

LOOKING GLASS

by Glasshouse Forum

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NEW REPORTS ON THE RETURN OF THE AUTHORITARIAN CAPITALISM

CASE STUDY ON HOW TO DEAL WITH AUTHORITARIAN GREAT POWERS

THE SPECIAL RELATION BETWEEN RUSSIA AND GERMANY

BOOK REVIEWS

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INTRODUCING LOOKINGGLASS AND GLASSHOUSE FORUM

Starting with this issue, Glasshouse Forum has the pleasure of introducing *LookingGlass*, a newsletter written by Glasshouse Forum's secretariat and fellow researchers.

Its aim is to present and discuss topics taken up within the framework of Glasshouse Forum's work and to provide an arena for critical reflection on the merits and problems of capitalism.

Each issue will treat a limited topic – the present issue takes up the theme of authoritarian capitalism – and will contain a longer theme article, a book review section and presentations of recent Glasshouse Forum publications. The content will in a flexible way mirror those themes on which Glasshouse Forum is running projects, but also has the opportunity of being explorative on questions of capitalism.

Glasshouse Forum, founded in 2007, is a network of researchers and intellectuals – to date about 50 active contributors – from different disciplines,

mainly from Europe and the US, but also from Russia and China. The forum is politically independent and does not engage in lobbying activities, or make policy recommendations.

In 2008 the following projects have been running within Glasshouse Forum:

- The return of the capitalist-authoritarian great powers
- A consumed society?
- Short-termism in the long run
- Globalisation and the middle class in the West

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PLURALIST ECONOMY WITHOUT PLURALIST POLITICAL SYSTEM?

NEW GLASSHOUSE FORUM PUBLICATIONS ON AUTHORITARIAN CAPITALISM



An Edited Transcript of a Round-Table Conference on Authoritarian Capitalism.
Glasshouse Forum, 2008, 128 pp.

White Whale or Red Herring?
– *Assessing Sovereign Wealth Funds.*
By Daniel W. Drezner.
Glasshouse Forum, 2008, 24 pp.

The Limits of the China Model.
By Johan Lagerkvist.
Glasshouse Forum, 2008, 24 pp.

Tolerance and Democracy in Liberal and Authoritarian Market Economies.
By Sten Widmalm & Sven Oskarsson.
Glasshouse Forum, 2008, 40 pp.

What is the relationship between liberal democracy and capitalism? Experience of communism shows that democracy needs some sort of market economy as its basis. Does this also mean that capitalism needs liberal democracy? To study the relationship between capitalism and democracy in this context is completely in line with Glasshouse Forum’s ambition to subject capitalism and its political consequences to critical scrutiny. Linked to the question of whether capitalism is possible without democracy is the question of whether capitalism will give rise to antidemocratic currents in this century too.

In 2007 the Israeli Professor of National Security Azar Gat published a noteworthy essay in *Foreign Affairs* with the title “The Return of Authoritarian Great Powers”. Glasshouse Forum contacted Gat, who agreed to contribute to a project on this theme. Its inception during the first half of 2008 consisted of a round-table discussion at the

Maison Louis Carré outside Paris on 23-24 April 2008.

The basis of the dialogue was the hypothesis that authoritarian capitalist states may be economically successful and may appear to form alternatives to a liberal society. Historical experiences of the relation between capitalist economy and democracy were discussed; whether China represents a viable alternative capitalism, in its own eyes and those of others; what role Russia will play in its relation with the border states and for European developments; and what impact China’s rise will have on global power dynamics, and on the international institutions.

A transcript of this discussion is published in *An Edited Transcript of a Round-Table Conference on Authoritarian Capitalism*. The intention has been to bring clarity to these issues from different perspectives, and to gain some insight into the best way for Glasshouse Forum to take the analysis and the discussion further.

To complement Azar Gat’s essay and the round-table discussion, Glasshouse Forum commissioned three special studies:

In *White Whale or Red Herring? – Assessing Sovereign Wealth Funds*, Daniel W. Drezner establishes that the apprehensions about sovereign wealth funds have so far proved to be unfounded. As regards corporate governance and market uncertainty, it is difficult to prove significant negative effects from these funds. Drezner distinguishes the following possible risks from sovereign wealth funds in the future. They can amplify protectionist tendencies in the OECD countries. A general distrust of foreign investors is intens-

ified by the fact that here it is a question of foreign governments. And they can create problems either by failing disastrously or by being hugely successful. As counterparty surveillance of them is imperfect in authoritarian states, they can commit major errors as regards riskier investments. Successful sovereign wealth funds can on the other hand contribute to the stability and attraction of authoritarian regimes. They can act as buffers vis-à-vis the vicissitudes of the market economy, mitigate crises and challenge the view that the market is the best allocation of resources. In this way, they can strengthen the position of the authoritarian states as an alternative to the liberal capitalist model.

Azar Gat claims that China might be able to combine authoritarian rule and economic development, and that a model of this kind can exert a considerable power of attraction also outside China. In *The Limits of the China Model*, Johan Lagerkvist presents a contrasting picture. We will not see a new ideological Cold War between China and the West; nor will there be a return to the authoritarian capitalist great powers. Economic modernisation leads to pluralism and equal opportunities for more people and China will not prove to be an exception to do this. But the process is delayed for various reasons longer than that which seems desirable from the perspective of the West.

According to the established modernisation theory, economic growth leads in the long term to a liberal democratic system. This view presumably contributes to the belief in China's coming democratisation being so widespread. But if Azar Gat is correct in that it is possible to have economic development without liberal democracy,

then the modernisation theory needs to be modified so that it can explain why economic development in certain cases leads to democracy, but in other cases does not.

Tolerance and Democracy in Liberal and Authoritarian Market Economies, by Sten Widmalm and Sven Oskarsson, provides a complementary empirical elucidation of the question of the return of authoritarian capitalist states and a critical discussion of the modernisation theory from this perspective. What other factors apart from economic development are significant for the growth and maintenance of a democracy?

Their analysis of the position of tolerance in different societies gives rise to a reformulation of the modernisation theory. Tolerance does not necessarily follow from economic development, and for that reason nor does democracy follow from economic development. The prerequisite for tolerance and economic development to go hand-in-hand is that income differences are not too great. Russia and China are markedly unequal societies. This is how the modified modernisation theory runs: economic development favours tolerance which favours democracy presupposing that societies are relatively equal.

Read and download the reports on www.glasshouseforum.org

GLASSHOUSE FORUM'S PROJECTS AND PARTICIPANTS

Participants in **“The return of the capitalist-authoritarian great powers”** include among others:

Yevgenia Albats, University – The Higher School of Economics, Moscow, Russia, Daniel A. Bell and Zhiyuan Cui, Tsinghua University, Beijing, China, Daniel Drezner, Tufts University, USA, Timothy Garton Ash, Oxford University, UK, Azar Gat, Tel Aviv University, Israel, G. John Ikenberry, Princeton University, USA, Johan Lagerkvist, The Swedish Institute of International Affairs, Mark Leonard, European Council on Foreign Relations, UK, Edward Lucas, *The Economist*, UK, Gideon Rachman, *Financial Times*, UK, Susan Shirk, University of California, USA, Shaoguang Wang, Chinese University of Hong Kong, China, Sten Widmalm, Uppsala University, Sweden, Feng Zhang, Foreign Policy Centre, UK, Yongnian Zheng, National University of Singapore.

Other Glasshouse Forum projects and participants:

“A consumed society?” include among others:

Benjamin R. Barber, Demos, USA, Eric Clark, UK, Karin Ekström, Göteborg University, Sweden, Jukka Gronow, Uppsala University, Sweden, Neal Lawson, Compass, UK, Robert N. Mayer, University of Utah, USA, Michele Micheletti, Karlstad University, Sweden, Aseem Prakash, University of Washington-Seattle, USA, Lucia Reisch, Copenhagen Business

School, Denmark, Frank Trentmann, Birkbeck College, University of London, UK, and Richard Wilk, Indiana University, USA.

“Short-termism in the long run”

Maria Grafström, Cision, Sweden, Jaan Grünberg, Uppsala University, Sweden, Gregory Jackson, University of Bath, UK, Lars Magnusson, Uppsala University, Sweden, Geny Piotti, Max-Planck-Institut für Gesellschaftsforschung, Germany, Xavier Ragot, CNRS, France, Shiva Rajgopal, University of Washington-Seattle, USA, Lennart Schön, Lund University, Sweden, and Paul Windolf, University of Trier, Germany.

“Globalisation and the middle class in the West”

Gary Burtless, Brookings Institution, USA, Stefan Hradil, Johannes Gutenberg-Universität, Germany, Camille Landais, Paris School of Economics, France, Lars Magnusson, Uppsala University, Sweden, Eva Meyersson Milgrom, Stanford University, USA, and Daniel Waldenström, Research Institute of Industrial Economics, Stockholm, Sweden.

THE SPECIAL RELATION BETWEEN RUSSIA AND GERMANY

EACH OF THEM HAS WHAT THE OTHER NEEDS

There is quite a lot of talk – and some whispering – about a special relationship between Germany and Russia. Opinion surveys show that the Russian elite views Germany as a true friend and advocate in the West. Germany is Russia's principal trade partner. Moscow does not see Germany as a rival in the geopolitical arena that has arisen after the fall of the Soviet Union. Since succeeding Gerhard Schröder, the German Chancellor Angela Merkel of the Christian Democratic Union has given priority to relations to the West, but has hardened the tone towards Moscow, while the Social Democratic Foreign Minister Frank-Walter Steinmeier, also the SPD candidate for Chancellor in the elections later this year, continues to pursue Schröder's Russia-friendly policy. However, Merkel's room to manoeuvre in relation to Russia is limited.

“There is rivalry between Chancellor Merkel and Foreign Minister Steinmeier,” says Stefan Meister, expert on Russian affairs working at the German Council on Foreign Relations (Deutsche Gesellschaft für Auswärtige Politik) in Berlin, “above all over the approach to states like Russia and China. Steinmeier is influenced by Schröder and is deeply rooted in the Social Democratic tradition of Changing through Nearing (Wandeln durch Annäherung). The Christian Democrats on the other hand have always nurtured transatlantic ties, and even if this has been more difficult with Bush as president, they have made the effort. Nevertheless, German foreign policy has not basically changed. Merkel was not originally a supporter of the Baltic pipeline, although she has recently been to the Baltic States and Sweden in connection with it. In this, she has been forced to bow to the demands of German business and German economic interests.”

German business judges future prospects in Russia to be very good, and is not alone in this. Last year, the German magazine *Capital* asked 600 representatives for the political, business and administrative spheres how they viewed Russia (no. 25/2007). In general they were notably uninfluenced by the worsened political relations, according to many the worst since the end of the Cold War. Nine out of ten attribute Russia with enormous growth potential and consider that one must judge Russia with another yardstick than that used for Western nations – it takes time to build a democracy. No less than 99 per cent considered it important for the future that Germany and Russia should cooperate closely. German companies are naturally well aware of the constitutional shortcomings of Russia, but have far more faith in the possibility to reach special agreements with different decision-makers. Of course, it is uncertain how long they will apply. The agreements reached with Yeltsin, for example, were not valid after 2000, Stefan Meister points out.

“There is a strong business lobby pressing policy towards a Russia-friendly stance. It is just one of many influencing factors, but an important one,” says Stefan Meister. “The business sector has big investments in Russia and is dependent on Russian energy. To the German export economy, the EU Member States are still the most important partners, followed by the USA and then Russia. However, Russia does have enormous growth potential, while the USA and Europe do not. And Russia needs precisely what Germany can deliver.”

“So German business is lobbying strongly”, Meister goes on. “Gerhard Schröder has acted as

a business lobbyist and has said many ill-advised things about Russia. Even if Angela Merkel has tried to pursue a more objective policy, her actions show how difficult it is to take a hard line against Russia thanks to pressure from German business. In the close collaboration between business and politics is in fact one aspect of Rhineland capitalism. But naturally things are not so one-dimensional. Business is *one* important factor, but the debate is public, and the press and politicians have their own preferences. The business sector can send Merkel to drum up support for the Baltic pipeline, but it cannot prevent her at the same time from roundly condemning Russia for its actions in Georgia.”

Relations between Russia and Germany bring up the general issues connected with the return of authoritarian capitalistic states. Should they be met with confrontation and containment, or integration? Choosing the former, can one be sure that confrontation will not itself become a self-fulfilling prophecy? Choosing the latter, can one be sure of who is integrating whom? An authoritarian regime can just as well be stabilised by strong economic development. Can the West afford to say no to the economic gains which these relations lead to, in particular a Western world that finds itself in the worst financial crisis since the 1930s? In the case of Germany and Russia, relations have an enormous historic resonance. In 1941–1945, the two main peoples of Europe clashed in probably what was the most calamitous war in history, instilling fear in their neighbours (and in fact themselves to) which runs deep. Close relations between them generate mixed feelings in Poland and the Baltic States. The Polish Minister of Defence, Radek Sikorski, has for example characterised the Baltic gas pipeline from Russia

to Germany as an energy counterpart to the Molotov-Ribbentrop Pact. The fact that Germany has previously represented the most destructively dynamic variant of an authoritarian/totalitarian state on capitalistic foundations makes the relations even more charged and complex. Some fears today are probably more linked to fears that Germany will pursue a policy towards Russia based on economic interest and through a combination of energy dependence and growth opportunities in Russia, and will be amenable to Russian claims; that sufficiently problematic in itself, of course. But there is also a fear – to some certainly a hope – that they will both find a deeper common interest and together dictate terms to lesser peoples.

For a long time, Berlin was Russia's portal to the West.

In a historical perspective, there is the basis for such a special relationship, a feeling of kinship between Russia and Germany, which has been concealed by the Nazi racial war against the Russian population and the Cold War. German writers such as Karl Schlögel and Gerd Koenen have in recent years uncovered this historical layer. For a long time, Berlin was Russia's portal to the West. It was where Russians fled to after the Bolshevik coup and created a flourishing émigré culture, which Schlögel has depicted in several works, most recently *Das russische Berlin: Ostbahnhof Europas* (2007). Gerd Koenen showed in *Der Russland-Komplex: die Deutschen und der Osten 1900–1945* (2005) how important these positive relations have been also intellectually. Russia has always sought its identity in the demarcation

with the West, and such attempts have fallen on good ground in Germany, where the search for a demarcation with the West was also widespread, and strengthened after the end of the First World War. Russian culture had enormous impact in Germany both before and after the First World War. It is no coincidence that Arthur Moeller van den Bruck, the Conservative revolutionary who coined the term “Third Reich”, was also Dostoevsky's publisher and an influential interpreter of his work for the German readership.

Lenin for his part announced that the Bolsheviks' task was to learn from German state capitalism and with overwhelming force and consistency introduce it in the Soviet Union.

To many, the “primitive”, “childlike”, even barbaric Russia seemed an antidote to the urbanisation and industrialisation that had been sweeping over Germany with considerable force since the end of the 19th century. Negative and positive stereotypes were remarkably similar in the German debate; Russian “backwardness” could also be seen as “untaintedness”, the barbarism as a panacea for Western enfeeblement. With the help of the inscrutable Russia, it was hope that one could cure oneself of sterile Western faith in reason. Lenin for his part announced that the Bolsheviks' task was to learn from German state capitalism and with overwhelming force and consistency introduce it in the Soviet Union.

When discussing the influence between the Bolsheviks and the National Socialists, one must not forget that both were inspired by the German

wartime economy in the latter phase of the First World War, which had strong elements of a planned economy. That Prussian tradition, with its emphasis on subservience to the state could also form the basis of a sort of national socialism, and it was such syntheses that the Conservative revolutionaries strove for in order to overcome Western individualism and commercialism. To Oswald Spengler, author of *The Decline of the West* (*Der Untergang des Abendlandes*, 1918–1922), Germany was essentially antiliberal and antidemocratic. The working class was to unite with the best representatives of the traditional Prussian state idea and win out against French democracy and English liberalism, he argued in *Prussianism and Socialism* (*Preussentum und Sozialismus*, 1919). In the opinion of Arthur Moeller van den Bruck, the “young” peoples – above all Germans and Russians – should unite nation and socialism and form the vanguard for the struggle against the old bourgeois West. One might suspect that such conceptual figures are also lurking in today's discussions and at they can quickly surface because of underlying dissatisfaction with Anglo-Saxon capitalism.

“There is a mutual attraction between Germans and Russians. To the Germans, the Russians are what they themselves are not.”

“It is said that Germans and Russians have a special relationship, and there is some truth in it,” says Stefan Meister. “Russia's modernisation is influenced by Germans. Peter the Great had Germany as his model for Russian bureaucracy. It was constructed by Germans and strongly typi-

fied by Germans. There is German fascination with Russia. No other country has translated so much Russian literature. And the Russians in turn are fascinated by Germans, since they have what the Russians themselves do *not* have – pragmatism, decisiveness, exactness. There is a mutual attraction between Germans and Russians. To the Germans, the Russians are what they themselves are *not*.”

“German ties with the West are very stable, and German foreign policy in recent years has shown how highly it is prioritised.”

The notion of the Russian German complementarity, that the one has what the other lacks, is alive today too, however it is difficult to see a significant ideological superstructure in the form of a developed geopolitical vision as yet, it is more about profit and programmes. Nevertheless there is reason to wonder to what degree the German ties to the West are a result of the shockwaves following the Second World War, which like tectonic movements have forced together above all France and Germany. How much of the Franco-German alliance after the Second World War has been built on complementary needs? Germany has wanted to abandon its Great Power claims and France has wanted to keep them. When Germany was reunited it was feared that the German centre of gravity would move east and that the country would shed the ties which he had forged during the post-war years. In addition: was there not a pent-up need for German national self-affirmation that needed to be released? Well, all this has not turned out to be any more correct than the

Fukuyamaist predictions of the democratisation of dictatorships.

The conclusion drawn from German history is that it is better to try persuasion than violence, better to pursue integration than confrontation.

“Germany has changed a lot since 1945,” says Stefan Meister, “and allowed itself to be affiliated to the EU and NATO and has developed strong economic relations with the West. There was a debate in connection with the fall of the Soviet Union about whether Germany would become the new European Great Power, become a more independent player and pursue Realpolitik. Nothing came of that. The EU and multilateral relations have remained central to Germany, and this applies also to transatlantic ties. I see no tendency towards Germany distancing itself from this, although the energy agreement can be an exception. German ties with the West are very stable, and German foreign policy in recent years has shown how highly it is prioritised. With Western integration, the Economic Miracle and democratisation, there has arisen in Germany a broad middle class which has adopted all this as its own. The concern over closer ties between Germany and Russia expressed by Poland and the Baltic States is understandable but disproportionate. However, the German government has paid little attention to this and has not discussed sufficiently with Poland and the Baltic States. One advantage with the EU is that it is now mandatory to do so because these states can veto projects within the EU. Germany must learn to deal with small states.”

The fact that Germany signalled its independence in relations with the USA in connection with the Iraqi war should not be seen as a return to German *Alleingang*, but on the contrary as opposition to the American counterpart, go it alone. In a sense, it is right for Germany to act as an independent power defining its own interests, and show that it will not follow the USA as before. But there is little understanding in Germany for the French conception that American power calls for a counterweight. What happened in the run-up to the Iraq war was not a German self-aware Great Power re-entering the scene, but on the contrary the most significant manifestation to date that Germany had renounced such ambitions. The conclusion drawn from German history is that it is better to try persuasion than violence, better to pursue integration than confrontation. That which at first glance can seem an unholy alliance between two newly revived Great Powers is in fact a paradoxical cross between two opposed lines of development: newly-awakened Russian power politics and Germany’s distancing itself from its previous power politics. Berlin’s foreign policy today utilises independent analysis of the international situation, which in turn is based on lessons learned from the German tragedy.

“Ostpolitik in its new 21st century shape is all about Germany’s self-styled civilizing role in international politics”, says the American political scientist Regina Karp, expert on Germany. “There are strong preferences among German elites in all major parties to view foreign policy as a series of incentives to cooperate. Germany is committed to bring Russia into Europe. There is an across parties consensus that Russia’s future is in strong relations with the European Union. This position makes Germany weak in its relations

with Russia and open to pressures, especially in the energy field where dependence on Russia will increase significantly over the next two decades. What Germany (and others) consistently miss is that Russia wants to be a power in Europe but not a European power. Russia wants to play in the top league as a critical actor in world affairs, not be subsumed in relations with the EU. In short, Germany underestimates Russia’s rather old-fashioned nationalism and misses the point that international politics is also about clashes of interests that cannot be easily reconciled.”

“Ties to the West are fraying due to the weakness of the institutions that served Germany’s Westbindung in the past. The question is: Is there anywhere else to go for Germany? Probably not.”

“It is hard to imagine that German power would be acceptable to its neighbours without *Westbindung*. That said, ties to the West are fraying due to the weakness of the institutions that served Germany’s *Westbindung* in the past. The question is: Is there anywhere else to go for Germany? Probably not. Mitteleuropa in its historical dimension no longer exists, NATO enlargement put an end to it. Germany cannot move too closely to Russia, opening itself to pressures from Russia and engaging not in bridge-building, which is what Germany wants, but in the defamed *Schaukelpolitik*. German leaders must carefully navigate between dependence and entrapment. In short, there is significant danger with regard to Germany being pushed towards Russia due to weak institutions, i.e. EU and NATO, and its energy dependence. Given Russia’s current poli-

tics, Moscow will be tempted to exploit this, reverting to its own historical preferences of sowing division among its neighbours in the hope of enhancing its own power position.”

But just as the case with Fukuyamaism, it can be that there is simply a need for more time for the tendencies to become clear. It is difficult not to consider what can happen when extrapolating current tendencies, and to test different intellectual simulations. Suppose that the economic cooperation and interdependency between Russia and Germany is further developed; furthermore that the EU is weakened to the extent that Germany’s embedding becomes relatively ineffectual; that the prestige and attractiveness of the Anglo-Saxon model is reduced so much that a combination of strong states and market economy becomes the new predominant concept, and that Great Power politics return in a way evocative of the time before the First World War, as feared by Robert Kagan among others. That would mean a number of alliance options between different Great Powers, and a Superpower, the USA, weakened but militarily superior for the foreseeable future. One scenario is that Russia is drawn towards China in a geopolitically cohesive front against Western democracies. This is indeed one of the arguments for adopting a conciliatory attitude towards Russia, that one wants to avoid pushing the country in an easterly direction. There is however considerable distrust between China and Russia and the alternative is that Russia may be drawn closer to Europe. It is a basic tenet behind German foreign policy that Russia belongs to Europe. If the EU loses the initiative and transatlantic relations are weakened, it could bring about conditions for an alliance between Germany and Russia. So far there are no

substantial signs of such shifts in the German perspective, but if the perceptions of the growing significance of economic relations are proven true, it will certainly have political consequences.

These scenarios presuppose another two factors, both uncertain: 1) that Russia remains economically successful and 2) authoritarian. Dependence on the price of oil is enormous; the Russian economic upswing is closely linked to the price of oil, and more general industrial development is still in the future. But more is going on than is often understood in the West:

“The population has accepted that it does not decide over the leadership, and as long as it creates a certain prosperity it is also legitimate. But it is quite crucial that the authoritarian state must be able to run the public sector – education, medical care – efficiently.”

“For the first time, Russia has tried to use its natural resources to modernise,” says Stefan Meister. “It is ineffective, due to the political system and bureaucracy, but the price of energy is so high that in spite of dissipation, some success had been achieved. Putin invests in innovations, even though Russia produces only a miniscule proportion of the world’s technological development. Russia cannot compete through cheap labour. It is dependent on gas and oil prices, but it has also developed an enormous service market, which is the second pillar of Russian growth. From it, a middle layer is slowly emerging – a middle layer which has certain needs. The decline in welfare of the 1990s has now been recouped, and the stan-

dard of living has risen enormously for the majority. This can increase participation in politics. If one runs a small business and invests, one wants a functioning legal system.”

Stefan Meister continues:

“The population has accepted that it does not decide over the leadership, and as long as it creates a certain prosperity it is also legitimate. But it is quite crucial that the authoritarian state must be able to run the public sector – education, medical care – efficiently. I am sceptical as to that. There is no critical voice or opposition, and only competition and opposition can lead to an efficient public sector, which requires checks and balances. But whether this will lead to democracy, I do not know.”

THE RETURN OF GEOPOLITICS AND AUTHORITARIAN CAPITALISM

RECENT BOOKS ON CAPITALISM AND AUTHORITARIAN CAPITALISM

The Return of History and the End of Dreams. By Robert Kagan. Alfred A Knopf, 2008, 116 pp.

The China Fantasy – Why Capitalism Will Not Bring Democracy to China. By James Mann. Penguin, 2007, 141 pp.

Wages of Destruction – The Making and Breaking of the Nazi Economy. By Adam Tooze. Allen Lane, 2006, 800 pp.

China – Fragile Superpower. By Susan L Shirk. Oxford University Press, 2007, 320 pp.

China's New Confucianism. By Daniel A Bell. Princeton University Press, 2008, 240 pp.

Supercapitalism. The Transformation of Business, Democracy, and Everyday Life. By Robert B Reich. Knopf, 2007, 272 pp.

Superclass – The Global Power Elite and the World They are Making. By David Rothkopf. Farrar, Straus and Giroux, 2008, 376 pp.

Richistan – A Journey Through the American Wealth Boom and the Lives of the New Rich. By Robert Frank. Three Rivers Press, 2007, 277 pp.

Falling Behind – How Rising Inequality Harms the Middle Class. By Robert H Frank. University of California Press, 2007, 148 pp.

Most attempts to historically localise the present age have focused on something reaching its end, not on something new beginning. We have for example been post-modern for a number of decades. Another influential interpretation even states that history has come to an end. In his essay

from 1989 “The End of History?”, the American political scientist Francis Fukuyama argued that there were no longer any rivals to democratic capitalist society. The fall of communism had made it clear that those who did not choose the liberal capitalist road irrevocably fell behind in economic and technological development and therefore ultimately in military development also. The world was converging on a single political and economic system. This “Fukuyamaism”, as it has come to be called, has shaped the view towards Russia and China. In its blithest form it has aimed to persuade us that all we need to do is to integrate these nations in the global economy, and democratisation will automatically follow on. *Wandeln durch Handel* (change through trade), as the Germans may say – promoting democracy and promoting profit are said to be two sides of the same coin.

We have now heard this mantra being repeated for almost 20 years. In that time, Russia has become increasingly authoritarian and stronger and has turned to Great Power politics; the Chinese economy has become a global power factor at the same time as the Communist party has kept its grip on developments and strengthened its legitimacy in the eyes of the population. Either we have underestimated the time it takes to establish a robust democracy, or there is something basically wrong with the suppositions of Fukuyamaism about the relation between the economy and democracy. Several attempts are now being made to summarise and analyse these factors, so that we achieve better insight into the period in which we live and can formulate more relevant policies. The Israeli historian Azar Gat’s theories and the Glasshouse Forum project “The return of the capitalist-authoritarian great powers” consti-

tute one such attempt,¹ but there are other related initiatives and this is a sign that we may be approaching a new interpretive paradigm to replace Fukuyamaism. Such a paradigm shift will be of major importance to how we regard capitalism in general and its relation to democracy, and may therefore be part of a greater change in the political climate.

We certainly cannot see any global convergence towards a democratic capitalist system, asserts Kagan.

The American political commentator Robert Kagan achieved international renown a few years ago with his book *Of Paradise and Power: America and Europe in the New World Order*, which elegantly summed up central lines of thought in the American national security establishment as regards the difference between the USA and Europe. His new book, *The Return of History and the End of Dreams* (116 pp, Alfred A Knopf, 2008), is a single-minded face-off with Fukuyamaism, and one can again assume that Kagan's judgments are well-rooted in the national security elite, in particular among the Republicans. (Kagan is an adviser to the Republican presidential candidate John McCain.) We certainly cannot see any global convergence towards a democratic capitalist system, asserts Kagan. On the contrary, global rivalry has arisen between the Great Powers, and some of the Great Powers are authoritarian regimes and appear to be staying that way. They are in addition increasing their influence in the world, especially China, which has become a force to be reckoned with in Africa. Kagan does not see a repeat

of the Cold War; there is not the same ideological rivalry today, even though Russia and China are doing their best to create legitimacy for their actions, and must therefore create some kind of ideological superstructure. Kagan's book is focused on policies and makes no attempt at a more profound analysis of the Great Power rivalry – it is as it has been and will remain for the foreseeable future, and this must guide our policies. We can now state with certainty that trade does not necessarily make the world more peaceful and that nationalism is not a thing of the past in a globalised world.

It is true Kagan does not rule out a connection between economic growth and democracy, but any connection is weaker than we have thought and requires a longer period to be efficacious. He mentions what is said of Germany: it began its modernisation at the end of the 19th century and was a solid democracy 60 years later. Russia and China can also be solid democracies in half a century, but, one might object, in their case much can happen along the way. Kagan's suggestion is that the democratic states unite in a "League of Democracies" and join forces against the autocracies.² One big risk with such containment is that it will become a self-fulfilling prophecy, and will consolidate the authoritarian regimes. Kagan is not uncritical of the actions of the USA – his previous book *Dangerous Nation* (2006) was a significant attempt to rectify the American self-image as a basically introverted nation, forced into its position of power by the actions of the rest of the world. The American Great Power mentality is so self-evident that the Americans themselves are not even aware of it, and they are just as surprised every time the rest of the world reacts negatively or feels threatened

by this colossus. At certain points during the exposition, Kagan's brow is furrowed by a dark cloud of misgivings that the Americans' wont to confidently define their sphere of interest (practically the whole world) and often intervene with violence may have influenced Russia's ambition to establish a Russian sphere of interest.

The middle class may be big in absolute numbers, but it is a minority in China and fears being swamped by the enormous rural population in the event of democratisation.

A related confrontation with wishful thinking (and cynicism), but concentrating on US relations with China, can be found in *The China Fantasy – Why Capitalism Will Not Bring Democracy to China* (141 pp, Penguin, 2007), a vitriolic work by the well-known journalist and author James Mann. The American debate on China is dominated by two scenarios: the *Soothing Scenario* and the *Upheaval Scenario*. The first says that if we integrate China economically, then sooner or later it will become democratic. In this, great expectations are often entertained of the Chinese middle class and the democratising influence of the modern consumer culture. If you have a choice between different sorts of coffee at Starbucks then you are not satisfied with only one political party to vote for, as it has been put. The *Upheaval Scenario* presupposes that China will collapse in the not too distant future, and therefore will not be a long-term problem to the USA.

Far too seldom, Mann says, do we consider a *Third Scenario*: that China will be successful and

will remain authoritarian. Hopes that the Chinese middle class will lead the democratisation ignore the political conditions. The middle class may be big in absolute numbers, but it is a minority in China and fears being swamped by the enormous rural population in the event of democratisation. It is therefore more probable that it will adapt to the Communist regime.

Mann's book is a forceful showdown with unwillingness to actually perceive China's authoritarian regime and the consequences its success would have in world politics. It is not purely a question of naivety: there are also powerful interests that support the *Soothing Scenario*, particularly in business, which is a powerful lobbyist. However, it is time to seriously ask the question who, in fact, is integrating whom. Trade reinforces the position of the Communist regime, and it is forming the world order to its advantage. It is China that is integrating the USA, not vice versa.

The conviction that economic development sooner or later presupposes democracy and that democracy is a superior system is based on conclusions drawn from the course of the 20th century and the fate that befell those who challenged democracy. As Azar Gat points out in the Glasshouse Forum seminar *The return of the capitalist-authoritarian great powers*, the conclusions as regards Communism are convincing. It opted out of history by giving rise to systems that were

1) See *An Edited Transcript of a Round-Table Conference on Authoritarian Capitalism*, Glasshouse Forum, 2008.

2) See *An Edited Transcript of a Round-Table Conference on Authoritarian Capitalism*, Glasshouse Forum, 2008, for an appraisal of the prospects for such a project.

so ineffective that they simply did not survive. It is not at all possible for us to draw similarly firm conclusions about the then authoritarian regimes with a capitalist economy – Japan, Italy and Germany. They lost the Second World War because as countries they were too small to struggle for world domination, not because they were ineffective. There are vital tendencies in the historical account of the Third Reich which favour Gat's interpretation. The young British economic historian Adam Tooze in his groundbreaking study *Wages of Destruction – The Making and Breaking of the Nazi Economy* (800 pp, Allen Lane, 2006) questions perceptions of the economic ineffectiveness of the Third Reich.

Tooze's work, which has given a new dimension to discussions of the economy of the Third Reich, is part of a greater historiographical trend which focuses on national socialism as an alternative modernity, rather than an extremely reactionary movement.

Many of the perceptions stemmed from Albert Speer, minister of armaments from 1943, who wanted to present in a more favourable way his own part in the final phase of the war. Hitler was well aware of Germany's limitations and by conquering the Soviet Union wanted to lay the foundations for a modern economy which could compete with the American. What is often seen as an economically irrational rearmament process was rather determined by the fact that Germany was economically too small for its ambitions and therefore continually forced into one-sided priorities, which hit other areas of the war economy.

Neither was the Third Reich technologically inferior to its adversaries. There was no push to create the atom bomb because it was judged impossible to complete it before the end of the war, while the two other futuristic weapons of the war – the jet fighter and the missile – were developed by the German armaments industry. Tooze's work, which has given a new dimension to discussions of the economy of the Third Reich, is part of a greater historiographical trend which focuses on national socialism as an *alternative modernity*, rather than an extremely reactionary movement. It affirmed economic and technological development, but rejected liberal pluralism and individualism.

Despite many significant differences, something similar may be gradually happening in China – the creation of an alternative modernity, which combines economic and technological development with authoritarian political governance and an authoritarian political culture. In the long term it could mean much stronger ideological rivalry globally than Kagan's scenario indicates. It is here worth pointing out that there was also strong ideological rivalry between Great Britain and Germany around the time of the First World War, formulated for example in terms of the clash between culture (German and deep) and civilisation (English and superficial). China finds itself at the beginning of a transition from Communism and is still characterised by a tentative approach. There are no successful models to refer to and therefore it will take time before they dare propose a model with any self-confidence. Susan L Shirk's *China – Fragile Superpower* (320 pp, Oxford University Press, 2007) does not really fit in with Mann's *Upheaval Scenario*, but it makes clear the enormous complexity of Chinese

domestic politics, and shatters the image of the country as a monolith.

It is weakness that leads to the big risks and if the rest of the world, above all the USA, does not understand the fear among the Chinese leadership, it can easily provoke overreaction. The Chinese leadership is aware that it will be difficult to maintain the high rate of growth, but it is something that is required if China is to achieve stability and a position as a Great Power. They know too that they have limited time at their disposal due to demographic developments. China today has an enormous population of working age, 70 per cent, but this will change fairly soon and there is a risk that China will become old before it becomes rich. The leadership knows that the precondition for a successful climb is political stability, both domestic and international, but it does not have sovereign control over the political dynamics.

Shirk's ambition is to open the black box of Chinese domestic politics. By that she means above all to show what role consideration for public opinion means to the Communist party.

Shirk's ambition is to open the black box of Chinese domestic politics. By that she means above all to show what role consideration for public opinion means to the Communist party. Generally, even dictators have to show consideration to opinion and the Chinese leadership is well aware that historically there is one factor above all which has triggered revolts and revolutions – if the regime in power shows weakness towards

foreign powers. At present, the more public opinion has the floor, the stronger grows the position of the hawks. In an opinion survey carried out by Pew in 2006, 95 per cent of the Chinese respondents considered that the country's growing military strength was a good thing. Relations between China and Japan are particularly infected; both populations have an eminently negative view of one another.

The Communist party leadership has studied not only the fall of the Soviet Union, but also European history, to understand how a power in the ascent can avoid coming into conflict with the hegemony, and has developed a strategy to give the USA an interest in China's progress. But both public opinion and the military are sceptical to the USA and often wish to see a harder line. Paying regard to this can make the regime overreact in crisis situations and adopt a harder line, from which will then be difficult to retreat without loss of face on the home front. It is of course important to remember that the Communist regime in itself through its propaganda shares responsibility for these enemy images, since it has for its legitimacy often encouraged nationalism.

There is a need for something to replace communist ideology as a cohesive force. Nationalism is and will certainly continue to be significant and will perhaps seek support in Chinese tradition. The Canadian Daniel A Bell, professor of political philosophy at Tsinghua University in Beijing, considers that Confucian tradition may be given a central role. In his new book *China's New Confucianism* (240 pp, Princeton University Press, 2008) he states that China should not try to directly imitate western democracy, but instead must be enriched and limited by Confucian values.

It is possible to win legitimacy if those in power really constitute a meritocracy and comprise people who truly have the public good in mind. Bell also favours hierarchic rituals, since in his opinion this sort of interaction creates ties between different groups of society and promotes the assumption of responsibility by leadership circles. It can be easy to dismiss this as a patriarchal illusion, but it is at least worth considering that countries such as Japan, which has these hierarchic rituals, show smaller income gaps and less segregated living than countries that lack them – for example the Anglo-Saxon sphere. Even if the individual concepts in this Chinese discussion can be difficult for a westerner to grasp, the general political syntax is well known in European history.

China should not try to directly imitate western democracy, but instead must be enriched and limited by Confucian values.

Bell's book is an Asiatic variation on the classical European discussion of the relations between *Gemeinschaft* and *Gesellschaft* – the influential distinction by the classical German sociologist Ferdinand Tönnies. *Gemeinschaft* (community) refers to groups characterised by strong mutual ties which the individual strives to maintain. *Gesellschaft* (society) refers to the contexts and organisations that the individual uses in order to achieve individual goals. Family versus corporation, one might say. This polarity played an enormous role in the European debate and it is not difficult to see that Bell's stance in favour of Confucianism has great similarities with Euro-

pean conservatism, even though he is a leftist intellectual.

It is no secret that the Chinese have become more self-aware after the financial crises in the West.

Developments in Russia and China must be put in relation to what is happening in the West. We will be influenced by what is happening there, not merely with regard to national security reactions and the general consequences of the threat landscape to the political climate. The more problems in the West, the greater the authority of the Chinese model. It is no secret that the Chinese have become more self-aware after the financial crises in the West. The more difficulties capitalistic democracy grapples with, the greater the understanding for and inspiration of the Chinese model. But this does not mean attempts to copy, but rather a subtler influence with regard to how we see the relation between state, society and business, as well as the relation between the individual and the collective, between tradition and modernity.

Kagan says that we are back in pre-war times as regards global Great Power rivalry, but perhaps we have also been taken back in time with regard to the political and cultural climate. If, with the help of the classic sociologist Max Weber, we imagined ourselves 100 years back in time, we might be able to distinguish the following situation. Early bourgeois society could evoke traditional conceptions of the world when it came to creating cohesion and community. In late bourgeois society this has disappeared: the world has become “disenchanted”. On the one hand we

have successful science and technology, and on the other complete relativism in all issues of value. The totalitarian movements of the 20th century – communism, fascism and national socialism – were disastrous attempts to conquer this relativism and give back to society a common foundation and centre. Communism appealed to those who were disillusioned with capitalism, while fascism and national socialism attracted those who felt disillusioned with both capitalism and socialism and were trying to find a third way, national socialism.

The openly national socialisms can make a comeback as a reaction to globalisation and the growing gaps.

Much of this reasoning has been taboo during the post-war period, but it is not certain that it will remain so. It is not only history that has returned; it is also a case of the end of the post-war limitations of the political spectrum. It is now possible to reason about the cultural and political consequences of biological races.³ The Second World War is becoming the object of a freer and more frivolous treatment in fiction – Jonathan Littell's book *Les Bienveillantes* (The Kindly Ones) and Quentin Tarantino's new Second World War film *Inglorious Bastards* are examples. We cannot discount nationalism, nor socialism in the sense of a national distribution policy; the openly national socialisms can make a comeback as a reaction to globalisation and the growing gaps. National socialism need not be racist or ethno-centred, even though this cannot be discounted. It chooses the nation as the common vessel in which there is an attempt to create reasonably equal conditions, and it can have an embracing citizenship concept

which encompasses all those in the vessel regardless of origin.

However, national socialisms are certainly anti-capitalistic. In addition to actual problems, they gain nutrition in a conspiratorial view of capitalism as something by which we are undeservedly afflicted. It is more expedient to conjure up the image of shady actors (who indeed exist!) than to scrutinise one's own part in developments. In this respect, Robert B Reich's *Supercapitalism. The Transformation of Business, Democracy, and Everyday Life* (272 pp, Knopf, 2007) is a welcome contribution to the debate. Reich, a former Secretary of Labour under Clinton, reminds us that this supercapitalism aims to safeguard our interests as consumers and investors and we are more precisely putting ourselves under pressure. But the right hand does not want to know what the left hand is doing and both are pointing a finger at a third.

Supercapitalism is primarily defined in contrast to democratic capitalism between 1945 and 1975.

Supercapitalism is primarily defined in contrast to democratic capitalism between 1945 and 1975. Global competition was much weaker then, and large corporations that existed within the protection of national borders could afford to listen attentively to employees and the community in general. Prosperity was distributed fairly evenly, and careers proceeded in a relatively predictable

³ See Mark Pagel's article “The Kindness of Strangers” in the magazine *Prospect*, June 2008.

way for most people. It was not evil forces or politicians like Reagan and Thatcher who shattered this world, in Reich's opinion: the change began before them. It was in particular technological development that gave consumers and investors an aggregate power which they did not previously possess and it is this which has given rise to supercapitalism: consumers who want increasingly cheap goods and investors who want an increasingly better return.

In other words: most of us participate in this, at least in part. It happens when we are in a shop choosing the cheapest alternative without weighing in other factors, or when we are sitting with our bank manager, deciding to move our savings to achieve a better return. The other part of our personality may express dismay when companies cut costs in every conceivable way – but it is that which makes our cheap goods possible. We may take offence when a local managing director closes down a factory in a nearby community, but it was perhaps we who contributed to increasing the pressure on the managing director by moving our savings.

Common political goals are not so easily aggregated as consumer power and investments; the citizen inside us is constantly losing out to the consumer and investor inside us.

Developments have favoured us as consumers and investors, but weakened us as citizens, claims Reich. Common political goals are not so easily aggregated as consumer power and investments; the citizen inside us is constantly losing out to the

consumer and investor inside us. It is not until we realise this that we can ask the real question, says Reich. The cure is not corporate social responsibility, but a vitalisation of the civil political sphere. Whoever imagines that companies are mainly steered by anything other than chasing profits will be disappointed, and as consumers we are seldom prepared to pay for other considerations when they lead to higher prices. It is the role of politics to set the game rules.

One might think he is over-simplifying his reasoning and is not seriously asking the question whether there are alternative strategies for companies. To get us to realise that we are moral subjects in this process, Reich somewhat excessively amoralises the corporate sector. Nevertheless, his book is a welcome contribution to a non-conspiratorial analysis of power.

Historical experience shows that societies with large income differences are not politically stable.

The perception that we have been weakened as citizens, and the political paralysis which this creates, can without doubt contribute to the emergence of authoritarian political reactions. Increasing income gaps are another factor which can give rise to strong political reactions. This is the ongoing theme in David Rothkopf's *Superclass – The Global Power Elite and the World They are Making* (376 pp, Farrar, Straus and Giroux, 2008). Historical experience shows that societies with large income differences are not politically stable. We see such a society taking shape to varying degrees all over the world. The very highest

income group has taken wings, transcending the rest of the population and the national borders. A small upper stratum receives an increasing share of the economic cake, and a group of about 6,000 people, according to Rothkopf, form a global superclass with the power to form political and economic development. The book is a highly readable hybrid between fly-on-the-wall documentary and social analysis. It is suggestive, but at critical points is content to make suggestions, indications that are not developed into a clear theory.

This applies above all to Rothkopf's conception that this small group of 6,000 people has enormous influence on the forms which globalisation takes and how it is perceived by public opinion. Without doubt, power over the media is of great significance, but the fact that Washington Consensus has been the predominant concept for a generation or so has a much more complicated background than that an influential group has decided to pursue this line. The failure of communism in particular has been a contributory factor, but also that which Reich points out: as consumers and investors, we have all profited from developments.

In the USA, the networks are tight between the defence industry and the national political establishment, and people circulate fairly freely between the different camps.

However, there are undoubtedly occasions when collaboration within a small elite can be of crucial significance, even in democratic states. In the

USA, the networks are tight between the defence industry and the national political establishment, and people circulate fairly freely between the different camps. It is not hard to imagine that this has been of importance to the USA's reacting to the terrorism threat with a conventional war, which would appear counterproductive with respect to fighting terrorism, but much more profitable for the defence industry than combating through policing measures.

There is also reason to question whether this superclass wants to act as a uniform group, and whether it will be allowed to do so.

There is also reason to question whether this superclass wants to act as a uniform group, and whether it will be allowed to do so. In the event of an escalating Great Power conflict, there will inevitably be a requirement to declare one's national loyalty. There is also considerable political opinion in favour of limiting this superclass. Marx would probably question whether they had a common class interest.

That it really exists is however undeniable. Even though the tendency is most marked in the Anglo-Saxon countries, it can be detected in many parts of the world. A couple of years ago Ajay Kapur of the finance company Citigroup wrote a report in which he characterised the Anglo-Saxon countries as "plutonomies". In a plutonomy, income and consumption are essentially a matter for the uppermost percentage, while the rest are allocated a stunningly small proportion of the national cake.

Plutonomies are mainly found in the Anglo-Saxon sphere and have existed earlier in history, in the USA of the 1920s for example. They seem to be produced by a combination of politicians favouring capital, major technological revolutions and financial innovations. Such waves of prosperity lead to enormous complexities in the economy, which are best exploited by the rich. It is quite evident that the present plutocracy in the USA has been favoured by tax cuts since the 1980s, and by technological development, which seems to create a winner-takes-all market – small differences in skills or quality lead to enormous differences in financial rewards.

Richistan is very much a class society; the very richest pressure the others to keep up, and the inhabitants of Richistan are remarkably overdrawn.

The complexity of such a process includes the factor that it takes time to grasp what is happening. The USA is intensively involved in mapping out and understanding what a plutonomy is. Robert Frank, journalist with the *Wall Street Journal*, in *Richistan – A Journey Through the American Wealth Boom and the Lives of the New Rich* (277 p, Three Rivers Press, 2007) depicts the rich in America as a land apart, with roughly the same population as Sweden. Most have created their wealth themselves and they bring new behaviour patterns to Richistan. They spend a great deal on charity, but want to have control over what happens to the money. This is understandable in view of what has been revealed about the administrative costs of many aid organisations, but at the same time it enables problematic influence.

We know far too little about the rich, says Frank, and he certainly mitigates this shortcoming somewhat. Money is like truth drug, says one of the interviewees, it gets people to really show who they are. Nevertheless they are so evidently social beings, whose sense of worth and satisfaction is based on comparisons with those closest below and above themselves. Yes, it is apparently possible to feel poor even as a billionaire, if the neighbour is even richer. Richistan is very much a class society; the very richest pressure the others to keep up, and the inhabitants of Richistan are remarkably overdrawn. However striking it may seem, they put pressure on American society in general, and this is a significant reason why the Americans consume beyond their means.

Relative deprivation is a term which economists find a little hard to embrace, but it is central to understanding why people act and feel as they do.

Richistan sends a shock wave which reverberates through the whole of society, says Cornell economist Robert H Frank in *Falling Behind – How Rising Inequality Harms the Middle Class* (148 p, University of California Press, 2007). The group just below Richistan tries to keep up and thereby puts pressure on the next stratum. We may remember the definition of being rich by the satirist H L Mencken – earning \$100 more than your wife's brother-in-law. What we perceive as an acceptable standard is context-oriented and the Richistanis create a strong sense of relative deprivation among large groups. Relative deprivation is a term which economists find a little hard to embrace, but it is central to understanding

why people act and feel as they do. It may be, as Reich says, that we as consumers have all benefited in the most recent decades, but such more objective measures are not psychological reality. It is built on comparisons with how others live, and realisation is now growing that there is a small stratum that is exceedingly better off.

The stage seems to be set for a swing to the left, an attempt to bring the airborne elite down to earth and get them to share their prosperity.

Plutonomies are tolerated as long as the rest of the population feel that they themselves have the possibility to reach this stratum or to share a substantial part of its prosperity. It is probably just doubt about this that has become perceptible in recent years. According to an opinion survey carried out by the *Financial Times*/Harris last spring, public opinion in the USA, Europe and Asia is remarkably unanimous that the gap between rich and poor has become too great, and the superclass has become a burning political issue.⁴ The stage seems to be set for a swing to the left, an attempt to bring the airborne elite down to earth and get them to share their prosperity. So far, the left does not seem to have discovered this, or perhaps it does not know how to react.

There is a widespread perception of globalisation as an irreversible process, but history instead indicates a pulsation between expansion and contraction. As Jeffrey A Frieden shows in *Global Capitalism* (2006), the world was just as globalised before the First World War as it is today. Populations were directly affected by the vagaries

of the international economy, but governments did not show consideration to the broad masses. When the broad masses later acquired the means through democratisation, they put on the brakes. It can happen again, and the plutocracy's provocative prosperity will then certainly be an important reason.

We undoubtedly live in interesting times. The geopolitical and socio-economic structure is in motion. But this is also said to be an old Chinese curse: may you live in interesting times!

⁴ See *Financial Times* May 18, 2008