Why is populism on the rise and what do populists want?

By Dean Baker
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In the United States, the pay of a typical worker has badly trailed productivity growth over the last four decades, allowing only marginal improvements in living standards over this period. At the same time, a small number of people have gotten incredibly rich in the finance and tech sectors and by being top executives in major U.S. corporations. There is a similar, if somewhat less stark, picture in most other wealthy countries.

The standard story for this rise in inequality is that this is just the inevitable course of globalization and technology. While many in the elite may feel bad for those left behind, and even propose policies to help them, the line is that the rise in inequality is something that happened, not the result of conscious policy.

That is a lie. And the persistence of this lie is one of the reasons that populist politics has so much resonance in Europe and the United States.

There was nothing inevitable about who would be winners from technology and globalization. Those who won have been successful because they wrote the rules and run the institutions. It is that simple.

Starting with technology, the fact that people like Bill Gates can get incredibly rich is not only due to the fact that they may be smart and hardworking. People like Bill Gates can get incredibly rich because we have patent and copyright laws that give them monopolies over items like Windows. Without these government-granted monopolies, there would be far less money in software, pharmaceuticals, medical equipment, and many other important sectors of the economy.

Patent and copyright monopolies are explicitly policy levers to provide incentives for innovation and creative work. We can make them shorter and weaker if we choose, as opposed to longer and stronger, which has been the pattern over the last four decades. Pretending that the money going to the winners from these monopolies is natural is an absurdity that deserves nothing but ridicule. Instead, this is the accepted wisdom in intellectual circles.

The comparable wisdom about globalization is that manufacturing workers in rich countries lose because hundreds of millions of people can do the same work in the developing world for a fraction of the pay.

This is true, but it is also true that there are tens of millions smart and hardworking people in the developing world who would be prepared to work as doctors, dentists, and in other highly paid professions in the rich countries at a fraction of the pay of the people now in those positions. We structured our trade policy so manufacturing workers have to compete with workers in the developing world and doctors and dentists mostly do not.

We have structured our financial system to allow a small number of people to get tremendously rich at the expense of the economy as a whole. This was demonstrated most clearly in the wake of the collapse of the housing bubble when political elites raced to save the big banks from the consequences of their own actions, but there are many ways in which the rules have been structured to support a bloated financial sector.

And we have had macroeconomic policy that has needlessly kept millions of people from having jobs. It has also reduced the bargaining power of tens of millions who do have jobs. It is not surprising that policies designed to redistribute income upward would lead to resentment, especially when our elites pretend they do not exist. Until these policies are acknowledged and changed, populist anger is not likely to go away.