

## Meeting Summary

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# Economic Populism – A Transatlantic Perspective

30 November 2016

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### Introduction

On 30 November 2016 Chatham House, in cooperation with the German Marshall Fund of the United States (GMF) and the London office of the Konrad Adenauer Foundation (KAS), organized an expert workshop on the topic of ‘Economic Populism – a Transatlantic Perspective’. This workshop was convened for three purposes: first, to further develop analysis of the drivers and enablers of the recent swell in populist movements on both sides of the Atlantic; second, to examine the potential consequences of these developments for the future of transatlantic economic policymaking and the international economic system; and third, to explore the potential changes in economic policy that might be needed to respond to the rise of populism.

Populism is not a new phenomenon in European or American politics. In some European countries, such as France, Austria or Denmark, populist parties have been around for years if not decades and have achieved considerable electoral success. In the US, populist insurgents, such as the People’s Party of the 1890s, have from time to time stirred up the political process. Today, populism is on the rise on both sides of the Atlantic. A debate has ensued as to what degree economic developments – such as stagnant wages, growing inequality, austerity policies in Europe, accelerated globalization or further trade liberalization – have contributed to its ascent. The British vote in June 2016 to leave the European Union and the surprising result of the US presidential election in November of the same year were both preceded by campaigns in which economic issues, such as trade agreements, featured heavily. Much of the commentary following these two events has thus focused on voters feeling ‘left behind’ by economic developments or on an often-cited ‘backlash against globalization’. The consequences of the rise of populism are likely to influence the transatlantic and international economic policy agenda for years to come.

### What is driving populism?

Before delving into a discussion of the drivers of populism, workshop participants first sought to better understand the term. There is a lack of clarity as to whether ‘populism’ defines an ideology, a discourse or simply a political strategy. The overuse of the term against the background of current developments has further blurred its meaning. In some cases, populism has almost become a term of abuse, merely denoting any unwanted or unsuccessful policies. There was some disagreement among workshop participants about whether the term ‘economic populism’ was helpful in understanding the phenomenon. For example, is any form of protectionism ‘populist’, or did the use of that term simply reflect elites’ views of such policies?

In light of this terminological ambiguity, it is particularly important to be wary of simplifications when discussing the causes of populism. As populist parties and political figures have grown in importance over the last few years, there has been increasing debate over the causes of their rise. In particular, the debate has focused on the relative importance of economic and sociocultural factors and the relationship between them.

In the American context, this discussion has played a key role in the analysis of the 2016 election, as Donald Trump was able to win majorities among working-class white Americans in key ‘rust belt’ states, in part by promising to bring back jobs and withdraw the US from current international trade agreements. At the same time, during the campaign Trump spoke to a variety of sociocultural issues, such as immigration and an alleged overreach of political correctness. The post-election analysis of the results, as they pertain to rust belt states, has therefore revolved around a discussion of ‘economic anxiety’ versus sociocultural issues (such as multiculturalism and immigration) as the main factors behind the outcome.

Similarly, the result of the UK's referendum on EU membership – with its clear split between the metropolitan vote, particularly in London, and the industrial and rural vote elsewhere in England – has led to similar debates about the drivers of populism.

Although the political and economic situations vary considerably between the US, the UK and other European countries, terms such as 'the left-behinds by globalization' are often used to explain the rise of populism in all three contexts. In addition, popular concerns about the impact of trade agreements played a key role in both the UK's referendum campaign and the US presidential campaign.

However, while these issues suggest in some respects that the causes of populism are economic, on their own they do not explain the particular character of populist movements. For example, if the phenomenon of the left-behinds is purely an economic one, why are most rising populist movements today appearing on the right of the political spectrum and not on the left, which would be a much more natural fit to address questions regarding inequality? In Europe, furthermore, radical right parties have appeared not only when economies are declining but also when they are thriving.

Many political scientists have long held that sociocultural issues eclipse economic developments as drivers of populism. Rather than focusing on divisions along economic, income or class lines, proponents of this position see a growing 'values gap', often accompanied by an educational divide, as the main reason for the rise of populism. These divisions, they say, were clearly visible in the 'Brexit' vote and in the 2016 US presidential election.<sup>1</sup>

Even if populism is not exclusively or even primarily driven by economic factors, some participants suggested that the economy may have acted as a catalyst for the recent rise of populism in the US and throughout Europe. The economic breakdown following the financial crisis of 2008 and the ensuing crisis in the euro area may have been a necessary condition, even if it is not a sufficient explanation for today's populist eruption. To some extent, then, the rise of populism can be seen as a predictable political transformation since 2008.

Right-wing populist parties have existed in Europe since before the 1980s, when their support started to grow. However, the electoral potential for such parties has increased significantly in light of changing demographics and the increased salience of immigration as a political issue. The increased prominence of social media has also created more opportunities for populists, who were largely unrepresented on mainstream media, to be heard.

The rise of right-wing populism must be seen in the context of the demise of the social democratic project in many parts of Europe. The rise of right-wing populism is helped by the inability of social democratic parties to address both the economic and cultural insecurities of voters, as such parties feel more comfortable speaking to the former phenomenon.

### Populism's impact on transatlantic economic policymaking

The financial crisis and recession of 2008–09 – and economic developments in the West since then – mark a systemic crisis of capitalism. After decades of adherence to 'market fundamentalism', the current economic system no longer delivers significant economic growth in many Western societies. Where economic growth has occurred, more often than not it has not led to significantly higher personal incomes or desired societal outcomes.

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<sup>1</sup> See, for example, Inglehart, R. and Norris, P. (2016), 'Trump, Brexit, and the Rise of Populism: Economic Have-Nots and Cultural Backlash', HKS Faculty Research Working Paper Series RWP16-026, August, <https://research.hks.harvard.edu/publications/workingpapers/citation.aspx?PubId=11325> (accessed 16 Jan. 2017).

One participant thus argued for the need for a ‘new political economy’. For this, current approaches to economic policymaking would have to be rethought in three key areas. First, if Western societies want to maintain the current global trading system, a more direct and specific link to adjustment and redistribution mechanisms is needed. Second, structural reforms will only be accepted if they directly and visibly increase the income of the working class. Third, a new attitude towards monetary and fiscal policy will be needed. Fiscal policy will also need to be loosened. Monetary policy can no longer only serve a primary function of combating inflation, but must also be directed at reducing unemployment.

However, such a process would also come with significant potential for transatlantic friction. Recent and ongoing reforms in the euro area, for example, have trended in the direction of stronger rules rather than more discretion in economic policymaking. While current euro area policymaking is to a large degree based on German preferences – a strict adherence to rules, a focus on austerity, and an emphasis on the role of an independent central bank committed to price stability – the incoming US president promised during his campaign to increase infrastructure and defence spending, and generally seems to follow a less ideological approach. For now, it remains to be seen if more traditional Republican policy preferences – stressing fiscal restraint and balanced budgets, which have often been championed by congressional Republicans – will clash with, or give way to, the new president’s views.

The planned Transatlantic Trade and Investment Partnership (TTIP) is either dead or (proverbially) comatose, with both the US and EU bearing responsibility for its failure. A potential US–UK free-trade deal, which has been mentioned by British politicians as well as by Trump, would face major hurdles. For instance, the terms of Britain’s access to the EU single market would have to be known, as this would influence how valuable the US–UK deal would be. In addition, it is questionable to what extent British negotiators would be able to get a good deal from the US side, which has vowed to put ‘America first’.

### Populism and the international economic system

Trade and trade agreements are areas of international economic cooperation where a need for change has long been evident. During the races for the Republican and Democratic US presidential nominations, Donald Trump and Bernie Sanders repeatedly criticized mega-regional trade agreements (in particular, the Trans-Pacific Partnership). This, as well as the immense backlash against the TTIP in key European countries, especially Germany, indicated a growing scepticism towards international trade. So far, the response of international elites to this mounting distrust has been to double down on existing models. The danger now could be either that the rise of populist actors will lead to an overreaction, endangering free trade altogether and potentially plunging the world into a trade war, or that current approaches to trade agreements will stay in place and only receive cosmetic changes.

In order to update and create truly 21st-century trade agreements, one participant suggested that policymakers should address and include enforcement mechanisms with regard to environmental protection, taxation and social standard provisions. Other participants argued against further complicating trade negotiations, given that trade deals are often an easy scapegoat or ‘projection screen’ for broader societal worries. Given the complexity of today’s agreements, explaining the negotiations to the public has become very difficult. As a consequence, one participant argued that policymakers should view trade negotiations as campaigns and change their communications approach accordingly.

Beyond trade policy, there is limited room for a coordinated fiscal policy effort at the international level – for example through institutions such as the International Monetary Fund or groupings such as the G20. Resistance to more discretionary fiscal policy remains high in Europe (especially in Germany), and there

is very little appetite to revise the structural and institutional set-up of the eurozone. It is too early to tell which side of this debate the US will take, but immediate progress in international forums seems unlikely.

On the question of whether existing international institutions will be around in five to 10 years' time, and what shape they will be in, participants thought that there would be a slow decline of the status quo.

### Responses to rising economic populism

If economic developments are only one aspect driving the backlash against liberal internationalism and open markets, economic policy can only be a part of the response. Economic policy changes will be necessary both at the international and the domestic level. At the international level, some participants suggested 'dialling back' globalization while maintaining democracy and national sovereignty, as Dani Rodrik has argued.<sup>2</sup> If so, how could this be achieved without setting off trade wars?

More also needs to be done at the domestic level to alleviate the negative economic impacts associated with globalization and technological advancements. In order to help stem the rise of populism, are radical changes needed in the making of economic policy, or do existing policies simply need to be changed at the margins and better communicated?

While there was, in the end, no consensus regarding the degree of change required, participants at the workshop largely agreed that policies to maximize economic activity, as well as improved redistributive mechanisms, would be needed. Yet, there was at the same time considerable doubt as to whether a return to the tax and welfare policies of previous decades would be sufficient to rein in growing inequality in Western societies. Instead, alternative or additional efforts could include increasing education and training, considerably augmenting minimum wages, and giving a greater role to regional and industrial policy – even at the risk of making economies slightly less efficient overall. Still, participants questioned whether we may also come to see the level of relative economic equality achieved in Western countries since the middle of the 20th century as exceptional, and may instead witness a return to more unequal societies in the future.

Others emphasized the need to look beyond traditional economic indicators, such as GDP and job growth, and to consider factors such as the dignity of work and type of jobs available. They emphasized the importance of recognizing a widely felt loss of community, brought about by economic, technological and demographic change in many Western countries. Moreover, mass higher education, which has significantly increased the percentage of people with university degrees in society, has gradually left those without degrees worried about a loss of societal and economic status. In order to address such concerns, some participants advocated a slower expansion of higher education and the allocation of equal resources to apprenticeship programmes. In addition, others called for a more controlled and decelerated approach to immigration in the future.

Lastly, participants discussed whether the populist phenomenon might correct itself and asked what will come after populism. If voters realize that populists cannot deliver on all their campaign promises once in office, will they return to electing mainstream parties and politicians? Or might they not care if populists don't deliver? Populists are often more effective in opposition and have influenced mainstream party policies from the outside. But in Hungary and Poland, populist leaders have also done well once in government. Thus, the answer to what comes after populism may be 'more populism'.

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<sup>2</sup> Rodrik, D. (2011), *The Globalization Paradox: Democracy and the Future of the World Economy*, New York: W.W. Norton & Co.

In order to mitigate the negative effects of rising populism, its drivers and enablers have to be understood correctly. Potential interactions between economic and sociocultural factors (such as growing distrust in elites, and increasing opportunities for populists to be heard) have to be further examined. In addition, the similarities and differences between populism's manifestation in Europe and in the US warrant more study.

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