

**Economic Nationalism as a Driving Force of Populism in the U.S.**  
**Pia Malaney**  
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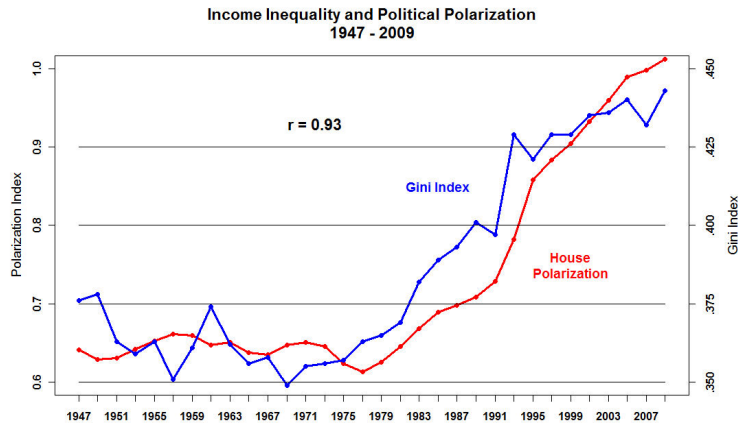
The global surge towards populism presents us with something of a paradox. There seems little question that nothing of an obviously catastrophic nature has happened in the industrialized world, yet seemingly spontaneous outbreaks of populist resentment across Europe and the Americas are occurring at a level that suggests some kind of invisible cataclysm must be taking place. The symptoms of racism and xenophobia appear to be shared; the underlying etiology however is perhaps more complex. We focus here mainly on the US example, but touch on the waves of populism propagating throughout the world as links between it is hard to avoid parallels between some of the economic discontents believed to have been driving recent political shifts in Europe and the US.

**Populism and the Polarization of the US Electorate**

While the role of populism in the US 2016 election took many political observers by surprise political scientists in the US have, for a while, been pointing towards increasing polarization, often the precursor to and co-traveler with, political populism. The divide in the voting gap between congressional Republicans and Democrats, measured by NOMINATE scores, has been increasing since 1975 and is now at its widest ever.<sup>i</sup> The shape of this polarization has not been symmetric but rather right skewed. The shift left amongst congressional Democrats has been moderate, whilst the shift to the right amongst Republicans has been far more significant. Further this shift in Congressional voting patterns does indeed seem to reflect increased polarization amongst voters.<sup>ii</sup>

It would perhaps be unsurprising, then, that the 2016 election brought to the fore candidates in each party that spoke to the most populist tendencies of the American voter. What is surprising, though, is that while Bernie Sander’s message indeed reflected the more progressive end of the democratic party, Donald Trump surged ahead of Republican primary candidates with a message of economic nationalism that was so close to the core message of traditional progressive democrats with a base strongly integrated with the labor movement that it was sometimes hard to tell the messages apart. What, then, is the driving force of a populism that can find a shared economic message on the far ends of a political spectrum in an increasingly polarized population?

Theories attempting to explain increased polarization abound, ranging from rising inequality<sup>iii</sup> to financial crises,<sup>iv</sup> to gerrymandering.<sup>v-vii</sup> Of all the many different causes posited the one link that stands out as being the strongest is that of economic inequality. Gini coefficients for family income in the US has increased by 20 points since the late 1960s while the share of the top 1% has approximately doubled (U.S. Census Bureau, 2002) and the correlation with increasing political polarization is striking.<sup>viii</sup>



Source: McCarthy, Poole and Rosenthal

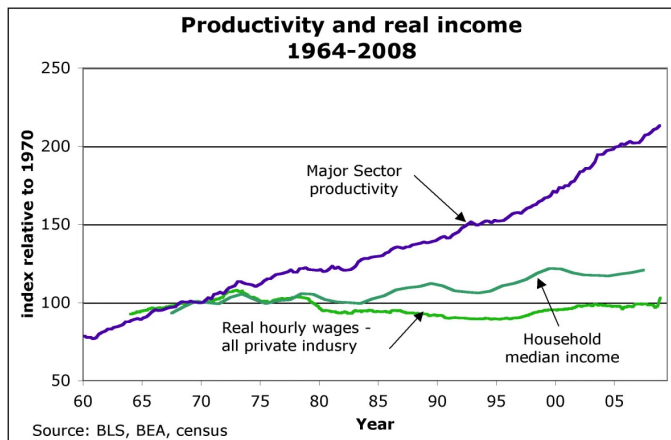
### The Driving forces of US Populism

Are the causes behind populism as clear-cut then? In fact much of focus post 2016 has been on the politics of identity and race. It is indeed hard to escape the observation that in this past election long forbidden expressions of gendered, political, class, racial and religious bigotry were suddenly unleashed from a prison of taboo. A much referenced article by the author Ta-Nehisi Coates gives an elegant if controversial explanation: “But whereas his forebears carried whiteness like an ancestral talisman, Trump cracked the glowing amulet open, releasing its eldritch energies.... Trump truly is something new—the first president whose entire political existence hinges on the fact of a black president.”<sup>xix</sup> Quite apart from its merits, it is a powerful putative explanation - years of seething hatred finally coming to a head. White America lashing back out against minorities and the sanctimonious elites that support them. This wasn't based on income - whites across the income and gender spectrum voted for Trump. What else could it be but a racist backlash against minorities that threatened the cultural and racial supremacy of white America?

Trump's rhetoric during the campaign certainly supported this notion, with open derision of Mexicans, inflammatory rhetoric linking terror to Muslim immigrants, and what appeared to many to be intentional dog-whistle appeals to anti-black racism. Early analyses of exit polls suggested that this might in fact have contributed to his victory.<sup>x</sup> A more sophisticated econometric analysis using 2016 American National Election Study looks at both data from both the primaries and the general election. This analysis confirms that a significant percentage of Republican primary voters believed that immigration led to increased crime rates, and admitted to a fear of terrorism associated with Muslim immigrants. A majority believed that blacks must try harder to get ahead and were opposed to social programs designed to assist African Americans. But while Trump's anti-sexist, anti-Muslim, anti-Hispanic and racist rhetoric helped him during the primaries they in fact *hurt* him during the general election. Economic factors seem to have played a much more important role in November.<sup>xi</sup> These results are consistent with analyses of the Brexit vote and German support for populist parties.<sup>xii</sup><sup>xiii</sup> We turn now to exploring the role of these factors.

## Weighing the Direct Economic Costs of a Globalist Agenda on the US Electorate

A graph that is now familiar to many of us shows that while economic growth rates have increased the growth in real wages has been stagnant for 50 years now. Much has been written about secular stagnation, the jobless recovery and the decline in the manufacturing sector.

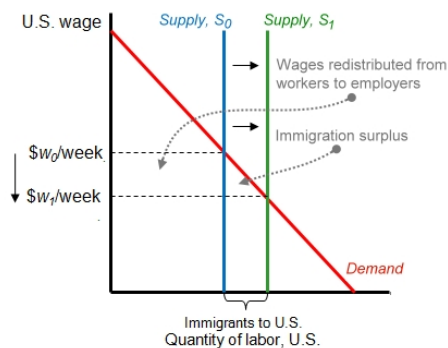


The three main economic forces typically implicated in the decline of the manufacturing sector and the stagnation in real wage growth are automation, trade and immigration. While the major factor may in fact be automation (and government policies can, over time, indeed affect change the manner in which technological change affects the structure of the US job market), it is policies that control trade and immigration that are viewed by voters as the policy transmission channels having the most direct impact, and therefore the ones on which we will focus here.

### Immigration: From 'Costless' Darling of the Elite to Real World Policy Implications

While immigration was undoubtedly one of the most explosive political issues, and possibly the one that allowed Trump the most traction in 2016, its economic impact is perhaps the most difficult to assess empirically. While curiously and frequently sold with expert enthusiasm as a nearly miraculous program with benefits but not costs, even the simplest version of the real economic theory would suggest very clear winners and losers. A simple model is depicted in the graph below, where immigration pushes out the supply curve of labor causing an increase in output (immigration surplus, otherwise referred to as the Harberger triangle) and a decrease in wages, leading to a transfer of wealth from native workers to capital. A third effect, which does not show up on this graph is the fiscal effect of immigration, social spending on immigrants and the tax revenue that they bring in. Endless ink has been spilled on measuring the relative size of these effects. A recent comprehensive NAS report brings together several such studies in an attempt to find some coherent answers. In the short run they find that the fiscal effects are significant, estimated at \$279 billion cost for 2013.<sup>xiv</sup> In the longer run immigrants pay higher taxes make a positive contribution at the federal level, but the burden on state and

local governments is still significant. The estimates of labor market effects are considerably harder to estimate, as the impact on wages depends on several factors such as the substitutability of immigrant labor for native and the geographic mobility of either. What most of the studies seem to agree on, though, is that the wage impact of immigrants tends to be considerably higher for high school dropouts than for more highly educated workers. The most significant effects are undoubtedly distributional. The study estimates the value of the immigrant surplus at \$54.2 billion, and based on the simulations in the study Borjas (2016) estimates the transfer from labor to capital to be approximately \$500 billion.<sup>xv</sup>



Source: [David A. Besanko](#) and Brad Wible

### The Curious Case of Trade: From Ricardian Equivalence to Esoteric Scam?

The case of trade allows us to explore even more closely the political impacts of a globalist economic agenda. Economists have long proclaimed the benefits of trade to national welfare. While a simple Ricardian model does indeed predict overall gains in GDP it should be noted that these gains do not fulfill the somewhat stringent requirements of a Pareto improvement, the gold standard of welfare gains within the lens of mainstream economics, which would require that some people are better off with no one else being worse off. Rather, the best it can do is satisfy a Kaldor Hicks standard, whereby there is a net efficiency gain which can be made Pareto improving if the winners compensate the losers. It has been well known to economists since the 1941 Stolper Samuelson theorem that trade causes winners and losers. In particular, the factor of production that is used most intensively in the imported good will be worse off. With the increase in manufacturing imports that intensively use low skilled labor, it is indeed this factor that one might expect to be the most negatively affected by trade.

Empirical analyses that have evaluated the impact of trade shocks such as NAFTA and the admission of China to the WTO in 2001 have found exactly such an effect. Hakobyan and MacLaren find that the effect of NAFTA was to significantly depress the wages of blue-collar workers in industries and localities most vulnerable to Mexican imports.<sup>xvi</sup> In the case of the China shock Autor Dorn and Hansen find that "... impacts are most visible in the local labor markets in which the industries exposed to foreign competition are concentrated. Adjustment in local labor markets is remarkably slow, with wages and labor-force participation rates remaining depressed and

unemployment rates remaining elevated for at least a full decade after the China trade shock commences. Exposed workers experience greater job churning and reduced lifetime income.”<sup>xvii</sup>

We are now beginning to witness and in fact measure the political implications of globalist policies. Studies of the 2001 trade shock found that Congressional districts with highest import penetration were significantly more likely to remove moderate legislators from office in the 2000s.<sup>xviii</sup> The consequences of the manufacturing decline are perhaps tied to an even more dire set of outcomes. In 2015 we found that for the first time ever in a developing country life expectancy fell amongst a particular American demographic - low income, working class white men and women - precisely the demographic most directly affected by the decline in the US manufacturing sector. These deaths, aptly named “deaths of despair”, were linked specifically to increases in suicides, drug and alcohol poisoning and chronic liver diseases and cirrhosis.<sup>xix</sup> Interestingly, it was in the counties most strongly affected by these deaths that Trump was most likely to overperform in 2016 compared to Romney.<sup>xx</sup>

### **From Pareto Improvement to Inequality via Kaldor-Hicks: The Indirect Costs of a Globalist Agenda**

It has historically been more than mildly uncomfortable for economists to talk about harms due to inequality under Pareto and near Pareto improvements. In such a situation where everyone is technically made at least as well off as they were before, many economists ask why we should consider any harm as having been done if a few lucky agents become much better off. Yet this misses the intuitive and behavioral explanations that in a world where an elite becomes far richer, the marketplace becomes a kind of referendum weighted by wealth on how society should distribute scarce resources. Where many have their shares (e.g. dollars, income, assets, etc.) deeply diluted by the presence of big winners, society empirically undergoes stress, whether or not economic theorists agree to its basis in reason, as those who benefit least experience a dilution and relative loss of control.

While it may fairly be asked whether policies made by lawmakers like trade treaties and immigration acts contribute the lion’s share of inequality, it is likely impossible to resolve the question in the absence of any plausible concept of a controlled experiment. What can, however be said, is that those experts who promised that “a rising tide lifts all boats” were almost certainly found guilty by voters of making a naive appeal to a distributional principle tied to no sound theory, and a promise that appears to have been honored only in the breach.

When we speak of direct harm, we speak of things that translate directly into reduction of wages, jobs, purchasing power, and other measurable effects. Indirect economic harm may be seen as harms that act through reduction of value that is not concrete enough to be measured directly. For example, a reduction in economic security/stability, a negative impact felt as a tearing of the fabric of civil society, or a despoiling of the environment might all be seen as indirect effects. These issues, (explored in detail in Malaney,

Weinstein 2017), are often neglected as they are implicitly assumed to be a small adjustment to direct growth and distributive effects.

### **Identity Politics as Cheaper Substitute for Economic Nationalism**

Economic nationalism, while credited to Steve Bannon and his campaign strategy for Donald Trump, is actually the traditional bread and butter of the Democratic Party. Thus it may be asked why such a potent vote getting strategy had been all but abandoned at least since the Clinton era of the 1990s.

Perhaps the simplest explanation is that economic nationalism is thought by many to be too expensive to the donor class on which the Democratic Party became dependent (see Investment Theory of Party Competition)<sup>xxi</sup>. When hedge fund managers and real-estate owning families became indispensable to democratic fundraising, it was at a time when Unions and organized labor were at a reduced level of influence following the PATCO dissolution and its aftermath. In such a world, a less expensive substitute needed to be found by the party elite, and identity politics appeared to provide a weak proxy, using minority groups and group identity as a more-or-less direct substitute for labor groups and pocketbook issues. In such a switch from a focus on economic growth and naturally equitable distribution by market forces, elites could still create a galvanizing force, but one that would become increasingly difficult to satisfy or control for obvious and varied reasons tied to zero sum politics.

### **Narrative Shift and Expert Back-Pedaling: Taking a Mulligan on Globalization**

This shift in agenda was neatly supported by an academic economics elite, based on somewhat aggressively and overly simplified models that highlighted the economic efficiency value especially of trade. In the words of Paul Krugman, “If economists ruled the world, there would be no need for a World Trade Organization (WTO). The economist’s case for free trade is essentially a unilateral case: a country serves its own interests by pursuing free trade regardless of what other countries may do”.<sup>xxii</sup> The reaction then amongst this very elite to the increasing evidence that working class America was directly feeling the link between these globalist policies and their bottom line has been particularly interesting to observe. In general, the major narratives have changed out of necessity. While leading economists were previously nearly unified in their enthusiasm for open trade and immigration, the current backlash has back-propagated into the expert community as mainstream economists seek to ‘clarify’ their previous positions. This change has generally been without an acknowledgement of the pivot in economic narrative where issues of distribution, inequality and negative effects from globalization were previously heresies that got economists all but excommunicated from the mainstream of the profession. Krugman, for example pronounced in 2016 that: “[I]t’s also true that much of the elite defense of globalization is basically dishonest: false claims of inevitability, scare tactics (protectionism causes depressions!), vastly exaggerated claims for the benefits of trade liberalization and the costs of protection, hand-waving away the large distributional effects that are what standard models actually

predict...the elite case for ever-freer trade is largely a scam, which voters probably sense even if they don't know exactly what form it's taking."<sup>xxiii</sup>

Brad Delong, Deputy Assistant Secretary of the U.S. Department of the Treasury in the Clinton Administration and one of the architects of NAFTA defended its impact in 2014 stating: "NAFTA has benefits. The same logic that leads us to think that the bilateral U.S. trade deficit from NAFTA has reduced employment in the U.S. by 350,000 leads us to think that it has boosted employment in Mexico by 1.5 million—that's 3% of the Mexican labor force. Mexico's unemployment rate is currently 5%. Would we really wish a world in which it were 8%?"<sup>xxiv</sup> While the effects of trade in ameliorating poverty in less developed countries is indeed a laudable goal, this message is perhaps not unlinked to the resonance that Steve Bannon's message of economic nationalism found with specifically that segment of the US population which was forced to pay the price. What is perhaps even more interesting is that Delong recently admitted that the social welfare function underlying free trade in the domestic realm was indeed a Social Darwinist one, and that the academics use of Ricardian Equivalence as an argument, which of course trade theorists understand is not valid in general based on its assumptions, was simply reliance on an exoteric argument as the general public was not sophisticated in enough to understand the real reasons for free trade.<sup>xxv</sup>

Further, it is against this backdrop that Donald Trump framed the press as the enemy in 2016 for spreading an expert narrative that has since been partially abandoned by economists and politicians scrambling to align themselves with voter revolt. It is therefore worth considering the effect that changes to the official backstory and governing narrative have on those who reluctantly accepted the expert rationale for globalist policies as being in the clear best interests of the electorate. Just as voters were once told that these policies must be passed immediately in a near panicked atmosphere, they were now confronted with the claim that the cost of reversing these policies would be potentially catastrophic. This left voters with unpopular yet apparently irrevocable laws on the books whose now largely abandoned rationale had somehow managed to pass through fact-checking, two political parties, and an expert community. With each new admission that trade and immigration were (obviously) not the costless policies that had been advertised, academic self-respect was now routinely being sacrificed on the altar of political survival by disgraced experts without acknowledgement of professional backtracking in most cases. Further, the expert community affected a position of being baffled as to why programs with such modest or narrowly concentrated costs would produce such backlash against professional academicians.

### **Conclusion: How, and How Not, to Explain Populist Backlash in Economic Terms.**

What then do we make of Coates' argument that the predominant factor underlying the populist upsurge in 2016 was one based on race and identity?

In and of itself, it seems not very persuasive. The election of Barack Obama seems to be a US phenomena whereas almost certainly the populist outbreak is internationally distributed. Further, there is excellent reason to think that the direct economic harms from

trade and immigration are not experienced as race related and that there were plenty of older white men of establishment pedigree contending for the presidency. Further, the 2012 election might well have been a blowout for Romney were this reasoning to hold.

Direct economic harm arguments fare slightly better. We are now able to look with some granularity at concentrated harms to vulnerable populations in key swing areas of the US electorate with some support. Yet even here, it does not appear that the direct harms from immigration and trade are so clear as to provide a universal etiology for a worldwide shift in sentiment.

We are however, not persuaded that these are the most major effects. As we argue in Malaney-Weinstein (2017), the most plausible explanation is that a class of indirect economic effects has been systematically underestimated and neglected.<sup>xxvi</sup> Simply put, voters appear to value trust in their institutions of civil society. During the period from 1980-2008 and 2008-2016 a large variety of exotic changes were argued for and implemented, including NAFTA on trade and IMMACT90 on immigration to say nothing of offshoring, downsizing, right to work initiatives, bailouts, deregulations, self-regulation of banking, M&A, Quantitative Easing, troubled asset purchases, securitizations, buy-backs, and other creative attempts that often seemed to have more to do with distributional objectives than stimulating evenly distributed innovation led growth across labor markets. In M-W, it is posited that there is an entire category of major effects that are likely all but invisible to economists used to thinking narrowly about direct economic effects like wages and jobs. In an analogy to the catch-all term from business accounting for abstract value, we have termed these effects as Goodwill accounting in the context of globalist economic policy and include such factors as underestimating the behavioral economics concept of endowment effect of loss, or the loss of agency as jobs shift from one region to another, or consent (eg. when policies are fast tracked).

But just as we look to accounting as a sister subject to guide us when traditional economics is in a state of disarray, there is a second effect that appears to have been neglected that is familiar to students of law. In the theory of liability for indirect causation, it is found that when a party is negligent, their liability is not limited to the strict harms that they cause if additional harm is caused in a foreseeable way. In our context, if passing trade treaties and immigration acts allow powerful interests to engineer those acts in a way that redistributes wealth toward those who lobby, the expert community may find that the public finds them liable for the harm done by others. Further, if inequality skyrockets, say, during a period of market manipulation for geopolitical interests furthered by exoteric expert rationalization without allowing voters access to the true esoteric motivations, voters may find experts liable for the inequality spike whether or not they can exactly prove direct causation as they have been cheated of any ability to give informed consent expected from membership in civil society. Since the experiment cannot be re-run, any harm done during such a period may, under reasonable burden of proof, be assumed due to esoteric star chamber manipulations until proven otherwise to the satisfaction of the citizenry.



In 2016-7 Donald Trump and Steve Bannon notably made the press into the opposition. In any society in which the press was seen as a check on power, this would have almost certainly doomed Trump's chances at the presidency. It is however consistent with all observations that a major effect of democratizing the spread of information and disinformation through social media was to bring into question whether institutional narratives spread by traditional media had gained some kind of exemption from scrutiny by mainstream press. And when those old media mainstays attempted to solidify their hold in this new world by raising the cry of 'fake news' they were quick to find that their own news product could be put under the same microscope and often be found wanting.

Since the globalist narrative was in large measure a product of the self-styled transnational elite of the industrialized world, and spread across borders and boundaries for years in a way that could not be checked by the citizenry until social media gained something approximating parity with the power of old media, it was likely keeping a kind of international order in a world that communicated largely through official channels. It would appear that this monopoly eroded sometime between 2012 and 2016 and may account for why this phenomenon of populism has erupted so suddenly and in so many locations.

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