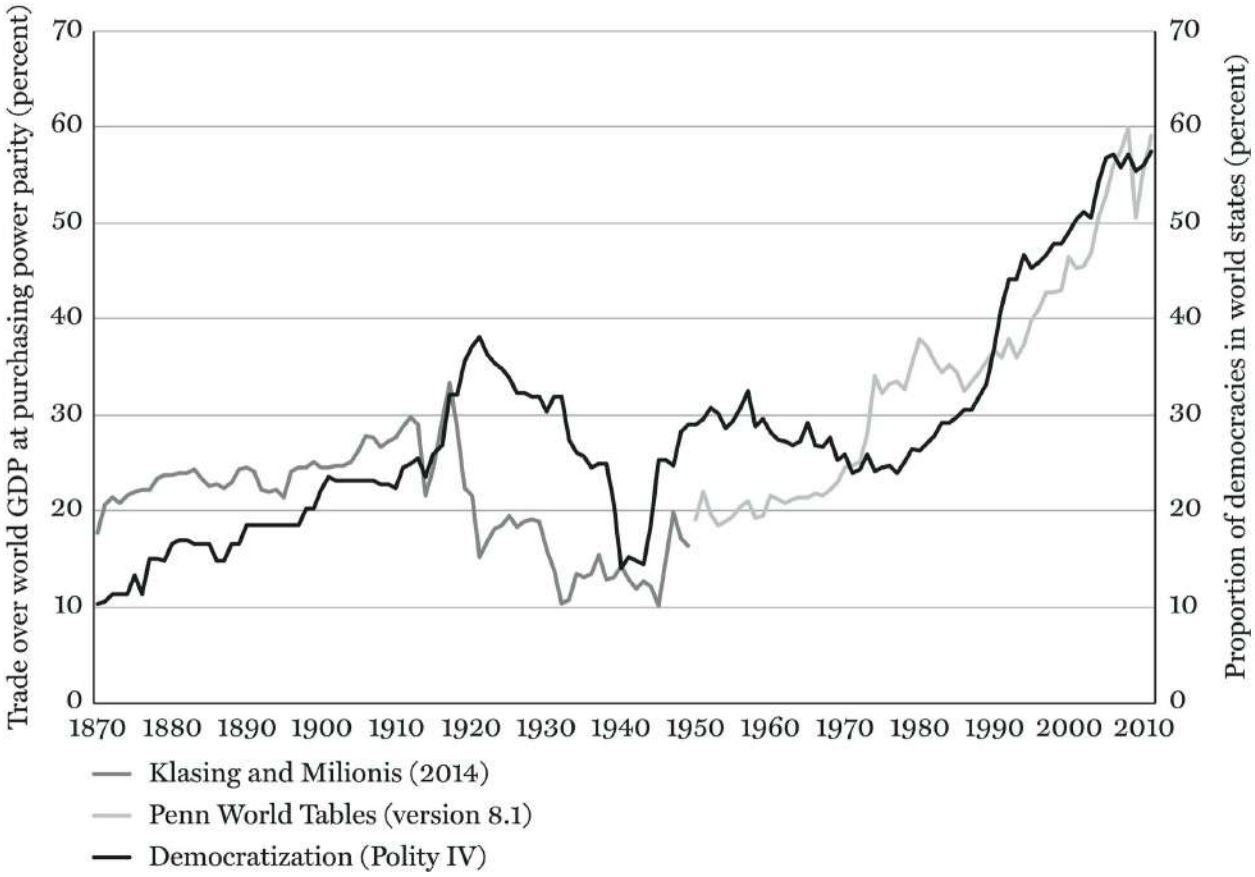
on high-income democracies in the late twentieth and early twenty-first centuries, and that in turn created a backlash that became quite visible, notably in the US and the UK.

Overall, just as was the case for capitalism itself, globalization—the movement of goods, services, capital, and people across borders—shows cycles within a long-term trend. The trend in this case has been largely driven by technological revolutions and also by organizational changes, especially the rise of global corporations and capital markets. The cycles, however, are determined, as was also true more domestically, by political, economic, and ideological shifts. Recessions, national rivalries, wars, and the rise and fall of socialist, nationalist, and dirigiste attitudes and ideas help explain the degree to which countries are prepared to open up their economies.

Connection between Democracy and Globalization

The pattern of up, down, up, and then down in market capitalism and especially globalization coincides to a quite remarkable degree with that for democratization. (See figure 9.) Globalization and democratization went together in the late nineteenth and early twentieth centuries, in the years before the First World War. The end of the First World War led to a jump in the proportion of democracies. The world economy then deglobalized sharply in the interwar years. Democratization duly followed globalization down, with collapse of trade preceding that in the proportion democracies. Trade and democratization reached a nadir during World War II. Then came the postwar shift toward democratization. A strong recovery in the openness of the world economy followed. Democratization stabilized in the 1960s. Globalization followed in the 1970s. Democratization soared in the 1980s and early 1990s, with globalization following closely behind. Both finally stabilized (or, on some dimensions, declined) after the global financial crisis of the early 2000s.

FIGURE 9. GLOBALIZATION AND DEMOCRACY
(Source: Our World in Data and Center for Systemic Peace)



This is not to suggest any simple cause and effect between globalization and democracy. The relationship is too complex for that, as indicated in the previous chapter. But periods of market liberalization and expanding globalization have also been ones of optimism. That should have made democracy less conflictual. Periods of rising restrictions on the economy have tended to coincide with economic, political, or other disturbances, when a large proportion of the population feels frightened and angry, which is also bad for liberal democracy. Finally, victories by the democratic powers, as in the First World War, Second World War, and Cold War, have been good for both democracy and globalization.

A different way of looking at how far capitalism correlates with democracy is to look across countries at the relationship between rankings for “economic freedom” and those for “political freedom” at a moment in time.

[90] The measure of economic freedom, taken from the Cato Institute, covers the size of government, the legal system, the monetary system, freedom to trade, and the extent and nature of regulation. The measure of political freedom, taken from Freedom House, includes political rights (elections and so forth) and civil liberties (freedom of expression and association, and so forth).

The 30 economically freest countries in 2014 (out of 159, with Venezuela at the bottom) were all among the 60 politically freest countries, with the exceptions of Hong Kong, Singapore, the United Arab Emirates, Qatar, Armenia, and Bahrain. The latter are small autocracies or semiautocracies, with special political characteristics. The list of the 30 most economically free countries includes many important democracies. Italy is the only significant Western democracy not to come in the top 60 countries ranked on economic freedom (it was ranked 69th). Thus, overall, the economically free countries are, with a few (small) exceptions, also leading democracies. Again, if we look at the 30 countries ranked most politically free (out of 204), we find that this list included all the Western democracies, plus Japan (with the US only 28th). Only one of these countries is not among the 60 economically freest countries. Again, not surprisingly, that country is Italy, ranked 29th most politically free. Quite simply, economically free countries tend to be democracies, and vice versa. Liberal capitalism goes together with liberal democracy, not just in theory but also in practice.

Conclusion

The history of modern representative systems of democracy is brief. That of a global capitalist economy is not so much older. But the above discussion highlights some crucial points.

First, over the past two centuries, democracy and capitalism have both evolved substantially. The franchise has been extended dramatically and capitalism has also become vastly more institutionally complex. Most

important, the interplay between democratic governments and market capitalism has shaped both.

Second, market capitalism goes across borders. Opportunities for cross-border economic activity have grown over time, as the costs of transport and communications have plummeted.

Third, periods of buoyant global capitalism and periods of democratization have coincided. Similarly, collapses in global capitalism have coincided with periods of retreating democracy.

Fourth, the economy has not been the only factor driving democratization. Also important have been the First World War, the Second World War, and the Cold War. In all three cases, the Western victors pushed for democratization of the losers. After the First World War, the push for a renewal of global capitalism and democratization ultimately failed. After the Second World War, democratization of the losers succeeded.[91] After the Cold War, the results have been very mixed.

Fifth, global capitalism has brought huge economic and social disturbances. The most important of these impacts come from global financial crises.[92]

Sixth, free-market economies go together with democracy. History has not been kind to the hope that one can have a vibrant democracy without a competitive market economy. Equally, there are no important examples of rich capitalist economies that are not also democratic.

Finally, the present condition of Western liberal democracy is deeply worrying. That is in part due to economic failures—slow growth, rising inequality, loss of good jobs. Once again, liberal democracy and global capitalism need to be saved together.

Part II

WHAT WENT WRONG

Prologue to Part II

As argued in part I, we are now in a "democratic recession" and by *we*, I mean core Western countries, in particular the US. The question is why. The argument in part I was that a democratic capitalist state depends on maintaining a delicate balance between complementary opposites—the market and democracy. These political and economic dimensions of our complex societies may be mutually supportive or mutually destructive. The argument in part II is that the balances between politics and economics, market and state, domestic and global, winners and losers, technological change and ability to adapt to it have been destabilized. The result has not just been populism, but antidemocratic populism. This lost balance must be regained. How to do that will be the focus of part III.

The legitimacy of any system always depends on performance. In the end, people will cease to trust a system that does not work for them. But a system's legitimacy also depends on the relationship between the economically successful and the rest of the population. Even if the system works not too badly in aggregate, the emergency of an excessively large gap in wealth and power is likely to make democracy fragile. It could move a democracy toward outright plutocracy. It could be toward demagogy. Or it could be toward a hybrid, which I call pluto-populism.

The discussion will start in chapter 4 with what has happened domestically within the high-income countries. Chapter 5 analyzes the causes of these changes. Chapter 6 turns to the way politics have changed, especially the dangerous rise of anti-pluralist populism.

CHAPTER FOUR

It’s the Economy, Stupid

> Those who have a superabundance of good fortune, strength, riches, friends, and so forth, neither wish to submit to rule nor understand how to do so; . . . Those on the other hand who are greatly deficient in these qualities are too subservient. . . . The result is a state not of free men but of slaves and masters, the former full of envy, the latter of contempt. Nothing could be further removed from friendship or from partnership in a state. . . .
>
> It is clear then that the best partnership in a state is the one which operates through the middle people, and also that those states in which the middle element is large, and stronger if possible than the other two together, or at any rate stronger than either of them alone, have every chance of having a well-run constitution.
>
> —*Aristotle*[1]

> There are three things necessary for government: weapons, food and trust. If a ruler cannot hold on to all three, he should give up weapons first and food next. Trust should be guarded to the end: without trust we cannot stand.
>
> —*Confucius*

Trust in democratic institutions, the global market economy, and political and economic elites has faded over recent decades, not least in established high-income countries. This has shown itself in protectionism, hostility toward immigration, and, above all, a growing leaning toward authoritarian populism.

What, then, lies at the root of these developments? The principal answer is the hollowing out of the middle classes, identified by Aristotle almost twenty-five hundred years ago as the core constituency for a constitutional democracy. A similar hollowing out of the independent peasantry and the

emergence of a class of immensely wealthy generals and capitalists brought about the collapse of the Roman Republic. The reduction in the social and economic status of those in the middle of the income distribution has been the politically crucial economic development of the past four decades inside high-income countries and, above all, inside the US. The impact of this erosion was then made far worse by the shock of the transatlantic financial crisis of 2007–12. COVID-19 seems likely to make things worse, though at the time of writing in mid-2022 this was not yet sure. The result has been to make political and constitutional systems far more fragile.[2]

When a political system becomes fragile in this way, "anything" can happen, including the highly unexpected. That duly happened, notably in the UK vote for Brexit and the election of Donald Trump as US president, in 2016. This was yet another "annus horribilis."[3] But even the EU may be vulnerable: after all, "if economic hard times, inequality, and immigration are key triggers of populist reaction, then the EU is implicated in all three."[4]

Economics of "Status Anxiety"

"Status anxiety" is the most helpful way of thinking about the root cause of the rise in support for populist causes and especially for nationalist politicians (Trump, for example) and goals (Brexit, for example).[5] Who is most prone to such anxiety? The answer is: "those most prone to [it] are likely to be people a few rungs up that hierarchy, namely those whose social status is low enough to generate concern but who still have a significant measure of status to defend. Studies show that the people in this group tend to evince special concern for defending social boundaries; and they are particularly susceptible to last place aversion, namely, concerns about falling to the bottom of the hierarchy."[6] In Western countries, "white" people with relatively modest levels of education feel threatened by racial minorities and immigrants, and men, both white and members of minorities, feel threatened by the rising status of women.

In their book on uncertainty, John Kay and Mervyn King refer to a "reference narrative," a story "which is an expression of our realistic expectations."[7] In this case, important reference narratives failed to come true, creating disappointment, fear, and anger. That is why Trump's "Make America Great *Again*" (my emphasis) was a brilliantly targeted slogan. It is why "Take Back Control," the Brexit slogan, was as well targeted at people who felt they had been losing control over their livelihoods, status, and even country. "Frustrated by the sense that the political class had failed them, many ordinary citizens took the opportunity to vent their fury."[8] Not surprisingly, then, "exit polls indicate that 64 percent of manual workers voted for Brexit compared with 43 percent of managers or professionals; 37 percent voted for Marine Le Pen in the first round of the French presidential elections [in 2017] compared with 14 percent of managers or professionals; and white Americans without a college degree voted for Donald Trump [in 2016] by a margin of almost 20 percent over Hillary Clinton."[9] These are votes for a return to the past by those whose past was at least relatively, if not absolutely, better than their today.

The rising "deaths of despair" among less-educated white people, famously noted by Princeton University's Anne Case and Angus Deaton, also illustrates the woes of downwardly mobile people in the US. Case and Deaton note: "We find marked differences in mortality by race and education, with mortality among white non-Hispanics (males and females) rising for those without a college degree, and falling for those with a college degree. In contrast, mortality rates among blacks and Hispanics have continued to fall, irrespective of educational attainment."[10] Meanwhile, mortality rates in other rich countries continued their fall at the rates that once characterized the US. The "preliminary but plausible" explanation is one of worsening opportunities for those with low levels of education, which creates cumulative disadvantage in the labor market, marriage, child outcomes, and health over generations. A proximate cause of falling life expectancy among these less-educated whites is overprescription of opioids, itself one of the more scandalous failures of a wasteful and venal US health care system.[11]

But the demand for such drugs comes from despair, as the great French sociologist Émile Durkheim would have predicted.[12]

How far economic factors affect political inclinations directly, through impoverishment, and how far indirectly, through status anxiety, is unclear. The answer must be a bit of both. People feel the loss of the economic security and social status that a good job gave them. What is clear, however, is that economic conditions influence political views and behavior. Relative income and wealth have always both determined and reflected social status. In a contemporary market-based society, this is still decisively true. Furthermore, today's high-income countries enjoyed huge increases in standards of living in the past. Indeed, in many ways, even the raison d'être of these societies became rising general prosperity, from generation to generation. In the US, this has been called the American dream.[13] Failure to deliver generational improvements in standards of living is for the US to fail as a society. Failure to achieve a generational improvement in one's standard of living is to fail as an individual. As other sources of belonging weaken, and society becomes more atomized, these failures must hurt even more.[14]

In addition, many cultural and social changes have economic roots, which is hardly surprising given the central role of economic activity in shaping, indeed justifying, social and political arrangements. The economy of the mid-twentieth century in the high-income countries, with its armies of unionized, reasonably secure, relatively well paid, and overwhelmingly male industrial workers, was the product of a particular stage of economic development, buttressed by the postwar commitment to full employment. This social and cultural pattern has vanished, together with its economic base. Similarly, declining fertility (partly the result of declining infant mortality), huge reductions in the effort and time needed to look after a household, the declining significance of physical strength as a productive factor, and the rise of the service economy at least partly (in my view, largely) explain the transformation in the economic, social, and political roles of women. Again, the huge gaps in wealth between rich and poor societies and the declining costs of transport and information help explain the recent upsurge in migration from poorer to richer countries. These economically driven

changes have also inevitably brought social and cultural transformation. They have, among other things, made less-educated "white" men feel they are foreigners in their own countries and are losing status relative to ethnic minorities, immigrants, and women.

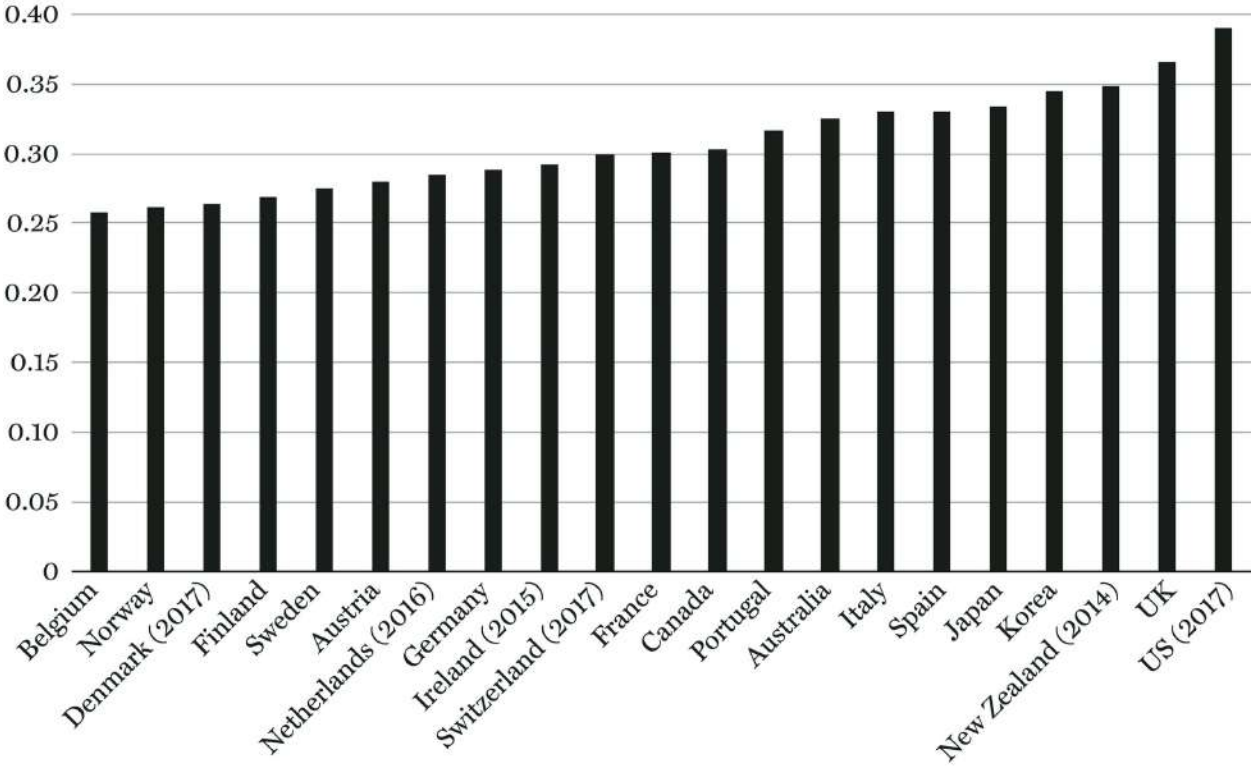
Without being too reductive, we can suggest that cultural markers, including nationality, ethnicity, religion, and other narrower values, become more important when economic status is under threat. In the presidential election campaign of 2008, Barack Obama notoriously declared of people in small towns in the Midwest, hit badly by economic change, that "it's not surprising then they get bitter, they cling to guns or religion or antipathy to people who aren't like them or anti-immigrant sentiment or anti-trade sentiment as a way to explain their frustrations."[15] This was controversial. But it was surely at least partly true. What does the white working class like about Trump? The answer is surely that he respects them (or at least successfully pretends to do so), while, in their view, *everybody else* disrespects them.[16]

How the Economy Moved against the Less Educated

A dominant feature of the period since the early 1980s has been increasing *inequality*, in both wealth and incomes (pretax and posttax).[17] The Organization for Economic Co-operation and Development has noted, "Income inequality in OECD countries is at its highest level for the past half century." Moreover, "Uncertainty and fears of social decline and exclusion have reached the middle classes in many societies."[18] In terms of household disposable incomes (after taxes and subsidies), the UK and the US are the most unequal of the large high-income countries, though New Zealand and Korea are also quite unequal. (See figure 10.)[19]

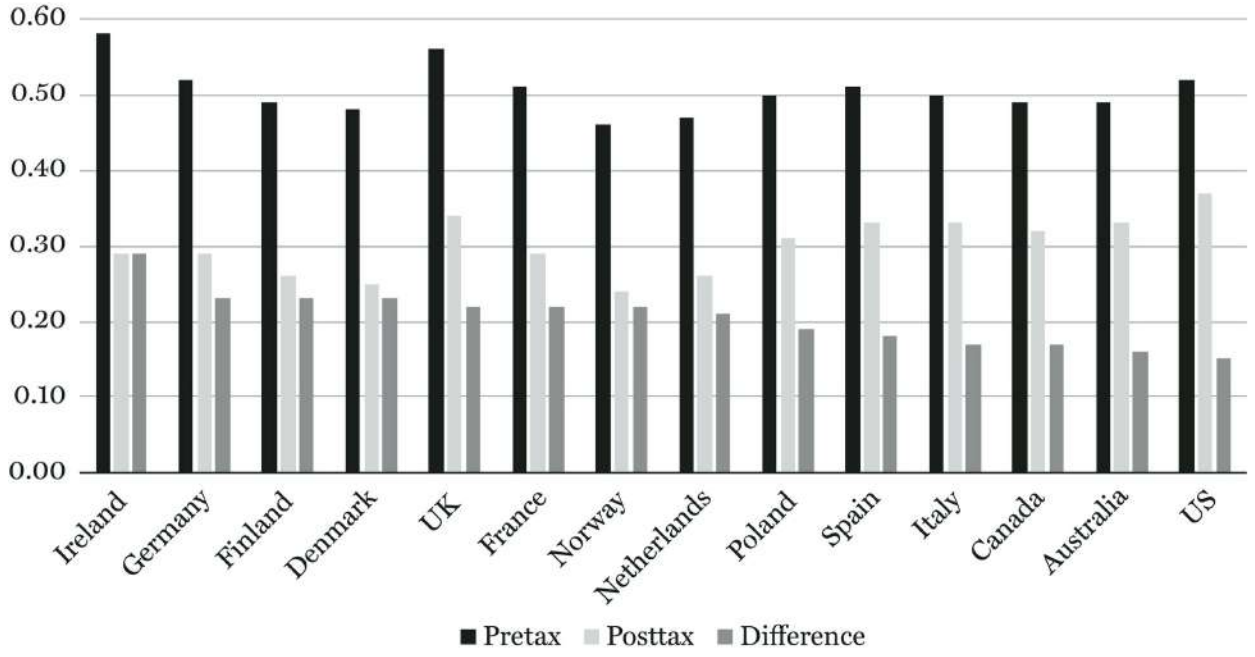
FIGURE 10. INEQUALITY OF HOUSEHOLD DISPOSABLE INCOMES, 2018 (AFTER TAXES AND CASH TRANSFERS) (GINI COEFFICIENT)

(Source: OECD)



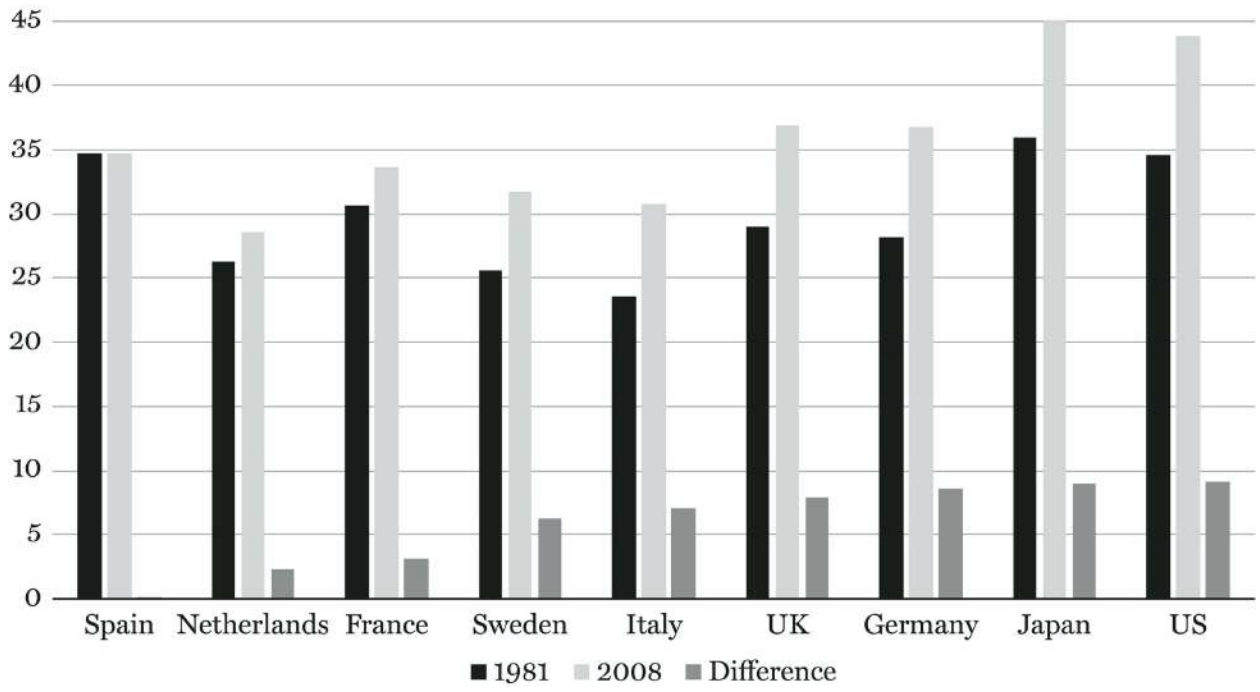
Cross-country differences in inequality after taxes and government spending are heavily influenced by both pretax inequality and government policy. (See figure 11.) Inequality was low in Norway in 2010 not only because pretax inequality in household disposable income was low, but because redistribution through the fiscal system was also large. The UK's posttax household disposable incomes were less unequal than those of the US in 2010, even though pretax inequality was even higher. The explanation was that the UK's redistribution effort was substantially greater than that of the US.

FIGURE 11. TAXES, TRANSFERS, AND HOUSEHOLD INCOME INEQUALITY, 2010, RANKED BY IMPACT OF TAXES AND TRANSFERS (GINI COEFFICIENT)
(Source: Janet C. Gornick and Branko Milanovic, LIS Center Research Brief, January 2015)



Another way of showing changes over time is the share of the top 10 percent of (pretax) income recipients in the early 1980s and in 2008, the year of the transatlantic financial crisis. A striking feature (see figure 12) is that the countries in which the top 10 percent of recipients had the largest shares in pretax national income in 2008 (the US, Japan, Germany, and the UK) were also those with the biggest increases in these shares between 1981 and 2008. In the US the increase in the share of the top 10 percent in pretax national income between 1981 and 2008 was 9 percentage points. By 2008, the top 10 percent received 44 percent of US pretax national income. In some other countries, notably Spain, the Netherlands, and France, the shares of the top 10 percent in pretax income changed little.

FIGURE 12. SHARES OF THE TOP 10 PERCENT OF INCOME RECIPIENTS IN PRETAX NATIONAL INCOME (PERCENT)
(Source: World Inequality Database)



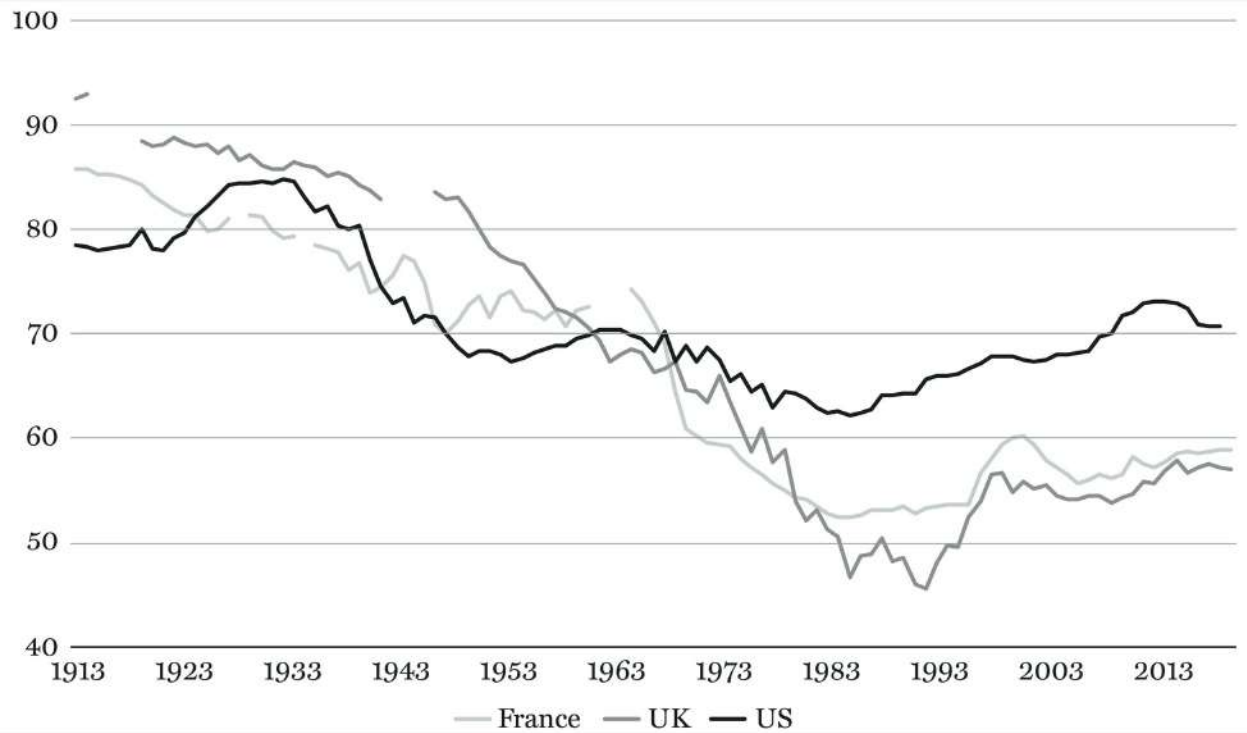
One of the most striking aspects of rising inequality has been soaring levels of executive pay and so increasing inequality at the top. According to Deborah Hargreaves of the High Pay Center, "The ratio between average chief executive pay and employee pay in the UK was 129 to 1 in 2016, an increase from 48 to 1 in 1998."[20] In the US, the corresponding ratio was 347 to 1 in 2016, up from 42 to 1 in 1980.[21] "These figures underline the shift in executive remuneration from a reasonably high middle-class salary thirty years ago to untold riches."[22] In effect, these new levels of pay allow an executive to accumulate dynastic wealth in a few short years. Worse, the "bonus culture," which generates these massive incomes, motivates executives who expect to enjoy brief tenures to run their businesses with a view to raising share prices in the short term, at the expense of investment, which brings benefits only in the longer term. The result is to lower productivity growth on which so much ultimately depends (a point to which the discussion returns further on).[23] Similarly, share buybacks, especially buybacks financed by debt, appear to lower corporate investment and weaken corporate balance sheets.[24]

The implications of the rise in inequality in the US, in particular, are startling: over the period 1993 to 2015, the cumulative real growth in

incomes of the top 1 percent was 95 percent, compared with 14 percent for the remaining 99 percent. As a result, *the top 1 percent captured 52 percent of the increase in real pretax incomes.* One of the implications of such figures is that GDP growth itself tells little about changes in the welfare of the population. How the benefits of that growth are distributed also matters a great deal. Anybody who takes an Aristotelian view of the role of a thriving middle class in stabilizing a constitutional (or liberal) democracy must be made anxious by such extreme developments.[25]

Wealth is also a source of power. Shareholder control over companies gives direct economic power. Wealth exercises influence via philanthropy, ownership of media, and so forth. But wealth also has a powerful direct influence over politics, by funding parties, supporting candidates, buying political advertising, promoting political causes, and paying for lobbying. Thus, high levels of wealth inequality will, as Aristotle warned, corrode a democratic polity. In France and the UK, the share of the top 10 percent in personal wealth is substantially lower than it was in the early twentieth century, though still high, at a little above 50 percent. In the US, however, the share of the top 10 percent was over 70 percent by 2014. This represented a return to levels in the period before World War II. (See figure 13.) Strikingly, US wealth inequality had become far higher than in the other two countries by the early 1980s. Given the increased inequality of wealth and incomes, evidence of the role of money in US politics is hardly surprising.[26] Democracy is for sale.

FIGURE 13. SHARE OF TOP 10 PERCENT IN NET PERSONAL WEALTH (PERCENT)
(Source: World Inequality Database)

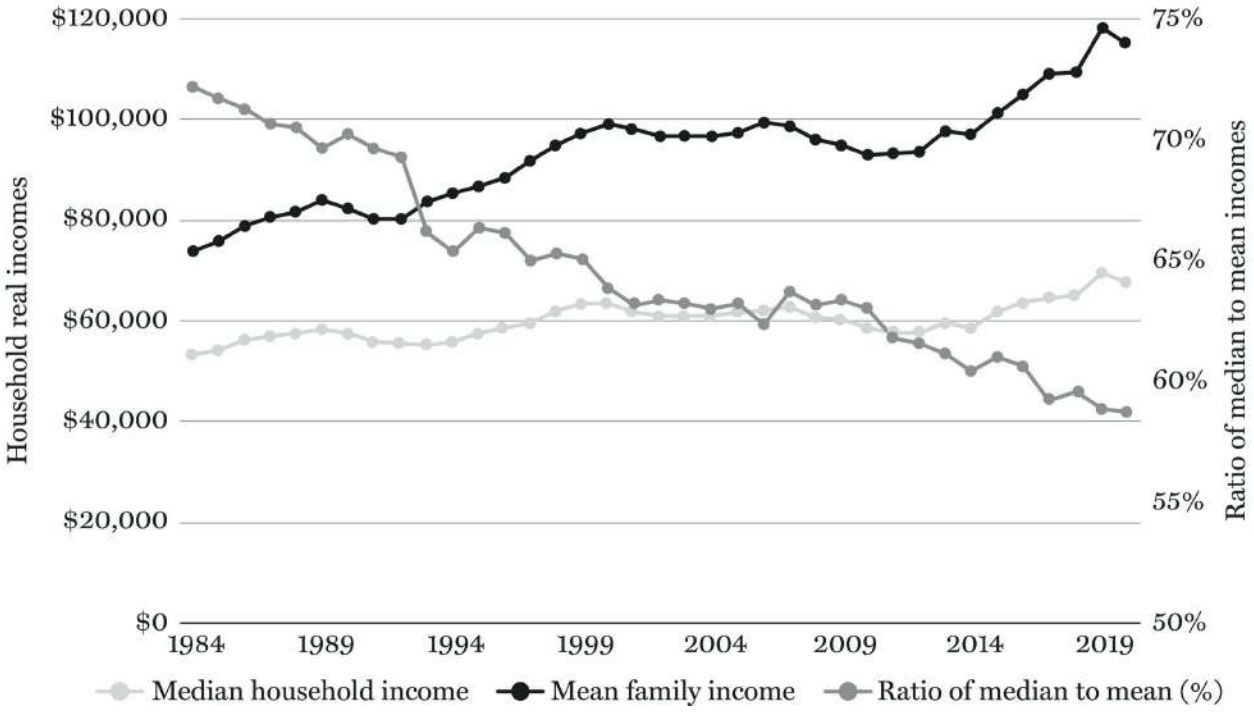


A cross-country study at the OECD concluded that “income inequality has a sizable and statistically significant negative impact on growth, and that redistributive policies achieving greater equality in disposable income have no adverse growth consequences. Moreover, . . . it is inequality at the bottom of the distribution that hampers growth.”[27] In countries with both rising inequality and low growth, losers will fall behind, not just relatively but absolutely. Unfortunately, rising inequality has been quite a general phenomenon.[28] Indeed, Belgium and France were the only high-income economies to have experienced little change in income inequality between the mid-1980s and the end of the first decade of the 2000s.[29]

The evidence shows that the combination of rising inequality with modest real growth in real incomes has indeed meant stagnant real incomes for large parts of the population. In the US, notably, real median household disposable incomes in 2019 (just before the pandemic) were only 10 percent higher than twenty years earlier, while mean real disposable incomes, which are heavily influenced by changes at the top, rose 21 percent over the same period. Between 1984 and 2019, the ratio of median to mean real household

incomes in the US fell from 72 percent to 59 percent. Much of that decline had occurred by 2000. (See figure 14.)[30]

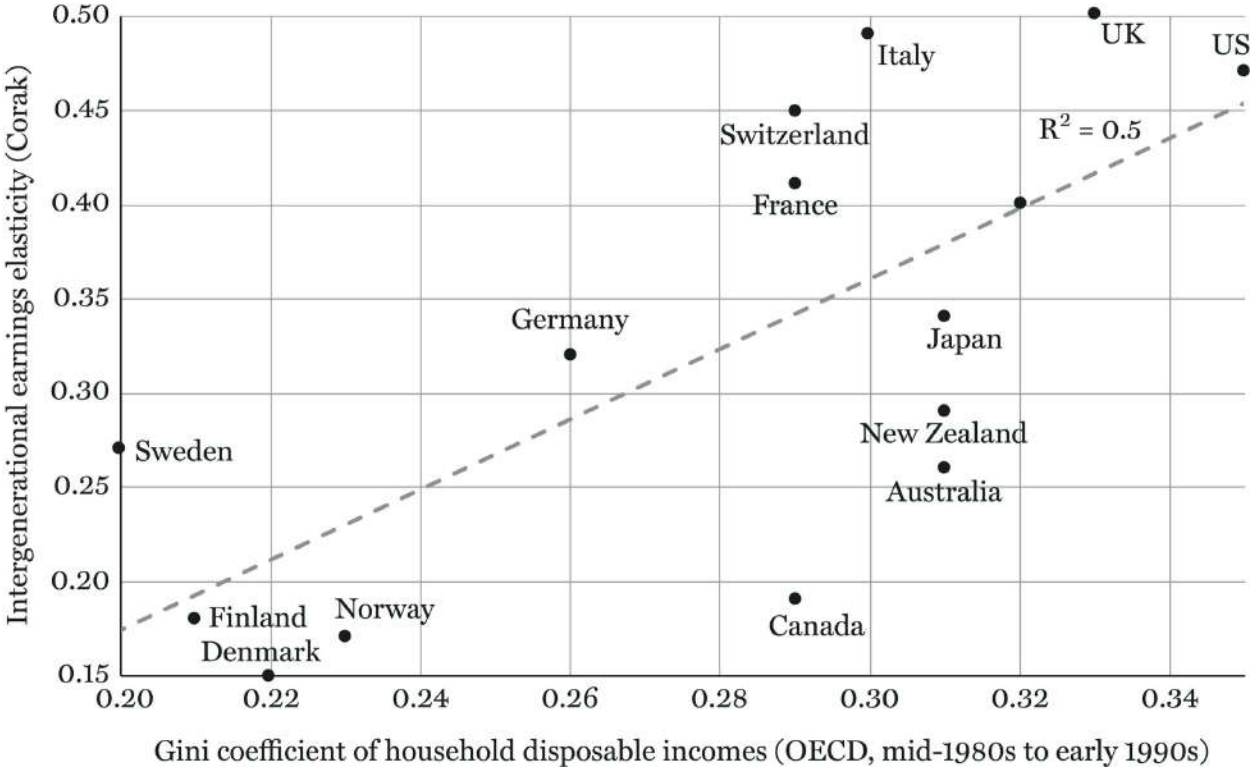
FIGURE 14. REAL US HOUSEHOLD DISPOSABLE INCOMES (2020$)
(Source: FRED)



There is also evidence of an inverse relationship between inequality and social mobility: the higher the inequality of earnings, the more a son's position in the earnings distribution is correlated with his father's (that is, the higher the economic *immobility*).[31] The late Alan Krueger, chairman of the US Council of Economic Advisers under Barack Obama, called this the "Great Gatsby Curve."[32] (See figure 15.) The impact of a father's relative income on his son's is indeed greater the greater the inequality.[33] Thus, high-inequality countries, such as the US and UK, have lower intergenerational economic mobility. Medium-inequality countries (Italy, Switzerland, France, Canada, and Germany) show a wide range of degrees of economic mobility. Low-inequality countries (the Nordics) have high economic mobility. Yet it is important to note that mobility measured in terms of intergenerational changes in relative earnings is not the same as mobility defined in terms of occupational class. For the latter, the most

important determinant of mobility are changes in the structure of the economy, which determine the sorts of jobs it creates and destroys.[34]

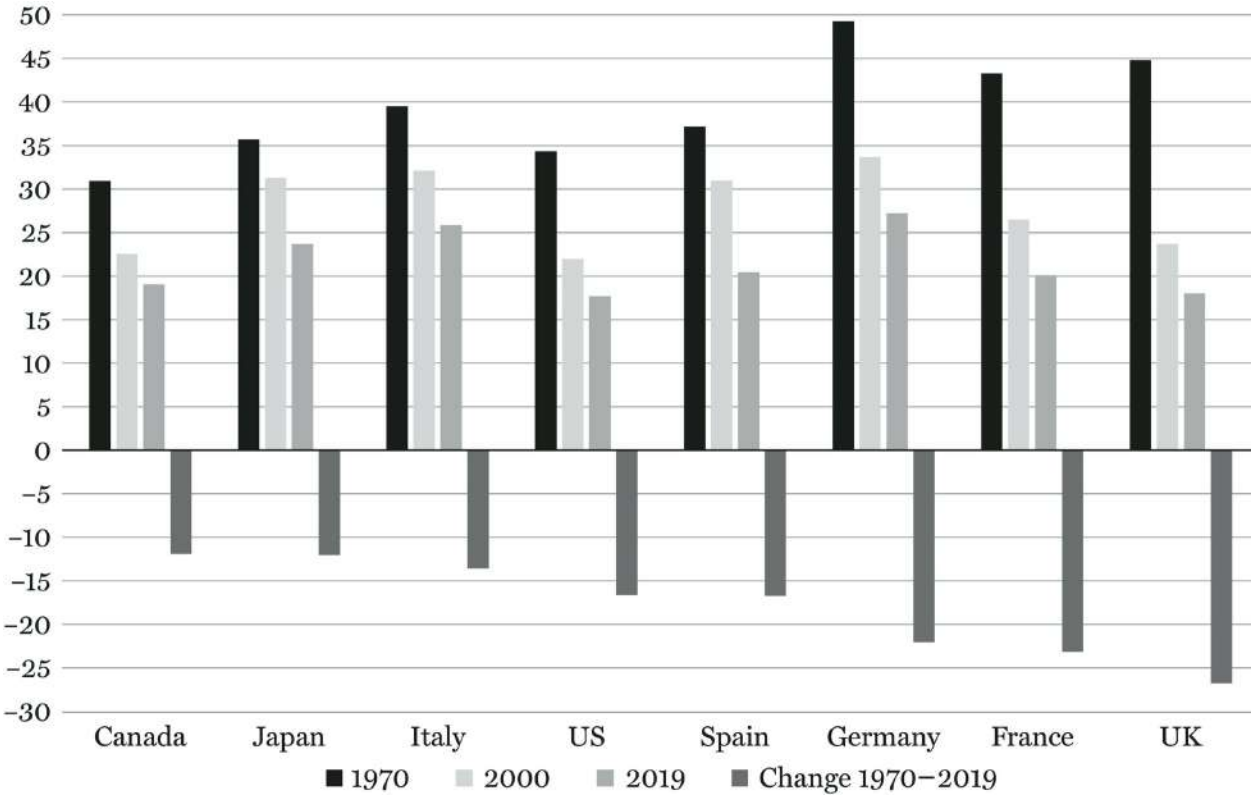
FIGURE 15. "GREAT GATSBY CURVE"
(Source: Corak 2012 and OECD)



Another highly significant longer-term trend has been deindustrialization or, more precisely, the rapid decline in the share of employment in industry. This has happened in every significant high-income country (see figure 16). Naturally, countries with large exports of manufactures (and relatively weak service sectors), such as Germany, Japan, and Italy, have relatively high shares of employment in industry. Yet the fall in the share of industry in employment was very substantial even in Germany. The dominant cause of the decline in the share of industry in employment has been rising productivity, not trade: Germany, after all, has consistently run huge trade surpluses in manufactures.[35] Whatever Trump might have suggested with his slogan "Make America Great Again," nostalgia is not a viable economic policy. The promise to bring manufacturing employment back toward shares

of half a century ago cannot be delivered: the old industrial way of life is going the way of agriculture, with very high productivity and low employment. (See figure 16.)

FIGURE 16. SHARE OF INDUSTRY IN CIVILIAN EMPLOYMENT RANKED BY DECLINE IN SHARE, 1970–2019 (PERCENT)
(Source: OECD)

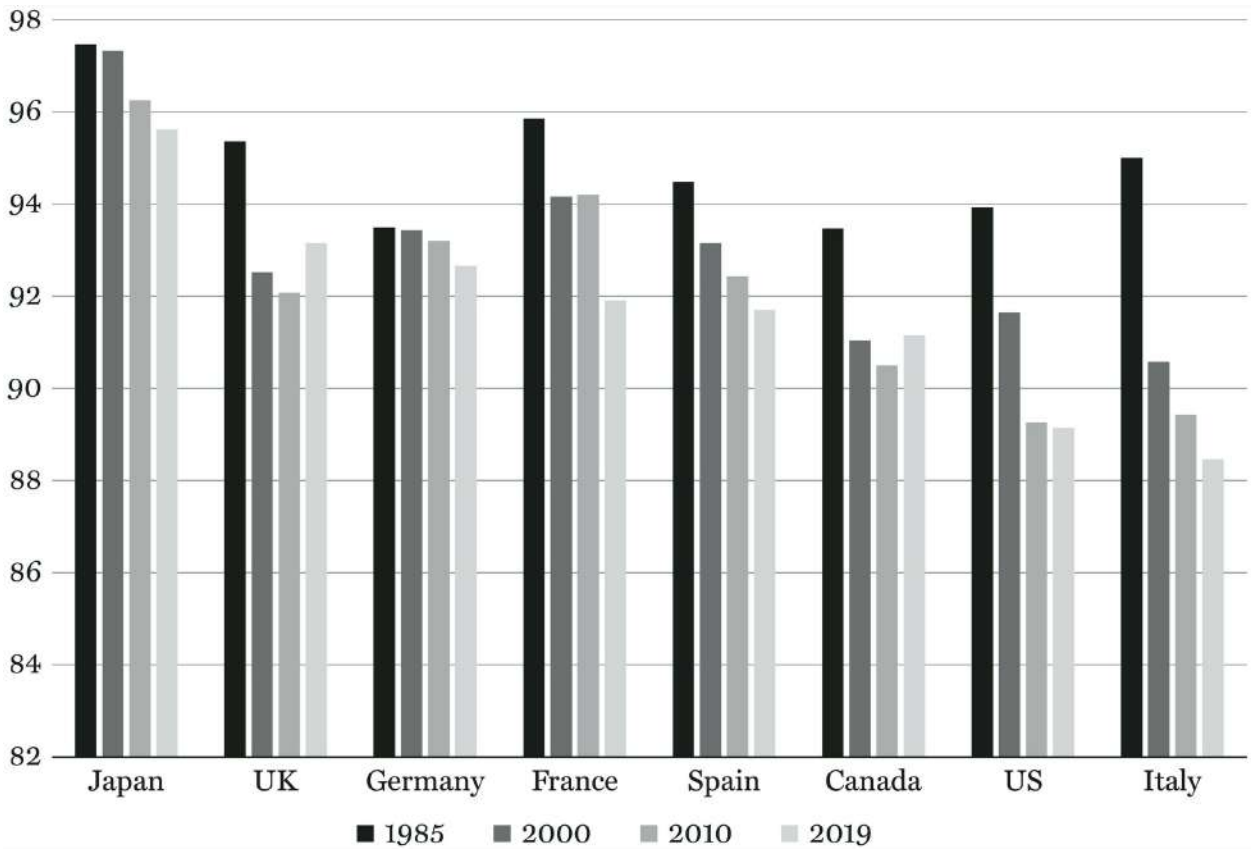


Manufacturing industry used to generate a very large number of relatively highly paid and secure jobs for less-educated men. One reason for the relatively high pay was unionization. That, in turn, was made possible by the relative ease of organizing large workforces located in huge plants. The workers consequently had the capacity to inflict damage on the profitability of these capital-intensive businesses, which gave them bargaining power against employers. The loss of industrial jobs has also meant the loss of a way of life. Moreover, industry was regionally concentrated, often in areas where there were few alternative sources of good jobs. Deindustrialization then became a prime source of regional economic inequality, as regions that

had once been in the vanguard of the industrial revolution, usually because they possessed specific resources, particularly coal and iron, fell into long-term decline. This problem has hit all countries in which the manufacturing industry had been important during the industrial revolutions of the nineteenth and early twentieth centuries.

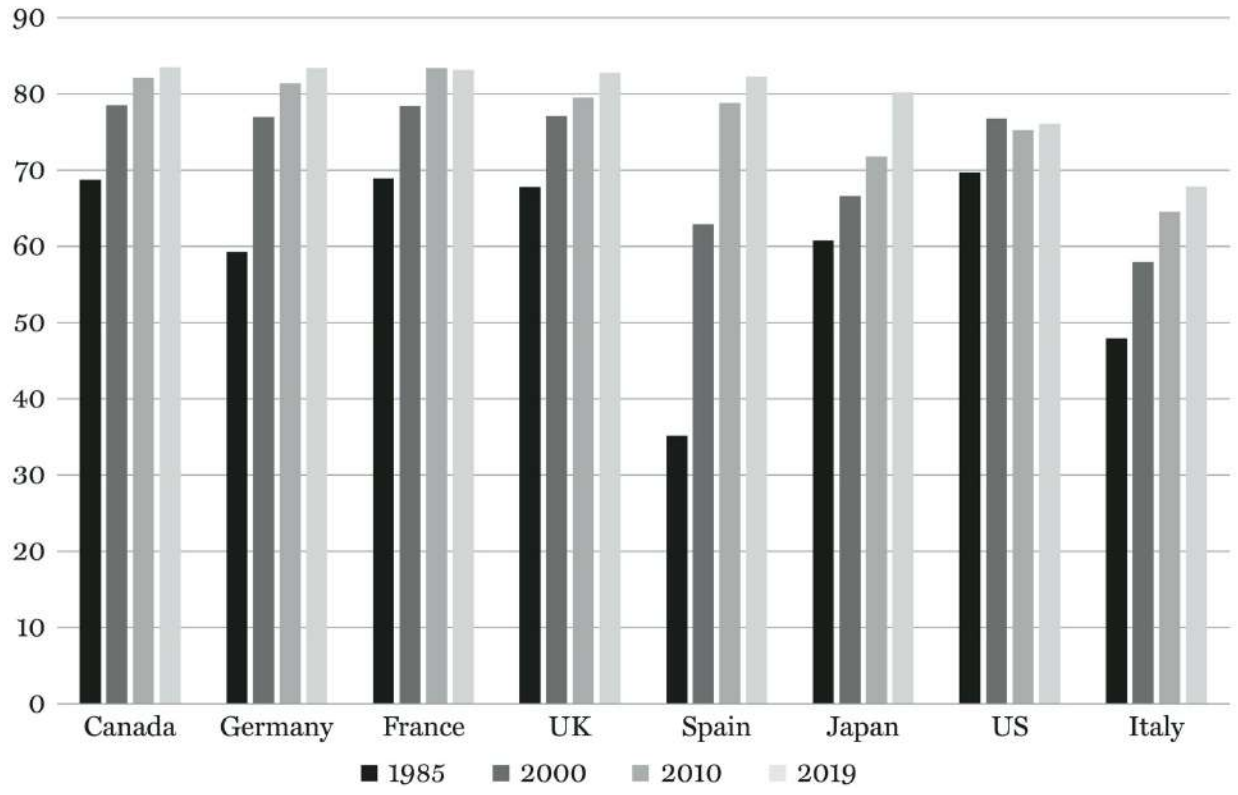
A further important indicator of adverse longer-term structural change has been the falling labor force participation of prime-age men (those between twenty-five and fifty-five years of age). This ratio has declined in all large high-income countries since the 1980s. But the declines were particularly large in Italy and the US. These are the ages when people form families. Work makes most men of that age feel like valuable and productive members of society, able to support their loved ones and sustain successful marriages. That so many men of this age are not even looking for work tells one a great deal about the degree of discouragement. In the US, for example, one in nine men aged twenty-five to fifty-five was not looking for work in 2019, despite the economic recovery over the previous decade. The prime-age male participation rate in the US was even slightly lower than it had been in 2010, just after the financial crisis. It was also the second-lowest of all these countries in 2019. (See figure 17.)

FIGURE 17. LABOR FORCE PARTICIPATION OF MEN AGED 25–55 (PERCENT)
(Source: OECD)



The picture for labor force participation by prime-age women is, at first glance, far more encouraging, with rising participation in most of the larger high-income countries. The striking exception once again is the US. The prime-age female participation rate was lower in 2019 than in 2000. The increase overall since 1985 was far smaller than in any of these other countries. As a result, prime-age female participation in the US has moved from highest of these countries in 1985 to second from the bottom, again ahead only of Italy, in 2019. This is yet another indication of the failure of the US to extend economic opportunity. (See figure 18.)

FIGURE 18. LABOR FORCE PARTICIPATION OF WOMEN AGED 25–55 (PERCENT)
(Source: OECD)



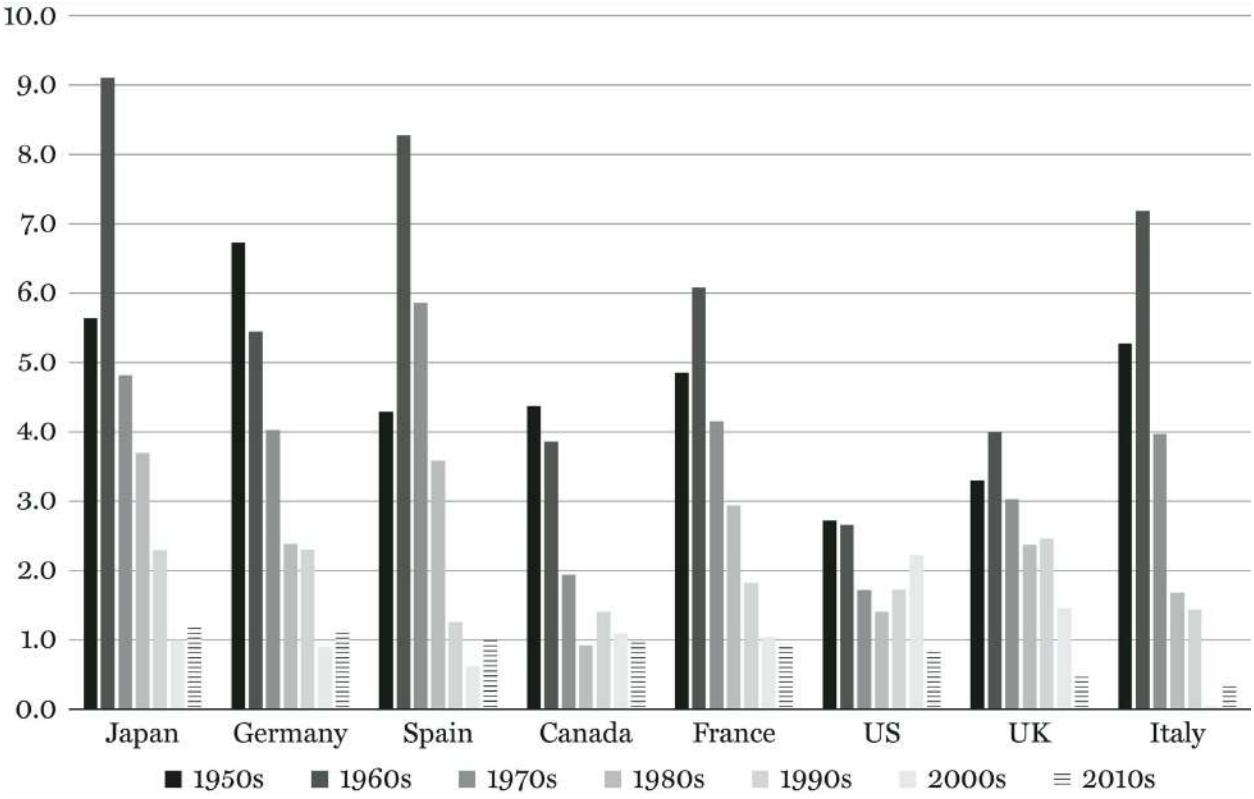
The transformations of labor markets over the past four decades—deindustrialization, deunionization, declining participation, liberalization, and the rise of the "gig economy"—is closely associated with the rise of "precarious" employment.[36] The British economist Guy Standing has summed up what has happened in terms of the emergence of a new social class—the "precariat." Standing asserts, "Although we cannot give anything like precise figures, we may guess that at present, in many countries, at least a quarter of the adult population is in the precariat. This is not just a matter of having insecure employment, of being in jobs of limited duration and with minimal labor protection, although all this is widespread. It is being in a status that offers no sense of career, no sense of secure occupational identity and few, if any, entitlements to the state and enterprise benefits that several generations of those who saw themselves as belonging to the industrial proletariat or the salariat had come to expect as their due."[37]

The most important long-term determinant of prosperity is the level and growth of productivity. In a country with fast increases in productivity, everybody will get better off unless inequality rises very quickly. But in a

country with stagnant productivity (such as Italy over the last two decades or the UK over the last one and a half decades), the standard of living can rise for some only if the standard of living of others falls. This then becomes a zero-sum economy: if A wins, B through Z must lose.

In the 1950s and 1960s, productivity growth, measured as growth of output per hour, rose relatively quickly in today's high-income economies. This was the era when continental Europe and, even more, Japan caught up rapidly on US productivity levels. A marked slowdown in productivity growth occurred in the 1970s and 1980s in all the big high-income countries. But the slowdown in the US and UK was relatively small. So productivity growth converged. In the 1990s, productivity growth accelerated somewhat in the US, as a result of the revolution in information technology. In the 2000s, US productivity growth became the fastest of the eight largest high-income economies. In the UK, too, productivity growth in the 1990s was relatively good.

FIGURE 19. DECADAL AVERAGE GROWTH RATE OF OUTPUT PER HOUR
(Source: Conference Board)



Average productivity growth in the 2010s (between 2010 and 2019) became dismal in all high-income countries. This is important—and depressing. At the bottom of the list for rates of productivity growth after 2010 were the UK and Italy. One explanation for the recent slowdown in productivity growth may be that a significant part of precrisis productivity growth was a delusion. (See figure 19.) That is likely to be particularly true of the financial sector, where it is exceptionally hard to distinguish incomes generated by an unsustainable surge in credit and debt, or some other form of rent extraction, from genuinely higher productivity.[38]

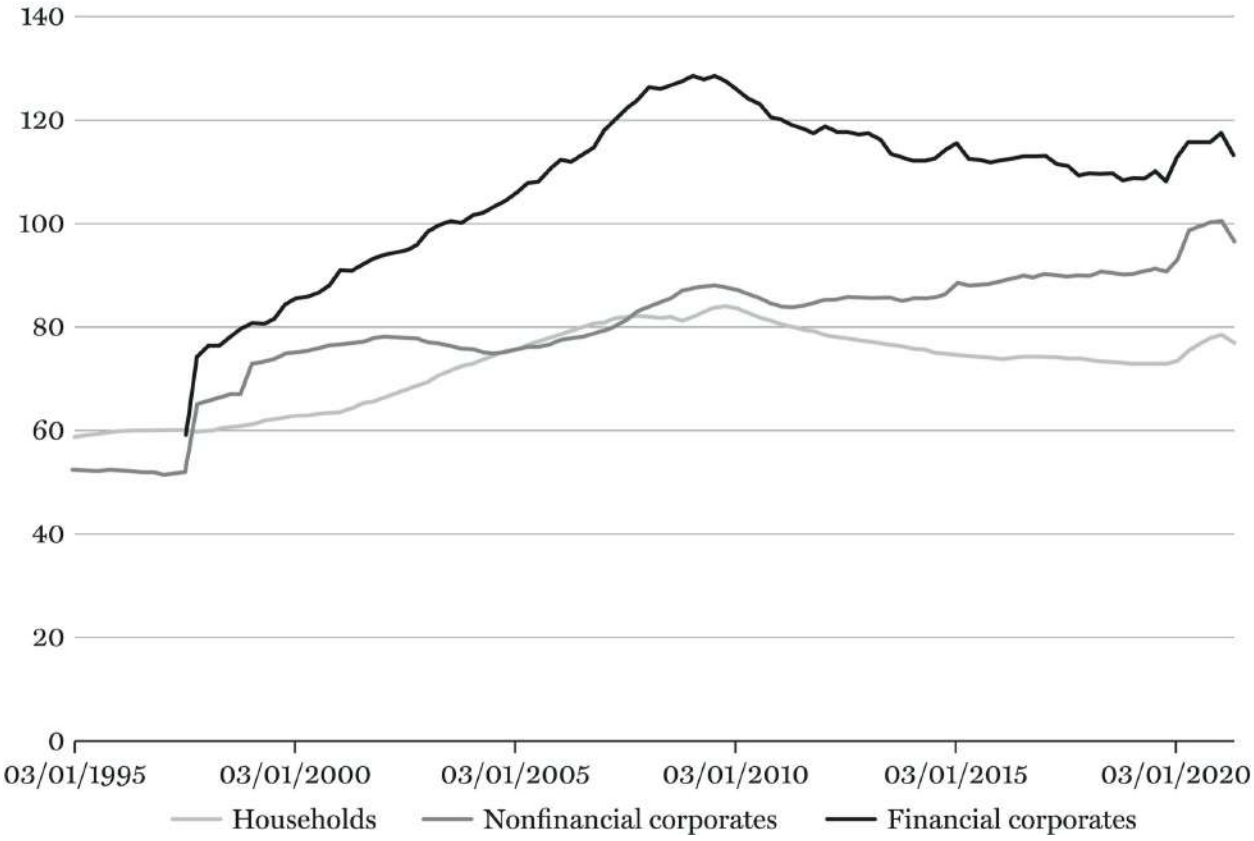
How Crises Destabilized the Economy

In sum, powerful long-term trends created significant economic problems for the high-income democracies. Arguably even more damaging was the crisis that emanated from the core of the global financial system in 2007 and 2008 and proceeded to have a devastating impact on large parts of the world economy.

The proximate cause of the crisis was an explosion of indebtedness, much of it associated with sharp rises in the real prices of property. A significant part of the explanation for this debt explosion was reliance on household debt for sustaining consumption, especially in the US, since the real incomes of so many were stagnating.[39] Behind this were even more profound changes, including the entry of China into the world economy, the liberalization of the financial system, and undue reliance on a monetary policy that targeted only inflation. Ultimately, the financial crisis was the consequence of huge (and insufficiently understood) shifts in the world economy transmitted via a grossly undercapitalized and underregulated financial system.[40] When property prices tumbled in important economies, especially the US, the financial cycle turned and a huge financial crisis erupted. This was followed by a contraction in household and financial sector debt relative to GDP in the mature market economies. That in turn helps

explain the weakness of postcrisis economies. Then, with a second crisis—the COVID-19 pandemic—debt exploded upward once again, with as yet unknown consequences. (See figure 20.)

FIGURE 20. PRIVATE DEBT OVER GDP IN MATURE ECONOMIES (PERCENT)
(Source: IIF)

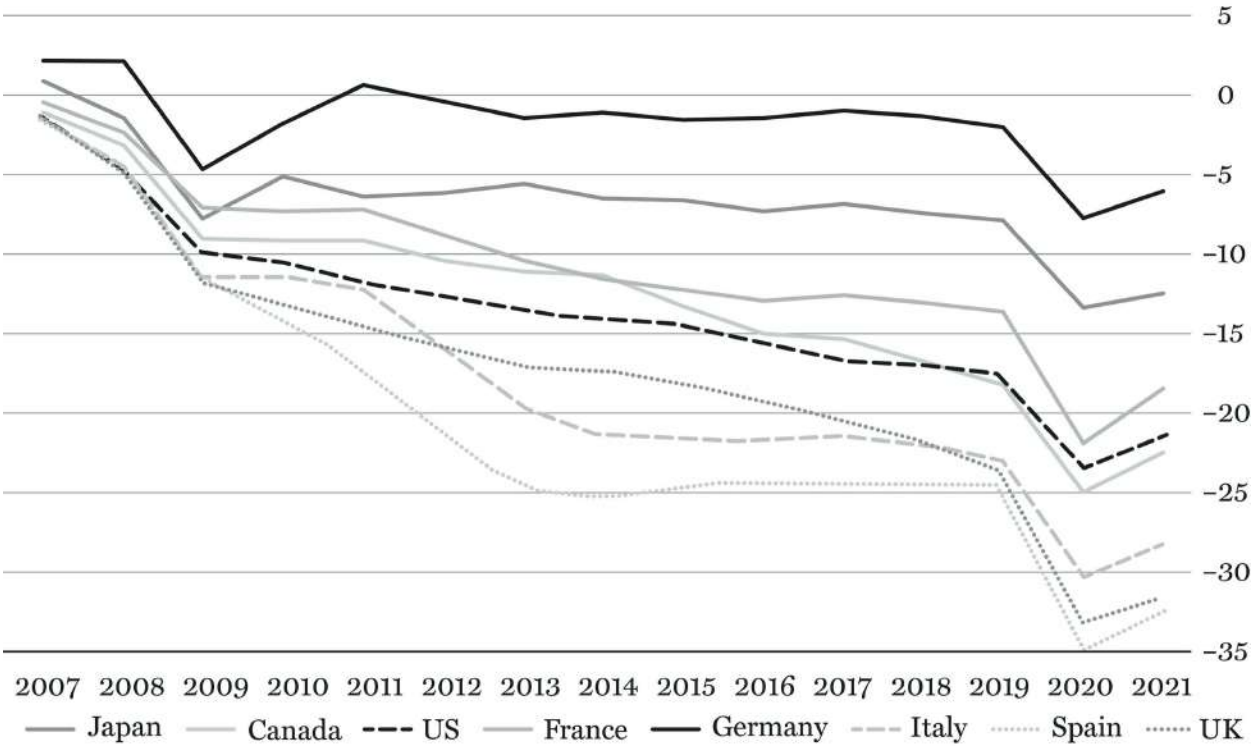


The most obvious legacy of the crisis was the impact on real incomes. Of the group of seven leading high-income countries, plus Spain, only Germany experienced no significant shortfall in GDP per head relative to what would have happened if the 1990–2007 trend in real GDP per head had continued, though this was partly because precrisis growth had been slow. Japan's GDP per head was down 7 percent by 2018, relative to its already feeble 1990–2007 fitted trend annual growth of 1.8 percent; French GDP per head was down 13 percent, relative to its already quite feeble 1990–2007 trend annual growth of 1.6 percent; Canadian and US GDP per head were down 17 percent, relative to 1990–2007 trend annual growth of 2.1 percent and 2.6

percent, respectively; UK and Italian GDP per head were down 22 percent, the former relative to a buoyant 1990–2007 trend annual growth of 2.5 percent, the latter relative to an already miserable trend growth of only 1.4 percent; and Spanish GDP per head was down 24 percent, relative to a 1990–2007 trend annual growth rate of 2.6 percent.[41] (See figure 21.)

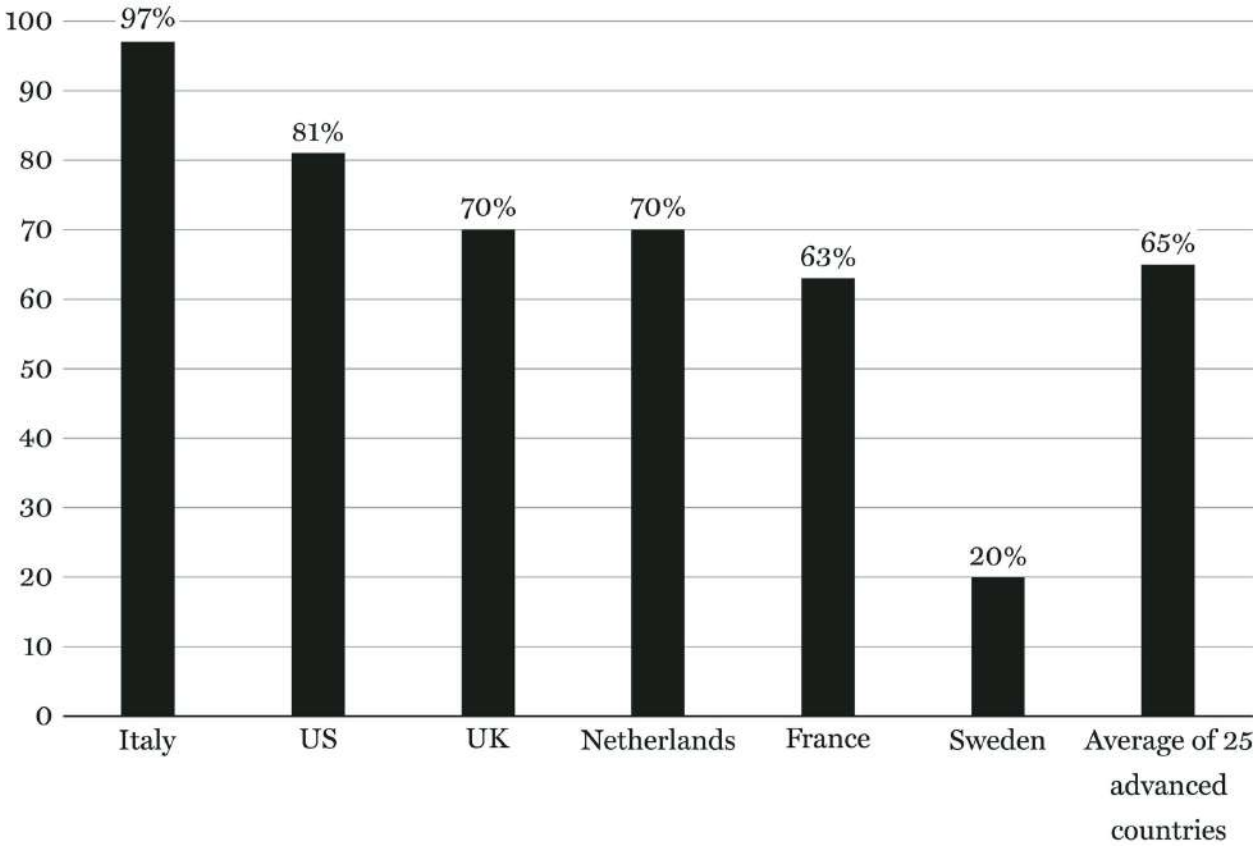
In the case of the UK, postcrisis shortfall in real GDP per head is a substantially bigger and more permanent loss than those caused by either of the two world wars or the Great Depression. (After World War II, in fact, the growth of real income accelerated sharply, compared with the interwar years.) Then, of course, came a second huge shock—COVID-19. In 2020, there were huge declines in real GDP per head. Even in 2021, GDP per head was expected to remain 33 percent below the 1990–2007 trend in Spain, 32 percent below in the UK, and 28 percent below in Italy. And in the US, it was forecast to be 21 percent below that earlier trend. These have become extraordinary losses as they have cumulated over time.

FIGURE 21. DEVIATION FROM 1990 TO 2007 EXPONENTIAL TREND REAL GDP PER HEAD (PERCENT)
(Source: Conference Board)



This stagnation in real GDP per head after the financial crisis also had a powerfully negative effect on *household real incomes*. A study by the McKinsey Global Institute showed that, on average, between 65 and 70 percent of all households in high-income countries had flat or falling real incomes from wages and capital between 2005 and 2014 before redistribution by governments.[42] In hard-hit Italy the proportion was 97 percent, in the US 81 percent, and the UK 70 percent. (See figure 22.)

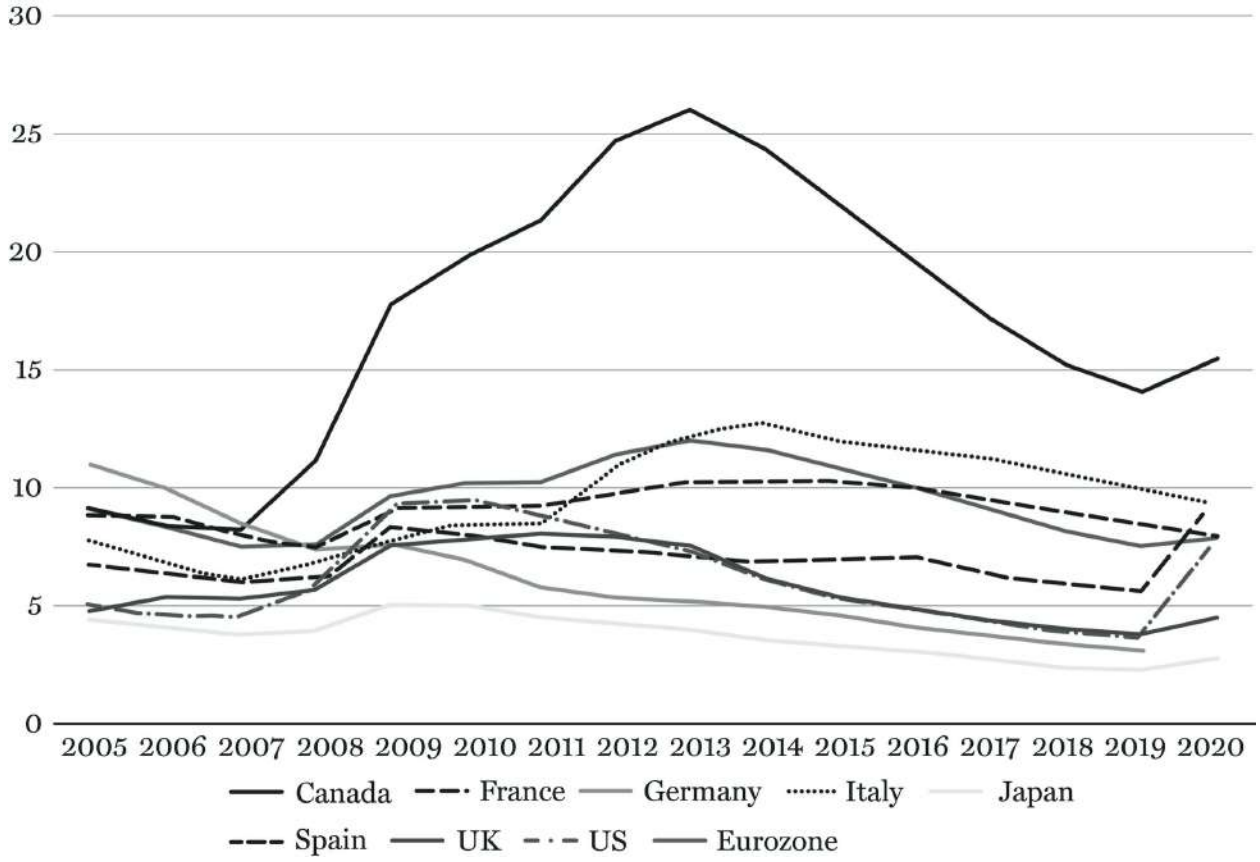
FIGURE 22. PROPORTION OF HOUSEHOLDS WITH FLAT OR FALLING REAL INCOMES FROM WAGES AND CAPITAL, 2005–14 (PERCENT)
(Source: McKinsey Global Institute)



The crisis also had significant effects, in some cases temporary and in other cases long term, on *unemployment*. In the US, for example, the unemployment rate jumped from 4.6 percent in 2007 to 9.6 percent in 2010. In the eurozone, it rose from 7.6 percent in 2007 to a peak of 12.1 percent in 2013 after a substantially lengthier crisis than in the US. Unemployment fell

back to low levels quite quickly in the UK and US and remained low throughout in Japan and Germany. But in some other large countries, unemployment reached high or even very high levels and persisted. In Italy, for example, the unemployment rate peaked at 12.8 percent in 2014 (from a precrisis low of 6.2 percent in 2007) but was still 10 percent in 2019. In Spain, the unemployment rate peaked at 26.1 percent in 2013 (from a precrisis low of 8.2 percent in 2007) and was still 14.1 percent in 2019, just before the COVID crisis. (See figure 23.)

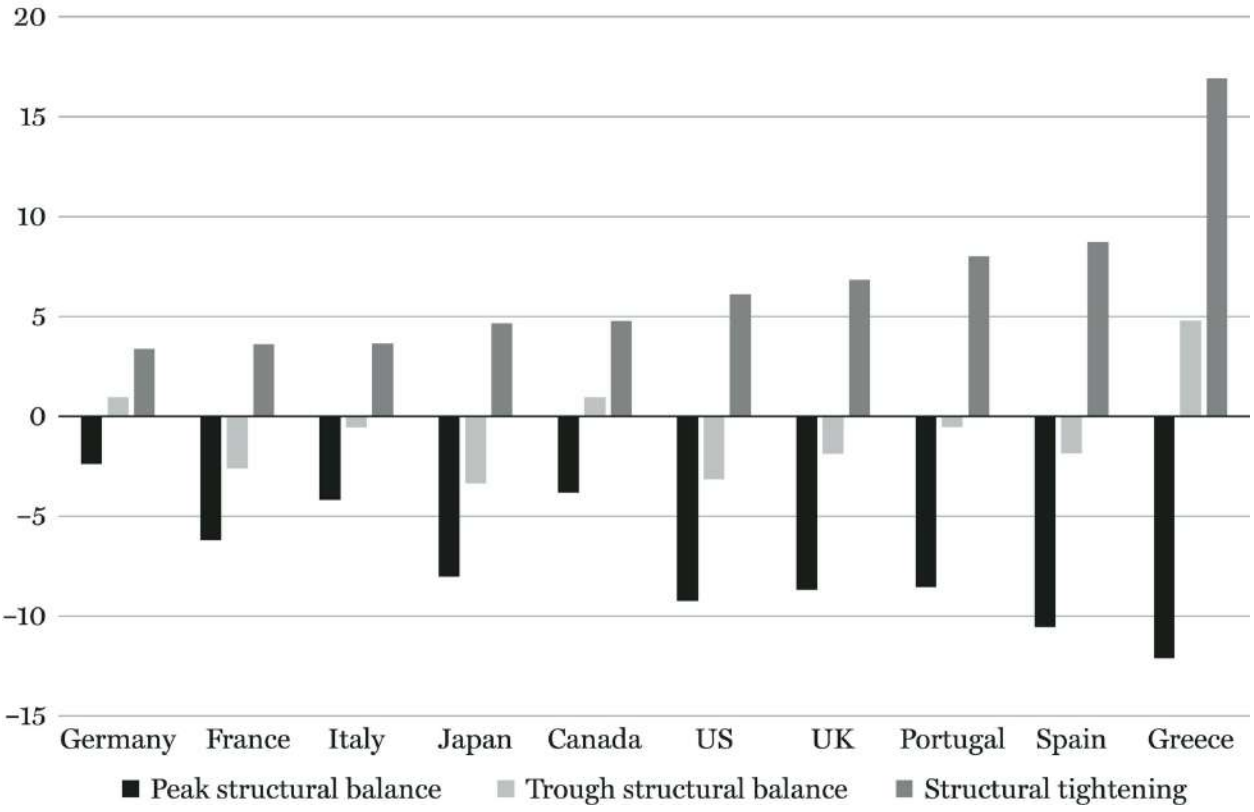
FIGURE 23. UNEMPLOYMENT RATES (PERCENT)
(Source: IMF)



Another important economic impact of the crisis was on the *fiscal position* of affected countries. The recession and subsequent weak recovery led to higher spending and a permanent reduction in revenue relative to precrisis expectations. The loss of revenue from the previously buoyant financial sector was also important, especially in the UK. If we look at the

members of the group of seven leading high-income countries, we find that they all imposed significant structural fiscal tightening from peak to trough postcrisis levels. But the structural tightening (this being a measure of "austerity") was largest in the US and UK. Only countries savaged by the eurozone crisis, especially Greece, experienced greater structural fiscal tightening. (See figure 24.)

FIGURE 24. PEAK VS. TROUGH POST-FINANCIAL-CRISIS STRUCTURAL FISCAL BALANCES, 2007–17 (AS PERCENT OF POTENTIAL GDP)
(Source: IMF)



The unexpected shock of the *financial crisis* shook trust in the wisdom and probity of those running the affected countries' financial, economic, and political systems. Most policy mistakes in economics are invisible to the bulk of the voting public. But the latter could not possibly fail to realize that those in charge had failed to recognize the risks they allowed the financial sector to run. The emperors turned out to be naked. Many members of the public came to believe that these failings were the result not just of stupidity but of the

intellectual and moral corruption of decision-makers and opinion formers at all levels—in the financial sector, regulatory bodies, academia, media, and politics. They also saw the resources of the state used to rescue both banks and bankers—the architects, as they saw it, of the disaster—while they (and those they loved) suffered large losses through foreclosure, unemployment, a prolonged period of stagnant or falling real wages, and fiscal austerity. Finally, they also saw that while institutions were forced to pay huge fines, essentially nobody (or nobody of any importance) was punished for what had happened.[43]

At the time of writing, in 2022, it was too soon to be sure about the long-run impact of the COVID-19 pandemic, the second unexpected crisis in less than one and a half decades. A big difference from the financial crisis was that most people viewed this as an act of God. Another was that governments, or at least those with the fiscal and financial resources to do so, responded at once and on an enormous scale. The old line of Ronald Reagan that "the nine most terrifying words in the English language are: I'm from the government and I'm here to help" was forgotten far more completely than had happened even in 2008.[44] Government was very definitely back. Yet another difference was that this time the financial sector boomed almost from the beginning, as central banks and governments poured money into the economies of the high-income countries. Indeed, the concern came to be far more about inflation than about deflation. Yet, despite the differences, COVID reinforced many of the challenges of the postcrisis period. The adoption of new technologies was accelerated. Patterns of work were, as a result, transformed, possibly durably. City centers were hollowed out. Public finances deteriorated. Education was damaged. Domestic inequality worsened. Globally, there were dramatic increases in the numbers of people in extreme poverty. Global cooperation was too weak, especially over vaccination.[45] The legacy of COVID was unknown, but it was likely to be long-lasting.[46]

The consequences of the war in Ukraine were even more uncertain. But it definitely aggravated the supply shocks that COVID-19 had already created, especially in energy and food. Once again, people looked to help from

governments. Once again, there was only so much governments could do. What was clear from the beginning of the war, however, was that, as with the pandemic, the answer could not be found in governmental indifference.

Economics, Culture, and Migration

“ ‘How did you go bankrupt?’ Bill asked. ‘Two ways,’ Mike said. ‘Gradually and then suddenly.’ ”[47] These lines by Ernest Hemingway perfectly capture what has happened to the high-income countries. The story started with a lengthy period of rising inequality, weak growth of real incomes for many people in the middle and lower parts of income distributions, poor social mobility in countries with relatively high inequality, deindustrialization, declining labor force participation of prime-age men, weakening productivity growth, rising household indebtedness, and substantial increases in the foreign-born proportion of the population. Then came an unexpected financial crisis, a desperate rescue of the financial system, a cutback in credit availability to households, collapsing house prices (at least in the short run), soaring unemployment, weak recoveries, huge shortfalls in GDP per head relative to historic trends, and prolonged periods of stagnant or declining real incomes for many households, all made worse by fiscal austerity. With this, inevitably, went a collapse of trust in political, technocratic, and business elites.[48] Finally came COVID and the war in Ukraine, further disruptions, whose ultimate results remained uncertain.

The rise of demagogic nationalism and authoritarianism in high-income democracies—the core of today’s political crisis—can be attributed in significant part to these economic failures. The problem is not just the economic failures themselves, but that they undermined people’s understanding of the future they and their children could aspire to and of how they were valued by the societies to which they belonged. Particularly significant was the huge increase in the inequality of people’s condition.[49] Beyond a certain point, this erodes the ability of the mass of citizens to feel

part of a shared political project—a democracy. What has been happening demonstrates to them the opposite—the contempt of elites toward ordinary people, who increasingly feel humiliated. It is ironic that the response to this has been to shift toward leaders who are as irresponsible, not to mention malignant, as Trump or Johnson. Malevolent political forces can so easily transform humiliation into anger. But that is hardly a novel discovery.

An alternative to this emphasis on the role of economic change in transforming politics is advanced in a 2016 study of the rise of populism by Ronald Inglehart and Pippa Norris. They argue:

> It would be a mistake to attribute the rise of populism directly to economic inequality alone. Psychological factors seem to play a more important role. Older birth cohorts and less-educated groups support populist parties and leaders that defend traditional cultural values and emphasize nationalistic and xenophobia appeals, rejecting outsiders, and upholding old-fashioned gender roles. Populists support charismatic leaders, reflecting a deep mistrust of the "establishment" and mainstream parties who are led nowadays by educated elites with progressive cultural views on moral issues.[50]

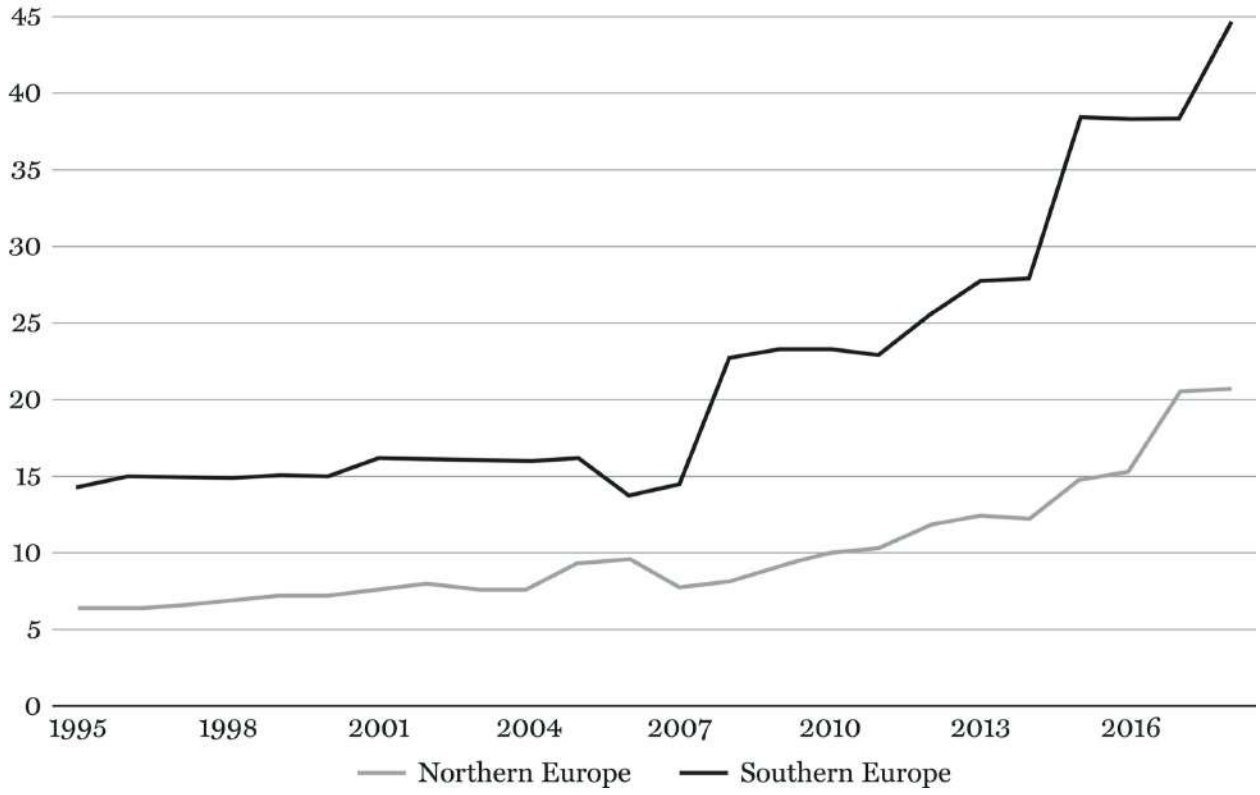
A much narrower view of the cultural origins of the political backlash emphasizes just one element in the list of reasons enumerated by Inglehart and Norris: a nationalistic and xenophobic response to outsiders. In other words, far from being just one change among many others (be it viewed as either economic or cultural), immigration alone matters. Thus, in his influential book, *Whiteshift*, Eric Kaufmann argues:

> Right-wing populism has little to do with economics, but arises largely from ethnic change, caused by immigration, which unsettles the existential security of conservative and order-seeking whites. The issue of Muslim immigration is a force multiplier but not the main driver, playing a backup role in the Trump and Brexit votes and only a minor part in Europe prior to 2004.[51]

The crucial difficulty with primarily cultural explanations is that they fail to provide an answer to the obvious question: Why now?[52] The changing economic, social, and political role of women, growing social acceptability of homosexuality, transgender rights, and, above all, mass immigration, including of Muslims and "people of color," have been continuing at least

since the 1960s and in some countries for longer. Why should all this have become so salient now? (See figure 25.)

FIGURE 25. VOTE SHARE OF POPULIST PARTIES IN WESTERN EUROPE (POPULATION-WEIGHTED) (PERCENT)
(Source: Roberto Foa)



The answer surely is that something big happened: the financial crisis and its aftermath. That this made a huge political difference is also consistent with historical research on the political impact of financial crises. Thus, "Political polarization increases after financial crises throughout the nineteenth and twentieth century. Moreover, political parties on the far right appear to be the biggest political beneficiaries of a financial crash. On average, far-right parties have seen an increase in their vote shares of about 30 percent relative to their pre-crisis level in the five years following a systemic financial crisis." The authors of this passage add that "governing becomes more difficult after financial crises, irrespective of which parties are in power." Finally, all these effects "are much more pronounced in financial

crises" than in other recessions.[53] Financial crises are turning points, not only economically but also politically, because they are visible to the public and so clearly the fault of certain specific elite institutions and people.

Immigration, too, became far more politically salient in several countries only after the financial crisis, even though increases in foreign-born populations had occurred over many decades. In the UK, for example, the start of the immigration from "new commonwealth" countries was in the 1950s. The race issue then boiled up in Smethwick in the general election of 1964 and again with Enoch Powell's "Rivers of Blood" speech of April 20, 1968.[54] But it cooled down. So why did it boil up again in the Brexit vote? Again, take the case of the US, where the Republicans fell under the sway of a passionate xenophobe who succeeded in gaining power on an anti-immigrant platform. Yet the increase in the foreign-born as a share of the population was strikingly low in the US after 2000 and the share itself modest compared with other apparently similar countries, such as Australia, Canada, and New Zealand.

It seems plausible that immigration became so politically salient because of a financial crisis that originated in the world's most important centers of global finance, which just happen to be London and New York. It was this shock, together with the grossly unfair bailouts of the people who caused the crisis, that persuaded so many Americans that Washington was a "swamp," which Donald Trump alone could drain (evidently, the opposite of the truth). In *Crashed*, a superb account of the financial crisis and its aftermath, Adam Tooze provided a compelling historical overview of the link between the crisis and subsequent political developments, not just in the US and UK, but also in the eurozone and central and eastern Europe.[55] Tooze notes, for example, the damage the crisis did in Hungary, which helped bring Viktor Orban to (apparently permanent) power in 2010.[56] Financial and economic crises crystallized the anger and distrust that had been building up in previous decades over (often interlinked) economic and cultural changes.

The best example of this process is also the most notorious democratic accession to power by a right-wing demagogue ever—that of Adolf Hitler. An enduring and deep well of anti-Semitism had long existed in Germany.

The catastrophic defeat in the First World War, postwar political instability, and great inflation of 1923 also shook the stability of German society. Moreover, a wide cultural gap opened up between members of the politically, culturally, and socially conservative German middle, lower middle, and lower classes and the more liberal and adventurous cultural and intellectual circles of the Weimar Republic. All this became tinder waiting to catch fire.

Yet the Great Depression gave the spark. “By 1932, German industrial production had fallen to just 58 percent of its 1928 levels. By the end of 1929 around 1.5 million Germans were without a job; within a year this figure had more than doubled, and by early 1933 a staggering 6 million (26 percent) were out of work.”[57] In the federal elections of 1928, the Nazis had won a mere 2.6 percent of the vote. In September 1930, after the financial crisis had begun and the vital American loans had ceased, this had jumped to 18.3 percent. By July 1932, the share had reached 37.3 percent.[58] In March 1933, after the Reichstag fire, it reached 43.9 percent.[59] This switch to the Nazis came almost entirely from Protestant conservatives. Thus, although the desperation created by the Great Depression caused many voters to swing toward the Nazis, those who did so had already identified with the conservative and nationalist cause.[60] Socialists and communists looked for their salvation elsewhere. In this sense, culture mattered, too. But it lay dormant until the spark of the Great Depression was lit.

A remarkable study of the political impact of the failure of Danatbank, then Germany’s second-largest bank, in 1931 gives strong support for the interaction of economic distress with cultural predispositions in generating right-wing political extremism. The authors conclude that “Nazi votes surged more in locations more affected by its failure. Radicalization in response to the shock was exacerbated in cities with a history of anti-Semitism. After the Nazis seized power, both pogroms and deportations were more frequent in places affected by the banking crisis. Our results suggest an important synergy between financial distress and cultural predispositions, with far-reaching consequences.”[61]

This story also looks similar to the way Republicans chose Trump as their candidate in the 2016 presidential election over establishment

Republicans, such as Jeb Bush. History does not repeat itself, but it rhymes. Thus, “the desire for a strong leader who can identify domestic enemies and who promises to do something about them without worrying overmuch about legalities—those germs, mutated to fit the particular local subcultures, are latent in every democratic electorate, waiting for sufficiently widespread human suffering to provide conditions for their explosive spread.”[62] But the suffering was essential. It caused a shift from “respectable” leadership to the “unrespectable” version—from Romney in 2012 to Trump in 2016. It is indeed “the economy, stupid.”

A different yet telling example of the cultural and political impact of economic failure is contemporary Italy. Productivity is stagnant (see figure 19). GDP per head in 2018 was roughly what it had been two decades earlier. Then the country suffered a huge economic crisis in the 2010s (see figure 21). In this context, one can understand the rise to power of populist politicians and the use by one of them (Matteo Salvini of the Lega) of immigration as a rallying cry. As a result of all this, according to the European Council on Foreign Relations, in no member state of the EU, bar Greece, did the sense of “cohesion” of individuals with the EU fall more sharply between 2007 and 2017 than in Italy. By the latter year, its ranking on this had tumbled to twenty-third of twenty-eight members.[63]

The evidence is clear: if one looks at shifts away from “respectable politicians” toward radical outsiders, especially right-wing populists, the trigger has frequently been economic failure, especially huge financial shocks. One should focus on marginal voters. The committed may choose the party’s leader. But those on the margin decide whether he wins. Why did Labour Party voters who once supported Tony Blair, a strongly pro-EU politician, vote for Brexit and Boris Johnson? Why, again, did people who had once voted for Barack Obama vote for Donald Trump? The explanation is that these people had become highly dissatisfied. It is the marginal voters—those prepared to change their minds—who decide electoral outcomes.

Plenty of white Americans had sought an ethnonationalist leader such as Trump for decades. Many southern whites had shifted from support for the Democrats to support for the Republicans almost as soon as the former

passed the Civil Rights Act of 1964: they were racists. The sort of people who supported George Wallace as a Democrat would happily support Trump as a Republican. Again, a significant number of older English middle- and lower-middle-class conservatives had always opposed membership of the EU, liberal immigration, and contemporary cultural changes. But if Trump or Brexit were to win, a sizable number of people had to *switch* their support toward these causes. A study shows that economic downturns do indeed worsen racial prejudice in the US.[64] Thus, there is "a robust relationship between own-group unemployment and an index of prejudice. We further document significant regional differences in prejudice across different regions of the country and over time."[65] Thus, while some regions do indeed have a permanently higher level of racial prejudice than others, which is consistent with the cultural view, *prejudice also rises with economic insecurity*. Racism is not a fixed quantum, but a variable that moves in line with economic conditions. Members of ethnic groups become more hostile to other groups, the more hostile seems the labor market.

A study of the UK similarly argues that "Austerity caused Brexit." The postcrisis fiscal austerity effectively targeted the "left behind" areas of the UK, which are also more dependent on public spending. Aggregate real government spending on welfare and social protection decreased by around 16 percent per head under the Tories. But real spending per person fell by 46 percent in the most hard-hit districts, which were also the poorest. Ironically, these localities switched toward supporting Brexit and the Tories, even though it was the latter who had inflicted the austerity.[66] Thus, the fiscal "austerity had sizable and timely effects, increasing support for UKIP [the UK Independence Party] across local, national and European elections. The estimates suggest that the referendum might have resulted in a Remain victory had it not been for austerity."[67]

Another fascinating example is Sweden. In support of the cultural hypothesis for right-wing populism, Pippa Norris wrote in 2016 that "populist authoritarian leaders have arisen in several affluent post-industrial 'knowledge' societies, in cradle-to-grave welfare states with some of the best-educated and most secure populations in the world, like Sweden and

Denmark—where you'd expect social tolerance and liberal attitudes instead of xenophobic appeals . . .Why? Here's why. Populist authoritarianism can best be explained as a cultural backlash in Western societies against long-term, ongoing social change."[68]

Yet even Sweden has experienced economic shocks and austerity. Thus, "the rapid rise of the [right-wing] Sweden Democrats followed two events that worsened the relative economic standing of large segments of the population. In 2006, a center-right coalition of parties took power and implemented a far-reaching reform agenda of tax cuts and social-insurance austerity aiming to 'make work pay.' Over a mere six years, these reforms led to large shifts in inequality. With earned-income tax credits, incomes continued to grow among labor-market 'insiders' with stable employment [compared to] a stagnation of disposable incomes for labor-market 'outsiders' with unstable or no jobs. The second key event is the 2008 financial crisis that was followed by a 5 percent drop of GDP in a single year. This deep recession drastically increased job insecurity for 'vulnerable' insiders—those with stable employment, but with jobs at higher risk of replacement by automation and other forms of rationalization—relative to 'secure' insiders."[69]

In Sweden, the politicians of the radical right tended to come from groups that experienced lower relative incomes and higher job insecurity. Furthermore, the electoral success of the right-wing Sweden Democrats was strongly correlated with the impact of the economic reforms and the financial crisis across municipalities and precincts within municipalities.[70] Why did people turn to these radical-right politicians? The answer is that the traditional left were insiders and represented insiders: it had become a dominant part of the ruling establishment. "Thus, in an environment of diminished trust, disgruntled voters turned to candidates who shared their economic traits and fates."[71] Finally, the "analysis does not show a link between direct local exposure to immigration and support for the radical right."[72] Instead, "our results rhyme well with the idea that an economic shock which creates insecurity may interact with pre-existing, latent, traits among some voters, and lead them to switch their political allegiance."[73]

Martin Sandbu of the *Financial Times* has concluded—on the evidence, correctly: "What has really happened both in Sweden and elsewhere is that anti-immigrant and illiberal sentiments have been drawn into political service by rising economic insecurity. Even if such attitudes existed, more or less latently, in the past, it is economic change that has turned them into a political force."[74]

Yet while economic forces played an important part in the shift toward populist parties and leaders, they do not explain why populists of the right were more successful than the parties of the left in attracting the support of disenchanted members of the old working class. For this, there are three plausible explanations. First, the established left-of-center parties had largely bought into the economic agenda associated with the disappointed expectations and the financial crisis. They also did not put forward any fundamentally different prospectus from what had been on offer. Second, where that establishment was overthrown by something more revolutionary, as with Jeremy Corbyn's leadership of the Labour Party, it looked a great deal like old-fashioned socialism. By and large, today's working class does not believe it will benefit from an upheaval that seems likely merely to replace corporate bosses with public sector bureaucrats. Indeed, few of them still believe in radical forms of socialism. Finally, the culturally dominant element in left-of-center parties increasingly consists of graduates, academics, public sector workers, journalists and creative workers, the young, and ethnic minorities. The older and more socially conservative, patriotic, and increasingly disadvantaged members of the working class see little in such parties to attract them.

Health shocks may also spark political extremism. A recent study looked at the impact of Spanish flu on Italian politics in the early 1920s, noting 4.1 million Italians contracted the disease and about 500,000 died. It tested the hypothesis that deaths from the 1918 influenza pandemic contributed to the rise of fascism in Italy. "Our observations," it stated, "were consistent with evidence from other contexts that worsening mortality rates can fuel radical politics. Unequal impacts of pandemics may contribute to political polarization."[75] The COVID pandemic has indeed been divisive on many

dimensions. Among other things, it has created intense political divisions over social distancing, lockdowns, mask wearing, and vaccination. In an environment of fear, anxiety, and stress, support for political extremism again seems likely to increase.

Conclusion

Significant long-term economic changes undermined the economic and social positions of important parts of the body politic of high-income countries, especially less-educated (male) workers.[76] Status anxiety is indeed a good way of thinking about this. These longer-term trends had already eroded political loyalties. But the financial crisis was a decisive event. It triggered a cascade away from historic political attachments. It did so in two complementary ways. First, it eroded almost everybody's trust in the establishment, as crises have frequently done in the past. Second, it hit the actual (or perceived) security of vulnerable groups hard, directly and indirectly (via austerity). Politics became more anxious because people were more so. The move from Ronald Reagan's "morning again in America"[77] to Donald Trump's "American carnage"[78] was the result of experience. The chaos of the 1970s could be viewed as a brief interruption in established success. By 2016, things had been going badly for too many for too long to make such confidence credible. In the absence of any confidence in a progressive revolution, the politics of reactionary nostalgia had arrived.[79]

When political allegiances have changed so dramatically, it is implausible to look at long-standing grievances, economic or cultural, as an explanation. Moreover, when one looks at lasting changes, it is similarly implausible to ignore economic change. Suppose there had been no increases in inequality, no deindustrialization, no relative change in the economic position of less-skilled men, and no globalization. Could we then plausibly suppose that the cultural changes would have caused the anger they have? The same applies to immigration. Without rising wage inequality and job insecurity and the shock

of the crisis, would it have caused the anger that it has? No. When frightened and insecure, humans go angrily tribal. It is as simple—and as dangerous—as that.

Trust is indispensable to successful government and above all to government by consent.[80] G. K. Chesterton, a British Catholic writer of the late nineteenth and early twentieth centuries, is supposed to have said that "when men stop believing in God they don't believe in nothing; they believe in anything."[81] Similarly, when people reject those in charge, they put their trust not in nobody, but in anybody. Frequently, alas, the people on whom their search alights are charlatans, gangsters, fanatics, or a lethal blend of all three. Institutions are then destroyed, corruption becomes endemic, and the capacity to make sensible policy vanishes. It is even possible for a country to become unreformable. The social and institutional capital needed to renew it disappears and it becomes a failed state. This is the history of Argentina, and more recently (and even worse) of Venezuela. How this political process—foreseen by Aristotle long ago—is working out in the high-income countries is the topic of chapter 6. But first, in chapter 5, we explore the underlying roots of the economic failures. Is globalization to blame or is it something else? If we do not know the causes, we cannot address them.

CHAPTER FIVE

Rise of Rentier Capitalism

> Countries are taking advantage of us, whether they think we're very nice or not so smart. They've been doing it for many, many years, and we want to end it.
>
> Many of these are friends. Many of these are allies. But sometimes allies take advantage of us even more so than our non-allies.
>
> All over the world, foreign countries put massive tariffs on our products while we put very few, if any, on theirs. So we then wonder why we're not doing the business we should be doing. And we wonder, maybe most importantly, why we had, last year, over an $800 trillion trade deficit—$800 billion, in terms of a trade deficit.
>
> So when you have a number like $800 billion, you say to yourself, "Somebody made a lot of bad deals." And that's happened over a long period of time.
>
> —*Donald Trump*[1]

Chapter 3 noted that the loss of confidence in democracy has spread even in high-income countries with what were believed to be robust democracies. Chapter 4 argued that this has to do with widespread anxiety, especially in the middle and lower middle classes of these societies. This anxiety, in turn, is heavily influenced by economic disappointments—slow growth, high and rising inequality, deindustrialization, and, more recently, adverse economic shocks. Such developments have undermined confidence in the competence and probity of elites, convincing a large part of society that the game is rigged against them and persuading them to embrace populist loudmouths, especially nationalist populist loudmouths.

We cannot discuss how to fix *what* has gone wrong without first understanding *why* it has gone wrong. That is the focus of this chapter. The broad conclusion is that why it has gone wrong is not as simple as many suppose. Some of what has happened—the productivity slowdown and the

rise of China—was inevitable. Some of what has happened is the result of policy mistakes, in some cases a refusal to help people who were hit by adverse economic changes. Some of the things that are blamed—global trade, for example—are largely innocent. Above all, a good part of what has gone wrong is what Adam Smith warned us against—the tendency of the powerful to rig the economic and political systems against the rest of society. We can remedy our disappointments only if we first understand these complexities.

The Past Is a Foreign Country

After World War II, the Western world experienced a halcyon period. The fast productivity growth of that era, especially in western Europe (apart from the UK) and Japan allowed extraordinarily fast growth in incomes. (See chapter 4, figure 19.) These benefits were also widely shared. Many on the social democratic, or what Americans would call liberal, left believe the great mistake was to abandon the more interventionist state of that period and turn toward free-market economics.[2]

Alas, the opportunities for rapid and equitable growth in the high-income countries in the 1950s and 1960s—the period the French call “les trente glorieuses” from 1945 to 1975—were unsustainable. These countries still held a monopoly of industrial know-how. They had youthful and growing populations. They could take advantage of the innovations of the interwar years and the Second World War. Exploiting these opportunities generated strong investment and buoyant consumption. Indeed, contrary to what had been widely expected, the big challenge turned out to be containing demand, not promoting it. Those postwar opportunities were particularly abundant in continental Europe and Japan, where it was necessary to undo the physical damage done by the war and possible to follow the US in developing a mass consumer market. The pre–World War II Keynesian notion of “secular stagnation”—chronically deficient demand, first advanced in the late 1930s—was speedily buried, to return over seventy years later, in the 2010s.[3]

This was not just a period of government intervention, as many on the left argue. It was also an era of economic liberalization, especially trade liberalization, under the auspices of the Marshall Plan (established in 1948), the Organization for European Economic Co-operation (also established in 1948), its successor, the Organization for Economic Co-operation and Development (established in 1961), the General Agreement on Tariffs and Trade (agreed in 1947), and the European Economic Community (established in 1957). Thus, for high-income countries, the market opening and trade liberalization of the 1980s and 1990s were at least as much a continuation of the postwar period as a break with it. Indeed, almost all the trade liberalization by high-income countries had already happened by 1980. What changed—and then changed the latter countries—was the trade and market liberalization elsewhere, which injected a huge increase in global competition.

The inflation of the 1970s overthrew the Keynesian consensus of the 1950s and 1960s. This was so, even though the oil price shocks of 1973 and 1979 were also a part of the explanation for the rapid rise in prices. This "stagflation" destroyed belief in a stable trade-off between unemployment and inflation (the so-called "Phillips Curve") that policy makers could exploit.[4] The shift away from Keynesian macroeconomics, toward monetarism and inflation targeting, was a result. The reaction against the active macroeconomic management of the 1960s. But some such reaction was both inevitable and necessary.

The shifts in the world economy that followed the opening of China (from 1978) and subsequent collapse of the Soviet empire (between 1989 and 1991) and the opening of India (from 1991) could not have been avoided. The world economy is just no longer one of open Western economies and closed developing ones or of a Western monopoly of industrial know-how. This latter change was not only natural, since knowledge spreads, but right, since westerners were hardly entitled to a monopoly of power and wealth forever.

The old "Fordist" economy dominated by giant plants with moderately skilled labor forces and strong trade unions has almost entirely vanished. One

result is that university graduates, of whom there are vastly more than ever before, have become the most influential supporters of left-of-center political parties. This also helps explain the rising emphasis of these parties on the causes of "progressive" radicals. Members of the old working class tend to be hostile to the parties' pet causes (such as those of identity or rapid decarbonization in response to climate change) and to the people who advocate them (the young and college educated). Meanwhile, trade unions have greatly weakened and the organized working class atomized. Partly as a result, many erstwhile members of this class now support nationalist causes, such as Brexit, and right-wing demagogues, such as Trump.

Yet even if some industrial production were to be brought home, at great cost, via protection against imports, there would then be ongoing—and probably accelerating—use of robots.[5] The loss by the high-wage economies of their monopoly of advanced industrial know-how is similarly irreversible. These forces have permanently reduced the prospects for high-wage, low- and medium-skilled employment, especially of men. Women are also more trusted in many of the service jobs that increasingly dominate employment, especially caring for children and old people.

While the rent-sharing of the old industrial enterprises in countries that once enjoyed a monopoly of industrial know-how has gone, new and important forms of rent-sharing have emerged from network externalities, especially local network externalities. London, New York, Shanghai, Silicon Valley, and similar places have become hubs of immensely productive businesses.[6] When the factories disappeared in the old industrial locations, so did the incomes they generated and the demand for local services on which much employment depended. The combination of network externalities in some places and deindustrialization in others has driven dramatic increases in regional inequality. Thus, "new analysis by the OECD finds that, in the high-income countries over the past two decades the productivity gap between the top regions and the majority has widened by 60 percent."[7]

Even the welfare state of the mid-twentieth century could be created just once. Only in the US is the welfare state still radically incomplete, particularly in health.[8] Moreover, because the welfare state has already been

created, the room for dramatic increases in state spending on the welfare of the citizenry is far smaller today than it was after World War II, though this does not prevent constant pressure to raise spending on all sorts of causes in a higgledy-piggledy and often rather ill-considered way.

In sum, we cannot return to the past. It is indeed a foreign country. Trying to do so cannot be good policy, even though the election of Donald "Make America Great Again" Trump showed it can be good politics. The slowdown in productivity growth, the decline in the growth of human capital, the shift toward low-productivity-growth sectors, the transformation of labor markets, the decline of the old working class, and all the associated social changes are, in many ways, the results of success. But they are also constraints on what can now be expected. As we will discuss in the next section in more detail, the growth potential of the high-income economies has slowed. Our future is just not what it used to be.

Ups and Downs of Innovation and Productivity Growth

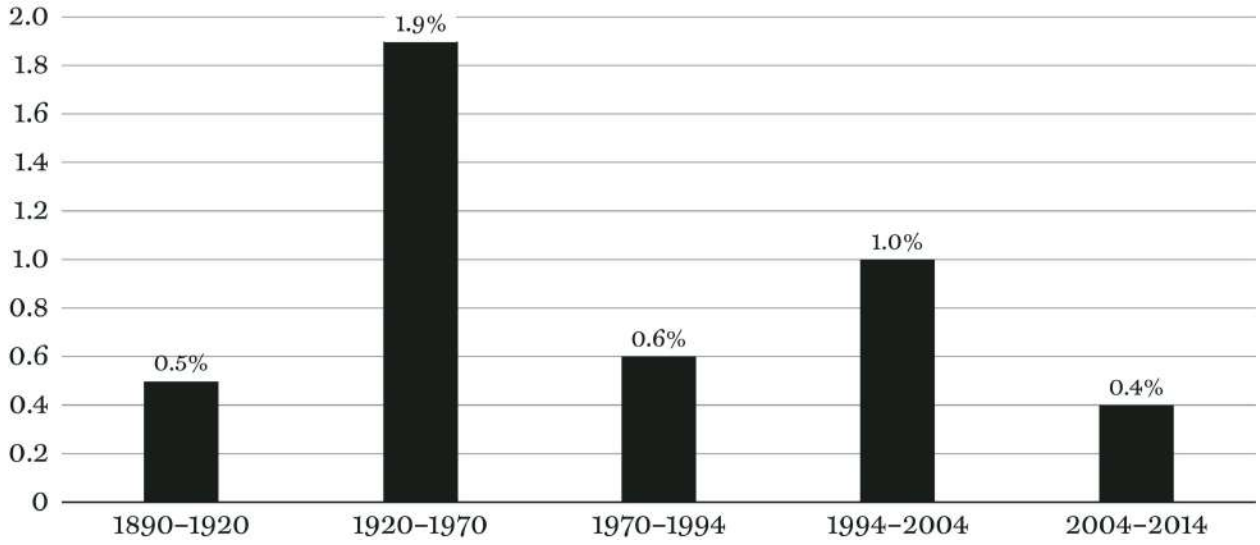
The economy of the last two centuries was built on innovation. Without innovation, capital accumulation would just amount to "piling wooden plows on top of existing wooden plows."[9] But technology cannot deliver whatever we want, whenever we want it. In 1800, the world of electricity and the internal combustion engine was out of reach, just as today's world of information and communications technology was out of reach in 1900. People in 2100 may take marvels for granted we cannot now imagine.

This helps explain the ups and downs of productivity growth. Many of the technological transformations of the last two centuries or so were one-offs. In particular, the second industrial revolution of the period from about 1870 to the mid-twentieth century changed so much precisely because so much could then be changed: there was just so much low-hanging fruit.[10] Electricity brought refrigeration, the telephone, the elevator, the skyscraper,

air-conditioning, and the early computer. Petroleum brought the internal combustion engine, which delivered cars and aircraft. Chemicals and pharmaceuticals and that most ordinary of miracles, limitless clean running water and sewers, brought revolutionary improvements in health. These innovations then transformed where and how people lived, where and how they worked, and where and how they got around. They also transformed how long people lived, perhaps the most important change of all: Which would you give up first—your iPhone or the decline in the likelihood of your baby's death from 1 in 7 in 1886–90 to 1 in 250 in 2015–20?[11] Yet many of these changes had to be one-offs. Speed went from that of the horse to that of the jet plane. Then, some fifty years ago, the increase in speed halted. Urbanization could also be done only once. The same is true of the collapse in child mortality, the tripling of life expectancy, the ability to control domestic temperatures, and the liberation of people, mostly women, from domestic drudgery.[12]

Not surprisingly, then, innovation at the technological frontier of the world economy, the US, has been slower over the last half century than in the half century before then. (See figure 26.) This has partly been because the economy has been operating on one big innovation engine: information and communication technology. It is a powerful engine. It may turn out to be even more important in the future, with the advent of powerful artificial intelligence. It may in time be joined by transformations in life sciences, materials, and energy systems, as we shift to renewables. But this has not yet happened. There was a brief (and modest) upward blip in growth of total factor productivity in the US in the 1990s, after the introduction of the internet. But this has since passed. COVID has greatly accelerated the use of technologies that facilitate remote working and shopping online. But this is likely to prove a one-off blip, as changes that might have taken ten years were concentrated into a very short period.

FIGURE 26. ANNUALIZED GROWTH OF US TOTAL FACTOR PRODUCTIVITY (PERCENT)
(Source: Robert Gordon)



Belief in the limitless potential of technology is almost a secular religion.[13] Not surprisingly, one response of its devotees to the view that innovation is just not what it used to be is that the slowdown is a mirage, because we are mismeasuring GDP. No doubt, we do mismeasure GDP, particularly because it is so hard to quantify quality improvements. But it is difficult to believe that mismeasurement has suddenly become worse than it used to be decades ago. The opposite is far more probable. After all, the statistics we use to measure GDP before 1940 were created after the fact. Again, just as is true of today's digital services, many of the benefits of the new technologies of the past also fell outside measures of GDP: think of a domestic washing machine or dishwasher whose outputs are not measured in GDP, because domestic services are excluded. In all, mismeasurement is not a credible explanation for the productivity slowdown.[14]

Another explanation is a growing divergence in productivity between frontier and laggard firms, because of a lack of competition in the economy.[15] Thus, an OECD study argues that "we find that these patterns of . . . divergence [in total factor productivity] were much more extreme in sectors where pro-competitive product market reforms were least extensive."[16] This seems plausible and has attractive policy implications: push harder for competition.

Yet two other changes—the slowdown in the growth of "human capital" per person and the shift from the production of goods to the production of services as we become richer—provide even more powerful explanations for the slowdown.[17] The first of these shifts is explained by declining fertility and rising longevity, as well as by the inevitable slowing of the rate of improvement in educational standards, once a high proportion of the population has completed university education. The second and probably more important explanation is the enormous improvement in productivity in production of goods, which lowers their relative prices and the share of resources devoted to producing them. So we have inevitably ended up with an ever-larger share of our economies in sectors in which it is relatively hard to raise productivity. We can raise productivity dramatically in services we can turn into "bits." But we cannot do the same in services dependent on face-to-face interaction: the number of adults needed to look after a group of small children has not changed over millennia. Indeed, the number needed to educate them to modern standards has increased enormously.

In all, as Robert Gordon notes, although the impact of the information and communications revolution "was revolutionary, its effect was felt in a limited sphere of human activity, in contrast to [the second industrial revolution of the late nineteenth and early twentieth century], which changed everything. Categories of personal consumption expenditures that felt little effect from the ICT revolution were the purchase of food for consumption at home and away from home, clothing and footwear, motor vehicles and fuel to make them move, furniture, household supplies, and appliances. In 2014, fully two thirds of consumption expenditures went for services, including rent, health care, education, and personal care."[18] Crucially, note that the slowdown in the growth of human capital and the shifts in the structure of the economy toward activities where raising productivity is hard were the results of success. The dynamic capitalist economy of old has just become elderly.

There is, not least, little sign of the sorts of innovations that would generate an explosion in high-wage, rent-sharing jobs for less-skilled people. On the contrary, most of the new jobs being generated as productivity soars in industry, and computers and robots spread across the economy, are in low-

skill services. It is hard to raise the productivity of people doing these sorts of jobs. The productivity of couriers is what it is. Only the organization of the deliveries and the number of packages can do anything to alter it. The same is true of caregivers in nursing homes, taxi drivers, cleaners, or servers in restaurants. Moreover, in many such activities, work can easily be "casualized," while many of the workers are immigrants or from marginal communities. Organizing such workers into trade unions is difficult. Along with the liberalization of labor markets and the dwindling away of the old industrial labor force, this helps explain the growth of what the British economist Guy Standing calls the precariat.[19]

In brief, the decline in productivity growth is deep and structural.[20] We have no reason to suppose it will end soon. The qualifications to this are the possibility of an energy revolution, with limitless supply of cheap renewable energy (perhaps including energy from nuclear fusion), as well as further development of artificial intelligence and possible revolutions in material and life sciences. Yet even if productivity growth remains low overall, today's unbalanced innovations may be disruptive. This has already been true of ICT in the recent past: it has raised the relative returns to skilled (graduate) labor and turbocharged globalization, via integration of production, offshoring of services, growing complexity of financial markets, and an explosion of global data flows.[21]

Demographic Change and the World Economy

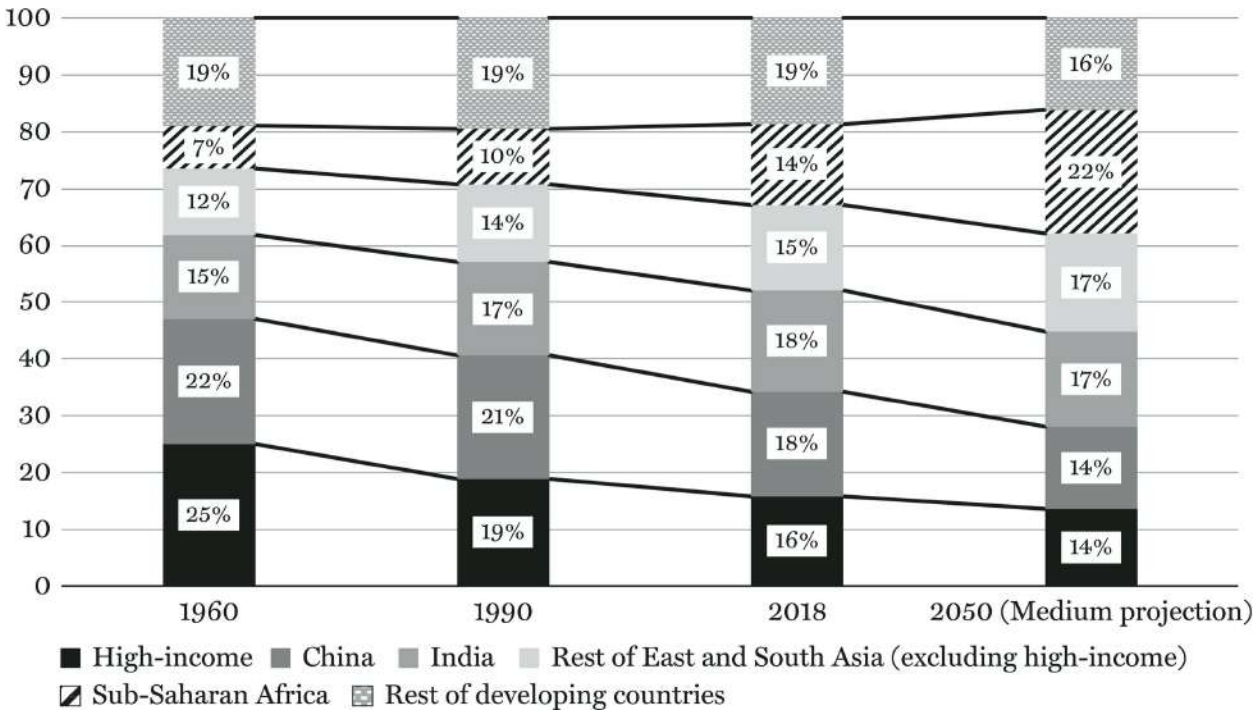
Demography is another driving force shaping our economies, societies, and politics. It is also slowing growth. Here, two big (and linked) facts stand out: the shift in the structure and growth of world populations; and aging.

Back in 1960, today's high-income countries made up a quarter of the world's population of 3 billion. By 2018, this was down to 16 percent of 7.6 billion. Developing countries' share has risen by a corresponding 9 percentage points. Just under three quarters of this increased share of

developing countries was in sub-Saharan Africa, whose population rose from 30 percent of that of all high-income countries in 1960 to 89 percent in 2018 (that is, from 230 million to 1.1 billion). Developing East and South Asia contained 51 percent of the world's people in 2018, up from 48 percent in 1950. China and India each have a larger population than all high-income countries together. India's population has also by now caught up with China's. (See figure 27.)

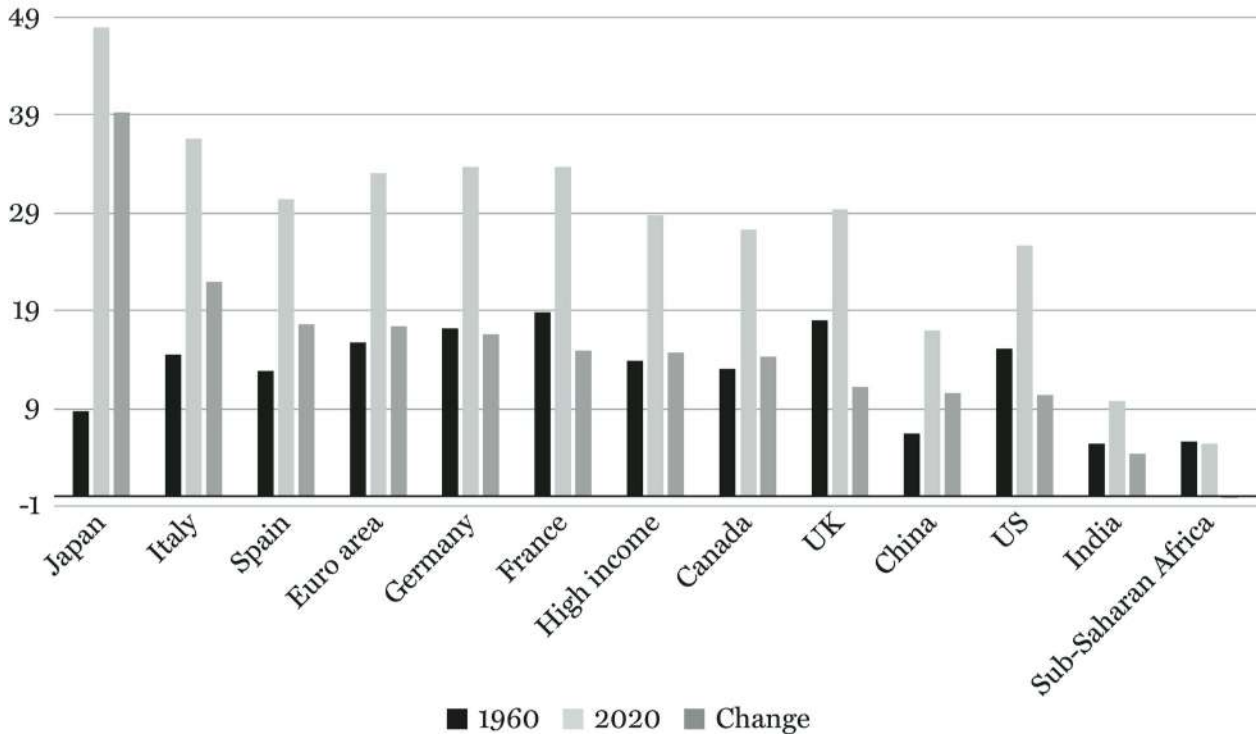
According to the UN's medium fertility variant, the world's population will reach 9.7 billion in 2050. Sub-Saharan Africa will hold 22 percent of the world's population by then, China and India together 31 percent, developing East and South Asia 48 percent, and today's high-income countries only 14 percent. Of the 1.9 billion increase in the world's population envisaged by UN demographers between 2018 and 2050, an astonishing 53 percent will be in sub-Saharan Africa and another 29 percent in East and South Asia. The share of high-income countries in the increase will be just 3 percent. One implication is that, on the plausible assumption that output per head will converge further, the share of the high-income countries in global GDP will also shrink further. Another is that migration pressure is likely to grow dramatically, particularly from sub-Saharan Africa into Europe.

FIGURE 27. SHIFTING WORLD POPULATION (SHARES IN TOTAL; PERCENT)
(Source: World Bank and UN Medium Fertility Projection)



These structural shifts are the first big demographic feature of our world. Aging is the second. In itself, it means higher survival rates into adulthood and longer lives in adulthood. Aging also creates still largely untapped opportunities for longer and more varied working lives and for transmitting the wisdom and experience of the old to the young. Moreover, the fall in child mortality also allows lower fertility rates, which make it possible for parents to invest more effort and resources in each child and for both of them to pursue their own careers. Clearly, these are all good things. Yet aging also imposes some burdens: rising old-age dependency ratios; an increasing burden of public spending; and, some argue, a vastly greater need for immigrants. (See figure 28 on the rising old-age dependency ratio, notably in Japan and western Europe, though this phenomenon is also now visible in China.)

FIGURE 28. OLD-AGE DEPENDENCY (PERCENT OVER 65 TO AGE 15–64)
(Source: World Bank)



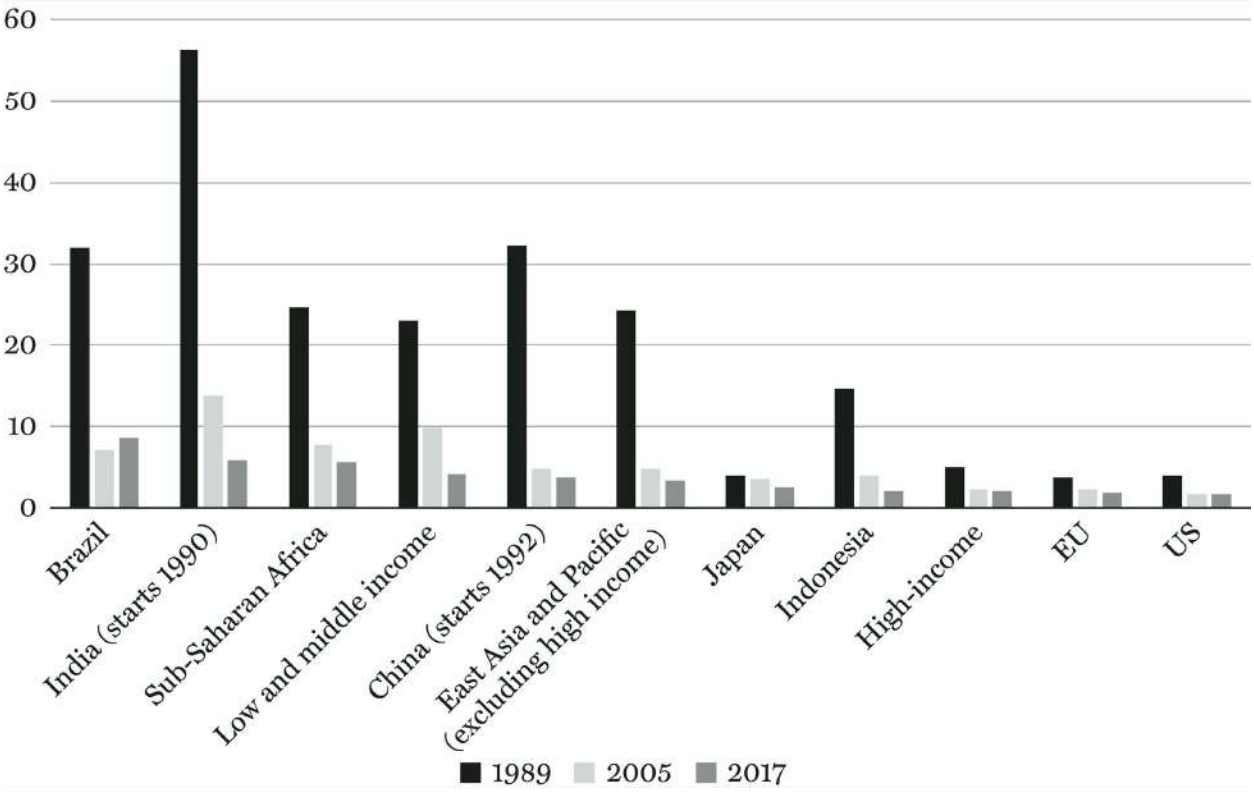
The fiscal impact of aging can be mitigated by raising effective retirement ages, but aging will still lead to a rise in the proportion of spending on health and pensions, less economic flexibility, and weakening economic dynamism. This is the reverse side of the coin of rising longevity. Immigration, a widely touted solution, is only a temporary fix, since immigrants age, too. The amount of immigration needed to stabilize the old-age dependency ratio in societies with rising life expectancy and low birth rates is simply colossal.[22] Thus, a United Nations study published in 2000 showed that the population of the EU would need to rise from 400 million (as it then was) to 1.2 billion by 2050 if immigration were to stabilize the old-age dependency ratio. The population of the US would have to rise to more than a billion if the old-age dependency ratio is to be stabilized there. Such levels of immigration are politically and probably practically impossible.[23]

Global Move to the Market

As noted in chapter 3, the decades from about 1980 to 2010 were dominated by the ideal of liberalization. Deng Xiaoping embraced a Chinese version of this set of ideas with his “reform and opening up” in 1978. In high-income countries, the shift was associated with Margaret Thatcher and Ronald Reagan. While the extent to which individual countries moved in this direction differed, the destination was widely agreed upon. Indications of this were abandonment by French president François Mitterrand of his “socialism in one country” in the early 1980s, and the “third-way” politics of Bill Clinton in the US and Tony Blair in the UK in the 1990s and early 2000s.[24] The “single-market” program of the EU of the 1980s can also be viewed in this light. This same idea was embraced by the countries of the former Soviet empire after 1989 and even (albeit temporarily) the Soviet Union itself after 1991. India moved in this direction after 1991 and many other emerging and developing countries have tried to do the same.

The trade-weighted average applied tariff of the high-income countries was, however, already down to 5 percent in 1989, before the Uruguay Round of trade negotiations had been completed. (See figure 29.)[25] The most significant post-1980 liberalizations by high-income countries were in finance (notably, liberalization of exchange controls), and labor, product, and service markets. Crucial, too, were changes in the conception of the corporation toward the profit- or shareholder-value-maximizing model.

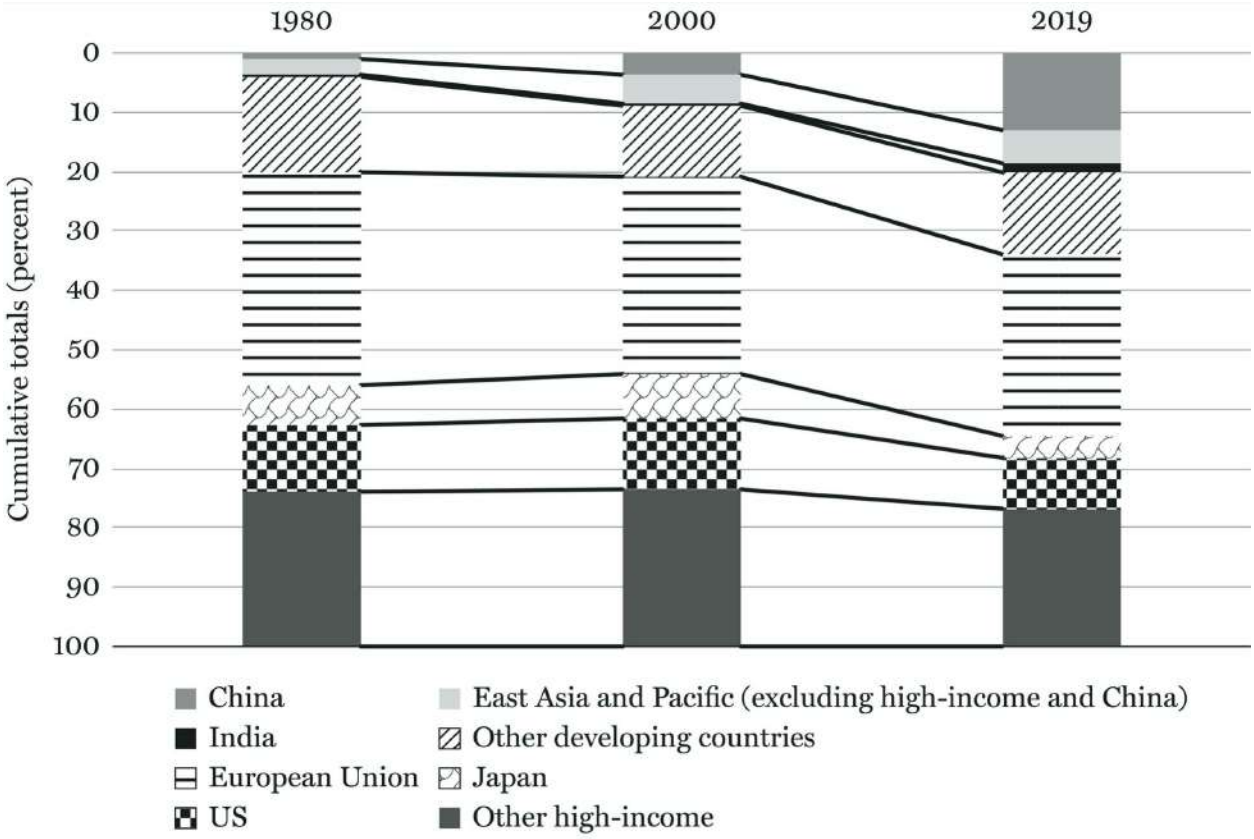
FIGURE 29. TRADE-WEIGHTED APPLIED MEAN TARIFF RATES (PERCENT)
(Source: World Bank)



In emerging and developing countries, however, the shift toward trade openness in the 1980s, 1990s, and early 2000s was a huge turnaround from the inward-looking, import-substitution-oriented policies most had previously followed. This greatly increased their imports and exports, which had large effects on the already open high-income countries. The fall in the trade-weighted average applied tariffs of these countries was quite remarkable: India's went from 56 percent in 1990 to 6 percent in 2017; China's went from 32 percent in 1989 to 4 percent in 2017; Brazil's went from 32 percent in 1989 to 9 percent in 2017.

The liberalization of trade by emerging and developing countries, together with a reinforcing liberalization of inward foreign direct investment, helped the share of global merchandise exports of these countries to explode upward. If we include the EU's internal trade, the share of high-income countries in the value of world merchandise exports fell from 80 percent in 1980 to 66 percent in 2019. The share of emerging and developing countries rose by 14 percentage points, but China's rise dominated: its share in world merchandise exports rose by 12 percentage points. (See figure 30.)[26]

FIGURE 30. SHARES IN WORLD MERCHANDISE EXPORTS BY VALUE, INCLUDING INTRA-EU TRADE
(Source: World Bank)



Thus, at the global level, the crucial step toward entering the world market was taken by emerging and developing countries. Three things are noteworthy about this epoch-making change: one is that it was in response to argument made by Western countries and institutions over a lengthy period; another is that it followed the remarkable success of a limited number of East Asian economies in doing this (in rough chronological order: Japan, Hong Kong, Taiwan, Singapore, and South Korea); and last, China's decision to follow its smaller neighbors was far and away the most important event in this shift toward the market. But in China's case, it was a move toward a competitive economy under monopoly politics. Indeed, one of the lessons the Chinese learned from what happened to the Soviets was *not* to liberalize politically, but rather to combine continued economic liberalization with strengthened political control by the Communist Party of China. In the longer run, this has created something paradoxical: communist capitalism.

At the time, however, the collapse of the Soviet empire and then of the Soviet Union itself in 1991 reinforced the move toward the market and democracy worldwide. Between then and the financial crises of 2007–12, the ideology of the global market became dominant, though never unquestioned.

How Global Markets Transformed the World Economy

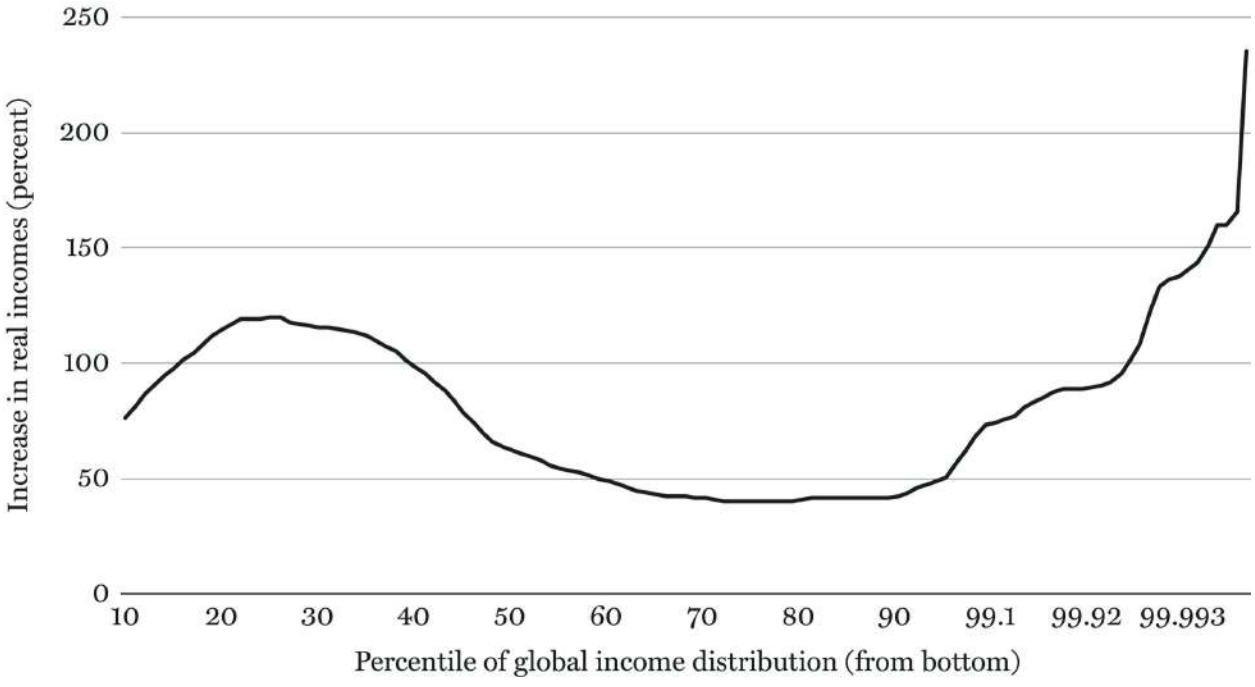
The most important thing that has happened since 1980 is that a huge part of the global "many"—the people of the emerging countries of East and South Asia, who make up roughly half of humanity—spread their economic wings. (See figure 27.) The combination of new technologies with billions of hardworking people and economic opening has transformed the world.

As a result, production in emerging economies now competes directly with that in high-income economies in many sectors. Even when companies based in emerging countries do not compete directly with those of the high-income countries, these emerging countries compete as locations for the use of the capital and know-how possessed by corporations from high-income countries. Emerging economies possess large and rapidly growing markets for goods and services of all kinds. They also offer vast quantities of high-quality human capital, which adds still more to their attraction as locations for production and increasingly also for research. These assets possessed by emerging economies have transformed the incentives confronting the businesses of high-income countries. None of this is going to disappear. On the contrary, the pull of emerging economies is sure to rise still further.

One neat way of illuminating what happened is the "elephant curve" (so called because the first drawing of the curve looked like an elephant head with a raised trunk) invented by Christoph Lakner and Branko Milanovic in 2013.[27] A somewhat more recent version is shown in figure 31.[28] It looks less elephant shaped, mainly because the top percentile has been stretched out dramatically.

The new chart now shows four main things. First, over the period 1980 to 2016, pretax real incomes rose across the global income distribution. Second, real incomes grew by 75 percent or more for the global lower-middle income class, from the 15th to the 45th percentile. Most of these people were in Asia and especially in China. Third, real incomes grew by 50 percent or less for the global upper-middle class—those in the 60th to 95th percentile. Many of these people were in the lower and middle classes of high-income countries. Finally, the top percentile did sensationally well, with progressively tinier slices doing better than the already tiny slices below them: the real incomes of the global top thousandth rose by 235 percent, while those of the thousandth below them rose by "only" 166 percent, across much of the global income distribution, but not at the very top. The top 1 percent of the global income distribution captured 27 percent of the increment in global real pretax incomes, while the bottom 50 percent captured only 12 percent.[29]

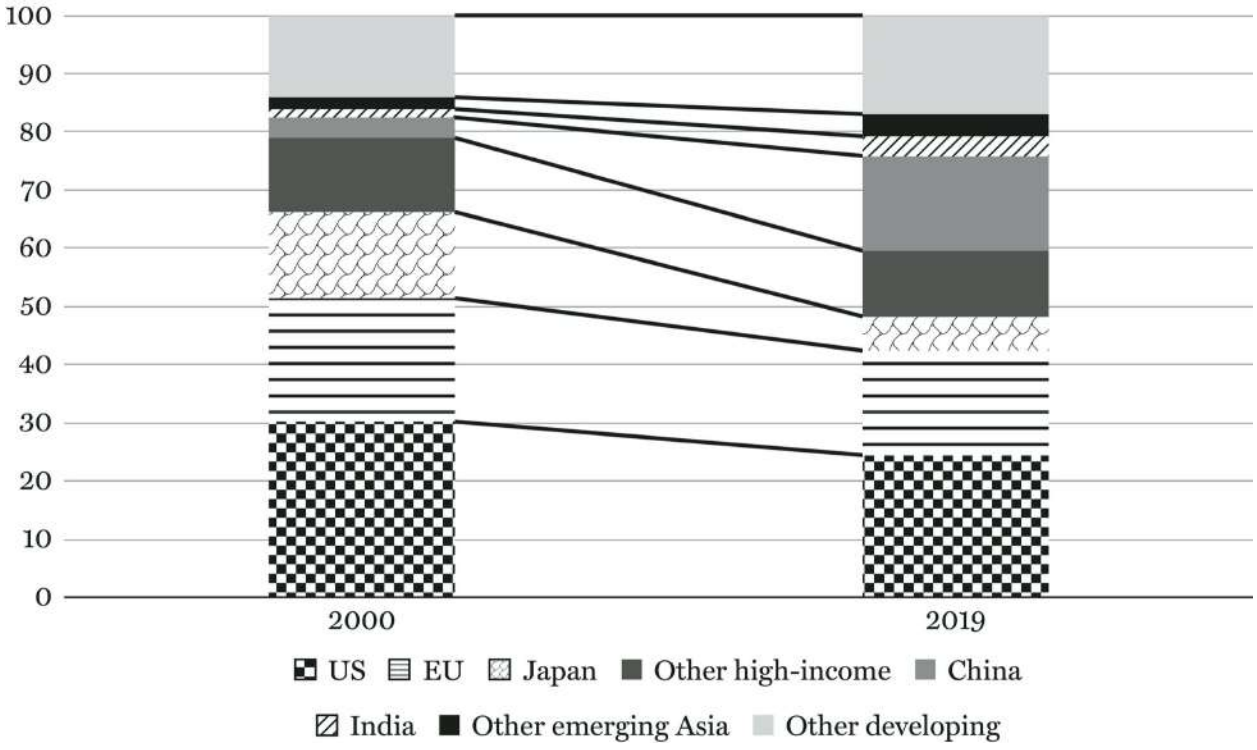
FIGURE 31. THE "ELEPHANT CURVE" OF GLOBAL INEQUALITY AND GROWTH, 1980–2016
(Source: World Inequality Database)



Even so, established high-income countries retain the lion's share of world output. At market prices, the share of high-income countries in world

output was still 59 percent in 2019. (See figure 32.) At purchasing power parity (PPP), which greatly increases the share of developing countries, given their low wages, the share of established high-income countries was 40 percent in 2019. Since the share of these countries in world population was about 16 percent (see figure 27), their output per head remained far higher than in developing countries. But the shifts between 2000 and 2019 were significant: at market prices, the share of the established high-income countries fell by 20 percentage points; at PPP, it fell by 17 percentage points. Over the same period, the share of emerging and developing countries in world output at market prices almost doubled, from 21 to 41 percent of the world total. Amazingly, China accounted for 66 percent of that increased share. The share of this Asian giant in the world's total output (at market prices) jumped from 4 to 16 percent in those nineteen years. A new economic superpower had been born. At market prices, its economy was still smaller than those of the US or EU, but at PPP, its economy had already become bigger than those of the US or EU by 2015.[30]

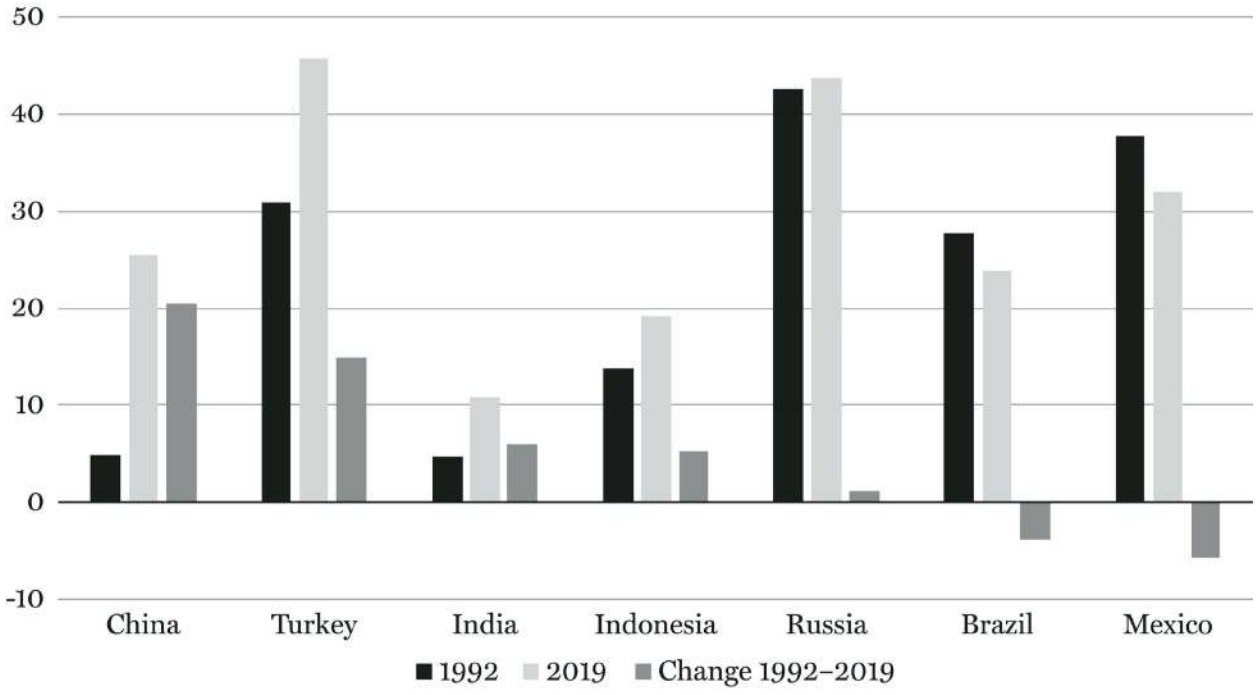
FIGURE 32. SHARES IN WORLD GDP AT MARKET PRICES (PERCENT)
(Source: IMF)



This means something quite straightforward, yet, for some, very disturbing: the long divergence in output per head, standards of living, and so economic, military, and political power between today's high-income countries and the biggest emerging countries—China, above all—has gone into reverse. Moreover, it has done so quite quickly. The relative position of the established high-income countries has been in decline. This was quite natural. But it has hurt.

Yet this convergence was also very incomplete. If we take the seven largest emerging economies at purchasing power parity, we find that three (Brazil, Mexico, and Russia) were either very little more productive or even less productive relative to the leader (the US) in 2019 than they had been in 1992. But four were substantially more productive relative to the US (China, India, Indonesia, and Turkey). China's was the most remarkable story: in 1992, its output per head at purchasing power parity was a mere 5 percent of US levels. By 2019, this ratio had risen to 25 percent. (See figure 33.) There is potential for further catch-up. Whether it will be exploited we do not know: China has many challenges ahead. But if its GDP per head at purchasing power parity were to be 50 percent of US levels in twenty-five years, its economy would be almost as big as those of the US and EU together. That would indeed be transformative.

FIGURE 33. GDP PER HEAD AT CURRENT PURCHASING POWER PARITY RELATIVE TO US, RANKED BY PERCENTAGE POINT CHANGE
(Source: IMF)



Technology, Globalization, and Immigration

Where do the processes we have just discussed fit into the overall story of adverse economic changes and especially the hollowing out of the middle classes in high-income countries discussed in chapter 4? Let us consider seven aspects of globalization: loyalties, business capital, finance, trade, technology, migration, and ideas.

Globalization corrodes the loyalty of businesses to the countries in which they were initially built. It has created what the late Samuel Huntington supposedly called Davos man.[31] Multinational companies with multinational share registers, employing multinational staffs and producing in many countries for consumers located in many countries, are at least semiglobal, even though nearly all continue to have a national character, especially ones rooted in the bigger high-income economies. Yet they also show their global perspective in their decisions on where to produce, where to pay tax, and so forth. Running against global capitalism has, as a result, become politically popular in the high-income countries now that so many

people feel that business has abandoned them. On this, Trump read the political pulse correctly. Boris Johnson did so, too, with his “fuck business.” He might have said it at a private event. But he surely meant it.[32]

The ability and willingness of multinational companies to move their capital and know-how across frontiers has been the essential contributor to globalization, and especially their ability to integrate supply chains across borders. This is clearly a decisive advantage for business (and capital) and disadvantage for workers in high-income countries. As noted above, the latter have lost their privileged access to the know-how and capital embedded in the companies they considered their own. This has inevitably affected their bargaining position and their jobs.

The movement of business capital has been an aspect of something vastly bigger—the liberalization of finance. That has exploded in size over the past four decades or so. It has also caused many crises, notably including the Asian crisis of 1997–98 and the transatlantic crisis of 2007–12. The liberalization of finance also forced many countries to abandon fixed exchange rates. The liberalization of finance has raised many concerns apart from financial instability, including tax competition, tax avoidance, tax evasion, and corruption. It is an expression of the power of the financial sector lobby, notes Maurice Obstfeld, former chief economist of the International Monetary Fund, that the possibility of reimposing capital controls or some other sort of curb on cross-border flows has not been considered as seriously as protection against imports, notably in the US.[33]

The expansion of trade in line with comparative advantage, turbocharged by the movement of ideas and capital, offers benefits (greater competition, lower prices, and higher incomes for those with the relevant skills) as well as costs (adjustment to change and, for some, permanent losses of income and employment). Of course, all economic change brings costs of adjustment and, for some, permanent losses. Trade is in no way exceptional in this regard. But adjustment to economic change needs to be managed and losers helped. This is true quite generally, however, not just in relation to changes brought about by trade. It is why localities hard hit by adverse economic changes need assistance in generating new economic activities. It is also why global

standards are needed to ensure that trade is not at the expense of good treatment of workers or the environment.

Technological change, especially in transport and communications, has been the main driver of what can be profitably traded. Until the steamship and refrigeration, it was impossible to ship bulk commodities in huge quantities cheaply. Until the truck and van, it was impossible to move goods quickly to the town or even the neighboring village. Until commercial aircraft, it was impossible to move people and high-value items across the world overnight. Until modern information and communications technology, it was impossible to integrate production across great distances seamlessly. Globalization is the child of technological innovation and will continue to be so. Simultaneously, technology is doing to industrial employment what it has done to agriculture: demolishing jobs by raising productivity dramatically. In 1800, 59 percent of French workers were in agriculture. By 2012, the share was under 3 percent.[34] Much the same thing has happened elsewhere. It is close to certain that employment in industry will continue to decline in high-income countries and in many emerging and developing countries as well, as robots and other machines replace industrial workers. Half a century from now, the employment share might be down to just a few percent, or even less. Trade wars cannot stop this.

Labor is a factor of production. Its “owner,” like those of other factors of production, wishes to raise its return. One of the ways to do so is to move it, and so himself or herself, to another country, where wages are higher. This, too, can be viewed as movement of “capital” (human capital, in this case) to a better jurisdiction, namely, one that has more complementary economic, social, and political capital. It makes excellent sense for people to do this, just as it does for owners of capital to seek the highest returns through movement of their capital or of the goods and services their capital is able to produce. In addition, since migration is about people, there are other motives that have less (or much less) to do with economics: desire for family reunion and for safety.

In the context of the global movement of ideas, goods and services, and capital, the movement of people is not that big. In 2017, according to the

United Nations, 258 million people (3.4 percent of the world population) were international migrants (that is, people who had moved to a foreign country). Of these people, 106 million were born in Asia, 61 million were born in Europe, 38 million were born in Latin America and the Caribbean, and 36 million were African. In 2017, 64 percent of international migrants lived in high-income countries. Refugees account for only 10 percent of international migrants (25.9 million in 2016). The panic over refugees is exaggerated and despicable.[35]

The economic impact of immigration, at recent levels, has been modest. The balance of the evidence suggests that immigration's impact on the earnings and employment opportunities of those already in the country might have been mildly negative, while that on the public finances in high-income countries has been mildly beneficial. Thus, one survey concluded that "the large majority of studies suggest that immigration does not exert significant effects on native labor market outcomes. Even large, sudden inflows of immigrants were not found to reduce native wages or employment significantly."[36] The main reason for this is that immigrants are more likely to be complements than substitutes for existing residents and citizens in the labor market. This is true both of the work they are prepared to do and of the skills they possess (their languages, for example). Similarly, the net fiscal costs of immigrants seem to be very small, at least in the US. In the EU, where benefits are more generous, the net fiscal costs of older and less-skilled immigrants can be larger.[37] Nevertheless, even if net costs to the rest of society are small, the greater part of the gains from migration accrue to the migrants, which is as one would expect.

These aggregative studies suffer from two drawbacks. The first is that migrants are heterogeneous in their motivations, skills, cultures, age, and likelihood of remigration. Ideally, studies would differentiate on all dimensions, which is difficult. Yet it is clear, to take two examples, that the characteristics of people who come for reasons of family reunification or as refugees are likely to be different from those of young people who migrated from central and eastern Europe to the UK, looking for work, or who went from India to the US with high-level technical skills. The second drawback is

that none of these studies seem to examine congestion costs. Infrastructure costs associated with rising populations can be handled with additional investment by the public sector. But there are more costs associated with rising populations than this, especially in densely populated countries.

Finally, ideas always move. In contemporary conditions—with high-powered information and communications technologies, huge numbers of foreign students, endless collaborations, and cheap transportation—ideas that used to take decades or even centuries to move across the globe now do so in seconds. The Soviet Union tried hard to control access to the ideas of the world. But it failed. Today, only North Korea is isolated, and it has paid a heavy price. The "Great Firewall of China" is real, but ideas flow across it, especially the ones the leadership wants—those that affect scientific and technological understanding. The flow of innovative ideas unavoidably erodes barriers to knowledge, including intellectual property rights the high-income economies wish to protect. But in the long run, such controls have always failed. China once tried to halt export of the knowledge of how to make silk. The UK once tried to halt export of the knowledge of how to make textile machinery. They failed in the end: ideas flow. It is the ability to create ideas, far more than the ideas themselves, that is valuable. Moreover, the flow of ideas creates value. Yes, free riding on the innovations of others may well reduce incentives to innovate, but it also creates opportunities to use and then develop ideas more rapidly.[38]

We do not know as much as we would like about the balance of effects of these various forces of globalization on the high-income countries, because the processes involved are complex and interactive. Nevertheless, there are a few reasonably clear conclusions.

First, we know about as well as we know anything in applied economics that the impact of global trade on inequality and employment has been modest. This is the broad consensus of the empirical studies by a range of researchers. Thus, "globalization in the form of foreign trade and offshoring has not been a large contributor to rising inequality. Multiple studies of different events around the world point to this conclusion."[39]

Second, there was indeed something of a “China shock” in the US in the first decade of this century. Overall, import competition from China between 1999 and 2011 may have cost in the range of 2 to 2.4 million jobs, which was roughly half of the actual job losses in manufacturing over that period.[40] Moreover, even though “import competition from China did not have large aggregative effects in the US, . . . it had substantially different employment repercussions in different commuting zones.”[41] In addition, subsequent “adjustment in local labor markets is remarkably slow, with wages and labor-force participation rates remaining depressed and unemployment rates remaining elevated for at least a full decade after the China trade shock commences. Exposed workers experience greater job churning and reduced lifetime income.”[42] This China shock was also politically salient. Given the US’s refusal to provide effective support and adjustment assistance to people who lost their jobs, to their families, or to the communities in which they live, that was inevitable. It was not surprising, therefore, that the new dynamic of world trade helped bring Trump to power. It was no surprise either that his protectionist actions were popular.

Third, the impact of technical change has been to raise the demand for skilled people, especially university graduates. This is shown by the fact that relative wages for graduate workers have risen, despite a huge relative increase in their supply, which suggests a countervailing shift in demand toward them. This is the opposite of what would have happened if trade with countries less abundant in skilled workers had been the main agent of change in the labor market. That also would have tended to raise the relative earnings of skilled people in high-income countries, but it would have lowered their shares in employment in all sectors, as employers substituted the now cheaper less-skilled workers for now more-expensive skilled ones. This evidence suggests strongly that the impact of technology on the labor market has dominated that of trade. The difference is political: with trade, it can be blamed on unfair foreigners; with technology, it is a head-on conflict between capital and labor. Capital usually wins, especially in an open world economy.

Fourth, the extent of pre- and posttax inequality (on different measures) and the amount of effort countries make to mitigate pretax inequality, differ

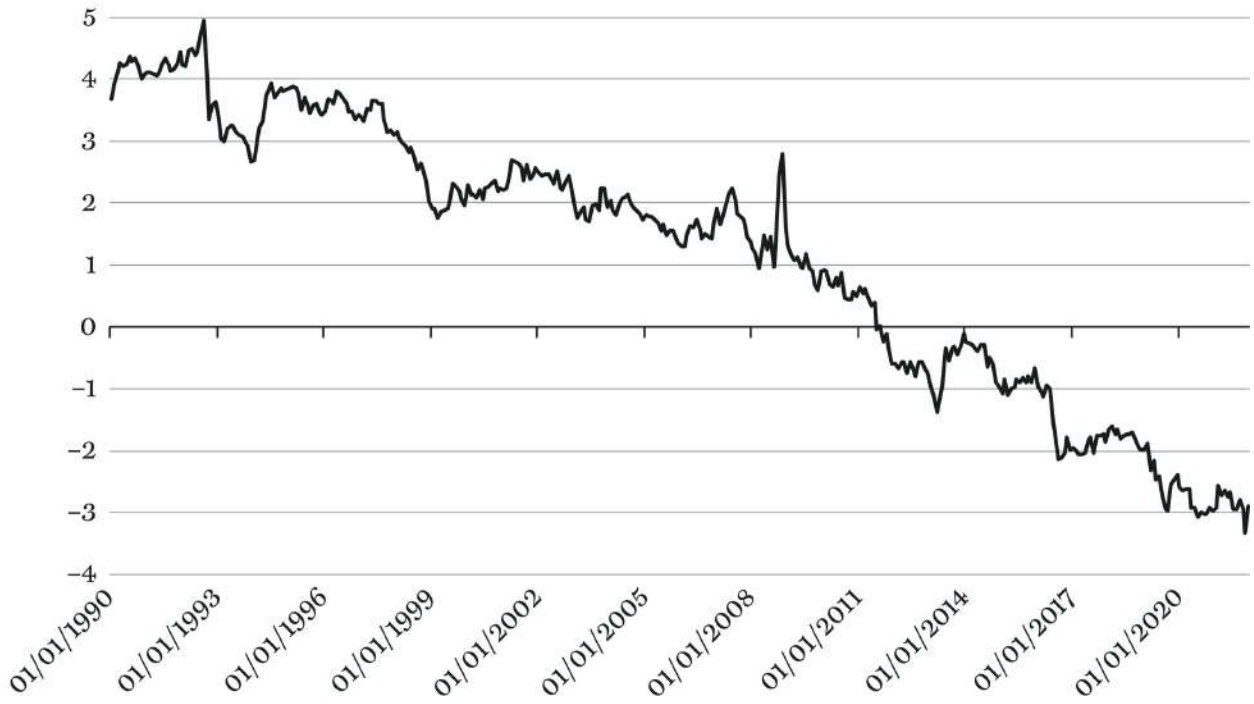
substantially across the high-income countries (see figures 10, 11, 12, 13, and 15). Since the policies toward trade and other aspects of globalization have been similar across high-income countries (with the exception of the intense resistance to immigration in South Korea and Japan), globalization cannot be the chief culprit for either levels or changes in inequality. This is particularly true at the top of the income distribution. The differences in experience across high-income countries in both pretax and posttax dimensions indicate that domestic economic institutions and developments, not global ones, have mattered most, including the effectiveness of government response to shifts in competitiveness and the effectiveness of social insurance and other forms of support to those adversely affected by economic change. In the US, people without jobs or skills, living in declining localities, are abandoned to fend for themselves. That is a political choice. Protection—a tax on consumers transferred to protected firms—is proving the most popular form of support, or so Biden's failure to reverse Trump's tariffs suggests. In other high-income countries, the range of potential policy instruments is broader and more effective. It is not the internationally induced changes themselves but rather the shortage of effective policy instruments to deal with them that is so striking in the US.

Macroeconomic Instability

In *The Shifts and the Shocks*, I argued that the macroeconomic fragility plaguing high-income countries was largely due to the reliance on the financial system for generating demand at a time when shifts in the global economy were generating what Larry Summers calls "secular stagnation."[43] The simplest indicator of this phenomenon is the huge secular decline in the ten-year real interest rate. (See figure 34.)[44] We see a sharp fall in long-term real rates in the late 1990s, after the Asian financial crisis, another sharp fall after the 2007–12 global and eurozone financial crises, and a still lower

trough during the COVID crisis. Real rates have been negative since the summer of 2011 and averaged –2.9 percent in 2020 and 2021.

FIGURE 34. UK REAL INTEREST RATES
(YIELD ON 10-YEAR INDEX-LINKED GILTS)



So far as aggregate demand is concerned, we can distinguish changes that affect desired savings from those that affect investment, since it is the interaction of the two that determines interest rates needed to ensure full use of existing capacity.

On the side of saving, the big forces have been rising corporate profits as a share of GDP, rising inequality of personal incomes, and extraordinarily high aggregate savings in several high-income and emerging economies, notably Germany, Japan, and China. Rising inequality in the US has resulted in a large increase in the savings of the top 1 percent of the income distribution. (In these calculations, the claims of the wealthy on corporate profits are included.)[45] Similar increases in inequality have raised the propensity to save elsewhere, notably in China and Germany.[46] Meanwhile, structural downside forces on investment have included the already mentioned aging of high-income countries and associated reductions in

demand for infrastructure, deindustrialization, and rapid declines in the cost of investment goods, especially in information technology products.

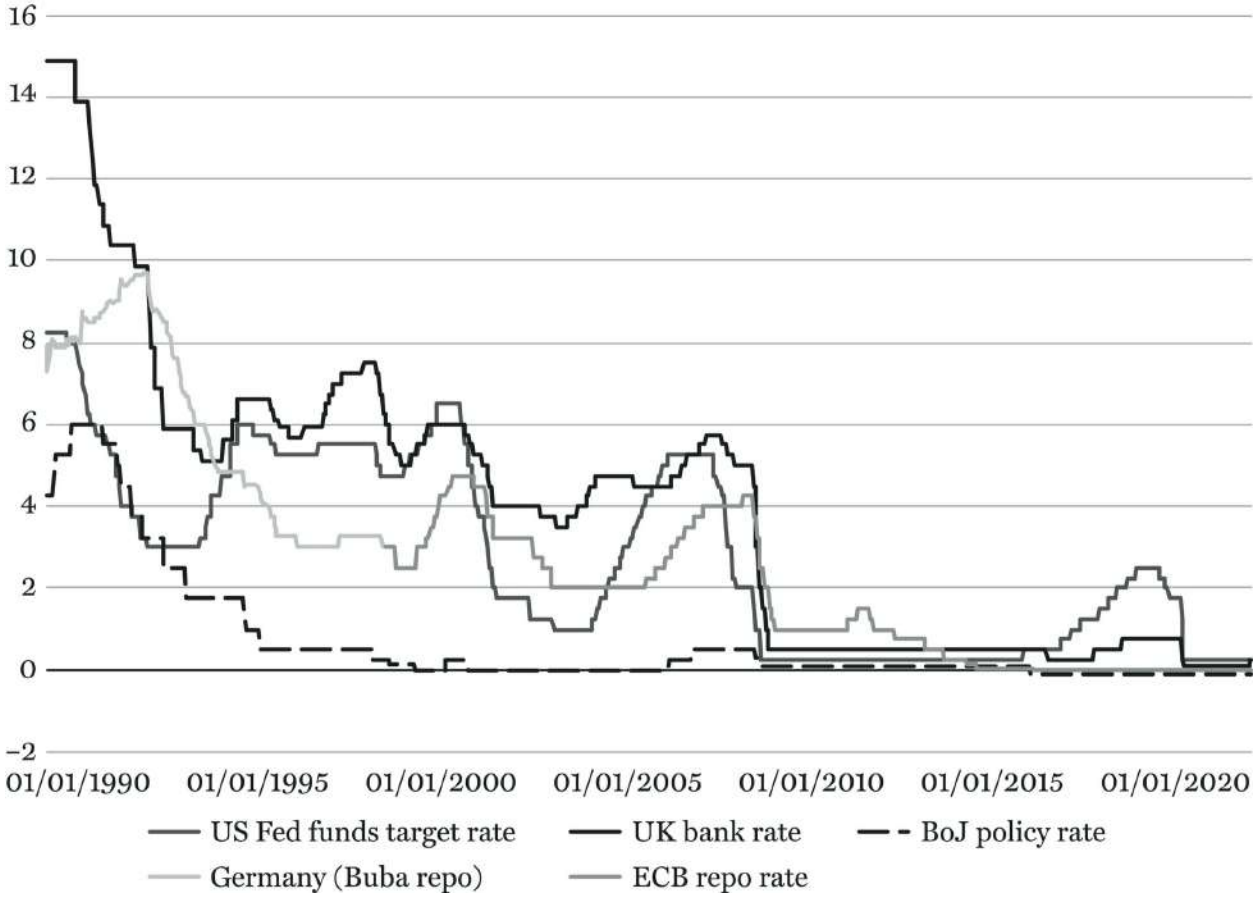
A crucial element in this story was the emergence of China as a huge surplus saver, even though it also had the highest investment rate of any large economy ever. The natural development would have been for capital to flow from the high-income countries to this huge emerging economy, with its gigantic investment needs. In practice, however, the reverse happened: capital flowed (net) upstream from China to the high-income countries, especially the US.[47]

These developments abroad, in China and some other countries, prevented the US from exporting the growing excess savings of its own rich and so running a current account surplus, as late-nineteenth-century UK did in similar domestic conditions. Instead, the reverse happened: the rich of the rest of the world and their governments sought to accumulate what they view as safe US assets, so generating persistent US current account deficits. This meant, necessarily, that the savings of the US rich had to be more than offset by the dis-savings of everybody else in the US (including the US government). Thus, since 1982, the decline in net indebtedness of the rich has been matched by the rise in indebtedness of the bottom 90 percent. This is, incidentally, why the common argument that low interest rates hurt the less well-off is ridiculous. The less well-off are not large net creditors. The rich hold claims on the less rich, not only directly, via their bank deposits and other financial assets, but also via equity in businesses that own such claims.

In the years between the Asian and global financial crises, a huge credit boom, mostly associated with property lending, especially to households in the US and in western, southern, and eastern Europe, temporarily resolved the problem of structurally deficient demand. Thus, the financial system generated an unsustainable surge in investment in property and in household borrowing and spending. After the bust, these sources of demand were replaced by fiscal deficits and spending induced by central-bank-supported rises in asset prices, as monetary policy became even more super-expansionary. Everybody adopted a version of the monetary policy first used by the Bank of Japan in the mid-1990s. (See figure 35.) Also, helpfully,

China decided to eliminate its huge current account surplus after the global financial crisis (unlike Germany, alas). But it did so by increasing its debt-fueled investment to close to half of GDP, thus creating a new disequilibrium within its economy, with excessive investment and soaring indebtedness. The real difficulty remains the low share of consumption in China's GDP, which is a consequence of the highly unequal distribution of domestic income. A similar problem exists in Europe, where the large savings surpluses of Germany and some other northern countries are no longer offset by excess spending in peripheral Europe. As a result, the eurozone runs a sizable current account surplus, which must be absorbed elsewhere in the world economy.[48]

FIGURE 35. CENTRAL BANK INTEREST RATES (PERCENT)



So far, these various responses to the structurally deficient global demand "worked," in the sense that they were better than the alternative of a

prolonged slump. But the fact that they had to be employed demonstrates how weak underlying demand has been. Whether this will continue to be the case as the sudden shock of COVID dissipates is highly uncertain. Indeed, the overhang of excess debt from earlier efforts to manage demand in the context of structurally deficient demand made the underlying problem even worse.[49] Debt overhangs depress demand by reducing the ability and willingness of potential borrowers to borrow. Thus, the underlying problems have tended to become worse over time, not better. They are deep-seated, reflecting, as they do, macroeconomic imbalances that are themselves the result of global economic integration, the rise of China, the emergence of a globalized form of rentier capitalism, and increases in income inequality. (See figure 31.) Something must be done about these underlying conditions, a point to which we will return in chapter 8.

It follows from this analysis that global imbalances are telling us something important. Unfortunately, bilateral trade imbalances are just a symptom of the problem. That problem is the structural forces discussed above. A first-order symptom of this has been global imbalances. A second-order symptom is the bilateral surpluses and deficits, on which Trump focused. In his view these reflect bad deals made in the past. The implicit assumption is that a trade deal is a good one if the country ends up selling to a specific partner more than it buys from it, and vice versa. This is idiotic.

First, it is perfectly reasonable for countries to run trade deficits overall, provided the borrowing is affordable. Second, if the borrowing is unaffordable, the only way to fix it is to adjust output and spending in deficit and surplus countries: it is a macroeconomic, not a trade policy, challenge and if it concerns the US, it is a global macroeconomic challenge. Third, overall trade policy is about setting market signals that allow billions of people and tens of thousands of businesses to decide where and how to earn, and spend, their incomes. It is not about making deals aimed at determining how much the people of a country spend on what, and where. That is for a planned, not a market, economy. It cannot work. This is why the US spent so much effort on eliminating bilateralism in Europe after the Second World War.[50] Finally, given overall macroeconomic conditions, a focus on

bilateral balances will not shift the overall balance: if, for example, the US stops buying from China, it is likely to buy the same product from some other country; and, again, if the US produces the product at home, it will stop making something else that was previously exported. Focusing on bilateral imbalances when the underlying problem is global macroeconomic disequilibria is like squeezing a balloon: it cannot work.

Toward Rigged Capitalism

The discussion thus far has focused on the big picture—technology, globalization, demography, the distribution of income, and macroeconomic instability. But there is something just as important and possibly far more dangerous: the exploitation of market and political power. We should think of this as the rise of a "rentier economy." This has many aspects: "financialization," corporate (mal-)governance, winner-take-all markets, rents from agglomeration, weaknesses of competition, tax avoidance and evasion, rent seeking, and the erosion of ethical standards.[51] These are principally the outcome of failures of liberalization—above all, a failure to think through the institutional context for markets. The prevailing assumption was that the free pursuit of self-interest is enough on its own: it is not.

Financialization—a hideous, but seemingly inescapable, term for the growing impact of finance—is a characteristic of the economic world of the last four decades, notably in the US and UK. Behind it lies the idea of the economy as just a bundle of tradeable contracts. The rapid liberalization of finance, reinforced by the development of information and communications technology, facilitated a transformation of the economy. Financialization has meant enormous expansion in the scale of financial sector activity, a corresponding expansion in the complexity of financial products, a parallel expansion in the earnings from financial sector activity, and a transformational change in the role of finance in controlling corporate activity.[52] All this has dubious benefits for economic performance. As we

shall see, the immense growth of financial activity seems to be far more a vehicle for rent extraction than for productive improvements. It also led directly to the financial crises of 2007–12.

There was an enormous expansion in global private debt in the years running up to the financial crisis of 2007–12, especially of financial sector debt—an indication of the explosion of balance sheets and leverage in the financial sector.[53] This has not been reversed since then, far from it, though its sectoral composition has changed: financial sector debt fell somewhat, relative to global GDP, until the COVID pandemic. Nonfinancial sector corporate debt rose strongly, particularly during the pandemic. Household debt stabilized after the financial crisis, but then jumped during the pandemic. (See figures 36 and 20.) Debt is both the product and the fuel of the financial sector. This explosion in overall debt was matched by one in cross-border financial transactions. In 1995, the total stock of global cross-border foreign direct investment, portfolio equity, debt securities, and other lending was $15 trillion (51 percent of global GDP). By 2007, this had become $103 trillion (185 percent of global GDP). After that, the stock froze, at least up to 2016, when it was 183 percent of global GDP.[54]

A simple indicator of rising complexity is the explosion in the notional and gross market value of over-the-counter derivatives (foreign exchange, interest rates, and equity-linked).[55] Notional values jumped from $72 billion in June 1998 to $653 billion a decade later, and the gross market value jumped from $2.6 billion to $35 billion at the end of 2008. After that, the global crisis blew up the financial system and the world economy. Thereupon, the derivatives music, like the debt expansion, stopped playing. But the market remains huge: the gross market value at the end of the first quarter of 2021 was $12.6 trillion. (See figure 37.)

FIGURE 36. GLOBAL PRIVATE DEBT OVER GDP (PERCENT)
(Source: IIF)

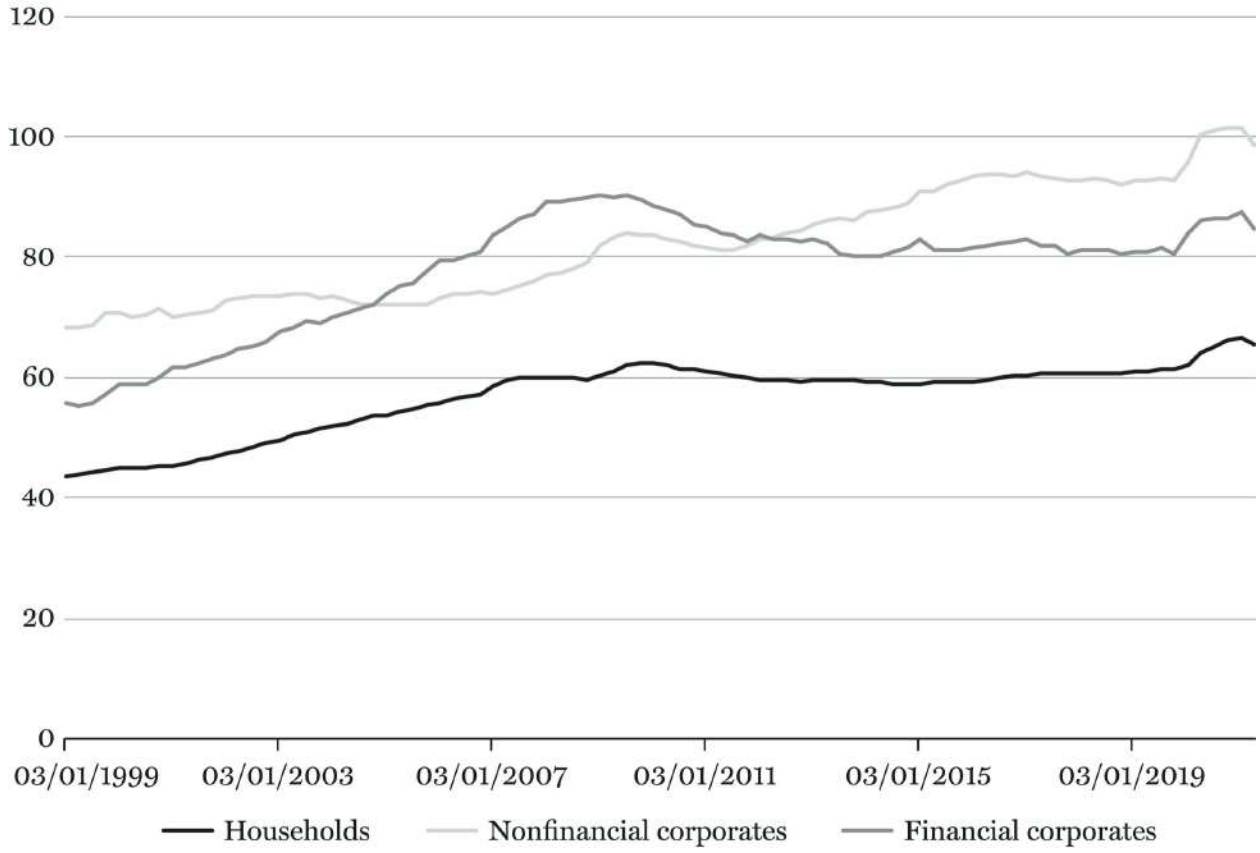
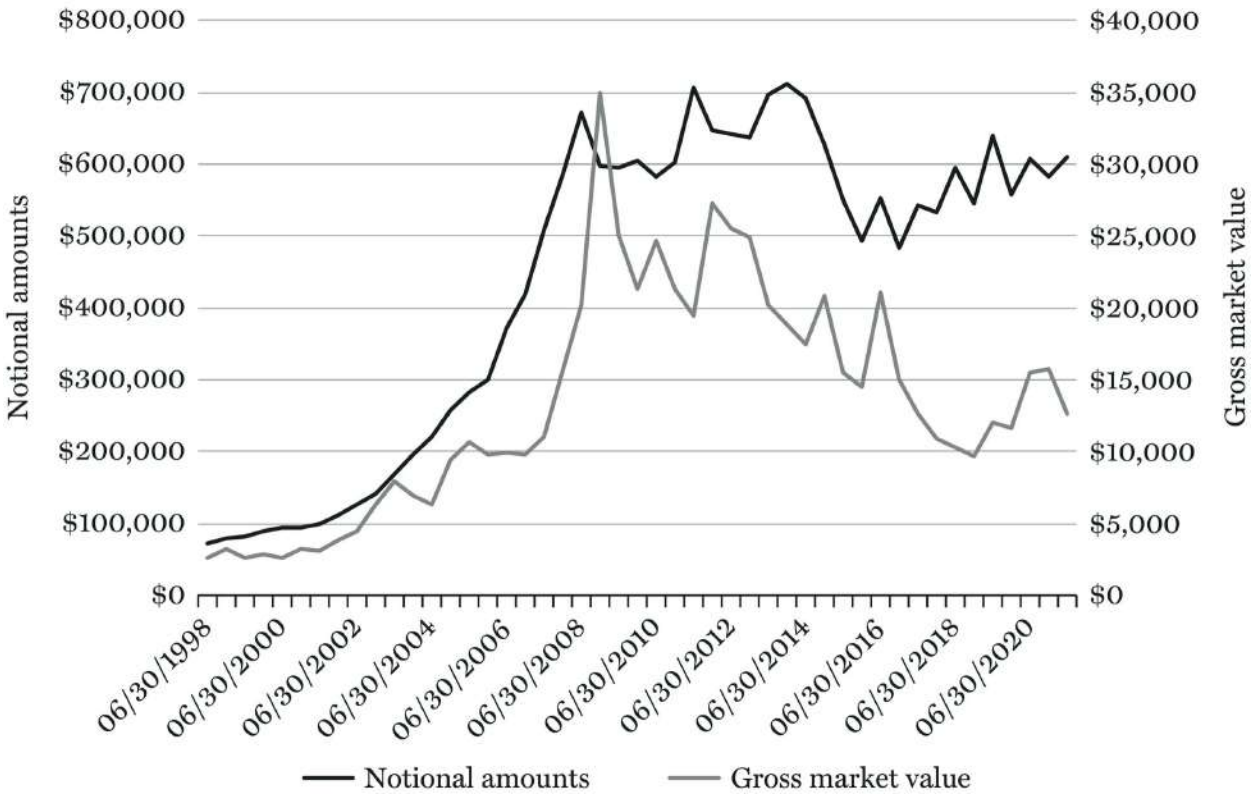


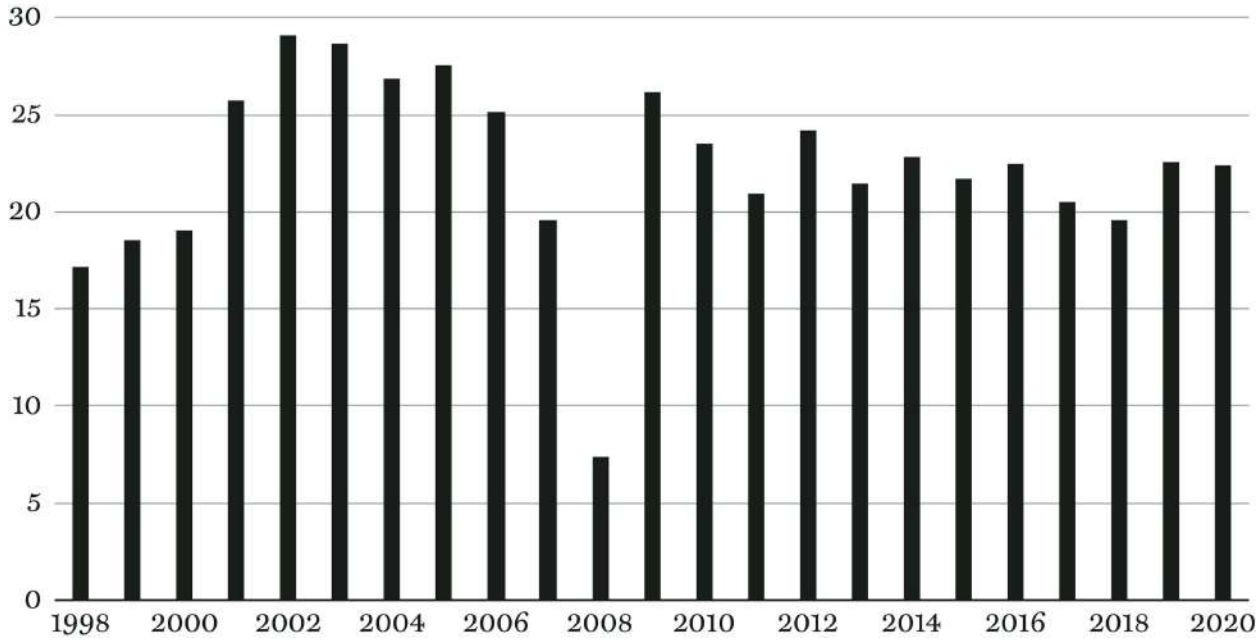
FIGURE 37. NOTIONAL AND MARKET VALUE OF OUTSTANDING OVER-THE-COUNTER DERIVATIVES ($BILLION)
(Source: BIS)



Also significant was the high share of the financial sector in corporate profits. It may be wondered how much of this represents value added to the economy and how much represents transfers of wealth—that is, rent extraction. The characteristic of banking is that the debts of these institutions are accepted as means of payment: they are money. This means that the financial sector creates its own "fuel." When it makes loans, it simultaneously creates the money with which to pay itself fees and even interest.[56] Thus, in boom times the profits of the financial sector are likely to be at least in part a fictitious product of its aggregate lending. That is precisely what figure 36 suggests. The pre-boom share of finance in total US corporate profits was around 15 percent. This level might or might not have represented value added; it is hard to tell. But the subsequent explosion in profits to over a quarter of the total was both staggering and, as events proved, fictitious (see figure 38). That profits have remained so high subsequent to the crisis must be due in large part to the immense support provided by the authorities, especially the near-zero interest rates that have

been in effect for so much of the time, as well as the still gigantic balance sheets of financial institutions.

FIGURE 38. SHARE OF FINANCIAL SECTOR IN US CORPORATE PROFITS (PERCENT)
(Source: BEA)



This was all remarkably good for those working in the financial business. One study analyzed the ups and downs of the relative earnings of finance professionals.[57] Their relative earnings peaked in the early part of the last century, before crashing in the 1930s. Relative earnings started to move rapidly upward again, in parallel with financial deregulation, in the 1980s. Also significant in increasing the demand for skills in finance were complex activities, such as initial private offerings (IPOs) and management of credit risk. According to the study, rents—earnings over and above those needed to attract people into the industry—accounted for 30–50 percent of the differential earnings of professionals in finance vis-à-vis the rest of the private sector.

This explosion of financial activity has not done much for productivity growth, which has been quite poor since the 1970s and particularly so since the financial crisis (see figures 19 and 26). This is not surprising. Little of this expansion of financial balance sheets went into financing fresh investment.

The great bulk of it went into leveraging balance sheets of households, the nonfinancial corporate sector, and, of course, the financial sector itself. Moreover, much of the most highly rewarded activity of the sector consists of what are likely to be, in whole or part, zero-sum activities: hedging against the volatility created by financial sector activity itself; invention of complex derivatives that conceal embedded risks; and outright gambling.[58] Adair Turner, former chair of the UK's Financial Services Authority, famously described much of this activity as "socially useless."[59] It is quite hard to disagree.[60]

The absence of a positive link between financial activity and economic performance is noteworthy. A paper for the Bank for International Settlements, published in 2014, concluded that "the level of financial development is good only up to a point, after which it becomes a drag on growth, and that a fast-growing financial sector is detrimental to aggregate productivity growth."[61] The explanation for the lack of positive impact is that when the financial sector grows quickly, it hires talented people to manage lending to projects, usually property-related, that can generate collateral for lenders. But lending to the property sector does not aid productivity. It creates "positional goods," such as offices or luxury housing in the centers of big cities.[62] If these skilled people did not work in the financial sector, they might create and manage investments with far higher returns to the economy. They are, after all, mostly numerate and many have backgrounds in science or engineering. Consider, too, the resources being devoted to trading just a microsecond ahead of others—a negative sum activity if ever there was one.[63] The financial sector wastes both human and real resources. It is in large part a rent-extraction machine.

Together with the rise of finance came a profound shift in the aims of the firm, toward maximizing profits, or "shareholder value."[64] This shift had consequences on several dimensions. Particularly important was the idea that corporations should be appendages of financial markets. The role of finance was no longer merely to facilitate investment. Financial considerations were to determine every aspect of corporate behavior—its goals, its internal

incentives, and the identity of those in charge. Finance ceased to be a handmaiden of the firm and turned into its mistress.

In 1970, the late Milton Friedman famously declared that "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."[65] If stock markets are efficient, maximizing market capitalization is equivalent to maximizing the present value of profits. Furthermore, in the absence of "market failures" (imperfect information, monopoly, environmental and social spillovers, and so forth), maximizing the value to shareholders should be equivalent to maximizing the value of the firm to society.[66] In this way, the stock market becomes a machine for weighing the value of corporations. Once we accept such ideas, it makes sense to create a direct link between executive rewards and the market value of the business and to have an active market in corporate control, to ensure that the principals (the shareholders) can force their agents (corporate management) to serve their interests.

These propositions remind one of the remark by American humorist H. L. Mencken that "there is always a well-known solution to every human problem—neat, plausible, and wrong."[67] While these ideas do provide a relatively straightforward way to decide on the goals, incentives, and control of companies, they also create big problems.

One is that profit is not a good motivating goal for organizations. It should be a by-product of pursuing other goals, such as making excellent cars or providing reliable advice. If I am told that a business's aim is to make money out of me, I mistrust it. I want to believe it is determined to look after its customers. This is particularly true when it is hard to monitor the quality of what the business offers, which is so often the case, especially in finance.

A deeper problem is that, as Ronald Coase argued in 1937, companies exist precisely *because* markets are imperfect.[68] Instead of markets, we rely on the "relational contracts" characteristic of the firm. Such contracts are based on trust. A couple cannot write a contract covering everything that might happen in their marriage. The same is true of firms. Yet if the relational

(or implicit) contract that governs the firm is founded on trust of all committed parties, giving control rights to one party means that many potentially valuable contracts will not be reached.[69] The risks of opportunistic behavior by the controlling parties are too great to allow the needed agreements to be reached.

Moreover, successful corporations generate rents—income over and above the opportunity cost of the factors of production employed. There is no obvious reason why all these rents should accrue to the shareholders and top managers. Moreover, the existence of these rents, combined with the narrow control rights and the manifold principal-agent problems, provides both motives and opportunities for rent-seeking behavior. And that is exactly what we see.

The shift to control of the firm by shareholders who are not engaged in running it also creates a huge collective action problem. Shareholders who own a small fraction of a firm have no incentive to invest in the knowledge necessary to oversee it, especially when they benefit from the privilege of limited liability. Shareholders are also able to insure themselves against failure at any individual company by diversifying their portfolios. Indeed, they are far better able to insure themselves in this way than their workers or even the localities in which they operate. For shareholders, “exit” (that is, selling shares) is almost always a more sensible option than bearing the costs of exercising “voice” (that is, becoming an engaged shareholder). This is true even of most fund managers: the costs of engagement with a company outweigh the benefits for themselves. Worse, fund managements are themselves agents with conflicts of interest vis-à-vis corporate management: while they have a motive to improve the performance of the firms whose shares they own, they may also benefit from obtaining mandates from management, notably rights to manage pension funds. Private equity, activist shareholders, and hostile takeovers may seem partial solutions to these problems. Yet all are blunt tools. Private equity investors, for example, are agents, not principals. They also tend to finance their transactions with high leverage, which creates governance problems, especially when companies

come close to bankruptcy. At that point, it makes sense for them to gamble for resurrection, with losses falling on holders of debt.

In practice, then, the shareholder-value-maximizing firm guarantees opportunistic behavior by powerful insiders. This is not a novel complaint. Adam Smith himself argued, “Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company [a joint-stock company].”[70] Similarly, John Stuart Mill argued that “experience shows, and proverbs, the expression of popular experience, attest, how inferior is the quality of hired servants, compared with the ministration of those personally interested in the work.”[71]

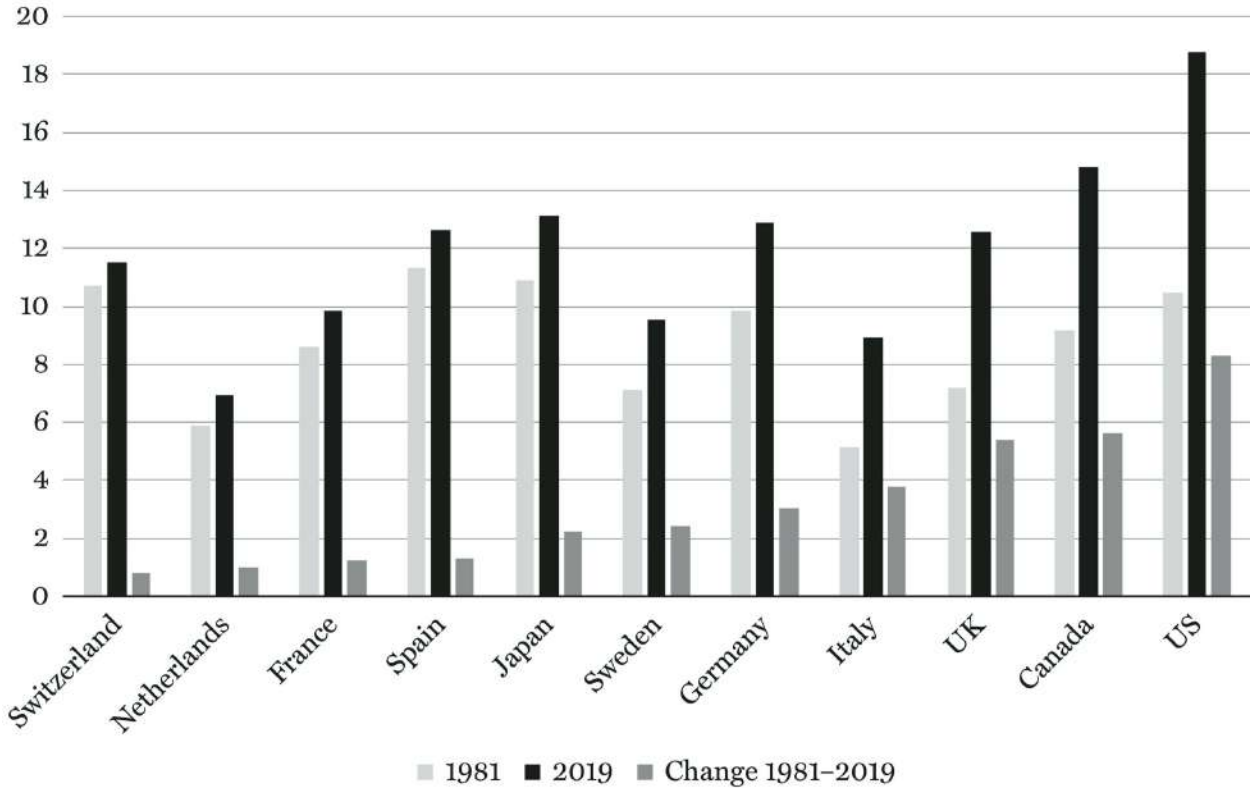
Management has a powerful incentive to rig incentives in its own interests. The most obvious mechanism is to link remuneration to stock market performance, even if that performance has little to do with management’s actions. The shorter management’s expected term in control and the more difficult it is for outside shareholders to judge what is happening in a large and complex business, the greater the incentive for management to do so. There are many ways to rig rewards: borrow money to buy their company’s shares; divert money from long-term investment into stock buybacks; create stock incentive plans that guarantee huge rewards in a rising market, whatever the contributions of management.

The evidence seems overwhelming that the huge rise in managerial rewards (discussed in chapter 4) has had next to nothing to do with corporate performance. Worse, as the British economist Andrew Smithers argues, the incentive schemes that generate these extraordinary rewards are worse than mere rent extraction (though they are that). They distort incentives by encouraging management to increase leverage, thereby making corporate and overall economic performance riskier, and lower spending on fixed investment and research and development.[72] One aspect is the encouragement to short-termism, namely, seeking to raise share prices today rather than the value of the firm over the long term.[73]

The increased pay of top corporate management and the huge increase in rewards in the financial sector also help explain the extraordinary rise in top incomes in a number of countries.[74] One reason to conclude this is the

divergence among advanced capitalist countries in both the share of the top 1 percent in pretax incomes and in the increase in that share since 1980. These are, not surprisingly, highest where the shareholder-value revolution has gone furthest: the English-speaking countries—Canada, the UK, and the US. In the US, the share of the top 1 percent reached 18.8 percent in 2019—a jump of 8.3 percentage points from 1981. In the Netherlands, the share was only 6.9 percent in 2019, just 1 percentage point higher than in 1981. (See figure 39.) To put the share of the top 1 percent in the US in context, in 2019 it was 41 percent bigger than that of the entire bottom 50 percent.

FIGURE 39. SHARES OF TOP 1 PERCENT IN PRETAX INCOMES (PERCENT)
(Source: World Inequality Database)



Important market failures do not exist only within the governance structure of firms. Equally important are failures in the relationship of firms with the outside world. Like all businesses, companies have an incentive to ignore externalities, such as environmental or social damage. If a firm dumps effluent—or its workers, for that matter—others bear the consequences: the

family, the community, the state. But there is something inherent in the creation of large firms: monopoly power. The invention of the corporation was a response to the need for very large firms. Size gives market power. This makes it even more likely that companies will be able to raise shareholder value by exploiting others. The increasingly widely accepted view is that even quite small companies have a degree of monopoly power in labor markets.[75] They may also possess some degree of monopoly power over suppliers and consumers.

Certain policies are even intended to increase market power. Among the most important is protection of intellectual property (via copyright and patents, in particular). While there is a case for such protection, it does involve the creation of monopolies. Moreover, companies are powerful institutions. They can influence the law that governs intellectual property, by extending copyright indefinitely, for example. Among the most powerful sources of influence for such extensions was the Disney Corporation.[76] Again the outcome is to create monopoly rents.

Another difficulty is that the firm has a strong interest in internalizing gains while externalizing costs. The victims are members of society at large. Such externalizing can occur in a multitude of important ways. Local and global pollution is perhaps the most obvious and threatening example. But also important is corporate behavior in the labor market. Discrimination among workers imposes social costs, for example. So does shifting all the risks of managing insecurity onto workers or making it more difficult for adults (especially women) to fulfill their roles as parents or caregivers of old people. Perhaps the most obvious example of such risk transfers is that of the financial sector, which creates risk in good times, by increasing leverage, and is rescued by central banks and the government in crises.

The standard counter to such arguments is that the democratic political process can offset such cost externalization by means of regulation, taxes, and subsidies. Yet that assumes a neutral political process in which well-intentioned legislators respond to the choices of well-informed voters. Nothing could be further from reality. In all democratic processes, well-motivated, well-informed, powerful, and concentrated interests outweigh the

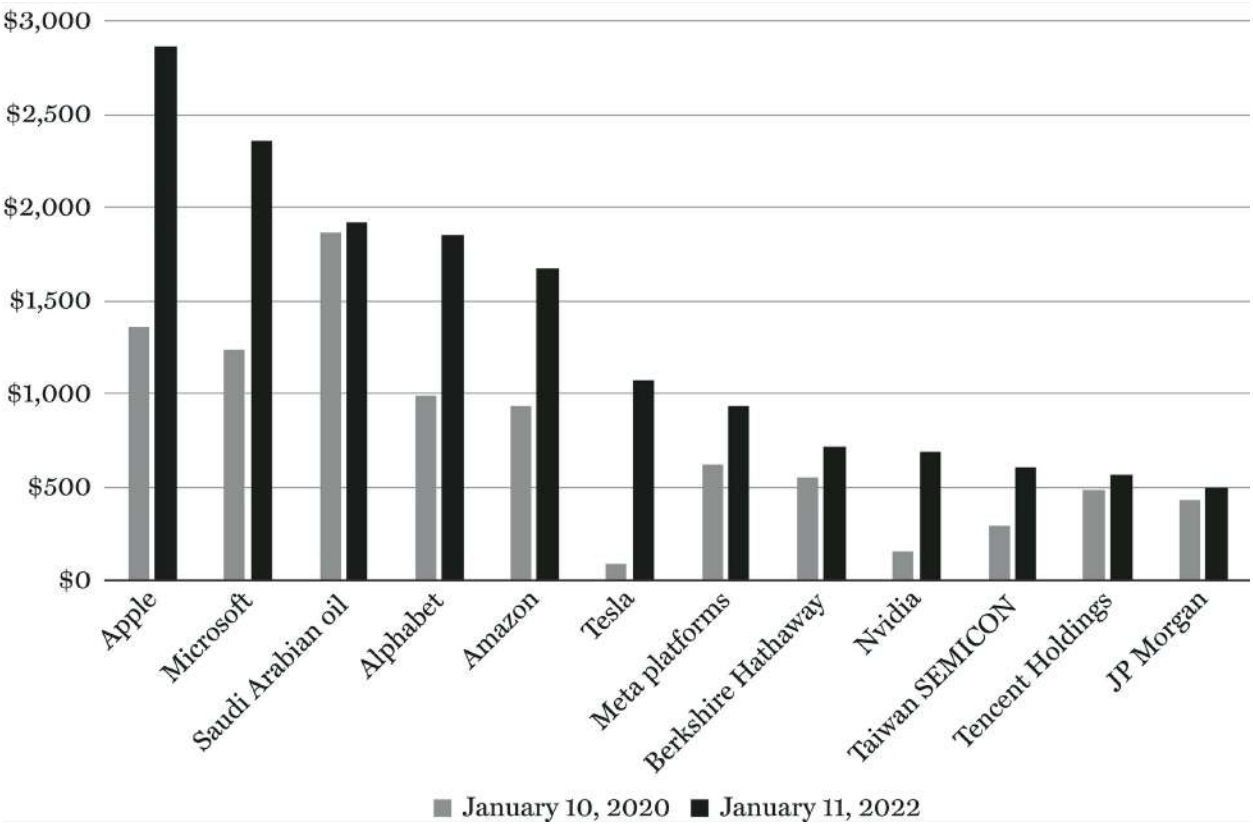
diffuse interests of bigger but weaker groups.[77] No private interest is more concentrated and more potent than that of large and well-resourced businesses, which duly dominate lobbying in many areas.

A more recent transformation of the market economy, partly driven by digital innovations, is the emergence of winner-take-all markets.[78] The digital world of zero marginal costs, platform economics, and big data allows the most successful businesses to dominate global markets. The opportunity is now often to sell to advertisers the information they obtain from customers. Superstar individuals also gain: being the world's twentieth most popular blues singer means rather little when everybody in the world can so easily access the performances of the most popular.

The drivers of winner-take-all markets include economies of scale and scope, network effects (both direct and indirect), big data and machine learning, brand loyalties, the high costs of switching, the attraction of specific employers to talented workers, the reputations of founders, and the straightforward economics of agglomeration.[79] The outcome is that these companies are sitting upon monopoly rents that are orders of magnitude bigger than the opportunity cost of the factors of production (land, capital, and human skills) engaged in the business.[80] The twelve most valuable companies in the world in early 2022 included eight technology companies—Apple, Microsoft, Alphabet, Amazon, Meta Platforms, Nividia, Taiwan Semiconductor Manufacturing, and Tencent Holdings—six American, one Chinese, and one Taiwanese. All are monopolies, or near monopolies. One of the others was Berkshire Hathaway, a holding company controlled by Warren Buffett, who sees market power ("moats") as the foundation of market value.[81] Another was Saudi Arabian Oil, a pure rent extractor in the classic definition of that term. The other two were Tesla and JP Morgan. The latter benefited from huge economies of scale and the regulatory moat offered de facto to all large banks. Whether Tesla has durable monopoly power remains to be seen. In brief, a small number of winners that held strong monopoly positions seemed able to shape both the present and the future. Many of these companies were also huge winners from the COVID crisis, which further

cemented the economic dominance of giant technology companies. (See figure 40.)

FIGURE 40. MARKET VALUE OF WORLD'S TWELVE MOST VALUABLE COMPANIES JANUARY 10, 2020, AND OF THE SAME COMPANIES JANUARY 11, 2022 ($BILLION)
(Source: Refinitiv)



A crucial aspect of the winner-take-all markets of the past four decades has been the divergence of successful metropolitan clusters and declining provincial towns, already noted briefly above.[82] Many big cities—London, New York, Los Angeles, Tokyo, Paris, Milan, Shanghai, Beijing, Mumbai—are thriving.[83] The Chicago Council on Global Affairs notes that forty-two global cities are among the world's 100 largest economies.[84] Meanwhile, once-prosperous industrial towns are crumbling. Contrast London with Sheffield, not so long ago the world's dominant producer of specialty steels. The OECD provides the following brief overview: "The average GDP per worker gap between the top 10 percent (frontier) and the bottom 76 percent regions across OECD countries has grown by almost 60 percent, from

$15,200 to $24,000. As a result, one in four persons in the OECD lives in a region that is falling further behind the high-productivity regions in their country."[85]

Clustering is why cities have always been important for economic prosperity.[86] This was true in preindustrial times, again in industrial times, and still more so in today's postindustrial economy. But the cities that succeed have changed. Today, they are engaged in global exchange and are subject to global competition. This compels and rewards specialization while also punishing unsuccessful specialization. The bigger the city and the more diverse its skills, the better its chances of being able to move on from one specialty to the next or even to combine many at the same time. The explosive growth of the "knowledge economy" has further rewarded the concentrations of skills and experience of great metropolises.

Meanwhile, those more specialized cities and towns whose businesses lose out in global competition risk falling into cumulative decline: bright young people leave; new businesses do not enter, because the skills they need are unavailable; and people living on welfare benefits arrive, because accommodation is cheap. The market will not overcome this, because there are so many externalities: ten businesses might thrive where one would fail, but how do the ten businesses coordinate their arrival? This is a classic case for government intervention.

These gains from agglomeration generate huge rents. As Henry George argued, a huge portion of such rents accrues to the owners of land.[87] This is why a land tax is fair (since the owners of land did nothing to earn their wealth) and efficient (because land per se, unlike effort, ingenuity, and saving, cannot be taxed out of existence). The case for land taxes remains strong. But today much of the agglomeration rent accrues to successful urban workers. They gain an income in a productive metropolis over and above what would be needed to persuade them to do the work. Agglomeration rents are ultimately the product of social capital—the rule of law, above all—created by society at large. So, there is a good reason to share these rents out. Instead of continuing to do that, jealousy of London's success was a factor in

the vote for Brexit, which will make almost everybody in the UK worse off.[88]

One of the most interesting findings of recent research is the decline in competition, especially in the US.[89] This is partly due to the winner-take-all phenomenon. But it is also to do with changed attitudes to antitrust policy. The thrust of those changes was to ignore concentration if it did not directly harm consumers. Bigness, argued Yale's Robert Bork, the most influential of the analysts, was not inherently bad.[90] The widespread acceptance of this doctrine has had consequences: for example, it allowed the Silicon Valley giants (see figure 38) to buy many potential competitors. Proponents argue that this has led to greater investment in innovation. But it is more likely to have generated excessive market—and other forms of economic—power.

What was happening in the US economy more broadly supports the hypothesis of increased market power. Thus, one can identify seven trends that indicate weak competitive pressure: a clear slowdown in the rate of creation of new businesses and a concomitant increase in the market share of the top firms; reduced fluidity of labor markets, with markedly less job mobility, on all relevant dimensions; a rising share of income going to capital; a rise in the rate of return on capital relative to the yield on safe assets; lower business investment, despite high returns; increased dispersion of rates of return across businesses; and rising wage divergence among workers with similar skills. Among the causes of all this may be undue protection of intellectual property, excessive monopsony power of firms in labor markets, overprotective occupational licensing, and over-restrictive land-use regulation.[91] Yet even more important may be obstacles to competition in the digital economy. An analysis of competition in the digital economy for the UK government concluded that digital markets are subject to "tipping," in which the winner will indeed take all, or most, of a market.[92] This is not true of all digital markets, especially when they interact with the real world; taxi services are an example. But it is true of many.

Thomas Philippon's seminal book, *The Great Reversal,* argues in a similar vein:

> First, US markets have become less competitive: concentration is high in many industries, leaders are entrenched, and their profit rates are excessive. Second, this lack of competition has hurt US consumers and workers: it has led to higher prices, lower investment, and lower productivity growth. Third, and contrary to common wisdom, the main explanation is political, not technological: I have traced the decrease in competition to increasing barriers to entry and weak antitrust enforcement, sustained by heavy lobbying and campaign contributions.[93]

These points are supported by what has happened in three crucial industries—finance, health care, and, yet again, "Big Tech."[94] On finance, a startling finding is that the cost of intermediation—how much bankers and brokers charge for taking in savings and transferring them to end users—has remained around 2 percentage points for a century. The US also spends far more on health care than any other high-income country (not much below a fifth of GDP) and yet has far worse health outcomes, because the health system nourishes rent-extracting monopolies: doctors, hospitals, insurance companies, and pharmaceutical businesses all feed at this overflowing trough. Again, the profits of the big technology companies—Amazon, Apple, Google, Facebook, and Microsoft—are in large measure due to monopoly rent. Just consider, for a moment, the pricing of Apple's App Store.[95]

If we are to assess arguments about the emergence of rentier capitalism in the US, we need to compare it with the EU. Many will laugh at the comparison: after all, isn't the EU an economic disaster? When one compares changes in real gross domestic product per head, the answer is no. From 1999 to 2017 real GDP per head rose by 21 percent in the US, 25 percent in the EU, and 19 percent even in the eurozone, despite the damage done by its inept handling of the financial crisis.[96] Levels of inequality and trends in income distribution are also less adverse in the EU than in the US, as noted earlier, so the increases in incomes have also been more evenly shared.

Comparisons between the EU and the US also show that neither profit margins nor market concentration has soared in the EU to the extent they have in the US. The share of wages and salaries in the value-added of business fell by close to 6 percentage points in the US between 2000 and 2015, but not at all in the eurozone.[97] This weakens the hypothesis that technology has been the principal driver of the downward shift in the share of

labor incomes. After all, technology (and international trade, for that matter) has affected both sides of the Atlantic roughly equally.

The EU economy is certainly not stronger in all respects. On the contrary, "The US has better universities and a stronger ecosystem for innovation, from venture capital to technological expertise."[98] Nevertheless, competition in product markets has become more effective in the EU over the past two or three decades. This reflects deregulation within the single market —ironically, given Brexit, a UK-driven policy innovation that originated with Margaret Thatcher—and a more aggressive and independent competition policy. The need to preserve and promote competition switched on the two sides of the Atlantic, though the Biden administration has indicated its intention to change that.

A fascinating proposition is that the EU has established more independent regulators than either its individual members or the US would have done. This reflects mutual distrust. Individual states prefer strong independent institutions to being vulnerable to the whims of fellow members. This is particularly beneficial to countries with weak national regulators. The higher an EU member country's product market regulation in 1998, the bigger the subsequent decline in it.[99]

These differences between the US and EU also influence rewards to lobbying. The independence of its regulators makes returns to lobbying relatively low in the EU. Lobbying against deregulation and for favorable regulation is fiercer in the US, because this activity works. Why else would people pay for it?[100]

In sum, important modern economies seem full of monopoly rents. This is least true where global trade provides competition. But it is very much true in the more sheltered parts of the economy and those dominated by natural monopolies. As Adam Smith warned, incumbent businesses will pursue restraints on competition with great enthusiasm. The difficulty is that it is now too easy for incumbents to buy the political and regulatory protection they desire. The outcome is rentier capitalism.

Exploiting tax loopholes is another significant part of rent extraction. This has several dimensions. The most important are the exploitation of

significant corporate tax loopholes and use of tax havens by wealthy individuals.

A huge challenge is tax avoidance by corporations. Corporations (and so also their shareholders) benefit from the range of goods—security, legal systems, infrastructure, educated workforces, and political and social stability—provided by the world's most important liberal democracies. But corporations are also in a perfect position to exploit loopholes in the taxation of companies. This is of great benefit to their shareholders: if profits are lightly taxed (or even untaxed) in the hands of the corporation and then not distributed to shareholders as dividends, they turn into capital gains, which are generally very lightly taxed. This is rightly seen as unfair. That erodes the legitimacy of the tax system and even of the market economy. As the system comes to be seen as rigged, the quality of the jurisdictions on which corporations themselves depend are eroding. They are fouling their own nests.

The biggest challenges within the corporate tax system are base erosion and profit shifting and tax competition. Base erosion and profit shifting refers to the ability of corporations to report profits in low(er)-tax jurisdictions. Important tools for this are: shifting intellectual property into tax havens; charging tax-deductible debt against profits accrued in higher-tax jurisdictions; and rigging transfer prices within the firm, in order to shift profits into low-tax jurisdictions.[101] Digital companies are particularly well suited to shifting profits into low-tax jurisdictions, since the geographical location of their profit-making activities is so hard to determine. Also important users of this strategy are life-science businesses, whose principal assets are intellectual property. Beyond all this, there is a race to the bottom on corporate tax rates driven by competition among jurisdictions. The slashing of the US corporate tax rate under the Trump administration was a consequence of this cross-border competition. The Biden administration reached a global agreement on minimum corporate taxation in late 2021. It is still unclear how effective this will be, perhaps not very.[102]

The sums involved in all this are significant. An IMF study published in 2015 calculated that base erosion and profit shifting reduced long-run annual

revenue in OECD member countries by about $450 billion (1 percent of GDP) and in non-OECD countries by slightly over $200 billion (1.3 percent of GDP). These are significant figures in the context of a tax that raised only 2.9 percent of GDP in 2016, on average, in OECD member countries (and just 2 percent in the US in particular).[103] The study also concluded that cuts in corporate tax rates by OECD countries had strong downward effects on rates in other countries, as expected.[104] There has indeed been a dramatic fall in rates over the past four decades. While revenue from corporate taxation has held up relative to other sources of revenue, the share of profits in OECD GDP has been rising. So the average effective rate must have been falling.[105]

One of the most remarkable indicators of base erosion and profit shifting is that US corporations have been reporting profits in Singapore, the British Caribbean, Switzerland, Luxembourg, Bermuda, Ireland, and the Netherlands (in ascending order of significance) equal to 1.4 percent of US GDP, up from about 0.3 percent in 1995. Meanwhile, the share of profits generated in big foreign economies (China, France, Germany, India, Italy, and Japan) has been stuck firmly at 0.2 percent of GDP.[106] Another piece of recent research concluded that "the effective foreign tax rate of U.S. multinationals in sectors other than oil has collapsed since the mid-1990s. While part of this decline is due to the fall of corporate tax rates abroad, by our estimates almost half of it owes to the rise of profit shifting to tax havens. In 2015, about half of the foreign profits of non-oil US multinationals are made in non-haven countries where they face effective tax rates of 27 percent, and about half are booked in tax havens where they face effective rates of 7 percent."[107] This ability of large corporations to shift profits wherever they want, and so avoid taxes, is worse than mere rent extraction. It distorts competition. Smaller domestic firms that do pay tax are greatly disadvantaged by competition from those that do not.

One important piece of recent research notes that 8 percent of world household financial wealth (10 percent of global output) was held offshore in 2007. It finds, as one might expect, that the largest propensities to hold offshore wealth were in corrupt autocracies (Russia and Saudi Arabia) or

countries with recent histories of autocratic rule (Argentina and Greece). But it is not restricted to such countries. Other countries with high proportions of offshore wealth in GDP, relative to the global average, are (in descending order) Portugal, Belgium, UK, Germany, and France. Much of this offshore wealth is held by the top 0.01 percent of the wealth distribution (the top 10,000th). Including these data changes the share of the top of the wealth distribution in total wealth: in the UK, for example, roughly a third of the wealth of this tiny group was held offshore in 2007. In all, they held slightly over 5 percent of total UK household financial wealth. No doubt, some tax is paid on these offshore holdings. But how much? “Very little” would be a reasonable guess.[108]

Beyond all this, some features of tax codes create dangerous distortions and inequities. One of the most important examples is the pervasive tax deductibility of interest on debt. This strongly motivates households and corporations to fund themselves through debt rather than equity. That makes the entire economy more vulnerable to financial crises. Another example (albeit a less significant one) is the “carried interest” exemption from income tax. Carried interest includes the performance fees of managers (general partners) of private equity and hedge funds. Under current tax arrangements, these are taxed as capital gains, not as income. This gives some of the most highly rewarded businesspeople in the world their own private (and much lower) tax rates. It is clear, however, that carried interest is not a capital gain. It is a risky income, like that of an author. If it were a capital gain, then there would have to be the possibility of capital losses. But the downside is capped at zero. Thus, it is income. Of course, there may be a case for changing the treatment of variable and uncertain income. But that should apply to all such incomes.[109]

Our economy, far from being a hive of competitive behavior, has created all sorts of opportunities for rent extraction. This has always been so. The powerful have always been rentiers. But sometimes they have provided something of value in return: a degree of social security or stability, for example. In market capitalism, the successful have contributed to economic dynamism. Nevertheless, opportunities for rent extraction have turned out to

be far greater than many expected four decades ago. And this has helped generate an extraordinary maldistribution of the gains from growth and left a large part of the population confused, frustrated, and angry.

Moreover, what has happened is not just the exploitation of opportunities for rent extraction. It has included active rent creation and rent seeking via lobbying. Among the most important examples are active lobbying for changes in tax systems that benefit the wealthiest. Another example is lobbying against attempts to bring under control the destabilizing rent extraction and rent seeking by the financial sector. Yet another is the weakness of competition policy. Above all, the wealthy play a dominant role in shaping public policy. Thus, a recent scholarly study of the US concludes that "the majority does not rule—at least not in the causal sense of actually determining policy outcomes. When a majority of citizens disagrees with economic elites or with organized interests, they generally lose."[110] This view is not uncontroversial.[111] But it has much plausibility.

Data on the role of money in US politics are indeed dramatic. Extraordinarily, members of Congress spend about thirty hours a week raising money. That has proved a big step on the journey of the US toward becoming a plutocracy. As former representative Mick Mulvaney stated in April 2018, "If you're a lobbyist who never gave us money, I didn't talk to you. If you're a lobbyist who gave us money, I might talk to you."[112] Corporate lobbying is two to three times bigger in the US than in the EU. Campaign contributions are fifty times larger in America than in EU members.[113]

Extraordinary opportunities create extraordinary temptations. We know that a society built on greed cannot stand.[114] Other moral values of duty, fairness, responsibility, and decency must permeate a successful society. Yet these values cannot occur only outside the market economy. They must permeate the market economy itself. External regulation is essential. But it will never be sufficient if people with market power lack principles other than greed. A lively book on banking, where egregiously bad behavior of all kinds —fraudulent ratings, incomprehensible instruments, gross conflicts of interest, and grotesque irresponsibility—have been pervasive, sums up as

follows: “The most driven bankers consider their job a status game. That game consists of lending money, packing and selling on debts, and privatizations. The more business they do, the higher those bankers will rise in the league tables they have constructed their identities around.”[115]

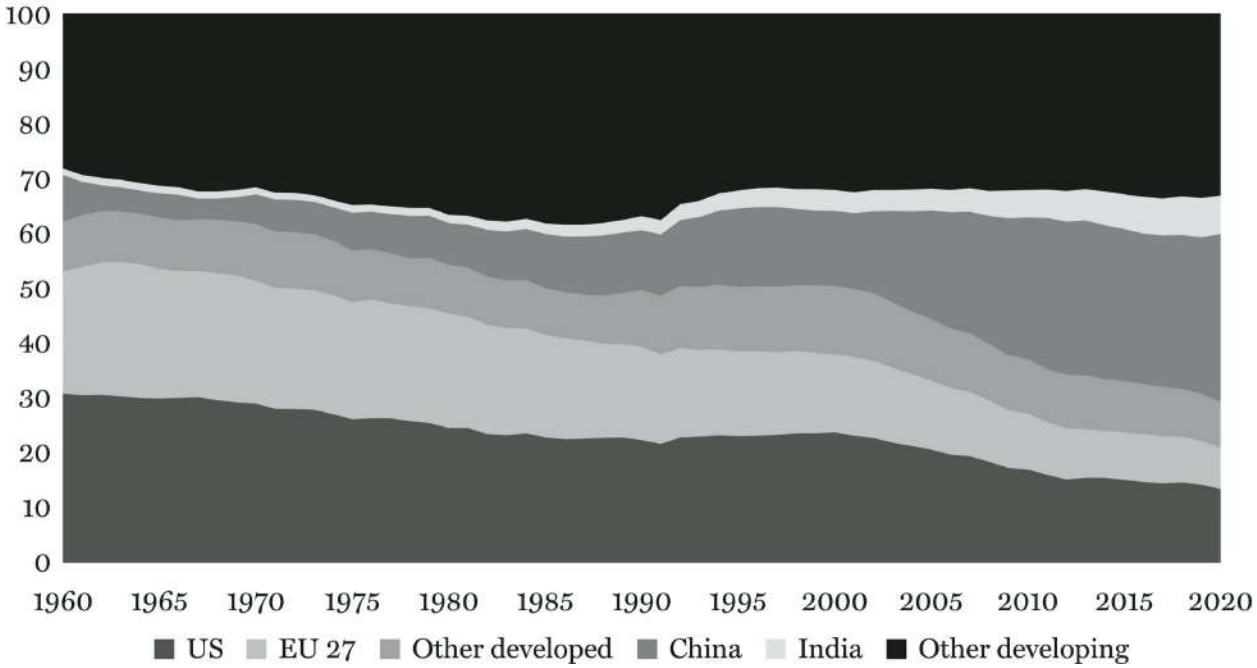
This is, once again, not only rent extraction but also rent creation. The fuel of finance is debt or, to be more precise, leverage. The higher the leverage, the greater the prospective returns on equity, but also the greater the risk of failure. From a social point of view, there should be no cost to having far lower ratios of debt to equity. But these would lower returns to equity in good times and so reduce the rewards to financial professionals and financial management.[116] Lower ratios of debt to equity would also greatly reduce the likelihood of crises. But the latter are relatively rare events. When they happen, the industry will argue that they were unforeseeable, which they were not. The industry will also know that the social and economic costs of a financial collapse are so great that the government is sure to try to bail them out. So, for the industry, high leverage is a “heads I win, tails you lose” proposition. After the crisis, many economists argued for much lower leverage in finance. In the end, it fell modestly. Today, the ratio of equity to assets in global banks is mostly between 5 and 6 percent, about twice what it was precrisis. Is this safe? Hardly. These banks will be insolvent if their balance sheets lose around 5 percent of their value. Irresponsible finance creates rent: it lives well off taking risks for which others will ultimately bear the downside costs.[117] There is no doubt that the “too-big-to-fail-or-to-jail” bank must either be ended or be chained.

New Challenges

Already we can see at least three further huge economic challenges facing us: artificial intelligence, climate, and the pandemic. These will shape a possibly still more difficult future.

This is the decade when action needs at last to be taken on global environmental challenges. Climate is the highest priority, but there are others, notably biodiversity, on both land and sea. This is likely to create economic costs, at least in the short to medium run, especially given the huge investment needs.[118] Meeting this challenge is going to be difficult, on at least three levels. First, every significant political actor—countries, the EU as a whole, and in some cases states or cities—will have to work out effective plans and policies for transformation in the generation and use of energy within the next decade. Second, they will also have to gain the political support needed for their implementation. Third, their plans will have to mesh with those of many other countries worldwide, despite radically different constraints and opportunities, since no set of countries can fix this problem on their own. Above all, it cannot be fixed by the high-income countries alone since they generated only some 30 percent of global emissions in 2020. The dominant players are emerging and developing countries, which already generate 70 percent of emissions and will generate all the increase in emissions under all the plausible scenarios for the future. (See figure 41.)

FIGURE 41. SHARES IN GLOBAL EMISSIONS OF CARBON DIOXIDE (PERCENT)
(Source: Global Carbon Project)



Inevitably, doing all this will exhaust a vast amount of policy and political space. Indeed, as things look today, it seems almost inconceivable that this will happen at all. Yet if nothing much is done in this decade, the task of containing damaging climate change may well be hopeless. Tackling all this requires, not least, close cooperation between China and the US, which generated 44 percent of global emissions of carbon dioxide between them in 2020. Alas, such cooperation seems as elusive as Lewis Carroll's Snark.[119] Instead, we are likely to see all sorts of "climate theater"—actions like forcing people to ride bicycles or recycle rubbish, or banning nuclear power—none of which will be relevant to tackling the great challenge we face. In all, as the outcome of the 2021 United Nations Climate Change Conference shows us, we are far indeed from a workable global solution.[120]

The impact of artificial intelligence is, in a very different way, as controversial as that of climate change. It is conceivable that these new technologies will unsettle our deepest sense of what it is to be human. It seems highly plausible that they will make a huge difference to the workings of our economies and societies, by transforming the roles of workers both by brain and by hand, via the combination of computing, communications, and robotics.[121] It even seems conceivable that, in time, this revolution will lead to a collapse in the market-determined rewards of a large proportion of workers, including educated ones, and correspondingly huge gains to the owners of the relevant capital. Ours would then become a still more deeply unequal rentier economy: the return on the know-how and machines would be owned by a handful of unimaginably rich people, pampered and protected by armies of robotic slaves. Most humans might then become economically redundant.

At worst, most human beings might become as economically irrelevant as the horse, once a ubiquitous means of transport but irrelevant after the invention of the railway and the internal combustion engine. Yet some researchers take a relatively optimistic view on the implications. It is possible, after all, that we will experience no more than further examples of the never-ending adjustments of the last two centuries. Others forecast a far more revolutionary and darker "world without work."[122] At this stage, all

we can say is that we do not know. But we need to be able to manage such a revolution, just as we need to develop a plan for our climate.

Finally, the onset of COVID-19 created enormous fiscal deficits almost everywhere, but especially in high-income countries, and so is bequeathing a legacy of higher public debt. It caused high unemployment, some of it temporary but some of it permanent, because some of those laid off are too old or inflexible to find new jobs. It caused economic damage to the young, women (particularly mothers of young children), the less-educated, and members of minority communities and also, crucially, harmed the educations of children and young people. It damaged businesses, on multiple dimensions, which may inflict permanent losses on the level and growth of output. It increased private indebtedness and raised the probability of mass bankruptcies and distress in the financial sector. It damaged the economies of emerging and developing countries and delayed the fight against extreme poverty, possibly for years, partly because of the slow rollout of vaccines across the world. It accelerated changes in the structure of economies away from face-to-face contact and operations dependent on such close contact toward virtual relationships in production and consumption of goods. It may produce lasting changes in patterns of working, buying, and living. It seems to have accelerated deglobalization of goods, while accelerating globalization of the services that can be turned into bits. Finally, it greatly accelerated the breakdown in relations between the US and China, with unknown consequences for economic and political cooperation.[123]

In sum, COVID-19 is going to leave a legacy of challenges and, one might argue, also opportunities. What seems certain is that the post-pandemic economy (when or if we reach that happy state) will be significantly different and more difficult to navigate than was expected as recently as 2019.

Conclusion

This chapter has analyzed what lies behind the economic malaise discussed in chapter 4, as well as some of the challenges that still lie ahead. It argues that the malaise is partly the outcome of profound and inescapable forces, especially the slowdown of productivity growth, unbalanced impact of new technologies, demographic changes, and rise of emerging countries, especially China. It also turns out that international trade is more of a scapegoat than a huge problem. What is a problem, however, is the rise of rentier capitalism, in which a relatively small proportion of the population has successfully captured rents from the economy and uses the resources it has acquired to control the political and even legal systems, especially in the US, the world's most important standard-bearer of democracy.

High inequality, economic insecurity, slow economic growth, and huge financial crises have eroded trust in elites of important high-income societies. This has in turn led to the election of populists and the triumph of populist causes, which usually leads to bad policies. This threatens a vicious downward spiral of bad economics leading to bad policies and back to bad economics. Alas, Latin American economic conditions of high inequality and poor economic performance are producing Latin American outcomes.

As important, these forces are also undermining free societies. When, for example, Trump "ordered" US firms to leave China, he assumed dictatorial powers.[124] But many people like to hear this, because the president was saying that these *American* businesses should be accountable to *American* (that is, his) political priorities. Populism has, once again, married nationalism. Thus, we now see a burgeoning threat to liberal democracy in the heartland of democracy. The discussion turns to the nature and significance of these political developments in chapter 6.

CHAPTER SIX

Perils of Populism

> The alternate domination of one faction over another, sharpened by the spirit of revenge, natural to party dissension, which in different ages and countries has perpetrated the most horrid enormities, is itself a frightful despotism. But this leads at length to a more formal and permanent despotism. The disorders and miseries which result gradually incline the minds of men to seek security and repose in the absolute power of an individual; and sooner or later the chief of some prevailing faction, more able or more fortunate than his competitors, turns this disposition to the purposes of his own elevation, on the ruins of public liberty.
>
> *—George Washington*[1]

> As democracy is perfected, the office of the president represents, more and more closely, the inner soul of the people. We move toward a lofty ideal. On some great and glorious day, the plain folks of the land will reach their heart's desire at last, and the White House will be adorned by a downright moron.
>
> *—H. L. Mencken*[2]

> No powerful political actor had set out to destroy the American political system itself —until, that is, Trump won the Republican nomination. He was probably the first major party nominee who ran not for president but for autocrat. And he won.
>
> *—Masha Gessen*[3]

Democratic capitalism is now confronted by authoritarian versions. They take two very different forms. One is "demagogic authoritarian capitalism," and the other is "bureaucratic authoritarian capitalism." The former is an internal threat to high-income liberal democracies: this is what they might turn into. The latter is an external threat to high-income liberal democracies: this is what might defeat them. It

is, after all, the system that runs China, their most potent rival.

The first version can be seen in Rodrigo Duterte's Philippines, Recep Tayyip Erdogan's Turkey, Jaroslaw Kaczynski's Poland, Viktor Orban's Hungary, Vladimir Putin's Russia, and may be on the way in Jair Bolsonaro's Brazil and Narendra Modi's India. The second version can be seen in China and Vietnam. Such regimes have married the age-old Confucian tradition of a meritocratic and responsive bureaucracy to a communist party-state and market-driven economy. These are quite different from the demagogic version of authoritarian capitalism and pose quite different challenges to the high-income liberal democracies.

The demagogic variant of authoritarianism comes out of electoral majoritarianism taken to destructive limits.[4] The leader of the government uses its (supposedly temporary) power to suppress independent institutions and the opposition and then emerge as an absolute ruler, as Erdogan, Orban, and Putin have done. In this way, liberal democracy mutates into illiberal democracy and then outright dictatorship. This has become the most common way for authoritarian regimes to emerge. Rather than mounting coups or starting revolutions, the would-be autocrat eats up democracy from within, as some wasp larvae eat host spiders.[5] The result tends to be a softish autocracy by the standards of historic fascism or communism. That may make it less repellent to voters, but it is autocracy all the same.

Such regimes de-institutionalize politics: they make it personal.[6] This is government by arbitrary rulers and their courts. Common features of such regimes include a narrow circle of trusted servants, promotion of members of the family, use of referendums as ways of justifying greater power, and the creation of security services personally loyal to the "great leader." What S. E. Finer called "forum government" is thereby converted into palace government and not just any palace government, but one much like Macbeth's.[7] Courtiers in the new autocracies are not infrequently thwarted careerists—thwarted because they are mediocre.[8]

Such a system combines the vices of populism with the evils of despotism. The vices of populism are short-termism, indifference to expertise, and the prioritization of the immediately political over longer-term

considerations. The evils of despotism are corruption and arbitrariness. The two together make for economic inefficiency and long-term failure. These regimes tend to be kleptocratic on a grand scale. The kleptocracy breeds in the darkness all authoritarians love. Theirs is the politics of lies, oppression, and theft, hidden under a veneer of love for the people.[9] Ultimately, this form of authoritarianism generates a vicious gangster state. Putin's Russia is the most important contemporary example.

Ivan Krastev and Stephen Holmes argue that authoritarianism of this kind now pervasive in central and eastern Europe, including Russia, should be viewed as a reversal of the post–Cold War rush to imitate the then-triumphant West. The conservative and nationalist demagogues are, they argue, a reaction against that earlier imitation.[10] This depressing view may be correct. Yet it would clearly be absurd for the West to go down such a rabbit hole, since it would be rejecting itself.

Driving such destructive outcomes is among the most important of all human motivations: the will to power. Democratic politics is not only an arena for debate about the future of a society. It is also about acquiring prestige and power. For people with an unbridled will to power, crises are opportunities. The focus in this chapter is on how and why this process has been happening even in the high-income, supposedly "consolidated" democracies of North America and western Europe. If democratic capitalism were to perish there, where would it survive? The election of Donald Trump, a demagogic would-be autocrat, raised this question with great force, as Masha Gessen argues. Something new had happened. Trump's attempt to subvert the 2020 election and the subsequent support of the Republican Party for the big lie of a stolen election has made the danger even more evident. The year 2024 might mark the end of American liberal democracy.

Populism in High-Income Democracies

For established democracies, choosing the demagogic form of authoritarian capitalism should be viewed as an unthinkable defeat. Nevertheless, policy failures, especially the huge financial crisis and its botched aftermath, as well as the upheaval caused by COVID-19, have created this risk even in high-income Western countries. They have done so by undermining the confidence of a sizable proportion of their electorates in their own and their children's futures, as well as in the probity and wisdom of elites. They have also stoked rage and insecurity, already building up in previous decades. Economic failure is not the only reason for this erosion of confidence. But it is a leading cause of the decayed legitimacy of liberal democracy even in high-income countries with long-established democracies.[11] This is reinforced by a (perfectly realistic) belief that those who succeed in the meritocratic race look down on everybody else.[12] To be poorer than expected is bad. To be poorer than expected and despised to boot is worse.

Dry tinder is a fire waiting to happen, but political entrepreneurs need to light the blaze. In normal times, politics remain bounded by conventions and norms. In times of crisis, this may cease to be the case. As the upheaval makes the political system more fragile, the previously unthinkable can arrive. Consolidated democracies, with reasonably competent policy makers, a sense of the boundaries on legitimate behavior, especially among the elites, and a strong commitment to mutual accommodation, are likely to repudiate a would-be dictator. Britain's rejection of Oswald Mosley in the 1930s is an example. But where the legitimacy of democracy is weak and anger is great, a would-be dictator may be voted into power, as in Germany at that time. By suborning constraining institutions—an impartial bureaucracy, the law, and the media—or closing them down altogether, such figures will throttle liberal democracy *and* the liberal market economy.[13] The latter, after all, depends on a neutral rule of law that protects competition and property rights. Both are anathema to the would-be despot and his henchmen.[14]

Populism is a controversial label. Some argue it should be discarded. But it is hard to do so. It is necessary, instead, to define it more precisely. It has two aspects: hostility to elites and rejection of pluralism. In its anti-elite aspect, populism contrasts the virtuous and downtrodden "real" people

against corrupt and oppressive elites. In its anti-pluralist aspect, “Put simply, populists do not claim ‘We are the 99 percent.’ What they imply instead is that ‘We are the 100 percent.’ . . . What follows from this understanding of populism as an exclusionary form of identity politics is that populism tends to pose a danger to democracy. For democracy requires pluralism and the recognition that we need to find fair terms of living together as free, equal, but also irreducibly diverse citizens. The idea of the single, homogeneous, authentic people is a fantasy.”[15]

Anti-elite populists may not be anti-pluralist. But anti-pluralist populists believe there is only one people—the “real” people—and that they and they alone can represent or, more ambitiously, embody it in their own person. Thus, “Think of Nigel Farage celebrating the Brexit vote by claiming that it had been a ‘victory for real people’ (thus making the 48 percent of the British electorate who had opposed taking the UK out of the European Union somehow less than real—or, put more directly, questioning their status as proper members of the political community).”[16] In the same vein, at a campaign rally in May 2016, Trump announced that “the only important thing is the unification of the people—because the other people don’t mean anything.”[17] This is fascistic.

If these two beliefs—anti-elitism and anti-pluralism—are combined, one has a regime that denies the legitimacy of political opponents, political parties (other than their own), independent courts, especially independent constitutional courts, an independent bureaucracy, and an independent press. For such populists, “ ‘the people themselves’ is a fictional entity outside existing democratic procedures, a homogeneous and morally unified body whose alleged will can be played off against actual election results in democracies.”[18] Leaders with attitudes like this want to be above the law and in office forever: they wish to be dictators.

Populist movements are an inevitable feature of democracies, especially in tough times. This does not mean that populists are necessarily popular. Frequently, populists are quite unpopular. But that will not prevent some of them from claiming that they represent the “real” people. Hostility to elites can also frequently be justified. Democracy is, after all, a system intended to

give ordinary people a say in the destiny of their country. Moreover, elites frequently do need to be replaced or reformed, because they have failed, morally, practically, or both. Yet there are also risks if power is won with an appeal to the people against elites. The winners may feel entitled to reject competence, even facts, and so destroy the effectiveness of government. Worse, they may seek to discard all constraints imposed by parliaments, courts, and bureaucracies, which are all necessarily run by elites. Anti-elite politics may then turn into tyranny of the majority or, more to the point, tyranny of political entrepreneurs who claim to speak for the majority.

Anti-pluralism is, however, a greater danger than mere hostility to elites. “Le peuple, c’est moi”: is this not what America’s Donald Trump, Hungary’s Viktor Orban, India’s Narendra Modi, Turkey’s Tayyip Recep Erdogan, and Venezuela’s late Hugo Chavez believe (or believed)?[19] If a politician insists that he alone embodies the people’s will, all constraining institutions and so the rights of people as individuals to organize and act politically (and in other ways) are in danger.

How does one tell whether such would-be despots are in power? There are four signs: a rejection of or at least a weak commitment to the democratic rules of the game; denial of the legitimacy of political opponents; toleration and encouragement of violence; and willingness to curtail civil liberties of opponents, including the media.[20]

How, moreover, does the elected authoritarian pursue his goals of unbridled and absolute power? First, he subverts the referees, notably prosecutors, the judiciary, election officials, and tax officials. He insists that these officials owe him personal loyalty, not loyalty to their institutions, the government, the constitution, or the country. Second, he hobbles his opponents and any potentially independent figures. An important part of this is control over the media. But the would-be dictator may also simply put opponents in prison on trumped-up charges. He will also use institutions, such as the tax system or libel laws, to attack independent businesspeople and cultural or intellectual figures. Third, the would-be dictator will seek to change the constitution or electoral laws, to make it impossible to mount an electoral challenge. This may not even require a leader. The South in the US

did just that under Jim Crow and is seeking to do it once again today. Finally, the leader will exploit or even create crises that entitle him to emergency powers. Security crises are particularly effective ways of reducing normal concerns over violations of due process. The best-known example of exploiting (or creating) an emergency was the Reichstag fire of 1933, which allowed Hitler to assume total power. The Moscow bombings in September 1999 were another example of a convenient security crisis for a would-be despot.[21]

Populists also tend to adopt a demagogic style of politics by whipping up emotions against elites. Their frequently coarse and abusive manner of speaking is a way of demonstrating that the leader not only speaks *for* the people, against the elite, but is *of* the people.[22] Yet politicians who use demagogic tropes about corrupt elites are not necessarily would-be autocrats. Provided they protect orderly government, the rule of law, free speech, and political and civil rights, their activities are not only consistent with democracy but may well defend and promote it. Perhaps the most important exemplar of such a constructive leader in the twentieth century was Franklin Delano Roosevelt. Yet when announcing the second New Deal in 1936, he delivered a speech that contained the following famous words:

> We had to struggle with the old enemies of peace—business and financial monopoly, speculation, reckless banking, class antagonism, sectionalism, war profiteering.
>
> They had begun to consider the Government of the United States as a mere appendage to their own affairs. We know now that Government by organized money is just as dangerous as Government by organized mob.
>
> Never before in all our history have these forces been so united against one candidate as they stand today. They are unanimous in their hate for me—and I welcome their hatred.[23]

This speech is demagogic in style and populist in content. Yet Roosevelt led the most important reforming government in any democracy in the twentieth century, staffed by competent members of the elite during a succession of huge crises. Far from threatening democracy, he saved it. He might be described as a populist. But he was interested in and competent at the central tasks of governing.

We can clarify populism further by distinguishing among left-wing, centrist, and right-wing forms of populism. There is also a parallel distinction to be made between populists who want to promote competent government and those who do not.

Left-wing populists claim to speak for ordinary people against exploitative business and financial elites. They also tend to argue that conventional politicians, bureaucrats, and the legal system are the willing slaves of economic elites. Theirs "is a vertical politics of the bottom and middle arrayed against the top."[24] We have recently seen aspects of this form of populism on the left of the Democratic Party in the US, in the Labour Party under Jeremy Corbyn in the UK, in Podemos in Spain, and Syriza in Greece. Such left-wing populism borders on institutionalized democratic socialism on one side and revolutionary socialism on the other. It is uncertain what sort of government such a party or movement will provide. Syriza's case was a bit of a shock. Nobody, including almost certainly itself, knew what it was going to do when it got into power in January 2015. In the end, however, Alexis Tsipras made his choice for conventional European left-of-center politics (albeit with characteristically clientelistic behavior) and abandoned nearly all his radical ideas, to the disgust of his finance minister, Yanis Varoufakis.

Centrist populists are even more difficult to pin down. Cinque Stelle in Italy was the obvious contemporary example. It framed itself as opposed to conventional politics in all forms and so against the establishment, including traditional parties of the right and left. Its program was exceptionally ill defined, even by populist standards. Founded by a comedian, it embodied a set of naive anarchistic attitudes. In office, the party turned out to be quite conventional, finally abandoning its alliance with Matteo Salvini's right-wing populist Lega and opting for a coalition with the center-left, Partito Democratico (PD), a pillar of the establishment.[25] In the end, its populist campaigning attitudes did not survive the experience of government any more than Syriza's did.

Right-wing populists are, like those on the left, opposed to elites, though, in their case, academic, bureaucratic, and cultural elites are usually the

enemy, not economic and financial ones. But right-wing populists not only oppose elites: they are generally xenophobic and hostile to ethnic minorities as well. “Right-wing populists champion the people against an elite that they accuse of coddling a third group, which can consist, for instance, of immigrants, Islamists, or African American militants. Left-wing populism is dyadic. Right-wing populism is triadic. It looks upward, but also down upon an out group.”[26] Even this may be too friendly a description of right-wing populists, who are often outright racists. George Wallace, former governor of Alabama, who started his career as an outspoken opponent of racial integration in the American South, and Donald Trump both fall into this category.[27] So, too, does Jean-Marie Le Pen, founder of the National Front in France, Geert Wilders in the Netherlands, and Matteo Salvini in Italy.

Right-wing populists share such attitudes. But their policies vary significantly, from support for a minimal state and laissez-faire at one end to support for a big and generous state at the other. Thus, at one extreme, right-wing populists favor free markets, at least in their own country. Donald Trump is such a populist. In power, he delivered substantial tax cuts for the wealthy and deregulation, especially of environmental protections. Yet this free-market orientation did not apply in two respects, both of which consisted of attacks on despised foreigners: immigration and trade. In these two crucial respects, the appeal to nationalism and ethnic identity overrode free-market instincts. Otherwise, he stuck to traditional Republican policies.[28] But the ability of right-wing populists to deliver the environment needed for a flourishing free-market capitalism tends to be limited by their hostility to institutions, notably independent courts, central banks, and regulatory institutions. At the opposite end of the right-wing spectrum, nationalist populists favor higher spending on welfare programs and substantial economic intervention. A contemporary example is the PiS government in Poland, whose dominant influence is Jaroslaw Kaczynski.[29] Yet even Donald Trump achieved power with promises to protect social security, offer a better plan for medical coverage than Barack Obama’s Affordable Care Act, and rebuild US infrastructure. This is what many of his supporters thought he would provide. But mostly this did not happen.

While these differences among populists of the left, center, and right are significant, we should not exaggerate them. Ultimately, populism is just a means of obtaining power. It does so by declaring itself against elites, though different stripes of populists assail different elites, and in favor of "the people." Especially in times of trouble, this ploy can be very successful. Yet even such relatively less harmful anti-elite populism risks creating a vicious spiral. People vote in (or at least support) a populist politician who insists that ignoring elite "experts" will transform everything for the better. Such promises usually end in failure. But many of their supporters attribute the failure to "traitors"; belief in the effectiveness of institutions diminishes; and finally a post-populist recession causes demoralization, which leads to yet another enfeebling bout of populism. Some countries—Argentina is the paradigmatic example—seem unable to escape from such a spiral of mistrust, failure, and yet more mistrust.

Right-wing populist dictatorships and left-wing populist dictatorships may not feel very different to their victims. Anti-pluralist populism tends toward dictatorship, whatever the ideology. Venezuela's Maduro is a contemporary avatar of a long line of leftist mass murderers. Policy making is likely to be just as arbitrary, oppressive, and lawless in both cases. Not all populists are would-be dictators and not all dictatorships are populist. But all dictatorships, populist or not, are similar in their attitudes to individual rights and the rule of law: they despise them.

A distinction that cuts across the ideological nuances of populism is whether the person in charge actually wishes to govern. In their response to the COVID emergency, Bolsonaro (Brazil) and Trump (the US) showed that they did not really wish to do so, while Orban (Hungary) and Modi (India) showed that they did, though their responses were illiberal, hostile to criticism, and not noticeably effective.[30] Obviously, a hostility to elites can militate against effectiveness. But populist leaders may nevertheless seek to establish reasonably disciplined and effective governments. Alternatively, they may revel in the chaos they create, with nobody knowing from one day to the next what he or she is supposed to do and who (apart from the boss) is

responsible for anything. Fortunately, experience with their failures over COVID seems to have diminished the appeal of incompetent populists.[31]

Anti-pluralist populism is a dangerous enemy of liberal democracy, since it regards opposition as treason, fair elections as illegitimate, the rule of law as an odious constraint, free media as a threat, parliaments as impertinent, and anything that constrains the ability of the leader to do whatever he thinks right as intolerable. Anti-elite populism, on its own, should be seen less as a danger and more as a warning. It tells one that substantial parts of the public have become disenchanted. Democracy is rule by consent. If a large portion of the public has withdrawn its consent from existing rulers—by which I mean not just the party in power, but much of the political, economic, bureaucratic, judicial, intellectual, and social elite—then the public may turn to someone who promises to sweep this elite away.

Winds of Political Change

One of the most important political changes of the last few decades has been the breakdown of the old binary political divisions between dominant parties of the center-right, with roots in business (big and small), the professional middle classes, and the self-employed, and parties of the center-left, with roots in the industrial working class and the labor movements of the nineteenth and early twentieth centuries, though also supported by what was once a relatively small “progressive” intelligentsia. In this world, the crucial arguments were over economics, with the right committed to a smaller state and freer enterprise and the left committed to a bigger state and a more managed economy. Moreover, after the huge upheavals of the nineteenth and early twentieth centuries, even these differences had become relatively minor. A broad consensus on the role of the state and the economy existed in the 1950s and 1960s, reinforced by the ideological conflict of the Cold War. Given the challenge from communism, mainstream political parties realized that the survival of democracy depended on sustaining the loyalties of the

huge, well-organized, and politically powerful industrial working class. This was particularly true in western Europe, but it was also true in the US.

These binary divisions have now eroded, creating more complex and more fraught politics. In first-past-the-post, or plurality, systems, the result has been more complex coalitions within parties. In proportional systems, it tends to mean more parties and so more complex coalitions among them. One recent analysis, for example, uses cluster analysis (a way of identifying similarities among elements in a big dataset) to identify "seven tribes" of modern British politics (see table 4). Mutatis mutandis, not dissimilar tribes would emerge from such an analysis in other advanced democracies.[32]

The essential idea is that, while in the past there was just one dimension on which voters differed, the economic, there are now two more—national identity and social values. Table 3 illustrates the consequent attitudes, in six cells. The left is still relatively more in favor of high public spending and a more regulated economy, but it is also globalist (especially on free movement of people and international cooperation) and socially liberal.[33] In reverse, the right is in favor of a small state and free enterprise, of national sovereignty and tight control over migration, and also socially conservative.

TABLE 3. THE THREE DIMENSIONS OF BRITISH POLITICAL LOYALTIES (ELECTORAL CALCULUS)

	Left side	**Right side**
Economic	**Left wing**: Higher taxes and spending, more government regulation of business, nationalization	**Right wing**: Lower taxes and spending, light regulation, private industry, competition and free markets
National	**Globalist**: Pro-EU, internationalist, cooperate and share sovereignty with other countries, put global interest above national interest	**Nationalist**: EU-skeptic, put Britain first, have Britain sovereign, controls on immigration, laws made in Britain, not internationally
Social	**Socially liberal**: Permissive, allow people to "do their own things," accepting of minority rights, multiculturalism	**Socially conservative**: Traditional, value authority, supporter of dominant culture and "moral majority"

These neat triads are just one possible outcome, however. Indeed, there is no obvious reason why the set of attitudes called left and right in table 3 would coincide. One might expect, instead, that people who believe in free

markets would also be globalist and socially liberal. Similarly, one might expect that people who are in favor of national economic regulation and redistribution would also be nationalist and socially conservative. So, although in the two most recent British general elections (2017 and 2019) the Labour Party's position was broadly in the column on the left, and the Conservative Party's in the column on the right (at least relative to Labour's), many voters hold very different combinations of attitudes and values.

This is brought out in table 4. It turns out that only 15 percent of the electorate is strongly to the right on all three dimensions. Only 4 percent are to the far left on all three dimensions, and another 10 percent (the so-called Traditionalists) are somewhat to the left on all three. This leaves 71 percent of the electorate with more eclectic preferences.

TABLE 4. THE SEVEN TRIBES OF MODERN BRITISH POLITICS (ELECTORAL CALCULUS)

Tribe	Economic	National	Social	Description	Proportion of electorate
Strong left	Very left wing	Very globalist	Very liberal	Left intelligentsia	4%
Traditionalists	Fairly left wing	Moderate	Moderate	Traditional Labour working class	10%
Progressive	Mildly left wing	Quite globalist	Liberal	Blairites	11%
Centrists	Average	Average	Average	Mr. and Mrs. Average	24%
Somewheres	Slightly left wing	Strongly nationalist	Strongly conservative	Conservative working class	12%
Kind young capitalists	Quite right wing	Mildly globalist	Mildly liberal	Modern yuppies	24%
Strong right	Very right wing	Nationalist	Conservative	Conservative heartland	15%

This creates obvious dilemmas for parties trying to put together winning coalitions in first-past-the-post elections. The Conservatives, for example, want to get support of the Somewheres, who are nationalist and socially conservative members of the working and lower middle classes.[34] But the

economic views of these Somewheres are somewhat to the left: they are in favor of a generous welfare state and government intervention in the economy in their favor. The closer the Conservative Party comes to Somewheres on national and social questions, the more they risk alienating Kind Young Capitalists, who are relatively well educated and are in favor of the free market, globalist, and socially liberal. The closer the Conservative Party comes to Somewheres on economic questions, the more they risk alienating the Strong Right, who are their most loyal supporters. The closer Conservatives come to more moderate (sometimes called "median voter") positions on all three dimensions, in the hope of attracting Centrists, the more exposed they become to attack from more nationalist and socially conservative politicians, such as Nigel Farage, formerly head of UKIP (the UK Independence Party) and the Brexit Party. Such politicians might then manage to steal their votes from the Strong Right and Somewheres. That fear really matters. It was why David Cameron chose to support a referendum on EU membership in the 2015 general election. In the 2019 election, the overriding issue of Brexit seems to have brought many of these groups together. But that was unlikely to last. Certainly, the Johnson government had difficulties in crafting policies that satisfied the aspirations of its new Somewhere supporters and its more traditional, more prosperous pro-market supporters.

The dilemmas for Labour look even worse. Ideologically committed left-wingers make up only 4 percent of the electorate, and its committed supporters make up only 14 percent. Labour also needs Blairites and a good proportion of the Centrists and Somewheres, too. But the patriotic and socially conservative views of the latter are anathema to the far left and unpalatable even to Blairites: Gordon Brown's notorious description of a woman who challenged him in the 2010 election on immigration as "bigoted" was so revealing.[35] Moreover, about half the electorate favors the market economy. So, Labour needs virtually everybody who shares a more critical perspective on the economy to support it. But the views of its left-wing activists on national and social questions do not match those of a large part of the working class, though much of the latter remains inclined toward Labour

on economic questions. This used to matter less because economic issues were dominant. But they are so no longer.

In the 2019 general election, Labour frightened off those in favor of the market economy with its economic radicalism, plus a good part of the patriotic and socially conservative working class with its confusions on Brexit and its globalism on immigration. Thus, in 2019, relative to 2017, there was a particularly large swing against Labour by its traditional working-class base (Traditionalists in table 4).[36] The vote share of Labour in this group fell by close to 20 percentage points. There were also swings away from Labour among the Strong Left, Progressives, and Centrists, but they were smaller than among these Traditionalists. The vote share of Labour in these other three groups (Strong Left, Progressives, and Centrists) fell by around 10 percentage points in each case. The result was an electoral disaster for Labour, which gained only 33 percent of the overall vote, against 44 percent for the Conservatives. If these changes become entrenched, it will be because many traditional working-class Labour people have shifted their political identity in a profound way.

Francis Fukuyama has elaborated the broader significance of these additional dimensions of political disagreement: “Twentieth-century politics had been organized along a left–right spectrum defined by economic issues, the left wanting more equality and the right demanding greater freedom. . . . In the second decade of the twenty-first century, that spectrum appears to be giving way in many regions to one defined by identity. The left has focused less on broad economic equality and more on promoting the interests of a wide variety of groups perceived as being marginalized—blacks, immigrants, women, Hispanics, the LGBT community, refugees, and the like. The right, meanwhile, is redefining itself as patriots who seek to protect traditional national identity, an identity that is often explicitly connected to race, ethnicity, or religion.”[37]

Thomas Piketty has provided a fascinating analysis of the evolution of political loyalties in France, the UK, and the US since 1948, using postelection surveys.[38] Most important, in the 1950s and 1960s, “the vote for left-wing (socialist-labour-democratic) parties was associated with lower

education and lower income voters. It has gradually become associated with higher education voters."[39] Furthermore, he notes of the US that "the Democratic Party became the party of the educated in a country where the university system is highly stratified and inegalitarian and the disadvantaged have virtually no chance of gaining admission to the most selective colleges and universities."[40] But similar shifts have also occurred in the support for parties of the center-left in France and the UK.

The outcome has been a "multiple-elite" party system or, more precisely, a "binary-elite" party system in the 2000s–2010s: "high-income voters continue to vote for the right, while high-education voters have shifted to supporting the left."[41] This split between a "Merchant Right" and a "Brahmin Left" explains much about contemporary politics. The Brahmin class continues to seek the support of voters by pointing to the exploitative behavior of the commercial elite and the system it runs. But its predominant interest nowadays, Fukuyama argues, seems to lie in rectifying a panoply of injustices over race, ethnicity, gender, and sexual preference and in suppressing opinions on any of these topics that are contrary to its own unchallengeable wisdom. To many of the erstwhile supporters of left-of-center parties, their dominant attitude seems to be dislike for the histories, traditions, values, and even many of the people of their own country. Meanwhile, the merchant elite has successfully sought to win the support of less-educated and poorer voters by emphasizing the intellectual and cultural arrogance, lack of patriotism, hostility to traditional values, lack of loyalty to established ethnicities, and economic ignorance of the Brahmin elite.

The merchant class is doing very well at splitting the old coalition between an educated class of leftist intellectuals and organized labor. It no doubt helps that the former has grown so much bigger as education has spread and public sector employment has increased, and that the latter has become so much weaker as deindustrialization has advanced. The weakening of trade unions as powerful voices for the working class has also made working-class people not just more politically impotent but socially atomized, with tragic social and political consequences. The votes of the relatively less well-off are now split on ethnic and, in some countries, on

religious lines. Many victims of adverse economic change also support politicians who emphasize national and cultural identity over economics. Boris Johnson's success in attracting votes in former Labour strongholds in the general election of 2019 demonstrates the opportunity these changes have opened.

The result of these splits is that the old coalition committed to economic redistribution and reform of capitalism has ceased to exist. But the views of the old center-left coalition on economic questions have also diverged. The propensity to vote Remain in the Brexit referendum was positively correlated with wealth, education, and income.[42] Thus, the vote for Leave can also partly be viewed as a vote against liberal economics, for which the EU stood and which the more educated and prosperous, including much of the Brahmin elite, had embraced. Many Brexit voters were also stuck in "left-behind" towns and cities, especially those blighted by the collapse of traditional industries, and so resented the prosperity and divergent cultural norms of economically buoyant metropolitan cities. Thus, the Brexit vote was at least in part a vote against London, just as the vote for Trump was at least in part a vote against the more prosperous coastal cities of the US. In a longer time frame, the collapse of communism—the most radical attempt to eliminate the market economy—has also surely undermined the credibility of more extreme left-wing economic ideas.

Abandoned, as they see it, by traditional left-of-center parties, the less-educated and less well-off members of the old working class are open to populist anti-elitism and to the appeal of charismatic populist leaders. They believe that elites and especially the intellectual elite are hostile not just to their interests, but to their values and ethnic and national identities. Affirmative action in favor of the children of minorities, including relatively recently arrived ethnic minorities, against their own children, is hardly going to be favorably regarded by people who feel themselves to be failing. This does not necessarily make them warm to the traditional merchant elite of big business. But they can be attracted to a leader who sets himself up as opposed to *all* the elites, however fraudulently.

Moreover, the people to whom such a leader appeals are not just the less well-off members of the majority community. Relatively prosperous, but less-educated people were also among Trump's strongest supporters.[43] Indeed, these are core conservative voters everywhere: owners of small and medium-size businesses, the successful self-employed and skilled craftspeople. Increasingly, education is the dividing line between the left and right, with issues of identity more important to both. Yet, even now, the college educated are a minority of adults everywhere. Among high-income countries in 2014, only in Canada did the share of adults aged 25–64 who have completed tertiary education exceed 50 percent. In the overall adult population it would still be well below 50 percent even there. Even among adults aged 25–34, the number of countries in which graduates were more than half of the population was only seven (South Korea, Japan, Canada, Russia, Luxembourg, Lithuania, and Ireland).

"I love the poorly educated," said Donald Trump at his primary election victory ceremony, in Nevada in February 2016.[44] Fortunately for him and politicians like him, there are still a lot of the less educated (presumably what he meant) and that will continue to be so for a long time.[45] The less attached the less educated are to traditional politics and parties, the more likely they are to be captured by a successful demagogue. That would further weaken the fabric of established parties. At the limit, a party may become no more than a vehicle for its charismatic leader: institutionally, it will have been hollowed out. That seems to be what is happening to the Republican Party today. Its core doctrine seems to be what Germans call Führerprinzip—that is, obedience to the will of the leader.[46] It may be wondered whether Trump will continue to control the Republican base. Maybe someone else will seize their loyalty in time. But it is striking, nevertheless, how completely Trump persuaded his party to buy into his big lie that the election had been stolen. This is an astonishing indication of the moral bankruptcy of the elite of the Republican Party. But this hollowing out of traditional party institutions and hierarchies is not only characteristic of the US. It has also happened in France, with the rise to power of Emmanuel Macron, and before that in Italy, with the rise of Silvio Berlusconi.

Piketty's notion of a conflict between two elites—the intellectual and the commercial—had been previously advanced by Joseph Schumpeter in his classic work, *Capitalism, Socialism and Democracy,* published in 1942.[47] Schumpeter thought that the success of capitalism had brought forth an ever-larger intellectual elite that was anticapitalist in its attitudes and values. Over time, the domination of this new clerisy over opinion would lead to the end of free-market capitalism, which would be replaced by corporatism or outright socialism. Yet it was socialism that collapsed in the late 1980s. Moreover, while parties on the left are indeed dominated by the intelligentsia today, they are also losing their traditional working-class adherents. Schumpeter's idea of a new elite was right. But the way it is working out is not as he imagined.

The rise of populism indicates a move toward political extremes. This is partly the consequences of the failure of orthodox policies to deliver stable prosperity to the bulk of the population over a long period, followed by the shock of the financial crisis. But it is also an expression of the new dimensions of political dispute. Identity is less amenable to the normal democratic political give-and-take than economic policy. Identity and sovereignty are existential questions. That is why the question of Brexit in the UK, questions of immigration and civil rights in the US, and questions of immigration in Europe have been so fraught.

In the British case, what was in substantial part a matter of national identity (whether the UK should remain in the EU) became a prime determinant of political loyalty. In the US, the extremism has gone further. In the words of two centrist scholars back in 2012, "The GOP [Grand Old Party] has become an insurgent outlier in American politics. It is ideologically extreme; scornful of compromise; unmoved by conventional understanding of facts, evidence and science; and dismissive of the legitimacy of its political opposition."[48] Subsequently, extreme opinions have morphed into something even more insidious and dangerous: loyalty to the charismatic leader. Trump was viewed as a king who can do no wrong.[49] Rejection of reason and respect for differences of opinion are incompatible with liberal democracy. The rise of "cancel culture" on the progressive left, while not as dangerous as the attempt of the Trumpian right to create a presidency above

the law, displays much the same mixture of arrogance and intolerance: dissent from tribal values is unacceptable. These are profoundly antidemocratic attitudes.

Issue of Immigration

Immigration plays a central role in the populist backlash of the right and the identity politics of the left. Immigration is also quite obviously different from other aspects of globalization. It is special because immigrants are people. An immigrant has a culture, family, attachments, loyalties, a mind, skills, hopes, fears, and everything else that makes a human being. Immigration brings special possibilities and challenges. It is extraordinary that so many people deny this obvious fact.

There is a view among some economists that the economics of free movement of labor are identical to those of trade.[50] That is not so. The economics of trade starts from the assumption that a country can be defined as having given factors of production—land, labor, and sometimes capital. It then shows that the aggregate real incomes accruing to the owners of these factors of production will rise if the country specializes in line with its comparative advantage. (Of course, this ignores the distribution of the gains from trade.) Yet there is no a priori reason to suppose that the welfare of those who lived in the country before the immigration (as well as their descendants) will rise with uncontrolled immigration (and the same applies to uncontrolled capital flows, though the latter have been less politically contentious). It may do so, but it may also fall. Aggregate GDP will increase because there will be more people. Yet that tells one nothing about whether people will on average be better off, since we know that population size does not determine the average prosperity of a country. After all, quite a few countries with small populations have high average incomes per head and quite a few countries with large populations have low incomes per head.

Large changes in population will also generate congestion costs and an associated need for expensive investments.

Moreover, it is clear that the people of democracies care about their own citizens and, to a lesser extent, legal residents vastly more than about humanity at large. Even when the UK gave the relatively high ratio of 0.75 percent of GDP in foreign aid, public spending on areas of interest to British citizens was 50 times the transfers to poor foreigners via aid. Many voters seem to think even that is an excessive weighting of foreigners, even though the number of very poor foreigners (with poverty measured by British standards) exceeds the number of British citizens by at least 50 to 1. Thus, their political choices suggest that British citizens regard the value of a fellow citizen as around 2,500 times that of a poor foreigner! The mutual bonds of citizenship are of enormous significance to electorates. Since citizenship matters so much, granting rights of residence, particularly when this is likely to lead to citizenship, also matters enormously. Countries that fail to control immigration in a politically and socially acceptable manner risk a serious backlash.

This is not just "racism." There is good reason to believe that the greater the diversity of a political community, the more difficult it is to sustain the deep trust that is an essential precondition of a thriving and stable democracy. In very different ways, the stories of Lebanon and Belgium are indicative of the difficulties created by ethnic, religious, or other forms of diversity. Sometimes these challenges are successfully managed. But it is foolish to pretend that they do not exist. If a democratic political community is to thrive, there must be an overarching sense of identity that binds everybody. [51]

Threat of "undemocratic liberalism"

Immigration has been an important issue on which elites—in this case, both Brahmin and merchant elites, albeit for different reasons—have invited a backlash. But this has been an aspect of something bigger: "undemocratic

liberalism," which may be viewed as the mirror image of illiberal democracy. Yascha Mounk of the Johns Hopkins University's School of Advanced International Studies describes undemocratic liberalism as follows:

> In more and more countries, vast swaths of policy have been cordoned off from democratic contestation. Macroeconomic decisions are made by independent central banks. Trade policy is enshrined in international agreements that result from secretive negotiations conducted within remote institutions. Many controversies about social issues are settled by constitutional courts. In those rare areas, like taxation, where elected representatives retain formal autonomy, the pressures of globalization have attenuated ideological differences between established center-left and center-right parties.
>
> It is hardly surprising, then, that citizens on both sides of the Atlantic feel that they are no longer masters of their political fate. For all intents and purposes, they now live under a regime that is liberal, yet undemocratic: a system in which their rights are mostly respected, but their political preferences are routinely ignored.[52]

A similar critique, this time focused on the EU, is advanced by Oxford University's Jan Zielonka. He argues that a counterrevolution threatens European liberalism: "Under attack is not just the EU but also other symbols of the current order: liberal democracy and neo-liberal economics, migration and a multicultural society, historical 'truths' and political correctness, moderate political parties and mainstream media, cultural tolerance and religious neutrality." He blames the counterrevolution on the "liberal project" of "deregulation, marketization, and privatization." But he also condemns the transformation of democracy into technocracy, with ever greater powers delegated to "non-majoritarian institutions—central banks, constitutional courts, regulatory agencies." He is particularly critical of the EU, a non-majoritarian institution led by supposedly enlightened experts.[53] Yet perhaps the biggest problem of all is that the euro has turned into an instrument of domination by creditor countries over debtor countries. Especially during the financial crisis, the eurozone came to look more like an empire than a cooperative relationship among sovereign democracies.

Both authors identify something important. All liberal democracies have constitutional rules, established norms, or both, designed to constrain the power of majorities, be they temporary or not. Some of those constraints are designed to protect the liberties of individuals. Some are designed to protect

the rules of the democratic process. Some are intended to protect economic stability or market competition from irresponsible politicians or even to protect the politicians from themselves. Some are intended to establish principles of international cooperation and comity, either to protect economic exchange or to ensure the provision of global public goods. These are—and are intended to be—constraints on democracy. Such constraints are necessary if an unbridled democracy is not to make democracy itself impossible. Democracy cannot mean absolute tyranny of the temporary majority. It is a system of rules and restraints.

Yet, inevitably, such constraints can be seen as unduly burdensome and, at worst, unbearable constraints on sovereignty. In the UK, the inability to limit free movement of people was an important reason for the close vote on Brexit to end up in favor of "Leave." In the eurozone, the rise of populism in southern Europe and in Italy, above all, has much to do with the perfectly correct observation that Italian governments were free only to do what the eurozone rules and the most powerful member state allowed them to do. In the US, the rulings of courts on abortion and marriage rights stimulated a massive illiberal backlash, becoming a salient feature of pluto-populism. Under Trump, the legitimacy of the rules of the World Trade Organization came equally under attack, even though the US played a far bigger role than any other country in the creation of the global trading system. For Trump and his supporters, the Paris climate agreement was equally objectionable.

"Pluto-Populism" and the "Southern Strategy"

Despite the many pressures, most of the high-income Western countries remain liberal democracies with broadly capitalist economies. This is true also of Brexit Britain. The center still holds, at least for now. But the US is somewhat different: it elected a nationalist populist with autocratic ambitions. The story there is unique and, given the size of the US and its historic role, so is its significance.

The shift toward the emphasis on racial identity, nationalism, and the culture wars (over abortion, guns, gender rights, and so forth) that led to Trump's election was not just the result of undemocratic liberalism, elite economic failures, uncomfortable economic developments such as deindustrialization, and cultural changes. It was also the consequence of a specific elite political strategy.

How, after all, does a political party dedicated to the material interests of the top 0.1 percent of the income distribution win and hold power in a universal suffrage democracy?[54] The answer is pluto-populism.[55] This allowed a party that had won the presidency and both houses of Congress in 2016 to put through a tax bill that unambiguously shifted resources from the bottom, middle, and even upper middle of the US income distribution toward the very top, combined with big increases in economic insecurity for the great majority.[56]

This strategy has three elements. The first is to find intellectuals who argue that such policies will lead to a "trickle down" of wealth onto the populace at large. "Supply-side economics" has been the way to argue this.[57] The second element is to foment ethnic and cultural splits among the mass of the population and so, to take the most important example, encourage people to consider themselves "white" or "anti-gay" or "Christian" first and members of the relatively disadvantaged, second, third, or not at all. The third element is to warp the electoral system through vote suppression, gerrymandering, and, above all, elimination of restrictions on the use of money in politics. Of these, the last two should be described as "the Southern strategy" in two senses: first, it was how the elite has historically held power in the South; and second, it was also the strategy on which the Republican Party consciously embarked immediately after passage of civil rights legislation by the Democrats in the 1960s. It has worked, not perfectly, but well enough.[58]

Supply-side economics has proved an excellent political slogan. Yet there is in fact no such relationship between marginal tax rates and the rate of economic growth. That is not surprising. After all, top marginal rates of tax were much higher in the 1950s and 1960s, which were also the decades of

fastest growth for high-income democracies. Nor, for that matter, did the tax cuts of the Reagan era unleash a strong upsurge in US economic growth. These simplistic trickle-down ideas are good politics, but questionable economics.[59] The experience with Trump's cuts in corporate taxation are consistent with this. They did not lead to a significant upsurge in real private nonresidential investment. Lowering the corporate tax rate is principally a windfall for shareholders, just as lowering the estate tax is a windfall for inheritors of large estates.

The southern strategy has proved vastly more politically effective than the rhetoric of supply-side economics. The South swung from the Democrats to the Republicans after civil rights laws were enacted. In the process, it also shifted the GOP from being in a quasi-permanent minority in the US House of Representatives from 1933 to 1995 to better than parity with the Democrats since then.[60] In 2019, for example, the Republicans held the governorships of nine of the thirteen states of the Old Confederacy, 23 of their 26 available seats in the Senate, and 101 of their 146 seats in the House of Representatives. From the old days of the Democrats' domination of the South, this was nothing short of a revolution.

It was, however, far more than a stunningly successful regional capture. Yes, the politics of the South in the Union have consistently centered on maintaining systems of racial repression and exploitation. The South was built on slavery. With its refusal to tolerate the secession of the South, the North destroyed the "peculiar institution." The South responded to that defeat with the Jim Crow system of racial repression.[61] Then, a century after the Civil War, the North employed civil rights, legislated under the southerner Lyndon Baines Johnson, together with the help of judgments by the Supreme Court, to destroy Jim Crow.[62] Thereupon, the South started to transplant aspects of its system into the country at large, by embracing (and so transforming) the Republican Party, ironically, the party of Abraham Lincoln and the North's victory in the Civil War. Today, with an enduring majority in the Supreme Court and possessing a strong position in Congress, the Republican Party is well on the way to achieving this objective.[63]

This is a highly successful version of a strategy seen in many other democracies, namely, splitting the less well-off by their racial, ethnic, or cultural identities. Its purest form, however, was achieved in the antebellum South, and its fundamental characteristics have continued ever since. The pre–Civil War South was extremely economically unequal, not just in the population as a whole, which included the slaves, but even among free whites. A standard measure of inequality jumped by 70 percent among the whites between 1774 and 1860: "Any historian looking for the rise of a poor white underclass in the Old South will find it in this evidence."[64] Remarkably, the 1860 census shows that the median wealth of the richest 1 percent of southerners was more than three times that of the richest 1 percent of northerners. The South, ruled by a slave-owning, faux aristocracy of commercial planters, was also far less economically dynamic than the North. Its elite were rent extractors: they lived from exploitation of slave labor and land rent.

So successful was this "plantocracy" in nurturing the doctrine of racial superiority in poor whites that the latter fought and died for the Confederacy in enormous numbers.[65] In the Civil War, whose stated aim was defense of slavery (however much some deny this obvious truth), at least 260,000 Confederate soldiers died (95,000 in combat and 165,000 from disease, accidents, and other causes).[66] This was somewhere between 20 and 35 percent of all the men who served in the Confederate army.[67] Yet a sizable proportion of these men owned no slaves. The identity that came from feelings of racial superiority and fear of racial subordination was sufficient to justify their immense sacrifices.[68] Ultimately, the war brought death or defeat upon them all. Nothing better reveals the political potency of racial identity. Subsequently, of course, racist ideology gave the unhappy world Nazism and the incomparable carnage of the Second World War. Racism works. It plugs into dark aspects of the human character: the search for identity and dominance by "othering" people. What could make that easier than visible difference, such as color, however genetically trivial it evidently is?

A diluted form of the southern system—that is, political division of the relatively less well-off on racial and ethnic lines—has spread throughout the rest of the US. Indeed, it already existed in embryo before the Civil War. But the salience of the issue was increased by the mass emigration of poor and maltreated African Americans from the South to northern cities in the twentieth century. A more recent reason has been the mass immigration of Hispanics.

Here, again, there is an echo of the southern system of plutocratic rule. One of the reasons for the growth of this Hispanic population is the number of undocumented immigrants, recently estimated at 10.5–12 million.[69] (American-born children of undocumented immigrants are American by birth.) An obvious question is why greater efforts were not made to control this inflow and above all to ensure that businesses do not employ undocumented labor. The answer is that businesses, natural supporters of the Republican Party, oppose such intrusive checks because cheap undocumented labor is profitable. The business wing of the Republican Party (in this case mostly small and medium-size businesses) has, therefore, contributed to—and benefited politically from—the illegal immigration that has spread racial anxiety across the US. According to the US census, the US will be "minority white" (with Hispanics counted as non-white) by 2045.[70] The "whites" know it. This anxiety helped the populist demagogue Donald Trump seize control over the Republican Party, with his promise to build a (largely symbolic) wall on the border with Mexico.

Vote suppression and extreme gerrymandering were important parts of the southern system after the Civil War. These strategies reflected the determination to ensure that African Americans would not gain the political power that should have followed from their numbers in any normal democracy. With a friendlier Republican-appointed Supreme Court, these techniques are—not surprisingly—returning.[71] According to two distinguished American political scientists, "The greatest threat to our democracy today is a Republican Party that plays dirty to win."[72] The right-wing view is that winning overrides playing by the rules of the game. This view is death to democracy.

Such a pluto-populist system requires opinion formers and propagandists to justify, defend, and promote it. In the antebellum South, a remarkably important part was played by Christian churches, which argued that slavery was divinely ordained.[73] White Christians have again played an important part in supporting the Republicans and, more recently, Donald Trump. The Christian right's long-standing support for the Republicans reflects the political salience and so usefulness of the "culture wars" over abortion, gay rights, and so forth, in addition to the racist dog whistles. The transfer of that loyalty to Trump, a man known for his history of sexual license and compulsive lying, is fascinating, though not surprising.[74] White evangelicals have proved to be particularly enthusiastic supporters of Trump, on the principle that the enemy of my enemies is my friend.[75]

Media are also significant. Most of the focus has been on the influence of "new media," on which more later. But old media—especially television and radio—have also been important. Rupert Murdoch's empire has consistently promoted pluto-populist themes. In the US, his significant outlet has been Fox News, whose influence upon Trump has been legendary.[76] Murdoch has a genius for promoting the prosperity of the few by exploiting the prejudices of the many. He also has a remarkable ability to find people who know how to do this for him: most notably, he appointed the late Roger Ailes to run Fox News in 1996.[77] Among radio personalities, the leading right-wing US figure was the late Rush Limbaugh. Limbaugh was not particularly subtle about his racism.[78] He was also a highly influential proponent of the pluto-populist cause.[79] It is hard to exaggerate the damage these people have done to the cause of liberal democracy, and the damage is not over.

Even more indicative of plutocratic influence is the role of money in politics. The Supreme Court's perverse 2010 *Citizens United* decision held that companies are persons and money is speech. By far the largest donors in the US are business lobbies. But rich individuals are also crucial: the top 0.01 percent of individual donors make 40 percent of all contributions. Politics is expensive. Since political donations come overwhelmingly from very big businesses and ultrarich individuals, to whom will the politicians who need these funds listen?[80]

In essence, the marriage of pluto-populism with the politics of the old South is a successful program for welding middle-class and poorer whites to the interests of a sizable part of the commercial elite. This did not even require all that big a change in the Republican Party. Paranoid conservatism was very much present in the party back in the 1950s, when Joseph McCarthy's red baiting dominated the Senate, and the John Birch Society was founded.[81] But a more ambitious conservative program needed a majority and that in turn needed the southern strategy, in both of the senses used above: the shift of the South to the Republicans and the insertion of the politics of ethnic division into the country more broadly. It is hardly an accident that Trump and his supporters took up McCarthy's central theme—that the US government (the "deep state") is full of traitors. This is the theme of right-wing conspiracy theories today, as it was then. The crucial change is that President Eisenhower, an honorable patriot, unlike Trump, did not promote them.

The Brahmin elite of leftist opinion formers have also triggered this shift of the white middle class to the Republicans. Talking about "white privilege" is offensive to many whites, especially those who feel underprivileged and disrespected, as indeed they are. So, of course, is the similar discourse about "male privilege" offensive to men whose poor economic position (in terms of job security and pay) makes it hard for them to play the role of breadwinner that has always sustained marital bonds. Today, strong and stable marriages are increasingly a phenomenon of the upper middle class: according to 2015 data, 64 percent of babies of poor US women were born out of wedlock, while only 36 percent of babies of working-class women and 13 percent of babies of middle- and upper-class women were.[82] Again, much of the new language of gender inclusivity is offensive to a large proportion of the traditionally minded, who are struggling to preserve self-respect in today's more economically challenging environment. People labeled "deplorables" are even more motivated to vote "deplorably."[83] Repelled by the Brahmins and seduced by the plutocrats, many members of the white working or middle classes have shifted to the angry populist right. This has happened throughout much of the West. It happened with devastating effect in the US, with the

election of someone unsuited by temperament, character, and intellect to the office of president.

Yet the bargain made by the plutocracy is Faustian. It has been hugely successful, in its own terms: the preferences of the very rich and economically powerful count to an extraordinary extent in US legislation. But there is a catch. What if a politician came along who offered the voters the nationalism, racism, and cultural conservatism, but together with support for higher public spending, fiscal profligacy, hostility to globalization, and, above all, hostility to the norms of liberal democracy, the rule of law, and the post–Second World War US-led order? We know the answer to that no longer hypothetical question. As Stuart Stevens, a Republican consultant, has argued, once upon a time, "Republicans would have said the party stood for some basic principles: fiscal sanity, free trade, strong on Russia, and that character and personal responsibility count. Today it's not that the Republican Party has forgotten these issues and values; instead, it actively opposes all of them."[84] The Republican Party turned out to be a shell, ideologically and institutionally, just waiting to be taken over by a leader who could speak to its voters' fear and anger. The rich obtained their tax cuts. But they were not in control of the man or the forces that delivered them.

This shift in the basis of the Republican Party has a mirror-image shift among the Democrats, with the declining role of trade unions and the rising one of the Brahmin elite, who also figure heavily in the financial and technology sectors. As the declining unions became decreasingly important sources of funding and Republicans were able to attract financial support from business and conservative plutocrats, the Democrats had to obtain funding from these new businesses and more liberal (in the American sense) plutocrats. The way to do this successfully was to go for votes on the basis of cultural and ethnic identity rather than economic interest. After all, even woke billionaires dislike high taxes. In practice, therefore, the political role of money made it difficult for the Democrats to represent the poor effectively, regardless of ethnicity. It is no surprise that more economically radical platforms (universal health care, for example) have not been adopted.

The US, far and away the world's most important democracy, has taken pluto-populism further than any other high-income country. But shadows of it can be seen elsewhere. In the UK, for example, the coalition government argued, falsely, in 2010 that the huge deficits it inherited were the result of irresponsible public spending under Labour, rather than the financial crisis. It then responded by planning to slash the deficits. Moreover, the overwhelming bulk of the subsequent fiscal adjustment (which was close to 10 percent of gross domestic product) came from slashing spending rather than raising taxes.[85] Inevitably, these cuts hit vulnerable people and places particularly hard, with finance of local governments especially badly affected.

Brexit was a brilliant diversion from the realities of high inequality, the financial crisis, and the unbalanced postcrisis fiscal adjustment. It allowed Brexiters to shift the blame for the damage done to the mass of ordinary people off the domestic elites and governments and onto foreigners. It created a merger between the party that imposed this austerity and those most harmed by it, under the standard of national sovereignty. That is what pluto-populism does, whether consciously or not: first, make ordinary people angry and then blame what ails them on foreigners or minorities. Trump used trade and immigration; Johnson used the EU and immigration. The strategy works spectacularly well, helped in Johnson's case by the incompetence of the Labour Party, which no longer understood its own (former) voters. Nevertheless, the Brexiters, though ostensibly anti-elite populists, are not anti-pluralist. The Johnson government did not try to destroy the basis of liberal democracy, though its attitudes toward keeping its promises to foreigners, judicial review, and human rights were decidedly worrying.

Toxic Individualism and Authoritarian Populism

An important contributor to the rise of populist authoritarianism especially in the US is its apparent opposite—hyper-individualism. This ideology has been

revealed most clearly during the pandemic, especially in the resistance of many on the right to the idea of “mask mandates” or the requirement to show a “vaccine passport” as a condition for entry into certain crowded places where the pandemic might easily spread. Such hyper-individualism—the belief that one is allowed to do whatever one wishes—is not new. In the US, for example, these attitudes are an aspect of the pioneering spirit on which the country was founded. But it can also be toxic, destroying social bonds and social order, creating instead what Thomas Hobbes called bellum omnium contra omnes—the war of all against all.

In the view of the ancient Romans, such an antisocial version of freedom confused *licentia* (license) with *libertas* (liberty). Thus, “True *libertas* . . . is by no means the unqualified power to do whatever one likes; such power—whether conceded or assumed—is *licentia*, not *libertas*. The necessary prerequisite of *libertas* is the renouncement of self-willed actions; consequently, genuine *libertas* can be enjoyed under the law only.”[86] License is not liberty, but the path to tyranny. Sooner or later, Plato’s “protector” is likely to emerge, promising “order” and “safety.” It is no accident that many people who insist on their right to do as they please in the pandemic are devoted followers of a would-be autocrat like Trump. These are not opposites, but two sides of one coin. License begets tyranny, as it did with the transformation of the disorderly late Roman Republic into the military despotism we know as the Roman Empire. This symbiotic relationship is among the most powerful lessons of history. A democratic republic depends on an ordered liberty, rooted in respect for the law and, still more, for social values.

Changing Roles of Parties and Media

Demagogic populism has been a feature of democratic political systems since ancient Athens. In high-income countries, the seizure of power by anti-pluralist populists has happily been infrequent. The most important precedent

was the 1920s and 1930s in Europe, with Mussolini and Hitler. There are big differences between that era and today, in two important respects: political organization and media technology. Political parties and standard media organizations are weaker, and social networks are stronger.

The 1920s and 1930s were an age of machine politics. The rise to power of populist demagogues was engineered through structured political parties. In both cases, the party was a quasi-military organization. Mussolini had his blackshirts and Hitler his brownshirts.[87] Of course, party structures had already emerged in the nineteenth century. Comparable organizations to these do not exist in today's politics in advanced democracies. Leaders either obtain control of existing parties or they have their own, relatively normal, parties, or they set up on their own, as Macron did. As a result, contemporary populism is much less disciplined than its predecessors. It is more bottom-up, anarchic, even nihilistic, though there have been some relatively well-organized groups within parties, such as Momentum in the Labour Party.

The second change is in the nature of media and, above all, in the rise of social media. The rise of fascists and Nazis took place within a world of newspapers and radio. These were one-way media. Once in power, authoritarian governments could control the flow of information to a high degree. Joseph Goebbels, Hitler's propaganda chief, was a master at controlling the narrative. Today's social media, in contrast, are decentralized, allowing the spread of lies, conspiracy theories, opinions, and truths in peer-to-peer networks, with extraordinary ease. In such a system, control over the narrative is far more difficult. Yet, as China shows, it is not impossible for determined authoritarians. The Great Firewall of China and the resulting control over the narrative appear to work.

An important aspect of the new media derives from the fundamental economics of information in the new age: collecting information remains costly, but dissemination is costless. In the old days, it was possible to finance information collection by bundling news with advertising or by state subsidy of some kind, as with the BBC and similar entities. But the new technologies have unbundled news gathering from advertising, with the ads shifting to the technology platforms, which take little responsibility for

verifying the information they publish. In the US, “digital ad revenue has grown exponentially, but a majority goes to Facebook and Google rather than to publishers.”[88] Thus, half of all display advertising revenue in 2018 went to Facebook (40 percent) and Google (12 percent). Meanwhile, advertising revenue of newspapers has continued to fall. The result is a collapse of the economics of news gathering. The main exception is when the quality of the product and the economic status of the audience make paywalls work. But paywalls have the inevitable consequence of limiting access to high-quality and verified information. This is precisely the sort of news Trump called “fake,” by which he meant true and inconvenient. In the UK, *The Guardian* is trying to sustain itself with voluntary contributions. But, overall, given the substantial costs of generating and publishing accurate information and the difficulty of getting paid for it nowadays, the net effect of the information revolution has been ubiquitous, and costless dissemination of noninformation, disinformation, propaganda, and lunatic conspiracy theories.

One way of thinking about the new social media is that they have made it far easier to spread “rumor” (what the Romans called “fama”) than before. It is, as a result, also far easier than ever before for the unqualified and unprincipled to influence public opinion. The results are both widespread cynicism about anything one is told, especially by figures of authority, as well as the emergence of passionate adherents of particular opinions in corners of the internet. Yet some things have not changed: it is still possible for political leaders to disseminate their propaganda effectively. Trump was a master at it, via his use of Twitter. It is, however, more difficult to monopolize information today than it used to be, unless one has the resources and determination of the Communist Party of China.

Yascha Mounk, a thoughtful observer, argues, “Over recent years, it has been the populists who have exploited the new technology most effectively to undermine the basic elements of liberal democracy. Unfettered by the constraints of the old media system they have been willing and able to say anything it takes to get elected—to lie, to obfuscate, and to incite hatred against their fellow citizens.”[89]

Similarly, the new social media weaponize outrage, since that is how one gains attention.[90] In the view of Martin Gurri, a penetrating analyst of today's technology-enabled nihilism, "The public . . . strives . . . to knock the elites off their high perches into the dust. For the class that rules and speaks on behalf of national institutions to be stripped of authority—to lose the power to persuade—has been a traumatic and terrifying event."[91] Part of the reason so many liked Trump was simply that he was not of the establishment. They were demonstrating their contempt for their rulers.

In the end, it is hard to tell how much difference the new media have made. It is true that social media have weaponized outrage and spread all sorts of fantasies and frauds. It is true that the open and global internet of democracies is open to conscious manipulation by hostile forces, both private and public and both domestic and foreign. It is true, too, that we have little protection against the viral spread of dangerous nonsense, as the rise of the anti-vaccination movement has demonstrated.[92] But it is not clear that this form of intellectual pollution is the main explanation for where we are today. In the right (or rather, wrong) circumstances, poison spreads perfectly well with old technologies—newspapers, books, and radio. The interwar period taught us that. Think of the career of Huey Long, for example. Would Trump have failed to obtain the Republican nomination in the same economic and cultural conditions, but in the absence of today's social media? I suspect he would have succeeded.

What is true, however, is that it would have been hard for him to succeed within the old hierarchical parties. That is indeed a big change. The new media have disseminated populist messages, yet so have the old (newspapers, radio, and television). *Pace* Marshall McLuhan, the medium is not the message.[93] It merely shapes the message. The message itself is distress, fear, and anger. These could well have caused political eruptions even without the new media. In 1848, revolutions spread across Europe like wildfire. It was rather like the Arab Spring and ended up in much the same way, too. Evidently, there were none of our new media at the time.

Can the Democratic Center Hold?

Two years after the pandemic began, it is far too soon to tell how COVID has changed this broad story. Experience with a relatively serious threat seems to have undermined the credibility of populists and increased trust in government. What it has not done is increase confidence in democracy. On balance, it seems, people have shifted toward a desire for competent authoritarian government. Competent authoritarians may be rare. Yet they are potentially even more dangerous to the future of liberal democracy than incompetents.[94]

Some observers simply despair. Shawn Rosenberg of the University of California, Irvine insists that the task of making people think and behave as conscientious and well-informed citizens is hopeless. Quite simply, "Democratic governance in America (and elsewhere) has not been successful in creating the citizenry it requires. Thus, it is left with citizens who lack the requisite cognitive and emotional capacities to assimilate its cultural definitions and norms, to function in its institutional organizations and to participate in its public sphere."[95] Historically, he argues, these weaknesses were offset by the control of elites over culture and social and political institutions. But technological, economic, and cultural developments have demolished the gatekeepers or their role in safeguarding the political process. The transformation of the media is one element of this, but a broader breakdown in hierarchies of authority and influence has also occurred.

The people, then, are on their own, but they dislike it. Shorn of natural leaders, they choose self-confident right-wing populists in place of old elites. Thus, says Rosenberg, "The ever-greater structural penetration of everyday life by the forces of capitalist markets, democratic politics and globalization have made the complexities of social life and the necessity of individuals to rely on themselves when negotiating those complexities increasingly apparent. Given their inadequate cognitive and emotional abilities to participate in the ways required, the people living in this freer, more equal, more culturally diverse world are left more confused, directionless, alone, and insecure. They feel a commensurately increasing need for an

authoritative definition of the world and themselves and authoritative direction of how they must act to secure their place, as individuals and a people, in that world."[96]

That answer is a form of "fascism light." Rosenberg argues that the appeal of right-wing populism to devotion to an idealized nation and a "great leader" supplies a large mass of the people with what democracy cannot: relief from the burden of thinking for themselves in return for absolute loyalty to the leader. This attitude is evidently incompatible with liberal democracy. But, argues Rosenberg, it is going to win. It is far more successful than left-wing populism, because it feeds off fear and anger, while the left promises hope, however unrealistic and ultimately poisonous it may turn out to be. Hope requires trust. Fear does not: it just requires an enemy.

Rosenberg's is a horrifying, but not implausible, dystopian vision. COVID, it seems, might even end up accelerating this shift away from democracy even if it discredits the more foolish authoritarian populists. Certainly, the core democratic institutions do not protect themselves. They need to be protected by people who understand and cherish the values they defend, particularly members of commercial, political, and intellectual elites. Politics must respond to the fear and rage that brought populists to power. But it must not surrender to them.[97] Economic and political reforms are needed if liberal democracy is to be saved. The agenda for reform is the topic of the next part of this book.

Part III

RENEWING DEMOCRATIC CAPITALISM

Prologue to Part III

Branko Milanovic, formerly at the World Bank and now at the City University of New York, argues that capitalism is "alone": it has won.[1] No other credible system for organizing production and exchange in a complex modern economy now exists. This is correct. Almost nobody still argues in favor of a centrally planned economy without at least some reliance on market forces and private ownership of productive assets. Yet what sort of capitalism has won? This question arises on two dimensions. First, is it what Milanovic calls "liberal capitalism" and I would call "democratic capitalism," or is it what he calls "political capitalism" and I would call "authoritarian capitalism"?[2] Second, is it to be competitive and dynamic capitalism or is it to be rent-extracting and rigged capitalism? These questions animate part III of the book.

Democracy and market capitalism are being challenged by authoritarian alternatives to the former and state-led alternatives to the latter. The financial crisis, the poor quality of subsequent political leadership, and the inadequate response of many Western democracies to COVID-19 have made this competition more acute. We cannot take it for granted that democratic capitalism—the union of complementary opposites on which contemporary Western society is built—will thrive. It may not even survive.

This "democratic recession" has been the product of social, cultural, and economic developments discussed in part II. Above all, economic failures played a significant role in exacerbating insecurity, anxiety, resentment, and mistrust in substantial parts of the population. This has resulted in the arrival of populist demagogues, who are, in turn, exacerbating the democratic

recession of our era. The rise of demagogic populism may prove to be a wake-up call for better policy. But it may also be destructive of sound policy and even of liberal democracy itself. Indeed, the latter outcome hardly looks that far away, notably in the US.

Yet we should remember that universal suffrage democracy has come through many challenges over the past century. So, too, has the market economy. In Europe, the situation looked vastly more hopeless in 1940 than it does today. Leading members of the governing party in the UK then favored peace with Hitler. But those men did not win the argument and, as it turned out, the cause of freedom was not lost, partly because of British defiance and Soviet resistance, but, above all, because of the existence and efforts of the US.

Successful renewal is again possible. It has happened before. To achieve it, there must be imaginative and decent leadership. Yet there must also be ideas. That is what this third section of the book offers.

The underlying thesis is that it will be impossible to combine universal suffrage democracy with a market economy if the former does not appear open to the influence—and the latter does not serve the interests—of the people at large. The democratic societies that have been most successful in achieving these objectives are those I would call “welfare capitalist.” In Europe, “social democracy” and the “social market economy” are labels for such a system, though Christian Democrats have embraced welfare capitalism as well. In the US, this would be “liberalism” or perhaps a moderate form of conservatism (now, alas, largely disappeared). Crucially, this type of arrangement appears to be a necessary condition for the long-term survival of universal suffrage democracy. The insecurity that laissez-faire capitalism generates for the great majority who own few assets and are unable to insure or protect themselves against such obvious misfortunes as the unexpected loss of a job or incapacitating illness, is ultimately incompatible with democracy. That is what Western countries had learned by the early to mid-twentieth century. It is what they have learned again over the past four decades. Only autocracy, plutocracy, or some combination of the two is

likely to thrive in an economy that generates such insecurity and a polity that shows such indifference.

The work of Torben Iversen of Harvard and David Soskice of the London School of Economics provides a framework for the needed discussion of economic and political reform.[3] Their thesis about how an outward-looking form of democratic capitalism can still thrive has three core elements.

First, in high-income democracies, governments play a central role: they need to ensure that companies are subject to competition, the population is well educated and trained, the infrastructure on which the economy depends is first-rate, and the research that drives technological advance is adequately funded. It has not in fact been the market *against* the state, as many believe, but the market *with* the state. This is true everywhere, albeit to different degrees, across the successful economies.

Second, again, in a stable high-income democracy, the educated and aspirational are a large and politically engaged element in the polity. Such people will tend to vote for parties and people they consider competent. These people provide the solid ground on which democratic politics is built.

Finally, the skills on which sophisticated businesses depend are embedded in networks of people who live in specific locations. The core competences of companies are, as a result, far less mobile than many suppose. Only the relatively less-skilled parts of their operations are genuinely footloose.[4] Indeed, quite a large proportion of the supposed mobility of companies has to do with exploitation of tax loopholes and cheap unskilled labor rather than a shift of the full range of their activities to countries that offer mainly cheap labor, low taxes, and minimal regulation.

Yet this vision of economic interdependence and mutual commitment among politics, business, and the public also illuminates the fragility of modern democratic capitalism. Even if core competences are sticky, the footloose parts of the economy may become big enough to devastate the prospects of large portions of the population, especially of less-skilled and older workers. Again, if economic insecurity starts affecting people who thought they had safe and good jobs, they are likely to feel growing despair. If the government does not know what to do in response to global economic

crises, slowing growth, and unexpected shocks, such as COVID-19, trust may collapse. Finally, if business interests and the plutocracy become overwhelmingly powerful, democratic capitalism may fall apart, to be replaced by a plutocratic or autocratic version.

The strengths of democracy are representation and legitimacy, while its weaknesses are ignorance and irresponsibility. The strengths of capitalism are dynamism and flexibility, while its weaknesses are insecurity and inequality. As is true of any marriage, the relationship between liberal democracy and market capitalism may fail. It is sure to do so if the polity or the economy fails to deliver what is needed—political representation and competent government in the case of the polity, and attractive opportunities and widely shared prosperity in the case of the economy.

In good marriages, the strengths of each partner offset the weaknesses of the other. In bad ones, the weaknesses of each partner overwhelm the strengths of the other. Improving the two systems, as well as the balance between them, is, accordingly, the theme of part III of the book. The discussion will start with the economic challenges. Chapter 7 will look at the requirements for a renewal of capitalism. Chapter 8 will explore what such a new New Deal would mean in detail. Finally, chapter 9 will focus on the renewal of democracy.

CHAPTER SEVEN

Renewing Capitalism

> Yes to the market economy. No to the market society.
>
> —*Lionel Jospin*[1]

> Here I am back again in the Treasury like a recurring decimal—but with one great difference. In 1918 most people's only idea was to get back to pre-1914. No one today feels like that about 1939. That will make an enormous difference when we get down to it.
>
> —*John Maynard Keynes*[2]

As Keynes noted in 1942, the victors of 1918 had tried to re-create much of the pre–First World War economy. They failed. After the Second World War, however, as he predicted, they took a very different approach. The new world they created lasted until the 1980s, when aspects of the nineteenth century's free markets were, perhaps unsurprisingly, restored. Again, after the global financial crisis of 2007–09, an effort was made to restore the precrisis world economy, albeit with some modest reforms. After COVID-19, as after the Second World War, demands for change became more forceful. Realization of the climate emergency made this demand for transformation even more urgent. The big question is whether change will be decisive, as in the middle of the twentieth century, or whether the old and largely failing order will continue, this time with a right-wing populist twist. What makes the latter more likely is that measurable success with reform will be far more difficult to attain this time, partly because societies are far more divided than they were after World War II and

partly because the economic opportunities are very much more limited (as discussed in chapters 4 and 5).

The focus of this chapter is on the philosophy of reform. Its guiding light is Karl Popper's idea of "piecemeal social engineering," by which he meant change targeted at remedying specific ills. It rejects both the status quo and revolutionary upheaval.[3] Then, in chapter 8, the discussion turns to specifics.

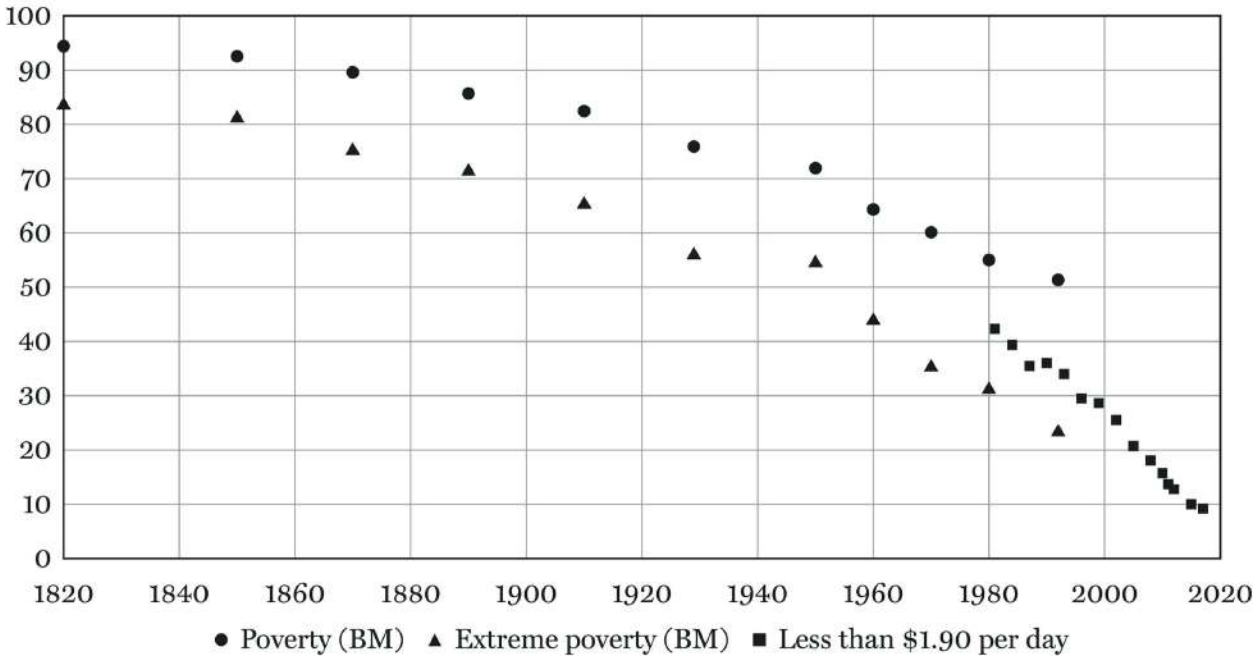
Reform, Not Revolution

Some aspire to something far more dramatic than mere reform: they aspire to nothing less than anticapitalist revolution. After two big economic crises—the transatlantic financial crisis and then COVID within just twelve years, followed by the shock of Russia's war on Ukraine, not to mention high inequality, slowing growth, a rising tide of authoritarianism, and, above all, increasing concern over environmental constraints, this is hardly surprising. Some of these revolutionaries argue that capitalism is a cancer, economic growth must be halted, and human beings should embrace a preindustrial, even preagrarian, way of living.[4] Thus, Jason Hickel, an economic anthropologist, writes in *Less Is More* that "we need high-income countries to scale down excess energy and material use; we need a rapid transition to renewables; and we need to shift to a post-capitalist economy that's focused on human well-being and ecological stability rather than on perpetual growth. But we also need more than this—we need a new way of thinking about our relationship with the living world."[5] Hickel and people like him wish to overthrow our economic system. Yet no political party with such goals has the slightest chance of gaining power. The transformation he desires could only be implemented by a dictatorship, and a global dictatorship at that. No such regime is (happily) in prospect. This is at best unrealistic utopianism. At worst, it is yet another in a long succession of "progressive" calls for tyranny.

Even a true end to economic growth would not solve the problem. Suppose global economic growth did cease and emissions per unit of output continued to decline at the same rate as between 1990 and 2018—that is, at about 1.8 percent a year. Annual global emissions would still have fallen by only 40 percent by 2050. That would not solve the climate problem: it would just mean that it would go on getting worse more slowly. The only ways to achieve zero emissions are either to divorce output from emissions or to eliminate *all* output that depends on inputs of commercial energy. If the former were possible, neither an end to growth nor the far more radical alternative of eliminating all the increase in global output since the industrial revolution would be necessary. The latter is certainly politically impossible. But it is also morally unacceptable. It would require reversal of virtually all increase in economic welfare of the past two centuries, with devastating consequences for individual well-being and political and social stability.

It is essential to grasp what the preindustrial world was like. Two hundred years ago, more than 80 percent of the world's (then much smaller) population lived on the borders of survival. Most people were subsistence farmers. Undernourishment was widespread and starvation a permanent threat. Before COVID-19 the proportion of the world's population in such desperate poverty had already fallen to below 10 percent—still far too high, yet a dramatic improvement from the situation of preindustrial humanity. What is more, nearly half of that decline in the proportion of those living in such destitution occurred in the golden age of globalization after 1980 (see figure 42).

FIGURE 42. SHARE OF THE WORLD POPULATION IN EXTREME POVERTY (PERCENT)
(Source: Bourguignon & Morrison, 2002; World Bank, 2015)



Over these two centuries, the proportion of the world's population living in extreme destitution fell from 80 to 10 percent, *despite a more than sixfold rise in the human population*. That population explosion was also in significant measure due to rising life expectancy: average world life expectancy rose from around thirty years at birth in 1800 to forty-six in 1950, and then seventy-one in 2015, with much of this rising longevity due to falling child mortality.[6] Arguably, this transformation in life expectancy is the most profound improvement of the last two centuries, with revolutionary consequences for the opportunities for women, size of families, investments in education, and the aging of societies, but also for the value we place on human lives and many other valuable aspects of our societies. It is surely a profoundly welcome transformation. How many bewail the fact that children increasingly survive to adulthood? By historical standards, COVID-19 is even a very modest pandemic. The fact that it upset us so much shows how far we now take for granted our ability to control illness and postpone death.[7] Our ancestors took such disasters—indeed, far worse ones—for granted.

In sum, "de-growth"—let alone the far more radical alternative of actually reversing industrialization—is a utopian (or rather dystopian) illusion foisted upon us by people who are more interested in reversing

thousands, or at least hundreds, of years of human history than in solving the problems we actually confront.[8] A practical and acceptable solution can come only from a technological transformation that eliminates emissions of greenhouse gases from the economy.[9] What is needed is not de-growth, but rather “de-emissioning” growth.

The value of a dynamic market economy lies not only in the prosperity it has created and the longer lives it has allowed us to live. It lies also in the sort of lives it allows people to lead. Markets allow people to use their imagination, skills, and efforts to better themselves, without approval from a higher authority. They need only find someone interested in paying for what they create. In this respect, markets are egalitarian. They do not have egalitarian outcomes, but the ability to engage in the market is not dependent on social status, though it does depend on inherited abilities and acquired resources. Anybody is allowed to try. Nobody appointed Elon Musk or Bill Gates to their positions in society. In countries with the rule of law and no, or limited, corruption, this opens huge opportunities. That, too, is a value worth cherishing and defending.

Furthermore, markets impart information. Market incentives will influence everybody in the market. The alternative is some form of top-down command and control. Quite apart from the coercion this would require, a central planner will never know all the possibilities, as people operating independently can. They can, above all, never know what is in everybody’s head. Even in the age of big data, markets exploit knowledge and adjust incentives in ways no other social mechanism does. Of course this does not mean markets are perfect. On the contrary, the strongest justification for markets is that they encourage independent trial and error in an environment of fundamental uncertainty. They are pluralist. If we enjoyed perfect information about the future, markets would be far less valuable, for we would know so much more about what needs to be done. If they are to work well, both economically and socially, markets need careful design and regulation and must not be dominated by a small number of oligarchs. But they remain an essential social instrument.

Moreover, as Edmund Burke argued in his *Reflections on the Revolution in France*, not only is it impossible to build a new society from first principles, but it is also inhuman even to try.[10] We must always build on what we have and know. The Russian Revolution turned out to be a seventy-four-year journey from a highly unequal and predatory tsarist state, though one with at least some hope of reform, to an even more unequal and predatory state, with even smaller hope of democratic reform. On the way, tens of millions of people were killed in the Soviet Union and tens of millions more, under the same ideology, worldwide.[11] Moreover, so utterly did the utopians smash the possibility of liberating reform that when the chance for that was offered once again, in the 1990s, it was lost. Utopianism is absolutely destructive.

A particularly relevant part of that painful history was the intended creation of "New Communist Man." According to Leon Trotsky, "Man will make it his purpose to master his own feelings, to raise his instincts to the heights of consciousness, to make them transparent, to extend the wires of his will into hidden recesses, and thereby to raise himself to a new plane, to create a higher biologic type, or, if you please, a superman."[12] In practice, the new communist man was an amoral predator. The transformation of actual human beings, with all their faults and virtues, into "ecological" man (and woman) is equally implausible. We must do our best with humans as they are—with their mixture of greed and selflessness. The idea of the perfectly ecological human is quite as much a delusion as Trotsky's communist superman. Just consider the mass extinctions that followed humanity's first arrival in Eurasia and the Americas back in prehistoric times.[13]

In Praise of "Piecemeal Social Engineering"

In brief, we need radical and courageous reform of the capitalist economy, while preserving what is good about it and remedying what is bad, just as was required in the 1930s and 1940s. The reforms we need are not the same as

those needed then, because the context and challenges have changed, especially the climate challenge. Moreover, most of what was done then survives today. But the fundamentals are the same: we need to strengthen the economic bonds of citizenship, while deepening international cooperation. We must act radically and yet incrementally, learning from experience as we go. Acting in this way is the only way to make changes likely to work. Karl Popper called this approach "piecemeal social engineering," as opposed to revolutionary transformation of society from top to bottom, stating, "The piecemeal engineer or the piecemeal politician will, accordingly, adopt the method of searching for, and fighting against, the greatest and most urgent evils of society, rather than searching for, and fighting for, its greatest ultimate good."[14]

Social engineering of this kind depends on expertise, but expertise is never enough. We also need public engagement in formulating desired goals and consenting to the outcomes. To deliver the energy transformation we need will require an enormous range of expertise, innovation, planning, and global cooperation, supercharged by incentives. Ultimately, we must rely on an empowered, but socially responsible, technocracy to manage the risk of climate change and achieve the other worthwhile policy goals to be discussed below and in chapter 8. Yet it is also clear that technocrats cannot—and should not be allowed to—bring about the needed radical change in direction on their own. They can only provide the details. A change in the direction of a society requires political leadership. In democracies, words are needed to persuade people to embrace great causes. Franklin Delano Roosevelt and Winston Churchill were masters of this art in the crisis-hit 1930s and 1940s. Comparable leadership is as desperately needed today.

Crucially, Popper recommended focusing on removing evils. One of the best examples of such an approach was the list of the "five giants"—want, disease, ignorance, squalor, and idleness—in the UK's Beveridge Report, written by the liberal William Beveridge and published in 1942.[15] This report was to be the foundation stone of the UK's postwar welfare state.

Some well-intentioned people believe we can achieve something more ambitious: happiness, or "well-being" for all. To my mind, this is an

overweening ambition. It is not within the capacity of any government to make a society of free people happy. Nor is it desirable, for reasons explained by Aldous Huxley in his masterpiece, *Brave New World.* Unhappiness is an inescapable part of life. A state of permanent happiness cannot be achieved other than by robbing us of our capacity to feel and experience life to the full. Just as doctors should seek to cure illness, so should governments seek to eliminate miseries. That is a fundamental goal of policy. Indeed, one might argue that the first duty of government is not to *do* harm and the second is to *remove* it. It is right, therefore, to address mental ill health, unquestionably a huge source of misery.[16]

To those who seek a list of positive aims for economic policy, I would propose four: security, opportunity, prosperity, and dignity.[17] People need security because its absence is terrifying. They need opportunity because its absence is crippling. They need prosperity because its absence is oppressive. They need dignity because its absence is corrosive. If human beings lack these things, they become defeated, frightened, or angry. If people want to consider these goals as stepping-stones to "happiness," that is fine.

How, not least, should we measure success? For too long the dominant measurement has been gross domestic product. GDP has value, especially when we are looking at poor societies. In the same way, doubling the material income of a poor person is a big thing. Nevertheless, GDP is defective. It says nothing about security, opportunity, or dignity. It does not say anything about whether prosperity is widely shared or sustainable. It merely measures the total value of domestic (or national) output at market prices in a given period. That has some value. But it omits far too much to be the sole method of evaluation.

So we need measures that focus on these different aspects of reality. Many have been proposed and some are interesting and useful. But it is impossible to construct a single measure. Instead, we must use a family of measures, understanding their value, meaning, and limits. A commission on these issues, under two Nobel laureates in economics, Joseph Stiglitz of Columbia and Harvard's Amartya Sen, in addition to the late Jean-Paul Fitoussi, suggested that proper measurement would cover eight dimensions:

material living standards; health; education; personal activities, including work; political voice and governance; social connections and relationships; the environment; and insecurity.[18] We do indeed need measures of all these aspects of our reality. But we have no simple way of adding them up into a single aggregate measure of well-being. We must live with—and accept—the limitations imposed by complexity.

Nevertheless, evidence strongly supports the simple idea that a combination of widely shared prosperity with democracy is crucial to societal well-being. According to the *World Happiness Report 2021*, the ten happiest countries are Finland, Iceland, Denmark, Switzerland, the Netherlands, Sweden, Germany, Norway, New Zealand, and Austria. The next nine are Israel, Australia, the US, Canada, Czech Republic, Belgium, the UK, Taiwan, and France.[19] All these countries are both prosperous and democratic. Many are small, which underlines the point that trade is crucial, since small countries cannot achieve high levels of prosperity without it. Above all, the most successful countries provide opportunity and security to their populations, along with open and democratic government. The discussion in this and the following two chapters fleshes out what this could mean.

Toward a "New" New Deal

The goals of security, opportunity, prosperity, and dignity need to be turned into something more concrete. Franklin Delano Roosevelt spelled out such objectives in words that seem nearly as relevant today as they were in January 1941.[20] Notwithstanding the great war already looming in view for the US, he stated:

> Certainly this is no time for any of us to stop thinking about the social and economic problems which are the root cause of the social revolution which is today a supreme factor in the world. For there is nothing mysterious about the foundations of a healthy and strong democracy.
>
> The basic things expected by our people of their political and economic systems are simple. They are:

Equality of opportunity.

Jobs for those who can work.

Security for those who need it.

The ending of special privilege for the few.

The preservation of civil liberties for all.

The enjoyment of the fruits of scientific progress in a wider and constantly rising standard of living.

Roosevelt went on to illustrate some of the things this list implied:

We should bring more citizens under the coverage of old-age pensions and unemployment insurance.

We should widen the opportunities for adequate medical care.

We should plan for a better system by which persons deserving or needing gainful employment may obtain it.

This speech remains, to this day, a convincing statement of the policy objectives of wise democracies, at home and, so far as they are able, abroad. While our times are less fearful for liberal democracy than 1941, similar "social and economic problems" are, as argued in part II, once again the "root cause" of many of today's political upheavals. We have indeed gone back to the future.

Is there anything to alter in Roosevelt's list? Yes. Today, we would stress *equality of status* among citizens more explicitly than he did, given the objective of eliminating discrimination by race, ethnicity, and gender. We would surely qualify "enjoyment of the fruits of scientific progress in a wider and constantly rising standard of living" by insisting that it should be a "a rising, *but sustainable*, standard of living." We would qualify "jobs" by saying they should be "good jobs"—ones that give workers dignity and allow them to participate fully in social life. With these modifications, this remains a superb list.

A few might still make equality of outcomes a separate goal, even after the failure of communism. Yet complex societies are, and always have been, unequal. In a dynamic market economy, some people are going to make a great deal of money. I have no problem at all with this, so long as the money is earned by wealth-creating activities and does not prevent society from

achieving the wider goals of a modern democracy. But there must be enough equality to enable everybody to participate in society and ensure a reasonable degree of equality of opportunity.

My revised list, also changed in order (and with civil liberties put to one side until chapter 9), is:

1. A rising, widely shared, and sustainable standard of living
2. Good jobs for those who can work and are prepared to do so
3. Equality of opportunity
4. Security for those who need it
5. Ending special privileges for the few

This list also has implications for the permissible degree of inequality. The most economically successful must not be allowed to control the political system, rig markets, inflict harms (such as environmental damage), establish a hereditary oligarchy, or avoid paying the taxes required to secure all the other objectives. (See chapter 2.) Achieving these goals will require significant taxation. I can also see no reason why the moderate right, center, and moderate left should disagree on these aims even if they disagree over how best to define and deliver them. Success will ultimately depend, as it always does, on getting the right balance between the various elements.

This list covers the economic aspects of the enumerated goals of security, opportunity, prosperity, and dignity. This is not to argue that the economy alone matters. But most social goods also depend on widely shared prosperity. In his critique of meritocracy, Michael Sandel calls for a more equal division of economic goods because these are not only important in themselves, but also signals of social recognition.[21] Again, many are concerned about crime and the health of the family. But both are directly related to economic opportunities and economic status. If people have little hope of earning a decent income, they are more likely to become criminals and less likely to form stable family bonds. The opportunities of their children will be blighted, with further bad economic and social consequences. Mass imprisonment on the US model makes the situation far worse. People

want to live in a peaceful world as well. But the best way to ensure this is to spread economic opportunity at home and abroad.

In sum, economics is not everything. But it is the foundation of almost everything. On this, FDR's list of "the basic things expected by our people of their political and economic systems" is the right agenda.

Obstacles to the Economic Relaunch

Before we turn to the detailed policy choices in chapter 8, it will be helpful to consider the general conditions for a successful relaunch of the economies of the high-income countries as foundations for stronger democracies. These conditions cut across the many specific areas of policy to be discussed in the following chapter.

As the British economists John Kay and Mervyn King (a former governor of the Bank of England) note in an important new book, *uncertainty* is a pervasive characteristic of our existence.[22] This does not mean that the world is entirely unpredictable. On the contrary, some events are clearly more likely than others. But the probabilities are themselves usually unknown and unknowable: we cannot rerun history many times and so cannot assess the probability of rare events. Nevertheless, there are also few true "black swans"—events that nobody had experienced or imagined. There exist instead many known but rare swans—imaginable events that one would still be surprised to see.[23] Since so many of these rare swans clearly exist, one of them must be deemed likely to occur in any given decade. Consider just a few of such (individually, but not collectively) rare swans: intensification of the COVID-19 pandemic; a new and worse pandemic; a huge terrorist attack, maybe with a dirty nuclear bomb, or even a series of such attacks; a stock market collapse; another financial crisis; hyperinflation; coups d'état; collapse of regimes, ideologies, or both; revolutions; counterrevolutions; civil wars; a major regional war (as has happened in Ukraine); nuclear war; a global thermonuclear war; devastating cyber attacks; climate catastrophes;

perhaps even asteroid or comet strikes. Any one of these is at least imaginable and one of them at least is surely likely to happen in any decade or so. We may make some rough guesses of the likelihood of some of these events but be unable to do much more than that. Stuff happens and does so unpredictably. *Disruption is normal.*

Closely related to, though distinct from, the challenge of uncertainty is that of thinking *systemically*. The New Approaches to Economic Challenges initiative of the Organization for Economic Co-operation and Development worked hard, with inadequate recognition, to embed this way of thinking inside the Paris-based organization, its members and beyond.[24] Governments should focus on systemic fragility in their internal work. Along with other donors, they should also support the work of international organizations that seek to integrate different aspects of complex realities. The fundamental point is that the world is interconnected in complex ways. People must try to think this way if they are to develop the capacity to respond to events.

Of course, we humans will almost certainly fail to do so adequately: complex systems are, after all, just that—complex. In just the last fifteen years, we have experienced three huge events that demonstrated the fragility of our complex systems: the financial crisis, the COVID-19 pandemic, and Russia's invasion of Ukraine. These showed how disease, economy, society, government, politics, and warfare are interconnected not just within countries, but globally. Thinking systemically is hard, especially in an age of narrow specialization. But specialists must be forced out of their silos. They must also recognize that thinking systemically is not the same as having a well-specified and empirically validated model of the world. This is naive rationalism, or "scientism," as Friedrich Hayek called it.[25]

In an uncertain world, an essential quality of good systems is *robustness*—the capacity to continue operation throughout unexpected emergencies.[26] We have discovered that some of our primary systems are not robust. This was the biggest shock of the global financial crisis: the financial system not only fragmented but could not put itself back together without support from governments and central banks. COVID-19 has, however, suggested that

many of our systems are remarkably robust, notably those for making and distributing vital products—such as food and medical supplies—in a crisis. While there was some disruption of the latter, it was brief, especially if one considers the scale of the initial disruption. The ability to create, produce, and distribute new vaccines was astounding. Nevertheless, the supply constraints that were then revealed in the course of the unexpectedly strong recovery of 2021 showed that robustness was not always present.

One must not take robustness for granted. Robust systems frequently need spare capacity. But spare capacity is costly. In the financial sector, for example, a part of robustness is for intermediaries to be financed by more equity capital and less debt than managers and shareholders would like. In this case, there would in fact be no overall cost of higher equity requirements, but there would be a cost to managers whose pay is linked to equity returns. Such managers make an implicit bet that nothing will go badly wrong while they are in charge. If this odds-on bet wins, they can benefit hugely from raising leverage, even though they are also making the business less robust.

The concern, however, is mostly not about making individual products or services more robust: most people and businesses understand the need to build strong bridges, hold stocks of equipment, and have more capacity than is necessary most of the time, provided it is a matter of their own survival. The problem arises when businesses and countries rely on backup systems that will not work if *everybody needs them at the same time*. This, then, is an "externality"—what makes sense for the individual does not necessarily make sense for everybody. That was a lesson of COVID-19, at least in the early phase of the pandemic, when suddenly everybody wanted masks and so forth. A part of thinking systemically is asking how much one wants to pay for a system to be robust in such circumstances. Moreover, thinking about this should in part be a function of government, because the absence of robustness may make sense for individual businesses, but might impose large costs on society in a crisis.

If important systems are not robust, they need at least to be *resilient*, that is, capable of being reconfigured or rebuilt swiftly after a collapse. Resilience is one of the great virtues of market systems, especially global markets. They

usually generate multiple channels of potential production and distribution. After the initial shock of COVID-19, this proved to be true for the medical supplies that were desperately needed. One should never underestimate the capacity of profit-driven business to find a way to bring supplies to the market. But, as with robustness, it is sensible for competent governments to ask how resilient essential systems would be under exceptional pressures and what to do about it if they appear likely to fall short.[27]

A crucial aspect of democratic capitalism is *accountability*. The underlying principles are clear: nobody is above the law; no business is above the market; no politician is above voters; and no person or individual is above public criticism. This is the obverse of the system in autocracies and ought to be one of the great and abiding values and virtues of democratic capitalism. All these systems must be treasured and protected. But that does not mean accountability is easy, even in sophisticated democracies. Nobody wants to be held to account. It is painful. Governments, politicians, businesspeople, and professionals will do whatever they can to avoid this. There are so many ways to obfuscate: unnecessary complexity; deliberate confusion; buck passing; and lack of oversight, clarity, and transparency. Eternal vigilance is the price of accountability.

This is accountability, in the broad. But there is also accountability in specifics. Here are three examples.

First, what is not counted does not count. Accounting, public and private, needs to include as much of what is relevant to decision-making as is measurable. So, for example, public sector cash-flow accounts should be complemented with worked-out public sector balance sheets and accrual accounts, as in New Zealand.[28] The exclusive focus of most systems of public accounts on short-term cash flows and debt stocks relative to gross domestic product is intellectually indefensible. Again, national accounts should include estimates of things beyond market output and expenditure (as discussed earlier). Similarly, corporate accounts should include estimates of the wider aspects of the business in relation to the environment, society, and governance. At the very least, they should estimate the exposure of businesses to these risks.

Second, the preparation and auditing of accounts, public and private, must be independent. In the case of the UK's public sector, the Office for Budget Responsibility, itself an excellent innovation in accountability, should be given the resources to prepare balance sheets. Moreover, a public sector balance sheet would encourage the public sector to manage its assets and liabilities more professionally.[29] In the case of the private sector, the auditing function has long been under a cloud, as a result of two conflicts of interest: within auditing firms, given their other commercial relationships with their clients, and within businesses, given that the auditor is commissioned and paid by the company it is auditing. One solution would be for the cost of the audit to be a part of the listing fee on stock markets. In that case, the stock market would pay for the audit, on behalf of investors, who are the people most interested in the quality of accounts.

Finally, there needs to be accountability for failures. It should be a matter of course to have inquiries into all significant disasters, with a view not so much toward punishing people, but far more toward learning lessons for the future. COVID-19 is already a leading example. Western countries that have failed so signally to manage the disease need to learn what they did wrong and what other countries did right.

Conclusion

There are certain big things we need to get right if our economies and societies are to work better. These have been laid out above. But the fundamental requirement is careful and intelligent reform aimed at bringing substantial improvement to most people's lives. That is the focus of the next chapter.

CHAPTER EIGHT

Toward a “New” New Deal

> There’s class warfare, all right, but it’s my class, the rich class, that’s making war, and we’re winning.
>
> *—Warren Buffett*[1]

> Taxes are what we pay for civilized society.
>
> *—Oliver Wendell Holmes*[2]

> Sometimes simple and bold ideas help us see more clearly a complex reality that requires nuanced approaches. I have an “impossibility theorem” for the global economy that is like that. It says that democracy, national sovereignty and global economic integration are mutually incompatible: we can combine any two of the three, but never have all three simultaneously and in full.
>
> *—Dani Rodrik*[3]

The previous chapter outlined the approach of this book to reform of contemporary capitalism. This one will explore some of the details of a “new” New Deal. Inevitably, some ideas will be more palatable to some people than to others. But all those to whom this chapter (and book) are addressed will share a commitment to the principles of a law-governed liberal democracy and “social” market economy.

The analysis follows the outline of the updated version of Franklin Delano Roosevelt’s aspirations, laid out in the previous chapter. These are:

1. A rising, widely shared, and sustainable standard of living
2. Good jobs for those who can work and are prepared to do so
3. Equality of opportunity

4. Security for those who need it
5. Ending special privileges for the few

Rising, Widely Shared, and Sustainable Standard of Living

As argued in chapter 2, the ideal of universal suffrage democracy was a child of economic advance. It is far easier to share the benefits of rising average prosperity than to share losses from declining prosperity. Indeed, one reason why politics has become so fraught even in countries with what seemed to be robust liberal democracies is that they were sharing losses (at least relative to prior expectations) caused by the financial crisis. The fiscal austerity that characterized the postcrisis period was a particularly important source of such losses. So, too, was the prolonged period of relatively low productivity growth (see chapter 4, figure 19) and the longer-term failure, especially in the US, to respond to adverse shocks caused by trade and technological advance. It is of great importance that the 2020s do not deliver a repeat of this disappointing experience, especially after the damage done by COVID-19 and the upsurge in inflation that followed the recovery. So how are economies to enjoy a rising, sustainable, and widely shared standard of living?

There exist a host of proposals for dramatic actions, many of which seem to suggest we can find magic wands able to deliver an upsurge in sustainable prosperity. This is unlikely. The headwinds discussed in chapter 5 show how difficult this is going to be. Moreover, the simpler reforms—opening economies to trade, for example, or universal secondary education and widespread tertiary education—have largely been done. Also, sadly, we understand only a little about economic growth. It is misleading to suggest that accelerating the growth of economies already at or close to the frontiers of technology is a simple matter. Nevertheless, there are four relatively clear requirements of sustainable prosperity in the 2020s and thereafter:

macroeconomic stability; investment and innovation; sustainability; and sensible openness to the world economy.

Macroeconomic stability

COVID-19 came at the end of a long period of what Harvard's Lawrence Summers called "secular stagnation" (an idea discussed more fully in chapter 5) or, more prosaically, structurally weak demand. Rising private indebtedness, itself part of the response to the weak demand, exacerbated the problem, partly because of the financial crisis it triggered, partly because of the depressing effects of debt on new borrowing, and partly because of the vulnerability of an indebted economy to even modest rises in interest rates.

The austerity adopted shortly after the global financial crisis had been a mistaken choice, not a necessity.[4] It was, in some cases, notably the UK's, an attempt to shift the blame for the crisis onto fiscal profligacy from heedless finance.[5] That then justified the politically convenient response of severe fiscal discipline.[6] This policy weakened the recovery, which had damaging consequences for the welfare of the people and even the legitimacy of the democratic system. Among other things, premature austerity led to Brexit and the election of Donald Trump.

Premature, excessive, or badly directed austerity can therefore be a disastrous policy, but so can prolonged, excessive, or badly directed stimulus. It is always a matter of choosing the direction and instruments appropriate to the circumstances.

We relied too heavily on monetary policies (such as quantitative easing), crucial though such policies were in the response to the crisis of 2008–09, then to the eurozone crisis, and more recently to COVID-19.[7] Extreme monetary policies can have dangerous side effects.[8] They rely on incontinent creation of credit and debt and elevation of asset prices. This combination tends to make the financial system more fragile and the economy more unstable. Sometimes sick patients must take such dangerous medicines. But using them for decades can bring damaging side effects.

Moreover, monetary instruments, especially low interest rates, may not just be risky: they may also be ineffective. In an era of "secular stagnation" and weak confidence, low interest rates may fail to boost private spending, especially on investment, adequately.[9] That is in line with the "Old Keynesian Economics" of the 1930s, when the phrase "secular stagnation" was first invented.

Even today, many argue that little or nothing should be done to halt depressions on the grounds that, like forest fires, they clear out old growth, so creating room for the new.[10] Sometimes, people even shed crocodile tears over how aggressive monetary policies worsen wealth inequality. But such protestations ignore what would have happened to the jobs of most of the people they pretend to care about in the absence of expansionary policies. Remember, too, that a large proportion of the population has very little wealth. Thus, according to the US Census Bureau, the median net worth of the bottom 20 percent of US households was only $6,030 in 2019, the median net worth of the next 20 percent was just $43,760, and the median net worth of the 20 percent in the middle of the distribution was still only $104,700.[11] A doubling of the wealth of billionaires can have little or no significance to people who own next to nothing.[12] What matters to the latter is how well-off they are, which mostly depends on having a reasonably paid job.[13]

What, then, are the alternative possibilities for dealing with prolonged weakness of demand? One is structural policy, notably, redistribution of incomes toward people who will spend rather than save, along with far stronger incentives for private investment. Another is even more unconventional monetary policies than those we have seen so far. One such option is negative deposit and lending rates. But this is likely to be unpopular and ineffective. Another is "helicopter money"—that is, a direct monetary transfer from the central bank to the public. Yet another is for central banks to lend at negative spreads: they would lend at *below* their deposit rates, which would remain at zero or above, and so they would operate at a loss by transferring income to the private sector.[14]

A further option is even more aggressive fiscal policy—that is, fiscal deficits generated by some combination of tax cuts and higher spending,

especially heavy public investment, particularly on the energy transition. Such a fiscal policy could, in turn, be financed in the conventional way, by selling bonds to the public or by direct creation of money. The latter, in turn, might be temporary, as it has been (at least in principle) during the COVID-19 crisis, or permanent. Moreover, monetary financing of fiscal spending might occur relatively transparently via the central bank or via public guarantees for lending by private financial institutions. In the latter case, part of what is notionally private lending will turn out to be fiscal policy after the fact.

So, which of all these alternatives, or what combination, makes sense? The answer is that any of them might do so. They are also all risky. How risky they might be was indicated by the explosion of inflation in 2021 and 2022. The question is which of them would offer the best ratio of effectiveness to risk, those risks being not only economic, but also institutional and political. The answer depends partly on the economic opportunities and the economic and political constraints.

Centralized parliamentary systems, such as those of the UK or Japan, can use both fiscal and monetary policy freely, with constraints imposed by financial or economic risks. The eurozone, as a union of sovereign states, is at the opposite end of flexibility. A federal system, with the complex balance of powers of the US, falls in between these two cases. It can use fiscal policy. But achieving agreement between the administration and both branches of Congress is onerous and generally results in an ill-considered rummage sale of favors to powerful special interests. Congress was reasonably effective on fiscal policy during COVID-19 and continued to be so under the Biden administration in 2021. But that was a national emergency.

There can be good reasons for using fiscal policy. Quite apart from being relatively effective when interest rates are low, fiscal policy can be targeted in ways that are impossible for normal monetary policy. It can, for example, be aimed at helping specific vulnerable groups or at increasing investment. Moreover, when real interest rates are negative, fiscal deficits carry little risk, provided governments take advantage of the opportunity to borrow on ultra-long maturities, maybe perpetually, as George Soros has suggested.[15]

Indeed, it is even possible that fiscal expansion could *improve* long-term fiscal sustainability, provided it is implemented in a depressed economy, by expanding GDP proportionately more than the public debt.[16] Of course, fiscal deficits might generate economic overheating, as Larry Summers warned over the $1.9 trillion stimulus implemented by the Biden administration in early 2021.[17] But this is not an argument against active fiscal policy; rather, it is one against ill-advised fiscal policy.

This brings the discussion to "modern monetary theory" (MMT), an increasingly influential approach to the relationship between fiscal and monetary policy. The idea is straightforward.[18] Governments can create sovereign money—that is, money unbacked by some asset, such as gold—at will. Citizens are required to accept this money in payment for services, under the law. This being so, governments do not need to borrow money in order to pay their bills and can never be forced into default. The only limit is inflation. So governments can and should run money-financed deficits up to the point at which inflation becomes a significant risk.[19]

Critics counter that MMT is neither modern, nor monetary, nor a theory. Instead, they assert, it is old, fiscal, and mostly mere accounting.[20] The MMT view is in fact more dangerous than it is incorrect. We can identify three principal dangers.

The first such danger is the ignorance and wishful thinking of policy makers. The latter, not least elected politicians, do not know when an economy is close to full employment and so to a blast-off into high inflation. Indeed, even the idea that there exists a well-defined and stable output gap for the entire economy is false. That was one of the lessons of the 1970s. The likelihood, underlined by the experience of populist policy making in Latin America over decades, is that an economy driven by the wishful thinking of people with naive hopes about macroeconomics will be forced into high inflation. It may take a while for the economy to arrive there, but it is likely to do so in the end, not because rising inflation is the inevitable result of strong demand, but rather because the underlying recommendation of MMT is one of unlimited money creation so long as the economy is thought to have *any* overall excess capacity. The experience of 2020, 2021, and 2022

suggests such naivete is hardly a remote risk and may be found in central banks as well as in finance ministries.

A second danger is loss of control over the monetary system. Thus, when the central bank creates money to fund the government, it is simultaneously creating reserves for the banking system. Unless reserve requirements are adjusted upward, there is a significant risk that bank lending will also explode in the boom driven by open-ended monetary financing of unlimited fiscal deficits. Suppose, instead, that reserve requirements are increased, with a view to curbing such an inflationary expansion of bank lending. Suppose, too, that interest is not paid by the central bank on these reserves, even though the central bank raises its intervention rate, to curb inflationary pressure. Then the forced holdings of unremunerated loans to the central bank are being taxed. Deposits at banks may not receive interest either. That, too, would be a tax, this time on depositors. These are examples of "financial repression," again a familiar feature of Latin American monetary history.[21]

A third danger is flight from money into goods, services, and assets (including foreign assets), which would generate asset-price bubbles, inflation, or both. If, for example, in such an inflationary environment, bank deposits do not receive interest, such flight from money is nigh on certain. As Sebastian Edwards of UCLA (who has the advantage of Chilean origin) points out, the many Latin American experiments with such monetary policies "led to runaway inflation, huge currency devaluations, and precipitous declines in real wages."[22] What persuades people to hold the government's money is trust, not law. If they lose that trust and so refuse to hold the money, one ends up with an Argentina—a once-prosperous country with a crippled economy and a ruined relationship between citizenry and state.

In managing a modern monetary economy, one must avoid two errors. The first error is to rely excessively on credit-fueled private demand, since that is likely to deliver financial booms and busts. The second is to rely excessively on central-bank-financed government demand, since that is likely to generate inflationary booms and busts. The solution is to delegate the needed discretion to independent central banks and financial regulators.

When it makes sense for governments to be financed by the central bank, the decision to do so should rest with the latter, except perhaps when the government is credibly able to declare a national emergency, as in a war, pandemic, or financial crisis. One must avoid fiscal dominance in normal times—that is, a situation in which fiscal policy determines monetary policy.

Yet deficient demand is not the only long-term risk. Demand may also be excessive, perhaps because monetary and fiscal stimulus are overdone, as was the case in 2021.[23] It is right for central banks and governments to support chronically weak demand. But it is also important for them not to overdo it, since that risks a prolonged inflationary overshoot, abrupt monetary and fiscal tightening, and a deep and damaging recession. The situation will become particularly bad if inflationary expectations are destabilized or are shifted semipermanently upward.

Nevertheless, so long as the structural condition of the world economy remains one of weak aggregate demand, and central banks remember their core job, the rise in inflation in 2021 and 2022 may prove temporary and the risks of a return to persistently high inflation may be modest.[24] Against such complacency, the condition of chronically weak demand might change quite soon, for the demographic reasons discussed in chapter 5.[25] In particular, aging will shrink the labor supply and lower savings. The former effect is quite clear. The impact on the balance between savings and investment is less so because an aging population is likely to invest, as well as to save, less. A chronically inflationary future is a possible prospect. But it is far from certain.

A crucial final point includes the urgent need to reduce the fragility of the financial system and especially the fragility created by overhangs of private sector debt. One of the causes of this danger is that debt is favored over equity within almost all current systems of corporate and personal taxation. This increases the fragility of corporate and household balance sheets and so the risks of mass bankruptcy in a slump. That, in turn, forces policy makers, especially central banks, to rescue debt markets in a crisis. A particularly important aspect of this is the growth of private equity, whose business model

is to maximize the indebtedness of the companies they own. The incentive to borrow needs to be reduced.[26]

In the long run, some of these problems might be reduced by the development of central bank digital money.[27] Such digital money could even be rather more than a replacement of cash, now an increasingly outdated technology. Central bank digital money could, in theory, replace bank deposits as an unimpeachably safe reserve of purchasing power. This could greatly reduce the fragility of our current financial system, especially its vulnerability to devastating panics—a vulnerability that has forced governments to provide essentially unlimited amounts of insurance, much of it implicit. Instead of benefiting from a government-subsidized license to print money by lending, as they do now, banks would act as intermediaries. With central bank digital money, it would also become simpler to make cash drops, in equal quantities, to every citizen. Yet a shift to central bank digital money would also create challenges, especially those of preserving competition in finance and payments, and managing the possibly destabilizing transition to the new system. Revolutionary change in monetary and payments technology is indeed coming. It should bring big benefits in the long run. But it must also be carefully thought through.[28]

Innovation and investment

Investing more in existing technologies will not be an engine of durable growth, except in a catch-up economy able to adopt technologies already developed elsewhere. For countries at the economic frontier, the fundamental engine of growth is innovation, whose handmaiden is “creative destruction,” the phrase invented by the Austrian economist Joseph Schumpeter. Innovators destroy the old and create temporary monopolies, which will then be attacked by new entrants. Competition drives this machine. Its ancillary motors are entrepreneurial vigor, scientific research, and corporate research and development.[29]

These new ideas mostly need to be embodied in physical and intangible capital.[30] A successful economy also needs high-quality infrastructure, from roads to broadband, as well as other capital goods, such as housing, hospitals, and schools. Not least, prosperity depends on the supply of high-quality human capital, which is the outcome of education and training, as well as of the scale and nature of immigration. In sum, a prosperous society requires a high level of high-quality investment.

The private sector does most of this investment. But public policy must play an essential role: it directly supports science and innovation; funds and regulates the supply of infrastructure and use of land; protects and promotes the creation of intellectual property; and finances and governs education. In addition, a range of government policies, including protection of intellectual property, taxation, regulation, and planning both encourage and discourage private investment in innovation and many other forms of valuable capital.

A “dynamic capability theory of growth” gives a revealing explanation of the success of the catch-up growth stories of the past two centuries, from Germany and the US in the nineteenth century to Japan and South Korea in the twentieth century and more recently China.[31] Their success has not come from doing more of the same things, but from development of new capabilities.[32] Private entrepreneurship supported by risk-taking capital markets is the driver of dynamic and innovative market economies. But governments have long played a central role. This realization goes back at least to the mercantilists of the seventeenth and eighteenth centuries. Alexander Hamilton and the German economist Friedrich List argued for infant industry protection in the late eighteenth and nineteenth centuries.[33] List had great influence on nineteenth-century German thinking, while Hamilton was the intellectual force in the US, the most important catch-up economy of the nineteenth century.

DARPA (Defense Advanced Research Projects Agency), created by the US government in 1958, has a particularly significant record as an innovator.[34] Many of the fundamental technologies used by innovative businesses, such as Apple, were developed with government support.[35] Fundamental research in new medical treatments has also frequently been financed, or

carried out directly, by government agencies, such as the National Institutes of Health in the US or the UK's Medical Research Council.[36] The state also plays a role as a provider of macroeconomic stability if or when financial manias initially launched by innovation end in financial crises.[37]

Yet, while governments play a positive role in successful economies, they usually play a big—often bigger—role in *unsuccessful* ones. So, what distinguishes successes from failures? In unsuccessful economies, governments fail to provide effective government, legal predictability, and the necessary physical and social infrastructure.[38] They also interfere haphazardly. Governments of successful economies do provide what is necessary and are also careful about how they intervene. In this latter respect, they have broadly four options: leave everything to the market; support the supply of relevant factors of production (especially science and skills); support certain broad industries and technologies; and pick specific firms/technologies/products. Governments should attempt to do the first three of these, albeit cautiously, but not the last. That should be left to banks, venture capitalists, and other investors and lenders. Governments that try to pick the winners usually discover that losers pick them instead.

An important question is how to develop intellectual property law, which has become an important source of rentier profits (see chapter 5). Copyright and especially the tendency for continued copyright extension is highly problematic. There are also difficulties with what may be patented and how patents are used by "patent trolls" as instruments of extortion.[39] More fundamentally, nobody really knows whether the net impact of the system of intellectual property rights is to accelerate innovation in the real world (by rewarding it) or to retard innovation (by slowing its application). A case can be made for funding innovations in different ways—for example, by prizes or other direct rewards to inventors. The use of such mechanisms might even accelerate the application of inventions and innovations. Also, by offering prizes, the government might push innovation in the directions it thinks most important, without having to fund the research itself.[40] Prizes should then be seen as a complement to patents, not a replacement.

In sum, governments need policies aimed at the promotion of scientific research and innovation, as well as the development of capabilities in new areas. Government spending in such areas provides essential public goods—things that the market will undersupply or fail to provide at all.[41] The question to be asked in the case of such interventions is whether they are likely to generate valuable new capabilities that go well beyond individual businesses.

More broadly, innovation is not just about new products and processes, but also about new *relationships*—particularly between private goods provided competitively and public goods provided cooperatively. Thus, the emergence of modern banking required the evolution of new relationships among banks, as well as the public good of central banking and financial regulation. Similarly, the internet is not just founded on the technical innovation of packet switching and competition among service providers, but also on standards, which are cooperatively governed public goods. Although economists think of public goods as provided by collective institutions, particularly governments, the internet has led to a burgeoning of private provision of public goods. Funding models include for-profit (Google, Facebook, Twitter), philanthropy (Wikipedia), and donations of code to the commons (open-source software). The Australian economist Nicholas Gruen points to potential digital public goods that have yet to be built, because the costs of private development or the obstacles to private coordination prohibit private provision. These would generate large economic and social gains if built as public-private digital partnerships.[42]

Let us now turn to investment. Its relationship with innovation is complex. Yet the two are highly complementary: the higher the level of investment, the faster the newest technologies are embedded in the capital stock; and the higher the investment in research and development and other ideas, the faster innovation should also be. So, raising investment, public and private, is an essential part of raising the rate of growth and also transforming the capital stock to meet environmental needs. Of course, it is also important that investment in labor-saving technologies, an essential part of growth, does

not leave workers discarded. That is where active labor market policy comes in. The discussion will return to this issue below.

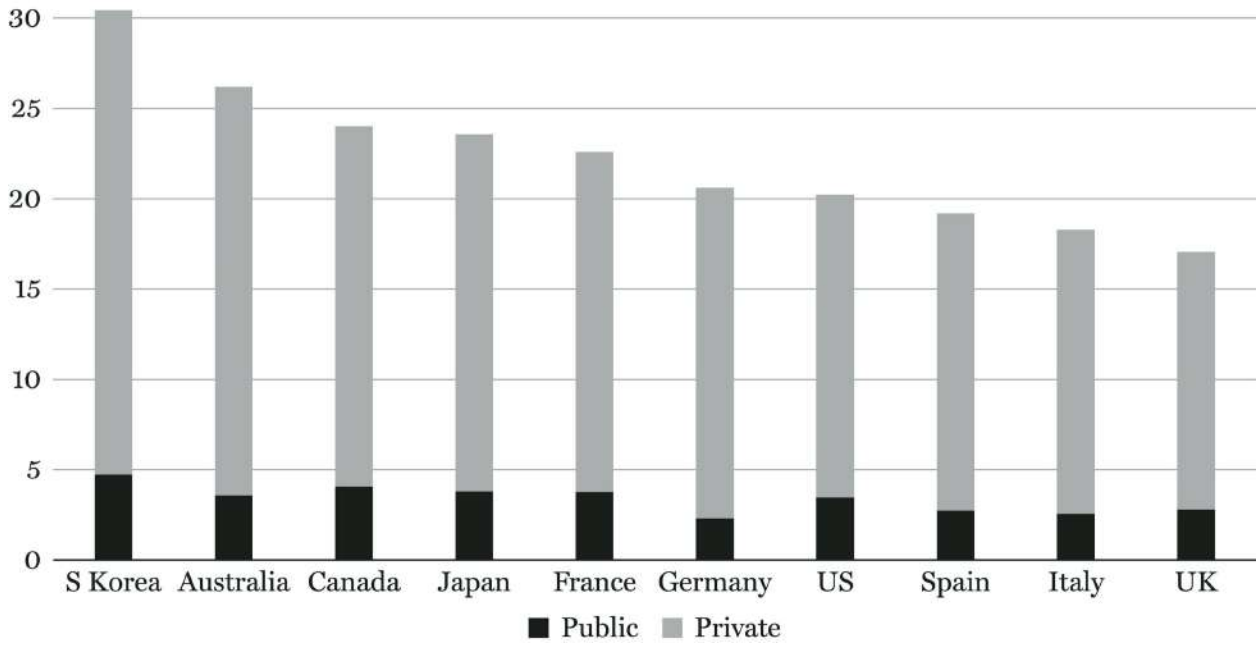
The role of government as a funder of investment, especially infrastructure, is itself significant for longer-term growth. Fortunately, at the real interest rates of the early 2020s—indeed, the rates in effect after the financial crisis of 2008—markets have been begging government to borrow to invest. Instead, many, notably the UK, chose to cut public investment in order to reduce the deficit. This was penny-wise and pound-foolish. Fortunately, the opportunity was even greater at the low real interest rates on offer in the early 2020s. A big advantage of spending on investment projects, moreover, is that these are not ongoing commitments, other than to maintain and use the capital created. The government can borrow to build the relevant capital, and then need not borrow more after the investment is done.

The government should also try to promote private investment, which is the most significant part of investment. (See figure 43.) Apart from supporting strong demand, government has two other options. One is to improve the incentives to invest. The simplest way to do so would be to allow 100 percent expensing or, better still, a 100 percent tax credit for fixed investment against corporate income. This should be part of a broader reform of taxation. A second (and complementary) option is to change corporate governance. A particularly big issue is the "bonus culture," especially in the US and UK, whereby management is rewarded in direct relation to the share price. This often means using the free cash flow and even borrowing, not for investment but to purchase their own shares—so-called buybacks.[43] This turns a productive business into a financial speculation.

Public investment in fixed capital has been a strikingly low share of gross domestic product in several large high-income countries. (See figure 43.) The average rate of public investment was especially low in Germany, Italy, Spain, and the UK between 2010 and 2018. Germany's low public investment was the price of its obsession with balancing the budget. That of Italy and Spain was the price of the unnecessarily severe eurozone crisis. The UK foolishly decided to cut public investment in response to the financial crisis. Yet private investment is more important. South Korea's private

investment is strikingly high. The UK's is at the bottom. The low average private investment rates in the UK and US indicate that these countries' businesses are remarkably unwilling to invest. This is a significant handicap.

FIGURE 43. SHARE OF GROSS FIXED CAPITAL FORMATION IN GDP (2010–18 AVERAGE; PERCENT)
(Source: OECD)



Sustainability

Raising investment and the rate of innovation are necessary and vital conditions for prosperity. But prosperity must also be sustainable. The environmental challenge is significant, especially that of climate.

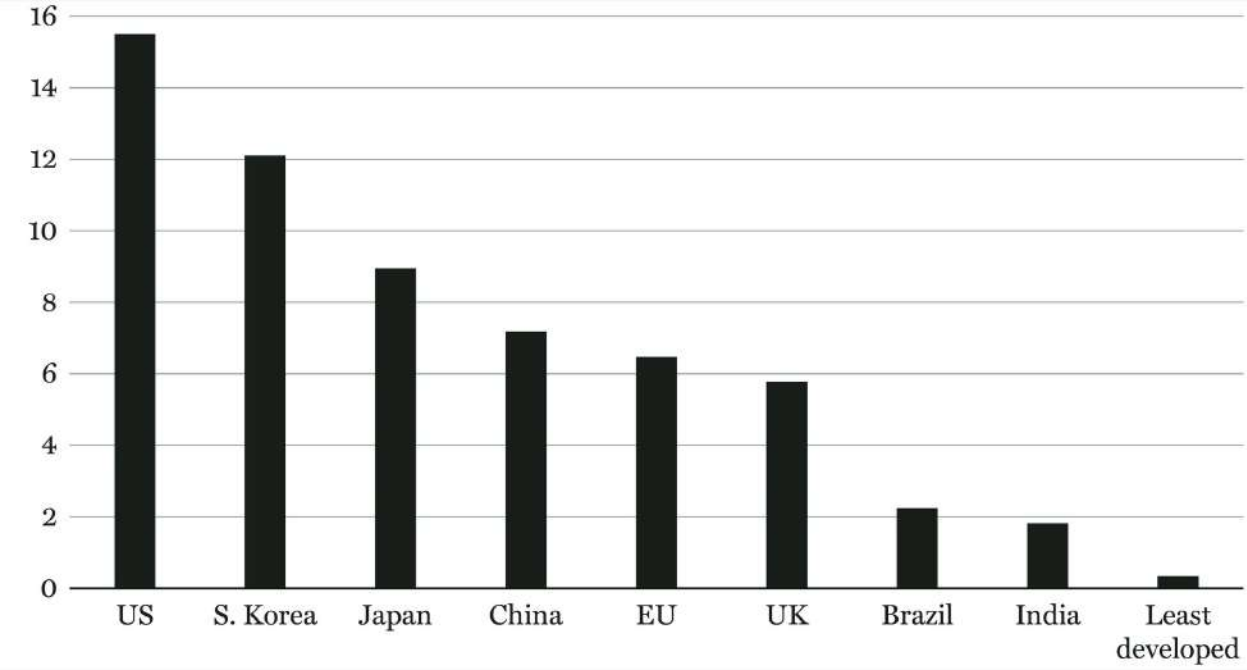
The economic malaise discussed in previous chapters of this book was due neither to climate change nor to any climate-related action. The latter has, instead, been a threat growing slowly in the background. The 1990s, 2000s, and 2010s were marked by studies and conferences that discussed the growing dangers while doing nothing effective about them. Concentrations of greenhouse gases and average temperatures rose, roughly in line with the warnings of scientists. In the end, despite substantial debate, almost nothing was done. Trump's withdrawal of the US from the Paris climate agreement of

2015 did not help, but it probably did not make that much difference, especially given the rapid expansion of China's coal-based electrification.

The overwhelming consensus of experts is that these trends must change decisively in the 2020s if there is to be any hope of keeping the increase in average temperatures above the preindustrial average below 2ºC, let alone the less dangerous increase of 1.5ºC (unless we resort in the end to risky and controversial geoengineering). Moreover, high-income countries must play a leading role, even though these countries will be unable to deliver a solution on their own. (See chapter 5, figure 41.) This is so for four reasons: first, they continue to have relatively high emissions per head (see figure 44); second, their trend rates of economic growth are relatively low and so more easily combined with rapidly falling emissions; third, they have the technological resources necessary to deliver an energy transformation that other countries could follow; and, last but not least, they are responsible for the majority of the historic emissions of greenhouse gases.[44] The election of Joe Biden as US president opened the possibility of faster progress by the US. If the US had continued to be outside the global discussion, it would have been an overwhelming obstacle to progress, not just because the US is a big emitter in its own right, but because other countries would have seen far less point in their own efforts to reduce emissions sharply.

A transformation in technology and cost of renewables over the past decade or so seems to have made achieving zero net emissions globally by 2050 feasible, even at surprisingly modest cost. The International Monetary Fund estimates that achieving this aim might lower world output by a mere 1 percent, relative to its "baseline" (under unchanged policies), once one adds the benefits of damages avoided.[45] But this will still not happen without substantial and swift policy changes. If, as is hoped, the high-income democracies are to cut net emissions in half by 2030, a great deal of policy action would be needed very quickly.

FIGURE 44. EMISSIONS OF CARBON DIOXIDE PER HEAD, 2018 (METRIC TONS)
(Source: World Bank)



In its October 2020 *World Economic Outlook*, the IMF argued that a successful program would require front-loaded green investments, aggressive funding of research and development, and a credible long-term commitment to rising carbon prices. These recommendations are in line with those of other studies.[46] Also important will be complementary regulation, to accelerate needed changes in behavior. Yet, while feasible, this transformation will be enormously politically, socially, and technologically challenging.

In line with views of others, the Energy Transitions Commission argues that the core of the new energy system will be electricity generated by renewables (solar and wind) and nuclear power. This will need to be backed up by a variety of storage systems (batteries, hydroelectricity, hydrogen, and natural gas, with carbon capture and storage). This would clearly be a revolution. A zero-carbon economy (the target of many countries for 2050) would require about four to five times as much electricity as our present one. Hydrogen would also play an essential role in this new economy. As a result, hydrogen consumption might jump elevenfold by 2050.[47]

Wind farms and huge arrays of solar cells are found intrusive and ugly. Still more important, electrification of the world economy will require a huge expansion in battery capacity. With present technologies, this will require a

correspondingly large increase in the use of a number of minerals, notably lithium, cobalt, and nickel.[48] Mining is destructive, particularly so when carried out in poor countries, such as the Democratic Republic of the Congo, which supplies about 60 percent of the world's cobalt.[49] It is essential that the people of these countries (not just rapacious elites and mining companies) share in the benefits and the miners themselves and their families are treated with care and respect.

There will be many such difficult environmental and social issues raised by the production and storage of electricity. But replacing fossil fuels with renewables would also improve the quality of local environments as emissions decline. That would make many people's lives better. Yet, the energy transition is essentially a defensive investment, intended to prevent harm—appropriately so—not increase incomes. Many will be made worse off by the shift and many of these adversely affected people will not be particularly well-off. Replacing fossil-fuel boilers with heat pumps, improving insulation of buildings, replacing gasoline-driven cars with electric ones, paying higher prices for air travel, and so on and so forth will be costly (and controversial). We must not pretend otherwise.

One of the big advantages of a tax on carbon is that the revenue it generates can be used to compensate the losers, perhaps via payment of equal lump sum tax dividends to every citizen or taxpayer.[50] Such compensation will be politically essential if these changes are to be accepted. Otherwise, as the gilets jaunes protests in France suggest, the energy transition is likely to generate a deep conflict between progressives and older and less-educated people.[51] Moreover, the compensation cannot just be domestic. It will have to be global since the transition will demand global cooperation.

An important element in making the energy transmission will be internalizing incentives in business decisions. Much of this can be done via carbon pricing. But transparency of the climate risks to which companies are exposed and of the consequences of their practices for the climate will also be important. The Task Force on Climate-Related Financial Disclosures under the Financial Stability Board has made some progress in this regard. The aim is to improve risk assessment, capital allocation, and strategic planning by

quantifying and clarifying the situation of each business, for its own benefit and the benefit of investors, regulators, and the wider public.[52]

Raghuram Rajan of the University of Chicago has proposed the idea of a "global carbon reduction incentive."[53] Under this, each country that emits more than today's world average of about five tons a head annually would pay into an incentive fund. The payment would be calculated by multiplying the excess per head by their population and the agreed incentive. Those countries that emit more would contribute and those that emit less would receive. But every country would lose if it increased its emissions per head. So they would all face the same incentive to cut emissions. As global emissions declined, the identity of the laggards would probably change and so would the net payers and recipients.

In addition, countries that commit to imposing a price on domestic emissions should be permitted to put a border tax on emissions-intensive imports from countries that do not. Without this, production might just shift abroad, with limited impact on global emissions. That would make it politically difficult and environmentally ineffective to impose a domestic carbon price. Admittedly, any such border adjustment would be a rough-and-ready mechanism. It would also cause global friction. But a commitment by big, high-income economies to introduce one could ultimately lead to agreement on better policies, including carbon pricing, everywhere.[54]

Finally, we should note an immediate benefit from accelerating the energy transition: it provides a strong justification for a program of public and private investment. As mentioned, this is happening at a time when real interest rates are low. Governments can borrow and then finance investment in this transition on exceptionally favorable terms. A huge part of the challenge and the opportunity lies in developing and emerging countries. It is vital to de-risk such investments, most obviously via guarantees from high-income countries. These opportunities need to be seized.

Globalization

The globalization of the 1980s, 1990s, and 2000s did not happen out of a random whim. On the contrary, it was the result of experience with the success of liberalization of trade and international investment, initially among US allies in the 1940s, 1950s, and 1960s and thereafter across much of the world. The lesson then and since is that countries that opened themselves up to trade and inward direct investment did far better than those that did not. The post–Second World War policy contrasts between West and East Germany, South and North Korea, and mainland China and Taiwan were decisive tests of the argument that economic openness is a handmaiden of prosperity. The poor performance of India, until its reforms in the early 1990s, compared with the more open East Asian economies is another example. Openness does what it has always done: it brings access to new supplies, resources, technologies, ideas, and people.[55]

These are all particularly vital for small countries. The remarkable success of Australia, Ireland, Israel, and the four Nordic countries (Denmark, Finland, Norway, and Sweden), which combine high-quality domestic institutions with an ability to take advantage of opportunities in the world, has been rightly noted.[56] The story of Taiwan is also outstanding. But even the biggest developing countries, such as China and India, could not have achieved their relatively rapid growth of the past few decades if they had not taken advantage of opportunities offered by the world economy. The acceleration of growth in these countries after they embarked on what the Chinese call “reform and opening up” (in 1978 in China’s case and 1991 in India’s) was remarkable.

It would be a tragedy if the open global economy were to be lost in a rising tide of economic nationalism and superpower rivalry.[57] Yet there is now a backlash against reliance on trade, accelerated by COVID-19. That led to the imposition of export controls, notably on vaccines.[58] But the view that global supply chains turned out to be a problem is the opposite of the truth. Massive and unexpected increases in demand for certain products were the predominant problem; supply chains were the solution, because they allowed countries to benefit from output in all the world.[59] Nevertheless, this shock, plus longer-term anxieties about the impact of trade on employment and

newer anxieties about the future of international relations and technological competition have undermined confidence in the open world economy and reduced the legitimacy of the international institutions and agreements that regulate it, notably the World Trade Organization.[60] Needless to say, the experience of COVID-19 has reminded us of the dangers of disruption of international commerce and travel by disease and other threats (war, terrorism, and other natural disasters). Businesses and governments need to take these into account in their planning and operations, as discussed earlier in the sections on resilience and robustness in chapter 7.

Dani Rodrik's quotation at the head of this chapter lays out a broader philosophical framework. He argues that one cannot have all three of deep international integration (given the resulting convergence of rules and regulations), full democracy, and national sovereignty. One can at best have two of them. Thus, deep integration could go with democracy if the people voted to abandon national sovereignty (as in the EU). Again, democracy could go with national sovereignty if the people chose to abandon deep integration. Finally, deep integration could go with national sovereignty if the people lost their democratic ability to choose.

This supposed trilemma is simplistic. Unbridled discretion is indeed incompatible with deep integration. But unbridled discretion is a foolish interpretation of sovereignty. Sovereignty concerns the locus of legitimate coercive power. A wise sovereign not only can, but does, limit its exercise of discretion, for its own benefit and that of its people. That is why we have constitutions and the rule of law more broadly. One way a sovereign may limit its discretion is by reaching agreements with other sovereigns. These are not a violation of sovereignty, but a constraint on how it is exercised.[61] By agreeing to constrain its discretion, the sovereign creates new opportunities for its citizens and itself (something Brexiters mostly failed to understand). Finally, there is no reason to insist only on the extreme options, or what economists call "corner solutions," as Rodrik does. In real life, one has agreements that permit a country substantial freedom of action, not a choice between total subordination to international rules or unlimited sovereign discretion. In practice, neither is sensible or even feasible.

So the practical question is how best to combine the policy commitments, especially to business, that will make international openness credible and productive, with the discretion needed to make the economy successful in the areas discussed above (such as innovation) and below (such as quality of jobs). The best way is through international agreements that can be adjusted to the pressures and needs of the time. In practice, the WTO already is such an agreement for trade, though it could and should be updated in some respects. The same applies to the Basel accords on banking regulation. Here, too, international agreements are needed, to protect against a regulatory race to the bottom. But they, too, need to be adjusted from time to time.[62] Again, international agreement is needed on minimum standards for taxation, labor standards, the environment, and many other aspects of international economic relations. The idea of absolute sovereign discretion is absurd, indeed ruinous, in our interconnected world. Wise policy makers have long understood this. Of course, it is also possible to argue that some agreements, notably the EU, override national sovereignty excessively (I would disagree). Thus, the desirable extent of international agreement on regulations and restrictions can be debated. The necessity of some such agreements cannot.

Finally, where should openness be most enthusiastically pursued and where should it be constrained?

Trade and foreign direct investment (FDI) are to be welcomed most: they create important opportunities. But countries also have important interests in regulating both and should do so. To take an obvious example, it is legitimate to regulate trade or investment in support of environmental policies, especially climate policies. It is also legitimate to regulate trade in sectors where domestic capabilities might be needed for strategic reasons or where there is a reasonable chance of promoting domestic innovation. Again, the protection of intellectual property is a form of rent extraction and can obstruct economic development. While such protection may be a part of trade agreements, it should not be an overriding concern, especially when it hinders protection of public health or provision of other vital public goods. Finally, FDI is often essential for the exploitation of natural resources, but contract

terms are of great importance. The big point in all this is that trade and FDI are good things, though evidently not at the expense of everything else.

Portfolio equity and debt, bank finance, and short-term capital flows are relatively less desirable (the last being the least desirable) forms of economic openness. While they can all provide useful resources for development in some circumstances, they do not transmit knowledge and create important new opportunities, as FDI and trade do. Moreover, debt—especially short-term debt and, above all, foreign currency debt—may create huge and long-lasting crises. The proximate cause of such crises is frequently a "carry trade," in which speculators exploit the difference between domestic interest rates in high-income countries, especially the US, and the rates on dollar-denominated borrowing in emerging and developing countries.[63] But when dollar rates then rise and the dollar's exchange rate appreciates, money floods out, as the solvency of public and private borrowers comes into question, and so financial crises occur. Such things have happened many times in the past and are likely to do so again. This form of financial openness should be treated with great caution.[64]

Flows of information and data across borders via the internet create huge opportunities, but also novel challenges to social, political, and economic stability. Ideas have always flowed across the world—the spread of the great religions is perhaps the most important example of this. But a completely free flow of commercially driven ideas is perilous; as is now clear, there are too many bad actors able and willing to exploit human weaknesses and undermine national security. It is essential to have controls over this new form of cross-border exchange, as well as defenses against malfeasance. Curbs on what businesses are allowed to do must be a part of the needed approach. It will also be necessary to find ways to block rogue websites, though without bringing in anything comparable to the Great Firewall of China. The technical difficulty of achieving such controls is, alas, very considerable.

Finally, there is the cross-border movement of people, perhaps the most controversial form of openness (see chapter 6). The ability to control who lives in a country is a fundamental aspect of its existence: a country is a

geographical space inhabited by people with the right to live, work, and vote there. In a universal suffrage democracy, these adults consist of citizens and permitted foreign residents. Citizenship is a privilege that comes with political rights. Countries should try to implement a policy on the movement of people, especially for permanent residence or citizenship, that is humane yet also acceptable to the great majority of citizens. The latter need to see immigration as fair and under control. If they do not, there is likely to be a backlash, with devastating social and political consequences. This is not an argument against immigration. It is an argument for recognizing that it can never be solely or even mainly about economics. Immigration creates long-term changes in the nature of the population. Immigrants are not just workers; they are people, neighbors, and future citizens. Immigration changes the face of a country and should be managed so far as possible with corresponding attention. There need to be controls on immigration that recognize the potential economic gains while also being politically acceptable and effective.

At today's modest levels of global migration (a little over 3 percent of the world's population lives in a foreign country), the net economic impact on the receiving countries has been modest and mostly positive. Gains for migrants themselves have surely been positive. When someone moves from a low-productivity country to one with high productivity, real income of the migrants will normally rise substantially. For this reason, it is surely the case that if migration were completely free, world economic welfare would also rise substantially. In that sense, the argument is just like that for the free market. But that is, to repeat, not the same as saying that the real incomes of people in the receiving countries would rise. Rising world welfare is perfectly compatible with falling average welfare in many countries. Moreover, one commonly heard argument—that immigration will offset aging—is simply false, because immigrants age, too. The quantity of immigration needed to stabilize the old-age dependency ratio is almost unimaginably large (see chapter 5).

Indeed, this is a broader point. Evidence from the actual, relatively modest levels of migration says nothing about the likely economic (let alone

social and political) impacts of unrestricted migration. An obvious starting point for considering that question is the proposition that this would tend to arbitrage away much of the current gaps in real wages across countries, just as it tends to do inside countries today: thus, real wages in rich countries would fall and real wages in poor countries would rise, as people moved from the latter to the former.[65]

Harvard's George Borjas has created a simulation for the case in which real wages for low-skilled workers in rich countries start off four times as high as in poor ones. It concludes that real global output would indeed rise enormously, by $40 trillion (or almost 60 percent).[66] But enormous numbers of workers might also move, perhaps as many as 2.6 billion, he suggests. With dependents, this would imply movement of 5.6 billion people. Just think of the slums we could see around London, Tokyo, or New York in a world with no restrictions on free movement of people. Real wages of workers in the north would, in his simulation, fall by close to 40 percent, while real wages of workers in the south would rise by over 140 percent. This would be a huge gain to the latter and a huge loss to the former. Meanwhile, the income of capitalists would rise by close to 60 percent.

This is a crude analysis. Yet the idea that free movement of people is much like free trade in goods and services is nonsense. We have something very close to free trade today. The impact on the economy and society is vastly smaller than the likely impact of free movement of people. The power of the latter to arbitrage away differences in returns to factors of production, especially to labor, would clearly be orders of magnitude greater and the movement of people would be transformational. One could be reasonably certain that a huge proportion of the prior inhabitants of the receiving countries and their descendants would be worse off, except for a minority of capitalists, who could live in gated communities such as Monte Carlo. World welfare would rise, in a simple sense. But the recipient countries would have ceased to be the countries they were. There is no chance at all that the latter would accept this democratically (or, for that matter, in any other conceivable political setting). The economics reinforces the politics: immigration needs to be controlled in a way that is politically satisfactory and economically

advantageous for a substantial majority of existing residents and especially existing citizens. The debate on how best to do this is complex and difficult. But it must be had.

Good Jobs for Those Who Can Work and Are Prepared to Do So

The second big requirement is good jobs. So, how can we define these? In answering, one should distinguish the intrinsic from the extrinsic virtues of a job. The intrinsic value of a job lies in the pleasure of doing it and the sense of purpose and satisfaction it provides. The extrinsic value lies in the income, status, independence, marriageability, and so forth that having a job provides. Both the intrinsic and the extrinsic value of jobs are important. Policy can affect both. But it cannot fully determine either. Policy can shape the economy. It cannot create it, even in the long run. As argued in chapter 5, economies are far too complex to be under anybody's control: they have "minds" of their own.

The pattern of demand and supply, including foreign demand and supply, shapes the economy and so the jobs it generates. Over time these patterns change, as the economy evolves, both domestically and globally. The policies discussed above, notably on innovation and investment, as well as on trade, immigration, capital flows, and so forth, will also alter the economy's structure and the jobs it generates.

The structure of an economy will in turn determine the demand for skills and so the nature and quality of jobs. The proportion of the workforce engaged in manufacturing industries declined universally in the high-income economies in the late twentieth century, for example. The rise in demand for workers with graduate qualifications and skills was similarly universal. These changes were associated with large shifts in relative wages, in favor of those with commercially relevant skills and against the old industrial labor force. Technological change was the most important cause of these changes, with

trade far behind. In the nineteenth and early twentieth centuries, in contrast, it was the share of the workforce engaged in agriculture that collapsed, while that in manufacturing rose. In some late-coming, high-income countries (such as Italy, Japan, South Korea, and, more recently, China, which is still at an early stage), this shift away from agriculture continued into the second half of the twentieth century and even into the twenty-first.

Policy finds it hard to affect such broad processes (except by accelerating or halting overall economic development). No doubt, it is possible to influence the skills of the labor force, through education and training, and the stock of capital through investment, through direct support and subsidies. Yet if the skills are not in demand, they will atrophy, and if the capital cannot be productively employed, it will be scrapped. Contemporary science and technology provide an "iron frame" within which an economy develops. It would have been impossible to have a revolution based on chemistry in the early nineteenth century or one based on computing in the early twentieth century. It is similarly impossible to have one based on nuclear fusion today. So, one has to question how far the fundamental characteristics of technology can be influenced by government policies.

Some disagree with this somewhat fatalistic view, arguing that the government can and must guide the direction of innovation by focusing its support on what we want more of—good jobs, better health, and less pollution.[67] This is certainly worth trying, given the urgency of the objectives. In the case of creating good jobs, options include taxing capital more heavily and labor less so, the reverse of today's situation. Governments can also orient the substantially enhanced support for research and development recommended above toward the creation of good jobs. The remarkable progress in developing renewable energy technologies is proof that this can bring fruit, provided the underlying science allows it, as it did with solar and wind energy. Similar efforts, it is suggested, may shift the balance toward more "human-friendly" technologies.[68]

The history of an economy also largely determines the regional distribution of activities and skills. This is just another example of "path-dependency," or how history determines the present. These processes can be

very long term: the comparative advantage of the UK in services and the consequent decline of the UK's manufacturing, and so of areas of the country that once specialized in manufacturing, go back over a century.[69] Hitherto at least, it has proved impossible to reverse these trends. Yet these patterns of regional development, decline, or failure to take off at all shape much of the populist revolt we have been seeing. This has been in significant measure a revolt of "the places that don't matter"—that is, places left behind by the structural changes in the economy, such as old manufacturing areas, or in some cases, the failure of certain regions to modernize at all, such as Italy's Mezzogiorno.[70] Unfortunately, it is hard to do much, if anything, about such regional divergences either. Thus, "a combination of misguided investments —frequently pursuing individual interests at the expense of collective ones . . . , income-support transfers, and public employment has often resulted in protected, assisted, and sheltered economies, increasingly incapable of mobilizing their true economic potential."[71]

So, what if anything can turn places that don't matter economically into ones that do? One alternative, suggests Andrés Rodríguez-Pose of the London School of Economics, consists of "policies aimed not at providing transfers or welfare, but at enhancing the opportunities of most territories, regardless of their level of development or economic trajectory and taking into account local context."[72] He is not alone in believing that such place-based and place-specific policies are the answer. Paul Collier of the University of Oxford and Raghuram Rajan of the University of Chicago both suggest that policy must build on local identities, loyalties, and capabilities.[73]

Countries in which local government is highly successful in just this way do indeed exist. Switzerland is probably the world's best example, perhaps because its localism is rooted in strong local identities and loyalties. But elsewhere corruption and incompetence too often get in the way. Even if that were not the case, doing what these economists suggest will often need the transfer of resources to poorer regions from richer ones. With that is likely to come the dead hand of central control. Ideally, local politicians and civic leaders would allocate such funds, but they may lack the competence to do so

wisely. In any case, central government may not trust them to do so. A complementary policy would be to create a network of publicly financed local investment banks charged with backing the development of the local economy. Even then, the development of large-scale infrastructure would need to be supported by national or regional governments with the needed resources and skills. In short, regeneration of the places that have fallen behind is a difficult task and one that will involve many players. Not least, it will require the creation (or re-creation) of institutions rooted in deep loyalties. An excellent example of the latter, as well as of regional resurgence itself, is the Basque country in Spain. But those loyalties were already deeply rooted in an ancient culture and language.[74]

An alternative (or complement) to creating more good jobs is to turn ostensibly "bad jobs"—that is, apparently low-skilled, boring, and repetitive jobs—into good ones. A big part of this depends more on management than on government policy. Thus, the former can empower workers, by simultaneously taking advantage of their knowledge and nurturing their commitment. This was what Toyota famously achieved by transforming the operation of its assembly line.[75] If employers treat their employees with dignity and respect, they can also make their jobs more meaningful and productive.

Furthermore, policy in high-income countries can seek to ensure that workers have adequate incomes and are treated with dignity and respect. People should be able to receive an income from work that delivers a standard of living that lets them participate fully in society. The obvious steps are to push minimum wages as high as they can go before their impact on jobs becomes significantly adverse, provide generous employment-related tax credits, and offer decent unemployment compensation. The last should be linked to an active labor market policy, which provides unemployed people with strong support for retraining. Also important are a degree of job security, compensation for redundancy, paid holidays, and so forth, along with rights to organize and strike. But in the end, the combination of income security with job flexibility seems to be the best way—what the Danes call "flexicurity."[76]

Critics will complain that such measures represent an interference in the market. They are right: it does and properly so since dignity and security are at stake. We need to recognize the huge imbalance of power in the contemporary marketplace between footloose corporations and local workers. The success of the minimum wage in the UK in raising real wages at the bottom, without sacrificing employment to any noticeable degree, is evidence that monopsony and oligopsony (or the existence of one or very few employers) are important in the labor market.[77] Raising minimum wages must be approached with care. But it can be done without obvious deleterious effects. With the addition of tax credits, this can provide everybody with an earned income on which they will be able to participate in society, not just survive.

Two far more ambitious proposals for turning jobs into good ones deserve consideration.

The first is for a universal job guarantee. Under such a proposal, the unemployment benefit would be set at the level of a minimum wage and be paid to people who do not have a job, in return for their work. So everybody could work if they chose to do so, at the minimum wage. The latter would then automatically become the wage floor in the economy. Unemployment compensation would presumably disappear or be paid only to people who are unable to work, for some reason (such as disability), or be paid at a lower level.

Pavlina Tcherneva of Bard College describes the proposals as follows: “The Jobs Guarantee has the features of a public option and the benefits of a price support scheme. As a public option, it guarantees universal but voluntary access to a basic public service employment opportunity to anyone who wants one.”[78] This idea may be worth considering, especially if macroeconomic and other policies fail to generate full employment. But it also creates substantial difficulties. First, creating productive work for an inevitably somewhat random group of unemployed people will demand substantial and valuable resources, notably the capacity to identify useful projects and organize people. Otherwise, the “jobs” will not be jobs at all. Second, if people are working on such projects, it will be more difficult for

them to be trained for new jobs or to search for them. Third, the newly employed workers would either compete with (and so undercut) workers already employed in conventional ways, which would damage the latter, or they would not be allowed to compete with them, in which case what they would be allowed to do (and learn from) is likely to be limited, perhaps even soul-destroying.[79] On balance, investment in an aggressive active labor market policy, along with temporary subsidies to employers for new hires, looks like a vastly better approach.

The second option is to raise pay at the bottom and simultaneously compress pay differentials. This, it is argued, could raise productivity and real incomes permanently, thereby creating a Scandinavian economy.[80] This is not completely inconceivable, but the normal assumption would, to the contrary, be that a big rise in real wages at the bottom would lead to the replacement of labor by capital, wherever that is possible, since labor has been made more expensive. It would also lower investment rather than raise it, since higher wages would squeeze profits and corporate savings. In the end, the affected sectors would shrink and so, in all probability, unemployment would rise, not fall.

True, this might not happen if a simultaneous lowering of wages at the middle and the top of firms' pay schedules left the wage bill unchanged or even lowered it. But that would require a high degree of wage coordination and worker solidarity. This might indeed prove possible in small, homogeneous advanced countries with trade unions that encompass the entire labor market and a strong ethic of civic and worker cooperation. I am skeptical that it would work elsewhere, especially in larger countries. Interestingly, even Germany, the most "Scandinavian" of large Western economies, encouraged the creation of low-wage and low-productivity sectors, to create higher employment, with the so-called Hartz reforms implemented between 2003 and 2005.[81] This is not an argument against minimum wages. But it is an argument against the assumption that a high wage floor is a fail-safe way to create more and better employment. This is most unlikely.

A final question concerns the role of trade unions. The argument that they provide countervailing economic and political power seems far more credible today than it was four decades ago. But they clearly work best if they are encompassing organizations able to internalize the conflicts within the labor force and take account of the impact of the bargains they reach on the economy and the sector, as a whole. Frequently, this is impossible to achieve. Yet creation of a high-wage, stably employed "middle" of the income distribution is important. Moreover, trade unions can protect members against arbitrary and unfair treatment by employers. Again, this is an important part of dignity at work and so of being a citizen. On balance, therefore, public policy should support the creation of responsible worker organizations, within the law. To the extent that this cannot happen, it is important that ordinary workers be able to protect their rights against unfair treatment through judicial and quasi-judicial procedures that are affordable and effective.

All this assumes that we will continue to have a reasonably "normal" labor market, notwithstanding COVID-19 and the development of artificial intelligence. The pandemic has accelerated the use of new technologies that allow information workers to be anywhere. This has opened important new opportunities for flexible working and correspondingly new sources of competition in remote places. The pandemic may also durably affect the economics of cities and important business activities such as retail. The advance of AI is likely to be still more radical. It is conceivable that in the not immensely distant future a vast proportion of human beings will become as economically redundant as the horse has already become. Work may cease to be a reliable source of satisfactory incomes for most people. This potentially vital topic will be touched upon in the section after next, in discussing universal basic income. But first let us turn to equality of opportunity.

Equality of Opportunity

Equality of opportunity must be the aspiration of any society that is both democratic and capitalist. As argued in chapter 3, such a society rejects ascribed status. If they are to be legitimate or merely effective, its elite must be open to talent. Otherwise, it will not just appear rigged, but will become ossified. Talent must be allowed to fly. That is a fundamental value in a society founded on democratic principles.

Yet this raises big questions. First, is such equality of opportunity achievable, any more than giving a wonderful job to everybody is achievable? Second, how far should a society go in its attempt to deliver equality of opportunity? Third, does equality of opportunity conflict with other goals and, if so, how might one manage these conflicts? Finally, what are the dimensions over which equality of opportunity should be measured?

The answer to the first question is that absolute equality of opportunity cannot be achieved, certainly not without doing criminal things, such as taking children away from their parents or preventing parents from doing their best for their children. In practice, people's success is determined in large measure by their own natural endowments and the environment in which they grow up. No policy tolerable to a free society could eliminate such advantages and disadvantages altogether.

The answer to the second question is that some things can and should be done to make equality of opportunity more realistic. Clear evidence exists, for example, that the greater the economic inequality among households, the lower the economic mobility of their children (see chapter 4, figure 15). This is partly because parents who suffer from significant poverty find it harder to provide the secure and enriching environment needed by a child. If so, pushing incomes up at the bottom of the income distribution, providing high-quality childcare (also essential if parents are to enjoy the independence and dignity afforded by work), offering the best possible education to all, providing special opportunities for exceptional children to develop, and offering the resources all children now need (computers, broadband, books, and so forth) are both essential and feasible in prosperous countries. Moreover, since talent may emerge later in a young person's life, dividing children into intellectual sheep and goats at an early age is wrong and

wasteful. Absolute equality of opportunity is unachievable. But one should try to get closer to that goal and, in the process, ensure a reasonably high quality of education for all. Furthermore, there is no reason why generous fiscal benefits should continue to go to schools and universities that are accessible mainly (or even entirely) by the children of the wealthy and privileged.

Third, how far does the attempt to achieve equality of opportunity conflict with other goals and, if so, what should be done about it? There are three critiques of equality of opportunity.

One is that the more credible the propaganda is that the elite have been selected solely on merit, the angrier and more frustrated everybody else is sure to become.[82] Yet the idea that one should deliberately not choose the best available talent seems absurd and indeed wrong on many dimensions. The answer is instead to attempt to ensure that everybody in a prosperous society enjoys a decent life and is treated with dignity and respect. Moreover, the diversity of valuable talents must also be recognized. In all, equality of opportunity is a desirable social goal, but it is certainly neither a simple one nor can it be the only one.

A second critique is that the promise of equality of opportunity is unachievable. Policy makers should never suggest they can achieve unachievable goals. The response to this is that they can (and should) promise to do what they reasonably can, but also admit the limits on what they can achieve.

A third critique is that the mobility engendered by equality of opportunity would be socially devastating. If individuals born at the bottom are going (relatively) up, then individuals born at the top must be going (relatively) down. This will generate anguish and resistance among successful parents of unsuccessful children. That is no doubt correct. Social mobility certainly works best in economies that generate both upward movement in the real incomes of everybody (so that everybody wins) and a rising proportion of intrinsically satisfactory jobs and lifestyles.[83] This is why economic dynamism and a reasonable degree of equality of earnings are both so important. If jobs that generate incomes close to the median of the

distribution are disappearing, genuine equality of opportunity will become particularly fraught.

Finally, what are the relevant dimensions over which equality of opportunity should be measured? The answers given above are essentially in terms of poverty and so class differences. But what, people will ask, about gender, race, or religion? Should we measure success in achieving equality of opportunity not by improvements in the achievements of people from deprived backgrounds, but rather by their sex, race, or religion? It is easy to understand the motivations behind the latter demands. But this focus seems dangerous. First, it tends to generate quotas in employment, which, being transparently zero-sum, are sure to be socially divisive to a high degree. Second, it tends to create arbitrary preferences. Why should a girl or a member of an ethnic minority from an obviously advantaged background be given preference over a boy from the ethnic majority who comes from a highly disadvantaged background? Deprivation is easy to understand as a justification for help, but this sort of favoritism is likely to look very unfair. Third, over time, the structure of preferences will get even more complex, as some minorities become “too successful” and so will need to be penalized, while others fall further behind. Finally, the further society goes toward dividing itself into tribes of “successful” and “unsuccessful” groups, unrelated to differences in the economic positions of individuals within them, the more impossible it will be to generate and sustain the sense of inclusive patriotism on which a functioning democracy must ultimately depend, as will be argued in chapter 9.

Security for Those Who Need It

The state has always been a protector of its subjects against enemies, external and internal. The COVID-19 pandemic has provided us with a powerful contemporary example of this age-old role. Historically, however, states could do rather little even if they wanted. But as societies have become

richer, more technologically sophisticated, and more complex, people have demanded yet more protection. The rise of democracy, with its enfranchisement of the "have-nots," has strengthened these demands. In today's high-income democracies, people demand protection against what the UK's Beveridge Report of 1942 famously called the "five giants" of "want, disease, ignorance, squalor and idleness." As argued in chapter 7, eliminating such harms is a core function of a decent government, provided the society is rich enough to do so.

For a democratic state to provide such assistance is both largely inevitable and right. After all, a huge proportion of the population, even in the richest countries, is just one disaster away from ruin: in 2020, the net worth of US households at the 20th percentile from the bottom of the income distribution was only $6,400. It was only $68,000 even at the 40th percentile.[84] Without support, many would find it hard to survive, let alone bring up their children successfully. Private charity will always be inadequate and humiliating.

The state is more than an insurer of last resort. It is also a funder and financier—a sort of "piggy bank."[85] The state can, for example, run a student loan program, with income-contingent repayments, because it can obtain repayment through the tax system. It is also uniquely able to avoid the classic trap of "adverse selection" because it can compel everybody to join the insurance pool. Avoiding adverse selection—that is, ending up with insurance of only the worst risks—is even more important in the case of insurance against ill health and longevity. In private markets, in contrast, insurers seek to avoid being landed with pools of the worst risks. So they end up excluding those with the greatest need, while creating a huge and hostile bureaucracy to do so. This problem—the inability to create wide insurance pools because of the fear of adverse selection—will be made far worse by the advances of genetic science. At the limit, much of what we think of as insurance is likely to turn into state-run income redistribution to the genetically unlucky. In the case of health insurance, this is already happening in almost all high-income countries.

Yet the welfare state remains controversial. Many condemn it as a huge burden on the hardworking, for the benefit of the feckless. To the contrary, a huge part of what a welfare state does, in keeping with its role as a piggy bank, is to redistribute spending over an individual's lifetime and so make almost everybody more secure. An important study of the UK reached four important conclusions, in precisely this vein. First, income is far less unequal over lifetimes than in any given year. This is because a big proportion of inequality is temporary, a result either of changing needs as people age or transitory shocks. Second, largely as a result, more than half of the redistribution achieved by taxes and benefits is over specific individuals' lives rather than among different people. Third, during an adult life, only 7 percent of individuals receive more in benefits than they pay in taxes, even though 36 percent of people receive more in benefits than they pay in taxes in any given year. Finally, in-work benefits are just as good as out-of-work benefits at helping people who remain poor throughout their lives, but they do less damage to incentives to work. Higher rates of income tax, meanwhile, target the "lifetime rich" relatively well because income mobility at the top turns out to be relatively modest: by and large, if people are at the top of the income distribution, they tend to stay there over their lifetimes.[86]

In brief, the welfare state pools a wide range of largely uninsurable risks —risks of being born to poor or inadequate parents or with limited capabilities, risks of becoming a parent, risks of illness and long-term disability, risks from making unlucky choices in education, risks from the inability to diversify one's employment (with just one or at most two jobs at a time), and risks of old age. In some of its aspects the welfare state can be seen as a substitute for incomplete private insurance and in others as a substitute for incomplete capital markets. A universal welfare system is also both an expression and a source of social cohesion.

On the libertarian right, there is a strong desire to eliminate social insurance altogether. But George W. Bush's failure to slash Social Security suggests the political limits of such efforts in a democracy. So, too, does the fact that Donald Trump was unable to eliminate the Affordable Care Act, known also as Obamacare, although that was also because the health sector

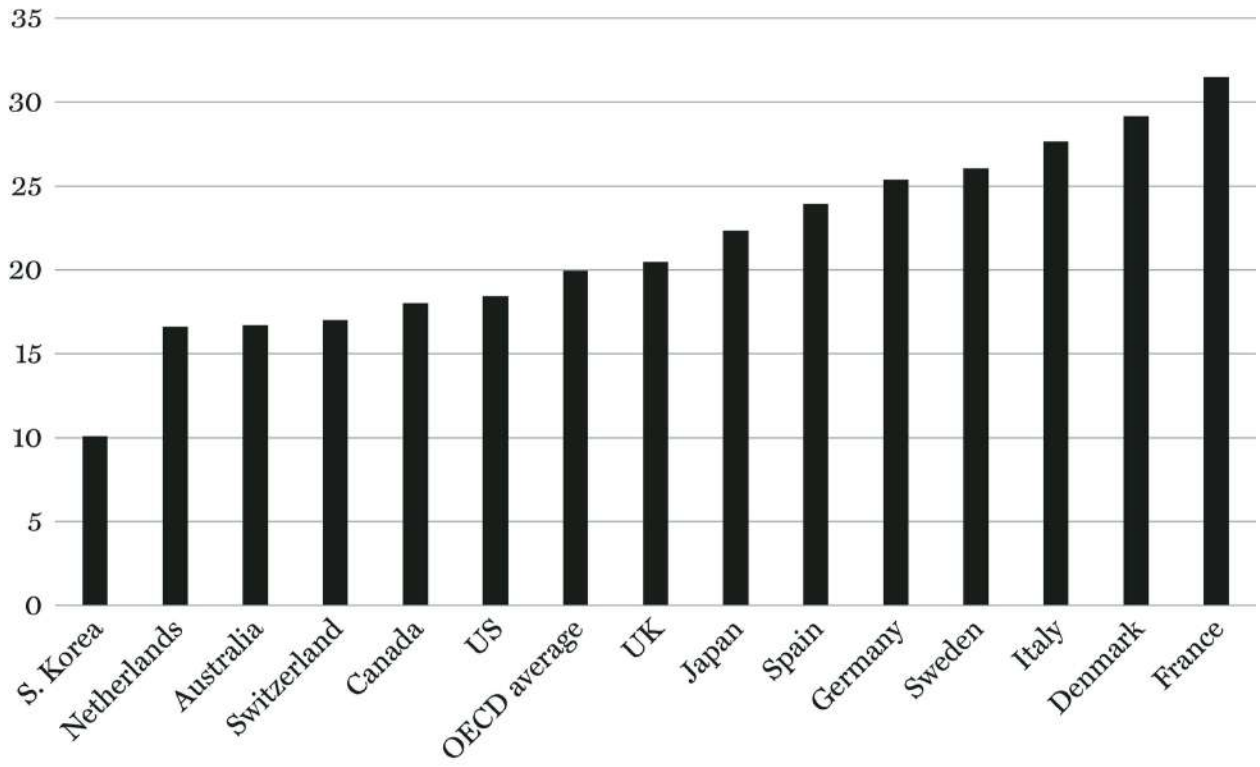
benefited from this legislation. Even so, the move to the market of the last four decades has also been a move to shift risks onto ordinary people from employers and government. Important examples of the former have been the collapse of defined benefit plans, employer-provided pensions in the US and UK, and the rise of casual or "precarious" work. An important example of the latter has been the virtual disappearance of local authority housing in the UK, tempered by the provision of an (often-inadequate) housing benefit.

So, what needs to be done? The discussion in the rest of this section will look at five aspects: rounding out the welfare state; the delusion of universal basic income; student loans; insuring against old age; and adjusting to import competition.

Rounding out the welfare state

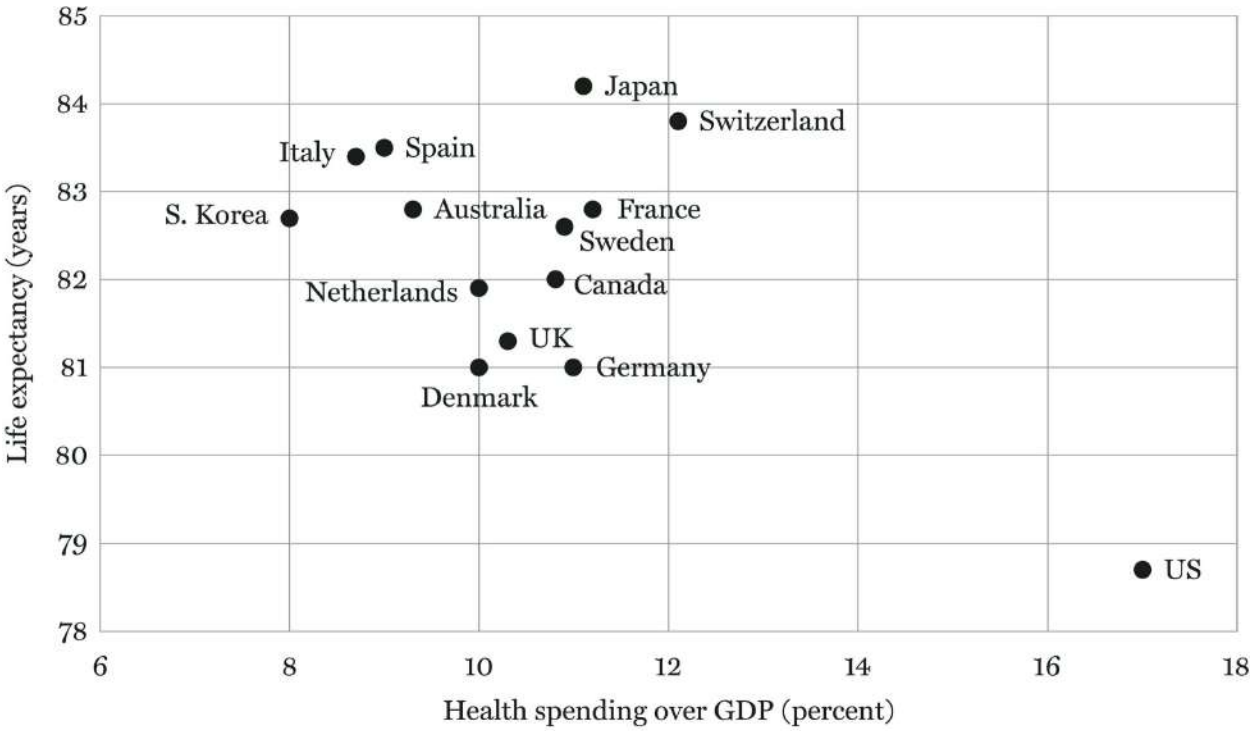
Welfare states differ considerably across the high-income countries. These differences reflect divergent values and history. Some welfare states are predominantly contributory (with benefits tied to a record of contributions), others are not. Some aim principally at stabilizing incomes though the bulk of the income distribution, while others focus on providing a safety net for the poor. Some offer universal benefits, while others target support more narrowly. Some reinforce the patriarchal family, while others support any poor household with children. Some are comprehensive, while others leave large gaps. Not least, their success is about much more than the amount spent. Governments of countries with broadly similar outcomes spend enormously different amounts, relative to gross domestic product, on social protection. The difference between the ratios of public social spending to gross domestic product in the Netherlands, Australia, and Switzerland, at one end, and Denmark and France at the other, is striking. (See figure 45.)[87] Yet all five achieve high levels of social welfare.[88]

FIGURE 45. RATIO OF SOCIAL SPENDING TO GDP, 2017 (PERCENT)
(Source: OECD)



The most damaging remaining lacuna in the welfare states of high-income economies is the US health system, which does not provide universal insurance. It manages to be both staggeringly expensive yet fail to deliver acceptable health outcomes to the population. (See figure 46.) All other high-income countries have universal health coverage. Such systems do, on the evidence, deliver far better health outcomes at far lower overall cost. The US should follow these examples.

FIGURE 46. SPENDING ON HEALTH AND LIFE EXPECTANCY, 2019
(Source: OECD)



Delusion of universal basic income

Probably the most widely supported addition to (or even partial replacement of) the existing welfare states of high-income countries is the provision of a universal basic income (UBI).[89] The idea is that everybody gets an equal benefit, while the tax raised to finance it is progressive with income. So, UBI is redistributive overall. But the benefits are equal for everybody and so are unrelated to any other characteristics, such as income, age, health, family responsibilities, or work effort.

Philosophically, the idea of UBI attracts people on the left and the right. By giving every adult (with maybe a supplement for each child) an unconditional income, the paternalist aspects of the welfare state might, some hope, be attenuated or even abolished. Thus, if the basic income were large enough, most other anti-poverty and labor-market programs might be unnecessary. Some even hope that government provision of health and education could be abolished. This, some libertarians think, would get us as

close to a truly free-market economy as possible. For some on the left, the independence and security that a UBI could provide are also very appealing, provided the basic income were large enough for everybody to be comfortably well-off.

One philosophical issue this raises is whether it would be acceptable to provide everybody with an income, unconditionally. The social contract of Western democracies is based instead on the twin principles of fair contribution and just deserts. The presumption underlying it is that adults able to do so should earn a living, with support provided only in response to identifiable need (such as illness, disability, unemployment, poverty, homelessness, or old age) or via universally available public services (such as education or health).

It is possible to argue, against this, that society is already inconsistent on the link between one's standard of living and individual effort since it allows gifts and bequests. These give a privileged few the opportunity to live well without effort or identifiable need. A rejoinder to this, in turn, might be that this is the result of free disposal of legitimately acquired income and wealth. The ability to do this is also of value in a society of free individuals. A more fundamental argument against an undue stress on the need to earn a living for oneself is that market rewards play only a part in determining people's deserts. Other things also matter, such as the need for a degree of social inclusion. Thus, reasonable people can differ on whether a universal unearned income could be justified philosophically.

Another philosophical issue is: Who should be eligible? Presumably, people would not be allowed to turn up in the country and claim the universal income. The answer would presumably be citizens or long-standing residents. This, then, would be a universal citizens' income. Thus, the idea of a universal basic income further strengthens the argument for the exclusiveness of citizenship. It would further strengthen the case (and the demand) for control over immigration, to ensure that people able to contribute to funding the basic income they would be entitled to receive could enter the country permanently.

Yet UBI also raises quite fundamental practical questions. One is whether a reasonable UBI would be affordable. The second is whether a UBI would be a sensible way to use scarce public resources.

On the former, many analysts have concluded that a worthwhile UBI would simply be unaffordable. Gene Sperling, former economic adviser to Barack Obama, spells this out for the US: "Most UBI plans offer around $12,000 a year for every adult—and sometimes $4,000 for every child."[90] A UBI at this level would in fact have cost $3.4 trillion in 2019, given the US population of 254 million adults and 73 million children.[91] That would have been 16 percent of gross domestic product. Even without children, the UBI would cost 14 percent of GDP. At 16 percent of GDP, the cost of a UBI would amount to around 150 percent of federal spending on Social Security, Medicare, and Medicaid together, about 100 percent of federal tax receipts, and around 75 percent of all federal outlays in the 2019 Fiscal Year.[92] This is obviously unaffordable.

The British economist John Kay provides a more general framework in which he follows the late James Tobin, a Nobel laureate economist.[93] He argues that the governments of modern high-income democracies mostly spend about 25 percent of GDP on the inescapable core public services and obligations of health, education, defense, public administration, police, the judicial system, and debt service. I will assume, in addition, a UBI for the UK set at one third of average incomes of around £11,200 per annum in 2019–20. With some 52 million people over eighteen years old in the country, this would cost the huge sum of £580 billion or just over a quarter of GDP. If this sum were added to existing public spending, it would bring the latter to 65 percent of GDP. Added just to the 25 percent of GDP spent on the core services enumerated by Kay, the share of public spending in GDP would still end up at around 50 percent of GDP. But under the latter somewhat less unaffordable option, the UBI would replace all of today's transfer programs targeted at the poor, infirm, elderly, children, and others with a range of special needs.

While such a shift would make the UBI somewhat less unaffordable, the benefits from introducing it would go to the non-poor, non-infirm, non-

minor, non-elderly, and otherwise non-needy, all of whom benefited from the transfer programs eliminated in order to finance the UBI. The biggest beneficiaries of introducing the UBI would then be people who did not receive these now eliminated transfers and especially the nonworking partners of well-off people. In addition, the UBI might well persuade many people, especially second earners who are paid relatively little, to stop working altogether, further shrinking GDP and fiscal revenue, and so making even higher tax rates necessary.[94]

Martin Sandbu of the *Financial Times* offers three responses to these apparently decisive objections.[95] The first is that the UBI could be substantially smaller. He has suggested a UBI of £7,150 per annum for every adult. This sum is a third of average disposable incomes, which might make sense if the UBI is not to be taxable. That would reduce the cost from a little over 25 percent to a still enormous 17 percent of GDP. The second answer is that the UBI—a direct payment to every adult—should replace the current allowance (or exemption) before tax is paid, which is a form of tax expenditure. In the UK, the cost of this allowance before income tax and national insurance contributions are payable amounts to around 7.5 percent of GDP. With the UBI, this allowance could be abolished. That would reduce the cost of the UBI to a little under 10 percent of GDP—still an enormous sum, roughly equal to the annual cost of the National Health Service. The third answer, he suggests, is that the UBI would replace the state pension, which has much the same value (at just over £7,000 per annum). This would save 5 percent of GDP, bringing the cost down to 5 percent of GDP. Yet even this sum, it should be noted, is roughly what the UK spends on education.[96]

The UBI thus structured and financed would amount to a negative income tax payable as a lump sum to every adult, either as cash or as a deduction from tax. It would clearly still be expensive. It would also look even more expensive than it is to the extent that an invisible tax expenditure would be converted into a visible tax offset by a visible universal cash benefit. As designed by Sandbu, the replacement of the zero-rate tax band with a direct payment would indeed give the bulk of the gains to those who earn relatively little, since the value of the present tax exemption is greatest

for those with the highest marginal tax rates and least for those who earn less than the threshold at which tax is payable. But many of the people who earn little or even nothing are second earners and so not those living in poor households. His UBI would also bring no benefit to people who live on the basic state pension, which is relatively low in the UK.

The most important question, however, is not whether Sandbu's proposed UBI is affordable (the answer is "yes, albeit with huge political difficulty"), but whether it would represent a good use of scarce public money. My answer would be a definite no. Even Sandbu's relatively modest UBI would require a substantial increase in taxation. If one could raise 5 percent of GDP in additional taxes (about £1,000 billion per annum), as he proposes, would an unconditional payment to everybody, including many who do not need the money, really be a better use of additional fiscal resources than further spending on vulnerable and needy people, health, social services, education, housing, international aid, or the energy transition? Again, under Sandbu's proposal, the current array of special programs for the needy and deserving would continue. Indeed, they would have to do so, given the modest level of his UBI. So, one of the theoretical advantages of the idea—elimination of the investigations associated with conditional assistance and the ultra-high marginal tax rates associated with means-tested assistance—would not be realized. Excluding those who live just on the basic state pension from the benefits of a UBI, as Sandbu suggests, with a view to making UBI less unaffordable, would also be hard to justify, given that pension's currently modest level in the UK.

The fundamental problem is that UBI is *intentionally* ill targeted and so an inescapably wasteful use of scarce fiscal resources. It just involves too much churning of money: robbing Peter to pay Peter. A UBI at a high enough level to render targeted assistance to those who are vulnerable, needy, and deserving would be unaffordable, while a UBI that is affordable would benefit many who do not need the money and fail to benefit important services and people who need more than they now have. In the end, the UBI is too ill targeted to be a good use of the additional tax money that would

have to be raised to pay for it. That is, in the last resort, all there is to say about this idea.

Student loans and debt

Among the most controversial issues is how to fund tertiary education. There are three broad options: financing it out of regular taxation; financing out of standard mortgage-type loans (albeit without collateral); and financing out of loans with income-contingent repayment.

The big problem with the first option is that most governments now find funding of high-quality teaching at institutions of higher education has become impossible. The dominant explanation for this is the huge increase in the proportion of young people going into tertiary education. In England, for example, that proportion rose from 4 percent of school leavers in the early 1960s to 50 percent in 2019.[97] Similar expansions have occurred in many other high-income countries. Inevitably, therefore, all systems have become decreasingly well funded. But systems that rely overwhelmingly on taxation tend to be particularly poorly funded and so also mediocre. High-income countries that fall into this latter category include France, Germany, and Italy, which spend relatively little on tertiary education as a share of GDP, despite higher overall tax share in GDP, than Canada, the UK, or the US, where the private share of spending is higher.[98] Moreover, beyond this important practical concern, there is a philosophical one: is it right to offer full taxpayer funding of education that is not a universal right, as primary and secondary education are, but a restricted privilege? The case for full state funding of nursery, primary, and secondary education is clear. It is much less clear for tertiary education.

The second option is also problematic, because these loans are inflexible. Thus, loans remain outstanding whether or not the education turns out to have value. Furthermore, because a young person with no assets can offer no collateral, conventional loans from financial institutions will be offered only if they cannot be discharged in bankruptcy, as is the case in the US. Worse,

particularly if the debt cannot be eliminated in bankruptcy, the burden of any given size of loan is heaviest on those who gain very little from their course, perhaps because they fail to complete it, which is a very common problem in the US. Indeed, the family must pay even if the student dies. The size of the US overhang of student debt is also extraordinary: in 2019, more than 40 million Americans owed more than $1.5 trillion (7 percent of GDP) in aggregate. This is the largest source of household debt other than mortgages. Moreover, many of the most burdensome debts are relatively small: borrowers with less than $10,000 in outstanding debt make up over 60 percent of all defaults. In addition, many of these students are people of color. According to a study by the Aspen Institute Financial Security Program, “20 years after enrollment, a typical black student still owes 95 percent of their debt compared with 6 percent for white students.”[99] This is a scandal. It is one of the many aspects in which the US has failed to ensure basic equity in such core social arrangements as education (not to mention health).

The income-contingent loan plans of the kind now operated in the UK and Australia are a tolerable halfway house. The university charges a fee that is initially paid by the plan. This becomes a loan that is paid off by students, provided they earn enough. Thus, the plan provides funding to universities that is semi-independent of normal fiscal budgeting and so supports both the finances and the independence of these institutions. Since tax authorities know the income situation of taxpayers, they can make repayments contingent on verified income, at least for those who are resident for tax purposes. Moreover, because the repayment is income-contingent, the debt will not burden those who earn relatively little. In the UK, after thirty years, the residual debt is written off.[100] This system works reasonably effectively, though the details—maximum fees, interest rates, and repayment floors—are open to discussion. Arguably, the fees (currently £9,000 a year in the UK) should be lower. (Maybe that would reduce the ridiculously high salaries of many university administrators.) One could also add an equity element to the loan contracts. The institutions and the government would then receive a part of graduate incomes above a high threshold, thereby benefiting from the

success of their most successful students. This would also make the system a bit more like a graduate tax (a special tax on graduates used to pay student fees).

Insuring against old age

UBI is a good example of a utopian idea that does not make sense in practice. The income-contingent loan plan for student fees is an example of a practical idea that does. Another area where countries need practical ideas is pensions. One of the most attractive is collective defined-contribution pension plans, ideally nationwide as in the Netherlands. This idea is particularly relevant in countries with a very low basic state pension, such as the UK. Combined with a high basic contribution rate, automatic enrollment (with opt-outs), and government contributions on behalf of the low paid, this could provide both greater security in old age and develop deeper capital markets, which are the foundation of a dynamic market economy.

Pension systems have developed in different ways. One of these ways was the combination of relatively ungenerous state-run pay-as-you-go systems with defined-benefit (DB) pension plans run by employers (among the latter being different levels of government). The advantage of such systems is that they reduce the fiscal cost. The disadvantage is that private employers are problematic providers of pensions, because a pension is a very long-term and potentially very expensive promise, something most businesses cannot realistically guarantee. The promise of a pension to a twenty-five-year-old might still need to be met seventy-five years later. Many employers will not survive long enough to deliver on their promises. Worse, they have an interest in making promises they will be unable to keep in many states of the world. These conflicts of interest are pervasive in such pension plans.

In the UK, this led to underfunding of many defined-benefit plans, government insurance, and then extremely risk-averse regulation. The result of the latter is that the cost of delivering on the defined-benefit promise has

become prohibitively expensive. Private sector defined-benefit plans are duly disappearing. According to the UK's Pension Protection Fund, of the 5,327 defined-benefit pension plans still in existence in 2020 (down from 7,751 in 2006) only 11 percent remained open to new members and only 46 percent remained open to accrual of new benefits by existing members.[101] The defined-benefit pension system is dying, except—unfairly—in the public sector, where the government is able to make use of its power to tax to make good on pension promises. In some respects, this collapse of private sector DB plans is a great pity, not least because the result is a great generational inequity. But it was inevitable, once businesses were forced into meeting their promises in all circumstances and especially as plans became more mature. An open-ended commitment to meeting such long-term and generous promises is too burdensome. That was clear to anybody prepared to investigate these promises with an open mind. Reliance on such private DB plans was foolish.

The replacement for these plans has been the defined-contribution (DC) pension. In this case, the risk rests not with the employer or any other institution, but with the individual. This is one of many examples of the shifting of risks onto the individuals. With a DC plan, the income provided in retirement depends on the amount saved, (often insufficient, given human myopia), the return on investment (unknown), and longevity (also unknown). The return on investment depends on luck and the individual's competence as a manager of investments. As they come closer to retirement, wise investors will also want to reduce the risks they run, since they know they will be less likely to recoup any losses within their shrinking time horizons. But de-risking a portfolio is likely to leave the future pensioner badly off and at current interest rates very badly off. Finally, any risk-averse strategy for managing longevity is likely to mean underspending in retirement, on average, and so result in a surplus upon death. None of this is at all ideal.

An alternative exists: the "collective DC plan," which is a plan with a large number of contributing members, but no external guarantors. Unlike in DB plans, trustees would be allowed to adjust pensions in the light of investment performance. Since those trustees would not be subject to the

conflicts of interest inherent in a corporate DB plan, one could expect their decisions to be taken in the interests of all actual and future pensioners. A big advantage of such a plan is that since the pension could be adjusted in the light of performance, there would be no need for investments to be in supposedly “safe” bonds to any significant degree. They could be in real assets instead, which would be vastly better for the long-run performance of the fund and the economy. Locked in their defensive crouch, only 20 percent of UK DB plans under the Pension Protection Fund are now invested in equities, down from 61 percent in 2006. That is disastrous, especially when real interest rates are negative.[102]

Unlike individual DC plans, administrative costs would be very low and investment risk could be pooled across generations. As a result, individuals would not need to make difficult investment decisions and would also not suffer if investment returns were particularly poor at the time they retired. Thus, investment and longevity risks would be shared among all pensioners, rather than be borne by individuals. Creating such plans at the employer level is already under consideration in the UK.[103] But a number of wider plans would be better. They could gain enormous economies of scale and so be very cheap to run. If a government wanted to do something daring to help the disadvantaged young, it could borrow long-term at today’s negative real interest rates and invest the money on their behalf into collective DC plans. It could, alternatively or in addition, provide insurance relatively cheaply against big market downturns. In this way, it would be taking some of the risk from citizens. This is of course precisely what governments exist to do.[104]

An issue of comparable significance is insurance of care in old age. Many elderly people never need to go into a nursing home. But those who do may find themselves ruined by paying for it. Again, a plan of compulsory insurance against catastrophic costs is the obvious solution. The plan introduced in the UK in 2021 is, however, a wonderful example of what not to do. Instead of placing the burden on people with the largest assets, it imposes the burden on workers in general, while failing to protect those with modest assets.[105]

Adjusting to import competition

Since 1962, the US has had a special program, Trade Adjustment Assistance, to help workers, businesses, and, more recently, farmers affected by import competition. This program was deemed necessary to alleviate political resistance to trade liberalization. Its existence reflects protectionist attitudes, since disruptions caused by domestic economic changes are likely to be just as hard to cope with. But given that the US has a sketchy welfare safety net, this seemed a sensible way to deal with the protectionist political reality. The program has largely lost support, being considered both ineffective and costly. Rather than attempting to revive it, the US should create a better system of support for workers, firms, and localities affected by adverse economic changes of any kind.[106]

What is needed in place of such special programs is a reasonably complete system of social protection that can gain and sustain political support, together with an economy that generates high employment with incomes that give people socially acceptable livelihoods. These topics were covered in previous sections on policy for economic growth and opportunity.

Conclusion

A modern democratic state must provide people with protection not just against enemies but against a wider range of perils. The state can do this intelligently or foolishly. A good welfare state will gain legitimacy by allowing people to do things they would otherwise be unable to do and by ensuring them against risks they would otherwise be unable to bear. At the same time, it should not encourage idleness or fecklessness. Striking this balance is at the heart of modern democratic politics.

Ending Special Privileges for the Few

The underlying assumption of a liberal democracy is equality before the law. The opposite of this is a "privilege." Narrowly, a privilege is "a right or immunity granted as a peculiar benefit, advantage, or favor."[107] It comes from the Latin word *privilegium*, which means "a law affecting an individual," itself derived from the words *privus*, meaning "private," and *lex*, meaning "law." Privileges were a salient feature of all premodern societies: the fact that aristocrats were exempt from taxation in prerevolutionary France was a privilege in this sense. In modern societies, there are also privileges, not just in the metaphorical sense used to describe almost any inequality as "privilege," but also in this original sense of a private law. The limited liability enjoyed by shareholders of corporations is such a privilege. The treatment of "carried interest"—the income earned by general partners in private equity or hedge funds—as capital gains rather than as uncertain income serves as another example of a legal privilege: it is obvious that if one is to classify income as a capital gain, it must derive from holding an asset on which one is likely to make a loss. Yet this does not apply to carried interest, which is highly unlikely to be negative.[108] There are many such privileges in contemporary tax codes. These are in turn a reflection of how wealth combines with power to shape contemporary law and justice.

Wealth and power bring many advantages in life. But they also shape more explicit privileges within the political and legal systems. Such privileges threaten democracy, since the latter assumes equality of status as citizens—what the Athenians called "isonomia" (ἰσονομία), or equality of rights.[109] The most obvious threat to a democratic political system is that of "overmighty subjects"—people or institutions able both to make the law and to live above it, by purchasing both politics and justice. They may make themselves above the law by corrupting judges. They may be able to bypass the law by escaping into foreign jurisdictions. At some point, such a polity becomes a blatant plutocracy. All effective power will rest in the hands of the few, not the many. The US is largely there already. Other democracies have plutocratic aspects. Often, as noted in chapter 3, plutocracy leads to autocracy, either because a demagogue attains high office by riding popular rage or because one of the plutocrats attains that position himself. Donald

Trump's attempted coup in the election of 2020 should be viewed as a near miss.

The discussion below will focus on five dimensions of privilege (broadly defined): corporate misgovernance; monopoly; the new digital economy; corruption; and tax and the failure to tax.

Corporate misgovernance

As discussed in chapters 3 and 5, corporations are a remarkable institutional innovation and have played a central role in the economic progress of almost two centuries. But their existence poses some big questions. What should they aim at? How should they be governed? These questions about the nature, purposes, and governance of the firm have become increasingly debated.[110] Some now argue, for example, that corporations should have an explicit purpose other than profitability, which should be viewed as a means, not the goal of their activities. The governance of corporations should also be altered, it is argued, to internalize such changes in their goals. A program organized by the British Academy concluded, for example, that "the purpose of business is to solve the problems of people and planet profitably, and not profit from causing problems."[111]

Experimentation in corporate purpose, structure, and governance is desirable. There are indeed problems with the aims of the corporation and the model of corporate governance in which shareholder interests and power are dominant. Indeed, this is now accepted even by the Business Roundtable of the US, a grouping of executives of leading companies, which has come out against shareholder value maximization, in favor of taking the interests of all the stakeholders into account.[112] The approach taken here, in keeping with the aim outlined in chapter 7, is narrower: it focuses on harm reduction. Here are three things that must happen if the harms of corporate irresponsibility are to be contained.

First, *transparency* of what companies do must be improved. To make that possible, excellent accounting standards and accounts audited by

genuinely independent auditors are necessary. On the former, some progress is being made in developing environmental, social, and governance (ESG) standards.[113] But agreeing on environmental and social standards for companies, defining these quantitatively, and then measuring them precisely is an enormously problematic task. How does anyone value one set of impacts against others? How far will people agree on those valuations? How far down the chain of downstream and upstream impacts does one need to go? Yet of the three elements in ESG, the last is perhaps the most difficult. Who is entitled to a say in decisions and how? Managers? Shareholders? Workers? Trade unions? Local and national governments? Civil society? And how should this work?

Auditing is a still bigger problem. The practice of letting companies choose and pay their own auditors is corrupt. Listed companies should be paid by the stock markets out of listing fees. But if we are serious about some version of ESG accounting, that still leaves the problem of private companies. After all, the impacts of private companies are also a matter of social concern. It might be better to make auditing a publicly funded function, to be paid out of a tax on all incorporated entities. Alternatively, the choice of auditors could be taken away from companies and handed over to a public body.

Regulators also have a role to play in ensuring relevant corporate transparency. The most important regulators are probably the central banks. These already have a responsibility for ensuring the health of financial institutions, especially since the financial crisis of 2007–09. Now, increasingly and rightly, they are also focusing on issues associated with other risks, notably those related to climate, including exposure to borrowers that are themselves subject to significant climate-related risks, such as those of stranded assets.

Second, *executive remuneration* needs to be reconsidered, not just its scale, but just as much in terms of the incentives it creates. As part of the aim of maximizing shareholder value, it became increasingly common for executives to receive pay linked to returns to shareholders. But shareholders know little about the long-run prospects of the business and enjoy the

benefits of limited liability. The simplest way for management to raise the apparent return on equity and the share price is to increase leverage, by repurchasing shares. The funds available to management for net repurchases of shares, apart from borrowing, are net profits plus depreciation. This tempts management to forgo investment (including in research and development), in favor of share buybacks, since the buybacks are likely to have a stronger effect on returns on equity and on share prices, at least in the short run. Such incentive pay should be discouraged, since it motivates executives to make the balance sheets of their companies weaker than they should be, by reducing investment and increasing leverage.[114]

Third, *liability* needs to be strengthened. It is not hard to view corporations as amoral—that is, institutionally incapable of recognizing the distinction between right and wrong or feeling remorse or empathy. This is not just because, being institutions, they are incapable of feeling anything. It is also because incentives encourage such amoral behavior in those who control them. Corporations benefit from limited liability, which protects shareholders, who can only lose their investment. As for the top executives, they can mostly only lose their jobs. Maybe some lower-level flunky will go to prison, as happened in the case of the LIBOR scandal, even though the incentives that drove this misbehavior came from the top.[115] But top executives are most unlikely to be held personally liable for anything.

The executives who drove their banks (and the world economy) into the ground, before the global financial crisis, mostly walked off with large fortunes, while tens of millions of innocent people's lives were ruined and governments were forced to provide huge bailouts.[116] Enormous fines were levied on banks, but these were paid by the mass of shareholders. Only one banker went to prison in the US and none went to prison in the UK, even though these were epicenters of the crisis. Moreover, the one banker in the US to go to prison, Kareem Serageldin, was a minor figure. In Iceland, in contrast, twenty-five bankers were convicted, another eleven in Spain, and seven in Ireland.[117] This degree of impunity in the US and UK undermines the legitimacy of their market systems.

There are solutions. It would, for example, be possible to designate a class of “insiders” who would bear large penalties in the event of corporate failure.[118] Members of the executive board might be liable to a multiple of their accumulated earnings since taking up their positions. Again, large shareholders might be liable for a multiple of the purchase value of their shares in the case of default. Again, in the event of gross malfeasance (such as corporate fraud, manslaughter, or similar crimes), controlling shareholders, the chief executive, and others in the chain of command could be held criminally responsible unless they could prove they did everything anybody could reasonably expect to prevent the crimes in question.

Those who control a company need to have skin in the game. Consider, for example, how many millions of people have been convicted of minor drug crimes in the US: in 2015 alone, 1.3 million people were arrested for possession of illegal drugs, while almost half a million people were in prison for minor drug offenses, according to a report published in 2020.[119] Yet the members of the Sackler family—which bear heavy responsibility for the mass prescriptions of opioids in the US, probably the worst drug-related scandal since the opium wars by the British against China of the nineteenth century—are not going to prison, but are just losing some of their billions of dollars.[120] Such power without accountability is a monstrous privilege, redolent of feudalism more than of a contemporary liberal democracy.

Finally, *corporate political influence* needs to be curbed. As argued in chapter 6, only people can be citizens. Corporations should be subject to what Milton Friedman called the rules of the game, not make the rules. Only citizens should have a place in making such decisions. Corporations’ role as lobbyists must also be transparent, as must be their role as political donors (ideally, none). There are questions about the role of money in politics more broadly. At the very least, it should be controlled and made visible.

Monopoly

Monopoly is privilege, too. The evidence of a decline in competition discussed in chapter 5 calls for a more active competition policy, not least in the case of the digital platform monopolies, which exercise extraordinary economic, social, and political influence—overmighty subjects, indeed. The 2019 Furman Review for the UK government addressed the challenges of competition in the digital sector rigorously, detailing both the valuable innovations and the special challenges created by this sector.[121] Lina M. Khan was appointed chair of the Federal Trade Commission by Joe Biden, because of her work on competition in the digital sector, notably on Amazon.[122]

The broad suggestions of these authors are to revitalize competition policy and, above all, to infuse it with far more than a concern for the consumer, though that is indeed essential. The aim should be to ensure that the competitive process itself is vigorous. To do so, general competition policy should shift in three important respects. First, there should be a presumption against mergers or acquisitions between companies that operate in the same market. Those who want to make such mergers or acquisitions need to make compelling arguments in favor, which demonstrate how competition would be strengthened by the merger. Second, attention should be paid to any market in which a very few companies, let alone just one, are dominant, with a view to considering how to engender more competition within it. Finally, countries should try to join forces in seeking more competitive and innovative economies. It should also be noted that liberal trade is one of the best ways of doing so.

On digital enterprises, in particular, the Furman Review recommended the creation of a “digital markets unit.” This would develop a code of competitive conduct, which would apply to companies deemed to have “strategic market status.” It would also be “charged with enabling data mobility and systems with open standards where these tools will increase competition and consumer choice.” Finally, it would tackle “data openness,” with a view to promoting the entry of new competitors. In addition, the points made in the previous paragraph need to be applied with force to digital enterprises, especially where network externalities are important.

The new digital economy

The emergence of the new digital and artificial-intelligence-enabled economy raises questions far more profound than those of competition. Moreover, they go far beyond the economy, important though that is. Since these businesses intermediate and indeed create the information ecology of our societies, they are the prime shapers of our economy, society, and polity. It is no accident that language is the defining characteristic of humanity as a social species. Nor is it an accident that the most revolutionary technologies humans have invented are those of communication—writing, printing, telegram, telephone, radio, television, and now the internet. Augmented by machines that can find patterns in almost inconceivably huge quantities of data in unimaginably short periods of time, the new information economy is revolutionary. Yet, as argued in chapter 6, it is not altogether new. Above all, the information economy may be a new set of technologies and institutions, but we humans remain prone to rage, suspicion, tribalism, anxiety, and, above all, to following charismatic frauds who promise to solve all our problems.

So, what are some of the things that need to be considered in bringing the new and emerging digital economy to heel? After all, nobody elected Mark Zuckerberg of Facebook or Sundar Pichai of Alphabet to control the information ecosystems of our societies. If a competitive economy and functioning democracy are to survive, some big issues need to be addressed by policy makers.[123] Here are three such issues.

First, as when we were considering corporate responsibility, *transparency*. Algorithms rule our lives, including our economic lives. They determine where businesses are ranked in search engines and what information of all kinds we see. Inevitably, the data used by these algorithms are themselves defective and biased. Inevitably, too, the algorithms are designed for the interests of their commercial creators, not those of their users or of the societies in which they live. The nationalization of these algorithms by the state, as in China, should surely be unthinkable. But they should be brought under some sort of regulatory control. Food and drugs, for example, are tightly regulated. Why not algorithms designed to spread misinformation

and destructive behavior virally? Evidently, regulating all algorithms would be far too intrusive and create the danger of ubiquitous state control. One possibility might be to designate certain technology businesses as “strategic” or “systemic,” just as big banks now are. These businesses—not very large in number—should be regulated and any new services they provide or new algorithms they introduce be examined. We have experienced the world of “move fast and break things.” Too much has been broken. This needs to stop.

Second, *data*. It is said that, in the case of Facebook and other social media businesses, the users are also the product.[124] This is questionable. What is clear is that the data provided by customers is of great value to the companies they deal with. Is this a fair bargain? Given the monopolistic position of the companies and the fragmented position of the customers, this must be doubtful. One could imagine a world in which companies paid their users a fee every time their data was used. Closely related to this issue is privacy and, above all, the right of users to know what is known about them and the right to ensure that users control what data about them are used. The EU’s General Data Protection Regulation may be imperfect—indeed, it must be.[125] But it is surely a move in the right direction. Such restrictions should operate worldwide. That does not necessarily require global agreement. A regime introduced in one of the biggest jurisdictions, especially the US and EU, will inevitably have global reach.

Third, *media*. Real media are not just a matter of venting opinions or encouraging amateur “citizen journalists” to glean whatever information they can, however they can. Real media demand resources and a dedication to the truth (something, alas, neither as popular nor deemed as important as it should be). So, from where are these resources to come? One possibility would be to impose a tax on the social media that have done so much to destroy the business model of real media. The revenue would then go to some sort of trust that would fund relevant media. These resources, to be used for news, current affairs, and documentaries, could go to public service media or, perhaps even more important, to local media, since the latter’s business model has been particularly severely devastated.

Finally, *artificial intelligence*. Artificial intelligence may deliver one of the most fundamental transformations in human history. Its implications for our economies, societies, politics, and indeed our sense of what and who we are cannot be left to a small number of businesses focused on how much money they can make out of it. Our politics need to ask some deep questions about how this might work, what needs to be done to ensure that it enhances our humanity rather than destroys it, and how we can ensure it does not create a world in which a small number of organizations (businesses or governments) control the present and the future of our species. That would be "privilege" taken far beyond tolerable limits. Countries should be promoting research and discussion on these themes.

Corruption

Corruption—the abuse of power for private gain—is an eternal feature of organized societies. The more wealth there is to steal, the greater the incentive to do so. Indeed, the distinction between corruption and what is legal can often be quite difficult to draw. For much of human history, wealth and power were two sides of a coin. Power granted access to wealth, and wealth reinforced power. It takes a sophisticated, perhaps somewhat naive, view of society to imagine that power and wealth should or can be separate. An absolute monarch will object if his servant steals what he thinks is his. But he will take for granted that he has a legitimate claim on most or even all the wealth of his domain. Who would dare to say him nay? Only someone with a death wish. This traditional form of government is known as patrimonialism. Vladimir Putin views Russia no differently. He thinks it is his to do with as he pleases, though it is not yet a hereditary estate, as it was under the Romanovs or as North Korea is under the Kim family.

Law-governed liberal democracies (the only sort of regime that deserves to be called democratic) are supposed to be different, and for the most part they are. In Transparency International's ranking of countries in 2020, the least corrupt countries were all such democracies, with the exceptions of

Singapore (3rd equal), Hong Kong (11th equal), and the United Arab Emirates (21st equal). These three countries are higher than France (23rd), the US (25th), Spain (32nd), South Korea (33rd), and Italy (ranked 52nd, alas, alongside Saudi Arabia). But at the top are New Zealand and Denmark. No surprise there: small and truly democratic countries, where everybody knows everybody else's business, are the least corrupt, as they are the happiest (see chapter 7).[126]

Nevertheless, all is not well. High-income democracies themselves enable corruption in many ways.[127] This very much includes the UK and US. Furthermore, if a country and its elite are facilitating corruption abroad and tolerating dirty money and the people who have it, then at home, business and politics will inevitably be tainted. Furthermore, there is a great deal of corruption in important high-income democracies and a great deal not generally considered corrupt, which is.[128] The business of campaign finance, for example, is corrupt in the US: a classic example of buying and selling of favors. Cleaning all this up matters for many reasons, not least for the damage it does to people's trust in politics. If voters are cynical, they will conclude that, since all politicians are crooks, why should they not vote for a crook who is at least open and honest about his crookedness?

Fighting corruption is important for the economy since it distorts competition. But it is just as crucial for the protection of democracy. The abuse of power is a step—a large step—toward autocracy. Once theft becomes the purpose of politics, free media, independent courts, the right to protest, and freedom of political organization have to be suppressed. Otherwise, the despot and his dependents will find their position at risk. The democracies should do everything they can to fight corruption both at home and abroad. The idea that power and wealth have to be separated is one of the highest, if most difficult, ideals of democratic capitalism. It must never be forgotten.

Taxation

Taxation, as Justice Oliver Wendell Holmes famously said, is the price of civilization. The ability of an elected legislature to determine what, how, and how much to tax is, correspondingly, the most fundamental feature of a democracy. Unfortunately, there is increasing evidence, especially from the US, that it is not the people who determine tax policy, but a small minority. Indeed, tax policy is supporting the creation of an immensely wealthy and powerful hereditary plutocracy. Members of this plutocracy have also shifted the political debate away from economic inequality by exploiting the identity politics of ethnonationalism. The alliance between the plutocracy and the white working class helped give the US to Trump, who attempted to subvert the electoral process itself in 2020 and since. The issue, then, is not just taxation or even economic policy, but the health of democracy itself. This is what Franklin Roosevelt was concerned about, too, when he called for "the ending of special privilege for the few."[129]

There are several points to be made here: higher taxes will be required in many high-income countries, simply because bills are coming due; but higher taxes can also be introduced without significant economic cost; furthermore, much of the current tax system is unjust, notably, but not solely, in failures to tax capital and tackle tax evasion and avoidance adequately; and so, finally, there need to be radical changes.

■ ■ ■

If we look at the longer-term future, in the light of the discussions earlier in this chapter and in part II of the book, it seems clear that the state is going to need more resources in many countries. This is partly because there are things that need to be done to ensure everybody a decent income, support people's ability to work, and provide first-rate education and health care. It is also because the population is aging and will continue to age, which will bring with it costs of higher spending on health and social care. These upward pressures are likely to be strongest in countries with relatively low ratios of government spending to GDP, such as the UK or the US. In the UK, for example, the Office for Budget Responsibility has repeatedly argued that

under existing policies and plausible assumptions about growth and interest rates, public debt is on an unsustainable path. In July 2020, for example—admittedly, at the worst of the COVID-19 crisis—its central forecast was for public sector net debt to reach over 400 percent of GDP by 2069–70.[130] A similar exercise by the US Congressional Budget Office published in March 2021 concluded, "By the end of fiscal year 2021, federal debt held by the public is projected to equal 102 percent of GDP. If current laws governing taxes and spending generally remained unchanged, debt would persist near that level through 2028 before rising further. By 2031, debt would equal 107 percent of GDP. . . . Debt would continue to increase thereafter, exceeding 200 percent of GDP by 2051. That amount of debt would be the highest by far in the nation's history, and it would be on track to increase further."[131] Unless one believes there is no limit to how much debt or money a country can create (if you do, please take a look at the history of Argentina), this accumulation of debt cannot continue indefinitely, though with very low real interest rates and continued growth, substantial deficits can be run indefinitely.

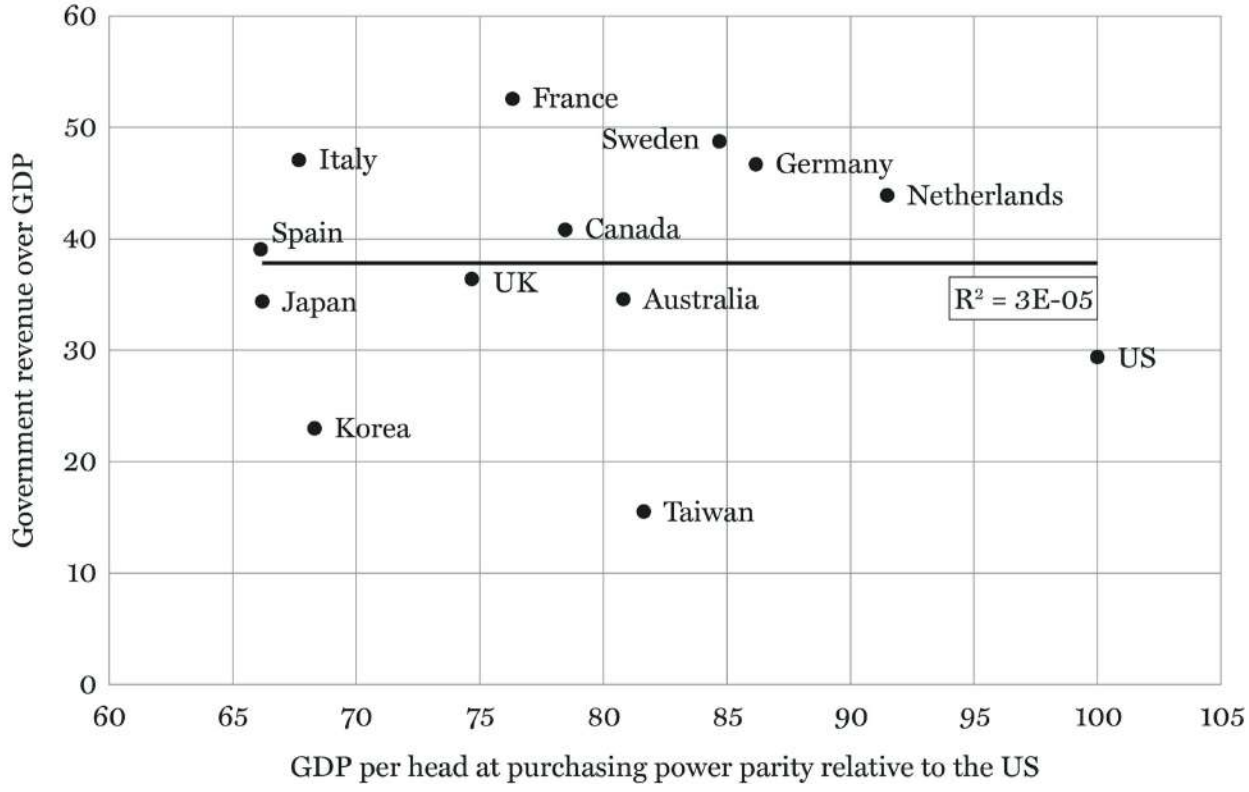
Nevertheless, taxes will have to rise to meet current promises, let alone some of the needs for a better future. The question, to be considered further below, is how. Of course, raising revenue is not the only reason for taxation. Taxes can achieve other goals—internalizing negative externalities, for example, notably damage to the environment, as well as reducing inequality. Taxes also need to meet certain criteria, most obviously those of practicality and fairness. But the starting point must be with revenue: there will need to be more of that in many high-income countries.

■ ■ ■

A standard response to the argument that higher taxes will be needed is to argue that they will kill growth and so make the population poorer than it needs to be. This view has superficial plausibility. If one taxes effort, enterprise, and innovation highly, one must expect to get less of it.[132] But the ratio of tax to GDP seems, in practice, to have relatively insignificant

effects on prosperity, once other things (such as the quality of institutions and human capital) are equal. It seems instead largely to reflect a social choice over how much insurance the state should provide to households and how big a role the state should play in providing such services as education and health. Furthermore, the spending of the state also provides benefits that matter to people, even if these do not appear in GDP. Not having to worry that an illness would bankrupt one is such a benefit. So is income security, especially for families with children. GDP per head may not be lowered much if the prospects of many children are stunted by poverty, but *their* lives will be stunted. Figure 47 shows the ratio of tax to GDP and GDP per head (relative to the US) of a number of significant high-income countries, including all the members of the Group of Seven leading high-income countries. As the trend line shows, no relationship can be seen. There are prosperous high-tax countries and also prosperous low-tax ones.

FIGURE 47. GOVERNMENT REVENUE AND GDP PER HEAD, 2019 (PERCENT)
(Source: IMF)



The US does have the most productive economy in this group of countries. There are many reasons for this, apart from the modest tax burden: size of the market; entrepreneurial culture; quality of higher-education institutions; and, until recently, openness to the world's talent. These qualities offset some of its failures, including a relatively poorly educated domestic labor force. The United Nations Development Program has for a long time published a Human Development Index, which weights together gross national income (GNI) per head, life expectancy, and years of education. On this, the US comes 17th, behind most of the countries in figure 47 (the exceptions being South Korea, Spain, and Italy, in that order, with Taiwan excluded for not being a sovereign country). The US is 10th in GNI per head, behind only a few small countries (including oil-rich ones). It is ranked 38th in life expectancy, which is appalling, given its wealth and resources, and 28th in expected years of schooling, which is remarkably poor, too.[133] A low tax ratio seems a poor bargain if it comes with poor health and education services for a sizable portion of the population, as well as high inequality. True, for most of the world the US remains a paradise. But that says more about the rest of the world than about the relative condition of the US among high-income countries.

■ ■ ■

As discussed in detail in chapter 5, the abuse of tax havens, principally by corporations, has been an open scandal. But this is just one part of a far bigger problem. In *The Triumph of Injustice*, Emmanuel Saez and Gabriel Zucman lay out both the scandal and its main causes, in the case of the US.[134] Saez and Zucman show that "today, each social group funnels between 25 and 30 percent of its income in taxes into the public coffers, except the ultrawealthy who barely pay 20 percent. The US tax system is a giant flat tax—except at the top, where it's regressive."[135] So, "as a group," they note, "the Trumps, the Zuckerbergs, and the Buffetts of this world pay lower tax rates than teachers and secretaries."[136]

The explanation is that the federal income taxes on which US political debate tends to focus generate only a third of total tax revenues (9 percent of national income). Moreover, the income tax legally excludes many forms of income and especially capital income, quite apart from the outright tax evasion. Thus, only 63 percent of US national income is subject to the income tax. Moreover, state income taxes follow the pattern of the federal one: they generate about 2.5 percent of national income. The second-largest source of tax revenue is the Social Security payroll tax, which is a regressive tax on labor income, generating about 8 percent of national income (and so almost as much as the federal income tax). The third-largest source of revenue is consumption taxes, which include excise taxes. They are also regressive, partly because the poor spend a far higher share of their income than the rich and partly because these taxes exclude services (since the US does not have a value-added tax, or VAT). Services are more intensively consumed by the rich. The last and smallest part of tax revenue is taxes on capital. These are very light in the US: the average rate is around 13 percent. Mark Zuckerberg owns 20 percent of Facebook, which paid an effective tax rate of 13 percent on its operational income of $25 billion in 2018. The company's net income was close to $22 billion, of which Zuckerberg's share would have been around $4.4 billion. Zuckerberg paid corporation tax at 13 percent on his share of Facebook's profit, but no income tax.[137] Do not forget that even the generous "philanthropy" of billionaires is tax deductible. So the money they give away is partly at someone else's expense. This surely *is* plutocracy.

Tax evasion is rife, too. Again, evasion is much easier for people with large wealth, since it is easier for ownership to be hidden than income from work. One sophisticated analysis of evasion concludes that "unreported income as a fraction of true income rises from 7 percent in the bottom 50 percent [of the income distribution] to more than 20 percent in the top 1 percent, of which 6 percentage points correspond to undetected sophisticated evasion."[138]

The US is an extreme example, but not all that extreme. One way or the other, rich people do not pay much if any tax. As Leona Helmsley, the late

hotel owner, said, “only the little people pay taxes.”[139] She was right, most of the time (though she herself was foolish enough to be caught and so went to prison). But why people of immeasurable wealth should fight so hard not to pay taxes is beyond the understanding of any reasonable person.

■ ■ ■

There are innumerable questions about the future of taxation. But here are the three I will consider: the aims; the means; and some specific challenges, especially transparency and global cooperation.

The starting point on aims is with raising enough revenue to deliver the essential purposes of government, as outlined earlier. In some cases, notably the UK and US, this will mean higher revenue as a share of GDP, permanently. In some other cases, it may just mean a temporary increase in revenue, to bring post-pandemic public finances back under control. But, while crucial, this is far from a complete statement of legitimate aims. Tax systems also need to be seen as fair. As indicated above, the US system of today fails to meet this criterion. To some degree, this is true of most other systems. Capital gains, for example, are lightly taxed only upon sale of assets. This allows those with large assets to borrow against their rising value and live tax free, other than whatever they pay in consumption taxes. Yet any reasonable notion of fairness requires that burdens be borne by those best able to do so. Where that is lacking, the result is likely to be pervasive distrust and anger. The tax system should, so far as possible, also promote desirable goals and impose modest economic costs. Finally, the system should also be implemented effectively.

So, what means should be chosen to achieve these broad aims? One obvious rule is to sweat public assets more effectively, by ensuring that they are used productively.[140] Another is to tax “bads,” such as pollution. Some form of carbon tax is a no-brainer. Another is to tax rents. Taxing pure rent—the excess of the income earned above what is needed to motivate the supply of something—is efficient, since it should not lower output. When Henry George wrote in the nineteenth century, the dominant source of rent was land.

[141] Land rent is still important, which is why it should be heavily taxed, while alleviating the burdens on enterprise, effort, and productive saving. But there are other forms of rent: sustained supernormal corporate profits, for example, as with Apple, or the network benefits of agglomeration (as with successful residents of London or New York). Skilled people do not earn more working in London or New York because they are more competent on average than others but because such cities generate network externalities that make many workers more productive. The far higher incomes earned in high-income countries than elsewhere, even with similar skills, are a form of rent derived from the location in which they live. High taxes can then be viewed as the charge for enjoying the location-specific services that generate such rents.[142]

A crucial question is how best to tax capital. There are various possibilities, each of which goes with somewhat different aims. If the goal is to reduce inherited inequality and so reduce the weight of a hereditary plutocracy, the appropriate means are penal taxes on estates and large gifts among living people. There is no good reason for estates to survive indefinitely. If the goal is to force the wealthy to share in day-to-day fiscal burdens, then the best means would be to tax all forms of income, earned and unearned, at the same rate. In the example of Zuckerberg given above, a simple option would be to tax all corporate income at the top rate of income tax. Alternatively, corporate income could be fully attributed to shareholders and be taxed at their top rate, whatever that is. This would have large adverse effects on investment. So, in measuring corporate income for the purposes of taxation, there should be a 100 percent credit for all investment. The government would then be sharing equally in both the costs of the investment and the returns from it. Finally, the tax deductibility of interest should also be eliminated, to discourage dangerous and unproductive leverage.

Bridgewater has looked at thirty-three cases of annual wealth taxes but concluded that there was no example of one both big enough to make a significant difference to government finances and also long-lasting. Of the thirty-three cases, seven were imposed at the time of the world wars and were heavy, but they were either one-off events or abolished quite quickly.[143]

Thus, a large wealth tax tends to be an exceptional action justified by exceptional circumstances, such as a war or maybe now a pandemic. It is possible to have an ongoing wealth tax, as both Norway and Switzerland have done for a long time. But the money such wealth taxes raise is modest, with rates of 1 percent or less. Nevertheless, even such a wealth tax could raise about 2 percent of GDP in revenue. That might be worthwhile.

The big challenge when attempting to tax capital is the possibility of flight or other ways of evading the tax. International cooperation is needed to avoid such erosion. The governments of the large countries and especially the US have the capacity to compel other governments to cooperate or, failing that, compel companies to do so. They could turn corporation taxes into destination taxes, instead of taxes on the location of production, which is increasingly difficult to identify for many companies. This would eliminate the relevance of claiming that sales in, say, the UK are made from Luxembourg or intellectual property located in the Bahamas. The tax would be levied in the market. They could also act against countries that have excessively low rates of corporation tax. Again, they could tell companies that they will be unable to do business in their own economies if they persist in making ridiculous claims that they have productive assets, such as intellectual property, located in tax havens. If, for example, the US told its tech companies that the price of locating profits in countries with low corporation tax would be that they could no longer operate in the US market, this nonsense would stop overnight.

The Biden administration at last (and at least) did propose relevant changes for corporation tax, including higher rates at home and a global minimum, in early 2021 and reached agreement on a groundbreaking deal on a global minimum rate of 15 percent among more than 130 countries in October.[144] A global carbon tax could be achieved in much the same way: the major markets would simply impose a countervailing border tax on any country that did not have an adequate tax at home. The EU has already started the necessary move in that direction.

A final issue is the tax treatment of philanthropy, touched on earlier. At present, the tax deductibility of gifts allows very rich people to act in the

public realm at least partly at the expense of other taxpayers. It is not at all obvious why their gifts should be tax deductible. An argument in favor is that they will then give more, which suggests that the motivation is not really charity at all. The argument against this is that it deprives the state of revenue that may be needed for equally important purposes. An argument in favor, again, is that in this way philanthropy benefits from the energy of able individuals. The argument against this, again, is that nobody elected Bill Gates to solve the world's health problems. Why should a successful software entrepreneur have such a role in the world? It is reasonable to be of two minds on the advisability of tax deductibility of gifts.

In the end, the obstacle to any of this is the power that corporations and wealthy people have over governments, not the inability of governments to get their way on tax (or other things) if they wanted to do so.

The "New" New Deal

In keeping with the broad agenda of "piecemeal social engineering" laid out in chapter 7, this chapter has laid out realistic reforms designed to deliver a market economy within a democratic polity that seeks to provide welfare to the population at large. It has covered many areas of reform: macroeconomic stability, innovation and investment, sustainability, openness to the world, jobs and the quality of jobs, equality of opportunity, improving the welfare state, and, most important, ending the privileges of the wealthy and powerful, which distort both the market economy and politics. Particularly significant in this last respect are a corporate governance regime that rewards powerful insiders, a competition regime that tolerates powerful monopolies, a regulatory regime that tolerates corruption, and, not least, a tax system that makes paying taxes by the wealthy almost voluntary. What we need are societies that serve everybody, by offering opportunity, security, and prosperity. This is not what many high-income democracies now have.

It is impossible to go into the fine details of all the options, since every section could be a book. But the key requirement is to be prepared to be quite radical, while thinking systematically, rigorously, and realistically. This is piecemeal social engineering in practice. The future must be different from the recent past if our democracies are to be built on firmer foundations. This chapter has tried to spell out an agenda. It is a beginning, not the end. But, it turns out, the agenda of the founding fathers of the post–Second World War states still remains relevant. We should return to it. For that to happen, politics must change, too. That is the subject of the next chapter.

CHAPTER NINE

Renewing Democracy

> As between one form of popular government and another, the advantage in this respect lies with that which most widely diffuses the exercise of public functions; on the one hand, by excluding fewest from the suffrage; on the other, by opening to all classes of private citizens, so far as is consistent with other equally important objects, the widest participation in the details of judicial and administrative business; as by jury-trial, admission to municipal offices, and, above all, by the utmost possible publicity and liberty of discussion.
>
> *—John Stuart Mill*[1]

> Many forms of government have been tried and will be tried in this world of sin and woe. No one pretends that democracy is perfect or all-wise. Indeed, it has been said that democracy is the worst form of Government except for those other forms that have been tried from time to time.
>
> *—Winston Churchill*[2]

> Democracy is the theory that the common people know what they want and deserve to get it good and hard.
>
> *—H. L. Mencken*[3]

Should universal suffrage liberal democracy survive? If it should, how should it be reformed, if it is to be made more effective, legitimate, and robust? The answers to the first question will be strongly in the affirmative. Just as market capitalism is the least bad economic system, so is liberal democracy the least bad political system. But again, just as market capitalism needs reform, so does liberal democracy.

Historically, we should remember, states in which rulers were selected by and accountable to a significant proportion of the ruled have been rare and tended either to turn into autocracies (as with the Roman Republic) or been swallowed up by them (as Athens was by Macedonia). Elections have played a role in some important countries for centuries. But the UK, which has had an elected House of Commons, was essentially monarchical or aristocratic until well into the nineteenth century. It can be considered very modestly democratic only after the Great Reform Act of 1832. The Constitution of the United States was deliberately constructed to constrain the will of the majority on multiple dimensions. Franchises were also very limited. Only in the early twentieth century did democracies adopt universal adult franchises, without restrictions for women or slaves, as in earlier republics.

Thus, universal suffrage representative democracy is only about a century old (see chapter 3). It is also fragile. It depends above all on the commitment to the system of all those engaged in it and especially of elites. The democratic recession of today might turn into an outright democratic depression, as in Europe in the 1930s, but this time on a global scale.[4] Nevertheless, the aspiration to democracy remains strong. Close to half the world's countries can be deemed democratic, however imperfect many of those democracies are (see chapter 3, figure 5). Events in Hong Kong in 2019 and 2020 and in Belarus in 2020 ended with suppression of democracy, but also reminded us of the profound desire for rulers to be accountable to the people and for the people to speak freely to power. They reminded us, too, how contemptible "strongmen" rulers almost universally are: at best, they are petty tyrants whose abilities fall far short of their pretensions; at worst, they are psychopathic bullies indifferent to anything but their own power.[5]

This chapter focuses on the possibilities for the renewal of liberal democracy in the countries where it has long been considered consolidated. These are "my" societies. Their crisis is personal. Moreover, if democracy cannot sustain itself in these countries, its future must be grim elsewhere. Finally, these are the most powerful democracies. The US and UK were pioneers of modern liberal democracy and ensured democracy's survival through World War I and II and then the Cold War. The success of these

democracies, as well as those of western Europe, is essential if the ideal of liberal democracy is to prosper in the twenty-first century.

The discussion will start with the arguments that democracy just does not work very well even in these countries and should be made far more limited. How persuasive are they? It will then look at alternatives to democracy: how attractive might they be to a person who does not expect to become an autocrat, a plutocrat, a high official of the Chinese communist party, or one of their courtiers? This will then lead to a consideration of the aims and some possible means of democratic renewal.

Defending Democracy

Democracy is indeed flawed, as Churchill suggested. The age-old criticism from the rich and educated (historically, much the same people) is that the electorate does not know what it is doing: voters are ill educated, stupid, emotional, and prone to vote for reasons that have nothing to do with the issues. Plato famously thought this. These critiques are helpful even for those who support democracy, not just because we need to understand why it is worth defending, but even more because they raise important questions about how best to do so.

The critique of democracy

The most concise, beautiful, and influential statement of the democratic ideal was in Abraham Lincoln's Gettysburg Address, which described the republic for which the Union's soldiers had died as government "of the people, by the people and for the people." Unfortunately, this idealistic statement of how democracy works is a myth. This is not how it works. Thus argue Christopher Achen and Larry Bartels in their thought-provoking *Democracy for Realists.* [6]

Voters cast votes not in considered response to issues, but on the basis of tribal identities. Thus, “mostly, they identify with ethnic, racial, occupational, religious, or other sorts of groups, and often—whether through group ties or hereditary loyalties—with a political party.”[7] Racial identity explains the success of the southern strategy in cementing plutocracy. This was true in the antebellum South and has remained true in that region ever since and increasingly in other parts of the country, too. For many southern whites, the enactment of civil rights definitively turned the Democrats into the party of the “blacks” they despised. Thereupon, they promptly shifted their allegiance to the Republicans, because many Republicans argued that “freedom” should include the right to discriminate and also appealed to (barely disguised) racist tropes on welfare and crime.[8] Donald Trump was a natural end point of this shift, being in some ways the political heir of Governor George Wallace of Alabama.

Given the overwhelming role identity plays, “Issue congruence between parties and their voters, insofar as it exists, is largely a by-product of these other connections, most of them lacking policy content.”[9] The absence of any connection between how the majority of voters cast their votes and their interests is no surprise, but rather, an inevitable consequence of how people think about politics, to the extent that they think about it at all.

Joseph Schumpeter was similarly clear on the failings of voters:

> Without the initiative that comes from immediate responsibility, ignorance will persist in the face of masses of information however complete and correct. It persists even in the face of the meritorious efforts that are being made to go beyond presenting information and to teach the use of it by means of lectures, classes, discussion groups. Results are not zero. But they are small. People cannot be carried up the ladder.
>
> Thus the typical citizen drops down to a lower level of mental performance as soon as he enters the political field. He argues and analyzes in a way which he would readily recognize as infantile within the sphere of his real interests. He becomes a primitive again. His thinking becomes associative and affective.[10]

The outcome, critics insist, is bad policy and disappointed voters. Since electorates are tribal, politics also tends toward those wars of factions against which Washington warned in his farewell address.[11] So great would be the

spirit of faction, he argued, that one side would seek to seize power, probably in support of a charismatic leader. The spirit of rivalry would then overwhelm the commitment to the rules of the game of a democratic republic. Authoritarianism would triumph.

Some thinkers have argued, in response to such persuasive critiques of how democracy actually works, not just that we *will* abandon universal suffrage democracy, but that we *should* do so. Even the protection against the waywardness and ignorance of voters provided by constitutionally entrenched "representative democracy" is not enough. Instead, the franchise should be restricted to the better informed. Such a system is called "epistocracy," or rule by the knowledgeable. The philosopher Jason Brennan of Georgetown University has recently advanced this position.[12]

Brennan divides voters into three categories: Hobbits, who are "low-information citizens with low interest and low levels of participation in politics"; Hooligans are "higher-information citizens who have strong commitments to politics and to their national identity. They are beset by cognitive biases"; and Vulcans are the ideal type: "perfectly rational, high-information thinkers with no inappropriate loyalty to their beliefs."[13] For Brennan, "In modern democracies, rather than having a one-headed incompetent king, we have a many-headed incompetent king."[14] He would like to limit the franchise to the epistocrats. In this, he is channeling Plato. The Athenian philosopher devoted part of his *Republic* to justifying rule by "philosopher kings," who would be selected from a "guardian" (warrior) class. The wisdom of the guardians and philosopher kings would be ensured by selective breeding and appropriate education (from which the fabrications of the poets, notably Homer, the foremost poet of ancient Greece, would be banned) while their impartiality would be guaranteed by ignorance of the identity of their parents or siblings.[15] Karl Popper argued that Plato's ideas on government marked the birth of totalitarianism.[16]

Rebutting the critique

Yes, democracy is highly imperfect and prone to collapse. Plato, Aristotle, the founding fathers of the US, Winston Churchill, and historical experience have all told us so, whatever precise institutional form—direct, representative, proportional voting, first-past-the post voting, parliamentary, presidential, unicameral, bicameral—democracy takes. Individual voters have a low-stakes interest in their vote because it is unlikely to make any difference to the outcome. It does not make sense for them to invest in understanding the issues. Instead, they cast their votes in imitation of what people they identify with and like do. They also tend toward myopia. Given uncertainty about the future, that, too, makes sense. They are "rationally ignorant."

We are morally, intellectually, and emotionally imperfect. The institutions that we have created, to bring a measure of order and predictability into our lives, are also imperfect. Yet we could not exist without them. Robust states and competent governments have been essential institutions since the agrarian revolution. The scale and complexity of modern societies has made such institutions even more important. If we must have government, no better arrangement exists for choosing the people who run them than some form of democracy. Democracy, after all, is political competition, and competition, as we know from our economic history, tends to work in the long run far better than monopoly, however ostensibly benevolent that monopoly may seem.

Even the arch-skeptic Brennan admits that "democracy is positively correlated with a number of important outcomes, and this appears not to be mere correlation, but causation."[17] The best places to live in the world are democratic. One important indicator is their relative lack of corruption, as noted in chapter 8: in 2019, for example, 18 of the 20 least corrupt countries in the world were full democracies.[18] The US was only 24th, which is disappointing. But it was far ahead of Orban's Hungary, the 70th most corrupt; Xi Jinping's China, 81st most corrupt; Erdogan's Turkey, 82nd most corrupt; and Putin's Russia, 144th most corrupt. The world's leading democracies are strikingly rich and honest. This is no accident. It is because liberal democracies have accountable governments and the rule of law. The

first thing a would-be autocrat does is try to suppress those who inform the public of his own corruption and that of his coterie. In a democracy, people can and do make a fuss. That embarrasses the government. The political opposition may even turn it into a scandal, halt the misbehavior, or eject those responsible from power.

Even leading skeptics of the efficacy of democracy also admit, “An independent judiciary, freedom of speech and assembly, and other features of democratic institutions and culture are undoubtedly important.”[19] They certainly are. And the full range of such freedoms and protections has existed only in societies in which the governed choose who governs. No absolute monarch or despot would allow such freedoms and protections to his subjects. Since the ruler *must* know best, any disagreement is lèse-majesté. In other words, *liberal* democracy protects the individual’s right to think and speak as he or she wishes and to do what he or she wishes, subject to social boundaries and the constraints of a law that applies equally to all. This is why the question of whether Donald Trump will be held legally liable for his attempts to engineer the reversal of the results of the presidential election in 2020 matters so much. If he is deemed above the law on so vital a matter as honest counting in elections, a central pillar of democracy will lie broken.[20]

These wider benefits of democracy are of huge importance. But what is the value of voting itself? Among other benefits, “elections generally provide authoritative, widely accepted agreement about who shall rule. In the United States, for example, even the bitterly contested 2000 presidential election—which turned on a few votes in a single state and a much-criticized five-to-four Supreme Court decision—was widely accepted as legitimate.”[21] Legitimate authority is a hugely important benefit. The only other way it has been achieved is by inheritance of some kind, which is far more arbitrary. What does one do if a Caligula is the inheritor? The answer was assassination—a terrible way to decide who rules. Moreover, since the wheel is likely to turn in a democracy, losers can expect to win again another day and so are more willing to tolerate defeat than if it were to be forever. Not least, “electoral competition also provides some incentives for rulers at any given moment to tolerate opposition. The notion that citizens can oppose the

incumbent rulers and organize to replace them, yet remain loyal to the nation, is fundamental both to real democracy and to social harmony."[22]

There are other benefits of liberal democracy that depend on voting. Autocracies have no eject button, unlike democracies. The autocrat might be competent, balanced, and far-seeing. But he (historically almost always a "he") is at least as likely to be incompetent or even psychopathic. In countries with regular free elections, the latter types will be removed from office. Of course, such a person might be elected freely, once. That has happened, as in Germany in 1933 or Russia in 2000. But there will then not be another free election, unless or until the tyrant is removed by force. "One person, one vote, once" is, of course, not liberal democracy.

These are cumulatively powerful arguments for free elections. But they are not arguments for universal suffrage. Some indeed think the right to vote should be limited to the well informed (the epistocrats), as mentioned earlier, or to people with specific economic, gender, or ethnic characteristics, as once was the case everywhere. There are, however, overwhelming arguments against such restrictions.

First, there exists no characteristic that clearly separates those worthy to vote from those who are not. Why men, but not better-educated women? Why white people, but not people of color? Why people with a certain wealth or income, but not those with less? These distinctions are all arbitrary. It is a gross error even to believe that the more educated will cast their vote more intelligently than others. As the great eighteenth-century Scottish philosopher David Hume wrote, "Reason is and ought only to be the slave of the passions, and can never pretend to any other office than to serve and obey them."[23] One can debate the view that this *ought to be* the case. But it unquestionably *is* the case. Emotions drive our choices. The more sophisticated the intellect, the more elaborate the cloak over loyalties, prejudice, or self-interest. Thus, "the historical record leaves little doubt that the educated, including the highly educated, have gone astray in their moral and political judgments just as often as anyone else."[24] Many highly educated Germans, including some of the country's greatest intellectuals and most successful businessmen, supported the Nazis. Plenty of highly educated Europeans were communists.

Plenty of highly trained experts have been wrong: the failure of economists, policy makers, and financiers to foresee and prevent the global financial crisis is a salient example. The only nonarbitrary criterion for whether people should have the vote is one that divides adults from the immature. A credible diagnosis of dementia might also serve as such a characteristic. Moreover, any attempt to limit the franchise beyond that is not just arbitrary but must lead to repression. While China may or may not have an epistocracy, it certainly has plenty of repression.

Second, even if it is true, as critics of universal suffrage argue, that most voters are unclear about how politics and policy interact with their interests or even their views, the failures of effective voice in decision-making will be greatly worsened by eliminating some people, usually the poorer and more economically and socially marginal, from the register of voters.[25] So long as people can vote, their interests and views cannot be ignored. The black South Africans and African Americans who fought so hard for the right to vote were not wrong in believing that the vote would make a difference to how they were treated. It did, just not as much as it should have done. Disenfranchising the less educated and poor would certainly ensure less attention to their interests. The Black Act of 1723 in the UK specified more than two hundred offenses, most of them against property, as capital crimes.[26] A parliament that represented a wider cross section of the public could never have enacted such a monstrous piece of legislation. The well-off people who kept the franchise narrow in the nineteenth century understood the benefits to themselves of doing so, as did the whites in the post–Civil War South. The thesis of the Nobel laureate Amartya Sen, that famines are less likely to occur in democracies with a free press, makes the same point: people with political rights matter more politically and so socially.[27] For this reason, he argues, political and liberal rights, including the right to vote, play "an instrumental role in enhancing the hearing that people get in expressing and supporting their claims to political attention (including the claims of economic need)."[28]

Finally, the right to vote shows that people are full members of the political community. They have the right to take part in public life, and those

who manage public life are, in turn, accountable to them. It is a statement of membership in the political community as a citizen. Human beings have to act collectively, but how we do so makes a great difference. In the Platonic vision of the state (or that of the contemporary Chinese party-state), most people are subjects: they exist to be told what to do. In democracies, they are citizens. The rulers are servants. The question is how to make this work, not perfectly, but better. To this we now turn.

Democracy is not just good in itself, though it is that. Democracies are not just the world's most prosperous and freest societies, though they are that, too. There also exist no decent alternatives in today's world. One alternative is demagogic authoritarianism, in which would-be autocrats and their enablers erode liberal democracy from within. This is the strategy of a depressingly long list of contemporary politicians. The second is bureaucratic authoritarianism, in which a self-selecting mandarin elite controls all power. This is the strategy of China. Liberal democracies can, alas, be transformed into autocracies or narrow oligarchies. But the resulting regimes will be oppressive, divisive, dehumanizing, and incompetent, as we know from historical experience. Liberal democracies cannot be transformed into bureaucratic authoritarianism without first suffering collapse and revolution. Such regimes may be a success, as China has shown for a few decades, though only after first suffering the unchecked calamities of Mao's tyranny. On one side, then, are failures that the modern West could copy but must not. On the other is a fragile success it cannot (thank heavens) copy at all. This makes life simpler. There is no credible alternative to making the system we have—the combination of liberal democracy with market capitalism—work better, because they need each other.

Restoring Democracy

There have been many proposals for improving the institutions of the West's democracies.[29] This discussion seeks instead to focus on a few

fundamentals. Democracies need to combine fair voting with professional politics, disinterested expertise, independent institutions, and, above all, universal civil rights. Crucially, since liberal democracy is not the same as tyranny of the majority, it cannot work without robust safeguards. The most important safeguard is not the precise words of a constitution or body of law, which can be politicized and subverted. What matters are the hearts and minds of the people and especially of elites. A free and democratic society rests ultimately on the links among citizens and between them and the public sphere. As Fernando Henrique Cardoso, former president of Brazil, argues of our contemporary crisis of democracy, "Our challenge is to bridge the gap between *demos* and *res publica*, between people and the institutions of public interest, reweaving the thread that may reconnect the political system with the demands of society."[30]

Necessity of citizenship

Democracy creates, but also demands, citizens. If the wider public and elites are not bound together in the shared endeavor of a democratic republic, it will founder. In all democracies that have endured, this mutual commitment is expressed as patriotism, which has, in turn, included the willingness to fight and die for one's country. But what is patriotism? In 1945, George Orwell famously explained: "By 'patriotism' I mean devotion to a particular place and a particular way of life, which one believes to be the best in the world but has no wish to force upon other people. Patriotism is of its nature defensive, both militarily and culturally. Nationalism, on the other hand, is inseparable from the desire for power. The abiding purpose of every nationalist is to secure more power and more prestige, *not* for himself but for the nation or other unit in which he has chosen to sink his own individuality."[31] To be a citizen of a country, one does not even need to believe its way of life is "the best in the world," any more than a spouse needs to believe their spouse is the best in the world. They need only know they love them, despite their faults, as they are loved in return.

Why is patriotism important?[32] The answer is that liberal democracy means *rule by consent*. One must be willing to accept as legitimate rule by people one despises with ideas one detests. If this combination of consent with dissent is to work, people must place their loyalty to the institutions of the democratic republic—elections, parliaments, the government, and the law—above their attachment to any party, faction, or region. If that deeper loyalty perishes, the democratic republic risks breakdown, perhaps civil war. Moreover, people are rarely devoted to institutions per se, however essential these may be. The loyalty to institutions must in turn be founded upon belief in the norms of equal civil and political rights for all citizens, regardless of their status, gender, ethnicity, or religion, as well as in the right of the winners of a fair election to constitute the government one is obliged to obey, provided it acts in accordance with the law. The great majority of people must accept these fundamental democratic norms.[33] Yet even adherence to such norms may fail to carry the weight of democratic life through all strains. Patriotism works because a shared love of one's country, as a place, a history, an idea, a reality, and a promise of a better tomorrow makes toleration of differences in opinions and values easier and may be all that makes it possible.

This perspective is captured in the remarkable notion of a "*loyal* opposition." It is explained more colorfully in Winston Churchill's defense to a local Tory member of parliament of the Labour leader Clement Attlee, who played a huge role in making him prime minister in 1940 but defeated him in the general election of 1945: "Mr. Attlee is a great patriot. Don't dare call him 'silly old Attlee' at Chartwell or you won't be invited again."[34]

Patriotism is one side of a coin. The other is civic virtue: the understanding that citizens have obligations to one another. This idea is captured in a line from the second century BC Latin poet Ennius: "Moribus antiquis res stat romana virisque." ("The Roman state stands on its ancient traditions and its men.")[35] This again is about much more than obedience to the law. The daily life of people depends on how they behave toward one another, in small things and big ones. COVID-19 was an acid test of civic virtue. Did people believe that they had a duty of consideration and care for

one another? In some cases, the answer has been no. A society that lacks such virtues risks becoming feral and disordered.

A big mistake of the Brahmin left has been its contempt for patriotism, particularly working-class patriotism. For the vast majority of ordinary people, citizenship is a source of pride, security, and identity. Attlee, the most successful of Labour prime ministers, was a patriot. So was Ernest Bevin, his most powerful minister. The desire of parts of the contemporary left to excoriate all that their country has done and stood for in the past is destructive of their hopes for winning power and even for democracy itself.

Yet something more concrete is also needed if patriotism is to work in a modern universal suffrage democracy. The cornerstone of contemporary Western democracy is a contract of reciprocity among citizens. Thus, "The benefits of reciprocity within a community were scaled up as the community became the nation."[36] The modern state is not least a mechanism through which citizens can protect themselves against the otherwise uninsurable risks of life: ill health, longevity, unemployment, and destitution.

A seminal event for welfare states was the decision of Otto von Bismarck, the conservative Iron Chancellor, to introduce health insurance in Germany in 1883.[37] He did so in order to neutralize the political appeal of Germany's Sozialdemokratische Partei Deutschlands (Social Democratic Party of Germany). He recognized that the organized working class was sure to demand a measure of security: if the conservatives did not offer it, they would elect socialists who would. Since then, some form of welfare state bargain has become a defining characteristic of all Western high-income, universal suffrage democracies.[38] It is striking, in this context, that the National Health Service was taken as the symbol of British patriotism at the opening ceremonies of the 2012 Olympic Games.

Citizenship necessarily means privileged access to the opportunities afforded by the economy and the insurance provided by the state. Handing such benefits over to "outsiders" who are not part of the reciprocal bargain of citizenship is widely viewed as unfair. Thus, according to one recent paper, "Research on population diversity in the United States suggests that ethnic and racial diversity undermine social trust and solidarity . . . , which in turn

negatively influence attitudes toward redistribution."[39] This is a part of the tragedy over race that continues to bedevil the US. The same paper, coauthored by the late Alberto Alesina of Harvard, argues that in Europe, too, "native workers lower their support for redistribution if the share of immigrants in their country is high."[40] Illegal immigrants are likely to be viewed as particularly undeserving, however understandable their desperate desire to achieve safety and enjoy opportunity in a new country. That is why it was a big mistake not to try to control the employment of undocumented workers in the US more strenuously.[41]

Renewing democratic citizenship also requires countries to give people, especially the young, an ethical education, including on what democracy means, how it works, and what the responsibilities of citizens must be. There is also a case for some form of national service aimed at bringing young people of all backgrounds together in shared endeavors. A particularly deep education in civic values and norms is needed for people who aspire to elite positions in society. If history offers one lesson it is that if elites come to be viewed as avaricious, corrupt, lying, and indifferent to the fate of ordinary people, a republic is likely to fall. The story of David Cameron's egregiously rewarded role in lobbying government on behalf of the subsequently bankrupt Greensill Capital is one such example.[42] Without ethical elites, democracy becomes a demagogic spectacle hiding a plutocratic reality. That also is its death.[43]

Dangers of identity politics

Strong ethnic, religious, or other identities may prevent the emergence of an overarching patriotic loyalty. If one wishes to see the consequences in extreme conditions, one need only look at Northern Ireland. Lebanon is an even worse example because there is no outside state able to impose order, as the UK can in Northern Ireland. Where the narrower identities are geographically concentrated, physical separation is feasible, as may soon happen between Scotland and England and did happen between Czechs and

Slovaks and between Slovenia and the rest of the former Yugoslavia. But where the different groups live side by side, as in Bosnia or Lebanon, the outcomes may include the horrors of ethnic cleansing or ghettoization.

Even if things do not go this far, narrow and exclusive identities are a problematic basis for democratic politics. One reason for this is that people cannot be defined by just one attribute of ethnicity, race, sex, or gender. They have many and generally overlapping identities. Worse, if we embrace the politics of identity, we are returning to the old politics of ascribed or inherited status, from which our democratic world struggled to escape. That would reverse one of the greatest achievements of the modern era. Yet another reason why identity is a problematic basis for politics is that it leads naturally to the notion of group, rather than individual, rights. Thus, it is believed, members of a given identity group should be granted certain positions in certain proportions as of right. But this risks turning politics into a zero-sum civil war among identity groups.

If this happens, the identity politics of minorities are almost certain to stimulate the identity politics of majorities. Such majoritarian identity politics of culture, religion or race can now be seen all over the world. These are the politics of Recep Tayyip Erdogan in Turkey, Jaroslaw Kaczynski in Poland, and Viktor Orban in Hungary. They are the politics of Donald Trump and the contemporary Republican Party, who increasingly define their identity as white, Christian, and conservative. This is also what is happening in Modi's India, with the appeal to Hindu identity. Majoritarian identity politics is also likely to fuse with an exclusive form of nationalism. The greatest danger of all is that majoritarian identity politics will turn into ethnic domination, in which notions of equal rights for all and of a shared national identity are lost. [44] Such outcomes must be avoided at all cost. The political debate should focus instead on widely shared and measurable predicaments, such as poverty, unemployment, disability, age, sickness, or family responsibilities, none of which is tied to cultural, religious, or ethnic identities.

Yet problems unavoidably arise when certain groups have been treated as if they were a separate "caste," with an ascribed lower status. The most widespread and historically entrenched example of such a caste division has

been the status of women. Race has played such a role, too, above all in the US, where the legacy of slavery created a caste of disadvantaged people defined by the color of their skin. India's caste system creates some even bigger challenges. The solution must be to focus on opening opportunities for *all* those in disadvantaged classes, while paying particular attention to those who have suffered from such entrenched discrimination.[45]

Managing immigration

The big question about migration is *how* to control it, not *whether* it should be controlled. The democratic state belongs to its citizens, who are bound by ties of loyalty and trust in one another. It is inevitable that who becomes a member of this community and on what terms is at least as much a political as an economic question.

Immigrants could conceivably be viewed as "metics"—people with rights of residence, but with no obligations or rights as citizens. In many countries, people may live like that indefinitely, subject to deportation if they behave inappropriately. Switzerland seems to be one. Even so, mass deportation is, quite rightly, impossible in a civilized country. In practice, one must assume that immigrants and their children will be present forever. Their potentially permanent presence makes migrants obviously entirely different from trade in goods. If you do not want to continue to buy goods from, say, China, you just stop. You cannot escape from your neighbors. Thus, migration is, even in this shallow sense of belonging, quite different.

In many countries, however, migrants and so their children are entitled, after a time, to become citizens, and rightly so. This is particularly true in "creedal" democracies, which are bound together more by shared ideals than by ethnicity. The basic creeds of modern democracies—individual liberty, equality of legal and political status, fair elections, rule of law, and so forth—are quite similar. But citizens are bound by loyalty to what Benedict Anderson called an "imagined community." The people of a successful country are bound by a shared story of who they are, where they came from,

and how it is appropriate to behave. Where this national story has not been fully shared, the outcome has been entrenched social and political division.

Countries that allow immigrants to become citizens assume that they will become a full part of the national community. This process of absorption has been successful in many countries. But scale matters. Turning immigrants into citizens, accepted fully, and participating enthusiastically, is a task of years and of generations. It will go better if immigrants interact substantially with people from other backgrounds, including those born and brought up in the country. Again, for these reasons, quite apart from the economic ones discussed in chapter 8, it is perfectly right and proper to manage immigration and acquisition of citizenship.

The mistake of the far right is to insist that only “kith and kin” can become devoted citizens. But the more sensible right is correct in believing that immigration needs to be controlled. Citizenship of a democracy is exclusive, not inclusive of all of humanity. The mistake of the left is to argue that there must be minimal inequality among people who happen to live in a country, yet no reason to control who these people are. Either one’s fellow citizens matter far more to us than foreigners, which is why we are committed to looking after them, or they are of little or no greater significance than foreigners, in which case there is no reason to be particularly concerned about inequality among them. We should then focus on global inequality instead. Citizenship cannot simultaneously matter decisively and hardly matter at all. In fact, citizenship must matter a great deal if one believes in funding a specifically national welfare state, as people of the left do, since it is a system of solidarity with people who live in one’s own country.

Immigration can bring huge benefits, not least because immigrants tend to be exceptionally energetic, ambitious, and determined. But it also needs to be controlled. It is necessary to agree on an acceptable compromise on immigration, one that takes account of the obligations of humanitarian relief, economic benefit, and a harmonious society. This will be hard, but it is inescapable.

Limits of meritocracy

It is far better morally and practically for the elite of a society to be selected by merit than by privileges of birth and wealth, as Adrian Wooldridge argues. Yet danger also lies in an unquestioning belief that the competition is a fair one, in unalloyed admiration for intellectual qualities, and contempt for those without them.[46] Decency, reliability, honesty, self-respect, diligence, kindness, and respect for fellow citizens and the law must also be admired and valued. Indeed, such virtues are essential to the health of a liberal democracy. Should the mass of the people become convinced that elites look down upon them, they are likely to feel humiliated, enraged, vengeful, and even willing to pull down the structure of power, even if it falls on their own heads. Moreover, members of the meritocratic elite should not confuse their merits with deserts. We do not create ourselves. Our personal attributes are given to us by birth and environment. While meritocracy is desirable and inescapable, it cannot be the dominant value system of a stable democracy.

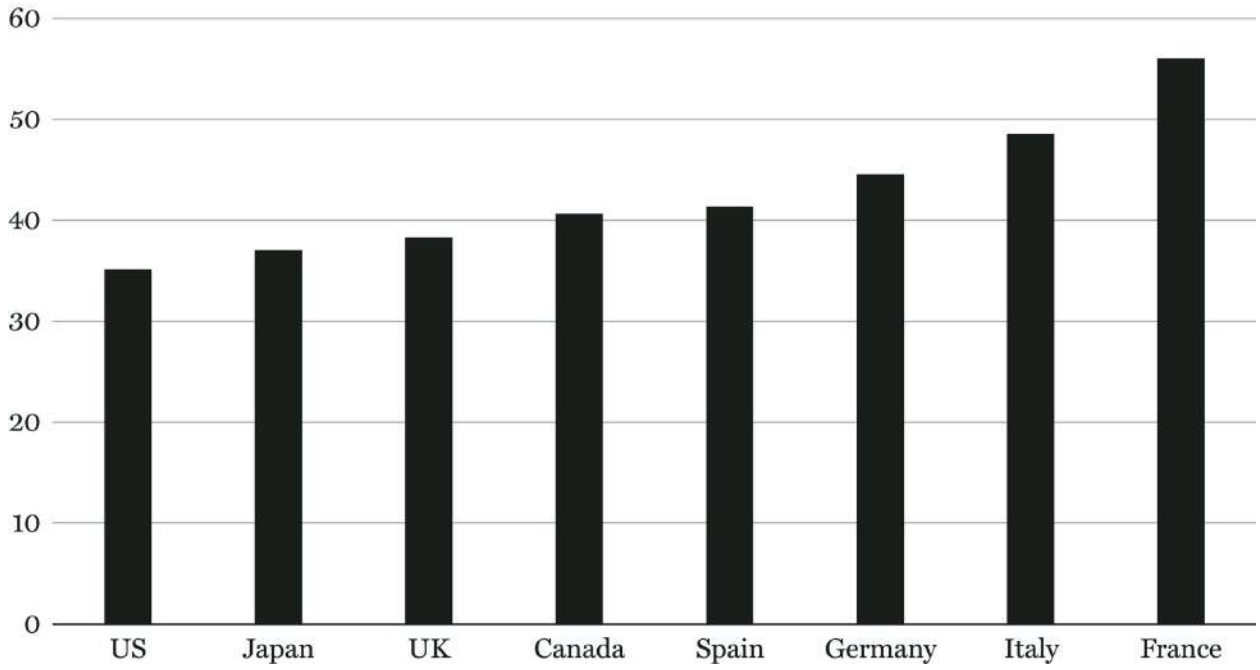
Reforming government

A shared identity as citizens and internalization of the fundamental democratic norms are the most important conditions for a successful democracy. But competent governance is also required. Experience with COVID-19 should serve as an alarm bell for Western democracies. Countries in the Chinese cultural sphere have long understood the need for a high-class bureaucracy. The meritocratic bureaucracies of Confucian political systems were invented almost two millennia before comparable systems anywhere else.[47] Effective bureaucracies arrived in Western countries only in the eighteenth and nineteenth centuries. But these remain essential if a modern society is to function. Some modern Western governments seem to have fallen behind the best contemporary standards in this respect. Some of these difficulties are no doubt the result of the obstacles to reaching legislative decisions in some polities, notably the US.[48] But some of the difficulties

seem to lie in administrative systems themselves: many find it disturbingly hard to get things done effectively.

The scale and significance of state functions make high-quality administration essential. In the large high-income countries, the share of government spending in gross domestic product prior to COVID-19 ranged from 36 percent in the US to 56 percent in France. (See chapter 3, table 1, and figure 48.) The massive expansion in the share of government spending in GDP is a signal outcome of our democratic age. These figures are larger than the direct government contribution to GDP, because they include transfers, such as unemployment benefits, pension contributions, and similar forms of support. But they also understate the government's actual impact on society and the economy, since they exclude the role of the state in supplying the physical, financial, and regulatory framework governing life in complex modern societies. The range of essential services expected from the state—provision of legal services; supply of infrastructure and housing; protection against enemies, pandemics, natural disasters, crime, and other threats; insurance against penury, unemployment, old age, ill health, and similar misfortunes; regulation of competition, finance, money, and the environment; support for education, scientific research, culture, the arts, and public service news organizations; and, not least, management of the economy and the public finances that pay for much of all this—is enormous. The efficient operation of all this is a sine qua non for civilized life. The only reason this is not universally understood is that, like fish in the sea, many do not recognize the medium in which we live and breathe.

FIGURE 48. GENERAL GOVERNMENT SPENDING IN LARGE HIGH-INCOME COUNTRIES, 2018 (AS A SHARE OF GDP) (PERCENT)
(Source: IMF)



Just as democracy depends on the values of a patriotic citizenship, so does effective administration depend on the values of a meritocratic “eunuch” bureaucracy. What makes it eunuch is that the individuals working in the system must owe loyalty to the state more than to their families or to any individual, notably including the head of government.[49] This is what makes a bureaucracy distinct from a court. Governments led by demagogues tend to value loyalty far higher than competence.

A central requirement of good government, then, is respect for—and the determination to possess—expertise. Experts can be wrong, particularly if they are tunnel-visioned and isolated from experts in other relevant fields. The failure of economists to recognize the risks of a financial crisis before it happened between 2007 and 2009 offers an example.[50] Most important, only representatives of the people may make the fundamental value judgments: these cannot be left to the experts. The response to COVID-19 has provided an important example. While experts could advise governments on the costs of alternative policies for health or the economy (and even then had to admit vast and unavoidable uncertainty), only governments could decide among options. When governments say they are “following the science,” they are talking confusing (and confused) nonsense. The science

was not certain enough to follow. More important, science cannot deliver value judgments.[51] Of course, it is also important that the politicians themselves be competent and sensible. Evidence suggests that the performance politics of populist demagogues, such as Jair Bolsonaro, Boris Johnson, Narendra Modi, and Donald Trump, failed to manage the pandemic as well as the competence politics of more sober leaders.[52]

The internet- and social-media-induced plague of conspiracy theories and fraudulent claims to knowledge is poison to good government and the reasoned debate on which democracy depends. We now see increasing contempt for the notion of expertise and a corresponding admiration for those who despise it.[53] If hostility to experts becomes a characteristic of a government, one ends up with disaster. More broadly, as Minouche Shafik, director of the London School of Economics, has said, "The application of knowledge and the cumulation of that through education and dissemination through various media and institutions are integral to human progress. The question then is not how to manage without experts, but how to ensure that there are mechanisms in place to ensure they are trustworthy."[54]

Many democratic governments need substantial renewal of their administrative systems. This is true in terms of both personnel and functions. So far as personnel is concerned, it is essential to identify, attract, and keep the highest possible quality of people, with diverse intellectual and personal backgrounds. This means paying competitively. Moreover, having four thousand political appointees in top administrative jobs, all of whom are thinking about their next job, as in the US, can hardly be conducive to informed or even disinterested government.[55] Singapore provides an alternative model: it offers extremely high pay to top officials but selects them carefully and demands superlatively competent and devoted public service in return. It is important to have a spine of long-serving and dedicated public servants, as well as the ability to attract and use high-quality people on a temporary basis. Diverse intellectual backgrounds should also be valuable. Most difficult policy issues have multiple facets and cannot be decided by people with one dominant professional background or, for that matter, just a high-quality general education. Finally, it is important to respect the

independence of the public service and its dedication to the public weal. If government is treated with contempt, it is rather likely to become contemptible.

The more the functions of the state are commercialized, the more difficult preservation of a public service ethos becomes. This is partly because the further this goes, the greater the likelihood that public functions will be subverted for private gain, including the private gain of public servants, if not directly, at least in terms of aspirations for future careers. A deeper reason is that making money comes to be seen as the aim of the exercise and so profit-seeking as the principal virtue, with other goals and the values that serve them reduced to second place. The deepest reason of all is that governments set the rule of the game: they must be and be seen to be *independent, impartial,* and *competent* when doing so.[56] As the late Jane Jacobs taught us, the "guardian" ethos of public service and the law must be kept distinct from the "commercial" ethos of business.[57]

For good reason, governments have delegated powers to independent agencies. The list of such regulatory bodies is very long. In the case of the UK, for example, there are at least twenty regulatory bodies in the health sector alone.[58] Delegation of regulatory powers can (and often does) improve the quality of governance and the people's understanding of what agencies are trying to do. But independent agencies also have enormous influence upon the lives of the people. How, then, are such institutions to be managed? A crucial part of the answer is that they must have first-class staff. Delegation should be to competent and disinterested people and the terms should be as clearly set out and circumscribed and as transparent as possible.[59]

Another issue is devolution of power to local levels. There are many reasons for substantial devolution, in particular the benefits of exploiting local knowledge and (as will be argued in the succeeding section) of ensuring local accountability. Experience supports this. Many of the most successful countries have small populations. Consider Denmark, Finland, Ireland, Israel, New Zealand, Norway, Singapore, Sweden, Switzerland, or, on a slightly bigger scale, Australia, the Netherlands, or Taiwan.[60] These countries are

rich, stable, and democratic. Given open world markets and modern communications, they can combine the benefits of *global scale* in business operations with those of *small scale* in politics. This suggests that large countries should be subdivided, with power and responsibility decentralized to the lowest level at which it can be effectively exercised. This idea is known as “subsidiarity.” Even many of the successful small countries are themselves highly decentralized. With such decentralization must go decentralization of administrative competence. The success of the federal model in Germany and the capacity for decentralized experimentation in the US supports this idea.[61]

Finally, governance also needs to be transferred upward if states are to serve the interests of their peoples. This is why the post–World War II period saw the creation of the United Nations, a host of important international organizations, such as the International Monetary Fund, the World Bank, and the General Agreement on Tariffs and Trade, and the European Economic Community. But these are just a small part of the web of treaty arrangements that bind states. The UK, for example, has signed over fourteen thousand treaties.[62] Such institutions and agreements do not undermine sovereignty, but make it more effective: by working together, states can achieve what their citizens need better than they can on their own. In some cases they can *only* achieve what their citizens need in this way. Management of the global commons is the most important example. So is providing predictability in international transactions. Membership in the World Trade Organization allows a country to give more predictable behavior by foreign governments to its citizens, something it cannot give on its own.

Sovereignty may end at the border, but national interests do not. The UK was always sovereign, as its decision to leave the EU showed, but as a member of the EU. It was able to provide its citizens with a degree of opportunity, security, and prosperity they have now lost with Brexit. It is tragic that resurgent nationalism is consuming this compelling idea of sharing power in the common interest.

Ensuring democratic accountability

A further challenge is to make political power accountable to those who depend on it. Representative democracy was a wonderful invention. It allowed the creation of accountable political systems across large geographic areas, even areas as big as the US. It made government accountable to a wide electorate. It encouraged the emergence of a class of professional politicians who act as necessary intermediaries between the electorate and the government.

It is essential to have universal, safe, and secure voting. A situation in which a candidate for office casts doubt on voting itself, as Donald Trump did during the US presidential election of 2020 and the aftermath of his decisive defeat, including the attempted coup at the Capitol on January 6, 2021, was a huge and possibly decisive step toward the death of representative democracy.[63] The electoral system should preclude gerrymandering. Independent commissions should create constituency boundaries. Voting itself should be as secure as technology permits. Ideally, the system of voting and counting should be managed by entirely nonpartisan officials.

An important defect of representation is that children and the unborn cannot vote, while old people can and do. Maybe adults should have more votes the younger they are. Alternatively (or in addition), parents could be given extra votes for their minor children, up to some numerical limit.

A complex issue is that of voting systems. First-past-the-post is a defective system, since it encourages government by the most concentrated minority, not by a majority. After the general election of 2019, for example, Boris Johnson could push through the most extreme form of Brexit with the support of just 43.6 percent of the electorate. Even with the votes of the Brexit party, he had the votes only of 45.6 percent of the electorate. The majority of votes went to parties against Brexit or committed to a second vote. Yet the Tories won a majority of eighty. Such an unrepresentative outcome is questionably democratic. Because the idea of a constituency member of a legislature is desirable and that of party lists undesirable, since it

puts individual members under the thumb of party leaders, the best system seems to be the transferable vote, as in Ireland. The basic idea is that second and third (and further) preferences also count, unless first choices deliver an overall majority.[64] Such a system tends to force politics toward the middle, where the bulk of the electorate lies, and to make unrepresentative majorities less likely. The broader consent thus achieved could lead to better, more considered, government.

Another question is whether voting should be compulsory, as in Australia. The argument against this is that participation in politics ought to be a free choice. A further argument is that there is little point in adding further low-information voters. Against this, if voting is obligatory, the state must ensure that it is possible, rather than tolerating (or even sometimes encouraging) suppression of votes. As important, one should not escape so fundamental a duty of citizenship. The arguments for compulsion are strong: everybody should vote.

A crucial issue is the role of political parties. The American founding fathers loathed them, thinking them, in Washington's words, "potent engines, by which cunning, ambitious, and unprincipled men will be enabled to subvert the power of the people and to usurp for themselves the reins of government."[65] Nevertheless, they are an essential means of organizing policy and politics in representative democracies. They play an essential role as bridges between the electorate and power. Yet there are difficult questions about how they should be run, given their essential political function. One is who should choose party leaders or candidates. It is highly desirable that people with a central role in the party and so an interest in reaching out to voters play a leading role. Members of parliament should play the decisive role in choosing the leader in a parliamentary system and party officials should play a leading role in choosing candidates in a presidential system. The aim should be to seek majorities in the population, not satisfy an activist minority. The dominant role of primaries in the US has proved particularly vulnerable to capture.[66] The least bad outcome would be for informed insiders to have a big role in choosing candidates for the presidency. That was the original rationale for the Electoral College. Unfortunately, it no

longer performs any independent role in vetting the quality of presidential candidates.[67]

A further issue is party funding. Parties should not be entirely dependent on private money. They need access to public funding. This should not only increase their independence from powerful lobbies but also give them the resources needed to develop good policy. One way of doing this might be to allow taxpayers to donate a certain amount of their tax payment to the political party of their choice in their tax return. This must be seen in terms of the still bigger question of the role of private money in politics. At the very least, there should be complete transparency on all political donations, to causes as well as to parties. Dark money must be eliminated from politics.[68] Ideally, limits on the size of donations should also be imposed.

Direct political donations by corporations and foreigners should be banned. Corporations are not citizens. They have been granted legal personality solely for commercial reasons. That fiction should not extend to politics. On the contrary, it is the job of politics, which represents citizens, to set the framework of laws and regulations within which these powerful and legally privileged entities work. Corporate lobbying should also be subject to control or at the least be made entirely transparent. This is the only way to ensure politics can control their behavior, not the other way around.[69] Equally, foreigners must not be allowed to interfere in elections, including by donating money.[70] These limits on the role of money in politics and on who is entitled to contribute are essential preconditions for the survival of a democracy that not only does belong to its citizens, but is seen to do so.

Beyond this lies the question of strengthening the political system itself. One issue is the role of people of exceptional quality within the legislature. While the government should indeed be selected by the house elected by the people, a “house of representatives,” there would be substantial value in also having a “house of merit,” to improve and delay legislation and develop studies of important policy issues. I approve of the idea of the UK’s House of Lords, though not the current system of appointment, since the House has been packed with political cronies and donors. The value of an appointed house of merit, with limited terms for members (say, ten years, with a tenth

replaced every year) selected independently of the government, is substantial. The idea would be to make up the house with people of exceptional achievement in a wide range of civic activities—the law, national and local politics, public service, business, trade unions, media, academia, education, social work, the arts, literature, sports, and so forth. There can be great value in unelected senates, properly constructed and run. A second elected house seems far less useful.

There is also the possibility of building upon the idea of the jury. I have served on a jury twice. On both occasions, I was impressed by the devotion to duty of the twelve people randomly chosen. The jury is also a way for people to act as responsible citizens, a point made by to Alexis de Tocqueville in his study of American democracy.[71] The Australian economist Nicholas Gruen has been particularly insistent on the idea of introducing selection by lots (sortition), a core practice of Athenian democracy, into contemporary democratic politics.[72] He refers, in this context, to the ancient Greek idea of "isegoria" (ισηγορία), or equality of speech. We have lost such equality, with the young and less educated the obvious victims.

There are two fundamental arguments for choosing people by lot: first, the result will be genuinely representative; second, it gets us away from the often ambitious, unprincipled, fanatical, unbalanced, and, not least, *unrepresentative* people who fill representative elected bodies, as well as their manipulative campaigns, made more damaging by contemporary information technology.

Here are three possible ways in which sortition might be introduced into democratic politics.

One would be to create deliberative assemblies to investigate specific contentious issues. These citizen juries would exist for a time-limited period. Their members would be appropriately compensated for lost time and earnings. They would be advised by officials, as jurors are by judges, and be allowed to call witnesses. They would seek to reach an agreed position, or at least one backed by a strong majority of participants. This notion has been successfully operated in Ireland on several issues, including the highly contentious one of abortion. A deliberative assembly of one hundred people,

made up of one appointed chairperson and ninety-nine ordinary people chosen by lot, was established in 2016. It advised the Irish parliament on abortion (coming out in favor of “repeal and replace” of the ban then in force) and on the question to be put to the people in a referendum.[73] This deliberative assembly broke the deadlock on the issue. It might have been invaluable if something similar had been done before the Brexit campaign.

Another possibility would be to create a “house of the people,” chosen by lottery, alongside the house of representatives and the house of merit. This could be a permanent body of, say, five hundred people, with a chairperson and advisers. Members might be selected to serve for a year, with half replaced every six months. This house of the people could be allowed to halt or delay approval of proposed legislation from the house of representatives. A similar structure could be used, on a smaller scale, in local government, just as similar efforts could be made at local deliberation. A sensible approach might be to start this innovation off at the local government level, learn from experience, and build the idea up to the national level.

A third possibility could be to institutionalize referendums, but subject them to the oversight of the house of the people and the house of merit. Only the house of the people would be allowed to decide whether a petition for a referendum would be granted. The house of the people might also decide, perhaps in conjunction with the house of merit, the precise questions to be asked in a referendum and whether the issue was of constitutional importance. If it was not a constitutional issue, a majority of voters would be sufficient. If it was a constitutional issue, the needed votes in favor might be set as 50 percent of eligible voters or 60 percent of votes. This would satisfy the requirement that constitutions should be entrenched. Such a normalization of referendums would bring ordinary people into the political process, but in a more disciplined way than is now happening in countries like the UK. Switzerland has demonstrated that referendums may make democracy more vital. But they also need to be made part of a disciplined and well-understood constitutional system.

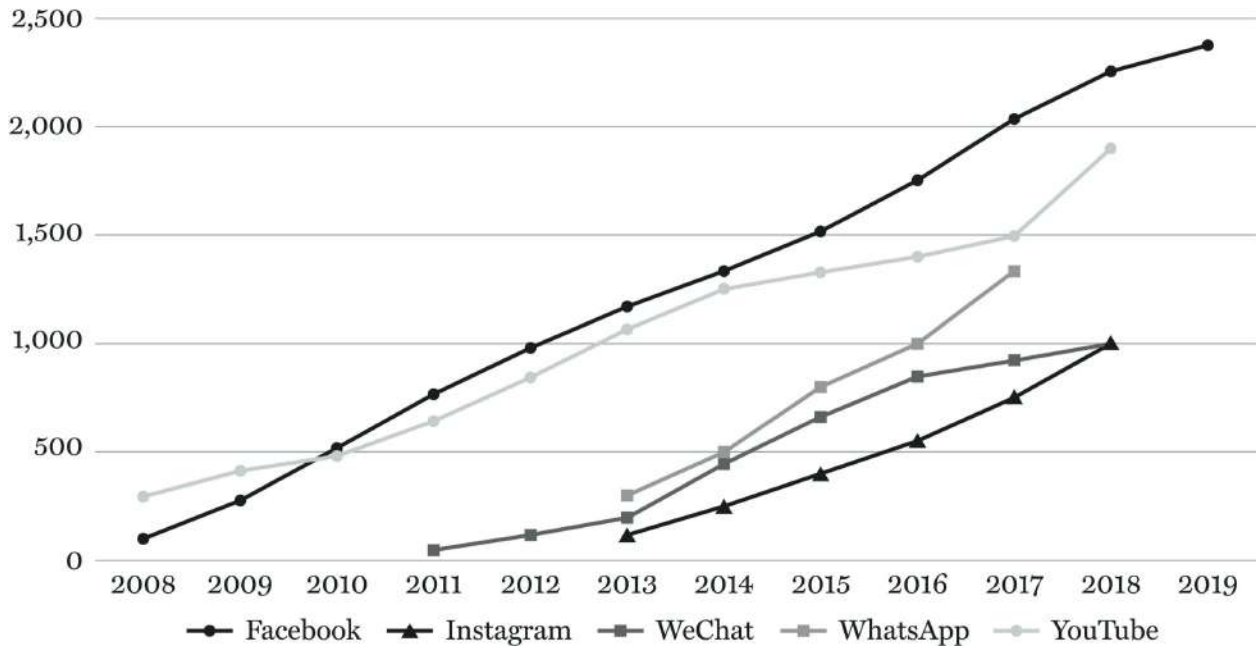
The house of representatives, house of merit, and house of the people should be viewed as complementary. The first would consist of professional

politicians, elected by the people, from whom the government would be chosen. It would be where legislation would originate. The second would consist of people of substantial merit who are independent of government. Their job would be to keep the government in check and amend and delay legislation. They would not have an absolute veto. Finally, the third would consist of ordinary people. It, too, could delay legislation. But its more important role would be to consider controversial questions, particularly those likely to go before referendums. The representative principle would remain dominant. But it would not be the only one at work in the constitution.

Revitalizing media

As the late Daniel Patrick Moynihan said almost four decades ago, "Everyone is entitled to his own opinion, but not his own facts."[74] Democracy cannot operate without high-quality media that speak to an agreed set of facts. Nowadays, however, there is no such agreement on facts. This is partly because of the grotesque irresponsibility of some parts of the old media, partly because of politicians who think they can say whatever seems useful today, however false, and partly because of the click-driven advertising model of powerful social media. (See figure 49.)

FIGURE 49. LEADING SOCIAL MEDIA PLATFORMS BY AVERAGE MONTHLY USERS (MILLIONS)
(Source: Our World in Data)



Two decades ago, “cyber-optimists” thought the internet might liberate humanity from government oppression. Instead, we live increasingly in an age of autocrats. Many also thought the internet would make us better informed and more united. Instead, we are drowning in divisive lies. As has been the case with previous transformations in communication technology—writing, printing, cable, radio, and television—the one thing we know is that this new revolution is changing our world permanently, for both good and ill, and doing so very quickly. At present, it looks as though the democracies that emerged with the old media are being destroyed by the new ones.

What might be done to preserve decent media in the hope that this will help us get through the storm? Here are five ideas.

First, countries that are lucky enough to have inherited high-quality public service broadcasters, such as the British Broadcasting Corporation, from a better past should defend them to the death. There is a reasonable question about the range of output of such institutions: news and current affairs are more central to their task than popular entertainment. There is also a reasonable question about how best to fund them. Yet these institutions are still among the most important sources of a body of facts, national sensibility, and national conversation. Without them, we risk ending up with the

splintering of the national debate into echo chambers. That almost all politicians think the BBC is biased against them shows it is doing what it needs to do. Moreover, what it provides are classic public goods. We all benefit from the existence of such a national conversation, even if we do not contribute to it. The license fee is understandably controversial, especially now that there are so many other sources of entertainment. One option could be to fund public service broadcasting from a tax on the digital media.

Second, the restrictions the UK has imposed on political advertising on radio and television and the requirements on all broadcasters to be impartial have proved hugely valuable and should be copied. They have prevented the emergence of the hyper-partisan media that are killing democracy in the US, led by Fox "News," that poisonous creation of Murdoch and Roger Ailes. Once people feel their opponents are not just wrong but treacherous, the possibility of maintaining a culture in which the opposition is viewed as "loyal" dies and stealing elections becomes a duty, not a disgrace. Requirements for balance in broadcasting must be maintained if democracy is to endure. Print media have also been capable of generating deep divisions by disseminating lies. With the move of print online, the BBC is again able to help as a balancing factor. Finally, there is a case for extending bans on political advertising to social media, especially bans on advertisements targeted at vulnerable parts of the population.

Third, there is a desperate need for a variety of high-quality news sources, especially at the local level. The loss of advertising revenue has killed most of them. They clearly need public support. Private philanthropy is not enough. Again, the tax on digital media I propose could be used to fund a public trust that supports news-gathering operations, especially local ones. There cannot be a revived local democracy, as is so very desirable, without a revived local media.

Fourth, we must eliminate the most destructive feature of the new media landscape: anonymous comments and posts. We insist that banks know their customers, for good reason. This is aimed at suppressing money laundering and other forms of criminal behavior. Anonymous commenting is similarly noxious. It destroys the possibility of a civil realm for public deliberation.

Comments on women seem to be disproportionately vicious. Every organization that posts comments or blogs must, by law, know who the commenter or blogger is. The comment or post may itself be anonymous. But the person concerned must be identifiable and must know that he or she can be identified. There should also be clear legal limits on what can be posted, apart from what is already defined as libel or slander. We have hate-crime laws for good reason. They are a way to allow diverse communities of people to live among one another in a degree of psychological safety. These laws should be enforced online. Moreover, and most important, if we know who posters are, we can identify and cut out the criminal enterprises, many sponsored by foreign governments, that are polluting cyberspaces. This is a war we must fight with all possible means.

Finally, the media are far too socially and politically important to be left to the unmediated whims of private businesses. Facebook is the most important media business in the history of the world. There is a public interest in how the algorithms of Facebook and similar companies work. There should be a public regulator with a high-quality staff checking the implications of these algorithms for the quality of public debate and information. More broadly, Facebook and all other such companies should be recognized for being what they so obviously are: publishers. They must be held responsible for what they publish. That is what being a publisher means. It is that simple. Where what is published is illegal in some jurisdictions, fines must be imposed—if necessary, very extreme ones.

Above all, perhaps, there is a need to mount a major investigation into the impact of the new media on the health of all aspects of our democracy. The US has gone down a rabbit hole of destructive, money-fueled “freedom.” The emergence of a leader with fascistic attitudes to the truth and elections has shown that this freedom eats itself. That is unacceptable.

Conclusion

Liberal democracy is a morally better and more successful regime than authoritarianism has ever been. That does not make it perfect. But it does make it worth fighting for and so worth renewing. We need to make our democracies stronger, by reinforcing civic patriotism, improving governance, decentralizing government, and diminishing the role of money in politics. We must make government more accountable. We must have a media that supports democracy rather than destroying it. Only with such reforms is there any hope of restoring vigorous life to that delicate flower, democratic capitalism.

Part IV

A HINGE OF HISTORY

Prologue to Part IV

Three enormous transformations are under way. The first, on which this book has focused, is the corrosion of democratic capitalism and the rise of demagogic, autocratic, and totalitarian capitalism as rival ways of organizing politics and economics. The second is the rise of China as a superpower. The last is the need to manage the challenges created by humanity's emergence as the cuckoo in the planetary nest.[1] We should want to preserve freedom, peace, and cooperation. It is going to be a difficult task to do so, given our remarkable capacity for destruction and the authoritarianism, tribalism, and shortsightedness characteristic of our species.

What do these challenges mean for us now? That is the subject of the fourth part of the book. It is perhaps the most important.

CHAPTER TEN

Democratic Capitalism in the World

> Let China sleep, for when she wakes, she will shake the world.
>
> —*Attributed to Napoleon Bonaparte*[1]

What do democratic capitalism, the global order, and the global environment have in common? The answer is "fragility." They need to be strengthened. But the complexity and scale of each challenge makes this ever more difficult.

The biggest threats to the survival of liberal democracy are domestic: they come from poor political and policy responses to economic and technological changes. This makes the restoration of democratic capitalism primarily a domestic challenge. But it cannot only be domestic. A country may be an island, but it cannot be isolated. The history of the world over the past five centuries has repeatedly demonstrated that. Managing global relations has always been important. But it has never been as important as in the twenty-first century. Humanity faces many shared challenges: sustaining prosperity; managing pandemics; delivering cybersecurity; containing nuclear proliferation; avoiding war among great powers; and preserving the global commons. In sum, liberal democracies need to preserve the vitality of their own system, while managing their relationships with the rest of the world, in order to preserve peace, prosperity, and planet.

This discussion in this chapter will consider five aspects of these interlocking challenges: defending democratic capitalism in the world;

managing global cooperation; avoiding a destructive conflict with China; appreciating Western strengths and China's weaknesses; and managing cooperation, confrontation, and competition with China.

Defending Democratic Capitalism

Liberal democracy is under growing external pressure. The most important sources of such pressure are today's autocratic states, especially China, but also a revanchist Russia (as shown dramatically by its invasion of Ukraine), North Korea, and Iran. It is essential, in response, to strengthen alliances among liberal democracies across the world.

These alliances have always been crucial. Victories in the two world wars and the Cold War would not have been achieved without them. The US was the most potent democratic power, but it could not have achieved its aims without cooperation with other countries. What is more, it was economic success, rather than military power, that proved decisive in destroying the legitimacy of the Soviet system, abroad and at home. Military alliances, especially NATO, were crucial in stabilizing postwar Europe and protecting fragile democracies. But the alliance of democracies was far more than just a military one.

Central in promoting prosperity for themselves and the world have been the combined efforts of the liberal democracies in economics. They created the International Monetary Fund, the World Bank, the regional development banks, and the Organization for Economic Co-operation and Development. They also promoted the rules-based and market-driven multilateral trading system, which culminated in the birth of the World Trade Organization in the mid-1990s. These institutions and arrangements brought forth unprecedented prosperity to the liberal democracies and much of the wider world, including Deng Xiaoping's China.

In many other areas, too, the development of the capitalist market economy has depended on close cooperation among liberal democracies.

Such an economy cannot be restricted to just one country, however big that country may be, because there are such huge opportunities in cross-border flows of trade, investment, people, and ideas. Yet, if activity goes across borders, so must at least some regulation. One important example is finance. The need for deep cooperation in financial regulation was demonstrated by the global financial crisis of 2007–09. Indeed, one can argue that finance has never been regulated enough. Another area is tax. For market-oriented states whose economies are also open to the world, cooperation is a condition for effective taxation and regulation of their businesses.

Institutionalized cooperation has been regional as well as global. The most important example is the EU. The cooperation brought about by the integration of the European economy helped generate post–World War II prosperity. This attractive force ultimately pulled the Soviet satellites in central and eastern Europe into the Western orbit. It also made the conflicts that had been a familiar part of European history almost unthinkable. To many English people, living on an island that has not felt enemy boots for centuries, this notion appears to be ridiculous. At least to the older generation of Europeans, it is not. The EU can also go too far in its impulse toward integration. In the case of the monetary union, it arguably did just that. More broadly, the relationship between policy making, often European, and democratic political legitimacy, still largely national, is fraught. Nevertheless, the underlying ideal of a European union was wise and powerful. National sovereignty cannot and should not be viewed as absolute.

Democracies find it relatively easy to form such close and supportive alliances: they are necessarily built on law and have active civil societies, which frequently demand international cooperation. A law-governed democracy should be compelled by its own judiciary to abide by a treaty's terms. Even where agreements are not binding, the fact that a democracy has free media and a free public opinion means that rulers who ignore their external obligations are likely to pay a domestic price. The situation is different in the case of an agreement between, say, Vladimir Putin and Xi Jinping. The constraint on them is only what the other could do. They are

subject to no significant domestic constraints. That is what being an autocrat means.

In sum, an alliance of stable liberal democracies is a crucial requirement for the health of democracy in the twenty-first century. This alliance should aim at mutual support—ideological, economic, technological, and military—in a world in which many countries are illiberal democracies, autocracies, or even absolute dictatorships. Democracies will need their mutual alliance and the web of laws, regulations, and institutions it creates to underpin their own security and prosperity and to help manage their dealings with the rest of the world. But if the global public goods of prosperity, peace, and protection of the commons are to be achieved, a degree of cooperation with non-democracies, notably China and even Russia, after its invasion of Ukraine is resolved, will also be essential.[2] We may be unable ever to cooperate with Putin. But Putin will not be forever.

Liberal Democracies in the World

The high-income democracy countries accounted for a mere 16 percent of the world's population in 2019, though they still accounted for 41 percent of global output at purchasing power parity and 57 percent at market prices.[3] So, despite a small share of the world's population, they still possess a huge amount of economic power and influence. Moreover, the high-income countries have many other sources of influence: their companies remain technologically and economically dominant; they contain the great majority of the world's leading universities and research institutes; their ideas and ideals still carry great weight; their currencies are the world's reserve assets; their financial markets dominate those of the world; and they have decisive influence in the world's most significant international institutions. This hegemony is eroding as China rises. But it has not yet gone.

What, then, are the principles on which the relations of the high-income democracies with the rest of the world should be organized? Let us start with

economics. During the post–Cold War era of globalization, the answer to this question was to include as many countries as possible in the liberal international order created by the US and its allies after the Second World War. One of the most significant outcomes was the agreement to establish the WTO in 1995, at the end of the Uruguay Round of multilateral trade negotiations. Yet the creation of the WTO turned out to be the high-water mark of institutionalized economic integration. Nothing equivalent has ever been agreed on movement of capital or people, both of which are at least equally important. In those domains, countries are still able to make up their own minds, though how they do so depends on the balance of political forces, with owners of capital particularly potent nowadays. Ideas flow relatively easily, though China is always trying hard to control them.

In today's world, the rules on trade may need to be made more flexible. One argument for doing so is that countries need more "policy space."[4] A simple case for loosening the constraints is that there is now a political backlash against the liberal trade rules of the WTO in many countries, notably the US, even though this backlash is largely because countries failed to develop the policies needed to help their people adjust to shocks. Another is that governments need room to experiment with growth-promoting sectoral policies, free from global constraints. But such loosening of the rules comes at a cost, in the form of greater uncertainty for the traders and especially the exporters from smaller and weaker countries dependent on foreign markets yet lacking the power to defend themselves unaided.

A naive belief persists that moving away from tight rules will be of great benefit to small and poorer countries. The opposite will in fact be the case. In a world without rules that have some moral and practical authority, rich and powerful countries will always be able to protect themselves—or at least the rich and powerful within them—and so force others to bend to their will. Yet even they, and even more their businesses, would benefit from credible rules. It is, to take an important example, easier for a conflict among superpowers to be resolved peacefully and productively if both sides can present necessary compromises not as a humiliating defeat but as the mutually beneficial outcome of a shared commitment to higher principles of trade relations.

Another policy area of importance is development assistance. This remains a moral obligation upon the wealthy and powerful, but there is also a more practical aspect to this. If the world does not mostly contain reasonably prosperous and stable societies, it will remain politically fragile and afflicted by civil wars and pressures for mass migration. In addition to the moral obligations the wealthy and fortunate have toward those less so, they should also recognize their practical interest in a less unequal world, at home and abroad. There needs to be innovations in development assistance, too. A recent example was the Millennium Challenge Corporation, established in 2004, during the administration of George W. Bush, which links lending to policy and institutional reform.[5] One of the most important current opportunities is to encourage the flow of more private capital to developing countries, including by some form of risk-sharing insurance, especially to finance climate mitigation and adaptation. Especially in an era of secular stagnation, it makes sense to encourage the flow of excess savings from high-income countries to poorer ones, perhaps through insurance of tail risks.

It is also appropriate to provide relatively more assistance and economic opportunity to countries struggling to create the foundations of liberal democracy. Indeed, liberal democracies should be interested in the fate of liberal democracies everywhere. As freedom is dwindling or being snuffed out in many countries, including important places like Russia, the alliance of liberal democracies needs to be more active in support of countries that aspire to be or remain democratic.

Nevertheless, we should also remember that direct intervention in the domestic affairs of emerging and developing countries has repeatedly failed. One needs only think of the Vietnam war, the war in Afghanistan, the second Iraq war, and the war in Libya, to realize just how much damage reliance on force has done. It is not that outside intervention never works. It can, but only when the means at the disposal of the so-called international community and the will to use those means are adequate to the task. That was the case in post–Second World War Japan and Germany and subsequently in South Korea and Taiwan. In these cases, both the right circumstances and the will were present. Too often they have not been. In Germany and Japan, the

culture of an advanced economy and society also already existed. This made democratization relatively simple. Even in South Korea, which has been a stunning success, the emergence of an advanced economy and democracy took more than a generation.

No wonder the twenty years in Afghanistan were not enough, particularly given the doubts over how long the foreigners would stay. It might have taken a century. Who is prepared to engage anywhere for so long? The answer is that the EU and NATO have been prepared to do so, but only inside Europe, partly because the EU is of necessity already in Europe but also because the US has recognized a long-term strategic interest in European stability and prosperity. This is why the countries of the former Yugoslavia look quite promising today. Before this, Portugal, Spain, and Greece were remarkable successes of democratization. Despite their recent backsliding, countries of central and eastern Europe have also made substantial progress.

A radical possibility for intervention in other parts of the world might be to create mandates under the United Nations. A UN foreign legion might also be established, under the control of the Security Council. The aim would be to depoliticize interventions and make them as long-lasting as needed where the state has collapsed. A country could be governed in this way until stability returned. One must doubt, however, whether such a radical idea could be accepted in our divided world.

Two decades ago, many hoped that economic openness and rising prosperity would transform China into a country noticeably more democratic and liberal. This was naive, at least on the assumed timetable. Yet it is also hard to believe that China can indefinitely combine a sophisticated information economy and educated population with today’s political system. The idea that a bureaucracy dominated by one man will control everything in such a vast and sophisticated country forever seems implausible. A reasonable guess is that the pressure to give the Chinese people a greater say in how they are governed will have to be released at some point. If not, the system might explode. In the meantime, which may be many decades, high-income liberal democracies need to strengthen their relations with one another and with like-minded developing countries.

Russia's invasion of Ukraine has brutally reminded us that hard power remains a frightening reality. The alliance of liberal democracies will have to be effectively armed and both able and willing to defend its vital security interests on land and on sea and in the air and in space. Victory in the Cold War depended on the shield of the NATO alliance in Europe, which provided the peaceful environment in which the burgeoning prosperity of the western European nations could be built.

Many other geopolitical issues arise. These include managing relations with hostile autocracies, such as Iran, Russia, and North Korea, as well as our many shared global challenges. Dealing with all this also will need a core alliance of liberal democracies, ideally one that includes a democratic India, although, unfortunately, the future of Indian democracy is open to doubt under the Hindu nationalism of Narendra Modi and the BJP (Bharatiya Janata Party).

The Delusion of Another "Cold War" with China

Relations with China will be central for liberal democracies. Even in the case of Russia's war on Ukraine, it is hard to believe that Putin would have started without a green light from Xi Jinping. A great number of people in the West and especially in the US are seeing this emerging relationship with China as another Cold War, similar to that with the Soviet Union. This is an unhelpful way of thinking about this relationship. Indeed, in many ways, it will be far more difficult. Given the rising risk of war, as well as the many other dimensions of the relationship, it is likely to prove even more important. Yet it will not be the same.[6]

The underlying Cold War perspective is that this is a zero-sum relationship. Such a view of the US-China relationship is contained in *The World Turned Upside Down* by Clyde Prestowitz. He insists: "There is no contest between the Chinese people and those of the United States."[7] His objection is rather to the communist party. A similar view infuses *The Longer*

Telegram: Toward a New American China Strategy, written by an anonymous "former senior government official" (in reference to George Kennan's celebrated long telegram of February 1946, which proposed containment of the Soviet Union).[8] This also states: "The single most important challenge facing the United States in the twenty-first century is the rise of an increasingly authoritarian China under President . . . Xi Jinping."[9] The challenge, it argues, is not China but its despotic state.

The anxiety that infuses these publications is comprehensible: China is not just a rising economic superpower. It has developed what has been, at least hitherto, a stunningly effective blend of a dynamic market economy with a totalitarian state. Its actions in Xinjiang and Hong Kong underline its contempt for human rights and international agreements.[10] It threatens Taiwan's de facto autonomy and is expanding its sway over the South China Sea.[11]

The Longer Telegram argues that the threat from China's attempt to achieve global dominance must be met by defending a long list of vital US interests: retaining collective economic and technological superiority; protecting the global status of the US dollar; maintaining overwhelming military deterrence; preventing Chinese territorial expansion, especially forcible reunification with Taiwan; consolidating and expanding alliances and partnerships; and defending (and, as necessary, reforming) the rules-based liberal international order. Yet, simultaneously, the paper calls for addressing shared global threats, notably climate change.

A great deal of this may seem desirable. But is it feasible? I doubt it. Above all, China is *not* the Soviet Union, and the US is not what it was in the mid-twentieth century.

First, China is a far more potent adversary than the Soviet Union. Graham Allison of Harvard, an authoritative analyst, writes, "The time has come to recognize China as a full-spectrum peer competitor of the United States."[12] China has made enormous economic and technological progress. Its pragmatic strategy of "reform and opening up" allowed it to exploit foreign markets and know-how on a gigantic scale. The strategy was accompanied by forced savings, the highest investment rates in history,

especially in infrastructure, rapid upgrading of the skills of the labor force, and mass urbanization. This was much the same approach as those of post–Second World War Japan, South Korea, and Taiwan, but on a far larger scale. By 2019, just before the pandemic, China's output at purchasing power parity had risen to 17 percent of the world's, from a negligible share twenty years earlier. This was still only 42 percent of the aggregate size of the economies of the high-income liberal democracies. Yet China's GDP at purchasing power parity was already 9 percent larger than that of the US, though its GDP remained 33 percent smaller. Crucially, China's population is two-thirds bigger than those of the US, EU, and UK combined. If its GDP per head at purchasing power parity were to rise from about a third of US levels in 2020 to roughly half over the next few decades, its economy would be roughly as big as those of the US, EU, and UK combined. With a far more successful economy, a more dynamic technology sector, a far larger population, a more cohesive polity, and a more competent government than the Soviets ever had, China is on its way to becoming a comprehensive power at least the equal of the US.

Second, while China is a great power by any standards, it is not an ideological proselytizer in the way the old Soviet Union was. China wishes to limit the ability of its own citizens to criticize their government. It also wishes to limit other countries' ability to criticize, let alone threaten, it. It wishes control in its own neighborhood. It is seeking influence and power, as other great powers have done, including the UK in the nineteenth century and the US in the twentieth and early twenty-first. But it is not trying to turn foreign countries into little images of itself. This is surely because China is far more nationalist than communist and believes it is impossible for foreigners to replicate what only the Chinese could do. China is trying, instead, to make trade, commerce, and investment the foundation of a Chinese-led global order.[13] Viewing China in this light makes more sense than viewing it as an ideological force in the twentieth century mode. It is behaving as other great global powers have done before it but can hope to do so on a larger scale than ever before.[14]

Third, China's economy, unlike that of the Soviet Union, is highly internationally integrated. Although this is a source of vulnerability for China, it is also a source of influence. The Chinese market exerts a magnetic pull on a host of countries across the globe and especially in the Asian region. Most countries want good relations with the US *and* China and not all that many, even some close US allies, will willingly choose the US *against* China. [15]

Fourth, China has gained greatly in international influence and prestige, especially among emerging and developing countries.[16] Many who have lived under Western power and influence for centuries enjoy watching a rising power challenge Western hegemony, even though many do also fear China's power.

Finally, the US has declined since the Cold War, not just in terms of its relative economic power, but also in terms of its reputation for morality, good sense, decency, reliability, and adherence to democratic norms. Whether or not people around the world liked the US, they used to think it knew what it was doing. Thereupon, "three strikes and it was out." First came the global financial crisis, in fact a transatlantic financial crisis originating in the US-led financial system, then Donald Trump won the presidency, and finally came the failure to manage COVID-19 competently partly because of the huge political fissures in the population. Above all, "the world cannot unsee the Trump presidency."[17] This is especially true of its end, in the refusal to accept the outcome of the election and the subsequent transformation of the Republican Party into an antidemocratic cult. US policy makers used to talk about the need for China to be a "responsible stakeholder."[18] After the hubris of the "unipolar moment," the Iraq war, the financial crisis, Trump's presidency, and the shambolic management of COVID-19, is the US a responsible stakeholder? Not obviously.

Western strengths and China's weaknesses

Fortunately, the West does have significant assets in a contest for influence with China's form of despotic capitalism. In aggregate, the economies of the US and its allies still exceed that of China by well over two to one. They continue to be at or near the technological frontier in most industries. People around the world may like to see a counterweight to Western hegemony, but they do not for the most part appreciate the Chinese system. The move toward an Orwellian "big brother" society, in which surveillance technology is employed by the party-state to control society down to the very last individual, may work. But it is terrifying, threatening to crush the human desire for autonomy and self-expression.

Democracy is also a self-correcting system, in the obvious sense that a failing government need not be violently overthrown but can be voted out of office instead. Change is far more difficult, delayed, and bloodier under autocracy. It took the deaths of many tens of millions as well as that of Mao Zedong, the man who caused these fatalities, before Deng Xiaoping could alter the system's direction.[19] How many mistakes might dictator-for-life Xi Jinping make before he loses power or dies in office? His persistence with his zero-COVID policy into 2022 indicates how far such foolish policies can go in a totalitarian system. In the long run, absolute rulers almost always become the prisoners of their past, their isolation, and the sycophants who end up surrounding them. Xi now enjoys an extraordinary degree of absolute power. But, as Lord Acton said, "Power tends to corrupt and absolute power corrupts absolutely. Great men are almost always bad men."[20]

China relies on its economic performance for legitimacy, albeit mixed with nationalism. China's real output per head is still less than a third of that of the US, which gives it room to grow quickly. But it is easier to catch up on the economic leaders than to forge ahead of everybody else. It is possible that performance will deteriorate sharply, well before it gets much closer to the productivity levels of high-income democracies. Its economy is already burdened by high debt. This reflects an unbalanced economy, with suppressed consumption, excessive savings, and so an overriding need for high and often wasteful investment. Without radical reform, it may be

impossible to sustain high growth without resorting to further rapid increases in indebtedness.[21]

More profoundly, China's economic system confronts a profound strategic dilemma. Xi Jinping's anticorruption campaign should be viewed as a reaction against the corruption attendant upon the economic liberalization of his predecessors, Deng Xiaoping, Jiang Zemin, and Hu Jintao. But his repressive reaction, especially his war on entrepreneurs and the corrupt officials that allowed them to operate, risks stifling the economy. In the absence of clear definition and protection of legitimate action—in simpler terms, in the absence of anything close to a rule of law—the natural response of entrepreneurs in both private and public sectors to Xi's crackdown must be both to risk less and to do less. For a regime whose legitimacy depends on rising prosperity, this creates a painful dilemma between unacceptable stagnation and runaway corruption. That dilemma is, moreover, a necessary feature of markets under bureaucratic absolutism, not a bug.

Cooperating, Confronting, and Competing with China

The relationship with China must be one of cooperation, competition, coexistence, and confrontation, but not, we must hope, of open conflict, let alone of armed conflict. That would be a catastrophe.

So, how might the complex relationship between liberal democracies and China work? Here are five essential elements of what needs to be done.

First, the West needs to appreciate its core strengths and protect its core assets. These include individual freedom and democracy, which remain beacons to a vast number of people around the world, including many Chinese people; maintenance (or perhaps revival) of the historic alliance of the liberal democracies; autonomy in strategic technologies; security in the most important aspects of the economy, notably energy and health; and preservation of a rules-based and cooperative international system. It is

necessary that all of these are protected by common action, if necessary. It is essential not least that the US continues to be actively engaged and committed to this alliance.

Second, it is essential for both sides to avoid what Graham Allison calls the “Thucydides trap”—the tendency for mutual suspicion and fear to drive established and rising powers into conflict.[22] This needs to be done via a range of measures aimed at enhancing mutual confidence, protecting core interests, and sustaining a credible balance of power. There will need to be agreement on what those core interests are and how friction over them is to be managed. Above all, it must be understood by both sides that nobody can “win” from a head-on confrontation. War must remain unthinkable, which makes Russia’s war in Ukraine so dangerous for all, including China.

Third, it is necessary to promote mutually beneficial interdependence. While both sides want to preserve a degree of strategic autonomy, it is also essential to preserve interdependence, notably in trade and capital flows, but also in other areas. It is good for young Chinese people to study in Western institutions. It is good, too, for both sides to trade with—and invest in—each other. We know that commercial exchange and culture interchange are no panacea: the collapse of pre–First World War Europe into ruinous war demonstrates that economic interdependence may be a far smaller deterrent against suicidal folly than one might hope. Yet it still accounts for something, though only if the interdependence is complemented by measures aimed at ensuring the widest possible sharing of the gains.[23] Meanwhile, there will also be a need to deepen trading relationships with friendly nations.

Fourth, it is necessary to cooperate on common global tasks. We share a small and fragile planet, a complex and interdependent economic system, and a moral imperative to help vulnerable human beings everywhere. In all areas one can imagine—climate, the biosphere, disease, economic development, international debt, financial stability, technological development, peace, and security—a degree of cooperation or, at the least, of mutual understanding will be needed. This is going to be very hard to achieve. But these relationships must be designed to promote mutual confidence.

Finally, it is necessary to make use of carefully designed carrots and sticks. Thus, it is essential to reward China for cooperation, but also to impose penalties on failure to cooperate. This must apply in all areas of concern—security, human rights, the world economy, development, the global environment, and operation of global institutions. Again, none of this will work without carefully considered and coordinated policy on the part of the liberal democracies. The US may coerce allies in certain limited respects. But without wholehearted support of allies, the alliance itself will fail and the US will then end up confronting a rising China on its own.

All this creates challenges. Consider some of those raised by the issues listed above.

First, *security*. It is reasonable for countries to seek to preserve control of technologies fundamental to national security. This is not an argument for total self-sufficiency since that would impose excessive costs. But it is reasonable for liberal democracies to define technologies in which they intend to remain individually or collectively self-sufficient and remove them from the normal rules of international trade. Yet this should, ideally at least, be based on open discussion and explanation of the reasons for such exceptions to the rules.

Security also concerns the ability of countries to protect their core interests in the world. One way of achieving this is via a rough balance of power. It is reasonable for liberal democracies to create alliances that limit China's ability to get its own way. But such alliances must also avoid creating a dangerous ratcheting up of tensions over intrinsically insignificant issues. The Cuban missile crisis of 1962 brought the world to the brink of nuclear war.[24] This was grotesque folly. Humanity cannot afford a repeat of such events. Confidence-building measures are essential. The balance of power must be complemented by the maximum feasible degree of openness and transparency between the leaderships and militaries of the great powers. Ambiguities in such areas invite trouble. An additional risk is misbehavior by junior partners. In the First World War, for example, Austria and Serbia dragged everybody else into war. The war might have happened anyway. But this is a risk that needs to be curtailed, especially in multinational alliances.

A vital aspect of security nowadays is cybersecurity, on many different dimensions: operation of the media, freedom of expression, cyberespionage, and so forth. Liberal democracies need to reduce their huge vulnerabilities in such areas. Most of this has little to do with China or any other external actor. Domestic forces are also dangerous. Yet, whatever the source of the threat, it needs to be contained. Whether this is now technically possible is a big question. Unfortunately, conformity with an international agreement on cybersecurity may at present be impossible to verify. A likely outcome is progressive splintering of the internet—a "splinternet."

Second, *human rights*. Liberal democracy has a core value: the right of people to act freely. This value needs to be defended domestically. But China can use its rising economic clout to influence what people are allowed to say about it. This pressure applies quite obviously to governments.[25] But it also applies to people in business and to scholars and students, especially Chinese students. Liberal democracies should treat Chinese attacks on freedom of opinion and expression on one of them as an attack upon all of them. Sanctions, including sanctions on trade, should if necessary be considered in response, because core values need to be protected at home. But the effectiveness of any such sanctions may be limited.

Third, the *world economy*. Trade is perhaps the most visible dimension of global economic cooperation. Unfortunately, the WTO is failing to manage relations between the US and China. The US has argued that China has failed to live up to its WTO agreement.[26] China argues, in response, the same thing about US behavior and, in the case of Trump's trade war, is right to do so.[27] China's alleged failures were the justification for Trump's assault. The US under Trump also responded to what it saw as the WTO's unacceptable rule making, by rendering the Appellate Body in the dispute settlement process inquorate, thereby making the policing function of the organization ineffective.[28]

The question is how to re-create a legitimate and predictable regime and so avoid collapse into trade anarchy. This is in the interests of the superpowers, too, since it would help take the heat out of their trading relationship. Ideally, what is needed is an ambitious renegotiation of rules

and disciplines. The most fundamental difficulty is that the WTO rests on the assumption that its most important member countries are market-oriented, in the traditional Western sense: businesses are privately owned and free to operate, subject to overarching laws that are administered by independent judiciaries. China's economy, with its complex blend of private enterprise, state-owned nonfinancial enterprises, state-dominated banking, and state guidance, subject to the sovereignty of the Chinese Communist Party, is different. Moreover, under Xi Jinping, China is moving backward toward a still more state-dominated model.[29] In view of all this, there may exist no reform of the trading system that will command assent from all sides; certainly there will be none so long as China insists on being treated as a developing country. Yet let us try, not least because China is going to be the world's most important trading power and a pole of magnetic attraction for all other trading countries. Freezing it out of world trade is impossible. Meanwhile, there is a strong case for creating a free trade arrangement open to all liberal democracies.

Trade is not the only economic area where cooperation among major powers is needed. That is also true of exchange rate management, financial regulation, and management of international debt. The bigger the Chinese economic impact becomes, the more important it will be to reach mutually beneficial agreement in such areas. China's rise as a creditor country is particularly important. It is crucial, for example, to ensure that the management of excessive external debt of vulnerable countries is cooperative and the burden of any restructuring or write-downs borne equally. Otherwise, there may be great reluctance to restructure or write-down loans, because of the fear that other creditors will gain rather than the borrowers in difficulty. Huge efforts must be made to cooperate with China in this area, however difficult it will be.

Fourth, *economic development.* There already exists a shared commitment to promoting development. That is why international development agencies exist. It is both a moral and a practical obligation: a less unequally prosperous world would be a better one. There is also no doubt that China has the know-how and the resources needed to help developing

countries massively. At the same time, there are concerns about the value developing countries gain from close engagement with China, notably via the Belt and Road Initiative, especially over terms of debt. Close engagement with China on ensuring that this ambitious program works to the benefit of developing countries is vital.[30] Beyond this, liberal democracies interested in promoting economic development will need to cooperate with China and vice versa, if shared development goals are to be achieved. Remember, too, that Western powers have a long history of using it as an excuse for political control. Just consider the history of the Suez or Panama canals. Finally, the democracies could combine their surplus savings with a view to creating a rival to the Belt and Road Initiative for developing countries. Competition in promoting investment in development would even be desirable.

Fifth, *sustainability.* The atmosphere is the heart of this, though biodiversity is also a challenge.[31] This will require an ambitious package of globally implemented measures. It will also require high-income countries to take the lead, because they have the capacity to act relatively quickly and because they remain heavy emitters per head. But the emerging and developing countries and especially China, far and away the largest emitter in the world, will have to play a huge part, too, if the global temperature increase is to be kept below 1.5°C. Again, the question is how to achieve a radical shift onto less emissions-intensive growth paths. High-income countries will have to provide substantial technical and financial assistance to emerging and developing countries. If they can agree on suitably radical commitments of their own, they can also use their powerful collective leverage, especially border taxes, to force China to accelerate the planned decarbonization of its economy, which is currently far too slow. Again, avoid hypocrisy: if the high-income democracies want China to accelerate decarbonization, they must do the same.

If, as one would hope, high-income democracies make carbonpricing part of their answer, they would also need to adopt an offsetting tariff on imports of emissions-intensive goods from countries without equivalent carbon pricing. This would be technically difficult.[32] But it would have three important advantages: it would eliminate at least some of the political

resistance to introducing carbon pricing; it would shift global production away from more emissions-intensive technologies and activities; and, finally, it would provide an incentive to other countries, including China, to introduce carbon pricing of their own. This, then, would be an important and justifiable "stick," to ensure that the world implements the needed climate policies.[33]

China must not only play a dominant role in protecting the world climate. It must also play a major role in meeting other environmental challenges, such as protecting biodiversity. It is, for example, the world's third-largest market for fish and fishery products, after the EU and US.[34] It is also believed to be the world's largest importer of endangered wildlife and wildlife products, such as ivory, rhinoceros horn, tiger bones, and so forth.[35] A huge effort needs to be made to change this. China must be made to understand its global responsibility.

Finally, *global governance*. Like it or not, we have created a world in which human beings interact with one another, with the biosphere, the atmosphere, and even space beyond the atmosphere, on an unprecedented scale. If the pandemic has taught us anything, it is this. We are doomed to interact peacefully and cooperatively if anything good is to survive. This takes global governance of just about every imaginable kind. Indeed, it is rather clear we need far more of it, not less of it if we are to manage the challenges that confront us. We need enlightened and close cooperation on, at least, disease, climate, biodiversity, cybersecurity, nuclear proliferation, economic development, trade, macroeconomic stability, and development and use of intellectual property. Achievements in such areas are not impossible. Consider, for example, the Montreal Protocol on Substances That Deplete the Ozone Layer of 1987 and the United Nations Convention on the Law of the Sea of 1994. But while the former has been universally ratified, the US and a number of other countries have still not ratified the latter.[36]

Global governance can no longer be the plaything of the high-income democracies alone. It must be shared with other powers, China above all, but also increasingly India. It is essential to adjust votes and other sources of influence in the global institutions. In 2021, for example, China's share in the total vote in the IMF was still only 6.08 percent, against 16.51 percent for the

US, 6.15 percent for Japan, 5.32 percent for Germany, and 4.03 percent for France and the UK.[37] If these voting shares are not adjusted to reflect China's growing power, it is inevitable that China will create international institutions of its own, so dividing the world further. Indeed, it has already started to do so, with the creation of the Asian Infrastructure Investment Bank and the New Development Bank.[38] Equally, the Security Council should be reformed. France should surrender its permanent seat to the EU and the UK should surrender its seat to India. This would at once create a far more representative council.

At the same time, the liberal democracies do have concerns, priorities, and values of their own to defend. Thus, alongside the global institutions that are important in many domains, notably in overseeing management of the global commons, they need also to create and protect informal and formal institutions of their own. Thus, while informal discussions in economics are conducted at the global level in the cumbersome group of twenty (G20), it continues to be valuable for the leading liberal democracies to preserve the group of seven (G7), in which they can develop their positions in concert with countries that are most similar to them, and they trust most. Again, in many areas of regulation—of finance, cyberspace, cybersecurity, media, and so forth—they need to develop systems that work best for them and consequently to accept a substantial degree of fragmentation of the world order.

The Future of Democratic Capitalism in the World

How, then, should stable liberal democracies seek to conduct themselves within this complex and changing world? The argument above can be separated into three fundamental points. First, liberal democracies have their own values and interests. They should defend these, partly by cooperating closely with one another. Second, liberal democracies have many significant

interests in the wider world. Again, they should nurture these, by acting together to preserve global order and defend and promote liberal democracy, but they should do so as peacefully as possible. Third, they confront a new superpower with different values and a different system of governance. But they cannot contain China in the way they contained the Soviet Union. China is far too big and globally engaged for that. It is also a country with which deep cooperation is essential in many domains. Thus, a complex web of relations will need to be created with China that protect our core values while sustaining global stability and making global progress. It will be necessary to compete, cooperate, and coexist peacefully on a daily basis. Occasionally, there will be confrontation. But there must not be military conflict. It will be difficult, but it will also be essential, in the interests of all of humanity.

Conclusion: Restoring Citizenship

> It is rather for us to be here dedicated to the great task remaining before us—that from these honored dead we take increased devotion to that cause for which they gave the last full measure of devotion—that we here highly resolve that these dead shall not have died in vain—that this nation, under God, shall have a new birth of freedom—and that government of the people, by the people, for the people, shall not perish from the earth.
>
> —*Abraham Lincoln*[1]

> *Romae omnia venalia sunt.*
> (Everything is for sale in Rome.)
>
> —*Sallust*[2]

Democracy and competitive capitalism make a difficult, but precious, marriage of complementary opposites. A market economy that operates under trustworthy rules, rather than the whims of the powerful, underpins prosperity and lowers the stakes of politics. In turn, a competitive democracy induces politicians to offer policies that will improve the performance of the economy and so the welfare of the people. Beyond these practical reasons for the marriage of liberal democracy and market economy, there is also a moral one: both are founded on a belief in the value of human agency—people have a right to do the best they can for themselves; people have a similar right to exercise a voice in public decisions. At bottom, both are complementary aspects of human freedom and dignity.

This is not just an abstract and theoretical notion, let alone a utopian one. The world's stable liberal democracies have prosperous market economies, while the prosperous market economies are almost all liberal democracies.

There are no exceptions to the former rule. Hong Kong and Singapore may be viewed as exceptions to the latter (though the former, alas, not for much longer). Yet both benefited from an exceptional phenomenon—a benevolent pro-capitalist autocracy. The template for Hong Kong was, however, created by colonial outsiders and is now disappearing under Xi's heavy-handed rule. The rulers of Singapore not only inherited a colonial system, but also must give foreign capitalists, on whose knowledge and connections they rely, the security and openness they need. This is a vital constraint on what they may safely do: if voice is relatively impotent in Singapore, exit is not. China might ultimately become a far more significant exception to the rule that rich market economies are also liberal democracies. But its gross domestic product per head (at purchasing power parity) was still eightieth in the world in 2019, between Suriname and Turkmenistan.[3] For all its progress, it is a very long way from being a high-income country. It is also quite likely to flounder under Xi's increasingly heavy-handed rule.

Prosperity is far from all that this is about, important though it is. On almost any measure one could imagine—life expectancy, educational standards, and the progressive push for equal rights—the high-income democracies are the most successful societies in human history. The freedom they grant, together with their opposition to ascribed status, opens opportunities for improvement of both individuals and society. And what is the alternative? It is either unaccountable rule by thugs and bureaucrats or the iron cage of custom. Both are recipes for stagnation and oppression. They are death to the human spirit and social progress.

For all its faults, democratic capitalism is worth defending. But it is in grave peril. Remember what makes a working democracy: elections must be seen to be free and fair, and victors must be accepted as politically legitimate. For this to happen, the ties that bind participants to one another must be as strong as those that bind people to factions. In chapter 9, I argued that patriotism—a shared attachment to place, history, values, and culture—is the most powerful source of the needed sense of a common identity. Such patriotism may also be called civic nationalism. It may be based in part on myths. But myths are a universal attribute of human communities.

There exist other sources of democratic political legitimacy. An essential one is widely shared prosperity. Another is a shared trust in rules of the game viewed as fair by all. Yet another is confidence that, whoever may (temporarily) be in power, the government will be competent, the law will be impartially applied, and the rights of all people to live their lives freely will be protected. Expressing the foundations of a stable democracy in this way makes clear how fragile it is. Democracy is peaceful civil war. The divisions that emerge in democratic politics may, in the wrong circumstances and with the wrong people, become sources of insurrection, civil war, or creeping authoritarianism in the name of the people. The latter has been happening recently all over the world. It has definitely been happening in the US, the heartland of contemporary democracy, with Donald Trump's insurrection against the presidential election. Democracy is not yet a lost cause. But it is highly endangered.

Elite failures and malfeasance, along with the economic, social, and technological developments discussed earlier in this book, have broken the confidence of many people in the institutions and values of democracy. This has facilitated the rise of the demagogues against whom Plato warned. In the US, above all, the Republican Party has ceased to abide by core democratic norms. It resembles movements in which the Leader's word defined what was true and right more than it does a normal democratic political party. The most notorious example was the Führerprinzip of the Nazis: if the Leader said jump, the question was just "how high."[4] So, too, it now seems to be with Trump. Yet, amazingly and depressingly, the subservience of Republican elites is the product not so much of fear, as it was for many in the Germany of the 1930s, as of personal ambition and moral collapse.

The danger Donald Trump posed to liberal democracy was clear when he was elected on a platform that was part nationalism, part xenophobia, and part cult of personality. As president, he rejected alliances, multilateralism, international rules, science, truth, and the reality of climate change. Yet in 2020, even after the disastrous experience with the pandemic, he won 46.8 percent of the vote. More important, the majority of Republicans agreed with him that the election had been rigged against him by the Democrats.[5] This

loyalty continued even after the invasion of the Capitol on January 6, 2021, which he fomented. Indeed, believing in his "big lie" about the stolen election became a litmus test for recognition as a true Republican. The Republicans had moved from being a normal political party in the world's most influential liberal democracy to embracing the view that not only was losing an election ipso facto illegitimate, but riot and murder were acceptable responses. The implications of this for democracy in the US and, given that country's historic role in defending democracy, for liberal democracy worldwide are disturbingly clear.

How did this happen, particularly after the euphoria of the collapse of Soviet communism? The Trump-led Republican Party, or for that matter the Johnson-led Conservative Party, did not come from nowhere. They came from forty years of elite failure. The fragile marriage of liberal democracy with capitalism requires maintaining difficult balances between individual and community, between private and public, between freedom and responsibility, between economics and politics, between money and ethics, between elites and people, between citizen and noncitizen, and between the national and global. This is why ΜΗΔΕΝ ΑΓΑΝ (Nothing in excess) has been this book's motto. When these balances work, the marriage of liberal democracy with market capitalism is the most successful system in the history of the world. But liberal democracy is vulnerable to the selfishness of elites and ambitions of would-be despots. Historically, democratic republics have been exceptions. The normal human political patterns have been plutocracy or tyranny. The latter always waits in the wings. In today's world, tyrannies—demagogic and bureaucratic—are not just in the wings, but on the march.

Parts III and IV of the book set out an agenda for restoring a balance in both democratic politics and market economics. It takes into account both the internal weaknesses and global responsibilities of liberal democracies. The proposals are pragmatic, but also idealistic. They are based not on revolutionary transformation, but on reform of democratic institutions and economic policies. But we must recognize, too, the scale of the task: the combination of new technology with laissez-faire ideology has accelerated

the emergence of a plutocracy dedicated to increasing its wealth and power and of new technologies with extraordinarily destructive potential.

We do indeed need to build on the foundations we have. But we cannot go back to the past. The world of the mid-twentieth century is, for both good and bad, gone forever. We need to "build back better." The path forward is to adapt the goals of the reformers of the past to the needs of the present. The most important reformer of the twentieth century was Franklin Delano Roosevelt. In his speech on January 1941 on the "four freedoms," he laid out a role for the US in the world, predicated upon a domestic transformation. Building on this outline, chapters 7 and 8 set out the following goals for reform of the capitalist economy:

1. A rising, widely shared, and sustainable standard of living
2. Good jobs for those who can work and are prepared to do so
3. Equality of opportunity
4. Security for those who need it
5. Ending special privileges for the few

Removing harms, not universal happiness, is the objective. The approach to reform is that of "piecemeal social engineering," as recommended by Karl Popper, not the revolutionary overreach that has so often brought calamity.[6]

Behind these specific proposals is a wider perspective. A universal suffrage democracy will insist on a citizenship that is both economic and political. This means that business cannot be free to do whatever it wishes. It means that taxes must be paid, including by the economically powerful. It means that the state must be competent and active, yet also law-governed and accountable. All of this was the clear lesson of the twentieth century.

There are, it is true, alternative ways to seek power under democratic capitalism. All will fail. One extreme is to offer a fully socialized economy. But the economy will founder, and the rulers will be forced out of power or seize it undemocratically, as happened most recently in Venezuela. An opposite extreme is to marry laissez-faire economics to a populism founded on anti-intellectualism, racism, and cultural conservatism. Such pluto-populism is also likely to end in an autocracy in which even plutocrats are

insecure. A still faster route to autocracy is via a blending of the two extremes in nationalist socialism (or national socialism). This combines a welfare state with arbitrary rule by demagogues. This, too, will ultimately ruin both the economy and democracy, as the unaccountable gangster in charge rewards cronies and punishes opponents.

Interwar Europe, the history of Latin America, and the more recent experience of many emerging and developing economies, including some of the former communist countries of central and eastern Europe, offer copious warnings. The greater the inequality, insecurity, feeling of abandonment, fear of unmanageable change, and sense of injustice, the more vulnerable to collapse the fragile balance that makes democratic capitalism work will become.

If the needed reforms are to happen, elites must play a central role. A complex society without elites is inconceivable. Alas, one dominated by predatory, shortsighted, and amoral elites is all too plausible. If such elites emerge in a democratic republic, it will collapse. That happened to the late Roman Republic. Anne Applebaum has described brilliantly how it has been happening in Hungary, Poland, and even the UK and US.[7] Liberal democracy is a complex system of restraints, some of them in law, but many tacit. It depends ultimately on truthfulness and trustworthiness in those in positions of responsibility. The corruption, injustice, and lies of elites are powerful solvents of bonds that tie citizens together, inevitably replacing patriotism with deepening cynicism. As the great journalist Hunter S. Thompson declared, “In a closed society where everybody’s guilty, the only crime is getting caught. In a world of thieves, the only final sin is stupidity.”[8] Only a corrupt oligarchy or autocracy is then possible. Democracy will perish.

Adrian Wooldridge of *The Economist* has rightly argued that members of the elite need to be competent.[9] This is one of the reasons why equality of opportunity is a founding value of a liberal democracy. There is no alternative to some form of meritocracy. All societies have mechanisms for training such elites. But it is not enough for members of elites to be clever, well trained, and ambitious if they are also self-satisfied, narrowly educated,

and selfish, possibly even amoral. Members of a functioning elite, which includes the business elite, need wisdom as well as knowledge. Above all, they need to feel responsible for the welfare of their republic and its citizens. Indeed, if there are to be citizens at all, members of the elite must be exemplars. It is not hard: instead of lies, honesty; instead of greed, restraint; instead of fear and hatred, appeals to what Abraham Lincoln called "the better angels of our nature."

Elite failings are pervasive in today's story of the democratic recession in the high-income democracies and elsewhere. This is true on both left and right. It is a failing of the Brahmin elites of the left to downplay the distinction between citizens and noncitizens fundamental to any functioning democracy. It is a failing of that self-same elite to despise the conservative and patriotic values of less-educated fellow citizens. It is a failing, again, to rail against the patriotism on which any liberal democracy must depend.

Yet it is an even greater failing of economically successful elites to push for policies that generate enormous wealth for themselves and insecurity for everybody else. It is a great failing to encourage the emergence of a rigged capitalism, which destroys the legitimacy of the market economy and of the state that protects and promotes it. It is a great failing, above all, to cement power by creating a pluto-populist coalition based on self-seeking at the top and rage at the middle and bottom. It is all too easy to motivate people by hatred and fear and so by a tribalism that divides the world into the "good people" like us, and everybody else. But as society becomes more plutocratic, the sinews that bind citizens together snap. Then comes the false reformer and, worse, the faux populist—the ambitious demagogue who pretends "to drain the swamp" as he makes it wider and deeper.

In his *Republic*, Plato, a fierce critic of democracy, pointed to the likely rise of the sort of demagogue we see all around us today. Instead of democracy, he proposed the selection of "guardians," or philosopher rulers. These guardians would not only be philosophers. They would also be freed from temptation by being without possessions or family. Their children would be raised together. These guardians then would be not just a meritocracy but a monastic one.

The logic is clear. The danger with any elite is that it will subordinate the fulfillment of its vital social role to its personal interests. It can be almost impossible to avoid this. A long time ago, I was told why corruption was rife in the bureaucracy of a certain large developing country. The mechanism was simple and effective. A young, able, and idealistic recruit would be offered a large bribe early in his career. He would refuse it. This would happen a few times. Then, in a private meeting, he would be told by a superior that if he did not take the bribe, he would never be promoted. He thinks of his wife and hopes for a family. And so, next time, he would accept the bribe.

This is blatant. Yet there are so many more subtle ways of corrupting people whose roles in society are those of guardians: lawyers whose only interest is in winning cases; business executives whose only interest is in creating a dynastic fortune; creators whose only interest is in getting the money they need to make their creations a reality; politicians whose only interest is in winning elections; and so forth. As professional standards erode, it becomes ever more difficult to be the exception. Honor and decency come to seem old-fashioned, even ridiculous. And so, when a corrupt thug accuses the elite of being corrupt, not to mention incompetent, it is easy for a great mass of the people to agree, because it is seen to be true. Without decent and competent elites, democracy will perish.

Alas, as I write these last paragraphs in the winter of 2022, I find myself doubting whether the US will still be a functioning democracy by the end of the decade. If US democracy collapses, what future can there be for the grand idea of “government of the people, by the people, for the people”?

We must *not* be complacent about this danger. Democracy is very recent: even a broad male franchise is less than two centuries old anywhere; universal adult suffrage representative democracy is only a little over a century old. For the first time in history, this system recognized the political rights of *all* adult citizens. It was a great achievement. It has already had to confront powerful enemies in World War II and the Cold War.

Yet the enemy today is not without. Even China is not that potent. The enemy is within. Democracy will survive only if it gives opportunity, security, and dignity to the great majority of its people. As Aristotle told us, it

depends on a large, contented, and independent middle class. If, in contrast, the system benefits only the most successful, the most cynical, and the greediest, it will founder. If elites are only in it for themselves, a dark age of autocracy will return.

The renewal of capitalism and democracy must be animated by a simple, but powerful, idea: that of citizenship. We cannot just think as consumers, workers, business owners, savers, or investors. We must think as citizens. This is the tie that binds people together in a free and democratic society.[10] It is by thinking and acting as citizens that a democratic political community survives and thrives. If that tie is dissolved, the democratic polity will founder. Its replacement will be some combination of oligarchy, autocracy, or outright dictatorship.

Citizenship must have three aspects: concern for the ability of fellow citizens to have a fulfilled life; the desire to create an economy that allows citizens to flourish in this way; and, above all, loyalty to democratic political and legal institutions and the values of open debate and mutual tolerance that underpin them.

So, what might such a revival of the idea of citizenship mean, in today's challenging global environment?

Here are things this does not mean.

It does not mean that democratic states should have no concern for the welfare of noncitizens. Nor does it mean that it sees the success of its own citizens as a mirror image of the failures of others. On the contrary, it must seek mutually beneficial relations with other states.

It does not mean that states should cut themselves off from free and fruitful exchange with outsiders. Trade, movement of ideas, movement of people, and movement of capital, properly regulated, can be highly beneficial.

It does not mean that states should avoid cooperating closely with one another to achieve shared goals. This applies above all to actions designed to protect the global environment.

Yet there are things it clearly does mean.

It means that the first concern of democratic states is the welfare of their citizens. If this is to be real, certain things must follow.

Every citizen should have the reasonable possibility of acquiring an education that would allow them to participate as fully as possible in the life of a high-skilled modern economy.

Every citizen should also have the security needed to thrive, even if burdened by the ill luck of illness, disability, and other misfortunes.

Every citizen should have the protections needed to be free from abuse, physical and mental.

Every citizen should be able to cooperate with other workers in order to protect their collective rights.

Every citizen, and especially successful ones, should expect to pay taxes sufficient to sustain such a society.

Those who manage corporations should understand that they have obligations to the societies that make their existence possible.

Citizens are entitled to decide who is allowed to come and work in their countries and who is entitled to share the obligations and rights of citizenship with them.

Politics must be susceptible to the influence of all citizens, not just the wealthiest.

Policy should seek to create and sustain a vigorous middle class, while ensuring a safety net for everybody.

All citizens, whatever their race, ethnicity, religion, or gender are entitled to equality of treatment by the state and the law.

The West cannot go back to the 1960s. It cannot go back to a world of mass industrialization, where most educated women did not work, where there were clear ethnic and racial hierarchies, and where the Western countries still dominated the globe.

Moreover, we face today, with climate change, the rise of China and the transformation of work by information technology—very different challenges. The world has changed too profoundly for nostalgia to be a sane response.

Yet some things remain the same. Human beings must act collectively as well as individually. Acting together, within a democracy, means acting and thinking as citizens.

If we do not do so, democracy will fail, and our freedoms will evaporate.

It is our generation's duty to ensure it does not. It took too long to see the danger. Now it is right there in front of us.

This is a moment of great fear and faint hope. We must recognize the danger and fight now if we are to turn the hope into reality. If we fail, the light of political and personal freedom might once again disappear from the world.

Acknowledgments

I submitted the proposal for this book to my agent, Andrew Wylie, in August 2016. I planned to write it over two summers, as I had done with my previous books, and submit it at the end of 2018. As it transpired, I submitted a completed draft in the early summer of 2021, almost three years late. I completed a final version, after two rounds of editorial comments, in June 2022.

Self-evidently, this project has proved far more time-consuming than I had hoped. The main explanation is that it proved far more ambitious than I had imagined. It required me to keep up with what turned out to be significant further developments, notably the career of Donald Trump, the ramifications of Brexit, and COVID. It required me to venture beyond economics into a huge literature on politics, especially on the rise of populism. It required me to think more deeply on the relationship between politics and economics in general, and democracy and capitalism more specifically. Only the reader can judge whether this effort was worthwhile. But it surely was an effort, not just intellectually but also morally, since it required me to reconsider and in some cases reject many prior beliefs.

Since completing the book proved so much more difficult and took so much longer than I had expected, my thanks, too, must be more effusive than those offered after completion of my previous three books, *Why Globalization Works*, *Fixing Global Finance,* and *The Shifts and the Shocks*. [1]

I must start, as before, with my remarkable agent, Andrew Wylie, whose belief in me proved immensely heartening from the very beginning of this project. I also want to thank Stuart Proffitt and Scott Moyers of Penguin Press for taking on the book and sticking with it despite the delays. Even

more important were the detailed editorial comments they (and their colleague Helen Rouner) provided on successive versions of the book. The book is, as a result, substantially shorter, better focused, and clearer than it would otherwise have been. Good editors drive authors mad. They also make the difference between a turgid and ill-focused book and one that is at least somewhat better written and constructed. I am grateful to them all.

I owe enormous thanks to four people who have read and commented on the entire book. One is Nicholas Gruen, an Australian economist, who is also among the most original thinkers I have known. As an independent consultant, he is superbly unconstrained by conventional ways of thinking. He has influenced this book in many ways, but especially in the discussion of political reform. Another is Mervyn King, former governor of the Bank of England, who has been a friend for some three decades. I have always admired his intelligence and integrity. I am hugely grateful to him for giving me once again so many helpful and supportive comments. Yet another is Robert Johnson, founding president of INET (the Institute of New Economic Thinking). His comments and, above all, his vast erudition made a huge contribution to the book. The fourth is Daniel Wolf, my brother and only sibling. No other person I know shares so completely my sense of the perils of our time. This anxiety is rooted in our inherited awareness of the great catastrophe of interwar Europe, which made our parents homeless and led to the slaughter of almost every member of their wider families. No other person could help me frame so precisely what I have to say.

I would also like to thank Lionel Barber, editor of the *Financial Times* when I began this task, and Roula Khalaf, his successor, for their support and patience. I have taken off a huge amount of time to write the book, indeed very much more than I had hoped. I appreciate how generously the *FT* has accommodated the effort. I would also like to thank colleagues whose ideas have helped me gain greater clarity. These include Jonathan Derbyshire, for frequent conversations on politics and philosophy; Gideon Rachman, for many discussions, especially on the rise of the “strongmen”; Alec Russell, for reading one crucial chapter at an early stage; Edward Luce, for educating me on US politics; Martin Sandbu, for the many ideas in his writings for the *FT*

and especially his book, *Economics of Belonging*;[2] and John Thornhill, particularly for his thoughts on the impact of technology, notably in media.

Inevitably, countless others have influenced my ideas in many ways over the years. It would be impossible to list them all. But I am particularly grateful for the friendship and guidance of Larry Summers. In the last decade his resurrection of the idea of "secular stagnation" and his critique of the fiscal policies of the Biden administration have been particularly helpful. Others who have been particularly important to me as friends and sources of ideas are Andy Haldane, formerly at the Bank of England, and Paul Collier and John Kay, both of whom I have known since we were at Nuffield College, Oxford, together more than half a century ago. I would also like to thank Eric Lonergan for many stimulating conversations over the years.

Finally, I must, as always, give my thanks to my family.

My children, Jonathan, Benjamin, and Rachel, and my grandchildren, Zach, Rebecca, Alex, Anna, Abigail, and Eden, are the delight of my life and in the most profound sense also its purpose. They make me care about the future because it is *their* future.

Far above all others, I thank Alison, my wife and companion of more decades than she would care to admit. I thank her for her encouragement and support in writing this book. Without her, I am sure it would have been abandoned. Alison is the best editor I have ever had. I thank her for reading all the drafts and giving me, as she has always done, comments that were sensible, perceptive, and to the point: I thank her for forcing me to explain what I mean to a highly intelligent reader not directly involved in these debates. The value of such a reader is beyond measure. In the Book of Proverbs, it asks: "A woman of valor who can find? For her value is far beyond jewels." In Alison, I found such a woman, and I thank her for giving me everything that could make a man's life happy. My gratitude and love are far beyond anything I can hope to convey. She has been the miracle of my life.

Needless to say, none of these people bear responsibility for the many failings of this book.

NOTES

Preface: Why I Wrote This Book

1. This seems never to have been said by Mark Twain. See "History does not repeat itself, but it rhymes," *Quote Investigator*, https://quoteinvestigator.com/2014/01/12/history-rhymes/.

   BACK TO NOTE REFERENCE 1

2. "Martin Wolf Accepts the Gerald Loeb Lifetime Achievement Award," *Financial Times*, July 3, 2019, https://www.ft.com/content/5e828d50-9d86-11e9-b8ce-8b459ed04726.

   BACK TO NOTE REFERENCE 2

3. Martin Wolf, *Why Globalization Works* (London and New Haven: Yale University Press, 2004).

   BACK TO NOTE REFERENCE 3

4. Martin Wolf, *Fixing Global Finance* (Baltimore and London: Johns Hopkins University Press and Yale University Press, 2008 and 2010) and *The Shifts and the Shocks: What We've Learned—and Have Still to Learn—from the Financial Crisis* (London and New York: Penguin, 2014 and 2015).

   BACK TO NOTE REFERENCE 4

5. See Sergei Guriev and Daniel Treisman, *Spin Dictators: The Changing Face of Tyranny in the 21st Century* (Princeton, NJ, and Oxford: Princeton University Press, 2022).

   BACK TO NOTE REFERENCE 5

6. See Masha Gessen, *Surviving Autocracy* (London: Granta, 2020).

   BACK TO NOTE REFERENCE 6

7. See Anne Applebaum, *Twilight of Democracy: The Seductive Lure of Authoritarianism* (London: Allen Lane, 2020).

   BACK TO NOTE REFERENCE 7

8. Edmund Burke, "Reflections on the Revolution in France," 1790, in *The Works of the Right Honorable Edmund Burke*, vol. 3 (London, 1899), 359, https://www.bartleby.com/73/1715.html.

   BACK TO NOTE REFERENCE 8

9. New World Encyclopedia, “Golden Mean (Philosophy),” https://www.newworldencyclopedia.org/.

   BACK TO NOTE REFERENCE 9

10. See Friedrich A. Hayek, *The Road to Serfdom* (London: Routledge, 1944), and Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon Press, 1957; first published 1944).

    BACK TO NOTE REFERENCE 10

Chapter One: The Fire This Time

1. The title of this chapter is in homage to *The Fire Next Time*, by James Baldwin, published in 1963.

   BACK TO NOTE REFERENCE 1

2. Francis Fukuyama, "The End of History?" *National Interest* 16 (Summer 1989): 3–18, https://www.jstor.org/stable/24027184.

   BACK TO NOTE REFERENCE 2

3. On the nature of Polish populism, in particular, see an excellent article by Slawomir Sierakowski, director of the Institute for Advanced Study in Warsaw: "The Five Lessons of Populist Rule," January 2, 2017, *Project Syndicate*, https://www.project-syndicate.org/commentary/lesson-of-populist-rule-in-poland-by-slawomir-sierakowski-2017-01.

   BACK TO NOTE REFERENCE 3

4. On Trump's admiration for strongmen, see Domenico Montanaro, "6 Strongmen Trump Has Praised—and the Conflicts It Presents," May 2, 2017, http://www.npr.org/2017/05/02/526520042/6-strongmen-trumps-praised-and-the-conflicts-it-presents. On his view of the Western alliance, see Gideon Rachman, "Atlantic Era under Threat with Donald Trump in White House," *Financial Times*, January 19, 2017, https://www.ft.com/content/73cc16e8-de36-11e6-86ac-f253db7791c6. On his support for trade protection, see "The Inaugural Address," January 20, 2017, https://trumpwhitehouse.archives.gov/briefings-statements/the-inaugural-address. On his day-to-day interventionism, see Greg Robb, "Nobel Prize Winner Likens Trump 'Bullying' of Companies to Fascist Italy, Germany," MarketWatch, January 6, 2017, http://www.marketwatch.com/story/nobel-prize-winner-likens-trump-bullying-of-companies-to-fascist-italy-germany-2017-01-06?mg=prod/accounts-mw, which cites remarks by Edmund (Ned) Phelps, Nobel laureate in economics.

   BACK TO NOTE REFERENCE 4

5. From somewhat different starting points, books by Barry Eichengreen and Robert Kuttner agree that economic forces have played a significant role in the erosion of domestic support for the Western political and economic systems. See Eichengreen, *The Populist Temptation: Economic Grievance and Political Reaction in the Modern Era* (New York: Oxford University Press, 2018), and Kuttner, *Can Democracy Survive Global Capitalism?* (New York: W. W. Norton, 2018). John B. Judis, *The Populist Explosion: How the Great Recession Transformed American and European Politics* (New York: Columbia Global Reports, 2016), makes the point especially well.

   BACK TO NOTE REFERENCE 5

6. This idea is hardly novel. Among many other discussions, the works of the German sociologist Wolfgang Streeck stand out. See *Buying Time: The Delayed Crisis of Democratic Capitalism*, trans. Patrick Camiller (London and New York: Verso, 2013), and *How Will Capitalism End?*

Essays on a Failing System (London and New York: Verso, 2016). See also Timothy Besley, "Is Cohesive Capitalism under Threat?" in Paul Collier, Diane Coyle, Colin Mayer, and Martin Wolf, eds. "Capitalism: What Has Gone Wrong, What Needs to Change, and How It Can Be Fixed," *Oxford Review of Economic Policy* 37, no. 4 (Winter 2021): 720–33. Besley's term "cohesive capitalism" seems to be quite close to my term "democratic capitalism." See also Besley and Torsten Persson, *Pillars of Prosperity: The Political Economics of Development Clusters* (Princeton, NJ: Princeton University Press, 2011).

BACK TO NOTE REFERENCE 6

7. When writing about the nineteenth century, one can either say that there were no democracies or —given the need to distinguish, say, the late-nineteenth-century UK from czarist Russia—one can talk of a country being a form of "democracy" if there were elections on a wide, albeit limited, franchise, particularly one that continued to exclude women.

BACK TO NOTE REFERENCE 7

8. See "The Universal Value," in Larry Diamond, *The Spirit of Democracy: The Struggle to Build Free Societies throughout the World* (New York: Henry Holt, 2009), chapter 1.

BACK TO NOTE REFERENCE 8

9. John Stuart Mill, *Considerations on Representative Government*, 1861, Project Gutenberg, https://www.gutenberg.org/files/5669/5669-h/5669-h.htm.

BACK TO NOTE REFERENCE 9

10. Isaiah Berlin, "Two Concepts of Liberty" in *Four Essays on Liberty* (Oxford: Oxford University Press, 1969), 118–72.

BACK TO NOTE REFERENCE 10

11. See William A. Galston, *Anti-Pluralism: The Populist Threat to Liberal Democracy* (London and New Haven: Yale University Press, 2018).

BACK TO NOTE REFERENCE 11

12. On illiberal democracy, see Fareed Zakaria, *The Future of Freedom: Illiberal Democracy at Home and Abroad* (London and New York: W. W. Norton, 2007).

BACK TO NOTE REFERENCE 12

13. I discussed globalization at length in *Why Globalization Works* (London and New Haven, CT: Yale University Press, 2004).

BACK TO NOTE REFERENCE 13

14. Tom Bingham, *The Rule of Law* (London: Penguin, 2011), 8.

BACK TO NOTE REFERENCE 14

15. Martin Wolf, *The Shifts and the Shocks: What We've Learned—and Have Still to Learn—from the Financial Crisis* (London and New York: Penguin, 2014), "Conclusion."

BACK TO NOTE REFERENCE 15

16. Ibid., 352–53.

BACK TO NOTE REFERENCE 16

Chapter Two: Symbiotic Twins: Politics and Economics in Human History

1. Aristotle, *Politics*, trans. T. A. Sinclair, revised and re-presented by Trevor J. Saunders (London: Penguin Classics, 1981), Book I, 13.

   BACK TO NOTE REFERENCE 1

2. See Eric D. Beinhocker, *The Origin of Wealth: The Radical Remaking of Economics and What It Means for Business and Society* (Cambridge, MA: Harvard University Press, 2006), 8–9.

   BACK TO NOTE REFERENCE 2

3. "Energy capture" is a direct measure of the ability of a society to exploit energy sources. By "western," Professor Morris refers to western Eurasia, North Africa, and the Americas. By "eastern," he refers to eastern Eurasia. The logic of this distinction is that the former not only interacted with one another very closely over the millennia, but descended economically from shared cultural ancestors who lived in Mesopotamia. Similarly, the latter also interacted with one another closely, but in this case descended economically from shared cultural ancestors who lived between the Yellow and Yangzi rivers. See Ian Morris, "Social Development," Stanford University, October 2010, http://ianmorris.org/docs/social-development.pdf, 12.

   BACK TO NOTE REFERENCE 3

4. Maya Wei-Haas, "Controversial New Study Pinpoints Where All Modern Humans Arose," *National Geographic*, October 28, 2019, https://www.nationalgeographic.com/science/article/controversial-study-pinpoints-birthplace-modern-humans.

   BACK TO NOTE REFERENCE 4

5. *World Atlas*, "List of Primates by Population," https://www.worldatlas.com/articles/list-of-primates-by-population.html.

   BACK TO NOTE REFERENCE 5

6. See Martin Wolf, "Humanity Is a Cuckoo in the Planetary Nest," *Financial Tim*es, March 9, 2021, https://www.ft.com/content/a3285adf-6c5f-4ce4-b055-e85f39ff2988. See also Partha Dasgupta, *The Economics of Biodiversity: The Dasgupta Review—Full Report*, April 23, 2021, https://www.gov.uk/government/publications/final-report-the-economics-of-biodiversity-the-dasgupta-review.

   BACK TO NOTE REFERENCE 6

7. See Richard Leakey and Roger Lewin, *The Sixth Extinction: Biodiversity and Its Survival* (London: Weidenfeld and Nicolson, 1996).

   BACK TO NOTE REFERENCE 7

8. Although the human population has risen substantially, so has real output per head. It follows that the proposition of Thomas Malthus that population increase would always outstrip output growth,

bringing incomes per head back to subsistence, has proved definitively false, on two dimensions: First, it has been possible to generate exponential increases in real output over two centuries; and, second, it has been possible to curb population growth via deliberate control over fertility. See Malthus, *An Essay on the Principle of Population*, 1798, http://www.esp.org/books/malthus/population/malthus.pdf.

BACK TO NOTE REFERENCE 8

9. Angus Maddison, http://www.ggdc.net/maddison/oriindex.htm.

BACK TO NOTE REFERENCE 9

10. Conference Board, "Total Economy Database," May 2017, https://www.conference-board.org/data/economydatabase/

BACK TO NOTE REFERENCE 10

11. Yuval Harari, *Sapiens: A Brief History of Humankind* (London: Vintage Books, 2014).

BACK TO NOTE REFERENCE 11

12. On the emergence of tribes, Francis Fukuyama, *Political Order and Political Decay: From the Industrial Revolution to the Globalization of Democracy* (London: Profile Books, 2014).

BACK TO NOTE REFERENCE 12

13. Benedict Anderson, *Imagined Communities: Reflections on the Origin and Spread of Nationalism* (London and New York: Verso, 1983).

BACK TO NOTE REFERENCE 13

14. The late Mancur Olsen called these rulers "stationary bandits," arguing that they at least had some interest in increasing prosperity of the state, because that would also make the ruler richer and more powerful. See *Power and Prosperity: Outgrowing Communist and Capitalist Dictatorships* (New York: Basic Books, 2000).

BACK TO NOTE REFERENCE 14

15. S. E. Finer, *The History of Government: Ancient Monarchies and Empires*, vol. 1, *Ancient Monarchies and Empires* (Oxford: Oxford University Press, 1997 and 1999), "The Conceptual Prologue," 196.

BACK TO NOTE REFERENCE 15

16. The great German sociologist Max Weber invented this nomenclature. See Francis Fukuyama, *Political Order and Political Decay: From the Industrial Revolution to the Globalization of Democracy* (London: Profile Books, 2014).

BACK TO NOTE REFERENCE 16

17. Walter Scheidel, *The Great Leveler: Violence and the History of Inequality from the Stone Age to the Twenty-first Century* (Princeton, NJ, and Oxford: Princeton University Press, 2017), 43.

BACK TO NOTE REFERENCE 17

18. Branko Milanovic, Peter H. Lindert, and Jeffrey G. Williamson, "Measuring Ancient Inequality," National Bureau of Economic Research Working Paper 13550, October 2007, especially figure 2, http://www.nber.org/papers/w13550.pdf.

BACK TO NOTE REFERENCE 18

19. On the importance of the failure to re-create anything similar to the Roman Empire in western Europe, see Walter Scheidel, *Escape from Rome: The Failure of Empire and the Road to Prosperity* (Princeton, NJ: Princeton University Press, 2019).

BACK TO NOTE REFERENCE 19

20. UK Parliament, "Simon de Montfort's Parliament," https://www.parliament.uk/about/living-heritage/evolutionofparliament/originsofparliament/birthofparliament/overview/simondemontfort/

BACK TO NOTE REFERENCE 20

21. See, on creative destruction in the market economy, Philippe Aghion, Céline Antonin, and Simon Bunel, *The Power of Creative Destruction: Economic Upheaval and the Wealth of Nations*, trans. Jodie Cohen-Tanugi (Cambridge, MA: Belknap Press of Harvard University Press, 2021). See also Martin Wolf, "How 'Creative Destruction' Drives Innovation and Prosperity," *Financial Times*, June11, 2021, https://www.ft.com/content/3a0aa7cb-d10e-4352-b845-a50df70272b8.

BACK TO NOTE REFERENCE 21

22. See Jan De Vries, "The Industrial Revolution and the Industrious Revolution," *Journal of Economic History* 54, no. 2 (1994): 249–70, http://www.jstor.org/stable/2123912.

BACK TO NOTE REFERENCE 22

23. Karl Polanyi made this last point in his classic book *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon Press, 1957; first published 1944).

BACK TO NOTE REFERENCE 23

24. Kenneth Pomeranz ascribes the success of western Europe and the failure of China to launch the industrial revolution to environmental factors, particularly the location of coal in western Europe and its easy access to resources from the New World. See Pomeranz, *The Great Divergence: China, Europe, and the Making of the Modern World Economy* (Princeton, NJ: Princeton University Press, 2000).

BACK TO NOTE REFERENCE 24

25. Daron Acemoglu and James A. Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (New York: Crown Business, 2012), argue that institutions explain development.

BACK TO NOTE REFERENCE 25

26. See Deirdre McCloskey, *Bourgeois Equality: How Ideas, Not Capital or Institutions, Enriched the World* (Chicago: University of Chicago Press, 2016). Joel Mokyr, *The Enlightened Economy: An Economic History of Britain 1700–1850* (New Haven, CT, and London: Yale University Press, 2009), also provides a superb account of how Enlightenment ideas animated economic progress.

BACK TO NOTE REFERENCE 26

27. Robert C. Allen, "The British Industrial Revolution in Global Perspective: How Commerce Created the Industrial Revolution and Modern Economic Growth," 2006, https://www.nuffield.ox.ac.uk/media/2162/allen-industrev-global.pdf.

BACK TO NOTE REFERENCE 27

28. The classic study of Indian industrial and trade policies after independence was Jagdish N. Bhagwati and Padma Desai, *India: Planning for Industrialization* (Oxford: Oxford University Press, for the Development Center of the Organization for Economic Co-operation and Development, 1970).

BACK TO NOTE REFERENCE 28

29. Adrian Wooldridge points to the revolutionary consequences of the meritocratic idea in *The Aristocracy of Talent: How Meritocracy Made the Modern World* (London: Allen Lane, 2021).

BACK TO NOTE REFERENCE 29

30. Larry Siedentop, *Inventing the Individual: The Origins of Western Liberalism* (London: Allen Lane, 2014), 349. Dierdre McCloskey of the University of Illinois makes much the same argument, this time with a focus on the economy, in *Bourgeois Equality*.

BACK TO NOTE REFERENCE 30

31. It may be argued that contemporary China is seeking to operate a form of market economy, without equal political rights. It would be accurate to declare that nobody has political rights in China. This, too, is a form of political equality. Only the communist party has rights. People merely have obligations, from the highest to the lowest. Even Xi Jinping has no rights, as an individual. He has rights only as chairman of the party. This is why some argue that the party's sovereignty has replaced that of the emperor. Whether this is a sustainable political form is a great question of our era—to be explored further in later chapters.

BACK TO NOTE REFERENCE 31

32. In republics that continued to have ascribed status, other ways of constraining the political power of the upper classes have been employed, such as the "tribunes of the people" of the ancient Roman Republic. See "Tribune (Roman Official)," *Britannica*, https://www.britannica.com/topic/tribune-Roman-official.

BACK TO NOTE REFERENCE 32

33. Benjamin Friedman, *The Moral Consequences of Economic Growth* (New York: First Vintage Books Edition, 2006), 327.

BACK TO NOTE REFERENCE 33

34. On the role of a strong middle class in creating democracy, see among many others the classic work by J. Barrington Moore, *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World* (Boston: Beacon Press, 1966). It is important to distinguish its role in the nineteenth century from its subsequent role. Once representative democracies had been created, they could also be imitated.

BACK TO NOTE REFERENCE 34

35. Carnegie Corporation of New York, "Voting Rights: A Short History," https://www.carnegie.org/our-work/article/voting-rights-timeline/.

BACK TO NOTE REFERENCE 35

36. In *The Anxious Triumph: A Global History of Capitalism 1860–1914* (London and New York: Allen Lane, 2019), David Sassoon argues that the global spread of capitalism and the ceaseless change it brought about demanded and created a political response, including linked demands for democratic political rights and radical reforms.

BACK TO NOTE REFERENCE 36

37. Robert Lowe, Lord Sherbrooke 1811–1892, British Liberal politician, in *Oxford Essential Quotations*, 5th ed., https://www.oxfordreference.com/view/10.1093/acref/9780191843730.001.0001/q-oro-ed5-00006834.

BACK TO NOTE REFERENCE 37

38. Daniel Ziblatt, *Conservative Parties and the Birth of Democracy* (Cambridge: Cambridge University Press, 2017), 363.

BACK TO NOTE REFERENCE 38

39. This is a theme of Olsen, *Power and Prosperity*.

BACK TO NOTE REFERENCE 39

40. Albert O. Hirschman made this distinction in his classic *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States* (Cambridge, MA: Harvard University Press, 1972).

BACK TO NOTE REFERENCE 40

41. See Daron Acemoglu and James A. Robinson, *The Narrow Corridor: States, Societies, and the Fate of Liberty* (London and New York: Viking and Penguin Press, 2019).

BACK TO NOTE REFERENCE 41

42. Martin Wolf, "The Narrow Corridor—the Fine Line between Despotism and Anarchy," *Financial Times*, September 26, 2019, https://www.ft.com/content/d8eaaaba-deee-11e9-b112-9624ec9edc59.

    BACK TO NOTE REFERENCE 42

43. Anders Aslund, *Russia's Crony Capitalism: The Path from Market Economy to Kleptocracy* (New Haven, CT: Yale University Press, 2019). See also Catherine Belton, *Putin's People* (London: William Collins, 2020).

    BACK TO NOTE REFERENCE 43

44. See "UK treaties," https://www.gov.uk/guidance/uk-treaties.

    BACK TO NOTE REFERENCE 44

45. Plato, *The Republic*, trans. Benjamin Jowett, http://classics.mit.edu/Plato/republic.html. Karl Popper attacked Plato's political views as totalitarian in *The Open Society and Its Enemies*, vol. 1, *The Age of Plato* (London: Routledge, 1945).

    BACK TO NOTE REFERENCE 45

46. Martin Wolf, "Donald Trump Embodies How Great Republics Meet Their End," *Financial Times*, March 1, 2016, https://www.ft.com/content/743d91b8-df8d-11e5-b67f-a61732c1d025; Wolf, "A Republican Tax Plan Built for Plutocrats," *Financial Times*, November 21, 2017, https://www.ft.com/content/e494f47e-ce1a-11e7-9dbb-291a884dd8c6; and Wolf, "How We Lost America to Greed and Envy," *Financial Times*, July 17, 2018, https://www.ft.com/content/3aea8668-88e2-11e8-bf9e-8771d5404543.

    BACK TO NOTE REFERENCE 46

47. Plato, *Republic*, Book VIII, http://classics.mit.edu/Plato/republic.9.viii.html.

    BACK TO NOTE REFERENCE 47

48. That was the argument of John O'Sullivan, the conservative blogger, in an influential article on Trump published in May 2016. See "Democracies End When They Become Too Democratic," *New York*, May 1, 2016, http://nymag.com/daily/intelligencer/2016/04/america-tyranny-donald-trump.html.

    BACK TO NOTE REFERENCE 48

49. In a compelling book, *Disordered Minds: How Dangerous Personalities Are Destroying Democracy* (Hampshire: Zero Books, 2018), the Irish writer Ian Hughes suggests such men tend to be narcissists or psychopaths. He argues that democracy is a vital defense against such people. But Plato rightly suggests that the defense may fail. See also Martin Wolf, "The Age of the Elected Despot Is Here," *Financial Times*, April 23, 2019, https://www.ft.com/content/9198533e-6521-11e9-a79d-04f350474d62.

    BACK TO NOTE REFERENCE 49

50. Samuel E. Finer, *The Man on Horseback: The Role of the Military in Politics* (Abingdon and New York: Routledge, 1962 and 2017).

BACK TO NOTE REFERENCE 50

51. Martin Wolf, "A New Gilded Age," *Financial Times*, April 25, 2006, https://www.ft.com/content/76def9b0-d481-11da-a357-0000779e2340. See also Wolf, "How We Lost America to Greed and Envy," *Financial Times*, July 17, 2018, https://www.ft.com/content/3aea8668-88e2-11e8-bf9e-8771d5404543.

BACK TO NOTE REFERENCE 51

52. Aristotle, *Politics*, trans. T. A. Sinclair, revised and re-presented by Trevor J. Saunders (London: Penguin Classics, 1981), especially Books IV and V.

BACK TO NOTE REFERENCE 52

53. Julian Baggini, "Aristotle's Thinking on Democracy Has More Relevance Than Ever," *Prospect*, May 23, 2018, https://www.prospectmagazine.co.uk/philosophy/aristotles-thinking-on-democracy-has-more-relevance-than-ever.

BACK TO NOTE REFERENCE 53

Chapter Three: The Evolution of Democratic Capitalism

1. Thucydides, *History of the Peloponnesian War*; epigraph text from "Thucydides, Pericles' Funeral Oration," http://hrlibrary.umn.edu/education/thucydides.html.

   BACK TO NOTE REFERENCE 1

2. For an interesting history of democracy, see David Stasavage, *The Decline and Rise of Democracy: A Global History from Antiquity to Today* (Princeton, NJ, and Oxford: Princeton University Press, 2020).

   BACK TO NOTE REFERENCE 2

3. See Adam Przeworski, "Conquered or Granted? A History of Suffrage Extensions," *British Journal of Political Science* 39, no. 2 (April 2009): 291–321, and "Universal Suffrage," https://en.wikipedia.org/wiki/Universal_suffrage.

   BACK TO NOTE REFERENCE 3

4. See Larry Diamond, "Facing Up to the Democratic Recession," *Journal of Democracy* 26, no. 1 (January 2015): 143.

   BACK TO NOTE REFERENCE 4

5. "Global Trends in Governance, 1800–2018," Center for Systemic Peace, http://www.systemicpeace.org/polityproject.html.

   BACK TO NOTE REFERENCE 5

6. See "U.S. Voting Rights Timeline," https://a.s.kqed.net/pdf/education/digitalmedia/us-voting-rights-timeline.pdf.

   BACK TO NOTE REFERENCE 6

7. See Diamond, "Facing Up," 144.

   BACK TO NOTE REFERENCE 7

8. Ibid.

   BACK TO NOTE REFERENCE 8

9. Freedom House, "Democracy Under Siege," *Freedom in the World 2021*, 1, https://freedomhouse.org/sites/default/files/2021-02/FIW2021_World_02252021_FINAL-web-upload.pdf.

   BACK TO NOTE REFERENCE 9

10. Martin Wolf, "The American Republic's Near-Death Experience," *Financial Times*, January 19, 2021, https://www.ft.com/content/c085e962-f27c-4c34-a0f1-5cf2bd813fbc; and "The Struggle

for the Survival of US Democracy," *Financial Times*, May 11, 2021, https://www.ft.com/content/aebe3b15-0d55-4d99-b415-cd7b109e64f8.

BACK TO NOTE REFERENCE 10

11. Roberto Stefan Foa and Yascha Mounk, "The Danger of Deconsolidation: The Democratic Disconnect," *Journal of Democracy* 27, no. 3 (July 2016): 6.

BACK TO NOTE REFERENCE 11

12. Ibid., 8.

BACK TO NOTE REFERENCE 12

13. R. S. Foa, A. Klassen, M. Slade, A. Rand, and R. Collins, "The Global Satisfaction with Democracy Report 2020" (Cambridge, UK: Centre for the Future of Democracy, 2020), 12, https://www.cam.ac.uk/system/files/report2020_003.pdf.

BACK TO NOTE REFERENCE 13

14. Larry Diamond, *Ill Winds: Saving Democracy from Russian Rage, Chinese Ambition, and American Complacency* (New York: Penguin Press, 2019), 4.

BACK TO NOTE REFERENCE 14

15. This section draws from Martin Wolf, *Why Globalization Works* (London and New Haven, CT: Yale University Press, 2004), chapters 7 and 8.

BACK TO NOTE REFERENCE 15

16. See David Sassoon, *The Anxious Triumph: A Global History of Capitalism 1860–1914* (London and New York: Allen Lane, 2019).

BACK TO NOTE REFERENCE 16

17. On the evolution of the company, see John Micklethwait and Adrian Wooldridge, *The Company: A Short History of a Revolutionary Idea* (London: Phoenix, 2003), and Colin Mayer, *Prosperity: Better Business Makes the Greater Good* (Oxford: Oxford University Press, 2018), part 2.

BACK TO NOTE REFERENCE 17

18. See FRED Economic Data, table 1.14, https://fred.stlouisfed.org/release/tables?rid=53&eid=17676&od=2021-01-01#, and Gross Domestic Product, https://fred.stlouisfed.org/series/GDP.

BACK TO NOTE REFERENCE 18

19. This conception goes back to a classic article by the late Ronald Coase. See "The Nature of the Firm," *Economica* 4, no. 16 (1937): 386–405, https://onlinelibrary.wiley.com/doi/full/10.1111/j.1468-0335.1937.tb00002.x.

BACK TO NOTE REFERENCE 19

20. The seminal figure on the role of management in the modern corporation was Peter Drucker.

    BACK TO NOTE REFERENCE 20

21. See William J. Baumol, *The Free-Market Innovation Machine: Analyzing the Growth Miracle of Capitalism* (Princeton, NJ: Princeton University Press, 2004).

    BACK TO NOTE REFERENCE 21

22. "Monopsony" and "oligopsony" refer to the role of businesses as buyers in the marketplace.

    BACK TO NOTE REFERENCE 22

23. See Thom Hartmann, *Unequal Protection: How Corporations Became "People"—and How You Can Fight Back* (San Francisco: Berrett-Koehler, 2010); and Colin Mayer, *Firm Commitment: Why the Corporation Is Failing Us and How to Restore Trust in It* (Oxford: Oxford University Press, 2013).

    BACK TO NOTE REFERENCE 23

24. See Emmanuel Saez and Gabriel Zucman, *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay* (New York: W. W. Norton, 2019).

    BACK TO NOTE REFERENCE 24

25. See Luigi Zingales, Jana Kasperkevic, and Asher Schechter, *Milton Friedman 50 Years Later, ProMarket,* 2020. Stigler Center for the Study of the Economy and the State.

    BACK TO NOTE REFERENCE 25

26. Luca Pacioli, known as the "Father of Accounting," lived between 1447 and 1517 in Italy. On the creation of chartered accountants in the nineteenth century, see Richard Brown, *A History of Accounting and Accountants* (London: Routledge, 1905).

    BACK TO NOTE REFERENCE 26

27. James K. Galbraith wrote the seminal work on countervailing power in the early 1950s. See Galbraith, *American Capitalism: The Concept of Countervailing Power* (New York: Houghton Mifflin, 1952), especially chapter 9.

    BACK TO NOTE REFERENCE 27

28. John Kenneth Galbraith introduced the concept of countervailing power in his classic book *American Capitalism*.

    BACK TO NOTE REFERENCE 28

29. See Alec Nove, *An Economic History of the USSR, 1917–1991* (London: Penguin Economics, 1993).

    BACK TO NOTE REFERENCE 29

30. See, for an excellent discussion of the conference that created the postwar global economic order, Benn Steil, *The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the Making of a New World Order* (Princeton, NJ: Princeton University Press, 2013).

    BACK TO NOTE REFERENCE 30

31. Saez and Zucman, *Triumph and Injustice*, xvi.

    BACK TO NOTE REFERENCE 31

32. "History of Taxation in the United Kingdom," https://en.wikipedia.org/wiki/History_of_taxation_in_the_United_Kingdom.

    BACK TO NOTE REFERENCE 32

33. On the correct use and pervasive abuse of the phrase "Washington Consensus," which he himself invented in 1989, see the late John Williamson's "The Washington Consensus as Policy Prescription for Development," January 2004. Williamson listed a set of ten modest reforms as reflecting that consensus. He did not mean what is now frequently called the "neoliberal" agenda. But the belief that "Washington Consensus" and "neoliberalism" are virtually synonyms has become almost universal.

    BACK TO NOTE REFERENCE 33

34. See Business Roundtable, "Statement on the Purpose of a Corporation," August 19, 2019, https://opportunity.businessroundtable.org/ourcommitment/.

    BACK TO NOTE REFERENCE 34

35. Karl Marx and Frederick Engels, *The Communist Manifesto*, 1848, 16.

    BACK TO NOTE REFERENCE 35

36. Ronald Findlay and Kevin H. O'Rourke, "Commodity Market Integration, 1500–2000," from Michael D. Bordo, Alan M. Taylor, and Jeffrey G. Williamson, eds., *Globalization in Historical Perspective* (Chicago: University of Chicago Press, 2003), 14, http://www.nber.org/chapters/c9585.pdf.

    BACK TO NOTE REFERENCE 36

37. For a brief discussion, see Joshua J. Mark, "Silk Road," World History Encyclopedia, http://www.ancient.eu/Silk_Road/. For a remarkable historical study, see Peter Frankopan, *The Silk Roads: A New History of the World* (London: Bloomsbury, 2015), especially chapter 1.

    BACK TO NOTE REFERENCE 37

38. By far the best account of the role of trade in the world economy over the last millennium is in Ronald Findlay and Kevin H. O'Rourke, *Power and Plenty: Trade, War, and the World Economy in the Second Millennium* (Princeton, NJ: Princeton University Press, 2009).

    BACK TO NOTE REFERENCE 38

39. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, 5th ed. (London: Methuen, 1904; first published 1776), http://www.econlib.org/library/Smith/smWN.html.

BACK TO NOTE REFERENCE 39

40. Ronald Findlay and Kevin O'Rourke, "Commodity Market Integration, 1500–2000," 25, https://www.tcd.ie/Economics/TEP/2001_papers/TEPNo13KO21.pdf.

BACK TO NOTE REFERENCE 40

41. See "Trade and Globalization," Our World in Data, https://ourworldindata.org/trade-and-globalization. Trade ratios are computed using GDP at purchasing power parity. The long-run data this source uses are reported in Antoni Estevadeordal, Brian Frantz, and Alan M. Taylor, "The Rise and Fall of World Trade, 1870–1939," National Bureau of Economic Research Paper No. 9318, November 2002, figure 1, http://www.nber.org/papers/w9318. The data for 1870 to 1949 are from Mariko J. Klasing and Petros Milionis, "Quantifying the Evolution of World Trade, 1870–1949," March 29, 2014. The data for 1950 to 2011 are from Penn World Tables 8.1, https://rdrr.io/cran/pwt8/man/pwt8.1.html; https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2087678.

BACK TO NOTE REFERENCE 41

42. Prometheus was the mythical titan who brought fire to humanity, thus earning the anger of Zeus, king of the Greek gods. Thus, the growth brought about by the taming of fire can rightly be termed "Promethean." See Deepak Lal, *Unintended Consequences: The Impact of Endowments, Culture, and Politics on Long-Run Economic Performance* (Cambridge, MA, and London: MIT Press, 2001).

BACK TO NOTE REFERENCE 42

43. Marx and Engels, *The Communist Manifesto*, 16.

BACK TO NOTE REFERENCE 43

44. On the history of Britain's role as a promoter of free trade, see Frank Trentmann, *Free Trade Nation: Commerce, Consumption, and Civil Society in Modern Britain* (Oxford: Oxford University Press, 2009).

BACK TO NOTE REFERENCE 44

45. Findlay and O'Rourke, "Commodity Market Integration, 1500–2000," 40, https://www.tcd.ie/Economics/TEP/2001_papers/TEPNo13KO21.pdf.

BACK TO NOTE REFERENCE 45

46. Ibid., 42.

BACK TO NOTE REFERENCE 46

47. Ibid.

BACK TO NOTE REFERENCE 47

48. This is the title of an important book by Kenneth Pomeranz: *The Great Divergence: China, Europe, and the Making of the Modern World Economy* (Princeton, NJ: Princeton University Press, 2000).

BACK TO NOTE REFERENCE 48

49. Karl Polanyi famously recognized this "double movement," by which he meant the movement toward laissez-faire followed by the reaction against it, in the form of regulation. He argued that the latter was spontaneous and nonideological, while the former was deliberate and intensely ideological. There is some truth in this. But the anti-liberal reaction clearly had important (albeit diverse) ideological elements, which became increasingly important as the nineteenth century turned into the twentieth. See Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon Press, 1957), 141–43.

BACK TO NOTE REFERENCE 49

50. On bilateralism, see Douglas Irwin, "Multilateral and Bilateral Trade Policies in the World Trading System: An Historical Perspective," in *New Dimensions in Regional Integration*, ed. J. de Melo and A. Panagariya (Cambridge: Cambridge University Press, 1993), 90–127.

BACK TO NOTE REFERENCE 50

51. Tom Friedman of *The New York Times* was an influential protagonist of globalization. See Thomas L. Friedman, *The World Is Flat: The Globalized World in the Twenty-first Century* (London and New York: Penguin, 2005). See also Martin Wolf, *Why Globalization Works* (London and New Haven, CT: Yale University Press, 2004).

BACK TO NOTE REFERENCE 51

52. Martin Wolf, "The US-China Conflict Challenges the World," *Financial Times*, May 21, 2019, https://www.ft.com/content/870c895c-7b11-11e9-81d2-f785092ab560.

BACK TO NOTE REFERENCE 52

53. See World Bank, "World Development Indicators," http://data.worldbank.org/data-catalog/world-development-indicators.

BACK TO NOTE REFERENCE 53

54. See International Monetary Fund, "Global Trade: What's Behind the Slowdown," *World Economic Outlook*, October 2016, chapter 2, 63. See also Gary Clyde Hufbauer and Euijin Jung, "Why Has Trade Stopped Growing? Not Much Liberalizaton and Lots of Micro-protection," Peterson Institute for International Economics, March 2016, https://piie.com/blogs/trade-investment-policy-watch/why-has-trade-stopped-growing-not-much-liberalization-and-lots.

BACK TO NOTE REFERENCE 54

55. IMF, "Global Trade: What's Behind the Slowdown," figure 2.1, 64, and IMF, *World Economic Outlook* database, October 2019.

BACK TO NOTE REFERENCE 55

56. See Martin Wolf, "The Tide of Globalization Is Turning," *Financial Times*, September 6, 2016, https://www.ft.com/content/87bb0eda-7364-11e6-bf48-b372cdb1043a; and "Sluggish Global Trade Growth Is Here to Stay," *Financial Times*, October 25, 2016, https://www.ft.com/content/4efcd174-99d3-11e6-b8c6-568a43813464.

BACK TO NOTE REFERENCE 56

57. On the "Doha Development Round," launched in 2001, see World Trade Organization, "Doha Development Agenda," https://www.wto.org/english/thewto_e/whatis_e/tif_e/doha1_e.htm. On the TPP, an agreement among Australia, Brunei Darussalam, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, and the US, negotiated under President Barack Obama and repudiated by Donald Trump on January 23, 2017, see James McBride, Andrew Chatzky, and Anshu Siripurapu, "What Next for the Trans-Pacific Partnership (TPP)?" Council on Foreign Relations, September 20, 2021, https://www.cfr.org/backgrounder/what-trans-pacific-partnership-tpp. On TTIP, see "Making Trade Policy."

BACK TO NOTE REFERENCE 57

58. Donald Trump, "Inaugural Address," January 20, 2017.

BACK TO NOTE REFERENCE 58

59. Martin Wolf, "Donald Trump Creates Chaos with His Tariffs Trade War," *Financial Times*, July 10, 2018, https://www.ft.com/content/ba65ac98-8364-11e8-a29d-73e3d454535d. See also "21st Global Trade Alert Report: Will Awe Trump Rules?" (London, Center for Economic Policy Research, 2017), https://www.globaltradealert.org/.

BACK TO NOTE REFERENCE 59

60. Aime Williams, "Persistence of Donald Trump's China Tariffs Frustrates US Business," *Financial Times*, June 3, 2021, https://www.ft.com/content/fb775a22-eaa5-44b4-8643-16c3f40a5d02.

BACK TO NOTE REFERENCE 60

61. On the CPTPP, see Dominic Webb and Matt Ward, *The Comprehensive and Progressive Agreement for Trans-Pacific Partnership*, House of Commons Library, June 22, 2021, https://researchbriefings.files.parliament.uk/documents/CBP-9121/CBP-9121.pdf. The UK has applied to join the CPTPP.

BACK TO NOTE REFERENCE 61

62. On RCEP, see Robin Harding and John Reed, "Asia-Pacific Countries Sign One of the Largest Free Trade Deals in History," *Financial Times*, November 15, 2020, https://www.ft.com/content/2dff91bd-ceeb-4567-9f9f-c50b7876adce; and Robin Harding, Amy

Kazmin, and Christian Shepherd, "Asian Trade Deal Set to Be Signed after Years of Negotiations," *Financial Times*, November 11, 2020, https://www.ft.com/content/ddaa403a-099c-423c-a273-6a2ed6ef45f2.

BACK TO NOTE REFERENCE 62

63. Chris Giles, "Brexit Is an Example of Deglobalisation, Says Carney," *Financial Times*, September 18, 2017, https://www.ft.com/content/9b37cf6e-9c82-11e7-9a86-4d5a475ba4c5.

BACK TO NOTE REFERENCE 63

64. See Full Fact, "Everything You Might Want to Know about the UK's Trade with the EU," November 22, 2017, https://fullfact.org/europe/uk-eu-trade/.

BACK TO NOTE REFERENCE 64

65. Peter Nolan, *Is China Buying the World?* (Cambridge and Malden: Polity, 2012). Professor Nolan demonstrates the extraordinary domination of important global industries by a small number of predominantly western companies that he calls "systems integrators." See also Martin Wolf, "Why China Will Not Buy the World," *Financial Times*, July 9, 2013, https://www.ft.com/content/28d1a4a8-e7ba-11e2-babb-00144feabdc0.

BACK TO NOTE REFERENCE 65

66. Richard Baldwin, *The Great Convergence: Information Technology and the New Globalization* (Cambridge, MA: Belknap Press of Harvard University Press, 2016).

BACK TO NOTE REFERENCE 66

67. See Martin Wolf, "Donald Trump Faces the Reality of World Trade," *Financial Times*, November 22, 2016, https://www.ft.com/content/064d51b0-aff4-11e6-9c37-5787335499a0.

BACK TO NOTE REFERENCE 67

68. Baldwin, *The Great Convergence*.

BACK TO NOTE REFERENCE 68

69. Robert Kuttner stresses these political consequences of trade in an era of unprecedentedly mobile trade. See *Can Democracy Survive Global Capitalism?* (New York: W. W. Norton, 2018), especially chapter 8.

BACK TO NOTE REFERENCE 69

70. Data are from the IMF's *World Economic Database*, April 2021. Data for 2019, rather than 2020, are used in order to avoid the distortions created by COVID-19 in the latter year.

BACK TO NOTE REFERENCE 70

71. These data are from World Trade Organization, *World Trade Statistical Review 2020*, table A7, 83, https://www.wto.org/english/res_e/statis_e/wts2020_e/wts2020chapter06_e.pdf.

BACK TO NOTE REFERENCE 71

72. Daron Acemoglu, David Autor, David Dorn, Gordon H. Hanson, and Brendan Price, "Import Competition and the Great US Employment Sag of the 2000s," *Journal of Labor Economics* 34, no. 1 (part 2, January 2016): 141–98, http://www.journals.uchicago.edu/doi/pdfplus/10.1086/682384.

BACK TO NOTE REFERENCE 72

73. David H. Autor, David Dorn, and Gordon H. Hanson, "The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade," National Bureau of Economic Research Working Paper Number 21906, January 2016, http://www.nber.org/papers/w21906.

BACK TO NOTE REFERENCE 73

74. On the reversal of globalization, see Martin Wolf, "The Tide of Globalization Is Turning," *Financial Times*, September 6, 2016, https://www.ft.com/content/87bb0eda-7364-11e6-bf48-b372cdb1043a.

BACK TO NOTE REFERENCE 74

75. On the adoption of exchange controls by the UK during World War II, see "The U.K. Exchange Control: A Short History," *Bank of England Quarterly Bulletin*, 1967, Third Quarter, https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/1967/the-uk-exchange-control-a-short-history.pdf. See also Forrest Capie, *Capital Controls: A 'Cure' Worse Than the Problem?* (London, Institute of Economic Affairs, 2002), http://www.iea.org.uk/sites/default/files/publications/files/upldbook135pdf.pdf.

BACK TO NOTE REFERENCE 75

76. On the post–2007 financial crises, see Martin Wolf, *The Shifts and the Shocks: What We've Learned—and Have Still to Learn—from the Financial Crisis* (London and New York: Penguin, 2014 and 2015).

BACK TO NOTE REFERENCE 76

77. The data for the years before the Second World War come from Nicholas Crafts, *Globalization and Growth in the Twentieth Century*, IMF Working Paper WP/00/44 (Washington, DC, International Monetary Fund, 2000), https://www.imf.org/external/pubs/ft/wp/2000/wp0044.pdf. The data for the postwar era, up to 2000), come from Maurice Obstfeld and Alan M. Taylor, "Globalization and Capital Markets," in Michael D. Bordo, Alan M. Taylor, and Jeffrey G. Williamson, eds., *Globalization in Historical Perspective* (Chicago: University of Chicago Press, 2003), 143, figure 3.3. After 2000, the data come from McKinsey Global Institute, *The New Dynamics of Financial Globalization*, August 2017, 7, exhibit E4. See also Philip R. Lane and Gian M. Milesi-Ferretti, "The External Wealth of Nations Mark II, Revised and Extended Estimates of Foreign Assets and Liabilities 1970–2004," *Journal of International Economics* 73, no. 2 (2007): 223–50; and Stephen D. King, *Grave New World: The End of Globalization and the Return of History* (London and New Haven, CT: Yale University Press, 2017), 72.

BACK TO NOTE REFERENCE 77

78. Alan M. Taylor, “International Capital Mobility in History: The Saving-Investment Relationship,” National Bureau of Economic Research Working Paper Number 5743, September 1996, http://www.nber.org/papers/w5743.pdf.

BACK TO NOTE REFERENCE 78

79. Michael Bordo, Barry Eichengreen, and Jongwoo Kim, “Was There Really an Earlier Period of International Financial Integration Comparable to Today’s?” National Bureau of Economic Research Working Paper 6738, September 1998, 4. On British net assets, see Forrest Capie, *Capital Controls: A “Cure” Worse Than the Problem?* (London: Institute of Economic Affairs, 2002), 33.

BACK TO NOTE REFERENCE 79

80. Data are from the IMF, *World Economic Database*, April 2018.

BACK TO NOTE REFERENCE 80

81. The way in which the policies of Asian emerging economies shifted the global pattern of current account imbalances, the role of self-insurance and the impact that had on the financial system were the focus of the analysis in Martin Wolf, *Fixing Global Finance* (Baltimore and London: Johns Hopkins University Press and Yale University Press, 2008 and 2010), and Martin Wolf, *The Shifts and the Shocks: What We’ve Learned—and Have Still to Learn—from the Financial Crisis* (London and New York: Penguin, 2014 and 2015). On the development of global imbalances, see also Pierre-Olivier Gourinchas and Hélène Rey, “From World Banker to World Venture Capitalist: U.S. External Adjustment and the Exorbitant Privilege,” in Richard H. Clarida, ed., *Current Account Imbalances: Sustainability and Adjustment* (Chicago: University of Chicago Press, 2007), 11–66, https://www.nber.org/chapters/c0121.pdf.

BACK TO NOTE REFERENCE 81

82. Martin Wolf, “Dealing with America’s Trade Follies,” *Financial Times*, April 18, 2017, https://www.ft.com/content/fca7e9a4-2366-11e7-a34a-538b4cb30025.

BACK TO NOTE REFERENCE 82

83. IMF, *World Economic Database*, April 2018.

BACK TO NOTE REFERENCE 83

84. D’Vera Cohn, “How U.S. Immigration Laws and Rules Have Changed throughout History,” Pew Research Center, September 30, 2015, https://www.pewresearch.org/fact-tank/2015/09/30/how-u-s-immigration-laws-and-rules-have-changed-through-history/.

BACK TO NOTE REFERENCE 84

85. On the history of migration regimes, see Jeffrey G. Williamson, “The Evolution of Global Labor Markets Since 1830: Background Evidence and Hypotheses,” *Explorations in Economic History*

32, no. 2 (April 1995): 141–96. On the economic impact of restrictions on migration, see Michael A. Clemens, "Economics and Emigration: Trillion-Dollar Bills on the Sidewalk?" *Journal of Economic Perspectives* 25, no. 3 (Summer 2011): 83–106.

BACK TO NOTE REFERENCE 85

86. Peter H. Lindert and Jeffrey G. Williamson, "Globalization and Inequality: A Long History," April 2001, paper prepared for the World Bank Annual Conference on Development Economics—Europe, Barcelona, June 25–27, 2001. See also Paul Hirst and Grahame Thompson, *Globalization in Question: The International Economy and the Possibilities of Governance*, 2nd ed. (Cambridge: Polity, 1999), 23. "Convergence" here refers to reductions in the size of differences among countries in their real wages, GDP per worker, and GDP per head.

BACK TO NOTE REFERENCE 86

87. Kevin H. O'Rourke, "Europe and the Causes of Globalization, 1790 to 2000," in Henryk Kierzkowski, ed., *From Europeanization of the Globe to the Globalization of Europe* (London: Palgrave, 2002), 73, http://www.tcd.ie/Economics/TEP/2002_papers/TEPNo1KO22.pdf.

BACK TO NOTE REFERENCE 87

88. See, for example, David Goodhart, *The Road to Somewhere* (London: Hurst, 2017), 122–27.

BACK TO NOTE REFERENCE 88

89. For a strongly positive review of the economics of migration, see Jonathan Portes, "The Economics of Migration," June 2019, https://journals.sagepub.com/doi/pdf/10.1177/1536504219854712.

BACK TO NOTE REFERENCE 89

90. James Gwartney, Joshua Hall, and Robert Lawson, *Economic Freedom of the World 2016 Annual Report*, Washington, DC, Cato Institute, 2016, https://www.cato.org/economic-freedom-world, and Freedom House, Freedom in the World 2020, https://freedomhouse.org/report/freedom-world/2020/leaderless-struggle-democracy.

BACK TO NOTE REFERENCE 90

91. For an excellent discussion of the long and tortuous road to democracy in Europe and its contemporary fragility, see Sheri Berman, *Democracy and Dictatorship in Europe: From the Ancien Régime to the Present Day* (New York: Oxford University Press, 2019).

BACK TO NOTE REFERENCE 91

92. A classic history of financial crises is Robert Z. Aliber and Charles P. Kindleberger, *Manias, Panics, and Crashes: A History of Financial Crises*, 7th ed. (London and New York: Palgrave Macmillan, 2015).

BACK TO NOTE REFERENCE 92

Chapter Four: It's the Economy, Stupid

1. Aristotle, *Politics*, trans. T. A. Sinclair, revised and re-presented by Trevor J. Saunders (London: Penguin Classics, 1981), Book IV, xi, 1295b13–34.

   BACK TO NOTE REFERENCE 1

2. Aristotle's argument is close to that of Michael J. Sandel's in *The Tyranny of Merit: What's Become of the Common Good?* (London: Penguin, 2020). Sandel emphasizes the need for a broad "equality of condition" if democracy is to thrive.

   BACK TO NOTE REFERENCE 2

3. On November 24, 1992, Queen Elizabeth II referred to 1992 as an "annus horribilis" in a speech at Guildhall commemorating the fortieth year of her reign. See https://www.royal.uk/annus-horribilis-speech.

   BACK TO NOTE REFERENCE 3

4. Barry Eichengreen, *The Populist Temptation: Economic Grievance and Political Reaction in the Modern Era* (New York: Oxford University Press, 2018), 163.

   BACK TO NOTE REFERENCE 4

5. See Noam Gidron and Peter A. Hall, "The Politics of Social Status: Economic and Cultural Roots of the Populist Right," *British Journal of Sociology* 68, no. S1 (November 2017): 59, https://onlinelibrary.wiley.com/doi/epdf/10.1111/1468-4446.12319. See also Richard Wilkinson and Kate Pickett, *The Inner Level: How More Equal Societies Reduce Stress, Restore Sanity and Improve Well-being* (London: Penguin, 2019).

   BACK TO NOTE REFERENCE 5

6. Gidron and Hall, "Politics of Social Status," 10.

   BACK TO NOTE REFERENCE 6

7. John Kay and Mervyn King, *Radical Uncertainty: Decision-making for an Unknowable Future* (London: Bridge Street Press, 2020), 122–24.

   BACK TO NOTE REFERENCE 7

8. Tim Haughton, "It's the Slogan, Stupid: The Brexit Referendum," https://www.birmingham.ac.uk/research/perspective/eu-ref-haughton.aspx.

   BACK TO NOTE REFERENCE 8

9. Gidron and Hall, "Politics of Social Status," 59.

   BACK TO NOTE REFERENCE 9

10. Anne Case and Angus Deaton, "Mortality and Morbidity in the 21st Century," *Brookings Papers on Economic Activity* (Spring 2017): 397, https://www.brookings.edu/wp-content/uploads/2017/08/casetextsp17bpea.pdf. See also, for greater detail, Case and Deaton, *Deaths of Despair and the Future of Capitalism* (Princeton, NJ: Princeton University Press, 2020).

    BACK TO NOTE REFERENCE 10

11. See Patrick Radden Keefe, *Empire of Pain: The Secret History of the Sackler Dynasty* (New York: Doubleday, 2021).

    BACK TO NOTE REFERENCE 11

12. Émile Durkheim, *Le Suicide: Étude de Sociologie* (Bar-le-Duc, France: Imprimerie Contant-Laguerre, 1897).

    BACK TO NOTE REFERENCE 12

13. James Truslow Adams coined the phrase "The American Dream" in *The Epic of America* (New Brunswick and London: Transaction Publishers, 1931 and 2012). But his idea was broader than the merely material: "Life should be better and richer and fuller for everyone, with opportunity for each according to ability or achievement."

    BACK TO NOTE REFERENCE 13

14. See, on this, Robert D. Putnam, *Bowling Alone: The Collapse and Revival of American Community* (New York and London: Simon & Schuster, 2000), and Theda Skocpol, *Diminished Democracy: From Membership to Management in American Civic Life* (Norman: University of Oklahoma Press, 2003).

    BACK TO NOTE REFERENCE 14

15. Mayhill Fowler, "Obama: No Surprise That Hard-Pressed Pennsylvanians Turn Bitter," *Huffington Post*, November 17, 2008, updated May 25, 2011, https://www.huffingtonpost.com/mayhill-fowler/obama-no-surprise-that-ha_b_96188.html.

    BACK TO NOTE REFERENCE 15

16. Wendy Brown, *In the Ruins of Neoliberalism: The Rise of Antidemocratic Politics in the West* (New York: Columbia University Press, 2019), especially chapter 5, "No Future for White Men," for a perspective on the resentment of "white men" in the modern world.

    BACK TO NOTE REFERENCE 16

17. Thomas Piketty, *Capital in the Twenty-first Century*, trans. Arthur Goldhammer (Cambridge, MA: Harvard University Press, 2013), is now a classic reference. Other important books on inequality are Anthony B. Atkinson, *Inequality: What Can Be Done* (Cambridge, MA, and London: Harvard University Press, 2015); Branko Milanovic, *Global Inequality: A New Approach for the Age of Globalizatio*n (Cambridge, MA: Harvard University Press, 2016); and Roger Brown, *The Inequality Crisis: The Facts and What We Can Do about It* (Bristol and

Chicago: Policy Press, 2017). The book by the late Tony Atkinson, doyen of scholars on inequality, focuses on the high-income countries. Milanovic's book provides a global perspective. Brown provides an excellent overview of research, with particular reference to the UK.

BACK TO NOTE REFERENCE 17

18. See "Inequality and Poverty," http://www.oecd.org/social/inequality.htm.

BACK TO NOTE REFERENCE 18

19. The Gini coefficient is zero for a country with perfect equality of household incomes, and it is one for a country in which all income accrued to just one household.

BACK TO NOTE REFERENCE 19

20. Deborah Hargreaves, *Are Chief Executives Overpaid?* (Cambridge: Polity, 2019), 6.

BACK TO NOTE REFERENCE 20

21. Ibid.

BACK TO NOTE REFERENCE 21

22. Ibid., 7.

BACK TO NOTE REFERENCE 22

23. Andrew Smithers, *Productivity and the Bonus Culture* (Oxford: Oxford University Press, 2019).

BACK TO NOTE REFERENCE 23

24. On stock buybacks, see William Lazonick, "Profits Without Prosperity," *Harvard Business Review*, September 2014, https://hbr.org/2014/09/profits-without-prosperity; and Mustafa Lazonick, Erdem Sakinç, and Matt Hopkins, "Why Stock Buybacks Are Dangerous for the Economy," *Harvard Business Review*, January 2020, https://hbr.org/2020/01/why-stock-buybacks-are-dangerous-for-the-economy.

BACK TO NOTE REFERENCE 24

25. Emmanuel Saez, "Striking It Richer: The Evolution of Top Incomes in the United States (Updated with 2015 Preliminary Estimates)," June 30, 2016, https://eml.berkeley.edu/~saez/saez-UStopincomes-2015.pdf.

BACK TO NOTE REFERENCE 25

26. See, for example, Jane Mayer, *Dark Money: The Hidden History of the Billionaires behind the Rise of the Radical Right* (New York: Anchor Books, 2016).

BACK TO NOTE REFERENCE 26

27. Federico Cingano, "Trends in Income Inequality and Its Impact on Economic Growth," OECD Social, Employment and Migration Working Papers No. 163, 2014, 28,

http://dx.doi.org/10.1787/5jxrjncwxv6j-en. Very similar results emerge from a global study by Jonathan D. Ostry, Andrew Berg, and Charalambos G. Tsangarides, "Redistribution, Inequality and Growth," IMF Staff Discussion Note SDN/14/02, February 2014, https://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf.

BACK TO NOTE REFERENCE 27

28. On the many adverse consequences of high and rising inequality, see Richard Wilkinson and Kate Pickett, *The Spirit Level: Why Greater Equality Makes Societies Stronger* (New York: Bloomsbury, 2009), and Joseph Stiglitz, *The Price of Inequality: How Today's Divided Society Endangers Our Future* (New York: W. W. Norton, 2012).

BACK TO NOTE REFERENCE 28

29. *An Overview of Growing Income Inequalities in OECD Countries: Main Findings* (Paris: Organization for Economic Co-operation and Development, 2011), figure 1.

BACK TO NOTE REFERENCE 29

30. More recent work by economists suggests that some of the data on rising inequality reported here are open to question. See "Economists Are Rethinking the Numbers on Inequality," *Economist*, November 28, 2019, https://www.economist.com/briefing/2019/11/28/economists-are-rethinking-the-numbers-on-inequality. But this work does not deny that inequality in the US is relatively high.

BACK TO NOTE REFERENCE 30

31. Income inequality is measured as the Gini coefficient of household disposable incomes. Intergenerational economic mobility is measured as the elasticity between the father's relative earnings and his son's relative adult earnings. For the economic mobility measure, Corak used data on a cohort of children born, roughly speaking, during the early to mid-1960s and measuring their adult outcomes in the mid- to late 1990s. For the inequality measure, Corak used the Gini coefficients for about 1985. Thus, this is a measure of how far inequality during a child's upbringing affected his subsequent earnings mobility. See Miles Corak, "Income Inequality, Equality of Opportunity, and Intergenerational Mobility," IZA Discussion Paper No. 7520, July 2013, 3, figure 1, http://ftp.iza.org/dp7520.pdf.

BACK TO NOTE REFERENCE 31

32. Alan Krueger, "The Rise and Consequences of Inequality in the United States of America," Center for American Progress, January 12, 2012, https://cdn.americanprogress.org/wp-content/uploads/events/2012/01/pdf/krueger.pdf. The name comes from *The Great Gatsby*, the classic novel on the Gilded Age of the 1920s by F. Scott Fitzgerald.

BACK TO NOTE REFERENCE 32

33. An obvious problem is that in relatively equal societies, the difference between positions on the distribution is, on average, small. So relatively modest absolute shifts in position will lead to relatively large changes in relative positions across generations. In this case, the discovery of low

immobility is essentially just another aspect of low inequality and vice versa for the high-inequality countries.

BACK TO NOTE REFERENCE 33

34. Martin Wolf, "Hypocrisy and Confusion Distort the Debate on Social Mobility," *Financial Times*, May 2, 2019, https://www.ft.com/content/577a0abe-6c04-11e9-a9a5-351eeaef6d84. See also John Goldthorpe, "Social Class Mobility in Modern Britain: Changing Structure, Constant Process," Lecture in Sociology, The British Academy, read March 15, 2016, posted July 18, 2016, *Journal of the British Academy* 4 (July 18, 2016): 89–111, https://www.thebritishacademy.ac.uk/sites/default/files/05%20Goldthorpe%201825.pdf.

BACK TO NOTE REFERENCE 34

35. See Federica Cocco, "Most US Manufacturing Jobs Lost to Technology, Not Trade," *Financial Times*, December 2, 2016, https://www.ft.com/content/dec677c0-b7e6-11e6-ba85-95d1533d9a62.

BACK TO NOTE REFERENCE 35

36. On the "gig economy," see Sarah Kessler, *Gigged: The Gig Economy, the End of the Job and the Future of Work* (New York: Random House Business, 2019).

BACK TO NOTE REFERENCE 36

37. On the Precariat, see Guy Standing, *The Precariat: The New Dangerous Class* (London: Bloomsbury, 2011 and 2014), 41.

BACK TO NOTE REFERENCE 37

38. In economics, rent is the return to an activity over and above the cost of the factors of production needed to produce its output in competitive markets. The existence of rent reflects a temporary or permanent monopoly position of some kind.

BACK TO NOTE REFERENCE 38

39. Raghuram Rajan made this argument in his book *Fault Lines: How Hidden Fractures Still Threaten the World Economy* (Princeton, NJ, and Oxford: Princeton University Press, 2011). Among more recent authors, one of those who emphasizes most powerfully the role of unsustainable accumulations of debt in keeping the entire capitalist show on the road is the German left-wing sociologist Walter Streeck. See Streeck, *How Will Capitalism End? Essays on a Failing System* (London: Verso, 2016). See also Martin Wolf, "The Case against the Collapse of Capitalism," *Financial Times*, November 2, 2016, https://www.ft.com/content/7496e08a-9f7a-11e6-891e-abe238dee8e2.

BACK TO NOTE REFERENCE 39

40. See Martin Wolf, *The Shifts and the Shocks: What We've Learned—and Still Have to Learn—from the Financial Crisis* (London and New York: Penguin, 2014 and 2015); Tamim Bayoumi, *Unfinished Business: The Unexplored Causes of the Financial Crisis and the Lessons Yet to Be*

Learned (New Haven, CT: Yale University Press, 2017); and Robert Kuttner, *Can Democracy Survive Global Capitalism?* (New York: W. W. Norton, 2018).

BACK TO NOTE REFERENCE 40

41. GDPs per head were not necessarily on the fitted 1990–2007 exponential trend line in 2007, which is why the starting point is not at deviations of zero. Germany's GDP per head was 2.2 percent above the 1990–2007 fitted trend in 2007, while Spain's was 1.6 percent below it. These were the two extreme deviations.

BACK TO NOTE REFERENCE 41

42. McKinsey Global Institute, *Poorer Than Their Parents? Flat or Falling Incomes in Advanced Countries*, July 2016, https://www.mckinsey.com/featured-insights/employment-and-growth/poorer-than-their-parents-a-new-perspective-on-income-inequality.

BACK TO NOTE REFERENCE 42

43. "Banks Paid $321 Billion in Fines Since Financial Crisis: BCG," Reuters, January 19, 2017, https://www.reuters.com/article/us-banks-fines/banks-paid-321-billion-in-fines-since-financial-crisis-bcg-idUSKBN1692Y2.

BACK TO NOTE REFERENCE 43

44. Ronald Reagan Presidential Foundation & Institute, "Reagan Quotes and Speeches," https://www.reaganfoundation.org/ronald-reagan/reagan-quotes-speeches/news-conference-1/.

BACK TO NOTE REFERENCE 44

45. Martin Wolf, "Ten Ways Coronavirus Will Shape World in Long Term," *Financial Times*, November 3, 2020, https://www.ft.com/content/9b0318d3-8e5b-4293-ad50-c5250e894b07; Wolf, "Martin Wolf Looks Back at the Pandemic One Year Later," *Financial Times*, March 11, 2021, https://www.ft.com/content/e02ec5cb-f08b-4bc9-a5ba-2978b680103c: Wolf, "Economic Recovery Masks the Dangers of a Divided World," *Financial Times*, April 20, 2020, https://www.ft.com/content/0be32ec5-8a75-48f2-99f3-eb5bcd055287; Wolf, "We Can End the COVID Pandemic in the Next Year," *Financial Times*, May 25, 2021, https://www.ft.com/content/12fc9f47-7fd3-4690-93c5-f641688fca36; and Wolf, "The G20 Has Failed to Meet Its Challenges," *Financial Times*, July 13, 2021, https://www.ft.com/content/c9448d15-8410-47d3-8f41-cd7ed41d8116.

BACK TO NOTE REFERENCE 45

46. See Adam Tooze, *Shutdown: How Covid Shook the World's Economy* (London: Penguin, 2021).

BACK TO NOTE REFERENCE 46

47. Ernest Hemingway, *The Sun Also Rises* (New York: Charles Scribner's Sons, 1926), 8, 157.

BACK TO NOTE REFERENCE 47

48. See, on this anger, Eric Lonergan and Mark Blyth, *Angrynomics* (Newcastle upon Tyne, UK: Agenda, 2020).

BACK TO NOTE REFERENCE 48

49. On the need for social cohesion if democracy is to function, see Sandel, *Tyranny of Merit.*

BACK TO NOTE REFERENCE 49

50. Ronald F. Inglehart and Pippa Norris, "Trump, Brexit, and the Rise of Populism: Economic Have-nots and Cultural Backlash," RWP16-026, August 2016, 29, https://www.hks.harvard.edu/publications/trump-brexit-and-rise-populism-economic-have-nots-and-cultural-backlash.

BACK TO NOTE REFERENCE 50

51. Eric Kaufmann, *Whiteshift: Populism, Immigration, and the Future of White Majorities* (London and New York: Allen Lane, 2018), 516.

BACK TO NOTE REFERENCE 51

52. See, on this, Martin Sandbu, "Is Culture or Economics at the Root of Our Strange Politics?," *Financial Times,* September 11, 2017, https://www.ft.com/content/c841a8d4-96d5-11e7-a652-cde3f882dd7b; and *The Economics of Belonging: A Radical Plan to Win Back the Left Behind and Achieve Prosperity for All* (Princeton, NJ, and Oxford: Princeton University Press, 2020), chapter 3, "Culture Versus Economics."

BACK TO NOTE REFERENCE 52

53. Manuel Funke, Moritz Schularik, and Christoph Trebesch, "Going to Extremes: Politics after Financial Crises, 1870–2014," *European Economic Review* 88 (2016): 228.

BACK TO NOTE REFERENCE 53

54. See Stuart Jeffries, "Britain's Most Racist Election: The Story of Smethwick, 50 Years On," *Guardian*, October 15, 2014, https://www.theguardian.com/world/2014/oct/15/britains-most-racist-election-smethwick-50-years-on, and "Enoch Powell's 'Rivers of Blood' Speech," https://anth1001.files.wordpress.com/2014/04/enoch-powell_speech.pdf.

BACK TO NOTE REFERENCE 54

55. Adam Tooze, *Crashed: How a Decade of Financial Crises Changed the World* (London: Allen Lane, 2018), especially part IV, "Aftershocks."

BACK TO NOTE REFERENCE 55

56. Ibid., chapter 9, "Europe's Forgotten Crisis: Eastern Europe."

BACK TO NOTE REFERENCE 56

57. "The Great Depression," Alpha History, https://alphahistory.com/nazigermany/the-great-depression/.

BACK TO NOTE REFERENCE 57

58. Dick Geary, "Who Voted for the Nazis?" *History Today* 48, no. 10 (October 1948), https://www.historytoday.com/archive/who-voted-nazis; and Christopher H. Achen and Larry M. Bartels, *Democracy for Realists: Why Elections Do Not Produce Responsive Government* (Princeton, NJ, and Oxford: Princeton University Press, 2016), 204.

BACK TO NOTE REFERENCE 58

59. Wiener Holocaust Library, "How Did the Nazis Consolidate Their Power?" The Holocaust Explained, https://www.theholocaustexplained.org/the-nazi-rise-to-power/how-did-the-nazi-gain-power/1933-elections/.

BACK TO NOTE REFERENCE 59

60. Achen and Bartels, *Democracy for Realists*, 315.

BACK TO NOTE REFERENCE 60

61. Sebastian Doerr, Stefan Gissler, José-Luis Peydró, and Hans-Joachim Voth, "Financial Crises and Political Radicalization: How Failing Banks Paved Hitler's Path to Power," BIS World Papers, No. 978, November 22, 2021, https://www.bis.org/publ/work978.htm.

BACK TO NOTE REFERENCE 61

62. Achen and Bartels, *Democracy for Realists*, 316.

BACK TO NOTE REFERENCE 62

63. Martin Wolf, "Italy's New Rulers Could Shake the Euro," *Financial Times*, May 22, 2018, https://www.ft.com/content/eb82fdfe-5ce4-11e8-9334-2218e7146b04. Also, Josef Janning, "Crisis and Cohesion in the EU: A Ten-Year Review," European Council on Foreign Relations Policy Brief, February 2018, https://www.ecfr.eu/page/-/ECFR-_245_-_Crisis_and_Cohesion_-_A_10_Year_Review_Janning_WEB.pdf.

BACK TO NOTE REFERENCE 63

64. Arjun Jayadev and Robert Johnson, "Tides and Prejudice: Racial Attitudes during Downturns in the United States, 1979–2014," *Review of Black Political Economy* 44 (2017): 370–92, https://journals.sagepub.com/doi/full/10.1007/s12114-017-9264-y.

BACK TO NOTE REFERENCE 64

65. Ibid., 390.

BACK TO NOTE REFERENCE 65

66. Thiemo Fetzer, “Austerity Caused Brexit,” *VoxEU*, April 8, 2019, https://voxeu.org/article/austerity-caused-brexit, and “Did Austerity Cause Brexit?” Warwick University Working Paper Series, no. 381, revised June 2019. See also Sandbu, “Sweden’s Far-Right and the Left-Behind,” *Financial Times*, July 4, 2019, https://www.ft.com/content/ec4adebc-99bc-11e9-8cfb-30c211dcd229.

BACK TO NOTE REFERENCE 66

67. Fetzer, “Did Austerity Cause Brexit?”

BACK TO NOTE REFERENCE 67

68. Pippa Norris, “It’s Not Just Trump. Authoritarian Populism Is Rising Across the West. Here’s Why,” *Washington Post*, March 11, 2016, https://www.washingtonpost.com/news/monkey-cage/wp/2016/03/11/its-not-just-trump-authoritarian-populism-is-rising-across-the-west-heres-why/.

BACK TO NOTE REFERENCE 68

69. Ernesto Dal Bó, Federico Finan, Olle Folke, Torsten Persson, and Johanna Rickne, “Economic Losers and Political Winners: Sweden’s Radical Right,” February 2019, 1, http://perseus.iies.su.se/~tpers/papers/CompleteDraft190301.pdf.

BACK TO NOTE REFERENCE 69

70. Ibid., 2.

BACK TO NOTE REFERENCE 70

71. Ibid.

BACK TO NOTE REFERENCE 71

72. Ibid., 3.

BACK TO NOTE REFERENCE 72

73. Ibid.

BACK TO NOTE REFERENCE 73

74. Sandbu, “Sweden’s Far-Right and the Left-Behind.”

BACK TO NOTE REFERENCE 74

75. Gregori Galofré-Vilà, Martin McKee, María Gómez-León, and David Stuckler, “The 1918 Influenza Pandemic and the Rise of Italian Fascism: A Cross-City Quantitative and Historical Text Qualitative Analysis,” *American Journal of Public Health* 112, no. 2 (February 2022): 242–47.

BACK TO NOTE REFERENCE 75

76. In “Populism and Trust in Europe,” *VoxEU*, August 23, 2017, https://voxeu.org/article/populism-and-trust-europe, Christian Dustmann, Barry Eichengreen, Sebastian Otten, André Sapir, Guido Tabellini, and Gylfi Zoega state that “our main finding is that older birth cohorts and less-educated individuals are less trusting of national parliaments and the European Parliament, are less supportive of the EU, and are more likely to vote for populist parties.” This is consistent with the idea that people are responding to the threat or actuality of declining status, economic and also social. Their response, inevitably, has a strong element of nostalgia.

BACK TO NOTE REFERENCE 76

77. Michael Beschloss, “The Ad That Helped Reagan Sell Good Times to an Uncertain Nation,” *New York Times*, May 7, 2016, https://www.nytimes.com/2016/05/08/business/the-ad-that-helped-reagan-sell-good-times-to-an-uncertain-nation.html.

BACK TO NOTE REFERENCE 77

78. Donald Trump, “The Inaugural Address,” January 20, 2017, https://trumpwhitehouse.archives.gov/briefings-statements/the-inaugural-address.

BACK TO NOTE REFERENCE 78

79. See Anne Applebaum, *Twilight of Democracy: The Seductive Lure of Authoritarianism* (London: Allen Lane, 2020).

BACK TO NOTE REFERENCE 79

80. See the opening quotation for this chapter.

BACK TO NOTE REFERENCE 80

81. This remark is widely attributed to Chesterton, but first recorded in Emile Cammaerts, *Chesterton: The Laughing Prophet* (1937). See Susan Ratcliffe, ed., *Oxford Essential Quotations* (Oxford: Oxford University Press, 2016).

BACK TO NOTE REFERENCE 81

Chapter Five: Rise of Rentier Capitalism

1. "Remarks by President Trump in a Meeting with Republican Members of Congress on the United States Reciprocal Trade Act," January 24, 2019, https://trumpwhitehouse.archives.gov/briefings-statements/remarks-president-trump-meeting-republican-members-congress-united-states-reciprocal-trade-act.

   BACK TO NOTE REFERENCE 1

2. Robert Kuttner makes this argument powerfully in *Can Democracy Survive Global Capitalism?* (New York: W. W. Norton, 2018).

   BACK TO NOTE REFERENCE 2

3. Alvin H. Hansen, "Economic Progress and Declining Population Growth," *American Economic Review* 29, no. 1, part 1 (March 1939), http://digamo.free.fr/hansen39.pdf. Hansen defined secular stagnation as "sick recoveries which die in their infancy and depressions which feed on themselves and leave a hard and seemingly immovable core of unemployment."

   BACK TO NOTE REFERENCE 3

4. The idea of such a statistical relationship was proposed by the New Zealand economist William Phillips in 1958. This was an immensely influential idea in the 1960s and early 1970s. See Tejvan Pettinger, "Phillips Curve," March 1, 2019, *Economics Help*, https://www.economicshelp.org/blog/1364/economics/phillips-curve-explained/.

   BACK TO NOTE REFERENCE 4

5. See, on the dangers of such nostalgia, Martin Wolf, "The US Should Spurn the False Promise of Protectionism," *Financial Times,* June 15, 2021, https://www.ft.com/content/4edc2c5a-298f-4edd-81b7-5b94b7b23b93; Adam Posen, "The Price of Nostalgia: America's Self-Defeating Economic Retreat," *Foreign Affairs,* May/June 2021, https://www.foreignaffairs.com/articles/united-states/2021-04-20/america-price-nostalgia; and Anne O. Krueger, *International Trade: What Everyone Needs to Know* (New York: Oxford University Press, 2020).

   BACK TO NOTE REFERENCE 5

6. See, on this, Paul Collier, *The Future of Capitalism: Facing the New Anxieties* (London: Allen Lane, 2018), chapter 7, "The Geographic Divide: Booming Metropolis, Broken Cities."

   BACK TO NOTE REFERENCE 6

7. Ibid., 125.

   BACK TO NOTE REFERENCE 7

8. See Peterson-KFF, "Health System Tracker," https://www.healthsystemtracker.org/.

   BACK TO NOTE REFERENCE 8

9. Robert J. Gordon, *The Rise and Fall of American Growth: The U.S. Standard of Living Since the Civil War* (Princeton, NJ, and Woodstock, England: Princeton University Press, 2016), paraphrasing Evsey Domar, "On the Measurement of Technological Change," *Economic Journal* 71, no. 284 (December 1961): 712.

   BACK TO NOTE REFERENCE 9

10. See Tyler Cowen, *The Great Stagnation: How America Ate All the Low-Hanging Fruit of Modern History, Got Sick, and Will (Eventually) Feel Better* (New York: Dutton, 2011).

    BACK TO NOTE REFERENCE 10

11. These data are for the UK. See Office of Health Economics, "Infant and Child Health," December 1975, https://www.ohe.org/publications/infant-and-child-health, and United Nations, Department of Economic and Social Affairs, Population Dynamics, *World Population Prospects 2019*, https://population.un.org/wpp/Download/.

    BACK TO NOTE REFERENCE 11

12. Martin Wolf, "Is Unlimited Growth a Thing of the Past?" *Financial Times*, October 2, 2012, https://www.ft.com/content/78e883fa-0bef-11e2-8032-00144feabdc0.

    BACK TO NOTE REFERENCE 12

13. David Noble draws this parallel between religion and the enchantment of technology in *The Religion of Technology: The Divinity of Man and the Spirit of Invention* (New York: Alfred A. Knopf, 1997).

    BACK TO NOTE REFERENCE 13

14. See Ian Goldin, Pantelis Koutroumpis, François Lafond, Nils Rochowicz, and Julian Winkler, *The Productivity Paradox: Reconciling Rapid Technological Change and Stagnating Productivity*, Oxford Martin School, April 2019, 8–14, https://www.oxfordmartin.ox.ac.uk/downloads/reports/Productivity_Paradox.pdf. It turns out to be difficult to identify the causes of the weak productivity performance, though many are listed. The most plausible, in the view of this report, is "lack of competition." The more plausible, in my view, is that innovation is, as Gordon argues, just not what it used to be.

    BACK TO NOTE REFERENCE 14

15. Dan Andrews, Chiara Criscuolo, and Peter Gal, *The Global Productivity Slowdown, Technology Divergence and Public Policy: A Firm Level Perspective*, OECD, Paris, 2016, https://www.oecd.org/global-forum-productivity/events/GP_Slowdown_Technology_Divergence_and_Public_Policy_Final_after_con

    BACK TO NOTE REFERENCE 15

16. Ibid., 5.

    BACK TO NOTE REFERENCE 16

17. See Dietrich Vollrath, *Fully Grown: Why a Stagnant Economy Is a Sign of Success* (Chicago and London: University of Chicago Press, 2020), especially 207, table 17.1.

BACK TO NOTE REFERENCE 17

18. Gordon, *Rise and Fall of American Growth*.

BACK TO NOTE REFERENCE 18

19. See Guy Standing, *The Precariat: The New Dangerous Class* (London: Bloomsbury, 2011 and 2014).

BACK TO NOTE REFERENCE 19

20. For more optimistic views than Gordon's on the impact of the ICT revolution, including artificial intelligence, on productivity, present or future, see Erik Brynjolfsson and Andrew McAfee, *Race against the Machine: How the Digital Revolution Is Accelerating Innovation, Driving Productivity, and Irreversibly Transforming Employment and the Economy* (Lexington, MA: Digital Frontier Press, 2011); Brynjolfsson and McAfee, *The Second Machine Age: Work, Progress, and Prosperity in a Time of Brilliant Technologies* (New York: W. W. Norton, 2014); and McAfee and Brynjolfsson, *Machine, Platform, Crowd: Harnessing the Digital Revolution* (New York: W. W. Norton, 2017).

BACK TO NOTE REFERENCE 20

21. On the impact of technology and especially automation on employment, real wages, and the distribution of income, see Daron Acemoglu, "Written Testimony" at a virtual hearing on "Machines, Artificial Intelligence, & the Workforce: Recovering & Readying Our Economy for the Future," House Committee on the Budget, September 10, 2021, https://www.congress.gov/116/meeting/house/111002/witnesses/HHRG-116-BU00-Wstate-AcemogluD-20200910.pdf.

BACK TO NOTE REFERENCE 21

22. On the wider economic impacts of aging, see Charles Goodhart and Manoj Pradhan, *The Great Demographic Reversal: Aging Societies, Waning Inequality, and an Inflation Reversal* (London: Palgrave Macmillan, 2020).

BACK TO NOTE REFERENCE 22

23. United Nations Population Division, *Replacement Migration: Is It a Solution to Declining and Aging Populations?* 2000.

BACK TO NOTE REFERENCE 23

24. See, on this shift in the US, Thomas Ferguson and Joel Rogers, *Right Turn: The Decline of the Democrats and the Future of American Politics* (New York: Farrar, Straus and Giroux, 1987).

BACK TO NOTE REFERENCE 24

25. In the parlance of the old General Agreement on Tariffs and Trade (GATT) and now the World Trade Organization, tariffs are "bound" in the process of reaching a negotiated trade agreement. For most high-income countries (and many others, too), bound and applied tariffs are the same. But countries are allowed to *apply* a tariff lower than the bound rate. The advantage is that it allows a country to raise the applied level without legal questions. India, for example, has much higher bound than applied rates. This gives it substantial legal room to raise the applied tariffs when it wants to do so. It is also possible to raise tariffs above bound levels. But dutiful members need justifications for doing so, though under Donald Trump the US had more or less ceased to offer plausible justifications. From the economic point of view, the applied rate matters most, except to the extent that the greater ease of raising it when it is well below the bound rate makes it more likely that it will in fact be raised. That would increase trade policy uncertainty, which is costly.

BACK TO NOTE REFERENCE 25

26. The chart stops in 2019, because of the distorting effects of the COVID-19 pandemic.

BACK TO NOTE REFERENCE 26

27. Christoph Lakner and Branko Milanovic, "Global Income Distribution from the Fall of the Berlin Wall to the Great Recession," World Bank Policy Research Working Paper 6719, December 2013, 31, figure 1(a), http://documents.worldbank.org/curated/en/914431468162277879/pdf/WPS6719.pdf.

BACK TO NOTE REFERENCE 27

28. Facundo Alvaredo et al., *World Inequality Report 2018* (Paris: World Economic Lab, 2018) 13, figure E4, "The Elephant Curve of Global Inequality and Growth, 1980–2016," https://wir2018.wid.world/.

BACK TO NOTE REFERENCE 28

29. Ibid.

BACK TO NOTE REFERENCE 29

30. Data on GDP at market prices and purchasing power parity are from the *World Economic Outlook Database*, https://www.imf.org/external/pubs/ft/weo/2019/01/weodata/index.aspx.

BACK TO NOTE REFERENCE 30

31. Holly Ellyatt, "Who Are 'Davos Man' and 'Davos Woman'?" CNBC, January 19, 2018, https://www.cnbc.com/2018/01/19/who-are-davos-man-and-davos-woman.html.

BACK TO NOTE REFERENCE 31

32. Robert Shrimsley, "Boris Johnson's Brexit Explosion Ruins Tory Business Credentials," *Financial Times*, June 25, 2018, https://www.ft.com/content/8075e68c-7857-11e8-8e67-1e1a0846c475.

BACK TO NOTE REFERENCE 32

33. See Maurice Obstfeld, “The Global Capital Market Reconsidered,” in Paul Collier, Diane Coyle, Colin Mayer, and Martin Wolf, eds., “Capitalism: What Has Gone Wrong, What Needs to Change, and How It Can Be Fixed,” *Oxford Review of Economic Policy* 37, no. 4 (Winter 2021): 690–706.

BACK TO NOTE REFERENCE 33

34. See Max Roser, “Employment in Agriculture,” in Our World in Data, https://ourworldindata.org/employment-in-agriculture.

BACK TO NOTE REFERENCE 34

35. Institut National d’Études Démographiques, “Migration Worldwide,” https://www.ined.fr/en/everything_about_population/demographic-facts-sheets/focus-on/migration-worldwide/.

BACK TO NOTE REFERENCE 35

36. See Sari Pekkala Kerr and William R. Kerr, “Economic Impacts of Immigration: A Survey,” National Bureau of Economic Research Working Paper 16736, January 2011, 14–15, https://www.nber.org/papers/w16736.

BACK TO NOTE REFERENCE 36

37. Ibid., 18–21.

BACK TO NOTE REFERENCE 37

38. Martin Wolf, “The Fight to Halt the Theft of Ideas Is Hopeless,” *Financial Times*, November 12, 2019, https://www.ft.com/content/d592af00-0a29-11ea-b2d6-9bf4d1957a67.

BACK TO NOTE REFERENCE 38

39. Elhanan Helpman, *Globalization and Inequality* (Cambridge, MA, and London: Harvard University Press, 2018), 170–71.

BACK TO NOTE REFERENCE 39

40. Daron Acemoglu, David Autor, David Dorn, Gordon H. Hanson, and Brendan Price, “Import Competition and the Great US Employment Sag of the 2000s,” *Journal of Labor Economics* 34, no. 1 (part 2, January 2016): 141–98, http://www.journals.uchicago.edu/doi/pdfplus/10.1086/682384.

BACK TO NOTE REFERENCE 40

41. Helpman, *Globalization and Inequality*, 174.

BACK TO NOTE REFERENCE 41

42. David H. Autor, David Dorn, and Gordon H. Hanson, "The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade," National Bureau of Economic Research Working Paper Number 21906, January 2016, http://www.nber.org/papers/w21906.

BACK TO NOTE REFERENCE 42

43. See Lawrence H. Summers, "The Threat of Secular Stagnation Has Not Gone Away," *Financial Times*, May 6, 2018, https://www.ft.com/content/aa76e2a8-4ef2-11e8-9471-a083af05aea7; Lukasz Rachel and Lawrence H. Summers, "On Falling Neutral Real Rates, Fiscal Policy, and the Risk of Secular Stagnation," BPEA Conference Drafts, March 7–8, 2019, *Brookings Papers on Economic Activity*, https://www.brookings.edu/wp-content/uploads/2019/03/On-Falling-Neutral-Real-Rates-Fiscal-Policy-and-the-Risk-of-Secular-Stagnation.pdf; Martin Wolf, "Monetary Policy Has Run Its Course," *Financial Times*, March 12, 2019, https://www.ft.com/content/08c4eb8c-442c-11e9-a965-23d669740bfb; and Ben S. Bernanke, "The Global Savings Glut and the U.S. Current Account Deficit," March 10, 2005, Federal Reserve Board, https://www.federalreserve.gov/boarddocs/speeches/2005/200503102/.

BACK TO NOTE REFERENCE 43

44. I use UK data, because the UK Treasury has issued index-linked bonds for a relatively long time.

BACK TO NOTE REFERENCE 44

45. Atif Mian, Ludwig Straub, and Amir Sufi, "The Saving Glut of the Rich and the Rise in Household Debt," March 2020, https://scholar.harvard.edu/files/straub/files/mss_richsavingglut.pdf. See also Martin Wolf, "How to Escape the Trap of Excessive Debt," *Financial Times*, May 5, 2020, https://www.ft.com/content/2c5ddbd0-8e09-11ea-9e12-0d4655dbd44f.

BACK TO NOTE REFERENCE 45

46. Matthew Klein and Michael Pettis, *Trade Wars Are Class Wars* (New Haven, CT: Yale University Press, 2020), and Martin Wolf, "What Trade Wars Tell Us," *Financial Times*, June 18, 2020, https://www.ft.com/content/f3ee37e0-b086-11ea-a4b6-31f1eedf762e.

BACK TO NOTE REFERENCE 46

47. Charles Dumas quite rightly emphasizes these macroeconomic causes of economic instability and the consequent rise of populism in *Populism and Economics* (London: Profile Books, 2018). See also Martin Wolf, "The Price of Populism," *Financial Times*, October 24, 2018, https://www.ft.com/content/06181c56-d13b-11e8-a9f2-7574db66bcd5.

BACK TO NOTE REFERENCE 47

48. Klein and Pettis, *Trade Wars Are Class Wars.*

BACK TO NOTE REFERENCE 48

49. Atif Mian, Ludwig Straub, and Amir Sufi, "Indebted Demand," March 26, 2020, https://scholar.harvard.edu/files/straub/files/mss_indebteddemand.pdf.

BACK TO NOTE REFERENCE 49

50. Martin Wolf, "The Folly of Donald Trump's Bilateralism in Global Trade," *Financial Times*, March 14, 2017, https://www.ft.com/content/ce92ae28-058e-11e7-ace0-1ce02ef0def9; and Howard S. Ellis, "Bilateralism and the Future of International Trade," *Essays in International Finance*, No. 5, International Finance Section, Department of Economics and Social Institutions (Princeton: Princeton University, Summer 1945), https://ies.princeton.edu/pdf/E5.pdf.

BACK TO NOTE REFERENCE 50

51. See Martin Wolf, "Why Rigged Capitalism Is Damaging Liberal Democracy," *Financial Times*, September 18, 2019, https://www.ft.com/content/5a8ab27e-d470-11e9-8367-807ebd53ab77; and Wolf, "How to Reform Today's Rigged Capitalism," *Financial Times*, December 3, 2019, https://www.ft.com/content/4cf2d6ee-14f5-11ea-8d73-6303645ac406.

BACK TO NOTE REFERENCE 51

52. For a thought-provoking critique of the development of finance over the past four decades, from a Marxist perspective, see Cédric Durand, *Fictitious Capital: How Finance Is Appropriating Our Future* (London and New York: Verso, 2017).

BACK TO NOTE REFERENCE 52

53. I discussed this explosion in financial sector leverage in *The Shifts and the Shocks: What We've Learned—and Have Still to Learn—from the Financial Crisis* (London and New York: Penguin, 2014 and 2015).

BACK TO NOTE REFERENCE 53

54. Susan Lund et al., *The New Dynamics of Financial Globalization*, McKinsey Global Institute, August 2017, https://www.mckinsey.com/industries/financial-services/our-insights/the-new-dynamics-of-financial-globalization.

BACK TO NOTE REFERENCE 54

55. See Bank for International Settlements, "Global OTC Derivatives Market," table D5.1, https://stats.bis.org/statx/srs/table/d5.1.

BACK TO NOTE REFERENCE 55

56. See Michael McLeay, Amar Radia, and Ryland Thomas, "Money Creation in the Modern Economy," *Bank of England Quarterly Bulletin*, 2014, Quarter One, 14–27, https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/2014/money-creation-in-the-modern-economy.

BACK TO NOTE REFERENCE 56

57. Thomas Philippon and Ariell Reshef, "Wages and Human Capital in the U.S. Financial Industry 1909–2006," National Bureau of Economic Research Working Paper 14644, January 2009, especially figure 6, https://www.nber.org/papers/w14644.

BACK TO NOTE REFERENCE 57

58. On the hedge fund industry, for example, see Martin Wolf, "Why Today's Hedge Fund Industry May Not Survive," *Financial Times*, March 18, 2008, https://www.ft.com/content/c8941ad4-f503-11dc-a21b-000077b07658. See also Simon Lack, *The Hedge Fund Mirage: The Illusion of Big Money and Why It's Too Good to Be True* (Hoboken, NJ: John Wiley & Sons, 2012).

BACK TO NOTE REFERENCE 58

59. See Angela Monaghan, "City Is Too Big and Socially Useless, Says Lord Turner," *Telegraph*, August 26, 2009, https://www.telegraph.co.uk/finance/newsbysector/banksandfinance/6096546/City-is-too-big-and-socially-useless-says-Lord-Turner.html; https://www.pauljorion.com/stewardship-of-finance/wp-content/uploads/2015/04/College-09-03-2015_-Turner-useful-and-useless-financial-activities.pdf; and Adair Turner, *Between Debt and the Devil: Money, Credit, and Fixing Global Finance* (Princeton, NJ, and Oxford: Princeton University Press, 2016).

BACK TO NOTE REFERENCE 59

60. John Kay, *Other People's Money: The Real Business of Finance* (London: Profile Books, 2016); Joseph Stiglitz, "Inequality and Economic Growth," in Michael Jacobs and Mariana Mazzucato, eds., *Rethinking Capitalism: Economics and Policy for Sustainable and Inclusive Growth* (Chichester, UK: Wiley-Blackwell, 2016), 134–55, chapter 8; and https://www8.gsb.columbia.edu/faculty/jstiglitz/sites/jstiglitz/files/Inequality%20and%20Economi

BACK TO NOTE REFERENCE 60

61. Stephen G. Cecchetti and Enisse Kharroubi, "Why Does Financial Sector Growth Crowd Out Real Economic Growth?" BIS Working Papers 490, February 2015, https://www.bis.org/publ/work490.pdf. See also Cecchetti and Kharroubi, "Reassessing the Impact of Finance on Growth," BIS Working Papers 381, July 2012, https://www.bis.org/publ/work381.pdf.

BACK TO NOTE REFERENCE 61

62. See Fred Hirsch, *The Social Limits to Growth* (London: Routledge, 1995).

BACK TO NOTE REFERENCE 62

63. Michael Lewis, *Flash Boys: Cracking the Money Code* (London: Penguin, 2014).

BACK TO NOTE REFERENCE 63

64. For a discussion of the impact of "financialization" on the firm, see Anat Admati, "Capitalism, Laws, and the Need for Trustworthy Institutions," in Paul Collier, Diane Coyle, Colin Mayer, and Martin Wolf, eds., "Capitalism: What Has Gone Wrong, What Needs to Change, and How It Can Be Fixed," *Oxford Review of Economic Policy* 37, no. 4 (Winter 2021): 678–89. See also Martin Hellwig, " 'Capitalism: What Has Gone Wrong?': Who Went Wrong? Capitalism? The Market Economy? Governments? 'Neoliberal' Economics?" in Paul Collier et al., "Capitalism," 664–77.

BACK TO NOTE REFERENCE 64

65. Milton Friedman, "The Social Responsibility of Business Is to Increase Its Profits," *New York Times Magazine*, September 13, 1970, https://web.archive.org/web/20060207060807/https://www.colorado.edu/studentgroups/libertarian soc-resp-business.html.

BACK TO NOTE REFERENCE 65

66. For a thoughtful discussion of what this means, see Michael C. Jensen, "Value Maximization, Stakeholder Theory, and the Corporate Objective Function," *European Financial Management* 7, no. 3 (2001): 297–317, https://efmaefm.org/bharat/jensen_efm2001.pdf.

BACK TO NOTE REFERENCE 66

67. H. L. Mencken, *Prejudices: Second Series*, 1920, https://www.goodreads.com/author/quotes/7805.

BACK TO NOTE REFERENCE 67

68. Ronald Coase, "The Nature of the Firm," *Economica* 4, no. 16 (1937): 386–405, https://onlinelibrary.wiley.com/doi/full/10.1111/j.1468-0335.1937.tb00002.x.

BACK TO NOTE REFERENCE 68

69. On these issues, see Colin Mayer, *Firm Commitment: Why the Corporation Is Failing Us and How to Restore Trust in It* (Oxford: Oxford University Press, 2013), and *Prosperity: Better Business Makes the Greater Good* (Oxford: Oxford University Press, 2018). See also Martin Wolf, "Opportunist Shareholders Must Embrace Commitment," *Financial Times*, August 26, 2014, https://www.ft.com/content/6aa87b9a-2d05-11e4-911b-00144feabdc0, and "We Must Rethink the Purpose of the Corporation," *Financial Times*, December 11, 2018, https://www.ft.com/content/786144bc-fc93-11e8-ac00-57a2a826423e.

BACK TO NOTE REFERENCE 69

70. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Book V, chapter I, part III, 1776, http://media.bloomsbury.com/rep/files/primary-source-93-adam-smith-the-wealth-of-nations-on-joint-stock-companies.pdf.

BACK TO NOTE REFERENCE 70

71. John Stuart Mill, *Principles of Political Economy*, 9th ed. (London: Longmans, Green, 1885), 140.

BACK TO NOTE REFERENCE 71

72. See Andrew Smithers, *Productivity and the Bonus Culture* (Oxford: Oxford University Press, 2019), especially chapter 14. See also Roland Bénabou and Jean Tirole, "Bonus Culture: Competitive Pay, Screening, and Multitasking," *Journal of Political Economy* 124, no. 2 (2016): 305–70.

BACK TO NOTE REFERENCE 72

73. On the empirically supported tendency of capital markets to generate short-term decision-making and so also underinvestment, see Andrew G. Haldane, "The Costs of Short-termism," chapter 4 in Jacobs and Mazzucato, *Rethinking Capitalism*, 66–76.

BACK TO NOTE REFERENCE 73

74. On the lack of a link between pay and performance, see Stiglitz, "Inequality and Economic Growth," 141. See also Lucian Bebchuk and Jesse Fried, *Pay without Performance: The Unfulfilled Promise of Executive Compensation* (Cambridge, MA: Harvard University Press, 2004); Lucian Bebchuk and Yaniv Grinstein, "The Growth of Executive Pay," National Bureau of Economic Research Working Paper No. 11443, June 2005, https://www.nber.org/papers/w11443; and Lawrence Mishel and Josh Bivens, "The Pay of Corporate Executives and Financial Professionals as Evidence of Rents in Top 1 Percent Incomes," Economic Policy Institute Working Paper No. 296, June 20, 2013, https://www.epi.org/publication/pay-corporate-executives-financial-professionals/.

BACK TO NOTE REFERENCE 74

75. See David Card and Alan B. Krueger, *Myth and Measurement: The New Economics of the Minimum Wage*, Twentieth-Anniversary Edition (Princeton, NJ: Princeton University Press, 2015), and Arindrajit Dube, "Guest Post: Minimum Wage Laws and the Labor Market: What Have We Learned Since Card and Krueger's Book *Myth and Measurement*?" September 1, 2011, https://rortybomb.wordpress.com/2011/09/01/guest-post-minimum-wage-laws-and-the-labor-market-what-have-we-learned-since-card-and-krueger%E2%80%99s-book-myth-and-measurement/.

BACK TO NOTE REFERENCE 75

76. See Cardozo Law, "Disney's Influence on U.S. Copyright Law," August 26, 2021, https://online.yu.edu/cardozo/blog/disney-influence-copyright-law.

BACK TO NOTE REFERENCE 76

77. This is the central point of Mancur Olson's masterpiece, *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge, MA: Harvard University Press, 1965 and 1971).

BACK TO NOTE REFERENCE 77

78. Robert H. Frank and Philip J. Cook, *The Winner-Take-All Society: Why the Few at the Top Get So Much More Than the Rest of Us* (New York and London: Penguin, 1996).

BACK TO NOTE REFERENCE 78

79. Patrick Barwise, "Nine Reasons Why Tech Markets Are Winner-Take-All," London Business School, July 10, 2018, https://www.london.edu/lbsr/nine-reasons-why-tech-markets-are-winner-take-all.

BACK TO NOTE REFERENCE 79

80. Martin Wolf, "Taming the Masters of the Tech Universe," *Financial Times*, November 14, 2017, https://www.ft.com/content/45092c5c-c872-11e7-aa33-c63fdc9b8c6c.

BACK TO NOTE REFERENCE 80

81. Bob Bryan, "One Quote from Warren Buffett Is the Perfect Advice for Investing in the Age of Uber and Netflix," *Business Insider*, May 4, 2019, https://www.businessinsider.com/buffett-on-moats-2016-4?IR=T.

BACK TO NOTE REFERENCE 81

82. Paul Collier, *The Future of Capitalism: Facing the New Anxieties* (London: Allen Lane, 2018), chapter 7.

BACK TO NOTE REFERENCE 82

83. On the role of the world's great cities, see Martin Wolf, "Cities Must Be Open to the World When Nations Are Not," *Financial Times*, June 7, 2017, https://www.ft.com/content/fea537f8-34d6-11e7-99bd-13beb0903fa3.

BACK TO NOTE REFERENCE 83

84. Noah J. Toly and Sam Tabory, "100 Top Economies: Urban Influence and the Position of Cities in an Evolving World Order," October 13, 2016, Chicago Council on Global Affairs.

BACK TO NOTE REFERENCE 84

85. *OECD Regional Outlook 2016: Productive Regions for Inclusive Societies* (Paris: OECD, 2016), 19.

BACK TO NOTE REFERENCE 85

86. Jane Jacobs, *The Economy of Cities* (New York: Vintage Books, 1969).

BACK TO NOTE REFERENCE 86

87. Henry George, *Progress and Poverty: An Inquiry into the Cause of Industrial Depressions and of Increase of Want with Increase of Wealth: The Remedy* (Vega Publishing, 2019; first published 1879).

BACK TO NOTE REFERENCE 87

88. Collier, *The Future of Capitalism*, chapter 7.

BACK TO NOTE REFERENCE 88

89. See Jonathan Tepper, with Denise Hearn, *The Myth of Capitalism: Monopolies and the Death of Competition* (Hoboken, NJ: Wiley, 2018), and Tim Wu, *The Curse of Bigness: Antitrust in the New Gilded Age* (New York: Columbia Global Reports, 2018).

BACK TO NOTE REFERENCE 89

90. Robert H. Bork, *The Antitrust Paradox: A Policy at War with Itself*, 2nd ed. (New York: Free Press, 1993).

BACK TO NOTE REFERENCE 90

91. See, on these arguments, Jason Furman, "Beyond Antitrust: The Role of Competition Policy in Promoting Inclusive Growth," Searle Center Conference on Antitrust Economics and Competition Policy, September 16, 2016, https://obamawhitehouse.archives.gov/sites/default/files/page/files/20160916_searle_conference_c

BACK TO NOTE REFERENCE 91

92. "Introduction from the Expert Panel," in Jason Furman et al., *Unlocking Digital Competition: Report on the Digital Competition Expert Panel*, March 2019, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/

BACK TO NOTE REFERENCE 92

93. Thomas Philippon, *The Great Reversal: How America Gave Up on Free Markets* (Cambridge, MA: Belknap Press of Harvard University Press, 2019), 205.

BACK TO NOTE REFERENCE 93

94. Ibid., part 4.

BACK TO NOTE REFERENCE 94

95. Hannah Murphy and Patrick McGee, "Apple Makes Unexpected Concession on 30% App Store Fees," *Financial Times*, September 25, 2020, https://www.ft.com/content/fbabedb0-3ed2-4c47-94f2-f165bd15edb3.

BACK TO NOTE REFERENCE 95

96. Philippon, *The Great Reversal*, 100.

BACK TO NOTE REFERENCE 96

97. Ibid., 108, figure 6.5.

BACK TO NOTE REFERENCE 97

98. Ibid., 126.

BACK TO NOTE REFERENCE 98

99. Ibid., chapter 8.

BACK TO NOTE REFERENCE 99

100. Ibid., 147–48.

BACK TO NOTE REFERENCE 100

101. See Organization for Economic Co-operation and Development, "BEPS: Inclusive Framework on Base Erosion and Profit Shifting," https://www.oecd.org/tax/beps/.

BACK TO NOTE REFERENCE 101

102. Chris Giles, Emma Agyemang, and Aime Williams, "136 Nations Agree to Biggest Corporate Tax Deal in a Century," *Financial Times*, October 8, 2021, https://www.ft.com/content/5dc4e2d5-d7bd-4000-bf94-088f17e21936.

BACK TO NOTE REFERENCE 102

103. "Tax on Corporate Profits," Organization for Economic Co-operation and Development, https://data.oecd.org/tax/tax-on-corporate-profits.htm#indicator-chart.

BACK TO NOTE REFERENCE 103

104. Ernesto Crivelli, Ruud De Mooij, and Michael Keen, "Base Erosion, Profit Shifting and Developing Countries," WP/15/118, May 2015, figure 3 and table 6, https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Base-Erosion-Profit-Shifting-and-Developing-Countries-42973. On rates, see also https://www.imf.org/external/np/exr/consult/2018/corptaxation/pdf/2018commentscorptaxation.pd

BACK TO NOTE REFERENCE 104

105. Crivelli et al., "Base Erosion, Profit Shifting," figures 1 and 2.

BACK TO NOTE REFERENCE 105

106. Tax Justice Network, "Corporate Tax Haven Index 2019," citing *The New York Times*, https://corporatetaxhavenindex.org/.

BACK TO NOTE REFERENCE 106

107. Thomas Wright and Gabriel Zucman, "The Exorbitant Tax Privilege," National Bureau of Economic Research Working Paper 24983, September 2018: 1, https://www.nber.org/papers/w24983.

BACK TO NOTE REFERENCE 107

108. Annette Alstadsæter, Niels Johannesen, and Gabriel Zucman, "Who Owns the Wealth in Tax Havens? Macro Evidence and Implications for Global Inequality," National Bureau of Economic Research Working Paper 23805, September 2017, especially figures, 5, 8, and 9, https://www.nber.org/papers/w23805.pdf.

BACK TO NOTE REFERENCE 108

109. "The Tax Policy Center's Briefing Book," https://www.taxpolicycenter.org/briefing-book/what-carried-interest-and-should-it-be-taxed-capital-gain.

BACK TO NOTE REFERENCE 109

110. Martin Gilens and Benjamin I. Page, "Testing Theories of American Politics: Elites, Interest Groups, and Average Citizens," *Perspectives on Politics*, September 18, 2014: 564–81, https://www.cambridge.org/core/journals/perspectives-on-politics/issue/32534CA34A6B58E6E4420B56764850E1.

BACK TO NOTE REFERENCE 110

111. Gilens and Page replied to objections to their thesis in "Critics Argued with Our Analysis of U.S. Political Inequality. Here Are 5 Ways They're Wrong," *Washington Post*, May 23, 2016, https://www.washingtonpost.com/news/monkey-cage/wp/2016/05/23/critics-challenge-our-portrait-of-americas-political-inequality-heres-5-ways-they-are-wrong/.

BACK TO NOTE REFERENCE 111

112. Philippon, *The Great Reversal*, 189.

BACK TO NOTE REFERENCE 112

113. Ibid., part III.

BACK TO NOTE REFERENCE 113

114. This is the theme of Paul Collier and John Kay, *Greed Is Dead: Politics after Individualism* (London: Allen Lane, 2020).

BACK TO NOTE REFERENCE 114

115. Joris Luyendijk, *Swimming with Sharks: My Journey into the World of the Bankers* (London: Guardian Faber Publishing, 2015).

BACK TO NOTE REFERENCE 115

116. On this, see Joseph Stiglitz, "Ten Years Later," Keynote Address, Roosevelt Institute Working Paper, September 2018, https://www8.gsb.columbia.edu/faculty/jstiglitz/sites/jstiglitz/files/Roosevelt%2010-Years-After-the-Financial-Crisis.pdf. See also the Independent Commission on Banking, chaired by Sir John Vickers, *Final Report: Recommendations*, September 2011.

BACK TO NOTE REFERENCE 116

117. See Anat Admati and Martin Hellwig, *The Banker's New Clothes: What's Wrong with Banking and What to Do about It*, updated ed. (Princeton, NJ: Princeton University Press, 2014). On pro-cyclical regulation and persistently high leverage, see Martin Wolf, "Why Further Financial Crises Are Inevitable," *Financial Times*, March 19, 2019, https://www.ft.com/content/d9d94f4a-4884-11e9-bbc9-6917dce3dc62.

BACK TO NOTE REFERENCE 117

118. See Martin Wolf, "COP26 Is the Real Thing and Not a Drill," *Financial Times*, October 19, 2021, https://www.ft.com/content/799b7b93-9ec5-4318-9ac1-1c82cb81f96d; and "What Is the Least

We Need from COP26?" *Financial Times*, October 26, 2021, https://www.ft.com/content/f859d515-f1d0-405f-9aee-c609951f4254.

BACK TO NOTE REFERENCE 118

119. See Lewis Carroll, "The Hunting of the Snark," https://www.poetryfoundation.org/poems/43909/the-hunting-of-the-snark.

BACK TO NOTE REFERENCE 119

120. Martin Wolf, "Dancing on the Edge of Climate Disaster," *Financial Times*, November 23, 2021, https://www.ft.com/content/6e2b366f-e139-4d69-bd4f-9254333bf316.

BACK TO NOTE REFERENCE 120

121. The phrase "workers by hand and by brain" appeared in Clause IV of the Labour Party, adopted in 1918 and amended in 1995, under the leadership of Tony Blair.

BACK TO NOTE REFERENCE 121

122. See Carl Benedikt Frey, *The Technology Trap: Capital, Labor, and Power in the Age of Automation* (Princeton, NJ, and Oxford: Princeton University Press, 2019), especially part V, "The Future," for a more benign view, and Daniel Susskind, *A World without Work: Technology, Automation and How We Should Respond* (London: Allen Lane, 2020), especially part II, "The Threat," for a darker perspective.

BACK TO NOTE REFERENCE 122

123. For an early assessment of the impact of COVID-19 on an unprepared world, see Adam Tooze, *Shutdown: How Covid Shook the World's Economy* (London: Penguin, 2021).

BACK TO NOTE REFERENCE 123

124. James Politi, Colby Smith, and Brendan Greeley, "Donald Trump Raises Tariffs on Chinese Goods after Stocks Tumble," *Financial Times*, August 24, 2019, https://www.ft.com/content/2db9c1ec-c5b9-11e9-a8e9-296ca66511c9.

BACK TO NOTE REFERENCE 124

Chapter Six: Perils of Populism

1. "Washington's Farewell Address 1796," https://avalon.law.yale.edu/18th_century/washing.asp.

   BACK TO NOTE REFERENCE 1

2. Foundation for Economic Education, "H. L. Mencken Quotes on Government, Democracy, and Politicians," https://fee.org/articles/12-hl-mencken-quotes-on-government-democracy-and-politicians/.

   BACK TO NOTE REFERENCE 2

3. Masha Gessen, *Surviving Autocracy* (London: Granta, 2020), 16.

   BACK TO NOTE REFERENCE 3

4. Erica Frantz, *Authoritarianism: What Everyone Needs to Know* (Oxford: Oxford University Press, 2018). See also Martin Wolf, "The Rise of the Populist Authoritarians," *Financial Times*, January 22, 2019, https://www.ft.com/content/4faf6c4e-1d84-11e9-b2f7-97e4dbd3580d.

   BACK TO NOTE REFERENCE 4

5. See, on this process, especially in Hungary and Poland, Anne Applebaum, *Twilight of Democracy: The Seductive Lure of Authoritarianism* (London: Allen Lane, 2020).

   BACK TO NOTE REFERENCE 5

6. Ibid., 17.

   BACK TO NOTE REFERENCE 6

7. See S. E. Finer, *The History of Government*, vol. 1, *Ancient Monarchies and Empires* (Oxford: Oxford University Press, 1997 and 1999), 1–96, "The Conceptual Prologue."

   BACK TO NOTE REFERENCE 7

8. Applebaum, *Twilight of Democracy*, and also Martin Wolf, "Alarm Signals of Our Authoritarian Age," *Financial Times*, July 21, 2020, https://www.ft.com/content/5eb5d26d-0abe-434e-be12-5068bd6d7f06.

   BACK TO NOTE REFERENCE 8

9. See Martin Sandbu, "Populists and Kleptocrats Are a Perfect Match," *Financial Times*, September 22, 2020, https://www.ft.com/content/ef4111a6-8ac8-419e-8747-8ce1b887cb61.

   BACK TO NOTE REFERENCE 9

10. Ivan Krastev and Stephen Holmes, *The Light That Failed: A Reckoning* (London: Penguin, 2019).

    BACK TO NOTE REFERENCE 10

11. Roberto Stefan Foa and Jonathan Wilmot, "The West Has a Resentment Epidemic: Across the West, the Main Trigger of Populism Has Been the Growing Inequality—and Hostility—Between Urban and Rural Regions," *Foreign Policy*, September 18, 2019, https://foreignpolicy.com/2019/09/18/the-west-has-a-resentment-epidemic-populism/.

    BACK TO NOTE REFERENCE 11

12. Michael J. Sandel, *The Tyranny of Merit: What's Become of the Common Good?* (London: Penguin, 2020).

    BACK TO NOTE REFERENCE 12

13. A lively account of this history is in Simon Schama, "Who Speaks for the People? Liberal Institutions Are Under Attack from Leaders Who Claim to Embody the Popular Will," *Financial Times*, October 4, 2019, https://www.ft.com/content/9e8f70b8-e5eb-11e9-b112-9624ec9edc59.

    BACK TO NOTE REFERENCE 13

14. Anne Applebaum describes how disappointed careerism plays a role in driving people (especially ambitious and mediocre people) toward supporting would-be tyrants. See Applebaum, *Twilight of Democracy*. See also Martin Wolf, "Alarm Signals of Our Authoritarian Age," *Financial Times*, July 21, 2020.

    BACK TO NOTE REFERENCE 14

15. Jan-Werner Müller, *What Is Populism?* (Philadelphia: University of Pennsylvania Press, 2016), 3.

    BACK TO NOTE REFERENCE 15

16. Ibid., 21.

    BACK TO NOTE REFERENCE 16

17. Ibid., 22.

    BACK TO NOTE REFERENCE 17

18. Ibid., 27.

    BACK TO NOTE REFERENCE 18

19. This is a play on "*L'état, c'est moi*," a sentence commonly (but probably erroneously) attributed to Louis XIV of France. See *Oxford Reference*, https://www.oxfordreference.com.

    BACK TO NOTE REFERENCE 19

20. Steven Levitsky and Daniel Ziblatt, *How Democracies Die: What History Reveals about Our Future* (New York: Crown, 2018), 23–24.

    BACK TO NOTE REFERENCE 20

21. Ibid., 72–96, chapter 4.

BACK TO NOTE REFERENCE 21

22. See Barry Eichengreen, *The Populist Temptation: Economic Grievance and Political Reaction in the Modern Era* (New York: Oxford University Press, 2018), chapter 1 and especially page 4.

BACK TO NOTE REFERENCE 22

23. Our Documents: The Second New Deal, "Franklin Delano Roosevelt's Address Announcing the Second New Deal," October 31, 1936, http://docs.fdrlibrary.marist.edu/od2ndst.html.

BACK TO NOTE REFERENCE 23

24. John B. Judis, *The Populist Explosion: How the Great Recession Transformed American and European Politics* (New York: Columbia Global Reports, 2016), 14.

BACK TO NOTE REFERENCE 24

25. Miles Johnson, "Will Italy's New Coalition Flourish or Succumb to Resurgent Salvini?" *Financial Times*, September 5, 2019, https://www.ft.com/content/84431938-cf45-11e9-b018-ca4456540ea6. It is worth noting, however, that the PD partly has roots in the old Italian communist party.

BACK TO NOTE REFERENCE 25

26. Judis, *The Populist Explosion*, 14–15.

BACK TO NOTE REFERENCE 26

27. "George Wallace: American Politician," *Britannica*, https://www.britannica.com/biography/George-C-Wallace; and David Leonhardt and Prasad Philbrick, "Donald Trump's Racism: The Definitive List, Updated," *New York Times*, January 15, 2018, https://www.nytimes.com/interactive/2018/01/15/opinion/leonhardt-trump-racist.html.

BACK TO NOTE REFERENCE 27

28. Martin Wolf, "A Republican Tax Plan Built for Plutocrats," *Financial Times*, November 21, 2017, https://www.ft.com/content/e494f47e-ce1a-11e7-9dbb-291a884dd8c6.

BACK TO NOTE REFERENCE 28

29. "Jarosław Kaczyński: Prime Minister of Poland," *Britannica*, https://www.britannica.com/biography/Jaroslaw-Kaczynski. On the characteristics of the PiS government, see Slawomir Sierakowski, "The Five Lessons of Populist Rule," *Project Syndicate*, January 2, 2017, https://www.project-syndicate.org/commentary/lesson-of-populist-rule-in-poland-by-slawomir-sierakowski-2017-01?barrier=accesspaylog.

BACK TO NOTE REFERENCE 29

30. Brett Meyer, "Pandemic Populism: An Analysis of Populists Leaders' Responses to Covid-19," Tony Blair Institute for Global Change, August 17, 2020, https://institute.global/policy/pandemic-populism-analysis-populist-leaders-responses-covid-19.

BACK TO NOTE REFERENCE 30

31. Thus, the Centre for the Future of Democracy's *The Great Reset: Public Opinion, Populism, and the Pandemic*, published in January 2022, concludes from opinion surveys in twenty-seven countries that "we find strong evidence that the pandemic has reversed the rise of populism, whether measured using support for populist parties, approval of populist leaders, or agreements with populist attitudes." However, it also finds that "we find a disturbing erosion of support for core democratic beliefs and principles." See page 1 in Roberto S. Foa, Xavier Romero-Vidal, Andrew J. Klassen, Joaquin Fuenzalida Concha, Marian Quednau, and Lisa Sophie Fenner, *The Great Reset: Public Opinion, Populism, and the Pandemic*, Centre for the Future of Democracy, University of Cambridge, January 2022.

BACK TO NOTE REFERENCE 31

32. See Martin Baxter, "Three-D Politics and the Seven Tribes," *Electoral Calculus*, April 20, 2019, https://www.electoralcalculus.co.uk/pol3d_main.html. The data used come from British Election Study, a long-running series of polls run by academics at the universities of Manchester, Nottingham, and Oxford.

BACK TO NOTE REFERENCE 32

33. New Labour's introduction of the minimum wage and greater protection of worker rights were important symbols of this orientation.

BACK TO NOTE REFERENCE 33

34. This definition of the more nationalist and socially conservative members of the traditional working class as "Somewheres" is taken from David Goodhart's seminal book *The Road to Somewhere: The Populist Revolt and the Future of Politics* (London: C. Hurst & Co, 2017). In Goodhart's view, "Somewheres" are people who are strongly attached to a particular place and can be opposed to the normally university-educated "Anywheres." Somewheres are not just attached to a place, but also tend to be socially conservative and patriotic. Goodhart attributes to Somewheres the decisive support for right-wing populism in the US, the UK, and continental Europe.

BACK TO NOTE REFERENCE 34

35. Polly Curtis, "Gordon Brown Calls Labour Supporter a 'Bigoted Woman,' " *Guardian*, April 28, 2010, https://www.theguardian.com/politics/2010/apr/28/gordon-brown-bigoted-woman.

BACK TO NOTE REFERENCE 35

36. Martin Baxter, "Voter Migration by Group 2017–2019," *Electoral Calculus*, January 21, 2020.

BACK TO NOTE REFERENCE 36

37. Francis Fukuyama, *Identity: The Demand for Dignity and the Politics of Resentment* (New York: Farrar, Straus and Giroux, 2018), 6.

BACK TO NOTE REFERENCE 37

38. Thomas Piketty, “Brahmin Left vs Merchant Right: Rising Inequality & the Changing Structure of Political Conflict (Evidence from France, Britain and the US, 1948–2017),” March 2018, WID.world Working Paper Series No 2018/7, http://piketty.pse.ens.fr/files/Piketty2019.pdf. This argument is elaborated further in Thomas Piketty, *Capital and Ideology* (Cambridge, MA, and London: Belknap Press of Harvard University Press, 2020), 807–61, chapter 15; and Amory Gethin, Clara Martínez-Toledano, and Thomas Piketty, “Brahmin Left vs Merchant Right: Changing Political Cleavages in 21 Western Democracies 1948–2020,” *Quarterly Journal of Economics* 137, no. 1 (2022).

BACK TO NOTE REFERENCE 38

39. Piketty, “Brahmin Left vs Merchant Right,” abstract.

BACK TO NOTE REFERENCE 39

40. Piketty, *Capital and Ideology*, 833.

BACK TO NOTE REFERENCE 40

41. Gethin, Martinez-Toledano, and Piketty, “Brahmin Left Versus Merchant Right,” 3.

BACK TO NOTE REFERENCE 41

42. Piketty, *Capital and Ideology*, 859, figure 15.18.

BACK TO NOTE REFERENCE 42

43. Thomas B. Edsall, “We Aren’t Seeing White Support for Trump for What It Is,” *New York Times*, August 28, 2019, https://www.nytimes.com/2019/08/28/opinion/trump-white-voters.html?action=click&module=Opinion&pgtype=Homepage.

BACK TO NOTE REFERENCE 43

44. Demetri Sevastopulo, “Trump Sees Clearer Path to Republican Nomination,” *Financial Times*, February 24, 2016, https://www.ft.com/content/8bf2aeb0-db1e-11e5-a72f-1e7744c66818.

BACK TO NOTE REFERENCE 44

45. OECD, “Intergenerational Mobility in Education,” OECD.Stat, stats.oecd.org.

BACK TO NOTE REFERENCE 45

46. See Global Security.org, “ ‘Führerprinzip’ (Leader Principle),” https://www.globalsecurity.org/military/world/europe/de-fuhrerprinzip.htm.

BACK TO NOTE REFERENCE 46

47. Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*, 3rd ed. (New York: Harper & Row, 1950).

BACK TO NOTE REFERENCE 47

48. Thomas E. Mann and Norman J. Ornstein, "Let's Just Say It: The Republicans Are the Problem," *Washington Post*, April 27, 2012, https://www.washingtonpost.com/opinions/lets-just-say-it-the-republicans-are-the-problem/2012/04/27/gIQAxCVUlT_story.html. See also Mann and Ornstein, *It's Even Worse Than It Looks: How the American Constitutional System Collided with the New Politics of Extremism* (New York: Basic Books, 2012).

BACK TO NOTE REFERENCE 48

49. Katherine Stewart, "Why Trump Reigns as King Cyrus," *New York Times*, December 31, 2018, https://www.nytimes.com/2018/12/31/opinion/trump-evangelicals-cyrus-king.html?action=click&module=MoreInSection&pgtype=Article&region=Footer&contentCollection=Opini

BACK TO NOTE REFERENCE 49

50. Jonathan Portes, "The Economics of Migration," June 5, 2019, https://journals.sagepub.com/doi/10.1177/1536504219854712.

BACK TO NOTE REFERENCE 50

51. Yascha Mounk, *The Great Experiment: How to Make Diverse Democracies Work* (London: Bloomsbury, 2022); and Martin Wolf, "A Call to Arms for Diverse Democracies and Their 'Decent Middle,' " *Financial Times*, May 5, 2022, https://www.ft.com/content/83ba0474-70ea-4759-81f1-e14f6ea269fa

BACK TO NOTE REFERENCE 51

52. Yascha Mounk, "Illiberal Democracy or Undemocratic Liberalism?" *Project Syndicate*, June 9, 2016, https://www.project-syndicate.org/commentary/trump-european-populism-technocracy-by-yascha-mounk-1-2016-06.

BACK TO NOTE REFERENCE 52

53. Martin Wolf, "Counter-revolution by Jan Zielonka—Project Backlash," *Financial Times*, February 1, 2018, https://www.ft.com/content/e4290c10-069f-11e8-9650-9c0ad2d7c5b5; and Zielonka, *Counter-revolution: Liberal Europe in Retreat* (Oxford: Oxford University Press, 2018).

BACK TO NOTE REFERENCE 53

54. Martin Wolf, "A Republican Tax Plan Built for Plutocrats," *Financial Times*, November 21, 2017, https://www.ft.com/content/e494f47e-ce1a-11e7-9dbb-291a884dd8c6.

BACK TO NOTE REFERENCE 54

55. Martin Wolf, "A New Gilded Age," *Financial Times*, April 25, 2006, https://www.ft.com/content/76def9b0-d481-11da-a357-0000779e2340.

BACK TO NOTE REFERENCE 55

56. Ibid.

BACK TO NOTE REFERENCE 56

57. See, for example, Arthur Laffer, "Trump's Tax Cut Will Put America Back on a Path to Growth," *Financial Times*, October 29, 2017, https://www.ft.com/content/50c5a34c-b8d0-11e7-bff8-f9946607a6ba. Laffer was one of the principal proponents of supply-side economics under Ronald Reagan.

BACK TO NOTE REFERENCE 57

58. In an outstanding book, *The Vanishing Middle Class: Prejudice and Power in a Dual Economy* (Cambridge, MA: MIT Press, 2017), Peter Temin of the Massachusetts Institute of Technology provides an account of the role of racial prejudice in cementing the political power of the American economic elite. Note, in particular, what he terms "racecraft," the politically convenient division of the bottom 80 percent of American workers into the "whites" and people of color. See, for example, chapter 5 and page 154. See also Heather Cox Richardson, *How the South Won the Civil War: Oligarchy, Democracy, and the Continuing Fight for the Soul of America* (New York: Oxford University Press, 2020).

BACK TO NOTE REFERENCE 58

59. This is not to argue that there is no value in the idea of "trickle down" in economics. There is no doubt that almost everybody has benefited from the vast improvements in economic know-how and productivity of the past two centuries. In an obvious sense, this is a "trickle down" from a process of development in which capitalist economics played a huge part. But that is quite different from arguing that manipulations of the tax system aimed at benefiting the most successful and richest are sure to benefit everybody.

BACK TO NOTE REFERENCE 59

60. Between 1933 and 1995, the Democrats held a majority in the House of Representatives in all Congresses, bar two (1947 and 1953). Since 1995, the Republicans have held a majority in the House in all Congresses, bar four (2007, 2009, 2019, and 2021).

BACK TO NOTE REFERENCE 60

61. "Jim Crow Law: United States [1877–1954]," *Britannica*, https://www.britannica.com/event/Jim-Crow-law.

BACK TO NOTE REFERENCE 61

62. The most important decisions were *Brown v. Board of Education of Topeka* (1954), which ruled against segregation in public education; *Heart of Atlanta Motel, Inc. v. United States* (1964), which challenged the constitutionality of the Civil Rights Act of 1964; and *Loving v. Virginia* (1967), which ruled the bans on interracial marriage unconstitutional. See "Ten Important Supreme Court Decisions in Black History," February 28, 2017, https://www.infoplease.com/us/government/judicial-branch/ten-important-supreme-court-decisions-in-black-history.

BACK TO NOTE REFERENCE 62

63. On the role of the southern system and its Western offshoots in contemporary American conservatism, see Richardson, *How the South Won the Civil War*.

BACK TO NOTE REFERENCE 63

64. Peter H. Lindert and Jeffrey G. Williamson, "American Incomes 1774–1860," National Bureau of Economic Research Working Paper No. 18396, September 15, 2012, https://www.nber.org/papers/w18396.

BACK TO NOTE REFERENCE 64

65. See James W. Loween, "5 Myths about Why the South Seceded," *Washington Post*, January 11, 2011, https://www.washingtonpost.com/wp-dyn/content/article/2011/01/07/AR2011010706547.html.

BACK TO NOTE REFERENCE 65

66. "Civil War Casualties: Casualty Numbers and Battle Death Statistics for the American Civil War," https://www.historynet.com/civil-war-casualties. See also Guy Gugliotta, "New Estimate Raises Civil War Death Toll," *New York Times*, April 2, 2012, https://www.nytimes.com/2012/04/03/science/civil-war-toll-up-by-20-percent-in-new-estimate.html.

BACK TO NOTE REFERENCE 66

67. National Park Service, "The Civil War," https://www.nps.gov/civilwar/facts.htm.

BACK TO NOTE REFERENCE 67

68. See Gordon Rhea, "Why Non-Slaveholding Southerners Fought," American Battlefield Trust, January 25, 2011, https://www.battlefields.org/learn/articles/why-non-slaveholding-southerners-fought.

BACK TO NOTE REFERENCE 68

69. Elaine Kamarck, "How Many Undocumented Immigrants Are in the United States and Who Are They?" November 12, 2019, https://www.brookings.edu/policy2020/votervital/how-many-undocumented-immigrants-are-in-the-united-states-and-who-are-they/.

BACK TO NOTE REFERENCE 69

70. William H. Frey, "The US Will Become 'Minority White' in 2045, Census Projects: Youthful Minorities Are the Engine of Future Growth," Brookings, March 14, 2018, https://www.brookings.edu/blog/the-avenue/2018/03/14/the-us-will-become-minority-white-in-2045-census-projects/.

BACK TO NOTE REFERENCE 70

71. In an important judgment in 2013, the Supreme Court struck down central elements in the Voting Rights Act of 1965, thereby allowing nine states, mostly in the South, to free themselves of

federal surveillance of the bad behavior. See Adam Liptak, "Supreme Court Invalidates Key Part of Voting Rights Act," *New York Times*, June 25, 2013, https://www.nytimes.com/2013/06/26/us/supreme-court-ruling.html.

BACK TO NOTE REFERENCE 71

72. Steven Levitsky and Daniel Ziblatt, "Why Republicans Play Dirty," *New York Times*, September 20, 2019, https://www.nytimes.com/2019/09/20/opinion/republicans-democracy-play-dirty.html?action=click&module=Opinion&pgtype=Homepage.

BACK TO NOTE REFERENCE 72

73. See Matthew Wills, "How Antebellum Christians Justified Slavery," *JSTOR Daily*, June 27, 2018, https://daily.jstor.org/how-antebellum-christians-justified-slavery/.

BACK TO NOTE REFERENCE 73

74. As of December 10, 2019, Donald Trump had made 15,413 false claims since he took office. See Glenn Kessler, Salvador Rizzo, and Meg Kelly, "President Trump Has Made 15,413 False or Misleading Claims over 1,055 Days," *Washington Post*, December 16, 2019, https://www.washingtonpost.com/politics/2019/12/16/president-trump-has-made-false-or-misleading-claims-over-days/.

BACK TO NOTE REFERENCE 74

75. Philip Schwadel and Gregory A. Smith, "Evangelical Approval of Trump Remains High, but Other Religious Groups Are Less Supportive," Pew Research Center, March 18, 2019, https://www.pewresearch.org/fact-tank/2019/03/18/evangelical-approval-of-trump-remains-high-but-other-religious-groups-are-less-supportive/.

BACK TO NOTE REFERENCE 75

76. Matthew Yglesias, "Fox News's Propaganda Isn't Just Unethical—Research Shows It's Enormously Influential: Without the 'Fox Effect,' Neither Bush nor Trump Could Have Won," *Vox*, March 4, 2019, https://www.vox.com/2019/3/4/18249847/fox-news-effect-swing-elections.

BACK TO NOTE REFERENCE 76

77. Clyde Haberman, "Roger Ailes," *New York Times*, May 18, 2017, https://www.nytimes.com/2017/05/18/business/media/roger-ailes-dead.html.

BACK TO NOTE REFERENCE 77

78. David Mikkelson, "Rush Limbaugh 'Racist Quotes' List," Snopes, https://www.snopes.com/fact-check/bone-voyage/.

BACK TO NOTE REFERENCE 78

79. Robert D. McFadden and Michael M. Grynbaum, "Rush Limbaugh," *New York Times*, February 18, 2021, https://www.nytimes.com/2021/02/17/business/media/rush-limbaugh-dead.html.

BACK TO NOTE REFERENCE 79

80. Thomas Philippon, *The Great Reversal: How America Gave Up on Free Markets* (Cambridge, MA: Belknap Press of Harvard University Press, 2019), chapter 10, especially pages 178–89 and figures 10.2a and 10.2b on page 189. See also Martin Wolf, "Why the US Economy Isn't as Competitive or Free as You Think," *Financial Times*, November 14, 2019, https://www.ft.com/content/97be3f2c-00b1-11ea-b7bc-f3fa4e77dd47.

BACK TO NOTE REFERENCE 80

81. "Joseph McCarthy: United States Senator," *Britannica*, https://www.britannica.com/biography/Joseph-McCarthy; and "John Birch Society," *Britannica*, https://www.britannica.com/topic/John-Birch-Society.

BACK TO NOTE REFERENCE 81

82. Social Capital Project, "The Class Divide in Marriage," SCP brief, November 2017, https://www.jec.senate.gov/public/_cache/files/aba9b359-7457-4704-b0f1-93232f54b650/class-divide-in-marriage.pdf.

BACK TO NOTE REFERENCE 82

83. "You know, to just be grossly generalistic, you could put half of Trump's supporters into what I call the basket of deplorables. Right? The racist, sexist, homophobic, xenophobic, Islamaphobic—you name it. And unfortunately there are people like that, and he has lifted them up." See Katie Reilly, "Read Hillary Clinton's 'Basket of Deplorables' Remarks about Donald Trump Supporters," *Time*, September 10, 2016, https://time.com/4486502/hillary-clinton-basket-of-deplorables-transcript/.

BACK TO NOTE REFERENCE 83

84. Stuart Stevens, "Wake Up, Republicans. Your Party Stands for All the Wrong Things Now," *Washington Post*, January 1, 2020, https://www.washingtonpost.com/opinions/wake-up-republicans-your-party-stands-for-all-the-wrong-things-now/2019/12/31/c8347b32-2be8-11ea-9b60-817cc18cf173_story.html?utm_campaign=opinions&utm_medium=E-mail&utm_source=Newsletter&wpisrc=nl_opinions&wpmm=1.

BACK TO NOTE REFERENCE 84

85. See Jon Riley and Robert Chote, "Crisis and Consolidation in the Public Finances," Office for Budget Responsibility Working Paper No. 7, September 2014, https://obr.uk/docs/dlm_uploads/WorkingPaper7a.pdf.

BACK TO NOTE REFERENCE 85

86. See Ch. Wiburski, *Libertas as a Political Idea at Rome during the Late Republic and Early Principate* (Cambridge: Cambridge University Press, 1950), published online by Cambridge University Press 2009, https://www.cambridge.org/core/books/abs/libertas-as-a-political-idea-at-

rome-during-the-late-republic-and-early-principate/general-characteristics-of-libertas/9A3E2748D31B349194E1CC439A280911.

BACK TO NOTE REFERENCE 86

87. "Blackshirt: Italian History," *Britannica*, https://www.britannica.com/topic/Blackshirt; and "SA: Nazi Organization," *Britannica*, https://www.britannica.com/topic/SA-Nazi-organization.

BACK TO NOTE REFERENCE 87

88. Michael Barthel, "5 Key Takeaways about the State of the News Media in 2018," Pew Research Center, July 23, 2019, https://www.pewresearch.org/fact-tank/2019/07/23/key-takeaways-state-of-the-news-media-2018/.

BACK TO NOTE REFERENCE 88

89. Yascha Mounk, *The People vs. Democracy: Why Our Freedom Is in Danger and How to Save It* (Cambridge, MA: Harvard University Press, 2018), 149–50.

BACK TO NOTE REFERENCE 89

90. Jonathan Haidt and Tobias Rose-Stockwell, "The Dark Psychology of Social Networks: Why It Feels Like Everything Is Going Haywire," *Atlantic*, December 2019, https://www.theatlantic.com/magazine/archive/2019/12/social-media-democracy/600763/.

BACK TO NOTE REFERENCE 90

91. Martin Gurri, *The Revolt of the Public and the Crisis of Authority in the New Millennium* (San Francisco: Stripe Press, 2018), 395.

BACK TO NOTE REFERENCE 91

92. See Marietje Schaake, "Greater Online Transparency Is the Key to Defending Democracy," *Financial Times*, January 10, 2022, https://www.ft.com/content/0e1d1cd8-73af-4a63-b426-e0ee5a7bf834.

BACK TO NOTE REFERENCE 92

93. Marshall McLuhan, *Understanding Media: The Extensions of Man* (Cambridge, MA: MIT Press, 1964 and 1994).

BACK TO NOTE REFERENCE 93

94. Roberto S. Foa et al., *The Great Reset.*

BACK TO NOTE REFERENCE 94

95. Shawn W. Rosenberg, "Democracy Devouring Itself: The Rise of the Incompetent Citizen and the Appeal of Right Wing Populism," 2019, in Domenico Uhng Hur and José Manuel Sabucedo, eds., *Psychology of Political and Everyday Extremism*s, forthcoming, https://escholarship.org/content/qt8806z01m/qt8806z01m_noSplash_eef039c0e7aa9b1263a0d0b7

BACK TO NOTE REFERENCE 95

96. Ibid.

BACK TO NOTE REFERENCE 96

97. Martin Wolf, “Democrats, Demagogues and Despots,” *Financial Times*, December 21, 2016, https://www.ft.com/content/9310dcea-c5d2-11e6-8f29-9445cac8966f.

BACK TO NOTE REFERENCE 97

Prologue to Part III

1. Branko Milanovic, *Capitalism Alone: The Future of the System That Rules the World* (Cambridge, MA, and London: Belknap Press of Harvard University Press, 2019).

   BACK TO NOTE REFERENCE 1

2. Ibid., 20711.

   BACK TO NOTE REFERENCE 2

3. See Torben Iversen and David Soskice, *Democracy and Prosperity: Reinventing Capitalism through a Turbulent Century* (Princeton, NJ, and Oxford: Princeton University Press, 2019).

   BACK TO NOTE REFERENCE 3

4. Martin Wolf, "The Case for Capitalism," *Financial Times*, March 28, 2019, https://www.ft.com/content/d8b903d0-4bfe-11e9-bbc9-6917dce3dc62.

   BACK TO NOTE REFERENCE 4

Chapter Seven: Renewing Capitalism

1. *The Independent*, September 16, 1998, https://www.oxfordreference.com/view/10.1093/acref/9780191843730.001.0001/q-oro-ed5-00012411.

   BACK TO NOTE REFERENCE 1

2. Cited in D. E. Moggridge, *Maynard Keynes: An Economist's Biography* (London and New York: Routledge, 1992), 695. The words come from a letter from Keynes to Frederick Pethick-Lawrence (1st Baron Pethick-Lawrence) on June 21, 1942. A facsimile of the letter is available online at Trinity College Cambridge, "Letter from J. M. Keynes to F. W. Pethick-Lawrence," https://archives.trin.cam.ac.uk/index.php/letter-from-j-m-keynes-to-f-w-pethick-lawrence-23.

   BACK TO NOTE REFERENCE 2

3. Karl Popper, *The Open Society and Its Enemies*, vol. 1, *The Spell of Plato* (London: Routledge, 1945).

   BACK TO NOTE REFERENCE 3

4. Jason Hickel argues that we should embrace "degrowth" (that is, give up the aim of economic growth), that capitalism is a five-hundred-year-old moral and practical catastrophe, and that human beings should stop thinking they are masters of nature in *Less Is More: How Degrowth Will Save the World* (London: William Heinemann, 2020).

   BACK TO NOTE REFERENCE 4

5. Ibid., 287.

   BACK TO NOTE REFERENCE 5

6. Our World in Data, "Life Expectancy," https://ourworldindata.org/life-expectancy.

   BACK TO NOTE REFERENCE 6

7. Martin Wolf, "What the World Can Learn from the COVID-19 Pandemic," *Financial Times*, November 24, 2020, https://www.ft.com/content/7fb55fa2-4aea-41a0-b4ea-ad1a51cb415f.

   BACK TO NOTE REFERENCE 7

8. See Martin Wolf, "Last Chance for the Climate Transition," *Financial Times*, February 18, 2020, https://www.ft.com/content/3090b1fe-51a6-11ea-8841-482eed0038b1.

   BACK TO NOTE REFERENCE 8

9. On the required technological revolution, see Bill Gates, *How to Avoid a Climate Disaster: The Solutions We Have and the Breakthroughs We Need* (London: Allen Lane, 2021), as well as various publications of the Energy Transitions Commission, notably *Making Mission Possible: Delivering a Net-zero Economy*, September 2020, https://www.energy-

transitions.org/publications/making-mission-possible/; *Keeping 1.5°C Alive: Closing the Gap in the 2020*s, September 2021, https://www.energy-transitions.org/publications/keeping-1-5-alive/; and International Energy Agency, *Net Zero by 2050: A Roadmap for the Global Energy Sector*, October 2021, https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroby2050-ARoadmapfortheGlobalEnergySector_CORR.pdf.

BACK TO NOTE REFERENCE 9

10. Edmund Burke, *Reflections on the Revolution in France and on the Proceedings in Certain Societies in London Relative to That Event* (London: Dodsley, 1790), https://gallica.bnf.fr/ark:/12148/bpt6k111218p.r=.langEN.

BACK TO NOTE REFERENCE 10

11. See Stéphane Courtois Nicolas Werth, Jean-Louis Panné, Andrzej Paczkowski, Karel Bartosek, and Jean-Louise Margolin, *The Black Book of Communism: Crimes, Terror, Repression*, trans. Jonathan Murphy and Mark Kramer (Cambridge, MA: Harvard University Press, 1999).

BACK TO NOTE REFERENCE 11

12. Leon Trotsky, "Revolutionary and Socialist Art," *Literature and Revolution*, chapter 8, https://www.marxists.org/archive/trotsky/1924/lit_revo/ch08.htm.

BACK TO NOTE REFERENCE 12

13. See Christopher Sandom, Soren Faurby, Brody Sandel, and Jens-Christian Svenning, "Global Late Quaternary Megafauna Extinctions Linked to Humans, Not Climate Change," *Proceedings of the Royal Society, Biological Sciences*, July 22, 2014, https://royalsocietypublishing.org/doi/10.1098/rspb.2013.3254.

BACK TO NOTE REFERENCE 13

14. Jeremy Shearmur and Piers Norris Turner, eds., "Ideal and Reality in Society" in *Popper: After the Open Society: Selected Social and Political Writings* (London and New York: Routledge, 2008), 55.

BACK TO NOTE REFERENCE 14

15. See "The Beveridge Report and the Foundations of the Welfare State," National Archives, December 7, 2017, https://blog.nationalarchives.gov.uk/beveridge-report-foundations-welfare-state/.

BACK TO NOTE REFERENCE 15

16. Richard Layard, *Can We Be Happier? Evidence and Ethics* (London: Pelican Books, 2020), and Andrew E. Clark, Sarah Flèche, Richard Layard, Nattavudh Powdthavee, and George Ward, *The Origins of Happiness: The Science of Well-being over the Life Course* (Princeton, NJ: Princeton University Press, 2018). See also Martin Wolf, "The Case for Making Wellbeing the Goal of Public Policy," *Financial Times*, May 30, 2019, https://www.ft.com/content/d4bb3e42-823b-11e9-9935-ad75bb96c849.

BACK TO NOTE REFERENCE 16

17. Gene Sperling, former economic adviser to Barack Obama, has written an outstanding book built on the idea of economic dignity. This is a useful way of framing the approach to reform. See *Economic Dignity* (New York: Penguin, 2020).

BACK TO NOTE REFERENCE 17

18. Joseph Stiglitz, Amartya Sen, and Jean-Paul Fitoussi, *Report by the Commission on the Measurement of Economic Performance and Social Progress* (Paris: Organisation for Economic Co-operation and Development, 2009), 14–15. One of the first official efforts to go beyond conventional GDP accounting was the *Human Development Index*, launched in the *Human Development Report 1990*, which was produced by the United Nations Development Program under the direction of the late Mahbub ul Haq, with the advice of the Indian Nobel laureate, Amartya Sen. See "Human Development Index," http://hdr.undp.org/en/content/human-development-index-hdi.

BACK TO NOTE REFERENCE 18

19. See John F. Helliwell, Richard Layard, Jeffrey D. Sachs, Jan-Emmanuel De Neve, Lara B. Akin, and Shun Wang, *World Happiness Report 2021*, table 2.1, https://happiness-report.s3.amazonaws.com/2021/WHR+21.pdf. See also Our World in Data, "Self-Reported Life Satisfaction vs GDP per capita, 2020," https://ourworldindata.org/grapher/gdp-vs-happiness.

BACK TO NOTE REFERENCE 19

20. Franklin Delano Roosevelt, "The Four Freedoms," speech, January 6, 1941, https://www.americanrhetoric.com/speeches/fdrthefourfreedoms.htm. This speech is known even more for the goals Roosevelt set out for the world. In it he introduced the idea of the "four freedoms"—freedom of speech, freedom of worship, freedom from want, and freedom from fear. These freedoms might be viewed as the global corollary of his domestic objectives. The US was, he insisted, bound up in the fate of the world. It could not, argued Roosevelt, be an island of democratic freedom in an ocean of despotism. Thus, as he asserted, "those who would give up essential liberty to purchase a little temporary safety deserve neither liberty nor safety."

BACK TO NOTE REFERENCE 20

21. Michael Sandel, *The Tyranny of Merit: What's Become of the Common Good?* (London: Penguin, 2020).

BACK TO NOTE REFERENCE 21

22. John Kay and Mervyn King, *Radical Uncertainty: Decision-making for an Unknowable Future* (London: Bridge Street Press, 2020).

BACK TO NOTE REFERENCE 22

23. On black swans, Nicholas Taleb, *The Black Swan: The Impact of the Highly Improbable* (London and New York: Penguin, 2007.

BACK TO NOTE REFERENCE 23

24. See Organization for Economic Co-operation and Development, “New Approaches to Economic Challenges,” https://www.oecd.org/naec/. See also Martin Wolf, “Coronavirus Crisis Lays Bare the Risks of Financial Leverage, Again,” *Financial Times*, April 28, 2020, https://www.ft.com/content/098dcd60-8880-11ea-a01c-a28a3e3fbd33.

    BACK TO NOTE REFERENCE 24

25. See Friedrich A. Hayek, “Scientism and the Study of Society, Part I,” *Economica* 9, no. 35 (August 1942): 267–91, https://www.jstor.org/stable/2549540?origin=crossref.

    BACK TO NOTE REFERENCE 25

26. See Sébastien Miroudot, “Resilience Versus Robustness in Global Value Chains: Some Policy Implications,” *VoxEU*, June 18, 2020, https://cepr.org/voxeu/columns/resilience-versus-robustness-global-value-chains-some-policy-implications.

    BACK TO NOTE REFERENCE 26

27. On resilience, see Markus Brunnermeier, *The Resilient Society* (Colorado Springs: Endeavor, 2021).

    BACK TO NOTE REFERENCE 27

28. See International Federation of Accountants, Public Sector Committee, *Implementing Accrual Accounting in Government: The New Zealand Experience*, October 1994, https://www.ifac.org/system/files/publications/files/no-1-implementation-accr.pdf.

    BACK TO NOTE REFERENCE 28

29. See Dag Detter and Stefan Fölster, *The Public Wealth of Nations: How Management of Public Assets Can Boost or Bust Economic Growth* (Basingstoke, UK: Palgrave Macmillan, 2015).

    BACK TO NOTE REFERENCE 29

Chapter Eight: Toward a "New" New Deal

1. Warren Buffett, https://www.goodreads.com/author/quotes/756.Warren_Buffett.

   BACK TO NOTE REFERENCE 1

2. This was written by Supreme Court Justice Oliver Wendell Holmes in a dissenting opinion in 1927. See "Taxes Are What We Pay for Civilized Society," https://quoteinvestigator.com/2012/04/13/taxes-civilize/.

   BACK TO NOTE REFERENCE 2

3. Dani Rodrik, *The Inescapable Trilemma of the World Economy*, Dani Rodrik's blog, June 27, 2007, https://rodrik.typepad.com/dani_rodriks_weblog/2007/06/the-inescapable.html.

   BACK TO NOTE REFERENCE 3

4. See Mark Thomas, *99%: Mass Impoverishment and How We Can End It* (London: Apollo, 2019).

   BACK TO NOTE REFERENCE 4

5. On the dangers of excessive private debt and consequent crises, see Richard Vague, *A Brief History of Doom: Two Hundred Years of Financial Crises* (Philadelphia: University of Pennsylvania Press, 2019).

   BACK TO NOTE REFERENCE 5

6. On the "blame game" played by politicians, see Simon Wren-Lewis, *The Lies We Were Told: Politics, Economics, Austerity and Brexit* (Bristol: Bristol University Press, 2018).

   BACK TO NOTE REFERENCE 6

7. See, in particular, Martin Wolf, *The Shifts and the Shocks: What We've Learned—and Have Still to Learn—from the Financial Crisis* (London and New York: Penguin, 2014 and 2015), chapter 6.

   BACK TO NOTE REFERENCE 7

8. Jason Furman and Lawrence H. Summers, "A Reconsideration of Fiscal Policy in the Era of Low Interest Rates," November 30, 2020, Discussion Draft, Brookings Institution, https://www.brookings.edu/wp-content/uploads/2020/11/furman-summers-fiscal-reconsideration-discussion-draft.pdf.

   BACK TO NOTE REFERENCE 8

9. See Lawrence H. Summers and Anna Stansbury, "The End of the Golden Age of Central Banking?: Secular Stagnation Is about More Than the Zero Lower Bound," November 2020, preliminary and incomplete.

   BACK TO NOTE REFERENCE 9

10. I condemned what I called “liquidationism” in *The Shifts and the Shocks*.

    BACK TO NOTE REFERENCE 10

11. See Kimberly Amadeo, “Average American Middle-Class Net Worth?” *The Balance*, updated December 30, 2021, https://www.thebalance.com/american-middle-class-net-worth-3973493.

    BACK TO NOTE REFERENCE 11

12. On these arguments, see Martin Wolf, “What Central Banks Ought to Target,” *Financial Times*, March 2, 2021, https://www.ft.com/content/160db526-5e8d-4152-b711-21501a7fbd01.

    BACK TO NOTE REFERENCE 12

13. See on these issues Martin Wolf, “A Matter of Interest—the Battle over Monetary Policy,” *Financial Times*, July 27, 2022, https://www.ft.com/content/e7cc3c01-08e3-47fc-9442-d45378b34bb8, which discusses Ben S. Bernanke, *21st Century Monetary Policy: The Federal Reserve from the Great Inflation to Covid-19* (London and New York: W. W. Norton, 2022), and Edward Chancellor, *The Price of Time: The Real Story of Interest* (London: Allen Lane, 2022).

    BACK TO NOTE REFERENCE 13

14. See Eric Lonergan, “Reply to Larry Summers,” August 26, 2019, https://www.philosophyofmoney.net/a-reply-to-larry-summers/.

    BACK TO NOTE REFERENCE 14

15. George Soros, “The EU Should Issue Perpetual Bonds,” *Project Syndicate*, April 20, 2020, https://www.project-syndicate.org/commentary/finance-european-union-recovery-with-perpetual-bonds-by-george-soros-2020-04.

    BACK TO NOTE REFERENCE 15

16. See Martin Wolf, “Restoring UK Growth Is More Urgent Than Cutting Public Debt,” *Financial Times*, December 13, 2020, https://www.ft.com/content/50394d54-1b2e-417b-ba6d-2204a4b05f24.

    BACK TO NOTE REFERENCE 16

17. See Lawrence H. Summers, “The Biden Stimulus Is Admirably Bold and Ambitious. But It Brings Some Big Risks, Too,” *Washington Post*, February 4, 2021, https://www.washingtonpost.com/opinions/2021/02/04/larry-summers-biden-covid-stimulus/.

    BACK TO NOTE REFERENCE 17

18. See L. Randall Wray, *Modern Money Theory: A Primer on Macroeconomics for Sovereign Monetary Systems* (New York: Palgrave Macmillan, 2012). On the history of these ideas, see Warren Mosler, *Soft Currency Economics II: What Everyone Thinks They Know about Monetary Policy Is Wrong* (US Virgin Islands: Valance, 1996 and 2013), and Stephanie Kelton, *The Deficit*

Myth: Modern Monetary Theory and How to Build a Better Economy (London: John Murray, 2020).

BACK TO NOTE REFERENCE 18

19. These ideas go back to Abba Lerner, one of the most significant disciples of John Maynard Keynes. See Lerner, "Money as a Creature of the State," *Papers and Proceedings of the Fifty-ninth Annual Meeting of the American Economic Association*, *American Economic Review* 37, no. 2 (May 1947): 312–17.

BACK TO NOTE REFERENCE 19

20. On modern monetary theory, see Martin Wolf, "States Create Useful Money, but Abuse It," *Financial Times*, May 28, 2019, https://www.ft.com/content/fcc1274a-8073-11e9-9935-ad75bb96c849.

BACK TO NOTE REFERENCE 20

21. Edward Shaw and Ronald McKinnon, both then at Stanford University, introduced the idea of "financial repression" in 1973. See Edward S. Shaw, *Financial Deepening in Economic Development* (New York: Oxford University Press, 1973), and Ronald McKinnon, *Money and Capital in Economic Development* (Washington, DC: Brookings Institution, 1973).

BACK TO NOTE REFERENCE 21

22. Sebastian Edwards, "Modern Monetary Disasters," *Project Syndicate*, May 16, 2019, https://www.project-syndicate.org/commentary/modern-monetary-theory-latin-america-by-sebastian-edwards-2019-05.

BACK TO NOTE REFERENCE 22

23. Martin Wolf, "Larry Summers: I'm Concerned That What Is Being Done Is Substantially Excessive," *Financial Times*, April 12, 2021, https://www.ft.com/content/380ea811-e927-4fe1-aa5b-d213816e9073.

BACK TO NOTE REFERENCE 23

24. See, on this, Martin Wolf, "The Return of the Inflation Specter," *Financial Times*, March 26, 2021, https://www.ft.com/content/6cfb36ca-d3ce-4dd3-b70d-eecc332ba1df.

BACK TO NOTE REFERENCE 24

25. See Charles Goodhart and Manoj Pradhan, *The Great Demographic Reversal: Aging Societies, Waning Inequality, and an Inflation Reversal* (London: Palgrave Macmillan, 2020), and Martin Wolf, "Why Inflation Could Be on the Way Back," *Financial Times*, November 17, 2020, https://www.ft.com/content/dea66630-d054-401a-ad1c-65ebd0d10b38.

BACK TO NOTE REFERENCE 25

26. See, on this, Martin Wolf, "The World Needs to Change the Way It Taxes Companies," *Financial Times*, March 7, 2019, https://www.ft.com/content/9a22b722-40c0-11e9-b896-fe36ec32aece. See also Alan Auerbach, Michael Devereux, Michael Keen, and John Vell, "Destination-Based Cash Flow Taxation," Oxford Legal Studies Research Paper No. 14/2017, Said Business School WP 2017-09, Oxford University Center for Business Taxation WP 17/01, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2908158.

BACK TO NOTE REFERENCE 26

27. See Martin Wolf, "The Threat and the Promise of Digital Money," *Financial Times*, October 22, 2019, https://www.ft.com/content/fc079a6a-f4ad-11e9-a79c-bc9acae3b654.

BACK TO NOTE REFERENCE 27

28. See, on digital currencies, Bank for International Settlements, "CBDCs: An Opportunity for the Monetary System," *Annual Economic Report 2021*, June 2021, chapter III, https://www.bis.org/publ/arpdf/ar2021e3.pdf; House of Lords Economic Affairs Committee, *Central Bank Digital Currencies: A Solution in Search of a Problem?*, HL Paper 131, January 13, 2022; and Markus Brunnermeier and Jean-Pierre Landau, *The Digital Euro: Policy Implications and Perspectives*, January 2022, Directorate-General for Internal Policies.

BACK TO NOTE REFERENCE 28

29. See Philippe Aghion, Céline Antonin, and Simon Bunel, trans. Jodie Cohen-Tanugi, *The Power of Creative Destruction: Economic Upheaval and the Wealth of Nations* (Cambridge, MA: Belknap Press of Harvard University Press, 2021). See also Martin Wolf, "How 'Creative Destruction' Drives Innovation and Prosperity," *Financial Times*, June 11, 2021, https://www.ft.com/content/3a0aa7cb-d10e-4352-b845-a50df70272b8.

BACK TO NOTE REFERENCE 29

30. See Jonathan Haskell and Stian Westlake, *Capitalism without Capital: The Rise of the Intangible Economy* (Oxford and Princeton, NJ: Princeton University Press, 2018).

BACK TO NOTE REFERENCE 30

31. See David Sainsbury, *Windows of Opportunity: How Nations Create Wealth* (London: Profile Books, 2020).

BACK TO NOTE REFERENCE 31

32. Ibid., chapter 2. For empirical support of this important idea, see Ricardo Hausmann, César A. Hidalgo, Sebastián Bustos, Michele Coscia, Alexander Simoes, and Muhammed A. Yildrim, *The Atlas of Economic Complexity: Mapping Paths to Prosperity* (Cambridge, MA: MIT Press, 2014).

BACK TO NOTE REFERENCE 32

33. See Alexander Hamilton, *Report on the Subject of Manufactures*, December 1791, and Friedrich List, *Das nationale System der politischen Oekonomie*, 1841.

BACK TO NOTE REFERENCE 33

34. See DARPA, "Innovation at DARPA," July 2016, https://www.darpa.mil/attachments/DARPA_Innovation_2016.pdf.

BACK TO NOTE REFERENCE 34

35. Mariana Mazzucato, *The Entrepreneurial State: Debunking Public vs Private Myths* (London: Penguin, 2018). See also Martin Wolf, "A Much-Maligned Engine of Innovation," *Financial Times*, August 4, 2013, https://www.ft.com/content/32ba9b92-efd4-11e2-a237-00144feabdc0. Mazzucato has proposed something rather more ambitious in her *Mission Economy: A Moonshot Guide to Changing Capitalism* (London: Allen Lane, 2021). John Kay provided a riposte in "*Mission Economy* by Mariana Mazzucato—Could Moonshot Thinking Help Fix the Planet?" *Financial Times*, January 13, 2021, https://www.ft.com/content/86475b94-3636-49ec-9b3f-7d7756350b30.

BACK TO NOTE REFERENCE 35

36. See "National Institutes of Health," https://www.nih.gov/, and "Medical Research Council (MRC)."

BACK TO NOTE REFERENCE 36

37. William H. Janeway, *Doing Capitalism in the Innovation Economy* (Cambridge: Cambridge University Press, 2012 and 2018).

BACK TO NOTE REFERENCE 37

38. Sainsbury, *Windows of Opportunity*, 226–27.

BACK TO NOTE REFERENCE 38

39. See Electronic Frontier Foundation, "Patent Trolls," https://www.eff.org/issues/resources-patent-troll-victims.

BACK TO NOTE REFERENCE 39

40. The Nobel Prize–winning economist Joseph Stiglitz has proposed greater reliance on prizes for promoting innovation. See "Prizes, Not Patents," *Project Syndicate*, March 6, 2007.

BACK TO NOTE REFERENCE 40

41. See Tejvan Pettinger, "Definition of Public Goods," *Economics Help: Helping to Simplify Economics*, July 28, 2019, https://www.economicshelp.org/micro-economic-essays/marketfailure/public-goods/.

BACK TO NOTE REFERENCE 41

42. Nicholas Gruen, "Government as Impresario," NESTA, October 20, 2014, https://www.nesta.org.uk/report/government-as-impresario/.

BACK TO NOTE REFERENCE 42

43. See William Lazonick, "Profits without Prosperity," *Harvard Business Review*, September 2014, https://hbr.org/2014/09/profits-without-prosperity; William Lazonick, Mustafa Erdem Sakinç, and Matt Hopkins, "Why Stock Buybacks Are Dangerous for the Economy," *Harvard Business Review*, January 2020, https://hbr.org/2020/01/why-stock-buybacks-are-dangerous-for-the-economy; and Andrew Smithers, *Productivity and the Bonus Culture* (Oxford: Oxford University Press, 2019).

BACK TO NOTE REFERENCE 43

44. In 2018, Europe and North America were responsible for 63 percent of cumulative emissions of carbon dioxide. According to Our World in Data, https://ourworldindata.org/grapher/cumulative-co2-emissions-region?time=earliest.latest.

BACK TO NOTE REFERENCE 44

45. International Monetary Fund, "Mitigating Climate Change," *World Economic Outlook October 2020*, chapter 3, https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020#Chapter%203.

BACK TO NOTE REFERENCE 45

46. Energy Transitions Commission, *Making Mission Possible: Delivering a Net-Zero Economy*, September 2020, https://www.energy-transitions.org/publications/making-mission-possible/; and Bill Gates, *How to Avoid a Climate Disaster: The Solutions We Have and the Breakthroughs We Need* (London: Allen Lane, 2021).

BACK TO NOTE REFERENCE 46

47. Martin Wolf, "Last Chance for the Climate Transition," *Financial Times*, February 18, 2020, https://www.ft.com/content/3090b1fe-51a6-11ea-8841-482eed0038b1.

BACK TO NOTE REFERENCE 47

48. See Earthworks, "FACT SHEET: Battery Minerals for the Clean Energy Transition," https://earthworks.org/fact-sheet-battery-minerals-for-the-clean-energy-transition/.

BACK TO NOTE REFERENCE 48

49. M. Garside, "Major Countries in Worldwide Cobalt Mine Production from 2010 to 2020," Statista, https://www.statista.com/statistics/264928/cobalt-mine-production-by-country/.

BACK TO NOTE REFERENCE 49

50. See, for example, "Economists' Statement on Carbon Dividends," January 17, 2019, https://clcouncil.org/economists-statement/; and James K. Boyce, *The Case for Carbon Dividends* (Cambridge, MA: Polity, 2019).

BACK TO NOTE REFERENCE 50

51. See Victor Mallet and David Keohane, "Year of 'Gilets Jaunes' Leaves Angry Mark on France, November 14, 2019, https://www.ft.com/content/9627c8be-0623-11ea-9afa-d9e2401fa7ca.

BACK TO NOTE REFERENCE 51

52. See Task Force on Climate-Related Financial Disclosures, "Climate Change Presents Financial Risk to the Global Economy," https://www.fsb-tcfd.org.

BACK TO NOTE REFERENCE 52

53. See Raghuram Rajan, "A Fair and Simple Way to Tax Carbon Emissions," *Financial Times*, December 17, 2019, https://www.ft.com/content/96782e84-2028-11ea-b8a1-584213ee7b2b.

BACK TO NOTE REFERENCE 53

54. See Martin Wolf, "Action Must Replace Talk on Climate Change," *Financial Times*, May 4, 2021, https://www.ft.com/content/3fa154f3-84e7-4964-9a21-d3dbd41e1470.

BACK TO NOTE REFERENCE 54

55. John Kay, *Culture and Prosperity: The Truth about Markets: Why Some Nations Are Rich and Most Remain Poor* (New York: Harper Business, 2004).

BACK TO NOTE REFERENCE 55

56. See R. James Breiding, *Too Small to Fail: Why Some Small Nations Outperform Larger Ones and How They Are Reshaping the World* (Uttar Pradesh, India: HarperCollins 2019).

BACK TO NOTE REFERENCE 56

57. See on the virtues of trade the outstanding book by Anne O. Krueger, former first deputy managing director of the International Monetary Fund, *International Trade: What Everyone Needs to Know* (New York: Oxford University Press, 2020), especially 294–97.

BACK TO NOTE REFERENCE 57

58. See Michael Peel, Sam Fleming, and Guy Chazan, "EU Clamps Down on Covid Vaccine Exports," *Financial Times*, January 29, 2021, https://www.ft.com/content/24867d39-4507-4c48-be27-c34b581220b0.

BACK TO NOTE REFERENCE 58

59. See Martin Wolf, "The Big Mistakes of the Anti-Globalisers," *Financial Times*, June 21, 2022, https://www.ft.com/content/fa1f3a82-99c5-4fb2-8bff-a7e8d3f65849, and Martin Wolf, "In an Era of Disorder, Open Trade Is at Risk," *Financial Times*, June 28, 2022, https://www.ft.com/content/df62d58c-e864-4e3b-9aa6-5587e8ef1667.

BACK TO NOTE REFERENCE 59

60. On the US, in particular, see Adam Posen, "The Price of Nostalgia: America's Self-Defeating Economic Retreat," *Foreign Affairs*, May/June 2021,

https://www.foreignaffairs.com/articles/united-states/2021-04-20/america-price-nostalgia.

BACK TO NOTE REFERENCE 60

61. On the distinction between sovereignty and discretion, see Martin Wolf, "Brexit: Sovereignty Is Not the Same as Power," *Financial Times*, May 3, 2016, https://www.ft.com/content/fece7238-1071-11e6-91da-096d89bd2173.

BACK TO NOTE REFERENCE 61

62. See Bank for International Settlements, "Basel III: International Regulatory Framework for Banks," https://www.bis.org/bcbs/basel3.htm.

BACK TO NOTE REFERENCE 62

63. See Valentina Bruno and Hyun Song Shin, "Global Dollar Credit and Carry Trades: A Firm-Level Analysis," BIS Working Papers 510, Bank for International Settlements, August 2015, https://www.bis.org/publ/work510.pdf. The costs of currency mismatches were a theme of Martin Wolf, *Fixing Global Finance* (Baltimore and London: Johns Hopkins University Press, 2008 and 2010).

BACK TO NOTE REFERENCE 63

64. See Maurice Obstfeld, "The Global Capital Market Reconsidered," in Paul Collier, Diane Coyle, Colin Mayer, and Martin Wolf, eds., "Capitalism: What Has Gone Wrong, What Needs to Change, and How It Can Be Fixed," *Oxford Review of Economic Policy* 37, no. 4 (Winter 2021): 690–706.

BACK TO NOTE REFERENCE 64

65. It is worth noting that China controls internal migration precisely because of its concern over the social and demographic effects of such arbitrage, within a vast country with huge regional inequalities.

BACK TO NOTE REFERENCE 65

66. George J. Borjas, "Immigration and Globalization: A Review Essay," *Journal of Economic Literature* 53, no. 4 (2015): 961–74.

BACK TO NOTE REFERENCE 66

67. On the idea of guiding innovation, see Dani Rodrik and Stefanie Stantcheva, "Fixing Capitalism's Good Jobs Problem," in Paul Collier et al., eds., *Oxford Review of Economic Policy* 37, no. 4 (Winter 2021): 824–37.

BACK TO NOTE REFERENCE 67

68. See Daron Acemoglu, "Written Testimony," at a "Hearing on Machines, Artificial Intelligence, & the Workforce: Recovering & Readying Our Economy for the Future," House Committee on the Budget, September 10, 2021,

https://www.congress.gov/116/meeting/house/111002/witnesses/HHRG-116-BU00-Wstate-AcemogluD-20200910.pdf.

BACK TO NOTE REFERENCE 68

69. See Peter Scott, *Triumph of the South: A Regional Economic History of Early Twentieth Century Britain* (London and New York: Routledge, 2007 and 2018).

BACK TO NOTE REFERENCE 69

70. See Andrés Rodriguez-Pose, "The Revenge of the Places That Don't Matter (and What to Do about It)," *Cambridge Journal of Regions, Economy and Society* 11, no. 1 (March 2018): 189–209, title page, https://eprints.lse.ac.uk/85888/1/Rodriguez-Pose_Revenge%20of%20Places.pdf.

BACK TO NOTE REFERENCE 70

71. Ibid., 30.

BACK TO NOTE REFERENCE 71

72. Ibid., 32.

BACK TO NOTE REFERENCE 72

73. Paul Collier, *The Future of Capitalism: Facing the New Anxieties* (London: Allen Lane, 2018); and Raghuram Rajan, *Third Pillar: The Revival of Community in a Polarized World* (London: William Collins, 2019).

BACK TO NOTE REFERENCE 73

74. Martin Wolf, "Lessons in 'Leveling Up' from the Basque Country," *Financial Times*, November 30, 2021, https://www.ft.com/content/bb2c627f-1baa-4230-9cb8-3876c216b8f7.

BACK TO NOTE REFERENCE 74

75. See Nicholas Gruen, "The Evaluator General," Club Troppo, May 29, 2020, https://clubtroppo.com.au/2020/05/29/the-evaluator-general/.

BACK TO NOTE REFERENCE 75

76. EurWORK: European Observatory of Working Life, "Flexicurity," May 7, 2013, https://www.eurofound.europa.eu/observatories/eurwork/industrial-relations-dictionary/flexicurity,

BACK TO NOTE REFERENCE 76

77. David Card and Alan B. Krueger, *Myth and Measurement: The New Economics of the Minimum Wage*, Twentieth-Anniversary Edition (Princeton, NJ: Princeton University Press, 2015).

BACK TO NOTE REFERENCE 77

78. Pavlina R. Tcherneva, *The Case for a Jobs Guarantee* (Cambridge, UK, and Medford, MA: Polity, 2020), 46–47.

BACK TO NOTE REFERENCE 78

79. Michael Hiscox, "The Job Guarantee—Weakening Worker Power?" *Challenge Magazine*, August 22, 2020, https://www.challengemag.org/post/the-job-guarantee-weakening-worker-power.

BACK TO NOTE REFERENCE 79

80. Martin Sandbu, *The Economics of Belonging: A Radical Plan to Win Back the Left Behind and Achieve Prosperity for All* (Princeton, NJ, and Oxford: Princeton University Press, 2020), chapter 6.

BACK TO NOTE REFERENCE 80

81. See Johanna Hop, "The Hartz Employment Reforms in Germany," Center for Public Impact, September 2, 2019, https://www.centreforpublicimpact.org/case-study/hartz-employment-reforms-germany/.

BACK TO NOTE REFERENCE 81

82. Michael Sandel, *The Tyranny of Merit: What's Become of the Common Good?* (London: Penguin, 2020).

BACK TO NOTE REFERENCE 82

83. See Martin Wolf, "Hypocrisy and Confusion Distort the Debate on Social Mobility," *Financial Times*, May 2, 2019, https://www.ft.com/content/577a0abe-6c04-11e9-a9a5-351eeaef6d84.

BACK TO NOTE REFERENCE 83

84. Personal Finance Data, "Net Worth Percentile Comparison Calculator by Age," https://personalfinancedata.com/networth-percentile-calculator/.

BACK TO NOTE REFERENCE 84

85. On the role of the welfare state, see Nicholas Barr, *The Welfare State as Piggy Bank: Information, Risk, Uncertainty, and the Role of the State* (Oxford: Oxford University Press, 2001).

BACK TO NOTE REFERENCE 85

86. See Martin Wolf, "The Welfare State Is a Piggy Bank for Life," *Financial Times*, March 31, 2016, https://www.ft.com/content/b7ae7e52-f69a-11e5-96db-fc683b5e52db; and Peter Levell, Barra Roantree, and Jonathan Shaw, "Redistribution from a Lifetime Perspective," Institute for Fiscal Studies, September 22, 2015, https://www.ifs.org.uk/publications/7986.

BACK TO NOTE REFERENCE 86

87. According to the OECD, “Social expenditure comprises cash benefits, direct in-kind provision of goods and services, and tax breaks with social purposes. Benefits may be targeted at low-income households, the elderly, disabled, sick, unemployed, or young persons. To be considered ‘social,’ programs have to involve either redistribution of resources across households or compulsory participation.” See “Social Spending,” https://data.oecd.org/socialexp/social-spending.htm.

BACK TO NOTE REFERENCE 87

88. Denmark, the Netherlands, and Switzerland are among the top ten countries in human development, according to the Human Development Index of the United Nations Development Program. See United Nations Development Program, Human Development Reports, “Human Development Index,” http://hdr.undp.org/en/composite/HDI. France is substantially lower, at twenty-sixth.

BACK TO NOTE REFERENCE 88

89. See Philippe Van Parijs and Yannick Vanderborght, *Basic Income: A Radical Proposal for a Free Society and a Sane Economy* (Cambridge, MA, and London: Harvard University Press, 2017).

BACK TO NOTE REFERENCE 89

90. Gene Sperling, *Economic Dignity* (New York, Penguin, 2020), 185. A full discussion of UBI is contained in ibid., 184–89.

BACK TO NOTE REFERENCE 90

91. Annie E. Casey Foundation, Kids Count Data Center, Demographics, “Total Population by Child and Adult Populations in the United States,” https://datacenter.kidscount.org/.

BACK TO NOTE REFERENCE 91

92. On federal receipts and outlays, see Congressional Budget Office, “Monthly Budget Review: Summary for Fiscal Year 2019,” November 7, 2019, https://www.cbo.gov/. On gross domestic product, see Bureau of Economic Analysis, US Department of Commerce, https://www.bea.gov/. On Social Security spending, see American Association of Retired Persons, “How Much Social Security Will I Get?” https://www.aarp.org/retirement/social-security/questions-answers/how-much-social-security-will-i-get.html. On Medicare, see Kaiser Family Foundation, “State Health Facts: Medicare Spending per Enrollee 2018,” https://www.kff.org/medicare/state-indicator/per-enrollee-spending-by-residence. On Medicaid, see Robin Rudowitz, Rachel Garfield, and Elizabeth Hinton, “10 Things to Know about Medicaid: Setting the Facts Straight,” Kaiser Family Foundation, March 6, 2019, https://www.kff.org/medicaid/issue-brief/10-things-to-know-about-medicaid-setting-the-facts-straight/.

BACK TO NOTE REFERENCE 92

93. John Kay, “The Basics of Basic Income,” https://www.johnkay.com/2017/04/05/basics-basic-income/. Following the late Nobel laureate James Tobin, he starts with the fundamental equation of basic income as t = x + 25, where *t* is the average tax rate of the country, *x* is basic income as a

percent of average incomes per head, and 25 (percent) is the proportion of national income needed by high-income countries to pay for health, education, defense, public administration, police, the judicial system, and debt service. Evidently, if every resident gets a basic income equal to *x* percent of national income per head, the program's fiscal cost will be *x* percent of aggregate national income.

BACK TO NOTE REFERENCE 93

94. In the jargon of economists, the "income effect" of the UBI would more than offset the "substitution effect" of lower marginal tax rates.

BACK TO NOTE REFERENCE 94

95. Martin Sandbu, "The Case for the Affordability of Universal Basic Income," *Financial Times*, December 23, 2021, https://www.ft.com/content/3788b99e-7b8c-4641-8250-6f6823f1a7f6.

BACK TO NOTE REFERENCE 95

96. "Government Expenditure on Education, Total (% of GDP)—United Kingdom," The World Bank, https://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS?locations=GB.

BACK TO NOTE REFERENCE 96

97. Liz Lightfoot, "The Student Experience—Then and Now," *Guardian*, June 24, 2016, https://www.theguardian.com/education/2016/jun/24/has-university-life-changed-student-experience-past-present-parents-vox-pops#:~:text=In%20the%20early%201960s%2C%20only,back%20over%20their%20working%20(and Sean Coughlan, "The Symbolic Target of 50% at University Reached," BBC News, September 26, 2019, https://www.bbc.com/news/education-49841620.

BACK TO NOTE REFERENCE 97

98. See Ron Diris and Erwin Ooghe, "The Economics of Financing Higher Education," *Economic Policy*, April 2018, 272, figure 2.

BACK TO NOTE REFERENCE 98

99. See Kiese Hansen and Time Shaw, "Solving the Student Debt Crisis," Aspen Institute Financial Security Program, February 2020, https://assets.aspeninstitute.org/wp-content/uploads/2020/03/SolvingStudentDebtCrisis.pdf.

BACK TO NOTE REFERENCE 99

100. On the details, see Money Advice Service, "Repaying Your Undergraduate Student Loan," https://www.moneyadviceservice.org.uk/en/articles/repaying-student-loans.

BACK TO NOTE REFERENCE 100

101. Pension Protection Fund, *The Purple Book 2020: DB Pensions Universe Risk Profile*, https://www.ppf.co.uk/sites/default/files/2020-12/PPF_Purple_Book_20.pdf.

BACK TO NOTE REFERENCE 101

102. On the economics of pensions, see Martin Wolf, "Radical Reform of British Pension Provision Is Urgent," *Financial Times*, June 13, 2021, https://www.ft.com/content/791876ae-7ce2-4c0b-9f7a-c12b4f39f6d5; Wolf, "It Is Folly to Make Pensions Safe by Making Them Unaffordable," *Financial Times*, June 27, 2021, https://www.ft.com/content/138974df-5dc0-47e4-acb8-e2eb048fe8bd; and Wolf, "Equities Are the Only Sensible Foundation for Private Pensions," *Financial Times*, July 11, 2021, https://www.ft.com/content/e3a621d3-5cfc-4410-bd3c-0fde3535582b.

BACK TO NOTE REFERENCE 102

103. See Nick Green, "UK Steps Closer to Introducing CDC Pension Schemes," December 3, 2020, https://www.unbiased.co.uk/news/financial-adviser/uk-steps-closer-to-introducing-cdc-pension-schemes.

BACK TO NOTE REFERENCE 103

104. See, on this idea, Nicholas Gruen, "Superannuation Again," Club Troppo, May 31, 2005, https://clubtroppo.com.au/2005/05/31/superannuation-again/.

BACK TO NOTE REFERENCE 104

105. Martin Wolf, "We Must Accept Higher Taxes to Fund Health and Social Care," *Financial Times*, November 29, 2021, https://www.ft.com/content/efc67bb9-cff4-49e5-9101-67d2382ece09.

BACK TO NOTE REFERENCE 105

106. See US Department of Labor, "Trade Act Programs," https://www.dol.gov/general/topic/training/tradeact#:~:text=The%20Trade%20Adjustment%20As

BACK TO NOTE REFERENCE 106

107. See "Privilege," https://www.merriam-webster.com/dictionary/privilege.

BACK TO NOTE REFERENCE 107

108. Matthew Johnston, "Carried Interest: A Loophole in America's Tax Code," Investopedia, March 31, 2021, https://www.investopedia.com/articles/investing/102515/carried-interest-loophole-americas-tax-code.asp.

BACK TO NOTE REFERENCE 108

109. ἰσονομία was one of two conceptual foundations of democracy. The other was ἰσηγορία ("isegoria," or the equal right to speak in debate).

BACK TO NOTE REFERENCE 109

110. See, for example, Luigi Zingales, Jana Kasperkevic, and Asher Schechter, *Milton Friedman 50 Years Later*. *ProMarket*, 2020, Stigler Center for the Study of the Economy and the State, https://promarket.org/wp-content/uploads/2020/11/Milton-Friedman-50-years-later-ebook.pdf;

and British Academy, *Principles for Purposeful Business: How to Deliver the Framework for the Future of the Corporation*, 2019, https://www.thebritishacademy.ac.uk/publications/future-of-the-corporation-principles-for-purposeful-business/.

BACK TO NOTE REFERENCE 110

111. British Academy, *Principles for Purposeful Business*, 8.

BACK TO NOTE REFERENCE 111

112. Business Roundtable, "Statement on the Purpose of a Corporation," August 19, 2019, https://system.businessroundtable.org/app/uploads/sites/5/2021/02/BRT-Statement-on-the-Purpose-of-a-Corporation-Feburary-2021-compressed.pdf.

BACK TO NOTE REFERENCE 112

113. See Richard Barker, Robert G. Eccles, and George Serafeim, "The Future of ESG Is . . . Accounting?" *Harvard Business Review*, December 3, 2020, https://hbr.org/2020/12/the-future-of-esg-is-accounting.

BACK TO NOTE REFERENCE 113

114. Smithers, *Productivity and the Bonus Culture*.

BACK TO NOTE REFERENCE 114

115. Jane Croft, "Ex-Barclays Libor Traders Receive Jail Sentences," *Financial Times*, July 7, 2016, https://www.ft.com/content/16215d97-971f-3209-87da-55d0a1f08c5f.

BACK TO NOTE REFERENCE 115

116. On the costs of this financial crisis, see chapter 6, and Andrew G. Haldane, "The $100 Billion Question," speech delivered March 30, 2010, Bank for International Settlements, https://www.bis.org/review/r100406d.pdf. At that time, Haldane was executive director, Financial Stability, Bank of England.

BACK TO NOTE REFERENCE 116

117. See Laura Noonan, Cale Tilford, Richard Milne, Ian Mount, and Peter Wise, "Who Went to Jail for Their Role in the Financial Crisis?" *Financial Times*, September 20, 2018, https://ig.ft.com/jailed-bankers/#:~:text=Forty%2Dseven%20bankers%20were%20sentenced,the%20financial%20sector'

BACK TO NOTE REFERENCE 117

118. See Goodhart and Pradhan, *The Great Demographic Reversal*, 243–45.

BACK TO NOTE REFERENCE 118

119. Wendy Sawyer and Peter Wagner, "Mass Incarceration: The Whole Pie 2020," Prison Policy Initiative, March 24, 2020, https://www.prisonpolicy.org/reports/pie2020.html.

BACK TO NOTE REFERENCE 119

120. See Patrick Radden Keefe, "How Did the Sacklers Pull This Off?" *New York Times*, July 14, 2021, https://www.nytimes.com/2021/07/14/opinion/sackler-family-opioids-settlement.html; and, on the entire dreadful story, see the same author's *Empire of Pain: The Secret History of the Sackler Dynasty* (New York: Doubleday, 2021). See also Centers for Disease Control and Prevention, "Opioid Overdose Deaths," https://www.cdc.gov/drugoverdose/epidemic/index.html. On the opium wars, see "Opium Wars," *Britannica*, https://www.britannica.com/topic/Opium-Wars.

BACK TO NOTE REFERENCE 120

121. Jason Furman et al., *Unlocking Digital Competition: Report on the Digital Competition Expert Panel*, March 2019, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/

BACK TO NOTE REFERENCE 121

122. Lina M. Khan, "Amazon's Antitrust Paradox," *Yale Law Journal* 126, no. 3 (January 2017), https://www.yalelawjournal.org/note/amazons-antitrust-paradox.

BACK TO NOTE REFERENCE 122

123. On the political implications of the new technologies, see Anne Applebaum and Peter Pomerantsev, "How to Put Out Democracy's Dumpster Fire," *Atlantic*, April 2021, https://www.theatlantic.com/magazine/archive/2021/04/the-internet-doesnt-have-to-be-awful/618079/. See also Luohan Academy, "Understanding Big Data: Data Calculus in the Digital Era 2021," February 5, 2021, https://www.luohanacademy.com/research/reports/2bcc5a5e3074df15.

BACK TO NOTE REFERENCE 123

124. Will Oremus, "Are You Really the Product? The History of a Dangerous Idea," *Slate*, April 27, 2018, https://slate.com/technology/2018/04/are-you-really-facebooks-product-the-history-of-a-dangerous-idea.html.

BACK TO NOTE REFERENCE 124

125. See GDPR.EU, "What Is GDPR, the EU's New Data Protection Law?" https://gdpr.eu/what-is-gdpr/#:~:text=The%20General%20Data%20Protection%20Regulation,to%20people%20in%20the

BACK TO NOTE REFERENCE 125

126. Transparency International, *Corruption Perceptions Index*, https://www.transparency.org/en/cpi. On happiness, see John F. Helliwell, Richard Layard, Jeffrey D. Sachs, Jan-Emmanuel De Neve, Lara B. Akin, and Shun Wang, eds., *World Happiness Report 2021* (New York: NY: Sustainable Development Solutions Network, 2022), https://happiness-report.s3.amazonaws.com/2021/WHR+21.pdf.

BACK TO NOTE REFERENCE 126

127. See Tom Burgis, *Kleptopia: How Dirty Money Is Conquering the World* (London: William Collins, 2020); and Frank Vogl, *The Enablers: How the West Supports Kleptocrats and Corruption—Endangering Our Democracy* (Lanham, MD: Rowman & Littlefield, 2021).

BACK TO NOTE REFERENCE 127

128. On the uneasy borderline between legality and illegality and the role of well-paid professionals in converting the latter into the former, see Chuck Collins, *The Wealth Hoarders: How Billionaires Pay Millions to Hide Trillions* (Cambridge: Polity, 2021).

BACK TO NOTE REFERENCE 128

129. Franklin Delano Roosevelt, "The Four Freedoms," speech, January 6, 1941, https://www.americanrhetoric.com/speeches/fdrthefourfreedoms.htm.

BACK TO NOTE REFERENCE 129

130. Office for Budget Responsibility, "Fiscal Sustainability Report, July 2020," 15, chart 5.

BACK TO NOTE REFERENCE 130

131. Congressional Budget Office, "The 2021 Long-Term Budget Outlook, March 2021," 5, https://www.cbo.gov/system/files/2021-03/56977-LTBO-2021.pdf.

BACK TO NOTE REFERENCE 131

132. For a somewhat dated survey of issues and evidence, see Willi Leibfritz, John Thornton, and Alexandra Bibbee, "Taxation and Economic Performance," OECD, Economics Department Working Paper No. 176, OCDE/GD(97)107, Paris, https://econpapers.repec.org/paper/oececoaaa/176-en.htm, which concluded, "It is clear from the literature review and from the additional results presented here that the effects of taxes on economic performance are ambiguous in some areas and unsettled and controversial in others."

BACK TO NOTE REFERENCE 132

133. See United Nations Development Program, "Human Development Reports," http://hdr.undp.org/en/content/human-development-index-hdi.

BACK TO NOTE REFERENCE 133

134. Emmanuel Saez and Gabriel Zucman, *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay* (New York: W. W. Norton, 2019).

BACK TO NOTE REFERENCE 134

135. Ibid., 14.

BACK TO NOTE REFERENCE 135

136. Ibid.

BACK TO NOTE REFERENCE 136

137. Ibid., 19, and Facebook Investor Relations, "Facebook Reports Fourth Quarter and Full Year 2018 Results," https://investor.fb.com/investor-news/press-release-details/2019/Facebook-Reports-Fourth-Quarter-and-Full-Year-2018-Results/default.aspx.

BACK TO NOTE REFERENCE 137

138. John Guyton, Patrick Langetieg, Daniel Reck, Max Risch, and Gabriel Zucman, "Tax Evasion at the Top of the Income Distribution: Theory and Evidence," National Bureau of Economic Research Working Paper 28542, March 2021, http://www.nber.org/papers/w28542.

BACK TO NOTE REFERENCE 138

139. Enid Nemy, "Leona Helmsley, Hotel Queen, Dies at 87," *New York Times*, August 20, 2007, https://www.nytimes.com/2007/08/20/nyregion/20cnd-helmsley.html.

BACK TO NOTE REFERENCE 139

140. See Dag Detter and Stefan Fölster, *The Public Wealth of Nations: How Management of Public Assets Can Boost or Bust Economic Growth* (Basingstoke, UK: Palgrave Macmillan, 2015).

BACK TO NOTE REFERENCE 140

141. See Henry George, *Progress and Poverty: An Inquiry into the Cause of Industrial Depressions and of Increase of Want with Increase of Wealth: The Remedy* (Vega Publishing, 2019, first published 1879).

BACK TO NOTE REFERENCE 141

142. This is one way to understand the core argument of Torben Iversen and David Soskice, *Democracy and Prosperity: Reinventing Capitalism through a Turbulent Century* (Princeton, NJ, and Oxford: Princeton University Press, 2019).

BACK TO NOTE REFERENCE 142

143. Ray Dalio, Jordan Nick, Steven Kryger, and Bill Longfield, "Wealth Taxes," March 22, 2021, Bridgewater, unpublished.

BACK TO NOTE REFERENCE 143

144. James Politi, Aime Williams, and Chris Giles, "US Offers New Plan in Global Corporate Tax Talks," *Financial Times*, April 8, 2021, https://www.ft.com/content/847c5f77-f0af-4787-8c8e-070ac6a7c74f; and Chris Giles, Emma Agyemang, and Aime Williams, "136 Nations Agree to Biggest Corporate Tax Deal in a Century," *Financial Times*, October 8, 2021, https://www.ft.com/content/5dc4e2d5-d7bd-4000-bf94-088f17e21936.

BACK TO NOTE REFERENCE 144

Chapter Nine: Renewing Democracy

1. John Stuart Mill, *Considerations on Representative Government*, 1861, Project Gutenberg, https://www.gutenberg.org/files/5669/5669-h/5669-h.htm.

   BACK TO NOTE REFERENCE 1

2. "The Worst Form of Government," International Churchill Society, https://winstonchurchill.org/resources/quotes/the-worst-form-of-government/.

   BACK TO NOTE REFERENCE 2

3. Foundation for Economic Education, "H. L. Mencken Quotes on Government, Democracy, and Politicians," https://fee.org/articles/12-hl-mencken-quotes-on-government-democracy-and-politicians/.

   BACK TO NOTE REFERENCE 3

4. See, on this, Anna Lührmann and Staffan I. Lindberg, "A Third Wave of Autocratization Is Here: What Is New about It?" *Democratization* 26, no. 7 (2019): 1095–1113, https://www.tandfonline.com/doi/full/10.1080/13510347.2019.1582029. In the 1930s, a large proportion of humanity was still subject to the inherently autocratic rule of empires.

   BACK TO NOTE REFERENCE 4

5. See Ian Hughes, *Disordered Minds: How Dangerous Personalities Are Destroying Democracy* (Hampshire: Zero Books, 2018).

   BACK TO NOTE REFERENCE 5

6. See Christopher H. Achen and Larry M. Bartels, *Democracy for Realists: Why Elections Do Not Produce Responsive Government* (Princeton, NJ, and Oxford: Princeton University Press, 2016).

   BACK TO NOTE REFERENCE 6

7. Ibid., 299.

   BACK TO NOTE REFERENCE 7

8. See, for example, references by Ronald Reagan to "welfare queens" and by George H. W. Bush to the murderer Willie Horton in his presidential election campaign in 1988. See National Public Radio, "The Original 'Welfare Queen,' " *Code Switch*, June 5, 2019, https://www.npr.org/transcripts/729294210?t=1654518358287; and Peter Baker, "Bush Made Willie Horton an Issue in 1988 and the Racial Scars Are Still Fresh," *New York Times*, December 3, 2018, https://www.nytimes.com/2018/12/03/us/politics/bush-willie-horton.html.

   BACK TO NOTE REFERENCE 8

9. Ibid., 301.

   BACK TO NOTE REFERENCE 9

10. Joseph A. Schumpeter, *Capitalism, Socialism and Democracy* (London: George Allen & Unwin, 1994, first published in the UK in 1943), 262.

    BACK TO NOTE REFERENCE 10

11. "Washington's Farewell Address 1796," https://avalon.law.yale.edu/18th_century/washing.asp.

    BACK TO NOTE REFERENCE 11

12. Jason Brennan, *Against Democracy* (Princeton, NJ, and Oxford: Princeton University Press, 2017).

    BACK TO NOTE REFERENCE 12

13. Ibid., Preface to the 2017 paperback edition.

    BACK TO NOTE REFERENCE 13

14. Ibid., 243.

    BACK TO NOTE REFERENCE 14

15. On Plato's view of poetry, see Stanford Encyclopedia of Philosophy, "Plato on Rhetoric and Poetry," February 12, 2020, https://plato.stanford.edu/entries/plato-rhetoric/.

    BACK TO NOTE REFERENCE 15

16. Karl Popper, *The Open Society and Its Enemies*, vol. 1, *The Age of Plato* (London: Routledge, 1945).

    BACK TO NOTE REFERENCE 16

17. Brennan, *Against Democracy* (2017 ed.), Preface.

    BACK TO NOTE REFERENCE 17

18. "Corruption Perception Index, 2019," Transparency International, https://www.transparency.org/en/cpi.

    BACK TO NOTE REFERENCE 18

19. Achen and Bartels, *Democracy for Realists*, 317.

    BACK TO NOTE REFERENCE 19

20. See Edward Luce, "A Sea of Troubles Surrounds the Question of Whether to Prosecute Trump," *Financial Times*, July 29, 2022, https://www.ft.com/content/8263e5c9-d886-4c81-807b-f9eb0d92508f.

    BACK TO NOTE REFERENCE 20

21. Achen and Bartels, *Democracy for Realists*.

BACK TO NOTE REFERENCE 21

22. Ibid.

BACK TO NOTE REFERENCE 22

23. David Hume, *A Treatise of Human Nature*, book III, part III, section III, "Of the Influencing Motives of the Will," 3, https://www.pitt.edu/~mthompso/readings/hume.influencing.pdf.

BACK TO NOTE REFERENCE 23

24. Achen and Bartels, *Democracy for Realists*, 310.

BACK TO NOTE REFERENCE 24

25. See, on this, Nicholas Gruen, "Beyond Vox Pop Democracy: Democratic Deliberation and Leadership in the Age of the Internet," *More or Less: Democracy and the New Media*, 2012, http://www.futureleaders.com.au/book_chapters/pdf/More-or-Less/Nicholas_Gruen.pdf#zoom=80.

BACK TO NOTE REFERENCE 25

26. "Black Act 1723," Google Arts and Culture; and The Statutes Project, "1723: 9 George 1 c.22: The Black Act," https://statutes.org.uk/site/the-statutes/eighteenth-century/9-geo-i-c-22-the-black-act-1723/.

BACK TO NOTE REFERENCE 26

27. Michael Massing, "Does Democracy Avert Famine?" *New York Times*, March 1, 2003; and Amartya Sen, *Development as Freedom* (Oxford: Oxford University Press, 1999), chapter 6, "The Importance of Democracy."

BACK TO NOTE REFERENCE 27

28. Sen, *Development as Freedom*, 148.

BACK TO NOTE REFERENCE 28

29. See Nathan Gardels and Nicholas Berggruen, *Renovating Democracy: Governing in the Age of Globalization and Digital Capitalism* (Oakland, CA: University of California Press for the Berggruen Institute, 2019); Commission on the Practice of Democratic Citizenship, *Our Common Purpose: Reinventing American Democracy for the 21st Century* (Cambridge, MA: American Academy of Arts and Sciences, 2020); and Andrew Gamble and Tony Wright, eds., *Rethinking Democracy* (Newark, NJ: John Wiley for Political Quarterly Publishing, 2019).

BACK TO NOTE REFERENCE 29

30. Fernando Henrique Cardoso, "Brazil's Crisis Reflects Demise of Representative Democracy across the West," *Huffington Post*, September 5, 2016, https://www.huffpost.com/entry/brazils-crisis-reflects-demise-of-democracy_b_11867368.

BACK TO NOTE REFERENCE 30

31. George Orwell, "Notes on Nationalism," *Polemic*, October 1945 (New York: Penguin Modern Classics, 2018).

BACK TO NOTE REFERENCE 31

32. A valuable and thought-provoking discussion of the role of patriotism in an established democracy is contained in Tim Soutphommasane, *The Virtuous Citizen: Patriotism in a Multicultural Society* (Cambridge: Cambridge University Press, 2012).

BACK TO NOTE REFERENCE 32

33. See Martin Wolf, "When Multiculturalism Is a Nonsense," *Financial Times*, August 30, 2005, https://www.ft.com/content/ff41a586-197f-11da-804e-00000e2511c8.

BACK TO NOTE REFERENCE 33

34. "McKinstry's Churchill and Attlee: A Vanished Age of Political Respect," Richard M. Langworth, December 4, 2019, https://richardlangworth.com/mckenstry-attlee.

BACK TO NOTE REFERENCE 34

35. Ennius, *Annales*, https://www.loebclassics.com/view/ennius-annals/2018/pb_LCL294.193.xml.

BACK TO NOTE REFERENCE 35

36. Paul Collier, *The Future of Capitalism: Facing the New Anxietie*s (London: Allen Lane, 2018), 8.

BACK TO NOTE REFERENCE 36

37. Lorraine Boissoneault, "Bismarck Tried to End Socialism's Grip—by Offering Government Healthcare," *Smithsonian Magazine*, July 14, 2017, https://www.smithsonianmag.com/.

BACK TO NOTE REFERENCE 37

38. The role of the welfare system and especially high-quality education in creating contemporary democratic high-income countries is a theme of Torben Iversen and David Soskice, *Democracy and Prosperity: Reinventing Capitalism Through a Turbulent Century* (Princeton, NJ, and Oxford: Princeton University Press, 2019). See also Martin Wolf, "The Case for Capitalism," *Financial Times*, March 28, 2019, https://www.ft.com/content/d8b903d0-4bfe-11e9-bbc9-6917dce3dc62.

BACK TO NOTE REFERENCE 38

39. See Alberto Alesina, Johann Harnoss, and Hillel Rapoport, "Immigration and the Future of the Welfare State in Europe," December 2014 (updated February 2018), Working Paper 2018-04, 2, Paris School of Economics, https://halshs.archives-ouvertes.fr/halshs-01707760/document.

BACK TO NOTE REFERENCE 39

40. Ibid., 1.

BACK TO NOTE REFERENCE 40

41. Martin Wolf, "Disputed Fruit of Unskilled Immigration," *Financial Times*, April 4, 2006, https://www.ft.com/content/ba686d9a-c407-11da-bc52-0000779e2340.

BACK TO NOTE REFERENCE 41

42. Robert Smith and Jim Pickard, "Greensill Capital Paid Cameron Salary of More Than $1M a Year," *Financial Times*, July 12, 2021, https://www.ft.com/content/536867f4-2dd3-42a1-9b29-54ed92693635.

BACK TO NOTE REFERENCE 42

43. Dierdre McCloskey provides a fascinating account of the role of the "seven virtues" in a good life and a good society. These virtues are the "pagan four"—courage, justice, temperance, and prudence—and the "theological three"—faith, hope, and love. See McCloskey, "Life's Primary Colours: How Humanity Forgot the Seven Principal Virtues," ABC News Australia, July 2, 2019, https://www.abc.net.au/religion/primary-colors-how-humanity-forgot-the-seven-principal-virtues/11272726.

BACK TO NOTE REFERENCE 43

44. On the challenge of maintaining democracy in heterogeneous societies, see Yascha Mounk, *The Great Experiment: How to Make Diverse Democracies Work* (London: Bloomsbury, 2022), and Martin Wolf, "A Call to Arms for Diverse Democracies and Their 'Decent Middle,' " *Financial Times*, May 5, 2022, https://www.ft.com/content/83ba0474-70ea-4759-81f1-e14f6ea269fa. Mounk argues that diverse societies go wrong in three ways: anarchy, domination, and fragmentation. Majority identity politics generates the second, and minority identity politics the third. Anarchy happens if neither domination nor a *modus vivendi* among groups is reached. All these are real and worrying dangers.

BACK TO NOTE REFERENCE 44

45. See, on this issue, Isabel Wilkerson, *Caste: The Origins of Our Discontents* (New York: Random House, 2020).

BACK TO NOTE REFERENCE 45

46. See Adrian Wooldridge, *The Aristocracy of Talent: How Meritocracy Made the Modern World* (London: Allen Lane, 2021); David Goodhart, *Head Hand Heart: The Struggle for Dignity and Status in the 21st Century* (London: Penguin, 2021); and Michael Sandel, *The Tyranny of Merit: What's Become of the Common Good?* (London: Penguin, 2020).

BACK TO NOTE REFERENCE 46

47. For the early Chinese administrative system, see S. E. Finer, *The History of Government: Ancient Monarchies and Empires*, vol. 1, *Ancient Monarchies and Empires* (Oxford: Oxford University Press, 1997 and 1999), book II, chapters 5 and 6; Francis Fukuyama, *The Origins of Political*

Order: From Prehuman Times to the French Revolution (London: Profile Books, 2011), chapters 7 and 8; and Adrian Wooldridge, *The Aristocracy of Talent: How Meritocracy Made the Modern World* (London: Allen Lane, 2021).

BACK TO NOTE REFERENCE 47

48. See Francis Fukuyama, *Political Order and Political Decay: From the Industrial Revolution to the Globalization of Democracy* (London: Profile Books, 2014), chapter 34, "America the Vetocracy."

BACK TO NOTE REFERENCE 48

49. This idea of "eunuch" values in a modern bureaucracy applies just as much in corporate bureaucracies. The loyalty of the employee is similarly to the company, not to its chief executive. The important underlying idea was proposed by Ernest Gellner in his classic work *Nations and Nationalism* (Oxford: Blackwell Press, 1983 and 2006).

BACK TO NOTE REFERENCE 49

50. On the limits of economics as a source of expertise, see Martin Wolf, "How Economists Failed as 'Experts'—and How to Make Them Matter Again," Institute for New Economic Thinking, March 12, 2019, https://www.ineteconomics.org/perspectives/blog/why-economists-failed-as-experts-and-how-to-make-them-matter-again.

BACK TO NOTE REFERENCE 50

51. Anjana Ahuja, "UK's Confused Claim to 'Follow the Science' Eroded Public Trust," *Financial Times*, May 19, 2020, https://www.ft.com/content/66413e62-98e7-11ea-871b-edeb99a20c6e.

BACK TO NOTE REFERENCE 51

52. On the lessons from the handling of the pandemic for the quality of the required leadership and especially the disadvantages of leadership by populist demagogues, see Adecco Group, "Comparing the Outcome of Government Responses to COVID-19," January 2022, https://www.adeccogroup.com/en-ch/future-of-work/insights/government-response-2022/.

BACK TO NOTE REFERENCE 52

53. Tim Nichols, *The Death of Expertise: The Campaign against Established Knowledge and Why It Matters* (New York: Oxford University Press, 2017).

BACK TO NOTE REFERENCE 53

54. Minouche Shafik, "In Experts We Trust?" Bank of England, February 22, 2017, 12, https://www.bankofengland.co.uk/-/media/boe/files/speech/2017/in-experts-we-trust.pdf?la=en&hash=51801143BE9C2BAA60EF3F56F04D7A2E2C694952.

BACK TO NOTE REFERENCE 54

55. See Center for Presidential Transition, "Unconfirmed: Why Reducing the Number of Senate-Confirmed Positions Can Make Government More Effective," August 9, 2021, https://presidentialtransition.org/publications/unconfirmed-reducing-number-senate-confirmed-positions/.

BACK TO NOTE REFERENCE 55

56. On this, see Nicholas Gruen, "Trust and the Competition Delusion: A New Frontier for Political and Economic Reform," Griffith Review, https://www.griffithreview.com/articles/trust-competition-delusion-gruen/.

BACK TO NOTE REFERENCE 56

57. See Jane Jacobs, *Systems of Survival: A Dialogue on the Moral Foundations of Commerce and Politics* (New York: Random House, 1994).

BACK TO NOTE REFERENCE 57

58. "List of regulators in the United Kingdom," Wikipedia, https://en.wikipedia.org/wiki/List_of_regulators_in_the_United_Kingdom.

BACK TO NOTE REFERENCE 58

59. Paul Tucker, *Unelected Power: The Quest for Legitimacy in Central Banking and the Regulatory State* (Princeton, NJ, and Oxford: Princeton University Press, 2018).

BACK TO NOTE REFERENCE 59

60. R. James Breiding, *Too Small to Fail: Why Some Small Nations Outperform Larger Ones and How They Are Reshaping the World* (Uttar Pradesh, India: HarperCollins, 2019).

BACK TO NOTE REFERENCE 60

61. Raghuram Rajan, *The Third Pillar: The Revival of Community in a Polarized World* (London: William Collins, 2019), especially part III; and Collier, *The Future of Capitalism*, chapter 7.

BACK TO NOTE REFERENCE 61

62. "UK Treaties," https://www.gov.uk/guidance/uk-treaties.

BACK TO NOTE REFERENCE 62

63. Michael Crowley, "Trump Won't Commit to 'Peaceful' Post-Election Transfer of Power," *New York Times*, September 23, 2020, https://www.nytimes.com/2020/09/23/us/politics/trump-power-transfer-2020-election.html.

BACK TO NOTE REFERENCE 63

64. Electoral Reform Society, "Single Transferable Vote," https://www.electoral-reform.org.uk/voting-systems/types-of-voting-system/single-transferable-vote/.

BACK TO NOTE REFERENCE 64

65. George Washington, “Farewell Address,” https://www.ourdocuments.gov/doc.php?flash=false&doc=15&page=transcript.

BACK TO NOTE REFERENCE 65

66. The extreme extent of popular involvement in choosing party nominees in the US and its untoward consequences is the theme of an excellent article by Stephen Gardbaum and Richard H. Pildes, “Populism and Institutional Design: Methods of Selecting Candidates for Chief Executive,” *New York University Law Review* 93 (2018): 647–708, https://www.nyulawreview.org/wp-content/uploads/2018/10/NYULawReview-93-4-Gardbaum-Pildes.pdf. See also Jonah Goldberg, “The Hollowing Out of American Parties,” American Enterprise Institute, November 7, 2018, https://www.aei.org/articles/the-hollowing-out-of-american-political-parties/.

BACK TO NOTE REFERENCE 66

67. Alexander Hamilton wrote of the Electoral College that “the process of election affords a moral certainty, that the office of President will never fall to the lot of any man who is not in an eminent degree endowed with the requisite qualifications.” (See Alexander Hamilton, “The Mode of Electing the President,” *Federalist Papers* No. 68, March 14, 1788, https://avalon.law.yale.edu/18th_century/fed68.asp.) It may be debated whether this has ever been the case. But the elimination of independent judgment from the College has guaranteed that it could not now be so, while also delivering several presidents who, in addition to lacking qualifications, did not even receive the majority of votes.

BACK TO NOTE REFERENCE 67

68. See Anne Applebaum, “The U.S. Shouldn’t Be a ‘Sleazy Offshore Principality,” *Atlantic*, October 14, 2020, https://www.theatlantic.com/ideas/archive/2020/10/us-shouldnt-be-sleazy-offshore-principality/616717/.

BACK TO NOTE REFERENCE 68

69. See, on the role of corporations in politics, Thom Hartmann, *Unequal Protection: How Corporations Became “People”—and How You Can Fight Back* (San Francisco: Berrett-Koehler, 2010), and Martin Wolf, “There Is a Direct Line from Milton Friedman to Donald Trump’s Assault on Democracy,” *ProMarket*, October 4, 2020, https://promarket.org/2020/10/04/milton-friedman-donald-trump-assault-on-democracy-corporations/.

BACK TO NOTE REFERENCE 69

70. On the impact of foreign (predominantly Russian) interference in American elections, see David Shimer, *Rigged: America, Russia, and One Hundred Years of Covert Electoral Interference* (New York: Alfred A. Knopf, 2020).

BACK TO NOTE REFERENCE 70

71. In his *Democracy in America* (1835 and 1840), Alexis de Tocqueville made frequent references to the institution of the jury.

BACK TO NOTE REFERENCE 71

72. See John Bernheim and Nicholas Gruen, “Bernheim and Gruen on the Path toward Sortition,” *Equality by Lot*, August 6, 2020, https://equalitybylot.com/2020/08/06/burnheim-and-gruen-on-the-path-toward-sortition/; and Nicholas Gruen, “An Unpublished Column on Sortition and Brexit,” *Equality by Lot*, April 17, 2019, https://equalitybylot.com/2019/04/17/an-unpublished-column-on-sortition-and-brexit/.

BACK TO NOTE REFERENCE 72

73. See Michela Palese, “The Irish Abortion Referendum: How a Citizens’ Assembly Helped to Break Years of Political Deadlock,” Electoral Reform Society, May 29, 2018, https://www.electoral-reform.org.uk/the-irish-abortion-referendum-how-a-citizens-assembly-helped-to-break-years-of-political-deadlock/.

BACK TO NOTE REFERENCE 73

74. “Daniel Patrick Moynihan,” https://www.brainyquote.com/quotes/daniel_patrick_moynihan_182347.

BACK TO NOTE REFERENCE 74

Prologue to Part IV

1. Martin Wolf, "Humanity Is a Cuckoo in the Planetary Nest," *Financial Times*, March 9, 2021, https://www.ft.com/content/a3285adf-6c5f-4ce4-b055-e85f39ff2988.

BACK TO NOTE REFERENCE 1

Chapter Ten: Democratic Capitalism in the World

1. No verified source exists for this quotation.

   BACK TO NOTE REFERENCE 1

2. See Martin Wolf, "How We Can Share Our Divided World," *Financial Times*, November 2, 2021, https://www.ft.com/content/b371e181-eac3-41ef-88c5-ca2bb20edd99.

   BACK TO NOTE REFERENCE 2

3. Population and GDP data are from https://data.worldbank.org/ and https://www.imf.org/en/Publications/WEO/weo-database/2021/April. The World Bank's list of high-income countries includes eight non-democracies: Bahrain, Brunei, Hong Kong, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE. The population and GDP of these non-democracies are excluded from the totals for high-income countries. Together, they had a population of 65.6 million and a share in world GDP of 2.6 percent at PPP and 2.3 percent at market prices in 2019. Apart from Hong Kong, they are all oil producers.

   BACK TO NOTE REFERENCE 3

4. See, on this issue, Dani Rodrik, *The Globalization Paradox: Democracy and the Future of the World Economy* (New York and London: W. W. Norton, 2011), and Rodrik, *Straight Talk on Trade: Ideas for a Sane World Economy* (Princeton, NJ: Princeton University Press, 2017).

   BACK TO NOTE REFERENCE 4

5. Millennium Challenge Corporation, "Our Impact," https://www.mcc.gov/our-impact.

   BACK TO NOTE REFERENCE 5

6. See Martin Wolf, "Containing China Is Not a Feasible Option," *Financial Times*, February 2, 2021, https://www.ft.com/content/83a521c0-6abb-4efa-be48-89ecb52c8d01; and Richard Haass, "A Cold War with China Would Be a Mistake," Council on Foreign Relations, May 11, 2020, https://www.cfr.org/article/cold-war-china-would-be-mistake.

   BACK TO NOTE REFERENCE 6

7. Clyde Prestowitz, *The World Turned Upside Down: America, China, and the Struggle for Global Leadership* (New Haven, CT: Yale University Press, 2021), 223.

   BACK TO NOTE REFERENCE 7

8. Anonymous, *The Longer Telegram: Toward a New American China Strategy*, Atlantic Council, Scowcroft Center for Strategy and Security, 2021, https://www.atlanticcouncil.org/content-series/atlantic-council-strategy-paper-series/the-longer-telegram/.

   BACK TO NOTE REFERENCE 8

9. Ibid., 6.

BACK TO NOTE REFERENCE 9

10. Demetri Sevastopulo, "US Accuses China of Operating 'Open-Air Prison' in Xinjiang," *Financial Times*, May 12, 2021, https://www.ft.com/content/1f9f5f30-dc6e-4228-8b43-5faf522f223a; and Tom Mitchell, "Business Worries Intensify Over China's Tightening Grip on Hong Kong," *Financial Times*, March 16, 2021, https://www.ft.com/content/098017c2-1c83-4da3-ac2a-53e7ed7fac81.

    BACK TO NOTE REFERENCE 10

11. Demetri Sevastopulo and Kathrin Hille, "US Fears China Is Flirting with Seizing Control of Taiwan," *Financial Times*, March 27, 2021, https://www.ft.com/content/3ed169b8-3f47-4f66-a914-58b6e2215f7d.

    BACK TO NOTE REFERENCE 11

12. Graham Allison, "The Geopolitical Olympics: Could China Win Gold?" *National Interest*, July 29, 2021, https://nationalinterest.org/feature/geopolitical-olympics-could-china-win-gold-190761.

    BACK TO NOTE REFERENCE 12

13. See Martin Jacques, *When China Rules the World: The End of the Western World and the Birth of a New Global Order* (London: Penguin, 2009).

    BACK TO NOTE REFERENCE 13

14. See Sean Golden, "A 'China Model' for the 'New Era,' " Barcelona Center for International Affairs, 2017, https://www.cidob.org/en/publications/publication_series/opinion/asia/a_china_model_for_the_ne

    BACK TO NOTE REFERENCE 14

15. Kishore Mahbubani, "Biden and China: Friends or Foes," *Alumnus*, issue 124, January–March 2021, National University of Singapore, https://www.nus.edu.sg/alumnet/thealumnus/issue-124/perspectives/panorama/biden-and-china-friends-or-foes.

    BACK TO NOTE REFERENCE 15

16. On the failures of the West, see the jeremiad by the Singaporean scholar and former diplomat Kishore Mahbubani, *Has the West Lost It? A Provocation* (London: Allen Lane, 2018).

    BACK TO NOTE REFERENCE 16

17. Jonathan Kirshner, "Gone but Not Forgotten: Trump's Long Shadow and the End of American Credibility," *Foreign Affairs*, March/April 2021, https://www.foreignaffairs.com/articles/united-states/2021-01-29/trump-gone-not-forgotten.

    BACK TO NOTE REFERENCE 17

18. This phrase was coined by Robert Zoellick as deputy secretary of state, in "Whither China: From Membership to Responsibility?" September 21, 2015, US Department of State Archive,

https://2001-2009.state.gov/s/d/former/zoellick/rem/53682.htm.

BACK TO NOTE REFERENCE 18

19. Branko Milanovic, *Capitalism Alone* (Cambridge, MA: Harvard University Press, 2019), 208.

BACK TO NOTE REFERENCE 19

20. John Emerich Edward Dalberg Acton (1st Baron Acton), Phrase Finder, https://www.phrases.org.uk/meanings/absolute-power-corrupts-absolutely.html.

BACK TO NOTE REFERENCE 20

21. See Martin Wolf, "The Economic Threats from China's Real Estate Bubble," *Financial Times*, October 5, 2021, and Matthew Klein and Michael Pettis, *Trade Wars Are Class Wars* (New Haven, CT: Yale University Press, 2020).

BACK TO NOTE REFERENCE 21

22. See Graham Allison, *Destined for War: Can America and China Escape Thucydides's Trap?* (Boston and New York: Houghton Mifflin Harcourt, 2017), and Graham Allison, "China's Geopolitics Are Pumped Up by Its Economic Success," *Financial Times*, October 4, 2020, https://www.ft.com/content/e2902988-ca56-4d21-ab2a-b416c9006c7b.

BACK TO NOTE REFERENCE 22

23. Famously, the British Liberal Norman Angell argued that war would turn out to be ruinous, in his book *The Great Illusion: A Study of the Relation of Military Power in Nations to Their Economic and Social Advantage*, initially published as *Europe's Optical Illusion* in 1909 and republished as *The Great Illusion*. The thesis proved all too true. But this did not prevent imbeciles from starting the war.

BACK TO NOTE REFERENCE 23

24. "Cuban Missile Crisis," *Britannica*, https://www.britannica.com/event/Cuban-missile-crisis.

BACK TO NOTE REFERENCE 24

25. Jamie Smyth, "Chinese Tensions Put Australian Businesses under Pressure," *Financial Times*, November 11, 2020, https://www.ft.com/content/b764e4c9-cc38-43b6-848c-dba0cbc6475a.

BACK TO NOTE REFERENCE 25

26. On the US view of China's trade policy practices, see Office of the United States Trade Representative, Executive Office of the President, *Findings of the Investigation into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation under Sector 301 of the Trade Act of 1974*, March 22, 2018, https://ustr.gov/sites/default/files/Section%20301%20FINAL.PDF. See also Martin Wolf, "Donald Trump Declares Trade War on China," *Financial Times*, May 8, 2018, https://www.ft.com/content/dd2af6b0-4fc1-11e8-9471-a083af05aea7.

BACK TO NOTE REFERENCE 26

27. On the illegality of the US trade policy actions, notably against China, under the WTO, see Martin Wolf, "Donald Trump Creates Chaos with His Tariffs Trade War," *Financial Times*, July 10, 2018, https://www.ft.com/content/ba65ac98-8364-11e8-a29d-73e3d454535d.

BACK TO NOTE REFERENCE 27

28. Alan Beattie, "WTO to Suffer Heavy Blow as US Stymies Appeals Body," *Financial Times*, December 8, 2019, https://www.ft.com/content/f0f992b8-19c4-11ea-97df-cc63de1d73f4.

BACK TO NOTE REFERENCE 28

29. See Nicholas Lardy, *The State Strikes Back: The End of Economic Reform in China?* (Washington, DC: Peterson Institute for International Economics, 2019).

BACK TO NOTE REFERENCE 29

30. John Hurley, Scott Morris, and Gailyn Portelance, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective," Center for Global Development, CGD Policy Paper 121, March 2018, https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf.

BACK TO NOTE REFERENCE 30

31. Martin Wolf, "Humanity Is a Cuckoo in the Planetary Nest," *Financial Times*, March 9, 2021, https://www.ft.com/content/a3285adf-6c5f-4ce4-b055-e85f39ff2988.

BACK TO NOTE REFERENCE 31

32. Alan Beattie lays out the daunting difficulties in "Carbon Border Taxes Cannot Fix the Damage of Trump's Climate Move," *Financial Times*, June 8, 2017, https://www.ft.com/content/1d5e54ca-4b86-11e7-919a-1e14ce4af89b. In practice, this would have to be a rough-and-ready adjustment.

BACK TO NOTE REFERENCE 32

33. See Martin Wolf, "Action Must Replace Talk on Climate Change," *Financial Times*, May 4, 2021, https://www.ft.com/content/3fa154f3-84e7-4964-9a21-d3dbd41e1470, which discusses a package of policies, including the border tax on emissions-intensive products, aimed at achieving a shift to global net zero emissions by 2050.

BACK TO NOTE REFERENCE 33

34. See Statista, "Leading Importers of Fish and Fishery Products Worldwide in 2019 (in billion U.S. dollars)," https://www.statista.com/statistics/268266/top-importers-of-fish-and-fishery-products/.

BACK TO NOTE REFERENCE 34

35. World Atlas, "Countries Where Illegal Wildlife Trade Is a Major Threat to Wildlife," https://www.worldatlas.com/articles/10-countries-most-infamous-for-illegal-wildlife-trade.html.

BACK TO NOTE REFERENCE 35

36. See US Department of State, "The Montreal Protocol on Substances That Deplete the Ozone Layer," https://www.state.gov/key-topics-office-of-environmental-quality-and-transboundary-issues/the-montreal-protocol-on-substances-that-deplete-the-ozone-layer/; and US Department of State, "Law of the Sea Convention," https://www.state.gov/law-of-the-sea-convention/.

BACK TO NOTE REFERENCE 36

37. International Monetary Fund, "IMF Members' Quotas and Voting Power, and IMF Board of Governors," May 23, 2021, https://www.imf.org/external/np/sec/memdir/members.aspx.

BACK TO NOTE REFERENCE 37

38. See Asian Infrastructure Investment Bank, https://www.aiib.org/en/index.html, and New Development Bank, https://www.ndb.int/.

BACK TO NOTE REFERENCE 38

Conclusion: Restoring Citizenship

1. "Gettysburg Address," *Britannica*, https://www.britannica.com/event/Gettysburg-Address.

BACK TO NOTE REFERENCE 1

2. Sallus, *Bellum jugurthinum*, https://penelope.uchicago.edu/Thayer/E/Roman/Texts/Sallust/Bellum_Jugurthinum/1*.html.

BACK TO NOTE REFERENCE 2

3. These data are from the International Monetary Fund, World Economic Outlook database April 2021, https://www.imf.org/en/Publications/SPROLLs/world-economic-outlook-databases#sort=%40imfdate%20descending.

BACK TO NOTE REFERENCE 3

4. Global Security.org, " 'Führerprinzip' (Leader Principle)," https://www.globalsecurity.org/military/world/europe/de-fuhrerprinzip.htm.

BACK TO NOTE REFERENCE 4

5. James M. Lindsay, "The 2020 Election by the Numbers," Council on Foreign Relations, December 15, 2020, https://www.cfr.org/blog/2020-election-numbers; and Martin Wolf, "The American Republic's Near-Death Experience," *Financial Times*, January 19, 2021, https://www.ft.com/content/c085e962-f27c-4c34-a0f1-5cf2bd813fbc.

BACK TO NOTE REFERENCE 5

6. Karl Popper, *The Open Society and Its Enemies*, vol. 1, *The Spell of Plato* (London: Routledge, 1945).

BACK TO NOTE REFERENCE 6

7. Anne Applebaum, *Twilight of Democracy: The Seductive Lure of Authoritarianism* (London: Allen Lane, 2020).

   BACK TO NOTE REFERENCE 7

8. Steve Alexis, "Quotes by Hunter S. Thompson," April 13, 2020, Inspiring Alley, https://www.inspiringalley.com/hunter-s-thompson-quotes/.

   BACK TO NOTE REFERENCE 8

9. Adrian Wooldridge, *The Aristocracy of Talent: How Meritocracy Made the Modern World* (London: Allen Lane, 2021).

   BACK TO NOTE REFERENCE 9

10. This section draws extensively from Martin Wolf, "Democracy Will Fail If We Don't Think as Citizens," *Financial Times*, July 6, 2020, https://www.ft.com/content/36abf9a6-b838-4ca2-ba35-2836bd0b62e2.

    BACK TO NOTE REFERENCE 10

Acknowledgments

1. Martin Wolf, *Why Globalization Works* (London and New Haven, CT: Yale University Press, 2004), Wolf, *Fixing Global Finance* (Baltimore and London: Johns Hopkins University Press and Yale University Press, 2008 and 2010), and Wolf, *The Shifts and the Shocks: What We've Learned—and Have Still to Learn—from the Financial Crisis* (London and New York: Penguin, 2014 and 2015).

   BACK TO NOTE REFERENCE 1

2. Martin Sandbu, *The Economics of Belonging: A Radical Plan to Win Back the Left Behind and Achieve Prosperity for All* (Princeton, NJ, and Oxford: Princeton University Press, 2020).

   pid_prh_6.0_8903771_c0_r0

   BACK TO NOTE REFERENCE 2

BIBLIOGRAPHY

Acemoglu, Daron. "Written Testimony." At a virtual hearing on "Machines, Artificial Intelligence, & the Workforce: Recovering & Readying Our Economy for the Future." House Committee on the Budget, September 10, 2021. https://www.congress.gov/116/meeting/house/111002/witnesses/HHRG-116-BU00-Wstate-AcemogluD-20200910.pdf.

Acemoglu, Daron, and James A. Robinson. *The Narrow Corridor: States, Societies, and the Fate of Liberty*. London and New York: Penguin Press, 2019.

Acemoglu, Daron, and James A. Robinson. *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. New York: Crown Business, 2012.

Acemoglu, Daron, David Autor, David Dorn, Gordon H. Hanson, and Brendan Price. "Import Competition and the Great US Employment Sag of the 2000s." *Journal of Labor Economics* 34, no. 1 (part 2, January 2016): 141–98. http://www.journals.uchicago.edu/doi/pdfplus/10.1086/682384.

Achen, Christopher H., and Larry M. Bartels. *Democracy for Realists: Why Elections Do Not Produce Responsive Government*. Princeton, NJ, and Oxford: Princeton University Press, 2016.

Adams, James Truslow. *The Epic of America*. New Brunswick and London: Transaction Publishers, 1931 and 2012.

Adecco Group. "Comparing the Outcome of Government Responses to COVID-19." January 2022. https://www.adeccogroup.com/en-ch/future-of-work/insights/government-response-2022/.

Admati, Anat. "Capitalism, Laws, and the Need for Trustworthy Institutions." In Paul Collier, Diane Coyle, Colin Mayer, and Martin Wolf, eds. "Capitalism: What Has Gone Wrong, What Needs to Change, and How It Can Be Fixed." *Oxford Review of Economic Policy* 37, no. 4 (Winter 2021): 678–89.

Admati, Anat, and Martin Hellwig. *The Banker's New Clothes: What's Wrong with Banking and What to Do about It*. Updated edition. Princeton, NJ: Princeton University Press, 2014.

Aghion, Philippe, Céline Antonin, and Simon Bunel. *The Power of Creative Destruction: Economic Upheaval and the Wealth of Nations*. Translated by Jodie Cohen-Tanugi. Cambridge, MA: Belknap Press of Harvard University Press, 2021.

Ahluwalia, Montek Singh. *Backstage: The Story Behind India's High Growth Years.* New Delhi: Rupa Publications, 2020.

Ahuja, Anjana. "UK's Confused Claim to 'Follow the Science' Eroded Public Trust." *Financial Times*, May 19, 2020. https://www.ft.com/content/66413e62-98e7-11ea-871b-edeb99a20c6e.

Alesina, Alberto, Johann Harnoss, and Hillel Rapoport. "Immigration and the Future of the Welfare State in Europe." December 2014 (updated February 2018). Working Paper 2018-04, Paris School of Economics. https://halshs.archives-ouvertes.fr/halshs-01707760/document.

Alexis, Steve. "Quotes by Hunter S. Thompson." Inspiring Alley, April 13, 2020. https://www.inspiringalley.com/hunter-s-thompson-quotes/.

Aliber, Robert Z., and Charles P. Kindleberger. *Manias, Panics, and Crashes: A History of Financial Crises*. 7th ed. London and New York: Palgrave Macmillan, 2015.

Allen, Robert C. "The British Industrial Revolution in Global Perspective: How Commerce Created the Industrial Revolution and Modern Economic Growth." 2006. https://users.nber.org/~confer/2006/SEGs06/allen.pdf.

Allison, Graham. "China's Geopolitics Are Pumped Up by Its Economic Success." *Financial Times*, October 4, 2020. https://www.ft.com/content/e2902988-ca56-4d21-ab2a-b416c9006c7b.

Allison, Graham. *Destined for War: Can America and China Escape Thucydides's Trap?* Boston and New York: Houghton Mifflin Harcourt, 2017.

Allison, Graham. "The Geopolitical Olympics: Could China Win Gold?" *National Interest*, July 29, 2021. https://nationalinterest.org/feature/geopolitical-olympics-could-china-win-gold-190761.

Alpha History. "The Great Depression." https://alphahistory.com/nazigermany/the-great-depression/.

Amadeo, Kimberly. "What Is the Average American Net Worth?" *The Balance*. Updated December 30, 2021, https://www.thebalance.com/american-middle-class-net-worth-3973493.

American Association of Retired Persons. "How Much Social Security Will I Get?" https://www.aarp.org/retirement/social-security/questions-answers/how-much-social-security-will-i-get.html.

Anderson, Benedict. *Imagined Communities: Reflections on the Origin and Spread of Nationalism.* London and New York: Verso, 1983.
Andreau, Jean. "Personal Endebtment and Forgiveness in the Roman Empire." CADTM, December 17, 2012. http://www.cadtm.org/Personal-endebtment-and-debt (translated from the French).
Andrews, Dan, Chiara Criscuolo, and Peter Gal. *The Global Productivity Slowdown, Technology Divergence and Public Policy: A Firm Level Perspective*. OECD, Paris, 2016. https://www.oecd.org/global-forum-productivity/events/GP_Slowdown_Technology_Divergence_and_Public_Policy_Final_after_conference_26_July.pdf.
Angell, Norman. *The Great Illusion: A Study of the Relation of Military Power in Nations to Their Economic and Social Advantage.* 3rd ed. New York and London: G. P. Putnam's Sons, 1911.
Annie E. Casey Foundation. Kids Count Data Center, Demographics. "Total Population by Child and Adult Populations in the United States," 2020. https://datacenter.kidscount.org/.
Anonymous. *The Longer Telegram: Toward a New American China Strategy*. Atlantic Council, Scowcroft Center for Strategy and Security, 2021. https://www.atlanticcouncil.org/content-series/atlantic-council-strategy-paper-series/the-longer-telegram/.
Applebaum, Anne. *Twilight of Democracy: The Seductive Lure of Authoritarianism.* London: Allen Lane, 2020.
Applebaum, Anne. "The U.S. Shouldn't Be a 'Sleazy Offshore Principality." *Atlantic*, October 14, 2020. https://www.theatlantic.com/ideas/archive/2020/10/us-shouldnt-be-sleazy-offshore-principality/616717/.
Applebaum, Anne, and Peter Pomerantsev. "How to Put Out Democracy's Dumpster Fire." *Atlantic*, March 8, 2021. https://www.theatlantic.com/magazine/archive/2021/04/the-internet-doesnt-have-to-be-awful/618079/.
Aristotle. *Politics*. Translated by T. A. Sinclair. Revised and re-presented by Trevor J. Saunders. London: Penguin Classics, 1981.
Asian Infrastructure Investment Bank. https://www.aiib.org/en/index.html.
Aslund, Anders. *Russia's Crony Capitalism: The Path from Market Economy to Kleptocracy.* New Haven: Yale University Press, 2019.
Atkinson, Anthony B. *Inequality: What Can Be Done.* Cambridge, MA, and London: Harvard University Press, 2015.
Auerbach, Alan, Michael Devereux, Michael Keen, and John Vell. "Destination-Based Cash Flow Taxation." Oxford Legal Studies Research Paper No. 14/2017. Said Business School WP 2017-09. Oxford University Center for Business Taxation WP 17/01. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2908158.
Autor, David H., David Dorn, and Gordon H. Hanson. "The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade." National Bureau of Economic Research Working Paper Number 21906. January 2016. http://www.nber.org/papers/w21906.
Baggini, Julian. "Aristotle's Thinking on Democracy Has More Relevance Than Ever." *Prospect*, May 23, 2018. https://www.prospectmagazine.co.uk/philosophy/aristotles-thinking-on-democracy-has-more-relevance-than-ever.
Baker, Peter. "Bush Made Willie Horton an Issue in 1988 and the Racial Scars Are Still Fresh." *New York Times*, December 3, 2018. https://www.nytimes.com/2018/12/03/us/politics/bush-willie-horton.html.
Baldwin, James. *The Fire Next Time.* New York: Dial, 1963.
Baldwin, Richard E. *The Globotics Upheaval: Globalization, Robotics, and the Future of Work.* London: Weidenfeld & Nicolson, 2019.
Baldwin, Richard E. *The Great Convergence: Information Technology and the New Globalization*. Cambridge, MA: Belknap Press of Harvard University Press, 2016.
Baldwin, Richard E., and Philippe Martin. "Two Waves of Globalization: Superficial Similarities, Fundamental Differences." National Bureau of Economic Research. Working Paper Number 6904, January 1999. http://www.nber.org/papers/w6904.pdf.
Baldwin, Richard E., and Simon J. Evenett. *COVID-19 and Trade Policy: Why Turning Inward Won't Work.* A CEPR Press VoxEU.org eBook, 2020.
Baldwin, Tom. *Ctrl Alt Delete: How Politics and the Media Crashed Our Democracy*. London: Hurst and Company, 2018.
Bank of England. "Further Details about Sectoral Deposits and Divisia Money Data." https://www.bankofengland.co.uk/statistics/details/further-details-sectoral-deposits-and-divisia-money-data.
Bank of England. "The U.K. Exchange Control: A Short History." *Bank of England Quarterly Bulletin*, 1967, Third Quarter. https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/1967/the-uk-exchange-control-a-short-history.pdf.
Bank for International Settlements. *Annual Economic Report*. June 2020. https://www.bis.org/publ/arpdf/ar2020e.pdf.
Bank for International Settlements. "Basel III: International Regulatory Framework for Banks." https://www.bis.org/bcbs/basel3.htm.
Bank for International Settlements. "Global OTC Derivatives Market." Table D5.1. https://stats.bis.org/statx/srs/table/d5.1.
Barker, Richard, Robert G. Eccles, and George Serafeim. "The Future of ESG Is . . . Accounting?" *Harvard Business Review*, December 3, 2020. https://hbr.org/2020/12/the-future-of-esg-is-accounting.
Barr, Nicholas. *The Welfare State as Piggy Bank: Information, Risk, Uncertainty, and the Role of the State.* Oxford: Oxford University Press, 2001.

Barthel, Michael. “5 Key Takeaways about the State of the News Media in 2018.” Pew Research Center, July 23, 2019. https://www.pewresearch.org/fact-tank/2019/07/23/key-takeaways-state-of-the-news-media-2018/.
Barwise, Patrick. “Nine Reasons Why Tech Markets Are Winner-Take-All.” London Business School, July 10, 2018. https://www.london.edu/lbsr/nine-reasons-why-tech-markets-are-winner-take-all.
Baumol, William J. *The Free-Market Innovation Machine: Analyzing the Growth Miracle of Capitalism.* Princeton, NJ: Princeton University Press, 2004.
Baxter, Martin. “Three-D Politics and the Seven Tribes.” *Electoral Calculus,* April 20, 2019. https://www.electoralcalculus.co.uk/pol3d_main.html.
Baxter, Martin. “Voter Migration by Group 2017–2019.” *Electoral Calculus,* January 21, 2020.
Beattie, Alan. “Carbon Border Taxes Cannot Fix the Damage of Trump’s Climate Move.” *Financial Times,* June 8, 2017. https://www.ft.com/content/1d5e54ca-4b86-11e7-919a-1e14ce4af89b.
Beattie, Alan. “WTO to Suffer Heavy Blow as US Stymies Appeals Body.” *Financial Times,* December 8, 2019. https://www.ft.com/content/f0f992b8-19c4-11ea-97df-cc63de1d73f4.
Bebchuk, Lucian, and Jesse Fried. “The Growth of Executive Pay.” National Bureau of Economic Research Working Paper No. 11443, June 2005. https://www.nber.org/papers/w11443.
Bebchuk, Lucian, and Jesse Fried. *Pay without Performance: The Unfulfilled Promise of Executive Compensation.* Cambridge, MA: Harvard University Press, 2004.
Beinhocker, Eric D. *The Origin of Wealth: The Radical Remaking of Economics and What It Means for Business and Society*. Cambridge, MA: Harvard University Press, 2006.
Belton, Catherine. *Putin’s People*. London: William Collins, 2020.
Bénabou, Roland, and Jean Tirole. “Bonus Culture: Competitive Pay, Screening, and Multitasking.” *Journal of Political Economy* 124, no. 2 (2016): 305–70.
Berlin, Isaiah. “Two Concepts of Liberty.” In Isaiah Berlin, *Four Essays on Liberty*. Oxford: Oxford University Press, 1969, 118–72. https://cactus.dixie.edu/green/B_Readings/I_Berlin%20Two%20Concpets%20of%20Liberty.pdf.
Berman, Sheri. *Democracy and Dictatorship in Europe: From the Ancien Régime to the Present Day.* New York: Oxford University Press, 2019.
Bernanke, Ben S. “The Global Saving Glut and the U.S. Current Account Deficit.” Remarks, March 10, 2005. Federal Reserve Board. https://www.federalreserve.gov/boarddocs/speeches/2005/200503102/.
Bernanke, Ben S. *21st Century Monetary Policy: The Federal Reserve from the Great Inflation to Covid-19*. New York and London: W. W. Norton, 2022.
Bernheim, John, and Nicholas Gruen. “Bernheim and Gruen on the Path toward Sortition.” *Equality by Lot,* August 6, 2020. https://equalitybylot.com/2020/08/06/burnheim-and-gruen-on-the-path-toward-sortition/.
Beschloss, Michael. “The Ad That Helped Reagan Sell Good Times to an Uncertain Nation.” *New York Times,* May 7, 2016. https://www.nytimes.com/2016/05/08/business/the-ad-that-helped-reagan-sell-good-times-to-an-uncertain-nation.html.
Besley, Timothy. “Is Cohesive Capitalism Under Threat?” In Paul Collier, Diane Coyle, Colin Mayer, and Martin Wolf, eds. “Capitalism: What Has Gone Wrong, What Needs to Change, and How It Can Be Fixed.” *Oxford Review of Economic Policy* 37, no. 4 (Winter 2021): 720–33.
Besley, Timothy, and Torsten Persson. *Pillars of Prosperity: The Political Economics of Development Clusters*. Princeton, NJ: Princeton University Press, 2011.
Bhagwati, Jagdish N., and Padma Desai. *India: Planning for Industrialization.* Oxford: Oxford University Press, for the Development Center of the Organization for Economic Co-operation and Development, 1970.
Bingham, Tom. *The Rule of Law*. London: Penguin, 2011.
Boissoneault, Lorraine. “Bismarck Tried to End Socialism’s Grip—by Offering Government Healthcare.” *Smithsonian Magazine,* July 14, 2017. https://www.smithsonianmag.com/.
Bordo, Michael D., Alan M. Taylor, and Jeffrey G. Williamson, eds. *Globalization in Historical Perspective*. Chicago: University of Chicago Press, 2003.
Bordo, Michael D., Barry Eichengreen, and Jongwoo Kim. “Was There Really an Earlier Period of International Financial Integration Comparable to Today’s?” National Bureau of Economic Research Working Paper 6738, September 1998. www.nber.org.
Borjas, George J. “Immigration and Globalization: A Review Essay.” *Journal of Economic Literature* 53, no. 4 (2015): 961–74.
Bork, Robert H. *The Antitrust Paradox: A Policy at War with Itself.* 2nd ed. New York: Free Press, 1993.
Boyce, James K. *The Case for Carbon Dividends*. Cambridge, MA: Polity, 2019.
Breiding, R. James. *Too Small to Fail: Why Some Small Nations Outperform Larger Ones and How They Are Reshaping the World.* Uttar Pradesh, India: Harper Business, 2019.
The British Academy. *Principles for Purposeful Business: How to Deliver the Framework for the Future of the Corporation*, 2019. https://www.thebritishacademy.ac.uk/publications/future-of-the-corporation-principles-for-purposeful-business.

Brown, Chad P., and Melina Kolb. “Trump’s Trade War Timeline: An Up-to-Date Guide.” Peterson Institute for International Economics, August 6, 2020. https://www.piie.com/sites/default/files/documents/trump-trade-war-timeline.pdf.
Brown, Richard. *A History of Accounting and Accountants*. London: Routledge, 1905.
Brown, Roger. *The Inequality Crisis: The Facts and What We Can Do about It.* Bristol, UK, and Chicago: Policy Press, 2017.
Brown, Wendy. *In the Ruins of Neoliberalism: The Rise of Antidemocratic Politics in the West.* New York: Columbia University Press, 2019.
Brunnermeier, Markus. *The Resilient Society*. Colorado Springs, CO: Endeavor, 2021.
Brunnermeier, Markus, and Jean-Pierre Landau. *The Digital Euro: Policy Implications and Perspectives*, January 21, 2022. Directorate-General for Internal Policies.
Bruno, Valentina, and Hyun Song Shin. “Global Dollar Credit and Carry Trades: A Firm-Level Analysis.” BIS Working Papers 510, August 2015, Bank for International Settlements. https://www.bis.org/publ/work510.pdf.
Brunsden, Jim, Sam Fleming, and Mehreen Khan. “EU Recovery Fund: How the Plan Will Work.” *Financial Times*, July 21, 2020. https://www.ft.com/content/2b69c9c4-2ea4-4635-9d8a-1b67852c0322.
Bryan, Bob. “One Quote from Warren Buffett Is the Perfect Advice for Investing in the Age of Uber and Netflix.” *Business Insider*, May 4, 2019. https://www.businessinsider.com/buffett-on-moats-2016-4?IR=T.
Brynjolfsson, Erik, and Andrew McAfee. *Race against the Machine: How the Digital Revolution Is Accelerating Innovation, Driving Productivity, and Irreversibly Transforming Employment and the Economy.* Lexington, MA: Digital Frontier Press, 2011.
Brynjolfsson, Erik, and Andrew McAfee. *The Second Machine Age: Work, Progress, and Prosperity in a Time of Brilliant Technologies.* New York: W. W. Norton, 2014.
Bureau of Economic Analysis. US Department of Commerce. https://www.bea.gov/.
Burgis, Tom. *Kleptopia: How Dirty Money Is Conquering the World.* London: William Collins, 2020.
Burke, Edmund. *Reflections on the Revolution in France and on the Proceedings in Certain Societies in London Relative to That Event.* London: Dodsley, 1790.
Burn-Murdoch, John, Valentina Romei, and Chris Giles. “UK Economic Recovery Tracker: What the Latest Data on Activity Are Signaling.” *Financial Times*, August 5, 2020. https://www.ft.com/uk-econ-tracker.
Business Roundtable. “Statement on the Purpose of a Corporation.” August 19, 2019. https://system.businessroundtable.org/app/uploads/sites/5/2021/02/BRT-Statement-on-the-Purpose-of-a-Corporation-Feburary-2021-compressed.pdf.
Callaghan, James. “Leader’s Speech, Blackpool 1976.” http://www.britishpoliticalspeech.org/speech-archive.htm?speech=174.
Capie, Forrest. *Capital Controls: A “Cure” Worse Than the Problem*. London: Institute of Economic Affairs, 2002.
Card, David, and Alan B. Krueger. *Myth and Measurement: The New Economics of the Minimum Wage*. Twentieth-Anniversary Edition. Princeton, NJ: Princeton University Press, 2015.
Cardoso, Fernando Henrique. “Brazil’s Crisis Reflects Demise of Representative Democracy across the West.” *Huffington Post*, September 5, 2016. https://www.huffpost.com/entry/brazils-crisis-reflects-demise-of-democracy_b_11867368.
Cardozo Law. “Disney’s Influence on U.S. Copyright Law.” August 26, 2021. https://online.yu.edu/cardozo/blog/disney-influence-copyright-law.
Carnegie Corporation of New York. “Voting Rights: A Short History,” November 18, 2019. https://www.carnegie.org/our-work/article/voting-rights-timeline/.
Carroll, Lewis. “The Hunting of the Snark.” https://www.poetryfoundation.org/poems/43909/the-hunting-of-the-snark.
Case, Anne, and Angus Deaton. *Deaths of Despair and the Future of Capitalism.* Princeton, NJ: Princeton University Press, 2020.
Case, Anne, and Angus Deaton. “Mortality and Morbidity in the 21st Century.” *Brookings Papers on Economic Activity*. Spring 2017. https://www.brookings.edu/wp-content/uploads/2017/08/casetextsp17bpea.pdf.
Casleton, Scott. “It’s Time for Liberals to Get Over Citizens United.” *Vox*, May 7, 2018. https://www.vox.com/the-big-idea/2018/5/7/17325486/citizens-united-money-politics-dark-money-vouchers-primaries.
Cecchetti, Stephen G., and Enisse Kharroubi. “Reassessing the Impact of Finance on Growth.” BIS Working Papers 381, July 2012. https://www.bis.org/publ/work381.pdf.
Cecchetti, Stephen G., and Enisse Kharroubi. “Why Does Financial Sector Growth Crowd Out Real Economic Growth?” BIS Working Papers 490, February 2015. https://www.bis.org/publ/work490.pdf.
Center for Financial Stability. “Advances in Monetary and Financial Measurement,” 2021. http://www.centerforfinancialstability.org/amfm_data.php?startc=1984&startt=2000#methods.
Center for Presidential Transition. “Unconfirmed: Why Reducing the Number of Senate-Confirmed Positions Can Make Government More Effective.” August 9, 2021. https://presidentialtransition.org/publications/unconfirmed-reducing-number-senate-confirmed-positions/.
Centers for Disease Control and Prevention. “Opioid Overdose Deaths.” https://www.cdc.gov/drugoverdose/epidemic/index.html.
Chancellor, Edward. *The Price of Time: The Real Story of Interest*. London: Allen Lane, 2022.

Cingano, Federico. “Trends in Income Inequality and Its Impact on Economic Growth.” OECD Social, Employment and Migration Working Papers No. 163, Paris, 2014. http://dx.doi.org/10.1787/5jxrjncwxv6j-en.
Clark, Andrew E., Sarah Flèche, Richard Layard, Nattavudh Powdthavee, and George Ward. *The Origins of Happiness: The Science of Well-Being over the Life Course.* Princeton, NJ: Princeton University Press, 2018.
Clemens, Michael A. “Economics and Emigration: Trillion-Dollar Bills on the Sidewalk?” *Journal of Economic Perspectives* 25, no. 3 (Summer 2011): 83–106.
Coase, Ronald H. “The Nature of the Firm.” *Economica* 4, no. 16 (1937): 386–405. https://onlinelibrary.wiley.com/doi/full/10.1111/j.1468-0335.1937.tb00002.x.
Coggan, Philip. *More: The 10,000-Year Rise of the World Economy.* London: Economist Books, 2020.
Cohn, D’Vera. “How U.S. Immigration Laws and Rules Have Changed throughout History.” Pew Research Center, September 30, 2015. https://www.pewresearch.org/fact-tank/2015/09/30/how-u-s-immigration-laws-and-rules-have-changed-through-history/.
Collier, Paul. *The Future of Capitalism: Facing the New Anxieties.* London: Allen Lane, 2018.
Collier, Paul, and John Kay. *Greed Is Dead: Politics after Individualism*. London: Allen Lane 2020.
Collins, Chuck. *The Wealth Hoarders: How Billionaires Pay Millions to Hide Trillions.* Cambridge, UK: Polity, 2021.
Commission on the Practice of Democratic Citizenship. *Our Common Purpose: Reinventing American Democracy for the 21st Century*. Cambridge, MA: American Academy of Arts and Sciences, 2020.
Conference Board. “Total Economy Database,” 2021. https://www.conference-board.org/data/economydatabase/total-economy-database-productivity. Consensus Economics. https://www.consensuseconomics.com/.
Congressional Budget Office. *The 2021 Long-term Budget Outlook.* March 2021. https://www.cbo.gov/system/files/2021-03/56977-LTBO-2021.pdf.
Congressional Budget Office. “Monthly Budget Review: Summary for Fiscal Year 2019.” November 7, 2019. https://www.cbo.gov/.
Cooper, Andrew F., and Colin I. Bradford Jr. *The G20 and the Post-Crisis Economic Order*. Center for International Governance Innovation G20 Papers No. 3, June 2020. https://www.cigionline.org/sites/default/files/g20_no_3_0.pdf.
Corak, Miles. “Income Inequality, Equality of Opportunity, and Intergenerational Mobility.” IZA Discussion Paper No. 7520. July 2013. http://ftp.iza.org/dp7520.pdf.
Coughlan, Sean. “The Symbolic Target of 50% at University Reached.” BBC News. September 26, 2019. https://www.bbc.com/news/education-49841620.
Courtois, Stéphane, Nicolas Werth, Jean-Louis Panné, Andrzej Paczkowski, Karel Bartosek, and Jean-Louise Margolin. *The Black Book of Communism: Crimes, Terror, Repression.* Translated by Jonathan Murphy and Mark Kramer. Cambridge, MA: Harvard University Press, 1999.
Cowen, Tyler. *The Great Stagnation: How America Ate All the Low-Hanging Fruit of Modern History, Got Sick, and Will (Eventually) Feel Better.* New York: Dutton, 2011.
Coyle, Diane. “Building Back Better Requires Systemic Shifts.” *Financial Times*, July 30, 2020. https://www.ft.com/content/72b1fbd7-6059-4cb9-835d-c608acc3e603.
Crafts, Nicholas. *Globalization and Growth in the Twentieth Century*. IMF Working Paper WP/00/44. Washington, DC, International Monetary Fund, 2000. https://www.imf.org/external/pubs/ft/wp/2000/wp0044.pdf.
Crivelli, Ernesto, Ruud De Mooij, and Michael Keen. “Base Erosion, Profit Shifting and Developing Countries.” IMF Working Paper WP/15/118. May 2015. https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Base-Erosion-Profit-Shifting-and-Developing-Countries-42973.
Croft, Jane. “Ex-Barclays Libor Traders Receive Jail Sentences.” *Financial Times*, July 7, 2016. https://www.ft.com/content/16215d97-971f-3209-87da-55d0a1f08c5f.
Crowley, Michael. “Trump Won’t Commit to ‘Peaceful’ Post-Election Transfer of Power.” *New York Times*, September 23, 2020. https://www.nytimes.com/2020/09/23/us/politics/trump-power-transfer-2020-election.html.
Curtis, Polly. “Gordon Brown Calls Labor Supporter a ‘Bigoted Woman.’ ” *Guardian*, April 28, 2010. https://www.theguardian.com/politics/2010/apr/28/gordon-brown-bigoted-woman.
Dal Bó, Ernesto, Federico Finan, Olle Folke, Torsten Persson, and Johanna Rickne. “Economic Losers and Political Winners: Sweden’s Radical Right.” February 2019. http://perseus.iies.su.se/~tpers/papers/CompleteDraft190301.pdf.
Dalio, Ray, Jordan Nick, Steven Kryger, and Bill Longfield. “Wealth Taxes.” March 22, 2021. Bridgewater, unpublished.
DARPA. “Innovation at DARPA.” July 2016. https://www.darpa.mil/attachments/DARPA_Innovation_2016.pdf.
Dasgupta, Partha. *The Economics of Biodiversity: The Dasgupta Review—Full Report*. April 23, 2021. https://www.gov.uk/government/publications/final-report-the-economics-of-biodiversity-the-dasgupta-review.
Day, Chris. *The Beveridge Report and the Foundations of the Welfare State*. National Archives, blog, December 7, 2017. https://blog.nationalarchives.gov.uk/beveridge-report-foundations-welfare-state/.
De Vries, Jan. “The Industrial Revolution and the Industrious Revolution.” *Journal of Economic History* 54, no. 2 (1994): 249–70. http://www.jstor.org/stable/2123912.

Dervis, Kemal, and Caroline Conroy. “Nationalists of the World, Unite?” Brookings, November 26, 2018. https://www.brookings.edu/opinions/nationalists-of-the-world-unite/.
Detter, Dag, and Stefan Fölster. *The Public Wealth of Nations: How Management of Public Assets Can Boost or Bust Economic Growth.* Basingstoke: Palgrave Macmillan, 2015.
Diamond, Jared M. *Guns, Germs and Steel: A Short History of Everybody for the Last 13,000 Years.* London: Vintage, 1998.
Diamond, Jared M. “Jared Diamond: Lessons from a Pandemic.” *Financial Times*, May 28, 2020. https://www.ft.com/content/71ed9f88-9f5b-11ea-b65d-489c67b0d85d.
Diamond, Larry. “Facing Up to the Democratic Recession.” *Journal of Democracy* 26, no. 1 (January 2015).
Diamond, Larry. *Ill Winds: Saving Democracy from Russian Rage, Chinese Ambition, and American Complacency*. New York: Penguin Press, 2019.
Diamond, Larry. *The Spirit of Democracy: The Struggle to Build Free Societies throughout the World*. New York: Henry Holt, 2009.
Diewert, W. Erwin. “Decompositions of Productivity Growth into Sectoral Effects.” Paper Prepared for the IARIW-UNSW Conference on Productivity: Measurement, Drivers and Trends, November 2013.
Diris, Ron, and Erwin Ooghe. “The Economics of Financing Higher Education.” *Economic Policy*, April 2018.
Doerr, Sebastian, Stefan Gissler, José-Luis Peydró, and Hans-Joachim Voth. “Financial Crises and Political Radicalization: How Failing Banks Paved Hitler’s Path to Power.” BIS World Papers, No. 978. November 22, 2021. https://www.bis.org/publ/work978.htm.
Domar, Evsey. “On the Measurement of Technological Change,” *Economic Journal* 71, no. 284 (December 1961): 709–29.
Draghi, Mario. “Verbatim of the Remarks Made by Mario Draghi.” July 26, 2012. European Central Bank. https://www.ecb.europa.eu/press/key/date/2012/html/sp120726.en.html.
Dube, Arindrajit. “Guest Post: Minimum Wage Laws and the Labor Market: What Have We Learned Since Card and Krueger’s Book *Myth and Measurement*?” September 1, 2011. https://rortybomb.wordpress.com/2011/09/01/guest-post-minimum-wage-laws-and-the-labor-market-what-have-we-learned-since-card-and-krueger%E2%80%99s-book-myth-and-measurement/.
Dumas, Charles. *Populism and Economics*. London: Profile Books, 2018.
Durand, Cédric. *Fictitious Capital: How Finance Is Appropriating Our Future*. London and New York: Verso, 2017.
Durkheim, Émile. *Le Suicide: Étude de Sociologie*. Bar-le-Duc, France: Imprimerie Contant-Laguerre, 1897.
Dustmann, Christian, Baerry Eichengreen, Sebastian Otten, André Sapir, Guido Tabellini, and Gylfi Zoega. “Populism and Trust in Europe.” *VoxEU*, August 2017. https://voxeu.org/article/populism-and-trust-europe.
Earthworks. “FACT SHEET: Battery Minerals for the Clean Energy Transition,” April 17, 2019. https://earthworks.org/fact-sheet-battery-minerals-for-the-clean-energy-transition/.
“Economists Are Rethinking the Numbers on Inequality.” *Economist*, November 28, 2019. https://www.economist.com/briefing/2019/11/28/economists-are-rethinking-the-numbers-on-inequality.
“Economists’ Statement on Carbon Dividends.” Climate Leadership Council, January 17, 2019. https://clcouncil.org/economists-statement/.
Editorial Board. “New Issuance of SDRs Is Vital to Help Poorer Countries.” *Financial Times*, April 12, 2020. https://www.ft.com/content/2691bfa2-799e-11ea-af44-daa3def9ae03.
Edsall, Thomas B. “Trump Says Jump. His Supporters Ask How High?” *New York Times*, September 14, 2017. https://www.nytimes.com/2017/09/14/opinion/trump-republicans.html?action=click&pgtype=Homepage&clickSource=story-heading&module=opinion-c-col-right-region&region=opinion-c-col-right-region&WT.nav=opinion-c-col-right-region&_r=0.
Edsall, Thomas B. “We Aren’t Seeing White Support for Trump for What It Is.” *New York Times*, August 28, 2019. https://www.nytimes.com/2019/08/28/opinion/trump-white-voters.html?action=click&module=Opinion&pgtype=Homepage.
Edwards, Sebastian. “Modern Monetary Disasters.” *Project Syndicate*, May 16, 2019. https://www.project-syndicate.org/commentary/modern-monetary-theory-latin-america-by-sebastian-edwards-2019-05.
Edwards, Sebastian. “On Latin American Populism, and Its Echoes around the World.” National Bureau of Economic Research Working Paper No. 26333. October 2019. https://www.nber.org/papers/w26333.
Eichengreen, Barry. *The Populist Temptation: Economic Grievance and Political Reaction in the Modern Era.* New York: Oxford University Press, 2018.
Electoral Reform Society. “Single Transferable Vote,” 2017. https://www.electoral-reform.org.uk/voting-systems/types-of-voting-system/single-transferable-vote/.
Electronic Frontier Foundation. “Patent Trolls.” https://www.eff.org/issues/resources-patent-troll-victims.
Ellis, Howard S. “Bilateralism and the Future of International Trade.” *Essays in International Finance* No. 5, Summer 1945. International Finance Section, Department of Economics and Social Institutions, Princeton University, Princeton, New Jersey. https://ies.princeton.edu/pdf/E5.pdf.

Ellyatt, Holly. “Who Are ‘Davos Man’ and ‘Davos Woman’?” CNBC, January 19, 2018. https://www.cnbc.com/2018/01/19/who-are-davos-man-and-davos-woman.html.
Encyclopedia Britannica, https://www.britannica.com.
Energy Transitions Commission. *Keeping 1.5°C Alive: Closing the Gap in the 2020s.* September 2021. https://www.energy-transitions.org/publications/keeping-1-5-alive/.
Energy Transitions Commission. *Making Mission Possible: Delivering a Net-Zero Economy*. September 2020. https://www.energy-transitions.org/publications/making-mission-possible/.
“Enoch Powell’s ‘Rivers of Blood’ speech.” https://anth1001.files.wordpress.com/2014/04/enoch-powell_speech.pdf.
Estevadeordal, Antoni, Brian Ftrantz, and Alan M. Taylor. “The Rise and Fall of World Trade, 1870–1939.” National Bureau of Economic Research Paper No. 9318. November 2002. http://www.nber.org/papers/w9318.
European Council on Foreign Relations. *Crisis and Cohesion in the EU: A Ten-Year Review*. February 5, 2018. https://www.ecfr.eu/page/-/ECFR-_245_-_Crisis_and_Cohesion_-_A_10_Year_Review_Janning_WEB.pdf.
EurWORK: European Observatory of Working Life. “Flexicurity.” May 7, 2013. https://www.eurofound.europa.eu/observatories/eurwork/industrial-relations-dictionary/flexicurity.
Evans, Geoff, and Florian Schaffner. “Brexit Identities: How Leave Versus Remain Replaced Conservative Versus Labor Affiliations of British Voters.” January 23, 2019.
Facebook Investor Relations. “Facebook Reports Fourth Quarter and Full Year 2018 Results.” https://investor.fb.com/investor-news/press-release-details/2019/Facebook-Reports-Fourth-Quarter-and-Full-Year-2018-Results/default.aspx.
Federal Reserve. “Federal Reserve Announces the Establishment of Temporary U.S. Dollar Liquidity Arrangements with Other Central Banks.” March 19, 2020. https://www.federalreserve.gov/newsevents/pressreleases/monetary20200319b.htm.
Ferguson, Thomas, and Joel Rogers. *Right Turn: The Decline of the Democrats and the Future of American Politics.* New York: Farrar, Straus and Giroux, 1987.
Fetzer, Thiemo. “Austerity Caused Brexit.” *VoxEU*, April 8, 2019. https://voxeu.org/article/austerity-caused-brexit.
Fetzer, Thiemo. “Did Austerity Cause Brexit?” Warwick University Working Paper Series No. 381. Revised June 2019.
Financial Times. “Coronavirus Tracked: See How Your Country Compares.” https://www.ft.com/content/a2901ce8-5eb7-4633-b89c-cbdf5b386938.
Findlay, Ronald, and Kevin H. O’Rourke. “Commodity Market Integration, 1500–2000.” In Michael D. Bordo, Alan M. Taylor, and Jeffrey G. Williamson, eds. *Globalization in Historical Perspective*. Chicago: University of Chicago Press, 2003. http://www.nber.org/chapters/c9585.pdf.
Findlay, Ronald, and Kevin H. O’Rourke. *Power and Plenty: Trade, War, and the World Economy in the Second Millennium*. Princeton, NJ: Princeton University Press, 2009.
Finer, S. E. *The History of Government: Ancient Monarchies and Empires.* Vol. 1, *Ancient Monarchies and Empires*. Oxford: Oxford University Press, 1997 and 1999.
Finer, S. E. *The Man on Horseback: The Role of the Military in Politics.* Abingdon and New York: Routledge, 1962 and 2017.
Fleming, Sam, Miles Johnson, and Ian Mount. “EU Rescue Package: Borrowing to Prevent a North-South Split.” *Financial Times*, July 24, 2020. https://www.ft.com/content/1fd5785b-5f6f-4175-bae4-214b43a55804.
Fleming, Sam, Mehreen Khan, and Jim Brunsden. “EU Leaders Strike Deal on €750bn Recovery Fund after Marathon Summit.” *Financial Times*, July 21, 2020. https://www.ft.com/content/713be467-ed19-4663-95ff-66f775af55cc.
Foa, R. S., A. Klassen, M. Slade, A. Rand, and R. Collins. “The Global Satisfaction with Democracy Report 2020.” Cambridge, UK: Centre for the Future of Democracy, 2020. https://www.cam.ac.uk/system/files/report2020_003.pdf.
Foa, Roberto S., Xavier Romero-Vidal, Andrew J. Klassen, Joaquin Fuenzalida Concha, Marian Quednau, and Lisa Sophie Fenner. *The Great Reset: Public Opinion, Populism, and the Pandemic*. Centre for the Future of Democracy, University of Cambridge, January 14, 2022.
Foa, Roberto Stefan, and Yascha Mounk. “The Danger of Deconsolidation: The Democratic Disconnect.” *Journal of Democracy* 27, no. 3 (July 2016): 5–17.
Foundation for Economic Education. “H. L. Mencken Quotes on Government, Democracy, and Politicians.” https://fee.org/articles/12-hl-mencken-quotes-on-government-democracy-and-politicians/.
Fowler, Mayhill. “Obama: No Surprise That Hard-Pressed Pennsylvanians Turn Bitter.” *Huffington Post*, November 17, 2008, updated May 25, 2011. https://www.huffingtonpost.com/mayhill-fowler/obama-no-surprise-that-ha_b_96188.html.
Frank, Robert H., and Philip J. Cook. *The Winner-Take-All Society: Why the Few at the Top Get So Much More Than the Rest of Us.* New York and London: Penguin, 1996.
Frankopan, Peter. *The Silk Roads: A New History of the World*. London: Bloomsbury, 2015. Especially chapter 1.
Frantz, Erica. *Authoritarianism: What Everyone Needs to Know*. Oxford: Oxford University Press, 2018.
Freedom House. “Democracy in Crisis.” *Freedom in the World 2018.* https://freedomhouse.org/sites/default/files/2020-02/FH_FIW_Report_2018_Final.pdf .
Freedom House. “Democracy under Siege.” *Freedom in the World 2021.* https://freedomhouse.org/sites/default/files/2021-02/FIW2021_World_02252021_FINAL-web-upload.pdf.

Frey, Carl Benedikt. *The Technology Trap: Capital, Labor, and Power in the Age of Automation.* Princeton, NJ, and Oxford: Princeton University Press, 2019.
Frey, William H. “The US Will Become ‘Minority White’ in 2045, Census Projects: Youthful Minorities Are the Engine of Future Growth.” Brookings, March 14, 2018. https://www.brookings.edu/blog/the-avenue/2018/03/14/the-us-will-become-minority-white-in-2045-census-projects/.
Friedman, Benjamin. *The Moral Consequences of Economic Growth*. New York: First Vintage Books Edition, 2006.
Friedman, Milton. “The Social Responsibility of Business Is to Increase Its Profits.” *New York Times Magazine*, September 13, 1970. https://web.archive.org/web/20060207060807/https://www.colorado.edu/studentgroups/libertarians/issues/friedman-soc-resp-business.html.
Friedman, Thomas L. *The World Is Flat: The Globalized World in the Twenty-first Century.* London and New York: Penguin, 2005.
Fukuyama, Francis. “The End of History?” *National Interest* 16 (Summer 1989): 3–18. https://www.jstor.org/stable/24027184.
Fukuyama, Francis. *Identity: The Demand for Dignity and the Politics of Resentment.* New York: Farrar, Straus and Giroux, 2018.
Fukuyama, Francis. *The Origins of Political Order: From Prehuman Times to the French Revolution.* London: Profile Books, 2011.
Fukuyama, Francis. *Political Order and Political Decay: From the Industrial Revolution to the Globalization of Democracy.* London: Profile Books, 2014.
Full Fact. “Everything You Might Want to Know about the UK’s Trade with the EU.” November 22, 2017. https://fullfact.org/europe/uk-eu-trade/.
Funke, Manuel, Moritz Schularik, and Christoph Trebesch. “Going to Extremes: Politics after Financial Crises, 1870–2014.” *European Economic Review* 88 (2016): 227–60.
Furman, Jason. “Beyond Antitrust: The Role of Competition Policy in Promoting Inclusive Growth.” Searle Center Conference on Antitrust Economics and Competition Policy. September 16, 2016. https://obamawhitehouse.archives.gov/sites/default/files/page/files/20160916_searle_conference_competition_furman_cea.p
Furman, Jason, and Lawrence H. Summers. “A Reconsideration of Fiscal Policy in the Era of Low Interest Rates.” Brookings, November 30, 2020. https://www.brookings.edu/wp-content/uploads/2020/11/furman-summers-fiscal-reconsideration-discussion-draft.pdf.
Furman, Jason, et al. *Unlocking Digital Competition: Report on the Digital Competition Expert Panel*. March 2019. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/785547/unlocking_digital_
Galbraith, John Kenneth. *American Capitalism: The Concept of Countervailing Power*. New York: Houghton Mifflin, 1952.
Galofré-Vilà, Gregori, Martin McKee, María Gómez-León, and David Stuckler. “The 1918 Influenza Pandemic and the Rise of Italian Fascism: A Cross-City Quantitative and Historical Text Qualitative Analysis.” *American Journal of Public Health* 112, no. 2 (February 2022): 242–47.
Galston, William A. *Anti-Pluralism: The Populist Threat to Liberal Democracy.* New Haven and London: Yale University Press, 2018.
Gamble, Andrew, and Tony Wright, eds. *Rethinking Democracy*. Chichester: John Wiley for Political Quarterly Publishing, 2019.
Gardbaum, Stephen, and Richard H. Pildes. “Populism and Institutional Design: Methods of Selecting Candidates for Chief Executive.” *New York University Law Review* 93 (2018): 647–708. https://www.nyulawreview.org/wp-content/uploads/2018/10/NYULawReview-93-4-Gardbaum-Pildes.pdf.
Gardels, Nathan, and Nicholas Berggruen. *Renovating Democracy: Governing in the Age of Globalization and Digital Capitalism*. Oakland, CA: University of California Press for the Berggruen Institute, 2019.
Garside, M. “Major Countries in Worldwide Cobalt Mine Production from 2010 to 2020.” Statista. https://www.statista.com/statistics/264928/cobalt-mine-production-by-country/.
Gates, Bill. *How to Avoid a Climate Disaster: The Solutions We Have and the Breakthroughs We Need.* London: Allen Lane, 2021.
GDPR.EU. “What Is GDPR, the EU’s New Data Protection Law?” https://gdpr.eu/what-is-gdpr/#:~:text=The%20General%20Data%20Protection%20Regulation,to%20people%20in%20the%20EU.
Geary, Dick. “Who Voted for the Nazis?” *History Today* 48, no. 10 (October 1948). https://www.historytoday.com/archive/who-voted-nazis.
Gellner, Ernest. *Nations and Nationalism*. Oxford: Blackwell Press, 1983 and 2006.
George, Henry. *Progress and Poverty: An Inquiry into the Cause of Industrial Depressions and of Increase of Want with Increase of Wealth: The Remedy.* Vega Publishing, 2019. First published 1879.
Gessen, Masha. *Surviving Autocracy*. London: Granta, 2020.
Gethin, Amory, Clara Martínez-Toledano, and Thomas Piketty. “Brahmin Left Versus Merchant Right: Changing Political Cleavages in 21 Western Democracies 1948–2020.” *Quarterly Journal of Economics* 137, no. 1 (2022).

Gidron, Noam, and Peter A. Hall. “The Politics of Social Status: Economic and Cultural Roots of the Populist Right.” *British Journal of Sociology* 68, no. S1 (November 2017). https://onlinelibrary.wiley.com/doi/epdf/10.1111/1468-4446.12319.

Gilens, Martin, and Benjamin I. Page. “Critics Argued with Our Analysis of U.S. Political Inequality. Here Are 5 Ways They’re Wrong.” *Washington Post*, May 23, 2016. https://www.washingtonpost.com/news/monkey-cage/wp/2016/05/23/critics-challenge-our-portrait-of-americas-political-inequality-heres-5-ways-they-are-wrong/.

Gilens, Martin, and Benjamin I. Page. “Testing Theories of American Politics: Elites, Interest Groups, and Average Citizens.” *Perspectives on Politics* 12, no. 3 (September 18, 2014): 564–81. https://www.cambridge.org/core/journals/perspectives-on-politics/issue/32534CA34A6B58E6E4420B56764850E1.

Giles, Chris. “Brexit Is an Example of Deglobalisation, Says Carney.” *Financial Times*, September 18, 2017. https://www.ft.com/content/9b37cf6e-9c82-11e7-9a86-4d5a475ba4c5.

Giles, Chris, Emma Agyemang, and Aime Williams. “136 Nations Agree to Biggest Corporate Tax Deal in a Century.” *Financial Times*, October 8, 2021. https://www.ft.com/content/5dc4e2d5-d7bd-4000-bf94-088f17e21936.

Global Security.org. “ ‘Führerprinzip’ Leader Principle.” https://www.globalsecurity.org/military/world/europe/de-fuhrerprinzip.htm.

Global Trade Alert. *Going Spare: Steel, Excess Capacity, and Protectionism*. 22nd Global Trade Alert Report. London: Center for Economic Policy Research, 2018. https://www.globaltradealert.org/.

Global Trade Alert. *Will Awe Trump Rules?* 21st Global Trade Alert Report. London: Center for Economic Policy Research, 2017. https://www.globaltradealert.org/.

Goebbels, Joseph. “On National-Socialist Germany and Her Contribution toward Peace.” Speech to the representatives of the international press at Geneva on September 28, 1933. German League of Nations Union News Service, PRO, FO 371/16728. Included within *Völkerbund: Journal for International Politics*, Ausgaben 1–103 (1933): 16. https://en.wikiquote.org/wiki/Joseph_Goebbels.

Goldberg, Michelle. “Trumpism Is a Racket, and Steve Bannon Knew It.” *New York Times*, August 20, 2020. https://www.nytimes.com/2020/08/20/opinion/sunday/trump-steve-bannon-fraud.html.

Golden, Sean. “A ‘China Model’ for the ‘New Era.’ ” Barcelona Center for International Affairs. 2017. https://www.cidob.org/en/publications/publication_series/opinion/asia/a_china_model_for_the_new_era.

Goldin, Ian, Pantelis Koutroumpis, François Lafond, Nils Rochowicz, and Julian Winkler. *The Productivity Paradox: Reconciling Rapid Technological Change and Stagnating Productivity*. Oxford Martin School, April 2019. https://www.oxfordmartin.ox.ac.uk/downloads/reports/Productivity_Paradox.pdf.

Goldthorpe, John H. “Social Class Mobility in Modern Britain: Changing Structure, Constant Process.” Lecture in Sociology. The British Academy, read March 15, 2016. *Journal of the British Academy* 4 (July 18, 2016): 89–111. https://www.thebritishacademy.ac.uk/sites/default/files/05%20Goldthorpe%201825.pdf.

Goodhart, Charles, and Manoj Pradhan. *The Great Demographic Reversal: Aging Societies, Waning Inequality, and an Inflation Reversal*. London: Palgrave Macmillan, 2020.

Goodhart, David. *Head Hand Heart: The Struggle for Dignity and Status in the 21st Century*. London: Penguin, 2021.

Goodhart, David. *The Road to Somewhere: The Populist Revolt and the Future of Politics*. London: C. Hurst & Co, 2017.

Gordon, Robert J. *The Rise and Fall of American Growth: The U.S. Standard of Living Since the Civil War*. Princeton, NJ, and Woodstock, England: Princeton University Press, 2016.

Gourinchas, Pierre-Olivier, and Hélène Rey. “From World Banker to World Venture Capitalist: U.S. External Adjustment and the Exorbitant Privilege.” In Richard H. Clarida, ed. *Current Account Imbalances: Sustainability and Adjustment.* Chicago: University of Chicago Press, 2007, 11–66. https://www.nber.org/chapters/c0121.pdf.

Groningen Growth and Development Centre, University of Groningen. Maddison Project. http://www.ggdc.net/maddison/maddison-project/data.htm.

Gruen, Nicholas. “Beyond Vox Pop Democracy: Democratic Deliberation and Leadership in the Age of the Internet.” *More or Less: Democracy and the New Media*, 2012. http://www.futureleaders.com.au/book_chapters/pdf/More-or-Less/Nicholas_Gruen.pdf#zoom=80.

Gruen, Nicholas. “The Evaluator General.” Club Troppo, May 29, 2020. https://clubtroppo.com.au/2020/05/29/the-evaluator-general/.

Gruen, Nicholas. “Government as Impresario.” NESTA, October 20, 2014. https://www.nesta.org.uk/report/government-as-impresario/.

Gruen, Nicholas. “Superannuation Again.” Club Troppo, May 31, 2005. https://clubtroppo.com.au/2005/05/31/superannuation-again/.

Gruen, Nicholas. “An Unpublished Column on Sortition and Brexit.” *Equality by Lot*, April 17, 2019. https://equalitybylot.com/2019/04/17/an-unpublished-column-on-sortition-and-brexit/.

Guriev, Sergei, and Daniel Treisman. *Spin Dictators: The Changing Face of Tyranny in the 21st Century*. Princeton, NJ, and Oxford: Princeton University Press, 2022.

Gurri, Martin. *The Revolt of the Public and the Crisis of Authority in the New Millennium.* San Francisco: Stripe Press, 2018.

Guyton, John, Patrick Langetieg, Daniel Reck, Max Risch, and Gabriel Zucman. “Tax Evasion at the Top of the Income Distribution: Theory and Evidence.” National Bureau of Economic Research Working Paper 28542. March 2021. http://www.nber.org/papers/w28542 .

Gwartney, James, Joshua Hall, and Robert Lawson. *Economic Freedom of the World 2016 Annual Repor*t. Washington, DC: Cato Institute. https://store.cato.org/book/economic-freedom-world-2016-annual-report.

Haass, Richard. “A Cold War with China Would Be a Mistake.” Council on Foreign Relations, May 11, 2020. https://www.cfr.org/article/cold-war-china-would-be-mistake.

Haidt, Jonathan, and Tobias Rose-Stockwell. “The Dark Psychology of Social Networks: Why It Feels Like Everything Is Going Haywire.” *Atlantic*, December 2019. https://www.theatlantic.com/magazine/archive/2019/12/social-media-democracy/600763/.

Haldane, Andrew G. “The $100 Billion Question.” Speech delivered March 30, 2010. Bank for International Settlements. https://www.bis.org/review/r100406d.pdf.

Haldane, Andrew G. “The Costs of Short-termism.” In Michael Jacobs and Mariana Mazzucato, eds. *Rethinking Capitalism: Economics and Policy for Sustainable and Inclusive Growth*. Chichester: Wiley-Blackwell, 2016. Chapter 4, 66–76.

Hamilton, Alexander. “The Mode of Electing the President.” *Federalist Papers* No. 68. March 14, 1788. https://avalon.law.yale.edu/18th_century/fed68.asp.

Hamilton, Alexander. *Report on the Subject of Manufactures*. December 1791.

Hansen, Alvin H. “Economic Progress and Declining Population Growth.” *American Economic Review* 29, no.1, part 1 (March 1939). http://digamo.free.fr/hansen39.pdf.

Hansen, Kiese, and Time Shaw. “Solving the Student Debt Crisis.” February 2020. Aspen Institute Financial Security Program. https://assets.aspeninstitute.org/wp-content/uploads/2020/03/SolvingStudentDebtCrisis.pdf.

Harari, Yuval. *Sapiens: A Brief History of Humankind*. London: Vintage Books, 2014.

Harding, Robin, Amy Kazmin, and Christian Shepherd. “Asian Trade Deal Set to Be Signed after Years of Negotiations.” *Financial Times*, November 11, 2020. https://www.ft.com/content/ddaa403a-099c-423c-a273-6a2ed6ef45f2.

Harding, Robin, and John Reed. “Asia-Pacific Countries Sign One of the Largest Free Trade Deals in History.” *Financial Times*, November 15, 2020. https://www.ft.com/content/2dff91bd-ceeb-4567-9f9f-c50b7876adce.

Hargreaves, Deborah. *Are Chief Executives Overpaid?* Cambridge: Polity, 2019.

Hartmann, Thom. *Unequal Protection: How Corporations Became “People”—and How You Can Fight Back.* San Francisco: Berrett-Koehler, 2010.

Haskell, Jonathan, and Stian Westlake. *Capitalism without Capital: The Rise of the Intangible Economy*. Oxford, England, and Princeton, NJ: Princeton University Press, 2018.

Haughton, Tim. “It’s the Slogan, Stupid: The Brexit Referendum.” University of Birmingham, no date. https://www.birmingham.ac.uk/research/perspective/eu-ref-haughton.aspx.

Hausmann, Ricardo, César A. Hidalgo, Sebastián Bustos, Michele Coscia, Alexander Simoes, and Muhammed A. Yildrim. *The Atlas of Economic Complexity: Mapping Paths to Prosperity*. Cambridge, MA: MIT Press, 2014.

Hayek, Friedrich A. *The Road to Serfdom*. London: Routledge, 1944.

Hayek, Friedrich A. “Scientism and the Study of Society, Part I.” *Economica* 9, no. 35 (August 1942): 267–91. https://www.jstor.org/stable/2549540?origin=crossref.

Helliwell, John F., Richard Layard, Jeffrey D. Sachs, Jan-Emmanuel De Neve, Lara B. Akin, and Shun Wang. *World Happiness Report 2021*. https://happiness-report.s3.amazonaws.com/2021/WHR+21.pdf.

Hellwig, Martin. “ ‘Capitalism: What Has Gone Wrong?’: Who Went Wrong? Capitalism? The Market Economy? Governments? ‘Neoliberal’ Economics?” In Paul Collier, Diane Coyle, Colin Mayer, and Martin Wolf, eds. “Capitalism: What Has Gone Wrong, What Needs to Change, and How It Can Be Fixed.” *Oxford Review of Economic Policy* 37, no. 4 (Winter 2021): 664–77.

Helpman, Elhanan. *Globalization and Inequality*. Cambridge, MA, and London: Harvard University Press, 2018.

Henderson, Richard, and Eric Platt. “ ‘K-shaped’ Stock Recovery Widens Gap between Winners and Losers.” *Financial Times*, August 21, 2020. https://www.ft.com/content/680d9605-f112-4ea5-a5af-3b9138b5bf07.

Hickel, Jason. *Less Is More: How Degrowth Will Save the World.* London: William Heinemann, 2020.

Hirsch, Fred. *The Social Limits to Growth*. London: Routledge, 1995.

Hirschman, Albert O. *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States.* Cambridge, MA: Harvard University Press, 1972.

Hirst, Paul, and Grahame Thompson. *Globalization in Question: The International Economy and the Possibilities of Governance.* 2nd ed. Cambridge: Polity Press, 1999.

Hiscox, Michael. “The Job Guarantee—Weakening Worker Power?” *Challenge Magazine*, August 22, 2020. https://www.challengemag.org/post/the-job-guarantee-weakening-worker-power.

Hop, Johanna. “The Hartz Employment Reforms in Germany.” Center for Public Impact. September 2, 2019. https://www.centreforpublicimpact.org/case-study/hartz-employment-reforms-germany/.

Horn, Sebastian, Carmen M. Reinhart, and Christoph Trebesch. “China’s Overseas Lending.” NBER Working Paper No. 26050. July 2019. Revised May 2020. National Bureau of Economic Research.
House of Lords Economic Affairs Committee. *Central Bank Digital Currencies: A Solution in Search of a Problem?* HL Paper 131. January 13, 2022.
Hudson, Michael. *And Forgive Them Their Debts: Lending, Foreclosure and Redemption from Bronze Age Finance to the Jubilee Year.* Dresden: Islet-Verlag, 2018.
Hufbauer, Gary Clyde, and Euijin Jung. *Why Has Trade Stopped Growing? Not Much Liberalization and Lots of Micro-protection.* Peterson Institute for International Economics, March 23, 2016. https://piie.com/blogs/trade-investment-policy-watch/why-has-trade-stopped-growing-not-much-liberalization-and-lots.
Hughes, Ian. *Disordered Minds: How Dangerous Personalities Are Destroying Democracy.* Hampshire: Zero Books, 2018.
Hume, David. *A Treatise of Human Nature.* Book III. Part III. Section III. “Of the Influencing Motives of the Will.” https://www.pitt.edu/~mthompso/readings/hume.influencing.pdf.
Hurley, John, Scott Morris, and Gailyn Portelance. “Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective.” CGD Policy Paper 121. March 2018, Center for Global Development. https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf.
Imperial College COVID-19 Response Team. “Report 9: Impact of Non-pharmaceutical (NPIs) to Reduced COVID-19 Mortality and Healthcare Demand.” March 16, 2020. https://www.imperial.ac.uk/media/imperial-college/medicine/sph/ide/gida-fellowships/Imperial-College-COVID19-NPI-modelling-16-03-2020.pdf.
Independent Commission on Banking. Chair: Sir John Vickers. *Final Report: Recommendations.* September 2011.
Inglehart, Ronald F., and Pippa Norris. “Trump, Brexit, and the Rise of Populism: Economic Have-Nots and Cultural Backlash.” RWP16-026, August 2016. https://www.hks.harvard.edu/publications/trump-brexit-and-rise-populism-economic-have-nots-and-cultural-backlash.
Institut National d’Études Démographiques. “Migration Worldwide.” https://www.ined.fr/en/everything_about_population/demographic-facts-sheets/focus-on/migration-worldwide/.
International Civil Aviation Organization. “The World of Air Transport in 2018.” https://www.icao.int/annual-report-2018/Pages/the-world-of-air-transport-in-2018.aspx.
International Energy Agency. *Net Zero by 2050: A Roadmap for the Global Energy Sector.* October 2021. https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroby2050-ARoadmapfortheGlobalEnergySector_CORR.pdf.
International Federation of Accountants. Public Sector Committee. *Implementing Accrual Accounting in Government: The New Zealand Experience*. October 1994. https://www.ifac.org/system/files/publications/files/no-1-implementation-accr.pdf.
International Monetary Fund. *Global Financial Stability Report, April 2020*. https://www.imf.org/en/Publications/GFSR/Issues/2020/04/14/global-financial-stability-report-april-2020.
International Monetary Fund. “IMF Datamapper: Population.” https://www.imf.org/external/datamapper/LP@WEO/OEMDC/ADVEC/WEOWORLD.
International Monetary Fund. “IMF Members’ Quotas and Voting Power, and IMF Board of Governors.” May 23, 2021. https://www.imf.org/external/np/sec/memdir/members.aspx.
International Monetary Fund. “The IMF’s Response to COVID-19.” June 29, 2020. https://www.imf.org/en/About/FAQ/imf-response-to-covid-19#Q1.
International Monetary Fund. “Where the IMF Gets Its Money.” March 31, 2020. https://www.imf.org/en/About/Factsheets/Where-the-IMF-Gets-Its-Money.
International Monetary Fund. *World Economic Outlook, April 2020: The Great Lockdown*. Washington, DC: International Monetary Fund, 2020.
International Monetary Fund. *World Economic Outlook Database*. October 2020. https://www.imf.org/en/Publications/WEO/weo-database/2020/October.
International Monetary Fund. *World Economic Outlook Databases*. https://www.imf.org/en/Publications/SPROLLs/world-economic-outlook-databases#sort=%40imfdate%20descending.
International Monetary Fund. *World Economic Outlook, October 2016: Subdued Demand: Symptoms and Remedies.* Chapter 2, “Global Trade: What’s behind the Slowdown.”
International Monetary Fund. *World Economic Outlook, October 2020: A Long and Difficult Assent.* Chapter 3, “Mitigating Climate Change.” https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020#Chapter%203.
Irwin, Douglas. “Multilateral and Bilateral Trade Policies in the World Trading System: An Historical Perspective.” In Jaime de Melo and Arvind Panagariya, eds. *New Dimensions in Regional Integration*. Cambridge: Cambridge University Press, 1993.
Iversen, Torben, and David Soskice. *Democracy and Prosperity: Reinventing Capitalism through a Turbulent Century.* Princeton, NJ, and Oxford: Princeton University Press, 2019.
Jacobs, Jane. *The Economy of Cities*. New York: Vintage Books, 1969.

Jacobs, Jane. *Systems of Survival: A Dialogue on the Moral Foundations of Commerce and Politics.* New York: Random House, 1994.
Jacobs, Michael, and Mariana Mazzucato, eds. *Rethinking Capitalism: Economics and Policy for Sustainable and Inclusive Growth*. Chichester: Wiley-Blackwell, 2016.
Jacques, Martin. *When China Rules the World: The End of the Western World and the Birth of a New Global Order*. London: Penguin, 2009.
Janeway, William H. *Doing Capitalism in the Innovation Economy*. Cambridge: Cambridge University Press, 2012 and 2018.
Jaspers, Karl. *The Origin and Goal of History.* New Haven, CT, and London: Yale University Press, 1953. http://www.collegiumphaenomenologicum.org/wp-content/uploads/2010/06/Jaspers-The-Origin-and-Goal-of-History.pdf.
Jeffries, Stuart. "Britain's Most Racist Election: The Story of Smethwick, 50 Years On." *Guardian*, October 15, 2014. https://www.theguardian.com/world/2014/oct/15/britains-most-racist-election-smethwick-50-years-on.
Jensen, Michael C. "Value Maximization, Stakeholder Theory, and the Corporate Objective Function." *European Financial Management* 7, no. 3 (2001): 297–317. https://efmaefm.org/bharat/jensen_efm2001.pdf.
Johnston, Matthew. "Carried Interest: A Loophole in America's Tax Code." Investopedia, March 31, 2021. https://www.investopedia.com/articles/investing/102515/carried-interest-loophole-americas-tax-code.asp.
Judis, John B. *The Populist Explosion: How the Great Recession Transformed American and European Politics.* New York: Columbia Global Reports, 2016.
Kagan, Robert. *The Jungle Grows Back*. New York: Alfred A. Knopf, 2018.
Kagan, Robert. "The World America Made—and Trump Wants to Unmake." Brookings, September 28, 2018. https://www.brookings.edu/opinions/the-world-america-made-and-trump-wants-to-unmake/.
Kaiser Family Foundation. "State Health Facts: Medicare Spending per Enrollee 2018." https://www.kff.org/medicare/state-indicator/per-enrollee-spending-by-residence.
Kaufmann, Eric. *Whiteshift: Populism, Immigration, and the Future of White Majorities.* London and New York: Allen Lane, 2018.
Kay, John. "The Basics of Basic Income." https://www.johnkay.com/2017/04/05/basics-basic-income/.
Kay, John. *Culture and Prosperity: The Truth about Markets: Why Some Nations Are Rich and Most Remain Poor*. New York: Harper Business, 2004.
Kay, John. "*Mission Economy* by Mariana Mazzucato—Could Moonshot Thinking Help Fix the Planet?" *Financial Times*, January 13, 2021. https://www.ft.com/content/86475b94-3636-49ec-9b3f-7d7756350b30.
Kay, John. *Other People's Money: The Real Business of Finance.* London: Profile Books, 2016.
Kay, John, and Mervyn King. *Radical Uncertainty: Decision-Making for an Unknowable Future.* London: Bridge Street Press, 2020.
Keefe, Patrick Radden. *Empire of Pain: The Secret History of the Sackler Dynasty*. New York: Doubleday, 2021.
Keefe, Patrick Radden. "How Did the Sacklers Pull This Off?" *New York Times*, July 14, 2021. https://www.nytimes.com/2021/07/14/opinion/sackler-family-opioids-settlement.html.
Kelton, Stephanie. *The Deficit Myth: Modern Monetary Theory and How to Build a Better Economy*. London: John Murray, 2020.
Kessler, Glenn, Salvador Rizzo, and Meg Kelly. "President Trump Has Made 15,413 False or Misleading Claims over 1,055 Days." *Washington Post*, December 16, 2019. https://www.washingtonpost.com/politics/2019/12/16/president-trump-has-made-false-or-misleading-claims-over-days/.
Kessler, Sarah. *Gigged: The Gig Economy, the End of the Job and the Future of Work.* New York: Random House Business, 2019.
Khan, Lina M. "Amazon's Antitrust Paradox." *Yale Law Journal* 126, no. 3 (January 2017). https://www.yalelawjournal.org/note/amazons-antitrust-paradox.
Kierzkowski, Henryk, ed. *From Europeanization of the Globe to the Globalization of Europe.* London: Palgrave, 2002.
King, Stephen D. *Grave New World: The End of Globalization and the Return of History.* London and New Haven: Yale University Press, 2017.
Kirshner, Jonathan. "Gone but Not Forgotten: Trump's Long Shadow and the End of American Credibility." *Foreign Affairs*, March/April 2021. https://www.foreignaffairs.com/articles/united-states/2021-01-29/trump-gone-not-forgotten.
Klasing, Mariko J., and Petros Milionis. "Quantifying the Evolution of World Trade, 1870–1949." March 29, 2014. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2087678.
Klein, Matthew, and Michael Pettis. *Trade Wars Are Class Wars.* New Haven, CT: Yale University Press, 2020.
Kochhar, Rakesh. "Hispanic Women, Immigrants, Young Adults, Those with Less Education Hit Hardest by COVID-19 Job Losses." Pew Research Center, June 9, 2020. https://www.pewresearch.org/.
Krastev, Ivan, and Stephen Holmes. *The Light That Failed: A Reckoning*. New York and London: Penguin, 2019.
Krueger, Alan. "The Rise and Consequences of Inequality in the United States of America." Center for American Progress, January 12, 2012. https://cdn.americanprogress.org/wp-content/uploads/events/2012/01/pdf/krueger.pdf.

Krueger, Anne O. *International Trade: What Everyone Needs to Know*. New York: Oxford University Press, 2020.
Kuttner, Robert. *Can Democracy Survive Global Capitalism?* New York: W. W. Norton, 2018.
Lack, Simon. *The Hedge Fund Mirage: The Illusion of Big Money and Why It's Too Good to Be True.* Hoboken, NJ: John Wiley & Sons, 2012.
Lakner, Christoph, and Branko Milanovic. "Global Income Distribution from the Fall of the Berlin Wall to the Great Recession." World Bank Policy Research Working Paper 6719. December 2013. http://documents.worldbank.org/curated/en/914431468162277879/pdf/WPS6719.pdf.
Lal, Deepak. *Unintended Consequences: The Impact of Endowments, Culture, and Politics on Long-Run Economic Performance.* Cambridge, MA, and London: MIT Press, 2001.
Lane, Philip R., and Gian M. Milesi-Ferretti. "The External Wealth of Nations Mark II: Revised and Extended Estimates of Foreign Assets and Liabilities, 1970–2004." *Journal of International Economics* 73, no. 2 (2007).
Lardy, Nicholas. *The State Strikes Back: The End of Economic Reform in China?* Washington, DC: Peterson Institute for International Economics, 2019.
Layard, Richard. *Can We Be Happier? Evidence and Ethics.* London: Pelican Books, 2020.
Lazonick, William. "Profits without Prosperity." *Harvard Business Review*, September 2014. https://hbr.org/2014/09/profits-without-prosperity.
Lazonick, William, Mustafa Erdem Sakinç, and Matt Hopkins. "Why Stock Buybacks Are Dangerous for the Economy." *Harvard Business Review*, January 2020. https://hbr.org/2020/01/why-stock-buybacks-are-dangerous-for-the-economy.
Leakey, Richard, and Roger Lewin. *The Sixth Extinction: Biodiversity and Its Survival.* London: Weidenfeld and Nicolson, 1996.
Leibfritz, Willi, John Thornton, and Alexandra Bibbee. "Taxation and Economic Performance." OECD, Economics Department Working Papers no. 176. OCDE/GD(97)107. OECD. Paris, 1997. https://econpapers.repec.org/paper/oececoaaa/176-en.htm.
Leonhardt, David, and Prasad Philbrick. "Donald Trump's Racism: The Definitive List, Updated." *New York Times*, January 15, 2018. https://www.nytimes.com/interactive/2018/01/15/opinion/leonhardt-trump-racist.html.
LePan, Nicholas. "History of Pandemics." March 14, 2020. https://www.visualcapitalist.com/history-of-pandemics-deadliest/.
Lerner, Abba. "Money as a Creature of the State." *Papers and Proceedings of the Fifty-ninth Annual Meeting of the American Economic Association*. *American Economic Review* 37, no. 2 (May 1947): 312–17.
Levell, Peter, Barra Roantree, and Jonathan Shaw. "Redistribution from a Lifetime Perspective." Institute for Fiscal Studies, September 22, 2015. https://www.ifs.org.uk/publications/7986.
Levitsky, Steven, and Daniel Ziblatt. *How Democracies Die: What History Reveals about Our Future*. New York: Crown, 2018.
Levitsky, Steven, and Daniel Ziblatt, "Why Republicans Play Dirty." *New York Times*, September 20, 2019. https://www.nytimes.com/2019/09/20/opinion/republicans-democracy-play-dirty.html?action=click&module=Opinion&pgtype=Homepage.
Lewis, Michael. *Flash Boys: Cracking the Money Code*. London: Penguin, 2014.
Lightfoot, Liz. "The Student Experience—Then and Now." *Guardian*, June 24, 2016. https://www.theguardian.com/education/2016/jun/24/has-university-life-changed-student-experience-past-present-parents-vox-pops#:~:text=In%20the%20early%201960s%2C%20only,back%20over%20their%20working%20lives.
Lindert, Peter H., and Jeffrey G. Williamson. "American Incomes 1774–1860." National Bureau of Economic Research Working Paper No. 18396. September 15, 2012. https://www.nber.org/papers/w18396.
Lindert, Peter H., and Jeffrey G. Williamson. "Globalization and Inequality: A Long History," Paper prepared for the World Bank Annual Conference on Development Economics—Europe, Barcelona, June 25–27, 2001.
Lindsay, James M. "The 2020 Election by the Numbers." Council on Foreign Relations, December 15, 2020. https://www.cfr.org/blog/2020-election-numbers.
Liptak, Adam. "Supreme Court Invalidates Key Part of Voting Rights Act." *New York Times*, June 25, 2013. https://www.nytimes.com/2013/06/26/us/supreme-court-ruling.html.
List, Friedrich. *Das nationale System der politischen Oekonomie*. 1841.
Little, I. M. D., Tibor Scitovsky, and Maurice Scott. *Industry and Trade in Some Developing Countries.* Paris: Development Center of the Organization for Economic Co-operation and Development, 1970.
Liu, Nicolle, Yuan Yang, Demetri Sevastopulo, Jamie Smyth, and Michael Peel. "China Draws Condemnation for New Hong Kong Security Law." *Financial Times*, July 1, 2020. https://www.ft.com/content/052989fc-2748-4f8e-a2b0-539c32e1ad72.
Lonergan, Eric. "Reply to Larry Summers." August 26, 2019. https://www.philosophyofmoney.net/a-reply-to-larry-summers/.
Lonergan, Eric, and Mark Blyth. *Angrynomics*. New York: Columbia University Press, 2020.
Loween, James W. "5 Myths about Why the South Seceded." *Washington Post*, January 11, 2011.
Lubin, David. "IMF Needs New Thinking to Deal with Coronavirus." Chatham House, April 27, 2020. https://www.chathamhouse.org/expert/comment/imf-needs-new-thinking-deal-coronavirus.
Luce, Edward. "A Sea of Troubles Surrounds the Question of Whether to Prosecute Trump." *Financial Times*, July 29, 2022. https://www.ft.com/content/8263e5c9-d886-4c81-807b-f9eb0d92508f.

Lührmann, Anna, and Staffan I. Lindberg. “A Third Wave of Autocratization Is Here: What Is New about It?” *Democratization* 26, no. 7 (2019): 1095–1113. https://www.tandfonline.com/doi/full/10.1080/13510347.2019.1582029.
Lund, Susan, et al. *The New Dynamics of Financial Globalization*. McKinsey Global Institute, August 2017. https://www.mckinsey.com/industries/financial-services/our-insights/the-new-dynamics-of-financial-globalization.
Luohan Academy. “Understanding Big Data: Data Calculus in the Digital Era 2021.” February 5, 2021. https://www.luohanacademy.com/research/reports/2bcc5a5e3074df15.
Luyendijk, Joris. *Swimming with Sharks: My Journey into the World of the Bankers*. London: Guardian Faber Publishing, 2015.
Maddison, Angus. Database. http://www.ggdc.net/maddison/oriindex.htm.
“Maddison Project.” http://www.ggdc.net/maddison/maddison-project/home.htm.
Mahbubani, Kishore. “Biden and China: Friends or Foes.” *Alumnus*, issue 124, January–March 2021. National University of Singapore. https://www.nus.edu.sg/alumnet/thealumnus/issue-124/perspectives/panorama/biden-and-china-friends-or-foes.
Mahbubani, Kishore. *Has the West Lost It? A Provocation.* London: Allen Lane, 2018.
Mahler, Daniel Gerszon, Christoph Lakner, R. Andres Castaneda Aguilar, and Haoyu Wu. “Updated Estimates of the Impact of COVID-19 on Global Poverty.” June 8, 2020. https://blogs.worldbank.org/opendata/updated-estimates-impact-covid-19-global-poverty.
Mallet, Victor, and David Keohane. “Year of ‘Gilets Jaunes’ Leaves Angry Mark on France.” *Financial Times*, November 14, 2019. https://www.ft.com/content/9627c8be-0623-11ea-9afa-d9e2401fa7ca.
Malthus, Thomas. *An Essay on the Principle of Population.* 1798. http://www.esp.org/books/malthus/population/malthus.pdf.
Mann, Thomas E., and Norman J. Ornstein. *It’s Even Worse Than It Looks: How the American Constitutional System Collided with the New Politics of Extremism.* New York: Basic Books, 2012.
Mann, Thomas E., and Norman J. Ornstein. “Let’s Just Say It: The Republicans Are the Problem.” *Washington Post*, April 27, 2012. https://www.washingtonpost.com/opinions/lets-just-say-it-the-republicans-are-the-problem/2012/04/27/gIQAxCVUlT_story.html.
Mark, Joshua J. “Silk Road.” Ancient History Encyclopedia. http://www.ancient.eu/Silk_Road/.
Martin, Katie. “Fearful Consumers Power an Uneven Rally.” *Financial Times*, August 25, 2020. https://www.ft.com/content/9678c481-52e0-45e0-8610-a49b33aeec45.
“Martin Wolf Accepts the Gerald Loeb Lifetime Achievement Award.” *Financial Times*, July 3, 2019, https://www.ft.com/content/5e828d50-9d86-11e9-b8ce-8b459ed04726.
Massing, Michael. “Does Democracy Avert Famine?” *New York Times*, March 1, 2003. https://www.nytimes.com/2003/03/01/arts/does-democracy-avert-famine.html.
Mayell, Hillary. “Human ‘Footprint’ Seen on 83 Percent of Earth’s Land.” *National Geographic News*, October 25, 2002.
Mayer, Colin. *Firm Commitment: Why the Corporation Is Failing Us and How to Restore Trust in It.* Oxford: Oxford University Press, 2013.
Mayer, Colin. *Prosperity: Better Business Makes the Greater Good*. Oxford: Oxford University Press, 2018.
Mayer, Jane. *Dark Money: The Hidden History of the Billionaires behind the Rise of the Radical Right.* New York: Anchor Books, 2017 and 2018.
Mazzucato, Mariana. *The Entrepreneurial State: Debunking Public vs Private Myths.* London: Penguin, 2018.
Mazzucato, Mariana. *Mission Economy: A Moonshot Guide to Changing Capitalism.* London: Allen Lane, 2021.
McAfee, Andrew, and Erik Brynjolfsson. *Machine, Platform, Crowd: Harnessing the Digital Revolution*. New York: W. W. Norton, 2017.
McCloskey, Dierdre. *Bourgeois Equality: How Ideas, Not Capital or Institutions, Enriched the World.* Chicago: University of Chicago Press, 2016.
McCloskey, Dierdre. “Life’s Primary Colors: How Humanity Forgot the Seven Principal Virtues.” July 2, 2019. https://www.abc.net.au/religion/primary-colors-how-humanity-forgot-the-seven-principal-virtues/11272726.
McKinnon, Ronald. *Money and Capital in Economic Development*. Washington, DC: Brookings Institution, 1973.
McLeay, Michael, Amar Radia, and Ryland Thomas. “Money Creation in the Modern Economy.” *Bank of England Quarterly Bulletin*, 2014, First Quarter, 14–27. https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/2014/money-creation-in-the-modern-economy.
McLuhan, Marshall. *Understanding Media: The Extensions of Man*. Cambridge, MA: MIT Press, 1964 and 1994.
McTernan, John. “The Left Must Decide Which Green New Deal They Want.” *Financial Times*, February 15, 2020. https://www.ft.com/content/63c78642-4e8b-11ea-95a0-43d18ec715f5.
Medical Research Council (MRC). https://www.ukri.org/councils/mrc/.
Menon, Anand, ed. *Brexit and Public Opinion 2019*: *The UK in a Changing Europe*. https://ukandeu.ac.uk/wp-content/uploads/2019/01/Public-Opinion-2019-report.pdf.
Meyer, Brett. “Pandemic Populism: An Analysis of Populist Leaders’ Responses to COVID-19.” Tony Blair Institute for Global Change, August 17, 2020. https://institute.global/policy/pandemic-populism-analysis-populist-leaders-responses-covid-19.

Mian, Atif, Ludwig Straub, and Amir Sufi. “Indebted Demand.” March 26, 2020. https://scholar.harvard.edu/files/straub/files/mss_indebteddemand.pdf.
Mian, Atif, Ludwig Straub, and Amir Sufi. “The Saving Glut of the Rich and the Rise in Household Debt.” March 2020. https://scholar.harvard.edu/files/straub/files/mss_richsavingglut.pdf.
Michels, Robert. *Political Parties: A Sociological Study of the Oligarchical Tendencies of Modern Democracy.* Translated by Eden Paul and Cedar Paul. New York: Free Press, 1915.
Micklethwait, John, and Adrian Wooldridge. *The Company: A Short History of a Revolutionary Idea*. London: Phoenix, 2003.
Mikkelson, David. “Rush Limbaugh ‘Racist Quotes’ List.” https://www.snopes.com/fact-check/bone-voyage/.
Milanovic, Branko. *Capitalism Alone: The Future of the System That Rules the World.* Cambridge, MA, and London: Belknap Press of Harvard University Press, 2019.
Milanovic, Branko. *Global Inequality: A New Approach for the Age of Globalizatio*n. Cambridge, MA: Harvard University Press, 2016.
Milanovic, Branko, Peter H. Lindert, and Jeffrey G. Williamson. “Measuring Ancient Inequality.” National Bureau of Economic Research. Working Paper 13550. October 2007. http://www.nber.org/papers/w13550.pdf.
Mill, John Stuart. *Considerations on Representative Government.* 1861. Project Gutenberg. https://www.gutenberg.org/files/5669/5669-h/5669-h.htm.
Mill, John Stuart. *Principles of Political Economy*. 9th ed. London: Longmans, Green and Co., 1885.
Millennium Challenge Corporation. “Our Impact.” https://www.mcc.gov/our-impact.
Minsky, Hyman. *Stabilizing an Unstable Economy*. New York: McGraw Hill, 2008.
Miroudot, Sébastien. “Resilience Versus Robustness in Global Value Chains: Some Policy Implications.” *VoxEU*. June 18, 2020. https://voxeu.org/article/resilience-versus-robustness-global-value-chains#:~:text=Resilience%20can%20be%20defined%20as,2014).
Mishel, Lawrence, and Josh Bivens. “The Pay of Corporate Executives and Financial Professionals as Evidence of Rents in Top 1 Percent Incomes.” Working Paper No. 296. June 20, 2013. Economic Policy Institute. https://www.epi.org/publication/pay-corporate-executives-financial-professionals/.
Mitchell, Tom. “Business Worries Intensify over China’s Tightening Grip on Hong Kong.” *Financial Times*, March 16, 2021. https://www.ft.com/content/098017c2-1c83-4da3-ac2a-53e7ed7fac81.
Moggridge, D. E. *Maynard Keynes: An Economist’s Biography*. London and New York: Routledge, 1992.
Mokyr, Joel. *The Enlightened Economy: An Economic History of Britain 1700–1850*. New Haven, CT, and London: Yale University Press, 2009.
Money Advice Service. “Repaying Your Undergraduate Student Loan.” https://www.moneyadviceservice.org.uk/en/articles/repaying-student-loans.
Montanaro, Domenico. “6 Strongmen Trump Has Praised—and the Conflicts It Presents.” May 2, 2017. http://www.npr.org/2017/05/02/526520042/6-strongmen-trumps-praised-and-the-conflicts-it-presents.
Morris, Ian. “Social Development.” Stanford University, October 2010. http://ianmorris.org/docs/social-development.pdf.
Mosler, Warren. *Soft Currency Economics II: What Everyone Thinks They Know about Monetary Policy Is Wrong*. US Virgin Islands: Valance, 1996 and 2013.
Mounk, Yascha. *The Great Experiment: How to Make Diverse Democracies Work.* London: Bloomsbury, 2022.
Mounk, Yascha. “Illiberal Democracy or Undemocratic Liberalism?” *Project Syndicate*, June 9, 2016. https://www.project-syndicate.org/commentary/trump-european-populism-technocracy-by-yascha-mounk-1-2016-06.
Mounk, Yascha. *The People Vs. Democracy: Why Our Freedom Is in Danger and How to Save It.* Cambridge, MA: Harvard University Press, 2018.
Müller, Jan-Werner. *What Is Populism?* Philadelphia: University of Pennsylvania Press, 2016.
Murphy, Hannah, and Patrick McGee. “Apple Makes Unexpected Concession on 30% App Store Fees.” *Financial Times*, September 25, 2020. https://www.ft.com/content/fbabedb0-3ed2-4c47-94f2-f165bd15edb3.
National Institutes of Health. https://www.nih.gov/.
National Park Service. “The Civil War.” https://www.nps.gov/civilwar/facts.htm.
National Public Radio. “The Original ‘Welfare Queen.’ ” *Code Switch*, June 5, 2019. https://www.npr.org/transcripts/729294210?t=1654518358287.
Nelson, Brett. “Fear, Not Government Shutdowns, Chilled the Economy.” August 4, 2020. https://review.chicagobooth.edu/economics/2020/article/fear-not-government-shutdowns-chilled-economy.
Nemy, Enid. “Leona Helmsley, Hotel Queen, Dies at 87.” *New York Times*, August 20, 2007. https://www.nytimes.com/2007/08/20/nyregion/20cnd-helmsley.html.
New Development Bank. https://www.ndb.int/.
New World Encyclopedia. https://www.newworldencyclopedia.org/.
Nichols, Tim. *The Death of Expertise: The Campaign against Established Knowledge and Why It Matters.* New York: Oxford University Press, 2017.

Noble, David F. *The Religion of Technology: The Divinity of Man and the Spirit of Invention.* New York: Alfred A. Knopf, 1997.
Nolan, Peter. *Is China Buying the World?* Cambridge and Malden: Polity, 2012.
Noonan, Laura, Cale Tilford, Richard Milne, Ian Mount, and Peter Wise. "Who Went to Jail for Their Role in the Financial Crisis?" *Financial Times*, September 20, 2018. https://ig.ft.com/jailed-bankers/#:~:text=Forty%2Dseven%20bankers%20were%20sentenced,the%20financial%20sector's%20catastrophic%20failu
Norris, Pippa. "It's Not Just Trump. Authoritarian Populism Is Rising across the West. Here's Why." *Washington Post*, March 11, 2016. https://www.washingtonpost.com/news/monkey-cage/wp/2016/03/11/its-not-just-trump-authoritarian-populism-is-rising-across-the-west-heres-why/.
Nove, Alec. *An Economic History of the USSR, 1917–1991*. London: Penguin Economics, 1993.
Obstfeld, Maurice. "The Global Capital Market Reconsidered." In Paul Collier, Diane Coyle, Colin Mayer, and Martin Wolf, eds. "Capitalism: What Has Gone Wrong, What Needs to Change, and How It Can Be Fixed." *Oxford Review of Economic Policy* 37, no. 4 (Winter 2021): 690–706.
Obstfeld, Maurice, and Alan M. Taylor. "Globalization and Capital Markets." In Michael D. Bordo, Alan M. Taylor, and Jeffrey G. Williamson, eds. *Globalization in Historical Perspective*. Chicago: University of Chicago Press, 2003. http://www.nber.org/chapters/c9587.
Office for Budget Responsibility. *Fiscal Sustainability Report*. July 2020.
Office of Health Economics. "Infant and Child Health." December 1975. https://www.ohe.org/publications/infant-and-child-health.
Office for National Statistics. "Deaths Involving COVID-19, England and Wales: Deaths Occurring in June 2020." July 17, 2020.
Office of the United States Trade Representative. Executive Office of the President. Findings of the Investigation into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation under Sector 301 of the Trade Act of 1974. March 22, 2018. https://ustr.gov/sites/default/files/Section%20301%20FINAL.PDF.
Olson, Mancur. *The Logic of Collective Action: Public Goods and the Theory of Groups*. Cambridge, MA: Harvard University Press, 1965 and 1971.
Olson, Mancur. *Power and Prosperity: Outgrowing Communist and Capitalist Dictatorships.* New York: Basic Books, 2000.
Oremus, Will. "Are You Really the Product? The History of a Dangerous Idea." *Slate*, April 27, 2018. https://slate.com/technology/2018/04/are-you-really-facebooks-product-the-history-of-a-dangerous-idea.html.
O'Rourke, Kevin H. "Europe and the Causes of Globalization, 1790 to 2000." In Henryk Kierzkowski, ed. *From Europeanization of the Globe to the Globalization of Europe*. London: Palgrave, 2002. http://www.tcd.ie/Economics/TEP/2002_papers/TEPNo1KO22.pdf.
Orwell, George. "Notes on Nationalism." *Polemic*, October 1945. Penguin Modern, 2018.
Opportunity Insights. Economic Tracker. "Percent Change in Employment." https://tracktherecovery.org/.
Organization for Economic Co-operation and Development. "BEPS: Inclusive Framework on Base Erosion and Profit Shifting." https://www.oecd.org/tax/beps/.
Organization for Economic Co-operation and Development. "COVID-19 and Global Capital Flows." *OECD Policy Responses to Coronavirus (COVID-19)*. July 3, 2020. http://www.oecd.org/coronavirus/policy-responses/covid-19-and-global-capital-flows-2dc69002/.
Organization for Economic Co-operation and Development. "COVID-19 and International Trade: Issues and Actions." *OECD Policy Responses to Coronavirus (COVID-19).* June 12, 2020. http://www.oecd.org/coronavirus/policy-responses/covid-19-and-international-trade-issues-and-actions-494da2fa/.
Organization for Economic Co-operation and Development. "Inequality." https://www.oecd.org/social/inequality.htm.
Organization for Economic Co-operation and Development. "New Approaches to Economic Challenges." https://www.oecd.org/naec/.
Organization for Economic Co-operation and Development. *OECD Regional Outlook 2016: Productive Regions for Inclusive Societies.* Paris: OECD, 2016.
Organization for Economic Co-operation and Development. *An Overview of Growing Income Inequalities in OECD Countries: Main Findings*. Paris: OECD, 2011.
Organization for Economic Co-operation and Development. "Social Spending." https://data.oecd.org/socialexp/social-spending.htm.
Organization for Economic Co-operation and Development. "Tackling Coronavirus (COVID-19): Contributing to a Global Effort." 2020.
Ostry, Jonathan D., Andrew Berg, and Charalambos G. Tsangarides. "Redistribution, Inequality and Growth." IMF Staff Discussion Note SDN/14/02, February 2014. https://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf.
O'Sullivan, John. "Democracies End When They Become Too Democratic." *New York*, May 1, 2016. http://nymag.com/daily/intelligencer/2016/04/america-tyranny-donald-trump.html.
Our Documents: The Second New Deal. "Franklin Delano Roosevelt's Address Announcing the Second New Deal." October 31, 1936. http://docs.fdrlibrary.marist.edu/od2ndst.html.

Our World in Data. “Life Expectancy.” https://ourworldindata.org/life-expectancy.
Our World in Data. “Self-Reported Life Satisfaction vs GDP per Capita, 2020.” https://ourworldindata.org/grapher/gdp-vs-happiness.
Oxford Essential Quotations 2022. https://www.oxfordreference.com/view/10.1093/acref/9780191843730.001.0001/q-oro-ed5-00006834.
Oxford Reference. https://www.oxfordreference.com.
Palese, Michela. “The Irish Abortion Referendum: How a Citizens’ Assembly Helped to Break Years of Political Deadlock.” Electoral Reform Society, May 29, 2018. https://www.electoral-reform.org.uk/the-irish-abortion-referendum-how-a-citizens-assembly-helped-to-break-years-of-political-deadlock/.
Peel, Michael, Anna Gross, and Clive Cookson. “WHO Struggles to Prove Itself in the Face of COVID-19.” *Financial Times*, July 12, 2012. https://www.ft.com/content/c2809c99-594f-4649-968a-0560966c11e0.
Peel, Michael, Sam Fleming, and Guy Chazan. “EU Clamps Down on Covid Vaccine Exports.” *Financial Times*, January 29, 2021. https://www.ft.com/content/24867d39-4507-4c48-be27-c34b581220b0.
Pei, Minxin. *China’s Crony Capitalism: The Dynamics of Regime Decay*. Cambridge, MA: Harvard University Press, 2016.
Pellegrini, Bruno, and Luigi Zingales. “Diagnosing the Italian Disease.” September 2014.
Penn World Tables 8.1. https://rdrr.io/cran/pwt8/man/pwt8.1.html.
Pension Protection Fund. *The Purple Book 2020: DB Pensions Universe Risk Profile*. https://www.ppf.co.uk/sites/default/files/2020-12/PPF_Purple_Book_20.pdf.
Personal Finance Data. “Net Worth Percentile Comparison Calculator by Age.” https://personalfinancedata.com/networth-percentile-calculator/.
Peterson-KFF. “Health System Tracker.” https://www.healthsystemtracker.org/.
Pettinger, Tejvan. “Definition of Public Goods.” *Economics Help*, July 28, 2019. https://www.economicshelp.org/micro-economic-essays/marketfailure/public-goods/.
Pettinger, Tejvan. “Phillips Curve.” *Economics Help*, March 1, 2019. https://www.economicshelp.org/blog/1364/economics/phillips-curve-explained/
Philippon, Thomas. *The Great Reversal: How America Gave Up on Free Markets*. Cambridge, MA: Belknap Press of Harvard University Press, 2019.
Philippon, Thomas, and Ariell Reshef. “Wages and Human Capital in the U.S. Financial Industry 1909–2006.” National Bureau of Economic Research Working Paper 14644. January 2009. https://www.nber.org/papers/w14644.
Piketty, Thomas. “Brahmin Left vs Merchant Right: Rising Inequality & the Changing Structure of Political Conflict (Evidence from France, Britain and the US, 1948–2017).” WID.world Working Paper Series No. 2018/7. March 2018. http://piketty.pse.ens.fr/files/Piketty2018.pdf.
Piketty, Thomas. *Capital and Ideology*. Cambridge, MA, and London: Belknap Press of Harvard University Press, 2020.
Piketty, Thomas. *Capital in the Twenty-First Century*. Translated by Arthur Goldhammer. Cambridge, MA: Harvard University Press, 2013.
Plato. *The Republic*. Translated by Benjamin Jowett. http://classics.mit.edu/Plato/republic.html.
Polanyi, Karl. *The Great Transformation: The Political and Economic Origins of Our Time*. Boston: Beacon Press, 1957. First published 1944.
Politi, James. “Migration Opens the Door to Italy’s Populists.” *Financial Times*, August 1, 2017. https://www.ft.com/content/b964453a-72b1-11e7-aca6-c6bd07df1a3c.
Politi, James, Aime Williams, and Chris Giles. “US Offers New Plan in Global Corporate Tax Talks.” *Financial Times*, April 8, 2021. https://www.ft.com/content/847c5f77-f0af-4787-8c8e-070ac6a7c74f.
Politi, James, Colby Smith, and Brendan Greeley. “Donald Trump Raises Tariffs on Chinese Goods after Stocks Tumble.” *Financial Times*, August 24, 2019. https://www.ft.com/content/2db9c1ec-c5b9-11e9-a8e9-296ca66511c9.
Pomeranz, Kenneth. *The Great Divergence: China, Europe, and the Making of the Modern World Economy*. Princeton, NJ: Princeton University Press, 2000.
Popper, Karl. *The Open Society and Its Enemies*. Vol. 1, *The Age of Plato*. London: Routledge, 1945.
Portes, Jonathan. “The Economics of Migration.” June 2019. https://journals.sagepub.com/doi/pdf/10.1177/1536504219854712.
Posen, Adam. “The Price of Nostalgia: America’s Self-Defeating Economic Retreat.” *Foreign Affairs*, May/June 2021. https://www.foreignaffairs.com/articles/united-states/2021-04-20/america-price-nostalgia.
Powell, Jerome H. “New Economic Challenges and the Fed’s Monetary Policy Review.” Federal Reserve, August 27, 2020. https://www.federalreserve.gov/newsevents/speech/powell20200827a.htm.
Prestowitz, Clyde. *The World Turned Upside Down: America, China, and the Struggle for Global Leadership*. New Haven, CT: Yale University Press, 2021.
Przeworski, Adam. “Conquered or Granted? A History of Suffrage Extensions.” *British Journal of Political Science* 39, no. 2 (April 2009): 291–321.

Putnam, Robert D. *Bowling Alone: The Collapse and Revival of American Community*. New York and London: Simon & Schuster, 2000.
Rachel, Lukasz, and Lawrence H. Summers. "On Falling Neutral Real Rates, Fiscal Policy, and the Risk of Secular Stagnation." BPEA Conference Drafts. *Brookings Papers on Economic Activity*, March 7 and 8, 2019. https://www.brookings.edu/wp-content/uploads/2019/03/On-Falling-Neutral-Real-Rates-Fiscal-Policy-and-the-Risk-of-Secular-Stagnation.pdf.
Rachman, Gideon. "Atlantic Era under Threat with Donald Trump in White House." *Financial Times*, January 19, 2017. https://www.ft.com/content/73cc16e8-de36-11e6-86ac-f253db7791c6.
Rachman, Gideon. "The US and China's Dangerous Blame Game Will Do No Good." *Financial Times*, May 4, 2020. https://www.ft.com/content/ffc6ac00-8de0-11ea-9e12-0d4655dbd44f.
Rajan, Raghuram G. "A Fair and Simple Way to Tax Carbon Emissions." *Financial Times*, December 17, 2019. https://www.ft.com/content/96782e84-2028-11ea-b8a1-584213ee7b2b.
Rajan, Raghuram G. *Fault Lines: How Hidden Fractures Still Threaten the World Economy.* Princeton, NJ, and Oxford: Princeton University Press, 2011.
Rajan, Raghuram G. *Third Pillar: The Revival of Community in a Polarized World*. London: William Collins, 2019.
Ratcliffe, Susan, ed. *Oxford Essential Quotations*. Oxford: Oxford University Press, 2016.
Reilly, Katie. "Read Hillary Clinton's 'Basket of Deplorables' Remarks about Donald Trump Supporters." *Time*, September 10, 2016. https://time.com/4486502/hillary-clinton-basket-of-deplorables-transcript/.
Rhea, Gordon. "Why Non-Slaveholding Southerners Fought." American Battlefield Trust, January 25, 2011. https://www.battlefields.org/learn/articles/why-non-slaveholding-southerners-fought.
Richardson, Heather Cox. *How the South Won the Civil War: Oligarchy, Democracy, and the Continuing Fight for the Soul of America.* New York: Oxford University Press, 2020.
Riley, Jon, and Robert Chote. "Crisis and Consolidation in the Public Finances." Office for Budget Responsibility Working Paper No. 7. September 2014. https://obr.uk/docs/dlm_uploads/WorkingPaper7a.pdf.
Riordan, Primrose, and Sue-Lin Wong. "WHO Expert Says China Too Slow to Report Coronavirus Cases." *Financial Times*, February 5, 2020. https://www.ft.com/content/8ede7e92-4749-11ea-aeb3-955839e06441.
Robb, Greg. "Nobel Prize Winner Likens Trump 'Bullying' of Companies to Fascist Italy, Germany." *Market Watch*, January 6, 2017. http://www.marketwatch.com/story/nobel-prize-winner-likens-trump-bullying-of-companies-to-fascist-italy-germany-2017-01-06?mg=prod/accounts-mw.
Rodan, Garry. "Consultative Authoritarianism and Regime Change Analysis: Implications of the Singapore Case." In Richard Robison, ed. *Routledge Handbook of Southeast Asian Politics*. London and New York: Routledge, 2012, 120–34.
Rodriguez-Pose, Andrés. "The Revenge of the Places That Don't Matter (and What to Do about It)." *Cambridge Journal of Regions, Economy and Society* 11, no. 1 (March 2018): 189–209. https://eprints.lse.ac.uk/85888/1/Rodriguez-Pose_Revenge%20of%20Places.pdf.
Rodrik, Dani. *The Globalization Paradox: Democracy and the Future of the World Economy.* New York and London: W. W. Norton, 2011.
Rodrik, Dani. "The Inescapable Trilemma of the World Economy." Dani Rodrik's blog, June 27, 2007. https://rodrik.typepad.com/dani_rodriks_weblog/2007/06/the-inescapable.html.
Rodrik, Dani. *Straight Talk on Trade: Ideas for a Sane World Economy*. Princeton, NJ: Princeton University Press, 2017.
Rodrik, Dani, and Stefanie Stantcheva. "Fixing Capitalism's Good Jobs Problem." In Paul Collier, Diane Coyle, Colin Mayer, and Martin Wolf, eds. "Capitalism: What Has Gone Wrong, What Needs to Change, and How It Can Be Fixed." *Oxford Review of Economic Policy* 37, no. 4 (Winter 2021): 824–37.
Ronald Reagan Presidential Foundation & Institute. "Reagan Quotes and Speeches." https://www.reaganfoundation.org/ronald-reagan/reagan-quotes-speeches/news-conference-1/.
Roosevelt, Franklin Delano. "The Four Freedoms." January 6, 1941. https://www.americanrhetoric.com/speeches/fdrthefourfreedoms.htm.
Rudowitz, Robin, Rachel Garfield, and Elizabeth Hinton. "10 Things to Know about Medicaid: Setting the Facts Straight." Kaiser Family Foundation, March 6, 2019. https://www.kff.org/medicaid/issue-brief/10-things-to-know-about-medicaid-setting-the-facts-straight/.
Saez, Emmanuel. "Striking It Richer: The Evolution of Top Incomes in the United States (Updated with 2015 Preliminary Estimates)." June 30, 2016. https://eml.berkeley.edu/~saez/saez-UStopincomes-2015.pdf.
Saez, Emmanuel, and Gabriel Zucman. *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay.* New York: W. W. Norton, 2019.
Sainsbury, David. *Windows of Opportunity: How Nations Create Wealth.* London: Profile Books, 2020.
Sandbu, Martin. "The Case for the Affordability of Universal Basic Income." *Financial Times*, December 23, 2021. https://www.ft.com/content/3788b99e-7b8c-4641-8250-6f6823f1a7f6.
Sandbu, Martin. *The Economics of Belonging: A Radical Plan to Win Back the Left Behind and Achieve Prosperity for All.* Princeton, NJ, and Oxford: Princeton University Press, 2020.

Sandbu, Martin. “Is Culture or Economics at the Root of Our Strange Politics?” *Financial Times*, September 11, 2017. https://www.ft.com/content/c841a8d4-96d5-11e7-a652-cde3f882dd7b.
Sandbu, Martin. “Populists and Kleptocrats Are a Perfect Match.” *Financial Times*, September 22, 2020. https://www.ft.com/content/ef4111a6-8ac8-419e-8747-8ce1b887cb61.
Sandbu, Martin. “Restructuring after COVID Will Matter Even More Than Recovery.” *Financial Times*, October 15, 2020. https://www.ft.com/free-lunch.
Sandbu, Martin. “Sweden’s Far-Right and the Left-Behind.” *Financial Times*, July 4, 2019. https://www.ft.com/content/ec4adebc-99bc-11e9-8cfb-30c211dcd229.
Sandel, Michael J. *The Tyranny of Merit: What’s Become of the Common Good?* London: Penguin, 2020.
Sandom, Christopher, Soren Faurby, Brody Sandel, and Jens-Christian Svenning. “Global Late Quaternary Megafauna Extinctions Linked to Humans, Not Climate Change.” *Proceedings of the Royal Society, Biological Sciences*, July 22, 2014. https://royalsocietypublishing.org/doi/10.1098/rspb.2013.3254.
Sassoon, David. *The Anxious Triumph: A Global History of Capitalism 1860–1914.* London and New York: Allen Lane, 2019.
Sawyer, Wendy, and Peter Wagner. “Mass Incarceration: The Whole Pie 2020.” Prison Policy Initiative, March 24, 2020. https://www.prisonpolicy.org/reports/pie2020.html.
Schaake, Marietje. “Greater Online Transparency Is the Key to Defending Democracy.” *Financial Times*, January 10, 2022. https://www.ft.com/content/0e1d1cd8-73af-4a63-b426-e0ee5a7bf834.
Schama, Simon. “Who Speaks for the People? Liberal Institutions Are Under Attack from Leaders Who Claim to Embody the Popular Will.” *Financial Times*, October 4, 2019. https://www.ft.com/content/9e8f70b8-e5eb-11e9-b112-9624ec9edc59.
Schechter, Asher. “Raghuram Rajan: Populist Nationalism Is ‘the First Step toward Crony Capitalism.’ ” *ProMarket*, August 30, 2017. Stigler Center at the University of Chicago Booth School of Business. https://promarket.org/raghuram-rajan-populist-outcry-cry-help/.
Scheidel, Walter. *Escape from Rome: The Failure of Empire and the Road to Prosperity.* Princeton, NJ: Princeton University Press, 2019.
Scheidel, Walter. *The Great Leveler: Violence and the History of Inequality from the Stone Age to the Twenty-first Century*. Princeton, NJ, and Oxford: Princeton University Press, 2017.
Schlesinger, Arthur. *The Imperial Presidency*. Boston and New York: Mariner Books, Houghton Mifflin, 1973 and 2004.
Schrimpf, Andreas, Hyun Song Shin, and Vladyslav Sushko. “Leverage and Margin Spirals in Fixed Income Markets during the COVID-19 Crisis.” *BIS Bulletin* No. 2, April 2, 2020. Bank for International Settlements. https://www.bis.org/publ/bisbull02.pdf.
Schumpeter, Joseph A. *Capitalism, Socialism and Democracy*. London: George Allen & Unwin, 1994. First published in the UK in 1943.
Schwadel, Philip, and Gregory A. Smith. “Evangelical Approval of Trump Remains High, but Other Religious Groups Are Less Supportive.” Pew Research Center, March 18, 2019. https://www.pewresearch.org/fact-tank/2019/03/18/evangelical-approval-of-trump-remains-high-but-other-religious-groups-are-less-supportive/.
Scott, Peter. *Triumph of the South: A Regional Economic History of Early Twentieth Century Britain*. London and New York: Routledge, 2007 and 2018.
Seabright, Paul. *The Company of Strangers: A Natural History of Economic Life.* Princeton, NJ: Princeton University Press, 2010.
Sen, Amartya. *Development as Freedom*. Oxford: Oxford University Press, 1999.
Sevastopulo, Demetri. “Trump Sees Clearer Path to Republican Nomination.” *Financial Time*s, February 24, 2016. https://www.ft.com/content/8bf2aeb0-db1e-11e5-a72f-1e7744c66818.
Sevastopulo, Demetri. “US Accuses China of Operating ‘Open-Air Prison’ in Xinjiang.” *Financial Times*, May 12, 2021. https://www.ft.com/content/1f9f5f30-dc6e-4228-8b43-5faf522f223a.
Sevastopulo, Demetri, and Kathrin Hille. “US Fears China Is Flirting with Seizing Control of Taiwan.” *Financial Times*, March 27, 2021. https://www.ft.com/content/3ed169b8-3f47-4f66-a914-58b6e2215f7d.
Sevastopulo, Demetri, and Katrina Manson. “Trump Says He Is Confident COVID-19 Came from Wuhan Lab.” *Financial Times*, May 1, 2020. https://www.ft.com/content/84935e17-b50e-4a66-9c37-e2799365b783.
Shafik, Minouche. “In Experts We Trust?” Bank of England, February 22, 2017. https://www.bankofengland.co.uk/-/media/boe/files/speech/2017/in-experts-we-trust.pdf?la=en&hash=51801143BE9C2BAA60EF3F56F04D7A2E2C694952.
Shaw, Edward S. *Financial Deepening in Economic Development.* New York: Oxford University Press, 1973.
Shearmur, Jeremy, and Piers Norris Turner, eds. “Ideal and Reality in Society.” In *Popper: After the Open Society: Selected Social and Political Writings.* London and New York: Routledge, 2008.
Shepherd, Christian. “Fear and Oppression in Xinjiang: China’s War on Uighur Culture.” *Financial Times*, September 12, 2019. https://www.ft.com/content/48508182-d426-11e9-8367-807ebd53ab77.
Shimer, David. *Rigged: America, Russia, and One Hundred Years of Covert Electoral Interference.* New York: Alfred A. Knopf, 2020.

Shrimsley, Robert. “Boris Johnson’s Brexit Explosion Ruins Tory Business Credentials.” *Financial Times*, June 25, 2018. https://www.ft.com/content/8075e68c-7857-11e8-8e67-1e1a0846c475.
Siedentop, Larry. *Inventing the Individual: The Origins of Western Liberalism.* London: Allen Lane, 2014.
Sierakowski, Slawomir. “The Five Lessons of Populist Rule.” *Project Syndicate*, January 2, 2017. https://www.project-syndicate.org/commentary/lesson-of-populist-rule-in-poland-by-slawomir-sierakowski-2017-01?barrier=accesspaylog.
Skocpol, Theda. *Diminished Democracy: From Membership to Management in American Civic Life.* Norman: University of Oklahoma Press, 2003.
Slack, James. “Enemies of the People: Fury over ‘Out of Touch’ Judges Who ‘Declared War on Democracy’ by Defying 17.4M Brexit Voters and Who Could Trigger Constitutional Crisis.” *Daily Mail*, November 4, 2016. https://www.dailymail.co.uk/news/article-3903436/Enemies-people-Fury-touch-judges-defied-17-4m-Brexit-voters-trigger-constitutional-crisis.html.
Smith, Adam. *An Inquiry into the Nature and Causes of the Wealth of Nations.* 5th ed. London: Methuen, 1904. First published 1776. http://www.econlib.org/library/Smith/smWN.html.
Smith, Robert, and Jim Pickard. “Greensill Capital Paid Cameron Salary of More Than $1M a Year.” *Financial Times*, July 12, 2021. https://www.ft.com/content/536867f4-2dd3-42a1-9b29-54ed92693635.
Smithers, Andrew. *Productivity and the Bonus Culture*. Oxford: Oxford University Press, 2019.
Smyth, Jamie. “Chinese Tensions Put Australian Businesses under Pressure.” *Financial Times*, November 11, 2020. https://www.ft.com/content/b764e4c9-cc38-43b6-848c-dba0cbc6475a.
Social Capital Project. “The Class Divide in Marriage.” SCP brief, November 2017. https://www.jec.senate.gov/public/_cache/files/aba9b359-7457-4704-b0f1-93232f54b650/class-divide-in-marriage.pdf.
Soros, George. “The EU Should Issue Perpetual Bonds.” *Project Syndicate*, April 20, 2020. https://www.project-syndicate.org/commentary/finance-european-union-recovery-with-perpetual-bonds-by-george-soros-2020-04.
Soutphommasane, Tim. *The Virtuous Citizen: Patriotism in a Multicultural Society.* Cambridge: Cambridge University Press, 2012.
Sperling, Gene. *Economic Dignity.* New York: Penguin, 2020.
Standing, Guy. *The Precariat: The New Dangerous Class*. London: Bloomsbury, 2011 and 2014.
Stanford Encyclopedia of Philosophy. “Plato on Rhetoric and Poetry.” February 12, 2020. https://plato.stanford.edu/entries/plato-rhetoric/.
Stasavage, David. *The Decline and Rise of Democracy: A Global History from Antiquity to Today.* Princeton, NJ, and Oxford: Princeton University Press, 2020.
The Statutes Project. “1723: 9 George 1 c.22: The Black Act.” https://statutes.org.uk/site/the-statutes/eighteenth-century/9-geo-i-c-22-the-black-act-1723/.
Steil, Benn. *The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the Making of a New World Order.* Princeton, NJ: Princeton University Press, 2013.
Stevens, Stuart. “Wake Up, Republicans. Your Party Stands for All the Wrong Things Now.” *Washington Post*, January 1, 2020. https://www.washingtonpost.com/opinions/wake-up-republicans-your-party-stands-for-all-the-wrong-things-now/2019/12/31/c8347b32-2be8-11ea-9b60-817cc18cf173_story.html?utm_campaign=opinions&utm_medium=E-mail&utm_source=Newsletter&wpisrc=nl_opinions&wpmm=1.
Stewart, Katherine. “Why Trump Reigns as King Cyrus.” *New York Times*, December 31, 2018. https://www.nytimes.com/2018/12/31/opinion/trump-evangelicals-cyrus-king.html?action=click&module=MoreInSection&pgtype=Article&region=Footer&contentCollection=Opinion.
Stiglitz, Joseph. “Inequality and Economic Growth.” In Michael Jacobs and Mariana Mazzucato, eds. *Rethinking Capitalism: Economics and Policy for Sustainable and Inclusive Growth*. Chichester: Wiley-Blackwell, 2016. Chapter 8: 134–55.
Stiglitz, Joseph. *The Price of Inequality: How Today’s Divided Society Endangers Our Future.* New York: W. W. Norton, 2012. https://www8.gsb.columbia.edu/faculty/jstiglitz/sites/jstiglitz/files/Inequality%20and%20Economic%20Growth.pdf.
Stiglitz, Joseph. “Prizes, Not Patents.” *Project Syndicate*, March 6, 2007.
Stiglitz, Joseph, Amartya Sen, and Jean-Paul Fitoussi. *Report by the Commission on the Measurement of Economic Performance and Social Progress*. 2009. https://web.archive.org/web/20160806043140/.
Stiglitz, Joseph E., and Hamid Rashid. “How to Prevent the Looming Sovereign-Debt Crisis.” *Project Syndicate*, July 31, 2020. https://www.project-syndicate.org/commentary/how-to-prevent-looming-debt-crisis-developing-countries-by-joseph-e-stiglitz-and-hamid-rashid-2020-07.
Streeck, Wolfgang. *Buying Time: The Delayed Crisis of Democratic Capitalism*. Translated by Patrick Camiller. London and New York: Verso, 2013.
Streeck, Wolfgang. *How Will Capitalism End? Essays on a Failing System.* London and New York: Verso, 2016.
Summers, Lawrence H. “The Biden Stimulus Is Admirably Bold and Ambitious. But It Brings Some Big Risks, Too.” *Washington Post*, February 4, 2021. https://www.washingtonpost.com/opinions/2021/02/04/larry-summers-biden-covid-stimulus/.

Summers, Lawrence H. “The Threat of Secular Stagnation Has Not Gone Away.” *Financial Times*, May 6, 2018. https://www.ft.com/content/aa76e2a8-4ef2-11e8-9471-a083af05aea7.
Summers, Lawrence H., and Anna Stansbury. “The End of the Golden Age of Central Banking?: Secular Stagnation Is about More Than the Zero Lower Bound.” November 2020. Preliminary and incomplete.
Susskind, Daniel. *A World without Work: Technology, Automation, and How We Should Respond.* London: Allen Lane, 2020.
Taleb, Nicholas. *The Black Swan: The Impact of the Highly Improbable*. London and New York: Penguin, 2007.
Task Force on Climate-Related Financial Disclosures. “Climate Change Presents Financial Risk to the Global Economy.” https://www.fsb-tcfd.org.
Tax Justice Network. “Corporate Tax Haven Index 2019.” Citing *New York Times.* https://corporatetaxhavenindex.org/.
“Tax Policy Center’s Briefing Book.” https://www.taxpolicycenter.org/briefing-book/what-carried-interest-and-should-it-be-taxed-capital-gain.
Taylor, Alan M. “International Capital Mobility in History: The Saving-Investment Relationship.” National Bureau of Economic Research Working Paper Number 5743. September 1996. http://www.nber.org/papers/w5743.pdf.
Temin, Peter. *The Vanishing Middle Class: Prejudice and Power in a Dual Economy*. Cambridge, MA: MIT Press, 2017.
“Ten Important Supreme Court Decisions in Black History.” Infoplease, February 28, 2017 (updated January 11, 2021). https://www.infoplease.com/us/government/judicial-branch/ten-important-supreme-court-decisions-in-black-history.
Tepper, Jonathan, with Denise Hearn. *The Myth of Capitalism: Monopolies and the Death of Competition*. Hoboken, NJ: Wiley, 2018.
Thomas, Mark E. *99%: Mass Impoverishment and How We Can End It*. London: Apollo: 2019.
Thurley, Djuna, and James Mirza Davies. “Collective Defined Contribution Schemes.” House of Commons Briefing Paper Number CBP 8674. July 2, 2020.
Tocqueville, Alexis de. *Democracy in America.* Parts I and II. 1835 and 1840.
Toly, Noah J., and Sam Tabory. “100 Top Economies: Urban Influence and the Position of Cities in an Evolving World Order.” October 13, 2016. Chicago Council on Global Affairs.
Tooze, Adam. *Crashed: How a Decade of Financial Crises Changed the World*. London: Allen Lane, 2018.
Tooze, Adam. *Shutdown: How Covid Shook the World’s Economy*. London: Penguin, 2021.
Transparency International. *Corruption Perceptions Index.* https://www.transparency.org/en/cpi.
Trentmann, Frank. *Free Trade Nation: Commerce, Consumption, and Civil Society in Modern Britain*. Oxford: Oxford University Press, 2009.
Trinity College Cambridge. “Letter from J. M. Keynes to F. W. Pethick-Lawrence.” https://archives.trin.cam.ac.uk/index.php/letter-from-j-m-keynes-to-f-w-pethick-lawrence-23.
Trotsky, Leon. “Revolutionary and Socialist Art.” *Literature and Revolution*. https://www.marxists.org/archive/trotsky/1924/lit_revo/ch08.htm.
Trump, Donald. “Inaugural Address.” January 20, 2017.
Trump, Donald. “Remarks by President Trump in a Meeting with Republican Members of Congress on the United States Reciprocal Trade Act.” January 24, 2019.
Tucker, Paul. *Unelected Power: The Quest for Legitimacy in Central Banking and the Regulatory State*. Princeton, NJ, and Oxford: Princeton University Press, 2018.
Turner, Adair. *Between Debt and the Devil: Money, Credit, and Fixing Global Finance*. Princeton, NJ, and Oxford: Princeton University Press, 2016.
UK Parliament. “Simon de Montfort’s Parliament.” https://www.parliament.uk/about/living-heritage/evolutionofparliament/originsofparliament/birthofparliament/overview/simondemontfort/.
“UK Treaties.” https://www.gov.uk/guidance/uk-treaties.
UNHCR. *Central Mediterranean Route Situation, Supplementary Appeal*, January–December 2018. http://www.unhcr.org/5aa78775c.pdf.
United Nations. Department of Economic and Social Affairs, Population Dynamics. *World Population Prospects 2019*. https://population.un.org/wpp/Download/.
United Nations Development Program. “Human Development Index.” http://hdr.undp.org/en/content/human-development-index-hdi.
United Nations Population Division. *Replacement Migration: Is It a Solution to Declining and Aging Populations?* 2000.
US Department of Labor. “Trade Act Programs.” https://www.dol.gov/general/topic/training/tradeact#:~:text=The%20Trade%20Adjustment%20Assistance%20(TAA,a%20re
US Department of State. “Law of the Sea Convention.” https://www.state.gov/law-of-the-sea-convention/.
US Department of State. “The Montreal Protocol on Substances That Deplete the Ozone Layer.” https://www.state.gov/key-topics-office-of-environmental-quality-and-transboundary-issues/the-montreal-protocol-on-substances-that-deplete-the-ozone-layer/.
“U.S. Voting Rights Timeline.” https://a.s.kqed.net/pdf/education/digitalmedia/us-voting-rights-timeline.pdf.

Vague, Richard. *A Brief History of Doom: Two Hundred Years of Financial Crises*. Philadelphia: University of Pennsylvania Press, 2019.
Van Parijs, Philippe, and Yannick Vanderborght. *Basic Income: A Radical Proposal for a Free Society and a Sane Economy*. Cambridge, MA, and London: Harvard University Press, 2017.
Vogl, Frank. *The Enablers: How the West Supports Kleptocrats and Corruption—Endangering Our Democracy*. Lanham, MD: Rowman & Littlefield, 2021.
Vollrath, Dietrich. *Fully Grown: Why a Stagnant Economy Is a Sign of Success*. Chicago: University of Chicago Press, 2020.
Wallace-Stevens, Fabian, and Emma Morgante. *Who Is at Risk? Work and Automation in the Time of Covid-19*. Royal Society of Arts, October 2020. https://www.thersa.org/globalassets/_foundation/new-site-blocks-and-images/reports/2020/10/work_and_automation_in_time_of_covid_report.pdf.
Washington, George. "Farewell Address." https://www.ourdocuments.gov/doc.php?flash=false&doc=15&page=transcript.
Webb, Dominic, and Matt Ward. *The Comprehensive and Progressive Agreement for Trans-Pacific Partnership*. House of Commons Library, June 22, 2021. https://researchbriefings.files.parliament.uk/documents/CBP-9121/CBP-9121.pdf.
Wei-Haas, Maya. "Controversial New Study Pinpoints Where All Modern Humans Arose." *National Geographic*, October 28, 2019. https://www.nationalgeographic.com/.
White House. "Remarks by President Trump, Vice President Pence, and Members of the Coronavirus Task Force in Press Briefing." April 2, 2020.
Wiener Holocaust Library. "How Did the Nazis Consolidate Their Power?" The Holocaust Explained. https://www.theholocaustexplained.org/the-nazi-rise-to-power/how-did-the-nazi-gain-power/1933-elections/.
Wilkerson, Isabel. *Caste: The Origins of Our Discontents*. New York: Random House, 2020.
Wilkinson, Richard, and Kate Pickett. *The Inner Level: How More Equal Societies Reduce Stress, Restore Sanity and Improve Well-Being*. London: Penguin, 2019.
Wilkinson, Richard, and Kate Pickett. *The Spirit Level: Why Greater Equality Makes Societies Stronger*. New York: Bloomsbury, 2009.
Williams, Aime. "Persistence of Donald Trump's China Tariffs Frustrates US Business." *Financial Times*, June 3, 2021. https://www.ft.com/content/fb775a22-eaa5-44b4-8643-16c3f40a5d02.
Williamson, Jeffrey G. "The Evolution of Global Labor Markets Since 1830: Background Evidence and Hypotheses." *Explorations in Economic History* 32, no. 2 (April 1995): 141–96.
Williamson, John. "The Washington Consensus as Policy Prescription for Development." January 2004.
Wills, Matthew. "How Antebellum Christians Justified Slavery." *JSTOR Daily*, June 27, 2018. https://daily.jstor.org/how-antebellum-christians-justified-slavery/.
Wolf, Martin. *Fixing Global Finance*. Baltimore and London: Johns Hopkins University Press and Yale University Press, 2008 and 2010.
Wolf, Martin. *India's Exports*. Washington, DC: Oxford University Press for the World Bank, 1982.
Wolf, Martin. *The Shifts and the Shocks: What We've Learned—and Have Still to Learn—from the Financial Crisis*. London and New York: Penguin, 2014 and 2015.
Wolf, Martin. *Why Globalization Works*. London and New Haven, CT: Yale University Press, 2004.
Wolf, Martin. "When Multiculturalism Is a Nonsense." *Financial Times*, August 30, 2005. https://www.ft.com/content/ff41a586-197f-11da-804e-00000e2511c8.
Wolf, Martin. "Disputed Fruit of Unskilled Immigration." *Financial Times*, April 4, 2006. https://www.ft.com/content/ba686d9a-c407-11da-bc52-0000779e2340.
Wolf, Martin. "Why Today's Hedge Fund Industry May Not Survive." *Financial Times*, March 18, 2008. https://www.ft.com/content/c8941ad4-f503-11dc-a21b-000077b07658.
Wolf, Martin. "Is Unlimited Growth a Thing of the Past?" *Financial Times*, October 2, 2012. https://www.ft.com/content/78e883fa-0bef-11e2-8032-00144feabdc0.
Wolf, Martin. "Why China Will Not Buy the World." *Financial Times*, July 9, 2013. https://www.ft.com/content/28d1a4a8-e7ba-11e2-babb-00144feabdc0.
Wolf, Martin. "A Much-Maligned Engine of Innovation." *Financial Times*, August 4, 2013. https://www.ft.com/content/32ba9b92-efd4-11e2-a237-00144feabdc0.
Wolf, Martin. "Opportunist Shareholders Must Embrace Commitment." *Financial Times*, August 26, 2014. https://www.ft.com/content/6aa87b9a-2d05-11e4-911b-00144feabdc0.
Wolf, Martin. "Donald Trump Embodies How Great Republics Meet Their End." *Financial Times*, March 1, 2016. https://www.ft.com/content/743d91b8-df8d-11e5-b67f-a61732c1d025.
Wolf, Martin. "The Welfare State Is a Piggy Bank for Life." *Financial Times*, March 31, 2016. https://www.ft.com/content/b7ae7e52-f69a-11e5-96db-fc683b5e52db.
Wolf, Martin. "Brexit: Sovereignty Is Not the Same as Power." *Financial Times*, May 3, 2016. https://www.ft.com/content/fece7238-1071-11e6-91da-096d89bd2173.

Wolf, Martin. “The Tide of Globalization Is Turning.” *Financial Times*, September 6, 2016. https://www.ft.com/content/87bb0eda-7364-11e6-bf48-b372cdb1043a.
Wolf, Martin. “Sluggish Global Trade Growth Is Here to Stay.” *Financial Times*, October 25, 2016. https://www.ft.com/content/4efcd174-99d3-11e6-b8c6-568a43813464.
Wolf, Martin. “The Case against the Collapse of Capitalism.” *Financial Times*, November 2, 2016. https://www.ft.com/content/7496e08a-9f7a-11e6-891e-abe238dee8e2.
Wolf, Martin. “Donald Trump Faces the Reality of World Trade.” *Financial Times*, November 22, 2016. https://www.ft.com/content/064d51b0-aff4-11e6-9c37-5787335499a0.
Wolf, Martin. “Too Big, Too Leninist—a Chain Crisis Is a Matter of Time.” *Financial Times*, December 13, 2016. https://www.ft.com/content/6a1b4010-be4c-11e6-8b45-b8b81dd5d080.
Wolf, Martin. “Democrats, Demagogues and Despots,” *Financial Times*, December 21, 2016. https://www.ft.com/content/9310dcea-c5d2-11e6-8f29-9445cac8966f.
Wolf, Martin. “The Long and Painful Journey to World Disorder.” *Financial Times*, January 5, 2017. https://www.ft.com/content/ef13e61a-ccec-11e6-b8ce-b9c03770f8b1.
Wolf, Martin. “The Folly of Donald Trump’s Bilateralism in Global Trade.” *Financial Times*, March 14, 2017. https://www.ft.com/content/ce92ae28-058e-11e7-ace0-1ce02ef0def9.
Wolf, Martin. “Dealing with America’s Trade Follies.” *Financial Times*, April 18, 2017. https://www.ft.com/content/fca7e9a4-2366-11e7-a34a-538b4cb30025.
Wolf, Martin. “Cities Must Be Open to the World When Nations Are Not.” *Financial Times*, June 7, 2017. https://www.ft.com/content/fea537f8-34d6-11e7-99bd-13beb0903fa3.
Wolf, Martin. “Taming the Masters of the Tech Universe.” *Financial Times*, November 14, 2017. https://www.ft.com/content/45092c5c-c872-11e7-aa33-c63fdc9b8c6c.
Wolf, Martin. “A Republican Tax Plan Built for Plutocrats.” *Financial Times*, November 21, 2017. https://www.ft.com/content/e494f47e-ce1a-11e7-9dbb-291a884dd8c6.
Wolf, Martin. “*Counter-Revolution* by Jan Zielonka—Project Backlash.” *Financial Times*, February 1, 2018. https://www.ft.com/content/e4290c10-069f-11e8-9650-9c0ad2d7c5b5
Wolf, Martin. “Donald Trump Declares Trade War on China.” *Financial Times*, May 8, 2018. https://www.ft.com/content/dd2af6b0-4fc1-11e8-9471-a083af05aea7.
Wolf, Martin. “Italy’s New Rulers Could Shake the Euro.” *Financial Times*, May 22, 2018. https://www.ft.com/content/eb82fdfe-5ce4-11e8-9334-2218e7146b04.
Wolf, Martin. “Donald Trump Creates Chaos with His Tariffs Trade War.” *Financial Times*, July 10, 2018. https://www.ft.com/content/ba65ac98-8364-11e8-a29d-73e3d454535d.
Wolf, Martin. “How We Lost America to Greed and Envy.” *Financial Times*, July 17, 2018. https://www.ft.com/content/3aea8668-88e2-11e8-bf9e-8771d5404543.
Wolf, Martin. “The Price of Populism.” *Financial Times*, October 24, 2018. https://www.ft.com/content/06181c56-d13b-11e8-a9f2-7574db66bcd5.
Wolf, Martin. “We Must Rethink the Purpose of the Corporation.” *Financial Times*, December 11, 2018. https://www.ft.com/content/786144bc-fc93-11e8-ac00-57a2a826423e.
Wolf, Martin. “The Rise of the Populist Authoritarians.” *Financial Times*, January 22, 2019. https://www.ft.com/content/4faf6c4e-1d84-11e9-b2f7-97e4dbd3580d.
Wolf, Martin. “The World Needs to Change the Way It Taxes Companies.” *Financial Times*, March 7, 2019. https://www.ft.com/content/9a22b722-40c0-11e9-b896-fe36ec32aece.
Wolf, Martin. “Monetary Policy Has Run Its Course.” *Financial Times*, March 12, 2019. https://www.ft.com/content/08c4eb8c-442c-11e9-a965-23d669740bfb.
Wolf, Martin. “How Economists Failed as ‘Experts’—and How to Make Them Matter Again.” March 12, 2019. Institute for New Economic Thinking. https://www.ineteconomics.org/perspectives/blog/why-economists-failed-as-experts-and-how-to-make-them-matter-again.
Wolf, Martin. “Why Further Financial Crises Are Inevitable.” *Financial Times*, March 19, 2019. https://www.ft.com/content/d9d94f4a-4884-11e9-bbc9-6917dce3dc62.
Wolf, Martin. “The Case for Capitalism.” *Financial Times*, March 28, 2019. https://www.ft.com/content/d8b903d0-4bfe-11e9-bbc9-6917dce3dc62.
Wolf, Martin. “The Age of the Elected Despot Is Here.” *Financial Times*, April 23, 2019. https://www.ft.com/content/9198533e-6521-11e9-a79d-04f350474d62.
Wolf, Martin. “Hypocrisy and Confusion Distort the Debate on Social Mobility.” *Financial Times*, May 2, 2019. https://www.ft.com/content/577a0abe-6c04-11e9-a9a5-351eeaef6d84.
Wolf, Martin. “Greek Economy Shows Promising Signs of Growth.” *Financial Times*, May 20, 2019. https://www.ft.com/content/b42ee1ac-4a27-11e9-bde6-79eaea5acb64.

Wolf, Martin. “The US-China Conflict Challenges the World.” *Financial Times*, May 21, 2019. https://www.ft.com/content/870c895c-7b11-11e9-81d2-f785092ab560.
Wolf, Martin. “States Create Useful Money, but Abuse It.” *Financial Times*, May 28, 2019. https://www.ft.com/content/fcc1274a-8073-11e9-9935-ad75bb96c849.
Wolf, Martin. “The Case for Making Wellbeing the Goal of Public Policy.” *Financial Times*, May 30, 2019. https://www.ft.com/content/d4bb3e42-823b-11e9-9935-ad75bb96c849.
Wolf, Martin. “Martin Wolf: Why Rigged Capitalism Is Damaging Liberal Democracy.” *Financial Times*, September 18, 2019. https://www.ft.com/content/5a8ab27e-d470-11e9-8367-807ebd53ab77.
Wolf, Martin. “The Narrow Corridor—the Fine Line between Despotism and Anarchy.” *Financial Times*, September 26, 2019. https://www.ft.com/content/d8eaaaba-deee-11e9-b112-9624ec9edc59.
Wolf, Martin. “The Threat and the Promise of Digital Money.” *Financial Times*, October 22, 2019. https://www.ft.com/content/fc079a6a-f4ad-11e9-a79c-bc9acae3b654.
Wolf, Martin. “The Fight to Halt the Theft of Ideas Is Hopeless.” *Financial Times*, November 12, 2019, https://www.ft.com/content/d592af00-0a29-11ea-b2d6-9bf4d1957a67.
Wolf, Martin. “Why the US Economy Isn’t as Competitive or Free as You Think.” *Financial Times*, November 14, 2019. https://www.ft.com/content/97be3f2c-00b1-11ea-b7bc-f3fa4e77dd47.
Wolf, Martin. “How to Reform Today’s Rigged Capitalism.” *Financial Times*, December 3, 2019. https://www.ft.com/content/4cf2d6ee-14f5-11ea-8d73-6303645ac406.
Wolf, Martin. “A Partial and Ineffective US-China Trade Truce.” *Financial Times*, January 21, 2020. https://www.ft.com/content/65557ec4-3851-11ea-a6d3-9a26f8c3cba4.
Wolf, Martin. “Last Chance for the Climate Transition.” *Financial Times*, February 18, 2020. https://www.ft.com/content/3090b1fe-51a6-11ea-8841-482eed0038b1.
Wolf, Martin. “Britain Needs to Be Crystal Clear about Belated Virus Strategy.” *Financial Times*, March 27, 2020. https://www.ft.com/content/f1871f34-6f46-11ea-89df-41bea055720b.
Wolf, Martin. “Coronavirus Crisis Lays Bare the Risks of Financial Leverage, Again.” *Financial Times*, April 28, 2020. https://www.ft.com/content/098dcd60-8880-11ea-a01c-a28a3e3fbd33.
Wolf, Martin. “How to Escape the Trap of Excessive Debt.” *Financial Times*, May 5, 2020. https://www.ft.com/content/2c5ddbd0-8e09-11ea-9e12-0d4655dbd44f.
Wolf, Martin. “Covid-19 Will Hit Developing Countries Hard.” *Financial Times*, June 9, 2020. https://www.ft.com/content/31eb2686-a982-11ea-a766-7c300513fe47.
Wolf, Martin. “What Trade Wars Tell Us.” *Financial Times*, June 18, 2020. https://www.ft.com/content/f3ee37e0-b086-11ea-a4b6-31f1eedf762e.
Wolf, Martin. “The Dangerous War on Supply Chains.” *Financial Times*, June 23, 2020. https://www.ft.com/content/e27b0c0c-1893-479b-9ea3-27a81c2506c9.
Wolf, Martin. “Democracy Will Fail If We Don’t Think as Citizens.” *Financial Times*, July 6, 2020. https://www.ft.com/content/36abf9a6-b838-4ca2-ba35-2836bd0b62e2.
Wolf, Martin. “Covid-19 Aggravates Adverse Underlying Trends.” *Financial Times*, July 16, 2020. https://www.ft.com/content/d9c02dd2-81d8-4ee9-9552-034a599e1c79.
Wolf, Martin. “Alarm Signals of Our Authoritarian Age.” *Financial Times*, July 21, 2020. https://www.ft.com/content/5eb5d26d-0abe-434e-be12-5068bd6d7f06.
Wolf, Martin. “Martin Wolf—Will Covid-19 Kill Off Populism?” *Financial Times*, August 13, 2020. https://www.ft.com/video/1d5916ab-66b9-44ef-8528-804f518837f0.
Wolf, Martin. “There Is a Direct Line from Milton Friedman to Donald Trump’s Assault on Democracy.” *ProMarket*, October 4, 2020. https://promarket.org/2020/10/04/milton-friedman-donald-trump-assault-on-democracy-corporations/.
Wolf, Martin. “Ten Ways Coronavirus Will Shape World in Long Term.” *Financial Times*, November 3, 2020. https://www.ft.com/content/9b0318d3-8e5b-4293-ad50-c5250e894b07.
Wolf, Martin. “Why Inflation Could Be on the Way Back.” *Financial Times*, November 17, 2020. https://www.ft.com/content/dea66630-d054-401a-ad1c-65ebd0d10b38.
Wolf, Martin. “What the World Can Learn from the Covid-19 Pandemic.” *Financial Times*, November 24, 2020. https://www.ft.com/content/7fb55fa2-4aea-41a0-b4ea-ad1a51cb415f.
Wolf, Martin. “Restoring UK Growth Is More Urgent Than Cutting Public Debt.” *Financial Times*, December 13, 2020. https://www.ft.com/content/50394d54-1b2e-417b-ba6d-2204a4b05f24.
Wolf, Martin. “The American Republic’s Near-Death Experience.” *Financial Times*, January 19, 2021. https://www.ft.com/content/c085e962-f27c-4c34-a0f1-5cf2bd813fbc.
Wolf, Martin. “Containing China Is Not a Feasible Option.” *Financial Times*, February 2, 2021.
Wolf, Martin. “Why Once Successful Countries Like the UK Fall Behind.” *Financial Times*, February 21, 2021. https://www.ft.com/content/217f6d28-5a3e-48e0-bf6e-c2618da8f34b.

Wolf, Martin. “What Central Banks Ought to Target.” *Financial Times*, March 2, 2021. https://www.ft.com/content/160db526-5e8d-4152-b711-21501a7fbd01.
Wolf, Martin. “Humanity Is a Cuckoo in the Planetary Nest.” *Financial Tim*es, March 9, 2021. https://www.ft.com/content/a3285adf-6c5f-4ce4-b055-e85f39ff2988.
Wolf, Martin. “Martin Wolf Looks Back at the Pandemic One Year Later.” *Financial Times*, March 11, 2021. https://www.ft.com/content/e02ec5cb-f08b-4bc9-a5ba-2978b680103c.
Wolf, Martin. “The Return of the Inflation Specter.” *Financial Times*, March 26, 2021. https://www.ft.com/content/6cfb36ca-d3ce-4dd3-b70d-eecc332ba1df.
Wolf, Martin. “Larry Summers: I’m Concerned That What Is Being Done Is Substantially Excessive.” *Financial Times*, April 12, 2021. https://www.ft.com/content/380ea811-e927-4fe1-aa5b-d213816e9073.
Wolf, Martin. “Economic Recovery Masks the Dangers of a Divided World.” *Financial Times*, April 20, 2021. https://www.ft.com/content/0be32ec5-8a75-48f2-99f3-eb5bcd055287.
Wolf, Martin. “Action Must Replace Talk on Climate Change.” *Financial Times*, May 4, 2021. https://www.ft.com/content/3fa154f3-84e7-4964-9a21-d3dbd41e1470 https://www.ft.com/content/3fa154f3-84e7-4964-9a21-d3dbd41e1470,
Wolf, Martin. “The Struggle for the Survival of US Democracy.” *Financial Times*, May 11, 2021. https://www.ft.com/content/aebe3b15-0d55-4d99-b415-cd7b109e64f8.
Wolf, Martin. “We Can End the Covid Pandemic in the Next Year.” *Financial Times*, May 25, 2021. https://www.ft.com/content/12fc9f47-7fd3-4690-93c5-f641688fca36.
Wolf, Martin. “How ‘Creative Destruction’ Drives Innovation and Prosperity.” *Financial Times*, June 11, 2021. https://www.ft.com/content/3a0aa7cb-d10e-4352-b845-a50df70272b8.
Wolf, Martin. “Radical Reform of British Pension Provision Is Urgent.” *Financial Times*, June 13, 2021. https://www.ft.com/content/791876ae-7ce2-4c0b-9f7a-c12b4f39f6d5.
Wolf, Martin. “The US Should Spurn the False Promise of Protectionism.” *Financial Times*, June 15, 2021. https://www.ft.com/content/4edc2c5a-298f-4edd-81b7-5b94b7b23b93.
Wolf, Martin. “It Is Folly to Make Pensions Safe by Making Them Unaffordable.” *Financial Times*, June 27, 2021. https://www.ft.com/content/138974df-5dc0-47e4-acb8-e2eb048fe8bd.
Wolf, Martin. “Equities Are the Only Sensible Foundation for Private Pensions.” *Financial Times*, July 11, 2021. https://www.ft.com/content/e3a621d3-5cfc-4410-bd3c-0fde3535582b.
Wolf, Martin. “The G20 Has Failed to Meet Its Challenges.” *Financial Times*, July 13, 2021. https://www.ft.com/content/c9448d15-8410-47d3-8f41-cd7ed41d8116.
Wolf, Martin. “COP26 Is the Real Thing and Not a Drill.” *Financial Times*, October 19, 2021. https://www.ft.com/content/799b7b93-9ec5-4318-9ac1-1c82cb81f96d.
Wolf, Martin. “What Is the Least We Need from COP26?” *Financial Times*, October 26, 2021. https://www.ft.com/content/f859d515-f1d0-405f-9aee-c609951f4254.
Wolf, Martin. “How We Can Share Our Divided World.” *Financial Times*, November 2, 2021. https://www.ft.com/content/b371e181-eac3-41ef-88c5-ca2bb20edd99.
Wolf, Martin. “Dancing on the Edge of Climate Disaster.” *Financial Times*, November 23, 2021. https://www.ft.com/content/6e2b366f-e139-4d69-bd4f-9254333bf316.
Wolf, Martin. “We Must Accept Higher Taxes to Fund Health and Social Care.” *Financial Times*, November 29, 2021. https://www.ft.com/content/efc67bb9-cff4-49e5-9101-67d2382ece09.
Wolf, Martin. “Lessons in ‘Leveling Up’ from the Basque Country.” *Financial Times*, November 30, 2021. https://www.ft.com/content/bb2c627f-1baa-4230-9cb8-3876c216b8f7.
Wolf, Martin. “A Call to Arms for Diverse Democracies and Their ‘Decent Middle.’ ” *Financial Times*, May 5, 2022. https://www.ft.com/content/83ba0474-70ea-4759-81f1-e14f6ea269fa.
Wolf, Martin. “The Big Mistakes of the Anti-globalisers.” *Financial Times*, June 21, 2022. https://www.ft.com/content/fa1f3a82-99c5-4fb2-8bff-a7e8d3f65849.
Wolf, Martin “In an Era of Disorder, Open Trade Is at Risk.” *Financial Times*, June 28, 2022. https://www.ft.com/content/df62d58c-e864-4e3b-9aa6-5587e8ef1667.
Wolf, Martin. “A Matter of Interest—the Battle Over Monetary Policy.” *Financial Times*, July 27, 2022. https://www.ft.com/content/e7cc3c01-08e3-47fc-9442-d45378b34bb8.
Wolff, Alan. “Trade, Global Cooperation Can Best Deliver Adequate Medical Supplies.” September 4, 2020. World Trade Organization. https://www.wto.org/english/news_e/news20_e/ddgaw_04sep20_e.htm.
Woodhouse, Alice, and James Politi. “Populist Five Star Movement Secures 32 Percent of Vote in Italian Election. *Financial Times*, March 5, 2018. https://www.ft.com/content/ecd89a82-2045-11e8-a895-1ba1f72c2c11.
Wooldridge, Adrian. *The Aristocracy of Talent: How Meritocracy Made the Modern World.* London: Allen Lane, 2021.
World Atlas. https://www.worldatlas.com.

World Bank. “COVID-19: Debt Service Suspension Initiative.” June 19, 2020. https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative.
World Bank. *Global Economic Prospects June 2020*. Washington, DC: World Bank, 2020.
World Bank. “International Migrant Stock, Total.” http://data.worldbank.org/indicator/SM.POP.TOTL.
World Bank. *World Development Indicators*. http://data.worldbank.org/data-catalog/world-development-indicators.
World Inequality Report 2018. https://wir2018.wid.world/.
World Trade Organization. “Trade Falls Steeply in First Half of 2020.” June 22, 2020. https://www.wto.org/english/news_e/pres20_e/pr858_e.htm.
World Trade Organization. *World Trade Statistical Review 2017*. https://www.wto.org/english/res_e/statis_e/wts2017_e/wts17_toc_e.htm.
Wray, L. Randall. *Modern Money Theory: A Primer on Macroeconomics for Sovereign Monetary Systems.* New York: Palgrave Macmillan, 2012.
Wren Lewis, Simon. *The Lies We Were Told: Politics, Economics, Austerity and Brexit.* Bristol: Bristol University Press, 2018.
Wright, Thomas, and Gabriel Zucman. “The Exorbitant Tax Privilege.” National Bureau of Economic Research Working Paper 24983. September 2018. https://www.nber.org/papers/w24983.
Wu, Tim. *The Curse of Bigness: Antitrust in the New Gilded Age.* New York: Columbia Global Reports. 2018.
Yglesias, Matthew. “Fox News’s Propaganda Isn’t Just Unethical—Research Shows It’s Enormously Influential: Without the ‘Fox Effect,’ Neither Bush Nor Trump Could Have Won.” *Vox*, March 4, 2019. https://www.vox.com/2019/3/4/18249847/fox-news-effect-swing-elections.
Yglesias, Matthew. “Justin Trudeau, Unlike Trump, Is Taking NAFTA Renegotiation Really Seriously.” *Vox*, August 23, 2017. https://www.vox.com/policy-and-politics/2017/8/23/16178914/trump-nafta-trudeau.
Zakaria, Fareed. *The Future of Freedom: Illiberal Democracy at Home and Abroad*. London and New York: W. W. Norton, 2007.
Ziblatt, Daniel. *Conservative Parties and the Birth of Democracy*. Cambridge: Cambridge University Press, 2017.
Zielonka, Jan. *Counter-Revolution: Liberal Europe in Retreat.* Oxford: Oxford University Press, 2018.
Zingales, Luigi, Jana Kasperkevic, and Asher Schechter. *Milton Friedman 50 Years Later. ProMarket*, 2020. Stigler Center for the Study of the Economy and the State.
Zoellick, Robert. “Whither China: From Membership to Responsibility?” September 21, 2015. US Department of State Archive. https://2001-2009.state.gov/s/d/former/zoellick/rem/53682.htm.
Zuboff, Shoshana. *The Age of Surveillance Capitalism: The Fight for a Human Future and the New Frontier of Power.* New York: Public Affairs, 2019.

INDEX

The page numbers in this index refer to the printed version of the book. Each link will take you to the beginning of the corresponding print page. You may need to scroll forward from that location to find the corresponding reference on your e-reader.

Italicized page numbers indicate material in tables or illustrations.

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

A

abortion, 199, 200, 204, 339

accountability, 235–37, 317, 335–41

accounting, 51, 236, 291–92

Acemoglu, Daron, 31–32

Achen, Christopher, 314

Acton, John Dalberg-Acton, Lord, 361

adverse selection, 274–75

advertising, 210–11, 342, 343

affirmative action, 193

Affordable Care Act, 184–85, 276

Afghanistan, xvii, 355

Africa, 127, 128, *128*, *129*, *131*

African Americans, 184, 204, 314

civil rights legislation and, 112, 201, 202, 314

Jim Crow and, 181, 202

migration of, 203

mortality rates among, 86

suffrage for, 24, 27, 42, 320

agglomeration rents, 161

aging, 127–30, *129*, 246, 262

security and, 285–88

agrarian economies, 11, 14–15, 17–19

agricultural revolution, 14–15

agricultural work, 139, 264–65

Ailes, Roger, 205, 342

Alesina, Alberto, 325

algorithms, 296–97, 344

Allison, Graham, 358, 362–63

Alphabet, 159, *160*, 296

Amazon, 159, *160*, 163, 295

Anderson, Benedict, 328

anocracies, 43, 44, *44*, *45*

Apple, 159, *160*, 163, 248, 306

Applebaum, Anne, 377

Argentina, 70, 117, 185, 245, 301

Aristotle, 13, 37, 83, 84, 91, 117, 316, 379

army rule, 48

artificial intelligence (AI), 124, 127, 170–72, 270–71, 296, 298

Asia, 64, 68, 132–34, *131*, *132*, *135*, 257

    financial crisis in, xvi, 57, 71, 138, 143, 145

    in world population, 127, 128, *128*

Asian Infrastructure Investment Bank, 369

Aspen Institute Financial Security Program, 284

aspirations, 25

assets, 245

Athens, *see* Greece, ancient

Attlee, Clement, 323, 324

auditing, 292

Australia, 42, 70, 229, 257, 334, 336

foreign-born as share of population in, *73*

Great Gatsby curve and, *94*

health spending in, *278*

income inequality in, *88*, *89*

public investment in fixed capital in, *252*

ratio of social spending to GDP in, 277, *277*

ratio of tax to GDP in, *303*

share of government spending in GDP in, *53*, *54*

Austria, 42, 229, 364–65

foreign-born as share of population in, *73*

income inequality in, *88*

authoritarian capitalism, 4, 176–78

authoritarianism, xviii, xix, 2, 27, 38, 46, 48, 56, 83, 106, 113, 213, 31

bureaucratic, 4, 176, 321

emergence of, 176

power and, 181

authoritarian populism, 208–9

autocracy, 8, 31, 33, 43, 44, 76, 167, 175, 177, 182, 219, 220, 235, 29

demagogic, xvii, 4, 321

global trends in, 43–44, *44*, *45*

B

Bank for International Settlement, 152

bankruptcy, 246

banks, 244–47, 259, 267, 293, 350

rates of, 242

relationships among, 250

Bartels, Larry, 314

Basel accords, 259

BBC, 342, 343

Belgium, 42, 229

foreign-born as share of population in, *73*

income inequality in, *88*

share of government spending in GDP, *53*, *54*

Berkshire, Hathaway, 159

Berlin, Isaiah, 5

Berlusconi, Silvio, 194

Beveridge, William, 227

Beveridge Report, 227, 274

Bevin, Ernest, 324

Biden, Joe, 47, 65, 143, 164, 166, 243, 253, 295, 308

birth rates, 125, 128, 129

Bismarck, Otto von, 324

black swans, 233

Blair, Tony, 112, 130, 190

Bolsonaro, Jair, xxi, 176, 185, 332

Bonaparte, Napoleon, 349

bonus culture, 90, 251

Borjas, George, 263

Bork, Robert, 162

Brahmin elite, 206, 207, 324, 377–78

    merchant elite versus, 192–95, 197

Brave New World (Huxley), 228

Brazil, 4, 131, *131*, 136, *136*, 176, *254*

Brenna, Jason, 315–17

Bretton Woods Conference, 56, 63

Brexit, xviii, 66, 72, 84, 85, 107, 109, 112, 113, 121, 161, 164, 179–

80, 190, 193, 195, 199, 200, 208, 240, 259, 335, 336, 339

Brexit Party, 190, 336

Bridgewater Associates, 307

Britain, *see* United Kingdom

British Academy, 291

Brown, Gordon, 190

Buffett, Warren, 159, 238

bureaucracies, 330

“eunuch,” 331

bureaucratic authoritarianism, 4, 176, 321

Burke, Edmund, xix, 225–26

Bush, George W., 276, 354

Bush, Jeb, 111

Business Roundtable, 58, 291

C

Cameron, David, 190, 325

Canada, 42, 70, 194, 229

education funding in, 283

financial crisis and fiscal balances of, *104*

foreign-born as share of population in, *73*

foreign value added share of gross exports in, *67*

GDP of, 100, *101*

government spending in, *331*

Great Gatsby curve and, 93

health spending in, *278*

income inequality in, *88*, *89*

labor force participation of men in, *96*

labor force participation of women in, *97*

old-age dependency ratio in, *129*

productivity growth in, *98*

public investment in fixed capital in, *252*

ratio of social spending to GDP in, *277*

ratio of tax to GDP in, *303*

share of industry in civilian employment in, *95*

share of top 1 percent in income in, 156, *157*

unemployment in, *103*

cancel culture, 196

capitalism, xx, 1–4, 7, 11, 40, 217

authoritarian, 4, 176–78

balance of democracy to, 28–35, 41

bureaucratic, 4, 176

calls for overthrow of, 222

in China, xx, 1–2, 4, 28, 132

competition in, 33–35

control over the state in, 29–31

corporations and, 34, 50–52, 58, 66, 68

correlation of democracy with, 76

crony, 28–30

cycles of, 50–58

demagogic, 4, 176–78

detached, 52

equality of status in, 11

evolution of, 77

free-market, xix, 1, 2, 11, 58, 77, 119, 184, 188, 195

global, 1–3, 6, 8, 34, 41, 49–50, 58–74, 77

global, history of, 59–64

history of, 49–74

liberal democracy as complementary opposite to, 13, 28, 40–41, 371

liberal democracy's marriage to, xix, 1–2, 4, 13, 23–35, 220, 371, 374–75; *see also* democratic capitalism

libertarian version of, 35

philosophical values underlying, 23–27

rentier, *see* rentier capitalism

rigged, 148–70, 378

rule of law and, 6–7

skeptics versus supporters of, 55

state and, 53, 55, 58

strengths and weaknesses of, 220

success of, 20–22

technology and, 21

use of term, 6–7

welfare, 218

capitalism, renewal of, xviii–xx, 221–37, 238, 380

"new" New Deal in, *see* "new" New Deal

obstacles to, 232–37

piecemeal social engineering in, 222, 226–29, 310–11, 376

revolution versus, xix, 222–26

Capitalism, Socialism and Democracy (Schumpeter), 195

Capitol attack of January 6, 335–36, 374–75

carbon dioxide emissions, 171, *171*, 223–25, 252–56, *254*

carbon pricing, 368

carbon taxes, 255, 256, 306, 308

Cardoso, Fernando Henrique, 322

caregivers, 121, 126, 158

carry trade, 260–61

Case, Anne, 85–86

Cato Institute, 76

Census Bureau, 241

Center for Systemic Peace, 43

Chavez, Hugo, 29, 181

Chesterton, G. K., 116

Chicago Council on Global Affairs, 160

children, 274, 277

    equality of opportunity for, 271–73

    mortality in, 123, 129, 224

China, xvii, 22, 25, 32, 33, 60, 63, 65, 68, 99, 119, 121, 130–32, 134–36, 144–

48, 176, 253, 265, 317, 320, 321, 330, 349, 353, 356, 372, 379, 3

Belt and Road Initiative of, 367

capitalism in, xx, 1–2, 4, 28, 132

climate change and, *171*, 367–68

“Cold War” with, 357–62

Communist Party in, 1–2, 25, 27, 132, 211, 366

cooperating, confronting, and competing with, 362–70

and defending democratic capitalism, 350–52

economy of, 22, 68, 257–58, 359, 361–62, 365, 366

exports of, 131, *132*

GDP of, *16*, 70, 136, *136*, 146, 358–59, 372

global governance and, 368–70

globalization and, 257–58

Great Firewall of, 141, 210, 261

human rights and, 365

import competition from, 68–69, 141–42

information control in, 141, 210, 211, 297, 353

old-age dependency ratio in, 129, *129*

and Russia’s war on Ukraine, 357, 363

security concerns and, 364–65

Soviet Union compared with, 358, 359, 370
state power in, 29
tariff rates of, *131*
Trump and, 174, 365
US relations with, 58, 65, 173, 174, 357–62
weaknesses of, and Western strengths, 360–62
world economy and, *135*, 365–67
in world population, 127, 128, *128*
in WTO, 63, 65, 365
Christians, 204, 326
Churchill, Winston, 227, 311, 313, 316, 323
Cinque Stelle, 183
cities, 159–61, 193
citizenship, 3, 5, 18, 38, 197, 227, 331
for immigrants, 261, 262, 328
jury service and, 338–39
necessity of, 322–25
restoring, 371–82
three aspects of, 380

Citizens United v. FEC, 205

civic nationalism, 373

civic virtue, 323–24

civil rights legislation, 112, 201, 202, 314

Civil War, 202–3

climate change, xviii, xx, 15, 121, 170–72, 221, 252–53, 260, 354, 367–68, 374

carbon dioxide emissions and, 171, *171*, 223–25, 252–56, *254*

carbon reduction incentives and, 256

energy transition and, 254–57, 265

Paris agreement on, 199, 253

Clinton, Bill, 130

Clinton, Hillary, 85

cluster analysis, 187

Coase, Ronald, 154

Cold War

with China, 357–62

with Soviet Union, xvi, 1, 4, 27, 76, 77, 177, 187, 313, 350, 353, 356, 3[illegible]

Collier, Paul, 266

commercial (merchant) elite, 192–95, 197

communication
technologies, 61, 64, 67, 69, 123, 124, 126, 138, 141, 148, 172, 2

communism, xvi, 33, 55, 110, 176, 187, 193

in China, 1–2, 25, 27, 132, 211, 366

"New Communist Man," 226

Communist Manifesto, The (Marx and Engels), 59, 61

community, 328

companies, *see* corporations

competition, 162–63, 168, 294–95

monopolies, 157, 159, 165, 294–95, 297

Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), 65

Confucius, Confucianism, 35, 83, 176, 330

Congress, 169, 200, 202, 243

Congressional Budget Office, 301

connections or crony capitalism, 28–30

conservatism, 37, 112, 115, 177, 193, 326–27, 376, 378

Conservative Party, 188, 189, 191, 374

Considerations on Representative Government (Mill), 5

Constitution, US, 312

constitutions, 259

cooperation, 14

copyrights, 158, 249

Corbyn, Jeremy, 115, 183

corner solutions, 259

corporations, 34, 50–52, 58, 66, 68, 153–58, 205, 251, 268

environmental or social damage by, 157

executive remuneration in, 90, 156, 251, 292–93

internalizing of gains and externalizing of costs by, 158

liability of, 290, 293–94

market power of, 157–58

misgovernance in, 291–94

mobility of core competences of, 219–20

monopolies by, 157, 159, 165, 294–95, 297

most valuable, 159, *160*

multinational, 137

political influence of, 169, 294, 338

rent generation by, 154

shareholder value and, 51, 58, 130, 153–57, 292

taxes and, 165–68, 201, 219, 246, 307, 308

technology, 159, 162, 163

transparency in, 291–92

corruption, 266, 298–300, 317, 377–79

COVID-19 pandemic, xx, 7–8, 45, 46, 49, 58, 65, 84, 100, 101, 104–5, 106, 115, 124, 144, 147, 149, 159, 170, 172–73, 178, 185–86, 213, 214, 217, 220, 221–24, 233–35, 237, 239–43, 258, 270, 274, 301, 330, 332, 360, 361, 368, 374

individualism and civic virtue during, 208–9, 324

vaccines and, 173, 208, 234, 258

Crashed (Tooze), 109–10

creative destruction, 20

credit boom, 145

creedal democracies, 328

crime, 232, 294, 343

crises

economic destabilization from, 99–105

see also COVID-19 pandemic; financial crises

crony capitalism, 28–30

Cuban missile crisis, xvi, 364

culture wars, 200, 204

cybersecurity, 365

Czech Republic, 229

D

Danatbank, 110

DARPA (Defense Advanced Research Projects Agency), 248

data, 64, 295–97

Davos man, 137

deaths of despair, 85–86

Deaton, Angus, 85–86

debt, 149, 169, 240, 246, 260, 301

    GDP and, 99–100, *100*, 149, *150*

    student loan, 274, 283–85

    tax deductibility of interest on, 167

demagogic capitalism, 4, 176–78

demagogy, xvii–xviii, 33, 37, 106, 176, 321, 332, 373, 376

    populists and, 182, 209, 218, 378

demand and supply, 264

democracy(ies)
alliances among, 351–52
as continuum, 42
creedal, 328
global trends in, 43–44, *44*, *45*
illiberal, xvii, 2, 5, 37, 176, 198, 352
populist movements in, 180
social, 218
socialist, 29
sovereignty and, 238, 258–59
strengths and weaknesses of, 220
democracy, liberal, xiii, xvi–xviii, xx, 1–4, 6, 7, 312
balances of markets to, 28–35, 41
collapse of, xviii
correlation of capitalism with, 76
equality of status in, 11
evolution of, 77
failed attempts at, 33
four elements of, 4–5
fragility of, 35–37, 48–49

globalization and, 74–77, 75, 77

history of, 41–49

market capitalism as complementary opposite to, 13, 28, 40–41, 371

market capitalism's marriage to, xix, 1–2, 4, 13, 23–35, 220, 371, 374–75; *see also* democratic capitalism

philosophical values underlying, 23–27

presidential office in, 175

recession of, 46–49, 217–18

rule of law and, 6–7

use of term, 4–5

in the world, 352–56

democracy, renewal of, 311–44, 380

accountability and, 335–41

citizenship in, 322–25

critiques and defenses of democracy, 313–21

government reform in, 330–35

identity politics and, 326–27

immigration and, 327–29

media and, 341–44

meritocracy and, 329–30

Democracy for Realists (Achen and Bartels), 314

democratic capitalism, 4, 7, 8, 176, 217–20

accountability in, 235–37

crisis of, xix, 4, 39, 373

defending, 350–52

evolution of, 40–78

fragility of, 28, 31–33, 39, 349

future of, 370

national identity and, 37–39

in the world, 349–70

Democratic Party, 52, 112, 183, 191, 201, 207, 314, 374

Democratic Republic of the Congo, 255

demographic change, 127–30

demos, 38

Deng Xiaoping, 22, 63, 130, 351, 361

Denmark, 42, 113, 229, 257, 299, 334

foreign-born as share of population in, *73*

Great Gatsby curve and, *94*

health spending in, *278*

income inequality in, *88*, *89*

ratio of social spending to GDP in, 277, *277*

deposit rates, 242

depressions, 241

Great Depression, 45, 54, 56, 63, 101, 110

derivatives, 149–50, *150*

despotic Leviathan, 32, 33

despotism, 36, 49, 177, 375

populism and, 177

signs of, 181

developing countries, 64, 127, 130–31, 133, 135, 376

assistance to, 354, 367–68

COVID-10 pandemic and, 173

productivity relative to US, 136, *136*

Diamond, Larry, 4, 42, 46, 49

dictatorships, xvii, 5, 37, 176, 180, 181, 185, 223, 352

populism and, 185

digital economy, 296–98

digital markets unit, 295

digital money, 246–47

digital public goods, 250

dignity, 228, 229, 231, 267, 268, 270, 372

discretion, 259–60

Disney Corporation, 158

disruption, 233

Doha Round, 65

drugs, 294, 297

opioids, 86, 294

Durkheim, Émile, 86

Duterte, Rodrigo, 176

E

economy, economics, 13, 14, 83–117

cooperation in, 14

crises and, 99–105

deep integration and, 238, 258–59

demographic change and, 127–30

global markets' transformation of, 133–36

immigration and, 106–16

less-educated and, 85–99
macroeconomic instability, 143–48
and politics, in history, 13–39
socialist planned, 21–22
state control over, 29–30
status anxiety and, 3, 84–87, 115–16
supply-side, 200, 201
education, 26, 125, 126, 172, 224, 229, 240, 265, 272, 279, 303, 372
college, 121, 142, 191, 194, 272
less-educated population, 85–99
political parties and, 191–92, 194
student loans and, 274, 283–85
Edwards, Sebastian, 245
Eisenhower, Dwight D., 206
elections, 4, 32, 33, 38, 43, 186, 312, 318–19, 343, 373
see also presidential elections; voting
elephant curve, 133–34, *134*
elites, xix, 7, 83, 119, 214, 271, 272, 325, 373–78, 380
Brahmin, 192–95, 197, 206, 207, 377–78
merchant, 192–95, 197

populist hostility to, 179–86, 193

self-interest of, 26–27

emergency powers, 181

emerging countries, *see* developing countries

empires, 18

employment, 3, 52, 86, 87, 121, 220, 229–31, 241, 264–71, 375

aging populations and, 129–30

agricultural, 139, 264–65

artificial intelligence and, 172, 270–71

creation of, 126

dignity in, 231, 267, 268, 270

equality of opportunity and, 228–32, 271–74

flexibility in, 268, 270

in Fordist economy, 121

global trade and, 141

import competition and, 68–69, 141–42, 288–89

industrial, 3, 93–95, *95*, 97, 121–22, 139, 160–61, 192, 193, 264, 266

intrinsic and extrinsic value of, 264

men's participation in labor force, 95–97, *96*

precarious, 97, 126, 276

productivity and, 269–70

quality of, 231, 259, 265, 267, 268

quotas in, 273

retirement and pensions, 129, 285–88

security in, 267

skills in, 142, 264, 265

undocumented immigrants and, 203

unemployment, 102–3, *103*, 112, 120, 142, 172, 267–69

unions and, 52, 53, 68, 87, 94, 97, 121, 126, 192, 207, 270

universal guarantee of, 268–69

wages in, 262–64, 267–70

women and, 96, 97, 121

empowerment, 25–26

“End of History, The” (Fukuyama), 1

energy capture, 14–15, *15*

energy transition, 254–57, 265

Energy Transitions Commission, 254

Engels, Friedrich, 59, 61

England, 20

see also United Kingdom

Enlightenment, xiii, xviii

Ennius, 323

entrepreneurs, 248

environment, 57, 138, 157, 170, 184, 231, 252, 259, 260

pollution and, 157, 158, 265, 306

see also climate change

environmental, social, and governance (ESG) standards, 291–92

epistocracy, 315–16, 320

equality of opportunity, 228–32, 271–74, 375

equality of status, 11, 23–24, 40, 230

Erdogan, Recep Tayyip, 5, 176, 181, 317, 326

Erhard, Ludwig, 57

European Council on Foreign Relations, 111

European Economic Community, 63, 120, 335

European Union (EU), 2, 84, 111–12, 130, 163, 198, 208, 258, 260, 351, 355, 369

Brexit

and, xviii, 66, 72, 84, 85, 107, 109, 112, 113, 121, 161, 164,

179–
80, 190, 193, 195, 199, 200, 208, 240, 259, 335, 336, 339

carbon emissions of, *171*, *254*

exports of, *132*

migration within, 72

regulation in, 164

US compared with, 163–64

in world GDP, *135*

eurozone, 146, 163, 164, 198–99, 241, 243, 252

executive remuneration, 90, 156, 251, 292–93

exit, 31, 155

exports, foreign value added in, 67, *67*

extinction, 15

F

Facebook, 211, 250, 296, 297, 305, *341*, 344

family, 17, 95, 224, 232, 277

Farage, Nigel, 2, 179–80, 190

fascism, 176, 180, 210, 214

in Italy, 115

fear, 214, 378

Federal Trade Commission, 295

fertility rates, 125, 128, 129

finance, 69–71, 148–53, 169–70, 351

earnings of professionals in, 152

financialization and, 148–49

liberalization of, 137–38, 148

share of financial sector in US corporate profits, 151, *151*

financial crises, 170, 248

Asian, xvi, 57, 71, 138, 143, 145

depressions, 241

Great Depression, 45, 54, 56, 63, 101, 110

Great Recession, xvi, xvii, 45, 103

politics and, 108–12

financial crisis of 2007–09, xvi, 8, 45, 57–58, 64, 69–71, 75, 84, 89, 106, 114–16, 132–33, 138, 143–45, 149, 152, 178, 195, 199, 207–8, 217, 221, 222, 233, 234, 239, 240, 251, 252, 292, 293, 319, 33

economic destabilization from, 99–105

Great Recession, xvi, xvii, 45, 103

immigration and, 109

political polarization and, 108–9

structural tightening and, 103, *104*

financial repression, 245

Financial Stability Board, 256

Finer, S. E., 18, 19, 177

Finland, 42, 229, 257, 334

foreign-born as share of population in, *73*

Great Gatsby curve and, *94*

income inequality in, *88*, *89*

First World War, xiv, 26, 27, 44, 45, 54–56, 61–63, 75–77, 101, 110, 221, 313, 350, 363–65

fiscal policy, 240–46

modern monetary theory and, 243–44

Fitoussi, Jean-Paul, 229

“five giants,” 227, 274

Fixing Global Finance (Wolf), xvii

Foa, Roberto, 47

foreign direct investment (FDI), 260

forum government, 18–20, 177

fossil fuels, 61, 255

Fox News, 205, 342

France, 42, 56, 229, 299, 369

education funding in, 283

financial crisis and fiscal balances of, *104*

flat or falling incomes in, *102*

foreign-born as share of population in, *73*

foreign value added share of gross exports in, *67*

GDP of, 100, *101*, 330, *331*

government spending in, 330, *331*

Great Gatsby curve and, 93, *94*

health spending in, *278*

income inequality in, *88*, *89*

labor force participation of men in, *96*

labor force participation of women in, *97*

old-age dependency ratio in, *129*

political loyalties in, 191

productivity growth in, *98*

public investment in fixed capital in, *252*

ratio of social spending to GDP in, 277, *277*

ratio of tax to GDP in, *303*

share of government spending in GDP, *53*, *54*

share of industry in civilian employment in, *95*

share of top 1 percent in income in, *157*

share of top 10 percent income recipients in, 89, *90*

share of top 10 percent in net personal wealth in, 91, *92*

unemployment in, *103*

freedom, 6–7, 23, 31, 314, 372

Freedom House, 46

free markets, xix, 1, 2, 11, 58, 77, 119, 184, 188, 195

French Revolution, xix

Friedman, Benjamin, 25

Friedman, Milton, 51, 153, 294

Fukuyama, Francis, 1, 4, 191, 192

Furman Review, 295

G

Gates, Bill, 225, 309

GDP, 91, 100–101, 196, 228, 243, 301

of China, *16*, 70, 136, *136*, 146, 358–59, 372

debt and, 99–100, *100*, 149, *150*

of emerging economies relative to US, 136, *136*

of EU, 163

financial crises and, 100–101, *101*

of France, 100, *101*, 330, *331*

government spending and, 330, *331*

investment in fixed capital in, 251, *252*

of Japan, *16*, 100, *101*

mismeasurement of, 125

ratio of social spending to, 277, *277*

share of government spending in, *53*, 54, *54*

taxes and, 302, *303*

of UK, *53*, *54*, 70, 100–101, *101*, 163

universal basic income and, 280, 281

of US, *16*, 50, *53*, 54, *54*, 71, 100, *101*, 163, 330, *331*

world, 64, 71, 128, 134, *135*

gender inclusivity, 200, 206

General Agreement on Tariffs and Trade, 63, 120, 335

General Data Protection Regulation, 297

George, Henry, 161, 306

Gerald Loeb Lifetime Achievement Award, xiii

Germany, 27, 42, 56–57, 70, 94, 144, 146, 179, 229, 248, 257, 324, 334, 355, 369

anti-Semitism in, 110

central bank interest rates in, *146*

education funding in, 283

employment in, 269–70

financial crisis and fiscal balances of, *104*

foreign-born as share of population in, *73*

foreign value added share of gross exports in, *67*

GDP of, 100, *101*

government spending in, *331*

Great Gatsby curve and, 93, *94*

health spending in, *278*

income inequality in, *88*, *89*

labor force participation of men in, *96*

labor force participation of women in, *97*

Nazi, xiii–xv, xviii, 45, 56, 63, 110–11, 181, 203, 210, 318, 319, 374

old-age dependency ratio in, *129*

productivity growth in, *98*

public investment in fixed capital in, 251, *252*

ratio of social spending to GDP in, *277*

ratio of tax to GDP in, *303*

share of government spending in GDP, *53*, *54*

share of industry in civilian employment in, *95*

share of top 1 percent in income in, *157*

share of top 10 percent income recipients in, 89, *90*

unemployment in, 102, *103*

Weimar Republic, 110

gerrymandering, 42, 200, 204, 336

Gessen, Masha, 175, 178

global capitalism, 1–3, 6, 8, 34, 41, 49–50, 58–74, 77

history of, 59–64

see also capitalism

global governance, 368–70

globalization, xvii, 6, 138–41, 143, 223, 257–63, 353

cycles of, 58–74

democracy and, 74–77, *75*, 77

global supply chains, 137, 258

global value chains, 65–66

Goebbels, Joseph, 210

gold, 243

gold standard, 56, 62, 63, 69

goods and services, 14, 125, 245

Google, 211, 250

Gorbachev, Mikhail, 22

Gordon, Robert, 126

governance, global trends in, 43–44, *44*, *45*

government reform, 330–35

Great Depression, 45, 54, 56, 63, 101, 110

Great Gatsby Curve, 93, *94*

Great Recession, xvi, xvii, 45, 103

Great Reform Act of 1832, 25, 312

Great Reversal, The (Philippon), 162–63

Great Transformation, The (Polanyi), xix

Greece, 183, 355

financial crisis and fiscal balances of, 103, *104*

Greece, ancient, xix, 19, 35–37, 41, 209, 312, 316, 339

Greensill Capital, 325

Gruen, Nicholas, 250, 339

Guardian, 211

guardians (philosopher rulers), 316, 378

guns, 87, 200

Guriev, Sergei, xvii

Gurri, Martin, 212

H

Hamilton, Alexander, 248

happiness, 228, 229, 299, 376

Hargreaves, Deborah, 90

hate-crime laws, 343

Hayek, Friedrich, xix, 234

health, 229, 265

health care, 86, 163, 207, 275, 277–79, 281, 324–25

    Affordable Care Act, 184–85, 276

helicopter money, 242

Helmsley, Leona, 305

Hemingway, Ernest, 106

Henry III, 20

Hickel, Jason, 222–23

high-income
countries, 3, 28, 49, 55, 64, 68, 72, 86, 87, 95, 99, 106, 119, 133 352–53, 372

assistance to developing countries from, 354, 367–68

corruption in, 299

government spending in, 330, *331*

health care in, 277–78

intergenerational economic mobility in, 93

jobs in, 264–65, 267

populism in, 178–86

role in democratic capitalism, 219

security and, 274

welfare states of, 277

Hispanics, 86, 203, 204

history, 265

of global capitalism, 59–64

of liberal democracy, 41–49

of market capitalism, 49–74

politics and economics in, 13–39

Hitler, Adolf, xiii, xiv, xviii, 110, 181, 209, 210, 218

Hobbes, Thomas, 32, 209

Holmes, Oliver Wendell, 238, 300

Holmes, Stephen, 177

Holocaust, xv–xvi

Homer, 316

Hong Kong, 22, 76, 132, 299, 312, 357, 372

hope, 214

house of representatives, house of merit, and house of the people, 338–41

housing, 276

Hu Jintao, 362

human agency, 372

Human Development Index, 303

human rights, 365

Hume, David, 319

Hungary, 2, 5, 30, 110, 176, 181, 317, 326, 377

hunter-gatherer societies, 14, 17, 19

Huntington, Samuel, 137

Huxley, Aldous, 228

I

Iceland, 229, 293

ideas, flow of, 140–41, 261, 353

identity and identity politics, xix, 191, 192, 195, 196, 200, 314, 326–27

populism and, 179

racial, 200, 203, 314

ideology, 23–24

imagination, 17

imagined community, 328

immigration, 3, 5, 71–74, 83, 85, 87, 128, 134–40, 184, 190, 195, 208, 262–64, 325

aging and, 129–30, 262

citizenship and, 261, 262, 328

control of, 197, 203, 261–63, 279–80, 327–29

economics and, 106–16

financial crisis and, 109

foreign-born as share of population, 72–73, *73*

Hispanic, 203, 204
illegal, 203–4, 325
Muslim, 107, 108
populism and, 196–99
productivity and, 262
of refugees, 139
Trump and, 109, 184, 204, 208
undemocratic liberalism and, 197–99
import competition, 68–69, 141–42, 288–89
income, 86, 274
elephant curve and, 133–34, *134*
flat or falling, 102, *102*
household, in US, 92, *93*
inequality in, *see* inequality
intergenerational changes in, 92–93
security in, 268
stabilizing, 276–77
stagnation in, 92
top 1 percent in, 156–57, *157*
wages, 262–64, 267–70

index funds, 52

India, xvii, 4, 22, 45, 63, 121, 130, 176, 181, 327, 356, 369

carbon emissions of, *171*, *254*

exports of, *132*

GDP of, 136, *136*

globalization and, 257–58

old-age dependency ratio in, *129*

Permit Raj in, 22

tariff rates of, *131*

in world GDP, *135*

in world population, 127, 128, *128*

individualism, toxic, 208–9

Indonesia, *131*, 136, *136*

industrial economies, 14–15

industrialization, reversing, 224

industrialized warfare, 26

industrial jobs, 3, 93–95, *95*, 97, 121–22, 139, 160–61, 192, 193, 264, 266

industrial revolution, 21, 41, 44, 61, 95

second, 123, 126

industrial towns, 160–61

industrious revolution, 21

inequality, 16, 19, 23, 48, 87–93, 106, 142–43, 147, 231, 271–72, 300

deindustrialization and, 95

elephant curve and, 133–34, *134*

executive pay and, 90

global trade and, 141

of household disposable incomes, 88, *88*

and shares of top 10 percent income recipients, 89, *90*

social mobility and, 92–93, 271, 273

taxes and transfers and, 88–89, *89*

inflation, 57, 99, 120, 239, 242–46

influence, 27

influenza pandemic, 115

information

markets and, 225

restrictions on, 141, 210, 211

Inglehart, Ronald, 107

innovation, 123–27, 162, 247–52, 259, 264, 265

insurance, 35, 53, 230, 274–76

intellectual (Brahmin) elite, 206, 207, 324, 377–78

merchant elite versus, 192–95, 197

intellectual property, 34, 66, 141, 158, 162, 166, 249, 260

interest rates, 143, *144*, 145, *146*, 240, 243, 251, 257, 260–61

International Monetary Fund (IMF), 56, 63, 64, 138, 166, 253, 254, 334, 350, 369

internet, 124, 250, 261, 332, 342, 365

investment, 247–52, 257, 264

foreign direct, 260

Iran, 350, 356

Iraq, xvii, 355, 360

Ireland, 42, 257, 293, 334, 336

foreign-born as share of population in, *73*

income inequality in, *88*, *89*

Northern, 326

isonomia, 290

Israel, 229, 257

Italy, 42, 111, 183, 199, 265, 266, 299, 303

education funding in, 283

fascism in, 115

financial crisis and fiscal balances of, *104*

flat or falling incomes in, 102, *102*

foreign-born as share of population in, *73*

foreign value added share of gross exports in, *67*

GDP of, 100–101, *101*

government spending in, *331*

Great Gatsby curve and, 93, *94*

health spending in, *278*

income inequality in, *88*, *89*

labor force participation of men in, *96*

labor force participation of women in, *97*

old-age dependency ratio in, *129*

productivity growth in, *98*, 99

public investment in fixed capital in, 251–52, *252*

ratio of social spending to GDP in, *277*

ratio of tax to GDP in, *303*

share of government spending in GDP, *53*, *54*

share of industry in civilian employment in, *95*

share of top 1 percent in income in, *157*

share of top 10 percent income recipients in, *90*

unemployment in, 102–3, *103*

Iversen, Torben, 219

J

Jacobs, Jane, 333

January 6 Capitol attack, 335–36, 374–75

Japan, 27, 42, 65, 67, 144, 265, 355, 358, 369

carbon emissions of, *254*

central bank interest rates in, 146, *146*

exports of, *132*

financial crisis and fiscal balances of, *104*

foreign value added share of gross exports in, *67*

GDP of, *16*, 100, *101*

government spending in, *331*

Great Gatsby curve and, 93, *94*

health spending in, *278*

income inequality in, *88*

labor force participation of men in, *96*

labor force participation of women in, *97*

old-age dependency ratio in, 129, *129*

in postwar era, 119, 120

productivity growth in, *98*

public investment in fixed capital in, *252*

ratio of social spending to GDP in, *277*

ratio of tax to GDP in, *303*

share of government spending in GDP, *53*, *54*

share of industry in civilian employment in, *95*

share of top 1 percent in income in, *157*

share of top 10 percent income recipients in, 89, *90*

tariff rates of, *131*

unemployment in, 102, *103*

in world GDP, *135*

Jiang Zemin, 361

Jim Crow, 181, 202

jobs, *see* employment

John Birch Society, 205

Johnson, Boris, xvii, 107, 112, 137, 190, 192, 208, 332, 336, 374

Johnson, Lyndon Baines, 202

Jospin, Lionel, 221

JP Morgan, 159

juries, 338–39

K

Kaczynski, Jaroslaw, 2, 176, 184, 326

Kaufmann, Eric, 107

Kay, John, 85, 232, 280

Kennan, George, 357

Keynes, John Maynard, 55–57, 120, 221, 241

Khan, Lina M., 295

King, Mervyn, 85, 232

kleptocracy, 177

knowledge economy, 161

Korea, *67*, *88*

North, 141, 257, 299, 350, 356

ratio of tax to GDP in, *303*

South, 27, 65, 67, 252, *252*, *254*, 257, 265, *277*, *278*, 299, 303, 3

Krastev, Ivan, 177

Krueger, Alan, 92–93

L

Labour Party, 52, 112, 115, 183, 188, 190–92, 207, 210, 323, 324

laissez-faire ideology, 55–57, 184, 218, 375, 376

Lakner, Christoph, 133

Latin America, 32, 64, 174, 244, 245, 376

Lega, 111, 183

lending, 242, 244

Le Pen, Jean-Marie, 184

Le Pen, Marine, 2, 85

Less Is More (Hickel), 222

leverage, 169

Leviathan, 32, 33

liberal democracy, *see* democracy, liberal

liberalism, 218

    undemocratic, 197–99

liberalization

    of finance, 137–38, 148

of trade, 61–66, 120, 131, 257, 288

libertarianism, 35

liberty, xiii, 5

license and, 209

negative and positive, 5

Libya, 43, 355

license, 209

life expectancy, 85–86, 123–25, 129, 223–24, 303, 372

health spending and, *278*

Limbaugh, Rush, 205

Lincoln, Abraham, xx, 202, 314, 371, 377

List, Friedrich, 248

living standards, *see* standard of living

lobbying, 164, 168, 169, 205, 325, 338

localism, 266–67, 334

Long, Huey, 212

Longer Telegram, The (anon.), 357, 358

loyal opposition, 323

M

Macbeth (Shakespeare), 177

macroeconomic instability, 143–48

macroeconomic stability, 240–48

Macron, Emmanuel, 194, 210

Maduro, Nicolas, 29, 185

male privilege, 206

Mao Zedong, 321, 361

markets

    imperfections in, 6

    justifications for, 225

    see also capitalism

marriage, 199, 206

Marshall Plan, 63, 120

Marx, Karl, 55, 59, 61

McCarthy, Joseph, 205

McKinsey Global Institute, 102

McLuhan, Marshall, 212

media, 29, 180, 181, 186, 204–5, 209–13, 297–98, 341–44, 352

advertising and, 210–11, 342, 343

anonymous commenting in, 343–44

news, 342, 343

private businesses and, 344

social, 210–12, 297, 298, 332, 341, *341*, 343

Trump and, 205, 211

Medical Research Council, 248

Medicare and Medicaid, 280

Mencken, H. L., 154, 175, 311

mental health, 228

mercantilist era, 60, 61

merchant elite, 192–95, 197

meritocracy, 178, 232, 329–31, 377

metics, 327

metropolitan clusters, 159–60

Mexico, 67, 136, *136*, 204

middle class, 25, 53, 84, 88, 90, 91, 112, 118, 134, 137, 186, 189, 205–6, 379

migration

of African Americans, 203

see also immigration

Milanovic, Branko, 133, 217

Mill, John Stuart, 5, 155, 311

millennials, 48

Millennium Challenge Corporation, 354

minorities

affirmative action and, 193

Hispanics, 86, 203, 204

see also African Americans; immigration; racism

Mitterrand, François, 130

modern monetary theory (MMT), 243–44

Modi, Narendra, xii, 176, 181, 185, 327, 332, 356

monetary policy, 99, 146, 241–45

modern monetary theory and, 243–44

monopolies, 157, 159, 165, 294–95, 297

Montfort, Simon de, 20

moral values, 169

Morris, Ian, 14

mortality, 85–86

child, 123, 129, 224

Mosley, Oswald, 179

Mounk, Yascha, 47, 198, 199, 211

Moynihan, Daniel Patrick, 341

Mulvaney, Mick, 169

Murdoch, Rupert, 204–5, 342

Musk, Elon, 225

Muslims, 107, 108

Mussolini, Benito, 209, 210

N

Napoleon, 349

Narrow Corridor, The (Acemoglu and Robinson), 31–32

National Health Service, 324–25

national identity, 37–39

National Institutes of Health, 248

nationalism, 2, 26, 56, 84, 106, 107, 174, 177, 184, 200, 258, 322, 374

civic, 373

populism and, 184

nationalist socialism, 376

national security, 364–65
crises in, 181
nation-states, 17
NATO, xviii, 350, 355, 356
Nazi Germany, xiii–xv, xviii, 45, 56, 63, 110–11, 181, 203, 210, 318, 319, 374
neopatrimonialism, 32, 39
Netherlands, 42, 54, 229, 285, 334
flat or falling incomes in, *102*
foreign-born as share of population in, *73*
foreign value added share of gross exports in, *67*
health spending in, *278*
income inequality in, *88*, *89*
ratio of social spending to GDP in, 277, *277*
ratio of tax to GDP in, *303*
share of government spending in GDP, *53*, *54*
share of top 1 percent in income in, 156, *157*
share of top 10 percent income recipients in, 89, *90*
net worth, 241, 274
New Approaches to Economic Challenges, 233

New Deal, 56, 182

New Development Bank, 369

“new” New Deal, 229–32, 238–310

corporate misgovernance and, 291–94

corruption and, 298–300

digital economy and, 296–98

equality of opportunity in, 228–32, 271–74

globalization and, 257–63

import competition and, 288–89

innovation and investment in, 247–52

jobs in, 264–71

macroeconomic stability in, 240–48

monopoly and, 294–95

old-age insurance in, 285–88

security in, 229–31, 274–89

special privileges and, 289–309

standard of living in, 229–31, 239–63, 267

student loans and, 283–85

sustainability in, 252–57

taxation and, 300–309

universal basic income and, 278–83
welfare state and, 275–78, 289
New Zealand, 42, 43, 229, 299, 334
foreign-born as share of population in, *73*
Great Gatsby curve and, *94*
income inequality in, *88*
nobility, 18, 19
Norris, Pippa, 107, 113
North Korea, 141, 257, 299, 350, 356
Norway, 42, 229, 257, 307, 334
foreign-born as share of population in, *73*
Great Gatsby curve and, *94*
income inequality in, *88*, *89*
share of government spending in GDP, *53*, *54*
nuclear war, xviii, 364

O

Obama, Barack, 87, 112, 280
Affordable Care Act of, 184–85, 276

Obstfeld, Maurice, 138

Office for Budget Responsibility, 236, 301

opioids, 86, 294

opportunity, 228–32, 271–74, 375

Orban, Viktor, 2, 5, 30, 109, 176, 181, 185, 317, 326

Organization for Economic Co-operation and Development (OECD), 63, 88, 91, 120, 122, 125, 160, 166, 350

New Approaches to Economic Challenges initiative of, 233

Organization for European Co-operation, 63, 120

Orwell, George, 322, 360

over-the-counter derivatives, 149–50, *150*

P

Pacioli, Luca, 51

palace government, 18, 19, 177

paper Leviathan, 32

Paris climate agreement, 199, 253

parliaments, 20, 24, 186, 337, 339

Partito Democratico, 183

patents, 158, 249

path-dependency, 265

patrimonialism, 32, 39, 299

patriotism, 322–26, 331, 373, 378

pensions, 129, 285–88

Pericles, 41

pessimism, xv–xvi

philanthropy, 305, 308–9, 343

Philippines, 176

Philippon, Thomas, 162–63

Phillips Curve, 120

philosopher rulers (guardians), 316, 378

Pichai, Sundar, 296

piecemeal social engineering, 222, 226–29, 309–10, 376

Piketty, Thomas, 191, 194–95

Plato, 35–37, 209, 313, 316, 321, 373, 378

plebiscitary dictatorships, 5, 37

pluralism, 225

    populist rejection of, 179–81, 185, 186, 209

plutocracy, 8, 29–31, 33, 35–37, 169, 206, 207, 219, 220, 290, 300, 305, 307, 314, 325, 375

pluto-populism, 36, 200–208, 376, 378
Podemos, 183
point source commodities, 32
Poland, 2, 176, 184, 326, 377
income inequality in, *89*
Polanyi, Karl, xix
political parties, 20, 52, 53, 91, 180, 186–96, 209–10, 337
British loyalties to, 187–91, *188*, *189*
education and, 191–92, 194
far-right, 108–9
funding of, 337–38
financial crisis and, 108–9
left-of-center, 121
politics, 13
conventions and norms in, 178
corporations and, 169, 294, 338
and economics, in history, 13–39
financial crises and, 108–12
money in, 169, 201, 205, 337–38
Polity IV database, 43–44

pollution, 157, 158, 265, 306

Popper, Karl, 222, 227, 316, 376

population, world, 15, *16*, 127–28, *128*, 223–24

poverty and, 223, *224*

populations, 196–97

aging of, 127–30, *129*, 246, 262

populism, xix, 2, 3, 7, 8, 83, 84, 107, 112–14, 119, 174, 175–214, 266, 376

anti-elitism in, 179–86, 193

authoritarian, 208–9

centrist, 182–83, 185

definition and use of term, 179

demagogic politics and, 182, 209, 218, 378

despotism and, 177

dictatorship and, 185

effective government and, 182, 185–86

as form of identity politics, 179

in high-income democracies, 178–86

immigration and, 196–99

inevitability of, 180

left-wing, 182–85, 214
media and, 209–13
nationalist, 184
pluralism rejected in, 179–81, 185, 186, 209
pluto-populism, 36, 200–208, 376, 378
political parties and, 209–10
power and, 185
right-wing, 182–85, 214, 221–22
vices of, 177
in western Europe, 108, *108*
Portugal, 42, 355
financial crisis and fiscal balances of, *104*
foreign-born as share of population in, *73*
income inequality in, *88*
poverty, 223, *224*, 271–73, 277, 278
Powell, Enoch, 109
power, 177–78, 375
authoritarians and, 181
motivations of those with, 30

nationalism and, 322
populism and, 185
in socialist state, 30
wealth and, 23–25, 28–30, 91, 290, 298–99
precariat, 97, 126
presidential elections
of 2000, 318
of 2008, 87
of 2016, 47, 84, 85, 111, 112, 178, 180, 194, 200, 240, 360
of 2020, 2–3, 46, 178, 290, 300, 318, 335–36, 360, 373, 374
Prestowitz, Clyde, 357
primates, 15
private equity, 155, 246
privilege, 206, 289
see also special privileges
productivity, 97–99, 122–27, 139, 152, 239
decadal average growth rate of output per hour, *98*
employment and, 269–70
immigration and, 262
in US, *98*, 124, *124*

“progressives,” 121, 187, 223

prosperity, 228, 229, 231–32, 252, 257, 350–51, 372, 373

protectionism, 2, 8, 62, 63, 65, 69, 83

purchasing power parity (PPP), 134–36, *136*, 358–59, 372

Putin, Vladimir, xviii, xxi, 2, 5, 30, 32, 176, 177, 299, 317, 352, 357

R

racial identity, 200, 203, 314

racism, 3, 21, 85, 112, 184, 197, 203–5, 314, 325, 327, 376

    economic insecurity and, 112–13

Radical Uncertainty (Kay and King), 85, 232

Rajan, Raghuram, 256, 266

rare swans, 233

Reagan, Ronald, 57, 105, 116, 130, 201

reference narratives, 85

referendums, 340

Reflections on the Revolution in France (Burke), 225–26

Reform Act of 1867, 26

refugees, 139

Regional Comprehensive Economic Partnership (RCEP), 65

regulation, 34, 57, 58, 164, 169, 258–60, 292, 297, 334, 352

religion, 3, 18, 19, 87, 204, 261, 273, 326

rentier capitalism, 118–74

agglomeration rents and, 161

competition decline and, 162–63

corporations and, 153–58

demographic change and world economy and, 127–30

globalization and, 138–41, 143

and global markets' transformation of world economy, 133–36

and global move to the market, 130–33

immigration and, 134–40

innovation and productivity and, 123–27

macroeconomic instability and, 143–48

moral values and, 169

rigged capitalism and, 148–70, 378

tax avoidance and, 165–68

technology and, 137–42

winner-take-all markets and, 158–59, 162

Republic (Plato), 35, 316, 378

Republican Party, 2–3, 36, 46, 109, 111, 112, 175, 178, 184, 194, 195, 201–7, 212, 314, 326, 360, 373–74

resilience, 235

revolution, xix, 222–26

Road to Serfdom, The (Hayek), xix

Robinson, James, 31–32

robustness, 234–35

Rodríguez-Pose, Andrés, 266

Rodrik, Dani, 238, 258, 259

Roman Republic, Roman Empire, 18–20, 36, 41, 84, 209, 312, 377

Romney, Mitt, 111

Roosevelt, Franklin Delano, xiv, 182, 227, 229–30, 232, 239, 300, 375

Rosenberg, Shawn, 213–14

rule by consent, 323

rule of law, 6–7, 20, 161, 186, 225, 259, 317

Russia, xiv, xvi, xviii, 5, 27, 30, 32, 33, 55, 136, *136*, 176, 177, 299,

  Revolution in, 226

  Ukraine invaded by, 7–8, 58, 105, 106, 222, 233, 234, 350, 356, 357, 363

S

Sackler family, 294

Saez, Emmanuel, 304

Sallust, 371

Salvini, Matteo, 2, 111, 183, 184

Sandbu, Martin, 114, 281, 282

Sandel, Michael, 232

Saudi Arabian Oil, 159

Scheidel, Walter, 18–19

Schumpeter, Joseph, 20, 195, 247, 314–15

science, 265

scientism, 234

Second World War, xiv, 27, 45, 54–56, 63, 68, 69, 75–77, 101, 119–20, 148, 203, 221, 222, 229, 313, 350, 351, 353, 379

secular stagnation, 120, 143, 240, 241, 354

security, xix, 228–31, 274–89, 375

  import competition and, 288–89

  income, 268, 278–83

  job, 267–68

  in old age, 285–88

student loan debt and, 283–85

welfare state and, 57, 122, 184, 227, 275–78, 289, 324

security, national, 364–65

crises in, 181

Sen, Amartya, 55, 229, 320

September 11 attacks, xvii

Serageldin, Kareem, 293

Serbia, 364–65

Shafik, Minouche, 332

share buybacks, 90, 251

shareholder value, 51, 58, 130, 153–57, 292

Sherbrooke, Robert Lowe, Lord, 26

Shifts and the Shocks, The (Wolf), xvi, xvii, 7, 143

Shoah, xv–xvi

Siedentop, Larry, 23

Singapore, 22, 76, 132, 166, 299, 333, 334, 372

slavery, 18, 21, 23, 25, 61, 202–4, 327

Smith, Adam, 51, 55, 60, 119, 155, 165

Smithers, Andrew, 156

Smoot-Hawley Tariff Act, 63

social capital, 7, 161

social democracy, 218

social engineering, piecemeal, 222, 226–29, 310–11, 376

socialism, 21–22, 29, 30, 56, 110, 130, 183, 195

nationalist, 376

power and, 30

war, 55

social market economy, 218

social media, 210–12, 297, 298, 332, 341, *341*, 343

social mobility, 92–93, 271, 273

downward, 85–86

social organization, 17

Social Security, 276, 280, 304

Soros, George, 243

sortition, 24, 339

Soskice, David, 219

South, American, 42, 181, 184, 200–204, 314, 320

southern strategy, 200–203, 314

South

Korea, 27, 65, 67, 252, *252*, *254*, 257, 265, *277*, *278*, 299, 303, 3

sovereign money, 243

sovereignty, 195, 238, 258–60, 335

Soviet

Union, 2, 22, 27, 29, 33, 45, 55, 57, 121, 130, 132, 141, 226, 350

China compared with, 358, 359, 370

Cold War

with, xvi, 1, 4, 27, 76, 77, 177, 187, 313, 350, 353, 356, 357

Spain, 42, 71, 183, 267, 293, 299, 303, 355

financial crisis and fiscal balances of, *104*

foreign-born as share of population in, *73*

foreign value added share of gross exports in, *67*

GDP of, 100, 101, *101*

government spending as share of GDP in, *331*

health spending in, *278*

income inequality in, *88*, *89*

labor force participation of men in, *96*

labor force participation of women in, *97*

old-age dependency ratio in, *129*

productivity growth in, *98*

public investment in fixed capital in, 251–52, *252*

ratio of social spending to GDP in, *277*

ratio of tax to GDP in, *303*

share of industry in civilian employment in, *95*

share of top 1 percent in income in, *157*

share of top 10 percent income recipients in, 89, *90*

unemployment in, 103, *103*

Spanish flu, 115

special privileges, 230, 231, 289–309, 375

corporate misgovernance, 291–94

corruption, 266, 298–300

digital economy and, 296–98

monopolies, 157, 159, 165, 294–95, 297

taxation and, 300–309

Sperling, Gene, 280

stagflation, 120

Stalin, Joseph, 55

standard of living, 15, 25, 86, 98, 229–31, 239–63, 267, 279, 375

globalization and, 257–63

innovation and investment and, 247–52

macroeconomic stability and, 240–48

sustainability and, 252–57

Standing, Guy, 97, 126

status

anxiety about, 3, 84–87, 116

ascribed, 23–24, 271

equality of, 11, 23–24, 40, 230

Stevens, Stuart, 206–7

Stiglitz, Joseph, 229

stock markets, 153, 156

Strache, Heinz-Christian, 2

subsidiarity, 334

Summers, Lawrence, 143, 240, 243

supply and demand, 264

supply-side economics, 200, 201

Supreme Court, 202, 204, 318

Citizens United decision of, 205

sustainability, 252–57

Sweden, 42, 54, 113–14, 229, 257, 334

flat or falling incomes in, *102*

foreign-born as share of population in, *73*

foreign value added share of gross exports in, *67*

Great Gatsby curve and, *94*

health spending in, *278*

income inequality in, *88*

ratio of social spending to GDP in, *277*

ratio of tax to GDP in, *303*

share of government spending in GDP, *53*, *54*

share of top 1 percent in income in, *157*

share of top 10 percent income recipients in, *90*

Switzerland, 42, 229, 266, 307, 327, 334, 340

foreign-born as share of population in, *73*

Great Gatsby curve and, 93, *94*

health spending in, *278*

income inequality in, *88*

ratio of social spending to GDP in, 277, *277*

share of top 1 percent in income in, *157*

Syriza, 183

T

Taiwan, 27, 67, 229, 257, 303, *303*, 334, 355, 358

talent, 271, 272

tariffs, 63, 64, 130, *131*, 143

Task Force on Climate-Related Financial Disclosures, 256

taxes, 35, 53, 56, 57, 201, 207, 231, 242, 245, 246, 251, 268, 274, 29(
300–309, 351, 376

avoidance of, 165–68, 231, 304, 305, 308

benefits and, 275

on capital, 306–8

carbon, 255, 256, 306, 308

carried interest and, 167–68

corporations and, 165–68, 201, 219, 246, 307, 308

debt interest and, 167

education and, 283–85

GDP and, 302, *303*

income, 275, 304

land, 161, 306

philanthropy and, 305, 308–9

rent, 306

Trump and, 184, 200, 201

universal basic income and, 280–82

Tcherneva, Pavlina, 268

technology, 61, 123–25, 133, 137–42, 164, 210, 224–25, 240, 264, 265, 375

artificial intelligence, 124, 127, 170–72, 270–71, 296, 298

communication, 61, 64, 67, 69, 123, 124, 126, 138, 141, 148, 172,

companies, 159, 162, 163

innovation, 123–27, 162, 247–52

market's marriage to, 21

national security and, 364–65

transportation, 61, 64, 138, 141

Tesla, 159, *160*

Thatcher, Margaret, 57, 130, 164

Thompson, Hunter S., 377

Thucydides, 40, 41, 363

Tobin, James, 280

Tocqueville, Alexis de, 339

Tooze, Adam, 109–10

Tories, 113, 336

totalitarianism, xvi, 1, 316, 361

towns, 160–61

Toyota, 267

trade, 3, 60–68, 120, 147, 173, 258–60, 264, 350, 353

economics of, 196

expansion of, 138

global move to the market, 130–33

liberalization of, 61–66, 120, 131, 257, 288

output and, 60, *61*, 62

protectionism and, 2, 8, 62, 63, 65, 69, 83

shares in exports by value, 131, *132*

tariffs and, 63, 64, 130, *131*, 143

Trump and, 2, 65, 69, 143, 184, 208, 365

Trade Adjustment Assistance, 288

trade unions, *see* unions

Transatlantic Trade and Investment Partnership (TTIP), 65

Trans-Pacific Partnership (TPP), 65

transparency, 291–92

Transparency International, 299

transportation, 61, 64, 138, 141

Treisman, Daniel, xvii

tribalism, xx, 196, 314, 315, 378

tribes, hunter-gatherer, 17

Triumph of Injustice, The (Saez and Zucman), 304

Trotsky, Leon, 226

Trump, Donald, xvii, xviii, xx, xxi, 2–3, 8, 35–37, 39, 49, 64, 69, 71, 87, 107, 109, 116, 118, 121, 137, 142, 147, 184–85, 193–96, 205–6, 209, 212, 300, 314, 326, 332, 374

China and, 174, 365

Christian right and, 204

in election of 2016, 47, 84, 85, 111, 112, 178, 180, 194, 200, 240, 360

in election of 2020, 2–3, 46, 178, 290, 300, 318, 335–36, 360, 373, 374

Fox News and, 205

health care and, 184–85, 276

immigration and, 109, 184, 204, 208

“Make America Great Again” slogan of, 85, 94, 122

media and, 205, 211

Paris climate agreement and, 199, 253

tax policies of, 184, 200, 201

trade policies of, 2, 65, 69, 143, 184, 208, 365

trust, 38, 83, 103–4, 116–17, 154, 245, 373

truth, xiii, xix

Tsipras, Alexis, 183

Turkey, 4, 5, 136, *136*, 176, 181, 317, 326

Turner, Adair, 152

Twain, Mark, xiii

Twitter, 211, 250

tyranny, 37, 223, 375

U

UKIP (UK Independence Party), 113, 190

Ukraine war, 7–8, 58, 105, 106, 222, 233, 234, 350, 356, 357, 363

uncertainty, 232–34

unemployment, 102–3, *103*, 112, 120, 142, 172, 267–69

unions, 52, 53, 68, 87, 94, 97, 121, 126, 192, 207, 270

United Kingdom (UK), xviii, 20, 145, 229, 266, 313, 326, 369, 377

Black Act in, 320

Brexit

and, xviii, 66, 72, 84, 85, 107, 109, 112, 113, 121, 161, 164,

179–
80, 190, 193, 195, 199, 200, 208, 240, 259, 335, 336, 339

carbon emissions of, *254*

central bank interest rates in, *146*

education funding in, 283

free trade in, 61–63

GDP of, *53*, *54*, 70, 100–101, *101*, 163

financial crisis and fiscal balances of, 103, *104*

flat or falling incomes in, 102, *102*

foreign-born as share of population in, *73*

foreign value added share of gross exports in, *67*

government spending in, *53*, *54*, 197, 207–8, *331*

Great Gatsby curve and, 93, *94*

health spending in, *278*

House of Lords in, 338

income inequality in, *88*, *89*

interest rates in, *144*

labor force participation of men in, *96*

labor force participation of women in, *97*

Office for Budget Responsibility in, 236

old-age dependency ratio in, *129*

political changes in, 25

political loyalties in, 187–91, *188*, *189*

productivity growth in, *98*, 99

public investment in fixed capital in, 251–52, *252*

ratio of social spending to GDP in, *277*

ratio of tax to GDP in, *303*

Reform Acts in, 25, 26, 312

regulatory bodies in, 334

share of industry in civilian employment in, *95*

share of top 1 percent in income in, 156, *157*

share of top 10 percent income recipients in, 89, *90*

share of top 10 percent in net personal wealth in, 91, *92*

tariff rates of, *131*

textile industry in, 61, 141

treaties of, 34, 335

unemployment in, 102, *103*

United Nations (UN), 128, 129, 139, 334, 355–56, 369

Climate Change Conference, 171

Development Program, 303

United States (US), 229, 299, 313, 377

carbon emissions of, *171*, *254*

central bank interest rates in, *146*

Constitution of, 312

decline of, 360

education funding in, 283

EU compared with, 163–64

exports of, *132*

financial crisis and fiscal balances of, 103, *104*

flat or falling incomes in, 102, *102*

foreign-born as share of population in, *73*

foreign value added share of gross exports in, *67*

GDP of, *16*, 50, *53*, 54, *54*, 71, 100, *101*, 163, 330, *331*

government spending in, 330, *331*

Great Gatsby curve and, 93, *94*

in Human Development Index, 303

income inequality in, *88*, *89*

labor force participation of men in, *96*

labor force participation of women in, *97*

old-age dependency ratio in, *129*

productivity in, *98*, 124, *124*

public investment in fixed capital in, *252*

ratio of social spending to GDP in, *277*

share of industry in civilian employment in, *95*

share of top 1 percent in income in, 156, *157*

share of top 10 percent income recipients in, 89, *90*

share of top 10 percent in net personal wealth in, 91, *92*

South in, 42, 181, 184, 200–204, 314, 320

tariff rates of, *131*

unemployment in, 102, *103*

voting rights in, 42

in world GDP, *135*

universal basic income (UBI), 278–83

Uruguay Round, 63, 65, 130, 353

US Census Bureau, 241

utopianism, 223, 224, 226, 285, 372

V

Varoufakis, Yanis, 183

Venezuela, 29, 117, 181, 185, 376

Vietnam, 176, 355

voice, 31

voting, 5, 204, 299, 318–19, 335–36

compulsory, 336–37

election fairness and, 4, 32, 33, 38, 43, 186, 312, 318–19, 343, 373

failings of voters and, 313–16

gerrymandering and, 42, 200, 204, 336

qualifications for, 319–20

suffrage, 4, 23, 24, 26, 27, 35, 40, 42–45, 52, 312, 319–21

systems for, 336

value of, 318

W

wages, 262–64, 267–70

Wallace, George, 112, 184, 314

warfare, industrialized, 26

war socialism, 55

Washington, George, 43, 175, 315, 337

Washington Consensus, 57

wealth, 86, 145, 231, 241, 279, 300, 375, 378

inequality and, *see* inequality

offshore holding of, 167

politics and, 91

power and, 23–25, 28–30, 91, 290, 298–99

shares of top 10 percent in, 91, *92*

"trickle down" of, 200, 201

Wealth of Nations, The (Smith), 60

wealthy, "protectors" against, 35–37

welfare capitalism, 218

welfare state, 57, 122, 184, 227, 275–78, 289, 324, 376

well-being, 228

white privilege, 206

Whiteshift (Kaufmann), 107

white working class, 85–87, 300

Why Globalization Works (Wolf), xvi

Wikipedia, 250

Wilders, Geert, 2, 184

winner-take-all markets, 158–59, 162

Wolf, Edmund, xiii–xvi

Wolf, Ignatz, xiv

Wolf, Rebecca, xiv–xvi

women, 21, 85, 87, 108, 124, 158, 172, 224, 327, 343

employment and, 96, 97, 121

suffrage for, 24, 26, 42, 43, 45

Wooldridge, Adrian, 329, 377

work, *see* employment

working class, 53, 115, 121, 187, 192, 193, 206

white, 85–87, 300

World Bank, 63, 335, 350

World Economic Outlook, 254

World Happiness Report 2021, 229

World Trade Organization (WTO), 63, 65, 199, 258, 259, 335, 350, 353, 365–66

World Turned Upside Down, The (Prestowitz), 357

World Values Survey, 47

World War I, xiv, 26, 27, 44, 45, 54–56, 61–63, 75–77, 101, 110, 221, 313, 350, 363–65

World War II, xiv, 27, 45, 54–56, 63, 68, 69, 75–77, 101, 119–20, 148, 203, 221, 222, 229, 313, 350, 351, 353, 379

X

xenophobia, 107, 109, 113, 183, 374

Xi Jinping, xxi, 28, 317, 352, 357, 361–62, 366, 372

Y

Yeltsin, Boris, 33

Yugoslavia, 326, 355

Z

Ziblatt, Daniel, 26–27

Zielonka, Jan, 198–99

Zuckerberg, Mark, 296, 305, 307

Zucman, Gabriel, 304

About the Author

Martin Wolf is associate editor and chief economics commentator at the *Financial Times*, London. He was awarded the CBE (Commander of the British Empire) in 2000 for services to financial journalism. Wolf won the Overseas Press Club of America's prize for Best Commentary in 2013 and the 2019 Lifetime Achievement Award at the Gerald Loeb Awards. He was a member of the UK's Independent Commission on Banking in 2010–11. Wolf is the author of *The Shifts and the Shocks*: *What We've Learned—and Have Still to Learn—from the Financial Crisis*.



Penguin
Random House
PENGUIN PUBLISHING GROUP

What's next on your reading list?

Discover your next great read!

Get personalized book picks and up-to-date news about this author.

Sign up now.

_142435183_