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Anheier, Helmut K.; Filip, Alexandru

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The Dahrendorf Quandary, Crisis Severity, and Country Performance

Helmut K. Anheier Hertie School and Luskin School of Public Affairs Alexandru Filip Hertie School

Abstract

Dahrendorf's Quandary, an early formulation of the Rodrik Trilemma, stipulates that maintaining economic competitiveness requires countries either to adopt measures detrimental to the cohesion of civil society, or to restrict civil liberties and political participation. The global financial and economic crisis of 2008–09 offers a test case for the applicability of the Quandary. We do so by examining economic, political and social stressors afflicting countries during the period of 2009–2014 relative to the severity and type of crises they experiencevd, and the ensuing political consequences for economy policy, democracy and society prevalent in 2019. We find that the Quandary does not apply uniformly across advanced market economies. Instead we detect distinct clusters that vary in their intensity of the tension the Quandary stipulates. We also find a consistent and positive relationship between Quandary intensity and crisis severity, yet obtain inconclusive results when looking at the relationship with current trends. The findings suggest that the crisis preparedness and the actual governance capability of countries to address the negative effects of economic globalization are key to managing the tensions inherent in the Dahrendorf Quandary and the Rodrik Trilemma.

Policy Implications

- The EU has to act as a moderating force to stem against nationalist trade policies and anti-migration policies.
- Preparedness and capacity of countries to address the negative effects of economic globalization are key to managing the tensions inherent in the Dahrendorf Quandary.
- Countries have to take appropriate measures to protect democracy and to counter-act social exclusion in order to reduce negative effects of Quandary tensions.
- Member states have to pool their efforts to 'square the circle between growth, social cohesion and political freedom' as Dahrendorf (1995, p. 4) saw ahead for the early 21st century.

Globalization and tensions

During the height of the 1990s globalization spurt, Dahrendorf (1995) argued that a growing and globalizing world economy would create 'perverse choices' for liberal democracies: over time, staying competitive required either adopting measures detrimental to the cohesion of civil society or restricting civil liberties and political participation. For OECD countries, the task ahead for the early 21st century, he wrote, 'is to square the circle between growth, social cohesion and political freedom' (Dahrendorf, 1995, p. 4). This challenge became known as the Dahrendorf Quandary (Anheier and Filip, 2020; Buti and Pichelmann, 2017), an early formulation of the Rodrik Trilemma (see below) with a focus on the tensions arising in the context of continuing economic globalization.

Specifically, for Dahrendorf, the Quandary identifies a fundamental challenge of liberal market economies: the incompatibility of the underlying economic 'drivers' of globalization with domestic political and social conditions, the asynchrony of the ensuing processes, and their impacts on different population groups in terms of economic inequalities and opportunities for social advancement (Figure 1). Economic drivers, increasingly decoupled from the nation state, and operating in transnational space, undermine the domestic polity, hence national sovereignty, and in turn, democracy through loss of legitimacy and the rise of disloyal and semi-loyal political opposition groups. Nativist economic strategies may strengthen the nation state, even democracy, but could ultimately lessen economic growth and weaken the economy. Open economic borders may benefit some parts of the population but undercut the prosperity of entire communities and regions, weaken social cohesion and commitment to liberal democracy, even as the gross domestic product increases. Inherent in these tensions are grave dangers, as Dahrendorf put it, especially

(PP)





populism and the growing authoritarian temptations of divided societies.^{1.}

Dahrendorf proposed the Quandary more than a decade before the global financial and economic crisis of 2008–09 broke out. At that time, the crisis was the greatest economic stress test since the Great Depression of the 1920s and 1930s, and the greatest challenge to social and political systems since the Second World War. It not only put financial markets and currencies at risk; entire economies and political systems were threatened as the crisis quickly revealed major regulatory shortcomings and weaknesses in both governance capacity and actual performance at both domestic (e.g. United States mortgage industry and Greek public finances), regional (e.g. eurozone crisis), and international levels (e.g. financial contagion, trade contraction, and illegal migration).

The crisis came with many profound consequences in terms of short- and longer-term effects in many other policy fields (see Hertie School, 2018, Tooze, 2018): austerity measures in public finance, unemployment, stagnating income levels, increasing social inequality, and rising social security costs as well as cuts in benefits. In other words, public goods production suffered in many countries as governments as well as public sector institutions struggled with the fallout of the crisis. Governments were persuaded to bail out banks and secure savings. The ensuing uncertainty led to a credit crunch which soon affected businesses and countries alike. Bankruptcies and plummeting economic growth left more and more people unemployed and their homes in foreclosure, although there were also pronounced differences among major economies in how the crisis unfolded and was handled. In the European Union, the economic crisis also revealed fault lines in the architecture of the eurozone, bringing several EU member countries to the brink of default.

The scale of the crisis was such that the 1990s globalization process itself seemed in jeopardy, the very process that made the crisis possible. The so-called Washington consensus of neoliberal policies seemed broken. Financial deregulation since the 1980s (e.g. the repeal of the Glass-Stegall Act of 1933 in the US which had separated commercial and investment banking as a response to the Great Depression; the wide-ranging financial liberalization of the City of London engineered by the Thatcher government in the mid1980s, the so-called Big Bang) facilitated contagion through greater interdependencies. The very survival of the euro was at stake, and with it much of the European project.

The purpose of this paper is to examine the applicability of the Quandary in the context of the global financial crisis, and to explore the relationship between experienced crisis severity and the existence or intensity of the Quandary. We see testing the generality of the phenomenon as a necessary first step before addressing the related and more profound questions of when and why the Quandary tensions arise, and what the causality relations and interactions between economic globalization, the liberal democratic order and social cohesion might be.

Therefore, the basic approach to explore the Quandary is as follows: after the 1980s market liberalization, with the fall of state socialism in 1989–90, the eastern expansion of the EU, and the rise of emerging economies, economic globalization expanded across markets and countries more rapidly than before. While bringing many benefits, it also put significant strains on national economies, political systems and societies. While these forces may well have already built up from the mid-1990s to 2007, they clearly achieved greater momentum during the global financial crisis and its aftermath. The question becomes to what extent and how broadly the Quandary tension intensified between 2009 and 2014, and what the longer-term impacts are on economic policy, the state of democracy and society.

The Dahrendorf Quandary and the Rodrik Trilemma

Independently of Dahrendorf's formulation, Rodrik (2011, 2018) suggested a version of the Quandary in the context of the global financial crisis, the Rodrik Trilemma. Phrased as an impossibility theorem, it posits that 'democracy, national sovereignty and global economic integration are mutually incompatible: we can combine any two of the three, but never have all three simultaneously and in full' (Rodrik, 2007, 2011). Even though the Trilemma is likely the better known, we privilege the Quandary as the earlier formulation and focus on analyzing its applicability in relation to experienced crisis severity over time.

Nonetheless, at the Dahrendorf Forum in Berlin in May 2019, Buti (2019) showed that the Quandary and the Trilemma mirror each other and essentially address the same

problèmatique: a concern with liberal democracy in the context of continued economic globalization, even though their contexts are different. Dahrendorf formulated the Quandary at a time when the neoliberal paradigm of national and international political economy seemed uncontested, trade barriers were removed, and markets deregulated. While the 1990s prompted Fukuyama's (1989) 'end of history', Rodrik (2011, 2018) tried to come to terms with the return of history in the face of the global financial crisis and the rise of illiberalism and autocracies.^{1.}

Operationalization

The operationalization of the Quandary involves measuring 'stressors', that is, the tension associated or accompanied with increased economic globalization and subsequent changes in economy, politics and society. We use the term stressor to signify the intent in which Dahrendorf understood the changes affecting the domestic economy, civil society and liberal democratic order: not as isolated tensions but as complex and profound challenges. Using the country as the unit of analysis, all indicators below are normalized and projected on a scale ranging from 0 to 100, so that higher scores indicate higher stressors. Appendix A offers more detailed information on indicators, data sources and measurement.

Economic Globalization is measured as the economic integration of a country in the global economy based on the KOF Globalization Index (Gygli et al., 2019). It covers trade in goods, trade in services, trade partner diversification, foreign direct investment, portfolio investment, international debt, international reserves, and international income payments, based largely on World Bank World Development Indicators (https://data.worldbank.org), and IMF data on balance of payment and international investment position statistics (https://data.imf.org) for investment restrictions, trade regulations and tariffs as well as capital account openness.

The associated stressor is an aggregation of two indicators. The first measures the extent of industrial deskilling of the national labor force using data from the Quality of Government Database (Teorell et al., 2019), showing the per cent of active labor force employed in industry). The measure signifies changes in the labor force towards lower-paying and more precarious service jobs. The other indicator captures economic inequality and measured the share of national income of the population in the lowest quintile (https://data.worldbank.org).

The Liberal Democracy stress measure is an aggregation of three indicators that together signify challenges to the liberal order: legislative electoral turnout (at the most recent national elections) with data from Vdem (Coppedge et al., 2019); the electoral performance of anti-system or disloyal opposition parties from the far right and far left (Armingeon et al., 2019); and dissatisfaction with democracy using data from the Quality of Government Project (Teorell et al., 2019). The variable averages the results of various surveys taken each year that probe for that country's satisfaction with democracy, offering a yearly value for the proportion of surveyed people satisfied with national democracy each year. We operationalize democracy in a compound measure that takes into account both the 'health' of democracy in terms of the commitment of politicians and parties as well as the degree to which voters are content with, and participate in, the democratic process.

The Social Cohesion stressor is constructed from three indicators together capture key aspects of the extent to distrust, social isolation, and the 'health' of civil society: one is a reversal of the social trust variable from the Quality of Government dataset (Teorell et al., 2019) as a measure of deteriorating social cohesion; social exclusion is measured as a percentage of individuals in a country at a given time who are unemployed, have not completed secondary education, and who are not members of voluntary organizations (European Value Study 2015, 2019; NORC General Social Survey for the US; Smith et al., 1972–2018); and the Vdem Core Civil Society Index, which measures the degree of autonomy of civil society from the state and the extent to which citizens can freely and actively pursue their political and civic goals, however conceived (Coppedge et al., 2019).

The crisis severity index

The global financial and economic crisis affected countries in different ways and to varying extent. Following the idea of a 'misery index' proposed by Hernandez and Kriesi (2016), Anheier et al. (2018) focus on three core economic indicators: changes in gross domestic product (GDP) per capita in terms of purchasing power parity (PPP), the unemployment rate, and the government debt-to-GDP ratio. This is in line with Foxley's suggestion (2011) that combinations of these three core crisis indicators reveal four distinct crisis types:

- 1. A *growth crisis* means that GDP per capita decreases as a result of contraction in the overall economy, which was widespread at the height of the crisis in 2009.
- 2. An *unemployment crisis* happens when the economy sheds jobs at an unemployment rate above 6 per cent and without contraction of the overall economy.²
- 3. A *debt crisis* is a situation where neither a growth nor an unemployment crisis occurs, but debt-to-GDP ratios increase to a level of 60 per cent and higher.^{3.}
- 4. A *non-crisis* is simply the absence of the above criteria, that is, growing GDP per capita, low unemployment and a debt-to-GDP ratio below 60 per cent or decreasing.

Anheier et al (2018) suggest that crises types imply a ranking of severity in the sense that more severe crises reveal other crisis symptoms as well: a growth crisis often implies increasing unemployment and higher debt levels, or an unemployment crisis would soon be accompanied by growing debt. Based on this, they propose an ordinal ranking of crisis severity:

- Growth crisis = 3 (negative growth, unemployment increasing, debit increasing).
- Unemployment crisis = 2 (unemployment increasing, debit increasing).

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Figure 2. Operationalizing the quandary



- Debt crisis = 1 (debt increasing).
- No crisis = 0.

We measured and counted the existence or non-existence of each crisis annually over 8 years, which means that countries could score a maximum of 24 (= 8 years of growth crisis) and a minimum of 0 (8 years of no crisis).

Indicators for longer-terms effects

Finally, looking at 2019–2020, we define nationalist and neomercantilist policies as the reversed values of the sub-index for de jure trade globalization of the KOF Index, which measures trade regulations, trade taxes and tariffs, and the number of trade agreements. The electoral success of authoritarian parties is indicated by adding the vote share of nationalist, far right, populist parties in the most recent legislative elections, and, additionally, using a broader definition, the Timbro Authoritarian Populism Index (Timbro, 2019).

Anti-migration legislation is measured using data from the World Population Policies Database of the UN. The data are from the most recent available time point (2015), and report on immigration policies and their rationale: countries were given a '1' if the rationale was 'to safeguard employment opportunities for nationals', and '0' if otherwise. If the policy was to 'lower' immigration, the country was given the value '2'; if the policy was to 'maintain' current migration levels '1', and '0' if the rational of policies was to 'raise immigration'. The scores range from 0 to 3.⁴.

Country coverage, time periods

The sample consists of 19 European countries, of which 17 are EU member states, plus the United States. The sampling comes with inherent limitations due to data availability and comparability. For example, non-European OECD countries like Japan or South Korea have no comparable social cohesion measures, an issue complicated by the fact that we calculate social exclusion as an intersection of factors and conditions which only few surveys cover. Clearly, any more comprehensive operationalization reduces the number of available cases from among OECD countries. In the end, we opted for a richer analysis at the expense of boarder geographical scope.

From the onset of the study we agreed on certain traits that the stressors must have - what kind of information they would ideally convey and contain - and then looked at what kind of data sources we could find for what country. We then sought to find a compromise between the countries for which data are available and the type of information that we would like our sub-stressors to be constructed of, and the present sample is the result. How the values of the stressors would change in different directions if we would add or subtract sub indicators or weight them differently is not known to us – there are arguably countless possible approaches in that sense. We constructed our variables in a manner that makes the most theoretical sense while being at the same time the simplest. It is true that the values of the stressors, and of their respective evolutions can change, if certain sub-indicators were to be dropped from the aggregation, or if more sub indicators were to be added to the aggregation. Likewise, the results may change if we were to tweak the weighting of the individual sub indicators that make up the stressor aggregation. From the beginning, our approach was to aim for parsimony and transparency. We have no theoretical grounds to weigh some of the subindicators to the detriment of others (which could arguably skew results in one direction or another), as such, we opted only for an equal normalization and simple arithmetic aggregation.

Nonetheless, the sample encompasses a range of social, political, and economic systems. To a certain degree, central and East Europe can be seen as emerging markets with weaker political institutions and a limited welfare state when compared to the more consolidated democracies of Northwestern Europe. Eastern and Western European countries differ in multiple ways, including the strength and character of their civil society landscape, the structure of their economies, as well as the generosity and breadth of their welfare apparatuses. While it is wholly possible for an Eastern European country to spend a larger proportion of its GDP or

public budget on social welfare than a West-European country like the Netherlands, it does not necessarily mean that it can compete with the social policies afforded by the Dutch state. Politically, Central and East-European EU member states are distinguished not only by their communist past and institutional background, but also by less institutionalized party systems. It has been argued that politics in the EU's post-communist members have a higher tendency to be elite-dominated processes (Zielinski, 2002) which results in more fluid and loose party-systems, as well as higher levels of party-switching, and a higher likelihood of new parties appearing and replacing old ones (Bielasak, 2005; Kreuzer and Pettai, 2003; Ost, 1993). According to Rovny (2014), these party systems are characterized by ideological underspecification, personalistic politics, and greater instability. The intersection and interaction of these difference produces a relatively diverse constellation of countries in the sample.

The data basically represent an (incomplete) selection of OECD member states, and the sample is admittedly heavily skewed towards developed countries with certain social, economic, and cultural characteristics. Arguably, the problem is to some degree mitigated by the fact that the Quandary (and Trilemma) are more likely to apply to countries that are already rather advanced in terms of liberal democracy, economic development, and institutional maturity and autonomy. However, the Quandary is less likely to be an issue for countries that are still far away from achieving some form of a liberal democracy, a developed globalized economy, or generalized social trust and cohesion.

Considering the fundamental freedoms of the internal market (people, goods, services, and capital), Europe is region in which economic globalization and its effects can be expected most clearly. For example, the common currency, the Euro, can be seen as a 'golden straightjacket' (a term used by Dani Rodrik in the context of the Trilemma) that prohibits Eurozone members from enacting a range of sovereign monetary, economic and social policies because they have to adhere to the rules of the European Monetary Union (Whelan, 2012, 2019, see also Beck and Prinz, 2012, Costantini, 2020). O'Rourke (2014) discusses the restrictions on national policy autonomy placed by the rules of the Eurozone in the context of Rodrik's straightjacket. In other words, if there should be a test of the interplay between democracy, sovereignty, social cohesion and economic globalization, European countries offer a good case.

It can be argued (again, pursuant to the idea of the four freedoms) that Europeanization is a good example of globalization. It presents us with an area of (relatively) low barriers to the flow of goods and capital, and contains both high-income countries that suffered due to the outsourcing of economic activity (and the reduction of local industrial production) and increased economic immigration that generated added downward pressure on incomes in low-skilled economic sectors (the metaphor of the 'polish plumber'), as well as low-income countries that benefited from increased production and industrial investment (they being the new production centers for a variety of industrial outputs) and the relief on local/national welfare resources that immigration to Western Europe (and thus also reduced wage competition) entailed. Thus, it entails to a degree both 'winners' and 'losers' of globalization.

In terms of the time frame, we assume that a longer-term perspective is needed as the tensions involved are not short-term developments; rather, they build up over time, and are at least medium-term phenomena unfolding over several years, and perhaps even longer, and may well show delayed effects over time. Therefore, we examine the data in two ways: for economic globalization, we look at longer term changes, and examine the entire period from the early 1990s to 2014; for the Quandary stressors and crises severity, we examine the period after the global financial crisis from 2009 to 2014. Finally, we look at current trends for 2019–20.

Exploring the Quandary

We opted for a parsimonious tabular analysis and presentation of the data. To test the generalizability of the Quandary as a proposition, we need to show the intensity and co-incidences of stressors over time, and their relationship with crisis severity and subsequent political changes. If in all or most cases, countries show consistent increases in Quandary conditions relative to crisis severity, the Quandary would be confirmed. Otherwise, it would be rejected or reformulated.^{5.}

Table 1 shows that the average economic globalization stressor in 2009 was 33.8 with a standard deviation of 10.0. The United States, Spain and the United Kingdom have the three highest scores and fall outside the standard deviation. In other words, already in 2009, these countries exhibited significant tensions associated with economic globalization, that is, deskilling of the labor force and growing inequality. By contrast, the Czech Republic, Slovakia and Slovenia have the lowest economic stressors. By 2014, the average stressor increases slightly to 35.8, although the standard deviation barely changes. The same countries maintain their relative positions in terms of highest and lowest stress levels.

A similar pattern holds in terms of average score and standard deviation for democracy stressors, whereas the average social cohesion stressor drops by less than one point and shows a small increase in the standard deviation. However, the countries with highest and lowest scores are different: Slovakia and Switzerland show high democracy stress, and Denmark, the Netherland and Sweden the lowest. By 2014, the Czech Republic, Italy, Hungary and Slovenia show the highest levels, and Denmark and Sweden the lowest, with the Netherlands increasing its democracy stressors. For social cohesion, Germany, Hungary, Spain and the United Kingdom showed the highest stress levels in 2009, and Denmark, Iceland, Norway and Sweden the lowest. Five years later, the Scandinavian countries continue to have the lowest social cohesion stress level, while Hungary, Italy, Slovakia and Spain have the highest.

In Spain, Switzerland, the United Kingdom and the US, globalization stress remains high throughout the period, as does democracy stress levels for Slovakia and social cohesion stressors for Hungary.

(2P)

	Global tion st	Globaliza- tion stressor		Democracy stressor		Social Cohe- sion stressor	
Country	2009	2014	2009	2014	2009	2014	
Austria	37	34	29	30	25	25	
Czech Republic	13	13	34	40	28	24	
Denmark	34	35	17	17	14	12	
Estonia	30	35	31	29	28	21	
Finland	30	31	32	33	16	15	
France	39	40	26	31	21	27	
Germany	30	32	30	27	37	23	
Hungary	24	31	35	39	44	41	
Iceland	35	35	24	22	18	16	
Italy	37	42	29	38	33	38	
Netherlands	37	40	22	24	21	21	
Norway	33	34	27	21	13	15	
Poland	30	29	34	33	29	33	
Slovakia	19	23	43	36	36	42	
Slovenia	17	22	34	40	31	25	
Spain	44	52	26	35	42	56	
Sweden	37	39	20	19	14	14	
Switzerland	39	40	38	35	19	18	
UK	44	45	30	28	40	26	
USA	56	56	24	33	17	20	
Mean	33.8	35.8	29.2	30.5	26.6	25.8	
Standard deviation	10.0	9.8	6.7	7.0	9.8	11.0	

For the Dahrendorf Quandary to be fully demonstrated, however, the critical test is whether all three stressor levels increased between 2009 and 2014 or, respectively, remained at high levels (Table 2).

Table 2 shows which countries experienced an increase in which stressors in a binary manner, which allows us to see how countries 'cluster' in certain groups: those with increase in three Stressors ('High Intensity Quandary'), those that register increase in two stressors ('Medium Intensity'), and finally those that register either no stressor increase or merely an increase in one stressor('Low Intensity'). We then use this grouping, or classification, in the next table, in which the insights gained in Table 2 are combined with the 'richer' numerical data of change in amplitude in order to compare the individual country groups, or – as we often refer to them here – country clusters.

Table 3 presents the changes in the stressors over the period 2009–2014 numerically, and relative to the 1991 value for economic globalization, revealing further details on the three groups of countries:

1. First, Spain, Italy and, marginally also France, where all three stressors increase, represent high-intensity Quandary conditions. Their average economic globalization indicator in 1991 is 58, the average increase over the period amounts to 25 per cent, and with a combined average stressor increase of 23 per cent. These are the quandary conditions Dahrendorf hypothesized, and in which countries face the difficult choice of 'how to square the circle', as he put it.

	Number of stressor	Narrow confirmation of	Broader confirmation of	Quandary
Country	increases	Quandary	Quandary	rejected
Spain	3	Y		
Italy	3	Y		
France	3	Y		
Slovenia	2		Y	
Slovakia	2		Y	
Hungary	2		Y	
United States	2		Y	
Finland	2		Y	
Norway	2		Y	
Netherlands	2		Y	
Poland	1			Y
Lithuania	1			Y
Estonia	1			Y
Germany	1			Y
Sweden	1			Y
Austria	1			Y
United Kingdom	0			Y
Switzerland	1			Y
Denmark	1			Y
Czech Republic	1			Y
Iceland	0			Y

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lable 3. Chan	ides in stressors zuus	9-2014, by country							
	Economic global- ization indicator	Per cent change in globalization indi- cator	Percent change in dlobalization	Percent change in democracy	Per cent change in cohesion	Number of ctressor	Narrow confir- mation of	Broader confir- mation of	Ouandarv
Country	1991	(1991–2007)	stressor	stressor	stressor	increases	Quandary	Quandary	rejected
Higher intensit	y countries								
Spain	54	35%	19%	35%	34%	£	7		
Italy	54	24%	13%	32%	17%	£	7		
France	66	16%	2%	21%	34%	e	7		
Average		25	11	30	28				
percentage									
change									
Medium intens	sity countries								
Slovenia	42	78%	27%	17%	-18%	2		×	
Slovakia	49	63%	18%	-16%	16%	2		×	
Hungary	51	67%	29%	12%	-7%	2		×	
United	55	23%	%0	36%	13%	2		~	
States									
Finland	64	28%	5%	3%	-9%	2		7	
Norway	69	11%	4%	-22%	16%	2		7	
Netherlands	79	11%	8%	11%	-3%	2		7	
Average		40	13	9	-				
percentage									
change									
Low intensity 6	countries								
Poland	34	98%	-1%	-1%	14%	-			≻
Lithuania	48	57%	1%	-13%	-6%	1			~
Estonia	61	41%	16%	-7%	-25%	1			≻
Germany	66	21%	8%	-12%	-37%	1			≻
Sweden	67	26%	7%	-4%	-3%	-			≻
Austria	70	21%	-6%	5%	-2%	-			≻
United	71	11%	0%	-7%	-35%	0			≻
Kingdom									
Switzerland	72	15%	2%	-8%	-7%	-			≻
Denmark	74	13%	5%	-2%	-13%	-			7
Czech	58	36%	0%0	20%	-14%	1			7
Republic									
Iceland	48	57%	-1%	-9%	-14%	0			7
Average		36	c	-3	-14				
percentage									
change									

₽

- 2. There is a second group of countries, where two stressors gain substantially and a third drops or remains stable, indicating medium-intensity Quandary conditions. This is the case for Slovenia, Slovakia, Hungary, the United States, Finland, Norway and the Netherlands. Their average 1991 economic globalization indicator is also 60, yet with a higher globalization stressor growth of 38 per cent, albeit a lower combined average stressor increase of 7. These are countries that generally managed to grow in terms of economic globalization over the period while avoiding some of the tensions implied in the Quandary.
- 3. Then there is a larger group of countries (Poland, Estonia, Germany, Sweden, Austria, the UK, Switzerland and Denmark), where two stressors decline (and in the case of Czech Republic remain stable), and one stressor increases or remains rather low (e.g., Iceland in the case of globalization stressors). For these low-intensity Quandary countries, the 1991 average economic globalization indicator was 61 and the growth 36 per cent. The group, however, includes countries with very high growth rates for economic globalization such as Poland (98 per cent) and Denmark or the UK with substantially lower ones of 13 per cent and 11 per cent respectively. Overall, however, the pattern for this group of countries suggests that a growing globalization of the economy can lead to lower stress levels, and in most cases both for democracy and social cohesion. Finally, Iceland is the only country in the sample that shows a decline in all three stressors over the period, while the indicator for economic globalization increased by 56 per cent. In other words, Iceland, despite

having had a severe crisis as a result of the collapse in its banking system in 2008–09, appears to refute the Quandary.

Based on the results in Table 3, we can conclude that for the 2009 to 2014 period, the Quandary seems to apply in three cases in a narrow sense, in a broader sense in seven out of 20 countries, and in 10 further countries to a much lesser extent, if at all. While tensions inherent in the Quandary seem to be present in all except Iceland, countries vary in terms of their individual and combined intensities.

How does this pattern relate to the severity of the global financial crisis of 2008–09? Table 4 presents the years of crisis types and the overall crisis severity score by country for the 8 year-span from 2007 to 2014. It shows significant variations among the 20 countries covered. Norway and Switzerland, for example, were crisis-free throughout with the exception of a brief growth crisis at the height of the of financial crisis in 2009. By contrast, France and Spain experience only one crisis free year during the same period. The average score is 8.9, with Spain, Italy, Slovenia, France and Finland, and the United Kingdom and the US in that order.

Table 5 shows average changes in economic globalization and Quandary stressors, and crisis severity scores for the 2009–14 period by Quandary intensity clusters. The average crisis score, at 13.7, for the high intensity cluster is twice that of the low-intensity cluster's 7.2, even though their average economic globalization increases are not that different. The medium-intensity cluster with average score of 9.3 is somewhat higher than average crisis severity, yet economic globalization increases. These findings are important

Country	Years of growth crises years	Years of unemployment crises years	Years of Debt crises years	Years of No crises years	Crisis severity score
Austria	1	0	3	4	6
Czech Republic	1	2	0	5	7
Denmark	1	2	0	5	7
Estonia	2	1	0	5	8
Finland	2	3	0	3	12
France	1	3	3	1	12
Germany	1	0	3	4	6
Hungary	1	2	2	3	9
celand	2	0	2	4	8
taly	3	2	1	2	14
Vetherlands	1	2	2	3	9
Vorway	1	0	0	7	3
Poland	0	4	0	4	8
Slovakia	1	3	0	4	9
Slovenia	2	3	1	6	13
Spain	2	4	1	1	15
Sweden	1	3	0	4	9
witzerland	1	0	0	7	3
JK	1	2	3	2	10
JSA	1	1	5	1	10
				Mean	8.9

æ

Intensity of Quandary clus- ters	Average economic global- ization change 1991–2014	Average % change economic stressor	Average % change social cohesion stres- sor	Average % change lib- eral democracy stressor	Average crisis severity score
High	25	11	30	28	13.7
Medium	40	13	5	1	9.3
Low	36	3	20	-14	7.2

if we recall that the 1991 economic globalization measures for the three clusters were not that different (58, 60, and 61 respectively). In fact, the high-intensity cluster's increase in economic globalization of 25 per cent is the lowest among the three, while its associated economic stress increased by 11 per cent, almost the same rate as the medium-intensity cluster (13 per cent). The high-intensity cluster also saw the largest changes in democracy and social cohesion stressors. The low-intensity cluster saw lower increases in both.

In other words, both the extent and the growth rate of economic globalization, while drivers of many changes, do not impact countries equally. As Table 5 suggests, lower growth rates can have a more pronounced effect on stressors than higher rates. Importantly, the results in Table 5 also suggest that higher crisis severity scores are associated with greater stressor levels throughout. However, the low-intensity cluster reveals that below average scores for crisis severity (7.2) can still lead to increases in stressor levels for social cohesion (20 per cent).

The data in Tables 2, 3 and 5 offer empirical evidence more varied than the basic formulation of the Quandary suggests. But the tensions Dahrendorf identified nevertheless exist, and no country, with the likely exception of Iceland, seemed to be able to avoid them throughout the period examined. Yet could it not be that some of the adverse effects might have materialized with a lag of several years? A possible reason could be the cumulative impact of several years of stress, resulting in political leaders succumbing to authoritarian temptations. Electorates of divided societies might, in turn, become more receptive to political narratives promising a robust response to the stresses, even if the reality is more complex and questionable. To examine these questions, we have to ask: how do economic globalization, the tensions associated with it, as posited in Dahrendorf's Quandary, and the severity of the global financial crisis, relate to the economic policy, the politics and the social dynamics of these countries today?

Table 6 relates the Quandary intensity, the total sum of stressors in 2014, and the crisis severity score of 2007–14 to three developments: for the economy, the rise of nationalist and neo-mercantilist policies; for democracy, the rise of authoritarian and populist parties and movements; and, for society, the rise of anti-immigrant and exclusionary movements in the population. Tables 7 offers a summary of these indicators by Quandary intensity cluster.

The results are varied, and show a weak relationship between the intensity of Quandary and the nationalist, neo-

mercantilist tendencies in trade policies, which could largely be a function of the EU policy framework. The same holds for migration policies, which are, as is the case of trade policies, only partially a matter of member states. Nonetheless some countries like the UK or Switzerland have introduced more restrictive measures, but these do not coincide with higher Quandary intensity. However, the three countries with high Quandary intensity, France, Italy and Spain, show above average restrictions in terms of migration.

Looking at populism and authoritarianism, the average share of the authoritarian, nationalist vote shows little variation, whereas the Timbro Index shows a clearer pattern: the index is highest, on average for high intensity Quandary countries (35.4), and lowest for low intensity countries (22.7). Irrespective, the share of populist and authoritarian parties has increased in most of the countries included. What is more, even though they vary in terms of Quandary intensity, countries with higher stressor sums for 2014 and higher crisis severity scores did indeed experience authoritarian tendencies (Hungary) or highly divisive politics after the crisis (France, the United Kingdom, Slovakia, USA, Italy, and Spain). These findings suggest that factors other than the Quandary stressors might be implicated, for example, political brinkmanship in the case of the UK's 2016 referendum that triggered many underlying fault lines, or longstanding divisions that express themselves in populist preferences among parts of the electorate (Italy's Five-Star-Movement, or the Rassemblement National in France).

So, when asking how do economic globalization, the tensions associated with it, and the severity of the global financial crisis, relate to the economic policy, the politics and the social dynamics of these countries today, Tables 6 and 7 present less conclusive answers, and we hesitate to confirm the generalizability of Dahrendorf's Quandary. The results suggest that the performance of countries has been too varied, even within the intensity clusters, emphasizing that countries can chose to adopt policy measures to reduce stressors associated with economic globalization.

What is more, as the case of trade and migration policies indicates, the role of the EU in limiting national responses towards neo-mercantilism and restrictive migration could well play a moderating role. The ills of globalization, so to speak, would be reduced because trade within regional blocs like the EU would generate fewer negative externalities for both higher income and lower income countries. Trading among peers seems less harmful and more beneficial for the same reasons that unfettered trade in goods,

(2P)

Country	Quandary intensity increase 2009–14	Sum of stressors 2014	Crisis severity index 2007–14	Nationalist and neo- mercantilist trade poli- cies, 2019	Electoral Success of authoritarian par- ties, 2019	TIMBRO Authori- tarian Populism Index, 2019	Anti-migration legislation ten- dencies 2015
Denmark	Low	64	7	8.7	11.1	28.9	-
Norway	Medium	70	3	14.1	-	17.7	1
Sweden	Low	72	9	9	17.5	25.8	0
celand	Low	73	8	14.1	-	10.9	-
Czech Republic	Low	77	7	6.7	10.6	20.2	-
Finland	Medium	79	12	7	17.4	18.2	0
Germany	Low	82	6	9.1	12.6	22.3	0
stonia	Low	85	8	7.7	17.8	8.3	2
Netherlands	Medium	85	9	7.7	15.2	26.0	1
Slovenia	Medium	87	13	10	-	30.9	1
Austria	Low	89	6	7.3	16.2	28.3	0
Switzerland	Low	93	3	14	26.4	33.1	3
Poland	Low	95	8	11.3	50.3	46.4	1
rance	High	97	12	9.7	14.3	28.1	2
JK	Low	99	10	8	1.8	2.7	3
Slovakia	Medium	101	9	8.6	25.2	23.8	1
JSA	Medium	109	10	11.8	-	-	1
lungary	Medium	111	9	9.4	19	68.9	1
taly	High	118	14	8.5	21.6	56.7	2
Spain	High	143	15	8.3	15	21.4	2
Average		91.5	8.9	9.6	16.6		

Table 7. Ave	Table 7. Average political and policy traits, 2019, by Quandary intensity										
Intensity of Quandary clusters	Average economic globalization change 1991–2014	Average sum of stressors	Average Crisis Sever- ity Index	Average score of mercantilist index	Average share of authoritarian nationalist vote	TIMBRO Authoritarian Populism Index	Average immigration policy 2015				
High	25	119	13.7	8.8	17.0	35.4	2.0				
Medium	40	91	9.3	9.8	19.2	30.9	0.9				
Low	34	83	7.2	9.6	18.3	22.7	1.3				
Low	34	83	7.2	9.6	18.3	22.7	1.3				

services and capital can be harmful in the case of trade between countries with highly divergent economic conditions.

In reality, the moderating or shielding function of the EU implies complex interactions among domestic economies, and it seems best to think about the 'Europeanization' of the continent as globalization 'lite'. For example, in the early 2000s, immigration from low- income eastern European countries stoked fears of increased labor competition and downward pressures on wages in Europe's Northwest. On the one hand, there was the prospect of businesses relocating to Eastern Europe; and on the other, large numbers of workers from that region did indeed find employment in Western Europe (giving birth to the famous stereotype about the 'polish plumber'). This resulted in heightened economic stress and relative exclusion of entire communities in some EU member states but not in others. At the same time, accession to the EU and the newfound freedom of movement for both capital and labor brought many positive externalities. Emigration of often low-skilled individuals reduced unemployment and underemployment, relieved public budgets and generated upward pressure on incomes. Moreover, direct investment from Western Europe in the form of relocating businesses generated new jobs and improved trade balances.

Conclusions

The purpose of this paper was to explore the applicability and generality of the Quandary in the context of the global

financial crisis 2008–09. The logic of the argument to test the Quandary was that 1980s market liberalization, the fall of state socialism in 1989-1990 and other developments, led to a significant and rapid expansion of economic globalization across markets and countries. This process brought many benefits, at least at the level of aggregate prosperity, but also placed significant strains on national economies, political systems and societies. These tensions, according to the Quandary and the Trilemma, started to build up and achieved greater momentum in the course of the global financial crisis and its aftermath. The analysis addressed three main question: does the Dahrendorf Quandary apply across all developed market economies included here? To what extent have Quandary tensions changed between 2009 and 2014, and what are likely to be the longer-term impacts on economic policy, the state of democracy and society?

Specifically, we find that the Quandary does not apply evenly or unambiguously across advanced market economies. Instead we detect distinct clusters that vary in their intensity of the tensions inherent in the Quandary. We also find a relatively consistent relationship between Quandary intensity and crisis severity, but less so when looking at current trends. In other words, while the seeds of current developments in terms of authoritarian and populist tendencies in politics may reach back at least to the global financial crisis, the EU seems to act as a moderating force to stem against nationalist trade policies and anti-migration policies.

The findings also suggest that the crisis preparedness and actual governance capacity of countries to address the negative effects of economic globalization are key to managing the tensions inherent in the Dahrendorf Quandary, as seem measures countries enact to protect democracy and to counter-act social exclusion. Countries are not helpless victims of Quandary tensions; or, in the words of the task Dahrendorf saw ahead for the early 21st century, some are better than others in their efforts to 'square the circle between growth, social cohesion and political freedom' (Dahrendorf, 1995, p. 4).

Based on the analysis, we can briefly address why some countries experience quandary conditions and others do not? Perhaps the Quandary, and Rodrik's Trilemma for that matter, express a potentiality that can be triggered by wrong political choices or some unfavorable set of circumstances a country might find itself in. In some cases, bad leadership can unleash centrifugal demands of cohesion, democracy and globalization and thereby generate acute societal, political or economic stresses. The caveat is that some countries are better at navigating Quandary stresses than others. While Dahrendorf seems to assume that societies may be more likely to abandon liberal democracy for the sake of preserving social cohesion, Rodrik seems to lean towards the expectation that countries will roll back globalization in order to maintain the other two elements. It is thus the task for future research to identify the responses and policy measures that countries have employed in order to stem the more acute symptoms of the Quandary and its inherent stresses.

Notes

- 1. See Dahrendorf's comments on populism: https://www.eurozine.com/ acht-anmerkungen-zum-populismus/
- 2. What is more, while the Quandary and the Trilemma put different emphasis on social cohesion and national sovereignty respectively, they share in common what Gustavsson (2014) referred to as 'legitimate protectionism'. Sovereignty is equated with the ability to transform into policy democratically legitimated preferences through effective implementation. A socially cohesive society with high levels of solidarity is more likely to perceive itself as a shared community of fate. In this sense, social policy is a consequence as well as a source of cohesion,
- 3. The 6 per cent level is a rough approximation of what could be assumed as a politically acceptable unemployment rate in developed market economies.
- 4. The 60 per cent criterion is the sustainable debt limit of the Stability and Growth Pact, although its appropriateness is questioned (Blanchard, 2019).
- 5. https://esa.un.org/PopPolicy/dataquery_report.aspx?Summary=06
- 6. A tabular analysis is parsimonious given the small number of cases; it is also a more direct approach compared to clustering, factor analysis or QCA-related methods: we only need to test for in how many cases all three Quandary conditions apply fully, when partially and when not at all.

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Appendix

Data sources and measurement

Globalization stressor:

- Share of Income of the bottom 20 per cent of earners (World Bank). The scale reversed so that higher values represent a falling share of income for the bottom 20 per cent.
- Level of industrial employment: 100 QoG Variable wdi_empind (Employment in industry (per cent of total employment)). The scale is reversed so that falling levels of industrial employment (as a proxy for industrial deskilling) have higher values.

Social Cohesion stressor:

- The inverse of the value of QoG variable hum_trust, which averages the values of national social trust numbers from all surveys taken in a year in a country that contained a question of the type 'do you believe that most people can be trusted'.
- The inverse of the Vdem Core Civil Society Index.
- Social Exclusion Used by calculating the percentage of individuals who are 'unemployed', 'have not completed secondary education' and who are not members of voluntary civil society organizations ('cultural', ' religious', sports and recreational', 'environmental', 'trade/labor unions', 'professional', 'political')- Data used from the World Values Survey.

Democracy Stressor:

- The (inverse) turnout from the most recent legislative election at each time point, as recorded by Vdem (v2el-trnout_leg).
- The (inverse) of the value of a QoG variable (hum_satdem) which averages the values of national satisfaction with democracy from all surveys taken in a year in a country probed for satisfaction with democracy.
- The percentage of votes obtained by anti-systemic parties in the latest national legislative (lower house) elections. The indicator comes from the CPDS database, and is constructed by adding together the vote per cent of parties that the CPDS designates as communist or far right ('COMM1 + COMM2 + COMM3...' and 'RIGHT1', 'RIGHT2'...). For the USA the percentage is given by the proportion of representatives that have caucused with the Tea Party (Calculation based on data from Wikipedia).

Stressor variables

- The stressors for economic globalization:
- 1. Industrial deskilling: QoG Variable wdi_empind Employment in industry (per cent of total employment) (modeled ILO estimate) Employment in industry as a percentage of all employment. Employment is defined as

persons of working age who were engaged in any activity to produce goods or provide services for pay or profit, whether at work during the reference period or not at work due to temporary absence from a job, or to working-time arrangement. The industry sector consists of mining and quarrying, manufacturing, construction, and public utilities (electricity, gas, and water), in accordance with divisions 2-5 (ISIC 2) or categories C-F (ISIC 3) or categories B-F (ISIC 4).

 Income share of bottom quintile – World Bank Data 'Income share held by lowest 20 per cent)' (databank.- worldbank.org/data/reports.aspx?-source = 2&series = SI.DST.FRST.20&country=#)

• The stressors for democracy:

- Electoral turnout: V-Dem variable v2eltrnout_leg. Question: In this national election, what percentage (per cent) of all registered voters cast a vote according to official results? V-Dem Clarification: Subset of 'Election turnout (A)' for legislative elections only.
- 2. The performance of anti-systemic parties comes from the CPDS (see above). CPDS Source: European Journal of Political Research (Political Data Yearbook, various issues); Keesing's Archive; Parliaments and governments database (http://www.parlgov.org/explore); Parline database (http://www.ipu.org/parline-e/parlinesearch.asp). CPDS Codebook: As a general rule, we include data on votes and seats for a party if it reached at least 2 per cent of the vote share in an election. If it did not reach that threshold, data for this party was not entered for this election (neither on votes nor on seats); rather it received a zero.
- 3. Satisfaction with democracy:

QoG Variable hum_satdem Satisfaction with democracy index. These index scores represent an average of all country-survey scores available within each country-year observation. Overlapping country-survey are averaged to create unique country-year observations. Scores range from 0 representing the lowest possible level of satisfaction to 100 representing the highest possible level.

• The stressors for social cohesion:

(2P)

- 1. The reversed values of social cohesion/hum_trust (*see above) Social Exclusion
- 2. Percentage of individuals coded as 'Data from the European Values Study (the latest two waves) was used for European Countries, and from the GSS for the USA. See below for more detailed description*
- 3. The Vdem Core Civil Society Index Core civil society index (D) (v2xcs_ccsi)

Question: How robust is civil society? *Clarification*: The sphere of civil society lies in the public space between the private sphere and the state. Here, citizens organize in groups to pursue their collective interests and ideals. We call these groups civil society organizations CSOs. CSOs include, but are by no means limited to, interest groups, labor unions, spiritual organizations if they are engaged in civic or political activities, social movements, professional associations, charities, and other non-governmental organizations.

The core civil society index CCSI is designed to provide a measure of a robust civil society, understood as one that enjoys autonomy from the state and in which citizens freely and actively pursue their political and civic goals, however conceived. *Scale*: Interval, from low to high (0-1). (*rescaled to a 0–100 scale for the present paper)

 $\$ *Variables used in calculation of percentage of excluded individuals

GSS Data variables in the calculation of the percentage of excluded individuals:

Wrkstat – labor force status. coded as 'unemployed' if value is 'unempl, laid off' degree – r's highest education degree. unskilled defined as those individuals coded 'lt high school'. Higher values (high school, junior college, bachelor, graduate) are coded as 'skilled'/'educated' the following variables are used to determine the involvement of individuals with civil society organizations.

grpparty - r belongs to a political party

grpwork - r belongs to a trade union or professional association

grprelig - r belongs to a church or othr religious organization

grpsprts - r belongs to a sports, leisure, or cultural grp

grpother - r belongs to another voluntary association coded as 'socially involved' if the response to either of those questions is 'belong and actively participate' of 'belong but do not participate'. Answers 'used to belong' and 'never belonged'

EVS Data used in the calculation of the percentage of excluded individuals 2008 Wave

Education

v336_4 educated highest educational level attained respondent (8 categories) (Q110) – coded as 'uneducated/unskilled' if respondent coded as '3 Incomplete Secondary School – technical/vocational type' or lower, coded as 'educated/ skilled' if respondent coded as '4 Complete Secondary School – technical/vocational type' or higher.

Employment Status

v337 paid employment/no paid employment (Q111) coded as 'unemployed' if response is '8 unemployed'

Civil Society Involvement

v10 do you belong to: welfare organization (Q5aA)

v11 do you belong to: religious organization(Q5aB)

v12 do you belong to: cultural activities (Q5aC)

v13 do you belong to: trade unions (Q5aD)

v14 do you belong to: political parties/groups(Q5aE)

v15 do you belong to: local community action (Q5aF)

v16 do you belong to: 3w-development/human rights (Q5aG)

v17 do you belong to: environment, ecology, animal rights(Q5aH)

v18 do you belong to: professional associations(Q5al)

v19 do you belong to: youth work (Q5aJ)

v20 do you belong to: sports/recreation(Q5aK)

v21 do you belong to: women groups(Q5aL)

v22 do you belong to: peace movement(Q5aM)

v23 do you belong to: voluntary health organizations (Q5aN)

v24 do you belong to: other groups(Q5aO)

Individuals coded with the value '1 mentioned' for any of the above are coded as 'socially involved'.

2017 EVS Wave

Employment status

v244 - paid employment/no paid employment (Q82)

Individuals coded with the value '8 unemployed' are coded as unemployed

Education

v243_EISCED - educational level respondent: ES-ISCED coding

EDUCATIONAL LEVEL RESPONDENT: ES-ISCED code (HAR-MONIZED VARIABLE)

[Q81 What is the highest educational level that you have attained?]

Individuals with giving the following responses are coded as 'uneducated'/'unskilled'

0 No formal or less than primary education

1 I - Primary education

2 II - Lower secondary (including vocational training that is not considered as completion of upper secondary education) Individuals giving the following responses are coded as 'educated/skilled'

3 IIIb - Upper secondary without access to university

4 Illa - Upper secondary with access to university

5 IV - Post-secondary/advanced vocational education below bachelor's degree level

6 V1 - Bachelor's level

7 V2 - Master's and higher level

Civil society involvement

V9 do you belong to: religious organization (Q4A)

V10 do you belong to: cultural activities (Q4B)

V11 do you belong to: trade unions (Q4C)

V12 do you belong to: political parties/groups (Q4D)

V13 do you belong to: environment, ecology, animal rights (Q4E)

V14 do you belong to: professional associations (Q4F)

V15 do you belong to: sports/recreation (Q4G)

V16 do you belong to: charitable/humanitarian organization (Q4H)

V17 do you belong to: consumer organization (Q4I)

V18 do you belong to: self-help group, mutual aid group (Q4J)

V19 do you belong to: other groups (Q4K)

Individuals coded with the value '1 mentioned' for any of the above are coded as 'socially involved'.

Data measuring the income share of the bottom quintile of the population is sourced from the World Bank. The values for the present sample range from 5.1 to 10. In order to not skew or weight the variable relative to the other indicators, all values were multiplied by 10, which thus results in a distribution of values stopping at the 100 level. The value is reversed (100-x) prior to aggregation, higher values thus represent a lower level of income share for the bottom quintile.

The indicator for industrial deskilling/evolution of per cent of workforce active in the workforce is given by the variable 'wdi_empind' from the QoG Database. In order to not skew or weight the variable relative to the other indicators, given its range of values, all values were multiplied by 2. The value is reversed (100-x) prior to aggregation, higher values thus represent a higher level of industrial deskilling.

The values of the variables measuring electoral turnout (reversed values of vdem variable 'v2eltrnout_leg'), deteriorating social cohesion (reversed values of the QoG indicator 'hum_trust') and declining satisfaction with democracy (reversed values QoG indicator 'hum_satdem'), and performance of disloyal opposition parties, were not recoded since their distributions on the 0–100 scale do not skew the aggregations.

The values of the indicator showing the percentage of the people who qualified as 'excluded' are normalized on a 1–100 scale.

The value of the Vdem core civil society index scores (used in the calculation of the social cohesion stressor) were normalized on a 1–100 scale within the sample of 34 countries used in the period 1991–2014 using the values after 1990. The normalized values for 2009 and 2014 (for the two time points used in our analysis) are then used in the aggregation of the stressor for social cohesion.

The aggregations were generated as an arithmetic mean with equal weighting.

Mercantile trade policies

The KOF De Jure trade Globalization index, measured via:

- 1. Trade regulations: average of two subcomponents: Prevalence of non-tariff trade barriers and compliance costs of importing and exporting.
- 2. Trade taxes: Income from taxes on international trade as percentage of revenue (inverted). World Bank WDI (2019).
- 3. Tariffs: Unweighted mean of tariff rates. Gwartney et al. (2019).
- 4. Trade agreements: Number of bilateral and multilateral free trade agreements.

Timbro

A detailed explanation of Timbro methodology In the composition of the authoritarian index can be found here: https://populismindex.com/data/

Migration data

World Population Policies Database, Data Query, by selecting target countries, years, and indicators) https://esa.un.org/Pop Policy/dataquery_report.aspx?Summary=0

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The Data for the analysis can be found at the following public repository: https://osf.io/nqb8h/

Author Information

Helmut K Anheier (PhD Yale) is Professor of Sociology and Academic Co-Director of the Dahrendorf Forum at the Hertie School in Berlin. He also is a member of the faculty of the Luskin School of Public Affairs, and Visiting Professor at LSE Ideas. He has published widely in the social sciences with an emphasis in civil society, organization, and governance, and received several national and international awards for his academic achievements. Previously, he was President of the Hertie School, and Professor at the Max-Weber-Institute of Sociology at Heidelberg University, where he directed the Center for Social Investment and Innovation. Before embarking on an academic career, he served the United Nations as a social affairs officer.

Alexandru Filip is a Postdoctoral Fellow at the University of Mainz. He obtained his PhD at the University of Bremen in 2017, and has previously worked as a research associate at Jacobs University Bremen and as a Postdoctoral Fellow for the Dahrendorf Forum at the Hertie School Berlin.