POPULISM, INEQUALITY, AND ECONOMIC GROWTH: A EUROPEAN PERSPECTIVE

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Populism, inequality, and economic growth: a European perspective.

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About the 2022 Oxford Congress – Nationalism, Populism and Identities: Contemporary Challenges

In the global context, the growth of nationalism and populism is one of the greatest challenges facing not only Europe but also North and South America and the Asia Pacific region. To address the many issues that arise because of these developments, Fide organised a congress in April of 2022 to bring together experts from all over the world and try and work out possible regulatory and economic ways in which to tackle the issues at hand.

Today we've selected the work done on "Populism, inequality and economic growth" and "The future of the EU's economic proposition in light of looming economic populism: a case for an endogenous response".

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POPULISM, INEQUALITY, AND ECONOMIC GROWTH

ABSTRACT

Economic inequality has increased in many western countries in the last few decades, though the timing and extent of the rise varies. Increasing inequality is linked to declining social mobility, as children born into poverty are more likely to remain in poverty in later life than their parents who were born in more equal societies. Rising inequality is one factor in the recent growth in support for populist political parties, who argue that there are simple solutions to economic problems - these are frequently attributed to external organisations or to disfavoured groups such as immigrants. The evidence to date suggests that populists in power tend to have some effect on inequality – right-wing populists raise inequality, left-wing populists lower it, but at the expense of reduced economic growth overall. We argue that there are alternative 'non-populist' ways of tackling increasing inequality, but that doing so effectively is likely to require a broad range of policies, rather than just changes to specific aspects of, for instance, taxes and benefits.

INTRODUCTION

In this paper, we assess how economic inequality has changed over time, and how this could be linked to the rising prominence of populist movements. We provide an overview of the economic effects of populism to date and consider alternative approaches to tackling economic inequality.

We do not include lengthy discussion of definitions, but have instead used the following working definitions of key concepts:

a. We define populism as encompassing those political movements which emphasise their anti-pluralism and anti-elitism, along with the moral right of leaders of those movements to represent 'the people'.[1]
b. We consider several different concepts of economic inequality, defined as differences in material well-being, or the possibility of achieving material well-being, between individuals and / or groups. Our principal focus is on inequalities in wealth and income, and on inequalities between all individuals in a society, rather than between different groups.[2]

The remainder of this document is divided into six sections, covering: the growth of inequality in western societies (Section 2); the links between inequality, social mobility and merit (Section 3); the growth of populists in unequal societies (Section 4); economic and social implications of populism (Section 5); the effects of the pandemic on inequality and populism (Section 6); and how to address inequality in a non-populist way (Section 7). In addition, the Appendix lists the members of the subgroup.

THE GROWTH OF INEQUALITY IN THE WEST

Global relative inequality has fallen significantly in recent decades, driven by the rapid growth of previously poor countries such as China and India.3 However, the picture looks quite different within many countries, particularly in the West. Income and wealth inequality in many western countries reached a historic low point in the late 1970s. Inflation and labour disputes had eroded the value of capital, and the growth of the meritocratic society had reinforced a sense of high levels of income and

[1] See Müller (2016), "What is Populism?", **University of Pennsylvania Press**; Guriev and Papaioannou (2020), "The Political Economy of Populism", Journal of Economic Literature, available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3542052

[2] United Nations (2015), "Development Issues No 1: Concepts of Inequality", available at:

https://www.un.org/en/development/desa/policy/wess/wess_dev_issues/dsp_policy_01.pdf

[3] Niño-Zarazúa, Roope and Tarp (2016), "Global Inequality: Relatively Lower, Absolutely Higher", Review of Income and Wealth, available at: https://onlinelibrary.wiley.com/doi/epdf/10.1111/roiw.12240 note though that absolute inequality, based on the absolute gap between rich and poor, has risen.

occupational mobility. Political leaders and other prominent figures were often from middle class or poorer backgrounds – 'poor kids made good' through the opportunities opened up by military service and the widening of education systems, or children of small business owners such as Margaret Thatcher and Jimmy Carter.

This began to change in the 1980s, beginning first in the UK and the US, before spreading to continental Europe from the 1990s. By the time the global financial crisis hit in 2008, several western societies were as unequal as they had been since reliable recording began. The financial crisis and its aftermath may have stabilised income inequality, but wealth inequality continued to rise, creating fears of a permanent capitalist elite. The richest people on earth began to challenge their Gilded Age counterparts such as John D. Rockefeller and JP Morgan in the amount of wealth they controlled.

As this basic narrative suggests, changes in inequality are driven by many factors, including long-term moves in the structure of economies (for instance, the shift towards high-tech and high-skill industries), crises and the responses to them, and institutional and political factors, such as changes in labour markets and in taxes and benefits.

FORMS OF INEQUALITY

We focus here on income and wealth inequality.[4] Each of these displays differing dynamics over time, and between countries, and each has several different measures that can tell somewhat different stories. The dynamics are also not necessarily the same at different points of the distribution. Nonetheless, some broad themes emerge.

Income inequality

The most common way of measuring income inequality is via the Gini coefficient – a measure of income inequality between 0 and 1, where 0 indicates absolute equality, 1 indicates that the richest person receives all of the income. Figure 1 presents data for

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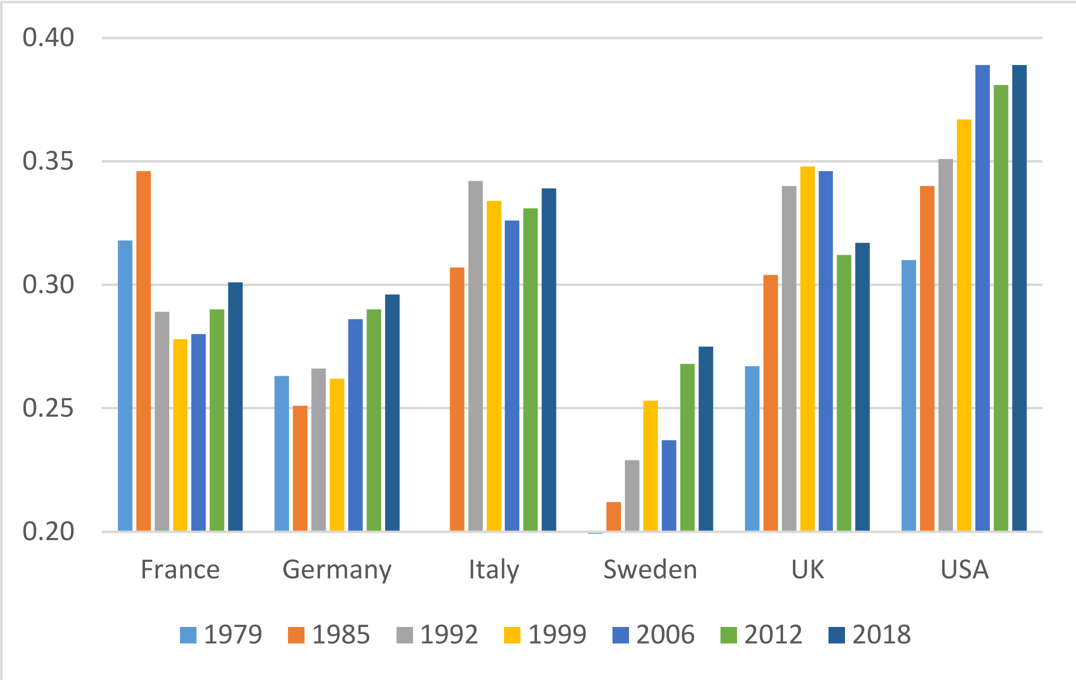
[4] There are many other valuable ways of thinking about economic inequalities, such as inequality of labour or capital earnings, or inequalities of different types of wealth, such as land holdings.

six selected countries.5 The data indicate that, amongst high-income economies, the Gini coefficient now varies between 0.29 and 0.39. Income inequality increased markedly in the UK and the US in the 1980s and early 1990s. Increases in inequality in other western economies typically came later, and from a lower base.

[5] See LIS data available at: https://www.lisdatacenter.org/ and OECD data, available at: https://data.oecd.org/inequality/income-inequality.htm. The data report household disposable income adjusted for the number of household members. While broad trends tend to be similar, precise figures differ depending on the definitions and data sources used.

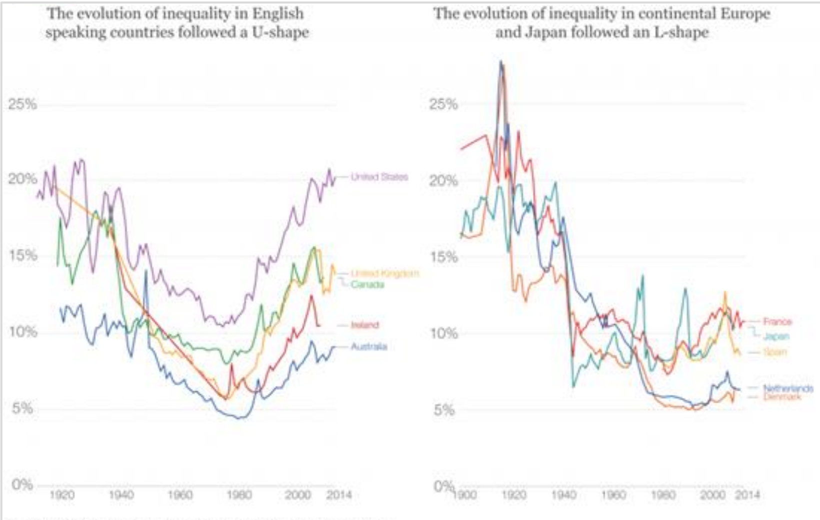
Figure 1: Gini coefficient, disposable income



Source: Luxembourg Income Study and OECD.

The Gini coefficient provides a useful overall measure of inequality in a country but can hide dynamics at different points in the income distribution – for instance, a country with a small wealthy elite and a lower-middle income majority could have the same coefficient as one with an equal spread of people across the income scale. Figure 2 shows that English-speaking countries have seen significant increases in the share of income going to the top 1%, but this has not been replicated more widely.

Figure 2: Share of Total Income to the Top 1% since 1900



Source: Our World in Data.

WEALTH INEQUALITY

Wealth tends to be much less equally distributed than income; Alfani and Schifano (2021) estimate that in 2010 the Gini coefficient for wealth in G7 countries varied between 0.63 (Italy) and 0.88 (USA).[6] This reflects the inevitable dynamics of wealth accumulation (poor people tend to have lower saving rates than rich people), as well as limited taxation of wealth in most countries.

Wealth inequality has increased particularly significantly in the US, where the richest 0.1% of the population now controls about as great a proportion of the nation's wealth as they did a hundred years earlier. The share of this top 0.1% has more than doubled since the 1970s (Figure 3).[7] Unlike with income inequality, several measures of wealth

[6] Alfani and Schifano (2021), "Wealth inequality in the long run", available at:

https://www.researchgate.net/publication/350384345_Wealth_inequality_in_the_long_run.

[7] Zucman (2019), "Global Wealth Inequality", Annual Review of Economics, Vol. 11, available at:

https://gabriel-zucman.eu/files/Zucman2019.pdf.

inequality continued to increase following the financial crisis, perhaps due to increasing asset prices in a time of low interest rates and quantitative easing.

Figure 3: Top 0.1% wealth share in the United States (capitalized incomes, equal-split adults)

Notes: This figure shows the share of total household wealth owned by the top 0.1% richest adults (individuals aged 20 and above) in the United States with wealth equally split between married spouses.
Source: Saez and Zucman (2016), updated.

However, the picture in other countries is more mixed; Zucman (2019) finds only limited increases in the share of wealth going to the richest groups in France and the UK. There is some evidence of a shift in wealth towards highest-income households relative to those with middle incomes, related to an increase in the importance of financial and business wealth relative to property.[8]

[8] Advani et al (2021), “The UK's wealth distribution and characteristics of high-wealth households”, Fiscal Studies, Vol. 42(3-4), available at https://onlinelibrary.wiley.com/doi/full/10.1111/1475-5890.12286.

CAUSES OF CHANGING INEQUALITY

A wide range of causes has been suggested for increasing inequality, and inevitably each of them has some validity. We provide an overview here of some of the leading proposed explanations.

Technological causes

Skill-biased technological change was an important early explanation of rising inequality, based on the argument that technology changes have increased demand for (e.g.) college-educated workers relative to their less-skilled counterparts. There is some evidence that this has had an effect in the US and Germany, with rising wage premiums for more educated workers, though much more limited effects in other countries.[9] Capital-biased technological change (higher returns to capital rather than workers) could also be a factor, but it is only likely to be particularly significant in the US.[10]

Globalisation

Globalisation seems likely also to have had an impact – increasing competition from goods imported from developing countries, or from immigrants, could in principle reduce low-skilled wages in developed economies (while possibly increasing wages among a mobile globalised elite). There is some evidence of effects, particularly on changes in regional inequality due to the so-called China shock.11 However, impacts on overall inequality are difficult to disentangle. For example, increased trade and immigration could also have affected inequality indirectly, by reducing the bargaining power of labour, making it easier to push through institutional changes such as a reduced role of trade unions in wage setting. Lastly, globalisation is potentially a cause

[9] Hoffman, Lee and Lemieux (2020), "Growing Income Inequality in the Unites States and Other Advanced Economies", Journal of Economic Perspectives, available at: https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.34.4.52.

[10] See "Blogs review: Robots, capital-biased technological change and inequality", available at: https://www.bruegel.org/2012/12/blogs-review-robots-capital-biased-technological-change-and-inequality/.

[11] Autor et al. (2016), "The China Shock: Learning from Labor-Market Adjustment to Large Changes in Trade", Annual Review of Economics, Vol. 8, available at: https://economics.mit.edu/files/12751.

of high incomes at the very top of the distribution, as global competition has created an international market for super-stars.

Societal and institutional causes

Changes in labour markets are likely to have had significant impacts – though not all in one direction. For instance, high rates of unionisation can increase coordination of bargaining (tending to reduce inequality) while also increasing unemployment (raising inequality). The overall conclusion tends to be that changes in unionisation have been a significant driver – Checchi and García-Peñalosa estimate that the UK Gini coefficient would have been about 9 percentage points lower if it had Finnish labour market institutions.[12] Similarly, the Hartz reforms to German labour markets seem to have contributed to increased inequality from the early 2000s.[13] But note that changes in labour market institutions have gone in different directions (before the Great Recession) with some countries weakening them (US/UK) but others strengthening them (such as Spain).

Product market developments can also have an impact on inequality, for instance if increased competition were to lower prices and improve workers' real incomes. The evidence here is mixed; product market deregulation seems to be associated with lower prices and higher labour productivity, potentially reducing inequality.[14] But increased market power in several industries (associated with changing antitrust policy) could tend to increase inequality; Khan and Vaheesan (2017) argue that, in the US, "market power can be a powerful mechanism for transferring wealth from the many among the working and middle classes to the few belonging to the 1% and 0.1%

[12] Checci and García-Peñalosa (2008), "Labour market institutions and the personal distribution of income in the OECD", available at: https://air.unimi.it/retrieve/handle/2434/142829/122345/2.pdf.

[13] Immel (2021), The Impact of Labor Market Reforms on Income Inequality: Evidence from the German Hartz Reforms.

[14] Bouis et al (2016), Product Market Deregulation and Growth: New Country-Industry-Level Evidence. Conversely, MacKay and Mercadal (2021), Deregulation, Market Power, and Prices: Evidence from the Electricity Sector, find that deregulation increased efficiency but also increased market power, leading to higher consumer prices overall.

at the top of the income and wealth distribution."[15] Some scholars have identified a trans-Atlantic divide, suggesting that increased market power may be a more important explanation of increased inequality in the US than in Europe.[16]

Tax and benefit changes

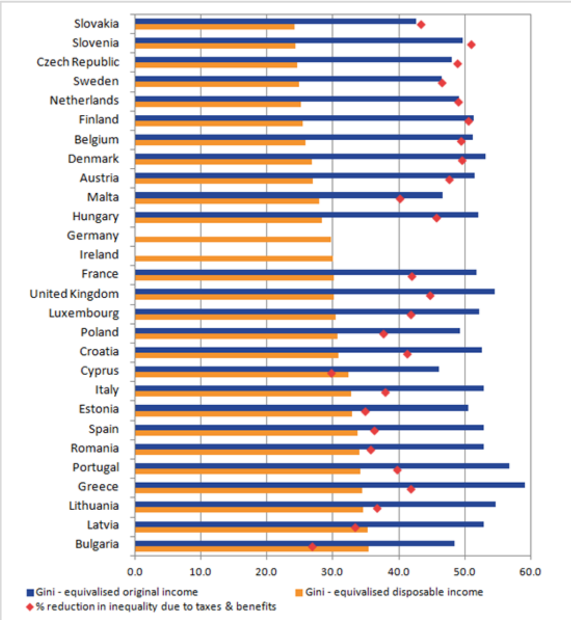
Changing progressivity of the tax and benefits system could reduce or increase inequality. In most western countries, taxes and benefits play an important redistributive role, reducing inequality substantially relative to market outcomes. 4 shows the significant differences in the progressivity of taxes and benefits between different European countries. In Slovenia and Finland, the tax and benefit system reduce inequality by more than 50%, while the impact is much smaller in countries such as Bulgaria and Cyprus.[17]

[15] Khan and Vaheesan (2017), Market Power and Inequality: The Antitrust Counterrevolution and Its Discontents.

[16] Philippon (2019), The Great Reversal. See also Eggertsson et al (2021), Kaldor and Piketty's facts: The rise of monopoly power in the United States.

[17] ONS (2016), "The effects of taxes and benefits on income inequality: 1977 to financial year ending 2015", available at: https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/theeffectsoftaxesandbenefitsonincomeinequality/1977tofinancialyearending2015.

Figure 4: The effects of taxes and benefits on income inequality: 1977 – 2015



Source: UK Office for National Statistics.

The key variables are:

a. the extent to which taxes and benefits are progressive (for instance, the extent of targeting of benefits on the poorest groups, and the balance between indirect taxes (which tend to be regressive) and direct taxes (which tend to be progressive); and
b. the size of benefits (or taxes) relative to incomes.

A detailed study of the tax and benefit system in the UK since 1977 suggests that the overall impact has not changed significantly over time – while the targeting of cash benefits has fallen, their absolute size has increased, meaning that the net change is small. However, some specific tax reforms do seem to have had significant impacts on inequality; for instance, reforms to capital gains taxation in Sweden are associated with large increases in top income shares.[18]

Crises and responses to them

Historically, crises, particularly major wars, have been a significant driver of changes in inequality. Progressive taxation was often developed to help pay for conflicts, and wars also affected the balance of power between capital and labour.[19] In most western countries, income inequality has largely stabilised since the financial crisis, perhaps reflecting changing political dynamics as well as reduced opportunities for high incomes as growth has stagnated. However, as noted above, wealth inequality in the US has increased.[20] The interaction between the Covid pandemic and inequality are discussed below.

[18] Roine and Waldenström (2011), "On the Role of Capital Gains in Swedish Income Inequality", Review of Income and Wealth, Vol.58(3) , available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2050893.

[19] Besley and Persson (2009), "The origins of state capacity: property rights, taxation and politics", National Bureau of Economic Research, available at: https://www.nber.org/system/files/working_papers/w13028/w13028.pdf

[20] Kuhn et al (2018), "Asset prices and wealth inequality", available at: https://voxeu.org/article/asset-prices-and-wealth-inequality.

CONCLUSIONS

It is impossible to disentangle entirely the impacts of each differing factor on inequality. For instance, skill-biased technological change may have influenced deunionisation, which itself affects the political power of labour and the extent of redistribution via the tax and benefits system.[21] Similarly, globalisation is likely to have had an impact both directly and through indirect impacts on technological adoption, specialisation, and institutional change.

However, given the differing dynamics between the Anglophone sphere and other high-income economies, it seems likely that policy-related factors are important drivers of changes in inequality over time. Since inequality before taxes and benefits have increased as much or more than inequality after transfers, such policy causes may be deep-rooted – based in changes to the working of labour and product markets.

Even if inequality as measured by the Gini coefficient of disposable income stabilizes, perceptions of inequality may matter as much (or even more) to political and social dynamics than actual inequality. In particular, developments at the very top of the income and wealth distribution have become a focal point for protests and anti-elitist political movements, as discussed further below.

[21] Acemoglu et al. (2001), "Deunionisation, technical change and inequality", Carnegie-Rochester Conference Series on Public Policy, available at: https://www.sciencedirect.com/science/article/abs/pii/S0167223101000586.

INEQUALITY, MOBILITY, AND MERIT

Inequality in the aftermath of the Great Recession

European economies displayed a variety of inequality patterns over the second half of the 20th century. For Europe as a whole, inequality seems to have stabilised during the 21st century to date, but with significant differences between countries. Some countries have reversed their long-term trend, as is the case of Sweden where inequality started to increase around 1990, while in the UK, after almost three decades of rising inequality the trend was reversed during the Great Recession. While Europe has recently witnessed stable or decreasing inequality, inequality has typically continued to increase in the US.

The neoliberal rhetoric of the previous decades implied that by the time these changes in inequality became apparent two paradigms had been widely accepted. The first is the idea that market incomes are solely determined by technology and preferences, so that the pre-tax distribution is providing factors with the rewards they "deserve". The second is the concept of meritocracy which implies that achieving a position of influence or economic success is the result of demonstrated abilities or merit. As a result, the rhetoric of opportunity that characterized both the post-war decades and the neoliberal dogma turned, as inequality rose, into a rhetoric of failure. Those whose incomes did not grow were *responsible* for such outcomes.[22]

The 2007-08 Financial Crisis questioned this view of the world. The crisis was the result of inadequate decisions taken by individuals that were supposedly highly skilled, reportedly highly educated and undoubtedly highly paid. Such an outcome challenged the idea that market rewards were deserved, a perception that was exacerbated by government interventions to support the banking sector which, although justifiable in terms of macroeconomic stability, implied that those responsible for the crises did not suffer the corresponding losses. Not surprisingly, a widespread questioning of how income was distributed arose.

[22] See Sandel (2020), "The tyranny of merit: What's become of the common good?", on meritocracy, who argues that the defence of meritocracy is largely a way for elites to justify the intergenerational transmission of privilege.

Mobility patterns

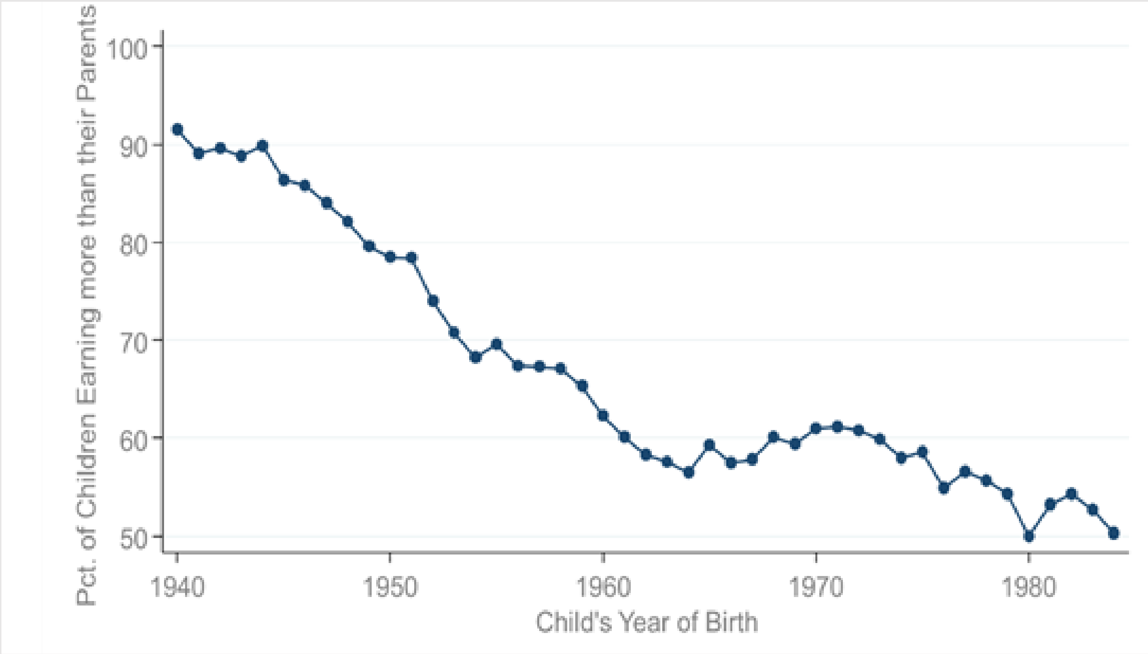
The debate on distributional outcomes has been reinforced by a marked decline in the extent of social mobility observed in high-income countries. After decades of extensive upwards social mobility driven by both economic growth and the expansion of higher education, this trend has been largely reversed.

To measure mobility, we can compute a simple statistic: the fraction of children who go on to earn more than their parents did, measuring both the children's incomes and their parents' incomes in their mid-30s. Figure 5 plots the statistic for the US separately by the year in which the child was born, including children born between the 1940s and the 1980s

The figure shows that for children born in the middle of the last century, it was a virtual guarantee that they would experience upwards mobility. Yet, over time there has been a dramatic reduction in this probability, which, for those born in the 1980s, is only about one in two. Similar declines have been observed in a number of countries.[23]

[23] Blanden, Gregg and Machin (2005), "Intergenerational mobility in Europe and North America. Report supported by the Sutton Trust", Centre for Economic Performance, London School of Economics.

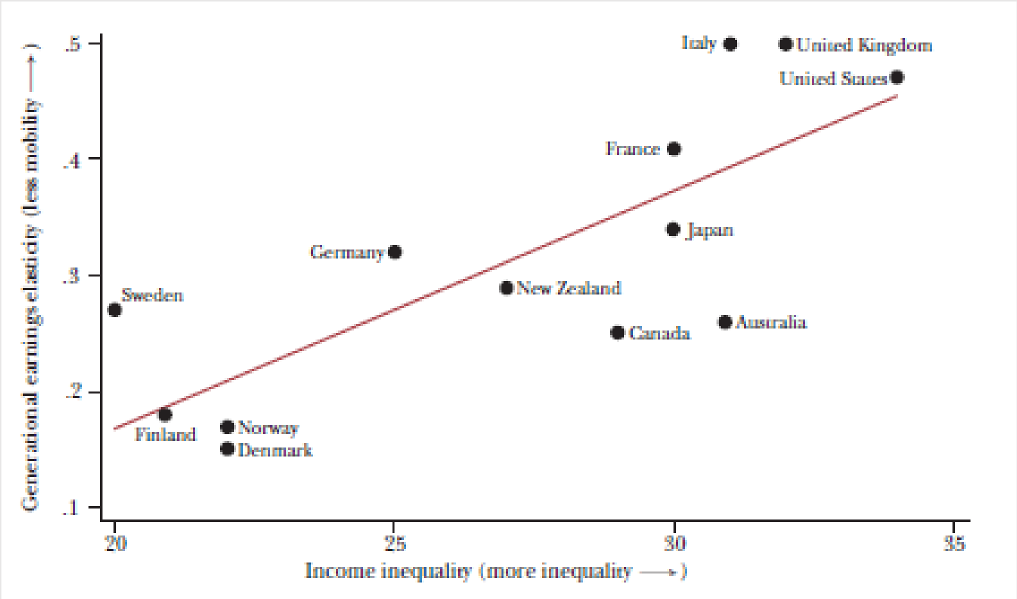
Figure 5: Percent of children earning more than their parents by year of birth



Source: Chetty et al. (2017).

Mobility and inequality are closely related, with less equal societies also displaying less social mobility. Consider Figure 6. The vertical axis shows the intergenerational earnings elasticities, the values lying between 0 and 1. A lower intergenerational elasticity means that there is higher income mobility in that country. The horizontal axis shows the Gini coefficient (Gini coefficient of disposable household income, measured in around 1985). The *Great Gatsby Curve*, as termed by Krueger (2012), indicates that overcoming one’s parents' income level is easiest in countries with low Gini coefficients. This observation suggests that rising inequality may reduce upward mobility, which would compromise the fairness of a society.

Figure 6: Cross-sectional inequality vs. intergenerational mobility (the Great Gatsby curve)



Notes: Income inequality is measured as the Gini coefficient of disposable household income, measured at around 1985 (OECD data). Intergenerational income mobility is computed as the elasticity between fathers' and sons' earnings as adults (the latter measured in the mid to late 1990s) and compiled in Corak (2006).

Source: Corak (2013).

A meritocratic society?

The idea of identifying talent throughout an entire society in order to employ talented individuals in government,[24] although initially developed in China found its strongest defendants in the Western economies, where the combination of Protestantism with the Enlightenment led thinkers to formalise the importance of natural ability and education to identify those that should lead a society. The traditional elites (based on birth) forfeited their privileged access to education and Western universities acquired the crucial role of identifying talent, thus shaping future employment possibilities and earnings (see Woolridge, 2021).

Public funding and a reform of the institutions providing higher education delivered several decades in which educational attainment expanded and intergenerational income mobility was high. Yet, even at its best, the meritocratic ideal is problematic. As argued by Michael Young in his 1958 book *the rise of meritocracy*, meritocracy risks dividing a society. In his satire, when intelligence and hard work replace traditional divisions based on social class, society becomes stratified between a merited power-holding elite and a disenfranchised underclass. Two problems appear: the elite will seek to transmit privilege while the underclass, if they accept the meritocratic ideal, will need to accept that their outcome is deserved.[25]

Young's vision seems to have, to some extent, come true in the early twenty-first century, as Western societies have polarized, and elites have increased the extent of social reproduction. In his critique of the US higher education system (although many of his arguments apply elsewhere too), Michael Sandel (2020) shows how what were once merit-based entry exams have become a system in which the children of the elite have privileged access through networks, all-the-coaching-that-money-can-buy, or undisclosed payments in the form of donations.[26] The result has been a sharp

[24] Well, men. Until the mid-20th century, the concept of talented individuals included exclusively males. A notable exception is Plato who, in The Republic, claimed that women were equally capable of being "guardians" of the ideal Republic.

[25] The first problem was a major concern for Plato, who argued that the price that the 'guardians' had to pay for being the ruling elite was not to have children.

[26] Sandel (2020), Tyranny of Merit: What's Become of the Common Good?

decline in the social mix in top institutions, a reduction in intergenerational mobility, and an increasing feeling of entitlement of those who get educational credentials.

Interestingly, this decline in equality of opportunity has, to a large extent, been driven by parental decisions rather than by policy choices.[27] But why are today's parents different from those in the 1950s and 1960s? Doepke and Zilibotti (2019) argue that this change is the result of growing inequality.[28] When income inequality is low, your child's expected income will be rather similar whatever her education. As a result, parents invest little time and monetary resources in trying to advantage to their child. In contrast, as the income gap associated with different educational paths increases, it becomes rational for parents to forgo leisure time and own consumption in order to increase the likelihood of their children getting into an elite institution. Since high income parents have more resources, they will best advantage their children, thus increasing the likelihood that the latter have access to the best education irrespective of the child's natural ability. As a result, social mobility declines and the Great Gatsby Curve appears.

FROM MERITOCRACY TO POPULISM

Starting in 2007, the Financial Crisis, the Sovereign Debt Crisis and the ensuing Great Recession constituted a major shock that questioned the economic dogmas that had been put forward since the late 1970s. The distribution of market incomes is under scrutiny, and an awareness of the role of socio-political relations in shaping inequality and mobility has emerged that rejects the idea that we live in a meritocratic society and that markets deliver all individuals their worth.[29] Several aspects have paved the road for a rejection of the meritocratic ideal. The first is the increased awareness that opportunities, and in particular educational opportunities, are not equally distributed.

[27] Although the reduction in public funding, and in particular the decline in the relative salaries of primary- and secondary-school teachers, in many high-income countries has not helped.

[28] Doepke and Zilibotti (2019), Love, Money and Parenting: How Economics Explains the Way we Raise our Kids.

[29] For example, Piketty (2020) presents a historical perspective of inequality dynamics, where distributional outcomes are not a deterministic outcome but rather result from the combination between fundamentals (preferences and technology) and ideological factors.

The second has been the way in which the Financial Crisis questioned whether the earnings of those at the very top of the distribution actually reflect their productivity, when their decisions lead to systemic risk and put in peril the entire financial system.

Lastly, a key element was the way in which the international community dealt with the twin crises of 2007-09 and 2011-13. The decision to bail out banks during the Financial Crisis was the right decision in terms of economic policy yet had massive political costs. The looming crisis was largely the result of excessive risk-taking in the financial sector, yet those responsible for the crisis were getting away with it. Shortly after, when Greece, Ireland and Portugal found themselves in a debt crisis because of inadequate financial decisions, the policy was not to bailout these countries but to argue that moral hazard problems required making them responsible for their decisions. The consequence was austerity, recession and a massive loss of income that hit hardest those with fewer resources and fewer skills.

Moreover, austerity in the wake of the crises was widespread in the EU, with major consequences for the wellbeing of certain groups of the population that felt left behind. A possible reading of those policy decisions was that punishment falls on the people but not on the elite.

THE GROWTH OF POPULISM IN UNEQUAL SOCIETIES

Populist movements may adopt some policies associated with traditional conservative or social democratic parties, such as immigration control or nationalisation of key services, meaning that there is no bright line between populist and mainstream programmes. Moreover, some mainstream parties have become closely associated with populist movements, such as the Republican Party and the Tea Party in the United States and the Conservative Party and the Brexit movement in the UK. Nonetheless, Timbro argues that "In general, it is not as difficult to categorize political parties as one might expect. Despite some disagreement on labels, there is a rather wide consensus among scholars on where parties fit in."[30]

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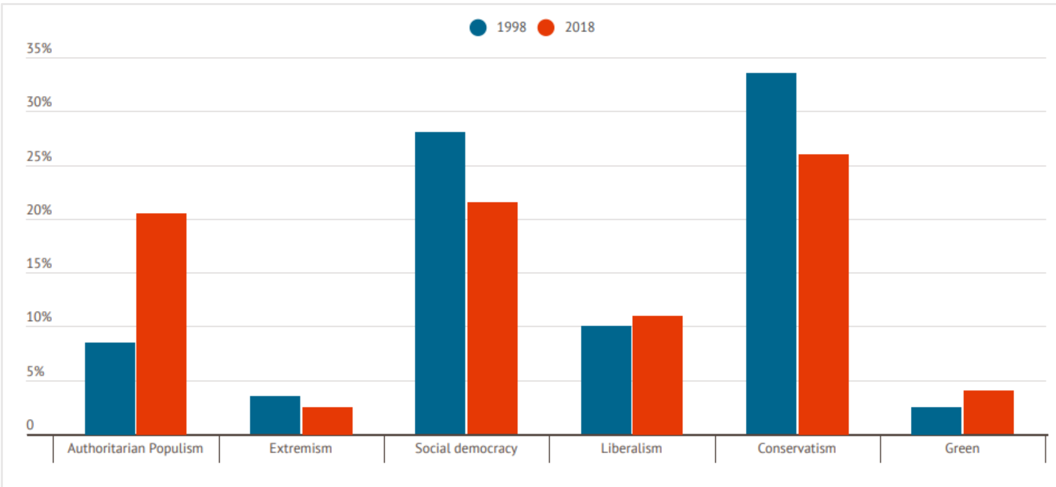
[30] Timbro Authoritarian Populism Index (2019), available at:

https://populismindex.com/wp-content/uploads/2019/02/TAP2019C.pdf.

While precise definitions can be questioned, studies of populism have consistently identified increasing political prominence of populist parties over the last forty years. For instance, the Timbro Authoritarian Populism index finds that more than a quarter of European voters supported populist parties in 2018. The growth of populism has come at the expense of traditional social democratic and conservative parties (Figure 7).[31] Populist parties have entered power in several European countries (typically as part of coalitions), and populist movements have also had substantial influence on the platforms of traditional parties.

Figure 7: Percent of votes for different ideologies, 1988 and 2018.



Source: Timbro Authoritarian Populism Index (2019).

A potential link between political developments and economic inequality has long been recognised. Amartya Sen identifies a two-way link between rebellion and inequality, writing that: “The relation between inequality and rebellion is indeed a close one, and it runs both ways. That a perceived sense of inequity is a common ingredient of rebellion in societies is clear enough, but it is also important to recognize

[31] Ibid.

that the perception of inequity … depend[s] substantially on possibilities of actual rebellion."[32]

It is therefore tempting to associate together contemporary rises in economic inequality and support for populist parties. Inequality, it may be thought, induces greater resentment and distrust of elites, and a drive to find simple solutions that will overthrow their power on behalf of 'the people'. This could particularly be the case if rising inequality is attributed to outsiders, such as increased globalisation or immigration.

Quantitative evidence supports the case for a link between inequality and populism. In their study of 14 OECD countries, Engler and Weiss tanner (2021) find that increased income inequality is associated with growing support for right-wing populist parties, with middle-income high-status voters particularly likely to be attracted to right-wing populism; they attribute this trend to fears of losing subjective social status.[33] The link between inequality and declining trust in elites, and increasing national identity, may also help to explain how inequality increases populism.[34]

Inequality therefore does seem to have encouraged the growth of populist movements, particularly on the right of the political spectrum. The relationship is, however, not one to one, and some countries have seen increasing populism without noticeable rises in inequality (such as France and Spain). This suggests that other factors are important too – and perhaps that perceptions of inequality may play at least as large a role as objective measures of it.

[32] Sen (1973), "On Economic Inequality", Oxford: Clarendon Press.

[33] Engler and Weisstanner (2021), "The threat of social decline: income inequality and radical right support", Journal of European Public Policy.

[34] Stoetzer et al (2021), "How does income inequality affect the support for populist parties?", Journal of European Public Policy, available at: https://www.tandfonline.com/doi/full/10.1080/13501763.2021.1981981.

ECONOMIC AND SOCIAL IMPLICATIONS OF POPULISM

Populism is a broad term, encompassing what can be thought of as right- and left-wing populism. Right-wing populists tend to emphasise national identities, and oppose the influence or status of outsider groups, such as immigrants or minorities. Left-wing populists tend to emphasise class identities and oppose the influence of a (perceived) corrupt self-sustaining domestic elite.

Nonetheless, populist economic programs of both left and right have some common 'anti-market' elements. Populist leaders present themselves as true representatives of "the people", promising to fight some "elite" who works on their own interest as opposed to "the people's" interest. Economic populism is therefore typically anti-market; a populist leader knows better than the outcome of individual choices.[35] Populist movements often support limitations on immigration and international trade, for a mix of cultural and economic reasons. Anti-elitism and anti-pluralism can also be manifested through opposition to international organisations and treaties; in the US, Donald Trump's presidency emphasised the need to renegotiate the NAFTA agreement, while in Europe, populists have reacted to fiscal discipline measures imposed by the European Union and "elite" bureaucrats. Since at least the 19th century, populism has also been associated with measures to counteract powerful companies, for instance through the 1890 Sherman Act in the US.[36]

Populist movements often downplay the costs of significant interventions in existing regimes, or of major changes to market outcomes; for instance, reductions in trade or immigration are often argued to have few or no downsides. Concerns about fiscal sustainability can also be dismissed, particularly if they are associated with outside actors such as the IMF or the European Union. This denial of trade-offs in policymaking, and of the need for compelling evidence for policy changes, is an important characteristic of many populist movements. In the UK, this view was summarised during the 2016 debate over Brexit by then-Lord Chancellor Michael

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[35] See Bourne (2019), "Economic Populism on the Left and Right is Poisoning US Political Discourse", available at: https://www.cato.org/commentary/economic-populism-left-right-poisoning-us-political-discourse.

[36] Wright and Portuese (2019), "Antitrust Populism: Towards a Taxonomy", Stanford Journal of Law, Business and Finance, Vol. 21, available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3400274.

Gove's statement that "the people in this country have had enough of experts from organisations with acronyms saying that they know what is best and getting it consistently wrong".

Empirical studies find negative economic impacts of populist governments both right and left wing. Funke et al (2020) is an important recent study of the economic consequences of populist governments since the early 1900s.[37] The authors find that over 15 years, GDP per capita and consumption decline by more than 10 percent compared to a plausible non-populist counterfactual for each individual populism episode. This economic stagnation is linked to economic nationalism and protectionist policies, unsustainable macroeconomic policies, and the erosion of institutions and legal protections, hampering long-term growth through negative effects on innovation, education, and capital accumulation.[38] Prior to 1990, the decline in GDP growth is driven by left-wing populists while in recent decades it is increasingly driven by right-wing populists. Several other studies focussed on populism in Latin America have also found negative economic impacts of populist governments.[39]

The bulk of evidence on the economic impacts of populism is negative, but Funke et al do find that left-wing populism is associated with reductions in inequality. They conclude that, compared to a plausible counterfactual, Gini coefficients fall by about 2 percentage points on average over 15 years after a left-wing populist leader comes to power, while rising by about 1 percentage point after a right-wing populist comes to power. Left-wing populism is also associated with workers receiving a higher share of total GDP, while the reverse is true of right-wing populism.

Inevitably, academic work to date has not produced definitive results on the economic impacts of very recent populist movements in the US or Europe, though

[37] Funke et al. (2020), "Populist leaders and the economy", Kiel Working Papers 2169, available at: https://www.ifw-kiel.de/publications/kiel-working-papers/populist-leaders-and-the-economy-15277/..

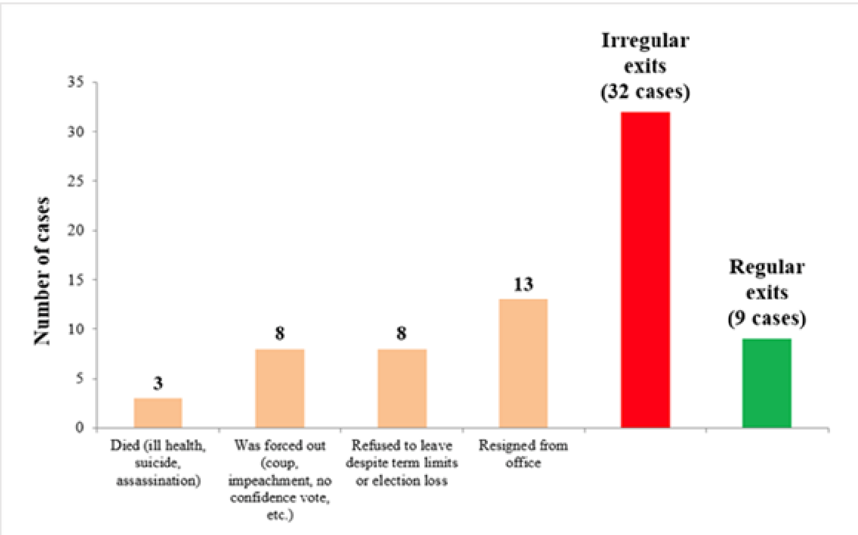
[38] See also Acemoglu, D., S. Johnson, J.A. Robinson (2005), "Institutions as the Fundamental Cause of Long-Run Growth", Handbook of Economic Growth, available at: https://economics.mit.edu/files/4469.

[39] See e.g., Grier, Kevin, and Norman Maynard (2016), "The economic consequences of Hugo Chavez: A synthetic control analysis." Journal of Economic Behavior & Organization.

there have been analyses of some specific aspects, such as trade policy.[40] Before the arrival of Covid, discussed below, recent populist governments seem to have broadly acted in line with the longer-run evidence on populism, including fiscal expansions, restrictions on international trade and / or immigration and conflicts with international institutions. Some populist governments have provided significant income support to lower-income households, either through social work programmes (Hungary) or minimum income schemes (Italy, Spain).

Beyond such economic effects, Funke et al (2021) provide important evidence on wider social and political consequences of populist governments, finding that populist leaders are associated with reductions in judicial independence and constitutional integrity, and that populist leaders often leave office 'irregularly' (for instance, through resignation, after refusing to leave following an election defeat, or being forced out by a coup or impeachment) – see Figure 8.[41]

Figure 8: Exit patterns of populist leaders (since 1970)



Source: Funke et al. (2021).

[40] Amiti et al (2019), "The impact of the 2018 trade war on US prices and welfare", National Bureau of Economic Research, available at: https://www.nber.org/papers/w25672.

[41] Funke et al (2021), "The cost of populism: Evidence from history", available at: https://voxeu.org/article/cost-populism-evidence-history.

COVID, INEQUALITY AND POPULISM

Covid and inequality

The scale of the Covid pandemic has had correspondingly large economic effects, including on inequalities. Initial assessments suggest that poorer workers have been disproportionately likely to suffer employment impacts; Chetty et al estimate that, in the US, employment rates fell 37% for workers in the bottom quartile of the wage distribution, compared to 14% for workers in the top quartile.[42] In France, richer households were more likely to increase their savings during the pandemic, while poorer ones borrowed more.[43] Recent dramatic rises in energy prices are also likely to have disproportionate impacts on poorer households, who spend a higher proportion of their incomes on heating and electricity.[44]

However, these effects have typically been counteracted, at least in the short term, by the extent of public support packages, which caused a significant drop in poverty levels in the US, and reduced income inequality in several European countries.[45] Of course, this is not good news overall – merely a sign that, due to government interventions, poorer households seem to have suffered proportionately less economically than richer ones.

[42] Chetty, Friedman, Hendren, Stepner and The Opportunity Insights Team. (2020), "How did COVID-19 and stabilization policies affect spending and employment? A new real-time economic tracker based on private sector data", Cambridge: National Bureau of Economic Research, available at: https://www.nber.org/papers/w27431.

[43] Bounie, Camara, Galbraith (2020), "Consumers' Mobility, Expenditure and Online-Offline Substitution Response to COVID-19: Evidence from French Transaction Data", available at:

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3588373.

[44] House of Lords Library (2021), "Rising energy costs: the impact on households, pensioners and those on low incomes", available at: https://lordslibrary.parliament.uk/rising-energy-costs-the-impact-on-households-pensioners-and-those-on-low-incomes/.

[45] Matthews (2021), "The big drop in American poverty during the pandemic, explained", available at: https://www.vox.com/22600143/poverty-us-covid-19-pandemic-stimulus-checks; Clark, Ambrosio, Lepinteur (2021), "The Fall in Income Inequality during COVID-19 in Five European Countries", available at https://halshs.archives-ouvertes.fr/halshs-03185534/document.

The longer-term effects of the Covid pandemic are still highly uncertain, but there are several ways in which it could affect economic inequality, including:

1. People whose connection to the labour market is less stable, such as older workers and those with caring responsibilities, may have chosen to drop out of the labour force, with effects on their human capital and future earnings.[46] Those just about to enter the labour market may also suffer long-term negative effects.[47]
2. Already lower-achieving children seem to have particularly suffered from educational disruptions, with potentially serious impacts on their long-term life chances.[48]
3. The substantial increases in public debts may contribute towards governments' decisions to cut future public services, with disproportionate impacts on poorer citizens. Conversely, inequality could fall if governments decide to raise taxes.

Covid and populism

As with Covid and inequality, Covid and populism can interact in both directions – populist governments may adopt different strategies to tackling the virus from mainstream political parties, and the political and social effects of the pandemic could affect the demand for populist rulers.

While there is little comprehensive evidence to date, some researchers have identified differences in the approaches to Covid taken by populist and non-populist governments – with the former less likely to impose restrictions on social interactions. This has consequent impacts on death rates during the pandemic. For instance, Bayerlein et al (2022) conclude that Covid mortality rates in countries with populist

[46] House of Commons Library (2022), "Coronavirus: Impact on the Labour Market", available at https://researchbriefings.files.parliament.uk/documents/CBP-8898/CBP-8898.pdf.

[47] Cribb et al (2017), "Entering the labour market in a weak economy: scarring and insurance", IFS Working Paper, available at https://ifs.org.uk/publications/10180.

[48] Grewenig et al (2020), "Covid-19 and Educational Inequality: How School Closures Affect Low- and High-Achieving Students", CESifo Working Paper No. 8648, available at: https://www.cesifo.org/en/publikationen/2020/working-paper/covid-19-and-educational-inequality-how-school-closures-affect-low.

governments have been almost twice as high as those in countries with non-populist governments.[49] Historical links between populism and vaccine scepticism might also be expected to increase mortality rates in countries with populist leaders, though there is no direct evidence on this to date.[50]

It might be concluded that perceived failures of populist governments to handle the pandemic effectively could reduce the demand for populism among voters. Immediately after the 2020 US Presidential election, Lacatus and Meibauer (2020) argued that Trump's populist appeals failed to increase his vote share, while his "obvious lack of a competent COVID-19 management strategy may well have doomed him electorally."[51] Similarly, the popularity of the Bolsonaro government in Brazil collapsed during 2020 and 2021, as it was associated with high death rates and perceived mishandling of the pandemic.

However, this might be too comforting a conclusion for those who dislike populist approaches. To the extent that the long-term effect of the pandemic is to heighten distrust in politicians and to increase political polarisation, it might be expected to increase the appeal of populism over time.

ADDRESSING INEQUALITY IN A NON-POPULIST WAY

Increasing economic inequality is one of the central features of developments in many western societies over the past few decades. It can have significant impacts on political and social developments too, including by encouraging the growth of populist movements. Evidence suggests that populist parties once they attain power can have highly negative economic and social impacts. This therefore provides added

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[49] Bayerlein et al. (2022), "Populism and COVID-19: How Populist Governments (Mis)Handle the Pandemic", available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3849284. Note though that Spilimbergo (2021), "Populism and Covid-19" concludes that "I find no clear evidence to suggest that populists in power systematically mismanaged the response to Covid-19…"

[50] Kennedy (2019), "Populist politics and vaccine hesitancy in Western Europe: an analysis of national-level data" European Journal of Public Health, Vol. 29, available at; https://academic.oup.com/eurpub/article/29/3/512/5364298?login=true.

[51] Lacatus and Meibauer (2020), "Donald Trump's populist appeals failed to win over an electorate which wanted and needed a competent COVID-19 response".

impetus for a fight to reduce unjustified inequalities of economic outcomes. The need for a compelling approach to tackling inequality is further heightened by the many major challenges western societies are facing, including combatting global warming and responding to expansionist autocracies.

Here, we discuss first some principles that a non-populist approach to tackling inequality could follow, and then some potential policy changes that could be considered. Our role is not to provide definitive solutions – different members of the subgroup inevitably have different views on the desirability of otherwise of each of these policies. Moreover, there is no one size fits all solution – different approaches will be relevant in different countries. Rather, we aim to suggest issues and areas that may merit deeper consideration.

PRINCIPLES

First, **policies to reduce inequality should consider both 'predistribution' and redistribution**. Redesigning taxes and benefits can have a significant impact on inequality, but a narrow focus only on fiscal measures could overlook the main drivers of changing inequality. Market outcomes are not a fait accompli, and there is scope for well-designed policy measures to influence them significantly. Influencing market dynamics by, for instance, increasing carbon taxation could potentially benefit both environmental outcomes and social welfare. Conversely, redistribution via the tax system can be both politically and economically costly – both the givers and the recipients of perceived 'charity' may end up resenting it.

Second, **a non-populist approach needs to win hearts and minds**, positively making the case for a good society. Experience suggests that, without a positive case for actions to reduce inequality, any changes are unlikely to be robust to changing political dynamics. The framing of policy interventions is therefore important – the subtleties of utilitarian cost-benefit analysis may be harder to communicate than clearer rights-based formulations. A minimum wage is easier to understand than the outcome of a tax credit application, for instance. An effective non-populist approach may also require a different approach to policy design at the regional or community level, to ensure wider involvement of people across society, rather than just a perceived narrow elite based in the capital city. This could help to reduce geographical inequalities too, combatting the sense of regional decline that has set in in many post-industrial towns.

Third, **the process of policymaking should encourage long-term actions** and discourage a populist drive for immediate wins. Investments in, for instance, education and pre-school children may have significant positive effects, both overall and in reducing inequalities, but their impacts may not be seen for decades. The World Bank's move to place inequality at the centre of its policy process could be a model for national authorities to follow. Better reporting of the long-term effects of policies could help to embed a longer-term vision in political decision making. This also interacts with wider questions of how to support robust media scrutiny and political engagement in an age of social media – the experience of the pandemic shows how effective policymaking can become impossible where trust in any authority figures is lacking.

RECOMMENDATIONS AND PROPOSALS TO CONSIDER

Labour markets and industrial strategy

Approaches to improve the outcomes from labour markets include:

- 'Levelling up' labour market standards to reduce imbalances between the gig economy and the more permanent sector, which have become marked in many countries.
- Assess links between precarious employment (consumer risk-bearing) and (a) stress and health outcomes for employees, and (b) aggregate macroeconomic outcomes - including incentives to invest in an employment relationship, and propensity to consume.
- Target investments to achieve net zero to help tackle regional inequalities in particular. There are often strong opportunities for net zero investments in former industrial areas.
- Increase the role of employees in industrial management, for instance by expanding employee representation in boards.

Taxation and public spending

The rises in wealth inequality since the financial crisis create a strong case for increased use of wealth taxation. There may be scope for rebalancing taxation to increase the progressivity of tax systems for a given total tax take, for instance substituting direct taxation of wealth for indirect taxation of consumption.

A guarantee of universal basic services, potentially expanded outside traditional core roles of the state in health and education, could help to reduce both direct inequality and inequality of opportunity. For instance, this might include guaranteeing availability, cost, and standards of services in local transport or housing.[52]

Competition policy

The focus of competition authorities on promoting consumer welfare, and protecting competition rather than competitor firms, remains crucial to achieving good societal outcomes. However, there could be changes in focus to recognise the wider impacts of agreements and mergers, such as where labour markets may be harmed by agreements between firms or where mergers reduce workers' bargaining power.

Better understanding of the reasons for the growth in mark-ups and profitability is also important. Is this an inevitable consequence of technological trends towards concentration? Is it best combated by competition policy, or dealt with ex-post by seeking wider ownership of capital?

Macroeconomic stabilization

Low interest rates, and more recently QE, are commonly held responsible for fast relative growth in asset prices post-2000. An alternative potential tool for macroeconomic stabilisation is VAT (and/or other final sales taxes), which could be varied at relatively high frequency. As well as implying fewer wealth effects, this has the possible advantage of affecting budget constraints more evenly across the economy. It is also of particular use in the euro area, where it can be targeted to the particular conditions of individual countries.

[52] See Unesco (2021), "Move the debate from Universal Basic Income to Universal Basic Services", available at: https://en.unesco.org/inclusivepolicylab/analytics/move-debate-universal-basic-income-universal-basic-services.

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THE FUTURE OF THE EU'S ECONOMIC PROPOSITION IN LIGHT OF LOOMING ECONOMIC POPULISM: A CASE FOR AN ENDOGENOUS RESPONSE.

ABSTRACT

This article will discuss the extent to which the European Union is equipped to provide, and is indeed providing, an appropriate response to the economic issues that have amounted to the rise of economic nationalism/populism. It will be argued that if the EU delivers satisfactory solutions in terms of growth, prosperity and equality, economic populism will be kept at bay. A relationship will be acknowledged between the criticisms from economic populism and certain economic policies and performances from the EU in the current context. The situation of such stances will be analysed in turn, in order to propose workable solutions in the quest of an ever more prosperous, egalitarian, value-providing EU.

INTRODUCTION

We live in times where enthusiasm for the so-called *European Project* no longer seems to find yesteryear´s widespread unanimity amongst the folk of Europe. The last decade has taught us that the future of the enterprise is not self-fulfilling, let alone evident, and so we should not take it for granted. There are a range of elements that amount to that realisation. Such elements are roughly the same ones identified and built upon by the nationalist/populist discourse - whether from the Left or Right side of the political spectrum - in portraying the vision of the European Union (EU) of late as a lame, lackadaisical and, ultimately, ailing entity.

If the Brexit episode made a highly impactful finale for a season that spanned over longer than a decade, the following instalment in *The Whereabouts of Europe*, which we are now well ventured into, promises no less troublesome, unresolved cliff-hangers, from the challenges stemming from post-Covid-19 to the new geo-political order and, not least, even a real military conflict in the continent. Since the EU is called for a starring role in her own show, it seems timely to contrast the vigour and momentum to keep fulfilling her foundational purpose against the growing pace of nationalism and populism. More precisely: against the economic dimension thereof - as many of populism´s supporting concerns are economical in nature.

Hence, this contribution discusses the extent to which the European Union (EU) is equipped to provide, and is indeed providing, an appropriate response to the economic issues that have amounted to the rise of economic nationalism/populism.

The EU clearly fulfils the role of culprit of all evil from populism´s ranks. She herself is an attempt to transcend nations and nationalism. She tries to build an overarching economic logic via integration of national economies. She is as interested in process as in results - and her array of institutions is not for the unexperienced. There is indeed space for the EU to address this “clash of propositions” by taking direct stances, from economic sanctions to third parties to budgetary retaliation to members that divert from settled democratic standards. This very moment could be ripe for such a confrontational approach - the role of Europe in combatting populism with all possible economic weapons, “whatever it takes” as some would have it.

However, the perspective chosen for this contribution is neither defensive nor confrontational. A utilitarian approach of sorts has been favoured instead as, when considered broadly, the economic outcomes to be pursued can be shared from both the EU and the populist perspectives: growth, prosperity, equality. What they offer is different diagnoses and different toolkits. So, if the validity of the EU´s economic proposition depends largely on how she performs, what we need to look at is how she is performing. Because, ultimately, the case of *more, not less Europe* will be about citizen support and appeal, not academical discussion. More than anything else, the EU needs to seduce her people and ground a certain sense of belonging, or *to* belonging, upon her capacity to provide solutions - also in the economic remit.

Considering the above, we will first sketch precisely what economic populism is. Following that, we will delve deeper into the sources of economic dissatisfaction experienced throughout Europe lately and how economic integration should be rebalanced as a consequence thereof. Then we will analyse the might of the EU´s economic reach to contend economic populism, namely: economic regulations and policies; monetary policy; public funding activity; and institutional layout. Finally, some conclusions on the current strengths and shortcomings and practical insights on how to implement any possible ways forward will follow.

A WORKABLE NOTION OF ECONOMIC POPULISM

Economic nationalism and populism cannot be approached in isolation from the wider concept of political populism as a challenge to liberal democracy.[53] We may define political populism as a polarizing, emotional ideology, across the left-right political gamut, which "considers society to be ultimately separated into two homogeneous and antagonistic groups, the (pure) people versus the (corrupt) elite."[54] This people/elite dichotomy inherent to populism does of course exhibit an economic dimension.

The reasons for the rise of populism are manifold, but recent research reveals common trends – which turn out to be fundamentally economic. To name but a few: the comparative losses in competitiveness and productivity; the reverberations of the world financial crisis starting late in the first decade of the 21st century; the potential exhaustion of some local industries and services; an increasing importance of digital and platform economies endorsing disruptive models in asymmetrically regulated markets; demographic shifts; and the difficulties of some job markets to adapt to changing circumstances. As a common, overarching theme we find the consolidation of economic globalisation, a pattern that dates back decades. The causal link between globalisation and political/economic backlash leading to populism is widely accepted[55] and has been recognised since at least 1997.[56]

The dynamics referred to above are not transitory in nature, but instead pervade structurally in Western capitalist economies, notably in Europe´s: aging population, fragmented and distorted labour markets, pressures on wages from globalisation. However, it is equally evident that such issues become more salient in times of dire

[53] For a systematic rapport of both strands, we may refer to Bertola, G., Driffill, J. (2017). Economic Policy and the rise of Populism – it´s not so simple, https://www.researchgate.net/publication/316642278_Economic_policy_and_the_rise_of_populism_-_It's_not_so_simple .See page 4 ff. in particular.

[54] Mudde, C. (2004), "The Populist Zeitgeist", in *Government and Opposition*, 39, 542-563.

[55] See Guriev S, Papaioannou E. 2020, T*he political economy of populism*. CEPR Discuss. Pap. 14433, Centre for Economic Policy and Research, London.

[56] Rodrik D. (1997), *Has Globalization Gone Too Far?* Institute for International Economics, Washington, DC, https://econpapers.repec.org/article/meschalle/v_3a41_3ay_3a1998_3ai_3a2_3ap_3a81-94.htm

economic contexts, aka crises.[57] Crises make underlying tendencies more likely to morph into tangible threats such as growing inequality divides, growth stagnation, public and private debt overuse, rampant unemployment, risk of exclusion, deterioration of social welfare, exhaustion of "safety-net" social services and the like. These economic indicators - which may anticipate an uprise in populism - ramp up in crises and affect the middle and working classes, particularly the ones related to unemployment rates, median income, and wealth concentration.[58]

From the above follows that it is fear - or, put conversely, the longing for security - that ultimately drives the continuum unemployment-inequality-exclusion-dissatisfaction. This is an important point as, essentially, the gist of economic populism is dissatisfaction, namely with the economic policies adopted and maintained by policy-making establishments in such contexts: austerity, minimum intervention, a deferred passive monetary policy (at least for quite some time), preservation of free trade and de-regulation, the sometimes-unintuitive handling of moral hazard in the presence of a systemic threat.

"Take back control", read the Brexiter claim in 2016´s referendum. In line with that aspiration, whether or not delusional, populist economics focus on pursuing growth and redistribution via control, particularly national, *inter alia*: expansionary fiscal policies with lesser regard of capacity limitations and intertemporal budget constraints; a restriction on international trade in favour of national protectionist measures; consequently, a disbelief in supranational economic integration; immigration-limiting labour policies; a more active role of the State in the economy, as a direct provider of citizen´s needs so as to avoid the effects of inequality. This "need

[57] This is a recurring point in many of the citations included. For one, Kahn, R., Tananbaum S.A. (2015), Addressing Economic Populism in Europe, Council of Foreign Relations https://www.cfr.org/sites/default/files/pdf/2015/12/December%202015%20GEM.pdf .

[58] Some interesting analysis on how this structural context has influenced the Brexit vote and Trump's election:

- Darvas, Z. Efstathiou, K., 2016, Inequality and the vote for Trump, Bruegel, https://www.bruegel.org/2016/11/income-inequality-boosted-trump-vote/
- Darvas Z., 2016, Brexit vote boosts case for inclusive growth, Bruegel, https://www.bruegel.org/2016/07/brexit-vote-boosts-case-for-inclusive-growth/

to intervene" - even if it involves going it alone - in turn ties economic populism to the "people vs. elite" rhetoric of the wider populist movement.[59]

NAVIGATING DISSATISFACTION: A REBALANCING OF EUROPEAN INTEGRATION

Populists are opposed to European integration, the internal market and the Euro. Moreover, they reject the implied loss of sovereignty for the Member States and challenge the freedom of EU citizens to live and work in other EU countries. Why?

As mentioned above, a significant cause is the unequal impact of globalisation and technological change on different parts of the EU. Economic developments like structural change and the associated costs in terms of uncertainty and job losses are seen as the outcome of international economic integration. These forces were exacerbated by the 2008 Global Financial Crisis, which had harsh consequences, particularly for the unemployed and young adults looking for a first job. Moreover, throughout the crisis, national and European policymakers had to implement unpopular structural reforms in the labour, capital and product markets and enforced austerity policies to stimulate the economy. There is a consensus among economists that economic populism may result in unsound policy choices by oversimplifying economic realities and isolating such countries from the global economy. But precisely, this is why economic populism is appealing. It promises simple solutions to complex problems. In the aftermath of the financial crisis, for citizens in debtor countries like Greece and Portugal, who suffered from falling living standards with no end in sight, rejecting austerity was perceived as the only viable option.

This led to a debate about the failure of the ruling elites and the fact that the costs of the crisis were disproportionately borne by "ordinary people" and not those deemed responsible for it.

[59]For a comprehensive, comparative account cfr. Ivaldi, Gilles & Mazzoleni, Oscar. (2021). Economic Populist Attitudes in Western Europe and the United States. 10.1007/978-3-030-53889-7_8.

https://www.researchgate.net/publication/348208721_Economic_Populist_Attitudes_in_Western_Europe_and_the_United_States

EU economies are as integrated and as open externally as they have ever been. Yet, although populist parties have been active throughout Western countries for many years, it is only over the last decade that we have seen a general trend of increasing support. This is happening against the backdrop of longer-running economic trends: the labour share in income has gradually decreased, and the demand for lower-skilled labour has declined. The result has been a rise in inequality between skill and income groups, with a distinct regional profile. While the deepening globalisation and EU integration, combined with skill-biased technical progress, have unambiguously generated overall income gains via higher static and dynamic efficiency, these outcomes have not been Pareto-optimal.

Moreover, a series of adverse economic shocks have particularly hit the "losers" of this development. Austerity policies have further increased distributional conflicts instead of countering this development with welfare state measures. This fuelled an already existing undercurrent of discontent and fading trust in democratic institutions. Ordinary citizens have gradually lost confidence in the so-called "elites" to deal with the (real or imagined) unfair distribution of gains and burdens in society. In this context, EU policies have been increasingly perceived as being biased pro-market and pro-business, paying little attention, if any, to their social impact and undermining cohesion, solidarity, autonomy, and governability at the national, regional, and local level.

These effects were predictable. The workhorse models of international trade and economic integration have strong redistributive implications. Under competitive conditions, as long as the importable goods continue to be produced at home (that is, ruling out complete specialisation), there is always at least one factor of production that is rendered worse off by trade liberalisation. That factor is the one used intensively in the importable goods, in the case of the EU: low-skilled labour. In effect, the deepening of the Single Market has had winners and losers: income inequalities between factor owners of labour and capital have increased. Simultaneously, inequalities increased within the labour income group. Demand for high-skilled labour increased, while less-skilled workers suffered from job and wage losses.

In principle, the gains from trade can be redistributed to compensate the losers and ensure no group or region is left behind. However, these redistribution mechanisms designed and operated at the national level, whilst successful in the successive rounds of the EU's expansion, appear not to work effectively anymore. Some insights can be suggested:

- First, the redistributive effects of liberalization and international trade get larger and tend to swamp the net gains as the trade barriers in question become smaller,[60] which explains why globalisation becomes politically more contentious in its advanced stages.
- Second, redistribution to mitigate economic inequality can be very costly.
- Third, there is a strong empirical association between financial globalisation and financial crises over time.
- Fourth, capital mobility gives employers a credible threat: accept lower wages, or else we move abroad, which further shifts the burden of economic shocks to labour.
- Fifth, as capital becomes globally mobile, it becomes harder to tax.
- Sixth, support for redistribution measures decreases with the inflow of migrants.
- Finally, “Brussels" has become an easy scapegoat, being accused of ignoring the social consequences of its policies and, even worse, undermining the capacity of the nation state to deal with them.

In this economic context, the most critical challenge the EU faces is not lack of openness but lack of legitimacy. As long as EU integration is seen as a project of the political elites and the wealthy, it will carry the seeds of its own destruction. The push for ever deeper economic integration has to go hand in hand with policies that strengthen a more Social Europe. The best way to confront economic populism is to prove it wrong and ensure that the tide of EU integration lifts all boats, not just the yachts.

However, dealing with economic populism does entail much more than providing an adequate response to inequality. It will require not merely a re-adaptation of the EU´s economic principles but a proper handling of the economic toolkit at her disposal in order to adapt to the current circumstances. Furthermore, it will involve doing so in a recognisable fashion that connects with the concerns of her citizens and with a certain European *ethos*. In all, this means no other thing than offering an added value to citizens.

[60] Rodrik, Dani. "Populism and the economics of globalization." Journal of international business policy 1.1 (2018): 12-33.

THE EUROPEAN UNION´S ECONOMIC TOOLKIT AS A CONTENDER TO ECONOMIC POPULISM

What we call the economic foundations of the EU is a complex interrelated set of policy, regulatory and institutional dimensions. Interestingly, each one of these spheres has merited criticism from the ranks of economic populism. It is worth analysing the extent to which such criticisms do reflect the current situation and, more importantly, the potential that there is in each of them for the European Project to provide valid solutions to persistent, and upcoming, economic challenges.

The rise of economic populism needs to be addressed by finding better ways to combine the benefits of open markets and integration with social protection and fairness. Is the EU on the right path? We will review some of these remits in turn.

IV.1 Economic regulation and policy

Unsurprisingly, the EU´s sectoral regulatory action has been somewhat identified with the promotion of liberal paradigms, coupled with a certain vision of these policies being deployed through remote, cumbersome procedural methods dominated by technocratic shenanigans. Elite-driven formulations, protracted discussions, far from our people: good crop for populism´s rhetoric.

The picture of highly liberal policies with weak regulatory drive might however not fully correspond to the current situation, both in terms of aspiration and execution. Today, the *Brussels Effect*[61] sets the world´s regulatory bar in many respects. Those standards do not embed only, or even mainly, a libertarian vision. For one thing, there are other mottos increasingly justifying the EU´s policy actions. Disruptions and risks brought about by technology and, not least, technological sovereignty itself; environmental aspirations and social responsibility standards; financial instruments in increasingly decentralized contexts; the protection of consumers both online and offline. These belong in the current EU´s (notably the European Commission´s) high-level political mission as much as the four freedoms. Hence the aspiration of strong, prescriptive regulatory frameworks at the EU level.

[61] As termed by Bradford, A., 2020, *The Brussels Effect: How the European Union Rules the World*, Oxford University Press.

An analysis of certain policies currently under scrutiny supports this view. For example, as regards the pursuit of efficiency as an economic outcome, we can mention the transformation of European competition law that is taking place in response to the phenomenon of digital platforms via the Digital Markets Act (DMA).

This is a piece of regulation where ex-post analysis and remedies - traditionally the cornerstone of competition policy - is giving way to ex-ante solutions, introducing concepts such as "gatekeepers" to whom certain specific behavioural requirements will be applied. Hence its value as an example of how the EU provides a way of protecting citizens and small and medium businesses in the light of technological, global, libertarian, monopoly-prone business models (a populist theme), with a fresh, non-deferred, ex-ante approach drawn from the experience acquired in the enforcement of arts. 101 and 102 TFEU. Beyond the bold instrumental layout however lies the very same motivation as that driving competition law since its modern development during the industrial revolution in the USA: to protect the general interest, market functioning, consumers and, ultimately, democracy.

On a different note, we can consider sustainability and corporate responsibility issues, which go beyond mere economic policy. The EU is signalling a clear thrust in those. The call is not only to contain negative social impacts from business activities but to foster positive impacts. One such example would be 2019´s European Green Pact, with an ambition to become GHG-emission "net-zero" by 2050, and the subsequent Green Deal and Fit for 55 policy toolkits. In order to achieve this, in January 2020, the Commission launched an investment plan for a sustainable Europe that will mobilize at least EUR 1 trillion in sustainable investments over the next decade from the EU budget.

Likewise, the green transition requires investment, both public and private. This is where another EU instrument, the European Taxonomy, comes into play. In order to redirect private investment flows towards sustainable activities a comprehensive regulatory scheme, comprising a general Regulation and several successive Delegated Acts, has been devised to signal environmentally sustainable economic activities, providing common appropriate definitions, and providing security for investors, avoiding greenwashing.

Another ambitious remit is the Corporate Social Responsibility provisions to tighten companies´ compliance obligations on issues such as human rights, the environment or good governance in their value chains. These policies purport to build a more socialfriendly regulatory environment for the EU´s business ecosystem. For instance, this year the Commission's Proposal for a Directive on sustainable corporate governance and due diligence saw the light of day. The proposal aims to promote sustainable and responsible business behaviour across global supply chains.

It is then clear that the EU´s economic policies currently go well beyond market integration and free trade, whether by traditional economic themes being refashioned or through the intensification or environmental and social overtones. What remains to be seen is whether this will contribute sufficiently to any narrative reinforcing her pertinence in the future.

IV.2 Monetary policy and the role of the ECB.

The European Central Bank ("ECB") is one of the main "specialised" institutions of the EU. It has two main tasks: first, it has the exclusive competence to define and implement the monetary policy of the EU Member States whose currency is the euro (currently they are 19)[62]; second, it contributes to the prudential supervision of credit institutions and to the stability of the financial system (a competence it shares with national central banks).[63]

By exercising these competences, the ECB has become a decisive EU actor, as became apparent during the 2008 financial crisis and the ensuing sovereign debt crisis. ECB's President Mario Draghi: "*whatever it takes*" speech is widely seen as a defining moment in the 2010´s financial crisis recovery,[64] followed by massive asset purchase programmes for the acquisition of bonds in secondary markets ("Quantitative Easing") and other non-conventional measures (e.g., negative interest

[62] Articles 3(1)(c) and 119(2) TFEU.

[63] Article 127(5) TFEU.

[64] https://www.ecb.europa.eu/press/key/date/2012/html/sp120726.en.html

rates).[65] For many observers and analysts, the ECB truly saved the existence of the euro during such troubled times.[66]

However, it is not unusual for Eurosceptics to develop a discourse around a pledge to restore economic and monetary sovereignty as their recipe of choice to attain the economic prosperity which, according to them, the EU is incapable of providing to its citizens.[67] It is in this context that the ECB finds itself often in the crosshairs of Eurosceptic populists. The typical accusations may range, under a variety of versions, from failing to adopt sound policies to prevent and deal with crises to failing to take into account the needs of « the people ».

Such criticisms are not so worrisome as an interpretation of past events but as an anticipation of how the ECB is supposed to behave in light of the prospective challenges ahead. Will the populist claim of a passive monetary authority hold? Will the ECB change course to disarm its critics? The design of the ECB could and should be fine-tuned in order to ensure that its monetary policy effectively contributes to the achievement of tangible results to the benefit of EU citizens (economic growth, employment, fight against climate change) and gains citizens' trust. The following could be some ways forward.

Firstly, as far as the mandate of the ECB is concerned, the monetary policy of the eurozone has as its primary objective to maintain price stability "and, without prejudice to this objective, to support the general economic policies".[68] The ECB had defined since 2003 the objective of price stability as maintaining inflation rates below,

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[65] For a brief discussion of the ECB's monetary policy toolbox, see the speech by Philip R. Lane, Member of the Executive Board of the ECB, at the 2020 US Monetary Policy Forum, available at https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp200221~d147a71a37.en.html.

[66] See for instance https://www.nytimes.com/2019/05/24/opinion/after-draghi-wonkish.html, https://www.nytimes.com/2019/06/16/business/mario-draghi-ecb-euro.html, https://qz.com/1038954/whatever-it-takes-five-years-ago-today-mario-draghi-saved-the-euro-with-a-momentous-speech/ and https://www.kfw.de/KfW-Group/Newsroom/Latest-News/News-Details_426753.html.

[67] See, for instance, the programme of Marine Le Pen, candidate of the *Front national* to the French Presidential elections of 2017, whose first measure was a pledge to open negotiations with the EU in order to restore the monetary and economic sovereignty of the French people; available at https://rassemblementnational.fr/pdf/144-engagements.pdf.

[68] Articles 119(2) TFUE and 127(1) TFEU.

but close to, 2% over the medium term.[69] In July 2021, the ECB slightly modified its inflation target by declaring that price stability is best maintained by aiming for a 2% inflation target over the medium term (which means that negative and positive deviations of inflation from the target are equally undesirable).[70] The primary implication of this is that, in principle, the ECB's monetary policy cannot pursue other main objectives different from price stability and which are equally important, such as economic growth or the promotion of full employment.[71] It is noteworthy that, in contrast, neither the Federal Reserve nor, arguably, the Bank of England have a similar narrowly defined mandate.[72] Unsurprisingly, authoritative voices have considered the ECB's inflation-fighting mandate as counterproductive.[73]

Another consequence of defining so narrowly the objectives of monetary policy is that if and when the ECB interprets its mandate in a "flexible" manner and adopts non-conventional instruments that may be seen as pursuing other objectives of economic policy (which are legitimate but are not included within the ECB's mandate under a strict reading), the ECB's actions are exposed to political attacks and even legal challenges for exceeding the limits of its competence. Similarly, the possibility for the ECB to implement a "green" monetary policy is surrounded by uncertainty and open to potential challenges, in particular if such policy can somehow be regarded as threatening the objective of price stability.

[69] See https://www.ecb.europa.eu/mopo/strategy/pricestab/html/index.en.html.

[70] See https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210708~dc78cc4b0d.en.html.

[71] When inflation is extremely low and remains below 2 %, as it was the case for several years until the recent geo-political tensions erupted and exacerbated unusual upwards pressures, the ECB could argue that it is aiming at getting inflation closer to the 2 % target through a monetary policy that indirectly may favour economic growth and employment. However, this possibility rests on a hypothetical premiss that may not necessarily arise in the real world.

[72] See https://www.federalreserve.gov/faqs/what-economic-goals-does-federal-reserve-seek-to-achieve-through-monetary-policy.htm and https://www.bankofengland.co.uk/monetary-policy.

[73] See J. STIGLITZ, "Rewriting the Rules of the European Economy", Norton, 2020, pp. 72-73. See also J. STIGLITZ, "The Euro. How a Common Currency Threatens the Future of Europe", Norton, 2018, pp. 145 *et seq*. For a simple discussion of the harmful economic effects of the inflation-only mandate, see also P. KRUGMAN, "Euro Zone Death Trap", published on the New York Times on 25 September 2011, available at https://www.nytimes.com/2011/09/26/opinion/euro-zone-death-trip.html.

Furthermore, and relevant to the populists´ frequent attack of the ECB as overly detached from the sources of political legitimacy, it would be advisable to increase the ECB's democratic legitimacy and its political accountability, without prejudice to its independence when conducting its functions and the non-renewable character of its presidency.

Lastly, the EU treaties establish an absolute prohibition on monetary financing, which prevents the ECB from financing public spending by Member States or the EU institutions through monetary policy.[74] This prohibition aims at ensuring price stability, protecting the ECB's independence and promoting fiscal discipline among Member States and the EU institutions. In accordance with standard economic theory, it is preferable for public authorities to finance spending through taxation or capital markets, rather than through monetary policy. However, in the aftermath of the financial crisis and in the context of the Covid-19 pandemic, some economists have argued that the absolute prohibition of monetary financing should be re-examined and perhaps nuanced.[75]

IV.3 Active funding and the case of *Next Generation*.

The active funding to member states via regional, structural or social policies has been instrumental in the EU´s economic integration process. It can be argued that without the affluent-to-recipient rent transfer logic embedded in the EU´s budget, in exchange for the perks of market opening and liberalisation, the so-called ever closer union would have not come this far. Conversely, this issue has proved one of populism´s most effective claims, particularly resonant in the poorer regions within

[74] Article 123 TFEU. This implies that the ECB cannot grant credits to or purchase debt instruments directly from Member States and EU institutions.

[75] See I. AGUR, D. CAPELLE, G. DELL'ARICCIA & D. SANDRI, "Should Monetary Finance Remain Taboo?", IMFBlog, 22 February 2022, available at https://blogs.imf.org/2022/02/22/should-monetary-finance-remain-taboo/. See also A. WATT, "Quantitative easing with bite: A proposal for conditional overt monetary financing of public investment", Institut für Makroökonomie und Konjunkturforschung (IMK), Düsseldorf, 2015, Working Paper n° 148, available at https://www.econstor.eu/bitstream/10419/110391/1/82030462X.pdf. As regards the covid-19 pandemic, see https://www.ifuturecitizen.com/post/monetary-financing-against-the-covid-19-crisis-safe-or-risky and https://voxeu.org/article/fight-covid-pandemic-policymakers-must-move-fast-and-break-taboos.

EU´s richer countries, as the somewhat coarse arguments made during the Brexit campaign show all too well.

Since redistribution is key to fighting inequality, and the latter is so related to the dissatisfaction themes that have both partially grounded economic populism and called for a reshaping of EU´s policies, funding programs will remain key in the European agenda for some time, in particular in the topical context of the Next Generation EU (NextGen EU) program. Again, the EU has often been depicted as a distant, non-interventionist witness of the evolution of the economy, surpassed by circumstances when crises come about or, if at all, providing improvable solutions. Now comes a context, however, where the EU is bound to be active and intervene. And it has done so in spades, via Europe´s Recovery Plan, a stimulus scheme amounting to €1.8 trillion overall and, namely, NextGen EU, the boldest fiscal policy effort at the EU level to date.

It is in the EU´s best interest that NextGen EU not only becomes a success but is perceived as such. Will this sheer effort then contribute to better align the EU to her citizens, to show the kind of positive impact that stems from being part of such a supranational entity? It will all depend on how some design features end up playing out.

Firstly, from a national standpoint, NextGen EU does imply a transactional (in terms of net contributor vs recipient member states) over a pan-European vision. In a clear signal of inter-state solidarity, funds have been distributed by member States, not through “European-wide” projects, which might affect their overall effectiveness and efficiency. The net effect on the “inequality” challenge will in any case be uncertain. Furthermore, the increase of inequality being one of the foundational positions of economic populism, it is clear that citizenry will perceive the thrust clearly in the biggest recipient countries, but less so in the less intensely benefited ones.

Secondly, funds are dependent upon examination of “national recovery” plans containing several regulatory and policy commitments. Funds are, hence, conditional. Conditionalities imposed by EU´s institutions pertaining liberalisation, market reforms and the like, alongside budgetary contention, played a major role in sourcing populist claims in the midst of the past decade´s crises. It remains to be seen if the conditionalities agreed here will act similarly if the scheme underperforms.

Moreover, a further difficulty arises regarding the overarching theme of NextGen EU via, mainly, the RFF, which is to shift towards the transition to a greener and more digital economy. This normative approach differs from a traditional stimulus package, aiming at "merely" restarting the economy back to the structural point it hitherto was.

In the European context, where lagging issues related to productivity, economic structure and aging population pervade, linking the recovery action to specific objectives and reforms that different member states need looks like a sound decision. As the ECB has pointed out when modelling the NextGen EU impacts, a mere fiscal transfer that shies away from real reforms will not have a sustained effect on growth and ultimately lead to higher debt.[76]

However, this ambitious transformational purpose can not only be difficult - or not evident - to measure but, more importantly, also hindered by the myriad of requirements to abide by, with the possible effect of making the action scattered and sometimes even contradictory or inconsistent with speedy economic recovery.[77] Measures may cover a wealth of possible areas but, at the same time, need to contribute to some of the seven possible European Flagships;[78] respect gender equality and equal opportunities; contribute to the strategic autonomy of the Union; be consistent with the periodic Country Specific Recommendations; improve the quality of the Public Administration; expand the effective use of public-private partnerships… and so forth.

Lastly, even though the consequences are yet to be clearly envisaged, the evolution of the Russia-Ukraine conflict will greatly affect how current plans will end up. Most likely some re-prioritisation of NextGen EU's foundational objectives will be involved -

[76] See European Central Bank, (2021), "The macroeconomic impact of the Next Generation EU instrument on the euro area", Occasional Paper Series, No 255, January www.ecb.europa.eu/pub/pdf/scpops/ecb.op255~9391447a99.en.pdf .

[77] Here we are drawing extensively from the findings in Núñez Ferrer J. (2021), Avoiding the Main Risks in the Recovery Plans of Member States, CEPS, https://www.ceps.eu/ceps-publications/avoiding-the-main-risks-in-the-recovery-plans-of-member-states/ .

[78] These are: 1) Power up, 2) Renovate, 3) Recharge and Refuel, 4) Connect, 5) Modernise, 6) Scale-up and 7) Reskill and upskill.

particularly the environmental ones, greener economy, and energy and the like. At best, some relaxation in their ambition and timelines will be needed.

To sum up, as strategic as they are for the repositioning of the EU´s role in promoting resilience, NextGen EU's design traits make it difficult to ascertain whether the potential for a clear narrative in positioning the EU´s valid role as opposed to economic populism´s main tenets will be matched.

IV.4 Institutional layout and leadership.

No analysis of the EU´s economic might would be complete without a reference to the institutional layout and leadership muscle necessary for the EU to be credited in the future as an impactful actor. The EU has been cartooned from the nationalist/populist stance as an irrelevant dwarf in the international arena and increasingly incapable of fostering their economic principles domestically. These claims do show that the way the EU is perceived by her people is important to her significance.

If the EU is unfit in the decision-making process, dissatisfaction of citizens grows. If the EU is not perceived to give adequate solutions, this may generate a vacuum which is filled by those who place EU´s inaction and paralysis at the forefront of the criticism. Hence, the way the EU deals with such issues may undermine or, conversely, reinforce the opportunity for a stronger impact on the economic remit, and so vis-á-vis economic populism. Several broad elements define the current and immediate context in this respect:

1) The digestion of the somewhat short-sighted Conference on the Future of Europe.[79] This process is intended to give citizens a leading role, though it is still difficult to say at this stage whether it will have any impact on the EU policies.
2) Overcoming the COVID-19 health crisis. The EU has had a prominent role in the response to the pandemic, with iconic actions such as the vaccination program that have helped provide vital services to the population. The action has then turned to economic recovery plans, namely Next Generation EU,

[79] https://ec.europa.eu/info/sites/default/files/en_-_joint_declaration_on_the_conference_on_the_future_of_europe.pdf.

which aims at transforming the economy by injecting floods of money to pursue digitisation and sustainability outcomes.

3) The relationship with the United Kingdom: The effective use of Article 50 TEU has proven that the EU is not permanent, and it is the will of its Member States that allows this project to continue.[80] This was hard enough for the EU´s self-esteem and fast-forward dynamic. However, getting used to the new relationship with the UK, and also rebuilding the EU without the UK, are no less straightforward long-term tasks that transcend the EU-UK partnership agreement. This is important for the EU´s credibility as a relevant economic actor.
4) Navigating through the current military conflict in Ukraine and the consequences thereof. It is still early days to minimally envision the implications that Ukraine´s invasion will bring for the EU´s geo-political and economic position in the region and the world at large. One thing is for certain: sanctions, economic retaliation regarding raw materials, energy inflows being shrunk and the ensuing urgency to reduce the dependence of certain external EU energy suppliers, shifting budgetary priorities to build a real common defence apparatus… will make previous plans and policies for economic recovery harder to implement.

The evolution of these issues will determine the confidence of the EU in her own future and her force relationship vis-à-vis populism, including the economic aspects. However, they also provide opportunities for the EU to reposition and further connect with the concerns of citizens and economic and social tissues. They will be crucial in how the EU will portray herself.

Chiefly, if the EU wants to combat economic populism, she will need to perform convincingly toward both citizens, Member States, and the international community. The key issue is how to ensure that these three perspectives, which are essential to the Union’s actions, converge and have a positive impact on the day-to-day life of

[80] The slogan of the UK Brexiteer campaign “take back control” in 2016 was a clear demonstration of economic populism. Citizens who were disappointed with their living conditions, together with a backdrop of polarised politics and disinformation, were seduced by the campaign.

citizens so that economic populism can be minimised. As a starting point, any action needs to have due regard to the principles of subsidiarity, solidarity, and mutual trust.

- Subsidiarity[81] aims to ensure that decisions are taken as closely as possible to citizens, and that constant checks are made to verify that action at EU level is justified in light of the options available at national, regional, or local level.[82] The EU must avoid superfluous actions.
- Solidarity is enshrined in the Treaties as one of the values of the society in which we live under Article 2 TEU, although its use has been limited.[83] The COVID-19 pandemic has intensified its use, both in speeches and in certain regulations.[84]
- Mutual trust is the basis of the relations between the Member States and the EU and a consequence of sharing the values of Article 2 TEU.[85]

These are long-standing principles in the European acquis; however, looking forward, the first two in particular can be key to redefine what kind of role and leadership the EU needs to deploy in relation to Member States: a firm albeit not invasive, proactive yet subtle role.

[81] Article 5 TEU

[82] Specifically, this principle means that the EU does not take action (except in the areas that fall within its exclusive competence) unless it is more effective than action taken at national, regional or local level. President Juncker emphasised this principle in his 2018 State of the Union address: "*This Commission has sought to be big on big issues and small on the small ones*"

[83] It is the basis of the Solidarity Clause 222 of the Treaty on the Functioning of the European Union (TFEU) or Article 122 TFEU in the area of economic policy.

[84] For instance, Regulation (EU) 2020/672of 19 May 2020 on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak or Council Regulation (EU) 2020/2094 of 14 December 2020 establishing an EU Recovery Instrument to support the recovery in the aftermath of the COVID-19 crisis.

[85] The EU has established a new legal order based on the same values and the same system of enforcement, which is composed of national judges and the ECJ

Finally, we can complement this traditional toolkit with more creative innovations that pertain to the projection of the EU´s leadership, including in the economic remit. One such concept is that of "open strategic autonomy", adopted by the EU to serve as a coordinating framework for a very broad set of policies to boost the external projection of the EU in its commitment to open trade and multilateralism while, at the same time, reinforcing the region's economic and financial resilience.[86] The EU Strategic Agenda 2019-2024 provides that "the EU needs to pursue a strategic course of action and increase its capacity to act autonomously to safeguard its interests, uphold its values and way of life, and help shape the global future";[87] and the European Council Conclusions of 1-2 October 2020 stressed the need to achieve "strategic autonomy while preserving an open economy".

In summary, the contention of economic populism goes beyond economic policy and performance. Credibility, leadership, coordination with Member States, and a sound roadmap for the future are paramount for the EU to have a meaningful role.

[86] BDE, Economic Bulletin 1/2021, Pilar L'Hotellerie-Fallois Armas, Marta Manrique Simón y Antonio Millaruelo de Lafuente https://www.bde.es/f/webbde/SES/Secciones/Publicaciones/InformesBoletinesRevistas/BoletinEconomico/21/T1/descargar/Files/be2101-it-Box5.pdf

[87] The European Commission defines OSA when referring to trade. It recalls the EU's commitment to open and fair trade with well-functioning, diversified and sustainable global value chains. It encompasses resilience and competitiveness to strengthen the EU's economy; sustainability and fairness, reflecting the need for responsible and fair EU action and assertiveness and rules-based cooperation to showcase the EU's preference for international cooperation and dialogue, but also its readiness to combat unfair practices and use autonomous tools to pursue its interests where needed. (Trade Policy Review - An Open, Sustainable and Assertive Trade Policy https://eur-lex.europa.eu/resource.html?uri=cellar:5bf4e9d0-71d2-11eb-9ac9-01aa75ed71a1.0001.02/DOC_1&format=PDF)

CONCLUSIONS AND RECOMMENDATIONS

The glance provided gives way to certain conclusions as regards the aspiration, opportunities, and possible difficulties for the *European Project* to remain ahead of economic populism. We shall outline them in turn.

i. ***The EU must pay attention to the sources of current economic dissatisfaction.*** By identifying such concerns - inequality, a narrow scope for economic regulation and policy, insufficient public economic stimuli in times of resilience, an increasing disconnection to states and citizens and a weakened leadership - the EU allows herself to preserve her core economic principles of economic integration. It is fair to acknowledge that the EU has identified this necessity.

ii. The EU is moving towards alternative and efficient ways of promoting the benefits of free trade while preserving the interest of citizens and consumers. In the current context, the trade-off is demanded to be particularly exigent. The EU does seem to have gripped this issue, via a renewed approach to landmark economic policies related to market efficiency, such as competition policy, in the context of new challenges like digital platforms.

iii. The EU is promoting and leading economic policies with a transformative social dimension, with the interest of the citizen at their core. This is a field where the EU seems to be delivering as well – from environmental issues like the Taxonomy regulations and circular economy packages to corporate governance frameworks or more social-oriented regulation. The regulations and policies of the EU are no longer the sole remit of free trade, deregulation, liberalisation and the like. The vision of a more social Europe is present.

iv. ***The EU could consider broadening the ECB's monetary policy mandate and could review the ECB's institutional framework.*** Even with a fair share of criticism from populism, the ECB´s seminal role in past crisis has been widely recognised. There is however space for some reforms of the current situation in order to make the ECB more impactful, now - when preserving price stability remains a fundamental concern - and in the future: pursuing a wider range of policy objectives, such as promoting economic growth or full employment; reinforcing democratic legitimacy and accountability; re-examining the absolute prohibition on monetary financing.

v. **The EU must guarantee that redistribution mechanisms address clearly, and impactfully, the concerns and needs of her societies.** NextGeneration funds make an evident opportunity. However, beyond implementation, there remains the issue of whether they are going to suffice per se to convey a distinct, European impact.

vi. *T*he EU needs to address economic populism from a holistic approach, taking into account its economic, social, and political dimensions coherently, putting citizens at the centre of its action. The EU should not neglect the current context and use essential principles like subsidiarity and solidarity along with new concepts such as "open strategic autonomy" to enhance leadership and close coordination with Member States.

Building from these conclusions, some possible concrete, and immediate recommendations as to how the EU might go about better contending economic populism - some economical, some institutional, some strategic in nature - might be the following.

1. ***Own the narrative.*** What can the EU do for me? This is the question that should never be lost sight of. The EU must have a role in favouring those economic outcomes that their citizens and societies value. There is no more effective response to economic populism than being present. There is though more to this assertion than meets the eye. In today´s complex environments, well addressed economic policy is not enough. Connecting with citizens is paramount -precisely what populism tries to do. The EU must avoid being perceived as a fabrication of elites with the sole logic of consolidating free markets - particularly as this is no longer the case if it ever was. The current debate is not about things like regulatory quality, institutional reform and the like; it is about what value the EU brings to the table and how citizens perceive it. To be present, the EU´s raison d´être needs to be connected with a European ethos.

2. ***Promote and explain regulation in a pedagogic manner.*** If the role and regulatory stances of the EU need to be explained, then why not do it? Populism´s PR can get a country off the EU; it has happened. So it will not hurt the EU to strengthen her own. Regulation makes an evident candidate: the EU needs her citizens to know and understand. The key to relevance - or presence - is not conquering any available space that is available for regulation, and overregulating it; indeed, less can often be more. The key however is explanation: not so much via hefty ex-post assessments but by conveying to all citizens of Europe -not just the elite- what the point is. It is not true that people´s views on economic policies and regulations are unchangeable. Recent economic research compellingly demonstrates that when policy decisions are explained a certain way, whether on the grounds of effectiveness, efficiency and - to a lesser extent, which is also telling - fairness, people can change their preconceptions.[88] The EU needs to explain economic policies and what she brings to the table more and better. This is particularly acute in the case of the poorer regions of richer countries, where a sense of lagging attention and resource displacement in favour of other regions in Europe might find a stronger grasp.
3. ***Address inequality, reinforce redistribution***. This is the elephant in the room in terms of economic outcomes. There are several issues than can be addressed.
    a. *Firstly,* ***make NextGeneration a success***. This means: reasonable impact - on the strategic themes of digitisation and sustainability and on aggregate EU growth and spill over effects; reasonable implementation - Member States making the most of programs´ availability; sufficient transparency and accountability via the instruments set out at the European level, such as the Recovery and Resilience Scoreboard, and the involvement of national Independent Fiscal Institutions - so that money is not lost in translation.

On top of that, as the EU´s core-periphery economic conditions continue to diverge, it would be convenient that these funding efforts strengthened social and regional

[88] Stantcheva, S., 2020, Understanding economic policies: What do people know and learn?, available at: https://socialeconomicslab.org/understanding-economics/

cohesion - allowing for some catch-up of the poorer areas, whether national, EU-wide or cross-border.[89]

b. *Secondly,* ***work towards a dedicated fiscal capacity for the Euro Area***. This, as called for in the Five Presidents Report in 2015,[90] would not only add to the macroeconomic stability properties of EMU; it could at the same time serve distributional functions, be it in support of pre-market fairness via social investment or post-market cohesion in the form of unemployment benefit funds. Access to the social minimum is not effectively guaranteed for all Europeans, and one in four is still at risk of poverty or social exclusion.
c. *Lastly,* ***concentrate on labour markets***. There is ample evidence that increasing job insecurity makes people more susceptible to populist rhetoric. This effect dominates in regions lagging behind. At the same time, increasing labour market mobility decreases the attractiveness of the far-right agenda in regions where people benefit from new job opportunities generated by the Single Market. Therefore, unemployment assistance and active policies to re-integrate unemployed people into the labour market remain critical. In this respect, employers must be incentivised to continuously invest in their workers' qualifications. This is best done at the EU level. Similarly, debt relief and personal bankruptcy regulations should also be developed at the EU level to avoid a race to the bottom among the Member States.

[89] For a detailed discussion on the matter, Pilati, M., (2021), National Recovery and Resilience Plans: Empowering the green and digital transitions?, EPC Discussion Paper, https://www.epc.eu/en/Publications/National-Recovery-and-Resilience-Plans-Empowering-the-green-and-digit~3e58f0v .

[90] https://ec.europa.eu/info/publications/five-presidents-report-completing-europes-economic-and-monetary-union_en.

4. ***Harness the current contingency… by getting back to basics.*** The EU´s perception is penalised by the fact that, normally, no one cares about the things they take for granted - in particular if they reasonably work. But the opposite also holds true. Like it or not, a single whatever it takes, a couple of bold moves in the context of Covid-19 or the invasion of Ukraine, are worth more to citizens than one thousand cautiously designed regulations or a well thought of Conference on the Future of Europe. Some economic challenges from the current situation are distinctly European - energy supply, the monetary path, industrial policy, the repositioning of economic solidarity. Today´s context calls for the EU´s leading role and, moreover, for a new momentum on European unity and purpose. Namely all actions to be taken can be channelled via either solidarity or subsidiarity, those ageing principles.
5. ***Make it a shared responsibility.*** However, to each their own. There is a role to play for Member States, governments, national political ecosystems and stakeholders as well, in order to nurture the EU towards the future and contend economic populism. As we are constantly reminded of, lately with the French election, populism will conquer or be conquered in nations, not at Berlaymont. We should be done with the scapegoating exercise of the EU as the punching ball of national politics, as if she were that uncomfortable neighbour one needs to cope with. The European Union is not the European Commission, nor Brussels/Luxembourg for that matter - this structural mental image being possibly populism´s foundational win in Europe. National dynamics are part of the EU´s ecosystem and national leaders need to be committed to the task of defending and preserving the EU, not using it as a way to divert frustration. Likewise, national leaderships play as large a role, if not larger, than EU counterparts in promoting long-term ambition, as Italian President Draghi has recently shown in front of the European Parliament with his pledge to more integration in order to protect the EU from future crises. And so, we plead leaders of Europe, behold your people.

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DISCLAIMER

NATIONALISM, POPULISM AND IDENTITIES: CONTEMPORARY CHALLENGES

Fide, January 2023

Nationalism has the potential to be a positive force. Populism, however, typically embraces an extreme form of nationalism. This can be a destructive force if it means that states retreat into an isolationist mindset and away from effective multilateral solutions to perceived cross-border problems. More specifically, it is capable of resulting in damaging impacts. This encompasses mistrust of state institutions, including the judiciary. Whether this results in state action to undermine the judiciary or a state's failure to address unacceptable criticism leading to mistrust of the judiciary, populism can damage the rule of law. It also encompasses protectionism and the imposition of tariff barriers to interstate trade, and hostility towards economic migrants and refugees.

This document compiles all the individual papers and proposal documents resulting from the analysis and research work carried out by the professionals that were called upon by the Fide Foundation, in 2020, for the purpose of Fide's 2nd International Congress on the contemporary challenges that arise from nationalistic, populist and identarian movements across the world, held at Jesus College, Oxford.

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Fide is a legal-economic think-tank, an operational centre of knowledge in a practical state, which is made possible thanks to the active participation of all levels of civil society that have something to say about it: from the top management of the companies to law firms, from university chairs to courts of justice, from all levels of administration to professionals from different fields related to the world of Law and Business.

At Fide we have set up a series of working groups whose purpose is to make a **continuous and deep reflection** on some of the major issues that we have considered that, due to their urgency, need for reform or capacity for improvement, deserve to be the **subject of special reflection** by a group of experts. Some have already published their first conclusions, have made specific regulatory proposals, or have advanced an initial analysis of the situation. Others will do so throughout the year. But there is no doubt that in each group we have an **essential point of reference**. The composition of each group, with **professionals with extensive experience and in-depth knowledge** of each subject, allows us to address all those issues that we collectively consider deserve reflection. Sometimes this can be reflected in some **generally accepted conclusions**, **or in specific regulatory proposals**, in others **the debate itself reveals the complexity and distance of the positions** and therefore the value of the work is reflected in specific summaries on the topics addressed. In any case, any professional involved in the evolution, development, application or improvement of regulation and especially economic regulation must be familiar with these works and contribute to their development, knowledge, and dissemination. The members of these working groups are members of Fide and regular attendees of Fide's sessions and forums, which are closely linked to the matters addressed in the respective areas of analysis.

OUR TEAM

Find below the information on the team members that have participated and are responsible for developing Fide's international outreach. Feel free to send any of us your queries via email:

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