



The High Cost Of Populism

Publish Date:

November 2016

This article first appeared in the [November 2016 Edition](#) of the [IPA Review](#) and is written by Adjunct fellow at the IPA, Georgina Downer.

It's high time we acknowledged the crisis facing free market economics in Western democracies. The legacies of Reagan, Thatcher and the Hawke/ Keating/Howard economic reforms of the 1980s and 90s are now in serious need of protection.

In Australia, the bipartisanship we witnessed throughout the 1980s and 90s in support of economic liberalisation—deregulation, privatisation and tariff reduction and elimination—is being whittled away by rising popular support for industry policies and protectionism.

In the US, for the first time in modern history, both the Republican and Democrat presidential candidates are running on an anti-free trade platform in response to concerns over a supposed stagnation of middle class incomes and lack of social mobility. A frequent claim is that US jobs are being exported to Mexico and China.

The attack on trade is also a moral one. Hillary Clinton now echoes the rhetoric of Bernie Sanders, her rival for the Democratic nomination, who argued throughout his campaign that ‘inequality [was] bad for growth’. Sanders attracted public support by pitching the gap in incomes as a question of morality: ‘The issue of wealth and income inequality is the great moral issue of our time, it is the great economic issue of our time, and it is the great political issue of our time.’ Both Clinton and Donald Trump have vowed to renegotiate US free trade deals such as the North American Free Trade Agreement (NAFTA) and even tear up the US-backed Trans Pacific Partnership Agreement (TPP).

Trump’s anti-NAFTA rhetoric is focused on US job losses to Mexico, which he links to wage stagnation and increasing income inequality in the US. He argues that NAFTA’s benefits to consumers of lower prices are outweighed by rising unemployment and falling wages. This is despite the latest data from the US Census Bureau indicating that median US household incomes rose by an impressive 5.2 per cent in 2015.

In the Australian context, minor parties on both the left and the right embrace anti-free trade rhetoric. With over a million Senate votes on their side, the protectionist policies of Pauline Hanson’s One Nation Party (593,013 Senate votes or 4.3 per cent) and the Nick Xenophon Team (456,369 votes or 3.3 per cent) can’t be ignored.

Channelling Trump, Hanson has called for a review of Australia’s FTAs (including the TPP) and the revocation of deals deemed not in the national interest. One Nation ‘is strongly opposed to the “free trade” economic policies which, over the years, have led to the gradual destruction of the Australian manufacturing industry.’ Nick Xenophon has said he stands ‘against free trade fundamentalism’ and that Australia is known overseas as the ‘Free Trade Taliban’ because of its ‘fundamentalist, literalist approach to free trade’. Xenophon believes that ‘bilateral free trade deals have led to relatively poor trade outcomes for Australia’.

Disturbingly these views are now filtering into mainstream political parties as well. During 2015, the ALP broke decades of bipartisanship on free trade to protest against the China Australia Free Trade Agreement, arguing Chinese companies could steal Australian jobs.

Concerns about foreign investment in agriculture, property and infrastructure have led some Liberal MPs to call for clampdowns, despite the desperate need in capital-poor Australia for investment.

So why is free trade losing support? The central argument from the likes of Clinton, Hanson, Xenophon and others is that globalisation and free trade have led to wage stagnation and income inequality in our postindustrial societies, creating an ever-growing class of ‘losers’ from globalisation, while the rich at the very top continue to see a growth in incomes. The argument has often been parroted uncritically by mainstream media outlets, who fail to investigate the facts and report them, preferring to acquiesce in reprinting unsubstantiated left-leaning opinions.

As unsubstantiated left-wing claims turn into accepted home truths, major political parties have

failed to offer a competing narrative. Governments seem scared to argue for a system that encourages individual autonomy and effort as the key to productivity and wealth, lest they offend those who believe an ever-burgeoning and unfunded system of welfare is the way to a Swedish paradise.

Broken promises and lack of principled and values-driven policy making engenders a mistrust of mainstream political parties and conversely trust in populist candidates who speak with a frankness and authenticity too often absent in the political establishment.



Donald Trump tours a factory in Ohio,
September 2016

So, how do we counter these rising protectionist sentiments?

First, we need to engage with protectionists on the facts. The rhetoric of falling incomes is untrue. Major developed countries like Australia, the UK and the US have liberalised their economies and seen income growth across the spectrum. To be sure, income growth in the US has been lower than that in Australia and the UK, but regardless, all income levels have experienced growth. Where income inequality has arisen in countries such as Japan, we shouldn't uncritically accept the argument that free trade is the cause. Rather, as is the case in Japan, income inequality arose because of an abject failure to engage in serious fiscal and structural reform to the economy.

Second, we need to overcome the tension between producer and consumer interests. Producer interests are concentrated, so when producers feel the impacts of increased international competition their individual losses are greater than the more diffuse benefits to consumers of lower prices and increased choice. There is also an intuitive appeal to devoting attention to the way we get our income than to measures relating to how we spend it. It is necessary to counter the view that protectionism will secure your job while free trade will sacrifice it or see your incomes decline in an effort to remain competitive.

Import competition and free trade delivers a myriad of benefits to society. We see greater variety in products at more competitive prices. Importantly, in this world of Schumpeterian disruption,

trade inspires innovation. Competition and sharing ideas means an improvement in ways of doing business and product offerings.



Senator Nick Xenophon holds a press conference with Transport Workers Union workers, October 2015

Third, we need to prosecute the positive case for free trade. It is about human flourishing, not just economic success. It extends to people's freedoms. Liberal markets are essential because they put power into the hands of ordinary people. Liberal markets not only deliver the most economically efficient allocation of resources but also the most democratic. They empower ordinary people, consumers, to make the choices that guide society rather than cabals of producers, labour unions and welfare advocates. The left, on the other hand, has become the champion of protecting failing firms, their unionised labour forces and their shareholder elites at the expense of the ordinary person.

Finally, we must continue to seek opportunities for free trade agreements and the dismantling of protectionist cartels. A bright spark for free trade is Brexit. Beginning with Adam Smith's treatise on the desirability of free trade in his *Wealth of Nations* in 1776, followed by the hard-fought repeal of the Corn Laws in the 1840s, and then Britain's unilateral dismantlement of tariffs to become a free trading mercantilist nation, Britain had a strong track record on free trade.

Then Britain joined the European Economic Community (the EU's precursor) in the 1970s and things changed. Britain, a previously open internationalist country, closed itself off to the rest of the world in favour of Europe. For Britain, joining the EU meant surrendering its sovereign right to negotiate bilateral free trade agreements with other countries. Instead, Britain became shackled to the red tape of Brussels and its focus on intra-European subsidies and an ever-expanding system of welfare.

In Australia, we need to harness the Brexit push for free trade. It is pleasing that both our Government and the UK Government are prioritising an Australia-UK free trade deal. But we need to use this moment to once again remind people of the benefits of free trade and open markets. Trade overwhelmingly delivers prosperity and affordable living. A return to the days of protectionism and its high tariffs, industry support and big government will only contribute to unsustainable government spending, further indenturing future generations to pay for our profligacy. It will also stifle much needed innovation, excellence, and affordable living through



lower prices for all.