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Article

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Introduction to the Issue on

Rise of Populism: Causes, Consequences and Policy Implications?

Chang Woon Nam

Populism, which goes hand in hand with far-left or far-right party slogans and/or strong, personalized political leadership and polarized rhetoric, is on the rise worldwide. The presidency of Donald Trump in the US and the campaigns in favor of the Brexit referendum are seen as two prominent examples in recent years. A number of EU member countries have also recently witnessed rapid popularity of such populist parties. For example, the radical parties in France, Italy, Spain, Portugal, Hungary, Greece, Austria, the Netherlands, Sweden, and Germany have recently gained votes in national elections. 2024 will be an important election year with the presidential elections in the US and the European elections, raising concerns of a further rise in political polarization and populism in the Western world.

Economic interests are often seen as one of the most important determinants of political preferences, and economic conditions appear to have a significant influence on voting behavior. In this context, rising unemployment, inequality of income and opportunity, economic uncertainty, and trade shocks are frequently suggested as the main reasons for supporting populist parties. Economic downturns and crises, which lead to job losses and substantial cuts in pensions, subsidies, and transfer payments, usually favor populist votes. Voters who are adversely affected by such developments usually demand more social protection and a significant increase in income redistribution. In parallel to their claim that jobs should be provided first for domestic workers, populist parties can therefore be characterized as “nationalist,” pursuing an “anti-immigration” policy, as such determining that social benefits should not be granted to foreigners who do not pay taxes, but mainly guaranteed for nationals. And these parties are also endowed with an “anti-elite” ideology, as they believe that the ruling elites, who are responsible for the crises, do not suffer the consequences. Populist politicians also argue that financial sector managers and shareholders benefit in good times, while taxpayers finance the bailouts for crisis-related losses.

This issue of EconPol Forum brings together nine articles that address the issues arising from populism worldwide. They not only take a critical look at the main economic and political causes and consequences, but also shed light on the wider challenges ahead and how future economic policy should respond to this serious global development.

Sergei Guriev argues that the rise of populism has been caused by secular trends (globalization, automa-

tion, and the rise of social media) and one-off events (e.g., the 2008–2009 global financial crisis and subsequent austerity, and the 2015–2016 refugee crisis), as well as cultural conflicts. He points to the evidence that populists in power stifle economic growth and undermine democratic political institutions, and recommends better redistribution, social media regulation, deliberative democracy, and ranked choice voting to combat the rise of populism.

In their critical assessment of the findings of recent economic and political science research, *Florian Dorn*, *David Gstrein* and *Florian Neumeier* postulate that the main factors behind the rise of populism and the loss of trust in political institutions are a growing gap between rich and poor, increasing regional inequalities, economic insecurity, and exposure to economic shocks, as well as fears about future economic development and social decline. To effectively combat the spread of populism, democracies must increase their resilience. This requires well-designed welfare and education systems that protect citizens from the consequences of economic crises while ensuring equal opportunities, sound and sustainable fiscal policies to respond to economic crises, and targeted economic policies and instruments to limit economic uncertainty in times of crisis and to support regions and people who feel left behind.

Drawing on a large-scale survey in France, Germany, Spain, and the UK aimed at better understanding the rise of populism and identifying the socio-demographic characteristics, attitudes, sources of information, and psychological patterns of those who vote or intend to vote for a populist party, *K. Peren Arin*, *Efstathios Polyzos* and *Marcel Thum* highlight that immigration emerges as a key area of divergence, with left-wing populist voters emphasizing the positive effects of immigration, while right-wing populists see it as a greater threat to native workers and the welfare state. Both populist groups share concerns about economic insecurity, perceived political inequality, limited opportunities, and a cautious attitude towards multinational corporations.

According to *Eugenio Levi* and *Steven Stillman*, the initial development in the 1990s and the long-term success of New Zealand First (NZF), one of the oldest populist parties in the OECD, are attributed to structural reforms that resulted in significant income losses, accompanied by immigration reforms that led to increased migration from culturally distant countries. In addition, the effects of these shocks were

found to be concentrated in rural areas. The shocks led to an increased mistrust in established parties. Both authors believe that a timely redistribution policy and a more convincing migration policy could be a first step in preventing the spread of populism.

Manuel Funke, Moritz Schularick and Christoph Trebesch show that countries with populist regimes experience a significant decline in real GDP per capita on average. In particular, the erosion of democratic norms could be an important reason for the negative economic consequences of populism, as democracy and strong institutions have a positive impact on economic prosperity in the long term. Institutional uncertainty and strong polarization in populist-led countries discourage investors and innovation, leading to capital flight and brain drain. Moreover, populism is an extremely persistent phenomenon, and the damage to democratic institutions can also explain why one populist government is often followed by another and why they often slide into authoritarianism. Such a serial nature of populism is a serious risk for the future.

Apart from the fact that populist-led countries tend to have lower economic growth and less integration into the global economy, *Luisa Dörr, Niklas Potrafke, Felix Rösel and Tuuli Tähtinen* provide some additional empirical evidence on what policies populists in office have pursued at the local level. These include: (1) during their time in office, populist mayors have restricted immigration and social polarization has increased; (2) the election of populist mayors with anti-immigrant agendas also influences attitudes toward foreign migrants, leading to a higher likelihood of hate crimes against immigrants; and (3) the representation of populists in local councils can lead to shifts in the ideological positions of other parties.

As populism often poses an existential threat to established political parties, traditional parties could try to debunk populist rhetoric or fight back with populist tactics. Based on a field experiment during the 2020 referendum in Italy, *Vincenzo Galasso*

shows that fighting back can be effective: political ads denouncing populist politicians demobilized their electoral base at little economic cost. However, he warns against the lasting effectiveness of such negative campaigns by traditional parties and emphasizes the need for future-oriented strategies in the fight against populism – such as positive narratives that do not boomerang over time.

Populism thrives on mistrust of established institutions, ideas, and ideologies. Stagnating productivity, large trade imbalances, and waves of immigration have contributed to growing discontent of the population in the West and undermined confidence. In this context, *Gylfi Zoega* suggests that long-term inclusive growth would help to restore confidence: while “growth” improves living standards over time, “inclusiveness” ensures that all or most workers benefit from growth and also feel that they are valued and given opportunities.

Finally, according to *Massimo Morelli*, the age of populism is characterized by two paradoxes: a political paradox – the demand for fewer checks and balances in times of growing distrust; and an economic paradox – the increased demand for national sovereignty in times of global challenges that cannot be solved by action at the national level. Since the collapse of hope and trust is both a cause and a consequence of populism, the political debate should therefore focus on these concerns. He sees that it is difficult to reverse the trend at the national level, but carefully chosen European policies can achieve this. For example, corporate and capital taxation at the EU level is feasible and could provide funds for greater economic security for the masses, e.g., with EU unemployment insurance, while helping to reduce taxes on labor income at the national level. This type of policy can create trust and hope in supranational institutions.

We hope you enjoy this Policy Debate of the Hour!