



POPULISM AND ECONOMIC DYNAMICS IN EUROPE

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Abstract

The following analysis is devoted to the upcoming European Parliament elections and the likely impact of populist parties on the outcome. First we define populism, then we analyze its roots and the structure of its voters. The populist political agenda relating to the European Integration Project is twofold: partly an explicit request for a renationalisation of economic policy, partly a hidden agenda to prompt countries to exit from the EU. The study proposes an alternative proactive agenda, starting with an impartial account of progress and problems. It then puts forth a vision of Europe as a role model for high income, low inequality regions, with a new view of globalization, migration, and partnership with neighbors. This narrative of Europe as the society offering the broadest choices for its citizens could reconnect the EU with its citizens, as well as stimulate bottom-up innovations and activities.

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1. MOTIVATION AND RELEVANCE

The Problem

Populism is not easy to define, but its effects are visible when it challenges liberal democracy, pluralism, human rights and the exchange of ideas. It shapes economic policy and leads to the rise of new political parties along with the demise of traditional ones. Populist parties change the political agenda, undermining multilateralism, openness and the freedom to choose one's living and working place.

Pressing social and economic problems felt by citizens are covered by mass media and social networks. At the same time, a rising share of voters considers the solutions and measures proposed by mainstream parties to be inadequate; party leaders and dominant political actors are experienced as detached from citizens. Economic policy in many countries fails to address unemployment and inequality, incomes are flat. Uncertainty and anxiety rise for economic reasons or due to increased discrepancy in values and beliefs over time and across nations (cultural heterogeneity). Long-term solutions and a positive framework that upgrades education, mutual learning and capabilities are not offered or at least not adequately communicated. New jobs and opportunities do not seem to be around the corner, so that change is not embraced as a chance for medium-income and low-income citizens. Pessimism about future life chances dominates.

The policy failure: Change may be positive for nine out of ten persons, but if the media do not report this and if societies fail to assist or empower the minority which cannot cope with the new situation, then change is seen as a danger and people feel as if they were *forgotten*, even if the new situation is welfare enhancing on average and in the medium or long run. Economic theory stresses that changes, whether they be technology induced or globalization driven, generate winners and losers. Distributional issues are becoming more important in industrialized countries, since sectors and occupations in which unskilled labor is used are being downsized or outsourced². The representatives of firms or other advocates of the "free market model" argue against new policy initiatives that limit "openness"; instead they stress deregulation and that workers have to be flexible. Cutting red tape and bureaucracy increases welfare, but eliminates regulations that served societal goals to reduce wellbeing³. Trade unions often oppose structural change as such, instead of supporting workers to grasp the advantages of the new technology.

The consequence: Populism has made significant inroads and is currently dominating economic policy, e.g. in the US today⁴. Populist parties are also increasing their voting share in many European countries. In some member states they have formed a government with a mainstream party. Even if their performance in office does not meet voters' expectations, their popularity does not diminish. Anyway, their presence shifts the political agenda.⁵ If populist leaders take the lead in a government having acquired a relative majority in parliament, they stabilize and extend their grip on power by changing rules, and they construct a foreign enemy threatening the country. They permanently repeat the request to put the "own" country first, to save the "endogenous" people or the "true" citizens. Sometimes they demand that a traditional "national" religion should be saved. The past glory and size of the country should be restored, even if the first never existed, and the second issue would require border changes. The threat of outside forces stabilizes power if policy solutions do not work or even aggravate the problems populists promise to solve.

² Picketty et al. (2016) try to get back distributional questions on the economic agenda, where efficiency dominates as a yardstick of success.

³ Rodrik (2017B).

⁴ This also holds for many non-industrialized countries from Brazil to Turkey.

⁵ Populism is different in South America, Russia, Turkey, South and Eastern Europe, but it shares several economic and social roots, as well as proposes similar remedies.



2. DEFINITIONS OF POPULISM, DRIVERS AND VARIANTS

Features

A core characteristic of populism is the oversimplified interpretation of the problems of a society, used by a group, a political party or the media to gain attention, influence or power.

Deliberately distinguishing binarily between the people and the elite is another distinctive feature. The people are the large group of ordinary, virtuous citizens; the elite is a corrupt and self-serving political, economic or cultural minority dominating society.⁶

The quest for renationalization of policy is a third feature, which characterizes today's populism. Pluralism, globalization and multilateralism are declared to be negative, since the homogeneity of the people is endangered. Heterogeneity and multiculturalism are seen as negative values, while evidence that they could be welfare enhancing is disclaimed.⁷

Causes

The success of populists is often connected to real *economic problems* like stagnating incomes, inequality or unemployment. There was no growth in GDP in Europe between 2008 and 2017 (lost decade, Aiginger 2018 A,B), and incomes and employment tend to decrease in regions where manufacturing dominated, or young people left.

A second driver of populism is change in values and beliefs: liberal values (like gender equality, openness to new lifestyles and personal relations) are becoming increasingly mainstream and are dominating industrialized societies at the cost of traditional and conservative values. But not all people share liberal values, and populists intend to make conservative values acceptable and respected again. This conflict over values is the cultural cause of populism.⁸

The third cause is *fear and uncertainty*. They are a consequence of any quick change, whether it be economic, cultural or technological. Uncertainty increases if there are waves of inward migration but also if young people leave the region or country as to look for higher incomes. Fears of being left alone, losing status, or inability to catch up with a peer group, lead to uncertainty or even anxiety. They come up in periods of change, calling for protection or a reduction of the speed of change.

Policy failures are a fourth cause. If the losers of structural and technological changes are neither compensated, nor assisted, they lose faith in institutions and it might become "too late to compensate the losers".⁹ If globalization increases the income inequality and economic policy deregulates labor markets by reducing benefits for low income workers without boosting retraining, if regional policy offers no strategy for regions losing manufacturing plants, if migrants (all the more those from different cultures) are not integrated in education and work, populists will benefit.

⁶ According to Mudde (2004) populism's attraction lies in its persistence of calling for politics to be an expression of the general will (volonté générale) of the people, who are to be distinguished from the "corrupt elite", referring to either the political, economic or socially powerful (Mudde, 2004).

⁷ Ideational approach holds that defines populism as a discourse, ideology or worldview, which put the pure and homogenous people against the corrupt elite, Kaltwasser et al. (2017).

⁸ Social media act as "echo chambers" repeating the opinion of persons joining a platform; their "followers" multiply with the simplicity of solutions. False information tends to dissipate more quickly than facts.

⁹ Rodrik (2016) analyzes potential policy failure in response to globalization, which leads to the problem that it might be too late to compensate free trade losers. According to Rodrik, the employment loss of low-skilled labor in industrialized countries is leading to rising inequality. Globalization has different economic effects on capital and labor. It increased the mobility of capital (and its power to influence the rules) but not that of labor.



The track to power and methods to make it persistent

In Europe it is primarily right-wing populism that is on the rise. Populist parties first had to enter coalitions, usually with a conservative mainstream party.¹⁰ In government, these coalitions shift the agenda, highlighting the issues most pressing and popular for their voters. If the chosen policy instruments do not succeed, the rhetoric becomes bolder. Enemies are constructed that prevent success, some in the country (the elite), others outside the national borders (from George Soros to "immigrants"). Voting procedures are changed in order to extend the parliamentary majority with a minority of votes, or to get an overriding constitutional majority with a slim relative majority. If populists succeed in becoming the dominant party, the government eliminates, circumvents or ignores constitutional checks and balances. Populists increase their influence on the judiciary system and media, while scapegoating foreigners and outside forces as threatening the country, its religion and its endogenous citizens. European rules are neglected. If they are monitored, this is taken as proof of the outside forces intervening in national affairs. Since an exit from the EU does not get a majority easily, radical and unrealistic reforms of the EU are demanded, with a threat to exit if the EU does not change its governance and rules accordingly. Among these reforms is to end the ruling of European Courts or interference in national affairs. This is demanded, even for issues that evidently cannot be solved by individual countries in their own. This applies to corruption and crime control, financial speculation and tax fraud, distortion of subsidies, expropriation of foreign land owners or firms, emissions from coal plants leading to health problems in neighbouring countries or public debt that endangers the Euro, etc.

The "Mainstreet instead of Wallstreet" campaign – predominantly in the US but also accompanying G-20 meetings – may be seen as a new variant of left-wing populism, offering a bridge to a green, anti-growth or post-growth agenda. The "De-growth" movement dominated the discussion in the academic sphere in the first decade of the century, but then lost steam as youth employment increased in many countries and young people no longer wanted to be marginalized in "training jobs" up to their thirties. Finally, with migration booming due to climate catastrophes or war, post-materialists are sympathetic to welcoming them, but realize that migrants cannot be integrated in a phase of downsizing the European economy. Demanding ever higher public expenditures without a focus on future investment is a bridge to the socialist's agenda of an ever larger and more benevolent public sector without improving life chances and choices. Expanding public expenditure without limits is a wrong policy, as it amounts to extreme austerity in a period of sluggish investment.

Populism vs. Radicalism

It is necessary to differentiate between populist and radical movements. Populism is called, e.g. by Stanley (2008), a "thin ideology" needing a complementary full ideology; for this, fascism, liberalism or socialism can serve. It is primarily this "full" ideology which converts populism from a movement that can positively enable a controversial and fruitful political discussion (and making complex issues more comprehensible to less interested voters), into a danger that provokes conflicts, authoritarian repression and even violence.

In contrast to populism, right-wing radicalism adds the element of natural or biological differences between people and individuals. Furthermore, authoritarian structures and leaders are typical for radicalism. Individual demands and strength and compromises are undesirable. Violence and riots are tolerated or even welcomed as a method with which to destabilize existing regimes.

Mudde (2017) defines the "populist radical right" according to three features: populism, nativism and authoritarianism. Nativism is defined as the intense opposition to an internal minority due to its

¹⁰ See Italy with Lega's coalition with the Five Stars Movement as an exception, in which the partner is left-leaning populist.



foreign connections or, in short, a combination of "nationalism with xenophobia"¹¹. Authoritarianism is given if a society or person is uncritical or subservient towards a person (strongman) including the attitude of punishing outsiders or, in short, "law and order plus moralism".

Surprisingly, right-wing and left-wing populists cooperate or at least do not always see each other as the main enemy. They have a common agenda against globalization, big finance, European integration and intergovernmental decision processes¹². Climate change is thought of as non-existent, not human-made or not really important. The horseshoe hypothesis claims that right-wing and left-wing movements "need" each other. In Greece, the left-leaning SYRIZA is in coalition with a right-wing party (and has rejected a liberal party as coalition partner). In Italy, the right-wing populist party Lega governs with the left-leaning anti-authoritarian Five Stars movement. Right-wing parties tend to have good relations with the party dominating Russia under Vladimir Putin. Right-wing and left-wing populists used the poorly explained reform agenda of Emmanuel Macron to join the Yellow Jackets (Mouvement des Gilets Jaunes). Hardcore leftist (Mélenchon) and right-wing populist (Marine Le Pen) parties try to support and continue the weekly demonstrations, even as president Emmanuel Macron corrects and explains his reforms and promises to start an intensive dialogue. Populists on both sides of the political spectrum risk that violence will replace the well-founded critique.

Predecessors and Variants

Populism has historical roots in the agrarian populism that defended small farmers against industrial systems. Small communities and their way of life should be protected as agglomerations with new lifestyles. A long path had to be undertaken, from these roots to populism constructing the division of society into the people and the political elite.

Right-wing populism is conservative, exclusive and anti-pluralistic, and it tends to be illiberal and authoritarian. It calls for a tough political regime, often including strongmen and the military. Education is called to teach conservative behavioral rules and the disciplinary function of the "own" church is appreciated; the traditional role of males dominating females is tolerated, if not encouraged. Right-wing populism opposes international agreements and contracts that often include European integration, human rights and climate compacts.

Left-wing populism has anti-authoritarian and emancipative roots. China's Maoists favoured a bottom-up socialist system. The student movements of 1968 called for "1000 flowers to blossom" and the democratization of all areas of society. Left-wing populism is "inclusive", as it integrates outsiders and favours diversity and individual choices and overcoming traditional restrictions ("emancipation"). The "New Left" encouraged the opposition to parliamentary democracy and tolerated illegal demonstrations ("ausserparlamentarische Opposition", APO).¹³

In South America, left-wing populism dominates – it has helped to overcome military rulers and dictators, as well as boosted the education of the poor. Unfortunately, leaders favouring this agenda often themselves turned to authoritarian practices. Overspending led to inflation, the loss of international credits, devaluation and ever-increasing inflation (hyperinflation). They extended their

¹¹ Guriev (2018) defines nativism as the protection of the "ordinary people" from the "cosmopolitan elites".

¹² "The extreme left and the extreme right politicians now join forces to defend a parochial agenda against the mainstream center that represents markets and globalization" Guriev 2018,, p 200.

¹³ It could not prevent force and even bombing in the name of the anti-capitalistic rhetoric provided by some of their academic leaders. But the overwhelming majority of the "New Left" opposed violence, even if it made it a little more tolerable supplying the concept of "Gegengewalt" (counterforce is declared to be needed to overcome the brutal repression of the current regime).



terms in office into lifetime autocratic ruling and often suspended or side-lined parliaments and independence of the judicial system^{14, 15}.

Welfare expenditures not dependent on obligations of training or looking for work ("unconditional basic income") in an economy with a low employment rate and high debt and calling for more public spending at any occasion may be considered as another variant of left-wing populism (Italy). It blows up the inefficient public sector often situated in an already high tax country.

Neoliberalism is a simplifying program; its extreme variants are definitely a welfare-decreasing ideology, but usually not called populism. Germany (over the past decade setting the economic agenda of the EU) favors public discipline (after having regained dynamics after the Unification through a radical liberalization of its rather regulated labor market, see Hartz laws) and kept them as the labor market tightened.

Opposing "neoliberalism" is used by left-wing politicians and economists to condemn even necessary reductions in a large public sector ("consuming" close to 50% of GDP in many European countries), the bureaucracy and the overregulation of product or labor markets, as well as the large and privileged public sector.

Recent populism tends to be connected to Migration

Today's populism is characterized by the request to push the own – national – demands to the top of the agenda. It is exclusive, as it claims that egocentric goals are all-important and should be pursued, even if they hurt other groups or countries. Even endangering future living conditions and climate change are sidelined. The elites, which populists fight against, can be own detached governments, Brussels, financial capital, or international organizations. Opposition to migration is at the core of today's populist agenda. It is seen as a danger by the "natives", since the share of migrants among citizens is increasing and, specifically if migration occurs abruptly, the migrants come from a different culture and the migration is not steered by demand (like the recent wave of 2015 in Europe). The extent to which migration might reduce the position of the "endogenous" population (in some segments, for less skilled workers, in the short run) is the object of empirical research, where most studies find that inward migration does not increase unemployment or reduce the wages of those employed thus far. Instead, they push them up on the "occupation ladder". What is surprising is that opposition to inward migration also increases in countries with predominantly positive experiences with migrants (US, UK) and where very few migrants are living.

The external political agenda of recent populism focuses on regaining national sovereignty, as well as opposing multinational agreements and cooperation. Populist parties sometimes also support border changes, so that the own country can win back its past glory (even if this never existed or had been created or upheld by force and the subjugation of other people). In the domestic agenda

¹⁴ Bolsonaro from Brazil is a right-wing populist who came to power through a landslide victory. Maduro from Venezuela a left-wing populist extending an inefficient and corrupt leadership which leads to mass emigration and food scarcity in one of the oil-richest country of the world.

¹⁵ Overspending and excessive debt is also a consequence of populism in Southern European countries, high public debt and deficits started in "good years" and were hidden by statistical office. Left-wing populists opposed fiscal discipline before, during and after the crisis. During a crisis and in its aftermath cuts in public expenditures are counterproductive, if they further reduce employment and poverty prevention. However, government spending should be used for practical education, innovation, structural change and the creation of new firms, but not for pork issues, high and early pensions and privileged jobs in the public sector. In this respect, governments as well as the European rescue programs (co-sponsored by the IMF) made large failures. The military, the church, land and ship owners and rich people still do not pay adequate taxes in Greece. There is no real attempt to stop the transfer of incomes and wealth abroad, as well as capital flight. Greece does not cooperate with neighbor countries or use the vibrant neighborhood in the South and the East to increase production and exports (Aiginger, 2018A, 2019).



of the populists, cultural diversity is declared to be a danger instead of increasing integration efforts and mutual learning. New lifestyles, gendering and minority rules should be abandoned, political correctness is declared oppressed by the dominating elite. In their opinion, society should return to traditional values and habits.

To summarize, the relation between populism and migration is more complex. First, empirical studies show that there is no strict correlation between shares of migrants and populist voting, since people, having experienced contact, have a more positive view. Therefore, places where migrants have arrived do not have the strongest populist and anti-immigrant sentiment. These are often dominant in places where the young population has left and the people remaining fear that the young ones will never come back, resulting in their local communities being transformed by "others" (Krastev, 2017).

3. THE ENDANGERED EUROPEAN PROJECT

Challenging the European Unification

Populism in Europe tends to be connected with the opposition to the EU. In some countries, populist parties are calling for drastic changes in the goals and decision-making process of the EU with the clandestine agenda to exit if unrealistic reform demands are not implemented quickly. In other countries, they are openly calling for exit referenda or the split of the country (the separation of regions or some part of the country is supported in Italy, the UK, Spain and Belgium). As a minimum, they are calling for an exit from the Eurozone or a dismantling of the power of the European Central Bank or the European Court.

The explicit or implicit call of populists for an exit and their fundamental opposition to the European integration project happens despite the fact that the EU project is a success model, which has led to a seventy-year period of peace in a historically conflict-ridden continent. The four "freedoms" of goods, services, capital and persons have created a living space in which people have more choices¹⁶. But the model of an "ever closer union" and the narrative of a peace project are no longer motivational. Peace is believed to be guaranteed and, erroneously, never to be endangered again. Brussel is thought to intervene too much in national affairs.

Fukuyama (2012, 2018) emphasize that a "national identity" is absolutely necessary for the success of a society. Europe's "identity" can be circumscribed by the intrinsic values of freedom, democracy, rule of law, solidarity and respect for human dignity. The collective European identity is not supposed to replace existing identity on the national or local level, but to serve as an overarching set of values (Handler, 2019). That citizens in the EU member countries have started to feel this European identity is reflected in survey in which ever more and especially young people assess themselves as Europeans (at least in addition to citizens of the country in which they are born). But the tendency supported by the concept of "United in diversity" in European documents, is now questioned by elements of "illiberal democracy" and request to emphasize the national identity by Viktor Orban, Jaroslaw Kaczynski, Matteo Salvini, Marine Le Pen and others. A new narrative for Europe is called for by many authors (Ben-Ami, 2018), which have to respect arguments, but not necessary to follow the conclusion of populists.

Economic data reveal that differences in per capita income are narrowing between member countries and regions. But incomes have declined drastically since the financial crisis in Greece.

¹⁶ There may be exceptions for the immobile and low-skill groups.



Together with suboptimal policy reactions from Greece as well as the EU,¹⁷ this led to a drop in income for large parts of the population. In Italy average incomes are flat since decades, inequalities trade as well as public deficits persist at a high level. These developments prevent that real convergence (in per capita income) happened in the Euro Area and among "old members" of the EU (Franks 2018). External equilibria were at best tried to reduce by wage restraint, not by productivity enhancement. Germany was not really helpful in supporting convergence, neither by biasing adjustment in rescue packages in the direction of austerity rather than growth-oriented structures, nor by cutting its own low wage sector, despite of large trade surpluses.

In the new member countries, incomes have been catching up faster than low income countries in any other historical transition period. Therefore, the EU has been labelled an "integration machine" by the World Bank (Gill and Raiser, 2012). But catching up did not happen as quickly as people hoped or political leaders promised, and the "bonus" decreased after the financial crisis. Furthermore, the benefits of the reintegration of the new members into Europe were not distributed equally across persons and regions.

Dissensus between country groups

Within the EU, rifts exist between the North and the South, between the East and the West and between top regions with fast-rising incomes and regions increasingly dependent on remittances and subsidies. The latter feel disappointed, exploited or forgotten and populist rhetoric accuses foreign forces in general and the EU specifically of leaving them alone. This is argued despite substantial Regional and Structural Funds available for projects in low-income/high-unemployment regions. Young and mobile people can increase incomes and grasp opportunities by migrating to richer EU countries, while in the regions left behind the infrastructure deteriorates as they become unattractive for direct investments and startups.

Eastern European countries threaten to oppose the further expansion of the EU to the Western Balkans, closer cooperation with the East (Turkey and the successor countries of the Soviet Union) and the South (Middle East, North and Sub-Saharan Africa). They disapprove of cuts in agricultural subsidies in the proposed EU financial framework and – most visibly – cooperation in many policy areas. They oppose migration even if their working age population decreases by one third or more, whereas young and qualified people emigrate to the west driven by the quest for higher incomes. This led to abandoned or "forgotten" places (Rodriguez-Pose, 2018) with ageing populations and deteriorating infrastructures; they became unattractive for new investment.¹⁸

In *Southern Europe*, Italy and Greece do not eliminate the privileges of local bosses and do not prevent capital flight into tax shelters. In Spain, corruption has led to regime change, but the new government has no parliamentary majority and cannot find a solution for the quest for autonomy of Catalonia. The "Greek tragedy" started with high public expenditures before the Financial Crisis of 2008, but the extent of the debt was only revealed by the crisis. Public deficits and debt remain

¹⁷ European "rescue programs" did demand cuts in public expenditures, without demanding reduction of tax evasion, and privileges of land and ship owners, church, and without a proactive component supporting young firms, new plant and software centers near the highways. Education and innovation and efficient ports had no priority for Greece, too. And Greece does not use its excellent position as a bridge between Europe, Asia and Africa (Aiginger, 2019).

¹⁸ Population is decreasing dramatically in some Eastern European countries (and many regions including those in rich countries like Austria), it declines alone in 2018 in three EU member countries by more than 10%. In the total EU-28 active population declines from 246 mill to 227 mill if female labor force attachment continues to increase strongly (-8%) and by 13% up to 2060 (Wittgenstein Center, 2018).

Victor Orban reacted in mid-February to low birth rates (of about 1.5 kids per pair) by high financial incentives and connected this with his anti-immigration stance and calling for the final battle for the Christian Hungary (and Europe).



high in Greece and Italy, but are not used to upgrade education, innovation or new business starts. No partnerships for mutual benefits are designed with neighbors at the other side of "mare nostrum" (a region much closer than Brussels or Russia).

Northern Europe has – after many crises – reformed and flexible welfare models, but opposition to migration is rising. Populist parties fighting openness and liberal values favored by the "Scandinavian model" for decades are making inroads.¹⁹

Germany has taken the role of the fiscal watchdog, but is fighting internally about its immigration strategy; populism is making inroads via the right-wing AfD²⁰ as well as the regional subgroup of the conservative party in Bavaria. A tougher agenda finds sympathizers within the two left-leaning parties. Another shift in the policy agenda is visible in the social democratic party, which denounces past labor market reforms and demands higher minimum wages and employment subsidies. Rather surprisingly, relative to developments in other countries, the green party is successful due to a forward-looking optimistic worldview.

In other countries of the so-called continental European Welfare Model, populist parties are already minority partners in government (Netherlands, Austria) or are predicted to make large gains in the upcoming European elections.

Missing the chance to shape globalization

Given this lack of consensus among members, the EU cannot shape globalization and international trade and investment agreements. Nor can it stabilize its neighborhood, which consists of countries with high potential growth but also high instability. Individual member countries are by far too small to become global players (the largest EU member countries will produce incomes of about 2% or 3% of world GDP). The retreat of the US from multilateralism could be a chance for the EU to turn the current market and profit-based globalization shaped by multinational firms and US-dominated international organizations into "responsible globalization" with ever higher social and ecological standards (Aiginger, 2017; Rodrik, 2017B; Komnacy, 2017; Bayer, 2016). If Europe does not take the initiative and the US continue to retreat from multilateralism, China will shape the new world order imperialistically through its financial power, so-called "silk roads" and its quest for resources and logistic centers. Chinese investments are welcomed by indebted countries in Africa, East Asia and the Western Balkans, even if China is resource grabbing, Chinese workers substitute domestic labor and investments are financed through repayable loans.²¹

Individual member states are not capable of shaping globalization, stabilizing the "ring of fire" around Europe and preventing interference by regional hegemonies like Russia, Turkey or Iran into large parts of Eastern, Central and Southern Europe. Additionally, resurrected borders cause exchange costs for currencies, higher inflation and the end of structural funds.

¹⁹ Such as equality of genders, non-traditional family arrangements and living arrangements, ecological sustainability.

²⁰ It is calling for exit if European policy does not "change radically". Remind that it started as a group of economists opposing the Euro.

²¹ Kyle and Gultchin (2018) find that populists today hold 20 governments worldwide, the same number as in 2010, what changed is that it shifted out of poorer countries mainly in Latin America, where it suffered setbacks, to the west (NYT in Standard 140119).



4. EMPIRICAL EVIDENCE ON VOTING FOR POPULIST PARTIES

Socio-economic characteristics of voters

Populist parties are reported to be specifically attractive for two groups:

- low-income segments, but not necessarily those with the lowest incomes;
- the middle class, typically with apprenticeship training or secondary education.

More generally, the share of populist voting decreases with income and higher education, and it is lowest for voters with an academic degree.²² As partial collateral of this, the voting share for populist candidates is high among blue collar workers and low-skilled labor in manufacturing and construction.²³ The voting shares for populist parties tend to be higher among older people and for men and in rural areas. For the UK, there is evidence that populism is again increasing in very large agglomerations.

The socio-economic characteristics of populist voters are in line with modernization theory,²⁴ which suggests that support for democracy and economic development go hand in hand; the more affluent people are, the more democratic they tend to be.

The negative impact of income on the voting shares of populists is questioned by Werts et al. (2012), who show that income positions do not explain Brexit votes and that Trump's voters had a higher median income than Clinton's. A finding partially different from the reported ones is also that Essletzbichler et al. (2018) find higher shares for Trump and Brexit among older voters, but also report that in the general election of Austria in 2017 the right-wing Freedom Party got a higher share among young voters.

Cultural drivers and values

The cultural approach describes populist voters primarily as opponents of modernization, which stick to traditional conservative values, judgments and assessments. Traditional or conservative values are the quest for stability and order, downgrading the advantages of flexibility and often including some sympathy for strong leaders. They may be revealed by trust in governance and a love of authoritarian values. De Vries and Hoffmann (2016) claim that cultural values are more important than socio-economic factors, while Inglehart and Norris (2016) state that they are more important than economic roots.²⁵

People increasingly oppose the dominance of liberal values. Political correctness calls for gendering and openness to non-traditional family arrangements, and they stress the advantages of cultural diversity. Mainstream parties, the media and the cosmopolitan elites ignore that a considerable part of society is conservative and does not agree with liberal values and political correctness.

²²Analyzing Brexit voting Goodwin and Heath (2016) show that regions with higher per capita income, larger share of higher educated proportion and old people had lower exit votes. See further Verweij (2018) investigating voting in Australia, Austria, Finland, Greece, the Netherlands, Sweden and Switzerland and other related studies in Mols and Jetten (2015).

²³ According to Malgoury 2017, the AfD got 12.6% of total votes, 19% of workers, 15% of trade union members (14% in the west, 22% in the Neue Länder). It got the highest share among voters with apprenticeship training and abitur, women lower, rural and regions with structural problem higher.

²⁴ See Inglehart and Welzel (2009).

²⁵ Cultural theory is pioneered by Douglas and Fardon (2013). See also Manow 2018



Box: The complex relation between migration and voting

The quest (desire) of a homogenous population – endangered by migrants from different cultures – is another central motivator for today's rise of populist parties. But the empirical support is not as clear-cut.

Essletzbichler et al. (2018) show that a higher share of migrants in a region reduces populist votes in Austria, the US and the UK. This could indicate that media information may be more important than real economic impact, such as tougher competition or decreased wages for low-skilled workers. A negative correlation between the geographical density of immigrant populations and populist right-wing voting choices is also reported in Jackman and Volpert (1996), Lubbers et al. (2002), Gerdes and Wadensjö (2008), Otto and Steinhardt (2014) and Harmon (2015). Missing group contact as little face-to-face interaction between immigrants and natives can lead to feelings of animosity toward immigrants. For the Austrian context, Steinmayr (2016) shows that for regional elections held in September 2015, contact with asylum seekers decreased support for the right-wing Austrian Freedom Party (FPÖ).

On the other hand, Essletzbichler et al. (2018) find that a general increase in the level of migration as occurred in 2015 supports populist voting. This increase in populist voting despite more contacts (in contrast to the earlier finding) could mean that the positive experience with past migration is not transposed to new arrivals or, alternatively, that the immigration wave of 2015 included less-skilled people from more distant countries or cultures or, finally, that a threshold of immigration within a given time period could be the cause.

The difficult task of defining populist parties

There is surprising consent in the empirical research and political science literature on which parties are considered populist. The leading categorization is offered by Bauer (2018). But there is the question of whether populist and radical parties should be differentiated. Populist parties are trying to make joint efforts for the European parliamentary elections (currently, they are split into three fractions). In this endeavor, they claim that they are excluding far right parties like the Greek Morgenröte, the Jobbik in Hungary or the NPD in Germany. These are also not included in the dominant list of populist parties.

Some difficulties arise, as political parties can switch from a liberal to a right-wing populist agenda. Ennser-Jedenastik (2016) shows that the Austrian Freedom Party switched from a neoliberal profile and anti-welfarism to a chauvinist welfare state agenda primarily for the native elderly population, while Victor Orban and his Fides started as a liberal reformer opposing the communist regime. The AfD started as an academic group opposing the Euro as the currency for Germany.

Mudde (2007, 2017) defines nativism, authoritarianism and populism as the three pillars of radical right-wing populism.²⁶ Gaubinger (2019) applies factor analyses to construct indicators for these three pillars of populism from a large basis of socioeconomic indicators, and then regresses populist voting on these factors.

Handler (2019) analyses the origin of "identitarians" and their relation to populists, as well as the attempt to find a new European narrative and to increase the identification of European citizens with the European project

Economic forces

Economic trends supposed to favor populist voting are trade deficits, globalization and deindustrialization. These root causes then have an impact on unemployment, inequality and vertical mobility. Literature investigates the impact of economic and cultural causes on voting

²⁶ Victor Orban has started as a liberal left of the middle politician, fighting communism.



behavior.²⁷ If several negative forces coincide and if they interact with fears, anxiety and uncertainty, literature speaks about economic distress.²⁸

Malgouyres (2017) shows that trade shocks occurring between 1995 and 2012 led to a higher share for the National Front in four presidential elections in France; the effect is small but statistically significant. The study uses a synthetic shock variable combining the increase in sectoral imports with regional industrial structure. The impact of industrial decline has increased between 2007 and 2012, which is interpreted as the combined effect of the Great Recession and the refocusing of the National Front on economic hardship issues.²⁹

Lubbers et al. (2002) find a positive relationship between unemployment and voting for populist parties at the individual level but fail to find a link at the macro level (Essletzbichler et al., 2018, S. 77). Guriev (2018) report a one percent change in unemployment to increase voting for populist parties by 1% or even 2% (if other instruments for the composition of the regional economy are used).

Giebler and Regel (2017) show that on the district level AfD votes are favored by unemployment and globalization. We have already reported that populist voting declines for regions with a higher presence of migrants, which is in line with the facts of socio-economic studies on education. De Vries and Hoffmann (2016), in contrast, find no impact of globalization.

The impact of de-industrialization is again not easy to pin down. Essletzbichler et al. (2018) find a significant positive impact of the size of manufacturing (employment share of manufacturing in some base year), but also a significant positive for employment increases. They explain the counterintuitive second effect as proof that restructuring necessitated by the trend changes had in these cases happened in the region, so that workers actually dismissed or afraid to be dismissed in these regions have the possibility of reemployment in new firms.³⁰

The impact of policy change

Another explanation for the divergent findings may be that the policy response to economic problems of populism differs.

Bachtrögl and Oberhofer (2018) confirm that a more effective use of EU cohesion funds in French regions is linked to smaller voting shares for Le Pen in the French presidential election in 2017. The effectiveness of cohesion policy is measured by the average impact of grants on employment creation by supported firms located in a region.³¹

²⁷ For an overview on the economic roots in contrast to the cultural background see Schmid (2019).

²⁸ For the relation between populism and macroeconomics see Dornbusch and Edwards (1991). Ferguson et al. (2018) give an overview on recent populism in the US, Van Kessel (2015) in Europe, Dörre et al. (2018) analyzes the attractiveness of populism for blue collar workers.

²⁹ Regarding the question why the natural constituencies of left-wing parties (low skilled manufacturing workers, the unemployed) vote for radical right parties, they argue that economic nationalism and protectionism is a viable however inefficient substitute for embedded liberalism (trade liberalization, redistribution and compensation of social groups and regions). Similarly, Colantone and Stanig (2018) find for 15 European countries from 1998 to 2007 that import shocks (measured by Chinese exports to the US) increased voting shares for nationalist, isolationist and radical right parties. The evidence on the district level is confirmed by evidence for individuals.

³⁰ "Regional shares of populist voting tend to be higher in old industrial regions and more pronounced in those that restructure slowly". Essletzbichler et al. (2018) data show that the positive coefficient of change in shares is not significant in presidential elections in Austria.

³¹ The employment effect is taken because it is assessed as more "visible" than value added growth effect or productivity.



Vlandas and Halikiopoulou (2016) find for three consecutive elections for the European Parliament that populist inroads depended on labor market policy: voting shares of populist parties increase if employment protection (EPL) is deregulated and unemployment benefits are reduced. GDP growth and unemployment did not play a role in far-right support, while labor market institutions have had an impact that is both direct and indirect (limiting unemployment). They add that their macro-level analysis is corroborated by micro-level evidence by Arzheimer (2009), even if the effect of benefits is small and only exist if they were low at the start (evidence for 1980-2002). Plausibility is added, since far right inroads are high in the UK with low EPL and low benefits. The populist voting share is relatively low in Portugal where labor market policy remained protective.

Support for populist parties rises if social transfers like unemployment benefits are cut (Essletzbichler et al., 2018; Vlandas and Halikiopoulou, 2016). Social expenditures make up a large part of total public expenditures in many countries and efforts to reduce public deficits and debt economize on transfers. At the same time, social support (unemployment payments, minimal welfare aid) have to be shared with people who never paid into the system.³² Processes to acquire the asylum status are deplored to be very long, which again raises costs for migrants, implying higher taxes or reduced transfers to domestic workers.

5. THE ROLE OF MANUFACTURING

The expected result that voting shares for populists are larger in regions with a greater proportion of employment in manufacturing ("manufactural base") is confirmed in most studies, albeit this effect is rather small (see Essletzbichler et al., 2018). Surprisingly, populist votes tend to increase if employment in manufacturing increases over time (Essletzbichler et al., 2018, Schmid 2019).

Country by country evidence in Europe

On the level of European countries, populist voting is especially strong in France and Italy, where unemployment is high and the share of manufacturing decreases strongly, now supplying only ten percent of GDP. Both countries were known for their strong industrial sector some decades ago. However, populist tendencies also exist in Scandinavian countries (Denmark and Sweden) and in Eastern European countries with low unemployment rates. Populist voting had been low for a long time in Spain where unemployment is high, and populists are very present or even dominant in some central and eastern countries (Hungary, Poland, Slovakia). How quickly the situation can change is demonstrated in Spain as, recently, a right-wing socialist party took over regional government in Andalusia and is predicted to make inroads in the upcoming elections on April 28th.³³

Evidence for Austria

In Austria, the voting share for the FP is highest in the South (NUTS AT 3) and increased by 9 pp to 31.6% (from 2013 to 2017). Here, both the share of manufacturing and its decline have middle positions, while the share of overall employment growth is rather small (0.7% p.a.). The industrial base has eroded fast dropping to 9.6% of total employment. The voting for the FP is lowest in the East of Austria, where the absolute change in votes for the FP was also smaller (+4.5%, growing to 24.3%).

³² Fallend (2013 in Mudde and Kaltwasser, 2018) calls people fearing to lose welfare benefits to immigrants "Welfare chauvinists".

³³ There are speculations that the conservative party (which had governed in the past and lost after a no confidence vote initiated by corruption), a bourgeois reform party (Ciudadanos) and populist party Vox might build a central right government coalition after the election.



On the NUTS 2 level, the voting share for the FP is by far the highest and increasing fastest in Carinthia, followed by Styria. In both regions, the share of manufacturing and its decrease are about average. Voting shares of the FP increase disproportionately in Burgenland and Lower Austria, and are lowest in Vienna, where manufacturing is small. Here the FP voting share is five points below the national average, and the industrial base eroded from 9.7% to 5.6%.

On the Nuts 3 level, voting shares for FP are highest in three regions in Carinthia, and in two of them the industrial employment share is increasing, while in one it is decreasing; total employment is less dynamic than in the national average. This holds for the average of the ten regions with the highest FP voting (in which it doubled, now reaching 32%). The lowest voting for the FP is reported in the large cities – for the "low ten" it increased by 4 pp to 26 pp. The share of industrial employment dropped disproportionately, and total employment was somewhat more dynamic than the Austria average in these 10 regions (2000/2015).

Correlating the FP voting *level* in 2017 with the industrial base yields a positive but rather low correlation (0.22). It is slightly higher if we relate voting results for 2017 with the industry share in 2015. The correlation between voting share in 2017 is positive with the change in share of industrial employment between 2000 and 2015 (0.29), as it is for the change in total employment.

Focusing on the *increase* of FP voting shares, it is definitely unrelated to the size of manufacturing in 2000 and positively related (!) to its change. It is however significantly and negatively related to the increase in total employment. In regions where total employment (and specifically employment outside of manufacturing) increases, the FP voting increases slowly or not at all ($R=-0.46$). Some experiments with multiple regressions confirm this result. FP votes are insignificantly positively related with the share of industrial employment in 2000, and strongly and positively related with its increase. In a regression in which the FP voting share in 2017 is related to the industrial base (plus the lagged voting share, both in 2015), the effect of the change in total employment is highly significant ($t= 4.7$).

Schmid (2019) investigates the relation between voting and changes in industrial and non-industrial employment for seven European countries. The surprising result is that populist voting shares increase when employment in manufacturing rises,³⁴ and total employment decreases. Important other effects are that the reduction of the share of unskilled workers reduces populist headway, and a population decrease fuels populism.

Hohenauer (2018A, B) investigates the development of populist voting in different regions in Germany, France, Netherlands and United Kingdom in depth. She finds that, in general, in regions in which historically basic industries (coal and steel) dominated, populist inroads are strong. However, UKIP voting decreases between 2015 and 2017 in such provinces, and in the Netherlands the correlation is rather weak and the share of the PVV 2017 in Limburg (where up to the eighties all coal mines were closed and unemployment is lower in 2107 than in 2010 (20% vs 27%), this could be connected to the reduction of unemployment and a growing health sector, indicating that policy matters.³⁵

In summary, there is evidence that economic problems support populism, insofar as the former size of manufacturing and its decline in the last two decades matters. But there is a complex relationship between increased votes for populism and increases in industrial and non-industrial employment. It depends on the variables included and the regions investigated. This could also be related to messages and policies drafted by mainstream parties as an answer to economic problems

³⁴ Looking at the 10 regions with the highest increase in voting shares, shows that it rises specifically in Italian regions (and her in northern Italy) and in Sachsen and Thüringen, in all these regions industrial employment is increasing). Ranking regions according to increasing shares of manufacturing employment finds East German regions on the top, and in all of these voting shares for AFD are rising.

³⁵ Gaubinger constructs variables representing the three pillars of populism by factor analysis.



and several cleavages emphasized in the literature (rural/urban, peripheral/central, workers/owners, traditional/illiberal). It is also decisive whether the voters believe that populists can offer solutions and do not only excel at highlighting problems. Further research with longer data series and more intervening variables is necessary at the micro and macro levels. Since the four drivers of populism are interrelated, it will not be easy to disentangle the economic causes from the cultural ones, and both of these from policy reactions and uncertainty.

6. A PROACTIVE STRATEGY TO COUNTER POPULISM

Analysis showed that populism has complex and interdependent roots. It is based on economic problems, cultural dissent, increasing uncertainty and policy failure. Populist parties are differently attractive for social groups and individuals, depending on income, age, rural or urban background and the intensity of contacts with migrants. They profit from a pessimistic worldview and conservative values, and they attempt to accentuate both these elements. Their core assertion is that a rotten minority of people has hijacked the country, the European Union or the US. Populists impose a binary "we versus the others" framing. They offer simple policy solutions as an answer for complex developments of society, technology and culture. If they clinch power even by a slim majority, populists fight liberal democracy, eliminating checks and balances; they drive countries out of multilateralism and stop joint problem-solving within Europe. Surprisingly, right-wing as well as left-wing populists have no objection to the politics of Vladimir Putin. This is even the case if the countries having experienced Russian interference or occupation in the past.

An effective answer to the populist agenda in Europe has to be proactive. This must correct the pessimism and framing of populists and be based on a sound and critical analysis of the state of the European society – its success but also its shortcomings.

6.1 Setting the stage correctly and designing an alternative

The answer to populism must start by debunking the biased interpretation of the status of the country or the EU. The populists propose a pessimistic picture, a binary division into good and bad people, and they scapegoat foreign forces for all problems. This framing of problems in society is implicitly accepted by the media, experts and peer groups. If it is not corrected, all mainstream or reform parties will go for a "populism light" – meaning a policy agenda only a little bit less radical and xenophobic. However, a "populism light" will further divide societies and aggravate economic problems, propagating pessimism, cultural dissent, fears and uncertainty.

An alternative approach requires three steps:

- It starts by explaining the complexity of our current living to citizens, the public and the media. Within this framework, the tremendous achieved improvements in well-being and poverty reduction, but also the shortcomings and unsolved problems, have to be picked out. There has to be an analysis of what has supported progress in the past and how to measure success in the future.
- Derived from this status and the proposed compass, a vision should be offered of where to go. Special emphasis has to be given to the problems of ageing, the rising heterogeneity of wants with rising incomes, the regional disequilibria on labor markets and the role migration can play in tackling these problems in a policy mix. This will require a two-tier program: on the one hand, increasing welfare in Europe and on the other hand building a partnership with neighbors. This approach needs very different policy instruments compared to the past, but also compared to the populist agenda.



- The vision and the two-tier program should be discussed with citizens, NGOs, social partners, and regional and minority groups. Their reactions must be incorporated into a revised policy program, now shared by the citizens. New channels of policy communication must be employed to reach beyond the traditional consumers of broadsheets and quality media. The policy measures have to fit together and be balanced. No single measure can improve everybody's position, but if one group loses by one measure, it must know that the benefits of other measures are higher.

6.2 Well-being, shortcoming and the potential role of migration

Well-being is the goal and it is increasing

On the European level as well as for member states, the goal of social and economic policy is to increase well-being. Well-being is difficult to measure, but all available indicator sets, such as (Beyond GDP indicators and SDG goals), show that *well-being is increasing* in most European countries^{36 37}.

If welfare is assessed by the two indicators of income and employment, this broader picture is confirmed: both are increasing in most countries. Incomes increase faster in new EU member states than in Western Europe, but employment growth is weak, and the population is declining, since qualified and young people emigrate to richer European countries.

Income growth underestimates welfare gains, since the variety of goods and services is increasing. Choices provide utility as such; it is well known that the products and services demanded become more differentiated with any increase in income. What is less known is that the variety induced by globalization specifically boosts the purchasing power of low-income earners, since these buy goods cheaper than consumer indices reveal.³⁸ More choices exist for consumption, for lifestyles, choosing the location of work and leisure if the variety of goods and services increase.

The most impressive proof of welfare gains is life expectancy. It increases at birth and for those 60 years old. It is healthy life expectancy that is increasing, and new-born babies can soon expect to become more than one hundred years old. The increase in life expectancy is rapid (3 months per each year of later birth); it had been expected to level off, but this has not happened up to now in most countries.

That increasing life expectancy is not guaranteed independently from policy and behavior is proven in the US, where life expectancy is decreasing due to obesity and deep inequality. This indicates that the "big brother" in government is taken hostage by industry lobbies.³⁹ The region with the highest average income per person is unwilling or unable to offer healthy lifestyles. And populism does not at all address the problem that unhealthy life styles are encouraged by profit interests.

³⁶ This increase in welfare and reduction of absolute poverty tends not to be reported in the media, neither by the EU, nor by national governments and influential institutions in the member countries.

³⁷) A notable exception is Greece for the past two decades; up to 2000 incomes were increasing and GDP per capita catching up in Greece significantly with the European average. Italy is split between the North with increasing incomes and the South which has built "cathedrals in the desert" but is unable to attract firm, to foster own business startups or to improve institutions

³⁸ Compare the literature about the effect of globalization on the purchasing power of different income groups, see Fajgelbaum and Khandelwal (2016), who show that lower imports would reduce real consumption of high-income earners by 20.5%, but for the lowest decile by 80%.

³⁹ Why populists give climate change and healthy life styles such a low priority is investigated in Trost (2019).



Acknowledging the shortcomings

Declining dynamics: On the downside, Europe has the problem that incomes are not rising as quickly as in the past. The pre-crisis GDP of 2008 was surpassed as late as 2017, implying a "lost decade". In 2019 unemployment is therefore still higher than before the financial crisis, specifically youth unemployment. Employment is higher, due to a larger share of part-time work, out of which some part is voluntarily chosen for improving work-life balance, another consists of marginal contracts implying the phenomenon of the working poor.⁴⁰ European innovation efforts are below the own targets and far from the world's best performers. Catching up on technology with the leading US, which had been observed for decades, stopped in the nineties. China is catching up from below.

Saturation in the sense of lower consumption rates with increased incomes has been expected for a century, but the time when this should have happened has always been postponed. The de-growth movement – extremely popular at universities only one or two decades ago – argued that a better life is possible with lower incomes. But this is not the case for given trends in labor productivity – which lead to higher unemployment in industrialized countries if growth falls below 2% – and for given inequality of incomes, which is much more difficult to correct if average incomes stagnate. The overwhelming part of industrialized societies want rising incomes and most problems are easier to solve in such an environment. This may change in the very long run and can be supported by economic policy, but not in the short run.⁴¹

Aside from saturation, declining incomes might come from low investment opportunities or from slow technological progress. In fact, European society never met its own targets for R&D. It paid insufficient attention to raising skills or to ending the inheritance of education from one generation to the next. Fiscal policy is rather restrictive, given the high debt accumulated before and during the Financial Crisis, the financial sector still invests more in financial assets than in real assets.

Increasing inequality: income levels and dynamics are rather different across countries and social groups, so that "within country inequality" increases in most countries. The share of lifetime jobs and those covered by contracts negotiated with trade unions and guaranteeing annual wage increases declines. The incomes of the super-rich (top 1 percent) are high. Regional convergence happens but is very slow, even within the EU; income per capita in the top 10 regions is still ten times that of the low ten regions). Convergence between countries and regions is less than expected by convergence hypotheses.

Emissions increase: emissions and greenhouse gases still tend to rise, even in industrialized countries with slower growth rates. There is "relative decoupling", insofar as Greenhouse Gas emissions and total energy consumption no longer rise in parallel with economic activity,⁴² but there are few examples for an absolute decline (it is reported for some countries like Denmark and for specific emissions like sulfur dioxide and FCKW). No country is in line with the Paris 2015 goals of limiting climate change to less than 2 degrees, and curbing emissions by 80% up to 2050.⁴³

⁴⁰ In the US GDP surpassed the pre-crisis by 15%, work force increased but employment rates decrease due to stagnant wages and retreat of potential workers from the labor market.

⁴¹ This would be possible in a two-stage strategy in which in the first phase technology progress is directed from labor saving to resource saving, and inequality is reduced (see Aiginger, 2016).

⁴² The "growth elasticity" of emissions is now below one

⁴³ Implying near zero net emissions for traffic and construction, see IPCC 2018



Ageing as well as migration requires rational answers

The world population is predicted to reach 10 billion in 2030, and the increase is even stronger in several of Europe's close neighbor countries. The population is stagnant and ageing in Europe, and the working age population is decreasing. Without inward migration, labor supply would decline rather dramatically, since two parents have 1.4 kids in the "endogenous" population on average, while more than two are necessary for a stable population. A rather steep decline in population is known to be detrimental for a society, as demonstrated in Japan for decades and now in Eastern European countries, but also forgotten regions in other EU countries or the US.⁴⁴

This does not mean that Europe should welcome any type, speed or regional concentration of inward migration. But the problem of an ageing and declining work force in European regions on the one hand and the high migration pressure from neighbors driven by political conflicts and environmental catastrophes on the other needs a rational answer. It should be built on two tiers. Each decline in total population implies a very sharp decline in the young labor force.

The first tier is that regions with low birth rates and high emigration of young people must decide whether to downsize ever more – with infrastructure rotting and schools and shops closing – or to go for an active strategy. This has to be different for regions in which the following strategy elements are available:

- boosting investment and new firms,
- incentivizing the return of former citizens (ex-patriots),
- rising birth rates of the population remaining to the number of children wanted by making work and child raising compatible or
- welcoming migration, given that consent among citizens can be established

Each isolated instrument will not work. Firms will not invest if the young, qualified people have left. Expatriates will not return if they do not find well-paid jobs. Raising birth rates does not have a quick effect and any increase evaporates if the young people leave. Migration is no solution if it is not welcomed and part of regional consent.

The other tier of the strategy is to limit migration pressure from the outside through Europe investing in its neighborhood. Europe's USP in partnership relations and investment in the south is to emphasize education, qualification and conflict solution. This yields a triple dividend: (i) a new dynamic market for European exports would be created; (ii) this limits pressure for migration;⁴⁵ (iii) qualifications will rise, so differences in skills and culture will be smaller for people who have to migrate.

To summarize, the rational answer to the problem of a declining work force in Europe and immigration pressure from the neighbors has two tiers. First, regions with a strongly declining workforce and young people leaving must decide whether to further downsize or go for an active strategy. Second, to limit immigration pressure, Europe has to cooperate with its neighbors through investment, conflict resolution and boosting growth, and to get a triple dividend of a booming market, limited migration, and higher qualifications for those who come.

This is very different from the populist answer of closing borders, investing in a military build-up and returning migrants, even if they are integrated and qualified or in training. The welfare-enhancing alternative to populism requires regional initiatives, sometimes overriding populist

⁴⁴ That even unanticipated immigration waves can support or even increase wellbeing had been experienced in Europe after the Soviet invasion into Hungary or the dismantling of the iron curtain.

⁴⁵ This holds even if there is a short period in which migration increases if people escape from absolute poverty



governments⁴⁶ and a stronger stimulus from the EU regional and structural policy. And the EU has to communicate this triple dividend strategy to the citizens beyond the broadsheet media and summits.

6.3 Well-being, shortcoming and the potential role of migration

After correcting the biased framework populism suggests, Europe has to develop a positive vision of where to go and how to cope with existing weaknesses. As the vision for 2050, we propose that **Europe become the role model for a high-income society providing well-being, lower unemployment and inequality, leading in decarbonization and a more efficient public sector.** "High road competitiveness" requires the best education system and high innovation efforts. Innovations and industrial policy have to be driven by societal goals and not focus on increased labor productivity only.

This vision should be achieved through openness to ideas and cultural heterogeneity. Europe has to go for the lead in technologies limiting climate change, digitisation and the health sector. Europe engages in partnerships with its neighbors in the east and the south, and shapes responsible globalization. Social and ecological goals are upgraded in a coordinated strategy and not levelled downward as in today's globalization, which is shaped by the US and multinational firms (see Aiginger and Handler, 2017, Rodrik, 2016, 2017A).

This vision changes the policy instrument to be used as compared to populism, but also relative to current policy and investment compacts. Policy concepts should furthermore not be top-down or follow the one-size-fits-all principle, but rather be adapted to preferences and circumstances of countries and regions and developed in communication between governments, international organizations, NGOs and citizens.

Operationalization by game changers

- Empowerment substitutes ex post protection

Losers of structural change have to be assisted. This should be done through retraining, but even better by a school system anticipating the necessity of permanent changes due to technologies and the heterogeneity of lifestyles in the education process. Schools, practical training and even preschool education should not focus on narrow and stable skills and learning by heart, but on problem-solving, openness for change and mobility. *Empowerment* is the better solution compared to *protection* or *social transfers* paid after a problem occurs. Europe is already the region with the highest social costs, which mainly have to be paid by workers, in many countries overproportionately by low-wage earners. The empowerment or social investment approach is cheaper than protection or ex post payments (Leoni, 2015). People want to make their own decisions and not depend on welfare payments.

- Technology is driven by challenges

Modern societies are faced by many challenges. Governments interfere heavily in the innovation process by financing universities and research programs on the national but also international level. Firms only invest if this increases profits. The headquarters of multinational firms decide on innovations in different countries with business lobbies intervening for favorable rules and lax regulations. Another significant part of innovation is the by-product of military research or prestigious government projects. Industrial policy is heavily influenced by the purpose to create National Champions, and it often keeps unviable firms in the market. As a game changer,

⁴⁶ Regions and majors (and islands) suggesting integrating migrants and end the decline in their region or city or island by migration are thwarted by their national government, which opposes immigration as to win elections e.g. in Italy, Bulgaria and Hungary.



innovation as well as industrial policy should be connected more closely to societal challenges like climate change, poverty reduction, equality of opportunity, health, and nourishment.

- Technical progress is no longer primarily labor saving, driven by high taxes on labor

Technical progress enhances welfare, since given outputs are reached with lower inputs. Currently, technical progress is primarily labor saving, while resources increase with output. This does not lie in the nature of technical progress but is driven by taxes. Since most taxes are levied on labor, and few on resource use or energy (despite their negative external effect), profit-maximizing firms primarily rationalize labor. This is not optimal since it directs technical progress in such a way as to increase unemployment and allow emissions to increase despite compacts to limit global warming. Restructuring taxes – which requires some international cooperation – would redirect technical progress in the direction it would be without distorting interventions (by taxes on wages and subsidies for fossil energy).

- Globalization becomes responsible, standards upgraded

It must be made explicit that *improvements can be greater and choices broader if countries cooperate at the EU-level or worldwide*. Maximizing one country's welfare, even if each intervention increases the burden on neighbors is not optimal for problems with strong spillovers. While globalization should not be pushed at any cost (Rodrik, 2017A, B), Europe could shape globalization according to its values, for example by increasing joint social and ecological standards. Europe should push the idea that responsible globalization also – and over-proportionally – calls for a higher effort of richer countries (Aiginger and Handler, 2017).

- Migration policy is embedded in a wider strategy of well-being and partnership

In a new partnership policy with Africa, migration can be made a win-win program for countries of origin and destination, since not any type and speed of migration is positive, neither for countries of origin, nor those of destiny. Migration can aggravate problems in countries of origin since it may lead to brain drain. In countries of destination, abrupt and non-directed inward migration can lead to problems in agglomeration centers, even more so if migrants live in segregated districts of megacities. Low integration efforts and missing employment possibilities may lead to unrest, conflicts or even crime. Nevertheless, migration should not only be allowed on humanitarian grounds; the desire to move for getting higher incomes is an essential part of the freedom to choose. Several of the most successful cities in Europe got richer and more diverse due to immigration over decades (Vienna, Paris, London).

- The relation between governments and citizens has to change

Preempting the "we versus them" divide requires improvements in the relations between governments and the European Commission on the one hand, and citizens, NGOs, youth organizations etc. on the other. Governments have to take the lead based on electoral results, as is usual in representative democracies. But the goals and programs should be communicated, discussed and eventually revised in an iterative process. In important cases, and after careful and broad discussions elements of direct democracy can increase support for changes. Attacks of populists should not be directly dismissed as unrealistic or insane. The aspect in which they address real economic issues or make use of cultural heterogeneity or differences between conservative and liberal values should be taken into account in the reform strategy. Modesty and acknowledgement that the solution may not be easy is needed. Reforms have to come in balancing bundles, since each single reform has losers and if losers of certain reforms join in resistance, reforms will break down.

- Single policy strands are substituted by a strategy built on synergies

Since welfare is generated by a multiple of goals, these should be embedded in a coherent strategy. Each policy to reduce emissions has to consider the impact on inequality, etc. It is also



important to compromise between different goals instead of going for an extreme of one goal (corner solutions) at the cost of others.

- Progress is monitored by SDG goals and life expectancy

Progress and shortcomings have to be monitored; as a yardstick we propose using the SDG goals. Assessments are already available on an annual basis, and due to time lags GDP and employment will be necessary for short-term information. The EU has to switch to this broader set of goals in its annual monitoring ("semester") and the progress should be monitored not only by national and international experts, but also by youth councils and non-governmental organizations.

Summarizing, a vision-led policy has to start from a corrected evaluation of the progress and shortcomings of a society. This is the precondition for ending the populist framing, the wrong policy conclusion suggested and the ensuing scapegoating if the situation worsens. The proactive answer then requires a correct evaluation of progress and shortcomings, and a vision of where Europe wants to go. From this game changing policy, instruments can be derived that help increase European Welfare, compared with the past as well as "my country first" solutions. A proactive strategy preempts the premise of populist rhetoric, that a renationalization and egoistic and xenophobic policy will improve the economic situation.

A vision different from renationalization is an important guideline for answering the question of whether to cooperate with populist parties (which shifts the agenda in their direction) or to insulate populists through a "*cordon sanitaire*" (what may boost their attractiveness). Whether they should be included in a government can be made dependent on the consent to the correct framework, the joint analysis of progress and shortcomings and a shared vision for 2050. If populist parties accept an unbiased status of the actual and warranted situation and accept the rules of liberal democracy, they must not be excluded from government. If they demand that their own framework be accepted, implying a return to traditional values that includes the inequality of genders and a homogenous population in each European country, then cooperation is not feasible.

6.4 Not only a vision is needed, but also a narrative

The majority of European citizens are pro-European and welcome further integration. Even some sort of European "identity" as considered as essential for a successful society is coming up, surveys reveal that many young people have at least a double identity as citizens of the country born in and "Europeans". But it is not enough that this is revealed in surveys and it is questions by populists recalling the importance of national identities. Therefore it is necessary that European citizens do not only intellectually, but with full empathy, support the further integration process. Europe therefore not only needs a vision and game changers but also a narrative of why the European Integration is necessary and welfare-enhancing and why it makes sense to actively support the European project.

The old narrative of Europe as a peace project was successful. It prevented war for seventy years within member countries on a conflict-ridden continent. And the EU has been further engaged in mitigating conflicts and promoting the rule of law in countries that want to become members (e.g. on the West Balkan). Europe has been awarded the Nobel Peace Prize for this mission for peace, but we have to acknowledge – even if peace is not as guaranteed as believed – that the peace mission is no longer the big idea, which motivates and mobilizes citizen for ever deeper integration and enlargement. Therefore, a new narrative has to be presented during or after the European election and a hopefully intensive discussion about the future of the European success model. A research paper is not the right place in which to formulate a narrative and a think tank cannot do this. But to provide an idea, we venture to indicate a direction:

The narrative could be **"A Europe that empowers and opens life choices"**

Europe is a region with high heterogeneity and has profited from it. Furthermore, diversity enables Europe to become the most prosperous region of the world, a leader in conflict resolution, shaping



the globalization in a responsible way and cooperating with its neighborhood. Europe gives protection and reduces insecurity, provides broad and modern education and strives for the lead in decarbonization, digitisation and health. This should be a bottom-up search process for life chances with regionally based strategies according to preferences and strengths, not a centralized top-down approach. People empowered by education design their own life, and the variety, openness and mobility offer ever new chances. This is a better protection from conflicts, disruptive migration, and new hegemonies in the European Neighborhood than is military investment.

7. CONCLUSION

(1) Populism is the oversimplified interpretation of a society, misused by a group, a political party, strongmen or the media to gain attention, influence or power. Populism can be just a technique used to make complex problems understandable, but in most cases, it manipulates voters by promising to bring back past glory, a homogenous endogenous population or virtuous values. "My country first" policies are recommended to improve the economic conditions and, if this does not work, sinister foreign forces, migrants or international agreements are scapegoated. If populism is complemented by an ideology and if this is a radical ideology (authoritarian or nativist), the border between populism and radicalism becomes fuzzy.

(2) *Drivers of populism* can be grouped into four boxes, which are however related, and one can be the root cause and others the collateral or all can aggravate each other.

- *Economic causes* leading to populism are imports, globalization, de-industrialization and increased inequality. Under the circumstances of low dynamics, missing skills and low mobility this may lead to unemployment, inequality and public debt, but also to "forgotten regions", emigration and finally "economic distress".
- *Cultural causes*: values have shifted in industrial countries; liberal values became dominant, favoring gender equality, non-traditional family arrangements, and cultural diversity. "Political correctness" requests that everybody accept these changes. Citizens sticking to traditional values and the virtues of past times are receptive to slogans advocating a restoration of the endangered nation or religion.
- *Uncertainty and fears*: changes, caused by globalization, new technologies, value shifts, or migration, lead to uncertainty. Fears about status and life chances come up and lead to pessimism. Even if changes lead to improvements for most people, they are never positive for all in the short run, and the costs of adaption can be high. If losers are not assisted by economic or social policy and the media concentrate on negative events, pessimism arises. These fears are aggravated if new migrants, educated women and qualified young people increase the competition for jobs.
- *Policy failures*: in a period of low economic dynamics, compensation for losers or assistance to change is expensive. If unemployment insurance or retraining is reduced and regional distress ignored, people feel forgotten and look for easy solutions. Globalization does not reduce the need for economic policy; it changes its content and complexity.

(3) Differences and common features between left-wing and right-wing populism

Right-wing populism tends to be exclusive, anti-pluralistic, conservative and xenophobic. It often is authoritarian, calling for tough regimes including strongmen and a military build-up. It opposes peaceful conflict resolution and sometime even requests border changes.



Left-wing populism has anti-authoritarian roots, calling for the "emancipation" of women and the disadvantaged.

Surprisingly, left-wing and right-wing populists do not see each other as the main opponent – both have a nativist and authoritarian component favoring strongmen. The "horse shoe hypothesis" speculates that the extremists need each other. Both right-wing and left-wing populists stick to power if the economic situation worsens and the first enthusiasm of the voters trickle away. They do not hesitate to weaken democracy and dismantle checks and balances. To stabilize regimes, a danger coming from abroad, a foreign power or culture is built up to justify the break of existing rules.

(4) *Features of today's right-wing populism*

An important characteristic of populism is the binary distinction between the "people" on the one hand and the "elite" on the other. The first is a large group of ordinary, virtuous citizens; the other is a corrupt, self-serving minority.

Today the illusion of past homogeneity is rising and a large part of the citizens believe that the "elites" underestimate the danger of immigration or even profit from a large number of migrants. They believe that migration and globalization are a danger, worsening the economic situation, but also threatening the own culture and homogeneity, specifically if immigrants come from distant countries and cultures.

Populists favor a renationalization of policy and oppose Brussels (as two decades before the US Tea Party opposed anything coming from "Washington"). Populism defies multilateralism, international organizations and investment agreements. They do not sign them ex ante or exit from humanitarian, disarmament or climate compacts, if their country previously committed.

(5) *Populism and the European Unification project*: Populists oppose European unification and even more the deepening and enlargement of the EU. This became evident during the Brexit process, when populist parties, but also significant groups in the conservative party favored Brexit, and that part of left-wing social democrats which were always suspicious towards European integration because if its capitalist character abstained from declaring their real opinion. For a long time, Marine Le Pen demanded that France leaves the EU, as several other national populists did in other countries with different vigour. Only after realizing that the majority of the electorate are in favor of continued membership did they change the official message. They switched to demanding unrealistic reforms in governance and policy in the EU, with the clandestine agenda to call for exit if these are not fulfilled. As a first step, they call for a reduction of the power of the Europe Central Bank as well as an exit from the Eurozone.

(6) *Evidence on voters and voting*: populist support is higher for low-income people but not necessarily the lowest, and it decrease with incomes. It is higher in rural areas, with some studies showing that it rises again in metropolitan areas. It is higher for older people, but in some countries young people also vote over-proportionately for right-wing parties. Economic causes are confirmed, as vote shares for populist parties are higher for industrialized regions. But there seems to be no correlation between the change in industry shares and in voting shares for populists and no consistent impact of the change in total employment or unemployment rates. A reason could be that highly paid workers in traditional industries do not rejoice if employment in other industries or in the service sector rises.

(7) *Setting the picture correctly*: Populism profits from a biased, pessimistic picture of the economic and societal situation. A counter-strategy therefore has to correct the frame by recalling past welfare increases and the historic success of the EU in conflict-solving on a war-prone



continent. Any status, however, also has to report the economic problems such as inequality, unemployment of the low-skilled, the depopulation of regions and missing integration for migrants. A proactive strategy has, in a second step, to offer a vision of where Europe wants to go in the next decades, and which game-changing strategies might help to get there. A better communication strategy with citizens, youth groups and migrants of the first and second generation is needed. Accepting the biased framing of the populists without analyzing success and problems, will necessarily lead to a "populism light policy" that will aggravate the problems having led to populism.

(8) A new vision for Europe

Up to 2050, Europe should try to become the *role model of a society with high and further increasing well-being. It should be open for ideas, innovations and different cultures. The quest for a large variety of goods and services increases with rising incomes.* The top position of Europe in well-being is achieved through an inclusive strategy with low unemployment and inequality – the European lead in limiting climate change. Digitisation, innovation and industrial policy must serve societal goals. Together with sustainable development goals, high and increasing life expectancy can be - the uncontested indicator for monitoring rising well-being.

Today, Europe is the region with the highest share in world GDP and leads in many non-economic indicators important for rich societies. By 2050, it can, together with its vibrant and dynamic neighborhood, still be on par with China and produce a higher output than the US and its neighbors. The EU will probably have more members than today, since more than ten countries have entered the accession process. And following the vision, the Euro could be the currency for 25 countries instead of 19 members today.

The vision requires game changers in economic policy, but also in behavior and thinking. We offered seven game changers, even if we know that they are neither easy to implement nor complete. One of them is that the loss of jobs through globalization or technological change, should be prevented by a broader and problem-oriented education in advance, not by ex post protection, renationalization and calling back past glory and virtues. Empowerment for change should substitute ex post social payments, which are expensive and in the long run not really welcomed by those to whom they are paid.

We live in a situation of uncertainty and limited knowledge but can be optimistic that solutions exist or come up in bottom-up approaches and place-based strategies.

(9) The peace project is still important

Never again having war in Europe was the central idea that started European Unification. Promoting an open economy, a Welfare State or a Social Market model helped to overcome obstacles in the following decades. Integrating the former socialist countries and promoting the rule of law then also boosted growth in the old members and stabilized conflicts in Central and Eastern Europe. Partnership – not necessarily membership – should now be extended to the European neighborhood. Here, Europe can engage in mitigating conflict through investments, upgrading education, boosting growth and creating a large vibrant market for exports.

But the peace project, even if it was very successful, no longer convinces citizens that ever deeper integration and enlargement is necessary. Nor is it convincing if experts and opinion leaders argue that some problems – like climate, tax evasion, or health problems – can only be solved through international cooperation.



(10) Towards a new narrative

A new narrative for Europe could be **"A Europe that empowers and opens life choices"**. This can enable Europe to become the most prosperous region in the world, engaged in conflict resolution and shaping globalization in a responsible way.

In other words, Europe protects its citizens not through walls or military power, but by providing broad and modern education to its citizens as well as its neighbours. It boosts investment and incomes by leading in decarbonization, digitisation and health. Increasing choices and chances increases well-being, prevents disruptive migration and thwarts the rise of new hegemonies in the European Neighborhood.

Sticking to a pessimistic view is neither necessary nor welfare-improving. It leads to worse solutions, high costs for military and security, and the inability to solve climate problems. It requires the scapegoating of sinister foreign forces. That segment of the populists which cares for real problems and the needs of "forgotten" people and places is invited to join in the search for proactive solutions forfeiting egoism and nationalism.

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