THE REVELATION OF POPULISM AND ITS IMPLICATIONS FOR A GLOBAL ECONOMIC SLOWDOWN

Ophelia Evanghelia Makis
Thesis Director: Dr. Lamont Black
Faculty Reader: Dr. Sanjay Deshmukh
DePaul University – Driehaus College of Business
Highlights:

- There is uncertainty in the global economy today stemming from the risk of de-globalization.

- Globalism drives productivity in economies through the unintended benefits of competition, expanding job opportunities, and innovating new technologies.

- Historically, at early stages of economic development, protectionist policies such as tariffs and trade barriers seem necessary to further industrialization of a single economy.

- Social consequences from globalism accumulate creating income disparity, class separation, and overpopulation which can incite a movement of populism.

- The UK referendum for EU membership of June 2016 indicated the rise of a populist movement.

- Populism focuses on bringing wealth back into a single nation, protecting jobs from immigration, and defending the nation from terrorism.

- Current populist leaders advocate protectionist policies.

- There is downside risk for a global economy that cuts itself off from other nations through protectionist policies.
THE REVELATION OF POPULISM AND ITS IMPLICATIONS FOR A GLOBAL ECONOMIC SLOWDOWN:

by Ophelia E. Makis

Thesis Abstract. Leaving a year focused on healthcare and tax cuts, 2018 opened with worries about the global growth outlook due to worsening trade tensions between the U.S. and its major trading partners. Historically, globalism has been a long-term driver of productivity and leader for the 2008 recession recovery; but today, it is being pushed back by protectionism. The revelation for a halt of globalism comes from the rise of populism which was indicated by the 2016 UK Referendum for EU membership. This paper explores the historic consequences of globalism that sparked populism and how the resulting implementation of protectionism can potentially slowdown the global economy.

Keywords: populism; globalism; referendum; protectionism; liquid modernity; Brexit; new industrial revolution; income disparity
The Revelation of Populism and Its Implications for a Global Economic Slowdown

“What has been cut apart cannot be glued back together. Abandon all hope of totality, future as well as past...” – Zigmunt Bauman

With a historic reputation for inducing industrial revolutions, on a large scale today, globalism has driven the global recovery from the 2008 recession by continuing to encourage creativity, international access to resources, and opportunities for developing countries. But within the darkness surrounding this obvious spotlight, and also shown in the past, instances of globalism can be discounted by opposition between social organizations over issues related to inequality, ethics, and bias towards the old traditions. Recently in the news, there are worries about the overall global growth outlook especially with tensions from a trade war with China, where the U.S. has imposed tariffs on $3 billion of exports. Today, this uncertainty primarily comes from a widening income disparity within nations, the loss of jobs due to widespread immigration, and the unsustainability of old traditions that sends a backlash to globalism and instead sets precedence for a trend of populism. One of the early indicators of this trend occurred on June 23rd, 2016, when millions of people in the UK voted in a national referendum to depart from the unified trade and monetary body that is the EU. In analysis of their voting behavior, most of the votes favoring a Brexit came from the UKIP (UK independence party) and the Conservative Party which comprised of people who desired to regain sovereignty over their own wealth and control of laws over their borders, trade agreements, and rising debt loads to the EU. These voters are representative of the baby-boomer generation based on voting demographics and employment, whereas their counterparts represent the millennials or immigrants entering the country seeking employment. Since then, similar movements have been taking place worldwide that have led to the escalation of protectionist policies through populist leaders like the U.S.’s
President Trump, France’s Marine Le Pen, and Italy’s Five Star Movement. An analysis done by law firm Gowling WLG, shows that “…the world’s top 60 economies have adopted more than 7,000 protectionist trade measures on a net basis since the financial crisis” (Kirk 2) as they have shifted focus on the frustrations of the populists while halting the progress of globalism. The revelation of populism encouraging protectionist policies is that there is downside risk for a global economy that cuts itself off from other nations through protectionist policies.

The remainder of this paper is structured as follows. Section 1 will explore the history of thought and implementation of globalism versus protectionism. The historical reaction between the movements showing up in populism is indicated by UK referendum of membership in the EU and will be analyzed in Section 2. The influence of the populist movement for protectionism is measured in Section 3. And the overall risks protectionism frames as it stagnates globalism for the world economy will be explored in Section 4.

1. History of Economic Thought & Implementation of Globalism vs. Protectionism:

In the 1800’s one of the first contributors to classical economics, Adam Smith, put forth the idea in his work *An Inquiry into the Nature and Causes of the Wealth of Nations* that the definite source of a nation’s wealth is not necessarily money, but rather the gross domestic product (GDP) or productivity, which can be driven by several political influences such as taxation, responsibilities to citizens, globalism, and so forth. When weighing the influence of protectionism against globalism for a nation’s productivity, Smith explains that companies lacking competition domestically or abroad, can create dangerous monopolies who are free to increase prices. Even though this scenario advances profit maximization on a large scale, the citizens on the other hand, are subjected to price discrimination with no product differentiation
which in the long-term can diminish product quality. Globalism however, would offset this risk of higher price levels and diminished product quality as Smith argued that in an economy of entrepreneurs operating through a system of mutual interdependence, the invisible hand (the unintended benefits reaching for society) would regulate capitalism to induce appropriate levels of wages and prices. These levels would not be set or regulated by the government because the market forces existing in a free market already allow for an equilibrium.

This sense of market equilibrium has been vastly cooperative due to the transition of our global economy into a positive-sum game, which spawned from a zero-sum game when agricultural products were dominated by new industries that could be traded on a global scale. These new industries would comprise of various assets such as metals like gold from mining and commodities such as oil from drilling. Preceding the first industrial revolution, the zero-sum game had comprised of a situation where net change in wealth or benefit would always equal zero based on the only traditional trade of agricultural products between nations. But the now profound theory which is the positive-sum game, states that it is in the best interests of nations to have everyone well off, rather than having one leader trying to take a bigger piece of the pie because the result will always be that no one wins at someone else’s loss. In this game, there are several levels of pies that can be shared between nations and thus more easily allow for market forces to penetrate the markets. Adding to the argument for free markets, Gordon H. Hanson writes in his article “The Globalism of Production” that “In standard theoretical models, a fall in trade barriers or transport cost triggers an increase in trade between producers in one country and consumers in another country”. This increase in trade would create productivity that pushes prices down as competition and product efficiency increase. In recognition of the risk offsets globalism provides through raising demand and product quality, it would thus be more beneficial
for countries to focus on enhancing their wealth through trade and cooperation rather than isolating themselves against competition to accumulate wealth within the country.

In the past, globalism also has expanded job opportunities, enhanced mass communications to make the world a smaller and efficient place, and allowed for innovative technologies that raised productivity improvement for even developing countries. Between 1830 and 1871, continental industrialization came of age to spread economic prosperity in foreign markets. Starting from Great Britain’s industrial revolution, the process had spawned from mechanized factory production, revolutionizing transportation, and a transforming textile industry and would continue to spread to the continental countries of Europe and the United States by 1851. However, since this would be among the first of many coming globalism transitions, the governments turned to the use of protectionist tariffs to further industrialization funding for different industries like metalworking and engineering as well as protect their own industries as inexpensive competitive goods from Britain flooded the markets (Spielvogel 591). The use of protective tariffs was supported by the United States consul, Friedrich List who wrote in his book *National System of Political Economy*, that for a nation to be strong it needed to give industries a chance to grow before being flooded by cheap goods as a result of free trade. The use of a protectionist wall would eventually run its course, by 1873 the halt of globalism would be lifted to continue the expansion of these markets as countries liberalized their tariffs for both agricultural and manufactured goods. The governments would also eliminate barriers to entry for international trade with the opening of rivers for ships to pass though as well as play a vital role by forming the joint stock companies which allowed for pooling of wealth with limited risk. In the 1850’s and 1860’s, these pools of wealth would be vital in the promotion of railway construction and similar infrastructure investments. With enough capital, globalism surged as the
industrialization revolution evolved with modern nations bringing innovations to several industries which would decrease the prices of goods and invest wealth in other nations.

Post industrialization however, there were several social consequences that received little response from the governing bodies even though they caused a great amount of hardship for the lower classes. With factors like population growth and urbanization, communities started seeing issues they were not familiar with such as a greater amount of vice, child labor, and homogenous class separation. This showed communities were less interconnected as a result of the split between the bourgeoisie and the proletariat. Interestingly, the government would not intervene at these micro levels as they were reluctant to regulate hours, wages, or working conditions. One intellectual, Thomas Malthus wrote a paper that argued for a laissez faire liberal philosophy against any effort from the government to help those in need as he explained that humans will only continue to produce mouths to feed and cause more suffering. The “stork will always pass the plow”. But then another intellectual Karl Marx, would work with Friedrich Engels to address why humans should enforce the interests of the working class (proletariat) in his Communist Manifesto. It would challenge the natural economic law and push for society to make change. And it is this idea that would form the foundation of socioeconomic movements like populism, as those that feel underprivileged or the need to protect their interests, will rise at the right opportunity to voice their opinions at opportunistic times. In the twenty-first century, this movement would rise in response to anti-immigration sentiments, wage inequality, and nationalist pride as initially indicated within the voter dynamics of the UK referendum for EU membership where the majority votes would seal the UK’s decision to leave the European Union.
2. The UK Referendum of EU Membership as an Early Indicator of Populism:

The escalation of the concerns from populists has gained foreground around the world through several political leaders like U.S. President Donald Trump, Marie Le Pen, and the Five Star Movement, but one of the early indicators of this was in the June 2016 UK referendum for EU membership as it provided a ground of opportunity for populists to voice their concerns. In analysis of voting behavior, those that voted to leave the EU seemed to envision a new partnership that would arrange for new trading agreements and negotiations to settle debt to EU (pensions and budget commitments). According to Brexit by Harold D. Clarke, those that wanted to stay with the EU were influenced by two factors “The first was a stagnating national economy that had left the UK as the ‘sick man of Europe’ … a combination of steep inflation, high unemployment, low productivity, and industrial unrest… the second factor was a relatively strong and widespread sense of loyalty to the main political parties” (Clarke). The above graphics display the percent of votes that decided to stay or leave the EU by political party identification and age group. In analysis, the majority of those that decided to leave the EU were older than 50 years of age and also identified with Conservative, UK independence, and Labour parties (or the main political parties). This majority seems to represent the baby-boomers’ generation based on the age and political ideology, whereas the voters that wanted to stay in the EU were part of the liberal democrat party and seem to match the interests of the millennials by embracing globalism
through membership in the EU. In Vernon Bogdanor’s article “A New Way Back for Social Democracy?” The EU Referendum and Its Lessons for the Left”, he makes the case that those involved in the Conservative party and the UKIP tended to be ignored within the political sphere; and the referendum provided the opportunity for them to demonstrate their democratic commitment. Bogdanor mentions that the referendum exposed a divided country in which social polarization strongly affected the electoral system. This article has a forward outlook aftermath to the results of the election as well as expands on Inglehart and Norris’s research study by mentioning that the lower class was divided from the upper class and objected to the effects of high-immigration on working-class communities.

Interestingly, the principal majority party that voted to leave the EU was the UKIP (UK Independence Party) which is well known as a right-wing populist political party. They would be the primary face representing economic tensions within the UK. Their website describes their disappointment in the UK’S partnership with the EU, but also to their own government as they state “…the theft of our democracy by a powerful, remote political ‘elite’ which has forgotten that it’s here to serve the people” (UKIP). Expressing what they believe in, they also say: “We believe in the minimum necessary government which defends individual freedom, supports those
in need, takes as little of our money as possible and doesn’t interfere in our lives”. Aligning with Clarke’s voting attitudes for revitalizing a ‘sick man of Europe’, a majority of those that wanted to leave the EU seemed to ring tones of nationalism with the phrase, ‘our money’ and focus on bringing wealth back to the economy while even holding subtle negativity towards immigrants. In a study done by Danny Dorling, Ben Stuart, and Joshua Stubbs called “Brexit, inequality, and the demographic divide” they argue that “in an atmosphere of austerity and increased labour-market precarity following the financial crisis of 2008, immigration, and the perceived pressure that it places on housing, wages, and public services has become a mainstream concern”. Within their study they developed a chart shown above that enlightens the view of immigration based on age, and based on prior data showing ages 50 and up held a majority vote to leave the EU, it seems that immigration was not seen as a ‘force for good’ for the country. Overall, supporting that at the least, subtle anti-immigration sentiments existed and contributed to the vote for leaving the EU.
The Liberal Democrats on the other hand, find these concerns extreme and causing a halt in growth for the country. While a majority of their policies are designed to appeal to young voters, according to their manifesto, they intend to further an innovative economy for all by removing reliance on debt for growth, promoting reinvestment in infrastructure, and supporting entrepreneurs and researchers. They also mention that “Too many people justifiably feel left behind. Liberal Democrats believe that it is vital that everyone is given a stake in our economy, that we can only be united and competitive as a country if the rewards are reaped by all” (Harvey) and to promote unity they want to develop the skilled workforce through apprenticeships as well as strategies to match skills with people. Overall, their party is very pro-globalism and supportive of the creative industries the movement excites such as video gaming, space, renewable technologies, and so forth. At the forefront of these industries are the millennials who encourage investment for the sustainability and growth of economies.

The sudden triumph of the UKIP and other contributing parties for having the majority vote in the referendum for leaving the EU was shown by the sudden drop of the British Pound or Sterling as it was viewed as an adverse factor of the growth for the UK economy. The value of the Sterling dropped more than 10% to a 31-year low based on the unexpected majority that voted to exit a 43-year membership with the EU which lowered investor confidence for
successful progression of the UK economy. The illustrated fall of the Sterling in the above price chart reflects a potential halt of globalism and marks the era of another trend, populism.

3. **Populist Movement Advocates Protectionist Policies:**

   Between the interests of the Liberal Democrats and the UKIP or Labour party, their conflicting views are representative of the millennials and the baby boomers, where the baby boomers are now taking on a vital role for driving influence on political and commercial policies as a direct result of the UK referendum for EU membership. However, the attractiveness of their goals, which now forms the platform of the populist movement, has led political advocates to take advantage of voters’ attitudes to close an intellectual system in response to fighting over world markets. Based on a comparative inquiry on EU referendums by Fernando Mendez, Mario Mendez, and Vasiliki Triga in their book *Referendums and the European Union: A Comparative Inquiry*, there is a growing demand among political parties to leverage this populist movement. The people do not directly decide policy initiatives, but instead voice their public opinions in the hopes they can influence policies. The authors claim that the actions of the elite in influencing decisions can have a considerable effect on the constitutional and political evolution of the EU, which explains why the populist movement has such a strong impact. Their impact not only can be seen from the results of the UK referendum on EU membership, but also in the most recent 2017 U.S. presidential election. For example, numerous sentiments point to President Donald Trump’s win resulting from successfully responding to citizens’ negative attitudes towards institutions and a desperate need for change. This was done via his “America First” strategy which focuses primarily on making America great again. Other examples extend to France’s 2017 presidential election where Marine Le Pen launched a bid to become the President of France and achieved a 21.3% vote while even facing Emmanuel Macron at the second round of
voting. Le Pen recognizes the trend of populism by describing Brexit as “the most important event since the fall of the Berlin Wall, and Donald Trump’s US presidential victory as “an additional stone in the building of a new world” (Nowak & Branford).

4. **Risks of Protectionism Stalling Globalism:**

Based on estimates forecasted by Pew Research Center in the line graph shown to the right, the millennials will surpass the baby boomers, which are the nation’s biggest living adult generation, by 2019. Evidently, this estimate marks the approaching imbalance between interests of these generations and holds potential for stalling globalism as the baby-boomers are forcing more protectionism to keep power in influencing commercial and political policies. This power complex cannot be attributed to one generation or another, as it can exist on both sides. But the risk of closing off free trade markets and selfishly protecting ones’ nation outweighs the potential benefits of gradually building wealth closed in the economy. As Adam Smith reminds us, the wealth of a country is measure not by an amount of money, but by productivity.
The French economist, Thomas Piketty agrees with the millennial generation that to grow economies it is important for society to encourage entrepreneurship. But, in detailing historical transformations in the concentration of income and wealth in his book *Capital in the Twenty-First Century*, he raises the argument that if an economy’s rate of return on capital outweighs the rate of growth then there will be more inherited wealth than earned wealth, causing an uneven distribution of wealth. This is illustrated in the above graph detailing inequality in the western world between the US, UK, Canada, and Australia, where in all cases inequality has been inclining. He mentions that the reason for this occurrence could potentially stem from a growing pattern of educational completion, but also due to a weakening invisible hand that seems to stem from transitions of globalism with surges of self-interest and greed. Joseph E. Stiglitz supports the existence of an uneven distribution of wealth in his book *The Price of Inequality: How Today’s Divided Society Endangers Our Future*, when he says, “Those at the very top, in the 1% or the .1%, can see their income increase; while incomes for the bottom 99% (or the bottom 99.9%) can actually decrease…inequality was not just a moral issue, but an economic one – we were paying a high price for our inequality” (Stiglitz 8). The rising disparity between the top 1% and the bottom 99% has drawn in much controversy in terms of its effect on the global economy. In a study done...
by Edward Wolff called “Household Wealth Trends in the United States, 1962 to 2016: Has Middle Class Wealth Recovered”, he finds that there is a “large spread in rates of return on net worth between the middle three wealth quintiles and the top percentile… [and during the 2008 recession] …the middle class took a bigger relative hit on their net worth from the decline in home prices than the top one percent did from the stock market plunge” (Wolff 38). While there is a correlation between globalism and income disparity as illustrated by the income gap of the top 1% versus the 99%, keeping in mind that protectionism encourages domestic competition, by closing the door to global free-trade there is a possibility of worsening the inequality of wealth distribution. Flows of wealth would not find roots in developing countries and the reach of the invisible hand would shorten to increase the top 1%’s return on capital within the protected nation. This would also ultimately undermine the positive sum game, as the players are fighting for power to pursue self-interests.

In the past four years there has been a recent rise in world real GDP growth driven by a strong momentum in domestic demand and the tax reform law passed in December 2017. But with the year of 2018 focusing on foreign trade and international affairs, the influence of protectionist policies on a nations’ wealth remains uncertain in the face of escalating trade tensions, the demise of NAFTA, a potential hard Brexit, the U.S. exit
from the Iran nuclear deal, and the gradual increase of U.S. interest rates. The risk posed from this uncertainty is illustrated by the Real GDP growth (annual percent change) chart above, as it general forecasts stagnation in emerging markets & developing economics, advanced economies, and the world. According to Erik Peterson, managing director of the Global Business Policy Council, “Releasing a five-year global economic outlook in the current, volatile global environment is perhaps much braver than it is wise...we are well beyond the time when we can take for granted the continuation of the invisible hand” (AT Kearney 2). Peterson highlights the uncertainty that clouds the progression of the world economy as a warning, and reiterates the importance of the invisible hand for strengthening the positive sum game which leaves the entire world better off.

With the importance of the new industrial revolution that is leading growth of GDP for the world economy, trade must be kept open to allow for foreign demand and competition to control price levels. This revolution, despite early records of market shocks accompanying industrialization, is comprised of different players at the forefront that are well-versed and skilled to lead growth in areas like healthcare, transportation, the environment, and so forth. Holding back potential leaders, implementing harsh regulations, and maintaining a protectionist stance could harm the recent growth in the world economy, especially with trade war tensions and geopolitical risk in areas like the Middle East and North Korea. In Ashely Kirk’s article “Mapped: Protectionism is on the rise as US and EU implement thousands of restrictive trade measures”, the author voices a concern that too many countries are implementing protectionist policies in order to bring back jobs to their economy, maintain a strategic advantage, and keep revenues within the country by shoring up industry. A UK based law firm, Gowling WLG did an analysis on the EU’s implementation of restrictive trade policies
since the crash and found that “Almost half of all EU trade policies – some 49pc – made since 2009 were harmful to international trade with countries outside the single market” (Kirk 2), which the author concluded, made the EU one of the world’s biggest protectionist blocs. Ashley claims further that this large bloc collects high protective tariffs from outside countries, which increases the risk for its own trade-dependent countries to lose their favorable trade stance. This brings potential for a trade war that can derail global economic expansion. She includes that the UK specifically had a high risk of being affected by these protectionism policies.

Adding to concerns, are the protectionism policies of the U.S. spearheaded by Trump who leads the country to be the most protectionist when it comes to trade. As more and more countries find higher tariffs favorable as a potential stream of revenue and border tightening to keep industries at their shores, an adverse effect stemmed from the goals of populists will occur as it will only increase the existing income disparity by adding to the return on capital rather than the overall return on growth. This puts pressure on a number of politicians and economists who, with the influence of the populist movement, will extend blame to other nations through trade wars or pulling out of international trade agreements.
The Chief Economist of the CME Group, Blu Putnam argues in his article “The Initiation of Trade Wars? Battles? Skirmishes?” that based on current market conditions, the largest threat to global growth would be a trade war. Supporting his argument, systematic and growth risks have been driven down since the last recession as the U.S. government placed focus on tax cuts and monetary policy carefully provides market guidance through quantitative easing and raising rates. But challenges have risen again as shown by the anti-immigration sentiments, wage inequality, and nationalist pride advocated by the populist movement. The movement favors shoring wealth within their individual nations as it falls prey to ‘egoistic altruism’, the revelation that has led to fluctuating Brexit negotiations, the signing of the Comprehensive & Progressive Agreement for Trans-Pacific Partnership (CPTPP), the U.S. pulling out of the Iran Nuclear Deal, and prospects for tighter regulation on the technology industry.
Conclusion:

While in the past it was necessary to utilize protectionist policies in providing “breathing room” for markets to adapt to a point of maturity, in order to grow current economies today there needs to be continued cooperation between the millennials and baby-boomers to encourage globalism once again. Conflict between these generations rises in the form of subtle anti-immigration attitudes, wage inequality, and nationalist pride as fear for the loss of jobs and a skew wages towards the top 1% nags at globalism. Historically, these social consequences spawn from globalism, as the movement takes spotlight for bringing the world economy into recovery from the 2008 recession and previous economic downturns. This darkness surrounding globalism lightened from a spark of realization by people who would lead a populist movement to bring their concerns to the spotlight. At the forefront of the populist movement are the baby-boomers, indicated by the voter dynamics of the UK referendum for EU membership who have influenced political leaders to leverage their movement to implement protectionist policies for restrictions on immigration, trade tariffs, and limiting competition between other countries. As they took center stage after 2017’s focus on healthcare and tax cuts in the United States, there have been numerous eruptions of populism around the globe with new focus on foreign affairs, bringing a wave of uncertainty for continued global growth. Several risks are apparent from protectionist policies starting with the conflict of interest between current generations: the Millennials versus the Baby-Boomers. The goals of protectionism that are stemming from populism can stall the productivity of globalism as Millennials will outweigh the Baby-Boomers by 2019, by discouraging trade and international trading partnerships, promoting isolation from the rest of the world where citizens would be subjected to price discrimination and resulting diminished
product quality, and the worsening the uneven distribution of income. The rise in numbers of the millennials who are well-equipped with technology based skills, need to cooperate effectively with the baby boomers who hold experience as renowned leaders during times of past economic transitions. As Adam Smith tells us, and agreed by former U.S. president Barack Obama, productivity is key to economic growth. While populism does show there are socioeconomic issues evident from the expansion of globalism, it brings downside risk for a global economy that cuts itself off from other nations through protectionist policies. In a grim warning, Zygmunt Bauman mentions in his book *Liquid Modernity*, that “What has been cut apart cannot be glued back together. Abandon all hope of totality, future as well as past…”, in other words, he enhances the downside risk of a united world breaking apart by dooming the world to never regaining that totality again. It took a great amount of time for those countries involved in World War II to reunite and focus on the benefits of globalism, turning back with protectionist policy could potentially bring the world into another economic slowdown in light of their risks and rising populism.
Works Cited


Dorling, Danny, and Stuart, Ben, and Stubbs, Joshua. “Brexit, Inequality, and the Demographic Divide”. The London School of Economics and Political Science,
Makis 23


Accessed May 9, 218.

Fry, Richard. “Millennials projected to overtake Baby Boomers as America’s largest
tank/2018/03/01/millennials-overtake-baby-boomers/


Juncture, vol. 22, no. 4, Spring, pp. 304-307. EBSCOhost,


Kirk, Ashley. “Mapped: Protectionism is on the rise as US and EU implement thousands of
restrictive trade measures”. The Telegraph, 28 Nov. 2017,

https://www.telegraph.co.uk/business/2017/11/28/mapped-protectionism-rise-us-eu-

Mendez, Fernando and Mendez, Mario and Triga, Vasiliki. Referendums and the European

Onslow, Sue. “Brexit – Then and Now”. Talking humanities: Curated by the School of Advanced
Study, University of London. 9 June 2016.


