

Win or Lose, Populism Is Here to Stay

INVESTMENT INSIGHTS

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Entrenched issues won't be easily dispensed with following upcoming European elections

IN BRIEF

- No matter the outcome of the Dutch election on 15 March, it is important to acknowledge the role that populism continues to play in global politics.
- While Geert Wilders' PVV party could win the most seats in parliament, the fragmented nature of the Dutch political system — no party has won a parliamentary majority in more than 20 years — makes it unlikely he will be able to form a governing coalition.
- Whether Wilders becomes prime minister or not, the factors that have fueled the rise in populist sentiment will linger long after voters leave the polls, as the developed world grows more ambivalent toward the purported benefits of globalization and rebels against the “experts” and the “elites.”

Europe's election season is fast approaching. No matter the outcome of the Dutch election on 15 March, it is important to acknowledge the role that populism continues to play in global politics. Voter discontent had been in the spotlight even before the Brexit vote last June, and was amplified later in the year by the election of Donald Trump as US president and the defeat of Italian prime minister Matteo Renzi's constitutional reform referendum.

While most of the market's attention has been focused on the two-part French elections in April and May, the Netherlands could serve as a leading indicator for how strong the populist current is running in the core of Europe. The populist Party for Freedom (PVV), led by the controversial Geert Wilders, has been close to the top of the polls for the last three months. While Wilders' party could win the most seats in parliament, the fragmented nature of the Dutch political system — no party has won a parliamentary majority in more than 20 years — makes it unlikely he will be able to form a governing coalition. Indeed, many parties have already ruled out forming a coalition with the PVV.

Many factors fueling the populist mood

But whether Wilders becomes prime minister or not, the factors that have fueled the rise in populist sentiment will linger long after voters leave the polls, as the developed world grows more ambivalent toward the purported benefits of globalization and rebels against the “experts” and the “elites.”

Among the multiple factors helping fuel populist sentiment is the hollowing out of the developed world's manufacturing sector as production is shifted to lower-cost emerging markets. In addition, the disruptive advance of automation and digitization continues to ripple through the global economy, displacing high-wage workers as well as the less skilled. Offshoring and automation have raised the thorny question that governments in developed markets have thus far failed to answer: how to effectively retrain workers displaced by these forces. Other factors include persistent income inequality, the perception that wide-scale immigration restrains wages and

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takes jobs away from the native born (despite evidence to the contrary) and a growing backlash against unwieldy and unaccountable multilateral institutions such as the European Union.

Potential impacts

What are the likely results of a continued rise in populist sentiment? The first is probably less global governance as countries prioritize their own domestic needs over the needs of multilateral organizations. Consequently, a more inward-looking, less globally-cohesive environment seems probable. Against this backdrop, one could expect bilateral trade pacts to take precedence over sweeping regional accords, such as the recently shelved TransPacific Partnership, less fiscal and monetary integration in the eurozone, and reduced levels of cooperation on defense and security issues, such as among the members of NATO.

Assimilation essential

Populist sentiment is likely to remain elevated, especially in much of Europe, until countries do a better job assimilating their immigrant populations. While the task will not be easy, given cultural and language barriers, it is critical to integrate new arrivals into society and the workforce rather than having them become marginalized and segregated. Increased opportunities for social mobility and cohesion should come with assimilation. Some would argue that, all else being equal, countries that do a better job of integrating immigrant populations, such as the United States, the United Kingdom, Canada and Australia, tend to grow faster than those that don't, such as Germany, France and Belgium. Given Europe's unfavorable demography, better assimilation of immigrants is a critical goal that, if accomplished, could help stem the rising populist tide while increasing potential economic growth. A win-win.

Whatever the outcome in the Netherlands next week (or in the subsequent French and German elections), the growing strength of populist parties across the continent and their increasing parliamentary representation— even if still in the minority — will impact policymaking more than ever once the elections are behind us. As a result, deeper European integration is less likely over the medium term, potentially dimming hopes for needed reforms and making the future of the EU that much less certain. ■

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