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## A Populist versus a Market-Based Economic Policy – How Serious Politics Must Counter Populism

Important foundations of our economic and social order are currently under attack: global free trade, competition and the market economy, the protection of private property, European integration, and pluralism. At the front of the line are the likes of Donald Trump in the US, Italy’s Lega Nord and Five Star Movement, and Marine Le Pen in France; their number includes influential politicians in Poland and Hungary, but in Germany as well.

They all stand for policies that are considered populist. “Populism” is a vague term. Germany’s Duden dictionary defines populism as “opportunistic, popular, often demagogic politics that aims to win the favor of the masses . . . by dramatizing the political situation.” Now, if we understand democracy to be the rule of the people, one should not complain if that which is popular prevails. Nevertheless, there is a dangerous, pathological strand of populism. Social scientists characterize it as follows:

Populists describe society as divided into two homogenous groups. “The people” in one side and “the elite” on the other. The elite is portrayed as corrupt, as stealing the people’s wealth and their identity. Populists, in contrast, claim to represent the interests of the people. Donald Trump, for example, said the following in his inaugural speech:

“We are transferring power from Washington, D.C., and giving it back to you, the people. For too long, a small group in our nation’s capital has reaped the rewards of government while the people have borne the cost.”

### What Does Populism Mean in Economic Policy?

In the 19th and early 20th centuries, political movements emerged in the US which were also called populist. Their focus was on the concerns of the rural population, some of which were certainly justified. Populist economic policy in the 21st century is quite different. It has seven distinctive characteristics:

1. It claims to act on behalf of groups that see their status and prosperity threatened; groups that feel abandoned by the political establishment.
2. Its agenda puts the spotlight on short-term benefits without taking long-term costs into account. For example, it always supports an expansion of public debt, regardless of the consequences.
3. It refuses to acknowledge the existence of tradeoffs between the advantages and disadvantages of different policy options. It rejects checks and balances and objects to restrictions on national sovereignty through international agreements or the EU.

4. It focuses on single issues and emotionalizes topics such as immigration, import competition, or differences between rich and poor.
5. It holds foreigners, immigrants, and international trade responsible for economic problems.
6. Populists offer simple solutions to complex problems. Isolation through protectionism is one example.
7. These solutions are sham solutions; they aggravate the situation instead of improving it.

Populist parties find support in areas where the prosperity of the middle class is declining, where people feel the consequences of crises like the global financial crisis and the euro crisis, or where politics seems to be losing control over migration flows. The fact that these events are shaking confidence in liberal democracies and in the so-called elites should not come as a surprise. Added to this is the fear of change: the digital transformation of the economy, increasing globalization, and demographic change require adaptation and divide the population into winners and losers. Populists stir up fears associated with these changes.

But their answers to these problems only make things worse. In Italy, the coalition government of Lega Nord and the Five Star Movement has announced higher government debt and rolled back labor market reforms. All that this has achieved is to push up interest rates. The country has slipped into recession, talented young people are leaving the country, and Italian entrepreneurs prefer to invest abroad.

In a country like the United States – an economic superpower – it takes longer for the costs of populist politics to become visible. But many American farmers are already feeling the effects of the punitive tariffs that other countries have recently imposed on US agricultural exports in answer to Trump’s import duties on European and Chinese products. A bigger shock will likely come after the next election, if the US government has to take measures to reduce the bloated budget deficit, i.e., tax increases or spending cuts.

### What Are the Right Answers to Populism?

Moderate political forces in Europe have a tendency to respond to the populist threat by promising to shield people from all the adversities and dangers of life. This is a dangerous approach. France’s President Emmanuel Macron, of all people, coined the following formula: We need “une Europe qui protège” – a Europe that protects. This was certainly well intentioned, but the image conveyed here is not the right one. It is the image of a Europe on the defensive, a Europe that is afraid. A Europe that withdraws behind walls, that

no longer believes in itself. A “fortress Europe.” Inside that fortress is a world not governed by liberty, markets, and competition, but one where there is tough regulation and management of scarcity.

The French and German governments want to weaken competition in the European single market and create large corporations that they can hail as European champions. The hope is that these firms would then compete successfully with companies from China and the United States. In fact, these privileged companies would just become lazy and inefficient; inequality in Europe would increase, and growth would fall. Others argue for making national minimum wages mandatory in all EU member states. But this is also the wrong way to go. The EU can impose minimum wages, but it cannot guarantee that there will be jobs at that wage. The only way to do that is by ensuring an appropriate level of productivity. The member states should decide whether or not they want to have minimum wages.

European policy cannot and should not shield the people of Europe from the challenges of economic change, and certainly not by eliminating internal competition and isolating them from the outside world.

Governments should instead create conditions that would allow people in Europe to overcome these challenges. Most people can do this on their own. To achieve this, we need self-confidence and awakening, not fear and retreat. We don’t need a Europe that just protects. We need a Europe that empowers, a Europe of opportunity in which everyone bears the responsibility to take advantage of these opportunities. This is why the answer to populism is not a welfare state that regulates everything, but a different approach to economic policy, with a focus on individual liberty. Liberty inevitably means facing certain risks. But liberal politics does not passively accept risks and uncertainty.

### **The Four Elements of Liberal Economic Policy**

A successful liberal economic policy should rest on four pillars:

1. **The foundation:** This includes competition, open markets, private property, flexible prices and wages, and personal responsibility. Without these as a foundation, there can be no prosperity.
2. **Effective regulation:** This includes competition policy that prohibits cartels, bank regulation that prevents situations in which profits are privatized while losses are socialized, and effective environmental and climate protection.
3. **Openness and diversity:** A Europe of opportunity is open to the outside world while also being dynamic and diverse internally. It represents its interests effectively in the world wherever the member states cannot do this on their own: in trade

policy, migration policy, defense policy. Europe must also take specific action internally and in concert when it comes to reforming the eurozone, expanding European infrastructure, and coordinating internal security.

4. **Strong welfare state:** The welfare state should enable, not disempower. But a strong welfare state is of key importance because people can seize the opportunities a free society only if certain conditions are met: if their basic material needs are met and their access to health care is secured; if they have social contacts; if education, participation, and opportunities for advancement are available. A social safety net should support those who cannot help themselves.

Liberal economic policy in this sense is not “laissez-faire,” but rather what is referred to as a “social market economy” in the German debate. Designing this social market economy is a complex endeavor. It is a question of constantly renegotiating the right balance between liberty and personal responsibility on the one hand, and social security and regulation on the other. And throughout this process, it is important to take facts into account and to do justice to the complexity of economic challenges. Political conflicts must not escalate to the point where compromises become impossible. If populist and radical currents gain the upper hand in this process, liberty and prosperity are at risk.

Populists often ask the right questions, but they give the wrong answers. Serious politics must give the right answers. This is not easy, because those answers are usually complicated. Populists also promise people the moon. Moderate politicians have to compete, not with promises that can’t be fulfilled, but with realistic perspectives. Emmanuel Macron can serve as a role model here: he has, for example, responded to workers’ protests against layoffs by getting a picture of the situation on the ground, and then honestly pointing out to those affected the limits of government action. At various occasions he famously said: “I am not Santa Claus.” That takes courage. One could object that the French people have not appreciated their president’s honesty, and that he may not be able to hold his line. And yet his path is still the right one: Politics in Germany and elsewhere in Europe would also benefit from putting in more effort to explain complex economic policy problems and showing more courage to point out where government action reaches its limits.

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