



## Wealth will weaken if we ever yield to populism

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This week's Davos meeting of virtue-signallers and plutocrats was preceded last week by a meeting at Stanford University of the Mont Pelerin Society. Long dominated by Milton Friedman, among the society's luminaries today are two former US secretaries of state, George Shultz and Condoleezza Rice.

Founded in the aftermath of World War II, the Mont Pelerin Society set out arguments that free markets based on property rights and the rule of law were the keys to delivering prosperity and freedom. Its meetings provided an intellectual bulwark to the then prevailing attractions of communism or at least to socialism.

As the 20th century progressed, the sclerotic state of the socialist world was increasingly evident. By contrast, adopting the Mont Pelerin principles saw a revived Germany and Japan, followed in the 1970s by the creation of prosperity in Hong Kong, Taiwan, Singapore and Korea. Similarly, we saw Chile breaking out of the pack of Latin American economies with lethargic growth. All these success stories had free or free-ish markets as their drivers.

And in the developed nations, unmistakable benefits were seen from (economic) deregulation of prices, access to markets and breaking up of government monopolies. In the main, these favourable outcomes from free enterprise took place in democracies (not, of course, Chile or Hong Kong). Economic freedom, usually combined with political freedom, was bringing increased wealth, further legitimised by — perhaps even caused by — democracy. Democratic revolutions that embraced capitalism also transformed the failed socialist Eastern European economies. The later successes of China and India reinforced the importance of market systems as the growth progenitor.

All this has brought a massive increase in living standards, with the share of people living in poverty falling from 60 per cent 50 years ago to less than 10 per cent today.

No attendees of the Stanford meeting doubted market capitalism's higher efficiency and ability to deliver growth, including for the benefit of poorer members of society. But recent developments that were debated at Stanford have undermined confidence that the model will continue to prevail.

These include the resumption of growth in the size of government and a weakening of property rights by, for example, the seizure of land usages rights. In Australia, government actions to reduce greenhouse gas emissions through planning laws and measures that restrain commercial activity include the increase in regulatory intrusions and permissions, like those that resulted in the Adani coalmine taking nine years to be approved. A worldwide consequence of such measures has been a general slowdown in growth rates.

There is also evidence that more people are not seeing the benefits of the growth that has taken place. Between 1970 and 2018 the top tier of households among US income earners increased their aggregate share of total incomes from 29 per cent to 48 per cent, with the middle tier falling from 62 per cent to 43 per cent and the poorest tier seeing their share drop marginally to 9 per cent. These trends are partly due to a decrease in households in the middle tier and increases in the top and bottom. All three tiers saw higher real median household incomes: of 64 per cent for the top tier, and 49 per cent and 43 per cent respectively tiers two and three. (*Corrected paragraph*)

“This economy is not working for us” became a US left radical battle cry, especially among the young. Seeking more from the government now attracts 47 per cent support (up from 36 per cent in 2010). This has translated into surging support for a new form of socialism promoted by Bernie Sanders and Elizabeth Warren. Similar developments were seen in the UK, where Jeremy Corbyn, though losing the November Brexit election, attracted 70 per cent of the youth vote. The politics of envy is becoming evident, ironically led by the more highly educated who would be beneficiaries of greater dispersion of income.

This new form of socialism sees redistribution, reserving areas from commercial activities and abolishing cheap fossil and nuclear fuel accorded a higher priority over increasing aggregate income levels.

Another daunting development has been an upsurge in civil dissent, including deliberate attempts to paralyse economies and prevent free speech by groups such as the Extinction Rebellion.

Last year, this became open revolt in Chile, the most successful economy in Latin America with among the least unequal income distributions. A five-cent increase in the metro fare triggered mass fare evasion, with 17 metro stations bombed in a single night, an event clearly co-ordinated by a group that remains unidentified. Suddenly, hundreds of thousands of people were on the streets with diverse demands ranging from lower taxes, higher pensions, better healthcare, and a variety of other free goods. The government has been forced to accede to many of these demands.

Democracy, which led to or at least coexisted with the diminished government controls driving higher income levels for more than 70 years, is now turning into populism and threatens to foment a new era of declining living standards. Donald Trump is now one of the few world statesmen with genuine public support and, trade policy aside, a smaller government agenda. But, although he is likely to be re-elected in November, even in the US economic prosperity is threatened by statism supplanting the proven superiority of free markets.

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