Between a rock and a hard place:
Xenophobic populism, establishment neoliberalism and the decline of the middle class

‘Great then is the good fortune of a state in which the citizens have a moderate and sufficient property; for where some possess much, and the others nothing...a tyranny may grow out of either extreme.’ Aristotle, Politics, Book 4, Part XI, 1295b40.

Introduction

Democracy is an imperfect institution. That much has been admitted by even its most fervent defenders, from Winston Churchill and Thomas Jefferson to Mahatma Ghandi and Milton Friedman. It was Aristotle who first articulated that democracy is an imprecise system for peacefully adjudicating between the competing rights and interests that inevitably exist in a free society.1 Millennia before Marx, Aristotle recognised that society is always divided between the competing interests of the rich, the poor and those in the middle, and that any democracy is always at risk of being captured by one particular interest, and thereby rapidly descending into either tyranny or anarchy. Consequently, large sections of Aristotle’s Politics are devoted to identifying when a regime has been captured by the interests of one particular group, and the urgent action then required to avoid crossing the threshold from democracy into despotism.2

Examining political and economic relations across the contemporary Western world, it is hard not to conclude that we are nearing an Aristotelian inflection point. The accumulation of wealth and political power in the hands of a rich minority is driving voter alienation from mainstream electoral politics and the rise of political extremes not seen in the West since

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2 Ibid., 1307b26-1313a17.
World War II. The disillusion of electorates with the political establishment and rampant mistrust of the media – both well established by political scientists to be on the rise\(^3\) – has crystallised in 2016, a year of elections across major Western democracies.

The most radical expression of voter disenchantment with the status quo has been in the United States, where voters are deserting so-called ‘establishment’ politicians in favour of radically populist candidates promising to reject free trade deals and defend the declining middle class from lurking threats, be it the sinister forces of Wall Street, or the illegal immigrant ‘other’. Europe has also experienced an upsurge in isolationist and anti-globalisation sentiment, most notably in the United Kingdom’s decision to exit the European Union, with voters rejecting the warnings of political leaders, leading economists and international dignitaries in what has been largely interpreted as a vote of no confidence in the status quo.\(^4\)

In Australia, voter discontent has been manifested in the ‘revolving door’ of Prime Ministers, with each new leader briefly appealing to the public, before their popularity ratings nosedive, and they are replaced.\(^5\) The uninspiring zeitgeist of the 2016 Federal Election was most aptly captured by The Chaser, who described the election as ‘The Big Decision: Who will lead the

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nation for the next year-and-a-bit?” Further reflecting voter disenchantment with politics as usual, a record number of voters chose neither of the major parties, and most alarmingly Pauline Hansen’s One Nation party made a surprising comeback, winning four senate seats on an openly xenophobic policy platform.

My principal argument here is that what unites these radical expressions of voter alienation from existing political parties and liberal democratic values is the ongoing political and economic decline of the middle class catalysed by the neoliberal transformations of Western societies that began in the late 1970s and 1980s. Firstly, I will highlight the long-term consequences of the economic and political decline of the middle class by returning to Aristotle, and extrapolating on his major disagreements with his former teacher Plato. Secondly, I will trace the neoliberal transformations of capitalism, which find their genesis in the late 1970s, to demonstrate how the consensual post-war democratic order gave way to the extreme concentration of wealth and power in the hands of the few. Finally, having outlined how we have reached our current predicament, I will again draw on Aristotle to assess the possible futures, and tentatively suggest means to return to stable, consensual and egalitarian democracy.

1. Aristotle’s Politics

The development of Western political theory and liberal democratic principles have been heavily influenced by the competing schools of classical thought founded by Plato and

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Aristotle respectively.\textsuperscript{8} The fundamental principles of Plato’s political theory are developed in his most famous dialogue, \textit{The Republic}, which outlines Plato’s utopian vision of a strictly ordered society ruled by benevolent Philosopher Kings.\textsuperscript{9} Firmly grounding his political thought in his metaphysical belief in the existence of perfect ‘forms’, Plato’s \textit{Republic} is intended as an account of the best possible society, in which private property is outlawed, citizens are divided into three distinct classes, and, through practice and order, wise rulers teach their citizens to act virtuously.\textsuperscript{10}

In contrast to Plato’s utopian vision, Aristotle’s \textit{Politics} is staunchly realist, arguing that we should concentrate not on the highest possible form of society, derived deductively from pure reason, but rather that we should begin inductively, with society as it currently exists, and consequently derive strategies for ensuring stability and gradually improving social arrangements.\textsuperscript{11} Surveying existing ancient societies, Aristotle concluded that all societies were divided, but the most successful were those that incorporated the interests of all the major groupings in society, including the rich, the middle class and the poor.\textsuperscript{12} Hence, Aristotle’s ‘great principle’ of politics is that a society survives by ensuring that ‘none of the parts of the city generally would wish to have another regime.’\textsuperscript{13} Thus, sharing power around society, and allowing each group to rule and in turn be ruled, is the best means for creating a stable consensual order that advances the interests of all.

The second central principle of Aristotle’s \textit{Politics} is moderation. In \textit{Nicomachean Ethics}, Aristotle argues that \textit{Arete}, or human excellence, is best achieved by moderating between

\textsuperscript{10} Ibid., 118-136.
\textsuperscript{11} Herman, \textit{The Cave and the Light}, 45-48.
\textsuperscript{12} Aristotle, \textit{Politics}, 1292b23-1293b21.
\textsuperscript{13} Ibid., 1294b38.
extremes. For instance, the virtue of courage is found somewhere between rashness and cowardice. Aristotle argued that in a political community inevitably divided between the competing interests of the rich and poor, the principle of moderation is realised primarily through the middle class, which provides support for the existing political order, and prevents either the oligarchic rule of the rich or the anarchic rule of the mob. Thus securing a strong middle class, both economically and politically, is the key to achieving political stability, as ‘the middle class turns the scale, and prevents either of the extremes from being dominant.’

In this light, the prolonged period of stability and equitable growth following WWII can be viewed as an era of Aristotelian moderation. Under the so-called ‘Fordist’ system of managed capitalism, the growing middle class underpinned a stable political order, in which a well developed welfare state ensured the benefits of growth were shared throughout society.

However, the stable political order was interrupted in the late 1970s by a typically Platonic attempt to create a new utopia, which has slowly but surely undermined the stability and success of the post-war order.

2. The Neoliberal Utopia

The genesis of the neoliberal utopia is found in the writings of Friedrich Hayek and Milton Friedman, who outlined a vision of a society populated by rational individuals competing to maximise their personal utility in a free market, devoid of tyrannical government

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15 Fred Seddon, “A Problem at *Nichomachean Ethics* 1109a30-b13”, *Ancient Philosophy*, vol. 8, no. 1, 101-104.
17 Ibid., 1295b39.
18 Stewart Lansley, “‘Managed’ v ‘Market capitalism’: the record”, *Soundings*, no. 49, 144-157.
intervention. According to neoliberal theory, each individual knows their own needs and desires, and by interacting with others in the free market, creates an institution with near infinite knowledge, beyond the comprehension of the individual mind, which maximises and harmonises each individual’s utility. Hence, neoliberalism is not merely an economic doctrine, but rather attempts a wholesale transformation of human society, shifting authority away from the state, the traditional locus of governance, to the free market, a processes Michel Foucault theorised as the ‘veridiction of the market.’

Consequently, in a neoliberal society the free market rules as Philosopher King, functioning as the unquestionable source of all relevant knowledge and authority. Mirroring Plato’s utopian vision of society, neoliberal theorists argue that the free market harmoniously orders society to advance the greatest good for all, teaching citizens the virtue of competition, and dividing society into classes based on merit. The role of the government is also repurposed under neoliberalism, as instead of advancing the collective good or promoting equality, its new role is the removal of all impediments to the free market and capital growth. Thus, decades of neoliberal reform, including privatisations, marketisations and deregulation have all been premised on the pursuit of purer forms of the free market, in an attempt to bring society closer and close to the truest Platonic form of the ideal free market.

It does not take a genius of Aristotle’s magnitude to see that this utopian system was doomed to failure from the start. Whatever its theorists believed, in practice neoliberalism’s demand

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for the state to step aside to allow the free market to function created a system of oligarchic rule by the rich, unencumbered by the consensual demands of democratic politics. Neoliberalism as policy began with the shift from the Keynesian to the monetarist paradigm under Margaret Thatcher and Ronald Reagan, and their ultimately successful attempts to restrict the political power of the labour movement which, along with the middle class, had been a powerful counterbalance to the interests of the rich in the Fordist era.\textsuperscript{23} Both Thatcher and Reagan presided over aggressive monetarist regimes which increased interest rates to record highs, thereby reducing inflation but also increasing unemployment. Unemployment combined with unpopular industrial reform policies allowed Thatcher and Reagan to manufacture conflicts with organised labour, in which they used coercive state force to defeat and marginalise the representatives of the working class.\textsuperscript{24}

While the early reform was unpopular among the working class, neoliberal governments were initially able to retain the support of the middle class, who were largely unaffected by the first wave of neoliberal reforms. Those in the middle class, such as Thatcher’s so-called ‘middle England’, typically had moderate savings, and hence enjoyed the benefits of high interest rates and reduced inflation. However, breaking down the power of organised labour allowed neoliberal oriented governments to embark on more radical projects of marketisation and deregulation, increasing the power of market forces, particularly in the financial sector.\textsuperscript{25}

Financial deregulation affected fundamental qualitative transformations in Western economies, most notably by increasing the rate of return on capital at the expense of wage growth, thereby allowing those that controlled capital to capture the benefits of improvements

in productivity. Consequently, the historically strong correlation between middle class wages and economic growth broke down, with middle class wages stagnating while more and more income was concentrated in the hands of the wealthiest one percent. Inequality in the very top income brackets has risen even more dramatically in the neoliberal era, with the average wage of a CEO now 296 times that of an average worker, compared to 1970 when the average CEO earned only 20 times the wage of the average worker.

In addition to stagnating wages, the size of the Western middle class has also declined, with a small minority entering the highest income brackets, but the majority falling into lower income brackets. While the trend is most pronounced in America, where Pew Research has found that the middle class has declined from 60.8% of the population in 1970 to 49.9% in 2015, OECD data has highlighted a near uniform decline in the size of the middle class across Western democracies in the neoliberal era.

However, when the threatened middle class turned to politics in an attempt to meliorate their losses, they found the same processes of neoliberalism had also locked them out of the political system. Firstly, governments implementing neoliberal dogma significantly circumscribed the power of future elected governments, beginning with the creation of independent central banks responsive to market forces rather than voters, thereby ending

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democratic control over monetary policy.\textsuperscript{31} Further, in response to the increasing economic importance of international capital markets and credit rating agencies following financial deregulation, new trends have also limited fiscal autonomy, with strict ‘fiscal charters’ limiting the spending ability of future governments, particularly within the European Union.\textsuperscript{32} Thus, Alan Greenspan, former Chair of the US Federal Reserve, claimed in 2007 ‘we are fortunate that, thanks to globalization, policy decisions in the US have been largely replaced by global market forces.’\textsuperscript{33}

The second trend diminishing the political status of the middle class is the increasing influence of money in politics. With the expansion of neoliberal principles into politics, campaign finance has been increasingly deregulated across Western democracies, with \textit{Citizens United v FEC}\textsuperscript{34} – the US Supreme Court decision creating the legal fiction of corporate personhood to allow unlimited corporate donations – only the latest stage in the continuing economisation of politics.\textsuperscript{35} The inevitable effect of the influx of ‘dark money’ is that politicians are responsive to the interests of the rich and corporations, who fund their campaigns, over the concerns of the middle class.\textsuperscript{36} For those who doubt the effectiveness of big money in winning election campaigns in the neoliberal era, consider that since 1980 every US election has been won by the campaign that raised the most funds, compared to the

\begin{itemize}
\item \textsuperscript{31} Sheri Berman and Kathleen McNamara, “Bank on Democracy: Why Central Banks Need Public Oversight”, \textit{Foreign Affairs}, vol. 78, no. 2, 2-8.
\item \textsuperscript{32} Alexander Ruser, “By the Markets, of the Markets, for the Markets? Technocratic Decision Making and the Hollowing Out of Democracy”, \textit{Global Policy}, vol. 6, supplement 1, 83-92.
\item \textsuperscript{33} In a 2007 interview with Swiss Newspaper Tages-Anzeiger, Greenspan went on to suggest that ‘national security aside, it hardly makes any difference who will be the next president. The world is governed by market forces.’
\item \textsuperscript{34} \textit{Citizens United v. Federal Election Commission}, No. 08-205, 558 U.S. 310 (2010).
\item \textsuperscript{35} Heather Gerken, “The Real Problem with \textit{Citizens United}: Campaign Finance, Dark Money and Shadow Parties”, \textit{Marquette Law Journal}, vol. 97, no. 4, 903-924.
\item \textsuperscript{36} Ibid., 916-917.
\end{itemize}
previous twenty years in which three of the five victorious campaigns were outraised by their unsuccessful opponents.\textsuperscript{37}

Finally, partly as a consequence of the influence of money in politics, political parties have converged on neoliberal policy positions, leaving frustrated voters deprived of alternatives. Again, America and the UK were the initial sites of the political convergence on neoliberalism, with the main centre-left parties under Bill Clinton and Tony Blair respectively adopting neoliberal policies under the guise of the ‘third way.’\textsuperscript{38} Moreover, the amount of corporate funding funneled to pro-neoliberal parties means that political alternatives simply cannot afford to compete. Thus, precisely at the moment when neoliberal processes creating inequality and stagnating wages meant that the middle class needed political representation, the economisation of politics dramatically circumscribed democratic power, corporations were increasingly influential, and the political system offered no alternative to the status quo.

More recently, the aftermath of the Global Financial Crisis served as a huge point of crystallisation for the concerns of many in the middle class, laying bare the contradictions of neoliberalism. The deregulation of banks, enacted according to neoliberal dogma, brought about the collapse of the financial system, and the severest contraction in global economic output since the Great Depression.\textsuperscript{39} In response, governments bailed out and nationalised the failing banks using taxpayer funds, in an apparent rejection of neoliberal logic. However, barely a year on the banks had returned to record profits, and governments transitioned to

austerity measures, cutting social security and increasing regressive taxation, as the struggling middle class was forced to bear the cost of saving the banks from themselves.40

3. Re-founding the Demos?: Aristotle on the way forward

With the middle class shrinking even as their wages stagnate, and the political class unwilling or unable to address their concerns, it is hardly surprising that popular consent for centrist led liberal democracy is breaking down across the Western world. The legitimacy of neoliberal democracy is evaporating as middle class citizens are realising that the system no longer works for them, and are increasingly open to radical alternatives. Examining ancient societies where popular consent broke down and power was concentrated in the hands of the few, Aristotle observed three possible outcomes.

The first possible outcome is the continued but gradually more despotic rule of the rich, as oligarchs compete for control of society, and aggressively oppress dissent.41 Although this may appear extreme, in many ways the contemporary US election reflects Aristotle’s prediction of oligarchic competition for power, being fought between two figures of the New York establishment, one the millionaire wife of a former President funded by investment banks and the fossil fuel industry,42 and the other a reality TV star funded by his own billions.

The second possible outcome Aristotle identified is the rule of the mob, whereby the increasingly desperate and resentful poor, marginalised by oppressive rulers, seize power,

41 Aristotle, Politics, 1305a39-1305b3, 1305b24-1305b28.
and society descends into anarchy.\textsuperscript{43} Again, if this prediction seems extreme, consider Mark Blyth’s account of American society in light of the potential collapse of banks following the GFC:

‘seventy-two percent of the working population live paycheck to paycheck, have few if any savings...(and) there are, as far as we can tell, about 70 million handguns in the United States. So what would happen if there was no money in the ATMs and no paychecks were being paid out?’\textsuperscript{44}

The final possibility, towards which most of Aristotle’s advice is directed, is the return to consensual democratic politics.\textsuperscript{45} In our context, this means finding a way to strengthen the middle class, to protect the increasingly precarious underclass, and to redistribute the economic and political power, currently concentrated almost exclusively in the hands of the rich, more evenly throughout society. How, then, to ensure that we arrive at the third possible future, and avoid the unsavoury alternatives?

The first step is to raise awareness of the bankruptcy of the economic and political status quo. Neoliberalism is often presented as inevitable and unavoidable, whereby Thatcher’s claim that ‘there is no alternative’ presents neoliberal logic as conclusive common sense.\textsuperscript{46} Consequently, we must be deeply suspicious of the claim that we live in a ‘post-ideological’ era,\textsuperscript{47} which Žižek rightly dismisses as a ‘post-modernist trap’ which conceals the historical contingency of neoliberal policies.\textsuperscript{48} However, the current popular disenfranchisement with establishment politics suggests that awareness of the inherent contradictions generated by

\begin{itemize}
\item{} \textsuperscript{43} Aristotle, \textit{Politics}, 1304b20.
\item{} \textsuperscript{44} Blyth, \textit{Austerity}, 48.
\item{} \textsuperscript{45} Aristotle, \textit{Politics}, 1307b-1310b.
\item{} \textsuperscript{48} Slavoj Žižek, \textit{The Sublime Object of Ideology}, 2\textsuperscript{nd} ed., (London: Verso, 2008), xxxi.
\end{itemize}
neoliberal models of accumulation is rising. As the popular consent sustaining neoliberalism fractures, the greatest danger becomes demagogues who would blame all the inequities created by decades of neoliberalism on imagined enemies, most notably the immigrant other. Thus, the squeezed out middle class must choose between those offering comforting but divisive xenophobic populism, and recognising the hard reality that the decline in middle class income has nothing to do with levels of immigration, and everything to do with the richest one percent’s current monopoly on national income.

The second step is ending the economisation of the political system, by diminishing the influence of money in politics, thereby revitalising the political representation of the middle class and creating space for genuine alternatives to neoliberalism. While measures to introduce public financing of elections may initially appear unpopular, particularly among corporate donors and the politicians they fund, the success of both Bernie Sanders and Donald Trump in the 2016 US primaries suggest that voters are deeply suspicious of the influence of money in politics, and are open to ways to return more political power to the people. On its own, campaign finance reform may seem an inadequate solution to decades of political and economic inequality. But in founding a new post-neoliberal paradigm, we may benefit by looking back to how neoliberalism rose to ascendency in the first place; by transforming the political landscape to remove the avenues by which competing groups exercised political power.

The late Susan Strange, largely credited with founding the discipline of international political economy, proceeded from the assumption that ‘the commonsense of common people is a better guide to understanding than most of the academic theories being taught in

universities.’\textsuperscript{50} As the political classes flounder in a sea of voter discontent, we must hope that Strange was right, that voters have realised the prevailing economic and political system is morally bankrupt, and can chart a course between anarchic populism and elite-led racism to lead us back to stable democracy. Therefore, regardless of how disturbing the current excesses of populism may appear, we must resist the impulse to return to the technocratic neoliberal managerialism that is the source of our current ills, and instead build a future based on Aristotle’s ancient belief that open democracy, despite all its imperfections, is still the best way to balance competing interest, share benefits around society, and build a new consensual politics.

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Yes the crisis is economic: a declining middle class, wage stagnation, and increasing inequality. But it is also political: disconnected elites who seem more interested in protecting corporate interests than those of ordinary citizens. It is social: a pervasive sense of alienation, deepening social divisions, and a sense of fraying social fabric. Both locate solutions within a framework governed by the logic of the market. Middle-out economics (what might be regarded as a re-distributionist approach that seeks to correct the power imbalance between capital and labor while strengthening the social safety net) still views citizens primarily as consumers: the wrong frame in my mind.