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POPULISM

Origins and Alternative
Policy Responses

Andrés Velasco
Irene Bucelli
Editors



Press

Populism

Origins and Alternative Policy Responses

edited by

Andrés Velasco and Irene Bucelli



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David Soskice

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Introduction

Andrés Velasco and Irene Bucelli

In 1969, an influential volume arising from a conference at LSE began with a declaration phrased to echo Marx and Engels: ‘A spectre is haunting the world: the spectre of populism’ [1]. More than half a century has gone by, and the warning remains timely. Donald Trump may be gone from the White House, but populism is still a powerful force in world politics. From Mexico City to Manila and Mumbai, from Budapest to Brasilia and Buenos Aires, and from Ankara to certain party offices in Amsterdam and Athens, Warsaw and Washington, both the right-wing and the left-wing varieties of populism are alive and kicking.

Once an intensely contested concept, the meaning of ‘populism’ has recently stabilised. Jan Werner Müller defines populism as ‘a particular moralistic imagination of politics, a way of perceiving the political world that sets a morally pure and fully unified ... people against elites who are deemed corrupt or in some other way morally inferior [2].’ Very much along the same lines, according to Mudde populism is ‘first and foremost, a set of ideas focused on a fundamental opposition between the people and the elite’ and arguing for implementing something like a ‘general will’ of the people [3]. Framed in this way the populist label can apply to social movements, parties or political leaders. Recent years have witnessed an

upsurge in populist phenomena in many countries, raising questions about how they should be understood. Are the causes of populism economic or cultural? National or local? Is populism a threat to liberal democracy? If so, what kind of threat? And what can be done about it? This book brings together authors from a range of disciplinary perspectives, employing a variety of methods, to tackle these thorny issues.

One widely endorsed explanation of the populist surge focuses on economic insecurity as a root cause. Andrés Velasco opens the book by addressing the shortcomings of this view, with its implication that fixing the economy will result in an automatic setback for populism. This explanation has weak empirical foundations, since populism has surged in countries that can be considered clear winners from globalisation. It also assumes a simplistic, automatic relationship between economic changes and political outcomes. Exploring the debate between the ‘cultural backlash’ and the ‘economic insecurity’ hypotheses, the chapter underscores the mediating role played by identity in shaping the relationship between economics and politics. The key policy upshot from this analysis is that liberal politicians need to ‘practice identity politics’ in ways that promote values such as liberty, dignity, and mutual respect – providing an expansive definition of the shared ‘we’ in society, in contrast to the divisive ‘us’ versus ‘them’ rhetoric promoted by populists.

The recent populist surge in Europe and North America is often coupled with warnings that ‘democracy is dying’. But does mechanically linking populism and democratic decline make sense? Michael Ignatieff suggests that we need to understand the recent populist challenges to representative government and

the rule of law within the normal functioning of democracy. Populism can surely give rise to bad politics and policies. But it can also accelerate renewal in democratic systems, signalling wide discontent on issues on that otherwise often remain overlooked. Rather than necessarily being a sign of democratic collapse, some degree of conflict should be recognised as a constituent and necessary part of liberal democracy. Yet, of course, populist episodes do not always end well. In some cases that Ignatieff documents, populists have succeeded at dismantling the checks and balances needed for a functioning democracy. Here, instead of democratic renewal the result is a descent into authoritarian rule.

Within Europe Sara Hobolt and Catherine De Vries emphasise that the recent success of populist parties is not a new phenomenon, nor is it historically anomalous. It is useful to view populist parties as part of a broader group of 'challenger parties', new entrants that seek to disrupt the dominance of established 'mainstream' parties and have not yet played a role in shaping public policies. Both populists and challengers use anti-establishment rhetoric, issue entrepreneurship, unconventional modes of organising, digital campaigning and other similar strategies. Looking at populism in this way suggests three possible scenarios for the future of European party systems. They may fragment into smaller units as innovative challenger or populist parties gain traction. Alternatively, the new parties may overtake the previously established or dominant parties, replacing them completely – a rare event so far in Europe, but still feasible. Finally, the established parties may reinvent their appeal or organisation to counteract new entrants, in the process

taking up parts of the themes previously associated with populist or challenger parties.

The role played by social media in fuelling the recent populist surge is another much-debated phenomenon, which Gilat Levy and Ronny Razin explore from a new angle, relying on insights from behavioural economics. Most voters are unable to process large amounts of data and can fall into a particular bias called ‘correlation neglect’, which is a propensity to treat information sources as if they are (conditionally) independent. This effect contributes to polarisation and at the same time increases the randomness and unpredictability of moderate voters’ voting behaviour. These findings are consistent with new data on the evolution of US voters’ opinions in the last five decades, which show a significant change in the trajectory of the opinions of moderates versus extreme voters starting in the mid-1990s. This is consistent with the rise in the ability of campaigns to target voters through social media, exacerbating voters’ tendency to move into echo chambers and increasing the risk of political polarisation.

Local politics and uneven regional development played an important role in the populist surge, and the last two chapters of the book focus down on how this phenomenon operated in developed countries. The once prosperous but now ‘left-behind places’ that have experienced long-term economic and demographic decline form the focus of Andrés Rodríguez-Pose’s geographical analysis, which goes beyond the characteristics of individual voters. The discontent behind populist voting does not result simply from growing economic vulnerability, but also from people’s anger at their loss of status, and the perception that residents of left-behind places are considered ‘expendable’. This ‘geography

of discontent’ offers a more accurate explanation of recent trends, argues Rodríguez-Pose, than analyses connecting populism’s ascent to growing intrapersonal inequalities. This has clear consequences for policy: addressing the causes of anti-system voting requires re-thinking strong place-based policies.

The digital revolution in information technologies has spatial consequences, argues David Soskice in his chapter on England’s weak regional- and city-level policies, and they in turn help explain the rise of populist politics. Reducing the allure of populism requires a transformation of left-behind places, which in turn requires policy changes like a more interventionist approach to higher education management and introducing arms-length regulation over a private sector focused only on maximising shareholder value. Policy in England is still largely made in Westminster despite the new city-regions architecture now emerging. Policy ought to restart the ‘transmission belt’ of the ICT revolution, developing long-term plans based on city-regional agglomerations, with networks linking knowledge-based companies, research universities and city-regional administrations, and travel-to-work areas incorporating those ‘places that don’t matter’.

All the chapters here relate to very recent phenomena that are still rapidly evolving, and the Covid-19 pandemic in 2020–22 has changed or at least wobbled the picture significantly. Some recent analysis suggests that the challenges of dealing with the pandemic have reduced the appeal of populist parties and leaders in liberal democratic countries [4]. And indeed, many populist leaders grossly mishandled responding to coronavirus, and their popularity suffered as a result – among them Donald Trump in

the United States, Jair Bolsonaro in Brazil, Andrés Manuel López Obrador in Mexico, and Narendra Modi in India.

But the conclusion that the Covid-19 pandemic put an end to the populist pandemic may well prove premature. Populist movements, parties and politicians are particularly adept at manipulating and changing the narrative. Many of the 70 million Americans who voted to re-elect Donald Trump also believed that China, rather than failings in US policies, was to blame for the persistence of contagion in their homes and neighbourhoods. Moreover, satisfaction with the workings of democracy continues to erode in many countries, and that provides fodder for populists, both now and in the future. This will not be the last book seeking to ascertain both the causes and the consequences of populism. What the inter-disciplinary approach used here highlights is that the social sciences must ‘scale up’ and link across single disciplinary siloes if we are to understand and address the populist challenge to the stability of liberal democracies.

Original versions of these chapters were commissioned for an issue of LSE Public Policy Review (<https://ppr.lse.ac.uk>), a journal that encourages inter-disciplinary commentary on contemporary issues, based on frontier-level research. Some updates to the chapters have been made since they were first published in 2020 to reflect subsequent events.

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1. Populism and Identity Politics

Andrés Velasco

Over one-third of humanity lives under populist regimes – and many of those regimes are turning increasingly authoritarian. It is a worldwide challenge to liberal democracy. The conventional wisdom is that bad economics is to blame: the losers from globalisation are angry and voting populists into office is their revenge. The policy implication is a kind of *technocratic fantasy*: fix the economy and populism will fade away. That view has weak empirical foundations, since many emerging countries that are clear winners from globalisation have recently elected populists. In this essay I argue that we cannot understand the surge in populism without understanding the rise of identity politics around the world. Identity is the intermediate stopover in the two-way feedback between economics and politics. A focus on identity politics has important practical implications. One of them is that, to succeed in the fight against populism, democratic politicians have to learn to practice identity politics, but of the right kind. The challenge is to build national identities based not on nationalism or xenophobia, but on liberal democratic values.

Keywords

democracy; populism; rule of law; authoritarianism; inequality; identity; national identity

1. The Technocratic Illusion

Narendra Modi governs nearly 1,340,000,000 Indians. Donald Trump ruled over 330 million Americans. Add Brazil, with 210 million people and a populist president who makes Trump look like an apprentice. Add the 170 million Europeans who live under governments with at least one populist party in the cabinet.¹ Add Mexico, a country of over 130 million. And the Philippines, with 100 million. And Turkey, with nearly 80 million. And Poland, with 38 million. And Venezuela, with 32 million. And you can keep adding. Over one-third of humanity lives (or has recently lived) under regimes one can safely call populist – and many of those regimes are turning increasingly authoritarian. It is a worldwide challenge to liberal democracy.

Why is this happening? The conventional wisdom is that bad economics is to blame: the losers from globalisation are angry and voting populists into office is their revenge. The policy implication is a kind of *technocratic fantasy*: fix the economy and populism will fade away.

That view has weak empirical foundations. Countries like Hungary, India, Israel, Mexico, Poland, the Philippines and Turkey are clear winners from globalisation, and yet they have all recently elected populists. The conventional wisdom has been shaped by the experiences of the United States and the United Kingdom, where median wages have stagnated and income distribution worsened over the last three decades. Yet even in the US and Western Europe, the evidence that economic insecurity alone has fueled the rise of populism is inconclusive.

The conventional wisdom also has weak conceptual foundations. Of course economics matters, but there is no automatic

relationship between economic changes and political outcomes. Politics and culture mediate the effect of any economic shock—and they can also be an independent source of shocks. In this essay I argue that we cannot understand the surge in populism without understanding the rise of identity politics around the world. Identity is the intermediate stopover in the two-way feedback between economics and politics.

A focus on identity politics has important practical implications. One of them is that to succeed in the fight against populism, democratic politicians have to learn to practice identity politics, but of the right kind. The challenge is to build national identities based not on nativism or xenophobia, but on liberal democratic values. It is a tall order, but not an impossible one.

2. The Age of Innocence

Thirty years ago, history was supposed to have ended. Liberalism had won. The Berlin Wall had fallen and democracy, in the words of Yale professors Juan Linz and Alfred Stepan [1], was ‘the only game in town’. The liberal-democratic wave swept through Central and Eastern Europe and made countries like Poland, Hungary and the Czech Republic into poster children for liberal-democratic transitions. In Southern Europe, democracy and economic growth were flourishing again. Autarky, nationalism and military coups in Greece, Spain and Portugal seemed the stuff of decades past. Turkey was a working democracy and would soon become, many hoped, a member of the European Union.

In South Africa, the hideous apartheid regime was crumbling. A negotiated political settlement would soon allow Nelson

Mandela to move from prison to high office. In the New World the news was just as inspiring. Argentina, Brazil, Chile and Uruguay had recently returned to democracy. Soon, countries from Mexico to Peru would take steps toward this greater freedom.

How distant that moment now seems. Venezuela has slid back into dictatorship and Nicaragua is almost there. The shadow of far-right authoritarianism has reappeared in Italy, Spain, and Greece, while all over Southern Europe nationalists and demagogues call the European democratic enterprise into question. Something far more dramatic is underway in Central and Eastern Europe. Poland and Hungary are quasi-autocracies that trample on civil rights and pack once-autonomous institutions with government cronies. The same is true of Turkey.

Even long-established democracies are under stress. In the United States, Donald Trump repeatedly clashed with Congress and the courts. Narendra Modi, India's prime minister, openly disdains India's secular constitution. In 2020, *The Economist* criticised him 'for his apparent determination to transform India from a tolerant, multi-religious place into a chauvinist Hindu state'.

As Steven Levitsky and Daniel Ziblatt wrote in their 2018 book *How Democracies Die* [2], we tend to think the end comes with rolling tanks and machine gun rattle. But it need not be that dramatic: 'Democracies also die at the hands not of generals but of elected leaders (...) who subvert the very process that brought them to power. Some of these leaders dismantle democracy quickly (...). More often, though, democracies erode slowly, in barely visible steps.'

3. Defining Populism

So populism is a threat to liberal democracy. But what is populism? Economists, unsurprisingly, have defined the phenomenon in exclusively economic terms. Dornbusch and Edwards (1991) provided the now-classic definition: populism is ‘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 nonmarket policies’ [3].

But this definition seems ill-fitting when we consider most of the populist regimes that we see in place today. Instead, there is something we can call *political* populism, distinct from economic populism. Müller [4] and Mudde and Rovira [5] provide a useful definition: populism is a way of doing politics in which ‘the people’ are pitted in conflict against others – various ‘elites’, local minorities, immigrants, foreigners. Müller stresses populists’ moralistic interpretation of politics: those on the side of the people are moral; the rest are immoral, doing work the of a corrupt elite.

This means populism is not an ideology. It does not pretend to offer ‘complex [or] comprehensive answers to the political questions that modern societies generate’, and so both right-wing and left-wing types of populism are possible.

Instead, populism rests on a triad: denial of complexity, distrust of pluralism and anti-elitism. Most of us believe that social choices are complex, and that the existence of plural views about what to do is a natural consequence of this complexity. Populists deny this. As Ralf Dahrendorf once put it, ‘Populism is simple; democracy is complex’ [6].

Inevitably, then, populists do not believe in pluralism. Since there is only one right view – that of the people – so there is only one view deserving of political legitimacy. It follows that the complex mechanisms of liberal democracy, with all that delegation and representation, are unnecessary. Instead, populist leaders make the claim that they alone can represent the people, unchecked by other institutions or individuals.

Populism is also – crucially – a rebellion against various elites, including, of course, traditional political elites.² In *Politics as a Vocation*, his famous lecture of a century ago, Max Weber warned that a key risk for modern democracy was that a political class would arise, disconnected from voters and the common people. Well, that political class did arise. Now people are revolting against it.

The standard refrain is that citizens vote for that politician with whom they would like to have a beer. But rather than sharing a drink with the average voter, leading politicians spend too much of their time with others like themselves – bankers, business people, top civil servants, high-flying academics. To ascertain which politicians can be successful today, Yascha Mounk calls for a ‘inverted likeability test’: voters do not prefer the candidate they would rather have a beer with; they prefer the candidate who would rather have a beer *with them* [7]. Too many conventional politicians fail this test.

4. Politics Trumps Economics

What is behind the rise of populism? Why this new and powerful threat to the liberal-democracy, a political system that just 30 years ago towered triumphantly above all else?

The standard answer takes the economic perspective and focuses on the pocketbook. In countries like the United States and the United Kingdom, the distribution of income has worsened and the top 1% is reaping the lion's share. In places left behind by technological change and globalisation, people have lost their jobs and their patience. The 2008 global financial crisis not only caused much pain; it also reinforced the conviction that Wall Street is the enemy of Main Street. No wonder politics has become confrontational and populists have the upper hand.

If this narrative is right, the policy conclusion is simple: tax the rich, redistribute more income, and throw out the rascals who did the bankers' bidding. Populism will eventually fade away. This is an appealing story, but is it right? Should we base policy on it?

There is no shortage of empirical papers that have answered yes, purporting to show that, at least in North America and Western Europe, the forces behind populism are mostly economic. In their influential paper on 'China shock', Autor, Dorn, and Hanson contend that local US labour markets with a bigger trade exposure to China suffered large job losses, decreases in labour market participation and persistent unemployment [8].

Autor, Dorn, Hanson, and Majlesi found evidence that congressional districts with larger increases in import penetration became more politically polarised [9].³ In a companion paper, the same authors [10] related the change in the county-level Republican vote share to the growth in local labour markets' exposure to the China shock. They found rising import competition made Republican vote share gains more likely.

Using a similar methodology, but applied to Western European data, Colantone and Starnig argued that voters in regions with higher exposure to China shock were more likely to vote for a far-right candidate [37]. In the UK, argued the same authors in a later piece, more local trade exposure meant an increase in support for Leave [38]. There is also some evidence that increases in unemployment help explain rising votes for populist parties across Europe [11].

But that is not the end of the story. There is also an abundant supply of papers that single out culture and values, not economics, as the key explanatory variables for populism. In the aftermath of the 2016 US presidential election, American statistics guru Nate Silver noted that Hillary Clinton improved on Obama's 2012 performance in the overwhelming majority of the best educated counties, but lost ground in the least educated counties. Diana Mutz similarly concluded that 'Status threat, not economic hardship, explains the 2016 presidential vote' [12]. The title of another influential paper [13] points in the same direction: 'Vote Switching in the 2016 Election: How Racial and Immigration Attitudes, Not Economics, Explain Shifts in White Voting.'

In the UK, research by Becker, Fetzer and Novy, examining 382 local authorities, concluded that while education and demography are good predictors of who voted to leave the European Union, exposure to trade and the extent of budget cuts are not [14]. And evidence in favour of the 'cultural backlash' thesis is not limited to the US and the UK, argue Norris and Inglehart, who studied the performance of populist parties in 31 European countries [15]. They conclude: 'Overall, we find the most consistent evidence supporting the cultural backlash thesis.'

It is unlikely that the debate between the ‘cultural backlash’ and the ‘economic insecurity’ hypotheses will ever be fully adjudicated, and not just because of standard econometric difficulties related to identification. Disentangling direct and indirect effects is particularly challenging. It could well be, for instance, that economic shocks lead to changes in cultural values, which in turn increase support for populist parties. Conversely, changes in social or cultural norms – increased tolerance of labour market discrimination against immigrants or ethnic minorities is an example – could have economic consequences, which in turn could affect political outcomes.

Moreover, participants in this debate are not always very precise about what these competing hypotheses are supposed to explain. As Margalit has compellingly argued, the debate often confuses *outcome* and *explanatory* significance [16]. It could be that economic shocks shifted 4% of the UK vote toward Brexit. That is outcome significance, in that it focuses on the determinants of those few marginal votes that triggered the outcome. But is that what we need to explain? Perhaps not. Margalit is adamant about this: ‘The overall phenomenon to be explained is why 52% of the electorate voted to leave the European Union.’

So far the bulk of the formal evidence concerns the possible sources of populism in the prosperous countries of North America and Western Europe. Formal empirical research into the causes of populism in emerging nations is much scarcer. But the informal evidence available suggests a story that is rather different from that often told about the rich nations.

In the rich-country narrative, economic stagnation and the frustrations of the ‘left-behind’ take centre stage. In the emerging

world, by contrast, right-wing populism is thriving in countries with strong economic performances – which is just the opposite of what the ‘economic insecurity’ hypothesis would predict. India, the Philippines and Turkey have grown at rates between 6.5 and 7% since 2010. Poland barely suffered the effects of the European financial crisis and has been Europe’s growth champion, with an average per capita growth rate of more than 4% since 1992. The story in Hungary is similar: per capita income has been converging quickly with Western European levels. Or consider the neighbouring Czech Republic, where unemployment is the lowest in the EU and the economy grew 3.5% in the five-year period ending in 2019. The country has few immigrants and no refugee crisis to speak of. Nonetheless, populist parties attracted four of every ten voters in the 2017 legislative election – a tenfold increase in two decades.

So in these countries populism seems to have been the offspring of economic gain, not pain! India, Turkey, Poland or Hungary are winners from globalisation, yet they are going populist too!

There is one last prickly fact to consider: if surging populism reflected a demand for redistribution, we would expect the surge to be on the left, not the right. The left has seen some success, with left-wing populist parties governing in Argentina and Mexico, while Podemos has joined the cabinet in Spain. But in much of the world the story of left-wing populists is one of electoral failure, not success – including Jeremy Corbyn’s flop in the 2019 British elections. The spectacular success is that of right-wing populists, who often promise and enact policies that are likely to worsen the distribution of income, yet middle class and working class voters cheer them on.

Dani Rodrik has proposed an explanation to this conundrum [17]. He suggests that political consequences depend on ‘the forms in which globalisation shocks make themselves felt in society’. So in Latin America, where globalisation has involved massive capital flow volatility and frequent financial and debt crises, the populist backlash has been on the left. In North America and Europe, by contrast, where trade and migration have provided the central cleavage, populism is of the right-wing variety.

The hypotheses is intriguing, but it raises as many questions as it answers. Given the depth of the 2007–2009 financial crisis in North America and Europe, why did it not generate Latin American–style left-wing populism?⁴ Why have countries like the Philippines and Turkey, which look positively Latin American in their macro and financial instability, become poster children for right-wing populism? There is also the fact that Brazil, a country long affected by financial instability, is now governed by a right-wing populist. His economic agenda involves cutting back pension benefits, privatising state-owned enterprises and making Brazil more economically globalised.

None of this means to deny the intensity of economic grievances, whether in the north of England, the American rust belt, the shanties of Manila or the *favelas* of Brazil. The point is different: economics matters, of course, but politics and culture dictate how people process the experience of economic success and failure. The main conceptual shortcoming of the economic insecurity hypothesis is that it assumes a simple (and monotonic) mapping between economic outcomes and political behaviour. Such a mapping does not exist. Pre-existing social and value structures can cause economic ups and downs to have

very different political consequences – for instance, if an adverse economic shock causes a rise in unemployment, which prompts a turn toward populism in a divided society, but not in a cohesive one. A key role of politics is to manage grievances, economic and otherwise. The turn toward populism and authoritarianism suggests a failure of democratic politics to handle those grievances effectively. There is a one-word reason for that: *identity*.

5. The Identity Roots of Populism

Katherine Cramer is a political scientist who visited dozens of small towns in Wisconsin and spoke with hundreds of people in an effort to understand why the state was so politically polarised. She wanted to know why voters in traditionally left-leaning Wisconsin were supporting Scott Walker, a Republican governor with populist tendencies. What she found surprised her:

Perhaps issues are secondary to identities; perhaps when people vote for a candidate their overarching calculation is not how closely this person's stances match my own, but instead, is this person like me? Does this person understand people like me? The answers to those questions include a consideration of issue stances, but issue stances are not necessarily the main ingredient.

Scott Walker had built political capital by picking a fight with the state's public sector unions. Cramer found that most rural residents supported Walker not because of concerns over the budget deficit or the quality of public services, but because they viewed public sector workers as urbanites, who could not possibly have

the interests of rural residents in mind. A man milking cows blurted out: 'I'm glad Walker did what he did. It is about time someone takes something away from those bastards'. The bastards in question were public employees. After many conversations like that one, Cramer decided to call her book 'The Politics of Resentment' [39].

Wisconsin is not alone in the central role identity plays in politics. Look around the world today and you see identity politics everywhere. What Brexiteers, Catalan separatists, Russian nationalists and Islamic fundamentalists all have in common is that their politics are all about identity. India's Modi and Israel's Netanyahu have both found political profit in pitting one local identity against another. And what is the massive backlash against immigration if not the assertion of one identity over another? The more globalised the economy becomes, the more politics around the world is driven by the very local identities.

Of course many political parties in the West have long understood – and practised – identity politics. To be electorally successful, parties have differentiated their 'product' from that of their competitors. And in the past two or three decades, that differentiation has come not so much from economics but from other issues that are natural markers for identity: in the United States, Democrats became the party of racial equality, abortion rights, gay marriage, and liberal immigration policies, while Republicans the party of nationalistic pride, right-to-life, traditional values and tight immigration controls.

The reason why identity matters for politics is that identities are shared. In a 2018 book, Francis Fukuyama argues that 'individuals often want not recognition of their individuality,

but recognition of their sameness to other people' [18]. We also want that identity recognised and respected. Fukuyama reminds us that philosophers from Aristotle to Hegel placed the desire to be treated with respect at the centre of human motivation: 'identity politics is everywhere a struggle for the recognition of dignity'.

Populism has a great deal to do with this. To the definitions given above one can add: populism is a style of politics that *manipulates and exacerbates identity cleavages* for political gain. For the late Venezuelan autocrat Hugo Chávez, anyone who opposed him was an enemy of the people and an agent of the corrupt elite. Change *corrupt elite* for *menacing foreigners*, and that is also the rhetoric of Donald Trump. So populism is a kind of identity politics. It is always *us* against *them*.

Identity concerns also explain the anti-elitist element in populism. Elites have also been arrogant, often dismissive of the national identities that much of the electorate holds dear. Hillary Clinton's description of Trump voters as a bunch of 'deplorables' did not help her campaign. In Latin America, left wing intellectuals routinely depict middle class voters who lean right as consumerist social climbers who have sacrificed class solidarity in the altar of money-grubbing individualism. Recall Fukuyama's definition of identity politics as a demand for dignity. Well, elites have not treated some citizens with respect and dignity.

Identity politics is not an easy subject for economists. Until recently, economic theory did not make room for identity. Humans were supposed to have preferences but liking this and disliking that did not amount to a coherent whole that we could call an identity. Akerlof and Cranton set out to change this

[19–23]. They argued that, in a wide range of contexts, preferences are structured by individuals' choices of a social identity, and studied the economic implications of those preferences.

The identity approach helps us understand why people are willing to pay steep costs, pecuniary or otherwise, to buttress their identities. For instance, in American high schools [20], students who identify as *nerds* will study hard, while students who identify as *jocks* or *burnouts* will fail to study and underperform, even if that is costly, because such behaviour helps reinforce their identities and their self-esteem.

Acemoglu, Egorov and Sonin [24] and Di Tella and Rotemberg [25] argue that populist politicians adopt extreme and ultimately unsustainable policies as a way of signaling to voters that they (the politicians) are not in the pocket of powerful elites. So self-defeating economic behaviour is quite understandable once identity is accounted for. And populism certainly involves plenty of self-defeating economic policy choices.

Identity also creates feedback loops between individuals' beliefs and actions. For instance, as the share of people that identifies with a certain group goes up, so does the social pressure to identify with that same group and follow its codes of conduct. Alternatively, as in Gennaioli and Tabellini [26], identifying with a group can cause people to slant their beliefs toward the group's prevailing opinion. Or as in Shayo [27], people may choose the group they identify with and, once there, choose their actions in order to minimise the distance between their own attributes and the group's average attributes.

In this context of strong complementarities, small economic or cultural shocks can cause sizeable changes in patterns of

identification and hence in political preferences. This helps explain, for instance, sudden and sharp shifts in support away from traditional political parties and toward populist movements. Besley and Persson [28] study these issues in the context of a fully dynamic model, in which there is two-way feedback between identities and policies. When they allow for endogenous institutional changes, like the entry of new populist or nationalist parties, outcomes exhibit path dependence, with temporary shocks having persistent effects on the share of support for populist or nationalist politicians.⁵

6. Can Liberal Democrats Practice Identity Politics?

If identity is key to populism, and populism is central to contemporary politics, what can democratic politicians do in response?

To begin with, they can focus on some important issues they have long neglected. Take, for example, the plight of cities where de-industrialisation has destroyed jobs. Previously, the standard advice to residents of Akron, Ohio, or Gary, Indiana, was to move to California, where high-paying jobs are plentiful. Today, we understand that can be unsound advice, and not only for the obvious economic reason that the most educated and enterprising move away, leaving behind communities that struggle to sustain businesses and make ends meet.⁶ The combination of job losses and outward migration also weakens the local community, challenges shared identities, and causes the kind of malaise on which populists and demagogues feed. That is why place-based policies must be an essential component of the toolkit of a democratic policymaker.⁷

Identities also matter for the way policies are perceived. Take Emmanuel Macron's flop over gas levies in 2018. He did what any reasonable policymaker would have done: concerned with both global warming and local pollution, he proposed taxing diesel more. Before he knew it, the country was up in arms. That was the beginning of the movement of the *gilets jaunes*, who complained that the president and his friends live in Paris and ride the subsidised metro, while they live in the countryside, drive trucks and pay the taxes that finance Parisians' privileges. They felt that Macron simply did not understand them and their way of life. Warnings from the Elysée Palace about planetary responsibility exacerbated the feeling of disconnect. A leader of the *gilets jaunes* griped that the president was fretting about the end of the world while they worried about getting to the end of the month.

Convincing middle-class French voters that higher fuel prices were actually *good* for them was always sure to be an uphill battle. But Macron's background and style made it even tougher. Maybe it was the inevitable consequence of the president's background as an investment banker, his imperial style, or of the abolition of the wealth tax as the initial priority of his administration. Macron could have promised to return the fuel tax revenue to middle class families and businesses, but he did not. What might have been a narrow taxation row became an unwinnable clash of identities. In the end Macron had to back down. It was his biggest loss.

What else can liberal democrats do? They can also abandon the vain hope that simply by tweaking economic policies populism will go away. Better and bolder policies to improve income

distribution and enhance social mobility are the beginning of the road, not the end of the road. Populism is a political problem; it requires political solutions.

That is why the way forward cannot be merely technocratic. The title of a recent article by Sheri Berman [31] is spot on: ‘Populism Is a Problem. Elitist Technocrats Aren’t the Solution.’ Populist politicians are capitalising on the public’s dislike and distrust of technocrats. In the midst of the Brexit debate, minister Michael Gove exclaimed ‘people in this country have had enough of experts’. Donald Trump has said worse. Having experts and technocrats lead the countercharge against populism is exactly what populists hope for.

Katherine Cramer discovered in Wisconsin that voters look for a candidate who inspires trust, one who would make the choices they would have made if only they had had the time, knowledge and inclination to study and understand the issues. They hope for a candidate who is ‘like them’ when it comes to values and preferences. Macron comes up short here. So do most other liberal politicians. Liberal democracy has a personnel problem. Democratic parties need a revamped Human Resources Department with a new mandate: hire better and diversify your recruitment sources.

But a better HR policy alone will not do the trick. Something else must change: democrats must learn to practice identity politics – but identity politics of the right kind. Human beings cannot and will not do without narrow identities, which are the most firmly rooted. But there also exist broadly shared identities, which can serve as the basis for the sense of shared destiny that is at the core of good politics.⁸ As Michael Ignatieff [32] has observed, ‘national identity is a continual contest about who

belongs to the national *we*. Democrats must provide an expansive definition of that national *we*.

According to Paul Collier [33], the United Kingdom built that shared identity in the battlefields of the world wars, ‘an immense common endeavour in which leaders had crafted narratives of belonging and mutual obligation’. The legacy was to turn the nation ‘into a gigantic community, a society with a strong sense of shared identity, obligation and reciprocity’. But, laments Collier, in recent decades much of that was lost. Highly educated professionals in London came to feel they had more in common with their peers in Amsterdam or Paris than with working-class Britons in Sheffield (Collier’s home town), who in turn sought refuge in anti-EU English nationalism.

In the United States the process has been similar, but perhaps even more radical, with prosperous residents of the coasts looking down on the rest as mere ‘flyover country’, while rural dwellers and Southerners fall prey to a nativism based on ‘blood and soil’ – which is what white supremacists (the very same ones who Trump described as ‘very fine people’) chanted as they marched down the streets of Charlottesville, Virginia.

The only alternative to this chasm is a shared identity, a love of country based not on a misplaced sense of racial superiority, but on the fact that our homeland stands for noble universal values. Emmanuel Macron calls himself a proud French patriot because France gave the world *liberté, égalité, and fraternité*. Justin Trudeau likes to say that inclusive diversity is what Canada and the Canadian spirit are all about. These are examples of what the philosopher Jürgen Habermas has called constitutional patriotism. Yes, *patriotism*. Liberals need not be frightened by the word.

As early as 1945, George Orwell explained the difference between nationalism and patriotism: ‘By Nationalism... I mean the habit of identifying oneself with a single nation or other unit, placing it beyond good and evil and recognising no other duty than that of advancing its interests.... By “patriotism”, I mean a devotion to a particular place and a particular way of life, which one believes to be the best in the world but has no wish to force on other people’ [36]. Nationalism is toxic; patriotism is not. And the best kind of patriotism is one based on age-old values such as liberty, dignity, and mutual respect. Why not call it liberal patriotism?

Now the key is to root these abstract concepts in everyday experience. If leaders talk about inclusion but the everyday experience of citizens is one of discrimination, then the rhetoric will be of no consequence. American political philosopher Martha Nussbaum, in a book entitled *Political Emotions* [34], has argued that the key is to elicit positive emotions toward democratic institutions, and to do this through very concrete actions, words and rituals.

Think of Lincoln and Gandhi, suggests Nussbaum. The words they uttered, the clothes they wore and the rituals they designed fostered a broad and inclusive sense of republican *we*. Or think of Mandela: he donned the green jersey of the white rugby team for precisely that reason. It the best example imaginable of *liberal patriotism* – and of democratic and healthy identity politics.

7. The Way Forward

The standard account of the rise of populism – call it the economic insecurity hypothesis – is an inadequate description of reality. It does not fit the facts in emerging nations such as

Poland or Turkey. It has little relevance in Israel and India, where right-wing populism has clear ethnic and religious overtones. And it cannot explain the full story in the US and the UK or other advanced democracies, where support for nationalist and extremist forces goes well beyond people 'left behind' by globalisation.

The conventional wisdom also fundamentally misunderstands the nature of populism. Only once we understand the identity basis of populist politics can we single out the policies – place-based policies are only one example – that can be effective in fighting populism. A focus on identity also reveals that liberal democracy needs not only a better message but also better messengers, with whom voters can plausibly identify. Liberal democrats must not spurn identity politics; instead, they need to reinvent it, helping build strong national identities based on shared liberal values like dignity and respect.

Competing Interests

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Notes

¹ How Populism emerged as an electoral force in Europe. *The Guardian*, 16 November 2018.

² Müller [4] and Mudde and Rovira [5] agree that anti-pluralism and anti-elitism are two key features of political populism.

³ Trade-exposed districts with an initial majority white population or initially in Republican hands became more likely to elect a right-wing Republican, while trade-exposed districts with an initial majority non-white population or initially in Democratic hands become more likely to elect a left-leaning Democrat.

⁴ Bernie Sanders and Jeremy Corbyn are Latin American-style left wing populists, but so far they have remained far from power in their respective countries.

⁵ Path dependence also means that even if economic outcomes were to get better in countries governed by populists, this need not mean that the populists’ share of the vote, nor their political influence, will wane.

⁶ The main point of Autor et al (2013) is that, while the effect of trade exposure to China may be mild on average, it is anything but mild on certain cities and communities.

⁷ In different ways and appealing to different arguments, Austin et al. [29] and Rajan [30] arrive at this conclusion.

⁸ In the model of Grossman and Helpman [35], voters can choose a narrow identity or a broader national identity. When the latter is eroded, political pressures for protection from imports go up.

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2. Democracy Versus Democracy: The Populist Challenge to Liberal Democracy

Michael Ignatieff

The current populist challenges in western liberal democracies should not be seen as evidence of their decline, but as a constituent part. The history of democracy shows us that such challenges enable democracy's growth and evolution. As these modern conflicts and crises see populists seek to capitalise on the discontent of the people, it is evident that much of the conflict comes from tensions between the rule of law and majority rule. Elites seeking to preserve the liberal democratic system need to make their arguments in defence of the rule of law and democratic values, rather than assuming them to be self-evident. We should only become concerned over the fate of liberal democracy when the conflict moves from dialogue into physical violence, or as in Hungary, where the executive has dismantled counter-majoritarian checks. It is only then that the departure from democracy truly begins.

Keywords

Liberalism; Liberal Democracy; Democracy; Populism; Rule of Law; Authoritarianism

I

The present populist revolt targets two ideals that lie at the heart of liberal democracy – representative government and the rule of law. As Müller and Mudde and Kaltwasser have cogently explained, populists pit the popular sovereignty of ‘the people’ against the rule of the ‘establishment’, controlled by ‘self-serving’ elites who administer the rule of law and run representative liberal institutions [1, 2].

There is nothing new about such challenges from below. Throughout the history of democracy, radicals of the left and of the right have frequently adopted majoritarian arguments against the perceived political domination of the elites and their control over democratic institutions. From the agrarian revolts in late 19th-century America to the Poujadist challenge in 1950s France, populist revolts, often incited and led by skilled demagogues, are a common feature of the Western democratic tradition. They serve as a signal of discontent and can force elites to wake up and address issues of exclusion and inequality that have been ignored or left unaddressed.

The remedies populists propose are rarely effective or relevant, and this provides an opportunity for elites to regain control of the political agenda, if they are politically savvy. However, in restoring their control, they are usually obliged to make some concessions that address populist discontent. In this way, populism can be a source of renewal for democratic systems.

Conflict – especially populist challenge from below – is intrinsic to a healthy democracy. Even if such conflict polarises society, it does not necessarily mean democracy is in crisis, nor do such crises have to precipitate democracy’s collapse. However,

Ziblatt, Levitsky, Runciman, and Mounk (among others) have all warned that democracies can slip downhill from conflict to crisis and from crisis to collapse, and their arguments have been a bracing wake-up call to those of us who have taken democratic stability for granted since 1945 [3, 4, 5].

For all the talk about democracy dying, liberal democracy, at least in its heartlands of Europe and North America, is functioning normally. Democratic leaders are struggling, as they often do: to cope with popular distrust and discontent, to resolve conflicts among competing elites, to face the consequences of their failure to anticipate such crises and to pre-emptively engage with their causes. In other words, our leaders are dealing with all the ailments that the democratic flesh is heir to.

We fail to understand democracy at all unless we appreciate the extent to which conflict and crisis are a constituent and necessary part of it. The populist uprisings, whether Brexit, the Italian Five Star Movement, or Trump's re-imagining of America's Republican Party, certainly capitalise on democracy's discontents, but do not prove that democracy is dying. Instead, these challenges trigger arguments that are intrinsic to democratic life: what democracy is, who should rule, and why they should rule. They remind us that it is not the task of democracy to resolve these debates, but to keep them peaceful.

While maintaining civility and the pragmatic accommodation of disparate views are highly desirable features of a democracy, they are not necessary – democracies can still function without them. What democracy must avoid is violent civil conflict, political violence and declension into authoritarian rule. Thus far, Brexit, for example, has not been civil but it has not been violent.

Similarly, Trump's unfortunate reign was more incompetent than authoritarian. His refusal to accept the result of the 2020 election, however, did have the effect, whatever his actual intentions, of inciting right-wing followers to take the law into their own hands, with the storming of the Capitol on 6 January, 2021. For the first time, a sitting President appeared to condone, or at least did nothing to prevent, a direct attack on democracy and its elected representatives. While civil disobedience and political violence have been endemic features of American democracy, this was the first time that a populist challenge ended up with an assault on the Capitol itself, and more importantly, with democratically elected officials from one party actively condoning or even encouraging the assault. This takes the populist challenge to democracy in a new and worrying direction.

In a number of democracies, Hungary, Venezuela, Nicaragua, Turkey and the Philippines, a democratically elected populist has succeeded in dismantling checks and balances and consolidated a single party state. In Hungary, Viktor Orbán has done so, it must be said, not by political terror and violence, but by manipulating democratic consent enough to win four straight electoral victories. Even in Hungary, however, the story is not over. If we write off its democratic prospects, we are dismissing the democratic aspirations and civic capacity of as many as 40 percent of the Hungarian population – the size of the opposition vote in the last election – who long to return to the European democratic mainstream. Orbán is not Hungary's final destination. Democracies can die, but they can also be reborn [6, 7].

*

The Covid-19 emergency, grave as it has been, has demonstrated liberal democracy's intrinsic institutional strengths, while showing up the incoherence of the populists' distrust of experts and their weakness for telling aggrieved majorities what they want to hear. Epidemics are a time for truth, and they tend to punish the rhetorical exaggerations of populist demagoguery. It is too early to judge which societies and which democratic leaders managed the crisis well, but it is nearly certain that the list of those who did not do well will include two populists, the President of the United States and the President of Brazil.

Covid-19 has also shown that democracies can count on immense reservoirs of willing compliance if a crisis is seen to be sufficiently grave. To persuade people to stay home and self-isolate democracies did not need to put armies and police forces out on the street, as the overwhelming majority of citizens did so of their own accord. Even as citizens willingly self-isolated, they continued to scrutinise their leaders and their policies, vigorously debating how long these measures should last, what trade-offs should be made between economic life and public health, and who should be blamed for the failure to anticipate such a crisis. While some democratic leaders have been a tribute to democracy – they inform, they consult, and they act – others have failed miserably. In contrast to authoritarian systems, democracy has a remedy for such failure: free elections.

Authoritarian regimes like to claim they can act with ruthless dispatch but their governance in the pandemic crisis has shown a

preference for prevarication over efficiency. Such a performance by these regimes, hiding facts, manipulating statistics, and crushing dissent, will be unlikely to convert those living in functioning democracies to their cause.

II

As well as challenging the functioning of democracies, the current populist revolt is challenging our normative assumptions as to what being a democracy means. In our standard conception of liberal democracy, its liberal nature requires the rule of the majority to be constrained by the rule of law. In turn, the decisions made by democratic institutions acquire their legitimacy from two sources: the will of the people and from conformity to the law. These sources are supposed to be complementary. Power in a democracy expresses the will of the people while simultaneously protecting the people by being exercised in conformity with law.

Liberal democracy enforces a line of demarcation between the empire of politics and the empire of law. A line between the area of public decision-making that must be left to elected politicians, and the areas that must be left to courts and judges. A line between the exercise of popular sovereignty and the rule of law.

The populist challenge has exposed the extent to which these two empires – rights-based rule of law and majority rule – conflict. Instead of lamenting that populists are trampling on the previously well understood demarcations between law and politics, it is worth observing that these demarcations are always in question in any functioning democracy. They are simply more visible now.

Liberal democracy also contains a range of actors – lawyers, judges, politicians, civil servants and the media – who have distinct roles to play. Each of these professions, in defending their own professional prerogatives, are supposed to constrain the power exercised by the government in the people's name. Such competition ultimately protects the freedom of ordinary citizens, who retain fundamental authority over the elite through the sanction of regular elections.

Just as the rule of law implies a caste of professionally-trained jurists and bureaucrats who police the boundary between law and politics, so the idea of representation – the second constituent of liberal democracy – implies a professional caste of politicians who broker and interpret the interests and values of the majority.

Liberal democracy is 'elitist' in this sociological sense: it requires trained professionals to accomplish key democratic tasks. This is the feature of liberal democracy that populists most attack, but it is anything but obvious how a highly complex modern society can be governed at all, unless by a combination of trained elites and the people's representatives, with the latter ultimately held to account by the people. Attacks on elites may be popular, but are incoherent, and populists have no answer to the question of how to govern without expertise-based representation. This incoherence, however, does not mean that the argument does not have influence, so the real challenge for democracies is to ensure that elite recruitment is open to all and accountable – in some way – to the electorate, rebutting the presumption of an 'elite class'.

What populism has also laid bare is the degraded state of liberal democratic representation: the powerlessness of most elected representatives, their subservience to executive control and party discipline (at least in parliamentary democracies based on the British model), and the erosion of their capacity to represent the people who elect them. This shift of power, from the legislature to the executive, is a rarely acknowledged factor behind populist movements, with citizens feeling under-represented in the very institution supposed to represent them. In Britain, the adoption of a single, superficial populist mechanism – the referendum – was supposed to relieve this pressure, with expectation that the country would vote to remain a member of the EU, allowing the status quo to continue. Instead, it caused – and is causing – political chaos, a clear reminder of the axiom that referendums are a bad mechanism to resolve existential questions. The right way is to strengthen parliaments' hand against executive power, to weaken the grip of party discipline, and to enhance the capacity of representatives to understand and articulate the concerns of voters. The inevitable consequence, of course, would be that parliaments become less stable and less reliably controlled by ruling parties and their leaders.

The populist challenge extends beyond an attack on representative institutions to the sanctum of the law. Populists have capitalised on a truth: the rule of law is, for most people, an abstract fiction. To those who operate inside it – lawyers, judges and politicians – it is beyond reproach. To those on the outside, it can seem like a game played for the benefit of the insiders, with prohibitive barriers to entry and arcane rules that benefit nobody but the players. This populist critique of the rule of law

has brought home to liberals the reality that the rule of law is, for most, a remote ideal celebrated by elites, rather than a meaningful tool that protects the people's rights and freedoms.

Liberal democracy works when a majority of the public believes, more or less, that those professions who operate in parliament and in the courts are doing so for the benefit of the majority. The populist challenges to such elites, attacking their income, their privileges, and their expertise, have sapped the people's confidence that they are acting for the greater good.

In normal times, the guardians of law and politics respect the boundary that lies between them. For instance, when judges overturn a law, they usually take care not to be prescriptive about remedy, leaving it to political authority to determine how to fix the situation. However, this line remains a matter of legitimate dispute. Populist criticism about judges overreaching their authority, or attacks on the legitimacy of 'judge-made law' are a standard feature of political polemics in a healthy democratic society. We should not suppose that President Trump's fulminations against the courts, such as the court that outlawed his Muslim immigration ban, are unusual. US Presidents before Trump were also often dismayed to find their hands tied by the courts. Franklin Roosevelt was widely viewed as a populist of the left when he tried to 'pack' the US Supreme Court in 1938 to ensure passage of critical New Deal legislation.

The rule of law is not a sacred high altar before which all right-thinking liberal democrats should genuflect. Once seen as it should be, as a constantly contested terrain, it becomes less surprising that populists should attack the law and its supposedly anti-democratic aspects.

Over Brexit, the boundary between the empire of law and the empire of politics became a battleground. In the country that invented liberal democracy, influential voices argued that popular sovereignty should mean freedom from the undemocratic influence of 'judge-made law'. In a famous example of populist rage at judges, Britain's largest selling newspaper, the *Daily Mail*, denounced the high court judges who ruled against the wishes of the Brexit faction as 'enemies of the people' [8].

Equally at stake in the Brexit debate was whether the rule of law meant conformity to European-made law and international human rights law. Attacks on transnational and international law in the name of democratic sovereignty are a dominant feature of the populist revolts in Italy, Hungary, Poland and Britain. Across Europe, these populists argue, European law and European judges have too much power. For democracy to be renewed, it needs to be taken from the judges and given back to the people, so that the populist renewal of democracy requires enhancing the power of majority opinion. That is what the rhetoric of 'taking back control' means; this also implies privileging majority rule over the rule of law as the basis of democratic legitimacy.

All of this is a frightening development only to those who take international law's domestic legitimacy for granted. There are robust traditions, mostly on the right, that insist that law's legitimacy must be anchored in domestic national traditions of jurisprudence, rejecting the argument (most often proffered by liberals and progressives) that there are universal standards and norms that must be aspired to. Populism did not invent these conservative arguments: they merely used them as a rallying cry. In the process, populists have forced a belated recognition, at

least among some liberal elites, that the arguments for the legitimacy of international law and supranational legal supervision need to be made to fellow citizens, rather than assumed to be self-evident truths.

III

In the same way the boundary between law and politics in liberal democracies is fraught with controversy, so are the rules governing political competition between parties. In normal times, the political competition in democratic systems is a competition between adversaries, not a war to the death between enemies. As I have argued in *Fire and Ashes*, an adversary is an opponent today but a possible ally tomorrow [9]. An enemy can never be an ally, for he wants to destroy you. Even in ordinary times, it is difficult to treat an opponent as an adversary rather than an enemy when you are both in the midst of a competition for power. However, the stability of democratic competition depends on maintaining this distinction. A healthy democracy depends more than it realises on the salutary hypocrisies – ‘My honorable friend, etc.’ – in the politics of adversaries.

Despite this inherent difficulty, maintaining this distinction is easier during times of tranquility. In times of crisis – war, pandemic, depression – polarisation will erode the tacit trust and respect that regulates competition among elites and permits competitive institutions to co-operate. Not only does this fracture the combative but productive relationship among parties, it can fracture parties themselves, with leaders believing that they can only hold the party together (and resolve the crisis) by purging enemies within the party. This twofold fracturing can result

in legislatures becoming dysfunctional as the party systems that broker interests and ensure the legislative system functions break down altogether.

It is not surprising that periods of crisis result in polarisation. In modern conditions, in which technology forces the pace of decision-making and speeds up the feed-back loop of negative reactions, crisis management becomes endemic to liberal democracy. Our concepts of liberal democracy theorise a system at rest rather than under strain, but this ignores the reality that it is always under strain. Its legitimacy is performative – a permanent work in progress. Our expectations of ‘normality’ – expectations of stasis and equilibrium – make it difficult for us to identify when liberal democracy is truly in crisis, rather than being subjected to the vicissitudes inherent in being a liberal democracy.

A state of crisis would mean that the state's very legitimacy would be in question among such large numbers of people that an authoritarian challenge to the rules would become credible. This threshold of crisis is crossed when the political system is paralysed: coalitions cannot be formed, elections do not produce clear results, parties fragment. When such paralysis takes place the situation generates electoral impatience with checks and balances and with legal restraints on power. This produces demand for a politics in which a leader, acting as the voice of the people, will defeat the people's enemies at whatever cost to the democratic system itself. This is the moment of populist opportunity. The ambition of populist parties is to incite such an opportunity: they work to disrupt liberal democracy and to foster hostility towards the self-dealing elites who have

supposedly corrupted the representative function and who use the law to frustrate the people's will. Populism thrives on a politics of enemies. They take the crisis they provoke as a proof of the need for their authoritarian prescription.

If we need to distinguish conflict – normal – from crisis – abnormal, we also need to distinguish crisis from collapse. Here the crucial marker that points to collapse, and the crucial point about the kind of danger populism actually represents, is the likelihood of political violence.

In the Great Depression, economic crisis fragmented and destroyed the liberal constitutional system in Germany. Hitler rose to power by exploiting disillusion with Weimar democracy. Today in Europe, there is fascist language aplenty in politics, and fascist violence at the margins, but no fundamental threat to the stability of the political system itself. No political movement in Europe is overtly deploying brown-shirt private armies in the streets. The political violence that there has been so far occurs in isolation: the *gilets jaunes*, some unpleasant demonstrations in East Germany, racist attacks on Hispanics in the US. These are repellent phenomena, but none of this is organised political violence of the type associated with fascism in the 1930s. The Catalan challenge to Spanish democracy has been public, popular, *and* peaceful.

The attack on the US Congress on 6 January, 2021, however, takes the populist challenge to liberal democracy into new territory. For the first time, an attack on a democratic institution received support from elected representatives inside the institution itself. It remains to be seen whether this pattern of condoning anti-democratic violence persists. If it does, populism in the United States will become a direct threat to the constitutional order.

Elsewhere, in Europe in particular, the populist challenge has remained within the limits of the constitutional order. This absence of violence in the populist challenge to liberal democracy has occurred because the economic system has not visibly broken down. No populist political movement is actually mounting a real challenge to the constitutional order of liberal democracy itself. Wage stagnation, inequality, unease at large-scale migration, and erosion of the welfare state are all a source of discontent, but none of this has yet produced a movement seeking to replace liberal democracy with dictatorial rule.

There are, of course, no guarantees here. If the Covid-19 crisis is short and economic life resumes, democracy may not be damaged. Indeed, it may come out of the crisis stronger than before. If the economic crisis lasts and results in frightening hardship, then the 1930s should warn us that democratic collapse might become possible. Yet we should not assume that economic dislocation will necessarily precipitate democratic collapse. Whether economic dislocation combined with populist mobilisation against discredited elites leads to fascism turns on whether liberal institutions and the liberal professions prove strong enough to enact reforms that defuse populist anger. How this struggle will turn out will vary from country to country.

Leaders – or would-be leaders – in liberal democracies should also be wary of turning to authoritarian forms of governance as a remedy to their economic woes. Authoritarian regimes are no safer than democracies from the pressures of economic dislocation, and the ruling party may miss the release valve that elections in democracies offer to reduce this pressure. Instead, they face increasing resistance and resentment, but gradually run

out of enemies to blame. As they accumulate power, they gerrymander the institutional systems, bringing them under their control in perpetuity, forcing their opponents into the streets. Even if such authoritarians might wish to surrender power, they cannot do so, because they know the consequences may be imprisonment, or worse. Eventually, however, the nemesis of succession awaits them all, and then they will have to choose between surrendering to the inevitable or fighting to the last. This is logic that could transform them from authoritarian populist regimes into fascist ones.

Regimes like those of China, Russia, and now Hungary understand that an independent apparatus of the rule of law would threaten the very survival of the single party state. At the same time, these regimes understand that their own capitalist elites do not trust governments that have the power to seize their assets at a moment's notice. Hence these regimes allow their own native-grown elites to offshore profits and property in states, such as the United States and Britain, where rule of law does provide these elites with protection from seizure by their regimes back home. In this roundabout way, the rule of law in liberal democracies provides a stabilising mechanism for the single party regimes who are their geo-strategic competitors.

To return to where we started, the populist revolt against mainstream politics highlights tensions between majority rule and rule of law that are intrinsic to any version of democracy worth defending. Provided – and this is a big if – these questions are debated and resolved within the institutions of democracy itself, then the conflict is not a negative phenomenon, but a positive one, a sign of the inherent vitality of democracy. The real

threat to democracy occurs in two circumstances: first, when, as in the United States, constitutional political parties and their members aid and abet, or refuse to denounce, violence against the democratic system itself; second, when executive power, as in the case of Hungary, sets out to weaken the courts, the media, the universities, indeed, all the counter-majoritarian institutions of a society. Then, but only then, does authoritarian populist majoritarianism set a country on the path to a single party state and exit from democracy itself.

Competing Interests

The author has no competing interests to declare.

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3. Challenger Parties and Populism

Catherine E. De Vries and Sara B. Hobolt

The recent rise of populist parties across Europe has attracted much attention. But is this a new phenomenon? In this article, we argue that populist parties can be seen as a type of challenger parties, that is, political entrepreneurs without government experience seeking to disrupt the dominance of mainstream parties. We discuss how ongoing changes in European party systems compares with previous waves of challenger parties, including social democratic and green parties. We then present the core strategies used by successful challengers, namely issue entrepreneurship and anti-establishment rhetoric, as they mobilise issues that gives them an electoral advantage and attack the competence of the established political parties. Finally, we consider what the rise of challenger parties may mean for democracy in Europe.¹

Keywords

Anti-Establishment; Challenger Parties; Political Entrepreneurs; Populism

1. Introduction

Populist parties are on the rise across Europe, and the familiar patterns of European politics are undergoing radical change.

In recent years, we have witnessed the steady electoral decline of mainstream parties. This decline has been accompanied by the rise of political outsiders, both on the right and left of the political spectrum. These political entrepreneurs have gained electoral traction through their attacks on the political establishment and their deployment of new issues. The 2017 presidential elections in France are a case in point. Neither the candidate of the centre-left Socialist Party nor the candidate of the centre-right Conservative Party made it to the final run-off. Instead, the election became a contest between two challengers: Emmanuel Macron and his newly formed *La République En Marche!* party and Marine Le Pen of the radical right-wing National Rally (previously National Front). While both parties were challengers without previous office-holding experience, only one of these parties is what we would classify as ‘populist’, namely Le Pen’s National Rally. In contrast, Macron’s *En Marche*, which became the party in office, is a centrist and liberal force.

In this article we argue that, while populism is a distinct political phenomenon, most populist parties can also be classified within a broader category of ‘challenger parties’. By studying the recent rise of populist parties through the lens of challenger parties, we can place it in a broader historical context and identify the core strategies such parties employ.

Before we move to commonalities between challengers and populist parties, let us start with the differences. Challenger parties are those that have not (yet) had the opportunity to control policy or government [1, 2, 3]. If we conceive of the political marketplace as a struggle between long-standing dominant market forces or parties and disruptive challenger parties, the central

objective for both types of party is the control of office and the delivery of public policies. The aim is either to maintain power or to gain power. Parties in opposition may have some influence over the design of public policy through the legislative process, but ultimately it is the parties in government that control the provision of public policy. Hence, parties with no recent experience in office are in a fundamentally different position in the marketplace, a position that offers both opportunities and imposes limitations. There may be a number of reasons as to why parties have not had a controlling role in office. Pragmatically, they may be too small to form a meaningful part of a coalition government or may be newly formed; ideologically, they may be unwilling to make the necessary compromises to join a coalition government, or they may be seen as too extreme to be part of government by mainstream parties. This lack of participation means that such parties have every incentive to challenge the dominance of existing players through political innovation.

Most populist parties are also challengers, although some do end up in government. Yet the starting point for the classification of populist parties is not their structural position in the political marketplace, but rather an ideational approach that focuses on the shared ideological foundation of these parties. The most influential conceptualisations of populist parties have been put forward by Margaret Canovan [4] and Cas Mudde [5]. They rest on the understanding of populism as a thin-centred ideology. Populism separates society into two homogeneous and antagonistic groups, 'the pure people' and 'the corrupt elite', and holds that politics should be an expression of 'the general will' of the people. Because populism is a thin-centred ideology

based around this binary distinction, it is extremely malleable and can easily be integrated into another more complex host ideology, such as socialism or liberalism. This means that populist parties can be found on both the left and the right – or indeed the centre – of the political spectrum.

Much of the literature on populist parties in Europe has focused on populist parties on the right and has included *nativism* as a key element of populism [6]. Such definitions of populist parties are more ideological and include an emphasis on expressions of nativism and xenophobic nationalism. When nativism is often included as a core element of populism, the parties classified as populist are often seen as necessarily belonging to the ‘populist radical right’. Within this definition, the core features of populist parties are therefore anti-elitism and the belief in the homogenous ‘pure people’ and, for those on the radical right, nativism.

These definitions of populist parties take as their starting point the ideology of these parties, while our approach to challenger parties focuses on the position of parties within the system, as either challenger or dominant parties. We argue that we can learn about the recent rise of populist parties by first exploring what the current wave of populist challengers has in common with earlier waves, then by discussing two core strategies of contemporary challenger parties, before finally considering the implications for European democracies.

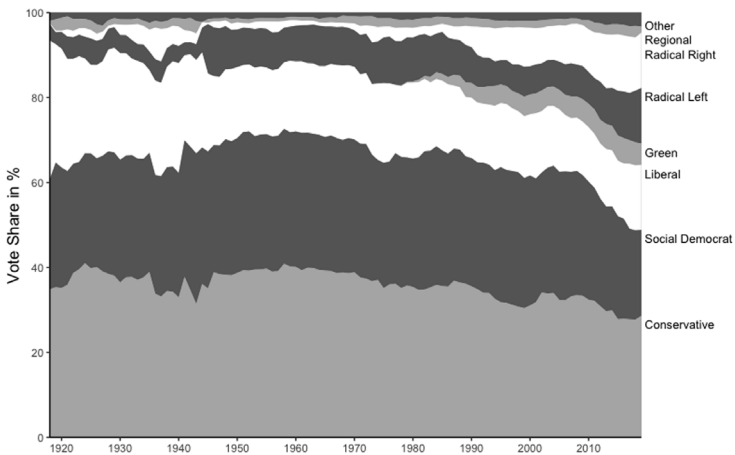
2. Waves of Challenger Parties

Are challenger parties on the rise? Media coverage of challenger parties, especially those on the populist radical right in

countries such as Austria, France, Italy, and the Netherlands, may have given the impression that the traditional European party systems have almost entirely imploded. Yet a closer empirical examination of this claim suggests that patterns of party competition are more stable than recent events would possibly suggest. If we plot the vote share by party families over the last one hundred years, we can see that the ‘traditional’ party families, the conservative/Christian democrats, the socialist/social democrats, and the liberals still dominate West European parliamentary elections from 1918 to 2019.

The picture that emerges from **Figure 3.1** is that the three major party families were dominant from the 1920s to the late

Figure 3.1: Party family vote shares



Note: Party vote shares between 1918–2019 taken from Benedetto et al. 2020 [7].

1970s, with party fragmentation beginning in the early 1980s and becoming more apparent over the last decade. However, even within this picture of relative stability, we can observe shifting patterns. The 1920s and 1930s saw the rise of the social democrats and, in some countries, the rise of the far right. In the post-war 1940s, stronger radical left parties emerged and the liberals went into decline. The 1980s can be characterised by the emergence of the green party family along with the radical right, while in the 2010s, the radical left and the radical right grew stronger as the social democratic party family waned. Each of these shifts represents a wave of challenges to the dominant political order, which have important parallels with recent developments.

At first glance, the current wave of populist parties on the right and the left may appear to have little in common with the most quintessential mainstream party family, the social democratic family. Yet, at the close of the 19th century, when they emerged as a challenger force in Europe, the social democrat parties also grew out of a division [7]. The divide was within the socialist movement, between those who insisted upon political revolution as a precondition for the achievement of socialist goals and those who maintained that a gradual or evolutionary path to socialism was both possible and desirable [8]. The dominant parties at the time were liberal, conservative, and Christian democratic parties, and to challenge their dominance, the social democratic parties employed many of the political entrepreneurial strategies that we see challenger parties using today.

First, they were issue entrepreneurs. They had radical objectives involving a complete restructuring of the economy and society through social revolution and the abolition

of classes. Second, social democratic parties were inherently anti-establishment in their rhetoric [9], given that as long as workers were denied full political rights, the ambitions of the social democratic movement were fundamentally at odds with the political establishment. They used both parliamentary and insurrectionary methods to achieve their core goal of workers' suffrage, including general strikes, all of which used rhetoric aimed at the establishment. Indeed, in the early years social democratic parties were considered a danger to the established political and economic system. In Germany, for example, Chancellor Otto von Bismarck attempted to outlaw the social democrats in 1878 for their pro-revolution, anti-monarchy sentiments.

As social democratic parties became more dominant in the early 20th century, their political strategies evolved. From being outsiders that had helped to define a new political battleground, they were now insiders trying to defend the status quo [9], having entered office and made universal suffrage a reality. This meant anti-establishment rhetoric became muted, with social democratic parties now committed to parliamentary democracy as a way of achieving incremental political change. Alongside this, many social democratic parties also formed coalitions with other parties, which had a moderating influence on their own policies and rhetoric. This growth in power, however, created a dilemma: the working class was not sufficiently numerous to guarantee electoral victory, but their social-democratic policies were intended almost solely to appeal to the working classes [8]. They chose the pragmatic route out of this dilemma, attempting to appeal to a broader electorate, diluting their original class-based policies [10].

By the 1970s and 1980s, the erstwhile challengers were preoccupied with protecting their now dominant position in the system against new challengers, on both the left and the right. On the left, a new wave of social movements and parties emerged across Western societies, campaigning on a 'new politics' agenda of ecology, disarmament, and self-determination. These left-wing parties achieved some moderate success in Western Europe but were also met by a 'silent counter revolution' [11] in the form of the rise of the populist radical right in the 1980s and 1990s and, more significantly, since the 2010s. This new crop of radical right-wing parties, such as the French National Rally, the Belgian Flemish Interest, the Austrian Freedom Party, the Italian League, and the Danish People's Party, among several others, have now established themselves as significant forces in West European countries. Therefore, while the presence of the populist right within Western politics is not a new phenomenon, the current popularity of it is, having risen notably in the aftermath of the financial crisis and the Great Recession.

However, while these new-wave populist radical right parties share some of the attributes that characterised the earlier fascist movements, they generally have not taken up the explicitly racist and anti-democratic values that lie at the heart of fascism. Instead, this current wave of radical right parties shares with their forebears an ideological core that is orientated around nativism, authoritarianism, and populism.

Of these three elements, the current radical right parties tend most consistently towards populism, emphasising the division between the people and the corrupt elite alongside the use of anti-establishment rhetoric. As well as targeting the elite (at

both a national and international level), their electoral strategy involves taking a hostile stance towards immigration. This coupling of anti-establishment and anti-immigration rhetoric has been highly successful, with the Freedom Party in Austria achieving over one quarter of the vote in 1999 and in 2017 and the Swiss People's Party consistently winning a similar percentage since the early 2000s, while the French National Rally reached the second round of the presidential elections in 2002 (Jean-Marie Le Pen) and in 2017 (Marine Le Pen), and the Italian League won 17% in Italy's 2018 national election. Other radical right parties, such as the Danish People's Party, Flemish Interest in Belgium, and the Party of Freedom in the Netherlands, also regularly attract more than 10% of the vote.

As a party family, these populist parties have therefore performed far better electorally than their counterparts in the green party family. However, despite this numerical success, they have generally struggled to gain influence through the exercise of power in office, because they have been seen as unpalatable coalition partners. Most of the radical right parties have therefore remained challengers, although there are notable exceptions, such as the Freedom Party in Austria and the League in Italy.

3. Which Challenger Parties Are Successful?

The current success of the populist parties is not historically anomalous. The existence of challenger parties is not a new historical phenomenon, and as discussed above, some of these challenger parties have even gone on to become the dominant players in our current political system. Yet while

the social democrats, when challengers, faced dominant parties that had a strong support base, the new populist challengers do not face such an imposing opponent, with the current dominant parties having waned in influence over the past decades. Voter fidelity to the traditional parties has diminished as a result of large-scale societal changes, such as the decline of religiosity, the waning membership in trade unions, or the increased participation of women in the labour market. As a consequence, traditional political parties of the centre that used to dominate elections are struggling to maintain their dominance and are being forced to confront the fact that continuing to play by the old rules may no longer work. Their failure is at least in part due to the agility of the political entrepreneurs, who can challenge the dominant parties by adapting to voter desires more quickly, challenging the status quo, and distinguishing themselves from their dominant competitors without incurring significant risk.

While it is theoretically possible for dominant parties to respond by also shifting their policies to meet the new political reality, doing so is more of a gamble for these parties. Challenger parties have little to lose by innovating, as they are usually either newcomers or holding marginal positions. Even a small increase in votes would be an improvement. In contrast, dominant parties owe their position in part due to the positions they have taken on the existing issues, which voters therefore associate with them, and on the basis of which activists join the parties. Engaging in policy innovation entails the risk that voters, activists, or coalition partners will push back, perhaps driving a wedge within the membership or leading to

defections [3]. Innovation may therefore cost more votes than it attracts.

Not all challenger parties have succeeded. Indeed, the vast majority are like start-up firms in the economic market: agile but destined to fail. The key question therefore is when and why do some challengers break through? Challenger parties are most likely to break through when they employ a twofold innovation strategy: (1) they introduce issues that can drive a wedge between established coalitions and within dominant parties, something we call *issue entrepreneurship*, and (2) they use *anti-establishment rhetoric* to weaken the competence advantage of established parties.

Innovation is only going to be successful when competitors cannot copy a party's innovation, with widespread imitation diminishing its electoral benefits. We therefore expect challenger parties to emphasise issues that allow for a high degree of appropriability – that is, those issues that are not easily subsumed within the dominant political dimension (the left-right dimension in West European party competition) – and that may have the potential to internally split dominant parties. It is because of this risk of creating internal factions in their party that dominant parties are likely to steer clear of them, enabling challenger parties to carve out a unique appeal to voters around this issue. Policy issues relating to European integration, immigration, and the environment have high appropriability in the European context. All three issues also have the potential to cut across the dominant dimension of political conflict in Western Europe and are not easily aligned within the left-right dimension.

While in the economic market, firms have legal means, such as copyrights and patents, to appropriate their innovation, political parties have to rely on other means to prevent imitation and to stay ahead of competitors. A first-mover advantage refers to the situation in which the first entrant on the product market gains a competitive advantage through control of resources. In the political context, a party that engages in successful political policy innovation can enjoy an effective monopoly on the issue and reap the consequent electoral benefits. Although rival parties may try to imitate a party's innovation, doing so is likely to take time, and this delay may be costly, with the lag-time giving innovators the opportunity to 'own' the issue, which will have attracted susceptible voters who may have already developed a loyalty to their brand. The risks of copying such innovation for dominant parties are even greater, with challenger parties likely to brand them as copycats, using the dominant parties' assumption of their policies to discredit them. Thus, first-movers can initially be rewarded with huge profits and a monopoly-like status.

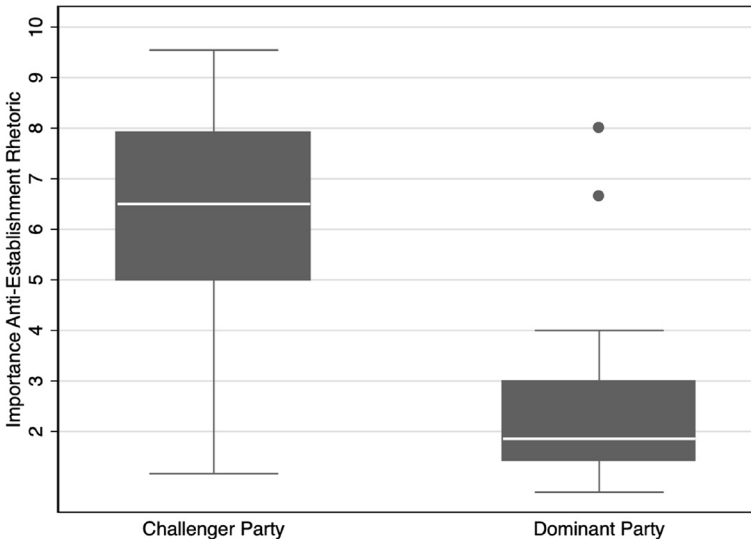
The risks involved mean that parties with market power have little incentive to innovate. But when the innovation of challenger parties looks successful, they might just respond by copying their innovation [12]. Yet this strategy may be risky for dominant parties, as challenger parties are likely to try to protect their first-mover advantage by discrediting dominant parties through branding them as copycats. In addition to using issue entrepreneurship to mobilise new issues and to attack

dominant party policy, anti-establishment groups will also seek to devalue the dominant party's 'brand' as a whole. Within such rhetoric, challenger parties will seek to condemn the ruling classes as an elite pursuing only their own self-interest. This strategy helps ensure that dominant parties find it difficult to respond to or co-opt their positional innovation and to increase the chances of challenger parties achieving their potential for growth.

The use of anti-establishment rhetoric does not necessarily mean the challenger parties are populist, however. While populists frequently use it to inculcate an anti-elitist attitude amongst the electorate, and so gain electoral support, populists also repeatedly contrast the homogenous in-group (the people) [5] with the corrupt out-group (the elite) [6]. Therefore, while there is clearly some overlap between anti-establishment and populist rhetoric, the former is more encompassing. While all populist parties are anti-establishment, not all parties that employ anti-establishment rhetoric are populist. Anti-establishment rhetoric is a more general political strategy used by challenger parties to protect their innovations.

As an illustration of this, **Figure 3.2** uses the Chapel Hill Expert Survey to show that challenger parties are more likely to engage in anti-establishment rhetoric compared to dominant parties. In other work, we provide in-depth quantitative and qualitative evidence to describe the differences in the use of issue entrepreneurship between challenger and dominant parties based on extensive analysis of party manifestos, party expert data, as well as voter surveys [1].

Figure 3.2: Anti-establishment rhetoric of challenger and dominant parties



Note: Chapel Hill Expert Trendfile, Bakker et al. 2015 [13].

4. What Are the Consequences for European Politics?

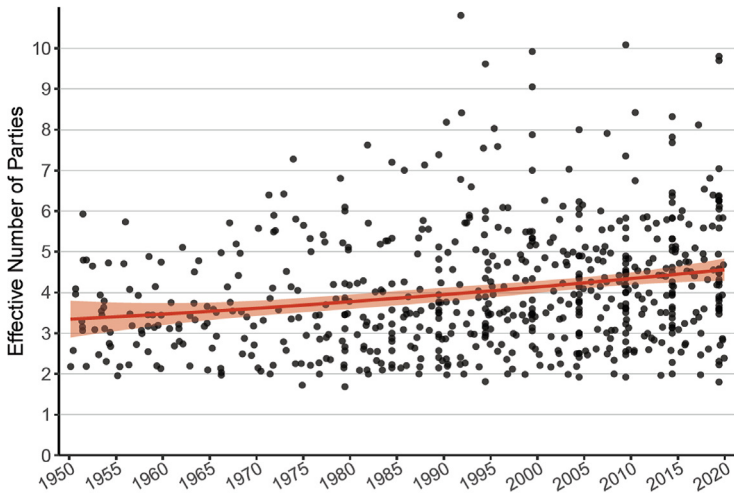
The successful innovations of challenger parties can have significant effects on national politics. The most obvious change that successful challenger parties can bring about is to the composition of the domestic legislatures, as challengers capture a growing share of the electorate. But there are more subtle underlying changes that occur alongside such changes to the legislative make-up. Some voters begin to prioritise different issues, in line with the issue entrepreneurship and anti-establishment strategies employed by challenger parties, while others may feel as though their views are more effectively represented as a result of the greater choice available. Challenger parties

therefore bring about greater choice and may increase feelings of representation.

Yet the rise of challenger parties might also have disruptive effects. A more fragmented and polarised party system makes it more difficult to form coalitions, as well as making coalition or governing agreements less stable. This is particularly the case if polarisation occurs along multiple dimensions. In part this fragmentation is a result of the greater electoral choice that challenger party innovation brings, which often mobilises citizens to be politically engaged, because they are more likely to feel that there is a party that represents their views in fragmented and polarised systems. This means that in political systems that have greater ideological diversity, often through challenger party competition, citizens are also more likely to turn out to vote, with the broader voter participation destabilising the dominant parties and the traditional forms of government.

Figure 3.3 illustrates this rise of fragmentation by plotting the average effective number of parties (ENP) over time in European party systems. The ENP measure captures an adjusted number of political parties in a country's party system, weighted by their relative strength in seat share [14], and **Figure 3.3** clearly shows that fragmentation has increased from around 3.5 effective parties in the immediate postwar period to above 4.5 today. Much of this increase is due to the successes of challenger parties.

As these challenger parties succeed, the fracturing of the political system may lead to less effective government and, in turn, to lower satisfaction with the political system. This fracturing is due to the fact that challenger parties often struggle

Figure 3.3: Party system fragmentation over time

Note: The figure shows the effective number of parties (seats) by election for all EU-27 countries and UK, Norway, Iceland, and Switzerland.

to enter into coalition, with the compromises necessary to do so requiring them to fudge their anti-establishment identity, which has been a core part of their electoral success. As such, vulnerable governments tend to result from such electoral outcomes, and they then struggle to deliver their policy promises, exemplifying the tension that exists between representative and responsible government.

What does the rise of challenger parties mean for the future of different European party systems? Of course, no one can predict what will happen in European party competition, as there are simply too many unknowns in politics. What we can do is outline three possible scenarios for the future:

- (1) *Fragmentation*: A situation in which more challenger parties successfully compete in elections and the market power of dominant parties wanes as many more parties can command a significant share of the vote.
- (2) *Replacement*: A situation in which challenger parties overtake the market position of the previously dominant parties and are transformed into the new dominant players on the political market.
- (3) *Reinvention*: A situation in which dominant parties faced with the electoral success of challenger parties revive their market power by successfully reinventing themselves to increase their voter appeal.

4.1. Fragmentation

Market fragmentation in economics denotes the idea that markets are diverse and that with time they are likely to break up into distinct groups of customers, or different fragments. An innovation brought onto the market by a disruptive entrepreneur will initially solve the needs of most early adopters, yet over time customers will become accustomed with the new product. As more and more customers adopt the product, the need for more unique product features and benefits arises. As the novelty of the initial innovation wears off, depending on the loyalty that customers have developed towards the brand, they will either stay put or move on to the next big thing.

In the political market we are witnessing a similar process, as shown in **Figure 3.3**. Over the last few decades, voters have become less attached to the dominant parties and are more volatile in their

choice of which party to support. Voters resemble picky consumers who are willing to substitute one product over another when they think the quality is higher. Challenger parties have used this window of opportunity to innovate politically, and some have been electorally successful. The political marketplace in virtually all Western European countries has become more fragmented in recent years in the sense that more political parties compete and a larger share of them attract a significant voter following.

One of the clearest examples of such a fragmentation scenario is the Netherlands, with Dutch politics having seen some of the most electorally successful challenger parties to date. While in the 1960s and 1970s Dutch politics witnessed the birth of a set of challenger parties on the left of the political spectrum, since the early 2000s the rise of challengers has been primarily on the right.

The first right-wing challenger party emerged in the aftermath of 9/11, with the political entrepreneur Pim Fortuyn and his eponymous party, the List Pim Fortuyn (PFL), shocking the Dutch political establishment with outspoken rhetoric against immigration and Islam. While the PFL collapsed after Fortuyn's death and a brief, chaotic period in office, their success presaged the future volatility of Dutch politics. In 2006, Dutch voters moved to Geert Wilder's Party for Freedom, which sought to trump Fortuyn's legacy by hardening anti-immigration rhetoric. After a decade as a leading challenger party, Wilders' innovation and appeal started to wane, and it was supplanted by Thierry Baudet and his Forum for Democracy, who entered the Dutch Parliament in 2016. The need to differentiate himself from Wilders meant that Baudet had to move even further to the right,

adopting ultra hard-line conservative views that put forward a ‘Dutch First’ message with rhetoric that critiqued feminism and the liberal Dutch establishment, claiming that both have served to undermine Dutch civilisation.

After the initial innovation by the first successful far right challenger party on the Dutch political market wore off, the subsequent challenger parties have needed to add new elements, such as a stronger anti-European focus and a more encompassing anti-establishment rhetoric, to be successful. Fragmentation has increased as a result. This has meant that forming stable governments that can pass laws by commanding a majority in both parliamentary chambers in the Dutch context has become increasingly difficult. While the Dutch case is perhaps one of the clearest examples of fragmentation and its consequences, we are witnessing similar trends in many other countries in Western Europe.

4.2. Replacement

While fragmentation seems a very likely future scenario for party systems in Europe, there are other possible scenarios. One is replacement. The replacement scenario comes close to the notion of ‘creative destruction’ developed by the Austrian economist Joseph Schumpeter [15]. It refers to the idea that firms that once revolutionised product markets through innovation are themselves replaced by rivals who have launched new products and/or improved on the design or delivery of existing ones. In recent years we have witnessed the dramatic decline of some dominant parties as they have been usurped by their challengers.

One of the clearest examples of replacement can be found in Greece, where the once dominant social democratic party, the Panhellenic Socialist Movement, PASOK, collapsed and was replaced by its challenger, Syriza.

PASOK was part of the coalition government responsible for the unprecedented austerity measures taken in response to the sovereign-debt crisis that hit Greece after the Great Recession. From 2008 to 2015, the party went from being the largest party in the Greek parliament, winning over 40% of the popular vote, to being the smallest party, receiving less than 5% in January 2015. It was ultimately forced to merge with a new party, Movement for Change, in 2018.

As PASOK declined, Syriza, the left-wing populist challenger, rose, becoming the leading party of the Greek left-wing during the country's sovereign-debt crisis. Syriza was not a new challenger party, having been formed in 2004, but 2012 saw their first meaningful electoral success: they became the main party of the opposition, with 36% of the vote. This rise continued in 2015's snap election, when they became the largest party, holding 149 of the 300 seats and going into coalition government with a right-wing populist party, the Independent Greeks. In both elections, Syriza's anti-austerity and anti-corruption platform was amalgamated with an anti-establishment perspective (seen most visibly in their opposition to the EU), allowing them to take advantage of the political upheaval and win power, supplanting their dominant counterparts.

The Greek experience demonstrates how successful challengers can replace dominant parties, but also how difficult it is for them to do so. To replace a dominant party, challengers

need significant external events, like a deep economic recession, to tarnish the dominant party's brand to such an extent that it loses all credibility and much voter support. To win and retain power, they also need to successfully navigate the transition, which requires them to actually create and implement policy, rather than simply levying criticism from the side-lines. As these challenger parties try to adapt to their shift to insider status, the changes often spark internal power struggles over the direction and strategy of the party, creating long-term difficulties for the sustainability of the challenger party as a party of government.

4.3. Reinvention

A third and final future scenario is reinvention, with dominant parties reinventing themselves around the issues they already own. Much has been made in Europe about the decline of traditional political powerhouses. Secularisation and the shrinking size of the working class has led to predictions of the inescapable decline of Social Democratic and Christian democratic parties. While structural changes are without a doubt important, we argue that parties are not powerless in the face of them and that they have strategies they can use to respond to a changing electoral landscape.

There is evidence of this in some countries, with formerly dominant parties revived and returning to power, as occurred in Spain. The 2019 Spanish parliamentary election saw the rise of challenger parties, with VOX, a hard-right populist party, breaking through. But it also witnessed the revival of the Spanish Socialist Workers' Party (PSOE), Spain's oldest active party, led

by Pedro Sánchez. In 2018, the PSOE only had 84 of the 350 seats in the Spanish Parliament, with the conservative People's Party, led by Mariano Rajoy, in power. Corruption charges were levied against Rajoy's government, resulting in a vote of no confidence passed against his administration and Pedro Sánchez becoming prime minister in June. Sánchez governed firmly on the left, with his ambitions focused on the creation of jobs, greater redistribution of wealth, and remedying social injustices.

Such left-wing ambitions resulted in a number of Catalan parties withdrawing their support for the PSOE's budget in February 2019 and in Sánchez calling a snap election for April 28. During the campaign, the socialists stuck to their left-wing narrative, building upon their historical legacy as the defenders of Spanish democracy. They coordinated this rhetoric with attacks upon VOX and other right-wing populist parties, claiming that they evoked the 'spectre of Francoism'. The return to the firmly left-wing economic narrative by the PSOE made it difficult for a populist challenger party on the left, Podemos, to ride to power upon a wave of anti-establishment sentiment. The result was that the two left-wing parties, dominant and challenger, entered government in coalition.

The social democratic recovery of the PSOE illustrates how dominant parties can regain market share and how they can use the electoral threat posed by challengers to reinvent their party. Only time will tell how long Sánchez's success will last and whether social democratic or Christian democratic parties in other European countries can follow suit and revive their electoral fortunes to pave their way to back to political office.

Each of these future scenarios is likely to become political reality in some European party systems over the next decades. Fragmentation is perhaps the one already most visible in parliaments across Europe. Populist parties are growing, carving off voters from the dominant parties and occupying seats in the legislatures. Even in party systems with relatively high levels of two-party concentration, such as Spain's, we are now witnessing high levels of fragmentation and challenger party success. Replacement is still a relatively rare phenomenon in post-war Western European party politics, but it is likely to become more common as challenger parties enter power and crowd out erstwhile dominant parties. But in cases where the brand of dominant parties has not been tarnished beyond repair, there is also plenty of scope for reinvention.

Competing Interests

The authors have no competing interests to declare.

Notes

¹ Parts of this paper draw heavily on our book *Political Entrepreneurs: The Rise of Challenger Parties in Europe* (Princeton University Press, 2020) [1].

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4. The Rise of Populism and the Revenge of the Places That Don't Matter

Andrés Rodríguez-Pose

Populism is on the rise, especially in the developed world. It has gone from being a force to be reckoned with to becoming one of the main challenges for society today. But the causes behind its rise remain hotly debated. Many of the economic analyses of the ascent of populism have focused on growing inequalities – both from an interpersonal and territorial dimension. In this essay, I argue that the rise of the vote for anti-system parties is far more related to the long-term economic decline of places that have seen far better times and have been disadvantaged by processes that have rendered them exposed and somewhat ‘expendable’ than to increases inequality. Fixing this type of ‘places that don’t matter’ is possibly one of the best ways to tackle anti-system voting. This will imply the implementation of well-targeted place-sensitive policies, going beyond the traditional wealthy and less developed places that have attracted the bulk of investment and considering long-term economic trajectories.

Keywords

Populism; Inequality; Economic Decline; Development Strategies

Introduction

From Hungary and Poland to Great Britain and the USA, from Austria and the Netherlands to Germany and France, from Thailand and the Philippines to Argentina and Brazil, election after election, populism has been on the rise. Voters around the globe are becoming disillusioned with a 'system' that they consider is delivering less and less for them so they are turning to anti-establishment options that offer allegedly straightforward solutions to their problems.

Why is populism on the rise? Why are voters tiring of mainstream parties? The rapid growth of anti-system voting has attracted swift and copious academic scrutiny, but the reasons explaining this phenomenon remain hotly debated. In the developed world, and in particular after the Brexit referendum and the election of Donald Trump, the majority of research has primarily considered the characteristics of individual voters in seeking to explain the rise of populism. Much of this research has suggested that it is older, working-class men on low incomes and with few qualifications, struggling to cope with the challenges of a modern economy, who are the archetype of the anti-system, populist voter [7, 22, 26]. Facing both a seismic cultural shift [45] and rising economic insecurity [18, 31], such individuals are deserting mainstream parties and moving in droves to anti-establishment options at both ends of the political spectrum, but mainly to the extreme right. Religious, cultural, ethnic, or national divisions, often associated with the arrival of immigrants, have also featured prominently [53], with anti-system parties demonising the 'other' – whether Muslim minorities, asylum seekers, refugees, or the supposed elite – to achieve their electoral objectives [53].

Beyond the focus on the individual characteristics of those left behind, a different type of explanation is emerging with force: that which traces the origins of the shift to the political extremes not to individuals but to the rise of interpersonal and territorial inequalities and, more specifically, the decline of places that have seen better times. This is what I call the revenge of the ‘places that don’t matter’ [51]. The inhabitants of cities, towns, and regions that have suffered long-term economic and industrial decline, often alongside employment and demographic losses, are faced with few opportunities to prosper and so have resorted to the ballot box to express their discontent, resentment, and anger with a system they perceive as offering them no future.

The rise of populism has pitched defenders of cultural explanations against those who consider that the recent shift is fundamentally driven by economic transformations and woes [18, 39]. This distinction has triggered considerable discussion about which explanation, if at all, prevails.

Within the realm of economics, however, a different but equally important disagreement exists between those focusing on economically vulnerable individuals [e.g., 22, 31, 54, 56] and those putting emphasis on left-behind regions [15, 30, 51]. This is a divide that, despite remaining in the background, is fundamental. A focus on left-behind regions helps understand why it is not the very poor that are threatening the political system but the large numbers of still relatively well-off people – often seen as the threatened middle classes – still living relatively comfortable lives but in declining places.

In this essay I argue that the recent rise of populism across the world, while increasingly cast as a tale of two inequalities, is not

really a result of rising interpersonal or even territorial inequality but of the revenge of people living in places that have seen far better times. In the face of dismal economic trajectories and prospects, these are the people who are tilting the political balance and threatening the future of the economic and political systems that emerged from the post-World War II consensus.

The Rise of Populism

Populism is not a new phenomenon – it dates back to the early 20th century. Parts of Europe and North America saw the emergence of different types of populism, much of it associated with the deglobalisation that took place in the aftermath of World War I, which saw the return of economic nationalism [21]. This move towards populist movements was later echoed in South America, with populism in Argentina and Mexico planting its roots during the 1930s and 1940s. More recently, populist parties have dominated Thai politics since the turn of the century, while the origins of populism in some European countries, such as Hungary and Poland, can be traced to the aftermath of the collapse of communism. However, while events in Thailand and later developments in Hungary and Poland were striking, it was the Brexit vote on 23 June 2016 and the election of Donald Trump on 8 November 2016 that opened the floodgates for populism in the developed world. Since then, almost every election in the Western world has seen the pro-system parties pitched against the rising anti-system forces. This was the case in the 2016 Austrian presidential election, the 2017 French presidential election, the 2017 German and Austrian legislative elections, the 2018 Italian election, and the 2019 parliamentary elections in Finland, Spain, Denmark,

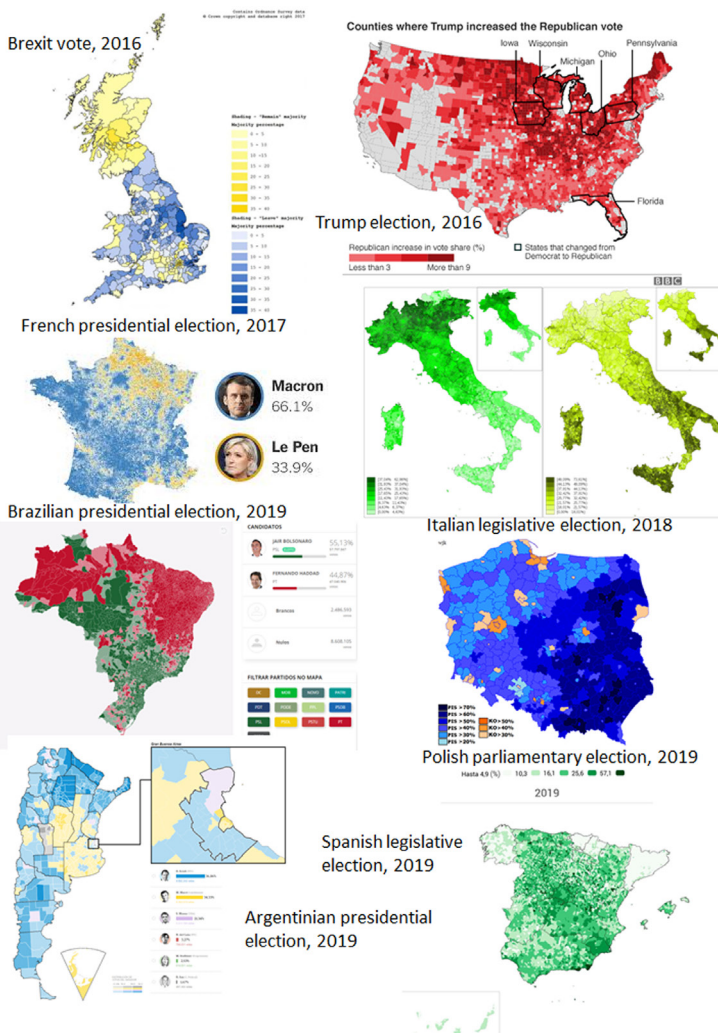
Greece, Austria, Poland, and the UK, as well as the European elections that year. And this phenomenon is not restricted to Europe or the Western world, with populist politicians of a similar ilk coming to power in the Philippines in 2013, Mexico in 2018, and Brazil and Argentina in 2019 (**Figure 4.1**).

In all of these elections, parties that had long existed at the fringes of political discourse came to be seen as legitimate contenders for power. In Italy, La Lega has gained power in a number of cities and regions and became part of a governing coalition in the aftermath of the March 2018 national election, while Rassemblement National is now seen as a credible candidate party for government in France.

This has shown that populism has gone beyond being a force to be reckoned with to becoming one of the main challenges for liberal democratic societies today. Alongside the rise in electoral viability of long-standing extremist parties, new parties at both political poles have also managed to rattle the political system (**Figure 4.2**). Syriza, a political alliance founded in 2004 and which only became a party in 2012, governed Greece between 2015 and 2019. Alternative für Deutschland, founded in 2013, has made significant inroads in successive German national and Land (regional) elections, coming third in the vote share (12.6%) in the 2017 German elections. Similarly in Spain, Vox, also founded in 2013, achieved 15% of the vote in the November 2019 parliamentary election, becoming the third largest political party.

In other cases, mainstream traditional parties have veered towards more illiberal positions. This is the case of Fidesz, the Hungarian Civic Alliance that, under the leadership of Viktor

Figure 4.1: The rise of populist vote around the world since 2016



Sources: BBC, NYT, Globo, RTVE, Warsaw Institute, La Nación.

Figure 4.2: The recent proliferation of populist and/or anti-system parties in Europe



Orbán, has swung towards populism and economic nationalism since its return to government in 2010. A similar shift has taken place in the Polish Law and Justice (PiS) party, especially since 2015, and in Turkey, where the governing Justice and Development Party (AKP), under the stewardship of Recep Tayyip Erdoğan, has taken a path of economic and political nationalism and growing authoritarianism.

The most remarkable example of populist success, of course, is Donald Trump's victory in 2016, where he took power by campaigning explicitly as an outsider and an anti-establishment candidate. Trump's achievement is an example of how populism

has contributed to the implosion of well-established political systems, where mainstream parties have abandoned the political centre ground in favour of more extreme positions, attempting to avoid the disaffection of the electorate and, in certain cases, fight off the turn of their voters to anti-system rivals. Trump's reinvention of the Republican party was foreshadowed by the United Kingdom, where the Conservative party, particularly after the Brexit referendum, abandoned its traditional political, social, and economic positions in favour of a rhetoric that often echoed that of the UK Independence Party (UKIP) and then that of the Brexit party. In both the UK and the USA, the shift of the governing parties to the right has been mirrored on the left, with the US Democratic Party moving towards more extreme positions in recent electoral campaigns and elections and the UK Labour party returning to the hard-left ideology of the 1970s under Jeremy Corbyn (until he was replaced as leader by Keir Starmer after Labour's dismal performance in the UK's 2019 General Election).

Populism's Holy Trinity

While putting all populisms on the same boat is nigh on impossible, there are a number of traits that appear common to most illiberal democratic parties, whether in the developed or developing world. These common traits can be gathered into three categories. First and foremost, at the heart of every populist movement is an anti-elite discourse. Mudde [43] defines populism as a thin-centred ideology, which divides society into two groups – the 'pure' people and the 'corrupt' elite, with the populist party painting any who do not (or refuse to) share their

values as members of this ‘corrupt elite’. Elites, as indicated by Brubaker [8], ‘are represented as [those] “outside” as well as “on top”’. They do not share the same views, values, and culture as ‘ordinary’ citizens and are depicted as bent on imposing their views on society. Such parties therefore develop their support through creating the myth that they are needed to defend the interests of the ‘ordinary’ and ‘decent’ citizens against those ‘on top’ and ‘outside’.

The anti-elite discourse goes hand in hand with an anti-immigrant stance. Whether it is the arrival of Latino immigrants to the US or the presence of Muslim minorities in France, Germany, the Netherlands, or Sweden, the increasing racial and ethnic diversity of most Western societies has allowed immigration to be portrayed as a threat to the national identity to that part of the electorate which is vulnerable to such messaging from populist politicians [36, 56, 57]. In recent elections, traditionally non-populist parties – such as the Republican party in the US or the Conservatives in the UK – have adopted this anti-immigration stance as well.

The third pillar of the populist trinity is nationalism, with nationalistic posturing integral to populist governments’ identities [14]. Anti-system parties have systematically labelled other countries and outside institutions as ‘the enemy’, using this threat – whether real or imagined – to mobilise their electorate. Within Europe, the European Union has been a constant scapegoat for both the populist right and left, with the French Rassemblement National claiming in their manifesto that their main objective is ‘to regain our freedom and the control of our destiny by restoring to the French people their sovereignty’ [49]. Donald Trump

has turned the demonisation of foreigners into an art form, particularly through his tweets. He has, for instance, suggested that

for many years China (and many other countries) has been taken advantage of the United States on trade, intellectual property theft, and much more. Our country has been losing hundreds of billions of dollars a year to China with no end in sight [...] Better off without them [59].

What Explains the Rise of Populism?

Why has populism risen? Despite the abundance of studies trying to explain the growth of anti-system parties proposing illiberal democracies, we are still at a loss to explain the fundamental reasons behind this trend. The drivers of the rise of populism vary from France to the UK, from Hungary to the US, and from Brazil to Turkey. No overarching explanation of this phenomenon has yet emerged – or is likely to ever do so. Moreover, research on the roots of populism within specific countries often reaches contradictory results.

The explanations behind the rise of populism can be grouped into three types of cleavage. The first, and so far dominant, cleavage is between cultural and economic explanations. Many have argued that it is a loss of culture and identity – both individual and national – that has driven the discontent with the prevailing system, with many voters increasingly alienated from a society that has experienced a rapid transformation, a society that has become detached from the world they grew up in, making them uncomfortable, almost as if they are ‘strangers in their own land’ [33]. Factors such as rising immigration, multiculturalism,

cosmopolitanism, and globalism are transforming countries, leaving older generations and those less capable of participating in (and/or benefiting from) this new cultural environment estranged from and resentful of an environment they are not familiar with and with which they no longer identify [45]. The traditional values of family, religion, order, and conformism are perceived as being undermined by this shift in society, pitching the elderly against the young, as well as cities against small towns and rural areas [50].

The economic argument emphasises that changes linked to globalisation have rendered increasing numbers of individuals economically vulnerable. Openness to trade – especially the ‘China-shock’ [4, 5, 10, 11] – together with the expansion of artificial intelligence have rendered many traditional skills obsolete, thrusting those relying on limited formal skills into economic insecurity [31]. The austerity measures adopted after the outbreak of the crisis have also been a factor that has contributed to the loss of opportunities [6, 28, 47] and social status by vulnerable individuals [25].

At the heart of this economic explanation is the rise of interpersonal inequality that has been a growing feature over the last few decades, especially in developed countries [16, 42, 48]. The rise in inequality has resulted in more people being left behind, including larger numbers at risk of falling into poverty, triggering dissatisfaction with the system and a reaction at the ballot box. This dissatisfaction and subsequent rejection has only become more evident as the recovery from the last economic crisis is shown to be ever more unequal [18, 46, 47, 53]. The result is rejection of the status quo and an erosion of democratic institutions, leading to nativism and plutocracy [42].

The second cleavage concerns reality versus perceptions. According to this view, the rise in the populist vote is often driven more by perception than by reality. We know migration is one of the fundamental issues behind the feeling of discontent and resentment with the system. Yet it is often the places with the lowest number of migrants that tend to fear migration most and, consequently, vote against the system. Similarly, populist votes driven by inequality are frequently based on perceptions of inequality rather than on real inequality [17], and the same applies for perceptions about corruption and the state of politics [55]. Moreover, as inequality rises, those who perceive themselves as unfairly treated tend to have less trust in the system, creating a feeling of threat and insecurity, alongside a tendency to reject arguments which rebut their perceptions of inequality and threatened status [35].

Finally, the third cleavage concerns those who focus on individual factors against those who focus on the collective characteristics of territories – that is, the division between the people who are left behind and the places that are left behind. Research on the reasons for discontent and the rise of populist vote amongst people ‘left behind’ traditionally focused on a limited number of economic and cultural characteristics of individuals. Age is possibly the factor that has featured the most prominently [19, 23, 26, 27, 32], with older generations, suffering both from cultural and economic shocks, being more likely to feel disaffected by transformations in society and to turn to anti-system parties. Analysis of age is normally coupled with education (Tyson & Maniam, 2016) [2, 6, 7, 19, 27, 32, 37, 53] and low income [2, 6, 23, 26, 32, 53] as the key factors that underpin the populist reaction

at the ballot box. Broadly, as indicated by Goodwin and Heath [26], anti-system backers tend to be ‘older, working-class, white voters, citizens with few qualifications, who live on low incomes and lack the skills that are required to adapt and prosper amid the modern, post-industrial economy’. Other individual characteristics, such as lack of employability [6, 38] and immobility [27, 37], can also be added to the equation.

Recent research is also putting stress on the role of places left behind in generating a ‘geography of discontent’ [15, 41] or a ‘geography of resentment’ [52]. This line of work argues that local economic conditions shape voting patterns by individuals living in specific places and that certain territorial characteristics are more conducive to the rise in anti-system vote [24, 38]. The division between large cities, on the one hand, and suburbs, medium-sized cities, town, and rural areas, on the other, is by far the one that has captured the most attention. In the US, large cities voted for Hillary Clinton by substantial margins. However, this trend was reversed as soon as one ventured into the suburbs, and the Trump vote was prominent in medium-sized towns and rural areas [50]. The urban/rural divide and population density is also deemed to have played a role in the rise of discontent and anti-system vote in other parts of the world [29, 30]. Distance from power and isolation are other factors that have been considered to spur discontent [37].

Economic and industrial decline is also at the base of many analyses [e.g., 15, 52]. Places that became industrial hubs during the industrial revolution and remained proud motors of regional and national economies, but have been hit hard or bypassed by globalisation, have become fertile ground for pop-

ulist parties. These places have struggled to cope with industrial and economic transitions, such as the rise of trade and automation, and have often undergone, or are still undergoing, sustained periods of decline. From the shrinking industrial heartlands in the USA to formerly prosperous industrial cities in Italy, the inhabitants of such cities and towns have become disillusioned with the new status quo. The lengthy financial and economic crisis of the late 2000s and early 2010s and the ensuing austerity only ignited a ready-made fuse [28, 51]. Citizens in these places have grown tired of waiting for solutions to come from the nation-state or from supranational actors, who have either ignored or progressively withdrawn from these areas. The consequence is a large number of places that have said enough is enough and are increasingly intent on wrecking a system that has for long not worked for them. A summary of this view is ‘if we are sinking, we are sinking the whole system with us’. This mounting anger reached a boiling point and then exploded at the ballot box in recent years [51]. Indeed, in some countries and regions, the ballot box has not been enough to sate their anger and frustration. The alternative is outright street revolt, as in France, where the disaffected from such declining regions formed the main ranks of the rioting ‘gilet jaunes’ (yellow vests) [1, 30].

Alongside this focus on economic and industrial decline has been an emphasis on economic and demographic decline, and this is now attracting the greatest attention [19, 30, 40]. Within these eviscerated regions, rising depopulation and a consequent loss of basic services has caused certain rural areas in affluent countries to become demographic deserts, deprived of public

and private services [12, 30]. Residents are reacting to this reality at the ballot box.

A Tale of Two Inequalities

It is as if the rise of discontent at the base of the current revolt at the ballot box is a tale of two inequalities. On the one hand, the change in the production system is leading to greater interpersonal inequality in most of the developed world – but not necessarily in the developing world [42]. Those at the pinnacle of the wealth pyramid are accumulating ever more wealth [16, 48], while those with lower levels of education, formal and informal skills, and with fewer opportunities are being left behind [9].

Simultaneously, territorial polarisation has widened. While economic activity and wealth have increasingly accumulated in large urban agglomerations, often capital cities, many areas within countries have increasingly been caught in ‘development traps’ [34]. This has resulted in significant rises in intra-country inequalities. These development traps take several forms. First come the territories that had caught up towards the levels of the more developed regions until recently – like formerly poor regions in southern and western Spain – but whose convergence stalled once they reached middle income levels. Second are those territories that have remained in no-man’s-land, neither rich nor poor (i.e., the East Midlands in the UK), incapable of improving their condition, often for decades. Third are the territories that were once rich, like the North of Italy, and have witnessed limited, no, or negative growth in recent decades. These are the places that in the past propelled their countries to riches but

now find themselves obsolete, irrelevant, and cast aside by more dynamic and high-ranking places.

The list of declining areas keeps on growing. It includes, among many others, the North of England, the former factory of the British Empire, an area that has been losing out to London and the South East for close to a century [58]; the US 'Rust belt', incapable of keeping up with the rise of the 'Sun belt' and the economic dynamism of both coasts [13, 44]; and the North of Italy, hailed as the motor of the Italian miracle until the 1980s but that has had virtually zero economic growth over the last 30 years. It is the resentment of those who reside in these areas that drives political discontent and the turn to populism [20].

However, there is something that seems incongruous in the alleged connection between the rise of inequalities and the spread of populism. It is true that interpersonal inequalities have been on the rise in the developed world. But deepening inequalities have mostly occurred within large agglomerations. And in these agglomerations the richest of the rich and the poorest of the poor are still voting together for mainstream parties. This is what happened in the US presidential election, where the very wealthy suburbs of West Philadelphia voted for Hillary Clinton alongside the deprived Philadelphia Badlands to the north of the City. Similarly, relatively wealthy districts in London, such as Holborn and St Pancras, Hampstead and Kilburn or Islington South, voted for Labour, as was the case in less well-off areas of the city, such as Walthamstow, Lewisham East, Camberwell, or Peckham.

Things change when moving outside of these agglomerations to areas that have less internal income polarisation but are either

less densely populated, such as the American suburbs [50] or the English countryside, or are affected by long-term economic decline, such as the American Rust Belt, the former industrial north of England, or in declining industrial districts in the still relatively wealthy northern regions of Italy like Lombardy, Piedmont, or Veneto. These are the areas that have tipped the balance toward populism.

Populism is not the result of persistent poverty. Places that have been chronically poor are not the ones rebelling [15]. It has been the slow, prolonged decline in the Rust Belt, the North of England, the North of Italy, and North Eastern France that has pushed the citizens of these regions to express their anger at their loss of status, at their diminished roles, and at their incapacity to cope with and adapt to a system that has rendered them less relevant and vulnerable.

Hence, from a purely economic point of view, the rise of populism is not a tale of two inequalities. Neither interpersonal nor inter-territorial inequality are at the root of rising discontent. Instead, the rise of populism is a tale of how the long-term decline of formerly prosperous places, disadvantaged by processes that have rendered them exposed and almost expendable, has triggered frustration and anger. In turn, voters in these so-called ‘places that don’t matter’ have sought their revenge at the ballot box [51].

What Can Be Done?

Finding solutions to the rise of populism is not easy. Intervening in the cultural issues at the root of discontent with the system is difficult and fraught with problems. Moreover, we are still grappling

with the economic factors behind rising resentment. Tackling inequality is not necessarily the best way forward. Whereas the recent growth of interpersonal and inter-territorial inequalities represents real threats for our societies, focusing on inequalities alone – while important on its own – is unlikely to do the trick.

Long-term economic and demographic stagnation and/or decline seem to be, by contrast, more connected to the spread of discontent. Fixing the so-called ‘places that don’t matter’ is a good way to start to grapple with the problem. This means adopting territorial policies that go well beyond either focusing on simply the largest and more dynamic places – as proposed by the new economic geography and urban economics – or targeting the least developed places, as has been traditionally the case in development strategies (as in the European Cohesion policy). It also means that the solutions that are currently being proposed – such as the rise in transfers to the less well-off in lagging-behind territories [e.g., 3] – may do little to quell economic discontent and resentment. This is a strategy that European countries – in the South of Italy, in East Germany – have been doing for years without managing to suppress a brewing of resentment against the system.

Territorially differentiated investment is needed, but this investment has to move away from the glitzy interventions that have dominated policy in recent decades (big infrastructure mega-projects that often end up as white elephants) [52]. There is also a need for investment policies to go beyond static criteria (rich vs. poor) and adopt more dynamic ones (thriving vs. declining) [15]. This would require directly targeting places that still hold considerable potential but have been neglected by policy-makers because they have often fallen in between the

cracks of economic theories. There needs to be more investment in places that have long suffered from periods of low, no, or negative growth; industrial decline; low employment rates; brain drain; and out-migration.

Investing more effectively in those places that have remained overlooked by policy in recent years – and have been frequently told that there is no hope for them – will require focusing on new types of place-sensitive intervention [34] and ditching the one-size-fits all approach. We need place-specific policies capable of mobilising the potential that is present in almost every territory. This is not just a question of social and political fairness but also an economic necessity. This type of intervention will allow countries currently suffering from discontent to unleash their full economic potential.

Last but not least, intervening in these regions is also a matter of political survival for mainstream political actors. Preserving an economic system that, despite all its problems and need of reform, has brought about the longest period of prosperity, equality, and peace that the developed world has ever experienced is certainly worth our while.

Competing Interests

The author has no competing interests to declare.

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5. Social Media and Political Polarisation

Gilat Levy and Ronny Razin

The rise in populism in the Western world, most evident in the results of the 2016 Brexit referendum and the 2016 United States presidential election, has often been connected with the rise of social media. The unique character of social media has allowed extreme and polarised beliefs, two of the most identifiable features of populism, to emerge and spread in society through permitting the creation of echo chambers on a new larger scale, and providing new means for political campaigners and interested third parties to influence voter opinion. The abundance of information on social media might trigger voters to use simple heuristics to aggregate multiple sources of information. In this chapter we report on several studies that focus on the implications of one such documented bias: ‘correlation neglect’, the propensity to treat information sources as if they are (conditionally) independent. We discuss the relation between correlation neglect and polarisation in opinions and party platforms. We also discuss how targeted political campaigns in the presence of correlation neglect may bias voters from different groups in different directions. Specifically, competition in targeted social media campaigns increases polarisation among extreme voters but at

the same time increases the randomness and unpredictability of moderates' voting behaviour. These findings are consistent with new data on the evolution of US voters' opinions in the last five decades. The data show a significant change in the trajectory of the opinions of moderates versus extreme voters starting from the mid-1990s, which is consistent with the rise in the ability of campaigns more effectively to target and bombard voters with information through social media.

Keywords

Correlation Neglect; Polarisation; Extremism

1. Introduction

In seeking to explain the rise of populism in the Western world, most clearly seen in the results of the United Kingdom's Brexit referendum and America's 2016 presidential election, many have pointed to the role of social media. The unique features of social media have allowed extreme and polarised beliefs, two core features of populism, to take root and spread in society. Social media can generate echo chambers where already extreme and unsubstantiated beliefs become established and multiply, while they also provide new means for political campaigners and interested third parties to influence and manipulate voter opinion.

In this chapter we explore the connection between populist success and social media using recent insights from behavioural economics, considering the relationship between demand and supply factors in the market for information. We find that on the

demand side, voters' natural tendency to move into echo chambers is exacerbated by social media and that this increases the risk of polarisation. This risk is further increased by activity on the supply side, where politicians and third parties deliberately attempt to manipulate voters' beliefs. They do this not only by targeting susceptible individuals on social media, but also through using the data gained on voters' opinions to shift their policies. Given that voters are often moving towards the extremes as a result of echo chambers and manipulation, this can result in progressively more extreme policies, creating a self-perpetuating shift towards polarised extremes on both sides.

Within this chapter we focus on how polarisation can result from voters being overloaded with information on social media. Voters receive information from various traditional media sources, both offline and online, as well as from social media sources. The sheer abundance of information can mean that voters develop simple methods of processing and comprehending these multiple sources of information. Recent studies have shown that one such method involves the voters adopting 'correlation neglect', where they disregard the original source of information, and treat each piece of information as though they are provided independently of the others.

Voters prone to adopting correlation neglect are at risk of ending up with more extreme and polarised beliefs. These are also the voters that are potentially at greater risk of manipulation by political campaigns, given that such campaigns tend to operate by bombarding would-be voters with information. Such information is likely to be interpreted by these susceptible voters as confirmation of their beliefs, unaware that it is generated, ultimately, by the same source. This will also incentivise campaigns to set up

multiple secondary organisations, giving a more effective illusion of independence while ensuring a consistent message.

Given this incentive, it is alarming that there is little regulation of such activity. Organisations with a similar database of individuals can provide this information to their symbiotic organisations, who then conceal the fact they come from the same host organisation. Such coordination and obfuscation enhance the correlation neglect of the voters, who will see each piece of similar (if not identical) information as independent and uncoordinated. Recent years have exposed the extent to which this has taken place, with one of the most notable examples being the indictment of Russian agents in the US, accused of using social media to manipulate voters in the 2016 presidential election.

The operation of such campaigns in the UK was reported on by the Guardian. This report shows

a series of hugely influential Facebook advertising campaigns that appear to be separate grassroots movements for a no-deal Brexit [...] The mysterious groups, which have names such as Mainstream Network and Britain's Future, appear to be run independently by members of the public and give no hint that they are connected. But in reality, they share an administrator who works for Crosby's CTF Partners and have spent as much as £1 m promoting sophisticated targeted adverts aimed at heaping pressure on individual MPs to vote for a hard Brexit.¹

Below we focus on the implications of correlation neglect in the political sphere. We discuss how correlation neglect contributes to the polarisation of views, how it can induce politicians to polarise

their platforms, and how strategic politicians and campaigners can abuse the fact that voters neglect correlation to increase their political support. In particular, we show how targeting specific types of voters with specific types of messages can increase the polarisation of the already relatively extreme voters. We also present data that shows how political targeting affects American voters' beliefs.

2. Correlation Neglect

Economists have traditionally assumed that individuals are proficient in harvesting and analysing information from their surroundings. In contrast, both political scientists and psychologists take a more pessimistic view of peoples' ability to process information. In political science, a large literature documents the incompetency of voters in collecting and processing information. Bartels and Delli Carpini and Keeter have shown voters are poorly informed about what they vote on and use the information they do have incorrectly [1–5]. Psychologists have also subjected the rationality assumption in economics to scrutiny – most notably Kahneman and Tversky in a series of seminal papers where they revealed the biases that emerge in individuals exposed to different pieces of information. These results have spurred more recent research that incorporates some of these behavioural biases into political economy models used to analyse polarisation, extremism, and the prevalence of wrong beliefs.

In this section we explain the central behavioural assumption we make about how voters aggregate multiple pieces of information. Start by considering our daily interactions with the resources and people around us. We spend our day reading

newspapers and online news content, talking to friends, family, and colleagues at work, while also spending some time on social networks. Daily, this might amount to large quantities of information, much of which is not easily aggregated and distilled into distinct categories and therefore not processed properly.

With regard to social media, information is constantly repackaged and repeated online, and it is very difficult to detect the independent information content, if any, conveyed in the different, semi-repeated messages. A study by Cagé and colleagues of copyright in news media documents how pieces of news are often copied multiple times and across different outlets, finding that only 32% of online content is original [6]. Despite the prevalence of copying, the imitating media outlets rarely name the sources they copy. Thus, readers are exposed to repeated news stories but see them as corroborative rather than imitative, as it is highly unlikely they are aware they are rooted in the same source. This lack of source material is even more apparent in direct social interactions, both offline and online, where there is rarely any way of sourcing the information provided by a friend or colleague. It may be repetition of information you yourself gave out or information that has boomeranged through a sequence of contacts and then back to you. The nature of echo chambers means that communication will often contain information that is repetitive but instead is treated as correlative. This therefore leads to readers treating different pieces of information as independent evidence, which we term correlation neglect.²

In the Appendix we formally outline a simple model of correlation neglect. Individuals try to learn about the state of the

world ω , which could be high (h) or low (l). They all have a common prior assumption that the states are equally likely. For example, the state could correspond to the fate of the UK after Brexit, where a low state implies low growth and a high state high growth. Information about the state variable will inform voters how to vote in a referendum about Brexit.

In the model, individuals start with some initial beliefs formed by being exposed to some informative source (e.g., a newspaper article). When individuals interact in their social network they share their opinions on that topic with each other. For simplicity we can assume that individuals share their true beliefs with each other. When exposed to these different opinions, how do individuals update their beliefs?

Those individuals with correlation neglect treat each piece of information, regardless of its source, as conditionally independent. As we show in the Appendix, this implies a multiplicative form to the way they aggregate what they heard from others. This form of aggregation implies a propensity to adopt excessively extreme views that are held with overconfidence. If there are two echo chambers, one filled with those who have high beliefs and one with low beliefs, the natural consequence will be progressively more polarisation.

3. Extremism and Overconfidence

Ortoleva and Snowberg use a similar model to the one described above and test its predictions on data from the 2010 Cooperative Congressional Election Study (CCES) in order to assess how correlation neglect shapes political views [7]. In their model, individuals receive information as set out above and use this

information to try to understand what the true state of the world is. In addition, every voter has an ideological parameter. The stronger a person's right-wing ideology, the more willing he or she will be to vote for right-wing parties.

Their main finding was that there is positive correlation between overconfidence and ideological extremism. They found that (i) overconfidence increases with the number of signals an individual is exposed to; (ii) that when the true correlation in information is large enough, then the dispersion of ideologies in society increases in the number of signals circulating; (iii) and that ideologically extreme individuals are more likely to turn out to vote. In addition, the paper finds that there is a positive relationship between correlation neglect and the age of the individual, his/her tendency towards extremism, and their likelihood of turning out to vote. Specifically, older individuals can, in part because of correlation neglect, be both more confident and more extreme in their beliefs and more likely to vote.

4. Correlation Neglect and Polarisation of Policies

It has been suggested that the increased polarisation of American politics and institutions is a result of the increasingly polarised nature of voters' political values. Political actors are motivated to accommodate their voters' preferences in order to be re-elected, resulting in a polarised Congress [8]. The assumption that increased polarisation within the franchise leads to the polarisation of policies is explored by us elsewhere [9]. That paper suggests that a more polarised electorate affects policy development in two ways. First, politicians are not likely to be

inhibited in moving further into their ideology. A left-wing politician will not worry overly about moving to the left and vice versa. This is due to the electoral system effect, which implies that a right-wing politician would worry less about moving to the right because she has a sufficiently high vote share in that segment of society.

However, this tendency is likely to be checked by the second factor, that of appealing to marginal voters. While each ideology's core voters are secure, marginal voters are not, and the need to appeal to them may keep the policies – or at least some of them – within an area of moderation.

The above results illustrate that policy polarisation depends on the competitiveness of elections. Elections are most obviously competitive if the two sides expect to have a close vote share, but the degree of competition can also be affected by the electoral system. For instance, first past the post tends to be more competitive than proportional representation. In highly competitive electoral contests, a candidate's probability of winning is highly sensitive to their expected vote share. Therefore, the electoral system effect dominates, and correlation neglect leads to more polarisation of opinions and policies. If the contest is uncompetitive, the marginal voter effect will have a bigger role, and so correlation neglect may lead to reduced polarisation in candidate positions.

5. Correlation Neglect and Targeted Campaigns

In addition to responding to voters' preferred policies, extreme or otherwise, politicians may seek to manipulate voters' beliefs, particularly through social media. Social media allows politicians to

target individual voters cheaply and directly. In addition, campaigns sympathetic to the same agenda may coordinate their actions, as the Cambridge Analytica scandal over Brexit demonstrated. When such groups coordinate with political parties, their views gain legitimacy in the audience's eyes due to the perceived independence of each source of information, which is treated as a unique verifier of the claim, rather than being part of a collective whole.

In a recent paper, Levy and colleagues analyse a model of targeted and coordinated campaigns [10]. The model assumes that voters' opinions can be manipulated and that such manipulation is possible in part because voters are unaware of the correlation between the sources of information. Their analysis suggests that as correlation neglect and campaign coordination grow, extreme voters become more extreme, while moderates become confused and unpredictable.

In that model, the choice on the issue that the voters are interested in is either l or h . There are two campaign coordinators, each supporting a particular position, in this case leaving or remaining in the EU, and each possessing the capacity to coordinate n campaigns, ensuring that they all offer a consistent but seemingly independent line of argument. When voters receive each message, they therefore perceive it as an individual piece of data. The ability of the coordinators is further enhanced by the fact that they can alter the nature of the message to suit the target audience (i.e., more extreme voters can be manipulated with more extreme messaging and vice versa).

With extreme voters, the intention is to 'mobilise' them, intensifying their beliefs so that they become campaigners, in turn swaying moderate voters. As these voters are able to pull moderates to their side, they then also enter the 'echo chamber',

cutting them off from other perspectives. The success of such campaigns can thus result in increased polarisation [10].

In contrast, moderate voters receive information from both sides. If correlation neglect is presumed to also influence these voters, they will be persuaded by the side that is able to provide them with the most overwhelming amount of information. Therefore, the campaigns bombard such voters. They also introduce strategic noise, whereby the campaign deliberately tries to counter information offered by the competing campaign. Unsurprisingly, the confused nature of the campaigning results in confused and unpredictable outcomes.

6. Confused Centrists and Polarised Extremes: Empirical Evidence

The results discussed above suggest that with more targeted campaigning we would expect to see the opinions of different groups of voters moving in different ways. Specifically, as correlation neglect, campaign coordination, and voter targeting all become more prevalent, extreme voters should become more polarised and so even further removed from the views of the moderates. Meanwhile, the confused centrists will orient themselves towards the competing ideologies chaotically or remain isolated from both.

Such expectations are matched by the data [10]. Assessing American National Election Studies (ANES) and General Social Survey (GSS) data from the last five decades demonstrates strong differences of opinion between liberals and conservatives on a vast variety of issues. For example, in the ANES data, on the 100-point scale question of ‘feeling thermometer towards liberals/conservatives’ this correlation was -0.61 before 1990 and -0.81 afterwards.

Similarly, in the GSS data, on a 7-point scale ideology question, the correlation was almost 0 pre 1990 but -0.88 afterwards.

While the partisans on either side grow apart and more cohesive, so independents begin to share relatively little with either side. This is visible in both the ANES and GSS data, with an average correlation of 0.24 between liberals and moderates and 0.05 between conservatives and moderates – although this does suggest that liberals are more appealing to the moderate voter than conservatives. In **Figure 5.1** we show the evolution of the difference in opinion between Republicans and Democrats and between moderates leaning towards Republicans and moderates leaning towards Democrats.³

In line with our model in Section 5, the data also show that voters have been exposed to different campaigns and that these

Figure 5.1: The evolution of the polarisation between extremists and between moderates in the last five decades. (GSS data)

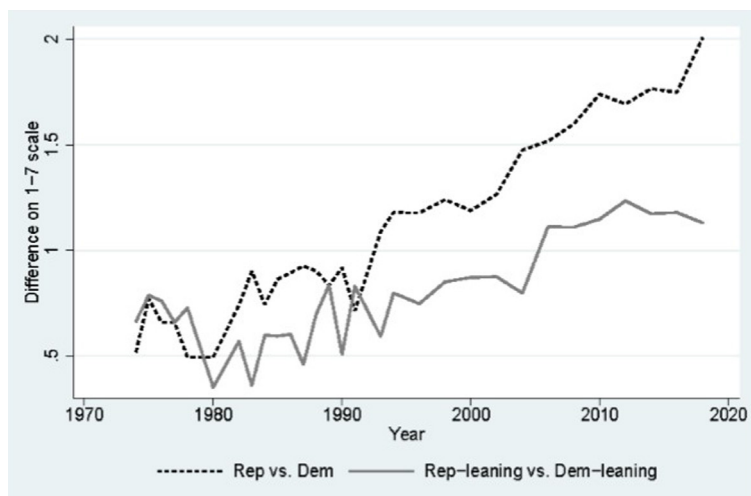
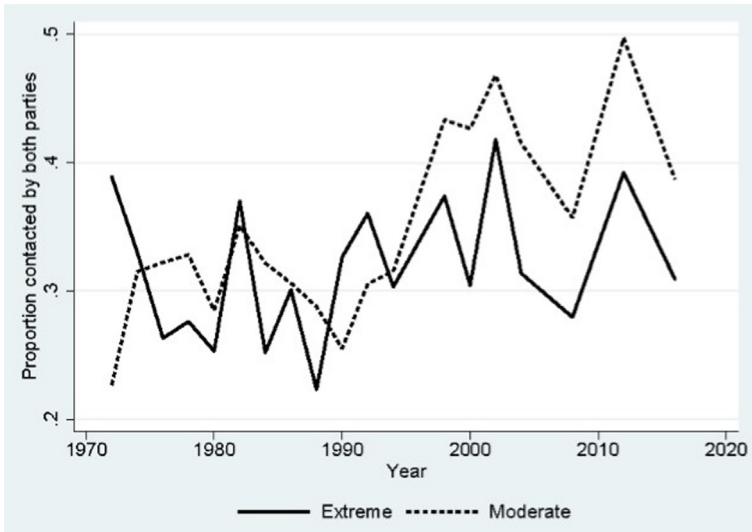


Figure 5.2: The proportion of voters approached by both parties in the last five decades



had become more targeted over time. According to the ANES data, when asked about which parties have approached them, in 1994, 30% of extreme voters said that both parties had, and moderate voters were similarly exposed at 32%, a statistically insignificant distinction. However, in 2016, the numbers had changed to 31% and 38%, respectively. While these are just correlations, they are suggestive of the possibility that the nature of the competition to influence voters might have a hand in generating the above patterns of voters' opinions (see **Figure 5.2**).

7. Conclusion

In this survey we report results from a new emerging literature in political economy, which explores how behavioural biases affect

political positions and opinions. Specifically, we explain how the inability of voters to correctly understand large amount of data, and their tendency to neglect the correlation across the pieces of data they observe, can lead to extremism and polarisation. In competitive electoral systems, the response of politicians will be to polarise their platforms even more. Correlation neglect biases also induce strategic politicians and campaigners to target the types of voters they can reach differently. Such targeted campaigns imply that extreme voters will become even more polarised, while swing voters' views will become more volatile and unpredictable. We present new data consistent with these findings here.

The above results shed light on the role that social media and its effects on political campaigns might play in promoting the rise of populism in recent years. Understanding the behavioural traits of voters together with the strategic manipulation of information by political campaigns can help explain the spread of extreme and populist opinions and world views. More importantly, understanding these forces and establishing them empirically will enable us to find better ways to regulate political campaigns and social media companies, to educate and change the way voters process information, and in general to maintain a better public debate of politics.

8. Appendix I: Sources and Computation of Data

Correlations over time: ANES data (18 observations over the period 1972–2016):

1. Respondents are split by ideology based on their answer to the question: 'Here is a 7-point scale on which the political views that people might hold are arranged

from extremely liberal to extremely conservative. Where would you place yourself on this scale? Respondents who answered 1 or 2 are classified as 'liberal', respondents who answered 3, 4, or 5 are classified as 'moderate', and those who answered 6 or 7 are classified as 'conservative'.

2. Within each group (liberal, moderate, conservative) and for each year, we take the average difference in the answer to the feeling thermometer question towards Conservatives and towards Liberals and obtain the average 'net feeling' towards Conservatives per ideological group and per year.⁴

The correlations over time of this average ideology between different groups are

$$\text{corr}(\text{feeling_liberal}_{\{t\}}, \text{feeling_conservative}_{\{t\}}) = -0.78$$

$$\text{corr}(\text{feeling_liberal}_{\{t\}}, \text{feeling_moderate}_{\{t\}}) = 0.24$$

$$\text{corr}(\text{feeling_conservative}_{\{t\}}, \text{feeling_moderate}_{\{t\}}) = -0.05$$

Restricting the sample to years before 1990, the correlation between Liberals and Conservatives is -0.61 . Restricting it to years after 1990, this correlation is -0.81 .

Correlations over time: GSS data (30 observations over the period 1972–2016):

1. Respondents are split by partisanship based on their answer to the question: 'Generally speaking, do you usually think of yourself as a Republican, Democrat, Independent, or what?' Respondents who answered 1 or 2 (Strong Democrat; Not very strong Democrat) are

classified as ‘Democrats,’ respondents who answered 3, 4, or 5 (Independent, close to Democrat; Independent; Independent, close to Republican) are classified as ‘Independents,’ and those who answered 6 or 7 (Not very strong Republican; Strong Republican) are classified as ‘Republicans.’

2. Within each group (Democrats, Independents, Republicans) and for each year, we take the average value of the answer to the question

We hear a lot of talk these days about liberals and conservatives. I’m going to show you a seven-point scale on which the political views that people might hold are arranged from extremely liberal—point 1—to extremely conservative—point 7. Where would you place yourself on this scale?

The correlations over time of this average ideology between different groups are

$$\text{corr}(\text{ideology_democrat}_{\{t\}}, \text{ideology_republican}_{\{t\}}) = -0.82$$

$$\text{corr}(\text{ideology_democrat}_{\{t\}}, \text{ideology_independent}_{\{t\}}) = -0.11$$

$$\text{corr}(\text{ideology_republican}_{\{t\}}, \text{ideology_independent}_{\{t\}}) = 0.29$$

Restricting the sample to years before 1990, the correlation between Democrats and Republicans is 0.09. Restricting it to years after 1990, this correlation is -0.88.

Polarisation over time (data for **Figure 5.1**).

We plot the difference in the group average answer to the ideology question of the GSS between respondents who identify as Strong Republican or Not very strong Republican and respondents who identify as Strong Democrat or Not very strong Democrat.⁵ This gives the line ‘Rep vs. Dem’. We then calculate the difference in group average to that question between respondents who identify as ‘Independent, close to Republican’ and those who identify as ‘Independent, close to Democrat’. This gives the line ‘Rep-leaning vs. Dem-leaning’.

Communication with parties.

1. Respondents are classified as ‘moderate’ if they answered 3, 4, or 5 to the ideology question in the ANES survey and extreme if they answered 1, 2, 6, or 7.⁶
2. Within each group (extreme and moderate) and for each year, we calculate the proportion of respondents who were contacted by both parties out of the number of respondents who were contacted by at least one party.⁷

These proportions are plotted in **Figure 5.2**. Averaged over the whole period (1972–2016), 33% of extreme voters who were contacted were contacted by both groups, but 38% of moderate voters were. In 1994 the proportions were 30% vs. 32% and not statistically different (even at the 10% level), whereas in 2016 they were 31% vs. 38% and statistically different (at the 1% level). The difference over the whole time period is statistically significant (at the 1% level) and remains significant (at the 1% level) after controlling for self-identified partisanship, demographic

controls (including age, gender, education, income, and work status) and year.

9. Appendix II: A Formal Model of Correlation Neglect

In this appendix we formally introduce the model discussed in Section 2.

Suppose we have n individuals. Individuals start with some beliefs about the states. Let q^i denote the belief of individual i that the state is high, with $1 - q^i$ denoting the belief of that individual that the state is low. The individual's belief could have been generated by receiving a signal $s \in \{l, h\}$, with an accuracy $\Pr(s = h | \omega = h) = \Pr(s = l | \omega = l) = q \geq \frac{1}{2}$. In this case, Bayes rule implies that receiving a signal h will yield the (high) belief $q = \Pr(\omega = h | s = h)$, and receiving a signal l will yield the (low) belief that $\Pr(\omega = h | s = l) = 1 - q$, and so $q^i \in \{q, 1 - q\}$. For example, this signal could be generated by reading an informative newspaper article about the effects of Brexit on the UK labour market.

When individuals interact in their social network, they share their opinions with each other. To focus attention on cognitive biases, rather than any strategic considerations, let us assume that individuals share their true beliefs with each other. When exposed to these different opinions, how do individuals update their beliefs?

Those individuals with correlation neglect treat each piece of information, regardless of its source, as conditionally independent. If individuals neglect this correlation, then their new correlation neglect (CN) belief, q^{CN} , will be determined as follows: If a share α of N individuals had received the h signal and have belief $q > \frac{1}{2}$, and a share $1 - \alpha$ had received the l signal

and have belief $1-q < \frac{1}{2}$, then if all exchange their beliefs, we have that

$$q^{CN} = \frac{q^{\alpha N} (1-q)^{(1-\alpha)N}}{q^{\alpha N} (1-q)^{(1-\alpha)N} + (1-q)^{\alpha N} q^{(1-\alpha)N}}$$

with q^{CN} becoming very close to 1 for a large N and $\alpha > \frac{1}{2}$, and q^{CN} becoming very close to 0 for a large N and $\alpha < \frac{1}{2}$.

If, for example, the true information structure that had generated these initial beliefs involves correlation, so that all those that received the same signal had the same information source, then post-communication beliefs would become excessively extreme and moreover the individuals holding these beliefs would be overly confident in these beliefs.

To see more generally how belief updating with correlation neglect leads to extremism and polarisation, note that the above implies that if the beliefs are all higher (lower) than a half, then updated beliefs would be higher (lower) than the maximum (minimum) belief in the set. For example, if $\alpha = 1$, then the correlation neglect belief q^{CN} will satisfy $q^{CN} > q$. If $\alpha = 0$, then $q^{CN} < 1 - q$.

Competing Interests

The authors have no competing interests to declare.

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Notes

¹ For more on this see, <https://www.theguardian.com/politics/2019/apr/03/grassroots-facebook-brexit-ads-secretly-run-by-staff-of-lynton-crosby-firm>.

² Another problem that could make your inference complicated is related to the composition of your social network. In particular, one reason you like talking to the people you talk to is because they are similar to you. Therefore, they will most likely say things that agree with your own views. In these cases, some individuals might err by over-weighting what friends or colleagues say due to a selection bias.

³ See the Appendix for more details about the data.

⁴ The feeling thermometer question is

There are many groups in America that try to get the government or the American people to see things more their way. We would like to get your feelings towards some of these groups. I have here a card on which there is something that looks like a thermometer. We call it a ‘feeling thermometer’ because it measures your feelings towards groups. If you have a warm feeling toward a group or feel favorably toward it, you would give it a score somewhere between 50 degrees and 100 degrees, depending on how warm your feeling is toward the group. On the other hand, if you don’t feel very favorably toward some of these groups—if there are some you don’t care for too much—then you would place them somewhere between 0 degrees and 50 degrees.

⁵ ‘We hear a lot of talk these days about liberals and conservatives. I’m going to show you a seven-point scale on which the political views that people might hold are arranged from extremely liberal—point 1—to extremely conservative—point 7. Where would you place yourself on this scale?’

⁶ Ideology question in ANES is ‘Here is a 7-point scale on which the political views that people might hold are arranged from extremely liberal to extremely conservative. Where would you place yourself

on this scale, or haven't you thought much about this?' With possible answers 1. Extremely liberal, 2. Liberal, 3. Slightly liberal, 4. Moderate, middle of the road, 5. Slightly conservative, 6. Conservative, 7. Extremely conservative, 9. Don't Know; haven't thought much about it.

⁷ We code as contacted by both parties respondents who answered '3. Yes, contact: both major parties' to the question: 'The political parties try to talk to as many people as they can to get them to vote for their candidate(s). Did anyone from one of the political parties call you up or come around and talk to you about the campaign?' IF YES: Which party was that? Respondents who answered 'Don't know' or 'Not contacted' are dropped. The proportion of respondents who have been contacted but not by a major party (answered 4) or who did not know or did not answer which party contacted them (answered 5 or 6) is 2.1% over the whole sample; the proportion of respondents who have not been contacted at all is 70% over the whole sample.

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6. The Technological Revolution, Segregation, and Populism – A Long-Term Strategic Response

David Soskice

Covid-19 is a threat, but it also creates opportunities for serious thought about the future. Given deep structural problems which have enabled populism to become embedded in England, there is a need to think of a longer-term transformation: not whether but how and where the state comes back in, and how relations between state, markets and planning, city-regions, innovation and universities are reconfigured.

Historically, the two major populist movements in the advanced world (American in the late 19th century and Germany et al in the 1930s) occurred as a consequence of massive technological changes; the movements were not primarily located in the big cities, and they involved those in previously established but now declining occupations. Populism only disappeared as those populations reduced in size and as those areas changed function or declined much further.

Responding to the ICT revolution, populism in England (the subject of this paper) locates today in Rodríguez-Pose's 'places that don't matter' (PDMs), and is reinforced by the deep educational/residential segregation of contemporary

society with 50% higher education participation and graduate-intensive big cities. But England seems stuck here and major ‘pathologies’ in the neo-liberal framework are responsible. These include higher education as a competitive market, the separation of cycles and growth in macroeconomic policy, and the reliance on markets with arms-length regulation and de facto absence of government from a shareholder-value maximising private sector. Policy is still short-term and largely made in Westminster despite city-regions. A long-term policy transformation is necessary to restart the ‘transmission belt’ of the ICT revolution. We need developing long-term plans based on city-regional agglomerations, into which core city networks linking knowledge-based companies, research universities and city-regional administrations are integrated; with expanding travel-to-work areas incorporating the ‘places that don’t matter’; and supported by a research-oriented economic policy.

Keywords

Populism; Pathologies of Neoliberal Framework; Planning; City-Regions; Travel-to-Work-Areas; Places-That-Don’t Matter; Universities; Knowledge Economy

1. Introduction

1.1. How policy-making needs to change to undermine populism

How we should remould policy-making to undermine populism? Attacking the roots of populism will require major – indeed transformational – changes of strategy. This is possibly the case

for any country facing a populist threat, but is certainly the case for England, the focus here. In particular, this paper raises questions about the unqualified way in which the neo-liberal framework shaped UK policy-making in recent decades and fed these populist urges.

The COVID-19 pandemic means we are faced with the possibility of a prolonged and perhaps deep recession. It is a critical opportunity to rethink a number of basic aspects of policy making in the UK. As the *Financial Times* wrote on the consequences of the pandemic:

Radical reforms – reversing the prevailing policy direction of the last four decades – will need to be put on the table. Governments will have to accept a more active role in the economy. They must see public services as investments rather than liabilities, and look for ways to make labour markets less insecure. Redistribution will again be on the agenda; the privileges of the elderly and wealthy in question...As western leaders learnt in the Great Depression, and after the second world war, to demand collective sacrifice you must offer a social contract that benefits everyone. (*Financial Times*, The Editorial Board, 2020 April 4)

This chapter is designed to generate a debate about the need for a more radical long-term plan covering core inter-related areas of the economy, going beyond reliance on markets and centralised policy, made at arm's length from industry. To be clear, effective competition is critical for innovation. But so too is an activist government, especially at and across city-regional levels, networking with advanced companies and with integrated public services.

Change will not be short-term. Any debate about a nation's underlying policy framework and the need for deep structural changes is most fruitful if it takes place with a view to the medium- or long-term. The real question is whether such a debate is feasible in the chaotic political world we currently live in.

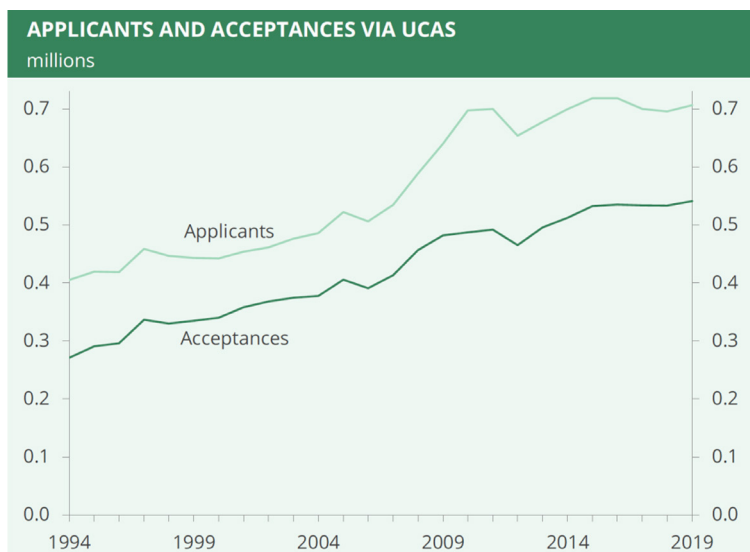
A significant challenge for those seeking to implement such change in England will be to counter the dominant populist narrative, still driven by Brexit. There is much uncertainty as to the cause of this populist tendency, but we follow Rodríguez-Pose's view that regional inequality is a central cause. Our working hypothesis is that the explanation lies in the extraordinary contrast between successful graduate-intensive urban agglomerations and the 'places that don't matter' (PDMs) – those places segregated residually, educationally, occupationally, culturally, and by age. One striking measure of the segregation is that 50% of young people go through tertiary education in England (certainly amazing by historic standards), but 50% still do not, and it is in this latter group that populism continues to have great appeal.

Two decades ago this segregation seemed to be diminishing, most importantly through this steady rise in participation in tertiary education. However, England's progress in reducing such inequalities has stagnated, a reversal that is exemplified most clearly by the now only slight upward trend in higher education participation, as seen in **Figure 6.1**. In countering the appeal of populism, the question is whether, and how, this stagnation can be reversed.

1.2. Why has the stasis occurred and what are possible exit strategies?

The major populist movements in the advanced world over the last century and a half (in the late 19th century, the 1930s, and

Figure 6.1: Higher Education Student Numbers, UK 1994–2019



Note: This is taken from Higher Education Student Numbers House of Commons Library Briefing Papers No. 7857, 13th March 2020, Paul Bolton.

contemporaneously) have arisen at times of major technological regime change, which in turn have caused economic and social disruption. In each case, large, previously established occupational groups were pushed into decline, which also helped to segregate particular regions or territories.

It has been in these areas of decline where populist movements have developed, most often involving those who were in established occupations subject to the prolonged process of decline. The most notable instances have been the US in the late 19th century (the second Industrial Revolution), focused on the small farms and farming communities; Germany in the 1930s

(the Fordist Revolution), once more centred on farmers, but also small town petty bourgeois, artisans, and clerical life; and finally the more widespread ICT revolution of the 2010s, centred on industry and clerical occupations, and encompassing smaller urban and rural areas, and now declining ex-industrial cities.

Historically, such populist pressures only ended through major occupational and geographic change, particularly when there was a sufficiently large move out of the declining occupations. This was most often achieved through the old populations dying and the young moving elsewhere, often into newly emergent jobs and industries. For instance, in late-19th-century America it was the industrial boom in growing cities and WWI that provided the solution. So did the Fordist boom in the post-WWII decades for continental Europe.

The contemporary world is stuck in the implementation of this change. Working by historical analogy, the ICT revolution could hope to resolve the threat of populism through a move away from assembly-line manufacturing jobs and, by increasing tertiary education, into 'graduate jobs', using these jobs to transform cities. However, in England much of this change has already taken place, with the tertiary participation now stagnant. Thus, the country is in stasis.

2. The English Knowledge-Based Neo-Liberal Framework and Its Six Pathologies

For the ICT revolution to flourish, a neo-liberal framework¹ was initially necessary. It allowed a partial dismantling of the unionised, Fordist-Chandlerian economy, which had involved nationalised industries, capital controls, protected financial systems, and state intervention. However, while it may have

been initially necessary, the major pathologies within the neo-liberal framework have taken effect over the last three decades, particularly as a result of the dominant position it took in policy-making in England.² Some of the framework's elements are valid: it is clear that knowledge economies flourish with competitive markets in innovative technologies and high value-added industries, especially when provided with access to high-risk finance and reservoirs of highly-educated workers. However, this has created the illusion that there always efficient market solutions to problems, with the consequence of down-playing the role of government. For meaningful change to continue, we need to recognise the role of government, echoing the broad type of approach Polanyi brilliantly used in the *The Great Transformation* [1].

2.1. Higher education as a competitive market

The first pathology in the UK is that higher education developed into a competitive market, as Camilla Cavendish has forcefully noted [2]. Higher education could have developed in the same way as schools, which certainly compete, but within a highly constrained 'state' system: For example, if the school leaving age is raised, young people are required to stay an additional year in school. Similarly, the examination system is centrally controlled and administered, as are residential rules for admission. Instead, despite having government-set participation targets, higher education has become a competitive market, free from significant government oversight.

Or, rather, it has become two markets. One is for investment goods – the collection of skills, personal networks and certifications that make up a university education. Here, supply is provided, marketed, and sold by universities, with the demand

side fulfilled by student participants, who choose to invest in a sunk-cost, long-term asset with an unknown rate of return.

The second market is for the services provided by these student participants after graduation, with demand being met by graduate jobs. Apart from the auditing of teaching and research, assessing student satisfaction, and validating degrees, the state plays a limited role.

So participation in the higher education sector has become a market choice. Over the medium-term, the sector depends on the direct demand for graduates in the job market, and indirectly depends on the graduate premium for both the graduates and the employers, as the Goldin-Katz model shows [3]. This means that stagnation may plausibly follow as a result of the following trends:

- a decline in new graduate jobs as a result of the slowdown of innovation and productivity growth (see below); and
- the austerity-induced freeze in health and education spending on training new doctors and nurses, and the continuing low status and reward structure of teacher careers (see below).

2.2. Macroeconomic policy with private consumption as macroeconomic driver

When the neo-liberal framework was applied to macroeconomic policy, it was dominated by inflation targeting. Independent central banks used short-term interest rates as an instrument, while capital mobility has meant that the long-term real interest

rate has been pinned by the world rate. In recent years (since the financial crisis) the zero lower bound on the nominal interest rate has resulted in a reliance on fiscal policy.

In turn, fiscal policy has operated with fiscal rules consistent with a target for the public-debt-to-GDP ratio. Since a rise in public investment results in an increase in public debt – with any increase in public sector (or national) wealth disregarded – borrowing has been restricted. This has played a leading part in the public sector austerity of recent years, very much including the sharp slowdown in discretionary spending (including investment) in health and education.

And while governments have been keen to encourage private sector borrowing, the secular slowdown in expected and actual GDP growth has substantially dampened private sector investment (despite profitability) including in research and development (R&D) and productivity enhancements. In contrast, household borrowing to finance private consumption expenditure has not been constrained, with mortgage collateral provided by rising house prices.

Most worrying is that the core distinction in macroeconomics between growth and cycle may have broken down, as Cerra et al. suggest [4]. If both public and private investment are declining as the direct and indirect result of public debt ratio targeting, then innovation and productivity growth is likely to decline; because that reduces GDP growth, austerity policies have to deepen in order to meet the debt ratio targets, further dampening investment, innovation, and productivity growth. This Kaldorian vicious circle is reinforced by hysteresis effects on human capital.

2.3. Low tax rates on higher incomes

There is one further element of fiscal policy, emphasised in the neo-liberal framework, that has played a long-term role in the stagnation. This is that income tax rates should be lowered on higher incomes to encourage risk-taking. This reflected the perception that financial risks were higher as a result of the ICT revolution (and the uncertainties as to what directions innovation would come from), and that increased human capital had potentially very high returns.

It is doubtful that the increase in post-tax inequality and the high post-tax rewards for those working in high value-added private service sectors have played a major part in promoting innovation [5]. The costs of lower taxes, especially when imposed at times of relatively low growth (most notably during the austerity period after the financial crash), have been mostly borne by public services.

This has meant that many public sector jobs are confined to low levels of pay. While these jobs are often viewed as graduate-level, they tend to come with a low career premium, and so fail to stimulate higher education participation. For instance, for public sector teachers there has been some increase in pay (particularly in starting salaries), but any meaningful increases have been constrained by low tax rates elsewhere. This correlates with research of Goldin and Katz, who argue that the slowdown in the supply of new graduates between 2000 and 2017 is due to the fact that the graduate premium is confined to the top half of graduates [3].

As a consequence, public school teaching remains a low-paid and low-status career – especially in relation to higher-level

private sector services. And new teachers frequently spend only a few years teaching before moving elsewhere. Thus, even the provision of new graduate teaching jobs may be unattractive for raising higher education participation, if linked with a low career premium.

In summary: the rise in post-tax earnings for high earners is linked to the failure of higher education to continue past rates of growth, while also holding back increases, for instance, in the numbers of doctors and teachers.

2.4. Governmental withdrawal from R&D

In addition to the economic pressures, neo-liberal thinking has tended to oppose government intervention in research and development. Bloom et al. have argued, albeit in the context of the US, that the policies that enhance innovation are: high-skilled immigration, open and competitive trade, and state subsidies on private R&D spending. Direct intervention, such as DARPA assisting in the development of the internet, seems to have been less helpful.

2.5. Economic geography, tipping points, and the limits to markets – Networked agglomerated cities and ‘places that don’t matter’

The main growth drivers of neo-liberal economies (according to the research of Katz and Brookings in the US) are successful cities. In America, such cities tend to be those that have strong research universities, prominent new technology sectors, and high value-added private sector services such as law, finance, and consultancy. Closely attached are secondary economy industries,

including government, media, and culture. These cities are surrounded by well-connected travel-to-work areas, with abundant housing. In America, there is a major focus on building and maintaining strong networks among these sectors, particularly between the university and innovation sectors and government and knowledge-based business.

This model is not followed in England. Research universities are seldom core actors in the economy and the networks between sectors hardly exist. The model implies social externalities (to the cities they are in) from investment in expansion of research universities. In principle, research universities should enjoy strategic complementarities with city-regional government and major knowledge-based companies, with all the players committing to long-run investments in order to profit from 'knowledge' agglomeration. But credible commitments are difficult to make. In effect then, major northern cities in England may suffer from 'under agglomeration', as Overman has underlined [6].

Much as the English state has relied on markets to establish links among universities, it has also relied on them to resuscitate the 'places that don't matter'. This reliance worsens the PDM problem. Many could be potential commuter towns or cities, functioning as travel-to-work areas. However, due to the underinvestment in these areas, with governments not refurbishing transport systems that were set up for an industrial era or renewing the housing stock, they remain unattractive. There is no market solution here, as the younger people and potential commuters have either moved away from or refuse to move to PDMs, and so private transport companies have limited reason to invest in transport infrastructure. This, in turn, means that

private housing developers have no incentive to build. Thus, PDMs remain PDMs.

2.6. Shareholder-value maximisation

Shareholder-value maximisation has become (and more or less remained) the dominant focus among publicly quoted companies. This has been particularly apparent in the UK, due to its especially shareholder-friendly takeover rules. The focus on shareholders receiving a rapid return on their investment has led to short-term profit maximisation at the expense of employee skills, R&D spending, and sustainability. In turn, this has made longer-term cooperation and commitment between the public and private sectors harder.

Very large asset management institutions, especially those with ‘passive’ management strategies, such as Blackrock, Vanguard, and Fidelity, are also aware that long-term decision making leads to higher shareholder value. Larry Fink, the CEO of Blackrock has ‘explained’ this in his 2018 and 2019 letters to the CEOs of companies in which Blackrock has shareholdings. Likewise, an important book by Colin Mayer shows *inter alia* how companies can work effectively with government, especially at the city-regional level, by redefining their legal purpose [7].

3. Transformative Strategies? Blue Skies Thinking

We argued above that some governments have over-relied on markets and that this has led to the decline of certain regions, which have become vulnerable to populism. Rather than leaving the key choices to markets, the state needs to think in terms of long-term interrelated plans, with markets operating on a secondary level.

In taking this approach, a long-term perspective is fundamental, given the nature of the problems we are trying to solve.

These plans need to be first constructed at city-regional level, with these city-regions then linked. For instance, here we focus on Manchester and its surrounding area, but this would ideally form part of a cross-Pennine link, encompassing Liverpool, Manchester, Leeds, and Sheffield. Following McCann, a model for these cities to follow would be London and the South-East, where the economic growth of the cities is seen as benefiting other regions rather than draining their resources. Alongside this, the political infrastructure of these regions would develop, with local governments in place in each city-region.

Next we model what policy would have to look like for the following (or similar) to be achieved:

1. Raising the higher education participation rate to 80% by 2030. This would be achieved by restructuring and differentiating tertiary education while simultaneously regenerating growth of graduate careers in the private and public sectors.
2. Integrating PDMs into the Manchester travel-to-work area, while constructing networks between research universities, city-regional government, and knowledge-based companies.
3. Restarting productivity growth based on these networks, alongside a new macroeconomic policy that integrates counter-cyclical and pro-growth policies.

All these three questions need to be seen in the context of AI and the associated technologies. The term 'AI' will be used to refer to

this huge change which will dominate the next decade – and far beyond. AI will lead to re- and upskilling, to job changes within and between companies, as well as career switches; the evidence increasingly suggests this will greatly favour graduates and disadvantage those without tertiary education. This will dominate all levels of tertiary education. ‘More generally, as Angus Deaton has said: “This BA/non-BA divide just comes up again and again”[8].

3.1. Major increase in higher education participation: Two levels of tertiary education

Higher education participation needs to increase in the long-term, and with this growth of graduates we need a corresponding growth of graduate jobs. Our research university system is surpassed only by that in the US, but both the form and the content of higher education needs to change in major ways.

- (1) Every comparable advanced country other than the UK has a two-part tertiary system. The main degree route is offered alongside a lower-level vocational education, usually a two-year college system. A community college system on American lines can act as a connective between PDMs and Manchester. Given the defined economic needs of the region, responsibility for the syllabi and qualifications must lie with the city-regional government.
- (2) Teaching should become a high-status career, attracting some of the ablest students. Currently, teaching conditions and pay mean that many leave after only a few years in the profession. There is a major case for

raising national income tax in order to increase *all* teacher salaries, not just at entry level. The argument that low taxes on high incomes incentivises workers is not strong enough [5] to displace the advantages of better teacher pay.

- (3) Moreover, there is a need to improve the level of primary and secondary education in PDMs, providing children with the skillset needed to enter university. While hiring more able teachers and introducing community college is an important part of this, given the fundamental learning difficulties that stem from disadvantage – particularly for boys, as Chetty has shown [9] – ultimately it is the integration of these PDMs in the Manchester TTWA that is critical.
- (4) Financing wider higher education participation. This should be considered in the same way as raising the school leaving age. Much as the advantages offered by leaving at 18 warrant sixth form being free at point of use, the same applies to universities. Therefore, if necessary, paying for a high level of university participation should be done through higher tax rates.
- (5) In pushing for more vocational components to form a part of tertiary education at community colleges, there needs to be a greater consideration of the need for professional schools.
- (6) Expanding higher education participation requires a corresponding expansion of graduate jobs; here a contingent strategy is needed. Here again city-regional government needs to be involved: There is a huge

shortage of UK-trained doctors and nurses, partly as a result of austerity. And place-based job creation needs to be planned out with the NHS.

3.2. Integrating PDMs into the TTW of the city-region and building it up further as a successful agglomeration

In elevating Manchester, the focus should ultimately be on developing the whole Northern city-belt into a ‘northern polygon’, orientated around Manchester, a counterpart to the ‘southern polygon’ orientated around London. Using the development of American cities as an example [10], city-regional mayors need to devote resources to building up inner-city networks, connecting leaders across the major sectors. Developing these sectors and networks will require significant investment, financed most likely by borrowing. Much of this spending should be focused on research and development, and other research has suggested that there is a strong basis for innovation districts to be established. Funding could also be awarded on a competitive basis, such as Mayor Bloomberg’s New York competition, which invited external universities to bid for a major new campus. This is similar to the system of Germany’s federal government, which awards cities major funding that links together the universities, major companies, select smaller companies, and external research systems. This forces different bodies from within the same city-region to cooperate.

Simultaneously with the development of fast transport systems and the refurbishment of housing stock (see below), these should work to bring in knowledge-based multinational corporations and their subsidiary networks. It should also bring in students, young professionals, and tourists. If established

correctly, this system should result in a positive multiplier effect, leading to a rise in house prices in Manchester's and other integrated cities' CBDs. In turn, this should invite the integration of other peripheral cities, such as Bolton, Bury, and Wigan into the greater metropolitan area.

For the development of these fast transport linkages and the refurbishment of housing stock, the relationship between city-regional government and private companies needs to be redefined, shifting the focus away from immediate shareholder maximisation. This means that franchising is not an effective way forward, as it creates too strong a temptation to game the system. Instead, there needs to be an alignment between the interests of high-level management in industry and the city-regional government. This alignment would point towards a 'social purpose' company, or a new model of high-level municipalisation. Such a purpose could incorporate some elements of experimentation, with the city-region functioning as a laboratory for technological advancements, such as through the construction of rapid transport systems instead of solely rail links. This would serve as a further enticement for large high-technology companies, continuing the positive multiplier effect.

3.3. Macroeconomic policy, research, productivity growth

Finally, we turn to macroeconomic policy, a key element of the neo-liberal framework. The key of the separation of growth and cycles is admirably summarised in Cerra et al. [4]; see also Benigno and Fornaro [11] and Carlin and Soskice [12].

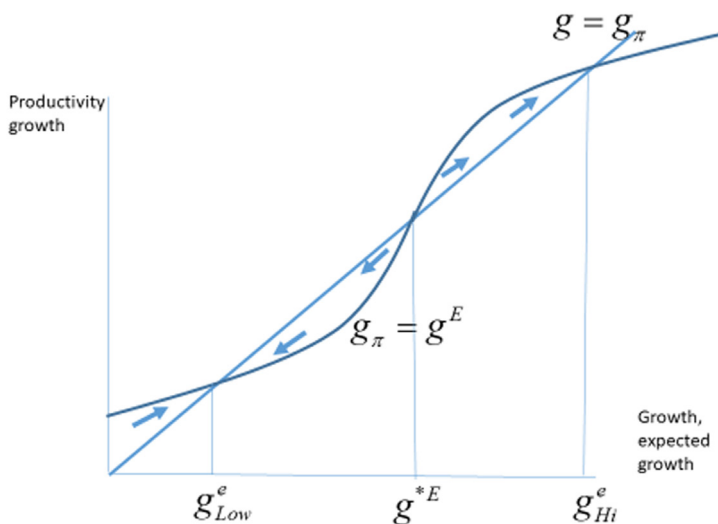
There is a danger implicit in standard inflation-targeting monetary policy, as well as public sector debt-ratio targeted fiscal

policy, given that productivity growth may depend on expected GDP. Should there be a downturn in growth expectations, this assumption would lead to a reduction in productivity growth, which would in turn tighten fiscal and monetary policy. Thus, the contraction would be self-fulfilling.

Below we provide a simple account of how these multiple equilibria can happen. If growth expectations are low, say below g^{*E} in **Figure 6.2**, then productivity growth (and GDP growth) gets pushed to the low equilibrium [12]. If expectations are above g^{*E} , then productivity and GDP growth will rise to a higher level. This is a coordination game in pure strategies, where there are pessimistic and optimistic equilibria.

Something like this seems to be at the core of what has happened to productivity growth, perhaps through the 2000s as well

Figure 6.2: Multiple productivity growth equilibria



as since the financial crisis. This is not an aggregate demand problem in the ordinary sense, but it suggests an active promotion of demand, so growth expectations do not collapse. Arguably the solution involves putting more resources into research in both public and private sectors. Tobin referred to this as 'high-pressure demand policy'. Productivity growth, in a skills-biased technical change world then implies the demand for new graduate jobs increases, and real earnings increase as well.

4. Conclusion

To uproot the populist ideology from English soil will take nothing less than another Polanyi-style great transformation. This paper sets out a broad long-term strategy that aims to reduce the allure of populism, focusing on three related ideas: first, the need to create inclusive growth; second, to promote social mobility out of segregated pockets of society, especially PDMs; and third, to recreate the social contract on a regional, national, and cosmopolitan level. This is in some ways the most important, and can be achieved through an increase in higher education participation rate and the construction of a wide 'graduate job' economy. Key to doing this is to develop a long-term strategy for creating corresponding growth in regionally-focussed graduate jobs. A major element in doing this will come through the health sector, and creating graduate level jobs in the care sector. And a second long-term element from raising productivity growth, associated with AI.

We have not discussed the reorganisation of democracy. We are a society without an explicitly populist party, but we have a highly populist electorate and a sharply divided political system.

It is often suggested that a major reason for that is that we are majoritarian system rather than PR. But the sharp divisions and frequent sense of chaos at Westminster reflects the absence of a median voter in the national electorate. So the real focus should be on whether it is possible, at the city-regional level, to reconstruct this median voter. That is another task that seems necessary to uproot populism.

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Competing Interests

The author has no competing interests to declare.

Notes

¹ Neo-liberal framework' has become a shorthand in the political economy literature for the major shift away in policy development from the key role of the state to a greater reliance on markets. In the UK this gathered speed during the 1980s in the Thatcher administrations. It refers *very loosely* (as an idealised picture of the justification of policy making by governments internally and in self-presentation to the wider

electorate) to: greater use of markets in a range of areas such as housing and transport; an emphasis on denationalisation and increased market competition, domestically and in Europe; treating universities as a competitive market; capital mobility and widespread liberalisation of controls in finance, permitting greater risk-taking; a well-developed shareholder-oriented market in corporate control; central bank autonomy and responsibility for an inflation target via interest-rate setting, international capital mobility and the elimination of exchange controls; and fiscal policy focussed on low taxes and playing a minimal role in discretionary macroeconomic management.

² See Schmidt and Thatcher for a sophisticated comparative discussion, explaining why the UK form of liberalism was ‘purer’ than elsewhere, Schmidt, V. and M. Thatcher, Eds. (2013). *Resilient Liberalism in Europe’s Political Economy*, Cambridge University Press.

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