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The Future of History

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Can Liberal Democracy Survive the Decline of the Middle Class?

Francis Fukuyama

Something strange is going on in the world today. The global financial crisis that began in 2008 and the ongoing crisis of the euro are both products of the model of lightly regulated financial capitalism that emerged over the past three decades. Yet despite widespread anger at Wall Street bailouts, there has been no great upsurge of left-wing American populism in response. It is conceivable that the Occupy Wall Street movement will gain traction, but the most dynamic recent populist movement to date has been the right-wing Tea Party, whose main target is the regulatory state that seeks to protect ordinary people from financial speculators. Something similar is true in Europe as well, where the left is anemic and right-wing populist parties are on the move.

There are several reasons for this lack of left-wing mobilization, but chief among them is a failure in the realm of ideas. For the past generation, the ideological high ground on economic issues has been held by a libertarian right. The left has not been able to make a plausible case for an agenda

other than a return to an unaffordable form of old-fashioned social democracy. This absence of a plausible progressive counter-narrative is unhealthy, because competition is good for intellectual debate just as it is for economic activity. And serious intellectual debate is urgently needed, since the current form of globalized capitalism is eroding the middle-class social base on which liberal democracy rests.

THE DEMOCRATIC WAVE

Social forces and conditions do not simply “determine” ideologies, as Karl Marx once maintained, but ideas do not become powerful unless they speak to the concerns of large numbers of ordinary people. Liberal democracy is the default ideology around much of the world today in part because it responds to and is facilitated by certain socioeconomic structures. Changes in those structures may have ideological consequences, just as ideological changes may have socioeconomic consequences.

Almost all the powerful ideas that shaped human societies up until the past

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300 years were religious in nature, with the important exception of Confucianism in China. The first major secular ideology to have a lasting worldwide effect was liberalism, a doctrine associated with the rise of first a commercial and then an industrial middle class in certain parts of Europe in the seventeenth century. (By “middle class,” I mean people who are neither at the top nor at the bottom of their societies in terms of income, who have received at least a secondary education, and who own either real property, durable goods, or their own businesses.)

As enunciated by classic thinkers such as Locke, Montesquieu, and Mill, liberalism holds that the legitimacy of state authority derives from the state’s ability to protect the individual rights of its citizens and that state power needs to be limited by the adherence to law. One of the fundamental rights to be protected is that of private property; England’s Glorious Revolution of 1688–89 was critical to the development of modern liberalism because it first established the constitutional principle that the state could not legitimately tax its citizens without their consent.

At first, liberalism did not necessarily imply democracy. The Whigs who supported the constitutional settlement of 1689 tended to be the wealthiest property owners in England; the parliament of that period represented less than ten percent of the whole population. Many classic liberals, including Mill, were highly skeptical of the virtues of democracy: they believed that responsible political participation required education and a stake in society—that is, property ownership. Up through the end of the nineteenth century, the franchise was limited by property and educational requirements in virtually all parts of

Europe. Andrew Jackson’s election as U.S. president in 1828 and his subsequent abolition of property requirements for voting, at least for white males, thus marked an important early victory for a more robust democratic principle.

In Europe, the exclusion of the vast majority of the population from political power and the rise of an industrial working class paved the way for Marxism. *The Communist Manifesto* was published in 1848, the same year that revolutions spread to all the major European countries save the United Kingdom. And so began a century of competition for the leadership of the democratic movement between communists, who were willing to jettison procedural democracy (multiparty elections) in favor of what they believed was substantive democracy (economic redistribution), and liberal democrats, who believed in expanding political participation while maintaining a rule of law protecting individual rights, including property rights.

At stake was the allegiance of the new industrial working class. Early Marxists believed they would win by sheer force of numbers: as the franchise was expanded in the late nineteenth century, parties such as the United Kingdom’s Labour and Germany’s Social Democrats grew by leaps and bounds and threatened the hegemony of both conservatives and traditional liberals. The rise of the working class was fiercely resisted, often by nondemocratic means; the communists and many socialists, in turn, abandoned formal democracy in favor of a direct seizure of power.

Throughout the first half of the twentieth century, there was a strong consensus on the progressive left that some form of socialism—government control of the commanding heights of the economy in

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order to ensure an egalitarian distribution of wealth—was unavoidable for all advanced countries. Even a conservative economist such as Joseph Schumpeter could write in his 1942 book, *Capitalism, Socialism, and Democracy*, that socialism would emerge victorious because capitalist society was culturally self-undermining. Socialism was believed to represent the will and interests of the vast majority of people in modern societies.

Yet even as the great ideological conflicts of the twentieth century played themselves out on a political and military level, critical changes were happening on a social level that undermined the Marxist scenario. First, the real living standards of the industrial working class kept rising, to the point where many workers or their children were able to join the middle class. Second, the relative size of the working class stopped growing and actually began to decline, particularly in the second half of the twentieth century, when services began to displace manufacturing in what were labeled “postindustrial” economies. Finally, a new group of poor or disadvantaged people emerged below the industrial working class—a heterogeneous mixture of racial and ethnic minorities, recent immigrants, and socially excluded groups, such as women, gays, and the disabled. As a result of these changes, in most industrialized societies, the old working class has become just another domestic interest group, one using the political power of trade unions to protect the hard-won gains of an earlier era.

Economic class, moreover, turned out not to be a great banner under which to mobilize populations in advanced industrial countries for political action. The Second International got a rude wake-up call in 1914, when the working classes of Europe

abandoned calls for class warfare and lined up behind conservative leaders preaching nationalist slogans, a pattern that persists to the present day. Many Marxists tried to explain this, according to the scholar Ernest Gellner, by what he dubbed the “wrong address theory”:

Just as extreme Shi’ite Muslims hold that Archangel Gabriel made a mistake, delivering the Message to Mohamed when it was intended for Ali, so Marxists basically like to think that the spirit of history or human consciousness made a terrible boob. The awakening message was intended for classes, but by some terrible postal error was delivered to nations.

Gellner went on to argue that religion serves a function similar to nationalism in the contemporary Middle East: it mobilizes people effectively because it has a spiritual and emotional content that class consciousness does not. Just as European nationalism was driven by the shift of Europeans from the countryside to cities in the late nineteenth century, so, too, Islamism is a reaction to the urbanization and displacement taking place in contemporary Middle Eastern societies. Marx’s letter will never be delivered to the address marked “class.”

Marx believed that the middle class, or at least the capital-owning slice of it that he called the bourgeoisie, would always remain a small and privileged minority in modern societies. What happened instead was that the bourgeoisie and the middle class more generally ended up constituting the vast majority of the populations of most advanced countries, posing problems for socialism. From the days of Aristotle, thinkers have believed that stable democracy rests on a broad middle class and that societies with extremes of wealth and

poverty are susceptible either to oligarchic domination or populist revolution. When much of the developed world succeeded in creating middle-class societies, the appeal of Marxism vanished. The only places where leftist radicalism persists as a powerful force are in highly unequal areas of the world, such as parts of Latin America, Nepal, and the impoverished regions of eastern India.

What the political scientist Samuel Huntington labeled the “third wave” of global democratization, which began in southern Europe in the 1970s and culminated in the fall of communism in Eastern Europe in 1989, increased the number of electoral democracies around the world from around 45 in 1970 to more than 120 by the late 1990s. Economic growth has led to the emergence of new middle classes in countries such as Brazil, India, Indonesia, South Africa, and Turkey. As the economist Moisés Naím has pointed out, these middle classes are relatively well educated, own property, and are technologically connected to the outside world. They are demanding of their governments and mobilize easily as a result of their access to technology. It should not be surprising that the chief instigators of the Arab Spring uprisings were well-educated Tunisians and Egyptians whose expectations for jobs and political participation were stymied by the dictatorships under which they lived.

Middle-class people do not necessarily support democracy in principle: like everyone else, they are self-interested actors who want to protect their property and position. In countries such as China and Thailand, many middle-class people feel threatened by the redistributive demands of the poor and hence have lined up in support of authoritarian governments

that protect their class interests. Nor is it the case that democracies necessarily meet the expectations of their own middle classes, and when they do not, the middle classes can become restive.

THE LEAST BAD ALTERNATIVE?

There is today a broad global consensus about the legitimacy, at least in principle, of liberal democracy. In the words of the economist Amartya Sen, “While democracy is not yet universally practiced, nor indeed uniformly accepted, in the general climate of world opinion, democratic governance has now achieved the status of being taken to be generally right.” It is most broadly accepted in countries that have reached a level of material prosperity sufficient to allow a majority of their citizens to think of themselves as middle class, which is why there tends to be a correlation between high levels of development and stable democracy.

Some societies, such as Iran and Saudi Arabia, reject liberal democracy in favor of a form of Islamic theocracy. Yet these regimes are developmental dead ends, kept alive only because they sit atop vast pools of oil. There was at one time a large Arab exception to the third wave, but the Arab Spring has shown that Arab publics can be mobilized against dictatorship just as readily as those in Eastern Europe and Latin America were. This does not of course mean that the path to a well-functioning democracy will be easy or straightforward in Tunisia, Egypt, or Libya, but it does suggest that the desire for political freedom and participation is not a cultural peculiarity of Europeans and Americans.

The single most serious challenge to liberal democracy in the world today

comes from China, which has combined authoritarian government with a partially marketized economy. China is heir to a long and proud tradition of high-quality bureaucratic government, one that stretches back over two millennia. Its leaders have managed a hugely complex transition from a centralized, Soviet-style planned economy to a dynamic open one and have done so with remarkable competence—more competence, frankly, than U.S. leaders have shown in the management of their own macroeconomic policy recently. Many people currently admire the Chinese system not just for its economic record but also because it can make large, complex decisions quickly, compared with the agonizing policy paralysis that has struck both the United States and Europe in the past few years. Especially since the recent financial crisis, the Chinese themselves have begun touting the “China model” as an alternative to liberal democracy.

This model is unlikely to ever become a serious alternative to liberal democracy in regions outside East Asia, however. In the first place, the model is culturally specific: the Chinese government is built around a long tradition of meritocratic recruitment, civil service examinations, a high emphasis on education, and deference to technocratic authority. Few developing countries can hope to emulate this model; those that have, such as Singapore and South Korea (at least in an earlier period), were already within the Chinese cultural zone. The Chinese themselves are skeptical about whether their model can be exported; the so-called Beijing consensus is a Western invention, not a Chinese one.

It is also unclear whether the model can be sustained. Neither export-driven growth

nor the top-down approach to decision-making will continue to yield good results forever. The fact that the Chinese government would not permit open discussion of the disastrous high-speed rail accident last summer and could not bring the Railway Ministry responsible for it to heel suggests that there are other time bombs hidden behind the façade of efficient decision-making.

Finally, China faces a great moral vulnerability down the road. The Chinese government does not force its officials to respect the basic dignity of its citizens. Every week, there are new protests about land seizures, environmental violations, or gross corruption on the part of some official. While the country is growing rapidly, these abuses can be swept under the carpet. But rapid growth will not continue forever, and the government will have to pay a price in pent-up anger. The regime no longer has any guiding ideal around which it is organized; it is run by a Communist Party supposedly committed to equality that presides over a society marked by dramatic and growing inequality.

So the stability of the Chinese system can in no way be taken for granted. The Chinese government argues that its citizens are culturally different and will always prefer benevolent, growth-promoting dictatorship to a messy democracy that threatens social stability. But it is unlikely that a spreading middle class will behave all that differently in China from the way it has behaved in other parts of the world. Other authoritarian regimes may be trying to emulate China's success, but there is little chance that much of the world will look like today's China 50 years down the road.

DEMOCRACY'S FUTURE

There is a broad correlation among economic growth, social change, and the hegemony of liberal democratic ideology in the world today. And at the moment, no plausible rival ideology looms. But some very troubling economic and social trends, if they continue, will both threaten the stability of contemporary liberal democracies and dethrone democratic ideology as it is now understood.

The sociologist Barrington Moore once flatly asserted, “No bourgeois, no democracy.” The Marxists didn’t get their communist utopia because mature capitalism generated middle-class societies, not working-class ones. But what if the further development of technology and globalization undermines the middle class and makes it impossible for more than a minority of citizens in an advanced society to achieve middle-class status?

There are already abundant signs that such a phase of development has begun. Median incomes in the United States have been stagnating in real terms since the 1970s. The economic impact of this stagnation has been softened to some extent by the fact that most U.S. households have shifted to two income earners in the past generation. Moreover, as the economist Raghuram Rajan has persuasively argued, since Americans are reluctant to engage in straightforward redistribution, the United States has instead attempted a highly dangerous and inefficient form of redistribution over the past generation by subsidizing mortgages for low-income households. This trend, facilitated by a flood of liquidity pouring in from China and other countries, gave many ordinary Americans the illusion that their standards

of living were rising steadily during the past decade. In this respect, the bursting of the housing bubble in 2008–9 was nothing more than a cruel reversion to the mean. Americans may today benefit from cheap cell phones, inexpensive clothing, and Facebook, but they increasingly cannot afford their own homes, or health insurance, or comfortable pensions when they retire.

A more troubling phenomenon, identified by the venture capitalist Peter Thiel and the economist Tyler Cowen, is that the benefits of the most recent waves of technological innovation have accrued disproportionately to the most talented and well-educated members of society. This phenomenon helped cause the massive growth of inequality in the United States over the past generation. In 1974, the top one percent of families took home nine percent of GDP; by 2007, that share had increased to 23.5 percent.

Trade and tax policies may have accelerated this trend, but the real villain here is technology. In earlier phases of industrialization—the ages of textiles, coal, steel, and the internal combustion engine—the benefits of technological changes almost always flowed down in significant ways to the rest of society in terms of employment. But this is not a law of nature. We are today living in what the scholar Shoshana Zuboff has labeled “the age of the smart machine,” in which technology is increasingly able to substitute for more and higher human functions. Every great advance for Silicon Valley likely means a loss of low-skill jobs elsewhere in the economy, a trend that is unlikely to end anytime soon.

Inequality has always existed, as a result of natural differences in talent and character. But today’s technological world vastly

magnifies those differences. In a nineteenth-century agrarian society, people with strong math skills did not have that many opportunities to capitalize on their talent. Today, they can become financial wizards or software engineers and take home ever-larger proportions of the national wealth.

The other factor undermining middle-class incomes in developed countries is globalization. With the lowering of transportation and communications costs and the entry into the global work force of hundreds of millions of new workers in developing countries, the kind of work done by the old middle class in the developed world can now be performed much more cheaply elsewhere. Under an economic model that prioritizes the maximization of aggregate income, it is inevitable that jobs will be outsourced.

Smarter ideas and policies could have contained the damage. Germany has succeeded in protecting a significant part of its manufacturing base and industrial labor force even as its companies have remained globally competitive. The United States and the United Kingdom, on the other hand, happily embraced the transition to the postindustrial service economy. Free trade became less a theory than an ideology: when members of the U.S. Congress tried to retaliate with trade sanctions against China for keeping its currency undervalued, they were indignantly charged with protectionism, as if the playing field were already level. There was a lot of happy talk about the wonders of the knowledge economy, and how dirty, dangerous manufacturing jobs would inevitably be replaced by highly educated workers doing creative and interesting things. This was a gauzy veil placed over the hard facts of deindustrial-

ization. It overlooked the fact that the benefits of the new order accrued disproportionately to a very small number of people in finance and high technology, interests that dominated the media and the general political conversation.

THE ABSENT LEFT

One of the most puzzling features of the world in the aftermath of the financial crisis is that so far, populism has taken primarily a right-wing form, not a left-wing one.

In the United States, for example, although the Tea Party is anti-elitist in its rhetoric, its members vote for conservative politicians who serve the interests of precisely those financiers and corporate elites they claim to despise. There are many explanations for this phenomenon. They include a deeply embedded belief in equality of opportunity rather than equality of outcome and the fact that cultural issues, such as abortion and gun rights, crosscut economic ones.

But the deeper reason a broad-based populist left has failed to materialize is an intellectual one. It has been several decades since anyone on the left has been able to articulate, first, a coherent analysis of what happens to the structure of advanced societies as they undergo economic change and, second, a realistic agenda that has any hope of protecting a middle-class society.

The main trends in left-wing thought in the last two generations have been, frankly, disastrous as either conceptual frameworks or tools for mobilization. Marxism died many years ago, and the few old believers still around are ready for nursing homes. The academic left replaced it with postmodernism, multiculturalism,

feminism, critical theory, and a host of other fragmented intellectual trends that are more cultural than economic in focus. Postmodernism begins with a denial of the possibility of any master narrative of history or society, undercutting its own authority as a voice for the majority of citizens who feel betrayed by their elites. Multiculturalism validates the victimhood of virtually every out-group. It is impossible to generate a mass progressive movement on the basis of such a motley coalition: most of the working- and lower-middle-class citizens victimized by the system are culturally conservative and would be embarrassed to be seen in the presence of allies like this.

Whatever the theoretical justifications underlying the left's agenda, its biggest problem is a lack of credibility. Over the past two generations, the mainstream left has followed a social democratic program that centers on the state provision of a variety of services, such as pensions, health care, and education. That model is now exhausted: welfare states have become big, bureaucratic, and inflexible; they are often captured by the very organizations that administer them, through public-sector unions; and, most important, they are fiscally unsustainable given the aging of populations virtually everywhere in the developed world. Thus, when existing social democratic parties come to power, they no longer aspire to be more than custodians of a welfare state that was created decades ago; none has a new, exciting agenda around which to rally the masses.

AN IDEOLOGY OF THE FUTURE

Imagine, for a moment, an obscure scribbler today in a garret somewhere trying to outline an ideology of the future that

could provide a realistic path toward a world with healthy middle-class societies and robust democracies. What would that ideology look like?

It would have to have at least two components, political and economic. Politically, the new ideology would need to reassert the supremacy of democratic politics over economics and legitimate anew government as an expression of the public interest. But the agenda it put forward to protect middle-class life could not simply rely on the existing mechanisms of the welfare state. The ideology would need to somehow redesign the public sector, freeing it from its dependence on existing stakeholders and using new, technology-empowered approaches to delivering services. It would have to argue forthrightly for more redistribution and present a realistic route to ending interest groups' domination of politics.

Economically, the ideology could not begin with a denunciation of capitalism as such, as if old-fashioned socialism were still a viable alternative. It is more the variety of capitalism that is at stake and the degree to which governments should help societies adjust to change. Globalization need be seen not as an inexorable fact of life but rather as a challenge and an opportunity that must be carefully controlled politically. The new ideology would not see markets as an end in themselves; instead, it would value global trade and investment to the extent that they contributed to a flourishing middle class, not just to greater aggregate national wealth.

It is not possible to get to that point, however, without providing a serious and sustained critique of much of the edifice of modern neoclassical economics, beginning

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with fundamental assumptions such as the sovereignty of individual preferences and that aggregate income is an accurate measure of national well-being. This critique would have to note that people's incomes do not necessarily represent their true contributions to society. It would have to go further, however, and recognize that even if labor markets were efficient, the natural distribution of talents is not necessarily fair and that individuals are not sovereign entities but beings heavily shaped by their surrounding societies.

Most of these ideas have been around in bits and pieces for some time; the scribbler would have to put them into a coherent package. He or she would also have to avoid the "wrong address" problem. The critique of globalization, that is, would have to be tied to nationalism as a strategy for mobilization in a way that defined national interest in a more sophisticated way than, for example, the "Buy American" campaigns of unions in the United States. The product would be a synthesis of ideas from both the left and the right, detached from the agenda of the marginalized groups that constitute the existing progressive movement. The ideology would be populist; the message would begin with a critique of the elites that allowed the benefit of the many to be sacrificed to that of the few and a critique of the money politics, especially in Washington, that overwhelmingly benefits the wealthy.

The dangers inherent in such a movement are obvious: a pullback by the United States, in particular, from its advocacy of a more open global system could set off protectionist responses elsewhere. In many respects, the Reagan-Thatcher revolution succeeded just as its proponents

hoped, bringing about an increasingly competitive, globalized, friction-free world. Along the way, it generated tremendous wealth and created rising middle classes all over the developing world, and the spread of democracy in their wake. It is possible that the developed world is on the cusp of a series of technological breakthroughs that will not only increase productivity but also provide meaningful employment to large numbers of middle-class people.

But that is more a matter of faith than a reflection of the empirical reality of the last 30 years, which points in the opposite direction. Indeed, there are a lot of reasons to think that inequality will continue to worsen. The current concentration of wealth in the United States has already become self-reinforcing: as the economist Simon Johnson has argued, the financial sector has used its lobbying clout to avoid more onerous forms of regulation. Schools for the well-off are better than ever; those for everyone else continue to deteriorate. Elites in all societies use their superior access to the political system to protect their interests, absent a countervailing democratic mobilization to rectify the situation. American elites are no exception to the rule.

That mobilization will not happen, however, as long as the middle classes of the developed world remain enthralled by the narrative of the past generation: that their interests will be best served by ever-freer markets and smaller states. The alternative narrative is out there, waiting to be born. 🌐