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Little fires everywhere: How polarization is shaping the economy (and what do to about it)

Executive Summary



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In 2024, societies are showing more signs of stability and social resilience, but the frequency and severity of civil unrest is increasing in several countries.

Our proprietary Social Resilience Index (SRI) shows that an improving economic outlook, the absence of systemically disruptive events and lower inflation are contributing to a more resilient social backdrop globally. Yet, the increased frequency of protests and riots in 2024 shows how civil societies are reacting to distinct pressures, and how governments are able to cope with economic trends which erode the social contract. The Middle East saw the most substantial increase (+40.3%), followed by Africa (+19%), where it could still be attributed to the cost-of-living challenges in several countries, such as Kenya, South Africa and Ethiopia. Asia saw a modest rise of +4.1%, reflecting persistent social and economic issues in countries like India and Indonesia. The US, Canada and Europe experienced a slight increase of +3-4%, reflecting ongoing social and political divisions, migration issues and economic uncertainties. In contrast, Latin America witnessed a decrease of -25.7%, due to the relative slowdown in inflation, improved political consensus and increased security efforts.

In 2025, resilience may not be enough to protect from social instability, particularly in countries where political events are more frequent. Based on the frequency of protests and riots, as well as key social risk indicators, we identified four clusters of countries: those that are showing signs of normalization (Argentina, Bolivia, Brazil, Chile and Peru); high-income nations with underlying social issues (e.g. France, Germany, Italy, Spain and the US); emerging economies with fragmented societies (e.g. India, Türkiye, Mexico) and severely strained nations (Nigeria, Syria, Venezuela).

The 2024 super electoral year has revealed fragilities in many countries: all incumbent parties in developed countries lost vote share (a first since WWII), and the ideological center of gravity has shifted to the right in 16 European countries and the US. Following a year where more than 70 nations – home to nearly half the world's population – have been called to the polls, making the rising trend of polarization a cause for concern. The strength of democratic institutions, social cohesion and trust in functioning markets and economies are being affected by increased partisanship. The most recent example is the Republican takeover of the US Presidency, Senate and House of Representatives. For the first time in 20 years, the Democratic party lost the popular vote, not just the electoral one. The largest shifts towards the ideological right were observed in the last two EU elections in 16 EU countries, including Portugal, Italy, Romania, Bulgaria, Czechia and Spain. Of course, political polarization extends far beyond the boundaries of the EU (Australia, New Zealand, Japan, the UK, Switzerland and Canada).

Polarization has increased in many countries. It comes with a sizable economic cost. Using the Dalton Index to measure the spread between political parties by their position in the left-right scale and the size of electorate they appeal to, we find that just seven countries managed to decrease the level of polarization in the last decade. Political affiliation plays an important role in consumer behavior as observed in past events of heightened political uncertainty across democracies. We find that a -10% and -20% one-period consumer confidence shock would decrease consumption by USD105bn (USD304 per capita) and USD215bn (USD622 per capita) over the next four years. In Europe, the same shocks would decrease consumption by USD52bn (USD147 per capita) and USD103bn (USD296 per capita), the effect being more subdued as consumer confidence in the EU still has not fully bounced back from the effects of the pandemic and geopolitical tensions.

The long shadow of inflation, highly debated fiscal adjustment measures (e.g. increased taxation, social protection reforms, climate policies) and lingering productivity growth require policymakers to bridge further the widening trust deficit, actively reduce polarization risks and tap into the power of unity. Corporates may have a role to play too. Research has found that between 1900 and 2020, there were 105 episodes in which countries were able to reduce polarization from pernicious levels for at least five years. In this period, there were twice as many episodes of polarization in democracies, thus proving that countries have a robust capacity to de-polarize. In this context, policymakers and politicians need to refrain from divisive campaigns and make a strong call to unite the electorate – especially as global challenges require a united front and the issues that keep voters awake at night are largely the same: the cost of living, the economy, geopolitical tensions and climate change. The silver lining is that polarized individuals exhibit a higher willingness to participate in politics across different forms of political engagement. Public resistance to reforms often stems more from concerns about fairness, trust and misperceptions. To gain support, policymakers should improve communication, engage the public in shaping reforms and address potential harms with tailored support, all of which require tools often found in hyper local architects of change (municipalities or corporates) to build trust through transparent, participatory processes and tap into the power of unity.



Mapping the uneven terrain of social unrest

Societies are showing more signs of stability, but the frequency and severity of civil unrest is increasing in several countries. Our proprietary Social Resilience Index (SRI)¹ was developed in the wake of the pandemic to identify underlying strengths, weaknesses and perceptions of a country's political, institutional and social frameworks. The SRI signals the general susceptibility to "systemic social risk" events that could be gamechangers and disruptors with regard to politics

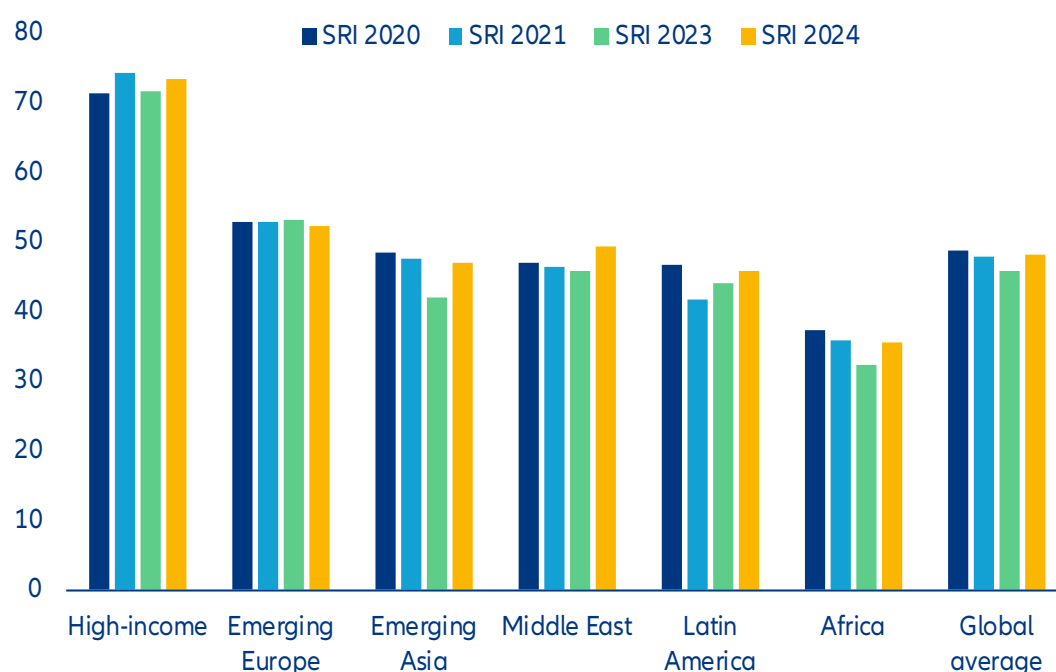
and policymaking, as well as business and investment decisions. Drawing from development economics, we look at different pillars for prosperity, such as economic growth trends, labor participation, inequality, public social spending, governance indicators, the share of vulnerable employment, imports and dependencies of foods and fuels in the economies, currency stability and fiscal revenue.

¹ This paper provides an update of the Social Resilience Index (SRI) that we created in spring 2020. The SRI comprises structural determinants that measure underlying strengths, weaknesses and the perceptions of political, institutional and social frameworks for 185 countries, ranking them with a score between 0 (lowest resilience, meaning highest social risk) and 100 (lowest resilience). The SRI neither measures the probability of a social crisis nor predicts the next social unrest event. It is rather a vulnerability indicator that focuses on the long-term structural determinants of social risk.

This year, our SRI shows that an improving economic outlook, the absence of systemically disruptive events and lower inflation are contributing to a more resilient social framework globally. At the same time, the global average has not yet returned to the pre-pandemic level and there are regions still markedly below the threshold, such as Africa, emerging Asia and Latin America (see Figure 1). Moreover, even within the regions that

appear to be improving, disparities between countries are increasing – the most obvious case being the Middle East where the Emirates drive the score upwards despite the marked deterioration in other countries.

Figure 1: Social Resilience Index by regional aggregates (0 = lowest resilience; 100 = highest resilience)

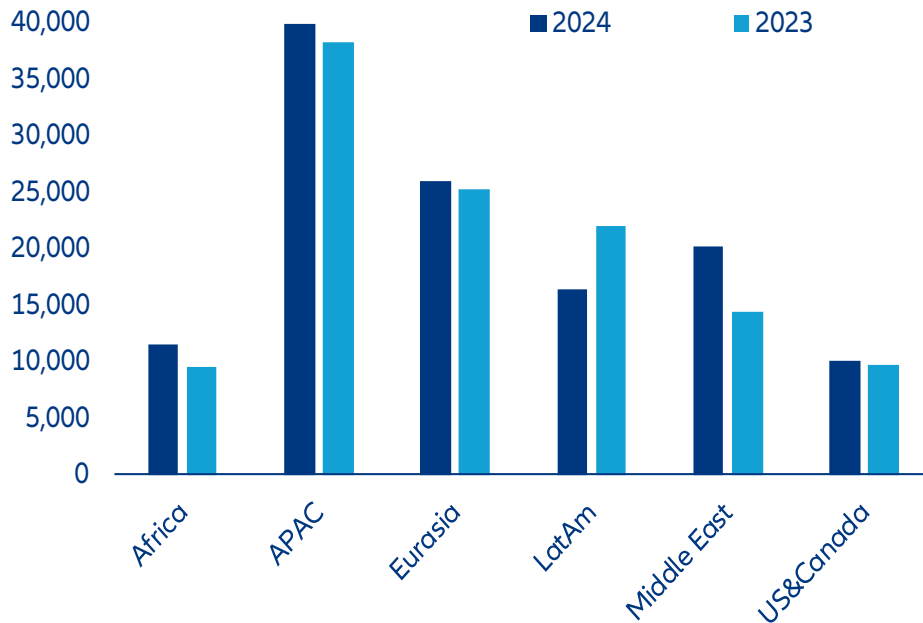


Source: Allianz Research.

The frequency of protests and riots from 2023 to 2024 shows how civil societies are reacting to distinct pressures, and how governments are able (or not) to cope with diverse economic trends to reinforce the social contract. The Middle East saw the most substantial increase at +40.3%, which can be linked to heightened political unrest and economic difficulties in countries such as Iran and Pakistan (see Figure 2). Africa experienced a notable increase of +19%, which could be attributed to a still dramatic increase in the cost of living and economic challenges in several countries, such as Kenya, South Africa and Ethiopia. The Asia-Pacific (APAC) region saw a modest rise of

+4.1%, reflecting persistent social and economic issues in countries like India and Indonesia. The US & Canada region experienced a slight increase of +3.6%, reflecting ongoing social and political divisions, particularly in the US. Eurasia also had a slight increase of +3.1%, likely driven by ongoing geopolitical tensions, migration issues and economic uncertainties. This trend extends to countries facing different challenges, like Germany, Poland, Spain and Türkiye. In contrast, Latin America (LatAm) witnessed a significant decrease of -25.7%, likely due to the relative slowdown in inflation, improved political consensus and increased security efforts.

Figure 2: Number of protests and riots by region, 2023-2024 (January – early October)



Sources: Armed Conflict Location and Event Data (Acled), Allianz Research.

The frequency of protests and riots surged in countries such as India, Germany and Türkiye but decreased substantially in France and South Korea. India leads the list with 18,626 incidents between January and early October this year, marking a +21.2% increase from the previous year (see Table 1). This surge in social unrest could signal underlying economic or political tensions that warrant close monitoring. Similarly, Germany and Türkiye have experienced substantial increases in protest activities, with Türkiye showing a remarkable +78.5% rise and Germany a +35.9% increase. Conversely, countries like France and South Korea have seen significant declines in protest frequency, dropping by

-21.7% and -21.6%, respectively. Morocco’s +205.9% increase is particularly alarming, suggesting a dramatic escalation in social instability but also how sensitive the civil society is to the conflict in the Middle East. These fluctuations underscore the importance of understanding the local socio-economic and political contexts driving such changes. This could be especially relevant in the European context with the German election scheduled for late February.

Table 1: Top 20 countries by frequency of protests and riots in 2024*

Top 20 countries by frequency of protests and riots in 2024*							
Country	2024	2023	Difference	Country	2024	2023	Difference
India	18,626	15,373	+21.2%	Iran	2,815	2,088	+34.8%
US	8,549	8,383	+2%	Indonesia	2,664	2,315	+15.1%
France	5,517	7,045	-21.7%	Bangladesh	2,223	1,458	+52.5%
Pakistan	5,405	5,380	+0.5%	Italy	2,218	2,366	-6.3%
Mexico	4,921	4,989	-1.4%	Kenya	2,068	1,311	+57.7%
Germany	4,068	2,994	+35.9%	Colombia	1,666	2,070	-19.5%
South Korea	3,931	5,015	-21.6%	Canada	1,577	1,381	+14.2%
Türkiye	3,729	2,089	+78.5%	South Africa	1,544	1,505	+2.6%
Spain	2,933	2,264	+29.6%	Japan	1,531	1,290	+18.7%
Morocco	2,857	934	+205.9%	Poland	1,441	713	+102.1%

*This does not include countries and territories where conflict is ongoing (Yemen, Palestine). Count of events from 01 January to 04 October of each year.

Sources: Aclted, Allianz Research.

Venezuela, Argentina, Brazil and Peru, which were previously in the top 20 for frequency of social unrest, have all experienced marked reductions (see Table 2). These declines could indicate a normalization of the social environment after a peak, characterized by above-average institutional crises, such as in Peru. Chile, one of the Latin American countries most affected by protests in 2019, now ranks 33rd in frequency of protests, but lost five points in

the SRI 2024, indicating a potential return of unrest in 2025, with elections scheduled for November. This is to highlight that the substantial decreases across the region also raise questions about the sustainability of these improvements and whether they reflect genuine stability or temporary reprieves.

Table 2: Countries previously in the top 20

Previously in the top 20			
Venezuela	1,393	2,474	-43.7%
Argentina	1,174	2,018	-41.8%
Brazil	1,059	1,763	-40%
Peru	1,038	2,948	-64.8%

Sources: Aclted, Allianz Research.

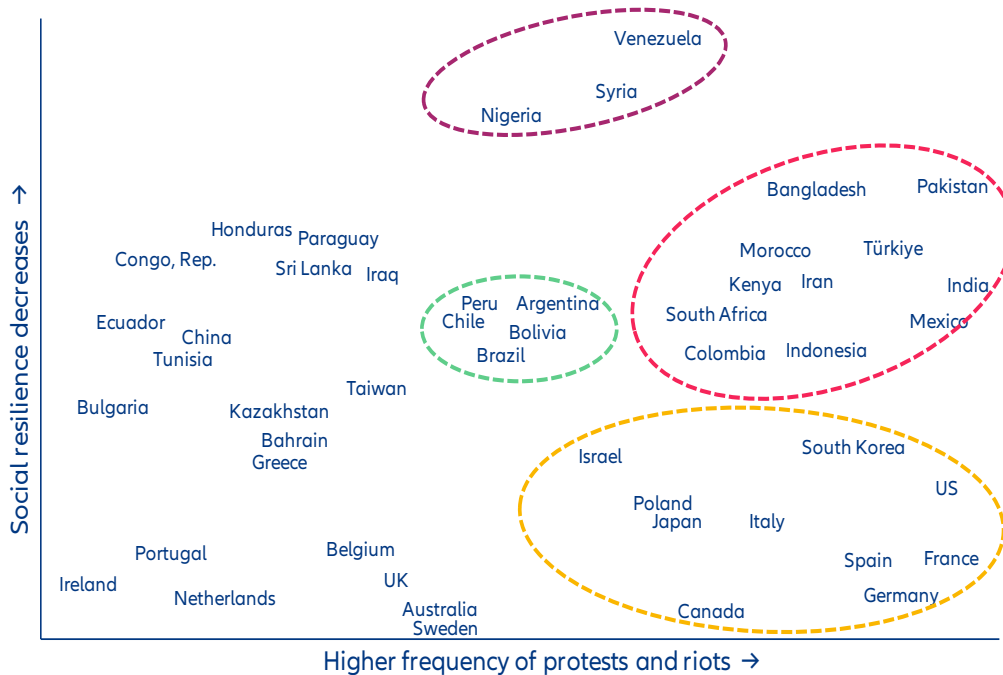
Our scores show that resilience may not be enough to protect the economy from social instability, particularly in countries where political events are more frequent. Based on the frequency of protests and riots, as well as key social risk indicators, we can group countries that have registered above-average levels in one or both dimensions into four distinct clusters, as shown in Figure 3:

- **High-income countries where larger issues may be bubbling under the surface.** This group includes Canada, France, Germany, Italy, Poland, Spain, South Korea, Japan and the US. Despite their high-income status, these countries face significant social challenges, including economic inequality, political polarization and social injustice, which often lie beneath the surface but occasionally erupt into significant protests. As with Morocco, unrest related to the ongoing conflict in the Middle East is also contributing to increase the frequency of protests in countries like Germany and Türkiye.
- **Emerging economies with heterogeneous and increasingly fragmented societies.** This diverse group includes Bangladesh, Pakistan, Morocco, Türkiye, India, Iran, Mexico, Kenya, South Africa, Colombia and Indonesia. These countries are characterized by rapid economic growth coupled with significant social and political challenges. Protests in these countries

are often fueled by economic inequality, political corruption and social injustice. In Morocco and Turkey in particular, protests have been linked to the conflict in the Middle East, adding another layer of complexity to the social unrest.

- **Severely strained nations.** Nigeria, Syria and Venezuela fall into this category. These countries are experiencing extreme socio-political and economic crises, resulting in frequent and often violent protests. The unrest in these nations is typically driven by severe governance problems, economic collapse and, in some cases, armed conflict.
- **Latin America: back to normal?** This cluster includes Argentina, Bolivia, Brazil, Chile and Peru. These countries have experienced frequent protests, often fueled by economic instability, perceived corruption and social inequality. In Latin America, the public often takes to the streets to demand better living conditions, transparency and justice, but this trend has diminished in recent years, and countries this year rank halfway between outright instability and vocal but orderly societies. The outcome of the elections in the US, but also in individual countries in the region, as well as their geostrategic positioning, will determine whether the transition to a calmer environment continues or comes to an abrupt stop.

Figure 3: Social Resilience Index and frequency of protests, selected countries



Sources: Aclted, Allianz Research.



How polarized are democracies?

The global economy faces low growth due to aging populations, weak investment and structural barriers, which increases the urgency for reforms to encourage labor participation, competition and efficient resource allocation. But public resistance to reforms often stems more from concerns about fairness, trust and misperceptions. To gain support, policymakers should improve communication, engage the public in shaping reforms and address potential harms with tailored support, all of which require tools often found in hyper local architects of change (municipalities or corporates) to build trust through transparent, participatory processes.² and tapping into the power of unity. Against this backdrop, we look at the issues that both unite and separate the electorate in democracies around the world.

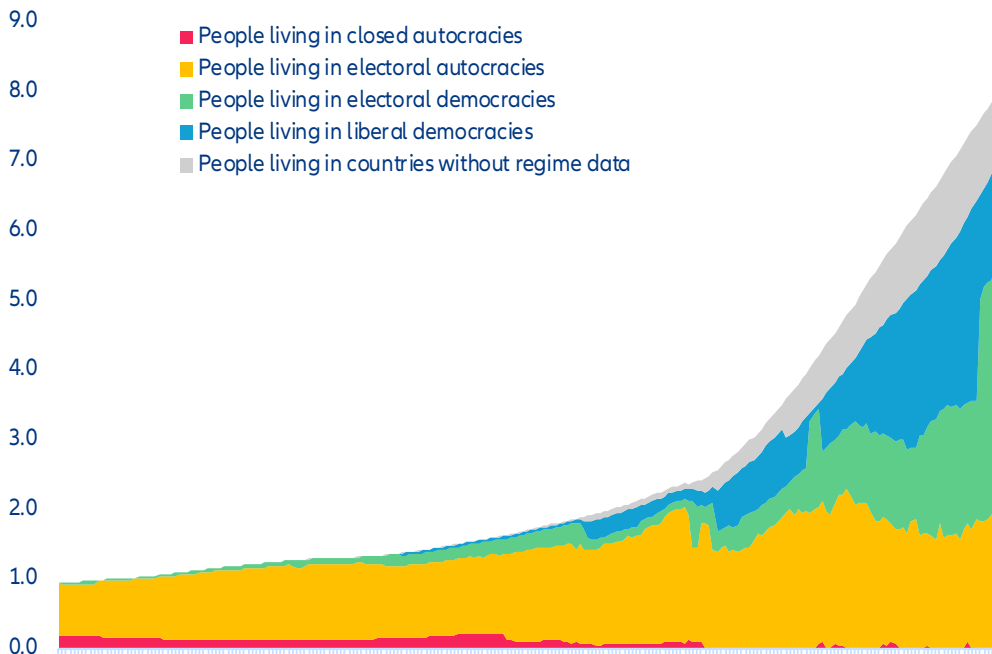
By the end of this year, 70 countries home to 4bn people will have had elections. Allowing them to express their support or discontent for the status quo. With the global economy facing low growth due to aging populations, weak investment and structural barriers, it is all the more urgent to implement reforms to encourage labor participation, competition and efficient resource allocation. But concerns about fairness and trust, as well as misperceptions, can often contribute to public resistance to reforms. This resistance can in turn create fertile conditions for political polarization, which has been on the rise in democracies over the past few decades, notably in some of the largest democracies such as Brazil, Mexico and the US.³ The strength of democratic institutions, social cohesion and trust in functioning markets and economies are all being impacted by increased partisanship – as seen in the US⁴ and Mexico – or increasing extremism, as in Europe⁵. While the spread of democracy has increased since the 20th century (Figure 4), functioning democracies should not be taken for granted.

² [Support for Economic Reforms Hinges on Communication, Engagement, and Trust | IMF Blog](#)

³ [Reducing Pernicious Polarization: A Comparative Historical Analysis of Depolarization | Carnegie Endowment for Peace International](#)

⁴ Coibion, O. et. al. 2020. Political Polarization and expected economic outcomes

⁵ [Political polarization and its echo chambers: Surprising new, cross-disciplinary perspectives from Princeton.](#)

Figure 4: Government varieties around the globe, in billions of people

Sources: V-Dem, Allianz Research.

There are two kinds of political polarization: affective polarization is the emotional dislike and distrust of political out-groups vis-à-vis the positive bias towards political in-groups – even if individuals do not exhibit polar ideological and policy preferences.⁶

This phenomenon is much more common in bipartisan societies as each party embodies binary political ideologies and partisan identities. On the other hand, ideological polarization is the divergence of policy preferences from the center towards ideological extremes. Affective polarization in democracies tends to get a lot of attention, especially in a super election year. But it is easier to observe and analyze affective polarization wherever there are only two viable political options and a clear cutoff for in-and-out-political groups. Most European countries have multi-party systems and the in- and out-groups are less obvious. However, most parties in democracies can be placed in a left-right ideological continuum based on their policy views so for this analysis, we focus on ideological polarization. The ParlGov⁷ project provides comparable data for most EU and OECD on ideological views of parties from 1900 to 2023. It uses a left-right scale metric between 0 and 10, with zero being the extreme left and ten being the extreme right.

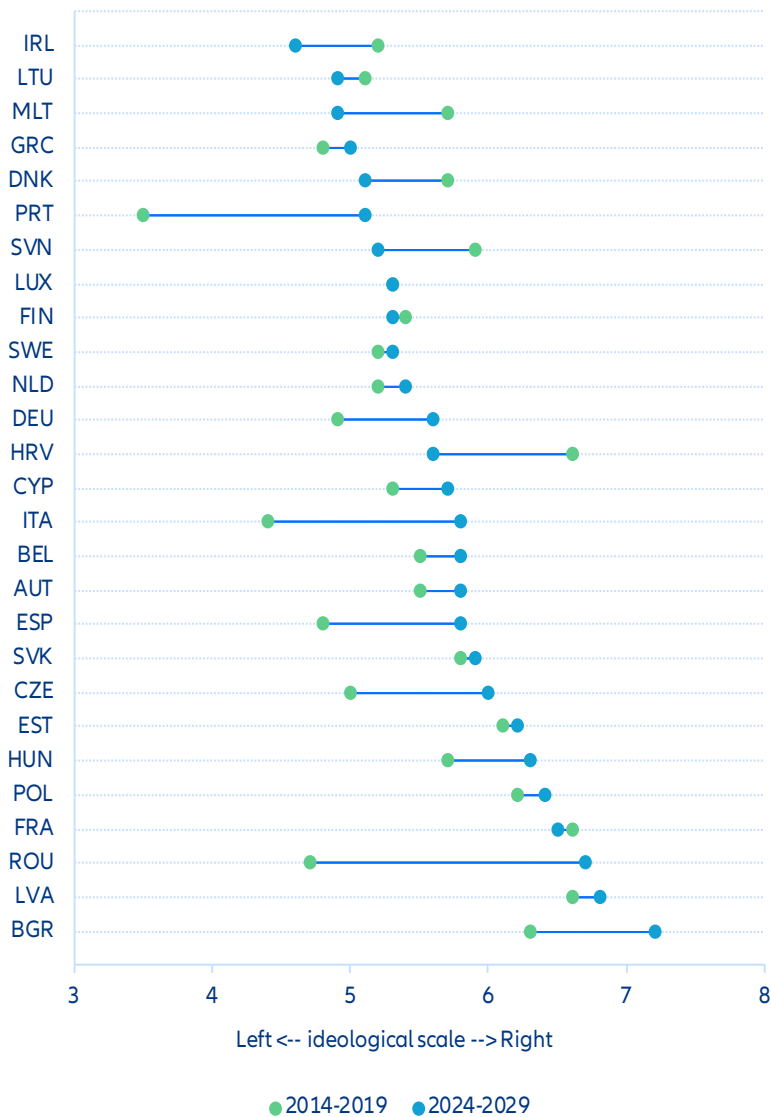
Benefiting from EU Parliament data, we looked at voter turnout and voter results to determine the ideologies of countries in the EU and its evolution in the last decade.

To calculate countries' ideological center of gravity, in the left-right scale, we compute the weighted average ideology according to the portion of votes received by each political party. We assume that parties' ideologies are consistent over this period. We find that the ideological center of gravity for eight of the 27 EU countries has shifted moderately towards the left. This is notably the case for Malta, Croatia, Slovenia, Denmark and Ireland. France, Poland, Slovakia, Sweden, Finland, Greece, Estonia, Belgium and Luxembourg maintained a relatively unchanged ideological center of gravity. The largest shifts observed in the last two EU elections were in the remaining 16 EU countries. Portugal, Italy, Romania, Bulgaria, Czechia and Spain saw the largest shifts to the right (between 0.9 and 1.9 points, see Figure 5).

⁶ Wagner, M. 2021. Affective Polarization Around the World: Measurement, Causes and Consequences

⁷ ParlGov.

Figure 5: Left-right ideological score according to voter support to national parties in EU elections

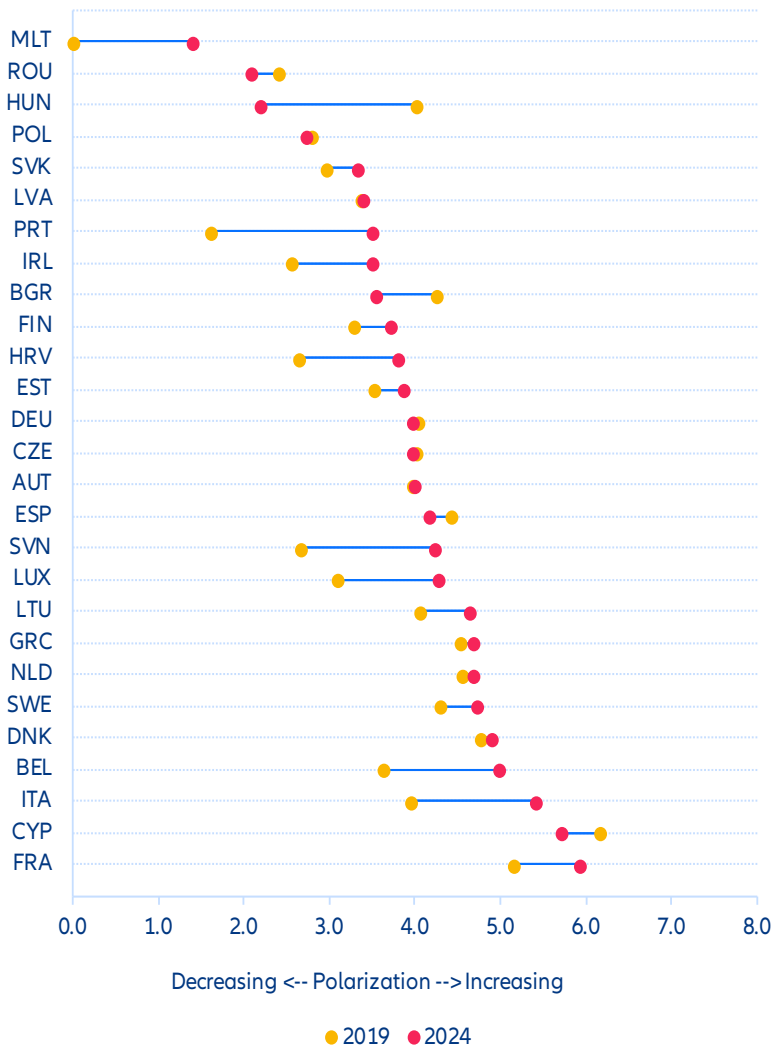


Source: Allianz Research.

We use this ideological measure to then compute a polarization index, which is a metric proposed by Dalton⁸ that can measure the spread between the political parties in democracies by their position in the left-right scale and size of electorate they appeal to. This scale also ranges between 0 and 10, meaning that if all parties were at the same ideological point, they would score 0. Inversely, a 10 would mean that the parties are split in the extremes of the left-right scale.

⁸ Dalton, R.J. 2021. Modelling ideological polarization in democratic party systems.

Figure 6: Dalton polarization index in EU27 countries

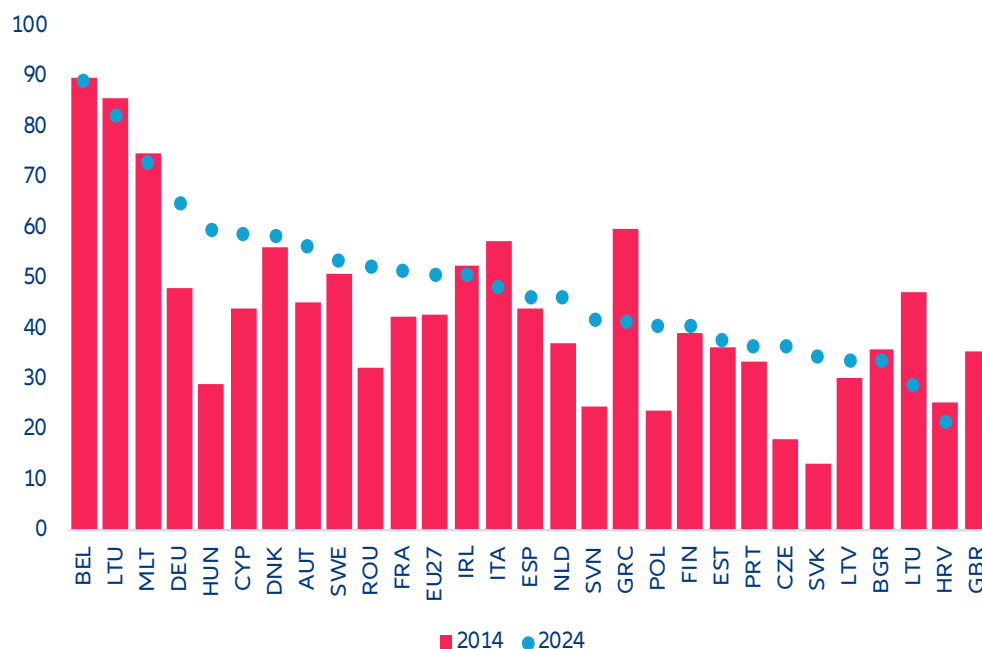


Source: Allianz Research.

When looking at the polarization index, we find that seven countries with the EU managed to decrease the level of polarization in the last decade, while three of them stayed roughly the same (Latvia, Austria and Czechia) – at least in the EU parliamentary elections. However, polarization has increased in 17 countries, notably France, Italy, Belgium, Croatia, Ireland, Portugal and Malta, with changes ranging between 0.8 to 1.9

points in the left-right continuum. This polarization measure would change if we were to look at national elections, given the very limited turnout of the electorate in some of these countries. Overall, however, despite the shift to the right in the last decade, the EU still stands in the ideological center with a score of 4.0.

Figure 7: Voter turnout, in % of eligible electorate by country



Source: European Parliament.

Notably, political polarization is a global phenomenon that extends far beyond the boundaries of the EU.

Looking at other large democracies for which data were readily available (Australia, New Zealand, Japan, the UK, Switzerland and Canada), we find that most are ideologically leaning more towards the right than the EU average and have stayed largely unchanged over the past decade; the only country where we saw a shift towards the ideological right in the last elections was Canada. It is important to note that some of these countries have upcoming elections. Japan recently held elections as did the USA, while Canada and Australia's electorate will be called to the ballots in 2025. In New Zealand, the general elections are expected in 2026. The economic situation and geopolitical tensions might prompt similar dynamic as in the EU.

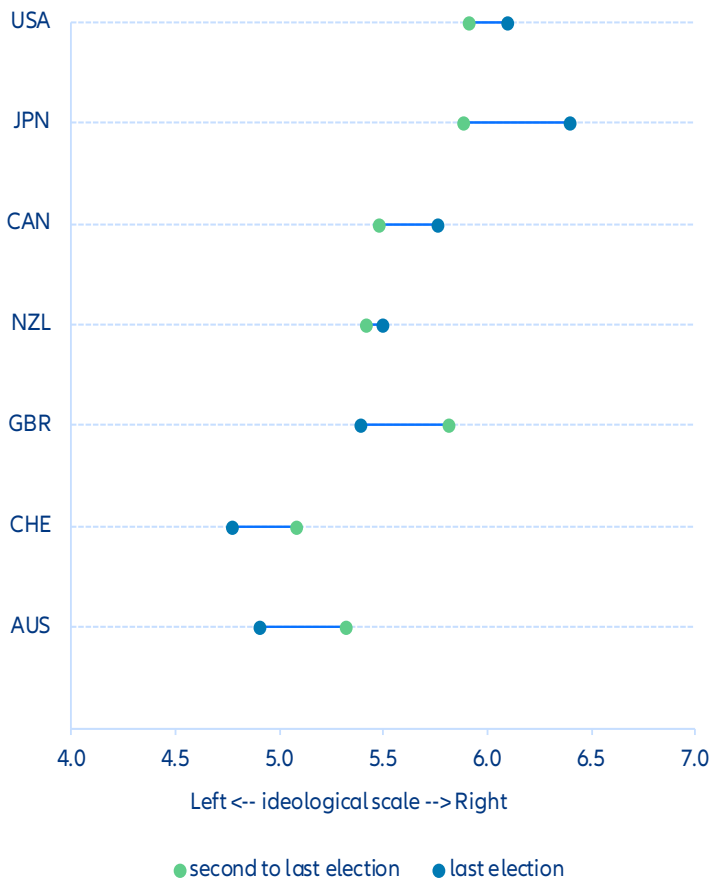
In terms of polarization, the only two countries that did not see higher levels of ideological polarization in the last elections compared to the previous ones were the UK and Switzerland. Australia saw its polarization index increase by +20% in the last two elections, while Canada's increased by +10%. In Japan, the prime minister was recently left without a parliamentary majority after snap elections amid growing public distrust following a corruption scandal, and anger over rising living costs and inflation. Nonetheless, even if polls state that affectively polarized individuals exhibit lower satisfaction with democracy, they show a higher willingness to participate in politics across a wide range of different forms of political engagement, regardless of their sympathy towards political parties.⁹ Japan is a good example of this as polarization fell by 33% in the recent elections compared to the previous elections as voters rallied together for change.

⁹ Jansen, B. and Stutzer, A. 2024. Affective Partisan Polarization and Citizens' Attitudes and Behavior in Swiss Democracy. *tems*.

2024 was the first year since World War II in which all incumbent parties in developed countries lost vote share. In large democracies, we do not necessarily observe a massive ideological shift, but what we can conclude is that it is not a generalized move towards progressives or conservatives, but rather geared towards change. The most recent example is the Republican takeover of the US Presidency, Senate and House of Representatives. For the first time in 20 years, the Democratic party lost the popular vote, not just the electoral one. This brings further evidence to a trend that also manifested in the UK's election this summer, as the

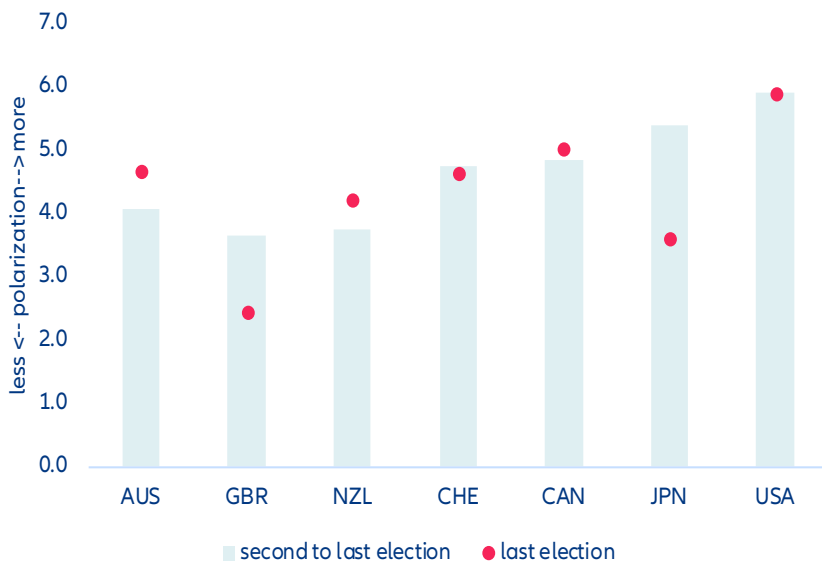
left-wing Labour Party claimed a majority in Parliament for the first time since 2010. In France, Macron's "Ensemble" party faced snap elections, as well. Meanwhile, Germany's Social Democrats (a left-wing party) lost support in the European Parliamentary elections and with the possibility for the opposition party to regain a place in government in the early general elections in February.

Figure 8a: Ideological and polarization developments in other large democracies (US, Australia, New Zealand, Japan, UK, Switzerland and Canada).



Sources: Allianz Research, OECD. Note: Impact analysis based on RCP4.5

Figure 8b: Ideological and polarization developments in other large democracies (US, Australia, New Zealand, Japan, UK, Switzerland and Canada).

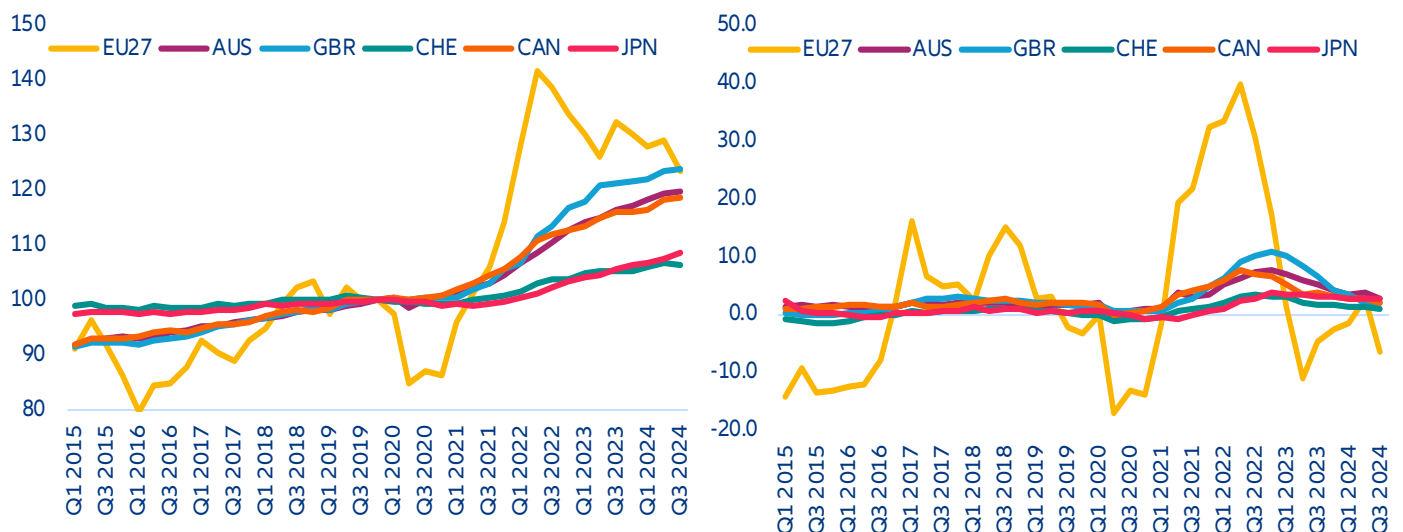


Source: Allianz Research.

Voters are particularly averse to high prices as they erode their purchasing power, reduce quality of life, and create financial stress. Inflation forces difficult spending choices, disproportionately impacts lower-income households, and generates economic uncertainty. Politically, voters often blame incumbents for high prices, affecting election outcomes. Visible cost increases, such as energy and food products, amplify frustrations, making economic issues a top priority for voters. Even if the high prices of the last few years were caused by

supply-side disruptions, or geopolitical issues, politicians must address voters' concerns if they wish to win elections. The search for economic stability strongly influences voting behavior and public sentiment. The long shadow of inflation, highly debated fiscal adjustment measures (e.g. increased taxation, social protection reforms, climate policies), and lingering productivity growth require policy makers to bridge further the widening trust deficit, actively reduce polarization risks, and tap into the power of unity. Corporates may have a role to play in this too.

Figure 9: Ideological and polarization developments in other large democracies (US, Australia, New Zealand, Japan, UK, Switzerland and Canada).



Sources: LSEG Refinitiv, Allianz Research.

Some political scientists assert that polarization is less dependent on policy differences on a left-right scale, but increasingly on other divisions such as religious against secular, nationalist against globalist, traditional against modern or rural against urban. Polarization is associated with the process of politicization – and may be the most consistent effect of populism¹⁰. However, parties that deviate towards the extremes of either side of the political spectrum often refer to “the elite” (people from the political establishment) to promote anti-establishment sentiment and weaponize the “othering” of the government and the media as corrupt and out of touch, positioning themselves as the legitimate representatives of the people.

Moreover, one of the dangers of populism is that it oversimplifies complex social and economic issues, with charismatic leaders stirring up fear and insecurity, notably against minority groups. Much of the rise of populism can be traced back to geopolitical instability as well as sudden socio-economic shifts seen in the last decade. Another key element of populism is narrative repetition: studies show that the more times a person hears a statement, the more likely they are to believe it, whether it’s true or not, the so-called: “illusory truth effect”.¹¹

Table 3: Voter support in democratic elections for parties that deviate from the ideological center by more than 3 points in a 0-10 scale

Country	L/R	Party	Second to last elections	Most recent elections	% change
Australia	Left	Greens	10%	12% ▲	2%
Austria	Right	FPÖ	17%	25% ▲	8%
Canada	Right	Conservative Party of Canada	34%	34% ▼	-1%
Canada	Right	Green Party of Canada	7%	2% ▼	-4%
Canada	Left	People's Party of Canada	2%	5% ▲	3%
France	Left	FI	6%	10% ▲	4%
France	Right	RN	23%	31% ▲	8%
Germany	Right	AfD	11%	16% ▲	5%
Italy	Right	FI	9%	10% ▲	1%
Italy	Right	Lega	34%	9% ▼	-25%
Italy	Center	M5S	17%	10% ▼	-7%
Italy	Right	Fdi	6%	29% ▲	22%
Japan	Right	Jiyū Minshutō	33%	35% ▲	1%
Japan	Left	Nihon Kyōsan-tō	8%	7% ▼	-1%
New Zealand	Left	Green Party	6%	8% ▲	2%
New Zealand	Right	ACT New Zealand	1%	8% ▲	7%
Poland	Right	PiS	45%	36% ▼	-9%
Spain	Right	Vox	6%	10% ▲	3%
Spain	Left	Podemos	10%	3% ▼	-7%
Switzerland	Left	Grüne	13%	10% ▼	-3%
Switzerland	Right	Union Démocratique Fédérale	1%	1% ▲	0%
Switzerland	Right	Lega dei Ticinesi	1%	1% ▼	0%

Sources: European Commission, National Sources.

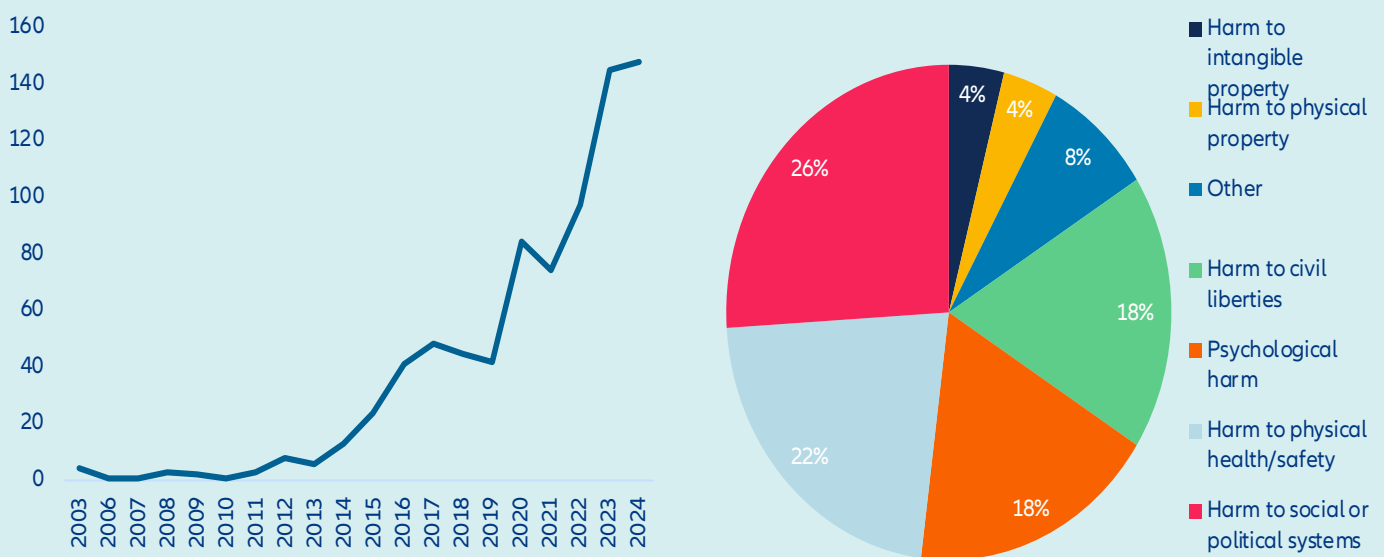
¹⁰ Roberts, K. 2021. Populism and Polarization in Comparative Perspective: Constitutive, Spatial and Institutional Dimensions.

¹¹ Hassan, A. and Barber, S.J. 2021. The effects of repetition frequency on the illusory truth effect.

Automating polarization – AI incidents and the risk of deepfakes and misinformation for democracies

Developments in generative artificial intelligence (genAI) and large language models (LLMs) have led to the surge of cheap- and deep- fakes, which refer to new and fake content using pre-existing images, videos and audio material for manipulation or entertainment. At times, deepfakes can look so realistic that it can be hard to differentiate between a real and a fake video. The availability of artificial intelligence (AI) tools has lowered the cost and entry barriers to produce such content, and they are increasingly being used to attack political and social systems (26% incidents reported to the AI Incidents Database). For example, in 2023, a deepfake of the German chancellor blocking a political party circulated online. Roughly at the same time, video advertisements impersonating then British Prime Minister Rishi Sunak surfaced in social media. The misinformation potential to increase social polarization and disrupt democratic processes is enormous, especially as political campaigns move from traditional media and broadcasting to social media platforms.

Figure 10: Number of reported large scale AI incidents, and share of incidents by harm type



Sources: LSEG Datastream, Allianz Research

Very often, AI-generated news and videos can appear alongside real news, making deceptive stories more believable. Having a media-literate electorate and population can counteract these misinformation tactics. If the public is taught to develop receptive media capabilities and skills to access to analyze, evaluate, create and act in all forms of communication, they will be able to differentiate between an attempt at manipulation and legitimate information.

Moreover, the same technology that is used for creating misinformation can be used to identify it. New AI tools can also be used to identify, fact-check and dispel fake news and misinformation attempts.

All in all, the aftermath of the super election year could linger, both because many countries are still experiencing transitions and because the consequences may reverberate farther than expected. But it is still too early to measure whether this election cycle will bring greater trust in institutions and decrease the risk of social upheaval.



The economic costs of social disturbances

Research finds strong evidence that political affiliations affect the expectations and actions of individuals and firms, which means that increasing polarization can shape consumption behavior.¹²

Political ideology also influences consumer and industrial sentiment and confidence, and in turn economic growth, while the ideologies of individuals affect their trust in science and attitudes toward environmental decisions and climate change, among others.

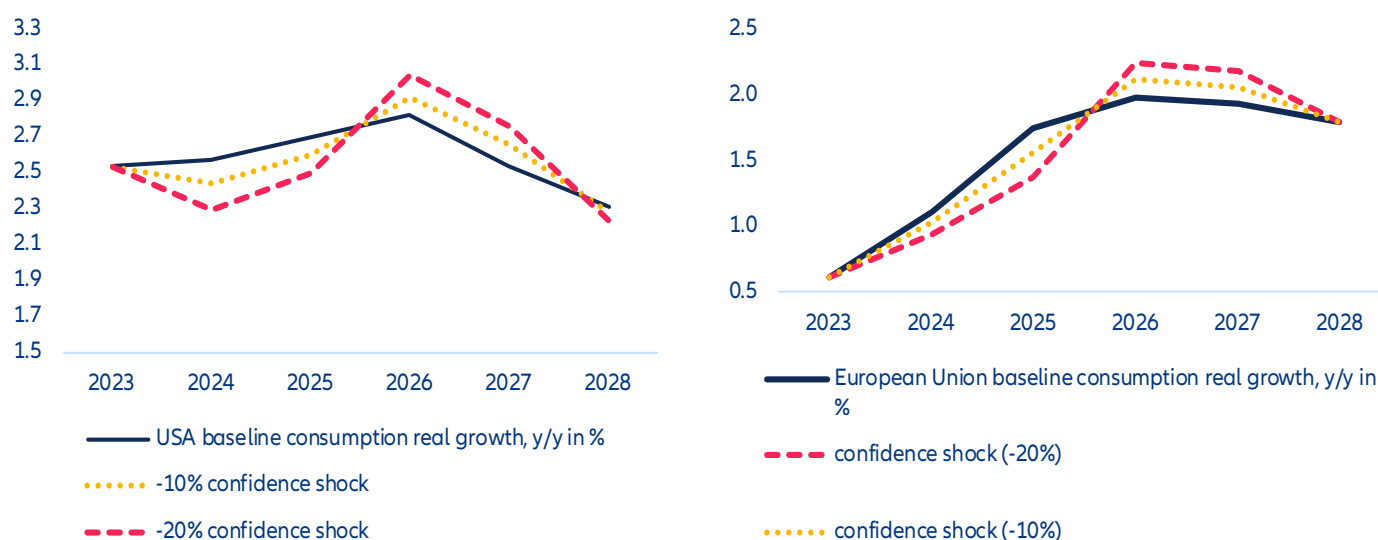
Over the past century in advanced economies and democracies, there have been several instances in which political events have ensued a loss of consumer confidence, from social movements in Latin America and the Yellow Vest protests in France to the UK's Brexit referendum and the Catalan independence movement. Most recently and specifically regarding polarization, in the last year of Trump's first term, Republicans and independents were losing faith in the economy and consumer sentiment slipped by 20%. During Biden's presidency, confidence has been steadily low. In this context, in a country that is deeply divided, government changes can cause confidence to be hit hard regardless of the outcome of the November elections.

¹² Kamdar, R., Ray, W. 2022. Polarized Expectations, Polarized Consumption

To understand the potential economic costs of social disturbances, we tested both a -10% and -20% one-period confidence shock to see its effect on consumption in the US as well as in the Eurozone, where the most data is readily available. For the US, we find that such a shock would decrease consumption by USD105bn (USD304 per capita) with a 10% shock and USD215bn over the next four years with a 20% shock –

or USD622 per capita. For the EU, the same shocks would decrease consumption by USD52bn (USD 147 per capita) and USD103bn (USD296 per capita), respectively. In the old continent the decline is smaller only because consumption and confidence are already suffering, not having fully recovered from the pandemic and geopolitical tensions.

Figure 11: Confidence shock to private consumption, y/y in %



Sources: Oxford Economics, Allianz Research.

However, there are some silver linings even in polarized societies. Some research suggests that polarization may improve the levels of democracy by affecting voter turnout, much like in France's snap elections that attracted 9.6mn more voters in 2024 than the 2022 parliamentary elections. As the ideology and polarization indices suggest, ideological polarization is not despairingly high when compared with previous elections.

Nevertheless, tackling affective polarization – the dislike of those that do not share our opinions – should be front and center. The challenges that worry the population in democracies – the cost of living, climate change, social protection, equality, geopolitical tensions, demographic shifts, AI and strengthening the social fabric – are universal and complex. Similarly, these issues are being weaponized by populist leaders to offer a quick and appealing fix for a population that has change fatigue. Building common ground is an essential first step as all these mega changes require deep cooperation between and within nations rather than separation.

There is reason to hope. Research has found that between 1900 and 2020, there were 105 episodes in which countries were able to reduce polarization from pernicious levels for at least five years. In this period, there were twice as many episodes of polarization in democracies, thus proving that countries have a robust capacity to de-polarize. Most of these depolarization episodes were associated with dramatic changes in a country's political life. An analysis of factors showed that almost three-quarters of the cases came after major systemic shocks: a foreign intervention, independence struggle, violent conflict or regime change – mostly in a democratizing direction. In other cases, countries depolarized within a given regime structure, whether democratic or autocratic. Research has yet to identify cases of depolarization from high levels among liberal democracies, mainly because very few countries classified as full liberal democracies have ever reached such polarized levels. The US stands out today as the only wealthy Western democracy with persistent levels of pernicious polarization.¹³

¹³ Reducing pernicious polarization: a comparative analysis of depolarization | Carnegie Endowment

Appendix 1. Social Resilience Index 2024

Country	SRI 2024	Rank	Rank change from 2023	Country	SRI 2024	Rank	Rank change from 2023
Iceland	83.4	1	3	Russia	46.8	93	-16
United Arab	82.5	2	9	Moldova	46.5	94	-5
Denmark	81.8	3	-2	North Macedonia	46.4	95	-7
Switzerland	80	4	-1	Colombia	46.4	96	-7
Finland	79.9	5	-3	Brazil	46.1	97	-15
Sweden	79.9	6	9	Mexico	45.9	98	6
Luxembourg	78.5	7	0	Grenada	45.7	99	-29
Canada	77.9	8	4	Thailand	45.4	100	27
Austria	77.7	9	-1	Namibia	45.4	101	22
Norway	77.5	10	-4	Philippines	45.2	102	32
Germany	77	11	-2	Bolivia	44.4	103	3
Australia	76.7	12	11	Suriname	44.4	104	48
New Zealand	76.4	13	1	Ecuador	44.3	105	6
Netherlands	75.4	14	-4	Ukraine	44.2	106	-11
Slovenia	74.4	15	1	Chile	44.2	107	-38
Ireland	73.8	16	-11	Belarus	44.1	108	-56
United Kingdom	73.4	17	12	Argentina	44	109	-17
France	72.8	18	-5	Niger	43.8	110	6
Kuwait	72.6	19	7	Lesotho	43.6	111	22
Qatar	71.6	20	-3	South Africa	43.4	112	-1
Spain	71.2	21	6	Uzbekistan	43.3	113	-24
Malta	71	22	-4	Cambodia	43	114	-12
Portugal	70.3	23	-2	India	42.4	115	34
Belgium	69.9	24	-5	Benin	42.2	116	3
Slovakia	69.1	25	7	Peru	42.1	117	-21
Cyprus	67.9	26	-1	Panama	42.1	118	-1
Bahamas	67.2	27	13	Dominican Republic	42	119	-39
Japan	66.7	28	2	Vietnam	41.8	120	-17
Italy	66.7	29	1	Senegal	41.7	121	2
Estonia	66.7	30	-8	Gabon	41.4	122	8
St Vincent & the Grenadines	66.1	31	19	Cote d'Ivoire	41	123	-2
Czechia	65.5	32	-12	Libya	40.2	124	45
Poland	64.7	33	-5	Bosnia & Herzegovina	40	125	-25
Singapore	64.2	34	3	Kenya	40	126	9
Barbados	63.6	35	7	Rwanda	39.4	127	-4
Hungary	63.5	36	-2	Egypt	39.2	128	-18
United States	63	37	-13	Iran	39	129	26
Saudi Arabia	62.6	38	8	Sao Tome & Principe	39	130	9
Serbia	60.9	39	10	Iraq	39	131	-17
Brunei	60.7	40	6	Burkina Faso	38.5	132	18
Croatia	60.6	41	2	Morocco	38.1	133	24
Greece	60.1	42	3	Congo, Republic	37.3	134	19
St Lucia	60.1	43	32	Sri Lanka	37	135	13
Micronesia	59.9	44	0	Mozambique	36.8	136	1
Latvia	59.8	45	-6	Nicaragua	36.5	137	-11

Country	SRI 2024	Rank	Rank change from 2023	Country	SRI 2024	Rank	Rank change from 2023
Oman	59.7	46	-8	Paraguay	36.3	138	-16
Uruguay	59.4	47	-13	Tanzania	36.2	139	-31
Tonga	59.2	48	37	Turkey	36	140	-43
Lithuania	59.1	49	-16	Liberia	35.7	141	-10
Maldives	59.1	50	5	Ghana	35.4	142	-15
Kiribati	59.1	51	-15	Mali	35.3	143	2
Bahrain	58.9	52	0	Cameroon	34.2	144	15
Israel	58.8	53	-5	Madagascar	34.1	145	20
Fiji	57.4	54	44	Ethiopia	34	146	-17
South Korea	56.3	55	2	Eswatini	34	147	9
Tuvalu	56.3	56	8	Tajikistan	34	148	-28
Cape Verde	55.7	57	36	Honduras	33.9	149	-7
Hong Kong	54.9	58	3	Nepal	33.8	150	23
Bhutan	54.4	59	48	Guatemala	33.4	151	-11
Kazakhstan	54.3	60	-2	Uganda	33.3	152	-8
Bulgaria	53.9	61	-2	Togo	33.2	153	-2
Romania	53.6	62	-7	Myanmar (Burma)	32.3	154	13
Botswana	53.5	63	17	Gambia, The	32.1	155	-8
Albania	53.4	64	-1	Central African Republic	32.1	156	14
Solomon Islands	53.4	65	34	Guinea	32.1	157	-14
Vanuatu	53.3	66	35	Malawi	31.7	158	-26
Malaysia	52.8	67	37	Burundi	31.4	159	-13
Timor	52.6	68	-14	Yemen	31.3	160	11
Antigua & Barbuda	52.4	69	8	Guinea-Bissau	29.8	161	0
Mauritius	52.4	70	3	Equatorial Guinea	29.7	162	20
Palau	52.2	71	-6	Chad	29.4	163	13
Azerbaijan	52.1	72	-10	Bangladesh	29.3	164	-23
Mongolia	52	73	36	Sierra Leone	29.1	165	-2
Costa Rica	51.9	74	-9	Turkmenistan	27.8	166	-28
Taiwan	51.8	75	-4	Djibouti	27.5	167	-7
Montenegro	51.4	76	-9	Pakistan	27.5	168	-14
Georgia	51.2	77	-17	Eritrea	26.9	169	-34
Samoa	51	78	16	Congo, DR	26.7	170	-12
Dominica	50.9	79	-28	Laos	26.7	171	-4
Jamaica	50.6	80	-8	Angola	26.1	172	3
Jordan	50	81	2	Haiti	25.9	173	11
Algeria	49.7	82	-6	Zambia	25.9	174	-9
Seychelles	49.3	83	-42	Zimbabwe	25.8	175	-1
Guyana	48.8	84	-11	Mauritania	25.4	176	-4
Tunisia	48.5	85	33	Comoros	24.9	177	4
Trinidad & Tobago	48.5	86	-7	Papua New Guinea	21.9	178	-15
El Salvador	48.1	87	-3	Nigeria	21	179	-1
Armenia	48.1	88	-20	Lebanon	18.4	180	3
Kyrgyzstan	47.7	89	24	Syria	18.3	181	4
Indonesia	47.4	90	25	Afghanistan	18	182	-5
Belize	47.4	91	-6	South Sudan	16.5	183	-21
China	47.3	92	-5	Sudan	13.8	184	-5

Appendix 2: Methodology

Indicators

We use 12 indicators for the SRI that are readily available for most countries:

1. Real GDP per capita growth trend: We compare the average annual growth in the last three years to the average growth prior to that since 2000. This approach reflects that the potential for social risk can also rise in high-income EMs (such as Chile or in the GCC) and AEs if the (relatively high) level of economic welfare is deteriorating or being perceived to deteriorate.
2. Labor force participation: The higher the share of the labor force in the working-age population, the lower the potential for discontent. This indicator is better than the unemployment rate, which is measured very inconsistently across countries.
3. Income inequality measured by the GINI index.
4. Public social spending on education, health and social protection, which reflects the importance of social policies and networks in a given country.
5. Political stability and absence/presence of violence, reflects together with
6. Government effectiveness and
7. Corruption perception how effective a government is perceived at doing its job.
8. Trust in government indicates the share of people that trust their national government.
9. Vulnerable employment is made up of own-account workers and contributing family workers who are less likely to have social security coverage and to benefit from other forms of social protection.
10. Imports of food and fuels as % of GDP reflects together with
11. Currency depreciation the scope for imported inflation, notably for foodstuffs and energy, which is a typical trigger for social discontent.
12. Fiscal revenue as % of GDP captures a government's capability to respond with fiscal stimulus to crises.

To make the data comparable across indicators, each of them was rescaled from 0 to 100, with 0 denoting the lowest resilience/higher risk and 100 the highest resilience/lower risk. Then the SRI was calculated as the average of the sub-indicators, thus also ranging between 0 and 100.

Note that in 2023, we renamed the indicator Social Resilience Index (from Social Risk Index) to reflect the scoring system more appropriately, but the methodology remained unchanged.

Appendix 3: Ideology and Polarization calculation

Country ideological index calculation:

$$II_c = \left(\sum_{i=1}^N \text{VoteShare}_i * \text{PartyShare}_i \right) / \left(\sum_{i=1}^N \text{VoteShare}_i \right)$$

II_c = is the country's ideological index

VoteShare_i = the share of the party i and the country c for a given election

PartyShare_i = is the left-right classification of the party

Country polarization index calculation:

$$PI_c = \sqrt{\sum_{i=1}^N \text{VoteShare}_i * ((\text{PartyShare}_i - II_c)/5)^2}$$

PI_c = polarization index of the country

II_c = is the country's ideological index

VoteShare_i = the share of the party i and the country c for a given election

PartyShare_i = is the left-right classification of the party

A close-up photograph of several hands of different skin tones stacked on top of each other, resting on the rough bark of a tree trunk. The background is a soft-focus green forest. The text 'Our team' is overlaid on the image.

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