

THE FUTURE OF LIBERAL DEMOCRACY¹

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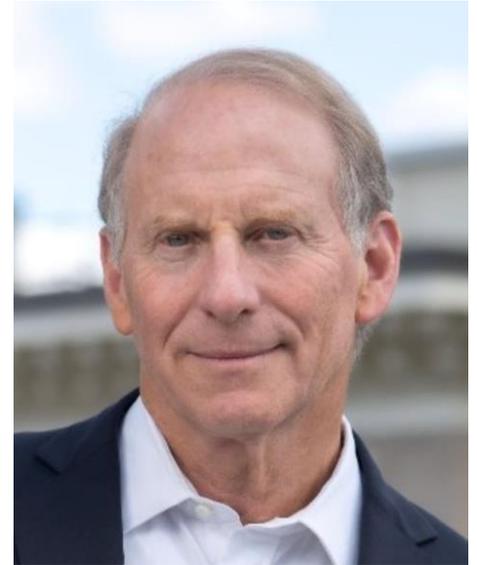
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Americans enjoy the economic prosperity and freedoms of its liberal democracy. But our elevated stature is threatened. As the U.S. recoils from the world, the era of U.S. dominance appears to be ending.

That is an essential takeaway from Richard Haass' modestly titled new book, *The World: A Brief Introduction*. If investors and their advisors, or ordinary citizens, want to understand the modern world, they should start in 1648. That's what Haass, a richly credentialed diplomat and foreign policy scholar, would have us do.²

Haass starts from the premise that most Americans, having received a pitifully inadequate education, don't know enough about the world to understand the debates and conflicts about international affairs that determine their fates. Having watched the random interviews where strangers are queried about the meaning of July 4 or the role of Abraham Lincoln in American history, he's right. Yet somehow a large fraction of these clueless citizens manage to make it to the voting booth.

Sophisticated readers may be disappointed in the elementary level of the first sections of the book on world history and geography. Those sections of *The World* are a recitation of facts — who, what, where, when — although they are elegantly written and the facts are embellished with a great deal of erudition and nuance, providing a glimpse (but not much more than a glimpse) of Haass's fertile mind. He could have well afforded to provide more analysis and critical thinking in these introductory chapters, but for those wanting a refresher in one of the most important topics imaginable, they are a valuable and accessible resource.



Richard N. Haass

[Source](#)

¹ If there were a Civil Service exam for the presidency, Haass (born 1951) would be in the Oval Office. He is president of the Council on Foreign Relations. During the George W. Bush administration, he was director of policy planning for the State Department and a close advisor to Secretary of State Colin Powell. He has been U.S. coordinator for the future of Afghanistan and U.S. special envoy for Northern Ireland. He is also a lecturer at Harvard University's Kennedy School of Government, a visiting professor at Hamilton (NY) College, vice president and director of foreign policy studies at the Brookings Institution, and a senior associate at the Carnegie Endowment for International Peace. In his spare time, he has written 14 books.

² I would have started earlier, in the Middle Ages when the fault lines that define modern life were first established, but there's only so much you can stuff into a 304-page book. By starting in medieval times, we can see that the fault lines between Western and Eastern Christianity, Protestants and Catholics, Christians and Muslims, Cavaliers and Roundheads, the Union and the Confederacy, and liberals and statisticians have much in common and are still at work in modern conflicts. And I haven't even mentioned the fault lines outside of greater Europe and the Americas. You cannot understand the present without understanding the past!

The later sections of the book, on globalization and the political system, are much better. Like most authors, Haass shines most when he is writing about his field of greatest expertise.

WHAT HAPPENED IN 1648?

In 1648, the architecture of the modern world of nation-states took shape in Europe. An agreement called the Peace of Westphalia ended the catastrophic Thirty Years' War, a religious and political conflict that cost Germany one-third of its population (possibly a record) and drew in much of the rest of the continent. About this war, the art historian and celebrated author Ernest Gombrich, in a 1936 book called *A Little History of the World* and directed at older children, wrote:

Whole villages were burned, towns plundered, women and children murdered, robbed and abducted... The soldiers seized the peasants' livestock and trampled their crops. Famine, disease and roaming packs of wolves made wastelands of great stretches of Germany. And after all these years of appalling suffering, the envoys of the various rulers finally met in 1648 and...agreed on a peace which left things more or less as they had been in the first place...What had been Protestant would remain Protestant. The lands the [Habsburg] emperor controlled — Austria, Hungary, and Bohemia — would remain Catholic.³

If this sounds a little like World War I, the war in Vietnam, or the never-ending Middle East conflict, it is. Human beings have made great progress in most areas since 1648, but we have not ended meaningless war.

The Peace of Westphalia established the most basic principle of international law, still in force today, although often violated. In Haass' words, it is that "sovereign countries [must] accept...one another's independence and respect...the boundaries separating them."



Peace of Westphalia or Peace of Exhaustion
Artist unknown; [Source](#)

This peace agreement has done more good than harm. Yet, in modern times, there are hundreds of millions of people living in what the investment manager and my frequent co-author Stephen Sexauer calls a "Peace of Westphalia prison." With Sexauer's input, I wrote in my book, *Fewer, Richer, Greener*.

³ Gombrich, Ernest H. 1936 (English translation, 2005). *A Little History of the World (Eine kurze Weltgeschichte für junge Leser)*, p. 195. New Haven: Yale University Press.

This precedent, which still holds and is the basis for much of international law, is the reason Venezuela is...ruled by a butcher who starves his people, while its neighbors, Colombia and Brazil, mostly prosper. Venezuela poses no military threat to any country, so no one can invade it and end the humanitarian catastrophe... The Rwandan genocide of 1994, not so much a civil war as a local hemoclysm, could have easily been stopped...but was not, because it was regarded as a domestic matter... The Chinese could end the misery of North Korea almost instantly.

This can be changed... International agreements [can be] modified to allow policing by organizations with earned legitimacy... No one should live in a Peace of Westphalia prison.

In the context of describing the world as it evolved after 1648 and as it exists today, Haass spends the next 300 pages explaining how this history, unknown to most people, still haunts us. One of Haass' themes is that little-remembered events of the distant past have left footprints all over our lives, this being but one example.

STRUCTURE OF THE BOOK

The World is organized into four parts: The essential history, regions of the world, the global era, and order and disorder. The essential history is brief indeed: everything that took place between 1648 and 2019, viewed mostly from a European perspective, is compressed into 58 pages. It is Eurocentric because, as Haass explains, "Europe was the part of the world where the most powerful and influential entities of this era were to be found. A great deal of the world — parts of the Middle East, South Asia, Africa, the Americas, and East Asia — was colonized, mostly by European countries." Fair enough.

Haass emphasizes that the period since 1989, which many people think of as current events, is *history*, as much so as any older span of time. It has been eventful, with the liberation of hundreds of millions, an attack on the United States, a series of small wars, unprecedented economic growth in the developing world, three market crashes, a pandemic, and a regression toward repressive ways of governing.

The enrichment of the world population is one of the most remarkable facts of this short historical period. Haass reminds us of the happy fact that the percentage of people in extreme poverty, currently 9% by the World Bank's standards, is the lowest that it has ever been. As recently as 1981, it was 44%.⁴ He also notes that the population explosion is now all but over, except in sub-Saharan Africa. He uses the United Nations Population Division's median estimate of almost four billion (!) people in that region, almost four times the current number, as a warning of what concerns we'll face in 2100. Many demographers think the number will be lower, three billion plus or minus, but that's still a lot of new people.⁵

⁴ Source: World Bank, at <https://www.worldbank.org/en/news/feature/2016/06/08/ending-extreme-poverty>

⁵ See the United Nations Population Division estimates at <https://population.un.org/wpp/>. Demographers persistently overestimated population growth (by underestimating the speed at which total fertility rates would fall) until about 2004, when their estimates began to creep upward.

THE GEOGRAPHY LESSON

Haass provides, in the second section, the geography lesson that all of us should have been offered in high school but, in many cases, were not. To someone well-schooled in geography, it will be shocking that some of Haass' material needs to be included in a book for adults, but he persuaded me that it does (see his Introduction).

Some investment professionals and clients are astonishingly worldly and can tell you the differences in food and architecture between Linz and Graz, have visited 15 cities in China, and can distinguish Göttingen, Gothenburg, and Groningen (and recommend the best pub in each). This section of Haass' book is for the rest of us. And some of it is too elementary. We really do know that "the Middle East has been, is, and quite likely will remain the most tumultuous of the world's regions."

Knowing the world is, of course, much more than knowing maps, historical events, and economic and population data. We also need to understand civilizations and cultures, businesses, art and science, wars, "the structures of everyday life" (the French historian Fernand Braudel's brilliant description of what he thought mattered), and power politics.

"THE GLOBAL ERA": UNDERSTANDING GLOBALIZATION

This is where the book gets good. While any knowledgeable author can write chapters much like Haass' introductory ones, only someone immersed daily in the world of international relations can produce sections like this and the next one.

The chapters in "The Global Era" cover most of the important issues of today except the COVID-19 pandemic, which started after the book was written. They are: globalization, terrorism and counterterrorism, nuclear proliferation, climate change, migration, the internet and cybersecurity, global health, trade and investment, currency and monetary policy, and development. This sounds less like a table of contents than the course requirements for a two-year master's program in public affairs, and is only one section of the book! *The World* is nothing if not an ambitious effort.

WHAT IS GLOBALIZATION?

Haass begins the section by noting that "globalization...is not — with few exceptions — a policy preference. [I]t is a reality." Hurrah. Unlike many commentators on globalization, Haass acknowledges the fundamental human desire to trade in order to better one's standard of living. Everyone wants to sell what he or she produces to the highest bidder, and wants to buy whatever they need from the lowest-cost seller. But until recently they didn't know that such sellers and buyers existed, or the cost of trading with them was greater than the benefit.

Localism, in other words, is the result of high (or infinite) transportation and communication costs. Globalism is the natural condition of mankind when those cost barriers are lowered by technology. Whether we like it or not, that is the world we live in. We had better take advantage of this profound change in our condition wisely. While globalization conveys tremendous benefits to the commonwealth, it does not benefit everyone equally and may hurt large numbers of individuals. Haass advises us that policies which address this concern will be successful; those that overlook it will

spur the kind of unpleasant pushback that we observe in many places, including the United States.

ECONOMIC CONSIDERATIONS

Investors and their advisors should be concerned with all of the issues discussed in this section: it makes no sense to try to decide how to allocate assets without understanding the global context in which companies and governments operate. But the last three chapters of the global era section will be of greatest interest to investors. Let's review Haass' coverage of monetary policy, a key issue in this age of central bank over-lordship.

Haass unenthusiastically acknowledges that the U.S. dollar is the world's reserve currency and medium of choice for transactions: "[I]n the land of the blind the one-eyed man is king, and for now the dollar is that proverbial one-eyed man." For now, China would like its currency to become the reserve currency, and the euro, "a new international currency," and cryptocurrencies are also contenders. With its massive debt, poor fiscal position (in this horrible year, the federal deficit is an unprecedented 17.9% of GDP),⁶ and low interest rates, the U.S. is not a promising candidate for extending the dominant position of its currency.

I'd note that low interest rates, which may appear beneficial, are actually a problem. With the U.S. government needing to pay a measly 0.6% per year for 10-year money, the temptation to borrow is irresistible. However, interest rates can go up. A \$30 trillion debt, refinanced at 5% (close to the historical average rate), would cost the U.S. Treasury \$1.5 trillion per year in interest alone. That is not sustainable if we are going to continue to provide government services and avoid punitively high taxes. And, to modify Herbert Stein's aphorism a little, that which is unsustainable will not be sustained.

Haass also comments on economic development in poorer countries, a central concern for investors in emerging markets. He is bullish on the developing countries, but cautions that foreign aid has mostly been unsuccessful and should be directed toward education and infrastructure, not the building of political alliances or the support of a welfare state. And he supports the conventional wisdom that the most important prerequisite of successful development is good government — a goal that can be maddeningly hard to attain.^{7,8}

⁶ <https://www.brookings.edu/policy2020/votervital/how-worried-should-you-be-about-the-federal-deficit-and-debt/>

⁷ See my article, "What is Good Government, and Why Is It So Rare and Precious?" *Advisor Perspectives* (January 20, 2020) <https://www.advisorperspectives.com/articles/2020/01/20/what-is-good-government-and-why-is-it-so-rare-and-precious>.

⁸ One annoying tendency of non-economists writing about economic issues is to confuse real (purchasing power parity, or PPP, adjusted) GDP with nominal GDP, whether aggregate or *per capita*. The low GDP per capita numbers cited in, say, Haass's section on East Asia are not reflective of the relatively high standard of living there because they are not PPP-adjusted. Real, or PPP-adjusted, GDP per capita numbers are cited for various countries on page 88 and in the graph on page 89, but a few pages earlier Haass cites nominal (lower) GDP numbers for China, without comment about how to interpret the two different measures. The author could have well afforded to make the use of this basic economic statistic clearer.

As noted above, there are many other themes in the global era section of the book. I can't summarize all of them in a book review, so I'll discuss one comment about the relationship between NATO and Russia that illuminates Haass' thinking.

Haass asks whether it was a good idea to expand NATO right up to the border of Russia. Most Americans would say, "Yes"; we need as many allies as we can get. But Haass, admitting that his is a minority view even among diplomats, argues that NATO expansion painted Russia into a corner, inducing Putin to pull back from the tendency toward American-style liberalism that had characterized Boris Yeltsin's hopeful interregnum. He writes,

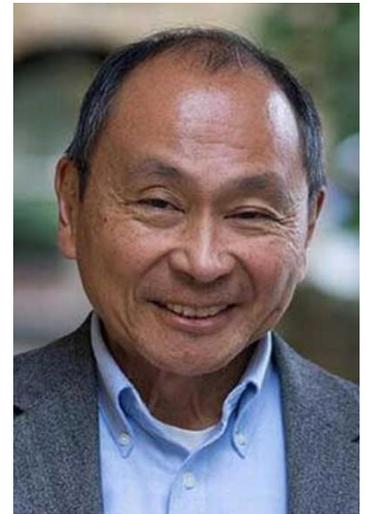
Russia under Putin gradually lost interest in joining the liberal world order that had been championed by the U.S. Instead, Putin's Russia increasingly sought to undermine it.

It is too late to do anything about it, but we can only wonder if a less aggressive policy toward Russia would have drawn Putin closer to the Western alliance, an outcome much more favorable than what occurred.

"ORDER AND DISORDER": OUR TROUBLED TIMES

The end of history was supposed to have occurred in 1989, as Francis Fukuyama famously argued. In Fukuyama's defense, he didn't claim that the whole world would embrace liberal democracy, and ended his original article title with a question mark: "The End of History?"⁹ Before him, the Peace of Westphalia (1648), the Congress of Vienna (1815), the philosophers G. W. F. Hegel and Karl Marx (in the 1800s), the economist A. A. Cournot (1861), and U.S. president Woodrow Wilson (1918) all proclaimed the end of history, as did the French revolutionaries, the Communists, and various other ideologues.¹⁰

Yet history marches on. History with a capital "H," the ongoing conflict among visions of an ideal society and the accompanying changes in power relations, is still very much with us. Haass writes:



Francis Fukuyama
[Source](#)

⁹ Fukuyama, Francis. 1989. "The End of History?" *The National Interest*, Summer 1989. The question mark came out in the title of his subsequent 1992 book, *The End of History and the Last Man* (New York: Free Press).

¹⁰ Fukuyama (1989) wrote that Hegel (b. 1770-d. 1831) "believed that history culminated in an absolute moment — a moment in which a final, rational form of society and state became victorious." Antoine Cournot, in 1861, was the first to use the term "end of history" to refer to "the end of the historical dynamic with the perfection of civil society," according to the modern British historian Mike Featherstone. (See the Wikipedia "End of History" entry, accessed July 25, 2020.) President Wilson, echoing H. G. Wells, referred to World War I as "the war to end war" (usually misquoted as "the war to end all wars").

Europe...has in a short span of time gone from being the most predictable and stable region — one where history seemed to have truly ended... — to something dramatically different. Democracy, prosperity, and peace seemed truly entrenched. Not anymore. Much of what had been widely assumed to be settled, is not.

This is a bit of an overstatement. Every European country, including economically distressed Greece, has a higher GDP per capita than it did in 1989. The continent is at peace except on the Russian-Ukrainian border; the Balkans, which suffered vicious wars in the 1990s, are peaceful.

But the European peace is an uneasy one, marked by the partial breakup of the European Union, successful right-wing movements in Eastern Europe and elsewhere, a continuing refugee crisis, and an ongoing and unexpected threat from Russia. A similar story can be told about East Asia, parts of Africa, and the always confounding Middle East. We are not a world at war, but there are more flash points than usual. Even the United States is in poor shape relative to its own history.

In an attempt to make sense of this situation, Haass includes chapters on sovereignty, self-determination, and balance of power; alliances and coalitions; international society; war between countries; internal instability and war within countries; and the liberal world order. This, too, sounds like a two-year master's program.

One theme illustrates Haass' approach. While liberal democracy is not the only conceivable way of organizing a successful economy (China is the exception that tests the rule), it is the best way to assure investors of the legal and institutional structure, transparency, and freedom of capital flows that make global investing work. It is also morally right.¹¹

What keeps Haass up at night is that the liberal democratic moment since 1945 is in danger despite a fairly consistent increase in the number of people living in freedom over that time. The reason is the weakness of the West, especially the United States:

Effective statecraft is conspicuously lacking. Institutions have failed to adapt. No one today would design a UN Security Council that looked like the current one, yet real reform is impossible, because those who would lose influence block any changes... Decisions by European governments or the EU have created a powerful backlash... The United States overreached in trying to remake Afghanistan [and] invading Iraq...[b]ut it has also taken a step back from maintaining global order, and in certain cases it has...done too little.

¹¹ This is a strong claim that needs strong support. A long and interesting discussion of this proposition is in Christiano, Tom. 2006. "Democracy," *Stanford Encyclopedia of Philosophy* (online), <https://plato.stanford.edu/entries/democracy/>. See also Acemoglu, Daron, and James A. Robinson, 2019, *The Narrow Corridor: States, Societies, and the Fate of Liberty*. New York: Penguin Press. Riker, William H., 1988, *Liberalism Against Populism: A Confrontation Between the Theory of Democracy and the Theory of Social Choice*, San Francisco: Waveland Press.

The rest of the liberal democratic world, he argues, doesn't have the cohesion or collective will to do the job. It is up to us:

The United States cannot be an example to others around the world...if it is divided at home...and lacking in resources. The good news for Americans is that their country has the means to do all this and still maintain an active or even leading role in the world...

All of this also requires that the United States get its own house in order — reducing government debt, rebuilding infrastructure, improving public education, investing more in basic research, adapting the social safety net, [and] adopting a smart immigration system that allows talented foreigners to come and stay...

In conclusion, Haass writes:

History...teaches us that [liberal, rules-based international] order is not the natural state of...affairs...; it requires commitment and concerted effort... The question is whether the governments and those who choose them in this era are prepared to make such a commitment. The answer to this question will tell us...whether the liberal world order and its many benefits will endure.

Sobering but helpful thoughts.

ADVICE FOR INVESTORS

Read this book! It does not contain any specific investment advice, but investors need to know the economic, social, political, and historical conditions in which they operate. You are not investing in pieces of paper called "stocks" and "bonds" — you are buying pieces of corporations and lending to governments. These are, of course, just aggregations of people, organized to accomplish some goal.

To succeed at investing, then, you need to know the human context, as shaped by the forces described and analyzed in Haass' *The World*.

CONCLUSION

As a writer, I've been primarily influenced by other writers whose aim is to make complicated things simple — thus, my admiration of Ernest Gombrich's *Little History "für junge Leser"* (for young readers), and my tendency to judge other popular historical works by that lofty standard. If children can be made to understand the subtleties of history, surely adults can too.

I compare *The World: A Brief Introduction* to Gombrich's elegant 1936 volume. Despite its Eurocentrism and insistent Christianity, which annoy some readers, Gombrich's *Little History* is a powerful personal statement. Everyone who reads it is affected by it.

Haass work has a little of this impact, but it is obvious from his talent that he could have done more to change the reader's world view in a profoundly memorable way. We

would all be better off if *The World* were a little less Encyclopedia Britannica and a little more Richard Haass. We know he has it in him. But it is still a very good read and a necessity in today's world.

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