



Edraak - Recognizing Liberty¹

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Free Markets in the Age of Populism: Challenges and Future Prospects

By Mustafa Acar²

Introduction

In recent years, populism is on the rise. Populist political movements get more attention, populist political leaders have been gaining support and even coming to power across the world.

The most recent and visible example of this is Donald Trump's election victory who became the 47th President of the United States of America because of the elections held on Tuesday, November 5, 2024.

Not surprisingly, the rise of populism has sparked some debates on many of the fundamental principles guiding economic policy and governance. As populist movements gain momentum across the world, the role of free markets has come under scrutiny, hesitation and criticism. Populist leaders often emphasize the need for strong government intervention, challenging the classical economic view that markets function best with minimal interference as underlined by the famous motto "the best government is the least government."

In this context, this article explores how populism influences free markets, its impact on free trade, regulations, predictability, and the future of economic globalization. Therefore, it is very timely to discuss this issue determined to be the topic of 4th Edraak Webinar of ILN: free markets in the age of populism. No doubt, it has certain implications on the economies of nations, hence on our lives.

The Definition of Populism and Its Implications on Free Markets

Populism generally refers to political movements that claim to represent "the people" against the interests of the "elite." It can be defined as a political program or movement that champions, or claims to champion, the common person, by favorable contrast with a real or perceived elite or establishment (Britannica, 2024).

¹ This research brief is part of the Islam & Liberty Network's Edraak Webinar Series, which included a session on the role of free markets in the age of populism, organized on 8 November 2024. This project is generously supported by the Atlas Network.

² Mustafa Acar is a Professor of Economic Development and International Economics at the Department of Economics, N. Erbakan University. He is based in Konya, Türkiye. He holds a PhD from Purdue University, United States.

Broadly speaking, the term populism can designate either “democratic” or “authoritarian” political movements. Typically, the populist attitude is critical of political representation and anything that mediates the relation between the people and their leader.

In its most democratic form, populism seeks to defend the interests of ordinary people through smooth procedures such as economic and political reforms, rather than radical, destructive methods, e.g. revolution. In today’s world, however, populism is mostly associated with authoritarian types of politics. Populist politics, accordingly, “revolve around charismatic leaders who appeal to and claim to embody the will of the people in order to consolidate their own power” (Britannica, 2024). In Turkish political jargon, populism refers to “flattery or adulation of the people” (“halk dalkavukluğu”), implying that populist leaders do not actually protect the interests of the people, rather they exploit the fears and concerns of the people to consolidate their own agenda and political power.

In this context, while there is no single ideological foundation that defines populism, it often involves strong nationalist sentiments, distrust of institutions, and a preference for state intervention to protect domestic or national industries and workers. What it implies in practice is that populist governments would like to impose policies that prioritize domestic concerns over market efficiencies, economic integration, and the free flow of goods and services, capital, and technology transfer.

For populist leaders, in other words, free-market policies are often seen as favoring multinational corporations and wealthy elites rather than average, ordinary citizens. By challenging the notion of a “level playing field” in the global economy, populism questions whether unregulated markets truly benefit most people. Populist critique often leads to a policy shift towards protectionism, higher tariffs and other trade barriers, and government interventions that may limit global competition in favor of domestic industries. Most of the time populism, adulation or flattery of the “people,” praising them too much and exploitation of their fears and concerns means more votes in the elections, hence serving to strengthen the position of the power elites.

The Appeal of Protectionism in the Context of Populism

Free trade vs. protectionism is an important point of debate which dates back centuries. Both views have supporters as well as opponents in every country and every period with no exception. As one can guess, both sides have several arguments to defend their position.

Among the arguments of protectionist view are the following: national security, autarchy (self-sufficiency), reducing unemployment, anti-dumping, protecting infant-industries, preventing child-labor, promoting “domestic and national” industries, and reducing balance of payments deficits. On the other hand, the free traders reject all these arguments as misleading with no sound base. Furthermore, they propose their counterarguments for free trade. Among these are cheaper products with higher quality, higher level of supply and product variety, easiness of technology transfer, faster economic growth and higher welfare level with more choices before the individuals in every sense—i.e. social, cultural, economic, and professional.³

In the context of our discussion, populist movements frequently promote protectionist policies to protect domestic industries from foreign competition. These policies can resonate deeply with populations who feel left behind by the challenges brought about by globalization, especially in regions hit hard by deindustrialization and increasing unemployment. By imposing tariffs and quotas, offering subsidies, and

³ For a broader discussion on the pros and cons, arguments for and against free trade and protectionism, see Acar (2018).

promoting domestic products through such initiatives and populist campaigns saying, “Buy local, domestic and national,” populist leaders seem to seek to foster employment creation and reduce unemployment within their borders.

However, as well documented by many empirical studies, free trade policies foster economic growth (IMF, 2001; WBG, 2018) and productivity growth (Dudu and Cakmak, 2013) leading to higher welfare. On the contrary, as the collapse of the communist system based on central planning indicates, protectionism and closed borders introduces inefficiencies in the market, often leading to less variety and lower level of supply, lower quality products with higher prices and limited choices for consumers.⁴ While protectionism can temporarily benefit specific domestic sectors or firms, it risks creating a less competitive economy, rent-seeking and irregularities with slower economic growth in the long run. Additionally, as countries impose trade barriers such as tariffs and quotas, trading partners often retaliate, creating trade wars that restrict exports and disrupt global supply chains. In other words, protectionism leads to inefficiencies, rent-creation, rent-seeking, hence corruption. Contrary to what is expected at a first glance, it does not reduce unemployment, just relocates it as export industries shrink—i.e. from import-substituting industries to export-oriented industries.

Populism and Economic Globalization: A Push for Localization?

For decades, free markets were championed as the foundation of economic globalization, connecting distant nations and creating interdependent economies.

Populist movements, however, view globalization as eroding national sovereignty, putting domestic industries at a disadvantage, and increasing inequalities. As a result, populist leaders often advocate for localism, or “economic nationalism,” which encourages sourcing locally, manufacturing domestically, and reducing reliance on foreign markets. This is in fact nothing more than new mercantilism, i.e. the rise of protectionist mercantilist view from the grave. As it is well known by economists, the Mercantilists, before the advent of the classical liberal school of economic thought (i.e. 16th and 17th centuries), believed that foreign trade is a “zero-sum game” where one party’s gain is equal to the other party’s loss, hence promoted protectionist foreign trade policies.

It should also be stressed that the drive for economic nationalism or new mercantilism can affect industries heavily reliant on imports and exports. In the United States, for example, the populist resurgence has led to increased scrutiny of trade agreements, with leaders promoting policies that reduce dependency on countries like China. In Europe, populist leaders have rallied against the European Union, seeing it as a threat to national decision-making and economic sovereignty. In Turkey populist governments put aside economic and legal reforms required by the EU-integration process and promoted domestic industries. However, even though such protectionist policies may provide short-term boosts to domestic economies and make some domestic firms get rich, they challenge the interconnected nature of today’s global economy and can hinder long-term growth by limiting access to broader markets. Free trade and open border policies better help an economy to grow faster, attract FDI and new technologies, create jobs and increase welfare.

⁴ See CFI (2024) for the meaning, advantages and disadvantages of protectionism. Also, for a thought-provoking debate in the form of an allegorical story on free trade vs. protectionism, see Roberts (2007).

The Role of State Intervention under a Populist Government

Free-market economics generally advocates for limited government and minimal intervention to the markets, emphasizing that free interaction of market forces should determine prices, wages, and resource allocation.

On the contrary, populist policies often favor protectionism and stronger state involvement in the economy, hence frequent intervention. By increasing government spending on welfare, infrastructure, and state-owned enterprises, populist politicians and bureaucrats seek to create a more accessible, state-linked or government-controlled economy that directly supports their constituencies.

For example, many populist governments focus on redistributive policies that expand social safety nets and increase minimum wages. However, as one of the most important universal laws or fundamental principles of economics states, everything has a price, and nothing is free. Therefore, while these populist redistributive measures aim to reduce inequality and boost consumer spending, they would unavoidably lead to higher budget deficits, higher taxes, monetary expansion, hence inflation, and unsustainable government debt eventually.

Equally important, critics argue that such interventionist policies can reduce private-sector incentives, leading to inefficiencies and slowing economic growth over time. Market interventions and over-regulations mean more bureaucracy, paperwork, formalities and extra tax burden on entrepreneurs, companies, and the businessmen. All these negatively affect innovation, entrepreneurship and possibilities of developing new products and new production methods.

Impact of Populism on Financial Markets and Investments

It is a well-known fact that financial markets rely on stability, predictability, and transparency to function effectively. Populist policies, which often involve rapid policy changes and arbitrary practices, create uncertainty for investors.

Foreign direct investment flows may decline when populist leaders impose restrictions on foreign ownership or nationalize industries to prevent “outsider” influence. This protectionist approach makes countries less attractive to international investors, who may fear abrupt policy shifts that could jeopardize their assets. No investor, businessmen, or practically nobody for that matter, would risk his/her valuable and scarce resources under uncertainty and unpredictability.

In addition, populism can also impact monetary policy. In some cases, populist leaders push central banks to adopt policies that favor short-term economic gains, such as keeping interest rates low to boost borrowing and consumption. While this can stimulate the economy temporarily, such policies may lead to inflationary pressures, economic instability, and reduced trust in central institutions, all of which can have adverse effects on financial markets. One teaching example in this regard is the fact that Turkish political authorities put political pressure on the Central Bank to lower interest rates in recent years based on some religious concerns. The outcome of this irrational initiative which broke the link between interest rates and other macroeconomic variables was very detrimental, even disastrous: it affected expectations very negatively, instantly pushed exchange rates up leading to a major depreciation of domestic currency, lower FDI inflows, etc. The government had to initiate what is called KKM (“kur korumali mevduat”/deposits covered against FX risks) which eventually generated a huge financial burden on the Treasury and the Central Bank. Maybe most importantly, inflation exploded in this process. Universal laws of economics worked once again: extravagant monetary expansions –i.e. printing money and increasing money supply at a higher rate than production- leads to inflation. Nowadays, the official

inflation rate in Türkiye is around 50% (48.58% to be exact, TCMB, 2024), which is currently one of the highest in the world.

The Future of Free Markets in a Populist World

Despite the challenges posed by populism, free-market principles remain deeply ingrained in many economies, and internalized by many institutions.

Policymakers and business leaders who support free markets argue that open competition, economic integration, and global trade have raised living standards, improved technology, and lifted millions out of poverty worldwide.⁵ The question now, in the age of populism, is whether free-market advocates can address the valid concerns raised by populists while preserving the benefits of economic openness.

One possible approach to reconcile populist concerns with free-market principles is a focus on “inclusive capitalism” or “entrepreneurial capitalism” as Park (2024) puts it, where policymakers work to ensure that the benefits of growth are more widely shared. This could involve investing in education, especially quality public education, infrastructure, and workforce retraining to help individuals adapt to rapidly changing economic and social conditions. By building resilience among workers and communities, free-market proponents can make a stronger case for open markets, showing that they are compatible with the economic security and fairness that populists demand.

What Can Be Done?

As mentioned earlier, it is a reality of our time (“spirit of time” or *Zeitgeist*) that populism is on the rise.

We can see populist political movements are gaining attention and populist leaders coming to power in many countries across continents. In this regard, an important fact in this short article tries to stress that the age of populism has reshaped the global conversation about globalization, free markets, and free market economy, raising questions about the social and economic costs of globalization, open markets, trade liberalization, and deregulation.

Protectionist arguments raised by populist leaders and political movements all over the world may sound appealing for the ordinary men on the street struggling to survive in a dynamic, globalized world. However, one of the most important universal laws of economics states that everything has a price, and nothing is free. Accordingly, while populist policies offer protection and support to domestic industries and unskilled workers, at the same time they risk stifling competition, disrupting supply chains, and isolating their economies from valuable global networks. Closed borders, protectionism, arbitrary and frequent policy changes, huge government spending in the form of social aids, welfare payments and subsidies granted to local industries, etc. means, most of the time, unpredictability, high country risk, less competitive power, inefficient markets and resource allocation, less export earnings, lower quality products with higher prices, huge budget deficits, and high inflation. Huge budget deficits can be financed only by three ways each one of them has a price: printing money leads to inflation, higher taxes reduce the purchasing power of the individuals, and borrowing paves the way leading to new crises, higher taxes and narrowing the maneuver capability in the foreign affairs.

⁵ For more discussion, facts and figures on how free-market capitalism, risk-taking and entrepreneurship, or free market economic system in general, helped many countries to grow, escape poverty, get rich and take hundreds of millions of people out of poverty over time, see, Zitelmann (2023), Park (2024), and Norquist (2024).

What can be done under these circumstances, in such a world where populist movements are on the rise? Well, there is still something to be done even under difficult conditions that are not so promising because hopelessness takes us nowhere. In short, everyone should do his/her part based on the credentials and possibilities one has. They need to raise their voice on the merits of free markets, open borders, free trade and integration as well as the unavoidable, negative, and unintended consequences of intervention, protectionism, arbitrariness and huge budget deficits. Accordingly, for free markets to thrive in an age of populism, advocates must address the concerns of those who feel marginalized by rapid economic change and work toward a system that balances advantages and disadvantages, efficiency with fairness.

Ultimately, the future of free markets will depend on whether they can evolve to meet these challenges, providing a model of economic growth that is sustainable, inclusive, and responsive to the concerns of the ordinary people trying to survive and lagging. Promoting ideas of free markets, free trade, open borders and showing the benefits of free market-oriented policies to the masses would help discipline and restraining the anti-globalization, anti-free market, anti-free trade, and pro-interventionist policies of the populist political movements and leaders. We should remember once again, as frequently as possible and remind it to those around us that there are only two ways to share the scarce resources scattered around the world: 1) Peaceful way through investment, production and voluntary exchange which means free trade and free markets, or 2) Coercive or belligerent way through war, conflict, invasion and appropriation. As Frederic Bastiat put it almost two centuries ago: Soldiers will cross those borders if you do not allow goods and services to cross. Our destiny depends on our own choice; we should choose the peaceful way!

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