The Wrecking Ball of Innovation

Tony Judt

Supercapitalism: The Transformation of Business, Democracy, and Everyday Life
by Robert B. Reich.
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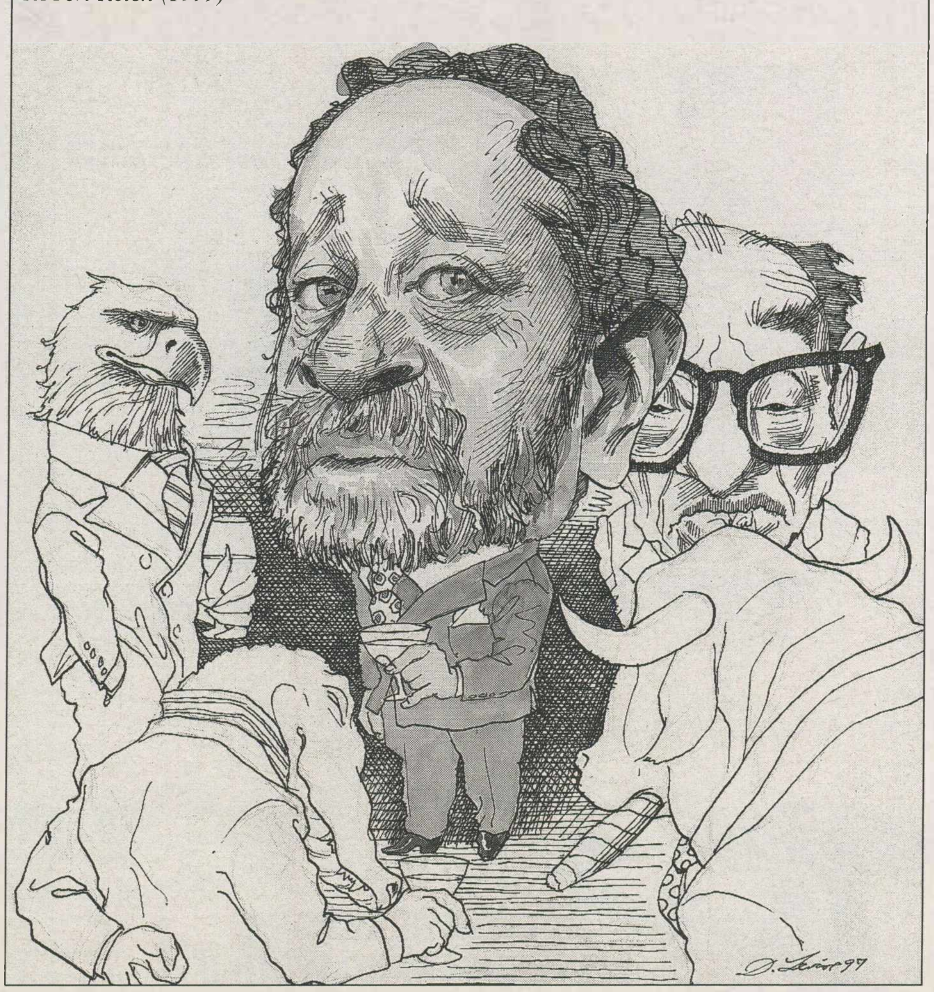
Robert Reich (1999)



Supercapitalism is Robert Reich's account of the way we live now. Its story is familiar, its diagnosis superficial. But there are two reasons for paying attention to it. The author was President Clinton's first secretary of labor. Reich emphasizes this connection, adding that "the Clinton administration—of which I am proud to have been a part—was one of the most pro-business administrations in American history." Indeed, this is a decidedly "Clintonesque" book, its shortcomings perhaps a foretaste of what to expect (and not expect) from another Clinton presidency. And Reich's subject—economic life in today's advanced capitalist economy and the price we are paying for it in the political and civic health of democracies—is important and even urgent, though the "fixes" that he proposes are unconvincing.

Reich's theme goes as follows. During what he calls the "Not Quite Golden Age" of American capitalism, from the end of World War II through the 1970s, American economic life was stable and in comfortable equilibrium. A limited number of giant firms—like General Motors—dominated their predictable and secure markets; skilled workers had steady and (relatively) safe jobs. For all the lip service paid to competition and free markets, the American economy (in this respect comparable to the economies of Western Europe) depended heavily upon protection from foreign competition, as well as standardization, regulation, subsidies, price supports, and government guarantees. The natural inequities of capitalism were softened by the assurance of present well-being and future prosperity and a widespread sentiment, however illusory, of common interest. "While Europeans set up cartels and fussed with democratic socialism, America went right to the heart of the matter—creating democratic capitalism as a planned economy, run by business."[1]

But since the mid-Seventies, and with increasing ferocity in recent years, the winds of change—"supercapitalism"—have blown all that away. Thanks to technologies initially supported by or spun off from cold-war research projects—such as computers, fiber optics, satellites, and the Internet—commodities, communications, and information now travel at a vastly accelerated pace. Regulatory structures set in place over the course of a century or more were superseded or dismantled within a few years. In their place came increased competition both for global markets and for the cataract of international funds chasing lucrative investments. Wages and prices were driven down, profits up. Competition and innovation generated new opportunities for some and vast pools of wealth for a few; meanwhile they destroyed jobs, bankrupted firms, and impoverished communities.

Reflecting the priorities of the new economy, politics are dominated by firms and financiers ("Wal-Mart and Wall Street" in Reich's summary) lobbying for sectional advantage: "Supercapitalism has spilled over into politics, and engulfed democracy." As investors—and above all as consumers—Americans in particular have benefited in ways their parents could not have imagined. But no one is looking after the broader public interest. Investment values have gone through the roof, but "the institutions that used to aggregate *citizen* values have declined." Public policy debates in the contemporary US, as Robert Reich observes, "are, on closer inspection, matters of mundane competitive advantage in pursuit of corporate profit." The notion of the "common good" has disappeared. Americans have lost control of their democracy.

Reich has a nice eye for the instructive example. The wealth gap in the US is now at its widest since 1929: in 2005, 21.2 percent of US national income accrued to just 1 percent of earners. In 1968 the CEO of General Motors took home, in pay and benefits, about sixty-six times the amount paid to a typical GM worker; in 2005 the CEO of Wal-Mart earned nine hundred times the pay of his average employee. Indeed, the wealth of the Wal-Mart founders' family that year was estimated at about the same ($90 billion) as that of the bottom 40 percent of the US population: 120 million people. If the overall economy has grown "exuberantly" but "median household income has gone nowhere over the last three decades,...where has all the wealth gone? Mostly to the very top." As for the intrepid boldness of the latest generation of "wealth creators": Reich lists the tax breaks, pension guarantees, safety nets, "superfunds," and bail-outs provided in recent years to savings and loans, hedge funds, banks, and other "risk-takers" before dryly concluding that arrangements "that confer all upside benefit on private investors and all downside risk on the public are bound to stimulate great feats of entrepreneurial daring."

This is all well said. But what is to be done? Here Reich is less forthcoming. The facts he amasses *appear* to point to an incipient collapse of the core values and institutions of the republic. Congressional bills are written to private advantage; influential contributors determine the policies of presidential candidates; individual citizens and voters have been steadily edged out of the public sphere. In Reich's many examples it is the modern international corporation, its overpaid executives, and its "value-obsessed" shareholders who seem to incarnate the breakdown of civic values. These firms' narrowly construed attention to growth, profit, and the short term, the reader might conclude, has obscured and displaced the broader collective goals and common interests that once bound us together.

But this is not at all the conclusion Robert Reich would have us reach. In his version of our present dilemmas no one is to blame. "As citizens, we may feel that inequality on this scale cannot possibly be good for a democracy.... But the super-rich are not at fault." "Have top executives become greedier?" No. "Have corporate boards grown less responsible?" No. "Are investors more docile?" "There's no evidence to support any of these theories." Corporations aren't behaving very socially responsibly, as Reich documents. But that isn't their job. We shouldn't expect investors or consumers or companies to serve the common good. They are just seeking the best deal. Economics isn't about ethics. As the British Prime Minister Harold Macmillan once observed, "If people want morality, let them get it from their archbishops."

In Reich's account, there are no "malefactors of great wealth."[2] Indeed, he contemptuously dismisses any explanation that rests on human choice or will or class interest or even economic ideas. All such explanations, in his words, "collapse in the face of the facts." The changes recorded in his book apparently just "happened," in a subjectless illustration of the creative destruction inherent in the capitalist dynamic: Schumpeter-lite, as it were. If anything, Reich is a technological determinist. New "technologies have empowered consumers and investors to get better and better deals." These deals have "sucked...social values...out of the system.... The story of what transpired has no heroes or villains."

There is a familiar triangulation at work here. The author gets to display indignation at the downside of modern capitalism, without ever having to attribute responsibility ("we *may* feel," etc.) or pass a judgment of his own. Corporations just do what they do. To be sure, if we don't like what that means for us as a society, Reich would have us don our citizen's cap and change it. But this doesn't really square with the book's repeated insistence on the iron logic of technology and self-interest. And so, not surprisingly, the solutions that Reich proposes to these epochal developments and the risks they pose are curiously humdrum: a few marginal tax changes, trade pacts to contain minimum wage clauses, some legislative regulation of lobbying.

But even these small amendments to current practice are at odds with Reich's framing assumption: that our interests as "investors" and "consumers" have triumphed over our capacity to act as "citizens." If his account of the workings of modern economic life is true—if, as he puts it, "under supercapitalism, the 'long term' is the present value of future earnings"—then tinkering with campaign finance laws is either irrelevant (because it would change nothing) or else impossible: because it would be opposed by those same "competing business interests"

[1]This is hardly an original claim, of course. As the Nobel-winning economist James Tobin observed some years ago, "It was a bunch of planners—Truman, Churchill, Keynes, Marshall, Acheson, Monnet, Schuman, Macarthur in Japan—whose vision made possible the prosperous postwar world." *World Finance and Economic Stability: Selected Essays of James Tobin* (Edward Elgar, 2003), p. 210.

[2]Nor is there any talk of the "unacceptable face of capitalism," as Edward Heath described an earlier generation of super-rich international businessmen. It is telling that both a Republican president, Theodore Roosevelt, and a Conservative prime minister were more willing to condemn capitalist excess than President Clinton's former secretary of labor.

which caused the distortion in the first place. In any case, why would we or our representatives choose suddenly, in Reich's terms, to act as disinterested "citizens" rather than the self-seeking "consumers" or "investors" we have become? What—for any individual citizen—would be the incentive? At whose behest would we suddenly opt for our "civic" identity over our "economic" one?

Reich's way of cataloging human behavior—as though our affinities and preferences ("consumer," "investor," "citizen") can be partitioned and pigeon-holed into noncommunicating boxes—is not convincing. It generates good sound bites—"As citizens [we] are sincerely concerned about global warming; as consumers and investors [we] are actively turning up the heat." But it can't explain why *American* citizens are trapped in this paradox while citizens in some other places have begun to address it. The trouble is that Reich's categories faithfully reflect his epistemologically thin view of society: by "citizen" he means no more than economic man + enlightened self-interest. There is something missing here. Not only are there no "heroes," no "villains," and no one to "blame." There are no politics either.

We live in an economic age. For two centuries following the French Revolution, Western political life was dominated by a struggle pitting left against right: "progressives"—whether liberal or socialist—against their conservative opponents. Until recently these ideological frames of reference were still very much alive and determined the rhetoric if not the reality of public choice. But in the course of the past generation the terms of political exchange have altered beyond recognition. Whatever remained of the reassuring fatalism of the old left narrative—the inspiring conviction that "History" was on your side—was buried after 1989 along with "real existing socialism." The traditional political right suffered a related fate. From the 1830s through the 1970s, to be on the right meant opposing the left's account of inevitable change and progress: "conservatives" conserved, "reactionaries" reacted. They were "counterrevolutionary." Hitherto energized by its rejection of now-defunct progressive convictions, the political right today has also lost its bearings.

The new master narrative—the way we think of our world—has abandoned the social for the economic. It presumes an "integrated system of global capitalism," economic growth, and productivity rather than class struggles, revolutions, and progress. Like its nineteenth-century predecessors, this story combines a claim about improvement ("growth is good") with an assumption about inevitability: globalization—or, for Robert Reich, "supercapitalism"—is a *natural* process, not a product of arbitrary human decisions. Where yesterday's theorists of revolution rested their worldview upon the inevitability of radical social upheaval, today's apostles of growth invoke the analogously ineluctable dynamic of global economic competition. Common to both is the confident identification of *necessity* in the present course of events. We are immured, in Emma Rothschild's words, in an uncontested "society of universal commerce."[3] Or as Margaret Thatcher once summarized it: There Is No Alternative.

Like their political forebears, contemporary economic writers often tend to the reductive: "In the long run," three respected economists write, "only one economic statistic really matters: the *growth of productivity*."[4] And today's dogma—like other dogmas of the recent past—is indifferent to those aspects of human existence not readily subsumed into its own terms of reference: just as the emphasis of the old thinking was on behavior and opinions that could be categorized as a product of "social class," so contemporary debate foregrounds interests and preferences that can be rendered in economic terms. We are predisposed to look back upon the twentieth century as an age of extremes and delusions from which we have now, thankfully, emerged. But are we not also deluded?

In our newfound worship of productivity and the market have we not simply inverted the faith of an earlier generation? Nothing is more ideological, after all, than the proposition that all affairs and policies, private and public, must turn upon the globalizing economy, its unavoidable laws and its insatiable demands. Together with the promise of revolution and its dream of social transformation, this worship of economic necessity was also the core premise of Marxism. In transiting from the twentieth century to the twenty-first, have we not just abandoned one nineteenth-century belief system and substituted another in its place?

Like the old master narrative, the new one offers scant guidance to making hard political choices. To take a simple instance: the real reason Robert Reich's "citizen" might be confused about global warming is not because he is also a part-time investor and consumer. It is because global warming is both a consequence of economic growth and a contributor to it. In which case, if "growth" is good and global warming bad, how is one to choose? *Is* growth a self-evident good? Whether contemporary wealth creation and efficiency-induced productivity growth actually deliver the benefits they proclaim—opportunity, upward mobility, happiness, well-being, affluence, security—is perhaps more of an open question than we are disposed to acknowledge. What if growth increased social resentments rather than alleviating them?[5] We should consider the noneconomic implications of public policy choices.

Take the case of welfare reform—in which Reich himself was very active, both as Bill Clinton's labor secretary and as the author many years ago of a proposal to replace public welfare with grants to businesses that hire the unemployed.[6] In 1996 the Clinton administration effectively eliminated most federally guaranteed entitlements to public assistance. Reversing the developments of the previous half-century, Congress ended universal benefits and made welfare conditional upon a demonstrated willingness to seek and accept work. This was in line with developments elsewhere: the shift from welfare to "workfare" characterized reforms in Britain, Holland, and even Scandinavia (e.g., the 1991 Norwegian Social Services Act entitling local authorities to impose work requirements upon welfare recipients). Universal rights and need-based provisions were replaced with a system of "work-enabling" incentives and rewards: the proclaimed goal of getting people "off" welfare accompanied a belief that the outcome would be both morally exemplary and economically efficient.

But what looks like sensible economic policy carries an implicit civic cost. One of the fundamental objectives of the twentieth-century welfare state was to make full citizens of everyone: not just voting citizens in Robert Reich's limited sense but rights-bearing citizens with an unconditional claim upon the attention and support of the collectivity. The outcome would be a more cohesive society, with no category of person excluded or less "deserving." But the new, "discretionary" approach makes an individual's claim upon the collectivity once again contingent on good conduct. It reintroduces a *conditionality* to social citizenship: only those with a job are full members of the community. Others may receive the help necessary for full participation, but not until they pass certain tests and demonstrate appropriate behavior.

Stripped of its rhetorical finery, modern welfare reform thus returns us to the spirit of England's New Poor Law of 1834, which introduced the principle of least eligibility, whereby relief for the unemployed and indigent was to be inferior in quality and quantity to the lowest prevailing wages and conditions of employment. And above all, welfare reform reopens a distinction between active (or "deserving") citizens and others: those who, for whatever reason, are excluded from the active workforce. To be sure, the old universal welfare systems were not market-friendly. But that was the point: welfare, in T. H. Marshall's words, was supposed "to supersede the market by taking goods and services out of it, or in some way to control and modify its

[3]Emma Rothschild, *Economic Sentiments: Adam Smith, Condorcet and the Enlightenment* (Harvard University Press, 2002), p. 250. As Rothschild observes, the "rhetoric of the endlessness of commerce is more unquestioned [today]...than at any time in the nineteenth or twentieth centuries" (p. 6).

[4]William J. Baumol, Robert E. Litan, and Carl J. Schramm, *Good Capitalism, Bad Capitalism, and the Economics of Growth and Prosperity* (Yale University Press, 2007), p. 230.

[5]Among recent contributions to this longstanding discussion see in particular Avner Offer, *The Challenge of Affluence* (Oxford University Press, 2006), reviewed in *The New York Review*, October 11, 2007, and Benjamin Friedman, *The Moral Consequences of Economic Growth* (Knopf, 2005), reviewed in *The New York Review*, January 12, 2006; also Fred Hirsch, *Social Limits to Growth* (Harvard University Press, 1976), and, classically, John Kenneth Galbraith, *The Affluent Society* (Houghton Mifflin, 1958). As Hirsch observes (p. 66, note 19), the question, for example, of whether redistribution "destroys wealth" can't be answered by economic criteria alone. It depends on what constitutes "wealth," i.e., what we value.

[6]See Robert Reich, *The Next American Frontier: A Provocative Program for Economic Renewal* (Viking, 1984).

operations so as to produce a result it would not have produced itself."[7]

Market optimization—displacing social or political evaluations of public policy with measures evaluated primarily for their economic efficiency—is also the proclaimed justification for the privatization frenzy of recent years. But here, as with welfare reform, what purports to represent the future has actually begun to resemble the past, breaking up the public and collective agencies of the modern era into fragmented and privately held assets reminiscent of a much earlier age. With the advent of the modern state (notably over the course of the past century), transport, hospitals, schools, mails, armies, prisons, police forces, and affordable access to culture—all of them essential services not obviously well served by the workings of the profit motive—were taken under public regulation or control. They are now being handed back to private entrepreneurs (or, in the case of many European cultural budgets, to the vagaries of individual delusion and frailty in the form of semiprivate national lotteries).

In some cases—transportation and mails, notably—these services don't promise an economic return (e.g., when they have to be provided in remote places) and taxpayers must underwrite or guarantee the private sector's profit margin in order for the state to find buyers. This is just old-fashioned subsidy under another name; and (as Robert Reich acknowledges) a perennial source of moral hazard, inviting irresponsibility and often corruption. In other cases private companies take a hitherto public responsibility—provision of prisons or railroad carriages or health care—off the hands of the state, sometimes paying a fee for the privilege and recouping their outlay by charging citizens or communities who use the facility in question. Typically, the public treasury reaps a one-time gain and is relieved of an administrative burden, but at the expense of foregone future income and a loss of control over the quality of the service contracted out. In Britain today this is designated as PPP: "Public–Private Partnership." In ancien régime France they called it tax farming.[8]

The real impact of privatization, like welfare reform, deregulation, the technological revolution, and indeed globalization itself, has been to reduce the role of the state in the affairs of its citizens: to get the state "off our backs" and "out of our lives"—a common objective of economic "reformers" everywhere—and make public policy, in Robert Reich's approving words, "business-friendly." The twentieth-century state in its "soul-engineering" guise has surely left a bad taste. It was often inefficient, sometimes repressive, occasionally genocidal. But in reducing (and implicitly discrediting) the state, in forsaking public interest for private advantage wherever possible, we have also devalued those goods and services that represent the collectivity and its shared purposes, steadily "reducing the incentive for competent and ambitious persons to join or stay in state service."[9] And this carries a very considerable risk.

The market requires norms, habits, and "sentiments" external to itself to hold it together, to ensure the very political stability that capitalism needs in order to thrive. But it also tends to corrode those same practices and sentiments. This much has long been clear.[10] The benign "invisible hand"—the unregulated free market—may have been a favorable inaugural condition for commercial societies. But it cannot reproduce the noncommercial institutions and relations—of cohesion, trust, custom, restraint, obligation, morality, authority—that it inherited and which the pursuit of individual economic self-interest tends to undermine rather than reinforce.[11] For similar reasons, the relationship between capitalism and democracy (or capitalism and political freedom) should not be taken for granted: see China, Russia, and perhaps even Singapore today. Efficiency, growth, and profit may not always be a precondition or even a consequence of democracy so much as a substitute for it.

If modern democracies are to survive the shock of Reich's "supercapitalism," they need to be bound by something more than the pursuit of private economic advantage, particularly when the latter accrues to ever fewer beneficiaries: the idea of a society held together by pecuniary interests alone is, in Mill's words, "essentially repulsive." A civilized society requires more than self-interest, whether deluded or enlightened, for its shared narrative of purpose. "The greatest asset of *public* action is its ability to satisfy vaguely felt needs for higher purpose in the lives of men and women."[12]

The danger today is that, having devalued public action, we are no longer clear just what *does* bind us together. The late Bernard Williams, after describing the "objective teleology of human nature" in Greek ethical thought—the belief that there are facts about man's place in the world which determined that he was meant to lead a cooperative life—concluded that

> some version of this belief has been held by most ethical outlooks subsequently; we are perhaps more conscious now of having to do without it than anyone has been since some fifth-century Sophists first doubted it.

In which case who, today, will take responsibility for what Jan Patočka called the "Soul of the City"?[13]

There are two overriding reasons to worry about the soul of the city, and to fear that it cannot be satisfactorily substituted with a story of indefinite economic growth, or even the creative destruction of the wrecking ball of capitalist innovation. The first reason is that this story is not very appealing. It leaves a lot of people out, both at home and abroad; it wreaks havoc with the natural environment; and its consequences are unattractive and uninspiring. Abundance (as Daniel Bell once observed) may be the American substitute for socialism; but as shared social objectives go, shopping remains something of an underachievement. In the early years of the French Revolution the Marquis de Condorcet was dismayed at the prospect of commercial society that was opening before him (as it is opening before us): the idea that "liberty will be no more, in the eyes of an avid nation, than a necessary condition for the security of financial operations."[14] We ought to share his revulsion.

The second source of anxiety is that the never-ending story may not last. Even economies have histories. The last time the capitalist world passed through a period of unprecedented expansion and great wealth creation, during the "globalization" *avant le mot* of the world economy in the imperial decades preceding World War I, there was a widespread assumption in Britain—much as there is in the US and

[7]T. H. Marshall, "Value Problems of Welfare Capitalism," *Journal of Social Policy*, Vol. 1, No. 1 (1972), pp. 19–20, quoted in Neil Gilbert, *Transformation of the Welfare State: The Silent Surrender of Public Responsibility* (Oxford University Press, 2002), p. 135. As Gilbert concludes, "Policies devoted entirely to cultivating independence and private responsibility leave little ground for a life of honorable dependence for those who may be unable to work."

[8]For privatization at work, in the country which has been most exposed to its depredations, see Christian Wolmar, *On the Wrong Line: How Ideology and Incompetence Wrecked Britain's Railways* (London: Aurum, 2005), and Allyson Pollock, *NHS plc: The Privatisation of Our Health Care* (Verso, 2004). Gordon Brown, Britain's new prime minister, recently invited some of America's more notorious for-profit health companies—Aetna and United HealthCare among them—to bid for the management of Britain's hospital operations. Even the ultra-free-market *Economist* acknowledges the fallacy of "privatisation": commenting on the bankruptcy of Metronet, one of the firms now running London's Underground, it noted that since the government has "awarded Metronet 'hundreds of millions of pounds' to carry on its work . . . it is taxpayers who will have to foot the bill." See *The Economist*, July 21, 2007.

[9]See Victor Perez-Diaz, "Political Symbolisms in Liberal Democracies" (unpublished paper, January 2007), p. 16.

[10]See, for example, Adam Smith, *The Theory of Moral Sentiments* (1759). Also Daniel Bell, *The Cultural Contradictions of Capitalism* (Basic Books, 1976).

[11]"If we cannot moderate the extremes of fortune generated by the market and perpetuated by inheritance, the consensual basis of the market economy may not survive." Tobin, *World Finance and Economic Stability*, p. 209. For "favorable inaugural condition" see Hirsch, *Social Limits to Growth*, p. 11. The crucial role of public coordinating institutions in furnishing the preconditions for stable markets and economic growth is also brought out in Barry Eichengreen's recent study of postwar European capitalism, *The European Economy Since 1945: Coordinated Capitalism and Beyond* (Princeton University Press, 2006).

[12]Albert O. Hirschman, *Shifting Involvements: Private Interest and Public Action* (Princeton University Press, 1982, 2002), p. 126 (emphasis added).

[13]Bernard Williams, *The Sense of the Past: Essays in the History of Philosophy* (Princeton University Press, 2006), pp. 44–45. Concerning Patočka's question I am grateful to Dr. Jacques Rupnik for his unpublished paper "The Legacy of Charter 77 and the Emergence of a European Public Space."

[14]Esquisse d'un tableau historique des progrès de l'esprit humain" (*Oeuvres de Condorcet*, VI, 191), quoted in Rothschild, *Economic Sentiments*, p. 201.

Western Europe today—that this was the threshold of an unprecedented age of indefinite peace and prosperity. Anyone seeking an account of this confidence—and what became of it—can do no better than read Keynes's *Economic Consequences of the Peace*: a summary of the illusions of a world on the edge of catastrophe, written in the aftermath of the war that was to put an end to all such irenic fancies for the next fifty years.[15]

It was Keynes, too, who anticipated and helped prepare for the "craving for security" that Europeans would feel after the three decades of war and economic collapse that followed the end of the Gilded Age. Thanks in large measure to the state-provided public services and safety nets incorporated into their postwar systems of governance, the citizens of the advanced countries lost the gnawing sense of insecurity and fear that had dominated and polarized political life from 1914 through the early Fifties and which was largely responsible for the appeal of both fascism and communism in those years.

But we have good reason to believe that this may be about to change. Fear is reemerging as an active ingredient of political life in Western democracies. Fear of terrorism, of course; but also, and perhaps more insidiously, fear of the uncontrollable speed of change, fear of the loss of employment, fear of losing ground to others in an increasingly unequal distribution of resources, fear of losing control of the circumstances and routines of one's daily life. And, perhaps above all, fear that it is not just we who can no longer shape our lives but that those in authority have lost control as well, to forces beyond their reach.

Half a century of security and prosperity has largely erased the memory of the last time an "economic age" collapsed into an era of fear. We have become stridently insistent—in our economic calculations, our political practices, our international strategies, even our educational priorities—that the past has little of relevance to teach us. Ours, we insist, is a new world; its risks and opportunities are without precedent. Our parents and grandparents, however, who lived the consequences of the unraveling of an earlier economic age, had a far sharper sense of what can happen to a society when private and sectional interests trump public goals and obscure the common good.

We need to recover some of that sense. We are likely, in any event, to rediscover the state thanks to globalization itself. Populations experiencing increased economic and physical insecurity will retreat to the political symbols, legal resources, and physical barriers that only a territorial state can provide. This is already happening in many countries: note the rising attraction of protectionism in American politics, the appeal of "anti-immigrant" parties across Western Europe, the call for "walls," "barriers," and "tests" everywhere. "Flat worlders" may be in for a surprise. Moreover, while it may be true that globalization and "supercapitalism" reduce differences *between* countries, they typically amplify inequality *within* them—in China, for instance, or the US—with disruptive political implications.

If we are indeed going to experience a return of the state, an enhanced need for the security and resources that only a state can provide, then we should be paying more attention to the things states can do. Today we speak contemptuously of the state: not as the natural benefactor of first resort but as a source of economic inefficiency and social intrusion best excluded from citizens' affairs wherever possible. The very success of the mixed-economy welfare states—in providing the social stability and ideological demobilization which made possible the prosperity of the past half-century—has led a younger generation to take that same stability and ideological quiescence for granted and demand the elimination of the "impediment" of the taxing, regulating, and generally interfering state. This discounting of the public sector has become the default condition of policy discourse in much of the developed world.

But if I am right and our present circumstances will not endure indefinitely, we might do well to take a second glance at the way our twentieth-century predecessors responded to the political challenges of economic uncertainty. We may discover, as they did, that the universal provision of social services and some restriction upon inequalities of income and wealth are important economic variables in themselves, furnishing the necessary public cohesion and political confidence for a sustained prosperity—and that only the state has the resources and the authority to provide those services and enforce those restrictions in our collective name.

We may find that a healthy democracy, far from being threatened by the regulatory state, actually depends upon it: that in a world increasingly polarized between insecure individuals and unregulated global forces, the legitimate authority of the democratic state may be the best kind of intermediate institution we can devise. What, after all, is the alternative? Our contemporary cult of untrammeled economic freedom, combined with a heightened sense of fear and insecurity, is leading to reduced social provision and minimal economic regulation; but these are accompanied by ever-extending governmental oversight of communication, movement, and opinion. "Chinese" capitalism, as it were, Western-style. Is this what we want? □

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[15] John Maynard Keynes, *The Economic Consequences of the Peace* (Harcourt, Brace, Jovanovich, 1920), Chapter 2: "Europe Before the War." Economic mirages are not confined to imperial capitals. Here is how Ivo Andric described the optimistic delusions of his fellow Bosnians in those same halcyon times: "Such were those three decades of relative prosperity and apparent peace . . . when many . . . thought there was some infallible formula for the realization of a centuries-old dream of full and happy development of individuality in freedom and progress, when the . . . century spread out before the eyes of millions of men its many-sided and deceptive prosperity and created its *fata morgana* of comfort, security and happiness for all and everyone at reasonable prices and even on credit terms." Ivo Andric, *The Bridge on the Drina* (University of Chicago Press, 1977), p. 173.