

# Populism and Illiberalism in Western Societies



# Populism and Illiberalism in Western Societies:

*A Sociological and Autopoietic  
Systems Perspective*

By

John J. Rodger

**Cambridge  
Scholars  
Publishing**



Populism and Illiberalism in Western Societies:  
A Sociological and Autopoietic Systems Perspective

By John J. Rodger

This book first published 2024

Cambridge Scholars Publishing

Lady Stephenson Library, Newcastle upon Tyne, NE6 2PA, UK

British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

Copyright © 2024 by John J. Rodger

All rights for this book reserved. No part of this book may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the copyright owner.

ISBN (10): 1-0364-0557-5

ISBN (13): 978-1-0364-0557-1

# TABLE OF CONTENTS

List of Figures.....	vii
Introduction .....	viii
Luhmann's Theory of Autopoietic Social Systems	
The Individual in Autopoietic Theory	
Outline of the Book	
Chapter One.....	1
The Socio-Economic Context of Populism	
Introduction:	
The Economy as an Autopoietic System	
Inequalities in Wealth in the 21 <sup>st</sup> Century: Framing Populism	
The China Shock and the Rise of Populism	
Positional Deprivation and Populism	
The Limits of an Economic Analysis of Populism	
Concluding Observations	
Chapter Two .....	23
The Politics of Contemporary Western Populism	
Introduction	
State Formation and the Evolution of <i>Liberal</i> Democracy	
Luhmann's Perspective on the Autopoiesis of the Political System	
The Principal Features of Western Populism	
Concluding Observations	
Chapter Three .....	44
Populism and the Individual Psyche	
Introduction	
Human Beings as Autopoietic Psychic Systems	
Cognitive Sophistication and Collective Narcissism	
Populist Attitude Formation as Pathological Normalcy:	
A Sociological View	
Concluding Observations	

Chapter Four .....	67
Strongmen, International Networks and Hegemonic Struggle	
Introduction	
Sharing the Populist Playbook: Strongmen and International Networks	
Hegemonic Struggle and the Gramscian Politics of Authoritarian	
Populism	
Concluding Observations	
Chapter Five .....	93
Autocratic Legalism in Europe and America	
Introduction	
Law as an Autopoietic System	
The Structural Coupling of Law and Politics: The Role	
of the Constitution	
Culture Wars and the Constitution in Hungary	
Autocratic Legalism in the United States	
Concluding Observations	
Chapter Six .....	118
Populism, Civil Society and Anocracy	
Introduction:	
Civil Society: Which Version?	
Real Civil Societies	
Civil Society in Turmoil: Brexit and Trumpism	
Populism and the Movement Towards Anocracy	
Concluding Observations	
Chapter Seven.....	144
Towards an Integrated Sociological and Autopoietic System Perspective	
on Populism	
Introduction	
Critical Systems Theory and Popular Sovereignty	
Bringing Sociological and Autopoietic Theory Together	
Humans as Autopoietic Systems: A Model	
Concluding Observations	
Bibliography .....	168
Index .....	183

# LIST OF FIGURES

## **Figure 1**

Chapter 1 The Kuznets Inverted U Curve

## **Figure 2**

Chapter 1 Thomas Piketty's U-Shaped Graph

## **Figure 3**

Chapter 3 Factors in the Formation of Collective Narcissism

## **Figure 4**

Chapter 4 The Copenhagen Criteria: The Accession Process

## **Figure 5**

Chapter 6 Number of Demonstrations Associated with Black Lives Matter  
(24 May- 22 August 2020)

# INTRODUCTION

Discussion of the phenomenon of populism in recent years, in both social science and journalism, contains many issues that overlap the established academic boundaries of sociology, economics, politics, psychology and law. Indeed, within those academic boundaries we could identify several sub-themes such as globalisation, de-industrialisation, race, immigration, cognitive sophistication and autocratic legalism which are deemed to be crucial for explaining the nature and causes of present-day populism. It is the intention of this book to disentangle the miscellany of research and theoretical concepts surrounding the topic of populism sufficiently to build a distinctive sociological perspective on what might appear to be a rather ill-defined field of study. The particular interest here is not the history of populism, or its appearances in all societies and countries in different time periods, but its twenty-first century presence in the advanced post-industrial societies of the West. More precisely my focus is on what Niklas Luhmann (1977) has identified as the differentiated modern societies of today which are characterised by a complex configuration of autopoietic social systems and sub-systems (the word *configuration* is used here because the paradigm shift applying in this book is a shift from seeing systemic organisations as “structures” to seeing them as autopoietic “communication flows”) (see Stichwey, 2000 and 2005). This will become clear as the analysis progresses.

However, the political, economic and legal systems which lie at the heart of the modern differentiated nation state only partially frame the life horizons of those who remain contained by its geo-political boundaries. There is a higher level of interdependence between nation states which has evolved; globalisation has brought about what Immanuel Wallerstein (1976) has called a “world system”, or as Luhmann (2008 and 1997) preferred a “world society”, which has created a heightened state of inter-connection between nation states. The world society contains economic, legal, political and cultural institutions which offer competing centres of power and legitimacy to the nation state concerning a wide range of matters relating to human rights and the conduct of states. This development has created a higher level of complexity for decision making and policy formation to be considered by political systems operating at the level of the nation state. I have in mind the internationalisation of legal authorities such as the International Court



of Justice based in The Hague and global economic authorities encompassing issues of trade and financial regulation governing the conduct of all the advanced nation states.<sup>1</sup> Populism as a political movement and a strategy for governance and social policy formation is situated amidst a paradox created by the tensions between national and supranational bodies: between what appears to be on the one hand the pursuit of a culturally homogeneous and protectionist closed nation state by right wing populist governments and on the other hand the embrace of an open world system of international free trade and cultural exchange coveted by what is sometimes referred to derogatively as a cosmopolitan elite. Populism is at its core a reaction to a perceived sense of the decline of human efficacy in controlling economic and social complexity over time, exacerbated by the inescapable internationalisation of trade and culture, and the imposition of what many populist political leaders call “someone else’s human rights law”.

A growing number of scholars, many of them discussed in this book, have pointed to a crisis of democratic capitalism (Wolf, 2023), and the hollowing of Western democracy (Mair, 2013) and have suggested that we are living in an age of post-democracy (Crouch, 2020). What is being described in this recent literature is what Wolfgang Streeck (2016) calls a relentless process of *de-democratising capitalism* and *de-economising democracy* which conceptualises a new order in which the world of international global capitalism has become immune to the interventions of democratic politics. Social and public policies considered too profligate and fiscal policies considered too punitive to business and international corporations will, it is assumed, result in declining currencies on the financial markets, the flight of investment capital and crashing stock markets. In the middle of this squeezing process on democratic governance sits the discontented citizen

---

<sup>1</sup> There has been a steady growth of international bodies becoming established since the second world war, all offering a perspective on the economic and trade performance and policies of the nation states. The World Bank’s International Centre for the Settlement of Investment Disputes was established in 1966 and now has over 300 countries as signatories. The International Monetary Fund established in 1944 now has 190 countries as members and the Organisation for Economic Coordination and Development was established in 1961. Trading agreements between nation states are monitored and regulated by authorities such as the World Trade Organisation, the General Agreement on Tariffs and Trade and regional agreements such as the North American Free Trade Agreement (involving USA, Canada and Mexico). The most recent international pact is the Regional Comprehensive Economic Partnership (RCEP) agreement signed by South East Asian countries and Australia on November 15<sup>th</sup> 2020. It became effective from 1 January 2022.

who is responding to these complex problems by demanding quick solutions to alleviate their impact. The absence of solutions has led to growing social and economic inequality, a deteriorating built environment and a sense among ordinary citizens that political leaders are ineffective and corrupt. Mair (2013), for example, argues that the growing intractability of complex socio-economic problems today has meant that democracy has been stripped of its popular component. For the ordinary man and woman it appears that the received wisdom of present-day societies is that what modern nation states require for good governance is not more effective forms of representative democracy but rather more rational technocratic leadership, and that it is political elites who define democracy in this new context in a way that does not acknowledge popular sovereignty as a pressing political issue. Seen in this light, populism in modern times has been incubating in affluent Western societies since at least the 1960s.

Given the complex issues described here, it is important to be clear about what this book is focused on and what it is not. It is principally a discussion about radical right populism in Western and Western-leaning societies, although discussion of the political regimes of Israel, India, and Turkey are not substantive (see Guyer, 2023; Price, 2022; and Akdoğan, 2018). It is the United States, the European Union and the United Kingdom which provide the main context framing my discussion of populism as a political movement and social attitude. These regions of the world are today, irrespective of past histories, considered to be liberal democracies, with a strong and stable constitutional commitment to free and fair elections, an independent judiciary and a social and political order based on the rule of law. However, it is the departure from those democratic standards by previously stalwart *liberal* Western countries in the past decade which has ignited debate about what the underlying causes may be for the growing popularity for the *illiberal* variant of democracy among citizens of the Western nations (see Mudde and Kaltwasser, 2012).

Drawing on Gilbert and Mohseni's classification of political regimes, specifically measuring the extent to which supposedly democratic countries permit *competitiveness* and ensure an absence of *tutelary interference* from the military or clergy in elections and the political process, we can further define our subject. Many regimes in the world engage in what they claim to be multiparty democratic elections. Gilbert and Mohseni (2011), for example, describe the Egyptian political system at the time of President Mubarak as a democratic/authoritarian hybrid regime. Despite holding multiparty elections the political system was never competitive. Why? The National Democratic Party monopolised both the executive and legislature

arms of government for decades and while opposition parties were allowed limited space in the political arena, they were never able to threaten the ruling party. Similar political configurations exist throughout Eastern Europe and in South East Asia, many of them defined as combining democratic elections with *tutelary interference* from the military. Populism in those regimes is not the focus of this book. Neither is the phenomenon of radical left populism more commonly found in Latin America and in South America. While Jair Bolsonaro, who was President of Brazil between 2019 and 2022 and Javier Milei, a radical right populist elected as President in Argentina in 2023, are both Trumpist style populists in Western-leaning countries, those nation states raise a different set of questions with respect to their history and current socio-economic characteristics to the ones being addressed here. For example, currently the Argentinian economy has an inflation rate which international forecasters are predicting will peak at 260 percent by the middle of 2024 at the time of writing, and the economic outlook for the 40 percent of the population classified as living in poverty is considered bleak in a country which has been cut-off from borrowing on the international markets since 2020 and has a falling currency<sup>2</sup>.

The focus of this book is on what Lührmann and Lindberg (2019) might describe as *autocratisation* in Europe and North America.

Semantically, it signals that we study the opposite of democratisation, thus describing any move away from full democracy. As an overarching concept autocratisation covers...gradual processes within and outside of democratic regimes where democratic traits decline – resulting in less democratic, or more autocratic, situations. (Lührmann and Lindberg, 2019, 1099)

This book considers both the large scale global and structural causes stimulating populism in Western societies, and pays attention to the individual level response to those large-scale socio-economic forces. This is a sociological text rather than one steeped in economics or political science, although it draws on the relevant literature from both disciplines.

## **Luhmann's Theory of Autopoietic Social Systems**

What is distinctive about the argument developed here in relation to the topic of populism is that it draws on Niklas Luhmann's theory of autopoietic social systems to highlight precisely what is at stake when illiberalism and

---

<sup>2</sup> See FocusEconomic <https://www.focus-economics.com/blog/what-does-the-future-hold-for-argentinas-economy-under-milei/> (accessed February 2024)

populist politics become influential in liberal democratic societies. At a fundamental level the argument being presented raises questions about human agency in the democratic process: populism champions the role and the agency of something called “the people” in political decision-making and rejects *liberal* democracy because, the diehard populist maintains, political decision-making should be primarily about majority views prevailing. They assert that it is the opinions and demands of “the people” which should determine legitimacy through direct democratic processes. Provision should therefore be made to allow “the people”, through their representatives, to override regulations and laws created by elites and technocrats working in remote institutions of government and the legal system. Referenda and other forms of plebiscitary political processes are consequently at the heart of populism; indeed it could be said that plebiscitary politics defines populism.

Luhmann developed a theory of autopoietic social systems which I contend provides the most accurate description of the *reality* of liberal democratic societies today and more significantly, of what is possible with respect to maintaining an orderly and fair society. Liberal democratic societies are organised around a configuration of differentiated social systems and sub-systems, each with their own unique technical and functional role in society, and each operating independently of other systems, albeit that they are linked together (*structurally coupled*) in order to advance decision-making about matters common to cooperating systems. Autopoiesis refers to a process of maintenance and reproduction of the functional rationale of a social system in an ongoing way. This will be explained fully as the analysis proceeds. The social systems are *autopoietic* because they operate in accordance with their own functional rationale and because of that they provide legitimacy to the populations in a country because they remove unpredictability, disorder and conflict from society about matters of law, commercial exchanges and social justice. Autopoietic social systems also have strong boundaries which demarcate them from other social systems in society and it is the maintenance of those strong institutional boundaries between economic, political, legal, scientific and cultural institutions and systems which secures the principle of the *separation of powers* at the heart of liberal democracy. Populism at its most basic level wishes to dismantle or weaken those boundaries in order to make the functions of the social systems of society manipulable by “the people”, which in practice means controllable by the autocratic leadership of the “the people”. Populism adheres to a conception of agency based on *allopoiesis* which refers to processes in which *a system is transformed into something different from what it is* by an external force. Allopoiesis is, therefore, used here to

describe the political practices typically adopted by populism because it distils the conception at the heart of radical right thinking that social systems *ought* to be treated as if they have porous boundaries which *should* allow their functioning to be controlled by the human agency of elected politicians. Populism as it has manifested itself in radical right politics in Western countries asserts, as a fundamental principle, that elected politicians, embodying the will of “the people”, should decide policy and administrative practices, even to the extent of overriding the rule of law.

## **The Individual in Autopoietic Theory**

Niklas Luhmann’s work has challenged the predominance of the enlightenment view in contemporary social science regarding the centrality of human agency and reason in the explanation of the social world. Faced with what might appear to be intractable socio-economic problems confronting modern nation states, the predisposition in conventional politics and economics is to focus analysis on the human subject; variously conceptualised as either the rational voter or the rational market participant. In autopoietic systems theory the individual remains an important but decentred feature of autopoietic systems theory. In the guise of a *psychic system*, human beings live in the environment of social systems, institutional organisations and other individuals because psychic systems, like all social systems, are autopoietic; they are *operatively* closed off from other psychic systems but *cognitively* open to them and through communicative interaction between individual psychic systems construct shared meaning. They engage in sensemaking. This unusual idea will be fully explored in chapter 3 and revisited in chapter 7. However, it is necessary to sketch out the basic premises of this viewpoint now. *Psychic systems* (human beings) engage in recursive communication with their environments which consist of other psychic systems and institutional, social and organisational systems in their multiple personas as employee, employer, citizen, customer, citizen and so on. As part of that process of recursive communication, they engage with the rules, customs and protocols established by law and culture which govern their working and lived experience. However, a focus on human agency and human subjectivation is unlikely to explain the evolution and nature of the economic, legal and political systems of the modern world which shape and determine human life. As Kirman (2008) has observed, “no one would think of trying to describe the activity of an ants’ nest by examining the behaviour of the representative ant”. That does not mean that human beings are not important sociological entities in systems theory.

Luhmann did not devote his energy to analysing the role of psychic systems in the environments of the autopoietic sub-systems of the nation state because he was primarily interested in the social systems themselves. Nevertheless, there is enough in his work to suggest that they constitute a sociological phenomenon that others might explore in terms of autopoietic theory. The place of human beings in autopoietic theory is stated concisely by Philippopoulos-Mihalopoulos and Webb (2015):

Humans are not agents of actions within society, but conduits conveying meaning between systems and within systems as part of the communicative activity of society...Humans have two roles in autopoietic thinking: they are “semantic constructs” and “independent autopoietic systems”. As constructs they are situated within the system as aspects of the system...the judge delivering judgement. As independent systems, they exist as people: the actual judge. (Philippopoulos-Mihalopoulos and Webb, 2015, 446)

To maintain a stable relationship with their environment, social systems must deal with the instability created by the millions of independent autopoietic psychic systems in their environments aiming “noise” at them perpetually, often relying on the mediating functional roles performed by the many psychic systems employed *inside* the function system; the “semantic constructs” referred to by Philippopoulos-Mihalopoulos and Webb above. There is an ever-present tension between the individual as a human being who carries with them emotion, lay normativity and a social awareness of fairness in life and society and their “semantic construction” of being an employee undertaking paid work in an organisational system where the expectation will be that their lay normativity is replaced by a professional work ethos. For example, a social system such as the British NHS must contend with de-stabilising “noise” from psychic systems both within and outside the system simultaneously. As employees they create an internal system environment of the health service performing crucially important technical functions which lubricate the health system’s operations. They are functionaries of the system. As human beings they have to cope with the material realities of everyday life relating to working conditions and personal rewards for staff, perhaps occasionally involving strike action. From outside the NHS must contend with “noise” from a public environment of psychic systems aiming “perturbations” at the NHS relating to its functioning as an effective service.

What this means is that to understand the populist reaction to the impact of global forces in Western countries today it is necessary to accept that there will be frictions between the *autopoietic* function systems of the modern state and the *allopoeitic* politics pursued by ordinary people attempting to

exert influence on the social systems of complex modern societies from both *internal* and *external environments* of those systems. As noted above, the concept of *allopoiesis* is used here to describe a conception of politics which does not accept the operationally closed character of the main function systems of the modern differentiated societies of the advanced Western nation states (the political, the legal, the scientific, the educational, the cultural systems and so on). Populism as a generality seeks to subordinate law to the politics of majoritarianism and to make independent economic and market processes subject to political-administrative manipulation by something called “the people” through their representatives in government, and sometimes in the trade union movement. Indeed a central feature of populism in modern times is the rejection of the social mores and values associated with a so-called “cosmopolitan elite” who are considered to pursue public, social and cultural policies inconsistent with the beliefs and views of “ordinary people”; in modern parlance the elite are charged with pursuing policies that are pejoratively referred to as “too woke”<sup>3</sup>. Human beings, therefore, present the social systems of society with an uncertain element in their environment because they do not reflect a common shared reality “out there” but instead construct their own view of the world which is sometimes combative and hostile to received wisdom. These issues will be revisited later in the book.

To summarise the underlying theoretical argument being advanced in the book, we can identify three issues to delimit the book’s focus. First, populism in Eastern Europe, South East Asia and in Latin America exists in countries which are what Brazilian sociologist Marcelo Neves (2001) calls “peripheral to modernity”. They are not fully differentiated societies because politics, policy and decision-making are dominated by *allopoietic processes* to a greater or lesser extent which means that human agency divorced from legal constraint, and external to a system’s formally constituted operational functioning, determines a system’s output. Religion, militarism, plutocracy, oligarchy and corruption determine social and public policy formation. Second, populism and illiberalism in Western societies typically reveals itself as *allopoietic* politics which aims to undermine the *autopoietic* self-referential processes inside operationally closed function systems which characterise liberal democratic nation states today: it is the ascendancy of the rule of law over *allopoietic* political processes that enables the autonomous and interdependent social systems of liberal

---

<sup>3</sup> Defined as being overly concerned about human rights and the social, cultural and political entitlements attached to those right at the expense of something considered “common sense” and ordinary people.

democracy to flourish but irritates the populist. And third, *legitimacy* for social systems in Western societies is not determined by politics alone but is ultimately determined by a combination of functional competence and legal integrity. It is populism within modern complex differentiated societies of the West which is the central focus of this book.

## Outline of the Book

The theoretical perspective guiding analysis throughout the book, therefore, is autopoietic systems theory drawn mainly from the work of Niklas Luhmann. The first three chapters set out the nature of Luhmann's autopoietic perspective at their outset as it is applied to the economic system, the political system and the psychic system, or human individual. Chapter four departs from that formula slightly by focusing the analysis more explicitly on the personalities and the networking practices of contemporary radical right populism while always remaining in touch with both political and sociological theory to frame the discussion and highlight the salient conceptual issues used widely in the literature to describe and explain *authoritarian populism* in Western societies. Chapter five returns to the pattern established in chapters one to three by describing the law as an autopoietic system before discussing *autocratic legalism* as a key contemporary strategy adopted by populist radical right political parties to "reform" constitutions and the judiciary in ways which will ensure maximum disadvantage to political opponents. This ploy has been evident in Europe, especially in Hungary and Poland, the United States and in the United Kingdom in the post-Brexit period with attempts by the Conservative government to circumvent constitutionalism in order to avoid parliamentary scrutiny of the EU exit process. Chapter six brings into the analysis the importance of the civil and public spheres in Western liberal democracy. A problematic issue for those who monitor the present-day functioning of liberal democracy is the tendency for long-established and apparently stable liberal democracies to engage in political, administrative and legal practices which compromise the constitutional foundations of liberal democracy. The strength of an independent and vibrant civil society is considered important as a way of transmitting the voice of the people to their democratic representatives. However the chapter raises doubts about the efficacy of civil society fulfilling its democratic promise today. The discussion focuses on the impact of Brexit in the UK and Trumpism in the United States. The chapter concludes by discussing the relationship between what Barbara Walter (2023) calls *anocracy* (institutional systems which sit uneasily between democratic and autocratic political practices) and the risk



of civil war in countries where formerly stable liberal democratic governance predominated. The book concludes in chapter seven by attempting to augment autopoietic systems theory as presented by Luhmann with insights from mainstream sociology, particularly C. Wright Mills, Edwin Sutherland and Pierre Bourdieu. In particular, the argument is advanced that we must move beyond Luhmann's strict uninterest in *psychic systems*, or the individual, in socio-political analysis in order to achieve a more rounded understanding of the phenomenon of populism but also of social systems more generally in the modern differentiated societies of the twenty-first century.



# CHAPTER ONE

## THE SOCIO-ECONOMIC CONTEXT OF POPULISM

### Introduction

Orthodox economic theory as it is typically applied to modern complex economies rely on the assumption that what is communicated in the economic system, and is revealed in the economic exchanges and actions of the markets, is the sum of the preferences, desires and aspirations of individuals participating *rationally* in economic decision making in free and open markets. This notion is a major point of divergence between Luhmann and most orthodox economists. For Luhmann, complex social systems produce communications independently of individuals' desires, aspirations and preferences. This is so for all the major social systems of the nation state and the global society. He captured this opaque tension at the heart of modernity, and the autopoietic social systems which are constitutive of its essence, when he described the evolution of complex differentiated modern societies as being based on the emergence of closed social systems which reproduce themselves from elements within themselves.

A glimpse of this evolutionary process can be had by comparing the economic systems of developing countries with the complex capitalist economies of the West based on differentiated social systems. Neves (2001) points out that nation states which are what he calls “peripheral to modernity” have a tendency towards *allopoeitic* rather than autopoietic political management of society and politics because they contain social systems which are semi-autonomous in the sense that they are partly controlled by social actors external to their functioning such as autocratic presidents, powerful oligarchs, the military, and in some cases powerful clerics, who supplant the autonomous self-regulating systems characteristic of the advanced Western societies with politically expedient and ideological decision-making. Social systems in developing societies are, in the words of Neves, “overdetermined by their environments”. Complex differentiated societies in contrast are defined by *autopoiesis* because their major *function*

*systems* reproduce themselves from resources within themselves: they are operationally closed and *select* from their environments only what is *meaningful* for the system's ongoing functional reproduction. This is accomplished by structuring *communicative interaction* between diverse social systems using system specific communicative codes which have evolved through time and have an existence *sui generis* (not like anything else). In autopoietic theory the legal system exclusively determines what is lawful and unlawful based on its unique functional purpose not on the command of politicians or religious clerics; the social systems of science determine what is scientifically truthful and what is scientifically false based on its unique evidential principles and practices of discovery and empirical testing. These aspects of autopoiesis will be developed further as the analysis progresses.

### **The Economy as an Autopoietic System**

As with all the major social systems of modern society, the economy as a differentiated social system has emerged over time. The functional difference between the economic system and the other social systems of society arises through the evolution of the unique monetary functions and services which lubricate commerce and secure monetary interdependence between people in society as part of what Elias (1982) calls the *civilising process* (more on this in chapter 2). For example, Boldyrev (2013) observes that the emergence of the economy as a differentiated social system in the eighteenth-century led to the emergence of the economy "as a proper subject matter of science" (Boldyrev, 2013, 268). The distinctiveness of each social system is secured by developing its own code and way of observing and communicating with its environment (everything that is not the observing system). With respect to the economic system, money emerges as a means of communication and payments as a communicative mechanism. The binary code pay/not pay thereafter structures communication with the economic system and the emergence of the economy as a differentiated system is indicated by the generality of monetary code which is acknowledged by all, both psychic systems and other social systems, who communicate with the economic system. In commercial matters, the economic system structures a distinctive communicative reality between individuals (between psychic systems and other psychic systems and between psychic systems and commercial organisations and between organisations and other organisations engaged in monetary relationships).

However, it is the nature of the economic system, and the sub-systems operating within the economic system such as finance, banking and markets, that there is an instability at the core of their functions. As Boldyrev (2013) argues, there is a “dark side” to economic operations because they deal with wealth and where there is wealth there is also debt in a capitalist economic system. A constant tension remains therefore surrounding the economic system’s relationship to moral codes such as good/evil or moral/immoral. The reality is that the autopoietic nature of the economic system means that it is *amoral*. The system cannot deal with economic relationships using codes which are alien to its functional operations. This is a feature of autopoietic systems that is widely misunderstood by lay people and frequently engenders anger against bankers who appear to behave without conscience.

Nevertheless, the economic system and its sub-systems have evolved the functional purpose to *immunise* society against disorder and conflict in environments that paradoxically contain tendencies that simultaneously seek to provide order but also generate chaos. For example, the stability of markets is undermined by the way the wealth/debt issue is managed: too much debt undermines the processes of payment for the products offered by the markets and risks the collapse of the market system. This has been resolved through the evolution of a sub-system of the economic system which mediates wealth and debt, namely the banking system. It does so by commodifying debt so that it too can be sold as a product on the financial markets and so those in debt can buy time to pay and maintain the velocity of the market system by ensuring that money and goods continue to circulate. And, of course, ownership of debt becomes a product that can generate income. In this way, the economic system immunises itself and the wider society against instability. It is an *amoral* outcome of the system sticking to its functional role. This process is, of course, ongoing (recursive) and markets continue to be paradoxical as do all autopoietic systems. However, as we will see below, economic systems in the advanced differentiated societies of the West are *capitalist* and will inevitably produce inequality, poverty and perceptions of injustice and unfairness. At that point we should look for the rise of populism through the reaction of psychic systems to the negative byproducts of a function system that is inherently *amoral*, and for some antisocial, because its *raison d’être* is accumulation and profit rather than social distribution or re-distribution; that task is for the political system and fiscal policy.

The complexities of the global economic system are bracketed out of the sensemaking which most ordinary people make. Their focus is on their

government, their politicians and their social and public policies. However, in a global world there exist a plethora of competing sites of economic decision making beyond the boundaries of the nation state. Further, a byproduct of the internationalisation of economic processes has been the *financialisation* of all western economies. Since the early twentieth century, financial institutions, financial motives and financial markets have come to dominate both national and international economies (see Rodger 2019, 39-42 and 2013). This level of economic complexity is, however, opaque to those untutored in the functioning of macro-economic systems. In the Autumn of 2022, however, the British public were awakened to the power of financial markets when an ill-judged change in economic policy was announced by the incoming Prime Minister Liz Truss and her Chancellor Kwasi Kwarteng. Irrespective of what politicians decide is a good policy direction for a nation state to take, the financial markets can and often do disagree and exhibit their power in the new reality of global finance. High borrowing rates, falling currencies and tumbling equities are used as communicative mechanisms between the economic system and the political system signalling discontent. In Luhmann's terms, the financial markets aim perturbations from within the economic system towards the political system which in turn, and as part of an ongoing autopoietic recursive relationship between the two *structurally coupled* social systems, adjusts policy to "quieten" the "noise" coming from its environment. Ordinary people may not understand international finance and macro-economic systems but they do recognise economic chaos and the visible signs of inequality and unfairness which impact on them from global economic forces, particularly growing disparities of wealth in modern Western societies.

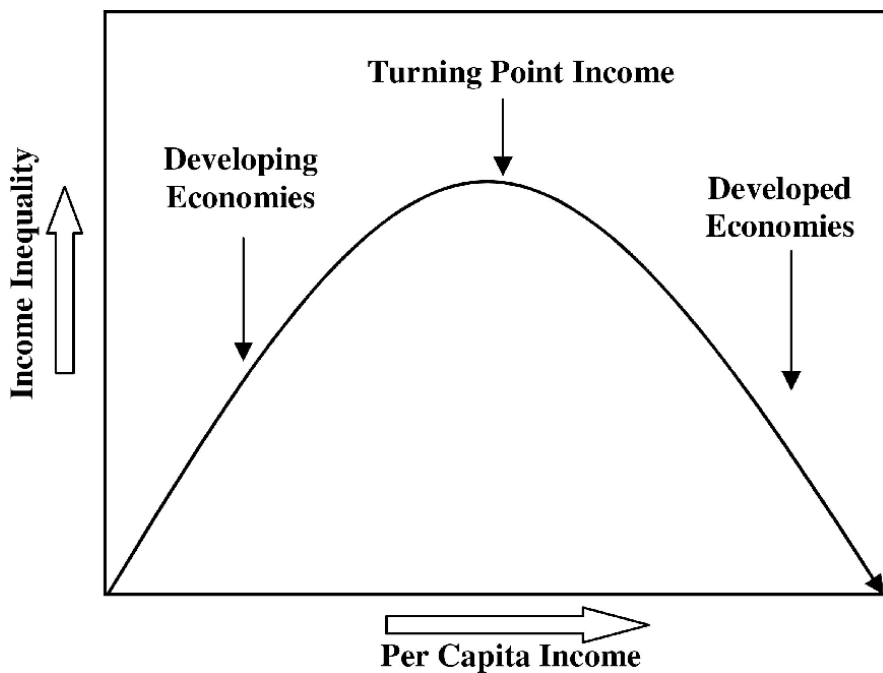
### **Inequalities in Wealth in the 21<sup>st</sup> Century: Framing Populism**

The economic system understood in its broadest and most abstract sense is a process where value is created by combining capital and labour. The value produced is thereafter shared between profit for the owners of capital and wages for the owners of labour. French economist Thomas Piketty has investigated this process historically using taxation data initially in France but also from Britain and the United States before drawing on wider data sets relating to inheritance wealth when they became available. The basic conclusion at the end of a very long book is the iconic equation  $r > g$  which states that all other things being constant:

When the return on capital is higher than economic growth (which has been the case throughout history, and is likely to be the case in the future), accumulated capital increases more quickly than income. Someone with inherited wealth only needs to save a fraction of the income from capital for its size to grow more quickly than the economy as a whole. (Roine, 2017, 63)

From the heart of orthodox economics, Piketty questioned the prevailing orthodoxy of the mid-twentieth century that was offered by American economist Simon Kuznets (see Piketty, 2017, 16-19). Kuznets had argued that as economies “modernise” increasingly new manufacturing sectors evolve as part of the industrialising process. The new industrial sectors located in urban centres were typically more productive and offer higher wages than those found in agriculture which leads to cheap labour moving from the countryside to the towns in search of higher incomes. While income inequality at first rises because labour from the countryside is cheap for the labour-intensive industries in towns to exploit because of workers’ low skill levels and education, through time equality increases as education and upskilling of the workforce improves productivity (see Figure 1). Eventually the whole of society benefits from higher productivity and higher wages and inequality declines.

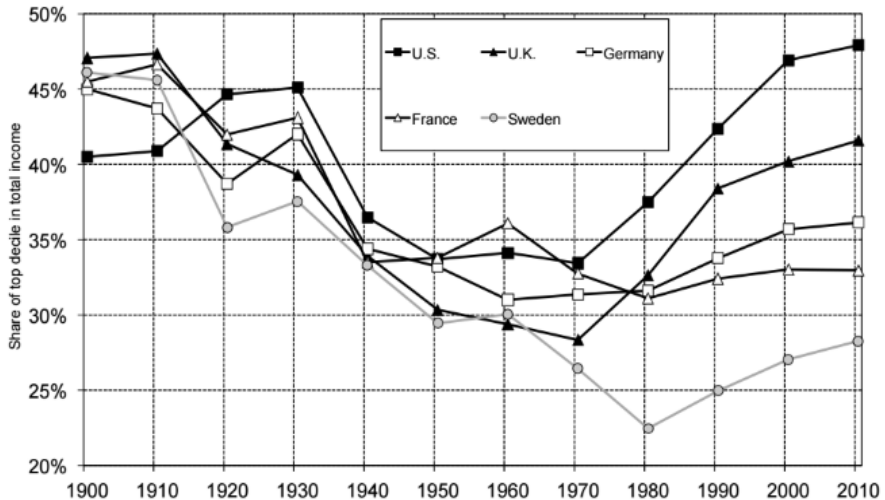
However, Piketty offers an alternative explanation for the mid-twentieth-century decrease in inequality. His data suggests that there is little evidence for the assumptions in the Kuznets model. The curve that best represents the pattern of inequality in the advance economies is in fact a U curve rather than the inverted U curve favoured by Kuznets (see Figure 2).

**Figure 1 The Kuznets Inverted U Curve**



## Figure 2 Thomas Piketty U Shaped Graph

### The top decile income share: Europe and the U.S., 1900-2010



Source: Piketty (2014) Figure 9.7, page 230

<http://piketty.pse.ens.fr/files/capital21c/en/pdf/F9.7.pdf> (accessed February 2023)

The apparent decrease in inequality between 1914 and the immediate post-World War II period was not a by-product of productivity, enlightened politicians, higher levels of education and upskilling, or indeed the working of rational economic markets, rather the driver of declining inequality was ironically war and calamitous events. The period stretching from the late nineteenth century to the outbreak of World War I, known as the Belle Epoque in Europe and the First Gilded Age in America, was marked by extreme values of inequality and a strong association between political and societal power and the inheritance of great wealth.

... the interwar period in Europe and North America was marked by a gradual decline in inequality. In those economies, relative income differences moderated; long-standing racial gaps in wealth, income, and employment were narrowed; and political voice was widely distributed throughout the population. In those economies, the claims of wealth to drive and shape economic structures were kept within bounds – although not neutralised (Delong, Boushey and Steinbaum, 2019, 5).

The real explanation for that period of declining inequality and increasing democratisation in civic life is described by historian Walter Scheidel in his book *The Great Leveller* (2017). He observes that the inter war years were dominated by mass mobilisation for two world wars and the re-direction of capital towards military rather than industrial production. Scheidel reinforces Piketty's economic analysis by arguing that the trend towards more equalisation of incomes was caused by "calamitous events" rather than economic development. The wealthy throughout Europe and North America saw their capital shrink as normal market systems and industrial productivity became geared to dealing with war, lethal pandemics especially after the first World War and revolutions in Russia and elsewhere in the world. By the end of World War II a "clean slate" for equality seemed to have become established as the Social Democratic Age between 1945-1980 ushered in the welfare state and the introduction of progressive income tax which led to the shrinking of the worst disparities in wealth between the upper and lower deciles in the population.

All the European countries ravished by war engaged in large programmes of social and public investment. Their economies began to stabilise as they rebuilt and re-stocked after war. And it was a period when the decline in wealth inequality, while modest, nevertheless appeared to be an integral feature of the steadying of markets and future optimism about economic growth. That confidence was relatively short lived before it began to rise again sharply from the early 1980s onwards. At that point the economies in all Western countries moved into an era of transition away from strong welfare states and buoyant social expenditure to a mixed economy of welfare which allowed the privatisation and marketisation of public assets driven by neo-liberal economic thinking. This quickly became the established orthodoxy in the political economy of the modern Western state. From about 2000 the inequality between income from capital and income from work again started to rise rapidly and we now seem to be moving into an era of sizable inequalities in wealth based on the exponential growth of capital income due primarily to the broadening of inheritance gained wealth from property which now benefits around 50 percent of the population. This shift in the structure of income and wealth in contemporary society is sufficiently marked to be called the era of "patrimonial capitalism" by Piketty; driven largely by a renewed upsurge in inherited wealth. The contemporary situation differs from that of the nineteenth-century in that inherited wealth from property has now penetrated the middle classes in most European and North American countries.

The concern which arises is that inherited wealth will grow to a level where there will be a return to a patrimonial economy similar to the nineteenth-century, which Piketty illustrated in his book by reference to the authors Jane Austen and Honoré Balzac. Indeed Milanovic (2014) comments that “Rastignac’s dilemma is back”: he is the character in Balzac’s *Le Père Goriot* who ponders on whether to pursue a career as a lawyer or marry inherited wealth for position and status in society and life. The only way to become wealthy in nineteenth-century France and England was to marry it. And that may be the case in modern times too. Beyond the broadening out of wealth inherited from parents and grandparents through the burgeoning property markets of recent times has been the emergence of the “super manager”. Piketty points to the 60 percent of the top 0.1 percent of the income distribution in the United States who are extremely wealthy “super managers” not from inheritance dynamics but from rocketing salaries combined with declining top rates of taxation. However, capital still plays a key role in generating and sustaining the wealth of the super manager. Frequently their very large salaries contain augmented performance bonuses which are paid in the form of equity holdings in the corporations they manage. This is driven by shareholding “buy backs” popularised in the 1980s by Milton Friedman who argued that the primary responsibility of senior managers and corporate boards was to ensure a high stock market valuation for the corporation (see Mazzucato, 2018 and 2018b). The “buy back” ensures that the stock market value of the corporation remains high and therefore the income of the super manager remains high not because of anything they contrive to do by way of developing the organisation they work for but rather more by financial and accounting sleight of hand. It is keeping up appearances for the financial markets which is important. These ongoing trends in the modern global economy are preparing the conditions leading to a sizeable group within the populations of affluent Western countries seeing themselves as the “left behind”. Bradford Delong, Boushey and Steinbaum (2019), for example, describe some key factors which might generate problems of democratic accountability and a sense of unfairness should the wealth-to-annual-income ratio continue grow unchecked.

A society with an extremely unequal distribution of wealth will also have an extremely unequal distribution of income, for the wealthy will manipulate political economy or other factors in such a way as to keep rates of profits at substantial levels and so avoid what John Maynard Keynes called “the euthanasia of the *rentier*”...with an extremely unequal distribution of wealth and income...over time, control over wealth falls to heirs and heiresses – an “heiristocracy”. (Bradford Delong, Boushey and Steinbaum, 2019, 6)

To conclude this section, and by way of summary, Milanovic (2014) suggests that Piketty's study reveals three types of capitalism. First, the "classical" capitalism of the nineteenth century Belle Epoque where ownership of capital yielded a high income and political and social power. Second, the "convergence capitalism" where returns on capital were more modest because of the destruction of capital in the inter-war years and the rising importance of education for social mobility, particularly in the immediate post World War II period. And, third, "globalisation capitalism" which has elements of the nineteenth century with the growth of patrimonialism but that is combined with the high labour incomes of the super manager, the bankers, and financiers. Christophers (2019) described this in terms of the "rentierisation" of the UK economy which has been made possible by benign monetary and fiscal policies with respect to asset ownership and property rights. The accumulation of large capital assets among an increasingly affluent middle class together with the wealth of the super-rich top decile in the population has reinforced the growing inequalities between wealth from capital and income from labour. Indeed, as Christophers (2019) suggests, rentierism has become the *dominant dynamic* in the present-day UK economy: the practice of living off large scale capital acquisition without contributing to society is proving to be greatly destabilising. And, significantly for the issue of concern in this book, an economic context has been created within which a demand for socio-economic change has been incubating in parallel with the growth of "globalisation capitalism".

## **The China Shock and the Rise of Populism**

Piketty's study provides a macro context within which to understand the groundswell political reaction against the super-rich and the plutocratic hue of many Western governments. Discussion of what we can call the *supply* side of political mobilisation by politicians and political entrepreneurs against inequality is left until chapter 2. The *demand* side reaction to the gross social and economic inequalities resulting from globalisation and the liberalisation of trade can be better understood by considering the key economic factors associated with the rise of populism.

Preeminent among the factors which have been considered as having the highest level of causal influence on the rise of populism in Western societies is China's accession to the World Trade Organisation in 2001. While the fall of communism from 1989 onwards exposed European economies to real competition from goods manufactured by cheap labour working for

industries in countries such as Romania, Serbia and Hungary, it was the “China Shock” which appears to have had the biggest impact on both Western European and North American industry and employment.

Autor, Dorn and Hanson (2013) focus particularly on the impact of Chinese imports into the USA. Their methodology involved examining “commuting zones” with a higher share of industries affected by Chinese imports relative to other urban areas. Those commuting zones most impacted by cheap imports found that wages decreased together with employment and community services provision. In short, the decline in economic and material life was highest in those local labour market areas most exposed to international trade shocks. They observe that prior to China’s entry as a big player in global trade after 2001, the percentage of trade between the USA and low-income countries was only 9 percent. The value of annual US goods imports from China increased by a staggering 1,156 percent between 1991 to 2007. The largest part of that trade came after China joined the WTO in 2001.

In 2000, the low-income-country share of US imports reached 15 percent and climbed to 28 percent by 2007, with China accounting for 89 percent of this growth. The share of total US spending on Chinese goods rose from 0.6 percent in 1991 to 4.6 percent in 2007... with an inflection point in 2001 when China joined the World Trade Organization. Over the same period, the fraction of US working-age population employed in manufacturing fell by a third, from 12.6 percent to 8.4 percent. (Autor, Dorn and Hanson, 2013, 2122)

The thesis argued by Autor et al is straight-forward. Imports from low-wage countries at the start of the 2000s, when the USA had not previously been exposed to significant competition in manufacturing industry, created economic insecurity in the American economy in general and in local labour markets exposed to cheap manufactured imports from China in particular. They conclude that:

...exposure to Chinese import competition affects local labour markets not just through manufacturing employment, which unsurprisingly is adversely affected, but also along numerous other margins. Import shocks trigger a decline in wages that is primarily observed outside of the manufacturing sector. Reductions in both employment and wage levels lead to a steep drop in the average earnings of households. (Autor, Dorn and Hanson, 2013, 2159)

While they do not make any clear associations in the initial research about economic insecurity and support for populist parties or political leaders in a

one-to-one sense, they do suggest in a later paper that the regional variation in exposure to the “China Shock” leads to social polarisation in society and so an association between economic insecurity and support for populist anti-free trade political causes. This should be expected in those local labour markets most impacted by cheap manufactures from abroad (Autor, Dorn, Hanson and Majlesi 2020).

Dippel, Gold, Heblich and Pinto (2021) reveal a slightly different but related aspect of the “China Shock” in Europe, specifically its impact in Germany in conjunction with the collapse of communism in Eastern Europe. Examining the effect of trade on workers voting intentions, they draw attention to the differential impact of free trade on regions in Germany, comparing those regions that have been able to export to former communist bloc countries and those that have not. Workers in those regions that had an industrial infrastructure which shielded working communities from the impact of the “China Shock” because of economic diversity, were found to be less likely to support right-wing populist parties compared with those regions which lacked economic diversity and were exposed to the full force of cheap imports from both China *and* the former communist bloc countries of Eastern Europe. Labour market adjustments in some regions designed to take advantage of new exporting opportunities to the east had a moderating effect on worker’s attraction to extreme right-wing parties. And while overall the economic issues surrounding the “China Effect” may have shifted political sympathies in the population to the right, the authors argue that managed labour market adjustments combined with compensatory active employment policies and welfare payments to support a transition to new careers, meant that parties considered less extreme such as *Alternative für Deutschland* benefited rather than those of a fascist disposition.

Similarly, Guiso, Herrera, Morelli and Sonno (2019) identify the phenomenon of “policy straitjacket” in Eurozone countries as a key factor influencing support for populist parties in Europe. They argue that non-Eurozone countries such as the UK and Sweden have had greater flexibility to respond quickly to the negative effects of globalisation and financial crisis compared with countries inside the Eurozone due to the greater fiscal and monetary constraints demanded by Eurozone membership. They suggest that the response of some multi-national firms inside the Eurozone to the China Shock and financial crisis was to re-locate to countries such as Hungary, Romania and Serbia outside the Eurozone in order to benefit from less economic and financial regulation, and that has had the consequence of stimulating popular hostility to EU intransigence. They observe, for example, from a review of several pieces of empirical research on the financial crisis