

The harmful effects of economic populism

Description

Elites are loosing control to populists, whose policies lack thoughtfulness to succeed in today's world

By **Jean-Luc Burlone**

Whether from the left or the right, economic populism proposes simple solutions that work well politically and economically for some time but they fail to solve complex or lasting issues. Rather, they worsen them because they disregard needed prospective viewpoints to reach inclusive economic growth.

Chavezism, in Venezuela, first succeeded impressively when the country became the most equal society in Latin America. Today however, its economy has collapsed and the population now suffers as never before.

Inequality and job insecurity are the plight of the middle class while wealth floods to the elite through financial networks. Capital liberalization has lead to a significant decline in labour's share of national income. In addition, capital mobility has shifted both the tax burden and the impact of economic shocks to the middle class.

An economy based excessively on capital reveals the main flaw of capitalism; its inability to discount long term issues... in a technology driven economy.

Since the financial crisis, economic growth is fuelled by liquidity and leverage. To the detriment of labour, corporations have increasingly favoured capital as their main factor of production (enabling automation and 3D printing) and used excess capital to increase shareholders value.

An economy based excessively on capital reveals the main flaw of capitalism; its inability to discount long term issues such as the integrity of the environment or the integration of labour in a technology driven economy.



Capitalism and the environment

A bold dismantlement of environmental regulations entices businesses to expand their activities without filling forms. But long-term consequences can be harmful for public health. Left to their own inclination, will corporations in the drug, mining or chemical fields, protect the environment and the public? Or will they maximize their yearly profit or their next quarter earnings?

Corporate discipline must be upheld to avoid over-using resources so these can replenish themselves, and to manage waste and avoid abominations such as the Great Pacific Garbage Patch floating in the North Pacific Ocean.

'Left to their own inclination, will corporations in the drug, mining or chemical fields, protect the environment and the public?'

Climate change creates the greatest uncertainty to the world economy. It is a relief to note the decision by American states, municipalities and many large corporations, to meet the Paris accord objectives in spite of their government rejection of the accord. Key economic agents are acting!

It is also noteworthy that large pension funds, seeking to invest hundreds of billions to meet their long-term obligations, are asking fossil energy companies among others to reveal and manage their GHG emissions. As financial interest coincides with virtue, climate change mitigation stands a good chance of success.

Tax reform and labour

There is a consensus among OECD countries to foster inclusive growth by reforming their tax system to make it fairer. Finland's Universal Revenue and Sweden's experiment to replace the 3 shifts of 8 hrs system by 4 shifts of 6 hrs*, are cases of tax money used to favour labour. On the other hand, the latest US tax reform is fighting the last war.

The main assumption behind the US tax reform is that corporations will invest the tax rebate in capital equipment. Consequently, they will increase their operations and create jobs in the country. Notwithstanding the details, such an assumption lacks credibility for four reasons that can be argued off the cuff.

First, capital equipment does little to favour labour if anything. It upgrades the production process with state of the art technology, which generally replaces workers, though it entices capital formation that may create jobs or not.

Second, corporations already have hoarded an unprecedented amount of funds. When they use their liquidity, they buyback shares, acquire other firms to strengthen their monopolistic status or distribute dividends.

Under their current money management policy, richer corporations will neither foster economic growth nor enrich workers. There may be several reasons why wealthy corporations do not increase their production capacity but the lack of funds is not one of them.

'If the objective were to create jobs, an effective tax reform would give an enticing tax cut to corporations that hire employees and offer them good working conditions.'

Third, corporate dominance already pervades American politics to advance its own agenda. A more powerful



corporatism will further increase its control over institutions — meant to serve the public interest — for its own benefit. The balance between corporate power and public interest will be even more skewed in favour of the former.

Fourth, tax reduction by a country triggers tax reduction by others. It has become a race to the bottom known as a “tax war”, as the expression correctly implies harm. Trillion of dollars are at stake and public services are the sole loser as governments end up with insufficient resources to meet their obligations without increasing their deficit.

If the objective were to create jobs, an effective tax reform would give an enticing tax cut to corporations that hire employees and offer them good working conditions (retirement plan, etc.). Or it could eliminate the deductibility of hired subcontractors that do not offer similar working conditions.

Rather than competing for the lowest tax rate at their detriment, OECD governments could collude to confine their respective tax rates around a median rate. Not an easy task since the endowment of each country differs. It may also induce the Prisoner Dilemma — where all lose if one party cheats. Nonetheless, the idea has been tabled.

Policies for economic growth that enriches all

Economic growth that enriches the few at the expense of the many erodes social cohesion. It reduces faith in institutions, feeds discontent and ferments animosity towards foreigners. To correct the situation, policies must take into account fundamental forces that underscore the current era.

Nine years of economic expansion have further reduced the role of labour in the production process. International politics are unstable, in search of a new world order. And technology brought a new landscape for activities in every field — from plain e-shopping to robotics and cyber attacks.

Sign-up to our newsletter
and get email notification
of our most recent articles

Sign up

Populist policies are short sighted and obsolete. Hence they are counterproductive in today's context. Rising nationalism in many countries, where groups seek economic security, underscores the pressing issue of labour's integration in the economy.

The American reaction to meet the Paris accord objectives demonstrates how states, corporations and civil society could act together towards a common goal. Similarly, all economic agents could draw and implement well thought policies to successfully re-integrate labour in the economy.

All will benefit from solving the issue or be harmed if it remains unattended.

** Both Finland and Sweden are at the highest level of income equality (Gini coefficient). Canada is among the second best. The USA fares poorly.*

Image: [????????????](https://www.istockphoto.com/stock-photo-1234567890/stock-photo-1234567890?from_view=detail&from_open_view=true) via [StockPhoto.net](https://www.stockphoto.net)

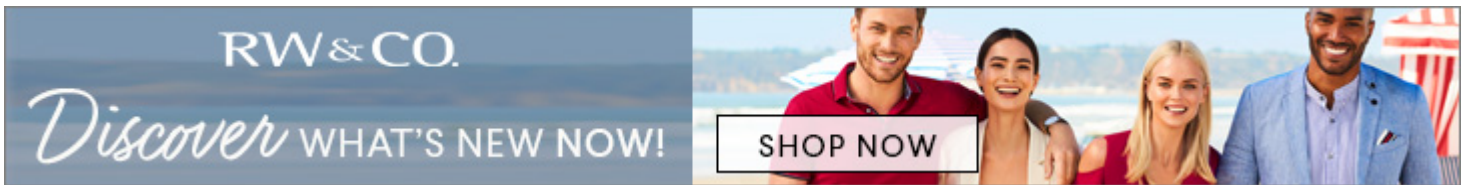


Jean-Luc Burlone, Ms. Sc. Econ. FCSI (1996)

Economic Analysis – Financial Strategies

jlb@jlburlone.com

The text above is my personal view, based on a review of the economic and financial press. October 11, 2017. JLB



Category

1. International

Tags

1. economics
2. equality
3. populism
4. World

Date Created

October 2017