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Massimo Morelli

## Sad Populism and the Policies of Hope\*

### KEY MESSAGES

- **The erosion of trust in liberal representative democracy, institutions, and parties generated a shift to commitment politics, in which identitarian and nationalist protection commitments are perceived as feasible (right-wing populism), whereas left-wing welfare policy commitments as not credible during times of low fiscal space**
- **People who demand commitments by the executive power may want the weakening of all other powers, which are perceived as obstacles for such desired policy commitments: a dangerous path from economic populism to illiberal populism**
- **This populist time is characterized by two paradoxes: a political paradox (demand for fewer checks and balances at a time of growing distrust) and an economic paradox (greater demand for national sovereignty in times of global challenges, not solvable by nation-level policies)**
- **Distrust goes hand in hand with low hopes and aspirations. It is difficult to invert the trend at the national level, but carefully chosen European policies can achieve it**
- **Corporate and capital taxation at the EU level is feasible and could give resources for greater economic security of the masses, e.g., with an EU unemployment insurance scheme, while at the same time helping to reduce national-level labor income taxes. This type of policy can generate trust and hope in supranational institutions**

The problems in private life are usually different from those we face in scientific work. If they start to be the same, then we know that we live at a critical juncture of history; when you as a social scientist as well as a person wake up every day thinking about what to hope for the day, for your family, for society. Populism is not only the most debated phenomenon in the social sciences, from politics to economics, sociology to psychology. It is also a synthesis of personal worries for society and for future generations. As scientists, we have first focused on trying to explain populism, looking at the economic and cultural changes that could be behind it, and also dueling back and forth on its meaning. As a citi-



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zen, I wonder not only what I should hope for but also what it is feasible to hope for.

In this article, I aim first to convey the growing awareness that these two spheres are sadly converging. Second, I want to share some preliminary thoughts about which policy decisions we could advocate that could perhaps invert the trend. I believe that the trend towards distrust and low levels of hope and aspirations can be inverted only at the European level, whereas at the national level, it is very difficult to break the vicious circles that the erosion of trust has created at the economic and political levels.

### EROSION OF TRUST AND THE SHIFT TO POPULIST COMMITMENTS

For many in liberal Western democracies, the 90s were a decade of growing optimism: the end of the Cold War and perceived stability of the systems based on democracy and the free market; the many growth prospects offered by institutional integration in Europe and technological development; emerging markets and the end of dictatorships, and China joining the WTO. In the new century, the roaring 90s seem a thing of the distant past.

Economists and political scientists have mostly focused on the downsides of globalization and automation – causing greater inequality and economic insecurity especially among low-skilled workers – and on the growing perceptions of economic and cultural threat associated with immigration. The financial crisis around 2008 played a crucial watershed role: it extended distrust in open real and financial markets to the middle class, as shown in Guiso et al. (2021). At the same time, the accumulation of debt in almost all liberal democracies increased awareness that the inequality and external threat of open markets cannot be offset by government welfare policies. In turn, a growing distrust in free markets and government welfare systems, the two pillars of liberal democracy, determined growing distrust in existing institutions, domestically and internationally. The compounded effect of distrust in markets and governments is documented in Guiso et al. (2021) – where we show that the financial crisis had political consequences significantly worse in countries with low fiscal space – and in Guiso et al. (2019), where we show that the market fears due to globalization exposure became politically relevant only within the Eurozone, due to the perceived straitjacket constraining policymakers in the Eurozone.

Lower trust in markets, governments, and political institutions led naturally to a crisis among traditional

parties: they were perceived as unable to protect the people from all those threats, due to their perceived tendency to be influenced by elites, broadly interested in the conservation of a convenient status quo. It is at this juncture that populist politicians entered the scene with almost immediate success, gladly accepting their description – prevalent in political science – as the new champions of the necessity to protect the people from the corrupt elites.

As we argue in Bellodi et al. (2023a), the natural consequence of a generalized erosion of trust in delegated representatives is a shift to commitment politics. On the demand side, voters left and right want monitorable policy commitments more than consistency with philosophical principles; however, the economic welfare commitments typically associated with the left may not be credible in times of looming austerity, while the typical commitments to protect identity and national interest offered by right-wing politicians do not suffer from budget constraints. In other words, the demand for commitments is there on left and right, but the right-wing commitments look more feasible. This explains why the current success of populist politicians in Europe falls disproportionately on the right, while in other historical and geographic contexts, the prevalent populist commitments had been more to left-wing redistributive policies.

### THE MAIN CONSEQUENCES OBSERVED SO FAR

Macroeconomic studies reveal that populist governments have large negative consequences for growth: Funke et al. (2023), for example, used a sample of 1,827 leaders in 60 countries from 1900 to 2018 to show that after 15 years of populist government, GDP per capita and aggregate consumption are more than 10 percent lower compared to a reasonably similar country with a non-populist leader.

Second, cross-municipality studies have shown negative consequences of populist mayors for various measures of economic performance as well as a deterioration of local public management (Bellodi et al. 2023b).

A third (and perhaps most concerning) consequence of greater demand for policy commitments (from border protection to protection of national interests in general) is the growing desire to reduce the power of bureaucracies and the judiciary systems, perceived as limitations to the power of the populist executive to implement those commitments effectively – Poland, Hungary, Mexico, and Turkey, among others, all display wider support for a reduction of checks and balances. This leads to a double paradox:

- first, in a world of growing distrust in institutions, the checks and balances to executive power are paradoxically seen as less desirable;
- second, in a world of global challenges, politics sadly drifts towards nationalism.

This double paradox is the essence of democratic backsliding and de-globalization, which can make us worry about the future even more than the evidence about the negative economic performances of populist governments.

### THE RELEVANCE OF HOPE

It's no coincidence that in 2008, at a time in which the financial crisis was dealing trust a crucial blow, Obama decided to campaign with a “Yes, we can!” campaign of hope: trying to restore hope in the ability of a progressive government to master the various challenges was the key to winning the election. In 2016, Trump instead ran on distrust and the failure of those hopes. The collapse of trust in Washington helped him gain the support of all those who did not buy into the connection between institutions and hope. The commitment to protecting the people against the threats posed by immigration, the commitment to nationalist protectionism and disengagement from international relations combined to push moral universalism and liberal values out of the political debate.

In Europe, the trend is very similar, with growing distrust in bureaucrats, judicial systems, integration policies, and the European Green Deal. The double paradox mentioned above can help to summarize the critical juncture in which the upcoming European elections will take place: at a time of global challenges and climate and geopolitical transitions, one side views strengthening of European-level responses and the ability of the EU to respond collectively and decisively as ever more important, while the other, stoked by distrust, portends potential growth in support for identitarian nationalist parties, which would want to maintain intergovernmentalism and national sovereignty protection.

If my neighbor, my taxi driver, my plumber, and my lawyer all tell me that they support populist parties because of distrust in representative democracy and frustration with bureaucracy, the first instinct is to argue that a populist leader may be an even worse representative and that (s)he will make bureaucracy even worse. However, this type of reaction further contributes to reducing hope and trust, creating a vicious circle. Their distrust and frustration become my fear about the future, strangled in the double paradox. The liberal values of ingenuity, prudence, and industry were at the heart of the Smithian hope that people would trust the invisible hand of markets and would be driven by aspirations of economic and social improvement that they could achieve by the exercise of those values. This virtuous circle has been broken by growing inequality and a shriveling of hopes in social and economic mobility. The frustrated middle class now fears the people “below” them, and hate and envy the unreachable wealthy. Thus, distrust in institutions and elites goes hand in hand with lower

hopes, lower aspirations, and lower incentives to work towards achieving dreams. The causes of populism may well be exacerbated also by some of its consequences, because the double paradox does not allow us to think that populist policies can restore dreams of self-realization or moral values.

### POLICIES FOR HOPE AND TRUST IN INSTITUTIONS

Given that the collapse of hope and trust are cause and consequence of populism, it follows that the policy debate should focus on such concerns. “Next Generation EU” was a great name for the European effort to finance reforms and policies to rebound from the Covid-19 crisis, because it is exactly the creation of hope for the next generation that can save us from a vicious circle of divisions, walls, and conflicts. European funds for reform and infrastructure that everyone needs were important to increase awareness of the global/national paradox, and such awareness could be further increased if we manage to go towards common corporate sales taxes and capital taxes that could reduce some of the inequality-related frustrations and show the relevance of EU policies. Since the labor share of national income is falling and national taxes on labor income are typically already too high, the enlargement of European resources for public goods, infrastructure, defense, and research can only come from European corporate and capital taxes, which are self-defeating when collected at the national level. Trust in institutions may be restored if new policies allow wealth to be redistributed more equally, while at the same time allowing increases in disposable labor income. A European capital income tax scheme can allow each state to reduce its labor income taxes, and this could help trust to rebound.

One example of a policy on the welfare protection side – one that is sometimes unfeasible at the national level but that could make people feel protected by European institutions, restoring some trust and hope among lower-income classes – could be a European unemployment insurance scheme or European-level citizenship income. While the latter would require a significant increase in Europe’s own resources, the former is feasible with only a minor enlargement of own resources. Strengthening Erasmus programs and supporting access to high-level education for all could of course also play a significant role for the creation of trust in European institutions among this and the next generations.

As for tackling the other paradox – the lowering of appreciation for checks and balances – it is necessary to avoid the multiple layers of European, national, and regional bureaucracies and reduce the legal uncertainty due to the ill-defined boundaries of

jurisdiction of the various courts. An independent judiciary and an efficient bureaucracy can be desirable for voters if reforms are made to reduce the concern that such agencies are influenced by the same elites that they fear exert a hold over politicians. The use of self-certification and interim controls should expand, while preliminary checks on business creation should be reduced. The preservation of bureaucracy and judiciary independence depends not only on the level of trust in their motivation and competence, but also on whether the general perception is one of their being an “obstacle” to the implementation of policies with broad support, or as a “protection” against the unwise judgement of rushed executive decisions. In a climate of eroded trust, the latter concern should dominate, but it is difficult to fulfill such an objective without risking depicting bureaucracy and judiciary independence as obstacles to the achievement of populist objectives.

EU policies should be policies of support, public goods provision, and coordination, and should not go in the direction of “additional” constraints, which can further foster nationalist attitudes. The recent protests about agriculture constraints are telling: if setting minimum standards is necessary for the Green Deal, then anti-European attitudes can be avoided only if the European institutions counterbalance the new constraints with income policies that would be unfeasible at the national level. Nationalism is a “trap,” precisely because the demand of greater security cannot be addressed economically and politically by nations non-cooperatively (Morelli 2020). This implies that even though populism thrives within the borders of individual states, the greatest hope for saving representative democracy with checks and balances lies with Europe. Perhaps this is an additional paradox, given that the creation of the United States of Europe is still a distant dream.

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