

## Wanted: A counter-populism strategy

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Oliver Hartwich | The New Zealand Initiative | 13 October 2016

A spectre is haunting the world. With apologies to Marx and Engels, it is no longer the spectre of communism. It is the spectre of populism.

But there is hope. The International Monetary Fund is leading a holy alliance to exorcise it.

In the past, annual meetings of the IMF usually focused on technical questions of economic policy. Then again, times are unusual – and so, leaders gathered in Washington last week expressed their concerns on the rise of populism. Populism, so their message went, posed a serious threat to the global economy.

And who would disagree? Although no-one was named at the IMF gathering, it is clear that Donald Trump and the British Brexit vote frighten the global financial elite. Both Brexit and Trump are regarded as symptoms of a public that is increasingly weary of free trade. Yet it is free trade upon which the world of globalisation rests.

So, of course, the IMF, finance ministers and central bankers are right to be afraid of growing populist and protectionist tendencies.

However, it is too simplistic to only warn of populism. Populist messages may be distasteful, ill-informed or just plain wrong. But they are only symptoms of an underlying malaise of Western democracies.

If Western democracies were in good shape, populist movements would find it hard to find any resonance with the public. Fanaticism, populism and demagoguery can only thrive in an environment in which at least parts of the public feel aggrieved.

It is dissatisfaction with their personal economic circumstances that drives voters into the arms of populists. The implicit promise of Western democracies was that every generation would be better off than their parents. Where this promise is no longer kept, demagogues like Donald Trump find it easy to point the finger at scapegoats and present themselves as saviours.

Thus it is almost futile to try to fight populists and debunk their false promises. No matter how much falsehood they spread, their messages are falling on the fertile ground of the public's disenchantment with the 'elites' or the 'establishment'. That is why Trump keeps marching on despite the myriads of lies he has told throughout his campaign.

What is needed instead is something more long-term and more positive. Western democracies need to restore their promise of spreading prosperity for all. It is on that front, that many developed economies show their greatest weaknesses.

Take housing as an example. Across many English speaking countries, housing has become obscenely unaffordable. Whether it is Sydney, Auckland or London, a traditional family home is now out of reach of ordinary income earners.

The housing crisis has not resulted from a natural disaster. It is a man-made crisis caused by restrictive planning policies. It is only fair to blame politicians (and planners) for ruining the prospects of an entire generation that finds itself locked out of the housing market.

Education is another example. Long-term time series show how the returns to education have increased over the past decades. The higher one's formal qualification, the more one's income has gone up. Conversely, people with poor or low qualifications have hardly seen any improvements in their real incomes.

But if that is the case, then actual progress on spreading education to everyone is just not good enough. In many countries, education achievement is strongly linked to socio-economic background. For children from underprivileged backgrounds, achieving a decent education which then leads to decent income-generating prospects is still not a reality.

It is policy failures like these that need to be addressed to stop the rise of populism. But, sadly, this is not what is happening.

Instead, in order to counter populist threats, mainstream politicians are increasingly sounding populist themselves. Hillary Clinton could have explained the benefits that free trade has brought to the world and to America. She could have reminded her country what past episodes of protectionism like the Smoot-Hawley tariff did to the US economy. Instead, she jumped on the populist bandwagon in order to counter her even more populist rival Donald Trump.

UK Prime Minister, Theresa May, is another example. Probably still under the impression of the Brexit revolt against the establishment, her speech to the Conservative Party conference showed which conclusions she has drawn for herself.

May's response to the Brexit mood was not too dissimilar to Clinton's response to Trump. Instead of arguing the case for market-based solutions, May went on a populist path herself. She promised a crackdown on "cheap foreign labour", more government intervention in the economy, and more government oversight of business.

May's speech left Margaret Thatcher's biographer, Charles Moore, puzzled. In London's *Daily Telegraph*, Moore lamented "We voted Brexit to get greater freedom, not to have yet more government". Yet that was precisely what May offered.

The IMF is obviously right to warn of the dangers of populism. What is really worrying, though, is that it is no longer only the populists of Donald Trump's ilk who are delivering it.

The populism virus has started to infect mainstream parties and politicians. And it has done so at a time when what we need are not populist policies but policies that actually work.

It is not rocket science to figure out what needs to be done. If housing is unaffordable, we need to build more houses. If our schools are not delivering education to every child, we need to reform our schools.

Political leaders and institutions like the IMF can only counter populism if they are not populist themselves. And, if they did their jobs properly, the last thing they would need to worry about would be intellectual non-entities like Donald Trump.

Or any other spectres for that matter.

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