

Spread of Populism in Major EU Countries and its Policy Implications

JOE Dong Hee Associate Research Fellow, Europe Team, Department of Europe, Americas and Eurasia (dhjoe@kiep.go.kr)

I. Populism in the EU

The UK voters' decision to leave the European Union (EU) despite the near-unanimous warnings of economists sparked serious concerns about the spread of populism in major EU countries. Fresh research reveals that the share of "Leave" votes was higher in regions with lower level of education or income, higher share of elders or foreigners, or higher unemployment rate (Arnorsson and Zoega 2016; Becker, Sascha and Fetzer 2016), and these characteristics are known to be shared by supporters of populist parties in Europe (Inglehart and Norris 2016). The result of the following referendum in Italy and the resignation of Matteo Renzi as the premier of the country further increased the fear that populism is spreading across major EU countries (although later weakened by the election results in Austria and the Netherlands).

Today's populists in major EU countries pit people against elites and "others," and present themselves as representing people and other parties as representing elites and others (Albertazzi and McDonnell 2008, p. 3). The current phase of the rising support for them start-

ed out of the public discontents during the "great recession", and was boosted by the mass influx of refugees and a series of terrorist incidents, allowing them a significant presence in national legislatures and the European parliament (see Table 1). They blame "the establishment" for major problems of the EU and their respective countries, and present themselves as the savior.

Table 1. Populist Parties' Presence in Major EU Countries

Country	Party	Seats (Share)		
		Lower House	Senate	European Parliament
Germany	AfD	0 (0%)		2 (2%)
France	FN	2 (0%)	2 (1%)	21 (28%)
UK	UKIP	1 (0%)	3 (0%)	20 (28%)
Italy	M5S	91 (14%)	35 (11%)	17 (23%)
Spain	Podemos	67 (19%)	21 (8%)	5 (9%)
Netherlands	PVV	20 (13%)	9 (12%)	4 (15%)

Note: Categorization follows Inglehart and Norris (2016). Germany is for Bundestag. Shares in the European Parliament are of each country's allocated seats.

Source: National legislatures and the European Parliament

Most populist parties in major EU countries push for stronger sovereignty and national borders, and promote protectionism. Since the Brexit referendum, they are raising their voice against the current state of the EU by calling

for analogous referenda in their countries or by holding a referendum questioning the legitimacy of EU-level decisions (e.g., the Hungarian referendum on the European refugee quota). Inglehart and Norris (2016) reveal empirically that support for such populists comes from old, male, low-income or religious voters, who are known to be more against globalization, economic integration and sheltering refugees, and such characteristics are shared by Brexit supporters.

II. Situations in Major EU Countries

1. Germany and the AfD

Germany (or its federal government) is a parliamentary democracy. Its national parliament (*Bundestag*) is composed of more than 598 representatives with a 4-year mandate. The next parliamentary election is scheduled for September 24 this year, in which the newly-established populist party *AfD* (*Alternative für Deutschland*) is expected to enter the parliament for the first time. Table 2 shows the composition of the current parliament and the latest poll result.

Table 2. Composition of the Current Bundestag and the Latest Opinion Poll

Party	CDU/CSU	SPD	Linke	Grünen	AfD
Seats (%)	310 (49%)	193 (31%)	64 (10%)	63 (10%)	0 (0%)
Latest Poll	34%	30.5%	9%	6%	10%

Source: *Bundestag*, <http://www.wahlrecht.de/umfragen/insa.htm> (last accessed on April 20, 2017)

AfD was established in 2013 amid opposition to Germany's intervention during the sovereign debt crisis in Southern Europe, led by economist Bernd Lucke. It became more anti-immigration – and in particular anti-Islam – after the internal power struggle in 2015. In its first national election, it closely failed to enter

the 18th *Bundestag* with a 4.7% vote share (0.3%p short of the minimum requirement) but won 7 seats in the following European election of 2014, and is expected to enter the 19th *Bundestag* as the third largest party (see Table 2).

Its platform includes such international economic policies as Δ less European integration, and abolition of the Eurozone and financial integration, Δ stricter control on immigration and reform on related EU regulations, Δ participation of the *Bundestag* in trade negotiations, Δ opposition to the TTIP (Transatlantic Trade and Investment Partnership), TiSA (Trade in Services Agreement), CETA (Comprehensive Economic and Trade Agreement), and Δ stronger protection for citizens' financial and fiscal records.

2. France and Front National

The French government is considered a semi-presidential system, and the president is elected in a two-round election for a 5-year mandate. The 1st round of the 2017 presidential election was held on April 23. With neither candidate of the two major parties gathering strong enough support, an outsider (Emmanuel Macron) and an extremist (Marine Le Pen) advanced to the runoff, held on May 7, in which Macron beat Le Pen (see Table 3).

Table 3. 25th French Presidential Election

Candidate (Party)	Macron (Independent)	Le Pen (FN)	Fillon (LR)	Mellanchon (FG)	Hamon (PS)
1 st Round	24%	21%	20%	20%	6%
Runoff	66%	34%	-	-	-

Source: *Ministère de l'intérieur*

Unlike other populist parties, *Front National* (FN) has a long tradition (since 1972) as an anti-immigration, nationalist and populist party. Its presidential candidate in 2002, Jean-Marie Le Pen, made it to the runoff, and his

daughter, Marine Le Pen, followed in his footsteps in 2017. With 21 seats (28% of the French seats), FN is the largest French party in the European Parliament. It obtained the largest national vote share in the 2015 regional elections but lost in most of them in the runoff. A similar pattern was repeated in the 2017 presidential election (see Table 3).

The party's platform includes such international economic policies as Δ a "Frexit" from the Eurozone and the EU, Δ protectionist measures, such as import quotas, for a "reindustrialization" of France, Δ opposition to CETA and TAFTA (Transatlantic Free Trade Agreement), Δ stricter control on immigration and national borders, and reassessment of the Schengen Agreement and similar agreements with Maghreb countries, Δ prioritization of domestic labor and products, and stronger import regulations, and Δ strengthening energy and economic relations with Russia.

3. UK and UKIP

On March 29, the UK Prime Minister Theresa May officially notified the EU of the UK's intention to leave. In the notification letter, she confirmed her intention of a "hard Brexit" which implies that the UK will not seek to stay in the single market. Her proposal for parallel negotiations for Brexit itself and the post-Brexit relation was rejected by President Donald Tusk of the European Council. To strengthen her position in the negotiation, May called a snap election for all 650 seats in the House of Commons, scheduled for June 8. Latest polls predict a significant increase of the incumbent Conservative Party's vote share.

Table 4. House of Commons: Results of the Last Election and the Latest Opinion Poll

Party	Conservative	Labour	UKIP
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Vote Share	37%	30%	13%
Seats (%)	331 (51%)	232 (36%)	1 (0%)
Latest Poll	48%	27%	7%

Source: UK Parliament, <http://ukpollingreport.co.uk/voting-intention-2> (last accessed on April 27, 2017).

UKIP was established in 1993 amid opposition to the Maastricht Treaty that introduced the current EU system and the Euro, as a single-issue party of the UK's exit from the EU. It led the Leave campaign during the Brexit referendum. Despite its continuing increase in vote share and presence in the European Parliament (3 seats in 1999, 12 in 2004, 13 in 2009 and 24 in 2014), its first seat in the Commons came only in 2015.

Its platform includes such international economic policies as Δ the UK's exit from the EU and stronger sovereignty, Δ stronger control on immigration, Δ reduction of foreign aid, and Δ abolition of climate change agreements. Unlike other major countries' most prominent populist parties, it does not oppose trade or investment agreements themselves.

4. Spain and Podemos

Spain is a parliamentary democracy with a bicameral system, and the *Congreso de los Diputados*, which approves government formation, is composed of 350 deputies with a 4-year mandate. The December election in 2015 did not yield a government, and the then-prime minister Mariano Rajoy of the *Partido Popular (PP)* led a caretaker government. The Rajoy government renewed its mandate after a 4-month negotiation following the indecisive snap election in June 2016. The *Partido Socialista Obrero Español (PSOE)*, the main opposition, strongly opposed another mandate for Rajoy at first, but changed its position later and abstained in the approval voting which enabled the formation of another Rajoy government. Table 5 shows the results of recent

elections and the latest opinion poll.

Table 5. Recent Election Results and the Latest Opinion Poll in Spain

Party	PP	PSOE	Podemos	C's
Seats				
Dec. 2015	123 (35%)	90 (26%)	69 (20%)	40 (11%)
Jun. 2016	137 (39%)	85 (24%)	71 (20%)	32 (9%)
Latest Poll	32.5%	18.6%	20.2%	15.4%

Source: *Ministerio del Interior*, <http://electomania.es/#1452285130584-c305d956-ba31> (last accessed on February 21, 2017)

Podemos is a new leftist populist party established in 2014 amid opposition to the Spanish government's austerity measures that external institutions including the IMF and the ECB forcefully recommended. It traces its roots to the *Indignados* movement of 2011. It entered both the European Parliament, winning 5 out of the 54 Spanish seats in 2014, and the *Congreso*, winning 69 seats (3rd largest party) in 2015, in its first elections. Its presence increased further in the 2016 snap election, in which it won 71 seats, and it currently threatens the main opposition *PSOE* in opinion polls (see Table 5).

The party's platform includes such international economic policies as Δ scrapping of CETA, TTIP, TiSA, Δ relaxation of the EU fiscal rules and democratization of EU-level decision making, Δ establishment of a sovereign fund to protect core businesses, Δ prevention of tax evasion by multinational firms and introduction of a financial transaction tax, Δ creation of a public credit rating agency, Δ restructuring of outstanding public debts, Δ reform of the G20 and the IMF, and Δ strengthening of economic cooperation with Latin American countries. Contrary to other populist parties, it is lenient toward immigration and refugees.

5. Italy and the *M5S*

Italy is a parliamentary democracy, with a bicameral system that gives the same power and roles to both chambers. But only the *Camera dei deputati*, made of 630 deputies, is directly elected entirely. Following the referendum in December 2016, in which voters rejected the proposals including a major reduction of the Senate's (*Senato della Repubblica*) power, the reformist then-prime minister Matteo Renzi resigned, making the political scene even more unstable. The proposal was a major reform of the Renzi government (see Table 6). Renzi claimed that it would stabilize politics in Italy, but the opposition led by the newly established populist *Movimento 5 Stelle* (*M5S*) used the referendum as an opportunity to replace Renzi.

Table 6. Main Agendas of the Italian Referendum on December 4, 2016

1. Parliamentary Reform	- Reduction of Senate seats (from 315 to 100) and abolition of directly elected Senate seats - Reduction of Senate's legislative power
2. Reform in the Regional Administration	- Abolition of provinces as a layer of regional administration - Abolition of administrative overlaps between the central government and regional governments
3. Abolition of the <i>Consiglio Nazionale dell'Economia e del Lavoro</i> (an advisory on economic and social affairs)	

Source: Scarpetta, Vincenzo (2016)

M5S is an anti-establishment populist movement, started in 2009 by comedian Beppe Grillo and IT entrepreneur Gianroberto Casaleggio. It was successful from the first national (in 2013) and European (in 2014) elections, and is now the main opposition with 35 seats in the Senate, 91 seats in the *Camera* and 16 seats (out of the 73 Italian seats) in the European Parliament. It also won mayoral elections in major cities like Rome and Torino on which the incumbent *Partito Democratico* (*PD*) used to have a strong hold. After the successful campaign for rejection in the 2016 referendum, it became a major threat to take over the government.

Despite its strong presence, its policy stance is not clearly known except for Italy's exit from the Eurozone.

6. Netherlands and the PVV

The Netherlands is a parliamentary democracy. The *Tweede Kamer der Staten-Generaal* (House of Representatives) approves the formation of government and is made of 150 nation-wide representatives of a 4-year mandate. The result of the last general election (March 15), in which the anti-immigration and nationalist populist *Partij voor de Vrijheid* (PVV) performed worse than predicted, was a relief to many who worry about populism. Still, it increased its presence from 15 seats (10%) to 20 seats (13%): see Table 7.

Table 7. Recent Election Results and the Latest Opinion Poll for the Dutch House of Representatives

Party		VVD	PVV	CDA	D66	GL	SP	PvdA
Seats (%)	2017	33 (22)	20 (13)	19 (13)	19 (13)	14 (9)	14 (9)	9 (6)
	2012	41 (27)	15 (10)	13 (9)	32 (9)	4 (3)	15 (10)	38 (25)
	Latest Poll	17%	14%	13%	12%	11%	10%	7%

Source: *Kiesraad*, <http://peilingwijzer.tomlouwense.nl/> (last accessed on April 24, 2017)

PVV was established in 2006 by Geert Wilders who left the VVD in 2004 opposing its leniency towards Turkey's accession to the European Union. Wilders' racist – and in particular anti-Islam – speeches resulted in his being banned entry to the UK and a criminal conviction at home. The PVV acquired 9 seats in the House in its first election in 2006, and its presence increased to around 20 seats in the subsequent House elections.

Its platform includes such international economic policies as Δ a “Nexit” from the Eurozone and the EU, Δ stronger control on immigration, especially from central and eastern European countries, Δ abolition of dual citizenship, Δ termination of official development

aid, Δ protection of main infrastructures and industries, Δ termination of environment-friendly energy policies, Δ opposition to an EU army and Turkey's presence in NATO, Δ more assistance for Israel, Δ no recognition of Islam as a religion, Δ protection of the Dutch language, and Δ termination of online censorship.

III. Causes and Implications

Empirical research shows that the decline of manufacturing due to globalization gave a major boost to populism in the EU. For instance, Colatone and Stanig (2016) show that a 1 standard deviation increase in the negative effect of imports from China on the UK regional labor market increased the share of Leave votes in that region by 2%p. Using German data from 1987-2009, Dippel, Heblich, and Gold (2015) find a similar result: negative impact of import on the regional labor market increases the support for extreme-right parties in that region.

Other studies point to the surge of immigration as also contributing to the support for populism. Halla, Wagner, and Zweimuller (2012), for instance, show that a 1 standard deviation increase of immigrants' share in the population of an Austrian region increased the vote share of anti-immigration populist parties in that region by 2.4%p during 1979-2002. And this effect is explained by the negative labor market impact of immigrants on natives.

Despite the low likelihood of an outright populist government in a major EU country, main parties can partially adopt populist parties' platforms during electoral competition. Models of electoral competition (Ledyard 1989, for instance) predict that a surge of attention to a particular platform forces other parties to

adopt similar platforms to improve their electoral prospects. Especially, main parties can adopt more protectionist or anti-immigration platforms when they are threatened by the rising electoral prospects of populist parties with such platforms.

Protectionist or anti-immigration policies, however, are known to damage a country in the medium-to-long-term. Feyrer's (2009) estimates, based on a panel of 101 countries during 1950-1995, imply that a 1% fall in trade reduces the country's per capita GDP by 0.5%, for instance. Also, OECD (2014) argues that immigration to major EU countries has a positive impact on the recipient country's labor market, public finance and economic growth. This is particularly important for those countries with shrinking labor force due to population aging. Given the importance of the EU in the world economy and for many countries as a trading partner, policy makers must pay attention to the possibility of a medium-term slowdown of the EU economy.

Another worry is that all parties considered above are against EU-level FTAs. In the case of the EU-Canada CETA, for instance, each of the 68 Members of the European Parliament from those parties voted against it (52) or abstained (16). This is particularly worrying for countries with an existing FTA with the EU, because of the possibility of a renegotiation after Brexit. The negative attitude of populists on the EU's side can make it difficult.

Finally, to prevent protectionism from spreading further and to improve public attitudes toward free trade, effective measures of compensation for the losses from free trade must be sought. Mayda and Rodrik's (2005) finding that workers with higher import competition tend to be more against trade supports the necessity of such measures. An example is the

Trade Adjustment Assistance program in the US, which is also known to facilitate the ratification of free trade agreements (Lake and Millimet 2016).

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