

Global Matters

Populism & perish

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Introduction

Populism is spreading rapidly and globally, and becoming more aggressive in its implementation and execution. It traverses national borders and can infiltrate all political affiliations. It represents a huge challenge for modern liberal democracies, as the risk of populism is severe political and economic disruption and stagnation.

Much has been written on populism over the years. In this article, 4D Infrastructure's Greg Goodsell (Global Equity Strategist) gives a contemporary, global perspective on what populism represents, what it looks like today and where it is headed in the modern world. This includes defining populism; assessing how big a problem it really is; looking at examples and impacts; and finally, addressing the key question: what can be done about it?

Populism: easy to see but hard to define

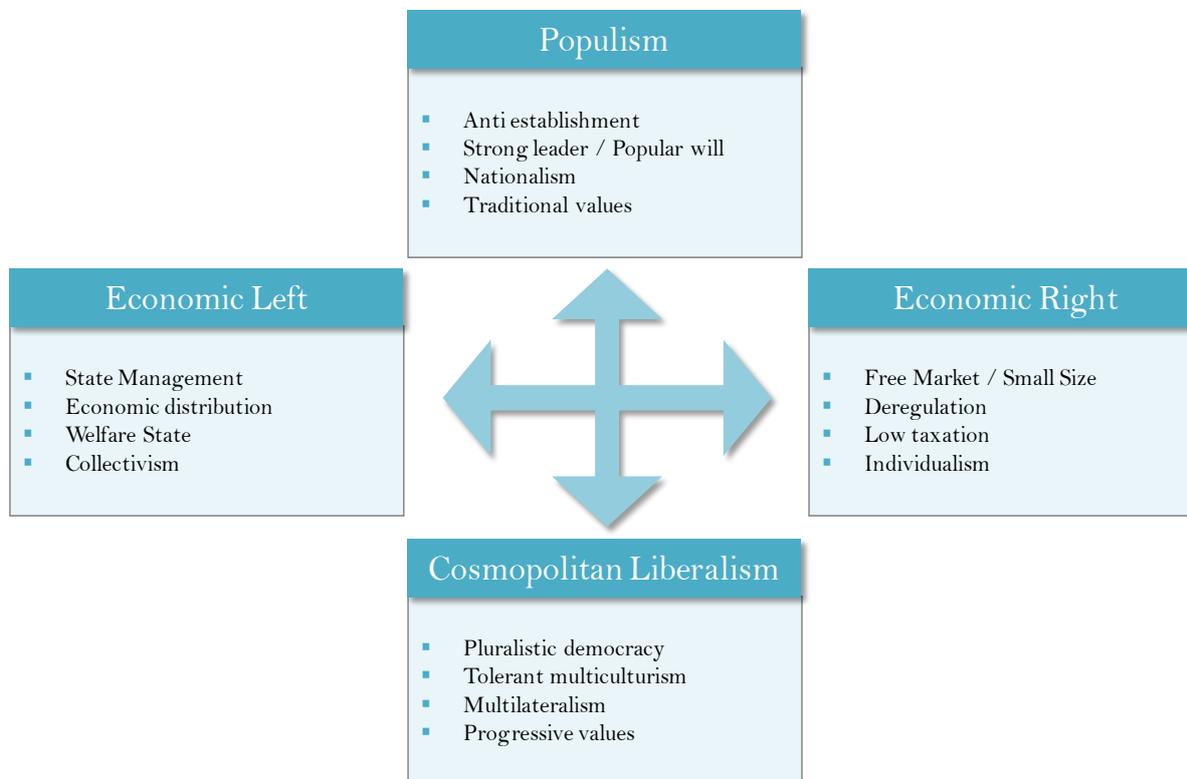
Populist policies and political parties are evident all over the world. However, coming up with a comprehensive definition that captures the concept is not so easy. Three definitions that resonate with us at 4D are:

- *'An ideology which pits a virtuous and homogenous people against a set of elites and dangerous 'others' who are together depicted as depriving (or attempting to deprive) the sovereign people of their rights, values, prosperity, identity and voice.'* (**Albertazzi & McDonnell (2008, p3)**)
- *'A thin-centred ideology that considers society to be separated into two homogenous and antagonistic groups: the 'pure people' and the 'corrupt elite', and argues that politics should be an expression of the *volonte generale* (general will) of the people.'* (**Kaltwasser and Taggart (2016, p24)**)
- *'Populist rulers are those promising to defend the people against corrupt elites, offering common sense solutions versus complex policies, and advocating national unity over cosmopolitan inclusion or international engagement. Based on that definition, Brazil, India, Italy, Mexico, Turkey and the US fall into the populist camp.'* (**Bloomberg (2019)**)

While there is an element of subjectivity in relation to all the definitions, what is clear from the above is that a fundamental tenet of populism is the separation between the 'good' and 'bad' in society, with the 'bad' enjoying a state of privilege or preference which should be challenged.

Within a political context, populism can be represented by the following diagram.

Four-way classification of political parties



Source: Inglehart and Norris (2016)

Populism doesn't necessarily attach itself to either the traditional 'Right' or 'Left' of the political spectrum, but it does exhibit or embrace a number of important principles as below. We've included examples from the current US administration.

- Typically a **strong/popular leader** – Donald Trump during the 2016 US Presidential election;
- **Nationalism** – Mr Trump's 'make America great again' slogan (also Brexit's key slogan of 'give us our country back');
- **Traditional values** – Mr Trump has endorsed these on numerous occasions since being elected, including a consistent lack of action on gun control.

Populism drivers

The two key drivers of populism are typically immigration and globalisation/international trade. ¹

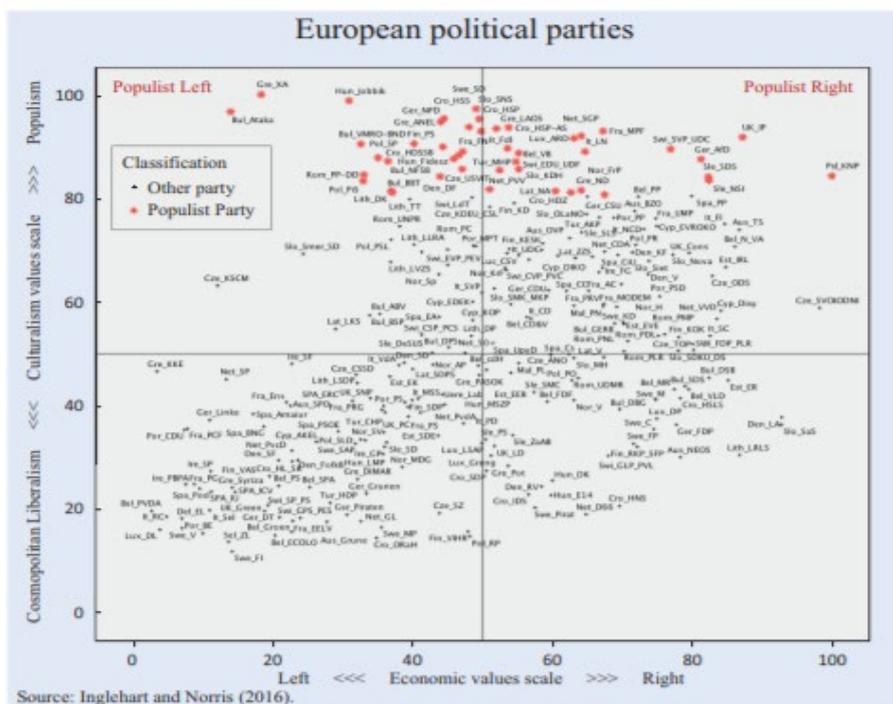
- **Immigration:** generally speaking, populist leaders argue that immigrants compete with local workers, robbing them of jobs, depressing wages and become a burden on the welfare state. For example, immigration was a key issue in the Brexit vote; while arguments surrounding the construction and funding of the US/Mexico Border Wall have been consuming US politics for the past 12 months.
- **Globalisation/international trade:** is blamed by populists for uncertainty and destroying jobs. Foreign countries are accused of dumping goods in domestic markets and engaging in unfair trade practices. The US/China trade wars are a perfect example of this.

Using our previous example, Mr Trump was elected on the back of promises on immigration, international trade, taxation, public spending and healthcare. Not surprisingly, he has acted (or tried to act) on all of these issues.

The spread of populism

Populism in politics has become very widespread, especially over the past decade. We have identified Mr Trump’s 2016 Presidential election campaign as being decidedly populist, while Bloomberg suggests that Brazil, India, Italy, Mexico and Turkey also fall into the populist camp.

More broadly, the spread of populism is represented by the following 2016 chart by Inglehart and Norris. They used the 2014 Chapel Hill expert survey to classify nearly 300 political parties along the ‘Economic Left’ and ‘Economic Right’ spectrum shown in the previous chart. They then identified the populist parties among them. Their classifications show a tide of populism across the political spectrum running from left to right.



¹ The EEAG report on the European Economy 2017. No. 16

And populism continues to spread. In a March 2019 Global Insight research piece, Ben Baris of Bloomberg concluded that:

- **68% of G-20 GDP** is under the governance of either **populist rulers in democracies** or non-demographic regimes. This is up from 65% in 2017 and 33% in 2016;
- in contrast the share of **G-20 GDP being run by mainstream democratic parties has fallen to 32%** in 2019, down from 67% in 2016;
- the major change has been the rise of **populist leaders, with such leaders now responsible for 43% of G-20 GDP up from 8% in 2016;**
- while populist governments have grown, the **mainstream parties have left the 'door ajar'** for them via policy and governance failures;
- **the UK's 'Brexit' pains and France's 'yellow vest' protests** both reflect the difficulty mainstream parties have in accommodating populist demands; and
- India, arguably a **populist regime under PM Modi, may be bucking the trend** with sensible reformist policies. Brazil is also targeting much needed reforms.

Why is populism so dangerous?

Put simply, populism leads to poor or inappropriate public policy formulation and execution. From an economic policy perspective the EEAG² definition of populist economic policy is instructive:

'The populist economic agenda is characterised by short termism, the denial of intertemporal budget constraints, the failure to evaluate the pros and cons of different policy options as well as trade-offs between them. It often focuses on single and salient political issues, overemphasises negative aspects of international economic exchange and immigration and blames foreigners or international institutions for economic difficulties. The populist economic agenda rejects compromise as well as checks and balances and favours simplistic solutions.'

Populist economic agendas are often very expansionary, emphasising the benefits of public spending or lower taxes. Dornbusch and Edwards (1990) suggested the economic consequences of these policies typically evolve in four phases:

- **Phase 1:** In the first year, the new populist policies seem successful. Output and employment growth accelerate, while inflation remains under control.
- **Phase 2:** Shortages begin to occur and FX controls reduce supply. The government budget deficit soars and inflation increases.
- **Phase 3:** Shortages increase, inflation accelerates and capital flight sets in.
- **Phase 4:** A new government takes over with conventional stabilisation policies.

² Ibid, p53

Populism examples

There are a number of examples of populism around the world.

- **US Trump Administration:** As noted above, Mr Trump was elected on the back of extensive tax cuts and immigration controls. He has enacted significant income tax cuts and looked to control migration and imposed tariffs. Arguably the US is approaching Phase 2 above.
- **UK:** The **Brexit vote** was substantially held on the issue of immigration and the nationalistic agenda of getting 'control of the UK back to the UK'. However, a populist economic agenda has not yet fully emerged in the UK – arguably because all members of parliament are totally consumed trying to deliver, so far very unsuccessfully, a Brexit outcome.
- **Italy:** The 2018 coalition government between the 5-Star (far Left) and League (far Right) parties was a textbook populist campaign, with a highly expansionary fiscal policy combined with immigration controls and the rejection of the influence of supra-national organisations such as the EU. However, subsequent to gaining power the Italians have found it necessary to negotiate with the EU.
- **Ukraine:** In April 2019 Volodymyr Zelenskyy, a comedian whose only political experience was playing a president in a TV series, won a landslide victory in Ukraine's presidential election. Mr Zelenskyy's promised agenda is limited – fighting corruption and ending the war with Russia.

Central banks are increasingly becoming the target of populist leaders

Central bank monetary policy separation and independence from government over the past 25 years has been one of the great success stories of global economic policy. As *The Economist*³ notes, over that period billions of people around the world have grown used to low and stable inflation with interest rates under control. However, we now have Mr Trump demanding interest rates be slashed, and speculating on sacking the head of the US Federal Reserve. Brexiteers discredit the competence and motives of the Bank of England in delivering alarming post Brexit growth forecasts, in Turkey President Erdogan has been clashing with the central bank, and in India a competent central bank chief has been replaced, with interest rates then cut ahead of the election.

These are difficult times with global growth potentially slowing, so a genuine need for considered, independent central bank policy responses may be approaching.

What does populism mean for infrastructure investment globally?

As indicated above, the rise of populism is fundamentally an over-arching political concern that leads to poor policy, with the direct impact on infrastructure and other asset classes secondary. Populist rhetoric is bad for policy across the board, or more accurately 'attempted' policy. For us at 4D, as infrastructure investors, the politics of populism is one part of our analysis and has driven some country downgrades (leading to reduced portfolio exposures). But more importantly, in terms of infrastructure we focus on the strength of the judiciary in that country. When looking at long-dated assets, governments and government policy will come and go, but we need the judiciary in that jurisdiction to be stable throughout to uphold the sanctity of contract and regulation in place.

³ The Economist: The independence of central banks is under threat from politics, April 2019

However, infrastructure has certainly not been immune to the populist curse. Recent populist political actions having a direct impact on infrastructure owners and operators has included the following:

- **France:** toll road operators were adversely impacted by the 'yellow vest' protests and Macron's resulting concessions;
- **Italy:** post the Genoa bridge collapse in August 2018, segments of the Italian government threatened to take back privately held assets in what was seen as a move to shift blame and appease an angry populous. This attempt has failed due to recourse to EU law;
- **Mexico:** the new government in October 2018 cancelled the partially built new Mexico City airport post a very poorly conducted 'referendum'. President AMLO was able to do this as it was to be a government asset, and he promised compensation to financiers;
- **UK:** there is an ongoing threat of nationalisation of utility assets if Labour under leader Jeremy Corbyn is elected. While this would face significant legal challenges and be very expensive, it remains a key Corbyn policy;
- **Brazil:** under the former government, toll roads suffered due to changes in policy around truck traffic. However, importantly the toll road operators were compensated due to the strength of the underlying contracts and judiciary in Brazil; and
- **Australia:** infrastructure projects have been proposed or cancelled as part of political agendas with no view on the execution, or viability of said projects, or the impact such actions have on Australia as a credible place to do business.

Where does Australia fit on the populist spectrum?

With a Federal election looming, it is worth reflecting on the influence of populism in our back yard. Our observations include:

- **The policies of both Liberal and Labor are expansionary and incorporate populist features.** Both election pitches incorporate substantial tax cuts and big spending initiatives. There is a real question over whether these policies can be funded as they rely on significant growth in tax revenues, with little coming from expenditure restraint. Any disappointment on economic growth may see these revenue forecasts struggle to be achieved;
- We discussed above the impact of populism on **Australia's infrastructure development;**
- More generally Australian voters often **reflect disrespect and a lack of confidence** in mainstream parties and leaders – a fertile environment for a populist cause; and
- The **minor parties** in the upcoming Federal election are all populist, but with limited agendas. However, in a close election, they may well play a key role in new government formation.

So Australia is certainly not immune to the populist plague.

Is it too late?

Has populism progressed to democracy's new era of 'Tear-it-all-down'?

Recent activity and research has identified an alarming new trend – the tendency to oppose everything without compromise⁴ or alternative. Governments throughout the western world are struggling to govern. The UK parliament recently voted down a multitude of options for a Brexit, with chaos the result. British voters are similarly inclined to support the negative – with a 'No' vote to PM May's Brexit deal, but equally strongly supporting a 'No' to leaving the EU without a deal.

France's '*yellow vest*' protests are a further example of this, seemingly only able to agree on a rejection of the status quo and distrust of institutions. According to Steven Levitsky of Harvard University, this is happening everywhere and represents a collapse of the '*Schumpeterian democracy*' (named after the Austrian theorist Joseph Schumpeter). This has long been the basis of modern democracy in which the establishment managed popular will and sought the common good.

So what can be done to stop the march of populism?

Political scientists⁵ generally suggest the solution to populism lies in three areas.

- **Militant democracy:** This implies democratic institutions do not tolerate parties or political movements that aim to destroy democracy and the rule of law, replacing it with an authoritarian order. The problem here is that firstly, most current populist movements seek to achieve power within the existing political system. Secondly, such a militaristic response would be alien in most working democracies. However, it could be argued that the military coup in Thailand in 2014 was a response along these lines, while President Duterte's election in the Philippines and his promise (subsequently acted upon) to shoot drug dealers is a further example of such a response (although it could also be seen as a populist initiative!).
- **Regain the narrative and integrate populist issues into mainstream politics:** For this to occur, the major parties would need to '*regain the narrative*' and look to address key populist issues within mainstream rhetoric and policy. For example, well thought through policies directed at better sharing of wealth and broader income re-distribution could help to shrink the populist support base, and bring voters back to mainstream.

In this vein French President Emmanuel Macron recently completed a three-month-long '*national conversation*'⁶ taking him on a town hall tour of the country, involving two million responses from ordinary citizens. He presented his conclusions on 25 April, noting a sense of injustice, abandonment and lack of respect; and a suspicion of elites. He said policy had to be more '*human*'. No more schools or hospitals would be closed on his watch; modest pensions will be inflation-indexed; unpaid alimony payments to single parents will be enforced; a single public-service office is to be set up to simplify dealings with the French bureaucracy; and there will be lower taxation. He will also reduce the number of elected representatives and abolish a civil service training college the Ecole Nationale d'Administration.

The key unanswered question, however, is how Mr Macron will fund these initiatives given France's budget is already under pressure.

⁴ The New York Times: Brexit Mess Reflects Democracy's New Era of Tear-it-all-down, 29 March 2019

⁵ The EEAG report on the European Economy 2017. No. 16, p61

⁶ The Economist, The French president responds to the gilets jaunes, April 2019

Whether all of this is enough to pacify the ‘*yellow shirt*’ protesters remains to be seen. However, early signs were positive with the number of protesters on the street at approximately 28,000, down from 280,000 last November. The majority of the French people now want the protests to stop, having initially sympathised with the protesters. Perhaps Mr Macron has provided a road map to a solution.

- **Integrate populist parties**, potentially even letting them be part of governing coalitions. Australia’s Westminster political system may well facilitate this at the upcoming Federal election with a major party possibly requiring the support of a minor, populist party to form government. The problem here is how much the major party has to compromise its principles, values, views and policies in order to accommodate the minor populist party. The answer to that may come on May 18, but if Italy is an example (where the 5-Star (Left) and League (Right)) joined to form a coalition government) the answer could be a long way!

Conclusion

Populism poses a real threat to democracies for a number of economic, social and governance reasons. From an economic perspective the key issue is that populism leads to the development and attempted implementation of poor economic policy. Populism is bad for all asset classes and society in general. It sets the ground work for increasingly violent confrontations, such as the French ‘*yellow shirts*’.

There are no easy answers. Major parties globally need to recapture the narrative by being seen to address classic populist issues (eg. wealth distribution) and communicate/educate as to why the traditional liberal democratic system has worked well for so long and remains the best governance option known to society.

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