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How the Eurozone shapes populism: a comparative political economy approach

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ABSTRACT
The rise of populist parties is a defining feature of political change in the advanced capitalist countries. Whereas a large body of research explores populist parties in domestic politics, we know little about how populist parties of right and left have responded to the transformation of the transnational Eurozone regime. In this paper, we show how the diverse exposure to the costs and benefits of EMU can explain their EU-level economic policy positions and thereby create opportunities for populist alliances across the left-right divide. In the debtor countries of Southern Europe, populist parties of both right and left have resisted demands for neoliberal reform during the Euro crisis while supporting fiscal risk-sharing arrangements during the COVID-19 pandemic, making populist left-right coalitions possible. In the creditor countries of Northern Europe, by contrast, populist right and left parties have been fundamentally divided throughout. Based on case study analyses of Germany and Italy, the most prominent creditor and debtor countries, our findings suggest that populist parties may only find common ground when 'Brussels' interferes in domestic policy-making autonomy by imposing neoliberal reform.

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KEYWORDS Populism; Eurozone; Euro crisis; COVID-19 pandemic; next generation EU

Introduction

The rise of populist parties has been a defining feature of political change in the advanced capitalist countries over the past roughly three decades. The 'cartel' (Hopkin & Blyth, 2017) of pro-EU parties has lost significant support in that process, especially since the Global Financial Crisis and the Eurozone's

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sovereign debt crisis that followed it. Political scientists have written extensively on the causes of this electoral shift (e.g., Norris & Inglehart 2019; Hopkin, 2020), but we know comparatively little about how the transformation of the Eurozone regime under the impact of the Euro crisis (2010s) and COVID-19 pandemic (early 2020s) affected their policy stances (for an exception, see Otjes & Katsanidou, 2017). As the Eurozone has gained importance in shaping domestic economic reform, political parties have had to direct their attention to the EU-level to carve out their economic agendas. More specifically, the EU's 'new economic governance' in the wake of the Euro crisis constrained the domestic reform strategies available to political parties towards neoliberal reform (Rathgeb & Tassinari, 2022; Scharpf, 2020), whereas the Next Generation EU recovery package (NGEU) in the wake of the COVID-19 pandemic created fiscal space to alleviate the austerity and liberalisation pressures that characterised the Euro crisis (De la Porte & Jensen, 2021; Armingeon *et al*., 2022).

This paper examines the economic policy positions of populist parties in response to the Eurozone's reform trajectory from the Euro crisis up to the COVID-19 pandemic. With this research focus, we not only analyse the demands voiced by populist left and right parties, but we also gain insights into the opportunities offered by the European economic and monetary integration (EMU) process for populist 'anti-establishment' coalitions to be formed at the member state level. We are certainly not the first to think that the European project may unite the populist left and right. The late Peter Mair (2013) argued famously that 'Europe has become a key issue with which to launch a populist assault [...], it is one that unites, or is at least shared by, the outsiders on both right and left' (p. 111). In this view, European integration can be a key channel through which populist parties cohere around a nationalist platform as the common denominator (Halikiopoulou *et al*., 2012). We start from this assumption that populist parties have a strong anti-EU orientation, but we analyse more specifically whether the trajectory of EMU may promote a convergence of policy positions among populist parties across the left-right divide. Our argument is that the asymmetric impact of the EMU on creditor (mainly Northern European) and debtor (mainly Southern European) countries shapes the economic policy positions of populist parties, and thus their potential to form anti-establishment coalitions.

We show that in Southern Europe, populist left and right parties adopted similar positions in resisting the Eurozone's demands for fiscal austerity and wage restraint while pushing for fiscal risk-sharing and support measures at the same time, forging an unlikely unity across the left-right divide. In fact, their common opposition to externally mandated neoliberal reform demands helps explain why populist left and right parties in debtor countries have found enough common ground to form coalition governments, although their diverse electoral class coalitions and ideological outlooks make governing together difficult (Lega and M5S in Italy, Syriza and ANEL in Greece). By contrast, in those creditor countries that have been more shielded from EU-induced austerity and liberalisation, but instead were faced with demands for fiscal burden-sharing with the debtor countries, strong and persistent partisan divides between populist right and left parties prevailed. Whereas the populist left opposes EU-induced neoliberal reform across countries, the populist right in the creditor countries of Northern Europe resists fiscal transfers and risk-sharing measures that would compensate Southern European member states for current account deficits, making for a very different pattern of economic policy competition in the party system. As a result, the Eurozone's role in domestic policy-making exposes the conditions under which populist parties can cooperate (debtor-deficit countries), or remain fundamentally opposed to each other (creditor-surplus countries).

Our paper contributes to two bodies of scholarship. First, it adds to the literature on party politics and populism studies (Mudde, 2007; Norris & Inglehart 2019; Mansbridge & Macedo, 2019). While the populism literature has made great progress in explaining the diverse electoral fortunes of radical right parties in particular, it is less attuned to other types of non-mainstream parties, and mostly neglects questions of distributive conflict at the transnational level. Second, our paper adds to the comparative political economy literature (Baccaro & Pontusson, 2016; Walter *et al.*, 2020; Hassel & Palier, 2021) by clarifying the varying roles of populist parties in the Eurozone regime. Whereas this literature has been insightful in emphasising the creditor–debtor divide in the political economy of the Eurozone, it has not paid much attention to the economic policy positions of populist parties or the relationships between them in domestic politics.

We proceed as follows. In the next section, we outline the theorised relationship between the asymmetric impact of Eurozone membership (i.e., our *explanans*) and the resulting economic policy positions of radical left and right parties (i.e., our *explanandum*). The subsequent section discusses our case selection strategy and methodological approach. We then show through qualitative case studies of Germany and Italy how Eurozone-related constraints stimulate a populist agenda aimed at reviving economic sovereignty in a debtor country in Southern Europe (Italy), whereas the absence of this pressure creates pronounced partisan divides between the populist left and right in a creditor country of Northern Europe (Germany). A final section concludes.

Populism in the Eurozone

European Monetary Union had deep and wide-ranging implications for economy, society and politics in member countries, yet mainstream party politics for the most part closed ranks around the new institutions and the policy ideas they embodied. EMU brought diverse varieties of capitalism and growth models together in a common currency union: a creditor-surplus regime in the Northern 'core' (Austria, Belgium, Finland, Germany, the Netherlands and, to a lesser extent, France) and the debtor-deficit regime in the 'periphery' of Southern Europe (Greece, Italy, Portugal and Spain) and Ireland (Hall, 2014; Johnston & Regan, 2016; Regan, 2017; Höpner & Lutter, 2018; Walter *et al*., 2020). In the former, current account surpluses resulted from banks and savers exporting funds abroad to lend and acquire assets, hence the label 'creditor-surplus countries'. In the latter group, current account deficits resulted from capital imports to borrow (in the private or public sector) or sell assets, hence the label 'debtor-deficit countries' (Copelovitch *et al*., 2016; Walter *et al*., 2020). In this paper we will refer to the two groups by the widely used shorthand of 'creditor' and 'debtor' countries, a dichotomy that very roughly coincides with the geographical distinction between Northern and Southern European member states (Hopkin, 2020), although the North–South divide is less static and clear-cut than it seems, with France for example also suffering from the competitive pressures and fiscal constraints posed by the Eurozone (Höpner & Lutter, 2018; Rathgeb & Tassinari, 2022).

The risks inherent in these macroeconomic arrangements were poorly understood, even though some economists warned that asymmetric shocks would be difficult to manage without appropriate policy tools and institutions of political accountability to correct policy mistakes (de Grauwe, 2018, p. 188). However, these issues were barely debated and mainstream politicians acquiesced in delegating wide economic policy powers to a supranational, independent central bank, leaving only small outsider parties on the left and right challenging this pooling of sovereignty (Ray, 2007). The initial apparent success of the new currency further marginalised critics. Until the Global Financial Crisis, reduced costs for external borrowing and cross-border banking loans coming from savers in the Northern creditor countries helped to sustain Southern domestic demand, shoring up support for the euro (Jones, 2015). However, when capital flows switched into reverse during the crisis, the Southern countries suffered violent contractions in demand, with insufficient fiscal room to compensate, and a European Central Bank lacking the mandate (or political will) to act as lender of last resort. This is the asymmetric impact exerted by the Eurozone's institutional design at the expense of debtor countries in the wake of the global financial crisis.

In this context, political scientists came to argue that 'Europe' would be the focal point around which populist left and right parties could come together (Halikiopoulou *et al*., 2012; Mair, 2013; De Vries, 2018). While we have some sympathy for this position, the reasons for populist contestation of Eurozone policies vary with member states' economic circumstances: a populist party in a creditor country will have different motivations for challenging EU-level economic policies to a populist party in a debtor country. As we will elaborate in greater detail below, the Eurozone's institutional framework required debtor countries to rein in public spending and liberalise labour markets (neoliberal reform), whilst the creditor countries faced calls to provide financial support in return (fiscal risk-sharing). The EU-level policy response to the Euro crisis was to bail out sovereigns in exchange for fiscal austerity, structural reforms and wage restraint, to achieve an export-led recovery through internal devaluation in the debtor states (Armingeon & Baccaro, 2012; Rathgeb & Tassinari, 2022; Scharpf, 2020). This 'new economic governance' aggravated the adjustment pressures faced by the debtor countries, as they could no longer rely on capital flows from creditor countries to finance their current account deficits. Tightened fiscal rules, macroeconomic surveillance mechanisms, and financial market instability created strong constraints on domestic policy-making autonomy in the debtor countries (Perez & Matsaganis, 2019). This policy mix was also suboptimal for the Euro area as a whole, which recovered from the crisis far more slowly than in the US or even the UK, where policy-makers had more expansive fiscal and monetary policy tools available (Krugman, 2013; de Grauwe, 2015). This is the macroeconomic terrain in which populist parties developed their economic policy positions in the Eurozone's trajectory from the Euro crisis and the COVID-19 pandemic. The Euro crisis, and the austerity policies imposed in response to it, created new political opportunities for populist parties that had remained sceptical of the pro-euro consensus position, and for new challengers to emerge (Hopkin, 2020; De Vries & Hobolt, 2020). The social and economic consequences of austerity undermined support for governing parties across the Eurozone, and particularly in the debtor states, where incumbents suffered major electoral losses (Hopkin, 2020: Ch. 2). Mainstream opposition parties benefitted in the short run from the backlash against incumbents, but lacking the policy space to change the economic outlook, soon found themselves equally exposed to high electoral costs. Only populist parties were credibly able to articulate the demand for alternative positions on both macroeconomic policy and democratic accountability.

In contrast, the COVID-19 crisis restored trust in mainstream politicians and undercut populist contestation of EU policies (Bol *et al.*, 2021). This created a helpful environment for policy shifts and the EU policy response to the COVID-19 pandemic in the early 2020s differed from the austerity-led approach of the Euro crisis. The NGEU package created additional fiscal space for member states through the creation of common bonds, issuing up to €750 billion on behalf of 27 member states, at much lower interest rates than those faced by debtor governments in Southern Europe. The outcome of this package was particularly advantageous to Italy and Spain, the largest debtor countries (De la Porte & Jensen, 2021).

Germany on the other hand gave in to demands for fiscal risk-sharing in order to ensure the viability of a crisis-ridden currency union and secure its export surpluses (Armingeon *et al*., 2022). According to De la Porte and Jensen (2021), the NGEU could even represent a 'Hamiltonian moment' if it becomes a permanent fiscal instrument that furthers European integration. Still, fiscal risk-sharing may be unpopular among voters in recipient countries where austerity measures typically accompany bailouts (Vasilopoulou & Talving, 2020).

In policy terms, partisan support for the EU's new economic governance during the Euro crisis implied a preference for fiscal discipline (i.e., Fiscal Compact, Excessive deficit procedure) and wage restraint (i.e., Macroeconomic imbalance procedure), and thereby greater adjustment costs for the debtor countries (Scharpf, 2020; Rathgeb & Tassinari, 2022). Partisan opposition to the new economic governance implied a preference for fiscal and wage expansion, and thus more leeway for the debtor-deficit countries, with potentially higher fiscal transfers coming from creditor-surplus countries. By contrast, partisan support for the NGEU (i.e., fiscal loans and grants) implied a preference for more fiscal space and less pressure on labour market reform. In essence, it removed austerity demands from the Southern European debtor states, whilst requiring the Northern European creditor states to contribute a greater share of securities and grants for common bonds.

Table 1 summarises our hypothesised relationship between the diverse exposures of member states to the Euro regime (our *explanans*) and the economic policy positions of populist parties at the EU-level (our *explanandum*). Whereas in the Euro crisis the EU's insistence on austerity for Southern Europe reflected in large part the interests of the populist right in the creditor countries, the distributive design of NGEU met the demands of the populist left in the creditor countries, and both right *and* left in the debtor countries. The asymmetric impact of the Eurozone on member states drove a wedge among populist *right* parties, which agreed on returning power to EU member states, reducing immigration and preventing the spread of Islam,

Table 1. EU-level instruments, policy implications, and populist positions.

EU-level instruments	Policy implications	Populist party support
- Support for EU new economic governance - Opposition to NGEU	- Support for austerity & liberalisation - Opposition to fiscal risk-sharing	- Populist right in creditor countries
- Opposition to EU new economic governance - Support for NGEU	- Opposition to austerity & liberalisation - Support for fiscal risk-sharing	- Populist left & right in debtor countries - Populist left in creditor countries

but could not overcome divergent views on fiscal discipline within the Eurozone (Reuters 18.05.2019).

The rise of populist left parties was strongest in the Southern European debtor countries precisely in response to EU demands for a neoliberal adjustment path that was supported by the governments of the Northern European creditor countries (Afonso & Bulfone, 2019; Hopkin, 2020). It is no surprise that the Southern European populist left parties opposed fiscal austerity and wage restraint in favour of a more expansionary economic recovery path. However alongside the populist left's resistance, we also see a similar reaction from the populist right in the debtor countries. To be sure, the populist right lacks the redistributive economic orientation of the populist left (Busemeyer *et al.*, 2022; Rathgeb, 2021; Rathgeb & Busemeyer, 2022) and its economic policies might well be subordinated to a culturally laden core ideology of nativism and authoritarianism (Mudde, 2007; Rathgeb, forthcoming). However, the populist right's anti-EU agenda implies an opposition to limits on popular sovereignty in the economic domain (Mazzoleni & Ivaldi, 2020; Zaslove 2008; Ivaldi *et al.*, 2017; Halikiopoulou *et al.*, 2012). In the crisis-ridden countries of Southern Europe, populist right parties will also resist the EU's previous imperatives of fiscal retrenchment and 'structural' reform in order to restore the economic sovereignty of the nation state vis-à-vis the EU-level. The insistence on 'sovereignty' means very different policy choices in creditor and debtor countries.

Whereas both populist left and right parties are expected to reject the EU's internal devaluation agenda in the debtor countries, we expect stronger divisions between the populist right and left in the creditor countries. The nationalist outlook of populist right parties in Northern Europe leads them to refuse the obligation to issue common debt or pay for fiscal compensations to debtor countries. As a result, they supported the new economic governance's reliance on austerity and liberalisation as long as they are not subject to these reform demands themselves, while resisting fiscal compensation payments to Southern European countries through mechanisms such as NGEU. This makes populist left-right coalitions in creditor countries difficult in the absence of any threat of unpopular neoliberal reforms being imposed by the EU. Populist parties in creditor countries contest the EU, but they do so for fundamentally different reasons: the left rejects neoliberal reforms promoted by the EU both at home and in the debtor countries, whereas the right opposes the EU requiring creditor countries to provide financial assistance and risk-sharing for the debtor countries. In contrast, mainstream parties have been more likely to *compromise* as a way of sustaining their countries' Eurozone membership (Schmidt, 2020), either by conforming to the reform demands of the 'Troika' in the debtor countries (Sacchi, 2015), or by accepting the provision of financial assistance in the creditor countries.

Although national power asymmetries overall benefit Germany and the smaller core countries, the introduction of the NGEU in response to the COVID-19 pandemic suggests that the mainstream parties in the creditor countries are willing to provide concessions to the debtor countries when the economic and political viability of the currency union is at stake. Perhaps unsurprisingly, the introduction of the NGEU has stimulated opposition by Northern European populist right parties against fiscal risk-sharing mechanisms that would benefit Southern European countries. Whereas centre-right and centre-left parties have been engaged in intergovernmental bargaining and technocratic crisis management (Schmidt, 2020), the rise of populist parties has politicised the transformation of the Euro regime and its distributive implications, bringing the politics of the Euro to the heart of domestic political conflict and competition.

Cases and empirical approach

To examine our argument about the diverse impact of Eurozone membership (i.e., our *explanans*) on the economic policies of populist parties (i.e., our *explanandum*), we compare a creditor-surplus country with populist right and left parties (Germany) with a debtor-deficit country with populist right and left parties (Italy). Germany is the paradigmatic Eurozone creditor-surplus country, which features populist parties from both sides of the partisan divide, i.e., the populist right *Alternative für Deutschland* (AfD) and the populist left *Die Linke* (Linke). It has been the major 'winner' of the Eurozone framework as the institutional architecture of the Eurozone allowed Germany to outcompete other member states on cost competitiveness, thereby supporting its export-led growth model (Baccaro & Höpner, 2022). As a result, Germany has *not* faced the external imposition of neoliberal reform since the Euro crisis, which we consider a recipe for ongoing populist left-right divides.

By contrast, Italy is the paradigmatic debtor-deficit country, with the biggest public debt as well as being the major 'loser' of the Eurozone framework in terms of economic growth. Italy's economy has virtually ceased to grow since it joined the Eurozone and thereby lost the monetary and fiscal tools necessary to boost its demand-led growth model (Baccaro & Bulfone, 2022). Hence, we would expect stronger external demands to impose neoliberal reform, which should create opportunities for populist left-right alliances, according to our argument. Italy did not have to sign a Memorandum of Understanding with the Troika like Spain, Portugal, Cyprus, and Ireland, given that its larger size and economy proved powerful enough to resist the EU Commission and EU Council (Sacchi, 2015). But Italy has faced continuous demands to stimulate its economy through a Eurozone-conforming adjustment path that involves labour market liberalisation and fiscal austerity, and European authorities did exert behind the scenes influence to pressurise Italian governments, most notably forcing the resignation of Silvio Berlusconi in November 2011 (Baccaro & Bulfone, 2019). Being outside the formal financial assistance framework makes Italy a 'cleaner' case to test our hypothesis given that its governments have maintained throughout a notional policy-making autonomy, unlike the other major debtor countries, so that party positioning on economic policies cannot be considered to be an artefact of direct external interventions.

Italy's party system is comparable to Germany's, with populist forces on both right and left, although not without some ambiguity. In defining parties as populist or mainstream, we draw on widely used comparative datasets on party identities and positions: principally the PopuList data, designed specifically for the study of populism, which includes a populist dummy variable as well as coding parties as far left or far right (Rooduijn *et al*., 2019). We also draw on the Manifesto Project (Lehmann *et al*., 2023) and Chapel Hill Expert Surveys (Jolly *et al*., 2022).

Our sample of populist parties includes for Germany the populist (far right) *Alternative für Deutschland* (AfD) and the populist (far left) *Die Linke* (Linke); for Italy, on the right, the populist and far right *Lega* and *Fratelli d'Italia* are the main actors, and on the left, the populist *Movimento Cinque Stelle* (M5S) (Rooduijn *et al*., 2019), despite it lacking a clear left-wing ideology and being best described as simply populist or 'technopopulist' (Bickerton & Accetti, 2018). Our grounds for including the M5S are that it espouses some typical populist left positions, such as opposition to austerity and structural reforms in the labour market, and hostility to banks and 'big business'. In the Chapel Hill Expert Survery the M5S is centre-left on the general left-right scale, but more left-leaning than the centre-left mainstream Democratic Party on economic issues (with only the far left party Sinistra Italiana further to the left) (Jolly *et al*., 2022). In the Manifesto Project data the M5S begins in 2013 with a very left-wing position before moving very close to the Democratic Party by 2018 (Lehmann *et al*., 2023). All the Italian populist parties have vocally demanded Italy break free from the Eurozone's constraints on economic adjustment, distinguishing them from the mainstream parties such as the centre-left PD which has been the mainstay of the pro-Europe consensus since the crisis.

Our hypothesis suggests we should observe a degree of convergence amongst populist parties on policy towards the Eurozone under the conditions of strong pressure for neoliberal reform as in Italy, in contrast to the strong partisan divides between populist left and right parties under the conditions of weaker Eurozone-related neoliberal constraints on Germany. Our methodological approach is to use qualitative case studies of these two countries to illustrate the hypothesised relationship of the Eurozone macroeconomic context and the policy demands of populist parties. By using cases that vary sharply in terms of the macroeconomic conditions they are facing, we are able to observe if the positions adopted by populist parties and the similarity or difference between them vary in the way we expect (the logic of Mill's method of difference). First, we provide context and background by describing the economic trajectories and political coalitions preceding the introduction of the new economic governance, characterised by positive net exports in Germany and competitive impoverishment in Italy. Second, we reconstruct how the trajectory of the Euro regime caused diverse EU constraints on the domestic politics of economic adjustment in the two countries. Third, we move from the political-economic context to our analysis of how populist parties emerged and responded to the transformation of the Euro regime. More specifically, our case studies investigate the policy positions of populist parties during the Euro crisis in the early 2010s on the one hand, and the COVID-19 pandemic from the early 2020s on the other. We therefore capture these parties' positions across a period where Eurozone policymaking was experiencing substantial changes, offering some over-time as well as across country and party variation.

Throughout, we rely on primary sources (press releases, official party documents, parliamentary debates, and newspaper reports), comparative datasets (on party positions) and secondary literature to reconstruct partisan policy preferences. In each case study, we present evidence of how the Eurozone's reform demands stimulated different sorts of political backlashes from populist parties, mostly in the form of the policy positions communicated to the public, alongside the material support for government policies where relevant. We also observe the way in which, in the Italian case, the populist parties of left and right were able to find common ground over economic policy matters despite their divisions on other issues. The consulted primary sources can be found in the Appendix.

The divided opposition: populist left *versus* populist right in Germany

Although Germany enjoyed dominant economic status in the Euro area in the aftermath of the crisis, its economy had faced serious cost competitiveness problems when it was considered the 'sick man of Europe' in the early years of the Euro. While consistent with its traditional reliance on the exports of manufactured goods (Manow, 2020), aggressive wage restraint in a common currency union allowed Germany to outperform intra-EMU competitor countries to an unprecedented degree. In the five years leading up to the Euro crisis, Germany recorded current account surpluses above 5 per cent of GDP. Hence, the country turned into the biggest creditor-surplus country of the Eurozone by far (Copelovitch *et al.*, 2016; Walter *et al.*, 2020). This position of strength in terms of the trade balance was achieved at the expense of a squeeze on consumption growth for German households.

The origins of Germany's populist left and right parties help understand their diverse economic policy outlooks. Whereas the populist left (Linke) emerged in response to the 'Hartz reforms' that aimed at enhancing cost competitiveness in the mid-2000s, the populist right (AfD) was founded by neoclassical economists opposing fiscal transfers to Southern EU member states in the wake of the Euro crisis in the early 2010s. Although both parties at various times demanded that Germany should leave the Eurozone – in line with their populist character –, they did so for very different reasons: *Die Linke* has opposed the neoliberal institutional architecture of the Eurozone for ideological reasons, whereas the AfD has rejected fiscal transfers or common bonds as a matter of retaining domestic economic sovereignty.

Die Linke emerged in 2007 from a fusion of the East German PDS-Linkspartei (a successor to the GDR's ruling party, SED) and a new West German breakaway group of the Social Democratic SPD, named Electoral Alliance for Labour and Social Justice (WASG) (Bouma, 2016). The Red-Green government (1998–2005) created opportunities for the formation of a populist left party by causing widespread discontent over labour market liberalisation (*Agenda 2010*) (Schwander & Manow, 2017). Although this internal devaluation agenda resonated with Germany's historically evolved economic problem-solving strategies, it was a direct response to the competitive demands of Eurozone membership (Manow, 2020, Ch. 6).

The anti-neoliberal agenda of *Die Linke* clashed with the Eurozone's reliance on cost competitiveness, especially after the Euro crisis in the early 2010s, although Germany itself was no longer subject to competitive pressures in the context of the currency union. In 2009, *Die Linke* voiced heavy criticism against the ECB's exclusive focus on price stability (thereby excluding employment stability) and opposed the Troika-devised reform packages imposed on Southern European member states (Högenauer, 2019). Unlike the SPD and Greens, *Die Linke* unanimously rejected the terms and conditions of the Troika's bailout packages. At the same time, the party also reacted against the German trade unions' support for wage restraint and 'self-sacrifice' in rounds of tripartite concertation with the employers ('crisis corporatism') (Bergfeld & Fischer, 2017). In the words of Bouma (2016, p. 85), the party not only argued against national emergency measures that sustained the institutional architecture of the Eurozone, but also aimed to politicise questions of international solidarity:

> Rather, what was needed was a radical restructuring of the global and European economy. This included the cancellation of debts of crisis-hit countries, and a 'radical redistribution of wealth' in Europe. While debates in Germany

> focused on solidarity at home, in the form of saving 'German taxpayers' money', Die Linke called for international solidarity (see also Kipping and Riexinger, 2015).

In fact, two Members of Parliament considered the 'capitulation' of the Greek Syriza Party to the bailout packages a reason to leave the Eurozone:

> We must take this moment to rethink the central strategic premises that have guided our politics these past months, i.e., our principled 'yes' to the EU and our categorical 'no' to leaving the eurozone. Doing so means rethinking our political strategy as a left party as a whole (Gohlke & Wissler, 2015).

Instead of the new economic governance's reliance on austerity and liberalisation, *Die Linke* demanded a relaxation of budget norms, direct loans from the ECB to member states, and a 'democratic process' for deciding which debts were to be repaid (and more importantly) which would not be repaid (Bouma, 2016).

During the Euro crisis, the AfD has stood in sharp contrast to *Die Linke* on all EU-related economic policy issues. Founded in 2013, it emerged as a market-liberal protest party opposing the bailout packages devised for peripheral Eurozone countries that were hit hardest by the financial-*cum*-fiscal crisis in the late 2000s and early 2010s. Hence, its ultimate goal was to leave the Eurozone as a way of liberating Germany from fiscal risk-sharing arrangements. First, the AfD's leader, Bernd Lucke (2013–2015), rejected the ECB's loose monetary policy under Draghi's dictum to 'do whatever it takes' for producing low interest rates and high inflation risks at the expense of German savers and pensioners (Grimm, 2015). According to him, uncontrolled inflation rather than price stability would be the likely consequence of the ECB's loose monetary policy. Second, the AfD opposed the introduction of the statutory minimum wage by arguing it could harm national competitiveness, thereby 'killing jobs' and reflecting 'socialist romanticism' as well as a 'neo-socialist ideology of the SPD' (Kim, 2018, p. 9). The party changed its position in 2016 in favour of the minimum wage, without a clear explanation however (Kim, 2018). Since 2016, more generally, we can observe an intensification of internal splits between the party's ethnonationalist pro-welfare wing under Björn Höcke on the one hand, and its moderate market-liberal wing under Jörg Meuthen on the other (TAZ, 20.04.2016). At the EU level, the AfD remained hostile to the ECB's monetary policy while demanding tighter conditions for countries violating fiscal deficits rules. The following quote from the 2017 party programme is worth reproducing to illustrate the AfD's position:

> In our view, the biggest burdens currently imposed on the proper functioning of the social market economy are the unprecedented Euro bailout policy pursued by countries within the Euro zone, and the manipulation of the

> monetary policy by the European Central Bank. Here, fundamental market mechanisms such as the relationship between savings and investment are being undermined, liability principles are violated, and the relationship between creditors and debtors is seriously impaired. (AfD, 2017, p. 66)

The differences between *Die Linke* and the AfD endured when the German grand coalition government changed its position by shifting away from its previous insistence on tight conditionalities (via the ESM) and instead entered negotiations around the mutualisation of future debts incurred in response to the COVID-19 health crisis. As the viability of the Eurozone seemed to be at stake, the Merkel IV cabinet had the overriding objective to stabilise the common currency union and thereby sustain German current account surpluses through greater concessions (Schneider, 2023). Merkel herself made no secret of this intention during the negotiations (Euractiv, 13.05.2020). Her Christian Democratic party budget spokesperson even exclaimed in Parliament that Germany will benefit most, 'even if we pay four times as much as we get back' (Metz, 2021). The government's softened approach must also be seen in light of Germany's enhanced reliance on export markets in Southern Europe on the one hand, and manufacturers in the East and South of Europe on the other, to sustain its own production model (Buti, 2020; Celi *et al*., 2020). To achieve these objectives, the German government shared Macron's desire to take the wind out of Southern Europe's populist parties by creating greater fiscal leeway for their economies, as they looked with 'growing concern at the rise of Euroscepticism in the SP [Southern Periphery]' (Celi *et al*., 2020, p. 420). In other words, what added to the concern over the *economic* vulnerability of Southern European member states was the changing *political* power relationships in these debtor-deficit countries, especially in the third largest EU economy, i.e., Italy (cf Armingeon *et al*., 2022). In this context, the government could expect strong domestic pushback primarily from the populist right AfD, whereas the populist left *Die Linke* had favoured greater support for Southern European member states throughout.

In response to the COVID-19 pandemic, *Die Linke* pushed for common EU-wide bond issuance to deal with the costs of lockdowns and vaccination programmes, but the open question faced by German politics was the extent to which this would involve pooling existing debts or mutualising debt generated by future investments to recover from the pandemic (Euractiv, 21.04.2020). While the grand coalition government under Merkel ruled out the first option, the Greens and *Die Linke* had gone a step further in advocating the sharing of previous debts incurred by countries because of the pandemic. *Die Linke* eventually abstained in the European Parliament, because the resolution for 'recovery bonds' would 'not meet the immense challenge' ahead, while the guarantees for recovery bonds could not rule out spending cuts elsewhere (Armingeon *et al*., 2022). In another press statement on

Germany's EU presidency programme (July-December 2020), *Die Linke* criticised the lack of a 'social progress clause, which gives priority to the protection and workers' rights over EU internal market freedoms' in addition to an EU-wide minimum wage (Euractiv, 24.06.2020). In the 2020 election campaign, the centre-right CDU/CSU and liberal right FDP emphasised the independence of the ECB, whereas *Die Linke* was the only party that called for an explicit financing of domestic sovereign debts by the ECB (Börsen-Zeitung, 22.07.2021).

By contrast, the AfD opposed fiscal risk-sharing and debt mutualisation in response to the pandemic as much as during the Euro crisis, which resonates with the demands of its voters (Koos & Leuffen, 2020, p. 9). Unlike *Die Linke* that argued the recovery package would not go far enough and entail too strict conditionalities, the AfD opposed it for diametrically different reasons, namely that it already goes too far and could be the 'starting point' for old debts to be shared (Euractiv, 21.04.2020). In response, the AfD even filed an emergency appeal to the German Constitutional Court in which it argued that the recovery fund was in breach of the EU treaties – without success however. Hence, the NGEU added to the AfD's long-standing demand to leave the Eurozone and return to the country's previous currency, the *Deutschmark*. It is interesting to observe that the AfD is quite outspoken on the consequences of Germany's potential exit from the Eurozone. According to its 2019 EU manifesto (AfD, 2019, p. 31), the benefits would be to withdraw from liabilities created in the course of the Euro crisis and pandemic (*Euro-Rettungsmaßnahmen*) and restore interest rates for German savers; it would also mean (correctly) higher levels of purchasing power abroad thanks to the appreciation of the *Deutschmark*. In other words, the AfD explicitly attacks Germany's growth model, which, according to the party, benefitted only 'some export firms' (AfD, 2019).

Together against the Euro? The populist coalition in Italy

Italy is the natural representative of the debtor-deficit countries in Eurozone debates, as the biggest economy in Southern Europe, a founder member of the EEC, but also the most indebted country to join EMU in the first wave in 1999, as well as being the location of the first widespread COVID-19 outbreak in Europe in 2020. Like in other Eurozone debtor states, Italy's economy has tended to rely on internal demand for growth, yet austerity measures taken first after the financial collapse of the early 1990s, and then again in the 2010s have led to average incomes stagnating over three decades (Brandolini *et al.*, 2018), containing current account and government budget deficits at considerable cost to household real incomes.

The political impact of the debt crisis on Italy was predictably explosive, with the mainstream parties of centre-left (the *Partito Democratico*) and centre-right (the *Popolo delle Liberta'*) both suffering major losses in the first post-crisis election in 2013. Although deeply divided on distributional politics, these two parties shared a broad acceptance, albeit with differing degrees of enthusiasm, of the EMU settlement and its requirements in terms of Italian fiscal policy during the first decade of the Euro (Conti *et al*., 2020). However, the reluctance of the Berlusconi government to carry out the liberalising reforms and fiscal austerity demanded by the European institutions during the debt crisis led to its collapse and replacement with a technocratic government under former European Commissioner Mario Monti (Sacchi, 2015). The harsh fiscal medicine meted out by this government, with the support of the *Partito Democratico* and part of Berlusconi's PdL, created an opportunity for populist forces outside the two mainstream parties.

The biggest beneficiary was the Five Stars Movement (M5S), a completely new party led by a comedian, Beppe Grillo, which contesting its first ever legislative elections in 2013, polled a spectacular 25 per cent of the vote, becoming Italy's biggest party. Harder to locate on the left-right scale than left populist movements such as Podemos in Spain or Syriza in Greece, the Movement's identity is subject to some debate, but it appeals to a similar electoral constituency of particularly young, economically exposed Italians alienated from the mainstream parties (Hopkin 2020, Ch. 7). The M5S had its origin in a diffuse network of environmentalist groups campaigning on local issues, and other groups with a variety of anti-establishment positions (Corbetta & Gualmini, 2013). As it gained rapid electoral success it adopted a much more vague catch-all identity, although still largely gravitating towards the left (D'Alimonte, 2019). Defining the M5S's policy positions is a fraught task given its lack of consistency, but some clear lines relevant to our analysis can be drawn.

Whilst not falling into any conventional position on the left-right scale, the Movement's approach to the economy did reflect a consistent scepticism towards the motives and behaviour of big business and finance, and opposition to the liberalising labour market reforms introduced since the early 1990s by both centre-left and centre-right, blaming them for the growth of precarious employment. The Five Stars programme also promised support for a basic income scheme (the so-called 'Citizens' Income' – *reddito di cittadinanza*), a policy usually associated with the left . Grillo and many of his supporters were drawn to conspiracy theories about money and banking that saw the Euro as a plot to extract unwarranted interest from citizens through the national debt, views generally associated with outsider groups on the far left (but also on the right) (Corbetta & Vignati, 2014).

In terms of practical policy implications, the M5S lacked a clear strategy on how to challenge the austerity policies imposed from the ECB, but certainly knew what they stood against. In opposition the Movement railed against the euro and the austerity measures imposed in return for financial support. After winning a third of the vote in the 2018 election, the Movement blocked attempts to form a technocratic government under Carlo Cottarelli, instead forming a coalition government with the League, Italy's then main populist right party. The League, founded in the late 1980s as a Northern secessionist party, adopted a strongly Euroskeptic and anti-migrant discourse in the 2000s, leveraging discontent over the costs of Euro membership. In the mid-2010s under Matteo Salvini, the League shifted away from its historic focus on the interests of Northern Italy and instead pitched itself as an Italian nationalist party, drawing on Trumpian language ('Italy First') and very aggressive anti-migrant rhetoric (Passarelli & Tuorto, 2018). The League's generic anti-European and anti-Euro message sought to leverage discontent over the economic situation under the slogan 'basta euro', promising that it would take Italy out of EMU. It also adopted an anti-austerity line, promising to slash taxation by establishing a 'flat tax' (a single rate of 15 per cent on all incomes), whilst also reversing pension cuts and lowering the retirement age (Passarelli & Tuorto, 2018). These distinct policy priorities however were quite consistent with a common agenda to oppose austerity: cutting taxes and raising spending were both in conflict with the rules enforced by the Eurozone institutions.

The success of these two populist parties in exploiting voter discontent over the debt crisis brought about a dramatic transformation of the political debate around economic policy and even European Union membership in Italy. The broad consensus around participation in EMU supported by the mainstream parties was reshaped into a much more fragmented and polarised picture in which the majority of votes were cast for two parties that were deeply hostile to the Euro (Serrichio, 2018). After the 2018 election, it became impossible to form a government without them, although they were deeply divided on many issues. The first phase of coalition negotiations took on a very Euroskeptical tone, with an attempt to install a historic opponent of the Euro, Paolo Savona, as Treasury Minister (the President of the Republic blocked his appointment). The agreement signed by the two parties (M5S & Lega, 2018) committed the government to demanding reform of the Stability and Growth Pact, the Fiscal Compact and the European Stability Mechanism, reduce the powers of the Commission, and promote public investment (Fabbrini & Zgaga, 2019, p. 282). However, the promises of a referendum on Euro membership had been dropped before the election (D'Alimonte, 2019), and the remaining challenges, once in government, morphed into a largely symbolic and unsuccessful attempt to defy the budgetary rules of the Stability and Growth Pact (Fabbrini, 2022, p. 660).

This 'Yellow-Green' government coalition under Giuseppe Conte survived little more than a year with the League withdrawing its support, but the collapse of the government was more a matter of intraparty jockeying for position than of fundamental disagreement over Italy's economic policy regime. Despite sharing a preference for Europe-wide burden sharing, in practice these parties' discourse struggled to articulate a clear strategy for achieving it, focusing instead on generic populist laments. The reality of a populist majority in the Italian Parliament implied a fundamental change in patterns of party competition and policy consensus on the question of Italy's membership of European Monetary Union, posing an obvious challenge to the integrity of the euro. Alongside similar movements in other countries in Southern Europe, this brought pressure for a shift in the EU's macroeconomic position which came to fruition at the beginning of the COVID-19 pandemic (Mérand, 2022).

The position of Italy's populist parties was favourable to the more expansionary emphasis of the Next Generation EU plan, which benefitted Italy the most of any Eurozone member, and insistent on limiting conditionality in the allocation of funds. However by this point the populist right was now in opposition, whilst the Five Stars Movement mostly still supported Conte's second government, formed with the backing of the pro-European centre-left Democratic Party (PD) and other small parties of the centre-left. Conte became the de facto leader of the Five Stars Movement, adopting a more clearly left-leaning position, but maintaining opposition to any conditionality in financial assistance through the early phase of the pandemic:

> We continue to oppose the use of tools such as the ESM which appear totally inadequate with respect to the purposes we pursue … In the face of a storm like Covid-19 that affects everyone, a life preserver is not needed for Italy: a solid, European lifeboat is needed to take our united countries to cover (Conti *et al*., 2020; cited in Miro' 2021).

In practice this meant the 'mutualisation' of debt incurred to fight the pandemic, a mutualisation which would clearly fall largely on the shoulders of the creditor countries in the North (Jones, 2021). The League, having departed from the government in 2019, was freer to ramp up the anti-EU rhetoric, condemning the Commission's slow response to the pandemic and demanding that aid should not come through the ESM with any strings attached, which Salvini described as mortgaging Italy's future (Albertazzi *et al*., 2021, p. 187).

Salvini was himself subject to competition in the anti-system right space from the fast-growing Brothers of Italy (*Fratelli d'Italia*) party (FdI), representing the historic fascist and post-fascist party tradition in Italy. Its leader Georgia Meloni wasted no time in accusing European leaders, in early March, of trying to 'exploit the Coronavirus to force Italy to swallow the bitter pill of the ESM' (Albertazzi *et al*., 2021, p. 187). The theme of the European Stability Mechanism is a constant amongst the populist forces in this period, with the conditionality requirements serving as a symbol of a loss of sovereignty. As a result, Italy's ratification of the agreement was put on hold and ESM resources could not be mobilised to address the COVID-19 crisis. Both the League and FdI used lurid language to describe the EU's approach to Italy's needs, identifying Germany as guilty of trying to 'assault our economy' (Meloni) and describing the ESM as 'a crime against Italians' (Salvini) (Albertazzi *et al*., 2021, pp. 187–188). The continued wide support in Italy for parties sceptical of EMU and in particular its approach to macroeconomic policy, alongside Italy's unhappy role at the frontline of the pandemic in Europe, illustrates how populist movements of both left and right have consistently pushed for policy change in favour of greater burden-sharing and less conditionality, despite their divisions on most other issues.

Conclusion

This paper has analysed the policy demands of populist left and right parties in response to the transformation of the Eurozone across the Euro crisis (2010s) and COVID-19 pandemic (early 2020s). The positions of these parties play out differently due to the diverse political-economic constraints posed by the transformation of the Eurozone. More specifically, we have shown how populist parties of opposing ideological traditions work together against externally mandated neoliberal reform while supporting fiscal risk-sharing arrangements in the debtor-deficit countries of Southern Europe (as in the Italian and Greek experience), but find it much harder to do so in the creditor-surplus countries of Northern Europe where domestic policy-making autonomy has remained shielded from external neoliberal reform demands (as in the German experience). Hence, the Eurozone's role in domestic economic policy-making exposes the conditions under which populist parties converge or diverge, deepening our understanding of how 'Europe' can be the focal point around which populist right and left parties can come together and attack political elites (Halikiopoulou *et al*., 2012; Mair, 2013; De Vries, 2018). The limitation of our analysis is that it relies on a small-N comparison, which we could not test across a broader set of Eurozone countries within the confines of a single paper. Notably, our cases represent paradigmatic creditor-surplus (Germany) and debtor-deficit (Italy) countries, in which we have had strong reasons to assume that the diverse exposure to the Eurozone creates a very diverse political-economic terrain for the populist contestation of 'Europe'. Hence, we leave it to future research to investigate to what extent our findings hold beyond Germany and Italy.

Our theoretical argument about the relationship between populism and the Eurozone opens up avenues of future research on (1) populist parties on the one hand, and (2) the political-economic direction of the European Union on the other. First, this article has started to theorise and explore how different economic vulnerabilities stimulate diverse populist policy responses. Future research should therefore explore to what extent the macroeconomic context shapes not only the electoral fortunes (e.g., Hopkin, 2020), but also the policy demands and influences of populist left and right parties, and how this in turn affects and mediates the positions of mainstream parties. Second, our research also raises pertinent questions for future research on the political-economic direction of the European Union. The fiscal expansion of the NGEU is in line with a broader shift away from neoliberal reform in EU-level policy-making, which includes for example directives to increase minimum levels of taxation for multinational companies (2021), strengthen minimum wages and collective bargaining arrangements (2022), impose windfall taxes on energy firms (2023), and ensure greater environmental and social regulations for corporate supply chains (2023). One implication of this study is that the threat of populist unity in Southern Europe may have helped to legitimise a new post-neoliberal consensus at the EU-level, whilst populist divisions in Northern Europe hindered opposition to the EU's more market-correcting turn. At the same time, however, greater fiscal risk-sharing arrangements may create opportunities for the populist right in the creditor countries of the North to mobilise on a platform of greater economic sovereignty. In our view, these are questions worth taking seriously in future research.

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Appendix

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