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KEYNESIANISM TO THE RESCUE? LIBERAL INTERNATIONAL
ORDER’S STRUGGLE FOR SURVIVAL

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Keynesianism to the Rescue? Liberal International Order's Struggle for Survival
Kurtuluş Keynesçilik'te Olabilir mi? Liberal Dünya Düzeninin Hayatta Kalma
Çabası

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ABSTRACT

26th December 1991 marks the official ending date of the Cold War and the dissolution of the Soviet Union. Many considered this as the beginning of an era when liberalism would triumph throughout the world and meet limited resistance. Yet, the early decades of the twenty-first century revealed a nationalist wave on the rise in which the right-wing populist rhetoric was ascending and liberal values were under attack even in staunchly liberal nations. The most striking examples of this trend were the Brexit vote in the UK and Trump's election as the 45th US president in 2016 (Galston, 2018). Ever since these largely unforeseen developments, scholars of international relations and political science have been trying to analyze and assess the impact of these type of events in various countries and on the post-World War II liberal world order. Even though it is not possible for a single variable to explain liberalism's retreat and the right-populism's rise throughout the world, this paper argues that the growing income inequality resulting mainly from neoliberal policies and the indifference of the global neoliberal elite to the plights of middle/lower income classes stand out as the main culprits. Hence, this study will argue that while populism is the main external threat to Liberal International Order (LIO), the underlying internal threat is within liberalism itself, i.e. the evolution of the post-war era welfare liberalism into neoliberalism that sanctifies the freedom of markets from government interference. In a sense, with the rise of neoliberalism, the economic aspects of liberalism can be seen as overshadowing the traditional political/moral value set of liberalism. After examining the roots and characteristics of the mainly right-wing and nationalistic flavored populist movements, this study concludes that reinstating the welfare state in liberal countries based on a modified Keynesian economics may be the only possible path for the survival of the liberal international world order.

Keywords: Liberalism, liberal international order, hegemony, populism, inequality, 2008 financial crisis, neoliberalism, Keynes

ÖZET

26 Aralık 1991 Soğuk Savaşın bittiği ve Sovyetler Birliğinin dağıldığı tarih olarak hafızalardadır. Birçok insan bu tarihi liberalizmin tüm dünyaya fazla direnişle karşılaşmadan yayılacağı bir dönemin başlangıcı olarak değerlendirmiştir. Ancak yirmi birinci yüzyılın ilk on yılları sağ görüşlü popülist retoriğin desteklediği bir milliyetçi dalgayı ve liberal değerlerin en sıkı savunulduğu ülkelerde bile tehdit altında olduğu bir ortamı açığa çıkarmıştır. Bunun en çarpıcı örnekleri arasında İngiltere'deki Brexit oylaması ve Trump'ın ABD'nin 45. başkanı olarak seçilmesi gösterilebilir (Galston 2018). Bu öngörülmesi güç gelişmelerin ortaya çıkmasından itibaren uluslararası ilişkiler ve siyasal bilimler dallarındaki düşünür ve bilim insanları bunları analiz etme ve çeşitli ülkeler ile ikinci Dünya Savaşı sonrası liberal dünya düzeni üzerindeki etkilerini inceleme çabasına girişmiştir. Her ne kadar liberalizmin zayıflamasını ve sağ popülizmin yükselişini tek bir değişken ile açıklamak mümkün olmasa da, bu tez neoliberal politikaların sonucu olarak büyüyen gelir eşitsizliğinin ve bu eşitsizliğe tepkilerini dile getiren alt ve orta sınıfların durumlarının global neoliberal üst sınıfın görmezden gelmesinin en temel sebepler olduğunu savunuyor. Bu bakımdan, bu çalışmanın ana argümanı, her ne kadar popülizm liberal dünya düzeni için en büyük dışsal tehdit olsa da bunun altında yatan gerçek tehdidin liberalizmin kendi içinde olduğudur. Bu iç tehdit birinci Dünya Savaşı sonrası hüküm süren sosyal liberalizmin serbest pazarın devlet tarafından dokunulmazlığını yücelten neoliberalizme evrilmiş olmasıdır. Neoliberalizmin yükselişiyle beraber, bir bakıma liberalizmin ekonomik alandaki uygulamalarının liberalizmin siyasi / ahlaki değer setini gölgede bıraktığı savunulabilir. Bu tez milliyetçilik etkisi altındaki sağ popülizmin kaynaklarını ve özelliklerini inceledikten sonra liberal dünya düzeninin devamı için mümkün olan tek seçeneğin liberal ülkelerde güncellenmiş bir Keynesçi ekonomik anlayışa geri dönülerek refah devletinin tekrar inşası olduğu görüşüyle son bulacaktır.

Anahtar Kelimeler: Liberalizm, liberal dünya düzeni, hegemonya, popülizm, eşitsizlik, 2008 finansal krizi, neoliberalizm, Keynes



INTRODUCTION

“Today we are not merely transferring power from one administration to another, or from one party to another, but we are transferring power from Washington, D.C., and giving it back to you, the people. For too long, a small group in our nation’s capital has reaped the rewards of the government, while the people have borne the cost. Washington flourished, but the people did not share in its wealth. Politicians prospered, but the jobs left, and the factories closed. The establishment protected itself, but not the citizens of our country. Their victories have not been your victories. Their triumphs have not been your triumphs, and while they celebrated in our nation’s capital there was little to celebrate for struggling families all across our land. That all changes, starting right here and right now, because this moment is your moment... it belongs to you.” (Staff & Louis Nelson, 2017), thus encapsulated Trump as the 45th president of the United States on 20th January 2017 in his inaugural speech the sentiments behind the populist reaction.

Similar populist rhetoric is neither new (populism has been around for more than a century) nor limited to backwaters of the globe. Yet the fact that it is voiced by the leader of the United States that is arguably the champion and defender of the post-World War II LIO carries added significance and points to populism as the single most important threat to liberal ideas and the LIO dependent on those principles.

This study will attempt to clarify the underlying factors that feed the threats against the LIO. To paint a complete picture of the discontent caused by liberalism all over the world in the first decades of the twenty-first century, this thesis will methodologically examine what liberalism and LIO entails before turning to the makeup of the threats from nationalistic flavored, isolationist populist alternatives. One central claim of this thesis is that liberalism and in turn the LIO encompass more than what contemporary discourse understands under these concepts. Most current discussions on liberalism treat it as if its is nothing more than the neoliberal variant that has dominated the world after the oil-shocks of 1970’s and the

concurrent increase in inflation and unemployment. Kesselman draws a picture of the widespread fatalism on the inevitability of neoliberalism when writing in 1992: “Claiming that another world is possible is one thing, demonstrating how to get there, particularly under conditions of crises, is another. On this latter score, it seems that most progressive analyses of neoliberal capitalism actually reinforce, maybe unintentionally, the idea that there are no alternatives” (Kesselman qtd. in Schmidt, 2011, p. 475). The conclusion will detail the argument that alternative economic systems under liberalism exist and these may be tried to fend off the threats to LIO and global liberalism.

This paper will argue that the roots of the domestic inequality (both real and perceived) lies primarily in the principles and practices of the neoliberal version of the overarching liberal ideology. The 2008 financial crisis that followed the US mortgage crisis was a strikingly visible manifestation of liberalism’s inability to distance itself the neoliberal principles. The equilibrium of liberties and benefits for individuals vs. the communal has shifted dramatically in favor of the individual shortly after the integration of neoliberal reforms, broad privatizations and the deregulations in the finance industry throughout the Reagan Government in the United States and the Thatcher Government in the United Kingdom. Furthermore, as exhibited by the emergence of primarily right-wing populist movements, the immediate thought of authorities globally (but particularly of the US administration) to "Protect Wall Street first, worry about Main Street later" (Tooze, 2018, p. 15), thus putting the general public’s predicament after that of the elites and big business, appears to have harmed the liberal ideology.

Based on these, the premise of this study is that lower-income and waged class, largely blue-collar peoples’ reservations regarding how the neoliberal paradigm works are justified, and that neoliberalism overall is unable to address this issue, thereby creating an opportunity that populists effectively seize. This class element, along with differing impacts of diverging liberal economic policies on the working

class' psyche, appears to be understudied in the research on the decline of liberalism and the rise of populism.

One important issue for liberalism is its tumultuous association with democracy throughout history. As Kiely sums up; "When faced with a trade-off between liberalism and democracy, or between economic liberalism and political liberalism, neoliberals choose the former and thus betray a deep distrust of democracy" (Kiely, 2016, p. 16). The pioneers of the liberal school of philosophy were constantly concerned regarding the authoritarianism of the masses, which they saw as being made up of "uninformed" hordes. For example, the ballot has had limitations, like granting voting rights only to landlords and prohibiting women from voting. "If the majority were to control all branches of government debts would be abolished first; taxes laid heavy on the rich, and not at all on others; and at last a downright equal division of everything be demanded and voted" said John Adams, one of the Founding Fathers of the United States, in the late 18th century (Adams, qtd. in Girvetz, 2020, para. 15). This seems to encapsulate most current neoliberals' worst dread, even though political correctness forces them to hide their feelings. Populists recognized an opportunity and seized it with their "salvation of democracy from wealthy elites" propaganda yet again in the second decade of 21st century.

Michael Sandel, a prominent communitarian academic, writing a decade after the worldwide financial collapse of 2008 simply summarizes the third and last significant challenge for liberalism in the twenty-first century that this study will explore. He asserts forcefully that "conducting the public discourse as if were possible to outsource moral judgment to markets, or to procedures of liberal public reason, has created an empty, impoverished public discourse, a vacuum of public meaning" (Sandel, 2018, p. 359). Hence, liberalism's inability to fulfill one's need for purpose in existence by excluding some intangible but important qualities stands as an important obstacle on its way as the leading ideology of the global order.

The roadmap of this thesis will be as follows; in order to lay out the foundational principles and theoretical background of the liberal ideology, in the first part a brief overview of some historical milestones and the conditions that pushed the founding fathers of the ideology to look for alternatives to existing political systems will be summarized. The interaction between political liberalism and liberalism in the economics realm will follow this historical background. Here, along with a brief description of how it was utilized in the period immediately following the Great Depression by the then U.S. President Franklin Delano Roosevelt (FDR), the foundations of Keynesianism will be laid out.

Next, the neoliberal turn after Keynesianism's failure to respond to a series of economic crises in the '70's will be introduced. This will be followed by a comparative overview of policies dictated by Keynesian vs neoliberal doctrines. Chapter I will conclude with an in depth examination of how the neoliberal system failed to respond effectively to the 2008 financial crisis.

The following chapter will start with a brief overview of main international orders before focusing on the evolution and structure of the current LIO. Also in this chapter, selected historical milestones will be highlighted supporting the view that the current, post WW II LIO is very much a product of the hegemony building efforts of the US.

Ensuing this theoretical and historical discussion, a look at the latest debate on whether the LIO will survive the end of the US hegemony will be provided. In the rest of the third chapter, the nationalistic leaning right-wing populism in the domestic politics of a number of countries will be presented. After providing some factual information on this trend, this section will argue that the nemesis of the populist tide is not necessarily the hegemony of the US, but rather the growing domestic inequalities resulting from the neoliberal policies.

The conclusion chapter will reiterate that the popular dissatisfaction with the Liberal International Order has more to do with domestic economics and neoliberal policies in each country than with the fact that the US is the unipolar hegemon of this order.

Hence, this study aims to reveal a causal link between separate occurrences. It argues that the dominance of the neoliberal school in the liberal economic thinking and the implementation of the neoliberal policies caused an increase in income inequality both within and among countries. This inequality in turn caused dissatisfaction among the lower/middle income segments of societies. Eventually this discontent with the way economic affairs are run brought about a lack of trust in established political figures, thereby feeding the right-wing populist rhetoric and politicians.

Since liberalism and the related LIO cover an immense area in contemporary political discourse, to cover all their ailments and threats faced by them would be nearly impossible in such a short study. Therefore, some of the threats identified during the literature review will be mentioned in passing but will not be pursued in any length. Among the main threats that are left out of the scope of this study are such external threats as the rise of China as an illiberal hegemonic challenger and the impact of environmental developments on the global trade and the capitalist mode of production first come to mind. Instead, as mentioned earlier, this paper will focus only on internal threats stemming from economic and to a certain degree sociological foundations.

A qualitative research method that included the reviewing books and articles by leading scholars in the fields of political liberalism, liberalism in the economic realm, international liberalism, nationalism and populism was chosen for this study.

Since the research question covers multiple intersecting but distinct areas, a thematic literature review was conducted. In order to examine the contemporary

obstacles to LIO, literature under a) foundations and history of liberalism, b) varieties of economic liberalism, c) structure, institutions and principles of the current post World War II Liberal International Order, d) the implications of having a hegemon in the LIO, specifically the impact of American hegemony after 1945, d) Populism and Nationalistic Authoritarianism as contemporary threats to both domestic liberalism in individual countries and to the LIO on the international level, were reviewed systematically. As a result, the need for more attention in the literature on the negligence of the class aspect of liberal ideology in the post WW II period, emerged.

The review was based mainly on general keywords entered in google scholar search engine. There is a massive literature on each of the subareas in the field such as ‘the rise of the liberal international order’, ‘the liberal order and promises of globalization’, ‘post-liberalism’, ‘globalization and contradictions of the changing liberal international order’ that are extensively listed in the literature review performed by Luke Amadi in 2020 (Amadi, 2020). While material that had relatively more citations and was published in respected peer reviewed journals was prioritized, some newspaper and magazine articles that provided practical application of some of the more theoretical ideas put forth in journal articles were also considered. Additionally, the bibliographies of the particularly relevant books and articles were investigated. The resulting material was then manually eliminated by reading their abstracts and skimming over the body of the entire text. When evaluating the arguments in the literature, particular attention was paid whether they were published before or after the financial crisis of 2008, since that event stands as an important turning point in the rise of populist wave globally.

During the review, the main themes that arose related to the foundations and history of liberalism could be grouped under the emphasis of the individual and his interests over that of the collective (Neal 2012), the struggle to limit the powers of the state on the freedom of individual citizens, the at times strained relations between democracy and liberal principles and values.

The main principles, foundations and key differences between the two major schools of economic doctrines of Keynesian or progressive/social liberalism and Hayekian or neoliberalism were the focus point related to the varieties of liberalism. The major themes in this field revolve around the limits of state intervention on the economy. Specifically, the debate on this subarea focuses on unemployment and welfare versus the freedom of markets and the unrestricted pursuit of individual interests (Saad-Filho and Johnston; Skidelsky, Schmidt 2011).

The existing literature on the structure, institutions, and principles of the current post World War II LIO concentrates primarily how the US created a network of international institutions and how these institutions strive to establish and maintain a rules-based international order (Kindleberger).

The subarea on the hegemony under the LIO and the question of American hegemony after 1945 covers research on prior liberal international-like orders and the current, post 1945 LIO under American hegemony. On the question regarding the American hegemony under the post WW II LIO, there exists two major schools of thought. The first, led by Mearsheimer, argues that the current LIO stands and falls with the American leadership, whereas the second school, led by Ikenberry claims that liberal principles and institutions are so well established on the global arena that they LIO would survive a change of the hegemon (Mearsheimer 2018, 2019; Schmidt 2018, Ikenberry 2009, 2018, 2020, Deudney and Ikenberry 1999).

Literature on populism and nationalistic authoritarianism attempts to explain the concurrent rise of these tendencies globally. One issue that stands out here is whether the growing income equality alone is sufficient explanation for the resentment towards liberal values or some other factors such as socio/cultural principles are required to understand the rise of populism and nationalistic authoritarianism (Eichengreen; Lake, Martin and Risse).

The review of this literature depicts a degeneration or hijacking of the seemingly high-minded moral principles of liberalism by the neoliberal variety that places efficiency in economics at the heart of the ideology. The survey also establishes that the US has been the hegemon after the second World War and attempted to reshape the world order according to its interest under the veil of liberal rhetoric. The review points to the rise of populism as the epicenter where various reactions to these attempts converge. As mentioned earlier, the synthesis from the survey of the literature on these areas bring the negligence of the ruling neoliberal elite minority to the plights of the under-privileged masses to focus.

CHAPTER I: LIBERALISM

1.1. HISTORICAL BACKGROUND

Liberalism claims that humans are unable to rationally agree upon a specific good life definition, thus each individual should be given an opportunity to pursue her own good life till she is content and fulfilled. This principle has been reflected in the political domain indicating that a neutral state should be maintained when life choices of citizens are considered. It has been stated by John M. Owen that within a liberal society, piety or riches can be freely pursued by people, they can choose to be ascetic or hedonistic, philistines or aesthetes and none of the options are favored by the state. The claim of neutrality indicates that diversity is present in a liberal society within the context of life style, ethnicities and beliefs (Owen, 2017, p. 75).

In order to lay out the foundation of the liberal political thought, specifically the primacy of the individual vis-a-vis the state and/or the society and how this took the center stage in the past against rival systems such as feudalism, fascism and communism, a brief history of liberalism now follows.

Within Europe, liberal ideas were first observed as an attempt to help oppressed individuals from collective institutions like the Church and the state (Girvetz, 2020, para. 9-12). Several traits are present where all liberalism schools have been inspired from the 17th century within Europe; the centrality of the individual and his rights. Thomas Hobbes is a strong state proponent, but since he also advocated the natural and inalienable human rights within *Leviathan*, this made him join the proto-liberal ranks (Gaus, 2018, para. 2-3). Going further, in *Two Treatises of Government*, John Locke presented an explicit individual rights list that was inalienable and included rights to property, liberty and life. He has been considered as one of liberalism's founding fathers. The American Declaration of Independence also included a similar individual rights emphasis and contains the famed phrase

that every individual is created equal and has the inalienable rights to preserve his life and liberty and to pursue happiness.

As its name suggests, liberalism is an ideology that emphasizes freedom. The ideologies associated with liberty are usually based on secular grounds instead of the theological grounds as the latter restrict freedom on personal as well as collective levels. The main basis of the ideology of liberty is the secular social contract theory that had been presented in the 17th and 18th centuries. The concerned theories supported different types of governments; however, the basic idea behind all of these was that laws and the establishment of any form of a state necessarily put restrictions on personal liberties. The social contract theory as initially presented proposed that the citizens compromise part of their liberty willingly in order to acquire the security offered by the government; thus becoming part of an implied contract with the government to compromise on their rights in return for the security. It also implies that the state enjoys the legitimate power bestowed to it by its citizens rather than granted by God, as was previously the case. Historically, the primary objective of the liberal ideology was to ensure an equilibrium between state rights and rights of citizens.

As mentioned earlier, the basic concept of liberalism proposed initially in the 18th and 19th centuries was to prevent the state from misuse of power bestowed by the citizens against citizens. This is the reason why the liberal doctrine initially emphasized negative liberties. Negative liberties represent the rights of the citizens not to be compelled to do certain things. Examples of negative liberties include liberties of belief, expression and religious practices as well as liberty from oppression. However, when the booming industrialization resulted in accumulation of wealth in the hands of few entrepreneurs while bringing no improvement in the life style of the working class leading ultimately to unequal wealth distribution in the society, the provision of negative liberties was proved not to be sufficient. Consequently, the supporters of liberalism started giving consideration to positive liberties in order to prevent the lower social classes from oppression. As a result,

the state was bestowed with the responsibility to ensure relative equality among various social classes. Under the banner of positive liberties, the state was responsible to ensure the equality among citizens in the domain of education, decent life style, health and similar welfare rights. The upcoming section also delineates another additional responsibility; that of market regulation bestowed on the shoulders of state as a result of this.

1.2. INTERACTION OF LIBERALISM IN THE POLITICAL REALM AND LIBERALISM IN THE ECONOMIC REALM

When examining the application of principles of liberalism from the “political/sociological” areas to economics, what I have in mind as the “political liberalism” is not the narrowly defined Rawlsian understanding of the concept as providing the basis for his theoretical “well-ordered society”, but rather as the broadly defined liberal socio/political values discussed in the previous section. These may be taken as championing the protection of the individual and minorities against the power of state, Church, majority decisions; as defending the individual’s freedom of life choices including freedom of speech, thought and belief.

For the founders of the liberal school of thought, extending similar freedoms and protections from interference by the state to markets has always been a crucial aspect for the longevity of the ideology. It is this very point that the eminent early 20th century scholar E.H. Carr criticizes in his 1939 book *The Twenty Years' Crisis: 1919–1939: An Introduction to the Study of International Relations*. According to Carr, for instance Adam Smith - one of the progenitors of liberalism in the economic realm - was the spokesperson ““of a wishful vision of universal free trade or *laissez-faire*’, believing that ‘the individual could be relied on, without external control, to promote the interests of the community for the very reason that those interests were identical with his own’” (Carr, 1946, p. 6). For the originators of the liberal ideology, the freedom of the individual was hence closely intertwined with the freedom of the markets.

As we will observe when discussing the threats to LIO, this connection is prone to be manipulated both by liberals and anti-liberals. In the early decades of the 21st century, the weak spot of liberalism seems to be its stand on the freedom of the markets rather than on the political freedoms of individual citizens. With that in mind, a short description of the two major schools of thought on liberalism in the economic sphere may prove useful when discussing the obstacles to LIO.

1.3. TWO RIVAL SCHOOLS OF LIBERALISM IN THE ECONOMIC REALM

This study will intentionally avoid using the term "economic liberalism" since in the literature this terminology stands for the specific form of liberalism espoused by the neoliberal school. Rather, throughout, this sub-section of liberalism will simply be called as "liberalism in the economic realm". Although this formulation appears somewhat wordy, doing so will eliminate any terminological confusions. Since its inception there have been various schools of liberalism in the economic realm such as Keynesianism, ordoliberalism, neoliberalism, etc. This study will focus only on the two most influential varieties that held sway in the 20th and the 21st centuries; namely the Keynesian or the social liberalism and the Hayekian or the neoliberalism. Other varieties of liberalism in the economical realm have either been limited geographically, or were short-lived. What follows is an overview that includes the principles and brief historical backgrounds of these two rival schools of thought. Distinguishing these two rival ideologies is crucial to understand the roots and justifications of the threats to the LIO in the early decades of the 21st century.

What is important in this section is to highlight how some aspects of the liberal capitalist market economy take priority over others depending on the socio-political circumstances of that particular era. Ever since its inception, liberalism in the economic realm faced the dilemma of state intervention in the free markets. Too much intervention and the alarm bells rang that the system was overcome by the communist/socialists, too little intervention and the lobbies of the powerful/wealthy oppressed the poorer masses/workers. As early as 1690, thinkers like William Petty were attempting to place the free operation of markets among the natural order of things and to depict the need for state intervention as a 'necessary evil': "However, the harmony of civil society might not prove to be an immediately attainable objective, which was why it would be advisable to accept the intervention of a correcting force in the natural order. In other words, the state - though not an integral part of the spontaneous natural order - was entrusted with the supreme task of preserving its coordination and stability" (Neal and Williamson, 2014, p. 581).

Yet, as soon as the significance of the state in safeguarding the functioning of the markets were acknowledged, reactionary voices such as the physiocrat Quensay wrote treatises (e.g. *Tableau economique*) to curb the state's regulation activities in the economy and the second half of the 18th century was ripe with doctrinal discussions on the merits of state intervention in the markets, particularly on the 'liberalization of production and distribution of grain' (Neal and Williamson, 2014, p. 582).

Specifically in the second half of the 20th and 21st centuries, the shifting relative importance between the provision of social welfare; as well as offering the right to lead a dignified life with a wide range of possibilities for human flourishing versus extending unrestrained access to individuals for material enrichment is key to comprehend the contemporary ailments of LIO. Policymakers respond to these demands of the times either by focusing on employment (as in the case of Keynesianism) or by primarily fighting inflation thus maintaining price stability (as in the case of monetarism or neoliberalism).

1.4. KEYNESIAN ECONOMICS

All political/economic ideologies are necessarily historical context dependent, that is, they respond to challenges that societies face in a particular era. Hence a look into the major historical events is needed to grasp the dynamics that instigate any given ideology. The causes and aftermath of the Great Depression of 1929-39 need to be addressed in the case of Keynesian economic doctrine

The number one challenge that the liberal capitalist system faced in the early decades of the 20th century, particularly after the Wall Street crash of 1929 and the ensuing Great Depression, was to reduce the exploding numbers of the unemployed, to alleviate widespread poverty and to drastically improve the decrepit working and living conditions of the worker class.

The central aspect of Keynesian economic thought is that governments should not refrain from intervening to stabilize the economy. Writing in the 1930's, contemporaneous with the Great Depression, the British economist John Maynard Keynes argued that free-market, standing alone, lacked sufficient balancing mechanisms to achieve full employment. Keynes held that this provides enough justification for governments to intervene with public policies to remedy this imperfection (Jahan, 2014, para. 4). A brief description of both the events linked to Great Depression and its aftermath -including its material and psychological effects on the population- followed by the Keynesian remedies follows below.

A number of factors including the consequences of the First World War (WWI), the huge stock market decline in 1929, disaster of the banking sector, overproduction in agricultural sector and commercial banks' investments and involvement in stock market resulted ultimately in the US Great Depression of 1930's.

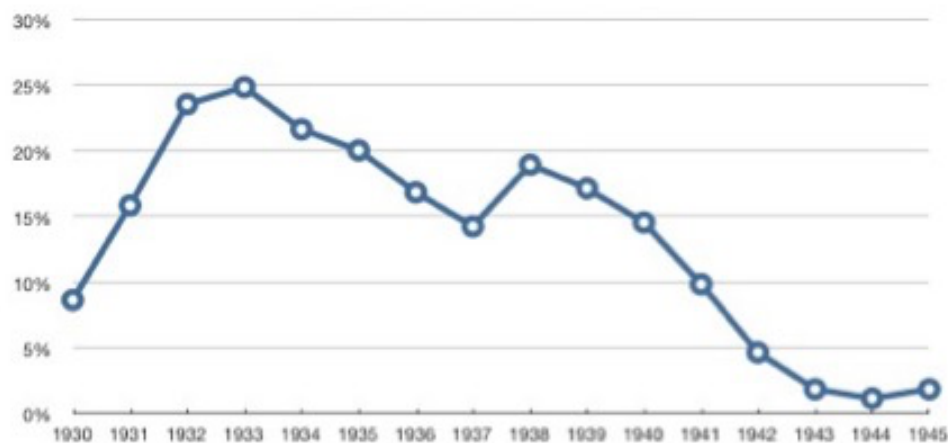
The two decades of prosperous and flourishing economy after the WWI are known as the "Roaring Twenties". The period was characterized with positive outlook, exceptional industrial progress and labor demand leading to influx of rural US residents to industrial cities. The gold imports during the WWI period and inflation stimulated by wartime European demand caused an upsurge in the credit expansion leading to higher economic activity and prosperity (Neal, 2012, p. 107). This period of economic boom was characterized with higher values of Dow Jones Industrial Average for about 9 years. September 3, 1929 marked the highest ever value of the Dow Jones Industrial Average of 381.17 which was about 10 times higher than before this 9 year run started. Consequently, the US society witnessed considerable developments in almost every aspect. This environment developed a society whereby -in line with the capitalist ideology- masses were encouraged to opt for riskier investments in Wall Street instead of safe deposits to make money.

The main factors that resulted in the economic prosperity in this period included the inclination of the US public to defer spending until after the wars years, the restoration of the manufacturing capacity and processes of US factories with the end of the war, and increase in the US reserves due to payment of war reparations by Germany after the WWI under the Dawes plan. Hence, this implies that the economic prosperity of the 1920s was indirectly brought about by the liberal free-market economy which in turn was induced by the WWI.

The examination of the economic data of US during the war period clearly shows the positive impact of war on the US economy, particularly in regard to the

employment rate. It is generally held that the economy of a country in war exhibits higher growth rates along with near-full employment figures. Considering the US employment rate, in 1916, the US labor force was nearly 40 million. As the US got involved in WWI, the figures pertaining to employment rate changed drastically and in April 1917, 10% rise in employment was observed. In 1918, the employment rate reached 44 million while the unemployment rate declined and remained relatively low throughout the period of war. Graphical representation of a similar scenario of a decline in unemployment rate throughout the WWII (contemporaneous with the rise in government capital spending to 67% in 1943 as compared to 5% in 1940) is depicted below:

Figure 1.1: US Unemployment Rate, 1930-1945¹



The continuous rise of the stock market during the 1920s and the economic prosperity of that time convinced the investors that good times would last for the foreseeable future. This attitude led to significant highly speculative investments in stocks that ultimately led to the doom of the market with a sudden dip in 1929. This situation was explained by Wiggin, the president of Chase National Bank, in his statement “We are reaping the natural fruit of the orgy of speculation in which millions of people have indulged. It was inevitable, because of the tremendous

¹ Bureau of Labor Statistics, “Graph of U.S. Unemployment Rate, 1930-1945,” SHEC: Resources for Teachers, <https://herb.ashp.cuny.edu/items/show/1510>

increase in the number of stockholders in recent years, that the number of sellers would be greater than ever when the boom ended and selling took the place of buying.”²

As the bankers switched their role from the savers of customer deposits to buyers of securities, there was a significant rise in the Dow Jones Industrial Average to hit the figure of 381.2 on September 3, 1929 (Rahman, 2012, p. 624). Besides this, the rise may also be attributed to the consumers’ inclination towards securities’ purchase instead of saving their deposits and even asking for loans for the purpose of investing in securities. This led to the formation of a bubble in the market which could not even be perceived by members of the U.S. Government. This is evident from the remarks given by Andrew Mellon on March 1929. The Treasury Secretary at that time said that “there are bargains to be found in the bond market.”³

There was 21% dip in the Dow Index which indicated the first crash of the stock market on October 24. This was followed by another dip of Dow index by 22.6% on October 28. This day marked the greatest ever dip in the US stock market and hence was declared as “Black Monday”. Consequently, there was 90% decline in the overall values of stocks at the end of the Crash in 1932.⁴ The economic data pertaining to that period gives indication about the seriousness and intensity of the Great Depression. The data shows about 15% decline in the gross domestic product (GDP) from 1929 to 1932 (before and after the Crash); closure of banking operations by 4,000 banks; 25% rise in unemployment; and liquidation of 85,000 organizations.

When considering the factors leading to the Great Depression, three main factors emerge as responsible for aggravating this depression besides the stock-market crash of 1929. The factors generally mentioned by scholars are; a) the monetary

² <https://trove.nla.gov.au/newspaper/article/16597217>

³ <https://web.archive.org/web/20080923040829/http://www.pbs.org/wgbh/amex/crash/timeline/timeline2.html>

⁴ <https://eh.net/encyclopedia/the-1929-stock-market-crash/>

contractions and bank runs whereby a majority of customers simultaneous demand to withdraw their deposits from banks during the period from 1930 to 1932, b) the spread of the Depression from US across the world due to the gold standard; and c) a decline in availability of loans globally and restricted international trade owing to enforcement of reciprocal tariffs.

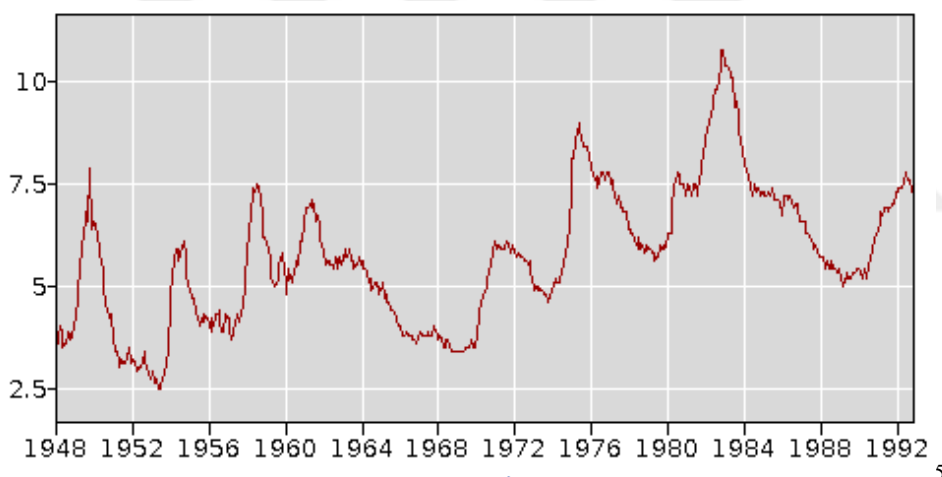
When FDR took charge of the office as the 32nd President of the United States, the economy was on the brink of collapse. To tackle the crumbling economy, he launched a three-pronged economic strategy during his tenure. According to Piccone, rather than attempting to find a remedy outside of the free-market-oriented capitalist-model system, the Roosevelt administration offered Keynesian cures from inside the system by: 1) Working on reducing the unemployment rate, 2) Launching mega government projects to boost the demand and empower the economy, 3) Introducing and implementing guidelines in the financial services sector to avoid the recurrence of the stock market crash. The first 100 days were critical, during which the United States government initiated an enormous program known as the 'New Deal' to achieve these three objectives. Several new government agencies were established during the New Deal to help the US out of the Great Depression, apart from the previous financial restrictions enacted under the Banking Act of 1933.

Accordingly, the restructuring of the industry and the development of relevant legislation was done by establishing the National Recovery Administration, new jobs were created to tackle the unemployment in a variety of sectors by establishing the Works Progress Administration, and Civilian Conservation Corps was founded to improve environmental conditions. It also served to provide jobs to unemployed youth. Eventually, the government's role expanded to a great extent due to the provision of unemployment compensation, the Social Security System, and other related public assistance agencies. Taken together, these initiatives gave rise to a 'New Deal liberalism' in the United States, a counterpart of European social democracy (Jones, 2014, pp. 24-27).

All the above outlined steps taken by the Roosevelt government as part of the New Deal were in line with the Keynesian teachings that stand-alone monetary policies (i.e. manipulating the money supply by adjusting the interest rates) would not be sufficient for the free-market to achieve low unemployment rates and an accompanying fiscal policy (i.e. utilization of taxes and government spending) is needed for economic stabilization.

The effects of the Keynesian policies can be seen in the below graph where the rate of unemployment enters an increasing trend after late 1960's.

Figure 1.2: US Unemployment Rate, 1948-1992



1.5. NEOLIBERAL ECONOMICS

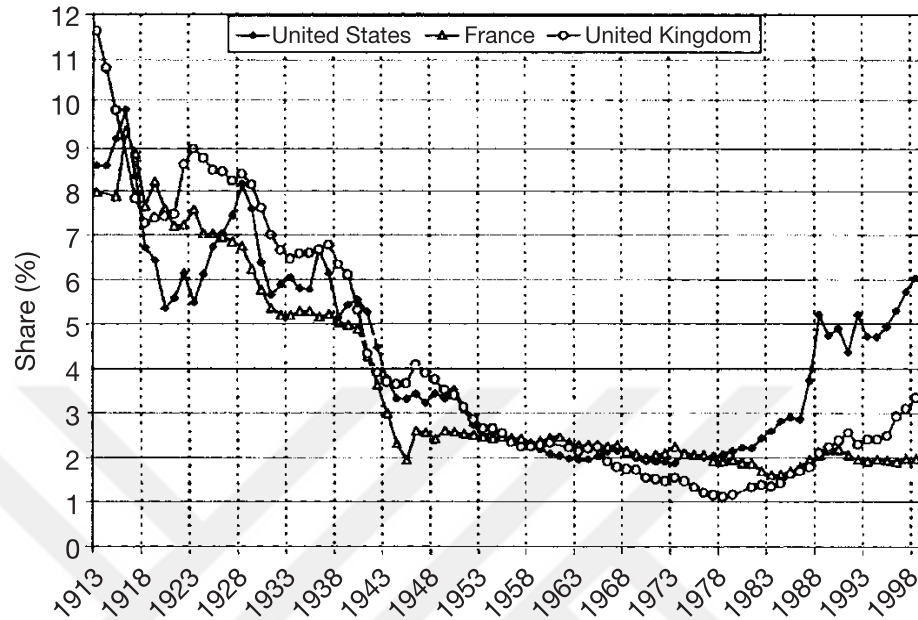
Especially in the aftermath of the globally destructive WW II, with the worldwide demand to rebuild civilian infrastructure, the Keynesian remedy initially worked efficiently in the leading industrial countries (i.e. the US, Japan and Europe) providing for low unemployment, significant growth rate and increased per capita purchasing power but most importantly by the establishment of the welfare system that included education, along with health and retirement benefits. However, when

⁵ <https://data.bls.gov/pdq/SurveyOutputServlet>

stagflation (that was mainly caused by the oil crises of 1973 and 1979 causing resource shortages) set-in and profits declined, major global economies led by the US, suffered a structural crisis that traditional Keynesian methods could not correct. “The main aspects of this crisis were diminished growth rates, a wave of unemployment and cumulative inflation. This is when the new social order, neoliberalism, emerged, first within the countries of the centre - beginning with the United Kingdom and the United States - and then gradually exported to the periphery”. Neoliberalism may be summed very briefly as the ideology of private interests and the market versus the intervention of the state in the economy (Saad-Filho, 2005, p. 18).

Liberalism appeared in a new form of neoliberalism in the decade of 1980 when during the reign of the US resident Reagan and UK prime minister Thatcher, the conservative governments again adopted the traditional liberalism. The neoliberalism was based on the previous concept of liberalism characterized with *modus vivendi* or free market and negative rights. Neoliberalism was different from the Keynesian or social liberalism characterized with focus on welfare and positive rights. The US governments established afterwards also decided to continue with the neoliberalism with emphasis on being market-friendly. However, this was beneficial only for entrepreneurs with no obvious advantage to the less privileged individuals. Neoliberalism had been defined by Kean Birch as development of competitive markets in economic, political and social sectors (Birch, 2015, p. 572). The impact of neoliberalism particularly the unequal wealth distribution has been depicted in the subsequent graphs.

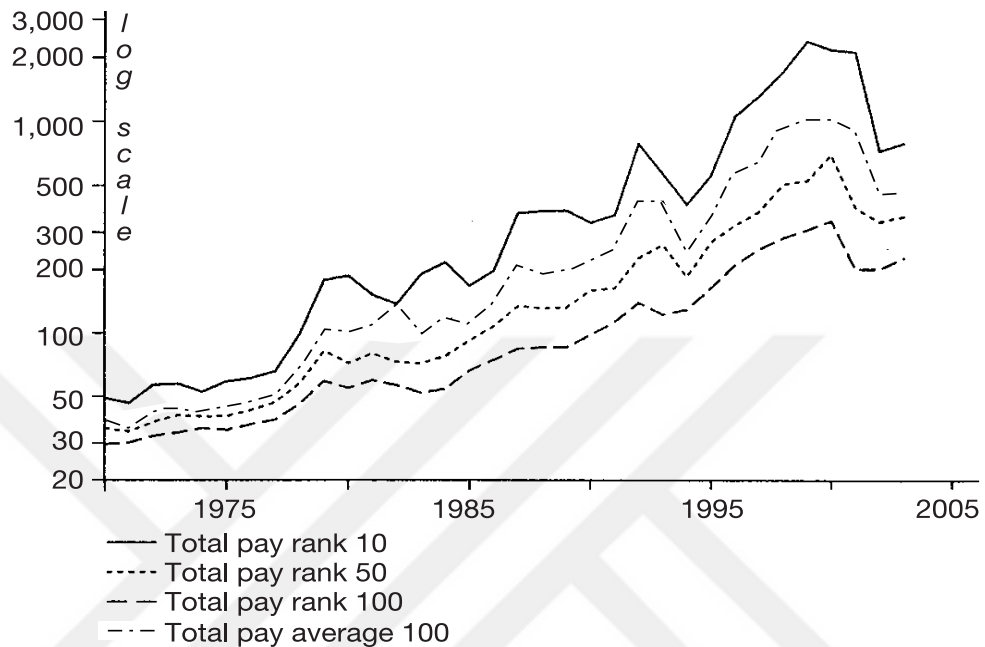
Figure 1.3: Share in National Income of the top 0.1% of Population, US, Britain, and France, 1913-1998



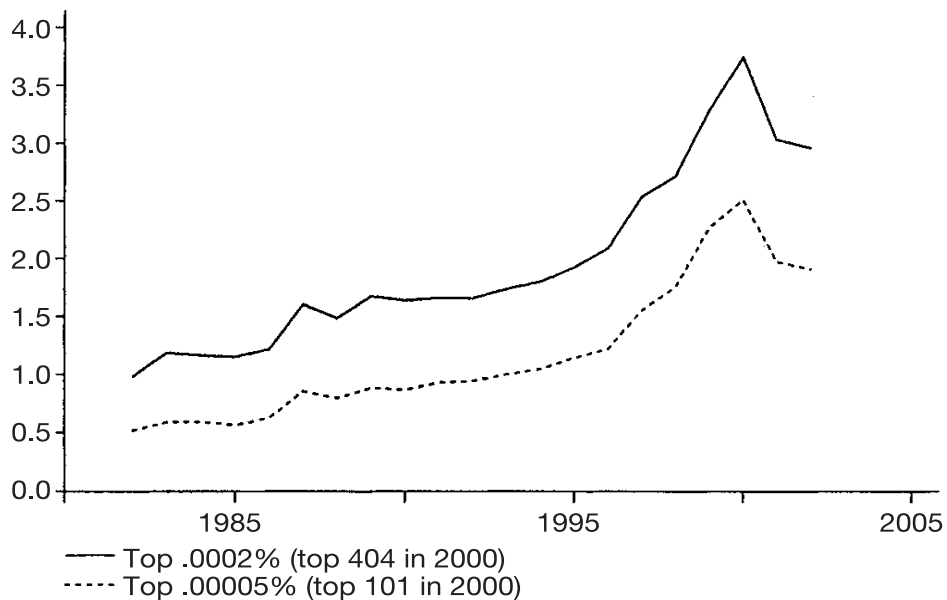
Source: Task Force on Inequality and American Democracy, *American Democracy in an Age of Rising Inequality*.

The above graph illustrates the increased concentration of wealth in the neoliberal period, the increase becomes particularly clear after 1983 in all three countries examined.

Figure 1.4: The Concentration of Wealth and Earning in the US: CEP Remuneration in Relation to Average US Salaries, 1970-2003, and Wealth Shares of the Richest Families, 1982-2002



The first three curves show the rise of the pay of CEOs according to their rank in the hierarchy of remunerations: 10th, 50th, and 100th. The other curve (— · —) corresponds to the average pay of the 100 CEOs with higher remunerations. Note that 1,000 means 1,000 times the average salary.



Source: Dumenil and Levy, 'Neoliberal Income Trends'

These graphs reveal the disproportioned distribution of aggregate prosperity where the high-income segments' wealth increases at a much faster rate than the rest of the society in the neoliberal era.

It was also observed that the inequality prevailing during the Cold war was reduced to a significant extent by progressive liberalism after the war ended.

On the theoretical front, the neoliberal doctrine triumphed when the Federal Reserve (FED) suddenly increased the interest rate in what is generally called the *1979 coup* (Saad-Filho, 2005, p. 19). Led by monetarist thinking, this era under the FED chairman Paul Volcker prioritized the curbing of inflation. According to classical economic theory, a major tool in fighting inflation is raising the interest rate whereby more people are induced to save money, thereby decreasing the money supply in the economy. As can be seen in the below graphs, the wealthiest segment of the population as the creditors benefited more from the neoliberal monetarist policies and the income inequality increased as a result.

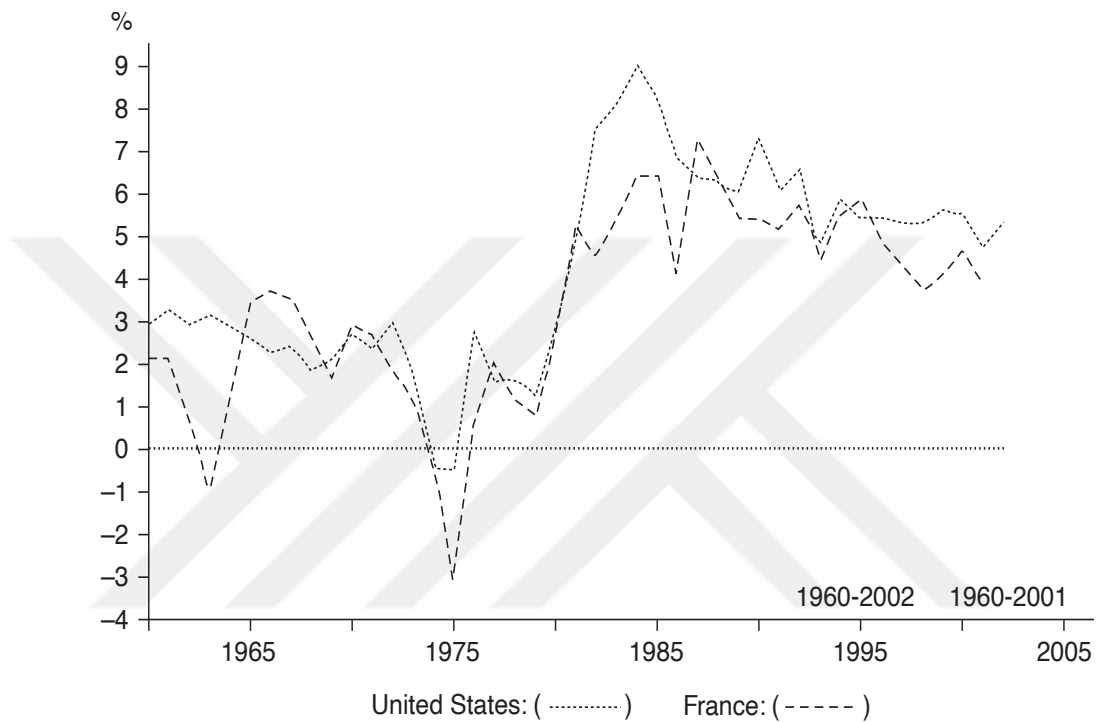
Figure 1.5: Share of Total Wealth Held by the Wealthiest 1% of US households (wealth includes housing, securities and cash, and durable consumption goods)



Source: Wolff 1996

The graph reveals how the impact of neoliberal policies after around 1978 reversed the decline of the share of total wealth held by the richest 1% of US households.

Figure 1.6: Long-Term Real Interest Rates: France and the United States



Source: OECD, Statistical Compendium 2001

Coupled with previous graphs, this graph provides evidence that high interest rates resulting from the neoliberal policies benefited those segments of the society that already owned significant capital as they serve as the lenders in the economy.

The neoliberal version of liberalism in the economic realm is particularly prone to periodic bubbles and busts as a result of stagnation and over-accumulation. Companies cut employees' salaries as much as feasible to improve profit margins and increase job performance. Following a cycle of increased efficiency and cost-cutting, the market gets saturated with commodities. Moreover, because workers/salaried persons are unable to serve the added position of customers due to

an inadequacy of expendable cash to accommodate the surplus produce, a time of bust is unavoidable.

“The evidence suggests that these recurrent crises have become more frequent, severe and prolonged during the neoliberal era from the mid-1970s onward and appear to have coincided with the policies of financial deregulation enacted during this period” writes Lucarelli in 2009, shortly after the financial crisis (Lucarelli, 2009, p. 48). Concerning the 2008 mortgage meltdown, he cites Barbara and Pivetti's 2009 paper, implying that customers' real buying power plummeted as a consequence of decreasing real incomes, and the only way to boost consumption was to increase household debts. “In order to maintain their real purchasing power in the face of stagnating real wages, workers were compelled to resort more than ever to the privations of debt servitude,” Lucarelli says (Lucarelli, 2009, p. 48).

As a result, as in the US mortgage markets of 2007, people are driven and encouraged to invest money they don't have in the aim to maintain markets afloat. In a theoretical context, neoliberalism's dislike for centralized expertise, while enabling more market freedom, raises the likelihood of long-term market failures. “The most significant fact about this system is the economy of knowledge with which it operates, or how little the individual participants need to know in order to be able to take the right action” (Hayek, 1945, p. 524) says Hayek, a staunch defender of classical liberalism and one of the pioneers of neoliberalism. However, it was precisely this strategy that contributed to the result that, in addition to the central players including financial firms, financial regulators appear to lack adequate understanding of the market conditions throughout the 2008 financial recession and the ambiguous understanding that underpins capitalist free markets created enormous damage (Davies, 2012, p. 72).

1.6. REPERCUSSIONS OF KEYNESIAN VS NEOLIBERAL ECONOMIC POLICIES ON POLITICS: A COMPARATIVE OVERVIEW

After the above discussion of the roots and historical applications of the two rival liberal economic schools of thought, this section will focus on the key theoretical differences between these two doctrines and what these differences mean for the policies adopted according to each doctrine, respectively. As briefly discussed above in historical context, there is a constant back-and-forth movement within liberal economic doctrine as it strives to respond to circumstances and rival politico/economic ideologies. The struggle between classes as they each attempt to protect their respective interests also plays a role in this shift. Depending on the nature of threats, the proponents/lobbyists of either “state interventionist” Keynesian school or “free market” neoliberal school gain the upper hand and produce policies in line with their respective axioms until either the threats change or the weaknesses of the ruling version of the liberalism in the economic realm become too big a burden to defend the resulting policies. In the 20th and early 21st centuries, this process of action-reaction is manifested in the dominance of the Keynesian school from mid 30’s to mid 70’s when neoliberal doctrine was established as the policy-determining factor in the West. With the 2008 financial crisis and the resulting sea change in public opinion on the functioning of the capitalist system neoliberalism appears to be in retreat, whereas new-Keynesianism is once again in vogue. While this cyclical nature of liberalism may be taken as a failure, it can also be regarded as a strength since this provides liberalism with the power of adaptability to new and unforeseen challenges of the times. Below, the main arguments of both doctrines and the causes that necessitate the solutions provided by each of them will be introduced.

As we have seen above, Keynesianism arose in response to drastic levels of unemployment and income inequality in the years during and immediately following the Great Depression of 1930s. Hence its main concern is achieving near

full employment in an economy (Jahan, 2014, p. 1). According to John Maynard Keynes' argument in *The General Theory*, the total demand in an economy and employment are directly and positively related (Bas, 2011, p. 291). The aggregate demand in an economy is affected by both private and public spending decisions. Since private spending by firms and consumers tends to decrease amid recessions, during such periods the demand for products and services could and should be increased by the state. Hence, Keynesianism does not limit the state's role to mere monetary policies but also allows for government intervention through fiscal policies such as adjusting the tax rates and/or investing in major projects financed by deficit spending, if necessary.

In describing the successful Keynesian response of Australian government to 2008 financial crisis by following counter- rather than pro-cyclical economic policy, Fenna sums up the underlying Keynesian approach: "Keynesianism proposes that: (1) markets are not self-equilibrating and, in particular, are inherently prone to periods of involuntary unemployment typically caused by insufficient effective demand to stimulate adequate levels of investment and employment; (2) through their influence on effective demand, governments have both the capacity and the responsibility to moderate the extremes of the business cycle so as to reduce unemployment" (Fenna, 2010, p. 355).

Former FED vice chairman and economics professor Alan Blinder provides further main tenets of Keynesian Economics in his entry to the Concise Encyclopedia of Economics. Accordingly, "Keynesians typically advocate more aggressively expansionist policies than non-Keynesians" and they embrace coarse rather than fine-tuning of the economy (that is adjusting money supply, taxes, government spending every few months), since along with monetarists and neoliberals, Keynesian also believe that the governments lack sufficient knowledge of the markets to fine-tune successfully. Blinder summarizes the core of Keynesian liberal economics as: "Keynesians' belief in aggressive government action to stabilize the economy is based on value judgments and on the beliefs that (a) macroeconomic

fluctuations significantly reduce economic well-being, (b) the government is knowledgeable and capable enough to improve upon the free market, and (c) unemployment is a more important problem than inflation” (Blinder, para. 13). However, Keynes held technocratic elite in high regard, and believed that when right information is provided, “the educated, enlightened expert [can] solve the worst social, economic, and political problems” (Jones, 2014, p. 183) through their decisions based on their expert interpretation of the data. Jones also highlights that Keynes’ genius was his proposition of a theory that accommodates the apparently contradictory idea of state intervention within the liberal values (Jones, 2014, p. 183).

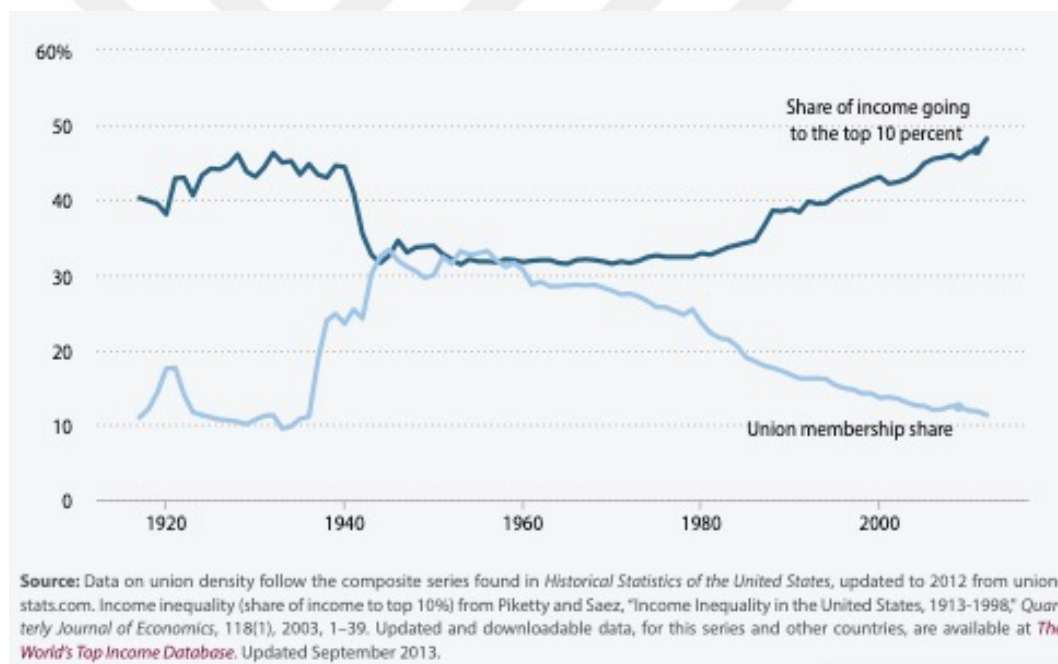
With its emphasis on the welfare benefits that help to relatively alleviate inequalities and its focus on fighting unemployment as the prime goal, the Keynesian economic doctrine helped create the post WW II welfare state. On the global level, these policies were implemented through the Bretton Woods system. That system takes its name after international the conference that took place from July 1 to 22, 1944 in Bretton Woods, New Hampshire with the participation of delegates from 44 nations.

The primary aim of the system that emerged after the conference was to avoid mistakes made after the WW I that included isolationism and competitive devaluation of currencies. The path to achieve these goals was held to be to increase global commerce by means of i- trade liberalization, ii- freedom of capital movements and iii- convertible but fixed or pegged exchange rates for individual currencies. Accordingly, the currencies would be pegged to gold, and each country would be responsible to uphold the fixed exchange rate. The newly created International Monetary Fund (IMF) would set these exchange rates and allow narrow margins to countries for fluctuations of their respective currencies.

During this era, an understanding of sorts were reached between capitalist industrialists, workers and the state; “In return for union recognition, rising real

wages, and the establishment of a social wage, organized labor and social democratic parties recognized capitalist property including the right to manage” (Schmidt, 2011, p. 478). This uneasy alliance lasted during the prosperous decades after WW II when the economy grew effortlessly and real wages continued to rise alongside it. However, when in mid 70’s the inflation that was mainly caused by the deficit spending of governments increased and halted the rise in real wages, along with the supply shock of the Oil Crises of 70’s, the economy slowed down and the alliance crumbled.

Figure 1.7: Union Membership and Share of Income Going to the Top 10% in the US



6

The above graph illustrates the clear effect of neoliberal policies and the US government’s anti-Union stand by depicting the decline of the union membership concurrently with an increased concentration of wealth in the hands of wealthiest 10% of US population.

⁶ <https://www.epi.org/publication/charting-wage-stagnation/>

While neoliberal ideas started to dominate the liberalism in the economic realm after these developments only in late 70's, its main principles extend all the way back to 19th century Manchester system of liberalism that was “predicated upon *laissez-faire* economics and was closely associated with free trade and the repeal of England's Corn Law, which restricted importation of wheat” (Palley, 2004, p. 1). In its contemporary form, its intellectual foundations were laid by the Mont Pelerin Society in the immediate aftermath of WW II and in the face of growing threat by socialism and communism that were embodied in the newly established Soviet Union. Eminent scholars like Hayek, Popper and von Mises drafted their statement of aims that highlighted the protection of liberal values against totalitarian tendencies and the need to establish an “international order conducive to the safeguarding of peace and liberty and permitting the establishment of harmonious international economic relations”⁷.

As mentioned above briefly in the historical context, the most recent reiteration of neoliberalism took center stage during the late '70s - early '80s under the tutelage of conservative governments in the US and the UK. Jones raises an important point about the application of complex economic theories in the realm of policy. According to Jones, Milton Friedman (the leading champion of the neoliberal ideas during this period) communicated difficult ideas in a simple to understand form to lay persons that allowed itself to create appealing slogans and catch-phrases (Jones, 2014, pp. 210-211). For instance, in a speech made during ‘The Money Programme’ on April 21, 1978, Friedman went on record as emphatically declaring: “...far from achieving a nirvana of steady high levels of employment with steady prices, it [Keynesianism] has managed to achieve the worst of both worlds: high inflation and high unemployment” (Friedman qtd. in Jones, 2014, p. 180). Jones further argues that “neoliberalism was a particularly powerful theory, almost a faith, for true believers in the free market and its possibilities, Friedman's monetarist analysis and the market solutions grabbed people's attention as a *ready-made* [emphasis

⁷ <https://www.montpelerin.org/statement-of-aims/>

added] and plausible alternative strategy when the economy began to unravel under the weight of stagflation” (Jones, 2014, p. 212).

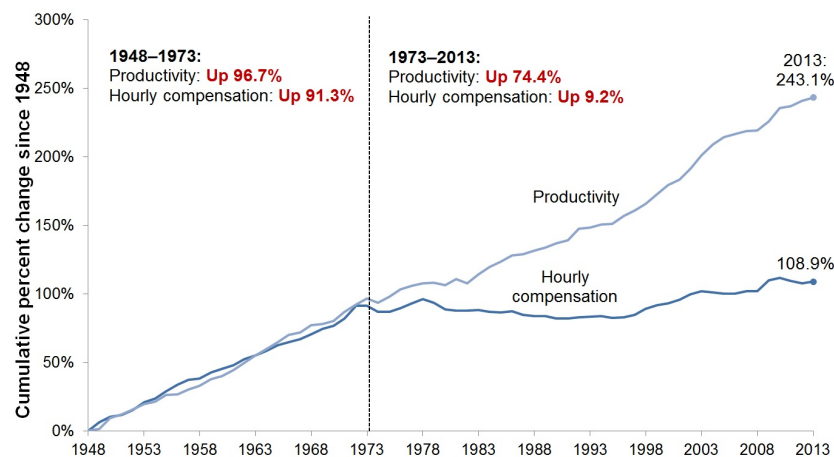
The main idea behind the Hayekian monetarist neoliberalism is diametrically opposite of Keynesianism and claims that “...economies automatically self-adjust to full-employment and that the use of monetary and fiscal policy to permanently raise employment merely generates inflation” (Palley, 2004, p. 1). According to neoliberal policies, for instance, since the market accurately determines that the workers are paid the value of their labor, there is no need to either for state intervention providing social protection to workers nor for the existence of trade unions to meddle with market determined wages (Palley, 2004, p. 4).

The guiding principles of neoliberal policies on the global scale is generally understood to drive from ten broad sets of specific policy recommendation as introduced initially by economist John Williamson in 1989 as the ‘Washington Consensus’. The terminology is sometimes used as a general catchphrase for neoliberal policies but is much disputed and there is a wide literature on what exactly it covers as summarized for instance by Marangos in his 2009 article ‘The Evolution of the term ‘Washington Consensus’” (Marangos, 2009). This study will use it as centered around the following prescription areas as outlined by Williamson in 1989: 1. Reduce national budget deficits; 2. Redirect spending from politically popular areas toward neglected fields with high economic returns; 3. Reform the tax system; 4. Liberalize the financial sector with the goal of market-determined interest rates; 5. Adopt a competitive single exchange rate; 6. Reduce trade restrictions; 7. Abolish barriers to foreign direct investment; 8. Privatize state-owned enterprises; 9. Abolish policies that restrict competition and 10. Provide secure, affordable property rights.⁸

⁸ <https://www.piie.com/blogs/realtime-economic-issues-watch/what-washington-consensus>

Along with its insistence on the lessening of government regulation of markets, its negligence of addressing the plights of working classes is central to neoliberal doctrine and the 2008 financial crisis stands as a glaring example of the shortcomings of neoliberal policies in the 21st century. The following graph illustrates the clear difference between attitudes towards the working classes in the US during the Keynesian and neoliberal eras:

Figure 1.8: Disconnect Between Productivity and Typical Worker's Compensation in the US



Note: Data are for compensation (wages and benefits) of production/nonsupervisory workers in the private sector and net productivity of the total economy. "Net productivity" is the growth of output of goods and services less depreciation per hour worked.

Source: EPI analysis of unpublished Total Economy Productivity data from Bureau of Labor Statistics (BLS) Labor Productivity and Costs program, wage data from the BLS Current Employment Statistics, BLS Employment Cost Trends, BLS Consumer Price Index, and Bureau of Economic Analysis National Income and Product Accounts

9

To illustrate the main differences and impact of the Keynesian versus neoliberal systems, below are select tables and graphs related to world economy during the Keynesian based Bretton Woods system and neoliberal based Washington consensus system. Note how the objective of Keynesian Bretton Woods system has been full employment (in line with the requirements of the times), whereas the neoliberal system under the guidance of the Washington Consensus replaced full employment with the price stability as the primary objective, once again responding to the requirements of its times. The following graphs illustrate the effects of this

⁹ <https://www.epi.org/publication/charting-wage-stagnation/>

shift in objective, particularly clear is the increase in unemployment rates in Figure 1.12.

Figure 1.9: Bretton Woods ('Golden Age') System

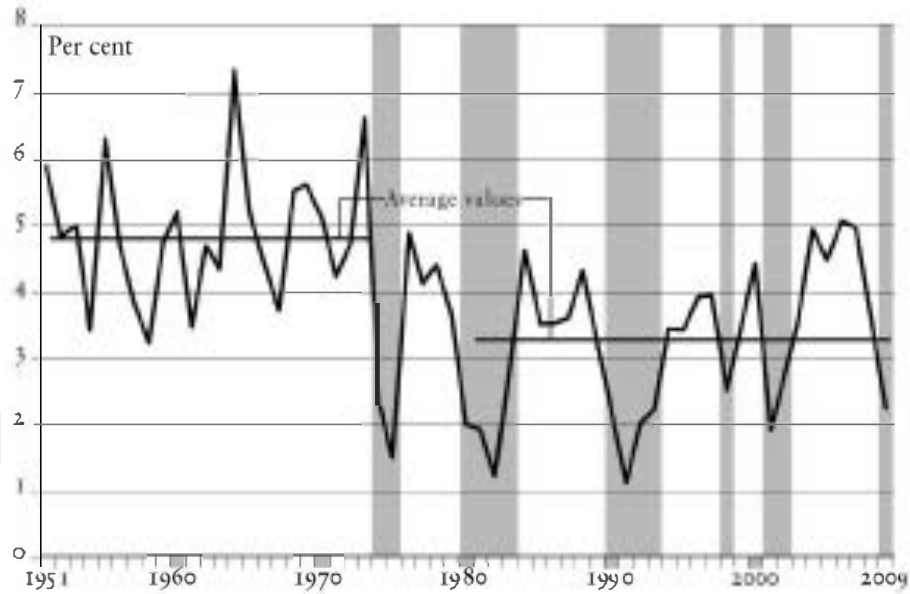
<i>Objective</i>	<i>Instrument(s)</i>	<i>Responsible authority</i>
Full employment	Demand management (mainly fiscal)	National governments
Balance-of payments adjustment	Pegged but adjustable exchange rates (capital controls)	IMF
Promotion of international trade	Tariff reductions etc.	GATT
Economic development	Official assistance	World Bank

Figure 1.10: Washington Consensus System

<i>Objective</i>	<i>Instrument(s)</i>	<i>Responsible authority</i>
Price stability	Interest-rate policy	National central bank, ECB for Eurozone
Balance-of-payments adjustment	Floating exchange rates	
Promotion of international trade	Tariff reductions etc.	ITO, WTO (since 1995)
Economic development	Loans	Private lending, World Bank

Source: Skidelsky (2010)

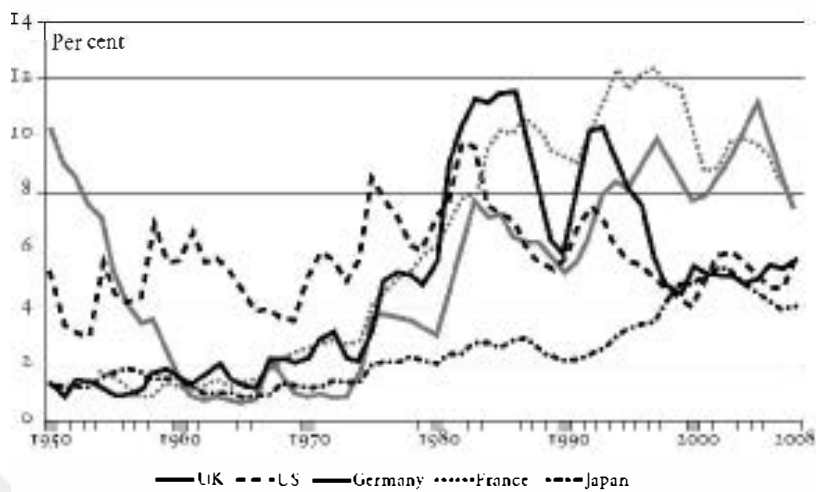
Figure 1.11: World Real GDP Growth



Sources: 1951-2001, Maddison, *The World Economy*, p. 616; for 2002-2009, IMF *World Economic Outlook*

Note how the average world real GDP growth stood about 4.8% during the Keynesian era of roughly 1950-1973 whereas it fluctuated around 3.2% in the neoliberal period from 1978 to 2009.

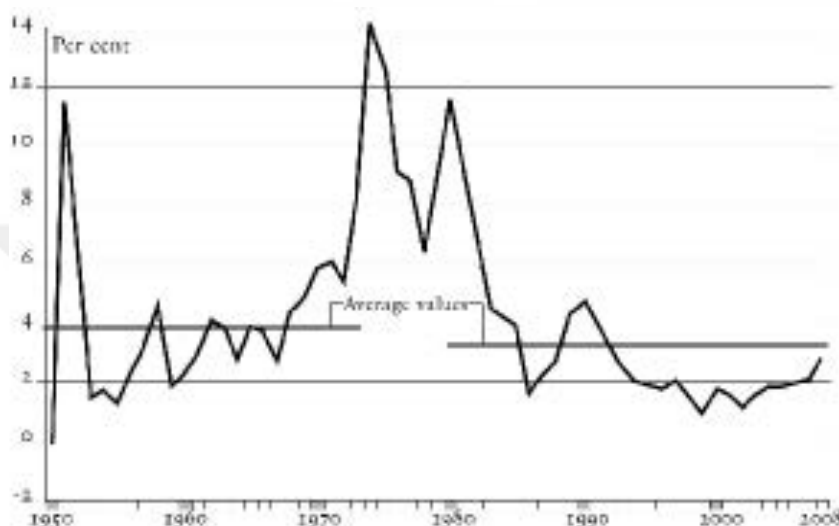
Figure 1.12: Unemployment Rates



Sources: For the UK: National Statistics. For the US: Department of Labor. For Germany: 1950-69, Liesner, *Economic Statistics*; 1970-89, Aldcroft & Morewood, *The European Economy*; 1990-2005, World Bank World Development Indicators; 2006-8, OECD (February 2009). For France 1954-69, Liesner, *Economic Statistics*; 1970-79, Aldcroft & Morewood, *The European Economy*; 1980-2005, World Bank World Development Indicators; 2006-8, OECD (February 2009). For Japan: 1950-79, Liesner, *Economic Statistics*; 1980-2005, World Bank Development Indicators; 2006-8, OECD (February 2009)

The above graph depicts while fluctuating widely on a year-to-year basis, unemployment rates in major developed countries reveal a visible upward trend after the second half of 70's.

Figure 1.13: Average Consumer Price Index Inflation*



* Averaged over the individual rates of France, Germany, Japan, the UK and the US

Sources: For France, Japan and the UK:1950-60, Maddison, *Dynamic Forces in Capital and Development*; 1961-2007, World Bank; 2008, OECD. For Germany: 1950-89, Maddison, *Dynamic Forces in Capital and Development*; 1990-91, OECD; 1992-2007, World Bank, 2008, OECD. For the US: 1950-60, US Bureau of Labor Statistics; 1961-2007, World Bank; 2008, OECD

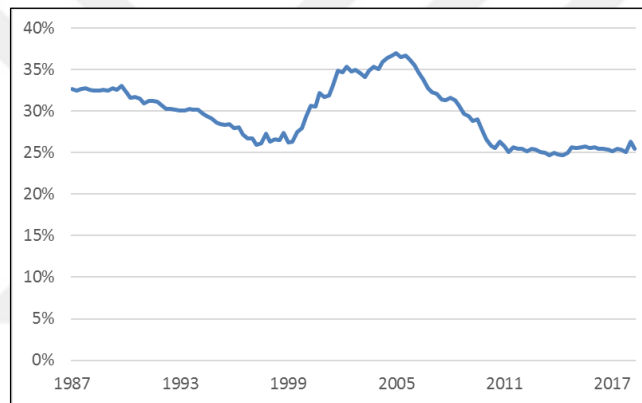
1.7. THE 2008 FINANCIAL CRISIS

Aside from clearly demonstrating the failings of the neoliberal system, the 2008 financial crisis shaking the global economy at its core is also an helpful starting point to understand the contemporary threats - in particular populism - used that event to undermine liberalism.

To understand the extent of the influence of the mortgage crisis upon the US economy, it is necessary to present a thorough real estate sector overview and its standing in the US economy.

Within the US economy, a significant role is played by the real estate sector. It not only provided wealth and savings for households but also directly supports several side sectors like retail and manufacturing. Real estate construction is a labor intensive industry which is why it has a direct influence on the labor market. In 2006, it was peak time, and the real estate construction participated at 8.9% of the US GDP. When the numbers are further assessed, it was found that the US real estate participates strongly as part of the total global market wealth. An estimation also states that there is nearly 20 percent of the American real estate share within the global wealth (Barnes qtd. in Tooze, 2018, p. 43).

Figure 1.14: Home Value as Percentage of Net Worth



Source: Federal Reserve, Financial Accounts of the United States, Table B.101.H Balance Sheet of Households.

Lastly, within the US, a psychological significance is present for the residential real estate. Hannah Thomas states “Owning one’s own home is a deeply held value in the United States. It provides, therefore, a particularly strong motivation for families to keep their homes even when doing so threatens a family’s current financial viability and financial future. For families participating in this study, the meanings and daily realities associated with owning a “home” were important motivators in saving the home at whatever financial cost” (Thomas, 2013, p. 755). Hence, “most Americans take out a mortgage to purchase a home, and mortgage debt constitutes approximately 70% of total household debt” (Stupak, 2019).

Hence, the summary of the basis of the US housing market crisis can be presented as thus: During the early 2000's, after the double shock of the dot-com bubble burst and 9/11 attacks, the interest rates were decreased by the FED to 1% for the stimulation of the economy. Therefore, led by the new mortgages that increased from \$1 trillion in 2001 to \$3.8 trillion by 2003 "as part of the irregularities of the regulations and accounting systems" (Tooze, 2018, p. 55), consumer spending surged dramatically. From 2001 to 2007, due to the aggressive Wall Street, mortgage lenders, homebuyers and insurer investments, the house prices had increased by 10% per year. By 2007, it started falling and by mid-2009 it had come down to the 2000 level. Hence, from 2007 to 2009, the sharp fall did not allow the homeowners to borrow against their homes for the financing of the rest of the expenses and heavy losses were suffered by the ones invested in the housing as well as mortgage backed securities (Havemann, 2010).

The financial markets were just deregulated so the mortgage originator banks/financial institutions did not report the mortgage upon the books, however, would pass them on to the significant financial organization who would then pool these mortgages in thousands. They would then issue marketable securities as shares for the mortgage pool and these would be sold as "mortgage backed securities". Such an activity reduces the originator institution incentive to scrutinize borrower creditworthiness as the mortgage would be swiftly sold and the large organizations would be passed on the risk. Therefore, due to these transactions, the mortgage backed securities eventual owners are unaware of the original borrowers and wouldn't be able to carry out a healthy security risk assessment (Blinder).

The mortgage sector was also significantly affected by the private mortgage industry which was newly established during the early 2000. Traditionally, within the US, the giant government-sponsored enterprises (GSE) like Fannie Mae and Freddie Mac would offer the mortgage loans. They were the mortgage system basic anchors since the savings-and-loans (like a local saving bank) had gone bankrupt during the early 1980's (Tooze, 2018, p. 46). During the early 2000's, after the 9/11

attacks and the dot-com bubble burst, the markets had become highly volatile and the economic environment was risky. Safe investments were being searched by the investors. “Since home prices nationwide had never fallen before, the American home seemed like such a sure bet that a huge portion of the global financial system ended up owning a piece of it” (Leonhardt, 2008). It was considered to be an opportunity for the private financial institutions in terms of business expansion which is why they also initiated mortgage offerings. As a result of the above delineated neoliberal policies, the markets were significantly deregulated and non-governmental financial institutions started to offer “private label ‘unconventional’ lending – subprime, slightly better Alt-A and oversized jumbo loans” (Tooze, 2018, p. 56).

Political considerations are another reason behind the lower credit ratings on the newly issued mortgage loans and the securities. The ‘Federal Housing Enterprises Financial Safety and Soundness Act of 1992’ was passed by the US Congress in 1992. Later, by 1995, the government presented GSEs targets and incentivized them to extend loans to lower income and minority communities (Tooze, 2018, p. 47). This increased the share of subprime loans to nearly 50% of all mortgage loans issued during the 2005-2007 period. Trillions of dollars’ worth of financial instruments has been raised by the private mortal issuers. These include highly complex financial instruments such as derivatives, collateralized debt obligations, etc., the risk of the underlying subprime mortgages were thus multiplied. A new insurance product, credit default swaps, were developed that was supposed to prevent these complex financial instruments from default. Thus, the subprime mortgage craze also extended to the insurance industry.

Aside from a lack of information on the real, underlying riskiness these complex financial instruments, since the subprime mortgages were buried deeply and spread into tranches, there was also a degree of confusion as to what these financial instruments were composed of, not only on the part of the buyers, and the government regulators, but also by the selling bankers: For instance in March, 2008,

Ethan Harris, a top Lehman Brothers economist, stated “We’re exposing parts of the capital markets that most of us had never heard of”. A further comment came from Robert Rubin, the former Treasury secretary and current Citigroup executive, who said that he hadn’t heard of ‘liquidity puts,’ an obscure kind of financial contract, until they started causing big problems for Citigroup” (Leonhardt, 2008).

As the property bubble concluded and property values began to revert to their ‘normal’, pre-bubble levels, as mentioned earlier, the US households (especially lower-income and minority homeowners) noticed that they couldn’t sell their homes for a profit and instead would take a loss, and millions of them suffered mortgage foreclosures. The US government initiated immediate measures to avoid the increase in foreclosures (which were already 57 % more in January 2008 than in January 2007) and rekindle confidence in the housing sector by lowering interest rates and extending a tax refund. Even so, these precautions were inadequate, as home sales plummeted to their lowest point in ten years, and the prices of average-homes dropped another 4.6%.

Around March 2008, it was evident that numerous banks had debt securities containing a large number of subprime mortgages that were vulnerable to default. To help such banks, the FED, as the "bank of last resort," launched the establishment of a Term Auction Facility, which would offer 28-day loans to those who need it. The FED had lent \$225 billion via the Term Auction Facility by June 2, 2008.

The US Treasury Secretary revealed in July 2008 that the two largest GSEs, Fannie Mae, and Freddie Mac, would require to be bailed out. In the United States, these two held up to \$6 trillion in mortgages. These two businesses were finally publicly owned in September. An important point to note is that, even though the bailout cost the taxpayers a massive \$187 billion, the money was repaid in full, with a \$58 billion surplus added to the general fund. When discussing the 2008 financial crisis, the populist camp conveniently overlooks this data.

The declaration by the US government not to bail out Lehman Brothers, unlike Fannie Mae, Freddie Mac, and Bear Sterns, on September 15, 2008, marked the turning point in the US mortgage meltdown into a global financial recession. The Fed's rejection was based on the fact that it “lends only against good collateral to solvent banks and Lehman Brothers was insolvent” (Augar qtd. in Tooze, 2018, p. 176). The press praised the FED’s judgment at the time with both the New York Times and the Wall Street Journal praising the FED for not “blinking” and “allowing Lehman to fail” (NYTimes and Wall Street Journal qtd. in Tooze, 2018, p. 177). As Lehman Brothers were unable to attract investors it declared bankruptcy. Although it was a small bank, the bankruptcy sparked uncertainty, resulting in investors withdrawing \$144.5 billion from money market accounts on September 17.

The Treasury Department requested that Congress accept a \$700 billion bailout deal on September 20. The Stock Market collapsed on September 29 after it was rejected, prompting Congress to approve the bailout bill by October 3. Following that, the FED announced a \$1.7 trillion Commercial Loan Program to assist firms such as GE, Ford Motor Credit, and others. In coordination, the central banks of most developed countries, including the FED, took drastic steps to reduce interest rates throughout. It is crucial to note that the EU added a provision to its aid to the FED: the US had to tighten banking legislation. The European countries were essentially advising the United States to rein in its neoliberal reforms.

Eventually, and most importantly for the populist rhetoric, GM, Ford, and Chrysler have demanded a \$50 billion bailout. Near to 1 million employees were protected when they got a \$24.9 billion bailout in January 2009, however, this reality was not as widely known as the aspect that the corporations' CEOs traveled to Washington in private planes to plead for funds.

When it applies to the impact of the recession on the public, the word "foreclosure" arises as fundamental to understanding how the daily lives of consumers were negatively affected. "Although many would like to forget and move on, damaged credit can serve as a lingering, expensive reminder of their foreclosure" (Martin, 2010, p. 25). Even if foreclosure does not result in the loss of these families' homes, it makes them financially insecure and makes them less able to reach elevated economic progression (Thomas, 2013, p. 738).

1.8. CONCLUSION

As illustrated by the real wage and productivity increase data since 1948, the neoliberal policies proved to be increasingly to the detriment of the working classes. The 2008 financial turmoil that was caused by a lethal blend of reckless greed, negligence, and lack of legislative control, which was aided by the US government's neoliberal economic policies is an example of this neoliberal attitude. The US government's reaction to the crisis was focused on the logic of "Protect Wall Street first, worry about Main Street later" (Tooze, 2018, p. 15) in place to evade a complete economic breakdown and replicating the errors of the Great Depression of the 1930s. For the concern of a domino effect of massive bankruptcies in other industries if banks default a total of \$4 trillion was pumped into the finance sector by 2009 (to put the sum in context, the US GDP in 2009 was \$14.45 trillion). Since this idea could not be easily articulated to the public, populists exploited it to criticize neoliberals in the government. It will never be known whether this was the best approach to the crisis, or if aiding households before bailing out the banking and industrial sectors would have been more successful. The inability of the US government to adequately penalize the concerned entities in the finance sector intensified populist rhetoric even more. A more resolute embracing of social liberal, Keynesian may have signaled that the ruling elite was responsive to the grievances of the public and may have appeased the masses and prevented them from being lured by the populist rhetoric.

Along with the theoretical backgrounds of the Keynesian economic thought that was the dominant school globally in the Bretton Woods era of roughly 1948-1973 and the ensuing neoliberal dominated era from 1973 to date that is embodied in the Washington Consensus of 1989, this section discussed the effects of the policies resulting from these two economic school within liberalism on unemployment and income inequality figures in major Western economies. Finally, it presented the 2008 financial crisis and the rise of populist support as a result of the neoliberal response during the aftermath of the crisis. Just how the rise in domestic inequality feeds the right-wing populism will be further elaborated in the following chapters when introducing the populist wave as the most important threat to LIO.

CHAPTER II: THE LIBERAL INTERNATIONAL ORDER

2.1. BACKGROUND AND THEORETICAL OVERVIEW OF INTERNATIONAL ORDERS

With the history and theory of liberalism in both the political and the economic realms, as well as a case study that highlights recent difficulties liberal theory faces under our belt, now I will turn to the application of liberal ideas on the international arena. Self-explanatorily, one of the main concerns in the field of International Relations studies is how sovereign states deal with each other on the international arena. The nature and rules of different international orders is deeply disputed and may be traced all the way back to 18th century to such works as Immanuel Kant's *Eternal Peace* written in 1795 where the philosopher identified the issues arising from the anarchical nature of the international arena absent an overarching world-government. Along with the maturing of International Relations as an academic field, a number of theories were introduced during the 20th century, some proposing a resemblance of order in the anarchy by claiming that unipolar or bipolar orders are more stable, while others argued that anarchy in-itself is stable and a multi-polar order is both possible and desirable.

A comprehensive analysis of all international systems in history is out of the scope of this study, since that would in itself be the subject of a different research agenda. Here, I will briefly explain the main characteristics of major international systems before situating the LIO among those. This will be followed by the principles and institutions of the current, American led LIO.

Kant, in espousing a proto-liberal world order delineates a number of 'definitive clauses' for achieving harmony and long lasting peace in international arena. Because the foundations of the 20th century LIO may be traced back to Kant's ideas, an brief overview of these would assist our understanding later when we look at the contemporary threats. Kant's precepts in his pamphlet *Eternal Peace* are:

1) The civil constitution of the state must be republican (i.e. there ought to be a representative government and separation of powers among executive, legislative and judicial branches of the government) (Kant, 1795, p. 113);

2) The Law of Nations shall be founded on a federation of free states. This does not imply a world government lest that would violate the negative freedoms of individuals. This clause aims the gradual expansion of liberal zone of peace (Kant, 1795, p. 114);

3) The Law of World Citizenship shall be limited to conditions of universal hospitality (meaning there should be free travel, free trade and refugee migration) (Kant, 1795, p. 115);

Along with these three definitive clauses, Kant also outlines three versions of laws that constitute the backbone of eternal peace and these are:

1) Constitutional law: This requires the consent of citizens. Once consent is given, citizens would be bound carry all the burdens of war including fighting, paying for the expenses incurred to wage war, as well as post-war expenses arising due to destruction of property and paying out the increased national debt (Kant, 1795, p. 113);

2) International Law: This shall guarantee respect of each nation and mutual recognition of differences. This presumes that all other nations are domestically republics and would consensually agree with the International Law (Kant, 1795, pp. 114-115);

3) Cosmopolitan Law: This is not a moral law but can be regarded as a material motivator. Accordingly, the spirit of commerce provides material incentives to cooperate and protect peace (Kant, 1795, pp. 115-116).

Note how in presenting his views Kant uses modal verbs such as “must” and “shall” frequently. Also note that Kant’s theory includes a large number of assumptions. Insofar as Kant’s requirements that must be met to achieve the resulting state of affairs, his approach seems to fall under the category of normative rather than explanatory theories. In the social sciences, a normative theory is described as one that expresses a value judgment about the desirability of a situation. As such, Kant’s

proposition may indeed be deemed as a forerunner of the normative LIO proposing an harmony of interests within an anarchy.

E.H. Carr, an earlier proponent of classical realism and a staunch critique of the normative, “utopian” thinking behind liberalism argues in his 1961 book *What Is History* that there is no such thing as the harmony of interests; but rather that capitalists impose their principles on humanity as universal and label it as “the harmony of interests”. He further asserts that imposing liberalism principles on Germany led to the WW II.

In the later part of the 20th century, a significant framework for the analysis of international systems was provided by Kenneth Waltz, an eminent neo-realist scholar. Waltz agrees with Kant that while domestically there is almost always an hierarchy in the political system, anarchy prevails on international level as sovereign states are all equally independent, albeit with unequal economic/military capabilities. However -like Carr before him- he denies the possibility of a state of affairs where an harmony of interests would prevail among states absent a form of ordering. Waltz proposes that as a result of the interaction between the functionally alike, independent units -that are the nation-states on the in international arena- an uncoordinated structure arises. According to Waltz, although this structure lacks coordination, it nonetheless imposes certain restraints on the units. The resulting anarchical structure may be ordered as either multipolar or bipolar. In principle, he also allows for the existence of a unipolar system that greatly resembles the hierarchical domestic political systems, but with the proviso that such periods under unipolar system are merely transitory and last only until the emergence of the next stable multi- or bipolar system.

In particular, Waltz considers the 20-30 years after the end of Cold War as one instance of such a transitory unipolar periods under the unipolar hegemony of the liberal power US. In the context of this study, Waltz explains the international system of states “seems to...lack order and ... organization” (Waltz, 1979, p. 89).

He also stresses the power of the influential states in such an international system where the establishment and survival of organizational units is dependent on these states provided these organizations fulfill or are perceived to fulfill the goals intended by the influential states (Waltz, 2010, p. 26). Accordingly, neorealists claim, the formation of post WW II global institutions such as the United Nations (UN), International Money Foundation (IMF), World Trade Organization (WTO) and World Bank need to be regarded as serving the interests of the liberal hegemon, the US.

2.2. THE STRUCTURE OF THE CURRENT LIBERAL INTERNATIONAL ORDER

In the aftermath of the WW II, faced with unprecedented destruction, the liberal internationalism based on the Kantian premise that constitutionally secure liberal states do not engage in wars with one another was once again remembered. The victorious United States, along with its allies attempted for a second time (this time with rather more success) to resuscitate the liberal ideals of the now disbanded League of Nations. After addressing issues related to the terminology, in this section I will first provide an overview of the guiding principles of the liberal internationalism, followed by the institutions established to safeguard its longevity and historical evolution throughout its struggle against communism during the '47-'91 Cold War era in a bipolar setting, and the ensuing unipolar US liberal hegemony eras.

As Kundnani highlights in his 2017 article *What Is the Liberal International Order?* that appeared as part of the *Policy Insights* of the German Marshall Fund of the United States, while the terminology is widely used, much like populism, its exact definition is not as straightforward as we'd like to think: "Theorists of the liberal international order understand it as an 'open and rule-based international order' that is 'enshrined in institutions such as the United Nations and norms as multilateralism'(Ikenberry, qtd. in Kundnani, 2017, p. 1) ... (in what sense it is

‘open’ and what are the ‘rules’))” (Kundnani, 2017, p. 1). For the purposes of this study, I will take the definition provided by Ikenberry -a leading theorist of the LIO- that is widely used in academic circles. In *Liberal Internationalism 3.0: America and the Dilemmas of Liberal World Order* Ikenberry defines the LIO as a fluid set of principles or practices: “Open markets, international institutions, cooperative security, democratic community, progressive change, collective problem solving, shared sovereignty, the rule of law-these are aspects of the liberal vision that have made appearances in various combinations and changing ways over the decades” (Ikenberry, 2009, p. 71).

A further difficulty with the terminology is that the LIO seems to stand as an umbrella concept for three related but distinct orders as evident in Ikenberry’s formulation. It is constituted by 1) a security order, 2) a human rights order and 3) an economic order:

The “liberal security order” may be defined as an order not based on mere brute military or economic power but rather as one where all or most states agree to abide by certain international laws, such as the United Nations Convention on the Law of the Sea that provides guidelines for maritime disputes between states.

The human rights order, again is based on an internationally agreed upon document, this time the Universal Declaration of Human Rights of 1948. Albeit somewhat symbolic and with only limited power of sanctions, the declaration provides a list of such universal rights “as a common standard of achievement for all peoples and nations” and urges all states to “strive by teaching and education to promote respect for these rights and freedoms and by progressive measures, national and international, to secure their universal and effective recognition and observance, both among the peoples of the Member States themselves and among the peoples of territories under their jurisdiction”¹⁰(Declaration, 2021,n.d.).

¹⁰ <https://www.un.org/en/about-us/universal-declaration-of-human-rights>

The economic order is related to Kant's third Definitive Clause 'The Law of World Citizenship' that involves the need for universal hospitality. In the contemporary parlance, this is interpreted as the openness of national economies for the free movement of goods, services and labor. In this sense, liberal economic order is very closely related with globalization. Since the end of Cold War, but particularly with the creation of the World Trade Organization in 1994 which Ikenberry names as "the most formal and developed institution of the liberal international order" (Ikenberry qtd. in Kundnani, 2017, p. 4), the economic order has become much more liberal.

While all three of these orders are under threat in the early 21st century, the economic order is the main stay of the LIO and as previously mentioned, hence this study will largely focus on its fate and the much discussed need for the reform of its neoliberal version.

As established above, liberalism is a normative theory. To illustrate the normative nature of the liberalism's normative nature, we can return Kant's constitutional law mentioned above. Accordingly, liberal states should not wage war with each other since faced with the immense burdens the citizens wouldn't rationally choose to go to war. However as history proved time and again, this is not the case and overcame with passion it was the citizens themselves that wanted the war such as happened before WW I. On the other hand, according to the liberal theory, the leaders of constitutional liberal democracies should listen to the wishes of their citizens when they rather prefer to end hostilities. The example of the highly unpopular Vietnam war waged by the liberal democracy that is the US stands as a glaring case where this normative requirement of the theory was not met in practice.

Applying the fundamental principles of liberal ideology that are:

- 1) Protecting the rights of individual against oppression by state;

2) The liberty of the individual to act, think, speak and believe without interference as long as his use of these liberties doesn't interfere with other's similar liberties;
3) Equality regardless of sex, race, class, wealth, disability, and the place of birth;
4) Pluralism and tolerance of others' actions and beliefs;
from individuals to independent nation states, Kant arrived at the above mentioned set of three laws on the international stage.

In passing, we can identify here that one of the key tensions within liberal internationalism arises from the difficulties when trying to reconcile its fundamental principles. For instance, the aim of expanding the zone of liberal peace requires interfering with the sovereignty of a nation state by influencing its domestic politics, but such interference contradicts both 2) liberty from interference, and 4) pluralism and tolerance of diversity. Such inherent contradictions in liberal internationalism provide the basis for the arguments of its critiques.

Returning to the principles of contemporary liberal internationalism as summed up above by Ikenberry, the theory emphasizes harmonious cooperation, multilateralism and diplomacy versus brute military force, importance of international organizations such as the United Nations and supranational political structures such as the the European Union , and rather controversially the promotion of liberal democracy (in line with the democratic peace dictum). For this last purpose, unlike the neorealist theory, liberal internationalism allows for humanitarian and military intervention to pursue liberal objectives. We can clearly observe how these are directly related to Kant's three definitive clauses.

Ikenberry further lays out the the dimensions of the latest version of LIO that he labels as the 'Liberal Internationalism 3.0'. Per Ikenberry, Liberal Internationalism's latest version is universal rather than regional or exclusive in scope; sovereign-independence is shared with increasingly intrusive and interdependent economy and security regimes rather than autonomously; promotes

equality rather than hierarchy on the area of sovereign-equality; is legally-binding rather than ad hoc when it comes to rule of law; and expansive rather than narrow in policy domain (Ikenberry, 2009). While I sympathize with these lofty, rather idealist aims of the liberal internationalists, I am deeply skeptical as to how the US led post WW II LIO was implemented in the real world setting and view these universal objectives as mere enablers for the US unipolar hegemony over the world as I will describe below when discussing the history and evolution of the current LIO.

2.3. THE HISTORY, INSTITUTIONS AND EVOLUTION OF THE LIBERAL INTERNATIONAL ORDER

In order to comprehend the roots of the post war US hegemony, it is imperative to grasp how the victorious US, along with its allies, set in place a rules-based system through a web of liberal global organizations to enforce those international rules. Since the LIO is normative in nature, that is it does not come into being organically, but has a number of requirements for its existence, it needs either a champion or hegemon as the driving force to promote its principles and institutions. This section will provide the narrative of how the US took it upon itself to impose the LIO after WW II.

To capture the nature of hegemony that the US exercised post WW II on the global scale, the Gramscian definition as explicated by the critical theorist Robert W. Cox in his seminal paper *Gramsci, Hegemony and International Relations: An Essay in Method* dating from 1983 would best serve our purposes. Cox interprets the Gramscian idea of hegemony as “the image of power as a centaur: half man, half beast, a necessary combination of consent and coercion. To the extent that the consensual aspect of power is in the forefront, hegemony prevails. Coercion is always latent but is only applied in marginal, deviant cases. Hegemony is enough to ensure conformity of behaviour in most people most of the time” (Cox, 1983, p. 164). Cox argues that the US gained very high levels of consent for its ideas and used very little force to create its hegemony, hence for him the Pax-Americana in

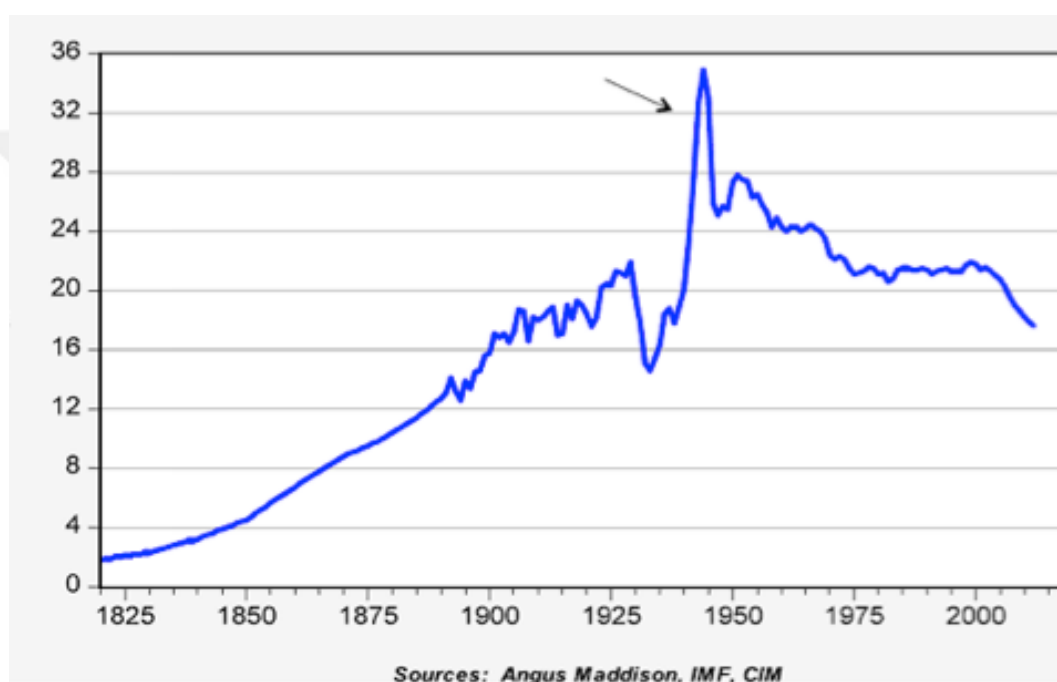
the post-WW II was created as a “empire-by-invitation” rather than an empire through territorial conquests. Per Cox, the orders established by such “empire-by-invitation” hegemonies have historically been universal in conception, that is the hegemonic state did not directly exploit other states in the order but rather “most likely give prominence to opportunities for the forces of civil society to operate in the world scale”(Cox, 1983, p. 171). Cox also emphasizes the role of dominant social class within the hegemony, as the cultural norms, social institutions etc. are being imitated in other countries; culminating in the world hegemony as “...expressed in universal norms, institutions and mechanisms which lay down general rules of behavior for states and for those forces of civil society that act across national boundaries - rules which support the dominant mode of production” (Cox, 1983, p. 172), that is, in the case of US led post WW II LIO the capitalist mode of production.

In the immediate aftermath of the Second World War, the US, taking advantage of its massively growing share of GDP in global output, put its economic power to use and taken a series of steps to realize its aim of becoming the unipolar liberal hegemon. However, it should be noted that the US’ goal was delayed by the rise of another normative and expansionist theory that is the communism in the Soviet Union. Only after the demise of the communist champion Soviet Union that effectively ended the Cold War in 1991, did the US become the undisputed unipolar liberal global hegemony. As a side note, recall that according to neorealists, this in itself is reason enough to expect the imminent end of the current LIO, since unipolar systems are supposed to be unstable and transitory.

This section will provide a brief overview of the milestones and developments on the path to the current LIO led by the US. In particular, after briefly laying out the post-WW II economic landscape and situate the US as an emerging hegemony within that, I will discuss the lend-lease agreement, George Kennan’s 1948 memo to the State Department, the Marshall Plan, and the establishment of international organizations as steps the US took to cement its position as the Coxian hegemony.

Driven by the post war reconstruction abroad by means of loans as well as other financial arrangements and the retooling of the industrial capabilities that were already massively expanded for war production to civilian production, US' share of global GDP increased as depicted in the below graph:

Figure 2.1: US Share of Global GDP



Source: <https://seekingalpha.com/article/4089436-examining-expected-long-term-s-and-p-500-total-returns>

The above graph depicts how in the period immediately following the WW II the US GDP increased to a significant 35% of the global GDP.

It should be noted that during the period from approximately 1950 to 1971, that is commonly dubbed as the 'Golden Age of Capitalism' when Keynesian economics was the dominant system of economic thought, there was an emphasis on high employment and major infrastructure projects worldwide. A number of scholars including Naomi Klein, Robert Skidelsky, and Raul Prebisch argue that the

Keynesian infrastructure spending initiatives such as Federal Aid Highway Act of 1956 count as the leading cause of this economic upturn during this period. Additionally, for the purposes of this study, it is important to note that Skidelsky demonstrates that the economic prosperity during the Golden Age of Capitalism has in fact decreased inequality unlike in the post 80's neoliberal dominated era as shown earlier above in the discussion of neoliberal policies.

Also in this period, the US took its relatively high economic power as the basis to create open markets in other countries and facilitate global trade, a key requirement of the LIO going back to one of Kant's definitive clauses that is 'The Law of World Citizenship' which demands universal hospitality. In effect, Kant's idea of the universal hospitality with freedom of movement of goods, services and labor among countries can be seen as creating one big global market.

During this Golden Age of Capitalism, the growth in real GDP of OECD member countries averaged 4% and 5% in the 50's and 60's, respectively; while the figures were 3% in 70's and 2% in 80's (Marglin, 1991, p.1)

Figure 2.2: Indices of Mining and Manufacturing Production

Indices of mining and manufacturing production, selected countries, 1947, 1948 and 1949

1937 = 100							
	1947	1948	1949		1947	1948	1949
Not affected by the war				Centrally planned economies			
United States of America	165	170	156	Czechoslovakia	83	99	107
Canada	162	169	171	German Democratic Republic	51	65	77
Ireland	117	128	139	Poland	106	146	177
Sweden	141	150	156	Union of Soviet Socialist Republics (USSR)	93	118	141
Less devastated by the war				Latin America and Asia			
France	85	100	110	Argentina	175	178	173
Italy	88	92	100	Chile	136	143	140
United Kingdom of Great Britain and Northern Ireland	98	110	118	Mexico	129	128	137
Devastated by the war				India	102	114	111
Austria	58	89	118				
Federal Republic of Germany	33	52	78				
Greece	66	70	82				
Japan	28	40	53				
				World	121	135	140
				Excluding the United States	96	115	131

Source: World Economic and Social Survey 2017 (United Nations, 2017), table II.1.

Above table depicts an example of the post-WWII era's high and sustained economic and productivity growth in select countries.

Meanwhile, the efforts of the US to create demand abroad for its good and services paid off and the US emerged with a monopoly on world liquidity, owning more than 60% of world's gold reserves (Federal Reserve Bulletin, 375) resulting from its trade and current account surpluses. The economic dominance of the US was formally cemented with the Bretton Woods Agreement of 1944 that assigned the USD the role of reserve currency. According to Eichengreen "Bretton Woods operated as successfully as it did owing to three special circumstances: low international capital mobility, tight financial regulation, and the dominant economic and financial position of the United States and the dollar" (Eichengreen, 2018, p. 1). Below I will discuss some of the additional steps that the US has taken which while establishing the LIO, also built up the position of the US as a liberal hegemony after the war.

Already during the WW II, the US started to use its economic power to provide for its security. Much like its earlier stance during the WW I, the US initially preferred to remain at the sidelines of the WW II. In retrospect, the Lend-Lease Agreement is a major example of US' use of its economic prowess to establish and solidify its global, Coxian, consent-based hegemony. The original intent of the Lend-Lease Agreement with the subtitle "An Act to Promote the Defense of the United States" was to help British but not join the war directly.

After Germany's invasion of Poland in 1939 and the fall of France in June, 1940, President Roosevelt announced that the US would be the "Arsenal of Democracy" and much to the dismay of isolationists in the US, signalled its willingness to provide military and munitions aid to democratic countries in the war, thereby also signaling that the US would position itself as the champion of democratic governance abroad (with the notable exceptions of the Soviet Union and China as non-democracies, but were necessary in the short-term to win the fight against the Axis powers) (Address, 1940, n.d.).

On March 11, 1941, Roosevelt signed the bill into law, well before the Pearl Harbor Attack to the US by Japan in December, 1941 that eventually made the US to actively participate in the WW II. Among others, the law included the clause that permitted the President "to sell, transfer title to, exchange, lease, lend or otherwise dispose of, to any such government any defense article"¹¹. What started as military aid to Great Britain ended up with military aid and other essential supplies to 36 different countries including the Soviet Union. In total, the U.S. provided \$50.1 billion (nearly 17% of its total war expenditures) . Of that amount, Britain received \$31.4 billion, the Soviet Union \$11.3 billion, France \$3.2 billion, China \$1.6 billion, and other Allies the remaining \$2.6 billion (Crowley, 1947, pp. 1:520, 2:858-860). It is crucial to note that through the Agreement, along with with war materials such as airplanes, trucks, ammunition and tanks, food and other raw

¹¹ <https://www.ourdocuments.gov/doc.php?flash=false&doc=71>

materials were also included as part of the aid. For instance, the supply of food to Soviet Union was particularly important as agriculture sector was hit heavily both by the loss of labor and machinery as a result of the Axis offensive of 1941-1942. Assistance, whether military or civilian and humanitarian has always been widely used by countries to win ‘the hearts and minds’ of populations of foreign countries. American aid through the Lend-Lease Agreement is no exception and may be regarded as one of the initial steps to eventual liberal US hegemony.

Picture 2.1:



Food Aid by the US to British pupils dated 1941¹²

George Kennan, a realist scholar who served as the Director of Policy Planning during 1947-1949, was one of the leading ideologues behind the Soviet containment policy. Kennan wrote a number of impactful documents addressing various US government offices such as the famous Long Telegram of 1946 while he was serving as deputy head of the US mission in Moscow. In another important document, the memo PPS No.23 addressed to the Secretary of State, dated February 24, 1948, he clearly spells out the intent behind the liberal project of the US in the post WW II period. We can learn from this document firsthand that the main driving

¹² <http://media.iwm.org.uk/iwm/mediaLib//41/media-41702/large.jpg> This is photograph D 4324 from the collections of the Imperial War Museums

force behind the push for the creation of international organizations and liberal principles is the security concerns of the US.

As Kennan spells out, the general aim of the memo is to provide a ‘first step toward the unified concept of foreign policy’ (Kennan, 1948, p. 2). After discussing the details of the European Recovery Program (also known as the Marshall Plan), and what foreign policy stands should be taken against particular countries and world regions, he addresses the issue of international organization, that is directly related to the discussion of LIO in this study.

Here, he revokes the Kantian idea of enabling the harmony among nations through establishment of rules and organizations. The significance of his views on this topic is that he separates the project of harmony among nations into two different approaches: the universal, and the particularized. The universal approach “looks to the solution of international problems by providing a universalistic pattern of rules and procedures which would be applicable to all countries, or at least all countries prepared to join, in an identical way” (Kennan, 1948, p. 35). This is the approach behind the global institutions like the UN. Kennan grants its wide public appeal: “it assumes that if all countries could be induced to subscribe to certain standard rules of behavior, the ugly realities ... would be forced to recede behind the protecting curtain of accepted legal restraint, and the problems of our foreign policy could thus be reduced to familiar terms of parliamentary procedure and majority decisions...we could make decisions on the lofty but simple plane of moral principle” (Kennan, 1948, p. 36). This approach greatly resembles the principles of liberal internationalism.

Kennan labels the other, realism resembling approach as ‘*particularized* [emphasis of the author]’ and details its make-up in great length. Accordingly, this approach “considers that the thirst for power is still dominant among so many peoples that it cannot be assuaged or controlled by anything but counter-force” (Kennan, 1948, p. 37). This is not to say that only a return to the ‘might is right’ policies of ancients

is called for, since this approach allows for alliance forming as well, - albeit one that is “to be found only among limited groups of governments, and not upon the abstract formalism of universal international law or international organization” (Kennan, 1948, p. 37).

In the end, Kennan (as a realist) argues that while appealing, the universalistic approach is doomed to fail when applied at the starting point of building a new world order as the US attempted immediately following the war: “...we have started from the wrong end” (Kennan, 1948, p. 38). According to Kennan, the US should switch from changing the whole system at the global level at the UN, it should focus on building smaller alliances with like-minded nations, in a sense ‘expanding the liberal zone of peace gradually’. He concludes with a stern warning that had a major impact on the subsequent order building efforts of the US: “In all areas of the world, we still find ourselves the victims of many of the romantic and universalistic concepts with which we emerged from the recent war. The initial build-up of the UN...occasionally served a useful purpose. But by and large it has created more problems than it has solved...in our efforts to use the UN majority for major political purposes we are playing with a dangerous weapon which may someday turn against us” (Kennan, 1948, p. 42).

The aim in inserting this particular viewpoint from the top echelons of the US policy making cadres was to highlight that while creating the post WW II LIO, the US at no point placed its national and security concerns behind idealistic notions of universal peace and harmony. Surely Kennan is but an example of the many like-minded realist architects behind the establishment of the LIO.

Concurrently while the clash of ideas in Washington was continuing, the US was taking further steps in the field to cement both the establishment of the new LIO and its Coxian liberal hegemony with its post war reconstruction plan, the ‘European Recovery Plan (ERP)’ also known as the Marshall Plan named after the 50th U.S. Secretary of State George C. Marshall.

“Our policy is directed not against any country or doctrine but against hunger, poverty, desperation and chaos”¹³ stated the US Secretary of State Marshall when describing the main goal of the plan in June 5, 1947. Yet, the fact that this recovery aid was not a mere goodwill act by a benevolent nation to other countries is already evident in the full name of the act, namely “an act to promote world peace and the general welfare, national interest, and foreign policy *of the United States* [emphasis added] through economic, financial and other measures necessary to the maintenance of conditions abroad in which free institutions may survive and consistent with the *maintenance of the strength and stability of the United States*”¹⁴. A realist summary on the intent of aid if there ever was one.

Over the four years that it operated, over \$ 13 billions of aid was transferred from the US to 17 European countries (Brittanica T. Editors of Encyclopaedia, 2021). It called for certain key liberal international order principles such as the need to diminishing of interstate trade barriers, massive reduction of regulations, productivity growth and use of up-to-date business practices (Carew, 1987). Briefly, along with assisting the economic recovery of certain European nations after the WW II, the aim of the Plan was ‘to secure US geopolitical influence over Western Europe’ (Lassance, 2021). It’s mission statement declared as its aims “give a boost to the European economy: to promote European production, to bolster European currency, and to facilitate international trade, especially with the United States, whose economic interest required Europe *to become wealthy enough to import US goods* [emphasis added]” (Lassance, 2021). Here also, it is clear that the US wished to have access to global markets as much as possible through the foreign aid it provided.

Indeed, the four years between 1948 and 1952 presented the fastest growth period in European history with an increase in the industrial production by %35¹⁵. While there is debate among scholars as to how much of that growth is directly related to

¹³ https://www.archives.gov/exhibits/treasures_of_congress/text/page22_text.html

¹⁴ <https://uslaw.link/citation/stat/62/137>

¹⁵ <https://web.archive.org/web/20071014043427/http://www.time.com/time/magazine/article/0,9171,887417,00.html>

the Plan, with some claiming that it ‘accounted for about 3% of the combined national income of the recipient countries, resulting in a GDP growth of a mere less than half a percent (DeLong, 1993), it nonetheless ‘subtly “Americanized” European countries and cultivated trade to paw the way to the North Atlantic Alliance (NATO) (Bischof, 2000). Some scholars such as Eichengreen and DeLong even claim that it was the most successful structural adjustment program in history, arguing that “The conditions attached to Marshall Plan aid pushed European political economy in a direction that left its post World War II "mixed economies" with more "market" and less "controls" in the mix” (DeLong, 1993) The Plan therefore is one of the foundational elements of the nascent post WW II US led LIO.

This concludes the background of the US efforts to create the post WW II liberal internationalism and the main dynamics of the bipolar era from 1946 to the end of the Cold War in 1991.

When the political struggle of the Cold War ended in 1991 with the dissolution of the Soviet Union, the West and other liberal countries were economically in the post-Keynesian, neoliberal international economic order. After the breakdown of the Bretton Woods system resulting from Keynesian doctrine’s struggles with stagflation of ‘70’s, the global liberal system in the economic area shifted gradually to neoliberalism that found its full embodiment in the Washington Consensus after 1989, as earlier described.

I will now examine the foundations and evolution of the international organizations that serve as the bulwark of the LIO along with the developments in the post-Cold War unipolar era of the LIO.

As a rules based normative system functioning in an anarchical arena - albeit with a hegemonic power at its top - the LIO requires certain norm setting global

institutions. In the leadership of the US immediately following the war, these were established in quick succession.

The United Nations

Shortly after the Japanese surrender and official ending of the WW II on September 2, 1945, the United Nations (UN) was established on October 24, 1945, after 50 countries including the UK, the US, China, France the Soviet Union ratified its Charter (History of the UN, 2021, n.d.) The initial aim of the organization as stated in the preamble of its Charter was securing lasting peace, promotion of social progress and better standards of living for people all over the world, and upholding of international justice (UN Charter Preamble, 2021, n.d.).

The functions of the organization are listed in the Article 2 of its Charter and reads as thus:

- “1. The Organization is based on the principle of the sovereign equality of all its Members;
2. All Members, in order to ensure to all of them the rights and benefits resulting from membership, shall fulfil in good faith the obligations assumed by them in accordance with the present Charter;
3. All Members shall settle their international disputes by peaceful means in such a manner that international peace and security, and justice, are not endangered;
4. All Members shall refrain in their international relations from the threat or use of force against the territorial integrity or political independence of any state, or in any other manner inconsistent with the Purposes of the United Nations;
5. All Members shall give the United Nations every assistance in any action it takes in accordance with the present Charter, and shall refrain from giving assistance to any state against which the United Nations is taking preventive or enforcement action;

6. The Organization shall ensure that states which are not Members of the United Nations act in accordance with these Principles so far as may be necessary for the maintenance of international peace and security;
 7. Nothing contained in the present Charter shall authorize the United Nations to intervene in matters which are essentially within the domestic jurisdiction of any state or shall require the Members to submit such matter to settlement under the present Charter; but this principle shall not prejudice the application of enforcement measures under Chapter VII.¹⁶
- (Charter of the United Nations, 1945, n.d.)

As such, the UN has been established as an institution that is involved in the affairs of the abovementioned “security order” and “humanitarian order” sections under the liberal international order umbrella (see 2.2.). It is important to note that over the years, but especially after the end of the Cold War, its role in the security order has been gradually replaced by concerns over environment, global health, refugee issues and criminal justice.¹⁶

On this account, the UN is heavily criticized for failing to function as an effective institution to assist the protection of the LIO. Michael Barnett provides a review over a sample of reports discussing the role of the UN in the post-Cold War international arena. The review, written in 1997, argues that the liberal West, but mainly the leading defender of liberal values the US is the main culprit for the ineffectiveness of the UN: “The US is the primary, though unnamed, culprit. While it celebrates liberalism and speaks of enlarging the community of democratic states. It has been wont to support politically and financially the very institution that might operate effectively to this end” (Barnett 1997, p. 545). It seems that the intervening 20 plus years did not change the stance of the US and there are now even more questions regarding the willingness of the US to remain the liberal champion and

¹⁶ <https://www.history.com/topics/world-war-ii/united-nations>

lead the world and this sentiment is especially observable in the area of public opinion as will be discussed below.

World Bank and the IMF

For the purposes of this study, the at times controversial role and functions of these institutions are more relevant than the role of the UN as both the World Bank and the IMF have been instrumental in implanting the neoliberal policies laid out by the Washington Consensus of 1989. Unlike the UN, these two Bretton Woods institutions are involved with the “economic order” section of the liberal international order umbrella. First, their respective backgrounds and principles/goals;

The International Centre for Settlement of Investment Disputes (ICSID), the International Finance Corporation (IFC), the International Bank for Reconstruction and Development (IBRD), the Multilateral Investment Guarantee Agency (MIGA) and the International Development Association (IDA) are the five institutions that constitute the World Bank Group (Chossudovsky, 2021). Founded in 1944 as the International Bank for Reconstruction and Development, the initial function of the World Bank was to provide loans for after war reconstruction. After the impact of the war has been erased and global reconstruction efforts completed globally, the bank concentrated on providing loan assistance for development with an emphasis on infrastructure projects such as roads, irrigation systems, hydraulic and electrical power generation.¹⁷

However, starting in the ‘80’s and especially after the introduction of the Washington Consensus in 1989 as guideline for the implementation of neoliberal policies on the global level, the Bank increasingly started to function as a neoliberal institution by tying its loans to market oriented restructuring that demanded from

¹⁷ <https://www.worldbank.org/en/about/history>

loan recipient governments such steps as financial liberalization, deregulation and privatization (Plehwe, 2007).

The other Bretton Woods institution, IMF was founded to oversee the stability of the global monetary system, originally. In order to achieve its aim, IMF would monitor member countries' economic activity, provide loans if necessary and offer policymaking tools. In the neoliberal era, IMF started to attach conditions to its loans that include strict rules such as deregulations and heavy privatization of government institutions, along with high interest rates.¹⁸

Especially after the neoliberal turn starting from late '70's and the influence of the pro-market Thatcher government in UK and Reagan administration in the US exerted pressure to appoint officials with neoliberal leanings to these institutions (such as A.W. Clausen and Anne Krueger), these demands of IMF from borrowing countries have become even more strict.

These demands from IMF are usually grouped together as one-size-fits-all style Structural Adjustment Programs (SAP) that require the introduction of government spending reductions, strict economic policies, opening the domestic markets to free trade, and similar changes in the economic governance of borrowing countries to under the banner of free market reforms. The goal of these regulations is to generate economic growth and to turn the borrower country into a competitive player in the global trade. Among others, some common requirements of these SAPs are:

- i. Improvements of domestic tax collections and closing of tax loopholes;
- ii. Making it easier for foreign businesses to invest in domestic markets;
- iii. Reduction of balance of payments deficits by devaluation of borrower's currency;
- iv. Reduction of budget deficits by spending decreases and decreasing public

¹⁸ <https://www.investopedia.com/ask/answers/043015/what-difference-between-international-monetary-fund-and-world-bank.asp>

sector employment;

- v. Privatization of state-owned enterprises.

While attempting to turn the borrowing countries into investment friendly, high economic growth areas, these remedies also had the side effect of increasing unemployment in these economies and making them dependent on foreign loans¹⁹.

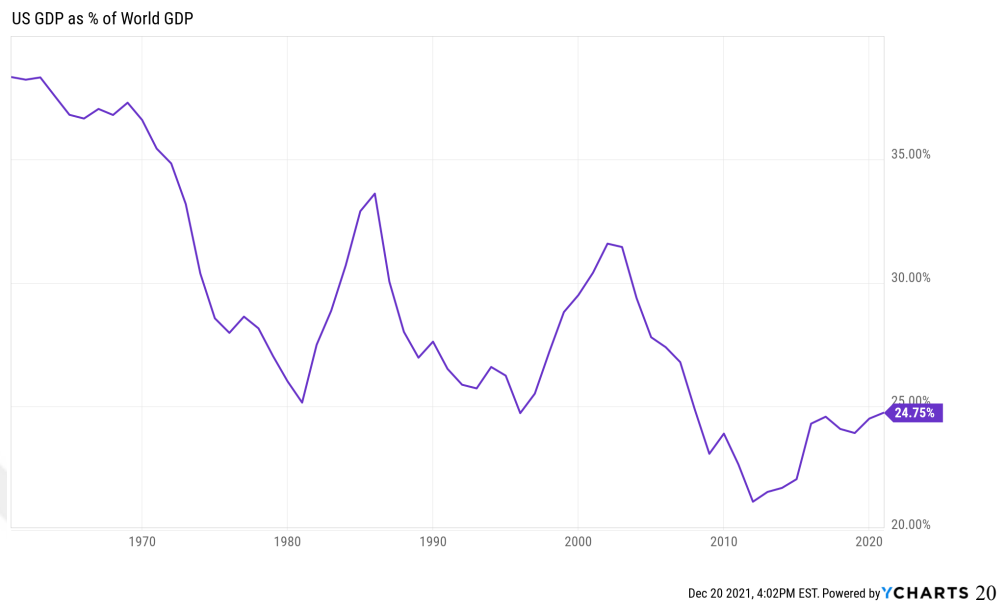
After having established through a historical narrative and several milestones how the post-WW II US hegemony and the LIO project are intertwined, below section examines the contemporary debate on the fate of that US hegemony and what its future may hold for the continuation of LIO.

2.4. LIBERAL INTERNATIONAL ORDER AND HEGEMONY

While a heated debate continues to rage on the fate of both the LIO and the de facto hegemony of the US within that LIO, there is wide-spread agreement by even the staunchest defenders of the liberal order such as Ikenberry that the hegemonic grip of the US over the world is weakening as the relative economic and military power deteriorates as exemplified by the below graphs:

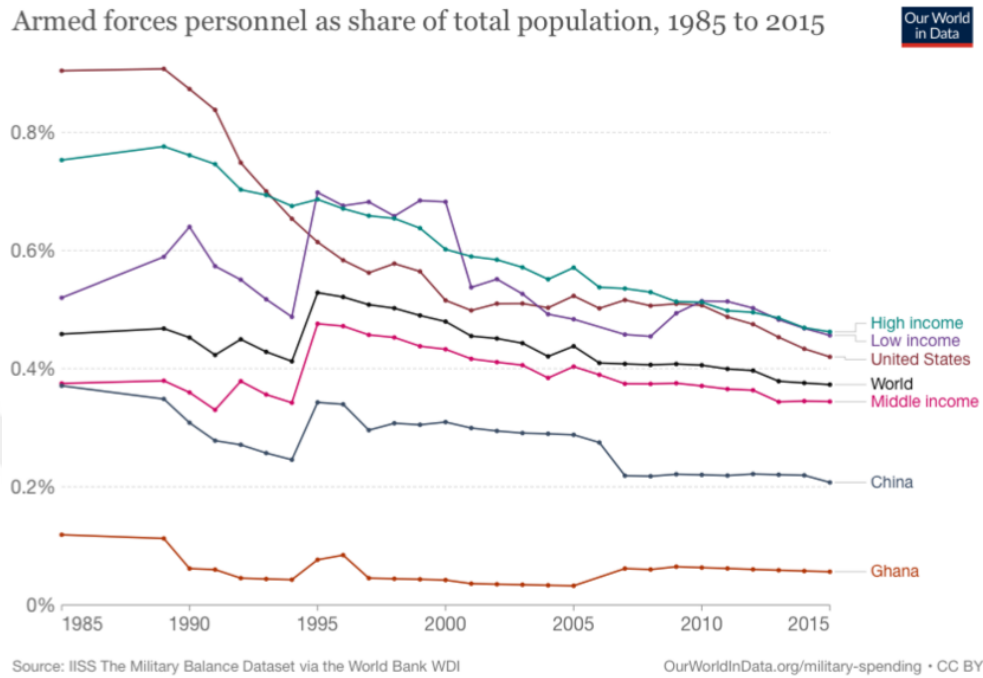
¹⁹ <https://www.investopedia.com/terms/s/structural-adjustment.asp>

Figure 2.3: US GDP as % of World GDP



²⁰https://ycharts.com/indicators/us_gdp_as_a_percentage_of_world_gdp/chart/#/?annotations=&annualizedReturns=false&calcs=&chartType=interactive&chartView=&correlations=&dateSelection=range&displayDateRange=false&displayTicker=false&endDate=&format=real&legendOnChart=false¬e=&partner=basic_2000"eLegend=false&recessions=false&scaleType=linear&securities=id:I:USGDPWGD,include:true,,&securityGroup=&securitylistName=&securitylistSecurityId=&source=false&splitType=single&startDate=12%2F18%2F1946&title=&units=false&useCustomColors=false&useEstimates=false&zoom=custom

Figure 2.4: US Armed Forces Personnel as % of Population

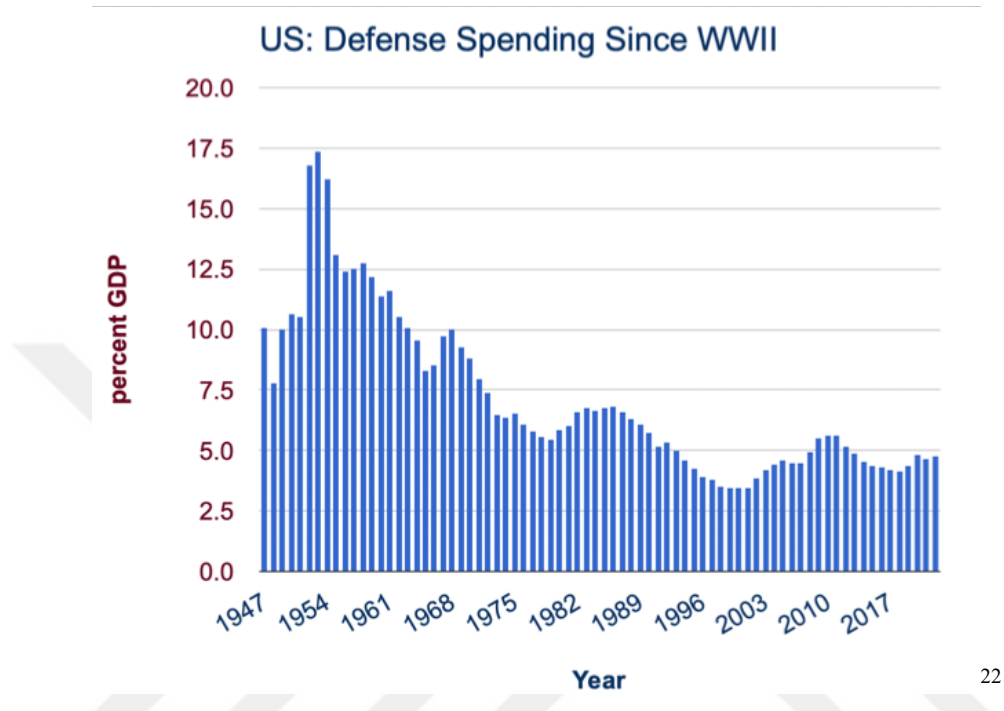


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On the other hand, below graphs demonstrate that the US itself is not as determined to exert its military influence on the global scale:

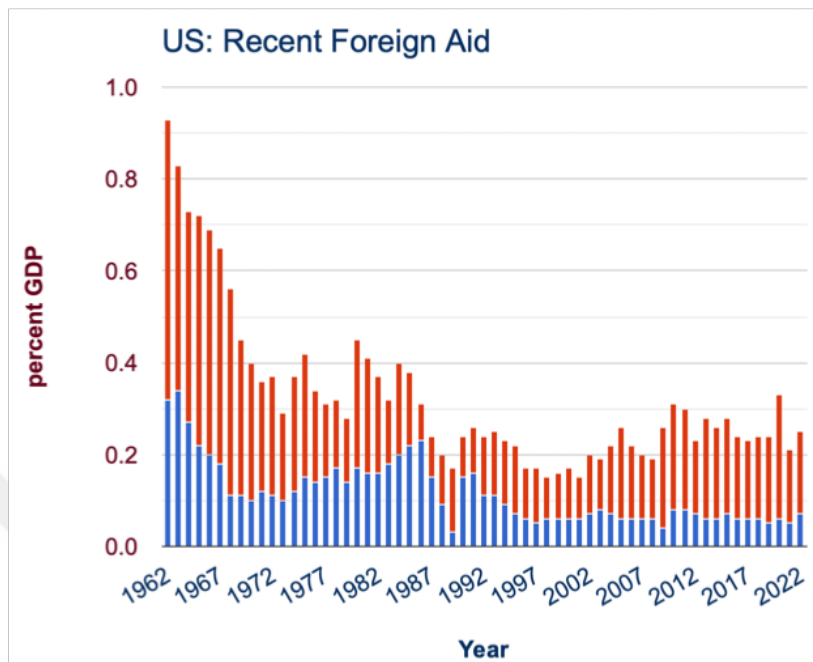
²¹ <https://ourworldindata.org/military-spending>

Figure 2.5: US Defense Spending Since WW II



²² <https://ourworldindata.org/military-spending>

Figure 2.6: US Foreign Aid Since 1962*



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*Lower values for military aid, higher values for economic aid

The issue that attracts the attention of scholars therefore is not whether the hegemony of US is losing its power or willingly steps back from hegemony but what that would mean for the LIO when it is eventually over, and the world is once again multipolar and/or is dominated by an illiberal power like China or Russia.

A related sub-discussion in this field is whether a liberal order does indeed need a hegemon, making the LIO in effect a unipolar system. Kindleberger, in his seminal and widely read work on the causes of the Great Depression of the 1930's, *The World in Depression* (Kindleberger, 1973) claims as one of the causes that there was not a single overarching economic power in the world at the time: "This foot dragging... misses the main lesson of the inter-war years, however: that for the world economy to be stabilized, there has to be a stabilizer, *one stabilizer* [emphasis added]" (Kindleberger, 1973, p. 305). Thereby he is expounding on the theory of the Hegemonic Stability.

²³ <https://ourworldindata.org/military-spending>

Among notable contributors to the Hegemonic Stability Theory is Robert Gilpin, who argues that “the hegemonic stability theory sets forth the political conditions for the existence of a liberal international economic order and the idea that the rise and decline of hegemon is an important determinant of structural change” (Gilpin, 1987, pp. 91-92). On the other end of the spectrum are scholars such as Keohane, who argue that while hegemony is an important element of the liberal order, the order may survive the decline of the hegemon (Keohane, 1984). Since that theory in itself requires a lengthy discussion, I will only introduce it by name in this study and focus on a particular version of it advanced by the neorealist Mearsheimer from the first camp in comparison to a liberal scholar Ikenberry’s argument from the second camp as representatives of these two views.

Mearsheimer argues that yes, the LIO needs a unipolar hegemon; and that no, once that hegemon is either willingly or forcefully brought down from the top of that liberal order, the order itself will come to an end. Ikenberry, on the other hand, argues that the principles and institutions are so strong and deeply ingrained into the fabric of the international system of the 21st century, that even after the US is no longer the hegemon to dictate its rules and oversee their observance, the system would survive as the dominant world order for the foreseeable future.

In his seminal neorealist treatise, *The Great Delusion: Liberal Dreams and International Realities*, written when the populist leader Trump was the head of the liberal hegemon US, Mearsheimer argues that the LIO stands and falls with the US hegemony. Here I will present some of his main arguments since these stand as quintessential examples of neorealist thinking on the structure and future of the LIO.

Though the philosophical and political foundations of domestic liberalism are discussed extensively in the preceding chapters of the book, its focus is chiefly on the liberal system’s shortcomings at the international level. In line with Kant’s

premise that liberal states tend to be peaceful in their dealings with each other, Mearsheimer's key idea is that it is preferred by liberal states that other states should also be liberal so as to ensure their security. Therefore, he says, they seek to execute a liberal world order on the basis of the significance of universal human rights. Nevertheless, those rights are not considered above other nationalistic rights by all countries. Hence, liberal states need to interfere so that these countries can be transformed into liberal states.

This would, however, require a significant number of resources and a unipolar hegemony. In this system, various factors in world politics need to concur, similar to how it occurred following the Cold War. After the Cold War, the role of the unipolar liberal hegemon had been adopted by the United States. Mearsheimer argues that though it is difficult to develop a liberal world order, it is even more difficult and also costlier to sustain it. Therefore, he states that instead of trying to execute a normative theory like liberalism on the international arena that needs a hierarchy, it is better for the US to accept the descriptive realist theory that approves of the anarchical associations between nation-states.

Mearsheimer identifies the key issue of liberalism as the fact that "rights and tolerance are not sufficient to maintain peace in the state of nature" (Mearsheimer, 2018, p.137). He further asserts that in a world where there is no hierarchical system, there is no difference between liberalism and realism in the international arena (Mearsheimer, 2018, p.137). Due to these shortcomings, the required hierarchy may be established only by a world-state, which may also resolve the challenges of liberalism. However, as this kind of world-state does not appear to be a possibility in the upcoming future and for any hegemon-to-be would shy away from leading this normative order because of the costs and risks it entails, anarchy will continue to exist, and realism is a more appropriate fit for the anarchic system compared to liberalism: "liberalism may be a potent force for good within states, but not when states are handling the broader world" (Mearsheimer, 2018, p. 139).

He claims that a unipolar world order is ideal for liberal domination and liberal hegemony of the world will be concluded, once its temporary unipolarity is over - here echoing another neorealist Waltz, by claiming the transitory nature of unipolar world orders. Mearsheimer believes that the rise of China will likely to cease the unipolarity, which is the first scenario. Hence, implementation of liberal hegemonic policies may not be a feasible choice according to the US policymakers. In the second scenario, there is a delay in China's rise and the US takes the benefit of the unipolar world order as the liberal hegemon endures for some period of time. He acknowledges that "liberal democracy is the best political order" (Mearsheimer, 2018, p. 218) subject to its existence within states. According to Mearsheimer, with respect to the global landscape, trying to replicate is too costly and hard, therefore, besides quitting the attempts to mend the world order to their liberal dreams, a restrained foreign policy should be pursued by the US.

Ikenberry, one of the most prolific scholars producing output in the area of foundations, principles, and institutions of the LIO, also wrote a number of books and articles on the contemporary ills and future of the order. Here, only the main arguments shared in most of these works on the fate of the LIO will be presented. These also draw a picture of the State of the Art in the literature that argue *for* the continuation of the LIO in the foreseeable future.

As mentioned above, Ikenberry agrees with neorealists and critical revisionists that the American unipolar hegemony is waning. Aside from the empirical evidence that the relative US economic and military power not being what it was 30-40 years ago, Ikenberry also points to a number of other factors for the weakening of US hegemony. One such factor is the end of bipolarity after 1991, that effectively ended the role of the US as the 'global security provider', the other factor, he argues, is the uncertainty created by unipolar system. Accordingly, weaker states find unchecked US power threatening (Ikenberry, 2009, p. 79).

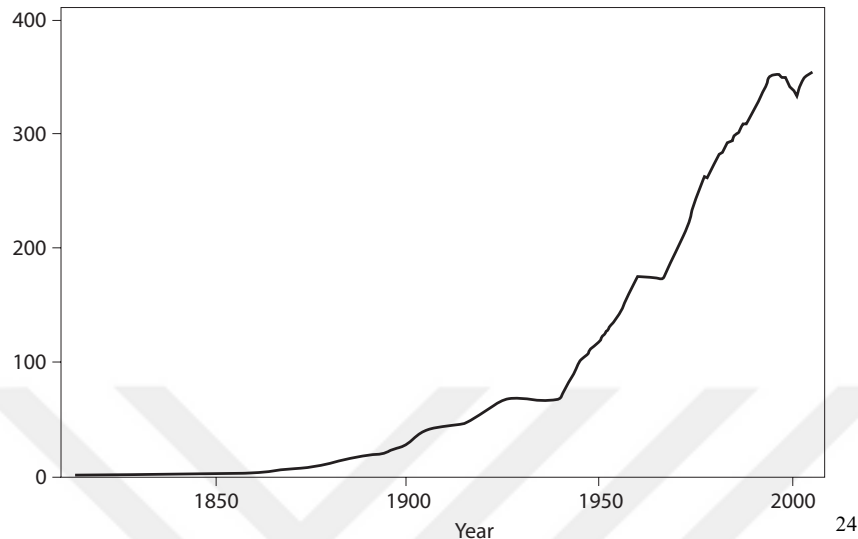
Ikenberry asserts that the LIO is a dynamic system and underwent at least two major evolutions in the 20th century. What he labels as 'Liberal International 1.0' (LIO 1.0) or the 'Wilsonian Liberal International' lasted after the WW I in 1918 to mid '30's. This version was a failure since it was very ambitious but had neither an overseeing power of its rules and regulations, nor were the international institutions strong enough to force adherence to the orders principles. (Ikenberry, 2009, p. 75).

Liberal International 2.0 (LIO 2.0) of Ikenberry is the current post-WW II LIO that we find ourselves in. He acknowledges that this version is in a crisis but argues that this crisis is not in the principles of the system but rather one of authority. According to Ikenberry, the weakening of the de facto governing body that is the US, does not mean that the whole edifice of the LIO is doomed to fail once again.

He argues that LIO 2.0 must evolve into a 'Liberal International 3.0' (LIO 3.0) to survive, just as LIO 1.0 evolved to LIO 2.0. As given above in 4.2.3., the general characteristics in a spectrum of domains were different from earlier versions. For instance, while during early 20th century the LIO emphasized non-intervention and state-sovereignty, it shifted its efforts on international cooperation lessening the power of state sovereignty (Ikenberry, 2009, p. 71). This time the evolved version LIO 3.0 needs to be post-hegemonic, while still remaining hierarchical (thereby differing from Mearsheimer). Ikenberry claims that it needs to become a 'flatter' order where the US cedes some of its control and authority, along with the privileges it enjoyed in LIO 2.0, particularly during the Cold War years (Ikenberry 2009, p. 80). Accordingly, the US must be willingly share the power of governance of the system with other nations: "The hierarchy of post-hegemonic liberal order will be found in the expanding grouping of leading states that will occupy positions in the UN Security Council, the Bretton Woods institutions, and other less formal international bodies. It is this group of states that will collectively provide the various functional services previously provided by the United States -providing security, uphold open markets, etc." (Ikenberry, 2009, p. 82).

After the more recent threat of populism and nationalism started to be felt globally, Ikenberry reiterated his stance in 2018 by claiming that the perseverance and permanence of current LIO did not entirely depend on the US hegemony. He insists on differentiating between ‘the existing international order’ from ‘American hegemony’ (Ikenberry, 2018, p. 20). Ikenberry also suggests that non-liberal states would want the LIO to continue since they too benefit from that order greatly “Indeed, the order creates as many safeguards and protections for rising states as it creates obstacles and constraints...after all, more generally, it was this liberal-oriented international order -its openness and rules- that provided the conditions for China and other rising states to rise” (Ikenberry, 2018, p. 22). He also points out that while non-Western developing states do not wish for Western dominance, they still want its rules and principles of organization (Ikenberry, 2018, p. 25). Ikenberry also sees the weakening of the US hegemony as lessening the outright opposition to the LIO as a whole and likens the liberal order to a shopping mall rather than a castle with a drawbridge as “it is ease for states to enter and exist and it is easier for them to resist or avoid its rules and institutions. By the same token, the order provides both less opportunity and less need for outright opposition to it” (Ikenberry, 2020, p. 282).

Figure 2.7: Number of Intergovernmental Organizations in the International System



The above graph highlights the effort to increase international cooperation with the help of intergovernmental organizations.

After this brief overview of the relationship between the US hegemony and the post WW II LIO, a final point must be stressed. Aside from the necessity for there being a commitment of the US leadership to continue to lead the world as a liberal hegemon, the public opinion is crucial for the US to keep on engaging in the world affairs as much as it did during the Cold War era. As Wright notes in his 2018 article in *The Atlantic*: “The policy elites believed the best way to protect U.S. interests was through a postwar Western order organized around free trade, institutions, and a U.S. military presence in Europe and Asia. They couldn’t drum up enough political support for the idea until they could sell it as a vital part of the struggle with the Soviets.” (Wright, 2018, p.1), hence with the Cold War over, it became increasingly difficult to make the public believe in the cost and risks involved in continuing the role of the hegemon: “... despite their significant differences, Barack Obama and Donald Trump both understood that the American people wanted to pull back, do less, and have other nations share more of the burden” (Wright, 2018, p.4).

²⁴ Ikenberry, G.J. (2020). *A World Safe for Democracy: Liberal Internationalism and the Crisis of Global Order*. Yale University Press

2.5. NATIONALISTIC LEANING RIGHT-WING POPULISM AS A THREAT TO LIBERAL INTERNATIONAL ORDER

Populism, contrary to liberalism in all of its forms, is not an ideology phrase; instead, it is a catch-all and refers to views of people who are predominantly "anti-establishment," "anti-elite," and "anti-pluralist." The "anti-pluralist" mentality, in particular, poses a clear danger to democracy, because democracy requires not only that the majorities will rule, but also (and perhaps more pertinently) that persons and minorities be capable of living peacefully as free and equal people in a country aside from their disagreements (Müller, 2017, p. 3). "We simply do not have anything like a *theory* of populism" says Jan-Werner Müller, a prominent scholar in the domain, "and we seem to lack coherent criteria for deciding when political actors turn populist in some meaningful sense" (Müller, 2017, p. 2). Even though a theory is lacking, some key ideas operate through all of its manifestations, including populists of all types seeing the people as a monolithic entity with a collective will and claiming to possess unprecedented exposure to knowing what the people *really* want (Kriesi, 2014, pp. 362-363).

Supporters of populist rhetoric often claim that by "letting people rule," or enacting policies that have broad popular support, populism serves as a "democratic correction" to upper echelon liberal policies that are seen as disconnected from the wider populace. However, counter to its promises to be more democratic than liberalism, populism, with its aggressive approach regarding constitutional democracy's structures and practices "...may, if successful, open the door to an exit from democracy" as Urbinati argues (Urbinati, 2013, p. 138).

Populism, like liberalism, came in many varieties and types throughout history, such as the farmers who rebelled against the dramatic fall in agricultural rates in the United States during the 1870s, calling themselves populists (Judis, 2017, p. 23). Beginning in the 20th century, the two main variants of populism, left and right were

left standing. Left populism fell sharply after the Cold War ended when communism/socialism disappeared, and right populism, which derives from nationalistic rhetoric, stepped into the limelight.

An earlier populist threat emerged in the US during 1930's, concurrent with the Great Depression. Figures such as Huey Long with his slogan "Share Our Wealth", Reverend Coughlin and physician Townsend all attempted to appeal to the masses with the populist rhetoric. The then President of the US, FDR went on the record as saying, "I am fighting communism, Huey Longism, Coughlinism, Townsendism" (Greenberg, 2009). It is important to recall that FDR responded to the rise in populism by appealing to welfare state solutions when "he advanced unemployment insurance and Social Security to address popular concerns with economic insecurity" (Eichengreen, 2018, p. 5). An important characteristic of the New Deal policies introduced were that the distribution of economic gains were regarded as more important than the aggregate gains. The New International Economic Order demands of the Non-Aligned Movement in the 1970 that called for radical changes in the liberal order can be recounted as one of the instances of the left-populism (Lake, Martin and Risse, 2021, p. 19).

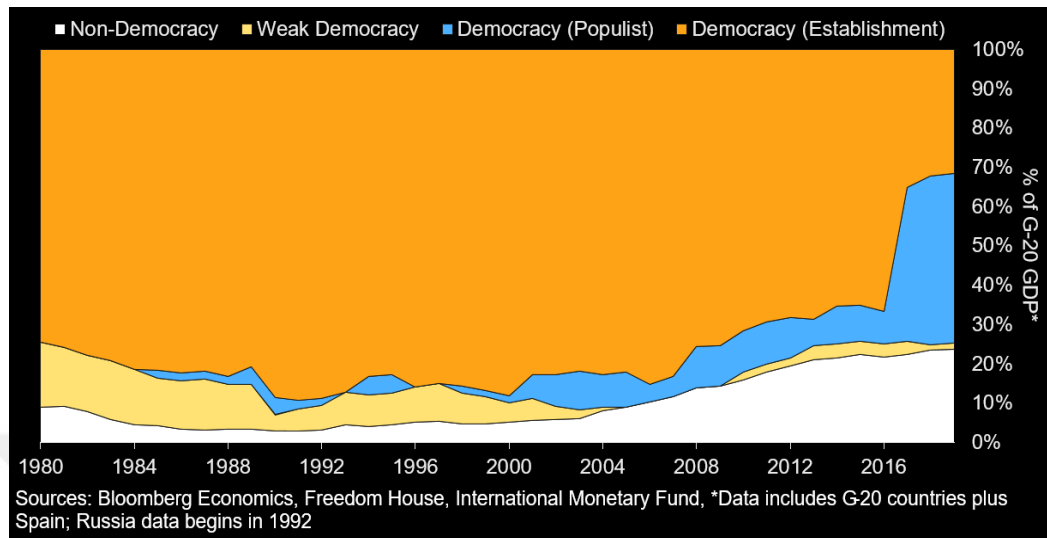
In the contemporary era, this right-wing version of populism has been considered a threat towards liberalism as early as 1990's. When Gottfried argued that "the populist alternative...is rather a recognition of the undemocratic nature of 'liberal democracy'...and this new populism may be more liberal as well as more democratic than what it seeks to overthrow" (Gottfried, 1994, pp. 170-171), the year was 1994. At that time, he thought the success of right-wing populism in the US was slim, as this rhetoric needed to make a "wholesale replacement of the leadership of the Republican Part" (Gottfried, 1994, p. 172). The populist rhetoric found the impetus nearly two decades later with the 2008 financial crisis first to cling the leadership of the Republican Party then the Presidency of the US.

In 1991, Paul Piccone noted the increasing signals of what he labeled as *New Populism* and claimed the liberals were failing to understand what it meant. He stated that in the advanced industrial societies like the Western Europe and the US, there is a rise in populism. Piccone argued that this movement should be carefully scrutinized since a similar demographic spirit was developed that started the original American Constitution and the Swiss Confederation. Therefore, he claimed that the *New Populism* may provide a strong alternative to the failing liberalism in the future (Piccone, 1991, pp. 8-9).

Hence, populists believe that the general public demands can be effectively responded by them which is why they are much more democratic as compared to technocratic and elitist liberals. In 2017, an empirical research study was presented by Alexander and Welzel where they presented the populist parties' current success within industrialized nations mainly due to the effectual base mobilization and "the increased class polarization and marginalization of the lower classes" (Alexander and Welzel, 2017, p. 12).

The below graph depicts data revealing the increase in populist governments in the last decade. As expected, an especially sharp increase follows the Brexit vote in the UK and the election of Trump in the US.

Figure 2.8: Share of G20 GDP Under Populist and Authoritarian Regimes

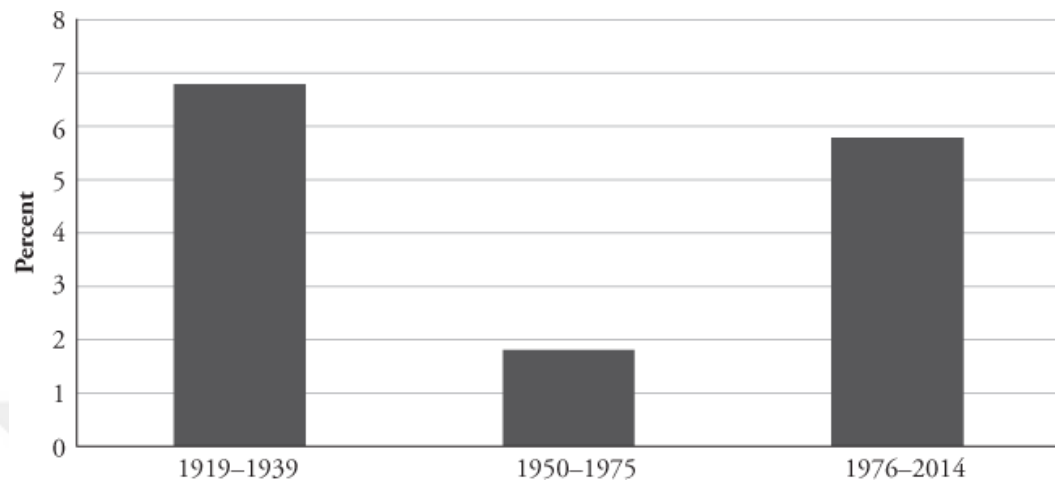


25

In the post WW II era, the rise in the far-right parties' share in major democracies coincide with the dominance of neoliberal economics after mid-70's as illustrated below.

²⁵ <https://www.bloomberg.com/news/articles/2019-03-22/populists-are-running-70-percent-of-world-s-biggest-economies>

Figure 2.9: Average Vote Share for Far-Right Parties in Twenty Democracies, Three Periods



26

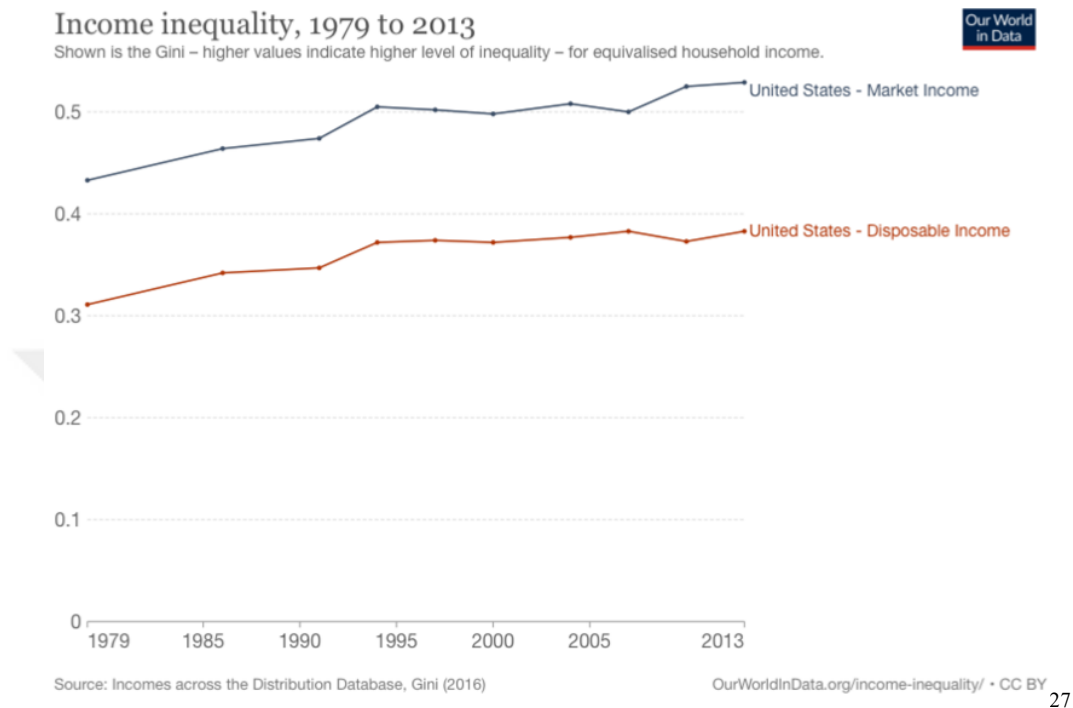
Source: Eichengreen’s calculations based on Manuel Funke, Moritz Schularick, and Christoph Trebesch, “Going to Extremes: Politics After Financial Crises 1870-2014”, *European Economic Review* 88 (2016): 227-260.

Eichengreen succinctly sums it up that the leading cause of the rise of populism is being the feeling of exclusion as a result of growing income inequalities when he states: “rising inequality augments the ranks of those left behind, fanning dissatisfaction with economic management” (Eichengreen, 2018, p.6). He highlights one important aspect when discussing the inequality as a key cause of populism when he stresses those resulting from financial or banking crises as being more influential of the psyche of the public since such crises highlight the divergent interests of the bankers/financiers (elites) and the consumers/taxpayers (the masses) (Eichengreen, 2018, p. 7). As we have seen earlier, the case study of 2008 financial crisis herein supports his argument. Below, I will demonstrate how the neoliberal policies globally stoked the income inequality growth, fueling the populist rise.

²⁶ Eichengreen, Barry (2020). *Populist temptation: Economic grievance and political reaction in the modern era*. OXFORD UNIV PRESS.

2.6.1. Income Equality and Rise in Populism

Figure 2.10: Income Inequality in the US



This graph exhibits the increased income inequality in the US from 1979 to 2013 in both market and disposable incomes.

²⁷ <https://ourworldindata.org/income-inequality>

Figure 2.11: Share of Income Received by the Richest 5% of the Population

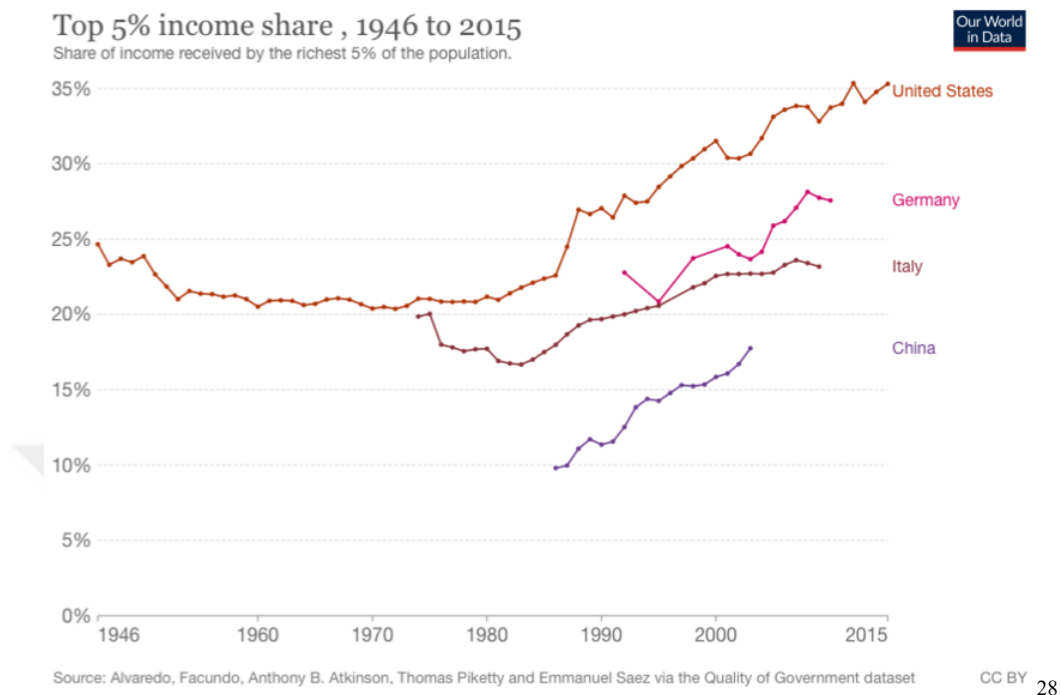


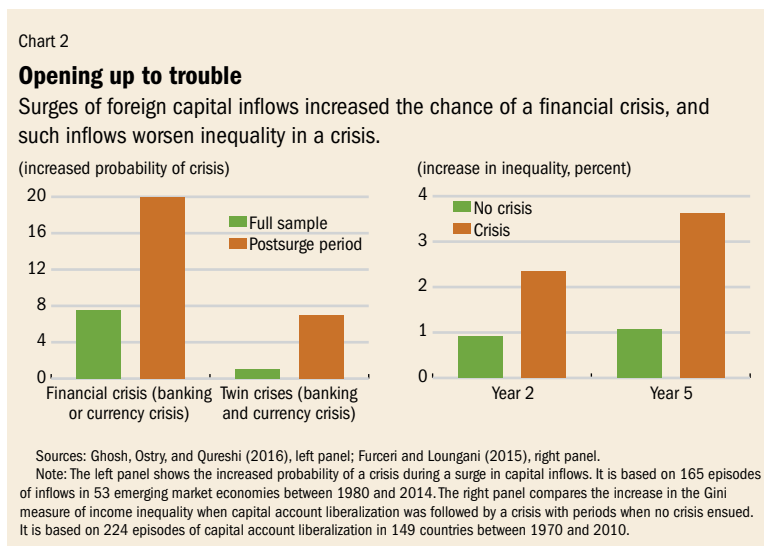
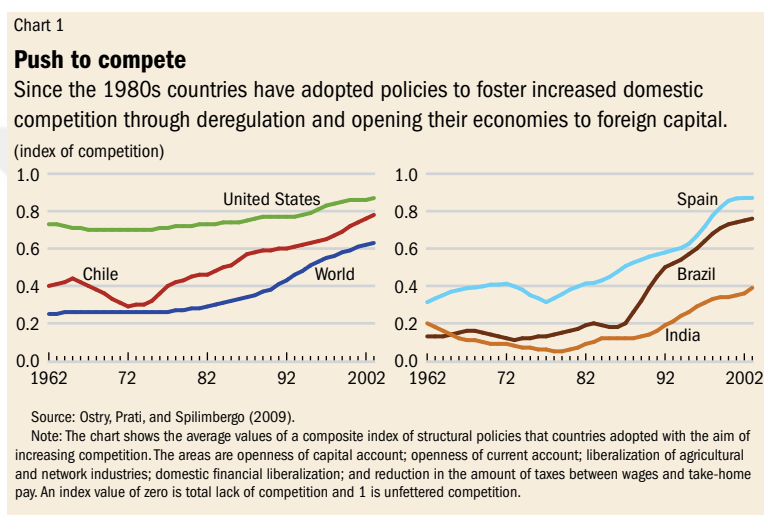
Figure 2.11 illustrates the increased concentration of wealth in select countries. In the data for the US it is striking how the share of richest 5% remained roughly steady from 1946 to 1980 but then increased at a significant rate.

Rising inequality is a global phenomenon in both developed and developing countries. While there is an expansive and (particularly after the 2008 financial crisis) ever growing literature on neoliberal policies' impact on inequality both among individual citizens domestically in their countries and on the global arena between countries, a particularly significant paper appeared in 2016. The piece, written by three economists from the IMF's Research Department is widely regarded as IMF's soul-searching for its role in promoting neoliberal policies. While the authors celebrate the successes of neoliberal policies that resulted in expansion of global trade and decreasing extreme poverty, they point out the failures of the very same policies for increasing inequality which in turn "hurts the level and sustainability of growth" (Ostry, Loungani, and Furceri, 2016, p. 39). The

²⁸ <https://ourworldindata.org/income-inequality>

piece concludes with the advice that “The evidence of economic damage from inequality suggests that policymakers should be more open to redistribution than they are” (Ostry, Loungani, and Furceri, 2016, p. 41). Below figures illustrate the harmful effects of the neoliberal policies:

Figure 2.12: Effects of Neoliberal Policies in Increasing Inequality



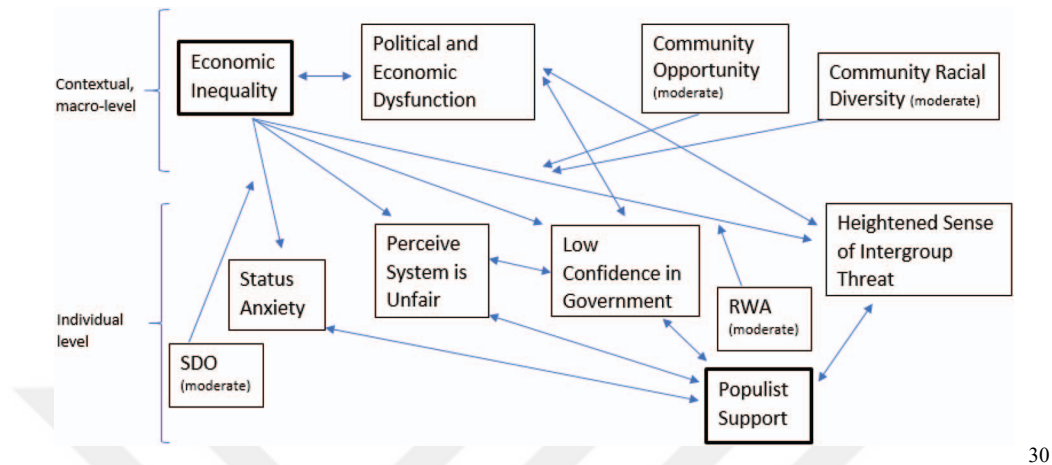
²⁹ <https://www.imf.org/external/pubs/ft/fandd/2016/06/ostry.htm>

In the developing countries, the requirements forced on their economies by the Washington Consensus that forces their governments for privatization - thereby increasing unemployment- are seen as the main culprit, whereas in developed countries the free trade, outsourcing of labor and open borders are blamed for the increase in inequality. Apparently, the neoliberal policies worldwide drive the economies towards hyper-globalization, which in turn increases the dissatisfaction of voters with economic performance and the political elite as the responsible party, eventually turning these dissatisfied masses to populist, nationalist, and protectionist alternatives that provide hopeful narratives and camaraderie.

Yet, an empirical paper published in 2021 *How Does Income Inequality Affect the Support for Populist* (Stoetzer, Giesecke and Kluver, 2021), demonstrates that the link between inequality and the rise in the support for populist parties is not as clear cut as summarized in the previous paragraph. After a survey on existing literature, the authors identify four mechanisms as to why rising inequality should increase support for populists. These are i- economic insecurities and deprivations, ii- social integration, iii- social identity, and iv- trust in political elites. They argue that while there is a positive correlation between an increase in the market Gini coefficient (higher Gini coefficient means higher inequality), none of these four mechanisms alone provide sufficient explanation of the link between inequality and populist support. They conclude “we found...that especially trust in political elites is linked to populist support. However, causal mediation analysis showed that none of these mechanisms is sufficient to understand the impact of income inequality on support for populists” and “future research” is needed. (Stoetzer, Giesecke and Kluver, 2021, 22).

Another article published by Alina R. Oxendine also identifies the inequality as a key source for the populist wave and highlights the difficulty in establishing a direct causal link between the two. She argues that inequality has an indirect effect and summarizes her view of the relationship as in the below figure:

Figure 2.13: Potential Pathways for Understanding How Inequality Shapes Populist Support



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On the other hand, Springford and Tilford, writing in 2017, argue that while support for ‘hard-right’/populist parties is indeed the result of poor economic performance and growing inequality, in countries such as the UK and the US, other factors explain the rise in the support better in countries such as France, Italy and Spain. In these countries, they demonstrate, such factors as attitudes to immigration, history and political culture play a more important role (Springford and Tilford, 2017).

2.6. CONCLUSION

While the debate on the health and future of the LIO under a hegemony (in this case the US hegemony), is valuable, the main cause of the urgent, contemporary threats lies elsewhere; namely not whether the global opinion is turning away from the US hegemony and unipolarity, but on whether the ever-growing inequality caused by the neoliberal policies domestically that individuals face in their everyday life is bearable. If the resentment of the masses all over the globe were to be explained through the rising anti-American sentiment for its recent unilateral actions, then that

³⁰ Alina R. Oxendine. The Political Psychology of Inequality and Why It Matters for Populism. *International Perspectives in Psychology*. Vol. 8(4):183

explanation would fail to account for the rise of populism within the US itself. Therefore, on this point, Keohane, who wrote in 2017 that “today’s crucial foreign policy challenges arise less from problems between countries than from domestic politics within them. That is one lesson of the sudden and surprising return of populism to Western countries, a trend that found its most powerful expression last year in the United Kingdom’s decision to leave the EU, or Brexit, and the election of Donald Trump as U.S. president” (Colgan and Keohane 2017, p.1) seems to have identified that the root cause lies elsewhere than the hegemony of the US.

These threats and their sources point to the same direction as Keohane that the ailments of the LIO have more to do with the ruling elite’s insistence on the implementation of neoliberal economic policies than the fact that the US is at the helm of the order. Hence, this section argued that the threats are mainly directed at liberal policies domestically, especially in the long-standing defenders of that ideology like the UK and the US, but also in nations with lesser influence such as Brazil, India, Indonesia, Hungary, etc.

CHAPTER III: CONCLUSION

In the early decades of the 21st century, both the Liberal International Order and the hegemony of its champion the US are under attack both internally and externally. While acknowledging the international order level discussion mainly among the liberal scholars against the critical revisionists and neorealists, the aim herein was threefold. 1- To show how closely the post WW II LIO and the US liberal hegemony are intertwined, 2- Along with scholars like Keohane, to point to threats that liberalism faces on the domestic level, 3- To demonstrate that the main culprit that is at the source of these threats is not an anti-American, anti-hegemon sentiment but rather economics, specifically the neoliberal policies in both developing and developed countries.

In order to understand what LIO is based on, an overview of history and principles of the underlying liberal ideology is presented. Accordingly, liberalism encompasses much more than the narrow pro-market, anti-regulation neoliberal economics. It argues for the freedom and the protection of individual's rights from oppression by the authorities, be it the state, the Church or the majority of the society. In this respect, its roots going back to 17th century have been presented. In this narrative, the flexibility of liberalism in adjusting to changing conditions and new threats has been highlighted.

Next, the study looked into two major schools of thought under liberalism in the economic realm. Again, here the back and forth between these two schools of thought depending on the era's requirements were underlined. Keynesianism's principles and its tendency to emerge in crisis situations with its emphasis on the government intervention and regulation of the markets to provide for higher employment rates, as well as its initiatives to redistribute gains from economic growth more widely across society is described, using the New Deal of FDR after the Great Depression as example.

When the Keynesian policies failed to respond successfully to the global stagflation of the '70's when both inflation and unemployment were high while economic growth was slow - an unexpected event whose cause is still debated and difficult to pinpoint - neoliberal school with its emphasis on the price stability replaced it as the dominant economic order under liberalism globally. Neoliberals argued that such ills as stagflation were caused by too much government intervention in the markets. They claimed since the technocrats and politicians lacked enough information on the dynamics of the markets, any mingling on their part with free markets would make matters worse. Hence, an era of small government, privatizations and deregulation of the markets followed.

Along with the principles of neoliberalism, this study highlighted its effects on inequality, providing a brief comparative overview of post-war Keynesian based Bretton Woods system and the neoliberal era Washington Consensus system. An account of the 2008 Financial Crisis were then given in some detail to reveal the shortcomings of the neoliberal policies.

An overview of international orders with an emphasis on the history, foundation, and principles of the LIO based on the Kantian dictum on the harmony of nations were then presented. Here the underlying argument was that while the US positioned itself as the "beacon of hope for the peoples of the world" and champion of freedoms, the realist thinking with the emphasis of national interests in an anarchical world was always functioning in the background.

Two prominent views on the fate of the LIO after the demise of the US hegemony were then presented. Neorealist scholars, personified in this study in Mearsheimer, argue that along with the decline of the US hegemony, the LIO era will also be over. On the other end of the spectrum Ikenberry's views on the survival of LIO in a post-hegemony period were portrayed.

After giving the debate its due, this study identifies, along with Keohane, that the imminent dangers to LIO are not related to interactions between the states but rather within the states as manifested by the dissatisfaction of voters turning to right-wing, nationalistic tinged populism. The concurrent rise of populism globally is then described and its likely connection with the income inequalities generated by the neoliberal economic policies was emphasized.

Accordingly, whether Ikenberry's LIO 2.0 with the US as the liberal hegemon will successfully evolve into a post-hegemon LIO 3.0 and thereby ensure survival depends very much on whether liberalism can fend off the populist threat in individual countries. On that account, this study presented the ongoing research on whether the inequality is indeed the main driver of the populist wave. If so, abandoning of the neoliberal policies and embracing the progressive liberal, welfare state-oriented Keynesianism may well be the only hope for LIO's survival. Whether such a reform in the liberal international economic order is possible, and if it is, whether it would prove to be sufficient, only time will tell.

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