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The economic basis of democracy in Europe

Structural economic change, inequality and the depoliticization of economic policymaking

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Summary

- To understand contemporary challenges to European democracy, it is crucial to look beyond the surface of politics and consider the deeper relationship between democracy and the economy. Instead of focusing exclusively on the rise of 'populism', it is necessary to acknowledge the multiplicity of threats to European democracy, in particular those arising from the structure of European economies and economic policymaking.
- Understanding these weaknesses in the functioning of European democracies is crucial to an effective approach to future economic transformations, in particular the green transition, but also for dealing effectively and equitably with challenges such as higher inflation. It is important that the relevant policy changes and responses are democratically legitimate and do not foster the kind of political backlash that previous economic transformations did.
- Over the past 40 years, economic inequality – ranging from income inequality to discrepancies in wealth and economic security – has widened throughout developed economies. In turn, these developments have generated increasing *political* inequality, as economic policymaking has served the interests of the well-off.
- Democratic systems have also been made less responsive to electorates through the 'depoliticization' of policymaking, in particular economic policy, as a result of its insulation from national-level democratic scrutiny. The expansion of technocratic modes of governance – notably through independent central banks and EU-level institutions – has in many cases entrenched the policy preferences of specific groups in institutions removed from direct democratic control.
- As this depoliticization has to a large extent made democratic contestation over economic policy redundant, politics has increasingly been polarized around 'cultural' questions. But such a focus on culture is unlikely to address the inequalities behind the dysfunction of democracies in Europe.
- Strengthening European democracy requires a 'repoliticization' of economic policymaking, including both fiscal and monetary policymaking. In the specific context of the EU, this would mean opening up more policy space for national decision-makers and parliaments – in particular by giving them a more influential role in fiscal policy, and by making monetary policy more democratic.

01 Introduction

Democracy in Europe is threatened by multiple forces that cannot be reduced to 'populism' alone. Structural economic change, inequality and the rise of technocratic policymaking are all part of the picture.

During the last decade, there has been much discussion of a 'crisis of liberal democracy'.[1] Initially triggered by the rise of anti-establishment politics throughout Europe, this narrative has intensified since 2016 following the decision by the British people to leave the EU and the election of Donald Trump as US president.

Commentators often point to the role of economic factors – in particular, the distributional consequences of globalization and trade liberalization and their impact on former industrial regions – in creating the conditions for these two politically seismic events. However, there is less consensus on the extent to which economic upheavals have contributed to a possible fundamental crisis of democracy, or on the channels through which this might have occurred.

This research paper seeks to go beyond the existing discussion in two ways. First, much of the debate has focused on 'populism', often seen as the main or even the only threat to democracy in Europe. By contrast, this paper argues that there exist a multiplicity of threats to democracy in Europe, that these may include – but are not limited to – populism, and that economic policymaking has a role in each of them. Second, the debate has tended to reduce economic factors, in so far as these are problematic for democracy, to *wage* or *income* inequality. It has frequently ignored other forms of inequality, including *wealth* inequality and the concentrated ownership of assets. This paper examines a wider range of economic factors that may affect the functioning of democracy in Europe.

While populism is hardly a new concept and there remain issues around its definition, it has become central to the debate about the crisis of liberal democracy – particularly in Europe and the US. Certainly, much has been

1 For an overview of debates on democracy in Europe, see Kundnani, H. (2020), *The Future of Democracy in Europe*, Research Paper, London: Royal Institute of International Affairs, https://www.chathamhouse.org/2020/03/future-democracy-europe.

made of the relative importance of cultural and economic factors in causing what is often misleadingly seen as a populist 'wave'.[2] Yet as well as tending to ignore other potential threats to democracy, this characterization has tended to simplify populism's own complicated relationship with democracy. Indeed, in some ways populism may actually be considered a symptom, rather than the cause, of any crisis of liberal democracy. It can also be seen as a corrective as well as a threat.[3]

This complex relationship becomes clearer when other threats to democracy are considered seriously. One such threat, as mentioned, is the dramatic rise in income and wealth inequality over the past four decades. While the level of economic inequality in a polity is itself a democratic choice, and can be calibrated through redistributive policies, it can become a threat to democracy if disparities in economic power translate into disparities in *political* power – as seems to have happened in recent decades in both Europe and the US.[4] It is also important not to focus on income inequality alone as a driver of populism. This paper therefore seeks to broaden the analysis to other forms of inequality and their impact on democracy.

Another threat to democracy in Europe comes from what can be described as the 'depoliticization' of policy – in which technocratically driven economic decision-making becomes detached from the mechanics of popular representation and accountability to voters. Populism can in part be understood as a reaction to this trend.[5] This is particularly the case within the EU. Although the various politicians, movements and parties in Europe that can be described as 'populist' differ in many ways, a common feature is their Euroscepticism: almost all are critical of, or opposed to, the EU, which is widely seen as embodying a particularly technocratic and essentially depoliticized form of (economic) governance.

Understanding the relationship between economics and democracy in Europe is important not just for describing contemporary trends and tensions accurately, but also for anticipating future challenges. How to shape the transition to a greener economy, for example, is quickly becoming a defining question for economic policymaking in the EU. More broadly, the role of the state itself – and particularly public investment – in the economy is being rethought. This is partly a continuation of the introspection prompted by the euro crisis of the early 2010s, and partly a reflection of the economic dislocations associated with the COVID-19 pandemic.[6] Among other things, the pandemic has intensified discussion about reform of the EU's fiscal rules and, by extension, its economic governance framework.

As with all economic transformations, Europe's response to such challenges is likely to have distributional consequences: that is, it will create economic 'winners' and 'losers'. The depoliticization of policy that has occurred as control

2 On the metaphor of a 'wave', see Bartels, L. (2017), 'The "wave" of right-wing populist sentiment is a myth', *Washington Post*, 21 June 2017, https://www.washingtonpost.com/news/monkey-cage/wp/2017/06/21/the-wave-of-right-wing-populist-sentiment-is-a-myth.
3 Kaltwasser, C. R. (2012), 'The ambivalence of populism: threat and corrective for democracy', *Democratization*, Volume 19, Issue 2, pp. 184–208, https://www.tandfonline.com/doi/abs/10.1080/13510347.2011.572619.
4 Fishkin, J. and Forbath, W. E. (2014), 'The anti-oligarchy constitution', *Boston University Law Review*, 94, p. 669.
5 On technocracy and populism, see Kundnani (2020), *The Future of Democracy in Europe*, p. 9.
6 See Bergsen, P., Billon-Galland, A., Kundnani, H., Ntousas, V. and Raines, T. (2020), *Europe After Coronavirus: The EU and a New Political Economy*, Research Paper, London: Royal Institute of International Affairs, https://www.chathamhouse.org/2020/06/europe-after-coronavirus-eu-and-new-political-economy.

and oversight have shifted over time to Brussels and Frankfurt is to a large extent the very aim of European integration. But such an approach risks undermining the democratic legitimacy both of transitional economic policies and of the EU more broadly. How decisions are made is as important as what the resultant policies are. Thus, questions around the relationship between economic policymaking and democracy are crucial for understanding not only where Europe stands now, but how to implement reform projects in a way that strengthens democracy instead of undermining it further.

This research paper explores these questions by examining in turn the main economy-related threats to democracy mentioned above. Chapter 2 discusses the relationship between economic policy and populism in more depth. Chapter 3 discusses the role of inequality in liberal democracy. Chapter 4 examines technocracy and depoliticization, and how it relates to democratic economic policymaking. Finally, Chapter 5 discusses some options for why and how economic policymaking in Europe could be 'repoliticized' beneficially, in the sense of reconnecting the system to the electoral constituencies which policymaking ultimately serves – or at least ought to in well-functioning democracies.

02 Populism

The rise of populism can be seen as a warning about an underlying dysfunction in European political settlements. Although there remains disagreement over the specific drivers of populist protest, it is clear that economic factors play a significant role.

Much of the debate on the crisis of democracy in Europe has focused on populism, but there is no widespread agreement on what the term means. This is particularly true in the policy debate and mainstream media, where 'populism' or 'populist' is often used as a synonym for demagoguery or to describe any policy deemed irresponsible. The label has been applied to a wide range of individuals, movements and parties – and even, in the case of Brexit, to a decision. The argument here is that populist actors – ranging from Western European far right nationalist parties to Central European conservative parties and southern European left-wing parties – all share a 'thin' ideology that sees society as split between a supposedly 'pure' people and a corrupt elite, with a resulting emphasis on popular sovereignty.[7]

There is no doubt that the figures, movements and parties commonly referred to as 'populist' have had an impact on democracy in Europe. Voting patterns have changed as the oligopoly of the traditional mainstream parties of the centre left and centre right has been broken up by challenger parties in the context of a fragmenting political landscape.[8] Both in national democratic systems and at the European level, the growing strength of these forces has complicated policymaking. The rise of protest parties has led in particular to conflicts between member states and the EU, the latter portrayed by populist politicians as the embodiment of an establishment, neoliberal, authoritarian or undemocratic form of governance.[9]

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7 Mudde, C. and Kaltwasser, C. R. (2017), *Populism: A very short introduction*, Oxford: Oxford University Press.
8 De Vries, C. E. and Hobolt, S. B. (2020), *Political Entrepreneurs*, Princeton, NJ: Princeton University Press, pp. 5–6.
9 Rooduijn, M. et al. (2019), 'The PopuList: An Overview of Populist, Far Right, Far Left and Eurosceptic Parties in Europe', www.popu-list.org.

However, though the rise of populism is often conflated with the crisis of liberal democracy in Europe, it should not be. As Cristobal Kaltwasser has shown, the relationship between populism and democracy is an 'ambivalent' one. He argues that although populism can threaten democracy, it can also provide a corrective to its problems.[10] Some scholars understand the rise of populist forces as a reaction to particular features of policymaking in Europe: an 'illiberal democratic response to undemocratic liberalism'.[11] The implication is that if the economic policies and behaviour of traditional mainstream parties were responsible for the rise of populist forces, this backlash could in turn push those same mainstream parties to change policy course. In short, what is often seen as a crisis of liberal democracy might just be a crisis of the established mainstream parties.

This chapter examines the role economic forces play in the rise of populism. It discusses the post-2016 debate about the causes of populism, in particular the relative importance of cultural and economic factors. It argues that the two sets of factors interact in complex ways, and that any explanation must account for the heterogeneity of populism in Europe and distinguish between the 'demand' and 'supply' sides of politics. At the same time, understanding the driving forces behind the rise of populism only goes so far in explaining the crisis of democracy in Europe.

Culture versus economics?

In the immediate aftermath of the UK's referendum on EU membership and the election of Trump as US president in 2016, there was an explosion of discussion of the causes of populism. The debate quickly coalesced around a disagreement over the relative importance of two sets of motives. At one end of the spectrum was the argument that the explanation was to be found in 'cultural' factors. These included: opposition to progressive value change since the 1960s; hostility to immigration; opposition to shifting gender roles; Islamophobia; and racism. At the other end was the argument that the success of populist parties could be explained by transformations such as rising economic inequality and economic insecurity or 'precarity'.[12]

According to those who argued for cultural factors, the main driver of the populist backlash was an electorate hostile to the rapid social change of recent decades.[13] In this account, a large number of citizens felt increasingly uncomfortable with socially progressive values, seen to enjoy broad support at the traditional centre of the political spectrum. They therefore turned to populist figures, parties and movements. Alienation from mainstream political parties was exacerbated by the fact that political and cultural elites had distanced themselves from large swathes of the electorate, not just in substantive but also in representative terms.[14]

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10 Kaltwasser (2012), 'The ambivalence of populism'.
11 Mudde, C. (2021), 'Populism in Europe: an illiberal democratic response to undemocratic liberalism', Government and Opposition Leonard Schapiro Lecture 2019, *Government and Opposition*, 56(4), pp. 577–97.
12 For a deeper discussion of different views on the driving factors behind populism, see Kaltwasser, C. R., Taggart, P. A., Espejo, P. O. and Ostiguy, P. (eds) (2017), *The Oxford Handbook of Populism*, Oxford: Oxford University Press.
13 See, for instance, Inglehart, R. F. and Norris, P. (2016), 'Trump, Brexit, and the rise of populism: Economic have-nots and cultural backlash', HKS Faculty Research Working Paper Series, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2818659.
14 Eatwell, R. and Goodwin, M. (2018), *National populism: The revolt against liberal democracy*, Harmondsworth: Penguin.

This argument helps to explain why migration, integration and other cultural issues have become a dominant focus of political contestation (traditional mainstream parties have gone along with the trend for strategic reasons). These factors are said to have shifted the main political cleavage from the traditional economic split between left and right to one between competing visions for 'open' and 'closed' societies.[15] But the problem with the cultural explanation for populist protest is that it fails to account for the strong correlations between voting patterns and many economic indicators such as relative economic growth, exposure to trade shocks and even changes in house prices.[16]

The success of the far right cannot be put down simply to declining working-class support for centre-left parties.

Those who argue for the relative importance of economic motives, on the other hand, understand populism as a backlash on the part of those 'left behind' by economic liberalization and trade shocks, particularly in the industrial heartlands of Western countries. Again, there is something to this argument. But it is often wrongly assumed that protest votes are emanating mainly from former supporters of centre-left parties. Working-class voters in Western Europe are said to have been disappointed by their previous social democratic representatives and to have turned to the far right. Yet many working-class people who previously voted for centre-left parties have shifted their allegiance not to the far right but to green and centre-right parties. In other words, the success of the far right cannot be put down simply to declining working-class support for centre-left parties.[17]

There is evidence that relative hardship does lead people to turn away from mainstream politics, and often from political participation more broadly.[18] Some suggest that it is not so much relative or absolute economic decline that drives protest voting but rather structural economic changes, such as in the functioning of labour markets, which leave even those with higher incomes in more precarious situations or worried over their social status.[19] But while this would explain why it is often not the lowest-income groups that form the base of support for populist protest parties, the cohort to which such a theory potentially applies is so large as to limit its usefulness for analysing political divisions.

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15 Kundnani, H. (2018), 'In Europe, the Split Between Open and Closed Has Not Replaced Traditional Politics', Chatham House Expert Comment, 18 June 2018, https://www.chathamhouse.org/2018/06/europe-split-between-open-and-closed-has-not-replaced-traditional-politics.
16 Rodrik, D. (2021), 'Why does globalization fuel populism? Economics, culture, and the rise of right-wing populism', *Annual Review of Economics*, 13, pp.133–70; Adler, D. and Ansell, B. (2020), 'Housing and populism', *West European Politics*, 43(2), pp. 344–65.
17 Abou-Chadi, T., Mitteregger, R. and Mudde, C. (2021), *Left behind by the working class? Social democracy's electoral crisis and the rise of the radical right*, Friedrich-Ebert-Stiftung Research Report, https://library.fes.de/pdf-files/a-p-b/18074.pdf.
18 Urbanska, K. and Guimond, S. (2018), 'Swaying to the extreme: Group relative deprivation predicts voting for an extreme right party in the French presidential election', *International Review of Social Psychology*, 31(1).
19 Azmanova, A. (2020), *Capitalism on Edge*, New York: Columbia University Press.

The complexity of populism

In recent years, the debate about populism has converged instead on an interplay between cultural and economic factors – for instance, by pointing to status anxiety (caused by many of the economic and cultural developments on which other theories focus) as a driver of populist voting.[20] However, even subtle explanations combining cultural and economic factors have difficulties explaining the heterogeneity of populist protest across the continent: in particular, why right-wing protest has emerged in some parts of Europe and left-wing protest is prevalent in others. Any understanding of what has driven these different, but in some ways related, forms of protest politics requires a comparative approach.

Building on Dani Rodrik's work on 'hyperglobalization' – the process of accelerated global economic and political integration since the 1990s – Philip Manow has shown how different types of populist movement in Europe emerge in response to immigration or economic shocks.[21] Manow argues that the particular political impact of shocks associated with hyperglobalization depends on the specifics of a country's labour market, welfare state and growth model.[22] For instance, countries with well-developed welfare states that attract mainly forced migration, such as the northern European countries, tend to generate right-wing populist protest by labour market 'insiders'. Meanwhile, in countries with particularistic welfare states – that is, featuring insider-centric benefits but weak provisions for new arrivals – right-wing anti-immigration protest has been less potent. Here, the economic shocks associated with trade-related and financial hyperglobalization have instead led to stronger left-wing populist movements, most visibly in the post-eurozone crisis years in southern European countries.

This theory of differentiated economic drivers of populism does not dismiss cultural factors altogether. Because hyperglobalization involves the removal of barriers to the movement of people as well as capital and goods, it also has cultural effects in the form of immigration. Manow agrees with adherents to the culturally driven model of populism that migration can drive populist protest as well. But he also makes clear that political-economic structures such as economic growth models and welfare states are vital to understanding such movements, irrespective of whether the latter are responses to economic or cultural shocks.

A final important distinction is between the 'demand' and 'supply' sides of politics. Demand-side explanations of populism emphasize the role of globalization or other structural economic shifts in shaping voter preferences. Supply-side explanations, meanwhile, emphasize the agency of political actors, including mainstream parties, and how their efforts influence politics.[23] In other words, explanations of populism that emphasize the demand side focus on voter behaviour, whereas those that

20 See Gidron, N. and Hall, P. (2017), 'The politics of social status: economic and cultural roots of the populist right', *British Journal of Sociology*, 68/1.
21 On 'hyperglobalization', see Rodrik, D. (2011), *The Globalization Paradox: Why Global Markets, States, and Democracy Can't Coexist*, Oxford: Oxford University Press.
22 Manow, P. (2021), *The political economy of populism in Europe: Hyperglobalization and the heterogeneity of protest movements*, Research Paper, London: Royal Institute of International Affairs, https://www.chathamhouse.org/2021/12/political-economy-populism-europe.
23 See, for example, de Vries and Hobolt (2020), *Political Entrepreneurs*.

emphasize the supply side focus on 'political entrepreneurs': new parties and politicians challenging the establishment.

On the demand side, there have long been signs of change following the post-war heyday of Western European social democracy and Christian democracy. A first hint was the increasing rates of abstention in most Western European elections in recent decades. To interpret this as quiet contentedness on the part of citizens with the political-economic settlement would be to miss a significant warning sign. Rather, mainstream parties were perceived to have lost touch with their traditional electorates, having abandoned their representative function and retreated into the institutions of the state, creating what the Irish political scientist Peter Mair called a 'void'.[24]

On the supply side, in turn, political entrepreneurs stepped in to fill this void. These individuals, movements and parties frequently acted as disruptors, positioning themselves as being against the established elites and 'for the people'. In many cases the 'supply' of far-right populist parties seems to have attracted voters back to the polls, in effect satisfying latent 'demand'. For example, when the far-right Alternative für Deutschland (AfD) made it into the German parliament in the 2017 election, a quarter of its voters, around 1.5 million, had not voted in the previous election.[25] This again illustrates the complexity of the relationship between populism and democracy.

A related factor is how policymaking has become 'depoliticized', most conspicuously in the economic policy domain as elites have retreated into the institutions of the state at both national and international level. Reflecting this trend, populist rhetoric often focuses not just on how mainstream parties are indistinguishable from one another, but also on how decision-making is kept out of sight and in the hands of 'unelected bureaucrats'. In particular, the space for contestation of economic policymaking within Europe has been restricted by the EU's fiscal and single-market rules, as well as by global or regional trade agreements. In this context it can hardly be surprising that political contestation has moved on to cultural grounds. Chapter 4 returns to this issue of depoliticization in more depth.

Beyond populism

There is no settled consensus on the causes of the rise of populism in Europe, except that it cannot be put down to a single factor or process. It is driven at least in part by economics and hyperglobalization. But theories increasingly stress that cultural and economic factors interact in a complicated manner. There is relatively broad agreement that populism is not just a revolt of those 'left behind' by globalization, or of those at the bottom of the labour market. Yet nor is it a case of the simple expression of bigoted attitudes in the face of changing societies and

24 Mair, P. (2013), *Ruling the Void. The Hollowing of Western Democracy*, London: Verso.
25 Tagesschau (2017), 'Bundestagswahl 2017' [Bundestag election 2017], https://www.tagesschau.de/wahl/archiv/2017-09-24-BT-DE/analyse-wanderung.shtml.

migration. Economic grievances can find their expression in cultural conflict, in particular in contexts where there is little political contestation over economic management.

Ultimately, focusing solely on the causes of populism is unhelpful because of the tendency simply to equate it with a crisis of liberal democracy. The rise of populist forces might merely indicate a crisis in the traditional mainstream parties, rather than a systemic problem. Yet the perception that the rise of populism *does* constitute a crisis of liberal democracy can be self-fulfilling. The danger is that thinking of politics in terms of a binary opposition between centrism and populism – replacing earlier fault lines, in particular between left and right – will enshrine the position of populism in European political systems instead of solving the problems that contributed to its rise in the first place.

The rise of populist forces might merely indicate a crisis in the traditional mainstream parties, rather than a systemic problem. Yet the perception that the rise of populism does constitute a crisis of liberal democracy can be self-fulfilling.

To understand the crisis of liberal democracy, therefore, it is necessary to go beyond the concept of populism. We must examine how changes in very specific areas of economic policy in the last 40 years – and, importantly, changes in the *way* in which such policy is made – have affected democracy in Europe. By the late 2000s, as the political scientist Jonathan Hopkin argues, liberal democracy 'had become "neoliberal democracy" in which an open market model was no longer an object of political dispute and key decisions had been taken out of the electoral arena'.[26] As this model went through a fundamental crisis, first with the global financial crash of 2008–09 and then with the eurozone crisis in the early 2010s, a stronger 'anti-system' backlash developed.

During this period support surged for many of the populist challengers now widely seen as threatening liberal democracy in Western Europe. From this perspective, populism is at most a symptom of a deeper crisis of both the economic and political systems. The rest of this paper examines this in more depth. Chapter 3 considers how an increase in economic inequality and structural economic shifts have translated into political inequality or 'unequal responsiveness'. Chapter 4 assesses how the depoliticization of economic management – in effect, the devolution of decision-making to unelected technocrats – has undermined democracy in Europe by 'encasing' policymaking and insulating it from democratic control.

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26 Hopkin, J. (2020), *Anti-system politics: The crisis of market liberalism in rich democracies*, Oxford: Oxford University Press, p. 5.

03 Inequality

Increased economic inequality over the past 40 years has aggravated political inequality as policymaking has been more responsive to the well-off. Importantly, the shift reflects structural economic factors rather than just income inequality.

Since the global financial crisis of 2008–09, the topic of inequality has been high on the agenda. A macroeconomic system characterized by market liberalization and increasing economic inequality, going back to the 'neoliberal turn' in the 1970s, was widely seen as having failed spectacularly. In the years after the crisis, this assessment then found its expression in protests such as Occupy Wall Street in the US and left-wing movements in southern Europe such as the Indignados in Spain. But discussion focused mostly on how economic inequality, usually measured through income inequality, has fed into the rise of populism discussed in the previous chapter.[27]

By most measures, income inequality had been on a downward trend in the decades immediately after the Second World War. But this trend reversed in the early 1980s when income inequality widened sharply, particularly in the UK and the US but also in economies such as Germany, Italy and the Netherlands. The neoliberal turn, epitomized above all by the policies of Margaret Thatcher and Ronald Reagan in the UK and US respectively but later followed by many continental Western European economies, reversed some of the redistribution that had been enacted through post-war welfare states.[28] Beyond welfare policy choices affecting inequality after taxes and transfers, these structural economic transformations affected pre-tax income inequality, for example through shifting labour market structures.

On one level, there is nothing inherently undemocratic about increased levels of economic inequality. Modern liberal democracies with universal suffrage are premised on *political* equality, with all citizens having the same right to vote and engage in the political process. A political choice that arises from this system

27 Probably the most prominent contribution to these debates came from Piketty, T. (2013), *Capital in the Twenty-First Century*, Cambridge, MA: Harvard University Press.
28 Harvey, D. (2005), *A Brief History of Neoliberalism*, Oxford: Oxford University Press.

for a given level of redistribution, and thus a given level of income inequality, would in theory be perfectly democratic. In Europe, where party financing is often organized through the state, economic inequality theoretically should also not influence democratic politics to the same extent as in the US. However, even in Europe, rising income inequality has produced unequal responsiveness in policymaking, with all the resulting implications for the functioning of democracy at both the national and EU level.

Income inequality and unequal responsiveness

In the history of representative democracies going back to the 18th century, the composition of parliament has never mirrored that of the wider population. Some marginalized groups such as women or ethnic minorities have gained more access to legislative institutions in Europe over the last decades, though they are still under-represented. But the reverse trend can be observed regarding the socio-economic background of lawmakers – that is, they have become less representative. Those from higher income and education levels increasingly dominate representative institutions, while people from lower social classes increasingly abstain from voting and other political activities.

In theory, this is not necessarily problematic. If lower-income groups still see their interests and preferences reflected in the actions of representative bodies, it should not matter if such groups do not participate themselves or are not represented by people from the same social background. However, in practice, poorer people make their voices heard less often on an individual basis in these contexts, and the organizations that used to speak for them have lost political power. In particular trade unions – associated in the past with the political mobilization of those with fewer resources – have seen declines in membership and organizational power across most rich democracies. Against the background of these trends, a large body of scientific evidence shows that economic inequality translates into political decision-making that favours the better-off.

Research into unequal responsiveness was initially conducted in the US. A pioneering study by Martin Gilens and Benjamin Page compared the opinions on policy proposals of different income groups with the outcomes of the policymaking process.[29] It found that, when the policy preferences of lower- and middle-income groups diverged from those of the top-income groups, the latter won out. In the American context, researchers have often argued that the main explanation for this finding is the role of private money in elections: since public funding of parties and elections is negligible in the US, anyone running for office depends on large private donors to finance their campaign.[30]

Many Europeans would like to believe that this is a specifically American problem and that their political systems are not biased in favour of the rich in the same way. After all, unlike in the US, in Europe political parties tend to rely on public money,

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29 Gilens, M. and Page, B. I. (2014), 'Testing theories of American politics: Elites, interest groups, and average citizens', *Perspectives on politics*, 12(3), pp. 564–81.
30 Lessig, L. (2014), *The USA is Lesterland: The Nature of Congressional Corruption*, CreateSpace.

which generally accounts for 60 to 80 percent of their funding.[31] Although special interests in Europe clearly also sometimes seek to use their wealth and influence in the pursuit of political goals, the prominence of private party and campaign financing in US political life nonetheless intuitively seems to invite the assumption that European democracies – absent the same dependence on large donors – might represent rich and poor citizens more equitably.

In practice, however, unequal responsiveness seems to be just as bad in Europe as in the US. Research shows that in Europe, too, policymaking is strongly biased in favour of the political demands and preferences of the affluent. When the less well-off in European democracies support a policy opposed by those at the other end of the income distribution, or vice versa, the lower-income group almost always loses out.[32] Representational inequality along class lines and unequal responsiveness are common to a number of institutionally diverse European democracies – including Germany, Sweden and Spain.[33] However, the fact that unequal responsiveness is a problem for democracy in Europe has so far not been widely discussed, as the debate has centred on the rise of populism.

Explanations of unequal responsiveness

If political financing does not explain the unequal responsiveness of democratic systems, what does? An obvious explanation would be that in the periods studied, governments were dominated by centre-right or liberal parties, traditionally associated with policies beneficial to the middle classes or the rich. However, a recent study lends only partial support to this argument: it shows that the pattern of decisions beneficial to higher-income groups is somewhat less pronounced under left-leaning governments in Germany, the Netherlands and Sweden, but that even under left-leaning governments there is still significant bias in favour of high-income citizens.[34]

Another possible explanation for the unequal responsiveness of European democracies is a sense of apathy among lower-income citizens that goes beyond abstention at elections. Not only is election turnout lower among such groups, but increasingly they are less active in other political activities such as party membership or petitioning.[35] This makes it more likely that such groups will be ignored by elected politicians, who tend to listen to constituents who make their voices heard. Similarly, parliamentarians might not listen enough to groups – such as those in lower income brackets – that are not from backgrounds similar to their own. Although European parliaments do not tend to be 'millionaire clubs' like the US Congress, their members still tend to be from higher social

31 Falguara, E., Jones, S. and Ohman, M. (2014), *Funding of Political Parties and Election Campaigns: A Handbook on Political Finance*, International Idea.
32 Elsässer, L., Hense, S. and Schäfer, A. (2021), 'Not just money: unequal responsiveness in egalitarian democracies', *Journal of European Public Policy*, 28(12), pp.1890–1908.
33 For an overview of unequal responsiveness in northern Europe, see Mathisen, R. et al. (2021), 'Unequal Responsiveness and Government Partisanship in Northwest Europe', Université de Genève, https://archive-ouverte.unige.ch/unige:156830; and for Spain, see Lupu, N. and Castro, A. (2022), 'Unequal Policy Responsiveness in Spain', https://noamlupu.com/Responsiveness_Spain.pdf.
34 Mathisen et al. (2021), 'Unequal Responsiveness and Government Partisanship in Northwest Europe'.
35 Elsässer, L., Hense, S. and Schäfer, A. (2018), *Government of the People, by the Elite, for the Rich: Unequal Responsiveness in an Unlikely Case*, Max Planck Institute for the Study of Societies, MPIfG Discussion Paper No. 18/5, https://hdl.handle.net/21.11116/0000-0001-759D-B.

classes – in particular, from groups with higher educational levels.[36] There has never been full descriptive representation, whereby political representatives are a perfect reflection of the electorate, but across developed economies there is now a significant disconnect between the socio-economic background of the population and that of its democratic representatives. Across the OECD, the average share of national legislators from working-class occupations (prior to entering office) is 5 per cent, compared with a share of 58 per cent in the general population.

Recent research supports the idea that this vast under-representation results in policymaking that fails to reflect or address the concerns of lower social classes. Parliamentarians with working-class backgrounds tend to have more left-leaning preferences on economic issues, have more contact with trade unions and other workers' organizations while in office, and vote more often for economically progressive policies. This is the case even when party affiliation is controlled for. Since trade union membership in the past often served as a springboard for elevating workers into political positions, the trend of decreasing unionization along with the decoupling of unions from leftist parties in recent decades blocks an important route into politics for members of this cohort.

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Structural explanations – in particular, the role of business in policymaking – may also help explain unequal responsiveness. Interest groups' influence on political decision-making goes beyond financial donations, extending to different forms of lobbying or the exertion of structural power. However, these channels of influence are hard to measure empirically. Another potential structural factor is the way in which the EU's fiscal rules and capital markets limit the fiscal space of governments to pursue redistributive policies. But there is little empirical research on this subject either. One recent study on Germany finds that policy responsiveness does vary systematically in accordance with budget constraints, and that progressive or redistributive fiscal measures are somewhat less likely when government finances are under pressure, but the effect is limited.[37]

Structural economic shifts

The research on unequal responsiveness discussed in the previous section tends to focus on measures of income inequality, or proxies such as employment status or occupation. However, while most data does indeed suggest that income gaps

36 Evers-Hillstrom, K. (2020), 'Majority of lawmakers in 116th Congress are millionaires', Open Secrets, 23 April 2020, https://www.opensecrets.org/news/2020/04/majority-of-lawmakers-millionaires.
37 Elsässer, L. and Haffert, L. (2022), 'Does fiscal pressure constrain policy responsiveness? Evidence from Germany', *European Journal of Political Research*, 61(2), pp. 374–97.

have widened since the early 1980s, it does not show a significant increase in post-tax income inequality in most countries since around 2000.[38] In contrast, *wealth* inequality, which started to increase around the same time as income inequality, *has* continued to increase since then and can be seen as a proxy for deeper, structural economic change.[39] According to the OECD, 'wealth is very unequally distributed' in developed economies, with over half of all household wealth owned by just 10 per cent of households.[40] This has led to public anger about the so-called 'one per cent' of society that accounts for a disproportionate share of asset ownership.

There is little in the way of research on whether this increase in wealth inequality has produced unequal policy responsiveness. This is likely in part due to a lack of data, as wealth in some cases is taxed less than income. But wealth inequality is related to the problems in democracy in Europe in other ways. It can be seen as indicative of a major structural shift during the past four decades, when the perceived failure of the post-war Keynesian model in the 1970s and the associated economic policy shifts in the 1980s, followed by the turn towards hyperglobalization from the 1990s, changed how developed economies functioned.

In particular, financialization – that is, the increasing influence of financial markets, financial institutions and financial elites over economic policy and economic outcomes – has led to the emergence of different economic dynamics. There have been many attempts to define the phenomenon, from associating it with the neoliberal era discussed above to classifying this form of economic organization as 'rentier capitalism', wherein a small elite owns key resources from financial assets to real estate.[41] Regardless of the label, this has resulted in economic policymaking with a bias towards inflating or supporting the value of these assets. Throughout most Western European economies, capital's share of national income has increased, by definition at the expense of the share attributed to labour, suggesting that new and increasing inequalities are being driven by structural economic factors.

In other words, the problem goes beyond the so-called 'one per cent' on which much media attention is focused.[42] Public debates around wealth inequality often emphasize the large share of wealth owned by a small number of individuals (particularly in the American context), but from a political perspective this analysis is too narrow. The reality is that much of the increase in wealth, and by extension the widening in wealth inequality, has been driven by housing markets.[43] This means there is a much wider potential electorate predisposed to support policies beneficial to asset owners – in fact, a majority of Europeans now live in owner-occupied housing.[44]

38 Roine, J. and Waldenström, D. (2015), 'Long-run trends in the distribution of income and wealth', *Handbook of Income Distribution*, 2, pp. 469–592.
39 Piketty (2013), *Capital in the Twenty-First Century*, p. 349.
40 Balestra, C. and Tonkin, R. (2018), 'Inequalities in household wealth across OECD countries: Evidence from the OECD Wealth Distribution Database', OECD Statistics Working Papers, https://www.oecd-ilibrary.org/economics/inequalities-in-household-wealth-across-oecd-countries_7e1bf673-en.
41 Christophers, B. (2020), *Rentier Capitalism: Who owns the economy and who pays for it?*, London: Verso.
42 For an example of an analysis focusing on the super-rich, see Goodman, P. (2022), *Davos Man. How the Billionaires Devoured the World*, New York: Custom House.
43 Adkins, L., Cooper, M. and Konings, M. (2020), *The Asset Economy*, Cambridge: Polity Press.
44 Eurostat (2021), 'Owning or renting? What is the EU's housing situation?', 30 December 2021, https://ec.europa.eu/eurostat/web/products-eurostat-news/-/wdn-20211230-1.

Class position, with its consequent political implications, is arguably no longer determined by income but by wealth. Political contestation is no longer over the redistribution of income but over ownership of assets of various kinds, with a special role for real estate. The value of these assets has been supported by a large coalition of actors, ranging from asset-owning voters to democratically elected politicians and non-majoritarian institutions such as central banks (the latter in part guided by mandates focusing on low inflation) – what Yakov Feygin calls the 'deflationary bloc' in reference to this coalition's preference for low inflation and low interest rates to support asset prices.[45] Not only is this coalition large enough to dominate policymaking, in part thanks to several decades of policy aimed at boosting home ownership across developed economies, it has also managed to entrench its policy preferences in institutions removed from democratic control. Inflation-targeting central banks are a prime example of this.

Just as policymaking by governments is tilted towards the better-off, the current monetary policy regime, with its focus on price stability, works in favour of asset owners. Under the dominant prevailing model, central banks are meant to secure price stability by steering short-term interest rates.[46] In the face of inflationary pressures, a central bank faces a choice: raise rates or allow inflation to take its course. This dilemma is constructed to make it look as if raising interest rates to head off 'dangerous' inflation is in the best interests of everyone in society. But in reality the situation only looks this way because of the structure of the choice. If price stability is secured by raising interest rates, private finance wins because it achieves price stability and predictability while workers lose out due to higher borrowing costs and unemployment. Meanwhile, the latter also lose if central banks do *not* intervene, as higher inflation then undermines consumers' purchasing power. Contemporary practice thus puts policymakers into a 'choice architecture' that all but guarantees they will support the interests of the same specific group.

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Other economic policy choices over the past four decades have changed politics in similar ways. First, shifting labour market structures, including increasingly flexible labour markets, have created new political fault lines over issues such as employment status, not just within countries but also between eurozone member states, while the decline of trade union membership has reduced the coordinated bargaining power of labour.[47] Second, the ownership of listed companies has shifted from households to asset managers – what Benjamin Braun calls 'asset

45 Feygin, Y. (2021), 'The Deflationary Bloc', Phenomenal World, 9 January 2021, https://www.phenomenalworld.org/analysis/deflation-inflation.
46 Braun, B. and Downey, L. (2020), *Against Amnesia: Re-Imagining Central Banking*, Discussion Note, Council on Economic Policies, https://www.cepweb.org/against-amnesia-re-imagining-central-banking.
47 Palombarin, S. and Amable, B. (2021), *The Last Neoliberal: Macron and the Origins of France's Political Crisis*, London: Verso.

manager capitalism'.[48] This has concentrated support for boosting asset prices over other political objectives – in other words, it has further strengthened the 'deflationary bloc'.

In short, there has been a transformation of European economies in terms of income inequality, asset ownership, labour market institutions and the role of central banks. This transformation has in turn impacted the functioning of democracy and has probably created new forms of *political* inequality. However, addressing these problems requires more than a set of technical fixes. Although many policy prescriptions have been put forward in recent years, these have often failed to engage with how the widening in inequality has transformed politics. With this in mind, Chapter 4 focuses on the question of *how* policy is made, and in particular how policymaking has been depoliticized.

48 Braun, B. (2021), 'Asset manager capitalism as a corporate governance regime', *The American Political Economy: Politics, Markets, and Power*, p. 270.

04
Technocracy

The ascendancy of technocratic economic management in Europe – notably through central banks and EU-level institutions – has unhelpfully 'depoliticized' economic policymaking by divorcing it from national-level democratic scrutiny.

Chapter 2 discussed the relative importance of, and relationship between, cultural and economic factors in explaining the rise of populism. But another way of understanding populism is as a reaction to the expansion of technocratic modes of governance during the past 40 years. Previously, voters could oust governments whose economic policies they disagreed with, but this settlement has changed as national governments have 'depoliticized' policymaking by moving many powers previously in the domain of national legislatures to courts, central banks and supranational institutions – that is, to bodies without electoral mandates.

In part, the rationale for this shift has been to address the challenges of regulating highly technical policy areas, for example to make monetary policy more credible by disconnecting it from partisan political interference. In part, it has also been a response to hyperglobalization and the associated proliferation of international treaties and organizations, which again largely sit outside national politics.

But because of these changes, technocracy can also be understood as a threat to democracy because of the way it insulates policymaking from public deliberation and democratic control. In fact, although much of the debate in recent years has focused on the impact of populism, technocracy may pose an even bigger threat in Europe – especially if populism itself is a response to technocratic governance, as some suggest. At the centre of such concerns are the EU and its institutions, which set certain aspects of policy in isolation from national-level actors and are thus often characterized as technocratic by populists (who in Europe also tend to be Eurosceptic). As a result, the contest between technocracy and populism effectively plays out along a fault line between 'pro-Europeans' and Eurosceptics.

This chapter discusses how the growth of technocratic governance has changed economic policymaking in Europe. In particular, it examines the relationship between the 'neoliberal turn' and what Peter Hall has called the 'technocratic temptation' – that is, the impulse 'to leave the important decisions to experts ensconced in agencies far-removed from electoral politics'.[49] Although the transfer of power to so-called 'independent' institutions such as regulatory agencies or central banks is understood as 'depoliticization', it is actually deeply political because such institutions make policy decisions that have highly asymmetric distributional consequences.

A brief history of technocracy

A neologism formed of the Greek words for art (*tekhne*) and power (*kratia*), technocracy is commonly understood as the 'rule of experts'. The concept was originally used between the world wars as the aspirational description of a political system designed around the application of Taylorist principles of productivity,[50] and only became a target of critique in the 1960s. The term gradually shed its association with engineering and planning, and became ever more associated with the fields of economics and law. As a result, the issue has increasingly become whether the institutions governing national and global capitalism offer adequate space to reconcile technocracy and democracy without being undermined by fatal shortfalls in social legitimacy.[51]

In its early incarnation, technocracy implied the replacement of democratically elected politicians by adepts of applied science. Technocracy offered a useful label for prognostications of the convergence of socialism and capitalism around the shared ideal of productivism under the oversight of technical experts. In 1923, for example, the German jurist Carl Schmitt observed: 'The big industrialist has no other ideal than that of Lenin – an "electrified earth." They disagree essentially only on the correct method of electrification.'[52] The interwar dream of technocracy, as historian Charles Maier writes, 'heralded utopian change from power over men to the administration of things'.[53]

Schmitt also introduced a key term into the technocracy debate in another essay when he wrote of the 'depoliticization' of rule under the League of Nations, an early iteration of the 'technocratic utopia' of international organization.[54] The prospect of depoliticized technical governance survived the Second World War as the post-war 'hegemony of growth' offered another basis for technocratic consensus.[55] In this era, new 'economic policy devices' such as GDP, cost–benefit analysis and

49 Hall, P. A. (undated), 'Economic Challenges and Electoral Politics in Europe', https://scholar.harvard.edu/files/hall/files/hall2019_europeanists.pdf.
50 Taylorism was an early-20th-century system of scientific management of work processes, focusing on economic efficiency and increasing labour productivity.
51 Weiler, J. (1991), 'The Transformation of Europe', *Yale Law Journal*, 100/8 (June), pp. 2468–69.
52 Schmitt, C. (1996, originally published 1923), *Roman Catholicism and Political Form*, Westport, CT: Greenwood Press, p. 13. Also see Engerman, D. C. (2003), *Modernization from the Other Shore: American Intellectuals and the Romance of Russian Development*, Cambridge, MA: Harvard University Press.
53 Maier, C. S. (1970), 'Between Taylorism and Technocracy: European Ideologies and the Vision of Industrial Productivity in the 1920s', *Journal of Contemporary History*, 5, No. 2, p. 32.
54 Schmitt, C. (1929), 'The Age of Neutralizations and Depoliticizations', in Schmitt, C. (1996), *The Concept of the Political*, Chicago: University of Chicago Press; Steffek, J. (2021), *International Organization as Technocratic Utopia*, Oxford: Oxford University Press.
55 Schmelzer, M. (2016), *The Hegemony of Growth: The OECD and the Making of the Economic Growth Paradigm*, Cambridge: Cambridge University Press.

unemployment rates offered a means of assessing political success or failure from an apparently objective external perspective.[56] Councils of economic advisers took on a key role in directing and auditing policy choices.[57]

Starting in the 1960s, debates about the 'post-industrial society', the 'end of ideology' and the apparent 'economism' of post-war government brought technocracy into affiliation with the concept of management. Social scientists and ecologists argued that social complexity had developed to such a point that average voters were no longer able to comprehend the trade-offs of policy choices, and that the delegation of decision-making to experts was therefore a matter of social survival.[58] But this 'technocratic society' became a target for the New Left, which saw in it the reproduction of the dominance of the 'power elite' linking the heights of government to the heights of business.[59]

In the 1990s, as globalization accelerated after the end of the Cold War, literature on a 'new constitutionalism' arose in response to the multilateral treaties of the World Trade Organization (WTO), the North American Free Trade Agreement (NAFTA) and the EU. Technocracy was understood to embody a form of 'constitutionalization' that locked in rules impervious to modification by popularly elected governments. What scholars have called the 'logic of discipline' or the 'internationalization of authority' took rules ever further from the grasp of everyday people.[60] For example, during protests at the WTO ministerial meeting in Seattle in 1999, a banner was unfurled that showed the WTO headed one way and 'democracy' headed the other. In the context of hyperglobalization, technocracy was thus seen as squarely in opposition to democracy. Depoliticization meant de-democratization.

This specific kind of technocracy has coincided with the rise of neoliberalism in the past 40 years. Whether there is a deeper causal connection between the neoliberal turn and the expansion of technocratic governance, however, is less clear. Some argue that technocracy can be combined with different ideologies – somewhat like the 'thin ideology' of populism mentioned earlier.[61] But there may be a deeper connection between a particular kind of neoliberalism and

56 Hirschman, D. and Berman, E. P. (2014), 'Do Economists Make Policies? On the Political Effects of Economics', *Socio-Economic Review,* 12: 782; Lepenies, P. (2016), *The Power of a Single Number: A Political History of GDP*, New York: Columbia University Press.
57 Bernstein, M. A. (2001), *A Perilous Progress: Economists and Public Purpose in Twentieth-Century America*, Princeton, NJ: Princeton University Press, pp. 390–482; Hesse, J.-O. (2016), 'Wissenschaftliche Beratung Der Wirtschaftspolitik' [Scientific advice on economic policy], in Abelshauser, W. (ed.) (2016), *Das Bundeswirtschaftsminsterium in Der Ära Der Sozialen Marktwirtschaft* [The Federal Ministry of Economics in the era of the social market economy], Berlin: De Gruyter.
58 Andersson, J. (2018), *The Future of the World: Futurology, Futurists, and the Struggle for the Post Cold War Imagination*, New York: Oxford University Press; Sargent, D. J. (2015), *A Superpower Transformed: The Remaking of American Foreign Relations in the 1970s*, Oxford: Oxford University Press.
59 See Roszak, T. (1969), *The Making of a Counter Culture: Reflections on the Technocratic Society and Its Youthful Opposition*, Garden City, NY: Anchor Books; Ellul, J. (1964), *The Technological Society*, New York: Vintage; Wright Mills, C. (1956), *The Power Elite*, Oxford: Oxford University Press.
60 See Roberts, A. (2011), *The Logic of Discipline: Global Capitalism and the Architecture of Government*, Oxford: Oxford University Press; and Gill, S. (1992), 'Economic Globalization and the Internationalization of Authority: Limits and Contradictions', *Geoforum*, 23/2, pp. 269–83.
61 Bickerton, C. J. and Accetti, C. I. (2021), *Technopopulism: The New Logic of Democratic Politics*, Oxford: Oxford University Press.

depoliticization as a specific form of technocracy. As Quinn Slobodian[62] has shown, the so-called Geneva school of neoliberals sought to 'encase' economic policymaking and thus protect it from democratic control.[63]

Technocracy in Europe

There has been a general expansion of technocratic governance in much of the world during the past 40 years. Nowhere is this more evident than in the delegation of monetary policy responsibility to increasingly independent central banks since the early 1990s.[64] After the beginning of the global financial crisis in 2008, the role of central banks in macroeconomic management increased significantly, including through large-scale asset purchases and other unorthodox policy. It now includes maintaining financial stability and increasingly even combating climate change. Paul Tucker, a former deputy governor of the Bank of England (which was made independent by the New Labour government as soon as it came to power in 1997), aptly calls central banks the 'third pillar of unelected power alongside the judges and the generals'.[65]

The almost universal process of 'constitutionalization' or 'depoliticization' – that is, the removal of areas of policy, especially economic policy, from the space of democratic contestation – has gone further within the EU than anywhere else.

The almost universal process of 'constitutionalization' or 'depoliticization' – that is, the removal of areas of policy, especially economic policy, from the space of democratic contestation – has gone further within the EU than anywhere else. The ability of European national legislatures to control fiscal policy was reduced through the fiscal rules for the eurozone countries, which set limits on debt and deficit levels but not surpluses. Industrial policy was constrained by the EU's state aid rules, and legislators' room for manoeuvre was further curtailed through global and regional trade agreements. The European Central Bank (ECB) was modelled on the highly independent German Bundesbank and, like it, was assigned a clearly hierarchical mandate focused on maintaining price stability. (In fact, the ECB is even more 'independent', and has an even narrower mandate, than the Bundesbank.)

62 A co-author of this paper.
63 Slobodian, Q. (2018), *Globalists. The End of Empire and the Birth of Neoliberalism*, Cambridge, MA: Harvard University Press.
64 The literature on the delegation of power to central banks is huge in both economics and political science. For some of the most insightful analyses of how this process maps into depoliticization, see McNamara, K. (2002), 'Rational Fictions: Central Bank Independence and the Social Logic of Delegation', *West European Politics*, 25 (1), pp. 47–76.
65 Tucker, P. (2018), *Unelected Power: The Quest for Legitimacy in Central Banking and the Regulatory State*, Princeton, NJ: Princeton University Press, p. 3.

In a sense, depoliticization is at the core of what the EU does.[66] Deep integration requires rules, and because integration has gone further within Europe than elsewhere in the world in the past 40 years, it has required a more extensive system of rules than those that underpin the workings of the global multilateral economic system.[67] In particular, as Dieter Grimm has shown, legislation that would normally have the status of secondary law in a nation state has constitutional status in EU law and is therefore 'immunized against political correction'.[68] This process can also be understood as an increase in the domination of the constitutional pillar of democracy over the popular pillar – or, quite simply, as 'the triumph of law over politics'.[69]

Critiques of technocracy in Europe first proliferated in the 1990s, when the internal market was rapidly liberalized following the Maastricht Treaty and resistance to European integration often took the form of opposition to so-called 'technocrats' in Brussels.[70] Critics used the term to describe the expansion of executive power through unaccountable, non-transparent and elitist decision-making, which repressed the *political* in the political economy by ignoring the distributive consequences of policy choices.[71]

A second spike in debates about technocracy in Europe came in the context of the euro zone crisis in the early 2010s.[72] In response to the crisis, the EU's rules-based approach gave way to a kind of state of emergency – as would happen again in subsequent crises.[73] In that sense, this represented a shift from technocracy towards more improvised policymaking, though the latter was hardly any more democratic. Although decisions were taken by democratically elected politicians led by the German chancellor, Angela Merkel, they were often clearly influenced by the preferences of the group of creditor states dominated by Germany and were presented as *alternativlos* – a German word that translates as 'without alternative'. National legislatures, when not bypassed completely, mostly fell in line with the steps demanded by the executive as negotiated at the EU level.[74]

The ECB's role in the management of the euro crisis has similarly added to the debate about technocracy in Europe. This has been seen in increased public contestation of the proper role of the ECB, and in a rise in political discontent

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66 On depoliticization, see van Middelaar, L. (2019), *Alarums & Excursions: Improvising Politics on the European Stage*, Newcastle upon Tyne: Agenda Publishing, Chapter 7. Van Middelaar distinguishes between three types of depoliticization: 'technical', 'constitutional' and 'procedural'.
67 See Kundnani, H. (2018), 'When the Rules Won't Bend', *The World Today*, 3 August 2018, https://www.chathamhouse.org/when-rules-wont-bend.
68 On constitutionalization, see Grimm, D. (2015), 'The Democratic Costs of Constitutionalisation: The European Case', *European Law Journal*, Volume 21, Issue 4.
69 Bickerton, C. (2018), 'Beyond the European void? Reflections on Peter Mair's legacy', *European Law Journal*, Volume 24, Issue 4–5, September 2018, pp. 268–80, https://onlinelibrary.wiley.com/doi/abs/10.1111/eulj.12287.
70 Radaelli, C. M. (1999), *Technocracy in the European Union*, Abingdon: Routledge.
71 For the former, see Tucker (2018), *Unelected Power*, p. 183. For the latter, see Habermas, J. (2015), *The Lure of Technocracy*, Cambridge: Polity, p. 6; Stiglitz, J. E. (2003), 'Don't trust technocrats', *Guardian*, 16 July 2003, https://www.theguardian.com/politics/2003/jul/16/globalisation.economy.
72 See Tooze, A. (2018), *Crashed: How a Decade of Financial Crises Changed the World*, New York: Penguin.
73 Auer, S. (2021), 'Merkel's Germany and the European Union: Between Emergency and the Rule of Rules', *Government and Opposition*, Volume 56, Issue 1, January 2021, pp. 1–19.
74 Moschella, M. (2017), 'Italy and the Fiscal Compact: Why Does a Country Commit to Permanent Austerity?', *Italian Political Science Review/Rivista Italiana di Scienza Politica*, 47 (2), pp. 205–25.

directed towards it.[75] Indeed, since the start of the recent crisis period, the ECB's interventions in domestic economies have grown significantly – in part also because of the inability of democratically elected politicians to solve problems effectively. For instance, the ECB repeatedly asked member states to reaffirm their commitment to fiscal discipline and structural reforms as the main route for addressing the euro crisis, implicitly subordinating ECB monetary support to such commitments. One of the best-known and most debatable attempts by the ECB to solicit government action was the confidential correspondence it sent to the Italian and Spanish prime ministers in 2011, on the back of rising bond yields across the periphery of the eurozone.[76]

The pressures exerted on euro member governments have been rightly criticized for their dubious democratic legitimacy. In particular, serious questions have been raised about the basis upon which an independent central bank can dictate policy to elected governments.[77] It should be noted that ECB policymakers were in many cases uncomfortable with the political weight of their new role, and regularly but erroneously insisted that their interventions would be without redistributive consequences. This highlights how depoliticization is not necessarily a deliberate agenda but can arise from political dysfunction – in the case of the eurozone, from the inability or unwillingness of member state governments to adopt expansive fiscal policy that would remove the need for extensive intervention by the ECB.[78]

During the crisis, the ECB operated as part of the 'troika' together with the European Commission and the IMF. Influenced by 'ordoliberal'[79] or neoliberal thinking, it was seen as a vehicle for imposing austerity on debtor countries such as Greece.[80] The troika's judgments about debtor countries seemed to be based not on productivity or efficiency, but on enforcing rules for their own sake or sending a message that no alternatives to its policy prescriptions were possible.[81] Some have even seen in the eurozone's response to the crisis a kind of 'authoritarian liberalism' – that is, an authoritarian approach in the name of economic liberalism.[82]

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75 For instance, Ferrara, F. M., Masciandaro, D., Moschella, M. and Romelli, D. (2021), 'Political Voice on Monetary Policy: Evidence from the Parliamentary Hearings of the European Central Bank', *European Journal of Political Economy*, 102143; and Moschella, M., Pinto, L. and Martocchia Diodati, N. (2020), 'Let's Speak More? How the ECB Responds to Public Contestation', *Journal of European Public Policy*, 27 (3), pp. 400–18.
76 Ban, C. (2016), *Ruling Ideas. How Global Neoliberalism Goes Local*, Oxford: Oxford University Press, Chapter 8.
77 Braun, B. (2017), *Two Sides of the Same Coin? Independence and Accountability of the ECB*, Transparency International EU, https://pure.mpg.de/rest/items/item_2417324_5/component/file_2417322/content.
78 Van't Klooster, J. and Fontan, C. (2020), 'The myth of market neutrality: A comparative study of the European Central Bank's and the Swiss National Bank's corporate security purchases', *New Political Economy*, 25(6), pp. 865–79.
79 Ordoliberalism is a German variant of liberal economic thought that emphasizes a strong role for the state to ensure the economy operates at as close to full competition as possible. It also advocates for 'rigid rules and legal frameworks beyond the reach of democratic decision-making'. For more, see Müller, J.-W. (2012), 'What do Germans think about when they think about Europe?', *London review of books*, 34(3), pp. 18–19.
80 Dale, G. and El-Enany, N. (2013), 'The Limits of Social Europe: EU Law and the Ordoliberal Agenda', *German Law Journal*, 14, No. 5; Ryner, M. (2015), 'Europe's Ordoliberal Iron Cage: Critical Political Economy, the Euro Area Crisis and Its Management', *Journal of European Public Policy*, 22 (2), pp. 275–94.
81 Davies W. (2016), 'The New Neoliberalism', *New Left Review,* 101.
82 See Wilkinson, M. (2022), *Authoritarian Liberalism and the Transformation of Modern Europe*, Oxford: Oxford University Press.

A renewed technocratic temptation

After the political shocks of 2016, technocracy seemed to be on the back foot as the problems associated with it from a democratic perspective became clearer. But the need for policymakers to respond urgently to the COVID-19 pandemic – potentially bypassing normal parliamentary approval processes – led to a renewed 'technocratic temptation'.[83] Since that crisis began, many 'pro-Europeans' have argued that the response to the pandemic has discredited populism and vindicated the EU's technocratic approach. For example, High Representative Josep Borrell wrote in April 2020 that the pandemic 'brings the importance of a rational approach, expertise, and knowledge into sharp focus – principles that the populists mock or reject as they associate all of those qualities with the elite'.[84] Thus policymakers felt empowered to double down on technocracy.

There is clearly a place for experts in policymaking.[85] It is also clear that, in an acute public health crisis such as the one that Europe was confronted with, decisions about lockdowns or other restrictions on freedoms should be guided by science. But such measures are still political and should therefore be taken within the space of democratic contestation, in other words through legislatures. Future questions around post-pandemic recovery, and in particular how to deal with the huge debt overhang that has been created during the crisis, will have even greater distributional consequences than decisions about imposing and lifting lockdowns.

In short, the debate over the merits of technocracy has not been decided, and the problems with technocracy are already coming back into sharp focus. A striking example of this is the ongoing battle between the ECB and the German constitutional court. In May 2020, the court ruled that the ECB's bond-buying programme could be unconstitutional and gave the ECB three months to demonstrate that the programme was proportionate to the need.[86] This in turn followed an earlier ruling in favour of the ECB by the European Court of Justice in 2018, a ruling which the German constitutional court called 'untenable'. Regardless of the merits of the case, it was problematic from a democratic perspective that a eurozone monetary policy with huge distributional consequences was to a large extent being decided through a battle between non-majoritarian institutions.

Difficult decisions in the future, particularly around the climate transition, will also have major distributional consequences. Such dilemmas are often approached in a technocratic way in the EU, where central bankers and other technocrats, in particular at the European Commission, drive economic transformation. Yet if policy does not visibly reflect the interests and preferences of large segments of the population who already felt overlooked by their governments, it could generate another populist backlash. The emergence of the *gilets jaunes* in

83 Kundnani, H. (2020), 'Technocracy and Populism After the Coronavirus', Carnegie Europe, 23 June 2020, https://carnegieeurope.eu/2020/06/23/technocracy-and-populism-after-coronavirus-pub-82113.
84 Borrell, J. (2020), 'The Post-Coronavirus World Is Already Here', *Politique étrangère* [Foreign policy], Volume 85, Number 2, Summer, https://www.ifri.org/en/publications/politique-etrangere/articles-de-politique-etrangere/post-coronavirus-world-already-here.
85 See Pamuk, Z. (2022), *Politics and Expertise. How to Use Science in a Democratic Society,* Princeton, NJ: Princeton University Press.
86 BVerfG, Judgment of the Second Senate of 5 May 2020 - 2 BvR 859/15 -, paragraph 235.

response to the introduction of a new carbon tax in France in 2018 has already given a hint of what this might look like.

The political shocks associated with populism have demonstrated the need to find a new balance between ‘responsible’ and ‘responsive’ government. If the EU were simply to re-emphasize its institutional preference for technocracy, this would not only be to ignore the lessons of the last few years but would also deepen the challenges to liberal democracy in Europe. Instead, Europeans should think about how they can ‘repoliticize’ economic policymaking by bringing it back into the realm of elected political actors.

05 Repoliticizing economic policy

Improving the functioning of European democracies will require tackling a multitude of inequalities. This cannot be achieved without making fiscal and monetary policymaking more responsive to electorates.

This research paper has shown that the economy plays a much deeper role in the crisis of liberal democracy in Europe than is suggested even in the debate about the cultural and economic causes of populism. In particular, economic factors have been problematic in two ways that have not yet received sufficient attention. First, the transformation of European economies in the last 40 years has increased various kinds of economic inequality, which in turn has translated into political inequality and thus undermined democracy. Second, economic policymaking has been depoliticized and thus de-democratized, with the result that the focus of political contestation has shifted to toxic cultural issues. To solve both of these problems, it is necessary to 'repoliticize' and redemocratize economic policymaking in Europe.

There has been an increasing awareness that economic inequality is a problem for democracy in Europe – even in the debate about populism, there is an acknowledgment that economic policy must help those 'left behind' by globalization, financialization or other structural changes. This is a large part of what slogans like 'build back better' or 'levelling up' are about. In recent years, there has been no shortage of policy ideas for tackling income, wealth and 'spatial' inequalities (the latter defined as uneven levels of economic development and opportunities between regions within a country). These ideas include: redistribution through higher wealth taxes or the establishment of national wealth funds; the narrowing of spatial inequalities through targeted investment and changing macroeconomic management; and permanently running the economy closer to full capacity.[87]

However, while such policies would go a long way towards reducing inequality, there are structural impediments to realizing them. As we have shown in this research paper, a clear bias towards the interests and preferences of the rich, the well-educated and asset owners has been entrenched in depoliticized institutions. Institutions biased in this way are unlikely to produce the policies required to reduce the economic inequalities that contribute to political dislocation in Europe. In particular, such institutions are unlikely to implement wealth taxes or similarly redistributive policies. In the absence of institutional change, the costs of future economic shifts such as the green transition are also likely to be borne by the poor, despite much lofty rhetoric about a 'just transition'.

In other words, in order to solve the problem of inequality, it is also necessary to address the depoliticization of policymaking in Europe. Politics will only become more responsive to the preferences of a wider electorate if there is democratic contestation of economic policy questions that, as Chapter 4 showed, have increasingly been handled by technocrats over the past 40 years. In particular, the depoliticization of economic policymaking has reduced the policy space available to national parliaments within the EU, which have therefore become more preoccupied with cultural issues.

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In thinking about how such a repoliticization and redemocratization of economic policymaking in Europe might occur, it is important to separate different aspects of economic policy, which in each case involve different kinds of policymakers with different levels of democratic legitimacy. In particular, it is necessary to distinguish between fiscal policy and monetary policy, which have been depoliticized in different ways and to different degrees, and which involve different actors. Fiscal policy, still in principle directed by elected governments, is theoretically more politically responsive than monetary policy delegated to an independent central bank.

87 See, for instance, Piketty (2013), *Capital in the Twenty-First Century*; Collier, P. (2018), *The future of capitalism: Facing the new anxieties*, New York: Harper; Sandbu, M. (2020), *The Economics of Belonging: A Radical Plan to Win Back the Left Behind and Achieve Prosperity for All*, Princeton, NJ: Princeton University Press; Lonergan, E. and Blyth, M. (2020), *Angrynomics,* Newcastle upon Tyne: Agenda Publishing.

Fiscal policy

As national parliaments, particularly in eurozone countries, have lost some of their power over fiscal policy, political contestation has instead focused on cultural issues. Restoring wider decision-making power to democratically elected politicians could allow parliaments and political parties to offer voters real alternatives, thus enabling constructive polarization in the economic policy debate.

However, for national decision-makers to gain meaningful new policy space, a change in monetary–fiscal coordination is required. Today, the political parties, parliaments and governments of eurozone member states, especially in the periphery, live in reasonable fear of adverse bond market movements. Because the ECB does not provide unconditional backing to eurozone government bonds, their interest rates can attract significant risk premiums or 'spreads' and increase significantly above the risk-free rate. This is particularly likely in response to signals of disapproval from the European Commission, the ECB or other, powerful member state governments.[88] Partly for this reason, the term 'lo spread'[89] – that is, the difference between German and Italian 10-year government bond yields – has become well known in Italian political discourse.

While creditor countries like Germany would see unconditional ECB support for member state treasuries as creating moral hazard, a policy of full monetary support conditional on compliance with reformed fiscal rules could reinvigorate governance. It could allow fiscal decision-making to be contested within a clearly delineated arena for national debate, rather than being dictated in effect by a (politically guided) fear of bond market vigilantes.[90, 91] This could foster more active debates over, for example, potential increases in public investment or the appropriate level of primary deficit. Such measures could support the green transition but could also be adopted in pursuit of wider economic policy aims, which themselves would be actively debated.

Beyond fiscal rules, and subject to lifting the bond market constraint just discussed, fiscal policymaking, as well as wider economic policymaking, could be opened up more radically through reform of democratic processes and institutions themselves. This could encompass the introduction of alternative models of democracy to complement or even ultimately replace traditional representative democracy. Such models include sortition (selection by lottery), deliberative democracy (citizens' assemblies) and direct democracy (referendums, participatory budgeting, etc.).[92]

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88 Claes, G. and Mazza, J. (2019), ''Lo spread': The collateral damage of Italy's confrontation with the EU', Bruegel, 8 July 2019, https://www.bruegel.org/2019/07/lo-spread-the-collateral-damage-of-italys-confrontation-with-the-eu.
89 Translation: 'the spread'.
90 Sigl-Glöckner, P., Krahé, M., Kern, F. and Schuster, F. (2022), 'A proposal for reforming the Stability and Growth Pact', *Dezernat Zukunft Papers,* https://www.dezernatzukunft.org/en/a-proposal-for-reforming-the-stability-and-growth-pact.
91 This research paper was written before the announcement of the ECB's new Transmission Protection Instrument (TPI) in July 2022. The TPI is a welcome step towards protecting national policymakers against unwarranted increases in spreads. However, since both the level at which the ECB limits the spreads of particular member states and the circumstances under which it is willing to do so remain largely at the central bank's discretion, further reform is necessary to give national policymakers meaningful autonomy within a well-defined area.
92 See Kundnani (2020), *The Future of Democracy in Europe*, Chapter 6; Landemore, H. (2020), *Open Democracy. Reinventing Popular Rule for the Twenty-First Century*, Princeton, NJ: Princeton University Press.

Monetary policy

Since the global financial crisis of 2008–09, independent central banks and above all the ECB have been required to do the heavy lifting in terms of macroeconomic management and stabilization. Democratically elected politicians have been either unable or unwilling to use fiscal policy to achieve such aims, partly because of adherence to ordoliberal ideas or fear of bond market reactions, especially in the eurozone. In the future, central banks may become even more important, depending on their role in the green transition. More immediately, central bankers are faced with the highest inflation in over 40 years in many European economies. Inflation at this level requires a substantial policy response, with all the resulting distributive and political implications that this involves. This makes it essential to find ways to repoliticize and redemocratize monetary policymaking.

Making monetary policy more responsive does not necessarily mean reversing central bank independence, which some fear would entrench a permanent inflationary bias in policymaking. Instead, some central banks are experimenting with increasing participation in monetary policymaking by deepening their engagement with the public. They are making greater efforts to explain decisions to a wider audience, and in some cases are listening more to public opinion. But such steps are largely about more effective communication rather than meaningful consultation. Even where citizens' views are solicited, it is not clear that these influence central bank decision-making. In short, while better communication helps, it is not sufficient to empower citizens.

Reforms need to go further. Recent research has shown that inflation generates a widespread popular and electoral backlash, as indeed it did in the 1970s.[93] The so-called Great Inflation of that period was defeated not by heroic central bankers acting in the teeth of popular opposition but by nationally variegated political coalitions, all of which reacted to a groundswell of popular opposition to double-digit rates of inflation. This revision of the received telling of the 'Volcker shock' and the Thatcher and Reagan revolutions of the 1980s has a clear institutional implication: a redemocratization of central banking need not impart a permanent inflationary bias. As a result, central bank independence could be reimagined as independence *primarily from the financial sector,* which central banks have long considered their primary constituency.[94]

Determining which institutional set-up best realizes this new kind of independence, and provides greater democratic accountability, will require further research and debate. Equally, how best to balance and combine increased democratic accountability with operational excellence must be discussed and trialled. One option would be to increase formal cooperation between democratically elected legislatures and monetary policymakers. This would still run into issues around the responsiveness of legislatures, but it would

93 Eich, S. and Tooze, A. (2016), 'The Great Inflation', in Doering-Manteuffel, A., Raphael, L. and Schlemmer, T. (eds) (2016), *Vorgeschichte der Gegenwart. Dimensionen des Strukturbruchs nach dem Boom* [Prehistory of the present. Dimensions of the structural break after the boom], Göttingen: Vandenhoeck & Ruprecht.
94 Eich, S. (2021), 'Independence from what?', Just Money, Reassessing Central Bank Independence Roundtable, 20 July 2021, https://justmoney.org/s-eich-independence-from-what.

provide the opportunity for political contestation over another policy area with significant influence on the real economy.

Within the eurozone, this could be achieved without treaty change: in addition to its price stability mandate, the ECB is technically already obliged to follow a secondary mandate to 'support the general economic policies in the Union'.[95] Because this indeterminate wording leaves more room for discretion than the ECB can legitimately exercise in its current, de-democratized form, it could be given meaning and precision through high-level coordination with the political institutions of the EU.[96] For example, if, within such a new coordination process, elected European policymakers were to state that pursuing a green transition is a high priority, the ECB could support this in a more democratically legitimate manner than if it just introduced the relevant policies itself.

Another option for combining a new form of central bank independence with the redemocratization of monetary policy would be to set up an elected body to oversee and possibly direct monetary policy.[97] This would place greater emphasis on a separation of powers, i.e. independence not just from the private financial sector but also (particularly in parliamentary systems) from the elected executive. While this option would require more profound institutional change, it could harmonize well with deeper reforms to representative democracy.

The Catch-22 of repoliticization

Although each of the steps discussed above could go some way towards bringing democratic politics and the formulation/implementation of economic and monetary policy closer together, there remain significant barriers to progress. Firstly, beyond depoliticization, another driving force behind the economic transformations we have flagged is an ideational one, as centrist thinking on economic issues has converged on a broadly liberal worldview, in particular in the wake of the disappearance of the most obvious alternative to liberal capitalism with the collapse of the Soviet Union.[98]

On top of that, reversing some of the *institutional* depoliticization of recent decades is not enough. Reversing de-democratization also requires behavioural change on the part of politicians, political parties and technocrats. As a result, the problem is not open to quick technical or technocratic fixes. Furthermore, as the brief discussion around bond spreads and fiscal policy showed, a repoliticization of economic policymaking will have to involve national governments and legislatures as well as supranational institutions, particularly in the EU. This creates further difficulties, as a number of supranational agencies were specifically designed to remove 'excessive' democratic influence from policymaking.[99]

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95 Article 127 (5) TFEU.
96 De Boer, N. and van't Klooster, J. (2021), *The ECB's neglected secondary mandate: An inter-institutional solution*, Positive Money, https://www.positivemoney.eu/2021/10/report-ecb-neglected-secondary-mandate.
97 Eich, S. (2022), *The Currency of Politics: The Political Theory of Money from Aristotle to Keynes*, Princeton, NJ: Princeton University Press.
98 Gerstle, G. (2022), *The Rise and Fall of the Neoliberal Order: America and the World in the Free Market Era*, Oxford: Oxford University Press.
99 See Slobodian (2018), *Globalists*.

However, the main structural impediment to a significant redemocratization of economic policymaking remains the deeper issue of generalized unequal responsiveness. If the current, depoliticized system works particularly well for those whose interests and preferences are best represented in politics generally, any attempt at democratizing reforms will face an uphill battle. This is something of a Catch-22 situation: depoliticized economic policymaking has created the political conditions in which it is difficult to redemocratize economic policymaking. In other words, this is ultimately not a problem that can be solved easily or quickly. It requires a long-term and broadly shared commitment to improving the functioning of European democracies in order to prepare them successfully for the upcoming economic transformations.

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Cover image: The headquarters of the European Central Bank in Frankfurt stand illuminated to celebrate the 20th anniversary of the introduction of the euro during a rehearsal on 30 December 2021.

Photo credit: Copyright © Thomas Lohnes/Stringer/Getty Images

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