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Populism

🕒 October 2, 2018

A good friend of mine, [Steve Pulec](#), asked me what were theories of why Populism is growing.

Have you seen any good macro theories for increase in populism? I was discussing with some friends and not getting anywhere. From one friend:

I don't know. Lots of people are throwing out ideas but none I see make sense. World economic inequality has been plummeting and populism has been spreading just as much in very equal countries as unequal ones. Globalization could be it a bit (especially anti-immigrant views) but that seems to be a little bit of a symptom more than a cause.

So.... Has the internet changed things? Has Russia actually been much more wildly successful at spreading populism than we had ever thought? Has the internationalization of news media done something to cause this? I don't have a good single theory, but there has to be something causing this.

In hopes of both spurring more conversation—and getting myself in habit of writing more online—sharing my answer here.

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Re-centralization of personal and financial capital as industrial revolution ends.

We have lived in the golden era provided by the industrial revolution in so many ways that we take for granted. One of them is that the industrial revolution was an innately distributed wave. It was a huge technological, productivity, and financial wave. But it required a large base of humans. This is because its returns to scale tilted towards many mid to large cities co-located with transportation and natural resource hubs. And labor was a major factor of production.

This was not the sole factor, but one of the major ones for why we see a middle class arise in the world. Before the industrial revolution we see far greater inequality, with elites capturing far more power and wealth. This makes sense, in fact very *few* industries or technologies lend themselves to distributed returns the way the industrial revolution did. For a modern example, one need only look at Hong Kong, which used to be a vibrant city with thriving middle class in the decades when it was huge industrial hub. But now that finance and real estate are its primary industries it's losing its middle class as the former is centralized and the latter is not only centralized but regressive too.

The question then, is whether we are living through the reversion to the mean. Was the industrial revolution the anomaly? If we look at our current technologies and industries it actually does feel like they are not particularly distributed in the requirements and value distribution. There are certainly exceptions to this (perhaps enabling companies like Stripe, GitHub, etc) but generally seems like tech trends towards centralization of value capture. Looking across other US industries we might say healthcare, fracking, and retail are among the more distributed currently).

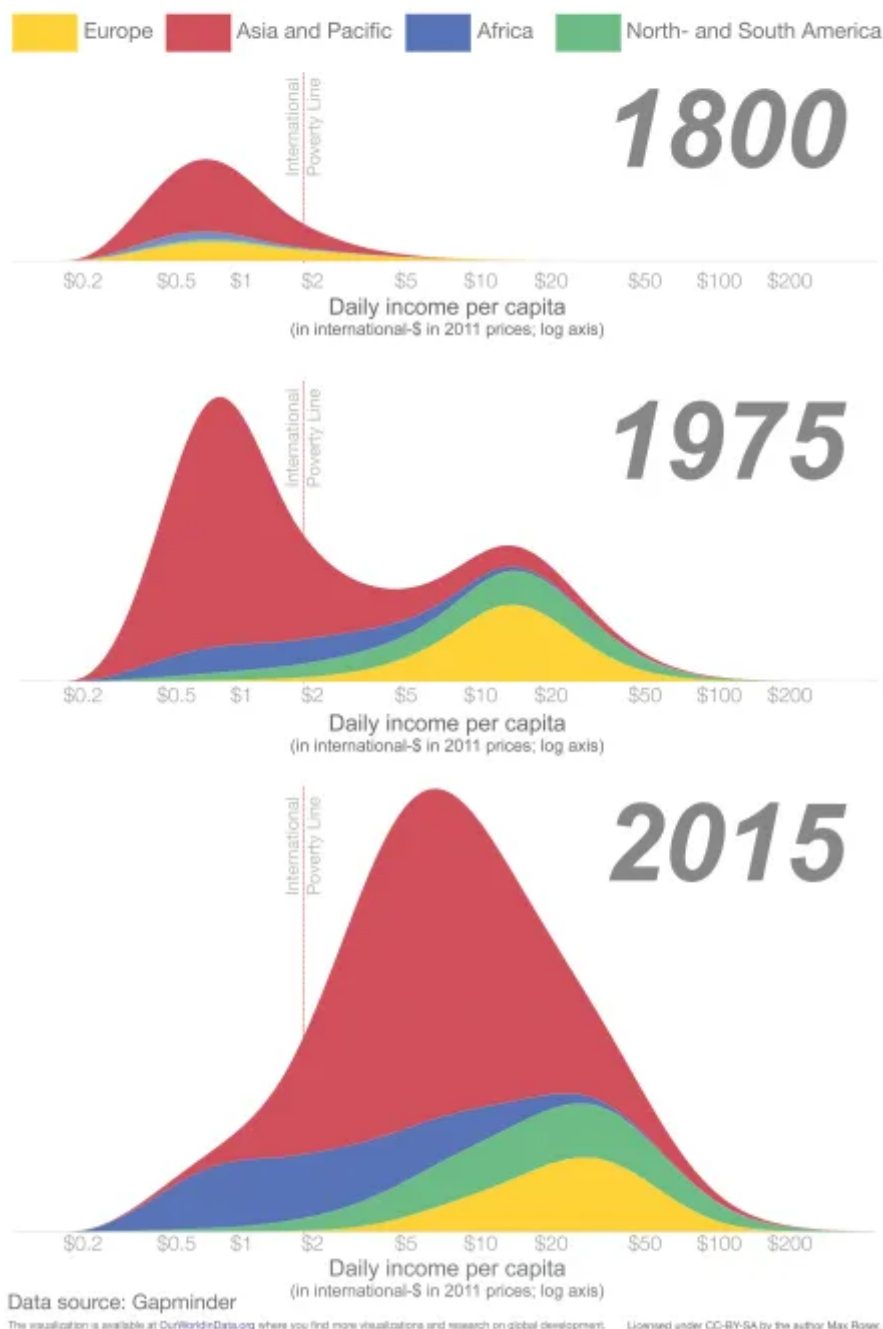
If you believe these trends, then we should all be worried about the macro trend towards inequality and centralized value capture and the political instability it could cause.

Reversion of the US vs world

However, as your friend pointed out, in the world overall we're seeing inequality *improve*, so what gives? I think that another macro trend is the cause of this and obscuring the other trends underneath. The macro trend playing out here is WWII. My belief is that for the last 75 years, the US has been an anomalous market by absorbing value from the rest of the world. Immediately after the war most of the world's developed countries lay in ruin. And the US basically became Platform Americana. By rejecting the full stack nature of the European Colonial Approach and instead becoming a platform—the US struck a bargain with the rest of the world. It would provide the production, consumption, guarantee of trade routes, security, and financing for the world. Our middle class is a function of the value that was supposed to be generated in the rest of the world that we captured as the platform for world.

Global income distribution in 1800, 1975, and 2015 Our World in Data

Income is measured by adjusting for price changes over time and for price differences between countries (purchasing power parity (PPP) adjustment). These estimates are based on reconstructed National Accounts and within-country inequality measures. Non-market income (e.g. through home production such as subsistence farming) is taken into account.



Source: [Our World in Data](https://ourworldindata.org)

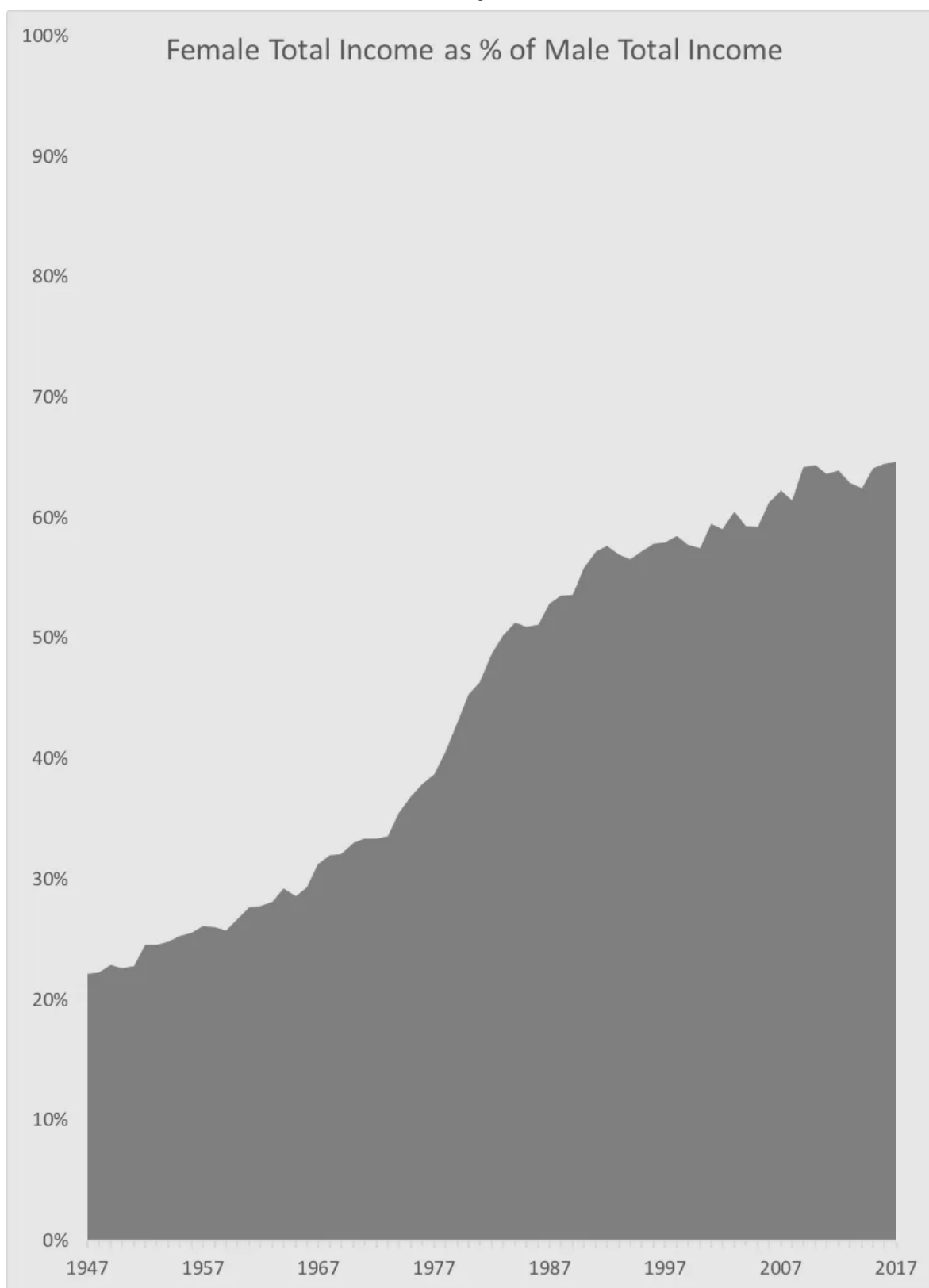
So as we see middle class in US shrinking, the middle class in other countries rises. To be in the US then, appears akin to sitting on a beach watching the waves flow back to the ocean. This net means we should not be surprised that US is becoming less equal. There is a structural gravity towards this direction we must fight against.

Less intuitively, it means it's hard to tell whether the dynamics of other countries are healthy or merely being hidden by the one time exogenous return of value the US had been capturing before.

Reversion of white males vs others + Macro trend of women entering workplace

Additionally, I think we're seeing a similar dynamic as the US vs world middle class playing out among different demographic groups. Similar to US middle class, I suspect that we're experiencing the same phenomenon with blue-collar white males. The market they competed in was artificially weaker for centuries because of legal, cultural, and fiat norms around women not being in workplace, minorities being disadvantaged, etc. As those demographics become equal parts of market, we're seeing corresponding flow of value out from white male demographics—or at very least increased competition. Given the generational time frames this has operated on, it would feel like a structural negative-growth trend to them. Which is what we're seeing many feel. This is tough because it is simultaneously true that they don't have any right to this excess relative value capture while *also* true that for many their lives are feel comparatively tougher. This combined with loss aversion and the growth thesis (see last point) will make for hard choices.

Something contributing to this is the macro trend of women entering the workplace. I personally think this is a far more important macro trend that warrants being its own topic. So won't say much more on that here—but will put in this chart which I think is one of the most important charts. Period.



The Internet and the Redistribution of Social Capital

Very poignantly for those of us who work in tech, I think we're seeing the mid-innings of the internet's impact as it starts to reshape our social capital/norms. The internet

will do to social capital what has happened to financial capital over the last centuries.

Financial capital has become way more distributed over the last few centuries. Industrialization was but one cause of this. But the impacts of it have been gigantic. So many things are downstream impacts of the redistribution of capital and resulting power that we saw over last centuries. For example the fall of monarchy and feudalism can in part be traced to the rise of the non-real estate sources of wealth which changed power dynamics and distribution of power significantly. And of course, our capital markets have shifted so dramatically over last hundreds of years. In many ways for the better—we've unlocked (and continue to unlock) more meritocratic and productive deployment of capital.

But it wasn't easy. These new distributions of capital caused massive disruptions and turmoil as people figured out the physics of the new worlds they created, how to understand them, and how to harness them.

We are seeing the same thing happen with social capital today due to the Internet. Where social capital used to be local in nature and mediated via highly centralized intermediaries. It is now becoming more global in nature and distributed. As an example, any thing can go viral and be distributed *and then* reacted to by millions of people within hours. Many are uncomfortable with this, but I suspect that their discomfort either comes from 1) us living during the transition period where we don't know how to predict or handle these things yet. or 2) people with financial/personal capital being uncomfortable they can now be regulated.

In regards to the latter: Financial, Personal, and Social capital are all regulators of each other. So what we are seeing is Social Capital get 1) more distributed and 2) stronger relative to Personal and Financial capital.

The former means that it is inherently more populist and we are living through the transition state. and the latter means that it's impact relative to the other types of systems will be more magnified.

Growth is the only escape from zero-sum games

Finally I think we don't talk about growth correctly. The adage "Growth solves all problems" is not just true of companies. It's true of countries too. With growth, people believe in cooperation. They find common ground in the pursuit of mutual success and growth. Without growth, people become zero sum. If you personally don't think you are growing you start trying to roll back the blockchain until you can get back to a place where you felt you were growing. The world looks way more zero sum and all divisions and cliques re-emerge—like long dormant scars re-opening.

I'm disappointed that this narrative isn't more understood. It is the glue that binds the goals social and fiscal progress together. And the structural force that underpins how far we've come, how easily we can fall, and how much more we can do—but only together.

Conclusion

So in combination we have 1) a re-centralization of financial capital and personal capital, 2) reasons to believe that even if economics were net doing well there are certain countries (US) and demographics (white male) we might suspect are doing relatively worse than they were historically, 3) social capital becoming stronger and more distributed, and 4) people no longer believing in their personal growth—which is the source of all alignment.

All of these would point to the rise in populism we see.

Appendix

Others' views on this and related topics (I will update this to include other readings—so let me know of any good ones)

- Naval Ravikant: [American Spring, American Fall](#)
- Peter Zeihan: [Accidental Superpower](#)
- Tyler Cowen: [What the hell is going on?](#)

[← The Future Is Forked](#)[Selection Bias in Poker →](#)

3 thoughts on “Populism”

**teamseo**

October 4, 2018 at 8:01 pm

o o Good point JD. In fact I raised a similar Question about the contradictions of Trumpism/right wing populism and the fact the US is viewed by others as a key player in globalisation(market globalism)? But the point about populism and populist politics is that the proponents appropriate ideas from other isms and platforms and make them their own quite successfully. In a context where traditional and radical left have lost ground on ground(not in theory),which matters for populism to emerge, right wing politicians and groups have successfully identified frustrations among the casualties of market globalisation, then catered to their sentiments through populism. It seems to me that Trumpism is against China for example merely because the US has lost its previous dominance in trade and economic relations in the face of growing Chinese market economic development under an authoritarian model. In effect Trump is addressing the concerns of the US workers who lost jobs due to industries moving to Asia and L America etc. for low wages,tax concessions etc. But the lesson here for all of us is that rather than using globalisation and market globalism as a mantra for development and alleviation of poverty, we need to identify groups who become casualties of the same process and address their concerns through ideology and policy. Otherwise, extreme forms of nationalism can emerge from politicians who want to hijack the interests of these casualties. vendor information pages

**Nick Pappageorge**

October 8, 2018 at 10:15 pm

Cool post. What I still dwell on is why this is a global phenomenon. Think Brexit, Salvini, Le Pen, Tsipras, Trump—it's all over. In my mind, a macro trend probably has a macro answer, and urbanization (what you call recentralization of capital) seems pretty compelling. Worth checking out Philip Auerswald's EconTalk episode, where he went through the numbers on urbanization. I attempted to condense the thoughts here:

<https://twitter.com/NpappaG/status/1020014034417004545>

**JM**

October 28, 2018 at 8:04 pm

Albert Wenger's book "World After Capital" has an interesting take on the rise of populism stemming from people's core identities being challenged and wanting a simple message that things will be ok and will go back to the way they used to be. Fits nicely with your first point:

<https://worldaftercapital.gitbooks.io/worldaftercapital/content/part-two/Attention.htmlf>

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