

Political Populism

How to quell the politics of insurrection

The Brexit campaign showed the opposite: deny any problem and scare voters

Wolfgang Münchau



In the lead-up to the March decision on triggering Article 50, the Brexiters face any number of awkward questions
© AP

NOVEMBER 6, 2016 by: **Wolfgang Münchau**

Whatever happens in the US on Tuesday, the policy establishment in western economies will need to figure out how to respond more effectively to the [politics of insurrection](https://www.ft.com/us-election-2016) (<https://www.ft.com/us-election-2016>). The Brexit campaign was a good example of how not to do it: deny that there is a problem, scare the voters and get a bunch of economists to write letters to newspapers.

The heaviest burden falls on the established parties of the centre-left. In the US and the UK, but also in Germany and other continental European countries, centre-left parties embraced financial liberalisation, open immigration regimes and conservative macroeconomic strategies. That mix produced long periods of financial instability, stagnation and a rise in inequality. Without these toxic

policies, Britain might not be set to exit the EU and Donald Trump would be in the famous-for-being-famous category, not a serious contender for the US presidency.

When the financial crisis started, centre-left governments chose to bail out the banks and the bondholders, tighten fiscal policy and support looser monetary policies. For southern Europe, this proved disastrous. Greece has been in a continuous recession for eight years. Italy has had negligible economic growth for 16. Spain is doing better but a fifth of its labour force remains out of work.

Among the macroeconomic errors, the single biggest one was austerity. In Germany, the Social Democrats were instrumental in drafting a constitutional amendment that commits the country's leaders to a balanced budget. Mario Monti, the former technocrat prime minister of Italy who was supported by the centre-left Democratic party, raised taxes in the middle of a recession. [François Hollande \(http://next.ft.com/content/34abab4e-9c56-11e6-a6e4-8b8e77dd083a\)](http://next.ft.com/content/34abab4e-9c56-11e6-a6e4-8b8e77dd083a) quoted Say's Law, the mantra of rightwing economists, according to which supply creates its own demand. With supply-siders such as the French president, who needed conservatives? The only parties in Europe advocating [Keynesian policies \(http://next.ft.com/content/069d4a38-8738-11e6-a75a-0c4dce033ade\)](http://next.ft.com/content/069d4a38-8738-11e6-a75a-0c4dce033ade) nowadays are on the hard left and the hard right, a parallel between now and the 1930s.

By defending austerity, centre-left politicians turned themselves into reactionaries, a marked contrast to how they see themselves. President Hollande's private [mocking of the toothless \(http://next.ft.com/content/2e21fbec-337c-11e4-85f1-00144feabdco\)](http://next.ft.com/content/2e21fbec-337c-11e4-85f1-00144feabdco) — those who cannot afford dental care — is a fitting example of how aloof and cynical France's Socialists have become. The approval rating of this Socialist version of a pompous Bourbon regent has fallen to 4 per cent. His party has effectively given up on next year's presidential elections, which is unprecedented for an incumbent party in France.

Another example of a centre-left party in meltdown is the venerable Dutch Labour party, junior coalition partner to Mark Rutte's liberal VVD. At the most recent election it had 38 out of 150 seats. The polls now put them at between eight and 11. The German SPD is polling at about 20 per cent, half of where they were when they last formed a government in 2002.

What led the centre-left on to such a self-destructive path? The answer is a combination of the following: a false belief that elections are won from the centre; the lure of ministerial limousines; an inferiority complex about not being able to run "responsible fiscal policies"; and a belief that voters of the left have nowhere else to go.

So having blundered horribly, what should they do? As a first step, they should stop doubling down. They should elect leaders ready to sink [trade agreements \(http://next.ft.com/content/3bbeda8e-7bed-11e6-ae24-f193b105145e\)](http://next.ft.com/content/3bbeda8e-7bed-11e6-ae24-f193b105145e). While this would not resolve anything on its own, it would be a symbolic break with the past. The heavy lifting, however, would come from a shift in macroeconomic policies. The minimum needed to quell the insurrection would be an adjustment in the mix of fiscal and monetary policies through increased public sector investment, lower taxes to raise consumption.

This loosening of fiscal policy should be offset by a moderate tightening of monetary policy.

For Europe's centre-left parties such a shift would be hard because they are constrained by the fiscal rules of their own making. Even if they wanted to, they might not find the necessary majorities since those rules are embedded in treaties and constitutions. My sense is that they do not even want to. Their narrative is that they have to explain their policies better.

The main issue is not whether a Keynesian policy response would be economically correct. The more important point is that if the centre-left does not offer it, the populists will. Unless the centre-left returns to its Keynesian roots, I think there is a good chance that the politics of insurrection will succeed.

[munchau@eurointelligence.com \(mailto:munchau@eurointelligence.com\)](mailto:munchau@eurointelligence.com)

Print a single copy of this article for personal use. Contact us if you wish to print more to distribute to others. © The Financial Times Ltd.