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Beyond Neoliberalism and Neo-illiberalism:
Economic Policies and Performance for Sustainable Democracy

Report to the Open Society Foundations and the Hewlett Foundation
Heilbroner Center for Capitalism Studies, The New School

Presented to the foundations on July 25th, 2023

Edited by William Milberg and Thomas Liess

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Introduction

William Milberg, The New School

This report on the convening "Beyond Neoliberalism and Neo-illiberalism: Economic Policies and Performance for Sustaining Democracy", held on March 27th and 28th at The New School, features an informative and wide-ranging discussion on a number of basic questions on the relation between democracy and economy. The political backlash from neoliberalism has mainly been a retreat from democracy. Its main features are the decline in independence of the judiciary and the monetary authorities, suppression or control of the media, and of course direct manipulation of election rules for purposes of authoritarian control.

The causes of this authoritarian shift are many, of which the economic dynamics and the impact of deregulation and liberalized markets -- neoliberalism -- are just one. Although there are many studies of the causes of democratic "backsliding" and "neo-illiberalism", there has been inadequate attention to the economic consequences of the neo-illiberal turn. With its grant to The New School for Social Research, the Open Society Foundations and the Hewlett Foundation have supported the advancement of thinking on the economics neo-illiberalism that has been seen across a variety of countries. The project has been enormously generative in raising questions about the role of neoliberal economic policies in relation to other cultural and political factors in promoting the recent authoritarian turn, as well as about the commonalities in the economic policies and economic performance of the illiberal regimes.

The convening featured research on Turkey, India, Hungary, Poland, Philippines, Bolsonaro's Brazil, Trump's America and Brexit in the UK. Three themes stood out in our

deliberations: (1) the role of neoliberal economic policies in relation to other cultural and political factors in promoting the recent authoritarian turn in many democracies; (2) the challenges, inequities and disappointments of the economic policies and economic performance of the neo-illiberal regimes; and (3) the need for developing positive alternatives to the unsatisfactory performance of both neoliberal economic policy and the neo-illiberal policy frameworks we observed. The first two questions were addressed on the first day of the conference and the third was the focus of an intensive discussion the second day. I return to (3) in the conclusion of this report.

In the opening roundtable, Dani Rodrik argued that "hyperglobalization" was one of the causes of the anti-democratic backlash. He proposed that the world trading system return to something more like the GATT, focusing narrowly on tariffs and creating policy space for countries to control other features affected by globalization, including capital flows, competition policy and taxes. Joseph Stiglitz went further, arguing that free markets had created outcomes -- unsustainable debt, financial crises, wage stagnation, precarious employment, and income inequality -- that directly induced an anti-democratic turn. He made the case for strengthening "collective action" to underpin a more democratic approach to growth and development. Darrick Hamilton made the case for economics to be included as a human right, thus connecting the economic and the political dimensions explicitly. Hamilton makes the case for "inclusive economic rights…where economic rights become the cornerstone investment in our future and a necessary and inseparable component of human rights." Power asymmetries, associated with race or ethnicity or nationality must be addressed, he argued, if these human rights are to be honored. Jessica Pisano connected economic clientelism to the

anti-democratic tendencies observed especially in Eastern Europe. Illiberalism, she claimed, often has less ideological content than many imagine, noting that "while illiberalism *produces* something that looks like ethnonationalism, it often *starts* from an economic compact, a transactional politics." She argued that there is a distinct political economy of illiberalism that will have to be addressed if political change is to be accomplished and it must be drawn from the unique relation between central political power and local clientelist dynamics.

Subsequent panels went into specific national examples. Anthropologist Rosana Pinheiro-Machado explored the case of free-market beliefs on the part of low-income platform workers (e.g. Uber drivers) in Brazil, who oppose government anti-poverty measures. Such workers support the free-market, pro-entrepreneur platform of President Bolsonaro because they resent that they often cannot access government support for the poor. They self-identify as entrepreneurs and social media tends to bolster both of these sentiments. David Autor provided detailed evidence that Chinese import penetration to the US resulted in deep, regionally-specific impacts in unemployment and manufacturing, associated with increased electoral support for President Trump. Thiemo Fetzer shows that fiscal austerity was associated with the vote on Brexit, but that the role of austerity is relevant to understanding other crises as well, including the Covid-19 pandemic and recent difficulties of energy supply associated with the Russian invasion of Ukraine. Fetzer describes austerity as "a signature zero-sum policy" and identifies the solution in part as one of engaging local communities in research on the natural and social challenges.

The last two panels looked at the policies and performance of the new illiberal democracies. Moritz Schularick presented a broad econometric study of "populism" since 1900

which showed consistent underperformance in economic growth by (left-wing and right-wing) populist governments compared to how they would have performed in the absence of a populist turn. This was a sobering introduction to papers on macro and monetary policy and on labor market and social protection policy. The challenges of a politically-dependent central bank function were discussed in the cases of Turkey and Hungary. Ayca Zayim showed how Turkey's efforts to keep interest rates low as they increased internationally led to debilitating currency depreciation and drastic declines in real income. Daniela Gabor provided the details on how Hungarian central bank efforts to attract international capital created obstacles for domestic firms. The lessons are useful also for other countries in the future. Part of the Trump platform for a second term is to limit the independence of the Federal Reserve, according to recent reports.

On the labor market side, Sheba Tejani argued that Modi's support for anti-Muslim movements has been part of a broader "corporate majoritarianism" featuring elimination of some basic labor rights and economic empowerment of a few political cronies. Janine Berg found that while labor rights were under attack in Hungary, Poland and Philippines, real wage growth in these countries was surprisingly strong.

A goal of the convening was to push the discussion beyond the critique of neoliberalism to assess also the economics of the anti-democratic tendencies. The first issue was to consider just what the economic policy levers of the new anti-democratic regimes are. Are these economic policies similar across countries to the point where we can identify a coherent "neo-illiberal" economics (the way many have done for neoliberalism)? Are the policies significantly different from those of the neoliberal era? It certainly seems so at first glance, with nationalism

and xenophobia driving illiberal restrictions on international trade and immigration. The convening added important detail by focusing on monetary policy, labor market policy and social protectionism.

The second issue was to assess the effectiveness of the economic policies in these anti-democratic countries. Have the policies been able to generate just and equitable economic outcomes, while sustaining the democratic principles that many of us hold? The evidence presented in the research that went into this report gives a negative answer to this question. Growth rates are lower than they would otherwise be, clientelism leads to preferential treatment of a political base to the great detriment of minority ethnic groups and immigrants, and the challenges of anti-democratic control can wreak havoc on the macroeconomy.

The deliberations reviewed in this report lead to a next set of questions: If neoliberalism has largely failed and the reaction against it has not been an enormous economic success, then what next? What is an economic model for the future, or even a set of economic policies, we contemplate for the future of capitalism? These daunting questions will be taken up in the conclusion of this report and in the second half of the project in the coming months.

The idea for this project came out of conversations with the Open Society Foundations (OSF) and Hewlett Foundation. It is well known that OSF has been supporting causes that advance democracy for decades, and the Hewlett Foundation has now become a leader in the search for a new economic paradigm, that is new economic theories that might underpin a democratic and just economic policy regime. I want to thank these foundations for their support for this project. Laura Carvalho (from OSF) and Brian Kettenring (from Hewlett Foundation), each said a word of welcome at the convening, and they have kindly agreed to

include their introductory comments here. Laura and Brian provided support in terms of funding, but they have been full intellectual partners in this project as well.

Laura Carvalho, Open Society Foundations

I think Will has framed well what the moment requires of us, and the importance of the topic that we will be discussing in this convening. The idea here is, of course, to revisit some of the evidence, and there is a lot of evidence, on the role different economic policies had on the rise of authoritarianism.

In the global North, there is vast evidence of the importance of globalization and trade, in particular, for what we are seeing in terms of backlash, both the ethno-nationalist perspective and the far-right and authoritarian platforms in Europe and in the US. But when you look at the global South, the situation is not necessarily the same. Of course, globalization plays a role there as well and de-industrialization is happening in many parts of the South. But we can see a bit of nuance when we think about the role globalization played in countries like Brazil, which benefited from Chinese growth and commodity prices in the 2000s. Nonetheless, we still saw democratic backlash.

This starts to raise some questions around what exactly are the economic policies that haven't delivered and have created the fertile ground for these authoritarians in different parts of the world. Maybe there are different roles that have been played by different policies.

By bringing researchers from different parts of the world to this conference, this is one of the first questions that we will try to answer. Of course, there is also evidence on the role of fiscal austerity and labor deregulation. In those cases, we may be able to see more common ground in different countries.

The second aspect that I want to call attention to is the issue of neo-illiberalism, especially in economic policy. It is true that in this recent wave of authoritarian regimes, we have not had a comprehensive assessment of what economic policies such regimes have been using. Going back to Brazil, Bolsonaro's regime was a combination of authoritarianism and moral conservatism with market fundamentalism. So many would argue that economically, it was a very neo-illiberal government. Policies implemented by Bolsonaro's government were actually even more radical neoliberal policies than what the country had seen in the past 20 years.

Brazil's combination of authoritarian politics and neoliberal economics is not necessarily what we have seen in other contexts where you had a combination of illiberalism and anti-systemic type of economic policies. And so, the question again emerges: as we try to move to another economic paradigm that can at the same time deliver benefits to citizens and create the conditions for democracies to thrive, how do we assess the capacity of these governments to deliver?

As OSF's Global Director of Equity, I have been part of this conversation since the beginning,, and we are proud to co-host and fund this event together with the Hewlett Foundation. I have studied here at The New School and graduated with a PhD in economics in 2012, so it is a very special occasion for me and it is great to have so many OSF colleagues and some of my former New School professors in the room.

Brian Kettenring, Hewlett Foundation

As the Director of the Economy and Society Initiative at the William and Flora Hewlett Foundation, I lead a five year $100 million grantmaking effort that aims to foster a "new common sense" about how the economy works, the aims it should serve, and how it should be structured to meet the biggest challenges our society faces. In other words, this initiative seeks to foster a new economic paradigm in terms of what comes after neoliberalism. Initially, this work was conceptualized as part of our democracy work at the foundation; as part of an analysis of how to respond to Trumpism. It came out of a thought process that was domestically oriented, seeking to understand what was happening in the United States.

I think of neoliberalism as a set of ideas and practices buttressed by power. Although such ideas seem to be increasingly in retreat, they remain persistent, embedded, and forces underneath them allow them to stay alive.

In recent years, increasingly, the threat for those of us working in political economy is ethnonationalism. For us, then, this conference marks a bit of a turn to take up the question of ethnonationalism and political economy. Doing so, we have to be as laser focused as ever, as one cannot defeat something with nothing. Hence the need to craft democratic alternatives. To do so, however, we need a more rigorous analysis of what is happening in the relationship between political economy and authoritarianism.

For Hewlett, this convening marks the strategic opening of a conversation. Like you, we have our own questions too. These include:

(1) the relationship between inequality, extremism and alienation;

(2) taking up the fallacy that neoliberal opening would lead to democratization;

(3) the class inversion within the parties in the United States and parts of the West that is not happening everywhere around the world. What does this mean for the political institutions and processes?

(4) Gary Gerstle's recent book on the *The Rise and Fall of the Neoliberal Order: America and the World in the Free Market Era* really underscores the relationship between geopolitics and domestic political economy. He argued, for example, that the Soviet dynamic in the US, the threat of communism, reinforced an inclusive compact between workers and capital in the United States. Given the return of geopolitics, how does that play out?

These are some questions that I bring to today's conversation.

I would like to thank Laura Carvalho, Mark Malloch Brown and the team at OSF for their partnership in this project, as well as William Milberg and his team at The New School. We are really eager to be on this journey with you.

I. The Connection between Economy and Democracy

After Neoliberalism[1]

Dani Rodrik, Kennedy School, Harvard University

This section focuses on what policies would be desirable in a potential economic regime following neoliberalism, and alternative to neo-illiberalism, and it aims to present some of the key features of this new order. Two scenarios are possible, an optimistic one and another more pessimistic. This section will mainly focus on the positive scenario, while raising some concerns about how the system could shift toward a negative one.

There is not a very tight connection between neoliberalism and the political regime type, at least in the short run, rather there might be one over longer or historical stretches. However, one relationship I want to draw attention to concerns the nature of the transformation that labor markets have been going through recently. Indeed, what is happening nowadays in low and middle income countries, ranging widely from Eastern Europe to other countries, is very different from the historical processes that created advanced social democracies in today's developed world, and it also results in very different kinds of politics.

When we think about the historical process of economic and political development, industrialization is to some extent shaping the development of the working class. The working class in turn becomes, after long periods of struggle, an organized labor movement that ultimately may underpin a kind of labor-based political movement and a party. If this happens, the labor party could drive all kinds of reforms and classical liberalism could either get transformed into explicitly social democracy or illiberal democracy, with a very strong

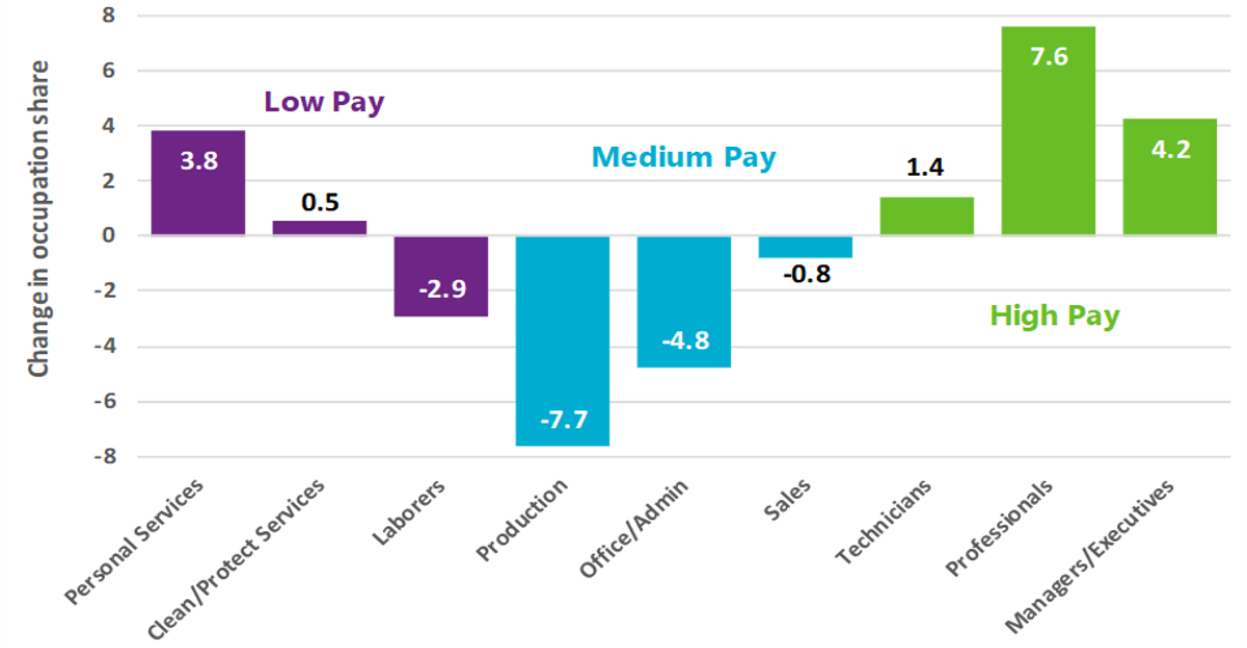
[1] This is a lightly edited transcript of Dani Rodrik's remarks at the conference.

redistributive bent. But at the root of this historical transformation, it is still labor getting organized through a process of industrialization, typically with workers gathered into factories in urban areas. When this process of industrialization is lacking, or when an economy has industrialized but is then subject to premature deindustrialization, the result is a disorganized petty informal sector of micro enterprises, self-employment, and the lack of development of a similar workers class. This is, in my opinion, likely to result in a kind of politics that is very different from what we have gotten in the advanced industrial countries of today. It is much more of a personalized and clientelistic type, which successful authoritarian populists, such as Orban, Erdogan, Modi or Bolsonaro, are actually quite good at delivering in the form of very particular services to "the people" - i.e. their electorate. While this is certainly not a deterministic process, I believe that one version of politics resulting from changes in the underlying economy is this authoritarian populism. Hence, these labor market trends, which have been driven by globalization, technological trends, and so forth, are making it much more difficult, or nearly impossible, to generate political regimes that we associate with the classical transformation in advanced countries. I want to explore in more detail how this is the case and what could be a democratic alternative to neo-illiberalism after the decline of the neoliberal regime.

A good scenario for a post-neoliberal order would essentially consist of a step back from what is commonly called hyper-globalization, to allow greater domestic space and freedom for reconstruction of national social contracts, where each country remains freer than it has been in the recent past. Freer not just from extortive external regulations, but also at the intellectual and cognitive levels; freer to pursue their own national development models that might be

appropriate in the specific context. The issue of industrial policies targeting good jobs has particular relevance, for developing and developed countries alike. Indeed, in many ways, the disappearance of good jobs is at the heart of the rise of illiberalism and authoritarian populism, topics that are the concern of this project. In this regard, the well-known phenomenon of labor market polarization in most of the advanced countries is problematic, as it is hollowing out labor markets, with middle-skill-level jobs disappearing.

Figure 1: Employment Growth by Occupation and Annual Pay, 1980 to 2019



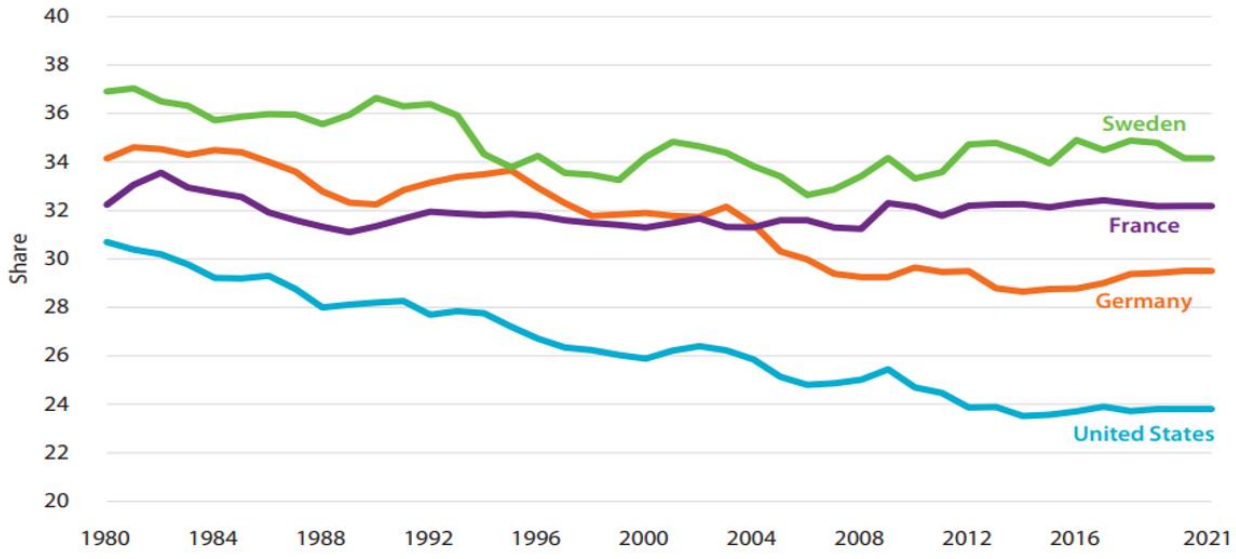
Source: Autor (2021)

Furthermore, it is also true in the most recent recovery, that workers at the very low end of the pay distribution have actually done quite well in the last couple of years compared to those in middle class occupations. This squeeze of the middle class is reflected in a long-term

trend, particularly acute in the United States. This squeeze has many implications, not only economic, with rising inequalities, but also social, affecting even health, to name one.

FIGURE 2.

Share of Pretax Income Going to the Middle Class in Select Countries, 1980–2021



Source: World Inequality Database 2021.

Note: Figure shows pretax income share going to the middle 30th–70th percentiles for each country. .

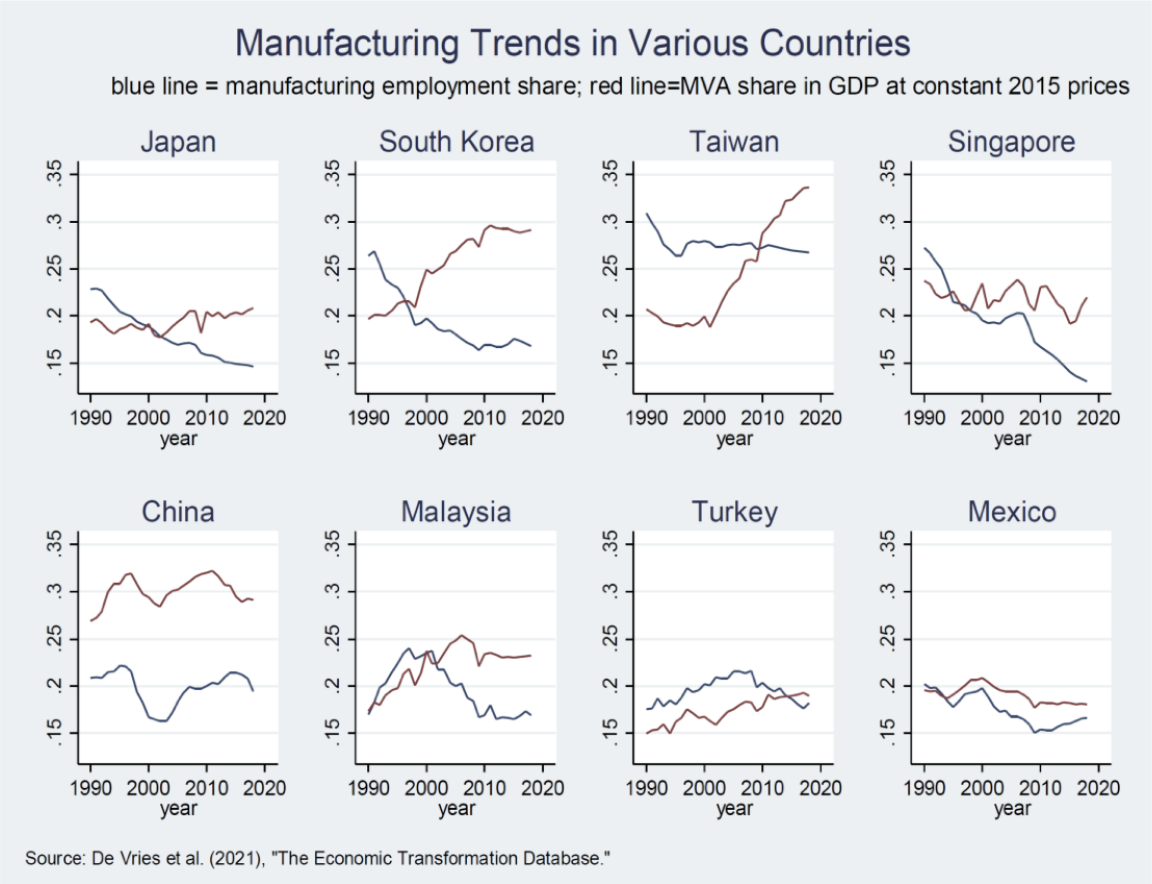
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A different version of this dynamic is also playing out in developing countries. Specifically, the traditional pattern of structural change that governs countries' development is no longer working. The traditional pattern entailed a move from agriculture and informal activities to formal organized manufacturing, and, ultimately, to services, after higher levels of incomes were reached. Instead, what is observed today is very different. Indeed, even though people are still leaving the countryside and the agricultural sector, they are not absorbed by the industrial and manufacturing sector, rather they are funneled into informal services in the urban areas. What is observed is a phenomenon of premature deindustrialization in the low- and middle-income countries. Indeed, even though these countries are still poor and hence

earlier theories of development would have recommended industrialization in order to develop, in fact formal organized manufacturing is *shedding labor*. Furthermore, even in some low income countries where industrialization has gone ahead at a reasonable pace, an increasing dominance of informality within manufacturing is observed.

This country-wide polarity plays out increasingly within manufacturing itself. Hence, the challenge that the system confronts - and this again is common between low and high-income countries - is that re-industrialization, i.e. trying to reignite domestic industrialization, is not going to solve this problem.

Figure 3. Manufacturing Trends in Various Countries



This can be seen since even in those countries, such as Taiwan, South Korea, and to some extent Japan, which have been rather successful in maintaining high levels of manufacturing activity in terms of output and value-added at constant prices, employment in manufacturing continued to shrink. South Korea is a particularly striking example of this. In South Korea, manufacturing output as a share of GDP at constant prices has actually continued to increase quite significantly after the 2000s. This is maybe the most illustrative case among countries that are trying to reindustrialize, through for instance the Chips Act or Re-shoring in the United States. Just achieving half of this would look like a miracle in the United States in terms of re-industrialization. However, despite this re-industrialization, it is worth noting that nonetheless manufacturing employment has shrunk as a share of total employment. Hence, it seems unlikely that even re-industrialization would be able to reverse the trend of polarized employment. For this reason, the urgency emerges for a new set of policies and the need for the post-neoliberal era to adapt, deal with this feature, and find a way forward to reverse these trends, through the creation of an increasing number of good jobs fitting the middle-skilled class.

To reach this goal, it is not enough to talk merely about re-industrialization. Rather, this discourse would need to be complemented by other interventions such as investing in training and education, establishing standards, increasing the bargaining power of workers, setting higher minimum wages and so forth. All of those are obviously important, but their implementation is not without complexities. Indeed, there is a tension between trying to enhance or mandate higher pay for workers at the lower-middle end of the skill distribution and the consequences for employment. This has been observed, for example, in a country like

France, which has done rather well at keeping up the bottom of the labor market in terms of pay and standards. The cost has been very high youth unemployment, as people have trouble getting into the labor market at a young age. Thus, the only way this tension could be resolved is by complementing these policies of voice and standards and better labor market regulations with increasing the productivity of workers at the low and middle end of the scale distribution. This is, after all, really the domain of industrial policy. Indeed, it focuses on fostering innovation and appropriate structural change towards more productive activities.

Today, however, when talking about industrial policies and its variation of innovation policies, the tendency is to focus on manufacturing, supply chains, the green transition and global competitiveness. It is generally thought that jobs are going to be the by-product of these things, as in the case of the IRA or the Chips Act. But in fact there is no guarantee. Indeed, as mentioned earlier, even if the effort to revive manufacturing is to be successful, the benefit in terms of jobs creation will be rather meager, as nowadays jobs creation is principally shaped by the service industry. It follows that there emerges a new need to target industrial policies much more explicitly on good jobs. That also means that industrial policies will need to put as much emphasis on the demand side of labor markets - namely enhancing productivity in small and medium-size enterprises that will be the creating the bulk of jobs - in addition to enhancing the supply side of labor markets - through investment in skills and training that will have to focus much more on services rather than just manufacturing.

Let me now turn to present briefly some salient aspects of what this system might look like, on three different levels. First, at the very local level, a set of local “industrial” policies would be needed, combining workforce development with business development providing

firms, especially smaller and medium size enterprises with a portfolio of business services; an extension to services of what we normally think of as agricultural extension or manufacturing extension. In this sense, there is a need to reorient the capabilities of these local cross-sectoral efforts to develop these business services, whether it's in terms of management training, access to platforms or technologies, access to land and access to help with regulations, to name a few. At the national level, it is required to invest much more directly in labor-friendly technologies. The tendency so far has been to take the direction of technological change as given. But of course, technological change is not given, rather it responds to incentives. One could imagine, for example, setting up an "Arpa W," that is an Arpa for workers that would allow investment in frontier technologies, in providing frontline workers, say in long-term care or education, in retail, with digital tools or other AI tools that actually enhance their performance, and allow them to provide much more customized services to their customers, whether it is retail customers, or whether it is long-term care patients. That would actually make this relationship much more productive while giving workers much more agency and autonomy in the way that they produce. In this sense, this Arpa, targeted at enhancing workers and their productivity, specifically and directly at the low and middle end of workers' skills, would resemble the current Darpa, concerning innovations that are in defense related areas, or Arpa E, focused on investing in green technology.

Finally, at the international level, there is the need to reverse our understanding of how the global economy and the domestic economy interact. Under hyper-globalization, domestic economies and societies are understood as at the service of hyper-globalization. The main concern currently goes around what is needed to be done so to become more competitive

globally. This question will have to be reversed. It becomes all important that we rearrange the system of international trade and finance and to ask the question of how they could best support cohesive and inclusive domestic economies, in a way that dates back to the spirit of the Bretton Woods regime, a regime where that was very much the underlying concern. Moreover, it would be fundamental to include social safeguards clauses which protect domestic labor standards from erosion due to import competition.

Illiberal Political Economics after Neoliberalism

Jessica Pisano, The New School

This section discusses concrete causal links between political economies of neoliberalism and political economies of illiberalism. It does so from a political scientist's point of view, reminding us that when it comes to vocabularies of analysis, political scientists and economists are often divided by a common language.

As a political scientist, I have found that a great deal of the scholarship about illiberalism misconstrues illiberalism's political origins, attributing the emergence and institutionalization of illiberal ideas mainly to anti-systemic masses or populist anger. Such accounts focus on emotions: the wells of discontent that carry populist leaders into office, the opportunistic manipulation of mass sentiment by those politicians. Yet while affect may account for some support for populist or illiberal leaders, much of the support we have seen to date for illiberal politicians is rooted in neoliberalism, but not in the ways one might think.[1]

Coming to these questions as a political ethnographer, I have been interested in how economic change affects people's lives and how this impact translates into changes in local, national and global politics. I have spent my career studying rural communities and company towns along national borders in Russia and Ukraine, where people regularly have supported illiberal politicians.

[1] These comments are based on arguments elaborated in greater detail in *Staging Democracy: Political Performance in Ukraine, Russia, and Beyond* (Cornell University Press, 2022).

These have included communities on each side of the Russia-Ukraine border, especially in around the Ukrainian city of Kharkiv and Voronezh region in Russia, and in Ukraine's southwest where Hungarian-speaking Ukrainians have been courted by Victor Orbán's party since the turn of the millennium.

What I learned during decades of field research and in writing the books that came out of that research was that support for illiberal politicians was rarely programmatic. Although people seemed to respond in ways that expressed programmatic support in opinion polls, in staged demonstrations, or at the ballot box, notwithstanding political illiberalism's heavy accent on cultural politics I found that ideology in illiberalism is often epiphenomenal.

Importantly, political economies in illiberalism draw, but do not draw on, boundaries within the demos: while illiberalism *produces* something that looks like ethnonationalism, it often *starts* from an economic compact, a transactional politics.

This transactional politics should give us pause when we are tempted to see fascism, or proto-fascism, when we look at illiberalism--whether we're considering Putin or Orbán or Erdogan, Modi, Bolsonaro, Trump. Fascism depends on societal mobilization. Yet first, with the possible exception of North Korea, there are no more closed ideological fields at the national level. Notwithstanding controls states may impose upon communication and exchange of information, people tend to find a way around those controls. For example, we see today in wartime Russia, where notwithstanding state surveillance and the unavailability of certain

social media platforms, people continue to find ways to access Telegram channels and other sources.

Second, in illiberalism, politicians have played a role in the creation of political opacity, obscuring from view how politics are playing out at the local level. Efforts to limit free expression creates blind spots not only for social actors, but also for politicians themselves--including politicians with ambitions to charismatic forms of leadership.

One way to think about the resulting signaling problem is that in contemporary illiberal regimes, performances of democracy function less like an orchestra and more like a set of jazz combos. To optimize resources, illiberal politicians at the national level create unfunded mandates for their regions, demanding electoral returns from regional leaders who need support from the center. To cope with those unfunded mandates, party agents use existing social institutions to deliver votes. Mobilization occurs not in response to ideological motivation, but because of the pressures delivered through those institutions.

In such contexts, the center does not really know what is going on in peripheral areas: they do not know what the song sounds like. They know that there is an audience, and they are getting the results that they want, but the center does not have a sense of people's programmatic desires or senses of affiliation. In this sense, although in certain cases we may observe formal similarities to fascist formations, we should be careful about assuming that the social foundations that could support fascist regimes are intact in illiberal regimes in the way that we would expect them to be.

Through my research, I also learned that people's support for illiberal politicians often was not a response to contemporary versions of the "iron rice bowl" that we see in the European right's coaptation of the post-war social welfare consensus, in which electorates express their appreciation for security and an improved standard of living by supporting certain politicians. Instead, what I found was that people very often supported illiberal politicians out of fear of material loss in a context characterized both by highly orchestrated political threats and the redefinition of public goods and monetization of social benefits. Even supposed positive incentives that brought people out onto public squares or to the ballot box (including in demonstrations for hire or vote buying) for most people represented mitigation of greater financial loss and a hedge against risk for household economies, not a net gain.

It's important to note that people's resulting economic anxiety intersects with and amplifies contemporary or historical experiences of bondage, occupation, theft, and exposure to police states. So, while I'm referring here to my findings in Eastern Europe, such processes and their reverberations transcend national boundaries.

This all leads to a situation in which an illiberalism that looks like statism or authoritarianism, or even some version of totalitarianism or fascism, depends on a neoliberal bargain, a contemporary version of Bayart's *politique du ventre* in which politicians, their agents and their followers engage in clientelist relationships that carve out constituencies within the demos.

Until February 2022, the consequences of these arrangements and performances of support driven by a material bargain were visible largely in electoral outcomes. Nowadays, we can see them playing out in the largest land war in Europe since 1945, in which participants and supporters in Russia are often motivated to sign up for, at least silently tolerate, their country's imperial aggression by politicians leveraging consumer debt or the threat of loss of employment.

Because of the elements of dramaturgy present in the contemporary politics of Moscow, the global seat of illiberalism, and because of the economic bargains at the heart of contemporary illiberalism, we cannot deduce from demonstrations of popular support for illiberal regimes any form of durable, genuine, or programmatic alignment with illiberal politicians. This can be a cause for hope. As we look forward to alternatives to illiberal orders, it behooves us not forget that politicians such as Victor Orbán in Hungary are dependent for their popularity in large part on the support and cooperation of liberal societies and their institutions: in Orbán's case, on Hungary's transportation and other subsidies from the European Union.

Russia's war against Ukraine can also offer other insights, such as understanding the imbrication of Kremlin-based economic interests in the neoliberal experiment in Ukraine prior to the current expanded war. Nearly a decade ago policymakers in Ukraine began a process of decentralization devolving economic decision-making to communities, breaking up territorialized institutional structures that had been colonized by oligarchic interests. This move

sought to strengthen sovereignty and broad societal unity while maintaining a form of capitalism. Now community-based work within an explicit framework of multiculturalism, such as the university-based volunteer networks I work with in the Ukrainian city Kharkiv, is playing a key role in the survival of democratic politics under literal physical attack. The model that this decentralized, community-based approach offers for the future of democratic politics is something that deserves further attention.

Pursuing A Human Rights Economy

Darrick Hamilton, The New School

There is no better place to critically examine economics, authoritarianism, and democracy than The New School. In our history, we began as an anti-fascist university. We have always combated economic oppression and pioneered new ways of understanding the economy and its social impacts and inequalities. And in our next iteration, I think we are ready and poised to understand politics and economics through identity group stratification - the ways we separate and divide people based on cursory identities and use those identities to distribute both economic and political power in a weaponized way. The New School also has always led in translating scholarship into action. And then, finally, we have always valued public engagement, bringing new and critical perspectives to politics and public debate.

So let me begin: the structures of our political economy go well beyond class and individual bigotry. As a matter of course, race and social identity in general are weaponized and linked to economic processes and outcomes. They are strategically used to generate hierarchy and propel systems of poverty, stratification, and persistent inequality, both within and across nation states.

It is naive not to recognize that essentially every policy and every structure in the US and the entire globe is racialized, and the impact of that racialization is by no means limited to Black people. Ignorance of both past and existing racial hierarchy under the guise of forward-looking race neutrality is what the sociologist Eduardo Bonilla-Silva accurately labels as "colorblind racism". Racism, sexism and other "-isms" are not simply irrational prejudices, but

long-standing leverage points and strategic mechanisms used for exploitation and extraction that have benefited some at the expense of others.

The framing of my discipline of economics as a science itself implies a purity devoid of politics, power, and tribalism, even though we constantly see those factors across space and throughout time and human history. Economic orthodoxy is based on a dogma: a faith that markets somehow are natural, transparent, efficient, non-discriminatory, and inevitable. This belief does not give enough credence to the political actions that form and codify markets in the first place.

The baseline concept of individuals or nation states as price takers does not adequately take into account power and capital, especially when we think about the inequities linked to identity group stratification, or international stratification across nations. As inequality continues to grow both within and across nations, we must move beyond the neoliberal framing that centers markets and personal responsibilities as individual choices. That framing lacks an adequate understanding of resource endowments, power, and distribution.

Instead, we must move towards a new, more moral and fair political economy grounded in human rights and shared prosperity. That's why at the Institute on Race, Power, and Political Economy, we are advancing the concept of inclusive economic rights - the promotion of human rights economies where economic rights become the cornerstone investment in our future and a necessary and inseparable component of human rights.

In the wake of World War II, and the dismantling of the fascist Nazi regime, it is important to understand the historical contexts in which the human rights framework emerged. In 1948, the United Nations General Assembly issued the landmark Universal Declaration of

Human Rights, where human rights were recognized as universal and related to human dignity of people and of nation states, with a responsibility for governments to deliver them.

There were five basic categories of human rights: civil, political, social, cultural, and economic. We have forgotten that fifth one—economic. Although we have never fully extended them to all people, particularly those that are racially stigmatized, and those living in the global South, there's nothing new or radical about an economic rights framework. An updated 21st century iteration of economic rights would learn from the past about the failures of exclusion and unequal power. It would emphasize that the design, implementation and management of economic rights need to be intentionally inclusive of all socio-identity groups and all nation states, particularly those that are most marginalized.

We think about wealth and resources as economic outcomes, but their true essence is a function of how they determine people's opportunities and economic and social position, outcomes, and futures. For example, when we look at wealth disparity, mainstream economics blames it on poor individual financial choices and decision making on the part of the borrowers of financial products. That framing is wrong - as so is the directional emphasis.

Wealth disparities instead are grounded in unequal and meager economic circumstances, not due to individual decision making or deficient knowledge that constrains available choices. Disparities reflect how poor borrowers and poor nations have few financial options and are driven to obtain and use predatory financial services. As households and nation states with few assets and low incomes, they are compelled to turn to high cost, unconventional, alternative financial service products. They are generally aware these products are predatory, but they do not have alternatives. These last resort debt traps result in

indentured borrowers having to pay higher and higher interest rates, until they ultimately default on the original principal they borrowed, further depriving them from access to future credit. So, as we move away from more strict and obvious forms of oppression and exploitation, this use of finance is another way in which we indenture our nations and individuals.

Existing distribution of financial products is based on racialized, exploited, and extractive histories, so a rebalance of power with public intervention is necessary. The rhetorical illusion and elegance around words like “freedom” and “choice” obscures its narrow and specific notion of rights - not the economic rights of people, but the economic rights of property. This rhetoric ignores the immoral practices by which that property came to be distributed in the first place and the ongoing inequalities that maldistribution continues to perpetuate.

So the neoliberal framing of our political economy naturalizes poverty and inequality by analyzing it as the result of unproductive or deficient behavior - that is, subpar outcomes are seen as resulting from personal choices of individuals, communities, or heads of states. That is the rationale for austerity policies. If behavioral modification, particularly with regards to human capital investments, is the central issue, why should we fund government and international agencies and programs? In the neoliberal framework, those efforts would at best would misallocate resources to irresponsible individuals or nation states, and at worst create dependencies that further fuel that irresponsible behavior.

An inclusive economic rights frame turns all of this on its head by locating poverty and inequality as resulting from an absence of resources. Poverty and inequality are not rooted in bad individual choices and behavior, but instead come from policy choices that deny people the

resources they need to live meaningful lives. One correction is for governments to end poverty directly by placing resources in the hands of people as a right.

Without resources, individuals are largely restricted from benefiting from economic markets, and instead are either at the whim of charity or the vulnerability of exploitative agents with resources in that market. But in a human rights economy, governments have the fiduciary responsibility to provide the enabling goods and services that are critical for self-determination and people's productive capacities. Without those goods and services, individuals have limited agency to reap the rewards of their efforts or ingenuity. Our economic system is couched myopically in the value of self-interested accumulation which leaves us vulnerable to greed and exploitation. Growth without human rights has become our explicit expression of economic well-being, but growth in isolation from economic rights fails to adequately capture the multiple dimensions of prosperity, including the full growth of human capabilities, morality, sustainability and people's civic engagement.

We need measures of economic well-being and economic and international policy that center people and their living and natural environments as well as industrial policies that center people in the places they live. Without such a potent policy apparatus to provide pathways of economic security and self-determination for all people, white supremacy and the despotic political appeal for divisive and fascist leadership will remain, even in the face of overall economic growth. Governments have the fiduciary responsibility to reinvest in our most treasured resources, which is its people.

Markets and Democracy

Joseph Stiglitz, Columbia University

The natural place to begin to see what a post-neoliberal economy and society look like is to identify the failures of the neoliberal agenda. We already know many of the economic failures of neoliberalism. These go beyond the economic -- slower growth, shorter lifespan, greater inequality. And the ways in which these obviously interplay with the politics are also pretty obvious. The growth of inequality has provided a fertile field for authoritarianism and illiberal ideas.

The kind of despair in the de-industrialized places in the United States provides a reason for people to feel alienated against the current economic system. The social dimensions have been emphasized by sociologists talking about how these communities and those in them feel like they are left behind, not recognized, their voices not heard. So all of these aspects of the failures of neoliberalism are fairly clear.

I want to begin with two points. One, economic theory always provided a critique. Most of the doctrines that underlie neoliberalism were wrong even before it became fashionable. Even the idea that free trade would be welfare enhancing was questionable. I wrote a paper showing that free trade in the absence of risk markets could make everybody in all societies worse off. The same thing regarding the case for capital market liberalization. So too, when you have endogenous technology, trade restrictions can help developing countries grow. To repeat: the "perfect markets" theory behind neoliberalism had already been rejected at the very time

when neoliberalism became fashionable. One has to understand that neoliberalism is not really a program based on economic theory, but a political agenda.

Now, when you recognize it's a political agenda, it's useful to begin with the word neoliberalism itself: it's neo (new) and liberalism (free). The naming of things is interesting. One of the things governments have learned is to always name things the opposite of what they are. So when you're talking about free, what did that mean? Everybody loves freedom, and therefore opening up sounds good. You're taking off the yoke that has kept you down. But of course, what we really should have understood was that it was freedom for some but not for others. As Isaiah Berlin pointed out, freedom for the wolves often means death for the sheep. Under neoliberalism, what was really going on was not really a liberalization agenda, it was a rewriting of the rules agenda: Rewriting the rules in ways which advantage some groups and disadvantage others. Rewriting the rules is political –it is about power. The economic model that underlay neoliberalism was a perfect and competitive equilibrium in which no one had power. So neoliberalism began with a view that power doesn't exist. It began with that as a presumption and then created centers of power. Small changes of rules—transaction costs we might call them—redistribute power from one group to another. A lot of really small, subtle things have made a very big difference.

One of the societal changes that's been linked to the growth of "illiberalism" is a growing sense of insecurity. And the question, then, is: was that growth of insecurity collateral damage, as we were making the economy grow? Or was it actually an inherent part of the strategy? Consider, for example, what Darrick Hamilton notes about enhancing people's indebtedness (I described that system in one of my books as partial indebted servitude), that

we created a system that got people *on the hook*, and they just had to work to keep paying back the banks. So, for example, look at how the rules were changed concerning bankruptcy. There was little public discussion of this change. But it had a very large effect on the distribution, you might say, of power.

There are other economic and political (power) aspects of neoliberalism; but I want to mention very briefly the moral overtone. I already mentioned "the freeing of all" that was associated with marketing neoliberalism. Milton Friedman wrote a book, Capitalism and Freedom, to show not only that a neoliberal economic system was more efficient, but also that it led to greater freedom. Hayek wrote The Road to Serfdom, in which he argued that if we have more collective action, we are on the road to serfdom. I've written a book that will be coming out next year, basically describing neoliberal, unfettered, capitalism as setting us on the road to fascism. The implication is that we have to rethink the principles of a market economy.

I want to turn now to discuss some of the elements of what I see as a post-neoliberal economy. I begin by emphasizing that modern economies are very large, complex, and have to be decentralized. I also want to challenge a view that was very fashionable in the middle of the last century that Galbraith put forward, which was of the importance of "countervailing power." Galbraith's view was that you must create large power groups to countervail existing powerful groups. I think that's part of the story. But we ought to be thinking about how we decentralize to make sure that there are no -- or minimal -- centers of power. That is to say, there are always going to be groups that have power, more power than others, but we have to have much more decentralization, which will limit the power of any one or group.

Another aspect of a well-functioning post-neoliberal society is the importance of *collective action*. If the government had not responded to the COVID-19 pandemic, we would all be at risk of the disease continuing. It was the government that provided the COVID-19 vaccines, and it was the government that kept our economy growing. So we have just had a very dramatic example of the importance of collective action. Collective action is important in a whole variety of areas.

But even in the area of collective action we ought to think of decentralization. There's not just one form of collective action Workers working together in unions is a form of collective action. Class action suits are a form of collective action. NGOs that try to represent the voices of people who have different perspectives are a form of collective action. So I think a part of the post-neoliberal society is a recognition of just how important collective action is and how many forms it can take.

Part of the strategy of the right has been to destroy, or at least weaken, collective action in every one of these areas. For instance, in contracts you can have arbitration clauses that give power to the corporations because the arbitrators, the judges, often have a relationship with the corporations. But then the Supreme Court ruled that there can't be collective action in arbitration. So businesses have succeeded in moving the adjudication of disputes out of the public arena, which is a core part of what ought to be in the domain of the "public"—into the private realm. And then they said that in that private sphere there can't be collective action. This is a concerted effort to weaken the scope of collective action.

The most important unit for collective action is our government, operating at all levels. And again, there's been a concerted effort to disempower the government, both by limiting its

funds - that's what austerity is about - but also by denigrating it, making sure that high-quality people don't work there and limiting the domain we have of government learning-by-doing. If you don't have industrial policy, you're not going to learn how to do industrial policy. If you don't have a central bank, you don't know how to do central banking. We recognize now that we need central banks. Similarly, we need institutions that promote industrial policy. By limiting government resources and denigrating the public sector over the past 50 years, we made the public sector weaker, and therefore made it more difficult to engage in collective action.

An important aspect of collective action is the socialization of risk. This goes back to the role of insecurity as creating a fertile field for illiberal democracy. We socialize risk all the time. When the Silicon Valley Bank went down, we socialized that risk. I think it was the right decision. But what is so interesting is that we have a neoliberal ideology that says, in effect: we individuals should take care of ourselves and be free to do as we please, bearing the consequences. So too, banks should be free—but when banks need money, we have to bail them out. That is not a coherent ideology, it is a reflection of power. I think there is scope for a more coherent post-neoliberal ideology, where we have to recognize that we individually can't bear a lot of risk. In some circumstances, we ought to socialize risk and we should do it in a systematic way, with a coherent set of principles.

Another area where collective action is really important is macroeconomics. Even the right wing has conceded that the market does not manage macroeconomic activity very well. They have conceded that we need macroeconomic stabilization policies. But then they formulate those policies in ways to limit the role of the state and weaken the state. An example is central banks that are independent but run by the financial sector, so they're not only

independent, they are also unrepresentative. The Right argues that they should operate according to simple rules (earlier, monetarism, more recently, inflation targeting), so they don't have much discretion. And they are ideologically captured by Wall Street—they adopt Wall Street's view of the world, and more specifically, of what makes for a good economy. Wall Street believes in austerity, tying government's hands. When I was in the Clinton administration there was a proposal to have a balanced budget amendment. One of the big things we did was defeat that. But it was only by a margin of one or two votes. You could imagine where we would be if that bill had passed. And some countries have passed laws like that. I am working, with support from the Hewlett Foundation, on a vision for post-neoliberal macroeconomic policy .

You can see the contrast between a neoliberal macro policy and what might be a post-neoliberal policy in the debate going on about how to respond to inflation. The Federal Reserve raised interest rates rapidly, without thinking about the turmoil that might induce, either domestically or internationally. It was a no-brainer that it would cause turmoil. It has happened every time they change the yield curve like that. But after the failure of several large regional banks, we discovered that even in their so-called stress tests, they never tested what would happen if you change the interest rate dramatically. This is mind boggling, undermining confidence in the Fed and its competence.

Even worse is the Fed's stated ambition to increase the unemployment rate. It is odd, to say the least, for a major public agency to say that its goal is to have an unemployment rate that is greater than 5%. And we know that if you have a 5% unemployment rate, the minority youth unemployment rate is going to be over 20%. Now, if the President of the Fed were

somebody with a social conscience, he would say to the fiscal authorities, ”This is going to be the consequence of what I’m doing, you better do something about this. Let's make sure that that disparity is reduced.” But no, not a word about that. It’s clear we need to build a post-neoliberal macroeconomic policy framework.

There are two final points I want to make. The first is a statement about the state of economic theory, and the second relates this to economic policy.

A premise of all economic theory is that individual preferences, their behavior, who they are, their identity, is exogenous. *But, in fact, economic policy helps shape who we are.* If you are a banker, you wind up being more dishonest and more selfish. Also, if you become an economist, you become more selfish. I don't want to just blame the bankers here.

The important point is that it is our socio-economic system that shapes who we are and affects what kind of society we create. If you have more institutions that are based on cooperation, you are more likely to wind up with more cooperative people. And, in fact, the one part of our financial system that worked relatively well in the run-up to the 2008 crisis and post-2008, were our co-ops, which are called credit unions. And the credit unions in the United States actually did not engage for the most part in the very bad behavior that was so prevalent, and after the crisis they continued to lend to small businesses. This is not a surprise, because they had a very different ethos. As we go into a post-neoliberal economy, it is important for us to think about how our economic, political, and social system shapes people.

The final thing I want to say is about the standard way that economists approach many of the questions we are discussing today. They ask, what are the market failures? And then how do we correct the market failures? That approach gives priority to the market. Markets are the

defaults. Markets are where we begin our analysis, and then we patch things up. I'm not sure that that's the right approach. It is a very useful approach, and I think you get a lot of insights from it. I myself practiced it a lot, so I don't want to criticize it too much. But at the same time I want to say that in many contexts, other institutional arrangements have worked very well and one shouldn't necessarily give priority to markets. The flaws in markets are actually very deep. When we think about the deep failures, the inequalities, the exploitation by the tobacco and food industries, the devastation to the environment, etc., we can find deep flaws. We have this mindset that while the market fails in all of these respects, the market should still be our paradigm. I find that a bit paradoxical. We need to take a more open approach to institutional arrangements. We should ask ourselves: what institutional arrangements really work? And if they're not working, how do we reform them, to make them work better? I acknowledge that designing institutions is really difficult. And what's particularly difficult is what we're calling for here, is a change in the system, and that means changes in many of the pieces all at the same time.

II. Drivers of Neo-illiberalism

Why and How Precarious Workers Support Neo-Illiberalism

Rosana Pinheiro-Machado, University College Dublin

Introduction

Dani Silva, 30, is an Uber driver who drives his car 12 hours a day and lives in one of the poor peripheral zones in a large Brazilian city. Like many other male platform drivers, Silva strikes up a conversation with his passengers as soon as they sit in his car, on topics ranging from poor road conditions and traffic to the political affairs of the country and rampant corruption. At times he also expresses his displeasure at the poor receiving social welfare benefits from the government and "becoming lazy." He voted for Bolsonaro in 2018 to "change everything that is wrong" – starting from moral values and including urban violence. In 2022, as these 'wrong things' did not change significantly enough to improve his life, he stuck with his choice, with the justification that "at least he is better than the communists." Silva is an actual research subject from a previous project, but he is also the embodiment of ordinary people of Brazil – a platform-based driver who votes for the far right. Not an isolated case, this story is symptomatic of a wider process, particularly strong in the global South, where a huge percentage of precarious workers – or low-income people above the poverty line –support authoritarian politicians.

The workers who reject a working-class identity or identify with the upper classes is not a novel political phenomenon[1]. Yet, we need fresher lenses to understand how such a long-

[1] This a foundational and well-documented debate in social sciences at least since the publishing of The German Ideology (1965 [1946]) and The Eighteenth Brumaire (1963 [1852]).

standing issue is being transformed in times of growing platformization. In this paper I use statistical data and ethnographic evidence from three different research projects conducted over the last twenty-three years in Brazil. I focus on the reactionary political manifestation amidst labour precarity and, more specifically, platform economy labor. I will discuss the Brazilian field site, but similar cases can be observed in other countries, especially in emerging economies from the Global South, like India and the Philippines. Recent scholarship on these countries has demonstrated that certain economic strata—which were raised from poverty but remain in precarity—tend to vote for authoritarians (Caspile, 2016; Heydarian, 2018; Jaffrelot, 2013; 2015; 2016; Kaur, 2014; Lero, 2023; Pinheiro-Machado and Scalco, 2020; Richmond, 2020). Building upon this finding, I have two aims in this paper. First, I examins how precarious workers in Brazil have developed political alignment with neo-illiberal worldviews. Second, and more important, I analyze how populist co-optation, combined with the algorithmic digital economy, have accelerated such an alignment with the far right.

To explore the nexus between labour precariousness and authoritarianism, the paper addresses a specific segment of voters: low-income people above the poverty line, with unstable employment, in the informal economy, indebted, working in gigs, in an increasingly platform-based economy. Representing a large part of the population pyramid in emerging economies, they are the product of 21st-century economic growth. Unlike developed countries' deteriorating working class — the Brexiter or Trumpist 'left behind', 'declining middle' or 'globalization loser' (Antonucci, Horvath, Kutiyski, and Krouwel, 2017; Caiani, Della Porta, and Wagemann, 2012; Kriesi, 2018; Goodwin and Heath, 2016)— these people have experienced some sort of upwards mobility or material comfort, being labeled as the new/neo middle class

or New Class C. These sectors are consumer-driven and characterized by entrepreneurial and material aspirations. But they remain vulnerable to economic shocks. They experience a contradiction between an aspirational identity that despises any label that associates them with poverty, and a deep resentment of the fact that they do not get social benefits. They distrust the state and are frustrated with financial insecurity, everyday violence, and corruption.

In line with this volume's purpose, the paper seeks to raise awareness about the fact that to achieve a more nuanced diagnosis of the rise of global authoritarianism, debates about economic policy and performance for sustainable democracy should necessarily address these emerging sectors that represent an aspirational precariat in the Global South. These groups not only represent a large part of the global population, but also constitute that section of the demography where the far right has been gaining a major foothold. In order to advance our knowledge of neo-illiberalism in the 21st century, it is imperative to take precarity seriously.

Methodological note

The arguments raised here stem from three ethnographic research projects conducted over the last two decades (1999 onwards). These works have all analyzed the political manifestations of economic activities in contexts of labour precarity in several countries from the Global South, especially Brazil. In my first research project (1999-2008, 2014)[2], I investigated aspirations, competition, and 'self-exploitation' in an informal street market in the city of Porto Alegre, Brazil (see Pinheiro-Machado, 2017). Afterwards, my research partner,

[2] This research project was funded by The Wenner-Gren Foundation. The project was also conducted in Paraguay and China.

Lucia Mury Scalco, and I conducted an investigation (2009-2018) on the political consequences of inclusion through consumption policies, and how this process impacted the growing support for former President Jair Bolsonaro among low-income groups (see Pinheiro-Machado and Scalco, 2020). Building upon the findings from these two long-term projects, my current project (2023-2027[3]) relies on ethnographic research and computational approaches to investigate the nexus between labour precarity and authoritarian politics in Brazil, India, and the Philippines. My research trajectory amidst highly individualistic and unregulated market settings led me to focus on the ambiguous and even reactionary dimension of neoliberal economic precarity — or what Gago (2017) calls 'neoliberalism from below'. The following sections argue that neoliberalism from below can easily turn to neo-illiberalism.

Precarious workers and neo-illiberalism in Brazil: an overview

This section examines various pieces of evidence that suggest a strong link between precarious workers and the support of illiberal politics in Brazil. The Workers' Party (PT) has secured its popularity among the poor. In the last two elections, former president Jair Bolsonaro received more votes in all strata above the poverty line, including impoverished segments whose household income is between two and five times the income earned from minimum wages. This is called Class C, which is mostly (approximately 60%) composed of workers with unstable income amidst precarity[4]. A 2022 DataFolha survey showed that

[3] Funded by the European Research Grant, Consolidator Grant. Grant Number 101045738
[4] Official data from Pesquisa de Orcamento Familiares, from The Brazilian Institute of Geography and Statistics, IBGE (2022).

Bolsonaro had 51% of the votes in this segment (against Lula's 42%)[5]. Class C is the largest economic stratum, representing 95.6 million people out of a total population of 203 million people. From an electoral point of view, Bolsonaro won in all States where the Class C is larger than all other segments[6].

In 2019, a dataset from Mapeo Institute, a privately owned database[7], which monitored and tracked data from 2513 WhatsApp public political groups in Brazil and mapped the most popular clusters of Bolsonaro's support. Beyond the expected clusters of Christian evangelicals and Catholics, and nationalists ('the patriots'), the third biggest cluster was less evident. This was composed of informal traders and sellers who used WhatsApp to sell merchandise and services, but also spread political content. Following this clue, in 2021, we monitored[8] the social media repercussion of the hashtags #StayHome and #BrazilCannotStop on Twitter during the pandemic. The first hashtag was promoted by activists, public health intellectuals, and lockdown supporters. The second one was fostered by the Bolsonaro administration. In April 2020, the message that Brazil could not stop had higher traction than lockdown support on Twitter during the period of our observation. Our analysis of the accounts' bio revealed that Bolsonaro's hashtags were promoted by well-known wealthy businessmen as well as micro-

[5] Available at https://www1.folha.uol.com.br/mercado/2022/11/encolhendo-e-em-crise-classe-c-vira-motor-do-bolsonarismo.shtml

[6] Data from the Consultancy Plano CDE (2022), which classified the Class C as household income of R$ 2030 to R$ 6125. Available at https://www1.folha.uol.com.br/mercado/2022/11/encolhendo-e-em-crise-classe-c-vira-motor-do-bolsonarismo.shtml

[7] A business owned by the computer scientist Diego Dorgam.

[8] WorkPoliticsBIP Project (UCD/ERC) in partnership with LABIC, a data centre from Federal University of Espirito Santo (UFES), directed by Fabio Malini.

entrepreneurs. This is an example of how Bolsonaro had populist appeal and could drive home simple and direct messages to masses of informal and gig workers who could not conduct their businesses during the pandemic. In addition, Bolsonaro offered an unconditional cash transfer (*Auxilio Emergencial*) to informal workers, micro-entrepreneurs, and low-income people during the pandemic, which further ensured his popularity within this sector of the population[9].

Finally, on January 8th, after Bolsonaro's defeat and Lula's victory in the tightest election in Brazil's democratic history, Bolsonaro supporters invaded the headquarters of the Executive Branch, Justice, and the National Congress in Brasilia in a coup attempt that called for military intervention. Data from the Federal Prosecution Ministry[10] showed that 60% out of the 1100 people who were detained by the police on that day were people who received *Auxilio Emergencial*; 60% of them were men in the age range between 36 and 55 years. All in all, this paper draws attention to the fact that although Bolsonaro gets more votes as the indicators of education and income increases, diversified sociological data suggest that the Class C—composed of informal workers and evangelicals—constitute thee ideological hardcore of Bolsonarism (see also Barlach and Mendes, 2022).

The politics of Uberisation

Lavina (2017) points out that the first term of the Workers' Party (PT) administration did not reduce the heavy tax burden on Brazilians nor break away from a neoliberal

[9] The Auxilio Emergencial during the pandemic was an initiative of civil society, especially from the group who advocates for Universal Basic Income in Brazil. Bolsonaro initially rejected the idea, but accepted it afterwards, gaining popularity

[10] https://www.dw.com/pt-br/qual-o-perfil-dos-envolvidos-nos-atos-golpistas-em-bras%C3%ADlia/a-64748058

macroeconomic regime. Despite this, the PT era adopted redistribution policies that profoundly transformed Brazil. One of the main legacies of the first term of PT was raising 40 million people out of poverty and inserting them into the so-called new middle class or the New Class C– a phenomenon that promised a bright national future (Neri, 2013). As controversial as this number is, it is irrefutable that the lives of the poor significantly improved in the 2000s as a vast part of the population had access to the financial system and mass consumption. In 2010, Brazil reached its peak economic growth rate at 7.5% GDP growth. The government focus on 'inclusion through consumption' transformed millions of people into new consumers. One of the negative consequences of this market-oriented form of inclusion was to nullify the previous party's collective and participatory mobilization mechanisms. The political impact of such a national push on the poor is still an ongoing debate. Yet, there seems to be a consensus that financialization and mass consumption inevitably bring about individualization and depoliticization[11].

Brazil's economy resisted the 2007 global recession, but by 2014 the country entered a phase marked by deep economic decline. This process coincided with the beginning of a political crisis that was animated by far-right demonstrations and a massive media campaign against the PT's corruption. President Dilma Rousseff was impeached in 2016 when Brazil was facing a period of political vacuum. We resumed our fieldwork in a low-income community in Porto Alegre at the end of that year. If our research interlocutors were developing new aspirations and enjoying a more comfortable life because of finance and consumption

[11] Although I do not disagree with that premise, depoliticization is a nuanced process, which occurs alongside new forms of politicization, more focused on female empowerment and *de*-subalternation (Pinheiro-Machado and Scalco, 2023).

opportunities between 2009 and 2014, they were now heavily indebted and frustrated, especially the males of the community. Teenage boys who represented the future of the country – the children of new consumers – became young adults amidst a multidimensional crisis marked by financial insecurity, hardship, and unemployment. A few years before this, these men were enjoying funk balls and worried about buying Nike Caps, but when they reached their 20s they became conservative fathers, concerned about their obligations as breadwinners. It is worth mentioning that these groups did not experience significant upwards mobility during the economic boom or downward mobility during the crisis. Yet, the perception of loss was huge within a short period of time. It is also revealing that male voters attributed the previously attained new, better life to their own efforts and merits, and not to PT's fiscal policies. Paradoxically, they attributed their subsequent failures to Lula (see Pinheiro-Machado and Scalco, 2020).

Uber started its operations in Brazil in 2014, precisely during the beginning of the economic and political crisis. The corporation was the first ride-hailing platform to operate on a large scale in the country. For many male interlocutors, Uber became not only the main source of income, but also an opportunity to have a more decent job, which was perceived by them as a form of self-employment and entrepreneurship. Having had a life trajectory marked by racism, exclusion and humiliation, entrepreneurship was a dignifying label for many of our interlocutors who had never had good jobs. For these men, the operations of ride-hailing platforms were an incentive to buy a car, own their first property, and work in an air-conditioned environment. The negative side was having to work in isolation during long journeys and 12–15-hour days. Platform workers have a labour-intensive routine marked by

isolation, physical exhaustion, hunger, pressure, and mental suffering (Crouch, 2019; Grohmann at al., 2022, Ramos, 2023). Instead of complaining about the exploitation of platform corporations, our interlocutors glorified their labour-intensive regime through an individual mystification of hard work. This new identity was built in stark contrast to that of their neighbors and old friends who received social welfare benefits from the government or were linked with the local drug trafficking faction. This process quickly evolved to villainization of certain groups, considered *vagabudos*[12], meaning people would supposedly have easy income for being lazy or criminals (see Pinheiro-Machado and Scalco, 2020).

The far-right populism conquered the hearts and minds of adult, male and low-income workers. From 2016 onwards, still in the middle of an economic and political crisis, it offered an extremist and discriminatory narrative against the poor and minorities but encouraging at the individual level. Bolsonarism was a movement that self-identified as neoliberal at the economic level and conservative in cultural aspects. From an economic point of view, the movement that orbited around the candidate, valued entrepreneurship and hyper-individualism as a route to success, relying on a simplistic logic that the hard workers win, and that the State should not intervene at any level of the economic life. Villainization of the poor was the way that low-income far-right supporters found to explain why they failed in making money, as promised for those who worked hard.

One of the most perverse results of far-right radicalization was an increase in the stigmatization of poverty and destruction of the collective identities of low-income people who

[12] The meaning of the word *vabagundo*, as explained in the text, is different from the English word *vagabond*.

lived in impoverished zones. Our research showed that precarious male workers strengthened their own identity by demonizing the poor. This process occurred alongside a strong conservative and even fundamentalist religious campaign, especially promoted by Christian evangelicals—the main base of Bolsonaro's support (Almeida, 2017). In this way, the hardworking family's breadwinner was threatened by a corrupt government, the lazy poor, and a perverted "gender ideology". Bolsonaro's promise to ease the access to firearms in Brazil made concrete all these economic and cultural dimensions: a gun would protect the breadwinner from bandits who could steal their few possessions; a cell phone or the car could be used for work. At the symbolic level, a gun also works as a sign of masculinity and power, especially in times of great feminist and LBTQI+ insurgence. A strongman in power would address such anxiety. All these factors resemble a process of neo-illiberalism experienced from below, which is a combination of a demand for strong governing authority and weak state intervention.

After the election, Bolsonaro maintained his support among low-income precarious workers through a continuous massive dis/misinformation campaign that reinforced the villainization of multiple enemies. As previously mentioned, precarious workers responded positively to Bolsonaro's anti-lockdown position. After the pandemic, in pro-Bolsonaro accounts I followed on Instagram for research purposes, I could witness investor influencers saying that the Brazilian economy was growing steadily during the pandemic, even better than China. For our research subjects, the reality of their lives—still in precarity and hardship—was not enough to change their political views. Supporting the far-right meant keeping the illusion that working hard in the gig economy would be enough to change their financial life.

In the 2022 presidential campaign, we were monitoring platform workers' groups on social media. The qualitative research conducted by Ianaira Neves[13] on platform drivers and delivery workers revealed that their WhatsApp groups, which were supposed to provide support and avoid political content, were steadily fed misinformation that suggested, for example, that Uber and other platforms would leave the country if Lula won. The moral panic activated the fear of these people, who reinvented their professional identity after Brazil's boom in the platform economy.

In another data collection exercise, I followed key platform driver influencers on Instagram. These people do not particularly show their political views on their profiles. During the 2022 election, two influencers, with 11,100 and 71,200 followers each, asked their followers about their views about Lula's declaration that platforms should be regulated and workers should get some sort of social protection. I mined the 831 replies to this post. The majority, composed of 74% of the replies, rejected the idea, fiercely opposing labour rights. Lula had mentioned that platform workers needed some type of protection against accidents. Yet, the followers were against that idea, saying that they did not need social protection or pensions since these benefits would increase the fares charged to riders. In an individualistic mode of thinking, the vast majority stated that the 'good workers' would save money for accidents and retirement, implying that it is the individual's responsibility to save money for the future. More than the quantitative result, the qualitative analyses showed the most paradigmatic dimension of workers' neo-illiberalism, revealing passionate favourable answers

[13] Ongoing PhD Thesis at Fundacao Getulio Vargas. Personal communication. Neves is a researcher affiliated to my project WorkPoliticsBIP.

towards a crude form of free market ideology[14]. The fear of platforms abandoning Brazil was combined with an aspirational ideal -- the permanent illusion that they would make money solely on the basis of working hard. In a country where 78.3% of families are indebted[15], they believed they would financially succeed by investing their money in cryptocurrency and other forms of investment.

How the digital economy is transforming the politics of informality

In this section, I move away from platform drivers to analyze the political implications of the digital economy. More specifically, I focus on retail sales on Instagram — a social network that has about 1.6 billion users worldwide in 2023. It is estimated that Brazil has 136 million users (equivalent to 70% of the population)[16]. A report concluded that 93% of Instagram users[17] access the social media at least once a day[18]. Selling goods and services on Instagram became a post-pandemic trend in Brazil, and this process is drastically changing the nature of the informal economy.

It would not be accurate to argue that digital platforms are creating the phenomenon of neoliberalism from below. The ethnography of Veronica Gago (2017) in the *Salada* Market in

[14] Of course, this is not a homogenous process; the revolt against large corporations and working conditions appears between the lines in many comments.
[15] Confederação Nacional do Comércio de Bens, Serviços e Turismo (CNC). https://agenciabrasil.ebc.com.br/economia/noticia/2023-05/endividamento-atinge-783-das-familias-brasileiras-diz-cnc
[16] See: Datareportal, 2023; https://datareportal.com/essential-instagram-stats
[17] See https://blog.opinionbox.com/pesquisa-instagram/#:~:text=O%20Brasil%20%C3%A9%20o%202%C2%BA,menos%20uma%20vez%20por%20dia.
[18] All these numbers come from reports conducted by private consultancy and should only provide an overview of the presence of Instagram in Brazil.

Buenos Aires in the 2000s is a good example of this point. Likewise, when I started fieldwork in an urban and informal street market in Porto Alegre in 1999, the neoliberal subjectivity was already there in a raw form of entrepreneurship: harsh competition among peers, rejection of unionism, and weak collective solidarity in favor of small groups' mutual help. My former interlocutors were street vendors who worked 15 hours a day, usually 7 days a week. Many of those workers rejected the identity of street vendors (*camelos*) and self-designed themselves as entrepreneurs or even bosses. The first sentence I heard in the field was "Welcome to the jungle". In my five years following the street routine, I found that my key interlocutor's personal slogan "If I need to be a slave, I prefer to be a slave of myself" was a largely shared worldview in the group[19]. The street vendors did not believe that they had rights as citizens because social protection had never covered them; their contact with the state was limited to violence inflicted by the police.

During the pandemic, masses of street vendors and micro-entrepreneurs perceived their businesses at risk. Migrating their operations to digital platforms like WhatsApp or Instagram was the alternative both in Brazil and worldwide. For my current research project, I started following my former interlocutors—the traders who were working on the streets in 1999. Many traders maintain their stands[20] but have majorly shifted their enterprise to Instagram. At the moment, I monitor 87 accounts of micro entrepreneurs who work in the same marketplace in the city of Porto Alegre. If the digital economy did not create neoliberalism from below, the longitudinal perspective allows me to argue that it is fostering and accelerating it, along with a

[19] It is also important to stress that the desire for autonomy and freedom was potentially positive in a country with a slavery past.
[20] No longer in streets, but now in a low-income mall, still largely marked by informality.

political process that connects workers to a far-right network. The reasons that explain this process are various.

First, as already mentioned, there was an ideological predisposition among these workers that gravitated towards a highly individualistic and competitive market logic. The competition that occurred on the streets is being replicated online, where they dispute followers and clients. Traditionally, face-to-face competition implies rules of bargain, honor and reputation (Rabossi, 2004). Yet social media platform's competition imposes new invisible rules, which are boosted by likes and followers in an algorithmic pyramidal infrastructure that puts permanent pressure on users.

Secondly, as is the case with platform drivers, working through apps became a more isolated activity executed on mobile devices. The traders are not only selling clothes or cell phone accessories during market hours but also late at night and dawn, while their competitors sleep. A consequence of such a process is the romanticization of brutal and exhausting working routines (see Ramos 2023). In addition, despite several disputes that occurred on the streets, mutual help and local politics were part of everyday life. Traders had to face local police and authorities and fight for their right to stay on the street, which forged some dimensions of working-class identity. On social media, the process of isolation and de-territorialisation empties the local politics and obliterates the last vestiges of street solidarity.

Third, and most important, my claim is that this context of online competition, inhumane labour experiences, and isolation, led to far-right adhesion. The digital economy, therefore, potentially poses a threat to democracy, triggered by push and pull factors. The pull factors are everything I have already mentioned, such as the predisposition to a strong

individualistic ideology that makes people seek influencers who are sympathetic with their goals and worldviews. The push factors are the algorithmic logic — the technological infrastructure that makes traders encounter the far right. In the context of Instagram retail selling, I hypothesize that the more traders there are online, the more inclined they are to support authoritarian populists. This assumption, however, must be put in context. It can be applied to certain platforms designed to foster alienation and competition as well as to labour contexts that have an ideological predisposition to support illiberalism. Feminist cooperatives of workers who use Instagram to sell food, for example, will likely be less impacted by the far-right ecosystem.

The network of traders I study falls into a digital trap. To grow online, unskilled digital traders need to follow skilled influencers. Such influencers sell a wealthy and successful lifestyle that could be achieved with discipline and hard work. As one of the main influencers, who has 8 million followers, posted, “There is no poverty that resists a work journey of 14 hours a day”. The traders follow a network of coaches who teach how to use digital marketing tools to make money and get new followers. Investor coaches teach how you save money, retire with bitcoins, and make your first million. Religious leaders keep traders motivated to cultivate family love and not give up, as compensation will come. All these influencers are interconnected around the phenomenon of online business in Brazil, which attracts a large part of precarious sectors. Following a network of 87 accounts of traders, I reached a network of 212 key influencers[21]. Researching their online political engagement, I found that at least 182 of

[21] Brazil is the country with the highest number of influencers in the world.

them are pro-Bolsonaro, explicitly or implicitly campaigning for him. These people dominate the digital tools of online entrepreneurship. Therefore, low-income traders get trapped in a political network of influencers who support the far right. Amidst precarity and low earnings, many former street vendors now call themselves CEOs. They also join fraudulent drop shipping and pyramidal multi-marketing schemes in the illusion of making the first million. Progressively, they also start following far-right politicians, which might indicate a process of political radicalization[22].

Conclusion

Precarious low-income workers above the poverty line are vital to understanding the vitality of the new far-right in the 21st century. Representing a large portion of the Global South's population, these groups face economic insecurity, indebtedness, and urban violence. Still, they are motivated to climb the social rungs through their individual efforts — rarely supported by State initiatives but instead by conservative religious groups. Economic precarity has ambiguous political implications. Many scholars (Hardt and Virno, 2009; Standing, 2011) have argued that anti-establishment dissatisfaction could potentially turn into revolt on both sides of the ideological spectrum. In Brazil, people's legitimate grievances and aspirations have been channeled by authoritarian populists who inflate their rage, fear and egos while systematically impinging upon their rights. Considering this context, this paper has drawn two major conclusions. First, economic precarity provides fertile ground for the germination of far-

[22] Since December 2021, when I started following the traders, I could observe that they started following more far right politicians in their business accounts. However, only the qualitative research will be able to assess the radicalization of such a process.

right ideas. Second, the platform economy further bolsters such a trend in certain labour contexts.

Labour precarity fosters several reactive emotions that stem from economic vulnerability. At the same time, aspirations are built upon national propaganda that stimulates individual ventures with the illusion of the possibility of achieving high incomes. Both complementary emotions are directly related to the ambiguous economic condition of those who are not poor but have not completed their ascent to the middle class. What I have observed in the field over these years is that one of the consequences of such a condition is a growing contempt for the poor and an identification with the upper strata. Furthermore, working in gig labor in the informal economy is usually a task carried out on an individual basis, aimed at making immediate earnings. This context is ideologically aligned with neoliberal principles of weak working-class identity and unionism and a focus on strong competition, self-enterprising efforts, and individualism. However, I also found that in spite of such inhospitable conditions, the social nature of face-to-face labour encourages people to act and voice their grievances collectively.

In this context, the digital economy can amplify the effects of such a trend. When international organizations analyze the impacts of platformization, they tend to stress two things. One is exploitation; another is the potential for connectivity, business expansion, and even formalization. In this paper, I drew attention to a largely ignored side of digital labour - its political consequences. My work shows that within labour contexts that are predisposed to neoliberal principles, working through platforms can boost the adhesion to far-right politics. This occurs for a combination of reasons: online ventures are isolated in their nature, platforms

produce a techno-politics based on an algorithmic rationality whose infrastructure is non-transparent and pyramidal (Bruno at all., 2019; Grohmann, 2020), and, finally, enterprising online has been a wild individual venture that demands long journeys of connectivity exposure in an environment dominated by authoritarian populists. In addition, in the post-pandemic world, masses of new and unskilled entrepreneurs need to rely solely on digital coaches to learn how to grow online. These influencers sell not only their digital expertise but also their political views.

Finally, many analysts infer that this situation of deep economic precarity amidst a growing illusion of making money on the internet is unsustainable. However, I would draw attention to the fact that authoritarian populists have historically benefited from economic austerity and social crisis. Therefore, the path to restrain the authoritarian turn and pursue democratic sustainability demands a robust and diversified set of policies focused on universal welfare benefits, employment promotion, reducing inequality, and providing public support for those who aim to access the world of the digital economy.

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Austerity – On Why, What and How – Lessons from the UK's Failed Experiment

Thiemo Fetzer, Warwick University

Introduction

Let me tell you a little bit about my adult life as experienced through crises. In 2008, I moved to the UK, and the first crisis hit and was very apparent. The global financial crisis affected mounts of demography and my own economic outlook. It also resulted in an excessively large PhD cohort at the LSE at the time, because many decided to postpone their entry on the job market. Many of these PhD students decided to study this crisis and what came from it: I was one of them.

The global financial crisis was followed by the debt crisis, which was very salient in Europe. It was followed by the refugee crisis, the austerity crisis, and the COVID-19 pandemic, which had dramatically different outcomes across countries, depending on the handling of the crisis. More recently, we now have the Ukraine war and the energy crisis.

This multitude of cascading crises is happening in the context of a global heating crisis as an overarching challenge, and a global demographic imbalance where our social system and our economic and social organizations face a demographic pyramid that does not promise a demographic dividend. Hence, many institutions (i.e., the monetary system, the unified currency, the trading system) are challenged by something that mankind has not seen before. I see two extreme paths and many muddled paths that this can go.

It is in this context that my research on austerity has unfolded and continues to unfold. I have studied in particular the origins and the causes of austerity, as well as the consequences of austerity in the UK from a policy standpoint. Most recently, this work has been focused on the COVID-19 pandemic and its handling. I am currently working on an ambitious piece of work on the handling of the energy crisis that emerged from the war in Ukraine and the climate crisis more generally.

What crises have in common

Throughout my research, I was struck to see that there is something that connects it all, and this is something I came to realize last year while reconnecting with some of the readings from my youth, particularly those in psychology. The narratives behind the attacks on the democratic organization of society, particularly those coming from the political right, tend to often lean on the perception of government inaction, or its inability to deliver. For this reason, I believe that the empirical work many economists are doing to study and analyze the unintended consequences of policies is incredibly vital. This work allows us to understand why these unintended consequences exist in the first place. This type of loop is the common denominator that surrounds all of the above-mentioned crises. This is also what brings us here to this conference to discuss the threats to liberal democracy and alternative social organizations that are being championed; such as illiberal forms of governments, potentially technologically augmented dictatorships or autocracies.

By living through and researching these crises, I have started looking for the commonalities they exhibit. We start with a shock, or a crisis, which is followed by a policy

response that often comes in too little and too late, and has a specific signature depending on which party is in power (this is particularly observed in countries that possess a majoritarian two-party system like in the UK and the US). When they come from the political right, these policy responses are typically increasingly regressive. They are facilitating or encouraging outright fraud or leakage of public funds. In other words, they tend to benefit larger firms more than smaller firms by being explicitly anti-competitive and reinforcing monopsony power, or of a market power of specific firms. They further actively erode state capacity and to some extent further skew relative prices, in particular intergenerationally. Because policy responses tend to come with a specific ideology, and oftentimes too little and too late in a specific flavor, they produce unintended consequences, which requires costly fixes of these policy errors. The narratives around how these fixes should look like, because of the development of the media ecosystem, in particular the emergence of social media, oftentimes result in two very unappealing options: the extreme left interpretation and the extreme right interpretation.

There needs to be a policy response to fix policy errors, which automatically creates an industry of action that my recent experience over the last three years suggests that there is something common here that governments oftentimes simply cannot deliver. This is where the connection to austerity comes in as I think it has eroded said state capacity. The consequence of producing biased and politically shaped policies produces intentional or unintentional errors that again will need fixing. This contributes to an erosion of trust and a reduction of resilience. This will in turn produce voluntary political disengagement of some groups and potentially result in erratic shifts in turnout that make the process of predicting political outcomes and navigating political engagement increasingly difficult. I argue that this volatility of voter turnout

and the difficulty to predict elections is one of the features of populism. It is about activating a voter pool that has selected to be disengaged. A consequence of the erosion of trust is the rise of extreme individualism, which undermines our ability to overcome collective action problems. The minimum group size threshold that one needs, as economists would call it, might increase and make the collective action problem more complicated. Other consequences in the forms of exit also exist. Instead of exercising their voice, some may exit through deaths of despair or poor mental health, which ultimately puts us in a worse situation when the next crisis hits, triggering the same cycle.

I have seen policymaking in a range of countries from the more democratic spectrum to the less democratic spectrum. I have engaged with policymakers, and many of them actually want to do evidence-based policy making. But they do not seem to be able to do so, and I have some hypothesis on why this is the case. One thing that I find increasingly shocking, and I observed this, is that a lot of the institutions that are archetypal institutions in rentier economies, such as heavily institutionally dualized labor markets are seeping into Western market systems. The UK is actually adopting a lot of policies that are very similar to what you would see in the Middle East and North Africa, practices of bonded labor which we know is shrinking the size of the pie, due to the inefficient allocation of workers to jobs. It is the rejection of individual freedom and a rejection of human relationships that may be built on an ethics of care and mutual respect.

All that raises the specter that some countries may essentially be importing the rentier economy and their institutions, just as I and many others are actively advocating to help the natural-resource rent driven rentier economies to cast away with that institutional legacy or

primal instinct – to help them build thriving economies. So, where are the rents – if they do not have a natural resource origin? The answer may well be: politics. Because every crisis provides short-term economic opportunities, for money to be made by addressing the crisis. And even if this is done with the best of intentions of all involved, within a highly polarized society that finds itself confronted with new and vulnerable technologies of mass communication, the invariable policy mistakes and errors that happen – intentionally or unintentionally, feed cycles of distrust, ultimately further eroding state capacity and resilience.

The energy crisis that we have seen in the wake of the Ukraine war and the policy response to address it provides a unique opportunity to study and evaluate the quality of said policies across countries. This is essentially what I am currently working on. It is bringing together my own life experience, all of my past research through which I tried to illustrate the zero-sum failures of past interventions and many more deep and very personal emotions.
In terms of the narratives around policy failures and inaction, there are typically three lines of argument: 1) the lack of data, 2) the lack of time or 3) the lack of evidence. On each of these three points, I believe we have a good understanding of why these barriers do exist. On paper, all the right data exists, it may just not be available to those who can make best use of it from a societal perspective. In terms of time, typically, some crises are more predictable than other crises – the climate crisis has been well predicted now for decades. In terms of the evidence, we know that this is heavily influenced by influence industries, and the absence of experts, in particular the lack of incentives for experts to engage in the boring work of policymaking and working with government departments.

In the wake of the energy crisis, I have reached out to government entities, systematically across 165 local authorities in the UK, as part of an RCT. There was a lot of engagement and willingness to engage with experts who have proactively reached out. The problems are often of a logistical nature. Around this framing and discussion of deliberative attacks, which indeed exist, there are also a lot of logistical issues that impede effective, agile and timely response by the public sector which is in charge of developing the menu of policies that politicians eventually evaluate. This is an important insight that we cannot ignore about the plumbing of our societies. Following my discussions with politicians and policymakers, it was clear to me that they want to listen to the evidence and to follow the signs, but very few are competent or able to tell apart what is good quality research evidence from bad evidence. And again, these are normative terms. In general, and on average, designing policies for a country, for all citizens, is a highly complex task. Listening to the evidence is hard, in particular if those who should be listening to the evidence are not well trained to tell apart what is good from what is bad evidence, in terms of the quality. I think the research community can and should do more to actually offer their help and our profession should get better at offering reward and recognition for this type of work.

What I have also noticed in policymaking is that a lot of policies, a lot of times, the do-nothing scenario is the counterfactual. That is "what is a specific policy proposal being evaluated against?". And obviously, if this is the framing that decision makers approach a problem on, then doing nothing in most instances, around a crisis, is not an option. If this is the only counterfactual the public is informed about and that has been considered, and what the evaluations were, for example through mandatory economic impact assessments, that are

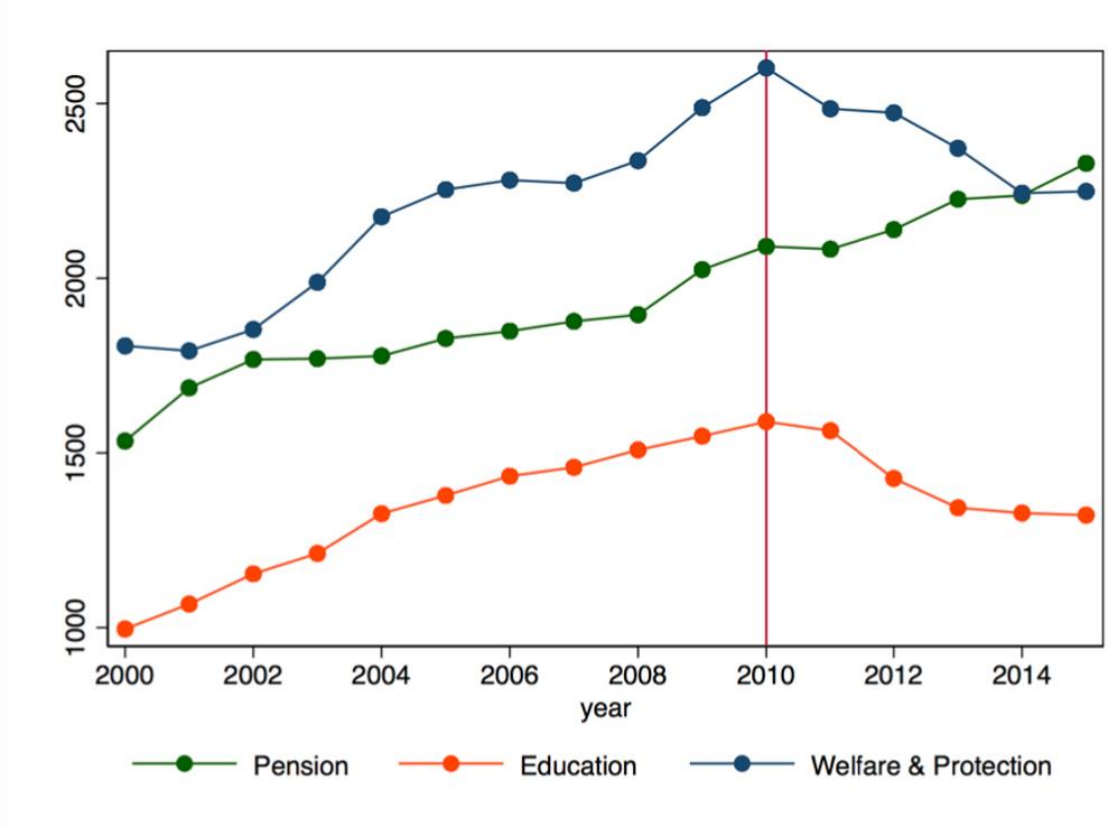
routine practice in the UK, then this is a big problem. The public needs to demand more and demand better to understand what is the menu of options that is being considered. And last but not least, I must emphasize that there is a lack of skills. The reason why many of my freedom of information requests take a long time in most instances suggests that they simply do not know how to extract granular individual level data, to anonymize it in a way that is not disclosive. Protecting the right of privacy of those whose data is being represented is important, but that obviously is a barrier then for the research community. We would not want to be in a world where access to data is available only to some private sector players, and some in government. This is why I expect, in not too long, that there will be a discussion of privacy as a policy parameter. Neither too much, nor too little privacy is, in my opinion, desirable.

The internal organization of government is also a central challenge, as governments and executive branches of ministries are organized in silos with limited inter-operation, communication and cooperation. The Cabinets are organized in silos, which makes combining and merging data that is necessary to design good policy options really difficult. This brings us to the challenge of systems competition. In my experience working with governments, I have seen data rooms in countries that I would describe as being quite far from Western notions of (representative) democracy. The concerns about data governance are, I have observed, very strongly founded. Looking forward, I believe this is where Western societies need to develop an alternative view and significantly up their game.

Austerity as a signature zero-sum policy

Austerity is a signature zero-sum policy that showcases many of the aforementioned issues. The specific design of the UK's implementation of austerity was very much informed by ideology, shaky cross-country empirical evidence, and cross-country regressions that I do not think would uphold the quality standards of modern applied and economics research. They would not stand up to that scrutiny. And that, I think, is an important qualifier. Austerity, in particular how it was implemented in the UK, reflected the political realities of the time: old people turn out to vote while young people are disengaged (voluntarily or involuntarily, that is a different question). In terms of welfare reforms and from 2010 onwards, we have seen a realignment of government spending along the age divide. Pension spendings have increased continuously, while spending that benefits future generations (education) was drastically cut and increasingly privatized through higher tuition fees. This was followed by drastic cuts in welfare and protection spending, which mostly benefits the current working generation (see figure 1). Those policies were hitting the poorest regions the hardest and exacerbated the existing divide. Those policies ticked all the boxes of what you would expect for the implementation of austerity. Looking at the data, it is consistent with what one would expect in a society that is organized by those who vote: those who turn out to vote get to have their say and influence policy.

Figure 1. Composition of government spending (2002-2014)



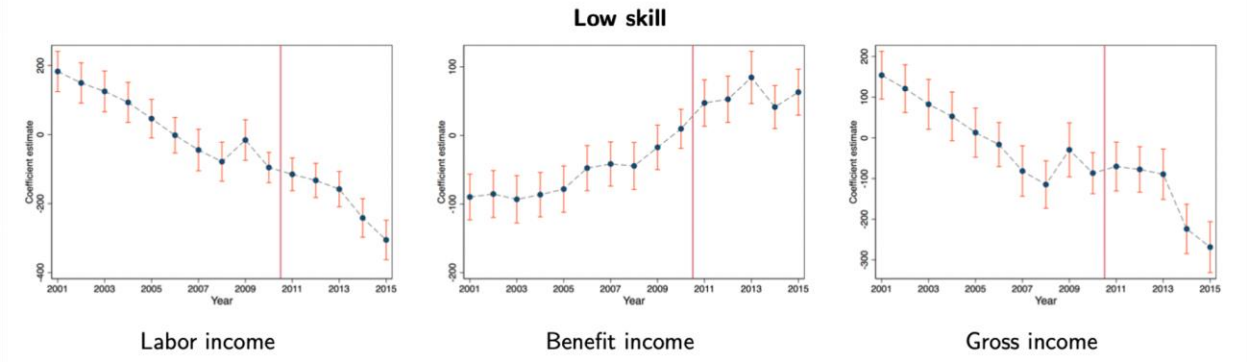
Source: Fetzer (2019) Did Austerity Cause Brexit?

Now, what were the effects of these austerity policies? I have written a paper that I think very cleanly separated and showcases how austerity basically caused Brexit through a range of mechanisms (see Fetzer, Thiemo. 2019. "Did Austerity Cause Brexit?" *American Economic Review*, 109 (11): 3849-86). The most important mechanism is that without austerity, sub-national politics in the UK would not have evolved in a way that creates the political pressures inside the Conservative party to put a referendum on the table in the first place. The vote that has swung in favor of Brexit was quantified to around 10 percentage points, directly attributable to austerity, which is the signature of populist politics. The marginal voter was very

much an accidental Brexiteer, as someone who wanted to send a message, whereas the average Brexit voter was one of those old signature demographic groups that we tend to associate with a support for populism and nationalism. What we saw was the coalition bringing both these groups of voters together during the campaign, which ultimately swung the result in their favor.

The bigger context is the economic challenges and I argue that the welfare state as it was designed was just a band-aid to a larger, systemic problem. As seen in the graph below, within the same individual over time, for low-skilled people, there has been a drastic decline in labor income that has been stabilized by an expansion of benefit payments up to the point when austerity essentially put a halt to it. The cuts in the welfare state put a hold to the acceleration of benefit payments, which resulted in a decline in gross incomes, eventually leading to polarization. This polarization is driven by many factors across the skill divide and can be observed across regions, age groups, skills groups and ethnic groups, resulting in an increasing stratification of society.

Figure 2. Erosion of welfare state removing a "band aid"



Source: Fetzer (2019) Did Austerity Cause Brexit?

The welfare state was a band-aid. Austerity ripped that band-aid and Brexit was the consequence of it. Now, what is Brexit's legacy? The legacy is: the pain continues, and the pain endures.

In a recent paper, I have looked at the economic consequences of Brexit across regions (see Fetzer, Thiemo and Wang, Shizhuo. 2020. "Measuring the Regional Economic Cost of Brexit: Evidence up to 2019". *CAGE,* Working paper no. 486). Not only has austerity given rise to Brexit, the empirical evidence suggests that the alleged cure may be making matters worse. Brexit led to a cull in SMEs, a collapse in trade relationships, and a more concentrated and hence less competitive market. This was followed by a shock in international science collaboration that affected researchers and their work. Overall, the cure seems to be worse than the disease and it is estimated that any Brexit benefits will not appear before 2050. Since the vote, the narrative has been completely shifted around, and this is why I argue it is so important to study the unintended consequences of policies rigorously and carefully. This requires a careful distinction of quantitative as well as qualitative work. As argued earlier, policymakers cannot deny evidence, at least in (somewhat) liberal democracies such as the UK, and high-quality research that is hard evidence can inform the policymaking process and become an effective constraint.

With the change in the media landscape (i.e., professionalization of data journalism), informed research can constrain policymaking and serve as, as well as reinvent, checks and balances. I am hoping to make a contribution here over the coming months and years.

Finally, it is crucial to remember that austerity itself is not a policy but rather a general reduction in government spending and there are many ways of undertaking it. Curiously

enough, many of the policies that have been lumped together under the austerity bundle can be rationalized (i.e., in the context of fighting climate change). One must therefore not be blindsided by austerity's big label and understand that the devil is in the detail. It is the job of the profession of economics to make sure it equips its graduates with the skillset to do the right thing, know where to find which literature to read, which data to use, how to analyze it, skills many policymakers of our time lack.

I would like to add on a note that reflects my ongoing struggle. I do not think humans are genuinely bad. We are all shaped by our own experiences and preconceptions and many more things. How we read evidence and interpret what is happening in the world is shaped by many factors and the last twenty years have seen drastic changes to how information is produced and how it is consumed. We should not lose sight of this as this may create noise. I am a firm believer that the world would be better with more dialogue, more data and more hard research as this can produce less polarized debates. We should speak more with each other, than about each other. Researchers need to do more to actively explain their work. And I also sense that society may need to face some debates that it has actively shied away from, for a long time. Consensual approaches to policymaking empowered or constrained by rigorous evidence, though, may require giving up some of the spoils that come with political power: the control over political rents, that may mostly be information rents. Humanity is facing an existential crisis and we simply can not afford to succumb to narcissism. Strengthening and re-building state-capacity is vital. And since the Global North is ultimately asking the Global South not to follow its specific development path – owing to the carbon footprint that it entails – it is vital that the Global North is pushing ahead. The onus is on us.

The Enduring Social and Economic Consequences of the China Trade Shock

David Autor, MIT

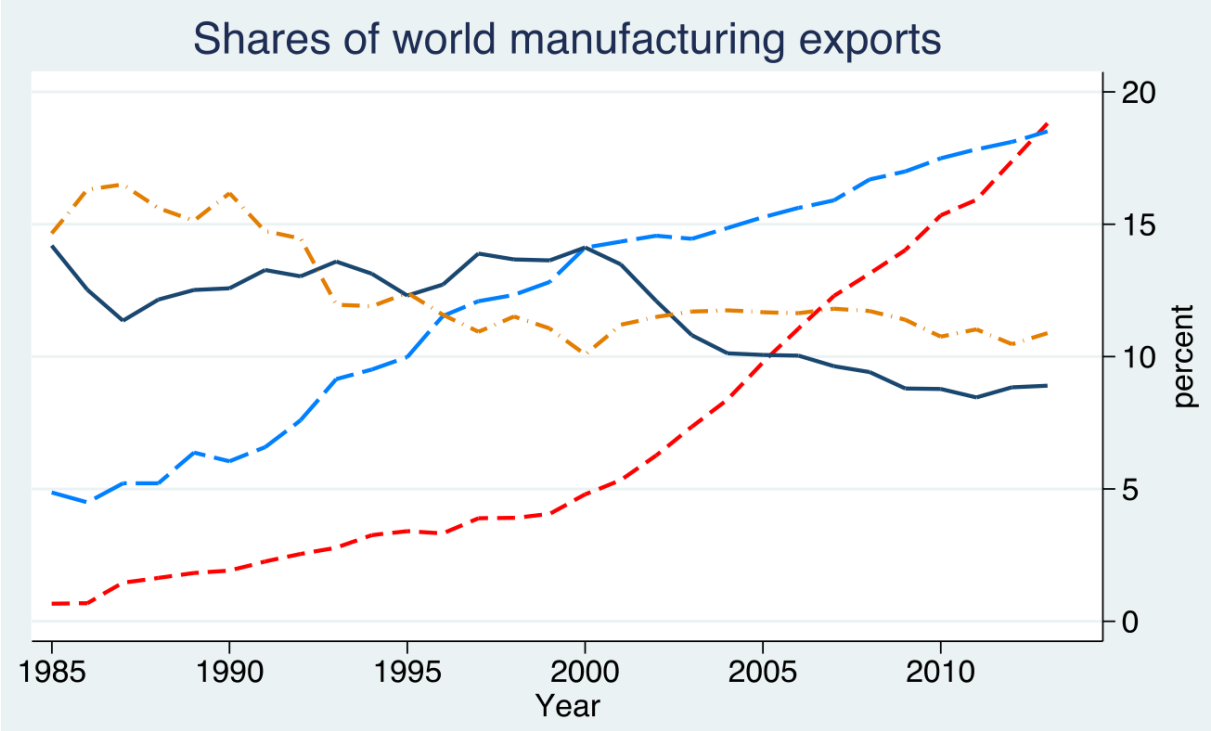
Introduction

This talk will discuss the enduring social and economic consequences of the China terms of trade shock. It will then turn to the political entailments that have followed and where they may take us.

China's rise as a world manufacturing power

China's historic rise as a world manufacturing power is illustrated by figure 1, where its share of world manufacturing exports increased from essentially 0% in 1985 to nearly 20% in 2015, and it has risen subsequently. The anomaly in this figure is not the large share of world manufacturing China has now captured; this is to be expected given China's enormous physical and human capital resources. Rather, the anomaly is the speed at which China went from about 2% of world manufacturing in 1990 to approximately one-fifth of all manufacturing today. No such rapid increase had ever been observed before, at least at that scale.

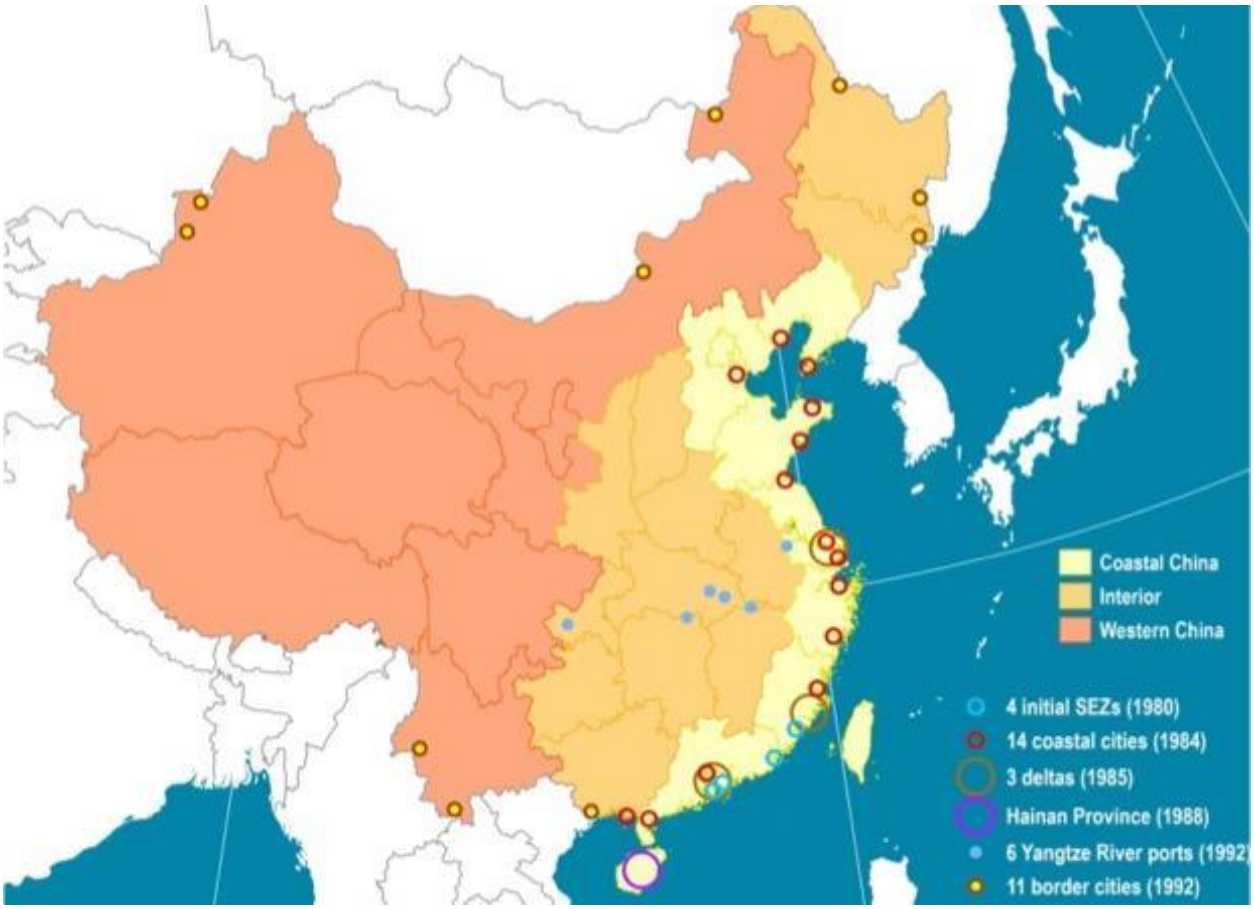
Figure 1: Shares of World Manufacturing Exports



Source: Autor, Dorn, Hanson (2016)

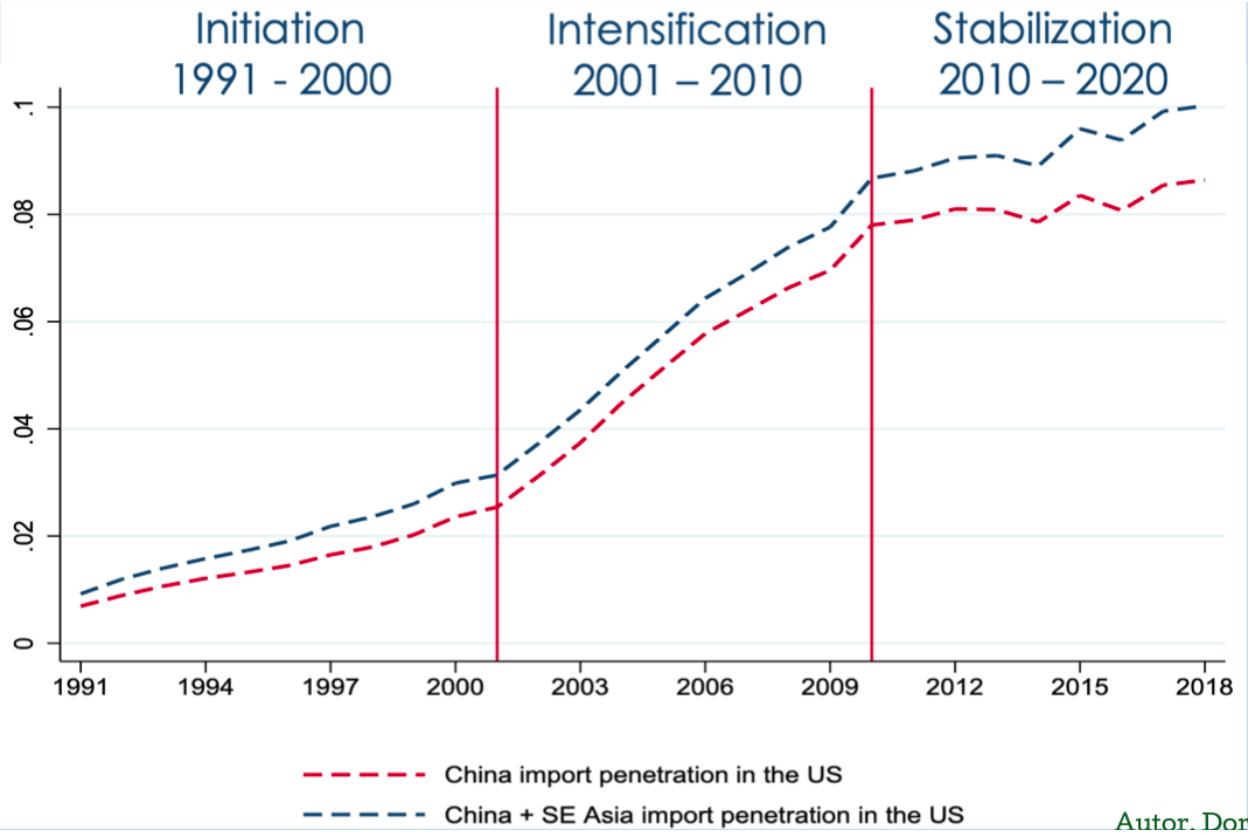
Understanding China's historic rise as a manufacturing power is rooted in substantial part in internal developments within China itself. In the late 1980s, Deng Xiaoping, Chairman of the PRC, commenced market reforms and opening to world trade that, among other things, enabled the flow of foreign direct investment into China and ultimately prompted the movement of hundreds of millions of people out of low-productivity agriculture in the Chinese countryside into highly productive export processing zones (see figure 2). This radical change and China's entry into the world economy followed decades of continual political and economic upheaval under Mao Zedong. It is important to note that such change did not emanate primarily from US foreign policy but rather from China's own internal developments.

Figure 2. Special Economic Zones (SEZs) in China



This radical change can be observed in the landscape of Chinese cities. Shenzhen, which was a small fishing settlement in 1970, is today a vibrant city with skyscrapers inhabited by more than 12 million people. Over the past 50 years, Shenzhen's population has exploded, largely due to the growth of manufacturing jobs - most consumer appliances are assembled in the city's factories. China's rise as a manufacturing superpower, illustrated by Shenzhen's example, can be understood in three acts: (1) initiation from 1991 to 2000; (2) intensification from 2001 to 2010; and (3) stabilization from 2011 to 2020.

Figure 3. China's Import Penetration in the US Market



Source: Autor, Dorn, Hanson (2021)

China's initiation is characterized by the internal reforms that enabled it to enter the modern manufacturing trading system. This period is illustrated by a slow but steady uptake of manufacturing exports to the US. The intensification period begins as China is granted Permanent Normal Trade Relations with the U.S. in 2000, followed by its joining the World Trade Organization (WTO) in 2001. Starting then and for the following decade, China's import penetration in the US (i.e., its production of manufacturing goods consumed in the U.S.) increased explosively (from 3% to 8%). After 2010, China's manufacturing entered a stabilization period during which its export growth slowed and its productivity boom decelerated. This period is characterized by a large-scale re-allocation of investment and a focus away from free enterprise

and towards state owned enterprises (SOEs). The primary China trade shock, as many understand, is characterized by a 10-year period that is already behind us. The ensuing decade of relative stasis provides an opportunity to separate the longer run consequences of the China trade shock from its short-term impacts while it was ongoing.

The impact on the US and other countries

It can be argued that China's growth over the last three decades has created the modern world middle class. Not only has it brought half a billion Chinese citizens out of poverty, it has also created prosperity in Central and South America, and caused renewed investment in Sub-Saharan Africa, which was largely neglected by the West. Some may argue that this was not a benevolent investment, but when has Western investment ever been? On the plus side, these investments might also have caused the US and other countries to start competing for the attention of Sub-Saharan African governments. In his recent *Foreign Affairs* article, David Grewal argues that one could imagine a different future in which the West had cultivated more democratic and westerly countries, arguing that there might be a third alternative to the "China's rise versus not China's rise" debate. Nonetheless, it is hard to overstate the importance of how much prosperity China's rise has brought to the rest of the world.

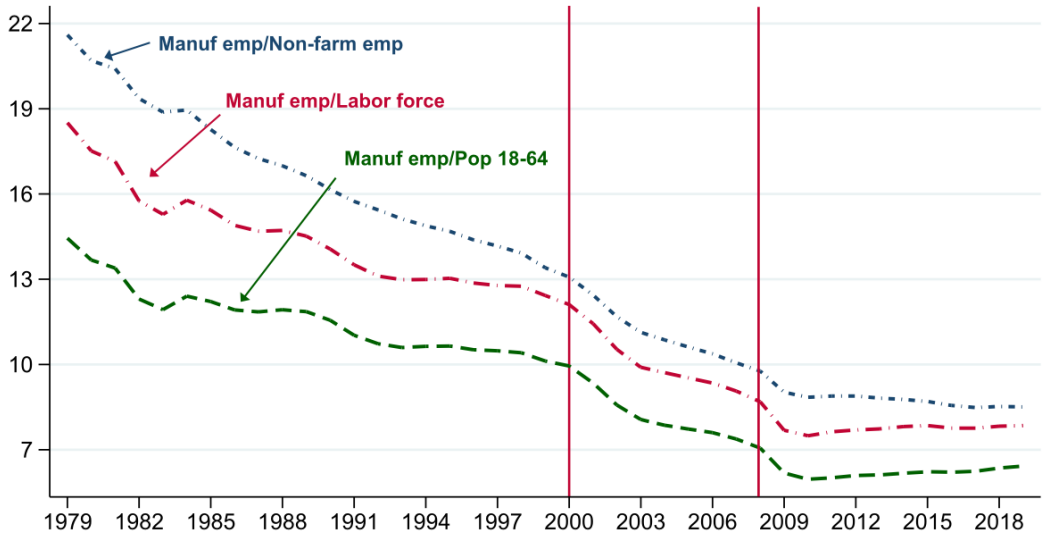
The case for free trade

David Ricardo, British Portuguese economist, observed and coined the phrase "comparative advantage". His insight was that trade allows countries to specialize in the goods in which they are most productive. The generalized case for free trade is that free trade among

consenting nations raises GDP in all of them. In a *Journal of Economic Literature* article in 1997, Paul Krugman put this forcefully: “if economists ruled the world, there'd be no need for a world trade organization. The economist's case for free trade is essentially a unilateral case: a country serves its own interest by pursuing free trade, regardless of what other countries may do”. However, trade creates winners and losers. What is true for the welfare of a country in the aggregate does not necessarily apply for all the citizens in that country. Trade is redistributive. It has diffuse benefits and concentrated costs, both in theory and in practice; without compensatory policy, trade will grow the size of the pie and shrink some slices in absolute terms. Hence, dramatic changes in terms of trade are inseparable from redistributive consequences. Arguing that countries should simply engage in trading any goods with any country who is willing to trade without attending to the domestic impacts neglects the redistributive consequences of such trade.

As Krugman and Obstfeld argue, “owners of a country’s abundant factors gain from trade, but owners of the country with scarce factors lose… this means that international trade tends to make low-skilled workers in the United States worse off not just temporarily, but on a sustained basis” (International Economics: Theory and Policy, 2008). Trade does raise GDP, but it is likely to make a subset of people worse off (i.e., low-skilled workers, manufacturing workers in specific locations). This effect is unlikely to be benign. One component of that impact can be seen in the falling manufacturing employment share (see figure 4).

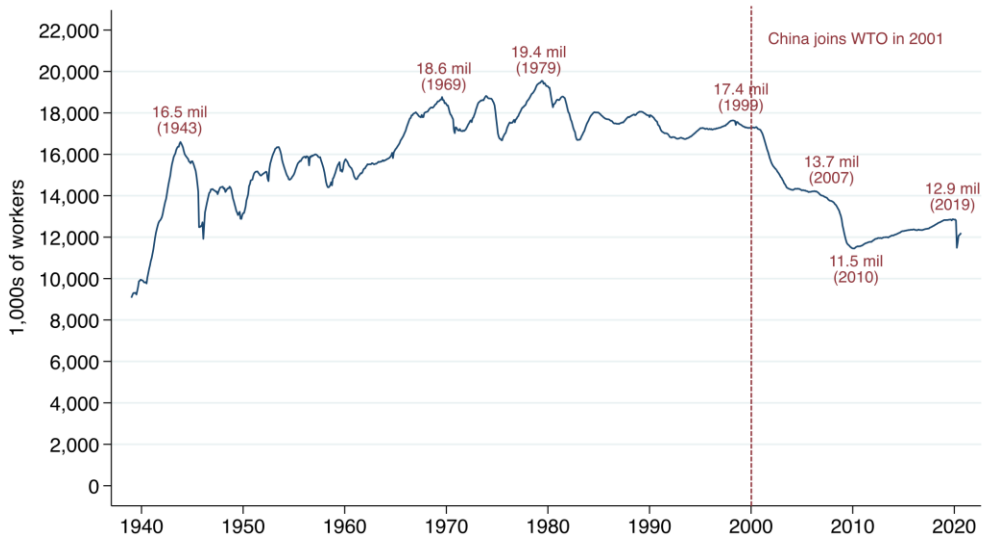
Figure 4. The Falling Manufacturing Employment Share, 1979-2019.



Source: Autor, Dorn, Hanson (2021)

Manufacturing's share of employment began its decline within a few years of the close of the Second World War, and a further acceleration of that decline can be observed around the time China joined the WTO in 2001. A substantial share of that recent decline, at least 40 percent, can be confidently attributed to changes in trade.

Figure 5. U.S. Manufacturing Employment, 1940-2020.



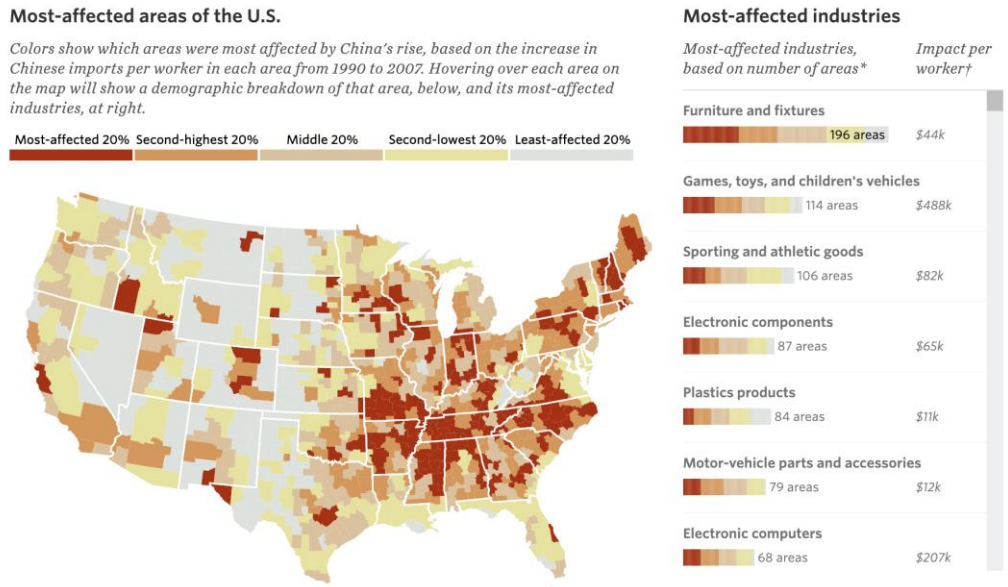
Source: St. Louis FRED

Turning from the share to the count of manufacturing employment tells a more dramatic story. The high-water mark of US manufacturing employment was in 1979, when there were a total of 19.4 million US manufacturing workers (see figure 5). Over the following two decades, this number slowly declined to 17.4 million - in other words a 100,000 net reduction in manufacturing employment per year over two decades. Following that period, manufacturing employment fell much more rapidly - declining by a further 3.7 million over the course of 7 years - and fell even further during the Great Recession (although this last decline cannot be attributed to trade per se). After the financial crisis, manufacturing employment had something of a rebound, with the exception of the Covid-19 pandemic, and went back to levels seen before the global financial crisis. The drastic dip between 2000 and 2007 is unlike anything the U.S. has seen since the Great Depression. While the long sweep of technological change has

played a leading role in manufacturing's secular employment decline, this slow moving process cannot explain the precipitous fall after 2000.

Concentrated impact on manufacturing areas

Figure 6: Concentrated impact of China trade shock.

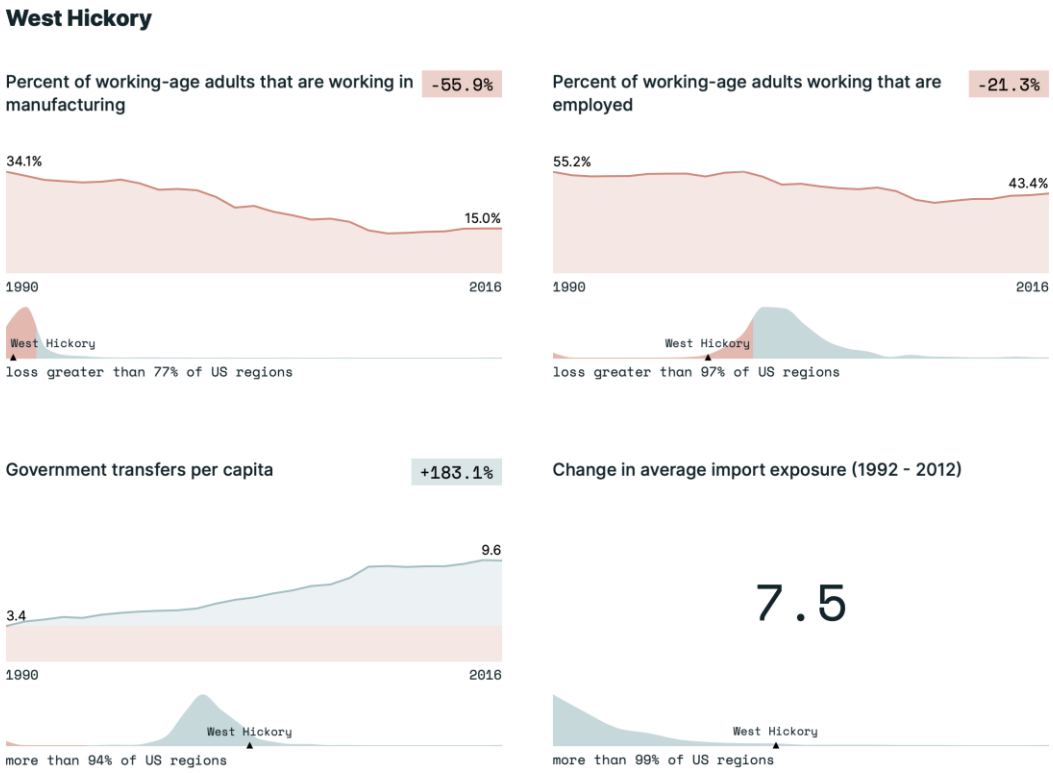


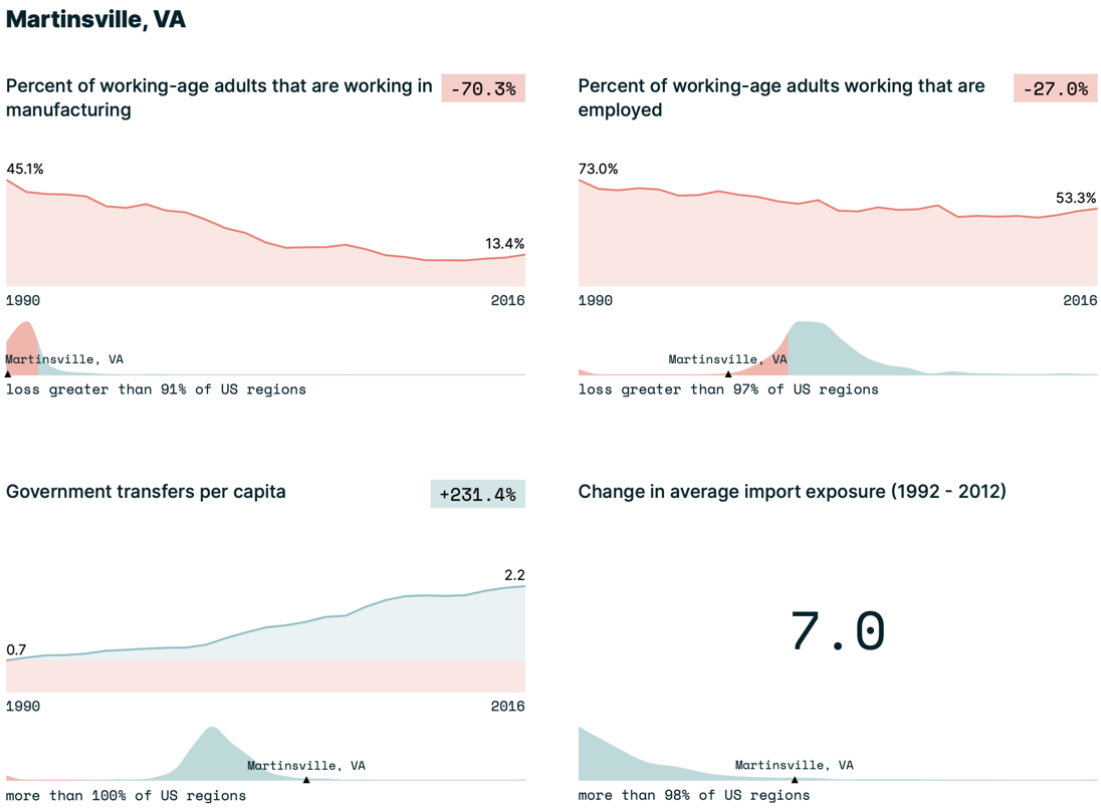
Source: Autor, Dorn, Hanson 2016

In relative terms, one might think that 3.5 million manufacturing jobs might not be strongly felt in an economy of 150 million workers. Evenly distributed across the 3,500 US counties, for example, it would represent 1,000 workers per county nationwide, which is not necessarily a large number. But in reality, manufacturing jobs are geographically very concentrated (see figure 6). The loss of manufacturing jobs was not only felt by directly affected manufacturing workers, but also by manufacturing-intensive communities that specialized in the labor-intensive goods in which China gained comparative advantage; places making

furniture, games and toys, sporting and athletic goods, plastic products, electronic components, and motor vehicle parts. Indeed, manufacturing is by nature very locally concentrated and typically in a few activities. The effects of the trade shock were especially strongly felt in small localities. This has been observed in West Hickory, North Carolina, the former self-proclaimed "furniture capital of the world," where the percentage of working age adults in manufacturing fell from 34.1% in 1990 to 15% in 2016. During that same period, government transfers for capital rose from $3,400 to $10,000. Another example is Martinsville, Virginia, former self-proclaimed "sweatshirt capital of the world," where manufacturing employment fell by two thirds, the fraction of adults working fell by a quarter, and government transfers increased by almost 200%.

Figure 7: The case of West Hickory (NC) and Martinsville (VA)

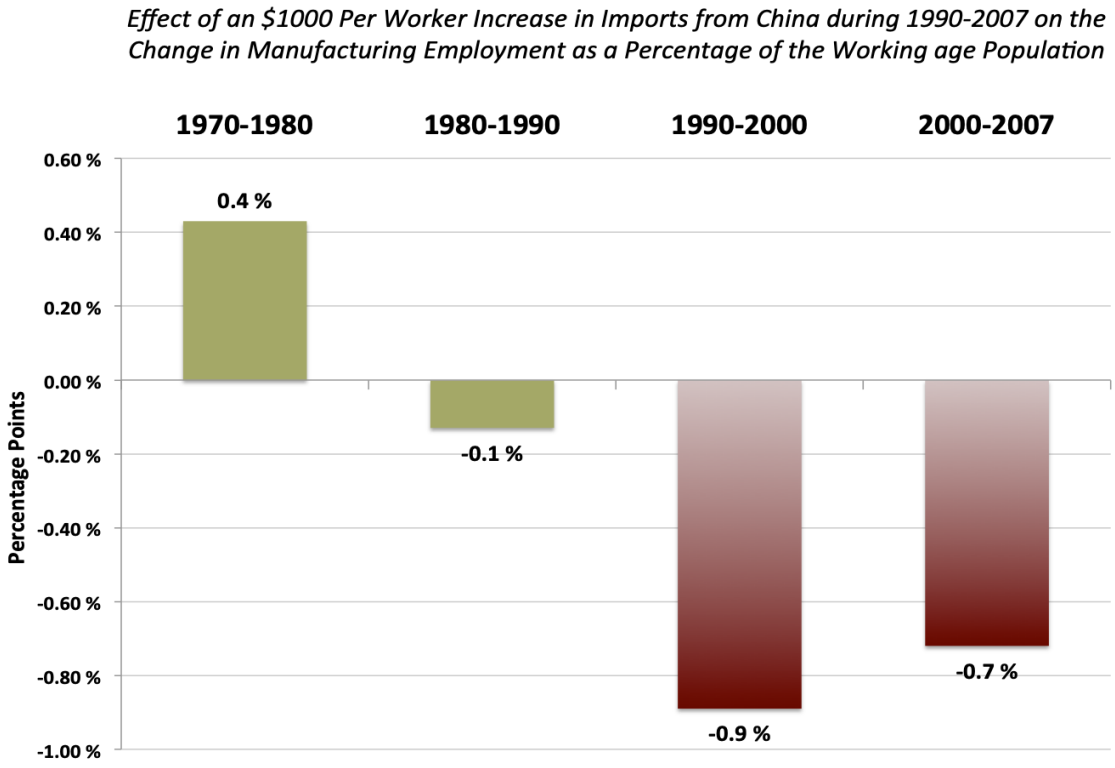




Empirical evidence of the China trade shock

Rigorous evidence was presented in Autor, Dorn and Hanson (2013). Studying the effect of the China trade shock on manufacturing employment, the paper finds that every $1,000 intensification of trade per capita reduces manufacturing employment by about a percentage point (see figure 8). This reduction is significant, as only 12% of the working-age adult population was employed in manufacturing in 1990.

Figure 8: Effects of $1k China Trade Shock on Manufacturing Employment Per U.S. Adult by Decade, 1970-2007.



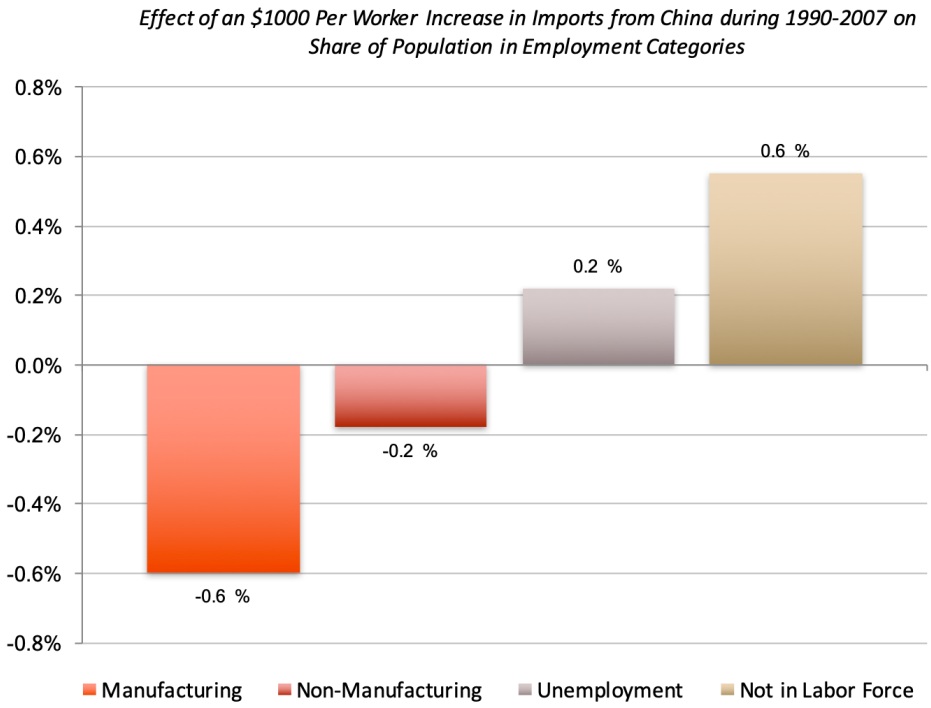
Source: Autor, Dorn, Hanson (2013)

David Dorn and Peter Levell published a paper studying the case of the U.K., with comparable price and employment data, showing how import exposure impacted domestic prices in a variety of industries. Industries like shoes, garments, appliances and jewelry had enormous import exposure which resulted in sizable declines in prices (40% for garments). Industries that were less exposed to imports (i.e., fishery, cars and newspapers) had the same price changes as the average. Looking at employment in manufacturing in the UK, most sectors that had large price declines also had sharp employment falls (e.g., shoes and garments, jewelry

and furniture and appliances, but not so much fish). This is precisely what is predicted by theory: trade lowers prices *and* reduces domestic manufacturing employment. Trade lowers prices by displacing higher-cost domestic production and replacing it with lower-cost foreign production. This is generally beneficial for consumers, a large number of whom receive small but meaningful cost savings.

The fact that manufacturing workers are displaced by this process is expected in theory and verified in the data. The question that follows—which cannot be answered by theory—is what happens to workers who are displaced and the manufacturing-intensive communities in which they live. And the answer to this question, unfortunately, is that most of this displacement has been accommodated by a rise in unemployment and non-employment rather than a corresponding increase in non-manufacturing employment. Not surprisingly, college-educated workers were relatively successful at relocating out of manufacturing and into other activities, with a slight rise in unemployment (see figure 9).

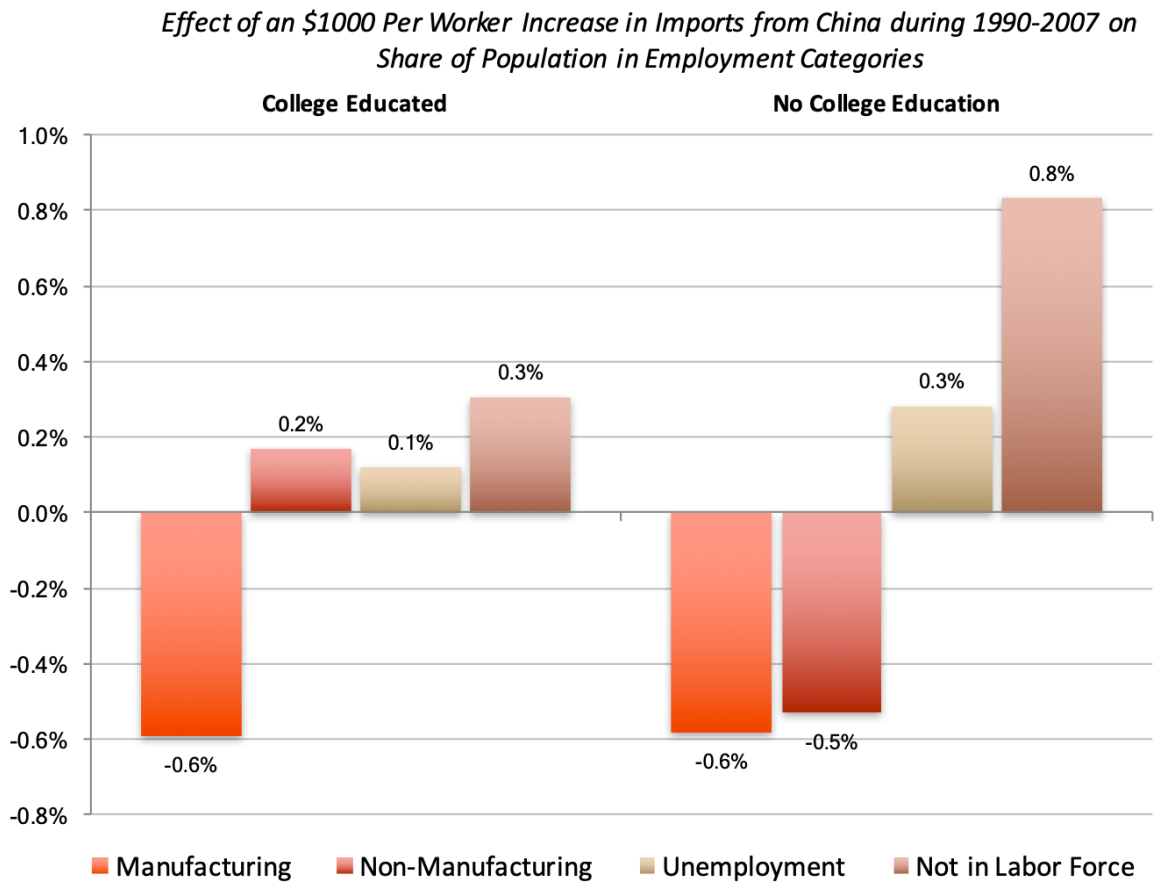
Figure 9: Loss of Manufacturing Employment Not Primarily Offset by Rising Non-Manufacturing Employment, 1990-2007



Source: Author, Dorn, Hanson (2013)

Conversely, among non-college workers, a strong decline in manufacturing employment can be observed, followed by a decline in non-manufacturing employment and a very large rise in non-participation. Thus, although the relocation out of import-competing sectors was expected, the unhappy surprise is how dysfunctional this process was; a substantial fraction of displaced workers did not find alternative employment.

Figure 10: Effects on Non-College Adults

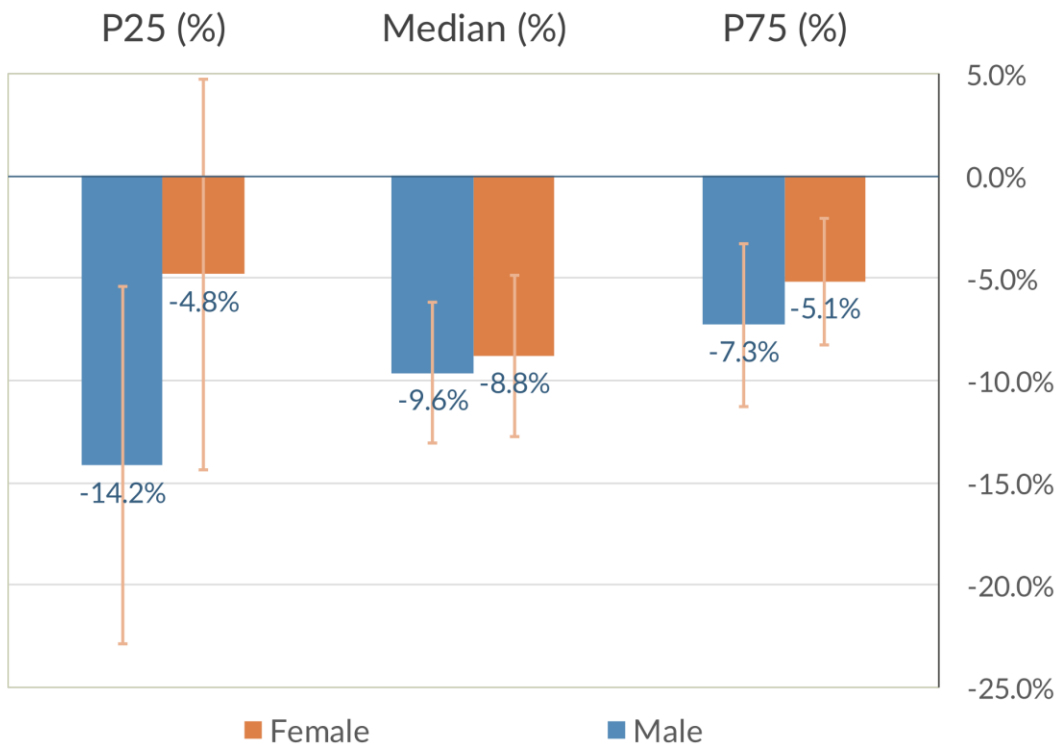


Source: Author, Dorn, Hanson (2013)

These consequences extend beyond the realm of employment. As William Julius Wilson stated in his 1996 book *When Work Disappears*, "A neighborhood in which people are poor but employed is different from a neighborhood in which people are jobless. Many of today's problems in the inner city ghettos - crime, family dissolution, welfare, low levels of social organization, and so on - are fundamentally a consequence of the disappearance of work." Research by Autor, Dorn and Hansen looks at what happens when work disappears. Analyzing the China trade shock, they document that it had larger direct effects on the employment and

the earnings of low-educated men than on low-educated women, despite the presence of many women in labor-intensive manufacturing, particularly in the textile and assembly industries.

Figure 12: Trade Shock Leads to Drop in Lower Tail of Earnings Distribution, Especially Among Men

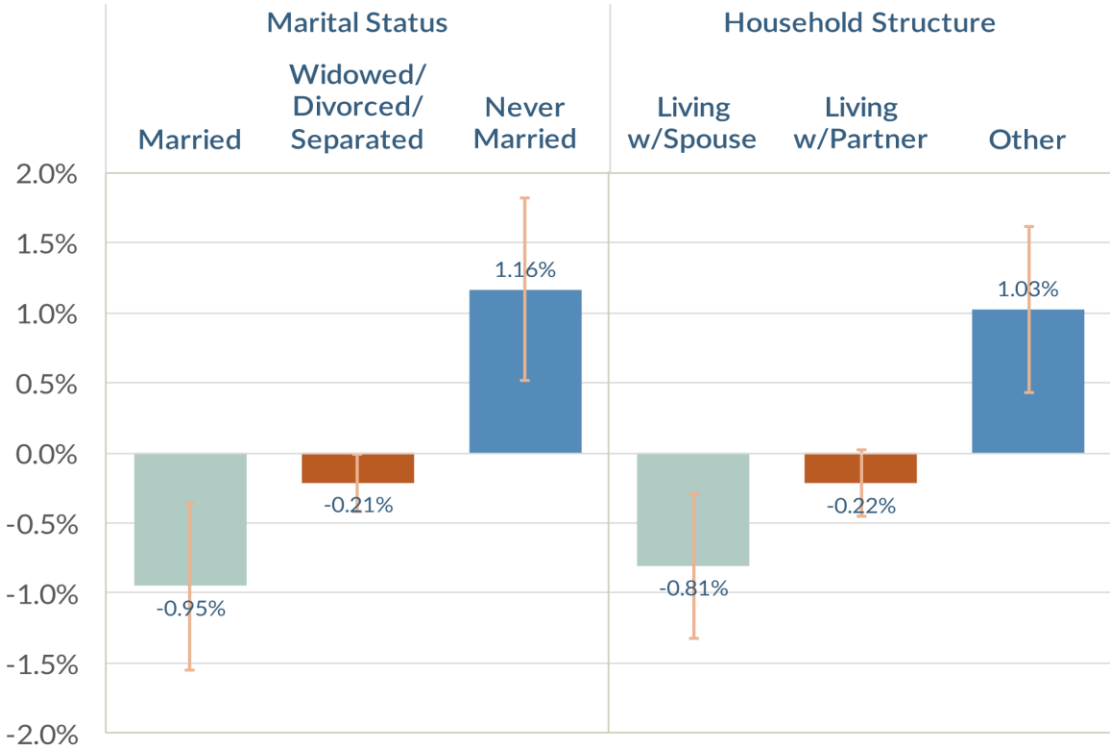


Source: Autor, Dorn, Hanson (2019)

The trade shock led to a particularly steep drop in the lower quartile male earnings. From a traditional economic perspective, this was potentially a destabilizing change, considering that traditional family structures are frequently built on a foundation of relatively high-earning men and women who are less likely to be employed full-time. Following the trade shock, marriage rates among young women in areas most affected by the trade shock saw a

sharp decline. In these areas, women are less likely to be living with a spouse or with a partner, and more likely to be living in some other arrangement. Fertility on the other hand seems not to be affected. But given the decline in overall incomes and fall in marriage and cohabitation, children are more likely to be living in poverty, particularly those living in single-parent and grandparent-headed households.

Figure 13: Trade Shock Leads to a Fall in Fraction of Women Ages 18 – 39 Who are Married or Living with a Spouse/Partner

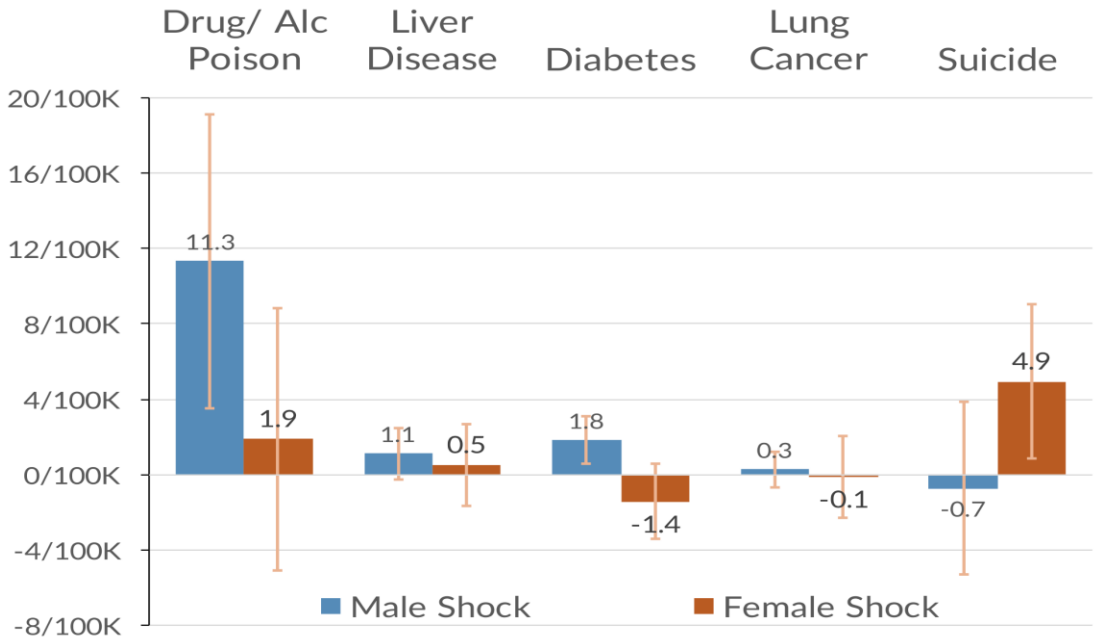


Source: Autor, Dorn, Hanson (2019)

In summary, the change in earnings resulting from the trade shock arguably catalyzed a change in marital arrangements that subsequently changed children's living circumstances.

Other evidence suggests the potential for further social dysfunction. Researchers have observed a rise in premature mortality due to drug and alcohol poisoning, liver disease, and among women in more exposed areas, suicide, a phenomenon which the economists Anne Case and Angus Deaton have coined *deaths of despair*.

Figure 14: Trade Shock Increased 'Deaths of Despair': Mortality per 100K among Adults Ages 20 – 39



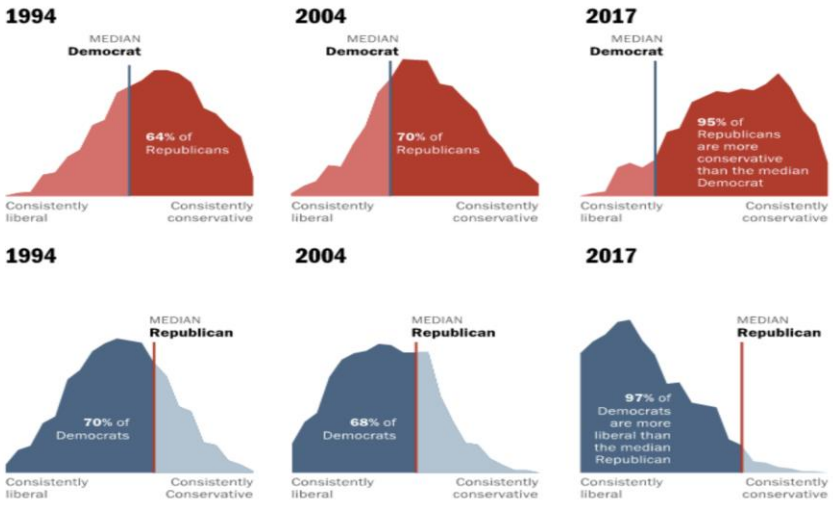
Source: Autor, Dorn, Hanson (2019)

These results point to the fact that the labor market and the changes therein are not simply about earnings - many different social organizations depend upon the foundation of work. Work not only provides earnings, it provides structure, identity, self-esteem, friendships, and a foundation on which other social arrangements rest. When work declines, many of the

edifices that stand on it tend to crumble. As Krugman wrote in the New York Times, "economists, myself included, have tended to underplay the disruptive effects of rapid change… Many of us feel that we missed something important about the downsides of rapid globalization" (2021).

The following figure from the Pew Research Center is potentially useful for understanding the political consequences of the China trade shock. The infographic (see figure 15) shows that in 1994, 64% of Republicans were to the right of the median Democrat. Extending this to 2017, we can see the coming apart of political consensus, with 95% of Republicans more conservative than the median Democrat, and 97% of Democrats more liberal than the median Republican.

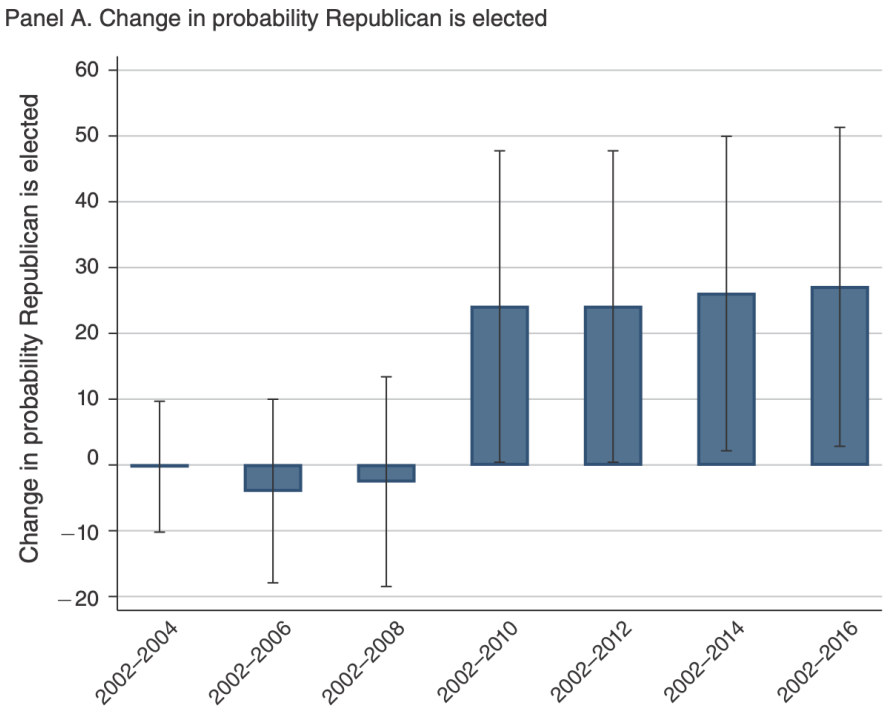
Figure 15: Political Polarization: Distribution of Republicans and Democrats on a 10-item Scale of Political Values



Source: Pew Research Center (2018)

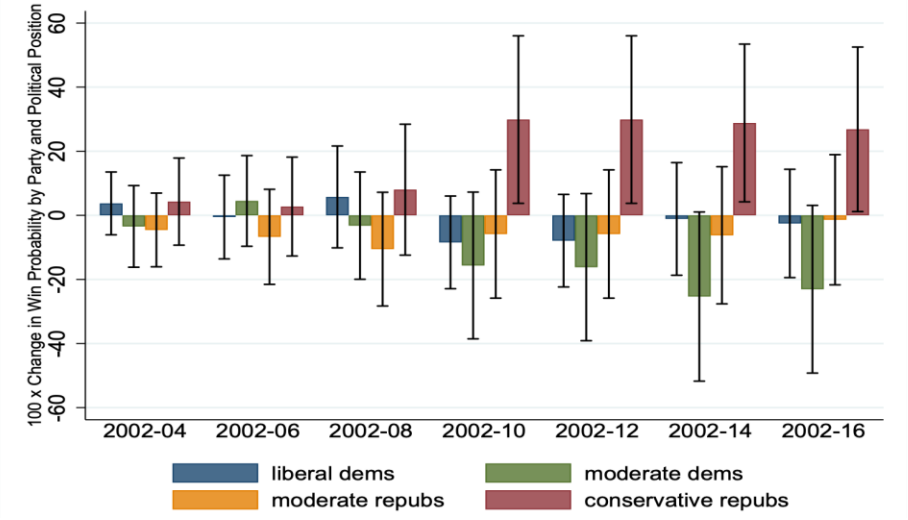
This illustrates a dramatic increase in political polarization between 1994 and 2017, which motivated myself and coauthors to ask the simple question: “has the trade shock contributed to this polarization?”. Looking at Congressional elections, we do find evidence that the places more subjected to trade shocks became more likely to elect Republicans, but it not just any Republicans. What has been observed is a decline in moderate Republicans and moderate Democrats, and a rise in conservative Republicans. The trade shock had the effect of hollowing out the middle of the political spectrum and shifting weight towards one tail in the most affected places. Evidence shows that it mostly played to the right, although not exclusively. Based on this evidence, we believe that the trade shock, through its disruptive political consequences, contributed to the rise of the Tea party, the House Freedom Caucus and the like. We stress that the trade shock was not the primary or exclusive explanation but rather a catalyst. Evidence suggests that it also contributed to Donald Trump’s victory in a handful of swing states in 2016.

Figure 17: Trade Shock Raised the Odds that Republicans Win House Seats



Source: Autor, Dorn, Hanson, Majlesi '20

Figure 18: In House of Reps, Trade Shock Wipes Out Moderate Repubs and Dems, Ushers in Conservative Repubs



Source: Autor, Dorn, Hanson, Majlesi '20

In a regression estimate, a 10% notional reduction of the trade shock would hypothetically have turned Michigan blue in the 2016 election, and a 25% reduction would hypothetically have turned Wisconsin blue. A 50% reduction would, according to these estimates, have brought Pennsylvania to Democrats. This is, of course, a statistical exercise and should not be taken as definitive as it does not correspond to any form of reality. It is also important to remember that 2016 was a close election, with many factors influencing the ultimate outcome. As it happened, some of the places where these trade shocks were particularly concentrated were swing states where election outcomes were rather vulnerable to outside shocks. It is hence a plausible hypothesis that the economic impact of such a shock was on the minds of voters in these states. The political fallout continues to the present day.

Conclusion - five key takeaways

The United States would ultimately have shed those China-exposed jobs and sectors. High-wage industrialized countries generally are not competitive in labor-intensive industries such as textiles or assembly of toys and dolls. However, the trade shock accelerated that process dramatically, and the rate of change is a crucial factor when considering the ability of people and places to effectively adjust to changed circumstances.

The “China shock” was also a catalyst of US polarization, though not an exclusive cause. Similar political forces are at play in other liberal democracies that were not exposed to the same intensity of shock. One can see the rise of populist candidates, for example, in the Netherlands, Sweden, Germany and France. Germany’s labor market was arguably a substantial net beneficiary of China’s rise, but this has not insulated Germany from political polarization.

Something that has received insufficient attention is the degree to which the NAFTA trade policy of 1994 was a prequel to the China trade shock, both in its economic and political consequences. A working paper by Choi, Kuziemko, Washington, and Wright shows how NAFTA policies had important employment effects and more importantly political consequences. By the time the Clinton administration was pushing NAFTA through Congress, blue-collar voters in the South were hanging on to the Democratic party by a thread, and that thread was trade protection and union protection. Cutting that thread severed that group of voters from the Democratic party. Although those voters were not at that point politically nor ideologically aligned with the liberal values of the Democratic party, they were aligned with the party on worker protection. And so, arguably, the NAFTA policy provided momentum to this slow-moving but now extremely visible parting of ways between Democrats and blue-collar voters.

However, the China trade shock, as we knew it, is now over. China is in a different era economically, and the US and China are in different eras strategically. We are no longer fighting about who makes textiles and assembles dolls. Those were the easy days.

Finally, an interesting question to ask is: "Could a rethink of neoliberalism guide better trade policy in the future?" One way to answer that question is to go back to 2000 and ask if such alternatives would have resulted in different outcomes. The economic policy that helped to speed the trade shock—China's gaining PNTR and WTO membership in 2001—was propelled by a belief in Washington that bringing China into the world trading system would cause it to reform and open. This process was aimed to move this enormous, rapidly developing, increasingly powerful country into the fold of democratic nations and cause it to align with them, an aim that it failed to fulfill. Looking back, however, if China had not been admitted to

the WTO, had not been given permission to move to a most-favored nation trading status, and yet we faced similar geopolitical circumstances as we do today, many experts would likely be blaming these developments on the non-integration of China into the trading system. From a contemporary perspective at that time, it is hard to think that we could have known better. The area where economists and policymakers certainly could have done better was enacting policies to insulate, compensate, and retrain workers, to buffer the transition for trade-affected communities, and broadly, to reduce economic dislocation while spurring new employment. That such policies were not put in place rendered the economic scars deeper and slower to heal. Thus, had the policy not been pursued and the situation been similar to the one we have today, we would likely suspect that the geopolitical challenges we are facing right now are the consequences of that choice we did not make.

III. Policy and Performance in the Illiberal Turn: Money and Growth

The Historical Cost of Populism[1]

Moritz Schularick, C. Trebesch, and M. Funke

Introduction

Most work on populism has investigated the reasons why voters choose populist leaders and governments. In our new research (Funke, Schularick and Trebesch, 2020), we study the economic and political costs of populism and find that it leads to slower economic growth, undermines democratic institutions, and can leave the country more vulnerable to future populist governments.

The rise of populism in the past two decades has motivated much work on the determinants of populist voting (see the review by Guriev and Papaioannou 2020, or Guiso et al. 2017 and Rodrik 2017). In contrast, we still have limited knowledge on the economic and political consequences of populism. How does the economy perform after populists come to power? Is populism a threat to liberal democracy or not? These questions have not been sufficiently addressed. Moreover, most existing analyses focus on individual countries or data from only the past 20 or 30 years. What is missing is a bigger picture and a global, long-run perspective.

To address these questions, in a new paper (Funke et al. 2020) we build a comprehensive cross-country database on populism, identifying 50 populist presidents and prime ministers in the period 1900–2018. To code populist leaders, we rely on today's workhorse definition in political science, according to which populism is a political strategy that

[1] Published in VoxEU Column, 16 Feb 2021

focuses on the conflict between "the people" and "the elites" (e.g. Mudde 2004). Precisely, we define a leader as populist if he or she places the alleged struggle of the people ("us") against the elites ("them") at the center of their political campaign and governing style (for example, based on this definition, Putin, Reagan or Obama cannot be classified as populists, but Bolsonaro, Berlusconi, or Trump clearly can).

For coding, we collected, digitized, and evaluated more than 20,000 pages of scientific literature on populism and identified 50 leaders that clearly fit the above definition of a populist politician. More specifically, we evaluated approximately 1,500 leaders (i.e. president, prime minister, or equivalent) in 60 countries since 1900 or independence. We started in 1900 since, prior to that date, there is little evidence of populists in government at the federal level (in 1896 the populist William Jennings Brian ran for president in the U.S. but lost). Using this sample, we conducted a historical analysis on the ups and downs of populist leadership worldwide over the past 120 years and gauged its political and economic fallout. Three main takeaways emerged.

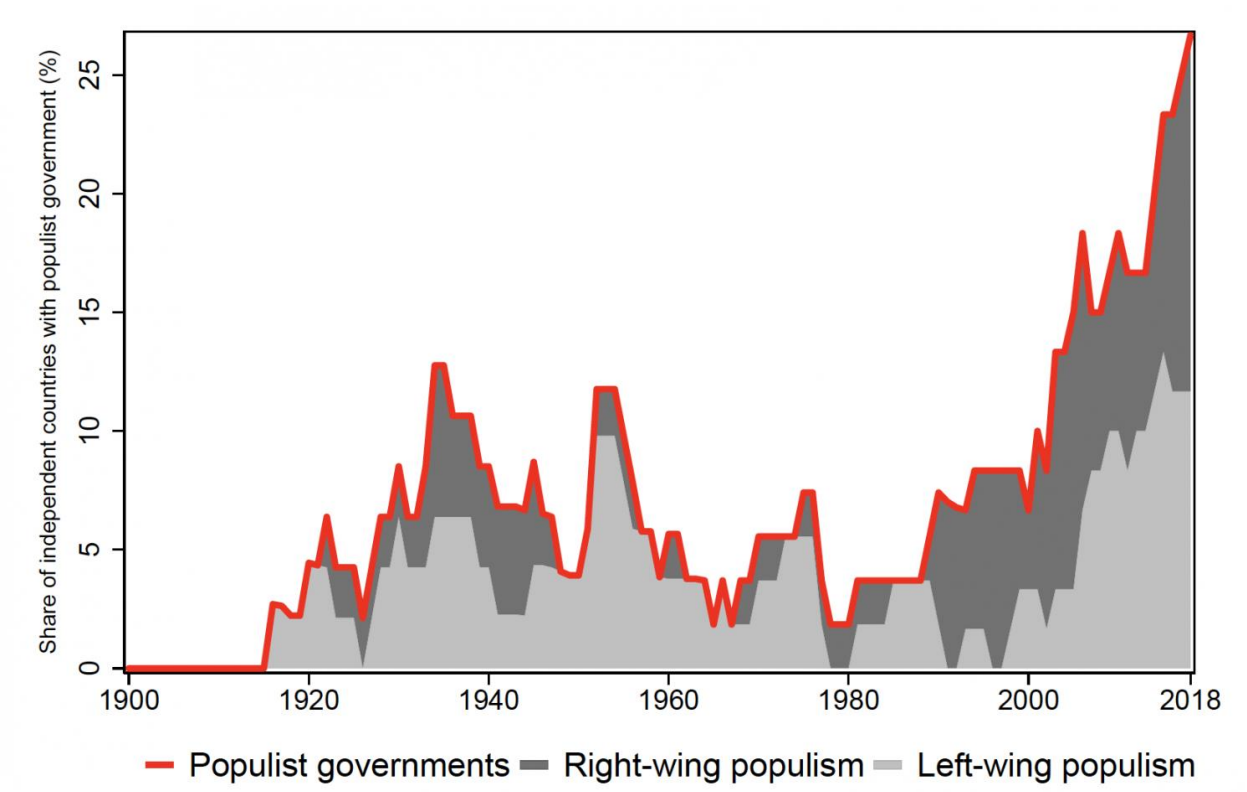
Populism has a long history and it is serial in nature

Figure 1 summarizes the historical evolution of populism, by plotting the proportion of independent countries in our sample of 60 countries ruled by populists in each year since 1900 (bold red line). The figure shows that populism at the country level has existed for more than 100 years, and that it has reached a historical high recently.

The first populist president was Hipólito Yrigoyen, who came to power in the general election of Argentina in 1916. Since then, there have been two main populist peaks: during the

Great Depression of the 1930s and in the 2010s. The 1980s was the low point for populists in power. However, after the fall of the Berlin Wall, from 1990 onward, populism returned with a vengeance. The year 2018 marked an all-time high, with 16 countries ruled by whom the political science literature describes as populists (more than 25% of the sample). The most recent increase can mainly be attributed to the emergence of a new populist right in Europe and beyond.

Figure 1. Populists in power: Share of countries in sample

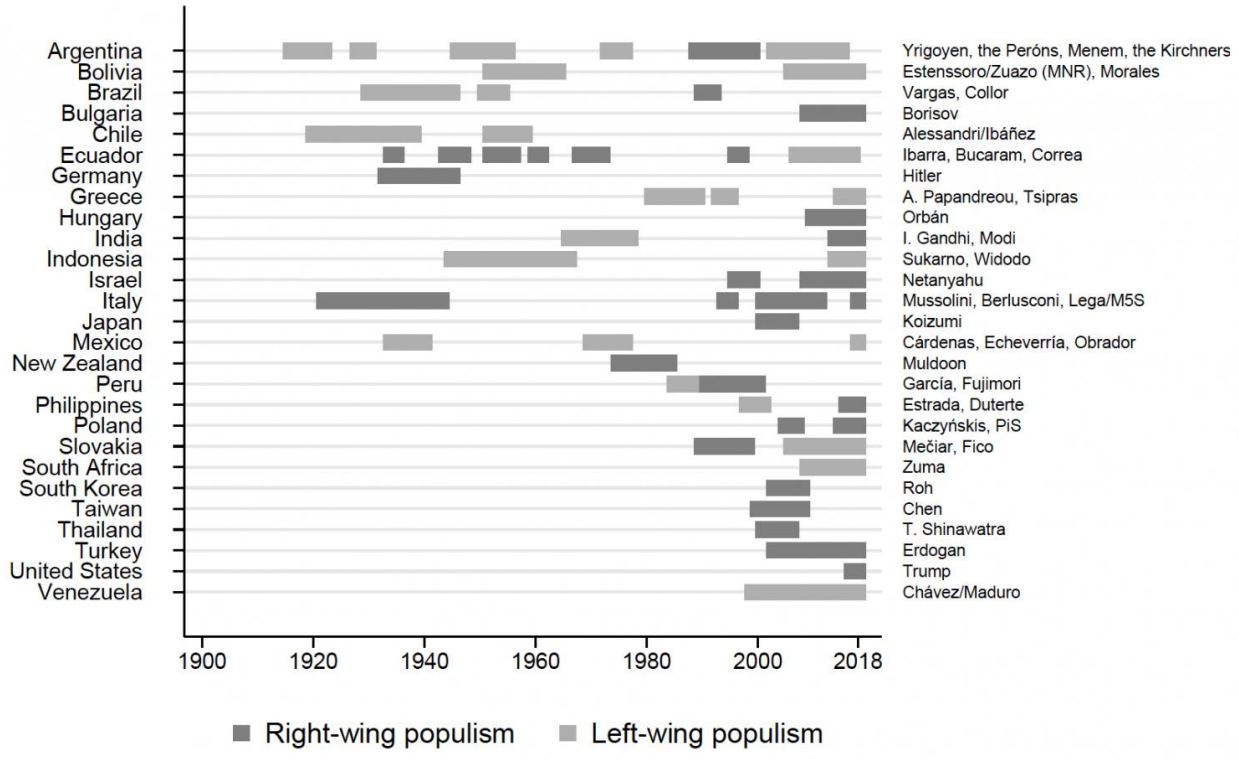


A particularly interesting insight from our long-run data are the recurring patterns of populism over time. Figure 2 shows the 27 countries (out of our 60-country sample) with a

history of populist leadership (i.e. at least one populist government since 1900 or independence). For each country, the grey bars represent its populist leader spells.

The key message from the figure is that populism at the government level appears to be serial in nature, as it is observable in the same countries again and again. We identify long and repeating spells of populist rule. Having been ruled by a populist in the past is a strong predictor of populist rule in recent years. Interestingly, half of the countries with recurring populist spells in Figure 2 saw switches from left-wing to right-wing populism or vice versa.

Figure 2. Populist leader spells by country: Recurring patterns



Populism is economically costly

Figure 3 gives a hint of what economic consequences we can expect from the global surge of populist politics in recent years. Panel B shows four unconditionally averaged

performance gaps in annualized real GDP growth after populists come to power, inspired by Blinder and Watson's (2016) measurement of a Democrat–Republican president performance gap in US postwar data. The answer is affirmative. Countries underperformed by approximately one percentage point per year after a populist came to power, both compared to their country's typical long-run growth rate (white bars) and the (then-)current global growth rate (grey bars). This is true for the short term of five years and the long term of 15 years after a populist gains power.

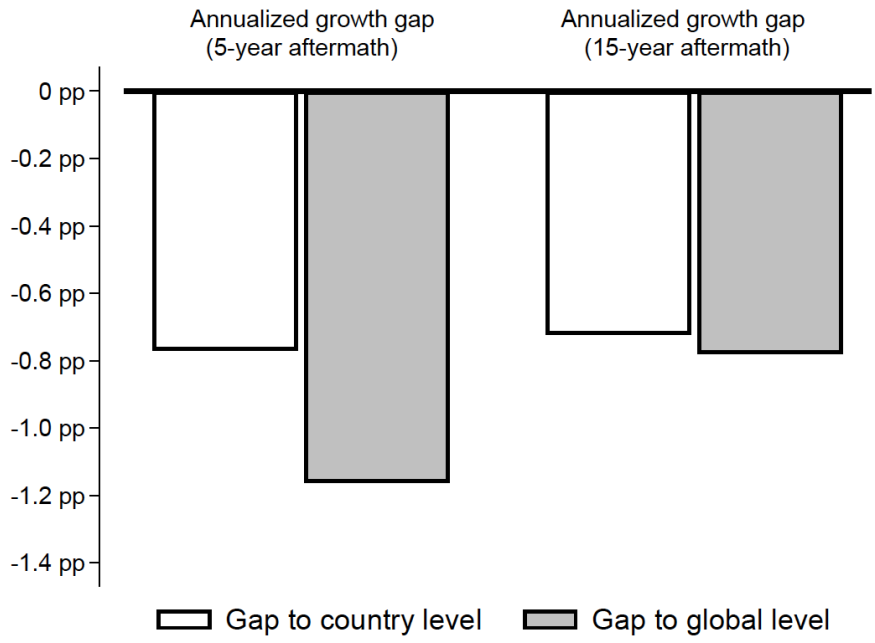
The results of Panel A are unconditional on economic events surrounding the populist entering into office and year over year dynamics, and they do not use a strict control group. All this is especially important since the selection of countries into the populist government is likely not random with regards to the economy.

This is why we get more rigorous in Panel B. We apply the synthetic control method (SCM) proposed by Abadie et al. (2010) to construct a doppelganger for each case, using an algorithm to determine which combination of 'donor economies' matches the growth trend of a country with the highest possible accuracy before the populist comes to power.

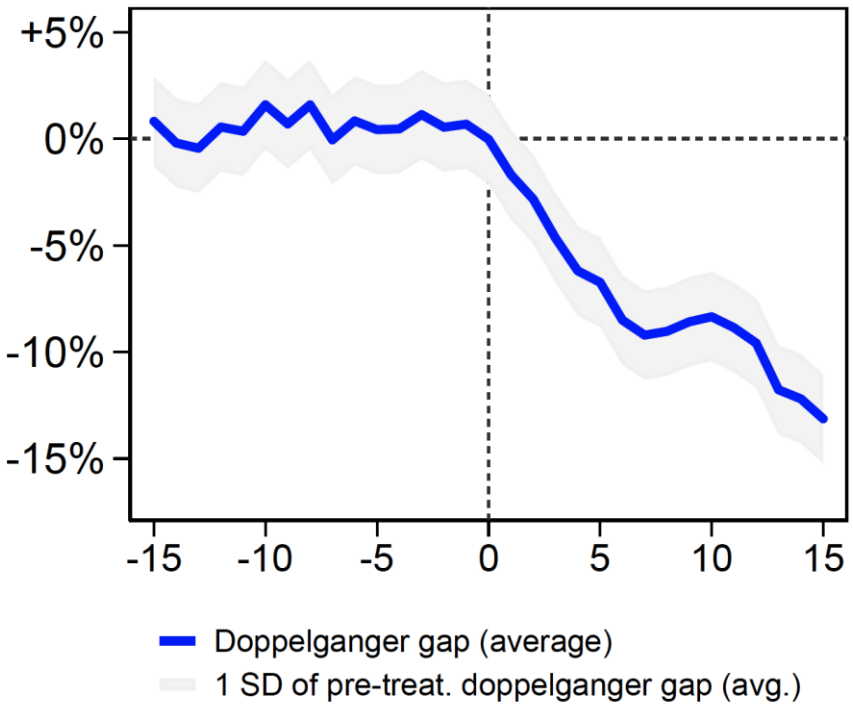
Comparing the evolution of this synthetic doppelganger with actual data for the populist economy quantifies the aggregate costs of the populist 'treatment'. We take averages of the path around the populists' entries into in office and compare them to the average estimated counterfactual path. Subtracting the synthetic control from the treated series results in the doppelganger gap that measures the average growth difference due to populism.

Figure 3. The economic costs of populism: Growth gaps

Panel A: Unconditional averages



Panel B: Synthetic control average



Panel B displays the results of this exercise. The blue line is the average difference (or gap) in GDP dynamics between treated (populist) and synthetic control (non-populist) group, using a time horizon of 15 years before and after the entry into power.

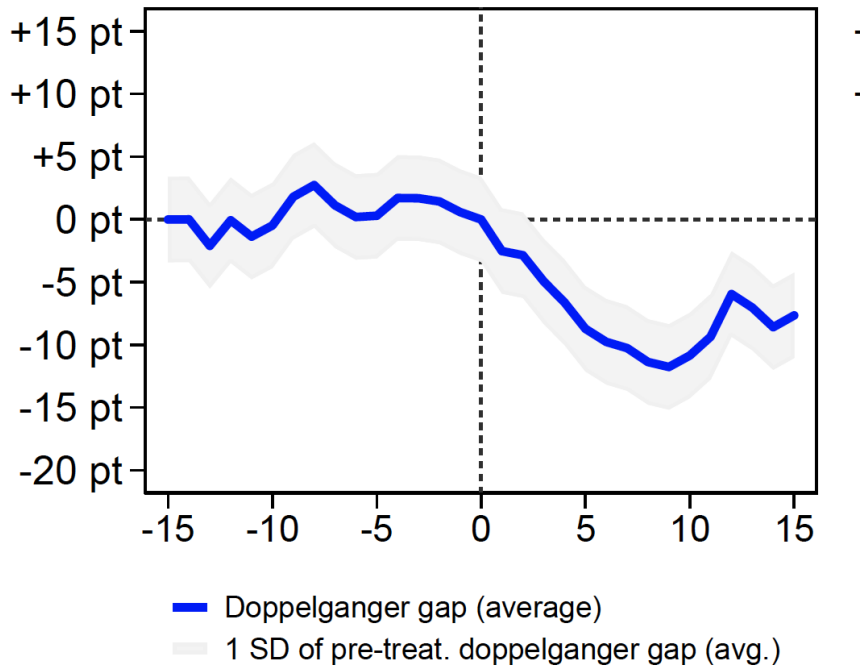
The cumulative difference to the doppelganger economy is large, exceeding ten percentage points after 15 years. The GDP path starts to diverge visibly from the synthetic counterfactual soon after populists enter government, and the economy does not recover. Importantly, all these results are robust to cutting the sample along the left-wing versus right-wing populist dimension and several other dimensions: geographical region, historical era, length of the rule, and initial conditions, such as financial crises before/during the election year. We further conduct 'country placebo' and 'time placebo' tests that support our main results.

Populism is politically disruptive

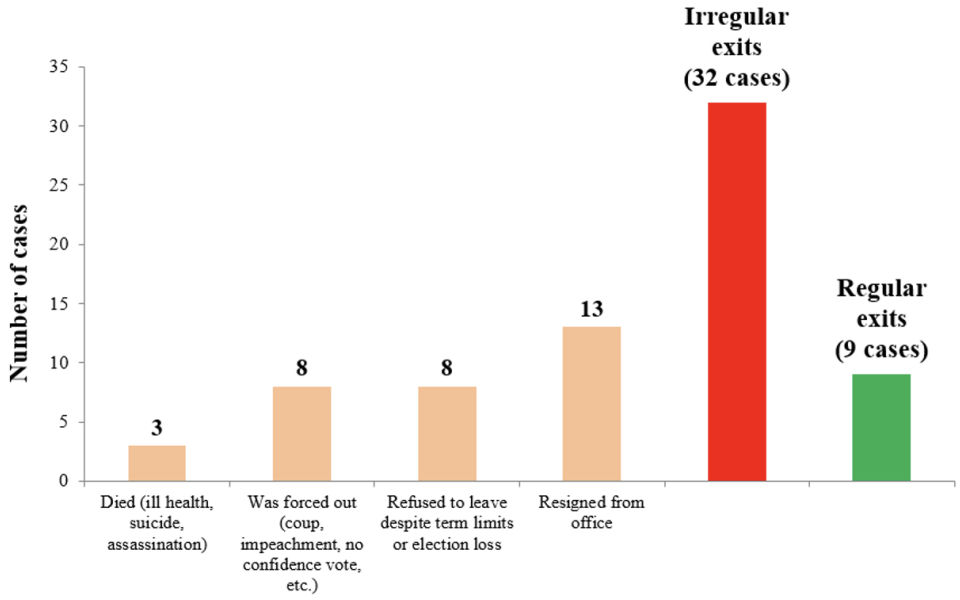
Populism is also costly for democratic institutions. To provide one example, we study the evolution of executive constraints. Panel A of Figure 4 shows SCM results (similar to Panel B of Figure 3 on GDP) using an index of judicial constraints on the executive from the Varieties of Democracy (V-Dem). Higher values indicate a higher degree of judicial independence, constitutional integrity, and compliance with court decisions. As can be seen, checks and balances, as measured by constraints of the executive, decline markedly after populists come to power, especially when compared to the non-populist counterfactual. These results are robust to cutting the sample across left-wing and right-wing cases. We find similar results for other institutional variables such as electoral and press freedoms.

Figure 4. The political consequences of populism: Institutional decay and 'messy exits'

Panel A: Decline in judicial constraints (SCM)



Panel B: Exit patterns of populist leaders (since 1970)



As a second example, Panel B of Figure 4 provides an overview of the circumstances in which populists have left office, using the 41 more modern populist governments in our sample (since 1970, i.e. in a modern political economy environment). It shows that populists rarely leave office without drama, disregarding democratic procedures. There are only nine cases in which the populists left office in a regular manner. The large majority of exits (32 cases) were irregular, meaning that populist leaders refused to leave office despite losing an election or reaching the term limit (eight cases), they died in office (three cases), they resigned (13 cases) or were forced to resign because of a coup, impeachment or a vote of no confidence (eight cases).

The erosion of democratic norms may explain both the persistence and the negative economic outcomes of populism (e.g. Acemoglu et al. 2005, 2013, 2019, Guriev and Treisman 2019). For the latter – the impact on growth – we also found confirming evidence for two other channels that are core fields of government policy and that also play a prominent role in the populism literature: economic nationalism and disintegration, in particular via protectionist trade policies (e.g., Born et al. 2019) and the classic Sachs (1989) and Dornbusch and Edwards (1991) macro-populism studies on unsustainable macroeconomic policies, resulting in spiraling public debt and inflation.

Conclusion

When populists come to power, they can do lasting economic and political damage. Countries governed by populists witness a substantial decline in real GDP per capita, on

average. Protectionist trade policies, unsustainable debt dynamics, and the erosion of democratic institutions stand out as commonalities of populists in power.

Looking ahead, a main risk is the serial nature of populism. The historical data we gathered suggest that populism is a persistent phenomenon, with countries like Argentina or Ecuador witnessing on-and-off populist leadership all the way back to 1916. The big question is whether advanced countries will share a similar fate from here on, witnessing "serial populism" for the next years and decades. In the light of history, this is not an unlikely scenario, unfortunately.

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The Politics and Limits of Monetary Policy Under Growing Authoritarianism: The Case of Turkey

Ayca Zayim, Mt. Holyoke College

Turkey was the darling of the international financial community until a few years ago. It received praise for its thriving economy and steady progress toward liberal democracy from international financial institutions, investors, and observers. The World Bank's 2014 Turkey Country Snapshot, for instance, argued that Turkey's "rapid economic and social progress" was an "inspiration to reformers," "hold[ing] many useful lessons for policy makers in other emerging markets" (p.3).[1] Turkey is no more. "Once a beacon of democratic consolidation in a volatile neighborhood,"[2] it is now a worrisome case of democratic backsliding. It suffers from triple-digit inflation, collapsing currency, rapidly accumulating external debt, and declining living standards for the majority of its population. Dubbed a "mess,"[3] it is seen as an economy that is "caught in a spiral of lira crises"[4] and "in pressing need of reform and repair."[5] But what went wrong? How did a seeming success story turn into a disaster?

[1] World Bank, *World Bank Group-Turkey Partnership: Country Program Snapshot* (Washington, DC: World Bank, 2014), 2; see also World Bank, "Turkey's Transitions: Integration, Inclusion, Institutions," *World Bank Report No. 90509-TR*(Washington, DC: World Bank, 2014).
[2]https://www.brookings.edu/articles/the-rise-and-fall-of-liberal-democracy-in-turkey-implications-for-the-west/
[3]https://www.euronews.com/2022/11/09/everything-is-overheating-why-is-turkeys-economy-in-such-a-mess
[4] https://www.reuters.com/markets/europe/turkey-caught-spiral-lira-crises-2022-06-10/
[5]https://www.economist.com/special-report/2023/01/16/the-turkish-economy-is-in-pressing-need-of-reform-and-repair

Most blame President Erdogan's growing authoritarianism and his oft-called 'bizarre' or 'mad' economic policies.[6] Following a failed coup attempt in July 2016, President Erdogan and the AKP (*Adalet ve Kalkınma Partisi* – Justice and Development Party) government declared a prolonged state of emergency during which there was a forceful crackdown on the opposition. Thousands of civil society and media organizations, politicians, journalists, and human rights activists were targeted; some were imprisoned (Yilmaz 2020). A constitutional referendum was held in the following year that ratified Turkey's move from a parliamentary to a heavily centralized presidential system. The reforms entailed a drastic institutional reconfiguration of the state and gave new powers to the president with little checks and balances (Onis and Kutlay 2021). In June 2018, Erdogan was re-elected as the president under the new regime. Freedom House downgraded Turkey's status from "partly free" to "not free" that same year, pointing to deteriorating political rights and civil liberties.[7]

The presidential system also brought unprecedented changes to macroeconomic management. Based on the president's newly acquired powers such as the right to issue decrees, propose the national budget, and appoint high-level bureaucrats with little oversight, President Erdogan effectively established "de facto and de jure executive control" over the Turkish central bank (Apaydin and Coban 2022, p.15). This was no surprise. Right before the 2018 presidential elections, Erdogan had denounced interest rates as "the mother and father of all evil" and assured his supporters that his re-election would mean a "victory in the fight

[6]https://www.economist.com/the-economist-explains/2022/01/27/is-recep-tayyip-erdogans-monetary-policy-as-mad-as-it-seems

[7] https://freedomhouse.org/country/turkey/freedom-world/2018

against this curse of interest rates."[8] Days later, he spoke with Bloomberg in London, unequivocally revealing his intentions to intervene in the central bank's decisions. He replied to the question of whether he would play a role in monetary policy as follows: "Yes! This may make some uncomfortable. But we have to do it… Of course, our central bank is independent, but the central bank can't take this independence and set aside the signals given by the president, who's the head of the executive. It will make its evaluations according to this, take its steps according to this."[9] The financial community was in "shock and disbelief"[10] following Erdogan's message, and the Financial Times reported that investors "were wondering whether there was any longer an argument for risking their money in his country's currency, stocks, and government bonds."[11] It seemed that Erdogan had waged a war against the orthodoxy of central bank independence.

Although the regime shift has been significant in Turkey's authoritarian turn, scholars and observers point to a gradual process of democratic backsliding in Turkey at least since 2011, describing the two-decade AKP rule as "authoritarian neoliberalism"(Akca 2014; Tansel et al. 2018; Adaman and Akbulut, 2020; Akcay 2020), "anti-democratic populism" (Rogenhofer and Panievsky 2020), or "competitive authoritarianism" (Ozbudun 2015; Esen and Gumuscu 2016; Somer, 2016; Castaldo, 2018; Caliskan, 2018). During his tenure as a Prime Minister and President between 2003 and 2018, Erdogan's relationship with the central bank and the

[8]https://www.reuters.com/article/us-turkey-currency/turkeys-erdogan-calls-interest-rates-mother-of-all-evil-lira-slides-idUSKBN1IC1NV
[9]https://www.bloomberg.com/news/articles/2018-05-15/transcript-turkey-s-president-on-monetary-policy-politics?in_source=embedded-checkout-banner
[10]https://www.reuters.com/article/us-turkey-markets-investors/disbelief-investors-in-turkey-stunned-by-erdogans-fight-with-markets-idUSKCN1IG2Y1
[11] https://www.ft.com/content/e41a56d6-5855-11e8-bdb7-f6677d2e1ce8

financial community has also been far from harmonious. Erdogan's contentious pronouncements intensified especially after 2013 and were sometimes joined by other AKP members. As an outspoken critic of the central bank, Erdogan would frequently express a preference for low interest rates, citing Islamic teachings which supposedly ban collecting interest. He was also a champion of his self-proclaimed 'theory' that high inflation was the result of high interest rates—a view often ridiculed by academic economists.[12] During the 2013 Gezi protests, Erdogan accused domestic and foreign financial institutions for stirring political unrest and benefiting from resultant high interest rates, calling them the "interest rate lobby."[13] He later labelled anyone who criticized his economic views as the interest rate lobby and denounced their activities as "treason against the nation."[14] In May 2014, Erdogan once again expressed his contempt for the central bank for pursuing tighter-than-desired monetary policy. "I told them several times," he said, "This is outrageous. Don't mess with people with a half-point cut."[15] In February 2015, he targeted central bank governor Basci, saying, "The central bank's interest rate policy is unsuited to the realities of the Turkish economy… You are conducting a struggle for independence against us[me], but are you dependent on some other places[people]?"[16] The public scolding fueled widespread rumors that Basci and Deputy Prime

[12]https://www.ntv.com.tr/turkiye/erdem-basciyi-cagirip-konusacagiz,nenaninaNk6HpsTZqq4v4w

[13]https://www.al-monitor.com/originals/2013/07/erdogan-raises-interest-rates-gezi-park-protests.html; https://www.reuters.com/article/us-turkey-economy-erdogan-idUSKBN0LW0Y520150228

[14]https://www.reuters.com/article/us-turkey-economy-erdogan/turkeys-erdogan-says-high-interest-rate-lobby-guilty-of-treason-idUSKBN0LW0Y520150228

[15] https://www.haberturk.com/ekonomi/para/haber/952347-vakti-dolar-biz-de-geregini-yapariz

[16]https://www.reuters.com/article/turkey-cenbank-erdogan/update-2-turkeys-erdogan-questions-whether-central-bank-under-external-influence-idUSL5N0VZ44P20150225

Minister Babacan—a longtime friend and supporter of Basci—would resign. The news rattled investors. A few days later, Erdogan further asked the two men to "shape up" as they were supposedly on a "wrongful path."[17]

Governor Basci (2011-2016) and his successor Cetinkaya (2016-2019) strove hard to thwart the political pressure to deliver rock-bottom interest rates. During my research, I found that they did this by manipulating the central bank's unconventional monetary policy framework known as the 'asymmetric interest rate corridor.' This framework was initially designed to ward off hot money inflows during 2011 but was later revised to enhance the flexibility of monetary policy. In an effort to balance the competing pressures on the central bank, policymakers used the framework to deliver what was colloquially known as "stealth interest rate hikes."[18] Central bankers would keep the official policy rate low while effectively funding financial institutions at higher interest rates. This imperfect strategy continued intermittently until May 2018 when a rapid depreciation of the lira fueled fears of a currency crisis. "After weeks of resisting action to arrest the sliding currency," the Financial Times reported, Erdogan was "forced to submit to the power of the markets and allow the central bank to lift interest rates."[19] The unconventional framework was simultaneously simplified. Although markets "had won"[20] this time, governor Cetinkaya was sacked in July 2019 for "not listening." This is how Erdogan boasted about this decision a few months later: "Because we

[17]https://www.ntv.com.tr/turkiye/erdem-basciyi-cagirip-konusacagiz,nenaninaNk6HpsTZqq4v4w#
[18] Author's interviews.
[19] https://www.ft.com/content/0e6898bc-5ffe-11e8-ad91-e01af256df68
[20]https://www.bloomberg.com/news/articles/2018-05-24/how-markets-won-erdogan-concedes-a-hated-rate-hike-to-save-lira?sref=am1wYMj6

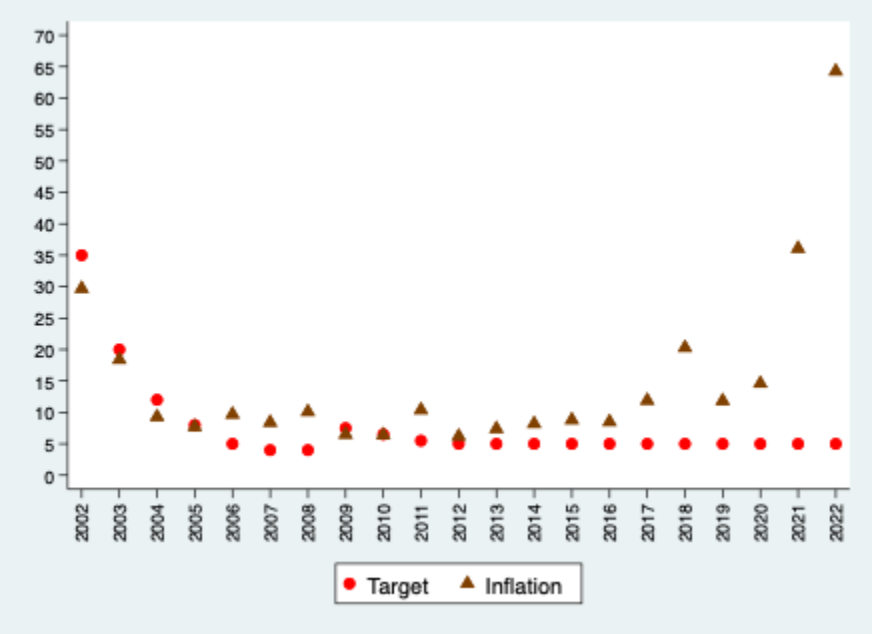
have changed the system, we also got the authority to remove the central bank from office… We removed the previous central bank governor because he wasn't listening… We told him repeatedly in economy meetings that he should cut rates. We told him that the rate cut would help inflation to fall. He didn't do what was necessary."[21] As a self-declared "enemy of interest rates,"[22] Erdogan changed the central bank governor three more times between 2019 and 2022.

Generally speaking, Erdogan's monetary policy approach can be summarized as an uncompromising commitment to low interest rates-—regardless of its costs. This was most clearly revealed during the surge in global inflation in 2021 when nearly all central banks tightened monetary policy to fight soaring inflation. Among a large sample of countries listed by the IMF, the Turkish central bank was the only central bank that eased monetary policy.[23] This had severe consequences. The real interest rates became negative; the lira depreciated by 44 percent in 2021 and by 30 percent in 2022 against the US dollar, making Turkey the "worst performing emerging economy."[24] Especially noteworthy is the fact that Putin congratulated the Russian central bank in December 2021 for preventing a "Turkish-style crisis": "I know that the real sector is unhappy with the increase in rates, but without it, we could have a situation

[21]https://www.sozcu.com.tr/2019/ekonomi/cumhurbaskani-ilk-kez-bu-kadar-acik-konustu-merkez-bankasi-baskani-laf-dinlemiyordu-5432100/
[22] https://carnegie-mec.org/diwan/85896
[23]https://www.imf.org/en/Blogs/Articles/2022/08/10/central-banks-hike-interest-rates-in-sync-to-tame-inflation-pressures
[24]https://www.reuters.com/markets/europe/turkeys-lira-weakens-fifth-day-monetary-policy-worries-2021-12-31/; https://www.ft.com/content/ed5918a8-d699-417b-a0f8-4e947fee3dc7; https://www.reuters.com/markets/currencies/turkish-lira-falls-record-low-near-19-dollar-2023-03-09/

similar to that in Turkey…I do not interfere in the work of the central bank."[25] The lira's depreciation contributed to already high inflation. According to highly contested official figures, the inflation rate reached 86 percent in October 2022—the highest in 25 years. As shown in Figure 1, there emerged a growing and dramatic divergence between the central bank's inflation target and the annual inflation rate after 2018.

Figure 1: Inflation Target and Annual Inflation Rate (2002-2022)



Source: CBRT Data

It has become increasingly common in recent years for populist and authoritarian leaders to criticize central banks and attempt to influence monetary policy decisions. Examples

[25]https://www.bloomberg.com/news/articles/2021-12-23/putin-praises-bank-of-russia-for-averting-turkish-style-crisis?in_source=embedded-checkout-banner

abound. For instance, Trump demanded the Federal Reserve to slash interest rates down to zero, calling central bankers "boneheads" and "pathetic" and claiming that he had "the right to fire" the Fed governor. The UK's shortest-serving prime minister Truss wanted to revisit the price stability mandate of the Bank of England. Orban undermined the Hungarian central bank's independence and appointed his self-claimed "right hand" as the governor in 2013 to pursue financial nationalist policies. In India, Modi's appointee Das was pressured to cut rates prior to the 2019 elections and transfer a record sum of funds from the Reserve Bank to the government. In South Africa, a democratic nation with strong political and economic institutions, the ANC government has proposed to expand the central bank's mandate to include an explicit focus on employment and economic growth.

These examples might suggest that Erdogan is not alone. Yet, the Turkish case continues to remain a puzzle in some respects. Unlike the US, Turkey does not govern a reserve currency and occupies a subordinate position in the global financial system. Additionally, unlike some other countries in the Global South, Turkey has long been fully integrated into the global financial system and is heavily dependent on foreign capital inflows. A high degree of dependence on external financing is expected to discipline governments, constraining them to pursue economic policies that promote investor confidence (Block 1977; Mahon 1996; Winters 1996; Mosley 2003). This means the central bank should follow orthodox monetary policy that is focused on price stability in line with the financial sector's preferences (Goodman 1991; Posen 1995; Maxfield 1997). South Africa is a case in point. Not only did the government proposal face a significant pushback from the central bank and the Treasury due to South Africa's foreign financing needs but also it was effectively 'vetoed' by domestic and

international financial investors. A local business newspaper aptly described the structural power exercised by the financial community in defeating the proposal: "Each time [changes to the central bank's mandate] is raised, markets react negatively, forcing National Treasury and, more often than not, the presidency to come out and do damage control."[26] Similarly, in Hungary which is highly integrated with European trade and financial markets, Orban capitalized on favorable global liquidity conditions in the post-crisis period and highly "tolerant" international investors to pursue financial nationalist policies (Johnson and Barnes 2015). Once the global financial conditions changed as it did recently, there emerged a "rift" between Orban and the Hungarian central bank over high inflation.[27] Given these cases, Erdogan's unravelling commitment to low interest rates indeed seems an aberration.

What explains Erdogan's incessant defense of low interest rates? Moreover, how long can it be sustained? Mainstream accounts point to Erdogan's religious beliefs and long-held ideological convictions as the driver of his so-called "economic experiment." Notwithstanding the role played by these factors, my work shows that low interest rates have also been pivotal to Erdogan's macroeconomic populism in Turkey's financialized economy.

Following a severe financial crisis in 2001, Turkey implemented a series of neoliberal reforms under a comprehensive IMF-directed program. These reforms included the institutionalization of an independent central bank, banking sector regulation, the privatization of state banks and enterprises, and fiscal discipline among others. When the first AKP

[26]https://businesstech.co.za/news/finance/664457/warning-over-repeated-attacks-on-south-africas-reserve-bank/
[27]https://www.reuters.com/markets/europe/hungarys-orban-says-central-bank-money-supply-cuts-are-too-drastic-2023-03-09/

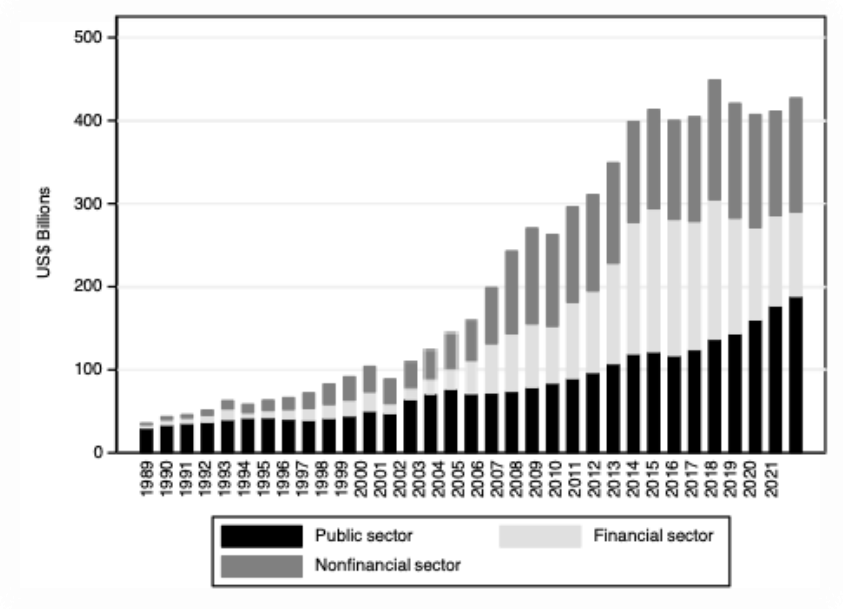
government came to power in 2002, it continued the reforms. This inadvertently narrowed the AKP's room to maneuver as it could not resort to excessive fiscal spending or push the central bank to monetize its debt. Operating under tight budgetary constraints, financialization thus became a crucial mechanism (Aklin and Kern 2021) to promote economic growth, contain the adverse effects of neoliberal policies on lower- and middle-income groups, and maintain popular support. In addition to financial inclusion, *selective* social protections generated income gains for the working class and urban poor without much fiscal sacrifice and contributed to the AKP's electoral success (Guven 2016). Despite the IMF conditionality, the government could still have its cake and eat it too.

This strategy was also helped by favorable external financial conditions that began around 2002 and continued until 2013 with a brief interruption by the Lehman collapse (Akyuz 2017). Low interest rates in major economies, expanding global liquidity, and good economic prospects of emerging economies fueled capital inflows, generating rapid economic growth and currency appreciation in these economies (Akyuz 2014). As Akyuz describes (2017, p.85), "a virtuous circle emerged whereby rapid growth attracted more capital into [emerging and developing economies] and this in turn added to growth by stimulating private spending in investment in property and consumption, thereby attracting even more capital." Throughout the 2000s, Turkey witnessed high and sustained economic growth rates with single-digit inflation, and there was a dramatic reduction in government deficits.

Turkey's economic growth after 2001 has thus been marked by a dependence on foreign capital inflows and the financialization of the economy. Although a strong relationship between capital flows and economic growth prevailed since Turkey's capital account liberalization in

1989, this growth pattern has become more entrenched with the favorable external financial conditions after 2002. Scholars describe the post-2001 Turkish economy as a "debt-led growth regime," "capital-inflows-dependent, finance-led growth model," "dependent financialization," or "speculation-led economic growth model" (Orhangazi and Ozgur 2015; Bahce et al. 2016; Akcay and Gungen 2019; Akcay 2020; Orhangazi and Yeldan 2021; Apaydin and Coban 2022). One characteristic of this growth regime has been external debt accumulation. Starting in the early 2000s, increased foreign capital inflows led to a significant appreciation of the Turkish lira. Coupled with relatively high domestic interest rates, both banks and non-financial corporations found it advantageous to borrow from abroad, mostly in foreign currency (FX). Consequently, external debt reached around 50 percent of GDP in 2014 (Orhangazi and Ozgur 2015, p.7). As shown in Figure 2, the share of government debt in external debt declined until late 2010s, while that of financial and non-financial sectors dramatically increased. The external debt of non-financial corporations climbed from around $28 billion in 2004 to $86 billion in 2014 while that of financial institutions went from $20 billion to $127 billion (Caliskan and Karimova 2017, p.1622). Furthermore, borrowing became more short-term. The share of short-term external debt reached 40 percent of the total external debt stock of financial and non-financial sectors in 2014 (ibid).

Figure 2. Cumulative External Debt (US$ billions)

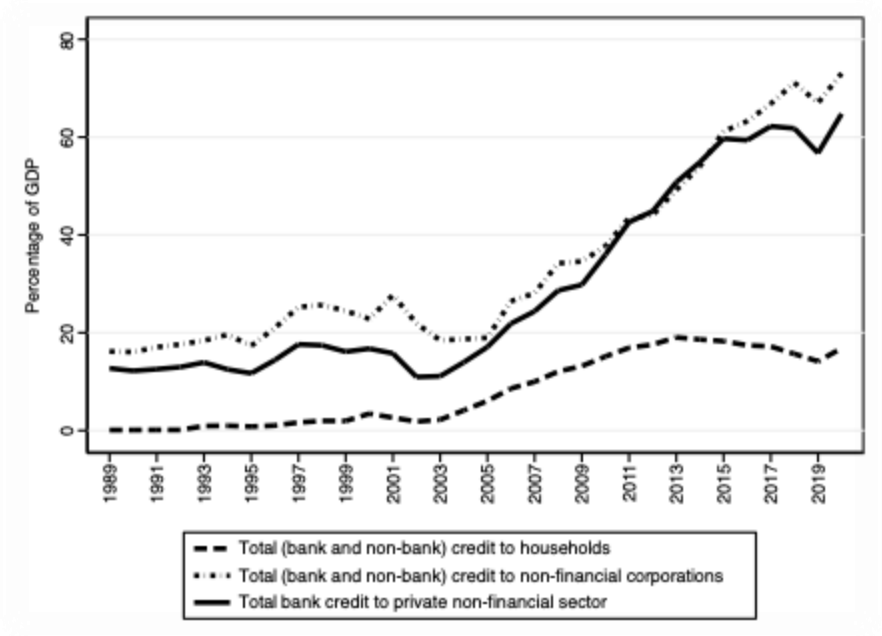


Source: CBRT Electronic Data.[28]

A second pillar of the post-2001 growth regime has been domestic credit expansion. Capital inflows led to the appreciation of the lira and a decline in interest rates. While this has enhanced firms' and households' borrowing capacity, domestic banks took advantage of low-cost external financing opportunities and emerged as the financier of domestic credit growth. Total bank credit to non-financial corporations and households increased dramatically, as seen in Figure 3. Within household debt, credit card, housing, and personal loans accelerated, and the ratio of total consumer credit to GDP increased from 1.8 percent in 2002 to 18.7 percent in 2012 (Karacimen 2014, p.163).

Figure 3. Domestic Credit Growth (1989-2020).

[28] CBRT Electronic Data Delivery System; online at https://evds2.tcmb.gov.tr/index.php?.



Source: Bank for International Settlements Statistics.[29]

This accompanied a construction boom, which was at the center of economic growth. Especially after 2008, Turkey has become one of the fastest growing real estate markets in the world. "Construction-centered growth" was a deliberate accumulation strategy employed by the successive AKP governments (Orhangazi and Yeldan 2021). The AKP governments effectively acted as a "developer and financier" in housing markets and partook in a process of financialization whereby public urban land was commodified, mortgage markets were expanded, and low-income and poor households were integrated into the financial system through subsidized debt (Yesilbag 2020). Through these processes, the construction sector served to cultivate loyalty and garner political support from urban lower- and middle-income groups. Additionally, the AKP governments used various construction projects to build a loyal

[29] Bank for International Settlements Statistics; online at https://www.bis.org/statistics/totcredit.htm. Private non-financial sector includes households, non-financial corporations, and non-profit institutions serving households.

business class through public procurement, construction permits, cheap credit, and tax reliefs (Gurakar 2016; Esen and Gumuscu 2018; Ocakli 2018). In particular, five pro-government construction companies—dubbed "the gang of five" by the main opposition leader—handsomely benefited from Turkey's new "land-based accumulation" (Yesilbag 2022).

Although construction companies were at the forefront of pro-Erdogan domestic capital, the AKP's crony and clientelistic ties extended beyond the construction sector. The AKP promoted small and medium sized enterprises and select rising big business with cheap credit and tax reliefs. In particular, state banks were used as a vehicle to distribute credit on very favorable terms (Apaydin and Coban 2022). In return for favorable business contracts and deals, business groups supported the AKP governments with "their investments in pro-government media, in-kind donations to the party as well as to pro-AKP charities, and campaign contributions" (p. 361). The AKP then distributed these donations to certain disadvantaged groups and used the selectively distributed social welfare goods, jobs, and charitable goods in exchange for their political support (Eder 2010; Powell and Yoruk 2017; Yentürk 2018; Bugra 2020). Thus, a network of relationships "riddled with redistribution, favoritism, clientelism, and corruption" (Esen and Gumuscu 2020) was built, extending to business people (Bugra and Savaskan, 2014; Ozcan and Gunduz 2015; Gurakar 2016; Esen and Gumuscu 2018; Ocakli, 2018) and the urban poor (Yoruk 2012; Ark-Yildirim 2017; Yildirim 2020).

The favorable external financial conditions underlay this clientelistic system established by the AKP within Turkey's financialized economic growth model. Due to "zero-bound" interest rates and quantitative easing in the Global North (Akyuz 2017), there were ample low-cost foreign funding opportunities. Domestic interest rates could be kept relatively low and access

to credit was affordable and widespread among households and domestic firms. The US Fed's tapering talk in May 2013 was a turning point in this regard. When the Fed announced its intention to roll back its QE program, the news altered investors' perceptions and led to a sharp decline in capital inflows to emerging economies (Rai and Suchanek 2014). Although investors returned to these economies subsequently due to the Fed's delayed action, capital inflows declined during the Fed's tapering of bond purchases in 2014 and net inflows turned negative before the Fed raised its policy rate in December 2015 (Akyuz 2017). Capital outflows led to declines in stock and bond markets and put pressure on local currencies to depreciate. Countries with current account deficits such as Brazil, South Africa, and Turkey, were particularly badly hit (ibid). There was a clear expectation within the financial community that central banks in these contexts would need to increase their policy rates to promote investor confidence and maintain their credibility with the 'markets.' A loss of credibility would lead to capital flight, currency depreciation, and even a crisis (Zayim 2020).

The changing global liquidity conditions created a dilemma for the AKP and its leader Erdogan. A tighter monetary policy was perceived as necessary by financial investors and constrained policymakers' choices. On the other hand, low interest rates helped sustain the AKP's clientelistic relationships and were therefore key to Erdogan's political survival. Monetary tightening would increase the cost of credit and limit its availability to households and domestic firms. This would be especially problematic for small and medium-sized enterprises with little access to international borrowing and for construction companies that thrive on cheap loans and high domestic demand. A slowdown in the economy would furthermore result in greater unemployment, hurting low-income groups and the urban poor the most. Recent scholarship

points to these contradictions inherent in Turkey's debt-led, construction-centered economic growth to explain Erdogan's growing authoritarianism (Akcay 2020; Altinors and Akcay 2022; Apaydin and Coban 2022). From this perspective, Erdogan's increasingly contentious relationship with the central bank since 2013 and his eventual takeover of monetary policy after 2018 could be read as a desperate effort to sustain this growth regime and the clientelistic relationships it feeds.

But how long can this effort be sustained given its disastrous consequences? Despite the rhetoric, the post-2018 period was highly contentious and marked by trial-and-error learning. Not only were there multiple governor appointments to the central bank but also the focus of monetary policy oscillated between maintaining low interest rates and maintaining investor confidence. After the sacking of central bank governor Cetinkaya in July 2019, newly appointed governor Uysal rapidly lowered the policy rate from 24 to 8.25 percent in accordance with President Erdogan's demands. This was the highest cumulative rate cut in the world in 2019.[30] To combat the depreciation pressures on the lira, Uysal and Albayrak—Erdogan's son-in-law and then Ministry of Treasury and Finance—covertly sold an estimate of $128 billion from the central bank reserves. This scandal would later cause a public uproar and become a key part of the political campaign against Erdogan in the 2023 elections. As Bloomberg reported, "Turks and foreign investors alike want[ed] to know where $128 billion went."[31] Despite tightening monetary policy and even increasing the policy rate for the first time in September 2020, Uysal

[30]https://www.bloomberght.com/tcmb-baskani-uysal-gorevden-alindi-yeni-baskan-agbal-2268125

[31]https://www.bloomberg.com/opinion/articles/2021-04-22/question-over-128-billion-in-foreign-exchange-reserves-rattles-turkey-s-erdogan?in_source=embedded-checkout-banner

could not curb the lira's collapse.[32] Due to his purported policy failures, Uysal was removed from office in November 2020. Albayrak resigned one day later.

Agbal, a former finance minister, succeeded Uysal. In as little as two months, Agbal hiked the policy rate from 10.25 to 17 percent and communicated his strong intentions to fight inflation. In an interview with Reuters in February 2021, for instance, he said: "It is obvious that a strong monetary tightening must be implemented in order... to restore the disinflation process as soon as possible, and that this will continue for a long time."[33] His actions during his four-month long tenure were perceived by financial investors as a gradual move to monetary policy orthodoxy and rebuilding the central bank's credibility. The financial community praised Agbal's focus on price stability and viewed his appointment as a signal that "Erdogan was ready to cede a degree of autonomy to the bank."[34] In March 2021, Agbal further hiked the policy rate from 17 to 19 percent, exceeding the 'market expectations'.[35] Just two days later, Agbal was fired without an explanation. The Financial Times reported that the decision "shocked" the investors, fueling "a feeling of exasperation."[36] A massive capital flight ensued and the lira collapsed by 14 percent against the US dollar following the announcement.[37] Subsequently, Kavcioglu took office, known for sharing Erdogan's unconventional view about interest rates

[32]https://t24.com.tr/yazarlar/baris-soydan/kapali-kapilar-arkasinda-merkez-bankasi-4-murat-uysal-in-gorevden-alinmasi,28611;https://www.ft.com/content/4e65286e-a33b-49b2-a5c4-b21b5cfa01fb

[33] https://www.reuters.com/article/us-turkey-cenbank-agbal-newsmaker-idUSKBN2AI0MT

[34] https://www.ft.com/content/3c09ab00-db5c-4324-bd3b-3986e5360e50

[35]https://www.sozcu.com.tr/2021/ekonomi/naci-agbalin-132-gunu-ne-dedi-ne-yapti-neden-gitti-6325138/

[36] https://www.ft.com/content/fb5f31e8-9189-494f-af39-466606fd00c1

[37] https://www.econlib.org/the-professor-vs-the-markets/

and inflation.[38] Kavcioglu's arrival at the bank "was met with a sharp market sell-off."[39] While monetary policy during his over two-year term reflected Erdogan's commitment to low interest rates, foreign and (where possible) domestic investors left, the lira depreciated further, and inflation rose.

During this period, Erdogan and his team of macroeconomic policymakers were cognizant of the ways in which capital mobility constrained their room to maneuver. Faced with capital flight several times since 2018, they had been forced to hike interest rates and resort to orthodox monetary policy. They learned from this experience, and instead of responding to capital flight they sought to curb the disciplining power of finance in the first place. Starting in 2018, the AKP government gradually introduced what one interviewee described as "backdoor capital controls."[40] Several regulations were placed on foreign currency transactions of domestic banks and corporations. The measures included making betting against the lira harder,[41] limiting the availability of bank loans to companies holding significant foreign-denominated assets,[42] pushing domestic banks to buy government bonds, despite much lower yields, if their ratio of local currency-denominated assets to total assets is less than 50 percent,[43] and requiring companies to sell their FX assets to access cheap lira-denominated

[38] https://www.ft.com/content/b2a09565-9b75-4ca3-9ecb-f9af238be10a
[39]https://www.reuters.com/world/middle-east/revolving-door-personnel-changes-turkeys-central-bank-2021-10-14/
[40] Author's interview.
[41] http://yurdakulinternational.com/restrictions-on-foreign-currency-transactions-in-turkey/
[42]https://www.rfi.fr/en/business-and-tech/20220627-turkey-s-troubled-lira-rallies-on-backdoor-capital-controls-1
[43]https://www.mei.edu/publications/liquidity-problems-worsen-turkey-turns-capital-controls-and-informal-fx-flows

bank loans.[44] These regulations aimed to contain the depreciation of the lira and stabilize the exchange rate, but more importantly, by weakening the veto power of domestic investors, they made the pursuit of low interest rates possible. In addition to capital regulations, policymakers found sources of external finance other than Western-led international financial institutions. The central bank has concluded currency swap agreements with China, Qatar, South Korea and the United Arab Emirates, amounting to $27 billion in early 2022.[45] Russia has wired billions to Turkey to finance the construction of a nuclear plant as a subsidiary of Rosatom.[46] Prior to the 2023 elections, Russia's energy company Gazprom also allowed Turkey to delay payments for its natural-gas imports.[47] Lastly, Turkey has received some 'unaccounted' capital inflows. In the first eight months of 2022, the "errors and omissions" in the balance of payments hit a surplus of $28 billion. The source of these inflows is of much debate.

This brings forth an interesting paradox. Championed under the banner of 'South-South cooperation,' external financial support from the Global South has often been argued to help developing countries escape IMF conditionality and pursue heterodox, developmental policies. However, these alternative sources of funding could also help prolong the rule of authoritarian leaders such as Erdogan. They expand these leaders' room to maneuver by easing funding constraints while skirting the IMF's well-known involvement in inspecting/preparing

[44]https://www.mei.edu/publications/liquidity-problems-worsen-turkey-turns-capital-controls-and-informal-fx-flows
[45]https://www.al-monitor.com/originals/2022/01/turkeys-central-bank-continues-window-dressing-currency-swaps
[46]https://www.bloomberg.com/news/articles/2022-07-29/russia-is-wiring-dollars-to-turkey-for-20-billion-nuclear-plant?in_source=embedded-checkout-banner
[47]https://www.reuters.com/business/energy/turkey-defers-600-mln-russian-energy-payment-sources-2023-05-10/

government budgets (which necessarily increases government accountability and transparency). Although the IMF conditionalities are infamous for imposing austerity, stripping developing countries of their autonomy, and tilting the income distribution in favor of high-income groups, bilateral financial agreements like swaps are unlikely to come free. Moreover, the conditionalities attached to them remain opaque, thus deepening the democracy deficit. While this portrays a bleak picture, Turkey's recent elections in May 2023 tentatively suggest the limits of relying on bilateral agreements. Following another re-election victory, Erdogan appointed a new central bank governor and finance minister in June 2023, both of whom are known to support orthodox economic policies. At its first monetary policy committee meeting, the Turkish central bank raised the policy rate from 8.5 to 15 percent as the "first stage of monetary tightening." Many interpreted this shift as a U-turn given Turkey's ever growing external financing needs[48] and as an effort on the part of Erdogan to attract Western-based financial investors given their continued dominance in financial markets. While it is too soon to draw conclusions, it is possible that Turkey's dependence on foreign capital might eventually discipline Erdogan or perhaps even win him over.

[48]https://www.economist.com/europe/2023/06/04/turkeys-president-erdogan-shifts-towards-sane-economics

IV. Policy and Performance in the Illiberal Turn: Labor Market and Social Protection

The labour and social policies of neoauthoritarian populist governments: A comparative analysis of Hungary, Poland and Türkiye

Janine Berg, International Labor Organization[1]

Ludovica Tursini, The New School

Despite an array of illiberal policies that have chipped away at the democratic foundations of Hungary, Poland and Türkiye, the governments enjoy widespread electoral support. This paper undertakes a comparative analysis of some of main labour and social policies instituted in three countries to better understand the economic and political objectives of these policies, and why, in a context of democratic backsliding the governments continue to garner widespread political support.

It argues that the three governments have privileged high visibility labour and social policies that benefit the lower and middle classes that constitute the governments' political base, while at the same time, institutionalizing labour market precarity for economic objectives. As such, there is the seemingly contradictory tendency of supporting flexibilization of labour rights, both individual and collective, while at the same time delivering significant real increases in the minimum wage. Because workers typically associate their employment contracts and working conditions more generally with the managerial prerogative of employers, rather than

[1] The views expressed in this paper are my own and do not reflect the views of the International Labour Organization.

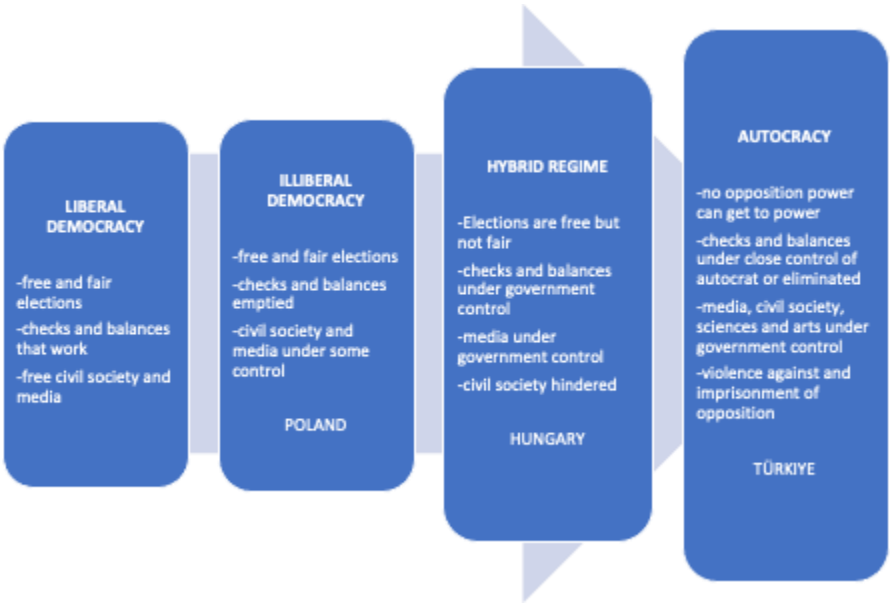
specific government policies, the regimes do not suffer the consequences of the labour flexibilization policies. And by marginalizing unions, the governments not only enable further flexibilization of the labour market through easing of collective bargaining and the right to strike, but also marginalize a potential countervailing force to the government.

At the same time, the flagship social policies instituted by the three governments help to lessen the economic insecurity that is an outcome of the neoliberal economic model inherited from the previous center-left governments. Indeed, as Smiecinska (2020) argues with respect to Poland – but true of Hungary and Türkiye as well – "the precarity and insecurity that are traits of neoliberalism drive the engine of rising authoritarian sympathies" (p.252).

Neoauthoritarianism and the suppression of countervailing forces

Fidesz in Hungary, PiS in Poland and the AKP in Türkiye have each been associated with "democratic backsliding" though to different degrees (Szikra and Oktem 2022),(Berberoglu 2020) (See Figure 1). Part of the democratic backsliding concerns the treatment of unions which have been marginalized in Hungary, co-opted in Poland and attacked in Türkiye, for both economic and political objectives. With respect to economic objectives, the weakening of trade unions supports the neoliberal labour market flexibilization policies that are part of the countries' economic model, while disempowering unions helps to sideline potential political opposition to anti-democratic policies. Strong and independent unions are cornerstones of democracy (Curtis 2021), thus policies that limit unionization, or make it less effective through restrictions on collective bargaining, ultimately weaken the working of democracies.

Figure 1. Democratic backsliding and regime types



Source: Szikra and Oktem, 2022.

In Hungary, Fidesz, under the leadership of Victor Orbán, came to power in 2010 when the country was still reckoning with the effects of the global financial crisis and the resulting austerity policies imposed as a condition of IMF and European Central Bank loans. The landslide victory of the Fidesz-KDNP coalition allowed the government to enact drastic reforms that removed democratic guarantees from the political process (Hungler 2022). Some of the reforms were ingrained into Cardinal Acts that can only be modified by a two-thirds majority, binding future governments (Szikra and Öktem 2023). The government controls, directly or indirectly through close political ties, the vast majority of print radio and television media, through purchases made in the late 2000s with loans from state-controlled banks (IPI 2023). Its attacks on academic freedom culminated with the expulsion of the Central European University in

2018. Judicial independence has been restricted and labour courts have been weakened. The government has been criticized for its treatment of minorities, including refugees, Roma, and LGBTQ+ people. Fidesz was a member of center-right European People's Party (EPP) but was suspended in 2021 out of concern over its commitment to democracy and the rule of law.

Unions have become marginalized under the Fidesz government. The government abandoned national tripartite bodies, including replacing, in 2010, the forum of national tripartite minimum wage setting with a private sector consultation forum (Meszmann and Szabó 2023). The government also reduced funding to trade union confederations. In 2018, a mere 7 percent of the working population was unionized, most in the public sector (see Figure 2).

Poland, similar to Hungary, underwent a transition to democracy and a market economy in the early 1990s, and following a period of rapid economic growth and integration with Western Europe, it joined the European Union in 2004. In 2005, the center-right Law and Justice (PiS) party won a narrow victory and formed a government, though it was ousted in 2007 in a vote of no confidence and replaced by a coalition government led by the center-left Democratic Left Alliance. In the 2015 elections, PiS returned to power with a parliamentary majority and has since been accused of democratic backsliding due to dismantling of checks and balances (Szikra and Öktem 2023). In particular, the highest court in Poland does not meet EU standards of judicial independence (Smiecinska 2021).

NSZZ Solidarność, the largest of the trade unions, has maintained close ties to the ruling PiS party and many PiS politicians, including Jaroslaw Kaczynski, the party chairman, are former Solidarność members. The trade union has used its ties to push through popular reforms

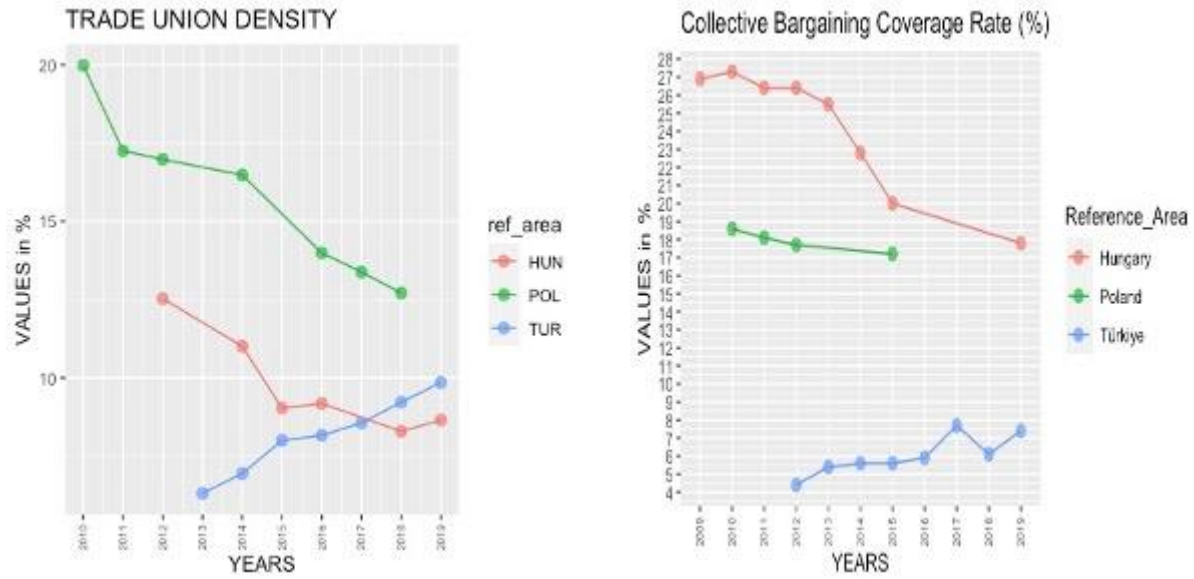
including a lowering of the retirement age, banning Sunday trading, and curtailing the expansion of civil law contracts. It has also worked to secure increases in the minimum wage. In addition, the unions succeeded in pushing an amendment to the Trade Union Act that expanded the eligibility for union membership to all "persons performing paid work" as a means to boost unionization of workers on civil contracts, which are widespread in the Polish labour market (Czarzasty and Mrozowicki 2023).

Nonetheless, there has been a steady decline in unionization falling from a high of 65 percent (12.5 million members) in 1980, to 20 percent (2.6 million members) in 2000; by 2019, unionization stood at a low of 13 percent or 1.5 million members, 98 percent of whom were in the public sector (Czarzasty and Mrozowicki 2023). Much of this decline is the result of the economic restructuring and privatization policies pursued in the 1990s, which shrunk the industrial base and led to a mass shedding of workers, and by consequence, union members. However, the low unionization rate is also due to the characteristics of the industrial relations system. Unionization is limited to enterprises with 10 or more employees, thereby precluding the large share (40 percent) of workers employed in small enterprises from unionizing. In addition, the law permits an unlimited number of unions at the workplace, leading to fragmentation, and prohibits closed-shops (Czarzasty and Mrozowicki 2023). Collective bargaining is limited to the enterprise level. Other features of the labour market – particularly the high share of temporary contracts and widespread use of civil contracts in employment – hurt unionization.

While independent from PiS, the close ties, both politically and ideologically, between the government an NSZZ Solidarność, and the overall weakness of the trade union movement in

general, mean that the unions – and particularly NSZZ Solidarność – do not act as a countervailing force to the PiS's policies.

Figure 2. Trade union density and collective bargaining coverage in Hungary, Poland and Türkiye



Source: ILOSTAT.

At the furthest end of the anti-democratic spectrum is Türkiye, which shares similarities with Hungary and Poland, but has been more extreme in its pursuit of neo-authoritarianism. The Justice and Development Party (AKP) first came to power in 2002, following political instability in the 1990s. Recep Tayyip Erdogan, the party leader, served first as prime minister until 2014, and since then as president. During its initial years in power, the AKP adopted an ambitious sociopolitical development agenda with the aim of joining the EU; but following its landslide victory in the 2007 elections, the government became more authoritarian in its pursuit of power (Özkiziltan 2019). In 2016, a constitutional reform was adopted that abolished the parliamentary system, removed checks and balances and gave the president more wide-

reaching powers. Following the 2016 failed coup attempt by former AKP president, Abdullah Güll, Erdogan instituted a state of emergency and used it to silence any remaining opposition (Kirişci and Sloat 2019). In 2018, Erdogan was elected President under the new constitution, and then subsequently re-elected for a second term in May 2023.

Under the AKP, collective rights have been curtailed. In 2012, a new labour law was promulgated making it easier to establish unions and be recognized for collective bargaining, but also easier for the government to curb industrial action. In particular, there are no protections against dismissal on the grounds of union membership and activity (Çelik 2015). At the same time, the government has encouraged unionization in the pro-government Hak-İş union, including by payment of dues of public employees (Celik 2015). Between 2002 and 2018, union membership in Hak-İş more than doubled from 302,000 to 654,000, whereas membership in the oldest union confederation, Türk-İş, fell from 1.95 million to 959,000 and from 368,000 to 161,000 in DISK (Confederation of Progressive Trade Unions of Türkiye).

The International Trade Union Confederation (ITUC) ranks Türkiye among the top 10 worst countries on its workers' rights index, which measures the degree to which countries, and the companies that operate within them, uphold the rights of workers as outlined in international law. It scored 5 (no guarantee of rights) as a result of the arbitrary arrest of union leaders as well as attacks on other rights; Hungary and Poland scored 3 (regular violation of rights)[2] (ITUC 2023).

[2] Scoring ranges from 1 (sporadic violation of rights) to 5+ (No guarantee of rights due to the breakdown of the rule of law). (ITUC, 2023)

Market liberalism with labour flexibilization

The policies of the three governments towards the labour market are in line with their economic vision, which remains neoliberal. All three countries, though to varying degrees, have institutionalized the labour market precarity they inherited or in the case of Hungary and Türkiye, have increased such precarity. At the same time, each of the governments have pursued strategic interventions in the economy that give them political leverage and support.

Hungary: the work-based society

Shortly after assuming power, in 2011, the Fidesz government adopted a new constitution that linked social rights "to a citizen's obligation to 'serve the community'". The new constitution, known as the Fundamental Law, stated that "everyone shall be obliged to contribute to the enrichment of the community through his or her work, in accordance with his or her abilities and potential."[3] Such a vision was in line with its electoral promise of creating one million new jobs by 2020 and replacing an "uncompetitive welfare state" with a "work-based society" (Szikra and Oktem 2022, p. 7).

The Fidesz government expanded the public work program (*közmunka program)* that had been instituted during the 1990s and early 2000s by the Socialist government, but made it more punitive and meager, while at the same tightening unemployment benefits (Geva 2021); (Vidra 2018). Prior to 2011, participants in the public work program earned the minimum wage. After 2011, payment was reduced to 78 percent of the minimum wage for full time work, under the belief that the wage reduction would motivate participants to seek other employment.

[3] Fundamental Law Article XII paras (1) and (2) cited in Hungler, 2022.

Most of the public works are low-intensive, physical tasks (drainage, cleaning sides of roads, gardening), with participants required to accept any job the municipality offers, independent of their educational level and skills. The policy aims to "activate" people and break their benefit dependency. Under the reforms, the unemployment insurance beneficiaries lose benefits after 90 days of unemployment, unless they agree to do public works. The public work program has been criticized for being unproductive and demoralizing, with initial evaluations finding no effect on labour market insertion (Risak and Kovács 2017). In 2016, the public works scheme employed roughly 5 percent of the labour force at a cost of 1 percent of GDP (IMF 2017). Given its large size, it has served to decrease the unemployment rates, as participants are counted as employed.

The government's economic strategy centers on export-led manufacturing to the EU, with Hungary hosting important industrial plants of major German car and appliance manufacturers. In addition to the lowest EU corporate tax rate at 9 percent[4], many of the multinationals benefit from tax credits – a policy that was started under the socialist government in the 2000s but has continued under Fidesz. Between 2010 and 2020, the Hungarian government provided 770 million euros in subsidies to multinationals who in turn created 33,695 jobs (Hungler 2022).

Moreover, its labour policies have been designed to support the needs of the multinational firms. In 2018, in response to labour shortages caused by emigration, the government adopted a bill that permitted up to 400 hours of overtime and gave companies

[4] In contrast, the highly regressive VAT is at 27 percent; the income tax is set at a flat rate of 15 percent.

three years instead of one to pay for the work. While the measure, dubbed by the opposition as a "slave law," led to widespread protests, it nonetheless went into effect (Karasz and Kingsley 2018). During the pandemic, the government further pursued labour market flexibilization by allowing for derogation from collective agreements. It also passed a decree giving employers unilateral privilege to expand the reference period for working time banking, which had formerly been subject to collective agreement (Hungler 2022). This measure was retained following the lifting of the state of emergency.

Despite the emphasis on private-sector-led investment, the government has been strategic in gaining hold of key industries for both economic and political purposes. The financial crisis caused havoc in the housing market as many Hungarians had mortgages denominated in Swiss francs, which were no longer affordable following the devaluation of the Hungarian forint in the fall of 2011. Orbán forced the banks to accept an artificially lowered currency exchange rate and to "shoulder the losses" making Orbán a "populist hero" (p.83) (Geva 2021). The government then undertook an ambitious program of "financial nationalism" through a series of legal changes that made foreign ownership of some key industries unprofitable. The government was able to gain control of the banking sector, which it then used as a means to direct credit to loyalists who purchased other industries of interest to the government, such as the media sector (Sebők and Simons 2022).

Poland

Like Hungary, Poland's economic model is also highly dependent on external trade, with Poland serving, for the most part, as a low-value-added producer in German supply chains. The

country has 14 special economic zones that provide tax exemptions to foreign enterprises. The emphasis on export-led growth has for the most part been successful as the country has sustained relatively high rates of economic growth since transition in the early 1990s, and in some areas has advanced to more value-added production (Gromada 2023). Nevertheless, its economic model has been based on low labour costs and a flexible adjustment to demand, including through out-migration to other EU countries.

The Polish labour market is highly segmented with a disproportionate use of non-standard employment arrangements. Polish employers have relied heavily on the use of these arrangements for two decades with the share of fixed-term contracts increasing from 2.9 percent in 1992 to 27.9 percent in 2006 (Buchner-Jeziorska 2013). In 2018, 24 percent of the employment population were on fixed-term contracts, the second highest rate of temporary employment in the EU-27, just below Spain.[5] In addition, an additional between 5-7 percent of the workforce (one to 1.4 million workers) has been hired using civil law contracts (referred to commonly in Poland as "junk contracts"), which, are widespread in low-skill professions, including security guards, cleaning and catering services (Statistics Poland 2018).

The use of non-standard employment arrangements reflects the export-led growth strategy in place since the transition. Responding to the concerns of its electoral base, the PiS has extended some rights and benefits to workers on junk contracts[6], including pension benefits, minimum wage, and the right to unionize (Czarzasty and Mrozowicki 2023). While

[5] Data from Eurostat.

[6] The right was granted to a specific type of civil law contract called *unomwa zlecenie*. Under this contract, the contractor is required to perform a certain activity within a specified period as commissioned by the principal in return for a fixed remuneration.

commendable, it nonetheless sustains the segmentation in the labour market, and is less preferable then a more comprehensive solution that would root out the segmentation and would involve expansion of the legal definition of employment, and enforcement through labour inspections and the judiciary. Given the exceptionally low level of unionization in the private sector (2%) and the excessive use of non-standard contracts, it is not surprising that the wage share, at 46 percent, is the second lowest in the EU, or that it has fallen dramatically over time from 57 percent in 2000 and 63 percent in 1992 (Kalecki Foundation n.d.).

Similar to Hungary, though less extensive, the PiS has also advocated the "repolanization" of the economy vowing to "stop the privatization agenda of the previous government" (p.12) (Orenstein and Bugaric 2020). In 2016, the government imposed a special levy on the banking and insurance sectors and increased state control in this sector from thirty to over fifty per cent. Given the importance of coal production to both the economy, its labour force, and its unions, the PiS has resisted EU climate targets, in addition to consolidating its domestic energy sector.

Türkiye: "authoritarian flexibilization"

In February 2001, Türkiye erupted in economic crisis following the devaluation of its exchange rate that had previously been pegged to the dollar. The IMF provided bailout loans on condition of a structural reform program centered on strict fiscal and monetary policies and a floating exchange rate. When the AKP assumed office in 2002, it continued with the program, and with the prospect of EU accession, Türkiye soon became the darling of financial investors, attracting substantial capital inflows in the ensuing decade, both because of the high interest

rates, but also a result of the widespread privatization program undertaken by the AKP that concerned the oil sector, transport, telecommunications, tobacco, financial services, and other industries (Szanyi 2020).

The inflows of foreign capital and widespread privatization allowed the government to fund a massive construction spree that entailed the building of highways, busways, airports and universities, in addition to fueling a household credit boom, with household debt raising from 2 percent of GDP in 2002 to 20 percent by 2013. The supply of new housing was facilitated by the Public Housing Authority, which was granted special privileges to direct public land towards construction through subcontracting. This not only generated rents for the government, but allowed it to direct permits to business groups that were close to the governing, thereby ensuring political support (Orhangazi and Yeldan 2021). Construction's share in GDP, in turn, rose from 7.5 percent in 2004 to 17.2 percent by 2017 with concomitant gains in employment.

The privatization program was central to the AKP's economic vision to "create a market society" which also included flexibilization of the labour markets. In 2003, the government reformed dismissal protection such that job security would only apply to enterprises employing 30 or more workers, up from 10, while reducing severance pay. Given the important share of small and medium-sized enterprises in Türkiye, this new threshold essentially eliminated protection in all but the largest firms. The government also eased the rules on agency employment and instituted widespread outsourcing in the public sector. Between 2002 and 2011, the number of subcontracted workers increased from 358,000 to 1.5 million (Çelik 2015).

In 2014, the government published its National Employment Strategy, 2014-2023, which argued how a more flexible labour market was needed for ensuring the competitiveness and

efficiency of Turkish enterprises, as well as for reducing unregistered employment and high levels of youth employment (Ministry of Labour 2014). Targets for the government included a better ranking in the Employing Workers component of the World Bank's Doing Business Indicators, which ranks countries, with greater labour and social security protections resulting in a lower score, in the areas of dismissal protection and severance, the use of fixed-term contracts, working hours restrictions, and the level of social security contributions ("payroll taxes"). As such, the strategy argued for the need to introduce flexible work arrangements by drafting new legislation and raising awareness among employees and employers (Ministry of Labour 2014). The National Employment Strategy was prepared without participation of the social partners which is common practice and also against ILO Conventions.[7] Three trade union confederations, including Türk-İşobjected to the NES. The trade union DİSK referred to it as "the most significant attack on labour rights in the history of the Republic" (p. 626), and even the pro-government confederation Hak-İş expressed its concern. The NES was nonetheless supported wholeheartedly by the employers' organizations (Çelik 2015). The reforms to the labour market under the AKP have been characterized by the Turkish industrial relations scholar, Aziz Çelik, as "authoritarian flexibilization" with individual labour rights being "the most unprotected in the history of the Republic", and collective labour rights and unions as the weakest in the last 50 years (Çelik 2015).

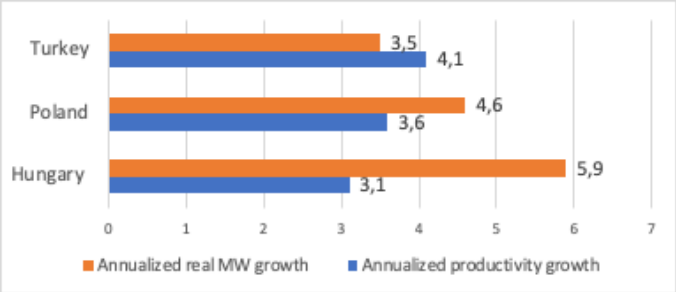
[7] Specifically, the Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144), which Türkiye has ratified.

Minimum wages: Visible and immediate

Despite the weakness, and in some instances, deterioration, in individual and collective labour rights, all three governments have been supportive of real increases in the statutory minimum wage. Between 2010 and 2019, the real value of the minimum wage has exceeded productivity growth in Hungary and Poland, and in Türkiye as well, until the inflationary crisis erased some of the gains (See Figure 3). As a result of the increases, the minimum-to-median wage ratio in all three countries is relatively high when compared to the median wage, at 63 percent in Poland and 71 percent in Hungary; in Türkiye it approaches 100 percent (ILO 2020).

While the minimum wage policy would seem to contradict the emphasis on labour competitiveness espoused by all three countries, the minimum wage nonetheless provides an important means to improve earnings among workers that can be directly associated with government policy, particularly in the absence of collective bargaining. This is particularly true in countries with one national minimum wage, which is the case in all three countries. As argued in the introduction, other labour policies, particularly concerning contractual arrangements, or weakening the collective bargaining, are less visibly associated with government policies. The minimum wage is thus an important tool used by these populist governments to ensure broad electoral support, and indeed was raised in Türkiye just prior to the presidential election in Spring 2023.

Figure 3. Average annual growth of real minimum wage and productivity, 2010-2019



Source: ILO, 2020.

Social policies with a pro-natalist focus

Boosting fertility is a central objective of the three countries, particularly in Hungary and Poland whose fertility rates of 1.6 children and 1.3, respectively, are well below replacement rates (Türkiye's fertility rate is 1.9), and in the case of Poland, below the EU average. In addition to boosting fertility, pro-natalist social policies also seek to reinforce traditional gender roles, as they emphasize women's role as carers (Cook, Iarskaia-Sminorva and Kozlov 2022; Fischer 2020; Akkan 2021), while reinforcing anti-immigrant sentiment. To support their pro-natalist, pro-family and nationalist vision, all three countries have instituted flagship social policies that, like the minimum wage, are highly visible and of benefit to important swaths of the population, thus garnering electoral support. Some of the policies are also administered locally and thus reinforce clientelism (Çelik 2015).

Hungary's earned income family tax credit

In keeping with emphasis on work, many of the social policies in Hungary have been transformed into tax credits that are only available to the employed. In 2011, the Fidesz Party

sought to boost fertility rates via the fiscal system, through the expansion of an existing earned income tax credit. The policy provides a monthly allowance for each child that parents can be deducted from their income taxes; in 2018 the credit was set at 200 euros for one child, 400 euros for two and 660 euros for three or more children (which after taxes was equivalent to a benefit of approximately 31 euros, 63 euros and 104 euros per month respectively).[8] In addition, mothers with four or more children received a lifelong exemption from income tax (Cook, Iarskaia-Smirnova & Kozlov 2022). With this policy, spending on family policy increased from 3.5 percent of GDP in 2010 to 6.2 percent of GDP in 2022. The policy is directed at middle-class families who earn sufficient income in the formal economy. Participants in the public works scheme are not entitled to the deduction (Lendvai-Bainton and Szelewa 2020; Szikra and Otkem 2022).

Poland's Family 500+

In 2016, the PiS introduced the Family 500+ Program with the explicit objective of boosting fertility. Initially the program provided a credit of 500ZL (120 euros) per month, per child (until eighteen years old) to each family with two or more children or to every family with an only child if the family met the income criteria. As of mid-2019 the program was made universal, with all families, regardless of how many children (0-17 years old) or income, receiving 500ZL credit for each child. The policy, at a cost of approximately 3 percent of GDP, has pushed Poland near the top for family spending in Europe (Cook et al. 2022). Family 500+ is extremely popular and contributes to the governing party's continuing success. The Family 500+

[8] In comparison, the average net monthly salary in Hungary in 2018 was of 730 euros.

has led to a substantial reduction in child poverty (see Figure 5), though this was not the explicit intention of the program. With respect to fertility, the program led to an initial bump in fertility, but this has since tapered off (see Figure 4).

The Family 500+ program has been criticized for lowering female labour force participation, and by consequence, reinforcing gender roles. Initial analyses of its effects does point to a reduction of nearly 3 percentage points among women, with pronounced effects on low-educated mothers and those in small towns (Magda, Kiełczewska, and Brandt 2018). While it is true that the reduction in labour market participation could have consequences on women's empowerment, including future participation and career progression, it is also true that such a policy relieves women of the double burden of paid and unpaid work, and by consequence, reduces their time poverty.

Türkiye's pension and health reforms and cash-for-care

The principal social policies in Türkiye include pensions and social assistance. With respect to pensions, the government in 2003 doubled the value of social pensions for the elderly and disabled. In 2008, despite opposition from trade unions and other groups, the government reformed the social security system, merging employees, the self-employed and civil servants into one social security system. The new system provided greater access and reduced inequality between groups to the benefit of the lower social classes, though later reforms tightened eligibility and removed the benefit floor (Szikra and Öktem 2023). Another major flagship program that was highly appreciated by lower-income segments of the population was the reform of the health system which effectively universalized access to public hospitals.

In addition, the government enacted in 2006, a cash-for-care program which provided cash transfers to a family member, usually a woman, in exchange for the care at home of the elderly and the disabled (Buğra 2020). The policy, which critics argue reinforces family-based care and patriarchy (Akkan 2018), grew from 28,583 beneficiaries in 2007 to 535,805 in 2021. Moreover, the administration of social assistance was often discretionary and administered by religious associations and thus "mired in clientelism" (Szikra and Öktem 2023, p.10).

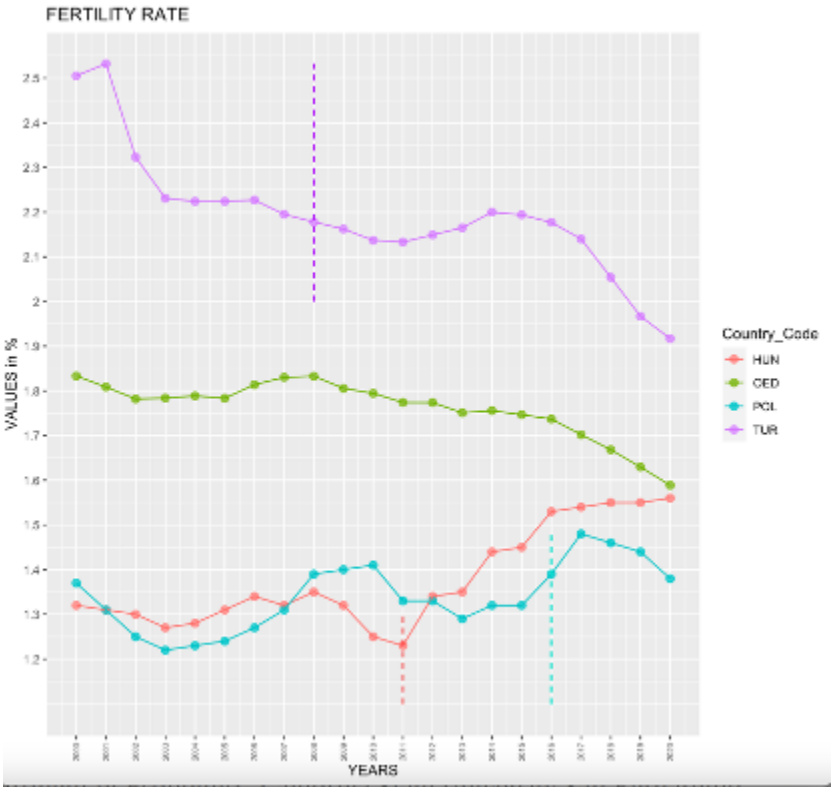
While the cash-for-care program was not linked to a pro-natalist effort, the AKP has been openly committed to increasing birth rates, supported through financial compensation but also through *de facto* restrictions on family planning and abortion.[9] In addition, since 2015 the government has offered monetary incentives to raise the natality rate under the "Family and Dynamic Population Structure Conservation Program". These incentives, which are less generous than those provided in Hungary and Poland, provide a modest one-time payment at birth (Dildar 2022).

While a more detailed analysis is needed to evaluate the impact of such policies on fertility, the de facto restrictions on family planning and abortion in Türkiye seem to have had a greater effect on raising fertility than the one-time monetary incentive. As figure 4 shows, the fertility rate in Türkiye slightly increases after 2012 and starts to decline in 2015, the year in which the monetary incentives were initiated. In Poland, the fertility rate after the implementation of the policies (highlighted with the vertical line) increased only slightly, only to

[9] In speeches, Erdogan has condemned family planning "as a conspiracy to eliminate the nation" and has advocated for families to have a minimum of three children. Though abortion has not been outlawed, it has become unavailable in many public hospitals and many public family planning centers are defunct (Kiliç 2017).

later fade out. This increase likely reflects a shift in the time preference of families who were already planning to have children, rather than an incentive to have children (Cook et al 2022). The effect in Hungary seems to be stronger, but more detailed analysis is needed to evaluate its efficacy.

Figure 4: Fertility rate in Hungary, Poland and Türkiye

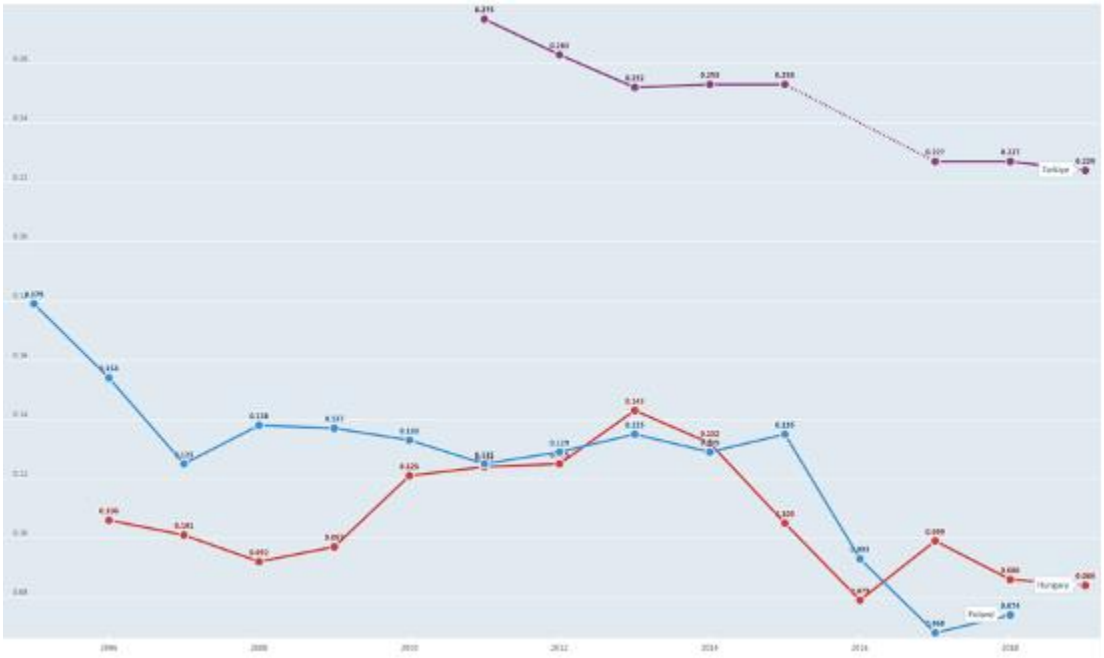


Source: Own elaboration based on World Bank data.

What is evident, however, is the effect of the policies on child poverty, which in all three countries, but particularly in Poland, fell substantially (See figure 5). Such dramatic effects not only translate into immediate improvements in the material well-being of families with

children, but also result in medium-to long-term benefits for these children in terms of health, but also education, as it deters school leaving.

Figure 5: Child poverty ratio, 2005-2019



Red = Hungary; Purple = Türkyie; Blue = Poland

Source: OECD.

Conclusion – **An illiberal turn that has delivered**

It is difficult to attribute success to governments that are explicitly pursuing anti-democratic agendas that will likely be experienced for decades to come. Nonetheless, it is important to understand how specific policies enacted by anti-democratic governments garner popular support. Specifically, it is important to ask the question of whether the illiberal turn

experienced in these countries has nonetheless successfully responded to the economic needs of the middle and lower classes who constitute the basis of the regimes' support.

During their time in office, the Fidesz government of Hungary, PiS in Poland and the AKP in Türkiye have continued with the neoliberal economic policies that they inherited, while at the same time pursuing economic, labour and social policies that achieve the economic and social objectives laid out in their economic vision. Through political allies, the governments have been able to exercise direct or indirect control of key industries including banking, energy, telecommunications and the media. Hungary and Türkiye have both increased precarization in the labour market, while Poland has only made piecemeal attempts to address the high degree of segmentation experienced in its labour market. Unionization is weak in all three countries and in Turkey, trade unionists have been attacked. Nevertheless, the three governments have eagerly pursued increases in the minimum wage that have resulted in substantial real increases above the rate of productivity. Meanwhile the economic insecurity from the neoliberal economic and labour market policies are mitigated somewhat by large scale, highly visible and highly popular, social policies. The social spending garners support for the different regimes, while strengthening their nationalist objectives of fertility and traditional gender roles. Absent large scale economic crises, or if economic crises can be controlled – as Türkiye tenuously seems to be doing – it is hard to imagine such support withering.

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Corporate Majoritarianism: The Case of India,

Sheba Tejani, King's College London

I. **Introduction**

The Hindu nationalist Bharatiya Janata Party (BJP) came to power in 2014 riding on the wave of Modi's credentials as a *vikas purush* or development man of Gujarat. As the architect of the Gujarat model of development, Modi became known for executing infrastructure and urban renewal projects, promoting big business and increasing economic growth. His Gujarat administration was termed as market friendly and business-friendly but contrary to expectations Modi did not implement major neoliberal economic reforms during his first term as prime minister. After his government was branded by the opposition as running a "suit-boot ki sarkar" that catered to the interests of the rich, and the BJP lost two state elections in 2015, Modi began to position himself as a "pro-poor" leader (Aiyar 2019). Despite the BJP's criticism of the previous United Progressive Alliance (UPA) government's welfare "handouts", Modi embraced a range of welfare policies to boost his political support among the poor, which also proved to be electorally advantageous (Deshpande et. al 2019). Some of these were new initiatives while others were previous UPA schemes that were rebranded and relaunched as the prime minister's gift to the poor such as the PM-Jan Dhan Yojana, PM-Ujjala Yojana, Ayushman Bharat, Awas Yojana and the Swachch Bharat Abhiyan.

This paper argues that Modi's ostensible pro-poor pivot has gone alongside other concurrent shifts that are critical in understanding the character of the current political-

economic regime. These are: i) the degradation and deregulation of labour rights through a new Labour Code; ii) the deepening of an oligarchic economic structure that has a symbiotic relationship with the BJP and pours money into its electoral machine; iii) intensifying anti-minorityism with concerted physical, social and economic attacks on religious minorities. These processes are establishing what I term a "corporate majoritarian" regime: a Hindu majoritarian state that is funded by big business, hostile to labour rights and violent towards minorities.

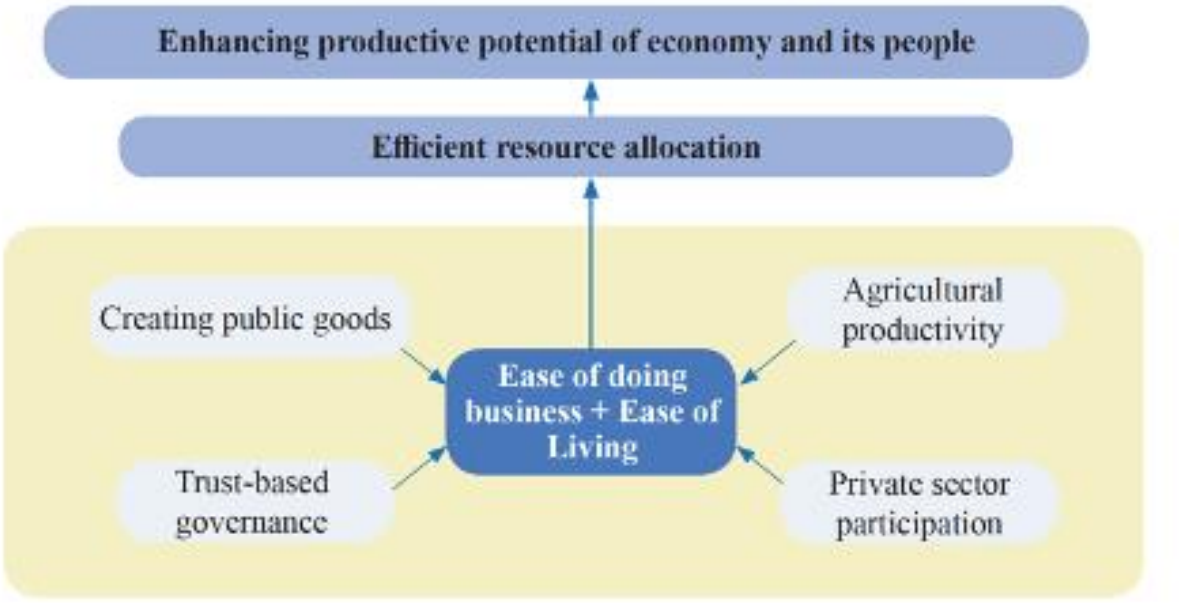
II. **Economic vision**

With its competing objectives and imperatives, the BJP's economic policy agenda in the first term (2014-2019) has been characterised as "inconsistent and rambling" (Echeverri-Gent et al., 2019, p. 404). In its second term (2019-present), the government introduced a Covid stimulus package in May 2020 and branded it as part of a new "*Atmanirbhar Bharat*" drive to make India self-reliant. Self-reliance harkens back to an older discourse in economic development and has been traditionally understood as a large public sector, infant industry protection and promotion of domestic enterprise. While the government claims that its notion of self-reliance is not a return to "old school protectionism" (Economic Survey 2022, p. 34), it has left the outlines of the vision vague and clubbed a mishmash of policies under this umbrella (Economic Survey 2021, p. 35-37). Despite the inclusion of industrial policy packages for 10 sectors, many of these self-reliance policies could more accurately be described as conventionally neoliberal such as: liberalization of the agricultural sector, deregulation of labour, privatization of public sector units (PSUs) in non-strategic sectors, reduction of

subsidies, use of public private partnerships in infrastructure and enhancing the ease of doing business by creating a fast-track investment process.

In the Economic Survey (2023), the government enunciated the principles underlying its reforms over the last eight years once again but left the link to Atmanirbhar Bharat policies unclear. It framed these principles as “sabka saath, sabka vikas” or inclusive growth, which it argued reflected a “paradigm shift in the growth and development strategy of the government, with the emphasis towards building partnerships amongst various stakeholders” (p. 28). This vision now centres the “ease of doing business” and “ease of living” as priorities of the government as seen in Figure 1. It aims to create this ease through public sector goods, especially infrastructure, the promotion of private sector participation, “trust-based governance” and by raising agricultural productivity (Economic Survey 2023, p. 28). According to the Survey, digitalization and flexibility will allow the ease of business and living to translate into greater efficiency and productivity. The language of “ease” is a gesture towards the new middle classes who value a smooth lifestyle and to business interests who complained of obstructionism during the previous United Progressive Alliance (UPA) regime. It is telling that the government identifies poverty as a problem but argues that economic growth in India is inequality- reducing in nature and does not need to be explicitly tackled through policy (Economic Survey 2021, p. 122-143).

Figure 1: Economic Vision



Source: Reproduced from Economic Survey (2023), p. 28.

In this paper, I show that core components of the government's economic vision consolidate corporate majoritarianism by benefitting big business—through PPP infrastructure projects, for instance—and by undermining labour through the emphasis on trust-based governance and light regulation. I discuss below the three shifts that are establishing a corporate majoritarian regime in India.

III. **Degrading labour rights through the Labour Code**

In 2019 and 2020, the government pushed through sweeping changes in India's labour regime by replacing 29 existing labour laws with 4 new laws known collectively as the Labour Code. The new laws are: Code on Wages, 2019; Occupational Safety, Health and Working Conditions Code, 2020; Industrial Relations Code, 2020 and Code on Social Security, 2020. The

idea to overhaul India's labour regime was first mooted by the National Commission on Labour under the BJP-led coalition in 2002 to improve "ease of compliance and ensure uniformity in labour laws" (PRS 2023). There was some rationale for simplification as the laws lacked universal coverage and labour is a concurrent subject on which both states and the central government can legislate. The result was a lack of consistency and clarity on frequently conflicting clauses across laws and a thicket of poorly implemented and monitored regulations. Labour flexibility is also an important component of the government's strategy to attract investment from lead firms in GVCs that are diversifying out of China. While the Code on Wages was passed in 2019, the remaining three laws were pushed through in September 2020 with little to no debate at a time when the opposition was boycotting Parliament on another set of controversial farm laws (Rajalaskhmi 2020). Business associations have welcomed the new code while all central unions, including the BJP-affiliated Bharatiya Mazdoor Sangh, have opposed them (Alam 2020). Most states have published draft rules based on the laws but the Labour Ministry is now holding belated talks with central unions to avoid disruption upon notification (Haq 2023).

I argue that the new Labour Code degrades workers rights in the guise of simplification, uniformity and flexibility. They skew bargaining power further towards capital, and away from labour in a context where the labour market is already in distress and informality and precarity is high. They significantly weaken associational rights, dilute and downgrade minimum wage protections and facilitate increasing precarity. There are arbitrary exclusions and hosts of exceptions that make it difficult for workers to claim rights and monitor violations. The

regulatory role of the state and its responsibility for oversight has been further reduced. Below I discuss some major limitations of the Labour Code.

The Industrial Relations Code (IRC) allows for the formal recognition and registration of unions, which is a welcome development, but it does so without defining a timeframe for registration and allows authorities to cancel registration based on vague language (Bhuta 2022). These infirmities can be used to delay the recognition of unions or deregister recalcitrant unions. It restricts the right to strike by requiring a notice period of 60 days, which applied only to public utilities earlier, and forbids strikes once adjudication starts, and even for a period after the process ends. The government can exempt any establishment from the IRC in case of emergency or in the public interest, which hands significant discretionary power to the government to tamper with workers rights (Sood 2020).

The Wage Code, 2020 gives the central government a free hand to set the floor wage without committing to specific norms or principles (Clause 9). The law ignores the needs-based formula set out by Indian Labour Conference as a guide to set minimum wages (Jayaram 2019). Given that the Labour Ministry increased the minimum wage to Rs.178 ($2.16) in 2019—a paltry increase of Rs.2 over two years—despite the Labour Conference's recommendation of Rs. 375 ($4.55) does not bode well in this regard (Jayaram 2019). Governments are required to constitute Advisory Boards consisting of employers, employees and independent members to advise them on the setting of wages, but their advice is non-binding and only one-third of the members are required to be women (Clause 42). The Code expands the working day through the backdoor by creating exceptions to normal working hours that do not apply in emergencies, and for preparatory or complementary work (Jayaram 2019; Wage Code 2019, Clause 13).

Although it increases the compensation for overtime, extending the working day in this way makes it harder to claim. The law also allows for the deduction of wages in the form of fines and to cover damages or amenities, which can encourage misuse and permit wage theft (Clause 18).

The Code on Occupational Safety and Health (CoSH) creates a new category of "fixed term employment" (FTE) that expands the use of contract labour, which was allowed only in non-core activities previously. Now contract labour is also permitted in core activities through the use of exceptions (Clause 57). FTE workers can be fired without notice, are not entitled to retrenchment compensation and cannot participate in strikes.

Under the previous Industrial Disputes Act, 1947, firms with more than 100 workers were required to prepare Standing Orders or certified rules of conduct binding on employers and workers on matters concerning wages, working conditions and retrenchment, etc. The IRC 2020 has now raised this limit to 300 workers with a section of workers now losing this protection. Similarly, the SS and OSH Codes apply only to particular categories of establishments (10 with power or 20 workers without power; 20 with power and 40 without). They exclude some sectors such as hotels and restaurants entirely while the SS Code does not apply to mines with no justification. Access to social security also remains fragmentary with obligatory provident fund, pension, and medical insurance benefits available only to employees earning above an income threshold that will be notified by the government (Sood 2020). The government has also empowered itself to exempt any establishment from the IRC (Clause 39) and OSH Codes (Clause 58) and from several chapters of the SS Code.

Given that India's labour market is largely informal, and that labour standards are observed mostly in the breach, the new codes go a step further in institutionalizing labour's weaker position and cementing prejudicial practices.

IV. **Consolidating Oligarchy**

As Kohli (2012) has argued, a pro-business shift is discernible in Indian economic policy since the late 1970s and domestic business groups have only augmented their influence through the period of liberalization in the 1980s and 1990s (Kohli 2012). However, blatantly crony capitalism and oligarchy is a relatively new development.Two groups in particular stand out here: Reliance Industries and the Adani Group, which are among the largest conglomerates in the country by revenue. The promoters of both groups are Gujarati and their firms have large operations in the state. Reliance Industries is an established multinational conglomerate that grew rapidly in the 1980s and spans petrochemicals, energy, natural gas, retail, telecommunications, and media. The Adani Group has become one of India's largest infrastructure companies with interests in coal mining, thermal power plants, ports and green energy. It expanded at a meteoric rate in the 2000s and its promoter Gautam Adani is a firm supporter of Modi who stood by him after the anti-Muslim pogrom that occurred in Gujarat in 2002. When the Confederate of Indian Industry (CII) criticized Modi's handling of the episode, Adani along with a handful of other industrialists, formed the breakaway "Resurgent Group of Gujarat" to counter the CII and assert their support for Modi (Rajshekhar 2013). Since then, Modi has been relying increasingly on big business for funds to free himself from the BJP. He

has also promoted newcomer Adani as a counter-weight to Mukesh Ambani, the promoter of Reliance Industries.

The government has used the following techniques to favour these groups. Please note that the examples here are illustrative rather than exhaustive.

i) *Awarded contracts and assets through irregular practices*. When the government floated tenders in 2019 to lease six lucrative airports in the country to private players, the Adani Group won bids to operate all six although it had no prior experience in the sector. This award also went against the recommendation of the Department of Economic Affairs that no single player should be awarded more than two airport contracts. The bidding process was reported as being irregular because it sidelined the role of regulator, reduced obligations for bidders, and tweaked eligibility criteria (Nair 2019, Scroll 2021).

ii) *Made regulatory and policy changes to expand the companies' market share*. A case in point is the launch of Reliance's telecom company Jio in 2018. The Telecom Regulatory Authority of India (TRAI), under the guise of testing network connectivity, allowed Jio allowed to offer highly discounted pricing for 253 days without inviting prosecution for predatory pricing (Stacey and Mundy 2018). TRAI also made a steep 50% cut in the interconnection charge that benefitted newcomer Jio, as it had a relatively smaller subscriber base then (Srujana 2019). Subsequently, the regulator changed its definition of what constituted market power as Jio rapidly gained market share. This prevented Jio from being subject to predatory pricing rules and helped it to avoid tighter regulation and enhanced scrutiny. Jio now commands 37% of market share, which it has achieved in a record period of time (Grover 2023).

iii) *Extended loans and equity through state-owned enterprises*. The State Bank of India (SBI) approved a $1 billion previously stalled loan "under pressure" to the Adani group in 2014 when half a dozen banks had declined to do so (NDTV 2021). The bank currently has an exposure of $2.6 billion to the Adani Group (Das and Singh 2023). In 2015, the Adani Group was described as "highly indebted" by Credit Suisse with a debt-equity ratio of 3.1 (Credit Suisse 2015). Since then, state-owned enterprises have been infusing capital into various Adani projects by acquiring large equity stakes in them often with no controlling interest (Mohammad 2017). For instance, in 2017, Indian Oil and Gas invested 49% in a natural gas terminal valued at Rs. 6000 crore in Odisha where Adani Enterprises Ltd. has the controlling stake. Both firms had to borrow heavily for this (Nileena 2018). Indian Oil and GAIL also invested 50% in a joint venture between Adani Enterprises Ltd., and Gujarat State Petroleum Corporation in a Rs. 5040 crore natural gas terminal at Mundra (Nileena 2018).

There are numerous economic and political risks associated with the emergence of an oligarchy in India. Rising concentration curbs competition and competitiveness in the economy as a handful of firms use state patronage to extract rents. In the Indian case, it also means that vital and strategic infrastructure is controlled by a few firms. The systemic financial and credit risks posed by large firms such as the Adani Group were amply demonstrated when its share prices crashed after short-selling firm Hindenburg Research alleged that the group was engaged in accounting fraud and stock manipulation (Upadhyay and Thomas 2023, Joshi and Jain 2023). The group's debt is equivalent to approximately 1% of India's GDP with significant exposure of public institutions (Hanada 2023).

Perhaps most critically for the future of democracy in the country, political donations by these large firms allows BJP's electoral juggernaut to thrive. The BJP introduced an ingenious new scheme in the name of reforming electoral finance in 2018. Known as the electoral bond scheme, it allows individuals and firms to buy interest-free bonds for donation to political parties anonymously and with no limit (Biswas 2022, Vaishnav 2019). The names of donors are not part of public record but the public bank issuing the bonds is aware of their identities and thus the information is likely available to the government. Until October 2022, electoral bonds worth $1.15 billion have been sold in 19 tranches with the BJP being the main beneficiary (Biswas 2022, IE 2021)

V. **Intensifying anti-minorityism**

The BJP is the political wing of the Hindu right-wing "family" of organizations known as the Sangh Parivar. *Hindutva* or Hindu supremacy is the main ideological plank of the Hindu right-wing and it constructs religious minorities, and especially Muslims, as enemies of the nation. Although commonsense in India has been shifting towards *Hindutva* from the 1980s, the vilification and stigmatization of Muslims has reached new heights and acquired widespread legitimacy with the BJP-led coalition in power at the national level since 2014. Malicious discourses of Muslims conducting holy war by taking over land and property ("land jihad"); ensnaring young Hindu girls into marriage to convert them to Islam ("love jihad"); and encroaching on Hindu business and trade ("*vyapar*jihad") are constantly circulating in the media and creating a cesspool of hatred (see for instance, Mirchandani 2018). In addition, a high-pitched nationalist discourse constructs Muslims and Christians as inherently anti-national

because of their religious affiliation and associates them with the forced religious conversion of Hindus. Transnational discourses about "Islamic terror" are used as further evidence of Muslim aggression and capacity for violence.

As a result, religious minorities are facing an explosion of physical, social and economic violence that is often state sponsored or supported with almost complete impunity for perpetrators. The ban in many states on the cow slaughter and/or consumption of beef has unleashed targeted violence against Muslims and Dalits who are associated with the trade. Vigilante groups have lynched those suspected of illegally owning cattle, abducting cattle and eating beef (Venkatesan 2017). Police have either stalled investigations or been complicit in cover-ups due to political pressures. Most perpetrators are roaming free while survivors are thrown in jail for possessing or consuming meat (HRW, 2019, Hindutva Watch 2023, Siasat Hate Tracker 2023). In BJP-ruled states and union territories such as Uttar Pradesh (UP) and Kashmir, municipal governments have singled out Muslim property for demolition by alleging they have encroached land (Hassan and Ellis-Petersen 2023; Bhushan 2022). Such state-sponsored violence has earned the moniker of "bulldozer politics" and the Chief Minister of UP is popularly known as "bulldozer baba" for his brazen use of this method (Narayan 2022). There have also been open calls for the socio-economic boycott of Muslims with the most recent case recorded in Purola, Uttarakhand where the abduction of a Hindu girl is being used a pretext to call for the boycott of the whole community (Jafri 2023). This has been accompanied by open calls for the extermination of Muslims, most recently at a meeting of religious leaders in Uttarakhand in 2022 (Jha 2022).

There is a lack of systematic statistics on hate crimes based on religion other than independent media reports. Still between 2014-19, independent data gathering efforts revealed that 83 incidents of violence related only to cow vigilantism took place in which 35 people were killed (mostly Muslim) and 127 people injured (Hate Crime Watch 2019). These are no doubt conservative estimates.

VI. Conclusion

The BJP government's economic policy approach is a mix of initiatives to boost big business and to deregulate and flexibilize sectors such as the labour market. Though it frames these policies in neoliberal economic terms, they are a combination of competition enhancing and reducing measures that concentrate economic and political power. This paper argues that the degradation of labour rights, consolidation of oligarchy and intensifying anti-minorityism are inter-related cornerstones of the emerging corporate majoritarian regime in India. The new Labour Codes discipline workers through markets while allowing businesses to extract higher profits. For workers, political incorporation through *Hindutva* (and welfare policies) can be a substitute for economic inclusion, for a time, though it will not solve the larger structural infirmities of the Indian economy. At the same time, economic concentration is facilitating political centralization and vice versa through the electoral bonds scheme that is funneling funds from big business to the BJP in an opaque way and without any democratic checks. Support of the Hindu supremacist regime pays handsomely for emerging oligarchs who underwrite India's transformation into a majoritarian state. As importantly, Hindu majoritarianism alters the nature of the state itself and makes it more malleable for capitalist

accumulation through the unabashed use of coercive state power that can be exercised against any groups or individuals deemed to act against the "national interest". These are mutually reinforcing tendencies, but it is important to note that the establishment of corporate majoritarianism is not an inexorable process. There are fragilities in this politico-economic formation and a realigning of interests, new political mobilizations, or economic shifts, for instance, can destabilize and alter its path.

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Conclusion: Towards a Democratic Economics

William Milberg, The New School

This report on the deliberations of the convening for the project "Beyond Neoliberalism and Neoliberalism: Economic Policies and Performance for Sustaining Democracy", points to the need for a more sustained effort to counter both the economic insecurity and volatility of neoliberalism and the labor suppression, ethno-nationalism and clientalism of the neo-illiberal economies. Such an effort will require creative and interdisciplinary work on both theory and policy.

The word democracy is ill-defined in economics and certainly not well understood in the economics profession. At the same time, it is widely acknowledged that economic forces, resulting in part from neoliberal policy, were partly responsible for the backlash against democracy over the last 15 years. This backlash is the illiberal turn that has occurred across the countries discussed in this report. Polanyi's 1944 classic The Great Transformation provides a useful lens for understanding the illiberal turn in the 21st century. Polanyi showed that liberal free market capitalism inevitably creates a political backlash – what he referred to as a "pendulum swing" – but that the backlash could be to the right or the left, that is towards authoritarianism or towards social democracy. The liberal period from 1870-1913, followed by World War I and the Great Depression, led to fascism in the 1930s. Polanyi argued that it was the commodification of labor, money and nature – what he called the three fictitious commodities – that underpinned this authoritarian turn. His account serves as a warning that

failure to resist this commodification of important human needs and functions will lead to the authoritarian rather than the democratic response.

The second day of the convening at The New School was a smaller-group discussion of the Polanyian question of how economic policy might be reformed to both sustain growth and provide more equality while underpinning democratic politics and society.

We first identified some of the common economic policies in the illiberal countries: protectionism and anti-immigrant policies, labor suppression, support of oligarchic elites and targeted social programs to support population growth and to provide electoral support. The latter often combined clientelism with ethno-nationalism. The group then fleshed out a program for economic policy and a role for philanthropy. There was consensus around the need for an employment creation policy comprising both "good jobs" and full employment, as well as a new approach to global trade, investment, capital mobility and taxation.

A daunting challenge became evident as the discussions ensued: the need for a positive political economy that would apply to both neo-liberal and neo-illiberal governments, not just an economic policy regime that only works with one set of institutions.

The next phase of this New School project will seek to build out the core of this positive political agenda by answering some basic questions, including:

(1) How do we stabilize the crisis-prone capitalist economy? Several participants stressed the need for a progressive vision of full employment with good, stable jobs that also would aid productivity growth;

(2) How can progressive democratic governments around the world find stable and equitable economic policies when the economy is dominated by the US and outdated and

overly liberal international economic institutions? Governments with progressive, equity-oriented goals are constrained in tax, trade, finance, and central bank policies. How can the international economic institutions, which have diminished in effectiveness and lost a sense of their mission, be reconstituted for the new era?, and ;

(3) What are the macroeconomics consistent with these first two points? How do we develop macro policies that support growth with explicit attention to equitable distribution of income and stability? Can we move beyond the "Keynesian straight jacket" and New Deal consensus into some new policy areas? The task is to show how this policy program can deliver economic growth which could then support conditions for democracy.

The group also discussed ways to build such an agenda, with deeper research on labor market policies on full employment and the creation of networks of policy makers, scholars, and advocates working at the national level to share ideas on national and international policy. There would need to be cross-disciplinary research and network building in order to carry out a program around this, bringing forward global South perspectives that differ from the North, linking scholars with policy makers and advocacy groups.

The convening points to two even more basic questions: What are the economic conditions for political or social democracy? What are the political conditions for economic justice and sustainability? Connecting economics and economic policy to the future of democracy is a key goal in the pursuit of social justice. One thing we learned so far in this project is that economists today are not well prepared to address the topic of democracy. This project is aimed at changing that, by bringing the study of economy and democracy together more closely in the next phase. The next convening of the project will take place at The New

School on November 6th, 2023. For registration information, please visit the website of the Heilbroner Center for Capitalism Studies.

List of Contributors

David Autor
Massachusetts Institute of Technology, United States of America

Janine Berg
International Labour Organization, Geneva, Switzerland

Laura Carvalho
Open Society Foundations

Thiemo Fetzer
Warwick University, England, United Kingdom

Darrick Hamilton
The New School, United States of America

Brian Kettenring
Hewlett Foundation

Thomas Liess
The New School, United States of America

William Milberg
The New School, United States of America

Rosana Pinheiro-Machado
University College Dublin, Ireland

Jessica Pisano
The New School, United States of America

Dani Rodrik
Kennedy School, Harvard University, United States of America

Moritz Schularick
Sciences Po Paris, France and University of Bonn, Germany

Joseph Stiglitz
Columbia University, United States of America

List of Contributors - continued

Sheba Tejani
King's College London, England, United Kingdom

Ludovica Tursini
The New School, United States of America

Ayca Zayim
Mt. Holyoke College, United States of America

With staff support from *Richard McGahey*, *Abhik Sengupta* and *Michael Tedesco* from The New School