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# Globalisation, inequality and the future of democracy

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### Executive summary

While until the financial and economic crisis, the mainstream discourse was emphatically touting the economic benefits of neoliberal globalisation, more recently the narrative has become more cautious. This owes in particular to the emergence of right-wing nationalism as a political force both in the OECD world and in emerging countries, which has prompted fears that liberal democracy is at risk of sliding towards illiberal and authoritarian forms of government. Against this background, the mainstream discourse of e.g. the OECD and the EC has acknowledged that globalisation produces some losers and that public policy needs to more actively address globalisation's downsides. On the other hand, it is emphasized that the process of neoliberal globalisation must be continued and deepened in order to generate growth and employment.

In this paper, we will argue that the mainstream narrative on globalisation is deeply flawed and that its deepening poses a threat to socially inclusive democracy. We will argue that instead of triggering growth, globalisation has acted to suppress the expansion of aggregate demand and in particular investment via large scale redistribution of income from wages to profits. The crucial politico-economic outcome of this has been a shift of structural power in favour of capital, with the latter waging a class war from above against the working classes. With respect to the continuation of globalisation along a deep integration agenda, we argue that this will at best achieve minimal economic gains at the cost of potentially large distributional effects and social costs. Moreover, the constitutionalisation of economic policy undermines the ability of national governments to effectively address social concerns, with subsequent negative effects on the legitimacy of democratic rule. Finally, with respect to the downsides of globalisation, we will argue that the mainstream narrative understates the pervasive effects of globalisation upon economic inequality. In political terms, the crucial distributional implication of globalisation is the decline of the OECD middle classes, which is the key factor for a profound crisis of political representation in the EU and the US as signified by the marked decline of social democracy and the steady rise of right-wing nationalism. Though the road to authoritarianism is not inevitable, the rapprochement between conservative-liberal and right-wing nationalist forces favours more coercive forms of politics.

In the concluding section of the paper, we will present an analytical framework that allows us to think systematically about the available strategic political options from a progressive point of view. Though success is far from ascertained, we will argue that the preferable strategic trajectory for progressives consists in promoting an agenda of democratic regionalism, sustained by a political alliance of a pluralist 'mosaic-left' connecting the new middle-classes with the working class.

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## Introduction

During the last years, the discourse on globalisation underwent notable changes. While during the 1990s and early 2000s, the dominant stream of the discussion time and again touted the manifold benefits of open trade and investment as well as unrestricted financial flows, the situation has markedly changed with the outbreak of the global financial and economic crisis in 2007/08. This owes both to economic and political factors. In the economic realm, it could no longer be concealed that financial globalisation propels severe economic crisis accompanied by pronounced increases in unemployment, a more unequal distribution of income and wealth as well as a dramatic rise in poverty. In the political realm, far-right nationalism and a marked tendency towards illiberal democracy if not authoritarianism has gained ground not only in the developing and emerging world, but also in Europe and the United States, indicating a tectonic shift in the political systems of most liberal democracies in the OECD world. Besides, the so-called refugee crisis in the EU in 2015 as well as the migration policies of the Trump administration have foreclosed any possibilities to move towards a more liberal migration regime for the medium-term future, mounting scientific evidence on the benefits of migration notwithstanding (see e.g. Rodrik 2011, Milanovic 2016).

The partisans of neoliberal globalisation have thus found themselves challenged by the real-world developments of the last ten years. As a consequence, they had to abandon the war of manoeuvre in favour of globalisation and instead started a war of position, to put it in Gramscian terms. In a nutshell the key messages reflecting the current thinking of the epistemic community supporting the economic case for neoliberal globalisation (see OECD 2017, EC 2017), can be summarized in the following three claims:

I. With the partial exception of the liberalization of financial markets, economic globalisation has generated growth and welfare, in particular via the progressive liberalization of international trade and investment.

II. Globalisation of economic activities should be deepened, in particular via promoting a „deep integration“ - agenda of trade and investment liberalisation that focuses upon the reduction of non-tariff barriers to trade.

III. Globalisation does have distributional implications, and it is true that there have been some losers in the OECD working class, in particular among low-skilled workers. The negative effects are however most importantly explained by skill-biased technological change. They should be redressed by compensatory measures in the form of social transfers and skills-upgrading for affected workers.

While it is to some extent acknowledged that the rise of right-wing nationalism has to do with the distributional aspects of globalisation, the root cause for “populism” is attributed to subjective fears that are not grounded in the facts (e.g. de Vries and Hoffmann 2016) or are primarily related to cultural factors (Inglehart and Norris, 2016).

In the following, we will address each of these claims in turn and argue that they are wrong and pose a threat to socially inclusive democracy. With respect to the first claim, we will argue that it is not corroborated by the available empirical evidence. Instead of triggering growth, globalisation has acted to suppress the expansion of aggregate demand and in particular investment via large scale redistribution of income from wages to profits. The crucial politico-economic outcome of this has been a shift of structural power in favour of capital, with the latter waging a class war from above against the working classes (section 2). With respect to the second claim, we argue that the continuation of globalisation along a deep integration agenda will achieve minimal economic gains at the cost of potentially large distributional effects and social costs. Moreover, the constitutionalisation of economic policy undermines the ability of national governments to address social concerns, with subsequent negative effects on the legitimacy of democratic rule (section 3). Finally, with respect to the third claim, we will argue that it gives a very partial picture of the full distributional implications of globalisation and understates

the persistent effects of globalisation upon economic inequality (section 4). Instead, the crucial distributional implication of globalisation is the decline of the OECD middle classes, which is the key factor for a profound crisis of political representation in the EU and US as signified by the rise of right-wing nationalism (section 5).

In the concluding section of the paper, we will present an analytical framework that allows us to think systematically about the available strategic political options. Though success is far from ascertained, we will argue that the preferable strategic trajectory for progressives consists in promoting an agenda of democratic regionalism, sustained by a political alliance of a pluralist ‘mosaic-left’ connecting the new middle-classes with the working class (section 6).

**Instead of more growth, globalisation shifts the balance of power in favour of capital**

*“There’s class warfare, all right,” Mr. Buffett said, “but it’s my class, the rich class, that’s making war, and we’re winning.”*

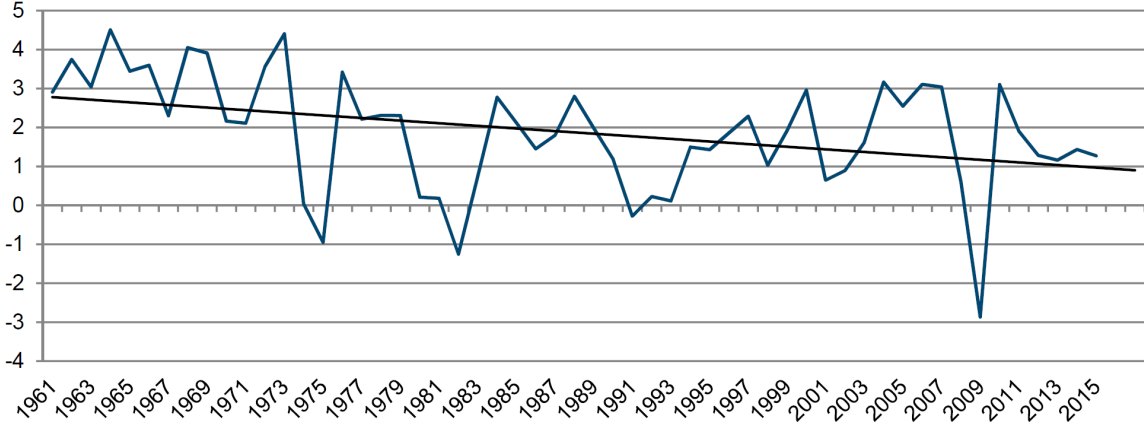
Interview with Warren Buffet, *New York Times*, 26/11/2006

It has been a standard contention in the globalisation debate that trade is conducive not only to economic welfare, but moreover to growth and employment. As a matter of fact, the growth rate of real per capita GDP has however exhibited a long-term downward trend in precisely the period from

1960 to the present (see Figure 1), when national economies became increasingly exposed to international trade and investment (Podkaminer 2016). Systematic empirical studies at the national level do not lend conclusive support to the theoretical claim that trade has been conducive to growth (see e.g. Lewer and Van den Berg 2003, 2007, Hillebrand et al. 2010, Singh 2010, Rodrik et al. 2004, Yanikkaya 2003). For the case of the global economy *in toto*, Podkaminer (2016) suggests outright that trade liberalization has been detrimental to the economic growth of the world economy.

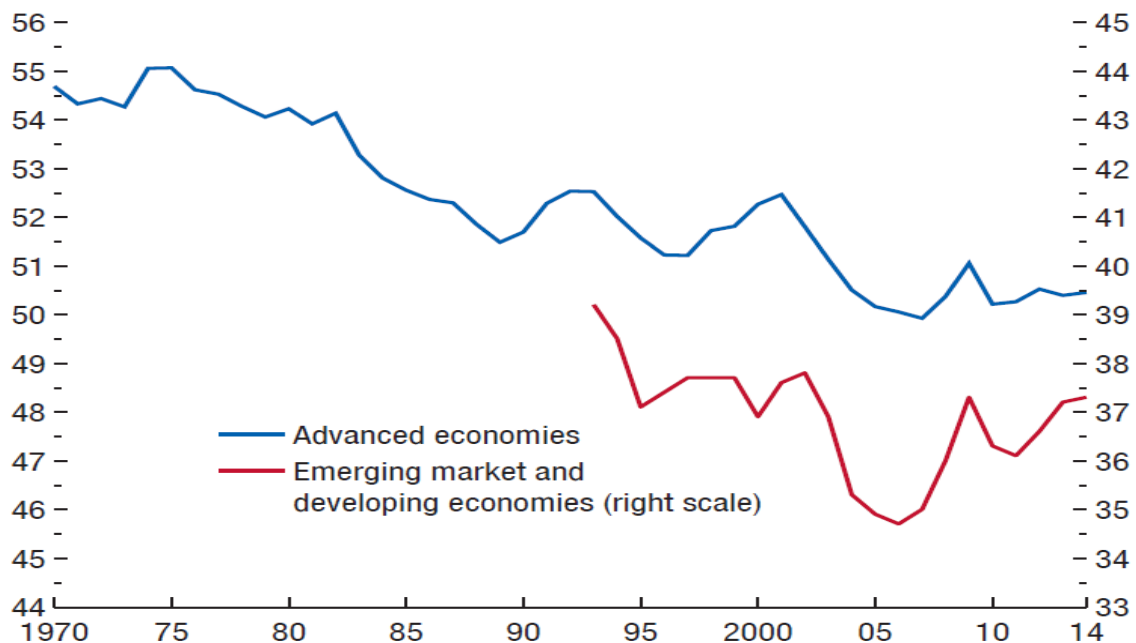
While it is straightforward to see that for individual export-oriented countries, trade might be conducive to growth, for large economies as well as for the global economy itself, two key arguments might explain the negative effect from trade to growth. The first argument has to do with the unbalanced nature of the evolution of international trade. Taking the ratio of the global trade surplus to global output as a proxy for the size of trade imbalances, the latter have increased by a factor of 5 since from 1960 to 2014 (Podkaminer 2016). High trade deficits might eventually trigger balance of payments crises, which during the 1980 and 1990s have markedly increased in frequency particularly in the developing and emerging world, and entail high economic and social costs from output and employment losses. Even in the absence of an acute balance of payment crisis, rising external financing costs of the trade deficit might put a break on economic growth (Thirlwall 2013).

**Figure 1: Growth rate of real per capita global GDP, 1960 – 2015**



Source: Podkaminer (2016), p.3

**Figure 2: Evolution of the Labour Share of Income (in percent)**



Source: IMF World Economic Outlook, April 2017, p. 122

A second key argument has to do with the relationship between trade and income inequality. In parallel to the increase in international trade and investment, the share of real income accruing to labour has suffered a pronounced decline. For advanced countries, the wage share has fallen by some 5 percentage-points on average, for many EU countries the fall has been close to 10 percentage points (see Figure 2). Obviously, this again raises the issue of causality, and globalisation protagonists have argued that most of the decline in the wage share is to be explained by technological change (see e.g. IMF 2007a, 2007b). More recent research (Stockhammer 2017), however, suggests that economic globalisation and in particular financialisation, i.e. increased shareholder-value orientation, as well as offshoring and outsourcing (Guschanski and Onaran 2017) do indeed play the crucial role in the decline of the wage share.

Irrespective of income distribution, it could be argued that the declining wage share should not have had an effect on growth, if the fraction of income redistributed to profits were to be spent on investment. As productive investment is primarily funded

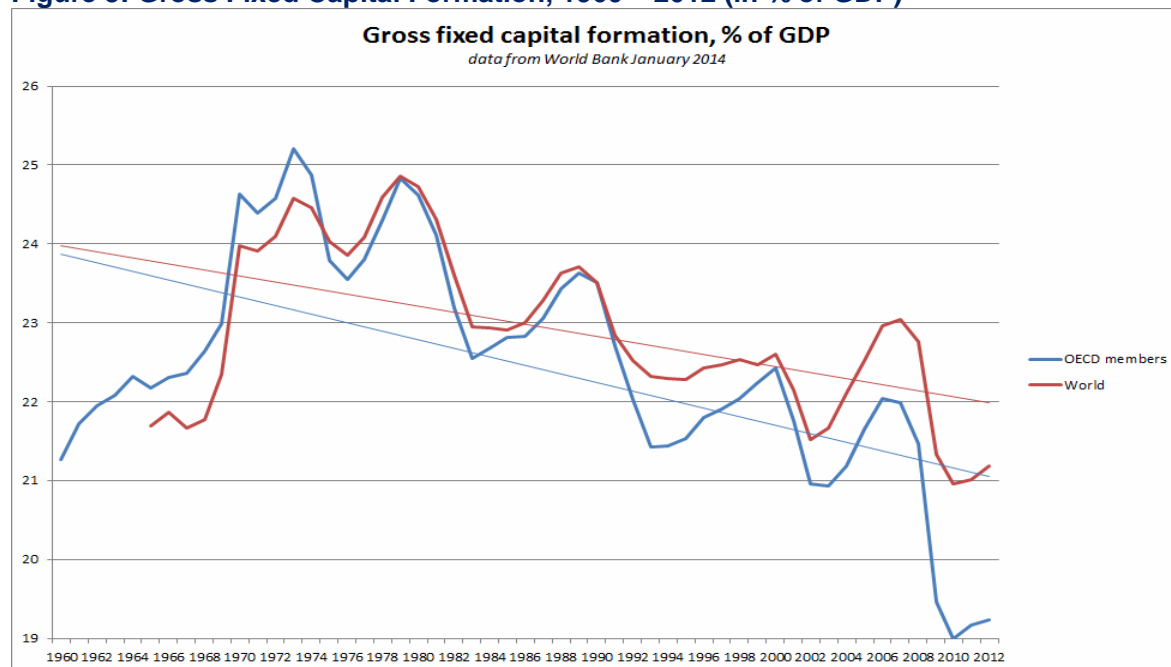
from profits, investment should be expected to rise when profits increase (Durand and Guedier 2016). This has however not been the case, as investment both in the OECD countries and in the world economy has exhibited a long-term decline (see Figure 3). Thus, it must be assumed that the extra income accruing to the owners of capital has been mostly spent on financial operations contributing little to real economic expansion.

The key politico-economic effect of globalisation has thus been a marked redistribution of income from wage earners to capitalists (and rentiers), even though this has had a negative effect on growth. This result closely resembles Kalecki's argument from the early 1940's that out of power-political reasons capitalists prefer unemployment to a situation of full employment, even if this means slower growth (Kalecki 1943). With increasing openness to international trade and investment, wages are seen by capitalists primarily as a cost item. The demand component of wages becomes less of a concern, as company sales increasingly depend on exports instead of domestic consumption. The divergence of the space of consumption from the space of production

thus shifts the strategic outlook of capital owners. Other things equal, their propensity to acquiesce to wage demands of workers will diminish, while over time wage demands of workers will in turn become less

pronounced to the extent that they have to fear outsourcing and offshoring of production as credible threats. Probably not only Warren Buffet would call such a constellation “class struggle from above”.

**Figure 3: Gross Fixed Capital Formation, 1960 – 2012 (in % of GDP)**



Source: World Development Indicators, Online Data Base, <http://data.worldbank.org>

## The deepening of neoliberal globalisation will produce large social costs and undermines democratic policy space

*„The first thing you need to know about trade deals in general is that they aren't what they used to be. [...] Basically, old-fashioned trade deals are a victim of their own success: there just isn't much more protectionism to eliminate [...] these days, “trade agreements” are mainly about other things.”*

Paul Krugman, *New York Times*,  
27/02/2014

With average tariff rates in the OECD world standing at below 5%, so-called new generation “deep and comprehensive” trade agreements like CETA, TTIP or TPP are not really concerned with the removal of tariffs. Instead, they encompass a broad agenda, including regulatory alignment and

simplification, investment liberalization, the protection of intellectual property rights, the opening up of government procurement to foreign competition and many more issues. In effect, trade policy is nowadays mainly touching upon domestic regulation, including areas of central concern to public policy, for instance safety standards, public health regulations or risk regulation for new technologies.

The proponents of globalisation argue that future trade policy must tackle these nationally diverging domestic regulations with a view to their alignment and simplification, since only upon that condition can further economic gains be reaped from trade and investment liberalization. However, recent economic impact assessments of new generation trade agreements have arrived at estimates of only very small economic gains to be expected from implementing such a de-regulatory agenda, typically amounting to less than 1 percent of GDP (see Raza et al, 2014, 2016a).

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It has to be emphasized, however, that the methodological challenges for estimating the economic impact of regulatory alignment are formidable and only poorly addressed by conventional trade impact assessments. Though it is clear that regulatory change will entail both costs and benefits, standard estimations typically assume that regulatory alignment via a trade agreement will reduce the costs to business and thus increase real income, but not affect the benefits regulations confer upon society. This is highly misleading, as regulatory alignment can only be implemented via the conventional methods of harmonisation, mutual recognition or unilateral recognition of equivalence. The harmonization of different standards will lead to a change in regulation for at least one of the trade partners. Mutual recognition of diverging standards bears the risk of triggering regulatory arbitrage, which at the end of the day will lead to a lowering of standards for at least one trading partner. Unilateral recognition of equivalence of a foreign standard also bears the risk of regulatory change though not necessarily of a levelling-down of regulatory quality, if the foreign standard is of higher quality. Finally, the much touted regulatory simplification is a policy promoted by the OECD (e.g. OECD 2010) and the European Commission by way of initiatives such as the Better Regulation Agenda (EC 2015) and the Regulatory Fitness and Performance Programme (REFIT) (EC 2012), which explicitly aim at ‘cutting red tape’, i.e. that want to reduce administrative regulations considered excessively burdensome to business. It is thus not surprising that critics have repeatedly expressed concern with respect to the deregulatory bias of these initiatives, as the latter have not adequately taken into account the social benefits of regulations and have as a consequence also challenged existing environmental, labour and consumer protection regulations or blocked new regulations in these and related fields.<sup>1</sup>

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<sup>1</sup> See e.g. the assessment of DGB at <http://en.dgb.de/++co++473dbfbc-d560-11e5-ac5d-52540023ef1a> or the studies by Myant and O'Brien (2015), Vogel and van den Abeele (2010).

The idea of subjecting domestic regulation to trade and investment agreements thus explicitly aims at disciplining domestic policy-making. Most notorious in this case are the investor-to-state-dispute settlement provisions included in many of the bilateral investment treaties (BITs), OECD countries have concluded over the last decades with emerging, transition and developing countries. These give international investors the right to sue host country governments before international tribunals in cases of alleged discriminatory behaviour or changes to domestic regulation that are considered unfair. Governments in breach of contractual obligations have either to withdraw regulations or are subjected to paying high compensation payments to companies. By way of these agreements, efforts of governments particularly in the Global South towards late economic development have become hampered, via the chill-effect of being subjected to arbitral litigation (Tienhaara 2017, Van Harten and Scott 2016). With the number of cases presented to international tribunals by transnational companies increasing dramatically over the last two decades to over 800 at the beginning of 2018 (UNCTAD data), unsurprisingly, the most active claimants have been companies from the US and the EU.

In sum, while the estimated economic benefits of the new trade agenda are minimal, the social costs of deregulation conferred upon society by the removal or weakening of regulation and by making the introduction of new regulations more burdensome, respectively, that come under labels such as “regulatory disciplines” “regulatory alignment” or “regulatory simplification” in new generation trade agreements, are systematically left out of the picture. Thus, the cost-benefit ratio of further trade liberalization looks unimpressive. As Dani Rodrik (2017) has succinctly argued, the redistributive effects of trade liberalization become relatively larger and tend to trump the net gains from trade as the trade barriers in question become smaller. With across-the-board minimal real income effects reported by recent impact studies of EU trade agreements, and if one takes into

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account the potential social costs of regulatory change not considered in these studies, the net effects of many of the recent EU trade agreements might well be negative.

Economic issues aside, the constraining of national policy space restricts the room of manoeuvre for policy-making and thus undermines democratic politics. Since such agreements tie the hands of governments under an international regime of 'disciplinary neoliberalism' enshrined in a 'new constitutionalism' (Gill 2014), i.e. a set of binding international agreements, they contribute to politics at the national level losing its ability to address the collective preferences of its constituencies. In combination with a host of other post-crisis efforts to constrain national policy space, above all in the area of fiscal policies, e.g. the EU fiscal compact, key democratic mechanisms such as referenda, elections and in particular parliaments lose their ability to trigger substantive political changes. Such a political regime oriented towards defending an increasingly untenable *status-quo*, resembles Nico Poulantzas concept of authoritarian statism (Poulantzas 1980, Oberndorfer 2015). Sooner or later, democracy will become perceived by citizens as being impotent in shaping policies for the common good. Thus, its legitimacy will gradually be eroded and the way for more unstable political constellations will be opened.

## **Trade and investment liberalisation erode the social contract of the Post-War welfare state and jeopardize liberal democracy**

After a long time of outright denial, the protagonists of neoliberal globalisation recently had to admit that globalisation produces winners and losers (see e.g. OECD 2017b). Their insistence on confining the segment of the people adversely affected by globalisation to low-skilled workers is however incomplete and unable to grasp its full political implications. In the following, we will highlight three dimensions of inequality left out the picture by the

mainstream narrative, which we deem important for explaining the political implications of globalisation, and in particular the emergence of right-wing nationalism. In a nutshell, our central result is that in the OECD world not only low-skilled workers, but also the working middle classes are affected by globalisation. The latter's erosion poses the biggest threat to liberal democracy.

### **Trade adjustment costs in labour markets and local economies are persistent**

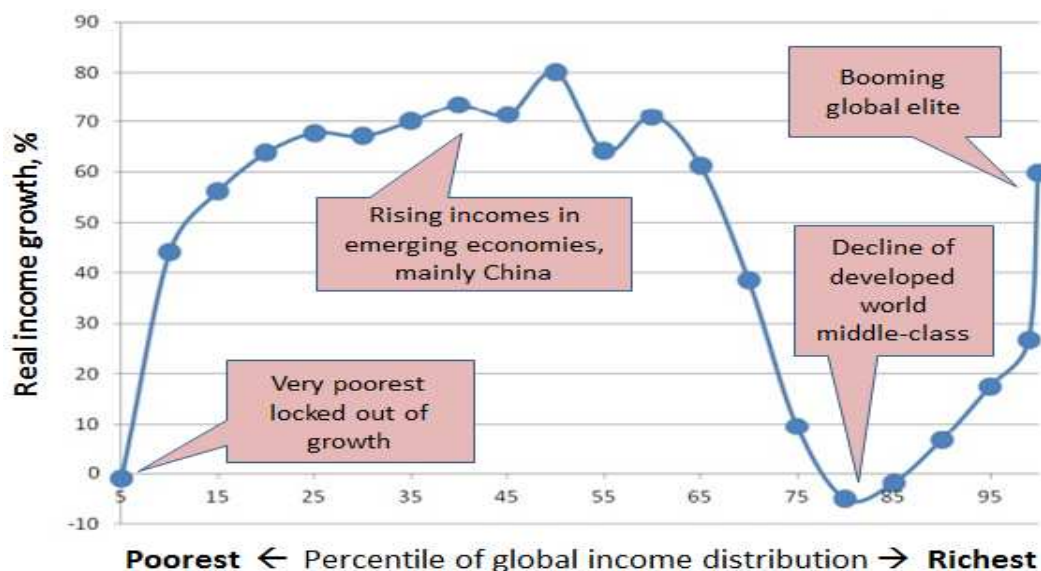
In the mainstream literature on trade impact assessment, it is conveniently assumed that trade and investment liberalisation will leave the level of employment unchanged (for a detailed discussion see Raza et al. 2014). Though this assumption is justified by reference to the long-run nature of the impact assessments, it is highly unrealistic. Even in the event that displaced workers ultimately will find a new job, they will be unemployed for some time and need re-training. During this period they will receive unemployment benefits, the public sector will have to finance re-training programmes, and obviously will not receive any income tax and social security contributions from the unemployed workers. Rough estimates suggest that these adjustment costs can amount up to 60% of estimated GDP effects of trade liberalisation (see e.g. Raza et al. 2016).

Moreover, most workers will receive a lower wage in the new job compared to what they earned before unemployment and their stability of work will have suffered (OECD 2005). This is due partially to the fact that they are relocated from the manufacturing to the service sectors (OECD 2017b). Many of the new jobs located in low-skill services pay lower wages than industrial sector jobs and offer poor working conditions. Finally, a fraction of the displaced workers, and particularly the older workers, will face severe difficulty in finding a new job and thus remain unemployed for a prolonged period of time. Recent research by Acemoglu et al. (2016) indicates that due to import competition from China, in the period 1999 – 2011 around 2-2.4 million manufacturing

jobs were lost in the industrial regions of the US. These impacts were exacerbated by low labour mobility and negative spill-over effects on the local economies, thus leading to persistent and geographically concentrated negative impacts (see also Autor et al. 2016, 2013, McLaren and Hakobyan 2016). Contrary to the standard

assumptions of neoclassical trade theory, the recent evidence suggests that rapid adjustment to a new equilibrium in the labour market after trade liberalisation simply does not happen. Instead, exposure to international trade and investment can have very profound and long-run effects on workers and local economies.

**Figure 4: Global personal income distribution 1988 – 2008**



Source: <http://www.businessinsider.com/chart-of-recent-global-economic-activity-2014-1?IR=T> (based on data from Branko Milanovic and Christoph Lackner with annotations from James Plunkett)

### Global income inequality promotes nationalistic agendas

One of the most pervasive effects of globalisation has been its impact on the distribution on income and wealth. The gist of the recent research on globalisation and income distribution (Milanovic 2016) is that globalisation tends to increase inequalities within countries, but thanks to the spectacular growth of China and India not necessarily between countries and global citizens as such. Thus, as Milanovic's elephant graph vividly illustrates (see Figure 4), there are two winner and two loser groups: while the working class in emerging economies as well as the global super rich (Top 1 percent of the distribution) have benefitted, the working classes in the OECD world and the global poor particularly in Sub-Saharan Africa have seen their incomes stagnate during the last 30 years.

The economic decline of the OECD working middle classes can be further traced down to the national level. The share of the income accruing to the middle classes, i.e. the income of the four middle-deciles of the income distribution, in most OECD countries has experienced a pronounced fall over the three decades since 1980.<sup>2</sup>

These developments offer themselves to two obvious interpretations. The first interpretation, which we might label "right-wing nationalist", would argue that the gains for workers in the emerging world and particularly China have come at the expense of the OECD working class. Donald Trump's rhetoric of "America first" and anti-China

<sup>2</sup> See graph on Branko Milanovic's website, <https://www.gc.cuny.edu/Page-Elements/Academics-Research-Centers-Initiatives/Centers-and-Institutes/Stone-Center-on-Socio-Economic-Inequality/Core-Faculty,-Team,-and-Affiliated-LIS-Scholars/Branko-Milanovic/Datasets> (20/01/2018).



slogans resonate vividly with this interpretation. The second and evidently less influential interpretation, which we might label “left-progressive” would argue that global elites have enriched themselves at the expense of the working classes in OECD countries as well as of the global poor. This line of argument has been advanced by politicians like Bernie Sanders, left parties and civil society organisations like ATTAC.

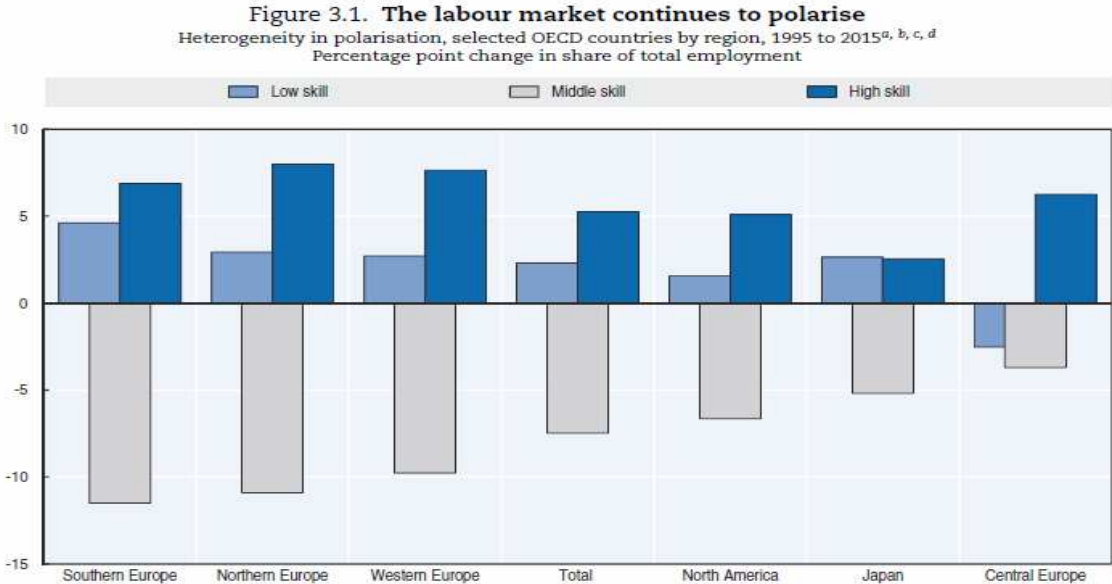
Thus, although an overwhelming majority of the population in OECD countries considers increasing personal inequality as unfair, the predominant reaction has been fear of being affected oneself from these developments. Combined with disenchantment with third-way social democratic policies of the 1990s and early 2000s, most notoriously the Hartz IV reforms in Germany, the aftermaths of decades of ostracising communist parties in Western Europe and their complete loss of legitimacy in the transition economies of Eastern Europe, right-wing nationalism has enjoyed

a comparative advantage in attracting these votes.

**The polarisation of employment and wage dynamics erodes the socio-economic position of OECD working middle classes**

A particularly worrying development of the last decades has been the increasing polarisation in the employment and wage dynamics between different skill levels of the workforce in OECD countries. The OECD Employment Outlook (2017) underlines that in contrast to high and low-skilled jobs, the share of middle-skill jobs in total employment has been declining in every region of the OECD world during the last two decades (see Figure 5). On average, the decline amounted to 7 percentage points. Wages followed suit and declined not only for low-skilled jobs but also for middle skilled jobs both in the US (Autor 2015: 18) and the EU (Guschanski and Onaran 2016:32).

**Figure 5: Change in employment share according to skill level of labour force, 1995 – 2015 (in percentage points)**



Source: OECD Employment Outlook 2017, p. 86

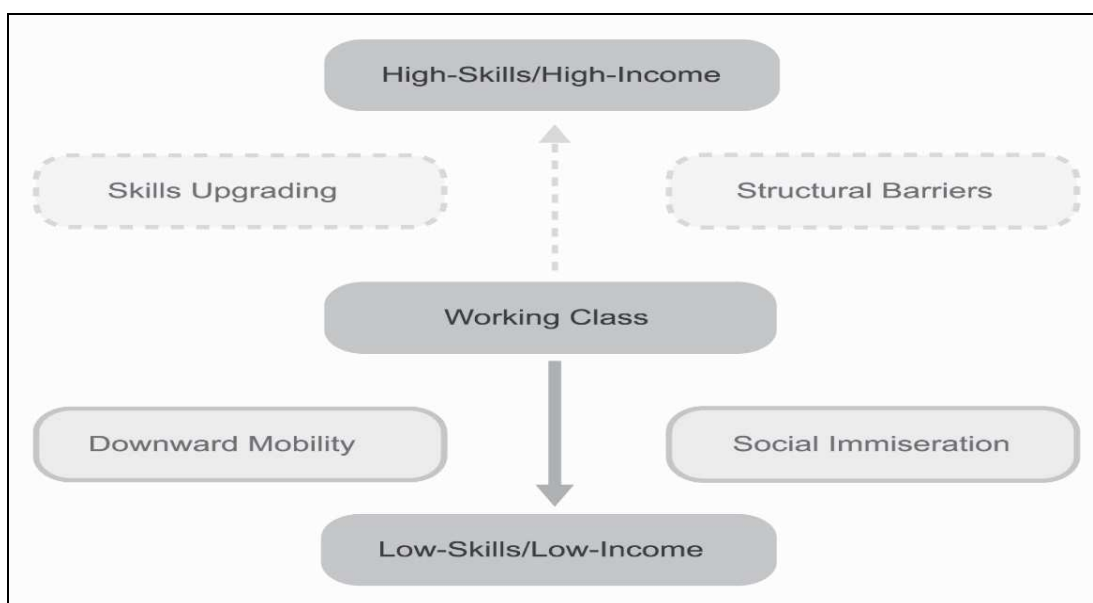
As a consequence, many people with medium skills which had for a long time lived decent lives characterized by stable jobs and growing wages have seen their economic positions deteriorate. Seen from an inter-

generational perspective, the rather favourable prospects for the upward social dynamics that prevailed under the Keynes welfare state after World War II have become much more sombre during the last

three decades. Inter-generational social mobility has become more difficult to achieve (Corak 2013, Putnam 2015). With the quality of the public school system deteriorating and private educational institutions charging unaffordable tuition fees, the structural barriers for completing a high-quality education for the offspring of the middle-classes have become formidable (see Figure 6 for an illustration). In such a situation, where the economic status of the parent generation is stagnating, while the economic

outlook of their offspring is highly uncertain, frustration and discontent proliferate. From our perspective, the prospect for gradually improving the living standards of all social groups and their offspring was perhaps the key element in the social contract of the post-WW II political-economic model. Its de-facto abandonment over the last 30 years marks the fragmentation of the political hegemony of Fordist capitalism (Martin and Wissel 2015).

**Figure 6: Polarization and the economic prospects of the working middle-classes**



Source: Own elaboration

## The decline of the middle-classes and its implications for democratic politics

That the disenchantment of the working middle-classes is not grounded in misinformation or irrational sentiments, but that in fact their interests are not taken into account by governments, has been corroborated by a growing body of empirical research, both for the US (e.g. Bartels 2008, Gilens 2012, Gilens and Page 2014) and for Europe (Schäfer 2010, 2015). Given these findings, the perception that politics is biased against the working middle-classes is well founded. Unfortunately, however, the growing exclusion has apparently not dynamized the militancy of the working

middle-classes. Instead, empirical studies have found that political activism and protests decline with rising levels of inequality (Solt 2015, 2008).

A recent study indeed suggests that the voting preferences of disenchanting workers in trade-exposed districts in the US – to the extent that they cast their vote - clearly favour out of centre, and in particular far right conservative politicians (Autor et al. 2017). Given the prevalence of male workers in manufacturing employment, the disproportionate impact of unemployment due to trade exposure upon white male workers and the loss of self-esteem experienced by the latter group for not being able to fulfil their traditional role as family-breadwinners, the latter's shift towards the political right and its attraction to political

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figures appealing to aggressive leadership and traditional patriarchal values is unsurprising. In similar vein, another recent study suggests that exposure to trade shocks in the UK strengthens the adoption of authoritarian values, and in particular propels generalized aggression as a consequence of frustration over the non-attainment of individual objectives (Ballard-Rosa *et al.*, 2017).

At this point, the question emerges, whether the rising political support for right-wing nationalism and populism poses a threat to democracy *per se*. Indeed, Inglehart and Norris (2016) suggest that such support does not pose an existential threat to democracy, but is probably a transient cultural phenomenon rooted in the conservative values and lower educational level of an older, mostly male and rural population.<sup>3</sup> For the case of Europe, Inglehart and Norris (2016) confirm that support for populism is generally stronger among the older generation, men, the less educated, the religious, and ethnic majorities. On that basis, they forecast that populism will not make a long-term impact upon the viability of liberal democracies, as the older, male and less-educated white population entertaining the conservative ideologies that underpin populism will over time be superseded by a younger, well-educated generation with liberal and cosmopolitan values.

Though we do not contest the diverging cultural orientations across different social groups as reported by Inglehart and Norris (2016), we doubt that time will solve the problem of populism, and in particular right-wing nationalism. Alternative empirical work has documented a strong correlation between crisis-induced economic insecurity and voting support for non-mainstream, and

in particular “populist” parties in Europe (Algan *et al.*, 2017). Thus, a more profound analysis of the social dynamics at play is necessary. Interestingly, Inglehart and Norris (2016) themselves note in passing that it is not the working class, but what they refer to as the petty bourgeoisie, which accounts for the highest voting shares for populist parties in Europe.<sup>4</sup> This is followed (i) by the group of supervisors of manual workers (foremen) and lower-grade technicians, (ii) the working class, i.e. skilled, semi-skilled and unskilled manual workers, (iii) routine non-manual employees, e.g. in administration and commerce (higher grade) or sales and services (lower grade), and finally (iv) the salariat, i.e. professionals, administrators, and officials as well as higher grade technicians and managers in industrial establishments. Populists also received significantly less support among recipients of social welfare benefits as their main source of household income. This result underlines the importance of analysing the class positions of distinct social groups and how they have been affected by the combined effects of neoliberal globalisation.

The observation, corroborated by other studies (Arzheimer 2012, Hilmer *et al.* 2017, Carnes and Lupu 2013), that not only workers vote for populist parties but even more so the middle classes, here understood as the intermediate classes of craftsmen, small businesses, professionals and technicians, and public sector employees situated between capital owners (the *bourgeoisie*) and the working class (see Miliotis and Economakis 2011), is of eminent political importance. If it is true that empirical research has shown that the social consequences of neoliberalism have resulted in mass abstention from voting participation for low-skilled workers, the voting behaviour of the middle classes becomes the more important for determining the distribution of political power. It is well-recognized in the literature, that the ambivalent political orientations of the middle

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<sup>3</sup> Upon a definition of populism highlighting its anti-establishment, authoritarian and nativist elements, nationalism is a constituent feature of populism, juxtaposing the latter to cosmopolitan liberalism on one dimension, while the second definitional dimension refers to the classical left-right division. Upon that basis, the authors classify 261 parties in 31 EU countries into right and left populist parties (Inglehart and Norris 2017: Fig. 1 and Technical Appendix A). We are quite skeptical to the analytical value of the term ‘populism’ (for a critique see D’Eramo 2013), but use the term here when referring to the Inglehart and Norris study.

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<sup>4</sup> The Goldthorpe-Health class schema as used by Inglehart and Norris (2017) defines the petty bourgeoisie as consisting of (i) proprietors, artisans, etc. with employees, (ii) small proprietors, artisans, etc. without employees, and (iii) farmers and smallholders as well as other self-employed workers in primary production.

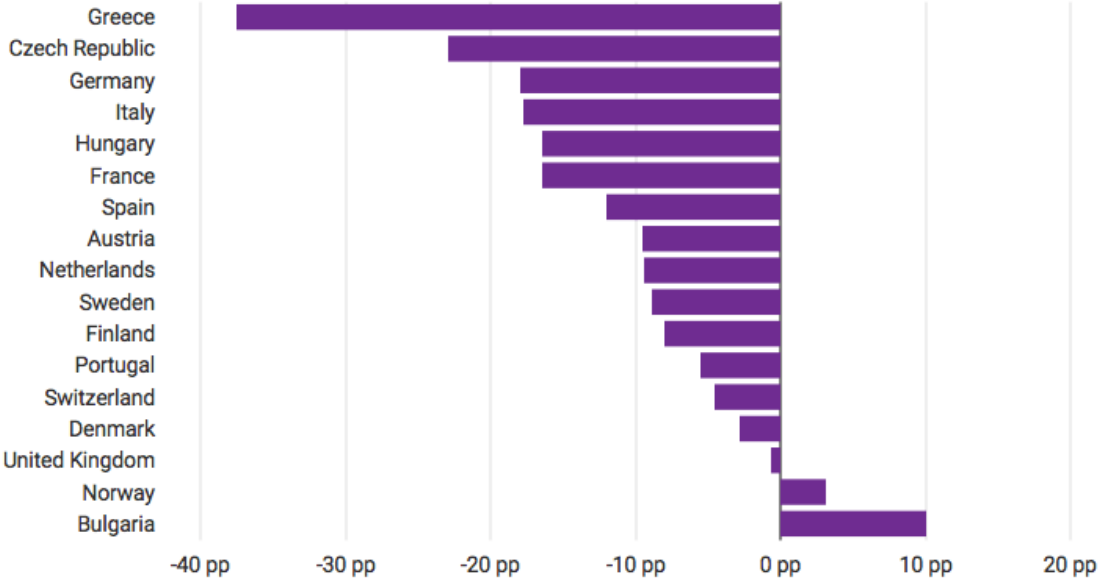
classes are prone to change during periods of crisis (Algan et al. 2017). In particular, the support of the traditional petty bourgeoisie for fascism has been amply documented (Arzheimer 2012), although it remains contested in the literature, whether current forms of right-wing nationalism present a further development of interwar-period fascism (see approvingly Copsey 2013), or constitute a new *sui generis* political form of radical right populism (see e.g. Mudde 2013). While authoritarian inclinations of the petty bourgeoisie such as paternalism and chauvinism have been more or less held at bay during the Post World War II welfare state by a social contract that provided a basic safety net for small producers and supported upward social mobility by way of material incentives (e.g. trade protection, subsidies and tax support for SMEs, a system of affordable quality education), concerns are thus not unfounded that more pronounced forms of support for

authoritarian regimes might re-emerge in response to (perceived) threats to the social status of the middle-classes.

As a matter of fact, the electoral support for the political centre in most OECD countries was marked by a steady decline over the last three decades. This observation holds true particularly for the centre-left, with social democracy losing almost 20-percentage-points or half of its 2000 vote cast by 2017 in core EU countries like Germany, France and Italy (see Figure 7). This signals that the party political system is increasingly characterised by a weakening ability of traditional mass parties ('*Volksparteien*') to accommodate the interests of both the middle classes and the working class with the interests of capital owners. As a result, substantial segments not only of the working class, but also of the middle classes have voted for political outsiders, and in particular right-wing nationalist parties.

**Figure 7: The decline of social democracy at the ballot box**

Difference between first and latest result of social democratic parties in parliamentary elections in European countries between 2000 and 2017 (in percentage points).



By EDJN Created with LocalFocus  
Source: Pauly (2017)

Source: NYT, NSD, IPU, IFES, PES

In phases of disintegration of traditional political representation, political hegemony will thus become fragmented (Martin and Wissel 2015). In order to re-establish

political hegemony, the increasingly transnationalized bourgeoisie as the leading class in capitalist society hence needs to reconfigure class alliances and forms of

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political representations. In this process, the position of the middle-classes is of strategic importance. While the material incentives and social status offered to the salariat, or what Milios and Economakis (2011) call the New Petty Bourgeoisie, i.e. the increasing number of professionals, technicians and managers in industrial and service companies, under neoliberal globalisation attaches these classes to the liberal-cosmopolitan interests and values of capital, the traditional petty bourgeoisie's economic position juxtaposes their interests at least partially to the interests of the bourgeoisie, insofar as the formers' economic position is negatively affected by e.g. stronger competition or limited access to finance. It is thus not surprising that support for right-wing nationalism has been rather pronounced within the ranks of the traditional petty bourgeoisie.

In this context, from the perspective of the bourgeoisie, the specific political function of right-wing nationalist political forces precisely consists in both appealing to the interests of the working classes, i.e. low- and middle-skilled workers, the precariat and the unemployed, as well as to the traditional petty bourgeoisie, while transforming their social status and self-perception into a position of subalternity, i.e. into a state where the working and middle classes lose their ability to organize their political interests into a counter-hegemonic project. In this process, the role of charismatic personal leadership by individuals who channel the discontent and passions of the subaltern masses and offer, though, *faux* political solutions, takes on particular importance. In a way, the leadership of these "strong men" is comparable to the role Gramsci attributes to intellectuals in disorganizing the subaltern in Southern Italy in the inter-war period (Green 2002). It should however be noted that depending on national circumstances, the organisation of a new political power block does not necessarily entail an alliance with right-wing nationalism, but can involve the creation of a separate political project involving the bourgeoisie and the middle classes with the explicit aim of marginalizing right-wing nationalism. A case in point is Emmanuelle Macron's *En Marche* project in France.

While on the one hand, by way of purporting to represent the interests of "ordinary men" against the elites, during periods of crisis right-wing nationalist parties thus are instrumental in channelling popular disenchantment into a malleable form, it is on the other hand politically important that they themselves are integrated into the political power block in a subordinated position, which can be still controlled by the leading factions of capital, and thus will not result in extending material concessions to the working class, which would go beyond narrowly confined levels. To the extent that this can be achieved, right-wing nationalism is instrumental to bourgeois political hegemony in pursuing its economic agenda of disciplinary neoliberal globalisation. Such a constellation is however prone to instability and short-termism, since the alignment of diverging political interests becomes more difficult with in general harmful consequences for the stability of the process of capital accumulation (Offe 2006).<sup>5</sup> However, capital will not prematurely opt for the abolishment of all elements of liberal democracy in favour of a deepening of authoritarianism, since the latter would likely remove capital from political power itself. For better or worse, liberal democracy is the only political form, through which the bourgeoisie can simultaneously exert both political and economic power (Buckel 2017). In contrast to the historical situations underlying the classical analyses of the 1848 revolution by Marx in the *Eighteenth Brumaire* (see Brunkhorst 2007), or the period of interwar fascism, which were marked by a relative balance of power between capital and labour, after more than three decades of neoliberal reforms the power-political situation of the

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<sup>5</sup> The contradictions of such a constellation can be illustrated with respect to recent projects of labour market flexibilisation promoted both by conservative and (third-way) social-democratic parties of the political centre, and most recently by the Macron government in France and the conservative-nationalist government in Austria. Clearly, these "reforms" should be interpreted as an initiative to realign the interests of capitalists and the petty bourgeoisie, in so far as they promote their joint interest in reducing the cost of labour and thus increasing potential labour exploitation. It should however be noted that such a policy risks to alienate the working class from right-wing nationalism, if not supplanted by some compensatory and in fact perfidious measures such as reducing social benefits for refugees and migrants, respectively.

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bourgeoisie is exceptionally strong vis-à-vis labour. In addition, it is deeply entrenched in the modern state apparatuses of most advanced OECD countries, particularly in Western Europe and the Anglo-American world. Apart from particular post-communist cases such as Russia, Hungary and Poland, or some emerging economies like Turkey, we would thus argue that Bonapartist regimes of authoritarian leadership, whose rule is based upon the combination of political support from the subaltern masses and the control of the modern state machinery are not imminent in the core EU countries.

The rising vote share for right-wing nationalist parties all over Europe is nevertheless signalling a creeping crisis of political representation grounded in an objective deterioration of the living standards of both the middle classes and the working class. Though this indeed indicates the demise of the idea of social democracy as institutionalised in the post-World War II welfare state, it should not be interpreted as foreboding the straightforward transition to authoritarianism. Given that the relationship between capitalism and democracy is highly contingent (Buckel 2017), no straightforward forecasts are possible. The decisive question at the current conjuncture is thus whether a recovery of a socially inclusive democracy by way of promoting an alternative political project is feasible. To this issue we will turn in the final section of this paper.

## Which way to go from here? – Some strategic considerations

Our discussion so far has highlighted three key and mutually supportive tendencies of neoliberal globalisation. *Firstly*, a shift of structural power occurred from labour to capital, weakening the bargaining power of labour not only in wage negotiations, but in all major fields of public policies. The power shift towards financial capital and transnational corporations has, *secondly*, facilitated the implementation of a neoliberal agenda of constitutionalising economic policy at the international level, which has constrained the policy space available to

national governments, thus curtailing their ability to respond to societal needs. *Thirdly*, the polarisation of employment and of the distribution of income and wealth has undermined the economic prospects of both the middle classes and the working class and thus propelled a crisis of political representation, signified both by the decline of the political centre, in particular of social democracy, and the rise of right wing nationalism in Europe and the United States.

Given these circumstances, three core variables have to be dealt with, when thinking about a progressive political strategy. Firstly, the issue of how to deal with further economic globalisation, secondly the concept of sovereignty, i.e. the capacity for political action at different territorial domains - local, national, international, and thirdly the issue of democracy. Dani Rodrik's political trilemma of globalisation (Rodrik 2011) posits that from the three core issues of economic globalisation, national sovereignty and democracy, only two can be accomplished simultaneously. Upon this basis, three strategic trajectories for future socio-economic formations are conceivable (see Figure 8).

Trajectory 1 is the **liberal-cosmopolitan model** of strengthening global institutions in order to democratically manage globalisation. Though global governance is imaginable to operate as a purely technocratic process, in terms of attaining a minimum dose of democratic legitimacy, the model would need to involve some form of global federalism and be supported by extensive stabilisation and redistribution mechanisms as proposed by concepts of Global Keynesianism (Patomäki 2013). Except for the technocratic version, which fits well with Hayekian conceptions of the constitutionalization of the economic order, we would contend that a democratic project of global federalism would not even be supported by the transnational factions of capital and the upper strata of the new petty bourgeoisie, while being overwhelmingly resisted by the middle classes and the working class. Given the preponderance of nationalism for legitimizing political rule in most of the important countries of both the advanced and emerging world, its political

feasibility seems completely out of range for the foreseeable future.

The **authoritarian-nationalistic model** as the second strategic trajectory aims at sustaining economic globalisation while maintaining the nation state, but can achieve this only with recourse to increasingly authoritarian forms of governance. Such a model would essentially rest upon a political alliance between the export-oriented sectors, in particular the middle bourgeoisie (medium sized entrepreneurs) and the petty bourgeoisie, potentially with support from working class segments. The economic feasibility of the model depends on the external competitiveness of the economy. The high social costs of the model, coming in the form of wage depression, high levels of unemployment as well as poverty, will have to be managed politically by the fragmentation of the subaltern social classes. Depending on circumstances, this will involve a mix of policies including ideological elements (e.g. nativist ideologies, media propaganda, cult of leadership), economic and social policies (e.g. economic support for domestic SMEs, social policies for families with children) as well as forms of more or less outright repression. Clearly, the model greatly strengthens the power of the government and its repressive apparatus and thus undermines the division of powers between the government, the parliament and

the judiciary. Though not a straightforward necessity, the dynamics might eventually lead to more pronounced forms of authoritarian rule.

The third strategic trajectory, the **democratic-regionalist model**, combines the strengthening of democratic governance both at the local, national, and potentially the macro-regional level, with a move towards selective de-globalisation of economic activity. For the trajectory to stand a chance of realisation, it must be supported by an alliance comprising the working class and important segments of the new urban middle classes (small-scale entrepreneurs, the precariously (self-) employed, third-sector employees), with the traditional petty bourgeoisie including small-scale farmers and public sector workers. Forging such an alliance of heterogeneous social actors will not be easy. In the short-to medium term, this calls for a looser and associational form of cooperation, which respects the identity of each actor within its own field of action, but unites them under the general framework of a “mosaic-left” in concrete political campaigns (Urban 2009). In the longer-term however, via a process of joint political struggle, a new progressive identity uniting the alliance members will have to be formed in order to pursue a common and shared political agenda.

**Figure 8: Strategic trajectories for politico-economic development**

Nr.	Trajectory	Democratically desirable?	Politically & economically feasible?
1	<b>Liberal-Cosmopolitan Model:</b> strengthening global institutions in order to democratically manage globalization	?	<input checked="" type="checkbox"/>
2	<b>Authoritarian-Nationalistic Model:</b> maintaining economic globalization under increasingly authoritarian (national) leadership	<input checked="" type="checkbox"/>	?
3	<b>Democratic-Regionalist Model:</b> strengthening democratic governance at national/regional level and moving towards selective economic de-globalization/regionalization	<input checked="" type="checkbox"/>	?

Explanatory note with respect assessment: ...YES; ...NO; ?...INDETERMINATE

Source: Own elaboration

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Though far from complete, such a common agenda should comprise three basic elements. The fundamental unifying bond will be the fight against the widely perceived injustices of the model of globalized neoliberal capitalism not only with respect to the distribution of income and wealth, but of other inequalities of recognition and representation more generally (Fraser 2008). A second common point refers to the need for protection against the negative impacts of the corporate sector-driven globalisation agenda and the quest for an alternative architecture of international cooperation. Instead of promoting further trade liberalisation, deregulation and privatisation, the focus of international cooperation needs to be redirected towards addressing issues of financial regulation, taxation, public health, environmental policies and development cooperation. Instead of a cosmopolitan global governance approach, the emerging multi-polar world calls for the use of traditional instruments of international cooperation like e.g. multilateral diplomacy, strict adherence to the principles of international law, and a strengthening of the UN system (Nölke 2017).

A third point relates to the urgent need for advancing the socio-ecological transformation of our resource and energy-intensive production and consumption models. In our judgement, the most feasible proposals for such a socio-ecological transformation have come under the umbrella term of a public sector- and investment-led “Green New Deal” (see e.g. Elliott et al. 2008). This must finally however be complemented with policies to promote local economies and solidary forms of economic production and consumption. The social inclusiveness of the model must be secured through an employer of last resort function of the public sector and the further

development of the universal welfare system. In strategic terms, such a counter-hegemonic project needs to be built from the bottom up, but it should not stop at the national level. Given the pronounced structural power of financial capital and transnational corporations, the eventual institutionalization of the model at the macro-regional level will be a necessary condition. This is particularly pertinent for the case of Europe, although it must be realistically assumed that the process of a reconstruction of a progressive model of European integration will be a long-term and cumbersome process, given the political, economic and social cleavages that have emerged across the EU since the financial and economic crisis of 2008.

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Which of the three strategic trajectories outlined above will unfold in the time to come, is obviously open to anyone’s guess. Internationalist inclinations of both the traditional political left and cosmopolitan liberals notwithstanding, we have argued that a democratic global governance project is unfeasible. Authoritarian nationalism is undesirable, though the unpleasant contours of the latter’s trajectory are looming on the horizon. This leaves progressives of various sorts with promoting a democratic regionalist model. The only conclusion that we can draw with some certainty is that the next phase of capitalist development will be marked by heightened levels of conflict and crisis. History suggests that in such periods societal trajectories are comparatively more open, which eventually offers opportunities for progressive political change.



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