

Goldman Sachs Exchanges

2024: the year of elections

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Allison Nathan: 2024 is the year of elections. The US elections in November are already attracting significant attention. But voters representing over half the world's population are expected to head to the polls this year for consequential elections in virtually every corner of the globe. I'm Allison Nathan, and this is Goldman Sachs Exchanges.

Every month, I speak with investors, policymakers, and academics about the most pressing market-moving issues for our Top of Mind report from Goldman Sachs Research. On this episode, we'll hear from two of those experts from our latest report which breaks down the 2024 elections.

We speak with Richard Haass, a veteran diplomat and

former president on the Council on Foreign Relations, and Timothy Garton Ash, a professor of European Studies at the University of Oxford. Haass first gives us some context for the numerous elections taking place around the world this year. He says these elections are occurring against a backdrop of democracies becoming more illiberal, a trend he refers to as democratic backsliding. Here's what he said in a recent conversation I had with him.

You've talked a lot about the backslide in democracy across really most democracies around the world. So give us some of that context, and tell us a bit about what's driving that.

Richard Haass: There's a lot of evidence that democratic backsliding is a general phenomenon. Democracies are less, if you will, democratic, more illiberal. Clearly, the United States is the most important example, but one could go around the world -- Turkey, India, Hungary, Poland, any number of democracies. Why this is? It's an interesting question. It might have to do a little bit with the economic performance. A lot of countries have run into rough economic times. COVID had an impact. It's been harder for governments, for societies, and economies

to deliver. And at moments when, if you will, the establishment cannot deliver, it sets up dynamics where those on the outside -- essentially a populist in many cases -- gain an awful lot of momentum.

Allison Nathan: So if we put this into historical context, have we seen periods in the past where we have seen this type of backsliding? Or does this really strike you as quite a unique moment?

Richard Haass: Oh, we've seen backsliding before. Democracy is rarely a permanent innovation. As many have pointed out, democracy is hard. It asks a lot of individual citizens. It asks a lot of society. Ideally, it also delivers a lot. But look, we've had illiberal phases in our own country. The most famous democratic collapse of the previous century was, say, something like Weimar, Germany, in the '20s and early '30s. But there's other examples where democracies have failed.

But I think it's particularly hard now. Globalization has created pressures that have made it hard for democracies. Again, social media. And in the last couple of years or decades, there's been all sorts of phenomena in societies,

whether it's technological change and so forth, that have, again, created pressures that have made it difficult for individuals often to succeed. And any time that happens, when there's individual or collective failure, people then become particularly open to alternatives.

Allison Nathan: So if you take what you just said about the pressures that democracy is facing right now, what implication might that have for this election cycle?

Richard Haass: This is a moment where populists have an advantage. There are moments when things are going well or perceived to be going well where the answer to Ronald Reagan's question, "Are you better off than you were, say, four years ago?" is a clear yes, which helps incumbents. This is not one of those moments.

If you asked a lot of people in this or other countries, "Are you better off than you were four years ago?" they will say no. And so I'm not saying they're necessarily always accurate, but that's the way they feel. There's any number of polls that suggest people feel less well off. They are less confident that they will be better off with the passage of time, and that creates an "all things being equal" situation

that favors outsiders. It favors advocates of change rather than continuity.

Here in the United States, it sets up a situation where it's more difficult to be a successful incumbent seeking reelection than it is to be an outsider.

Allison Nathan: These type of populist successes have been mounting in Europe in recent years. And Oxford's Timothy Garton Ash believes this year's many national and regional elections in Europe could bring more of the same. Here's an excerpt from a recent conversation we had.

Timothy Garton Ash: We have nine national European elections. We have significant regional elections, for example, in Germany, and we have the European Parliament elections. And the common feature of all but one -- Britain -- is a growing concern that hard-right, nationalist, populist parties focused particularly on the hot-button issue of migration are going to do very well and pull the European Union sharply to the right, create more hard-right, populist governments, such as we're already having, for example, the Netherlands and Italy. So I think it's a very important election year.

Allison Nathan: When we last spoke to you several years ago, you had argued that the post COVID years could turn out to be a very good time for European populists. To what degree has it played out relative to your expectations? And could some of the recent successes really be a harbinger for more things to come?

Timothy Garton Ash: I hate to say "I told you so" but I told you so. The list of populist successes is as long as your arm. The fact that a hard-right Islamophobic figure like Herr Wilders could come top of the polls in the sense of an actual election in the Netherlands. The fact that a post neofascist, Giorgia Meloni, is now prime minister of a major founding state of the European community, Italy. The fact that the AFD is scoring at unprecedented levels in West German provinces as well as East German provinces. The fact that at the moment in France, Marine Le Pen's Rassemblement National is many percentage points ahead of Emmanuel Macron in the opinion polls for the European elections. I could go on and on.

But it has played out in exactly the way I anticipated. Bad times are good for populists.

Allison Nathan: But all that being said, we did see a pretty surprising election outcome in Poland, where the Nationalist Party was defeated. Does that give you any comfort in terms of looking at these populist trends?

Timothy Garton Ash: It was the most encouraging political development in Europe in 2023. It was also one of the very few encouraging political developments in Europe in 2023. It absolutely bucked the populist trend. You would be hard pushed to find another major example of the trend going that way. But it is encouraging because it shows you that, even in a country where a populist party has performed quite extensive state capture, including in the media, it is still possible to win an unfair election, given a well-organized and well-led opposition led by Donald Tusk, and a remarkable degree of popular mobilization.

74% turnout. 12% higher than in 1989 when the Poles had the chance to end 40 years of Communist rule. More women than men voting. More young voters than old. This is unheard of. So it's a very encouraging sign, but remember this was a result in a country where the economy was on the whole doing really rather well. So it

stands out against the circumstances in many other places.

Allison Nathan: The populist trend apparent throughout elections within European countries is also likely to extend to the transnational European parliamentary elections taking place this June. I asked Garton Ash what he's watching the gauge the potential impact of these elections on the European Union's policy direction. Here is his response.

Timothy Garton Ash: The first two words to say are Viktor Orban. So the Hungarian leader, prime minister of a country which in my view and that of many other political scientists is no longer a democracy, is the effective leader of a kind of intra-EU opposition which is resisting further integration, which is sovereigntist, which has a very soft line on Vladimir Putin and the war in Ukraine, and a very hard line on immigration and on cultural issues like LGBTQ+.

And the question is, in the parliament comes out of that election, is there some kind of alignment that is going to be able to pull the whole policy agenda of the union his way?

The European Union, as you know, it's a double system. So Orban also has the power that comes from being a head of government in the intergovernmental part and therefore having the power of veto.

So one of the big issues on the agenda is, if we want the EU to be a more effective actor in the world, if we want it to continue to function after the potential new big eastward enlargement to take in the Western Balkans, Ukraine, Moldova, and potentially Georgia, we need more qualified majority voting. Now, if the Orban populist bloc becomes stronger, then that becomes even more difficult than it is at the moment.

Allison Nathan: But amid all of the elections taking place globally, Haass and Ash agree that the US election will be the most consequential one this year by far, not only for the US but for the world. Here's what Haass had to say about it.

Richard Haass: The consequences of November 2024, the US election dwarfs everything else. So much hinges on it, and that's because, one, of the outsized role, power, and influence of the United States and, two, the gap

between the likely candidates. The last 75 years, it's been, for the most part, an extraordinary run in the world.

There's been no other period of modern history which has been as successful as the last 75 years when it comes to the avoidance of great power conflict, an increase in living standards, lifespans have gotten longer, there's many more people living under democratic governments than any other time. So it makes for an extraordinarily good record, and it didn't just happen. Good things don't just happen.

One of the principal reasons it happened is the United States played this large outsized role in the world. And what worries me going forward is our willingness and ability to continue to do that. So the biggest threat to American national security, the biggest threat to international security, it's not that the Chinas and Russias and North Koreas and Irans are not a threat. It's not the climate change is not an enormous problem. But rather what I'm most worried about is that the United States will decide, either formally or informally, that it's no longer willing to play a large constructive role in the world. And that will be bad for the world and, in turn, will be bad for the United States.

And what history suggests is that, if we all come together and there is a consensus to play a large constructive international role, we can deal with most of the external challenges. But if we here at home are not coming together, if there isn't a consensus that we ought to be involved in the world or consensus about the means and ends of America's involvement in the world, that we turn inward in particular.

I think the biggest danger is not that we do too much, which we have at times, but rather that we do too little. That I think it will be extraordinarily threatening because it will create a context in which all sorts of destructive forces can gain the upper hand, whether they're global forces or nation-states or non-state actors. And that's what worries me, that we're at a moment where America's global involvement, much less leadership, can no longer be taken for granted.

Second, there are important differences between the candidates. If I had to sum it up in a single phrase, I'd say Mr. Trump represents an isolationist or unilateralist, America-first tradition. Whereas Mr. Biden represents a much more internationalist alliance-first tradition. And

that's a fundamentally different approach of navigating the world.

And normally when you have American elections, the similarities between the two candidates far outweighs the differences. And even though the differences seemed large and significant at the time -- and I'm not denying they might be -- history suggests, when you take a step back, that actually what the two candidates had in common was much larger. That is not true in this election. This is one of those rare elections where the differences probably outweigh the similarities, and that's why it's such a consequential election here at home for American democracy and also in the world for American foreign policy.

Allison Nathan: With all of this in mind, Haass believes the US election will determine how some of today's most fraught geopolitical issues could evolve, including the Russia-Ukraine conflict and the tense relationship between mainland China and Taiwan.

Both Russia and Ukraine are scheduled to have presidential elections later this year. Will that have any

bearing on that conflict?

Richard Haass: The Russian election is about as close to a sure thing as you get. Mr. Putin will win yet another term and I expect will continue to win terms as long as he's drawing breaths. I think the Ukraine side is more interesting. There's so evidence of a degree of frustration with the leadership. You're beginning to see the emergence of politics, some jockeying in Ukraine. To some extent, it's a matter of personality but also I think ultimately there will be some more of debate in Ukraine about what's the definition of success, where might Ukraine compromise. I don't think 2024 will be a critical year. I think in particular, the Russians are waiting to see what happens in our election. Indeed, that will be a common thread to a lot of questions that a lot of the world wants to see what happens here in November. And then they can adjust their own policies accordingly.

But I think in 2025, if Western support for Ukraine looks to be robust, then I think the odds of some type of a diplomatic or negotiated outcome could go up substantially. So I think 2024 will be an indecisive year both diplomatically and militarily. I don't think the

battlefield will fundamentally alter. I don't think diplomatic prospects will fundamentally alter regardless of what happens in Russia or Ukraine politically. But I think 2025, there are interesting possibilities because either Western support for Ukraine will look to be resilient and robust, in which case Mr. Putin will have to rethink his assumption that time is on his side. Or Western support for Ukraine will not appear to be robust, or at least American support won't. The question then is what are Europeans willing and able to do if the United States dials down its support? And I think that will have a big impact on both thinking in Ukraine as well as Russia.

Allison Nathan: Let's move to another potential hotspot, Taiwan. What might be the geopolitical implications of that election?

Richard Haass: I don't see the Taiwan election as having significant geopolitical implications. The outcome won't change the fundamentals of the relationship between Taiwan and mainland China. Obviously mainland China has its preferences as to the leadership. They would have preferred the KMT candidate to the DPP candidate, but going back to what I just said about Ukraine, I think the

more significant election for Taiwan's future and for its relationship and China might be the American election. And whether the next administration here is a stalwart backer of Taiwan or if questions seep into the equation as to America's readiness or ability to come to Taiwan's defense.

Mr. Trump's approach to China was much more confrontational on the economic side. What Mr. Trump was missing in his first term was a close relationship with allies, including South Korea, Japan, and others. And I think there's a question about his commitment, if you will, geopolitically. So it's confrontational with China economically. Indeed, it's confrontational with just about everybody economically. Mr. Trump is talking about introducing an across-the-board tariff if he comes back in.

But what's unclear is his commitment to Taiwan geopolitically. I think the Biden administration has made it pretty clear they're committed to Taiwan geopolitically, although what's somewhat missing is the backing. The United States is now stretched across three geographies -- the Middle East, Europe, and what's now called the Indo Pacific. And we're stretched thin. And I think one of the

biggest realities facing who's ever the president is we simply don't have a large enough military industrial base, a manufacturing base militarily. And we're not spending enough money on the military. We're spending only roughly half the Cold War average as a percentage of GDP. And we're not spending what we spend in all that intelligently.

We have too small a number of extremely high value but still vulnerable systems. We're not creating a defense that lends itself to operating across three geographies at the same time. And that's simply a reality of our own making.

Allison Nathan: Garton Ash agrees that Europe's fate in many ways hinges on who will occupy the White House next year, with a Trump presidency potentially leading to a full-blown European security crisis. Here's another excerpt from our conversation.

Timothy Garton Ash: The most important event for Europe this year is not any election, it's a war. It's a war in Ukraine. And the decisions Europe makes, absent increased US support for Ukraine, that's a thing that future historians I think will look back on as being the key

decision made in Europe this year.

Second thing, by far the most important election for Europe this year doesn't happen in Europe at all. It is the US election. One cannot emphasize too strongly how much the entire European debate is shaped by these two threats.

The threat of aggression from the East, Vladimir Putin, and from a European point of view, the threat of withdrawal from the West, Donald Trump. And that frames everything. Every single election happening in Europe this year is much less important than the one that's happening in the United States.

Donald Trump has been very clear that he would want to make a deal with Putin over Ukraine. And unlike 2016, there are detailed plans for what a Trump administration would do, and they involve dramatically reducing American military support for Ukraine. So it would be a catastrophe for Ukraine and a huge challenge to European security because, even with the kinds of efforts that are not being made by Europe at the moment in terms of building up our own defense industry, our own military, our own defense spending, there is no way we can get to that point called strategic autonomy in just one year when Europe can

defend itself.

So the challenge to Ukraine is existential, but the challenge to European security is also substantial because even if Trump doesn't do what he's talked about and pull out of NATO, the issue would be the credibility of the Article V guarantee. Is the US really going to go to war for Estonia?

In terms of the other two elections, one of them is almost certainly not going to happen. Ukraine was meant to have parliamentary elections last autumn and a presidential election this spring, but they can't happen under martial law which is still enforced. I've been to Ukraine many times since the beginning of the full-scale war. There's a clear consensus that an election will be far too divisive in wartime.

But the tension between unity and democracy in Ukraine is growing more and more intense. After all, this is a war ostensibly to defend democracy. But how can you be a democracy if you never have an election? And so the rivalry between Zelenskyy and his [UNINTEL] commander-in-chief Zaluzhny and the mayor of Kyiv, Vitali Klitschko, and other politicians, those rivalries which are coming back

are a factor which I would say is weakening Ukraine.

As for the presidential election in Russia, of course, there's not any election at all. No one has any doubt he's going to win. But what is clear is that the massive air bombardment of Ukraine, which we've seen at the beginning of this year, and the offensive actions by the Russian armed forces in Eastern Ukraine who are pushing forward are designed to deliver at least some sort of symbolic victories into the March presidential election in Russia because Putin doesn't just want to win the election, which he's bound to do. He wants to win very big.

Allison Nathan: Is it right to think that ultimately nothing decisive will happen in the conflict until the US election outcome is known?

Timothy Garton Ash: The general consensus of the military experts is that nobody's going to win this war in 2024 barring miracles. What both sides do in terms of rearmament, training, and deployments in 2024 may determine who wins in 2025 or 2026. So there's a whole lot of stuff that happens in the first nine months of the year with or without US election. But it's also clear that Putin is

waiting for Trump.

Allison Nathan: Let's talk about the UK. There's a lot of discussion and speculation about the Labour Party potentially returning to power in the next election. Do you think that's likely? What would be the implications for the relationship between the UK and the EU?

Timothy Garton Ash: The universal assumption in Westminster is that the conservatives are going to lose this election. And I'm formulating it carefully. The conservatives are going to lose. I've never forgotten meeting Boris Johnson in 1997. He had stood unsuccessfully in the election, which Tony Blair won. And I remember him saying to me on every doorstep voters said to him, "It's time for a change." Well, that is so much the feeling in the country now. It's time for a change. So the Tories are probably going to lose and lose big. And therefore we have either a clear majority Labour government or some sort of coalition or minority government.

In terms of the relationship with the EU, there are then two possibilities. And by the way, the result of the US election will be a major factor in this, too. Either it's a continuation

of hyper gradualism, very small steps of the UK coming closer to the EU, which has already started happening under Sunak. Or there is what I call a gradualist reset. In other words, there's a much larger reset which covers many fields -- science, trade relations, defense cooperation, foreign security structure cooperation with the EU, and so on -- under the single heading of security. Those it seems to me are the two options.

Part of it will depend on what Labour wants to do in this country. But the other part of it will be the willingness of the EU to engage in this conversation. If the next president of the United States is going to be Donald Trump, there will be an overwhelming motive for both sides to develop this closer relationship because we will have a crisis of European security across the board.

Allison Nathan: With so much at stake, we'll keep a close eye on how this year's elections unfold from here. I'll leave it there for now. If you enjoyed this show, we hope you follow us on Apple Podcasts, Spotify, or Google Podcasts or wherever you listen to your podcasts. And leave us a rating and comment. And if you'd like to learn more, visit [GS.com](https://www.gs.com) where you can find a copy of this report

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