

## Policy and Politics in Disjuncture in an Age of Secular Stagnation

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### INTRODUCTION

Across advanced industrial democracies, the financial crisis of 2008 ushered in not just deep economic adjustments but political ones. In many countries, dominant political parties lost voters while new populist parties gained them. Political economists responded to these shifts by asking how the crisis had changed – or failed to change – both what citizens want and politicians' ability to respond to these wants. But what if the political responses to the crisis reflect not an idiosyncratic shock but instead a much longer term systematic slowdown of advanced economies that has more permanently reshaped the scope for political responsiveness?

We draw on the economic concept of 'secular stagnation' (Summers 2013, 2014) to argue that long-run demographic shifts can simultaneously increase citizen demands on the state and constrain policy makers' ability to address them in ways that create new challenges for representative governments.

The secular stagnation framework posits that aging populations and slower productivity growth have created a mismatch between abundant savings and weak investment. Low investment in an era of low interest rates both reflects business concerns about weak long-run growth and, in turn, contributes to it. These outcomes are not a temporary phenomenon like a recession, but follow from slow-moving demographic and technological changes that create a long-term market disequilibrium net of the business cycle.

For economists examining these dynamics, including Larry Summers, Paul Krugman, and others, expansionary fiscal policy is key to ending this vicious cycle. Governments looking to overcome secular stagnation need to pursue a host of policies – large-scale public investment, transfers of income from savers to borrowers, and further extraordinary monetary measures beyond quantitative easing (Summers, 2014; Krugman, 2014). But are these policies politically feasible?

In this chapter we argue that the demographic and economic forces that have produced secular stagnation mitigate against the very policies that could resolve it, creating a political trap. The political representation of specific interests can undercut a more general interest in economic growth, meaning that democratic politics undersupplies the policies needed to address voters' longer-run economics demands.

To make this claim, we argue that as low growth combines with low interest rates, it can create both regionally and demographically specific distributional challenges. Cities, the main beneficiaries of new knowledge-economy growth, have experienced an influx of capital into property markets – often driven by low mortgage interest rates – creating housing booms that benefit property owners but also limit entry into these high-growth areas. Rural areas, and de-industrializing towns and smaller cities, on the other hand, face increasingly aging populations and lower levels of inward investment.

At the same time, under tighter fiscal constraints, programs that invest in the young (through education, housing, and working conditions) and those that support older citizens (through pensions and social security) can be in tension, with young voters prioritizing 'social investment' over 'social consumption', while older voters support both, but with more relative emphasis on traditional welfare (see Chapter 8). In short, instead of uniform support for public investment, the processes of secular stagnation may pull apart rising and declining geographic areas, and older and younger people.

Underlying conflicts between age and geographic groups reinforce a set of particularistic public policies that are less likely to allow countries to escape low growth, low investment outcomes. In other words, the political cleavages produced by secular stagnation create a 'political trap' that can limit government responsiveness.

In the following section we argue that secular stagnation is in theory likely to alter the demand for types of public spending. To see whether these outcomes exist in practice, we turn to examining issue salience and voting behavior with individual data from the Eurobarometer (EB) and European Social Survey (ESS). Each analysis shows that age profile – both as an individual and regional characteristic – is important for political preferences, in ways that may constrain governments, although the starkness of such divides (and thus the constraints) vary by geographical region.

Finally, we consider in the conclusion, whether post-COVID infrastructure plans offer a way out of this trap, short-circuiting some of the political divides that have hitherto prevented moving beyond secular stagnation.

## WHAT IS SECULAR STAGNATION?

What is secular stagnation? Why might it matter? In this section we outline the concept of secular stagnation and argue that it creates two forces with deep political implications – growing divergence across places in economic

experiences, and a growing need for new policies to address these divergences. The chapter investigates the connection between these structural changes and the scope for policy makers to respond to them through new policy instruments.

We begin with the structural changes themselves. The extremely slow growth recovery from the 2008 crisis, despite central banks worldwide supporting unprecedentedly low interest rates, challenged contemporary macro-economic thinking. As Summers (2014) notes, in the first five years after the crisis, the United States and the Eurozone both failed to meet economists' annual growth predictions. The situation in the Eurozone was particularly concerning, with potential GDP downgraded by around two trillion (2005) Euros and actual GDP no higher in 2016 than it was in 2008. This experience was worryingly similar to that experienced by Japan since the early 1990s in what now amounts to at least two 'lost decades'. Richard Koo popularized the idea of a Japanese 'balance sheet recession', whereby businesses and consumers have engaged in continued deleveraging following a credit boom, keeping borrowing low and resulting in low demand (Koo 2014). While growth in both the United States and European countries substantially improved between 2014 and 2019, even before the onset of the novel coronavirus there remained questions about ongoing weak productivity (and wage) growth (Crafts and Mills 2020; Posen and Zettelmeyer 2019). Secular stagnation, then, as a first order phenomenon, refers to the idea that economies are facing long-term structurally low growth paths.

Extremely low nominal interest rates, with inflation rates close to zero, have meant extremely low real interest rates. Low interest rates have been in part a policy instrument – independent central banks worldwide coordinated on reducing their official lending rates to just above zero during 2009. Low nominal rates have been accompanied by bond-buying – particularly 'quantitative easing' – to inject liquidity into bank balance sheets and sustain investment demand. Of further concern is the fact that long-term lending rates not directly set by central banks have also dipped to unprecedentedly low levels. These moves have stimulated some lending, but much has gone into buoying up asset markets rather than productive investment.

This buoying of asset markets points to a second-order phenomenon associated with secular stagnation, the increased prevalence of asset bubbles. The argument, which borrows from early work by Tirole (1985), is that when the real interest rate is especially low, even slow rates of economic growth can produce asset bubbles – the reason being that the return to capital  $r$  drops below the growth rate  $g$ . Presuming that people invest in them proportional to economic growth, assets in fixed supply, from gold, cryptocurrencies, to real estate in constrained locations (the island of Manhattan, the M25 orbital, the San Francisco peninsula) can experience waves of speculative investment since the cost of borrowing to buy assets is lower than the growth rate. Hence 'rational bubbles' can emerge even when economic growth is anaemic by historical standards. The experience of the UK housing market is

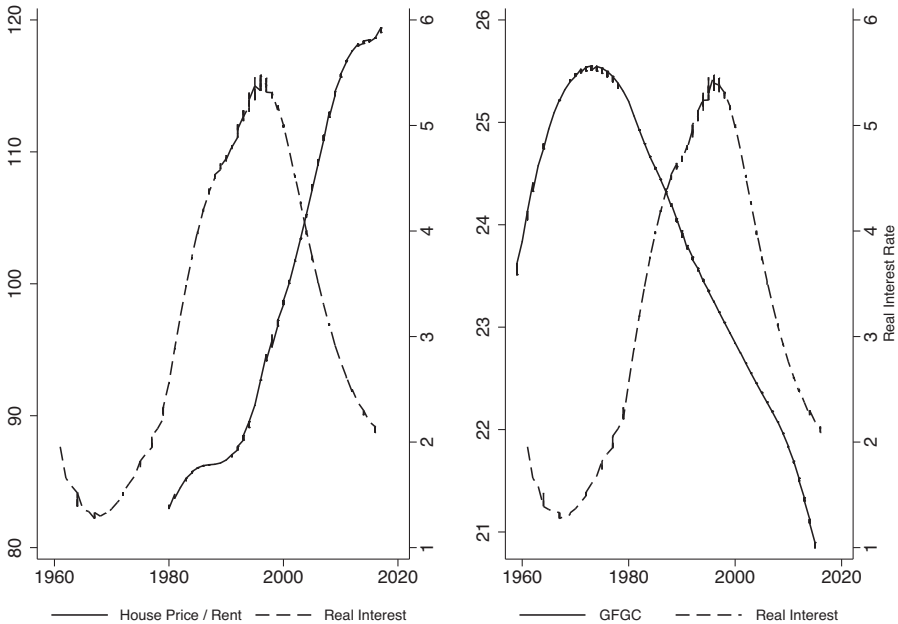


FIGURE 11.1. Real interest rates and residential vs. gross capital formation (OECD 2020)

instructive – London property prices in 2016 were actually 49 percent higher in nominal terms than at their 2008 peak and 77 percent higher than their trough in 2009 (data taken from Hometrack). This enormous property boom, comparable to the housing boom a decade earlier that burst, occurred at a time of stagnating economic growth of around one to two percent annually and with limited price inflation. It has also been deeply asymmetric, only some regions – usually those around ‘global cities’ such as London, San Francisco, and Sydney – have benefited, whereas many peripheral regions in advanced industrial countries have been ‘left behind’ by the recent housing boom.

Figure 11.1 demonstrates the divergent effects of low real interest rates on residential capital versus investment capital. The figures use lowess estimation to plot real interest rates at the national level against house prices (as a ratio of rental prices) and gross capital formation (data average across ten non-Eurozone OECD countries from 1960–present). On the left-hand side, we see that the pattern of rising and falling interest rates has been inversely connected to housing prices at least since 1990 and the secular decline in real interest rates. By contrast, from 2000 onward, the negative relationship between real interest rates and gross capital formation has reversed – both indicators have been trending downwards since that time. In other words, we now live in an era where interest rate declines only appear to feed into residential capital formation.

Why then, are productive investments – and ensuing growth – low, even in a low-interest rate environment? The chief culprit for secular stagnation appears to be the demographic slowdown experienced in most advanced industrial countries over the past half century. The generations born since the late 1960s have been substantially smaller than the ‘baby boom’ generation, many of whom are currently entering retirement. The smaller size of this younger group relative to the larger numbers of retired individuals have consequences for investment and consumption, dependency ratio, and on regional inequality.

Firstly, there are consequences in terms of savings and consumption. Since borrowers tend to be younger and savers older, especially in countries where pensions tend to be from investments rather than PAYG systems (Schwartz 2014), the demographic slowdown creates a potential savings glut as the number of savers outweighs the number of borrowers. This glut was exacerbated by the global financial crisis, as banks became more cautious about lending to younger borrowers, who in turn, face credit constraints and find it harder to borrow. While older savers continue to save, the young cannot absorb this excess saving, and commercial investors remain cautious due to ongoing concerns about long-run growth. Accordingly, interest rates and output remain lower than expected.

A second problem relates to the dependency ratio – if fewer citizens work to support more people outside of employment, this situation can reduce growth through its effects on aggregate employment. Of course, wage increases for younger people that mirrored the scarcity of labor might counteract this effect, provided they were accompanied with the necessary productivity growth. In reality neither has occurred – growth in wages and productivity remains weak or even stagnant.

The third problem is that these demographic shifts are contributing to lopsided regional outcomes. As outlined above, the savings glut produced by an aging population has been channelled into real estate in expensive cities, producing very regionally asymmetric housing booms. At the same time, in peripheral regions, often with aging populations, the economy and asset markets remain stagnant. This situation, in turn, reinforces secular stagnation because rising gaps between the house prices of globally focused urban areas and their peripheries, and makes it difficult for economies to re-equilibrate. People cannot simply move to ‘where the jobs are’, because those jobs are in unaffordable regions. The age profile of peripheral regions exacerbates these problems as their aging populations produces lower demand for goods and services and hence for (well-paid) jobs.<sup>1</sup>

<sup>1</sup> In stark contrast to the demand-side consensus, some scholars, particularly Robert Gordon, have argued that secular stagnation, at least its growth effects, is a story of continued technological slowdown since 1970 (Gordon 2014a, 2014b).

## WHY DOES SECULAR STAGNATION MATTER FOR POLITICS?

What should political scientists take from the secular stagnation literature? We argue, first, that the secular stagnation hypothesis highlights the growing importance of demography as both a geographic and individual feature in shaping political preferences. Second, in a world where political coalitions form around age and around place, it is not obvious that the types of policy solutions recommended by economists are likely to be politically viable. That is, the very cleavages produced by secular stagnation may prevent the political coalitions necessary for the policies that can combat it.

### Individual Divides

The first political story is one of individual demographics. We noted in this chapter that many economists view the demographic slowdown of the past few decades, along with rising life expectancy, as a core cause of secular stagnation. This outcome follows in part from differences in savings rates – larger groups of older savers and smaller groups of younger borrowers has produced a mismatch in the savings-investment market. At first this imbalance lowered the natural real rate of interest but with interest rates already at nominal rates of zero and with the presence of credit constraints on the young, even low interest rates have not been sufficient to equilibrate this generational imbalance. These developments may produce tension across age groups.

From the perspective of older citizens, there has been great discontent about the low levels of return on their savings and a consequently concerns about funding their quality of life in old age. This concern has produced greater demands for public support in terms of spending on pensions. Among the young, the inability to access credit and the low levels of demand in the economy, have meant many young people have been excluded from booming housing markets (even with low interest rates), and face stagnating wages due to insufficient aggregate demand.

What are the policy ramifications of this theoretical age-based divide? The first prediction is that in many cases, young and old will have diverging preferences. Older citizens demand higher expenditure on pensions to make up for low interest rates. Younger citizens demand education or in-work benefits to make up for stagnating wages and low demand (Busemeyer, Goerres and Weschle 2009). In terms of the spending priorities of governments, the former appear largely to have won out, with investment in skills and infrastructure more vulnerable to cuts in the post-financial crisis era (Streeck and Mertens 2013). In many countries, not least the United States and United Kingdom, despite serious spending cuts since the financial crisis, old-age pensions and the healthcare of older citizens have escaped cuts – indeed in the United Kingdom have seen a substantial increase in these benefits. Government

cuts have fallen on benefits to working-age adults (cuts to tax credits in the United Kingdom or future pensions rights in Continental Europe.) In some countries, age is also becoming an ever-sharper dividing line in elections, although this varies.

Our second prediction is that where the cleavages between young and old combine with the greater political power of the latter, it may push against a winning coalition for investment-driven fiscal expansion. Where generational splits cut across classic income divides, it is quite possible that a pro-expansion coalition will fail to emerge, if for example, poorer old people are divided from poorer young people. If, as is often the case, older people are more dominant politically, then the balance of public spending growth will benefit the elderly, namely ‘social consumption’ programs such as pensions and healthcare. Little of this type of spending will have ‘investment’ benefits, not least because, crudely, older members of the population are likely to live less long and hence fewer returns on investment will be accrued. However, if the younger and wealthier citizens are more dominant, as Busemeyer (Chapter 8) argues, the balance could tilt away from the stimulating consumption policies and toward investment.

In sum, at the individual level, we hypothesize that the politics of secular stagnation can fuel new divides between young and old people. These cleavages are not necessarily oppositional in a narrow sense, but follow from different issue prioritization across groups. Older citizens and places prioritize more traditional consumption over investment measures, and vice-versa (Busemeyer, Garritzmman and Neimanns 2020). However, these differences can cut across traditional classes and political parties. The political winners of these divides tend to oppose the types of policies that might end secular stagnation – hence a ‘political trap’ exists.

## Regional Divides

The second political story is one of geography: lower levels of overall national growth, combined with asset booms in urban areas, have the potential to create growing regional divides within countries. The extent to which these differences manifest as growing regional divergence varies. In some countries, such as Germany, differences across regions in terms of GDP per capita or growth continue to fall, in part due to ‘catch up’ growth in the former GDR states and partly due to a fiscally redistributive form of federalism (Beramendi 2012; International Monetary Fund 2019; Odendahl et al. 2017). In other countries, such as the United States, regional differences in income are growing, with fewer policies to offset them.

Even where policies have mitigated against some of the effects of demographic shifts, differences in the demographic structure of regions remain stark. Figure 11.2a shows the regional–age distribution of advanced industrial

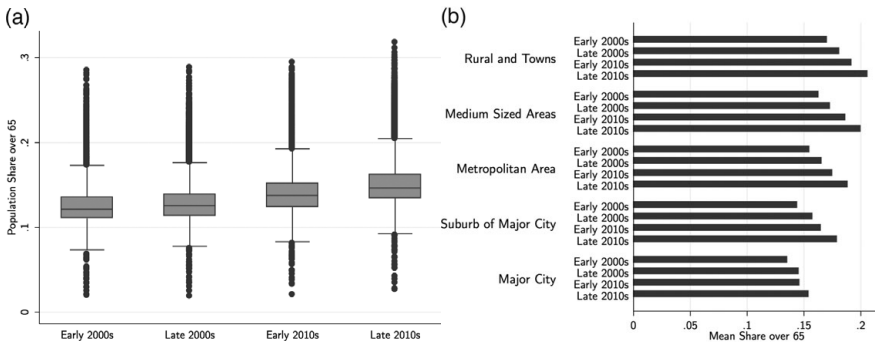


FIGURE 11.2. Regional age distributions over time and place, (a) small regions and (b) urban areas

democracies based on OECD small regions over the last two decades.<sup>2</sup> We see both a rising mean age across regions and growing regional variation. Even in relatively higher birth rate countries – like the United States, France, or Sweden – age-based regional variation is high. For instance, in the 2010s, only 12 percent of the population was over 65 in the outer Paris area of Seine-et-Marne, compared to 24.5 percent in the Limousin region of Creuse. Figure 11.2b shows the connection between age structures and urbanization, matching local areas to the OECD functional urban areas typology for the same group of countries. Here we see that the aging of the population is particularly pronounced outside of major cities.

What are the implications of these geographical differences for policy? Recall that most economists concerned about secular stagnation recommend a major fiscal demand-side stimulus targeted at public investment, growth in the capital stock, and educational investment. Work on aging populations has tended to focus on the constraints on government in terms of such stimulus spending. For instance, Vlandas (2018) argues that older populations, which have a larger share of voters who rely on savings and prioritize price stability over job creation, push governments toward more conservative positions on

<sup>2</sup> The data come from census/register data or equivalent and are part of a dataset on “regional human capital” (Gingrich, Jane and McArthur, Daniel. 2022. Regional Human Capital database. Unpublished dataset. More information on <https://schoolpol.web.ox.ac.uk>). Figure 11.2 (a) uses NUTS-3 or OECD TL-3 small regions, covering the EU-15 countries, Norway, Switzerland, the United States, Canada, Australia, and New Zealand. The data on the population structure by urban areas (Figure 11.2 (b)) are measured at NUTS-3 level and matched to the base unit for the OECD functional urban area classification. The urban types follow the OECD classification, with major cities further broken apart into suburbs and core areas following the OECD “core” classification of major cities. Data for Germany is only available at the NUTS-3 level, and the former GDR regions are only included in the 2010s decade.



fiscal policy. At the same time, long-standing work on demographic changes suggest that they give policy elites less budgetary room to maneuver, creating sharper fiscal tradeoffs (Pierson 1998). The dynamics of secular stagnation both intensify and complicate these dynamics.

First, slowing growth and population aging, in line with the general aging literature, can create sharper fiscal tradeoffs among policy makers. Those in younger and older areas both can benefit from public investment, but they are likely to prefer different types of investment. Those in younger regions and cities facing housing booms tend to prioritize spending on housing, transportation, and investment in skills. By contrast, those in aging regions may have less demand for housing infrastructure or public transportation, but require more support in terms of job creation, industrial readjustment, and support for public services.

Second, one of the core claims about secular stagnation is that investors' beliefs that the prospects for long-run growth are dim leading to less-than-optimal levels of investment. Voters, however, can also be concerned about the long-run costs of public investment. Where long-run growth prospects are lower, the potential costs of high levels of borrowing increase. This situation can create a second regional divide. Those in urban or younger areas anticipate better future growth, but tend to be net fiscal contributors. As such, they are more concerned with higher taxes in the present, even if they are more open to government borrowing for investment due to better longer-run growth prospects. By contrast, those in older or more peripheral areas favor geographic redistribution in the present, but because of concerns about lower long-run growth in the periphery, may be more skeptical of borrowing.

Taken together, these dynamics can undercut a broad investment strategy. Given the relatively greater need for stimulating public investment in aging regions, for instance, one alternative would be to specifically target public investment at declining areas – yet this strategy may be anathema to higher tax revenue areas in the rising cities. Equally, infrastructure spending is almost always geographically limited, and if geographic political splits are important, it may fall afoul of interregional resentment. By contrast, extensive borrowing to invest in urban infrastructure or education may receive little support in aging and peripheral areas, which perceive fewer long-run benefits and more uncertainty about the future costs given the lower growth prospects.

Secular stagnation brings not only regionally varied slowing of growth, but residential asymmetries in house prices. These shifts too may prevent easy reequilibration of the economy if workers from less urban areas can no longer afford to move to cities where there are more jobs (Hsieh and Moretti 2019). Attacking this problem however involves undermining the rents accrued by owners of expensive property, who will be incentivized to defend property values by maintaining stringent building and planning controls and opposing public housing. Once more, the winners under secular stagnation have little incentive to support policies that might benefit the losers and push up aggregate demand.

In this environment, the disjuncture between regional experiences and the supply of policies may contribute to growing resentment and frustration in peripheral areas (Adler and Ansell 2020; Cramer 2016). While the causes of populism are multiple, and certainly not exclusively economic (Mudde and Kaltwasser 2017; Norris and Inglehart 2019), the combination of slowing growth with structural divergences in regional growth potential can contribute to a third political outcome – a growing sense of resentment between rural and peripheral locations with low house prices, and often high old-age dependency ratios (due to both elderly citizens and their loss of working age adults to jobs in cities) and cities with high house prices and low dependency ratios. Both phenomena are increasingly closely tied together as demographic differences correlate with geographical ones. Demographically aging areas, cut away from rising cosmopolitan cities and with discontent about the overall state of the economy and the political status quo may be especially likely to become dissatisfied with democracy and more supportive of populist right parties that critique the establishment. Younger citizens in older regions may be particularly hard hit – without existing investments and unable to benefit from economic growth centered in the young cities. These differences may also overlay on a longer-standing cultural conservatism on the ‘second dimension’ in these regions.

Collectively, we predict that at the regional level, areas with younger and older populations will prioritize different forms of spending. Urban and younger areas are more likely to favor investments in education and urban infrastructure than older areas, and be more tax sensitive than older areas. Older areas, however, may be more resistant to long-run investments in skills and infrastructure, and government borrowing to achieve these ends, and they anticipate lower long-run growth and fewer benefits to such investment. The disjuncture between varied regional demands and targeted policies, may in itself stimulate resentment and unease in older areas. Thus, we also expect variation in support for populist parties or causes to covary with demographic differences across regions.

## RESEARCH DESIGN

In order to examine aging as both an individual and place-based characteristic, we first examine how individuals’ age and region shape issue prioritization, then turn to regional voting patterns, and finally return, to the individual level to examine how age and region interact in the European context.

We begin by looking at the first set of mechanisms that, in an era of secular stagnation, different individual and regional groups will vary in their preferences for certain policies.

Second, we look at whether this is producing different political divides, tracking regional and individual voting behavior. Here we look at whether places with different demographic features systematically vary in political

choices. For a trap to manifest politically, we would need to observe places with different structural characteristic pulling in different direction, potentially working against common solutions that combine both public social investment and fiscal stimulation/infrastructure policies.

Historically, left parties were more pro-fiscal intervention and investment, and less concerned about both borrowing and tax increases. Populist parties, in recent years, have picked up on range of concerns about the democratic process.<sup>3</sup> Busemeyer et al. (2020) show that they are often most suspicious of social investment policies and, while supporting consumption policies, typically pursue restrictive policies on trade and migration. As Zürn argues (Chapter 13) these parties can represent an anti-system stance that could limit productive policies. Thus, we investigate both left and right-populist voting patterns in terms of party family and in terms of manifesto positioning.

### Prioritization and Perceptions: Eurobarometer

We start by examining the roles of age and regional variation in terms of confidence about the economy, turning to a series of questions in the Eurobarometer asking respondents their economic perceptions. We pool all surveys since 2000 that ask individuals their future perceptions and issue prioritization (one to two per year). The aim of this analysis is to provide suggestive evidence of the *mechanism* of secular stagnation, that individual age and region of residence produce different long-run perceptions about growth, and subsequent issue prioritization.

We restrict our analysis to the EU-15 countries included in the Eurobarometer with relevant subnational information (thus dropping Luxembourg), leaving fourteen countries. For these countries, respondents are matched to the NUTS-2 region that they live in, or in the case of Germany, the NUTS-1 region (the German state). This results in 141 regions, with over 300,000 respondents over the 2000–2018 period. These regions are then matched to contextual data on GDP, population, and the age structure of the region, averaged over the previous five-years, drawn from Eurostat. At the individual level, we examine age in years, a dummy for being retired, sex, a dummy for being unemployed, education in years, and the type of community that the individual lives in. The type of community measured is self-reported rural area, towns and suburbs, and cities.<sup>4</sup> We also include a control for the regional GDP relative to the country mean GDP in the year.

<sup>3</sup> We use the Comparative Manifesto Coding of Green, Communist, and Social Democratic parties for those on the left, and include Spanish left nationalist parties as well. We use the same coding of parties on the right, but include the Five Star Movement in Italy.

<sup>4</sup> In some waves, the Germany ‘size of community’ variable is defined in terms of city size rather than type.

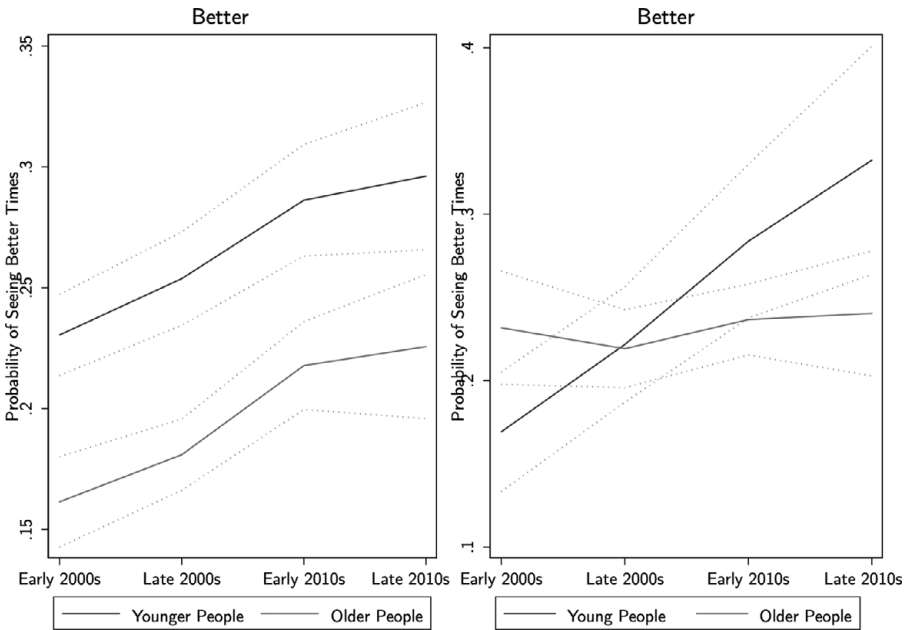


FIGURE 11.3. Perceptions of economic improvement (Eurobarometer)

To begin with perceptions, we turn to an item asked in at least one wave per year since 2000, asking respondents whether they believe the economic situation of their country will improve in the coming twelve months. This item provides a measure of respondents' economic perceptions. Unfortunately, while questions with a longer time horizon (five years) and those with regional perceptions have been occasionally fielded, they are not done so consistently. We dichotomize the variable, coding as 1 those who perceive the economy as improving in the next year, and 0 for those who see it as the same or worse.

To see whether individual age and regional demographic structure are becoming stronger predictors of views over time, we regress economic perceptions on the interaction between age (either individually or regionally) and five-year time periods. We employ linear probability models, with the control variables discussed above, country fixed effects and country-year clustered standard errors (logistic regression produces substantively similar results).

Figure 11.3 shows the results. The first panel shows that younger people (estimated at age 30) are consistently more optimistic about the economy than older people (estimated at age 65).<sup>5</sup> Both younger and older respondents have

<sup>5</sup> It is worth noting that effect may be non-linear since the retired are also more optimistic.

become more optimistic since the early 2000s, and the gap between older and younger people has not grown. Given the credit crisis, this increase in economic optimism is surprising. However, as the right-hand panel shows, this result is driven largely by respondents living in younger places who have become more substantially optimistic over time. By contrast, the economic expectations of those in older places have changed little over. Older and younger places have swapped places in terms of economic attitudes.

Next, we turn to a series of items asking respondents to identify their country's most important issue. These questions are again asked annually, with respondents allowed to select two response options. The nature of options varies over time, with questions on debt not included until after 2013. We initially restrict our analysis to the post-2013 era. We run a series of logistic regression models with country and year dummies, and country-year clustered standard errors. We look at the probability of mentioning housing, pensions, education, inflation, taxes, or debt. Table 11.1 outlines the results.

Here we see that post-2013, age has been a substantial negative predictor of identifying housing, education, and somewhat surprisingly inflation, as the most important issues, whereas it is a positive predictor of seeing pensions and debt as important. The regional age profile has less consistent patterns. The share over 65 in the area is negatively signed, but not significant in identifying housing as most important. However, for housing and education, towns and urban areas are much more likely to identify these as important issues compared to rural areas. The results on pensions and taxes are not in line with expectations, neither older areas nor rural areas are more likely to see pensions or taxes as most important. Older areas, in line with expectations, however, are more likely to identify debt as an important issue. The results then, partially confirm our expectations. We see that older and younger people identify different issues as important, and that there are some regional differences, albeit they are not entirely clear cut. The measure of region, however, is highly aggregated in these analyses.

To investigate the temporal dynamics of issue prioritization more carefully, we return to the questions of housing and education. Both should be of particular concern to younger citizens in cities, per our argument above that investment-based policies should be especially important in younger rising regions. We examine, in this case, period effects in Figure 11.4a and b, interacting regional demography at the NUTS2 level with an indicator for the time period under analysis. We compare the period of the early 2000s to the late 2010s, where the structural dynamics outlined above were more pronounced. What we see in both figures is that areas with a younger demography have become much more interested in both housing and education between the early 2000s and the present, whereas the importance of these issues shows very little change for areas with an older demography. Thus, we find a trend toward an interest in investment in those very areas most likely to benefit from it, but not those that will not.

TABLE 11.1. *Prioritization: post 2013*

	(1) Housing	(2) Pension	(3) Education	(4) Inflation	(5) Taxes	(6) Debt
Age	-0.009*** (0.001)	0.010*** (0.002)	-0.006*** (0.001)	-0.010*** (0.001)	-0.008*** (0.002)	0.003*** (0.001)
Share Over 65	-2.168 (1.673)	0.112 (1.205)	0.932 (1.047)	1.281 (1.276)	-1.326 (1.547)	2.873*** (0.994)
Towns & Suburbs	0.150** (0.075)	0.063 (0.044)	0.079** (0.040)	0.009 (0.044)	0.015 (0.051)	-0.024 (0.044)
Cities	0.310*** (0.082)	0.031 (0.050)	0.091** (0.043)	-0.040 (0.049)	-0.059 (0.055)	-0.056 (0.054)
Retired	0.052 (0.048)	0.067 (0.060)	-0.087** (0.041)	0.035 (0.035)	-0.087* (0.051)	-0.091*** (0.027)
Female	0.053* (0.030)	-0.011 (0.028)	0.099*** (0.027)	0.135*** (0.025)	-0.268*** (0.037)	-0.259*** (0.023)
Education	0.003 (0.009)	-0.065*** (0.008)	0.132*** (0.008)	-0.067*** (0.007)	-0.014* (0.008)	0.048*** (0.006)
Unemployed	0.002 (0.060)	-0.338*** (0.053)	-0.217*** (0.063)	0.104*** (0.040)	-0.379*** (0.051)	-0.267*** (0.041)
Regional GDP/Median	0.432*** (0.114)	-0.134* (0.072)	0.030 (0.088)	-0.059 (0.089)	-0.102 (0.072)	0.176*** (0.064)
Constant	-2.613*** (0.466)	-2.702*** (0.274)	-3.062*** (0.251)	-0.784*** (0.295)	-1.170*** (0.343)	-1.263*** (0.243)
Observations	103848	103848	103848	103848	103848	103848

Note: \*\*\* Indicate statistical significance at the 5 percent level

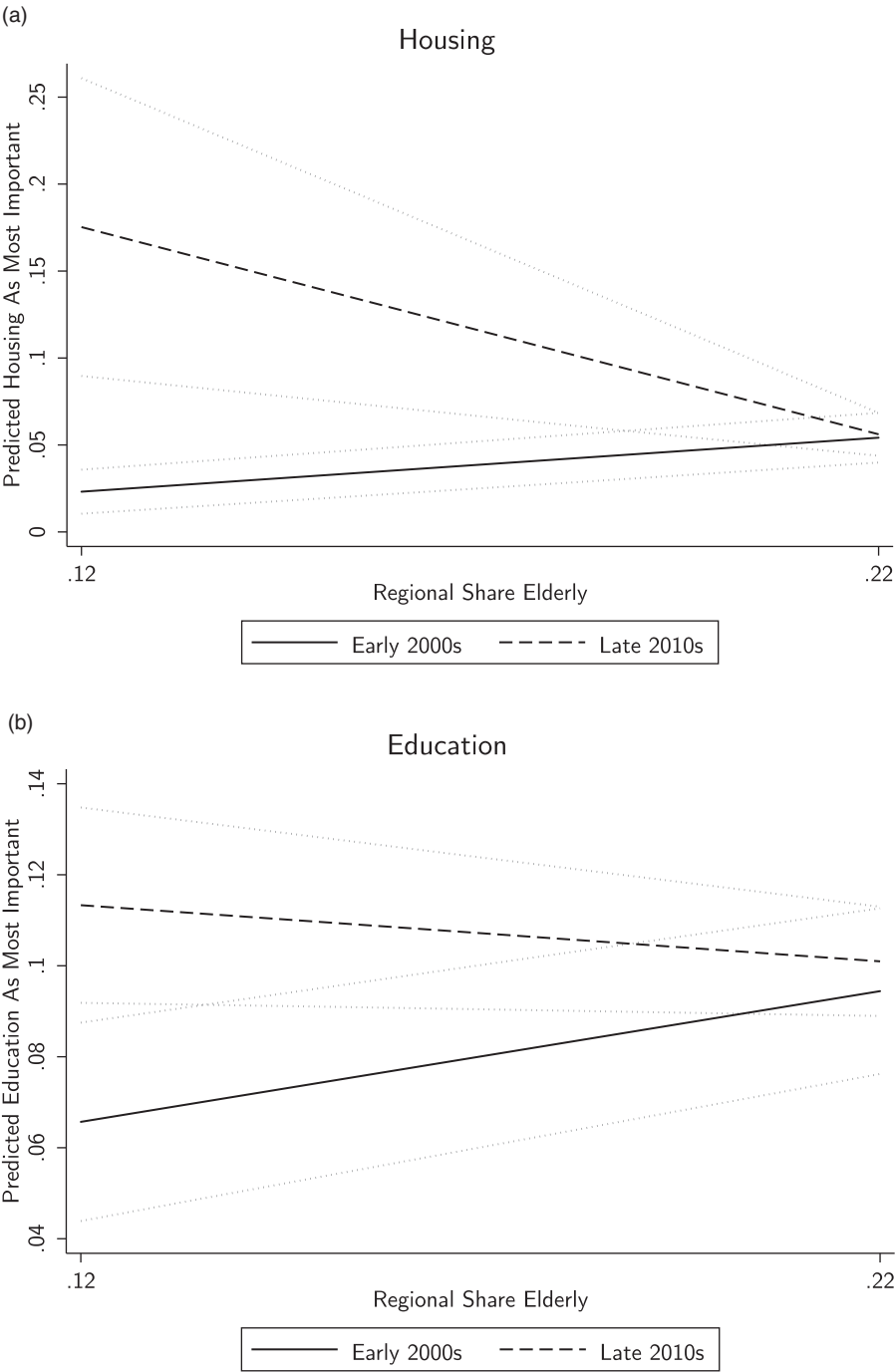


FIGURE 11.4. Individual importance attached to (a) housing and (b) education, by regional demography (Eurobarometer)

## PLACES: SECULAR STAGNATION AND REGIONAL VOTING

The previous section suggested that both individual and geographic age matter in shaping perceptions and prioritization of issues. But how do these differences matter politically? We argued above that secular stagnation is producing important new cleavages *within* countries – dividing cities that have been booming, in part due to secular stagnation-induced housing bubbles, from rural areas with older populations and stagnant housing markets. In the absence of sufficient growth (or indeed private or public capital investment), peripheral areas risk sinking into slower long-run growth – and in some cases already face profound economic decline. This has two key political implications: (a) distinct patterns of economic policies across regions, and (b) rising resentment that may mitigate against productive policy responses to secular stagnation.

As fine-grained local-level opinion data are not available, we turn to local voting data, drawing on an original dataset of local election results in national elections.<sup>6</sup> This dataset measures national-level election results at the level of local area units (LAUs), the base unit for European geographic hierarchies. LAUs are generally municipalities, although the scope of geographic disaggregation varies widely across countries – from highly aggregated units in the United Kingdom to highly disaggregated units in France. LAUs have the advantage that they can be matched to the OECD and Eurostat functional urban areas (equivalent to commuter zones), which allows the separation of trends in core cities and suburbs. We restrict the analysis initially to the same European countries as used in the Eurobarometer analysis.<sup>7</sup>

As in the Eurobarometer analysis, we examine the effects of regional age structures – now measured at the more disaggregated NUTS3 level – but we now do so on regional voting outcomes. We examine two types of outcomes, first looking at voting for party families, and second looking at regionally

<sup>6</sup> The data come from a number of national sources, drawn together with support from the ERC project SCHOOLPOL 759188.

<sup>7</sup> For Greece and Ireland, we do not have the disaggregated data, thus we matched constituency units to NUTS3-units (prefectures in Greece, regions in Ireland) using data from the Constituency-Level Elections Archive (Kollman et al. 2017). In Portugal, the dataset includes election results measured at the *concelho* level, rather than *communes*, as these allow a longer time matching (post-2003 *commune*-level data shows similar trends). In the United Kingdom, election results are not reported at a level lower than the parliamentary constituency, which are not fully matchable to a single LAU. In order to match local units over time, constituencies are matched to 2017 boundary wards, based on the wards' geographic center, which are then aggregated to contemporary local authority units. All analyses weigh the results by the share in the national electorate to adjust for highly varied unit sizes. Where the boundaries of local units have changed from the 1980s, municipalities are matched to 2017/2018 and aggregated (very few LAUs – under 0.01 percent of the sample – have split but those that have are excluded). Alternative specifications, which involve collapsing the local units into NUTS-3 groupings, which are more equivalent in size across countries, yield similar results, but lose precision on urban type.



weighted averages on party manifestos. The latter can be interpreted as matching each party to the particular weight they give a topic in their manifesto – and then examining vote patterns for parties who are supportive of that topic versus those who are not. As such, each region's voting is scored as more or less supportive of that topic dependent on the positioning of the parties they voted for: A region with a high 'autarky' score is one where parties whose manifestos were more 'autarkic' performed strongly.

For each analysis we control for control for employment in manufacturing and logged population density. We do not include standardized regional GDP, as one of the core mechanisms of secular stagnation works through regional income, however its inclusion does not dramatically change results. Because the data is fully disaggregated to the local area, we can also use a precise measure of the type of area – distinguishing major core cities (e.g. inner London, Milan, Paris) from outer suburbs, and smaller cities using the OECD functional urban area typology. For rural areas and towns, we use the Eurostat tercet typology.

To begin with the first outcome, we look at voting for parties of the left and the mainstream and populist right. We restrict the analyses to 2000 onward, where we have at least one election in each country in a five-year period.<sup>8</sup> We estimate each model using election fixed effects and election clustered standard errors. Elections with no right-populist party are excluded from the right-populist analysis.

Figure 11.5a shows that younger areas are overall less supportive of right populist parties and these effects are especially pronounced for in cities, where younger cities are particularly unsupportive of the populist right. Figure 11.5b shows that older rural areas are slightly more left-wing than younger rural areas but cities, and particularly younger cities, are substantially more left-wing.

Putting this together we find that rural peripheral areas, are substantially less likely to vote for the party families that have traditionally supported spending and investment and more likely to vote for populist challengers. We also see major differences in younger versus older cities, with the former still supportive of left parties and unsupportive of the populist right whereas the reverse is true in the latter.

We now turn to measuring outcomes using manifesto data, rather than party families, which allows a more policy-focused measure of local choices. To do so, we draw on three measures – a measure of support for economic autarky and protectionism, a measure of support for education, and a measure for economic orthodoxy.<sup>9</sup> All three are calculated at the local area, by multiplying

<sup>8</sup> Restricting the analysis to the post-financial crisis era (not shown) yields mostly similar results, however, for left parties, there is a substantial change in composition of support, away from social democratic parties and toward green, left-populist, and communist challengers.

<sup>9</sup> All three measures use the same approach, measuring positions as the log (positive mentions +0.5) -log (negative mentions +0.5). The autarky measure uses the approach from using positive mentions of protectionism, negative mentions of internationalism and Europe against negative mentions of protectionism, and positive mentions of internationalism and Europe; the education measure is the positive/negative education mentions; and the orthodoxy measure involves logged positive mentions of economic orthodoxy minus the logged mentions of Keynesianism.

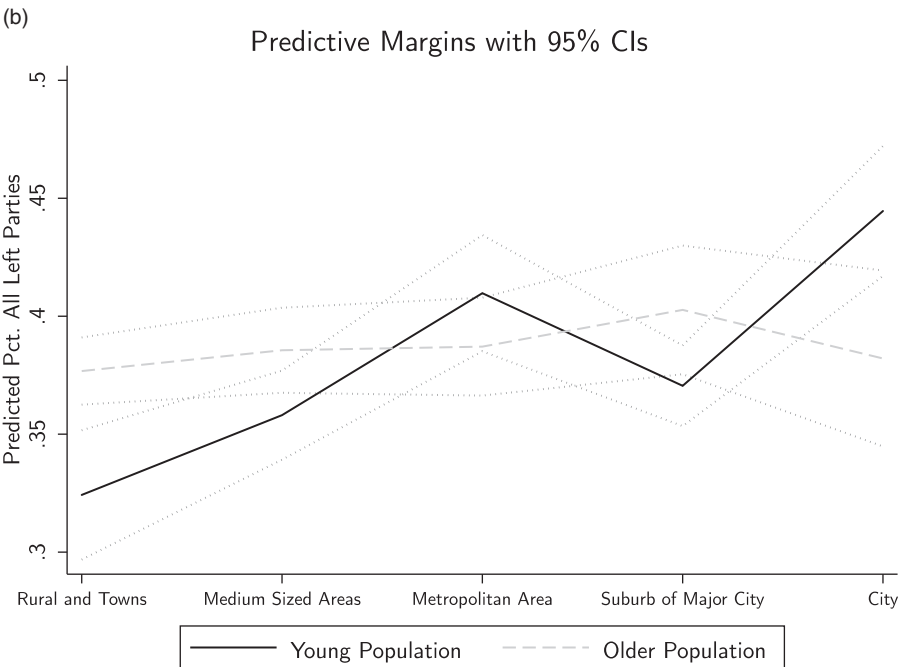
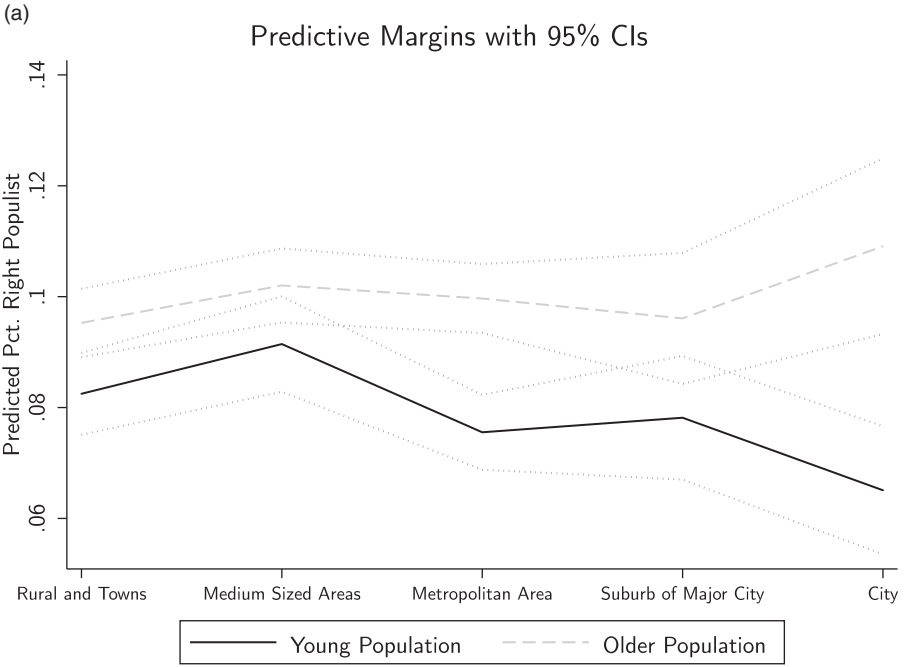


FIGURE 11.5. Voting for (a) right populist parties and (b) left parties at the precinct level by age and geography of region (author's own)

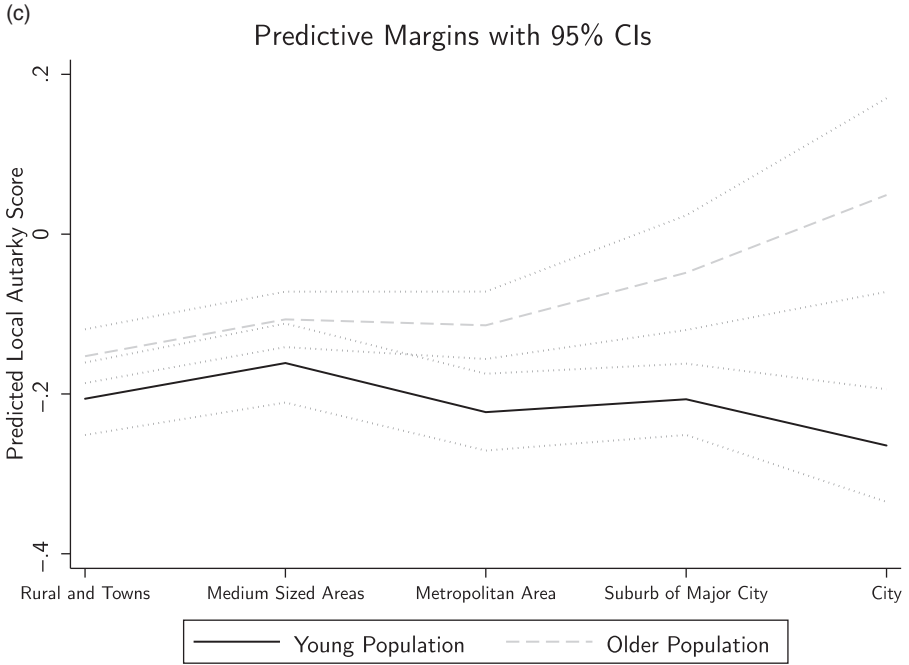


FIGURE 11.5. (C) Median local autarky scores level by age and geography of region (author's own, Volkens et al. 2019)

each individual party coding by the local vote share for that party. We again restrict the sample to post-1996 elections, and use country-year (election specific) fixed effects and clustered standard errors. All models control for, employment in manufacturing and logged population and are weighted by their size.

Figure 11.5a–c demonstrate the interplay between the age profile of NUTS<sub>3</sub> regions and their geographic location in terms of determining local voting patterns.

The patterns for autarky in Figure 11.5c are consistent with the those found for populist voting. The regions that have done best in recent years – the rising major young cities of Europe – are least supportive of economic autarky. Moreover, in general in younger areas, the median voter is less autarkic. The most autarky-supporting areas are older cities – presumably previous industrial centers.

When we turn to support for Keynesian parties, Figure 11.5d shows a similar pattern to autarky. Older cities are more pro-Keynesian than elsewhere (like a legacy of left-social democratic support). This outcome suggests more traditional Keynesian policies of increased spending, which might potentially break the economy out of secular stagnation, are relatively more popular aging

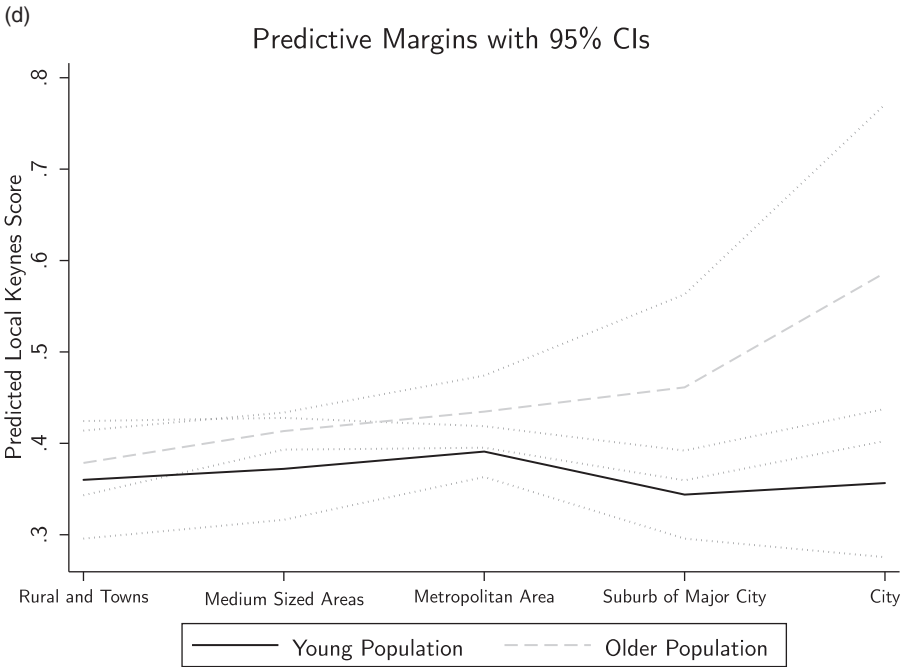


FIGURE 11.5. (D) Local Keynesianism at the precinct level by age and geography of region (author's own, Volkens et al. 2019)

urban areas – typically ‘rust belt’ cities that have lost a young workforce. But a pure demand management response to secular stagnation may be unpopular both in rural areas and in younger, rising cities: a further political trap.

Finally, we conclude by looking at voting for parties along a pro-investment dimension – education. In Figure 11.5e, we see the age structure does not have a strong direct effect. Again, we look at the interaction between the age profiles of NUTS3 regions and the urban/rural location of the locality where votes are counted. Here we find, weaker gradients across people or places – a finding that resonates with Busemeyer’s individual level finding (Chapter 8). Thus, while parties across differing places emphasise education, suggesting a social investment coalition to overcome secular stagnation may be possible, in practice, these demands may be harder to reconcile when combined with greater support for autarky and mixed preferences on Keynesian policies.

Taken together, we see the following. Younger regions, regardless of how urban or rural they are, tend to less supportive of autarkic parties – an effect that grows with urbanization. There are fewer differences on support for more orthodox economic policies, but contrary to what macroeconomists might

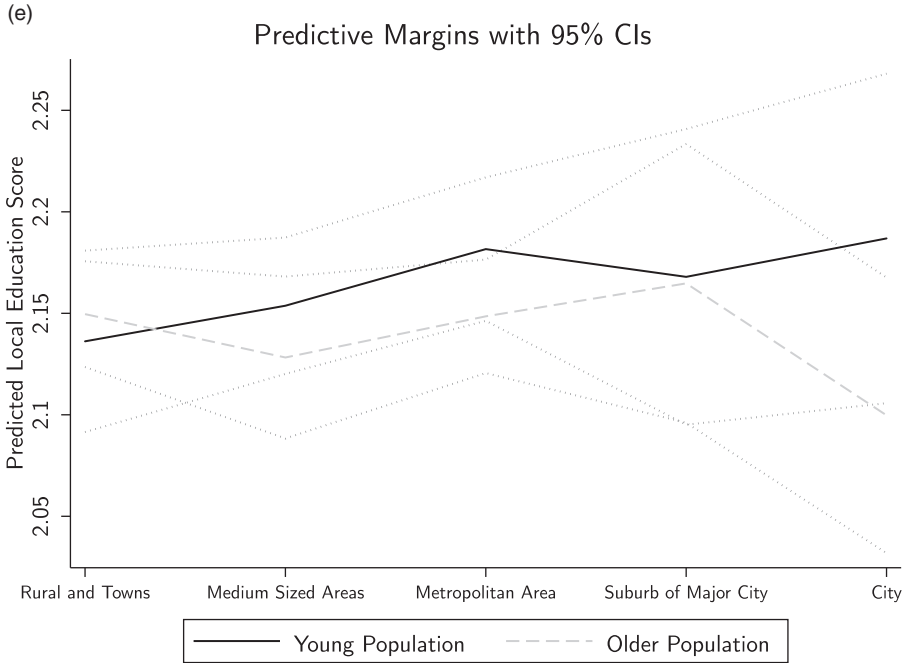


FIGURE 11.5. (E) Local education at the precinct level by age and geography of region (author's own, Volkens et al. 2019)

hope, older regions are not areas of relatively strong Keynesian support outside of aging cities. Finally, we find minimal differences with regard to education. When it comes to the type of parties voted for, there are stronger differences. Populism is much more prevalent in older areas, and left parties in younger cities. Overall, we divide between young, urban areas in advanced industrial countries in terms of voting patterns, although the size of this divide varies across places.

We conclude by analyzing individual level survey data to unpack the question of what is driving these dynamics by region. To do this, we turn to the European Social Survey (ESS). The ESS, like the EB, largely allows us to match respondents to a NUTS2 region, although only from 2010 for Belgium and France, and only at the NUTS1 level for Germany and Greece. We restrict our analyses to the post-2010 survey period, which – because the ESS includes a last election recall – includes elections from 2006 onward.

To unpack the findings in terms of populism and autarkic voting found in the regional voting analysis, we use a measure of whether the respondent voted for a right-wing populist party in the previous election (results are similar if we

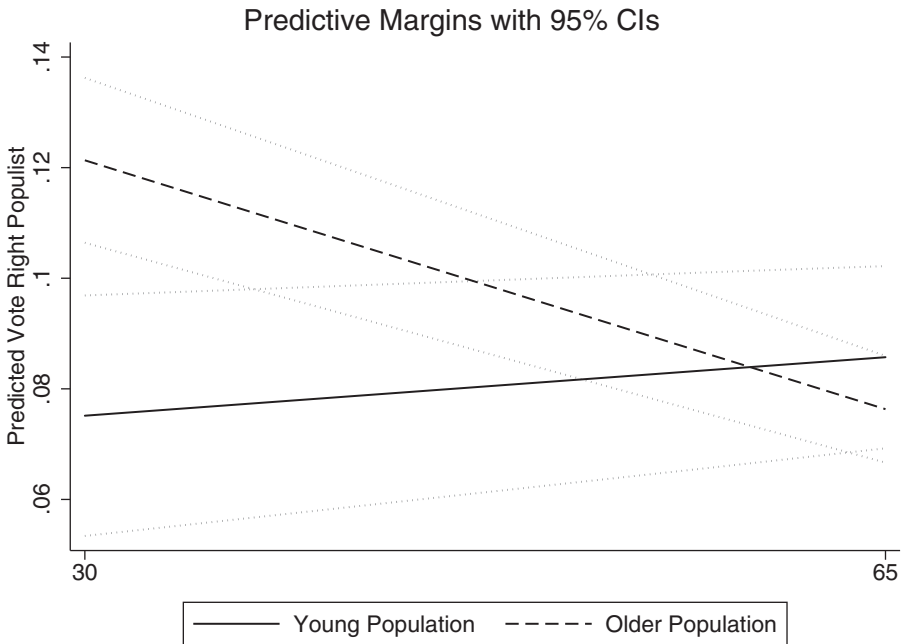


FIGURE 11.6. Age and individual voting for right-wing populists conditional on demography (ESS)

directly measure the CMP autarky score). To measure demographic variation, we simply use the share of the local population who are elderly. Our analyses focus on the interaction between individual age and this local demographic variable. We control for an individual's gender, education level, occupation status, domicile status, and their income relative to the mean (not shown).

Figure 11.6 demonstrates the predicted probability of having previously voted for a populist right-wing party in the ESS conditional on two variables – individual age, and the age of NUTS2 region in which one lives. We see an interesting pattern. The group of people most likely to vote for populist right-wing parties are those who are relatively young but live in a demographically aging region. This group of people are double-losers from secular stagnation: As younger citizens, they are unlikely to have built up wealth and may find it hard to access credit, but they also live in regions that have lower demand for services and weaker employment because of an aging population. While many commentators have assumed that the support base for populist right parties is older people, in fact what we see – consistent with analyses of, for example, support for the *Rassemblement National* in France – is that younger people in declining (read aging) regions are a core support base.

## CONCLUSION

This chapter has provided a preliminary account of the political economy of secular stagnation. We have argued that secular stagnation – a period of lowered economic expectations that becomes self-fulfilling and produces a credit glut – should have implications for the economic and political attitudes of different individuals as divided by their ages and by where they live.

We have identified an important effect of age in the contemporary politics of Europe and beyond. First, we showed that older citizens tend to be less positive in terms of their economic expectations, and that areas with older populations have remained relatively pessimistic whereas younger regions have become more positive over the past two decades. We showed that older citizens tend to be less supportive of a number of policies that might help overcome secular stagnation – greater spending on housing and education or taking on greater debt – but are more supportive of social consumption policies such as pensions. We also saw that people in older regions, regardless of age, tend to be more concerned about debt.

We then turned to data on political preferences and voting behavior. Here we saw that support for populist right parties is particularly concentrated in older-age areas. By contrast the left, including more populist left options, are most supported in young cities. Then weighting parties by their support for various types of policies, we found that older, rural areas are most in favor of autarkic parties, and younger cities least autarkic, and that support for Keynesian policy-promoting parties is only really prevalent in older cities. These results demonstrate that creating coalitions to overcome secular stagnation may again be difficult at the political level. We also see that much of the shift to the libertarian/authoritarian dimension in contemporary politics (Chapter 13) reflects the changing demographic structure of the urban/rural divide.

While we can only provide indirect evidence on this proposition in this chapter, if these geographical and demographic patterns continue to hold, secular stagnation ought to be particularly tough for proponents of social investment spending such as education, which tends to be least preferred by older citizens. Similarly, investment in infrastructure is unlikely to be popular unless it is targeted outside of core urban regions. Yet, if social and public investment really does produce higher growth, reducing or restricting it may further prolong secular stagnation.

Therefore, a political trap around social investment emerges – the type of spending best able to extract countries from secular stagnation may be the least likely to occur. Hence a micro–macro disjuncture between what individuals desire and what emerges as an equilibrium policy can lock in secular stagnation. Representative democracy naturally advantages larger groups in society – today that means older, often retired, citizens. The unprecedented size of the

industrialized world's aging population can reinforce secular stagnation – both economically *and* politically.

The past couple of years have, however, shown one way out of the secular stagnation trap. The coronavirus pandemic produced enormous fiscal activism from governments in terms of stimulating the economy, from the CARES Act in the United States to the furlough scheme in the United Kingdom, to the European coronavirus Relief Fund. Just as wartime spending in the 1940s shook America and Europe out of economic torpor, the horrors of the coronavirus may have been sufficient to rouse substantial fiscal stimulus. Much of the spending by governments during the first and second waves of the coronavirus was necessarily targeted at working-age adults, who were the recipients of unemployment benefits and furlough funds, rather than pensioners. Similarly, the sudden investment in life sciences as part of the vaccine and medical response may help long-run investment in high productivity sectors. However, the post-COVID world remains unclear. Governments in Washington DC, London, Rome, and Berlin have all agreed on a mantra of 'building back better', but such building would need to be in investments in high productivity jobs and infrastructure, if the trap of secular stagnation is to be escaped for good.<sup>10</sup>

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