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Causes and Consequences of Spreading Populism: How to Deal with This Challenge*

THE RISE OF POPULISM IN THE 21ST CENTURY

We live in the era of an unprecedented rise of populism, especially (but not only) in advanced economies. In the 21st century, populist politicians' vote shares in Europe have been growing: at first slowly in the 2000s, then rapidly in the 2010s (Guriev and Papaioannou 2022). The number of countries with populists in power reached a historical peak in 2018 and remained close to this peak thereafter (Funke et al. 2023). What are the causes and the consequences of this rise of populism? If the consequences are a problem, what are the solutions to this problem?

As we show in Guriev and Papaioannou (2022), the public woke up to the threat of populism in 2016. The number of media articles mentioning “populism” or “populist” doubled in 2016 relative to 2015 and continued to grow in subsequent years. This was not surprising given the unexpected outcome of the Brexit referendum in the UK and Donald Trump's victory in the US presidential election. Research on populism followed suit – with the share of JSTOR research papers devoted to populism tripling in 2017 (and also continuing to grow afterwards).

The new focus on populism was especially striking in academic economics. Before 2016, economists thought that populism was a thing of a past, a macroeconomic folly of left-wing Latin American governments that neglected Economics 101 to their peril. Asked for a definition of populism before 2016, an economist would have to refer to the famous Dornbusch and Edwards (1991) book on Latin American macroeconomic disasters.

Since 2016, economists have understood that modern populists are different. Most 21st-century populists have learned basic macroeconomics. Moreover, a majority of successful modern populists are actually right wing rather than left wing (Funke et al. 2023). Economists had to find a new definition of populism – and they adopted that of political science. Instead of focusing on the neglect of macroeconomic laws, the definition of political scientists in Mudde (2004 and 2007) and Mudde and Rovira Kaltwasser (2017) considers populism as a view of society divided into two homogenous, antagonistic groups: “the pure people” and “the corrupt elite.” Populists may be left wing, right wing, or neither. Their main policy proposal is to give power to the “pure people.”

* Based on Guriev and Papaioannou (2022).

KEY MESSAGES

- **We live in the era of the unprecedented rise of populism – measured either by voting share for populist (i.e., anti-elite and anti-pluralist) politicians or by the presence of populists in governments**
- **There is convincing evidence that the rise of populism has been caused by secular trends (globalization, automation, and the rise of social media) as well as one-off events (such as the 2008–2009 global financial crisis and subsequent austerity and the 2015–2016 refugee crisis). It is also plausible that the rise of populism is a response to cultural wars**
- **There is also evidence that shows that populists in power slow down economic growth and undermine democratic political institutions**
- **There is limited research on solutions to the problem of the rise of populism. The suggested solutions include redistribution, regulating social media, deliberative democracy, and ranked-choice voting**

This definition thus implies two key features of populism: anti-elitism and anti-pluralism. Both are important. There are many liberal politicians who fight against elites in corrupt countries; they are not populists. There are many anti-pluralist politicians in democratic or non-democratic countries who belong to the elites; these are not populists either.

Mudde and Rovira Kaltwasser's definition of populists is “minimal” in the sense of imposing only two conditions. There are other definitions adding “identitarianism,” or “nationalism,” or “authoritarian angle” (Mueller 2016; Eichengreen 2018; Norris and Inglehart 2019). Addition of criteria narrows the circle; this is why Guriev and Papaioannou (2022) prefer to stay with the broadest definition to analyze the phenomenon of populism in its entirety.

The minimal (anti-elite and anti-pluralism) definition is also useful in helping to identify who is and who is not populist – and therefore measuring the rise of populism in quantitative terms. While there are



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some disagreements on classification of populist parties, Rodrik (2018) shows that the 21st century has witnessed an unprecedented increase in the vote share of populist parties, especially the right-wing ones and especially in Europe. Guriev and Papaioannou (2022) show that this rise was indeed substantial in Europe, where the populist parties have gained 10–15 percentage points of vote share in the second decade of the century. Studying populists in power in 60 countries (accounting for 95 percent of global GDP), Funke et al. (2023) show that in 2018 more than one-quarter of these countries were run by populists – a much higher share than at any other point in history; and the rise of populism in the 21st century was mostly driven by the right-wing rather than the left-wing populists.

WHY RISE OF POPULISM AND WHY NOW

Populism is not new. Some political scientists date it back to Russian “narodniki” movement of the 1860s and 1870s. Narodniki literally means “populists,” but the movement’s ideology was certainly very different from the modern definition of populism. The first populists in the modern sense of this term were the members of the United States’ 1890s “People’s Party,” which did indeed put forward an anti-elite program and backed the 1896 presidential candidate William Jennings Bryan. While Bryan lost the election, the People’s Party policy proposals were eventually carried over onto the Progressive platform implemented by President Theodore Roosevelt and his successors.

The People’s Party’s anti-elite followers in the US and other countries were not always progressive. The 20th-century populists included post-WWI fascist regimes such as Hitler’s Nazi government. Yet, as mentioned above, it is the 21st century that has witnessed the unprecedented rise of populism. Why now? There are several explanations.

First, there are economic explanations. There are the secular trends of globalization and technological progress. These are interrelated. Technological progress reduces costs of trade in goods and services and promotes exchange of ideas, thus contributing to globalization. Globalization strengthens incentives to innovate and thus accelerates technological progress. Indeed, if R&D is likely to produce a new technology for a local market, the payoff is limited; if the product of the R&D is sold to the whole world, the return is much higher. Hence, globalization speeds up innovation.

Both globalization and technological progress promote global welfare and reduce global poverty. But both also increase within-country inequality and create losers. In advanced economies, blue-collar workers and routine white-collar workers are seeing their jobs being automated away and outsourced to low-wage countries. These left-behind voters support the populists who decry “cosmopolitan elites in favor of unconstrained globalization.” Economists

have traditionally been in favor of globalization and technological progress, as they assume that the losers from trade and automation can be compensated by national governments. It turns out, however, that compensating “losers” is actually much harder than it was supposed to be – because of political and institutional constraints.

The other explanation of the recent rise of populism is the global financial crisis of 2008–2009. This crisis was caused by the “incompetence of the elites” who were supposed to be able to regulate the mortgage market and the investment banks in charge of complex mortgage-based derivatives. It turned out that financial deregulation went too far. And the systemic failures were paid for not only by the investment bankers losing their multi-billion stock options but also by the lower-middle-income class homeowners going underwater on their mortgages. To add insult to injury, many European countries responded to the crisis with austerity policies, which further aggravated the well-being of the left-behind (Algan et al. 2017; Fetzer 2019). The impact of crisis and austerity on unemployment has greatly contributed to the rise of populism in both US and Europe (Guriev and Papaioannou 2022).

If the rise of populism were explained by economic factors only, it would not be as problematic. The economic problems of the left-behind can and should be addressed by economic instruments such as redistribution. Those are feasible, and they do deliver (Albanese et al. 2022). The problem arises if a substantial part of the rise of populism is explained by non-economic factors such as the spread of social media and an increase in immigration.

Social media platforms use the advertising model, which privileges the dissemination of messages that are more likely to be reshared – i.e., the more exciting and less boring messages. Not surprisingly, the rise of social media contributes to the rise of populists (Guriev et al. 2021). Indeed, populists are more likely to use shorter and simpler messages that are more “exciting” (Haidt and Rose-Stockwell 2019) and are more likely to “connect” to “ordinary people” and get their feedback (Zhuravskaya et al. 2020).

The “cultural” explanations of populism are more problematic – not because there is a question of “why,” but because there is a question of “why now.” By definition, culture changes slowly. If Europeans have always disliked non-Judeo-Christian immigrants, why did the populist vote share increase in recent years? There are several answers to these questions. First, there has been a rapid growth in immigration into OECD countries since the 1990s (Guriev and Papaioannou 2022). Second, there was an important one-off refugee crisis in 2015–2016. Third, recent events and social media have made immigration more salient (Bonomi et al. 2021; Henry et al. 2022; Guriev et al. 2023). Fourth, the long-standing cultural divides may have been activated by economic factors – such as the

global financial crisis of 2008–2009. Finally, it may well be the case that the secular trends of cultural change reached a tipping point (Norris and Inglehart 2019).

If the cultural explanations are correct, addressing the challenge of populism is much harder. It is hard to change culture; even if we can change it, that change is likely to take long time.

THE IMPLICATIONS OF THE RISE OF POPULISM

While the populists seem to address real problems of liberal democracies, their suggested solutions are counterproductive. Societies are diverse and the populists' binary simplifications of modern societies into elites vs. the people cannot help solve the problems of climate change, loss of biodiversity, misinformation, and the rise of inequality and discrimination, and they certainly cannot help stand up to non-democratic regimes and their wars.

Are populists at least better prepared to address the issues of economic underperformance and the neglect of the left-behind? The recent study by Funke et al. (2023) provides a convincing response to this question: no. The authors compare the performance of populist governments to their counterfactuals (constructed via the synthetic control method) and show that populists underdeliver in terms of economic growth (10 percentage points in 15 years relative to counterfactual) and quality of institutions (rule of law and press freedom). Populists also fail to reduce inequality. While there are exceptions, typical populists in government do not deliver on their electoral promises. This is not surprising, given that the populists do not like experts or checks and balances (which are important for economic growth). Given economic underperformance, populists try to stay in power by undermining democratic political institutions. As Funke et al. show, populists are more likely to leave in an irregular way rather than simply as a result of losing elections.

SOLUTIONS AND POLICY CONCLUSIONS

Given that populists are dangerous for the common good, what should we do to fight the recent rise of populism? Research on solutions to the populism problem is much more limited than that on its causes and consequences. Yet, there are several promising ideas.

First, to address the economic grievances of the left behind, national governments should use redistribution and retraining. This was not done in the aftermath of the global financial crisis. However, ten years later, during the Covid pandemic, governments learned the lessons and rolled out a generous spending campaign to support the most vulnerable parts of society. While populism did not disappear, it certainly did not increase during Covid (Funke et al.'s data show that there were fewer populists in power in 2020 than in 2018 and 2019).

Second, we need to regulate social media to prevent the dissemination of false news. There has already been progress in the European Union, which has adopted the Digital Services Act; this will drastically increase transparency of algorithms and provide the platform companies with incentives to limit the dissemination of "alternative facts."

Third, we need to bridge the gap between politicians and voters by resolving the "paradox of the democratic leader" (Kane and Patapan 2012). In today's political environment, democratic leaders face very high expectations of being much more competent than their voters. At the same time, they are expected to keep a connection to the voters and represent the "ordinary people." This is an impossible task. Democratic politicians are supposed to attend elite universities and have extensive experience of working in leading companies and ministries. At the same time, they are supposed to share the experience of the median voter, who in most OECD countries has not received tertiary education.

A potential solution to this problem is the deliberative democracy (Van Reybrouck 2016; Landemore 2020). The idea is very simple: instead of replacing elected entities such as parliament, we can randomly select a "mini-public," a sample of a hundred or a thousand of ordinary citizens, and ask them to discuss a difficult political problem (e.g., an egalitarian approach to green transition). The members of this citizens' assembly usually meet several weekends in a row, talk to each other as well as to experts and politicians, and finally formulate a proposal to be submitted to elected politicians. By definition, this proposal reflects the views of "ordinary people" and thus addresses the challenge of representation in political decision-making.

Finally, there are institutional fixes for electoral systems. Social media and the rise of inequality contribute to political polarization and support for extreme-left and extreme-right populist parties who reject the "centrist elites." There are, however, voting systems that can help the centrist politicians and raise social welfare. Ranked-choice voting resolves the problem of "vote splitting" in a first-past-the-post setting whereby centrist and left-wing voters divide their support, leaving the minority-supported extreme-right candidate to win (Maskin 2022). In the ranked-choice voting system, instead of naming just one preferred candidate, the voters rank all the candidates. The system selects the "least hated" candidate, which in many cases helps avoid the election of extreme-left or extreme-right politicians.

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