

Intereconomics

Review of European Economic Policy

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Populism, Protectionism and Paralysis

Populism, protectionism and paralysis have become key features of almost all Western democracies today. Right-wing and left-wing populism has contributed to an increasingly confrontational discourse. It also has had a major economic impact. The rise of protectionism and economic nationalism is one result of a populism that paints foreigners, immigrants, Europe or China as enemies of national interests. At the same time, populist politics that blame all ills on others while promising a brighter future make it hard to establish an honest and constructive debate about needed reforms in times when globalisation and technological change are fundamentally transforming societies and economies everywhere.

Tackling political populism requires understanding the root causes. While cultural factors may have contributed to its rise,¹ it is widely established by now that economic factors also play a decisive role.² One important economic dimension is that of the rising inequality in wealth, income, jobs, education and various dimensions of economic opportunity. Thus tackling populism ultimately requires addressing economic and social inequalities within as well as across countries.

In most European nations, populism has been directed not only against elites and other groups within nation states, but increasingly against Europe and its institutions.³ This is threatening the entire process of European integration, with the exit of the United Kingdom from the European Union on 31 January 2020 being but one example. One key feature in the Brexit debate has been the immigration of Europeans to the UK over the past 20 years and the desire to strengthen national sovereignty, for which European integration has been seen by many Britons as a major impediment. While one may disagree on whether Britain will really be able to strengthen national sovereignty – or whether in fact national sovereignty will decline further as many important interests of Britain in the past were protected by the EU in an increasingly competitive global environment against large political and economic players, in particular the United States and China – pro-Brexit voices have repeatedly blamed national failures, such as those related to the National Health Service, on Europe.

However, such anti-European populism has not only been present in Britain, but in every single European country. One example is the bashing of the European Central Bank (ECB) and the euro, in particular in Germany, for challenges or problems that are essentially outside of the sphere of influence of the ECB. Politicians and the media are blaming the ECB for stealing from the small German saver through low interest rates, for damaging German banks and for making Germany pay for the mistakes made by the other European countries and contribute to financial costs. The former German finance minister even blamed the ECB for the rise of the right-wing Alternative für Deutschland (AfD) party in Germany. While many Europeans have not fallen prey to such anti-European rhetoric, it has damaged the reputation of European institutions, thereby weakening the case for pursuing European reforms.

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- 1 P. Norris, R. Inglehart: *Cultural Backlash: Trump, Brexit, and Authoritarian Populism*, Cambridge 2019, Cambridge University Press.
- 2 D. Rodrik: Many forms of populism, VoxEU.org, 29 October 2019; B. Eichengreen: The two faces of populism, VoxEU.org, 29 October 2019.
- 3 P. Collier: *The Future of Capitalism: Facing the New Anxieties*, London 2018, Penguin Random House; M. Fratzscher: *The Germany Illusion: Between Economic Euphoria and Despair*, New York 2018, Oxford University Press.

Moreover, this anti-European populism and nationalism has given rise to economic protectionism. US President Donald Trump has openly been pursuing an 'America first' strategy, in which he has cancelled several multilateral or international treaties, such as the 2015 Paris Agreement on climate change, free trade agreements in North America and the Iran nuclear deal, to name but a few. In 2018 Trump openly threatened trade tariffs against China and European economies, in particular Germany and German automobiles. He engaged in a tax reform with the declared objective of bringing American capital back home.

To be fair, most European countries have also been ratcheting up protectionist economic policies in recent years. Taking Germany again as an example, its government has repeatedly denied that its huge current account surplus of 230 billion euro, or 7% of German GDP, constitutes a form of protectionism. Not only is this surplus in breach of European rules (specifically the macroeconomic imbalances procedure) and does it contribute to global imbalances in trade and capital flows, but it is directly the result of mercantilist policies, which encourage exports and discourage imports, e.g. by regulating services sectors in a way that makes it difficult for foreign companies to compete and by creating high barriers to raising investment with Germany.

The protectionism in Europe and elsewhere is not just linked to trade, but also to foreign direct investment, taxation, public procurement and the value of currencies. China triggered a controversy in the summer of 2019 by devaluing its currency, with many other Asian countries following suit, while the US and the euro area could not counter such policies. The discussion in many European countries to ban Chinese companies from investing in key infrastructure, such as telecommunications or high-tech industries, is seen by many as another form of protectionism.

In short, while one may argue about the specific place where justified market-oriented economic policies end and protectionism begins, there has been a clear and pervasive move towards nationalist and protectionist economic policies almost everywhere in the Western world in recent years. This includes not only reforms at the national level, but reforms of European institutions and policy in particular. For instance, much-needed reforms of the Economic and Monetary Union have stalled in recent years as national politicians have been highly suspicious of any changes that mean more competencies for Europe or even simply more coordination among national policies. This ranges from industrial and competition policies as well as climate and energy policies to reforms of social security systems.

How can anti-European populism be addressed and dealt with? The answer depends on the origins of such populism. While globalisation and technological change may have been an important driver behind economic inequality, economic and social reforms at the national level have done often little to address them. An example of this is the rise of the right-wing, populist AfD party in Germany, which can to a large extent be explained by increasing economic and social inequalities. A study by Franz et al. finds that citizens in regions with weak social and demographic structures, with few economic opportunities, low growth and high unemployment voted in much higher numbers for the AfD in the national elections in 2017 and the European elections in 2019.⁴ In fact, these factors explain up to 70% of the votes for the AfD in electoral districts. Hence economic and social polarisation has clearly played a role in the rise of populist parties and populist policies.

In conclusion, rising economic and social inequalities have been one important cause behind populism, protectionism and paralysis in Europe. Curtailing economic protectionism and overcoming the paralysis by improving economic inclusion and social safety nets, and by creating opportunities for more Europeans to find jobs and benefit from globalisation and technological change should be important first steps for European governments to reduce the scope for populist politicians and activists.

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⁴ C. Franz, M. Fratzscher, A.S. Kritikos: At Opposite Poles: How the Success of the Green Party and AfD Reflects the Geographical and Social Cleavages in Germany, DIW Weekly Report 34/2019.

The Rise of Populism

Case Studies, Determinants and Policy Implications

New political parties and peoples' movements have been on the rise in Europe and worldwide for over a decade. In order to examine the changes in the political landscape, particularly the rise of populist sentiment across Europe, Intereconomics and the Centre for European Policy Studies (CEPS), invited renowned academics, policy advisors and regional experts to present their ideas at the 9th annual joint conference in November 2019 in Brussels. In this Forum, conference participants look at the common economic determinants and consequences of the current political climate and question the role that the EU may have played against the backdrop of country cases and regional studies. Their contributions analyse issues including the Great Recession, austerity measures, inequality, migration and cultural backlashes and examine the roles they have played in the creation of the current climate as well as the impact that this, in turn, has had on the economy. The struggle to categorise the political sentiment of this period is also carefully considered as the definition of the term populism varies widely and often does not reflect the nuances and complexity of political developments.

Achieving Socio-Economic Convergence in Europe

Sir Paul Collier, Oxford University, UK.

Italy's Political Upheaval and the Consequences of Inequality

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The Great Recession and the Rise of Populism

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Against a General Theory of Populism: The Case of East-Central Europe

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Austerity and Brexit

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Economic Crisis, Poor Governance and the Rise of Populism: The Case of Greece

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Populism: Root Causes, Power Grabbing and Counter Strategy

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Sir Paul Collier

Achieving Socio-Economic Convergence in Europe

Europe faces common threats, both geopolitical and environmental, for which it will need common action. But common action, which usually involves sacrificing short-term national advantage, is politically very demanding. While the impetus may be common threats, sustaining it will only be feasible if the Union has strong legitimacy with Europe's citizens. As Brexit and the rise of European populism has revealed, such practical legitimacy is under attack. In this article, I diagnose the origins of populism and propose ways the Commission can best restore support among those most disaffected.

The origins of European populism are two socio-economic divergences that began around 1980 and have been at their most extreme in Britain. One is spatial, the other educational. I discuss these processes more fully in *The Future of Capitalism: Facing the New Anxieties*. Here, after a brief summary, I focus on how core European policies have affected them and how new approaches by the Commission could potentially restore social convergence. The subsequent section focuses on the past effects of the Union's four flagship economic policies: the internal market, free movement, the euro, and the identity of being European. The article then focuses on healing spatial divergence, suggesting policies that might enable each region of Europe to have at least one major city that is globally competitive and anchors the region's most able young people. Finally, the article focuses on healing educational divergence, suggesting policies that might enable the half of Europe's population that is less cognitively gifted to acquire and retain skills that make them highly productive.

The political economy of social divergence

Spatial divergence takes three forms. In some countries, notably Britain, France, Portugal and Poland, national metropolises have outpaced provincial cities and towns, some of which have crashed as their core industry has relocated to Asia. The primary driver of this process, which reverses the trend of the previous two centuries, is probably the increasing globalisation of markets, supporting fewer but bigger winning clusters of agglomeration. Within Europe, London is the most striking example

of this process, with the city becoming the most successful of the world's three leading financial clusters. The second form of spatial divergence is between regions. It is notable that the main secessionist movements in Europe – Catalonia, Scotland, Italian's northern regions and Flanders – have all been the wealthy regions of their countries wishing to escape from the claims of poorer regions. Again, it is most marked in Britain, where indices of regional inequality have risen very substantially. The final spatial divergence is between countries. This has been reflected in incomes, unemployment and migration. Most notably, Germany has benefited from rising incomes, low unemployment and inflows of skilled labour, whereas Italy and Greece have suffered a large decline in income, high unemployment and the emigration of skilled workers.

The educational divergence is between those with good tertiary education on which sophisticated skills are built that have become steadily more valuable, and those with weaker education who had invested in manual skills. The primary driver of this process is probably technological, i.e. the increased complexity of production. Complexity has increased the need for sophisticated skills which require university-built cognitive capabilities, while simultaneously reducing the value of manual skills.

The spatial and educational divergences have become intertwined due to the tendency of the best-educated young people growing up in declining cities, regions and countries to migrate to the metropolises. We can conceptualise this process as a rise in the productivity of skilled workers in the metropole: an increase in the 'rents of agglomeration', which accrue partly to those who own land and property, and partly to those with high-value skills. These rents attract migrants from the provinces. But potential job seekers are differentiated both by skill and by housing needs – willingness to accept the bedsit lifestyle. The winners, who gain by relocating, will be those with relatively high skill, but relatively low housing demand.¹ This is why it is predominantly those young people who are well-educated and still single, for whom relocation to

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¹ P. Collier, A.S. Venables: Who Gets the Urban Surplus, in: *Journal of Economic Geography*, Vol. 18, No. 3, 2018, pp. 523-538.

the metropole is attractive. Once people are married with children, and therefore have a greater need for housing, the gains from higher metropolitan productivity are more than offset by the higher costs of housing. The exit of the brightest and best youth, while their parents are left behind – both physically and perhaps psychologically – aggravates the sense of despair in left-behind places. At its extreme, in provincial America, it manifests as ‘deaths of despair’.² Hence, the divergence of the provinces cannot simply be addressed by compensating transfers of consumption. What is needed are credible prospects of recovered pride that retain each region’s youth.

These post-1980 spatial and educational divergences interacted with reconfigurations of identity. By 1980, the governments of Western Europe had built welfare states that were without historical precedent. The political underpinnings of this extraordinary achievement were that the terrible experiences of the Second World War, in which civilians had suffered alongside soldiers, had forged a sense of common national solidarity. In consequence, the successful accepted burdensome new responsibilities towards the less successful. For example, in Britain the high-income groups accepted rates of marginal income tax above 80% in order to fund the National Health Service. Similarly, in France during the *Trente Glorieuses*, huge state expenditures funded by taxation and debt put in place the transport infrastructure that enabled prosperity to be spatially widely spread.

The new economic divergences gradually undermined this new sense of shared identity. Diverging incomes generated diverging collective identities which gradually unwound the capacity for a sense of common purpose. As income differences widened, successful people in successful metropolises found that their self-interest was to reduce their attachment to their national identity, substituting it for a professional, or metropolitan, identity. Collier presents a simple rational choice model in which, in response to greater income inequality, there is a successful ‘peel off’ from shared national identity, in which there is a withdrawal from their obligations to less-successful fellow citizens.³ An example of this psychological process is the description by a London-based journalist of how he and his fellow metropolitans perceive provincial Britain: “It feels like being shackled to a corpse”.⁴

Since well-educated metropolitans have wielded disproportionate political influence, they reshaped policy priori-

ties in favour of their own concerns, which did not include remedying the divergences from which they had benefited. Unsurprisingly, this neglect induced a corresponding shift in the identity of those left behind towards grievance and opposition.

How the flagship policies of the European project affect these divergences

The European project is primarily political and legal rather than economic, but since the move to the European Union, four flagship policies have each been economically consequential, namely the internal market, free movement, the euro and the promotion of European identity.

The internal market

The gradual lifting of national barriers protecting markets for goods and services is qualitatively analogous to globalisation: markets become more competitive. This can produce substantial gains, squeezing profits and thereby benefiting consumers, and intensifying the quest for efficiency. As Philippon has shown, the internal market has achieved this, generating substantial benefits.⁵ At a more mundane level, the basic theorems of international trade tell us that liberalisation will produce powerful redistributions *within each country*. Specifically, the less skill-intensive activities will shift to the low-income countries within Europe, reducing low-skill wages in the countries where they were high, while raising them where they were low. The internal market has therefore helped regional convergence between countries, but accentuated educational divergence within the higher-income countries. Normally, the gains of those who benefit will be larger than the losses of those who become worse off within each country, so that a sufficiently well-designed system of compensation could leave everyone better off.

While the Commission had competencies to enforce mutual trade liberalisation among member countries, it did not have the corresponding competencies to ensure that within each country those who gained would compensate those who lost. This was left to national governments, resulting in considerable variation in policies. Arguably, this matter could have received more attention, and its neglect may have contributed to anti-European sentiment among aggrieved populations of workers in some of the high-income member countries.

2 A. Case, A. Deaton: Deaths of Despair and the Future of Capitalism, forthcoming 2020, Princeton University Press.

3 P. Collier: Diverging Identities: a Model of Class Formation, Oxford Economic Papers, 2019.

4 J. Ganesh: Financial Times, October 2017.

5 T. Philippon: The Great Reversal: How America Gave Up on Free Markets, 2019, Belknap Press.

Free movement

The introduction of free movement affected both spatial and educational divergence. While the basic theorems of economics suggest that the internal market bestowed mutual benefits among member countries, there is no equivalent theorem concerning movements of labour between countries. Once firms and capital become mobile, as they are in Europe, efficiency can be achieved by moving them to labour, rather than labour to firms and capital. Indeed, the central point of the factor price equalization theorem was to show that as long as activities are free to relocate, the internal market should gradually make movements of both labour and capital unnecessary.

The key effect of free movement has been to encourage spatial mobility of labour in the interest of a more efficient allocation of resources for given locations of firms and capital, thereby inadvertently tending to amplify initial spatial inequalities. In practice, those most likely to gain from migration are the skilled, and so it has enabled relocation of the well-educated from the poorer regions of low-income member countries to the richer regions of high-income members. The governments of the poorer countries of Europe that have suffered from rapid brain drain, such as Greece, Estonia and Romania, are now unsurprisingly wary of free movement. In contrast, the German government, which has sought to offset an unsustainably low birth rate through immigration rather than the more costly strategy of greater family support, remains enthusiastic. Free movement has had effects both on the regions of exit and the regions of entry.

As an example of the effects of exit, I take the emigration of around 30% of Romania's doctors to better paid jobs in Northern Europe. Those doctors who have emigrated have principally come from poor provincial areas of Romania rather than Bucharest, resulting in a severe deterioration in the medical coverage of small towns. The only way for provincial populations to have protected the healthcare of their young and old would have been to raise the incomes of their doctors, already a high-income group in their communities, towards parity with the Northern metropolises. This new outflow of the highly skilled to more attractive opportunities fully meets the efficiency criteria by which resource allocation is commonly assessed. In treating high-income patients in Paris, rather than low-income patients in small-town Romania, the productivity of Romanian doctors as measured by their earnings has unambiguously risen. If efficiency is the sole criterion, then the integration of the internal market has achieved its purpose. It can also be judged to be a success on the Libertarian criterion: Romanian doctors have benefited from the increase in their individual liberty

achieved by European cooperation. However, on social well-being criteria, it can be seen as inadvertently damaging: tempting vital members of communities into abandoning their obligations.

As an example of the effects of entry, I take London, the European city that has attracted the most immigrants. Well over half its population is now first- or second-generation immigrant. As discussed, the people who will find relocation to London most attractive will be those with high skills and low housing demand. Prior to free movement, the eligible pool of potential workers from whom these best-suited people were drawn was the 50 million people living in provincial Britain. Free movement radically expanded this pool of eligible people from 50 million to 500 million. One consequence of this more intense competition for jobs in London was that the average skill level of entrants to the London job market rose. This was a gain in allocative efficiency, but as with Romanian doctors, it produced powerful redistributions. The increase in levels of individual skill increased the rents of agglomeration – the gain in productivity from clustering many skilled people together. These rents were shared between those who owned land and property in London and the highly skilled.⁶ But since many British provincial workers who would otherwise have received these jobs had been out-competed by European workers (with higher skills or lower housing demand), there was a corresponding transfer of these rents of agglomeration. As with Romanian doctors, this can be seen in different ways. It is an increase in allocative efficiency and in freedom for some successful people. But it is also a transfer from provincial Britons. The beneficiaries are London land and property owners, those highly skilled Britons remaining in London, and skilled Europeans who moved to London.

Notably, in these examples, the effects both of exit and of entry disadvantaged the less successful groups of Europe's citizens.

The euro

The decision to replace national currencies with a common currency left open the rules by which that common currency would be managed. Prior to the common currency, national practices had been very different and so a common currency required some common standard. Had the common currency adopted the practices of the lira, the consequences for spatial divergence would most likely have been quite different from the adoption of the practices of the Deutschmark, which was what actually happened. This gave Germany, with its expectations of

⁶ P. Collier, A.S. Venables, *op. cit.*

low-inflation, a competitive advantage afforded by an undervalued real exchange rate which cumulated to become considerable: hence its rapid growth, very considerable balance of payments surplus and very low unemployment. This advantage was amplified through the Hartz Reforms and the ‘black zero’, which lowered wage costs that would otherwise have been offset by a market-driven appreciation in the nominal exchange rate. Conversely, Italy, and other previously high-inflation countries, received an initial windfall from reduced interest rates on government debt, generating a temporary boom which delayed downward revisions in wage demands. Subsequently, governments could only maintain payments equilibrium by deflating their economies, hence inflicting high unemployment on their citizens. In response to this divergence in unemployment rates, skilled labour migrated, giving German firms a further windfall from the influx of ready-trained labour. This influx of labour rescued German firms from the consequences of social policies which had induced the birth rate to fall well below replacement rates. But in doing so, it arguably delayed the necessary reforms in social policy.

The divergence due to the euro is now fairly well understood by economists, but not yet sufficiently understood by either citizens or politicians. Notably, in their resistance to a ‘transfer union’, Germans appear genuinely to be unaware that given the policies adopted for the euro, Europe already is a powerful transfer union of which they have been the major beneficiaries. The modest scale of offsetting fiscal transfers, which is the focus of attention, is trivial in comparison to the effects of real exchange rate misalignment and the relocation of skilled labour. This misunderstanding is important because in a democracy good policy is dependent upon the existence of a critical mass of informed citizens and politicians.

European identity

The final policy, which indeed was considered so important that it probably motivated the others, was the promotion of European identity. Potentially, such an identity could work either as a substitute or a complement for national identities. The impetus for the founding of the European Community was, understandably, the fear of further intra-European warfare. Just as the purpose of regional economic integration was to create sufficient interdependence in production that such warfare would be *materially* impossible, the purpose of European identity was initially to *substitute* for national identity, thereby making intra-European warfare *psychologically* impossible.

However, the potential for European identity to *substitute* for national identity has profound consequences

for the poorer citizens of Europe’s nations. For them, the post-war sense of shared national identity had become a hugely valuable asset. Post-1980, just as the new economic forces of social divergence were necessitating national solidarity, this sense of shared identity was being unwound. The most successful citizens, namely the well-educated metropolitans who have enjoyed rising relative incomes, have gradually peeled off from shared national identity. The option of being ‘European’ has perhaps been a convenient justification for them to withdraw from obligations to their provincial fellow citizens.

Evidence for this interpretation comes from the structure of support for the European Union. Generally, strongest support for Europe is found among the successful metropolitans, whereas hostility to Europe is most common among the provincial less-educated – the people who have been marginalised by divergence. The clearest evidence of this comes from the voting pattern in the Brexit referendum. The only region of England and Wales to support remaining in the Union was London: every other region voted for Brexit. Further, among the highly educated population, those living in London were more likely to vote for Remain than those outside London, while among the less-educated population, those living in London were *even less likely* to support Remain than those living elsewhere.⁷ The Brexit Referendum is particularly revealing because it was a rare instance of a vote entirely focused on attitudes toward the Union. However, similar patterns are evident from support for the *gilets jaunes* in France, the AfD in Germany, the League in Italy, and Vox in Spain.

In essence, to the extent that it has been taken up by citizens to date, the option of European identity has arguably been interpreted primarily not as the acquisition of new obligations towards the less successful regions of Europe, which would evidently help regional convergence, but as the exit from former obligations towards the less successful regions of one’s own nation. The Commission might try to address this directly by clarifying that European identity cannot legitimately be used to exit obligations to others within the nation, but incurs further obligations to those in other member countries.

Promoting spatial convergence

A fundamental rationale for the European project has been to promote spatial convergence. This goal is both valuable and feasible. It is valuable because common European action is increasingly necessary, but the willing-

7 P. Collier: *The Future of Capitalism: Facing the New Anxieties*, 2018, Allen Lane.

ness to accept that it should prevail over national preference will dissipate if poorer regions and countries fall behind.

Some market fundamentalists seem to believe that the internal market will automatically achieve regional balance across Europe, and the shift of labour-intensive activities to low-income member countries is indeed a force for convergence. Unfortunately, the spatial allocation of economic activity is more complex than envisaged by the classical theory of international trade: more recent theories emphasise the importance of agglomeration – cities, not countries, are the key spatial unit of analysis. The market responses when the key export base of a city loses competitiveness have recently been analysed by Venables.⁸ Initially, markets drive down the price of property and local wages. The response to these market signals is that the city attracts individual footloose firms whose business models depend upon cheap accommodation and low wages and whose markets are regional or national rather than global. As property gets reoccupied, the scope for a new cluster of knowledge-intensive firms that are globally competitive closes. The city's labour market falls off the escalator of skill accumulation and innovation found only in the clusters of high-productivity firms such as that which was lost.

Successful cities, which are the key spatial phenomena, are the result of coordination: interdependent firms determine investment strategies based on their expectations of how the other firms with whom they need to co-locate will invest. There are an infinite number of these possible spatial equilibria and so firms face radical uncertainty. There are three possible responses to such uncertainty. One is to remain in the current cluster: successful clusters are fairly persistent. The second is indecision: firms preserve the option value of waiting. The third is the emergence of some narrative that circulates within the peer group – the interdependent firms. As the narrative circulates, it gains credence simply because other members of the peer group come to hold the same ideas. It can become a 'conviction narrative' on which firms are willing to rely in taking a decision.⁹ Conviction narratives abound. As Schiller has recently shown, they are often false and eventually implode.¹⁰ But precisely because there are so many possible spatial equilibria, *spatial* narratives have the unusual property that over a wide range they can be self-fulfilling.

8 A.J. Venables: Globalization and urban polarization in: Review of International Economics, Vol. 26, No. 5, 2018, pp. 981-996.

9 D. Tuckett, M. Nikolic: The Role of Conviction and Narrative in Decision-Making under Radical Uncertainty, in: Theoretic Psychology, Vol. 27, No. 4, 2017, pp. 501-523.

10 R. Schiller: Narrative Economics: How Stories go Viral and Drive Major Economic Events, 2019, Cambridge University Press.

If Singapore is 'the city of the future', it is considered a safe place in which to invest and so it becomes the city of the future. If Rotherham is 'doomed', firms will not go there and its skilled young will leave. One role of public policy in achieving spatial balance of opportunities is to anchor expectations through an irreversible commitment such as the provision of economic infrastructure and thereby a shift in such narratives.

Lessons from Britain and Germany

Britain's spatial distribution of economic activity is an extreme example of the consequence of market forces allied to a conviction narrative that has favoured London, with no attempt to use offsetting public policies. The Gini Coefficient of spatial activity in Britain is far higher than any other large country in Europe.

Some market fundamentalists believe that such extreme agglomeration is allocatively efficient: people in London are highly productive, especially the skilled, and so concentrating more skilled people in London would be even more efficient. The fallacy in this is that extreme concentrations of people in megacities result in a loss of liveability. Although London is efficient at transforming inputs into income, it is highly inefficient at transforming income into well-being. Although London is the region with the highest average income in Britain, it is also the region with the lowest average score on 'well-being'. The reasons for this are not yet adequately analysed, but both the material conditions of congestion reflected in crowded commuting and lack of floor space, and the social isolation reflected in a loss of proximity to family and belonging to community, are plausible contenders. Further, the same spatial narrative that supported the success of London, namely, that it was the place to go for bright young people, deepens the demoralisation of the people remaining in regions that are being left behind.

That public policy, sustained over decades, can achieve a wide spatial distribution of successful cities is demonstrated by Western Germany. After two decades of active policy and massive fiscal transfers, Eastern Germany has achieved considerable convergence of incomes, but that has been insufficient to prevent the emergence of grievance over 'second-class citizenship'. In Britain, the only city apart from London that has productivity above the national average is Edinburgh. The comparison of Edinburgh with the successful dispersion of knowledge-clusters in West and limited successes in East Germany, may help to guide spatial policies in the larger context of Europe. While we still do not fully understand how to catalyse successful cities, a combination of seven characteristics looks to be helpful.

The first characteristic is local political autonomy. Edinburgh, like German cities, has considerable developed political power. In Germany, this is an implication of the federal constitution, in Britain it is a consequence of the rise of Scottish nationalism (itself a consequence of the location of Britain's oilfields).

The second characteristic is a locally based finance industry. Only if finance is locally based can it use the tacit knowledge in lending decisions that comes from frequent personal contact with the management of local firms. Further, only locally based finance has an overarching alignment of long-term purpose regarding local prosperity. The finance industry always starts as local, because of the value of local knowledge for lending decisions, but the dangers posed by spatially correlated default risks create a centripetal force. By the end of the 19th century, the Bank of England had forced the pooling of spatial risks by requiring the merger of the many regional banks into just five national banks, all of which were London-based: outside London, Britain has very few financial centres. Edinburgh is an exception because Scottish law is distinct from English law, and the remit of the Bank of England did not extend there. The German central bank solved the risk problem by insurance rather than concentration, so that German banking remained local.

The third characteristic is a locally organised business community. This is probably consequential on the first two characteristics: for obvious reasons, business communities tend to organise themselves so as to be near to political and financial decision-taking. In Edinburgh and most German cities that is local, while in England it is national, and clustered in London. In Germany, public policy has considerably encouraged the local basis for business organisation by legislation which gives such organisations important functions.

The fourth characteristic is locally based institutions of tertiary education. Their potential importance to the local economy is partly for training in locally pertinent skills, and partly to generate research that helps to keep knowledge-intensive firms sufficiently close to the frontier that they can sustain their position. Again, legislation can help or impede links between education and local business. For example, in the 1980s Britain converted its locally oriented technical colleges – 'Polytechnics' – into universities, and this changed their sources of finance, reducing their links to local government and local business. In contrast, the Scottish Government has strengthened the local connections of its universities: uniquely in Britain, it has made its universities free to students – but only if they are Scottish. German tertiary education has far stronger

links with local business, through its prestigious vocational training programs.

The fifth characteristic is a civic society that generates a strong sense of local culture: civic society in Edinburgh pioneered the city's annual festival, which has created a 'brand' attracting 500,000 people from around the world. German cities have particularly strong civic society, partly because public policy encourages participation in *verein* which have considerably expanded.

The sixth characteristic is an infusion of public finance that empowers local political leadership to upgrade the infrastructure that can anchor a new narrative, and which can be used to encourage the other local actors to collaborate. Edinburgh was fortunate to benefit financially from the political consequences both of Scotland's oil, and of a Scottish-dominated government for the period 1997-2010, which between them sustained a large fiscal transfer to the Edinburgh-based Scottish Government. Public spending in Scotland has been approximately 15% higher than that in England.

The seventh and final characteristic is good local leadership that forges purposive collaboration between local government, local business, local colleges and local civic society. The purpose must be feasible, forward-looking and seen as beneficial to all, so that it can be held in common. In the absence of such leadership, the more likely outcome in a broken city is that the narrative of local prospects becomes discordant and backward-looking, as each entity blames the others for failure, an example being enmity between the local government and local business. In Edinburgh in 2009, leaders brought the various local entities together to agree on attracting a sector that had the potential to generate knowledge-intensive jobs: they chose information technology. At the time, the city had only two such firms, but with each entity playing its role, Edinburgh was able to attract many more. As of 2019, Edinburgh had 480 IT firms – the largest cluster in the whole of Europe. Again, public policy can help or hinder the emergence of good local leadership. Germany has long had powerful mayors. Being a clear route to the top of national politics, these positions attract highly able people: for example, Germany's current Minister of Finance and Deputy Chancellor was previously the Mayor of Hamburg. In contrast, other than in London, England is only now piloting the idea of mayors.

Not only can these characteristics account for the success of Edinburgh and the cities of West Germany, their absence may help to explain both why Britain has greater spatial inequality than Germany, and why, although East Germany has caught up in terms of incomes, its popu-

lation has become highly disaffected. East Germany did not start in 1990 with local business communities: its state enterprises were nationally organised. The massive financial transfers were primarily to raise per capita consumption and to attract subsidiary operations of West German businesses rather than to build prosperous local businesses. Hence, East Germany has been slow to develop locally rooted business communities. Further, the GDR system of top-down mass scrutiny had undermined local social cohesion and cooperation: people had become distrustful of each other and had little experience with local collective initiative. The national policies implemented in post-1990 East Germany have consequently not enabled its cities to build the interdependent clusters of knowledge-intensive firms which would have retained bright young people. Instead, its cities have filled up with the low-cost, low-skill enterprises predicted by Venables.¹¹ Consumption levels have risen, but have stalled at significantly below West German levels.

Implications for European policy

The internal market will not automatically induce spatial convergence. While it is not feasible to bring productive jobs to wherever people want to live, a reasonable goal is to ensure that every region of Europe has at least one city that has a knowledge-intensive cluster of businesses that are competitive either globally, or at least within the European market. Good regional transport infrastructure would then enable people who belong to the region's other towns and cities to remain in them, some commuting, and the rest working in activities openening in more localised markets. West Germany suggests that such a spatial distribution could be self-sustaining; Edinburgh suggests that it is feasible to catalyse successful cities; and East Germany suggests that it will take more than fiscal transfers: most of the remaining six desiderata were missing.

The appropriate role for the Commission is to orchestrate, region-by-region, the provision of the seven characteristics that appear to be effective in catalysing a successful city. Evidently, this cannot mean that the Commission itself directly provides them, but that it works with national and regional governments to ensure that there is a coherent plan within which public actions are clearly assigned. The Commission already has a Structural Fund. Were this fund linked to the purpose of catalysing a successful city in each region, money for a city could be made conditional upon the other levels of government – national, regional and municipal – each playing its appropriate role in contributing to specific parts of the seven-characteristic

¹¹ A.S. Venables, op. cit.

package. Evidently, the larger the fund, the more leverage it would provide.

Reversing skill divergence

Skill accumulation must necessarily occur through two distinct paths. Universities deepen the abilities of those young adults well-suited to cognitively focused education, and this provides a cognitive platform on which specialist professional skills can be built. This process is generally working well in Europe, with Britain being the most successful. The half of young adults whose abilities are less suited to cognitively focused education need to make a more demanding transition to the acquisition of a range of non-cognitive, vocational skills. This process varies considerably around Europe. In many countries this group is falling further behind those with cognitive abilities, with Britain being among the least successful.¹²

Fortunately, the diverse range of policies important for non-cognitive skill accumulation around Europe provides a natural arena for rapid social learning. The process, which results in a young adult who is fully equipped with the necessary non-cognitive skills to be productive and then maintains them, consists of a long chain of distinct phases, each dependent upon specific supportive public policies. Although no country has a complete chain of such policies that are best-practice, for each phase some European country can reasonably be judged successful. The role of the Commission is not to force standardisation of these policies, but to encourage more rapid learning from this variation. Through comparison, evaluation, and persistent emphasis, rapid and substantial improvements in addressing skill divergence could be achieved.

Non-cognitive capacities are forged right from conception. A recent Finnish study that tracked the consequences of stress in pregnancy for forty years found that the damage to personality was substantial and highly persistent.¹³ It is likely to be more effective to focus policy on reducing stress in pregnancy than in coping with its consequences. More generally, during the period from conception to the age of around three years, the priority seems to be to support young mothers and strengthen their families. An example of such practical support in the home is the Dutch policy of providing home help to mothers facing demanding situations. In contrast, the British

¹² J. Blanden, S. McNally, G. Wyness: Election Analysis, Centre for Economic Performance, London School of Economics, 2019.

¹³ R. Brannigan, A. Tanskanen, M. Huttunen, M. Cannon, F. Leacy, M. Clarke: The role of prenatal stress as a pathway to personality disorder: Longitudinal birth cohort study, in: The British Journal of Psychiatry, 6 September 2019, pp. 1-5.

social work system is designed around scrutiny of parents under threat of child-removal:¹⁴ 70,000 children are currently being reared in foster care, which being temporary and paid, struggles to provide the secure, loving environment that young children need.

From the age of two to five, non-cognitive capacities can be enhanced by socialisation. A good model is the French pre-school system of *écoles maternelles*. One strength of this system is that it is free and standardised, so that attendance has become the social norm. Hence, there is no stigma attached to it, so that the children who are most in need of it are very likely to be sent by their parents. Because provision is by means of formal entities, with a headmistress and professionally qualified staff, children get a structured learning experience where their progress can be monitored. Additionally, being a full fledged organisation, it can readily catalyse a community among parents, reducing the stress of isolation.

By the age of six, the cognitive performance of the child when aged 12 can be accurately predicted. While the years of schooling receive enormous policy attention, Putnam argues convincingly that schools are predominantly sites at which children interact with each other, thereby reinforcing whatever characteristics children have acquired in their homes.¹⁵ Assortative mating, followed by assortative location, leaves schools little scope for redressing weaknesses. Again, an implication is that resources should be focused on the first six years. There are, however, substantial variations around Europe in school practices, with Finland recognised as having among the most successful outcomes.

Post-school, there are wide variations in the provision of vocational training. One lesson from failures in vocational training is that local firms need to be fully involved in the design and execution of training.¹⁶ Another is that to achieve a high level of skill, and the ability to acquire related skills, courses need to be long – typically three to four years – and properly accredited. A particularly successful model is Switzerland, where 60% of school-leavers choose to take the vocational route. Firms have a strong incentive to be involved because they finance half of the costs.

Finally, given rapid changes in the demand for skills, many people will need to change their vocations. Train-

ing courses will need to cater to older workers, and the public finance of skill acquisition needs to be structured for lifetime learning. For example, the French government has introduced a lifetime training entitlement of 5,000 euro. A related proposal by Jean Tirole is that a firm that makes workers redundant should bear the costs to society of retraining, so that it would have a stronger incentive to keep its workforce sufficiently skilled to remain productive.¹⁷

Conclusion

Europe, like other advanced economies, has faced social pressures arising from the globalisation of markets and the increasing complexity of production. However, the European Commission has been given competences and implemented policies which, while they have increased overall productivity, have sometimes compounded these social pressures. The Commission has lacked the competences that would have equipped it to address the understandable anxieties of those at the wrong end of these pressures. Perhaps in consequence, support for Europe is strongest among the winners from globalisation and the rise in complexity, and lowest among those who feel threatened. As an extreme but perhaps justifiable simplification, the Commission draws its support base from well-educated metropolitans, whereas its opponents are provincial manual workers.

To the extent that this is the case, it is a substantial weakness. Centralised European authority must rest, at least in part, upon a sense of common identity in which the successful accept that they have obligations to the less successful, and thereby commit to a Europe of convergence. Convergence cannot just be about consumption: people want the empowerment, the agency that comes from being sufficiently productive to be able to contribute to society, rather than being a burden on it. Hence, convergence is about productivity: poor regions must become more productive relative to richer regions, and less skilled people must become more productive relative to the most skilled. This convergence of productivity across Europe's regions and classes – analogous to what happened within most European countries during the period 1945-70 – is the challenge for the Commission in the 2020s. It is a feasible goal, but clearly not one that the Commission can achieve purely through its own competences. Rather, the Commission needs to equip itself to orchestrate policies that will largely be the responsibility of national, regional and municipal governments.

14 H. Cottam: *Radical Help*, London 2018, Little Brown.

15 R. Putnam: *Our Kids, an American Dream in Crisis*, New York 2016, Simon and Schuster.

16 A. Goldstein: *Janesville: an American Story*, New York 2018, Simon and Schuster.

17 See the discussion of the proposal in P. Collier, *op. cit.*, p. 177.

Mario Pianta*

Italy's Political Upheaval and the Consequences of Inequality

Italy's political upheaval is a major factor in current European politics. After 20 years of rather unstable centre-right and centre-left government coalitions, as well as episodes of a 'grand coalition' after the 2011 crisis, the Five Star Movement (M5S) received 33% of the vote and Lega obtained 18% in the 2018 election. Together they launched a short-lived government coalition that collapsed in the summer of 2019. It was followed by a new government – with the same Prime Minister, Giuseppe Conte – supported by M5S, Democratic Party, Italia Viva (the new party of Matteo Renzi) and Sinistra Italiana. In the European elections of May 2019, Lega received 34% and the M5S slipped to 17% of the vote. During this time, abstention from voting in the general elections doubled to 25% in 2018 and the consensus for mainstream parties – considering the total of centre-right, centre-left and centrist forces – that have governed the country has gone from well above 50% of all electors in 2006 to less than 30% in 2018.¹

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¹ Post-election comments are in M. Pianta: Fear, loathing and poverty: Italy after the 2018 elections, *openDemocracy*, 10 March 2018, available at <https://www.opendemocracy.net/en/can-europe-make-it/fear-loathing-and-poverty-italy-after-2018-elections/>; M. Pianta: Italien: Liberal-populistische Politik, in: *Wirtschaftsdienst*, Vol. 98, No. 6, 2018, pp. 396-399; M. Pianta: Europe's vote and Italy's right-wing bloc, *openDemocracy*, 29 May 2019, available at <https://www.opendemocracy.net/en/can-europe-make-it/europes-vote-and-it-aly-right-wing-bloc/>. In the Scuola Normale Superiore (SNS) voting database used here – described in F. Bloise, D. Chironi, M. Pianta: Inequality and voting in Italy's regions, Territory, politics, governance, special issue on Inequalities, territorial politics, nationalism, forthcoming – votes for mainstream parties are the sum of electors of Forza Italia (in 1994, 1996, 2001, 2006, 2018) and Popolo della Libertà (in 2008 and 2013); the Democratic Party (in 2008, 2013, 2018) and its predecessors, Partito Democratico della Sinistra (in 1994 and 1996), Democratici di Sinistra (in 2001), Uniti nell'Ulivo (in 2006); and various Centrist parties. Data used in this article combine the SNS electoral database for regions with INPS Losai data on employee incomes and the Bank of Italy's survey on household income and wealth.

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Instability in electoral behaviour is likely to continue as a result of a variety of factors, including the breakdown of traditional political allegiances, new ideological and cultural divides, the importance of leadership and novel forms of political communication. But underneath these political dynamics, can we identify the economic conditions that are associated with such political upheaval? In particular, what is the legacy of the crisis that started in 2008 and has been followed by a decade of recession and stagnation? What are the consequences of inequalities in income and wealth? What is the impact of unemployment and casualisation of the labour market?

In this contribution, first, major trends in income and wealth are summarised, showing the overall impoverishment that has taken place in Italy, in particular among employees. Second, some associations with voting behaviour are explored, summarising the findings of a recent study where the outcomes of Italy's general elections from 1994 to 2018 at the regional level are related to economic factors and inequality.² Finally, two lessons for the current European debate on political upheaval are proposed.

Italy's impoverishment

All Italy's economic indicators, from per capita income to productivity, document a long-term stagnation; no overall improvement has taken place compared to the levels before the 2008 crisis. Aggregate values, however, conceal the rise in disparities; data on individual incomes, wealth and employment are needed to provide an accurate picture of the economic conditions of the Italians, which may shed light on recent political changes.³

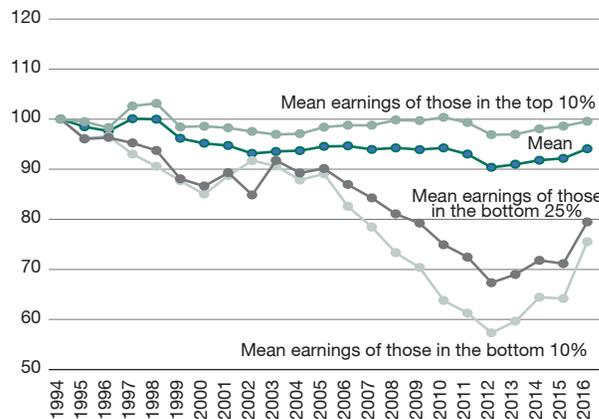
First, we consider labour income – the earnings of employees in the private sector (before taxes and transfers, in real terms, based on INPS social security archives). The large majority of Italian workers are in this group, and public sector employees have experienced a similar trend in wages. Figure 1 shows that labour incomes have decreased consistently over the period of 1994-2016 for all income groups, except for the richest 10%, who in 2018

² See F. Bloise et al., *op. cit.*

³ For an overview of Italy's inequalities, see M. Pianta: *Nove su dieci. Perché stiamo (quasi) tutti peggio di 10 anni fa*, Rome 2012, Laterza. For explanations of the drivers of inequality in Europe, see M. Franzini, M. Pianta: *Explaining inequality*, London 2016, Routledge; and C. Crouch: *Inequality in post-industrial societies*, in: *Structural Change and Economic Dynamics*, Vol. 51, 2019, pp. 11-23.

Figure 1
Gross real earnings of employees in Italy

index 1994=100



Source: INPS Losai data on incomes of employees in the private sector, deflated with the consumer price index.

had the same real income as in 1994. Losses in real incomes are less than 10% for the richest half of employees, but are greater than 20% for the poorest 25%. Behind the appearance of stagnation, the reality for 90% of Italian employees has been impoverishment. Such detailed data are not available for the self-employed; their income is often under-reported and generally shows higher growth for the richest deciles and a similar fall for the poorer ones.⁴

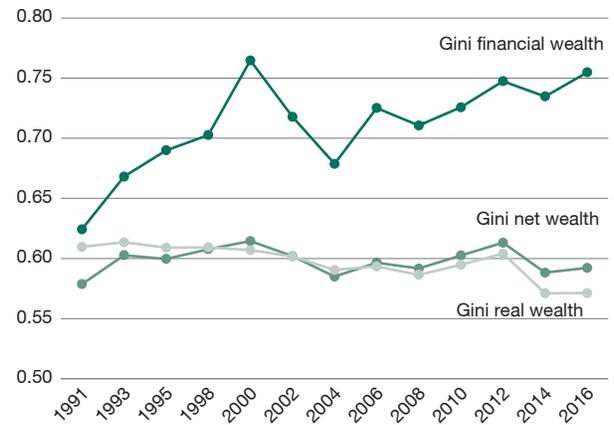
Second, we consider total household income – not just labour – after taxes and transfers, obtained from the Bank of Italy’s survey (where very high and very low incomes are underestimated). Overall income inequality had first declined (the Gini index went from 0.31 in 1994 to 0.28 in 2008), but the crisis had the effect of increasing disparities (the index was back to 0.30 in 2016), which are greater and increased faster in metropolitan areas and in the South.

Third, Italy’s rate of unemployment had progressively declined since the late 1990s, to reach 6.1% in 2007, just before the start of the crisis; in 2014, it peaked at 12.7% with a modest fall to 10.6% in 2018.⁵ The doubling of unemployment is made more dramatic by the extremely high values of joblessness among the youth and in the regions of the South. Moreover, among those classified as employees in the private sector in our database, the share of those with temporary contracts increased from 12% to 22%; and a

4 F. Alvaredo, E. Pisano: Top Incomes in Italy 1974-2004, in: A.B. Atkinson, T. Piketty (eds.): Top Incomes over the Twentieth Century, Vol. II: A Global Perspective, Oxford 2010, Oxford University Press.

5 Eurostat.

Figure 2
Gini indices on Italy’s net, real and financial wealth, 1991-2016



Source: Bank of Italy’s survey on Household Income and Wealth.

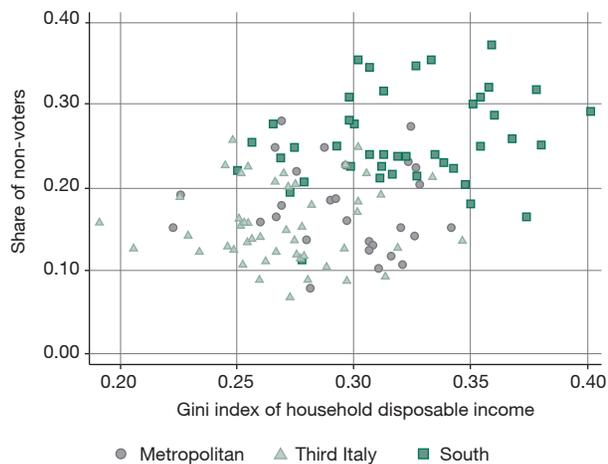
parallel increase has emerged in part-time contracts. The result is a widespread casualisation and a strong downward pressure on wages.

Fourth, we have to look at changes in wealth, another key dimension of polarisation, documented by the Bank of Italy’s Survey on Household Income and Wealth. According to 2010 data, the richest 10% of Italy’s households hold 45% of all wealth (as opposed to 27% of all incomes). The poorest 50% of Italy’s households own 10% of all wealth.⁶ Figure 2 shows that the Gini index of inequality of net wealth is around 0.6, with a stable trend (the level is twice as high as the Gini index for incomes), but disparities in financial wealth have grown massively, with a Gini that goes from 0.62 to 0.75 between 1991 and 2016 (unaffected by the 2008 crash). Financial wealth is extremely concentrated (the lowest deciles have zero financial wealth) and appears as a driving force of inequality. While high but stable disparities in real wealth are associated with the widespread home ownership that is typical of Italy, the flow of incomes generated by highly concentrated financial wealth – profits, rents, capital gains, etc. – is the other side of the impoverishment of labour incomes.

In the last two decades, the economic conditions of Italians have been characterised by extensive impoverishment, casualisation and high unemployment, with inequality driven by lower wages, higher profits and financial wealth. What political consequences can be identified?

6 M. Pianta: Nove su dieci..., op. cit.

Figure 3
Shares of non-voters and Gini household income inequality index in Italian regions, 1993-2018



Source: F. Bloise, D. Chironi, M. Pianta: Inequality and voting in Italy's regions, Territory, politics, governance, special issue on Inequalities, territorial politics, nationalism, forthcoming.

Disparities and voting

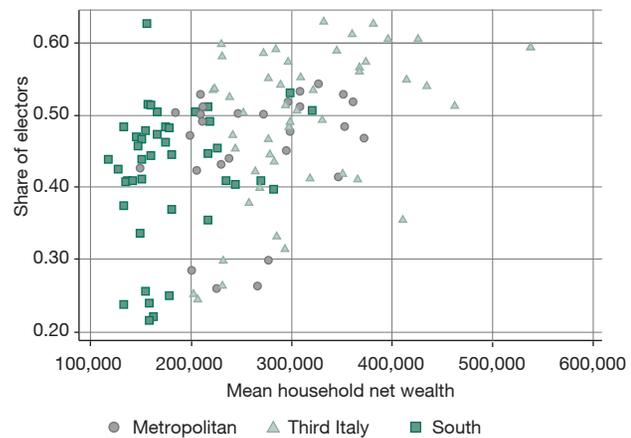
In a recent study, we have related voting behaviour to economic conditions using regions as units of analysis.⁷ Italy's regions tend to be characterised by distinct political cultures and voting behaviour; moreover, they are large enough to provide significant insights in the patterns of inequality in incomes and wealth. In order to summarise the diversity of Italy's regions, we grouped Metropolitan regions (the regions of Turin, Genoa, Milan and Rome), the 'Third Italy' (including North-East and Central regions) and the South.⁸ Metropolitan regions concentrate the country's economic gains and have the country's highest income levels, and high inequality. 'Third Italy' regions have intermediate income levels and the lowest inequalities. Southern regions have the lowest income levels and the highest inequality. These three groups are highlighted in the Figures below, documenting the polarisation of Italy's regions in terms of both economic conditions and voting.

Voting behaviour is summarised by the share of non-voters (a major indicator of disaffection with electoral politics); the share of votes for the mainstream parties (those who have been in power in the last two decades); and the share of

⁷ F. Bloise et al., op. cit.

⁸ Metropolitan regions include: Piedmont, Lombardy, Liguria, Latium; 'Third Italy' regions include: Trentino Alto Adige, Veneto, Friuli-Venezia Giulia, Emilia Romagna, Tuscany, Umbria, Marche; and Southern regions include: Abruzzo-Molise, Campania, Puglia, Basilicata-Calabria, Sardinia, Sicily.

Figure 4
Shares of electors for mainstream parties and mean household net wealth in Italian regions, 1993-2018



Source: F. Bloise, D. Chironi, M. Pianta: Inequality and voting in Italy's regions, Territory, politics, governance, special issue on Inequalities, territorial politics, nationalism, forthcoming.

votes for M5S and Lega, the new anti-élite, 'outsider' parties.⁹

Figure 3 maps the Gini indices of inequality in household incomes (incomes from all sources, not just labour, after taxes and transfers, estimates of the Bank of Italy's survey) and the share of non-voting in Italy's regions. A clear positive association is evident; greater inequality goes along with lower participation in elections. Different types of regions are clearly visible, with the South showing the highest levels of both variables, and many 'Third Italy' regions lying at the opposite end of the distribution, with low abstention and low inequality.

Conversely, higher Gini inequality indices are related to fewer votes for mainstream parties. Income inequality brings with it disaffection to politics in general, and to ruling parties in particular.

Figure 4 shows a strong positive relation between mean net wealth and support for mainstream parties; wealth is the only variable that is positively associated with such votes, with many regions of the 'Third Italy' at the top of both distributions and many regions of the South with the lowest wealth and the lowest support for mainstream parties. Higher assets and economic privilege are related to stronger votes for the political forces that have ruled the country.

⁹ For parties, we use the share of electors rather than the share of voters, taking the rise of non-voters into account in all variables.

A regression analysis has been carried out to explore relationships between economic conditions and voting behaviour – non-voting, share of electors supporting mainstream parties, M5S and Lega.¹⁰ Our findings show that

- The rise in non-voting is closely associated with overall inequality, income polarisation, the rise of part-time jobs and unemployment.
- Consensus for mainstream parties is driven by high household average net wealth alone, and it is negatively affected by the concentration of poor employees, lower median incomes, higher part-time jobs and higher unemployment.
- The Lega has greater consensus in those regions where the incomes of the middle class are pushed down and get closer to those of the poor, and where the distance between the middle class and the richest employees is lower. The share of the vote for Lega is also higher in those regions where there is lower average wealth and a larger share of precarious jobs.
- Voting for the M5S is strongly associated with income poverty and casualisation, reaching very high values in Southern regions, where both variables are particularly high.

These findings suggest that the worsening economic conditions of most Italians are indeed related to Italy's political upheaval, with an impact on rising abstention from voting, the distancing from mainstream parties and specific factors driving the success of 'anti-élite' parties.

Two lessons for Europe

Two broad lessons could be drawn from this exploration of the Italian case. The first one concerns the understanding of political upheaval as a 'populist wave'. Explanations of populism have pointed out the role of political factors, with the inability of mainstream parties to represent citizens' interests,¹¹ or have emphasised cultural factors, with the loss of status of previously strong social groups in post-industrial urban economies.¹² The consequences of economic distress have been explored in terms of a populist reac-

tion of those 'left behind' in a context of falling relevance of class-based voting.¹³

These long-term patterns have been investigated by Thomas Piketty for France, Britain and the US over the 1948-2017 period, using post-electoral individual surveys.¹⁴ He finds a 'class-based' party system in the 1950s and 1960s, with poorer and less educated people mainly voting for left-wing parties. Since the 1970s-1980s, the left vote has moved towards more educated and richer social groups. In the 2000s and 2010s, well-educated élites tend to vote for the left, while high-income/high-wealth élites still vote for the right. Poorer and less educated social groups have turned to non-voting, as many of them do not feel represented by the existing party system.

These trends, however, do not shed light on the drivers of political upheaval. Some studies of populism have explored its economic basis, but a major problem is the lumping together of right, left and anti-élite parties in a single populist bloc. Acemoglu et al. define populism as a political strategy for redistributive policies typical of left-wing politics,¹⁵ now adopted also by conservative parties. Guiso et al. investigate 57 populist parties in 26 European countries with European Social Survey data, finding that lower income, financial distress and economic insecurity associated with globalisation and labour market competition from immigrants can be identified as drivers of the populist vote.¹⁶ Algan et al. consider 'anti-establishment' parties in Europe and find that increases in unemployment lead to greater support for such forces and to lower trust in parliaments and parties.¹⁷

While some of these drivers of populism are coherent with our findings for Italy, political upheavals can hardly be understood as a generic 'populist wave'. In Italy the vote for the Lega is rooted in the impoverishment of the middle classes, combined with a clear shift to the right in terms of ideology, identi-

¹⁰ For details, see F. Bloise et al., *op. cit.*

¹¹ C. Rovira Kaltwasser, P. Taggart: Dealing with populists in government: a framework for analysis, in: *Democratization*, Vol. 23, No. 2, 2016, pp. 201-20.

¹² R. Inglehart, P. Norris: Trump, Brexit, and the Rise of Populism: Economic Have-Nots and Cultural Backlash, Faculty Research Working Paper Series No. RWP16-026, 2016, University of Michigan.

¹³ H. Kriesi: The Populist Challenge, in: *West European Politics*, Vol. 37, No. 2, 2014, pp. 361-378; H. Kriesi, T. Pappas (eds.): *European Populism in the Shadow of the Great Recession*, Colchester 2015, ECPR Press; G. Jansen, G. Evans, N.D. de Graaf: Class voting and Left-Right party positions: A comparative study of 15 Western democracies, 1960-2005, in: *Social Science Research*, Vol. 42, No. 2, 2013, pp. 376-400; S.B. Hobolt, J. Tilley: Fleeing the centre: the rise of challenger parties in the aftermath of the euro crisis, in: *West European Politics*, Vol. 39, No. 5, 2016, pp. 971-991.

¹⁴ See M. Pianta: Fear, loathing and poverty..., *op. cit.*; M. Pianta: *Italien: Liberal-populistische Politik*, *op. cit.*; M. Pianta: *Europe's vote...*, *op. cit.*

¹⁵ D. Acemoglu, G. Egorov, K. Sonin: A Political Theory of Populism, in: *The Quarterly Journal of Economics*, Vol. 128, No. 2, 2013, pp. 771-805.

¹⁶ L. Guiso, H. Herrera, M. Morelli, T. Sonno: Demand and supply of populism, CEPR Discussion paper No. 11871, 2017.

¹⁷ Y. Algan, S. Guriev, E. Papaioannou, E. Passari: The European Trust Crisis and the Rise of Populism, in: *Brookings Papers on Economic Activity*, Vol. 48, No. 2, 2017, pp. 309-400.

ties and political agendas. The vote for M5S is rooted in poverty and precarity, with mixed political cultures.¹⁸ There is a high political volatility, and over the last year a significant part of previous M5S voters turned to the Lega, fuelling the shift to the right of Italy's politics. Rather than a generic 'populist wave', there are distinct political processes that have led to the rise of far right parties all over Europe, to the strengthening of some left forces mainly in Southern Europe and to the emergence of few anti-élite parties, with Italy's M5S being the most notable case.¹⁹ What is more relevant now in Italy and in many European countries is the rise of the far right that needs to be investigated, also in its economic and social drivers.

The second insight from the evidence on Italy is that we should investigate more carefully the policies carried out by governments and their impact on voters. As argued elsewhere,²⁰ Italy's mainstream parties have followed the 'neoliberal consensus' and have carried out austerity poli-

cies that have prolonged the recession, failed to restore growth, worsened unemployment and lowered the incomes of most Italians. At the same time, they have implemented policies that protect the wealth of the higher classes. The 'economics of privilege' appears as the hallmark of policies by both centre-right and centre-left governments, including the reduction – and in some cases abolition – of real estate taxes, inheritance taxes and more favourable tax treatment of financial income. In parallel, both centre-right and centre-left governments have increased casualisation of the labour market, weakened union power and national labour contracts, thereby contributing to lower wage dynamics. In the case of mainstream parties, support from the wealthy as well as the loss of the middle and working classes, and the youth, may be far from irrational behaviour.

In sum, we find evidence that economic conditions matter at the ballot box, inequalities of incomes and wealth do have political consequences and the policies of governments do have an impact on voting behaviour. Political upheaval, with the dangerous rise of the far right – in Italy and Europe – is likely to be stabilised when politics and policies again turn their attention to the priorities of the majority of impoverished voters, with a focus on reducing inequalities, unemployment and casualisation.

18 L. Mosca, F. Tronconi: Beyond left and right: the eclectic populism of the Five Star Movement, in: *West European Politics*, Vol. 42, No. 6, 2019, pp. 1258-1283.

19 For more details about left anti-austerity parties, see D. della Porta J. Fernandez, H. Kouki, L. Mosca: *Movement Parties in Times of Austerity*, Cambridge 2017, Polity.

20 M. Pianta: *Nove su dieci...*, op. cit.

Evgenia Passari

The Great Recession and the Rise of Populism

Populist sentiment has been on the rise in Europe and the West for several years. The success of populist rhetoric in Europe is worrisome as it presents a threat to national and European institutions, the rule of law, and other fundamental free-market democratic institutions, such as freedom of the press and the independence of the judiciary system. Populism may also prove to be an impediment against further European integration by hindering the implementation of common social and economic policies. Are there common determinants of the recent populism surge among individual European countries or regions? The present contribution provides a positive answer to this question by focusing on the economic roots of populism.

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Views on populism

There is no consensus on the definition of populism. In the classic analysis of Latin American political economy, Dornbusch and Edwards define populism as an "approach to economics that emphasizes growth and income redistribution and deemphasizes the risks of inflation and deficit finance, external constraints and the reaction of economic agents to aggressive non-market policies."¹ Mudde more recently defined populism as "an ideology that considers society to be ultimately separated into two

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1 R. Dornbusch, S. Edwards: *The Macroeconomics of Populism in Latin America*, 1989, NBER Working Paper No. 2986, p. 1.

homogeneous and antagonistic groups, the pure people versus the corrupt elite, and which argues that politics should be an expression of the *volonté générale* of the people.¹²

Clearly, the views on populism have evolved. It is important to acknowledge the recent developments, which are relevant for today's populist debate. First, the traditional conflict between the left and the right has been replaced by a new tension: the divide between the socially conservative and the socially progressive.³ Second, the support for traditional social democratic parties is dramatically declining, while new parties that campaign on anti-establishment platforms are rapidly emerging.⁴

Cultural and economic drivers of populism

Several explanations have been offered and numerous factors have been identified as potential drivers of populism. For analytical purposes, one can bundle the various drivers into two broad explanations. The first explanation revolves around deeply rooted cultural attitudes; the second focuses on economics. The cultural view asserts that populism is an outcome of the growing chasm in values between the parochial and the cosmopolitan. The economic standpoint, conversely, sees populism as the result of heightened economic concerns. Recent work has pinned these economic anxieties down to various secular trends, namely immigration,⁵ rising income inequality,⁶ the effects of foreign trade, in particular the China shock,⁷ and automation.⁸ Other works stress the

impact of the financial crises,⁹ which in many countries (United Kingdom, European periphery) have been amplified by austerity.¹⁰ Although the cultural and economic views seemed inconsistent for some time, this is not necessarily the case, as there are evident interactions.¹¹

In this note, I briefly revisit the driving factors of the recent wave of *European* populism. First, there are long-standing political frictions between the European 'core' and the European 'periphery'. These frictions may reflect deeply rooted cultural and institutional traits, though, as Alesina et al. show, differences in trust, beliefs, and attitudes across European countries and broad regions are much less than the public debate suggests.¹² Second, European countries have been the recipients of sizable immigration waves as of late. Third, the recession hit the European periphery badly, leading to underinvestment, unemployment, and rising extreme poverty in some regions. Although the crisis has been short-lived, it appears to have had long-lasting implications. Fourth, like the rest of the world, Europe has experienced the effects of globalisation, skill-biased technical change and automation, as well as the general trend for non-unionised and not well-protected jobs. Finally, Europeans, too, have been exposed to the rapid global diffusion of the Internet and social media.

Both economic and cultural aspects appear to be at play. Any comprehensive analysis should not dismiss the complexity of the interdependencies between the two. However, when one looks for the catalyst behind the recent surge in populism and its latest electoral success across a large number of European countries, the cultural argument falls short of explaining such a quick and concurrent reaction. Immigration might be an important part of the story, but its impact is hard to quanti-

2 C. Mudde: The Populist Zeitgeist, in: *Government and Opposition*, Vol. 39, No. 3, 2004, pp. 542-563, here p. 543.

3 C.E. De Vries: The Cosmopolitan-Parochial Divide: Changing Patterns of Party and Electoral Competition in the Netherlands and Beyond, in: *Journal of European Public Policy*, Vol. 25, No. 11, 2017, pp. 1541-1565; T. Piketty: Brahmin Left vs Merchant Right: Rising Inequality and the Changing Structure of Political Conflict. Evidence from France, Britain and the US 1948-2017, WID.world Working Paper No. 2018/7, 2018; N. Gennaioli, G. Tabellini: Identity, Beliefs and Political Conflict, CEPR Discussion Paper No. 13390, 2019; P. Norris, R. Inglehart: *Cultural Backlash: Trump, Brexit, and Authoritarian Populism*, 2019, Cambridge University Press.

4 T. Piketty, op. cit.

5 S. Moriconi, G. Peri, R. Turati: Skill of the Immigrants and Vote of the Natives: Immigration and Nationalism in European Elections 2007-2016, NBER Working Paper No. 25077, 2018.

6 T. Piketty, op. cit.

7 D. Autor, D. Dorn, G. Hanson, K. Majlesi: A Note on the Effect of Rising Trade Exposure on the 2016 Presidential Elections, MIT Working Paper, 2017, available at <https://economics.mit.edu/files/12418>; I. Colantone, P. Stanig: The Trade Origins of Economic Nationalism: Import Competition and Voting Behavior in Western Europe, in: *American Journal of Political Science*, Vol. 62, No. 4, 2018, pp. 936-953; I. Colantone, P. Stanig: The Economic Roots of the Cultural Backlash: Global Competition and Attitudes in Western Europe, mimeo, 2018.

8 M. Anelli, I. Colantone, P. Stanig: We Were the Robots: Automation and Voting Behavior in Western Europe, BAFFI CAREFIN Centre Research Paper No. 2019-115, 2019.

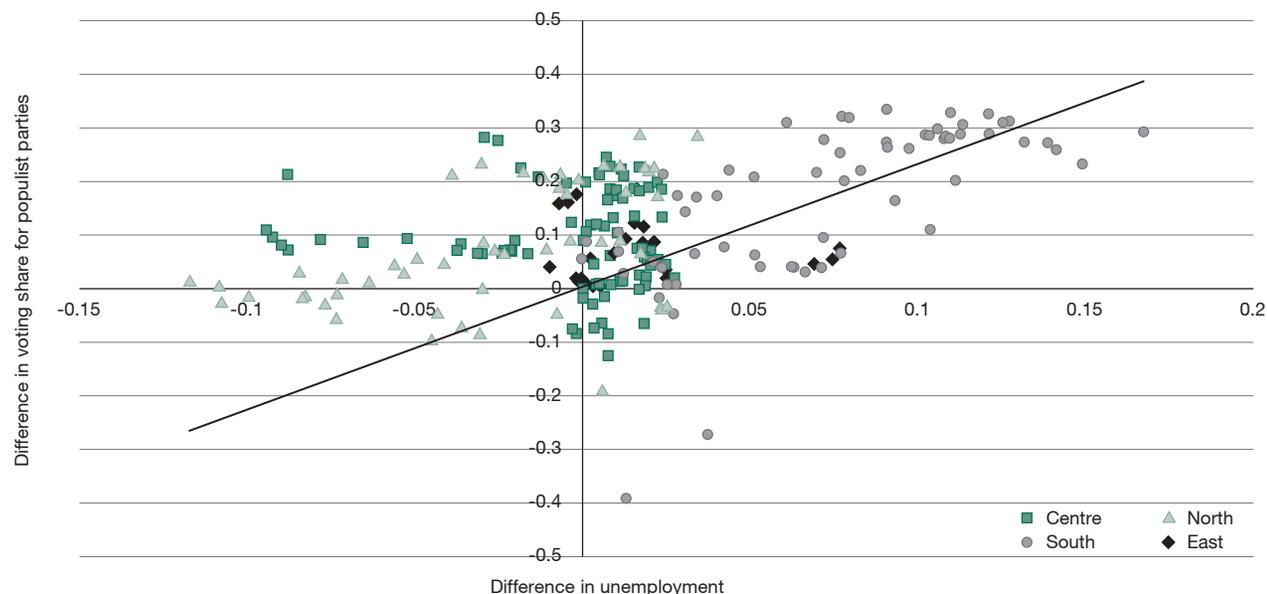
9 M. Funke, M. Schularick, C. Trebesch: Going to Extremes: Politics after Financial Crises, 1870-2014, in: *European Economic Review*, Vol. 88, 2016, pp. 227-260; Y. Algan, S. Guriev, E. Papaioannou, E. Passari: The European Trust Crisis and the Rise of Populism, in: *Brookings Papers on Economic Activity*, Vol. 48, No. 2, 2017, pp. 309-400; C. Dustmann, B. Eichengreen, S. Otten, A. Sapir, G. Tabellini, G. Zoega: *Europe's Trust Deficit: Causes and Remedies*, London 2017, CEPR Press; L. Guiso, H. Herrera, M. Morelli, T. Sonno: *Populism: Demand and Supply*, CEPR Discussion Paper 11871, 2018.

10 For example, T. Fetzer: Did Austerity Cause Brexit?, in: *American Economic Review*, Vol. 109, No. 11, 2019, pp. 3849-3886; T. Fetzer, S. Sen, P. Souza: Housing insecurity, homelessness and populism: Evidence from the UK, London 2019, Centre for Economic Policy Research; E. Dal Bó, F. Finan, O. Folke, T. Persson, J. Rickne: Economic losers and political winners: Evidence from Sweden's radical right, mimeo, 2018, UC Berkeley and Stockholm University.

11 B. Eichengreen: *The Populist Temptation*, Oxford 2018, Oxford University Press; S. Doerr, S. Gissler, J.-L. Peydro, H.-J. Voth: From Finance to Fascism: The Real Effect of Germany's 1931 Banking Crisis, CEPR Discussion Paper No. 12806, 2019; D. Rodrik: What's Driving Populism?, Project Syndicate, 9 July 2019.

12 See also K. Desmet, R. Wacziarg: The cultural divide, NBER Working Paper No. 24630, 2018; A. Alesina, G. Tabellini, F. Trebbi: Is Europe an Optimal Political Area?, in: *Brookings Papers on Economic Activity*, Vol. 48, No. 1, 2017, pp. 169-213.

Figure 1
Voting for populist parties and unemployment in Europe



Note: The change in voting for populist parties and the change in total unemployment before and after the crisis are derived from the time variation in unemployment and actual voting across 220 regions (NUTS2) in 26 European countries between 2000 and 2017.

Source: National Election Sources and Eurostat.

fy as it transmits via both the cultural and the economic channel. Additionally, the recent large waves of immigration cannot explain the populist victories in rural areas, as migrants tend to concentrate in big cities, unless one acknowledges the huge discrepancies between reality and beliefs.¹³ From a timing perspective, the current wave of European populism was most plausibly triggered by the global financial crisis and the recent diffusion of social networks.¹⁴

In the following, it is argued that economic factors appear to be important for the rise of populism, on their own and/or by amplifying pre-existing cultural traits and slow-changing social dynamics.¹⁵

The European trust crisis and the rise of populism

In Algan et al., we look at the implications of the financial crisis for voting, political attitudes and trust in Europe.¹⁶ Our

before-and-after analysis is carried out at the regional level. We exploit time variation in unemployment, actual voting and beliefs-norms attitudes across 220 regions (NUTS2) in 26 European countries between 2000 and 2017.

Our results show that the economic crisis, measured by the rise in unemployment, unfolded alongside an institutional crisis of trust and a rise in populist and Eurosceptic voting. The regional level of the analysis allows us to compare the regions that were more severely hit by the crisis to the less affected ones, controlling for pan-European and country group-specific time trends. We find that electoral successes for populists follow increases in unemployment; in particular, a one percentage point increase in unemployment is followed by a one percentage point increase in the vote for populist parties. We show that what matters for electoral outcomes is predominantly the change in unemployment, rather than its level (see Figure 1).

Our estimates linking unemployment to populist voting do not automatically imply a causal relationship. Although we control for time-invariant features driving populist voting and unemployment, one cannot rule out the possibility that omitted, time-varying regional factors could drive this correlation. Other potential problems include reverse causation and non-negligible errors in variables; for example, unemployment statistics may fail to precisely measure part-time employment.

13 See A. Alesina, A. Miano, S. Stantcheva: Immigration and redistribution, NBER Working Paper No. 24733, 2019; A. Alesina, E. Murard, H. Rapoport: Immigration and Preferences for Redistribution in Europe, NBER Working Paper No. 25562, 2019.

14 S. Guriev, N. Melnikov, E. Zhuravskaya: 3G Internet and Confidence in Government, mimeo, 2019, Sciences Po; E. Zhuravskaya, M. Petrova, R. Enikolopov: Political Effects of the Internet and Social Media, in: Annual Review of Economics, 2019, forthcoming.

15 I do this by summarising the work with Yann Algan, Sergei Guriev and Elias Papaioannou on the recent rise of populism in Europe.

16 Y. Algan, S. Guriev, E. Papaioannou, E. Passari, op. cit.

To progress on causality, we develop an instrumental variables approach that links the pre-crisis industrial composition with the change in post-crisis populist voting. The regional share of construction in total value added is used as an (excludable) instrument for unemployment given the critical role of the construction sector both before and during the financial crisis.

The instrumental variable estimates show that the effects of the rise in unemployment on populist voting, driven by the pre-crisis share of construction, are considerable and if anything somewhat larger than the correlational analysis: A one percentage point increase in the unemployment rate is associated with a two to four percentage point increase in populist support.

The reduced form link between the share of construction and voting patterns and the strong relationship between construction and unemployment do not necessarily imply a causal relationship between construction, unemployment and populist voting. The necessary condition for causality is that construction does not affect voting directly or via other channels aside from unemployment. Although it is not possible to formally test for the exclusion restriction, alternative mechanisms that could be at play are explored.

These alternative explanations relate to corruption, education and immigration. In all three cases, it is shown that the documented relationship between construction share, unemployment and populist voting does not seem to reflect these time-varying regional features. Pre-crisis populist voting is also not linked to the pre-crisis share of construction.

A European trust crisis?

We try to shed light on the channels through which economic insecurity affects voting by looking at individual-level data on Europeans' beliefs and attitudes from the European Social Survey covering the period between 2000 and 2014.¹⁷ An increase in regional unemployment leads to a significant decline in trust towards national and European political establishments. Europeans are no longer happy with their parliaments and the European Union. Additionally, there appears to be a loss of trust towards courts and the countries' judiciary system. At the same time, the association between unemployment and interpersonal trust is weak. The rise in unemployment does also not seem to correlate with distrust towards the police or the United Nations, again suggesting that Europeans fault the national and European political institutions for the rise in unemployment. Our results further

17 The results remain unaltered after the inclusion of rounds 8 and 9 of the European Social Survey and the new release of unemployment statistics from Eurostat.

indicate that European respondents increasingly feel that no political party is close to them, suggesting a political isolation that sets the stage for the populist parties.

The instrumental variable estimates are similar; the component of the rise in unemployment due to the pre-crisis share of construction is a significant correlate of distrust towards European and national institutions.

Attitudes towards immigration

The information from the European Social Survey has been exploited in order to assess whether the rise in unemployment has also affected Europeans' attitudes towards immigration. This exercise is of particular interest because populists often portray immigrants as a cultural and economic threat to the 'people' and run campaigns that support policies designed to restrict immigration, combat cultural dilution and avoid adverse economic outcomes (like in the case of the Lega Nord in Italy, the Front National in France and the UKIP in the UK).

Differences in unemployment during the crisis correlate with views that immigration harms the country's economic life. However, we uncover no evidence that the rise in unemployment relates to views on the immigrants' role in a country's cultural life. Our findings seem to point to the importance of economic, rather than cultural, explanations; it is the former that appear to nurture the support for anti-immigration parties.

Heterogeneity

Despite some minor differences across subsamples, these patterns are present for both men and women, and for both younger and older cohorts. We obtain stronger and more accurate estimates for older cohorts, consistent with the works of Eichenengreen and Norris and Inglehart.¹⁸ The link between unemployment and distrust toward political institutions is also stronger for non-college graduates.¹⁹

Economic consequences of the populist wave in Europe

Populists tend to support erratic policies. In their effort to please their electoral base, they often engage in myopic ac-

18 B. Eichenengreen, *op. cit.*; P. Norris, R. Inglehart, *op. cit.*

19 A result in line with the findings of D. Autor, D. Dorn, G. Hanson, K. Majlesi: Importing Political Polarization? The Electoral Consequences of Rising Trade Exposure, NBER Working Paper No. 22637, 2016, available at <https://www.dorn.net/papers/ADHM-PoliticalPolarization.pdf>; D. Autor, D. Dorn, G. Hanson, K. Majlesi, 2017, *op. cit.*; Y. Che, Y. Lu, J.R. Pierce, P.K. Schott, Z. Tao: Does Trade Liberalization with China Influence U.S. Elections?, NBER Working Paper No. 22178, 2016; I. Colantone, P. Stanig: Global Competition and Brexit, in: *American Political Science Review*, Vol. 112, No. 2, 2018, pp. 201-218.

tions and undertake radical reforms, which usually prove to be damaging for national economies.

The rise of populism along with the documented ‘European trust crisis,’ pose a serious threat to the European project. Urgent policy issues call for international coordination and deeper integration. Populists, on the contrary, push to abolish/weaken international organisations and oppose the European Union membership outright on the basis that it undermines national sovereignty, encourages high levels of migration and is responsible for austerity as well as the members’ economic misfortunes.

On an alarming note, it appears that the rise in unemployment also directly reflects on attitudes towards the European Union project, albeit in a heterogeneous manner. In the European South, despite the growing institutional distrust, people still hope for deeper integration. In contrast, in the crisis-hit regions of the European core, respondents believe that the European project has gone too far. This shift in attitudes provides a fertile ground for anti-establishment politicians who, in turn, fuel the anti-European sentiment creating a vicious circle.

Policy implications

If populism is entrenched in deeply rooted cultural differences, addressing it is a non-trivial endeavor. Our results, however, show that the rise in unemployment results in increased support for anti-establishment parties via the loss of

trust in political institutions. Economic factors seem to be an important part of the populism story, and a key determinant of its recent pan-European electoral success. This presents an exceptional opportunity to address populism through the implementation of countercyclical macroeconomic and fiscal policies that will fight unemployment and foster growth.

Moreover, throughout the crisis, national and European policymakers had to implement unpopular structural reforms in the labour, capital and product markets and enforced austerity policies in order to stimulate the economy. This resulted in a further loss of trust, especially in countries with inadequate systems of social security. It is, therefore, imperative to preserve the trust of citizens facing economic insecurity by creating safety nets, especially for the unemployed workers. There is a need for policies that promote social and economic mobility and reduce inequalities by offering equal opportunities for education and providing healthcare access for all. Both national governments and the European Union should ultimately prioritise research, innovation and public infrastructures.

Additionally, policy reforms need to be backed by electoral support and enjoy people’s trust. Europeans need to be reassured that the gains from the painful reforms will be widely distributed rather than extracted by a privileged few. National governments and the European Union need to cater to the unskilled workers and those who are ‘left behind’ by investing and promoting programmes of life-long training and support, thus limiting the scope of the supply side of populism.

László Andor

Against a General Theory of Populism: The Case of East-Central Europe

Before expanding eastwards, the European Union established economic as well as political criteria. Countries that

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aspired to become members were supposed to converge on EU standards of all types. However, since membership materialised for a group of countries from the Baltics to the Balkans in 2004 and after, economic convergence seems to have been accompanied by political divergence. To describe these trends of political deviation, deformation or even degeneration, the word populism has been most widely used. However, this article argues that populism as an expression has been not only overused but also often unhelpful to explain political developments and causality. In the context of East-Central Europe, it is more productive to focus on economic nationalism and the revival of authoritarian traditions.

Conceptual misery: Substitution and abuse

In contemporary political (science) literature, populists are those who look at society through the dichotomy of the people and the elites. They often engage in scare-mongering and offer simplistic solutions to complex problems. Populist deviations from mainstream politics, i.e. the advocacy of a closed society as opposed to an open and liberal one, apparently represent the main dynamics of our time, and have perhaps even replaced the left-right divide. Attempting to create a general theory of populism is just one step away.

Populism studies and commentaries tend to agree that this tendency is wrong and dangerous,¹ but a convincing anti-populist strategy has not yet emerged either in Europe or in the US. The commentary that considers most – if not all – political processes of our time through the lens of populism has not brought us better understanding or strategies. The key reason for this failure might be that the generalisation of the populism theory offers a binary analysis where the reality is multidimensional.

As the scope of populism-watching has grown, what is considered populist phenomena has become rather heterogeneous. In other words, too many different things are placed into a common basket, and the boundaries of the populist label are sometimes arbitrary. In popular discourse, the confusion is also linked to the poverty of the vocabulary and forgetting about expressions like ‘demagogue’ or ‘demagoguery’. The politician who seeks support by appealing to the desires and prejudices of ordinary people rather than by using rational arguments is a demagogue. But very often in contemporary discourse, the word populist is used instead.

Social science, like all other sciences, is supposed to explore the substance below the surface of things. However, populism discourse in general is stuck on the surface, focusing on style, outlook and appearance. This is not only leading to the overuse of a concept, but also to heaping together various political qualities, e.g. the far right and the radical left, which are otherwise arch enemies of each other.

The term populism has been spreading in part for lack of a better word, but also because of the deliberate use of a euphemistic expression to truncate the debate and avoid antagonising conclusions. This caution, however, also leads to the overuse of the word populism, but con-

sequently we do not speak enough about nationalism, authoritarianism, (post- and neo-) fascism and the far right.

In essence, the conceptual misery starts with the impoverished vocabulary but it ends with the difficulty of responding to populism. If it is dangerous, one would need to be opposed. But if populism is defined as anti-elitism without a particular explanation of social structures, one would not like to be on either side, because it either means elitism, which cannot be progressive, or one would side with the ‘despicable crowds’, which is also unpalatable. The question therefore is whether the whole dichotomy can be rejected. To find out, a broader investigation of the concept and its context is needed.

Missing subjects: History and economics

Besides substitution and euphemisms, the separation of political analysis from history and economics is also a problem. The overuse of populism today also represents an abuse of a concept that is linked to a specific tendency in political history. The Populist Movement in 19th century America was a politically oriented coalition of agrarian reformers in the Middle West and South that advocated a wide range of economic and political legislation, with a culturally conservative but socially and economically progressive profile.

The other important case of calling a political tendency populist before the recent decades was Peronist Argentina,² which took inspiration from Mussolini’s Italy. Although Juan Peron did not build a fascist state, the influence is undeniable and troubling. Such connections allow populism to be used as a euphemism for fascism, or to describe a soft (less violent) form of it.

Similarities between 19th century US and 20th century Argentine populism could be explored in relation to 21st century Europe, but it only makes sense if we do not ignore the most important factor: the political economic background of the concept. In the US case, local political action groups were organised by farmers, who were discontented because of crop failures, falling prices and poor marketing and credit facilities in the American Midwest and South in the 1880s. Similarly, pre-Peronist Argentina was hit especially hard by the global Great Depression. The conservative government at the time protected the fortunes of the rich but did nothing to alleviate the suffering of the poor.

1 H. Kriesi: *The Populist Challenge*, in: *West European Politics*, Vol. 37, No. 2, 2014, pp. 361-378; P. Mair: *Ruling the Void: The Hollowing of Western Democracy*, London 2013, Verso.

2 K. Wolfenden: *Perón and the People: Democracy and Authoritarianism in Juan Perón’s Argentina*, in: *Inquiries*, Vol. 5 No. 2, 2012.

These classic examples of populism thus have very important drivers in political economy: uneven development, capitalist crises and depression, resulting in growing inequality. Exposing this dimension using either historical or contemporary examples is not easy, due to the chasm between economists and political commentators. Harvard economist Dani Rodrik is one of those investing in overcoming this divide by highlighting the abundant literature that proves the causality between trade shocks (e.g. penetration of Chinese products or the migration of industrial jobs to China) and the rise of so-called populist tendencies in both Europe and the US.³ If the factors of political economy are at least as important as cultural questions,⁴ anti-populist strategies should also reflect this: “Economic remedies to inequality and insecurity are paramount.”

‘Trump and Brexit’

Contemporary populism was seen as a disturbing, but not paramount political problem for a very long time. However, the year 2016 saw a breakthrough when, in the aftermath of the Great Recession,⁵ populism apparently moved from the fringe to the centre, thanks to the UK referendum and Trump’s victory during the US presidential elections. This shock gave rise to ‘Trump and Brexit’ as a twin concept. Those who use this formula are typically clueless about the origin of these apparently deviant tendencies.

‘Trump and Brexit’ analysts are particularly perplexed by the phenomenon that an essentially right-wing political project gains support among traditionally left wing constituencies. This, however, is not at all a new phenomenon, in the US or the UK. The working class democratic vote shifting to a Republican presidential candidate occurred in 1980, which gave rise to the expression ‘Reagan democrats’. Similarly, the failings of the Labour Party in the UK pushed some working class constituencies behind Margaret Thatcher in the late 1970s, which produced the proverbial ‘Basildon worker’.

Most importantly, in their own times, Ronald Reagan and Margaret Thatcher were often characterised as populists. In the latter case, this was linked to the concept of ‘people’s capitalism’ (e.g. creating an impression

that through spreading share ownership and privatising council houses, the gap between those who own assets and work for others can be eliminated). Thatcher’s successor, John Major, actually announced that he would strive for a ‘classless society’.

Since liberals tend to dominate populism studies in both Europe and the US, discussions under this umbrella often overlook liberal or neo-liberal populism. An example of that is when liberals (or neoliberals) complain about bureaucracy and hide their deregulatory agenda behind general, and indeed populist, criticism of detached bureaucratic elites. Ronald Reagan was an outstanding example of such deregulatory populism that presented itself as people’s liberation but essentially drove up social inequality. Trickle-down economics connects Donald Trump to the Reagan legacy in economic policy, while his amoral foreign policy finds its roots in the Nixon-Kissinger period.

The US and the UK examples of the last 40 years should also be studied to understand how the need to address economic imbalances (deficits in particular) and relative economic decline generates various forms – including economic – of nationalism. “Make America great again” is essentially a nationalist slogan and not a populist one. Similarly, the separation of the UK from mainland Europe – and eventually Brexit – has been driven by English nationalism.

There is certainly a need for clarification in both the US and the UK context. Nobel laureate Paul Krugman called for clarity regarding the political situation in the US following the terrible incident when Donald Trump and his audience called for four Congresswomen with an immigrant background to “go home”. According to Krugman: “This should be a moment of truth for anyone who describes Trump as a ‘populist’ or asserts that his support is based on ‘economic anxiety’. He’s not a populist; he’s a white supremacist. His support rests not on economic anxiety, but on racism”.⁶

Orbánism starts with Orbánomics

Before ‘Trump and Brexit’, there was Orbán. Hungary has been the laboratory, and it is often seen as a populist paradise where not only the ruling party (that has achieved three consecutive constitutional majorities) belongs to this category but also one of the main opposi-

3 D. Rodrik: What’s driving populism?, Social Europe, 23 July 2019, available at <https://www.socialeurope.eu/whats-driving-populism>.

4 B. Eichengreen: The two faces of populism, CEPR Policy Portal, 29 October 2019, available at <https://voxeu.org/article/two-faces-populism>.

5 J. Judis: The Populist Explosion: How the Great Recession Transformed American and European Politics, Columbia Global Reports, 2016.

6 P. Krugman: Racism Comes Out of the Closet: The dog whistle days are apparently over, The New York Times, 15 July 2019, available at <https://www.nytimes.com/2019/07/15/opinion/trump-twitter-racist.html>.

tion parties of the past decade, the far-right Jobbik. The Hungarian case, however, is often misdiagnosed, especially when the recent political deformation is taken out of the context of the economic and social transformation of the 1990s.

In the late 1990s, Viktor Orbán united the Hungarian right on his political economy agenda – to correct the imbalances of the economic transition to a market system, which apparently created excessive foreign ownership in Hungary. This is a long-term programme, unfinished and unfinishable, which has helped forge a commitment to the leader on the right. Originally, this was a far-right agenda, which Orbán appropriated for the centre right. Economic nationalism is a core issue for Fidesz, which in recent years has pushed back foreign ownership in various sectors. The beneficiaries of this agenda consider it more important than upholding democratic standards.

Orbán was lucky to have the general elections in 2010 when people felt the fallout from the global financial crisis of 2008–09. This was bad for incumbents everywhere but it allowed Orbán to achieve a two-thirds majority in parliament, which he used to change the constitution (not discussed or promised before the election and therefore it was not something that people expected). He started to change the rules of the game in order to eliminate the tools he had used to get into power, e.g. it became virtually impossible to run a referendum on issues upon which the government would not agree.

The European People's Party has provided cover for Orbán. Despite dismantling the rule of law in an EU member state, the EPP has protected him in order to avoid losing a member and in exchange for economic and political favours (e.g. for German businesses in Hungary like Audi, Deutsche Telekom, etc.). The German Christian Social Union (CSU), Bavarian sister party to Angela Merkel's CDU party, has played a pivotal role in whitewashing Orbán's autocratic rule and only rejected his wildest ideas such as re-introducing the death penalty or voter registration. Orbán has also pleased his German allies by championing fiscal austerity, in contrast with the previous period when Hungary struggled with excessive deficits. Pundits who thought Fidesz would mess up the populism-driven economy were proved wrong as Orbán's government turned out to be fiscally conservative (more so than during Orbán's first premiership from 1998 to 2002).

Populism theories and varieties in practice

Hungary is often mentioned first when examples of illiberalism are listed. This is, however, another trap. Speak-

ing about illiberal democracy as a problem does have added value, because it connects problematic European cases with non- or semi-European systems that are considered hybrid, i.e. most often referring to an authoritarian content with a democratic façade. On the other hand, some illiberals like Orbán can easily twist the concept and take pride in this qualification, since liberalism as a political tendency has been a minority current in Europe in the past century; being against it may not necessarily be anti-democratic, just a different form of democracy. While highly educated and politically experienced listeners would easily grasp that the illiberal state lacks checks and balances (i.e. restraints on executive power) and hence would be closer to tyranny than democracy, this derogatory content may not be obvious for all (including many of those whose rights are denied by such systems).

One could argue that illiberalism is still a better expression than populism, because if the latter means sending home the entire corrupt political elite, Orbán has strong rivals, and they are in the centre. Though Hungary watchers fail to categorise them this way, the parties that have used straight-forward anti-elitist language are Lehet Más a Politika (LMP), which belongs to the European Greens, and Momentum, which belongs to the liberals ("Renew Europe"). LMP (ten years ago) and Momentum (more recently) have stepped onto the stage with the intent of retiring the (corrupt) political elite. Thus, the mainstream definition of populism applies most accurately to them – without being extremist or anti-pluralist. Why exactly they have never been classified (or stigmatised) as populists is not clear. In any case, this conundrum frustrates Cas Mudde's methodology, which is based upon a sharp separation of populist and non-populist parties.⁷

These examples, together with others like Italy's Five Star Movement (M5S) also question Jan-Werner Müller's theory on populism. In his groundbreaking volume, Müller argues that what is at the core of populism is a rejection of pluralism.⁸ Populists will always claim that they and they alone represent the people and their true interests. Müller also suggests that if populists have enough power, they will end up creating an authoritarian state. But clearly, there are examples (Momentum, M5S, etc.) that question the direction of the causality and whether this really is an iron law.

⁷ See C. Mudde: *The Far Right Today*, Cambridge 2019, Polity; and C. Mudde, C.R. Kaltwasser: *Populism: A Very Short Introduction*, Oxford 2017, Oxford University Press.

⁸ J.-W. Müller: *What Is Populism?*, Philadelphia PA 2016, University of Pennsylvania Press.

EU imbalances and political nationalism

The diversity of populist experience in Europe is strongly linked to economic factors appearing in the context of the EU, which is a combination of a Single Market and a Monetary Union. In the North, and in higher income countries in particular, the free movement under the Single Market rule contributed to the rise of welfare chauvinism. This is a specific form of economic nationalism that has become a significant factor mainly, though not exclusively, in richer countries, feeding on the resentment against the free movement of labour and the EU's guarantee of equal rights. In the South, which cried out for solidarity at the time of the euro crisis, the rise of populism and the overall political upheaval resulted in a crisis of governability.

The Eastern experience is different, since the basis of the deviation is the disappointment with the 1990s transition to the market economy. The gap between expectations (fast convergence to Western standards) and experience (1990s recession) was just too wide in most countries. Before political systems started to diverge, a divergent model of capitalism emerged with the dominance of transnational companies in various sectors, and the economic aspirations of the domestic middle class (in the form of widespread ownership) unfulfilled. Although the EU did not create this problem, it has not recognised it or been a partner in correcting it.

The new EU member states saw themselves more as 'rule-takers' in the EU, and therefore considered disrupting or gaming the rule-based system legitimate. The EU is also believed to be indifferent to the demographic decline that has unfolded in most countries of the East, which largely explains their reluctance towards immigrants and asylum seekers. The striking similarities between the Eastern part of Germany (AfD phenomenon) and East-Central European countries must be acknowledged.

The economic consequence of the populist (nationalist, illiberal, authoritarian) wave in East-Central Europe is likely to be a rent-seeking, parasitical model, which nevertheless leaves much of the transnational sector intact and thus points to a dual economy. This trend (and sentiment) most likely has not run its course, since the political alternatives have been weakened and the capacity to maintain a social/political base is also boosted by short-term economic success. Additionally, mainstream opponents cannot easily appeal to tradition, since it is exactly authoritarianism and nationalism that have strong roots in the region.

What role has the EU itself played in the rise of populism, and regarding the rise of Central European nationalism

and authoritarianism in particular, is therefore a relevant question. But what does this trend mean for the future of the EU is perhaps an even more important one. What seems clear is that EU institutions have failed to defend pluralism and the rule of law, while the Treaty offers Article 7 for serious breaches. Not defending the integrity of the EU budget and leaving the scope for abuse is another major issue. The oft-discussed 'rule of law conditionality' may not be a sufficient tool to correct the situation. Territorial, social and political cohesion has to be reconsidered in a broader context.

Crying wolf when seeing one

Economic and social imbalances, particularly at times of crisis, have produced nationalist sentiment, creating or boosting political forces that have been labelled populist. In today's European context, nationalism appears to be a fall-back option against the inherent imbalances and occasional failures of EU integration. Nationalism can escalate and in Europe, it always raises the risk of violence and conflict. However, lumping everything together as populist does not help us to understand the seriousness of the threats posed by extremist tendencies to democracy and the EU integration specifically.

Benjamin Moffitt rightly suggests that what is subsumed and feared under the label of the 'populist threat' to democracy in Western Europe today is less about populism than nationalism and nativism.⁹ And he is not the only one arguing for a new focus. The night before she lost her life in Lake Balaton, 90-year-old Hungarian philosopher Ágnes Heller gave a ferocious interview in which she insisted that politicians like Salvini should not be called populist but rather ethno-nationalist.

That same week, Cas Mudde tweeted: "With three of five largest democracies having a far right political leader, and left-wing populism almost irrelevant across the globe, it is high time to be more specific and accurate in our terminology. Trump is not primarily a populist, but a nativist/racist." Mudde, who in 2004 introduced the concept of the "populist zeitgeist", suggested that words matter and we need to reconsider our vocabulary together with the research agenda.¹⁰

Anti-populists in many ways wanted to be alarmist, but by using the euphemism instead of the real names, they

9 See B. Moffitt: *The Global Rise of Populism: Performance, Political Style, and Representation*, Stanford 2016, Stanford University Press; and B. Moffitt: *The Populism/Anti-Populism Divide in Western Europe*, in: *Democratic Theory*, Vol. 5, No. 2, 2018, pp. 1-16.

10 C. Mudde: *The Populist Zeitgeist*, in: *Government and Opposition*, No. 39, Vol. 4, 2004, pp. 541-563.

achieve the opposite by disconnecting contemporary far-right tendencies from their historical roots and precedents. It should be noted that in the US, those who really want to be alarmist have been writing about fascism, stressing that the return to some dark chapters of history is not impossible.¹¹ And in Europe, various manifestations of nationalism represent various degrees of threat to European integration and to peace.

While there are many under the populist label who oppose EU integration one way or another, it is very important to distinguish between those who insist on going back to the national framework (mainly on the right, with or without golden age nostalgia) and those who prefer further and faster integration and solidarity (mainly on the left). On the right, we have to distinguish between Eurosceptics and Europhobes, and the existence of anti-EU (though ‘not-too-populist’) left nationalism also needs to be acknowledged.

The mainstreamist non-solution

Anti-populism draws a sharp line between those who are populist and those who are not. In the concrete European context, this approach ignores the fact that populism can be a top up tactic or ideology that runs the gamut of the political spectrum. It also creates the impression that the far right was a problem while the centre right was not and that there is no connection between far-right politics and centre-right policies.¹²

Without a proper focus, anti-populism may also lead to the false conclusion that progressives have a shared interest (or even mission) with the centre right and the neo-liberals to defend some kind of mainstream, which most often remains unspecified by populism watchers. Anti-populism thus helps turn social democrats into mainstreamists (defenders of the status *quo ex ante*) instead of encouraging them to do their job and offer an alternative to neo-liberalism and the centre right.

It is often the lack of political alternatives that fuels anti-elitism. From this point of view, populism appears to be a consequence rather than a cause. Conservative as well as progressive modernisers in the late 20th century created their own version of political crossovers that aimed at diminishing the space for alternatives. It was not the

contemporary populists, but Margaret Thatcher in the early 1980s, who became famous for saying “there is no alternative”. On the other side, progressive centrism (as presented by Clinton in the US and Blair in the UK) relied on the art of triangulation, which eventually led the social democrats to lose their character and their backbone in some instances. Contemporary social democrats are right to look for new doctrines beyond “accepting the market economy but not a market society”.

Blanket anti-populism today opens the door to Macronism (i.e. a belief that progressives are supposed to integrate into a broad, pro-European, but essentially technocratic tent, and that staving off the far right requires dropping the social agenda). However, what may be true at the tactical level may be incorrect from the strategic perspective. Centrism can be a tactic for various political tendencies. Anti-populism, on the other hand, turns mainstreamism into an ideology and promotes ignorance of the political economy (most importantly: the causes and consequences of inequality) in theory and the need for offering alternatives in practice.

One word cannot say all

While not at all irrelevant as a concept, the overuse of populism today is a sign of intellectual laziness and a substitute for proper political analysis. It has never properly been explained why nationalist, authoritarian, far right and neo-fascist tendencies should not be called nationalist, authoritarian, far-right, or neo-fascist, but populist instead.

Correcting language is key to improving theory and also practice. For rigorous political studies we need a wide vocabulary, and specific phenomena have to be called by their right names. Similarly, open (liberal) and closed (populist) cannot replace left and right; at best, it can be a second dimension to the analysis. In the EU context, including East-Central Europe, economic nationalism has to be the focus of our analysis.

Looking at the substance – and not only the style – requires deeper inquiry into historical background and economic foundations. This will also help political analysts as well as practitioners to better understand nationalist and far-right tendencies and to develop more effective strategies against right-wing extremism in the name of humanity, equality and solidarity.

¹¹ See M. Albright: *Fascism: A Warning*, New York 2018, HarperCollins; and J. Stanley: *How Fascism Works: The Politics of Us and Them*, New York 2018, Random House.

¹² B. Bonikowski, D. Ziblatt: *Mainstream conservative parties paved the way for far-right nationalism*, *The Washington Post*, 2019, available at <https://www.washingtonpost.com/politics/2019/12/02/mainstream-conservative-parties-paved-way-far-right-nationalism/>.

Thiemo Fetzer

Austerity and Brexit

There is an ongoing debate as to the causes of the UK's vote to leave the European Union. While much of the earlier literature has focused on mostly descriptive patterns, few robust empirical contributions exist. The rare exceptions are three papers that have identified some causal links, which are however, hard to separate from one another. Algan et al. note that Leave support appears structurally higher in parts of the UK that saw steep rises in unemployment in the wake of the 2008/2009 crisis.¹ Colantone and Stanig suggest that parts of the UK most exposed to import competition from low income countries between 1988 and 2007 saw higher support for Leave in 2016.² Fetzer, on the other hand, finds a causal link between individual- or regional-level exposure to austerity and support for Leave.³

Politicians across the EU rightly ask themselves whether the UK with Brexit may be just the first domino to fall in the eventual unravelling of the EU. And hence, understanding why and how the UK ended up voting to Leave the EU is important. In particular, a crucial question is to what extent the UK's domestic political and economic developments – many of which may be detached from the issue of the UK's membership in the EU – played a potentially more important role in shaping the 2016 EU referendum than is widely appreciated. To understand why the UK voted to leave the EU, it is imperative to understand the dynamics that led to the EU referendum to be called in the first place. As such, understanding the UK's unique electoral dynamics prior to the 2016 referendum is just as important as understanding why the vote ended up with a narrow victory for Leave.

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- 1 Y. Algan, S. Guriev, E. Papaioannou, E. Passari: The European Trust Crisis and the Rise of Populism, in: *Brookings Papers on Economic Activity*, Vol. 48, No. 2, 2017, pp. 309-400.
- 2 I. Colantone, P. Stanig: Global Competition and Brexit, in: *American Political Science Review*, Vol. 112, No. 2, 2018, pp. 201-218.
- 3 T. Fetzer: Did Austerity Cause Brexit?, in: *American Economic Review*, Vol. 109, No. 11, 2019, pp. 3849-3886.

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In this article, I explore some of the notable patterns and observations in UK politics and economics that I argue play a pivotal role in the run up to the EU referendum. This highlights that the UK's specific national context, domestic economic policy choices and economics matter a fair bit. Yet, the social and economic context of the UK is shared across many countries, highlighting the need for progressive economic policymaking to tackle the underlying structural economic failures.

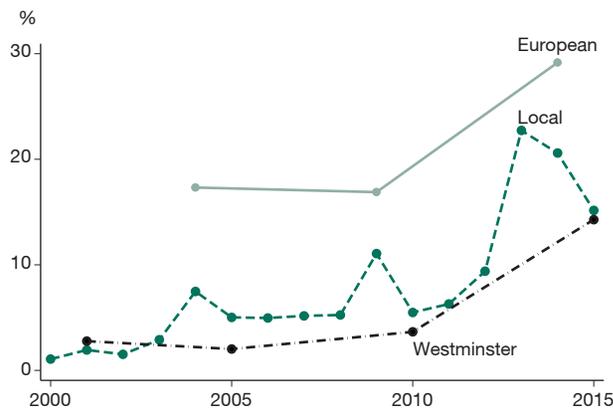
Domestic politics prior to 2016

The only party in the UK's political system that stood on a political platform of leaving the EU was the United Kingdom Independence Party (UKIP). The party was established in the wake of the Maastricht Treaty and, from the late 1990s, started to increasingly contest UK elections. In the 2005 Westminster elections, UKIP fielded 496 candidates across the 650 constituencies. In 2010 it fielded 558 candidates, while in the consequential 2015 general election, UKIP fielded candidates in 624 out of 650 potential constituencies. Across European elections, which use an electoral system that gets much closer to proportional representation, UKIP did quite well electorally already in 2004, securing around 15.6% of the vote (albeit on low turnout).

Yet, it remains that prior to 2010, UKIP performed quite poorly in most national polls. And even in May 2010, as unemployment reached record levels in the wake of the 2008/2009 crisis and despite fielding candidates in most constituencies, UKIP won only 3.1% of the popular vote. The 2010 election produced a three-way split and a hung parliament with the Conservatives winning 36.1% of the popular vote (but gaining 47.1% of the seats); Labour coming in second with 29% of the popular vote and the Liberal Democrats in third with 23% of the popular vote. The hung parliament resulted in a Conservative-led coalition government, in which the Liberal Democrats were by far the minority partner with one-sixth of the number of seats that the Conservatives held. While UKIP was only a minor player in national politics prior to and including 2010, from then onwards, the party started to significantly pick up votes in local elections, most notably from 2013 and particularly in the 2014 European election and the 2015 general election (see Figure 1).

The relevance of UKIP's electoral support for the 2016 Leave vote has been documented broadly. At the individual level, a vote for UKIP in the 2014 European election or the 2015 general election almost certainly implied support for

Figure 1
UKIP support across elections over time



Notes: Figure presents the average UKIP vote share across the European, Westminster and local elections since 2000.

Source: T. Fetzter: Did Austerity Cause Brexit?, in: American Economic Review, Vol. 109, No. 11, 2019, pp. 3849-3886.

Leave in 2016.⁴ This pattern at the individual level also holds in aggregates. Figure 2 highlights the tight relationship between support for UKIP in the 2014 European elections and support for Leave in the 2016 referendum quite clearly.

UKIP's voter base, to a significant extent, included protest voters. In the 2014 European election, in which UKIP came out first securing 26.6% of the popular vote, only 43% of UKIP voters cited that they support UKIP because they wanted the UK to leave the EU or were unhappy with Europe. The second most frequent response, with 26%, indicated that UKIP voters wanted to send a message to the other three parties or to voice their protest. Despite the topic dominating the 2016 EU referendum, only 18% of UKIP voters cited immigration as their reason for supporting UKIP. This highlights that individual electoral support for UKIP includes a mix of motivations – from classical EU-scepticism to pure protest, which was consequential in 2016.⁵

What can explain UKIP's post-2010 surge? Before making the case that the answer to this is found in the UK's domestic economic policy decisions in the wake of the 2008/2009 crisis, it is imperative to understand that even the paltry 13% performance of UKIP in the 2015 general election was consequential in bringing about the 2016 EU referendum. The answer is found in the UK's first-past-the-post electoral system in which UKIP's 13% popular vote in 2015 resulted only in a single seat in the Westminster parliament. Fetzter highlights that post 2010, UKIP started to attract significant

amounts of anti-austerity protest votes from a broad set of backgrounds that may conventionally be associated either with non-voting or with support for Labour or the Liberal Democrats – which, until then, was seen as the classical protest party.⁶ In England, the Conservatives won 59.9% of the seats with only 40.9% of the vote. The fragmentation of votes across four other opposition parties – Labour, UKIP, Liberal Democrats and the Greens – allowed the Conservatives to claim victory in England. The outright majority across the UK was secured due to Scotland being effectively lost to the Scottish National Party by both Labour and the Conservatives.

The resulting surprise Conservative election victory directly led to the 2016 EU referendum due to Prime Minister David Cameron's announcement, prior to the years' local elections in January 2013, that he would hold a referendum on EU membership if he won an outright majority in the next general election. Nobody expected this to happen. Rather, almost unanimously the Conservatives were expected to continue in a coalition government with the Liberal Democrats. The Liberal Democrats, as the countries' most explicitly pro-European party, would not have entered into such a coalition government. Yet, UKIP, by splitting the opposition vote, helped grant the Conservatives an outright surprise election victory, forcing Cameron to call for a referendum and deliver on his pledge. The rest is history that is still being made. What can explain the consequential surge post 2010? I argue that austerity, as the defining element of UK economic policy since 2010, offers an important explanation.

Austerity as defining economic policy since 2010

The UK's defining domestic economic policy under the Conservative governments since 2010 can be subsumed under the term 'austerity'. Fetzter shows that the sharp increase in support for UKIP between 2010 and 2015 was to a significant extent caused by austerity.⁷ I estimate that around 6% to 11% of the support for Leave in 2016 can be attributed to individual- or regional-level exposure to cuts. Austerity entailed deep cuts to public spending, which were implemented along three main pillars.

1. Budget cuts for day-to-day spending across most Westminster departments which took almost immediate effect with the announcement of the autumn budget in 2010.
2. Nominal freezes on most public salaries and benefits.
3. Substantive and ongoing deep reform of the UK's social security system – most of which was set in motion

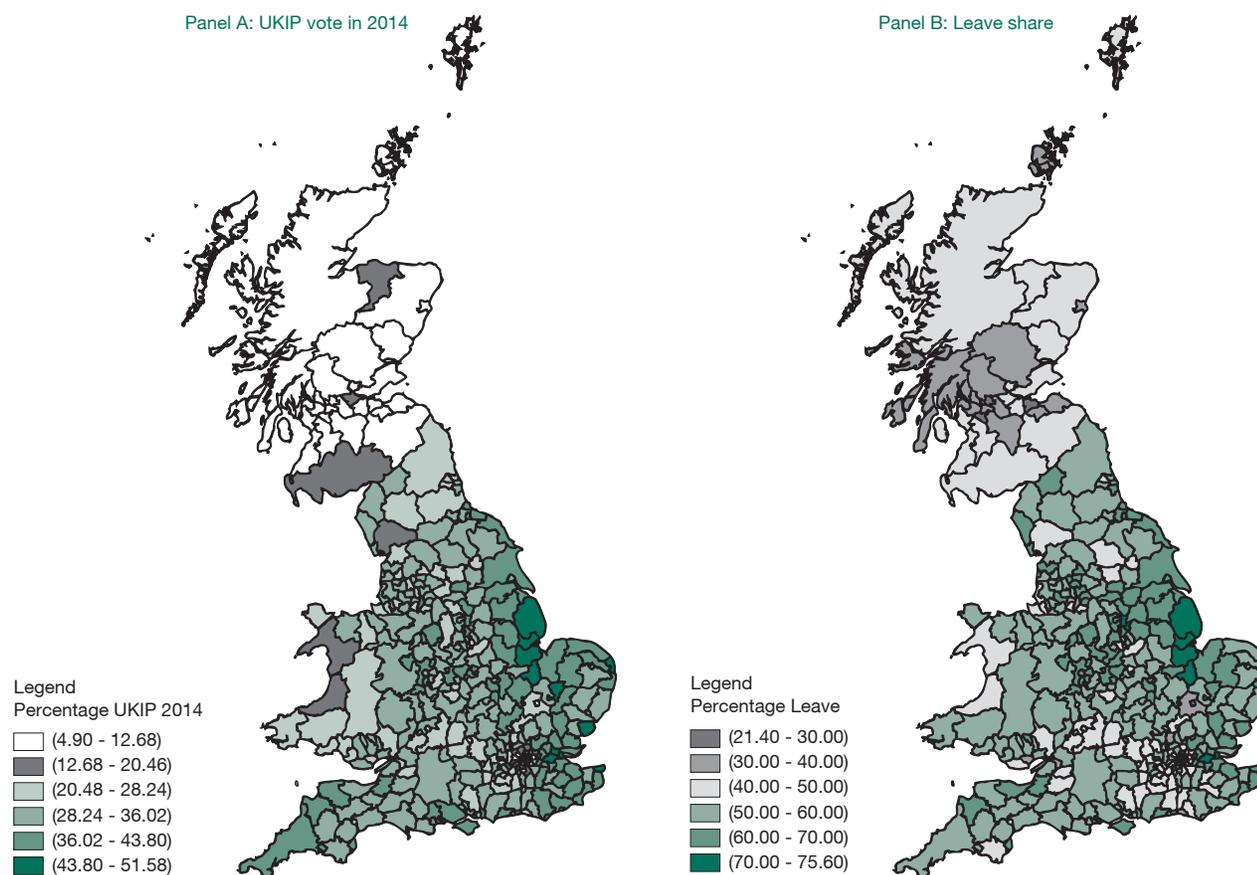
4 See E. Alabrese, S.O. Becker, T. Fetzter, D. Novy: Who voted for Brexit? Individual and regional data combined, in: European Journal of Political Economy, Vol. 56, 2019, pp. 132-150; T. Fetzter, op. cit.

5 YouGov: YouGov/The Sun Survey Results, Technical Report, 18 March 2014.

6 T. Fetzter, op. cit.

7 Ibid.

Figure 2
Support for UKIP in 2014 European election and the Leave share in the 2016 EU referendum



Source: T. Fetzer: Did Austerity Cause Brexit?, in: American Economic Review, Vol. 109, No. 11, 2019, pp. 3849-3886.

through the Welfare Reform Act 2012, with many policy changes taking effect starting in April 2013. It is the third pillar that is most notably studied in Fetzer.⁸

To illustrate the magnitudes and implied compositional changes in public spending, Figure 3 suggests that, starting in 2011, spending for welfare and social protection dropped significantly, declining by 16% in real terms, falling to levels that had last been seen in the early 2000s.⁹ Public spending on education contracted by 19% in real terms, while expenses for pensions steadily increased, suggesting a significant shift in the composition of government spending.¹⁰ The

⁸ T. Fetzer, op. cit.

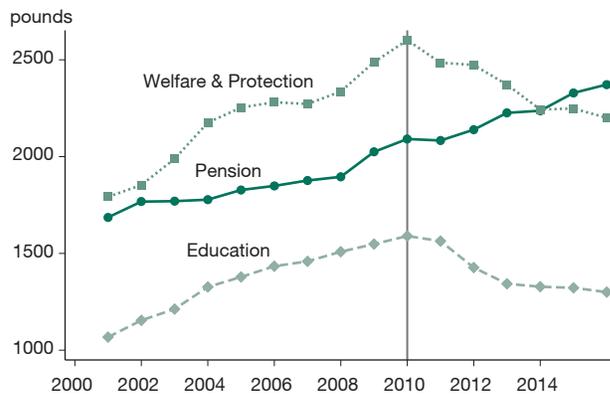
⁹ Ibid.

¹⁰ The deep cuts to public spending on education were further exacerbated by increases in tuition fees. Formally the tuition fee caps for undergraduate studies was raised from 3,225 to 9,000 British pounds, implying that the privately born cost of further education steeply rose across most of England and Wales (Scotland does not charge tuition fees to Scottish or EU students – but does levy them on English and Welsh students).

impact of austerity across these three main items of public spending is self-evident: public spending cuts were disproportionately borne by the current working age adult population (who are mostly benefiting from social security payments) and the future generation (who benefit from publicly funded education), highlighting that government spending became increasingly age-biased.

A second significant component contributing to the cuts in government spending was nominal freezes on most public salaries and benefits. Public sector employees earning more than 21,000 British pounds saw, from 2011 to 2013, a freeze of their salaries, while wage growth has been capped at 1% since 2014. Similar freezes were introduced for most welfare benefits, resulting in real term wage and benefit cuts as inflation rates were consistently above 1% throughout this period. As such, public sector employment became increasingly unattractive, contributing to staffing and staff retention problems across most government entities – particularly in the National Health Service (NHS). There, staffing shortages

Figure 3
Government spending along the age divide: Growing age bias of public spending



Notes: Figure plots real aggregate spending per capita in pounds using data from HMRC for the years between 2000-2015. Aggregate totals are divided by total population from the National Office of Statistics and the annual CPI with 2015 being the base year.

Source: T. Fetzler: Did Austerity Cause Brexit?, in: American Economic Review, Vol. 109, No. 11, 2019, pp. 3849-3886.

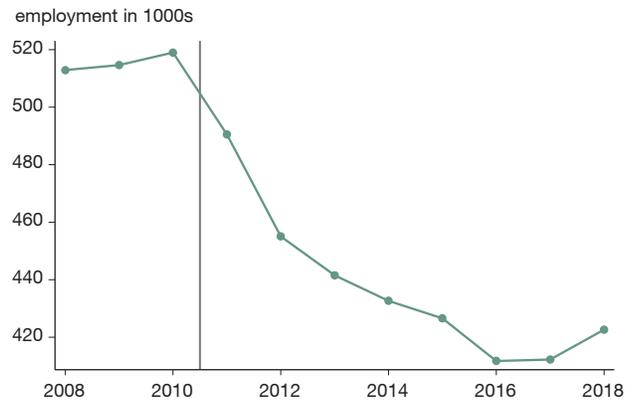
were exacerbated by cuts to maintenance grants which help nurses in training to cover the cost of their training. The civil service shrank from around 519,000 employees in 2010 to a low of 411,370 in 2016 – declining by around 20% (see Figure 4).

Austerity was mostly implemented by means of cutting spending – not by raising revenues. Rather, tax-free allowances, whose full benefits are only reaped by people with incomes above the tax-free allowance were significantly expanded. Corporation tax rates were drastically reduced from 26% to now 19%. Similarly, very generous pension tax credits were only marginally cut. The most salient dimension of the austerity programme, however, were the cuts to the UK’s social welfare system and cuts to local government funding – which provide many of the day-to-day services that citizens use.

Local government spending cuts

Most government ministries saw direct cuts to their budgets. The only departments sheltered from cuts were the Department for International Development and the Department for Health, which funds the NHS. Yet, even the NHS experienced real cuts de facto as it was not spared by the wage squeeze making primary care jobs less attractive, while at the same time it experienced significant increases in demand due to the UK’s ageing population. Most salient to many citizens were the dramatic cuts to local government finances.

Figure 4
Impact of public spending cuts on public employment



Notes: Data from the Annual Civil Service Employment Survey for the United Kingdom provided by the Office for National Statistics.

Source: Author’s own illustration.

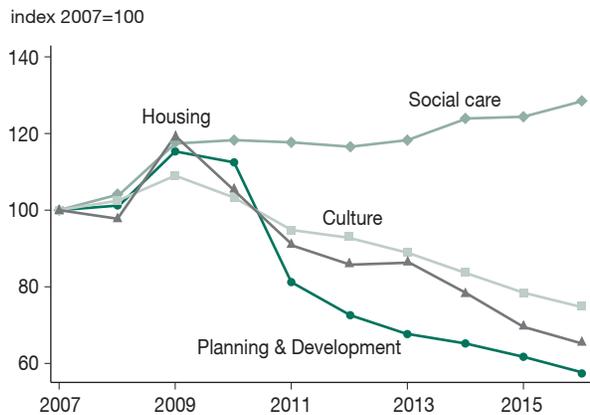
Funding for the Ministry of Housing, Communities and Local Government, which equips local councils with a significant part of their funding, was cut in real terms by between 30 and 40%, putting pressure on local councils to provide services – in an overall environment of increasing demand due to population growth and limited independent revenue-raising abilities.¹¹ Figure 5 highlights the depth of cuts across local governments in England indexed to 2007. This figure is neither accounting for inflation nor population growth; yet, the patterns are quite obvious. Social care spending rapidly increased. In 2017-18, English councils’ core budgets totalled about 44 billion pounds. Spending on adult social care absorbed the largest and growing share at 35%. The ageing population along with the cuts to central government support grants implied that councils had to cut spending on items deemed non-essential – the parts of spending that most elastically responded were planning and development (a nominal contraction of 43%), housing (nominal contraction of 35%) and culture (nominal contraction of 25%).

The cuts were highly salient. Police forces had to cut their staff by 17.3% since 2010, which mechanically implies fewer police forces deployed to the street,¹² possibly undermining perceptions of public safety. Cuts in the culture domain

11 D. Innes, G. Tetlow: Delivering Fiscal Squeeze by Cutting Local Government Spending, in: Fiscal Studies, Vol. 36, No. 3, 2015, pp.303-325.

12 R. Disney, P. Simpson: Police workforce and funding in England and Wales, IFS Briefing Note No. BN208, 2017, The Institute for Fiscal Studies.

Figure 5
Council spending shock across local authority districts in the UK



Notes: Figure plots nominal spending across major local council spending priority areas. The underlying data is from the local government financial statistics for England provided by the MHCLG.

Source: Author's own elaboration.

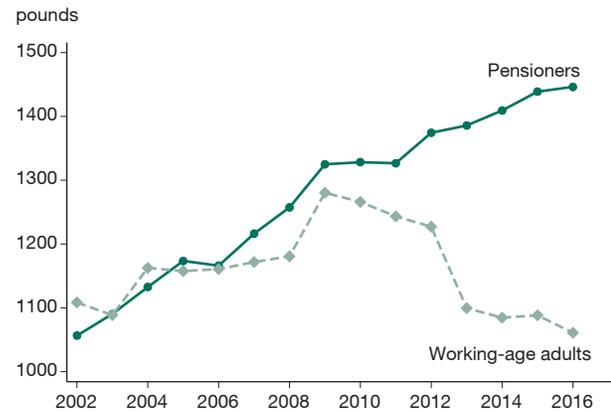
implied the closure of community centres, public parks and libraries, which in many cases produced significant local uproar and may have undermined community cohesion. The dramatic cuts to planning and development spending, naturally the most elastic component of spending, indirectly provided a further economic shock to regional economies and undermined council plans to invest in more public housing – in the wake of an already mature housing crisis, an inelastic housing supply and substantial cuts to locally provided housing services, which most often benefit poor and vulnerable groups in society. Fetzer et al. highlight that housing benefit cuts implemented in 2011 are sharply and causally associated with an increase in evictions, statutory homelessness and actual rough-sleeping adding to the perception of local economic decline.¹³ The fact that around one-third of UK rough sleepers come from other EU countries may have vastly exacerbated the perception of the extent to which immigration may create pressure on the welfare system (despite immigration from the EU being fiscally very positive for the UK).¹⁴

Wealthier communities and districts, on average, were better able to cope with the funding cuts as they could mobilise other sources of funding. As such, the impact of local council budget cuts is likely to have further exacerbated the

¹³ T. Fetzer, S. Sen, P.C. Souza: Housing insecurity, homelessness and populism: Evidence from the UK, CAGE Working Paper, 2019.

¹⁴ See S.O. Becker, T. Fetzer: Has Eastern European Migration Impacted British Workers? CAGE Working Paper, 2013.

Figure 6
Social protection vis-à-vis state pension spending in real terms per capita over time



Notes: Figure plots nominal spending across major local council spending priority areas. The underlying data is from the local government financial statistics for England provided by the MHCLG.

Source: Author's own elaboration.

already vast regional economic inequalities within the UK.¹⁵ Austerity and, in particular, the cuts to local government budgets, were hugely unpopular.

In 2014, 60% of the British Election Study respondents indicated that they thought that cuts to local services in their area had gone either too far or much too far. Only 6% of respondents indicated that they thought cuts had not gone far enough or not gone nearly far enough – the remainder thought that cuts were about right. Contrary to some beliefs, austerity was not popular among UKIP voters.

Welfare reforms and hollowing out of social protection

The central pillars of austerity were substantive cuts and ongoing reforms to the welfare system. Beatty and Fothergill highlight that, in particular, disabled working-age adults and single parents were disproportionately affected by spending cuts.¹⁶ Most welfare reform measures were implemented through the 2012 Welfare Reform Act, which took effect in April 2013. These biggest elements combined were expected to reduce welfare spending by around 18 billion pounds by 2015. The extent of cuts is quite visible. Figure 6 presents real welfare spending per capita over time, distinguishing benefits targeted at pensioners and benefits that are not specifically targeted to-

¹⁵ D. Innes, G. Tetlow, op. cit.

¹⁶ C. Beatty, S. Fothergill: Hitting the poorest places hardest: The local and regional impact of welfare reform, Technical report, 2013.

wards pensioners. The notable drop in welfare spending per capita from 2012 to 2013 by around 10% in real terms highlights the significant cuts that this entailed – despite unemployment levels in 2013 remaining near the 2012 record high, highlighting that these reductions do not mask broad reductions in the demand for welfare due to an improving economy.

Compositional spending changes. The steady rise in spending for the state pension highlights that the Coalition government’s design of austerity implied winners and losers, with many pensioners actually seeing the value of their state pensions increase. This is due to the so-called triple lock, which was introduced by the Coalition government and ensures that the state pension would grow by the minimum of either 2.5%, the rate of inflation or average earnings growth. The Institute for Fiscal Studies estimates that between April 2010 and April 2016 the value of the state pension increased by 22.2%, compared to 7.6% average earnings growth and 12.3% growth in prices.¹⁷ Hence, the real value of state pensions increased, while the working-age adult population in employment saw a decline in real incomes by 4.7%. For many, real incomes in 2019 have still not recouped their pre-crisis levels.

Ecological fallacy. The observation that state pensions grew faster than real employment incomes may come as a puzzle to some commentators who have studied the EU referendum. The common assertion is that it was the older cohorts that voted predominantly in support of Brexit.¹⁸ An analysis of the data would suggest that older people, on average, were significantly more likely to support Leave in 2016. Naturally, many pensioners would have been indirectly exposed to the consequences of austerity in their communities, for example, due to an increase in rough sleeping or more visible high street shop closures. Further, simply looking at the 2016 EU referendum data is very misleading as it fails to highlight an important compositional effect. A significant share of the older electorate that voted Leave in 2016 would have voted Leave if there had been a referendum, say, ten years ago, simply because EU-scepticism has always been much more pronounced among the older demographic. Yet, what proved consequential after 2010 was the sharp increase in support for UKIP, much of which

was due to working-age adult’s switching their support to UKIP – often out of pure protest and, in the context of the 2016 Referendum campaign on the basis of misleading, deceitful and unrealistic promises, most of which have since been debunked.

Indirect effects of cuts. The real cuts to transfer incomes further exacerbated regional economic divergence – as the cuts themselves contributed to the sluggish economic recovery in the early 2010s. The primary rule of thumb on the geographic incidence of most benefit cuts suggests that the impact of the welfare reforms was felt the hardest in the parts of the UK that already were most deprived prior to 2010.¹⁹ Fetzer estimates that for every pound lost in transfer income, local economies contracted by around 2-2.5 pounds.²⁰ The projected annual savings of around 18 billion pounds from the welfare cuts alone indirectly contributed to the UK’s economy being up to 45 billion pounds smaller. The VAT or broad tax receipts on that foregone economic activity could have easily paid for the UK’s annual net contribution to the EU’s budget. The indirect economic effects were concentrated in the retail sector, accelerating its already underway structural transformation and may have further contributed to the perception of local economic decline. This has often been subsumed under the notion that political populism provides a harbour for the economically “left behind” or the “places that do not matter”.²¹ In the case of the UK, the sharp increase in support for UKIP after 2010, which helped bring about the 2016 EU referendum, has mostly domestic origins.²²

Austerity exacerbated existing socio-economic cleavages

To summarise, it is quite evident that austerity exacerbated existing social and economic cleavages across the UK and across the constituent nations of the UK (Scotland was spared some of the impact of the cuts). Naturally, it is not the only factor that played a role in shaping the 2016 EU referendum outcome, but given the evidence, it is hard to deny that it played an important role. Specifically, austerity is likely to have furthered already existing and developing cleavages in society that have been documented in much of the descriptive work around the 2016 EU referendum, which points to a set of fault lines along which Leave

17 IFS: Would you rather? Further increases in the state pension age v abandoning the triple lock, 2019, pp. 4-7.

18 B. Eichengreen, R. Mari, G. Thwaites: Will Brexit Age Well? Cohorts, Seasoning and the Age-Leave Gradient, Past, Present and Future, NBER Working Paper No. 25219, 2018; E. Alabrese et al., op. cit.; F. Liberini, A.J. Oswald, E. Proto, M. Redoano: Was Brexit Caused by the Unhappy and the Old?, IZA Discussion Paper No. 11059, 2017.

19 C. Beatty, S. Fothergill, op. cit.

20 T. Fetzer, op. cit.

21 A. Rodríguez-Pose: The revenge of the places that don’t matter (and what to do about it), in: Cambridge Journal of Regions, Economy and Society, Vol. 11, No. 1, 2018, pp. 189-209.

22 T. Fetzer, op. cit.

versus Remain seem to be aligned.²³ In particular, support for Leave versus Remain appears to be distinctly different between

- rural and urban agglomerations
- high- and low-skilled groups
- manual versus non-manual workers
- able-bodied versus disabled
- young versus old
- natives versus migrants.

Consistent with patterns documented elsewhere, and recently summarised in a review by Fetzer and Gold, the welfare state and the UK's internal redistribution system – through transfers to local governments – helped moderate some of the structurally broadening cleavages.²⁴ Many of these developments featuring the hollowing out of the middle class, growing job polarisation, increasing economic insecurity and growing inequality have common roots. The economic roots are found in import competition from low income countries,²⁵ offshoring,²⁶ structural transformation,²⁷ along with the rise of automation,²⁸ and skill-biased technological change more broadly.²⁹ Further, even though most evidence highlights that migration has no adverse effect on natives' economic prospects on av-

erage, it is still possible to have very localised adverse effects.³⁰

Taken together, many of these ongoing and accelerating economic developments produce distributional effects that create winners and losers, and may increase (perceived) economic insecurity. The natural answer is that the welfare state needs to play a particular role in ensuring that losers are adequately compensated.³¹ Yet, it is not immediately clear whether transfer payments provide a suitable and sustainable solution to tackle these challenges. Rather, it is important to think about how social and economic policy could more broadly de-risk and reduce (perceived) economic uncertainty by reformulating social contracts.

Structurally, the erosion of unionisation and collective bargaining along with weaker employment protections, together with the rise of large corporations that may exercise monopsony power in labour markets are a challenge that economic policy needs to tackle. Similarly, the increase of precarious or insecure employment, coupled with increasing barriers to accessing housing and affordable and reliant healthcare are a shadow that threatens to break the implicit intergenerational contract. For the first time, future generations do not expect to live a better life than the previous generation. The sceptre of the ongoing climate crisis and geopolitical realignment provides further context.

Brexit itself is a product of the UK's specific economic and political history, facilitated by its inadequate institutional setup and significantly driven by austerity politics. The underlying broader economic context is shared by many countries both inside and outside the European Union. Progressive and pragmatic policy changes, ideally backed by solid evidence, are key to tackle the many crises and bring in a brighter future – after all, every crisis is also an opportunity.

23 See e.g. S.B. Hobolt: The Brexit vote: a divided nation, a divided continent, in: *Journal of European Public Policy*, Vol. 23, No. 9, 2016, pp. 1259-1277; M. Goodwin, O. Heath: The 2016 Referendum, Brexit and the Left Behind: An Aggregate-Level Analysis of the Result, in: *The Political Quarterly*, Vol. 87, No. 3, 2016, pp. 323-332; S.O. Becker et al., op. cit.

24 T. Fetzer, R. Gold: What Drives Populist Votes? A Selected Overview of Recent Insights, New Forum Working Paper, 2019.

25 D. Autor, D. Dorn, G. Hanson, K. Majlesi: Importing Political Polarization? The Electoral Consequences of Rising Trade Exposure, CEPR Discussion Paper No. 11511, 2016; I. Colantone, P. Stanig, op. cit.; C. Dippel, R. Gold, S. Heblich: Globalization and Its (Dis-) Content: Trade Shocks and Voting Behavior, NBER Working Paper No. 21812, 2015.

26 D.H. Autor, D. Dorn, G.H. Hanson: The China Syndrome: Local labor market impacts of import Competition in the United States, in: *American Economic Review*, Vol. 103, No. 6, 2013, pp. 2121-2168; K. Scheve, M.J. Slaughter: Economic Insecurity and the Globalization of Production, in: *American Journal of Political Science*, Vol. 48, No. 4, 2004, pp. 662-674.

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28 B. Caprettini, H.-J. Voth: Rage Against the Machines: Labor-Saving Technology and Unrest in England, 1830-32, 2017; G. Graetz, G. Michaels: Robots at work, forthcoming, in: *Review of Economics and Statistics*, Vol. 100, No. 5, 2018, pp. 753-768.

29 D. Acemoglu: Why Do New Technologies Complement Skills? Directed Technical Change and Wage Inequality, in: *The Quarterly Journal of Economics*, Vol. 113, No. 4, 1998, pp. 1055-1089; D.H. Autor, F. Levy, R.J. Murnane: The skill content of recent technological change: An empirical exploration, in: *Quarterly Journal of Economics*, Vol. 118, No. 4, 2003, pp. 1279-1333.

30 S.O. Becker, T. Fetzer, D. Novy: Who voted for Brexit? A comprehensive district-level analysis, in: *Economic Policy*, Vol. 32, No. 92, 2017, pp. 601-650; C. Dustmann, T. Frattini, I.P. Preston: The effect of immigration along the distribution of wages, in: *Review of Economic Studies*, Vol. 80, No. 1, 2013, pp. 145-173; G.I.P. Ottaviano, G. Peri: Rethinking the Effects of Immigration on Wages, in: *Journal of the European Economic Association*, Vol. 10, No. 1, 2012, pp. 152-197.

31 W.F. Stolper, P.A. Samuelson: Protection and Real Wages, in: *The Review of Economic Studies*, Vol. 9, No. 1, 1941, pp. 58-73; D. Rodrik: How far will Economic Integration Go?, in: *Journal of Economic Perspectives*, Vol. 14, No. 1, 2000, pp. 177-186; J. Stiglitz: *Globalization and its Discontents*, New York 2002, Penguin.

Daphne Halikiopoulou

Economic Crisis, Poor Governance and the Rise of Populism: The Case of Greece

The eurozone crisis has become associated with the rise of populism across Europe as it has coincided with increasing electoral support for political actors who seek to return politics back to ‘the people’. This has taken place in different forms, depending on whether the country was a debtor or creditor, the salience of cultural and/or economic cleavages and other contextual factors.

Right-wing and left-wing populism in Europe

In most instances, particularly in Western Europe, the populist actors that enjoyed increasing electoral support came from the right of the political spectrum. These are parties that define the people on the basis of an in-group/out-group dimension, and emphasise the need to ‘take back control’ and restore national sovereignty. They identify the people with the in-group and suggest that this group should be exclusively granted access to the collective goods of the state. As such, the signature theme of right-wing populists is limiting immigration. Examples abound: the French Rassemblement National (RN – formerly Front National), the Dutch Party for Freedom (PVV), the Swiss People’s Party (SVP), the Alternative for Germany (AfD), the Sweden Democrats (SD) and the Danish People’s Party (DF) have all fared well electorally in their respective arenas. What these parties have in common beyond their immigration skepticism is their conscious effort to distance themselves from the violence, fascism and extremism that defined the far right in the past in order to broaden their electoral appeal.

Less frequently, and predominantly in Southern Europe where economic cleavages remain salient, successful populist forces have originated from the left of the political spectrum. Left-wing populism defines the people on the basis of a have and have-not dimension and emphasises equality and redistribution. A good example is the Spanish party Podemos.

Greece is in many ways an exceptional case because, subsequent to the eruption of the economic crisis, it experienced the rise of both types of populism. During the May

and June 2012 elections, small anti-establishment parties from both sides of the political spectrum increased their electoral support, including the extreme right Golden Dawn, the radical right Independent Greeks (Anel) and the Coalition of the Radical Left (Syriza). Greece also diverges from Western European patterns with regards to the Golden Dawn’s extremism and violence, which contrary to other far right actors in Europe increased its representation because of, and not despite, its extremism.

This article focuses on the Greek case, in an attempt to shed light on its exceptionalism. Its aim is threefold. First, to present a brief theoretical discussion of populism and place Greece within this framework; second, to focus on the rise of the Golden Dawn, which is one of the few European – and the only Western European – extreme right-wing parties to enjoy parliamentary representation; and third, to place this phenomenon within an explanatory framework that extends beyond the economic crisis to the role of state institutions and governance.

Defining populism

Most definitions of populism centre on its emphasis on the people and its attempt to mobilise the ‘masses’ against a purported enemy by drawing on a dichotomy between the ‘pure people’ and the ‘corrupt elite’.¹ While the focus on the people is a *descriptor* of populist parties, it does not necessarily tell us something *analytical* about populism. After all, who in a democracy does not speak about the people, to the people and on behalf of the people to some extent? What is also important about populism is the extent to which it places the people at the heart of collective decision-making.²

According to populists, collective decisions must be made from below: only decisions made by ‘the people’

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1 C. Muddé: *Populist Radical Right Parties in Europe*, New York 2017, Cambridge University Press; P. Taggart: *Populism*, Buckingham 2000, Open University Press.

2 W. Riker: *Liberalism against Populism: A Confrontation between the Theory of Democracy and the Theory of Social Choice*, Illinois 1982, Waveland Press.

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are legitimate and morally superior. In other words, the key feature of populism is that it seeks to bypass representative institutions in the name of the ‘popular will’.³ The implications are paramount: beyond just the communication style, ideology or strategy that parties adopt, it is a system of governance – an alternative vision of democratic society that such parties seek to implement.⁴ This vision downplays institutions and idealises the ‘will of the people’, which it portrays as an indivisible entity,⁵ failing to acknowledge the existence of different social groups and the need for reconciliation of their often clashing preferences.⁶

In sum, populism is a form of politics because ultimately it puts forward a vision about how societies should be making, legitimating and implementing collective choices.⁷ Populism has the following characteristics:

- a flamboyant rhetoric that often seeks to attribute blame to those not identified as ‘the people’
- the portrayal of the people as an indivisible entity
- adversarial politics and polarisation
- a hostility towards liberal democracy and the institutions that secure its procedures; and hence
- a propensity towards authoritarianism.

Populism in Greece

Whereas across Western Europe, the salience of an emerging cultural cleavage has triggered the rise of right-wing populist parties that focus on immigration, in Greece the salience of the materialist cleavage exacerbated by the country’s severe and protracted economic crisis gave rise to populist forces of both the right and the left. The Greek economic crisis of 2009 was soon followed by a political crisis, as the country’s two-party system that had dominated Greek politics since the restoration of democracy in 1974 imploded. The post-crisis elections were characterised by the near collapse of the centre-left Panhellenic Socialist Movement (Pasok), which voters associated directly with the crisis. Support for the party dropped from 43.9% in 2009 to 12.3% in June 2012 and

4.7% in January 2015. Centre-right New Democracy (ND), which has been in power alternately with Pasok for the past 40 years also declined because of its association with austerity and harsh economic measures.

In January 2015, Greece elected a government with a clear anti-austerity mandate, consisting of a radical left-radical right coalition between Syriza and Anel. ND came second with just over 27.8% of the vote. The result was a landslide for Syriza, which attracted broad support from voters who punished mainstream parties – especially Pasok – for their failure to manage the effects of the crisis. Support for the party soared from 4.6% in 2009 to 26.9% in June 2012, and 36.3% in 2015. Syriza won the election on a left-wing populist narrative that attributed blame to outside exploitative powers and their collaborators and sought to restore sovereignty back to the Greek people. Anel, an offshoot of ND, received 4.8% of the vote by also campaigning on a populist platform.

Indeed, while unlikely bedfellows for many, Syriza and Anel shared a populist narrative based on their anti-austerity stance. Their rise is indicative of the rise of a type of populism in Greece that was adopted by most parties in the system in an attempt to divert political accountability through populist blame-shifting.⁸ While left- and right-wing populist parties were divided on key social issues, including religion and immigration – for example, the Macedonian question, Cyprus, and Greece’s relationship with Turkey – they still shared a nationalist rhetoric of liberation, restoration of national sovereignty, a strong rejection of external involvement and resistance to foreign domination.⁹

In sum, the type of populism that emerged in Greece as a response to the economic crisis has four key features:

1. It was expressed through the narratives of all political actors;
2. Therefore, it was observed across the party system;
3. It was expressed in the forms of blame-shifting and exclusivity; and
4. It differed depending on ideology and position in the party system.¹⁰

3 M. Freeden: After the Brexit referendum: revisiting populism as an ideology, in: *Journal of Political Ideologies*, Vol. 22, No. 1, 2017, pp. 1-11; D. Halikiopoulou: Right-wing Populism as a Nationalist Vision of Legitimizing Collective Choice: A Supply-side Perspective, in: *The International Spectator*, Vol. 54, No. 2, 2019, pp. 35-49; B. Bonikowski, D. Halikiopoulou, E. Kaufmann, M. Rooduijn: Populism and nationalism in a comparative perspective: a scholarly exchange, in: *Nations and Nationalism*, Vol. 25, No. 1, 2019, pp. 58-81.

4 W. Riker, *op. cit.*

5 M. Freeden, *op. cit.*

6 D. Halikiopoulou, *op. cit.*

7 B. Bonikowski, D. Halikiopoulou, E. Kaufmann, M. Rooduijn, *op. cit.*

8 S. Vasilopoulou, D. Halikiopoulou, T. Exadaktylos: Greece in crisis: Austerity, Populism and the Politics of Blame, in: *Journal of Common Market Studies*, Vol. 52, No. 2, 2014, pp. 388-402.

9 D. Halikiopoulou, S. Vasilopoulou: Greece’s response to austerity has been to say “no to the Fourth Reich” but yes to the neo-Nazism of the Golden Dawn, LSE EUROPP Blog, 2012, available at <https://blogs.lse.ac.uk/europpblog/2012/10/15/greece-golden-dawn/>.

10 S. Vasilopoulou, D. Halikiopoulou, T. Exadaktylos, *op. cit.*

The Golden Dawn: Extreme right-wing populism?

What is also distinct about Greece is the rise of the Golden Dawn, an extremist, violent, ultra-nationalist and openly neo-Nazi party which progressed from limited membership of extreme right-wing activists, predominantly street activities and very low levels of electoral support in the 1990s and early 2000s to capturing just under 7% in 2015 (Table 1).

This rise of the Golden Dawn contradicts the European-wide pattern of far right populism. In most European countries, the most successful radical right-wing parties are those that have sought to disassociate themselves from extremism such as the French RN, the Dutch PVV, the Swiss SVP, the German AfD and the Scandinavian SD and DF. These parties share a common narrative that emphasises ideological rather than biological criteria of national belonging, adopting a seemingly more inclusive form of nationalism¹¹ and distancing themselves from fascism.¹²

Furthermore, the Golden Dawn is not only openly violent and racist, but for most of the post-crisis period its leading cadres have been standing trial for charges including maintaining a criminal organisation, murder and grievous bodily harm. While it might be argued that extremist parties such as the Golden Dawn cannot be classified as populist, I argue that in fact what characterises the party's rhetoric is a clear merger of populism and nationalism. This is because of:

- Its emphasis on the legitimacy of politics carried out from below, which is a key feature of populism as discussed above; and
- The adoption of a 'palingenetic myth' of populist ultra-nationalism that allows the party to present itself as the saviour of the Greek nation and defender of the national mission.¹³

Specifically, while the party rejects the 'fascist label', it actually espouses all core fascist principles in its supply-side materials. This entails an endorsement of politics from below. For example, the Golden Dawn presents its leader not as the representative but as the embodiment

11 D. Halikiopoulou, S. Mock, S. Vasilopoulou: The civic zeitgeist: nationalism and liberal values in the European radical right, in: *Nations and Nationalism*, Vol. 19, No. 1, 2013, pp. 107-127.

12 M. Golder: Explaining Variation in the Success of Extreme Right Parties in Western Europe, in: *Comparative Political Studies*, Vol. 36, No. 4, 2003, pp. 432-466.

13 S. Vasilopoulou, D. Halikiopoulou: The Golden Dawn's nationalist Solution: Explaining the Rise of the Far Right in Greece, New York 2015, Palgrave.

Table 1
Election results of the Golden Dawn

Year	Election type	Percentage	Seats
1994	EP	0.11	0
1996	National	0.07	0
2009	EP	0.46	0
2009	National	0.29	0
May 2012	National	6.97	21
June 2012	National	6.92	18
2014	EP	9.39	3
January 2015	National	6.28	17
September 2015	National	6.99	18
2019	EP	4.87	2
2019	National	2.93	0

Source: Greek Ministry of Interior, www.yypes.gr.

of the Greek people and their collective will. In addition, the Golden Dawn espouses the 'third biggest ideology in history', i.e. nationalism and supports the establishment of the state in accordance with this principle, placing an extensive emphasis on the Nation (which it refers to with capital 'N'). By employing the twin fascism myths of social decadence and national rebirth, the Golden Dawn promised disillusioned Greek voters a nationalist solution to all their socio-economic problems.¹⁴ It has done so through a narrative that presents Europe as a problem of national exploitation and draws heavily on Greek history, the distinction between superior and inferior nations, the strong sense of Greek ethnic superiority and the portrayal of the Greek nation under threat.

The comparative dimension: Poor governance

How is it possible that a country which prides itself on having resisted fascism and authoritarianism during WWII and the junta years (1967-1973), became one of the few European cases with an openly neo-Nazi party in parliament? Extensive work carried out on Golden Dawn voting patterns and supply-side materials suggests that the economic crisis alone is insufficient in explaining this outcome.¹⁵

A brief comparative examination illustrates why other Southern European countries, with a similar history of

14 Ibid.

15 Ibid.; D. Halikiopoulou, S. Vasilopoulou: Breaching the social contract: crises of democratic representation and patterns of extreme right party support, in: *Government and Opposition*, Vol. 53, No. 1, 2018, pp. 26-50.

authoritarianism and comparable indicators of economic malaise such as unemployment and declining GDP, did not experience a similar phenomenon. This includes Spain, whose crisis coincided with the populist left Podemos, and later the populist right Vox – which however does not compare to the Golden Dawn in terms of its espousal of fascism and violence; and Portugal, which despite a severe economic predicament did not experience a populism wave.

What differs between these cases is the *nature* rather than the *intensity* of the crisis.¹⁶ The economic crisis in Greece – as opposed to that in Spain and Portugal – ultimately culminated in a crisis of democracy and political representation as Greek citizens perceived the state as unable to mitigate the recession. This may be attributed to the weakness of the country's institutions and the deeply entrenched clientelistic networks that permeated all aspects of social and political life in Greece since the restoration of democracy. This system may have facilitated some development during times of international financial stability, but also meant that the country was unable to withstand external shocks.¹⁷ Severe issues of governability resulting from these arrangements significantly impacted the ability of the state to fulfil its obligations to citizens and were accompanied by declining levels of trust in state institutions, resulting in a party system collapse.¹⁸

This suggests that the rise of the Golden Dawn is closely related to the breakdown of political trust, good governance and the perceived efficacy of the state. Ultimately, Golden Dawn's success needs to be understood as dependent upon the extent to which it was able to propose plausible solutions to the three sets of crises – economic, political and ideological – that befell Greece and culminated in an overall crisis of democracy.¹⁹

How resilient is Greece's populism?

According to many analysts and commentators, the July 2019 elections in Greece marked 'a return to normality'²⁰

and 'first defeat of populism in Europe'.²¹ The populist left Syriza lost the election to the centre-right New Democracy party, which won with 39.85% of the popular vote and 158 seats from a total of 300. The Golden Dawn received 2.93%, failing to pass the 3% threshold, exiting the Greek parliament after seven years. The result of this election may be understood as an illustration of the need for stability, as the Greek electorate opted for a technocratic, as opposed to openly populist, government, deemed efficient to handle the economy.

However, such analyses may be premature and should be treated with caution. Greece's illiberal democracy – defined by adversarial politics, the adoption of populist narratives across the party system and weak democratic institutions governed by rent-seeking behaviour – poses significant constraints on the possibility for successful reform.²² A brief look at the country's political scene since July 2019 illustrates this empirically. First, while the Golden Dawn exited parliament, other populist forces still enjoy parliamentary representation, for example the populist right Greek Solution (ten seats) and the populist left MeRa25 (nine seats). Second, the development of the protracted Golden Dawn trial shows signs of reluctance to attribute significant criminal activity to the party and its leading cadres. Third, there are already signs of increasing discontent as New Democracy initiatives become linked to increasing conservatism – for example with regards to the role of the church, abortion and other social issues.

All this suggests that underlying systemic problems in Greece persist and pose a test for the current and any subsequent governments facing a similar constraint: how to implement structural reforms while not compromising their own position in the status quo by alienating large sections of the population who have benefited structurally from the existing system. This ultimately can only be done through the establishment of resilient democratic institutions that can offer effective checks and balances and counter-populism on a structural level. Without these, populism remains a likely destabilising force.

16 Previously stated in *ibid.*

17 M. Mitsopoulos, T. Pelagidis: *Understanding the Crisis in Greece: From Boom to Bust*, Basingstoke 2011, Palgrave Macmillan; T. Pappas: *Why Greece Failed*, in: *Journal of Democracy*, Vol. 24, No. 2, 2013, pp. 31-45; S. Vasilopoulou, D. Halikiopoulou, T. Exadaktylos, *op. cit.*

18 D. Halikiopoulou, S. Vasilopoulou: *Breaching the social contract...*, *op. cit.*

19 S. Vasilopoulou, D. Halikiopoulou, 2015, *op. cit.*

20 H. Mylonas: *After a decade of crisis, Greek politics are turning normal and more technocratic*, *Washington Post*, 14th July 2019.

21 T. Pelagidis: *The First defeat of populism in Europe?*, *Brookings*, 10 July 2019, available at <https://www.brookings.edu/blog/up-front/2019/07/10/greek-elections-the-first-defeat-of-populism-in-europe/>.

22 T. Pappas, *op. cit.*

Karl Aiginger

Populism: Root Causes, Power Grabbing and Counter Strategy

Populism can range from persuasive politics to a dangerous agenda that creates internal and external conflict, negates climate change and rejects human rights. We carve out four root causes of populism. The dominant cause in a period or area determines the socio-economic structure of voters. Populism can have a left-wing or right-wing agenda, and it accelerates with regional problems, inequality, spatial disequilibria and migration. Populist parties often become part of democratically elected governments by forming coalitions with mainstream parties, in which they play the more active part and make further inroads until they dominate. If they finally take the lead, they clinch it by changing the rules, dismantling the division of power between government, parliament and the courts. They invent a foreign enemy or a dangerous force to cement their power. We venture to delineate a counter-strategy that requires four steps.

Definitions of populism and variants

The broadest definition of populism is that it is an oversimplified interpretation of a society's problems. This strategy has been applied by many successful and also visionary politicians including Roosevelt and Luther King in the US, Churchill or Kreisky in Europe, Che Guevara in Latin America and Mandela in Africa – who were able to popularise their messages to a broad audience. Today, populist communication may to an extent be delegated to media agencies or spin doctors, but it still requires an eloquent transmitter to the electorate.

The common unifying feature of the more dangerous type of populism is that it develops a polarising message: It divides people into two groups and even does this binarily – into the 'us' and the 'them'. The former are the ordinary, virtuous citizens and the latter a corrupt, self-serving elite. One corollary of this is that populists understand the 'true wants' of the people and have the sole ability to serve

them; the other is that there exists a natural, positive homogeneity of 'our' people in contrast to sinister foreign forces and cultures that seek to intrude our country, nation and religion (population exchange).

Literature calls it radicalism or nativism when hard ideology is added, whether it is a radical left-wing ideology such as Maoism or a right-wing ideology such as fascism. This can manifest itself in dangerous left- and right-wing populism, as represented by Castro and Chavez on the one extreme and Pinochet, Orbán and Kaczynsky on the other. Both extremes thrive on conflict, populist policy, a dismantling of the division of power, with restrictions on media freedom and democracy at home and a military build-up and closing of borders abroad.

One predecessor of today's populism was the agrarian movement which mobilised small farmers against nobility, large banks and monopolies. Left-wing, reform-oriented populism sometimes included Christian liberation theology, which encouraged protests or revolution against dictators and military rulers who were cooperating with or being financed by the US. This strand was less polarising and more emancipatory, as it encouraged people without power or even voting rights to change their lives and earn fair incomes. The student movement of 1968 encouraged individuals to think 'more dimensionally' about their lives and fight against explicit and implicit oppression. The majority rejected force as a political instrument. There existed, however, elitist concepts for a better understanding of the true wants of a society through academic knowledge, thus disconnecting from the problems of blue-collar labour and trade unions.

While progressive leftist populists are represented at the political front by Bernie Sanders and Jeremy Corbyn, movements like Occupy Wall Street, the Extinction Rebellion and Fridays for Future are at the vanguard of green populism, without a dangerous agenda. The Arab Spring connected the Internet generation with broader parts of the population to fight against traditional rulers hiding money abroad and oppressing people at home.

Four root causes of populism

For today's populism, we carve out four root causes: economic problems, cultural causes, the speed of change generated by globalisation and digitalisation, and last but not least the failure of policy to manage a transition to higher welfare, globally and locally.

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Karl Aiginger, Policy Crossover Center, Vienna-Europe; and Vienna University of Economics and Business, Austria.

Economic causes

Economic causes can be low growth, rising unemployment and inequality. These problems are to an extent fall-out from the financial crisis of 2009 that occurred despite political leaders having learned a lot from the Great Depression of the 1930s.¹ This time, the big economic powers and their central banks did not resort to protectionism or ‘my-country-first’ strategies. These would have led to a worldwide depression of the economy. Instead, this time fiscal policy was coordinated and expansionist; it stimulated demand, rescued failing banks and refrained from protectionism. Central banks supported fiscal policy by flooding markets with liquidity, employing unusual and innovative instruments, including buying government bonds and even shares in private firms. Nevertheless, it took five years for Europe to reach its pre-crisis output again. Meanwhile, unemployment had climbed to two-digit levels and youth unemployment had skyrocketed to 40% or 50% in some countries. The US, which had to a large extent caused the crisis, came out of the recession earlier, inter alia because it pressed payments out of large European banks by threatening to revoke permission to extend operations in the US. It could furthermore increase debt and public deficits more strongly, and was not limited by differences in the credit ratings of states as in Europe.

Thus, the successful demand stabilisation and advantages of international coordination prevented a larger crisis. However, seen in a certain light it also vindicated today’s dominant populist proposals, which assert that national strategies are always better and that coordinated European policy contrasts with the interests of ordinary people. However, the attenuated economic dynamic disappointed voters as inequality could not be reduced. In the US, growth rebounded earlier but the stagnation of the wages of blue-collar workers extended into a fourth decade. Firms remained innovative but hurried to exploit innovations abroad since these further ballooned profits. The huge deficit in the US balance of payment has thus been caused by firms greedy to sustain high dividends and serve the top 1% – not by Chinese distortion of rule, currency manipulations or the stealing of patents by China. This was well understood by economists and international organisations, but the voters accepted the message that innocent American firms were being thrown out of the market by cheap Chinese goods. By the way, the declining prices of consumer goods did more for low-income earners to increase welfare than rising wages. An electorate ignoring the well-known deficits of the US

1 K. Aiginger: The Great Recession versus the Great Depression: Stylized Facts on Siblings That Were Given Different Foster Parents, in: *Economics*, Vol. 4, No. 18, 2010.

democracy such as campaign financing through lobbies and big money, varying rates of voter registration based on income and race, and Russian interference via social networks led to the victory of a populist president demanding to put “America first” and “make America great again”.² Ironically, the rust belt voted for Donald Trump, hoping that he would bring industry back home; however, the focus was on traditional, basic goods such as steel and chemical firms powered by fossil energy, which is the wrong specialisation for a country that is a leader in technology and per capita income.

The rising income inequality among individuals, but also increasingly across regions, is a driving force of today’s populism. Income and population are increasing in urban centres and modern industrial districts, while in the periphery there is low growth and low investment from international firms, since they need skilled labour and supplier networks. Europe had always complained of a low regional mobility of workers, which increased in the past ten years. This is partly the effect of European enlargement, through which regions near the centre have gained by acquiring dynamic clusters of investment, e.g. in the automotive industry. The populations in the regions left behind have significantly decreased. One-fifth of male workers between the ages of 20 and 30 have left, and the prediction is that the population in this group will reduce by half by 2050.³ Affected regions feel forgotten by national policy and threatened by the free movement of workers that constitutes one of the four freedoms of the European single market. The large and increasing EU regional and structural funds were not seen as compensation. This could be because a large part of these funds were diverted by dominant firms or the political elite. Another possible reason is that the declining regions were not able to define projects and cope with the red tape needed for successful fund applications.

Cultural causes

Cultural causes for populist voting can be connected with changes in value systems that are described in literature as gradual changes in Western society’s values, from conservative to liberal. The latter values range from equality of gender and acceptance of different partnerships and lifestyles to ideas about healthy nourishment, mandatory seatbelts in cars and stricter speed limits.

2 K. Aiginger: Political Rebound Effects as Stumbling Blocks for Socio-ecological Transition, in: *American Journal of Business, Economics and Management*, Vol. 6, No. 1, 2018, pp. 7-15.

3 K. Aiginger, H. Handler: Toward a European Partnership Policy (EPP) with the South and the East, Forstering Dynamics, Fighting Root Causes of Migration, Policy Crossover Center: Vienna-Europe, Working Paper No 3, 2017.

Opposition to political correctness and gender consciousness has increased gradually and has now found a political outlet. The resurgence of male dominance is fostered if the potential second income earner no longer applies for jobs due to a lack of well-paid jobs or stagnant or declining wages (or inherited wealth). This is the case in Europe, as well as in the United States (e.g. the Tea Party Movement).

The fact that life expectancy has declined in the US, due to unhealthy eating and sugared drinks leading to obesity, and opioids, does not play a role in this discussion, nor that it has decreased more significantly in low-income groups and among people not born in the US. Preventing their immigration was perceived as more important than integrating them and upgrading their lifestyles. The US can no longer boast about its ability to allow everyone to change their life through upward mobility.

The speed of change

Lifetime jobs have become the exception, and young people seldom pursue the same occupation as their elders. What one does at the start of a career cannot become a job for decades – even if the job is formally the same, its content, activities and tasks to be performed will change. Kids do not work in the same firms and jobs as their parents and are flexible in changing the location of their work. Their personal, religious and political priorities are less homogenous and can be different from those of their parents. This widens choices, increases the fit between abilities and demand and thus leads to lower levels of skill mismatch, but it also involves uncertainty and can result in intermittent periods of joblessness and retraining.

Economic policy has not delivered

Even mainstream globalisation theory predicted that there would be losers and that these would be the low-skilled workers in the industrialised countries. Theory asserts that they should be compensated for their losses. However, modern theory stresses that this cannot be done completely, and opinion surveys show that people do not wish to depend on welfare payments for long periods, preferring instead to change jobs or occupations.⁴

Thus, globalisation and the resulting speed of change are generally heading in a positive direction but require a game-changing transformation of the education system. Learning by heart has to become less important than

problem-solving, and there is a shift from a one-off phase of education in youth to lifelong learning, retraining and a constant search for new opportunities and improvements. Empowerment substitutes social compensation as a best-policy reaction. The worst approach is ignoring the losers' problems and calling for a return to non-existent past glory.

Migration is seen as an accelerator or driving force of populism.⁵ If people have fewer opportunities and a stagnant income, they oppose migrants as new competitors who are willing to work at lower wages for longer hours. The opposition remains even if the entrants are not close substitutes for the old jobs and even if inward migration and extending the workforce lead to higher output and an increase in domestic employment. When uncertainty is high, migration is not seen as an opportunity but as the threat of losing position, of declining from middle to lower class. This impression is heightened when regions lose jobs, which are being created in the centres to which migrants flock.

In general, former rust belts and forgotten regions where the populations are declining tend to turn to populist parties, even if mainstream parties or European policies support investment and aid is provided, and even if former citizens finance an increasing part of the community or the family budget by sending money home. Remittances and structural aid make up nearly 6% of regional GDP and even more in some communities.⁶ However, since these payments cannot be appreciated as the result of own efforts they do not hinder a search for 'strong men' who claim that the past was better, foreigners are the problem and protectionism is the solution. Very few regions offer strategies to bring former expatriates back or invite migrants to make use of the entrepreneurship and broad skills acquired in small businesses in their countries of origin. Social media and echo chambers tend to focus on problems and grievances rather than solutions, and they tend not to report success.

The road to power of populist parties

The political inroads of populist parties start locally or regionally. People disappointed by economic dynamics often call for some form of independence, whether from the mainstream government or the European Commission. And they may even call for the secession of a

4 P. Collier: *The Future of Capitalism*, London 2018, Penguin Random House UK.

5 K. Umansky, J. Kohlenberger: *Hunt or Be Hunted? Immigration as a 'Legitimate' Enemy Strategy in the 2017 Austrian General Election*, 2019, mimeo; M. Oberlechner, H. Heinisch, P. Duval (eds.): *Nationalismus bildet*, Schwalbach, forthcoming, Wochenschaueverlag.

6 K. Aiginger, H. Handler, op. cit.

province, at least if the ‘government does not change its course’. There are often two mainstream parties which are short of the absolute majority; instead of one supporting a prime minister of the other, the smaller one invites the populist party to become a member of the government or the larger one, in order to prevent this, invites the populist party itself. In such coalitions, the populist party determines the political agenda and becomes dominant. If new elections show increased support for the populist party, it then changes the rules of voting, so that a minority party can get the majority of seats. Then the populist party may further change the rule of law, abolish the division of power, forbid opposition and foreign papers, and try to dominate social media and gain internet control.

The economic agenda of bringing jobs back and improving dynamics can sometimes work in the short run, if past fiscal prudence has left some space for higher government expenditures for low incomes. However, in the long run, protection and redistribution without active components, innovation and new firms do not work. To distract from the negative economic consequences, a foreign enemy has to be created; this can be the EU, international migration, the big international media or expatriates like George Soros in Hungary. Suddenly, everyone from abroad appears to be against ‘us’. ‘We’ have to stick together, increase political control, bolster the police force and try to protect our borders from foreign goods and people from other cultures.

A strategy for overcoming populism in four steps

To stop support for populists and put an end to their power is no easy task. The root problems, which had empowered the populists, have not vanished, and the incapacity of former mainstream parties to solve problems has not been forgotten. Support for populists eventually fades if the economic situation worsens – as the electoral results in main cities in Turkey and Hungary show. However, if there is no candidate presenting an alternative or opposition is divided, the return to liberal democracy is difficult, given the new majority rules and suppression of the media. A four-stage procedure is needed.

The first step is to correct the wrong framing on which today’s populism is based. It is the pessimistic interpretation that life has become bad, the economy is approaching a collapse, and moral and social relations are worse than in some golden era. In fact, in most countries and regions, living conditions were not dismal at the time the populists came to power. Incomes were higher than those of the previous generation, there was

a greater ability to choose education, training and location. The best proof that an overly pessimistic story is incorrect is perhaps rising life expectancy: it increases by three years for each decade after we were born, and it is largely a healthy life expectancy that includes the ability to work, travel and seek a partner up to an age that had previously been unimaginable. In rebalancing the framework it has to be acknowledged, that not everything is positive for everyone and the potential for improvement is great. Inequality can be decreased, employment made fairer with less burnout, and leisure choices can increase. It must be made clear that these improvements will never happen through protectionism, and that past jobs and family structures will not return. Furthermore, it needs to be stressed that heterogeneity is not negative and animosity towards outsiders or foreigners does not solve problems. Redrawing the picture without whitewashing must be the starting point of a new policy.

The second step is to develop a vision outlining where the country or region wants to be in the medium-term future, for example by 2030. This includes which jobs can be created, which specialisations by industry are feasible and advantageous, and which abilities and education levels for the young can be attained. The vision should specify which public services are to be provided and how living conditions can be improved. Performance should be judged based on sustainable development goals.⁷ The vision should be ambitious but within reach, shared by citizens and developed jointly with experts and political parties.

The third step is to define game-changing instruments and find partners in the process of change.⁸ Changing tax systems are all-important as they can make environmental exploitation costly while supporting a circular economy and innovation. Lifelong learning and retraining should be further promoted. The strategy should be discussed and fine-tuned in a dialogue with citizens, NGOs, reform-minded trade unions and representatives of new firms. Moreover, the skills of migrants should be utilised and their children integrated. The increase in spatial divergence has to be stopped. The flocking to urban centres should be curtailed through teleworking and teleconferencing. Buying ever bigger cars fuelled by

7 A. Köppl, S. Schleicher, M. Schratzenstaller: Policy Brief: Fragen und Fakten zur Bepreisung von Treibhausgasemissionen, Wien 2019, WIFO.

8 K. Aiginger: European Partnership Policy: Fostering Dynamics and Fighting the Root Causes of Migration, Policy Crossover Center: Vienna-Europe, Policy Brief No. 3, 2017; K. Aiginger: Education: Key to Welfare and External European Partnerships, Policy Crossover Center: Vienna-Europe, Policy Brief No. 2, 2018.

gasoline or diesel should be discouraged through better public transport, incentives for electric cars and car sharing, and the renting of unused houses should replace urban sprawl.

Finally, a new strategy requires a narrative that emotionalises and unites Europe. Europe's old peace narrative no longer moves its citizens, though each and every day we see that peace is not a guarantee. Since Europe is a small geographical region and Europe's share of the world population is proportional in size, this must be a narrative based on quality, innovation and partnership.

A probable new narrative could be that Europe is trying to make globalisation responsible, taking the lead in fighting climate change and offering a larger variety. It can further aspire to the lowest inequality for its citizens, encouraging the extension of this European way of life.

Change is around the corner

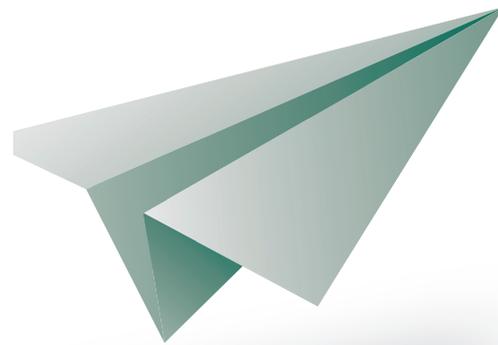
Fighting populism is a necessity. Populism reduces life opportunities, promising a return to non-existent past glory. It leads to lower income and higher expenditures for people unable to find jobs and a self-determined life. It increases the probability of conflict with neighbours. Under populism, government expenditures for policy, border control, environmental degradation and health problems must increase significantly, and this in turn leads to higher taxes and debt. It has multiple roots which must be addressed, but there exist numerous better solutions for these problems if they are discussed with citizens.

While support for populism seems to have peaked, an active policy is still needed to ensure its continued decline. Fortunately, the new president of the European Commission and her team are addressing these problems, with the support of new leaders at the IMF, the UN and the ECB. Economists seem to have partly descended from their ivory tower to include societal and environmental problems in their agenda, with GDP substituted by Sustainable Development Goals. New interdisciplinary think tanks are on the rise, and these are connected to international networks stimulating discussion. Young people are more interested than ever in the future of the planet and infecting their parents and teachers with their concerns. New political parties are being created on a basis other than that of the old socialist-vs-conservative divide, and governments are becoming greener, more liberal and more attentive to future opportunities opportunities and partnerships with neighbours in the East and in the South.

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Matthias Diermeier

The AfD's Winning Formula – No Need for Economic Strategy Blurring in Germany

Western European Populist Radical Right Parties (PRRPs) have addressed the dispersed socio-economic status of their electorates by blurring their economic positioning. This contribution analyses the rise of the German PRRP Alternative für Deutschland (AfD) between 2013 and 2017 and the role of its economic policy platform. In contrast to its European peers, the AfD shows few signs of economic strategy blurring. The party offers clear anti-redistribution policies that are matched by AfD voters' preferences: even the least affluent AfD supporters have stronger preferences for lower redistribution than the most affluent non-AfD supporters. For AfD supporters with lower socio-economic positions this means that they support economic policies that are against their economic interests. Extreme authoritarian cultural policies spiced up with criticism of the establishment and combined with a general opposition to redistribution can be identified as the AfD's winning formula. Within the Western European PRRP party family, this winning formula directed at supporters with lower socio-economic positions constitutes an exception.

The Western European party family of Populist Radical Right Parties has gone through a vivid transformation.¹ Particularly, PRRPs' economic positioning has become an object of study as they shift away from neo-liberal economic policy platforms and as the parties increasingly attract an electorate with lower socio-economic status.² Today, the Western European political landscape holds a variety of strategies for PRRPs' potential economic policy. These range from the French Front National model of endorsing pro-welfare policies to the Swiss Peoples

Party's well-known 'winning formula' of 'right' cultural positions and a neoliberal economic policy. Applying more nuanced strategies, PRRPs persuade their supporters by subsuming the economic dimension under their cultural core position or by blurring its economic policy.³ In this regard, the German newcomer party Alternative für Deutschland (AfD) appears to be a prime object of study as it goes through a similar transformation, albeit in fast-forward between 2013 and 2017.⁴

PRRPs in a multidimensional context

In contrast to the belief that party competition is mostly carried out along unidimensional conflict lines on the economic dimension, scholars following Riker's heresthetics stress the importance of different dimensions, including non-economic issues as well as party competition, over dimensional salience.⁵ Rovny and Edwards note that "political competition is primarily a struggle over dimensionality, it does not merely occur *along* issue dimensions but also *over* their content" – with special incentives for niche

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- 1 C. Mudd: Populist Radical Right Parties in Europe, New York 2007, Cambridge University Press.
- 2 E. Ivarsson: The vulnerable populist right parties: No economic realignment fuelling their electoral success, in: European Journal of Political Research, Vol. 44, No. 3, 2005, pp. 465-492; A. Afonso, L. Renwald: The Changing Welfare State Agenda of Radical Right Parties in Europe, in: B. Palier, P. Manow (eds.): Electoral Politics and Welfare State Reforms, Oxford 2018, Oxford University Press.

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- 3 A. Elias, E. Szöcsik, C.I. Zuber: Position, selective emphasis and framing, in: Party Politics, Vol. 21, No. 6, 2015, pp. 839-850; J. Rovny: Where do radical right parties stand? Position blurring in multidimensional competition, in: European Political Science Review, Vol. 5, No. 1, 2013, pp. 1-26.
- 4 K. Arzheimer, C.C. Berning: How the Alternative for Germany (AfD) and their voters veered to the radical right, 2013-2017, in: Electoral Studies, Vol. 60, 2019.
- 5 W.H. Riker: The Art of Political Manipulation, New Haven 1986, Yale University Press.

parties to introduce secondary, non-economic issues.⁶ Norris and Inglehart find a predominance of the cultural dimension and christen the rise of PRRPs in Western democracies a *cultural backlash*:⁷ an uprising against the diffusion of progressive values and the approval of migration, channelled through nativist, authoritarian and populist radical right parties.⁸

Regarding the welfare policy platforms of PRRPs, Kitschelt and McGann sketch the 'winning formula' as a neo-liberal economic agenda with an authoritarian profile in the cultural and political dimension.⁹ This formula has become highly controversial as the heterogeneity of Western European PRRPs is carved out in bits and pieces.¹⁰ First, PRRPs are considered, to a certain degree, Anti-Party Parties (APPs) that discredit the political system as such.¹¹ If PRRPs were to opportunistically endorse whichever goal appeals to their electorate, they would attract more protest voters than issue voters, resulting in a generally lower importance of actual issue positioning.¹² Second, some PRRPs – e.g. the Front National under Marine Le Pen – meet lower socio-economic positions of their electorates programmatically with a shift to pro-welfare positions.¹³ Third, a centrist convergence of PRRPs in the economic policy dimension during the 1990s and 2000s can be observed – e.g. in Belgium and the Netherlands – with PRRPs proposing an absurd socio-economic agenda of economic liberalism and a welfare state.¹⁴ In this context, Mudde and Ivarsflaten stress the

welfare chauvinist character of PRRP's economic policy platforms and find that PRRPs subsume their economic policy under a cultural core issue, in order to address dispersed preferences for redistribution – e.g. in Denmark and France.¹⁵ Fourth, Rovny claims that radical 'right' parties deliberately cloud their positioning in the economic dimension as they focus on cultural issues, allowing them to attract an electorate with heterogeneous redistribution and homogeneous cultural preferences.¹⁶ Finally, the old winning formula of anti-migration and anti-redistribution attitudes seems to be a driver of PRRP support in Switzerland and, to a lesser degree, in Norway.¹⁷ However, in contrast to most Western European PRRPs, the Swiss People's Party and the Norwegian Progress Party still attract a rather affluent electorate.

Following Elias et al.'s theoretical elaboration of the outlined bi-dimensional setting, parties can either choose to reveal a position in both dimensions (bi-dimensionality) or ignore one dimension entirely (uni-dimensionality).¹⁸ Also, parties may deliberately blur one dimension (blurring) or subsume it under the other dimension (subsuming). Depending on the characteristics of the respective party system and dimensional salience relation, this theoretical framing describes the possible strategy space for PRRPs.

Shaking up the Party System: AfD

The German party system may be considered a prime example of the described theoretical strategy setting. It can be outlined through a socio-economic cleavage over market freedom and state interventionism and a cultural cleavage between a libertarian and an authoritarian extreme.¹⁹ Also, polarisation between political parties increased significantly during the 2013 and 2017 election periods.²⁰ Characterised as a two party-dominated political system, the decade-long decay of the election share of the social democratic SPD and the conservative CDU/CSU is mirrored by a shift to the left of the entire party

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- 6 J. Rovny, E.E. Edwards: Struggle over Dimensionality: Party Competition in Western and Eastern Europe, in: *East European Politics & Societies*, Vol. 26, No. 1, 2012, pp. 56-74, here p. 56.
- 7 P. Norris, R. Inglehart: *Cultural Backlash: Trump, Brexit, and Authoritarian Populism*, Cambridge 2019, Cambridge University Press.
- 8 C. Mudde: *Populist Radical...*, op. cit.
- 9 H. Kitschelt, A. McGann: *The Radical Right in Western Europe: A Comparative Analysis*, Ann Arbor 1995, The University of Michigan Press.
- 10 See M. Rooduijn: What unites the voter bases of populist parties? Comparing the electorates of 15 populist parties, in: *European Political Science Review*, Vol. 10, No. 3, 2018, pp. 351-368 for a discussion of the differences of Western European PRRPs' electorates and their redistribution preferences. See S. Otjes, G. Ivaldi, A.R. Jupskås, O. Mazzoleni: It's not Economic Interventionism, Stupid! Reassessing the Political Economy of Radical Right-wing Populist Parties, in: *Swiss Political Science Review*, Vol. 7, No. 2, 2018, p. 271 for current empirical evidence of the diversity of Western European PRRPs' economic agenda.
- 11 T. Pogunke, S.E. Scarrow: The politics of anti-party sentiment: Introduction1, in: *European Journal of Political Research*, Vol. 29, No. 3, 1996, pp. 257-262.
- 12 K. Deschouwer: Political parties and democracy: A mutual murder?, in: *European Journal of Political Research*, Vol. 29, No. 3, 1996, pp. 263-278.
- 13 A. Afonso, L. Renwald, op. cit.; Z. Lefkofridi, E. Michel: The Electoral Politics of Solidarity, in: K. Banting, W. Kymlicka (eds.): *The Strains of Commitment*, 2017, Oxford University Press.
- 14 C. Mudde: *Populist Radical...*, op. cit. For Belgium and the Netherlands, see S.L. de Lange: A New Winning Formula?, in: *Party Politics*, Vol. 13, No. 4, 2007, pp. 411-435.

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- 15 See C. Mudde: Extreme right parties in Eastern Europe, in: *Patterns of Prejudice*, Vol. 34, No. 1, 2000, pp. 5-27; and S. Otjes et al., op. cit. Note popular definition of PRRPs' 'thin ideology' by C. Mudde: *Populist Radical...*, op. cit. misses a clear definition of the economic agenda.
- 16 See J. Rovny: Where do radical... , op. cit.; and Z. Somer-Topcu: Everything to Everyone: The Electoral Consequences of the Broad-Appeal Strategy in Europe, in: *American Journal of Political Science*, Vol. 59, No. 4, 2015, pp. 841-854; A. Afonso, L. Renwald, op. cit.
- 17 M. Rooduijn, op. cit.
- 18 A. Elias, E. Szöcsik, C.I. Zuber, op. cit.
- 19 O. Niedermayer: Von der Zweiparteiendominanz zum Pluralismus: Die Entwicklung des deutschen Parteiensystems im westeuropäischen Vergleich, in: *Politische Vierteljahrschrift*, Vol. 51, No. 1, 2010, pp. 1-13.
- 20 K.-R. Korte, D. Michels, J. Schoofs, N. Switek, K. Weissenbach: *Parteiendemokratie in Bewegung*, 2018, Nomos.

system.²¹ Traditionally leaving potential PRRPs little room to manoeuvre,²² the CDU/CSU has gradually converged to centre-right positions since the 1990s, leaving a 'representational gap' on the far right of the cultural party competition dimension.²³

Today, this far-right void is successively absorbed by the AfD. Established in 2013, the party's founding father, professor of economics Bernd Lucke, initially designed a single-issue Eurosceptic party²⁴ dominated by its liberal,²⁵ ordoliberal²⁶ or neo-liberal²⁷ economic policy platform. During this founding period, the party attracted a particularly affluent and highly educated electorate.²⁸ The party's first manifestos lack clear nativist and populist elements that are typical of the cultural policy positioning of PRRPs.²⁹

After a tough factional struggle, the AfD's positioning in the cultural dimension was significantly radicalised by the national conservative wing having sacked Lucke as a spokesperson in July 2015. Scholars describe the post-Lucke programmatic adjustments as a shift to an anti-migration party³⁰ or a populist right-wing party.³¹ During this radicalisation period, the party's important social media communication focused more and more on the topics

of migration and Islam.³² The AfD's gradual development into a nationwide competitive PRRP peaked with its historical success at the federal level in 2017, when the party won 12.6% of the votes, thus abruptly ending the long-term absence of a German PRRP.³³ The party's classification by the public³⁴ and the media³⁵ moved to the 'right' accordingly. At the same time, AfD supporters kept their strong homogeneity in the cultural dimension, e.g. in their opposition to migration.³⁶

The programmatic transformation has been accompanied by socio-economic changes within the AfD's support groups. Support from groups with lower socio-economic status, especially in Eastern Germany and within the working class, increased while support from high-income groups decreased.³⁷ Accordingly, voter migration to the AfD differs with the incumbency on the regional level and comes from the Left party in Eastern Germany, from the CDU in major cities in Eastern German, from the CSU in Bavaria and the SPD in the Ruhr area.³⁸ In contrast to former radical right-wing parties in Germany, the mobilisation of a certain traditional left-leaning electorate represents a unique feature of the AfD.³⁹ The AfD manages to attract a diverse electorate and mobilises non-voters as well as voters of several established parties.⁴⁰ Where-

21 O. Niedermayer: Von der Zweiparteiendominanz..., op. cit.

22 S. Bornschier: Cleavage Politics and the Populist Right: The New Cultural Conflict in Western Europe, Philadelphia, PA 2010, Temple University Press.

23 K.-R. Korte, D. Michels, J. Schoofs, N. Switek, K. Weissenbach, op. cit., p. 206; D. Art: The AfD and the end of containment in Germany, in: German Politics and Society, Vol. 36, No. 2, 2018, pp. 76-86;

24 R. Schmitt-Beck: The 'Alternative für Deutschland in the Electorate': Between Single-Issue and Right-Wing Populist Party, in: German Politics, Vol. 26, No. 1, 2017, pp. 124-148.

25 J. Schärdel: Vom euroskeptischen Herausforderer zur rechtsextremen Gefahr? Eine Untersuchung der regionalen Berichterstattung über die AfD in neun deutschen Landtagswahlkämpfen, in: Zeitschrift für Parlamentsfragen, Vol. 48, No. 1, 2017, pp. 76-101.

26 S.T. Franzmann: Calling the Ghost of Populism: The AfD's Strategic and Tactical Agendas until the EP Election 2014, in: German Politics, Vol. 25, No. 4, 2016, pp. 457-479.

27 J. Rosenfelder: Die Programmatik der AfD: Inwiefern hat sie sich von einer primär euroskeptischen zu einer rechtspopulistischen Partei entwickelt?, in: Zeitschrift für Parlamentsfragen, Vol. 48, No. 1, 2017, pp. 123-140.

28 O. Niedermayer, J. Hofrichter: Die Wählerschaft der AfD: Wer ist sie, woher kommt sie und wie weit rechts steht sie?, in: Zeitschrift für Parlamentsfragen, Vol. 47, No. 2, 2016, pp. 267-285.

29 K. Arzheimer: The AfD: Finally a Successful Right-Wing Populist Eurosceptic Party for Germany?, in: West European Politics, Vol. 38, No. 3, 2015, pp. 535-556; O. Niedermayer: Eine neue Konkurrentin im Parteiensystem? Die Alternative für Deutschland, in: O. Niedermayer (ed.): Die Parteien nach der Bundestagswahl 2013, Wiesbaden 2015, Springer, pp. 175-207.

30 O. Niedermayer, J. Hofrichter, op. cit.

31 N. Berbuir, M. Lewandowsky, J. Siri: The AfD and its Sympathisers: Finally a Right-Wing Populist Movement in Germany?, in: German Politics, Vol. 24, No. 2, 2015, pp. 154-178; J. Rosenfelder, op. cit.

32 K. Arzheimer, C.C. Berning, op. cit.

33 S. Bornschier: Why a right-wing populist party emerged in France but not in Germany: cleavages and actors in the formation of a new cultural divide, in: European Political Science Review, Vol. 4, No. 1, 2012, pp. 121-145; O. Niedermayer: Von der Zweiparteiendominanz..., op. cit.

34 K. Bergmann, M. Diermeier: Die AfD: Eine unterschätzte Partei Soziale Erwünschtheit als Erklärung für fehlerhafte Prognosen, in: IW Report, No. 7, 2017.

35 J. Schärdel, op. cit.

36 H. Lengfeld: Die „Alternative für Deutschland“: eine Partei für Modernisierungsverlierer?, in: KZfSS Kölner Zeitschrift für Soziologie und Sozialpsychologie, Vol. 69, No. 2, 2017, pp. 209-232; T. Schwarzbözl, M. Fatke: Außer Protesten nichts gewesen? Das politische Potenzial der AfD, in: Politische Vierteljahresschrift, Vol. 57, No. 2, 2016, pp. 276-299.

37 K. Bergmann, M. Diermeier, J. Niehues: Ein komplexes Gebilde. Eine sozio-ökonomische Analyse des Ergebnisses der AfD bei der Bundestagswahl 2017, in: Zeitschrift für Parlamentsfragen, Vol. 49, No. 2, 2018, pp. 243-264; K. Brenke, A. Kritikos: Wählerstruktur im Wandel, in: DIW Wochenbericht, No. 29, 2017; I. Bieber, S. Roßteutscher, P. Scherer: Die Metamorphosen der AfD-Wählerschaft: Von einer euroskeptischen Protestpartei zu einer (rechten) Alternative?, in: Politische Vierteljahresschrift, Vol. 59, 2018, pp. 433-461.

38 J. Oisen: The left party and the AfD: Populist Competitors in Eastern Germany, in: German Politics and Society, Vol. 36, No. 1, 2018, pp. 70-83; K. Bergmann, M. Diermeier, J. Niehues, 2008, op. cit.; L. Berg, A. Zick (ed.): Rechtspopulismus, soziale Frage & Demokratie: S. Kurtenbach: Räumliche Aspekte des Rechtspopulismus, FGW-Studie, No. 1, Düsseldorf 2019.

39 M. Klein, F. Heckert, Y. Peper: Rechtspopulismus oder rechter Verdruss?, in: KZfSS Kölner Zeitschrift für Soziologie und Sozialpsychologie, Vol. 38, 2018, p. 535.

40 M. Hansen, J. Oisen: Flesh of the Same Flesh: A Study of Voters for the Alternative for Germany (AfD) in the 2017 Federal Election, in: German Politics, Vol. 28, No. 1, 2019, pp. 1-19.

as the anti-establishment and anti-migration platforms clearly appeal to AfD supporters, the role of economic policies in the second period seems much less clear. The party itself identifies its economic policy as a potential spirit of discord in a strategy paper for the federal election in 2017:

With regard to so far non-decisive topics (this holds especially for economic and welfare policy), particular attention has to be paid to the fact that the AfD's electorate is not divided. Whereas parts of the bourgeoisie with a liberal-conservative mindset on the one hand and the working-class and the unemployed on the other hand hold similar views on topics such as Euro/Europe, security, migration/Islam, democracy, national identity or genderism, differences can come up on questions such as tax equity, the pension level, health security contributions, rent control or unemployment security. [...] If this is not possible, cross references between core topics and presumably dividing topics have to be drawn.⁴¹

Anecdotal evidence shows that these strategic considerations are met by proposing welfare chauvinist policies subsuming the economic dimension in line with Ivarsflaten.⁴² Mirroring a broad increase of welfare chauvinism in Germany,⁴³ the AfD faction from Thuringia demands higher redistribution and a 'citizens pension' – a pension increase for which only German citizens would be eligible.⁴⁴ However, the party also endorses a pro-welfare positioning comparable to the Front National in France:⁴⁵ Far-right faction leader Björn Höcke continues to call the AfD 'the party of social justice',⁴⁶ demanding 'patriotism of solidarity' and even supporting the foundation of right-wing unions like the organisation 'Alarm'.⁴⁷ On the contrary, scholars supporting the APP theory stress the AfD voters' protest characteristics and neglect the importance of actual issue positioning – particularly regarding economic policy.⁴⁸ Schwarzbözl und Fatke claim "the AfD

electorate represents a group of people that is particularly coherent with regard to cultural conflicts, in contrast it is rather incoherent with regard to economic conflicts".⁴⁹ Oppositely, Hansen and Olsen find that "AfD voters were in the mainstream [...] in terms of their attitudes towards efforts to reduce inequality and the role of the welfare state".⁵⁰ Finally, Goerres et al. provide evidence for the old Kitschelt and McGann 'winning formula': In their analysis, AfD supporters have particularly strong anti-redistribution preferences comparable with the PRRP electorates in Switzerland or Norway.⁵¹ Such a combination of 'right' cultural and economic preferences within the electorate would enable the party to provide a clear bi-dimensional positioning with no need for blurring.

Data and measurement

In order to analyse AfD's comparative positioning, the German party system's supply side in the economic and cultural dimensions for the legislative period between 2013 and 2017, the 2014 Chapel Hill Expert Surveys (CHES) and the 2017 CHES FLASH survey can be used. The CHES provides an operationalisation of the economic 'left-right' and cultural libertarian post-materialist dimension on an 11-point scale. For Germany, the party positioning is assessed by 13 experts in 2014 and 15 experts in 2017. Scholars have applied the standard deviation of these experts' judgements to proxy the degree of strategy blurring.⁵²

In order to evaluate the success of the party's strategies, the perceived party positioning by the German electorate needs to be examined under the consideration of the electorate's own dimensional policy preferences and socio-economic control variables. For the legislative period between 2013 and 2017, several waves of the German Longitudinal Election Study (GLES) representative Long-term Online Tracking as well as the GLES pre- and post-election 2017 waves contain the relevant data including economic and cultural 'right-left' economics on an 11-point scale. In order to control for APP characteristics

41 Own translation from: Alternative für Deutschland: Demokratie wiederherstellen Dem Volk die Staatsgewalt zurückgeben: Die Strategie der AfD für das Wahljahr 2017, 2016.

42 E. Ivarsflaten, op. cit.

43 P. Marx, E. Naumann: Do right-wing parties foster welfare chauvinistic attitudes? A longitudinal study of the 2015 'refugee crisis' in Germany, in: *Electoral Studies*, Vol. 52, 2018, pp. 111-116.

44 AfD Fraktion im Thüringer Landtag: Es geht um Wertschätzung: Ein Konzept der AfD-Fraktion im Thüringer Landtag, 2018.

45 A. Afonso, L. Renwald, op. cit.

46 R. Hank: Nationalsoziale Alternative, in: *Frankfurter Allgemeine Sonntagszeitung*, 15 July 2018.

47 A. Schmelcher: National und sozial, in: *Frankfurter Allgemeine Sonntagszeitung*, 3 November 2019, No. 44; P. Marx, E. Naumann, op. cit.

48 S.T. Franzmann (ed.): *Parteien und die Politisierung der Europäischen Union*, 2018; I. Bieber, S. Roßteutscher, P. Scherer, op. cit.

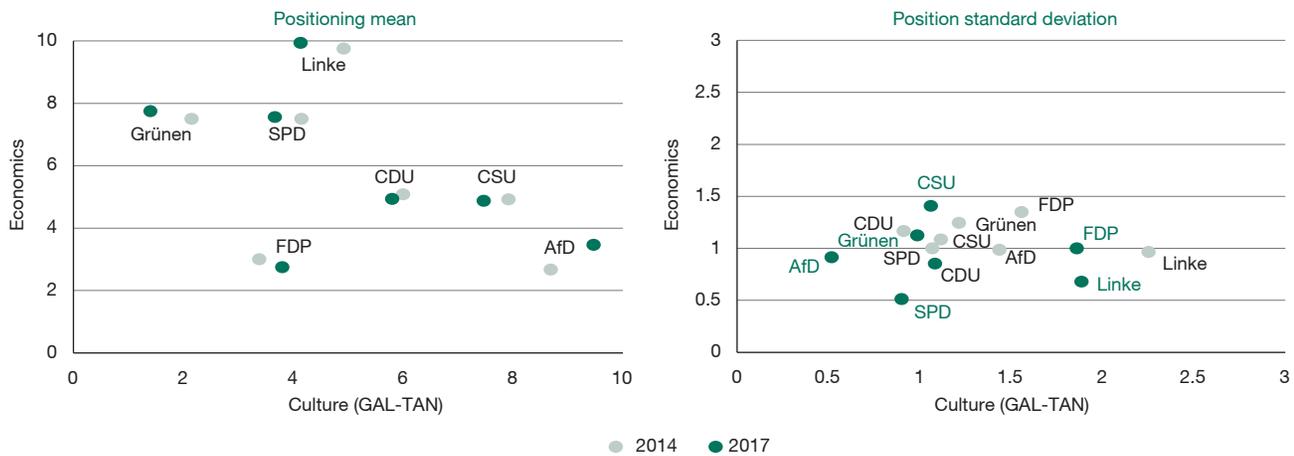
49 T. Schwarzbözl, M. Fatke, op. cit., p. 289.

50 M. Hansen, J. Olsen, op. cit., 2019, p. 15.

51 A. Goerres, D.C. Spies, S. Kumlin: The Electoral Supporter Base of the Alternative for Germany, in: *Swiss Political Science Review*, Vol. 21, No. 4, 2018, p. 617. See also H. Kitschelt, A. McGann, op. cit., 1995.

52 J. Rovny: Who emphasizes and who blurs? Party strategies in multidimensional competition, in: *European Union Politics*, Vol. 13, No. 2, 2012, pp. 269-292; J. Rovny: Where do radical..., op. cit.; B. Palier, P. Manow (eds.): *Electoral Politics and Welfare State Reforms*, Oxford 2018, Oxford University Press; K.J. Han, op. cit.; A. Afonso, L. Renwald, op. cit. See web Appendix of J. Rovny: Who emphasizes..., op. cit. for several tests approving the use of CHES-based standard deviations as a measurement of strategy blurring.

Figure 1
Experts' issue positioning of German parties in the economic and cultural dimension



Note: For an easier graphical representation of Figure 1, the economic scale has been reversed in comparison to the original CHES data.

Source: Author's own calculations based on Chapel Hill Expert Survey (CHES).

and protest election motives in line with Bieber et al.,⁵³ an unweighted index of satisfaction with the established parties on an 11-point scale, an index on democracy dissatisfaction on an 11-point scale, as well as an 'Angela Merkel sympathy' index on a 5-point scale is compiled. Grouping the respondents over the two relevant periods that the AfD went through – divided by the sacking of Bernd Lucke in June 2015 – the selected GLES waves provide 4,123 (7,483) respondents in the first (second) period of which 226 (581) claim to vote for the AfD. Rovny applies variance ratio tests of the perceived positional dispersion of different parties' voters to identify strategy blurring of PRRPs.⁵⁴ Bartels simply counts the positional 'don't know' answers.⁵⁵ Such analyses might deliver valuable indications; they can only be hints for strategy blurring, however. Younger parties' positions in particular might be perceived as ambiguous due to voters' lack of knowledge acquired over a longer period of time.

The GLES dataset allows for the testing of perceived party-supporter interrelation in a logit model for all respondents *i*, controlling for the perceived distance, the positioning preference and the salience in both dimensions *D* – economics and culture. Additionally, APP and socio-economic characteristics are controlled for. The model is run in the founding and radicalisation period *P*.

53 I. Bieber, S. Roßteutscher, P. Scherer, op. cit.
 54 J. Rovny: Who emphasizes..., op. cit.
 55 L.M. Bartels: Issue Voting Under Uncertainty: An Empirical Test, in: American Journal of Political Science, Vol. 30, No. 4, 1986, pp. 709-728.

$$Pr(AfD\ support)_{i,P}$$

$$= \beta_P + \beta_{perceived\ distance\ i,P,D} + \beta_{preference\ i,P,D} + \beta_{salience\ i,P,D} + \beta_{APP\ characteristics\ i,P} + \beta_{socio-economics\ i,P} + \gamma_{East,P} + \epsilon_{i,P}$$

Merging the CHES expert judgements into the combined GLES waves further allows an analysis of objective party-supporter distance, finally making it possible to test for strategy blurring.

$$Pr(AfD\ support)_{i,P}$$

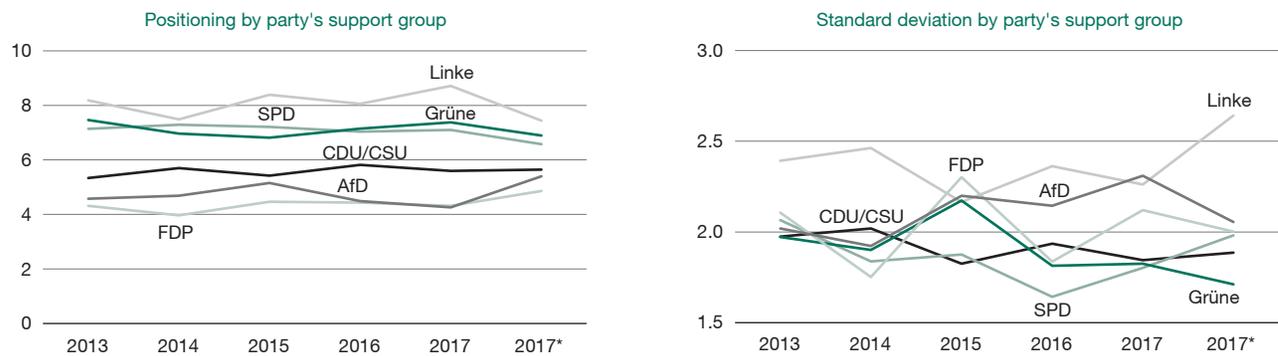
$$= \beta_P + \beta_{objective\ distance\ i,P,D} + \beta_{preference\ i,P,D} + \beta_{salience\ i,P,D} + \beta_{APP\ characteristics\ i,P} + \beta_{socio-economics\ i,P} + \gamma_{East,P} + \epsilon_{i,P}$$

The AfD is considered to blur its position in the economic dimension if AfD voters had dispersed welfare state preferences and would individually perceive that these preferences were met by the AfD, whereas objectively (by expert judgements) this distance was larger between other groups of party supporters and their supported party.

Supply side: The AfD de-emphasises its 'right' economic positioning

The German party system during the legislative period between 2013 and 2017 is mapped over the economic and cultural dimension based on the CHES expert judgements. The left-hand side of Figure 1 plots the arithmetic mean of all expert judgements for both dimensions in 2014 and 2017. On the cultural dimension, from libertarian/postmaterialism ('left') to traditional/authoritarian

Figure 2
Perceived economic positioning of the German party system



Note: *Pre- and post-election wave 2017.

Source: Author's own calculations based on German Longitudinal Election Study (GLES).

(‘right’), the AfD is considered the most extreme party on the ‘right’ fringe of the German party system, with the Green party being its cultural antagonist on the ‘left’. The AfD hence increased the range of cultural positioning in Germany and triggered a polarisation in the cultural dimension between 2014 and 2017.⁵⁶ During that time, experts became exceptionally concordant in their judgements of the AfD’s extreme ‘right’ cultural positioning.

Whereas the perceived economic positioning of parties hardly changes over the observation period, the AfD is assessed as slightly more welfare-friendly in 2017. In 2014, the party’s economic policy platform is evaluated as the most anti-welfare of all German parties, and in 2017 it comes second after the liberal party FDP – providing first evidence against an economic shift to the ‘left’. In general, experts agree on the parties’ economic positioning. For the AfD, the standard deviation in the economic dimension even decreases after their cultural radicalisation in 2015, and no statistically significant difference in dispersion can be found in comparison to other parties. First evidence against unidimensional positioning and strategy blurring is provided. There is no evidence for a potential welfare chauvinism positioning that could be mirrored in a rather left-leaning economic positioning in combination with a higher dispersion of expert judgements.

These findings differ significantly from the dispersion in expert judgements found in the same data source with regards to several Western European PRRPs in the eco-

nomic dimension.⁵⁷ The AfD supplies a clear ‘right’ economic policy platform. Its entrance into the German party system did not alter competition within the two main dimensions; It has shifted political competition away from the economic dimension, however, by polarising the cultural dimension.

Demand side: AfD supporters oppose redistribution

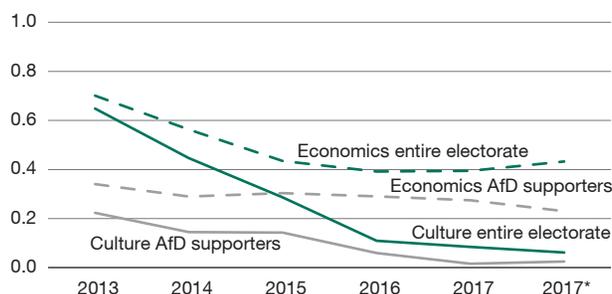
In order to compare the ‘right’ economic and cultural AfD positioning with its supporters’ perception, the demand side is analysed. Figure 2 depicts the perceived economic German party positioning by the respective party supporters. Between 2013 and 2017, the comparative party assessment shows a high level of persistence. In line with expert judgements on the economic ‘right’, the party supporters of FDP and AfD keep changing positions. As a proxy for the clearness of positioning, again, the standard deviation reveals that the AfD’s economic positioning is perceived as just as clear as other parties’ stances – providing further evidence against a single-issue cultural positioning.

Unfortunately, the perception analysis is based on a limited sample as it ignores respondents lacking the knowledge or confidence to assess the AfD. The share of ‘don’t know’ answers of the electorate and AfD supporters in the two dimensions is plotted in Figure 3. Starting in 2013, around two-thirds of the electorate has refused an assessment in both dimensions. Whereas the share of refusals decreased to only 6% in the cultural dimension, in

56 Scoring a maximum score of 10 from 7 of 15 experts in 2017 the scale is limited in depicting a further radicalisation of the AfD.

57 A. Afonso, L. Renwald, op. cit.; K.J. Han, op. cit.; J. Rovny: Who emphasizes..., op. cit.

Figure 3
Share of ‘don’t know’ answers concerning the AfD’s economic and cultural positioning



Note: *Pre- and post-election wave 2017.

Source: Author’s own calculations based on German Longitudinal Election Study (GLES).

2017 it persisted at around 40% in the economic dimension. The same trend is reflected in the AfD supporters’ responses: Whereas the share of ‘don’t know’ answers in the cultural dimension dissolved from 22% to around 2%, around one-quarter of AfD supporters still ‘didn’t know’ the party’s economic positioning in 2017.

Since ‘don’t know’ responses can indicate strategy blurring, this subgroup of AfD supporters is analysed further.⁵⁸ Especially after 2015, AfD supporters who ‘don’t know’ the party’s economic positioning are poorer, less educated and have a lower self-classified social class. Their preferences for redistribution are indistinguishable from the rest of the AfD supporters, and their own economic salience is lower. Hence, in line with Rovny,⁵⁹ rather than being outsmarted by a blurred positioning, it is more likely that this group of 25% of AfD supporters simply does not care about redistribution. Given their preferences, however, the party is as good of a pick for them as for the rest of the AfD party supporters.

In order to evaluate the interplay between party supporters’ perceived party positioning and their own preferences, party supporters’ issue preferences in the economic and cultural dimensions have to be taken into account. The author provides an overview of self-ranked class and economic policy preferences. In contrast to the slightly decreasing social class of AfD supporters over time, economic policy preferences within the different groups are not altered. In line with rational choice voting, lower social class is associated with higher preferences for redistribution. Impressively, however, the lower-class AfD support-

⁵⁸ See L.M. Bartels, op. cit.

⁵⁹ J. Rovny: Who emphasizes..., op. cit.

ers oppose redistribution more strongly than non-AfD supporters in the (self-declared) upper middle class and even upper class. The party supporters’ preferences are mirror images of the perceived party positioning and confirm evidence initially brought forward by Goerres et al.: AfD voters do not have particularly heterogeneous economic preferences – leaving little potential for strategy blurring.⁶⁰ Given the comparatively low socio-economic position of the AfD electorate, the anti-redistribution preferences conflict with rational choice voting theory and traditional class-based voting.⁶¹

In the cultural dimension, AfD supporters homogeneously have radical ‘right’ preferences displaced from the average preferences of all other groups. The co-movement of the cultural radicalisation and the strong homogeneity of preferences are reinforced after 2015. Although the AfD polarises the German party system, this does not automatically lead to a polarisation of the electorate. Instead, the party attracts supporters with radical ‘right’ cultural and economic preferences who lacked political representation.

Summing up, the AfD is placed on the ‘right’ edge of the German party system in the dimensions of economics and culture by experts as well as by its own supporters. The above analysis of the supporters’ own economic preferences shows that in line with the AfD’s positional placement, its supporters have significantly more ‘right’ economic policy preferences than most of the electorate. This also holds for those supporters who ‘don’t know’ the AfD’s position in the economic dimension. AfD voters seem to vote against their economic interests, however, in line with their preferences in the economic dimension. Hence, first evidence is brought forward for the old winning formula.

Supply meets demand: Evidence for the old winning formula

In an attempt to shed light on the mechanism behind AfD support, a logit regression isolates the effects of the economic and cultural dimension, controlling for various socio-economic variables and measures of a protest vote. Columns 1 and 2 of Table 1 quantify the probability to support the AfD given the absolute *perceived* distance between a respondent’s position and her or his perception of the supported party’s position for the two periods analysed.

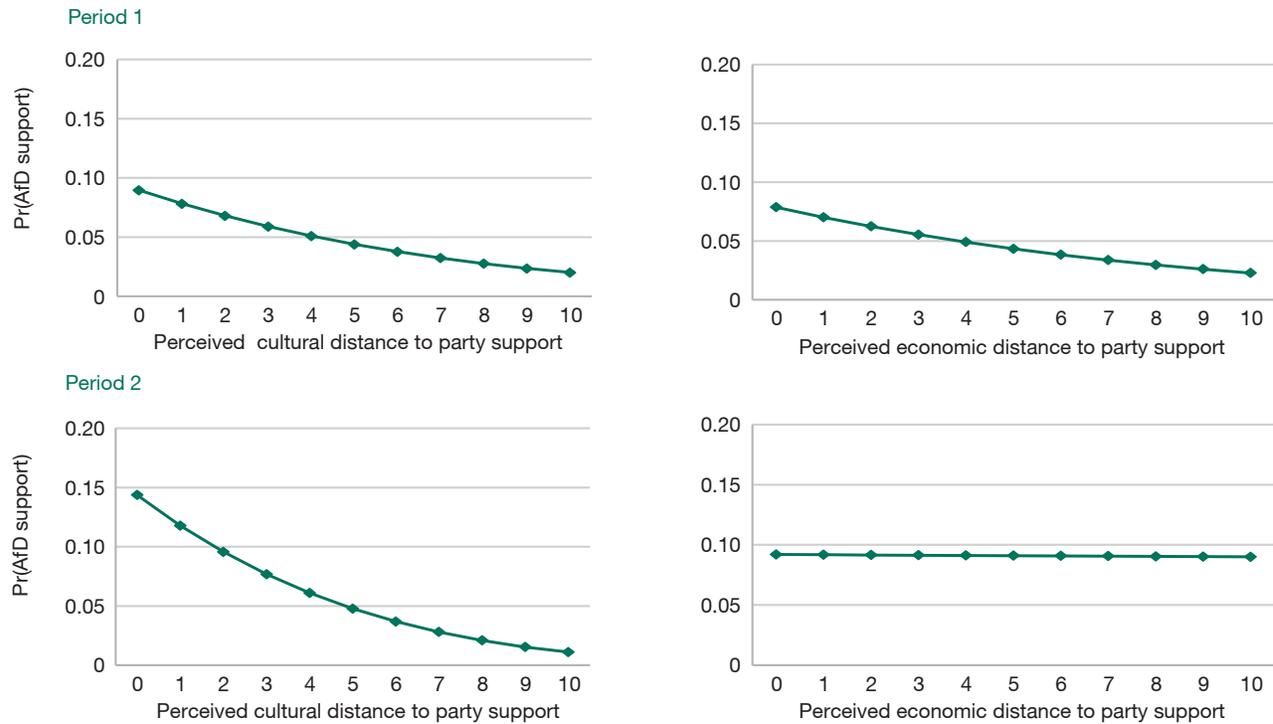
⁶⁰ A. Goerres, D.C. Spies, S. Kumlin, op. cit.

⁶¹ The table providing an overview of self-ranked class and economic policy preferences is available upon request.

Figure 4

Predictive margins logit regressions, perceived supporter-party distance, with 95% CIs

Table 1 Columns 1 and 2



Source: Author's own calculations based on German Longitudinal Election Study (GLES).

After controlling for two-dimensional preferences, socio-economic controls and measuring the protest vote, cultural and economic 'right' preferences increase the probability of AfD support. In the founding period, AfD supporters were more successful than other party supporters in minimising the perceived distance to their supported party in both dimensions. In the radicalisation period, they became much better in the cultural dimension and as successful as other party supporters in the economic dimension. The effect of 'right' cultural preferences is four times stronger than that of 'right' economic preferences. Nevertheless, 'right' economic preferences matter.

The socio-economic controls show the expected signs. In line with the literature, support for the AfD increased among lower-income households, married respondents as well as respondents in Eastern Germany. AfD supporters are less satisfied with the established parties and democracy, and after 2015, view Angela Merkel as less sympathetic than other party supporters. Hence, the claim that AfD supporters only care about voicing protest

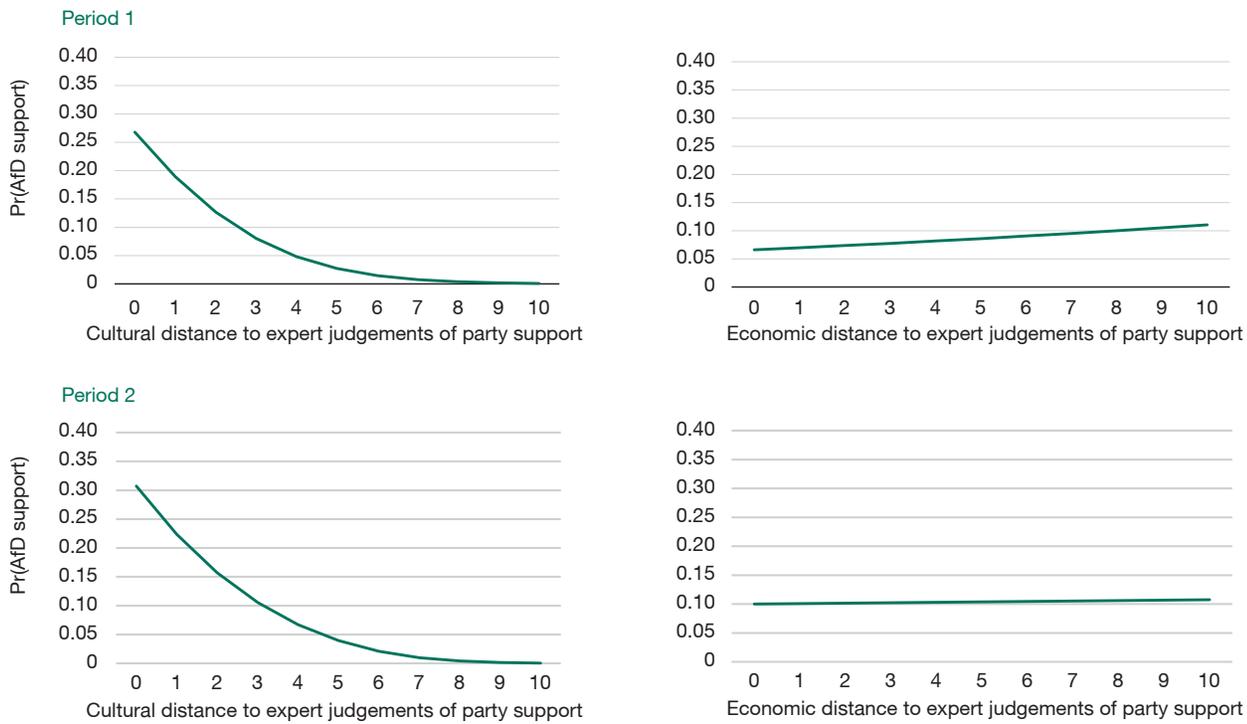
can be rejected. In the radicalisation period, 50% of the variation in the dependent variable is explained by the dimensional distance and preference variables as well as the included socio-economic and protest vote controls.

The regression results from columns 1 and 2 of Table 1 are shown as predictive margins in Figure 4. During the founding period, the predictive margins for AfD support decrease over an increasing perceived distance to the supported party. The coefficients of perceived cultural and economic distances are comparable. Comparing a respondent with a maximum (10) to minimum (0) perceived distance to the supported party *ceteris paribus* increases the probability of supporting the AfD by around five percentage points. During the radicalisation period, the perceived cultural proximity strongly gained in importance (represented by the steep negatively sloped line). In the economic dimension, AfD supporters became indistinguishable over all distances (represented by the flat line). A *ceteris paribus* maximum reduction of perceived cultural distance to the supported party increases the

Figure 5

Predictive margins logit regressions, distance to expert judgements, with 95% CIs

Table 1 Columns 3 and 4



Source: Author's own calculations based on German Longitudinal Election Study (GLES).

probability of AfD support by close to 15 percentage points.

As a final analysis of potential strategy blurring, columns 3 and 4 of Table 1 present the logit regression outputs of AfD support including the distance of respondents' dimensional preferences to the parties' objective expert assessments. Not relying on the respondents' party assessments solves the shortcoming of dropping all positional 'don't know' answers resulting in around 30% more observations before and 20% more observations after 2015. The results are comparable with those in columns 1 and 2: Again, there is a higher probability for respondents with more 'right' preferences in the economic and cultural dimension to support the AfD – with the latter effect being much stronger than the former. Regarding the distance of AfD supporters' preferences to positional expert judgements, AfD supporters are characterised by a distinctive cultural proximity to their party. Importantly, the economic objective distance became indistinguishable from other party supporters during the

radicalisation period. In the second period, the results explain over 60% of the variation in the dependent variable.

Figure 5 shows the logit regression results reported in columns 3 and 4 of Table 1 as predictive margins. A higher cultural proximity to expert judgements was a strong indicator of AfD support already during the party's founding. From a medium distance (5) to a minimum distance (0), the respective probability increased by around 20 percentage points before and by 25 percentage points after 2015. The proximity of AfD's expert placements in the cultural dimension and the AfD supporters' homogeneous cultural preferences are exceptional. The increasing objective distance in the economic dimension in the founding period could be explained by the integration of respondents with little economic interest ('don't know' or 'don't care'). As AfD supporters become indistinguishable in their economic party-supporter distance, there is very little interpretational room for a need of economic strategy blurring. Even during the radicalisation period, AfD

Table 1
Logit regression AfD voting intentions, perceived and objective distance

Variables	(1)	(2)	(3)	(4)
	Period 1	Period 2	Period 1	Period 2
Perceived economic distance to support party	-0.167* (0.065)	-0.005 (0.045)		
Perceived cultural distance to support party	-0.206* (0.057)	-0.428*** (0.056)		
Economic distance to expert judgements of support party			0.153** (0.060)	0.035 (0.046)
Cultural distance to expert judgements of support party			-0.786*** (0.131)	-1.019*** (0.085)
Own economic position	-0.238*** (0.055)	-0.104*** (0.036)	-0.160*** (0.040)	-0.142*** (0.033)
Own cultural position	0.224*** (0.056)	0.415*** (0.050)	0.483*** (0.105)	0.703*** (0.069)
Party satisfaction index	-0.555*** (0.081)	-0.423*** (0.060)	-0.360*** (0.065)	-0.291*** (0.058)
Democracy dissatisfaction index	0.726*** (0.150)	0.467*** (0.100)	0.690*** (0.125)	0.474*** (0.089)
Merkel sympathy index	-0.049 (0.035)	-0.211*** (0.029)	-0.108*** (0.034)	-0.291*** (0.029)
Socio-economic controls	✓	✓	✓	✓
East Germany Dummy	✓	✓	✓	✓
Observations	1,959	3,439	2,507	4,055
Adjusted R-squared	0.301	0.489	0.369	0.624

Robust se in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Notes: Splitting the sample into East and West Germany and limiting the sample to pre- and post-election study in order to apply sample weights does not qualitatively alter the results. Further regression outputs may be provided upon request.

supporters are clearly not tricked into endorsing the party due to a misinterpretation of the party’s economic positioning. Since ‘right’ economic and cultural preferences remain significant after controlling for protest support, the AfD gets support because of and not despite its issue positioning.

Conclusions

The regression analysis reveals that cultural and economic ‘right’ preferences indicate higher chances of support for the AfD – albeit the effect of the cultural dimension is four times stronger. Even after 2015, the perceived and

objective economic proximity has mattered just as much for AfD supporters as for supporters of other parties. The results hold for Western and Eastern Germany alike.

In contrast to providing evidence for strategy blurring, this analysis stresses the AfD’s winning formula of a strongly emphasised ‘right’ cultural and a less emphasised ‘right’ economic positioning, while at the same time enabling its supporters to protest. AfD supporters’ systemic discontentment does not reduce them to issue-free party followers as even AfD supporters who ‘don’t know’ the party’s economic positioning are well represented. For its political competitors, this clearly means that during the 2013-2017 legislative period, strong redistribution and economic policy for social justice had little chance of convincing AfD supporters. A feasible AfD competitor supporting redistribution and coming along with a credible anti-system appeal or ‘right’ cultural policies would still struggle to convince AfD supporters. As none of the established parties in Germany can credibly adopt such a positioning and the AfD has left behind its pure protest character, the party is unlikely to be challenged from within the existing party system.

Nevertheless, there is a chance that the party may change its positioning away from its current winning formula towards a more ‘left’ economic policy offer. This could particularly happen once far-right faction leader Hoecke finally manages to marginalise the formerly influential liberal economists within the party leadership and to build up a ‘party of social justice’.⁶² Whether such a shift could improve the parties’ electoral success is questionable given the findings of the present study. In Western Europe the AfD’s winning formula directed also at supporters with low income positions remains an exception. However, a similar set of political attitudes conflicting with economic interests has been discussed in the ‘What’s the matter with Kansas’ debate.⁶³ A strict refusal of state interventions including the welfare state and climate change regulations can be found among radical supporters of the Republican Party who hold low socio-economic positions in different regions of the USA.⁶⁴

62 R. Hank, op. cit.

63 T. Frank: What’s the matter with Kansas?: How conservatives won the heart of America, New York 2004, Henry Holt and Co.

64 A.R. Hochschild: Strangers in their own land: anger and mourning on the American right, New York 2016, The New Press.

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Volker Brühl*

Libra – A Differentiated View on Facebook’s Virtual Currency Project

Libra – a global virtual currency project initiated by Facebook – has been the subject of many controversial discussions since its announcement in June 2019. This paper provides a differentiated view on Libra, recognising that different development scenarios of Libra are conceivable. Libra could serve purely as an alternative payment system in combination with a dedicated payment token, the Libra coin. Alternatively, the Libra project could develop into a broader financial infrastructure for advanced financial services such as savings and loan products operating on the Libra Blockchain. Based on a comparison of the Libra architecture with other cryptocurrencies, the opportunities and challenges for the development of the respective Libra ecosystems are investigated from a commercial, regulatory and monetary policy perspective.

On 18 June 2019, Facebook announced its ambitious ‘Libra’ project, which aims to transform the existing financial system by establishing a global virtual currency (Libra coin) operating on an innovative financial infrastructure (Libra Blockchain). The grand vision of Facebook and the other founding members is to empower billions of people in emerging economies who very often have no access to banking or other financial services. Libra will develop a new ecosystem that enables worldwide monetary transactions in a stable digital currency at close to zero marginal costs. This could – so the line of argument – foster financial inclusion by providing better access to financial services and capital, especially in less developed countries. At the same time, the Libra project aims to enable huge efficiency gains in developed economies, which would trigger additional economic growth globally.

The envisaged launch date of Libra is early 2020; the current state of the technical and conceptual framework development is documented in the Libra White Paper¹ and additional technical documents.² On 15 October 2019, the

21 founding members formally established the Libra Association, although some prominent partners of the project, including PayPal, Mastercard and eBay, decided to withdraw from the project at short notice.

Since the announcement, there have been many voices from representatives of central banks and regulatory authorities raising concerns about potential risks of the Libra project.³ The Financial Services Committee of the House of Representatives has even called for an immediate stop to the Libra project.⁴ Moreover, the Swiss Financial Supervisory Authority FINMA has confirmed a request from the Libra Association for an assessment of the regulatory requirements for Libra.⁵ Subject to a formal application by the Libra Association, FINMA clearly stated that the Libra initiative would fall under the financial market infrastructure regulation according to Swiss law. The project would require a payment system licence from FINMA on the basis of the Swiss Financial Market Infrastructure Act, which is based on the internationally accepted Principles for Financial Market Infrastructures. In addition, a Swiss payment system is automatically subject to the Swiss Anti-Money Laundering Act. Depending on other financial services it offers, Libra could be subject to additional regulatory requirements. Consequently, if a launch in Switzerland has substantial regulatory hurdles to overcome, Libra’s global introduction may be expected

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Open Access funding provided by ZBW – Leibniz Information Centre for Economics.

1 See Libra Association: An Introduction to Libra, White Paper, Geneva 2019.

2 See Libra Association: The Libra Blockchain, Geneva 2019.

3 See N. Popper, M. Isaac, J. Smialek: Fed Chair Raises ‘Serious Concerns’ About Facebook’s Cryptocurrency Project, in: The New York Times, 7 October 2019; or Y. Mersch: Money and private currencies: reflections on Libra, Frankfurt, 2 September 2019.

4 See https://financialservices.house.gov/uploadedfiles/7.2.2019_-_fb_ltr.pdf.

5 FINMA: FINMA publishes ‘stable coin’ guidelines, Bern, 11 September 2019.

Volker Brühl, Center for Financial Studies, Frankfurt, Germany.

to pose even more challenges. It currently remains unclear what development trajectory the Libra project will ultimately pursue. The long-term strategy of Libra has not yet been communicated.

However, it seems apparent that profit-oriented enterprises like Facebook and Libra's other founding members, including venture capital firms, are only willing to invest in such an undertaking if the commercial rationale behind this large-scale project is convincing. Multiple scenarios are plausible depending on the future design of the Libra project and the corresponding response of regulatory and supervisory authorities.

Therefore, it seems worthwhile to take a closer look at this project in order to improve the basic understanding of the economic logic behind this endeavour and point out associated opportunities and risks for the financial sector. This begins with an analysis of the key elements of the Libra project, including the basic architecture, i.e. the Libra Blockchain, the Libra coin, the execution of transactions on the blockchain and eventually the governance of the Libra system. A brief comparison of Libra with Bitcoin, Ethereum and selected stablecoins is also provided. Subsequently, the Libra project is discussed along its potential development lines, which can be summarised as follows: First, Libra could serve purely as an alternative payment system in combination with a dedicated payment token, the Libra coin. Second, the Libra project could develop into a broader financial infrastructure enabling advanced financial services such as savings and loan products provided on the Libra Blockchain. Finally, the question must be addressed as to whether and to what extent Libra could interfere with monetary policy actions in fiat currencies, e.g. by the Federal Reserve or the European Central Bank (ECB). Any discussion of these aspects can only be preliminary, given the early stage of the Libra project.

The concept of Libra

Figure 1 illustrates the core components of the envisaged Libra architecture. The governing body is a non-profit organisation (the Libra Association) based in Geneva, founded according to Swiss law. The Libra Association exhibits a heterogeneous membership base, including technology firms (e.g. Facebook/Calibra, Spotify, Uber), telecommunication companies (e.g. Vodafone), blockchain companies (Coinbase, Anchorage), Venture Capitalists and non-profit organisations. All founding members have invested at least 10 million dollars and are acting as validators on the blockchain.

The Libra Association develops and operates the Libra Blockchain and manages the reserves that are designed to

back any issuance of Libra coins, thereby ensuring that, in contrast to other popular cryptocurrencies, the Libra coin is equipped with an intrinsic value. As only bank deposits and short-term government bonds in stable currencies are eligible for Libra reserves, the Libra coin is expected to become a stablecoin itself. A stablecoin is a special form of cryptocurrency as its value is derived from the value of a single asset (e.g. a commodity, a fiat currency) or a basket of different assets with low volatility. For example, Tether (USDT) is backed by US dollars and has a stable value of one dollar for each Tether token.⁶ Holders of commodity-backed stablecoins can redeem them for real assets at a specific conversion rate, e.g. one Digix Gold Token (DGX) represents one gram of gold.⁷

The Libra reserve

The reserve is the key instrument for preserving value, as each Libra coin will be fully backed by a diversified basket of low-volatility and liquid assets such as short-term government bonds and deposits in stable fiat currencies like the US dollar, the euro, the British pound and the Japanese yen.⁸ As the value of Libra is linked to a basket of fiat currencies and the reserve will not be actively managed, volatility of the Libra exchange rate is directly dependent on the volatility of the underlying assets and the respective exchange rates.

The composition of deposits and government securities from low-inflation countries shall limit the volatility of the calculated Libra price expressed in a given fiat currency. Furthermore, the Libra Association has announced that it would not pursue any kind of 'currency' policy but would rather follow a rule-based approach in the sense that the circulating supply of Libra coins only depends on the fluctuating demand for Libra, which might grow or shrink over time. The design of the Libra system is expected to contribute to the credibility of the Libra coin as a unit of account, a stable medium of exchange and finally as a store of value. Hence, Libra shall fulfil the basic functions of money. Users will not have any direct access to the Libra reserve but will have to purchase and sell Libra coins through authorised resellers so that new coins are minted when demand increases and destroyed when demand contracts. Authorised resellers may include regulated electronic exchanges, cryptocurrency platforms or financial institutions.⁹

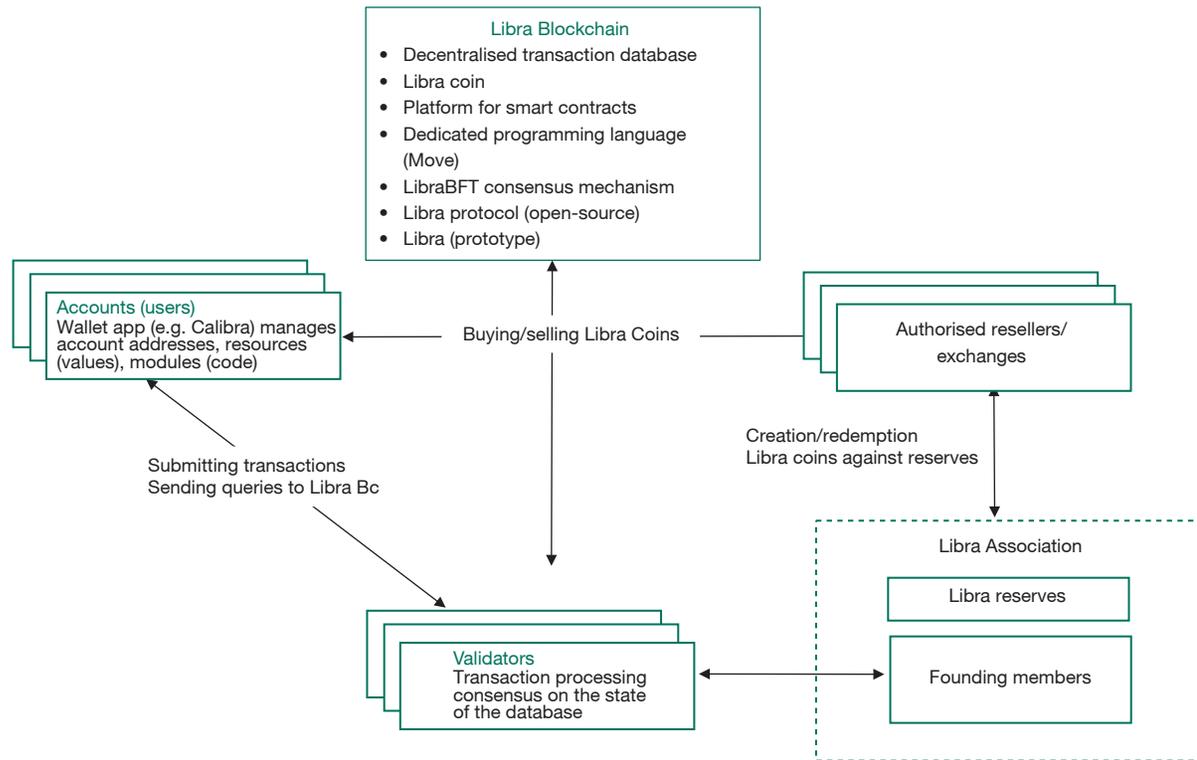
6 See Tether: White Paper, Fiat currencies on the Bitcoin blockchain, June 2016.

7 See A.C. Eufemio, K.C. Chang, S. Djie: Digix's Whitepaper: The Gold Standard in Crypto-Assets, July 2018, Version 2.0.

8 Testimony of David Marcus Head of Calibra, Facebook, Hearing before the United States Senate Committee on Banking, Housing, and Urban Affairs, 16 July 2019, available at <https://www.banking.senate.gov/imo/media/doc/Marcus%20Testimony%207-16-19.pdf>.

9 See Libra Association: An Introduction to Libra, op. cit.

Figure 1
The basic architecture of the Libra ecosystem



Source: Author's own illustration.

The Libra Blockchain

A blockchain is a form of distributed ledger that allows transactions to be executed quickly and securely by using cryptographic technologies in combination with an algorithm ensuring consensus among the nodes of the network as to the validity of the transaction.¹⁰ The general idea since the introduction of the Bitcoin protocol is to design a distributed ledger that enables transactions without the need for financial intermediaries or central banks. Such systems continuously update and check themselves by using intelligent execution verification algorithms in order to reach consensus on the respective status of the database in which all transactions are recorded. Maintaining the integrity of the system by preventing double spending of monetary units, manipulation attacks from outside the system or theft of private keys are common challenges of distributed ledger systems.

Furthermore, the Libra Blockchain is at least for the time being a 'permissioned' blockchain, as validators require

specific permission from the Association, rather than automatically receiving the status of a validator if certain predefined technical requirements are met. Nevertheless, the Libra Blockchain is designed as an open source system that allows developers and users to build their own products and services on the blockchain. The scalability of the system in terms of processing capacity is a problem all blockchain solutions have to solve in case of growing demand for computational power or high volatility of capacity utilisation. The Libra project intends to apply a concept similar to the one introduced by Ethereum. Ethereum has implemented a fee concept that requires a 'gas value' to be attached to any transaction. The 'gas' is basically a fee payable in Ether to the validators. Therefore, the price sensitivity of users has an impact on the timing and speed of transactions. However, the Libra system is expected to only charge very low fees during periods of normal transaction density, while the fee-based mechanism is designed to help allocate system capacity according to user price sensitivity during peak periods. Rising fees will mitigate high demand for transactions and help to shift them to off-peak periods when fees are lower. Transaction execution on the Libra Blockchain ensures that no Libra coin will be duplicated, lost or transferred without authorisation.

¹⁰ See e.g. V. Brühl: Bitcoins, Blockchain und Distributed Ledgers, in: Wirtschaftsdienst, Vol. 97, No. 2, 2017, pp. 135-142; or R. Wattenhofer: Distributed Ledger Technology: The Science of the Blockchain, Zurich 2017.

Consensus mechanisms

In distributed computer networks, an algorithm-based consensus mechanism ensures that an agreement on the correct state of the ledger among nodes is achieved and shared throughout the network. The most common consensus mechanism is the proof-of-work (POW) concept applied by Bitcoin and other cryptocurrencies such as Ethereum. POW relies on the solution of a mathematical problem, upon which the successful miner is rewarded with a specific number of cryptocurrency units.

The POW consensus mechanism requires new transactions to be broadcast to all nodes of the network. Each node collects new transactions into a block and works on finding a cryptographic hash value for the respective block that fulfils certain requirements, i.e. regarding a target hash value of the block. As the blocks are linked together to form an ever growing blockchain, solving such a problem requires an increasing number of iterations and hence greater CPU power and electricity over time. After a node has solved the hash problem and thus fulfilled the proof-of-work condition, the block is broadcast to the whole network, whereby the nodes check the validity of the new block and the transactions contained therein. Nodes express their acceptance of the block by working on creating the next block in the chain, using the hash of the accepted block as the previous hash.¹¹ The nodes that validate and update the distributed ledger are called miners, as they are rewarded with a number of bitcoins once they have found a new block. The mining reward on the Bitcoin blockchain is currently set at 12.5 bitcoins per block and is halved every 210,000 blocks. The generation and acceptance of a new block currently takes about ten minutes on average.

The structural disadvantage of the POW approach is its lack of scalability, as demand for CPU time and energy increases with the size of the blockchain. There is also the risk of concentrating mining capacity over time, as large mining pools benefit from economies of scale and cheaper access to electricity supply. In a worst-case scenario, someone who controls 51% of the computing power of the Bitcoin network would be able to influence transaction processing and even reorganise the history of network transactions.

For this reason, the proof-of-stake (POS) approach is posited as an interesting alternative that avoids the cost- and energy-intensive mining process, as the validator of a block is selected based on its economic stake in the

network. Hence the creator of the next block may be selected according to the size or age of its deposit, usually in combination with a random component. The selected validator must then verify all transactions contained in the block, which involves checking that it was signed with the correct private key and auditing the entire history of the wallet to prevent double spending. Finally, the validator is rewarded with the fees associated with every transaction contained in the block. Cryptocurrencies working on a POS principle include Navcoin and Neo. Ethereum also intends to switch from POW to a POS consensus mechanism in the foreseeable future to overcome scalability issues and foster growth of its platform.

The consensus mechanism integrated in the Libra protocol is a modified version of the 'HotStuff protocol', a very recent form of POS approach.¹² The so-called LibraBFT is a consensus protocol that progresses in rounds, where in each round a node is elected that takes the lead in achieving consensus with other nodes in the network and eventually validates and executes the transaction.¹³ BFT stands for Byzantine Fault Tolerance, which describes the characteristic of a distributed computing system that will continue to work properly even if some components of the system fail and where there is imperfect information on whether a component has failed.¹⁴ In the case of the Libra Blockchain, the LibraBFT protocol guarantees consensus on the history of transactions among honest validators and remains secure even if a certain number of nodes in the network are not trustworthy.

Libra compared to other cryptocurrencies

Table 1 gives a brief overview of the major commonalities and distinctions between the Libra concept, on the one hand, and Bitcoin, Ether and other stablecoins on the other. Visa has been included in the table to allow for a direct comparison with the current largest payment infrastructure in the credit card business, which operates with a centralised database rather than some kind of distributed ledger. Bitcoin is by far the largest virtual currency platform in terms of market capitalisation, though it remains far behind the Visa Group even more than ten years after its introduction. This could be different in the case of Libra, as Facebook currently has some 2.4 billion unique users per month on its social media platforms, which is close to the number of cards issued by Visa (3.3 billion)

¹¹ See S. Nakamoto: Bitcoin: A Peer-to-Peer Electronic Cash System, White Paper, 2008.

¹² M. Yin, D. Malkhi, M. Reiter, G. Gueta, A. Ittai: HotStuff: BFT-Consensus in the Lens of Blockchain, Cornell University, 23 July 2019.

¹³ See Libra Association: The Libra Blockchain, op. cit.

¹⁴ K. Driscoll, B. Hall, H. Sivencrona, P. Zumsteg: Byzantine Fault Tolerance, From Theory To Reality, 22nd International Conference on Computer Safety, Reliability and Security, Edinburgh 2003.

Table 1
Libra in comparison with other cryptocurrencies and Visa

	Libra	Bitcoin	Ethereum	Visa	Digix	Tether
Market cap (5/9/2019, USD)	n.a.	189.5 bn	18.5 bn	413.9 bn	5.13 m	4.04 bn
Number of transactions per year (bn)	n.a.	0.126*	0.306**	124.3***	n.a.	0.07****
Network architecture	DLT	DLT	DLT	Centralised	DLT (Ethereum)	DLT (Ethereum)
Consensus mechanism	BFT	POW	POW/POS	n.a.	POP	POW
Smart contract functionality	Yes	No	Yes	No	Yes	Yes
Mining reward	No	12.5 bitcoins	5 Ether token	n.a.	No	No
Cap on currency supply	No	21 m bitcoins	No	n.a.	No	No
Stablecoin	Yes	No	No	No	Gold (1 token = 1 g)	USD (1 token = 1 \$)

Notes: * Estimate based on 350,000 transactions per day, ** Estimate based on 850,000 transactions per day, *** Visa annual report 2018, **** Based on 20,000 transactions per day. DLT stands for Distributed Ledger Technologies.

Source: Own estimates, company information, coinmarketcap.com.

and even higher than the number of cards issued by Mastercard (1.9 billion).¹⁵

In terms of supporting smart contracts, Ethereum has become the most popular blockchain, whereas Bitcoin was designed first and foremost as a digital currency platform. Although smart contracts can also theoretically be implemented on the Bitcoin blockchain, the functionalities and programme design of Ethereum and other blockchains such as Ripple prove to be more suitable in that regard.

Libra is designed as a stablecoin, with each Libra being covered by Libra reserves. Stablecoins have so far been backed by various types of assets, including commodities, fiat money and other cryptocurrencies. Prominent examples, although still negligible in terms of a market cap, include the gold-backed Digix token and the US dollar-backed Tether. Libra pursues a different strategy, as

it intends to build a diversified Libra reserve comprised of bank deposits and short-term bonds denominated in low-inflation fiat currencies. In essence, the Libra concept primarily differs from existing virtual currencies and stablecoins in the design of the Libra reserve, the presumably faster and more cost-efficient design of the Libra Blockchain (yet to be proven) and finally by the potentially large global user base to be recruited from the Facebook platform and other payment solution providers.

Preliminary assessment of Libra

In order to analyse the potential opportunities, risks and possible regulatory concerns, one needs to take into account the potential fields of application. Therefore, we look briefly into the need for a new and more global medium of exchange – proclaimed by the Libra initiators – that will bring global payment systems to a new level and enhance financial inclusion in emerging economies.

Libra as an innovative payment platform

The efficiency of payment systems in developed countries has advanced so far over the last ten years that real-time transactions without the use of distributed ledger technologies (DLT) will become standard in the foreseeable future for business-to-business but also for business-to-consumer or consumer-to-consumer transactions. For instance, SEPA Instant Payments are available for payments in euros for the EU28 member states. Alternative payment systems such as PayPal, Apple Pay or AliPay cannot be classified as real-time payment systems at this stage, as users receive immediate notification of the transaction, but funds are usually transferred on the next business day. In addition, the Eurosystem launched the TARGET Instant Payment Settlement service as an amendment of Target 2 in November 2018.

The situation is very different for cross-border payments to or between emerging economies. Global remittances reached 689 billion US dollars in 2018 and are projected to grow further, as they are an important financial resource in developing countries.¹⁶ Today, most individual remittances are executed through money transfer operators (MTOs) such as Western Union or MoneyGram, which cooperate with numerous correspondent banks in the respective countries. Average costs per transaction are about 9% of the payment volume. MTOs have been subject to severe criticism in the past with regard to the lack of transparency and traceability of transfers as well as insufficient know-your-customer (KYC) and anti-mon-

¹⁵ See Visa, Annual Report 2018, San Francisco 2019, available at https://s1.q4cdn.com/050606653/files/doc_financials/annual/2018/Visa-2018-Annual-Report-FINAL.pdf; Mastercard, Annual Report, New York 2019.

¹⁶ World Bank: Migration and Development Brief 31, Washington DC, 4/2019.

ey-laundering (AML) procedures. DLT could therefore be a cost-efficient alternative and also improve regulatory compliance in the international payment sector.

xRapid and Circle Pay are two examples of DLT-based cross-border payment solutions that have been introduced recently but still have a limited geographical reach. Libra might therefore tap this unexploited market potential with its new Libra platform. However, it currently remains unclear whether DLT-based technical solutions will be superior to ongoing initiatives aiming to introduce real-time cross-border payment solutions (e.g. SWIFT gpi).

Demand for Libra could soar due to low transaction costs and the network effects associated with the growing use of Libra among Facebook users. A key prerequisite for an accelerated diffusion of Libra would be a high degree of credibility and trust in the stability of the Libra coin, which the founders intend to achieve through a number of instruments such as the Libra reserve, the involvement of global payment service providers and finally the proactive approach of becoming a regulated financial services provider. This is intended to apply both to Libra as a payment services infrastructure – regulated by Swiss law – and the respective financial services offered on the Libra Blockchain. Therefore, Calibra, a subsidiary of Facebook offering a Libra wallet, has been registered with the U.S. Financial Crimes Enforcement Network as a money services business. However, this is just the beginning of an extensive process of applying for licenses needed for specific service offerings and subsequent supervision of the competent authorities in question. For instance, Calibra will most likely need to obtain additional money transmission licenses in each of the US states it operates in. Furthermore, depending on the type and scope of other financial services offered, Calibra or other users of the Libra Blockchain will need to meet relevant legal requirements such as banking regulations.

Provided that Facebook, together with its co-initiators, manages to market the benefits of Libra successfully through its global user base, and assuming that Libra limits itself to the function of a (regulated) payment platform, demand for Libra coins could grow very rapidly and eventually exceed the geographic reach of the US dollar or the eurozone. In fact, Libra could advance to a kind of parallel digital currency used at least partially alongside the respective national fiat currency. As long as the Libra coin is only a unit of account in a clearly defined (although very large) multilateral payment network of Libra users, such a payment infrastructure could promote financial inclusion and increase global payment efficiency. Ultimately, in such a limited scope scenario, Libra would be merely one more alternative payment system that would have to

demonstrate its superiority in a competitive market environment. Like any other payment infrastructure, Libra would have to be considered as a critical infrastructure that needs to be regulated and supervised like any other payment system or clearing and settlement system in the securities business.

Libra as a global platform for financial services

It appears that Libra's goal is to create a fundamentally new financial ecosystem, whereby payments form only the foundation for other value-added financial services operating on the blockchain. This is very clear, as the payment platform itself would hardly generate the kind of profitability the founding members of the Libra Association expect. But if other financial services such as savings and loans products or even securities denominated in Libra are offered on the Libra platform, financial risks such as market risks, credit risks, operational risks and even liquidity risks will be generated within the Libra system or transferred from existing regulated markets to the Libra system. In order to rule out regulatory arbitrage, all financial services offered on the Libra Blockchain would have to be subject to existing regulatory frameworks such as Basel III/IV, which means they would be subject to the corresponding supervisory and review procedures of the competent authorities.

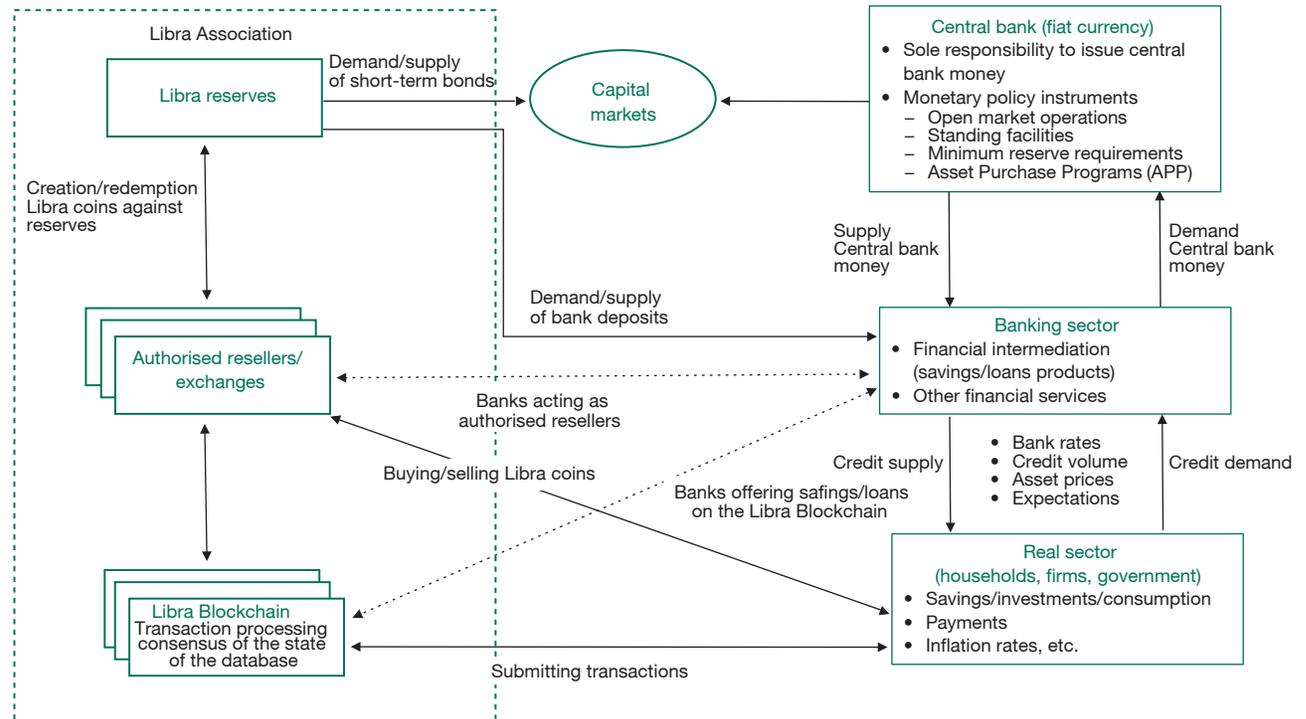
It is questionable whether Libra, as a fully regulated financial institution, really does have a sustainable competitive advantage over existing financial infrastructures, given that instant payment solutions will be available in the foreseeable future and distributed ledger technologies are already being implemented as a backbone for various financial products.¹⁷

The impact of Libra on monetary policy

Another important question to be answered is whether or not a global virtual currency like Libra could impact transmission channels and effectiveness of monetary policy actions by central banks. This is a rather complex topic that goes beyond the scope of this article. Far more research on the interaction between fiat and cryptocurrencies is needed to cover the manifold aspects of this topic. Nevertheless, I would like to share some thoughts that should clearly be understood as preliminary hypotheses to be tested through additional research.

¹⁷ See e.g. V. Brühl: Virtual Currencies, Distributed Ledgers and the Future of Financial Services, in: *Intereconomics*, Vol. 52, No. 6, 2017, pp. 370-378, available at <https://www.intereconomics.eu/contents/year/2017/number/6/article/virtual-currencies-distributed-ledgers-and-the-future-of-financial-services.html>.

Figure 2
Potential transmission channels between Libra and central bank policy



Source: Author's own illustration.

Because Libra coins are backed by financial assets like short-term government bonds or deposits, a link between the creation and destruction of Libra and the global capital markets comes into play that does not exist in the case of pure payment systems or other cryptocurrencies such as Bitcoin. A number of transmission channels are imaginable. Figure 2 shows a simplified illustration with possible interdependencies between the Libra ecosystem (box marked with dotted lines) and a typical two-tier banking system like that of the eurozone.

A successful development of Libra could trigger a huge demand for deposits and government bonds denominated in various fiat currencies compatible with the Libra reserve. It is likely that demand will be focused on the most relevant reserve currencies like the US dollar and (to a minor degree) the euro. As a result, the Libra reserve could quickly become a major player in the global bond, money and foreign exchange markets. As the supply mechanism of Libra is, so to speak, 'rule-based', i.e. is fully tied to the fluctuating demand for Libra, the Libra reserve would collect an increasing volume of fixed-income assets and bank deposits in case of growing user acceptance. In such a world, the current financial system would be overlaid by a global virtual currency (Libra). Combined with a huge money market fund (Libra reserve), various implica-

tions for the effectiveness of monetary policy measures are conceivable.

Firstly, the ability of central banks to influence short-term interest rates rests upon its monopoly on generating central bank money, e.g. through open market operations with the banking sector. If the introduction of Libra is accompanied by substitution effects, e.g. because a substantial part of bank refinancing occurs via Libra in the future, the effectiveness of monetary policy actions could be jeopardised. This would ultimately undermine the status of a central bank as lender of last resort and could weaken its ability to achieve its primary objective, i.e. to maintain price stability or to pursue an accommodating monetary policy.

Secondly, if Libra is really successful, the Libra Association will develop over time into one of the largest money market funds acting upon a rule-based expansion mechanism. This goes hand in hand with a growing demand for short-term government bonds from the Libra Association, which could inflate respective asset prices and depress bond yields, especially if the market in short-term government securities is getting thinner. This can be demonstrated with a simple calculation. Let us assume that 25% of the current 2.41 billion monthly active users

on Facebook (as of June 30, 2019) can be converted to Libra users over a period of five years after the launch of Libra. If the average demand for Libra is only about 1,000 Libra per year, this would result in a yearly Libra demand of approximately 600 billion Libra. If we assume, for the sake of this example, a Libra-to-dollar exchange rate of 1:1, the yearly Libra demand of 600 billion would translate into a monthly asset purchase of approximately 55 billion US dollars. This figure is big enough to be comparable with the net asset purchases during the asset purchase programme by the ECB, which ranged from 60 billion to 80 billion euros per month and ended in December 2018.¹⁸

Thirdly, the Libra could attract speculative investors such as hedge funds, which might abuse the Libra platform for speculative attacks against fiat currencies or Libra itself. In the Libra model, the exchange rate, for example to the dollar, is fluctuating and is a function of both the price of the underlying assets and the relative exchange rate movements of fiat currencies in which the assets are denominated. For instance, monetary policy actions by the Federal Reserve may trigger Libra/US dollar movements simply because of the basket effect. Hence, a devaluation of the US dollar relative to other basket currencies like the euro corresponds to a revaluation of Libra. If investors bet on a further appreciation of Libra, large-scale investment flows into the Libra could reinforce the demand driven by speculators. This may result in a Libra bubble that, due to the rule-based backing of Libra, would almost automatically boost demand for assets that are eligible for the Libra reserve, leading to adverse inflationary effects on these asset classes as well. Vice versa, if speculators bet against the stability of Libra, e.g. because of eroding credibility of the Libra coin, the Libra reserve would have to liquidate assets rather quickly to accommodate the contracting demand for Libra. This, in turn, could trigger substantial capital losses in the broader financial sector. In any of those cases the Libra Association could be forced to give up its passive currency policy in order to stabilise the Libra currency. It has occurred that fiat currencies have become a target of speculative attacks for similar reasons, if investors believe that a fixed exchange rate does not reflect market fundamentals and that the central bank does not hold enough foreign reserves to defend the fixed exchange rate.

Conclusions

Since the final design of Libra and the long-term strategy of its promoters is not yet fully clear, any conclusions are

preliminary and need further analysis as the project advances and more information becomes available, especially as different use cases and development lines of the Libra system are feasible. Therefore, a differentiated view on this ambitious project seems appropriate. If Libra acts only as an alternative payment platform using a dedicated coin with global reach, the Libra project could allow for efficiency gains, especially in the global remittance business to emerging economies. Libra clearly has to comply with all KYC and AML requirements and has to get the corresponding regulatory approvals. It remains an open question whether the currently rather rough design of Libra is able to obtain those approvals. If so, Libra could accelerate the innovation rate in the global marketplace for payment solutions.

However, the current concept of the Libra reserve has to be redesigned in order to avoid systemic risks and to exclude any interference with monetary policy measures, as the current proposal would establish a direct link between the Libra reserve and global money markets. Hence, the influence of central banks on short-term interest rates and liquidity in the banking sector would decrease and Libra could ultimately undermine the credibility of the respective central bank and its role as an independent public institution committed to price level stability. Therefore, regulatory authorities and policymakers should prevent any initiatives by Libra that could endanger the fundamental role of central banks as lenders of last resort and sole issuer of legal tenders.

This is not to say that a Libra platform could not develop into an advanced financial services infrastructure on which more complex financial services than payments could be offered. If such an advanced ecosystem for Libra evolves over time, a level playing field in terms of regulatory framework for participating financial institutions needs to be ensured. For instance, banks would most likely enter the Libra platform if transaction processes other than payment services turn out to be more efficient than those offered on existing platforms. Again, whether such a Libra-based financial architecture is superior to the existing complex, multi-platform environment remains to be seen and will ultimately be decided by market participants in a competitive process. In light of the different aspects and potential development scenarios of Libra, a differentiated view on the project seems to be appropriate in order to prevent the possibility of a private currency from destabilising the global financial system, on the one hand, but also to accompany less critical aspects of the project in a constructive way, as innovative infrastructures could contribute to a more profitable and hence more stable financial services sector.

¹⁸ See ECB: Asset Purchase Programs, available at <https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html>.



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The Politics of American Inequality

Rising economic inequality in the United States is closely tied to the high concentration of capital asset ownership, especially corporate stocks and real estate, and to increases in the price of those assets in recent decades. These in turn are closely related to the structural transformation of the economy over 50 years, especially the decline of unionized manufacturing in the Midwest and the rise of finance on the East coast and of the technology sector – mainly information and aerospace – in the West.

At the national level, this process has had two main effects on American political life. One is the rise of oligarchs and their designated agents, especially in the Democratic Party, initially in the Clinton era, to the point today that billionaires openly contest the nomination for the Presidency. Oligarchs have long dominated the Republican Party, so now American politics has become, to a large degree, a contest between billionaires of different stripes, mediated by other billionaires in control of the major media, both traditional and social. This much is obvious to any observer.

Much less obvious has been the effect of the new pattern of inequalities on the outcome of American presidential elections. The peculiar institutional context of those elections is that they are indirect, conducted through an Electoral College apportioned roughly by population and elected state-by-state, mostly on a winner-takes-all basis. While rising *national* inequality has had no clear-cut effect on the division of the popular vote between the two major parties, we have shown in a new paper that, in close elections since 1992, rising inequalities *within* American states have become a decisive factor in determining the state-by-state outcomes, and thus the Electoral College and the presidency.¹

The logic of this development lies in the peculiar economic alignments of the two main American parties. The Democrats were once an alliance of multi-racial Northern labor with Southern whites in the era of Jim Crow. They have become a coalition of well-to-do city-dwellers, mostly professionals and office workers, and low-income minorities, both Black and Hispanic. The party thus broadly dominates the two tails of the income distribution, high and low. The Republicans, though always in thrall to the very wealthiest, draw their voting base from suburbs, smaller cities, towns and rural areas, overwhelmingly white, and broadly in the middle of the national income distribution.

Our approach to this issue draws on the techniques developed for measuring inequality within countries, using sectoral and industrial data on payrolls and employment, and applied over more than twenty years in the work of the University of Texas Inequality Project. Adapting these techniques to the data-rich environment of the United States permitted us to develop good estimates of changing inequality within states on an annual basis, going back to 1969, and up to 2014 so far. Previously, measures of inequality within states had only been available for years before 2000 on a decennial basis, as many states are too small for the regular Current Population Survey to provide reliable inequality estimates. We were thus able to assess the relationship between changing economic inequalities after 1969 in each state and their Electoral College outcomes for all of the relatively close elections of this century, specifically 2000, 2004, 2012 and 2016.

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¹ J. Galbraith, J. Choi: The Consequences of Economic Inequality for Presidential Elections in the United States, in: Structural Change and Economic Dynamics, forthcoming.

James Galbraith, University of Texas, Austin, USA.

Jaehee Choi, University of Texas, Austin, USA.

Up through the 1980s, inequality within American states was generally greatest in the Deep South, reflecting the racial divide, economic underdevelopment and the legacy of plantation slavery. In more recent years, the locus of rising inequality has shifted to the North and West. California, a major example, was once mainly white and suburban, reliably raising up Republicans from Nixon to Reagan. Today it is a checkerboard of tech wealth, lower-income Hispanic Americans and immigrants, solidly Democratic.

Our annual measures of inequality in each American state show that the *largest* increases from 1989 to 2014 occurred in California, New York, Connecticut, New Jersey, Maryland, Nevada, Rhode Island, Massachusetts, Hawaii, New Hampshire, Washington, Illinois and the District of Columbia. *All* of these states voted for Hillary Clinton in 2016. And of the twenty states with the *smallest* increases in inequality, all but two (New Mexico and Minnesota) voted for Donald Trump, and in the case of Minnesota, Mrs. Clinton's margin was a bare 1.2%.

This clear relationship foretells ongoing developments in American politics. In the Upper Midwest, the states that are credited with electing Trump in 2016 – Michigan, Pennsylvania and Wisconsin – are drifting away from their longstanding Democratic allegiance, as their cities decay and their working class and minority populations age and shrink. These states were very close in 2016 and could be recovered in 2020 with a small shift in overall public opinion, but things will become increasingly challenging for Democratic contenders in the years to come. Per contra, across the South and Southwest, and especially in Arizona, Texas and Georgia, the cities and non-white populations are growing relative to the suburbs and the countryside. Arizona could tip to the Democrats (as California and Nevada already have) as early as 2020; Texas and Georgia are further off, and subject to statewide campaigns of voter suppression aimed at discouraging minority voters and prolonging Republican control. But the demographics are inexorable and those obstacles will fall over time.

The current dilemma for the Democrats is that the Roosevelt era is long over, and the Clinton coalition is not sufficient any longer, having been worn down by deindustrialization and deunionization – but the Southern transition is not yet mature. So the Democrats in 2020 face a choice between an appeal aimed at retrieving the upper Midwest, and working to accelerate the dawn of a Democratic South. Each strategy has particular policy characteristics – especially with respect to trade, infrastructure and climate change – that may cause problems in the other region. And there is no guarantee that policies and campaign appeals chosen for 2020 – and possibly implemented in the event of a Democratic victory – will still be appropriate for 2024 and beyond.

It is possible, of course, that the 2020 election will be resolved on other issues, perhaps the dangerous questions of war and peace, perhaps the public's divided view of the idiosyncratic incumbent, Donald Trump. It is also possible – though we believe very unlikely – that an economic crisis or a recession could supervene and drive the result. But in the event that the world survives the rocky opening of the present election year, and the American economy continues on its long-standing slow-but-steady course, the most likely thing would be that the battle lines of 2016 will form anew, and the election will be fought over similar territory and similar issues. In that case, we expect the result to conform to the pattern of recent years, with the South somewhat more contested by Democrats than in the past and the Midwest somewhat more difficult for them. As in 2016, a Democratic advantage in the popular vote could again prove worthless, for under the American system presidential elections are fought and decided in the contestable states – and these are neither the most egalitarian nor the most unequal.