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The Political Economy of European Populism: Labour Market Dualisation and Protest Voting in Germany and Spain

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The Political Economy of European Populism: Labour Market Dualisation and Protest Voting in Germany and Spain

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Abstract

Many advanced economies around the world have recently witnessed a notable rise in populism stirring severe political unrest and social instability. This paper addresses the apparent academic confusion regarding the origins of this phenomenon and combines politico-economic analysis with electoral data to derive a new theory of populist demand. I conceptualise populism as a problem of political alienation stemming from the incapacity of social democratic parties to comprehensively represent the working class in the context of increased labour market dualisation. If the group of underrepresented workers is not sufficiently numerous to be electorally-relevant, right-wing populist protest parties can make use of the representational vacuum by reframing class-distributional issues along cultural conflict lines. If, however, the group of marginalised workers is large enough to mobilise political attention, left-wing populist parties will address socio-economic issues more directly. I thus assume an inverted hyperbolic causal relationship between labour market segmentation and the demand for populism. This hypothesis is tested in a critical case study on the electoral effects of labour market reforms in Germany and Spain.

Keywords: populism, right-wing parties, dualisation, labour market reform, political representation

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Table of Contents

Introduction	1
The Argument in a Nutshell	2
Debating Populism.....	5
Method.....	9
Dualisation and the Crisis of the Left	11
Labour Market Reforms in Germany and Spain	15
Germany: The Hartz-Reforms of 2003-2005	16
Spain: The Royal Decrees of 2010 and 2012	20
Political Consequences in Germany and Spain	23
Germany: Right-Wing Populism and the AfD	24
Spain: Left-Wing Protest Movements and Podemos.....	28
Limitations.....	32
Conclusion.....	34
References.....	38

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The Political Economy of European Populism: Labour Market Dualisation and Protest Voting in Germany and Spain

Introduction

Without a doubt, the widespread surge of populist parties constitutes one of the most topical political issues within the European Union in recent years, creating intense insecurity and reasonable doubt about the future stability of the partnership. While European populism is certainly no peripheral phenomenon anymore, academic discourse is still dominated by great disagreement as to the origins and explanations of its multifarious manifestations in national politics. In fact, '[t]he mercurial nature of populism has often exasperated those attempting to take it seriously' (Stanley, 2008: 108) and seemingly prevented the formulation of an encompassing theory of populism (Müller, 2016). Definitions and the derivation of powerful explanatory variables remain rather vague focusing on a variety of issues from economic deprivation to a conservative-nostalgic backlash against progressive value change and loss of cultural identity. What is more, in public discourse this conceptual confusion tends to turn the notion into a merely polemical battle cry imposing the risk of being labelled 'populist' on any media-effective politician (Bale et al., 2011: 121).

This study adds substance to the academic debate by exploring the origins of different forms of European populism from a politico-economic perspective.

Recent findings suggest that right-wing populism and protectionist demands should emerge in societies subject to large-scale immigration with a large number of economically deprived voters, or rather ‘losers of globalization’ (Kriesi et al., 2006; Inglehart and Norris, 2016). Interestingly, comparing the cases of Germany and Spain, these expectations do not necessarily materialise. Posing the question why Germany struggles under the lasting influence of the right-wing populist party *Alternative für Deutschland* (AfD) while Spain produced a left-wing movement, I propose that right-wing populism is a consequence of intense dualisation in labour markets, which leads to political disregard of outsider interests by social democratic parties (Rueda, 2007: 221).

The Argument in a Nutshell

In this paper, I find that the widespread surge of European populism during the last decade coincides with an unprecedented collapse of support for social democratic parties, especially by workers as their classical, core constituency (Rhodes, 2013: 141). This suggests that populism might be regarded as an issue of political under-representation where increasingly alienated voters became prone to right-wing populist demands.

This assumption is supported by partisanship theory. Increasing dualisation, describing the differential treatment of protected labour market insiders and marginalised outsiders, has changed the structures of policy preferences within the labour class in industrialised economies. Social democratic parties that used to be able to represent a homogenous class of workers with one coherent set of policies must now decide which of the often-opposing interests of their former core constituency to cater and which to disregard (Häusermann, 2010), often to the detriment of the ‘weakest members of society’ (Rueda, 2007: 3).

The Political Economy of European Populism

Against this theoretical backdrop, I show that the likelihood for a rise of right-wing populism depends on the relative number of marginalised working-class voters as a result of widened labour market segregation, their mobilising capacity, and above all the generalisability of their experience of socio-economic decline. This number of outsiders must be large enough to electorally enable the successful rise of a protest party, but must, however, remain small enough for office-seeking social democrats to neglect these interests as irrelevant for election outcomes. I operationalise this hypothesis in a critical case study of labour market reforms in Germany and Spain.

While the motives and aims of the German and Spanish labour market reforms appear largely similar in targeting structural unemployment problems, their outcomes could not be more different. The German Hartz reforms of 2003-05 significantly reduced employment protection legislation (EPL) for temporary workers in sheltered service sectors, who consequently had to take the brunt of internal wage adjustment. Macro-economically, Germany could thereby increase its wage competitiveness and, in combination with its export-led growth model, achieve remarkable macro-economic success. However, the reforms split the labour market and effectively distinguished between protected insiders and marginalised outsiders (Hassel, 2011).

The Spanish reforms of 2010 and 2012 addressed poor economic performance by reducing EPL for permanent employees. But the reforms did not improve internal flexibility as seen in Germany where wages and hours worked were reduced. Here, the reforms led to external flexibility, namely further reductions in both temporary and permanent employment. While GDP did not recover effectively, considerably large parts of the population were made worse off (Horwitz and Myant, 2015).

These very different outcomes have important implications for the potential of populist political mobilisation. In Germany, targeted labour market dualisation paired with macro-economic strength and low levels of unemployment created a group of outsiders that lacked a collective experience of socio-economic decline and hence, crucial mobilisation capacity.¹ These voters remained under-represented until AfD eventually occupied electoral space on the left addressing former social democratic clientele. In Spain, the failed labour market reforms created a significantly large group of socio-economic ‘losers’. Consequently, the reforms led to the mobilisation of open protest in form of a grassroots movement and the birth of new *left-wing* populist party *Podemos*.

The relevance of this study lies in its theoretical approach connecting valuable insights from comparative political economy with electoral research (Kitschelt, 1999: 318). As Häusermann (2010: 1) illustrates, ‘[b]oth fields [...] have developed rather separately and there is only limited exchange of theories and results’. After all, the significance of politico-economic institutions, and especially labour market dualism, for voting behaviour has largely been neglected (Lindvall and Rueda, 2013: 461). A conjunction of these theory strands is necessary to disentangle the legitimate appeals of protest voters from the illiberal features of populist demands. Furthermore, German AfD has only rarely received attention in studies, because until the general elections of 2017 the party could celebrate success only in regional polls. As a result, international academic discourse does not usually connect Germany with a strong surge in right-wing populism (e.g. Wolf, 2017) – unjustifiably so, as will be shown.

¹ It is thus not entirely surprising that right-wing populist leaders often like to call their constituency (in empirically inaccurate terms) the ‘silent majority’.

The Political Economy of European Populism

The paper is structured as follows: in the next section, I review the academic literature and define the central terms. Then, I present the underlying puzzle to explain my choice of cases. In the third section, I establish the theoretical background and my hypothesis for explaining the differing emergence of populism in Germany and Spain, which is then tested in a critical case study. I construct my argument in two logical steps: First, I examine the politico-economic effects of major labour market policies in both countries. Then, I connect these findings to actual voting behaviour to test whether those negatively affected constitute significant parts of protest parties' constituency. I close with a conclusion of my findings and a political outlook.

Debating Populism

As indicated above, populism constitutes a very misty concept. A precise definition is therefore of outmost importance. Margaret Canovan (1999: 3) classically defines populism as 'an appeal to "the people" against both the established structure of power and the dominant ideas and values of the society'. In this line of thought, the term 'populism' is generally associated with anti-establishment attitudes motivated by negative feelings like anger, frustration and resentment. Hence, profound anti-elitism, that is, defending the "volonté générale (general will)" of a large number of 'ordinary people' against a corrupt elite, often seems to be not only a necessary, but also a sufficient condition for frequently-stressed, wide definitions of populism (Mudde, 2004: 543). However, the explanatory power of such attempts suffers severely from their notorious vagueness for one could argue that it is the reasonable aim of any politician seeking office to appeal to a maximum number of (ordinary) people and distinguishing her position from the ruling elite. In this broad sense, any political opposition could be defined as populist. At the same time, the simultaneous emergence of left-wing and right-wing populism exemplifies

that the 'ideological features attach[ed] to populism depend upon the socio-political context within which the populist actors mobilize' (Mudde and Kaltwasser, 2011: 2). After all, it seems in a way a cuckoo can lay an egg in any nest, populists can claim any type of policy their own. This makes a clear-cut definition along ideologies and attitudes almost impossible.

Jan-Werner Müller (2016) suggests a more precise conceptualisation. Holding that anti-elitism is a necessary but nevertheless insufficient feature of populism, he adds the notion of anti-pluralism to the equation. In this view, populists are distinguished by a holistic conception of a homogenous, pure will of the people, which must be defended against political elites and social outsiders alike (cf. Albertazzi and McDonnell, 2008). While this adds an important normative spin to the conception, in its narrowness it also risks describing political strategies natural to generic radical right-wing parties. What seems to distinguish modern populists from the classical radical right, however, is the lack of a clear-cut ideological project of a desired future. At the same time, they reject certain elements of liberal democracy, but not necessarily the system itself (Kaltwasser, 2014). The supposed 'will of the people' is empirically not observable and political solutions offered are merely short-term and usually unconstructive (Acemoglu et al., 2013: 772). From this standpoint, populists derive their most characteristic feature: regaining political agency to remedy the political frustration of an allegedly silent majority of neglected voters (White, 2017).

Against this background, my *narrow* definition of populism requires three necessary components: anti-elitism, anti-pluralism, and the pivotal demand of regaining political agency. This structural definition has special charm, because it allows to map and explain appeal to populist parties without having to call such voters necessarily populist in their orientation. Populism, in this sense, is not first and foremost about ideology and policy content, but about regaining

agency for allegedly underrepresented parts of society (Mudde and Kaltwasser, 2013). This narrow conception allows to qualitatively distinguish between different kinds of populist movements (Gidron and Bonikowski, 2013).

What are the relevant independent variables explaining European populism? Academic discourse distinguishes broadly between three explanatory variables for the demand in European populism, all connected to the overarching concept of globalisation: progressive value change and immigration, economic distress and crises, and social regression and anomy.

Proponents of the 'cultural backlash thesis' (Inglehart and Norris, 2016; Goodwin, 2011) hold that populist support can be explained as a nostalgic reaction by once-predominant parts of the population to progressive value change and increased immigration. Different studies show that anti-immigrant sentiments and holistic conceptions of national identities stir cultural conflicts and support the rise of populist movements (Hainmüller and Hiscox, 2007; Sniderman and Hagendoorn, 2007). Sudden increases in the local share of immigrants can hence lead to an increase of the voting share of such parties, typically among older and less-educated white men (Halla et al., 2017).

Contrary to this supposition, others stress economic reasons as the original source of radical voting. Economic crises lead to increased unemployment, reduced wages, stalling growth rates and deprivation, which stirs dissatisfaction and radicalisation (Funke et al., 2015). Formulating the crisis thesis more broadly, supporters of radical parties are primarily 'losers' of economic modernisation and structural changes in the political economy of advanced industrial societies, such as automation and de-industrialisation. Putting this experience in relation to social peers or their own past, those affected develop radicalising feelings of relative deprivation (Vlandas and

Halikiopoulou, 2015: 640). However, such rather broad assumptions do not always withstand empirical enquiries. For example, Vlandas and Halikiopoulou (2016: 24) show that economic downturns *per se* do not necessarily lead to radical voting. Rather, the specification of protective labour market institutions cushions the adverse political consequences of crises: 'Where [...] [labour market] institutions are less generous, the risks and costs of unemployment are greater and the far right is more likely to increase its support.' Deregulation of employment protection and the reduction of benefits for parts of the working population increase dualisation and undermine the protective capacities of labour market institutions.

Finally, some sociologists and political economists recently emphasised social regression and anomy to explain the increased demand of populist voting (Rydgren, 2007: 247). Wolfgang Streeck (2017: 6) argues that populism originates in the inherent conflict of democratic capitalism. During the last decades, neoliberalism became the '*pensée unique* of both the centre left and the centre right', promoting liberalisation, marketization, and increased competitiveness at the cost of the weakest members of society. The erosion of standard employment (Dörre, 2006), the retrenchment of social services, the intensification of casualisation, and the shrinking of the middle class supported the lingering feeling of social anomy among significant parts of a disintegrated society, which eventually culminated in the radical political expression of protest and frustration (Nachtwey, 2016).

The findings of my study support a combination of the two latter theses, particularly the relative deprivation approach (Runciman, 1966), and I consider globalisation an important external force prompting dualising labour market reforms. Finally, I assume that voting behaviour is primarily determined by economic interests, particularly by the individual positioning in the labour market (Lindvall and Rueda, 2014: 462).

Method

Recent findings suggest that right-wing populism and protectionist demands should emerge in societies subject to large-scale immigration with many economically-deprived voters, or rather ‘losers’ of globalisation. But why then do reactionary political movements develop such different characteristics across Europe? This puzzle becomes particularly striking comparing the curious cases of Germany and Spain.

Germany seems to outperform Spain in almost any relevant economic indicator. Most importantly, it has navigated through the crisis very smoothly, displays remarkable levels of economic competitiveness promoting a very successful exporting industry, and registers record-low levels of unemployment. In contrast, the Spanish economy was among the most severely hit by the sovereign debt crisis in Europe, which prompted the government to impose profound austerity packages. Large parts of society were negatively affected when poverty rates, inequality and especially (youth) unemployment increased significantly. Cultural and social data seem to indicate a similar pattern. Over the past ten years, Spain experienced stronger increases of net migration per capita than Germany² and is characterised by a particularly high share of foreign-born population compared to EU-average. Distribution is more unequal and poverty rates are higher, not least due to effects of the crisis and the exceptional levels of unemployment. Finally, the Spanish population perceives its political and economic elites as significantly more corrupt.

² Admittedly, German net migration surged quite suddenly during the refugee crisis. However, AfD was successful well before that capitalising on an anti-Euro course during the debt crisis and won most votes in those regions that received fewest refugees.

Table 1
Juxtaposition of Germany and Spain (mean values, 2006-2016)

<i>Indicator</i>	<i>Germany</i>	<i>Spain</i>	<i>Difference</i>
<i>Economy</i>			
<i>GDP growth (nominal; in %)</i>	1.5	0.7	-0.8
<i>Investment growth (gross fixed capital formation; in %)</i>	1.9	-1.8	-3.7
<i>Long-term interest rates (in %)</i>	2.3	3.9	+1.6
<i>Unemployment (total; in %)</i>	6.5	18.6	+12.1
<i>Youth unemployment (total in %)</i>	9.4	40.0	+30.6
<i>Exports (goods and services; % of GDP)</i>	43.9	28.6	-15.3
<i>Current account balance (total; % of GDP)</i>	6.7	-3.1	-9.8
<i>Household debt (total, % of net disposable income)</i>	89.0	140.9	+51.9
<i>Government debt (% of GDP)</i>	77.4	81.0	+3.6
<i>Government debt growth (total; percentage points)</i>	9.7	71.5	+61.8
<i>Credit rating (S&P; July 2017)</i>	AAA	BBB+	
<i>Culture and Society</i>			
<i>Permanent immigrant inflows (per 1000 inhabitants)</i>	3.78	7.24	+3.46
<i>Foreign population (% of population)</i>	8.5	11.7	+3.2
<i>Foreign-born population (% of population)</i>	12.9	13.8	+0.9
<i>Poverty rate</i>	0.089	0.147	+0.058
<i>Poverty gap</i>	0.24	0.36	+0.12
<i>Inequality (gini coefficient)</i>	0.29	0.34	+0.05
<i>Inequality (P90/P10 disposable income ratio)</i>	3.56	5.0	+1.44
<i>Austerity (package of 2011; % of GDP per head)*</i>	0.4	3.1	+2.7
<i>Perception of corruption (CPI; 100 = no corruption)**</i>	79.5	62.2	-17.3

Source: OECD (2017a); *Gainsbury et al. (2011); **Transparency International (2017); own calculations.

The Political Economy of European Populism

And yet, against most academic expectations Germany struggles under the lasting success of right-wing populist party *AfD*, while Spain remains a counterintuitive exception. While the *AfD* shows clear indications of far-right populism (Lewandosky et al., 2016), pro-European *Podemos* around its leader Pablo Iglesias formulated a left-wing populist response to economic predicament.

From this curious academic puzzle, I derive my research question: Why did a resilient political economy such as Germany produce demand for a right-wing populist party, while crisis-shaken Spain generated a successful and less radicalised left-wing reaction?

I examine this question in the framework of a critical case study. Along the lines of Gerring's (2007: 232) seminal methodology of comparative research, both countries represent 'crucial' cases. I argue that Spain is a most-likely case, since it 'is one that, on all dimensions except the dimension of theoretical interest, is predicted to achieve a certain outcome and yet does not. It is therefore disconfirmatory.' Germany, on the other hand, is a case that many scholars would predict not to produce right-wing populism and yet it does so. Hence, Germany constitutes a 'least-likely' case (see also Hancké, 2009: 60-85; Eckstein, 1975). Combining these critical cases, I formulate an alternative explanation for the differing demand of populist parties in Europe focusing more closely on the electoral consequences of labour market dualisation and political under-representation of outsiders. In the following section, I present my theoretical approach and hypothesis in more detail.

Dualisation and the Crisis of the Left

An interesting observation constitutes the starting point to my theoretical approach. At a glance, the latest populist upsurge coincides with a pertinent

crisis of social democracy observable in many EU member states since the mid-2000s.³ Their support has collapsed in unprecedented dimensions, in fact, since 2006 by a third in domestic and European elections (Economist, 2017). Academically, these developments put in question the traditional politico-economic assumption that a relatively homogenous working class will support social democratic parties that rally for high employment and generous welfare states (Hibbs, 1977). On the contrary, social democrats recently have become subject to severe competition from radical populist alternatives as ‘workers and low-income voters more generally increasingly desert left-wing parties’ (Häusermann, 2010: 6). In terms of their voter potential, political representation by populists and the classic left appears to large extents substitutional and social democrats face most difficulties in political environments where socio-economic inequalities are increasingly determined by differential access to stable occupations and protective welfare services (Rhodes, 2013: 146).

Building on this, I argue that the crisis of the left can be explained with the formation of institutional dualisation as suggested by partisanship theory. Dualisation ‘is a process that is characterized by the differential treatment of insiders and outsiders’ (Emmenegger et al., 2012: 10). In this sense, *insiders* may be defined as ‘employed full-time with a permanent job or as those with part-time or fixed-term jobs who do not want a full-time or permanent job [including] individuals with permanent contracts (defined as not having a time limit)’, while *outsiders* ‘are unemployed, employed full-time in fixed-term and temporary jobs (unless they do not want a permanent job), employed part time (unless they do not want a full-time job), and studying’ (Rueda, 2005: 63).

³ It is important to note, however, that populism is by no means exclusively a phenomenon of the 2000s, as the second wave of radical right mobilisation took place with the initial rise of the French *Front National* in the 1980s. Nevertheless, today’s rise of populism appears to be much more encompassing and vigorous both, in political as well as media terms.

The Political Economy of European Populism

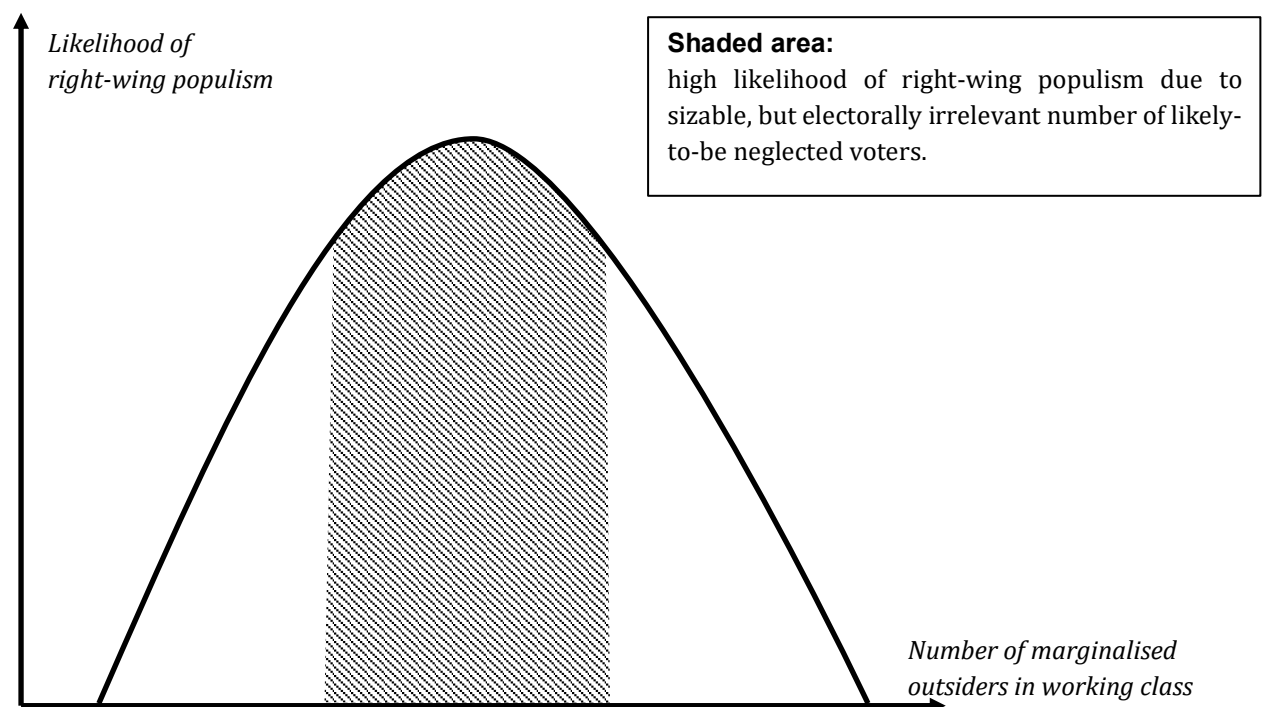
Insiders thus profit from high labour market protection, whereas outsiders are increasingly marginalised and precariously employed with low salaries and restricted, often means-tested social security entitlements. Consequentially, labour appears to be dividable into two distinct segments with very different, often opposing policy preferences. While insiders demand ever-increasing job protection to contain competition, outsiders require generous unemployment benefits and access to stable employment.

This has profound political implications. On the supply side, heterogeneous interests within labour create a dilemma for social democratic parties in terms of who's demands to cater. As a result, they serve insiders as their electorally more relevant core constituency and often neglect the interests of outsiders (Rueda, 2007). Increased protection of core labour against the adverse implications of globalised economies is literally 'bought' at the expense of marginalised outsiders, who take the brunt of flexibilisation efforts (Thelen, 2014: 151). This form of targeted marginalisation is the prime reason why we observe stagnant or even rising levels of poverty despite reduced unemployment numbers across European economies (Cantillon, 2011) and hints to a structural under-representation of significant parts of society. On the demand side, many voters neglected by traditional agents of fringe labour interests turn away from mainstream options to populist alternatives that promise to regain political agency and voice (see Rueda, 2005: 72). In this light, I consider populism essentially a 'political alienation problem' (King and Rueda, 2008).

For my hypothesis, I formulate the theory of labour market dualisation as an optimisation problem. The likelihood of a demand for right-wing populism depends on the number of marginalised working-class voters and, consequentially, on the generalisability of their experience of socio-economic predicament. If the group of labour market outsiders is small, opposing

interests among labour do not pose a problem for social-democratic representation, there is no frustrated group of underrepresented voters and no breeding ground for populism. If, however, the outsider group is medium-sized, a dualisation problem for social democratic representation emerges, because interests within labour diverge significantly. Far-right populists can likely make use of the representational vacuum by reframing economic issues in cultural terms. Lastly, if the group of marginalised labour is large enough to regain political attention and is not neglected as politically irrelevant outsiders, left-wing parties will represent them and right-wing populism becomes, again, unlikely. Hence, I suppose as my hypothesis an inverted U-shape causal relationship between labour market segmentation and the demand for populism (Figure 1).

Figure 1.
Politico-Economic Model of Populism



In this model, the scope for right-wing populism depends on a significant number of dissatisfied protest voters as a result of dualisation, and consequentially, on the inability of social democrats (and their social partners)

to address and represent significant parts of labour, deserting crucial electoral space.

In the next section, I operationalise my hypothesis in a critical case study framework. The central question of that section is: What implications did flexibilising labour markets in Germany and Spain have in terms of dualisation? This will help to examine how labour market reforms might have steered differing demand for populism. To assess the generalisability of socio-economic decline, it is particularly important to relate the intensity of dualisation to the overall performance of the economy, since political discourse in resilient economies is commonly dominated by an emphasis on general economic success that tends to disregard deeper-lying social issues (cf. Nachtwey, 2016).

Labour Market Reforms in Germany and Spain

Although both reform efforts in question were more than seven years apart, they share striking similarities in terms of their approach and objectives. Both economies struggled under structural unemployment. While German labour markets were severely affected by the oil crisis and reunification efforts, Spain was among the most severely hit by the European financial crisis experiencing one of the largest falls in employment. The concordant diagnosis of many observers of the time was a lack of economic competitiveness in an increasingly globalised market environment and the inefficiency of public institutions that led to structural deficits and low performance. Hence, both countries implemented comprehensive labour market reforms aimed at increased flexibility. In fact, Spain even found an example in Germany's reforms, which due to its initial macro-economic success many experts prescribed to struggling

peripheral member states. However, the outcomes of the reform efforts were very different.

Germany: The Hartz-Reforms of 2003-2005

Germany is widely admired for its economic performance during the post-war 'Golden Age' of growth. Its success is commonly attributed to a specific set of productive institutions, such as sustained employment protection and social insurance that allowed for overcoming coordination problems between labour and capital, facilitated social partnership, and produced remarkable growth rates (Eichengreen, 2008).

However, at the turn of the millennium concerns grew over the resilience of the German economy in the eye of increasingly globalised competition. In January 2002, it became public that the Federal Employment Agency had manipulated figures regarding successful employment placement, which led to severe distrust in the efficiency of the German public sector. As a result, chancellor Schröder tasked a corporatist commission of high-ranking representatives of leading unions and business associations, presided by Peter Hartz, working director of Volkswagen, with producing policy proposals to reform the labour markets and the social system. The results were implemented by a coalition of social democratic SPD and the Green party between 2003 and 2005 (Hassel and Schiller, 2010).

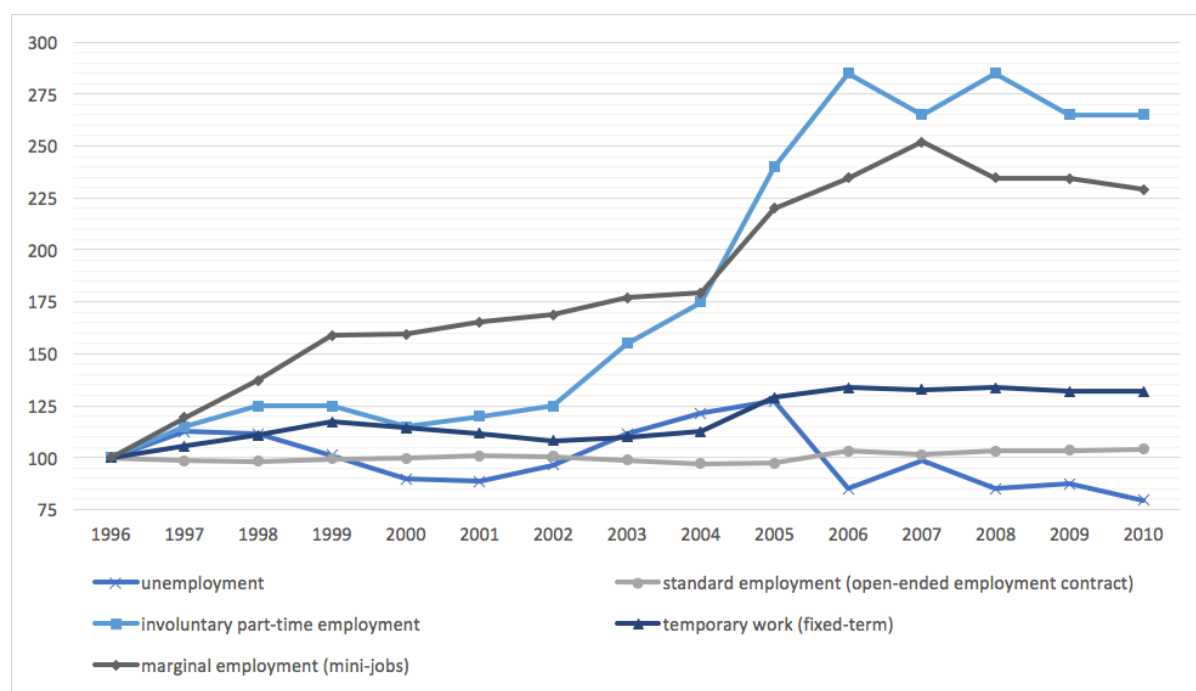
First and foremost, the four-packet reforms aimed at reducing the staggering unemployment numbers by flexibilising the labour market. Hartz III deregulated temporary work, encouraged part-time employment and introduced a marginal low-pay mini-job scheme that was exempt from social contributions. Job-seekers also faced sanctions for rejecting 'reasonable' job offers. Most importantly, however, Hartz IV cut the duration of more generous,

earnings-related unemployment benefits from 36 to 12 months and replaced social welfare schemes (*Sozialhilfe*) with reduced, means-tested benefits (Martin and Swank, 2012: 211ff.; Lunz, 2013: 18). These activating supply-side measures stressed self-responsibility and aimed at strengthening firms' exporting competitiveness by reducing public charges and incidental wage costs (Immervoll, 2007).

The effects of the reforms are as multifaceted as they are divisive. Proponents of the activation policies see them as the single most important cause for the reinvigoration of the German economy in the mid-2000s (Rinne and Zimmermann, 2012). And indeed, Germany significantly improved the robustness of its economy and achieved remarkable trade surpluses shortly after the crisis. In contrast, however, an ever-growing number of critics put the success of the reforms into question (Dustmann et al., 2014). Criticism focuses particularly on the dualising effects of the reforms. While labour markets were not deregulated wholesale, they opened the door for the comprehensive creation of low-pay marginal work (Palier and Thelen, 2010). The reforms were clearly geared towards protecting Germany's core labour, who's interests remained strongly represented in work councils and manufacturing unions. In fact, Germany constitutes a very rare case where EPL for regular employees increased since 1985 (Thelen, 2014: 131). In turn, fringe labour had to shoulder the brunt of liberalisation efforts. Comprehensive outsourcing and the introduction of temporary and subcontracted labour excluded many, particularly low-wage service employees from collective bargaining coverage (Odendahl, 2017: 12). EPL for temporary employment was dramatically reduced. So, while the reforms arguably improved Germany's macro-economic performance, its post-war corporatist model lost 'the capacity [...] to be encompassing and to cover all citizens under one type of work contract and social protection' (Palier and Thelen, 2010: 139).

Empirically, this is particularly observable in the growth of atypical forms of employment (see Figure 2).

Figure 2.
Different Forms of Employment in Germany, 1996-2010 (1996=100)



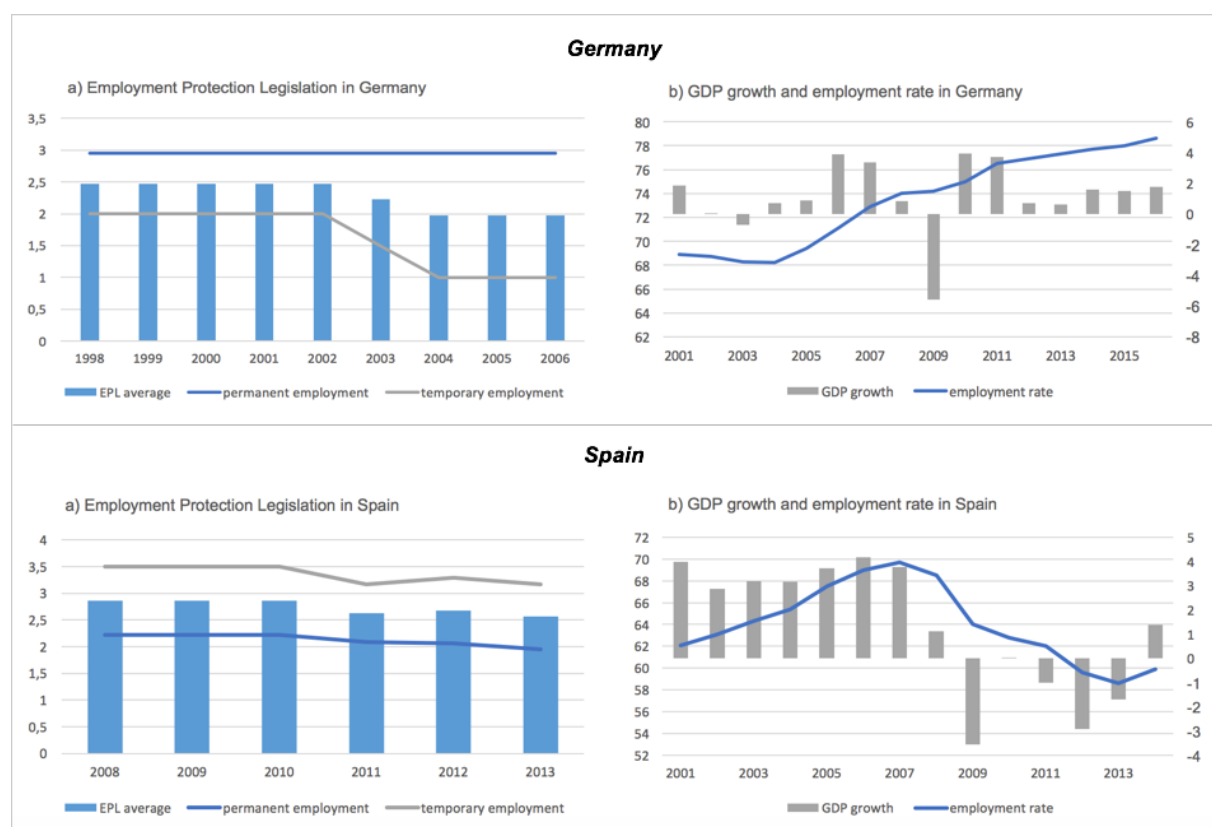
Sources: ILO (2017; 2016); German Federal Statistical Office (2017a; 2017b); OECD (2017d); own calculations following Eichhorst (2012: 9).

While unemployment sank to record-low numbers after the implementation of the reforms, this was only possible through the extensive creation of marginal jobs. In contrast, the number of standard employment contracts has stagnated since 1996. Insofar, in the eye of severe cost pressures, Germany decided to ensure general employment growth at the expense of wage equality (Iversen and Wren, 1998). The creation of so-called ‘mini-jobs’ is a particular problem and ‘one of the most important sources of dualization’ (Thelen, 2014: 134) as these employment relationships do neither entitle to unemployment and pension benefits (Buschoff and Protsch, 2008: 61ff.), nor do they promise a transition to permanent employment (Bäcker, 2006). In addition, many mini-jobbers are also often so-called *Aufstocker* (‘top-uppers’). These workers top-up insufficient low-wage earnings with state-financed minimum income support.

The Political Economy of European Populism

This way, 'over a quarter of recipients of Hartz IV support are working, but for wages that are so low that they also qualify for means-tested benefits' (Thelen, 2014: 139) – an arrangement that severely jeopardises the dignity of work (Sandel, 2017). Hence, it is safe to conclude that the Hartz reforms did flexibilise the labour markets and improved the resilience of the overall economy, but necessary real wage restraints were achieved mostly by the bottom deciles of the income distribution (Odendahl, 2017: 13).

Figure 3.
The Effects of Labour Market Reforms in Germany and Spain



Sources: OECD (2017b; 2017c); own calculations.

So, in Germany, the labour market reforms developed very divisive outcomes. While they were successful in terms of aggregate national indicators, they also proved highly segmenting and socially dualising (see Figure 3). After all, the reforms 'institutionalize[d] and anchor[ed] a divide between well-protected standard employment relationships endowed with significant benefits on one

hand, and more precarious jobs with virtually no benefits on the other' (Thelen, 2014: 140).

The outcomes of the German reforms prove not only economically, but also politically disastrous to the weakest and most affected parts of society. The fact that the reforms significantly improved employment numbers and are often referred to as the most important reason for Germany's resilience during the European crisis makes a collective experience of their empirically measurable socio-economic predicament effectively impossible. Instead, this feeling remains rather latent leading to a subliminal sentiment of irrelevance and fear of relative social decline (Burkhardt et al., 2013), while public discourse is dominated by a macro-economic success story. In this setting, the weakest parts of labour lack crucial mobilisation capacity, which makes the political demands of marginalised outsiders less relevant to social democratic parties (Pontusson and Rueda, 2010: 699). Under these specific circumstances, it is thus reasonable to assume that those shouldering the brunt of adverse reform effects abandon 'centrist social democratic parties and [make] their votes available for populist left and right-wing parties instead' (Rhodes, 2013: 147).

Spain: The Royal Decrees of 2010 and 2012

Spain implemented its two major labour market reforms only in 2010 (Royal Decree 10/2010) and 2012 (Royal Decree 3/2012). However, the motives coincided with Germany's ambitions. The financial crisis of 2008 had put great pressure on Spain's labour markets and unemployment rates were among the highest in Europe. Here as well, the initialising structural reforms of 2010 were implemented by a socialist government (Zapatero) and aimed at increasing internal flexibility. Additional reforms were introduced in the two years thereafter, however, the reforms under consideration were the trigger for

The Political Economy of European Populism

comprehensive political protest in form of the 15-M movement and the subsequent foundation of *Podemos*.

The reforms focused on three broad areas: collective bargaining, promotion of permanent contracts, and employment protection (see OECD, 2013). The reforms of 2010 decentralised collective bargaining, and the reforms of 2012 introduced the possibility to opt-out of collective agreements and effectively prioritised firm-level agreements. Most importantly, the reforms significantly reduced dismissal costs by redefining fair dismissal statutes, reducing compensation for unfair dismissals from 45 to 33 days, and extending the trial period for new workers in smaller enterprises from six months to one year. Interestingly, these policies affected disproportionately permanent workers, who after the 2010 reforms could be fairly released ‘merely [...] by the inclusion of explicitly economic, organisational, technical and production-related reasons’ (Horwitz and Myant, 2015: 8). Furthermore, the reforms gave employers the right to ‘unilateral changes to working conditions, such as working hours or wages’ (Horwitz and Myant, 2015: 6) and thus, starkly affected workers’ living standards and security. While constraining collective bargaining and employment protection both legislations actively promoted fixed-term contracts. Between 2012 and 2014, on average more than 90 percent of newly issued contracts were temporary (Horwitz and Myant, 2015: 23).

The combination of these measures intended to flexibilise the labour markets and adjust working hours and wages in economic downturns to prevent dismissals. The result, however, looked very different (see Figure 3). Reduced demand and output, due to both, externally-imposed austerity and comprehensive wage cuts, led to quick and strong reductions in employment. This indicates that in contrast to the German story, when restrictions were loosened companies immediately took the chance to lay off permanent workers rather than sharing working hours or increasing part-time work to prevent

dismissals. Hence, in the context of Spain's domestic demand-led growth model, the reforms led to external flexibility instead of desired internal devaluation (Horwitz and Myant, 2015: 31).

Within no time, the reforms destroyed an estimated 630,000 jobs, 66 percent of which were qualified open-ended contracts. Between 2011 and 2013, Spain witnessed a loss of 1.7 million full-time jobs (Lago Peñas, 2013: 11), while temporary contracts increased by 31.2 percent and involuntary part-time work by 27 percent during the same period (Unión General de Trabajadores, 2014: 13, 24). So, while the reforms effectively increased the power of capital, they led to a significant reduction in qualified open-ended employment and a substantial weakening of insider positions. At the same time, 'temporary workers appear to have been penalised twice': while they were also target of comprehensive dismissals, their earnings deteriorated due to the newly implemented possibility of re-negotiating wages once fixed-term contracts expired (Orsini, 2014: 7). Under these circumstances, 'the reality [of the Spanish reforms] is [...] *a parallel worsening of conditions for both permanent and temporary employees*' (Horwitz and Myant, 2015: 27; emphasis added).

This outcome, of course, constitutes a striking difference to the German case where the reforms marginalised parts of labour, but ultimately protected the core leaving many better off due to lower prices of services, higher export competitiveness, and robust economic growth. The fact that in Spain large parts of society were afflicted by the reforms and the effects were further amplified by pro-cyclical austerity created a generalisable experience of socio-economic hardship. Mobilisation capacity was collectively strengthened by leading trade unions who had been involved initially in the reform process, but soon rejected the planned measures and called for fierce opposition, mass demonstrations and strikes across the country (Clauwaert and Schömann, 2012). Unlike in Germany, failed social dialogue thus united trade union resistance and created

a political environment in which a left-wing populist party could address uniformly the interests of a large group of increasingly marginalised individuals.

In conclusion, the comparison of German and Spanish labour market reforms exemplifies the various outcomes that similar reform efforts can produce. While in the context of the German political economy with its export-led growth model, internal flexibility could be achieved at the cost of fringe labour and with the partial support of leading manufacturing unions, in the Spanish domestic demand-led growth model liberalisation led to external flexibility and uncontrollable increases in unemployment affecting both, insiders and outsiders. In the next section, I integrate this politico-economic analysis with electoral data to examine the very different political implications of liberalising labour market reforms with respect to my inverse hyperbolic model of populism.

Political Consequences in Germany and Spain

In the classical politico-economic conception, labour often used to organise effectively a collective class-struggle to improve their socio-economic situation. Nowadays, however, with targeted dualisation becoming the reform of choice in most advanced economies, it is increasingly difficult to collectively align interests. This development prompted some scholars to hint to the adverse implications that under-represented outsiders could have for political stability and social cohesion by turning to more radical party options (cf. Esping-Andersen, 1999). Rather than organising a collective class-struggle along economic issues, workers who feel isolated, politically weak and neglected turn to their cultural peers and become susceptible to right-wing populist ideology (Bornschieer, 2010). But while dualisation is observable in most modern

capitalist democracies, political consequences can look very differently. With regards to my inverse U-shaped model, I suppose that in Germany dualised and underrepresented workers will constitute a target for right-wing populists, while in Spain the number of marginalised insiders and outsiders is large enough to effectively mobilise a left-wing populist reaction.

Germany: Right-Wing Populism and the AfD

Collective action has become increasingly difficult for politically alienated labour (King and Rueda, 2008). Where partisanship is declining and class consciousness is low, cultural politics emerge, focusing on 'ethnic, religious, or linguistic' similarities (Hechter, 2004: 427). In this view, if labour markets are increasingly dualised, class politics weaken because no collective experience of socio-economic predicament can be established. Those parts of the working class who do feel the calamities of liberalisation cannot turn to their often-better-off class peers, but turn to cultural politics in search for support. On the supply side, right-wing populists can exploit this transition and effectively 'distract [...] from economic issues' by provoking cultural conflicts (Häusermann, 2010: 7). This is precisely observable in Germany since 2013.

As argued in the previous section, the German Hartz reforms led to stark dualisation in the labour market while at the same time increasing the strength of the German economy. Against this backdrop, their political consequences were many-faceted and protracted. Initially, the party *DIE LINKE (the left)* was founded as an immediate reaction to the Hartz reforms by merging the Schröder-opposing left wing of *SPD* around Oscar Lafontaine with Gregor Gysi's former GDR party *PDS (Party of Democratic Socialism)*. However, the party never achieved convincing momentum, both, due to the initial macro-economic success of the reforms and their perceived necessity, and its undeniable historical connection to the dictatorial party of the GDR, the *SED*.

The Political Economy of European Populism

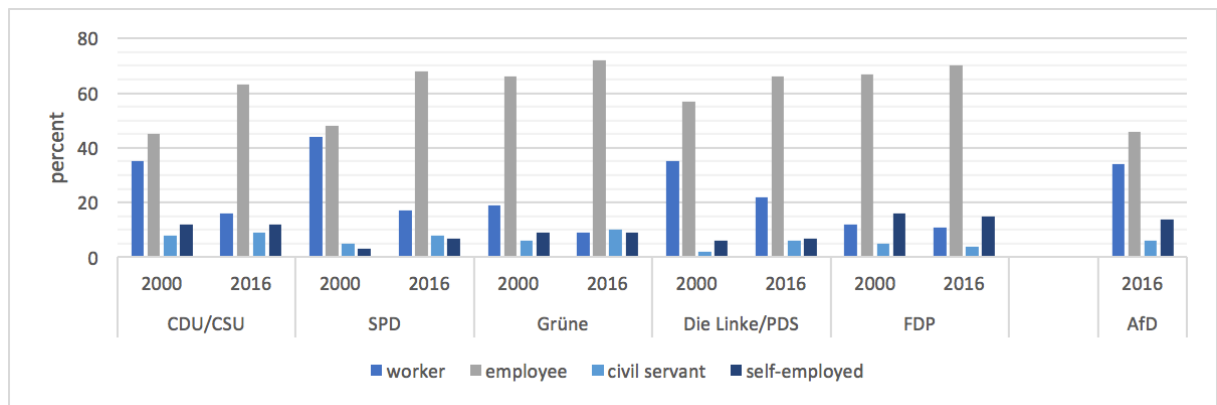
In addition, Germany's manufacturing and service unions were hopelessly divided and thus unable to organise class-based collective action. In the corporatist setting of the Hartz commission, manufacturing unions representing insiders (such as *IG Metall*) supported dualisation as a means for improved wage restraint and cheaper services for their members. On the other hand, low-wage services are traditionally difficult to unionise and their representative bodies (e.g. *ver.di*) had to stand and watch after demonstrations of up to 200,000 could not be turned into sustained political opposition (Thelen, 2014: 140).

Only ten years later, a party could occupy persistently the deserted space on the left side of the political spectrum – not by offering corresponding policies, but by attracting the respective clientele. Quite interestingly, it was a right-wing populist party that with its anti-elitist and anti-pluralist discourse (Lewandowky et al., 2016) could make labour market outsiders an essential part of their constituency. Recent electoral data on the transformation of the German party landscape supports this view (Figure 4).

In 2000, during the heyday of modern German social democracy, 44 percent of workers voted for the SPD. Only sixteen years later, this number plummeted to 17 percent. At the same time, the share of well-educated employees voting for the party increased by 20 percent clearly reflecting SPD's move towards the centre. While this spectacular drop in workers' support for the former labour party can be explained partially by the overall decline of workers' share in the total population, the effect remains far above-average strong (Sauer, 2017). In turn, the AfD gains remarkable support in that spectrum. In fact, in 2016 the party united 34 percent of workers and most employees performing mundane job activities as their constituency (Figure 5). The share of unemployed and low-income self-employed voters is also much higher than average. Finally, AfD supporters show low incomes in relation to hours worked per week and

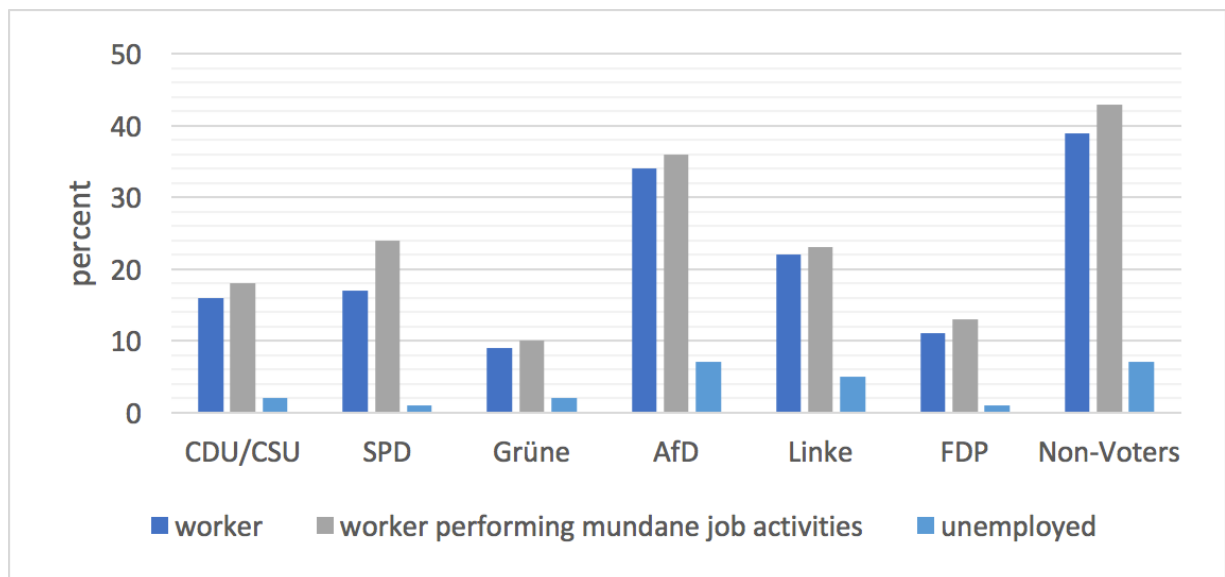
are significantly more dissatisfied with the economic situation (Brenke and Kritikos, 2017: 596-603). These measures indicate that the AfD has, in fact, developed into a new German labour party supported to important extents by marginalised outsiders that suffered from SPD's dualisation dilemma.

Figure 4.
Transformation of Electoral Support Structures of German Parties, 2000 and 2016



Sources: Brenke and Kritikos (2017: 599); own figure.

Figure 5.
Party Preference in Germany by Job Activity in 2016 (excl. apprentices)



Source: Brenke and Kritikos (2017: 598); own figure.

But why is it precisely a right-wing populist party that could make use of the representational vacuum on the left? After all, they do not offer constructive solutions to actual socio-economic problems their supporters experience. In

fact, AfD follows a free-market liberal agenda and deliberately demands incentives for taking up low-paid employment and fighting abuses of the welfare system (AfD, 2017). This agenda likely even worsens the socio-economic situation of large parts of its supporters. Why then do marginalised outsiders support the AfD?

Protest vote theory offers an answer. Protest voters, as a reaction to political disregard by mainstream parties, deliberately support those parties that do not embody their actual interests or values and those that are not fully established or ostracized. In this sense, protest voters do not necessarily vote for right-wing populists by conviction, but rather to commit a publicly-effective breach of taboo (Arzheimer, 2008: 108) 'hoping that its electoral success might urge the actually preferred party to return to addressing their needs' (Lengfeld, 2017: 215; own translation). This demand-side explanation is supported by data that finds that in all state elections in 2016 on average only 25 percent of supporters voted AfD by conviction, while 67 percent indicated to have voted out of disenchantment with other parties (Tagesschau, 2017). At the same time, a recent study finds that AfD-supporters are connected by an unspecified fear of (intergenerational) social regression and loss of control, particularly in the job environment, which leads to a broad but subliminal feeling of insufficient representation. 41% of AfD-supporters see themselves as 'losers of societal development' and 67% are worried about their personal future, particularly with regards to job security and financial protection.⁴ Very importantly, the study also indicates a lack of generalisability of these individual perceptions as 73% of all Germans assess the overall economic situation as 'good' or 'very good' (Hilmer et al., 2017: 12, 14, 28). Taken together, this data clearly supports the assumption that electoral underrepresentation of outsiders stirred

⁴ These numbers are 14 and 20 percentage points above average.

dissatisfaction and created a window of opportunity for an unconstructive but nevertheless impactful right-wing reaction.

On the supply-side, the AfD exploited these currents by reframing ‘economic conflicts in cultural terms’ (Grande and Kriesi, 2012: 16), particularly during the refugee crisis. Since no collective experience of socio-economic hardship was palpable, by over-emphasising cultural conflict lines the AfD could forge a union between dissatisfied and underrepresented outsiders and more affluent, but equally fearful middle-class voters to become a relevant force in the German political spectrum. After all, populist protest was framed along the discourse of migration and labour competition, abuse of the welfare system, and internal security, but not along the lines of socio-economic decline and marginalisation.

Spain: Left-Wing Protest Movements and Podemos

In Spain, the labour market reforms produced very different political outcomes. The most immediate reaction to the debilitating measures was the *Movimiento 15-M*, a bottom-up protest movement that united hundreds of thousands of ‘Indignados’ (“Outraged”) in demonstrations across the country in May 2011. The central motivation of 15-M was to protest the two-party system of the conservative *Partido Popular* and the social-democratic *PSOE* allegedly cooperating to reinforce the cumbering dominance of capitalism over democracy. This suspicion found its most pertinent expression in the reforms of 2010 and 2012. Thus, the protests addressed specifically the restructuring of the labour market and the comprehensive austerity programmes (Evans, 2015: 36). Drawing on the wide-spread perception of economic deficiency and mismanagement, the movement ‘re-politicized “common sense” in a specific direction’ (Sola and Rendueles, 2017: 4) and created ‘mobilizing capacity,

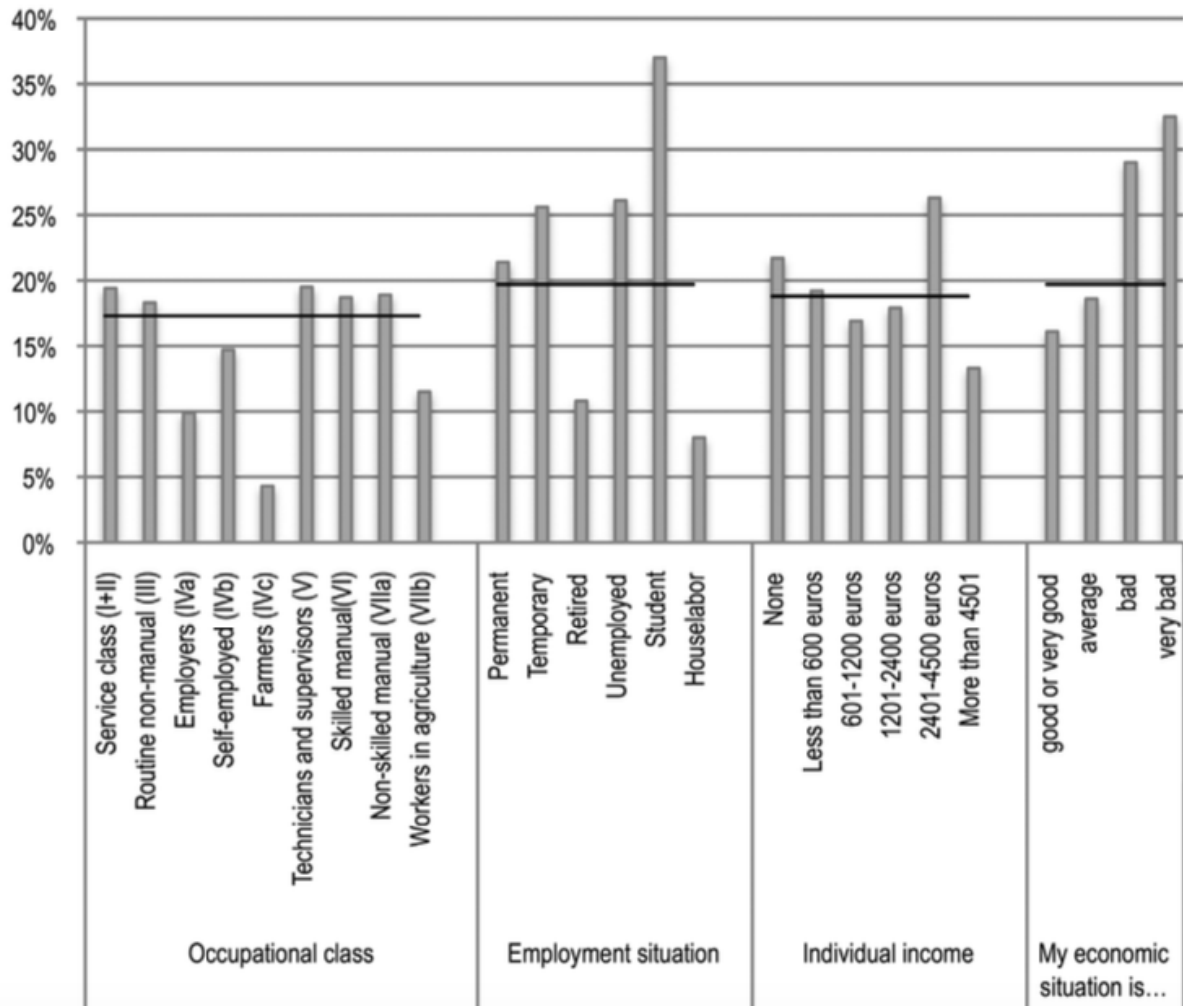
visibility and impact [...] [that] had no precedent in the country's recent history' (Romanos, 2016: 131).

The movement gained political stamina in form of *Podemos*, a left-wing populist party with crowd-funded resources and decentralised organisation in local groups that appeared ready to capitalise on the social outrage that was channelled through 15-M. Many of *Podemos*' leading figures had important roles in the movement and led the party to remarkable success. After it achieved 8% in the European elections in 2014, it rose to 22.2% in the local elections of May 2015 becoming the second strongest party behind the conservative PP and before the socialist PSOE to effectively shake up the Spanish two-party system.

But why did the failed labour market reforms and economic mismanagement produce a distinctive left-wing reaction? Again, a differentiated look at the electoral support structure of *Podemos* provides an answer. The Spanish crisis of representation that provided a window of opportunity for *Podemos* opened for two coinciding reasons: economically, the labour market reform failures led to a 'twice pessimistic evaluation' of the national and the individual economic situation of many. Politically, this reinforced the existing notion of corruption and adverse collusion between the two central parties and capital (Bosch and Durán, 2017: 10). *Podemos* reacted with a 'neo-Keynesian' agenda as a direct answer to the neo-liberal labour market policies (Iglesias, 2015).

As expected, *Podemos* is able to appeal to an exceptionally broad social bloc (see Figure 6).

Figure 6.
Podemos' Vote by Occupational Class and Economic Position



Source: Sola and Rendueles (2017: 11).

The party unites voters from very different occupational backgrounds, making it ‘quite transversal among the service class, non-manual workers, and skilled and unskilled workers (four approximately equal groups that together represent 80% of the population)’ (Sola and Rendueles, 2017: 12; emphasis added). In addition, they are very successful among students subject to youth unemployment, the unemployed and permanent and temporary workers alike. The party managed to channel the political support of economically disadvantaged parts of society, and very importantly those who feel as such. Mobilising this specific clientele ‘eager to punish the PSOE at the polls’ (Zarzalejos, 2017: 189), Podemos made use of the crisis of Spanish social

democracy. By uniting a broad range of voters who all suffered from economic marginalisation, the party could quickly evolve into a cross-cutting political force with a left-wing agenda.

But is Podemos populist? As mentioned above, the term 'populism' witnesses inflationary use in modern-day public discourse. It is thus no surprise that many political opponents and academic observers label the protest party accordingly. And indeed, most political observers agree that Podemos does establish a moralising and monist discourse that puts the interests of an underrepresented *populus* against a politically mismanaging elite (cf. Kioupiolis, 2016). However, unlike AfD, Podemos neither shows elements of xenophobia or cultural chauvinism nor clear-cut anti-pluralist sentiments. On the contrary, the party seems to accomplish a repolitisation of social and distributional conflicts by adopting political appeal in real-life experiences. Conceptionally, it is thus important to note that on the right half of the inverted hyperbolic model presented in this paper the political atmosphere is much more charged than on the left half, and economic predicament and political underrepresentation naturally lead to an increasingly populist discourse. However, the decisive (normative) difference between populist outcomes lies in the reasonable addressing of empirically observable socio-economic issues such as unemployment, casualization, and low pay as opposed to the unjustified artificial creation of substitutional cultural conflict lines at the cost of minorities.

In conclusion, although in both countries an increasing number of voters felt abandoned and economically and politically deprived due to the effects of very similar labour market reforms, protest was channelled in very different ways. These findings support my inverted hyperbolic model of populism. A large number of marginalised outsiders were addressed by a left-wing movement in Spain, while a smaller number of relatively deprived workers remained

unrepresented until a far-right populist party forged an electorally-relevant coalition by reframing the discourse along an anti-pluralist agenda in Germany. For the appraisal of the respective labour market reforms, this results in an interesting paradox: labour market reforms can create successful and resilient economies and yet stir severe political unrest and social instability, while the consequences of failed efforts may also be radicalising, but politically and culturally less detrimental in general.

Limitations

Of course, this inquiry is not without limitations. Populism is a very elusive concept with manifold and versatile independent social, political and cultural variables. This complicates data accessibility and makes it very challenging to establish causal relationships to explain social developments that may well simmer under the surface for many years until they suddenly gain political momentum.

Regarding the German case, I explicitly do not focus on ideological motivations, but rather derive cultural cleavages from socio-economic inequalities. While this approach helps to formulate a theory that may well explain electorally-relevant parts of populist demand it can of course not explain support in its entirety. There are certainly right-wing populist supporters who draw their motivation not from economic marginalisation, but from blatant xenophobia, prejudice, and unjustified fears. This makes rejecting the 'cultural backlash thesis' (Inglehart and Norris, 2016; Goodwin, 2011) admittedly more difficult than perhaps suggested. However, drawing on protest vote theory, this inquiry demonstrates yet again that economic predicament is a necessary precondition to cultural conflicts. Analysing AfD's support structure it is safe to say that the party could most probably not be

successful if it drew its support exclusively from a xenophobic far-right electorate.

Regarding the Spanish case, scientific studies propose a variety of other important variables that could explain the absence of a successful radical right-wing party. Firstly, the recent history under Francisco Franco's dictatorship is an often-cited source of Spain's imperturbable Europhilia and the virtual absence of the radical right. Many voters witnessed Spanish fascism and are very mistrustful when radical parties try to establish a nationalist discourse (González-Enríquez, 2017: 30). Secondly, Spain's electoral system favours large parties by applying the *D'Hondt formula* to assign parliamentary seats proportionally to the number of votes received. '[C]ombined with a very large number of electoral districts of differing sizes, [this] creates a kind of majoritarian rule in each province which tends to keep small national parties out of Parliament' (González-Enríquez, 2017: 33). The extreme fragmentation of the Spanish radical right (*Democracia Nacional, España-2000, and Plataforma per Catalunya*) makes success in this environment evermore unlikely (Alonso and Kaltwasser, 2015). While these objections are certainly worth to consider, my approach nonetheless does not only offer a stringent explanation for the absence of a Spanish right-wing party, but also a compelling argument for the particular establishment of a left-wing populist movement. After all, Podemos faced the same institutional obstacles and still was successful, specifically because it mobilises support based upon a generalisable experience of socio-economic deficiency.

Finally, the timing of the reforms produces the perhaps most fundamental limitation. Unfortunately, it is impossible to separate analytically the political effects of the two central elements of Spanish shock therapy – labour market reforms and austerity. This raises the important question of the counterfactual: What if Spain had implemented its deregulating measures earlier under more

favourable economic conditions? Addressing this in detail would go beyond the scope of this work. However, the labour market reforms were certainly not independent of the economic downturn as they led to increased unemployment and loss of domestic demand. Consequently, they might have had very similar effects even without amplifying austerity.

Conclusion

Summing up, by connecting politico-economic analysis with empirical electoral insights this paper offers a new approach to understanding European populism. Populist demand can be conceptualised in an inverse hyperbolic model where a medium-sized group of underrepresented outsiders lacking a collective experience of socio-economic predicament may turn to populist right-wing alternatives, while a large group of marginalised outsiders may very well mobilise a left-wing populist reaction.

However, a two-case research design begs the question of generalisability. After all, Europe has witnessed the rise of many and explicitly different populist parties in recent years. Can our theory explain these equally?

The cases of Italy and Greece seem to suggest so. Italy saw a major labour market reform in 2012 (*Fornero Reform*), which similar to its Spanish sibling was designed to address dualism by reducing EPL for permanent contracts through reduced dismissal costs. However, these measures did not improve employment levels, but rather increased the number of atypical and irregular contracts in the context of an overall worsening fiscal crisis and strict austerity (Piazza and Myant, 2015). An immediate political consequence was observable in the general elections of 2013, when Beppe Grillo's *Five Star Movement* won the popular vote. This newly established party focuses on environmental and social protection, hence seems to follow a rather left-wing agenda, but also

shows clear signs of typical populist fashion, most importantly an urge to regain agency for an underrepresented constituency. In this sense, the party showed a special capacity to represent issues that were seen as both urgent and not covered by large parts of the Italian electorate and was thus able to “create an ideological profile of purposeful opposition to the socio-economic status quo” (Conti and Memoli, 2015: 531), while applying a politically-charged populist discourse.

In Greece, too, austere labour market reforms paired with general social regression and a staggering economic crisis created fertile ground for a socially-progressive reaction. Various labour market reforms since 2010 introduced an extension of flexible work, severe reductions and ceilings of unemployment benefits and general social protection, and the deregulation of collective bargaining institutions. The measures increased temporary and part-time employment, aggravated long-term unemployment, and led to a comprehensive corrosion of worker representation and nominal wages in both the private and public sector (ETUI, 2018). These reforms, as part of extensive austerity efforts, created a strong basis for left-wing populist party *Syriza* that in its structure and objectives appears very similar to its Spanish sister *Podemos*. Thus, while in both cases radical right-wing parties gained ground as well due to an apparently less dismissive relationship with political fascism, in both instances it was progressive left-wing parties that gained vast electoral support.

On the other hand, the rise of far-right populist *Freedom Party of Austria* (FPÖ) may also be explained with the model developed here. Since the early 2000s, EPL for temporary and permanent employment diverges significantly, while the employment rate has increased steadily even throughout the high point of the global financial crisis. Austria thus resembles the German case in important respects, although the FPÖ enjoys much more political acceptance than AfD

and even obtained governmental responsibilities after achieving close to 26 percent of total votes in the legislative elections of 2017.

In this light, my findings should serve as a general reminder that labour market reforms can bring unequal social hardship and imply sobering consequences for political stability and social cohesion. It is, however, very difficult to establish and proof empirical causality between actual populist voting and the generalisability of socio-economic decline. This is especially due to the persistent lack of long-term data needed to connect politico-economic with electoral analyses. As seen in the case of Germany, socio-economic issues can simmer under the surface for quite some time until suddenly a triggering event opens a window of opportunity for right-wing populist protest. Further studies should therefore aim at improving the data situation regarding socio-economic variables and voting behaviour among outsiders to further empirically test the generalisability of my findings and theoretical assumptions.

Finally, I would like to venture some political implications with regards to my results. This study exemplifies that a differentiated analysis of the underlying motivations of populist demand is imperative. While anti-pluralist sentiments are a real threat to democracy and hence unjustifiable indifferent of anyone's socio-economic background, populist demand, if analysed thoroughly, can also serve as an 'alarm signal for dysfunction in the representative political system' (Cuperus, 2003: 106) and as an indicator of political underrepresentation. In this sense, a constructive approach to tackling populism must rediscover the powers of labour market institutions in mitigating the adverse effects of structural economic and social transformations (Vlandas and Halikiopoulou, 2016) and thus puts the European left under significant pressure to act. However, in the 'frozen' landscape of European welfare states with social policy in budgetary gridlock, bridging insider and outsider interests is a very difficult task to achieve (Esping-Andersen, 1996: 24). The same dilemma

The Political Economy of European Populism

remains pertinent for newly-established left-wing parties when assuming political responsibility as the recent fall of Podemos' support at general elections exemplifies. The European left seems entrapped in the classical problem of failing to meet expectations – and in an environment of political alienation expectations are high. But an effective attempt to counteracting populist resentments requires a bold return to increased social solidarity and redistribution to re-address the justifiable grievances of a temporarily underrepresented core electorate. Most importantly, this entails formulating a distinct alternative to the evermore prominent notion that internal devaluation and a reduction of EPL is the best practice to address lack of flexibility and dualisms in European labour markets.

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