

ECONOMIC POLICY AND THE RISE OF POPULISM – IT’S NOT SO SIMPLE

2.1 Introduction

A wave of populism is sweeping across Europe and North America. The year 2016 threw up two extraordinary upsets: the first in the shape of Brexit on 24 June; and the second, the earth-shattering election of Donald Trump to the US presidency. The forces of openness, tolerance, diversity, multiculturalism, and globalisation have been left reeling at, overwhelmed by and at a loss to understand this new wave. Parties, politicians, ideologies, and opinions that formerly lurked in the shadows have emerged into the broad light of day, gathering support, winning seats in legislatures, and influencing the policies of the mainstream. What is more, Donald Trump has become the President of the US. A political outsider, Trump set himself up as the populist candidate and voice of the unrepresented. He swept aside other candidates for the nomination, took over the Republicans, a hitherto mainstream political party; and finally, to the horror and disbelief of the political establishment and now-reviled elites everywhere, won the election. His victory marks the triumph of divisive rhetoric, disregard for facts, promises of simple cures for all ills, nativism, demagoguery, and the power of seductive slogans, which are common features of the new populism.

Trump was elected on the back of promises on immigration, international trade, taxation and public spending, and healthcare. On immigration, Trump promised to restrict flows of Muslims into the US, to build a wall along the Mexican border, and deport millions of illegal immigrants living in the US. On international trade, he promised to reject the Trans-Pacific Partnership (TPP) on his first day in office; and to impose swinging tariffs on some Chinese imports, while accusing China of dumping. The Transatlantic Trade and Investment Partnership (TTIP) will almost certainly be abandoned. He has claimed that his poli-

cies will repatriate manufacturing jobs to America. He promised tax cuts, and increases in public infrastructure spending, which will clearly lead to substantially higher Federal borrowing. Obamacare is likely to be repealed or substantially watered down. He has claimed the media and the electoral system were rigged against him, and threatened to contest the election outcome if he lost in statements that have been interpreted as undermining the democratic political institutions of the US.

The pollsters failed to predict the scale of Trump’s election victory, instead giving Hilary Clinton a slight lead and expecting her to win. Following much pained dissection of the voting data and follow-up surveys, it seems many “shy” voters did not admit to their intentions in advance.

By electing Trump, the US has passed up the opportunity of electing its first female president to the despair of many, who see this as the turning of a progressive tide. But how much despondency is in order? Could this simply be business as usual? It is relatively rare for an incumbent party to win a third term in office: a change of party after two terms is more the rule than the exception.¹

Brexit shares many features of the Trump success. The campaign was propelled by calls to “give us our country back” and “take back control”. It promised that an illusory 350 million British pounds per week in savings gained from ending Britain’s contributions to the EU budget would be spent on the National Health Service. One of the leading Brexiteers, Michael Gove, declared that the people “have had enough of experts.” Informed analysis of the effects of Brexit was dismissed as the self-serving work of interested parties. In the post-Brexit debate, populist and xenophobic views are even creeping into mainstream politics. The UK Prime Minister Theresa May, for instance, has started talking about a contrast between the “spirit of

¹ Exceptions in recent decades include: Harry Truman (Democrat) succeeding F. D. Roosevelt (Democrat) in 1945, but Roosevelt died in office; and George H. W. Bush (Republican) succeeding Ronald Reagan (Republican) in 1989 after the latter’s two terms in office. There were, however, long spells of Republican presidency in the early part of the 20th century.

citizenship” and “international elites” who are “cizitens of nowhere”.² As will be explained further below, rhetoric that pits ordinary citizens against a ruling elite is a typical element of populist slogans.

These are merely Anglo-Saxon manifestations of a Europe-wide phenomenon. Matteo Renzi, Italy’s former progressive prime minister, decisively lost a referendum on the Italian constitution in December 2016.³ In France the Front Nationale’s Marine le Pen is likely to perform very well and might even win the presidential elections in 2017. After a succession of dismal defeats for reason and good sense, a brief respite came with the clear rejection of Norbert Hofer, the extreme right-wing candidate, in the second-round elections for the Austrian presidency in December 2016.

Victor Orbán, prime minister of Hungary, and leader of the Fidesz party, calls for asylum seekers in Europe to be rounded-up and deported;⁴ and fences have been built between Hungary and Serbia to keep people out. Poland’s conservative Law and Justice Party (PiS), headed by Jaroslaw Kaczyński, argues against accepting refugees. A more extremist movement, Kukiz’15, is campaigning to build a wall between Poland and the Ukraine. France’s Front National, under Marine Le Pen, took over 28 percent of the vote in the first round of local elections in 2015, campaigning against what the party sees as the islamification of France, promoting greater independence from the EU and the protection of national industries and agriculture. Geert Wilders’ Freedom Party (Partij voor de Vrijheid – PVV) attracts around 30 percent of the votes in the Netherlands, on an anti-islam, leave-the-EU platform. The Austrian Freedom Party (Freiheitliche Partei Österreichs – FPÖ) is fairly similar insofar as it is critical of the EU and the euro, and takes an anti-islam and anti-immigration position. Denmark has the Dansk Folkeparti (DV), the Danish People’s party; while Greece boasts the extreme right-wing Golden Dawn – Chrisy Avgi, and the far-left Syriza (although its status as a populist party is contested). In Italy the Lega Nord has been revived by its anti-migration stance in the recent crisis; while the 5-Star movement is gaining influence on the left. The UK has the UK Independence

Party (UKIP), and the British National Party (BNP); Germany has Alternative für Deutschland – AfD. And so the list goes on.

This populist growth, or resurgence, has taken place against a background of growing flows of migrants from Mexico into the US, the seemingly uncontrollable flows of migrants, refugees and asylum seekers from the Middle East and North Africa into Europe, and a rising number of terrorist attacks executed in the name of Islamic fundamentalism. As regards the economic sphere, the period is marked by austerity policies, with no obvious end in sight, lingering high unemployment, the near stagnation of the Eurozone economy (with the exception of a buoyant Germany), and a perception of growing disparities in income and wealth in many countries. There appears to be a push-back against further globalisation. Nearly completed trade deals between Europe and the US are likely to fail. The US is very likely to abandon TTIP, as mentioned above. The EU-Canada deal, the Comprehensive Economic and Trade Agreement (CETA), very nearly failed in the face of opposition from the regional government of Wallonia, Belgium. The leaders of the EU are seen as being too remote from ordinary people, pursuing a project of an ever-deeper union without regard for the concerns of the typical voter, unable to meet the challenges of the financial crisis, the euro crisis and the refugee crisis.

These developments represent a huge challenge for established and moderate political parties, and they bear the risk of severe political and economic disruptions. At the same time, the growth of populist power may have the positive effect of forcing governments to address economic issues they have failed to take into account so far. Dealing appropriately with the challenge of populism requires an understanding of the factors driving populist movements, as well as the consequences of populist influence. In this introductory chapter we discuss definitions of populism; we describe experiences with populist economic policies and views on economic developments, which seem to favour populism. We conclude with a brief discussion of what can be done to limit the influence of harmful populist ideas.

2.2 What is Populism?

This report is primarily interested in the economic implications of populism. But populism is a concept

² “[...] Too many people in positions of power behave as though they have more in common with international elites than with the people down the road, the people they employ, the people they pass in the street [...]. But if you believe you’re a citizen of the world, you’re a citizen of nowhere.” Theresa May, *Speech delivered at the Conservative Party Conference in Birmingham, 5 October 2016*.

³ However, to what extent this rejection represents populist influence is subject to debate.

⁴ A. Byrne, “Viktor Orban Calls For ‘Round-Up’ of Migrants in EU,” *Financial Times*, 23 September 2016, <http://on.ft.com/2d96nRi>.

that is widely discussed beyond the economic policy debate. The word populism goes back to the Latin word *populus*, which means “people” in the collectivist sense of the word. The Oxford English Dictionary defines the word “populist” as “aiming to appeal to ordinary people”. By definition, therefore, populism is an inherent part of democracy. In the social sciences, views as to whether or not populism is a useful concept for analytical purposes diverge widely. The reason is that it is difficult to draw a clear line between populist and non-populist ideas, parties or political regimes.

Nevertheless, political populism can be characterised as a particular ideology and political style. Albertazzi and McDonnell (2008, p. 3) define populism as “an ideology which pits a virtuous and homogeneous people against a set of elites and dangerous ‘others’ who are together depicted as depriving (or attempting to deprive) the sovereign people of their rights, values, prosperity, identity and voice.” Along similar lines, Kaltwasser and Taggart (2016, p. 204) suggest the following definition: populism is “a thin-centred ideology that considers society to be separated into two homogenous and antagonistic groups: ‘the pure people’ and ‘the corrupt elite’, and argues that politics should be an expression of the *volonté generale* (general will) of the people.”

The dichotomy between the people and the ruling elite is the main idea underlying a large share of populist critique of political decisions in representative democracies. Representative democracies are by definition political systems where “the people” is represented by politicians who make decisions as members of parliament or members of the government. In this context, political or economic problems can easily be criticised as reflecting a divergence between the will of the people and the will of those representing the people.

In the public debate, politicians often use the adjective “populist” simply to discredit their opponents or to attack ideas they do not like. If the opposition argues that it would provide more public services and cut taxes at the same time, those in the government will often argue that these are populist arguments, which will not stand the test of reality. However, if politicians in government raise public debt to increase public spending or cut taxes before elections, they will justify this as an effort to stimulate the economy and would reject that this is a form of populism. Parties or politicians that are commonly considered as populist would normally avoid

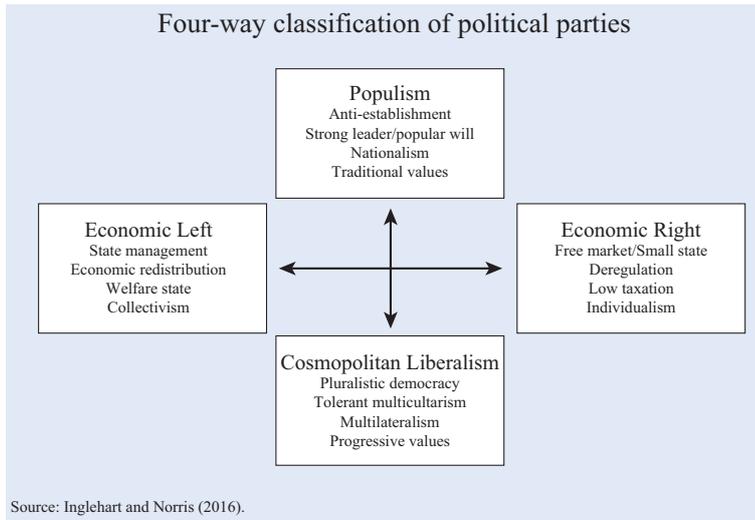
calling themselves populists. As Canovan (1981, p. 5) notes, they differ in this sense from mainstream parties and politicians, who normally do not hesitate to refer to themselves as socialist, liberal or conservative.

Political populism occurs across the entire political spectrum. Recent examples of left-wing populism include the Greek Syriza Party, at least during the first six months of its government, or, as a more extreme case, the rule of Hugo Chávez and his successor Nicolás Maduro in Venezuela. Right-wing populism is particularly on the rise in various Middle and Northern European countries and represented by political parties like the Front National in France or the Liberty Party in the Netherlands. Donald Trump is probably best characterised as a right-wing populist too. While some populist parties on the right wing have outright fascist tendencies, with a strong emphasis on xenophobia, this by no means applies to all of the parties that would be considered populist.

Kaltwasser and Taggart (2016) point out that there are two approaches that are directly opposed to populism: “elitism” and “pluralism”. Elitism shares the view of society as consisting of the elite and the people, but unlike in the case of populism, the elite is seen as intellectually and morally superior whereas the people is seen as a dangerous mob. Pluralism rejects the dichotomy between the elite and the people, as well as the concept of a fixed *volonté generale*. It takes for granted the diversity of interests and ideas in society. Political decision-making is seen as an open and dynamic process. Populism is also often seen as opposing the order of liberal democracy, where the will of the majority is combined with institutional checks and balances that protect fundamental individual rights.

Somewhat akin to this delineation, but possibly conflating elitism and pluralism, and putting a more positive construction on them, Inglehart and Norris (2016) classify political parties in two dimensions, as shown by Figure 2.1 below. In the vertical dimension, Populism stands at the opposite pole from Cosmopolitan Liberalism, (which represents pluralistic democracy, tolerant multiculturalism, multilateralism and progressive values). Along the horizontal dimension, parties may range from the Economic Left (which favours state management, economic redistribution, the welfare state and collectivism) to the Economic Right (which favours free markets, a small state, deregulation, low taxation and individualism). Using the 2014 Chapel Hill expert survey, they have

Figure 2.1



classified nearly 300 political parties along these two dimensions, and identified the populist parties from among them. Their classification shows a swathe of populism running across the political spectrum from left to right (as shown below in Figure 2.2).

2.3 Populist economic policies

What are the economic implications of populism and which economic policies are linked to populist ideologies? We will use the following definition of populist economic policy:

Populist economic policy claims to design policies for people who fear to lose status in society and who have been abandoned by the political establishment. The populist economic agenda is characterised by short termism, the denial of intertemporal budget constraints, the failure to evaluate the pros and cons of different policy options as well as trade-offs between them. It often focuses on single and salient political issues, overemphasises negative aspects of international economic exchange and immigration, and blames foreigners or international institutions for economic difficulties. The populist economic agenda rejects compromise as well as checks and balances and favours simplistic solutions.

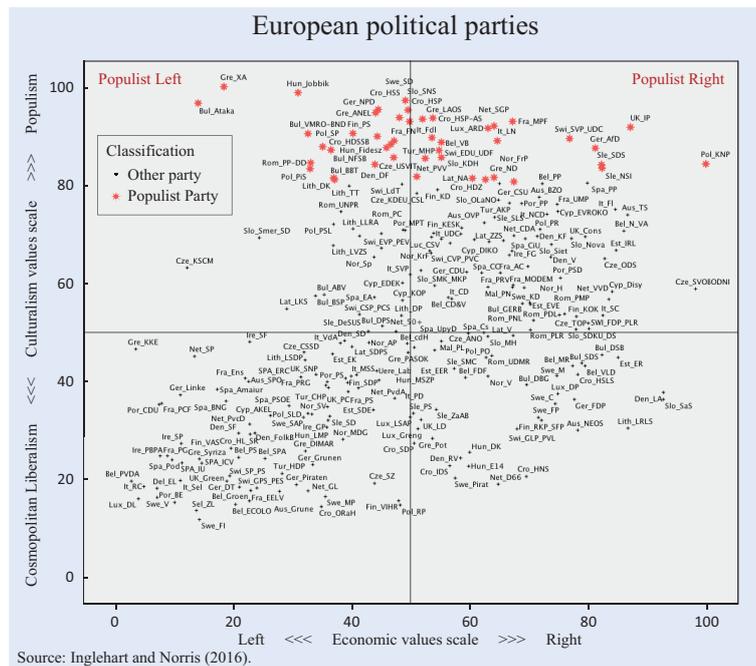
While there is a large body of literature on populism in political science, some of which was cited in Section 2.2, economists have devoted relatively little attention to the subject. Exceptions include Dornbusch and Edwards (1990, 1991) and Acemoglu et al. (2011). Dornbusch and Edwards (1990) focus on populist macroeconomic policies, which they associate with various historical episodes in Latin America. The type of economic policy they describe and explain is usually associated with left-wing populism and bears similarities with policies favoured

by recent left-wing populist movements in Europe. Acemoglu et al. (2011) ask why populist policies are implemented, although they usually lead to poor economic outcomes. In the following, we discuss the characteristics of the populist economic agenda in the most important policy areas.

2.3.1 Populist macroeconomic policies: Ignoring intertemporal budget constraints and capacity limitations

Populist macroeconomic policy is expansionary. It emphasises the benefits of more public spending or lower taxes and plays down the adverse consequences

Figure 2.2



of growing public debt or inflation. While the benefits of expansionary fiscal and monetary policy are felt quickly, some time will usually pass before the adverse consequences of growing debt burdens, or even financial destabilisation, are felt. This reflects the short termism associated with populism. Populist macroeconomic policy neglects the adverse consequences of fiscal expansion or claims they do not exist, either because the demand stimulus is expected to increase economic growth so that the fiscal expansion is self-financing, or because improved incentives, particularly due to lower taxes, generate more economic activity. It is no surprise that Donald Trump has announced expansionary fiscal policies for the US, despite the growing level of public debt, which would call for fiscal consolidation, and despite the fact that the US economy is close to full employment.

Latin America is a region where populist governments have repeatedly chosen to engage in expansionary fiscal and monetary policies, frequently with disastrous consequences. Against the backdrop of the Latin American experience, Dornbusch and Edwards (1990, 1991) have identified a number of common factors characterising populist macroeconomic programs. These include particular *initial conditions*, the *rejection* of the idea that economic policy operates under *constraints*, and a typical *policy prescription*.

Initial conditions include dissatisfaction with the growth performance of the economy, stagnation or even a recession after previous and failed stabilisation attempts – often but not always after an International Monetary Fund (IMF) programme. Declining living standards and growing inequality generate political support for radical change in economic policies. Sometimes previous stabilisations have created some room for expansionary fiscal and monetary policies.

Populist politicians often *reject* the idea that economic policy operates under *constraints*. They usually argue that enough idle capacity is available so that expansionary policies financed via deficit spending can be implemented without running the risk of raising inflation. The populist *policy prescription* is a mix of debt financed expansionary policies, higher wages, and foreign exchange, as well as domestic price controls to prevent inflation.

According to Dornbusch and Edwards (1990), the economic consequences of these policies typically evolve in four phases. In the first phase, which usually

covers the first year of the new policy or less, the new macroeconomic policy seems successful. Output and employment growth accelerate, while inflation is held back by price controls. In phase 2 shortages occur as price and foreign exchange controls reduce supply. The government budget deficit soars as goods with price controls need larger and larger subsidies. Inflation increases, pressures for devaluation rise. Wages stay high, but price controls and protectionist measures are extended massively. Consequently, a large shadow economy emerges. In phase 3 shortages become dramatic, inflation accelerates, a massive capital flight sets in, real wages decline and the economy collapses. It becomes clear that the populist economic policy programme has failed. In the fourth phase, another government takes over and conventional stabilisation policies are pursued, possibly with the support of the IMF. Real wages and living standards are significantly lower than before the populist policy experiment; and will remain so for a long time because investment in local firms is depressed, capital has left, trust in the country's institutions and its economy is undermined.

The detrimental effects of populist economic policies raise the question of why these policies receive any political support in the first place. Dornbusch and Edwards argue that the poor results of populist policies are the result of policy errors. They suggest that expansionary policies may work under certain circumstances. According to them, governments “need to be aware of capacity constraints and have to rely for their financing on an extremely orthodox fiscal policy and rigorous tax administration. Within those restrictions it would appear that there is room left for achieving redistributive objectives in an effective way.”⁵

Acemoglu et al. (2011) also start from the view that populist macroeconomic policies are ultimately harmful and raise the question of why these policies are nevertheless pursued. Without explicitly rejecting the idea that policy errors may be at work here they argue that the “key challenge is [...] to understand why politicians adopt such policies and receive electoral support after doing so.”⁶ Their answer is that, to be elected, politicians need to signal that they are not captured by the elite. The only way to do so is to adopt redistributive and interventionist policies so radical that a politician who is controlled by the ruling elite would never implement them, even if he wants to

⁵ Dornbusch and Edwards (1990), p. 274.

⁶ Acemoglu et al. (2011), p. 2.

make voters believe that he is not controlled by the elite. According to this view, populist economic policies are a signal that is very costly for the economy as a whole, but they are the outcome of individually rational policy choices, given the informational constraints of the political process.

2.3.2 Immigration

For many populist parties, especially in Europe, immigration is the single most important political issue. Some populist parties on the right wing of the political spectrum have features of single issue parties, focusing almost entirely on immigration. The Sweden Democrats (SD) are a good example. Table 4 shows the correlation between Google searches for the terms “SD” and “immigration”.

Right-wing populist parties reject immigration for a number of reasons including cultural and religious considerations. The key economic arguments against immigration claim that immigrants: (i) compete with natives in the labour market, take away their jobs and depress wages; and (ii) benefit from the welfare state and contribute little in the form of taxes. Populist parties also tend to reject the notion that migrants are refugees who leave their countries because of war and political prosecution. Instead, they claim that migrants are motivated by economic incentives and that many immigrants have entered the country illegally. This gives rise to calls for policy measures to reduce immigration. As a result, these parties propose radical changes in immigration policies. How radical these proposals are, differs consid-

erably across populist parties. A typical example of comparatively moderate proposals is the following list published by the UKIP in its 2015 elections manifesto (pp. 11–3):

“To reform our immigration system UKIP will:

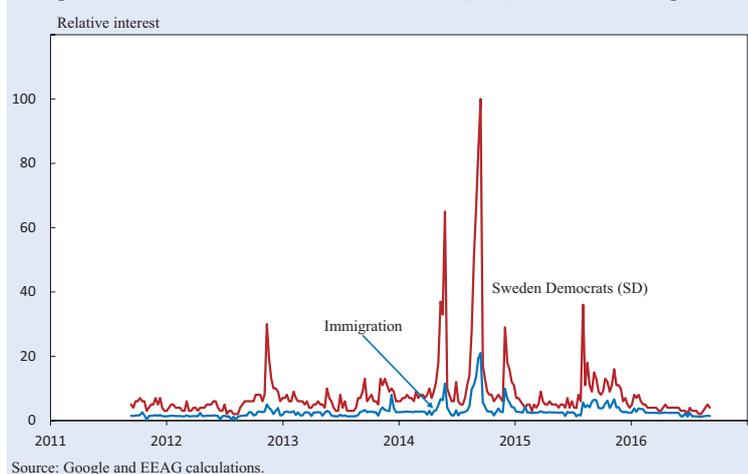
- End immigration for unskilled jobs for a five-year period to re-balance our work economy.
- Introduce an Australian-style points-based immigration system to assess all potential migrants to Britain on a fair, ethical and equal basis.
- Tackle the problem of sham marriages [...].
- All new migrants to Britain will have to make tax and national insurance contributions for five consecutive years before they will become eligible to claim UK benefits, or access to more than non-urgent NHS services, save for any exceptions stipulated by the Migration Control Commission.
- Resident migrants who commit crimes resulting in custodial sentence will have their visa revoked and they will be subject to a deportation order. They will be detained until they are removed from the UK.”

The Front National is an example of more radical policy proposals. The party argues that immigration is abused by employer organisations to keep wages low, a “weapon in the service of capitalists”.⁷ The party proposes to reduce immigration drastically and to deport foreigners residing in France if their presence in the country is “no longer justified”,⁸ that is for instance if they are unemployed for more than one year.

Economic research on the impact of migration shows that its effects on the labour market and public finances in the host country are diverse and depend on characteristics of the immigrants, as well as on the labour market and welfare state institutions of the host country. For instance, OECD (2013) concludes that the net fiscal contribution of immigrants in the period 2007–2009 was on average positive in the OECD countries, but that there is significant divergence across countries. In some coun-

Figure 2.3

Google Searches for “Sweden Democrats“ (SD) and for “Immigration”



⁷ Front National Website, Immigration, *Stopper l’immigration, renforcer l’identité française*, <http://www.frontnational.com/le-projet-de-marine-le-pen/autorite-de-letat/immigration/>, last accessed 19 September 2016.

⁸ *Ibid.*

tries including France, Germany, and Poland, the contribution was negative. Clearly, a negative net fiscal contribution is more likely in countries with a generous welfare state, rigid labour markets that make it difficult for immigrants to find employment, and is also likely in countries that attract low-skilled immigrants. These findings suggest that portraying the impact of immigration on the host country as generally negative is misleading, as is the opposite view according to which immigration is always beneficial. We will discuss the immigration issue in greater detail in Chapter 4 of this EEAG report.

2.3.3 Globalisation and international trade

Globalisation and international trade is another issue on which populist parties usually share a strongly critical attitude. Economic developments like structural change and the associated costs in terms of uncertainty and job losses are seen as the outcome of international economic integration. Populists frequently accuse foreign companies or governments of engaging in dumping and other forms of unfair competition. Globalisation is presented by populist parties as a process whereby large parts of the domestic population lose out, while the elite benefits and disseminates false information through biased “experts”. Donald Trump describes this phenomenon as follows:

“It is no great secret that many of the special interests funding my opponent’s campaign are the same people profiting from these terrible trade deals. The same so-called experts advising Hillary Clinton are the same people who gave us NAFTA, China’s entry into the World Trade Organization, the job-killing trade deal with South Korea, and now the Trans-Pacific Partnership.”⁹

International trade has always been a highly charged topic. While it may be capable of making everyone better off, a move towards free trade generally benefits people who work in the export industries, while people in industries that compete with imports lose. China’s exports have provided Europe and America with inexpensive goods that held down prices and sustained the “great moderation” in the US, but at the same time, they have threatened consumer goods industries and held the earnings of low-skilled manual workers in

check. Effectively, China and India’s integration into world markets has caused a massive increase in the global supply of less-skilled labour relative to higher-skilled labour and capital. Industries that use a lot of relatively unskilled labour have shifted production to China and India. Less-skilled workers in Europe and North America have lost out; jobs are scarce and wages have stagnated. The winners from freer trade have not compensated the losers. The accounts given by Krugman (2008) and Haskel et al. (2012) are more nuanced, but essentially also demonstrate these effects. The IMF’s World Economic Outlook for October 2016 acknowledges the importance of compensating those who would stand to lose from freer trade, if there is not to be a slide towards protectionism (IMF, 2016, p. 87):

“But to sustain popular support for trade integration and preserve its economic and welfare benefits, policymakers should be mindful of the adjustment costs that deepening trade integration entails. Although the analysis of these effects is beyond the scope of the chapter, a number of studies document significant and long-lasting adjustment costs for those whose employment prospects were adversely affected by the structural changes associated with trade, even if the gains from trade from lower prices may tend to favor those at the bottom of the income distribution. An increasingly popular narrative that sees the benefits of globalization and trade accrue only to a fortunate few is also gaining traction. Policymakers need to address the concerns of trade-affected workers, including through effective support for re-training, skill building, and occupational and geographic mobility, to mitigate the downsides of further trade integration for the trade agenda to revive.”

Another setback to the free trade agenda has come from opposition to large regional agreements, a backlash response to lobbying by big business, particularly US big business, perceived to be manipulating free trade to serve its own interests at the expense of ordinary households. The TPP between the US and a number of East Asian countries, including Japan, came close to being signed and implemented, but the opportunity to finalise a deal now seems to have slipped out of reach following Donald Trump’s vow to stop TPP.

TTIP, the trade and investment partnership under negotiation between the US and the EU, is losing momentum in the face of growing opposition in Europe, and Donald Trump is likely to reject it. The Canada-

⁹ D. Trump, *Speech delivered at New York Economic Club*, 15 September 2016, <https://www.donaldjtrump.com/press-releases/trump-delivers-speech-on-jobs-at-new-york-economic-club>.

EU trade deal, CETA, narrowly avoided defeat by opposition from Wallonia. The mystery and secrecy surrounding the negotiation of these deals has aroused suspicion that they represent a corporate conspiracy against the interests of the general public. There is also widespread scepticism about the provisions for investment protection and investor-state tribunals.¹⁰ They give large corporations access to secretive arbitration panels through which they may be able to enforce claims against governments. The spectacle of a lawsuit brought by the tobacco company Philip Morris against Uruguay on account of Uruguay's vigorous anti-smoking policies was most unedifying, even if Uruguay won in the end.¹¹ It stokes fears that large companies will use these trade agreements to sue countries for environmental legislation and for other socially desirable policies, which firms believe will damage their interests. Various European countries have been sued under other trade treaties with investor-state clauses in them.

It is worth noting that opposition to TTIP and other treaties that privilege corporate interests comes not only from populist politicians, but from the left-wing elite. In the UK, the left-of-centre Guardian newspaper is a vigorous opponent. In its view, these trade agreements are so egregious that populist and mainstream public opinion is largely opposed to them.

While the British intelligentsia politely and reasonably demur from TPP, TTIP, and CETA, Donald Trump has declared that

“as president he would ‘rip up’ international trade deals such as the North American Free Trade Agreement, withdraw from the World Trade Organization and sharply raise the tariffs charged on goods imported from China and Mexico.”¹²

And, as Justin Wolfers goes on to note,

“As president he could pretty much do it. And there's very little Congress can do to stop him, even if the result is a costly trade war.”¹³

It is a notable fact that Wolfers does not hesitate to mention the possibility of trade wars, which are usually highly damaging for all involved. He does not, however, seem to expect this to undermine support for the anti free trade agenda.

Whether these statements mainly represent campaign rhetoric, and to what extent the government under President Trump will really embrace protectionism is an open question; although, as mentioned above, Trump has confirmed that he will stop TPP.

2.3.4 European integration and the euro crisis

Most populist parties are opposed to European integration, including the creation of supranational institutions in the EU, the internal market and the euro. They reject the loss of sovereignty for member states implied by European integration, and particularly challenge the freedom of EU citizens to live and work in other EU countries, and dispute the fact that external trade policy is an EU competence.

The populist dislike of the EU as an institution extends to other supra- and international institutions. This is partly related to the perception that these institutions evade democratic control. While this is not true in a formal sense, there is an issue of how democratic control of these institutions can be ensured. There is a longstanding debate about the “democratic deficit” of the EU. With respect to international institutions Dahl (1999, p. 16) argues that “although international organizations have become the locus of important decisions and will doubtless be even more so in the future, they are not now and probably will not be governed democratically. Instead, they will continue to be governed mainly by bargaining among bureaucratic and political elites, operating within extremely wide limits set by treaties and international agreements.”

While this critique of international and supranational organisations is justified to some extent, it does not offer alternative and better ways to achieve the objectives pursued with the creation of these organisations. As will be discussed in greater detail below, the EU can be seen as an institution that provides checks and balances that prevent national governments from engaging in populist and short-sighted policies like the introduction of trade protection or subsidies for politically influential domestic indus-

¹⁰ Cf. G. Monbiot, “The TTIP Trade Deal Will Throw Equality before the Law on the Corporate Bonfire,” *The Guardian*, 13 January 2015, <https://www.theguardian.com/commentisfree/2015/jan/13/ttip-trade-deal-transatlantic-trade-investment-treaty>.

¹¹ Cf. B. Mander, “Uruguay Defeats Philip Morris Test Case Lawsuit,” *Financial Times*, 8 July 2016, <http://on.ft.com/2dtj1uO>.

¹² J. Wolfers, “Why a President Trump Could Start a Trade War With Surprising Ease,” *New York Times*, 19 September 2016, http://www.nytimes.com/2016/09/20/upshot/why-a-president-trump-could-start-a-trade-war-with-surprising-ease.html?_r=0.

¹³ Ibid.

tries that discriminate against foreign individuals or companies.

The euro is rejected by the populist parties in most Eurozone member countries, albeit for different reasons. In southern Europe, the euro is widely seen as a major reason for the current economic crisis and European fiscal rules, as well as adjustment programmes overseen by the Troika, are perceived as preventing a recovery.

In Italy, the 5 Star movement wants to abolish the euro. In Greece, the former finance minister Yanis Varoufakis denounced the Troika as a “committee built on rotten foundations.”¹⁴ The Spanish movement Podemos rejects the view that fiscal consolidation is necessary and denounces “the false idea that in Spain there is an excess of public resources, too many civil servants or public sector employees in the administration, and excessive spending on public goods and services.”¹⁵ Instead, it proposes to default on national debt and to give national governments in the Eurozone access to monetary financing through the ECB.

In Northern European countries, populist parties attack the euro for different reasons. They argue that the zero interest rate policy harms their country or that stable public finances are impossible to achieve in the Eurozone. For instance, Geert Wilders, the leader of the Dutch Freedom Party recently argued that leaving the euro would allow the Netherlands to return to normal interest rates:

“That’s exactly the problem: The European Central Bank in Frankfurt with its idiotic zero interest rate policy. By doing so, the banks have slashed our pensions, and this concept is toxic for our economy. We want to determine our own monetary policy.”¹⁶

In the same interview, he refers to Switzerland as a positive example of a country that lives well outside the Eurozone and the EU. He does not mention the fact, however, that Swiss interest rates are even lower than Eurozone rates.

¹⁴ Cf. D. A. Wade, “Greece: Finance Minister Yanis Varoufakis Rejects Debt Talks with Troika,” *Belle News*, 30 January 2015, <http://www.bellenews.com/2015/01/30/world/europe-news/greece-finance-minister-yanis-varoufakis-rejects-debt-talks-troika/>.

¹⁵ Cf. V. Scarpetta, “Podemos Gears Up for Next Year’s Spanish Elections with Revamped Economic Plan,” *Open Europe*, December 2016, <http://openeurope.org.uk/today/blog/podemos-economic-proposals/>.

¹⁶ Interview with Geert Wilders, S. Koelbl, “Why Dutch Populists Want to Leave the EU,” *Spiegel*, 1 July 2016, <http://www.spiegel.de/international/europe/dutch-populist-geert-wilders-wants-to-leave-the-eu-a-1100931.html>.

The French Front National argues:

“The common currency has become the symbol of a federalist European policy and of the most absurd brinkmanship of financial elites who are ready to sacrifice the people on the altar of their interests. [...] France should veto useless and ruinous bailout plans for the countries that are victims of the euro. The money of the French people should stay in France.”¹⁷

While it is reasonable to ask whether Eurozone bail-out-policies are effective, or whether the disadvantages of the zero interest rate policy of the ECB outweigh the advantages, the typically populist elements in the positions described above represent the denial of tradeoffs, and the presentation of overly simplistic solutions.

2.4 Why do populist parties receive political support and who votes for them?

Who supports populist parties, and why do they do it? One of the questions we address in this chapter is the extent to which economic developments, including economic policies, have led directly or indirectly, to the rise of populism. In many of the widely circulating accounts, economic factors are a major ingredient. Have economic factors actually been a major driver of populist support?

There is a widespread view that the effects of globalisation, including international trade, capital mobility and notably migration, as well as the perception that the middle class is losing out, are key drivers of populist movements. Economic crises, which lead to high levels of debt, unemployment and stagnating incomes, are another relevant factor. Populist support, however, may also have non-economic roots. It may be related to more fundamental views and values like a low tolerance level of foreigners or different cultures and religions, or simply to a lack of education.

¹⁷ “La monnaie unique est devenue le symbole d’une politique européenne fédéraliste d’un jusqu’au-boutisme absurde d’élites financières prêtes à sacrifier le peuple sur l’autel de leurs intérêts. [...] La France doit donc mettre son veto aux inutiles et ruineux plans de renflouement des pays victimes de l’euro. L’argent des Français doit rester en France.” Front National Website, Euro, *Une fin maîtrisée pour libérer la croissance*, <http://www.frontnational.com/le-projet-de-marine-le-podemos-économique-et-social/euro/>, last accessed 19 September 2016.

2.4.1 Economic factors versus values

Based on an analysis of Eurobarometer survey data, Kriesi (1999) argues that among the populist supporters, people with lower educational attainment, farmers, artisans and low-skilled workers are disproportionately represented. Swank and Betz (2003) investigate whether the election results of populist parties are related to growing globalisation that is increasing trade and migration. They consider the election results of populist parties in Western Europe in the period 1981 to 1998 and find that immigration waves and growing international trade are correlated with high levels of support for right-wing populist parties. They also find that the correlation is less significant in well-developed welfare states. Their interpretation of the evidence is that competitive pressure and uncertainty are moderated by strong welfare states, which offer a degree of insurance and protection.

While much of the discussion about populism centres on the political parties who represent it, those parties have to respond to the attitudes and preferences of voters. Political science literature describes this as the “demand side” of populism. “Populist parties or politicians have to address and positively resonate with sentiments and views already held in some form by a significant part of the population” as Spruyt et al. (2016, p. 335) remark. Spruyt et al.’s examination of a survey in Belgium finds that populism, by using “empty signifiers” (such as “the people”) manages to unite individuals with many different grievances. A lack of external political efficacy is one of the main drivers of populist support. However, they find that (p. 345) “it is not actual vulnerability per se that matters (i.e., material wealth, educational attainment, cultural capital, and internal political efficacy) but subjectively experienced vulnerability (i.e., relative deprivation, anomie, perceived lack of political efficacy).” They conclude that one of the key lessons is that parties and politicians who aim to reduce the demand for populism need to counter the widespread feeling that they are unresponsive to the concerns and grievances of voters.

Inglehart and Norris (2016) examine whether populist support is associated with economic variables or cultural ones. They find that cultural value scales are consistent predictors of support for populist parties: their support is strengthened by anti-immigrant attitudes, mistrust of global and national governance, support

for authoritarian values, and left-right ideological self-placement. Meanwhile, economic indicators are not reliable predictors. They write (p. 4):

“Looking more directly at evidence for the economic insecurity thesis, the results of the empirical analysis are mixed and inconsistent. Thus, populist parties did receive significantly greater support among the less well-off (reporting difficulties in making ends meet) and among those with experience of unemployment, supporting the economic insecurity interpretation. But other measures do not consistently confirm the claim that populist support is due to resentment of economic inequality and social deprivation; for example, in terms of occupational class, populist voting was strongest among the petty bourgeoisie, not unskilled manual workers. Populists also received significantly less support (not more) among sectors dependent on social welfare benefits as their main source of household income and among those living in urban areas.”

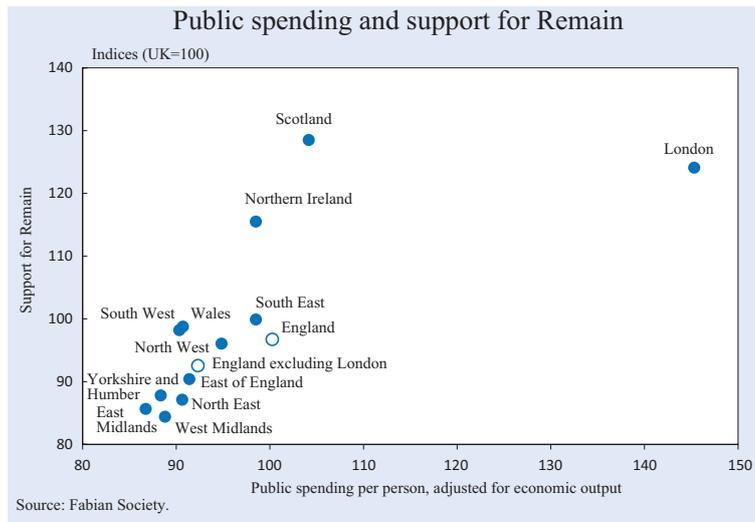
So it seems likely that economic policies have not directly led to a populist backlash, but have indirectly reinforced it by creating a world of greater labour mobility, and growing prominence of supranational government.

2.4.2 Lessons from the Brexit referendum

The Brexit referendum is widely seen as a case where support for the Leave campaign shows patterns that are similar to those driving support for populist parties. Arnorsson and Zoega (2016) investigate the extent to which economic variables are correlated with vote outcomes. They also use data on values like tolerance with respect to other religions, acceptance of immigrants as neighbours and the perceptions of the dangers of immigration for society. They find that regions that voted Leave have a large share of unskilled workers, a high average age and a low per capita GDP. These characteristics are correlated with values that reject immigration.

Data on voting patterns in electoral districts indicates that social attitudes were important, maybe more so than economic conditions. Brexit support was strong among the old, the less educated, people outside the workforce (pensioners, middle-aged homemakers, and men with low educational qualifications receiving disability payments). Support for Brexit was highly cor-

Figure 2.4



related with support for the death penalty (Kaletsky, 2016). Kaletsky views this as:

“The latest battles in the culture wars that have split Western societies since the late 1960s. The main relevance of economics is that the 2008 financial crisis created conditions for a political backlash by older, more conservative voters, who have been losing the cultural battles over race, gender, and social identity.”

Progressives may take comfort from the ageing demographic that supports Trump and Brexit. The young were overwhelmingly in favour of Remain. In other words, we may have seen a rearguard action whose supporters will die out.

What is the impact of public policies on the vote pattern? There is a correlation between support for Remain and public spending in the UK, as Figure 2.4 shows. This pattern is consistent with the view that some regions voted for Leave because they felt neglected by the UK government.

Fidrmuc et al. (2016) investigate the relationship between EU cohesion policy spending and regional voting behaviour. Of course, it is not quite clear what to expect here. On the one hand, regions that failed to benefit from European economic integration should be those that receive EU funds. These funds are unlikely to be sufficient to compensate the regions for their losses. That would suggest a positive relationship between Leave votes and regional policy funds. On the other hand, people in lagging regions may appreciate help from the EU and therefore be more likely to vote

Remain. Fidrmuc et al. (2016) find no correlation in either direction.

However, after analysis of voting by electoral district in the UK's Brexit referendum, Becker et al. (2016) argue that a small reduction in public spending cuts would have been enough to sway the vote, whereas major reductions in immigration would not have affected the result.

2.4.3 Economic crises as a trigger of populism

Among the economic factors that trigger populism, economic crises figure prominently. Events like the financial crisis, the subsequent worldwide recession and the outbreak of the debt crisis in the Eurozone have harsh consequences for people who lose employment, or experience a decline in their pensions or other forms of support they receive. Crises will inevitably lead to a debate about the failure of the ruling elites and the fact that the costs of the crisis are not borne by those deemed responsible for it. For instance, there is a widespread consensus that managers and firm owners in the financial sector benefitted considerably during the bubble preceding the financial crisis, while the losses incurred in the crisis were passed onto taxpayers. This creates the impression that the “elites” are protecting themselves at the cost of “ordinary people”.¹⁸

Tables 2.1a–2.1c offer an overview over election results of parties classified as populist before and after the financial crisis. Table 2.1a shows the results of populist parties in Northern Europe including the UK. The election results of populist parties improved considerably after the crisis, particularly in France, the Netherlands, Austria and Finland.

Table 2.1b shows that populist parties have also strongly gained support in southern Europe. In Greece, the Syriza party defeated the incumbent and more moderate New Democracy party in the January

¹⁸ Funke et al. (2015) study the political consequences of financial crises over the past 140 years and show that financial crises have often led to growing political support for extreme right-wing parties.

Table 2.1a

Electoral results of populist parties in Nordic regions, continental Europe and the UK^{a)}

	Pre-crisis (A)	Post-crisis (B)	Difference (B-A)	EU-2014
Dansk Folkeparti (DF, Denmark)	13.9 (2007)	12.3 (2011) 21.1 (2015)	- 1.6 (2011) + 7.2 (2015)	26.6
Fremskrittspartiet (FrP, Norway)	22.1 (2005)	22.9 (2009) 16.3 (2013)	+ 0.8 (2009) - 5.8 (2013)	
Sverigedemokraterna (SD, Sweden)	2.9 (2006)	5.7 (2010) 12.9 (2014)	+ 2.8 (2010) + 10.0 (2014)	9.8
Perussuomalaiset (PS, Finland)	4.1 (2007)	19.1 (2011) 17.6 (2015)	+ 15.0 (2011) + 13.5 (2015)	12.9
Front National (FN, France)	4.3 (2007)	13.6 (2012)	+ 9.3	24.9
Vlaams Belang (VB, Belgium)	12.0 (2007)	7.8 (2010) 3.7 (2014)	- 4.2 (2010) - 8.3 (2014)	4.3
Partij voor de Vrijheid (PVV, Netherlands)	5.9 (2006)	15.5 (2010) 10.1 (2012)	+ 9.6 (2010) + 4.2 (2012)	13.3
Socialistische Partij (SP, Netherlands)	16.6 (2006)	9.9 (2010) 9.7 (2012)	- 6.7 (2010) - 6.9 (2012)	9.6
Freiheitliche Partei Österreichs (FPÖ, Austria)	11.0 (2006) 17.5 (2008)	20.5 (2013)	+ 9.5 (2006) + 3.0 (2008)	19.7
Bündnis Zukunft Österreich (BZÖ, Austria)	4.1 (2006) 10.7 (2008)	3.5 (2013)	- 0.6 (2006) - 7.2 (2008)	0.5
Schweizerische Volkspartei (SVP, Switzerland)	28.9 (2007)	26.6 (2011) 29.4 (2015)	- 2.3 (2011) + 0.5 (2015)	
Alternative für Deutschland (AfD, Germany)		4.7 (2013)	+ 4.7	7.1
UK Independence Party (UKIP, UK)	2.2 (2005)	3.1 (2010) 12.6 (2015)	+ 0.9 (2010) + 10.4 (2015)	26.8

^{a)} In %; election years in parentheses.

Source: Parties and Elections in Europe, <http://www.parties-and-elections.eu/countries.html>; European Parliament, *Results of the 2014 European elections, Results by Country*, <http://www.europarl.europa.eu/elections2014-results/en/country-introduction-2014.html>. This is an updated version of a table in Pappas and Kriesi (2015).

2015 elections and formed a coalition with the right-wing populist party ANEL. In Spain and Italy populist parties were so far less successful, but they nevertheless gained support and transformed the political landscape as well.

Table 2.1c summarises the emergence of populist parties in Central and Eastern Europe. Here the most striking development is that of Hungary and Poland, where parties with clearly populist profiles have taken over power. While many Eastern European countries did experience an economic slowdown after the financial crisis, their overall economic development during the last decade was mostly very positive, and particularly so in the case of Poland. The crisis explanation for growing populist support is therefore not equally relevant across countries.

2.5 How should societies respond to the rise of populism?

As explained in the preceding sections, populist parties and political movements often raise relevant issues, but the policies they suggest to address these is-

ssues are usually counterproductive because they fail to take into account important aspects and tradeoffs between different policy objectives. There is a danger that increasing populist influence leads to protectionism and conflicts between countries.

2.5.1 Political responses: demonise or integrate populist parties?

Political science literature discusses various strategies to prevent populist parties from taking over power. One such strategy is “militant democracy”: if populist parties threaten to overthrow the democratic order, “militant democracy” would imply that democratic institutions do not tolerate parties or political movements that aim to destroy democracy and the rule of law and replacing it with an authoritarian order.

But not all populist parties attack democratic institutions. Most of the current populist movements try to achieve power within the existing political system and they do not, openly at least, express intentions to change that system. In these cases, a possible strategy

Table 2.1b

Electoral results of populist parties in Mediterranean region^{a)}

	Pre-crisis (A)	Post-crisis (B)	Difference (B-A)	EU-2014
Forza Italia (FI Italy; formerly PDL)	23.7 (2006) 37.4 (2008)	21.6 (2013)	- 2.1 (2006) - 15.8 (2008)	16.8
Lega Nord (LN, Italy)	4.6 (2006) 8.3 (2008)	4.1 (2013)	- 0.5 (2006) - 4.2 (2008)	6.1
Movimento Cinque Stelle (M5S, Italy)		25.6 (2013)	+ 25.6	21.1
Anexartitoi Elline (ANEL, Greece)		10.6 (2012-I) 7.5 (2012-II) 4.8 (2015-I) 3.7 (2015-II)	+ 10.6 (2012-I) + 7.5 (2012-II) + 4.8 (2015-I) + 3.7 (2015-II)	3.5
Popular Orthodox Rally - G. Karatzferis (LAOS, Greece)	3.8 (2007)	5.6 (2009) 2.9 (2012-I) 1.6 (2012-II) 1.0 (2015-I)	+ 1.8 (2009) - 0.9 (2012-I) - 2.2 (2012-II) - 2.8 (2015-I)	2.7
Chrysi Avyi (ChA, Greece; Golden Dawn)		0.3 (2009) 7.0 (2012-I) 6.9 (2012-II) 6.3 (2015-I) 7.0 (2015-II)	+ 0.3 (2009) + 7.0 (2012-I) + 6.9 (2012-II) + 6.3 (2015-I) + 7.0 (2015-II)	9.4
Synaspismos Rizospastikis Aristeras (SYRIZA, Greece)	5.0 (2007)	4.6 (2009) 16.8 (2012-I) 26.9 (2012-II) 36.3 (2015-I) 35.5 (2015-II)	- 0.4 (2009) + 11.8 (2012-I) + 21.9 (2012-II) + 31.3 (2015-I) + 30.5 (2015-II)	26.6

^{a)} In %; election years in parentheses.

Source: Parties and Elections in Europe, <http://www.parties-and-elections.eu/countries.html>; European Parliament, *Results of the 2014 European elections*, Results by Country, <http://www.europarl.europa.eu/elections2014-results/en/country-introduction-2014.html>. This is an updated version of a table in Pappas and Kriesi (2015).

is to isolate and ignore, or demonise, populist parties. An alternative strategy is to integrate populist parties, and even let them be part of coalitions, provided they accept the rules of democratic policymaking. In a recent study of extremist and populist parties in Europe, Downs (2012) argues that policies of isolation and demonisation are much less effective as a strategy to contain political parties than policies of conditional integration.

2.5.2 Is it time to change economic policies?

If populism remains on the margins and the mainstream retains power, governments may have room to address the causes of support for populism, and keep it at bay. Insofar as populist support is fuelled by economics – low incomes, poor housing, pressure on public services, inadequate public infrastructure – governments can respond with policies to improve matters. More redistributive taxes and higher minimum wages can boost the income of low-earners. Of course, these policies face tradeoffs. Higher minimum wages may help low skilled workers who find employment, but they may also increase unemployment. If it is true that globalisation subjects low skilled labour in developed

countries to competitive pressures, minimum wages cannot help them. However, higher investment in education and vocational training would give the less-skilled more competences and enable them to find better paying jobs. Norway uses collective bargaining (coordinated nationally) to enforce higher wages. Finland is going to experiment with a basic income. Greater public investment in building housing would help poorer people in the UK by relieving shortages and bringing down prices. Public transport infrastructure in the UK also requires more investment.

If such policies are successful, they may sap populist support, insofar as economic conditions are responsible. If, on the other hand, the cultural values identified by Inglehart and Norris (2016) are responsible, the problem may be harder to solve.

2.5.3 Recapturing the narrative

Populism has arisen in the context of a political convergence among the mainstream parties, and the response to it in Europe has been an accommodation of populist policies, but some thinkers argue that such attempts to offer “populism lite” will fail.

Table 2.1c

Electoral results of populist parties in CEE region ^{a)}				
	Pre-crisis (A)	Post-crisis (B)	Difference (B-A)	EU-2014
Věci Veřejné (VV, Czech Republic)		10.9 (2010)	+ 10.9	0.5
ANO 2011 (ANO, Czech Republic)		18.7 (2013)	+ 18.7	16.1
Úsvit - Národní Koalice (ÚSVIT, Czech Republic; The Dawn)		6.9 (2013)	+ 6.9	3.1
Sloboda a Solidarita (SAS, Slovakia)		12.1 (2010) 5.9 (2012) 12.1 (2016)	+ 12.1 (2010) + 5.9 (2012) + 12.1 (2016)	6.7
Slovenská Národná Strana (SNS, Slovakia)	11.7 (2006)	5.1 (2010) 4.6 (2012) 8.6 (2016)	- 6.6 (2010) - 7.1 (2012) - 3.1 (2016)	3.6
L'udová strana – Hnutie za demokratické Slovensko (L'S-HZDS or HZDS, Slovakia)	8.8 (2006)	4.3 (2010) 0.9 (2012)	- 4.5 (2010) - 7.9 (2012)	
Prawo i Sprawiedliwość (PiS, Poland)	32.1 (2007)	29.9 (2011) 37.6 (2015)	- 2.2 (2011) + 5.5 (2015)	31.8
Kukiz'15 (K, Poland)		8.8 (2015)	+ 8.8	
Magyar Polgári Szövetség (FIDESZ, Hungary)	42.0 (2006)	52.7 (2010) 44.9 (2014) ^{b)}	+ 10.7 (2010) + 2.9 (2014)	51.5 ^{b)}
Jobbik Magyarorszáért Mozgalom (JOBBIK, Hungary)	2.2 (2006)	16.7 (2010) 20.2 (2014)	+ 14.5 (2010) + 18.0 (2014)	14.7

^{a)} In %; election years in parentheses.
^{b)} Together with KDNP.

Source: Parties and Elections in Europe, <http://www.parties-and-elections.eu/countries.html>; European Parliament, *Results of the 2014 European elections*, Results by Country, <http://www.europarl.europa.eu/elections2014-results/en/country-introduction-2014.html>. This is an updated version of a table in Pappas and Kriesi (2015).

Jürgen Habermas, distinguished sociologist and one of the thought leaders of the political left in Germany, criticises politics for being “grey on grey”:

“[...] the left-wing pro-globalisation agenda of giving a political shape to a global society growing together economically and digitally can no longer be distinguished from the neoliberal agenda of political abdication to the blackmailing power of the banks and of the unregulated markets.”

Instead, he argues that the political left needs to re-establish a distinct position:¹⁹

“One would therefore have to make contrasting political programmes recognisable again, including the contrast between the – in a political and cultural sense – liberal open-mindedness of the left, and the nativist fug of right-wing critiques of an unfettered economic globalisation. In a word: political polarisation should be re-crystallised between the established parties on substantive con-

licts. Parties that grant right-wing populists attention rather than contempt should not expect civil society to disdain right-wing phrases and violence.”

While Habermas’ distinction between what he believes to be the “open-mindedness of the left” and “nativist fug” of the right has itself a populist flavour, his point that mainstream democratic parties should be distinguishable is certainly relevant to the debate. The German chancellor Angela Merkel is widely seen as pursuing an extreme strategy of depolarisation sometimes referred to as “asymmetric demobilisation”. This strategy blurs the differences between mainstream political parties, demobilises voters of all parties, but achieves a stronger demobilisation effect on other parties than Angela Merkel’s CDU.

This policy is often criticised as favouring the emergence of the AfD. According to this view, mainstream parties could crowd back populism by offering a larger spectrum of political programmes and views, which includes real alternatives to existing economic policies.

¹⁹ Habermas, “For a Democratic Polarisation: How to Pull the Ground from Under Right-Wing Populism.” *Social Europe*, 17 November 2016, <https://www.social-europe.eu/2016/11/democratic-polarisation-pull-ground-right-wing-populism/>.

2.5.4 Information versus voter manipulation and independent expert evaluation of political agendas

Next to the “real” economic conditions, political support for populist parties may be driven by the perception of these conditions, which may differ from the reality of the situation. Voters are frequently poorly informed of the general economic situation, as well as the content of economic policy agendas presented by populist and other parties. In a world dominated by television, tabloid newspapers and social media, where attention spans are short and emotions dominate the debate, efforts need to be made to better inform voters and educate them to be more objective.

One approach is to give a neutral institution the task of analysing the economic policy agendas of all political parties. In the Netherlands, the Central Planning Bureau (CPB), an economic research institute, regularly analyses the manifestos of the different political parties running in national elections. For instance, in the run-up to the general elections in 2012, it published a study of the likely impact of the policies proposed by ten different political parties on a wide range of variables ranging from GDP and the public debt to the housing market, pensions and the environment. This did not prevent the populist Freedom Party from winning over ten percent of the votes, making it the third largest group in the Dutch Parliament.²⁰

Nevertheless, the Dutch approach has the advantage of forcing political parties to submit an economic policy agenda, which is at least complete and consistent enough to be evaluated. The evaluation study itself may be difficult for most voters to digest, but it gives journalists a basis for informing the public about existing political alternatives.

2.5.5 The role of referenda

Recent experiences with referenda have led to a debate over whether they facilitate the increased impact of populism on politics. These experiences include not only the Brexit decision but also, for instance, the Dutch referendum on the EU-Ukraine Association Agreement. The agreement was rejected with 61 percent of votes. In July 2015, the Greek government or-

ganised a referendum on the adjustment programme suggested by the Troika. Clearly, this was a tactical move to improve the bargaining position of the Greek government. The British referendum is seen by many as a result of a power struggle within the Conservative party. In both cases, the options available to voters were not clearly defined. It was unclear what would happen if the Greek people rejected the adjustment programme – in the end not much happened and the adjustment programme came despite the fact that the people had rejected it. In Britain, the terms of exit from the EU were unclear, and neither the government nor its opponents expected Brexit to win. The result led to a swathe of resignations, not only within the government, but also among prominent Brexit campaigners, leaving a prolonged power vacuum and a sense of chaos. The administration of Theresa May, who eventually emerged as prime minister, has found itself implementing a radical change in which many ministers do not believe, assisted by an unprepared and clearly highly sceptical civil service.

What are the implications of these events for the desirability of referenda? Fundamentally, referenda reflect that there is a principal-agent problem between the citizens and their agents, namely politicians and bureaucrats. Since the interests of politicians and bureaucrats may differ considerably from those of the citizens, it is important that citizens have instruments to stop politicians if necessary. One such instrument is a general election, but these do not happen often and general elections are about multiple issues. It is therefore perfectly rational to see referenda as way of making democratic decisions in certain cases. There are many countries where referenda constitute a central element of the democratic political culture. The best-known example is Switzerland, but there are many others.

However, governments should not be allowed to use referenda as ad hoc instruments to achieve their goals. Referenda should be part of a constitutional framework where their conditions of use are clearly specified, and where the initiative comes from the citizens, not from the government. Referenda should also be about choices between clearly defined alternatives.

2.5.6 The EU as a device to rein in populism

While populists dislike supra- and international institutions and exploit the weaknesses of these institutions to question their existence, these same institu-

²⁰ Somewhat surprisingly, the study finds that the economic program of the Freedom party would lead to higher levels of GDP than that of any other political party, see Centraalplanbureau and Planbureau voor de Leefomgeving, *Effecte op economie en milieu*, Keuzes in Kaart 2012–2017.

tions can be seen as a safeguard against populism. Of course, if supranational institutions lack democratic control they can become a cause of popular resentment. It is also true that governments can abuse supranational institutions to pursue their own interests or make deals with lobby groups in a way that could not be done at the national level.

At the same time, however, being part of a confederation of countries limits the power of national governments and creates a system of checks and balances whereby the supranational level can protect citizens against the failures of the national political process and vice versa. Being part of the EU can be seen as a long-term contract, which specifies that the member states and their governments will respect a set of rules on democracy, the legal system, human rights, social standards, and the freedom to move and trade across borders.

Against this background, EU membership itself can be considered a device to rein in populism. One example is the current conflict between the EU and Poland, whereby the EU is accusing Poland of undermining the rule of law. In December 2015, the Polish Parliament passed a law that makes it more difficult for the constitutional court to reach decisions. For instance, the law introduces a majority of two thirds for court decisions and increases the minimum number of judges that must be present from 9 to 13 of the 15 judges. In addition, judges can be dismissed at parliament's request. On 16 January 2016, the European Commission launched a formal "rule of law assessment" based on Article 7 of the Lisbon Treaty. This assessment could lead to Poland losing its voting rights in the EU.

If the EU wants to be credible as an institution that allows member states to bind themselves to certain rules and commitment, the EU needs to be careful to act strictly within the limits of the powers that have been bestowed upon it. From this perspective, making the European Commission a more political actor as desired by the current Commission President is problematic and undermines the function of the European Commission as a guardian of the European Treaties. Since democratic legitimacy is indirect and derived primarily from the member states and the national political processes,²¹ it is of key importance to avoid the

impression that European institutions are acting beyond the remits of their mandates. This also applies to the ECB.

2.6 Conclusions

The current surge of populism in Europe and the US is a significant challenge not only for mainstream political parties but, more importantly, for the prosperity and political stability of advanced economies across the world. Implementing some of the policies they favour, particularly the dismantling of international trade agreements, would generate significant costs and may lead to economic crises that further undermine rational and balanced policymaking.

Many populist parties do raise important questions and issues. These include the widespread perception of increasing economic uncertainty, unfairness in the distribution of the costs of recent crises, particularly the financial crisis, and growing concerns about the economic impact of globalisation on parts of the population, as well as its implications for democratic control. However, the answers provided by the populist economic agenda are overly simplistic and partly based on false information. Of course, this is not to say that arguments made by mainstream parties are always based on an appropriate and balanced presentation of the relevant facts. Their economic policies can be shortsighted or dominated by electoral cycles too. In fact, populist policies are not limited to political parties usually classified as populist. Mainstream political parties sometimes pursue populist policies as well. In this respect populism is essentially a characteristic of the political process itself, not of certain political parties or politicians.

What can be done to stop the surge of populism? The complexity of the factors driving populism implies that there are no easy and simple answers to this question. Societies will need to counter populism at various levels:

vidual well-being against the march of globalisation, although he admits that this a tall order:

"[...] there is only a supranational form of co-operation that pursues the goal of shaping a socially acceptable political reconfiguration of economic globalisation. International treaty regimes are insufficient here; for, putting aside completely their dubious democratic legitimacy, political decisions over questions of redistribution can only be carried out within a strict institutional framework. That leaves only the stony path to an institutional deepening and embedding of democratically legitimised co-operation across national borders. The European Union was once such a project – and a Political Union of the Eurozone could still be one. But the hurdles within the domestic decision-making process are rather high for that" (Habermas, op. cit.).

²¹ Of course, the process of European integration could be seen as leading to an institutional setting where sovereignty is increasingly passed onto the EU level. Habermas, for instance, would have the EU cast itself in the role of supranational defender of society and indi-

1. *Politics*: It is important that the democratic political process leaves scope for disagreement among different people, groups, and political parties in society. At the same time, mechanisms for compromise, based on credible, transparent information and an articulate facts-based debate are needed. Disagreement and debates are fruitful. Too much consensus can backfire.
2. *Political decision-making processes*: Governments should refrain from using referenda as an instrument in the political power struggle. Referenda should provide an opportunity for political initiatives coming from the population, and their role should be clearly defined in the constitution. A drawback of referenda is that they usually imply isolated decision-making on single issues, rather than the comparison of comprehensive policy programmes.
3. *Economic policy*: Economic policy should recognise that political decisions and economic developments create winners and losers; and that the losers have a right to disagree. In most cases, however, the losers are difficult to identify and the losses are hard to measure. Those who think they are losing out should not be allowed to veto if a policy is expected to increase total welfare. Welfare states offer protection to those groups of society negatively affected by economic developments.
4. *Delegation*: Delegating clearly defined tasks and responsibilities to independent institutions like central banks or supranational institutions like the EU can rein in populism and allow the productive use of expert knowledge and judgement. The EU can be seen as a long-term commitment by its member states to adhere to fundamental principles of democracy, openness and the rule of law. Mainstream political forces should stop using the EU as a scapegoat for internal economic and political problems. Meanwhile, EU policies should be transparent and strictly adhere to the principle of subsidiarity. EU institutions, including the ECB, should strictly adhere to their mandate. The European Commission should focus on its role as a guardian of the European treaties. This is incompatible with making the Commission a more political institution.

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