

The causes of the illiberal shift of economic policy: shedding some light on an open debate

In the previous articles of the Dossier, we have described the phenomenon of the illiberal shift of economic policy in a significant sample of countries. Now it is time to understand the causes. This is an ambitious exercise which is the subject of a broad academic and public debate, to which this article seeks to contribute an enriching analytical overview.

The great debate: are the causes solely economic in nature?

Let us recapitulate the main conclusions of the first two articles of the Dossier, as they set the starting point for what follows herein. In the article «[Illiberal forms of economic policy: evolution or radical change from the existing consensus?](#)» we define what we call the liberal consensus on economic policy, justifying the need to find a quantitative measure that approximates the hypothesis of the recent departure from that consensus. This measurement exercise is performed in the second article of the Dossier, in which it is concluded that there are notable differences between different spheres of economic policy, such that in some spheres the shift is highly noticeable, while in others it is less so. The challenge is therefore to try to determine whether there are elements that are common to all the spheres. If there are not, there is a risk of falling into an almost never-ending list of reasons affecting economic policy «in sphere z of country j». Making progress on this issue requires a telescope more than a microscope, but first we need to know where to point it.

Among the many possible intellectual fishing grounds, the authors of this Dossier consider the most promising one to be the academic debate, as well as the public debate, around the root causes of political polarisation. This phenomenon is defined as a greater divergence between the proposals of the major political parties. The measure used here to approximate the illiberal shift is related to the preferences of political parties and, therefore, whether they have become more extreme and antagonistic. In this regard, it is quite plausible that the illiberal shift led by many political parties is closely related to political polarisation and can therefore be placed within the framework of this widely documented political phenomenon. In other words, the illiberal shift could be a specific manifestation of a wider political trend: polarisation. In this same publication, we previously explored the root causes of the increase in political polarisation (i.e. the disparity in preferences). In particular, in two articles that focused on the structural and contextual outlook, respectively, Ruiz (2019) and Canals (2019) noted that the «usual suspects» in both the theoretical and the empirical literature were the economic effects of major crises, the increase in inequality (a major root cause of which was technological change) and the increase in migration flows.¹

However, these types of causes, which we can broadly label socio-economic, do not exhaust all the possibilities. In the vast literature on populism – one of the specific forms that the increase in polarisation can take – it is noted that there are also institutional and cultural factors involved. It is within this line of thought, for instance, that the whole debate around what is known as «cultural backlash» is framed, which has been argued in the theses of authors such as Pippa Norris and Ronald Inglehart. The aforementioned article by Ruiz (2019) set out the hypothesis that secular changes in western societies, such as tertiarisation, have led to a double effect: that which could be called economic insecurity and that which presents itself as an increase in diversity. Combined with a shift in previous decades towards post-materialist and socially progressive values, these effects have generated a movement in the opposite direction by the socially more conservative segments of western countries, thus contributing to an increase in ideologically more polarised positions.

A multi-causal approximation of the illiberal shift: an empirical exercise

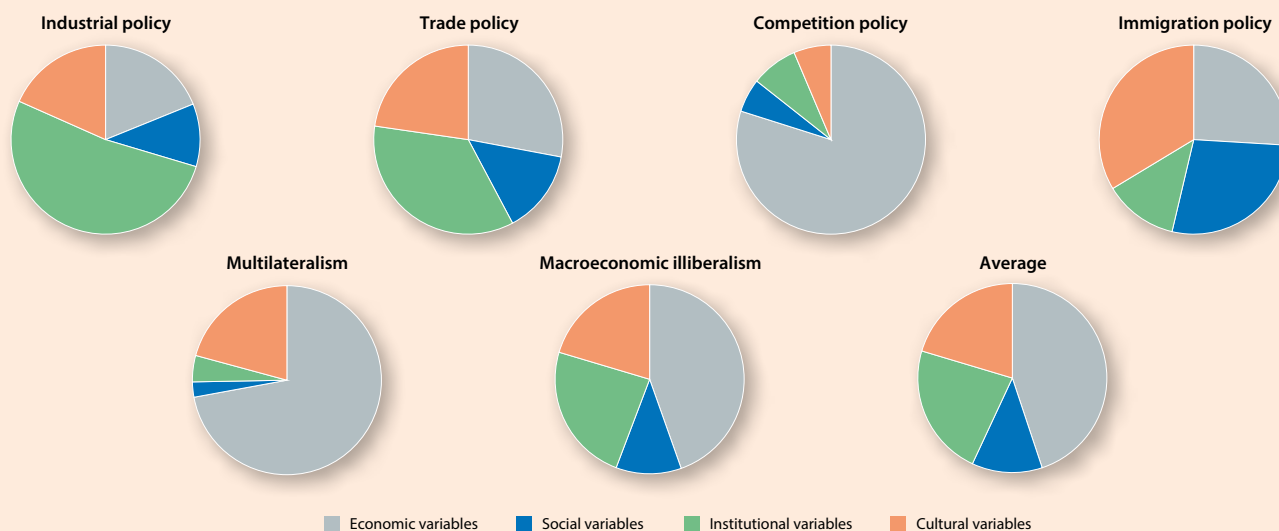
Do the available data confirm that the illiberal shift – that special form of polarisation of preferences that we are studying – is caused by different kinds of factors? To answer this question, we have chosen a series of variables that cover the aforementioned theoretical spectrum and have grouped them into four different categories. First are the strictly economic causes, which primarily measure the direct effect of the Great Recession through the evolution of GDP per capita and the unemployment rate. A second block is comprised of social variables, such as inequality and migration flows. A third group consists of institutional variables and, more specifically, the rule of law and the degree of control over corruption. A fourth and final category encompasses cultural and ideological variables, such as secularity, the liberality of society (for details of the definition, see the charts) and the position of parties on the left-right axis.

When the relative weight of these blocks of variables is quantified in seeking to explain the change in the degree of aggregate illiberalism, as defined in article «[The illiberal shift in economic policy: let the data speak!](#)», the results are quite enlightening. A first conclusion when analysing which factors are more related to each of the different areas of economic policy is that, generally speaking, the main determining factors are in an economic nature. This is not surprising, since the policies we are dealing with are, precisely, economic ones.

1. See the Dossier «The causes of polarisation» in the MR05/2019.

Explanatory factors for the change in illiberalism

Percentage of the variance explained (%)



Note: Each portion of the circle represents the proportion of the variance of the change in the degree of illiberalism in the six spheres that are explained by the various independent variables (we do not examine the sphere of restrictions on FDI, given that few parties express their opinion on this issue). A regression is calculated for each sphere in which the dependent variable, at the party level, is the change in the degree of illiberalism, weighted according to the change in the party's share of the votes, defined as: $\text{Change in the illiberalism of the electorate} = \text{Vote}_{i,t2} * \text{Illiberalism}_{i,t2} - \text{Vote}_{i,t1} * \text{Illiberalism}_{i,t1}$, where illiberalism is the degree of illiberalism in each sphere of the political agenda. The last chart illustrates the average of the proportions in each sphere. The independent variables are divided into four categories: economic (the change in GDP per capita during the financial crisis and unemployment), social (the change in the Gini coefficient and the stock of immigrants), institutional (the level of control over corruption and a measure of the quality of the rule of law) and, finally, cultural variables (the political orientation of the party, secular values such as the importance of religion or conformity to norms, and «emancipatory» values such as the acceptance of homosexuality or gender equality in politics).

Source: CaixaBank Research, based on calculations by the authors and data from the World Bank (global governance indicators), World Value Survey and the IMF.

Nevertheless – and this would be a second major conclusion –, when assessing the different areas, it becomes apparent that both the cultural and the institutional elements have a non-negligible influence on the illiberal shift. As is clear from the charts, this is the case in areas such as trade policy, which are dominated by institutional factors, and in cultural areas, which play an important role in migration policy. In contrast, the social elements, at least as they have been defined, appear to play a less important role. The exception to this is the field of immigration policy, in which social factors do appear to explain a large part of the shift towards illiberalism.

At this point in the analysis, it is worth considering whether any conclusions can be drawn for the cases of Spain and Portugal. Although data for the variable in question (the degree of illiberalism) are not available for Spain and Portugal, the above exploration of the causes allows us to make a first attempt at approximating the level of pressure that exists for these countries to become more or less illiberal. When we analyse the trend in the different explanatory variables, it becomes clear that in both countries, albeit more so in Spain, the dynamics of several of these variables before and after the financial crisis indicate growing pressure towards a greater degree of illiberalism. Specifically, the trend in the blocks of economic and social variables (especially the fall in GDP as a result of the crisis, as well as a higher unemployment rate and level of inequality than the average for the sample between 2008 and 2013) indicates potential pressure in areas that are more sensitive to these factors (it should be noted, however, that in both the institutional and the cultural sphere Spain and Portugal show trends in line with other countries).

Finally, the exercise conducted here leads us to the same main conclusion as other similar exercises in the social science literature conducted on other areas of polarisation or on the change in preferences in general. Specifically, single-cause explanations do not tie in well with the available data, and while economic factors play a bigger role, social, institutional, cultural and ideological factors are also relevant. To the extent that the world will evolve in the direction that most economists and analysts predict, the pressures in all areas in many of the most important countries in the world to diverge from the liberal consensus will persist, or even increase. After all, it is hard to picture major improvements materialising in long-term growth, in inequality reduction, in changes in migration flows or in institutional regeneration. In this context, we need to explore the effects that this illiberal shift could have: an exercise that we undertake in the fourth and final article of the Dossier.

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