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CHALLENGES TO DEMOCRACY: THE ORIGINS OF PROTECTIONIST POPULISM IN EUROPE

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ABSTRACT

This article posits the thesis that the development of protectionist populism in Europe has been significantly influenced by two important economic processes. The cause of the first process can be found in the collapse of the Bretton Woods system and the resulting move towards an increased mobility of capital flows. Secondly, globalization of labour is identified as the other important process behind this phenomenon. The first part of the article provides a definition of the term protectionist populism. Following this, the relevance of many cultural factors in the development of protectionist populism is recognized. It is further stated that these factors are beyond the scope of this article and that its aim is primarily to show that economic factors have had an undeniable impact in their own right. Consequently, the article goes on to demonstrate how the fall of the Bretton Woods system in the 1970's produced the liberalization of capital controls. Furthermore, the article shows how the interaction between mobile capital and globalized labour produced the "global middle class". The article discusses the negative effects that this had on the middle class in Europe. In its final part, the link between these economic processes and the rise of populist movements in Europe is demonstrated. This is done by analysing the literature dealing with the rhetoric employed by populist parties. The article concludes by affirming the initial thesis regarding the existence of a link between the collapse of the Bretton Woods system and the globalization of the labour market with the rise of protectionist populist movements in Europe without asserting their preeminence over cultural factors.

KEY WORDS

global financial crisis, protectionism, global middle class, populism, Bretton Woods system

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INTRODUCTION TO PROTECTIOINIST POPULISM

In order to demonstrate the link between protectionism, populism and the economic phenomena under scrutiny in this article, the first two terms must be clarified. Protectionism denotes “a policy of protecting domestic industries against foreign competition by means of tariffs, subsidies, import quotas, or other restrictions or handicaps placed on the imports of foreign competitors” [1]. Populism, on the other hand, is often discussed without being clearly defined. The definition used in this article will therefore be the definition provided by the Encyclopedia Britannica. In this context populism is defined as a “political program or movement that champions the common person, usually by favourable contrast with the elite. Populism usually combines elements of the left and the right, opposing large business and financial interests but also frequently being hostile to established socialist and labour parties” [2]. This article aims to show that certain economic developments, over the last 25 years, had a key influence in linking populist parties, protectionist rhetoric and popular support together in Europe. In this context the term “Protectionist populism” will be used to denote movements in Europe which contain populist parties using protectionist rhetoric.

THE IMPACT OF CULTURAL FACTORS ON PROTECTIONIST POPULISM IN EUROPE

This article focuses primarily on economic factors which might have led to the rise of protectionist populism in Europe. This does not, however, bring in to question in any way the fact that many cultural factors might have played an important role in this development. One example of this could be, as Krzyżanowski and Wodak point out, the “mediatization of populism” [3; pp.1-14]. Another example of this are issues of “national identity, national security – and their negative doubles, immigration, multiculturalism, Islamist threat” [4; p.485]. These factors are beyond the scope of the analysis of this article and while they are certainly relevant, this article will show that they are not the only primary factors that have contributed to current developments.

THE FALL OF THE BRETTON WOODS SYSTEM AND FINANCIAL DEREGULATION

In economics, the concept of the “Impossible trinity” does a good job of articulating a key economic dilemma facing countries in the modern world. This concept was popularized by Dani Rodrik. It states that “In the triangle of democracy, state sovereignty and global economic integration, one can only have two of these things [5]. To further elaborate on this point, if a country is sovereign and democratic, it cannot be fully integrated in to the global economy. Fiscal and monetary integration would limit its sovereignty and would likely be opposed by a large percentage of the population. The second variant of this equation would be a country which was democratic and globalized, but not sovereign. Such a country could preserve its democracy and integrate itself in to global market flows and transnational institutions. In doing so, it would however sacrifice a large portion of its fiscal, monetary and military sovereignty. Finally, we have the third option. This alternative details a country which is sovereign and integrated in to the global market but not democratic. This model of authoritarian capitalism would allow the country to both modernize and maintain stability during the process. However, such a model is only possible in an authoritarian system. It simply creates such radical levels of inequality that no democratic government would be able to stay in power while following such policies. Therefore, Rodrik rightly points out that the only state which could truly be sovereign, democratic and globalised at the same time would have to be a state spanning the entire globe [6].

The real question, however, is why there are no countries which really represent the first model of the triangle, that is to say, a strong combination of democracy and sovereignty? It must be noted here that even such countries could not be fully sovereign. This will be described below in greater detail.

In the post 1945 period, this semi-sovereign model was the norm for most countries in Western Europe and North America. This was the age of an international order known as the "Bretton-Woods system". To elaborate on this further, the Bretton Woods Agreement can be described as "the landmark system for monetary and exchange rate management established in 1944". "Under the agreement, currencies (of the countries of North America and Western Europe) were pegged to the price of gold, and the U.S. dollar was seen as a reserve currency linked to the price of gold" [7]. As Stephey [8] points out, this was a system created with the fundamental idea that the US Dollar was to serve as the world's reserve currency. It would be pegged to the value of gold, and all the other currencies in Western Europe and North America would in turn, be pegged to it. This regime, combined with a policy of free trade would provide the West with both prosperity and security.

The reason why state sovereignty was greater during this period than it is today lies in capital controls. During this period capital controls were much more stringent. This means that there were harsher measures taken "by governments, central banks or other regulatory bodies to limit the flow of foreign capital in and out of the domestic economy. These control included taxes, tariffs, outright legislation, volume restrictions and market-based forces" [9]. Just how differently the Bretton Woods system was set up in terms of capital controls is well illustrated by the following quote from D. Rodrik: "The global economic arrangements of the immediate post-war era were built around John Maynard Keynes' insight that sustaining a world economy reasonably hospitable to international trade and investment would require carving up space for domestic macroeconomic management. For Keynes, this meant capital controls in particular, which he viewed not as a temporary expedient but as a permanent feature of the international economic order. The same principle was followed in other domains as well. There was a thin model of trade integration, not reaching beyond direct border barriers or manufactured imports in advanced economies. The Bretton-Woods system left plenty of room for countries to design their own regulations and industrial policies as well as protect "sensitive" sectors such as "agriculture or garments" [5].

The Bretton Woods model was successful in achieving relative prosperity up until the 1970's [8]. This era was also characterized by high levels of social spending. As Pearson points out, this period of post-war European and North American history has, since the 1970's, "given way to an acknowledgment of the limits to welfare state growth and the prospect for extended austerity" [10; p.143].

As R. Roberts points out, one of the main culprits for the end of the Bretton Woods system and the abolishment of capital controls was the phenomenon of stagflation, an economic condition which can be described as "A condition of slow economic growth and relatively high unemployment, economic stagnation, accompanied by rising prices, or inflation, or inflation and a decline in Gross Domestic Product" [11].

By the late 1970s, due to the inability of governments to properly address the issue of stagflation, capital controls were being replaced in favour of free market oriented policies and theories. Countries began abolishing their capital controls, starting between 1973–4 with the U.S., Canada, Germany and Switzerland and followed by the United Kingdom in 1979, most other advanced and emerging economies followed [12; p.143]. It was widely believed that the absence of controls would allow capital to flow freely, helping investors to enjoy good returns and also helping ordinary people to benefit from economic growth. In summation, by the 1970's western currencies no longer had any form of peg to the value of gold, capital controls were abolished across the West and the Bretton Woods system was dead. How this deregulated capital interacted with a newly available cheap foreign labour force is the topic of the next part of the article.

THE GLOBALIZATION OF LABOUR CHAINS

This part of the article explores the effect that the interplay of deregulated financial markets in the West and newly opened labour markets in the East, had on the middle classes of Europe.

B. Milanović, in his work "Global Inequality of Income: Mayor Trends and their Implications", points out that the most important moment of the last 25 years in the global economy can be found in the fact that the "global middle class" has risen while the middle class in the West has lost ground. Milanović describes the term "global middle class" as the citizens of former second and third world countries, who have, since the end of the Cold War, joined the global labour market. The opening up of Eastern European, Russian as well as Chinese labour markets significantly increased the availability of cheap labour [13; p.3]. This, combined with the financial deregulation discussed in the third part of the paper was the key. Through numerous free trade agreements, capital which was highly mobile, was able to integrate itself with labour which was very cheap. This constellation of forces also destroyed a lot of the bargaining power formerly held by labour unions in the West. According to Milanović, such developments drove the western working class towards embracing protectionist populism and nativism [13; pp.207-208].

Milanović goes on to describe a parallel development in which the global elite profit massively off of globalization along with the global middle class, who see joining the global marketplace as the best chance to lift themselves out of abject poverty [13; pp.18-22]. Furthermore, the events of the 2008 financial crisis only worked to accelerate this development, by speeding up the concentration of wealth from the top 1 %, which had accumulated it previously, to the top 0,01 % of the world's population. This process, which has been going on since the end of the Bretton Woods system, escalated in 2008. The result was that the relative winners of this development can now be considered to only be two groups. These are the global middle class and the global 0,01% (previously the global 1%) of the population [13; pp.36-37]. The relative loser of this development are the middle classes of the west, who have seen their wages stagnate for at least the past 25 years despite the general rise in productivity [13; p.21].

Additionally, it is necessary to point to the fact that as devastating as the process of globalization was to working class incomes in the West, the coming period of automation poses a threat to blue collar as well as certain white collar jobs. The coming automation of the transport industry, the service industry and certain aspects of the legal and medical profession, will paradoxically see manufacturing return to the West, but not in such a form as could provide secure employment for large numbers of people. As is pointed out by Frey and Osborne in their article "The future of employment: How susceptible are jobs to computerization?" this coming development is sure to further widen the already large cleavage between people of, not only unequal educational opportunities, but also different levels of soft social skills [14; pp.44-45].

POLITICAL IMPACT OF THE ANALYZED ECONOMIC DEVELOPMENTS ON EUROPE

When drawing conclusions about the implications of these economic transformations in Europe similar trends across the EU are visible. The adoption of populist protectionism is demonstrated well in the cases of several EU member states.

The link between populist parties and protectionist rhetoric is clear. As Loch and Norocel, in their analysis of European right wing populist parties point out: “While these parties had traditionally mobilized their voters around cultural issues, they have, with the recent economic developments, increasingly emphasized issues linked to economic protectionism and social security, thereby becoming attractive alternatives for an electorate suffering from genuine social downward mobility or fear of it” [15; p.252]. They go on to cite previous literature claiming that there is “an indirect link to the globalization processes, in the sense that the populist radical Right voters are to be found among the losers of modernization” [15; p.253]. They demonstrate the transformative effect that economic forces have had on political developments in Europe, drawing a slight distinction between Western and Eastern Europe. In Western Europe they identify the ideal-typical voter of populist parties as “a first-time voting young male, belonging to the petty bourgeoisie or the working class, with a relatively low level of formal education and who hardly ever or never practices a religion” [15; p.253]. In Central and Eastern Europe, they identify populist support as coming from “preponderantly among the losers of the transition to the market economy, (...) more clearly, a more mature male voter in an unstable job in a low-skilled position, or in long-term unemployment in midsized mono-industrial cities across the region” [15; p.254]. They conclude by stating that right wing populist parties have “since the 1990s, gradually shifted towards economic protectionism and anti-globalization discourse” [15; p.254].

From this it can be concluded that globalization, free trade and cheap foreign labour are strongly present as themes within populist rhetoric in Europe. To be sure, there are many other, primarily cultural factors present in their discourse as well. This fact was already addressed in the second segment of the paper. As has been demonstrated in sections three and four, many of the issues being raised by populists in Europe today have their roots in the collapse of the Bretton Woods system (the liberalization of capital controls) and the opening up of new labour markets in the former second and third world.

CONCLUSION

This article offered a definition of the term protectionist populism as a phenomenon which links populist parties, protectionist rhetoric and popular support. It has demonstrated that the rise of protectionist populism was strongly influenced by economic forces. These were primarily long-term trends initiated by the interaction between mobile capital and cheap labour on a global scale. In the paper the origins of these developments were traced back to the time of the collapse of the Bretton Woods system as well as the opening up of new labour markets in former second and third world countries. Following this, the rise of the global middle class and its impact on the bargaining power of the middle class in Europe was demonstrated. Finally, the link between these developments and the rise of protectionist populism in Europe was shown to exist. This was achieved through the analysis of the literature pertaining to the rhetoric employed by contemporary populist parties in Europe. This rhetoric was found to rely heavily on the rejection of free trade agreements, globalization as well as to draw its legitimacy from the "forgotten white working class".

In conclusion, it was never the aim of this paper to question the salience of cultural issues such as immigration or identity for the rise of protectionist populism. It has always been recognized that cultural factors influenced the rise of populism. The paper also does not claim that the economic factors analysed here played a superior role. The purpose of this article was simply to shed additional light on the economic processes that played a significant part in this development. This was particularly necessary in light of the European refugee crisis and the Trump administration’s stance on the border wall, which served to draw additional attention on cultural factors and away from economic processes.

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