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How to Address the Deficit-Populism Double Bind? A Contemporary Ordoliberal Perspective

Advanced democracies increasingly operate under a deficit-populism double bind, understood as a structural no-win situation where centrist parties are caught between the imperative of fiscal sustainability and strong social and political demands for more spending, in a context where populists exploit any move they make. Citizens demand new social protection and investments in response to globalisation, climate change, demographic ageing and digitalisation, while high public debt and tax competition severely constrain governments' fiscal room for manoeuvre. This article diagnoses how these pressures, together with rising zero-sum thinking, feed populist narratives and push centrist parties towards symbolic politics. Building on contemporary ordoliberalism in the tradition of the Freiburg School, we sketch an alternative reform agenda. It places institutional deficits at both the lower and upper ends of the income and power distribution centre stage, and advocates strengthening competition, the rule of law and subsidiarity while broadening citizen and consumer sovereignty. We argue that an updated ordoliberalism can foster inclusive, positive-sum thinking among citizens and thereby help to stabilise liberal democracy under conditions of permanent stress.

At the end of the 1990s, Rodrik (1998) demonstrated on the basis of empirical analyses that economies more strongly integrated into global trade flows have larger public sectors. This, he argued, is a consequence of the fact that greater economic openness is accompanied by increased external risk. For instance, financial crises, recessions or inflation abroad spill over more rapidly into open economies. Where there are more risks, citizens often demand more precautionary measures and compensation mechanisms from the state – such as social, regional and structural policy.

As convincing as these findings and their political implications may appear at first glance, their implementation has been and remains difficult. In times of intense global competition, state activity comes under massive pressure in the "new systems competition" (Sinn, 2003). In concrete terms, this means that a "lean" state – i.e. a state that collects taxes only for specific services and not for redistribution purposes – may have competitive advantages in attracting foreign direct investment, for instance in the form of mergers and acquisitions, joint ventures or even company relocations. However, in this globally competitive environment, states have a hard time deploying the policy instruments needed to cushion the socio-economic consequences of openness. More extensive redistribution demands can no longer be fulfilled without difficulty, because their financing – whether via taxes or public debt – is becoming increasingly challenging. The establishment of new production facilities abroad, cross-border tax avoidance strategies and the emigration of top talent (who represent particularly valuable future taxpayers) all pose serious risks to the development of tax revenue.

A retreat into a purely economically liberal position, according to which citizens must and can deal with challenges on their own, does not reflect political realities and would also likely be difficult for social cohesion and democracy. Citizens' demands on and expectations of the state are real and increasing, with several major trends acting as severe challenges: climate change requires a costly transformation, ideally in international unison, which, however, will hardly materialise. Doing it alone is correspondingly expensive. Demographic change, which is challenging more and more countries, is making young tax contributors a scarce resource. Necessary adjustments in old-age security, care and healthcare are expensive and raise questions about acceptance and fair-

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ness; above all, however, they are hardly implementable with a rising median voting age (Sinn & Uebelmesser, 2003). Finally, the heterogeneity of populations is increasing, which, in the political process, has traditionally been compensated for by deploying ever greater financial resources (Krieger & Meierrieks, 2020).

On top of all this, the effects of the "external shock" of the sudden broad availability of artificial intelligence on nation-states' welfare systems are currently difficult to assess (Acemoglu, 2021). However, current debates on digital taxes and an unconditional basic income show that citizens recognise acute challenges from AI and are correspondingly unsettled. They look to the state for protection – be it through job-protecting regulation or social compensation. Many of these challenges call for international cooperation. Yet today's world is markedly less internationalist and more conflict-ridden than it was a few decades ago, with many states retreating behind national borders and moving further than ever from Fukuyama's (1989) "end of history" thesis of liberal convergence. The numerous other country-specific challenges – from dilapidated infrastructure to problems with the education system – are mentioned here only in passing.

Immediate consequences

In recent years, the growing expectations of citizens have been met with significantly constrained political and fiscal leeway. The funds available for new measures (for example, to cushion an AI-induced structural transformation) are far less abundant than in previous periods of higher economic dynamism with simultaneously more limited socio-economic challenges. Even existing social security instruments (for example, to cushion demographic change) are now under pressure in some liberal democracies, while the remaining resources for forward-looking public investments are becoming ever scarcer.

Where less is available for (re)distribution, conflicts naturally increase when demands are rising. What is allocated to one project is no longer available for another. The often-propagated way out of fulfilling all wishes through higher public debt is misguided, as it deprives future generations of fiscal leeway. In fact, Alesina and Tabellini's (1990) early warning – that current public spending could bind future generations to the point of political paralysis – has, in many respects, materialised and helps explain why fiscal space today is so limited. In the OECD, the average fiscal deficit reached 4.6% of GDP in 2024, up from 2.9% on average in the four years preceding the COVID-19 pandemic; meanwhile, interest payments on outstanding debt amounted to 3.3% of GDP (The Economist, 2025). It would therefore be up to policymakers to prioritise projects wisely – along the efficiency criterion, for example – but governments' wills and the courage to position themselves as fiscally prudent actors are continuously declining. There is great concern about having to demand too much from too many voter groups, alienating them, and ultimately losing political power.

At the same time, the narrowing of political-fiscal leeway goes hand in hand with an increasing zero-sum mindset among the population – a "worldview that assumes that the gains of some necessarily constitute the losses of others. The underlying idea is that societal value creation is limited and that efforts and exchanges do not create value but merely redistribute it" (Chinoy et al., 2025, p. 1). Populists readily exploit this logic, portraying (excessively) large portions of the supposedly limited economic pie as being held by "others" (whether foreign countries, migrants or the wealthy elites) from whom it can or must be reclaimed.

The established parties of the political centre feel constrained by this zero-sum thinking from left- and right-wing populists. They are also aware that fiscal deficits and their increasingly limited economic leeway leave them little space to implement their political agendas. Any centrist party aspiring to lead a government confronts this deficit-populism double bind, alongside the same structural challenges (climate change, demographics, migration, digitalisation and geopolitical conflicts) that demand political responses but can likely not be addressed effectively with current fiscal means.

This constrained space for political action may have contributed to a shift away from substantive debates on growth and redistribution towards more ideological and symbolic policies (including a symbolic hyperactivity of legislation with Kafkaesque over-bureaucratisation, see Gratton et al., 2021). One manifestation of this shift is the fragmentation of the voter base: rather than dividing primarily along the traditional left–right axis of economic and distributional positions, cleavages increasingly align along a distinct sociopolitical dimension. Hooghe et al. (2002) were the first to describe this dimension as ranging from Green–Alternative–Libertarian (GAL) to Traditional–Authoritarian–Nationalist (TAN).

From the point of view of debate participants, including in the political centre, such a dimensionality has the advantage that a sharp political positioning is possible without immediately raising doubts about fiscal feasibility. The necessary positioning can take place on the symbolic rather than the material level. This can be seen, for example, in one of the major contentious issues of recent years, so-called wokeness, which has been and continues to be negotiated very much at the visual-linguistic level, for example in social media. While public funds are also used here – for example, for the drafting and implementation of new official positions in public service – these expenditures are generally modest compared to the costs of traditional redistributive measures in the social sphere.

For the dominant political paradigm of recent decades – liberal democracy – these are new developments and conditions. That left- and right-wing populists have only unrealistic pseudo-answers to pressing structural challenges is one aspect of the problem; the fact that centrist parties likewise no longer make (or can make) sustainable decisions and increasingly fight political debates at the symbolic level because the scope of substantive policies is severely constrained is another aspect that gives cause for concern.

Ordoliberal responses

The rule-of-law-based liberal democracy is the outcome of a political process that emerges and remains stable because the opportunity costs of a system change are too high (Przeworski, 2005). Currently, however, it is increasingly the case that the major upheavals – from climate change to geopolitics – that make day-to-day politics appear sluggish or even incapable are lowering the opportunity costs of a system change from the perspective of many citizens. This makes a departure from liberal democracy more likely (Krieger, 2024). Substantial parts of society feel that they can expect advantages in an alternative order rather than in the existing one. The existing democratic institutions and societal model lose approval and legitimacy, making it possible – despite high aggregate costs – for an alternative order corresponding to populist–autocratic ideas to prevail.

Realistically, there is no universal solution across all political camps for tackling this fragile situation in a way that preserves the appeal of liberal democracy in the eyes of voters. There should, however, be a consensus – at least among the traditional parties of the democratic centre – that each of them must offer an improved product in the marketplace of (economic) policy ideas to become more attractive: less vis-à-vis their centrist rivals and more vis-à-vis the populists at the political fringes.

What insights can *ordoliberalism*, the constitutional political economy and competition policy approach of the Freiburg School, offer in this context? Emerging in the interwar period as an alternative to the twin challenges of Nazi Germany and Soviet Russia, it later provided decisive impetus for the development of Germany's social market economy. Ordoliberals have always emphasised the incentive and knowledge benefits of personal freedom, individual responsibility and a stable regulatory framework, while at the same time underscoring the social dimension of the economic order. In Eucken's (1940, p. 240) words, the aim is not only to strive for a "functioning" but also a "humane order" of the economy and society.

This self-described dual task of ordoliberalism fits with the multidimensionality of today's political discourse, which entails both an economic policy dimension and a sociopolitical dimension. In recent years, economically liberal parties and elites have not always acknowledged both dimensions (Dold & Krieger, 2019, 2023, 2025), often focusing exclusively on economic policy and personal responsibility. Hence, an update is appropriate in which a "contemporary ordoliberalism" opens itself to the problem of socio-economic inequalities, which often have not only an economic but also a sociopolitical dimension.

A systematic and sustained disadvantage for certain social groups in the process of globalisation or other trends mentioned above creates market conditions that are not conducive to long-term, inclusive growth (Ostry et al., 2014). In addition to the lack of economic opportunities for people from socio-economically disadvantaged backgrounds, divisions between different social groups also lead to conflict-laden forms of societal competition that are driven by special interests, e.g. from the political fringes, and that are fought in various ways, e.g. on social media. Whether the supposed beneficiaries are "the rich" or "the immigrants" changes little about the appeal of zero-sum thinking: there is something to be taken from others and redirected to oneself. The result is often a social climate of general mistrust, which in turn can have feedback effects on the economic and political order (Dold & Krieger, 2019).

This challenging situation has (at least) two main implications for ordoliberal policy proposals. At the heart of a contemporary ordoliberalism, explicitly an antithesis of zero-sum thinking, lies the idea that concrete policies must address institutional deficits at both the lower and upper ends of the income and power distribution. The aim is not only to strengthen consumer and citizen sovereignty but also to enable a broader sharing of prosperity in the spirit of positive-sum games – with competition as a "record-type" rather than a "struggle-type" game (Shionoya, 1995; Dold & Krieger, 2025). Institutional deficits manifest themselves in the form of socio-economic inequalities which – partly reinforced by the major trends mentioned above – are far more than mere income and wealth inequality, but all too often encompass systematically different life risks and restrictions on social mobility.

These circumstances have shifted voter attitudes (Danieli et al., 2024): primarily older, less-educated, non-unionised men have increasingly adopted nativist cultural positions that populists have skilfully exploited. The economic and social dimensions of the challenges interact here when – as the Brexit example shows – a majority of the population rejects economically advantageous policy measures because they feel both economically and politically disadvantaged compared to other, supposedly "elite" segments of the population (e.g. the "liberal cosmopolitan urban elites", see Dold & Krieger, 2025).

The focus on people at the lower end of the income, wealth and power distribution must be a concern for adherents of ordoliberalism, but has too seldom been the case in recent years. Excellent education in early years and later access to lifelong learning, as well as open and fair access to a society's resources, can enable competent participation in economic and political life. For instance, Autor and Wasserman (2013), among others, document a widening gender gap in educational attainment, with boys and young men increasingly falling behind – an underperformance that risks compounding disadvantages over the life course.

An ordoliberal agenda should therefore aim explicitly at citizen sovereignty – grounded in individual freedom and responsibility – in addition to consumer sovereignty. The state's role here is not paternalistic, but to serve as an impartial arbiter and, above all, an enabler of equal and fair opportunities for all. This is the opposite of the paternalistic notions of the state's role envisioned by many other political "-isms". In doing so, the state must curb its own tendency towards centralisation and instead follow the principle of subsidiarity, which places decision-making authority as close as possible to citizens in order to best reflect their preferences. Dold and Krieger (2025) show in this context that the partial stepping back of institutionalised, representative parliamentarianism in favour of more direct citizen participation through rule-based deliberative elements opens up new opportunities to strengthen democracy. There is encouraging evidence that voters are willing to bear financial responsibilities if they feel they had a voice in the decision-making process (Sjoberg et al., 2019). Moreover, greater democracy does not necessarily imply that previous beneficiaries – such as the wealthy or urban elites – will be worse off. On the contrary, more democracy may foster higher levels of trust and improve the quality of public goods (Putnam et al., 1993).

At the upper end of the income distribution, legislative procedures must be introduced to curb "political capitalism", in which an influential economic elite effectively exerts political influence through cooperation with politicians and other decision-makers, thereby serving their joint interests (Krieger & Meierrieks, 2016). Strengthening the competitive order, (constitutional) rule of law and the principle of subsidiarity are typical means to safeguard the functioning of markets (Dold & Krieger, 2019). These should be supplemented by measures that ensure equal opportunities so that poorer and less educated citizens can participate in market activities without disadvantage. Admittedly, such reforms might entail a redistribution of advantages and opportunities away from incumbent winners towards a broader base of consumers. Yet this shift may be justified on the grounds that a more inclusive and competitive economic order ultimately enlarges the overall economic pie, thereby benefiting society as a whole. In this respect, it might be worthwhile remembering Adam Smith's core insight: the extent of societal prosperity is linked to the extent of the market.

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