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2017: Through the Populist Looking Glass

A new year is supposed to begin in hope. Even in the darkest days of World War II, New Year celebrations were sustained by the belief that somehow the tide would turn toward peace. There was vision then, too. Writing after the fall of France in 1940, Arthur Koestler insisted that the “whole problem was to fix [Germans’] political libido on a banner more fascinating than the swastika, and that the only one which would do is the stars and stripes of the European Union.” Others, too, were already imagining the international institutions and domestic reforms – enfranchisement of women in France, the British National Health Service, the United States’ GI Bill – that would ground the post-war global order.

The start of 2017 offers no such consolations. This year, the main question is whether the post-war order, now in its eighth decade, can be sustained once US President-elect Donald Trump takes office on January 20. Trump has repeatedly signaled that Russian President Vladimir Putin is a kindred spirit whose efforts to influence Western countries’ elections, subvert the EU, and

restore a Russian sphere of influence that includes Ukraine and much of Eastern Europe will face few US impediments. Add to this Trump's willful ignorance, conflicts of interest, and reckless China-baiting, and the world seems set to enter a radically disruptive period, largely reflecting the breathtaking capriciousness of a Trump-led US foreign policy.

At home, too, Trump and the Republican Party he now leads have done little to reassure those who fear his presidency. Despite his lack of experience in public office, he has filled his administration with callow tycoons and retired military officers, rather than seasoned policymakers. At the start of the year, a Gallup poll found that Americans' confidence in Trump's ability to carry out his duties was some 30 points lower (and below 50% on some issues) than it was for his three immediate predecessors, prior to their inaugurations.

Project Syndicate contributors' own unease – if not dread – concerning Trump has often been evident from their commentaries' very titles. Former Swedish Prime Minister Carl Bildt, for example, suggests that readers should “Head for the Bunkers,” while NYU's Nouriel Roubini worries that Trump's presidency will mean “‘America First’ and Global Conflict Next.”

The prospect that Trump and populist leaders elsewhere could consolidate their hold on voters – enabling them to dismantle even a liberal democracy with America's vaunted constitutional checks and balances – adds to the anxiety. Sławomir Sierakowski, Director of Warsaw's Institute for Advanced Study, suggests that Poland's ruling Law and Justice (PiS) party, by fusing nationalism and economic redistribution, may have found a strategy for entrenching what he calls “elected dictatorship.” And Rob Johnson, President of the Institute for New Economic Thinking (INET), argues that something similar is possible – though by no means inevitable – in the US.

Not all *Project Syndicate* commentators are so pessimistic. Trump, who lost the popular vote, may in fact be weaker than he appears, and opposition within his own party – particularly over his embrace of Russia and hostility to free trade – is likely to persist. Nonetheless, as several commentators suggest,

policy overreach may become a genuine risk for Trump only when Americans' own political libido becomes fixed on a more fascinating banner.

A Diplomacy of Disorder

For now, that banner is "America first." Trump, as former Israeli foreign minister Shlomo Ben-Ami puts it, will avoid becoming "caught up in thorny moral dilemmas, or letting himself be carried away by some grand sense of responsibility for the rest of the world." But while Trump has attracted the admiration of putative foreign-policy "realists" such as Henry Kissinger's biographer, Niall Ferguson (and a favorable assessment from Kissinger himself), Ben-Ami dismisses as "delusional" the belief that "the proudly unpredictable and deeply uninformed Trump" could "execute grand strategic designs." On the contrary, by "[p]rovoking China, doubting NATO, and threatening trade wars," Ben-Ami says, "Trump seems set to do on a global scale what former President George W. Bush did to the Middle East – intentionally destabilize the old order, and then fail to create a new one."

And if Trump does turn "US geopolitical strategy toward isolationism and unilateralism," Roubini warns, the chaos and conflicts gripping the Middle East for the better part of a generation are likely to spread. During the run-up to WWII, he notes, protectionist tariffs "triggered retaliatory trade and currency wars that worsened the Great Depression," while "isolationism...allowed Nazi Germany and Imperial Japan to wage aggressive war and threaten the entire world."

Today, Roubini continues, in the absence of "active US engagement in Europe, an aggressively revanchist Russia will step in." Likewise, "if the US no longer guarantees its Sunni allies' security, all regional powers – including Iran, Saudi Arabia, Turkey, and Egypt – might decide that they can defend themselves only by acquiring nuclear weapons." And "Asian allies such as the Philippines, South Korea, and Taiwan," he points out, "may have no choice but to prostrate themselves before China," while "other US allies, such as Japan and India, may be forced to militarize and challenge China openly."

Former Spanish foreign minister Ana Palacio and former German foreign minister Joschka Fischer share Roubini's fears. As Palacio points out, Trump's presidency comes at a time when the "dissolution of the liberal rules-based global system" is already well underway, owing to "a lack of progress in the development of institutions and legal instruments." And Fischer has little doubt that Trump, "an exponent of the new nationalism," will contribute to this atrophy, particularly that of the post-war order in Europe. To the extent that "the Trump administration supports or turns a blind eye to" Putin's destabilization efforts in Europe, "the EU – sandwiched between Russian trolls and *Breitbart News* – will have to brace itself for challenging times indeed."

The Shape of Shocks to Come

The risks are exacerbated by the likelihood that they will be misinterpreted – and thus mismanaged. This partly reflects the difficulty of parsing 140-character policy proclamations: Bildt, who has also served as Sweden's foreign minister, is certainly not alone in foreseeing "a routine spectacle of international destabilization via Twitter." Since the election, he notes, "Trump has indicated that he might subject even the most fundamental aspects of US foreign policy to renegotiation." And he has unfailingly done so on a public platform that allows for little nuance and even less constructive dialogue. Just before Christmas, for example, one tweet seemed to upend US nuclear doctrine.

But greater clarity about Trump's views on issues (if only because he tweets about them more often) may be no less jarring. For example, MIT Sloan's Yasheng Huang says that, by "calling into question the 'One China policy'" with respect to Taiwan, "Trump is playing with fire." The most ominous risk is that he could end up "inflaming Chinese government and military hardliners, if he confirms their belief that the US wants to undermine their country's 'core interests.'" And, like Ben-Ami and Roubini, Huang is convinced that in goading China, Trump "is simultaneously empowering and enabling it." Indeed, "[w]ith Trump's help," he concludes, "the 'Chinese Century' may arrive sooner than anyone expected."

President Barack Obama's bold opening to Cuba also seems destined for Trumpian disruption. "Because Congress refused to normalize US-Cuba relations by repealing the US embargo," points out Jorge Castañeda, a former Mexican foreign minister, "Obama was forced to resort to legally reversible executive orders to loosen restrictions on travel, remittances, and trade and investment." Trump "has promised" – once again on Twitter – "to undo all of this unless he can get 'a better deal for the Cuban people, the Cuban-American people, and the US as a whole.'" But such a deal, says Castañeda, "is a nonstarter: the Castro regime is not going to do what it has never done and negotiate internal political issues with another country."

In Asia, the Trump effect is already undermining longstanding policy initiatives by the region's democratic leaders. Japan is perhaps most imperiled, which may explain why Prime Minister Shinzo Abe rushed to New York to meet the president-elect – the first foreign leader to do so.

For years, says Brahma Chellaney of New Delhi's Center for Policy Research, Abe "has assiduously courted" Russia. Abe's "overtures to Putin" were a central plank in his "broader strategy to position Japan as a counterweight to China, and to rebalance power in Asia, where Japan, Russia, China, and India form a strategic quadrangle." In Abe's view, "improved relations with Russia – with which Japan never formally made peace after World War II – are the missing ingredient for a regional power equilibrium."

But Trump's wooing of Putin has left Abe in the lurch. With "the US in its corner," Chellaney notes, Russia "won't need Japan anymore." Moreover, Abe has been undermined by Trump's promise to withdraw the US from the 12-country Trans-Pacific Partnership. Abe saw the TPP "as a means to prevent China from becoming the rule-setter in Asian trade," says former *Economist* Editor-in-Chief Bill Emmott. Without the TPP, "it is now increasingly likely that China will step into that role."

It is in the ruins of Aleppo, however, that one may be able to discern most clearly the likely international impact of Trump's "America first" presidency. Of

course, Trump cannot be blamed for Syria's mayhem. As Christopher Hill argues, the debacle in Syria is due to "a display of spectacularly incompetent diplomacy" by Obama. But the foreign policy Hill foresees under Trump is one that pursues US goals "without any serious effort to marshal international support, or even to take stock of other opinions or interests."

Richard Haass, President of the Council on Foreign Relations, is equally scathing about US diplomacy in Syria and the precedent it sets, because "not acting in Syria has proved to be as consequential as acting." And not just for Syria: the world has recently seen the US pushed to the sidelines by Iran, Russia, and Turkey in the effort to stop the fighting there. Whatever the shortcomings of Obama's foreign policy, in the Middle East or elsewhere, US geopolitical leadership and initiative are likely to be in even shorter supply under Trump.

Trumping the US Economy

One wouldn't know it from Trump's tweets, but Obama is leaving behind a US economy that is stronger than it has been since the beginning of George W. Bush's presidency 16 years ago. Annual GDP growth stood at 2.9% in the third quarter of 2016; the unemployment rate is under 5%; and the US budget and trade deficits have been declining throughout Obama's second term. If Trump were to behave as he normally does, he would simply take credit for Obama's success and maintain his policies, which clearly (albeit slowly) have been repairing the massive economic damage bequeathed by the worst financial crisis since the Great Depression.

Fat chance. All indications – from the details of his economic policies to the cabinet officers chosen to implement them – are that Trump, and the Republican-controlled Congress, are poised to undo as much of Obama's legacy as possible. The "organizing principle" of Trump's economic policies, says Simon Johnson, a senior fellow at the Peterson Institute for International Economics, "seems to be to discard pragmatism entirely and advance an extreme and discredited ideology." It is an agenda "structured around deep tax

cuts, sweeping deregulation (including for finance and the environment), and repeal of...Obama's signature health-care reform, the Affordable Care Act." And now that House Republicans "have started to think about an import tariff as part of their tax 'reform' package," Johnson argues, "they will all start to get on board" with protectionism, despite having recently supported the TPP.

That remains to be seen. But if Trump imposes a tariff, as he now seems certain to do, "some or all of America's trading partners will most likely retaliate, by imposing tariffs on US exports," Johnson continues. "As US export-oriented firms – many of which pay high wages – reduce output, relative to what they would have produced otherwise, the effect will presumably be to reduce the number of good jobs."

Likewise, the economists Gita Gopinath, Emmanuel Fahri, and Oleg Itskhoki are dubious of the impact on the trade balance of the Trump team's "proposal to cut corporate-tax rates and impose a border-adjustment tax," which, like a value-added tax, "would treat domestically purchased inputs and imported inputs differently, and encourage exports." That strategy, they argue, is unlikely to work "for the simple reason that the US authorities maintain a *flexible* exchange rate." Assuming full implementation of Trump's proposed tax reforms, "the dollar will appreciate along with demand for US goods," which "will offset any competitiveness gains."

Harvard's Carmen Reinhart makes a similar point about Trump's plans. The dollar, she points out, is now up "by more than 35% against a basket of currencies since its low point in July 2011." And continuing exchange-rate appreciation poses "a major obstacle to fulfilling his promise" – so resonant in the Rust Belt states that he narrowly won – "to bring back US manufacturing, even if doing so requires imposing tariffs and dismantling existing trade arrangements."

That leaves Trump with few options. As Gopinath, Fahri, and Itskhoki point out, the Federal Reserve is unlikely to lean against dollar appreciation by reducing interest rates, as this would stoke domestic inflation. And Reinhart

all but rules out an updated version of the 1985 Plaza Accord, which engineered the dollar's depreciation against the Deutsche Mark and the yen. "Sustained appreciation of the yen," she argues, "would probably derail the modest progress forged by the Bank of Japan in raising inflation and inflation expectations."

Moreover, "it will not be the Bundesbank that sits at the table in 2017" but the "European Central Bank, which is coping with another round of distress in the periphery" of the eurozone, making a weak euro a "godsend." That leaves China. But, "given the negative impact of the strong post-Plaza yen on Japan's subsequent economic performance," Reinhart observes, "it is unclear why China would consider a stronger renminbi to be worth the risk."

Of course, inaction by China could expose it to another stream of incensed tweets – now bearing the US presidential seal – about its supposed "currency manipulation." But, just as Trump appears to be in denial about the effects of a rising dollar, his "tough talk" on trade in general, and on China in particular, "fails a key reality check," says Yale University's Stephen Roach. It is America's "significant domestic saving deficit," Roach points out, that accounts for its "insatiable appetite for surplus saving from abroad, which in turn spawns its chronic current-account deficit and a massive trade deficit."

The problem, Roach warns, is that, unlike Trump's nocturnal tweets, the incoming "administration is playing with live ammunition" against an adversary that has plenty of ammo of its own, implying profound, global repercussions. For a leader not known for careful deliberation, and who has surrounded himself with "extreme China hawks," the mere fact that turning "trade into a weapon" would likely amount to what Roach calls "a policy blunder of epic proportions" is no reason to believe that it won't happen.

Realizing Resistance

Even if that blunder is avoided, Chris Patten, Chancellor of the University of Oxford, suggests that there are likely to be others, in part because social media themselves, he believes, have become a form of live ammunition, by enabling

“lies to crowd out the truth in public discourse and debate.” Patten, however, assumes that truth can crowd back in. What is needed, he argues, is to counter falsehoods with facts: challenging co-workers who cite “fake-news headlines or ignorant, prejudiced claims,” calling out misleading news programs, and urging “community leaders to roll up their sleeves and do the same.”

Princeton University’s Peter Singer, however, doubts that mere insistence by individual citizens on factual accuracy will be enough to defend the integrity of democratic elections from fake news. Singer cites the example of a YouTube video, watched 400,000 times prior to the US election (and since removed), in which the far-right US conspiracy theorist Alex Jones charged that “Hillary Clinton has personally murdered and chopped up and raped” children. Revisiting Supreme Court Justice Louis Brandeis’s famous concurring opinion in *Whitney v. California*, Singer thinks that “Brandeis’s belief that ‘more speech, not enforced silence’ is the remedy for ‘falsehood and fallacies’ looks naïve, especially if applied in an election campaign.” Given the time and cost of civil defamation lawsuits, and their effectiveness “only against those who have the assets to pay whatever damages are awarded,” Singer wonders whether it is “time for the legal pendulum to swing back toward the offense of criminal libel.”

Beyond regulation of speech, more hardheaded policies will be needed in other areas. Fischer argues that Europe, in particular, must be pro-active in defending its interests, especially because Russia regards “weakness or lack of a threat from its neighbors” not “as a basis for peace, but rather as an invitation to extend its own sphere of influence.” For more than seven decades, Europeans have been able to concentrate on other matters. “The old EU developed into an economic power because it was protected beneath the US security umbrella,” he observes. “But without this guarantee, it can address its current geopolitical realities only by developing its own capacity to project political and military power.”

Back in the US, Laura Tyson of the University of California at Berkeley and the Presidio Institute’s Lenny Mendonca believe that state and local governments

may also offer an effective source of resistance. “The answer to Trumpism,” they argue, “is ‘progressive federalism’: the pursuit of progressive policy goals using the substantial authority delegated to subnational governments in the US federal system.” In particular, states like California, which has the world’s sixth-largest economy and voted overwhelmingly for Clinton, can become a center of what Tyson and Mendonca call “uncooperative federalism,” which implies “refusing to carry out federal policies that it opposes.” For example, the state legislature is considering “new bills to finance legal services for immigrants fighting deportation and to ban the use of state and local resources for immigration enforcement on constitutional grounds.”

Capture the Flag?

Most important, Sierakowski suggests, is to stop assuming that populism will simply self-destruct. To be sure, one key vulnerability of populist rulers, according to Sergei Guriev, Chief Economist at the European Bank for Reconstruction and Development, is their claim “that they alone can fix their countries’ problems.” Trump has said this explicitly, and because many “people regard a successful CEO as someone who can deliver on well-defined objectives,” Guriev notes, “they conclude that a businessman can solve social problems that a politician cannot.”

The flaw in this thinking, according to Guriev, is that political leaders “with a corporate mindset are likely to focus more on efficiency than inclusion.” But, whereas “the corporate leader can eliminate jobs and issue severance payments to redundant workers,” governments must concern themselves with “[w]hat happens to these workers subsequently.” The risk, then, is that when a corporate mentality informs policymaking, “reforms ignore or alienate too many voters,” causing leaders to lose their popularity.

This, says Sierakowski, is what many assume will inevitably happen to populist governments. The “conventional view of what awaits the US (and possibly France and the Netherlands) in 2017 is an erratic ruler who enacts contradictory policies that primarily benefit the rich,” he says. On Jarosław

Kaczyński's return to power in Poland a year ago, his opponents believed precisely that: his government (in which he holds no formal role) "would work for the benefit of the rich, create chaos, and quickly trip himself up – which is exactly what happened in 2005-2007," the first time the PiS was in power.

Not this time. The PiS, says Sierakowski, has "transformed itself from an ideological nullity into a party that has managed to introduce shocking changes with record speed and efficiency." Instead of its previous neoliberal economic policies, the PiS has "enacted the largest social transfers in Poland's contemporary history," thereby causing the poverty rate to "decline by 20-40%, and by 70-90% among children." Generous welfare provision, combined with socially conservative nationalism, has proven to be highly effective at locking in voter support. Indeed, as long as Kaczyński "controls these two bastions of voter sentiment, he is safe," Sierakowski believes. "Those who seek to oppose Trump," he concludes, "can draw their own conclusions from that fact."

But how applicable is Poland's experience to other countries in general, and the US in particular? INET's Johnson acknowledges the possibility that Trumpism could become a durable political force. "If the Republicans pass a Keynesian growth package in the next two years that tightens labor markets and raises wages, they could secure their grip on power for many years to come," he believes, even as they "ignore or undercut women's and worker's rights, environmental protection, and public education."

But Johnson is not convinced that the Republicans are inclined to adopt the reforms needed to ensure that the benefits of growth are widely shared. On the contrary, "it is likely that Trump's proposed fiscal expansion will again disproportionately benefit the wealthy, without 'trickling down' to the rest of Americans." He points out that while "'public-private partnerships' have been championed as a means to direct capital toward a national rebuilding effort," experience in recent years shows that "such measures can be manipulated, and often lead to 'heads I win, tails the taxpayer loses' outcomes that have benefited Wall Street and Silicon Valley."

Of course, the consolidation of Trumpism cannot be ruled out. Congressional Republicans' rapid embrace of protectionism, together with their hasty retreat from a move to dismantle the independent Office of Congressional Ethics, suggests that they are likely to accede to Trump – even on matters of supposed principle – to remain in power. And yet context matters. America's electoral system and political parties are much more candidate-centered than in other developed countries, creating significant scope for opposition from within. This has become apparent in Trump's conflict with Republican senators and US intelligence agencies over his rejection of well-founded allegations that Russia "hacked" the election on his behalf.

Moreover, whereas Poland has one of the world's most ethnically homogeneous societies, the US has one of the least. This implies that the political capital to be gained from anti-immigrant discourse, which Sierakowski thinks Kaczyński's opponents must adopt in order to defeat him, is far more limited in the US. Trump's allies can be expected to compromise their values. If his opponents do likewise, they are likely to find that bad policies are also bad politics.

<http://prosyn.org/dVGOmja>