Western democracies are facing their greatest crisis in decades. Liberal democracy has faltered in eastern Europe, is threatened by populists in western Europe and the United States, and is challenged by resurgent authoritarianism in Russia, China and elsewhere. Reflecting these trends, scholarship and commentary is consumed by debates about “illiberal democracy,” “global authoritarianism,” and democratic “deconsolidation.”1 Summing up what has become a widespread view, Viktor Orbán, Hungary’s current prime minister, once proclaimed: “The era of liberal democracy is over.”2

At this point, a massive amount of scholarship and political commentary has been devoted to debating whether, and if so, why the era of liberal democracy is coming to an end. Rather than diving directly into such debates, this chapter argues that in order to fully understand what is happening we need to go back and examine the how liberal democracy consolidated in the first place.

Too easily forgotten is that consolidated liberal democracy is a recent phenomenon not merely in eastern but also in western Europe.3 During the nineteenth and early twentieth centuries consolidated liberal democracies did not exist in Europe. Instead, these years were characterized by war, economic crises, social and political conflict, and innumerable failed attempts at democracy.4 Given this history and the conditions on the ground in Europe at the end of the World War II, there was every reason to be pessimistic about the fate of democracy in the years ahead.
It is now hard to fathom how thoroughly devastated Europe was in 1945. Surveying the postwar scene, Winston Churchill, for example, asked, “What is Europe now? A rubble heap, a charnel house, a breeding ground of pestilence and hate.” As was often the case, Churchill’s description was colorful and accurate. During the war the full force of the modern state was mobilized for the purpose of annihilating entire peoples, and the war’s human and material costs were greater than anything the world had ever experienced. Estimates range from fifty to eighty million dead, with at least two-thirds of these civilians. World War II was “a war of occupation, of repression, of exploitation and extermination in which soldiers, storm-troopers, and policemen disposed of the daily lives and very existence of tens of millions of . . . peoples.” Unlike the First World War the Second was a near-universal experience. Bombing left cities and regions in ruins and tens of millions homeless; it obliterated road, transportation, communication, and food-supply networks. The suffering continued after the war’s end. The Soviet army swept through central and eastern Europe, slaughtering any men they came across, and engaged in an unprecedented campaign of violence against women. In Vienna and Berlin, for example, approximately ninety thousand women were raped within a week or so of the arrival of the Red army and hundreds of thousands of women ultimately suffered this fate. Postwar Europe was also plagued by famine and disease. In 1945 the residents of Budapest subsisted on about 550 calories a day, those in Vienna 800, and even in the Netherlands thousands of people starved. In some countries it became commonplace to see women and even children selling their bodies for scraps of food. Conditions in Germany were particularly dire: the last months of the war were the bloodiest by far, and suffering continued after defeat. During 1945 in Berlin as many a quarter of the children under the age of one died, thousands starved, malnutrition and disease were rampant, and about a quarter of the population was homeless. Alongside unprecedented material destruction and suffering, the war also left much of Europe in a state of almost complete political, social, and economic collapse. Governments, schools, civil society, libraries, post offices, newspapers, and markets simply ceased to exist.

Yet despite these conditions, extremism did not flourish and democracy consolidated in western Europe. There were many reasons for this remarkable transformation.

The old order was discredited by the collapse of the interwar years and the war that followed, and groups that had supported antidemocratic regimes and movements in the past were eliminated by the chaos and destruction of the 1940s. As Mark Mazower noted, “Wartime losses tore gaping holes in the social and physical fabric; they provoked bitter memories and angry emotions, but also new
This was particularly true in Germany, where old social hierarchies were shattered by the Nazis and the old conservative and Junker elite were disproportionately killed off in large numbers during the war and then dispossessed by the communist regime in the East after it. In addition to eliminating many social obstacles to democratic consolidation, the war also helped deal with another long-standing impediment to consolidation in Europe: nationalism. One way in which it did this was through the ethnic cleansing that happened during the war—between them, Stalin and Hitler uprooted, transplanted, expelled, deported, and dispersed some thirty million people in 1939–43. And after the war, ethnic cleansing and population transfer continued, rendering many of the countries of central and eastern Europe in particular more ethnically homogenous than they had ever been. To quote Mazower once again, “War, violence and massive social dislocation had turned Versailles’s dream of national homogeneity into realities.”

The Postwar Order

Changes that occurred during the postwar period at the international, regional, and domestic levels were critical in promoting democratic consolidation in western Europe. The United States played a crucial role in reconstructing new international economic and security orders. Triggered by fears that western Europe could not alone protect itself from Soviet aggression, President Harry Truman committed the United States to defending western Europe and liberal democracy with the Truman Doctrine, and in 1949 NATO was formed, linking western European countries to each other and the United States, and eventually integrating Germany into the western security bloc. The United States also helped construct international economic institutions, including the Bretton Woods system, General Agreement on Tariffs and Trade (GATT), and the International Monetary Fund (IMF), to jumpstart postwar economic reconstruction, promote growth, and tie together western Europe and the United States.

These new American-led international security and economic arrangements were designed to undergird peace and prosperity. They also, along with the Marshall Plan, which required recipient nations to decide together how aid was to be used, contributed to the formation of the second, regional pillar of the postwar order—European integration. Fundamentally, European integration stemmed from the recognition that successful liberal democracy required overcoming challenges too great be solved by the uncoordinated efforts of individual governments acting alone. In particular, reconciling Germany to Europe and vice versa
and ensuring postwar economic reconstruction and growth would necessitate cooperation among European nations. This led to the formation of a series of agreements and institutions, beginning with Council of Europe (1949) and the European Coal and Steel Community (1951), that gradually propelled forward the process of European integration.

But however important changes at the international and regional levels were, without changes at the domestic level, democratic consolidation in postwar western Europe would have been difficult if not impossible.

The tragedies of the interwar years and of World War II produced a new commitment among European elites to making democracy work and a new understanding of what it would take to do so. Successful liberal democracy was now understood to require more than changing political institutions and procedures; it required new social and economic arrangements and relationships as well. In particular, the economic crises, inequality, and social divisions that had generated the socioeconomic conflicts and political extremism that had undermined democracy in the past needed to be avoided.

Although it is easy to forget, before 1945 it was widely believed that democracy could not be reconciled with capitalism. Liberals and conservatives generally believed that giving workers, the poor, and the disadvantaged the vote would lead to mob rule, the end of private property, and other horrors. As the British historian and Whig politician Thomas Macaulay, for example, once wrote in response to demands for universal suffrage, “If you grant that, the country is lost. . . . My firm conviction is that, in our country, universal suffrage is incompatible, not only with this or that form of government, and with everything for the sake of which government exists; that it is incompatible with property and that it is consequently incompatible with civilization.” Marx agreed with Macaulay and other liberals and conservatives that “democracy and capitalism [were] an inherently unstable” combination, given that the poor would use “democracy to expropriate the rich” and that once they did so capitalists would “subvert democracy” rather than give up their property. (Or as another socialist put it, the bourgeoisie would inevitably “resort to bayonets” rather than allow a democratically elected government to threaten their economic power and privileges.)

The interwar years, and Great Depression in particular, where capitalism’s failures produced social chaos, conflict, and political extremism seemed to confirm an inherent tension if not conflict between capitalism and democracy. When World War II ended, political actors on both sides of the Atlantic understood that if democracy were going to succeed in Europe, they needed to confront head-on the socioeconomic conflicts and economic crises that capitalism had generated and that had fed extremism and undermined democracy in the past.
In addition, the war profoundly changed many people’s views of the appropriate roles of states and markets. All European governments assumed responsibility for managing the economy during the war, and shared wartime suffering fostered national unity and a broad sense that states could and should provide for citizens’ basic needs. And finally, Europe’s desperate postwar situation, combined with the commanding position of the Soviet Union after the war and the heroic role played by many communist resistance movements during it, along with the sense that capitalism had failed during the 1930s, led many to fear that communism rather than democratic capitalism was the wave of the future. (Indeed, communist parties in western Europe got off to auspicious starts after 1945, receiving much higher shares of the vote almost everywhere than they had before the war and being included in a number of postwar governments as a result.) These experiences and conditions, combined with a broader sense that Europe could not allow itself to fall back into patterns that had led it to ruin in the past, reinforced the belief that a new socioeconomic order capable of ensuring prosperity and social stability and blunting the siren song of extremism was necessary if the democratic wave of 1945 was not to meet the same fate as its predecessors.

Following John Ruggie many, including authors in this volume, characterize the order that emerged as an “embedded liberal” one. Although this may make sense for the international economic component of the postwar order—which is what Ruggie originally used the term to refer to—it is misleading for its domestic pillar. The point of labels is to identify, clarify, and understand, and how we characterize the various components of the postwar order is therefore of more than semantic import. Calling the reconstructed domestic political economies of western European countries “liberal” implies something about their nature and consequences. Moreover, given how central reconstructed domestic political economies were to the consolidation of democracy in postwar Europe, it is critical that we understand their goals and logic. “Liberal,” accordingly, is not merely inaccurate, it also obscures what it took to finally make democracy work in Europe.

As I showed in *The Primacy of Politics*, advocating a shift toward a system where democratic states assumed responsibility for overseeing capitalism and protecting citizens from its negative effects had long been the distinguishing feature of the social democratic left—not of liberalism or, for that matter, of Christian democracy, the dominant political force in many European countries during the immediate postwar period. The postwar order should be referred to as “social democratic,” in short, because that label fits most clearly with the view of the relationship between states, markets, and society developed by social democrats during the prewar period.
Before 1945 some liberals and Christian democrats recognized problems with capitalism, but neither developed either an ideological profile or a political platform around the idea that it was both possible and desirable for governments to tame capitalism in order to make it compatible with democracy as well as the health and well-being of society, as social democrats did.

Many liberals, as noted above, were wary of democracy. And historically, of course, liberalism was certainly not associated with the idea that unchecked markets were dangerous and that states had the right to intervene in the economy to protect society from their malign effects. A strand of progressive liberalism that arose in the late nineteenth and early twentieth centuries was sympathetic to democracy as well as more cognizant of capitalism’s negative consequences than were other forms of liberalism. But progressive liberals generally favored dealing with these negative consequences after the fact. They did not believe that it was either possible or desirable for governments to intervene in markets to prevent negative outcomes or that it was the job of democratic governments to protect and promote the public interest.  

Christian democrats, meanwhile, were also generally unsympathetic to democracy during the prewar period. Moreover, though many recognized that capitalism had negative effects, the Christian democratic understanding of these effects differed greatly from that of social democrats (or progressive liberals). In general, the Christian democratic critique of capitalism focused on its tendency to undermine the foundations of a corporate, illiberal society as well as traditional norms and values, rather than stressing, as social democrats did, how it threatened democracy, individual freedom, or the creation of a more just and equal society.

After 1945 the traditional social democratic view of the correct relationship between states and markets was broadly embraced. Not only did it gradually become the dominant view on the left—in contrast to the interwar period, when it faced formidable Marxist and communist foes—but liberals and Christian democrats moved closer to it as well.

The 1947 program of the German Christian Democrats, for example, declared, “The new structure of the German economy must start from the realization that the period of uncurtailed rule by private capitalism is over.” In France, meanwhile, the Catholic Mouvement Républicain Populaire declared in its first manifesto in 1944 that it supported a “revolution” to create a state “liberated from the power of those who possess wealth.” Even the United States, least affected by the war and most committed to the restoration of a global free trade order, recognized that democratic stability in Europe would require a significant break with the socioeconomic status quo ante. Reflecting this, in his opening speech to the Bretton Woods conference, US Treasury Secretary
Henry Morgenthau noted, “All of us have seen the great economic tragedy of our time. We saw the worldwide depression of the 1930s. . . . We saw bewilderment and bitterness become the breeders of fascism and finally of war.” To prevent a recurrence of this phenomenon, Morgenthau argued, national governments would have to be able to do more to protect people from capitalism’s ‘malign effects.’”

After 1945, accordingly, western European nations began constructing a new social democratic order at the domestic level. This order represented a decisive break with the past. States would not be limited to ensuring that markets could flourish, nor would economic interests be given the widest possible leeway. Instead, after 1945 the state was to become the guardian of society rather than of the economy, and economic imperatives would sometimes have to take a back seat to social ones.

The two most often noted manifestations of this change were Keynesianism and the welfare state. As Jonathan Kirshner’s chapter on John Maynard Keynes makes clear, Keynesianism’s significance lay in its rejection of the view that markets operated best when left to themselves and its recognition that state intervention in the economy was sometimes necessary to avoid the economic dislocation and crises that could threaten democracy and capitalism. Having lived through the rise of the Soviet Union and the Great Depression, Keynes understood that unchecked markets could be socially and politically dangerous. As Kirshner, echoing Keynes’s biographer Robert Skidelsky, notes, “Keynes was quite conscious in seeking an alternative to dictatorship . . . a program on which to fight back against fascism and communism.” It is important to stress that Keynes favored a more active role for the state for political as much as for economic reasons. He understood the appeal of communism’s insistence that capitalism could not be rescued from its flaws and fascism’s insistence that that only a strong, non-liberal state could deal with challenges like Great Depression. Keynes hoped that by designing a “system that held out the prospect that the state could reconcile the private ownership of the means of production with democratic management of the economy” he could convince people that there was a democratic solution to capitalism’s downsides.

Like Keynesianism, the welfare state helped transform the relationship between states and markets during the postwar era in ways that helped promote democratic consolidation. Welfare states did not, of course, develop de novo after the war, but they did change quantitatively and qualitatively during the postwar period—expanding in scope as well as taking on clearer decommodifying functions. As C. A. R. Crosland noted, after 1945, “it was increasingly regarded as a proper function and indeed obligation of Government to ward off distress and strain not only among the poor but almost all classes of society.”
Postwar western European welfare states were significant not only because they protected individuals from economic distress but also because they gave renewed importance to membership in a national community. Because they both required and fostered a sense of kinship and solidarity among citizens, welfare states could only be sustained if individuals believed that ensuring a basic level of well-being for all citizens was a worthy goal. The postwar welfare state contributed to creating a new understanding of citizenship or a new social contract between governments and citizens, with the former committing to ensuring the economic welfare and security of the latter and latter committing to supporting the welfare state and the larger liberal democratic system of which it was a part. Welfare states thereby marked a significant break with a liberal gesellschaft—the anomic, dislocation, and atomization that had proved so politically destabilizing during the nineteenth and early twentieth centuries—and a move toward a more communitarian gemeinschaft where governments committed to taking care of their citizens. The postwar expansion of welfare states was thus not merely a reflection of a desire to rectify past mistakes but also a deliberate attempt to undercut the support of extremists on the left and right that had played off anomic, dislocation, and atomization in the past in order to undermine support for liberal democracy.

Of course, Keynesianism and welfare states were not the only ways in which postwar European political economies changed. Each European country developed its own set of policies that used the power of the state to protect societies from capitalism's most destructive effects and promote social stability. In France, for example, the Fourth Republic engaged in nationalization and planning, which were designed to ensure economic growth and that “the main sources of common wealth [were] worked and managed not for the profit of a few individuals, but for the benefit of all.”

In Britain, where class distinctions remained immensely important up through the interwar years, the war had a significant leveling effect. Food and other essential items were rationed during the war on the basis of need rather than wealth or social standing and the shared suffering caused by war gave an immense boost to social solidarity. As one broadcaster put it, Britain had been “bombed and burned into democracy.” Similarly, observing the wartime social changes occurring in Britain, the American war reporter Edward R. Murrow remarked, “You must understand that a world is dying, that old values, the old prejudices, and the old bases of power and prestige are going.” Against this backdrop the Beveridge Report appeared in 1942, spurring a postwar commitment by British governments to ensuring “freedom from want.” William Beveridge had earlier been a critic of welfare capitalism, but like many others had been converted by the war to a belief that the governments could and should protect citizens from economic suffering and take responsibility for equitable economic development.
After the war Britain expanded its welfare state, committed to full employment, and nationalized parts of the economy.37

In Italy, meanwhile, a large state sector was carried over from the fascist period and viewed as part of a broader strategy for using the state to ensure economic growth and social well-being. The idea that democratic governments were responsible for steering the economy and protecting citizens was enshrined in Italy's postwar constitution, which declared the country a democratic republic “founded on labor” and promised that all “economic and social obstacles” to workers' advancement would be demolished. Recognizing the primacy of certain societal goals and needs, the constitution also refrained from according private property the status of “absolute right . . . instead emphasis[ing] its social obligations and limitations.”38

In Germany there was a clearer commitment to economic liberalism than in other parts of Europe because of the extreme statism of the Nazis and the more direct influence of the United States. (On the flipside, the West German state inherited from its Nazi predecessor a history of economic planning, crucial infrastructure investments in communications, transport, and key industries, and a business community used to state intervention or coordination—all of which proved useful during the postwar period.)39 Nonetheless, postwar West German governments also intervened in the economy in myriad ways and made a firm commitment to social protection and stability. The welfare state grew and a number of innovative policies, including codetermination, that gave workers the ability to oversee and in some cases even help direct business decisions and activity (and were accordingly initially opposed by business), eventually helped workers and management come to view themselves as social partners rather than adversaries, thus breaking a pattern that had contributed to economic, social, and political instability in the past.40

The most dramatic transformation in the relationship among state, market, and society came in Scandinavia, particularly Sweden. The Swedish state was tasked with promoting growth and equity and protecting society—goals that were seen as complementary rather than contradictory.41 As Gunnar Adler-Karlsson, a well-known theorist of the postwar Swedish order, noted, “All the parties of the economic process have realized that the most important economic task is to make the national cake grow bigger and bigger, because then everyone can satisfy his demanding stomach with a greater piece of that common cake. When instead, there is strong fighting between the classes in that society, we believe that the cake will often crumble or be destroyed in the fight, and because of this everyone loses.”42

To achieve these goals, the Swedish state employed a wide range of tools, including planning, manipulating investment funds and fiscal policy, and
encouraging cooperation between labor-market partners. (Interestingly, one tool that the Swedish state did not use much was nationalization, which was viewed as economically unnecessary and politically unwise.) But perhaps the two most distinctive features of Sweden's postwar political economy were the Rehn-Meidner model and a universal welfare state, both of which were distinguished by their focus on promoting economic growth, equity, and social solidarity.

The Rehn-Meidner model featured a centralized system of wage bargaining that set wages at what was seen as a just level (which in practice seems to have meant ensuring equal pay for equal work, consistently rising incomes, and improvements for the worse-off to reduce inequality). Wages would be set “too high” for firms that were inefficient or uncompetitive and “too low” for firms that were highly productive and competitive. Firms in the former category faced the choice of either improving or going out of business, whereas those in the latter would increase their profitability (because the wages they paid would be less than they could otherwise afford). To compensate workers who lost their jobs, the state committed to retraining and relocating them for new ones. The system aimed to promote business efficiency and productivity while generating a more equal wage structure and social solidarity.43

The Swedish welfare state provided a range of programs and benefits that dwarfed those of most other welfare states and socialized—i.e., brought into the public sector—services like health care, education, and child care in order to ensure the equitable distribution of resources and the universal nature and high quality of social programs was designed to ensure that the welfare state retained the support of a broad cross-sector of the population.44

For these and other reasons, Sweden was long recognized as a social democratic showplace. But though it may have been at one end of the spectrum, the postwar domestic order in western Europe more broadly marked a significant break with the past. Capitalism remained, but it was capitalism of a very different type than had existed before the war—one tempered and limited by liberal democratic states committed to a social contract that promised citizens protection from its downsides. This social democratic order worked remarkably well. Despite fears after the war that it might take decades for Europe to recover economically, by the early 1950s most of Europe had easily surpassed interwar economic figures and the thirty years after 1945 were Europe's fastest period of growth ever.45

Perhaps even more impressive than the postwar domestic order's economic effects were its political ones. Social stability and a willingness to compromise—things that liberal democracy requires and that Europe had so often previously lacked—became possible. The restructured political economies of the postwar era offered something to everyone. As Peter Gourevitch notes in this volume
with regard to the postwar order more generally, social democratic political economies succeeded because they were built on compromise and consensus. Various groups made trade-offs, holding firm to key fundamental commitments but giving up on others. More specifically, economic growth and growing economic equality facilitated compromises between workers and capitalists and poor and rich, and attenuated the view, so prevalent during the nineteenth and early twentieth centuries, that capitalism was a zero-sum game. As Claus Offe put it,

What was at issue in class conflicts [after 1945] was no longer the mode of production, but the volume of distribution, not control but growth, and this type of conflict was particularly suited for being processed on the political plan through party competition because it does not involve “either/or” questions, but questions of a “more or less” or “sooner or later” nature. Overarching this limited type of conflict, there was a consensus concerning basic priorities, desirabilities and values of the political economy, namely economic growth and social . . . security.

Accordingly, the left- and right-wing extremism that plagued late nineteenth- and early twentieth-century Europe diminished; good times pushed parties and voters back toward the political center and support for liberal democracy. The war largely discredited the fascist and National Socialist right, but communism was powerful after 1945 in parts of western Europe. Over the postwar period, however, western European communist parties moderated; even where they remained a significant electoral force, as in Italy and France, they gradually committed to playing by the democratic rules of the game, distanced themselves from the Soviet Union, and ceased engaging in violent behavior. With right-wing extremism largely gone and left-wing extremism moderated, during the postwar decades western European party systems became dominated by parties of the center-left and center-right (generally social democratic and Christian democratic, respectively) that appealed to a broad, cross-class constituency and accepted the democratic rules of the game.

In short, by reshaping the relationship between states, markets, and society, the social democratic postwar order helped underpin democratic consolidation in western Europe. It helped mitigate and moderate social divisions and conflict and promote economic growth and equality, thereby dulling the appeal of extremism. It undercut liberal fears that democracy “would lead by necessity to tyranny and expropriation by the poor and uneducated,” Marxist assertions that giving the poor and workers the vote would lead inexorably to the end of bourgeois society, and fascism’s and National Socialism’s claim that only dictatorships could produce national cohesion. The emergence of the social democratic
postwar order, in short, played a crucial role in making liberal democracy the norm rather than the exception in western Europe for the first time since the modern struggle for democracy began in 1789.

The Unraveling of the Postwar Order

As Frank Gavin and other authors in this volume discuss, despite its success the postwar order began unraveling during the 1970s. After decades of economic success, Europe and much of the rest of the West was hit by a noxious mix of inflation, unemployment, and slow growth—stagflation. These economic problems provided an opening for a neoliberal right that had been organizing and thinking about what it saw as the drawbacks of the social democratic aspects of the postwar order and was ready with explanations for the West’s problems as well as solutions to them.\(^5^0\) As Milton Friedman, the intellectual godfather of this movement put it, “Only a crisis—actual or perceived—produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes politically inevitable.”\(^5^1\)

The shift toward neoliberalism was helped along by the collapse of communism after 1989. With the communist threat gone, the right was further emboldened to attack the social democratic order that many had previously viewed as the lesser evil. More generally, in a tragic inversion of the postwar pattern where a recognition of the dangers of uncontrolled capitalism was widely accepted, communism’s collapse led to a triumphalist belief across the political spectrum in the inherent superiority and stability of capitalist democracy.

This was clearly true in the economics profession, which had largely abandoned Keynes’s concern about capitalism’s propensity toward disequilibrium and tendency to cause political and social instability. (As Robert Lucas asserted in his presidential address to the American Economic Association in 2003, “The central problem of depression prevention has been solved.”)\(^5^2\) Economists and think tanks helped spread neoliberal views of capitalism and the correct relationship between states, markets, and societies on both sides of the Atlantic.\(^5^3\)

So pervasive was this process of ideological diffusion that it swept over parties of the left as well the right. Even ostensibly left politicians like Tony Blair and Bill Clinton argued that “the old battles between state and market” had become outdated and that rather than being wary overlords of capitalism, as their social democratic predecessors had understood themselves to be, politicians were now essentially technocrats, managing a system that more or less worked well.\(^5^4\)
Reflecting this, by the end of twentieth century the Keynesian economists who dominated economic policymaking within most left parties during the postwar period had been replaced by “trans-national finance-oriented economists” and products of neoliberal think tanks who viewed themselves as interpreters of markets and saw their mission in technocratic, efficiency terms—urging the left to embrace globalization, deregulation, welfare-state retrenchment, and other reforms.55

The results of these shift were predictable. Western Europe's success after 1945 was predicated on the assertion that the democratic state could temper or even eliminate capitalism's dangerous consequences and promote both growth and equality. But by the end of the twentieth century capitalism was generating the opposite: slow growth and rising inequality.

The unraveling of the postwar social democratic order had negative political consequences as well. Citizens grew resentful of the political elites, parties, and institutions (including the European Union) viewed as responsible for growing economic problems. Hardest hit were social democratic and other center-left parties, because a defense of the social democratic view of the relationship between states, markets, and society in general and a defense of those most negatively impacted by capitalism in particular had been central to their traditional profiles and identities. The watering-down or abandonment of these profiles and identities during the late twentieth and early twenty-first centuries rendered these parties unable to take advantage of the resentment and anger that materialized as the negative economic consequences of neoliberalism became increasingly apparent. The 2008 financial crisis aggravated these trends, sharpening popular frustration with neoliberalism and the elites and parties that had embraced it.56

With the center-left no longer able to capture growing popular discontent, a golden opportunity arose for an enterprising political force. This force turned out to be populism. When right-wing populist parties began emerging in the 1980s and 1990s, they supported free markets and opposed high taxes and state intervention. But recognizing the space left open by the center-left’s abandonment of the social democratic view of capitalism, in the early 2000s right-wing populist parties shifted course, criticizing globalization and the loss of state sovereignty, and embracing what is sometimes called “welfare chauvinism” (the idea that the main question regarding the welfare state is less its size than who gets to enjoy its benefits: not immigrants and refugees but “native-born” citizens).

In addition to providing populists with an opportunity to exploit growing economic discontent, as center-left parties converged with their traditional
center-right counterparts on economic issues, social and cultural issues were pushed to the forefront of political competition.\textsuperscript{57} Many studies have noted that, over recent decades, economic issues have become less salient in almost all European countries.\textsuperscript{58} This benefited right-wing populists, who have consistently focused on social and cultural issues, particularly immigration and national identity. These issues tend, moreover, to divide center-left voters while uniting far-right voters. They also touch on questions of morality and identity and have a zero-sum nature, making them less amenable to the compromise and bargaining that lay at the heart of democracy.

Another consequence of the decline of the social democratic postwar order has been a return of the belief that democracy and capitalism are in tension if not inexorable conflict. On the left, academics have published articles and books with titles like “Is Capitalism Compatible with Democracy?”\textsuperscript{59} Wolfgang Streeck, for example, perhaps the most forceful of capitalism’s contemporary critics, has argued that “disequilibrium and instability” are the “rule rather than the exception” in capitalist societies. There is a “basic underlying tension” between capitalism and democracy; it is a “‘utopian’ fantasy to assume they can be reconciled.”\textsuperscript{60} Outside of the academy increasingly vociferous and mobilized far-left movements question the viability and desirability of capitalism as well.\textsuperscript{61}

In response to growing attacks on capitalism, few on the right have gone as far as their prewar predecessors in openly calling for an end to democracy, but some have made clear their skepticism of democracy and their sympathy for illiberal authoritarians like Viktor Orbán; others have simply thrown in their lot with populists like Trump.\textsuperscript{62} As the \textit{Financial Times}’s Ed Luce put it, some elites “see Trump as a shelter from the populist hurricanes battering at their estates.” (When asked how he could justify supporting a politician with clearly illiberal and anti-democratic tendencies, Lloyd Blankfein replied, “At least Trump has been good for the economy.”)\textsuperscript{63}

It was only during the postwar era that successful liberal democracy became the norm in western Europe. The success of liberal democracy was predicated on the rise of new international, regional, and domestic orders. This chapter has focused on the latter—the transformation of western European political economies along the lines advocated by late nineteenth- and early twentieth-century social democrats after 1945.

These social democratic political economies undergirded western Europe’s remarkable recovery from the war; economic growth exploded, inequality diminished, and social mobility increased. Economic progress helped spur a political turnaround. Beginning with the French revolution, innumerable democratic
transitions occurred in Europe, but it was only after 1945 that liberal democracy became the norm. By alleviating the socioeconomic conflict and zero-sum politics that fed the rise of extremism and undermined democracy during the pre–World War II period, social democratic political economies facilitated the consolidation of democracy in postwar western Europe.

Alongside recognizing this order’s critical economic and political consequences, it is important to remind ourselves of how optimistic, even idealistic, the beliefs underpinning this order were. In contrast to liberals, who believed that rule by the masses would lead to the end of private property, tyranny of the majority, and other horrors, and thus favored limiting the reach of democratic politics, and communists who argued that a better world could only emerge with the destruction of capitalism and bourgeois democracy, social democrats insisted on democracy’s immense transformative and progressive power. It could maximize capitalism’s upsides, minimize its downsides, and create more prosperous and just societies.

As discussed above, as the order based on these beliefs unraveled during the late twentieth and early twenty-first centuries, many of the problems characterizing European societies and polities during the pre–World War II period, including growing socioeconomic conflict and extremism, returned. Right-wing populism, perhaps the most obvious symptom of democracy’s current problems, is in many ways the polar opposite or evil twin of the social democratic consensus of the postwar decades. Right-wing populists peddle a politics of fear—of crime, terrorism, unemployment, economic decline, and the loss of national values and tradition—and assert that other parties are leading their countries to disaster. Populists and their voters are also extremely pessimistic; they believe the past was better than the present and are anxious about the future.64

It is important to remember that postwar order was explicitly designed to counteract the negative dynamics that had led to extremism and scuttled democracy in the past by providing the context within which democratic governments could respond to demands of their citizens. Although it is of course true that twenty-first-century Western societies, economies, and polities differ from their mid-twentieth-century counterparts, the social democratic postwar order’s basic insight—that without reconfiguring the relationship among states, markets, and society to ensure that citizens were protected from the negative effects of capitalism, political dissatisfaction and extremism would emerge—remains valid. This is not because the only problems European countries must solve are economic—although increasing growth, diminishing economic and geographic inequalities, and improving social mobility are crucial. It is also because economic problems create fertile ground for the exploitation of social and cultural grievance. It is much easier for extremists to whip up antiminority sentiment during times when
people fear for their and their children's economic future and worry about access to government and public resources.

In short, if democratic political actors cannot restore the postwar order or create a new one that will enable governments to come up with effective responses to contemporary challenges like economic inequality, slow growth, and disconcerting social and cultural change, extremism and democratic dissatisfaction will continue to rise—just as those who lived through the interwar years and helped reconstruct Europe after World War II would predict.