

July 23, 2018

Reflections on Politics and Populism: Part II

Last week, we defined important terms that shape the political alignments and examined the coalitions that mostly define the political sphere.¹ This week, we make some general observations of how the coalitions interact, discuss the “natural” pairings of the coalitions and examine historical examples. We will conclude with market ramifications.

Observations

There is a division between class and identity. This is probably the greatest cause of confusion among political pundits and the general public alike. Sometimes voters will select a candidate who is detrimental to their economic interests. They usually do this because, at the time of their vote, identity was a stronger factor than class. Because it is more emotional and tribal, identity makes it hard to project outcomes. Class is fairly easy to observe; one can use wealth as a proxy. But identity, because it is multi-dimensional and somewhat fluid, can turn elections in unexpected ways. Our “laundry list” of surprises, the anti-establishment political outcomes noted in [Part I](#) of this report, were partly due to decisions based on identity.

Political leaders tend to use identity to woo voters outside the coalition of their class. This is done by either claiming affiliation to a group or by warning against the negative

outcomes if another group takes office. Nearly every campaign story has some “origin myth,” where the candidate (usually RWE or LWE) harkens back to some period of their lives when they were living a hardscrabble existence so they can claim affinity to the populists to attract their vote. In some cases, the candidate is so removed from struggle that they have to cite the origin myths of their parents, grandparents or great-grandparents.

The other tactic often deployed is to suggest that if the other establishment candidate wins he/she will support policies that will undermine a populist group’s identity. For example, if a LWE candidate is trying to gain support from LWP voters, he will cite the threat to immigration or reproductive rights if the other candidate wins. A RWE may use similar tactics on the RWP, suggesting a LWE candidate will undermine gun ownership or religious liberties.

There are natural pairings of the aforementioned coalitions. In terms of class, the RWE and LWE share commonalities; so do the RWP and LWP. In terms of identity, the RWE and RWP are a normal pairing as would be the LWE and LWP. Recently, the ostensible configurations are based on identity; in other words, the RWE is paired with the RWP and the LWE with the LWP.

Currently, the class-aligned RWE and LWE may actually be the operative political alignment. This alignment is called the “third way,” especially by LWE candidates. Essentially, the LWE embraces its class and builds economic policies that support globalization and deregulation, which is an

¹ A refresher on the coalitions—RWE: right-wing establishment; RWP: right-wing populist; LWE: left-wing establishment; and LWP: left-wing populist.

anathema to the populists but is acceptable to the RWE. So, in terms of economic policy, there is no difference in what establishment candidates offer, so the populists are left with deciding which candidate best meets their identity preferences.

However, like any political coalition, there is always a contest as to which members are most powerful. When pairings can't agree, it increases the chances of disunity and may cause pairings to lose elections.

The establishment has historically dominated candidacies but the development of social media is opening up the field for populists. Donald Trump is a master at using social media to deliver his message. Bernie Sanders's run for the Democrat Party nomination was partly fostered by fundraising through social media. The reason establishment candidates previously tended to dominate was that their access to funding was superior to populists, but that factor is changing.

Populists outnumber the establishment. In general, each variety of populists represents about 35% to 40%, respectively, of voters. Each of the establishment represents around 10% to 15%, respectively. So, it is possible to build a small majority of the right or left wing, using the combination of RWE/RWP or LWE/LWP. Under these circumstances, the goal is to encourage all members of your coalition to vote and discourage members of the other coalitions from going to the polls. In current political parlance, this is known as "getting out your base." The populists are considered the base.

A fully populist government, representing the class interests of the populists, is possible. However, it isn't very common, in part, because modern elections are

expensive and the RWE and LWE have greater access to funding.

Historical Examples

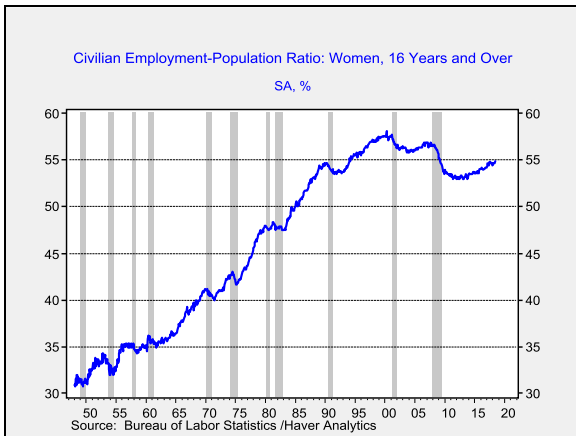
The Roosevelt alignment: Franklin Roosevelt built an unusual alignment, pairing the LWE with the RWP. Roosevelt came from a moneyed background and his policies, which were populist, made him a "traitor to his class."² However, his populist policies were mostly universal; his signature transfer policy, Social Security, was framed as a retirement plan for all. Roosevelt even created an accounting system that gave the impression that the money was separate from the rest of the government.³ However, it should be noted that Social Security initially excluded agricultural workers and domestic workers who were often Hispanic or African-American. This decision was a concession to Southern Democrats to gain their support for the program.⁴

The alignment improved the employment and living conditions for Caucasian men by allowing Jim Crow laws to remain in force in the South and through social constraints that reduced female participation in the labor force.

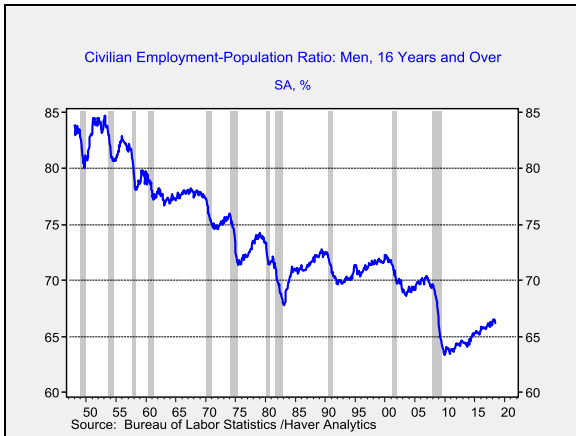
² For a critical analysis of Roosevelt's policies, see: Shales, Amity. (2007). *The Forgotten Man: A New History of the Great Depression*. New York, NY: HarperCollins.

³ Never was this better parodied than Darrell Hammond's impression on *SNL* of Al Gore and the famous "lockbox" for Social Security. See: <https://twitter.com/nbcsonl/status/795780720262336513?lang=en>

⁴ <https://csd.wustl.edu/Publications/Documents/WP16-17.pdf>. For an alternative explanation, see: <https://www.ssa.gov/policy/docs/ssb/v70n4/v70n4p49.html>.



This chart shows the employment/population ratio for civilian women, aged 16 years or older. It took until 1969 for this ratio to break 40%. Contrast this with the male employment/population ratio.



What made this alignment so durable was that the RWE were effectively isolated and the LWP had no other alternative to vote for. In addition, voter suppression in the South reduced African-American participation, effectively boosting the RWP’s voter participation impact.

This alignment began to fray by the mid-1960s. African-Americans, Hispanics and women began agitating for equal participation in economic and political life. Bobby Kennedy’s run for president in 1968 was based on building an alignment of LWP/RWP. Although it is unknown if this

alignment would have worked in practice due to his tragic assassination, it was clearly an acknowledgement that the political alignments were in play.

The Voting Rights Act and Civil Rights Act, both passed in 1965, effectively ended the Roosevelt alignment. Since the early 1970s, the U.S. political alignment has been mostly RWE/RWP and LWE/LWP. For the most part, the class interests of both populist wings have been sacrificed to the class interests of the establishment. The rise of “third way” political figures such as Bill Clinton⁵ moved the LWE to neoliberalism. Essentially, the establishment supported globalization and deregulation and won elections by attracting populists on identity issues.

Nevertheless, the 2008 Great Financial Crisis has emboldened the populists. Barack Obama’s election in 2008 was driven by the LWP, who thought they were getting a Bernie Sanders-type figure. When Obama actually governed like the LWE, the disenchanted LWP were not likely to support him for re-election. However, the RWE selected Mitt Romney, who did not enthrone the RWP. Obama ended up winning but voter turnout fell to 54.9% compared to 58.2% in 2008. The 2008 turnout was the highest level since the 1968 election.

The 2016 election was clear evidence of the rise of populism. Not only did Donald Trump defeat a full slate of RWE candidates in the GOP primaries, but he did so by running on a mostly populist platform. This included full deglobalization and support for universal income support programs.⁶ Bernie

⁵ And, in the U.K., Tony Blair.

⁶ Unlike the other GOP candidates who supported “entitlement reform,” which is seen by the RWP as taking away Social Security, Trump strongly supported maintaining Social Security and Medicare.

Sanders, an independent socialist from Vermont, made a strong showing against Hillary Clinton and weak LWP enthusiasm for her was key to her defeat.

The establishment coalitions are clearly losing influence. As noted above, the advent of social media has partially offset the power of money, which allowed the establishment candidates to exercise influence beyond their numbers. Populists are now able to overcome the handicaps of money and influence and thus the current political alignment is clearly under pressure.

The key question is what replaces the current alignment. One possibility, which was attempted by Bobby Kennedy, would be an alignment of LWP/RWP that would better represent the class interests of populists. Ralph Nader has argued that this alignment would be workable,⁷ although it isn't obvious how the differences in identity could be overcome. We should note that the current government in Italy is this configuration. At present, the RWP in Italy have dominated the government, mostly pushing a low tax, anti-immigration policy

⁷ Nader, Ralph. (2014). *Unstoppable: The Emerging Left-Right Alliance to Dismantle the Corporate State*. New York, NY: Nation Books.

platform. The policies supported by the Five-Star Movement, such as basic national income and a debt instrument that would act as a parallel currency, have not been enacted thus far.

Another possibility is that the current RWE/RWP and LWE/LWP alignments will continue but with the populists dominating. If that occurs, class interests will shift toward deglobalization and reregulation with elections fought over identity issues.

Ramifications

If our assessment is correct, and the era of deregulation and globalization is coming to a close, financial markets will increasingly struggle. Inflation will likely rise, multiples on equities will contract and long-duration interest rates will increase. Companies with strong competitive advantages should outperform those without. Laddering maturities in fixed income is the best response to the likely future, and commodities and related companies should find favor.

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