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The Age of Rage

What populism means for markets

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Summary

- There are widespread concerns over threats to the liberal world order: these are well placed
- Yet there are no firm policy solutions even as a new recession threat looms
- Central banks are ready to step in – but only make matters worse
- Ultimately, the struggle is between liberal globalism and illiberal nationalism
- Threats to the liberal world order from China and Russia are also clear; again with no answer
- Markets need to accept that local and international populism is not a blip: it is here to stay
- As such, risks are increasing of true paradigm shifts markets are still not able to price for

Rage Against the Machine

World Politics Review openly argued in January 2019: “*The Liberal World Order is Dying: What Comes Next?*”; and the annual Freedom House report says 2018 was “*...the 13th consecutive year of decline in global freedom...the pattern is consistent and ominous. Democracy is in retreat.*”

We are undeniably seeing **rising political populism** in Western democracies. We are also seeing **political polarization and intolerance**, with regular charges of ‘fake news’ and ‘hate speech’. There are also **rising geopolitical tensions** on many fronts. In short, in multiple dimensions we seem to be living in ‘The Age of Rage’.

Populism, polarization, and geopolitics are all *controversial* topics; they are *complex*; and they are arguably **correlated**. Yet given the risks of the liberal world order “dying”, they are **crucial** for markets to understand. Tellingly, although 2016 fired the starting pistol for populism we have not yet steered into truly radical policy waters even if the *threats* of such are obvious. There is as yet no Hard Brexit, no global trade war, no Eurozone break-up, etc. But can we rest assured that these risks, and others, won’t come to pass? Understanding if we will see full-blown populism in the upcoming years, and if so in what form, should matter enormously for market-watchers. As such, this ‘thought piece’ special report will try to explain the following:

1. Why we are seeing populism, polarization, and political power struggles;
2. If they will fade or grow from here;
3. What form populism will take if so; and
4. What the market implications might be.

Necessarily, this will take us to some controversial places. Thought experiments like this are, however, an important tool to prepare yourself for growing uncertainties and tail risks ahead

The voice of 30 European intellectuals

The idea of Europe is in peril. From all sides there are criticisms, insults and desertions from the cause. "Enough of 'building Europe'!" is the cry. Let's reconnect instead with our "national soul"! Let's rediscover our "lost identity"! This is the agenda shared by the populist forces washing over the continent. Never mind that abstractions such as "soul" and "identity" often exist only in the imagination of demagogues.

Europe is being attacked by false prophets who are drunk on resentment, and delirious at their opportunity to seize the limelight. It has been abandoned by the two great allies who in the previous century twice saved it from suicide; one across the Channel and the other across the Atlantic. The continent is vulnerable to the increasingly brazen meddling by the occupant of the Kremlin. Europe as an idea is falling apart before our eyes.

This is the noxious climate in which Europe's parliamentary elections will take place in May. Unless something changes; unless something comes along to turn back the rising, swelling, insistent tide; unless a new spirit of resistance emerges, **these elections promise to be the most calamitous that we have known. They will give a victory to the wreckers.** For those who still believe in the legacy of Erasmus, Dante, Goethe and Comenius there will be only ignominious defeat. A politics of disdain for intelligence and culture will have triumphed. There will be explosions of xenophobia and antisemitism. Disaster will have befallen us.

We, the undersigned, are among those who refuse to resign themselves to this looming catastrophe. We count ourselves among the European patriots (a group more numerous than is commonly thought, but that is often too quiet and too resigned), who understand what is at stake here. Three-quarters of a century after the defeat of fascism and 30 years after the fall of the Berlin Wall there is a new battle for civilisation.

Our faith is in the great idea that we inherited, which we believe to have been the one force powerful enough to lift Europe's peoples above themselves and their warring past. We believe it remains the one force today virtuous enough to ward off the new signs of totalitarianism that drag in their wake the old miseries of the dark ages. What is at stake forbids us from giving up.

Hence this invitation to join in a new surge. Hence this appeal to action on the eve of an election that we refuse to abandon to the gravediggers of the European idea. Hence this exhortation to carry once more the torch of a Europe that, despite its mistakes, its lapses, and its occasional acts of cowardice, remains a beacon for every free man and woman on the planet.

Our generation got it wrong. Like Garibaldi's followers in the 19th century, who repeated, like a mantra, "Italia se farà da sè" (Italy will make herself by herself), we believed that the continent would come together on its own, without our needing to fight for it, or to work for it. This, we told ourselves, was "the direction of history". We must make a clean break with that old conviction. We don't have a choice. **We must now fight for the idea of Europe or see it perish beneath the waves of populism.** The EU's core values are under attack as never before. It must defend them.

In response to the nationalist and identitarian onslaught, we must rediscover the spirit of activism or accept that resentment and hatred will surround and submerge us. Urgently, we need to sound the alarm against these arsonists of soul and spirit who, from Paris to Rome, with stops along the way in Barcelona, Budapest, Dresden, Vienna and Warsaw, want to make a bonfire of our freedoms.

In this strange defeat of "Europe" that looms on the horizon; this new crisis of the European conscience that promises to tear down everything that made our societies great, honourable, and prosperous, **there is a challenge greater than any since the 1930s: a challenge to liberal democracy and its values.**

Whose populism?

The preceding public manifesto written in January by 30 leading European public intellectuals is a rebuttal to those who might be questioning if a focus on populism is really warranted by financial markets. Even allowing for hyperbole, **talk of the 1930s suggests we should be looking at the issue in terms of its potential tail-risks**. Of course, Europe is a key pillar of a liberal world order also under a broader threat from rising populism. On this basis it is clearly worth looking at this Age of Rage rather than dismissing it as background noise that will soon pass.

Logically, we should begin by defining populism. This is actually harder than it looks, which is an instructive part of our present problems as will be shown later. On one level, however, it is easy as the dictionary defines it as follows:

Populism

/ˈpɒpjʊlɪz(ə)m/ noun

A political approach that strives to appeal to ordinary people who feel that their concerns are disregarded by established elite groups.

Of course, that then immediately means that we need to define another term: “*established elite groups*”. Who are they? The answers to that question tell us as much about the minds of particular types of populists: whether the elites they object to actually exist is open to question.

Yet let’s consider who gets to define populists as being “populist”. The answer is clear: the before-mentioned **liberal world order** that is under threat and its economic policy consensus consisting of the following key pillars:

- Free markets domestically;
- Free trade internationally;
- Free movement of people;
- Prudent fiscal policy;
- Independent central-bank monetary policy aimed at controlling inflation;
- International institutions such as the IMF, World Bank, WTO, and UN; and
- Liberal democracy

We therefore take populism as being opposed to some or all of the above policies, which would certainly seem to be the consensus understanding of the issue from *both* sides of the argument.

Nonetheless, there are still many different political philosophies that would fall into the “populist” category. For example, one can say that a communist and a fascist are both opposed to the liberal world order. Yet so is an anarchist; so is a localist; so is a nationalist; so is a socialist; and so is a libertarian. Populism is strangely therefore inchoate and multifaceted, but also fixed in being anything that is NOT in line with the liberal world order. However, as we will show, this does not mean that populism is not rapidly coalescing into something more concrete, and therefore more potentially even more threatening.

Having then established what populism is --or rather what it isn’t(!)-- we now need to ask why it is rising. On that front, instead of asking “Why populism?” it might be more instructive to ask “Why not?”

After all, **the economic roots of populism are clear from history.**

Why populism?

In 1929, the liberal world order looked stable. It then suffered the Wall Street Crash, the Great Depression, the collapse of the global trading and monetary architecture, and then wild political extremism leading to the horrors of WW2. The cause and effect was clear, as shown here:



In 2008-09 the global economy again experienced a shock on par with 1929. A decade of lopsided recovery later, the liberal world order again looks unstable: the US is populist; the UK is flirting with Hard Brexit; 25% of EU voters backed populist parties in 2018, with 170m EU citizens living in a country with at least one populist in government vs. 13m back in 1998; Turkey is populist; Mexico is populist; and Brazil is too. So is history repeating itself?

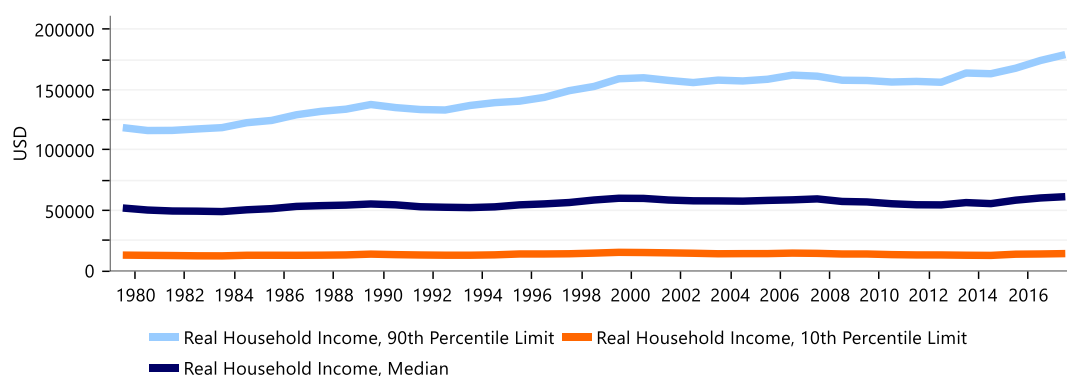
Of course, it would be facile to compare the economic suffering of the 1930s with what was experienced in 2008-09 and subsequently. At present unemployment in many Western economies is at a record low; asset prices are at or are close to record highs; and interest rates are still either close to or at record lows. Moreover, we have welfare states to ensure that we never again experience hardships like the 1930s – for exactly the reason history shows us. Globalisation has also lifted hundreds of millions out of poverty, and created untold wealth and new technology.

Nonetheless, **we still have populism** – and if one scratches beneath the surface it is not a surprise why: **we have an echo of the 1930's today politically because we have echoes of that era's problems socio-economically.**

While Western unemployment is low, the quality of employment is often poor, and/or insecurity is pervasive – (“Will my job/industry be around in five years?”). That matters hugely. At the same time, Western median real wages have stagnated for years, and in the case of US men, for decades. On top of that, austerity in many economies has seen welfare pared back, and public services are often straining at the seams. Moreover, low interest rates punish prudent savers, while high house prices mean that homes are unaffordable for many, leaving them frustrated and without assets as others gain wealth effortlessly. Large-scale immigration is then added on top of that combustible mixture, bringing rapid social change in many places and increased job competition. (Another historical echo: Hannah Arendt argued “stateless persons” --similar to today's refugees-- accounted for 10% of the French population prior to WW2, for example). “

There is now institutional recognition that such a state of affairs is dangerous and unsustainable.

Figure 1: Not an 80's retro US citizens will vote for



Source: Macrobond

The World Inequality Report 2018 states: *“Economic inequality is widespread and to some extent inevitable. It is our belief, however, that if rising inequality is not properly monitored and addressed, it can lead to various sorts of political, economic, and social catastrophes.”* President Macron of France --holding a round of “town-hall” meetings to try to get back in touch with his frustrated citizens-- has admitted that there has been a *“clear breakdown in equality”* between the poor banlieues and wealthy suburbs, and that the state must now *“guarantee social justice”*. And Fed Chair Powell has stated that inequality is the largest challenge that the US will face over the next decade, adding *“We want prosperity to be widely shared. We need policies to make that happen,” and that on declining social mobility: That's not our self-image as a country, nor is it where we want to be”*.

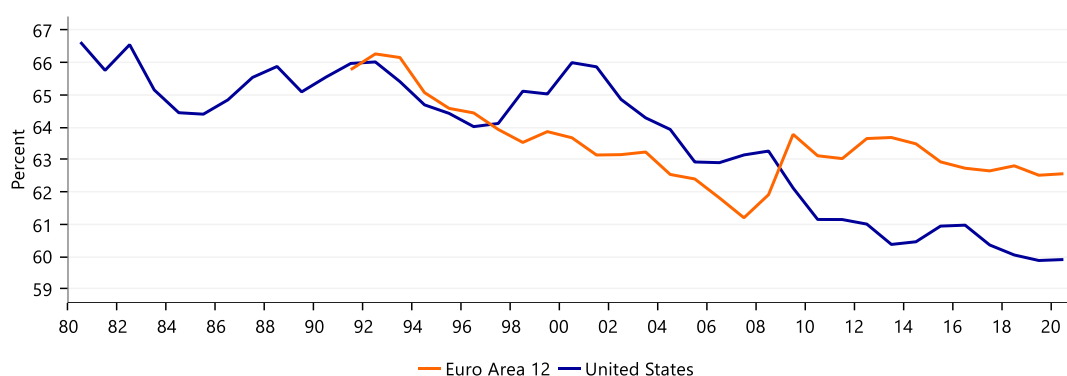
The 2019 World Economic Forum was also aware of this worrying threat to the globalisation they have championed. Ahead of this year’s meeting its Executive Chairman Klaus Schwab argued in a personal manifesto:

“We need a new framework for global cooperation in order to preserve peace and accelerate sustainable progress. After the Second World War, leaders from across the globe came together to design a new set of institutional structures to enable the post-war world to collaborate towards building a shared future. The world has changed, and as a matter of urgency, we must undertake this process again.

This time, however, the change is not merely geopolitical, nor economic. Rather, we are experiencing a change to the very fabric of how individuals and society relate to one another and to the world at large. We are living in the age of the 4th Industrial Revolution (4IR). Economies, businesses, societies, and politics are not just changing – they are fundamentally transforming.

*Reforming our existing processes and institutions will not be enough. Rather, we need to redesign them to anticipate the forces of change and shape strategies that leverage the abundance of new opportunities, while avoiding the great risks inherent in such disruptive periods. **If we wait, or just apply a “quick fix” to repair the deficiencies of outdated systems, the forces of change will naturally develop their own momentum and rules, and thus limit our ability to shape a positive trajectory and outcome.”***

Figure 2: “You’ve never had it so good” – workers share of national income



Source: Macrobond

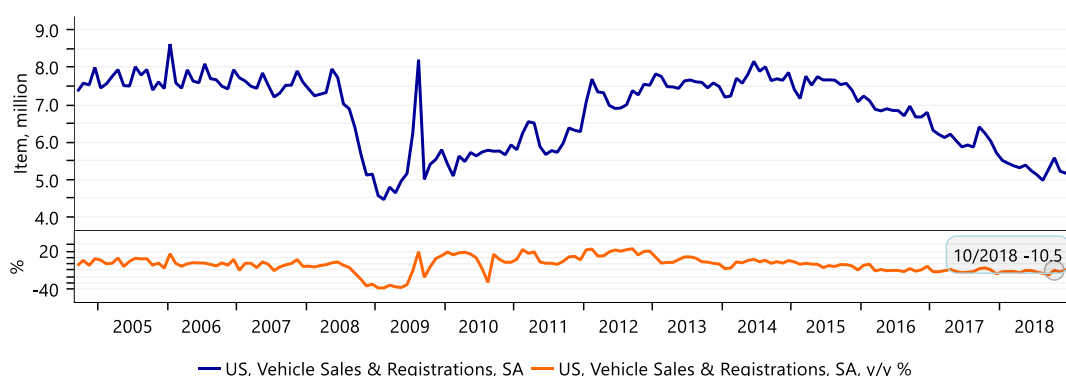
The need for action was immediate as in Schwab’s view *“Manufacturing will be revolutionized by automation, localization, and customization, replacing traditional supply chains. Employment and income patterns will be transformed as large parts of employment are substituted by intelligent automation. Traditional labour income will be extensively replaced by accrued returns from creative tasks, venture capital, and first-mover advantage...[with] government policies continuously lagging behind.”*

In other words, **Schwab is expecting massive future unemployment and downwards pressure on wages due to Artificial Intelligence and automation**, while “creative” workers and venture capitalists will be rewarded as governments fail to act in time. Given where populism *already* is today, that smells strongly like a recipe for something closer to the 1930s ahead.

Indeed, we should not take these threats of social catastrophe lightly. History shows that liberal world orders are more fragile than they look. The 1929 version swept aside in the 1930s and by WW2 was itself the second iteration of international liberalism, with the first UK-centric version having been crushed by the protectionism, imperialism, and then militarism that ended up in WW1 (an historical and structural theme we explored in detail back in April 2016’s [Thinnest Ice](#)).

As economic historian Adam Tooze underlines, [our current liberal world order is only 25 years old rather than dating back to 1945 as imagined](#): after WW2, the Cold War sealed much of the global economy off from any form of liberalism; it was the collapse of the post-1945 Bretton Woods system in 1971 that led to our current USD-based system; and it was only with the fall of the Berlin Wall that our new era of globalisation truly began. Indeed, the WTO was born as recently as 1995; inflation targeting for the Bank of England only began in 1997; and the Euro is only 20 years old. As such, institutions that look like they have always been with us are new and ‘how we do things’ is also new, while a less globalised world economy has far deeper roots.

Figure 3: Is there much fuel left in the tank?



Source: Macrobond

Moreover, **if populism is the backdrop to a global recovery, how will populations react when we experience the next global recession?**

[Rabobank now sees a 69% chance of a US recession in 2020](#), while Europe may already close to technical recession. Furthermore, [the IMF warns of a looming global economic storm for which we are unprepared](#).

The threat of a major Chinese currency devaluation is also a potential breaking-point for the global system analogous to the UK’s exit from the gold standard in 1931. It was the refusal of Germany to follow the UK’s devaluation that saw it embrace “pro-competitive” wage deflation, leading to the rise of the Nazi party: how would the US or Europe, or any other economy cope with a Chinese currency suddenly 20, 30, or 40% lower than today? Even if the US were to instead force China into a Japan-style Plaza Accord as part of a trade deal, how would a debt-laden, slowing Chinese economy cope with a currency that is 20% *stronger*? (Indeed, there is emerging evidence that China itself is already stuck in a ‘new normal’ of slowing growth.)

Deflation and populism looms either way for somebody.

What is *not* to be done?

So should markets be pricing for continuity of the liberal world order, or for the disruptive change of a “populist” backlash ahead? Logically, that in turn depends on what the liberal world order is suggesting we can *do* about our problems in concrete terms that will provide solutions to frustrated voters within an acceptable timetable. WEF Executive Chair Schwab concludes that world governments have three basic policy options:

- **Protect those who have been left behind** from the transformative change of the 4IR, thereby gaining short-term political advantage, but ultimately setting the stage for the erosion of competitiveness – that’s populism by any other name;
- **Follow a laissez-faire policy**, which “requires the business community to be ready and able to serve as a strong catalyst and mover” – but which means more of the same policy mix as we have now, and which is already driving populism; or
- **Mobilize all forces to fully embrace the 4IR** and “achieve a leadership position, recognizing that the principle of the future global economy will no longer reflect Adam Smith’s division of comparative advantages, but rather a world characterized by a complex interplay between platforms and systems that cross national boundaries”. Schwab says this means a global dialogue on creating “a new framework of rules and institutions which integrates all aspects of economic cooperation, including intellectual property, movement of people, competition policies, data protection, exchange rates, fiscal policies, state-owned enterprises, and national security, as well as on technology policy...this also calls for shifting away from producing and consuming and moving towards caring and sharing.” *This sounds like some kind of as-yet-unspecified utopia.*

What does that actually mean for voters today? Surely to them the options as presented are: **the lure of the easy answers of populism; more of the same; or a vision with no details calling for revolutionary change.** Which one would readers suggest will sell best ahead? Yet perhaps that’s too simple a question so let’s try to frame it another way.

We obviously have a global economy and yet we have no global government to redistribute between winners and losers. **Logically, we either move towards a global government, or we move away from a global economy.**

To do the former is to describe *a global struggle of liberal technocracy vs. more populism* – exactly as mentioned in the manifesto written by the 30 European intellectuals.

Yet how can this new utopia be achieved globally? It necessarily requires new over-arching international economic and political bodies at a time when our *existing* architecture is under serious pressure. Even within the culturally, economically, and politically similar Eurozone there are still enormous difficulties addressing structural weaknesses. How would an “EU model” work between the US and China, or the EU and Russia, for example? Whose rules do we follow? Who will cede advantage to whom?

For markets, the answer might then seem obvious: price for populism ahead.

Yet there are obviously policy levers to be pulled apart from hoping for utopia: could they not ensure we see continuity and not change? As Lenin asked before destroying the Russian imperial order: ‘*What is to be done?*’ – what economic policy tools are available and acceptable to our liberal world order that can address the disruption and inequality which is driving such dangerous populism?

The tool-kit with no tools

The worrying answer is apparently: **none**.

Not state spending. The IMF and EU policy consensus is still that austerity is prized due to fears over public debt levels. All major global liberal bodies supported austerity as a response to the 2008-09 crisis despite this always promising a repeat of the Weimar Brüning deflation (he was called “the hunger Chancellor”) that led to the rise of the Nazis; Tunisia, the only good-news story from the 2008 Arab Spring, has been set such tough austerity targets by the IMF that it is once again **close to major social unrest**; and at the same 2019 town-hall meeting where President Macron spoke of a “*clear breakdown in equality*” he also underlined public spending needs to fall.

Not taxation, or at least *not taxation of the rich*. There was laughter at the WEF when billionaire Michael Dell was asked if he supported a proposed 70% tax rate for incomes over USD10m. He questioned where such a policy has ever worked - another panellist had to point out that the answer was the US in its golden growth years after WW2. Dutch historian Rutger Bregman argued elsewhere at the WEF that the key issue was “*Taxes, taxes, taxes, and all the rest is b*****t in my opinion...Nobody raises the issue of tax avoidance and the rich not paying their share. It is like going to a firefighters’ conference and not talking about water.*”

Not tariffs, as trade must flow unimpeded according to most experts. There is nothing but withering criticism over US President Trump’s protectionism from the liberal world order.

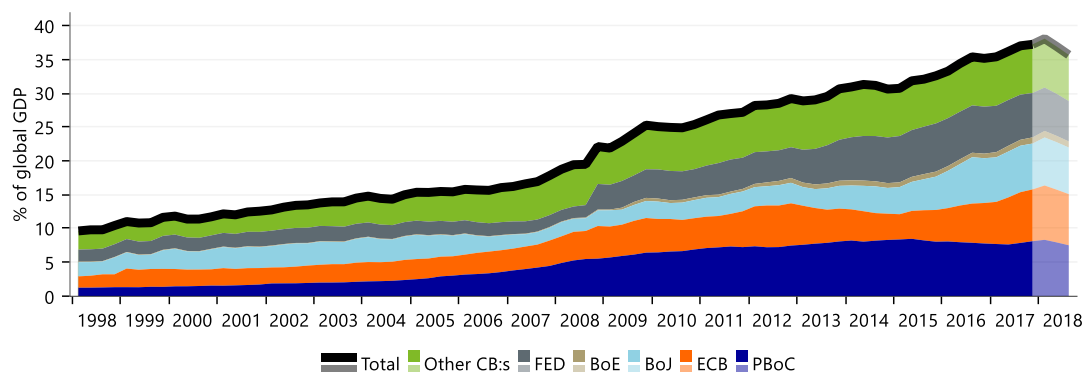
Not immigration controls. Indeed, the main argument is that immigration fills skills gaps and boost GDP, while locals often don’t want to do the job hard-working immigrants will. That is completely true - but not stressed is that this movement of people is a dead loss for the country who loses people; nor that extra labour supply can push wages downwards and hence while GDP goes up, GDP *per capita* does not (i.e., wages flat and profits up).

As Developmental Economist Branko Milanovic tweeted in January:

*“Neoliberals and the centre-right have now agreed that something has to be done to reduce inequality of wealth and income. But whenever there is *any* proposal, they are against it, I conclude they are in favour of inequality reduction by magic.”*

So what does our liberal world order say *can* be done in terms of policy? **The one thing not ruled out is central-bank activism.**

Figure 4: The Game-Players of Titan – central bank balance sheets



Sources: Macrobond, IMF (WEO)

Through the massive expansion of their balance sheets via Quantitative Easing (QE), leading central banks have also massively expanded their role in the economy and markets – **and there appears no sign that this policy is about to stop. Quite the reverse.**

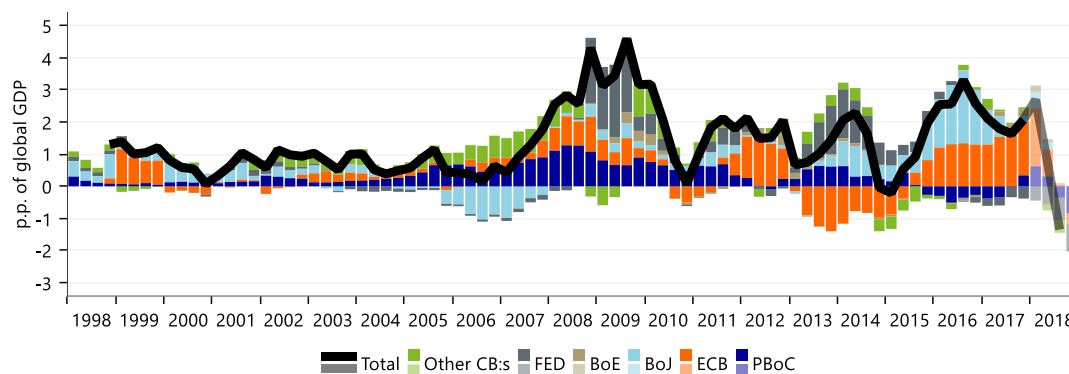
When share prices in the US swung into a bear market at the tail end of 2018 the US Federal Reserve, which had been so hawkish, suddenly became very patient and dovish. Both the US FOMC and the ECB made clear in January that we could see a *further expansion of QE* if needed: this just after the Fed attempted to start to normalise its balance sheet, and the ECB halted its own QE.

Specifically, *the San Francisco Fed is now debating if QE should be used as a normal monetary policy tool, and not just in an emergency* (and the same regional Fed has also argued that *in an emergency negative rates would be needed in the US too.*) US Democratic politicians have also recently floated the idea of the Fed helping to pay for massive fiscal expansion to pay for a Green New Deal, as will be shown shortly.

Meanwhile, over in *China there are also discussions of when open, rather than covert, QE will be needed* to prop up their economy; PBOC daily liquidity injections of up to USD86bn have sometimes exceeded what US QE did in a month at its peak of USD80bn, and in an economy still only 60% of the size of the US; and the PBOC is already set to buy perpetual bonds issued by Chinese state-owned banks, effectively using QE to recapitalise them.

Furthermore, the BOJ, who most other major central banks seem to be following in the footsteps of, continues to press ahead with its own massive QQE scheme that has seen it swallow up around 40% of the total –massive-- stock of JGBs, as well as become a leading passive investor in Japanese stocks via ETF purchases.

Figure 5: Wonder why markets hit a rocky road? No more central-bank ice-cream



Sources: Macrobond, IMF (WEO)

The road to hell is paved with....

Regrettably, however, **QE also does not reduce inequality but exacerbates it** by pushing up asset prices not wages. That is so well established by a significant body of evidence that we will not discuss it here: *it might be inadvertent, but QE makes socio-economic matters worse by helping some in society greatly and not others to at all*. Yet central banks obviously do not subscribe to this clearly-observable view, instead believing that “trickle-down” economics means everyone benefits. “Higher stock prices will boost consumer wealth and help increase confidence, which can also spur spending,” as former Fed Chair Bernanke put it.

More bizarrely, **the ECB just argued its QE has actually reduced inequality(!)** in the four largest Eurozone economies by cutting unemployment and lowering the cost of borrowing. Of course, this is a ludicrous claim on multiple fronts. Specifically, the rebuttal is that:

- Four economies are not the whole of the Eurozone;
- The ECB can't prove it was responsible for the “seven million jobs that have been created” in the Eurozone – how did asset purchases do that?
- That's in fact an incredibly dangerous over-reach: will it be equally responsible for millions of job losses if interest rates ever increase/QE is reversed?;
- Those seven million jobs created are mainly low, not high wage, and hence still mean inequality;
- Borrowing more, even cheaply, does not reduce inequality in any way, it just increases debt;
- Large corporations have arguably benefitted far more from negative interest rates and QE than households ever could have; and
- A surge in German house prices, for example, and also in *rents*, has created a growing gap between those who own homes and those who don't – that's again the very definition of inequality.

Interestingly, the reaction on Twitter to the ECB's self-publicity was entirely negative. Dozens of replies from across the EU angrily pointed out what is written above: so the ECB claiming that QE reduces inequality ironically only created the kind of anger associated with populism!

Worse, **by arguing that QE reduces inequality the ECB has also opened the door to an even broader expansion of extraordinary monetary policy ahead**. After all, if inequality is a social evil that must be fought, and if QE works to win that battle, why are we not doing *more* of it? What possible political argument can one make against doing yet more QE on that basis? And yet the more QE that is done as it is now, the higher that asset prices will rise, the more inequality will be created – and hence the more populism will be created. It threatens a vicious circle.

Moreover, at some point in the future, for example after a populist election victory and/or in a serious economic recession, what is to stop populists calling for a *massive* expansion of QE to fight inequality even more aggressively? There would be no liberal world order intellectual defence available other than “*It is OK when we do it, but not when you do it*” – and that double-standard would only accelerate angry populism too. Those political conversations are already starting to be had in public around the proposed US Green New Deal, for example.

Back in December Bloomberg already argued that **central bank independence is under threat**, and while this has already been seen in Turkey and India, and the PBOC is an arm of the Chinese Communist Party, the question is how long until the same is true in a developed economy. US President Trump has leaned on the Fed in public – and it has now agreed with his view on pausing rate hikes; New Zealand has changed the RBNZ's mandate to focus on unemployment and inflation; the BOE has been dragged into the Brexit debate in the UK with as-yet unforeseen consequences; and Italian Deputy Prime Ministers Salvini and Di Maio have both **attacked the Bank of Italy** and may confiscate its gold reserves.

In short, QE *as is* created populism. More QE *as is* will create more populism. And a radical expansion of QE into the fiscal space *is* populist!

You pay peanuts, you get...

Of course, the ECB is right that almost everyone is getting *something* from this recovery, and the traditional economic argument is that it doesn't matter if someone else gains USD1bn so long as I gain USD100: hence no reason to fear populism. However, **that economic viewpoint is refuted by the psychological evidence.**

Experiments across 16 countries suggest inequality is actually preferable to perfect equality to most people, but **the ratio of wealth/income differentials matters greatly: more than 3:1 generates resentment.** Problematically, it's hard to become much richer than your fellow villagers in an agrarian economy but one can become a billionaire by starting a social media platform at university today. How do we address that kind of wealth gap?

One can argue we don't need to, but with rising wealth comes rising power that can slant the playing field: as Thucydides noted, "*The quality of justice depends on the equality of power to compel.*" Classical economics preoccupied itself deeply with unjust, unearned 'Economic Rent' but modern economics hardly considers it at all. Neither do global regulators: it's rare that a firm is broken up to boost competitiveness, or that a firm is not allowed to swallow up its rivals (Alstom-Siemens being a recent counter-example, and one that France claims makes Europe unable to stand up to China: more on that later on.) Indeed, **critics argue growing corporate concentration has seen us devolve into an uncompetitive 'crony capitalism.**

That matters more than you might think. Crucially, **psychological experiments also show people want to see wealth/income as generated fairly.** This seems to be an inherent human value: all major religions speak at length about inequality and injustice. And consider **experiments on pairs of Capuchin monkeys.** *If both are given cucumber as a treat, they are both happy. However, if one monkey is randomly switched to a sweeter grape, the one left with cucumber will grow furious at the inequality and unfairness, throwing the cucumber away rather than eating it.*

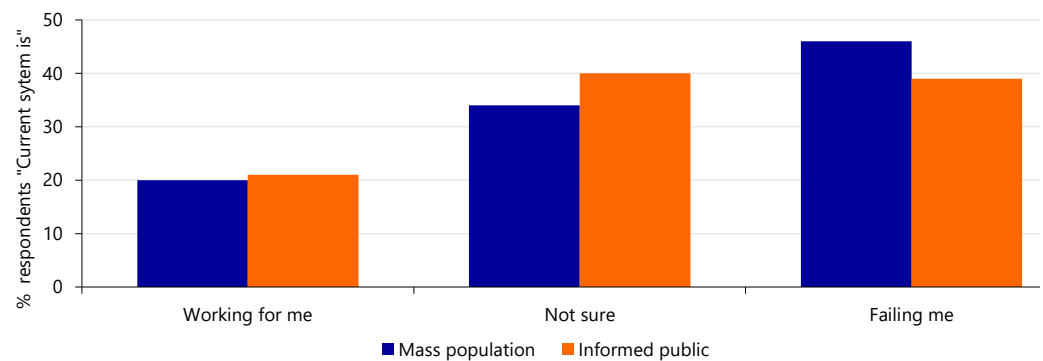
In short, an economic system needs to be seen as relatively equitable and fair to survive, at least in terms of opportunity: is our liberal world order seen that way?

Worryingly, the 2019 Edelman Trust Barometer shows that confidence in the liberal order has seen a collapse. This survey is based on 33,000 interviews across various countries and splits subjects into the "informed" and "mass" public, 16% and 84% of the total sample respectively, with the former group aged 15-64, university-educated, and in the upper 25% of household income earners. The results show a 16-point trust gap towards the establishment between the informed public and the far-more-sceptical mass population, marking a return to record highs of trust inequality, and driven by a pronounced *rise* in trust among the informed public and a *collapse* in trust among the mass public. That result fits 'nicely' with what we already see in Remain vs. Leave in Brexit; 'The Resistance' vs. Trump in the US; and Red Scarves vs. Yellow Vests in France, etc.

Despite disagreeing on everything else, the global public are united by one thing: only one in five feels the system is working for them, and nearly half of the mass population believing that the system is failing them. Moreover, the informed and mass public are also united by urgent desire for change: 74% and 72% feel a sense of "injustice", while 76% and 70% believe change is needed. Concurrently, there is a growing move toward engagement and action. In the 2019 survey, engagement with the news surged by 22 points; 40% of respondents not only consume news once a week or more, but they also routinely amplify it by sharing it. **That sounds a lot like the ingredients for further populism.**

Moreover, people are encountering roadblocks in their quest for facts, with 73% worried about fake news being used as a weapon. That leads us on to another driver of populism: technology and the media.

Figure 6: Lots of workers, but the liberal world order is only working for 1 in 5



Source: Edelman Trust Barometer, 2019

Anti-Social Media

As the ECB just found out, the frustrations that are being experienced by the malcontents of globalisation now find a very public channel through social media.

Indeed, **the internet has become a hotbed of populism**. Firstly, it gives a public platform to *all* spectrums of political opinion, including many voices that would never appear in the traditional media or on the streets. It allows communities of like-minded thinkers to coalesce and organise: whereas it would once have been difficult and dangerous to find a group of far right or far left activists, now they are just a click away. Unquestionably people also feel far less inhibited on-line, allowing them to show far greater aggression and intolerance for others: terms like gas-lighting, doxing, and cyber-bullying all now in our vernacular. There are now increasing calls for censorship as a result: but who would do it and on what grounds? And isn't that idea itself antithetical to the tenets of the liberal world order?

Of course, **at the same time social media allows its users to simply switch off voices they don't agree with**, potentially leading them into an ideological echo chamber and polarising society. Moreover, the algorithms deliberately built into social media are set up to show us more of what we like. If you click on a video about immigration, for example, further similar suggestions will be made. Within a few clicks one can move from a mainstream debate on the subject to a worrying far-right view, and sometimes a viewer does not even notice the transition. However, studies of that effect suggest that the evidence does not fully support the most worrying of assumptions (see [here](#) and [here](#) – though if this is not the case then it suggests that the destabilising impact of the other factors we have already discussed are even larger.)

There are also **growing concerns over "Fake News"** and the use of social media platforms by some countries to influence political opinions and even election results, most strongly from voices who feel that the liberal world order is under threat. Again, this is not yet confirmed either and [some evidence argues to the contrary](#) – though social media giants are already undertaking censorship efforts to try to control this alleged threat, fuelling anger from those being silenced.

Meanwhile, and less often discussed, **social media companies are hugely disruptive of many business models, and traditional journalism is one of them** (on top of the death of local journalism due to corporate concentration). That is not a long-run positive if we care about who is analysing, writing, and disseminating the news. (That said, the same charge of ideological echo chamber levelled against social media can also be made of the traditional media, as they themselves had to admit after an unforeseen Brexit and Trump's 2016 presidential election victory.)

In short, **social media is potentially fuel on the populist flames already burning**. Yet that is arguably not the most pressing problem we face.

Quis custodiet ipsos custodes?

Meanwhile, **the liberal world order also faces huge pressures from its own guardians. Those who wish to retain the status quo appear increasingly radicalised as well.** In fact as populism gains in popularity it would be surprising if we did *not* see a mirroring radicalisation of the backbone of the liberal establishment who benefit from the current system.

Tellingly, political science tells us that when the middle-class feel threatened society tends to come under extreme pressure, more so than is the case when the poor experience economic pain. As [Brenda Seaver](#) stresses:

*"Traditionally, the middle class has been viewed as a force for economic growth, democratization, and political moderation because it has a material stake in a stable society, a prosperous economy, and effective institutions that protect its property rights. Although advanced industrial democracies developed these attributes over time, the behaviour of their middle classes during the long and rocky period of industrialization was hardly linear, democratic, or moderate. Indeed, **the middle class historically has embraced fascist regimes, populist demagogues, military dictatorships, and revolutions, as well as the violence associated with them.**"*

Thailand is an emerging markets that saw exactly this kind of bitter split in recent years, which the [Edelman Trust Barometer 2019](#) also suggests is now spreading globally: its finding that over 70% of both the mass and informed public are *equally* unhappy with the status quo points to economic frustrations with the liberal world order from the former **and** the frustrations with a subsequent *move away* from the very same liberal world order from the latter. Indeed, we are *already* hearing this kind of bitterly-divided rhetoric in the West:

If one follows social media one can hear clearly middle-class voices arguing that Brexit voters were too stupid to understand the implications of the referendum;

In the US there are passionate fringe(?) voices arguing that the constitution needs to be rewritten to [remove the electoral college](#), and/or [equal senatorial weightings for each state](#), and even [the powers of the Supreme Court](#), all of which are politically impossible to achieve and yet which imply a populist style disengagement with the democratic process and system as it stands today – if it gives the ‘wrong’ political answers in one’s view; and

In Europe there are after-a-few-drinks comments that if only there were no elections in places like Greece or Italy, or if the EU could run the place for them, then everything would be OK.

Again we return to the implied technocracy vs. democratic populism struggle laid out earlier. Central banks are one battle ground, but there are others. For example, even anti-corruption champions Transparency International have criticized the workings of the Eurogroup of Finance Ministers for their total and deliberate opacity: they ask **‘Who governs the Euro area?’**

That kind of technocratic double standard is not unnoticed by populists – it feeds it. It allows talk about the ‘will of the people’ vs. an unrepresentative or unelected “elite”, or “globalists” such as George Soros, and darker international conspiracies heard during the 1930s and again today.

Yet in turn one wonders how much further the liberal world order might go, with middle-class support, if it was ‘to save the economic system’? And also consider the research showing that [backing for democracy is declining in democracies, and the most so among the younger generations](#), who are split from their older fellow citizens in other key ways, as shall be shown ahead.

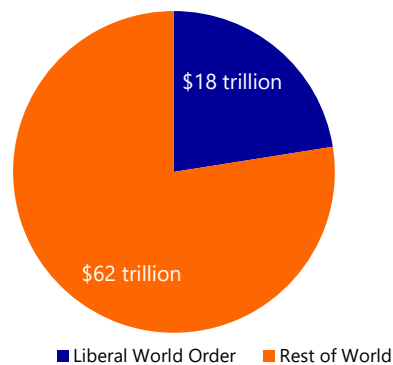
Hence is a key part of the liberal world order, *liberal democracy*, under threat from both populists, as Freedom House notes in the US, **but also from those who would guard against populist threats by any means necessary?**

Breadth vs. width

From a market perspective at this stage we should perhaps start to think about the issue of *breadth vs. depth of populism*. By breadth vs. depth we mean *the number of populist states vs. how radical* each of those populists prove to be.

Starting with breadth, we have already shown that 25% of EU citizens backed a populist party in 2018, and there are suggestions that the May EU Parliamentary elections could see this rise materially. Clearly, therefore, the *breadth* of populism will continue to increase in Europe at least and it seems unlikely that this will reverse in the next few years. Moreover, **the share of global GDP that now falls into the camp of the liberal world order has shrunk markedly.** In 2017 total world GDP was around USD80 trillion – yet only USD18 trillion was made up of economies that one could truly classify as being 100% committed to all elements of the liberal world order policy consensus. The loss of the US is notable, but consider that **Russia, China, India, Turkey, and Saudi Arabia are not exactly ‘liberal’** – a theme we shall return to in more detail shortly.

Figure 7: The Liberal World Minority, 2017 GDP



Sources: IMF, Rabobank

Then we turn to the *depth* of populism. **So far we have not seen populists truly begin to dismantle the liberal world order.** The *threat* is very much there on multiple fronts: Hard Brexit is all-too possible and cheer-led by some; Trump has threatened to start a full-blown trade war with more than just China, and to leave both the WTO and NATO; there are fears of Italy repeating the Brexit experience; and the West-East split within the EU continues to grow.

However, *so far no firm actions have been taken that could not be rapidly reversed* by a quick change of government. Partly that is due to the institutional safeguards built in to both individual countries and international institutions, and partly due to populists still fighting domestic battles for legitimacy/political power. Yet will that relative passivity remain the case?

That depends, but **populism seems to be a self-feeding dynamic: its *breadth* drives its *depth*.** For example, as long as France and Germany are not populist there is a limit to how far Poland or Hungary might test the EU's patience – but what if Paris or Berlin were to change direction? We are already seeing increasing collaboration between populists within the EU ahead of May's elections: and the Italian government has even reached out to France's Yellow Vests directly. Might others join this burgeoning "international league of nationalists?" to find confidence in numbers?

Likewise, the *depth* of populism can drive its *breadth*. For example, if the US pulls out of the WTO, would illiberal forces feel emboldened? And if Trump instigates a global trade war, wouldn't liberal countries react in kind on trade, spreading populism after it first deepens?

In short, as their breadth increases, **upcoming years may well see populists bite deep into the flesh of the liberal world order rather than just baring their teeth at it.**

What's Left?

As such, markets need to look more closely at *how* this populism is emerging politically. Following the 2008-09 crisis and rising inequality since one would assume Leftist populism would benefit. Indeed, surprising commentators are admitting that [a Marxist critique is more relevant than it has been for generations](#). However, **the Left has so far failed to gain: Why?**

Traditionally, the social-democratic Left favoured greater state control of the economy, larger fiscal deficits driven by state spending, and higher taxes on the rich. However, **after the end of the Cold War a large part of the Left adopted the liberal policy consensus**, embracing free markets, fiscal prudence, deregulation, free trade, and free movement. Indicative of how the Left changed, former Italian PM Renzi's Democratic Party, which tried and failed to introduce liberal world order reforms to the country, had its roots in the Italian *Communist* Party! Not surprisingly in the face of inequality, insecurity, and disruption the vote share for "champagne socialism" has collapsed.

Table 1: The champagne has gone very flat for these socialists

<i>Elections 2017-18</i>	<i>Party</i>	<i>Vote Share</i>
Germany	SPD	-5%
France	PS	-32%
Netherlands	PvdA	-19%
Italy	PD	-7%
Austria	SPÖ	0%
Hungary	MSZP	-14%

Source: National electoral records

The rump of the Left also underwent a transformation: instead of focusing on "class struggle" it shifted to fight for "Social Justice". This Progressive Left is still concerned with power hierarchies. However, rather than Marxist class and "ownership of the means of production" they focus on redistributing "power" from dominant to marginalized groups: that means from a "patriarchy" of white, straight, able-bodied men to women, racial and ethnic minorities, the LGBTIQ community, religious minorities, differently-abled people, and immigrants.

As such, the Progressive Left focuses on previously-taboo race, ethnicity, religion, gender, and ableness ("**Identity politics**") in order to ascertain the degree of unearned "privilege" or "oppression" every individual is experiencing as a yardstick to judge them by: some voices then need to be elevated, and others lowered, in order to achieve "social justice". One could argue that some of the Progressive Left is therefore a fusion of Marxist revolutionary zeal and the consumerist individualism which defeated it in the Cold War: "*Why aren't there more people exactly like me running the country/businesses/on TV/in movies/writing books, etc.?*"

There are obvious logical flaws with these laudable aims of inclusivity and diversity.

Critics note it assumes all seniority is a result of power and privilege, never talent - there is no belief in the liberal world order's meritocracy. But how does a successful minority match the paradigm of a repressive white "patriarchy"? (Take the court case over the artificial lowering of Asian-American acceptance rates at [Harvard University](#).)

Furthermore, while creating genuine *equality of opportunity* across society is both just and economically efficient, is it possible to achieve *equality of outcome* for the multiplicity of all possible individual identities? How could this be measured, and by whom?

Meanwhile, the Progressive Left also rejects central tenets of the liberal world order's rationalism by taking a post-modernist approach of "deconstruction": *everything* except "privilege" and "power" is seen as subjective, with "lived experience" equal to data: one Progressive advocate even asserts [mathematics is racist](#). (An anti-rational binary heard in the 2004 Bush White House pejorative "[reality-based community](#)" against those wanting to "*believe that solutions emerge from judicious study of discernible reality.*") Key liberal traditions are also rejected in the cause of social justice: [free speech can be seen as "hate speech"](#) on US campuses.

Crucially, the Progressive Left also embraces immigration and open borders in the name of "diversity" – in direct opposition to the *traditional* Leftist position. Historically, [the Left and unions used to be anti-racist and yet also oppose immigration on the grounds that it increased labour supply](#) and hence depressed workers' wages.

Consider this 1870 letter from Karl Marx, for example: "*Owing to the constantly increasing concentration of leaseholds, Ireland constantly sends her own surplus to the English labour market, and thus forces down wages and lowers the material and moral position of the English working class.*" Marx was not being anti-Irish: his "moral" comment reflected that immigration divide and rule by capitalists *created* racism. Historian [Jefferson Cowie](#) also suggests the US leftist New Deal introduced in the Great Depression was only secured due to labour's increased power following Congress having passed a racist 1924 anti-Immigration law, which laid the ground for a stronger working-class bargaining position.

What matters most for this discussion is that [identity politics is divisive: it rejects 'Workers of the World, Unite' to accentuate people's differences](#). At its worst an identarian stance can alienate the white working-class by acting against what they see as their economic interests on immigration; by calling them "racist" if they don't agree; and by deeming them as "privileged" if they are men, even if they are struggling economically.

As a result, **a substantial portion of the white working class is shifting its votes from the Left towards the populism of the Right**: many UK Labour voters opted for Brexit, and despite clear socio-economic distress, are still moving from Labour to the Tories over the same issue; key US ex-industrial states voted twice for Obama - and then for Trump; many voting for Italy's Northern League would at one time have voted for a Leftist party; and many French working class voters opted for Le Pen, and now for the Yellow Vest protests.

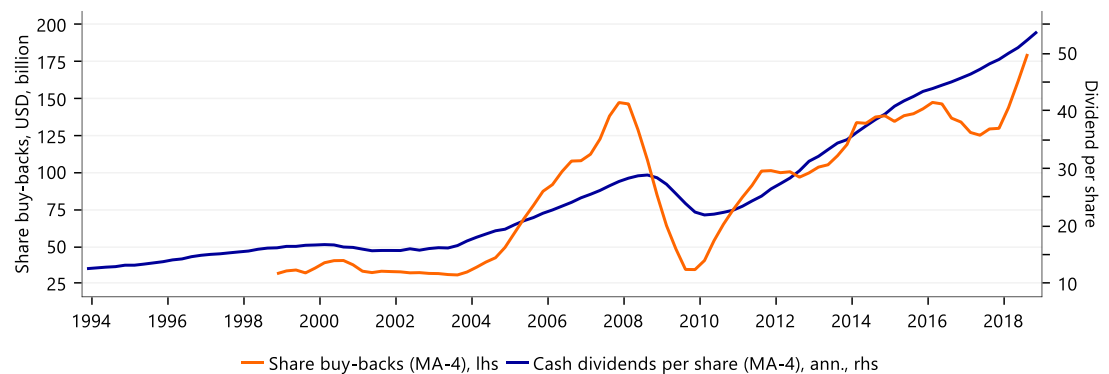
There *are* signs the Progressive Left understands it needs to focus on the economy. There have been proposals in the US to raise income tax to 70% over USD10m, and Democrat presidential nominee candidate Elizabeth Warren has floated an annual 2% wealth tax. Opinion polls show that these ideas are [overwhelmingly popular](#): a wealth tax is backed 60%-71%, including majority support from Republicans.

Democrat Senators Schumer and Sanders are also [launching a bill to limit US corporates' buy-backs of their own shares](#), arguing over 2008-17, 466 of the S&P 500 companies spent USD4 trillion on stock buybacks, equal to 53% of profits, while another 30% went to dividends, and that this needs to flow into investment and/or wages in order to generate a sustainable, equitable recovery. Again, this may sound shocking to those used to the liberal world order: but **stock buybacks were illegal before 1982** before SEC deregulation.

Moreover, and far more ambitious, Alexandria Ocasio-Cortez is pushing **a 10-year multi-trillion USD Green New Deal** backed by QE to rebuild America on a WW2 scale: there are no costings on the proposal, with estimates ranging from USD4.6 trillion (nearly 25% of GDP) to USD70 trillion (or well over 300% of GDP).

That may prove a step too far for many US voters, but it is certainly shifting “The Overton Window” --the range of policy alternatives that are regarded as politically acceptable frame of discussion-- sharply to the Left. Indeed, the Green New Deal also carries an implicit recognition of the threat of automation and AI that were earlier mentioned as potential causes of mass unemployment given that it talks about providing “*economic security*” even for those “*unable or unwilling to work.*” At this point we are moving into the most radical of all possible populist economic territory.

Figure 8: Bye-bye buy-backs?



Source: Macrobond

Moreover, how would the Progressive Left deal with the fact that such huge US fiscal stimulus would suck in imports, benefitting other countries (like China, for example) over US industry? Wouldn't the US need tariffs to ring-fence that capital? Likewise, if US wages are fixed higher by the scheme, would that not lead to offshoring – and again to the need for either tariffs or capital controls? And if wages are fixed higher, then would it not encourage automation, and hence unemployment? A huge fiscal stimulus would also be an economic magnet for migrants from all over the world given the darkening economic clouds in many places --unless similar schemes are undertaken elsewhere in tandem-- and more so if US wages are fixed higher by the state rather than pressured lower by markets. Where would a limit be drawn there, if at all?

In short, as we shall show in more detail shortly, **bucking the liberal world order policy consensus in one area drags you to doing so in others.** (Something we argued back in 2016.) That is a key reason why such radical policy has not been seen yet.

The key question is if the Democrat party establishment will go along with radical Leftist economic populism into 2020 or stick with 2016's market-friendly *and* identarian approach - which is still divisive. In short, can the party stay united around an electorally-winning formula?

Meanwhile, the UK Labour party is equally split over Brexit: should it support a nation-state, socialist Brexit or listen to younger metropolitan voters who want free movement? It started with one stance and now seems to be embracing another, and each way appears to be losing some key electoral support.

And what can a genuine EU Leftist party offer if it does not challenge Eurozone austerity, which means the Euro order, as the 30 intellectuals were decrying? There is a **pro-European, pan-European Progressive Left** party running in May - but it is helmed by ex-Greek Finance Minister [Yanis Varoufakis](#) and is not exactly welcomed by the liberal world order given its manifesto states: “*The EU will be democratized. Or it will disintegrate!*”

As such, **for now the Left is split**: there are shrinking social-democrats; and the Progressive Left does not have fully-formed answers to the inherent contradictions between its sympathies for, and its opposition to, the liberal world order policy consensus.

Right ahead of you?

Into that divide steps the Alt-Right, a spectrum from nationalists to fascists that lies outside the liberal world order. The horrors the extremes of that political viewpoint unleashed in the past need no detailed recollection here: that's *why* we built the liberal world order post-WW2.

Obviously, the soil in which the sovereignty-first, ethno-nationalist Alt-Right can thrive has been more than adequately described by the WEF's Schwab, the Edelman Trust Barometer, and Capuchin monkeys. As just shown, the Alt-Right has also been burnished by Progressive identity politics attacks on "whiteness".

Yet **the Alt-Right has been stealing Leftist positions to burnish its attractiveness to frustrated voters**. History shows that is a very powerful policy cocktail markets should take note of. As Michael Kalecki notes in '[Political Aspects of Full Employment](#)' (a devastating 1943 critique which predicted a future of negative interest rates decades before mainstream central banks were surprised about needing to use them): "*In the great depression in the 1930s, **big business consistently opposed experiments for increasing employment by government spending in all countries, except Nazi Germany.** This was to be clearly seen in the USA (opposition to the New Deal), in France (the Blum experiment), and in Germany before Hitler...**[Fascism] maintained itself in power through securing full employment while capitalist democracy failed to do so.***"

Today it is the Alt-Right that has taken on China with tariffs "to protect US jobs"; introduced fiscal stimulus via tax cuts; and obsesses about building a wall to protect America (and workers' pay). It is Italian rightists who are pushing for higher state spending and some form of universal basic income. It was the populist British right who pushed for Brexit in the UK to stop free movement, and forced a Tory Chancellor to explain to British business that the days of low-cost, low-productivity labour are now over. The Alt-Right doesn't have real answers to the jobs threat from automation --nobody does-- but it can point fingers at others very effectively.

Simply put, **if the liberal world order or the Progressive Left aren't able to provide a solution to workers' fears and frustrations then Alt-Right populism, with its dangerously reductivist answers and fiscal firepower, looks likely fill that power vacuum.**

Of course, as with the Left, that means the Right metamorphosing into some new political form that transcends traditional understandings of what it is. As an example of that shift already underway, consider the following highlights of an [opinion piece](#) written by Tucker Carlson of Fox News, a traditionally conservative Republican media source:

*What you're watching is entire populations revolting against leaders who refuse to improve their lives...Rich people are happy to fight malaria in Congo. But working to raise men's wages in Dayton or Detroit? That's crazy...**Not all commerce is good...***

Under our current system, an American who works for a salary pays about twice the tax rate as someone who's living off inherited money and doesn't work at all. We tax capital at half of what we tax labor. It's a sweet deal if you work in finance, as many of our rich people do...

Republican leaders will have to acknowledge that market capitalism is not a religion. Market capitalism is a tool, like a staple gun or a toaster. You'd have to be a fool to worship it. *Our system was created by human beings for the benefit of human beings. We do not exist to serve markets. Just the opposite. Any economic system that weakens and destroys families is not worth having...*

*Socialism is a disaster. It doesn't work. It's what we should be working desperately to avoid. But **socialism is exactly what we're going to get, and very soon unless a group of responsible people in our political system reforms the American economy in a way that protects normal people.*** *If you want to put America first, you've got to put its families first.*

Vest-ed Interests

Despite bashing socialism, **much of Carlson's rhetoric sounds more like a traditional Leftist; and while one might think there is no audience for this amongst a Fox TV audience, one would be wrong**: A 22-29 January poll of Fox News viewers showed 51% support for higher state spending vs. 40% for cutting; 70% for a higher tax rate for those earning over USD10m vs. 24% opposed, and 65% for that tax on incomes over USD1m vs. 29% opposed.

Again, this is not a US issue – it's global. Going back to Europe, let's look at the key demands of the French Yellow Vests, which we have tried to flag as Left (L) or Right (R) in a traditional sense:

Left	?	Right
<ul style="list-style-type: none">• Increase of 40% in the basic pension and social welfare• Massive hiring in the public sector• Construct 5 million rent-controlled houses• Break up banking monopolies• Cancel debts accrued through usurious interest• Prevent lobbying• Stop tax evasion and privatisation• Ban GMO crops and plastic bottles; and pesticides• Reduce influence of big pharma• Reindustrialize France to reduce imports• Exit from NATO• Cease "pillaging" in Africa	<ul style="list-style-type: none">• Rewrite the constitution to allow for referenda	<ul style="list-style-type: none">• Prevent the state from taking more than 25% of the income of citizens• Frexit – leave the EU• Quadruple the budget for law and order• Prevent migratory flows that cannot be accommodated or integrated, given the profound civilizational crisis that we are experiencing

A real mixture – far more Leftist than many would perhaps assume, and yet very Far Right in some key regards.

Of course, many reading the above list will smile and say how impossible or ridiculous the demands are. Yet consider this: if you are a loser from globalization and the liberal world order say that the choices are more of the same (*laissez-faire*) or a magic new formula that doesn't exist yet, what are you to think? Why not create your own maximalist position of demands and see if someone will listen to some of them?

Indeed, recall what Hannah Arendt warned of in 'The Origins of Totalitarianism': "*Mass propaganda discovered that its audience was ready at all times to believe the worst, no matter how absurd, and did not particularly object to being deceived because it held every statement to be a lie anyhow.*"

So we have a strange new political beast emerging: deeply Leftist in some regards, and yet deeply Rightist too. Indeed, the fact that the list of the Yellow Vest's and Tucker Carlson's demands are so hard to instantly politically categorise speaks to another key point to underline with huge market implications: **the paradigm in which the traditional Left and Right were created are ceasing to have any meaning.**

Indeed, explaining our present situation of chaos and flux is the Italian Marxist Gramsci, who noted last century: "*The crisis consists precisely in the fact that the old is dying and the new cannot be born; in this interregnum a great variety of morbid symptoms arise.*"

Let's explore that flux more closely.

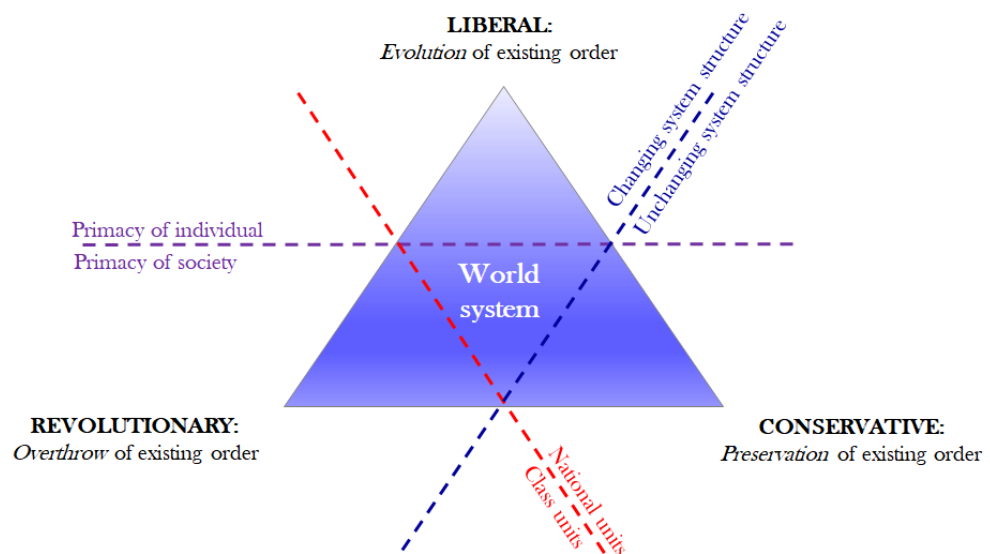
Flux that

We know what our 'old' is: the liberal world order (even if it isn't actually very old). **But what will our 'new' be? Either a liberal utopia or deeply populist.**

Consider the below political triangle of beliefs. In the Western tradition we have usually divided ourselves into a *liberal* camp, believing in evolution of the existing order; a *conservative* camp, believing in the preservation of the existing order; and a *revolutionary* camp, who want to overthrow the existing order.

Importantly, how one decides which camp one falls into depends on where one sits relative to three dividing lines: change/no change to the system structure; national/class units of thinking; and the individual/society as focus.

Figure 9: How do you triangulate?



Source: Goldstein (1988)

In short, if you believe in a liberal world system one embraces a *changing* system structure; the primacy of the *individual*; and thinks in *national* units.

If one is a conservative, one believes in an *unchanging* system structure; the primacy of *society*; and thinks in *national* units.

If one is revolutionary, one wants *overthrow* of the system; the primacy of *society*; and thinks in *class* units.

However, **this framework no longer fits for our present, *globalised* liberal world system.**

For the liberal world order **no policy changes are now acceptable** as we have already shown: trade, markets, immigration, central banks – are all sacrosanct; the primacy of the individual remains; but **one no longer thinks in class or national units** – one thinks in *global* terms.

The Progressive Left wants to overthrow the "patriarchy" but not all the core components of the class system; it talks about society but as noted is also fixated on individual identity; and it is no longer interested in either class or national units, placing it closer to the liberal world order in some key ways.

And for conservatives in an age of global capitalism where, as Marx said, "*all that is solid melts into air*", wanting to keep a focus on society and national units becomes a **revolutionary** action involving overthrowing the system!

In short, everything is now stood on its head. Is it any wonder we are deep in political flux?

What the traditional triangle above does not capture is that in a globalised world things arguably become **three-dimensional** rather than flat. In short either:

One supports a globalist stance that supports the primacy of the *global* individual/society and an unchanging commitment to the international market infrastructure that allows that kind of lifestyle to function; or

One supports a nationalist stance that supports the primacy of *national* society/class by working *against* the international market infrastructure in order to allow an alternative kind of lifestyle to function.

Look back at the demands of the French Yellow Vests and one can then realise that it is a global vs. national argument that is behind their Left/Right policy demands; the same is true for the 'America First' rhetoric of Tucker Carlson and Donald Trump; and Brexit too, of course. (To some it also sounds a lot like the differences in Karl Popper's 'The Open Society and its Enemies'.)

Yet this is also an overlapping generational divide: studies show **Millennials are mostly extremely liberal and globalist, while older generations are more conservative** and continue to take comfort in the ideas of the nation-state. That might mean in the *long run* populism/anti-globalisation will lose, but we are very long way from that point now – and perhaps less than two years away from a recession we are ill-equipped to handle politically, socially, or economically. And in terms of the liberal world order, also recall the study showing younger generations are also less interested in democracy (perhaps given they think globally?).

Moreover, this global/national, young/old divide is often geographically urban/rural. As the British geographer Mackinder wrote in 'Democratic Ideals and Reality' 100 years ago, a time when the liberal world order was trying to rebuild itself after the nationalism of WW1: *laissez-faire* is dangerous because: "As long as you allow a great metropolis to drain most of the best young brains from the local communities, it will lead to class divisions as village- and town-dwellers lose the opportunity for advancement and young people migrate to large cities." While Mackinder meant Marxist class differences, he also describes the polarising socio-cultural-economic experience of rapid globalisation in many countries today.

As Mackinder further warned: "**These new metropolises, however, do not result in a flourishing of diverse ideas but a convergence, as the new elites attend the same schools, enter the same professions and begin espousing the same politics...it is quite inevitable that the corresponding classes in neighbouring nations will get themselves together, and that what has been described as the horizontal cleavage of international society will ensue.**"

Figure 10: It's 3-D not 2-D



Source: Rabobank

In short, nationalists of the world have more in common with each other than ever before, as ironically already described, and globalists do too, far more naturally. And the two groups have less in common with each other in every country, while the room for neutral, polite, rational debate is being squeezed on many fronts.

That sounds like a recipe for populism in terms of breadth, as every country will have its left-behinds as already discussed; and the same is even truer for the *depth* of that populism. Indeed, we can therefore expect most political parties to start to gravitate towards either one pole or the other, an 'open' and a 'closed' party – and the centre-ground to keep shrinking.

That is because while one can argue that traditional left-right political divides still matter in each democracy for now, **listening to voters and moving away from the centrist liberal world order policy consensus to either the Left or the Right immediately means crossing into this third 'global/national' dimension.**

As a political party, if you want to raise workers' pay significantly, the markets will punish you and force you towards a more populist, nationalist stance, or to retreat; if you want to raise taxation, the markets will punish you and force you towards a more populist, nationalist stance, or to retreat; if you want to boost social spending, the markets will punish you and force you towards a more populist, nationalist stance, or to retreat; and if you want to bring industry back home to boost quality employment options, the markets will punish you and force you towards a more populist, nationalist stance, or to retreat. So you stay with the liberal world order, which causes populism somebody else can take electoral advantage of, or you accept that it is the problem.

Indeed, through this global/national 3-D filter we can start to understand that there are actually many areas where the populist Alt-Right and Progressive Left are forced to agree (as the Marxist philosopher [Slavoj Žižek argues](#)). Indeed, in order to break free from the liberal world order both *must* necessarily be:

- **anti-free trade**, one due to nationalism, the other as an anti-big business stance;
- **anti-free markets**, or at least prioritising social goals over them;
- **anti-austerity**, and with increasing enthusiasm;
- **anti-central bank independence**, and openly in favour of central banks supporting their populist political agendas; and
- **illiberal**, even if they favour some form of popular democracy to give them legitimacy.

This is not to say Far Left and Far Right will unite ahead – far from it: politics is likely to get even more unpleasantly polarised until "the new is born."

Yet as a common denominator for *both* wings of a structurally *and* cyclically rising populism, some or all of these trends will likely emerge as mainstream policies once we reach a critical tipping point.

To say that this is going to come as a shock to societies and markets that have grown up assuming that the liberal world order is the best of all possible worlds and eternal is an understatement.

It is, of course, already shocking the international order.

China, China, China. (And others.)

The two-way transmission mechanism from domestic populism upwards to the liberal world order, and from the liberal world order down to domestic populism, was evident in the 1930s. Today, we again see that mechanism at work.

Populist President Trump calls himself a “nationalist” as opposed to a “globalist” and for “America First”. As US Secretary of State Mike Pompeo stated in December in Germany:

“...After WW2...we underwrote new institutions to rebuild Europe and Japan, to stabilize currencies, and to facilitate trade. We all co-founded NATO to guarantee security for ourselves and our allies. We entered into treaties to codify Western values of freedom and human rights. Collectively, we convened multilateral organizations to promote peace and cooperation among states. And we worked hard – indeed, tirelessly – to preserve Western ideals...We won the Cold War. We won the peace...”

After the Cold War ended, we allowed this liberal order to begin to corrode...Multilateralism has too often become viewed as an end unto itself. The more treaties we sign, the safer we supposedly are. The more bureaucrats we have, the better the job gets done.

*Was that ever really true? **The central question that we face is that – is the question of whether the system as currently configured, as it exists today, and as the world exists today – does it work?...***

*The EU and its predecessors have delivered a great deal of prosperity to the entire continent. Europe is America's single largest trading partner, and we benefit enormously from your success. But Brexit – if nothing else – was a political wake-up call. **Is the EU ensuring that the interests of countries and their citizens are placed before those of bureaucrats here in Brussels?...***

This leads to my next point: Bad actors have exploited our lack of leadership for their own gain. This is the poisoned fruit of American retreat. President Trump is determined to reverse that.

China's economic development did not lead to an embrace of democracy and regional stability; it led to more political repression and regional provocations. *We welcomed China into the liberal order, but never policed its behaviour. China has routinely exploited loopholes in the WTO rules, imposed market restrictions, forced technology transfers, and stolen intellectual property. And it knows that world opinion is powerless to stop its Orwellian human rights violations...*

Iran didn't join the community of nations after the nuclear deal was inked; *it spread its newfound riches to terrorists and to dictators...*

Russia hasn't embraced Western values of freedom and international cooperation. *Rather, it has suppressed opposition voices and invaded the sovereign nations of Georgia and of Ukraine.*

*We have to account for the world order of today in order to chart the way forward. It is what America's National Security Strategy deemed “**principled realism.**” I like to think of it as “**common sense.**”...*

International bodies must help facilitate cooperation that bolsters the security and values of the free world, or they must be reformed or eliminated.

Unavoidably then, US domestic populism means US international real politik and confrontations both *within* the Western alliance, e.g., between the US and the EU, and *between* the US and other powers, e.g., China and Iran. That threat to the liberal world order is clearly recognised by most commentators.

Yet consider this uncomfortable thought too: even **if the US were now under President Clinton, the liberal world order would still be declining in influence.**

We have already shown the liberal world only represents US\$18 trillion of around an US\$80 trillion global GDP and its share is shrinking with relative GDP growth differentials between the West and China (Freedom House 2019 rating "Not Free"), Saudi Arabia ("Not Free"), Iran ("Not Free"), and Turkey ("Not Free"), etc., who are far more populist than liberal. Right now only 39% of the world population live in "Free" countries, 24% in "Partly Free" and 37% are "Not Free". The G-20 itself is already *majority* illiberal in membership.

Put simply, by increasing trade and investment with faster-growing illiberal countries, the liberal world order has weakened its *relative* position. As the politically and economically illiberal world's GDP grows larger, its influence necessarily increases in tandem. The liberal world order *knew* these countries were not democratic, or liberal, and/or that they did not support Western-style free markets. However, it integrated anyway in the hope the illiberal world would absorb its value system, and that a unified world economy would benefit all. **Yet one can argue this has not happened.** (Indeed, in a Hegelian dialectic, the liberal world order seems programmed to create its own counter-veiling forces: it creates destabilising inequality at home, and abroad it has integrated with forces that often act *against* it.)

Briefly, one can make the argument that engaging with illiberal countries weakened the liberal world order in four key ways.

Economic

Not all agree, but there is strong evidence **trade with China damaged US manufacturing and the economy, thus driving populism**. At the very least, the threat of being able to outsource to emerging markets *in general* helps ensure that labour's share of GDP is constantly pressured lower by business/capital. In that regard, the current US-China trade dispute seems new but is again very old (as we argued in [The Great Game of Global Trade](#).) Indeed, as Mackinder put it back in post-WW1 Britain: "*No stable League of Nations appears to me possible if any nation is allowed to practise commercial 'penetration,' for the object of that penetration is to deprive other nations of their fair share of the more skilled forms of employment, and it is inevitable that a general soreness should ensue in so far as it succeeds. Nor, to speak quite plainly, is there any great difference in result if some nations feel that they are reduced to the position of hewers and drawers owing to the industrial specialisation of another country under the régime of unrestricted Cobdenism [i.e., Free Trade]; wherever an industry is so developed in one country that it can be content with no less than a world-market for its particular products, the economic balance of other countries tends to be upset. No important country, after this War, is going to allow itself to be deprived either of any 'key' or of any 'essential' industry.*"

Political/national security

More concretely, there are **well-based allegations China is propagating an alternative economic and political alternative to the liberal world order**. China is obviously not a democracy and openly states it does not support the idea of independent judiciaries, while holding a mercantilist economic model that Mackinder rightly predicted would lead to "*a general soreness*". Yet the [2019 US annual Worldwide Threat Assessment](#) published by the Director of National Intelligence has now re-categorised US-China relations as something even deeper: an "ideological battle". It argues:

"In its efforts to diminish US influence and extend its own economic, political, and military reach, Beijing will seek to tout a distinctly Chinese fusion of strong-man autocracy and a form of western style capitalism as a development model and implicit alternative to democratic values and institutions. These efforts will include the use of its intelligence and influence apparatus to shape international views and gain advantages over its competitors."

That warning comes after the US National Defence Strategy already stated that Great Power competition has returned, and that China is a "*strategic rival*" as it aggressively rearms and tries to

seize control of the South China Sea. As we argued back in November 2017, [a new Cold War looms](#). Yet much of the liberal world order continues to embrace a state that key intelligence agencies allege is actively working against it. Meanwhile, there are also deep concerns over Russian influence in the West and on its elections, tying back to the Fake News component of social media already covered.

The mirror effect

Liberalism appears to be contagious. Are Trump's tariffs anything other than a mirror of Chinese trade policy? Is France's argument for an anti-competitive European transport giant anything other than a reflection of Chinese subsidised SOEs making trains, etc.? And one cannot fail to notice that China's Huawei is seeing an unprecedented pushback from Western economies in a manner out of keeping with the liberal consensus on market access.

Indeed, Foreign Policy magazine recently argued "[If the US Doesn't Control Corporate Power, China Will: Laissez-faire economics has left firms bending the knee to Beijing](#)", stressing free markets end up being dictated to by an economy that neither the US nor the EU recognise as a market economy, and that government oversight is needed to keep Beijing out. In short, one needs to fight illiberal fire with fire – even if that means undermining the very liberal order one is defending (a macrocosm of the already-discussed problem of defenders of the liberal world order being willing to bend democracy or transparency to save it).

The moral component

The liberal world order has long held that its true strength is not military or economic, but drawn from its core values: but is that still true? During the Cold War, Western businesses did not invest in Communist states because they were seen as an ideological enemy that oppressed their peoples.

By contrast, today Western firms deal with almost anyone: Saudi Arabia, despite the murder of Mr. Khashoggi in the Saudi consulate and the brutal war in Yemen; and China even as it is alleged to be operating against Western interests, and to operate concentration camps holding one million ethnic Uighurs, where the Wall Street Journal alleges "[The Nightmare of Human Organ Harvesting in China](#)" is taking place (and as an Australian medical journal report calls to reject 400 Chinese scientific medical papers on organ transplantation due to fears the organs involved were harvested.) Ironically, it has taken Turkey (rated "Not Free") to call China's actions in Xinjiang "[a great embarrassment for humanity](#)" and demand that the camps be closed immediately.

Of course, bad things always happen somewhere and the liberal world order is not able to prevent them all, or even a majority. Yet is it choosing to actively look the other way on key issues now? If so, *what does a liberal world order **mean** if it sanctions these alleged actions rather than introducing sanctions?*

True, sanctions on Russia already exist and have liberal world order agreement, but not on China due to the size of its economy – and as such don't we still then come back to real politik rather than liberal values? And is "business as usual" a sustainable *moral* basis for a liberal world order founded on the Enlightenment thinking of Kant, Locke, and [Mill](#) - especially when the domestic inequality it produces is also seen as immoral by many?

So might a [liberal/illiberal global schism occur](#), preserving parts of the liberal world order? Possibly. Yet **that break-up would have such devastating economic consequences that populism would surge in the liberal world**. Australia and New Zealand in particular stand to suffer terribly from any economic weakness in China, even as Chinese economic *strength* is recognised as a challenge to their own liberal systems. (See the recent news over [Huang Xiangmo](#), for once recent example.)

Populism again seems inevitable either way.

Rally round the flag

Returning from the international to the national, **are the Alt-Right or Progressive Left better able to square their domestic policies with an international dimension?**

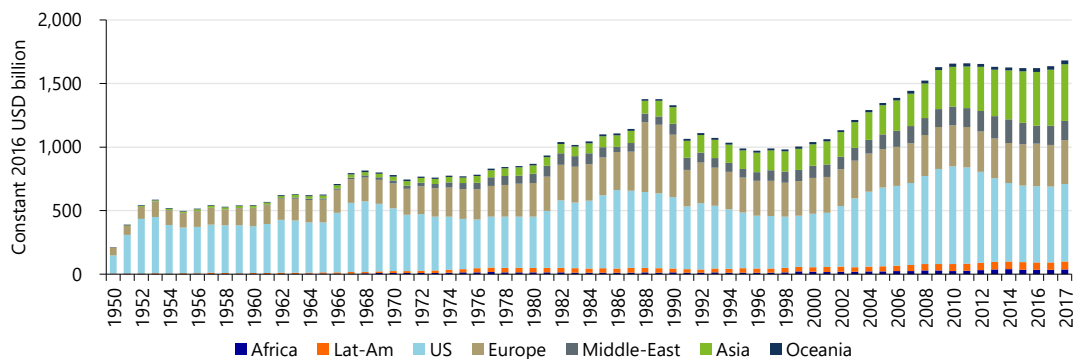
The Progressive Left is sympathetic to anti-US voices such as Iran and Venezuela while seeing any Western action as imperialism (whereas Chinese territorial claims in the South China Sea are not). What about the need to confront illiberal forces? [The Left's national security policy seems unclear](#). Yet as Trotsky warned, "You may not be interested in war but war may be interested in you." Meanwhile, Alt-Right governments in Italy, Hungary, and Poland are sympathetic to China and Russia due to their largesse and illiberalism, respectively (the former a further sign of the problems with liberal world order austerity). There is also sympathy for Russia among the American Alt-Right – but not China.

Overall, however, it seems far more likely that the Alt-Right's "rally-round-the-flag" economic nationalism can use global illiberalism to justify populist illiberalism at home:

Fiscal spending can flow to defence; protectionism can be justified by national security; and so can immigration controls. It is consistent – if dangerous to the liberal world order.

As countries adopt more nationalist, protectionist stances we will enter a zero-sum trade game with winners (large self-sufficient countries and/or current net importers) and losers (small not self-sufficient countries and/or net exporters). That will drive populism in the new losers, as well as rewarding populism in those that are win by using populist tactics – and that new wellspring of domestic populism will flow back up to the international sphere. Again, we would be back to scenarios akin to the 1930s, where we started; and that is to say nothing of how China and Russia might react if they feel cornered. National security is likely to be a major factor in politics for a long time to come.

Figure 11: Defence-spending set to rocket



Source: SIPRI

The Progressive Left, by contrast, has no integrated international and domestic populist policy short of a belief that most problems are of Western origin. (Again, we see the extension of the parallel between their open borders view and that of the liberal world order: the liberal world also doesn't want to confront illiberalism.) It has also yet to speak about defence spending.

In short, populism wins if we don't confront global illiberal forces; and it wins if we do, both in how we fight it, and via the negative consequences of that victory!

There are of course [more optimistic views](#), but even the Executive Chair of the WEF **implies the only way the liberal world order is not destabilised ahead is if everyone --including Russia, China, and Iran, etc. -- can rapidly agree to new, unspecified institutional architecture.**

But once again we are sadly talking about utopia.

We are aren't going anywhere

We hope we have comprehensively shown that **populism, as defined as resistance to the liberal world order's economic policy consensus, is here to stay**. It is a structural feature of the inherent inequality and disruption that same order produces and feeds off of it, while an upcoming recession will only make matters worse – as will any central bank response along recent policy lines. A US recession, which we expect ahead, would also make matters far worse as we head into the presidential election season.

As populism wins more converts, its audacity is likely to grow. It will broaden and deepen, with each trend driving the other. This is for now more likely to take the form of an Alt-Right nationalism than a Progressive Leftist approach unless the latter shifts its policy focus dramatically towards the economy and class, not identity, and confronts the international as well as the domestic arena. The Alt-Right still seems more adept at embracing simple answers to the complex questions facing us.

Yet fundamentally, **we now face a new political era** where parties are either globalist or nationalist: that suggests that the Progressive Left and Alt-Right share some of the same anti-liberal world order policy frameworks.

Meanwhile, **the external environment will remain a threat to the liberal world order**, most particularly from the likes of Russia and China, but also in terms of the populist *domestic responses* to those same forces. There appears no answer on how populism at home can be fought at the same time as international populism: indeed, the populists have much easier, integrated ***nationalist*** answers to offer.

In short, we should be expecting to see an environment that is increasingly anti-free trade; anti-free markets; anti-austerity; anti-central bank independence; and illiberal. Indeed, one only needs to look at the Global Policy Uncertainty index to see that measure is higher now than it was during the global financial crisis. After all, *back then we still thought we knew what the rules of the game were*.

Figure 12: Up, up, and away to wherever next?



Source: Bloomberg

So to conclude this part of the argument, Brexit might not actually happen; the EU elections may not see populist surge after all; and Donald Trump may not be re-elected as US president, and may even make a short-term China trade deal ahead.

Yet populism does not look like it is going to go away. We must learn to live with it, and understand its potential risks.

And so to market....

The key question then is what this all means for financial markets.

One fact we want to stress immediately is that if we see populism broaden and deepen from here then quite remarkable future scenarios are possible. We won't spell them out here, but talk of the 1930s at the beginning and the end of our argument should make the tail-risks clear.

Imagine populist takeovers of major economies; global recession; the end of central-bank independence; trade wars; and dangerous international tensions.

Are those scenarios inflationary? Yes.

Are they deflationary? Yes.

Are there winners? Yes.

Are there losers? Yes.

In short, it's a very complicated picture and market reactions would likely be extreme:

Yet so far no markets are pricing for any truly radical scenarios.

That is rational given one can't price-in a radical event that might never happen – even if the underlying political dynamic suggests it really might. However, it is still worth considering some of the areas of risk and the kind of shocks that might be seen.

FX

One may think that we have already seen what a surprise political outcome can look like. Consider GBP/USD's reaction to the Brexit vote of June 2016, for example, where Sterling declined from around 1.50 to 1.30 in around one day – an epic day of trading. However, think of that kind of currency speed and also consider that during the financial crisis GBP/USD fell from above 2.00 to below 1.40, and back in the early 1980s recession it declined from nearly 2.50 to close to parity with USD.

Arguably *that* is the kind of scale of comparison we need to keep in mind when thinking about nightmare Hard Brexit scenarios where trade collapses, Scotland pushes for independence, and the army is on the streets (all of which have been mentioned in mainstream media headlines of late.) Likewise, of course, if we see Brexit cancelled, assuming that British politics survives intact, then 1.50 is easily obtainable on the upside, and very quickly. But that is just one hypothetical example.

Figure 13: GB-Plummet



Source: Macrobond

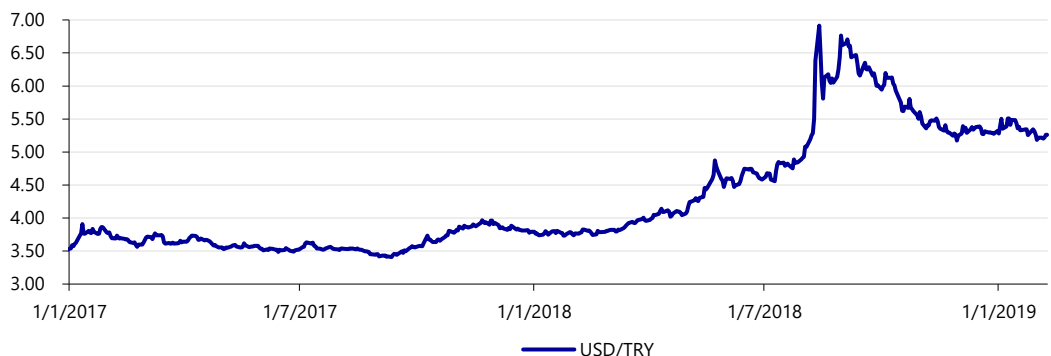
Another indicator of the kind of extreme market outcomes that one might see ahead is TRY, which has been buffeted by a particular combination of both economic and geopolitical factors:

Figure 14 (which does not capture larger intra-day swings) shows **truly epic FX volatility** of the kind usually seen only intermittently in EM.

They are likely to be seen far more often and far more widely in a populist future.

In particular, and as we already noted, a large devaluation of the Chinese currency still remains a huge underlying threat to the liberal world order: Rabobank's forecast is that China will eventually have to do so due to its own imbalances, and when it does USD/CNY will not only exceed 7, it will rapidly exceed 8. Naturally, that implies a swathe of EM FX would be swept away by the same momentum, TRY-style.

Figure 14: TRY me on for size, DMs



Source: Macrobond

But what if DM politics starts to look more like EM ahead as their societies and institutions and economies polarise even further? In that case, should we rule these kind of swings out in DM? Arguably not. Where would one expect AUD to be trading if China slumps, a trade war kicks in, and regional geopolitical tensions soar? Take your pick. The watchword is volatility.

What about the USD itself? Crucially, **at present the world is still set up to use USD as the global reserve currency and any replacement --there are no immediate candidates-- will take years**. Indeed, to find a new reserve currency would involve enormous political compromise, or hegemony - neither easily achieved during a hypothetical breakdown of the liberal world order. Until then, like it or not, but USD remains King.

Of course, **a truly radical USD7 trillion per year Green New Deal financed entirely from QE in the US would be a different story**. We would be in uncharted waters, even for Japan. But a disastrous USD breakdown, as some fear, would arguably only occur with populism leading to the US being seen as ungovernable; and/or QE fiscal stimulus that sees demand pushed so far ahead of supply that Venezuela-style hyperinflation occurs; or a huge US trade deficit that foreigners do not want to cover; and/or major US capital flight.

Are the above really likely? Even given our gloomy understanding of the political dynamic, this is still a worst case scenario. Moreover, it assumes the US would prove more fragile than other major economies and currencies experiencing similar socio-economic pressures.

Who would be looking like a real safe haven in a world where that kind of scenario was unfolding? A traditional argument is of course 'gold' - but recall how that was made illegal in the 1930s when the US last faced a major economic and political crisis. And how have crypto-currencies fared of late?

As such, it's hard to imagine a post-USD world in the near term, or a much weaker USD even if the liberal world order cracks - but it's very easy to imagine chaos in other FX markets.

Rates

By contrast, in terms of US interest rates there appears one clear, opposite message: **lower for longer, and then more radical than that.**

After all, Donald Trump has made clear he doesn't want higher rates. The populist Alt-Right does not want higher rates. The populist Alt-Left does not want higher rates. And the liberal world order can't risk creating even more populism with higher rates – as the Fed may just have inadvertently made clear. Indeed, we have been sent signals that negative rates are possible.

Figure 15: Lower for ever



Source: Macrobond

Another logical argument for lower rates and yields is that **although populists are promising reflation, this won't easily be achieved.** Populists want to and *have* to reverse globalisation to bring in their economic policies, but this only accelerates further shifts towards either offshoring or automation, generating more deflationary unemployment either way. Populists also want to reverse the financialisation of Western economies, but that means a sharp correction in risk assets, equities, and house-prices, and by extension recession and deflation and an outperformance of government bonds. And, as they say, "negative social outcomes", leading to more international finger-pointing.

More specifically, looking further down the yield curve, given the massive deflationary pressures that would arise in the global economy if China devalues CNY is it any surprise that not only have US yields failed to hold above 3%, but are very unlikely to do so at any point in the foreseeable future? In fact, with recession looming, they are likely to go lower.

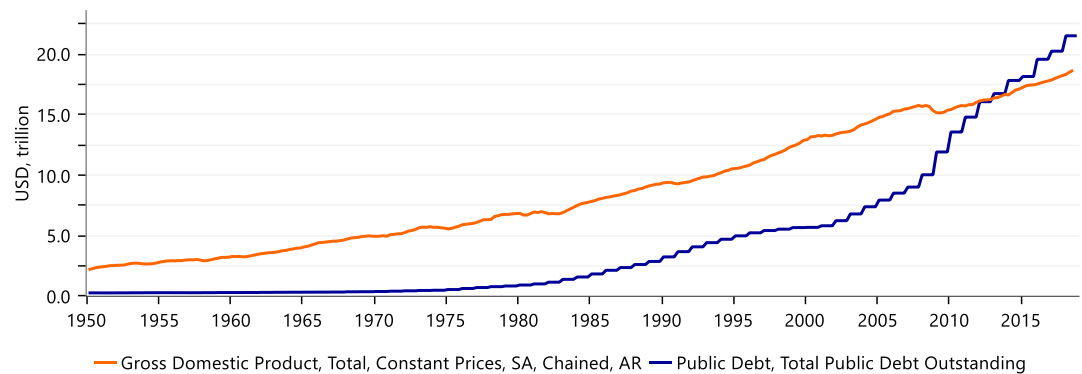
And when one considers the implied geopolitical risk scenarios that are necessarily wrapped up in a paradigm-shifting breakdown of the liberal world order, and the **flight to safety** that would ensure, is it also a surprise that yields are set to stay low? Certainly, if you buy the populism-ahead argument one does not want to be bearish Treasuries.

Of course, one can make the argument that **populist fiscal expansion would mean US debt becomes unsustainable** and foreigners would sell off Treasury holdings, forcing yields higher.

Yet we already see US fiscal expansion and exploding debt-servicing - and US yields have gone down. Moreover, besides the fact that interest rates would be low under this future scenario, and the Fed far less independent, we would arguably also be in a recession, making Treasuries more attractive; a larger fiscal deficit would then mean more supply of a safe product people want. After all, Japan has yet to see its yields explode higher despite de facto monetization of a vast public debt by the BOJ.

Again, USD7 trillion a year Green New Deal stimulus might change that equation. But that is assuming populists would *allow* yields to rise, rather than forcing the central bank to step in and peg them, Japan-style. However, that opens the door to questioning the USD's global role.

Figure 16: Very interesting to some vis-à-vis the US



Source: Macrobond

Meanwhile, in cases where national governments do not control their own currency, as with the Eurozone, for example, bond yields could move explosively higher under populism if the ECB does not step in, as we have already seen. And the same would be true for EM, where there is no natural foreign bid.

Hence we cannot say it is a case of lower for longer *everywhere*.

Indeed, **even among the largest economies we would soon find that the ability to 'do a Japan' on rates is actually limited by their balance of payments**, primarily their trade surplus: run a trade surplus (and even better, have capital controls like China) and you can keep rates low and use QE to boost the economy and maintain FX stability.

But once the balance of payments turns negative, that ability is lost as foreign borrowing is needed – and the more stimulus, the weaker the currency. Only the US is immune to that pressure by virtue of being the global reserve currency; were that to change, *everything* changes.

That's why a threat to the stability of China's exchange rate (or its growth rate) still looms – and with it a danger to the liberal world order. First, because China is far weaker than it looks; and second, because in a future world of zero-sum populism, economies will be forced to run trade surpluses in order to reflate – and smaller economies will have to cling to larger blocs that do the same.

That is an exact repeat of what we saw in the 1930s when the liberal world order architecture fragmented into gold, Sterling, USD, JPY, Nazi, and Soviet blocs with no mutual clearing systems and high tariffs barriers. And we know how that all ended. In short:

Markets need to prepare for a far higher risk of truly paradigmatic shifts ahead.

Recent data or market-pricing trends will be of little use in our simmering Age of Rage.

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