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THE GOVERNANCE GAP: GLOBALIZATION AND THE
CRISIS OF DEMOCRACY IN THE WEST

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Abstract

A crisis of governability has engulfed the world's industrialized democracies. It is not coincidental that the United States, Europe, and Japan are simultaneously experiencing political breakdown. Rather, globalization is a common culprit. Across the West's open societies, globalization is producing a widening gap between what electorates are asking of their governments and what those governments are able to deliver. This mismatch between the growing demand for good governance and its shrinking supply is dangerously compromising the power and purpose of the Western world.

Keywords

Globalization, crisis of democracy, polarization, governance, European Union

“It appears that as a result of several long-building, polarizing trends in American politics and culture, we have lost the ability to execute even the basic functions of government.” So spoke Robert Gates soon after stepping down last June from almost five consecutive years as defense secretary to George W. Bush and Barack Obama. The United States is not alone in experiencing a period of profound political dysfunction. The EU’s struggle to bring financial stability to the eurozone has been frustrated by debilitating cleavages among its member states. Meanwhile, Japan has lurched from one feeble government to the next, passing through six prime ministers in the last five years.*

A crisis of governability has engulfed the world’s industrialized democracies. It is not coincidental that the United States, Europe, and Japan are simultaneously experiencing political breakdown. Rather, globalization is a common culprit. Across the West’s open societies, globalization is producing a widening gap between what electorates are asking of their governments and what those governments are able to deliver. This mismatch between the growing demand for good governance and its shrinking supply is dangerously compromising the power and purpose of the Western world.

Voters in industrialized democracies are looking to their governments to deal with the decline in living standards and the growing inequality resulting from unprecedented flows of goods, services, and capital. Electorates also expect their representatives to deal with surging migration, global warming, and other knock-on effects of a globalized world. But Western governments are not up to the task. Globalization is challenging state capacity by penetrating borders and rooting around the policy levers that democracies have traditionally had at their disposal. It is also shifting wealth and power from the West to the rising rest, concentrating globalization’s downsides on workers in advanced economies while also denying their governments the level of control over commerce and security that they once enjoyed. The inability of leading democracies to address the concerns of their citizens only increases public disaffection, thereby further undermining the legitimacy and efficacy of representative institutions.

This crisis of governability within the Western world comes at a particularly inopportune moment. The international system is in the midst of tectonic change due to a global redistribution of wealth and power. Some of the world’s rising states are democracies – Brazil, India, and Turkey, among them. The best performer, however, is China – a capitalist autocracy headed for the top economic rank. Globalization was supposed to have played to the advantage of liberal societies, which were presumably best suited to capitalize on the fast and fluid nature of the global marketplace. But while the Western democracies stumble, China and other centralized states – in no small part because they have retained control over policy instruments abandoned by liberal states – are proving quite adept at taking advantage of globalization’s benefits while limiting its liabilities. State capitalism has its distinct advantages.

Amid the current redistribution of global power, it is not just the West’s material primacy that is at stake, but also the allure of its liberal and democratic version of modernity. The United States, Europe, and Japan urgently need to restore their political and economic solvency. Otherwise, liberal democracy may have a tough time prevailing against the alternatives, leaving the politics as well as the geopolitics of the twenty-first century very much up for grabs.

* An earlier version of this essay appeared as “The Democratic Malaise: Globalization and the Threat to the West,” *Foreign Affairs*, vol. 91, no. 1 (January/February 2012).

Globalization and Governance

Globalization and the fast mobility of the digital age have expanded aggregate wealth and enabled developing countries to partake of unprecedented prosperity. The proliferation of investment, trade, and communication networks has deepened interdependence and its potentially pacifying effects. These connections are also prying open non-democratic states; the popular uprisings sweeping the Middle East have been facilitated by social media and the contagion born of the instantaneous flow of news and information. Globalization appears to be spreading the Western model of open markets and liberal societies to all quarters of the globe.

But globalization and the digital economy on which it depends are actually doing just the opposite—confronting the Western world with one of its most serious political challenges to date. Indeed, the West's crisis of governability, although it has multiple causes, is first and foremost the consequence of globalization's socioeconomic impact on the world's leading democracies. De-industrialization and outsourcing, global trade and fiscal imbalances, excess capital and credit and asset bubbles—these consequences of globalization are confronting democratic electorates with hardships and insecurity not experienced for generations. The distress stemming from the economic crisis that began in 2008 is particularly acute, but the underlying problems began much earlier. For the better part of two decades, middle-class wages in the world's leading democracies have been stagnant, and economic inequality has been rising sharply as globalization handsomely rewards its winners – but leaves its many losers behind.

These trends are not temporary by-products of the business cycle. Nor are insufficient regulation of the financial sector, tax cuts amid expensive wars, or other errant policies the primary cause. Stagnant wages and rising inequality are, as Daniel Alpert, Robert Hockett, and Nouriel Roubini have recently argued, a consequence of the integration of billions of low-wage workers into the global economy and increases in productivity stemming from the application of information technology to the manufacturing sector.¹ Global capacity therefore far outstrips demand, exacting a heavy toll on workers in the high-wage economies of the industrialized West.

Dislocation and disaffection among Western electorates are magnified by globalization's intensification of transnational threats, such as international crime, terrorism, and environmental degradation. Poppy cultivation in Afghanistan, tribal rivalries in Yemen, and deforestation in Indonesia all have worldwide effects. In addition, porous borders and unwanted immigration reinforce the sense among Western voters that they are being regularly exposed to uncontrolled intrusions from abroad. It speaks volumes that the United States is building fences along its boundary with Mexico and that frontier patrols are returning to Europe; globalization is ironically bringing borders back to life.

Western democracies are also being buffeted by the socioeconomic effects of digital technology and the information revolution. Particularly in the United States, the proliferation of the Internet and cable news channels is fueling ideological polarization, not more informed and deliberative debate. The rising cost of media-driven campaigns increases the influence wielded by donors, advantaging special interests and angering the broader electorate. Partisan mobilization is reinforcing regional cleavages, widening the ideological distance between America's liberal northeast and the more conservative south. The same goes for Belgium's French-speaking Walloons and Dutch-speaking Flemish, or Japan's rural and urban voters.

Voters confronted with economic duress, social dislocation, and political division look to their elected representatives for help. But just as globalization is fueling this pressing demand for responsive governance, it is also ensuring that its provision is in desperately short supply. For three

main reasons, governments in the industrialized West have entered a period of pronounced ineffectiveness.

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

Second, many of the problems that Western electorates are asking their governments to solve require a level of international cooperation that is unattainable. The diffusion of power from the West to the rest means that there are today many new cooks in the kitchen; effective action no longer rests primarily on collaboration among like-minded democracies. Instead, it depends on cooperation among a much larger and more diverse circle of states. The United States now looks to the G20 to rebalance the international economy. But consensus is elusive among nations that are at different stages of development and embrace divergent approaches to economic governance. Challenges like curbing global warming or effectively isolating Iran similarly depend on a collective effort that is well beyond reach.

Third, democracies can be nimble and responsive when their electorates are content and enjoy a consensus born of rising expectations, but they are clumsy and sluggish when their citizens are downcast and divided. Moreover, democracies are very good at distributing benefits, but appear to be poorly suited when it comes to apportioning sacrifice. The policy challenges facing the United States, Europe, and Japan are difficult enough on their own merits. But they become all but insurmountable when governments face distrustful publics, legislative gridlock, and special interests vying for shrinking resources. The failure of democracies to deliver effective policies only makes their electorates more disillusioned, leaving their governments more vulnerable and hapless. This self-reinforcing cycle is producing an ever-widening chasm between the demand for good governance and its supply.

To be sure, globalization has powerfully intrusive effects on all societies, not just the industrialized democracies. But the United States, Europe, and Japan, precisely because they are open to the world and have more mature economies, are particularly exposed to its downsides. In contrast, Brazil, Turkey, and other rising democracies are benefitting from the diffusion of economic potential and technological prowess from the developed to the developing world; better living standards are making for more muscular governments. Meanwhile, capitalist autocracies like China are proving particularly well equipped to navigate today's porous and interdependent world. The Chinese economy certainly has its own vulnerabilities, including a potential real estate bubble, underperforming loans, corruption, and inequality. But China's steady growth and broadening prosperity make clear that Beijing's brand of state capitalism serves as a valuable counterpoise to the unfettered forces of globalization. And performance matters. According to a Pew poll conducted in 2011, eighty-five percent of China's citizens were satisfied with their country's direction, while the equivalent figure in the United States was twenty-one percent.

The crisis of governability is playing out differently in the United States, Europe, and Japan. Nonetheless, the West is collectively passing through a period of singular political weakness at the same moment that the world is headed toward a historic shift in global power.

A Polarized America

Partisan confrontation is paralyzing American politics. The underlying cause is the poor state of the U.S. economy. Since 2008, many Americans have lost their houses, jobs, and retirement savings. And these setbacks come on the heels of back-to-back decades of stagnation in middle-class wages. Over the past ten years, average household income in the United States has fallen by over ten percent. In the meantime, income inequality has been steadily rising, making America the most unequal country in the industrialized world. As of 2010, the richest one percent of Americans accounted for almost twenty-five percent of all income. The primary source of the declining fortunes of the American worker is global competition; jobs have been heading overseas. In addition, many of the most competitive companies in the digital economy do not have long coattails. Facebook's estimated value is around \$70 billion, and it employs roughly 2,000 workers, while General Motors, valued at \$35 billion, has 77,000 employees in the United States and 208,000 worldwide. The wealth of America's cutting-edge companies is not trickling down to the middle class.

These harsh economic realities are helping to revive ideological and partisan cleavages long muted by the nation's rising economic fortunes. During the decades after World War II, a broadly shared prosperity pulled Democrats and Republicans toward the political center. But today Capitol Hill is largely devoid of both centrists and bipartisanship; Democrats campaign for more stimulus, relief for the unemployed, and taxes on the rich, while Republicans clamor for radical cuts in the size and cost of government. That ideological cleavages often run along regional lines makes bipartisan compromise all the more elusive. Exacerbating the hollowing out of the center are a broken campaign finance system, partisan redistricting, and broadcast media that provoke more than inform.

The resulting polarization is tying the country in knots. President Obama realized as much, which is why he entered office promising to be a post-partisan president. But the failure of Obama's best efforts to revive the economy and restore bipartisan cooperation has exposed the systemic nature of the nation's economic and political dysfunction. His \$787 billion stimulus, passed without the support of single House Republican, was unable to resuscitate an economy plagued by debt, a deficit of middle-class jobs, and the global slowdown. Since the Republicans gained control of the House in 2010, partisan confrontation has stood in the way of progress on nearly every issue. Bills to promote economic growth either fail to pass or are so watered down that they have little impact. Immigration reform and legislation to curb global warming are not even on the table. On foreign policy, Democrats and Republicans regularly lock horns, and cleavages within the parties—for example, between Republican neoconservatives and Tea Party isolationists—can be as debilitating as clashes across partisan lines.

Ineffective governance, combined with daily doses of partisan bile, has pushed public approval of Congress to historic lows. Spreading frustration has spawned the Occupy Wall Street movement – the first sustained bout of public protest since the Vietnam War. The electorate's discontent only deepens the challenges of governance as vulnerable politicians cater to the narrow interests of the party base and the nation's political system loses what little wind it has in its sails. The conduct of U.S. statecraft is hardly immune to these domestic travails. Funding for diplomacy, foreign assistance, and defense are all on the chopping block, and Americans in historic numbers believe that it is time for the country to “mind its own business” and focus on domestic problems. Duress and division at home are hampering responsible leadership abroad.

A Renationalized Europe

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

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

Europe has arrived at a make-or-break moment. With its member states hemmed in by indignant electorates, the EU has moved tortuously toward a workable plan for salvaging the euro. Europe's slow and timid pace fits poorly with the impatience of global markets, exacerbating and prolonging its financial crisis. The collective governance that the EU desperately needs to thrive in a globalized world rests uneasily with a political street that is becoming decidedly hostile to the European project. Europe's institutions could descend to the level of its politics, which would effectively reduce the EU to little more than trade bloc. Alternatively, national politics could again be infused with a European calling, which would breathe new legitimacy into an increasingly hollow union. The latter outcome is much preferable, but it will require leadership and resolve that, at least for now, are nowhere to be found. In the meantime, an introverted and fragmented Europe cuts an ever-shrinking figure on the global stage.

A Drifting Japan

Japan has been politically adrift since Junichiro Koizumi stepped down as prime minister in 2006. Thereafter, the Liberal Democratic Party (LDP), which had dominated Japanese politics throughout most of the post-war era, stumbled badly and lost power to the Democratic Party of Japan (DPJ) in 2009. The consolidation of a two-party system had the potential to improve governance, but instead produced only gridlock. The DPJ and LDP are as internally divided as they are at loggerheads. Policymaking has ground to a halt even on urgent issues; it took over 100 days for the Diet to pass legislation providing reconstruction aid to the victims of last year's earthquake, tsunami, and nuclear disaster.

The trouble began with the bursting of Japan's asset bubble in 1991, a setback that exposed deeper problems in the country's economy and led to a "lost decade" of recession. Japanese manufacturers suffered as jobs and investment headed to China and the Asian tigers. The country's traditional social

compact – corporations provided lifetime employment and comfortable pensions – was no longer sustainable. The past two decades have brought a long slide in middle class incomes, rising inequality, and a spike in the poverty rate from roughly seven percent in the 1980s to sixteen percent in 2009. In 1989, Japan ranked fourth in the world in terms of per capita GDP; by 2010, its rank had plummeted to twenty-fourth.

It was to address such problems that Koizumi embarked on ambitious efforts to liberalize the economy and reduce the power of bureaucrats and interest groups. His charisma and ample parliamentary support made for significant progress, but his LDP and DPJ successors have been too weak to keep the process moving forward. Japan is therefore stuck in a no-man's land, exposed to the dislocations of a globalized economy, yet not liberalized or strategic enough to compete effectively. The old order and its socioeconomic underpinnings are gone for good, but neither the DPJ nor the LDP has been able to capitalize on this fluidity to fashion a workable realignment. Japan's government is dead in the water.

Not surprisingly, the electorate has lost faith in its representatives. Last August, public approval stood at eighteen percent for the DPJ and fifteen percent for the LDP. The loss of direction in domestic policy has spread to foreign affairs. The DPJ initially focused on improving ties with China, then switched to investing in regional integration, and has of late pursued the more cautious and traditional option of quietly following Washington's lead. Meanwhile, the public has been turning inward in resigned detachment. As just one sign of the times, the cohort of Japanese students studying abroad is shrinking rapidly; the number in the United States has fallen by almost half over the past decade. Globalization has made Japan both ungovernable and insular.

Reviving the West

It is not by chance that the West's crisis of governability coincides with new political strength among rising powers; economic and political vigor is passing from the core to the periphery of the international system. And while the world's most open states are experiencing a loss of control as they integrate into a globalized world, illiberal states like China are deliberately keeping a much tighter grip on their societies through centralized decision making, censorship of the media, state-supervised markets, and the regulation of financial flows.

The destabilizing potential of this unfolding transition in global power would be significantly magnified if the leading democracies continue to lose their luster as developing countries chart their rise. Conversely, a realignment of the international pecking order would likely be more orderly if the Western democracies recoup and provide purposeful leadership. Accordingly, it is more vital than ever for the West to reclaim the virtues of democratic rule.

The West should aim at three broad objectives to restore its political health. First, the Western democracies must individually and collectively embrace strategies of economic renewal that go well beyond business as usual. When up against state capitalism and the potent forces of globalization, the United States, Europe, and Japan have little choice but to engage in strategic economic planning on an unprecedented scale. Large-scale investment in jobs, infrastructure, education, and research will be required to revamp economies that are in the midst of far-reaching structural change. Creating the right oversight bodies is a necessary place to start. The United States, for example, needs a National Infrastructure Bank and legislative and executive bodies charged with long-range economic planning. The Western democracies should also fashion a collective strategy of global rebalancing and regulation aimed at realigning currencies and stimulating domestic demand in export-led economies.

Second, leaders across the West should rally behind an agenda of progressive populism – one intended to channel electoral discontent toward constructive ends and enable centrist voters to prevail against special interests and the political extremes. Needed is a new answer to the fundamental

tensions among democracy, capitalism, and globalization. A progressive populism should aim to reassert popular control over political economy, producing effective responses to both the economic realities of global markets and the demands of mass societies for an equitable distribution of rewards and sacrifices.

In the United States, a substantial majority of the U.S. electorate consists of moderate voters who want results, not the party faithful or single-issue voters committed to narrow ideological platforms. The same goes for Europe and Japan. A progressive activism and the mobilization of the political center offer the best hope of restoring vitality and credibility to democratic politics. Changes to electoral systems aimed at increasing voter turnout, preventing partisan gerrymandering, and reforming campaign finance would help rebuild public confidence in and engagement with democratic institutions.

Finally, Western governments must lead their electorates away from the temptation to turn inward. Amid the economic downturn and the lengthy and inconclusive wars in Afghanistan and Iraq, Americans are clamoring for a respite from geopolitical burdens. Europeans are not only stepping back from integration with each other, but also with the rest of the world. And Japan seems lost in the shadow of China's rise and inclined to shrink into a protective shell.

To be sure, restoring fiscal solvency in the United States requires cuts to defense spending and an accompanying strategic retrenchment. But neither America nor its main democratic allies can afford a precipitous retreat. Leaders have an easy case to make in arguing against it. Americans must maintain the international linkages needed to promote global stability and ultimately revive the nation's economy. Europeans must realize that the whole is much stronger than the sum of its parts; an EU capable of asserting its interests on the global stage will be good for its member states, for Europe, and for the rest of the world. And Japan needs to step up its strategic profile to help anchor stability and democracy in the world's most dynamic region.

Liberal democracies have thrived over the past two centuries in part due to their capacity for self-correction and renewal. It is these attributes that the West must now urgently call forth.

ⁱ Daniel Alpert, Robert Hockett, and Nouriel Roubini, "The Way Forward: Moving From the Post-Bubble, Post-Bust Economy to Renewed Growth and Competitiveness," October 10, 2011, New America Foundation, http://newamerica.net/publications/policy/the_way_forward.

