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The Perils of Populism

As prime minister, 'Rob' Muldoon was often described as an economic 'populist'.

He claimed to be on the side of "the ordinary bloke". Economic historian Gary Hawke described him as "an inveterate meddler, an overconfident, self-proclaimed economic manager with a demagogic streak."

Muldoon disdained the ordinary person's understanding of economics. Right up to his political demise he was claiming that the economy was "in remarkably good shape".

Standard economic reasoning was of little interest to him: he justified protectionist policies by saying he would not sacrifice efficient industries for the sake of a theory – an oxymoron if ever there was one.

The Muldoon government's National Superannuation scheme was a massive electoral bribe, of the kind that largely disappeared from New Zealand politics until the recent interest-free student loans and Working for Families initiatives.

It goes without saying that democratic governments should be mindful of public opinion. But that is not the same thing as engaging in populist politics – scratching itches or bribing voters.

The recent election in Australia was not a pretty sight. Prime Minister John Howard intervened in state government politics to stop hospital closures and mergers of councils on the sole grounds that they were "unpopular". But reform usually is unpopular. Taxpayer largesse was showered on voters in marginal seats for dubious projects.

As John Roskam of the Melbourne Institute of Public Affairs noted, "It is a paradox of democracy that sometimes leaders must make decisions that a

majority of the electorate either disagrees with, or would disagree with if it had the chance to express an opinion. The public didn't vote to reduce tariffs, float the dollar, or sell the Commonwealth Bank of Australia. If the public had been given a say on any of these policies they would have been rejected."

A political consensus often emerges only after the event. When the public comes to understand and accept good policies it will vote for them.

The *National Business Review* recently published a spoof version of opposition leader John Key's 'Key Notes'. An item neatly captured how difficult it can be to resist populist policies.

It read: "The student loan scheme was devised by politicians without input from officials, it is hugely expensive, open to abuse, encourages students to borrow more rather than less, and represents a wasted opportunity to lift the quality of tertiary education. For this reason I am very happy to announce my party's intention to unequivocally support the present interest-free student loan policy".

National's stance is understandable, but it means that what was widely recognised as a bad but vote-grabbing policy will be difficult to change in the near future.

However, as the Muldoon era and many periods of Latin American history showed, a series of populist policies can eventually lead to economic ruin. Far from protecting "the ordinary bloke", they depress wages, increase taxes and ultimately make painful reform unavoidable.

Moreover, electorates may support governments that make the case for economic reform in the overall public interest intelligently, patiently and consistently. The reforming Lange-Douglas government was re-elected in 1987 with an increased majority even though its policies imposed short-term economic costs.

There is evidence that people respect politicians who do not always tell them what they want to hear.

One such may be Republican presidential candidate John McCain. He has denounced ethanol subsidies and resisted protectionist pressures, telling voters in Michigan that some jobs “aren’t coming back”. He has opposed his party’s populist position on immigration.

At times, as a recent *New York Times* article noted, McCain has compromised his principles, but usually “out of desperation and with distaste. That’s preferable to politicians who are congenital invertebrates.”

A test of political leaders is whether they have the courage not just to follow the crowd but also lead it.

Former British Prime Minister Tony Blair had to fight hard in his own party to ditch its longstanding attachment to nationalised industries. The New South Wales Labor government is currently locked in a bitter fight with its trade union supporters over electricity privatisation.

It has been interesting to watch reactions to the government’s decision to further restrict overseas shareholding in Auckland airport. The *New Zealand Herald* editorialised against it, saying, “This is populist politicking, pure and simple”, as did the *Dominion Post* and other media.

Mobilising anti-foreigner sentiment is the easiest form of economic populism. It had much to do with former fortress New Zealand policies. To succumb to it in an era of increasingly open borders for trade and investment would be economically impoverishing.

Good policies are sometimes like medicine – they may taste bad for a while, but they are necessary in order to get better. We need political leaders who can resist populist pressures and lead the electorate in necessary directions.

They are the only ones who are likely to get an honourable mention in the history books.

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