

Is realism trumping populism?

Anatole Kaletsky | Gavekal | 30 April 2018

With economic conditions returning more or less to normal around the world after a decade of financial crises, nationalist populism is now seen as the biggest threat to global recovery. That was certainly true of the finance ministers who gathered in Washington, DC, this month for the IMF's annual spring meeting. But is it possible that this consensus has emerged just as the populist wave has crested? Rather than populist politics undermining economic recovery, could economic recovery be undermining populist politics?

Looking around the world, populist economic policy appears to be in retreat, even though no clear alternative is visible. In the United States, President Donald Trump seems to be curbing his protectionist instincts, and economic relations with China are stabilising. In Europe, despite the media focus on the success of xenophobic politicians in Hungary and Poland, the pendulum is swinging away from economic nationalism in the countries that really matter – France, Germany, Spain, and Italy, where the two populist parties that recently achieved electoral breakthroughs are now vying to show their devotion to the euro.

Even in Britain, where economic nationalism won its most spectacular victory over globalisation and multiculturalism in the 2016 Brexit vote, the tide may be turning. The British government is gradually realising that voters do not really want the complete rupture with Europe demanded by hard-core Euroskeptics. Neither of the two alternatives to EU membership presented in the Brexit referendum – an inward-looking, protectionist "Little England" or a post-imperial "Anglosphere" based on the "special relationship" with America and the Commonwealth – is turning out to be economically feasible or politically attractive to voters. While only 3% to 4% of voters admit to changing their minds about Brexit, large majorities want to keep most of the benefits of free trade, easy travel, immigrant labor, and strong environmental, consumer, and health regulation.

Voters' aversion to Brexit's adverse consequences, analogous to the realism that gradually dawned in Greece after its 2015 referendum rejected an EU bailout, helps to explain the otherwise perplexing tactics of Prime Minister Theresa May and her Conservative Party. After starting out proclaiming a clear instruction from the people to "take back control" from the EU, May has gradually blurred and erased her red lines – an end to EU budget contributions, limiting European immigration, and an exemption from European rules and court judgments. Instead of strident demands for restoration of untrammelled national sovereignty in March 2019, she is now pleading for a transition, in which nothing noticeable to voters will change at all.

Surprisingly, May's compromises have all been accepted by nationalist hard-liners who previously threatened her leadership. The zealots still hope for a total rupture with Europe eventually, but seem relieved about postponing the day of reckoning until the end of May's "status quo transition" in December 2020.

But if a "clean break" from Europe is too dangerous to attempt now, why will it be more acceptable in 2020? It won't be – and presumably that reality will dictate extending the transition until after the 2022 general election, then beyond.

The upshot is that, as I wrote nearly a year ago, Britain's belligerent Hard Brexit is turning into a docile Fake Brexit – Norwegian-style, associate EU membership. Both Leavers and Remainers will be dissatisfied with that outcome, which will turn Britain into what Brexiteers

justifiably call a "vassal state", a country that abides by EU laws but has no voting rights or ability to influence those laws.

Why would Britain accept such second-class status?

This is where we come to the relationship between nationalist populism and economics. The only remaining justification for the obviously inferior form of EU association that May is now proposing is the populist claim that "the people have spoken".

Until recently, wielding this slogan allowed all opponents of government policy to be branded as internationalist elitists, "citizens of nowhere" who despise the "real people". Delegitimising political opposition made Brexit appear inevitable, which discouraged voters from even thinking about the issues that might change their minds.

But Britain's political atmosphere is changing. With the Brexit deadline of March 2019 approaching, May's "transition" extending into the distant future, and all of the tangible promises of Brexit receding like a desert mirage, both parliamentary and public opinion are shifting. The Labour Party is slowly coming to the conclusion that, even though many working-class voters supported Brexit, opposing it offers the only chance of bringing down the May government. As a result, May has repeatedly been defeated in Parliament and forced to concede a full parliamentary vote on whatever agreement she negotiates with the EU.

These parliamentary conflicts mean that opposition to Brexit is no longer discredited as anti-democratic and elitist. And public opinion is responding, with clear majority support for a "meaningful vote" in Parliament to decide whether May's final deal with Europe is genuinely better than remaining in the EU. When this vote occurs – probably in October – a tactical alliance of all opposition parties with a dozen pro-European Tories could well defeat the government. If such a defeat looks imminent, May will probably move to avert it by herself proposing a referendum to make the final decision between her version of Brexit and the EU *status quo*.

But would such a referendum, now backed by a recently launched campaign for a "People's Vote", simply mark another descent into populism, instead of a genuinely democratic conclusion to the Brexit debate? The answer is no, because voters would be offered an honest choice between two well-defined alternatives: either to accept whatever agreement for leaving the EU the government negotiates; or, to stay in the EU by withdrawing the Brexit notification before the 29 March deadline.

By contrast, the 2016 referendum offered voters an illusory choice between reality and fantasy – a fair-tale Brexit, onto which they could project whatever hopes or prejudices they cared to imagine. The opposite of nationalist populism is not globalist elitism. It is honest realism, as Britain is now re-discovering.

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