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The Populist Turn in American Politics

BARRY EICHENGREEN

Economic inequality and exclusion dominated electoral politics across the West in 2016, and will do so again in 2017. The context and country may change, from the Brexit referendum in the United Kingdom and Donald Trump’s presidential campaign in the United States, to strong support for Marine Le Pen of the far-right National Front ahead of the 2017 presidential election in France. But the taproot of support for these anti-system, anti-globalization, anti-immigrant movements is in each case fundamentally the same.

The common denominator is the sense among a growing segment of society of being left behind. People see their wages stagnating and jobs becoming less secure. Rising inequality suggests that this is not just an economic problem, with gross domestic product and productivity growing less rapidly, but also a political problem insofar as income growth accrues disproportionately to the wealthy. It is unclear whether to blame technology, trade, or immigration. Hence the tendency to blame all three and to vent one’s anger by voting against establishment politicians and parties that have failed to temper their effects.

Relatedly, there is a feeling that society, and the government through which its members translate their preferences into policy, has lost control of these processes. It has lost control of the nation’s borders, allowing immigration to run wild. It has lost the ability to guarantee national and personal security; fear of terrorism merges in popular and political discourse with fear of immigration. It has lost control of the capacity to create good manufacturing jobs, permitting China to capture them by negotiating unfair trade deals and manipulat-

ing its currency. The resonance of Trump’s promise to build a wall to deter illegal immigration from Mexico is a clear manifestation of this perception, as is the argument for exiting the European Union as a way to regain control of Britain’s economic and political destiny from faceless bureaucrats in Brussels.

Finally, there is a feeling that those in charge have allowed the erosion of the collective institutions through which earlier economic and social challenges were met. The decline in trade union membership, which in the United States dates from President Ronald Reagan’s efforts to break the air-traffic controllers’ union, weakened an institution through which workers were able to press for a fair share of corporate revenues and employment security. Deregulation supported by politicians receiving corporate campaign contributions allowed pharmaceutical firms, health insurers, and other large companies to charge their customers what they pleased. Local communities that have grown more diverse and heterogeneous, whether because of immigration or for other reasons, lost their sense of collective solidarity. They therefore provide less support, psychological and financial, to their disadvantaged members. All this leaves voters with a helpless sense that outcomes are determined not by the decisions and actions of their communities and governments, but by forces—some anonymous and some all too identifiable—beyond their borders and beyond their control.

‘HELPLESS DEMOCRACY’

This new populism bears more than a passing resemblance to the old Populism of the late nineteenth-century United States. The Populist Revolt was a complex phenomenon, as John D. Hicks showed in his classic book of the same name, published in 1931. Populist rhetoric singled out rapacious moneylenders and monop-

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listic railways for exploiting hardworking Midwestern farmers, who were powerless in the face of high interest rates and ruinous shipping costs.

Modern accounts lay more weight on commercialization, which exposed the farmer to international market forces beyond his control and comprehension. Produce that had been sold locally was now priced globally. A farmer's income from raising wheat in Nebraska depended on yields in the barley fields of Ukraine. The price of Sea Island cotton was affected by events in the Nile Basin. Interest rates and freight charges may have played only a subsidiary role in the farmer's difficulties, but it was easier to blame the railway and the bank, which had a physical presence, than invisible Egyptian and Ukrainian producers. And it was easy to blame a government unable or unwilling to do anything to help. The Farmer's Alliance, the first organized political and social movement of American farmers, was at its height in the 1880s.

The Populist Revolt involved more than just agrarian unrest, of course, as L. Frank Baum explained in *The Wonderful Wizard of Oz*, his children's novel published in 1900. The Scarecrow, standing in for the beleaguered farmer, has as his steadfast companion the Tin Woodman—who symbolizes the worker struggling to cope with a radically changed industrial environment now dominated by large firms exercising monopsony power and employing arbitrary personnel-management practices.

The Knights of Labor, the first national worker's organization of consequence in the United States, was fundamentally a creature of the 1880s, though it was founded in 1869. Its growth was evidence of the sense on the part of workers that they were unable to do anything to improve their circumstances by acting alone. The 1880s were a decade of exceptional industrial "violence and turbulence," in the words of John Commons in his seminal *History of Labor in the United States*, published in 1918. Workers engaged in strikes, boycotts, and even sabotage as they sought to regain control of their destinies, or at least of their immediate economic conditions.

This was also a period when the share of income going to the top one percent rose sharply. Peter Lindert and Jeffrey Williamson, in their new book *Unequal Gains*, document this trend in the United States in the final quarter of the nineteenth

century and again following the turn of the century. In 1851, Alexis de Tocqueville had famously described the United States as "more equal . . . than . . . any other country of the world . . . in any age of which history has preserved remembrance." Now, however, the economy was dominated by a handful of so-called robber barons—Carnegies, Morgans, and Rockefellers—who accumulated vast fortunes through new technologies utilized by megacorporations that operated unrestrained by antitrust law, progressive taxation, or other regulation. The robber barons were resented for their wealth but also for their political influence—for how "they held sway over a helpless democracy," in the words of the historian T.J. Stiles.

In these circumstances, insecurity and workers' sense that they were not receiving their fair share of a growing industrial pie manifested itself in support for anti-system political candidates and parties. The economic policy agendas of the Democrats and Republicans focused on whether or not to extend tariff protection to large manufacturing

firms rather than addressing the plight of farmers and workers. Growing numbers of working-class voters felt that the platforms of the two parties did not adequately address their concerns.

In response, the Populist Party was formed in 1891. Supported by Southern cotton growers and Midwestern wheat farmers, sometimes allied with labor unions and advocates of "free silver" (inflation rather than deflation) from Western mining states, the Populists won nine percent of the presidential vote in 1892. In 1896, the Populists fused with the Democrats and nominated William Jennings Bryan, who ran on a platform of free silver and as a champion of the wage earner, the storekeeper, and the farmer. There was also a racist strand in the positions of Populist politicians like Thomas Butler of Georgia, the party's presidential nominee in 1904, who sought to appeal to a constituency of Southern white farmers who had not shared in the prosperity of the period by insinuating that they should blame their black neighbors for their plight.

BLAMING IMMIGRANTS

This sense of insecurity and exclusion also manifested itself in anti-immigration sentiment. If wages stagnated, and if men of Scotch-Irish descent found themselves competing for jobs with

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recent arrivals from Eastern Europe and Asia, then it was tempting to blame immigration for what was wrong with the world. In 1882, President Chester Arthur had signed the Chinese Exclusion Act barring all immigration of Chinese laborers, in response to complaints and pressure from native workers. He and others justified the measure with reference to racial stereotypes. Senator John F. Miller of California, where much of the Chinese population resided, referred disparagingly to “machine-like” Chinese workers.

The General Immigration Act, also enacted in 1882, clamped down on the entry of other “undesirables.” In 1907, the US government successfully pressured Japan to limit the issuance of passports to its citizens who wished to work in the United States. The roles of nativism, xenophobia, and economic strains in the development of these restrictive policies remain hard to disentangle. The safest conclusion is that the three factors were bound up together.

Although Bryan was defeated in 1896, the Populists’ complaints did not go entirely unheeded. Already in the 1880s, mainstream politicians, or at least some of them, understood that they had to address the concerns of farmers, miners, and workers or risk losing out to more radical political movements. Their response, in addition to restrictions on immigration, included the Interstate Commerce Act of 1887, which required railroad rates to be “reasonable and just” and gave the federal government limited enforcement power. Also in the 1880s, a majority of US states adopted usury laws placing a ceiling on interest rates or, where such laws already existed, moved to enforce them more stringently.

Financial interests opposed to the free coinage of silver proved too powerful to overcome. But the Populist critique did register, convincing even supporters of the gold standard that the monetary system, to survive politically, had to be reformed. The result was a National Monetary Commission to investigate alternatives, and then the Federal Reserve Act of 1913 to provide an “elastic currency” more responsive to the needs of the economy. This was still far from a comprehensive response to the Populists’ grievances. But it did indicate that mainstream politicians were listening. And it was enough to contain the third-party threat.

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America’s entry into World War I interrupted politics and economics as usual, but only temporarily. National security concerns were invoked in support of the 1917 Immigration Act, which imposed a literacy test on immigrants over 16 years of age and barred “anarchists, or persons who believe in or advocate the overthrow by force or violence of the government of the United States.” The legislation excluded Asians outright, with exceptions only for the Japanese, who were already subject to immigration restraints, and Filipinos, who were US nationals under colonial rule in that period.

The Immigration Act of 1924 replaced a temporary act adopted in 1921 and put in place permanent quotas based on the national origins of the US population in 1890. The timing of new immigration restrictions starting two and a half years after the end of World War I must be understood against the background of the difficulties confronting the nation during a period of economic readjustment to a peacetime footing. Most notably, the unemployment rate

soared to nearly 12 percent in 1921.

The year used in the quota calculations is also revealing. The temporary 1921 act set national quotas based on the number of foreign-born persons in the

country in 1910. Much of the “new immigration” of the last decade of the nineteenth century and first decade of the twentieth was from Southern and Eastern Europe. These new immigrants were disproportionately Catholic, Orthodox, or Jewish. According to contemporary stereotypes they were clannish, difficult to assimilate, and inclined to radical politics. In the extreme, they were prone to anarchism and terrorism. This belief was encouraged by the well-publicized arrest and conviction in 1921 of Nicola Sacco and Bartolomeo Vanzetti, alleged followers of Luigi Galleani, an Italian anarchist and advocate of revolutionary violence. Pushing the basis for quotas back to 1890 had the effect of limiting entry by this new, supposedly more dangerous element and better preserving the ethnically and religiously homogeneous United States of the idealized nineteenth century.

Outside New England, where the Sacco and Vanzetti case unfolded, nativism found reflection in the Ku Klux Klan, which reached a peak in membership in the 1920s. Deploring criminality, immorality, and non-Protestant values, the Klan at-

tacked immigrants, Catholics, and Jews as well as black Americans. The 1920s Klan was more urban, Northern, and Western than its nineteenth-century predecessor. It responded to the desire of lower- and middle-class white workers to protect their economic status from encroachment by migrants from Eastern Europe and the rural South. Many members were drawn from “a backward segment of American society, one trapped by economic insecurity, dying small-town ways, and an inability to adjust psychologically to the ‘modern age,’” as the historian Leonard Moore writes. “The Klan appears to have acted as a kind of interest group for the average white Protestant who believed that his values should remain dominant” in an America increasingly populated by other groups.

Klan members won political office not just in the South but in northern states including Indiana, Colorado, and Oregon. They worked through the established political parties—both of them—rather than founding new parties of their own. Membership grew by an estimated 4 million, but the Klan never became a dominant force in American politics. The Roaring Twenties was a time of wage gains for the majority of American workers. By the end of the decade unemployment had fallen to little more than 3 percent. Relative gains still mattered, to be sure: some could complain that they were not doing as well as others, and after 1920 the income share of the top one percent rose further. But the fact that most people were doing better in absolute terms by the end of the decade meant that economic dissatisfaction was limited.

PROTECTIONIST BANDWAGON

The 1930s narrative was different. Support for an open, market-based economic system was undermined by the high unemployment and social distress caused by the Great Depression. The first casualty was the openness of the American economy to trade. The political economy of US trade policy had evolved considerably since the McKinley Tariff in 1890. Back then, the United States had been an exporter of agricultural commodities and an importer of industrial products, such as tinplate from Britain. Tariffs protected American manufacturing while burdening farmers and consumers of imported products.

Over the subsequent quarter-century, the United States developed into the leading exporter of industrial goods by harnessing its abundant natural resources (including petroleum and high-quality

iron ore) to an industrial complex that depended on mass-production methods using fuel and raw materials. In the 1920s, as a result, tariff protection was a matter of less interest and urgency to US manufacturing, which was well positioned to withstand foreign competition, than it was to the farmer—the wheat farmer of the Midwest, for example, who found himself suffering from low prices due to the expansion of production in Canada, Australia, and Argentina.

The movement that culminated in the 1930 Smoot-Hawley Tariff had originated a decade earlier as an effort to support American farmers after World War I, when the expansion of acreage under cultivation in other countries threatened to depress prices. The depression that started in the second half of 1929 injured industry as much as agriculture. There was a temptation to point to imports as aggravating or even causing those difficulties, and to jump on the protectionist bandwagon. The tariff bill that emerged from Congress and was signed by President Herbert Hoover in 1930 therefore raised duties on agricultural and industrial imports alike. Rather than favoring one sector over another, the main thing it did was to close off the United States, even as it was experiencing serious economic dislocations, from trade with the rest of the world.

APOSTLES OF ANGER

A 25-percent unemployment rate, such as the US experienced in 1933, is fertile ground for populist extremism. A leading populist of that time was Huey Long, who moved from the governorship of Louisiana, a position he won by tapping into the anger of poor rural voters, to the US Senate in 1933. His rhetoric and methods were Trump-like; as Long himself once said, “I used to get things done by saying please. Now I dynamite ‘em out of my path.” For political advice he relied on his family rather than political professionals. As one of Long’s supporters put it, “Others had power in their organization, but he had power in himself.” That power was applied in the form of carrots, through the provision of patronage, and sticks—threats often veiled but sometimes bordering on “outright thuggery,” in the words of the midcentury scholar of Southern politics, V.O. Key.

Long was an outspoken critic of the rich and the banks. The Federal Reserve System was a particular target of his venom. He appealed to working-class people hit by the Depression with a “Share Our Wealth” program focused on taxing

the wealthy and redistributing the proceeds to the poor and homeless, in the manner of a guaranteed-income program. While economists pointed out that the sums did not add up, details were not of the essence.

In 1933, Long broke with President Franklin D. Roosevelt on the grounds that FDR's New Deal was too friendly to the banks and business interests, and insufficiently redistributive. The reality was probably that the New Deal was simply too successful at placating Long's constituency and would have been an obstacle to his plan to launch a primary challenge to FDR in 1936. In any event, an assassin's bullet, fired shortly after he announced his presidential candidacy, brought Long's national ambitions to an end.

Long's leading surrogate was the radio preacher Father Charles Coughlin of Royal Oak, Michigan. Coughlin was early to understand the power of radio to attract a national audience and mobilize a mass movement. He had taken to the medium in 1926 to protest the Klan's burning of crosses on the grounds of his church. By 1930 he was commenting widely on politics. Advocating social and economic justice for the common man, Coughlin, like Long, supported Roosevelt in the 1932 presidential campaign. He backed the New Deal in 1933, but by 1934 he had turned against FDR, whom he called too accommodating to "money changers" and too willing to compromise with the forces of evil. From that point, Coughlin lent his support to Long.

Coughlin's increasingly radical proposals started with direct government control of the Federal Reserve System. (His plan to remove private bankers from the boards of Federal Reserve Banks found an echo in proposals by Bernie Sanders in the 2016 Democratic primary campaign.) From there he veered into free silver and nationalizing the railroads, channeling two long-standing Populist themes, together with guaranteed work and wealth redistribution through taxation. Coughlin praised Hitler and Mussolini, or at least their policies, for enlisting industry and banking to advance their nationalist agendas, contrasting them favorably to Roosevelt. From there it was a short step to anti-Semitic and fascist rhetoric, and to advocating an isolationist foreign policy of neutrality toward Europe.

Workers' sense that they were not receiving their fair share manifested itself in support for anti-system political candidates.

By 1934 Coughlin was reaching tens of millions of listeners who were captivated by his message of hope, change, and elite conspiracy. As with today's radio and television talk-show hosts like Rush Limbaugh and Sean Hannity, it is hard to pinpoint his impact on American politics. But by 1936 the extreme and erratic nature of his statements had caused many voters to turn against him. A Gallup Poll that summer asked whether Father Coughlin's endorsement would make the respondent more likely to vote for or against a candidate. Democrats, Republicans, and self-identified Socialists were all more inclined to answer "against."

SECURITY AND OPPORTUNITY

The other factor undercutting support for Coughlin's brand of populist extremism was evidence that the political establishment was seeking to address the concerns of the insecure and excluded. FDR can be personally credited with fostering this impression: his first inaugural address's message that "the only thing we have to fear is fear itself" spoke to the American people's heightened sense of insecurity in language they could understand. His rhetoric was designed to show that he stood with the common man and not with big business or finance. In his 1936 Madison Square Garden speech, he declared: "We had to struggle with the old enemies of peace—business and financial monopoly. . . . They are unanimous in their hate for me—and I welcome their hatred."

The New Deal concretely responded to the concerns of those who had not shared in the prosperity of the 1920s and were hit hardest by the Depression. The Agricultural Adjustment Act addressed farmers' concern about low crop prices. The Rural Electrification Administration and the Tennessee Valley Authority sought to bring electric power to deprived communities, directly addressing complaints of exclusion. The Wagner Act assured workers of adequate representation, obliging firms to bargain with unions selected by a majority of their employees. Other New Deal initiatives like unemployment insurance and Social Security addressed the insecurity of the masses in the difficult transition to the twentieth-century industrial age.

World War II was followed by the expansion of the welfare state, or the social market economy as

it was also known, in the United States and other advanced countries. The share of the top one percent of the US income distribution, and for that matter the share of the entire top ten percent, was now significantly lower than in the 1920s due to increases in progressive taxation, a legacy of World War II. The country's position as the global leader in manufacturing, reflecting the electrification and reorganization of factories in the interwar period and then wartime advances in mass production, generated an abundance of well-paying factory jobs. Sustained growth fostered a sense of economic opportunity, and access to higher education through the GI Bill for veterans reentering civilian life enhanced socioeconomic mobility.

Given the opportunity to rapidly expand production and profits against the backdrop of a buoyantly growing world economy, keeping the assembly line moving became even more important than before. Manufacturing firms prioritized harmonious labor relations, which they sought to secure by sharing their profits with their workers. The 1950 contract between the United Auto Workers and General Motors, known as "the Treaty of Detroit," secured the peace for five years and created a template for subsequent agreements.

These observations may paint a somewhat one-dimensional picture of the postwar economic and social climate, but they serve to highlight the contrast with both the late nineteenth century and the 1920s, which is what matters here. This was not a promising economic climate for demagoguery.

The international political situation, and specifically the Cold War, on the other hand, remained highly conducive to the rise of a figure like Senator Joseph McCarthy. A long-standing interpretation sees McCarthy not simply as seeking to situate himself as the leading opponent of a foreign Communist threat and its domestic fifth column. In this view, he was capitalizing on yet another revolt of the masses, this one driven by the status anxiety of white working-class Americans who feared losing their jobs and socioeconomic position to blacks who had migrated north and west during the war. Working-class whites were therefore receptive to a kind of distorted midcentury populism championing nationalism and traditional values while ostracizing Jews, intellectuals, and Communist sympathizers. They were sympathetic to McCarthyism, in other words.

Subsequent scholarship has not been kind to this interpretation. Historians like Michael Rogin

and David Oshinsky established that working-class Wisconsin voters were not, in fact, disproportionately inclined toward McCarthy. There may have been status anxiety, but it did not dominate American politics in a period when inequality was falling and economic growth was lifting all boats. Status anxiety did not give rise to legions of McCarthys or prevent "Tailgunner Joe" himself from crashing and burning. Concern with relative economic status was less prevalent in a period when the absolute economic status of most families was rising. To be sure, Barry Goldwater, accepting the 1964 Republican presidential nomination, declared that "extremism in the defense of freedom is no vice." And Richard Nixon never entirely put his association with McCarthy behind him. But still, the political center held.

FRAYED CONSENSUS

Historians disagree about when this consensus began to fray and the image of America as a land of opportunity, as a champion of free trade, and as a leader in preserving global peace and security, began to tarnish. Faced with a resurgence of isolationist tendencies, some cite the trauma of wars from Vietnam to Iraq. To explain growing opposition to immigration, some emphasize 9/11 and Islamophobia, others slowing economic growth, rising inequality, and the stagnation of working-class wages since the 1970s. History suggests a role for each of these, but above all for insecurity and the sense of having been left behind. The only surprise, given this confluence of factors, is that it took so long for a populist reaction to materialize.

That same history suggests, at a general level, how the political mainstream should respond to populists now seeking to capitalize on such sentiment. It suggests taking more seriously concerns about inequality and, specifically, the resentment and alienation of once-privileged groups who feel left behind. Proposals for a higher federal minimum wage, a basic income, and more progressive income taxation all speak to such concerns, although their affordability and political feasibility are debatable. Donald Trump has called for tariffs on imports from low-wage countries as a way to bring back high-paying manufacturing jobs, but virtually all economists question whether those jobs will ever return in an age of artificial intelligence and automation.

The alternative is a program including more public funding for education and training, with

the goal of enabling American workers to meet foreign competition and encouraging a more productive service sector. It would offer tax breaks for working-class families with child-care expenses to enable parents, women in particular, to remain in the workforce, thereby making it worthwhile to invest in their education and training. On the macroeconomic front, this would entail a monetary policy fully committed to bringing inflation up to the Fed's two-percent target and sustaining economic growth—not unlike the monetary policies advocated by Bryan in 1896 and implemented by FDR in 1933.

President-elect Trump campaigned on a promise to achieve a significantly faster rate of economic growth through a combination of deregulation, tax cuts, and an ambitious new program

of infrastructure spending. He pledged to address complaints about inequality and economic exclusion by easing the way for small business, limiting the competition for jobs from immigrants, and using a more aggressive trade policy to bring back high-paying manufacturing employment to the United States. In the past, achieving a faster rate of growth and sharing the benefits more widely, often through government intervention in the economy, have worked to beat back the populist turn in American politics. But whether the new president's policies will succeed in delivering these results is at best uncertain. Most observers detect a significant disconnect between the means and the ends. The jury is out. ■

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