

ECONOMIC CONSEQUENCES OF POPULISM

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Abstract. This paper is aimed at assessing the potential negative impacts of radicalization and populism on the national economy with a special focus on fiscal policy and international trade. The authors presume that populist governments tend to implement expansionary fiscal policy and advocate protectionism.

This research is a synergy of political and economic analysis. The authors describe the EU and Eurozone fiscal trends and risks (public debt and budgeted deficit) and provide examples of economic commitments of populist governments. They analyse how different definitions of radicalization and populism match with the current trends in populist parties, describe risks of implementing expansionary fiscal policies by left- and right-wing populist governments of some EU member states and provide illustrations of current protectionist movements in the US. The authors conclude that EU supervisory role and control mechanisms are crucial to reduce fiscal risks and preserve stability in Eurozone. Decisive actions of international community and domestic political pressure are the only safeguards against distortive effects of protectionist policies.

Keywords: *populism, radicalization, fiscal policy, international trade.*

JEL code: F4, F5, F6, E6, E7

Introduction

Against a backdrop of severe economic crisis (2007), migration crisis (2015) and the rise of terrorist attacks, populism has gained increasing popularity. Anti-EU populism in the EU increased as the social and economic distress has driven many working-class, rural and poorer voters against the traditional political parties, the parliamentary system and the European Union (Taylor, 2019). According to an exclusive research by the Guardian (Lewis, Clarke, etc., 2018), populism has been becoming increasingly “mainstream” in Europe – populist parties have won around quadruple supports in elections during the passing 20 years and one in four European citizens has voted for populists in 2018. Moreover, the 2019 European Parliament election showed that the fragmentation between traditional mainstream political parties and other minor players is enlarging obviously. Italy, Britain, France, Spain, Austria, Poland, Slovakia, the Czech Republic, Greece ... are all flooded with a tide of populism. Most of populist parties advocate anti-EU course or at least taking back more economic sovereignty from the EU and promise an immediate increase of welfare and social benefits, which is unlikely to realize in a short term. However, according to the latest developments in the EU the populists seem unable to secure a majority for their anti-European course, neither in the EP nor in the most of the EU Member States. But their programs still may produce high risks for the future, depending on the EU delivery, economic dynamics, migration, etc.

It is essential for the policymakers to understand the potential negative economic consequences of populism and to find adequate ways of boosting economic growth and strengthening stability of the monetary and financial system. It is also necessary to enable voters to make a justified choice during elections based on independent and critical thinking.

This paper is aimed at assessing the potential negative impacts of radicalization and populism on the national economy with a special focus on fiscal policy and international trade. Our research is a synergy of political and economic analysis. The authors describe the EU and Eurozone fiscal trends and risks (excessive increase of public debt and budgeted deficit) and provide examples of economic commitments of populist governments.

To this end, the authors analyse how different definitions of radicalization and populism match with the current trends in left- and right-wing parties, describe risks of implementing expansionary fiscal policies in some EU countries

and provide illustrations of current protectionist movements in the US. The authors conclude that EU control mechanisms are crucial to reduce fiscal risks and preserve financial stability in Eurozone. Decisive actions of international community and domestic political pressure are the only safeguards against distortive effects of protectionist policies.

Populism and Radicalization

“Radicalization” is defined in Cambridge Dictionary as “the action or process of making someone become more radical (= extreme) in their political or religious beliefs” (Cambridge Dictionary, [Online]). The self-evident concepts and circular definition lead to vagueness and ambiguity in its understanding and implementation. Originated etymologically from a Latin word “radix”, meaning “root”, radicalization has experienced a long time of evolution in its meaning. It was after nineteenth century that this term has referred to a broad category of socio-political transformation, including both left-wing and right-wing phenomenon (McLaughlin 2012).

Left-wing radicalization reached its peak in the 1970s and till 1980s when left-wing radicals loaded on themselves a revolutionary mission to combat with capitalism and establish an "equal, just and inclusive society", where migrants, asylum-seekers and women should be granted with equal rights (Dzhekova, Stoyanova et al. 2016). Similarly, March also characterizes “radical left parties” with “anti-capitalism” and “incorporation”, which means that radical left parties oppose “neo-liberal globalized capitalism”, which was built on Bretton Woods system, and are more in favour of a “mixed market economy” and incorporating the “excluded and marginalized” into the political system (March, 2008)

Typical example of the nowadays left-wing populism is SYRIZA. A well-known Greek party of former student activists and far-left intellectuals, SYRIZA emerged as the strongest of the populist far-left bunch and managed to rule Greece from 2015 to 2019. It revealed the corruption of the elite and described them as insufficiently patriotic, advocated anti-austerity economic measures and promised to bring the people back to the old days of "debt-fuelled prosperity". According to Kalyvas, “SYRIZA peddled empty slogans and old-fashioned economic ideas, rejected necessary reforms, and argued that they could force Greece's creditors to fund their policies” as they could deliver no commitments and blame the major parties for deepening debt crisis (Kalyvas, 2017).

The right-wing radicalization gained its popularity only from the late 1980s due to growing dissatisfaction on the continuous economic downturn, increasing the unemployment and pessimistic perceptions (Betz 1999). Radical right-wing politics aims at protecting the nation and national culture from immigrants, trying to keep a homogenous society against outsiders and minorities (Caiani et al., 2012: 5-6) (Dzhekova, Stoyanova et al. 2016). Right-wing radicalization advocates “exclusionary nationalism”, “racism”, “xenophobia”, “anti-democracy” and “strong state” (Mudde 1995). While “immigration” does play an essential role, radical right parties’ try to widen their agenda, laying particular stress on peoples’ concerns, which is key to win more voters (Kitschelt and McGann 1997).

Typical example of a recent success of a far-right ideology, is the far-right League party, which became one of the biggest winners in 2018 Italian general election by widening its agenda from regional autonomy to anti-EU and anti-immigrant course. Matteo Salvini, the leader of the League, adopted in 2018 new narratives. He stated that introduction of euro was a mistake and suggested to leave Eurozone. He claimed that his aim is not to destroy the EU but to make it “more democratic”, to give more autonomy to the member states, especially in the trade policy. Salvini also criticized Brussels’ “faceless bureaucracy” and increasing number of immigrants (Politico, 2019). Despite extreme popularity in Italy, after a few months of governance, Matteo Salvini failed to keep the power, and its former coalition-partner, the anti-establishment Five Star Movement (M5S), managed to form a new coalition with the centre-left Democratic Party. This result is somehow a relief for the EU as the nationalist-populist coalition finally collapsed after 14 months of “Eurosceptic provocations, anti-migrant crackdowns and flouting of the bloc’s financial rules” (Horowitz, 2019).

There is a view that “authoritarianism” can be used to differentiate the left and right radicals, while it is only characteristic of the right ones. However, these two groups are similar in their ways of “political engagement”, the tactics they tend to use, and “their disdain for traditional democratic ideals and practices and their violations of civil liberties” (McClosky and Chong 1985).

The concepts of both left-wing and right-wing radicalization nowadays to a great extent overlap with populism. Populism is the key feature of radicalization in current political climate. Like radicalization, “populism” itself is not sufficient to define the political climate of the EU as a “political style” and “ideology”. Left-wing populist parties became popular right after the financial crisis, but only succeeded to take the lead in Greece. In contrast, right-wing parties have won elections in Italy, Poland, Hungary, and even in the countries where they didn’t win (for example, France), their influence is still increasing rapidly. Some non-populist parties also transformed into populist parties, Hungarian Fidesz party and Law and Justice of Poland may serve as two typical examples. The popularity of left-wing populism is mainly due to the economic recession, while the right-wing populism originated in the refugee crisis.

Taken Brexit as an example, many ideas of the UK Independence Party (UKIP) have perpetuated into the political agenda of the UK and even the Brexit itself is characterised as “populism” as it shares some key populist elements. First, the Brexit shows a confrontation of “common people” and establishment, which is the core of populism. Second, taking back the sovereignty, including full control on immigration issues, is one of the key goals of Brexit (Morillas, 2017). The damage, which ongoing Brexit mess caused to British economy, is irreversible. According to the Bank of England, the UK economy has lost 2% of GDP and the cost of Brexit to the UK has reached 40 billion pounds a year, which means 1 billion American dollars per week. (Partington, 2019)

Other Eurosceptic member states haven’t gone so far as the UK, but their Eurosceptic agenda, still, arose much concern. Hungary is one of those countries. In April of 2018, Hungarian Prime Minister Viktor Orbán and his Hungarian Civic Alliance (Fidesz) party won the election for a third time, which made him the longest leader of Hungary after the Communist era. Furthermore, Orbán's ruling coalition, Fidesz-KDNP (Christian Democrats) has controlled more than two-thirds of parliamentary seats, which is up to 68% (Harris, 2018). The immigration remains the central issue of election and Viktor Orbán managed to convince the voters that Fidesz will protect Hungary from out-comers. A former Fidesz party member, Zsuzsanna Szelényi, owed Viktor Orbán's success to the prevailing cynicism of post-communist transition, anxiety brought by the global financial crisis and Orbán's personal ruthlessness. The party is labelled by many opponents as “Eurosceptic, authoritarian and anti-pluralist”, the government under the leadership of Viktor Orbán are labelled as “illiberal democracy” (Szelényi, 2017). As Orbán himself stated in a speech that “democracy is not necessarily liberal. Just because something is not liberal, it still can be a democracy” (Tóth, 2014).

Fidesz is sharply criticized for breaching rule of law and EU values. Although Hungary is a recipient of EU funds and deeply depends on the Single market, its confrontational foreign policy towards the EU is still a concern of other EU countries. Viktor Orbán strongly opposes the immigration policy of the EU and advocates more sovereignty while trying to change the EU into merely a single market and administrator of structural funds. He also tries to encourage central and eastern European countries for the “fight”. The “Visegrad group” is a stage to increase its influence over EU policies, especially on immigration policies (Bayer, 2017).

To sum up, left- and right-wing populist parties in the EU are appealing for expansionary fiscal policy, advocating protectionism and more economic sovereignty, putting the EU and Eurozone membership in question and refusing to accept refugees. But actually, the commitments of populist parties are hard to achieve and even harder to maintain. The radicals are impatient and intolerant to “slow and cautious reform”, and the promise they have made in the sake of the people actually is hard to achieve (Freeman, 1980).

Raising people's perceptions of higher income

Case of Greece. Many extreme left parties failed to take the power in the EU, but the Coalition of the Radical Left (SYRIZA) managed to rule the Greece in 2015 - 2019. The success of SYRIZA is the result of the people's frustration with politicians and rejection of the bailout deal made during economic crisis by Greek government and Troika (the European Commission, the European Central Bank and the International Monetary Funds).

Greece joined the EU and later Eurozone with a rather weak economic and fiscal performance (figures 1,2). Three years after Greece joined the Eurozone, it admitted that it had fudged its fiscal balance sheets to meet the standards of Stability and Growth Pact (SGP), which requires every member state of Eurozone to maintain its government deficit below 3%, and debt-to-GDP ratio below 60% (Carassava, 2004). After the Olympic games, the government deficit has climbed up to 6.1% and debt-to-GDP ratio – 110.6%. The 2008 economic crisis hit Greece badly and it had to ask external help to keep the country running. After long hesitation, Papandreou, leader of the ruling party PASOK, reached a deal with the EU and promised to implement austerity in Greece in exchange for the first bailout package with €110bn in loans over 3 years to avoid default. Papandreou committed to scrap bonus payments for public sector workers, cap annual holiday bonuses, ban increases in public sector salaries and pensions for at least three years, increase VAT from 21% to 23%, raise taxes on fuel, alcohol and tobacco by 10%, etc. (BBC, 2010).

Under the pressure of high public anger, Papandreou proposed a referendum on the second bailout agreement (BBC, 2011). The second 130-billion-euro bailout was approved at the EU summit, which shocked other Eurozone leaders. Out of the strong opposition from other countries and within PASOK, Papandreou called off a vote of confidence. Although Papandreou survived through the confidence vote, he was still forced to step down for a national union government to take over. A “technocratic” government was formed under the leadership of economist Lucas Papademos. During his term, Greece accepted the second bailout worth €130bn and completed the debt restructuring (Xafa, 2014).

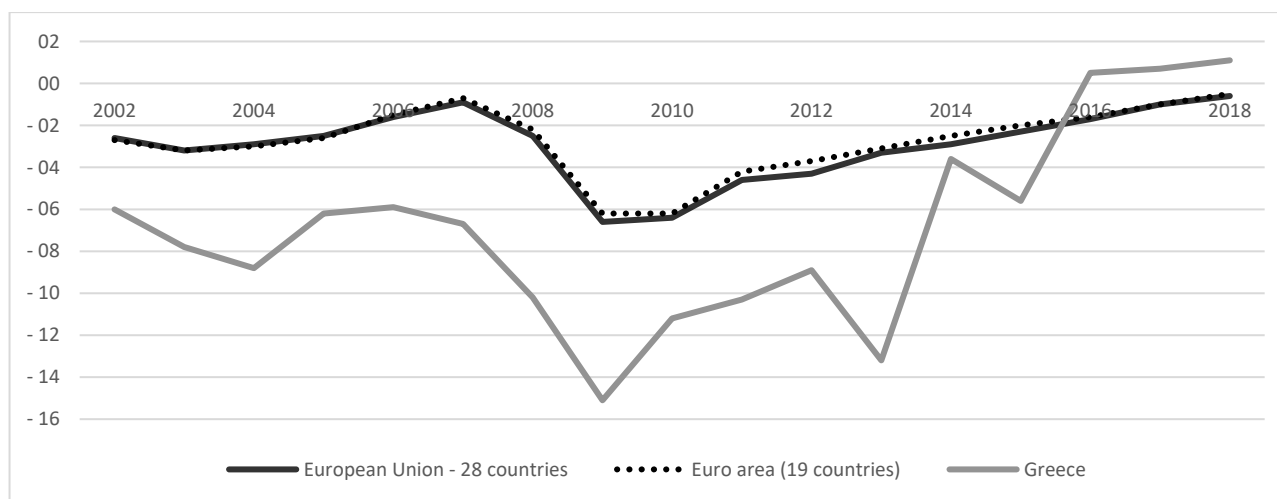
However, New Democracy won the election in 2012 and formed a unity government with PASOK and Democratic Left (DIMAR). This government still respected the existing bailout programs while trying to ask for milder austerity terms and more funding from the Troika. In July 2013, new austerity measures have been approved by the Greek government, as a condition of the ongoing EU-IMF bailout. The plan included thousands of layoffs and wage cuts for civil service workers, tax reforms and other budget cuts. The new austerity plan opened the way for new bailout funds from foreign creditors but raised unstoppable strikes and rages among Greek people, which further reduced the stability of the fragile coalition. (Kitsantonis, 2013) This inevitably led to the success of SYRIZA in the next election.

After forming a coalition with the nationalist conservative party Independent Greeks (ANEL), Alexis Tsipras, a strong opponent against austerity, became the prime minister. He announced that "We will bring an end to the vicious circle of austerity ... The troika has no role to play in this country". He committed to a renegotiation of bailout terms, debt cancellation, and renewed public sector spending—setting up a showdown with international creditors that threatens Greek default and a potential exit from the monetary union (Council on Foreign Relations, Greece's Debt 1974-2018). However, Eurozone finance ministers insisted that they were unlikely to oblige Tsipras on his demands, especially his pledge to seek a write-down of Greece's huge debt. Even worse, Tsipras was running out of time to negotiate as Greece needed its next allocation of bailout money to keep the government running and pay off looming debts to avoid a potential default (Alderman, 2015). Therefore, in June 2015, the Troika suspended bailout programme because of Greece's default on €1.6bn IMF payment. If the bailout program shut down, there were no more emergency liquidity from the ECB.

As a result, Alexis Tsipras called for a referendum to decide whether to accept the bailout conditions or not, urging voters to reject the creditors' proposal in hope of strengthening Greece's negotiating position. (BBC, 2015) It turned out in the referendum that the majority of voters, over 61%, were overwhelmingly against the bailout conditions.

But not surprisingly, despite winning the referendum, Tsipras altered his stance in front of economic reality and made a concession with the European authorities. In July 2015, they reached an agreement that Greece can receive €86 billion bailout if the country implements even harsher austerity conditions. This "betrayal" led to split in SYZIRA party, as the compromise was inconsistent with the commitments, and there were around 40 members of Parliament of the ruling SYRIZA party abstained or voted against the new deal. Thus, the approval of the third bailout by the Parliament had to rely on pro-EU opposition parties.

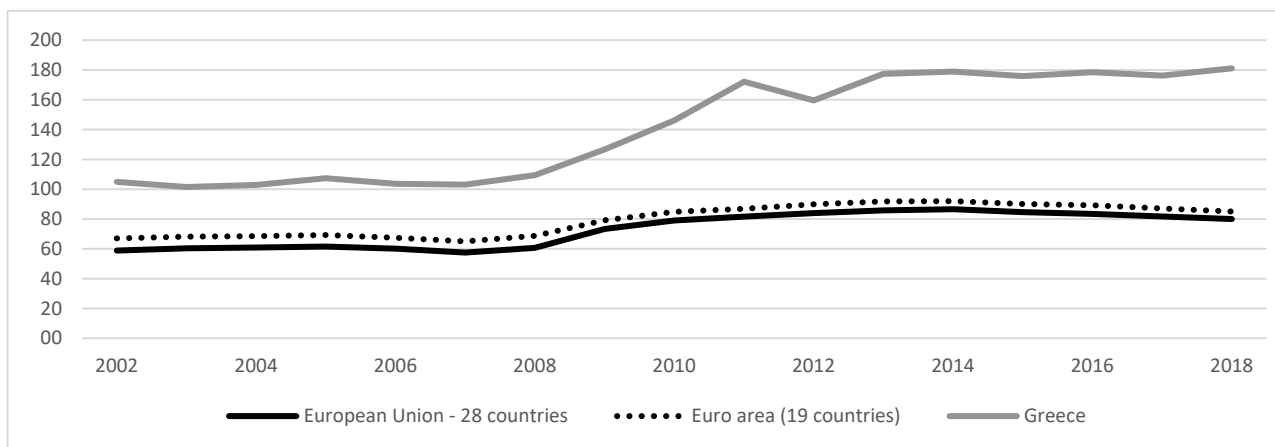
These radical political changes are also reflected in the country's economic development. The public deficit is extremely high compared to the EU average, reaching twice of the average level of EU member states (figure 1). From 2007 to 2009, impacted by the economic crisis, the deficit dumped to a catastrophic level – more than 15%, which is more than 5 times of the limit. After 2010, when Greece accepted its first bailout package from the EU and IMF, its deficit is dropping arduously. But this positive trend was interrupted in 2014, which can be seen as a reflection of the political turmoil, the rise of anti-austerity SYRIZA party. However, after SYRIZA finally reached consensus with the EU, the deficit started to decline. The new austerity measures taken by the Greek government may partially account for the positive change.



Source: Eurostat

Fig. 1. Annual General Government Deficit of Greece, 2002-2018 (Percentage of GDP)

The national debt of Greece (figure 2) was kept high ever since the country joined the monetary union. In 2002, the national debt was much higher than the average level of both EU and Eurozone member states. After the crisis, public debt has maintained roughly at the constant level and the prospects of reducing debt in the nearest future are marginal.



Source: Eurostat

Fig. 2. Government Consolidated Gross Debt (Percentage of GDP)

This crisis not only revealed the intrinsic vulnerability of Greek economy, such as “wage rises outpaced productivity gains”, low competence, the ineffectiveness of administration, etc., but also provided a great example of assessing the economic consequences of populism. Greece is not the only country, which has accepted the bailout as exit strategy from the economic crisis, but it is the only Eurozone country, which has accepted the bailout more than once. Without any doubt, populist government has prolonged the length of necessary reforms and caused the “reform fatigue”.

Greek people are convinced that their pension and allowance have been stripped by the EU and creditors, and they are victims. Driven by discontent, anger and fear, people came to the streets to protest. These emotions were amplified by the media and radical politicians. As a result, once there appears a populist party, which claims to oppose the EU and promises to cut taxes and increase welfare, voters would support it without any doubt.

But the core question is if the commitment is only a lip service of politicians to seize power. Even when the populists really try to act for the people’s sake, do they ever think out an applicable and acceptable plan for all? The truth is that the country could not survive without the bailout and there was not a better plan. The hesitation and indecisiveness of elected parties between keeping their promises or concede to the reality and take actions good for the whole country at once has cost the country a lot of time and lead to grave consequences.

The EU, during the Greek debt crisis, has kept a strong and hard position, which was a great impulse for Greece to make up its mind and take real actions – that is, turn their direction to reality and implement austerity measures as requested. It is these programs that “enabled Greece to tighten its public finances, take steps towards repairing and modernizing its economy, and regain the trust of investors, which it had lost at the start of the crisis” (European Stability Mechanism – Greece).

IMF also praised the progress Greece has made during these years as Macroeconomic imbalances have been largely eliminated, growth has returned, unemployment is declining (though still very high). But at the same time, IMF also pointed out that more effort should be made to overcome crisis legacies (Greece: Staff Concluding Statement of the 2018 Article IV Mission).

Case of Italy. Italy has accumulated the second largest national debt and second highest public deficit among the EU member states. However, Italy’s economic scale is much larger than Greece. Also, due to its location, Italy is the first footstep for refugees to enter the EU. Uncontrolled immigration during crisis lead to frustration of the Italian people. Strong dissatisfaction due to economic stagnation and high unemployment, fear of immigration crisis, distrust of politics and strong desire to shake up the status quo ended up with the anti-establishment right-wing populist

coalition government of M5S and the far-right League, which firmly expressed their anti-immigration, anti-EU and anti-euro policy.

M5S is the biggest winner in this story so far. It was founded as a web-based organization in 2009 by Beppe Grillo, a comedian and blogger, and Gianroberto Casaleggio, a web strategist. The activism in social media and networking, as well as the anti-political attitudes, are typical to M5S. The co-founder, Beppe Grillo, had no foundation in politics and built a big name for himself through "offensive" critics to the Italian politicians. Ever since its foundation, M5S has been firmly against the corrupt and self-serving politics. Its policies are characterized by anti-establishment, anti-globalist and Eurosceptic features. M5S narratives reached the hearts of ordinary people (a huge difference from the political mainstream) and "modern" ways of networking with strong propaganda force brought to M5S huge popularity. As a result, it has risen to be the largest party in Italy (Bulman, 2016).

In 2018, M5S won the Italian general election with 32.7% of votes and formed a unity government with the far-right League party, which shocked the whole of Europe as the third largest economy and one of the founding member states of EU was under control of a populist, Eurosceptic government.

However, the M5S and the coalition have their built-in defects. Although supporters of M5S are united to confront the status quo, they actually share a little in common when it comes to specific issues like EU integration, taxation, etc. As one can imagine, when M5S needs to take decisions, it becomes a big challenge to keep its supporters in cohesion and solidarity. Moreover, as a new party, rising in such a short time and having little political experience, M5S is questioned by a lot of people, including also M5S supporters and activists, on whether it can govern the country effectively and to what extent it can bring out its electoral promises and commitments of prosperity.

Although the populist M5S and the far-right League share a lot in common (Euroscepticism, anti-immigration and active use of social media and online platforms for propaganda) the coalition of these two parties is rather vulnerable. First of all, the supporters of M5S mainly come from the South while the League is backed mostly by the North (Perring, 2018). Second, the League is a radical right party while M5S is hard to be included in traditional "left" or "right" paradigm as some of its advocates are also welcomed by the traditional left wing. It's more accurate to describe M5S as "anti-establishment". Third, although both parties are quite Eurosceptic, the League seems to be more against the existing rules of EU and Eurozone, having said that it wants to leave the Eurozone as soon as politically feasible (Stone, 2019). And M5S's politics is more ambiguous but ruled out leaving euro.

In May 2018, the coalition government published a 58-page agreement document, where the two parties insisted on non-immigration. They introduced a special law to limit the time when migrants can stay in Italy before deportation, confronted the Dublin treaty to force "automatic and mandatory relocation of asylum seekers among EU member states" and produced a "review" of EU missions in the Mediterranean to prevent arrivals of boats in Italian ports without "shared responsibility" from other countries (Politi, 2018).

The Eurosceptic attitude of two parties is also revealed in the agreement, which emphasized the necessity to review the structure of the European economic governance, the rules related to the single market and the mechanisms of management of the EU funds. Furthermore, the agreement clearly expressed opposition to all "aspects" of trade deals like CETA and TTIP due to their "negative" impact on the citizens' protections and competition (Politi, 2018).

Totally ignoring negative fiscal impact, the coalition was ready to introduce a double-tiered "flat tax" regime, setting tax for individual income at 15%, for companies at 20%, as well as a fixed deduction of €3,000 for families and basic income for every Italian citizen. They wanted to allow people to leave work if the sum of their age and years of contribution has reached 100. They also committed to invest €2bn to support jobless and provide free care for Italian families and "economic prize" for women who return to work after maternity leave (Politi, 2018). If this document would come in effect, another €100 billion would be added to the public deficit in the medium run, which

would amount to about 6% of GDP in additional deficit spending, according to the estimates of Carlo Cottarelli, the former director of fiscal affairs at the International Monetary Fund (Puglisi, 2018).

In October 2018, Italy has submitted its budgetary plan with the deficit around 2.4% of GDP and the public debt – around 131% of GDP (Smith-Meyer, 2018). Italy insisted that the chosen expansionary policy is necessary to stimulate the sluggish post-crisis economy and accelerate economic growth. However, unsurprisingly, the EU rejected the plan for “particularly serious non-compliance with the budgetary policy obligations laid down in the Stability and Growth Pact” and threatened that if Italy would insist on implementing this budget, it would have to face an initial penalty of 0.2% of GDP, which could rise to 0.7% in case of further non-compliance. The EC vice-president, Valdis Dombrovskis, even warned that the Italian budget plan “is counterproductive to the Italian economy itself” (Rios, 2018).

After weeks of negotiation, Italy and the European Commission have finally reached a compromise by step-back of both sides. Valdis Dombrovskis said the deal would mean 10 billion euros of extra cuts from Rome and Italian prime minister had agreed that this would come partly from higher taxes on companies and cuts in some planned investment. Italy has lowered its 2.4% target to 2.04%, while the Commission agreed to accept a deficit which would rise the following year instead of falling (Guarascio, Fonte 2018).

The EU commissioner, Pierre Moscovici, praised this agreement as “a victory of political dialogue” and said this will “make the euro stronger”. Valdis Dombrovskis, however, described the agreement as a “borderline compromise” that fails to provide long-term solutions to the country's economic problems. “But it enables us, for now, to avoid opening a debt procedure, as long as the negotiated measures are fully applied” (Tondo, Giuffrida, 2018).

The confrontation between the EU and Italy shows the economic risks that populism may bring. Getting the budget right is crucial to Italy as it can improve investor sentiments towards Italy and reduce government and business borrowing costs. The budget is also of great importance to the EU because Italy is the third-largest economy in the Eurozone and its possible economic collapse or need for financial aid would damage the confidence of investors on the entire Eurozone and its economic and political stability.

After Matteo Salvini failed the election, which he himself demanded in attempt to kick the M5S out, the anti-establishment M5S chose to form a new government with centre-left Democratic Party, which may remark that Italy turns back to more moderate, EU-friendly economic and migration policies. However, so far the new coalition is also unable to tighten fiscal policy.

Populism and protectionism

The protectionist trade policy of political parties is unrealistic under the constraints of the Single Market competition rules in the European Union. Therefore, for the illustration of the implementation of the protective economic mechanism as consequences of populism, the United States can serve as a good example.

Only days after the inauguration, in January 2017, President Trump signed a memorandum on the US withdrawal from the unratified Trans-Pacific Partnership Agreement (TPP), which is one of the most ambitious free trade agreements. Despite the huge potential market, which the TPP may provide, the TPP is also a strategic arrangement to exclude China and thus secure preferential access to the regional markets for US companies over Chinese firms (The Straits Times, 2017). Many analysts criticised this decision as the US could lose access to potential new markets without bringing back manufacturing and low-skill jobs. Ian Bremmer, president of the Eurasia group, warned that “killing TPP really undermines the United States in the eyes of Asian allies”, while Republican Senator John McCain described this as a “serious mistake that will have lasting consequences for America’s economy and our strategic position in the Asia-Pacific region.” He said the decision will “forfeit the opportunity to promote American exports, reduce trade barriers, open new markets, and protect American invention and innovation” (The Straits Times, 2017).

Similarly, talks on the US-EU Transatlantic Trade and Investment Partnership (TTIP) have also been stalled, despite TTIP had already gone through three-year negotiation since 2013 and was almost ready to sign. The deal was expected to be the biggest bilateral free trade agreement in history, which aimed at boosting jobs and facilitate trade between two largest economies (Hall, Cossar et al., 2019). Although there are many sceptical voices against TTIP, particularly from the EU left-wing protesters saying that TTIP would lower EU's environmental, health and safety standards to American levels (Keating, 2018), the officials of two sides were positive towards the agreement. On one side, TTIP is going to “help unlock opportunity for American families, workers, businesses, farmers and ranchers through increased access to European markets for Made-in-America goods and services. This will help to promote U.S. international competitiveness, jobs and growth” (White House, Transatlantic Trade and Investment Partnership (T-TIP)). On the other side, TTIP means more economic opportunity, a stronger voice in the world and a closer alliance with the US on economic and regulatory issues to the EU (European Commission, 2016).

Except withdrawing or halting multilateral trade agreements, president Trump has imposed tariffs on imported products from other countries, including its close strategic partners. In March 2018, he imposed tariffs of 25% and 10% on steel and aluminium imports, separately, despite widespread opposition in Congress, and breaking IMF tariff commitments by arguing that foreign countries' current trade practices with the United States are a threat to national security (Korteweg, 2016). According to a study by the Peterson Institute for International Economics, Trump's steel tariffs had brought benefits with large costs. The tariffs have raised the price of steel products by 8.9%, which has delivered a cost rise of about \$5.6 billion to steel users, at the same time, the tariff created 8,700 jobs in the steel industry, which cost steel users an extra \$650,000 for each job created (Hufbauer, Jung, 2018). The steel and aluminium tariffs result in global trade losses of 14.2 billion USD per year, including 2.6 billion USD for the EU (Bown, 2018).

A study released in November 2018 by the Policy Department for External Relations of European Parliament, provides some scenarios of EU-US trade relations – EU can stand up to the Administration's “bullying” or can take advantage of America's need for a “rebalancing” to build its own stature by taking simple steps to improve EU-U.S. trade. But the report also pointed out that, no matter in which scenario, the bilateral trading relationship – and indeed the global trading order – will have worsened (Chase et al., 2018).

The US-China Trade War and tariff hikes will leave lasting influence on the international trade. Although the US and China have held several rounds of trade talks, the fundamental conflict between two countries is hard to solve in a short run – some pointed out that the US and China can never agree on intellectual property, technology transfer and China's high-tech industrial aspirations (Vaswani, 2019).

In their paper “Who is Paying for the Trade War with China?”, the authors came to a conclusion that tariff burden falls not on American consumers or firms, but on Chinese exporters. Due to the strategic plan of levying import duties on goods with high elasticities, Chinese firms pay around 75% of the tariff and exports of affected goods to decrease by around 37%, which narrows trade deficit of US with China by 17%. Furthermore, the tariff revenues amount to \$22.5 billion, out of which \$18.9 billion are to be paid by Chinese firms, which implies \$18.4 billion net welfare gains for US consumers (Zoller-Rydzek, Felbermayr, 2018). But according to another research by economists at Princeton, Columbia, and the Federal Reserve Bank of New York, the tariff falls on domestic consumers, with a reduction in U.S. real income of \$1.4 billion per month by the end of 2018. During 2018, “the U.S. experienced substantial increases in the prices of intermediates and final goods, dramatic changes to its supply-chain network, reductions in availability of imported varieties, and complete passthrough of the tariffs into domestic prices of imported goods” (Amiti, Redding et al. 2019).

The report of Goldman Sachs also states that the burden of tariffs, which was imposed by President Trump, has fallen “entirely” on American businesses and households, with a greater impact on consumer prices than previously expected. At the same time, Chinese exporters have not lowered their prices to better compete in the US market (Newburger, 2019).

We have to acknowledge that the US-China trade war has impeded the economic situation in both countries and worsened the incomes of different interest groups, including consumers, farmers and manufacturers.

Conclusion

The radicalization is on the rapid rise in the EU and around the world as people, having suffered from uncontrolled migration and severe consequences of economic crisis – sluggish recovery, unemployment and inequality – are frustrated and eager to change the status-quo. The antagonism between “the people” and “the elite” spreads mostly among frustrated low-income or unemployed persons who are ready to protest against the establishment in all possible ways.

This trend can be clearly seen in the political landscape across the EU as populist parties are gaining increasing popularity in many member states. On one hand, voters driven by dissatisfaction rooted in a mixture of the consequences of economic recession, fear of immigrants’ flows, and high disparity between “rich” and “poor” tend to choose non-mainstream political parties in hope of changing the status-quo. On the other hand, seeing the domestic demands, the non-mainstream parties (many of them are populist and EU-sceptical), which promise immediate welfare based on non-realistic commitments such as tax cuts, high salaries and pensions, early retirement, employment booms, etc., gain more weight in the national political systems.

One of the research findings is that populism can bring high risks to the national economy. First, the populist parties are hostile to the immigrants, who can play an essential role in boosting economic growth. In addition, the anti-immigration policies have negative impact on the nations’ state of mind (xenophobia, hatred, etc.). Second, many elected parties are EU-sceptical, they put the economic benefits of the membership in the EU and Eurozone in question and even advocate the advantages of leaving the EU or Eurozone following “Brexit” case. Third, in order to meet the voters’ demand and expectations, populist parties promise broad economic and social benefits based on expansionary fiscal policy and protectionism (cases of Greece and Italy). However, when these parties come to power, usually they have no capacity to fully deliver on their commitments. Unfortunately, some unrealistic or high-risk pledges end up in increasing the vulnerability of national economy and the economy of the EU, in particular Eurozone.

The protectionist trade policy is unrealistic under the constraints of the Single Market competition rules in the European Union. Therefore, for illustration of the implementation of the protective economic mechanism as consequences of radicalisation and populism we have selected the United States. The current economic policy of President Trump administration can serve as a typical example of protectionism with its negative impact on the national and global economy.

All examples illustrate the inherent vulnerability of populist parties in delivering their commitments, which inevitably leads to disappointment of their supporters. Therefore, populist parties often are short-aged and disappear once their supporters realize that the perceptions, which they provide, are fantasy. However, the people in the EU and worldwide still need to be alert about the potential economic risks that populism and radicalization may bring about.

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