School of
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Policymaking in the time of Populism

Photo Credit: AP

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Introduction

The initial prospectus for LSE, dated 1895, told the world — I quote — that "the special aim of the School" would be "from the first, the study and investigation of the concrete facts of industrial life and the actual workings of economic and political relations as they exist and have existed, in the United Kingdom and in foreign countries."[1]

The founders of LSE were Fabians. They wanted to not only understand the world, but to change it. That purpose is reflected in LSE's motto: "to understand the causes of things" not just for any reason, but "for the betterment of society".

Today we come together to launch LSE's new School of Public Policy. And in doing so, we rededicate ourselves to the mission of LSE. The School of Public Policy will study the actual workings of economic and political relations, help design policies and train global leaders — all for "the betterment of society".

This is a crucial task. Good policies and bold leaders matter. It was an LSE Director, William Beveridge, who laid the foundations of the British welfare state and showed how to win the battle against want. Pessimism about humanity´s progress may be fashionable, but that does not make it right. As Barack Obama said recently: "If you had to choose any moment in history in which to be born, and you didn't know in advance whether you were going to be male or female, what country you were going to be from… you'd choose right now. Because the world has never been healthier or wealthier. Or better educated. Or, in many ways, more tolerant. Or less violent than it is today."[2]

"Experts, technocrats and advocates of liberal democracy also have some serious rethinking to do."

But in spite of all this progress, our most cherished political achievement — liberal democracy — is under threat. In Europe, Asia and the Americas, demagogues of both the left and the right have come to power with simplistic solutions to policy dilemmas, using authoritarian methods to achieve their ends.

Today, nearly 330 million Americans are governed by Donald Trump. 170 million Europeans live under governments with at least one populist in the cabinet.[3] Add Brazil, with 210 million people and a newly-elected populist President who makes Trump look like an apprentice. Add the Philippines, a country of over 100 million. And Turkey, with nearly 80 million. And you can keep adding.

It is a world-wide challenge for liberalism and democracy. It is also a challenge for institutions like LSE and for the new school we are here to launch.

[1] Cited in R. Dahrendorf, *A History of the London School of Economics and Political Science 1895-1995.* Oxford: Oxford University Press, 1995.
[2] B. Obama, speech delivered at Goalkeepers, event sponsored by the Bill and Melinda Gates Foundation, September 2017.
[3] "How Populism emerged as an electoral force in Europe". *The Guardian*, 16 November 2018.

At LSE, we are committed to the use of reason in the course of intellectual and scientific inquiry. We rely on evidence to ascertain which public policies are desirable. And we believe no one has a monopoly on wisdom, so that truth emerges when conflicting ideas compete. None of this would need repeating, if it wasn't because this way of doing things is also under siege.

In the midst of the debate on the most crucial decision the United Kingdom has faced in a generation, a British minister exclaimed "people in this country have had enough of experts". The statement by Michael Gove was not just an outburst. From the opposite end of the political spectrum, Italian democratic theorist Norberto Bobbio has written that "technocracy and democracy are antithetical: if the expert is the protagonist of industrial society, this rules out a central role for ordinary citizens."[4]

Well, today we are here to launch an institution that will train experts and technocrats. But if we are to believe Gove and Bobbio, the world wants no more experts. Citizens feel growing distrust of the evidence-based public policies of the kind experts favour. And popular skepticism regarding the virtues of democracy is on the rise.

What are we to do? The easiest way out is to blame the new populist leaders, and they surely deserve some of the blame. But experts, technocrats and advocates of liberal democracy also have some serious rethinking to do. The purpose of this lecture is to contribute to that rethinking.

Let me anticipate one punchline: Gove and Bobbio are not entirely wrong. *Expertocracy* is not the same as *democracy*. Our new school should train leaders for the latter, not the former.

Politics trumps economics

What is behind the new populism? The standard answer is as follows. In countries like the US and the UK, median wages have stagnated for a generation. The distribution of income has worsened, with the top 1 percent reaping the lion´s share of growth. And the Financial Crisis of a decade ago caused not only a great deal of pain, but also the conviction on Main Street that Wall Street is its enemy. No wonder politics has become confrontational.

If this story is right, then the policy conclusion is simple: throw out the rascals who did the bankers´ bidding, tax the rich, redistribute income more aggressively, and populism will sooner or later fade away.

I wish to argue tonight that this standard account — call it the economic insecurity hypothesis — has strong political appeal but it is a poor description of reality: it does not fit the facts in emerging markets and it may not apply even to the US and the UK.

Moreover, it can lead us to the wrong conclusion. Stressing economics alone can breed complacency: just sit on your hands and wait for the economy to recover. And attempting to solve the problem of populism and growing illiberalism around the world just by tweaking the distribution of income could amount to yet another example of technocratic hubris. These dangerous temptations are to be avoided.

[4] Norberto Bobbio, "The Future of Democracy". *Telos: Critical Theory of the Contemporary*. (61):3-16, 1984.

Please do not misunderstand me. Wage stagnation and a worsening income distribution are huge problems in many countries. The Financial Crisis was very painful indeed. Millions of people around the world lost their jobs or their savings.[5] Massive and avoidable suffering was inflicted upon them.
All I am claiming is that you can be a dyed-in-the-wool economist (I am one) and still believe that the key factors behind the turn toward populism are not economic.[6] Let me explain why.

Start with the growing evidence that the economic insecurity hypothesis does not fit the data even in advanced nations. By now hundreds of regressions have been run attempting to sort out what kinds of people voted for Trump or for Brexit. The race is on between advocates of the economic insecurity hypothesis and those who believe the explanation is cultural.

The title of an influential recent paper summarizes the state of that race: "Status Threat, not Economic Hardship, Explains the 2016 Presidential Vote".[7] Here is the title of another paper: "Vote Switching in the 2016 Election: How Racial and Immigration Attitudes, Not Economics, Explain Shifts in White Voting".[8] And statistics guru Nate Silver concludes that "Education, Not Income, Predicted Who Would Vote For Trump".[9]

[5] I was the Finance Minister of Chile when Lehman Brothers went under and everything came crashing down. When asked what I remember of that period, my answer is that I do not remember much: we were all sleep-deprived and under severe stress for months.
[6] Nor am I arguing that everything is fine in the national and international economies. Start with the international financial architecture, which still leaves too many countries unprotected in the event of liquidity squeezes. As long as many nations can only borrow in dollars (or euros) and the world does not have an international lender of last resort in those currencies, financial crises will be recurring. Secondly, uncertainty about the future and excessive exposure to shocks is a huge concern for many middle-class families, in advanced nations but also --and especially-- in emerging economies. Changes in commodity prices or in technology –things that families have no control over—can render whole sectors obsolete and cause huge shifts in family incomes. Last but certainly not least, badly functioning labour markets condemn too many people, especially women and the young, to unemployment, underemployment, informality or discrimination. And this will get worse with the coming wave of automation. A key priority of policy must be to provide everyone with good jobs at good wages.
[7] D. C. Mutz, "Status threat, not economic hardship, explains the 2016 presidential vote". *Proceedings of the National Academy of Sciences*, vol. 115, no. 19, 2018. www.pnas.org/cgi/doi/10.1073/pnas.1718155115.
[8] T. T. Reny, L. Collingwood and A. Valenzuela, "Vote Switching in the 2016 Election: How Racial and Immigration Attitudes, Not Economics, Explain Shifts in White Voting". Available at http://tylerreny.github.io/pdf/pubs/final_submission_reny_etal_poq_public.pdf. The authors write: "We find a non-trivial number of white voters switched their votes in the 2016 election to Trump or Clinton, that this vote switching was more associated with racial and immigration attitudes than economic factors... Our findings suggest that racial and immigration attitudes may be continuing to sort white voters into new partisan camps and further polarize the parties."
[9] Silver points out that Hillary Clinton improved on Barack Obama's 2012 performance in 48 of the 50 best-educated counties in the US; and Clinton lost ground relative to Obama in 47 of the 50 least-educated counties —in fact, she did worse by an average of 11 percentage points. Nate Silver, "Education, Not Income, Predicted Who Would Vote For Trump". FiveThirtyEight, November 22, 2016. Available at https://fivethirtyeight.com/features/education-not-income-predicted-who-would-vote-for-trump/

What about the UK? Work done right here at LSE, looking at 382 local authority areas, concludes that education and demography are good predictors of who voted to Leave, but exposure to trade or extent of budget cuts are not.[10]

So in the race between the "economic insecurity" and the "cultural backlash" hypotheses, the latter seems to be winning. And this conclusion is not limited to the US and the UK. Pippa Norris and Morris Inglehart, who study the performance of populist parties in 31 European countries, conclude: "Overall, we find the most consistent evidence supporting the cultural backlash thesis".[11]

In addition, one does not need sophisticated econometrics to arrive at an obvious observation: beyond the comfortable confines of North America and Western Europe, right-wing populism is affecting countries with unusually strong economic performances. This is the opposite of what the "economic insecurity" hypothesis would predict.

Take Turkey, whose economy has grown an average of 6.9 percent a year since 2010. Or the Philippines, with 6.4 percent annual growth in the same period. There surely was no economic stagnation there.

Poland and Hungary are much richer economies, so one would not expect them to grow quite that quickly; still, they expanded a respectable 3.3 and 2.1 percent after 2010. Or take the neighboring Czech Republic: unemployment is only 2.3%, the lowest rate in the EU; last year the economy grew 4.3%, well above the European average; there are few immigrants in the country, and no refugee crisis to speak of. Nonetheless, populist parties just took 4 out of every 10 votes – a tenfold increase in two decades.[12]

Beyond the cold figures of economic growth, it is undeniable that the majority of citizens in these countries live much better than they did a couple of decades ago. In 1995, the average annual wage in Poland was 15,800 US dollars; today it is 27,000 US dollars. In Hungary and the Czech Republic, the increase was similar.[13] All three countries do well in the UNDP Human Development Index.

Brazil is a different case: it experienced a mega recession in 2015 and 2016, during the second presidency of Dilma Rouseff. But the country did have strongly redistributive policies, started by social democrat Fernando Henrique Cardoso and continued by Lula da Silva. According to the New York Times, Lula benefitted "tens of millions of Brazilians" with his administration´s social programs.[14] No wonder a decade ago Barack Obama called Lula "the most popular politician on Earth."[15]

[10] S. O. Becker, T. Fetzer and D. Novy, "Who voted for Brexit? A Comprehensive District-Level Analysis". Centre for Economic Performance, LSE. CEP Discussion Paper No 1480, April 2017. There are also papers that show something different. Colantone and Stanig argue that support for Brexit was systematically higher in regions hit harder by economic globalization, as measured by the impact of surging imports from China. See I. Colantone and P. Stanig, "Global Competition and Brexit". *American Political Science Review*, published online 25 March 2018. One possible interpretation of the evidence, suggested by my LSE colleague Simon Hicks, is that at the individual level (for instance, in surveys), cultural variables do much better than economic variables in explaining the Brexit vote, but that at more aggregate level the relative weighting can be reversed. apparent ecological fallacy can be explained if economic shocks lead to changes in cultural values, which leads to support for populist parties. There is an indirect economic effect, channeled through values, but there does not seem to be a direct effect.

[11] P. Norris and M. Inglehart, "Trump, Brexit, and the rise of Populism: Economic have-nots and cultural backlash". R.W.P. 16-026, Harvard Kennedy School, August 2016. Their findings are nuanced. They point out that "…populist parties did receive significantly greater support among the less well-off … but other measures do not consistently confirm the claim that populist support is due to resentment of economic inequality".

[12] "How Populism emerged as an electoral force in Europe". *The Guardian*, 16 November 2018.

[13] Data from the OECD, available at https://data.oecd.org/earnwage/average-wages.htm

[14] *The New York Times*, "Luiz Inácio Lula da Silva: The Rise and Fall of a Brazilian Leader". July 12th, 2017.

[15] *The Washington Post*, "He was the 'most popular politician on Earth.' Now Brazil's Lula could go to jail.". October 26th, 2016.

The conclusion is unavoidable: in these countries, populists are the offspring of economic gain, not pain.

There is one final prickly fact to consider: if surging populism reflected a demand for redistribution, we would expect the surge to be on the left, not the right. Yes, López Obrador has just swept to power in México, Syriza still governs Greece, Podemos has grown influential in Spain, and Maduro continues to wage war against his own people in Venezuela. But the striking fact is the surge of right-wing populists, from Trump in the US to Orbán in Hungary, from Salvini in Italy to Bolsonaro in Brazil, and from Kaczyński in Poland to Duterte in the Philippines! It does not seem too controversial to conjecture that the policies they pursue are likely to worsen, not improve, the distribution of income. And yet voters are cheering them on!

None of this is meant to deny that economic grievances are many, whether in the North of England, the American mid-West, the East of Turkey or the *favelas* of Brazil. The point is that politics dictates how we process the experience of economic success and failure. A turn toward populism and authoritarianism suggests a failure of politics to manage grievances effectively.

So we need economic change — but above all, we need political change. And — in a way that is very pertinent to the mission of our new school — we need a change in the way political leaders in democratic systems think of their mission and go about fulfilling it.

I agree with Jason Furman —one of our distinguished panelists tonight— who writes in a recent column: "In fact, the solution to our political problems, in 2018 and beyond, may lie not in any new policies or materially changed circumstances, but in finding better ways to communicate about the challenges we face, the efforts being made to address them, and the inherent limits that confront all policymakers.

There has to be a better answer than just lying to people about what our policies are capable of accomplishing."[16]

Disenchantment with democracy

Let me focus first on the challenge democracy is facing. And bear with me because I will begin with a story. It was 30 years ago almost to the week. 5:00 AM and there were a few hundred of us. We had marched across downtown Santiago to La Moneda, Chile´s presidential palace.

Chileans had voted in a referendum to get rid of the dictatorship. A few hours earlier, Pinochet´s spokesman had conceded. We had been up all night long celebrating. But now, standing in front of the massive colonial-era structure from which Pinochet had ruled, we hesitated.

What do you do when a murderous tyrant is sent packing without a shot being fired? We shook hands. We hugged. We kissed. We jumped up and down. Then we hugged some more. Someone gave one of the machine gun-wielding police guards a flower. The policeman received it with a smile. We embraced him too. And his colleagues. Then we went home to get some sleep.

[16] J. Furman, "Can Economic Policy Solve Economic Problems? *Project Syndicate,* December 21, 2017

For my generation of Latin Americans, the late 1980s were nothing less than the dawn of freedom. Earlier, Argentina, Brazil and Uruguay had returned to democracy. In the following years, countries from Mexico to Peru would take steps toward greater political freedom.

As my Yale teachers Juan Linz and Alfred Stepan wrote at the time, suddenly "democracy was the only game in town" — not only in Latin America, but also in Central and Eastern Europe.
How distant that moment now seems. Venezuela has slid back into dictatorship and Nicaragua is almost there. In many other countries, democracy is under attack from authoritarian populists, criminal gangs, corrupt officials —or all of those at once.

Even worse: even in countries with consolidated democracies, citizens do not seem especially proud of that achievement. On average, only 24 percent of Latin Americans report being satisfied with democracy. In Mexico and Brazil, the two most populous countries in the region, the figures are just 16 and 9 percent.[17]

Something even more dramatic is underway in Central and Eastern Europe. It wasn´t so long ago that Poland and Hungary were poster children for successful post-communist transitions to democracy. Today they are quasi autocracies in which once-autonomous institutions are packed with government allies. We can say the same of Turkey.

Of course, the emerging regions of Eastern Europe and Latin America are not the only ones facing this challenge. Western Europe and North America are very much in the same boat. Yascha Mounk —who is here with us today— has been one of the most persuasive voices warning of the depth and breadth of citizen discontent. In his words: "Citizens had long been disillusioned with politics; now they have grown restless, angry, even disdainful."[18]

"What is going on? Where is democracy falling short?"

If Yascha is right, the problem could get much worse with time. For instance, over two-thirds of older Americans believe that democracy is important, but less than one-third of millennials do. If this is a cohort effect and not an age effect —as a statistician might put it— then democracy is in for a very bumpy ride indeed.[19]

What is going on? Where is democracy falling short?

Some of the failings of democracy are simply the failures of democratic politicians who are corrupt or incompetent. Writing in the Washington Post last month, Fernando Henrique Cardoso of Brazil reminded us that "Of the four presidents elected after the 1988 Constitution took effect, two were impeached, one is in jail for corruption and the other is me".[20]

No wonder then that increasing numbers of Brazilians report feeling nostalgic for the bad old days of the military dictatorship. Those were the same Brazilian who voted last month to elect Jair Bolsonaro, a populist who has said noxious things about women, blacks and gays.

[17] Corporación Latinobarómetro: *Informe 2018*. Available at http://www.latinobarometro.org/lat.jsp
[18] Yascha Mounk, *The People vs. Democracy: Why Our Freedom is in Danger and How to Save It*. Cambridge: Harvard University Press, 2018.
[19] Yascha Mounk, *The People vs. Democracy: Why Our Freedom is in Danger and How to Save It*. Cambridge: Harvard University Press, 2018.
[20] Fernando Henrique Cardoso, "How the unthinkable happened in Brazil". *The Washington Post*, 29 October 2018.

But the problem is bigger than just a few bad apples. Populists have real appeal. They are appealing because they offer to fulfill what Norberto Bobbio calls "the broken promises of democracy".[21]

Advocates of democracy make some exalted claims on its behalf. At Gettysburg, Lincoln spoke of "government of the people, by the people, for the people." But we fall far short of that ideal. Voting every four years for candidates chosen by party machines is not exactly what Lincoln's lofty words call to mind.[22]

Bobbio emphasizes that lack of trust in democratic politicians also arises from the pluralism of modern societies; there is no *general will* for a politician to represent and voters do not like tradeoffs. An able and honest politician may indeed choose the best policies. But in an environment of imperfect information, she may be unable to persuade voters that she did the right thing.

Populists, by contrast, do not believe in pluralism. For them there is only one right view — that of the people. If so, the complex mechanisms of liberal democracy, with its emphasis on delegation and representation, are all unnecessary. No need for parliaments endlessly debating: the unitary will of the people can easily be expressed in a single vote. Hence populists' love affair with referenda.

Traditional politicians look increasingly out of touch. Modern democracy is *representative*, but the usual rhetoric claims otherwise: we like to emphasise closeness to voters and their concerns. Anyone who has ever campaigned for office – I did this not too long ago — has heard voters complain: "We only see you politicians at election time." When mainstream candidates seem distant, populists stand ready to exploit that gap.[23]

In *Politics as a Vocation*, his famous lecture of a century ago, Max Weber warned a key risk for modern democracy was that a political class would arise, disconnected from voters and the common people. Well, that political class did arise. Now the people are revolting against it.[24]

Anti-establishment voting has the name of the game in many recent elections. Fury against traditional politicians doomed Hillary Clinton´s campaign and brought about the current bicephalous government in Italy.

"The details vary, but the message is clear: the many mistakes of traditional political elites make them ideal fodder for anti-establishment populists."

It also caused the failure of Germán Vargas Lleras and Geraldo Alckmin, the "safe" establishment candidates in the recent Colombian and Brazilian elections. Each had the support of the local business community and the traditional media. Both went home after disastrous results in the first round of voting.

[21] Norberto Bobbio, "The Future of Democracy". *Telos: Critical Theory of the Contemporary*. (61):3-16, 1984.
[22] Disaffection with politics is not new. Just across Lincoln's Inn Fields lies Sir John Soane's Museum, which houses 'The Humours of an Election' by William Hogarth, a 1775 series of paintings that provide as cruel a take on democracy as anything today. Thanks to T. Travers for pointing this out.
[23] These tensions may be particularly sharp for young voters. "To previous generations, it might have seemed natural that the people would rule through parliamentary institutions and elect their representatives by going to a polling station. But to a generation raised on the digital, plebiscitary, and immediate voting of Twitter and Facebook, Of Big Brother and American Idol, these institutions have come to seem strangely cumbersome". Yascha Mounk, *The People vs. Democracy: Why Our Freedom is in Danger and How to Save It*. Cambridge: Harvard University Press, 2018.
[24] Max Weber, "Politics as a Vocation" in *Weber's Rationalism and Modern Society*, T. Waters and D. Waters eds. London: Palgrave MacMillan, 2015.

Perhaps voters detest the political establishment because it is corrupt (with Brazil and Mexico being the prime examples, but not the only ones). Or because it obtains its political power through murky campaign finance and it is too close to big business (the United States). Or because it was in power too long, overstaying its welcome (social democrats in much of Continental Europe, the Popular Party in Spain, the old secular coalition in Turkey or the center-left Concertación in my native Chile).

The details vary, but the message is clear: the many mistakes of traditional political elites make them ideal fodder for anti-establishment populists.

But make no mistake about it: populism is not a useful corrective to the failings of democracy. On the contrary, because populists deny pluralism, often trample on rights, and are prone to demagoguery and deception, populism is a threat to liberal democracy and its values.

To defend democracy we have to reform it. Political reform alone will not forestall the threat of authoritarian populism. But the response to populism should begin somewhere, and in my view it should start there — with changes to the rules of the democratic game.

The link between money and electoral politics must be severed. The experience of several European countries, Britain included, suggests that this is indeed possible.

Pictured: (L-R) ***Dame Minouche Shafik****, Director of LSE;* ***Professor Andrés Velasco****, Dean of the School of Public Policy; Dr* ***Yascha Mounck****, Lecturer at Harvard University;* ***Professor Sara Hobolt****, Sutherland Chair in European Institutions at LSE;* ***Professor Jason Furman****, Professor of Economic Policy at Harvard Kennedy School, Chairman of the Council of Economic Advisers 2013-2017.*

We should also give electoral systems and term limits another look. The choice of electoral systems trades off government stability — made easier by majoritarian systems — against diversity — facilitated by proportional arrangements. Similarly, term limits trade off the benefit of having experienced politicians in office against the cost of shutting out talented youngsters. In both cases we have erred by giving stability too much weight. If voters come to perceive that all political elites are self-serving and out of touch, what countries will get is not experienced public servants, but inexperienced demagogues. Italy is a case in point.

Having won back control of the House, US Democrats are announcing a reform package that would tighten ethics laws and strengthen voting rights. In the US and elsewhere, reform can go further. Lowering barriers to entry for new candidates and new parties, using technology to make it easier to vote, putting more local projects up for a vote…

The list of possible innovations is long. And institutions like LSE, home to so many innovative thinkers, should make it even longer. None of these changes in isolation will make a big difference. But together they can help to bring democratic politics closer to citizens.

One other thing: elites can seem isolated and out of touch because… well, because they are exactly that. Leading politicians probably spend too much time with others like them — bankers, top civil servants, high-flying academics — and too little time with regular voters. This undoubtedly shapes their world view. A Spanish-language saying goes "*Dime con quién andas y te diré quién eres*", which roughly translates as "Tell me who you spend time with and I will tell you who you really are". We should be mindful of this bit of wisdom as we train future political leaders here at LSE.[25]

A particularly difficult task is balancing the two concepts in the phrase *liberal democracy*. Yascha Mounk and Dani Rodrik have argued that you can have one without the other: democracy without rights and rights without democracy. Nowadays we worry most about the former case. But the latter can also be a threat.

Rodrik, for instance, has written that "Liberal democracy is also being undermined by a tendency to emphasize *liberal* at the expense of *democracy*."[26] He worries that increasingly powerful regulators, independent central banks and courts are imposing their preferences on an unwilling population.

Liberal protection of rights serves two purposes. Firstly, it defends the rights of those currently alive against possible abuse by a majority. That is why we have super-majorities and constitutional courts. Secondly, it defends the rights of future generations against possible abuse by the current majority. That is why we enter into international agreements on the environment. And why we have independent central banks or constitutional limits on borrowing. None of these institutions are popular. But that is the whole point: they are not supposed to be.

And I do not see how we can do without them. At a time of growing political polarisation and acrimony, rigorous defense of individual rights is more crucial than ever. And we cannot afford to ignore the future consequences of our actions even more than we do already. Global warming is a case in point, as Nick Stern keeps reminding us.

[25] Of course, democracies have institutional mechanisms to bring politicians closer to voters. In Britain, the constituencies that elect members of Parliament are relatively small. In the United States, members of the House of Representatives must seek reelection every two years. But these solutions are not without their own problems, including parochialism and the risk that frequent elections will make politicians beholden not to voters, but to the special interests that finance their campaigns.

[26] Dani Rodrik, "The double threat to liberal democracy". *Project Syndicate*, February 13 2018.

One current fashion that will not solve the problem is simply calling for more transparency and accountability. I am all in favour of these hallowed concepts, but they can take us only so far. Central banks cannot and should not discuss cutting interest rates in the public square. Judges cannot and should not commission opinion polls to guarantee a ruling will be well-received.

> "If identity is key to contemporary politics, what should policymakers do in response? The first thing they should do is stop burying their head in the sand and acknowledge that identity matters"

In the end, what matters is whether such institutions are viewed as legitimate by the public. And that legitimacy is not God-given. It can be built through the kind of political action that creates trust.

Forgive me for a self-referential but brief anecdote. I became Finance Minister in 2006, just as the price of copper, Chile´s main export, skyrocketed. In response we took Chile´s fiscal rule, made it more stringent, and built two sovereign wealth funds to hold the resulting savings. After a couple of years of fiscal surpluses of 8 percent of the GDP, I was the most controversial person in the country. One group took to building life-size dummies in my likeness, kicking them around and then setting them on fire. My family was not amused.

Then came the collapse of Lehman Brothers and the world crisis. We shifted into full expansionary mode and went from massive fiscal surpluses to deficits of more than 4 percent of the GDP. We built all kinds of public works and gave poor households a large one-time cash transfer. The result was that the world's mega-recession barely touched Chile. My boss, President Michelle Bachelet, left office with an approval rating of 80 percent. To this day, the fiscal rule remains politically legitimate.

Of course, I am not advocating that we engineer a Lehman-style collapse every few years to ensure this kind of outcome. But the broader point stands. The liberal side of liberal democracy can be made legitimate by skillful, liberally-minded politicians. I was lucky to work for one of them.

Identity politics

Next on the list of populism´s roots is identity politics. This is not an easy subject for economists. Until recently, economic theory did not make room for identity. Humans were supposed to have preferences but liking this and disliking that did not amount to a coherent whole we could call an identity.[27]
Yet look around the world today and you see identity politics everywhere. What Brexiteers, Russian nationalists and Islamic fundamentalists have in common is that their politics are all about identity. What is the massive backlash against immigration if not the assertion of one identity over another? The more globalized the economy becomes, the more politics around the world is driven by very local identities.

[27] George Akerlof and Rachel Kranton set out to change this. See G. Akerlof and R. Kranton, *Identity Economics.* Princeton: Princeton University Press, 2010. Very recently, work by economists on identity and politics is growing. G. Grossman and E. Helpman, "Identity Politics and Trade Policy", Harvard University, October 2, 2018. T. Besley and T. Persson, "The Rise of Identity Politics: Salience, Polarization and Competition", work in progress, LSE, 2018. R. Hausmann and A. Velasco, "Identity and the Politics of Populism", Harvard University and LSE, 2018.

The reason why identity matters for politics is that identities are shared. In a recent book, Stanford political theorist Francis Fukuyama argues – and I quote — that "individuals often want not recognition of their individuality, but recognition of their sameness to other people".[28]

And we also want that identity recognized and respected. Fukuyama reminds us that philosophers from Aristotle to Hegel placed the desire to be treated with respect at the centre of human motivation. Therefore – and I quote again — "identity politics is everywhere a struggle for the recognition of dignity".

At one level, strong identities can be good for politics. In an age of generalized distrust of politicians, when a voter *identifies* with a candidate, that is something to celebrate.[29] But too much of a good thing can be bad.[30] Catholics and Protestants in Northern Ireland, or Hutus and Tutsis in Rwanda, certainly had strong identities; that was part of the problem, not the solution. A political system driven by very different identities can easily become polarized and fragmented.[31]

What does populism have to do with this? A great deal. Populists favour what Princeton political scientist Jan-Werner Mueller calls a particular *moralistic interpretation of politics*.[32] Those who hold the right view about the world are moral; the rest are immoral, doing the work of a corrupt elite. That was the rhetoric of the late Venezuelan ruler Hugo Chávez. Change *corrupt elite* for *menacing foreigners*, and that is also the rhetoric of Donald Trump.

So populism is a kind of identity politics. It is always *Us* against *Them*.[33]

If identity is key to contemporary politics, what should policymakers do in response? The first thing they should do is stop burying their head in the sand and acknowledge that identity matters — and that not all of its byproducts are good.

In my life I have been both an exile and an immigrant. I am strongly in favour of a liberal immigration policy. But that does not keep me from concluding that elites in the West underestimated the effect of mass migration on the sense of *Us* — the sense of community among those people with whom we share a destiny and of whom we ask sacrifices, like going to war or paying taxes.

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[28] F. Fukuyama, *Identity: The Demand for Dignity and the Politics of Resentment*. New York: Farrar Straus and Giroux, 2018.

[29] A woman voter may be more likely to identify with a woman candidate. The same holds true for members of ethnic and religious minorities. And politicians, in turn, are more likely to deliver for citizens with whom they share an identity. Esther Duflo of MIT has shown that in India the needs of women get more attention when women politicians are elected. R. Chattopadhyay and E. Duflo, "Women as Policymakers: Evidence from a Randomized Policy Experience in India. *Econometrica*, Vol. 72, No. 5, September 2004. P. 1409–1443. Harvard's Rohini Pande finds a similar effect when members of disadvantaged castes reach political office. R. Pande, "Can Mandated Political Representation Increase Policy Influence for Disadvantaged Minorities? Theory and Evidence from India". *American Economic Review*. Vol. 93, No. 4, Sep. 2003, pp. 1132-1151.

[30] Over a decade ago, Amartya Sen warned about the dangers of social fragmentation along identity lines. But he also pointed out that identities are multiple and some can be more encompassing than others. A Sen, *Identity and Violence: The Illusion of Destiny*. New York: Penguin Books, 2006.

[31] As Michael Ignatieff has observed "national identity is a continual contest about who belongs to the national *we"*. See his "Is identity politics ruining democracy? *Financial Times*, September 5, 2018.

[32] Jan-Werner Müller, *What Is Populism?* Philadelphia: University of Pennsylvania, 2016.

[33] Identity also matters for economics. It can help productivity —for instance when a teacher with a strong identity as such is willing to put in extra effort without getting more pay. But identity-based choices can also be economically costly. Think of Latin American immigrants to the United States are reluctant to learn English for fear of getting funny looks around the *barrio*. Or middle-class white voters who are willing to vote for Donald Trump because they identify with his style and rhetoric, even when they understand that his economic policies may be harmful to their pocketbooks. In short, self-defeating economic behavior can be revealed as quite rational once identity is accounted for. See G. Akerlof and R. Kranton, *Identity Economics.* Princeton: Princeton University Press, 2010. People are willing to pay steep costs to buttress their identities. As Harvard's Ricardo Hausmann has pointed out, the British choose to have four different football teams (England, Scotland, Wales, and Northern Ireland), even though having one united team might keep them from losing to tiny Iceland, as England did in the last European Cup. R. Hausmann, "Football, Brexit, and Us". *Project Syndicate*, June 30, 2016.

Elites have also been arrogant. Hillary Clinton´s description of Trump voters as a bunch of "deplorables" did not help her campaign, to put it mildly. In Latin America, left wing intellectuals routinely depict middle class voters who lean right as consumerist social climbers who have sacrificed class solidarity at the altar of money-grabbing individualism. Recall Fukuyama´s definition of identity politics as a demand for dignity.

Well, elites are not treating some citizens with respect and dignity.

Fortunately we all carry around more than one identity.[34] The cliché holds natives of Belgium or Italy consider themselves Flemish or Venetian first, Belgian or Italian second, and European only third and last. But this should not obscure that fact that they do consider themselves European after all.
This is important because we human beings cannot and will not do without narrow identities, which are the most firmly rooted. But there also exist broadly shared identities, which can serve as the basis for that inclusive sense of *Us* which is at the core of good politics. [35]

Building such a shared and inclusive national identity is the first task of nation builders. The report on Fragile States, co-authored by LSE´s Tim Besley, singles out the development of a sense of common purpose as a key step in escaping fragility, and concludes: "Such common purpose is only feasible if citizens come to feel some degree of overarching shared identity." That applies to failed states, but also to the supposedly successful nations of the OECD.

What kind of shared identity should that be? Well, it should not be based on *blood and soil* alone.

Blood and soil is what white supremacists in the United States chant at their rallies. But in multi-ethnic, diverse societies, that will not do. The key political question today is whether national identities can be based on something other than *blood and soil*.

Pictured: LSE Fellows, Tinghua Yu, and Tolga Sınmazdemir, were among the members of LSE community in the audience.

[34] The Ghanaian-British-American philosopher Kwame Anthony Appiah makes this point poignantly in a recent book. "For much of my adult life", he says, "three features have mattered most when I met someone for the first time: I am a man, I am not white, and I speak what used to be called the Queen´s English". K. A. Appiah, *The Lies That Bind: Rethinking Identity*. London: Profile Books, 2018

[35] These identities are malleable —in the language of social science, they are endogenous. In his 1983 book, Benedict Anderson described a nation as a socially constructed community, imagined by those who think of themselves as part of that nation. B. Anderson, *Imagined Communities: Reflections on the Origin and Spread of Nationalism,* London: Verso, 1983

I think the answer is yes. Developing those inclusive and shared identities is the job of liberal democratic political leaders. And of globally-minded educational institutions like LSE.

The challenge is to build a shared identity around liberal values, and to show that we are proud of our countries precisely because they symbolize those values.[36] This is what Canadian Prime Minister Justin Trudeau and French President Emmanuel Macron have done so well. Trudeau can argue that inclusive diversity is what Canada and the Canadian spirit are all about. Macron can be a French patriot because France stands for *Liberté, Égalité et Fraternité*.[37]

Now the key is to root these abstract concepts in everyday experience. If leaders talk about inclusion but the everyday experience of citizens is one of discrimination, then the rhetoric will be of no consequence.

American political philosopher Martha Nussbaum, in a book entitled *Political Emotions*, has argued that the key is to elicit positive emotions toward democratic institutions, and to do this through very concrete actions, words and rituals.[38]

Think of Lincoln and Gandhi, suggests Nussbaum. The words they uttered, the clothes they wore and the rituals they designed all fostered a broad and inclusive sense of the republican *We*.[39] Or think of Mandela. He cheered the white South African rugby team for precisely the same reason.

I have argued that the School of Public Policy at LSE should be the first truly global school of public policy: in the composition of our student body and faculty, in our outlook, in the places we look for lessons policy solutions. But we should never forget: the place where decisions are made and identities are forged is the nation state. Politics, former US House Speaker Tip O'Neill liked to say, is always local. We should train our students for that.[40] We are not about to get rid of nation state. But instead of the toxic nationalism pushed by populists, both of the right and the left, we can make a full-throated case for liberal patriotism.

[36] Jurgen Habermas argued long ago that post war Germans could be proud of the democratic institutions their country was building. He called this "constitutional patriotism". The French political scientist Cécile Laborde has called it "civic patriotism".

[37] With Trump and Putin listening in astonishment just a few meters away, Macron intoned recently: "Patriotism is the exact opposite of nationalism. Nationalism is a betrayal of patriotism. In saying 'our interests first, whatever happens to the others,' you erase the most precious thing a nation can have, that which makes it live, that which causes it to be great and that which is most important: its moral values." *The Guardian*, "Macron warns of rising nationalism as world leaders mark armistice". Available at https://www.theguardian.com/world/2018/nov/11/trump-joins-macron-and-world-leaders-at-armistice-ceremony

[38] M. Nussbaum, *Political Emotions: Why Love Matters for Justice*. Cambridge: Harvard Belknap Press, 2013.

[39] Already in the 1930s, George Orwell distinguished between nationalism and patriotism. Nationalism, he wrote, is "the habit of assuming that human beings can be classified like insects and that whole blocks of millions or tens of millions of people can be confidently labelled *good* or *bad*". By contrast, patriotism meant to him a "devotion to a particular place and a particular way of life, which one believes to be the best in the world but has no wish to force on other people". See G. Orwell, *Notes on Nationalism*. London: Penguin Books, 2018.

[40] At the SSP, we should also look again at some classic policy issues through the lens of shared identities. For instance: advocates of public education see it as an instrument that can foster equality; believers in private education like it because —they think— it can foster efficiency in the use of scarce resources. But perhaps those arguments are tantamount, as they say in America, to barking up the wrong tree. It could well be that the main role of public education is to inculcate common values and help forge a common identity. Oriana Bandiera and coauthors here at LSE have argued that American states adopted compulsory schooling laws as a nation-building tool. It was needed to instill civic values to the tens of millions of culturally diverse migrants who arrived during the 'Age of Mass Migration' between 1850 and 1914. We need more research like that, providing clues as to how a common identity is built in a democratic society. See O. Bandiera, M. Mohnen, I. Rasul and M. Viarengo, "Nation-building Through Compulsory Schooling during the Age of Mass Migration". *The Economic Journal*, June 2018.

Political communication in the age of post truth

As any addict of The West Wing or Designated Survivor knows, presidents spend only a quarter of their time on policy and three-quarters of their time worrying about political communications. And what a difficult art political communication turns out to be. It is hostage to a series of biases in the human mind, well documented by psychologists and cognitive scientists. We are more sensitive to bad news than to good news. We fear losses more than we value gains.[41] Particularly tricky for policymakers is the bias that Max Roser called "local optimism and national pessimism."[42]

When asked what their job is like, most people reply it is ok; when asked about the employment situation in the country, respondents always paint a much grimmer picture.[43] It seems we all live in Lake Wobegon, the fictional American town where children are always above average. Journalists understand all of this much better than social scientists and have built a trade around it. Hence the old journalistic adage: "If it bleeds, it leads." I am married to a journalist, so I learned a long time ago that good news is not news. Steven Pinker puts it well in his recent book: "We never see a journalist saying to the camera, "I am reporting live from a country where war has not broken out".[44]

Pictured: Panelists respond to questions from members of the audience.

[41] Neither is so surprising if you reflect that our species has evolved to fend off danger. It makes sense for us to be especially sensitive to thoughts of the tiger that may be lurking around the next bend in the footpath. For a clear summary of such biases, see S. Pinker, *Enlightenment Now: The Case for Reason, Science, Humanism and Progress*. New York: Viking Press, 2018, Ch. 4.

[42] M. Roser and M. Nagdy - "Optimism & Pessimism". *Published at OurWorldInData.org.* Retrieved from 'https://ourworldindata.org/optimism-pessimism' [Online Resource], 2018.

[43] Similar gaps appear when people are asked about their economic prospects, the extent of their happiness or the state of the environment.

[44] S. Pinker, *Enlightenment Now: The Case for Reason, Science, Humanism and Progress*. New York: Viking Press, 2018, Ch. 4.

And the advent of digital and social media does not help in the task of building shared identities. Because variety is huge and transaction costs negligible, we all tend to choose the news source that sounds best to us —that is, the one that reinforces our beliefs. A recent LSE taskforce concluded, "there is evidence that citizens are becoming more divided … with parallel realities and narratives online."[45]

Sara Hobolt –who is here with us tonight— has shown that after the Brexit vote, British voters interpret economic conditions through Brexit-tinted glasses. All have access to the same data, but Leavers have optimistic expectations regarding the economy while Remainers are pessimistic.[46]

In the brave new world of digital media, the news cycle has become shorter and nastier. In her recent Leverhulme Lecture, LSE Director Minouche Shafik cited evidence, derived from "sentiment mining" of online publications, that the tone of the news has grown much more negative and acrimonious in recent years.[47]

One man who has long understood all of this is Donald Trump. Remember the convention speech where he described a nation plagued by "poverty and violence at home, war and destruction abroad"? That was the same evening he pilloried Hillary Clinton´s legacy as one of "death, destruction, and weakness." "A little hyperbole never hurts," Trump explained in *The Art of the Deal,* and his fellow populists agree.

Now, fake news and cognitive biases are a bit like the English weather – fun to talk about, but there is not much we can do about them. What we can do is improve the way liberal democratic leaders respond to the new environment. And since here at LSE we are in the business of training such leaders, let me offer a few thoughts on what that response ought to be.

Above all, it cannot be purely technocratic.[48] We experts and technocrats often have the wrong model of policymaking in our heads. We are not Platonic philosopher kings. What economists call the principal-agent model provides a better account of policy-making.

The principal is the people and the agents — that is to say, the politicians — have interests of their own that clash with the principal's. As a result, citizens have plenty of reasons not to trust politicians.

That is why the main job of a political leader is to create that trust. Through costly actions (which is what we call *signaling*) but also through words. He or she is the Explainer and Persuader-in-Chief.

Policy as advocated by a technocrat typically consists of lists of inputs — taxes, subsidies, regulations. But voters want to know about outputs – jobs created, college educations provided, houses built. Moreover, they want a moral frame in which to evaluate and make sense of those outputs of public policies. Liberal democrats are not very good at this. Moral frames do not come naturally to them. Wary of censorship and oppression, liberals often espouse moral neutrality: they do not advocate a single set of values, or a particular conception of what constitutes a good life. A liberal society — almost by definition — is that place where citizens can lead any life they wish as long as third parties suffer no harm.

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[45] LSE Commission on Truth, Trust and Technology, *Tackling the Information Crisis: A Policy Framework for Media System Resilience*. LSE, Nov. 2018.

[46] C. de Vries, S. Hobolt and J. Tilley, James (2017) "*Facing up to the facts: what causes economic perceptions?" Electoral Studies*, 2017.

[47] Dame M. Shafik: 'Why Are We So Miserable When Things are Getting Better?' The Leverhulme Trust Annual Lecture 2018. Available at https://www.leverhulme.ac.uk/sites/default/files/2018_Lecture.pdf

[48] Technocracy and populism have one thing in common: they reduce human beings to a single dimension. Democracy, with its emphasis on pluralism, is the polar opposite of both. I am grateful to Daniel Brieba for this insightful observation.

Yet politics everywhere is always Aristotelian: concerned with virtue. Americans refer to their presidency as a *bully pulpit* with good reason. When politicians climb the pulpit and advocate a particular set of values — or virtues — voters listen. So liberal political leaders need to be moral leaders above all; then they can speak the language of values. Can they do that without tossing their liberalism out of the window? I think yes.

But liberal philosophers from John Stuart Mill to John Rawls to Martha Nussbaum have provided a way out of liberalism´s quandary. It would be discriminatory and illiberal for society to push the values — religious or otherwise — of a particular group. But governments and political leaders can advocate with passion those shared values — what John Rawls called the *overlapping consensus* — that define a liberal society.

"Liberal political leaders need to be moral leaders above all … Can they do that without tossing their liberalism out of the window? I think yes"

Last but not least is the question of style. Populists alike are passionate and emotional. They deal in fear and trembling. By contrast, liberal democrats often make the case for their ideals in language best suited to a polite academic gathering. "Ceding the terrain of emotion-shaping to anti-liberal forces" — writes Nussbaum — "gives them a huge advantage in the people´s hearts and risks making people think of liberal values as tepid and boring"[49].

Sara Hobolt and coauthors have found that democratic politicians appeal to emotion mostly when the policy differences with competitors are narrow.[50] Well, perhaps democrats should appeal to emotion more often. Linguist George Lakoff, who has built a career advising politicians, adds that "emotion is both central and legitimate in political persuasion. Its use is not an illicit appeal to irrationality".[51]

Martin Luther King understood this very well when from the Mall in Washington he told Americans "I have a dream that my four little children will one day live in a nation where they will not be judged by the colour of their skin but by the content of their character!" Every mother or father knows that nothing gets more emotional than speaking about one´s own children and their future. Those are the powerful political emotions Martha Nusbaum advocates.

[49] M. Nussbaum, *Political Emotions: Why Love Matters for Justice*. Cambridge: Harvard Belknap Press, 2013.
[50] S. Kosmidis, S. Hobolt, A. Molloy and S. Whitefield, "Party competition and emotive rhetoric." *Comparative Political Studies*, 2018.
[51] G. Lakoff, *The Political Mind: A Cognitive Scientist's Guide to Your Brain and Its Politics*. New York: Penguin Random House, 2009.

Our homework

Here at LSE we cannot teach all of our students to be Martin Luther King. But we can provide them with the training and skills so that they can work to approach that ideal.

In his magisterial history of LSE, former director Ralf Dahrendorf wrote that "…if philosopher kings are a bad idea because they ascribe a monopoly of truth to mere mortals, then *expertocracy* is an abomination which adds greyness and control by computer files to the fallacy of certainty."

Our goal at the new School of Public Policy is not to contribute to *expertocracy*. It is rather a loftier goal: to help train the leaders and ideas that *democracy* needs.

We will continue to teach the technical tools necessary to produce the best policy analysts in the world. We have a reputation for rigour and that is a reputation we plan to keep. But the world today does not simply need good policy analysts. It needs political leaders who, infused with the values of liberalism, can develop a vision for their country and can render that vision compelling.

Because political debate is about values, our graduates have to be able to explain why one policy is fair and why another policy enhances personal freedom. That is the reason we will introduce political philosophy courses into our full-time programs. And because a successful leader is first and foremost an effective communicator, we will enhance our course offerings to help students develop the necessary skills.

Moreover, teaching our students data science skills will equip them to better understand and engage with public views in the digital ages. And since political power is more widely distributed today than ever, we will train not just politicians but also the leaders of business and civil society.

The School of Public Policy will have an impact through the people we teach but also — and just as importantly — through our public engagement and the ideas we contribute to the public domain.

All, once again, for the betterment of society. Can we do that at a time of populism? Yes we *can*. And yes we *must*.

Allow me to quote Dahrendorf one last time. In its early days, the school was "…an exciting place. The very things which concerned an intelligent public were happening at the LSE. (And) if they were not literally happening, they were thoroughly studied and consciously taught and debated with passion and zeal."[52]

Studying and teaching consciously so that we engage the public with passion and zeal. The LSE has been doing it for over a century.

We must find the strength and wisdom to keep at it —with renewed passion— for years to come.

Thank you very much.

[52] Ralf Dahrendorf, *A History of the London School of Economics and Political Science 1895-1995*. Oxford: Oxford University Press, 1995.