

Allianz Chief Economist Heise

"Time to explore the driving forces behind populist separatist movements with a healthy dose of self-criticism"

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Fear of globalization has propelled populist forces in Europe to the sort of popularity they would have previously considered the stuff of dreams. In this sort of climate, Allianz Chief Economist Heise calls upon policymakers to be more self-critical and more transparent in their political decisions.

Allianz Chief Economist Michael Heise believes that one of the key political challenges on the agenda for 2017 will be how to deal with the populist currents running through the European political landscape. In his view, the aim has to be "to reinvigorate the vision of a peaceful, democratic Europe that is integrated in both political and economic terms", Heise told Handelsblatt newspaper. "It's time for our policymakers to explore the driving forces behind populist separate movements with a healthy dose of self-criticism."

This statement is a nod on Heise's part to the lack of transparency and willingness to compromise that he feels characterizes many political processes in Europe. "It is crucial to make people understand that European integration is not the root cause of globalization. Rather, within a single economic area that upholds high social, environmental and trade policy standards, it shields citizens from the potentially negative side-effects of globalization."

Heise points to the success stories written by Germany's euroskeptic "Alternative for Germany" (AfD) party in several state elections, the surprising victory of the Brexit camp in the UK and the perhaps even more surprising triumph of US billionaire Donald Trump in his country's presidential elections as testimony to the mistakes evidently made in this regard by the political establishment in the past. So it is with a sense of trepidation that the established parties are already looking ahead to what 2017 has in store. After all, right-wing populists could well end up writing attention-grabbing headlines when a number of European countries go to the polls over the coming year.

This prospect was also raised as a possibility in a recently published EU study conducted by the Bertelsmann Foundation. In the study, the experts conclude that concerns surrounding globalization play a key role in pushing people towards political movements that promise to rattle the establishment. Particularly in Germany, concerns like these among large parts of the population are being reflected in where they put their cross on the ballot paper.

A survey of 14,936 people conducted in August in the nine biggest EU member states (Germany, France, the UK, Italy, the Netherlands, Austria, Poland, Spain and Hungary), for example, showed that disproportionately large numbers of nationalist right-wing and populist supporters were concerned about the implications of greater international integration. According to the study, more than two-thirds of proponents of Germany's AfD (78 percent), France's Front National (76 percent) and Austria's right-wing populist FPÖ (69 percent) see globalization as a threat.

Setbacks to global economic development also have the potential to unleash populist tendencies. This is why Allianz' Chief Economist Heise believes that keeping the EU and the US on a stable growth path is the main economic challenge that lies ahead. "The strong dollar, coupled with expansive fiscal programs in the US, will continue to push the US current account deficit up, which makes the new US administration more likely to impose trade policy restrictions", said the economist.

But the considerable depreciation of the euro on the other hand, which would drive a wedge between monetary policy on this and the other side of the Atlantic, would not be "the right medicine" for European Monetary Union either. This sort of scenario would drive prices up, resulting in a loss of purchasing power and ailing consumer spending.

"Monetary policy normalization with slightly higher interest rates in Europe"

Heise also fears that short-term export successes will end up being "bought" at the expense of long-term structural investments if a temporary slump in the value of the euro diverts corporate attention away from boosting efficiency and improving products. This is why Heise feels that "monetary policy normalization with slightly higher interest rates in Europe" is "less of a risk" than a very weak euro.

The fact that next year could well be the last at the helm of the world's most powerful central bank for Federal Reserve Chairwoman Janet Yellen already hints at a tension-fraught relationship between the monetary and political spheres in 2017: US President-elect Donald Trump was a harsh critic of Yellen during his election campaign and is expected to show her the door when her four-year term comes to an end in early 2018. The proponent of a loose monetary policy will also have other risks to contend with in 2017: Trump's plans for tax cuts and large-scale economic stimulus packages could cause the US economy to overheat, sending inflation spiraling out of control. Yellen, who now wants to step up her course and tighten the monetary reins more than once next year, will presumably need to show real leadership quality to get her way.

"One thing is certain: the Fed chief is set to face the most difficult year in her life at the central bank", was the recent prediction made by economist Cyrus de la Rubia from HSH Nordbank. De la Rubia warns that the combination of an overheated economy and decisive rate hikes could prove to be an explosive mix: "This could certainly result in a slump, first on the real estate market and then in the automotive sector, where hire purchase arrangements are the norm."

The European Central Bank is also eyeing developments on the other side of the pond with concern: "Policy uncertainty resulting from the US presidential election has increased", said the ECB in its Economic Bulletin. This, it says, has led to some tightening in financial conditions.

The surge in the dollar triggered by Trump's election also has its drawbacks: "For those US companies that generate a large part of their profits abroad, the development is tantamount to a drop in profits and deals a blow to competitiveness", warned the expert De la Rubia.

With Reuters and AFP

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