The Democratic Malaise

Globalization and the Threat to the West

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A crisis of governability has engulfed the world’s most advanced democracies. It is no accident that the United States, Europe, and Japan are simultaneously experiencing political breakdown; globalization is producing a widening gap between what electorates are asking of their governments and what those governments are able to deliver. The mismatch between the growing demand for good governance and its shrinking supply is one of the gravest challenges facing the Western world today.

Voters in industrialized democracies are looking to their governments to respond to the decline in living standards and the growing inequality resulting from unprecedented global flows of goods, services, and capital. They also expect their representatives to deal with surging immigration, global warming, and other knock-on effects of a globalized world. But Western governments are not up to the task. Globalization is making less effective the policy levers at their disposal while also diminishing the West’s traditional sway over world affairs by fueling the “rise of the rest.” The inability of democratic governments to address the needs of their broader publics has, in turn, only increased popular disaffection, further undermining the legitimacy and efficacy of representative institutions.

This crisis of governability within the Western world comes at a particularly inopportune moment. The international system is in the midst of tectonic change due to the diffusion of wealth and power to new quarters. Globalization was supposed to have played to the advantage of liberal societies, which were presumably best suited to capitalize on the fast and fluid nature of the global marketplace. But instead, mass publics in the advanced democracies of North America, Europe, and East Asia have been particularly hard hit -- precisely because their countries’ economies are both mature and open to the world.
In contrast, Brazil, India, Turkey, and other rising democracies are benefiting from the shift of economic vitality from the developed to the developing world. And China is proving particularly adept at reaping globalization’s benefits while limiting its liabilities -- in no small part because it has retained control over policy instruments abandoned by its liberal competitors. State capitalism has its distinct advantages, at least for now. As a consequence, it is not just the West’s material primacy that is at stake today but also the allure of its version of modernity. Unless liberal democracies can restore their political and economic solvency, the politics, as well as the geopolitics, of the twenty-first century may well be up for grabs.

DEER IN THE HEADLIGHTS

Globalization has expanded aggregate wealth and enabled developing countries to achieve unprecedented prosperity. The proliferation of investment, trade, and communication networks has deepened interdependence and its potentially pacifying effects and has helped pry open nondemocratic states and foster popular uprisings. But at the same time, globalization and the digital economy on which it depends are the main source of the West’s current crisis of governability. Deindustrialization and outsourcing, global trade and fiscal imbalances, excess capital and credit and asset bubbles -- these consequences of globalization are imposing hardships and insecurity not experienced for generations. The distress stemming from the economic crisis that began in 2008 is particularly acute, but the underlying problems began much earlier. For the better part of two decades, middle-class wages in the world’s leading democracies have been stagnant, and economic inequality has been rising sharply as globalization has handsomely rewarded its winners but left its many losers behind.

These trends are not temporary byproducts of the business cycle, nor are they due primarily to insufficient regulation of the financial sector, tax cuts amid expensive wars, or other errant policies. Stagnant wages and rising inequality are, as the economic analysts Daniel Alpert, Robert Hockett, and Nouriel Roubini recently argued in their study “The Way Forward,” a consequence of the integration of billions of low-wage workers into the global economy and increases in productivity stemming from the application of information technology to the manufacturing sector. These developments have pushed global capacity far higher than demand, exacting a heavy toll on workers in the high-wage economies of the industrialized West. The resulting dislocation and disaffection among Western electorates have been magnified by globalization’s intensification of transnational threats, such as international crime, terrorism, unwanted immigration, and environmental degradation. Adding to this nasty mix is the information revolution; the Internet and the profusion of mass media appear to be fueling ideological polarization more than they are cultivating deliberative debate.

Voters confronted with economic duress, social dislocation, and political division look to their elected representatives for help. But just as globalization is stimulating this pressing demand for responsive governance, it is also ensuring that its provision is in desperately short supply. For three main reasons, governments in the industrialized West have entered a period of pronounced ineffectiveness.

First, globalization has made many of the traditional policy tools used by liberal democracies much blunter
instruments. Washington has regularly turned to fiscal and monetary policy to modulate economic performance. But in the midst of global competition and unprecedented debt, the U.S. economy seems all but immune to injections of stimulus spending or the Federal Reserve’s latest moves on interest rates. The scope and speed of commercial and financial flows mean that decisions and developments elsewhere -- Beijing’s intransigence on the value of the yuan, Europe’s sluggish response to its financial crisis, the actions of investors and ratings agencies, an increase in the quality of Hyundai’s latest models -- outweigh decisions taken in Washington. Europe’s democracies long relied on monetary policy to adjust to fluctuations in national economic performance. But they gave up that option when they joined the eurozone. Japan over the last two decades has tried one stimulus strategy after another, but to no avail. In a globalized world, democracies simply have less control over outcomes than they used to.

Second, many of the problems that Western electorates are asking their governments to solve require a level of international cooperation that is unattainable. The diffusion of power from the West to the rest means that there are today many new cooks in the kitchen; effective action no longer rests primarily on collaboration among like-minded democracies. Instead, it depends on cooperation among a much larger and more diverse circle of states. The United States now looks to the G-20 to rebalance the international economy. But consensus is elusive among nations that are at different stages of development and embrace divergent approaches to economic governance. Challenges such as curbing global warming or effectively isolating Iran similarly depend on a collective effort that is well beyond reach.

Third, democracies can be nimble and responsive when their electorates are content and enjoy a consensus born of rising expectations, but they are clumsy and sluggish when their citizens are downcast and divided. Politics in which governance depends on popular participation, institutional checks and balances, and competition among interest groups appear to be better at distributing benefits than at apportioning sacrifice. But sacrifice is exactly what is necessary to restore economic solvency, which confronts Western governments with the unappetizing prospect of pursuing policies that threaten to weaken their electoral appeal.

ONE PROBLEM, THREE FLAVORS

In the United States, partisan confrontation is paralyzing the political system. The underlying cause is the poor state of the U.S. economy. Since 2008, many Americans have lost their houses, jobs, and retirement savings. And these setbacks come on the heels of back-to-back decades of stagnation in middle-class wages. Over the past ten years, the average household income in the United States has fallen by over ten percent. In the meantime, income inequality has been steadily rising, making the United States the most unequal country in the industrialized world. The primary source of the declining fortunes of the American worker is global competition; jobs have been heading overseas. In addition, many of the most competitive companies in the digital economy do not have long coattails. Facebook’s estimated value is around $70 billion, and it employs roughly 2,000 workers; compare this with General Motors, which is valued at $35 billion and has 77,000 employees in the United States and 208,000 worldwide. The wealth of the United States’ cutting-edge companies is not trickling down to the middle class.

These harsh economic realities are helping revive ideological and partisan cleavages long muted by the nation’s rising economic fortunes. During the decades after World War II, a broadly shared prosperity
pulled Democrats and Republicans toward the political center. But today, Capitol Hill is largely devoid of both centrists and bipartisanship; Democrats campaign for more stimulus, relief for the unemployed, and taxes on the rich, whereas Republicans clamor for radical cuts in the size and cost of government. Expediting the hollowing out of the center are partisan redistricting, a media environment that provokes more than it informs, and a broken campaign finance system that has been captured by special interests.

The resulting polarization is tying the country in knots. President Barack Obama realized as much, which is why he entered office promising to be a “postpartisan” president. But the failure of Obama’s best efforts to revive the economy and restore bipartisan cooperation has exposed the systemic nature of the nation’s economic and political dysfunction. His $787 billion stimulus package, passed without the support of a single House Republican, was unable to resuscitate an economy plagued by debt, a deficit of middle-class jobs, and the global slowdown. Since the Republicans gained control of the House in 2010, partisan confrontation has stood in the way of progress on nearly every issue. Bills to promote economic growth either fail to pass or are so watered down that they have little impact. Immigration reform and legislation to curb global warming are not even on the table.

Ineffective governance, combined with daily doses of partisan bile, has pushed public approval of Congress to historic lows. Spreading frustration has spawned the Occupy Wall Street movement -- the first sustained bout of public protests since the Vietnam War. The electorate’s discontent only deepens the challenges of governance, as vulnerable politicians cater to the narrow interests of the party base and the nation’s political system loses what little wind it has in its sails.

Europe’s crisis of governability, meanwhile, is taking the form of a renationalization of its politics. Publics are revolting against the double dislocations of European integration and globalization. As a consequence, the EU’s member states are busily clawing back the prerogatives of sovereignty, threatening the project of European political and economic integration set in motion after World War II. As in the United States, economic conditions are the root of the problem. Over the past two decades, middle-class incomes in most major European economies have been falling and inequality has been rising. Unemployment in Spain stands at over 20 percent, and even Germany, the EU’s premier economy, saw its middle class contract by 13 percent between 2000 and 2008. Those who slip through the cracks find a fraying safety net beneath them; Europe’s comfortable welfare systems, which have become unsustainable in the face of global competition, are being dramatically scaled back. The austerity stemming from the ongoing debt crisis in the eurozone has only made matters worse. Greeks are as angry about the EU-enforced belt-tightening as Germans are about having to bail out Europe’s economic laggards.

Europe’s aging population has made immigration an economic necessity. But the lack of progress in integrating Muslim immigrants into the social mainstream has intensified discomfort over the EU’s willingness to accept more outsiders into its midst. Far-right parties have been the beneficiaries of this anxiety, and their hard-edged nationalism targets not only immigrants but also the EU. Generational change is taking its own toll on popular enthusiasm for European integration. Europeans with memories of World War II see the EU as Europe’s escape route from its bloody past. But younger Europeans have no past from which to flee. Whereas their elders viewed the European project as an article of faith, current leaders and electorates tend to assess the EU through a cold -- and often negative -- valuation of costs.
and benefits.

The collective governance that the EU desperately needs in order to thrive in a globalized world rests uneasily with a political street that is becoming decidedly hostile to the European project. Europe’s institutions could descend to the level of its politics, which would effectively reduce the EU to little more than a trade bloc. Alternatively, national politics could again be infused with a European calling, which would breathe new legitimacy into an increasingly hollow union. The latter outcome is much preferable, but it will require leadership and resolve that, at least for now, are nowhere to be found.

Japan, for its part, has been politically adrift since Junichiro Koizumi stepped down as prime minister in 2006. Thereafter, the Liberal Democratic Party (LDP), which had dominated Japanese politics throughout most of the postwar era, stumbled badly, losing power to the Democratic Party of Japan (DPJ) in 2009. The consolidation of a two-party system had the potential to improve governance but instead produced only gridlock and declining public confidence. Japan has cycled through six prime ministers in the last five years. This past summer, public approval of the DPJ stood at 18 percent. The DPJ and the LDP are as internally divided as they are at loggerheads. Policymaking has ground to a halt even on urgent issues; it took over 100 days for the Diet to pass legislation providing relief to the victims of last year’s earthquake, tsunami, and nuclear disaster.

The trouble began with the bursting of Japan’s asset bubble in 1991, a setback that exposed deeper problems in the country’s economy and led to a “lost decade” of recession. Japanese manufacturers suffered as jobs and investment headed to China and the “Asian tigers.” The country’s traditional social compact, by which corporations provided lifetime employment and comfortable pensions, was no longer sustainable. The past two decades have brought a long slide in middle-class incomes, rising inequality, and a spike in the poverty rate from roughly seven percent in the 1980s to 16 percent in 2009. In 1989, Japan ranked fourth in the world in terms of per capita GDP; by 2010, its rank had plummeted to 24th.

It was to address such problems that Koizumi embarked on ambitious efforts to liberalize the economy and reduce the power of bureaucrats and interest groups. His charisma and ample parliamentary support made for significant progress, but his LDP and DPJ successors have been too weak to keep the process moving forward. Japan is therefore stuck in a no man’s land, exposed to the dislocations of a globalized economy yet not liberalized or strategic enough to compete effectively.

BITTER MEDICINE

It is not by chance that the West’s crisis of governability coincides with new political strength among rising powers; economic and political vigor is passing from the core to the periphery of the international system. And while the world’s most open states are experiencing a loss of control as they integrate into a globalized world, illiberal states, such as China, are deliberately keeping a much tighter grip on their societies through centralized decision-making, censorship of the media, and state-supervised markets. If the leading democracies continue to lose their luster as developing countries chart their rise, the unfolding transition in global power will be significantly more destabilizing. Conversely, a realignment of the international pecking order would likely be more orderly if the Western democracies recouped and provided purposeful leadership.
What is needed is nothing less than a compelling twenty-first-century answer to the fundamental tensions among democracy, capitalism, and globalization. This new political agenda should aim to reassert popular control over political economy, directing state action toward effective responses to both the economic realities of global markets and the demands of mass societies for an equitable distribution of rewards and sacrifices.

The West should pursue three broad strategies to meet this challenge and thus better equip its democratic institutions for a globalized world. First, when up against state capitalism and the potent force of global markets, the Western democracies have little choice but to engage in strategic economic planning on an unprecedented scale. State-led investment in jobs, infrastructure, education, and research will be required to restore economic competitiveness. Second, leaders should seek to channel electorate discontent toward reformist ends through a progressive brand of populism. By pursuing policies that advantage mass publics rather than the party faithful or special interests, politicians can not only rebuild their popularity but also reinvigorate democratic institutions and the values of citizenship and sacrifice. Third, Western governments must lead their electorates away from the temptation to turn inward. As history makes clear, hard times can stoke protectionism and isolationism. But globalization is here to stay, and retreat is not an option.

None of these strategies will be easy to implement, and embracing all of them together will require extraordinary leadership and the political courage to match. But until such an agenda is devised and realized, the democratic malaise will persist.

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