



The Next Political Order

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According to Gary Gerstle, University of Cambridge professor and author of *The Rise and Fall of the Neoliberal Order: America and the World in the Free Market Era*, we're moving to a new political order. But will it resemble the welfare state that began with the New Deal? Will it be more like the capitalistic state of recent decades? Or will it be something else entirely? In this episode of *The Active Share*, our Hugo-Scott Gall speaks with Gary about what gave rise to the old orders, and what may be coming next.

Comments are edited excerpts from our podcast, which you can listen to in full below.

How do you define “order?”

Gary: “Political order” is a term I use to understand political time in intervals longer than what grabs the attention of historians and political scientists, who focus on two-, four-, and six-year election cycles (especially four-year presidential cycles).

These shorter cycles are important, but sometimes they get too much attention. Not every president is as significant as every other president, and not all change can be comprehended in terms of these intervals.

So, the concept of political order connotes a set of political structures, institutions, and ideologies that come to dominate American politics for long stretches of time.

How do you know when a political ideology or movement has become a political order?

Gary: One of the tests is what happens when the opposition party comes into power. What happened when Eisenhower became president in 1952 after 20 years of Democratic presidents? What happened when Clinton came into office in 1993 after 12 years of Republican rule? Did they try to dismantle the ideological principles that had been dominant? Or did they feel pressure to acquiesce to the ideas of their opponents?

When Eisenhower came into office he did not try to take apart the New Deal, as Republicans in the 1920s took apart Wilsonian politics from the 1910s. He acquiesced to the core principles of the New Deal, even to the point of ratifying what, in retrospect, is an extraordinary taxation on the highest income earners in the United States.

Similarly, I call Clinton the Democratic Eisenhower because he deepened many of the neoliberal reforms that Ronald Reagan had put into effect in the 1980s.

So, a political order consists of a political party able to win elections on an enduring basis—so much so that the opposition party feels that in order to get back into power, it has to make concessions to the core idea of this dominant party.

Is that why Margaret Thatcher allegedly said her greatest achievement during her time in office was Tony Blair?

Gary: Absolutely. That illustrates the point beautifully.

What are the core principles of recent political orders?

Gary: A political order requires a vision of the good life that sells important constituencies on the virtues of a way of doing politics. The New Deal order and the neoliberal order—which are, in a sense, the reverse of each other—illustrate this.

The core principle of the New Deal order was that capitalism, left to its own devices, was too destructive to survive, either economically or politically. You need a strong federal government to come in to regulate the business cycle and put ordinary people in the position where they are able to enjoy their freedom (by, for example, providing them with an adequate level of education). Heavy government involvement in the economy was the key idea.

The core principle of the neoliberal order was that government involvement in the economy is destructive to economic growth, to productivity, to flourishing markets. And the best thing that America can do to recharge an ailing economy was to get the government out of the business of trying to manage the economy. Thus, one of the key words of the neoliberal era was deregulation.

These orders are not just political economies; they translate political economies into a vision of what constitutes a good life. For the New Deal, it was the idea that people really couldn't enjoy their personal freedom unless they had a level of security, education, and welfare. For the neoliberal order, it was that people have to be free of government surveillance and intervention so that they could explore their individuality and innovate in ways that had become impossible under the heavy hand of government regulation.

So we moved from the New Deal era to the neoliberal era. What caused the change? Was it just a building of pressure, a slow but inevitable swing of the pendulum? Or does a new order need a crisis to precipitate a moment of clarity?

Gary: Economic crisis is crucial to understanding the breakup of an old order and beginning of a new. The New Deal order came into existence as a result of the Great Depression. The neoliberal order came into existence as a result of the long and deep recession of the 1970s. And I associate the breakup of the neoliberal order with the consequences of the great recession of 2008-2009.

But there are other triggers. Humans like change; too much of a thing, even if it's a good thing, may get ossified. Also, political orders are complex, and there are always fracture points.

What fracture points did the New Deal order have?

Gary: Two were pronounced (although I would say neither by itself did in the New Deal order). One was the issue of race, and the other was the Vietnam War.

The New Deal order had never satisfactorily dealt with the issue of race in American life because Roosevelt, in order to get his progressive political economy passed, depended on the votes of white southerners in the Senate and in the House of Representatives who fully subscribed to Jim Crow.

And these white southerners—who dominated the Democratic party—said they would only get on board with this progressive political economy if the Democratic party guaranteed that it would not interfere with the racial hierarchies of the region. Now, Roosevelt didn't particularly want to do this, but in order to get his progressive political economy passed, he had to.

But the bill would come due, because at some point in the 1930s and 1940s African Americans switched their identity from the Republican party to the Democratic party, and became a significant voting bloc. The issue of racial equality would have to be addressed. And when it did get addressed, it began to break apart two important constituencies in the Democratic party—the white southerners and African Americans.

That fracture was intensified by the Vietnam War, which was going very badly (and the Democrats bore responsibility for that, because even though the war started under Eisenhower in the 1950s, Democrats escalated it in the 1960s).

But neither of those things actually caused the end of New Deal order?

Gary: So, the New Deal order had fracture points, and then, in the 1970s, came basic changes in geopolitics that made the New Deal order impossible to sustain.

One was the reemergence of serious economic competitors to the United States. At the end of World War II, the United States was the only well-functioning industrial economy in the world; the only one that had escaped the ravages of World War II.

That changed dramatically in the 1970s. The United States had been actively building up Germany and Japan, because it needed export markets for its goods, and these economies became so efficient that they became serious competitors to the United States. Foreign cars began flooding into the United States, challenging America's signature industry. The Rust Belt began with massive shutdowns in automobile manufacturing and

steelmaking.

The industrial crisis became an urban crisis because municipalities were starved for funds. They were losing workers, losing taxpayers. The ills of poverty required more social welfare but there was actually less social welfare to go around because the tax base was shrinking. So the economic crisis became a social crisis—not on the scale of the Great Depression, but very serious, nevertheless.

Keynesian ideas for managing the economy were no longer working. The New Deal toolkit was failing. Things that were not supposed to happen in the economy were happening—most notably stagflation.

And in that moment, ideas that had been consigned to the periphery begin to enter the mainstream—the neoliberal ideas of Milton Friedman and Friedrich Hayek. President Jimmy Carter was interested in these ideas, and when Ronald Reagan became president he said we're going full speed ahead with them.

That gets us to the birth of the neoliberal order. And it seems to me—as someone who has lived the majority of his life in the neoliberal order—that there are quite a few successful things about it. The world has not been engulfed in wars; it's become a safer place. Do you agree with that characterization? And why does it have to die?

Gary: No order has to die. But there is probably a statute of limitations on how long anything can survive. It so happens that the two orders I study each lasted 30 to 40 years.

There are definitely positive aspects to the neoliberal order. You've identified some of those qualities. It's also associated with an extraordinary revolution in technology and that has changed the way we live and communicate. Many consumer products and services also became cheaper.

But the neoliberal order also generated problems, including the dramatic widening of economic inequality. In the 1960s, an executive earned, on average, 20 times what an average manufacturing worker earned. By 2000, that ratio had risen to somewhere between 200 and 300 times.

The justification for this, within neoliberal thinking, was that while inequality was increasing, it was also making possible a generation of new industries, technologies, and goods, and everyone would benefit. The neoliberal world was going to lift everyone's boat. But this turned out, I think, not to be the case. It mattered a great deal whether you lived in districts of neoliberal economic activity or outside these districts.

I also think we have to pay attention to the role of the labor movement during this time period. Under the New Deal order, there has been a grand compromise between capital and labor, where capital agreed to share more of its profits with workers.

It started with the communist threat. Communism, in terms of economic competition, may not seem like much of a threat today, but in the 1950s and early 1960s it was not entirely clear whether the capitalist world or the communist world would deliver a better living to the average citizen. This sense of competition inclined capitalists to share wealth with those lower down in the social order, leading to what I and others have called the great compression—the narrowing of the gulf between the rich and the poor in America. A robust middle class was one

of the great achievements of the New Deal order.

The story of the 1990s and 2000s is that many parents in this secure middle class saw that the opportunities they had had were not available to their children and grandchildren, and that began to generate questions in people's minds about whether a lightly or non-regulated capitalist system is in the best interest of all Americans. And then came the crash of 2008-2009 and the great recession.

As an investor, I'm very interested in what comes next.

Gary: I have a shorthand for understanding how much the world is changing. I define the neoliberal order in terms of four freedoms that are crucial to the development of capitalism on a global scale: free trade across borders; free movement of people; free movement of information; and free movement of capital.

If we look at what's happening to each of these four freedoms, we see significant changes over the last 10 years. Trump and Sanders, during the neoliberal heyday, were politically irrelevant. No one thought in 2000 that they would become the two most dynamic players in American politics for the 2016 presidential election. Neither had use for free trade.

Now, as a result of the 2016 election, protectionism has become a legitimate political policy in ways that it was not during the neoliberal heyday. Interestingly, Biden has not sought to reverse the limitations on China-U.S. trade that Trump very controversially put into effect.

Walls—impediments to the free movement of people—are going up everywhere. We are moving out of an era in which the ability of people to cross borders was a sacred concept.

In terms of the free movement of information, we now confront a China that's attempting to create its own internet sealed off from the outside. Russia is trying to do something similar, with less effectiveness. We face the possibility that the world will be not a single digital world, but broken up into three or four regional blocs, each controlled by a regional hegemon.

We also see, through the Ukraine crisis, dramatic limitations on the free movement of capital. Russian assets were frozen in western banks. American corporations felt pressure to remove themselves and their investments from Russia.

There's also the rising importance of national security. Is it okay to have supply chains that stretch all the way to China, or do we need to produce these goods at home? What does America's national security require from its economy? That is a question that was not asked during the heyday of the neoliberal order. It was, for many countries, a very peaceful time. One didn't have to worry about these things. And if you're asking what national security requires from economies, it's no longer a great leap to ask if there should be controls on the movement and deployment of private capital.

If we think of how much these principles of freedom, so important to capitalism in the neoliberal age, are being questioned, we can begin to glimpse the possibility that we are entering a very different kind of world.

What is this new political order? It feels a bit more New Deal than it does neoliberal. Is that right?

Gary: Let me just put forward three alternatives that I see as possible.

One path forward is the Trump path—heavily ethno-nationalist. If that happens, what happens to the immensely powerful and creative private sector? Will they flourish under an autocratic regime? Will it reach some kind of rapprochement with an autocratic form of government? Or will it rebel?

Another is something resembling the New Deal, which we saw in the first six months of Biden’s administration with ambitious schemes to use government to restructure economic and social life. These ambitions were on a scale that exceeded anything in American politics since the days of the New Deal itself, in the 1930s and 1940s. But Roosevelt was able to effectuate the New Deal because he had huge Democratic majorities in both the House and the Senate. Biden does not have that, and we’ve seen his agenda dead in its tracks as a result.

The third possibility is that we are in for an extended period of disorder, where neither an autocratic ethno-nationalist order nor a progressive New Dealish order is able to establish itself. I don’t think the state of disorder is good for anybody. But it might be real.

I think we’ve ended up with a logical series of questions about what the next order looks like, which is a good way of ending. Thank you very much for giving us so much time.

Gary: Thank you for having me. It’s been a really interesting conversation. I hope your listeners will find issues of interest that provoke reflection, engagement, and argument. Truth be told, none of us know exactly where we’re going. If someone tells you otherwise, don’t believe them. But I am convinced we are at an inflection point, moving out of one order into something else.

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