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Democracies in Danger: How Can We break the Vicious Circle of Populism?

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on the *“Ongoing surge of populism in Europe and solutions to reverse it”*

Episodes of economic insecurity and rising inequality have always been a source of dissatisfaction and distrust in democratic institutions. Populist leaders exacerbate such feelings of resentment to get support from unorganized followers. Their rhetoric builds on the premise that high ethical and moral values are the hallmark of the people, and not of the established rulers. They highlight the divide between the good, pure, and homogeneous people that they claim to represent, and the corrupt and self-centered elite. Their discourse is authoritarian, nationalistic, and based on cleavages (Guriev and Papaioannou, 2022). Although populism has always been present in society, the ongoing surge in populism in Europe is particularly worrisome given its intensity and the persistence of its underlying alleged causes. This policy brief highlights the alarming trends in populism, discusses the mechanisms potentially leading to “snowball” dynamics, and calls for concrete actions to restore trust in traditional parties, as well as local and European institutions.

Democracies are in deep crisis

Most political indicators show that populism has never been as high as today. Rodrik (2018) evidences that the support for populist parties has gradually increased worldwide since the mid-sixties, and that the populist backlash has been on the rise for the last two or three decades. Focusing on countries with populist leaders, Funke et al. (2020) show that populism is at an all-time peak, following a 30-year secular trend increase: more than 25% of nations are currently governed by a populist leader. Relying on manifesto data, Docquier et al. (2022) study the evolution of the volume margin (vote share for populist parties) and the mean margin of populism (weighted average of populism scores of all parties in the Parliament). In Europe, both margins have been fluctuating since the sixties, with peaks aligned with major economic crises (*see Figure 1*). The level of populism in general, and of right-wing populism in particular, has increased drastically and without reversal since the financial crisis of 2007-09 (*see Figure 2*). Other governance indicators clearly suggest that representative democracy is now in a deep crisis. The end-of-year report by the Economist Intelligence Unit 2021 (EIU) reveals that only 21 countries in the world respect all criteria used to characterize a high level of democracy, whereas 59 countries are labeled as authoritarian regimes (representing more than one-third of the world population). Globally, with a scale from 1 to 10, the EIU index is now at 5.28, the lowest score since the emergence of the index in 2006.

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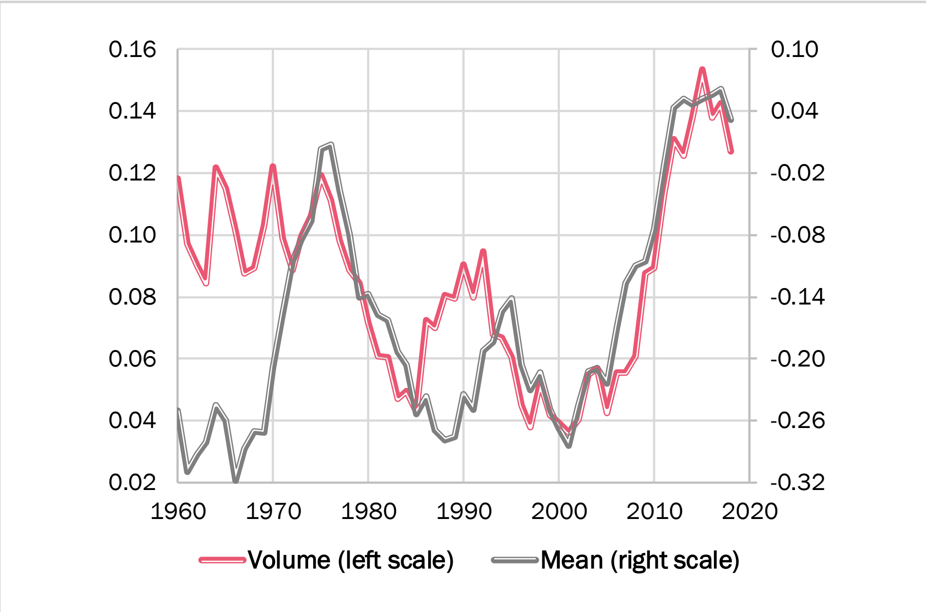
A new surge of populism is threatening democracies - Europe's right-wing populism is at an all-time peak

The string of recent crises (i.e., financial crisis of 2007-09, the refugee crisis of 2015, the COVID-19 related restrictions on freedoms,[1] or the current war in Ukraine and the energy crisis) have undoubtedly contributed to this democratic backsliding. Even more critical are the structural trends that can be seen as sources of progress, but are spotted by populist parties as causes of economic and cultural insecurity, such as automation/robotization, growing immigration from culturally distant countries, and increasing trade with low-wage countries. In addition, the expansion of the internet and new media has contributed to spreading hate speech and fake news. The focus of researchers, policymakers, and reformers should now shift to the consequences of populism – not only on democratic backsliding *per se*, but also on the immediate implications for economic performance and for the functioning of existing institutions.

Figure 1: Volume and Mean Margins of Populism in Europe (1960-2018)

Source: Docquier et al. (2022), based on Manifesto Project Database.
Note: In Figure 1, the volume margin is measured by the vote share for populist parties, whereas the mean margin of populism is the weighted average of the (standardized) populism scores of all parties represented in the Parliament.



[1] *Can Kavakli (2021) shows that the Covid-19 shock allowed many governments to obtain emergency powers, which allowed populist governments to further reduce checks and balances on all possible dimensions.*

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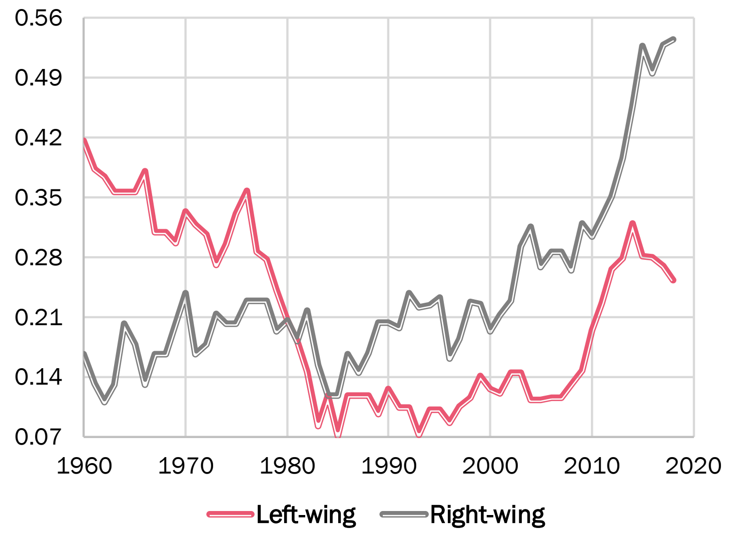

Figure 2: Share of European Elections with (at least) one Left-or Right-Wing Populist Party in Parliament (1960-2018)

Source: Docquier et al. (2022), based on Manifesto Project Database. Note: In Figure 2, left-wing and right-wing parties are those belonging to the first and third terciles of the left-right political scale distribution, respectively.

Vicious circles of populism

In theory, a certain dose of populism could prove beneficial for government institutions. In practice, what we have learnt from populist episodes is quite the opposite, in terms of both institutional changes and economic performance.

Although bad economic performance and low transparency of bureaucracy are among the causes of populist demand, once in power, populists tend to further weaken the bureaucracy, replacing competent bureaucrats with loyal ones, consistent with the general goal of reducing checks and balances of a democracy. Using a large data set of municipal elections in Italy, Bellodi et al. (2022) show that populist mayors have altered policy making to generate more debt and more cost overruns on procurement contracts, and have significantly deteriorated the quality of bureaucracy by firing a large fraction of top public managers, who could have created obstacles to their populist commitments. The weakening of the bureaucracy makes even successive reforms more difficult to implement, and the cost of a populist in office is long-lasting even when staying in office only for a short period. While this could in principle reduce the credibility of populist leaders, it can also fuel the general sense of dissatisfaction with bureaucracy and reinforce the demand for populism – what we see as a potential source of vicious circle. The problem becomes even more impressive if one jumps from the municipality level to the state or federal level. Former US President Donald J. Trump reaffirmed his will to fight against the "deep state" in a speech (March 12, 2022 in South Carolina), where he confirmed his intention to run for the 2024 presidential election and promised he would "pass critical reforms making every executive branch employee fireable by the president of the United States. The deep state must and will be brought to heel." An explicit statement like this, confirms that a direct effect of populists in office is indeed the expected reduction in checks and balances, and a sharp reduction in bureaucratic efficiency in the public sector.

> Populism leads to less efficient bureaucracy, worse economic performance, and polarization of society, all of which create a vicious circle

The macroeconomic consequences of populism are also devastating. Using a sample covering 1,827 political mandates in 60 countries from 1900 to 2018, Funke et al. (2020) investigate how economies perform under populist leaders. After 15 years, GDP per capita and aggregate consumption are more than 10% smaller compared to a reasonably similar country with a non-populist leader. In addition, despite their aspiration to pursue the interest of common people against the elite, populist episodes translate neither into lower income inequality nor into a greater labor income share.[2] These adverse effects are caused by rising economic nationalism and protectionism, unsustainable fiscal and macroeconomic policies, and a decline in the independence of the judiciary and press freedoms. These costs are large especially as populist leaders are successful at surviving in office much longer than non-populist ones, and shape economic trends for many years. And even when someone loses office (as Trump did) the social and political polarization exacerbated during the time in office plus the consequences highlighted above in terms of bad performance maintain the low level of trust in institutions, paving the way for additional candidates and parties that want to capitalize on the cultivation of collective discontent. This is a second source of the vicious circle.

A third source of this vicious circle – at the local or national level – is the effect of populism on the structure of the population. On the one hand, low level of education among voters is a key determinant of support for populist parties. On the other hand, the quality of institutions influences net migration flows of college graduates, who are more willing to migrate to countries and regions with better institutional quality (Ariu et al., 2016). This implies that populist leaders actively contribute to the creation of echo chambers, as the more individuals who could have expressed higher discontent regarding anti-establishment parties leave, the more unchallenged they remain.[3] In the same vein, populist support is also influenced by the education level of immigrants and immigrants' diversity. A populist backlash is more likely to be observed when immigrants are low-skilled and when they culturally polarize the host-country population. Populism affects the way immigrants self-select and sort across destinations. Location decisions of high-skilled workers are likely to be influenced by the political climate in the host country; they might be reluctant to move to countries where populist parties have strong nationalistic and anti-immigration views. On the contrary, low-skilled

[2] *For the latter two variables, they find that right-wing populism increases inequality and reduces the labor income share, while left-wing populism has opposite effects.*

[3] *See Anelli and Peri (2017) on the effect of Italian brain drain on the vote for the Northern League in the 2010-14 period.*

workers and migrants originating from countries with large diasporas have fewer opportunities and are less likely to change their location decision. This implies that populism can reduce the average education level of immigrants and further increase cultural polarization, which are precisely the conditions under which a populist backlash is likely to be observed.

Reversing populist trends

Given these self-reinforcing mechanisms at work, breaking populist trends is extremely difficult. Some solutions have been proposed to tackle the problem "from the bottom," with the objective to beat populists on their own ground (Guriev and Papaioannou, 2022). This implies standing up to populist leaders using modern communication tools, fact-checking, and social media strategies to reduce social polarization. These options are relevant but have not been sufficient so far, as they mainly translate into further conflictual political debates. We need to come up with more ambitious solutions tackling the problem "from the top" (at the EU level), by demonstrating that anti-nationalistic policies and long-termism are the relevant alternatives not only to tackle global scourges but also to address the main sources of concerns of the common people – i.e., economic insecurity and rising inequalities.

> Cooperation, solidarity, merit-based appointments: concrete actions are needed to rebuild trust in European and local institutions

As far as global scourges are concerned (e.g., climate change, global inequality, terrorism, wars, pandemics, etc.), reinforcing solidarity between regions and countries, and fighting short-termism and nationalism should be the main lessons drawn from the recent crises. Increasingly global crises require international cooperation as some obvious externalities can only be addressed cooperatively. Nationalism is a *trap* precisely because the demand for greater economic and political security that leads to populism cannot be addressed without international cooperation (Morelli, 2020). Populist parties fuel on voters' distress to hold back European integration both in the phases of economic growth (mixing identity and secessionist instances) and recession (mixing anti-elite and xenophobic impulses). The rise in populism acts as a strong brake on the chain reaction theorized by Jean Monnet. European Nations should therefore accelerate the integration process as a rebound to the recent asymmetric shocks (the financial crisis, COVID-19, and the war in Ukraine), pushing populist leaders to make space for traditional parties, with greater legitimacy to fuel supranational solidarity and coordinated policies.

Trust in institutions may be restored if new policies allow wealth to be redistributed more equally, while allowing at the same time increases in disposable labor incomes. Firstly, a European capital income tax scheme could allow each state to reduce their labor income taxes, which could repair trust in European institutions. Secondly, the European coordination of investments to recover from the COVID-19 crisis can also lead to greater hope or trust that there is a need for supranational institutions, especially at a time of policy "straightjackets" at the national level (Guiso et al, 2019). Finally, a form of fiscal union and of common defense could eventually complete the picture, portraying nationalism as a dominated option from all possible points of view, fostering cohesion, trust, and restoring a credible "pact" between markets and Nations in Europe. Finally, at the local level, courageous reforms could be adopted to protect bureaucrats and public managers from populist-induced distortions. A process similar to the one that leads to the autonomy and neutrality of judges could be: (i) subject the appointment of high-level bureaucrats to strict criteria of merit, and (ii) guarantee their independence. Without such concrete actions, Europe's populists will continue to flourish, with disastrous consequences for the well-being of the common people.

Figure 3: "Europe's Diminished far right still poses a threat

Source: "Europe's Diminished far right still poses a threat," by Tony Barber (Financial Times, May 23, 2019)

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