

## **Beware of Post-pandemic Resurgence of Populism**

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The rise of populism in various countries in recent years is inextricably linked to the current global economic and political situation. To analyse international economic and political development, it is necessary to grasp the underlying causes of the recent surge in populism.

In the aftermath of the 2008–09 global financial turmoil, there has been a rapid surge in populism around the world. In the US, the emergence of the Tea Party in 2010 was followed by the “America First” slogan trumpeted by Donald Trump and his election as president in 2016. In addition, there are the National Front in France; the Independent Party gaining ground in elections in Britain; and the steady rise of populist political parties in such countries as Sweden and Germany, which have hitherto been relatively impervious to populism. As for developing countries, Venezuelan president Hugo Chavez, Ecuadorian president Rafael Correa, and Bolivian president Evo Morales have focused their attention on resource-redistribution policies. Among ultra-right-wing populist leaders are Jair Bolsonaro, President of Brazil, and Rodrigo Duterte, President of the Philippines. The UK’s withdrawal from the European Union as decided by the Brexit referendum in 2016 and the China-US trade war from 2018 onwards are also the by-products of this background. As a result, the global economy and order have become subject to uncertainties.

### **The origin and evolution of populism**

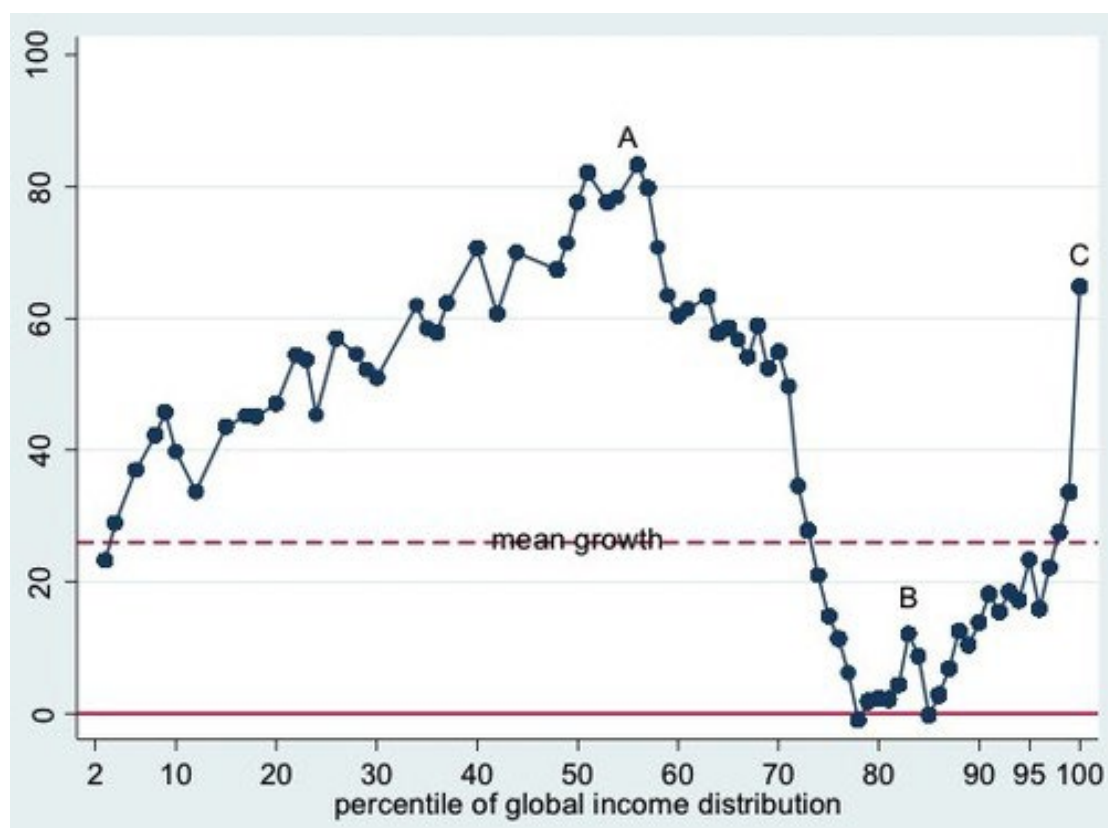
A proper definition of populism is essential to a thorough understanding of the above global trend. For Cas Mudde, Stanley Wade Shelton UGAF professor of international affairs at the University of Georgia, the basic definition of populism consists in separating society into two antagonistic groups — “the pure people” vs “the corrupt elite”, between which there is no room for different opinions, nor are the rights of minorities respected. On this basis, Professor Jan-Werner Müller, who teaches politics at Princeton, further incorporates the element of identity politics, which involves race

and religion. Thus evidently populism is intrinsically comprised of localism and exclusivity.

While populism also entails political and cultural factors, the focus of this article remains on the economic aspect. According to Guriev and Papaioannou (2020), the rise of populism is closely related to the global trends of weakening economies and ever-widening wealth gaps in recent years. Other factors include long-term globalization and automation of production processes leading to rising unemployment and wage stagnation as well as austerity policies in Europe resulting from the financial crisis.

The famous Elephant Chart was produced in 2016 by Branko Milanovic, the former lead economist in the World Bank's Research Department. Based on survey data of 600 families from 120 countries, the diagram (see Figure) is particularly illustrative of the underlying issues by indicating the distribution of labour incomes and the long-term income growth. Grasping the ins and outs of points A, B, and C is conducive to understanding the keys to changes in the global income distribution between 1988 and 2008.

**Figure 1988–2008 Cumulative real income growth at various percentiles of the global income distribution**



Source: Branko Milanovic (2016)

Point A indicates the percentile with the biggest income growth around the global median, with 90% of the people from Asian countries, mostly from China and India. Point B indicates close to zero income growth over the 20-year period, with 70% of the population from developed countries, e.g. the US, the UK, Japan, and Western Europe. These people, who belong to the lower and middle classes in their home countries, have not been able to benefit from globalization. Nor do they see developing countries (China in particular) in the positive light. Point C indicates the world's top 1% earners with exceptional high income growth. The majority of this group come from developed countries, half of them from the US. Take 2008 for example, with a family income (pre-tax) of around US\$300,000, they are the "corrupt elite" in the eyes of the populists.

As for point B, over the past two decades, the GDP per capita of China and that of India grew by sixfold and twofold respectively. The reason was that both countries underwent sweeping market-driven economic reform during the early 1990s. The accession of China to the World Trade Organization as its 143rd member state in late 2001 marked a turning point in that in a matter of years, the country undertook to lower its import tariffs and non-tariff barriers. Following the most-favoured-nation treatment granted by the US government, China managed to stabilize its export markets. To address its external imbalance crisis in 1991, India agreed to the International Monetary Fund's request to reform its economic structure by such measures as slashing its tariffs and opening up its market.

Moreover, out of profit-making considerations, multinational companies may outsource labour-intensive manufacturing activities to emerging markets. While this may reduce the income gap across nations, if anything, the income and wealth gaps within each country will deteriorate. For instance, Autor, Dorn, and Hanson (2013) found through a series of studies that since the early 1990s, local labour markets in the US with rising exposure to Chinese import competition have generally shown higher unemployment, reduced wages, and lowered overall labour force participation, etc. Their populations tend to be ideologically more radical and more likely to vote for Republican presidential candidates (e.g. Trump in 2016). Similar cause-and-effect relationships have been identified by scholars in European countries.

## **The wealth and social gaps**

However, it is perhaps unfair to ascribe the phenomenon of widening wealth gap worldwide to globalization. In fact, from the late 1980s onwards, the runaway success of information technology has facilitated division of labour among leaders of developed economies and labour forces of developing countries while increasing economic benefits and investment returns. Since 2008, the quantitative easing (QE) policies of central banks have sent asset prices spiralling around the globe. The past decade has seen the widespread adoption of robots and artificial intelligence in the manufacturing sector, which has further expanded the wealth gap in various countries. This, coupled with short-term economic fluctuations (e.g. the 2009 Great Recession and Europe's external crises in 2010), has also paved the way for the rise of populist leaders, much like the situation during the 1930s Great Depression. Hell-bent on winning elections, politicians would rather blame trade and immigrants than other complicated factors for the widening wealth gap.

Having said that, economic factors alone do not suffice to explain the rise of populism. Of course political and cultural factors play a key role but while the culture of a country may not undergo abrupt change in a matter of years, it would affect how its people face the wealth gap or the impact of globalization. The renowned Harvard economics professor Dani Rodrik, in his study of American voters (Rodrik, 2020), reveals that populism is not necessarily against globalization, which has widened the gap between localists and the elite. As winners in globalization, the elite are more inclined to be supporters of the trend.

## **Ensuing scenarios of the coronavirus**

Amid the raging COVID-19, will the wave of populism worsen or reach a turning point? In my opinion, given the greater susceptibility of low-income classes, should governments fail to take remedial measures and strive for resource redistribution in time, populism will exert a more significant negative impact on global livelihoods, politics, and peace.

First of all, companies which can survive the pandemic are either financial juggernauts or have luck on their side. Since these companies will face less competition and enjoy greater monopolistic powers, they are likely to raise the prices of their services and products.

Despite the traditional perception of education as a means of bridging the intergenerational wealth gap, hundreds of millions of students still resort to learning online. Those from well-to-do families, who tend to enrol in prestigious schools with a wealth of information-technology resources at their disposal, are more adaptable to the new normal in education. With zero competitive edge in online learning, those from underprivileged families are unlikely to gain access to social upward mobility in the foreseeable future. Since high-calibre teachers with rock-star status will have even greater market competitiveness on a global scale, the teacher pay gap across nations is likely to widen.

Driven by the latest round of QE by central banks in response to the pandemic, the rising trend of income and wealth inequality after the global financial crisis is likely to be prolonged, pushing asset prices up to unprecedented levels. The recent disconnect between the stock markets and collapsed real economies also betrays the undercurrents of wealth inequality.

Another long-term consequence of the coronavirus pandemic lies in the serious decline of social trust. Despite the fact that it takes global cooperation to contain the spread of the coronavirus and develop the vaccine, international relations, especially those involving China, are being strained like never before. As pointed out by Barro, Ursúa, and Weng (2020), the huge casualties in the 1918 influenza pandemic spurred the allies to impose the excessively-harsh Versailles Treaty on Germany, indirectly inducing the emergence of ultra-right-wing nationalism in Germany and sowing the seeds of the Second World War. Le Moglie et al. (2020) also found that social trust would still be compromised by the influenza pandemic after two or three generations.

To prevent the recurrence of such a disaster, the world must have proactive policies in place to redistribute resources and rebuild social trust so that underprivileged groups will not turn to extreme ideologies and politics.

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