By 2010, of course, these ambitious hopes looked embarrassingly premature, as much of the world turned to austerity, rather than to stimulus, to address the crisis’s lingering effects. It’s partly because of the thorough, decades-long expulsion of alternatives to capitalism that the zombie-like survival of this hyperliberalized variant now feels so easy to take for granted. But it is in fact unprecedented. The two comparable crises of capitalism in the 20th century both led to major transformations in governance. The Depression gave rise to Keynesian tools of fiscal and monetary macroeconomic management; oil and stagflation in the 1970s overturned that regime, as the developed world traded a Keynesian orthodoxy for a market one.

Initially, the crisis of 2008 seemed to have swung the pendulum back in the other direction. But pushback against market orthodoxies has been more isolated than many expected. Widespread and lasting unrest, at least in the US and Britain, has so far failed to materialize; in places where protest has led to political transformation, as in the rise of the far-right Golden Dawn in Greece, or the anticorruption Five Star Movement in Italy, the nature of the protest has been equivocal, and not obviously socialist. The 2008 crash and its aftermath have amounted, as the legal scholar Alasdair Roberts argues in *The End of Protest*, to little more than a “quiet crisis.”

At the same time, there has been an obvious change of mood. It’s now a standard practice of the mainstream press, for example, to point to a worsening crisis of economic inequality and its ill effects on democratic institutions and practices. The recent mania for Thomas Piketty’s *Capital in the Twenty-First Century* speaks to a new and deep pessimism about our economic future, and the ability of our politics to offer...
alternatives, that has become conventional public wisdom in just the last few years.

But telling the story of our current crisis as primarily one of inequality and oligarchy misses how quieter and more gradual economic changes have transformed how politics is conducted today and set new limits on what it can accomplish. Over the last three decades, states opting into a global economic system undergoing rapid liberalization chose to delegate many aspects of their policy-making to bodies beyond their direct control and outside of the electoral political system—in large part, to prevent politics from getting in the way of the tough task of integrating and liberating markets. This “depoliticization” of economic policymaking has made possible the proliferation of markets. But it has hamstrung democracies, preventing them from making their own decisions about how deep and wide the market’s hand should reach, and making it ever more difficult to respond to the social dislocations that have resulted.

**How did we get here?** The prime mover in the golden age of unshackled capital, stretching from Thatcher’s election in 1979 to the 2008 financial crisis, is often seen as the downsizing of the state. As public industries were sold off, spending and services cut, and economic regulations lifted, markets rushed in to areas left vacant by a retreating sovereign. This view tends to be guided by the assumption that liberalized markets and a strong state can’t coexist. But the late 20th-century state was not weakened by the liberalization of markets. Rather, the state was redesigned through a series of institutional and legal reforms intended to streamline its functions with a new form of globalized capitalism. And one of the central reforms, Roberts argues in his 2010 book *The Logic of Discipline,*
was the establishment of central bank independence.

Before 1980, central banks tended to be directly accountable to national legislative bodies. But over the course of the 1980s and 1990s, rules were put in place in states around the world to give responsibility for monetary policy to institutions independent of elected governments. Decisions about interest rates and the money supply, the idea went, shouldn’t be influenced by party politics and electioneering; instead, ostensibly apolitical experts must be entrusted with the power to determine the proper balance of growth, inflation, and employment. The sphere of state power was thus limited, while the powers that remained were enhanced by the advent of reliable, technocratic discipline. Effectively, the state was both straitened and strengthened.

Roberts tracks this transformation back to its generally understood origins: the breakdown of the Bretton Woods monetary regime in 1971, the OPEC oil embargo of 1973, and the runaway inflation of the mid-to late 1970s. As prices rose, policy makers failed to find an easy way of slowing this process, tacking between loose and tight monetary policies and adopting and abandoning wage and price controls. Nothing worked. The option of reining in inflation through a central-bank-induced economic downturn looked like political suicide. But when Paul Volcker was appointed head of the Fed in 1979, these concerns were downplayed: interest rates doubled, and the economy went into deep recession. As inflation leveled off, Volcker’s use of brutal means seemed to confirm a longstanding conservative assumption: that democracies are irresponsible and profligate, unwilling to pursue unpopular but necessary policies in emergencies, and in constant need of paternalistic guidance.

In the wake of Volcker’s recession, central bank independence in the US set an example to be copied. In 1992, the Treaty on European Union formally established the European Central Bank as autonomous from the Union’s governing bodies. In 1997, both the Bank of Japan and the Bank of England were granted independence. The bankers running these institutions now considered containing inflation their top priority, even if it came at the cost of unemployment and inequality. These shifts also sent a message to the world’s investors: by relinquishing control over monetary policy, governments could demonstrate that instabilities in domestic politics would never interfere with a country’s commitment to stability in prices.

There is a strong rationale for insulating decisions about monetary policy from the whims of politicians: the ability to adjust the money supply is an awesome power, and one that shouldn’t be used lightly. But freeing the central bank set a precedent; the liberation of other economic controls soon followed, prying loose the citizenry from the governance of their economies. Nowhere was this more true than with fiscal policy. On left and right, calls abounded during the 1980s and ’90s for the centralization of budgetary policy in executive-level bodies, or even completely independent fiscal committees. Constitutional and legal rules about permissible levels of debt were put into place, most famously in the 1992 Treaty on European Union, but also in Israel, Argentina, India, and elsewhere. (Around the same time the idea of a “balanced budget” amendment became a continuing obsession of the US Republican Party.) Meanwhile, states across Latin America and Africa empowered private tax-collecting bodies to raise the revenue that rent-seeking and corrupt public authorities seemed unable to. States also delegated
other governing tasks to autonomous regulatory agencies, giving them authority to oversee everything from the management of natural resources and public health initiatives to the evaluation of the creditworthiness of financial institutions and states themselves. More and more, technical agents, acting far outside the public eye, came to ensure that economies ran smoothly. These reforms were driven all by a similar logic: democratic bodies are too shortsighted and prone to capture by special interests to accomplish the full liberalization and globalization of markets—a difficult task best left to those who could operate outside the spotlight.

The most important institutional embodiment of the “logic of discipline” has unquestionably been the EU. The European Central Bank is even less accountable to democratic bodies than its English, Japanese, and American equivalents. It does not answer to the European Council or the Parliament, and its members are sworn to secrecy about its operations—even long after their retirement. The 1992 treaty that established the common currency also gave the bank, largely because of German pressure, the power to determine policy for the entire economic zone. Countries signing on to the treaty were required to relinquish control over their own monetary policies and to legally commit themselves to fiscal discipline: no more than 60 percent of any country’s GDP could be government debt, and annual budget deficits had to be kept under 3 percent. What the state could do with its money—perhaps the central problem of modern politics—had been decided already, outside the realm of debate. Even more than the Fed, the ECB has understood its primary aim as preventing inflation: the 1992 Treaty stipulated that its single task would be to keep price levels stable.
Much of the initial appeal of these reforms lay in the sense, growing over the course of the 1970s, that the mixed capitalist states of the postwar West faced a more general crisis of governability. European and American theorists on the left, like Jürgen Habermas, Claus Offe, and James O’Connor, argued that the slowing of post-war growth made it more difficult for states to employ the Keynesian and welfarist techniques they had relied on since the end of the Second World War to defuse class conflict. As prosperity dwindled and debt and public unrest mounted, these states teetered on the brink of collapse. Conservative theorists like Samuel Huntington, by contrast, saw the crisis of the ’70s as one of public hedonism and excessive democracy: a generation that had grown fat and complacent on the provisions of welfarism couldn’t face life without them—and would never vote to give them up. Democracy needed to be constrained so that hard and heroic decisions about spending and distribution of resources could be made. Though the solutions these two groups offered differed, their diagnosis was the same: the deceleration of postwar growth had left the Keynesian state with a crippling crisis of legitimacy.

In Capitalizing on Crisis, the historical sociologist Greta Krippner brings this narrative up to the present day. She follows how the liberalization and financialization of the American economy provided a means of escape from political deadlock. Deregulation, she shows, was designed not just to unleash “market forces” but, crucially, to distance the state from responsibility for economic problems like inflation, unemployment, and inequality.

The American state accomplished this project in several stages. In the 1980s, major regulations on how financial institutions determined interest rates were removed, permitting a massive expansion of credit in the US economy. Up to this point, most policy makers had believed credit was finite. They saw their role as crafting regulation in a way that would distribute scarce credit between competing social groups: small business owners, farmers, industrialists, and so on. When credit was provided to one group, it no longer would be available to another. In the Reagan era, deregulation seemed to promise a way out of this politically destabilizing zero-sum game: by lifting interest-rate ceilings, the state allowed credit to be distributed more liberally throughout the economy and empowered the market to determine where it ended up. One unintended effect was the growth of finance as a major sector of the US economy: when interest rates rose, financial firms turned a higher profit than ever before, while investment in productive economic activity became more expensive. Meanwhile, the liberalization of global capital markets after the fall of Bretton Woods provided another potential source of credit for the domestic economy, as high interest rates at home drew in growing pools of capital from abroad. The newly independent Federal Reserve was then empowered to manage how these new sources of credit were allocated between different sectors.

These transformations offered something of an escape from the problem of scarcity that had appeared after the end of the golden age of capitalism. With plenty more cash to go around—drawn, it seemed, out of thin air—the government didn’t need to decide where it went. And by increasingly deferring to markets, the state decoupled political consent from policy-making. Officials now could brush off concerns about full employment or the just distribution of resources by claiming it was the “quasi-natural force” of the market, and not themselves,
Dani Rodrik argues that reasserting democratic control of capitalism requires not just tinkering with our political and economic institutions but transforming the ways in which national governments and global markets interact. There exists what he calls a “political trilemma of the world economy”: states must decide whether to prioritize democracy, national sovereignty, or economic globalization. They can have two of these things, but they can’t have all three.

Today, most states remain jealous of their sovereignty and eager to reap the benefits of global financial and commercial integration; they are less concerned about the well-being of their democratic politics. Opting for deep global economic integration leaves states with few alternatives to a standard array of market-friendly policies: low corporate taxes, little to no organized labor, deregulated markets, privatized industries, and minimal tariffs.

The way to remove these bonds, according to Rodrik, and to re-empower democracies to decide their own economic fates, is to create an updated Bretton Woods. This would be a global system that allows for free multilateral trade, but in a way that gives states the ability to pursue the economic policies best suited to their situations. Bretton Woods replaced the strict rules of the gold standard—which had made it extremely difficult for states to adjust economic policy according to domestic demands—with adjustable exchange rates pegged to the US dollar and controls on the international mobility of capital. These commitments meant that policies could be formulated at the national level without excessive concern for how global markets would respond, and they made possible the emergence of many different national models of capitalism: the Scandinavian welfare state, the German Christian Democratic
“social market economy,” the French dirigiste state, and so on. Rodrik is profoundly sympathetic to this lost world of diverse political economies and sees it as a blueprint for how the world should be refashioned in the aftermath of the 2008 crisis.

Calls for a “new Bretton Woods” have become somewhat routine. Rodrik lists some of the most popular suggestions: “an international bankruptcy court, a world financial organization, an international bank charter, international lender of last resort” and a “global central bank.” The more bodies and rules working to regulate global capitalism, in this view, the safer and more moderate it will be. In the first weeks after Lehman Brothers fell, there was a brief period of optimism about this kind of reform, as the governments of Gordon Brown and Nicolas Sarkozy, along with many economists, called for new forms of global economic governance.

Most of these proposed reforms focused on how to improve the bureaucratic management of global capitalism to make it less crisis-prone and unpredictable. The problem with expanding these kinds of institutions of global governance is that delegating regulatory powers to supranational technical bodies threatens simply to move the problem of technocracy up a level, taking deliberation over economic problems out of the hands of national democracies and putting them into those of even more insulated and unaccountable technicians in the G20, the IMF, the WTO. “The construction of transnational political communities,” Rodrik writes, “is a project of globalized elites attuned largely to their needs.”

What is needed is not simply a renovation of the governing structures intended to keep the global capitalist system humming smoothly but a new international regime that returns to national democracies the ability to craft muscular legislation of their own. One vision of this kind of reform is the global progressive tax on capital called for by Piketty, intended to eliminate the international tax discrepancies that lead to capital flight from one state to another. Piketty offers little in the way of a political road map for how to achieve this ambitious overhaul in the architecture of global governance, although he has laid out some concrete measures for how a system like this might work at the European level. Along with colleagues from across Europe, Piketty has called for the creation of a tighter European political and fiscal union, led by a new European parliamentary chamber and staffed by members of national European parliaments. This body would be charged with coordinating fiscal policies between different states in a way that was accountable to national electorates and have the
power to craft ambitious forms of taxation—particularly on the footloose multinational corporations that today chase the lowest tax rates and encourage states to compete for their largesse. Models on the regional level, according to Piketty, could then be gradually scaled up to the entire globe. He admits, though, that this global version is little more than a utopian regulative ideal. For Piketty, the agenda, first and foremost, is Europe.

Rodrik offers a less ambitious but perhaps more immediately realizable means of instituting an internationally coordinated mechanism to prevent globalization from outpacing the abilities of national governments. His first suggestion is relatively straightforward: strengthen “safeguards” and “opt-outs” in international trade agreements. Since tariffs around the world are so low today, most trade talks—notorious for their secrecy and insulation from public debate—focus on coordinating the removal of regulations at the national level, whether on labor, the environment, or health and safety. By building “opt-outs” into trade agreements, states could remain paid-up members of the multilateral trading system without needing to sign away control over redistributive policies, labor rules, or environmental regulation. Another step would be to impose controls on cross-border economic activity in order to prevent new national regulations from leading to the exodus of jobs, firms, and capital to states with laxer rules. This is particularly important in the case of finance: only by preventing financial services from migrating to the country with the fewest restrictions can national legislatures craft regulations that have any bite. International bodies are incapable of doing so themselves. There are too many different national standards to coordinate, with the result that any international rule inevitably becomes the weakest of all options. It’s only at the national level that strong rules can be implemented, and this indeed is the way things should remain: democracies need to be able to deliberate over what their economies choose to prioritize. Economists would of course loudly protest against this kind of “politicization” of regulatory policy—“but we might be allowed a measure of skepticism on this,” Rodrik writes, “in view of the technocrats’ dismal recent record.”

Creating new international rules to return to national political systems the powers they’ve delegated away is clearly no small task. One place to start would be to look at how the rules and institutions that govern the global economy were first conceived, and how they might be reimagined. In her path-breaking book Securing the World Economy, the historian Patricia Clavin shows how the project of using
The assumptions that guide our understanding of what the global economy is today were only then in the process of being born. As late as the ’30s, there was still little consensus about whether one could refer to the world’s interlocking webs of commercial and financial relations as constituting any kind of autonomous economic system with rules of its own. In part, this was because the way we understand the meaning of an “economy” was still being sketched out. Up to the ’30s, the terms “economy” or “national economy” were typically used to describe a set of relations that could only exist within a clearly defined territory with a legal and political system that gave it structure and rules. For this reason, the idea of a “world economy” was often rejected as a utopian and futuristic fiction, no more realistic than the idea of a world state. Only after international law and government had made the entire world into an orderly and governable entity could one plausibly speak of a truly world-spanning economic system.

When the League first developed its economic operations, in the 1920s, it faced significant opposition from states wary of delegating economic sovereignty to supranational institutions. Most leaders simply wanted to return to the system that had existed before the war, with the stern discipline of the gold standard fixing exchange rates and preventing national governments from interfering too much in their domestic economies. At first the League’s economic section understood its mission as aiding in this process by encouraging states to lower tariffs, balance budgets, and return en masse to the gold standard they had abandoned during the First World War. But during the 1930s and ’40s, the mission of the League’s economic section gradually transformed: after the global deluge of the Great Depression, the return to 19th-century liberal orthodoxies came to seem “an eccentric goal.”
and early ’40s, Clavin suggests, that provided an intellectual framework for some of the most important aspects of the 1944 Bretton Woods Agreement. The League’s “expert network” helped guide the flurry of British and American postwar economic planning of the early ’40s, and popularized the idea that states could remain globalist without being forced to give up control over their national economies. It may seem remarkable today, but in the ’40s the rising American hegemon led the way in the establishment of a postwar system that encouraged the pursuit of full-employment policies at the national level and that allowed for national welfarism to triumph in individual states over full global integration.

While the League of Nations couldn’t prevent the outbreak of war, it helped give birth to a very different project of global economic management—one that has fundamentally reshaped the world ever since. The League’s particular form of technocratic internationalism found a home in many of the major postwar international institutions: the World Bank, the IMF, and the European Economic Community, just to name a few. It’s a mixed legacy. On the one hand, making problems soluble by supranational technocrats has allowed these institutions to justify policies that bypass normal procedures of national politics. On the other hand, the League’s evolving vision of international economic regulation encouraged a move away from an older conception of unhindered and ungoverned global capitalism—a world remembered fondly by only the most hardcore partisans of the gold standard—that left states with little room to shape ambitious programs of social and economic policy at the national level.

It’s true that the League’s efforts were just as concerned with protecting the positions of its member states and their elites as they were with creating global conditions conducive to the Keynesian fiscal state. And many associated with the League remained committed, throughout these years, to returning to a lost world of international laissez faire. At the same time, League officials helped give shape to a new way of thinking about the relationship of states and global markets. By the 1940s, it was no longer radical to suggest that what the world needed was an international system of governance that could facilitate new forms of political-economic governance at the national level—even if this ran counter to strict liberalization and international integration.

Many today, including Rodrik and Roberts, look back fondly on the international regulatory regime that directly followed the Second World War. It might still be the case that technocratic solutions at the international level are needed to open up space for political-economic experimentation by individual states. The unsavory alternative, a turn inward to fully nationalist solutions, is one that’s increasingly popular, as the success of the far-right in the recent European elections shows. Nostalgia for Bretton Woods—a relic of a bygone era of confident American hegemony—clearly has its drawbacks. Still, what the task of reining in a global capitalism run amok requires, in addition to real bottom-up movements, is for policy makers to recapture some of this older internationalist excitement for governing the world economy, for making it less of a cruel taskmaster than when left to its own devices. Otherwise, faced with the options of national sovereignty, economic globalization, and democracy, recent history has shown all too clearly which will be the first to go.