CURRENT HISTORY
A Journal of Contemporary World Affairs

A DECADE OF AFTERSHOCKS

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FOUR YEARS AGO, the self-proclaimed caliphate of the Islamic State spanned vast expanses of conquered territory across Iraq and Syria, inspiring premature predictions of the collapse of regional borders. The group's gruesome mass executions spread its terror via the global media. More enigmatic but no less symbolic were its assaults on ancient sites like the famous ruins of the desert city of Palmyra. Today the caliphate is gone but the task of repairing the damage done by ISIS, both to societies and their national heritage, remains. For Iraq and Syria, this is just part of the staggering toll of civil war and one step on the long road to reconstruction and reconciliation. Current History's December issue will cover these trends and more across the region. Topics scheduled to appear include:

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• Refugee Repatriation and Rebuilding in Syria  
  Faten Ghosn, University of Arizona

• The Emergence of an Iraqi Protest Movement  
  Zahra Ali, Rutgers University

• Turkey's New Middle Class  
  Erol Balkan, Hamilton College
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Post-Crisis Political Change in Western Europe

JULIA LYNCH AND JONATHAN HOPKIN

The 2008 global financial crisis hit multiple countries simultaneously and suddenly. In the years since the crisis, a number of common political trends have appeared across many of the rich industrialized democracies of Western Europe: center-left parties have collapsed, voter loyalties to old parties have declined and party systems have become more fragmented, populist movements have arisen on both left and right, and illiberal politics, often accompanied by right-wing nationalism, are reemerging after a period of quiescence since World War II. The coincidence of such trends unfolding in the decade following the crisis has caused many analysts to link the two in a cause-and-effect relationship. But while the crisis clearly precipitated some of these trends, it was not in itself their sole cause.

To understand the politics of the post-crisis period in Western Europe, it is important to acknowledge longer-term, interrelated changes since the mid-1970s in the political economies of the rich democracies. Among them are the rise of the service economy, social changes including secularization and immigration, shifts in how parties relate to voters, changing economic ideas, and increasing economic insecurity and inequality. Some of these changes contributed to the crisis itself, and others affected the policy response to the crisis. But all of them contributed over the long term to the transformation of democratic politics in the past decade.

None of this is unique to Western Europe—in fact, many of the same dynamics have taken place in the United States. But because the policy response to the financial crisis in the partially integrated economies of Europe was quite different, these long-term changes filtered into post-crisis politics differently, too.

POSTINDUSTRIAL SHIFTS

In the 1950s and 1960s, most of Western Europe experienced a period of sustained economic growth led by industrial and/or agricultural production. But already in the 1960s, as technology reduced the demand for labor in manufacturing and incomes began to rise, services started to take over as the engine of growth in the advanced economies. Decolonization and the development of containerized shipping led to a shift of manufacturing employment to less costly overseas locations, accelerating the move to a service-led economy. So too did government policies that prioritized the development of free trade and phased out efforts to stimulate domestic production through industrial policy.

The rise of the service economy and the decline of manufacturing have had several important long-term political effects. Labor unions, which were once powerful representatives of blue-collar voters, have in some contexts shrunk to irrelevance, and in others transformed themselves into advocates mainly for service-sector workers. This has changed the nature of political and economic representation of manufacturing workers in Europe.

Some analysts have argued that the economic transformation to a "postindustrial" economy has led to transformations of voters' political orientations. The theory is that many service-sector jobs require more interpersonal and cognitive skills than classic blue-collar manufacturing jobs, so sectoral changes in the economy favor the development of more cosmopolitan political views, with a greater emphasis on individual choice and openness to change. While service-sector workers and those with higher levels of education tend to gravitate toward these views, blue-collar workers, older vot-

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ers, and those with less education may continue to harbor less socially progressive values. This presents a new "libertarian-authoritarian" issue dimension in electoral politics, running perpendicular to the old left-right continuum. At the same time, European societies have become more affluent. Many workers, especially higher-educated ones, have less interest in the traditional bread-and-butter issues like wages and social security, and have begun to focus more on the natural constituency of center-left parties. As the composition of the workforce has shifted in favor of more affluent service-sector employees, a new bloc of voters has emerged whose preferred positions are closer to the center on economic issues and more libertarian on social issues. Center-left parties have relocated in the political space in order to attract these voters—a shift that has been facilitated by the decline of unions and the transformation of the organizational base of popular movements. Major changes in the religious and cultural makeup of Europe reinforced these trends. Before the 1960s, most Western European countries had not seen mass migration, and most residents were white, Christian, and ethnically European. Religious observance among Europeans was already declining in the 1960s, but dropped even more precipitously beginning in the 1970s. The secularization of society undermined the organizational base of center-right and Christian Democratic parties in Europe that had recruited heavily from regular church attenders. It also encouraged the spread of libertarian and cosmopolitan values.

Electorates were subjected to a degree of economic pain that had not been seen since the 1930s.

Many immigrants participate in the labor market, and immigrant-owned businesses generate employment and tax revenues. However, because immigrants from outside of Europe often face legal, educational, and cultural obstacles to labor market access, some claim social welfare benefits. When immigrants are visibly and culturally distinct from the native-born population, their presence and their presumed economic costs can be a flashpoint for an anti-immigrant backlash from voters who might be located anywhere along the left-right economic dimension of politics, but are on the authoritarian end of the social issues dimension. This proved particularly problematic for parties on the center-left. As long as they could attract new, more libertarian voters without losing too many of their more traditional blue-collar voters, they had a path to success. Similarly, center-right parties could deliver if they held on to their core conservative economic voters and emphasized "authoritarian" positions like enforcing law and order and upholding family and religious institutions. But hanging on to traditional voters became increasingly difficult beginning in the 1970s. Unmoored voters

In the postwar period, parties in Western Europe built political subcultures—partyidentities linked to social attributes such as class or religious denomination—on a structure of organizations like unions, churches, and social clubs that educated voters, mobilized them into politics, facilitated voter turnout, organized political activities, and provided mechanisms for recruitment of party members. These subcultures stabilized postwar politics and support for liberal democracy. But secularization led to declining church attendance, and the decline of manufacturing and the transition to postindustrial economies led to shrinking membership in many countries from the 1970s onward. This in turn led to declining party membership and greater electoral volatility as more voters became organizationally unmoored from traditional partisan allegiances. This weakening relationship between parties and voters allowed some parties to successfully reposition themselves. Once their ties with blue-collar unions loosened, center-left parties were able to shift to the center on economic issues and toward the libertarian end of the social issues dimension to capture more middle-class voters and women. However, convergence on multicultural and cosmopolitan values and policies, for example regarding education and immigration, risked alienating voters whose values were more traditional-authoritarian, but who were no longer tied organizationally to the left. Embracing cosmopolitan and multicultural Europe without at the same time advocating for policies that could help the losers of economic change has left center-left parties vulnerable to the defection of their blue-collar electorate. In some cases, mainstream parties on the right have been able to attract these voters; in others, populist alternatives to mainstream parties have emerged.

Voters whose background and skills have exposed them to some of the economic transformations of the last 40 years have proved far more likely to defect from center-left to center-right parties when the economic policy positions of the major parties are close together. Starting in the 1980s and intensifying in the 1990s, many center-left parties moved to adopt policies much closer to the center-right with respect to financial and labor market deregulation, taxation and welfare spending, and free movement of goods, capital, and people. Why this convergence on neoliberal economic policies? Slower economic growth left a smaller pie to be shared. Faced with growing demands on the welfare state and fear of an anti-tax backlash by middle-class democratically oriented voters often opted for retrenchment. Increasing financial and economic openness boosted the structural power of business and finance, restricting the scope for fiscal expansion and disrupting patterns of collective wage bargaining. EU-level decisions on fiscal, monetary, and regulatory policies constrained domestic economic policy in ways that undermined the center-left. In short, traditional social democratic arrangements came harder to sustain in a world of international commitments, footloose capital, and unfavorable demographics that required an ever-greater share of public spending on pensions and healthcare for the elderly. But this shift also altered the internal dynamics of social democratic parties and their leaders. The changing profile of party elites (fewer now have backgrounds in the trade union movement) increased the disconnect between the parties and their traditional bases. The ideas that these new leaders brought with them also contributed to reddefining social democracy and its policy goals. As economists became more influential in the policy world, the center-left increasingly found itself fighting for economic and social equality into a worldview dominated by ideas of free markets and individual choice.

Combined with the organizational de-linking of unions from parties, these sociological and intellectual forces have led to the center-left adopting policies that contribute to the economic dislocation of blue-collar voters. The substantial growth of income inequality in virtually all Western European countries since the 1970s is one result of the embrace of neoliberal policies. The partial rollback of welfare state protections is another.

The convergence of mainstream center-left and center-right parties on the liberalizing policy agenda in the 1990s was also a manifestation of the tightening after the global financial crisis and the Eurozone crisis that followed, has created openings on both the left and right for alternative forms of political mobilization. Center-left and center-right parties have different some key policy issues like the relative priority to be placed on employment versus inflation, or the proper degree of regulation of international financial or migratory flows, but they agree that "there is no alternative" to neoliberalism (to borrow Margaret Thatcher's phrase). As a result, many voters who now perceive that their prosperity and security are harmed by such policies have abandoned the mainstream parties.

Flawed model

The political turbulence of the current period cannot be properly understood without considering the massive financial losses caused by the global crisis, the effects of these losses on economic performance (both immediate and over the subsequent decade), and the devastating impact on public confidence in political elites and institutions. But the cross-national confirmation of the decline of a managed form of democratic capitalism that had delivered equitable growth for the first thirty years after the end of World War II. The international political economy of the early part of the 1990s and 2000s extended the logic of postindustrial neoliberalism from the national level to the international financial system, which entirely lacked the mechanisms of cooperation that could have dealt with the emerging imbalances and held back the growth of credit before it reached unsustainable levels.
The crisis may have taken policy makers by surprise, but financial instability had been growing ever since the mid-1970s. Under the Bretton Woods arrangements of fixed exchange rates underpinned by central banks, banking crises were rare. But as one country after another opted for free movement of capital while deregulating their banking systems, financial meltdowns became a frequent cyclical occurrence and growing severity. Lifeline bank lending fueled housing bubbles. Dismantling labor-market institutions that had once maintained stable patterns of demand led countries with export-oriented economies to accumulate unsustainable financial surpluses. Germany, the largest creditor country by far, was a stark example of this: the center-left’s Agenda 2010 reforms squeezed wages while corporate savings boomed. These surpluses had to be recycled in other countries whose credit systems could absorb them through expanded household and government borrowing. That process was enabled by the fact that the single European currency lacked meaningful shared financial safeguards.

Once discarded, this same lack of institutional capacity meant that there was no orderly way of dealing with its consequences. Policy makers were intellectually unprepared for the system’s collapse under the weight of massive, previously off-balance-sheet losses. In Alan Greenspan’s words, they belatedly discovered a “flaw in the model” of how the world worked. Their model was influenced by economic assumptions that free markets would produce optimal outcomes in the absence of government regulation. Many politicians were closely connected to the financial sector, and reluctant to draw the conclusion that a return to market regulations that had worked well in the postwar period could be the answer.

The immediate concern of policy makers after the crash was not to build a new regulatory structure, but instead to prevent a complete financial meltdown that threatened a collapse in the real economy. The potential breakdown of social order. They shunned any radical rethinking of the status of markets and the role of the state in the economy, focusing instead on mobilizing resources to plug holes in the balance sheets of financial institutions that were critical to the functioning of the system. The three big central banks—the Federal Reserve, the Bank of England, and the European Central Bank (ECB)—coordinated the provision of liquidity, but the initial bank rescue packages were designed and implemented at the national level. Different approaches were adopted in different countries, with varying combinations of capital injections, liquidity support, and guarantees. Alongside this financial first aid, Western governments all adopted fiscal stimulus measures, allowing public borrowing to replace some of the shortfall in private demand. In the United States and Britain, central banks engaged in “quantitative easing,” creating new money to fund stimulus spending as sovereign debt, which conveniently provided a market for growing government borrowing.

Choosing Paths

This decisive government action clearly contradicted the pro-market orthodoxy, so when panic conditions subsided policy makers swiftly moved to restore established practices. By late 2009, an austerity narrative had emerged: politicians and commentators sounded alarms over rising public debt and the inflationary threat it posed. Almost simultaneously, governments across the West switched to fiscal tightening, offset to some degree in the Anglophone world by rising VAT rates but largely compensated in the Eurozone by a premature attempt to hike interest rates.

In the high debt countries, such as Britain, Ireland, and those in Southern Europe, households and governments alike struggled to reduce their liabilities. Creditors countries also leaned toward austerity. The resulting spiral generated a double-dip recession for many countries, and a sovereign debt crisis for those in the Eurozone. Bailouts compounded the misery by imposing strict fiscal austerity as a condition of financial aid. Only in 2015, with a recession well under way, did the ECB follow the example of the Americans and the British by adopting its own version of quantitative easing, which reduced the strain on national governments.

The failure to secure a quick recovery meant that democracies underwent their own “stress test,” as electorates were confronted with a degree of economic pain that had not been seen since the 1930s. The normal safety valves of democratic accountability were put to work almost immediately: governing parties across Europe were decisively defeated in their first post-crisis electoral tests. In Britain, Prime Minister Gordon Brown’s Labour Party was replaced by a Conservative-led government that pushed large-scale public spending cuts. But in the Eurozone, the choice for austerity and the protection of bank solvency at the expense of government and household balance sheets was largely unaffected by the political complexion of the incumbent parties. Given the constraints on policy to which mainstream political elites were committed, electoral turnover in itself achieved almost nothing, save for marginal differences in the distribution of economic pain.

In France, the 2012 election of a Socialist president, François Hollande, raised hopes of a change in direction. The main opposition party, the discredited Union for a Popular Movement (UMP), was forced to bring the Social Democratic Party (PS) into the governing coalition, but the PS proved itself as fierce an opponent of fiscal expansion as any party on the right. Even Nordic social democrats persisted in paring back welfare spending, while trade unions agreed to wage freezes to protect manufacturing competitiveness.

At the European level, the different party groupings were almost indistinguishable in their adherence to austerity, liberalization, and a hard line on indebted peripheral countries. There was little to separate Merkel’s Christian Democratic call for thrift from the rhetoric of Eurogroup chairman Jeroen Dijsselbloem, a Dutch Social Democrat, who complained that Southern Europeans had spent their money on “wine and women.” This was in the context of youth unemployment rates that peaked at over 50 percent in countries such as Greece and Spain.

Populist Appeals

This combination of economic misery and political paralysis was an open goal for the anti-system forces that had been steadily growing in most of Europe since the early 1990s. The strong showings of right-wing populist parties in many countries have served to identify the cultural and economic consequences of immigration as the main source of recent political upheavals, and it is true that xenophobic appeals have been successful in Austria, France, Italy, Switzerland, the Netherlands, and across Scandinavia. The refugee crisis of 2015 has been presented as further evidence for this “cultural change” explanation, often contrasted with an economic interpretation emphasizing the dislocations of the financial crisis as the cause of right-wing populist success in recent elections.

The collision between these two theories has also yielded competing explanations for the weakness of mainstream social democratic parties, which have been polling at their lowest levels in around a century in countries such as Sweden, the Netherlands, France, and Germany.

Neither of these arguments takes full account of deeper sources of the malaise of contemporary democracies. To focus on the financial crisis alone misses the longer-term processes comprehensively mismanaged Western societies to ever greater economic inequality and insecurity, changes that stem from the declining ability of center-left parties to protect workers from market forces. The emphasis on immigration misses the ways in which free movement of labor intersects with a wide range of labor market and welfare changes that have undermined the position of working people. Instead, the financial crisis can be best understood as a final catastrophic stage of a process of dismantling the protective institutions that made Western European capitalism politically sustainable for much of the second half of the twentieth century.

The similarities and differences among electoral outcomes across countries present important clues as to how economic distress has translated into political responses. The first point to note is that the observable local impact of immigration has proved a poor predictor of voter propensity to support right-wing populist parties. Most of the region most affected by migration tend to vote for the progressive center or the left. Large, diverse cities such as London and Paris gave little support in the most recent elections to the UK Independence Party or Marine Le Pen’s National Front, which instead performed best in rural or suburban areas with few migrants. Nor were the countries most affected by the refugee crisis fertile ground for the right. Southern Italy, Spain, and Greece have had little success in attracting support for anti-immigrant parties in Europe.

Second, the depth of the financial crisis does prove a good predictor of political upheavals and the success of anti-system parties, but it does not predict which types of parties will perform best. In the UK, the 2016 Brexit referendum vote proved that an economic nationalist appeal could be successful in the aftermath of a severe financial shock. But it was followed by the unexpected success of Jeremy Corbyn’s brand of anti-austerity politics in
the 2017 general election, which gave the Labour Party the highest share of any party on the left in Europe at present. The election had been called by Conservative Prime Minister Theresa May to exploit Labour’s perceived weakness, yet Labour won 40 percent of the vote. It was not enough to win power, but enough to deny the Conservatives an overall majority in parliament.

In Greece, the neo-Nazi Golden Dawn party won a disquieting 7 percent of the vote in 2015, but the big winner of the post-bailout period was Syriza, the left-wing coalition that mobilized opposition to the austerity agenda imposed on the country by the Troika of the European Commission, the ECB, and the International Monetary Fund. In Spain, the post-crisis era produced a new party on the left, Podemos, which also challenged the austerity policies that followed a banking sector bailout, as well as an intensification of the pro-independence movement in Catalonia, which blamed Spain’s conservative government for austerity.

In Italy, the main beneficiary of the crisis was the Five Star Movement, an anti-establishment party that defies standard categorizations, mixing environmentalism, denunciations of corruption, and promises of welfare spending and participatory democracy. The party came out the clear winner in the 2018 election, forming a government with the anti-immigration League, which also made major gains with a more standard right-wing populist appeal.

Right-wing populism has tended to be the dominant response to the crisis in richer, export-oriented countries with generous welfare states and sound fiscal balances. Along with their opposition to immigration, right-wing populists mobilized aggressively against the bailout measures rolled out to rescue European (and global) finance. The Alternative for Germany party eventually pivoted toward Islamophobia, but began as a pro-market party hostile to the decision to put German taxpayers on the hook for the reckless lending of German banks to Greece and others. The Finns, a nationalist party hostile to immigration, have played a similar tune, threatening to derail European-level agreements to rescue the Southern periphery.

**WHO PAYS?**

Like the Tea Party and the Trump campaign in the United States, the European populist right appeals to voters resistant to paying for what they see as the misbehavior of others, whether they be underwater mortgage-holders or distressed sovereign borrowers. This kind of defensive populism appeals particularly to older, male, and usually less educated voters, especially in relatively declining regions or localities of otherwise prosperous countries.

In this sense, European populism reflects a distributional struggle taking place at both the national and transnational levels, as creditors and debtors fight over who will bear the burden of adjustment. In Northern Europe, older blue-collar workers are most vulnerable to the kinds of austerity measures resulting from the financial crisis. The efforts of national elites to shift the blame for bailouts—away from domestic banks and toward foreign governments—have encouraged nationalist resentment.

In Southern Europe, younger voters have found themselves bearing the brunt of austerity, which has borne down on their employment opportunities. This opens a space for more socially liberal forms of antisystem politics. The importance of free movement of labor for the young and unemployed limits the appeal of xenophobia and Euro-skepticism, while older, wealthier voters are reluctant to risk the value of their assets by pulling out of the single currency.

Mainstream political elites have nailed their colors to the mast of austerity and pro-market reforms locked in by European rules, but national electorates are less supportive of these arrangements than ever. The rise to power of populists in Greece and Italy has yet to shake this fragile equilibrium, largely because the fears of financial chaos that could result from unilateral action have so far proved sufficient to bring rogue governments to heel. In effect, by selectively withholding financial support to discipline debtor governments, EU policymakers hope to force electorates into line by giving them the stark choice of responsive government or financial stability. The current row over the Italian populist government’s proposal to run a larger fiscal deficit next year is a case in point.

As the long period of economic stagnation persists, the likelihood of these arrangements surviving many more electoral cycles, let alone another major financial shock, diminishes. In the absence of a return to times of plenty and security, voters can be expected to demand protection from the harsh demands of the market system. After all, if banks can be bailed out, why not the people?