

THE POPULIST TEMPTATION

ECONOMIC GRIEVANCE
AND POLITICAL REACTION
IN THE MODERN ERA

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Trumped Up

america was thus ripe for a populist insurrection. Growth had slowed. Inequality had risen. Globalization and automation heightened insecurity for workers lacking vocational training, trade union funds, or an extensive insurance state on which to fall back. A financial crisis undermined faith in the competence and integrity of decision makers. These are the classic preconditions for a populist reaction. Or so 20/20 hindsight suggests.

The obvious objection to this readout of the 2016 election is that the results were driven by more than just economic insecurity. They reflected fears about national security, more specifically security from terrorism. They reflected insecurity around national identity, the feeling that the identity of the United States as a country of Judeo-Christian values, in which Anglo-Saxon males held the power, was under threat from ethnic and racial minorities, from women's rights advocates and LGBT activists, and from acceptance at the elite level of the very concept of diversity.

The best response to this objection, as in [Chapter 1](#), is that these national, social, and personal security concerns are most compelling against a backdrop of economic insecurity. In the United States, worries about national security fused with economic insecurity to feed opposition to immigration. Donald Trump's signature speech on immigration, in Phoenix, Arizona, in August 2016, referred to the concerns of "working people" that immigrants were negatively affecting "their jobs, wages, housing, schools, tax bills, and general living conditions," while also highlighting "the issue of security," asserting that "countless innocent

American lives have been stolen because our politicians have failed in their duty to secure our borders and enforce our laws.” The threat to economic security and threat to national security were thus ascribed to a common source, illegal immigration. If mass shootings in San Bernardino and Orlando were not the work of illegal immigrants, or if Mexican immigrants took jobs that natives were unwilling to accept, then these facts could be conveniently ignored. This immigrant-centered diagnosis of mutually reinforcing economic security and national security concerns was simply too compelling as a way of mobilizing “the [working] people” against the other. Moving on, Trump spoke to the identity concerns of the once-dominant white working class in passages warning that “not everyone who seeks to join our country will be able to successfully assimilate” and asserting the right of America as a sovereign nation “to choose immigrants that we think are the likeliest to thrive and flourish here.”¹

This narrative makes Trump’s electoral victory look preordained, which of course it wasn’t. The outcome might have been different without FBI director James Comey’s decision to discuss the issue of Hillary Clinton’s use of a private email server in a July 2016 press briefing and then his announcement, just eleven days before the election, that he might reopen the case. It might have been different in the absence of Vladimir Putin and Russian hacking into Democratic National Committee servers. It could have been different had the opposition fielded a candidate who spoke more effectively to working-class concerns and hadn’t given \$250,000 speeches to Goldman Sachs.

But if populism is a theory of society, a political style, and an economic approach that rejects convention and constraints, then Trump effectively embodied each of these populist traits. He embraced the theory that divides society into the virtuous people and the corrupt elite. His campaign was first and foremost anti-establishment. “The establishment,” he argued in a final television ad a few days before the election, “has trillions of dollars at stake. … For those who control the levers of power in Washington and for the global special

interests, they partner with these people that don't have your good in mind. ... The only people brave enough to vote out this corrupt establishment," he concluded, "is you, the American people."²

Reinforcing this message, Trump positioned himself as an enemy of Republican Party orthodoxy. He showed scant regard for the party's stands on social policy, foreign policy, and trade policy and even less for its other candidates. He refused to make common cause with his rivals for the nomination. He had little use for the Republican National Committee and shunned its operatives in the general election campaign.

Instead, Trump spoke directly to voters in rallies at which he flamboyantly arrived via personal jet, echoing William Jennings Bryan's dramatic arrival by railway. He appealed to the people and their common sense in classic populist fashion. As CNN wrote in its election postmortem, "Donald Trump and his political advisers decided early on that two words would drive the billionaire's campaign for president: Common sense."³ The people, Trump asserted, understood what ailed the country. If the problem was simple, say a decline in manufacturing jobs, then so was the solution: common sense suggested using threats and inducements to prevent companies from building factories abroad. If the problem was illegal immigration, which the people understood was occurring in larger numbers than the official statistics allowed, then common sense dictated building a wall. The wall became a symbol of U.S. national security and a commitment by the candidate to secure the nation's borders. Conceived in opposition to Hispanic immigration, it symbolized the Anglo-Saxon desire to regain control of the country's cultural boundaries. The wall also symbolized the divide between the people and the elites on which Trump sought to capitalize. So too did the idea of a 35 percent tariff on imports, which promised to do for trade what the wall would do for immigration and set Trump apart from expert opinion in his own party. And no sooner did Hillary Clinton denounce Trump's supporters as "deplorables" than they and the candidate embraced the label

precisely to distance themselves from the elite and so-called respectable opinion.

Trump's political style was fundamentally populist in its use of colorful and off-color language. It was populist in its disregard of political and personal niceties and its reliance on blunt talk to communicate strength of personality. It was populist in its undercurrent of violence against opponents. It was populist in its denigration of the establishment press and use of alternative media like Twitter to speak directly to the people.

Trump's campaign was also populist in its approach to economics, which emphasized growth and distribution while denying constraints. A Trump administration would double the rate of economic growth, the candidate asserted, without specifying how. Trump's emphasis on infrastructure spending echoed earlier populists who commissioned monumental projects in which the public could take pride and with which the leader would be forever identified, from Mussolini's Monumento Nazionale to Gamal Abdel Nasser's Aswan Dam. Here Trump's background as a builder stood him in good stead. The wall along the Mexican border was only the most symbol-laden such project.

Trump's resort to tariffs was another characteristic populist move. Populist leaders can deny the existence of constraints on their ability to cut taxes and raise growth, but it is beyond even their power to abolish the balance-of-payments constraint. The additional spending stimulated by their policies will include additional spending on imports, like it or not. Populist politicians generally don't like it and therefore impose trade restrictions to limit imports and protect industry from foreign competition. One thinks of the import-substitution policies of Latin American populists such as Juan Perón and Getúlio Vargas or, perhaps stretching the point, the even more draconian trade restrictions of Mussolini and Hitler.

Tariffs appeal to the populist temperament as an assertion of national autonomy. For Bismarck they were a way of uniting industry and agriculture against economic competition from abroad. For Joseph Chamberlain they were a

way of uniting the British Isles and White Dominions against foreign nationalities and races. Tariffs are especially appealing when they are used to protect industry, which is associated with economic self-sufficiency and military might. They protect the good manufacturing jobs promised by the leader. Whether these policies in fact create jobs and stimulate growth is another matter. But that other matter is beside the point for a charismatic leader for whom taxing foreign goods is a visible assertion of national authority.

For Trump, running as a Republican, tariffs were also a way of breaking with party establishment. The Republican Party had not always been the party of free trade, it is worth recalling. Nineteenth-century Republican presidents from Abraham Lincoln to William McKinley had supported tariffs to protect industry from foreign competition. The Fordney-McCumber Tariff was adopted in 1922 during the Republican presidency of Warren Harding, the Smoot-Hawley Tariff during the Republican administration of Herbert Hoover. Before World War II, tariffs were thus very much in the party mainstream. This changed with the Cold War, when congressional Republicans reluctantly embraced foreign trade and aid to support the Western alliance. Comforted by the unassailable position of American manufacturing, Republican members of Congress agreed to grant foreign producers unfettered access to U.S. markets while allowing Japan to pursue restrictive industrial policies and European countries to create a preferential trade area.⁴ Exposing a robust manufacturing sector to limp foreign competition was a small price to pay for cementing Western unity, getting the Allies back on their feet, and repelling the Soviet threat. There was still the possibility that the Republicans would revert to their traditional protectionist stance when they regained the White House in 1952. But Dwight D. Eisenhower, a general first and a student of economics second, was swayed by the geopolitical argument.

While this rationale for an open U.S. economy dissolved with the collapse of the Soviet Union, Republican support for free trade did not dissolve with it.

Opposition to protection became part and parcel of the post-Reagan Republican Party's ideological objection to government intervention in the economy. It was hard to argue for deregulation in other spheres but stricter regulation of trade. By the 1990s, in addition, a large number of Fortune 500 companies had factories overseas and sourced inputs abroad. In return for supporting other elements of the Republican agenda, they expected fidelity to free and open trade. Moreover, there was growing recognition by corporate strategists and politicians alike that America benefited from the existence of a rules-based multilateral trading system that obliged other countries to open their markets to U.S. exports.

None of these rationales was particularly compelling to Trump, an interventionist by temperament who was less beholden to free-market ideology than a run-of-the-mill Republican. Alliances with other countries were not his priority. Using commerce to cultivate harmonious security relations was not high on his list. Nor did Trump obviously appreciate the importance of multinational production and global supply chains for U.S. manufacturers. He was more inclined to deploy threats and sanctions in bilateral negotiations than to put his faith in international organizations. He regarded the reciprocity rules of the World Trade Organization (WTO) as undesirable restraints on unilateral decision-making and infringements on U.S. autonomy. If some of his more extreme proposals threatened to violate WTO rules, then this was a feature, not a bug. And if the party elite was antagonized by this stance, all the better, given the candidate's position as an outsider.

Trump's criticism of the Federal Reserve was also straight from the populist playbook. Inveighing against concentrated financial power had been a constant of American politics ever since Andrew Jackson went to war with the Bank of the United States and vetoed the congressional bill renewing its charter in 1832. Jackson's background was not unlike Trump's in that he had engaged in property speculation and suffered a series of financial setbacks, notably in the Panic of 1819. Where a less headstrong individual might have ascribed those

reversals to his own flawed judgment, Jackson blamed them on the Bank of the United States. The bank had manipulated monetary conditions, Jackson complained, inflating and then depressing land prices, and in so doing had bankrupted Jackson's counterparties in a series of land deals.⁵ For his part, Trump in his first week chose a portrait of Jackson to adorn the Oval Office.

Damage to the people from concentrated financial power is, of course, a constant of American history. It was a central complaint of the Farmers' Alliance and the People's Party in the final decades of the nineteenth century. Those complaints resulted in the creation of a peculiarly atomized central bank, structured to avoid the centralization of financial power. Similar objections cropped up whenever times were tough and politicians sought to appeal to working-class voters. Huey Long attacked financial interests when gathering himself to run for the presidency in 1934–1935, tarring both the Fed and banks controlled by the Morgans and Rockefellers. FDR, hardly a political outsider, sought to position himself as a critic of the banks when seeking reelection in 1936 in the face of a 17 percent unemployment rate.⁶

One suspects that Trump, like FDR before him, was mainly seeking to portray himself as a friend of the people rather than really preparing to break up the banks. In the run-up to the election, he took the position, unusual for a populist and a property developer both, of criticizing the Fed for keeping interest rates low. He argued that Fed policies were supporting a “very false economy,” artificially inflating asset prices and favoring his Democratic opponent. But on other occasions he described himself as a “low-interest-rate person.”⁷ Be that as it may, the Fed typified the kind of elite institution that always has and continues today to be a target of populist ire. Trump showed no compunction during the campaign about weighing in on Federal Reserve policy, something mainstream politicians including his opponent Hillary Clinton warned was irresponsible. Not that he was deterred. That final campaign ad where Trump inveighed against “those who control the levers of power” and “don’t have your good in mind” left

no doubt about whom he had in mind, overlaying the candidate's voice on an image of Fed chair Janet Yellen.⁸

Other elements of Trump's policy agenda are more difficult to cast in populist terms. Nineteenth-century American populists were uncompromising critics of monopoly power. Huey Long campaigned against Standard Oil, denounced FDR as too cozy with big business, and condemned the New Deal as regulated monopoly. This anti-big-business, anti-monopoly stance is also typical of Latin American populism: in the 1970s, in Salvador Allende's Chile, large domestic business firms with international ties were tarred as "the monopolies."⁹ Trump, with a background in business, appeared to want it both ways: to use business as a whipping boy when companies moved facilities abroad, but to enlist it in bringing manufacturing jobs back home. This personal background plausibly explains why Trump turned to businessmen such as Wilber Ross to fill cabinet posts and advisory positions. It explains why the anti-monopoly stance typical of populist movements did not feature prominently in his campaign, aside from some critical remarks about the pharmaceutical industry, and why Trump ceded the issue of market power to Elizabeth Warren, Bernie Sanders, and populists of the Left.

The same tension with standard populist positions also characterized Trump's fiscal plans. The more typical populist stance, typified by Long's "Share Our Wealth" campaign, is to raise taxes on the wealthy and large corporations to finance increases in social spending and guaranteed incomes. In 1934 Long would have assessed a graduated capital levy on all individuals with a net worth of more than \$1 million. He would have used taxation to cap annual incomes at \$1 million and inheritances at \$5.1 million. He would have used the revenues to finance a basic income of \$2,500 (roughly one-third of average annual family income), provide pensions for people over sixty years of age, extend universal health care to veterans, and guarantee free education and training to college and vocational-school students.

Trump's fiscal plans cut in the opposite direction. They envisaged lowering marginal tax rates for high earners and abolishing the inheritance tax. They proposed cutting corporate tax rates, where corporate profits that translate into dividends and capital gains accrue disproportionately to the wealthy. Trump proposed a 10 percent reduction in government spending while ramping up outlays on defense and security, thereby putting social programs squarely in the crosshairs. The new president's pledge to abolish the Affordable Care Act (Obamacare) with its subsidies for low-income households was a move away from universal social insurance. Applying the federal hiring freeze ordered in his first week in office to the Veterans Administration and its hospitals was the opposite of the posture adopted by Huey Long. Proposing to give the states fixed blocks of federal funds for Medicare, Medicaid, and food stamps, rather than increasing federal funding as use of these programs increased, similarly augured less, not more, support for low-income households.

This approach to fiscal issues may have reflected the fact that Trump was, in reality, more pro-business than pro-working people. It may have been an attempt to appeal to mainstream Republican skepticism about government intervention in the economy and to the party's opposition to legislatively mandated redistribution. If so, it indicated that Trump understood the need to broaden his appeal from disaffected voters to the Republican mainstream.

An alternative in a more traditional populist vein is that Trump was attempting to ground his opposition to social spending in identity politics. Welfare benefits, he explained to his supporters, were exploited by illegal immigrants and minorities. "The Center for Immigration Studies," he noted in his Phoenix immigration speech, "estimates that 62 percent of households headed by illegal immigrants used some form of cash or non-cash welfare programs, like food stamps or housing assistance. Tremendous costs, by the way, to our country. Tremendous costs."¹⁰ We saw above that the more heterogeneous a society and the greater the distance between social groups, the more reluctant are its

members to fund public programs that benefit not just themselves but also others. In advocating reductions in social spending, Trump was tapping into the belief of his white, working-class, small-town supporters that these programs were being exploited by racial minorities, immigrants, and aliens.

Other aspects of the Trump phenomenon fit the Populist mold more closely. There was an almost perfect inverse relationship between the size of a metropolitan area and voters' proximity to it, on one hand, and the share of the vote going to Trump, on the other.¹¹ Andrew Jackson's bank war, the Farmers' Alliance, and the People's Party were all rural revolts by individuals sensing that they were no longer in control of their economic destinies as a result of urbanization, commercialization, and other changes to the economy. The swing in the Republican share of the vote between 2012 and 2016, between Romney and Trump, was largest in small cities and towns, especially those geographically remote from major metropolitan centers. These smaller towns and rural areas were disproportionately white. Their residents were older and less mobile geographically and socioeconomically. While they were not disproportionately poor, they had a disproportionate fear of poverty, reflecting the lack of alternatives that comes with remoteness. They were less likely to have college degrees, where college education enhances mobility.¹² Their homes and families were physically removed from the global cities where new employment opportunities in high tech and finance were concentrated. They were therefore likely to regard elites in Washington, New York, and Silicon Valley as out of touch with their reality.¹³

Metropolitan areas predictably swung in the other direction. The election of 2016 was the first time Orange County, California, went for a Democratic presidential candidate since FDR in 1936. Among metropolitan districts and counties, those with the largest increase in import competition from China in the decade prior to the election had the greatest likelihood of opting for Trump. More generally, such districts had a greater tendency to vote for candidates at

one or the other end of the political spectrum.¹⁴

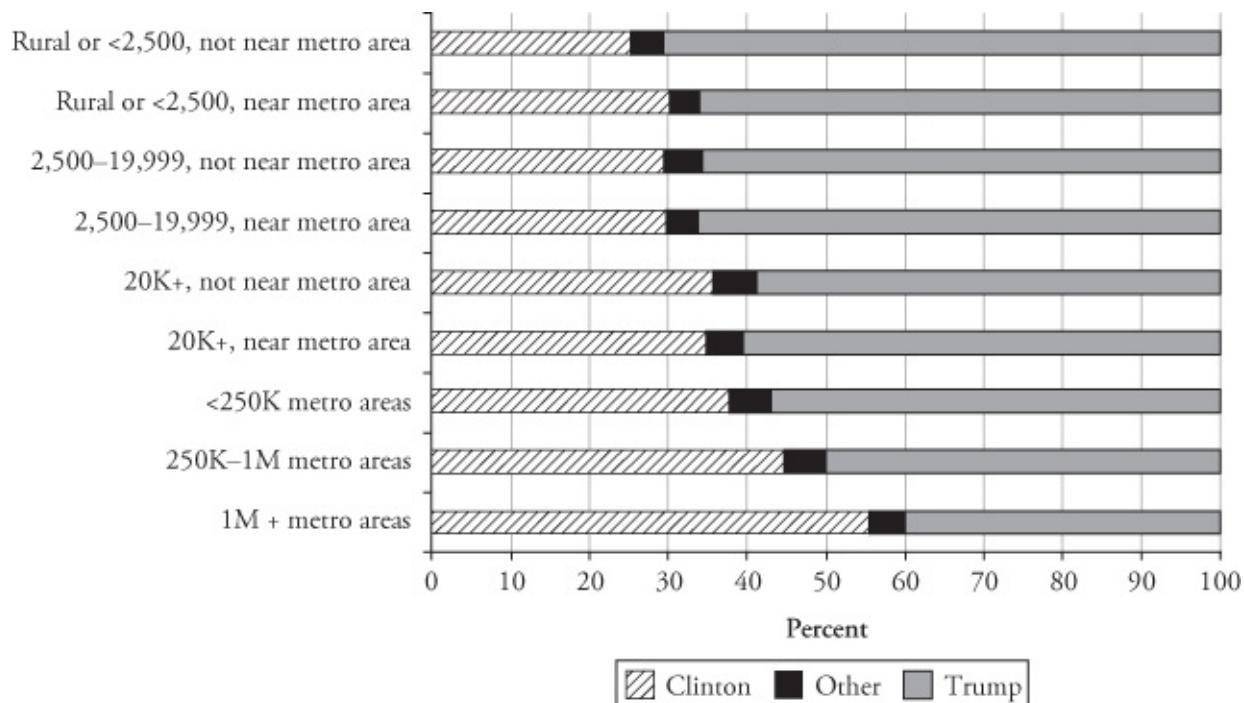


Figure 9.1 U.S. Presidential Votes, Urban Versus Rural Areas, 2016

Source: Danielle Kurzleben, “Rural Voters Played a Big Part in Helping Trump Defeat Clinton,” *NPR* (14 November 2016), <http://www.npr.org/2016/11/14/501737150/rural-voters-played-a-big-part-in-helping-trump-defeat-clinton>.

Moreover, counties where the swing from Romney to Trump was 15 percentage points or more were virtually all in the Midwest. The Midwest is a diverse and complicated place, but scholars of the region generally characterize it as more traditional than the country as a whole when it comes to issues such as women’s and LGBT rights.¹⁵ Midwesterners were less likely to feel that they were benefiting from economic growth. The region had a lower concentration of immigrants and therefore a greater fear of the unknown than the West Coast, the Southwest, the Northeast, and Florida. It may be coincidental that the People’s Party held its 1892 convention in Omaha and that its 1892 presidential candidate, James Weaver, was from Iowa. It may be coincidental that William

Jennings Bryan was from Nebraska. Or it may be that midwesterners are, subconsciously at least, aware of their populist tradition.

Finally, Trump did especially well in states that enjoyed a temporary fracking boom but suffered subsequently from depressed energy prices. There is an obvious analogy with crop prices in the 1870s and 1920s: a temporary boom that created expectations of good times, followed by a slump.

What, in terms of economic policy, could mainstream politicians have done to head off this populist reaction? Answering this question requires one to take a stance on whether the decline in manufacturing employment in the United States was due mainly to trade or to technology. The argument that it was due mainly to automation and the declining labor intensity of industrial production starts with the observation that the fall in the manufacturing employment share predates the rise of competition from low-wage countries, and from China specifically. It goes back half a century, to when manufacturing firms learned to do more with less and employment shifted toward the service sector. Consider the coal industry, which, though the subject of much impassioned rhetoric in the 2016 campaign, was not directly exposed to Chinese competition. The amount of coal mined in the United States rose by more than 150 percent in the half century ending in 2011, but employee hours fell by more than 20 percent as the industry adopted open-pit mining, self-advancing longwall mining machines, and other mechanized processes.¹⁶

This diagnosis suggests that a more restrictive trade regime won't be good for American workers. It will be good mainly for American robots insofar as it shifts spending back toward the products of domestic manufacturing firms. Eliminating regulatory restrictions on coal will benefit mainly the skilled-labor-and capital-using producers of longwall mining machines, not the long-suffering residents of Appalachia. Similarly, this diagnosis suggests that had Presidents Bill Clinton and George W. Bush been slower to embrace NAFTA or to agree to Chinese membership in the WTO, this would have done little to arrest the

decline in manufacturing employment.

To be sure, import competition negatively affected specific local markets that were home to labor-intensive industries facing Chinese competition. If you had the bad luck to live in a county that was home to firms producing luggage, furniture, textiles, apparel, or electrical appliances, the impact could be devastating, just as in the English Midlands towns producing boots, shoes, gloves, and silks and facing foreign competition in the 1870s.¹⁷

Because displaced workers lack the resources to move, there is an argument for attempting to bring jobs to them. The Tennessee Valley Authority, begun in 1933 in an effort to bring manufacturing to the region by investing in hydroelectric power, is a case in point. But evidence on the effectiveness of the TVA and its modern equivalent, Empowerment Zones that subsidize the provision of infrastructure, training, and other forms of business assistance in depressed regions, is mixed at best. Moreover, studies suggest that to the extent that the TVA succeeded in attracting new industries, it did so mainly at the expense of other regions.¹⁸

This is not an argument against trying if the goal is to aid regions and workers displaced by imports. Moreover, the experience of countries like Germany, where manufacturing employment remains more important than in the United States, points to still other measures politicians might try: investing in apprenticeship and vocational training and keeping the national currency at competitive levels, for example. These are not new observations. President Obama proposed a \$2 billion apprenticeship training fund in his fiscal year 2016 budget, and economists who believe that manufacturing matters have long criticized the country's strong dollar policy.¹⁹

These changes are more easily imagined than implemented, however. Germany's apprenticeship system is historically rooted. It is the product of a culture that values what Germans proudly call "blue-collar work." It requires patient employers prepared to invest in their workers, and strong trade unions to

help coordinate the operation of the system.²⁰ Most un-American of all, it requires government, working with employers and unions, to establish standardized occupational profiles, define training curricula, and help pay the bills.

On the competitive-currency side, it's hard to imagine other countries welcoming U.S. efforts to push down the dollar. When smaller countries engage in this behavior, they can be safely ignored. But since the United States is a global heavyweight, other countries would almost certainly respond by pushing down their own currencies along with the greenback. Germany has the advantage, moreover, that it no longer possesses its own currency, giving it plausible deniability. If its exchange rate is low, then this can be conveniently dismissed as reflecting the circumstances of its euro-area partners, not self-interested manipulation by German policymakers.²¹ And if Germany is running a trade surplus, any discomfort in the rest of the world is partially offset by the deficits of other less competitive euro-area countries.

But the single most devastating retort is that the share of manufacturing jobs in relation to total employment has been falling in Germany for half a century, just like in the United States. Having reached 40 percent in 1970, that share is now less than 20 percent. (Compare [Figure 9.2](#) here with [Figure 8.2](#) in [Chapter 8](#), and try to detect a significant difference.) Whatever its other merits, even the German system offers only limited protection from the decline of manufacturing employment.

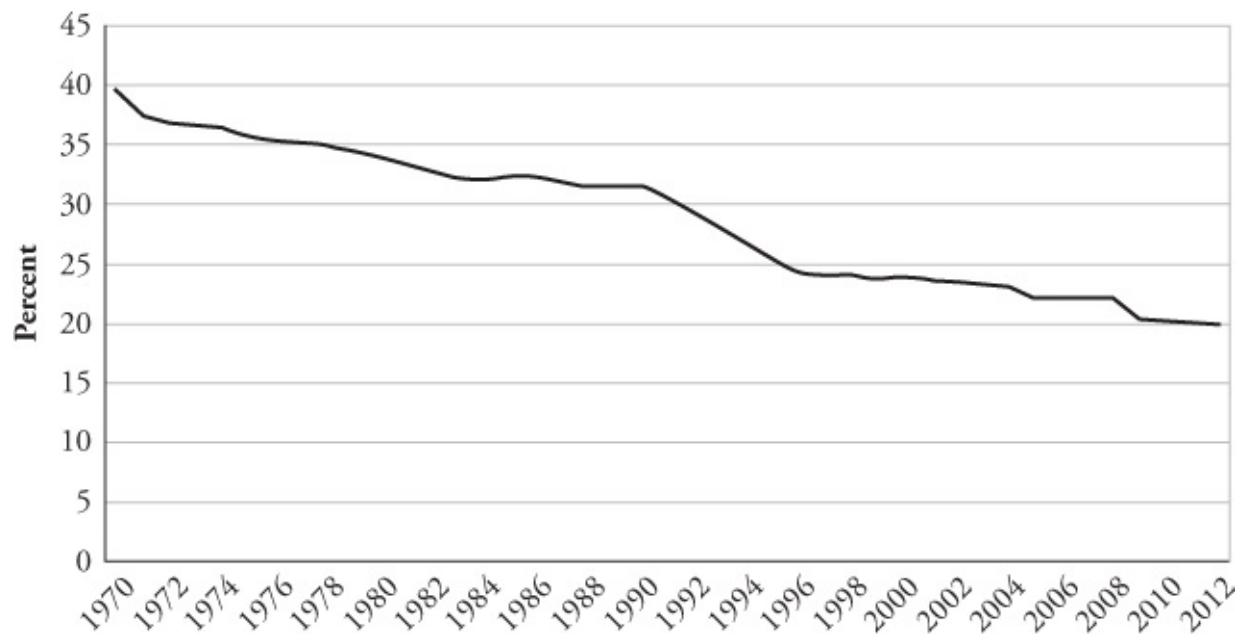


Figure 9.2 Percent of Employment in Manufacturing in Germany Since 1970

Source: U.S. Bureau of Labor Statistics, Percent of Employment in Manufacturing in Germany, retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/DEUPEFANA>.

If the problem is secular rather than cyclical, the result of technology rather than trade, and specifically due to the automation of routine tasks in manufacturing, then the solution is to better equip workers to undertake non-routine tasks, not just in manufacturing but also in the service sector. Restaurant chefs, home health care workers, security guards, and spiritual advisors require situational adaptability, interpersonal skills, and oral communication ability, but not always higher education. The importance of adaptability, collegiality, and communication make these jobs relatively safe from automation.²² To be sure, a San Francisco start-up called Momentum Machines has developed a robot that not only flips hamburgers but makes them from scratch. But the mass production of burgers is the epitome of a routine task; it's hard to imagine the high-end Napa Valley restaurant French Laundry mechanizing the production of its tasting menu. In Japan, where a declining birth rate and a rapidly aging population make the problem of home health care especially acute, Honda has developed an

autonomous humanoid robot, Asimo, to get food for the elderly and turn lights off and on. But in an age when robots still can't turn doorknobs or fold napkins, whether robotics can help with more complicated needs, provide emotional succor, and cope with the ethical dilemmas of elder care is uncertain. Another Silicon Valley company, Knightscope, is developing wheeled automatons equipped with sensors, microphones, and lasers to act as security guards. Its K5 model, however, is known mainly for knocking over a child and running over one of his feet at the Stanford Shopping Center. The company's website revealingly touts robots as appropriate for "boring and monotonous" patrols and acknowledges that "decision-making is best left to real people."²³

Educators argue that the situational adaptability, ease of interpersonal interaction, and communication skills needed for non-routine tasks are heavily influenced by education, starting in early childhood. Interpersonal, collaborative, and communication skills are shaped when children are young, pointing to a high-return area in which to invest.²⁴ But it will take time, even in the best-case scenario, for such investments to pay off, the time from when a child receives early education to when she enters the labor force. That the problem of declining manufacturing employment due to the automation of routine tasks developed over a period of decades means, unavoidably, that it will similarly take decades to address.

Be this as it may, these were not directions in which the United States, following its startling 2016 election, was prepared to go. The new Congress and administration, critical of federal bureaucracy and mandates, were more inclined to cut early childhood education than to expand it. Skeptical of the ability of the federal government to solve problems, they had little appetite for place-based policies. The very notion of the federal government negotiating occupational profiles and dictating training curricula was anathema to the politicians brought to power in 2016.

And if the promise of bringing back good manufacturing jobs through

restrictive trade policies and deregulation was false, it was unclear where those disappointed by that broken promise would turn next: back to the political center or, instead, to an even more radical alternative at one of the extremes.

10

Breaking Point

europe's distinctive brand of populism has evident similarities but also important differences from its American counterpart. Both the similarities and the differences were apparent in the UK referendum on EU membership in 2016. The Leave campaign, personified by Nigel Farage, was fundamentally anti-elitist, anti-immigrant, and nativist. Farage, the son of a stockbroker, hardly came from a disadvantaged background. He may not have attended Oxford, as did Prime Minister David Cameron and London mayor Boris Johnson, but his career as a commodities trader did not recommend him as a spokesman for the working class. (One might, of course, say the same of Donald Trump.) Be that as it may, none of this deterred Farage, as leader of the United Kingdom Independence Party (UKIP), from positioning himself as an outsider aligned with the disenfranchised masses. He encouraged media coverage of his addiction to cigarettes and beer as a way of playing up his image as a man of the people, much as hamburgers and junk food became media staples of Trump.

Farage, like Trump, embraced positions that were beyond the pale for mainstream politicians, first and foremost on immigration. His rhetoric and

visuals, like Trump's, were designed to provoke. Farage was photographed with an incendiary poster headed "Breaking Point: The EU Has Failed Us All," depicting a flood of nonwhite migrants and refugees headed for British shores. Pro- and anti-EU Conservative Party and Labour Party activists alike denounced the image as xenophobic and racist.¹ Farage defended it by invoking terrorism. "In the last two weeks, the Dusseldorf bomb plot has been uncovered—a very, very worrying plan for mass attacks along the style of Paris or Brussels," he elaborated. "All those people came into Germany last year posing as refugees. When Isis say they will use the migrant crisis to flood the continent with their jihadi terrorists, they probably mean it."² Other material of Farage's Leave.EU organization was even more inflammatory, including a notorious photo of jihadist fighters captioned "Islamist Extremism Is a Real Threat to Our Way of Life: Act Now Before We See an Orlando-Style Atrocity Here Before Too Long."³

The mainstream media dismissed Farage as a buffoon, but there was nothing buffoonish about his message. In a 2015 radio interview he acknowledged inspiration from a visit to his childhood school by Enoch Powell, the 1960s nationalist firebrand notorious for invoking Virgil, no less, when denouncing immigration. The referendum result suggests that the intelligentsia, put off by Farage's clownish persona, should not have dismissed him or his anti-immigrant message so lightly.

That result, with 52 percent voting Leave, was as surprising as Trump's Electoral College victory. The majority of polls got it wrong, just as they did the 2016 U.S. presidential result, because respectable voters hesitated to acknowledge their support for an unrespectable position. Remain supporters complained that the outcome was a minority opinion, much as blue-state voters repeated ad nauseam that Trump lost the popular vote. Since only 72 percent of registered UK voters turned out, Leave's 52 percent meant that just 37 percent of eligible voters endorsed exiting the EU. The problem was that Remain

supporters were not as easily mobilized. Sterile economic arguments for EU membership did not excite them in the same way opponents were galvanized by Farage's apocalyptic vision of Britain overrun. Leave had a simple narrative, while Remain did not. That tipped the balance.

The difference in the United Kingdom was that a politician with anti-elite, anti-immigrant, and authoritarian tendencies did not become the leader of one of the major parties. Farage himself stepped down as UKIP leader, citing personal circumstances. Cameron, the Conservative prime minister who called the referendum in a failed effort to unify his party, was replaced by another mainstream Conservative, Theresa May, who had supported Remain (although she embraced the result of the referendum on taking office). This contrast with the United States reflected differences in political institutions. Conservative Party members decide by majority vote between two candidates for party leader, but the two finalists are first nominated by Conservative members of Parliament, not by the party as a whole. This makes it hard for a political renegade to mount a hostile takeover.⁴

But if there were differences in institutions and outcomes, the underlying grievances were fundamentally the same. Economic disquiet was in the air, not surprisingly, in a country whose growth record can most charitably be described as uneven. Growth was slow in the golden age after World War II. Performance improved relative to the European average once Edward Heath made that most un-British of British decisions, taking the country into the European Community, and Margaret Thatcher spearheaded the removal of stifling regulation and agreed to UK participation in the Single Market. EU membership exposed producers to foreign competition, shattering the cozy environment created by tariffs and restrictive regulation. Competition weeded out weak firms and forced the survivors to shape up.⁵ To preserve jobs, unions were compelled to agree to productivity-enhancing changes in work rules and shop-floor organization.

Analysts dispute the relative importance of EU membership and Thatcher-era

reforms, but there is no disputing the results.⁶ GDP per head in the United Kingdom rose by barely 50 percent between 1958 and 1973 while doubling in France, Germany, and Italy. But from the mid-1980s—that is, post-EU entry and post-Thatcher—output per person grew faster in the United Kingdom than in any of the big three continental European economies.⁷

In the United States the rise in inequality was a long-term trend, reflecting mainly labor-saving technical change. In the United Kingdom, in contrast, that rise occurred all at once, in the 1980s. There the Gini coefficient of income inequality rose from 0.25 in 1979 to 0.34 in 1992, after which it leveled off. That this took place in a few years suggests that the increase was not due mainly to a gradual, ongoing process of labor-saving technical change. Rather, it was linked to Thatcher's policies eviscerating the unions, privatizing state assets, and limiting social spending. The sudden Thatcher-era decline in the bargaining power of unions reduced their ability to exercise a moderating influence on CEO pay and to pressure employers to share their revenues with their workers.⁸ There was also some impact from Thatcher's welfare-state cuts, which reduced public support for the poor, as described in [Chapter 8](#), and from the privatization of council housing and other factors creating housing-affordability challenges.⁹

But after this surge in the 1980s, the extent of inequality remained roughly unchanged. There were even signs of it falling in the run-up to the referendum.¹⁰ Why, then, was inequality, or at least the perception of inequality, so concerning to British voters?

One answer is that inequality, even if stable in the aggregate, had a prominent regional dimension. Like the United States, the United Kingdom experienced a decline in manufacturing jobs. Between 1978 and 2008 some 4 million U.K. manufacturing jobs were lost, proportionally the largest such fall in any OECD country.¹¹ There was a commensurate increase, meanwhile, in service-sector jobs, notably in finance and other business services, of a sufficient quality to keep aggregate inequality from rising. But the new service-sector jobs were in

different places than the manufacturing jobs they replaced. Manufacturing had been concentrated in the Midlands and other traditionally industrial regions, while well-paying jobs in finance and business services were disproportionately in London and other metropolitan centers.

As a result, regional differences in U.K. living standards were among the highest in Europe. Median hourly pay was more than 50 percent higher in London than in the East Midlands.¹² Londoners enjoyed not just more consumption but also greater life expectancy. Given how their income growth was driven by finance and other services, Londoners were reasonably content with the status quo, while residents of the East Midlands were convinced that something had gone badly wrong.¹³

As for why it took until 2016 for these chickens to come home to roost, the existence of these problems was papered over by an enormous lending boom. Households whose incomes lagged were able to borrow, as in the United States, to purchase housing and finance their other spending. Household debt rose to 160 percent of household income in 2008, up from 100 percent a decade earlier.¹⁴ The now notorious “Together Mortgages” extended by the swashbuckling onetime building society Northern Rock, which allowed borrowers to purchase houses without a deposit, take loans 25 percent more than the value of their property, and borrow up to six times their income, were only the most egregious examples of more general practice. Together Mortgages were only viable, for self-evident reasons, so long as home prices were rising. Thus, when they peaked in 2007 and then started to fall off, the less than solid Northern Rock became the first British bank to suffer a run in 150 years.

The Conservative-Liberal coalition formed in 2010 sought to restore confidence by buttressing the public finances. Its spending cuts severely impacted the public and social services on which residents of depressed regions relied. Meanwhile, recovery from the financial crisis was sluggish, whether due to the drag from those self-same policies or because recovery from financial

crises is always sluggish.

The growth that did occur was too little to make up for losses from the financial crisis for those at the bottom of the income scale. In April 2016 the annual income of the typical working class household was still £345 below that prior to the crisis, mirroring the situation in the United States. In the absence of a high tide lifting all boats, resentment of inequality came to a boil. Financial crises that cause income losses for the middle and working classes regularly spur a turn away from the political establishment, typically in nationalist directions. Unsurprisingly, this was the case in 2016, when people in households with incomes below £20,000 were twice as likely to support Leave as those in households with incomes above £60,000 (62 versus 35 percent).

Just as in the United States, this nationalist reaction was also rooted in identity politics. It was stoked by anti-immigration sentiment, as Farage and the Leave campaign understood perfectly well. Brexiteers were uncomfortable with multiculturalism, social liberalism, feminism, globalization, and environmentalism, which they viewed as cosmopolitan, European, and un-British. Populism is a reaction against the challenge to a long-standing, homogeneous social grouping from outsiders. Outsiders in this case meant feminists, gays, lesbians, “alien” cultures, and, most especially, immigrants and Europeans.

Specifically, the populist reaction reflected the wish on the part of traditionally dominant groups in British society to regain control, socially from minority religions and races, practically from “faceless bureaucrats in Brussels.” Half of Leave voters agreed that the most important consideration was that “decisions about the UK should be taken in the UK.” Another third asserted that the main motivation for their vote was to enable “the UK to regain control over immigration and its own borders.”¹⁵ Fifty-three percent of white voters opted for Leave, as did nearly six in ten voters describing themselves as Christian. Other instances of populism suggest that an incumbent group will react most violently

—that its members will be most inclined to feel that their core values are threatened—when they are falling behind economically. So it was in this case, where a majority of those working full- or part-time voted Remain, while most of those not working voted Leave.

Brexit voters were hostile above all to immigration. Fifty-four percent of all voters, according to Ashcroft Polls, acknowledged a dislike for immigration, and 80 percent of those hostile to immigration voted to leave the EU. Although that same 80 percent propensity to vote Leave was evident among voters who expressed a dislike for multiculturalism and social liberalism, aversion to these values was less prevalent.¹⁶ Anti-immigrant sentiment was thus the determining factor on the Leave side.¹⁷

This anti-immigrant sentiment had a long history. Recall the rise of anti-Irish discrimination after the famine, with the mass arrival of Irish immigrants in Liverpool. In the 1960s Conservative MP Enoch Powell, Lafarge's inspiration, denounced Indian and Pakistani immigrants as inimical to the British way of life while using phobia of immigrants as a device for mobilizing opposition to the United Kingdom's entry into the European Community, which he saw as threatening British sovereignty. The critics of immigration, multiculturalism, and Europe now pointing to surging inflows followed in this not-so-proud tradition.

But the timing takes some explaining. Immigration overtook domestic population growth in England and Wales in 1994–1995. By 1998–1999 net inward migration, at some 200,000 per annum, was more than twice natural population growth.¹⁸ At this point most immigrants came from outside the European Union, many from the onetime Commonwealth and Empire. This changed, however, with Tony Blair's decision in 2004 to allow unrestricted access to the U.K. labor market for citizens of the EU's eight new Central and Eastern European member states. The U.K. labor market was tight, and Blair had the backing of business. The policy was part of his strategy to reposition the Labour Party as business friendly and pro-globalization.¹⁹ The decision to open

the doors to the new EU8 was, in fact, part of a broader set of government initiatives that included also more permits and visas for young people seeking work in the tourist trade and for seasonal agricultural labor.²⁰

Experts forecast as few as five thousand immigrants annually from the new EU countries, thirteen thousand tops.²¹ These projections were predicated on the existence of little prior immigration from Eastern Europe, together with the fact that new migrants tend to follow their predecessors. They assumed that Eastern Europeans were more likely to want to work in Germany and Austria. But these studies did not anticipate that only Ireland and Sweden would join the United Kingdom in throwing open their doors to the new EU states, whereas other countries would invoke the seven-year escape clause permitted by EU rules. Immigrants who might have preferred to work in Germany were therefore diverted to the United Kingdom. And where early immigrants flowed, later immigrants followed. Nor did these studies account for the fact that Central and Eastern European workers were relatively well educated, education enhancing adaptability and encouraging mobility.

In the event, more than 50,000 immigrants from the EU8 arrived in the United Kingdom annually from 2004 through 2006; 112,000 then arrived in 2007 alone. This was decidedly not to the liking of Labour Party members already rendered anxious about their job security by globalization and automation. The enthusiasm with which New Labour's cosmopolitan leaders sought to establish their business-friendly bona fides and the readiness with which they dismissed these rank-and-file concerns drove disaffected workers into the arms of UKIP.

David Cameron, as leader of the opposition Conservatives, also sought to capitalize on these worries. He promised to reduce immigration "to the levels of the 1990s—meaning tens of thousands a year, instead of the hundreds of thousands a year under Labour."²² But Cameron's limp efforts lacked business backing, and he failed to deliver on his promises: net migration in 2015 was even higher, at 333,000. Voters unhappy with these numbers were drawn to

other options, where the obvious option was leaving the EU and “regaining control of the country’s borders,” as the goal was described by UKIP’s immigration spokesman Steven Woolfe.

To be sure, not all the evidence supported this diagnosis of working-class problems. Since immigrants from Eastern Europe were relatively well educated, many of them did not compete for low-wage manual jobs.²³ Nor does the share of foreign-born residents help to explain voting patterns. The foreign-born share and the proportion of a region’s voters supporting Leave were in fact negatively correlated.²⁴ It is as if regions where knowledge of immigrants was least, fear of immigrants was greatest.

The English regions with largest percentage increases in foreign-born residents after 1995 were the East Midlands, Merseyside, and Tyne and Wear (loosely, the area around Newcastle). Since these regions had few foreign-born residents at the start of the period, a modest amount of immigration could make a visible difference, fanning identity concerns. The presence of few foreign-born residents at the outset meant that even limited immigration could create the impression of radical change. Already these manufacturing-heavy regions were suffering a variety of ills, from job loss to inadequate public housing and health care, problems that could be blamed on immigrants who were conveniently not present in significant numbers to defend themselves. And neither Labour nor the Conservatives could contend that they had a credible strategy for addressing these concerns within the European Union, given the track records of Blair and Cameron.

Had observers paid closer attention to the fortunes of populist parties elsewhere, they might have been less surprised by the salience of immigration in the Brexit debate. A core feature of radical populist parties across Europe, as Matthew Goodwin noted in 2011, was hostility to immigration.²⁵ This is most commonly true of populists of the Right, who staked out violently anti-immigration positions in 2015 when more than 900,000 asylum seekers and

refugees, mainly from Syria, Iraq, and Afghanistan, arrived on European shores. But the pattern was already evident earlier. As Goodwin wrote four full years ahead of the refugee crisis, “Across Europe, there is now a large body of evidence that the most powerful predictor of who will support populist extremists is whether they are hostile to immigration. Citizens who endorse [these parties] … are profoundly concerned about immigration and its effects: they either want it halted completely or the number of immigrants to be reduced drastically.”²⁶

In 2008, Jens Rydgren had used the European Social Survey to establish that 93 percent of voters for the far-right Austrian Freedom Party preferred a policy of few or no immigrants (as opposed to accepting some or all who wished to come), compared to 64 percent of other voters.²⁷ The same disparity was evident between supporters of the far right and other voters in Denmark (89 versus 44 percent), France (82 versus 44 percent), Belgium (76 versus 41 percent), Norway (70 versus 39 percent), and the Netherlands (63 versus 39 percent). The association between this desire to limit immigration and support for far right parties long predicated the refugee crisis, in other words. The flood of refugees simply increased the number of voters expressing that preference.

Making the case that hostility to immigration in Europe reflects mainly concerns about jobs and inequality is an uphill task, since economic conditions differ sharply across countries. The same association of anti-immigrant sentiment with far right political support is evident in prosperous, low-unemployment Sweden and more economically troubled France. It is hard to argue that the reaction against immigration is fueled by those left behind by technical change and globalization, because the rise in inequality since the 1980s was less in continental Europe than in the United States and United Kingdom, and because early twenty-first-century levels of inequality were lower. There was no obvious association between the extent of inequality and strength of support for right-wing nationalist, anti-immigration parties: the Northern League

and Golden Dawn polled only in the single digits in Italy and Greece, two countries with high inequality by European standards, while the True Finns, the Austrian Freedom Party and the Swiss People's Party, competing in three relatively egalitarian countries, polled in excess of 20 percent.²⁸

It is tempting to point to cross-country differences in the severity of the Great Recession, since Germany was the West European country that most successfully skated through the crisis (GDP per person in Germany was 3 percent higher in 2011 than at the end of 2007) and the nationalist, anti-EU Alternativ für Deutschland (AfD) made only limited electoral gains. But by 2017, capitalizing on the backlash against the refugee influx, AfD had broadened its appeal from anti-euro to anti-immigrant and anti-Muslim voters, becoming the third-leading party in Germany and attracting nearly 13 percent of the vote in September's parliamentary elections. Conversely, in Ireland, Greece, Italy, and Spain, the four continental European countries that suffered the largest declines in GDP per capita, right-wing populist parties failed to gain significant traction.

All this suggests that the salience of economic grievances was shaped by other factors, namely, identity politics. Radical right parties tend to be skeptical or outright hostile to liberal democracy, pluralism, and minority rights. Opinion polls reveal particular opposition to immigration by people of a different race or ethnicity. They indicate special resistance to immigrants from non-European countries. They show particular hostility to Muslim people.²⁹ These patterns may reflect the challenge of assimilating immigrants from North Africa and the Middle East and the perceived threat to the dominant culture. Consistent with this view, surveys suggest less concern over time with the impact of immigration on jobs, taxes, and public services but more concern with the effect on "cultural life," as the identity issue is framed by survey takers. One thinks of France, which bars Muslim women in head scarves from working in private day care centers and accompanying school outings, and where Parliament in 2010 passed a law banning women from wearing the burka and other face-covering headgear

in public. One can stretch one's imagination and suggest that face coverings hinder the identification of potential terrorists, but it is more plausible that the burka is a visible reminder of the presence of a large religious minority and therefore a challenge to *laïcité*, the notion enshrined in the constitution of France as an indivisible secular republic.

In fact, immigration to France, Belgium, the Netherlands, and Germany from Turkey and North Africa has a long history. In the 1950s and 1960s, when labor was scarce, Western Europe actively sought to attract guest workers from these countries. Again this points up the question of why the impact of these immigrants on "cultural life" was now more of an issue. One answer is that the number of Moroccans and Turks in the Netherlands rose tenfold between the early 1970s and 2010, while the number of Turks living in Germany rose fourfold. Another is that the rise of religious fundamentalism made assimilation more difficult. Tradition-minded Muslims (head scarves making traditional Muslims more visible) challenged Dutch notions of "open-mindedness" and French conceptions of *laïcité*. A third explanation is that the presence of immigrants created security concerns, real or imagined, after 9/11.

In addition, there was the shift from temporary migration to permanent residency. In the 1950s and 1960s, guest workers in Germany had typically stayed for a limited period before returning home. They complied with what German bureaucrats called the *Rotationprinzip* (rotation principle), which authorized them to work for only a limited time. Returning to one's country of origin was attractive so long as Europe was booming and there was always the option of moving back.³⁰ But in the 1970s, with growth slowing, the prospects for reentry and reemployment dimmed. And as unemployment rose, Western European governments hardened their barriers to immigration.

Temporary migration thus became permanent. Permanent migrants not unreasonably sought to bring their families, as they were permitted to do by their host countries' reunification laws. Guest workers once had been single men

shunted into company housing. Now they took up residence in working-class neighborhoods. Their children attended school. Their wives did what housewives do. As they became more visible, European societies were forced to grapple with diversity and assimilation.³¹ This was a clear instance of the interaction of economic factors with identity politics, where slower growth led to the hardening of borders, which in turn caused a change in immigration from temporary to permanent, raising issues of cultural life on which populist parties subsequently pounced.

Greece too had its immigrants from Albania, Bulgaria, Romania, Georgia, and Russia even before the refugee crisis, which Golden Dawn had sought to exploit. By some estimates, as much as 10 percent of the Greek population is foreign born, or at least was before the country's crisis.³² This was another unintended consequence of the hardening of borders in Northern Europe: immigration was diverted toward Southern Europe, where border enforcement was lax.

In Greece, however, the populist shift was to the left, not the right, and the dominant factor was external circumstances, namely, the country's need for a financial lifeline in order to stay in the euro area and the European Union. The European Commission, the European Central Bank, and the International Monetary Fund, the members of the so-called Troika, demanded harsh austerity as a condition of assistance. So when the mainstream parties were implicated in the crisis and surrendered to the Troika's terms, the populist backlash turned to the Left as the credible opponent of austerity. The reaction was not so much the people against foreigners, the split that makes for right-wing populism—although the Troika was unmistakably foreign—as much as it was the people against the elites, both the domestic elites blamed for creating the mess and the foreign technocrats seen as aggravating it, the split that makes for left-wing populism.

Greece's history of dictatorship also militated against the authoritarian Right, something that was similarly true in Portugal and Spain. Few disaffected voters

wished to return to a brutal authoritarian regime like the military junta of 1967–1974. Syriza thus benefited from having descended from the independent Greek Communist Party with its anti-fascist, anti-dictatorial roots.

Still, the corruption and incompetence of earlier governments, the burden of Troika-imposed austerity, and the suspicion that wealthy individuals with assets abroad were getting off scot-free were more than enough to elicit a populist reaction. In the October 2009 elections Syriza had won barely 5 percent of the vote. In January 2015 it won 36 percent and was asked to form a government. Such is the power of a crisis.

Where Greece's history of military dictatorship limited support for Golden Dawn, Eastern Europe's history of Soviet domination shaped political reactions differently. In Eastern Europe the “others” opposed to the people were left-wing politicians and parties identified with now-discredited socialism. Politicians with leftist leanings were associated with the corrupt Communist elite of the period before 1990 by right-of-center figures seeking to define themselves in opposition. Because the elite was on the Left, politicians seeking to play up the division between the elite and people today are on the Right.

Under Communism these countries felt little pressure to come to terms with historical persecution of minorities, since such behavior could be ascribed to the contradictions of capitalism, following standard Marxist-Leninist logic. Not coming to terms meant that racism and anti-Semitism remained more prevalent, or at least more overtly prevalent, than in Western Europe. Starting in 2015 these attitudes and prejudices were redirected at refugees and asylum seekers by right-wing politicians seeking to mobilize nationalist support. And the fact that the nation-state had been subsumed by the international socialist order and dominated by the Soviet Union meant that aggressive nationalism could now be portrayed as a reassertion of what was just and right.

This historical connection was visible even in Germany. The dangers of nationalism and prejudice featured in public school curricula in the Federal

Republic (West Germany) but not in the German Democratic Republic (East Germany), where the rise of the Nazis was ascribed not to a heritage of anti-Semitism or to a resurgent nationalism, base instincts now to be avoided, but to the contradictions of the market system.³³ Germans educated in the East were not instilled with the same intellectual and emotional aversion to nationalism and anti-minority sentiment. Forty-four percent of West Germans polled in 2015 opposed Chancellor Angela Merkel’s policy of welcoming asylum seekers, while fully 56 percent of Easterners opposed the policy.³⁴ The far-right anti-Muslim movement Pegida (Patriotic Europeans Against the Islamization of the West) was founded, not incidentally, by an advertising executive and professional chef, Lutz Bachmann, born and bred in Dresden.

And it was not just in the United Kingdom that nationalist, anti-immigrant, anti-Muslim sentiment was channeled into EU-skepticism. The Single Market with its four freedoms, including freedom of labor mobility, makes it hard for individual member states to unilaterally secure their borders.³⁵ The EU’s core values of pluralism and tolerance are clear in the *acquis communautaire*, the body of EU law that member states are required to follow. The *acquis* includes chapters on justice, freedom, and fundamental human rights. Governments that abridge minority rights or limit freedom of the press can be sanctioned by the European Commission, the EU’s proto-executive branch, and the European Court of Justice, its judicial authority. In 2015 the Commission launched an investigation, cosmetically known as a “dialogue,” of Polish legislation voted through by the right-wing Law and Justice Party that compromised the independence of the Constitutional Tribunal, the country’s supreme court, and that subjected Poland’s public broadcasters to state control, limiting freedom of the press and media. At roughly the same time, the commission launched an infringement case against the Hungarian government of Viktor Orbán for a restrictive refugee settlement law that conflicted with the Common European Asylum System and for erecting a steel fence along the country’s southern

border. Successful prosecution of such cases would require the country to change its national law in order to remain an EU member in good standing or else lose its voting rights in the Council of Ministers, where decisions on the EU budget and other such matters are taken, and be subject to financial penalties.³⁶

It is thus unsurprising that right-wing, anti-elite, anti-establishment, nativist movements make the EU a target. The EU is an elite project, having been pushed on reluctant publics by intellectuals and high officials since the days of Jean Monnet. It is inadequately democratic, since important decisions are taken by technocrats of the European Commission who are not directly accountable to national parliaments or the voting public. Staffed by people from twenty-eight member states, it is dominated by foreigners, whatever the country in question. Its Rule of Law Framework, under which the 2015 Polish investigation was launched, is expressly designed to constrain illiberal, nationalist actions.

There is no consensus on how the EU should address these strains. The elites have responded, predictably, that the best way of containing discontent is by streamlining the Commission and other European institutions to enable them to operate more efficiently.³⁷ The problem is that nationalist critics of the EU are likely to oppose the “efficiently” part insofar as they already oppose the “more.” Europhiles such as the economist Thomas Piketty suggest that the best way of beating back the nationalist threat is by correcting the democratic deficit, strengthening the decision-making powers of the European Parliament, and supplementing it for euro-related matters with a Eurozone Assembly.³⁸ But doing so implies sharing decision-making with foreigners, which is antithetical to those with nationalistic instincts. Still others suggest that faster economic growth is the best way of fostering support for the EU and for the ideas of Piketty et alia.³⁹ No doubt faster growth would help. Too bad that there is no agreement about how to best achieve it.

11

Containment

the populist temptation is greatest when economic concerns fuse with identity politics and when the two are inadequately addressed by mainstream parties. In some cases the political establishment has responded with policies that address voters' concerns about living standards, equity, economic security, and the sense that their voice is not being heard. The Populist Revolt in nineteenth-century America was defused by freight rate regulation, interest rate regulation, and changes to the gold standard, limited reforms that went some way toward addressing the complaints of farmers and others, together with political reforms such as the referendum processes and direct election of senators advocated by the Populist Party. These steps took the wind out of the populists' sails. Mainstream politicians also appropriated certain less savory elements of the populist agenda, restricting immigration from Asia and taxing imported manufactures, for example. But these and other questionable tactics were more limited than they would have been in the absence of constructive responses.

Those constructive responses and their positive reception were favored by good luck and good institutions. Growth accelerated in the 1890s, creating new opportunities and diminishing the sense that change was a zero-sum game. Not just more favorable U.S. monetary conditions but also a more benign global environment helped to banish deflation. This was good luck at the best possible time. But the decentralized nature of the country's political institutions also helped in this period of limited federal powers. Rather than having to organize a successful national movement, as the Populists ultimately failed to do, reformers

in Oregon and California organized locally, using referenda to enhance the voice of the people and address the concern that legislators were beholden to moneyed interests. Oregon and Nebraska could push ahead with the direct election of senators, again bypassing suspect state legislators, until the requisite three-quarters of states finally agreed to amend the Constitution in 1913.

Time will tell whether we are as lucky this time and whether the political establishment is as capable of mounting a constructive response. The ultimate good luck would be a better economy. Productivity growth fell sharply across the advanced countries in the 1970s, as we saw in [Chapter 8](#). It then recovered during the 1995–2005 period before declining again. One can imagine that the years after 2005 were the anomaly and that growth is now poised to accelerate. Just as it took time to figure out how to apply new information technologies to retail trade, wholesale trade, and financial services, the sectors that led the recovery of productivity growth in 1995–2005, it may simply be taking time to figure out how to apply the cloud, quantum computing, artificial intelligence, and other recent IT advances outside the IT sector. Firms throughout the economy must first reorganize how they interact with their customers and how they recruit and deploy their workers.¹ If we’re lucky, the results will materialize quickly.² Growth will accelerate, obviating the need for hard choices and blunting political extremism. Or not.

For those willing to be patient, there is a plain-vanilla recipe for fostering faster growth. It starts with investing in basic literacy and numeracy but also in vocational training, university education, and lifelong learning. It includes relaxing excessive regulation, but also retaining regulations that correct market failures. It requires sound and stable economic policies making for a favorable investment climate. This means not boosting demand in unsustainable ways, as before 2007, but also avoiding policies that actively depress spending, as in Europe after 2010.

But one thing these policies have in common is that they take time to work

their effects. It takes time to train a more skilled and productive labor force. It takes time to renew the capital stock. It takes time to translate principles into policies and to develop a consensus around their implementation. The plain-vanilla recipe for fostering growth is like the dietician's advice to "eat healthy." Enhancing the environment for growth, like changing one's diet, takes discipline, attention to detail, and time to see the effects. And time doesn't favor those seeking to head off a populist reaction.

If faster growth fails to materialize, then it is all the more pressing to address distributional concerns. This will require new thinking, since the forces that made for greater equality in the third quarter of the twentieth century are unlikely to return. Trade unions, which advocate for factory workers, will find it more difficult to organize people working remotely from home. They will be less able to extract rents in a world of internationally integrated markets, where emerging economies with lower wages welcome employers with open arms. Capital mobility makes it harder for governments to use tax policy to level the income distribution as they did after World War II, since the wealthy and the corporations in which they invest can now shift their assets to lower-tax jurisdictions. The ethnic, racial, and religious diversity of Western societies, reflecting the cumulative effects of immigration, limits political support for governmental transfers. And the bias of technological change no longer favors blue-collar workers; it is the routine jobs of less skilled workers that are being disproportionately automated, while more-skilled workers oversee the automatons.

Insofar as offshoring of the labor-intensive component of manufacturing supply chains in the advanced countries has raised capital's share of GDP, one way of addressing inequality is by ensuring that capital is held more widely.³ Anthony Atkinson suggested strengthened inheritance taxes to prevent concentrated claims on capital from passing down to the fortunate few and using the revenues to provide every citizen with a capital grant at the age of majority.⁴

But if the dead are in no position to lobby or flee to lower tax jurisdictions, wealthy parents can do both. Moreover, Atkinson's proposal centers on redistribution, which is politically fraught. It implies transfers from more to less fortunate ethnic, religious, and racial groups, which clashes with identity politics.

Subtler approaches would start with giving firms tax incentives to adopt employee stock option plans. Workers can be given tax incentives to invest in them. Individuals can be required to opt out of retirement and other payroll-linked savings plans instead of being given the choice to opt in. These policies won't redistribute capital ownership at a stroke. But they can give capital-poor individuals hope that the distribution of holdings will evolve in more equitable directions. And hope is what it's all about.⁵

Insofar as inequality reflects the very different labor incomes of top earners and others, societies again have the choice of whether to address this directly. In 2013 Switzerland voted on a referendum that would have limited executive pay to twelve times that of a company's lowest-paid employees. Voters rejected the proposal as too radical and too easily circumvented by non-salary compensation and perks. In the United States such regulation would likely be regarded as beyond the pale. Still, absent other measures to curb excesses, one can imagine more such proposals from left-wing populists in a variety of countries, including even the United States, where the average ratio of the pay of CEOs of big firms to that of their workers is a staggering 200 to 1.

Curbing those excesses should start with making corporate boards and compensation committees subject to stronger legal and administrative sanctions if they too readily acquiesce to CEO requests for higher pay, neglecting their fiduciary responsibility to other stakeholders. Regulators should require companies to disclose the existence of executive stock option plans. Only independent directors should be allowed to sit on compensation committees. Shareholders should be entitled to vote on—and veto—pay packages for top

executives, as U.S. investors were empowered to do by the Dodd-Frank Wall Street Reform and Consumer Protection Act, put in place in 2010 in response to the financial crisis.⁶ The fact that the increase in the share of labor income accruing to the top 1 percent has been heavily concentrated among employees in the financial sector, not just top executives but also others, suggests that restraining the growth of the financial industry, another intended effect of Dodd-Frank, can help to limit pay inequality in addition to limiting stability risks.⁷ Whether Dodd-Frank will survive the backlash against post-crisis regulatory reform is uncertain. These are arguments for why it, or at least something like it, should.

In the United States, high rates of social mobility are traditionally cited as a reason not to be fixated on inequality. Even those at the bottom, the argument goes, have a chance of rising to the top. It follows that declining social mobility is part of the explanation for why inequality has become more of a concern. The economists Michael Carr and Emily Wiemers found evidence of a significant decline in lifetime earnings mobility in the United States since the early 1980s. The probability of an individual remaining in the same decile of the earnings distribution over his or her working lifetime went up for every decile of the distribution in the post-1980s period. Meanwhile, the chance that someone who starts in the bottom 10 percent of the earnings distribution will move above the 40th percentile dropped by 16 percent. The likelihood of workers who started their careers in the middle of the earnings distribution moving to the top deciles similarly declined by 20 percent.⁸

And what is true over an individual's working lifetime is true across generations as well. Fully 50 percent of a parent's earnings advantage, recent studies suggest, is passed on to the next generation. The intergenerational elasticity of earnings, the technical name for this form of persistence, is as much as two-thirds for those in the top half of the distribution.⁹ Current estimates of intergenerational persistence are noticeably higher than those in the second half

of the twentieth century.

Raj Chetty and his coauthors have shown further that the probability of a child from a family in the bottom fifth of the income distribution reaching the top fifth varies greatly across the United States. Areas with high earnings mobility have better primary and secondary schools; they better prepare children to succeed economically. Those areas have less residential segregation, enabling children from poor families to interact with people from different economic backgrounds and to acquire the social skills needed for getting ahead in the labor market. They have fewer single parents, a larger middle class, and more civic and religious organizations. Some of these variables are easier to influence with public policy than others, but these findings are at least suggestive that investing in primary and secondary education and legislating against residential segregation, using anti-discrimination and appropriate zoning laws, can enhance economic mobility and thereby ameliorate inequality concerns.¹⁰

When comparing regions, Chetty and colleagues do not find that people in places with better access to higher education, in the sense of sheer physical proximity, display higher earnings mobility. Physical access is less of an issue today than after World War II, given the proliferation of public, private, and for-profit institutions.¹¹ The University of California, to pick an example not entirely at random, added four general campuses in the 1950s, five in the 1960s, and a further one in the twenty-first century. Those campuses were situated where they were precisely in order to serve neglected communities.

Access to elite education still matters, however. The higher education that most affects the probability of an individual moving from the lower or middle part of the income distribution to the top 1 percent is attending an Ivy League–type school. This is a problem for those concerned with inequality of income and opportunity, since, as another Chetty-coauthored study shows, children from families in the top 1 percent of the income distribution are seventy-seven times more likely to attend an Ivy League–type school than children of families in the

bottom fifth of the income distribution.¹²

This suggests eliminating favorable treatment by admissions committees of children of alumni, so-called legacy admissions.¹³ It points to limiting the tax advantages of private universities with large endowments that cater to the children of the wealthy. It is an argument for providing additional funding to middle-tier public institutions like the City University of New York and California's system of state and community colleges (as opposed to the university) that enroll disproportionate numbers of lower-income students who, after graduation, have high rates of earnings mobility.¹⁴

All this can better equip young people preparing to enter the workforce, but there remains the question of what to do for those well into their working years. In a variety of times and places, from Bismarckian Germany and Edwardian Britain to the United States in the 1930s, a populist reaction against economic change has been contained by public programs that compensate the displaced and comfort others who fear the same fate. Unemployment insurance, health insurance, and old-age insurance address this need, as does assistance with retraining, job search, and relocation. These programs help workers cope with circumstances that they are less than fully capable of handling themselves, thereby addressing the anxieties of creative destruction. In some countries administration of these programs is top-down, while in others, like the United States, it is heavily decentralized—essentially for historical reasons, as we have seen. In Canada, the United Kingdom, and many European countries, health care provision and insurance are directly administered by the government, while in the United States, again for historical reasons, the direct role of government is limited to those with special needs—namely, the elderly (Medicare), the poor (Medicaid), and the military (the Veterans Administration)—to providing subsidies for people for whom health coverage is prohibitively costly, and to providing tax deductions for large medical expenses.¹⁵

It is not coincidental that the United States, where for historical and

ideological reasons the role of government in providing social insurance is most limited, is also where the backlash against free trade and concern with the decline of manufacturing employment have been especially intense. Americans understand that they will not receive much help from publicly provided unemployment insurance, health insurance, and old-age insurance and little assistance with retraining and relocation if they lose their jobs to globalization and automation. Ethnic, racial, and religious heterogeneity has worked against the extensive provision of social assistance, with each group resisting calls to fund programs they believe benefit mainly others.

What is true of racial divides is true equally of socioeconomic divides. Insurance is not provided under a veil of ignorance. Skilled workers whose jobs are secure understand that they are being asked to finance insurance and income maintenance for less skilled workers whose livelihoods are at risk from globalization and technology. But this very observation suggests a bargain. Whereas less skilled workers are disproportionately on the receiving end of social insurance benefits, more skilled workers in the advanced economies benefit disproportionately from globalization, since their countries export mainly skill-intensive goods. Skilled workers also benefit disproportionately from new technologies that complement their skills. The high-wage workers in question may be funding transfers to others, but in return they are getting a social consensus favoring economic openness and technical change.

In other words, globalization and technological progress may be good things, as economists argue, but even good things are rarely free. Otto von Bismarck understood this when he advanced health, disability, and old-age insurance to reassure Silesian weavers displaced by technical change and imports that the German Empire had their backs. David Lloyd George and the New Liberals understood this when they adopted unemployment insurance to fend off pressure for tariff reform from workers in the shipbuilding, engineering, and iron-founding trades. Franklin Delano Roosevelt understood this when, at the same

time as he sought to walk back the import restrictions of the 1920s and 1930s under authority granted him in 1934 by the Reciprocal Trade Agreements Act, he spearheaded a historic expansion of the welfare state.¹⁶ John F. Kennedy understood this when he signed the Trade Expansion Act of 1962, which authorized the president to cut tariffs by 50 percent but also created programs to provide job training, job search assistance, and exceptional income support to workers displaced by foreign trade, enlisting the support of union leaders for the trade expansion bill.¹⁷ The failure of twenty-first-century politicians, specifically in the United States, to make this connection is either a failure of courage, to the extent they are intimidated by hardcore ideological opponents of government action, or a simple failure of logic.

There are also more ambitious ideas. If jobs for unskilled workers are gone for good and not everyone can acquire the necessary skills, then there is a solidarity argument for a basic income for all. This was another idea the Swiss considered in a referendum, this one in June 2016. Although the ballot measure didn't specify the amount, campaigners suggested that it would be some 2,500 Swiss francs per month per adult, or roughly \$2,500—almost exactly the same in 2016 dollars, as fate would have it, as the allowance proposed under the Townsend Plan, described in [Chapter 5](#), or under Huey Long's "Share Our Wealth" plan, as described in [Chapter 9](#).¹⁸ The Swiss proposal was defeated, with 77 percent voting against, on grounds of cost (the measure would have cost 4 to 5 percent of GDP) and also for fear that an unconditional scheme would encourage indolence. It's not hard to anticipate the same reaction elsewhere.¹⁹

Better would be to question the presumption that there is a large class of citizens unable to acquire the skills to make them employable and to reject the proposition that jobs for humans are gone for good.²⁰ Also better would be to redesign education and training to prepare workers for non-routine jobs that are difficult to automate—to impart the adaptability, interpersonal skills, and oral communication ability required for twenty-first-century work. This suggests

focusing from an early age not just on literacy and numeracy but also on cultivating empathy, compassion, and other human instincts that machines find it difficult to emulate (so far) but which the elderly, ill, infants, and others value in interactions.

But if there are limits on the ability of society, through education and training, to raise the productivity of workers to the point where employers who have the option of using robots are willing to pay those workers a socially acceptable wage, then the solution is subsidizing wages and work. This would be cheaper and more socially acceptable than an unconditional basic income. It would enable workers to learn on the job. It would give people the satisfaction of having work. Wage subsidies could be extended to the worker or employer through the tax code. Even countries traditionally as suspicious of social engineering as the United States have experience with such programs. The U.S. federal government provides an Earned Income Tax Credit, for example, which reduces the taxes of low-income families so long as they work and which may even give them a refund (a negative tax liability). This tax credit scheme is in fact the country's third-largest social welfare program after Medicaid and food stamps. The United States similarly provides a Work Opportunity Tax Credit to firms that hire certain types of low-skilled workers, thereby making it more economical for employers to take them on.²¹

Also fashionable, since it has been suggested by no less than Bill Gates, is taxing robots to level the playing field.²² Why should people pay taxes while robots get off scot-free? The resulting revenues could then be used to fund socially worthwhile programs.

But where, one might ask, do we draw the line between robots and ordinary machines? Is an ATM a robotic bank teller, and if so, should ATMs be taxed? Should all machines be taxed?

Definitional problems aside, a moment's reflection reveals that the owners of robots don't, in fact, get off scot-free. If robots are a source of profits, then their

corporate owners pay tax. To the extent that those profits end up as dividends and capital gains, the recipients of these forms of income pay tax as well. And if they don't, then the fix is to reform corporate profits and personal income taxation.

Consumers, meanwhile, benefit from the cheaper goods and services provided by the new technology embodied in robots. From this vantage point, taxing robots is ultimately no different from taxing technological progress. It is also no different from taxing international trade. Taxing international trade limits the ability of a country to transform the goods it can produce most cheaply and efficiently into goods that can be produced more cheaply abroad. Taxing trade therefore reduces the purchasing power and living standards of residents overall. A tax on robots is no different.²³

Not just these ambitious schemes but also more traditional interventions such as unemployment insurance and job training must confront the erosion of social solidarity in ethnically, religiously, racially, and economically diverse societies. The mechanical ties of kinship and the shared values emphasized by Emile Durkheim as sources of social solidarity no longer bind as tightly in countries whose residents lack the hegemonic belief system, the basis in community, the equality of incomes, and the access to opportunity of a fabled past. The organic ties of economic interdependence—the solidarity rooted in mutual economic interest also emphasized by Durkheim—no longer bind now that high- and low-tech industries are located in different places, out of sight of one another, and now that people of different political persuasions cluster in red and blue states.²⁴ This problem is, in a sense, even worse in the European Union, insofar as the majority of residents stubbornly self-identify as Spanish or Italian rather than European, notwithstanding the fact that “solidarity” is one of the six pillars of the European Union’s Charter of Fundamental Rights.

In this setting, inequality and lack of social cohesion feed on one another. If income disparities result less from individual merit than from inheritance, family

connections, and access to elite education, then those disparities will rightly be seen as unfair. This perception will in turn undermine trust in fellow citizens and in society generally.²⁵ As a result, government will not be trusted to undertake programs that reduce inequality, in turn making disparities worse and eroding trust and solidarity still further.

What's a heterogeneous society to do? One answer is federalism. Americans with a high level of trust in government and in one another can congregate in blue states, while the less trusting congregate in red states, and both can pursue their preferred policies. Blue states can offer higher minimum wages and more public support for education, training, and relocation, while red states do the opposite. If Californians want to organize a single-payer health plan and finance it with a wealth tax on residents with assets of more than, say, \$20 million, and with a tax on the global profits of companies levied on the basis of the share of their sales occurring in California, then the U.S. Constitution allows them to proceed.²⁶ This would be not unlike the response to economic change and inadequate political voice that motivated reformers in Oregon and California to push for direct democracy at the state level in the early twentieth century. No less an authority than Mick Mulvaney, Donald Trump's budget director, said as much when Congress was debating repeal of the Affordable Health Care Act in 2017: "If you live in a state that wants to mandate maternity coverage for everybody, including 60-year-old women, that's fine." And if you don't, "then you can figure out a way to change the state that you live in ... Change ... state legislatures and state laws. Why do we look to the federal government to try and fix our local problems?"²⁷

But the federal solution has limits. Some things, like providing a strong national defense, securing the nation's borders, and regulating immigration, can be done only at the national level, and in Europe's case at the European level. This is true of trade policy, so long as a country has free interstate commerce (in European terms, as long as the EU is a single market). Different trade policies

are feasible only with restrictions on interstate commerce, since otherwise goods will enter through the state with the most liberal policy, which will then become the de facto standard. Decentralization therefore doesn't solve the problem of displacement of labor by import competition. And it doesn't reconcile different attitudes toward immigration.

Different states can still pursue different approaches to displacement, providing more or less ambitious retraining programs. But there are limits, since workers receiving retraining in one state can seek employment in another that doesn't share the cost of imparting the new skills. The same is true of environmental policy. California can follow its own ambitious environmental policy, since it's a big state and the wind blows off the ocean. But smaller states that are downwind will find adopting a stringent environmental policy more costly.

Clustering by taste will also limit interaction between individuals with different attitudes, thereby eroding trust and solidarity still further. This will make it even harder to agree on the provision of collective goods and services at the federal level. Familiarity breeds trust, not contempt, as James Coleman famously put it.²⁸ Communities with high levels of ethnolinguistic diversity spend less on collective goods like health, education, and infrastructure, as we saw in [Chapter 1](#). But the more those different groups mix—the greater the extent to which they are co-located geographically—the more those effects are attenuated.²⁹ Also consistent with this view is the observation in [Chapters 9](#) and [10](#) that natives of regions that are home to the fewest foreign-born residents display the least trust of immigrants.

This brings us finally to the vexed question of immigration. The narrowly economic case for more immigration in the advanced countries is impeccable. The immigrants themselves benefit enormously: both unskilled and skilled workers in developing countries see the purchasing power of their earnings rise by a factor of ten when they move to an advanced country where better

infrastructure, technology, and contract enforcement render them more productive.³⁰ It's hard to point to another way that income gains of this magnitude can be conjured up overnight. The advanced countries on the receiving end benefit as well. They are capital abundant and labor scarce. Their dependency ratios are high. The labor force is growing slowly or, in some cases like those of Japan and Italy, not at all.³¹

The narrowly economic objections and alternatives to more immigration are not compelling. Although immigrants consume public services, they also pay taxes, on balance contributing more than they take.³² Foreign aid might seem like an alternative to immigration: aid that fosters economic development can reduce the incentive to move and, not incidentally, make the donors feel less guilty about closing their borders. Both motives were apparent in the so-called Marshall Plan for Africa unveiled by the German Development Ministry in 2017. But even the most optimistic assessments do not suggest that development assistance can raise living standards tenfold overnight.³³ Additional trade preferences can be extended to poor countries, but access to export markets is not enough to bring incomes up to advanced-country levels when local institutions are the problem and, for historical reasons, remain difficult to change.

It can be objected that immigrants bring with them not just their manpower but also the culture and experience that lie behind the low productivity of their native country.³⁴ But the literature warning of such adverse effects is entirely evidence free.³⁵ It runs counter to historical experience with successful assimilation, and specifically to the historical experience of the United States, which has successfully assimilated successive waves of immigrants, raising their productivity to the level of natives rather than the other way around. It runs counter to the observation that immigrants are not randomly selected, it being the industrious and hardworking who have the get-up-and-go to migrate.

Maybe assimilation is harder now because the religion, race, or ethnicity of

the current wave of immigrants is so different from that of natives. But every generation argues that assimilation is harder now. In the United States, the same argument was made about Irish and Italian immigrants in the nineteenth century, and then about Eastern Europeans and Asians. It could be that assimilation is harder when immigration reaches high levels. Immigrants then cluster in their own communities, reinforcing traditional values, and have less contact with natives. But this argument, if valid, is an argument against unlimited immigration, not against current levels of immigration, which have not obviously disrupted assimilation in this economic sense.³⁶ And insofar as residential and economic segregation make it difficult for immigrants to adapt to host country practices, it is in the interest of the host country to pursue housing policies that allow immigrants to interact more with natives, job training and nondiscriminatory employment policies that give immigrants more contact with other workers, and education policies that allow the children of immigrants to mix with the children of natives and be exposed to host country mores.

And apart from these economic arguments, there is also a humanitarian argument for admitting more refugees from impoverished, strife-torn countries.

These economic and humanitarian arguments of course run headlong into distributional and identity concerns—they run headlong, in other words, into populist politics. Where immigrants are unskilled, their arrival in large numbers is likely to have some impact, or at least to create fears of some impact, on the wages of less skilled natives.³⁷ This effect is especially problematic in advanced countries where import competition from low-wage countries and skill-biased technical change similarly disadvantage the less skilled and widen inequality.³⁸ And it is easier to point the finger of blame at immigrants and shut the door on new arrivals than it is to blame inventors and investors and turn back the clock on technology.

More education and training is an obvious policy response to pressure on the wages of less skilled natives. This is the same formula economists regularly

recommend for addressing the negative impact on unskilled labor of skill-biased technical change and globalization. This observation is a reminder that simply shutting the door on immigration will not relieve the pressure on working-class living standards or reverse the rise in inequality that has fanned nativist sentiment, since shutting the door to foreign labor will not eliminate the unequalizing effects of technology and trade. It is a reminder that additional immigration creates a dilemma for those seeking to increase funding for education and training, insofar as ethnically, religiously, and racially heterogeneous societies find it harder to cultivate the trust in government and in others needed to maintain popular support for such programs. Again, this suggests that policies countering residential and economic segregation should be a priority, since they facilitate interaction between groups, building trust and thereby neutralizing the negative impact of increased diversity on society's willingness to provide education, training, and other services collectively.³⁹

Some have suggested reforming the immigration system to deal with economic and identity concerns. U.S. immigration policy could move away from family unification and toward a Canadian-style point system that rewards education and training, as Donald Trump proposed in 2017. Since immigrants will be more skilled, they will not drive down wages for unskilled work. But this change, which downgrades humanitarian motives, would not be universally embraced. It would not be helping the poorest but rather favoring the relatively advantaged possessing advanced degrees. Alternatively, countries could move to a fixed-term guest worker system, like the Bracero Program implemented by the United States and Mexico in 1942 to alleviate wartime labor shortages and the German *Gastarbeiter* system of the 1950s and 1960s.⁴⁰ Since temporary workers won't set down roots, they won't be perceived as posing a threat to identity. Since they will be in the country for a limited period, they won't be inclined to bring their families, establish their own houses of worship, and found their own civic organizations. Since there is a large pool of farmworkers and software

engineers in the developing world, the advanced countries can easily meet their labor force needs through a system of rotating fixed-term contracts.

But there are good reasons to doubt the feasibility of such schemes. The *Gastarbeiter* system broke down because German employers objected to the costs of training new workers every two years and pressured the authorities to let the incumbents stay. The Bracero Program was abolished in 1964 because of complaints that farmers were providing substandard wages and housing, problems that neither the Department of Labor nor the Department of Agriculture saw as priorities to solve, while Mexican farmworkers for their part lacked the civic and economic organizations, starting with unions, through which they could insist that these deficiencies be corrected.⁴¹ Such systems can be made to work, it is said, if the authorities are sufficiently vigorous about enforcing fixed-term contracts and holding employers to the same wage and safety standards that apply to other workers. But the fact that guest workers lack a path to citizenship and are wards of the state for only a limited period suggests that their treatment will not be seen as a priority and that they would have few advocates and channels through which to press their case.

Lastly, there is the question of what kind of political system is best placed to respond to the populist threat. The traditional answer is a presidential system like that in the United States, where winner takes all. In this system, populist movements find it hard to make political headway against the established parties. Nominees appealing to the median voter have an incentive to move to the political center in the general election and to shun divisive, us-against-them policies.

But however sensible these rules of the road, recent experience suggests that the U.S. system is also dangerously accident prone. Against a backdrop of economic insecurity and contested identity and with his rivals at one another's throats, it is not impossible for an unconventional politician to capitalize on anti-elite, nativist sentiment and capture a major party nomination. Faced with a

weak opponent and benefiting from a bit of foreign meddling, it is not impossible for that nominee to win an election without moving to the political center.

In the American winner-takes-all system, the 49 percent of the electorate that voted for the other party may then be left with no political voice. Indeed, under the U.S. Electoral College system, which apportions electors mostly on a state-level winner-take-all basis, it is possible for an absolute majority of voters to be left without voice in the executive branch, as happened in 2016. Because the Electoral College was designed to enhance the representation of sparsely populated rural states—the number of electors equals the size of each state’s congressional delegation, one for each member in the House of Representatives plus two senators for each and every state—the system aggravates the urban-rural divide that is regularly a feature of populist politics and was a feature of the 2016 U.S. campaign. It may be fun to imagine Electoral College reform, but it’s hard to envisage three-fourths of state legislatures, necessarily including a number of smaller rural states, agreeing to amend this provision of the Constitution.⁴²

Then there’s the problem of buyer’s remorse. Even if mainstream Republicans develop deep reservations about the actions of President Trump, they will hesitate to impeach him, because doing so would call into question the process through which he secured his party’s nomination and therefore the integrity of the party itself. In the U.S. system, populist leaders are hard to remove once in office. A robust political system, like a driverless car, must be capable of course correction. In the United States, midterm elections that regularly produce divided government are the main course-correction mechanism. But because the president is able to appoint Federal Reserve Board members for fourteen years and Supreme Court justices for life, the course set previously may be impossible to correct.

Recent experience suggests that systems of proportional representation, as in

the Netherlands, and two-stage general elections, as in France, are more robust when it comes to coping with populist insurgencies. In the Dutch system, parties are represented in parliament roughly in proportion to their share of the popular vote, ensuring a hearing for different religious and regional voices. Government is by coalition, and other parties can refuse to ally with an extremist party. The knowledge that this party will not be part of the policy-making coalition will discourage some voters from throwing away their ballots by supporting what will almost certainly be the opposition. These were the incentives that limited electoral support for Geert Wilders, his Freedom Party, and their racist, anti-Muslim message in 2017. In the French system, a large number of candidates compete in the first round, but only the two leading vote-getters proceed to the second. Even if an extremist wins a plurality in the first round, supporters of the other mainstream candidates have an incentive to unify around her rival in the second, allowing the center to hold. This was the system that hobbled Marine Le Pen in 2017.⁴³

The French system isn't perfect. If the non-populist survivor is too far to the left or the right, voters from the other end of the political spectrum, whose preferred candidate doesn't make it to the second round, may fail to unite behind the non-populist alternative. Proportional representation systems similarly have drawbacks. Coalitions are fragile. Governmental turnover is high, and if elections are frequent, officials may devote more energy to campaigning than to governing. Government instability and the difficulty of making progress on policy when parliament includes many splinter groups can breed dissatisfaction with mainstream parties and leaders, and this frustration may feed support for more extreme alternatives, as in Italy in the 1920s. Minimum thresholds for parliamentary representation and hurdles to no-confidence votes, as in Germany, while helpful, do not eliminate these problems entirely.

In the end, all political systems are imperfect. But some are more imperfect than others.

Au Revoir Europe?

that the European Union is a regular target of populist ire will hardly come as a surprise. The EU lacks what political theorists refer to as “output legitimacy.”¹ It was unable to deliver the economic goods following the global financial crisis and thus failed to amass support on the basis of results. Growth was anemic, and the deregulation and austerity endorsed by the technocrats of the European Commission, the EU’s executive branch, only worsened the problem. Its commitment to light-touch regulation and construction of an integrated financial market helped set the stage for the financial crisis. Budget cuts in countries like Greece, insisted on by the Commission and European Central Bank (ECB) as a condition for their assistance, visibly aggravated inequality. The EU’s failure to secure its external borders and then to enforce its rules requiring member states to share the refugee resettlement burden made the EU seem complicit in the immigration problem.

Thus, if economic hard times, inequality, and immigration are key triggers of populist reaction, then the EU is implicated in all three. Populists of the Right, like Hungarian prime minister Viktor Orbán, seeking to capitalize on authoritarian and nativist tendencies, could accuse the Commission and the governments of member states like Germany of weakness in the face of immigration. Orbán could inflame his followers by attacking “elite European politicians” for “deliberately bring[ing] millions of migrants to Europe,” in a not very veiled attack on German chancellor Angela Merkel, among others.² Populists of the Left, such as Alexis Tsipras in Greece, could accuse the

institutions of Europe, meaning the Commission, the ECB, and other member states, again prominently including Germany, of insisting on policies that destroy growth while placing the adjustment burden squarely on the shoulders of the working class. The result has been that “social inequalities … soared—Greece places first on the social inequality index in Europe—unemployment tripled, wages s[a]nk, pensions suffered dramatic cuts and the welfare state literally collapsed. The only ones who did not sustain damage during this five-year period were the wealthy Greeks.”³ All this, Tsipras could allege, was the fault of the Commission, the ECB, the International Monetary Fund, and the memorandum of understanding that set out their conditions for financial assistance to Greece.

It is no coincidence, then, that these organizations, officials, and governments became the subjects of populist wrath. The ECB and the Commission are technocratic institutions staffed by experts with advanced degrees from elite institutions. The German Federal Republic has championed the European Union’s fundamental values of liberal democracy, pluralism, and rule of law, making it a target for politicians with authoritarian, nativist, and nationalist tendencies. Berlin is also an advocate, for reasons rooted in German history, of conservative monetary and budget policies, rendering German officials temperamentally critical of budget-busting populist leaders—and vice versa.

The EU is equally lacking in “input legitimacy,” that is, in legitimacy rooted in the process by which decisions are reached. The ECB is the least politically accountable central bank in the world. Its president regularly refuses to appear before national parliaments, whether on principle or because he would have to attend hearings of all nineteen.⁴ Decisions on bailouts and debt restructuring are made through intergovernmental negotiations in which the big countries caucus beforehand and present the others with a fait accompli. Decisions by the European Commission are ratified by the European Council, the assembly of heads of state, by a two-thirds majority, where votes are weighted by country

size, leaving small countries feeling that they have no voice. An example was the decision in 2016 on posted workers, which tightened rules allowing a company to send (or “post”) its employees to work in other EU countries while continuing to make social security contributions in the country of origin. The parliaments of twelve smaller member states objected, but the Commission, with the support of big countries possessing two-thirds of the votes in the Council, barreled ahead.

It doesn’t help that European integration has always been an elite project designed by technocrats and only then ratified by national parliaments and occasionally publics. The Single Market was an elite project. The euro was an elite project. There was broad public support, to be sure, for economic integration as a way of fostering political cooperation, with the goal of ultimately making another war unthinkable. Members of the former Soviet bloc displayed a strong desire to join the EU as a way of becoming normal European countries. That said, none of the specific economic projects of the EU bubbled up from below. None was the product of spontaneous public support. There was no mass movement to create a Single Market with free internal mobility of labor. There was no popular groundswell for replacing national currencies with the euro. In only a few cases were there referenda once leaders decided to take the plunge. When it turned out that not all Europeans benefited equally, and when some drew the conclusion that they benefited not at all, these initiatives were vulnerable to populist criticism as elite projects foisted on the people.

The elite in question, moreover, was foreign, necessarily so since it was made up of technocrats drawn from more than two dozen countries. The regulations of the Commission, promulgated in the name of Europe, could thus be attacked as ill-suited to domestic conditions. If the monetary policies of the ECB produced too little stringency for German taste but too much for that of Italians, this, it could be claimed, was because those policies were dictated by the national self-interest of officials from the other country. If their policies failed to deliver

positive results, then they were construed as trampling on the will of the people.

In practice, the will of the people meant the will of the nation. Most Europeans continue to identify as French, German, or Italian nationals first and Europeans second if at all. A Eurobarometer survey in the spring of 2015 showed that 52 percent of EU residents defined themselves primarily by their nationality. Just 6 percent defined themselves first as European and second by their nationality, and just 2 percent defined themselves as European only.⁵ The remaining 40 percent identified themselves exclusively by their nationality.

Common European culture, history, and economic interests are the most frequently cited factors making for a feeling of community or shared identity across EU countries. Awareness of these common cultural, economic, and historical factors is most prevalent among the well-educated and the middle and upper classes. Not only does education impart knowledge of that common history and culture, but more educated, prosperous individuals are best able to capitalize on the opportunities afforded by European integration (hence their belief in the existence of shared economic interests). The well-educated are in the best position to move in response to opportunities in other countries. They disproportionately benefit from free intra-European trade for the same reasons they disproportionately benefit from globalization. At the same time, those with less education and lower incomes are disproportionately hurt by the welfare-state cuts and austerity with which the EU is associated.

Inevitably, then, the solidarity required for effective EU policies runs up against the fact that Europeans continue to identify by nationality—they feel solidarity mainly or exclusively with their fellow countrymen. Recent events, the euro crisis and the refugee crisis in particular, only made the consequences worse. They sharpened antagonisms between member states, deepening international divisions and resuscitating old stereotypes. Greeks were irresponsible children, Germans heartless paymasters. Dutch finance minister Jeroen Dijsselbloem, in an unusual fit of candor, accused spendthrift Southern

Europeans of frittering away their money on women and drink.⁶

At the same time, Europe's crises heightened divisions within countries, given the different attitudes the cosmopolitan elite and the working class hold toward the euro and toward refugees, and given the uneven impact of crisis policies. Recall Tsipras's remarks about how the response to the Greek crisis prescribed by "the institutions" (meaning the Commission, the ECB, and the IMF) hurt the average citizen of his country while sparing the wealthy.

Faced with these tensions within and between countries, European leaders have been unable to decide whether to go forward, go back, or stand still. Going forward would mean deeper integration. It would entail common economic and foreign policies implemented by officials elected at the European level and held accountable by a European Parliament with teeth. Going back, on the other hand, would entail abandoning the European dream and renationalizing politics and policies. It would mean following Britain's path. Standing still would mean gritting one's teeth and hoping for the best, a strategy that history suggests doesn't have high odds of success. In the spring of 2017, Jean-Claude Juncker, wearing his hat as Commission president, offered up all these scenarios and more, but, indicative of the pervasive confusion of the political class, refused to hang that hat on any one.

If there is a solution, it lies in rejecting the argument favored by populist politicians like Orbán that "more Europe" and "less Europe" are in fact the alternatives. In some cases, for example securing the EU's external borders, actions taken—or not taken—by one country can have powerful repercussions for others. Here the choice is not between more Europe and less Europe but between more Europe and no Europe. If Greece can't secure its borders, then Hungary will build a razor-wire fence and other countries will reinstate passport controls. Trucks will be delayed at border crossings. Trains will be stopped for passport checks. There will be no Schengen Agreement, no Single Market, and, ultimately, no Europe.

This argument, that European policy needs to be centralized or at least very strongly coordinated, can be made not just for border security but also for bank regulation, where the spillovers of one country's policies to its neighbors are powerful. It can be made for foreign and security policy, where individual European countries are too small to go it alone. Most Europeans, with the exception of the British, see the EU not so much as an engine of economic growth as a vehicle for maintaining Europe's geopolitical relevance in a twenty-first-century world where individual European countries are too small to matter.⁷

But this is another area where the EU lacks "output legitimacy," since it has failed to reassert Europe's geopolitical relevance or guarantee the security of its citizens. This last failure is especially galling to populist politicians for whom the forceful assertion of power and protection from foreign threats are the essence of politics. It thus provides an especially effective talking point for the EU's populist detractors.

In other areas, however, it is not at all clear that more Europe is needed. There's no reason why, for example, all EU member states should be required to adopt the euro. The cross-border spillovers of national monetary policies, especially those of small countries, are simply not that large. A Danish central bank that allows the krone to depreciate against the euro can make life slightly more difficult for German and French companies that compete with Danish exporters, but only slightly. We don't hear loud complaints from Berlin and Paris about Danish monetary policy, in other words. Similarly, each and every EU member state doesn't have to join the Schengen Area for the passport-free zone to function. Countries can opt in or out.

None of these points is controversial. Where there is controversy is on fiscal and refugee policies. The EU in its wisdom has decreed that there should be strong central oversight of the fiscal policies of its member states, those of euro-area states in particular. It has adopted a Stability and Growth Pact and a raft of ancillary procedures to give that surveillance teeth. Governments must submit

their draft budgets to the Commission before presenting them to their national parliaments. They are subject to fines and sanctions for missing agreed fiscal targets. This approach is all but guaranteed to incite a populist reaction. Nothing is socially and politically more sensitive than whom to tax, how to tax, and how much to tax, unless it's the corresponding decisions of on whom and what to spend the money. These are national prerogatives, since it is only at the national level that the solidarity exists to raise taxes for collective purposes. EU oversight of national budgets by technocrats in Brussels is thus a chronic sore point.

This insistence on centralized oversight of budgets was adopted at German behest. It was Germany's condition for abandoning the deutschmark for the euro. Germans believe in their bones that fiscal profligacy leads to inflation. Infringing on the national fiscal sovereignty of euro countries is therefore necessary to ensure the stability of the euro and protect the ECB from pressure to inflate.

This argument, while straightforward, is shot through with holes. The ECB is governed by independent central bankers appointed to long terms in office and chosen precisely because they are more economically conservative than the average politician. For nearly two decades now, the ECB, under the guidance of these conservative central bankers, has demonstrated its price-stability bona fides, national budget deficits notwithstanding. Moreover, the aftermath of the global financial crisis was a reminder, if one was needed, that there is no one-to-one relationship between budget deficits and inflation. To the contrary, when deficits went up, inflation came down. And there was no sign of inflation exploding subsequently.

Moreover, the evidence for large cross-border spillovers of national fiscal policies is weak. The logic is straightforward. Excessive deficits in, say, France will raise spending and suck in more imports from Germany, stimulating the German economy and stoking inflation there. At the same time, however, deficits in France will drive up interest rates both at home and abroad, since the

euro zone is an integrated monetary and financial area; those higher interest rates will tend to moderate German spending and inflation. Since these two offsetting effects on Germany work in opposite directions, their net effect on growth and inflation is no more than marginal. Indeed, German officials have made precisely this point when resisting calls for more expansionary fiscal policies in Germany, arguing that any positive spillovers to other euro-area countries—that is, any stimulus to spending and economic growth elsewhere—would be vanishingly small. None other than the European Central Bank has acknowledged as much.⁸

When cross-country spillovers are small but national preferences differ, the best approach is to leave decision-making at the country level. For fiscal policy, then, the appropriate reform is less Europe, not more. National parliaments and their constituents should be allowed to choose their preferred fiscal policies. Arguments from which populist politicians make hay—that the EU is the agent of austerity, that it is preventing the government from compensating the losers from technological change and globalization, and that it is violating society's inalienable right to tax and spend as it wishes—will then be off the table.

The objection to this argument is that when things go wrong, as they can when governments mismanage their finances, the results are catastrophic. Trusting each European government with its own budgetary policy is like trusting it with its own nuclear bomb. Countries like Greece and Italy have heavy debts already, leaving them little margin for error. Their banks hold government bonds, so when governments default on their debt obligations, the banking system comes crashing down. And because banks do cross-border business, what happens in Greece or Italy doesn't stay in Greece or Italy. We saw the power of this contagion and the depth of its damage in the global financial crisis in 2008, and again when debt and banking problems erupted in Greece in 2010.⁹

But this only means that there are preconditions for repatriating fiscal policy. If the danger is that fiscal irresponsibility that culminates in debt default will

topple the banking system, then banks should be bulletproofed. Specifically, they should be prevented from holding dangerous numbers of government bonds. For years, European policymakers did precisely the opposite. They maintained the fiction that government bonds were risk free. Those bonds were given zero risk weights, freeing the banks from the requirement of holding capital against them. Astonishingly, Greek government bonds received this preferential treatment even after the 2012 restructuring, when private investors were stripped of more than half the value of their holdings.¹⁰ Banks resisted changing this rule because they would have had to hold more capital. Governments resisted because if they lost this captive market, they would have to pay more to finance and service their deficits.

But those governments would be getting something in return, namely, more control over their fiscal affairs, since this key objection to repatriating fiscal policy would be no more. Greece would no longer be subject to oppressive fiscal oversight from Brussels. Populist politicians, for their part, would no longer be able to blame foreigners for the country’s dire straits.

This change should appeal to Germany as well, since surveillance by the European Commission creates an obligation to help if that surveillance goes wrong, help that ends up being footed, more often than not, by the German government and the long-suffering German taxpayer.¹¹ If Europe disconnects its banks from its sovereign debt market, it will finally be able to enforce its “no-bailout rule,” the clause in the European Treaty specifying that member states should not be liable for the debts of other member states.¹² With banks no longer holding significant numbers of government bonds, applying this rule—which will require a government with an unsustainable debt to restructure it, instead of that government receiving an emergency bailout from other EU member states—will no longer endanger the financial system, neither the Greek financial system nor the German financial system. And then the likes of Alternative für Deutschland will no longer be able to attack the EU as a “transfer union” that

exploits hardworking German taxpayers.

If responsibility for fiscal policy belongs at the national level, then a solution to the refugee problem, in strong contrast, can only be found at the EU level. Securing the EU's external borders can only work if that border security encompasses Europe's entire perimeter, and only if countries with exposed coastlines, including Greece and Italy, receive adequate financial and logistical support. The Dublin Regulation (so called because it was signed in Dublin in 1990) requires that applications for asylum be processed in the country in which a refugee first lands, making this a national responsibility and a national financial burden. Such a system may have been workable when refugee numbers were small, but this is no longer true. And the resettlement of large numbers of refugees will not be feasible, politically or economically, so long as only Germany and Sweden take them.

These are arguments for a coordinated response. But the reality and the constraint are that different European countries, with their different histories and identities, perceive the refugee problem differently. In the middle of the twentieth century Germany and Austria absorbed roughly 14 million refugees, mainly ethnic Germans (so-called *Volksdeutsche*) who fled or were expelled from the countries of Central and Eastern Europe in the late stages of World War II and after. This is an episode of which Germans of a certain age have firsthand recollection and about which young people learn at school. The result is a different attitude toward the refugee crisis than in countries on the other side of the postwar divide, such as Hungary, whose president has asserted, "We want no more people to come. Those who are here, go home!" and "We do not want to see among us significant minorities that possess different cultural characteristics and background to us. We would like to preserve Hungary as Hungary."¹³

This is not to claim that there is no resistance in Germany to refugee resettlement. Nor does it imply that resettling refugees from the Middle East and North Africa will be as easy as resettling native German-speakers. But it is a

reminder of how differences in history, culture, and policy preferences complicate efforts to mount a coordinated response.

The European Commission's initial attempt to organize that response, the European Agenda on Migration in September 2015, was not well received. It created a mandatory distribution formula based on the population of member states (with a weight of 40 percent), their GDP (40 percent), their unemployment rate (10 percent), and their number of past asylum applications (10 percent). Members were promised lump-sum transfers of €6,000 from the EU budget for each refugee taken. Only under exceptional circumstances like natural disaster could a country opt out, in which case it was required to make a contribution to the EU budget of 0.002 percent of its GDP.¹⁴ Orbán, it is fair to say, was not pleased. It's comforting to imagine, as the Commission apparently does, that all European countries will adopt the same welcoming posture toward refugees. But the reality is that attitudes rooted in national histories will continue to differ.

Rather than abandoning the effort to mount a European response to a European problem, better would be to strengthen incentives. If countries want to limit resettlement, they should be required to pay generously. If other countries absorb a larger share of the refugee population, then they should receive significantly more than the measly €6,000 of the Commission's action agenda.

Agreeing on a formula won't be easy. But in a Europe of member states whose preferences differ, there has to be a formula that is superior for all concerned to the Commission's one-size-fits-all policy. Critics may regard bargaining over refugee resettlement as unsavory and insist that countries should display the solidarity to accept refugees according to their capacity purely on humanitarian grounds. That, unfortunately, isn't the actual, existing Europe.

Viewing the issues this way leads, then, neither to more Europe nor to less Europe but to a different Europe. On some issues, such as the Single Market and securing Europe's external borders, all member states will have to work together to achieve acceptable results, and their efforts must be coordinated. On other

issues, including the euro and the passport-free Schengen zone, some countries will be in while others can remain out, both to their mutual satisfaction. And on still other issues, like fiscal policy, the relevant competency can reside entirely with the nation-state.

Note that this is not the two-tier Europe advocated by Eurofederalists like now former German finance minister Wolfgang Schäuble, in which an inner core of committed countries speeds ahead to deep economic, financial, and political integration while an outer ring of more cautious countries, still jealous of their national prerogatives, initially remains behind. Once upon a time there may have been a logic for this two-speed Europe. When Schäuble originally advanced this idea in a white paper written for Germany's Christian Democratic Union in 1994, it was possible to imagine that Europe would consist of a deeply integrated inner core centered on France and Germany, surrounded by the rest.¹⁵ But today Schäuble's vision lacks a functional logic. Degrees of integration overlap: they do not break down into an inner core and outer ring. Not everything must be deeply integrated: the logic for a single fiscal policy run from Brussels is no more compelling than the logic for a single European language. This vision of a two-tier Europe also elicits strong opposition from Eastern European countries and other reluctant integrationists, which fear becoming second-class members.

Fortunately, there is no need to divide Europe into "ins" and "outs." Groupings for different areas may overlap, but they need not coincide. In fact, this is already the case: Denmark is in the Schengen Area but outside the euro zone, while Ireland is in the euro area but outside of Schengen. All countries that have adopted the euro participate in the EU's banking union, since monetary union without banking union will not work, but not all countries that are party to the banking union have adopted the euro or will necessarily do so. This may not be the forced march to economic, financial, and political union envisaged by dyed-in-the-wool Eurofederalists, but it is a way of preserving the fruits of European integration while acknowledging that national identities exist and

preferences continue to differ.

Once upon a time, this model of overlapping groupings was sufficiently fashionable to have a name: it was called “flexible integration.” That phrase, curiously, seems to have fallen from fashion: Google’s Ngram Viewer, which tracks mentions in books, shows that references to the term peaked in 2000, around the time of the euro’s creation, but declined subsequently.¹⁶

That the concept fell by the wayside is not coincidental. Its champions couldn’t figure out how to structure a political system to hold those responsible for formulating these different policies accountable for their actions. They couldn’t figure out how to ensure the legitimacy of the policymaking process and satisfy citizens in different countries that their voices were being heard. If, for example, residents of the Schengen Area were unhappy with the operation of their passport-free zone, because some participating members were not adequately securing their borders, then it was not clear to whom exactly they should complain and how to get satisfaction. And the more overlapping clubs the EU created, the more opaque and complicated this process became, and the less satisfactory the results.

One conceivable mechanism for accountability is the European Parliament, and there have been many calls over the years for strengthening its powers. The Parliament could be given the power to initiate legislation, an agenda-setting prerogative that currently resides with the Commission. The range of Commission proposals and directives requiring approval by the European Parliament could be expanded; presently, most EU legislation is adopted via a procedure under which the Commission must only consult with the Parliament, and the latter has only the power of delay.¹⁷ In the limit, all directives issued by the Commission could be required to receive the support of two-thirds of members of Parliament, or of the members of the relevant subcommittee, as opposed to just the support of the heads of state and government of countries holding two-thirds of the votes in the Council.¹⁸ All Europeans would then have

a voice in EU decision-making, insofar as all significant parties have members in the European Parliament—as opposed to the current situation, where only voters who supported the national head of state, or the coalition standing behind her, have a voice.

But strengthening the Parliament is harder when the policy domain is made up of a crazy quilt of countries that have agreed to pool their national prerogatives in some areas but not others. Why should the representatives of countries that have not adopted the euro vote on the appointment of the president of the ECB, for example? Why should countries that are not party to the Schengen Agreement have the right to approve decisions on how much additional intelligence and security information is shared by its members?

Thomas Piketty has suggested creating a second parliament—call it an assembly—made up of the representatives of countries adopting the euro.¹⁹ That euro-area assembly would vote whether to restructure Greece’s debt, extend a bailout loan, or attach specific conditions to financial assistance, decisions currently taken behind closed doors by the finance ministers and heads of state of the principal European countries. Members could be drawn from the European Parliament, directly from national parliaments, or, as Piketty suggests, from a combination of the two.

This is at best a partial solution, since it harks back to the antiquated vision of a two-tier Europe with a deeply integrated inner core, whose members are represented in the assembly and Parliament both, and the rest, whose representatives sit only in the Parliament. It equates deep integration with the euro, when in fact deep integration means different things to different people in different countries. To many Europeans, it means a common security and foreign policy, not a common monetary and fiscal policy.²⁰ And this approach assumes that national parliamentarians, who are generally preoccupied by other things, have the bandwidth to participate in this euro-area assembly. It imagines that national parliaments will reorganize their deliberations to enable their delegated

members to attend.

In fact, the EU tried this before, in its first quarter century of existence, and the shortcomings of an assembly of national parliamentarians were what led to the creation of a separately elected parliament in 1979.²¹ Going back to a European Parliament of appointed or nominated national representatives would ignore this history. It would be like the United States going back to the system of state legislative appointments under which the U.S. Senate was constituted before 1913. Returning the power to select members to national parliamentarians rather than giving this right to the voters is the opposite of what is needed.

Better would be to work within the framework of the already existing European Parliament. The Parliament could be given enhanced powers over, say, euro-related matters, but only parliamentarians from euro-zone countries would have the right to deliberate and vote on that subset of questions. A different subset of members, again from the participating countries, would have the power to vote on Schengen-related matters, and so forth. The Parliament would channel the voice of the people, rendering the technocrats of the Commission, the ECB, and other EU institutions democratically accountable, but only the voice of the relevant people—citizens of those countries that agreed to cede national prerogatives on the issue in question.

Critics of the European Parliament will object that it isn't capable of providing the democratic accountability for which Europeans hanker. Voters don't pay attention to the Parliament; turnout in European elections is rarely above 50 percent. Members do their business far removed from their constituents and are known mainly for their lavish expenses and for shuttling between their legislative homes in Brussels and Strasbourg. But if the Parliament had more power to initiate legislation and approve or reject directives and other decisions directly affecting the people, voters would have more reason to pay attention. They would have an incentive to elect members who more effectively represent their interests.²²

A more radical step would be direct popular election of the head of the Commission. Under the provisions of the Lisbon Treaty, adopted in 2009, a candidate for president of the Commission is selected by heads of state from a slate of candidates put forward by the major political groupings, after which he is confirmed by the European Parliament.²³ This process puts two layers of separation between the people and their president. The distance between the Commission and the people would be less if its president was chosen by the voting public. If border security, national defense, and foreign policy become important EU competencies, these being the areas where European citizens, when polled, think the EU can make a difference, then the Commission will necessarily acquire additional decision-making power, since defense and security decisions have to be made quickly by an executive. With increased powers, it will then be important for that executive to be directly accountable to the voting public.

Skeptics will contend that no candidate can campaign in twenty-seven member states (although candidates for the American presidency campaign in most or all of the fifty U.S. states). They will object that linguistic obstacles make it difficult for such candidates to effectively communicate with their constituents (although translators both human and mechanical exist).²⁴ But the fact that Europeans expect the EU to deliver on border security, defense, and foreign policy means that in order to recapture and maintain widespread public support, the EU is going to have to create the more powerful executive that will be needed to effectively carry out these policies and act decisively when needed. And with power must come accountability. If EU members are serious about narrowing the gulf between their executive and the people, they will have to move to direct election of that executive.

Will this political reengineering be enough to beat back the populist insurgency threatening Europe? In politics there are no certainties. But an important prerequisite is to reject the vision of a one-size-fits-all Europe and,

equally, the idea that two sizes fit all. Countries that are especially jealous of specific national prerogatives will be reassured by their ability to opt out of European policies in those delicate issue areas. Voters in those countries will then be less inclined to lend their support to a party or leader critical of the European project. It can only help to give the European Parliament strengthened powers to hold the EU's technocrats democratically accountable. Those who complain that the elites take key policy decisions behind closed doors, without due regard for the wishes of the people, should be assuaged.

Will this be enough? Maybe not. But it's a start.

13

Prospects

this comparison of populism in the United States and Europe leads inevitably to the question of which countries are most immediately at risk. At one level the answer is clear: the United States. The United States glorifies income disparities. With a culture that celebrates the entrepreneur and decries government intervention, it does little to restrain market forces. But at the same time as it encourages creative destruction, it provides little assistance to the casualties of what is destroyed. It insists that workers displaced by globalization and technical change should fend for themselves and leave government out of it. When times are tough, this mix of policies and attitudes is all but guaranteed to produce high anxiety about income security, discomfort about prevailing levels of inequality,

and anger at the political class.

In part these attitudes are a product of the distinctive American ideology of individualism and market fundamentalism. As the *New York Times* observed midway through the first year of the Trump administration, candidate Trump cited Ayn Rand, the objectivist avatar of individualism and market fundamentalism, as his favorite author, and her 1943 book, *The Fountainhead*, as his favorite novel.¹ Howard Roark, Rand's protagonist in *The Fountainhead*, is a determined individualist, one of the “exceptional men, the innovators, the intellectual giants … not held down by the majority.”² The last six words are key. As Rand once put it, “Man exists for his own sake” and “must not sacrifice himself to others, nor sacrifice others to himself.” So much, one might say, for helping one’s brother. So much for collective goods. So much for trade adjustment assistance and social insurance.

Ideology doesn’t exist in a vacuum, of course. This distinctively American antipathy to government and championing of individualism have material roots. The hostility of early Americans toward government was a reaction against the Navigation Acts and other economic impositions by the English on their North American colonies. Their exaltation of individualism stemmed from an abundance of natural resources and the safety valve of the frontier, which made it possible, in actual fact, for many Americans to lift themselves up by their bootstraps. Doubts about the efficacy of public programs reflected the limited bureaucratic capacity of a federal government that, after the War of 1812, never faced an existential threat from abroad and was never confronted with a national-defense imperative to develop its administrative competency. They reflected the corruption and patronage that grew up in the absence of that bureaucratic capacity, against which late nineteenth- and early twentieth-century Progressives inveighed and which fed popular skepticism about the ability of public policy initiatives, however well intentioned, to solve social problems.

Resistance to federal government intervention also reflected the country’s

historic division between black and white and between North and South. From Reconstruction through the civil rights movement, southern businessmen and farmers opposed federal government involvement in the economy for fear that it would compromise control of their black labor force. In the 1930s they opposed New Deal programs out of concern that these would interfere with their established way of doing business and the prevailing social order. White southerners were not opposed to the decentralization of social programs or to receiving federal matching funds so long as the design or at least the administration of those programs devolved to the states. Such devolution was consequently a legacy of the New Deal, one that endures even today, for example in the power of states to decide whether to expand Medicaid to cover low-income households under the Affordable Care Act, or Obamacare.

In practice, those individual states, acting on their own, can go some way toward addressing their residents' concerns over economic insecurity and inequality, but only some way. Smaller states, especially, find it hard to independently organize and fund retraining and relocation schemes for displaced workers or to impose additional taxes on high earners with the goal of leveling the income distribution, since such states constitute only a small part of a larger national market. Meanwhile, suspicion of and therefore opposition to federal social programs remain intense. For an America with this inheritance, the challenge of organizing adjustment assistance and compensating the casualties of globalization and technical change is daunting.

This same history of division works in still other ways to limit the willingness of Americans to fund collective goods, including social and economic insurance, as emphasized in [Chapter 1](#) and elsewhere in this book. As the sociologist William Julius Wilson put it, “Many white Americans have turned against a strategy that emphasizes programs they perceive as benefiting only racial minorities. ... [W]hite taxpayers saw themselves as being forced, through taxes, to pay for medical and legal services that many of them could not afford.”³ And

what is true of racial diversity is true also of the ethnic and religious diversity that, in other respects, is a strength of the United States but which makes it more difficult to contemplate income redistribution, to provide public goods, and specifically to organize social insurance against economic insecurity, given lack of solidarity and the belief that the benefits of such programs accrue to others.

From this perspective, the contradictory nature of populism in the United States is no anomaly. People displaced by globalization and technical change are distressed about not sharing in the benefits of an expanding economy and by their government's failure to do more about it, leaving them susceptible to the siren song of populism. But their views are also informed by an ideology that tells them government is the problem, not the solution. One can't help but think of the constituent who allegedly warned Representative Robert Inglis of South Carolina, at a town hall meeting, to "keep your government hands off my Medicare," not realizing that Medicare was a government program. Herein lies the appeal of Donald Trump, who gives voice to the anger of the masses over their economic condition and the failure of government to address their problems, all in the manner of a populist, but who also opposes more spending on social insurance, more trade adjustment assistance, and higher taxes on the rich, all in the manner of a committed Randian. This is not a combination that bodes a happy ending.

Viewed through this lens, Europe has a number of advantages in seeking to beat back the populist threat. From Jean-Baptiste Colbert to Otto von Bismarck, Europeans have more freely acknowledged the role of the state in managing the economy. Industrial policy (*planisme* in French) is not a dirty word. Public policies to address issues of distribution have always been regarded as legitimate instruments of the state. Hostility to government intervention in the economy is not intrinsic to the European psyche. For all these reasons, Western Europe went further than the United States in the direction of the mixed or managed economy after World War II. To be sure, Europe is far from immune to neoliberalism. It

has deregulated its markets. It has opened its economy to trade with the rest of the world. It has encouraged technical change and, in some cases at least, has allowed leading domestic firms to go under. But it has always gone further than the United States in acknowledging the role of government in managing economic change. As a result, most Europeans do not share the instinctual aversion of Americans to public programs offering trade adjustment assistance to displaced workers and training to the technologically unemployed.

Again, these are attitudes in which ideology plays a role. Social democracy as an economic, social, and political philosophy stretches back to the foundation of the German Workingmen's Union and the Social Democratic Workers' Party in the 1860s, as described in [Chapter 4](#). While social democracy means different things to different people, one definition is an ideology that supports economic and social policy interventions intended to promote equality and social justice, including active labor market policies and redistribution, to be implemented by the state within a framework of market economy and representative democracy.⁴ This idea that the fundamental goal of policy is to regulate the economy in order to correct its visible defects and alter the distribution of income in ways that make for solidarity and social justice is not something that is spoken out loud by the leaders of either U.S. political party, much less by their more Randian followers. It developed in Europe as an alternative to more radical working-class movements hostile to the market economy and to representative democracy, notably revolutionary Marxism—movements that never gained the same foothold in the United States. It was an effort to get European societies to pull together in order to avoid splintering apart.

Christian Democracy, also with origins in the mid-nineteenth century, is more fiscally and socially conservative and less enamored of an expansive economic role for the state.⁵ But it also rejects individualism—again, contrast the United States—while privileging social consensus and, consistent with Catholic theology, solidarity with the weak. It thus supports state intervention to advance

economic justice.⁶ Again, this is not exactly a core philosophy of either U.S. political party.

In Europe too, these ideologies have material roots. The European continent is made up of a patchwork of small and medium-sized economies, not even the largest of which, Germany, approaches the continental reach of the United States. Small countries exposed to world markets are by their nature vulnerable to economic (and other) shocks from outside. They need government to buffer the effects, which is why they typically have large and active public sectors.⁷ They face the imperative of having to adjust quickly—they need different social groups to pull together—which is why they have a history of national solidarity pacts, some stretching back to the 1930s, as described in [Chapter 7](#).⁸ In parts of Europe, like the Nordic countries, they have the advantage of relatively high levels of ethnic and religious homogeneity, limiting us-versus-them politics and easing agreement on the provision of social insurance and adjustment assistance. In other cases they have developed institutions and understandings, like the so-called Polder Model of political decision-making in the Netherlands, that acknowledge ethnic and religious differences but emphasize the importance of compromise and consensus.⁹

Finally it can be argued, as in [Chapter 11](#), that European political systems are less susceptible to capture by populists and other dangerously out-of-the-mainstream politicians. This having happened in the 1920s and 1930s, electoral systems were restructured to prevent it from happening again. The United States avoided the shock of extremist capture, which was good, but it also avoided the subsequent process of political and electoral reform, a consequence that is not so happy.

To all these generalizations there are, of course, exceptions. Eastern European countries are in many respects exceptions. Collectivism and certain forms of government intervention have a serious taint in the region as a result of its half-century-long experience with Communism. The exposure of these countries to

democratic political systems and their checks and balances is relatively recent. Their parliaments and courts, being young, and their media, being new, do not always restrain leaders with autocratic and authoritarian tendencies. Respect for individual rights, for different ethnicities, and for religious minorities is not always strongly informed by the lessons of the 1930s, insofar as successive post–World War II generations enjoyed an intellectual holiday from that history in the years of communist rule. Nor do dim recollections of that history delegitimize aggressive nationalism and hostility toward foreigners and minorities when these are used as rallying points by populist leaders, at least not to the same extent as in, say, Germany. Here we have Viktor Orbán’s Hungary and Jarosław Kaczyński’s Poland in a nutshell.

The United Kingdom is another exception. Britain never developed social democracy in the classic European mold.¹⁰ To be sure, like other European countries it moved a long way in the direction of the welfare state and the managed economy after World War II. But starting in the 1980s, in response to a long period of singularly poor economic performance widely blamed on those same governance arrangements, it moved sharply back the other way. Under the leadership of Margaret Thatcher, it moved faster and further in the direction of deregulation, privatization, and welfare state retrenchment than other European countries. It responded similarly, with exceptional public spending cuts, to the financial crisis of 2008–2009, to the point where it now has one of the lowest levels of general government expenditure as a proportion of GDP of any advanced economy, limiting the scope for funding social insurance programs. It has a history of adversarial labor relations and is a kingdom of English, Welsh, Scots, and Irish, facts that complicate efforts to reach a consensus on social issues.

Finally, the United Kingdom, it can be said without threat of contradiction, displays more than the usual level of ambivalence toward the European Union. This reflects its position as an island, its historical status as a global power, and

its supposed special relationship with the United States. This ambivalence means that when anti-elite, anti-immigrant, and nativist sentiment—that is to say, populism—rears its head, the resulting rancor is likely to be directed at the EU. But while Brexit satisfies these base instincts, it doesn't obviously provide a way to simultaneously control immigration, maintain the country's privileged access to European markets, achieve a faster rate of growth, and attack problems of economic insecurity (by, for example, magically increasing funding for the National Health Service, as the Brexiteers promised). Again, this is not a combination of circumstances that looks to end well.

More generally, Brexit points to Europe's gravest populist vulnerability, namely, lack of trust in the European Union. When asked by the European Social Survey in 2014 to rate their trust in the European Parliament on a scale of 0 to 10 (where 0 meant no trust at all and 10 meant complete trust), 12 percent of European respondents answered 0, and more than two-thirds returned a rating of 5 or below, which does not exactly indicate a favorable reaction. There is a strong correlation between lack of trust in the European Parliament and negative views of European integration, on the one hand, and support for populist parties in national elections, on the other.¹¹ The EU is, inevitably, a rich populist target. European integration has always been an elite project. The EU's most consequential institutions, the European Commission and the European Central Bank, are directed by technocrats. As a union of many countries, it is necessarily dominated by foreigners. It champions political freedom, transparency, and human and minority rights. Having started life as a customs union, it is inextricably linked to free trade and foreign competition. Because of the Single Market, it is associated with the right to immigrate in order to work, and therefore with all the economic and cultural concerns posed by immigrants. It is seen as subjecting national economies to a vast array of regulations not well suited to local circumstances, regulations that typify the loss of control felt by residents of once but no longer powerful nations.

In all these respects, then, the EU is readily portrayed as riding roughshod over national values, and over the national sovereignty needed for those values to be upheld. It is seen as a champion of globalization and cosmopolitanism and the enemy of national control. Here we have the platform of Marine Le Pen, steely leader of France's National Front, in short compass. "The EU world is ultra-liberalism, savage globalization, artificially created across nations," as she put it a BBC interview in February 2017, concluding, "I believe this world is dead."¹² Her party's 144-point election manifesto centered on a vow to restore "monetary, legislative, territorial and economic sovereignty," code for beating back interference by the EU and limiting the presence and influence of foreigners.¹³ Le Pen vowed to pull out of the Schengen Agreement and create a 6,000-person-strong border control unit, and proposed in addition a phalanx of new rules affecting immigrants, foreigners, and followers of Islam, all at odds with EU norms. These would have limited legal immigration to ten thousand people a year and insisted on the immediate and obligatory deportation of illegals. They would have prohibited companies in other EU countries from sending their employees to work in France while paying social charges at home. They would have eliminated automatic naturalization for spouses and required French citizenship to be either inherited or "merited," a thinly disguised purity test if there ever was one. Le Pen vowed to end free education for the children of undocumented immigrants. "Playtime is over" was how she winningly described the idea. Her National Front's election manifesto would have restricted the use of foreign languages in schools. It would have banned radical Islamic groups and closed extremist mosques. It would have prohibited all wearing of veils in public.

While Le Pen did everything she could to distance herself from her father, Jean-Marie Le Pen, the founder of the National Front, and from his history of racist, anti-Semitic remarks, it was not hard to see the true targets of her proposed directives. These were the "external menaces" that had featured so

prominently over the years in National Front rhetoric. They were immigrants from other continents, specifically immigrants of different races and religions who could be portrayed as not suitably French. They were the nationals of other EU countries, primarily the nationals of Eastern European countries, where wages and social charges were low. And they were the fundamental values of the European Union.

Le Pen's other economic proposals attacked the EU and its integrationist project directly. She promised to repudiate EU laws banning national preference in public procurement, while prohibiting foreign investment in strategic industries and protecting French companies damaged by “unfair foreign competition.” She proposed replacing the EU's Common Agricultural Policy with a new French agricultural policy and “supplementing” the euro, whatever that meant, with a new French currency. She advocated adding to the French constitution a formal “national preference” for French citizens in hiring, housing, and social benefits, thereby institutionalizing discrimination against foreign nationals, including those of other EU member states. As the capstone, she proposed a referendum on EU membership within six months of taking office, raising the question of France's continued participation in the European project.

In the end, Le Pen failed to carry the day in France's 2017 presidential campaign. The opponents of her extreme brand of populism rallied around the other finalist, the pro-EU Emmanuel Macron, who rode to victory in the second round of the election. Reassured, many so-called experts declared that the wave of anti-EU populism in Europe had crested. One may ask whether their happy conclusion was premature. In a Europe where national histories differ and continue to shape national attitudes—and politics—in distinct ways, and where the majority of citizens identify first by their nationality and only secondarily, if at all, as European, tension between these mixed allegiances is unavoidable. While the EU is not going away, neither are populist attacks on its policies and its legitimacy.

Where, then, is vulnerability to a populist reaction most acute, in Europe or in the United States? The answer, unavoidably, is both. In both places, that vulnerability has deep historical roots. The individualism and the antipathy toward government that complicate efforts on the part of Americans to formulate public policy responses to problems of insecurity and inequality, giving populists fodder, have origins in the nineteenth century and earlier. In Europe, three wars in a century have made the EU and some pooling of sovereign functions an established fact, one that, Brexit notwithstanding, is not going to be undone. But that fact coexists uneasily with durable national identities and therefore with the desire for a significant degree of national policy autonomy, something that in turn will continue to empower anti-establishment, anti-EU politicians, including those of an extreme, Islamophobic, Marine Le Pen-like bent.

In neither case do the resulting problems admit of easy solutions. But understanding the problem is at least a start.