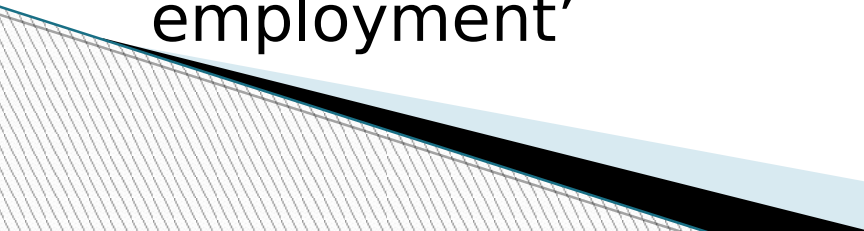


The William Temple Association January 2018

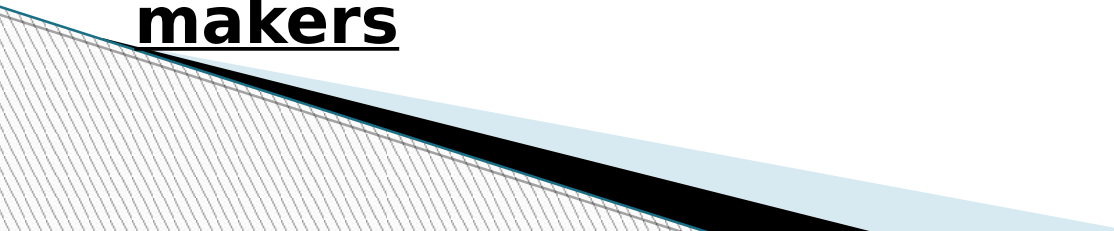
Brexit, Trump & Populism, - what does it tell us about the human condition?

Lecture by
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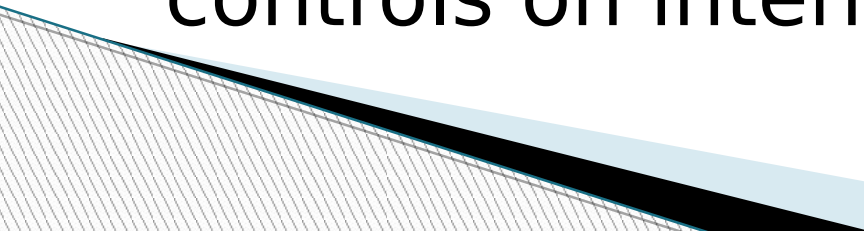
Background - Pre1950s

- ▶ 1929 crash, market failure, resulting in policy change - Government regulation, progressive taxation and strengthening of unions
 - ▶ Post war Bretton Woods settlement re fixed exchange rates and capital flows
 - ▶ Widespread adoption Keynesian economics (demand in the economy managed by Governments)
 - ▶ Led to what in retrospect looks like golden age of capitalism - average 2.5% growth in industrialised world over 25 years, rising living standards & 'full employment'
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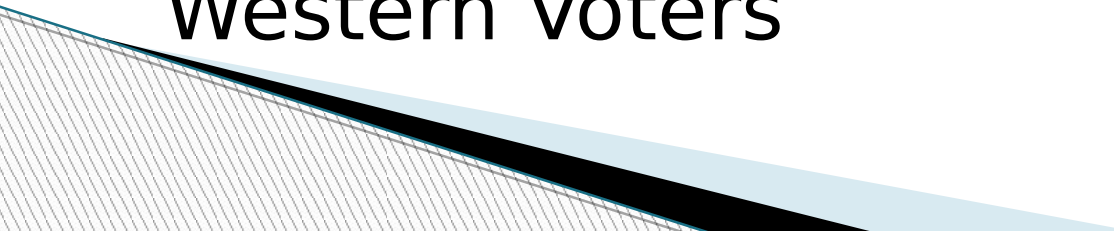
Background - the 1970s

- ▶ Dynamic of 'vote for me I'll make you richer' becoming established
 - ▶ Governments forgot Keynes' injunction to pay down the debt in the good times
 - ▶ UK joins EEC reluctantly
 - ▶ Koch Brothers et al begin campaign to alter political consensus in USA
 - ▶ Oil price shocks
 - ▶ Inflation and union power needed curbing
 - ▶ **Memories of 1930s fading among policy makers**
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Background - the 1980s

- ▶ Supply side economics and belief in 'perfect markets' triumphs
 - ▶ The start of de-regulation to reduce 'inefficiencies'
 - ▶ Switch to indirect taxation & reduction in direct tax rates as 'trickle down' promoted
 - ▶ Floating exchange rates and ending of controls on international capital flows
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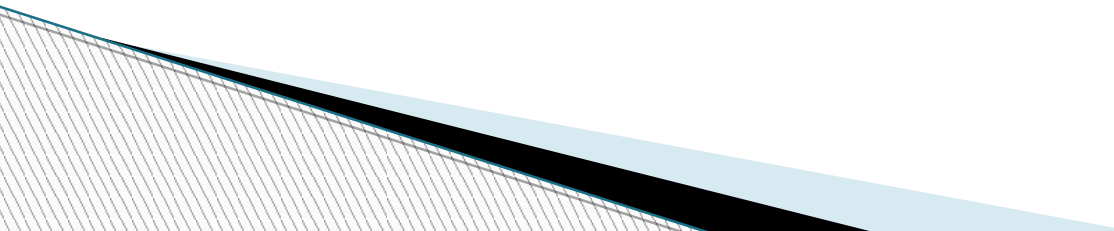
Background - the 1990s

- ▶ Boom and bust more pronounced
 - ▶ The rise of China as a manufacturer so jobs move overseas
 - ▶ Ordinary people's incomes start to stagnate, so borrowing to consume takes off
 - ▶ Inequality rising - Variety of causes
 - ▶ Globalisation creating losers among Western Voters
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Background - the 2000s

- ▶ Trends of 1990s accelerate
 - ▶ Average household debt reaches new & unsustainable heights
 - ▶ Long-term average growth rate of major economies since 1980 is 1.5%
 - ▶ 2007/08 Market failure, massive property bubble in USA
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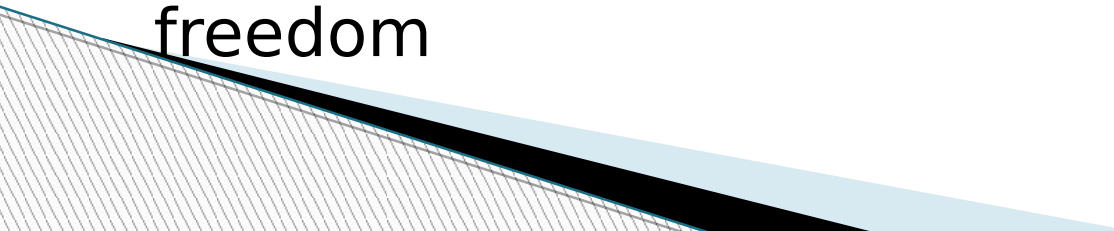
Background - 2008 +

- ▶ Learnt from the depression of 1930s – record low interest rates & quantitative easing but causes inequality to magnify
 - ▶ Government debt rises to plug income deficit
 - ▶ Trickle down economics discredited
 - ▶ On top of Globalisation creating losers a sense that those who caused the 2008 crisis left others to bear the cost
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Characteristics of Current Situation

- ▶ Free Market globalism underpinned by debt
 - ▶ Shareholder Capitalism (in the West)
 - ▶ State Capitalism (China)
 - ▶ Piketty's Law in full swing
(when the rate return on capital $>$ rate of growth in the economy, the rich get richer)
 - ▶ Extreme wealth inequality (most marked in USA & UK among Western Democracies)
 - ▶ Piketty's warning from 2014 - this leads to political instability!
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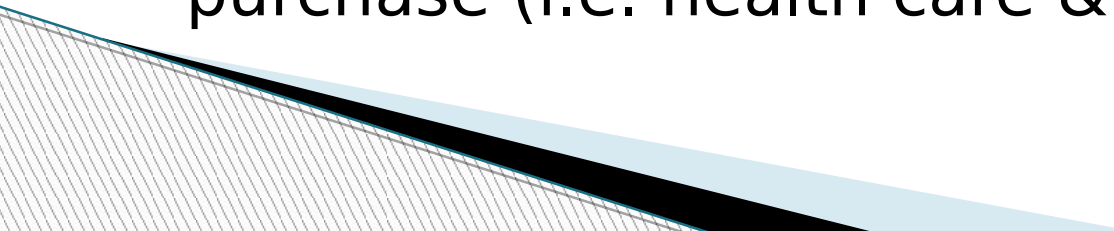
Trump - How could it happen?

- ▶ 1960s and early 70s daunting times for Corporate America
 - ▶ Armaments industries viewed as complicit in Vietnam War
 - ▶ Smoking and link to cancer established in teeth of corporate opposition. Birth of environmental and consumer movements
 - ▶ Regulation to protect environment and public health.
 - ▶ Koch industries culprits in both, but viewed Government regulation as injurious to profits and freedom
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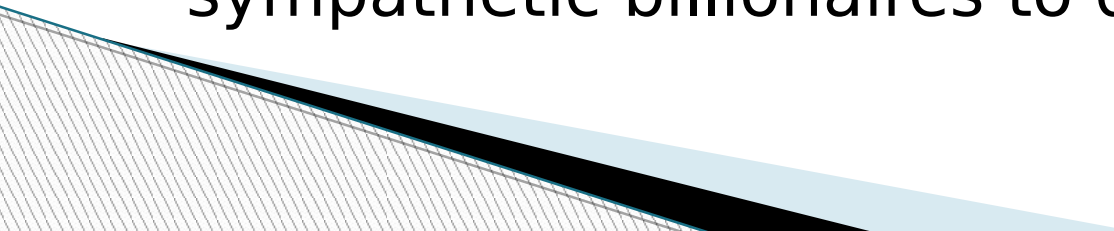
The Koch brothers

- ▶ Charles & David Koch, sons of Fred a self-made oil magnate in Wichita, Kansas.
 - ▶ Fred died 1967, Charles became CEO aged 32
 - ▶ Horrified by 1960s study that reported only 43% of US graduates thought making a lot of money was important
 - ▶ Wanted to roll back the 'tide of socialism' as they regarded the Keynesian consensus
 - ▶ Influenced by Friedrich Hayek's 1944 book 'The Road to Serfdom'
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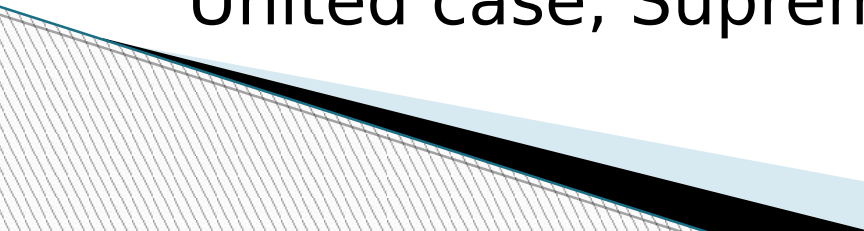
Hayek and the Free Market

- ▶ Hayek's genius was to recast discredited free market ideology in a new appealing way
 - ▶ The free market not just an economic model but the key to all human freedom
 - ▶ Government's engaged in 'centrally planning the economy' were enemies of freedom
 - ▶ Government should be restricted to defense and the maintenance of law and order (to protect private property)
 - ▶ Everything else the individual should be free to purchase (i.e. health care & education)
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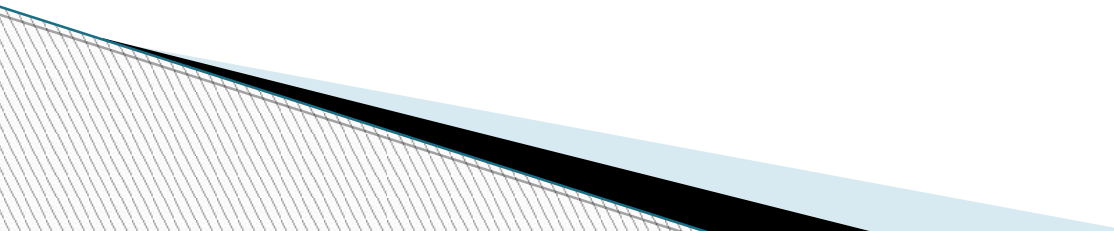
Private Foundations - the mechanism

- ▶ Private Foundations have very few legal restrictions
 - ▶ In return for massive reductions in the donor's income tax they are required to give 5% of their assets every year to 'public charities' - referred to as 'nonprofit' organisations
 - ▶ Private Foundations then fund lobbyists (technically 'think-tanks') and university chairs/departments to change perceptions
 - ▶ From middle 1970s Koch brothers gathered sympathetic billionaires to do likewise
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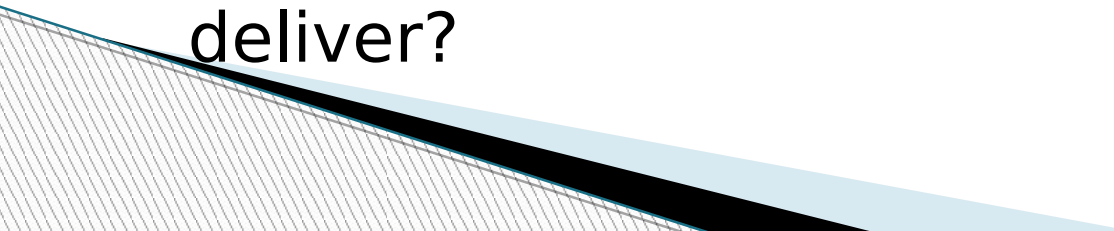
The Changing of Consensus

- ▶ In 1980 Koch brothers et al seen by Republicans as on the far right fringe
 - ▶ During intervening decades gradually captured the GOP and the political process
 - ▶ Olin Foundation – Law and Economics course, legislation analysed not just for fairness but also its economic cost – philosophical thrust towards free market and limited Government
 - ▶ Gradually captured the judiciary (Citizen's United case, Supreme Court January 2010)
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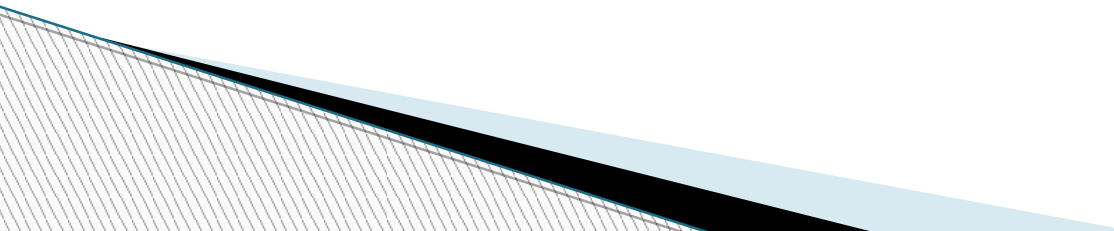
The Rise of Trump - polarisation

- ▶ February 2009 – the Tea Party movement
 - ▶ Climate Change & ‘Attack Ads’ - 2007 71% of Americans believed burning fossil fuels would alter the climate, 2009 down to 51%, 2011 to 44%
 - ▶ But 75% self identified Democrats & Liberals believe climate change is man made
 - ▶ Similar polarisation in social issues
 - ▶ Trump’s genius to tap into discontent of the ‘Left Behind’ in Rust-belt America whilst pressing the socially conservative buttons
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The Contradictions of Populism

- ▶ How will 'America First' work given the mechanics Free-Market Globalism and free flow of capital?
 - ▶ Trump's tax reforms not benefitting the 'Left Behind' and companies are intending to reduce debt and pay dividends before investing
 - ▶ The tax reforms will cause an even larger Government deficit leading to pressure to reduce public services for the poor
 - ▶ What happens when Populism doesn't deliver?
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Origins of Brexit

- ▶ De Gaulle's veto on UK joining in 1960s
 - ▶ UK always lukewarm members of EEC/EU
 - ▶ Mainstream UK Politicians since 1980s shied away from putting positive case for Europe
 - ▶ English legal system philosophically different and economy is structurally different
 - ▶ UK not conquered or devastated in WW2 so never shared the desire for political union
 - ▶ European consensus that economy exists to serve society, many UK Politicians (the Free-Market fundamentalists) see it the other way round
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Brexit Analysis - General points

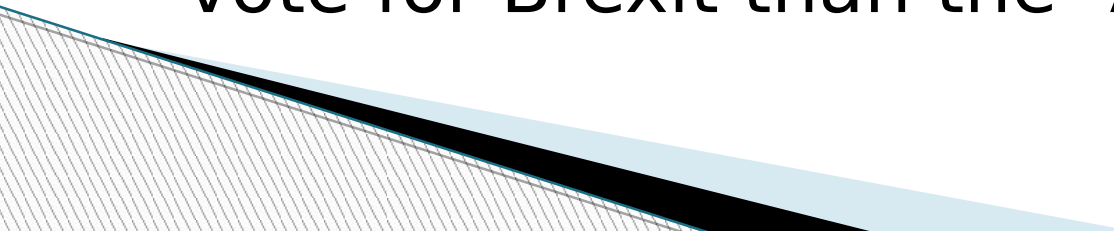
- ▶ Older, white and more economically insecure people with low levels of educational attainment were consistently more likely to vote for Brexit than younger people, degree-holders, minorities and the more secure middle- and upper-classes
 - ▶ Areas which experienced high migration from the EU more likely to vote Brexit
 - ▶ The “Somewheres” much more likely to vote for Brexit than the “Anywheres”
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Figure 1: Support for leave among different demographic sub-groups

Source: British Election Study EU Referendum Internet Panel Wave 8. N = approx. 25,000.

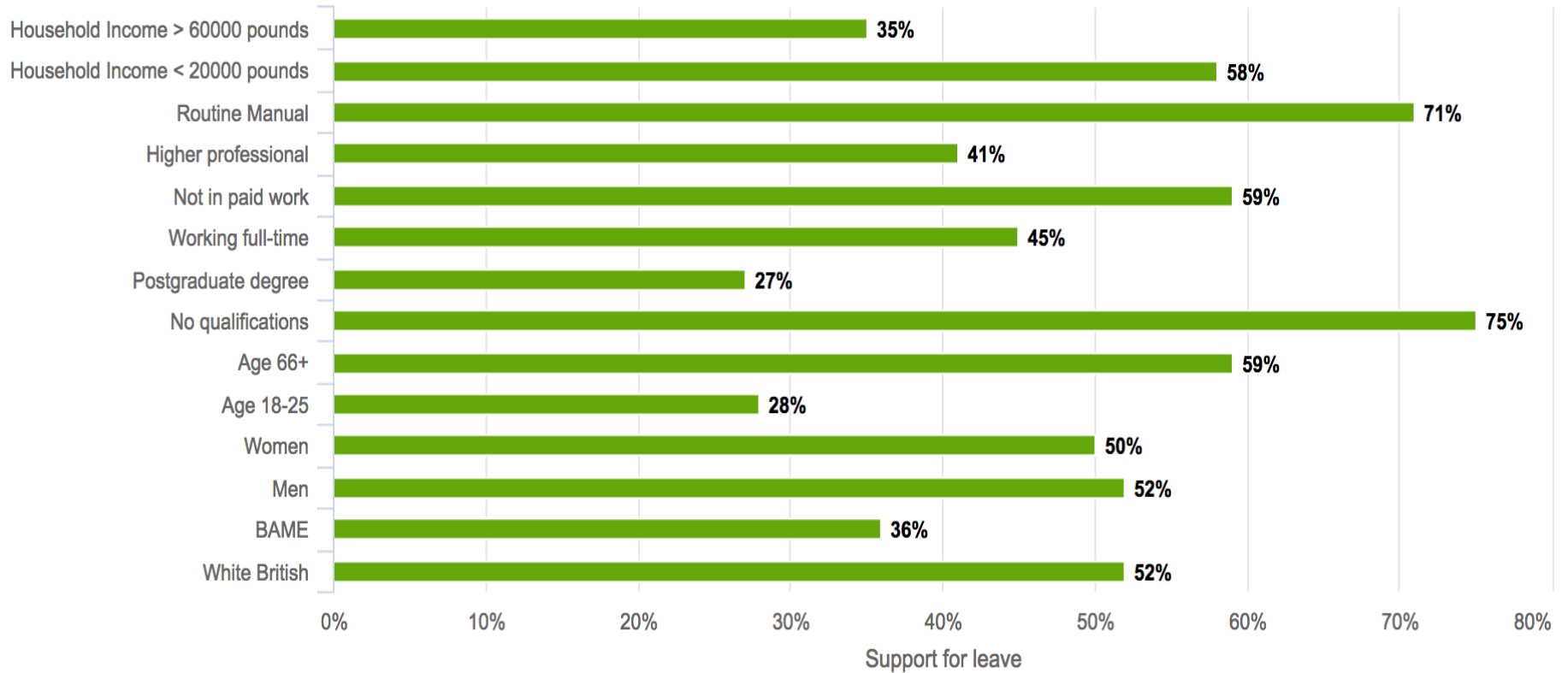
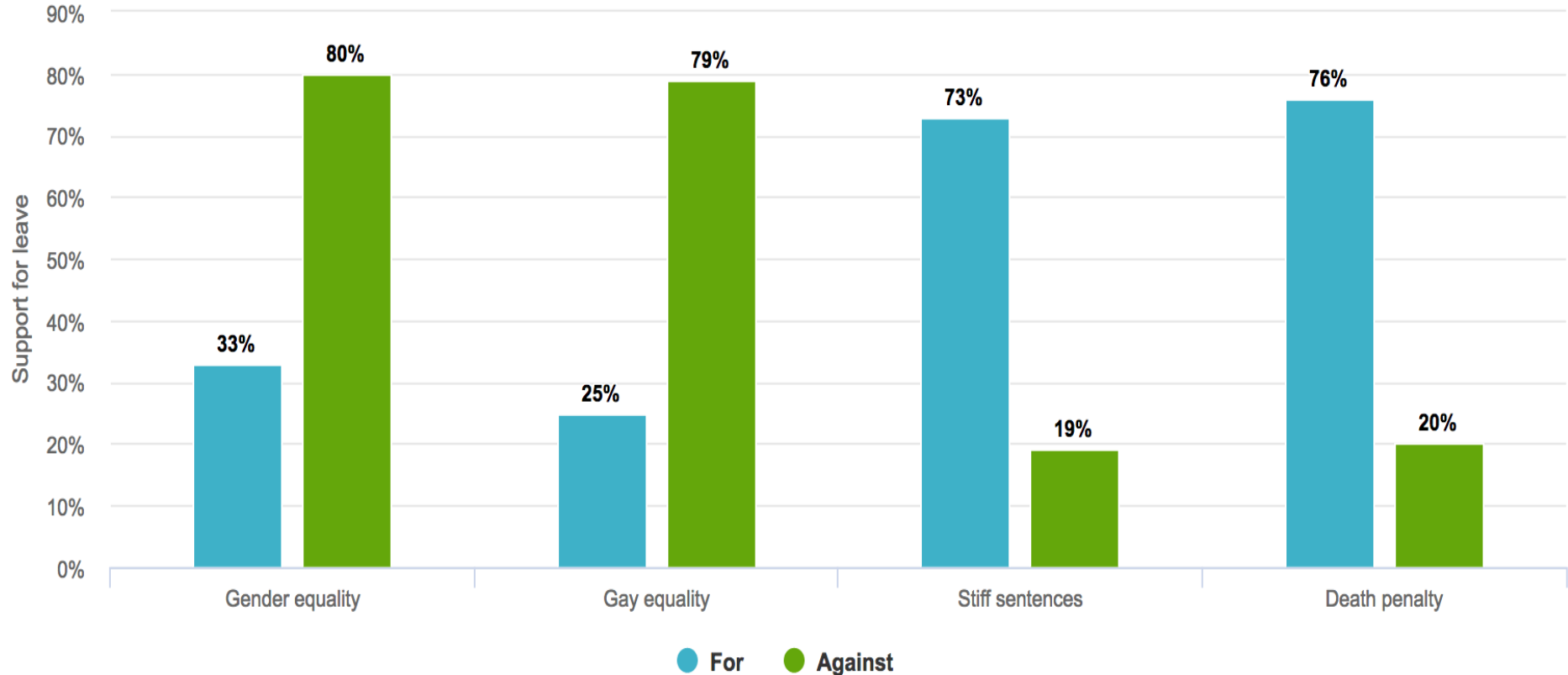
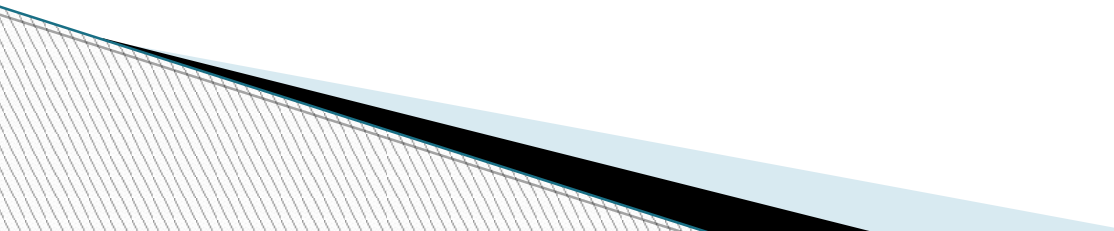


Figure 2: Support for leave among social liberals and conservatives

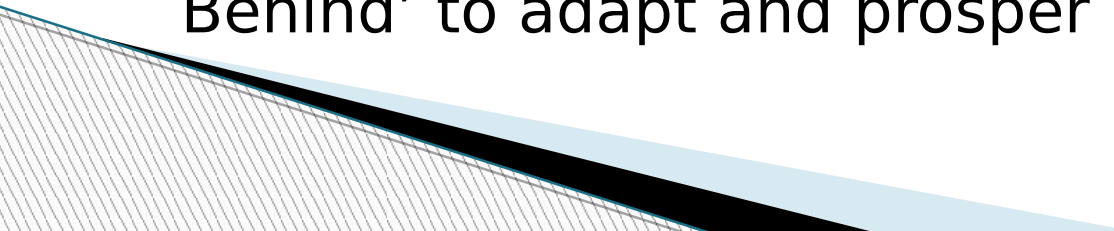
Source: British Election Study (EU Referendum Study) Internet Panel Wave 8. N = 29,000.




Specific Points from Analysis

- ▶ The poorest households (incomes of less than £20,000 per year) much more likely to support leaving the EU than the wealthiest households
 - ▶ Groups vulnerable to poverty were more likely to support Brexit. Age, income and education matter, but educational inequality the strongest driver
 - ▶ Support for Brexit varied not only between individuals but also between areas. People with all levels of qualifications were more likely to vote leave in low-skill areas compared with high-skill areas
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Specific Points - the Left Behind

- ▶ Groups in Britain who have been 'left behind' by rapid economic change and feel cut adrift from the mainstream consensus were the most likely to support Brexit. They feel 'done to' by forces beyond their control.
 - ▶ These voters face a 'double whammy'. While their lack of qualifications put them at a significant disadvantage in the modern economy, they are also being further marginalised in society by the lack of opportunities they face in their low-skilled communities.
 - ▶ This will make it extremely difficult for the 'Left Behind' to adapt and prosper in future.
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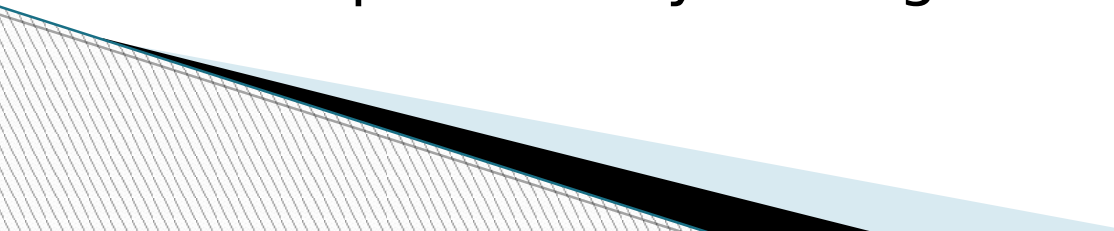
The Contradictions of Populism

- ▶ Analysis shows Brexit predominantly a protest vote against Free-Market Globalism
 - ▶ The first time voters given a binary choice
 - ▶ Ironic that the EU acts as a check on Free-Market Globalism (i.e worker's rights and fines levied on Apple & Google) but seen is as a interfering distant power
 - ▶ How will the Free-Trade/Free-Market nirvana advocated by Free-Market fundamentalists deliver for the 'left behind'?
 - ▶ What happens when it doesn't?
 - ▶ Labour Party on the horns of a dilemma
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The lessons from history

- ▶ Populism has been tried for millennia – ancient Rome and its free grain for the poor of Rome (result = instability)
 - ▶ More recently Argentina under Peron
 - ▶ Now Venezuela under Hugo Chaves – unraveling as we speak.
 - ▶ Admittedly these were socialist populists but led to crisis and the poor being worse off.
 - ▶ Brexit & Trump right wing led populism. Is it a Trojan Horse? Create a crisis leading to sweeping social reforms to shrink the State?
 - ▶ If so it is a huge contradiction – how can it deliver for the Left Behind?
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The Human Condition

- ▶ Globalism has created a sharp divide - particularly in societies that have embraced Free-Market/supply side economics most enthusiastically and where inequality is greatest
 - ▶ The sense of being subject to forces beyond our control is causing people to take refuge in nationalism (Scots, Catalans, English & Brexit)
 - ▶ Who am I and where do I belong? - the existential search for identity and intimacy in a world that is paradoxically highly connected & where 'distance has collapsed'
 - ▶ Globalism is bringing these questions into sharp focus particularly among those who feel 'Left Behind'
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The Human Condition cont.

- ▶ Gordon Brown: “the world had worshipped at the altar of wealth and greed, and forgotten that a successful economy needed to be built on trust and fairness”
 - ▶ If these issues are not addressed soon the future for Britain and America (the 2 Western Democracies where populism has triumphed) is bleak
 - ▶ With any revolution you have an initial period in which the extremists are in charge
 - ▶ Perhaps Brexit needs to happen to convince the winners from Globalisation of the need to create a fairer society (listen to the cry of the poor and oppressed), and to convince the ‘Left Behind’ that the EU is not the real cause of their woes
- 