



***V4 EUROPE – “PIECES OF POPULISM IN EUROPE AND HOW TO OVERCOME THE CHALLENGE”***

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Discussion Paper**

**Bartłomiej E. NOWAK**  
Chair of International Relations Department  
Vistula University, Warsaw  
***Economic Populism and Protectionism***

## ECONOMIC POPULISM AND PROTECTIONISM

*Economic patriotism combined with the demand for regaining national sovereignty inside, or, perhaps, outside the European Union have become the leading buzzwords of populist politicians. They want back “control” over their future in a closed national framework and fight against globalization and the common rules of the European single market. A new protectionism and a quest for re-nationalization of the competences in a multi-level European decision-making structure have been proclaimed based on the political and economic hardship of the crisis management inside the Euro-zone and low growth rates performed by the European economic model in general. The paper discusses the causes, consequences and potential responses to these trends.*

Economic openness and liberalization have been one of the greatest drivers of globalization in XX century. They strongly contributed to well-being of people across the globe, growth of economies, greater competitiveness, increased productivity and lower prices for consumers. The leadership of the West ensured that this direction became a stable anchor for development of the world economy for decades.

Today we face the paradox that the most positive attitudes towards globalization are in Asia while the most negative in Europe and the US.<sup>1</sup> US president Donald Trump in his inaugural address stated that “we must protect our borders from the ravages of other countries making our products, stealing our companies, and destroying our jobs”. He took the “economic nationalism” as a flagship project marking his presidency. In consequence he has also withdrawn from the TPP agreement and declared renegotiation of the NAFTA. Characteristically, during the annual World Economic Forum in Davos it was Chinese president, Xi-Jinping, who defended globalization and open economies. If economic populism installs itself in the heart of Western democracies, not only it will have profound consequences for global economics, but it may also derail West’s position and leadership in a much more polycentric world. This danger is real.

According to Ronald Inglehart and Pippa Norris, since 1960 populist parties in Europe increased their share of vote in national and European parliamentary election from 5,1% to 13,2% while their share of seats has tripled from 3,8% to 12,8%, at the expense of parties of the political centre.<sup>2</sup> However the trend is much larger and it goes beyond pure representation in the parliaments. There is a new context which creates fertile ground for widespread populism recovery within liberal democracy. It is partly caused by the rapid rise of new technologies.

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<sup>1</sup> *What the world thinks about globalisation?*, pool by YouGov / The Economist, “The Economist”, 18.11.2016.

<sup>2</sup> R. F. Inglehart, P. Norris, *Trump, Brexit, and the Rise of Populism: Economic Have-Nots and Cultural Backlash*, Faculty Research Working Paper Series RWP16-026, Harvard Kennedy School, August 2016.

The technological change driving the 'new globalization' is making its impact "more sudden, more selective, more unpredictable and more uncontrollable", as Richard Baldwin argues.<sup>3</sup> Uncertainty becomes a new normal for societies. Those who offer control over this process may easily gain in popular vote. Populists can deceive people with economic nationalism because it is much more difficult to promote today open societies and economic openness.

New technologies are also making the impact on the level of trust that is fundamental for the attitude of openness. From one point of view the digital revolution can contribute to more democratic and open societies. But on the other side, it is also contributing to the erosion of political institutions. Today politicians are under constant control. People could influence them to the extent never present before. It derails traditional ways of maneuvering between competing interests within society and ways to find reasonable compromise, which needs some time and secrecy. Furthermore, new technologies are causing that politicians sharpen their language, shorten their thinking and tend to consider the compromise as a sign of weakness. In consequence, populism today does not have to come only from populist movements. It may become the very mainstream of all political debates. Populist movements are setting the tone in public space, but in order to beat them moderate centrist politicians frequently step into populist shoes. Anti-elitism which is one of the populist's trademarks can become a new normal despite the fact that politicians like Donald Trump, Emanuel Macron, or Andrej Babiš have been members of the elite in their countries.

"Make America great again" or "Buy American" symbolize a new economic nationalism. Obviously these ideas are not new. They are also not unique responses to the pressures of economic modernization and competition. One may remember a threat of Polish plumber which was one of the important factors why France has rejected the project of the EU Constitution in 2005. Even Emanuel Macron during the recent French presidential election resorted to some sort of economic nationalism when he objected delocalization of Whirlpool factory and called consumers to "buy European". Previously the "political risk" in business was associated with developing economies and emerging markets. Today it is at the very centre of the most developed states.

The other situations should also raise an eyebrow of those who believe that the EU single market should be completed and so we need further liberalization. For example the new posting rules for drivers introduced by the European Commission visibly hurt the competitiveness of CEE transport companies. Both free movement of people and services

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<sup>3</sup> R. Baldwin, *The Great Convergence. Information Technology and the New Globalization*, The Belknap Press of Harvard University Press, Cambridge-London 2016.

may easily become the victim of rising tendency for economic protectionism and a social-turn, which seem to be much higher on contemporary political agendas. Additionally, Brexit will also hurt the single market. Not only in terms of size and importance of the British economy, but also due to the fact that Great Britain was usually among countries who pushed for further market liberalization in the EU, vis-à-vis the group of more protectionist countries.

Even more challenging situation concerns the external economic dimension of the EU. According to Pew Research Center the majority of EU citizens think that these are national governments who should be responsible for making decisions on international trade agreements.<sup>4</sup> The recent public debates on CETA (EU-Canada Comprehensive Economic and Trade Agreement) and TTIP (Trans-Atlantic Trade and Investment Agreement) have already caused enormous havoc for the future of EU trade policy. The debate has occurred due to strong transnational campaign of anti-globalization movements. From one point of view the democratization of the debate may be a value in itself. It also makes societies more aware - at least theoretically- of the advantages and challenges that arise from trade agreements. However the quality of the debate and the fake news that flowed on the internet has completely changed the political atmosphere. In result the European Commission recognized that the CETA is a so-called "mix agreement" in which national parliaments of the EU member states should have a say. It may not only delay ratification of the agreement, but effectively stop ratification of any future trade agreements that the EU signs. Some experts call it de facto withdrawal from exclusive competence of the EU in the case of international trade.

These are not the only signs that the tide is changing and the political leaders across the Atlantic are in quest for a new social contract and enhanced social protection often at the cost of greater competitiveness. Last year the G-20 called for domestic policies to have a more equal share of benefits coming from international trade. For the IMF, two decades ago the institution famous of its very liberal view on globalization, one of the leading themes today is the issues of equality and fair distribution. The problem is real and academics like Thomas Piketty, Dani Rodrik or Branko Milanovic, have largely contributed with raising awareness among political elites.<sup>5</sup>

The key question is what kind of responses political leadership may give to the problem? There are no easy answers. The financial crisis and economic misery have laid a fertile ground for blossoming of the populist and nationalist movements across Europe. Today

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<sup>4</sup> *Global Attitudes Survey. Spring 2017*, Pew Research Center, June 2017.

<sup>5</sup> See: T. Piketty, *Capital in the Twenty-First Century*, Cambridge 2013; B. Milanovic, *Global Inequality. A New Approach for the Age of Globalization*, Cambridge 2016; D. Rodrik, *Economic Rules: The Rights and Wrongs of the Dismal Science*, London-New York 2015.

Brexiters, Marine Le Pen, Beppe Grillo, Geert Wilders, Viktor Orbán or Jaroslaw Kaczynski build on their promise to take control back to society. They argue that globalization and integration went too far and lead us to the moment in which supranational institutions and processes are beyond the control of elected representatives. In other words they dismiss the actors of globalization as being deprived of democratic legitimacy. Furthermore, they tend to picture European institutions not as the solution to the crisis, but as a source of it. The message is very powerful and largely resonates not only because of economic conditions. More and more we live in a society of risk, as Ulrich Beck has called it, where the institutions of state cannot adjust, are too slow in their reactions, do not play the role of stabilizers and are rather dysfunctional. The decay of political institutions is preceded by the change of circumstances within which they exist. If they fail to adapt, the transition period to a new order which will subsequently appear, could bear the hallmark of havoc and violence, as Francis Fukuyama argues.<sup>6</sup> Regaining trust between political elites, institutions and societies will be more difficult than ever in the modern history. Populists are obvious beneficiaries of this situation.

However the prescriptions given by populists are also not new. Assuming that countries obey international law and standards, economic nationalism would be extremely difficult to apply in practice taking into account complex international interdependence. Once populists get to power, their incapacity to solve problems will either disqualify them to further hold the office or it will make them to change their policy ideas. Greek Syriza is interesting a case in point. But before this time will come, populists in power can also damage the political and economic system to such an extent that the change is irreversible. Here the other striking example is Hungary which turned to “illiberal democracy”, as PM Viktor Orbán calls it. He clearly refers to a classical democratic dilemma: effectiveness vs. liberty, which he simply exchanges into state control. In consequence the political and economic corruption becomes a ‘way of doing things’. If more countries take such a turn, it may derail the whole European integration project from within. The EU clearly does not have the leverage to change the trajectory of continuous democratic slide on national level.

Therefore democratic leadership in Western societies is clearly facing an adaptive challenge today. Traditionally, the recognition of human dignity and the need for attention were the driving forces for change within societies. Today, people are also protesting against the diminishing capacity of liberal democracy to deliver. History teaches us, that the demise of political institutions is just a result of their lack of capacity to deliver and to pursue their own aims. The key questions that must be addressed will

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<sup>6</sup> Francis Fukuyama, *America in Decay. The Sources of Political Dysfunction*, “Foreign Affairs vol. 93 no. 5, September-October 2014, (pp.5-26), p. 8.

demand on us that we learn new ways, rethink our values and attitudes, and clarify what matters most, in what balance, with what trade-offs.

The moment for serious changes is very demanding. Political leadership's latitude for maneuver is constantly getting thinner. Jean Claude Juncker has famously put it: "we all know what to do, but we do not know how to get reelected after we had done it". In reality it is even more difficult. Moisés Naim argued that power in twenty-first century is "easier to get, harder to use, and easier to lose."<sup>7</sup> Democratic leadership in Western societies cannot easily deliver. If politicians promise something to their people, they will likely fail, because the link between policy action and its visible output is larger than ever and it takes too much time before something really changes. Additionally, problems to be solved are not just cross-sectorial. They have to be also tackled both on national and international level (so-called "intermestic") and usually with the help of different non-state actors. The overall responsibility is apparently blurred.

The crisis of governability is not a new idea. Already in 70s the Trilateral Commission recognized it as the most serious challenge that Western democracies must face: "the demands on governments grow while the capacity of democratic governments stagnates." But the performance is not the only factor for democratic durability. Equally important is the process. Today both are not in a good shape.

Democracy should be legitimized by process in which there is a free competition of different groups to pursue their aims. It bases on the 'check and balance' system where no single group can gain any grand advantage. The definition and aggregation of interest is equally important to arguments and persuasion. Here the core of legitimacy is placed not within the group but on the interaction between the groups. As Robert Dahl argued, democracy is not embedded in the political parties but between them<sup>8</sup>. The problem appears not only when one group gains an unfair advantage but also when there is a lack of dynamics which could correct the 'pecking order'. If the contradictory demands are not managed by the political leadership in a way that is considered to be fair by participants, the overload of the system will ensue.

Therefore the narrative of how successful the single market is and why Europe needs a common currency is contradictory to the picture of sluggish economic growth in Europe, the highest ever youth unemployment and the perceived mistakes in the Eurozone construction. Today, the argument that "we need more Europe" does not seem to work anymore. Liberal democracy and the EU must redefine itself to a new era. Economic

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<sup>7</sup> M. Naim, *The End of Power. From Boardrooms to Battlefields and Churches to States. Why Being in Charge Isn't What it Used to Be*, Basic Books, New York 2013.

<sup>8</sup> R. Dahl, *On Democracy*, Yale University Press, Princeton 1998.

misery, fallacious regulations, raising unemployment or the lack of economic stability are not historically unusual. When the prescription is found, the institutions usually regain the ground if they reform in the meantime.

Having this in mind, Europe can muddle through, wait until the sense of crisis diminishes and simply do what is possible to be done. But today it may not be enough. The new globalization in which technology beyond borders drastically change our labor markets must be followed by building the real and modern EU single market that is much more adjusted to reality. Until we find convincing ways to trigger the untapped potential coming from integration of EU economies, the populists will not be at bay. Many people would dream about a great leap-forward in economic integration. Advancement of the eurozone seems to be inevitable, liberalization and completion of the single market likewise. Ideally, it should be followed by a much larger EU budget and a more common EU social policy. There is a need to be bold. For example, European unemployment insurance for young people would be a good idea as it is a pan-European problem.

But on the other side it will also cause a backlash with populists and allow them to flourish. The recourse to economic nationalism is the wrong response but it had clearly gotten an eye of the public. The battle of ideas shaping the 21 century has just started and the new dividing lines are already visible. Liberals must redraw the framework of this debate. Otherwise the economic nationalism will offer more popular responses and likely prevail.

### **Bartłomiej E. Nowak**

Chair of International Relations Department at the Vistula University (Warsaw) and in the same time Foreign Affairs Secretary of Nowoczesna (The Modern) political party in Poland. He is political scientist and holds a PhD in economics.

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