

Socio-Economic Inequality and Populism: A Theoretical Framework of Analysis

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Abstract

The literature connecting growing socio-economic inequality and populism as the main political consequence of it, is burgeoning. However, modern studies are often limited to one-directional models that are based on the available data and are often operationalized on a limited number of variables. This article provides an in-depth literature review of elements of socio-economic inequality and populism, as well as introduces a new conceptual framework to provide pointers for qualitative or qualitative applications. In terms of independent variables, the framework decomposes the multilayered concept of socio-economic inequality into inequality of income (insecurity, polarization and perception) and wealth (via its link to rent-seeking and state capture) as well as inequality of opportunity (circumstances and effort, perception of opportunity). The main dependent variables that define populism are attitudes and voting on the demand side of populism, as well as party strategy and policies on the supply side, with the latter having the potential for a reverse causality. The most important innovation of the theoretical model is the incorporation of the institutional filters as mediating variables and their influence on the impact of inequality on populism. When economic and political institutions do not function well or citizens do not evaluate them positively, it has a potential to further exacerbate the economic grievances and amplify the support of populism. The proposed theoretical framework is particularly useful for case study and large N research designs focusing on Central and Eastern Europe, as besides the role of institutions, it incorporates the literature on rents.

Keywords: socio-economic inequality, populism, political economy

JEL codes: A12, B52, D72, D31

Introduction

Recent studies (Funke et al., 2020; Guriev & Papaioannou, 2022) point out that one of the main political consequences of the rise of socio-economic inequality is the emergence and the success of populism around the world. However, do we understand it well? How are the two aspects related to each other? Previous studies point to the fact that increases in economic inequality are associated with low turnout at elections, the increased political inequality or economic insecurity, but not populist voting itself. Other works also argue that economic inequality amplifies grievances associated with economic insecurity or relative deprivation, which in turn lead to the spike in populist voting (Engler & Weisstanner, 2021; Tétényi, 2020). However, various concepts around economic insecurity, including job insecurity (Gidron & Mijs, 2019), status anxiety (Gidron & Hall, 2017) the lack of social integration (Gidron & Hall, 2020) and not economic inequality itself are associated with the support for populist voting.

The purpose of the current theoretical paper is to map out the relationship of socio-economic inequality and populism, focusing on how socio-economic inequality affects the support of populist parties in Europe. Most modern approaches for linking economic inequality to populism do so in a way of picking and choosing particular variables from the umbrella term of socio-economic inequality. For example, Guiso et al. (2017) as well as Norris & Inglehart (2019) focus on economic insecurity, Zagórski et al. (2021) emphasize the role of relative deprivation (which, in their conceptualization, is very similar to economic insecurity). However, the review below goes into detail in presenting different aspects of socio-economic inequality and its relation to populism: economic insecurity, income polarization, perception of inequality, inequality of opportunity, the role of rents, and the moderating effect of institutions.

The overarching argument of this paper is that political and economic institutions moderate the relationship between socio-economic inequality and populism. In addition, in order to capture the full effect of changing economic conditions and the emergence of populism, it is pertinent to use a broader conceptualization of socio-economic inequality that, in addition to straightforward measures of economic inequality of outcome (such as GINI), it also includes polarization of income, inequality of opportunity, perception aspects at the individual level, as well as issues of social class. Inequality could serve both as a cause and consequence of populism if it is not addressed by policy solutions. I show that the role of institutions and rents is particularly important and suitable for the research on Central and Eastern Europe.

I reach these findings by carefully reviewing the literature on different aspects of socio-economic inequality, linking them to populism via institu-

tions. I review the growing literature on socio-economic inequality (including economic insecurity, income polarization, etc.) and the demand (voter preferences) and supply (party strategy) side of populism. Political consequences of inequality are analysed either through policies implemented by governments or influence on voters, as well through the prism of distinct approaches: populism as an ideology (i), populism as a political strategy (ii), populism as discourse or style (iii) and populism as a political logic (iv).

The paper builds on the debate over economic roots of populism in a variety of ways. First, the main interest is to prepare the consistent and empirically testable theoretical framework to explore how economic inequality prepares the breeding ground for the rise and the continuing support for populism in Europe (Mudde, 2007). Second, by basing the empirical research on some elements of the approach by Guiso et al. (2017) as well as Inglehart & Norris (2016, 2019) in terms of populist voting, the exploration brings different aspects of different approaches together, enriching it with a multi-level regional dimension through establishing the relationship between the different elements. Third, further exploration relates to the reverse effect the supply side of populism (in terms of party strategies of populist parties) might have on socio-economic inequality, in terms of adapting to the new conditions as well as testing it empirically in the context of Central and Eastern Europe. Fourth, by taking a wide approach on inequality from a variety of disciplines ranging from mainstream economics to sociology, different aspects of economic inequality (as well as relation between them) are considered: income polarization, economic insecurity, the perception of inequality as well as the inequality of opportunity. Finally, by proposing to contextualize institutions as mediator variables, the emphasis is put on the experience of an individual within the macro-level processes of political participation, which is mediated by institutions in the time-variant and cross-national perspective.

The article is structured as follows. The next section introduces the theory divided in three key elements: inequality and populism, as well as any confounding factors that represent alternative explanation of the relationship between the two variables. The third and fourth sections present the new theoretical framework of analysis of the connection between socio-economic inequality and populism, while providing some pointers to its implementation in the case of Central and Eastern Europe. The final section then recaps and concludes.

1. Theoretical considerations

While some works understand the success of populism as a counter-movement against forces of marketisation (Benczes, 2020.; Vigvári, 2020), other authors (Guiso et al., 2017; Inglehart & Norris, 2016, 2019) arrive at

the common conclusion that economic insecurity (as a specific conceptualization under the umbrella term of socio-economic inequality) of those left behind (as the result of globalization or crises) is one of the forces behind the rise in support of all populist parties. The main conclusion of their study is that the effect of the crisis, although not affecting the rising economic insecurity directly, prepares the ground for the rise of populism through electoral participation consisting of abstentionism, disillusionment effect, making economic insecurity appear to be the real driver of populism on the demand side. Burgoon et al. (2018) have tried to link measures of deprivation and inequality with the support of radical right populist parties and establish how initial conditions shape them. They find that support for radical right populism is more likely among individuals facing more positional deprivation (Burgoon et al., 2018). Algan et al. (2017) used actual region-level voting data rather than self-reported information from surveys and found strong relationship between increases in unemployment and voting for non-mainstream populist parties, with 1 percent point change in unemployment implying 1 percent point change in the populist vote. Contrasting with the findings of Inglehart & Norris (2016, 2019) and siding with Guiso et al. (2017), their study finds that economic insecurity explains a substantial share of the rise in populism, when controlling for time-invariant factors (p.6).

However, while the above-mentioned approaches use a narrow conceptualization of inequality, in order to fully understand the mechanism, it is important to provide a more thorough and multi-layered exploration of the specific elements in the mechanism between socio-economic inequality and populism. The review below explores additional elements on the side of socio-economic inequality: economic insecurity, inequality of opportunity, income polarization, perception of inequality and rents.

1.1. Inequality

Inequalities are imminent, they are an inherent characteristic of all human societies, they surround us every day (Molander, 2016). On the micro-level, inequality affects the individual. Individuals differ in terms of inequality of outcome, as well as inequality of initial conditions – opportunities that define their present income level beyond their control (Roemer, 1998) – and in the experience of inequality in the historical perspective (Scheidel, 2018).

Okun's (2015) classic essay (1975) *Equality and Efficiency: The Big Trade-off* provides the main intrinsic reason of concern for inequality on the macro-level, that is, the pursuit of greater efficiency comes at the cost of more inequality. He also points out that inequalities in income are embedded in capitalism, and more massive and rapid equalization would require a new

capitalist system (p.51, 1975). Such rise in inequalities are generally in line with theories that take into account the limited mobility of the factors of production (Ohlin, 1952) that might lead to income polarization and globalization of a society (Esteban & Ray, 1994; Levy & Murnane, 1992; Wolfson, 1994).

However, moderate levels of inequality might not be all that bad. In fact, Kornai (2016) gives three reasons for this. Firstly, while drawing examples beyond the established capitalist and liberal democratic systems, he points to a healthy level of inequality - difference in pay and pay gaps are clearly signs of incentives for workers to reach for promotion. Communes in China, kolkhoz in the Soviet Union and production cooperatives in Hungary all had problems with motivating labour, beyond other things. Substantial incentives bring about competition, as well as effort that can translate into results and income apart from wealth. Secondly, inequality brings about stimulation in the entrepreneurial activities (also in Xavier-Oliveira et al., 2015). Thirdly, a capitalist system is inherently unequal in monetary incomes, in difference in productivity, as well as accumulated wealth. Since capitalism is primarily connected with liberal democracy, the political system is, in a way, not compatible with an inequality-free world. Therefore, a healthy level of inequality is embedded in the capitalist system, is stimulating for the entrepreneurs, firms and workers and might be beneficial, in moderation.

Referring to Blank's (2011) four consequences of growing economic inequality, the main instrumental implication of growing economic inequality is the harmful effect it has on political processes. The logic behind the argument is that most importantly, inequality seems to adversely affect the political representation - not including different income groups, ethnic, sexual and other minorities, but instead bringing elites and the wealthiest into the decision-making seats in positions of power, lowering chances for a fair democratic process and political decision making (Hertel-Fernandez, 2019; Strolovitch, 2008). The presence of high or increasing levels of inequality raises concerns about equity and justice, which connects itself with the questions of how public and private institutions function equitably with regards to opportunities, outcomes, or both (Gornick & Jäntti, 2014).

1.2. Economic insecurity

Anderson & Pontusson (2007) state that economic insecurity is often being used as an umbrella term for different manifestations of material well-being ranging from a general sense of material well-being to job-related anxieties or individuals' assessments of recent changes in their personal financial situation (p.212). Such a definition summarizes different approaches, ranging from worries about one's job (Anderson &

Pontusson, 2007; Gallie et al., 2016), past and present wealth levels (Bossert & D'Ambrosio, 2013) as well as people's subjective anxieties with respect to different types of hazards (Osberg, 2015).

Economic insecurity is related to populism in a two-way direction, with a potential reverse causal effect. Insecurity and worries about ones' job or wealth produces frustration and alienation that might give an impulse to vote against an incumbent, and for a populist through a protest vote on the demand side of the equation. At the same time, on the supply side of populism, parties themselves may tailor their political manifestos to the needs of the most economically insecure or attempt to affect insecurity in terms of policy. In addition, Anderson & Pontusson (2007) highlight two types of institutions that are relevant in this respect: the ones that have to do with labour relations in individual firms or workplaces (employment protection, employability attributes), as well as other, which have to do with government regulation of employment conditions (labour market conditions and active labour market policy) (p.214).

1.3. Income polarization

Income polarization is another aspect of economic inequality, defined as polarization in which observations move from the middle of the income distribution to both tails (Levy & Murnane, 1992). There are two main concepts that gave birth to modern usage of the term. Wolfson (1994) conceptualizes polarization as shrinkage of the middle class (also Levy & Murnane, 1992; Chakravarty & D'Ambrosio, 2010) through hollowing out of the middle-class incomes, while Esteban & Ray (1994) regards polarization as clustering around local means of the distribution, depending where they are located on the income scale (p.821). While introducing the two different approaches, Chakravarty & D'Ambrosio (2010) present the former as a situation of bipolarization, and the latter as a more generalized version of it. Since a simple GINI measure cannot fully grasp the full extent of the phenomenon of polarization, some authors have used quintile income shares, while others have used the fraction of the population in various income ranges defined in terms of the mean or median income. Wolfson's approach (1994) compares standard measures of economic inequality and income percentiles (quintile income shares), empirically showing the difference between the two, proving duality or complementarity between polarization and inequality.

Earnings of the middle class is also a key element related to populism. A bigger middle class is empirically associated with higher incomes and higher growth rates, less political instability and more democracy (Easterly, 1999). However, under high income polarization, the middle class shrinks as top and bottom income earners grow in numbers. The expectation is that

the support for populism is a result of a revolt of a particular social stratum against the current system. In fact, the same reasons to study polarization has been invoked by Esteban & Ray (1994), saying that growing polarization could lead to generation of tensions, to the possibilities of articulated rebellion and revolt, and to the existence of social unrest in general (p.820). Therefore, the key assumption is that, especially in the times of crisis, middle class plays a decisive role in terms of being the driving force for the economy as well as in political terms, being the most numerous and the most active stratum of the population.

1.4. The perception of inequality

The perception of inequality does not fully fit in a single particular type of inequality: outcome versus opportunity, because, in most part, it is concerned with the judgement of an individual about his or her current socio-economic position. This is also in line with the accounts of Ray (1998) as well as Corak (2004, 2013), who highlight the importance of decreasing social mobility across generations as the main consequence of growing inequality. In the context where institutions are weak and inequality is high, it is harder to escape the social trap in terms of the deficit of trust in formal and informal institutions (Rothstein, 2011).

The relation of perception of economic inequality to populism starts from the assumption about the voter. Under the rational choice hypothesis, homo oeconomicus prefers a redistribution from rich to poor. According to it, voters who have lower than median income tend to vote for those politicians who support redistribution (Meltzer & Richard, 1981). Therefore, if a populist party appeals to such preferences of the voters for redistribution (on the supply side of populism), then the relation is bi-directional.

Another possibility is that the link to populism is provided by the tunnel effect theory (Hirschman & Rothschild, 1973). Instead of the classical median theory of voting, which suggests that attitudes of the voters are solely determined by their position in the income distribution, tunnel effect theory proposes that, in terms of expectations, inequality in the short-run can be positively perceived even by those at the bottom of the income distribution, since it could be interpreted as a signal for future general improvement. Pushing the metaphor further, an average voter might prefer to go through the hard times and wait in traffic before the tunnel for some time, waiting for an imminent light and exit at the end of the tunnel, which represents the promise of upward social mobility and growth in income or wealth. This potentially means, that individuals would support programs of political parties that address the issues of redistribution (including populist parties) if they perceived themselves as economically unequal, and not because they live in a region or country with a high GINI.

1.5. The inequality of opportunity

When wealth or income inequality is an ex post measure dealing with what can be measured as the outcome, the inequality of opportunity is essentially an ex ante concept concerned with how equal individuals are at the starting point (Atkinson, 2015). In fact, it is widely regarded as the unfair part of inequality (EBRD, 2016). It is measured in the space across time between people facing similar circumstances (gender, ethnicity, family background and other factors beyond one's control) as opposed to the concept of effort, which is fully dependent on ones' decisions throughout life. Eventually both effort and circumstances determine education, work and ultimately income. In the restatement of the same concept by Brunori (2017), inequality of opportunity is the inequality owing to circumstances beyond individual control. Empirical work suggests that inequality of opportunity establishes a floor – but not necessarily a ceiling – for income inequality, as high levels of inequality of opportunity, in most of the countries, are highly correlated with income inequality, which is often also as high as opportunity (EBRD, 2016, p.47).

Both inequality of opportunity and perception of the inequality of opportunity provide the connection to populism through frustrations based on the perceived or measured circumstances at the ex post level of costs. The intuition is that although circumstances are generally quite rigid and do not change significantly during a period, a general frustration with the status quo and unhappiness due to circumstances produces the impulse to vote for populist parties or express populist attitudes in times of crisis, with the latter being more salient. In addition, since circumstances are often country-specific, the relation between the inequality of opportunity and populism is complex.

1.6. The political elites, state capture and rents

What happens when the very rich and affluent, besides having access to significantly more resources than most of the population, influence politics in a variety of ways? The answer is not simple.

Firstly, difference in access to rents can lead to clientelism, predation and exploitation in terms of those who have access to public funding and those who do not (Grzymala-Busse, 2019). Such cohabitation of public and private through political class can produce a form of a state capture, especially if it aims at providing long-term privileges to captors by exploiting the power of government for private benefit (Hellman et al., 2000; Stoyanov & Gerganov, 2019). State capture contributes to a violation of good governance rules and is detriment to equal treatment of citizens and interests, while the principle of meritocracy apply equally to all citizens and

interests. Virtually, if captured, the state could be described as a long-term privatization of the state functions, which ensures a systemic privilege for those in power. Mihályi & Szélenyi (2019), discern between three different rent-seeking mechanisms, under post-communism: market capture by political elites (Hungary), state capture by oligarchs - wealthy individuals who attempt to “*privatize the state*” (Moldova, Georgia, etc.), as well as capture of oligarchs by autocratic rulers (Putin’s inner circle).

Secondly, such a significant role of the top earners in rent-seeking and taking over the state can happen in times when institutions are weak. The judicial branch, campaign finance regulations, as well as the increase of electoral competitiveness, have the power to reduce the role of money in politics and protect the most vulnerable ones from the extractive institutions. While shifting the source of political contributions from large donors to interest groups (through contribution limits or public financing), campaign finance reforms have the potential to help equalize representativeness to more- and less-well-off citizens (Gilens, 2012). However, innovations in transparency of party accounting and accountability, registering meetings with political parties, as well as party financing regulations all play a role in limiting the role of the wealthiest citizens in politics.

The key issue that provides the connection to the political is the disproportionately major influence the top end of the wealth distribution might exercise on politics. Besides the problems of underrepresentation of the low-income earners and overrepresentation of the rich and their interests at the level of decision-making, the difference between the affluent class and the top 1% of the upper distribution of wealth is the key for understanding how it affects populism through political institutions.

The source of income of different groups of people, the disproportionate growth of wages relative to rents, according to Piketty (2014, 2015), can lead to the differences in the degree of accepted income gaps between individuals that are seen to be undeserving. As defined by Mihályi and Szélenyi (2016), Piketty’s (2014) take on the rising inequality while focusing on the difference in growth of capital and wages, omits the literature of rent as an important determinant. They find that “*rent-driven inequality undermines the meritocratic legitimacy of liberal capitalism and the efficiency of capital investments*” (p.21, Mihályi and Szélenyi, 2016). In addition, they argue that the inheritance of the top 10-20% of income earners becomes a problem in future generations, since wealth is perceived as “*unearned*” and society tends to become more “*patrimonial*”.

While the socio-economic inequality is multilayered, modern research on populism evolves around definitions of populism. The following section delves into this aspect of the literature.

1.7. Political populism

Most scholars studying modern populism classify parties and leaders, with certain variations, across the lines focusing on the political aspects: (i) populist in terms of stated ideology (Mudde, 2017), (ii) the level of antielitism and antipluralism (Müller, 2016), (iii) populist in terms of style (Moffit, 2016), (iv) and discourse sceptic of the system of checks and balances (Taggart, 2000). While mostly overlapping, the five main definitions are presented below in Table 1.

Table 1: The contemporary classification of populist parties

Source: Own construction

Authors	Definitions of populism
Mudde (2007; 2017); Mudde and Rovira Kaltwasser (2017), Stanley (2008)	The minimal definition of populism as a thin-centred ideology or a set of (sometimes contradictory) ideas.
Müller (2016)	The level of antielitism (necessary, but not sufficient condition) and antipluralism (providing moral justification for the antagonism), combined with identity politics
Moffit (2016)	Populism as discourse or style. Appeal to the people versus the elite (i); bad manners (ii) and crisis, breakdown or threat (iii)
Taggart (2000)	Populism as discourse critical of democratic institutions, pitting the elite against the members of the heartland (a virtually homogeneous construct)

In the minimal definition (Mudde, 2007, 2017; Mudde & Kaltwasser, 2017) (Stanley, 2008) the authors define populism as a thin-centred ideology. Thin, in Stanley's terms, means a distinct concept, which conveys a particular set of ideas (sometimes contradictory) about politics that interact with the established ideational traditions of full ideologies.

Müller (2016) generally agrees on what a populist party is overall, with the difference on the sub-classification of the parties. He highlights that populist actors must contain some form of antielitism (necessary, but not sufficient condition), antipluralism (providing moral justification for the antagonism), combined with a form of identity politics. In comparison with the minimalist framework produced by Mudde that provides the possibility to assign label and classification in the cross-country, he emphasizes that the measurement of the level of antipluralism and antielitism is necessary to reach a particular threshold and to be classified as a populist political actor, in regards to the democratic institutions.

Another important aspect that defines populists and populist parties are their leaders, whose political style contains three main features: appeal to the people versus the elite (i); bad manners (ii) and crisis, breakdown, or threat (iii) (Moffit, 2016). For Moffit, both linguistic and non-linguistic aspects are important and the form of the discourse, the so-called performance, and balancing between extraordinariness and ordinariness is the key. The role of political parties on the foreground is overshadowed by the charismatic leader and their political style.

Paul Taggart, in his seminal book *On Populism* (2000), defined populism as an episodic, anti-political, empty-hearted, chameleonic celebration of the heartland in the face of crisis (p.5). The heartland is presented as the place where, in the populist imagination, a virtuous and unified population resides (p.95). In their further interpretation, references to the heartland as a virtually homogeneous construct is the key in forming a discourse around it, pitting the people (numerous and indigenous to the heartland) to the elites or minorities, who possess qualities of extraneous to them. While there is some depth to what is meant by the people, similarly to the heartland, there is too much variation and room for interpretation, for such a thin concept to serve as a guiding principle of populism. Unlike pure opportunistic or loud party leaders, an attack on political (and potentially economic) institutions represents if not a real danger to democracy, then some form of hollowing and backsliding in the democratic representation and performance of the countries where populists are in power (Greskovits, 2015).

1.8. The moderating role of institutions

The moderating effect of institutions is in line with the literature on economic voting. Rules of the game play a role in a variety of spheres, including the political one (North, 1994). Some authors argue that the institutional environment, understood as formal rules and governance, impacts economic outcomes (Williamson, 1998). Others have also pointed out that different starting points and improvement in political institutions lead to different economic outcomes, in other words – political institutions rule over the economic ones (Acemoglu & Robinson, 2013a).

The classic monograph of Duch & Stevenson (2008), (also in Mishler & Rose, 2001) focuses on how political (parties and party systems, trade unions, courts, etc.) (see Lewis-Beck & Paldam, 2000) and economic institutions (markets, the banking system, the system of property rights, etc.) are treated as filters (or moderating variables) that influence the process for the experience and ultimately reduce or amplify the impact of the underlying variables resulting in the individuals' voting choice or attitudes.

Institutional accounts provide the link from socio-economic inequality to populism, since they analyse inequality through the prism of democratization (Acemoglu & Robinson, 2000; Meltzer & Richard, 1981), which, if effective, is found to likely lead to increased taxation and redistribution (decreasing inequality). This is due to changing the nature of the median voter, who, in the context of the rise of the middle class, has become the most decisive and interested in widening the spread of the distribution.

Acemoglu & Robinson (2013b) emphasize the synergy between inclusive economic and political institutions that induce economic development and lower economic inequality. This is opposed to extractive institutions, which concentrate wealth among the narrow strata of population, creating inequalities of different kinds. By eliminating the cultural arguments (geography, culture and others), Acemoglu & Robinson (2013b) demonstrate the dynamic and the interaction between the two types of institutions and how extractive economic and political institutions become inclusive from neatly picked comparative cross-country historical examples. Referring to the ideas put forward by institutionalists, the endogeneity in the interaction between economic inequality and institutions (democratization) is the key innovation, as the direction is going both ways.

1.9. Reverse causality

What about the other direction from populism (policy or party positions before elections) towards economic inequality? Government policies can have a large impact on economic equality, if not to diminish or eliminate it completely, then to alleviate the consequences of it to manageable levels (Rothstein & Uslaner, 2005). People's position in income distribution can be improved with the major gaps between rich and poor minimized to sustainable levels (Molander, 2016). Political parties can choose to make their position on redistribution more extreme, and thus attempt to address the issue of economic inequality, if it is salient for their electorate. Political parties may, or may not, choose to include references to economic inequality to their electoral manifestos and have the possibility to adapt, stay put, or zig-zag on their policy stances between elections. This becomes extremely important in the case of populist parties, who, regardless of their ideological stances, claim to represent the pure people in the face of the corrupt elite (Mudde, 2017; Mudde & Rovira Kaltwasser, 2017). They seem to have no choice, but to keep constantly moving alongside the preferences of its electorate or emphasize the salience of new issues in the face of crises.

2. The new theoretical framework

The newly proposed scheme below (Figure 1) builds up on previous research on the topic, by systematically connecting different conceptualizations of socio-economic inequality with populism (divided into supply and demand). As posited in the previous section, the concept of socio-economic inequality is multilayered. The link between the two provides an innovative angle, especially in the context of a vast European and Central and Eastern European regions, where populism had found the most success. In order to connect the two and provide a valid theoretical framework for empirical testing, links are formed and described below.

The left-hand side of the scheme presents all the main concepts related to socio-economic inequality suitable for cross-national empirical research. If economic inequality is to be studied within the realm of economics, it can be divided into two separate concepts: inequality of income or wealth (as instructed by Atkinson, 1975) in terms of the unit and the source of measurement. Furthermore, income inequality is also related to a broader concept of inequality of outcome (a bigger rectangular-shaped figure) and, in turn, contains at least three concepts, which are interchangeably related to one another: economic insecurity (Anderson & Pontusson, 2007; Bossert & D'Ambrosio, 2013; Gallie et al., 2016; Osberg, 2015), income polarization (Levy & Murnane, 1992; Wolfson, 1994; Esteban & Ray, 1994) as well as the perception component of inequality. The inequality of wealth is a recently new topic in the empirical academic research, which, however, confronts issues of data gathering as well as its validity. The focus on the wealthiest members of a group (this case – within countries) is the key for linking wealth inequality to the concept of populism. The dotted line to the rectangle of political institutions, although universal, is especially relevant to the area of Central and Eastern Europe, where the strong influence of politics on the formation of rich domestic elites also represents the way how the ruling party controls the elite. Alongside other issues related to the slowing down of democratization, the emergence of the democratic backsliding and that of patronal autocracy (Magyar & Madlovics, 2020) is an important difference between the post-socialist region and the West.

Simultaneously, inequality of opportunity (an oval-shaped form below the inequality of outcome) is a concept, also known as the unfair part of inequality, out of which circumstances versus effort as well as the perception of opportunity could be discerned. The inequality of opportunity and the inequality of outcome are very different concepts, which are often juxtaposed in modern literature and should be treated as such. Nevertheless, both are related to the concept of populism via their separate connections.

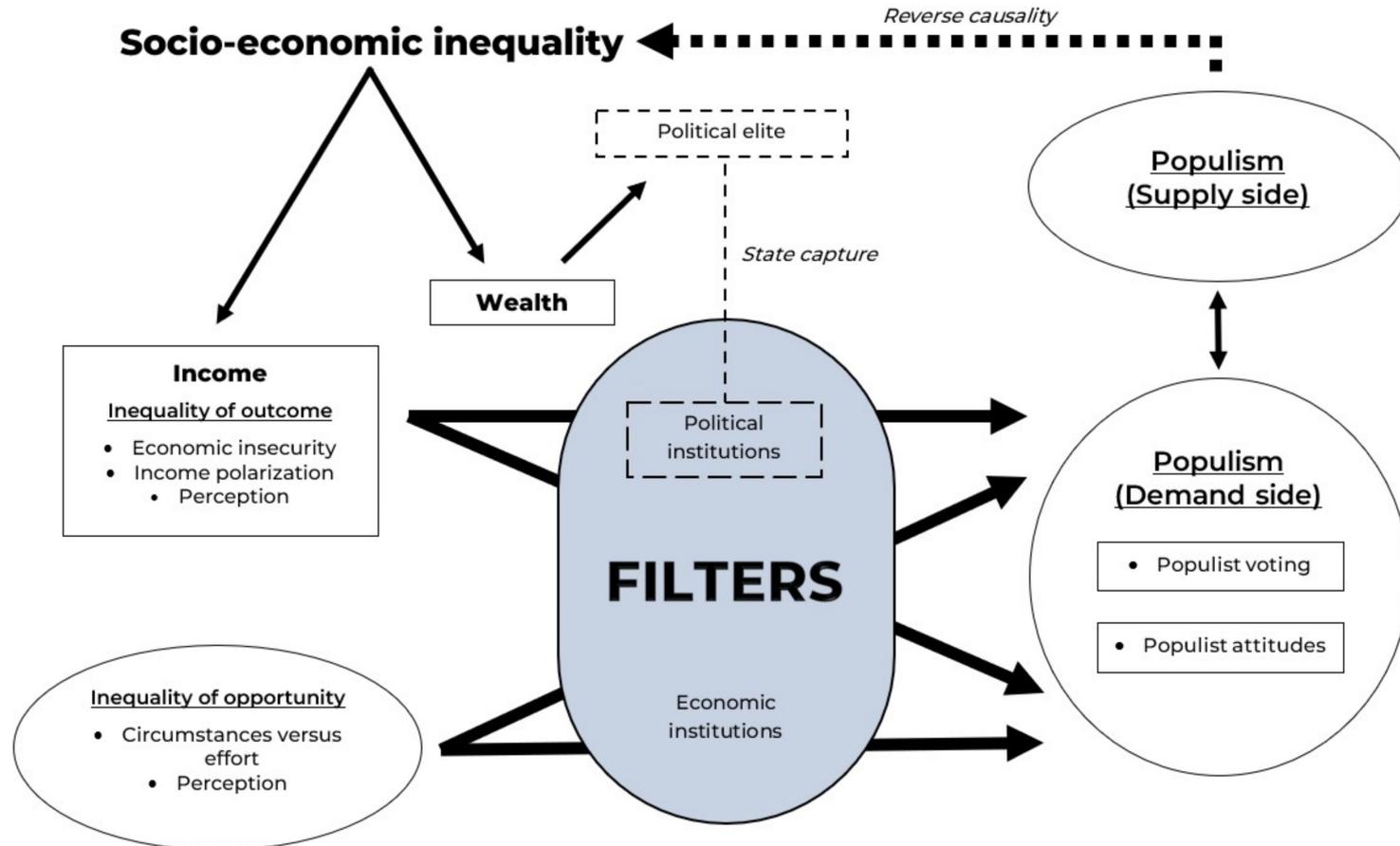
On the side of populism, we have voter support/electoral success for political parties as per the individual decisions to vote for political candidates as well as populist attitudes (Akkerman et al., 2014; Hawkins et al., 2012). Both concepts are related to the micro (individual) level of research and are interrelated. The logic behind this is based on the assumption of the fact that if a person manifests populist attitudes and preferences for populism politicians, it results in voting for the respective candidates.

The most innovative part of the conceptual framework is the inclusion of the middle of the scheme that represents political and economic institutions as mediating variables. Surely, institutions have been explored in the causal context as structural bases and causes of economic inequality and populism on separate occasions before (Acemoglu et al., 2013; Algan et al., 2017). However, the theoretical framework treats institutions as mediating between inequality and populism. The main hypothesis in this regard is that growing socio-economic inequality boosts populist voting, however, it contributes to even larger support for populist parties, when the quality of institutions is poor or is deteriorating (depending on the country/regional context).

Adapting the middle of the scheme from the classic monograph of Duch & Stevenson (2008) on how political and economic institutions condition election results in the process called economic voting (below the scheme) narrows the focus from macro-phenomena to the level of an individual. Both political (parties and party systems, trade unions, courts, etc. and support and individual trust in them.) and economic institutions (markets, the banking system, the system of property rights, etc. including the individual trust in them) are treated as filters (or mediating variables) that influence the process for the experience, ultimately influencing the individual voting choice or attitudes. The same has been proposed by Gornick & Jäntti (2014) as well, who emphasize that the influence of institutions on inequality also varies cross-nationally. For this and other reasons, cross-national comparisons offer a natural framework for inequality research, allowing for variables to reflect how the rule of law, as well as other institutions, play the key role and are region-specific for the most part. The last part of the framework is the reverse causality from the supply side of populism, back to socio-economic inequality. It refers to two components: strategy of parties (populist) that adapt to the changes in socio-economic inequality as one of the main economic cleavages and/or to policy that has the potential to address it.

Figure 1: Economic voting – political consequences of growing inequality

Source: Own construction



3. Possible application: the rise of populism in Central and Eastern Europe

Is the Central and East European region different in terms of the emergence of populism? I claim that the process of the rise of populist parties in Central and Eastern Europe is structurally different from those in the Western Europe and elsewhere, and, therefore, the proposed theoretical framework is best fitting in terms of the analysis using case study and quantitative methods.

Firstly, the legacy of socialism, in terms of the transition from the old economic and political systems into the new one, converging with the West is bringing along the emergence of new cleavages that still must be addressed, 30 years after the collapse of the old system. The Washington-consensus type of reform packages (generally, and almost in all of the region) of the economy including decentralization, liberalization of financial markets, as well as privatization of property, although successful, has contributed to the rise in demand for the emergence of new contenders to the system.

Secondly, as Kriesi (2014) pointed out, compared to the Western democracies with long-standing political party culture, Central and Eastern European party systems are lacking in effective institutionalization of their party systems, which gave rise to populist parties. Furthermore, he states that the Central and Eastern European region has produced inequality in representation - mainstream parties that would adequately represent its constituencies in the same way it has been done in Western Europe (Kriesi, 2014). Instead, populist parties in Central and Eastern Europe articulate a new structural conflict, pitting winners and losers of globalization against each other.

Thirdly, the economic system is embedded in the life of a society to a larger degree in Central and Eastern Europe than in the more advanced economies of Western Europe (Magyar & Madlovics, 2020; Offe, 2000). This happens primarily because of the lack of separation of spheres of social action (division of social, political and market activities) that is more evident in the post-socialist countries with the remnants of paternalism and clientelism. At the same time, with the lack of the division of public from private sphere (politicians having not only the roles of civil servants, but also interest in business, media, etc.), vested interest become economic in nature. These two important elements become the key in the times of crisis as well, changing the way the state interacts with society, and shows resilience.

Fourth, successful populist politicians in CEE use extractive institutions for rent-maximization. They aim to stop rent-destructing globalization and

the development of institutions that provide equal opportunities for social mobility of a country's citizens, limiting the competition in the political elite. Populists claim to create a broad alliance of some sections of the working class, civil servants and upper middle class, promising them a level of protection: relative job security, bringing back jobs lost due to outsourcing, restoring their relatively privileged incomes to pre-globalization times. However, in the foreground, they have different sources of risk and intensity levels, and build up their private capacity for exploitation of the state capture vulnerabilities.

Examples such as Hungary and Poland experienced attempts to reassert political monopoly, with public power being exercised primarily for private gain (Hellman et al., 2000). The lack of control of corruption prevents the state from being resilient to private interests that subvert the legitimate channels of political influence from having an effect on the party systems within the region, turning them into a form of a corporate state capture.

Conclusions

The current article introduces a new theoretical framework on linking economic inequality to the demand side of populism from an innovative angle, which is unique in a variety of ways. Firstly, the main interest is to explore how different aspects of economic inequality prepare the breeding ground for the rise of and the continuing support for populism in Europe (Mudde, 2007). Secondly, by basing the empirical research on some elements of the approach by Guiso et al. (2017), as well as Inglehart & Norris (2016, 2019) in terms of populist voting as well as Hawkins et al. (2012) in terms of populist attitudes, the exploration brings different aspects of different approaches together, enriching it with multi-level regional dimension through establishing the causal relationship between the left and the right side of the scheme. Thirdly, the definition of populist parties based on ideology and style is brought to the forefront, underlining their relation to political and economic institutions through amalgamation of theories. Fourth, by taking a wide approach on inequality from a variety of disciplines ranging from mainstream economics to sociology, different aspects of economic inequality (as well as relation between them) are considered: income polarization, economic insecurity, the perception of inequality as well as the inequality of opportunity. Fifth, this research contributes to a better understanding of political consequences of growing inequality, as well as economic voting, enriching contemporary studies and theories on the determinants of the support for populism in Europe – mainly from political science, and their relation to the economic dimension. Finally, by proposing to contextualize institutions as mediator

variables, the emphasis is being put on the experience of an individual within the macro-level processes of political participation, which is mediated by institutions in the time-variant and cross-national perspective.

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