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The Rise of Populism: The Masses Have a Case

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and Fiscal Management Global Practice**

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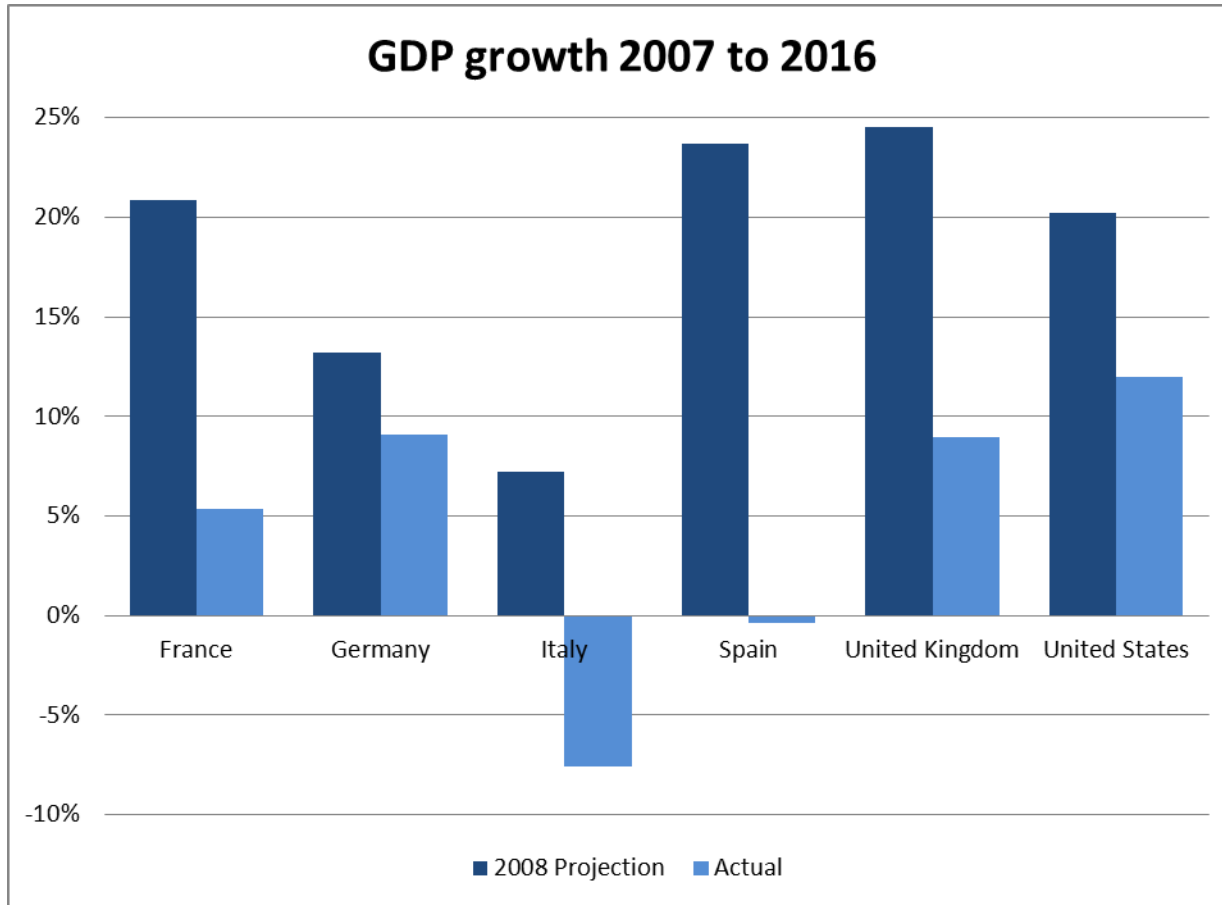
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Main Points

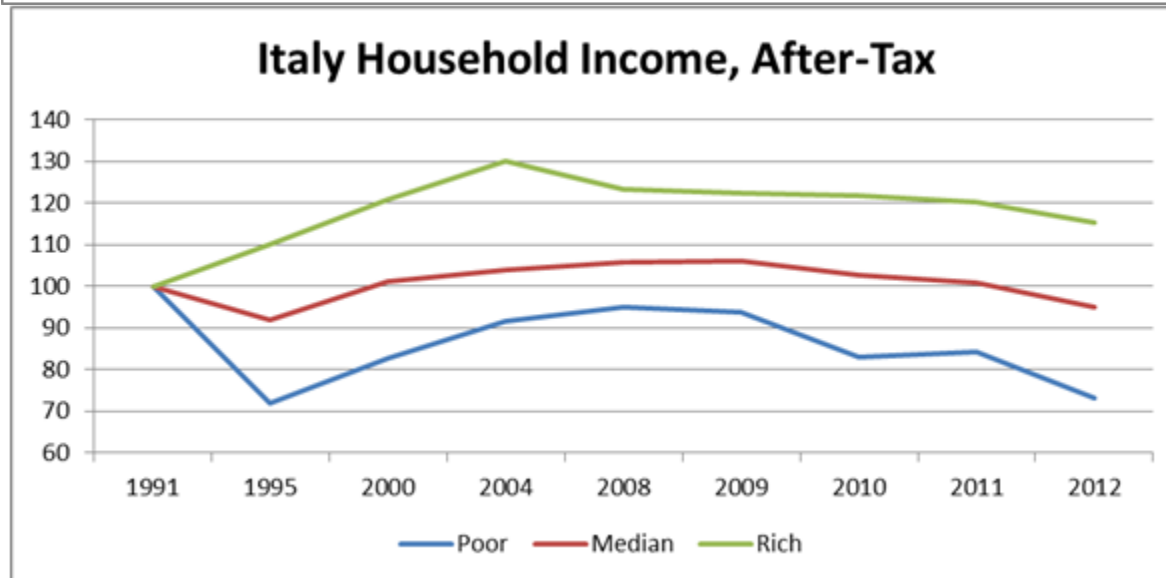
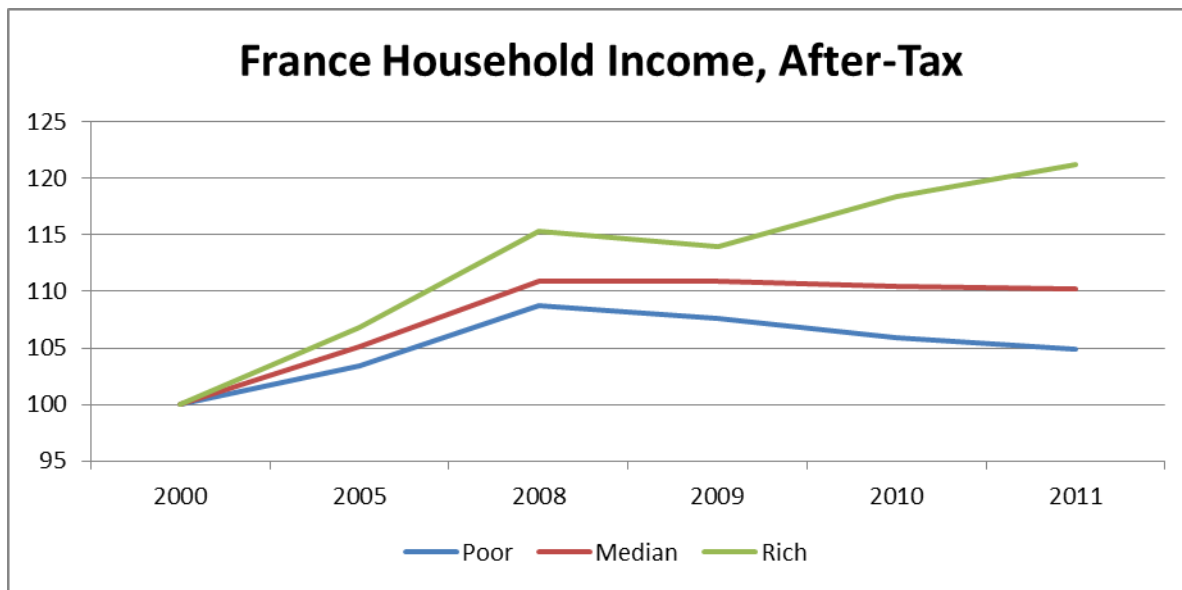
- 1) Large segments of the population of rich countries have seen few economic gains in recent years due to weak growth and rising inequality.
- 2) Economic anxiety has fed the growth of populism.
- 3) There are alternative policies that can promote both growth and greater equality.

Weak Macroeconomic Performance

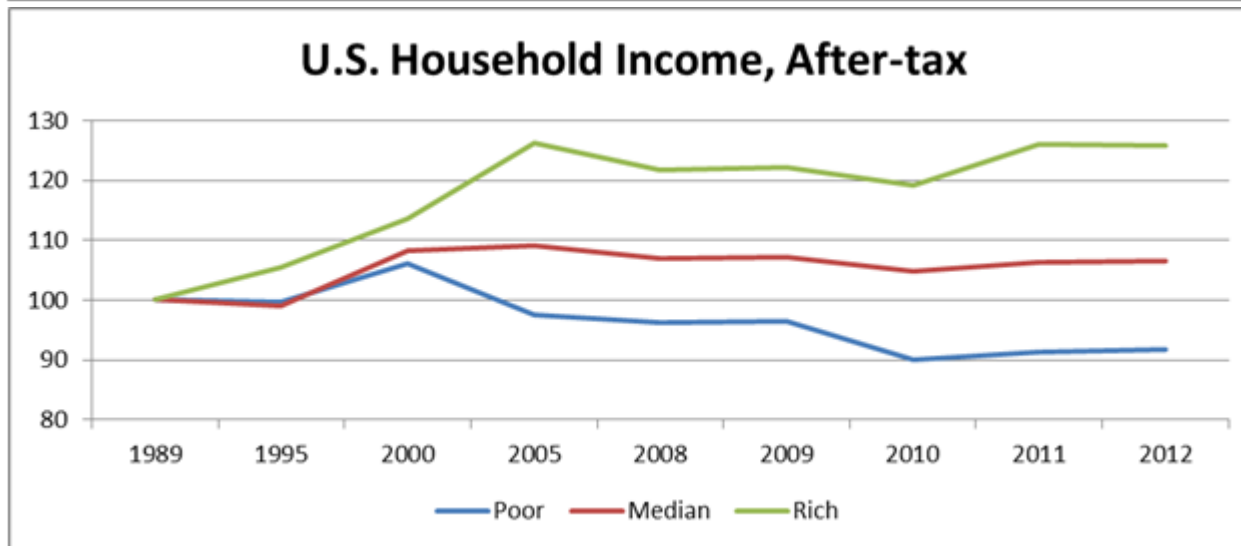
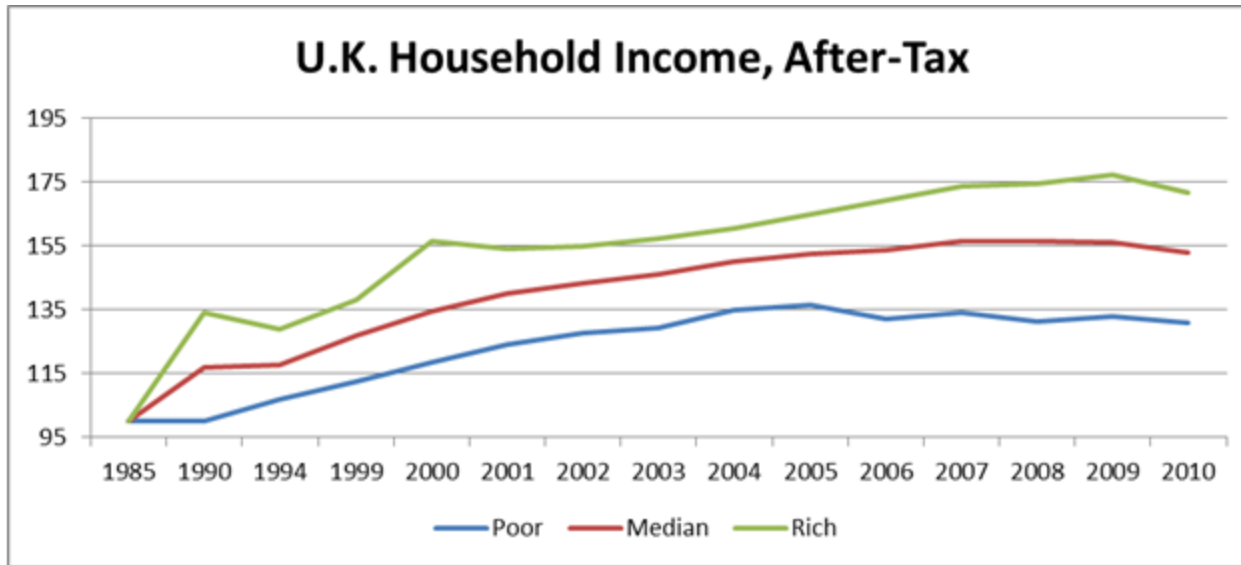
- a) Failure to recognize asset bubbles
- b) Underestimated weakness of recovery



Source: International Monetary Fund.



Source: OECD.



Source: OECD.

Evidence of Link Between Economic Anxiety and Populism

1) What they say

- a) Brexit: shore up National Health Service
- b) Trump: bring back good-paying manufacturing and mining jobs

2) Statistical Analysis

- a) Monnat 2016: Trump outperformed most in counties with high rates of death due to drug overdoses, suicides, and alcohol.
- b) Gub 2016: In Republican primaries, Trump did best in counties with largest increase in mortality rates.
- c) Autor, Dorn, Hason, Majelsi 2016: Largest shift to Trump in commuter zones with greatest exposure to Chinese imports.
- d) Baker and Rawlins 2017: If college graduation rates had grown at 1959–79 rate, Clinton would have won decisive victory.

Alternative Policies

(Rigged: How Globalization and the Rules of the Modern Economy Were Structure to Make the Rich Richer)

- 1) Macroeconomics
- 2) Intellectual Property
- 3) Financial Regulation
- 4) Corporate Governance
- 5) Protection of Highly Paid Professionals

Macroeconomics

- 1) Excessive concern about inflation and government debt.
- 2) Stimulus through public investment.

Intellectual Property Rules

- 1) Reduced protection – tradeoff innovation and inequality.
- 2) Publicly funded research and creative work.
- 3) Especially important for prescription drugs – U.S. spends \$440 billion annually for drugs that would sell for around \$80 billion in a free market

Financial Regulation

- 1) End Too Big to Fail (or require equivalent insurance payments)
- 2) Financial transactions taxes – narrow sector has quadrupled relative to size of economy since 1970
- 3) Greater transparency in public dealings with financial sector.
- 4) Public competition

Reforming Corporate Governance

- 1) CEO pay went from 30 times ordinary worker's salary in 1970s to more than 200 times in recent years
- 2) Mediocre CEOs often leave with hundreds of millions in pay
- 3) CEO pay sets patterns throughout the economy
- 4) Current practice – CEOs and top management largely control boards of directors
- 5) Provide incentives to hold down CEO pay.

End Protection of Highly Paid Professionals

- 1) Facilitate foreign competition – standardize licensing requirements (U.S. bans foreign doctors who have not completed a U.S. residency program.)
- 2) End unnecessary licensing restrictions on scope of practice of lesser paid professionals
- 3) Potential savings are large -- \$100 billion (0.5% of GDP) if U.S. doctors paid same as in other rich countries
- 4) Likely large interactive effect: 850,000 doctors, most in top 2% of wage earners (3 million people)

Conclusion

- 1) It is possible to design policies that promote growth and equality
- 2) Benefit to developing countries also
 - a) More growth means more demand for imports
 - b) more growth would lead to more innovation
 - c) Rich country prosperity will lead to less mean-spiritedness towards world's poor.