

# The NewsLine

December 15, 2017

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## FINANCIAL MARKETS

# Beyond populism

Mainstream election victories in 2017 made many observers believe that populism has peaked. Looking at longer-term trends that fuel political discontent and disorientation, we do not concur. The days when mainstream center-right and center-left parties smoothly alternated in power appear to be over. That does not mean that all risks are on the downside.

After the Brexit vote and the victory of Donald Trump in the US, it appeared that a wave of populism was sweeping Western democracies. This worried many investors and economists. Populist economic policies can boost growth and financial markets in the short term, but they also purport uncertainty and volatility, and they rarely result in sound economic management. Moreover, populists' disdain for checks and balances can weaken pluralist democracies.

Even if populists do not gain power, their ascendancy often allows them to set the agenda, encouraging mainstream parties to adopt more protectionist, interventionist or anti-immigration policies.

Observers heaved a sigh of relief when populists did not prevail in various European elections in 2017. To ascertain whether political uncertainty has peaked, we need to understand what drove populism in the first place.

The financial and economic crisis that started in 2007 surely reinforced existing discontent. The crisis alone, however, cannot explain a longer-term trend of rising populist votes. We look at four underlying trends that, in our view, are fueling disgruntlement and disorientation among voters in Western democracies.

- Growing **wealth and income inequalities** are the most frequently cited reason for the appeal of populist politics. Anomalies, such as the strong showing of populists in the (egalitarian) Nordic countries and the enduring gloom about long-term economic opportunities, make us think that economics alone is causing political upheaval. That implies that higher growth or social spending will not fix the problem quickly.

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- Many scholars argue that populism is the result of clashing **values and culture wars**. The spread of cosmopolitan and liberal values since the 1970s has fueled a backlash among those who feel sidelined in their own country. In many places, values now explain voting patterns much better than class attachments and economic status. We believe that the appeal of populist narratives can best be understood using a mixture of economic and values-related explanations.
- **Trust** in political institutions fluctuates, but there is also a secular trend of declining confidence. In the US, for example, the share of people who trust their government has fallen from 80% in the 1960s to below 20%. Growing mistrust in democratic institutions plays into the hands of those who promise political disruption and the rule of ‘the people’.
- A frequently overlooked factor is the seminal **decline of mainstream parties**. Until the 1970s, center-right and center-left parties together often attracted 90% of the vote. Since then, the weakening of trade unions, the retreat of religion and other factors have diminished their attractiveness. Their decline has vacated political space that is now being occupied by new political forces.

None of these trends show any signs of abating. And while voters may get disillusioned with current populist leaders, we see other factors that could undermine political stability and predictability going forward:

- Technology-driven job disruption is unsettling many people in the West, but political solutions are so far scarce. Inequality and economic fears could rise further.
- The use of social media (echo-chambers, fake news) could further deepen political divisions. Generally, politics may become more short-term, ad-hoc and unpredictable in the age of the internet.
- Younger people often lack political loyalties, and some surveys reveal tenuous attachments to established notions of democracy.

Structural political volatility does not mean that all risks are on the downside. It can be an opportunity for reformist newcomers, for example. But there will be no going back to ‘normal’, in terms of a predictable transfer of power from one mainstream party to another.

This NewsLine is based on a 13-page study which you can find under Research Papers here: [https://www.allianz.com/en/economic\\_research/](https://www.allianz.com/en/economic_research/)

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