

# Dignity, Inequality, and the Populist Backlash: Lessons from America and Europe for a Sustainable Globalization

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**Dignity, Inequality, and the Populist Backlash:  
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The greatest challenge to the sustainability of our current era of globalization comes from within the United States. The United States is at the center of global system. No single country has played a larger role in creating—and then cheerleading for—this era of global capitalism than has the United States. Yet most Americans have come to reject globalization: according to some polls, as few as forty percent of U.S. citizens believe that globalization is a force for good. As developing countries around the world came enthusiastically to embrace globalization, global capitalism began to face its fiercest critics in the developed world.

What can be done to restore the legitimacy of global capitalism within a country that, perhaps paradoxically, continues to embrace its national model of capitalism? We must discern the lessons from the parts of the developed world where the backlash is also profound—France, for example—and where it has been more muted—such as Germany.

Resolving these challenges has taken on an even greater urgency in the midst of the SARS-CoV-2 pandemic. The American fiscal policy response has reproduced some of the American system's inherent failings and allowed for the emergence of mass unemployment, while the German fiscal policy response has preserved both the stability of firms and employment patterns. Now more than ever we should examine how to cultivate the legitimacy of the system in the eyes of its citizens.

**How America Fell Out of Love with Globalization**

No single force can explain the spread of anti-systemic populism on both the Left—think Senator Bernie Sanders—and on the Right—the movement that delivered President Donald Trump. The decline of the U.S. share of world GDP has driven nostalgia for an erstwhile moment of predominance. An era of mass migration led to increasing cultural conservatism and nationalism. The convergence of center-Right and center-Left politicians and political parties disillusioned many voters, who felt increasingly that their political system offered them little real choice between broadly similar centrist options. Globalization, combined with automation and increasing returns to talent and education, created pressures for wage convergence among workers across the world with similar skills—and thereby inequality within developed

countries. The backlash against the establishment, the elites, immigrants, and global capitalism might feel as though it came in a rush, but it had been building for decades.

The economic part of this story has received much attention. That is a story of those who feel left behind by the integration of markets for goods, services, and capital. Rising income inequality was, according to many, a driving force behind the current crisis. It is indeed true that American income inequality—as measured by the share of national income earned by the top ten, five, and one, and one-tenth-of-one percent of income earners—has not been as high as it is today since 1929. There is something to this story, but it is too much rooted in the material world.

### **Reflections on the Revolution in France**

There is more to it than that. We can conclude this by comparing the United States to France, another nation in which the backlash against globalization is profound. The French dislike globalization even more than Americans do: only thirty-seven percent of French citizens believe that globalization is a force for good in the world.

The ongoing revolution in France invites our reflections. It is so very much like the convulsions within the United States. Antipathy toward globalization, immigration, and European integration propelled Marine Le Pen into the second round of the French presidential contest, which she may well have won had not President Emmanuel Macron saved France—and Europe—from such a fate. Nearly ninety percent of Le Pen’s supporters favor protectionism. The *Mouvement des Gilets jaunes*—the populist, grass-roots turbulence on the streets of France—also revealed the antipathy of many French citizens toward their political and business establishments. The other ingredients of the American backlash were present as well: concerns about immigration and identity; the convergence of center-Right and center-Left political parties; and feelings of having been left behind by European and global market integration.

One key difference separates the American and French experiences. The French did something about rising inequality, while the Americans did not. [See Figure 1.] The Gini coefficient is another measure of income inequality: the higher the number, the greater the inequality. The gross Gini coefficient measures the market outcome before the state intervenes to tax and transfer income. The net Gini coefficient measures the amount of inequality that prevails after the state’s intervention.

A powerful narrative emerges from this one figure. In both the United States and France, gross Gini coefficients have increased sharply during the past thirty or so years. That is, the same forces for wage dispersion—automation, increasing returns to talent and education, and globalization—in the developed world manifested themselves similarly in both economies.

The French state has, however, put up perhaps the most impressive struggle against the pressures that have created an era of extraordinary inequality within developed nations. The

French state has managed to deliver a net, after-tax, after-transfer distribution of income that is *more equal* than it was thirty years ago.

And yet: France is still in the midst of an anti-systemic populist revolt. The French still despise global capitalism.

There is only inescapable conclusion: It is not just about the money. There must be something else going on, and it may be the same thing in both the United States and France. Those who feel left behind in both countries feel that they have lost respect. They feel that they have lost their dignity, even their honor.

The French compensated those who were left behind after the fact. Instead of rising net income inequality, the French got something else: persistently high unemployment. Youth unemployment has hovered around twenty percent. The overall unemployment rate has varied between eight and ten percent. But this unemployment is not accompanied by extreme poverty. Unlike the United States, France does not have working poor in a significant measure. The French model is one of compensated unemployment.

In France the long-term unemployed are known today as *les exclus*—the excluded. Harvard sociologist Michèle Lamont describes their risks of “social isolation” in her *Dignity of Working Men*.<sup>1</sup> This way of thinking is precisely how one of the common slogans of the yellow-vest protests became *Dignité pour tous*—Dignity for All. Surveys conducted by the Center for Political Research at Paris-based Sciences Po reveal that supporters of Marine Le Pen’s populist bid for the French presidency are far less likely to believe that “society is structured so that people get what they deserve.” Le Pen’s supporters are also far less likely to believe that the state “should take from the rich to give to the poor.”<sup>2</sup> They feel, in other words, that the system is unfair, but they do not want the state’s *post-hoc* management of that unfairness.

The United States, on the other hand, chooses not to compensate the left-behind at all. The left-behind faced instead declining real wages as others flourished. In the United States, the frustration of the left-behind does not spring simply in response to the material fact of a lopsided income distribution; rather, many people are aggrieved by the social fact that they feel less valued and less valuable. In Chris Arnade’s *Dignity* we hear from the left-behind of their feeling “excluded,” “rejected,” and “humiliated.”<sup>3</sup> Or as Joan Williams writes of the white working class in particular: “They demand dignity.”<sup>4</sup> The opportunity to undertake “hard

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<sup>1</sup> Michèle Lamont, *The Dignity of Working Men: Morality and the Boundaries of Race, Class, and Immigration* (New York: Russell Sage; and Cambridge, Mass.: Harvard University Press, 2000).

<sup>2</sup> Yann Algan, Elizabeth Beasley, Daniel Cohen, and Martial Foucault, “The Rise of Populism and the Collapse of the Left-Right Paradigm: Lessons from the 2017 French Presidential Election,” Center for Economic Policy Research Discussion Paper 13013, August 2018.

<sup>3</sup> Chris Arnade, *Dignity: Seeking Respect in Back Row America* (New York: Sentinel, 2019).

<sup>4</sup> Joan C. Williams, *White Working Class* (Boston, Mass.: Harvard Business Review Press, 2017).

work,” according to the interlocutors in Arlie Russel Hochschild’s *Strangers in their Own Land*, “confers honor.”<sup>5</sup>

Money cannot buy dignity or status. If it could, then France would not be facing an even worse backlash against globalization. If redistribution could make global capitalism more legitimate, then the French would not be in revolt. By the time the gross Gini coefficient has increased by that much, it is simply too late for a policy intervention to preserve the legitimacy of global capitalism.

In *Economic Dignity*, the economist Gene Sperling makes a powerful normative case for the promotion of dignity as the central goal of economic policy. Sperling highlights three elements: the ability to care for one’s family without deprivation; the capacity to pursue potential and a sense of purpose; and the ability to contribute.<sup>6</sup> The philosopher Martha Nussbaum offered a similar normative justification for the centrality of dignity in her *Creating Capabilities*.<sup>7</sup>

I propose a more positive case for dignity, status, meaning, and purpose as *tools* of policy, beyond their normative desirability as goals. These are the tools that legitimize capitalism. And it may well still be a good idea to redistribute income: to create a safety net, to limit poverty, to pursue a particular idea of fairness. We should not, however, confuse the creation of a safety net with a political tool for preserving globalization. As a political tool, it will not work.

The interventions must come much sooner—before gross inequality has reached such high levels. We cannot fix it after the fact.

### **Lessons from the German Model**

Europe has, fortunately, provided a natural experiment of sorts. A wide variety of models of capitalism exists on the Continent. If France helps us to understand what will not work and that it is not just about money and redistribution, then exploring the German model might help us to make sense of the opportunities to resolve some of the contradictions of capitalist nations that have fallen out of love with global capitalism.

For Germany is a capitalist nation that still loves global capitalism. The same survey that revealed that Americans mostly did not like globalization and that the French liked it even less shows that the Germans still favor the system that we have come to take for granted. Sixty percent of Germans still believe that globalization is a force for good. Societies with somewhat

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<sup>5</sup> Arlie Russell Hochschild, *Strangers in their Own Land: Anger and Mourning on the American Right* (New York and London: The New Press, 2016).

<sup>6</sup> Gene Sperling, *Economic Dignity* (New York: Penguin, 2020).

<sup>7</sup> Martha C. Nussbaum, *Creating Capabilities: The Human Development Approach* (Cambridge, Mass.: The Belknap Press of Harvard University Press, 2011).

similar economic models, like Denmark, for example, express even more favorable attitudes: sixty-eight percent.

What is Germany doing right that France and the United States have been doing wrong?

The German system produces a manageable distribution of dignity. The German model helps citizens' to find meaning and purpose through their contributions to society by their labor.

The German system is not perfect. Nor do I imagine that the German model could be lifted out of one national context and placed into another with expectations that it would work the same way. Germany has, furthermore, benefited from a Euro exchange rate that is undervalued compared to how much the Deutsche Mark would have been worth on international currency markets. And with the increasing influence of *Alternative für Deutschland* (AfD), Germany has its own nationalist response to the cultural challenges of immigration for national identity.

Yet it would be reckless to imagine that countries cannot learn from one another even if the context varies. Great leaders, as Isaiah Berlin reminds us, "grasp the unique combination of characteristics that constitute this particular situation—this and no other." So: What is general? And what is unique?

When it comes to the management of the backlash against global capitalism, Germany, among a handful of other north European countries, has shown that many things that are now inconceivable in the United States and elsewhere are, in fact, possible. The German model—just like every national model of capitalism—is unique. But there are general lessons.

Can a rich nation with high wages and extensive regulation still sell more manufactured goods to the rest of the world compared to how much it buys? Yes, Germany does. Can a rich nation manage the pressures for wage dispersion by managing one of the world's lowest levels of income inequality as a pre-tax, pre-transfer outcome—more equality before the fact, rather than after it? Yes, Germany does. Can a rich nation create a skilled labor force that continues to find meaning and purpose through labor? Yes, Germany does. Can small- and medium-sized enterprises flourish in an age of integrated markets for goods and services? Yes, German firms do.

Redistribution of income within rich nations cannot save global capitalism. But there are things that just might. Doing so will require the efforts of the government, of firms, and of civil society as a whole. Part of the agenda is to pursue what Dani Rodrik and Charles Sabel have described: Building a Good Jobs Economy. Rodrik and Sabel argue that a series of targeted interventions that connect the public sector to the most productive segments of the private

sector.<sup>8</sup> And another part of the agenda must be to enhance the meritocratic fairness of the system.

### *A Financial System that Supports Small- and Medium-Sized Firms*

The story of post-war German economic success is of its small- and medium-sized firms. The term *Mittelstand* eludes precise definition, but it captures the ethos of the sector: relatively small firms, family-owned across generations, and which produce goods that are essential to German industry or competitive on world markets.

For all of the American enthusiasm for entrepreneurship, large firms predominate in the United States: nearly sixty percent of all enterprises employ more than 250 people. Small- and medium-sized companies, in a telling contrast, overwhelmingly prevail in Germany, with sixty-three percent employing fewer than 250. [See Figure 2]

Although entrepreneurial Americans in the last decade and a half created, on average, around 2.7 million new businesses each year, thirteen percent of which hired employees within the first four quarters, the financing model of the United States invites them not to stay small. Venture capital firms are designed to invest in small firms so that they might make it big. Venture capital investments in the United States today compose approximately thirty-six percent of GDP, while in Germany, Switzerland, Denmark, and the Netherlands, venture financing represented only between two and four percent of output. This is one of the beauties of the American system of equity financing: it helps small firms with good ideas become large.

For the purposes of stable, long-term patterns of ownership and employment, however, an equity-financing model also has its downsides. The German financial system, in contrast, is bank-based. The banks tend to have long-term relationships with these firms, and, in a way, the financial system exists to support precisely them.

This so-called patient capital has its own downsides. German banks are not known for their corporate governance. And they do not make much money. But there is something here to learn.

That is that the financial sector must, as much as possible, serve the real economy more than itself. The U.S. economy has been steadily undergoing a so-called “financialization,” a phenomenon of expanding the share of the financial, insurance, and real estate sector in total added value: in 2018, for example, this share amounted to twenty percent. U.S. corporations also propel the expansion of the financial sector globally, as is evident in the Fortune’s 2019 Global 500 ranking. Twenty-seven American financial firms earned \$203.5 billion in profit, or 9.4 percent of total profit generated by the 500 leading firms in the world.

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<sup>8</sup> Dani Rodrik and Charles Sabel, “Building a Good Jobs Economy,” March 2020.



We need not be against this *per se*. But we must *also* create a system to allocate capital to small- and medium-sized firms in the United States over the long run—and across the country—if we are to maintain stable patterns of employment in the places where Americans actually live and vote. Some small- and medium-sized firms should remain small and, physically, where they are if we want globalization to survive.

Making this possible will not be easy. It is, however, possible, to learn lessons from Europe’s experimentation. A wide range of possibilities emerge. Three are essential.

*An Education System for Skills and Not (Just) Self-Actualization*

In the United States we have been selling a mythology for at least a generation. That mythology is that there is only one path to a solid middle-class life. That path leads through college or university.

And the mythology has become dangerous. What, the young ask us, should we study at university? Whatever, we say, your little heart desires. Self-actualize. How much debt should I take on to pursue my passion? Whatever, we say, it takes.

U.S colleges and universities awarded close to 3 million degrees annually in recent years, a high point thus far in a secular trend of growing share of college-educated Americans. [See Figure 3]

Proceeding alongside has been another trend: the growing weight of the financial burden of college education. Since 1970, the allocation of federal student loans has increased 1,175 percent. In 2018–2019, \$106.2 billion were borrowed in college loans. Millennials and post-millennials, thus, enter the labor market with a bachelor’s degree and an average debt of \$29,000. Although middle- and lower-income parents and students are more likely to borrow, about ten percent of dependent students from all social strata took on particularly large debts of more than \$40,000.

In most European countries, college education is essentially free or highly accessible (exceptions are Italy, the Netherlands, Portugal, and the United Kingdom). And yet European nations have a smaller share of adults with college education [See Figure 4]. At the same time, countries like Germany and Denmark are more successful in creating highly skilled labor forces.

The German recipe is not to educate more and at whatever cost but rather to educate differently. While during the late middle-school and early-high-school years in the United States are, these days, defined by a desperate struggle to enter elite colleges and universities, in Germany students are also preparing for a lifetime of continuous skills development and, most likely, middle-class and upper-middle-class incomes.

Germany has a regulated labor market that integrates 75 percent of recent graduates, in contrast to the regulated labor markets of Italy and Spain that fail to find employment for a third of young people. The secret ingredient in the German system is a robust, well-integrated

vocational education and apprenticeship system, along with the essential engagement of employers and trade unions. That engagement ensures that the content of vocational education and training meets their needs. In other words, everyone benefits.

The smaller share of Germans with college degrees, thus, is balanced by a larger share of the population with vocational training: 58 percent of adults compared to an average of 44 percent across OECD countries. The vocational education track in Germany is broad: engineering, manufacturing, and construction attracts one-third of students (similar to other developed countries); another third studies business, administration, and law (higher than the 18 percent OECD average); programs in health and welfare are the most popular, with 43 percent of graduates (more than double the OECD average).

There is clearly a wide variety of ways in which people can contribute to the economy and thereby earn income—and also respect.

Systems like Germany's track students into paths that lead them either to skills-based, technical training or to university. The skills-based, technical path is not, however, seen as a personal or familial failure. It is just a track—and a dignified one.

The esteem in which this vocational calling is held is an essential part of German national discourse. "The world needs people with a practical approach to life," argued Chancellor Angela Merkel in December 2019 in favor of the German approach to skills-based education. In her recognition of the German winners of the WorldSkills Competition, Merkel congratulated the team for being "excellent ambassadors of skilled crafts and trades and German training." Merkel used the occasion to emphasize her government's commitment to strengthening the full spectrum of vocational training in the country's dual-track system.

Such a system has many advantages. Perhaps best of all it does not involve a lie. In a winner-take-all economy, in which the middle class is hollowed out, Americans today know that either they will make it or they will not.

#### *A System to Support Social Mobility*

One enduring ideal of the narrative that we in the United States call the American Dream is that success is individualistic. The strong flourish, and the weak struggle—or so our story goes.

If this were true, then the family into which one was born would be irrelevant to one's labor market outcomes. To put it most simply, it would not matter who your parents were. This might have been true once upon a time. If it were true then, then that fact held primarily for white men.

Regardless of the past, it is not true today. [See Figure 5.] The correlation between parental income and children's income in the United States is not low; it is, rather, rather high. The higher the correlation, the lower the degree of intergenerational income—or, to use a word

that has fallen out of fashion—class mobility. The American Dream narrative implies that class mobility should be maximal, that every person has an equal chance to rise toward the top or to fall toward the bottom.

These days everyone knows that this is simply not true. The data reveal exactly that. There are countries—mostly in northern Europe—in which one’s economic fate is uncorrelated with one’s parents’ economic fates. The United States is, however, not among them.

One hypothesis for this outcome is that only the rich have clever, hardworking children, while the poor have less meritorious, less hardworking children. We can, of course, dismiss this possibility out of hand.

But if this is not the case—that indeed our distribution of income is *not* primarily based on merit—then it is not fair. Americans increasingly know that it is not fair, even if the causes of that unfairness are not always clear.

This sense of unfairness is essential to understanding the American backlash against global capitalism. Americans, like many others, will tolerate all manner of inequality as long as they believe that it is being produced meritocratically.

Consider the countries that seem to produce a distribution of income that is unrelated to the provenance of the individual—and therefore those that create widespread opportunities for intergenerational mobility. What do they do to enhance intergenerational economic mobility? There are lessons for how the United States might enhance at least the sense of fairness in the material fact of the income distribution.

For one, those systems tend to have primary and secondary educational systems that are relatively equal across the nation. As is well known, this is not the case in the United States—not state by state, not region by region. The American public education system is financed largely through local property taxes. This means that public schools in affluent communities tend to have more resources—and that the opposite results holds well. This does not mean that financial resources determine the quality of education. But it would be absurd to deny that resources do help.

Another fact about those systems in which the principles of the American Dream are more vibrant than in America is that there tend to be limits on the abilities of families to pass professional and educational advantages across generations. Taxes on inherited wealth level the playing field—or bring the starting lines closer together. Whatever the metaphor, Americans understand that we do not begin this race from the same place. The more that is true, the less that merit determines our outcomes.

What is most needed, then, is a reformation of the social system—including the funding of public education and the taxing of inherited wealth—such that equality of opportunity prevails more fully than it does today. The backlash against the system, the elites, and the

establishment would be less disruptive if at least individual American children had broadly similar opportunities to become agents of the system, one of the elites, or part of the establishment. In a sense the United States has created for itself the most combustible combination: a mythology of classlessness in a system of an increasingly rigid class divide.

### **Conclusions and Reflections**

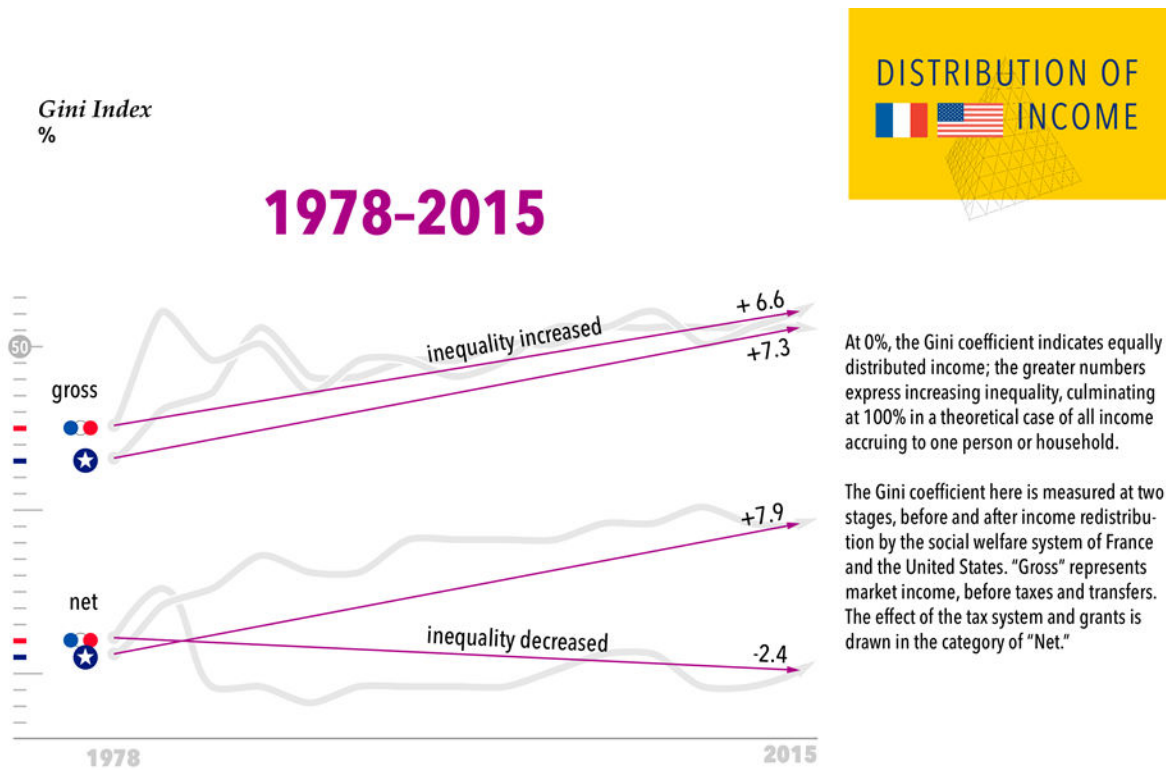
So we cannot redistribute our way out of the crisis of global capitalism. If we are to save the system as we know it, then we must consider alternatives. Some require cultural shifts to restore our societies' commitments to the value of those who contribute to our economy with compensation that is less modest compared to the higher wages of elites. We must value and valorize the many ways in which people contribute what is essential, rather than glorify high wages themselves.

If governments and firms do not act decisively now to make the models of capitalism in America and Europe more friendly to small- and medium-sized firms, more equal in opportunity, and more meritocratic, then we will suffer the fate of our parents and grandparents in the 1930s and 1940s: a destruction of the system.

The SARS-Cov-2 pandemic has changed none of this. Yet it has brought all of it into stark relief. The pandemic has enhanced the already existing fissures that undermine some societies' commitments to globalization. The pandemic has undermined trust in many of our political leaders. The sudden stop to the economy has undermined the vulnerable most of all, as our elites have been able to engage in the luxury of social distancing without creating significant economic insecurity for their households.

The American policy response has, for example, also unnecessarily exacerbated these fissures. Although the overall size of the fiscal packages passed by the U.S. Congress have been large as a share of output, those packages have lacked the creativity of other countries', notably Germany's. [See Figure 6.] The German approach, like some others in Europe, has focused on keeping small- and medium-sized firms afloat and maintaining employment through a variety of measures to ensure liquidity and subsidize wages. The American approach, in contrast, has tended to channel funding to larger firms and deal—modestly—with the consequences of mass unemployment, rather than taking measures to avoid that unemployment in the first place. All of these distributional consequences are evident, and they will fuel the fire of resentment and disillusionment unless business leaders, policy makers, and civil society activists act now.

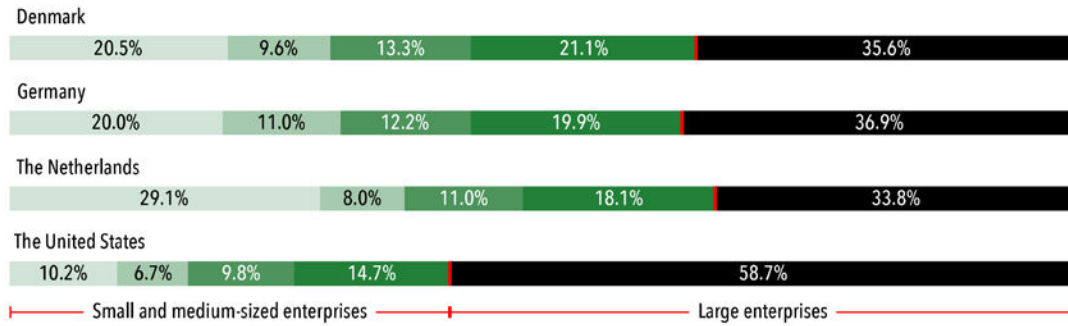
Figure 1. Gross and Net Income Inequality in France and the United States



Source: Calculated based on data from *OECD.Stat*, <http://stats.oecd.org>, and *Luxembourg Income Study (LIS) Database* microdata, cited in Max Roser and Esteban Ortiz-Ospina (2018), "Income Inequality," *OurWorldInData.org*, <https://ourworldindata.org/income-inequality>.

Figure 2. European Small Firms and U.S. Large Firms

*Employment by Enterprise Size, Percentage*



The classification of enterprise sizes, according to the number of people employed



Source: OECD, *Entrepreneurship at a Glance 2017*.  
 Note: Figures reflect data for 2014 or latest available year.

Figure 3. The U.S. Trend toward College

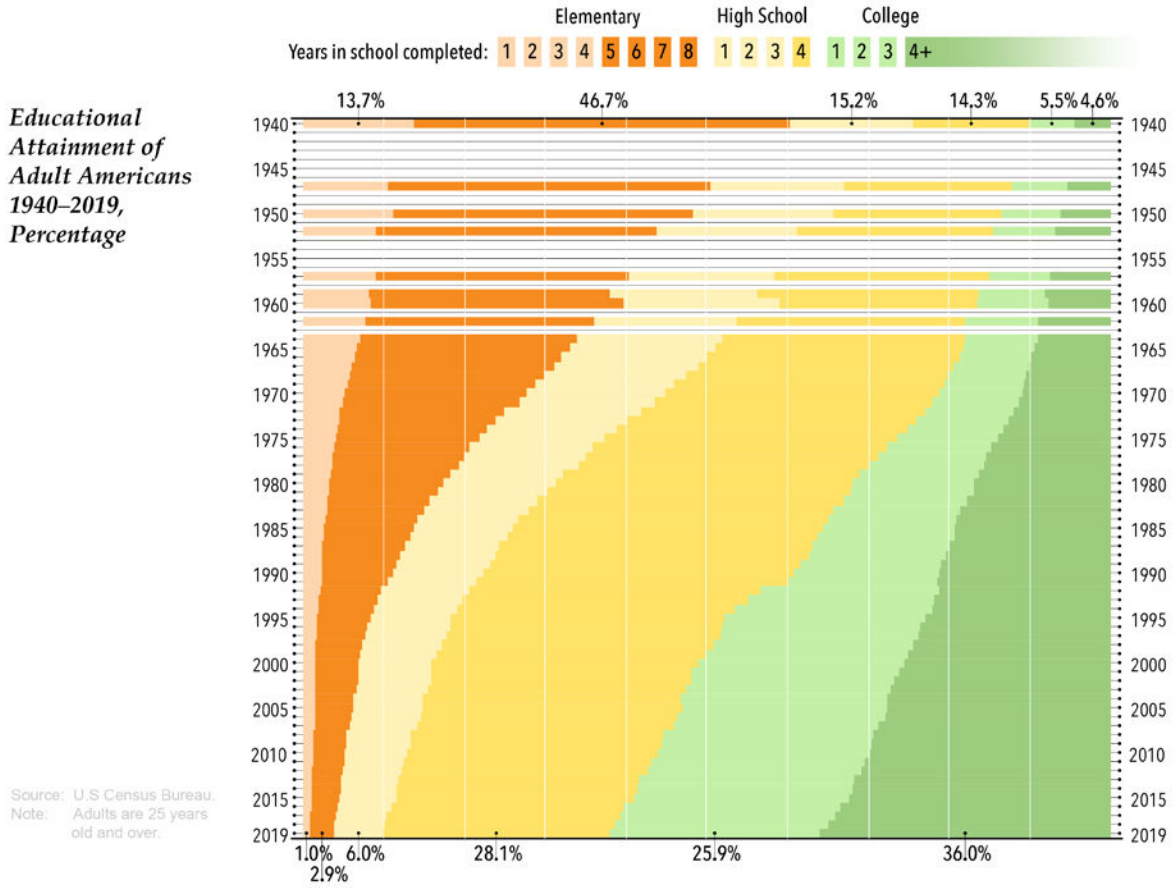
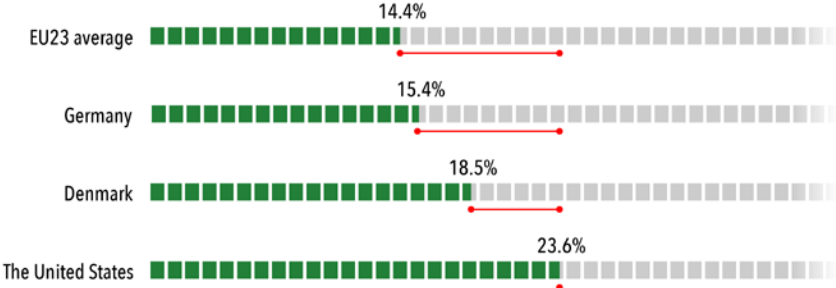


Figure 4. Higher Education in Europe and the United States

*Percentage of Adults with Bachelor's Degree, 2018*



Source: OECD, *Education at a Glance 2019: OECD Indicators*.  
Note: Bachelor's degree as the highest level attained. Among people between the ages of 25 and 64.



Figure 5. Intergenerational Income Mobility across Countries

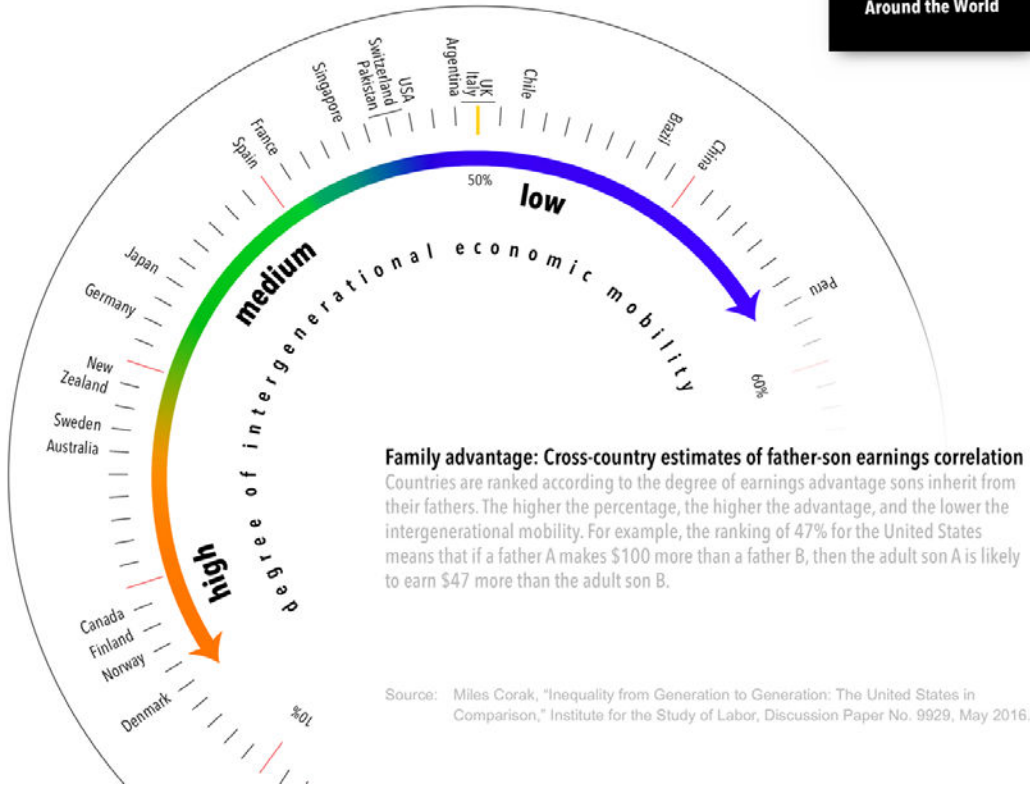
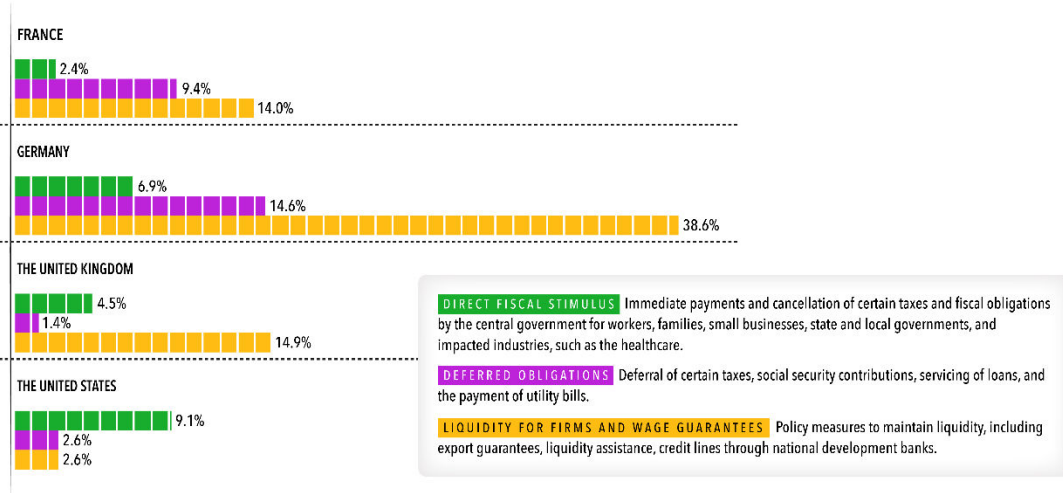


Figure 6. Varieties of Fiscal Responses to the SARS-CoV-2 Pandemic

*Fiscal Response to COVID-19*  
% of 2019 GDP



Source: Julia Anderson et al., "The fiscal response to the economic fallout from the coronavirus," *Bruegel.org*, April 25, 2020, <https://www.bruegel.org/publications/datasets/covid-national-dataset/>