From the Global Financial Crisis to the Covid-19 Pandemic: The Rise of Populism

Economic policy in the period between the outbreak of the Global Financial Crisis in 2008 and the outbreak of the Covid-19 pandemic in late 2019 was characterized by a number of developments that distinguish it from the policies which had dominated before the crisis. The most remarkable policy shift is the rise of populism and the most striking example the election of Donald Trump to the US Presidency in 2016. Earlier in the same year, the Brexit referendum surprised the world and ended six decades of deepening political integration in Europe. In the debate before the referendum, arguments frequently used by populist politicians played a key role.

In other European countries, populist movements also gained influence. In Italy, the Five Star Movement and the Lega Nord, both parties with different variants of populist leanings, formed a government. In France, the extreme right wing populist party Front National has played a role for a long time, but it enjoyed increasing support during the years after the Financial Crisis, against the backdrop of sluggish economic growth and growing conflicts about immigration. The migration wave in 2015 boosted the right-wing populist party AfD in Germany. The party was originally founded as a reaction to the Eurozone Debt Crisis but was elected to the Bundestag only after the immigration wave boosted its support. In the same period, leaders with populist leanings also gained influence in other European countries, including Poland and Hungary.

This chapter outlines what was perceived as the dark side of market liberalization's economic implications – higher inequality and instability – and how they have been linked to the rise of populism.

3.1 POLICY BEFORE AND AFTER THE GREAT RECESSION

As we entered the 21st century the twin trends of increased globalization and reduced regulation were in full swing, leading to a period of considerable macroeconomic stability known as the Great Moderation. Then, the Great Recession hit. To understand to what extent the recession was a shock, both in terms of economic outcomes and social tensions, we start by focusing on the evolution of several key magnitudes. Two of them, the size of government and labor market regulation, have been discussed in Chapter 2, and here we focus on the changes observed during the Great Recession. We also describe the policy changes concerning product market regulation and international trade, as, while policy changes were already well underway in the last two decades of the 20th century, change accelerated in the years before the Great Recession.

3.1.1 The Size of Government

The data presented in the previous chapter indicates that both the Great Recession and the Covid-19 shock implied a major change in not only the size of public budgets and consequently government debt, but also in terms of attitudes towards the role of fiscal policy in periods of crisis.

The relative stability of fiscal policy observed after the Great Recession hides large and heterogeneous changes in its economic impact. The Great Recession was a demand-driven recession and called for expansionary fiscal policy. As this expansion took place in economies where the consequences of the crisis were uneven across individuals, and in the absence of international coordination, fiscal policies had considerable distributional impacts across and within countries. In 2010, there was a turn away from previous coordinated fiscal stimulus, with the reasons differing across the United States (mid-term election), the United Kingdom (general election), and the European Union, where the Greek debt crisis and the lack of fiscal coordination in existing treaties were the main reasons for its withdrawal. The fiscal conservatism displayed by Germany and other Northern countries in Europe (and by Republicans when not in power in the United States) deepened and prolonged the recession and concentrated its negative effects on those segments of the population with the lowest incomes and on peripheral countries with high debt. As discussed in the next chapter, the pandemic crisis elicited a very different response that was perhaps driven by what was learned from previous problematic developments and was certainly supported by different political narratives. Notably, unlike the financial crisis which could be blamed on lax supervision and lack of frugality, the coronavirus was perceived to be an exogenous shock. As a result, the European Union engaged in completely unprecedented international fiscal policy coordination and loss sharing, which proved politically feasible as an emergency response.

The persistence of total expenditures and revenues documented in Chapter 2 conceals their implications seen from an individual perspective. Clearly, total expenditures on welfare depend on benefit generosity and a number of eligible persons. In the Nordic countries, generosity is relatively high, but so are employment rates; in Southern Europe less generous transfers are accompanied by higher shares of the population receiving passive transfers. In a similar way, the increase in expenditure we saw during the Great Recession, in which welfare dependency rates rose dramatically, may hide a reduction in generosity, which in many countries was the driver of the subsequent decline observed between the Financial Crisis and the onset of the Covid-19 pandemic.

With hindsight, the fiscal stimulus of 2009 should have remained in place for longer than it did, but EU countries with the fiscal space to engage in expansionary fiscal policy were reluctant to do so, and fiscal consolidation took precedence over support to the economy, leading to feelings that the shock was distributed unfairly.

3.1.2 Inflation

The lack of fiscal coordination implied that monetary policy was the only policy option available, resulting in low interest rates. These have likely been one of the causes of asset price rises, which in turn worsened wealth inequality in several countries (see below). Low interest rates also made it easier and more attractive (and less immediately catastrophic) to expand public spending and, as described in Chapter 2, government debt grew.[1]

After the Global Financial Crisis, central bankers saw the institutional dangers and frequently expressed their frustration at being at the center of the effort to shore up against economic collapse. Greater fiscal effort was required. Nowhere was the demand articulated more insistently than in Europe, where the Maastricht Treaty had constructed the world's most independent – or in the eyes of its critics, least accountable – central bank. Mario Draghi in particular pushed insistently for more fiscal coordination, although his predecessor, Jean-Claude Trichet, had made the same kind of argument though less emphatically. Leaving the ECB, Draghi concluded: "Monetary policy can still achieve its objective, but it can do so faster and with fewer side effects if fiscal policies are aligned with it."[2] Europe is again the guinea pig for the development of a theory of central banking that fits with current policy concerns. The ECB standpoint is not, however, singular, as evidenced by the Federal Reserve's Chair, Ben Bernanke, making similar arguments to those of Draghi.

[1] Note that private debt also increased considerably, which is the result of disinflation, low interest rates, and financial deregulation; see, for example, OECD (2016).
[2] See https://www.ecb.europa.eu/press/key/date/2019/html/ecb.sp191028~7e8b444d6f.en.html.

The logic of eroding Central Bank independence was also pushed to the limit as the role of central banks once again became more complex and varied. The background to the extraordinary range of criticism of central banks in the 2010s was that policy had become more complicated, and that many of the practical steps to combat the crisis involved elements where distributive spillover effects were much clearer than in the case of monetary policy. Rescuing banks obviously involved a fiscal element, and the major initiatives came from the government, from treasuries, and particularly from the prime ministers and presidents. Policies that required buying certain classes of assets on the central bank balance sheet also changed relative prices. As central banks moved back more into financial regulation and made judgments about what sorts of lending might be desirable, their actions were clearly also favoring and hindering specific sectors of the economy. When distribution is at stake, the choice looks political and the logic of delegation weak. By the end of the 2010s, and on the eve of the Covid-19 pandemic, this view had become a practical policy-consensus.

As we discuss in the next chapter, there is more uncertainty about a future inflation trajectory in response to Covid-19. Are there inflation dangers that would lead us to push for more Central Bank independence, or will deflation risks in a crisis indicate a need to continue the post-2008 course?

3.1.3 Labor Markets

Integration of capital markets was a global phenomenon in the 1980s and 1990s, but was significantly accelerated in Europe with the adoption of the euro, which was followed by unprecedented intra-European current account deficits and surpluses. At the same time, labor mobility increased within the Union, questioning the differences and the objectives of labor market policies. Since 2000, labor market policy deregulation patterns were uneven across EMU member countries, not always conforming to the "race to the bottom" paradigm, and, interestingly, related to internal and external macroeconomic developments instead. Between 2001 and 2007, Germany and other core countries with capital outflows and trade surpluses deregulated their labor markets, and the opposite was the case in peripheral countries experiencing trade deficits and growing external debt. One might interpret this evidence as a causal relationship running from reforms to competitiveness and trade balances: maybe countries gained or lost competitiveness because politically motivated reforms made their labor market more or less flexible. Another reading of the evidence, however, explains the pattern of labor reforms without invoking political shifts. Labor market regulation benefits the many individuals who in each country draw most of their income from labor. As EMU allowed capital to flow from rich to poor countries with inde-

pendent labor policies, the politically decisive individual in a capital-rich country, like Germany, remained capital-poor relative to the German average, but was less capital-poor relative to the newly integrated European factor market. Upon integration, the politico-economic equilibrium in Germany should swing towards deregulation more strongly than in (say) Spain, where the politically decisive individual becomes even more capital poor in the relevant market and may in fact favor stronger regulation (Bertola 2016). As a result of these reforms, and of wage and capital returns convergence as wealth is more unequally distributed than labor income, inequality should in theory (and did empirically, see below) increase in countries that like Germany experienced capital outflows and decrease in countries that, like Spain, accumulated negative international imbalances. It is also interesting to note that unemployment and employment moved in the direction opposite to the one that would be expected as a result of reforms. The labor markets that experienced deregulation (but also capital outflows and lower labor demand) performed worse that those that experienced more regulation (but also capital inflows and stronger labor demand), illustrating the fact that labor reforms and outcomes are not observed in all-else-equal conditions, but are both driven by circumstances.

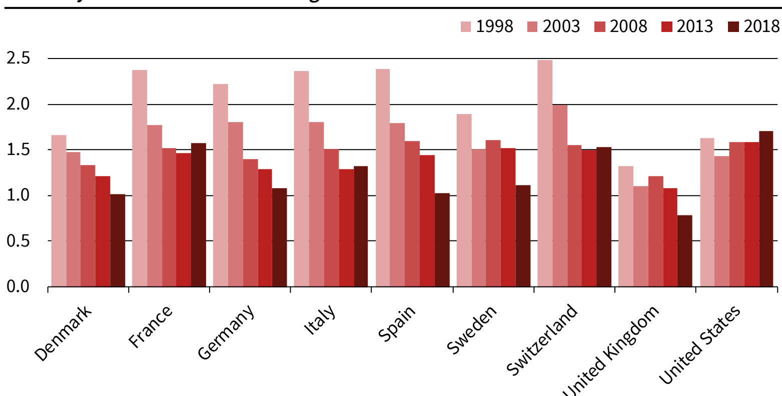
After the Great Recession and Eurozone Debt Crisis, labor market reforms patterns across EMU countries tended to reverse their previous dynamics. When capital ceased to flow in, and public budgets were constrained by financial markets' diffidence towards peripheral countries' public debt, those countries tended to make their labor markets more flexible. This was partly a result of "Troika" policy prescriptions, but also a response to new economic circumstances. Debt service obligations became a constraint on policy choices in peripheral countries (as discussed in Chapter 2, labor market regulation has favorable consequences for many workers and tends to reduce inequality, but is less affordable when indebted governments need revenues and productivity growth), and the necessary reduction of imports and consumption made capital effectively abundant. In a monetary union, this pattern of labor reforms may address the same competitiveness issues that would otherwise result in exchange rate movements. Before the crisis, divergent reform patterns helped decrease imbalances; but after the crisis labor deregulation was associated with negative labor demand shocks, increasing unemployment and declining employment. This unhappy situation triggered anti-integration populist sentiment and nostalgic looks back at times when labor markets were rigid, highways were state-owned, and public debt was not a problem.

3.1.4 Market Regulation

A cornerstone of neoliberal policy making was enhancing competition by removing regulations that were seen as artificial barriers which resulted in rent-seeking and reduced consumer welfare as measured by higher prices. While much of the focus during the 1980s was on labor market deregulation, the regulation of product markets became a central aspect of economic policy in the 1990s. The move to deregulation started in the United Kingdom and the United States, while in Europe the bulk of the changes occurred during the 2000s.

Figure 3.1 presents the available time series for the OECD indicators of Product Market Regulation (PMR). These are a comprehensive and an internationally comparable set of indicators that measure the degree to which policies promote or inhibit competition in different areas of the product market, all of them considered to be aspects in which competition is viable. Starting in 1998, consistent surveys have been conducted every five years. A wide array of aspects is measured and then combined into subcategories and eventually into a measure of economy-wide regulatory and market environments.[3] The index of economy-wide PMR is displayed in Figure 3.1 for selected countries. The data indicates that over the past two decades all European economies in our sample have reduced, to a greater or lesser extent, the degree of PMR. In contrast, PMR has remained broadly stable in the United States, which in 1998 exhibited a much lower degree of regulation than all but two economies in our sample, the United Kingdom and Denmark. The data also indicates considerable convergence across countries, yet important differences remain. First, Denmark is surprising in that regulation was already low in 1998 and has declined consistently, being the second least regulated country in our sample after the United Kingdom. More generally, by 2018 all countries except France and Switzerland had a lower PMR index than the United States. Second, while strong regulation is often associated with the large Southern European economies, Switzerland stands out as

Figure 3.1
Economy-wide Product Market Regulation

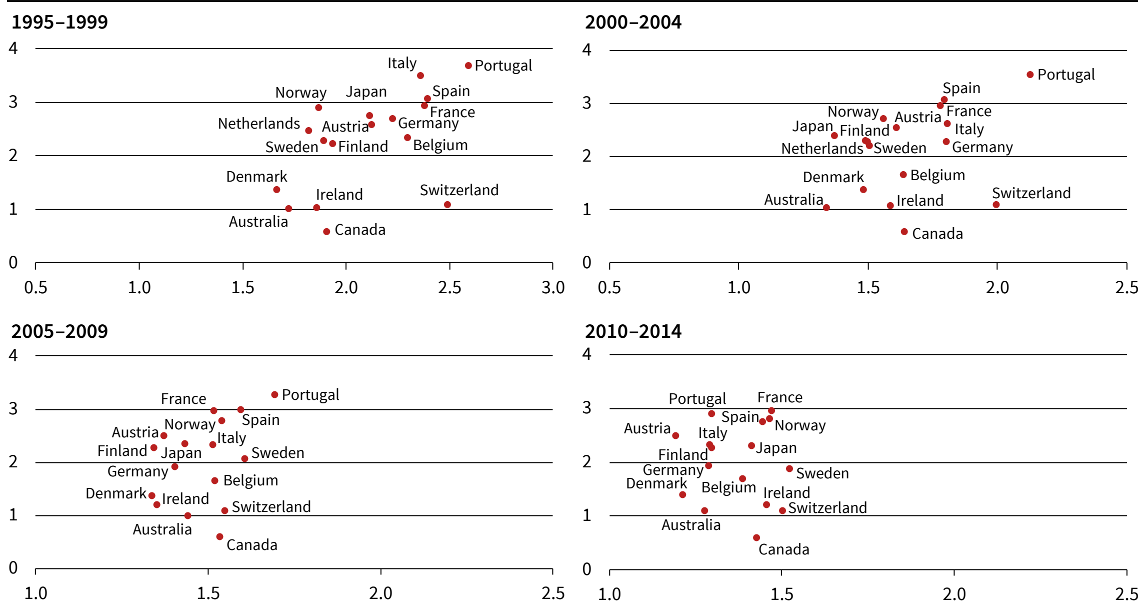


Source: OECD. © CESifo

[3] For further details see Koske, I., I.Wanner, R. Bitetti, and O. Barbiero (2015), "The 2013 Update of the OECD Product Market Regulation Indicators: Policy Insights for OECD and Non-OECD Countries," OECD Economics Department Working Papers 1200.

Figure 3.2

Cross-Country Correlation between Employment Protection and Product Market Regulation



Note: Employment protection indicators are the same as in Figure 2.6. Product Market Regulation are 5-year averages of OECD overall indicators.
Source: Blanchard and Wolfers (1999); Bertola (2017); OECD.

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a highly regulated economy, with a trajectory that closely mimics that of its large neighbor, France.

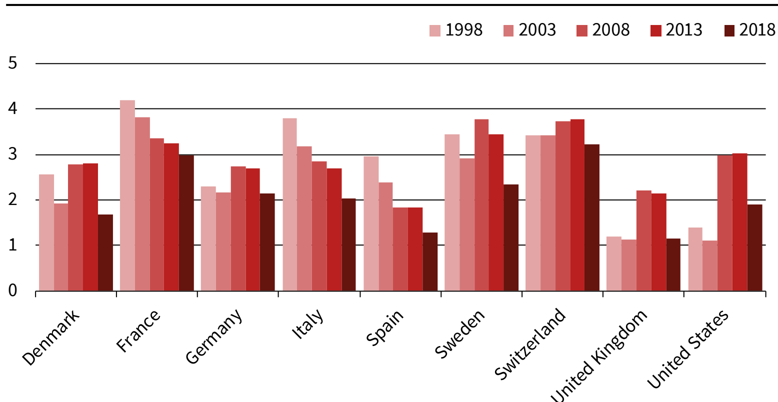
Interestingly, while, as discussed in Chapter 2, deregulation patterns are spotty in labor markets, product market deregulation is quite homogeneous across countries. Also notable is the positive (but decreasing) cross-country correlation between employment protection and product market regulation shown in Figure 3.2. Firms can protect their employees from job loss without going out of business only when they in turn enjoy protection from competition. In domestic markets, such protection can be provided by product market regulation, which, however, is eroded by international competition in integrated economies with independent regulatory policies.

The consistent reduction in PMR displayed in Figure 3.1 contrasts markedly with the evolution of some of its components. This is most noticeable when looking at public ownership of firms. Figure 3.3 presents the index for "Public ownership" constructed by the OECD and which is one of the components of the PMR index shown above. The former combines four key measures – the scope of state-owned enterprises, the structure of governance of these enterprises, government involvement in network sectors, and the degree of direct control over enterprises.[4]

The experience of France, Italy, and Spain contrasts with that for the United Kingdom and United States. The former exhibit a reduction in the index of "Public ownership," consistent with the pattern of the economy-wide measure. The United Kingdom and the United States witnessed a considerable increase in the index in 2008 and 2013, a change due to the considerable extent of intervention in the financial sector during the crisis. This pattern also appears, though to a lesser extent, in Denmark, Germany, and Sweden (there is also an increase in Switzerland, but it is rather small, amounting to a change of only 9 percent between 2003 and 2008, compared to an increase in the index of 44 percent in Denmark, a doubling in the United Kingdom, and almost trebling in the United States).

Figure 3.3

Regulation: Public Ownership



Source: OECD.

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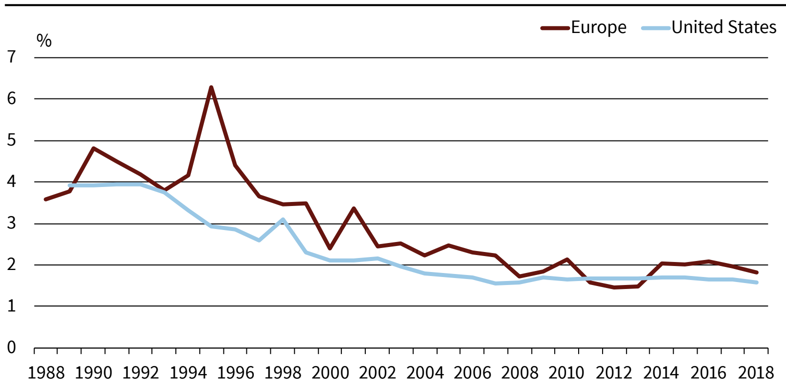
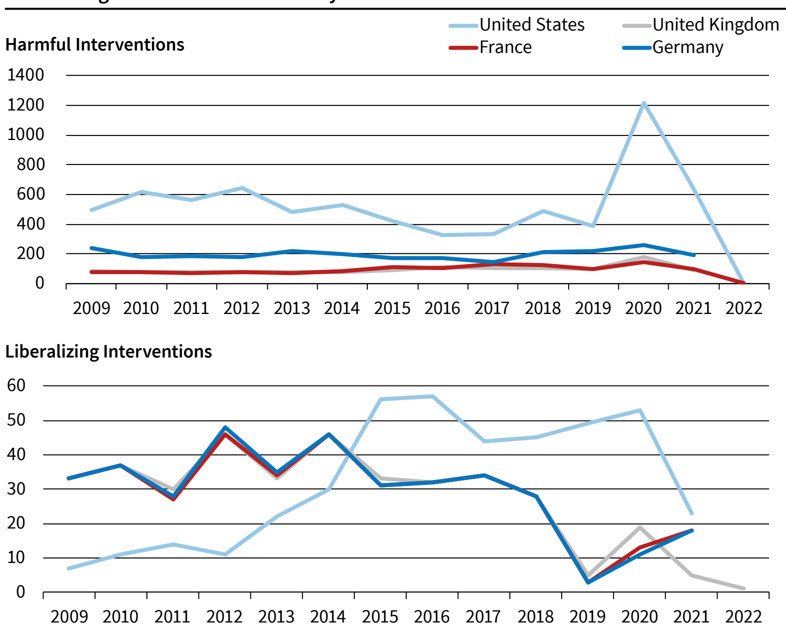
[4] For further details, see Koske et al. (2015). Four indicators make up the *public ownership* component. The first is the scope of state-owned enterprises, which considers whether (national, state, or provincial) government controls at least one firm in the sector. The second is the degree of government involvement in network sectors, measured by the percentage of shares in the largest firm that are owned by government (the sectors are electricity, gas, rail air, postal, and telecom). Third, direct control over business enterprises is measured through both general constraints (the government controls at least one firm and there are legal constraints to the sale of the stakes held by the government) and whether it has special voting rights. Lastly, governance of state-owned enterprises is measured by the degree of insulation from market discipline and the degree of political interference.

Figure 3.4
Protectionism: Effective Tariff Rate



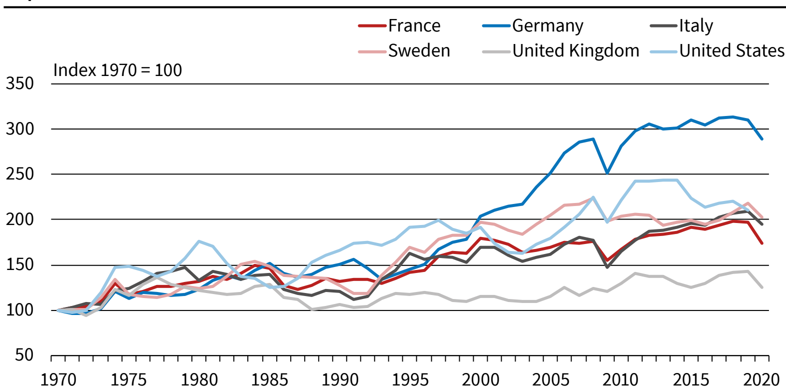
Source: Worldbank. ©CESifo

Figure 3.5
Liberalising and Harmful Trade Policy Interventions



Note: The data document all policy decisions that can affect non -tariff trade barriers. They are classified as liberalizing or harmful, depending on their expected impact on trade. The classification is further supported with data on international flows of goods, services, migration and investment.
Source: Global Trade Alert. © CESifo

Figure 3.6
Import of Goods and Services Relative to GDP



Source: OECD. © CESifo

3.1.5 International Trade

The removal of trade barriers that started in the 1980s has been a key element in the massive expansion of international trade over the past four decades. Figure 3.4 reports a measure of the degree of protectionism, the effective tariff rate (in percent), that indicates a systematic reduction in protectionism over the past three decades.

Non-tariff barriers have also been an important element in the liberalization trends observed.[5] Systematic and comparable data are available since 2009 and reported in Figure 3.5. The three European nations display similar patterns, with a high number of liberalizing interventions up to 2014 and a decline thereafter, and a small and stable number of anti-trade policies. The US experience is slightly different. The data indicate an increase in liberalizing interventions and a reduction in harmful ones in the United States in the period following the Great Recession, with a dramatic switch in both after 2019.

Much of the debate in the European Union – and also in the United States – has focused on the role of imports, which are often seen as destroying domestic jobs largely due to a lack of competitiveness of domestic firms. While the previous chapter showed the rapid growth in overall trade, Figure 3.6 depicts the time series for imports of goods and services as a share of GDP. Since different countries have different degrees of openness (e.g., Sweden is much more open than the United States), the time series have been normalized to the 1970 share. The six countries depicted show a sharp increase in imports which has coincided with increased unemployment and stagnant wages for certain types of workers, notably for blue-collar males. It is easy to associate the two trends, seeing imports as the culprit for such income losses and protectionism as the suitable cure.

Note, however, that while Germany exhibited the highest growth in imports and the United Kingdom the lowest, the perception of the negative consequences of trade is much stronger in the latter than in the former. There are two possible reasons for the differential impact. On the one hand, the geographical concentration of certain industries has implied that the resulting income shocks have affected entire communities, adding to low incomes wealth losses as the price of housing fell and, in some cases, a reduction in the provision of public services in the worst-hit locations. On the other hand, the observed income losses are not a direct failure of trade policy, but rather a failure of social policies, as the winners have not always compensated the losers, a textbook requirement for openness to result in Pareto gains. Of course, the failure to provide adequate social insurance and hence prevent exces-

[5] Non-tariff barriers refer to the wide range of policy interventions other than border tariffs, affecting the trade of goods, services, and factors of production. See, for example, Looi Kee et al. (2009) on the importance of non-tariff barriers. The authors show that non-tariff barriers play a more important role in low-income than in high-income economies.

sive income losses can itself be an indirect effect of openness. In more open economies the tax base is more elastic, making it more difficult to implement the necessary redistribution and implying that increased openness can have an effect on the capacity to maintain the social contract; see EEAG (2020).

3.1.6 Policy Conflicts across Countries

One of the main consequences of the European Debt Crisis has been to highlight the difficulties of having a monetary union that does not share a common fiscal policy. Although the Crisis crystallized this tension, diverging views in policy choices were apparent beforehand. Increasing trade openness generates distributional tensions across countries as both country size and initial comparative advantage matter for the allocation of production and employment within a trading area. Within the European Union, initial differences have led countries to pursue different growth strategies that have affected resilience. Notably, as manufacturing production was reallocated from one economy to another, a number of small countries have relied on low corporate taxation to attract businesses, thus increasing employment and tax revenue. This has led to an increasingly critical debate about tax avoidance by multinational companies and the perception that some EU member states seem to benefit from offering companies opportunities to avoid taxes in other member states.

Differences in the countries' approaches to taxation have also affected the recent agreement at the G7 on a global corporate tax. The effective minimum tax rate proposed of 15 percent has been criticized as too low by some of the high tax countries in Europe and as too high by countries with lower taxes. The fiscal burdens brought about by both the Great Recession and the Covid-19 recovery plan have also increased the potential for tensions between European countries, notably between large and small nations as well as net contributors and net recipients, raising the question of whether such tensions will prevent the implementation of policies that have a broad global perspective. At the same time, the mere fact that agreements have been reached both on the minimum corporate tax and NGEU demonstrates that policy coordination at the European and international level is possible.

Other sources of conflict have also become apparent over the past decade. Migration within the European Union has been a key element in several countries' political debate, as the arrival of citizens from other member states has been perceived as having large distributional and fiscal implications. When migrants obtain jobs, they are argued to cause unemployment for national workers or push down wages; when they remain jobless, they are accused of being a burden on the welfare state and hence on public finances. Heterogeneity across countries in the size of the financial sector has also implied diverging views not only on the taxation of this sector but also on the type and extent of regulation. Such conflict has become particularly strong in the post-Brexit era in which several nations are hoping to become a major financial center in Europe now that London is outside the trade block. Lastly, attitudes towards environmental policies and a carbon tax differ. Large countries are also large emitters while small countries benefit from emission cuts by their neighbors, thus making the latter more inclined and the former more reluctant to implement such policies at the EU level.

These differences in the policies that the various member states put forward have not only generated debates across countries on how to conduct economic policy, but also created a perception of lack of policy direction in the Union. This perception combined with the distributional tensions that have appeared within countries shape political views in the member states.

3.2 DISTRIBUTIONAL TENSIONS WITHIN COUNTRIES

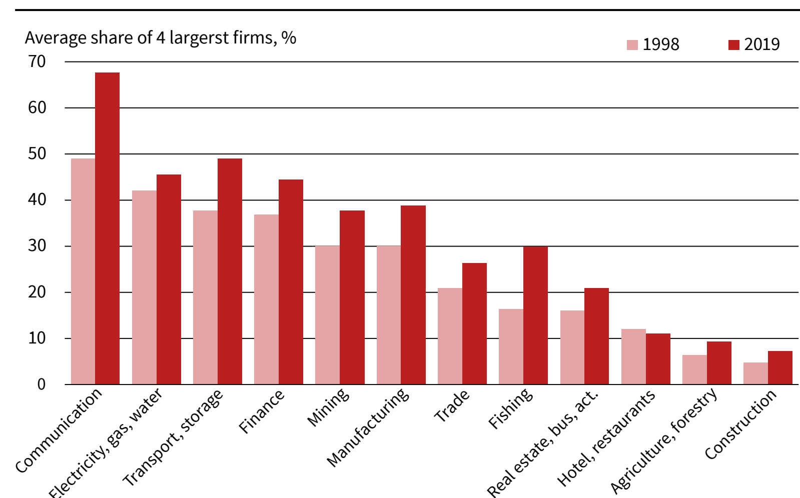
The dynamics of government expenditure, changes in labor and product market regulation, and increased openness have created major distributional tensions within countries. Two aspects have been key: the dynamics of the profit share and the evolution of income inequality.

3.2.1 Concentration and the Profit Share

The reduction in PMR described above contrasts with observed market concentration. While deregulation was supposed to enhance competition and reduce market power, a number of authors have identified increases in market concentration over the past few decades, both in the United States and in Europe; see Autor et al. (2017). Figure 3.7 depicts an index of

Figure 3.7

Average Industry Concentration by Industry Groups
1998 vs. 2019



Source: Koltay and Lorincz (2021).

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industry concentration in five EU countries in 1998 and 2017. Concentration is measured by C4 (i.e., the market share of the largest four firms in the industry, in percent) and the countries are France, Germany, Italy, Spain, and the United Kingdom. Despite the reduction in PMR that was supposed to reduce barriers and increase competition, only one sector displays a reduction in concentration and all others experienced an increase. The increase is particularly large in trade and in communication, where the market share of the top firms rose from just under 50 percent to almost 70 percent. This implies considerably greater concentration than in the utilities industry, generally seen as a sector with natural monopoly.

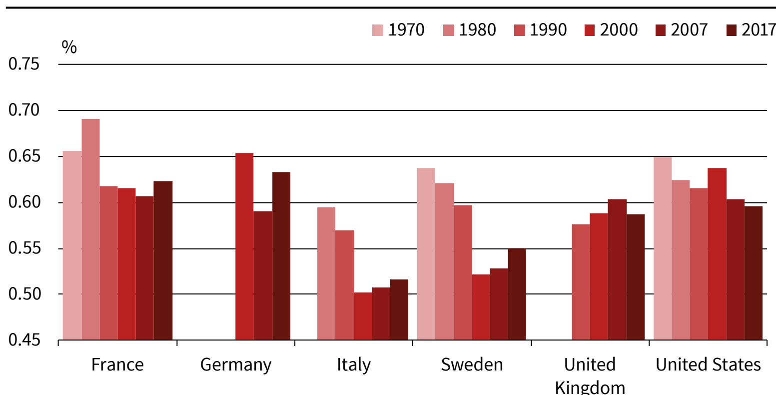
The OECD's index measures "the degree to which policies promote or inhibit competition in areas of the product market where competition is viable." Yet technological change has generated scale and network economies that make it less viable in some sectors. Also, privatization does not always foster competition. In the late 16th century Queen Elizabeth I granted a private monopoly on playing cards to her courtier Edward Darcy, which was soon declared illegal by the courts. More recently, indebted governments sold more or less natural monopolies to crafty businessmen. In the 1920s, many countries granted Swedish match monopolies to Ivar Kreuger, who engaged in financial shenanigans before bankruptcy and suicide. Italy and France sold toll highways in the 1990s to private owners who reduced costs (and their workers' income and sometimes the safety of their customers) but need not reduce prices (regulators are often missinformed and subject to capture), so reaped large profits.

The increase in concentration has had several effects. First, it has been accompanied by a rising profit share and a declining labor share. The fall of labor's share in GDP in a number of high-income countries is well documented (see Figure 3.8 as well as Karabarbounis and Neiman 2014, and Valletti 2017) but its causes remain uncertain. While the weakening of labor market institutions and international trade have been argued to have played a role in causing this trend (Krugman 2008), recent work has pointed out the importance of market structure, notably the presence of dominant "superstar firms" which have high mark-ups and a low labor share. Using US data, Autor et al. (2020) have found, first, that the fall in the labor share has been largely due to a reallocation of labor across firms in the same industry, and second, that industries where concentration has risen the most have witnessed the largest declines in the labor share. The increased market power of dominant firms has hence been argued to be a major force in reducing wages or preventing their growth and thus in shaping distributional outcomes.

An additional effect can appear in sectors where the increase in concentration has been associated with a rising market share of large multinational firms, which are more likely than domestic firms to engage in tax optimization, thus reducing fiscal revenues at home. As a result, greater concentration may have decreased the share of income going to workers, both directly because of higher profit shares and indirectly through reduced effective tax rates.[6] Lastly, in some sectors – notably emerging tech sectors – the lack of regulation has allowed the appearance of firms of formidable size, which are perceived as a risk to future competition, innovation, and, in some sectors, also to individual privacy.

Figure 3.8

Share of Labor in National Income



Source: Penn World Table. © CESifo

3.2.2 Inequality and the Feeling of Being Left Behind, Vulnerable, and Ignored

The fact that economically vulnerable groups, which depend more on public sector support and the welfare state than other groups, were affected by fiscal consolidation policies, attracted attention to an issue which existed even before the crisis: the general trend towards more income inequality and the perception that changes in the economic environment like globalization and technical change had created significant groups of losers.

In many industrialized countries, income inequality started increasing in the 1980s or the 1990s, so that at the time of the Financial Crisis inequality was significantly higher than two decades before. As seen in Figure 3.9, which depicts the Gini coefficient of disposable income, this was true for the United States, but also for several European countries, including the United Kingdom and Sweden.[7] Other European countries exhibit a variety of experiences. For example, in Italy very high levels of income inequality persisted, while in Germany the Gini coefficient started rising significantly in the 2000s. Interestingly, the Global Financial Crisis resulted in

[6] Note that total tax receipts may have risen even if the share paid in taxes fell because greater profitability implies a larger tax base.

[7] We start by focusing on household disposable income and will consider market incomes below. Disposable incomes consist of earnings, self-employment income, and capital income and public cash transfers; income taxes and social security contributions paid by households are deducted. Hence, it combines a measure of how markets distribute incomes and the extent to which policy corrects resulting inequalities. Income is adjusted for household size.

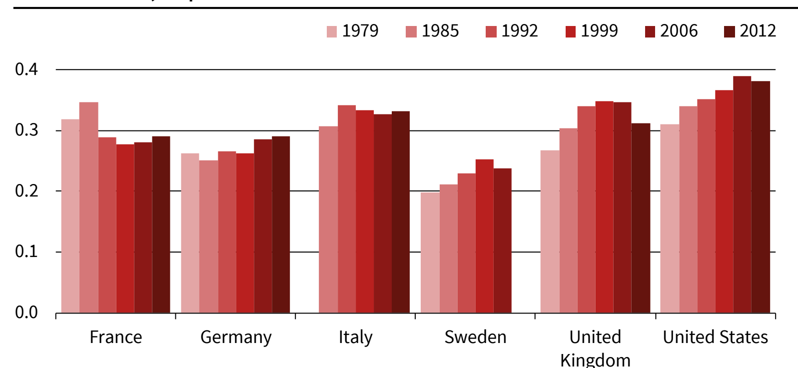
a reduction in inequality in a number of countries. In the United Kingdom, after almost three decades of rising inequality, the trend was reversed during the Great Recession, while the United States also exhibits a reduction in the Gini coefficient, although to a much smaller extent.

The Gini coefficient, depicted in Figure 3.9, captures a broad measure of inequality largely focused on the differences around the middle of the income distribution. Figure 3.10 presents an alternative measure of inequality, the ratio of the disposable income of those in the top 10 percent of the distribution (p90) to those in the bottom 10 percent (p10). Hence, this ratio measures the gap between those with very high and those with very low incomes. Even if the overall trends are similar to those in the previous figure, important differences appear. The United States has a high Gini coefficient, but those for the United Kingdom and Italy are of similar magnitude. In contrast, when we consider the p90/p10 ratio, the United States is well above the other countries in our sample. The dynamics also vary. Sweden experienced a sharp increase in both the Gini coefficient and the p90/p10 ratio, but for Germany the latter increased much less than the former, indicating that the rise in inequality was not driven by the dynamics of those at the extremes of the distribution. In fact, the reasons for the observed increases in the dispersion of disposable income vary considerably across countries. In some countries, such as the United States, it has been largely due to a greater dispersion of labor earnings (see Figure 3.10). In others, notably in Sweden, wage dispersion remained stable and the worsening of the distribution of income was driven by a greater dispersion of capital incomes – in turn related to real estate price increases and more lenient taxation.[8]

When we focus on the deeper causes of patterns in income inequality, a variety of factors have been argued to play a role. Social policy expenditures decreased after EMU to an extent that can fully explain the increase of inequality in certain member countries. Another important driver of inequality are labor market reforms, while the roles of import penetration and technological change are much debated. What is crucial is that the Global Financial Crisis, the Eurozone Debt Crisis and the ensuing Great Recession, constituted a major shock that questioned the economic dogmas that had been put forward since the late 1970s. The distribution of market incomes came under scrutiny, and an awareness of the role of socio-political relations in shaping inequality has emerged that refutes the idea that we live in a meritocratic society and that markets deliver to all individuals their worth.[9]

Figure 3.9

Gini Coefficient, Disposable Income



Note: The Gini index ranges from 0–1, where 0 means perfect equality and 1 (or 100%) means maximal inequality.
Source: Luxembourg Income Study. © CESifo

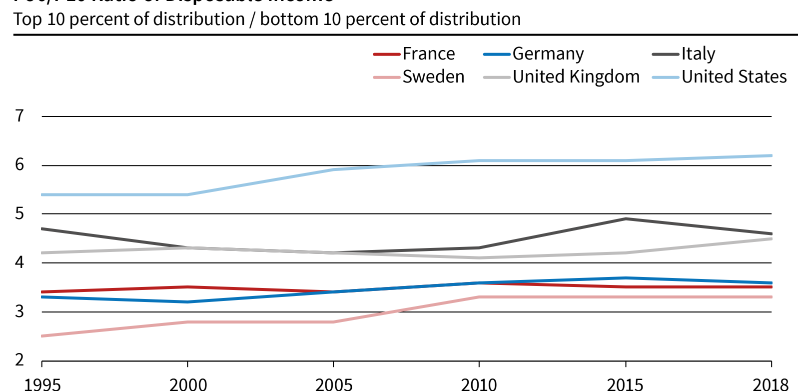
In this context, perceptions can be more important than objective facts. Spruyt et al. (2016) argue that (p. 345) "it is not actual vulnerability per se that matters (i.e., material wealth, educational attainment, cultural capital, and internal political efficacy) but subjectively experienced vulnerability (i.e., relative deprivation, anomie, perceived lack of political efficacy)." Moreover, aggregate measures of inequality in economic outcomes may fail to capture dimensions of inequality which drive populism. One issue is inequality of opportunity. If part of the population has the impression that it has no opportunities to acquire education skills and improvements in their wellbeing, they may turn to populist leaders.

The Global Financial Crisis has raised awareness of the distributional changes of the past few decades and brought considerable attention to the evolution of top incomes, such as the share of aggregate income that is received by those in the top 1 percent of the income distribution. Although the Gini coefficient better reflects what is happening in the center of the distribution and focusing on disposable income is a more suitable way to measure household welfare, pre-tax top income shares have captured the popular

Figure 3.10

P90/P10 Ratio of Disposable Income

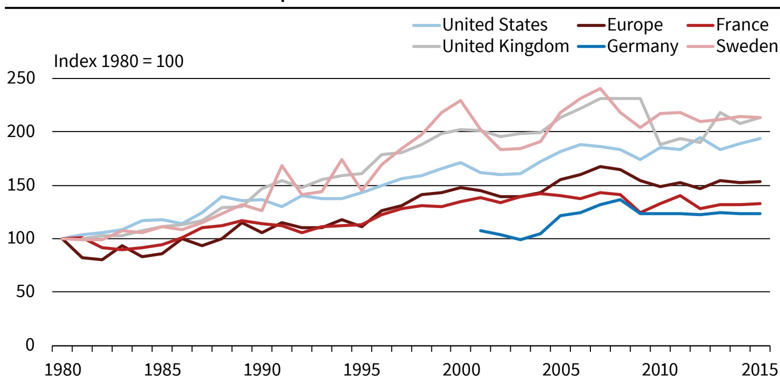
Top 10 percent of distribution / bottom 10 percent of distribution



Source: OECD Income Inequality Database. © CESifo

[8] See Roine and Waldenström (2012) and García-Peñalosa and Orgiazzi (2013).
[9] For example, Piketty (2020) presents a historical perspective of inequality dynamics, where distributional outcomes are not a deterministic outcome, but rather result from the combination between fundamentals (preferences and technology) and ideological factors.

Figure 3.11
Pre-tax Income Share of the Top 1 Percent



Source: Piketty 2020, Figure 10.3. © CESifo

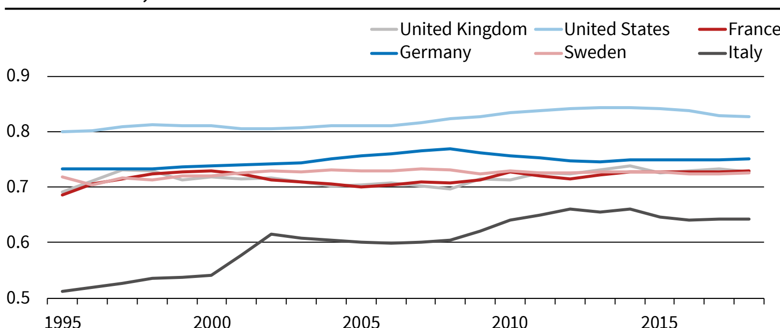
imagination as a measure of distributional woes. Figure 3.11 depicts the evolution, relative to its level in 1980, of the income share of the top 1 percent. There has been a generalized upwards trend in this share, with the exception of Germany in the 1990s, and the magnitude of the increase has been large, with the United States, the United Kingdom, and Sweden experiencing at least a twofold increase between 1980 and 2015. Even a country like France, where the Gini coefficient of disposable income and the p90/p10 ratio have remained stable, witnessed an increase in the top 1 percent share. If perceptions are important, this increase may be of greater social significance than the evolution of measures such as the Gini coefficient of disposable income.

Wealth inequality has also acquired increasing importance in the public debate. The dynamics of wealth inequality, displayed in Figure 3.12 for selected countries, are less striking than those for income, yet important patterns appear. First, the Gini coefficients are much larger than for income inequality, lying between 50 and 85 percent (while those for income are in the 20–40 percent range). Discussions of the distribution of wealth have hence highlighted how much more unequally assets are shared as compared to wages or income. Second, certain countries that display low Gini coefficients for income have highly unequal wealth distributions, as is the case for Sweden. This has raised questions about whether the gap between the two can result in difficulties in maintaining equality of opportunity and hence lead to future increases in income inequality.

Recently, a debate has emerged concerning the potential effect of quantitative easing on wealth inequality, and two mechanisms have been pointed out as being potentially important: the impact of inflation on real debt and the effect of low interest rates on asset prices. These effects are likely to be highly dependent on the way a country's financial sector is structured and the types of savings that households hold. Figure 3.12 indicates that in the immediate aftermath of the Great Recession, countries had different experiences. Between 2007 and 2013, wealth inequality fell slightly in Germany (by 2 percentage points), remained stable in France and Sweden, and increased in the other three economies by 3 percentage points in the United Kingdom and the United States and by 5 percentage points in Italy. The potential effects of monetary policy are also dependent on the extent to which policy results in higher prices and are hence likely to be different in the response to Covid-19 than they were during the Great Recession. Yet, a common perception arising from these debates is that not only is wealth highly unequally distributed, but also that quantitative easing has tended to enhance such inequality, providing yet another example of a policy that benefits those at the top of the distribution.

A last important aspect is that a feeling of being left behind may emerge in particular regions of a country, typically in those with poor economic development where people have the impression that the places where they live have been forgotten by the policymakers: by the early 2000s the European promise was already showing signs that income convergence was not as strong as many had predicted. Although the evidence is mixed, there seems to have been a sharp contrast between convergence in certain aspects, such as labor productivity, and divergence in others, notably employment rates across regions of member states (see, for example, Martin 2001). The differences have been exacerbated by the Great Recession. The global shock had the strongest impact on the peripheral regions of the Union, which were both those with a sovereign debt problem and with the lowest productivity (see Fingleton et al. 2015). At the same time, the past five decades have witnessed a notable increase in urbanization,[10] which has made certain groups of the population feel that policy decisions have aimed at benefiting workers in

Figure 3.12
Gini Coefficient, Net Wealth



Note: Wealth is measured as total household assets minus debts and split equally amongst all adults in the household. The Gini index ranges from 0–1, whereas 0 means perfect equality and 1 (or 100%) means maximal inequality.
Source: World Inequality Database. © CESifo

[10] Urbanization rates vary considerably within the European Union, but all countries have experienced large increases since the 1970s, and in some cases much of the increase occurred over the past two decades. For example, in France urbanization rose by 5 percentage points in the three decades preceding 2000 and by another 5 percentage points between 2000 and 20020. Own calculations from https://www.un.org/en/development/desa/population/theme/urbanization/index.asp.

densely-populated metropolises at the expense of those living in small towns and rural communities.

These tensions have created dissatisfaction with incumbent policymakers that have led voters to consider other options.

3.3 THE NEW POPULISM

3.3.1 What is Populism?

Populism can be defined as "an ideology which pits a virtuous and homogeneous people against a set of elites and dangerous 'others' who are together depicted as depriving (or attempting to deprive) the sovereign people of their rights, values, prosperity, identity and voice." (Albertazzi and McDonnell 2008, p. 3). This report is primarily interested in the economic implications of populism.[11] EEAG (2017) defines populist economic policy as follows:

"Populist economic policy claims to design policies for people who fear to lose status in society and who have been abandoned by the political establishment. The populist economic agenda is characterised by short termism, the denial of intertemporal budget constraints, the failure to evaluate the pros and cons of different policy options as well as trade-offs between them. It often focuses on single and salient political issues, overemphasises negative aspects of international economic exchange and immigration, and blames foreigners or international institutions for economic difficulties. The populist economic agenda rejects compromise as well as checks and balances and favours simplistic solutions."

Populist governments usually run high budget deficits, they reject immigration and international trade, and they tend to dislike checks and balances as well as supra- and international institutions which constrain national sovereignty. Populism occurs in variants often referred to as right- and left-wing populism. While left-wing populists often focus on redistribution and deficit spending, right-wing populist typically emphasize issues related to immigration and identity. Both types of populism tend to favor protectionism in international trade.

3.3.2 What are the Causes of the Growing Support for Populist Politicians?

The rise of populism is a complex and multi-faceted development. The view is widespread that it is related to both economic, non-economic, and cultural factors. The relative importance of these factors is disputed, however.

[11] See Kyle and Gultchin (2018) on the extent of populism. It identifies populist leaders or political parties that have held executive office across 33 countries between 1990 and 2018, and shows that over that period the number of populists in power around the world has increased fivefold (from four to 20) and that this now includes countries not only in Latin America and in Eastern and Central Europe – where populism has traditionally been most prevalent – but also in Asia and in Western Europe.

3.3.2.1 Cultural and Political Values versus Economic Factors

The extent to which economic issues are important in explaining the rise of populists is disputed. Inglehart and Norris (2016) examined to what extent populist support is correlated with economic and cultural variables. They found that cultural and political values play a key role. Support for populism is strengthened by anti-immigrant attitudes, mistrust of global and national governance, support for authoritarian values, and left-right ideological self-placement. Economic indicators, in contrast, are seen as less relevant. They write (p. 4):

"Looking more directly at evidence for the economic insecurity thesis, the results of the empirical analysis are mixed and inconsistent. Thus, populist parties did receive significantly greater support among the less well-off (reporting difficulties in making ends meet) and among those with experience of unemployment, supporting the economic insecurity interpretation. But other measures do not consistently confirm the claim that populist support is due to resentment of economic inequality and social deprivation; for example, in terms of occupational class, populist voting was strongest among the petty bourgeoisie, not unskilled manual workers. Populists also received significantly less support (not more) among sectors dependent on social welfare benefits as their main source of household income and among those living in urban areas."

Support for populists may also be related to more fundamental views and values like a low tolerance level of foreigners or different cultures and religions. It may also reflect a low level of education. For instance, Kriesi (1999) used Eurobarometer survey data to show that people with lower educational attainment – including farmers, artisans and low-skilled workers – are disproportionately represented among supporters of populist movements.

Disentangling cultural, political, and economic factors driving populism is often difficult because they interact, and there is considerable overlap. International migration, which is a focus of populist policies, is a good example. Populists use the concerns of natives that they compete with immigrants for jobs and support by the welfare state. But they also exploit fears that immigration may undermine values and traditions of the native population, as well as undercutting domestic labor market standards.

There are various economic developments which could have favored the rise of populism. A first aspect is economic crisis and the hardship that ensues, which suggest the "elites" have failed. Inequality and redistribution could have been key aspects, although they are viewed in different ways by different groups. Those whose relative incomes have fallen the most have the feeling of being left behind, vulnerable, and ignored, while in some countries, notably those with

large welfare states, those in the middle of the distribution perceive themselves as bearing an excessive burden in financing redistribution. Similarly, social dynamics are interpreted in a variety of ways – generating frustration of being unsuccessful in a meritocratic and competitive society, or anger about being unsuccessful in a society which is not meritocratic and competitive. Globalization can create a rejection of the ensuing economic change, in particular with respect to immigration and structural change triggered by trade (the "China shock").

Guriev (2018) reviewed the (limited and recent) literature on which economic factors enhance support for populist parties. The evidence he discusses indicates, first, that the increase in unemployment that took place in Europe during the Great Recession had a causal impact on the rise of populism.

Second, inequality matters in various forms. Spruyt et al. (2016) used Belgian survey data and found that subjective vulnerability matters more than actual vulnerability, and concluded that one of the key lessons is that parties and politicians who aim to reduce the demand for populism need to counter the widespread feeling that they are unresponsive to the concerns and grievances of voters. Guriev (2017) highlights the importance of inequality of opportunity for how much individuals "support" markets.

The empirical evidence on the response to the feeling of being left behind is mixed, however, and depends on the setting. Brexit is a widely studied case of populist policy influence. Becker et al. (2017) argue that it is not inequality or poverty as such which explains voting behavior, but rather the interaction between pressure related to fiscal cuts or migration and socio-economic fundamentals like education. Dorn et al. (2020) used German regional income data and investigated to what extent there is a causal impact of a region falling behind in terms of incomes relative to the national average and vote shares of radical right- and left-wing political parties. The results suggest that economic deprivation does have a significant positive impact on political support in particular for the right-wing populist party AfD.

Lastly, trade plays an important role. This is captured not only by the different responses to globalization of skilled and unskilled workers, but also by the fact that these responses vary with the skill-composition of exports and imports. Moreover, Rodrik (2018) argues that the type of populism that emerges depends on how globalization is perceived. When immigration and refugees are the most salient aspects of globalization, as is the case in much of Western Europe, populism tends to focus on identity and cultural cleavages. When the main change is trade openness resulting in import competition and the loss of low-skilled employment, as in Southern Europe and Latin America, populists focus on income and education differences and the self-interest of the elite. Interestingly, in the United States both aspects seem to have been present.

What is certain is that despite a diversity of national experiences, both in the most salient economic trigger and the resulting form of populism, crises, inequality, and openness have been important factors in changing political outcomes over the past decade.

3.4 A PERCEPTION OF POLICY FAILURE

Deep economic crises are often followed by political polarization and the rise of populism. This applies in particular to financial crises. For instance, Funke et al. (2016) analyzed the aftermath of financial crises over the past 140 years and found that these crises have often been followed by rise of extreme right-wing parties. The Global Financial Crisis, which broke out in 2008, had a profound impact on the perception of economic policies and public debates, leading to a fundamental critique of the financial sector above all but also to some extent the capitalist system as a whole.

3.4.1 Those Left Behind versus the "Elites" in the Aftermath of the Great Recession

Regulation and policy did play some role in sowing the seeds of the Financial Crisis, for example in the United States where subprime borrowers were explicitly targeted and to some extent subsidized by the Federal government. But the crisis was primarily perceived as a result of deregulation and greed in financial markets and banks. Banks had made extremely high profits for many years, which were distributed in particular to bank managers in the form of extremely high salaries and bonuses. The crisis revealed that these profits were only possible because banks had taken high risks. Now, as things went wrong, banks were on the brink of bankruptcy. In a capitalist system owners and creditors of these banks would normally bear the cost of the bankruptcy. However, the trouble was that regulators had not required banks to hold enough loss-absorbing capital. Given this, a collapse of a large bank would endanger other banks and might even trigger a run on the financial system. The bankruptcy of the bank Lehman Brothers demonstrated this. It sent shockwaves through the global financial system, led to a sudden stop in lending among banks, and would have caused other financial institutions to collapse. Since a collapse of the financial system would have led to a much deeper recession, saving the banks was necessary. But the fact that taxpayer money was used to rescue the banks justifiably led to public outrage.

It is interesting to note that the behavior of the banks reflected not so much a classical market failure but rather, a case of regulatory failure implied by the "too big to fail-problem." In a market economy, risk taking by banks would not be a problem, and there

would be no incentives to take excessive risks if banks had enough capital – either equity or "bail-inable" debt. But that was not the case. Banks could operate with very little equity and large amounts of short-term debt, often debt held by other banks, so that bail-ins would be a threat to financial stability. Given this, many investors had the expectation that banks would be bailed out by governments in the case of financial distress, and they gave credit without thinking much about the risk. Without the implicit government bail-out guarantee many banks would have been unable to operate with the low levels of equity observed before the Financial Crisis.

In Europe, the Financial Crisis was followed by the Eurozone Debt Crisis. The crisis began with the revelation that public debt statistics had been forged in Greece. Investor confidence in the ability of the Greek government to meet its financial obligations collapsed. In some countries, notably Spain and Ireland, real estate bubbles led to banking crises and more bank bailouts, which eventually became so costly for the governments that they led to situations where the sustainability of public debt seemed questionable. In Italy, chronically low economic growth and high levels of public debt also undermined investor confidence. A similar situation emerged in Portugal. The reaction to these developments was a combination of support, partly through government bond purchases by the ECB and partly through conditional loans provided by the newly created Eurozone rescue facilities, in particular the European Financial Stability Facility (EFSF) and later the European Stability Mechanism (ESM).

The Eurozone Debt Crisis forced many European countries to cut back public spending to stabilize their public finances. Opponents of these measures argued that "austerity" policies were counterproductive and would only lead to a deeper recession and eventually a disintegration of the Eurozone. This did not happen, but the striking injustice of spending billions in tax money on saving imprudent banks, combined with the painful experience of fiscal austerity led to a wave of criticism, and not just of the financial sector and regulatory failure.

For populist parties, the crisis was an opportunity to attack a ruling "elite" for failing to regulate the financial sector properly and for managing the crisis in a way where vulnerable groups in society, in particular the young and the poor, were not protected. Policy decisions were thus perceived to punish the people but not the elite, which had been at the source of the crisis both as policymakers and actors in the financial sector.

The crisis also attracted attention to problems and challenges in areas beyond the financial sector. A contrast was drawn with the fact that over the previous decade calls for protecting manufacturing sectors facing job-losses because of global competition had remained unheard, implying that interventions to prevent blue-collar job losses were not enacted while those to save white-collar employment were. On the left of the political spectrum, much of the focus was on the gap between inaction about environmental issues and climate change and the will to engage in international coordination to save the banks.

3.4.2 Freedom, Meritocracy, and Populism

In the debate about inequality, the extent to which inequality can or cannot be justified plays an important role. One justification for inequality in outcomes is that incentives are necessary to motivate individuals to be productive. From that perspective, income differences simply reflect what people contribute through their work, their entrepreneurial skills, or the willingness to save, invest, and take risks. This view portrays inequality as a desirable feature of a meritocratic society.

There are basically two objections to this view, which are probably both relevant for understanding how populism is related to inequality. The first objection is that the distribution of income is not entirely or not even primarily related to the contributions to society of those who earn the income. The second questions the view that a meritocratic society is desirable.

There are various reasons to question the view that the existing distribution of income is meritocratic.[12] For instance, if people inherit large amounts of wealth, their incomes may be related to the merits of their parents or grandparents but not to their own contribution. In addition, market incomes are always a result of a mixture of effort and luck. If technological change favors certain groups and destroys the jobs of others, it is difficult to argue that this is a result of individual merit. Many markets are characterized by frictions, monopolies and cartels, or regulations which distort outcomes. The financial sector boom which preceded the Global Financial Crisis provided huge incomes and profits to people who, as became clear later, did more harm than good to society. For all of these reasons, the distribution of income emerging in the market does not necessarily reflect the fair value of the contributions individual members of society have made. A populist rejection of the political and economic system and the elites dominating it may be a result of anger about the fact that Western societies are not meritocratic, an anger that is accentuated by the claim that it is so.[13]

However, populism may also be a reaction to the fact that societies are, at least to a certain extent, meritocratic. The term "meritocracy" goes back to the satirical novel *The Rise of the Meritocracy 1970–2033* by Michael Young, published in 1958. The novel describes a society which establishes radically meritocratic structures. The key problem of this society

[12] See, for example, Piketty (2020) and Sandel (2020).
[13] Sandel (2020) argues that the defence of meritocracy is largely a way for elites to justify the intergenerational transmission of privilege; see also Markovits (2019).

is that those who are not successful have no excuse and nobody defends their interests because by definition they deserve to be where they are. In this society an opposition movement emerges which is called "The Populists." From this perspective populism is a movement driven by the anger of those who live in a society which offers many opportunities but fail to seize them. Populism reflects the frustration of those who are unsuccessful and know it is their own fault.

Examples of rising support for populism where this frustration may play a role can be found in the formerly communist societies of Central and Eastern Europe. It is a striking feature of the growing success of populist parties in Germany that this support is much stronger in the formerly communist East Germany than in the West. One explanation is that part of the population in Eastern Germany is frustrated about the fact that the end of communism has opened up a world of new possibilities and liberties to them but that they have not been able to use the new possibilities fruitfully while others have.

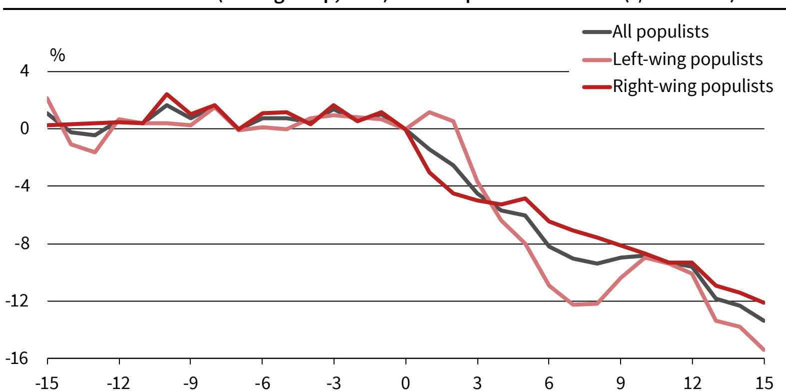
3.5 HOW DID POPULIST POLICIES PERFORM?

Populist economic policy is likely to have high economic costs and has led to bad economic outcomes in the past. This is particularly visible in the case of populism observed in Latin American countries. Leading industrialized countries like the United States or the United Kingdom are much more robust, so that negative effects of populist economic policy decisions will be less clearly visible, but they nevertheless are likely to exist.

Most work on the economic consequences of populism has been narrative. For example, based on the experience of Latin American countries in the second half of the 20th century, Dornbush and Edwards (1991) describe a "populist cycle" doomed to self-destruct. Populist leaders tend to engage in redistribution and expansionary fiscal policy that initially create a demand-driven economic expansion. As inflation rises and the accumulation of debt becomes unsustainable, an economic crisis ensues, which in turn makes the populist leaders lose power. This view highlights what Dornbusch and Edwards (1991) consider the key characteristic of populist policies – an emphasis on the potential of policy (notably in terms of growth and income redistribution) and a disregard for its risks – inflation and deficit finance, external constraints, and the behavioral responses to regulation and non-market policies. That is, policy is characterized by short-termism and the negation of the medium-term consequences of fiscal expansion.

Figure 3.13

Differences in Real GDP (Average Gap, in %) after Populists Take Over (+/−15 Years)



Source: Funke et al. (2020). © CESifo

Recent work has started to examine in a more systematic way the economic consequences of populism. In particular, Funke et al. (2020) constructed a large database for the period 1900–2018 to examine how economies perform under populist presidents or prime ministers. Their analysis suggests that although not all populist leaders "self-destruct," there are long-lasting economic losses relative to comparable non-populist regimes. Two core economic outcomes are examined: GDP, which is found to fall both in the short- and in the medium-term, and consumption, which (for certain regimes) increases in the short-run before declining below its pre-populist regime level. The magnitude of these effects is large, with GDP per capita being more than 10 percent lower as compared to a non-populist counterfactual, as can be seen in Figure 3.13. The figure depicts the gap observed when comparing the estimated paths of real GDP per capita for countries with populist regimes and those without.

The losses are associated with a variety of intermediate mechanisms. Some of them follow closely the discourse of populist electoral candidates; notably, protectionism is reflected by an increase in tariff rates and reduction of various measures of globalization. The consequences of macroeconomic policy are apparent in an increase in the debt-to-GDP ratio (of 10 percentage points after 15 years) and, in the case of left-wing populists, in higher and more volatile inflation rates (there is no effect on inflation for right-wing regimes). Lastly, both types of populist regimes display a considerable erosion of democratic institutions, with diminished judicial constraints on the executive, a decline in the extent to which elections are free and fair, and a reduction in freedom of the press.

Funke et al. (2020) also examined distributional outcomes, an important aspect given the emphasis that populists make on pursuing the interest of "the people" against members of the elite. Two measures of inequality are used, the Gini coefficient for disposable income and the labor share. On average there is no significant change in inequality, but the results depend on the type of government. When right-wing populists are in power, inequality rises slightly as captured by a higher Gini coefficient (depicted in Figure 3.14) and a lower labor share. Under left-wing populist governments, the labor share initially increases but declines again after 10 years, while the Gini coefficient falls for the 15 years following the regime

change (by 2 Gini points). The difference between the two distributional measures probably reflects the fact that reshaping the factor distribution of income has limits, and hence after an initial increase in wages the regime can only keep inequality falling through increased transfers.

Although the recent populist movements propose policies broadly in line with those just described, there are two important differences. The recent populism no longer focuses on traditional redistribution simply based on income and wealth, but instead has a "nativist" component that confronts "the people" both against migrants and against the cosmopolitan elite. The perception is that instead of the workers of the world uniting, it is the elites of the world that have done so, and that access to this self-serving elite occurs largely through elite higher education, the access to which is highly dependent on family background. At the same time, the extreme right and the extreme left now join forces against policies that defend markets and globalization, with the former arguing that globalization results in too much welfare support, the latter claiming that those policies do not restrain markets enough (De Vries 2017).

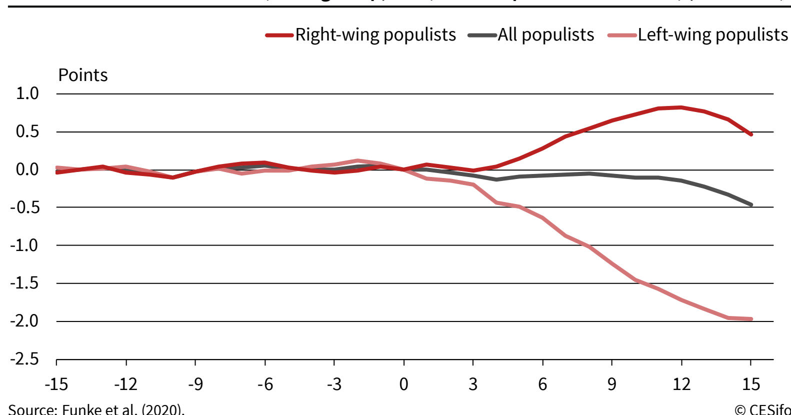
3.6 NEW CRISES, NEW POLICIES

The climate of mistrust in elites and policymakers that developed in the wake of the Global Financial Crisis has developed into a challenge to economic policy that has been accentuated by the Covid-19 health crisis. Citizens in EU countries seem to share a widespread perception of government failures, and what makes these perceptions unique is that they are shared across the political spectrum even if the reasons for the mistrust differ. The slow start of the vaccination campaign in the European Union generated a perception of inefficiency due to excessive bureaucracy, and although the success of campaigns in most member countries has moderated the criticism, dissatisfaction prevails. Similarly, governments have been criticized for confining too late or confining too much, while economic policy during the crises has been blamed by the left for fostering inequality and by the right for exacerbating public debt. Exceptional circumstances have required exceptional decisions, yet the latter have been widely perceived as lacking.

The dissatisfaction with policy has also stemmed from the looming environmental crisis. Both markets and policies are perceived as having failed the general population, and tensions have emerged along a variety of dimensions. Younger generations feel their parents and grandparents are responsible for a crisis whose costs only the younger generations will need to bear; poorer countries blame richer nations; and within countries the income divide has also become a divide between those who generate high emissions and those who do not. Moreover, the increase in public debt that occurred during the Great Recession has been accentuated by the Covid-19 crisis, leaving governments in a tight spot. In this context, a complete rejection of the liberal paradigm of the past few decades is being advocated by many. Yet the very special economic climate over the past two years has created unusual circumstances and novel challenges, which the next chapter discusses, outlining possible desirable and undesirable features of economic policy over the next decade.

Figure 3.14

Differences in the Gini Index (Average Gap, in %) after Populists Take-Over (+/–15 Years)



Source: Funke et al. (2020). © CESifo

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