

The Broken Bargain

How Nationalism Came Back

Jack Snyder

Nationalism and nativism are roiling politics on every continent. With the election of President Donald Trump in the United States, the growing power of right-wing populist parties in Europe, and the ascent of strongmen in states such as China, the Philippines, and Turkey, liberals around the world are struggling to respond to populist nationalism. Today's nationalists decry the "globalist" liberalism of international institutions. They attack liberal elites as sellouts who care more about foreigners than their fellow citizens. And they promise to put national, rather than global, interests first.

The populist onslaught has, understandably, prompted many liberals to conclude that nationalism itself is a threat to the U.S.-led liberal order. Yet historically, liberalism and nationalism have often been complementary. After World War II, the United States crafted a liberal order that balanced the need for international cooperation with popular demands for national autonomy, curbing the aggressive nationalist impulses that had proved so disastrous in the interwar years. The postwar order was based on strong

democratic welfare states supported by international institutions, such as the World Bank and the International Monetary Fund (IMF), that coordinated economic policy between states while granting them the flexibility to act in their own national interest. The political scientist John Ruggie has called this arrangement "embedded liberalism," because it embraced free markets while subjecting them to institutionalized political control at both the domestic and the international level—a bargain that held for several decades.

Yet over the past 30 years, liberalism has become disembedded. Elites in the United States and Europe have steadily dismantled the political controls that once allowed national governments to manage capitalism. They have constrained democratic politics to fit the logic of international markets and shifted policymaking to unaccountable bureaucracies or supranational institutions such as the EU. This has created the conditions for the present surge of populist nationalism. To contain it, policymakers will have to return to what worked in the past, finding new ways to reconcile national accountability and international cooperation in a globalized world. The proper response to populism, in other words, is not to abandon liberal internationalism but to re-embed it.

THE GREAT TRANSFORMATION

Nationalism is generally understood as the doctrine that the cultural unit of the nation, whether defined along civic or ethnic lines, should be congruent with the political unit of the state. For most of history, political loyalties did not coincide with national boundaries. This began to change in early modern Europe following the Protestant Reformation, as centralized

JACK SNYDER is Robert and Renée Belfer Professor of International Relations at Columbia University and the author of *From Voting to Violence: Democratization and Nationalist Conflict*.



Meeting in the middle: Viktor Orban greets Angela Merkel in Budapest, February 2015

states secured monopolies on violence and legal authority within their territory, gradually displacing the Catholic Church and transnational dynastic networks. At the same time, early commercial capitalism was shifting economic power away from rural landlords and toward the thriving urban middle classes. The state increasingly fused with its nation, a distinctive people that contributed blood and treasure to the state and that, in exchange, insisted on the right to participate in government. Over time, the nationalist claim to popular self-determination became the handmaiden of democracy.

During the nineteenth century, nation-states in western Europe (as well as European settler colonies such as the United States) developed strong civic institutions, such as universalistic legal codes and national educational systems, that could assimilate diverse groups into a shared cultural identity. (In eastern European countries and other late-developing states,

however, different ethnic groups gained political consciousness while still living together in multinational empires—there, homogeneity was achieved not through assimilating civic institutions but through war, ethnic cleansing, and expulsion.) One of the most widely invoked theorists of nationalism, Ernest Gellner, argued that this process of internal cultural homogenization was driven by the requirements of industrial capitalism. In order to participate in national economies, workers needed to speak the national language and be fully integrated into the national culture. In countries with a strong civic state, these pressures transformed the nation-state into a culturally, politically, and economically integrated unit.

By the early decades of the twentieth century, however, tensions had begun to emerge between liberal capitalism and nationalist democracy. Nineteenth-century capitalism relied on automatic market controls, such as the gold standard, to

regulate financial relations between states. Governments lacked both the will and the ability to intervene in the economy, whether by spending to counteract downturns in the business cycle or by acting as the lender of last resort to forestall bank runs. Instead, they let the invisible hand of the market correct imbalances, imposing painful costs on the vast majority of their citizens.

This laissez-faire policy became politically untenable during the late nineteenth and early twentieth centuries, as more and more people gained the right to vote. After the crash of 1929 and the Great Depression, enfranchised citizens could demand that their national leaders assert control over the economy in order to protect them from harsh economic adjustments. In some countries, such as Germany and Japan, this led to the ascent of militantly nationalist governments that created state-directed cartel economies and pursued imperial expansion abroad. In others, such as the United States under President Franklin Roosevelt, governments instituted a form of social democratic capitalism, in which the state provided a social safety net and launched employment programs during hard times. In both cases, states were attempting to address what the economic historian Karl Polanyi, in *The Great Transformation*, identified as the central tension of liberal democratic capitalism: the contradiction between democratic rule, with its respect for popular self-determination, and market logic, which holds that the economy should be left to operate with limited government interference.

During the interwar years, the world's leading liberal powers—France, the United Kingdom, and the United States—had made tentative efforts to create an

international order to manage this tension. U.S. President Woodrow Wilson's Fourteen Points called for a world of independent national democracies, and his proposal for a League of Nations promised a peaceful means for resolving international disputes. In practice, the United States refused to join the League of Nations, and the British and the French ensured that the Treaty of Versailles humiliated Germany. But despite these shortcomings, the interwar liberal order functioned, for a time. The 1922 Washington Naval Treaty initially helped prevent a naval arms race between Japan and the Western allies. The 1925 Pact of Locarno guaranteed Germany's western border. And the 1924 Dawes Plan and the 1929 Young Plan provided the Weimar government with enough liquidity to pay reparations while also funding urban infrastructure improvements and social welfare provisions. The system held until the collapse of the international economy after 1929. In both Germany and Japan, the resulting economic crisis discredited liberal and social democratic political parties, leading to the rise of authoritarian nationalists who promised to defend their people against the vicissitudes of the market and the treachery of foreign and domestic enemies.

It was only after World War II that liberal internationalists, led by those in the United States and the United Kingdom, learned how to manage the tension between free markets and national autonomy. The Marshall Plan, in which the United States, beginning in 1948, provided financial assistance to western Europe, did more than provide capital for postwar reconstruction. It also conditioned this aid on governments opening their economies to international trade,

thereby strengthening liberal political coalitions between workers (who benefited from cheaper goods imported from abroad) and export-oriented capitalists (who gained access to global markets for their products). The institutions that came out of the 1944 Bretton Woods conference, including the World Bank and the IMF, offered loans and financial aid so that states could adjust to the fluctuations of the international market. As originally intended, this postwar system, which included the precursor to the EU, the European Economic Community, as well as the Bretton Woods institutions, was designed not to supersede national states but to allow them to cooperate while retaining policy autonomy. Crucially, leading democracies such as France, the United Kingdom, the United States, and West Germany decided to share some of their sovereignty in international organizations, which made their nation-states stronger rather than weaker. In more recent decades, however, these hard-won lessons have been set aside.

DISEMBEDDING LIBERALISM

For the first few decades following World War II, embedded liberalism—characterized by strong domestic welfare states supported by international institutions—succeeded in granting autonomy and democratic legitimacy to nation-states while curbing aggressive nationalism. Yet as early as the 1970s, this arrangement came under pressure from structural changes to the global economy and ideological assaults from libertarians and advocates of supra- and transnationalism. The resulting erosion of embedded liberalism has paved the way for the nationalist revival of today.

The Bretton Woods system had relied on countries fixing their exchange rates with the U.S. dollar, which was in turn backed by gold. But already by the early 1970s, chronic U.S. trade deficits and the increasing competitiveness of European and Japanese exports were making this system untenable. At the same time, the United States was experiencing “stagflation”—a combination of high unemployment and high inflation that was resistant to the traditional Keynesian strategies, such as government spending, on which postwar economic management had relied. In response, U.S. President Richard Nixon suspended the dollar’s convertibility to gold in 1971, moving toward an unregulated market system of floating exchange rates. Other structural developments also put embedded liberalism under strain: the globalization of production and markets strengthened the relative power of capital, which was highly mobile, over labor, which was less so. This weakened the power of traditional labor unions, undermining the capital-labor bargain at the center of the postwar order.

These economic trends were accompanied by ideological developments that challenged both core principles of embedded liberalism: social democratic regulation of the economy and the political primacy of the nation-state. The first of these developments was the rise of free-market fundamentalism, pioneered by economists such as Friedrich Hayek and Milton Friedman and adopted by political leaders such as British Prime Minister Margaret Thatcher and U.S. President Ronald Reagan. Beginning with Thatcher’s election in 1979, these leaders and their ideological backers sought to drastically curtail the welfare state and return to the

laissez-faire policies of the nineteenth century. This market fundamentalism was initially used by the right as a cudgel against the social democratic left, but over time it was adopted by leaders of center-left parties, such as French President François Mitterrand, U.S. President Bill Clinton, and British Prime Minister Tony Blair, who during the 1980s and 1990s pushed through financial deregulation and cuts to the welfare state. These policies hurt members of the white working class, alienating them from the political system and the center-left parties that had traditionally protected their interests.

The other element of the ideological assault on embedded liberalism came from enthusiasts of supra- and transnationalism. In an influential 1997 essay in this magazine, Jessica Mathews argued that technological change and the end of the Cold War had rendered the nation-state obsolete. Its functions, according to Mathews and other, like-minded thinkers, would be usurped by supranational organizations such as the EU, coordinating institutions such as the World Trade Organization, and various transnational networks of activists, experts, and innovators. In 1993, for instance, Europe had adopted a common market and created the bureaucratic edifice of the EU to administer the resulting flows of goods, money, and people. This was followed by the adoption of the euro in 2002. Although intended to promote European integration, the euro effectively stripped its members of monetary sovereignty, greatly reducing their policy autonomy.

This transnational paradise, moreover, left little room for democracy. The gradual transfer of authority from national governments to Brussels has

put considerable power in the hands of unelected technocrats. Europeans who are unhappy with EU policies have no way to vote out the bureaucrats in Brussels; their only effective way to impose democratic accountability is through national elections, creating a strong incentive for nationalist mobilization. Different European countries have different policy equilibriums based on the preferences of their voters, the needs of their national economies, and the rhetorical strategies of their national political elites. The search for nationally tailored solutions, however, is confounded by the EU's requirement that all member states agree on a policy in lockstep. After the 2015 migrant crisis, initiated by Germany's decision to briefly open its borders, Brussels began cajoling and coercing other EU member states to accept some of the migrants in the name of burden sharing. Small wonder, then, that Hungarians, Italians, and Poles who opposed immigration began flocking to nationalist politicians who promised to resist pressure from the EU. Similar policy divergences on economic austerity have also been expressed in terms of national resentments—between Germans and Greeks, for instance—and have fueled mobilization against Brussels.

Scholars debate whether populist nationalism in the United States and Europe arises mainly from economic or cultural grievances, but the most persuasive explanation is that nationalist political entrepreneurs have combined both grievances into a narrative about perfidious elites who coddle undeserving out-groups—immigrants and minorities—while treating the nation's true people with contempt. In this view, elites use

bureaucratic and legal red tape to shield themselves from accountability and enforce politically correct speech norms to silence their critics. This story doesn't fit the facts—among other anomalies, residents of rural regions with few immigrants are among the most dedicated opponents of refugees—but it should not be surprising that a narrative of self-dealing elites and dangerous immigrants has resonated, given humans' well-known propensity for in-group bias. Nativistic prejudice is latent, ready to be activated in times of cultural flux or economic strain when traditional elites seem unresponsive.

A different face of the contemporary nationalist revival is the rise of authoritarian populism in developing states such as Brazil, India, the Philippines, and Turkey. Similar to older rising illiberal powers, such as nineteenth-century Germany, these countries have been able to use the so-called advantages of backwardness—cheap labor, technology transfers, and state-directed resource allocation—to grow rapidly; that is, until they reach approximately one-fourth of U.S. GDP per capita. Beyond that point, growth tends to slow markedly unless states follow in the footsteps of reformers such as Japan, South Korea, and Taiwan and adopt the full panoply of liberal institutions. Often, however, their governments eschew liberal reform. Instead, facing stagnating growth and inefficiencies from corruption, they double down on some combination of demagogic nationalism, repression, and crippling overinvestment in massive infrastructure projects, which are designed to retain the support of business elites. In such cases, it is the responsibility of these states' liberal economic partners to press for

reforms—at the risk, however, of triggering even more nationalist backlash.

IF IT AIN'T BROKE, DON'T FIX IT

How, then, should leaders respond to the rise of nationalism? The first step is to recognize that the tension fueling contemporary nationalism is not new. It is precisely the tension identified by Polanyi, which the embedded liberal order of the postwar years was designed to manage: the contradiction between free markets and national autonomy. Illiberal nationalism has never been particularly successful at governing, but it is a temptation whenever liberalism drifts too far away from democratic accountability.

Historically, this contradiction has been resolved only through an order of democratic welfare states supported by international institutions, which grant them the policy flexibility to adjust to market fluctuations without inflicting undue pain on their citizens. Resolving today's nationalist dilemma will require abandoning laissez-faire economics and unaccountable supranationalism and returning to the principles of embedded liberalism, updated for the present day. This, in turn, calls for a revival of the basic practices of postwar liberalism: national-level democratic accountability, economic coordination through international institutions, and compromise on competing priorities.

Today, political polarization makes compromise seem unlikely. Both illiberal nationalists and cosmopolitan elites have, in their own way, doubled down on one-sided solutions, seeking to rout their opponents rather than reach a durable settlement. Trump calls for a border wall and a ban on Muslim immigration, and his opponents continue to speak as

if immigration and refugee policy is a matter of abstract legal and moral commitments rather than a subject for democratic deliberation. In Europe, meanwhile, the Germans cling to austerity policies that punish countries such as Greece and Italy, and illiberal populists fume against EU restrictions on their autonomy.

Yet the very failure of these one-sided measures may open up space for a renewed embedded liberalism. In the United States, President Barack Obama's Affordable Care Act, which has mostly survived despite egregious assaults from the right, is a clear example of what a modern embedded liberal solution might look like. It strengthened the welfare state by vastly expanding access to state-subsidized health care and accommodating the needs of the private sector—an echo of the domestic capital-labor compromises that made the postwar order possible.

Similar arrangements might be sought on immigration. For instance, rich countries might agree to coordinate investment in poorer ones in order to stabilize migration flows by improving conditions in the source countries. These arrangements should be institutionalized before the next crisis hits, not improvised as they were in 2015–16, when Germany and the EU hurriedly struck a deal with Turkey, paying Ankara billions of euros in exchange for housing refugees. And although international institutions such as the EU should play a role in coordinating immigration policy, democratic states must be allowed to tailor their own policies to the preferences of their voters. Pressuring countries to accept more migrants than they want simply plays into the hands of illiberal populists. And giving the

populists some of what they want now may improve the prospects for embedded liberal compromises in the future. In December 2018, Hungarians began protesting in massive numbers against their nationalist government's policy of forced overtime, which had been enacted due to labor shortages. Faced with such problems, some of the country's anti-immigration zealots may soon begin to reassess their stance.

In the essay in which he coined the term "embedded liberalism," Ruggie noted that institutionalized power always serves a social purpose. The purpose of the postwar order, in his view, had been to reach a compromise between the competing imperatives of liberal markets and national autonomy. Today's crisis of liberalism stems in large part from a loss of this purpose. The institutions of the present international order have ceased responding to the wishes of national electorates.

The evidence of the past century suggests, however, that democratic accountability is necessary for both political stability and economic welfare. And even today, nation-states remain the most reliable political form for achieving and sustaining democracy. It is likely impossible to remake them in order to better conform to the needs of global markets and transnational institutions, and even if it were possible, it would be a bad idea. Instead, defenders of the liberal project must begin adapting institutions to once again fit the shape of democratic nation-states. This was the original dream of the embedded liberal order; now is the time to revive it. 🌐

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