



March 23, 2017

## Who is afraid of populists?

### Authors

Barbara Böttcher  
+49 69 910-31787  
barbara.boettcher@db.com

Patricia Wruuck  
+49 69 910-31832  
patricia.wruuck@db.com

### Editor

Stefan Schneider

Deutsche Bank AG  
Deutsche Bank Research  
Frankfurt am Main  
Germany  
E-mail: [marketing.dbr@db.com](mailto:marketing.dbr@db.com)  
Fax: +49 69 910-31877

[www.dbresearch.com](http://www.dbresearch.com)

DB Research Management  
Stefan Schneider

\*The authors would like to thank Matthias Dincher for valuable research assistance.

With developments in the UK and the US, populism was a key theme in 2016. But does the perception of 2016 as “the year of the populists” really fit for Europe? A closer look suggests that perceptions of a populist surge do not quite hold: While populism was an omnipresent theme in public discourse, support for populist parties in polls rather remained stable and elections did not translate into outright populist wins. Altogether 2016 may be better described as a year when the impact of populists on political systems was increasingly felt.

The rise of populist parties has however been a multi-year trend. Greater fractionalization, shrinking majorities, increasing vote shares of radical right-wing parties in particular, and more polarized political disputes have been more common following financial crises in modern democracies. The key issue is that political fragility may hinder reforms and hence economic recovery.

Most explanations for the recent rise of populism emphasize either economic factors – inequality and globalization discontent – or values. In practice, these are not exclusive and their interaction can drive varying political dynamics. Also, constitutional rules and political personalities matter for populists’ performance.

For many, the rise of populism in Europe is also connected to the financial and the euro crisis and its handling. Bail-out packages both for countries and banks and the attached conditions have been met with criticism from different sides and increased frictions among member states. In turn, tensions have been more difficult to resolve against the background of divergent public perceptions and different economic realities. Disappointed expectations that EU membership means ever-increasing economic prosperity also makes it easy for populists to tap into latent euro scepticism.

Populists can affect national politics in various ways. One possible effect is that forming a government (coalition) often gets more complicated and time-consuming and results in more fragile governments. Another is populists’ potential impact on policy discussions’ style and content. Pursuing policies with long-term benefits but which are often not instantly popular becomes more difficult – both at the national and the European level.

Populism is clearly a challenge for the EU. In many ways, the EU epitomises what populists oppose, i.e. a system of governance geared towards compromises, with an emphasis on the longer term and based on impersonal rules. At the same time, this is part of what makes “the EU” an easy scapegoat because its model of governance can easily be perceived and be portrayed as (too) slow and (too) complex.

The recent Dutch parliamentary elections delivered a clear pro-EU mainstream majority. However, this year’s political calendar remains packed with a number of elections in member states that have wider significance for the EU.



## Populism – a quick introduction

Populism can be hard to define because it is a relational concept and essentially not about substance.<sup>1</sup> It does not offer a set of fixed values or coherent doctrines. To that extent there is a theoretical difference between populism and left or right wing extremism with a hard ideological core. Populism typically defines itself as being against something else such as “traditional” elites and/or minorities.<sup>2</sup>

Populism is sometimes referred to as a strategy to gather political support, associated with appealing to “gut feelings”, thereby emphasizing the short-term over the longer term and proposing “simple and decisive solutions” to policy problems that are more complex. Rather than discussing pros and cons it fosters simplification and antagonism. In addition, it is often coupled with a strong personalistic element.

### Populism = anti-pluralism

Figure 1: Party systems are not static

1

- Party systems in democracies are not static. Several factors such as secularization, the end of the cold war and the rise of non-economic issues have contributed to weaken traditional party affiliations. This facilitates forming new groupings in general.
- Political institutions, notably electoral rules, make it more or less difficult for new parties to gain representation, e.g. proportional votes and no/low electoral thresholds facilitate entry for newcomers.
- A longer-term trend in western democracies is a decrease in institutional trust, including but not limited to political parties.

What populists have in common is the claim that government actions should reflect “the will of the people” and that only they know what their true will really is. First, populists juxtapose “the people”, which are considered to be pure and uncorrupted, with a (political) elite that is taking advantage of them. However, “the people” is not an inclusive concept. It rather fosters the idea of a unified population of which some just don’t form part.<sup>3</sup> In this regard, there are overlaps with left- or right-wing extremism, notably taking anti-elite/establishment positions and focusing on “the people” as a homogenous unit. In practice, the line between extremist and populist parties can be hard to draw. Also, populists may borrow both extreme right and/or left wing ideas and or rhetoric.

Second, a disregard for limitations of political power, e.g. through constitutional checks and balances and the rule of law, is inherent to populisms. The external dimension of this thinking is a similarly low value on contractual commitments and perceiving international relations as a perpetual power struggle.

Source: Deutsche Bank Research

<sup>1</sup> See e.g. Dieter Nohlen (2001). *Kleines Lexikon Der Politik*. Beck, München.

<sup>2</sup> See e.g. Jan Werner Müller (2015). “Populism, I suggest, is a particular moralistic imagination of politics, a way of perceiving the political world which places in opposition a morally pure and fully unified people against small minorities, elites in particular, who are placed outside the authentic people”. *Parsing Populism: “Who Is and Who Is Not a Populist These Days?”* *Juncture*, Vol. 22(2), p.83.

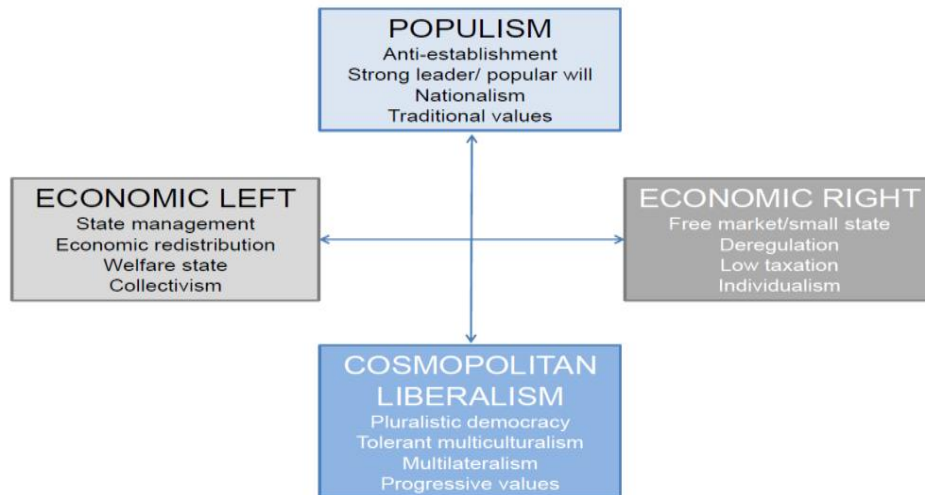
<sup>3</sup> See e.g. Priester (2012): *Wesensmerkmale des Populismus*; Otjes/Louwerse (2015): *Populists in Parliament: Comparing Left-Wing and Right-Wing Populism in the Netherlands*; Mudde (2004): *The Populist Zeitgeist*. or Müller (2015): *Parsing Populism: Who Is and Who Is Not a Populist These Days?* for further discussion. Mudde for example defines populism as “an ideology that considers society to be ultimately separated into two homogeneous and antagonistic groups, “the pure people” versus “the corrupt elite”, and which argues that politics should be an expression of the *volonté générale* of the people.”



## Who is afraid of populists?

Figure 2: It's not (all) about the economy - A model of party competition in Western democracies

2



Sources : Inglehart and Norris (2016), Deutsche Bank Research

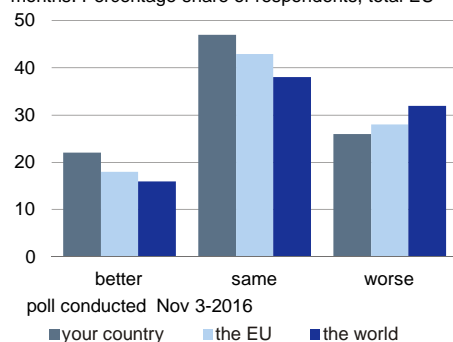
## Economic policy positions are secondary

On economic policies, populists often do not fit with the traditional left/right spectrum. While there is sometimes a distinction between left and right wing populists, economic policies are just not their defining feature. Populists emphasize a different cleavage (“the people” vs. “the elites”). To that effect economic policies are secondary and a means rather than an end. As such, they need to be popular rather than coherent. This allows for a considerable range (and changes) of positions on typical economic policy topics such as redistribution and taxation or protectionism and trade. Similarly, the general economic policy approach can combine interventionism with blends of laissez faire. Arguably, populist economic policy is tilted towards the short term (and in turn tends to overlook or downplay mid- to longer-term risks e.g. from rising deficits, inflation), with greater emphasis on macro than micro-topics such as structural reforms. Key risks of populist economic policies are protectionism, debt and a weakening of (economic) institutions.<sup>4</sup>

### Home just seems to feel better

3

Expectations for economic situation - next 12 months. Percentage share of respondents, total EU



Sources: Eurobarometer (2016), Deutsche Bank Research

## What is driving support for populists?

The discussion about what is actually driving support for populist parties is on but it is far from being settled. One prominent explanation emphasizes economic drivers, interpreting the rise of populists as a reaction to globalization and rising inequality.<sup>5</sup> A second explanation suggests that it is rather a cultural backlash, in the sense that many voters feel sceptical about (perceived) societal changes throughout the last years.<sup>6</sup> While it is important to understand the

<sup>4</sup> For further discussion see e.g. Andres Verasco (2017). How economic populism works. On Project Syndicate.

<sup>5</sup> For example Bertelsmann (2016). Fear not values. Public opinion and the populist vote in Europe. Bertelsmann 2016.

<sup>6</sup> See Inglehart, Ronald and Pippa Norris (2016). Trump, Brexit and the Rise of Populism: Economic Have-nots and Cultural Backlash. Harvard Faculty Research Working Paper Series, Aug. 2016.



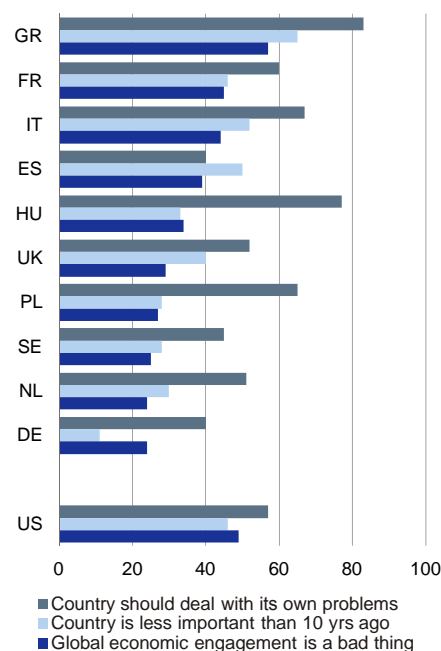
## Who is afraid of populists?

drivers, the distinction between economic and cultural factors seems a bit artificial though. In fact, it may be more important to think about their interaction effects. For example, economic insecurity might add to individual anxiety and thereby increase susceptibility to in-group / out-group thinking. Similarly, structural changes in economies have spatial effects by often creating more prosperous and more isolated communities. To the extent that network and neighbouring effects matter for forming individual opinions, this can feed back into spatial polarization of politics. Also, several control variables, notably age and education, typically show strong effects in empirical analyses. This again suggests overlap and interaction of economic and societal factors as they induce different economic interests and a different sense of belonging at societal level.

### Feeling diminished, turning inwards?

4

Respondents share in percent



Sources: Pew (2016), Deutsche Bank Research

For explaining vote choices, some analysts have stressed the connection between a sense of general pessimism among (parts of) the electorate and support for populists. An important point here is that a negative outlook may induce people to opt for “the more risky choice”, i.e. the populist option, because they feel that they have suffered a loss already.<sup>7</sup> Also populist campaigning precisely caters framing decisions in a “losing mindset” (e.g. “take back control”, “make America great again” or “remettre la France en ordre”). However, this (still) prompts the question what factors have induced the sense of pessimism in the first place, again most likely suggesting a mix of economic and societal changes as underlying drivers.

### Look beyond the ‘demand side’

The current discussion on economic and cultural factors emphasizes the demand side when explaining populism. However, supply-side factors should not be overlooked. Given populisms’ strong personalistic element and the importance of rhetoric and communication, individual politicians can strongly drive or dampen populists’ support. Also, the role of communication technologies and the media should not be neglected. Both traditional media (print and television) as well as new channels can shape public perception of politics and new technologies in particular facilitate direct interaction and mobilization.

Finally, constitutional arrangements can facilitate or hamper the rise of populist parties, their ability to make their voice heard and influence policy.

There is no single driver but several interacting factors that explain populists’ performance. Clearly some structural trends and the challenges connected to them – including but not limited to effects of globalization, digitalization, less homogeneous societies, changing political engagement and lower levels of institutional trust – are common in western societies. Similarly, the financial and economic crisis was a common shock (even though its effects were felt to different extents). However, the extent to which they map into political support for populists and the impact populist parties have on national politics varies. Hence, for assessing populists as a source of potential political risk a detailed look remains key.

The explanations sketched above – including factors on the political demand and supply side, as well as constitutional rules – offer a framework that is not country-specific. Similarly, populism as a phenomenon is not confined to any

<sup>7</sup> See Christophe Heintz (2016). Does prospect theory explain Trump and Brexit votes? Blogpost. Austrian presidential elections for example seem to fit that pattern: Those with a negative outlook on quality of life showed strong support for Norbert Hofer (70%) whereas voters expecting no change or improvements voted for van der Bellen by a strong margin (59% and 73% respectively). See Sopra (2016).



## Who is afraid of populists?

region (and certainly nothing new). At the same time, the recent rise of populism in Europe has attracted particular attention because it also prompts the question what repercussions populists have on the functioning of the European Union at large.

For many, the rise of populism in Europe is also regarded as a reaction to the handling of the financial and in particular the euro crisis. Bail-out packages both for countries and banks and the attached conditions have been met with criticism from different sides and increased frictions among member states. In turn, tensions have been more difficult to resolve against the background of divergent public perceptions of the crisis and its handling. The lack of growth dynamics in the euro area and the related high unemployment in a number of member states has meant facing situations with economic difficulties and individual uncertainties for many. It also disappointed expectations that EU membership means ever-increasing economic prosperity.

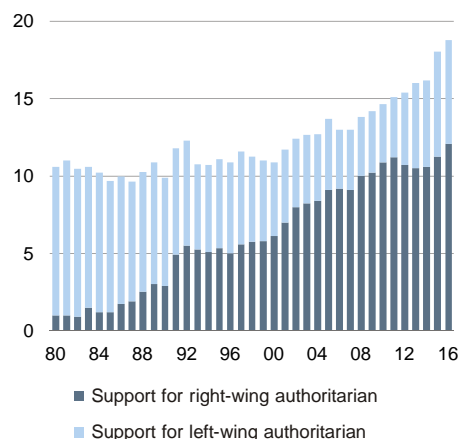
In a sense, for populists, “the EU” is just the perfect scapegoat. On the left of the spectrum, it is criticized for allegedly pushing for unfettered globalization and austerity. On the right, for its refugee policies and being an alleged threat to national identities. In any case, the anti-elite / anti-establishment element inherent to populism makes decision-making in Brussels an easy target, as it lends itself to being portrayed as overly complicated and detached. Arguably, the EU’s model of governance – triggering processes, working towards compromise solutions – is something that populists perceive (and can easily portray) as (too) slow, indecisive and working against a “national interest”. A lopsided portrayal of EU costs and benefits by some national policymakers arguably makes it easy for populists to tap into latent euro scepticism. More often than not, though, the EU’s alleged failure to deliver on outcomes – is not due to a lack of strategy but rather their slow or patchy implementation at member state level. At the same time, the changes in domestic political landscapes and more polarized political discussions within countries may often be part of the reasons why sticking to commitments can be difficult.

## So, who is a populist and how many are there?

Support for populist parties on a notable uptrend since 2000 in Europe

5

Mean support (% of total votes). It should be noted that TIMBRO uses its own definition of ‘authoritarian populism’ and a number of European non-EU countries (e.g. NO and CH) are included in totals.



Sources: Timbro (2016), Deutsche Bank Research

Drawing a line between genuine populist and parties or politicians leaning towards this direction or sometimes using populist rhetoric can be a hard task. This is partly due to the lack of a coherent substance of populists and partly due to discrepancies between political reality and rhetoric as well as doubts what parts of the latter need to be taken seriously. Also, party landscapes are not static – e.g. parties split and or /rename – and (populist) parties can to some extent change their positions over time.<sup>8</sup> This can make it difficult to define a fixed set of populist parties for an extended period of time and across a larger set of countries.

### Populists have been on the rise for several years

However, there is little doubt that by and large populist parties have been on the rise in Europe during the past couple of years.<sup>9</sup> Compared to the end of the 1990’s the share of populist parties in elections increased in a number of EU

<sup>8</sup> The German AfD is one example here. It was founded as an anti-euro party but has shifted topics, now mainly focusing on opposition to immigration and turning increasingly xenophobic in its rhetoric. Analyses also suggest that the party’s voter profiles changed considerably moving further right over time. See Martin Kroh and Karolina Fetz: Das Profil der AfD-AnhängerInnen hat sich seit Gründung der Partei deutlich verändert. DIW Wochenbericht, No.34 2016, Berlin.

<sup>9</sup> See for example Timbro / Andreas Johansson Heinö (2016): Timbro Authoritarian Populism Index 2016 or Ingelhart and Norris (2016).



## Who is afraid of populists?

member states. This is a pattern not confined to a specific geographic region and includes both old and new member states with very different constitutional setups, historical experiences and economic conditions such as Finland, Denmark or Hungary.<sup>10</sup> Populists also recorded increases in the last European elections. In turn, the share of the four main pro-EU groups decreased to about 70% of the seats compared to about 80% in 2009.<sup>11</sup>

Populist parties are certainly nothing new to Europe but they have been particularly on the rise since the financial and economic crisis. Schularick et al. show that this is not a unique development but that greater fractionalization, shrinking majorities, increasing shares of right-wing radical parties in particular and more polarized political disputes have been common following financial crisis in modern democracies.<sup>12</sup> At the same time, researchers have cautioned that political fragility can hinder steps to overcome the crisis and slow down economic recovery.<sup>13</sup>

As of end 2016 populist parties have become widespread across Europe. Most party systems in EU member states feature at least one, sometimes several groupings that are typically classified as “populist parties” (this analysis draws on external sources to characterize parties, see appendix for details). Despite the attention they receive, populist parties in Europe are typically in opposition rather than forming government or being a part of it. Notable exemptions are Poland, Hungary and Greece. In Finland, Slovakia and the Czech Republic populist parties form part of coalition governments. In Denmark, the conservative/liberal minority government is supported by the right wing populist Danish Folkeparti.

Of course this is but a snapshot. Not being part of government and/or having a rather low share of seats do not imply that populist parties have no impact on polity, policy and politics in the respective member states. One obvious reason is that seat distributions and government constellations are in a sense backward-looking. They are based on votes parties got in the last elections – i.e. sometimes several years back – and may no longer reflect current sentiment. This needs to be kept in mind given the ongoing discussion about a (potential further) rise of populist parties.

<sup>10</sup> DK: Folkeparties' share in elections increased from 7.4% (1998) to 26.2% (2014); FI: True Finns from 1.2% (1999) to 12.9% (2014); HU: Fidesz/KDNP from 29.5% (1998) to 51.5% (2014). Jobbik is not included here because we consider it as far right wing / nationalist rather than populist (see appendix). Source: ParlGov.com

<sup>11</sup> Based on the combined seat shares of EPP, S&D, ALDE and Greens. This does not imply that the remaining seats form a unified anti-EU bloc though. It consists of several groups on the left and right and members not belonging to any political group,

<sup>12</sup> Moritz Schularick, Manuel Funke and Christoph Trebesch (2015): Going to the extremes. Politics after financial crises, 1870-2014. Ces ifo Working paper No.5553, ifo Munich.

<sup>13</sup> Mian, A, A Sufi, and F Trebbi “Political constraints in the aftermath of financial crises”, VoxEU.org, 21 February 2012.



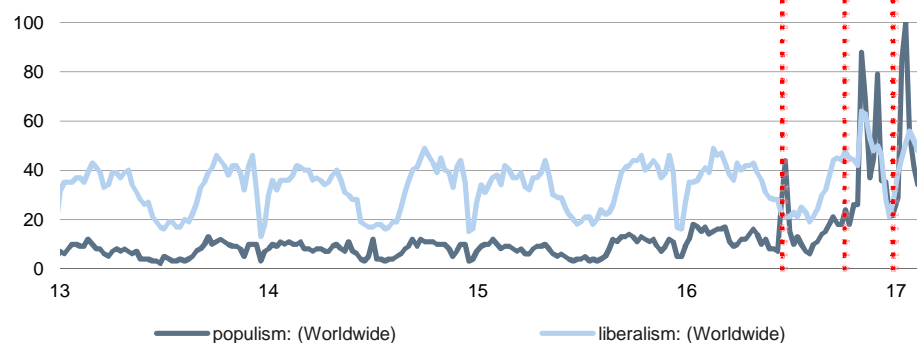
## 2016 – “The year of the populists”?

2016 in several ways seemed like a heyday for populists, particularly in Western democracies. The Brexit vote offers just one example how a populist party even with a rather modest share of the public vote (12.6% in 2015 General elections) and limited parliamentary representation (1 member in the House of Commons and three members in the House of Lords<sup>14</sup>) can nevertheless strongly impact on policy. But was 2016 really “the year of the populists”?

Surge in searches for 'populism'

6

Google searches, volumes indexed



Sources: Google Trends, Deutsche Bank Research

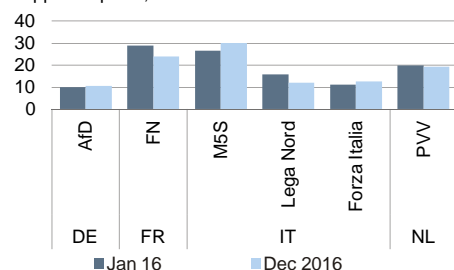
### Performance in polls

As a first approximation, we look at populist parties' performance in polls across EU member states. Comparing early 2016 shares with support for populist parties at the end of the year for 22 countries does not support the impression of a general surge. Support in polls for populists did not increase substantially<sup>15</sup> except for Slovakia. In most countries, it held rather stable and in Latvia, Lithuania or Greece for instance it actually dropped. Also, polls do not show a general increase for populist parties after the Brexit vote. Summer figures exhibit no consistent pattern and hardly show major changes in either direction.

Populists mostly stable in 2016

7

Support in polls, %



FR: Support for presidential candidates (1st round)

Sources: Allensbach, IPSOS, ifop, Scenariopolitici, Deutsche Bank Research

### Populists in 2016 elections

Alternatively, we look at performance of populist parties in last year's elections. Across the EU, ten countries held national level elections for parliament or president.<sup>16</sup> Obviously, differences in the type of votes, electoral rules, countries' party systems and the issues in campaigns suggest some caution on general interpretations. Several of the votes provide indication of changes in party systems which also reflect dissatisfaction with established parties. Spain is a prominent case where new political players have been entering the scene calling into question the traditional two-party dominance, other cases are Lithuania where the Peasant and Green Union quite unexpectedly became the strongest party in general elections, and a number of new smaller parties have been on the rise in Cyprus. Many – but clearly not all – of the new parties show

<sup>14</sup> See Parliament.uk

<sup>15</sup> We define a „strong gain“ as an increase of at least 5 pp of populist parties (combined) when comparing polls at the beginning and end 2016. Populist parties are identified on the base of the existing literature. For two countries (Portugal and Malta), no populist parties were identified. Romania, Bulgaria, Croatia and Cyprus are not part of the comparison due to lack of (consistent) information on polls. See Appendix for overview.

<sup>16</sup> Portugal (presidential), Ireland (parliament), Austria (several rounds for presidential election), Slovakia (parliament), Cyprus (parliament), Spain (parliament), Croatia (parliament), Czech Republic (Senate), Lithuania (parliament) and Bulgaria (president).



## Who is afraid of populists?

Spanish Congress votes 2015/16

8

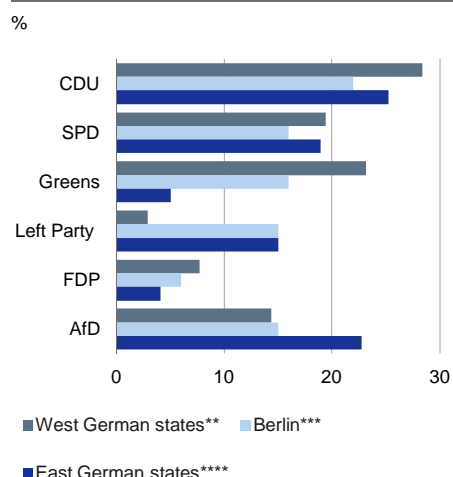
| Party       | Dec. 2015 Jun. 2016 |     | Changes    |                  |
|-------------|---------------------|-----|------------|------------------|
|             |                     |     | Since Dec. | Vs opinion polls |
| PP          | 123                 | 137 | 14         | 16               |
| PSOE        | 90                  | 85  | -5         | 3                |
| Pode-mos-IU | 71                  | 71  | 0          | -14              |
| Ciudadanos  | 40                  | 32  | -8         | -6               |
| ERC         | 9                   | 9   | 0          | 0                |
| PDC         | 8                   | 8   | 0          | 1                |
| PNV         | 6                   | 5   | -1         | 0                |
| EHB         | 2                   | 2   | 0          | 0                |
| CC          | 1                   | 1   | 0          | 0                |

Limited polls for EHB and CC

Sources: Ministerio del Interior, Deutsche Bank Research

Political parties' results in 2016  
German state elections\*

9



\* Weighted averages; \*\*Baden-Wuerttemberg & Rhineland-Palatinate elections on March 13;  
\*\*\* September 18; \*\*\*\* Saxony-Anhalt on March 13 & Mecklenburg Western-Pomerania on September 4

Sources: Wahlrecht.de, Deutsche Bank Research

populist tendencies. In any case, having new political players comes with some challenges for traditional parties and can mean new constellations for forming governments.

Not every election that took place last year fits the perception of countries “being at the crossroads” or national politics getting ever more polarized. Take for example the Portuguese presidential elections which did not show a shift towards more radical political alternatives. Almost 80 percent voted for mainstream candidates<sup>17</sup> and the election resulted in a clear win of center/right Rebelo de Sousa backed by Social Democrats and the people’s party (conservatives) in first round. The case of Portugal may rather signal moderation in the sense that voters opted for cohabitation (end of 2015 general elections had resulted in a Socialist government supported by the far-left bloc and communists) and a candidate who rather advocated for consensus based model of politics.<sup>18</sup>

Populists did record vote gains in other places though. For example, Sinn Fein – characterized as populist by some sources – gained in Irish parliamentary election winning 23 deputies compared to 14 previously (total seat 158). Also, several elections in Central and Eastern European countries show increases for extreme right-wing parties such as far-right wing /nationalist Kotleba LSNS and the Slovak national party each getting about 8% of the vote share.<sup>19</sup> Either as a standalone factor and/or in combination with populist parties, this may pose additional challenges for mainstream/centric political players.

### Spain and Austria: Two exceptional cases or showing “the new normal”?

In particular, votes in Spain and in Austria attracted considerable attention and warrant a closer look. Spanish and Austrian history, party systems, political institutions differ considerably. Also, the Spanish vote in June 2016 was a parliamentary election after the general elections in December 2015 had resulted in a six month stalemate whereas Austrians went to the polls to elect their next president, a mostly ceremonial role. Nevertheless, both cases were considered a test for populists’ support.

In Spain, the second general election yielded an increase for conservatives (Partido Popular) compared to 2015, which - after another four months of political deadlock – managed to form a centre-right minority government. The left wing/anti-establishment bloc (Podemos and Izquierda Unida), which opted to form a joint list in May 2016, did not gain in polls. At the same time, the two successive general elections in 2015 and 2016 demonstrate the changes in the Spanish party system with several new parties – again, not all of them populist – having become established. Fractionalization proved challenging for government formation though. Since 1982 socialists and conservatives have been alternating in government but this time was different: it took two elections and extended negotiations resulting in the abstention of PSOE to allow for their historical opponent PP forming a conservative/centre right minority government.<sup>20</sup>

<sup>17</sup> De Sousa and the two Socialist-linked candidates (Belém and Nóvoa) together make up for 79.1% vote share in the first round. In contrast, the two far left wing candidates got rather moderate shares (Communist Edgar Silva and the Left block candidate Marisa Mattis with 3.9% and 10.1% respectively).

<sup>18</sup> See Politico (24 Jan. 2016): Five takeaways from Portugal’s presidential elections.

<sup>19</sup> See Daniel Kral (2016): Slovakia’s election: A party system entering uncharted waters. LSE EUROPP blog and Benjamin Cunningham (2016): 5 takeaways from Slovakia’s election. On Politico.

<sup>20</sup> Rajoy (PP) was elected in 2<sup>nd</sup> round on Oct. 2016 with the support of Ciudadanos and three smaller regional parties. PP and Ciudadanos agreed on an accord to provide for the latter’s support.





## Who is afraid of populists?

Referendum votes beyond Brexit

10

In addition to Brexit, several other national level referendum votes took place across the EU in 2016. Among these were the referendum on the EU-Ukraine association agreement in the Netherlands, a vote on migration policy in Hungary and two referenda in Italy on oil and national gas drilling (April) and on the reform of the Senate (Dec.). What the four votes clearly show is that referenda and their (potential) repercussions are very idiosyncratic. The four cases make for ambivalent evidence with respect to populists.

- The referendum on oil and gas drilling was on the proposed repeal of a law that allows drilling within 12 nautical miles off the coast to be prolonged. The vote was requested by regional councils. Several populist parties (M5S, Lega Nord, Brothers of Italy) supported the repeal of the law. While 86% voted in favour of the repeal, the majority requirement to validate the result was not met.
- The referendum on constitutional reform was on a bill proposed by the Renzi government. A referendum was called because the constitutional law had not been approved by a qualified majority of two-thirds in each house of parliament in the second vote. Renzi resigned as prime minister after the proposal was rejected with a clear margin. Populist parties favoured a rejection of the reform. The vote was widely watched because it was associated with the possibility of triggering early elections.
- The vote on the EU-Ukraine association agreement in the Netherlands followed a request and collection of signatures for referendum by several initiatives. The vote resulted in rejection of the agreement. Referendum votes are not binding. Following the vote, the Dutch government tried to address voters concerns through a supplementary declaration.
- The referendum on EU migration quotas in Hungary was initiated by the government which also opposed the idea of intra-EU relocation quotas for migrants. While a clear majority rejected the quota the turnout was too low to validate the poll.

One key question with referenda is whether people vote on substance or to signal discontent with government. Because the vote does not reveal the motives, the political message of the result is to some extent up for interpretation. Other factors such as whether the vote was required or initiated, who pushed for it etc. also affect the political dynamics.

Source: Deutsche Bank

The Austrian elections for the head of state (Bundespräsident) provide for another truly unusual political tale. Aside from the need for a rerun of the second round and its postponement due to technical difficulties with absentee ballots, the election was unusual in neither featuring an SPÖ (social democrat) nor ÖVP (conservatives) candidate in the run-off. The candidates in the second round were Norbert Hofer (right-wing populist FPÖ) and Alexander van der Bellen (independent/Green). In the end, Alexander van der Bellen won the rerun of the 2<sup>nd</sup> round with 53.8% of the vote, a clearer margin than previously in May. The vote was remarkable with respect to the limited role of the two SPÖ and the ÖVP which have traditionally dominated Austrian politics and often ruling in grand coalition, in the sense that presidential elections resulted in a run-off between candidates with neither an SPÖ nor an ÖVP background and the election of an independent for a first term.<sup>21</sup> In addition, the vote was remarkable because it came to be seen as a litmus test for populists in Europe and within Austria arguably reflected fundamentally different visions about their country and the direction where it should be heading. It revealed strong divisions within the electorate and – somewhat similar to the Brexit vote – splits between urban and more rural areas, by education, gender to some extent, and differences between younger and older voters.<sup>22</sup>

In a nutshell both elections show populists' impact on political systems in various ways but neither resulted in an outright populists' win.

Of course both the snapshot look at support in polls and the national level elections do not provide a complete picture. First, populist parties have been an element of party landscapes for quite some time and the rise of populist parties is a multi-year phenomenon. For example, populist governments in Hungary or Poland took office in 2014 and 2015 respectively. Second, regional or local elections have not been considered here but may also signal a growing impact of populists and/or shifts in political support.<sup>23</sup> Federal state elections, in Germany for instance showed greater electoral support for the right-wing populist AfD than last general elections in 2013 when the party missed the 5%-threshold to enter the German parliament.

However, a look across EU member states still suggests that, rather than “the year of the populist surge” 2016 may be better described as a year when the impact of populists on political systems was increasingly felt.

### Populists' impact increasingly felt

One aspect is populists' potential impact on coalition formation in political systems. Even when winning moderate shares of the popular vote, the result of populists' presence is often that mainstream/centrist parties no longer have a sufficient majority to form a government. This often implies that government formation gets more complicated and time-consuming (or sometimes fails) and that more parties are required to form a coalition (again more complicated and possibly less stable). For economic policy, a potential risk is that minority or heterogeneous multi-party coalition governments may not be in a position to pursue reforms. Also, they might be more tempted to accommodate or incorporate demands by populist opposition parties. Alternatively, grand coalitions such as in Germany between Christian and social democrats, have

<sup>21</sup> Former presidents Rudolf Kirchschläger and Kurt Waldheim were independent candidates but proposed by SPÖ (Kirchschläger) and ÖVP (Waldheim). Klestil and Fischer only ran as independent candidates for after they had been proposed by ÖVP/SPÖ for first terms.

<sup>22</sup> See for example Sora (2016): Bundespräsidentenschaftswahl 2016 Wiederholung der Stichwahl. and Demos (2017).

<sup>23</sup> Federal State elections (Landtagswahlen) in 2016 in Rheinland-Pfalz, Baden-Württemberg, Sachsen-Anhalt, Mecklenburg Vorpommern and Berlin.



## Who is afraid of populists?

comfortable majorities. The risk here is that it might contribute to dissatisfaction with the political system; if a grand coalition came to be seen as the “lesser evil default option” this might play into the hands of fringe parties and / or populists fuelling anti-establishment sentiments.

Another aspect is the impact of populist parties on the political discussion. Populists thrive on being vocal and polarizing. With the political debate in Europe moving away from economic policies last year and increasingly focusing on migration and security issues, it arguably became easier for right-wing populists in particular to win attention. In turn, it is in the self-interest of populist parties to fuel debates that focus on security/external threats and “cultural topics”, including issues that are often symbolic and emotionally charged. They can stage themselves as “taboo-breakers” and can call for decisive measures without considering nuances or feasibility. Through rhetoric they can already put considerable political pressure on other political players.

It should be noted that there is a difference between (new) single issue parties and populists, even if some of the potential consequences (e.g. fractionalization) may appear similar. In brief, the former aim for an issue to be taken up “within the system”, in a sense increasing pluralism. The latter are not guided by a single issue, but challenge the legitimacy of the political system (“anti-establishment”) and in a sense claim exclusive representation (on grounds of “the will of the people”). Rather than aiming to become another player in the political arena, arguably populists aim to change the rules of the game.

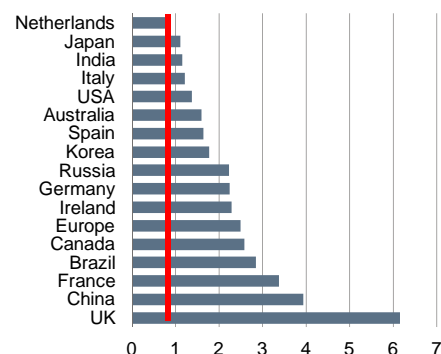
## 2017: Continuing with high political uncertainty

With domestic and European politics being intertwined, a key impact of populists is a heightened sensitivity to political risk. The Dutch elections on March 15 marked the beginning of a series of elections in member states with wider significance for Europe this year. It delivered a pro-EU mainstream majority and did not result in an outperformance of populists (even though the PVV gained about 3 pp in votes compared to 2012, it did worse relative to surveys several months before the elections, when it had reached about 20% while the VVD managed to increase its popularity in the weeks before elections). However, the upcoming votes in France and Germany (and potentially early elections in Italy) remain closely watched – not only because they are important for the respective countries but also because of their importance for the future of the EU at large.

### Uncertainty above pre-crisis levels

11

Economic policy uncertainty; Average 2016 relative to 1997-2007 average



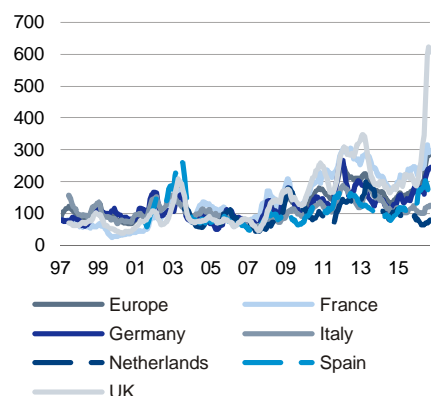
News-based uncertainty index. See Heymann and Rakau (2017) for further discussion.

Sources: www.PolicyUncertainty.com, Deutsche Bank Research

### Rising political uncertainty in Europe ...

12

Standardised, 6 months average

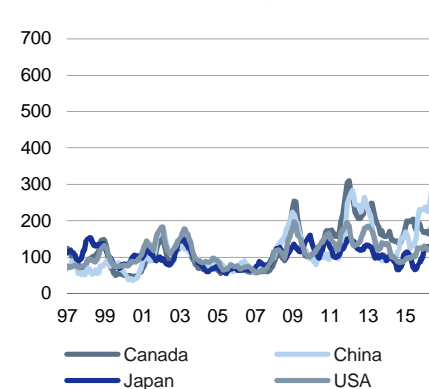


Sources: Measuring Economic Policy Uncertainty. Scott R. Baker, Nicholas Bloom and Steven J. Davis at www.policyuncertainty.com, Deutsche Bank Research

### ... and globally

13

Standardised, 6 months average



Sources: Measuring Economic Policy Uncertainty. Scott R. Baker, Nicholas Bloom and Steven J. Davis at www.policyuncertainty.com, Deutsche Bank Research



## Who is afraid of populists?

For Europe, the domestic political risks due to populists add to Brexit, potential concerns about the future of the multilateral trading order, and wider geopolitical shifts. Arguably, the number, interconnectedness and complexity of political risks have increased and they are associated with actually uncertain events.

High levels of uncertainty have economic costs and work through various channels.<sup>24</sup> High political uncertainty is likely to pose impediments to investment because firms postpone decisions or reduce investment budgets.<sup>25</sup> Beyond firms, political uncertainty can also emphasize a more myopic orientation of governments' economic policy and public investment.<sup>26</sup> Also, uncertainty impacts on consumers who tend to withhold consumption, particularly for durable goods, and increase precautionary savings. Consumers' reaction seems to be tied to (perceptions of) unemployment risks though.

As for the EU, both de facto economic conditions as well as perceptions of the current situation and future perspectives continue to differ widely. However, this has been the case throughout the past years and provides limited indication of heightened perceptions of political uncertainty or economic agents reacting to it. What may be of limited relevance for (changes in) economic behaviour but add to the conditions for populists to thrive, is a widespread feeling of decline in many western democracies.<sup>27</sup>

## And what does it mean for (European) policy?

Populism is a serious challenge for the EU. Just like at national level, populists don't need to be in government to have an impact. They can put pressure on their national governments and thereby limit areas for compromises at the European level. They can also contribute to letting commitments slip, e.g. on budgetary matter, or actively disregard them (e.g. on migration), which in turn damages credibility of European rules and institutions. (Increased) frictions in decision-making processes in turn, can add to perceptions of inefficiency or even paralysis, feeding into frustration with (EU) politics, and might play into the hands of populists by increasing the risks of stalemate or even gradual erosion.

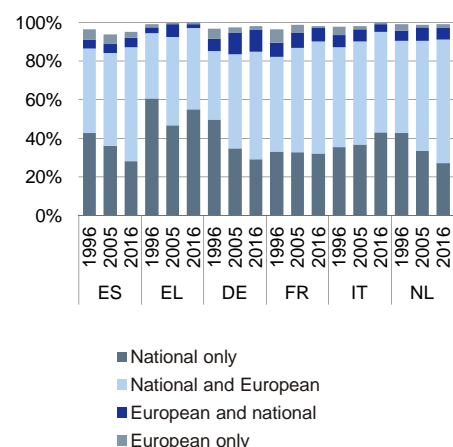
An "extreme case" scenario would be the election of a populist government that decides to exit the EU and the Euro thereby triggering a chain reaction resulting in disorderly breakup. While still a very low probability, the impact of such an outcome could be extremely high. Thus, all eyes remain on the upcoming elections in France (and the possibility of early elections in Italy) and the (potential) performance of populist candidates therein for the time being. At the same time, there might be an upside if some of the risks markets are currently sensitive to don't materialize.

Populism remains a permanent challenge though, particularly for the EU. In a way, for populists the EU imposes another layer of constraints, which can sometimes be more difficult to overcome than domestic checks, and that limit

Mixed multiple identities

14

Feeling national and/or European: "In the near future. Do you see yourself as..."



Sources: Eurobarometer, Deutsche Bank Research

<sup>24</sup> See Bank of England Quarterly Bulletin Q2 (2013) for further discussion about the economic effects of uncertainty.

<sup>25</sup> See Heymann and Rakau (2017). Uncertainty is slowing capital expenditure. Germany Monitor, Deutsche Bank Research.

<sup>26</sup> For discussion see e.g. Darby, Julia; Li Chol-Won and V. Anton Muscatelli (2000). Political Uncertainty, Public expenditure and growth. University of Glasgow/Ces ifo.

<sup>27</sup> See for example Stokes, Bruce, Richard Wicke and Jacob Pushter (2016). Europeans Face the Word Divided. Pew Research Center, June 2016. Some analyses also suggest that voters' level of optimism/pessimism regarding the past and the future of the UK correlate with referendum vote choice. Leave voters tended to be less optimistic about the future and more positive about the past than those voting remain. See Scott, Ralph; Cadywould, Charlie; Hilhorst, Sacha and Louis Reynolds (2017). Great Britain – 'It's who you know': exploring the factors behind the UK's vote to leave the EU. In Demos (2017). Nothing to fear but fear itself?



## Who is afraid of populists?

---

the potential for big policy shifts at national level. On that point, there is very limited possibility – if any – to respond to populist EU criticism with institutional reforms or specific policies.<sup>28</sup> Similarly, from a European perspective, the supply side of domestic politics is pretty much a given.

Having said that, this does not mean that inaction is a best response. Any successful strategy to respond and deal with populism in the EU needs to consider both the European and the domestic level. Challenging populists' allegedly simple solutions is but the first step though. The harder part is making a convincing case for alternatives even if they sometimes appear piecemeal or (overly) complex. For the EU, the response to populism needs to have both an economic and a political angle.

Looking ahead, the white paper on the future of Europe that has been presented by the EU Commission on March 1st, the declaration by the EU Council for the 60th anniversary of the signing of the Rome treaties to follow and several other initiatives aiming to outline the way forward for the EU27 after the Brexit vote also need to be read against the background of populism. It is unlikely that (any) suggestions presented are going to be loved across the board as there are different visions of the EU and different interests. However, this still offers an opportunity to provide a positive narrative and help the EU to head into calmer waters in the medium term.

Barbara Böttcher (+49 69 910-31787, [barbara.boettcher@db.com](mailto:barbara.boettcher@db.com))

Patricia Wruuck (+49 69 910-31832, [patricia.wruuck@db.com](mailto:patricia.wruuck@db.com))

*The authors would like to thank Matthias Dincher for valuable contribution to this research.*

---

<sup>28</sup> For further discussion see for instance Daniel Gros (2017): Can the EU survive populism? On Project Syndicate (Jan. 4, 2017).



## Who is afraid of populists?

### Appendix

List of countries and populist parties considered.

Classification based on:

Mudde, Cas (2015). Populism in Europe: a primer, OpenDemocracy.net.;  
Pausch, Robert (2015). Europa extrem, Die Zeit Online.; and Bauer, Werner T.  
(2016). Rechtsextreme und rechtspopulistische Parteien in Europa,  
Österreichische Gesellschaft für Politikberatung und Politikentwicklung.

| Country        | Populist Parties considered for poll snapshot             | Notes                                   | Last general election | Vote share (%) | Seat share (%) | Next general election |
|----------------|---|---|-----------------------|----------------|----------------|-----------------------|
| Austria        | FPO (Freedom Party Austria)                               | Right-wing populist, far right          | 2013                  | 20.5%          | 21.9%          | 2018                  |
| Belgium        | Nieuw-Vlaamse Alliantie                                   | Right-wing populist, separatist         | 2014                  | 20.3%          | 22%            | 2019                  |
|                | Vlaams Belang   | Extreme right, separatist, populist     |                       | 3.7%           | 2%             |                       |
| Bulgaria*      | Bulgaria bes zensura                                      | Right-wing populist                     | 2014                  | 5.7%           | 6.3%           | 2017                  |
|                | Patriotic Front (election alliance between IMRO and NFSB) | Right-wing populist, extreme right wing |                       | 7.3%           | 7.9%           |                       |
| Croatia        | Živi zid  | Eurosceptic, Anti-globalist, populist   | 2016                  | 5.9%           | 5.3%           | 2019/20               |
|                | HDSSB   | Nationalist, right-wing populist        |                       | 1.2%           | 0.7%           |                       |
| Cyprus         | Citizens' Alliance  | Left-wing populist                      | 2016                  | 6.0%           | 5.4%           | 2021                  |
| Czech Republic | Komunistická strana                                       | Left-wing populist                      | 2013                  | 14.9%          | 16.5%          | 2017                  |
|                | Czech a Moravy<br>Usvit prime demokracie                  | Right-wing populist, extreme right      |                       | 6.9%           | 7.0%           |                       |
|                | ANO 2011  | Centrist, populist                      |                       | 18.7%          | 23.5%          |                       |



## Who is afraid of populists?

|            |   |  |      |       |       |         |
|------------|---|--|------|-------|-------|---------|
| Denmark    | Dansk Folkeparti                            | Right-wing populist, "moderate" extreme right  | 2015 | 20.6% | 20.7% | 2019    |
| Estonia    | Eesti Konservatiivne Rahvaerakond           | Right-wing populist                            | 2015 | 8.2%  | 6.9%  | 2019    |
| Finland    | Perussuomalaiset                            | Right-wing populist                            | 2015 | 17.7% | 19.0% | 2019    |
| France     | Front national                              | Right-wing populist, extreme right             | 2012 | 13.6% | 0.3%  | 2017    |
|            | Front de gauche                             | Left-wing populist, anti-capitalist            |      | 6.9%  | 1.7%  |         |
| Germany    | AfD (Alternative für Deutschland)           | Right-wing populist                            | 2013 | 4.7%  | 0%    | 2017    |
| Greece     | Anexartitoi Ellines (ANEL)                  | Right-wing populist                            | 2015 | 3.7%  | 3.3%  | 2019    |
|            | SYRIZA                                      | Left-wing populist                             |      | 35.5% | 48.3% |         |
| Hungary    | Fidesz                                      | Right-wing populist                            | 2014 | 44.9% | 66.8% | 2018    |
| Ireland    | Sinn Fein                                   | Left-wing populist                             | 2016 | 13.9% | 14.6% | 2021    |
| Italy      | Il Popolo della Libertà (dissolved 2013)    | Conservatism, populist                         | 2013 | 21.6% | 15.7% | 2018    |
|            | Merged to Forza Italia & Alleanza Nazionale |  |      |       |       |         |
|            | Lega Nord                                   | Right-wing populist, extreme right, separatist |      | 4.1%  | 2.9%  |         |
|            | Movimiento 5 Stelle                         | Left-wing populist                             |      | 25.6% | 17.5% |         |
| Latvia     | Visu Latvijai! — Tēvzemei un Brīvībai/LNNK  | Right-wing populist, radical right             | 2014 | 16.6% | 17.0% | 2018    |
| Lithuania  | Tvarka ir teisingumas                       | Right-wing populist                            | 2016 | 5.6%  | 5.7%  | 2020    |
| Luxembourg | ADR (Alternativ Demokratesch Reformpartei)  | Right-wing conservative, right-wing populist   | 2013 | 6.6%  | 5.0%  | 2018/19 |



## Who is afraid of populists?

|                |   |   |      |                |       |         |
|----------------|---|---|------|----------------|-------|---------|
| Malta          | no considerable populist parties        |   | 2013 |                |       | 2018    |
| Netherlands    | PVV-Partij voor de Vrijheid             | Right-wing populist, extreme right-wing   | 2017 | 13.1%          | 13.3% | 2022    |
| Poland         | PiS – Prawo i Sprawiedliwosc            | Right-wing populist                       | 2015 | 37.6%          | 51.1% | 2019    |
|                | Kukiz'15                                | EU-sceptic, right-wing (radical) populist |      | 8.8%           | 9.1%  |         |
| Portugal       | no considerable populist parties        |   | 2015 |                |       | 2019    |
| Romania        | People's Party – Dan Diaconescu (PP-DD) | Nationalist, populist                     | 2016 | dissolved 2015 |       | 2020/21 |
| Slovakia       | SNS (Slovenská národná strana)          | National, right-wing populist             | 2016 | 8.6%           | 10.0% | 2020    |
|                | Smer-SD                                 | Left-wing populist                        |      | 28.3%          | 32.7% |         |
| Slovenia       | Slovenska nacionalna stranka (SNS)      | Right-wing populist, extreme right-wing   | 2014 | 2.2%           | n.a.  | 2019    |
| Spain          | Podemos                                 | Left-wing populist                        | 2016 | 13.4%          | 12.9% | 2020    |
| Sweden         | Sverige-demokraterna                    | Right-wing populist                       | 2014 | 12.9%          | 14.0% | 2018    |
| United Kingdom | United Kingdom Independence Party       | Right-wing populist                       | 2015 | 12.7%          | 0.2%  | 2020    |

Countries marked gray not considered in poll comparison due lack of (consistent) polling information. No considerable populist parties identified for Malta and Portugal. \* Some sources (e.g. van Kessel 2015: Populist Parties in Europe: Agents of discontent. and Igor Novakovic 2010) regard GERB as populists.

The parties below have not been considered as 'populist parties' as part of this analysis. Our listing should be read as a snapshot and cannot provide for a comprehensive characterization of member states' political landscape and / or fringe groups.



## Who is afraid of populists?

| Country | Non-populist, extreme parties | Political orientation                 | % of votes | % of seats |
|---------|-------------------------------|---------------------------------------|------------|------------|
| BG      | Ataka                         | Extreme/far right-wing                | 4.5%       | 4.6%       |
| DE      | NPD                           | Extreme right-wing                    | 1.3%       | 0%         |
| EL      | Chrysi Avgi                   | Extreme right, fascist                | 7.0%       | 6.0%       |
|         | Kommounistikó Kómma Elládas   | Extreme left                          | 5.6%       | 5%         |
| HU      | Jobbik                        | Far right, nationalist                | 20.2%      | 11.6%      |
| RO      | Partidul Romania Mare         | Extreme right-wing                    | 1.3%       | 0%         |
| SK      | Kotleba/ L'SNS                | Extreme right-wing, ultra-nationalist | 8.0%       | 9.3%       |
| PT      | Partido Nacional Renovador    | Radical right-wing                    | <1%        | 0%         |

© Copyright 2017. Deutsche Bank AG, Deutsche Bank Research, 60262 Frankfurt am Main, Germany. All rights reserved. When quoting please cite "Deutsche Bank Research".

The above information does not constitute the provision of investment, legal or tax advice. Any views expressed reflect the current views of the author, which do not necessarily correspond to the opinions of Deutsche Bank AG or its affiliates. Opinions expressed may change without notice. Opinions expressed may differ from views set out in other documents, including research, published by Deutsche Bank. The above information is provided for informational purposes only and without any obligation, whether contractual or otherwise. No warranty or representation is made as to the correctness, completeness and accuracy of the information given or the assessments made.

In Germany this information is approved and/or communicated by Deutsche Bank AG Frankfurt, licensed to carry on banking business and to provide financial services under the supervision of the European Central Bank (ECB) and the German Federal Financial Supervisory Authority (BaFin). In the United Kingdom this information is approved and/or communicated by Deutsche Bank AG, London Branch, a member of the London Stock Exchange, authorized by UK's Prudential Regulation Authority (PRA) and subject to limited regulation by the UK's Financial Conduct Authority (FCA) (under number 150018) and by the PRA. This information is distributed in Hong Kong by Deutsche Bank AG, Hong Kong Branch, in Korea by Deutsche Securities Korea Co. and in Singapore by Deutsche Bank AG, Singapore Branch. In Japan this information is approved and/or distributed by Deutsche Securities Inc. In Australia, retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product.

ISSN: Internet and E-mail: ISSN 1612-0280