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Their solutions would make things worse, but real problems are behind their appeal.

POLITICS & IDEAS

Economics Drive Populism and Socialism

The remarkable surge of support for the Democratic Socialists of America over the past year is part of a much longer and larger trend. Over the past two decades, the centrist left-right duopoly that governed most Western democracies after World War II has crumbled. Populist-nationalist movements have enfeebled and, in some cases, displaced traditional conservative parties. On the left, hard-line socialists have made inroads against liberal reformers and social democrats.

The new left and new right disagree on many issues, including immigration, culture and foreign policy. But they agree that the economic policies of the old duopoly have caused deindustrialization, slowed economic growth, and widened the economic gap between highly educated urban areas and less educated small towns and rural regions.

In the U.S., discontent about long, costly wars and lingering controversy over the 2008-09 financial crisis and the pandemic have also contributed to the revolt against the elites of both political parties.

Public disappointment with the economy has sustained this revolt. Over the past quarter- century, under presidents and congresses of both parties, growth has slowed, and its fruits have been shared less widely. Average families believe that their interests have been ignored, and the facts back them up.

Between 1950 and 1974, the U.S. economy grew at a compound annual rate of 3.8% after inflation. Over the next quarter-century, despite the deep recession of 1981-82, the economy still grew by 3.2%. Real gross domestic product grew at an annual rate of 4% during Bill Clinton's eight years as president, which helps explain why he left office with a job-approval rating of 66%.

But in the 25 years beginning in January 2001, the annual growth rate was a mere 2.1%. Consistent with this trend, GDP grew by 2.1% in the first year of President Trump's second term and at an annualized rate of 2.1% in the first quarter of 2026 and an estimated 1.5% in the second quarter.

As growth slowed, its fruits were shared less equally than in the preceding half-century. Between 2001 and 2024, income for households in the middle grew by 18.6%, but by 32.1% for the top 10% and 33.5% for the top 5%.

Over the past quarter-century, the real weekly earnings of median workers rose from $336 to $378 in 1982-84 dollars, an almost imperceptible annual increase of 0.5%. Total compensation, which takes benefits into account, rose only slightly faster, at an annual rate of 0.8%. While real GDP grew 71% during this period, inflation-adjusted corporate profits nearly quadrupled, from $533.4 billion to $2.12 trillion in 2001 dollars.

Beneath these figures, as the Journal's Greg Ip has shown, something even more fundamental was taking place—a massive shift of national income from labor to capital. At the beginning of

2001, corporate profits amounted to 6% of national income. By early 2026, that share had doubled to 12%. Meanwhile, workers' share fell by 5.7 points, from 56.7% to 51%, the lowest since the government began keeping these statistics in 1947. Although tax-induced accounting changes explain a portion of this change, the bulk of it represents a structural shift in the relationship between labor and capital. The growth of artificial intelligence will likely accelerate this trend.

The bottom line: Adjusting for tax and accounting changes, if workers today were receiving the same slice of the economic pie that they enjoyed 25 years ago, they would have earned an additional $8,000 on average in 2025. The turn toward tariffs under Mr. Trump and price controls under New York's Mayor Zohran Mamdani represent responses to this shortfall, as does the public ownership of the means of production and exchange that both have embraced.

Still, the failure of more-incremental economic changes offered by both parties since the turn of the century has opened the door to much broader policy shifts, however misguided they may be. Tariffs raise prices; price controls reduce supply. Both lead to costly economic distortions. Still, they give hope to their supporters in a way that incrementalism no longer does.

A decade ago, President Reagan's small-government conservative internationalism gave way to big-government populist nationalism as the Republican Party's reigning orthodoxy. Now the Democratic Party faces a comparable challenge from the DSA.

There's an old political maxim: You can't beat something with nothing. The portion of the Democratic Party that still believes in democratic capitalism must move beyond yesterday's policies to craft a new agenda that is bold, economically responsible and publicly acceptable. If not, developments in New York, Michigan, Wisconsin and elsewhere since 2025 will turn out to be harbingers of the party's future.

By William A. Galston
