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## THE POLITICAL ECONOMY OF POPULISM

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# The Political Economy of Populism\*

Sergei Guriev<sup>†</sup> and Elias Papaioannou<sup>‡</sup>

February 21, 2020

## Abstract

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# 1 Introduction

The spectre of populism is haunting the West. Until a few years ago, populism was regarded mostly as a Latin America phenomenon (Dornbusch and Edwards (1991)). Nowadays, populism is spreading globally, reaching countries, such as Germany and Sweden, previously considered immune to it. Many argue that the wave of authoritarian populism poses an existential threat to the liberal world order, democracy, open markets, protection of minorities, civil liberties, and constitutional checks and balances. Even if one does not embrace such an extreme view, there are evident cracks in the foundations of the system. Since Brexit, the European Union has lost a member, while an increasing number of Europeans views the Union with skepticism.<sup>1</sup> Voters question globalization, protectionism is on the rise, and attacks on experts and the mainstream media are increasingly common. Hate crime against immigrants and minorities, often fueled by populists, is also rising.

At the first glance, these patterns look striking, given the historically unprecedented levels of prosperity and security after World War II and the Fall of the Berlin Wall (see Rosling *et al.* (2018) and Pinker (2018)). On the other hand, they are worrisome, as they are contemporaneous with rising within-country inequality (Atkinson, Piketty, and Saez (2011)), falling social mobility (Chetty *et al.* (2014, 2015)), growing distrust to core democratic institutions (Mounk (2018)), and political polarization (Klein (2020)).

## 1.1 Recent Trends in Populist Politics

The rise of populism has been swift and synchronized across the world. Its upswing became apparent with the global economic crisis. 2010 marked the rise of the Tea Party movement in the United States (US). In the same year, Victor Orban took power in Hungary, advocating the paradigm of *Illiberal Democracy*. In the following years, the appeal of populist parties rose further. In 2014, populist parties did well in the European Parliament Elections, securing the first spot in France (Front National) and the United Kingdom (UKIP). In

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<sup>1</sup>See, for example, the letter signed by 30 intellectuals to the EU leaders on the Existential Threat that Populism Poses to the European Union. Signatories include Milan Kundera, Orhan Pamuk, Salman Rushdie, Mario Vargas Llosa, and Bernard-Henri Lévy (“Europe is coming apart before our eyes,” 21 January 2019).

early 2015, a “strange” coalition between SYRIZA, a radical-lefty party, and Independent Greeks, a nationalistic, conspiracy-theory, far-right party took power in Greece. Employing aggressive anti-institutions, anti-elite, and anti-media rhetoric, the coalition threatened taking the country out of the euro area. In 2015, Poland’s *Law and Justice* party came to power, initiating a period of attacks on the judicial system, media, and minorities. In 2016, populism reached its apogee, with Brexit referendum and the election of Donald Trump in the US. Even in countries where populists failed to take over, they substantially increased their support. In 2017, Marine Le Pen’s Front National entered the second round of the French Presidential Elections and AfD won seats in Germany’s Bundestag for the first time. Italy was next, as in 2018 *Lega*, a right-wing party that used to advocate the secession of northern regions formed a coalition with *Movimento 5 Stelle*, another populist party.

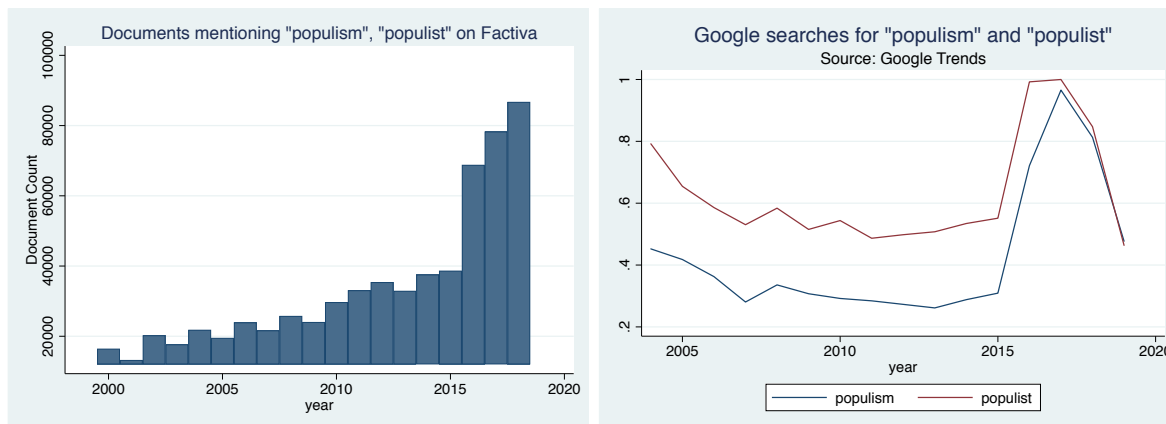
Emerging markets have followed suit. In addition to the traditional populist movements of Chavez-Maduro in Venezuela, Rafael Correa in Ecuador, and Evo Morales in Bolivia that focused on inequality and redistribution, there was a surge of authoritarian far-right populism, symbolized by Jair Bolsonaro in Brazil and Rodrigo Duterte in the Philippines. Leaders, like Recep Tayip Erdogan in Turkey and Narendra Modi in India have been increasingly relying on nationalism, attacking religious and ethnic minorities, and trying to bypass checks and balances.

Figure 1 illustrates the salience of populism as a topic in the news media and in Google searches in the past years. There is a steady rise until 2015; in 2016 the number of documents doubles; then (albeit slower) growth continues. Google Trends are similar, peaking in 2016. In 2018 and 2019, interest reverts to pre-2016 levels, most likely because by now people have a clearer view of the issue.

## 1.2 Populism: the Research Agenda

Before 2016, academics paid relatively little attention to populism (and far-right or radical-left voting). Nonetheless as populism spread, research moved quickly (Figure 2). Employing a variety of approaches, researchers in economics, political science, and sociology aim at identifying the correlates, origins, and implications of populism. There is also an explosion of general-audience books on the topic (e.g., Eichengeen (2018), Norris and Inglehart

Figure 1: Mentions of populism over time in the news and Google searches.



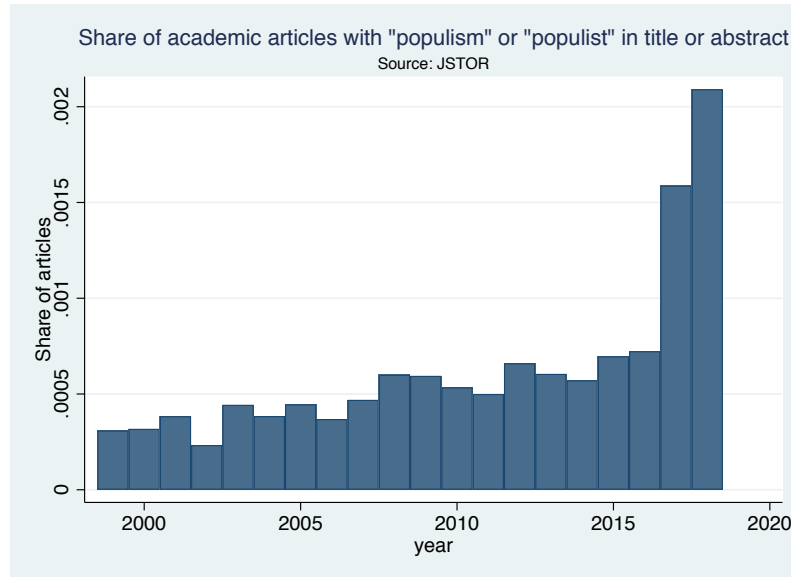
Note: Google searches are relative and are normalized to the share of “populism” in 2017. We use global data for searches in English language only.

(2019), Mueller (2016), Judis (2016), de Vries (2019), Eatwell and Goodwin (2019)).

Given the surge of research in the past years and public’s interest in it, we believe that it is time to summarize the main takeaways. Our review is centered around four main sets of questions:

1. What is populism? What are its key characteristics? How can we quantify its rise?
2. What are the main drivers? Are they mostly economic or cultural? Or is this the interaction between economic and cultural drivers that matters? In particular,
  - (a) What is the role of secular trends, related to industrial decline, such as trade globalization and automation?
  - (b) Is populism an offspring of the recent crisis?
  - (c) Is there a cultural backlash? How do social capital, identity and morality matter?
  - (d) What about the spread of the internet, Twitter, Facebook, and other social media?
  - (e) What is the role of immigration?

Figure 2: Mentions of populism over time in academic research.



3. What are the implications for growth, inequality, institutions, and beliefs? What do populists do once in power? Do they stick to their promises or adjust?
4. If the recent rise of populism is a worry, what should be done about it?

We structure the survey around these questions. Two caveats are in order. First, research is uneven; for example, there are dozens of empirical works on the role of trade and the crisis, but few on austerity or welfare state policies. Likewise, most recent research is empirical, and there is only a handful, quite recent, theoretical explorations. Second, many features interact. For example, cultural factors (value, norms, and identity) may interact with economic shocks.

In the next Section we discuss definitions. Section 3 gives an overview of the history of populism and its recent resurgence. In Section 4 we review evidence on the role of secular economic trends, trade and technological progress. Section 5 is devoted to studies on the role of the crisis and austerity. In Section 6 we first review the evidence on the cultural backlash thesis and identity politics, presenting also theoretical frameworks that allow studying interdependencies. In Section 7, we discuss the role of immigration and the



refugee crisis that entails both economic and social implications. Section 8 reviews papers on the role of the internet and social media. Section 9 looks at the evidence on the impact of populists in power. In Section 10, we conclude, outlining avenues for further research.

## 2 Definitions and Core Features

As famously argued by Socrates, “*the beginning of wisdom is the definition of terms.*” Unfortunately, populism is not easy to define, as it comes in vintages and constantly evolves. Populists often claim not to be ones, making inference tricky. In public debate, it is often assumed that it is clear who is and who is not a populist. Eichengreen (2018) takes this binary view, rephrasing Justice Stewart’s famous definition of pornography: “*I know it when I see it.*” It is, however, crucial to employ an operational definition, as there is always a temptation to use the label for “*everyone we do not like*”. Populists include different personalities (e.g., Recep Tayyip Erdogan in Turkey, Rodrigo Duterte in the Philippines, Donald Trump in the United States, Hugo Chavez in Venezuela) who embrace different ideologies (radical-left and extreme-right; pro-church, like Law and Justice Party in Poland and anti-church as the Dutch Party of Freedom). Thus, one needs to identify common features for any meaningful classification.

### 2.1 Definitions

Our preferred definition of populism is the lowest common denominator used in modern political science. According to Cas Mudde (see Mudde (2004, 2007) and Mudde and Rovira Kaltwasser (2017)), populism is a “*thin-centered ideology*” that considers society to be ultimately separated into two homogenous and antagonistic groups: “*the pure people*” and “*the corrupt elite*”.

This definition has several implications. First, it does not entail any socio-economic priorities. Populism is about “people’s” *moral* superiority over the “elites” and therefore people’s moral right to govern. “*Thin-centeredness*” means that populists have heterogeneous objectives. Extending this argument further, populism is not an ideology, but a theory of a society (Bonikowski *et al.* 2019). Second, people’s “homogeneity” leaves no

room for pluralism, protection of minorities, and diversity of opinions. Third, the *anti-elite* aspect implies that populists can bypass or suppress checks and balances — as they are considered tools of the “corrupt elites”. Therefore, although Mudde’s definition does not explicitly refer to anti-democratic and nativist aspects, it does imply an incompatibility of populism with liberal democracy.

Other definitions of populism add more features. Mueller (2016) concurs with the anti-elite and anti-pluralism aspects, but appends *identity politics*. Identity politics is essential, as populists need to define who are (and who are not) the “real”, moral people. Identity can take many forms; race, ethnicity, religion, but also expanded to citizen nation.

Eichengreen (2018) agrees with the anti-elite and nativist (i.e., identity) angles, but also adds *authoritarianism*. His definition is thus close to Norris and Inglehart (2019), who define “*authoritarian-Populism as a philosophy and style of governance which blends two sets of ideas*:

1. *Populists typically adopt a rhetorical language and governing style which challenges the authority of establishment elites. Legitimacy, in this view, flows from popular sovereignty and vox populi, over-riding minority rights, constitutional checks-and-balances, and decision-making by elected representatives.*
2. *Authoritarian parties and leaders adopt policy positions which endorse the values of tough security against threats from outsiders, xenophobic nationalism rather than cosmopolitanism, strict adherence to conventional moral norms, and intolerance of multiculturalism. This orientation prioritizes the values of tribal conformity, collective security, and loyalty to standard-bearers defending the group.”*

These definitions differ substantially from the one that has been prevailing in economics until recently formulated by Dornbusch and Edwards (1991): “*approach to economics that emphasizes growth and income redistribution and de-emphasizes the risks of inflation and deficit finance, external constraints and the reaction of economic agents to aggressive non-market policies.*” This definition described well the left-wing pro-redistribution Latin American populist movements that date back to Juan Peron in Argentina and Getulio Vargas in Brazil. This brand of populism has not disappeared, as the recent examples of Nestor

and Christina Kirchner, Hugo Chavez, Evo Morales, and Rafael Correa illustrate. But this paradigm has not been very successful electorally in Western economies, with the exception of SYRIZA in Greece.

The recent rise of populism in advanced countries has mostly brought about politicians with a agenda that was very different fro the one in Latin America: nationalistic, focusing on identity and morality rather than on economics — and mostly originating from the far-right. We thus find Cas Mudde’s “anti-elite and anti-pluralism” definition more suitable and generic, as it captures both traditional and modern vintages. Moreover, many modern populists avoid the basic monetary and fiscal policy mistakes that characterized Latin American populism. Rodrik (2018b) argues that modern populism does *not* have to involve unsustainable economic promises, at least in the short-run. Yet, as all populists dislike checks and balances, the weakening of economic institutions (such as property rights protection, executive constrains and contract enforcement by independent judiciates) will almost surely result in lower investment, misallocation, and slower growth.<sup>2</sup>

Guiso *et al.* (2017) have put forward a definition that blends economics with identity: (i) Populists support the “people” against the “elites”; (ii) populists offer short-term “protection”; and (iii) populists disregard long-term consequences of their protection. The first element is similar to Mudde’s, while the third follows Dornbusch and Edwards on the long-run unsustainability of populist policies. The second new element relates to people’ fears that populism builds upon.<sup>3</sup> Protection takes various forms: protectionist policies, inefficient transfers, policing, closing borders to immigration, expelling refugees, and many more.

To sum up, there is no consensus in the literature on what populism is. The two features of Cas Mudde’s definition—anti-elitism and anti-pluralism—serve as the lowest common denominator of most modern definitions; then one could add nativism, authoritarianism, provision of security, attachment to tradition, and over-simplification of solutions to difficult problems. Different definitions result in alternative classifications. For example, many left-

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<sup>2</sup>On the importance of institutions on economic development see the review of Acemoglu, Johnson, and Robinson (2005) and the general-audience narrative in Acemoglu and Robinson (2012).

<sup>3</sup>Norris and Inglehart (2019) make a similar point, arguing that the provision of “security” against economic and non-economic risks is a major element of populist discourse.

wing populists are neither nativist nor authoritarian nor over-simplifying.

## 2.2 Features

The definitions above have immediate implications for the manifestos, agendas, communication style and eventual policies of populist politicians and parties.

(i) *Anti-elite and anti-experts sentiment.* The specific types of elites that populists target include academics (experts), “old” establishment politicians, unelected technocrats, judges, and journalists. However, anti-elite sentiments differ across countries targeting different kinds of elites and elite occupations. Interestingly, the global rise of populism coincides with an anti-science vibe, manifesting among others on the reappearance of “extinct” diseases due to the drop in immunization rates. As we discuss below, many issues central to populist agenda—such as technological change, trade globalization, inequality, immigration—are indeed very important global issues. However, certain key global challenges, e.g., climate change or antimicrobial resistance, are missing from populist discourse as they are not compatible with anti-expert sentiment. Populists do not blame climate change on the elites; if anything, they deny anthropogenic view of global warming as an “elite conspiracy” or simply a “hoax”. Not surprisingly, Green parties are usually not classified as populist.

Anti-elite and anti-science sentiment drives certain politicians to be open and even proud of making factually incorrect statements. They believe that it is more important to be on the side of the people as this stance is moral — rather than on the side of facts as the latter are often “pro-elite”. In July 2016, Newt Gingrich told CNN’s Alisyn Camerota (who said, contrary to Gingrich’s insistence, that data showed that violent crime in the United States was falling) that it doesn’t ‘feel’ that way to people. ‘*As a political candidate, I’ll go with how people feel, and I’ll let you go with the theoreticians,*’ he said. In 2019, Alexandria Ocasio-Cortez (D-N.Y.), when confronted by Anderson Cooper on CBS about her misstatement, said, “*I think that there’s a lot of people more concerned about being precisely, factually, and semantically correct than about being morally right*”.

(ii) *Anti-globalization (and anti-EU) angle:* The anti-elite sentiment extends to the opposition to globalization and supranational institutions that are considered to be “elite

projects” detached from normal people. The anti-globalization and anti-EU angle is often (although not always) associated with nativism and identity politics. As the “open vs. closed” cleavage replaces the conventional left-right divide as the main dimension of political conflict (De Vries (2018), Algan *et al.* (2019), Gennaioli and Tabellini (2019)), the anti-globalization bias helps explain how extreme left and extreme right populists now join forces to defend parochial agenda against the mainstream center that represents markets and globalization. For example, in Europe both the extreme left and the extreme right oppose the EU. The radical (and communist) left blame the EU for its pro-market policy agenda. The extreme right blame the EU for being too interventionist and redistributive, while at the same time trying to suppress national identities in its effort to create a European one. But both claim that Brussels technocrats do not represent ordinary people.

(iii) *Anti-pluralism and authoritarian angle.* As the populists treat the “moral” people as homogeneous, democratic checks and balances are not required. Since any member of the “people” is the same, the political process can be simplified to a single leader representing the whole people. There is little—if any—need for parliaments, independent agencies (including central banks), media as those can only serve on behalf of the elite in order to obstruct the direct rule of the people. Even the choice of judges should be based on “morality” and ideology, rather than competence and independence. The simplification of the governance process is likely leading to the emergence of a “strong leader”. This has happened both in autocratic or hybrid regimes (e.g., Russia, Turkey, and Venezuela) and in established democracies (e.g., Italy, Hungary, the United States).

Not all populists are authoritarian, nor all strong leaders are populist. Guriev and Treisman (2019) identify many “*informational autocrats*” (including the pioneer of informational autocracy, Lee Kwan Yew in Singapore) who are not populist. Furthermore, while there have been and still are anti-elitist and anti-pluralist dictators who rely on repression rather than on popularity, they are not generally classified as populists—as their legitimacy relies on fear rather than on populist discourse.<sup>4</sup>

(iv) *Communication style.* The nature of populist politics implies certain distinctive

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<sup>4</sup>Anti-elitist dictatorships are uncommon. Geddes *et al.* (2018) classify dictatorships into military, party and personalistic. By definition, the first two types rely on military or party elites. Among the personalistic regimes, the monarchies cannot be anti-elitist as well.

patters of communication of populist leaders:

- Use of social media. The fact that Donald Trump’s main communication tool is Twitter is not a coincidence. Internet has played a major role in the rise of many populist leaders, the most illustrative example being the Five Star Movement in Italy (Campante *et al.* 2018). As we discuss in Section 8, this is not the first time in history when populists use new communication technology to circumvent the mainstream media’s gatekeeping; however there are also important new features in modern online media so this time may truly be different.
- Aggressive style. As the populists discuss “security” and identity, they raise the stakes. The debate is no longer about tax rates or percentages of GDP growth but about quintessential survival of the nation. This is why populists often employ aggressive tactics and messages labelling their opponents “enemies of the people”. Nigel Farage recently argued that “*parliament will start to fear the electorate and gosh they need to.*”
- Simplicity of message. Populists tend to fit complex economic or security issues into tweeter feeds or even single tweets. There are two reasons. First, the choices are moral—either “with us” or “against the people”—so no need for nuances or trade-offs . Second, sophisticated arguments have to rely on the calculations of experts (who cannot be trusted).

(v) *Unclear ideology.* Populism is a “thin-centered” ideology or even non-ideology, a style of political discourse. Left-wing populists support redistribution while right-wing ones oppose it. Left-wing populist parties are usually secular, while the far right (most but not all, see Minkenberg (2018)) place Christianity at the center of their political agenda. Many right-wing populists are culturally conservative, but others (for example, Geert Wilders in Netherlands) are committed to liberal views on gender and sexual minorities.

## 3 Evolution

In this Section we first discuss the evolution of populism in the 20th century and then present evidence on its rise since 2000.

### 3.1 Historical Precedents

Arguably, the first populist party in the modern sense of the term was the American People’s Party of the late 19th century.<sup>5</sup> This party (whose members were known as “populists”) was an anti-elite, anti-globalization, and anti-immigrant movement. Its leader William Jennings Bryan famously said in 1896: “*You shall not crucify mankind upon a cross of gold.*”<sup>6</sup> The first wave of globalization, 1870 – 1913, marched forward due to reduced transportation costs (after the universal adoption of steamboats) and other technological improvements (in energy and medicine), while the gold standard facilitated cross-border financial and trade flows.<sup>7</sup> The People’s Party also fought against corruption, the abuse of market power by trusts and cartels that dominated steel, oil, railroads, and other crucial sectors. The People’s Party also objected to the influx of immigration — from Asia and Eastern Europe. Rodrik (2018a) rightly argues that the anti-trust and anti-corruption concerns of the Populists were not only legitimate, but benefited the US economy and society, as Theodore Roosevelt and the Progressives endorsed them, implementing a bold reforming agenda in the early 20th century.

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<sup>5</sup>It is tempting to refer to Russian *narodniki* in the 1860s and 1870s as the first populists — as the very word “narodniki” is translated from Russian as “populists”. However, as Eichengreen (2018) argues correctly, this is a misleading parallel. Narodniki—representatives of intelligentsia—indeed focused on “going to the people,” as the people (peasants representing the vast majority of the population of the Russian empire) were presumably the source of moral values superior to those of the upper classes. However, the “going to the people” movement was about educating the peasants and essentially imposing the conservative view of the world onto them.

<sup>6</sup>Eichengreen, Haines, Jaremski, and Lebalng (2017) discuss the 1896 US Presidential Election and explore the correlates of populist votes. Bryan did well in areas with high mortgage interest rates, low railroad penetration, and where crop prices had declined considerably over the previous decade.

<sup>7</sup>The fight of the populists against the gold standard is eloquently portrayed in *The Wizard of Oz*; the populist team includes Bryan (the Cowardly Lion), farmers (Scarecrow), workers and miners (Tin Woodman), and Dorothy with the Silver Shoes marching over the Yellow Brick (i.e., golden) Road. “Free Silver” was an important part of populist agenda that wanted to move away from gold standard to bimetallic money. Free coinage of silver would result in higher inflation — which was precisely the goal of the populists.

Fascism marks a very different type of populist-like movement. Fascism emerges after the Great War, alongside communism and other radical movements. It spikes after the Great Depression, where via coups, elections, and civil violence, far-right parties take control throughout Europe. According to Cappocia (2005), there were 24 fully democratic countries in Europe in 1920 but only 11 in 1939. Germany, Italy, Spain, and Greece, among others, moved from democratic rule to fascism. Extreme right-wing ideology gained ground even in countries that managed to stay democratic, such as the United Kingdom and France. As we discuss below, far-right nationalism tends to follow massive economic downturns (e.g., Funke, Schularick, Trebesch (2016)). It is remarkable that there was no increase in far-right populism in the US during the Great Depression. Rodrik (2018a) attributes US exceptionalism of not endorsing far-right nationalism and xenophobia to Franklin Delano Roosevelt’s New Deal policies that preempted populist leaders, like Huey Long and Father Coughlin. Umberto Eco (1995) produces 14 common features of fascist regimes, which do include “qualitative populism”, distrust of intellectuals, and a fear of diversity. Eco’s definition of “Ur-Fascism” includes many other properties some of which are recognizable in modern populist regimes (e.g., cult of tradition, brute force, and victimhood). Yet, some features—such as the use of doublethink and newspeak—are no longer relevant.<sup>8</sup>

Gradually, populism moved to Latin America and effectively defines its economic, social, and political development. Populist leaders like Peron, Vargas, Cardenas, and Ibarra advocated quick and easy solutions for reducing their countries’ high levels of inequality (that originated in times of colonialism and early industrialization). Yet, redistribution policies were ineffective, as they brought in inefficient subsidies and transfers, financed via deficits that the central banks monetized, leading to recurrent phases of debt, hyperinflation, and devaluations. Dornbusch and Edwards (1991) collected studies focusing on the populist tradition in Argentina, Brazil, Chile, Peru, Mexico, and Nicaragua. The case studies uncovered a number of commonalities, both on the origins and the aftermath of

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<sup>8</sup>Rydgren (2018) compares the new far-right to the “*fascist minimum*” that consists of three elements: (i) the rebirth myth, (ii) populist ultra-nationalism, and (iii) the myth of decadence. He argues that the second element is prominent among modern right-wing populists, the third one less so, and the first one is virtually absent — modern radical right’s narrative is to restore the glorious past rather than to aim for a “rebirth”, i.e. creating a “new society” which has not existed before. While populists look back, fascists were looking into the future. Yet, while new far-right movements differ from the fascist ones of the 1930s, it is hard making a watertight demarcation between the two.



populist policies: inflation, capital outflow, devaluations, pervasive shortages, and decline in real wages in spite of populist’s message that they would serve the interests of the people (see also Edwards (2019)).

### 3.2 Recent Trends

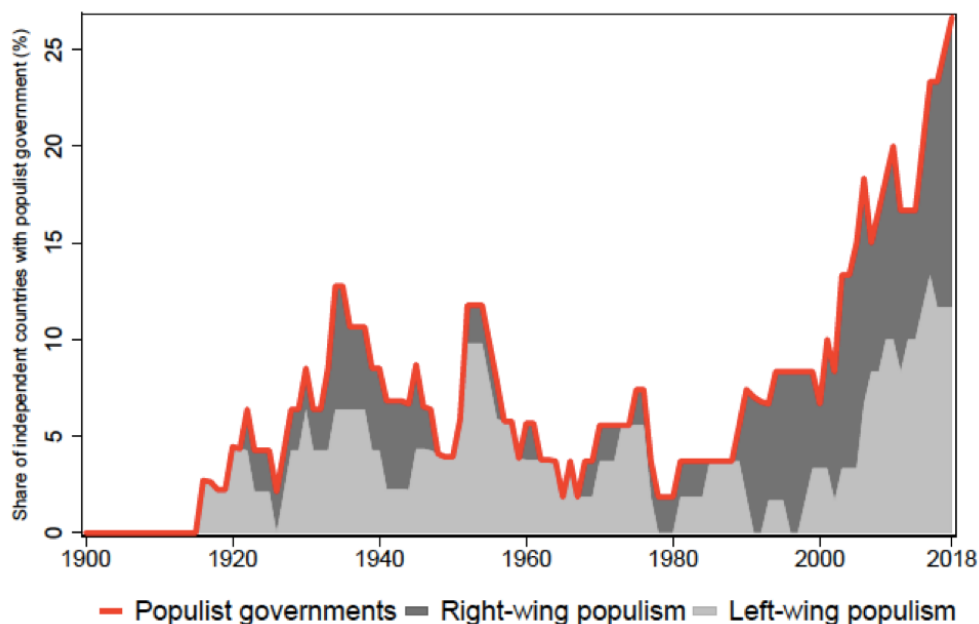
There are various quantitative measures of populism: vote share (actual or self-reported in surveys) for parties classified as populist, the share of seats in (European) parliament obtained by populists, or survey-based beliefs on populism and authoritarianism. The peculiarities of the electoral systems imply a non-monotonic association between votes and seats (and membership in the ruling coalition).

Funke *et al.* (2020) focus on populists who manage to get in power across 60 countries that account for more than 90% of global GDP. The recent rise of populism has been unprecedented (Figure 3); in 2018, 26% of their sample (16 countries) are run by populists. The stark increase took place the 21st century, as the number of left-wing populists in power increased from 2 to 7 by 2018, and the number of right-wing populists in power increased from 2 to 9.

Figure 4 presents the five-year average vote shares for left- vs. right-wing populist parties, distinguishing between Europe and Latin America from Rodrik (2018a). He defines populist “*loosely as those [parties], which pursue an electoral strategy of emphasizing cleavages between an in-group and an out-group. Parties are coded as populist in the dataset if they are labeled as such in the academic or journalistic literature at some point in their history and fit this definition.*” The rise of populism in Europe in the 21st century stems from right-wing nationalistic parties, such as UKIP, Front National, Golden Dawn, Sweden Democrats, and Jobbik (about 15 percentage points of the vote). The level of support for populism in Latin America is stable; there, populism mostly focuses on redistribution; far-right populism is virtually absent, though Jair Bolsonaro’s recent rise may change this (Rodrik’s data end before Bolsonaro’s election).

In Figure 5 we consider four classifications of populist parties and produce a population-weighted annual average populist vote share in Europe over 2000 – 2018 (using the latest

Figure 3: Left-wing and right-wing populists in power since 1900.



Source: Funke et al. (2020). The sample includes 60 large countries.

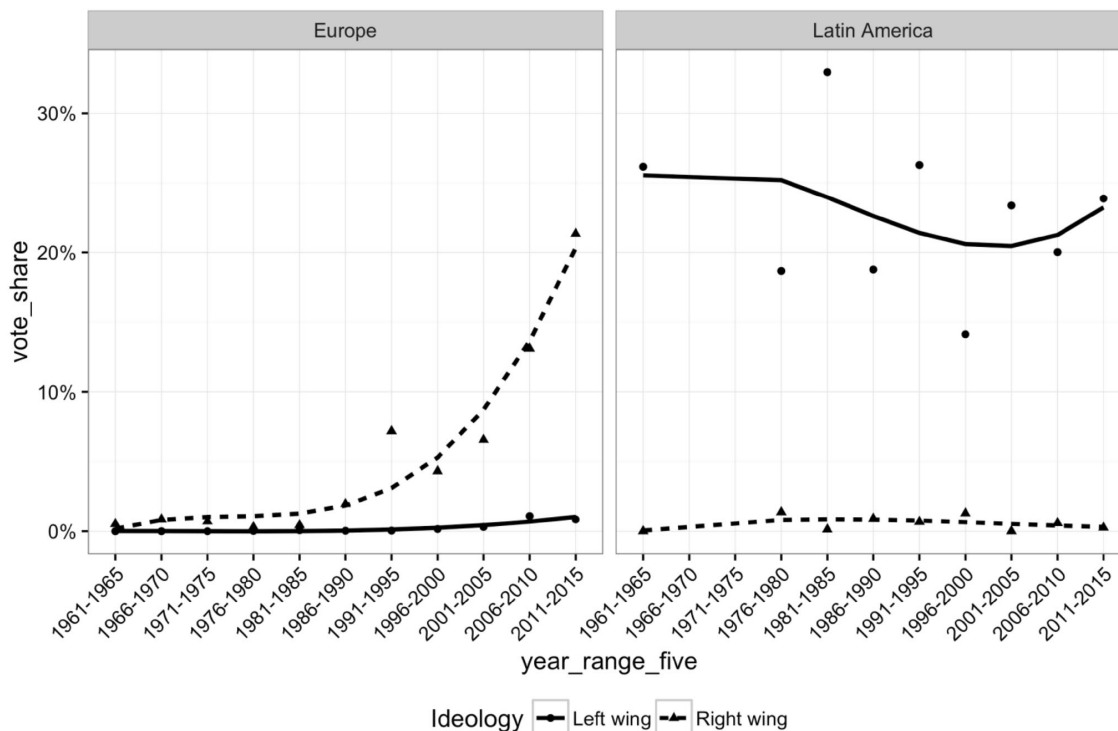
election).<sup>9</sup> All classifications illustrate the steady growth of populist vote share in the first decade and the take-off after 2010. The the weighted average populist share since 2000 (more than) doubles from 10 – 15 to 30 percentage points.<sup>10</sup>

While many rely on binary classifications of populism, the reality is complex. Almost all politicians have, at some point, used populist language and communication style. There are efforts compiling finer measures of populism. The most important one is the Chapel Hill Expert Survey (CHES), an ongoing project of the University of North Carolina at Chapel Hill’s European Union Center of Excellence that regularly surveys leading scholars of European politics around the globe. In 2014, CHES included two questions on the “*salience of anti-establishment and anti-elite rhetoric*” and the “*salience of reducing polit-*

<sup>9</sup>The respective samples are as follows: Van Kessel — EU-28 plus Iceland, Norway, Switzerland. Algan et al. — EU-28 excl. Croatia, Latvia, Lithuania, Luxembourg and Malta plus Iceland, Norway, Switzerland; Timbro — EU-28 plus Iceland, Norway, Switzerland, Montenegro, Serbia; Guriev et al. — EU-28 excl. Ireland and Malta plus Norway, Switzerland, Montenegro, Northern Macedonia.

<sup>10</sup>Van Kessel’s classification ended in 2013 so the chart based on his classification does not count post-2013 vote share of parties that emerged or turned populist in later years.

Figure 4: Left-wing and right-wing populists in Europe and Latin America.



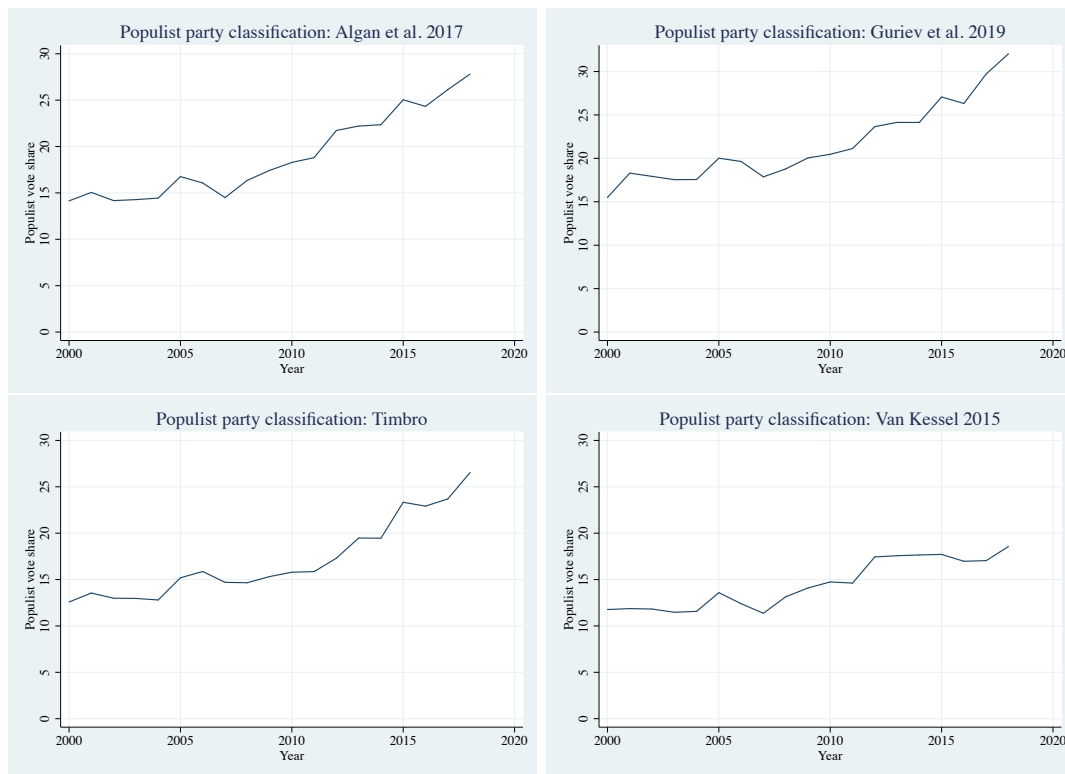
Source: Rodrik (2018a). The sample only includes countries with at least one populist party in their history.

*ical corruption*". 337 experts provided salience scores (on 0 – 10 scale) for all parties in a given country. CHES provides a comprehensive cross-sectional mapping of populism in Europe (see Polk *et al.* (2017) for the analysis) at a time, when populist was gaining momentum. Unfortunately, CHES dataset does not tracks populism over time. CHES posed these questions again in 2017, but only across 14 European countries. We have calculated the vote-share weighted populism score in each of these 14 countries in 2014 and 2017 and then averaged across countries (weighted by population). The weighted average score increased from 3.7 to 4.8 between 2014 and 2017.

The Guardian’s Team Populism (see Lewis *et al.* (2019)) also produced an index of populism ranging from zero to two, studying leaders’ speeches.<sup>11</sup> Hugo Chavez gets the

<sup>11</sup>The Team Populism’s dataset includes EU-28 minus Belgium, Cyprus, Denmark, Estonia, Finland, Ireland, Lithuania, Luxembourg, Malta, Slovenia plus Norway, Argentina, Bolivia, Brazil, Mexico, Canada, Chile, Colombia, Costa Rica, Dominican Republic, Equador, El Salvador, Guatemala, Honduras, Mexico,

Figure 5: Evolution of populists' vote share in Europe.



Sources: van Kessel (2015), Algan et al. (2017), Guriev et al. (2019), populismindex.com (assessed in October 2019).

(almost) maximum score, 1.9, followed by his successor Nicolas Maduro, as well as Evo Morales and Recep Tayyip Erdogan who get 1.5 – 1.6. Viktor Orban, Silvio Berlusconi and Donald Trump score around 0.8 – 0.9. Angela Merkel and Tony Blair get the minimum scores of 0 and 0.1, respectively. During 2000 – 18, the average score across 40 countries double from 0.2 to 0.4. In Europe, the average increased from 0.14 to 0.24. Given that in Europe the index ranges from 0 to 1, this change roughly translates into a 10 percentage point increase.

To sum up, various attempts to classify populists and to quantify their rise deliver a strikingly similar message: in the 21st century, there has been a recent rise in populists vote share of 10 – 15 percentage points (effectively doubling their vote share). This rise

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Paraguay, Peru, Venezuela, US, India, Russia, and Turkey.

mostly took place in advanced economies, and mostly due to right-wing and authoritarian populist parties.

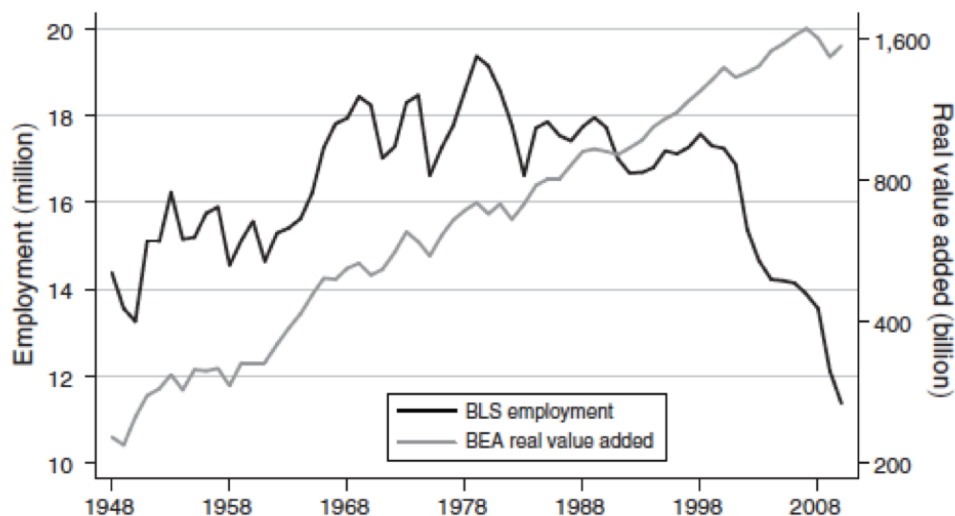
## 4 Economic Drivers: Secular Trends

In this section, we consider the role of trade globalization and automation in the rise of populism. The motivation seems obvious, as populism had found fertile ground in formerly manufacturing-based communities that have experienced a decline in the recent decades. Donald Trump did well in the Rust Belt; support for Brexit concentrated in manufacturing towns in the Midlands; Marine Le Pen’s *Front National* did very well in deindustrializing areas; Lega and the Five Star Movement surged in sub-urban and rural places. Using data from 63,417 electoral districts across all EU countries in the 2019 Elections for the European Parliament, Dijkstra, Poelman, and Rodriguez-Pose (2018) show that voting for anti-EU parties is considerably higher in areas of industrial decline.

Rising competition from imports from low-wage countries, such as China and Vietnam, and increased automation of low/middle-skilled jobs have contributed to stagnated wages among non-college graduates and rising inequality in the West. These shocks have been particularly salient in manufacturing. Figure 6, taken from Pierce and Schott (2016), provides a stark illustration of the two phenomena in the United States; in roughly ten years, from the late 1990s till the crisis in 2008, US manufacturing lost a staggering six million jobs, a third of its workforce. Automation’s impact is evident: while employment falls, total value added doubles (from 800 billion to 1.6 trillion). The “China Shock” is also apparent, as the drop in employment accelerates in early 2000s when China joined the World Trade Organization (WTO).

Trade and technology reinforce each other. Technology reduces trade costs facilitating cross-border commerce. Improvements in information, communication, and transportation technology facilitate growth in trade, allow for better inventory management, and make cheaper cross-border marketing. In turn, the integration of goods and services markets accelerates technical progress, as the larger market size incentivizes investments in research and development (R&D) and adoption of new technologies. Notwithstanding inter-linkages,

Figure 6: US Manufacturing Employment and Value Added.



Source: Pierce and Schott (2016), Figure 3.

recent research in labor and international economics has tried to isolate the roles of trade and technology.

We first discuss the major trends in trade and technology over the past decades and go over studies of their impact on advanced economies' labor markets. Then, we review the evidence on their role for the populist vote, as well as their influence on trust, values, and beliefs.

## 4.1 Trade

### 4.1.1 Patterns

The world economy experienced rapid growth of cross-border trade since the late 1980s, when tariffs, quotas, and non-trade barriers started falling. World Bank data suggest that the ratio of global trade to GDP rose from below 40 percent in the 1980s to an unprecedented 61 percent in 2008. After a slight decline during the global crisis this ratio currently hovers around 60 percent — more than double the level half a century ago.

Trade has grown especially rapidly in emerging economies. In 1985, high-income coun-

tries accounted for more than 80 percent of world exports of goods and services; in 2015, this share was 61 percent (Pavcnik (2017)). China accounts for more than half of the emerging markets’ increase; its share grew from 1% in 1985 to 12% in 2015. The rise of Chinese exports has been especially stark since the early 2000s, when China joined the World Trade Organization (WTO) and contributed crucially to the “commodity supercycle” of 2001–07. Other low-wage countries, such as India and Vietnam, have also expanded their exports of finished and intermediate goods.

#### 4.1.2 Winners and Losers from Trade Globalization

Neoclassical trade theory, based on technological differences (Ricardo) or factor proportions (Heckscher-Ohlin), suggest that globalization increases aggregate output, but creates winners and losers. High-skilled workers in rich (human capital abundant) countries benefit from market integration as do low-skilled workers in poor (human capital scarce) countries. While low-skilled and middle-skilled workers in advanced economies may benefit from cheaper (imported) goods and also from “aggregate demand” effects, their jobs are at risk, as the production of low-skill intensive goods shifts to low-wage countries. In line with this framework, globalization is a major contributor to the *job polarization* in advanced economies and the increased inequality (outside the top 1%).<sup>12</sup>

If the adverse impact of trade is not countered by social safety nets, it may create an anti-globalization constituency. Populist politicians gain support accusing the principal beneficiaries of globalization, namely the high-skilled elites residing in metropolitan areas and producing knowledge-intensive services (banking, consulting, software) that the rich countries have increasingly exported to the global markets. Part of anti-EU rhetoric regards stopping (or slowing down) trade integration — as it is the “unelected, amorphous, and bureaucratic” European Commission that enforces the Single Market.

Pastor and Veronesi (2019) model an additional mechanism linking globalization to pop-

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<sup>12</sup>Autor and Dorn (2013) sort US occupations by skills and show that in 1980-2005 the employment share declined for jobs from the 15th to 55th percentile; the highest decline was for the 25th percentile (10 percentage points). They also show that middle-skilled occupations experienced the slowest growth in real wages. Goos *et al.* (2014) show that in Europe, the “middling” occupations’ share of employment declined by 9.3 percentage points in 1993-2010 while the share of low-wage and high-wage occupations increased by 3.7 and 5.6 percentage points, respectively.

ulism. As voters dislike inequality and trade raises inequality, globalization-driven growth endogenously generates an anti-globalization backlash that a populist leader may campaign on. In line with this, the authors present strong cross-country correlations between protectionist attitudes and inequality, as well as trade and finance.

### 4.1.3 The “China Shock” in Advanced Economies’ Labor Markets

The share of imports in the US from low-wage producing countries almost doubled over the 2000-07 period (15% to 28%) with China accounting for 89% of this growth (Autor *et al.* (2013)). A considerable body of research suggests that a non-negligible portion of manufacturing’s decline is attributable to the “China shock” that starts in the early/mid 1990s and accelerates in the early 2000s. Bernard *et al.* (2006), Pierce and Schott (2016), and Acemoglu *et al.* (2016) document that increased exposure to import competition from low-wage countries is associated with closure of manufacturing plants and a sizable drop in employment in industries that faced the largest declines in Chinese import tariffs.<sup>13</sup> Ebenstein *et al.* (2015) uncover similar adverse effects on wages and employment of US multinationals that move production offshore. Autor *et al.* (2014) compare observationally similar workers across industries during 1992 – 2007 and show that in sectors exposed to higher import penetration from China, workers experience lower earnings, greater job churning, and have a higher likelihood to receive social security disability insurance.

In influential work, Autor *et al.* (2013) assess the impact of the China shock on US local labor markets. The starting point is the calculation of the magnitude of the shock at the commuting zone (CZ) level.  $\Delta IP_{\tau}^c$  approximates the local labor market shock attributable to the penetration of Chinese imports; it is the product of the growth of Chinese imports at the national level across industries ( $i$ ) over a given time-frame ( $\tau$ ) and employment share

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<sup>13</sup>Caliendo *et al.* (2019) calibrate a dynamic trade model with spatially distinct labor markets that are subject to varying exposure to international trade, labor and good mobility frictions, and input-output linkages to approximate the China shock in general equilibrium. They estimate that the China shock has contributed to a loss of half a million jobs, approximately 16% of the overall decline during the period 2000-07. This approximation is similar to the “reduced-form” estimates of Acemoglu *et al.* (2016).



of industry  $i$  in commuting zone  $c$ :

$$\Delta IP_{\tau}^c = \sum_i \left( \frac{L_{i,t}^c}{L_t^c} \Delta IP_{i,\tau}^{US} \right) \quad (1)$$

$$\Delta IP_{i,\tau}^{US} = \frac{\Delta M_{i,\tau}}{Y_{i,1991} + M_{i,1991} - X_{i,1991}} \quad (2)$$

Import penetration at the national level ( $\Delta IP_{i,\tau}^{US}$ ) is the share of the growth of US imports from China in a given industry,  $\Delta M_{i,\tau}$ , divided by the sum of US industry shipments ( $Y_{i,1991}$ ) and net imports ( $M_{i,1991} - X_{i,1991}$ ) in 1991, when Chinese exports started accelerating. To account for the US demand and supply conditions, Autor *et al.* (2013) use industry information on the growth of Chinese exports to eight other high-income countries ( $\Delta IP_{i,\tau}^{other}$ ).<sup>14</sup> To account for anticipation effects, they use lagged sectorial employment shares:

$$\Delta IP_{\tau}^c = \sum_i \left( \frac{L_{i,t-10}^c}{L_{t-10}^c} \Delta IP_{i,\tau}^{other} \right) \quad (3)$$

Commuting zones with a higher share of industries affected by the increased penetration of Chinese imports experienced a significant drop in manufacturing employment. Affected areas did not see an increase in employment in services, mining, and agriculture. The population is stable, indicating little internal migration. Hence, unemployment and non-participation in the labor force increased considerably in affected communities. Employment decreases go hand in hand with falling wages, which are only modestly compensated by transfers (see Autor *et al.* (2014) for a synopsis). The China shock is not purely economic; it also relates to poorer health, inferior marriage market outcomes, unstable mental conditions, rising use of opioids, and deaths of despair (Colantone *et al.* (2019), Hummels *et al.* (2016), Pierce and Schott (2019), Autor, Dorn and Hanson (2019), Case and Deaton (2020)).

The growing research that quantifies the local labor market impact of the “China shock” in other rich countries reaches similar conclusions of sizable adverse effects on manufacturing jobs. For example, Malgouyres (2017a) estimates that the average increase in Chinese

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<sup>14</sup>The cross-industry (4-digit ISIC) correlation between Chinese exports to the US and the other advanced economies ranges from 0.55 in Switzerland to 0.96 in Australia.

import competition between 2001 and 2007—approximately \$1,000 per worker— across French local labor markets caused a fall in local manufacturing employment growth of about 6 percentage points. There is an adverse spillover effect on services implying local multiplier effects that may amplify resentment. In the same vein, Dippel, *et al.* (2019), Marin (2018), and Dauth *et al.* (2014) find that increased imports from China since the late 1990s and Eastern Europe since late 1980s are associated with falling wages and employment across German regions.

#### 4.1.4 The Political Implications of the China Import Shock in the US

**Early Correlational Studies.** Margalit (2011) regresses the change in the vote share of George W. Bush between the 2004 and the 1996 elections across counties on the percent of workers hurt by trade-related competition, as reflected in requests for Department of Labor Trade Adjustment and Assistance (TAA). During this period, US firms filed 22,287 such applications, representing 2,110,310 employees; most applications listed import competition (43%) and offshoring (42%) as the main reasons. “*Electronic components and accessories*” and “*men’s and boys’ furnishing, work clothing, and allied garments*” were the two most affected industries. The correlational analysis conditions on unemployment level and changes, racial composition, and employment characteristics. A 1 percentage point increase in the share of county workforce losing a job due to foreign competition costs the incumbent President 0.15 percentage points, twice as large as the vote share drop due to job losses caused by other factors.

Jensen, Quinn, and Weymouth (2017) also examine trade’s impact on US Presidential elections from 1992 till 2012, distinguishing between exports and imports in manufacturing and services. The US (and other advanced countries) are net exporters in service trade that has expanded in the past decades, accounting for a third of US exports in 2016. Moreover, as services are skilled-labor and R&D-intensive, a comparative advantage logic suggests US gains in these sectors. The analysis associates the change in the incumbent vote share with employment, interacted with (dummy) variables for tradeable high-wage manufacturing, tradeable low-wage manufacturing, tradeable high-wage services, and tradable low-wage services (the omitted categories being non-tradeable manufacturing and services). Incum-

bents fare worse in counties experiencing a drop in low-wage manufacturing employment, but fare better when employment rises in high-wage manufacturing and service sectors. While these estimates do not necessarily point to a causal relationship, they suggest both electoral gains and losses stemming from trade, a result that squares well with trade theory.

**Causal Estimates.** Autor, Dorn, Hanson, and Majlesi (2019) study the electoral consequences of increased competition from China examining political alignment and actual voting (using the instrument for China shock described above). Their analysis uncovers many fascinating regularities. First, the China shock has affected TV News viewership; Fox News share increased considerably in commuting zones exposed to the China shock, at the expense of CNN and (to a lesser extent) MSNBC. Second, the China shock has pushed Americans to the right, as reflected by the Pew Ideology Score. The impact is heterogeneous; the correlation between the penetration of Chinese imports and right-wing ideology is strong across commuting zones with a sizable non-Hispanic white population, but is absent in areas with a large Hispanic and African American population. Third, Chinese import penetration increases left-wing and right-wing campaign contributions, while there is no correlation with contributions from moderate donors. Thus, trade shocks partly explain the rising polarization of US politics, a trend that started in the 1980s.

Turning now to electoral outcomes, the analysis yields the following. First, Chinese import competition is associated with higher turnout. Second, while the Democratic Party candidates have done better in commuting zones that have been strongholds of either party, Republican-party politicians have benefited in competitive districts, defined as those when neither party obtained more than 55% (there are 129 “safe” Democratic districts, 124 “safe” Republican districts and 179 competitive ones.) As a consequence, districts with a greater exposure to Chinese imports were more likely to elect a GOP Congressperson. This pattern did not emerge after China’s WTO accession and the dramatic rise of Chinese imports to the US; it arose after the 2010 Congressional elections that brought many *Tea Party* Republicans in the House and persisted afterwards. Third, the impact on the likelihood of a GOP victory is especially strong and considerable in districts with a majority non-Hispanic white population in 2000; it is weak and statistically indistinguishable from zero in other

districts.

Autor *et al.* (2019) also examine the impact of rising trade exposure on congressional elections looking at the intersection of the party and the ideology of representatives. Districts facing a higher penetration of Chinese imports were much more likely to elect a conservative Republican. This comes at the expense of moderate Democrats and (to a lesser extent) of moderate Republicans. This pattern is again quite heterogeneous; conservative candidates benefit in counties with a majority non-Hispanic white population. In contrast, in minority non-Hispanic white districts exposed to the China shock, liberal Democrats have a higher election likelihood, a pattern that reflects a substitution from moderate Democrats.

Finally, Autor *et al.* (2019) explore the role of trade exposure to China on the change in Republican vote share between the 2000 tight Presidential elections (George W. Bush vs. Al Gore) and the 2008 elections (Barack Obama vs. John McCain) and the 2000 and 2016 (Donald Trump vs. Hillary Clinton). Rising import competition from China is associated with a significant increase in the vote share of *both* Mc Cain in 2008 and Trump in 2016. The gains are non-negligible, especially when one factors in the “winner takes all” property of the US Electoral College. The estimates imply that the Republican two-party vote share rose by approximately one percentage point for an interquartile range increase in the penetration of Chinese imports.<sup>15</sup>

Feigenbaum and Hall (2015) look at the “supply” side. In areas experiencing a rise in import penetration from China, politicians are more likely to vote for protectionist legislation (and there is not much of an impact on other legislative acts); this pattern is strong in competitive districts. A \$1,000 increase in import penetration per worker brings a 0.7 percentage-point fall in the likelihood that the district’s elected representative casts

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<sup>15</sup>Che, Lu, Pierce, Schott, and Tao (2017) also examine the effects on voting of the the granting of the Permanent Normal Trade Relations (PNTR) to China in the late 2000 (effective as of 2001) on voting across counties over 1992-2010. PNTR had differential sectoral effects and—as industrial production is unevenly allocated—across regions. In line with Autor *et al.* (2019), Che *et al.* (2017) document higher participation in counties (rather than commuting zones) with greater exposure. The analysis shows that, on average, the share of Democrat—rather than Republican—candidates in the House of Representatives rises. The difference with Autor *et al.* (2019) stems the use of counties rather than community zones, and the nature of the shock (PNTR shocks correlate weakly with import penetration). Moreover, their results are not necessarily inconsistent with Autor *et al.* (2019), as there is sizable heterogeneity on the association (across competitive and stronghold districts as well as across racial composition).

a “*right-leaning*” or “*free-trade*” vote in Congress, according to the trade score measure from Political Institutions and Public Choice (PIPC) Roll-Call Database, and a larger 2.10 percentage-point decrease in the probability that the district’s representative casts a “free-trade” vote according to the Cato Score that only looks at the most salient trade bills.

#### 4.1.5 European Regions

Chinese exports to other advanced economies have grown substantially as well. Autor *et al.* (2014) estimate that imports from China in Australia, New Zealand, Japan, Switzerland, Denmark, Germany, Spain, and Finland increased from 28.2 billion USD in 1991/2 to 262.8 billion in 2007. Colantone and Stanig (2018b) explore the impact of Chinese imports across 15 Western European countries over 1988-2007. They construct proxies of the Chinese import shock across 198 NUTS-2 regions,<sup>16</sup> interacting the share of sectoral employment in the 1990s in a given region with the country-wide increase in Chinese imports per industry, instrumented with this industry’s imports to the US. They combine voting shares with information on parties’ platforms about traditional morality, law and order, protectionism, nationalism and the EU from the Comparative Manifesto Project (CMP, Volkens *et al.* (2016)). Exposure to Chinese imports goes hand in hand with voting for nationalistic, far-right, and anti-EU parties. A one standard deviation increase in import competition from China increases in the vote share of nationalistic right parties by 1.7 percentage points. This is considerable, as far-right parties vote share in the 1990s was about 5%. The analysis yields three additional regularities. First, the biggest winners are far-right parties that blend nationalism with a protectionist manifesto. Second, the losers are pro-trade left parties; there is no association between the trade shock proxy and the vote share of protectionist left and mainstream left or right parties. Third, the individual data from the European Social Survey (ESS) suggest that these patterns apply generally, as there is not much heterogeneity on employment status (employed, retired) and sector.

In follow-up work, Colantone and Stanig (2018c) exploit the richness of the ESS to shed

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<sup>16</sup>NUTS is the EU-wide nomenclature of (subnational) territorial units. There are 104 NUTS-1 regions (3 to 7 million inhabitants), 281 NUTS-2 regions (from 0.8 to 3 million) and 1348 NUTS-3 regions (150 to 800 thousand inhabitants each).

light on mechanisms. Respondents in regions adversely impacted by Chinese imports are less supportive of democratic institutions and less likely to hold liberal values; in these regions, respondents tend to favor unchecked strong leaders and express concerns about immigrants' cultural impact. These associations are strong for unemployed individuals with low or middle levels of education.

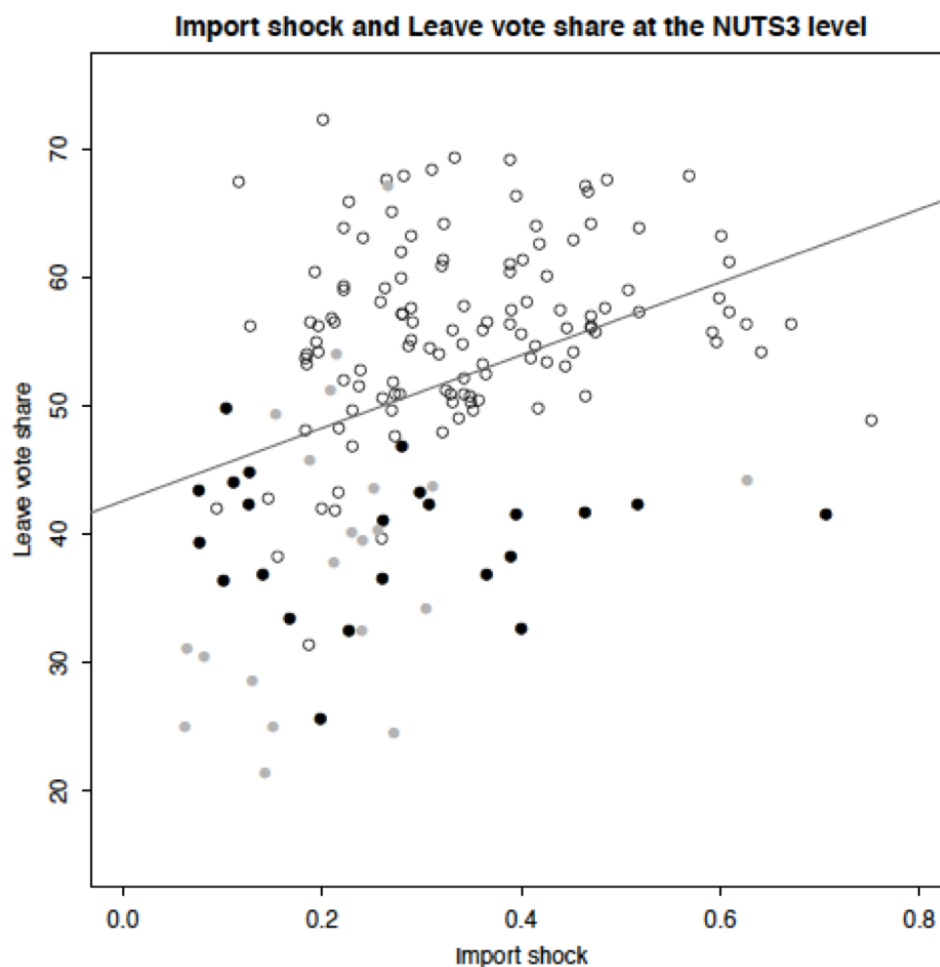
#### 4.1.6 Single Country Studies

**United Kingdom.** In the UK, Chinese manufacturing imports rose from about 1% in the late 1980s to 8.6% in 2007, while total manufacturing imports doubled in real terms.

Colantone and Stanig (2018a) explore the role of Chinese import penetration in the June 2016 referendum to *Leave* or *Remain* in the European Union. The referendum epitomized populism, reflecting most of its salient features. First, the Leave campaign was marked by misleading statements and outright lies (among others, about refugees and immigrants, UK contributions to the EU, etc.). Second, there was a surge of nationalism, the major slogan of the Brexit campaign being “*we want our country back.*” Third, the Brexit campaign offered simplistic solutions to very complex issues. Forth, the debate was portrayed as standoff between regular people and elites; Conservative MP and leader of the Leave camp, Michael Gove famously argued on TV that “*the people in this country have had enough of experts.*”

Colantone and Stanig (2018a) construct regional trade-shock measures multiplying the overall increase in Chinese imports in a given industry with employment shares across districts in 1989. The Chinese import penetration, on average 320 euros per worker, varied considerably across 167 NUTS-3 regions, from €60 in Camden and the City of London to €750 in Leicester. Then they link the *Leave* vote share that also varied considerably—high in the Midlands and Northern England and low in London and the main metropolitan areas—with the penetration of Chinese imports, instrumented with the US analog. A one standard deviation increase of the Chinese import shock in the same macro-region (Wales, England, Scotland) yields a two percentage points increase in the share of *Leave* (Figure 7). While other factors were at play, such as immigration and deep anti-EU sentiment, the China shock measure explains around a seventh of voting variation.

Figure 7: Import shock and 2016 Leave vote share.



Notes: Black dots are NUTS3 regions of Scotland, grey dots are the NUTS3 of London, the hollow dots are the remaining NUTS3 of England and Wales. The grey solid line is least-squares fit on the whole sample. Source: Colantone and Stanig (2018a), Figure 4.

Becker, Fetzner, and Novy (2017) show that trade links with European countries (proxied with the share of value-added in UK NUTS-2 regions attributed to consumption and investment demand in the rest of the EU) are also a robust correlate of the *Leave* vote (see also Springford *et al.* (2016)).<sup>17</sup>

<sup>17</sup>Trade integration with the EU is the highest in East Yorkshire and Northern Lincolnshire, Cumbria, Leicestershire, Rutland and Northamptonshire (over 14%), manufacturing-specializing areas that import and export final and intermediate goods to Europe. EU integration is the lowest in Inner London, North Eastern Scotland, Eastern Scotland and the Highlands and Islands (around 4%).

**Germany** Dippel, Gold, Heblich, and Pinto (2019) study the voting aftermath of rising trade exposure across 322 German regions (*landkreise*) over 1987-2009, looking at the role of Eastern European imports that increased following the fall of the Iron Curtain, 1987-98, and of Chinese imports that rise during 1998-2009. For each shock, they construct a shift-share instrument interacting import increases in Germany with pre-shock industrial specialization across districts; to account for Germany-specific demand and supply conditions, they instrument German industry-level imports and exports with their analogs in Australia, Canada, Japan, Norway, New Zealand, Sweden, Singapore, and the UK.

First, increases in *net* exposure to trade are associated with sizable adverse effects on manufacturing wages and employment.<sup>18</sup> Second, trade competition increases the support of fringe extreme right parties, whose share, however, is tiny. A one standard deviation increase in trade-exposure (1,372 euros per worker) boosts the voting share of extreme-right parties by 0.12%. Third, the authors examine the role of the China-shock on the voting share of the *Alternative for Germany* (AfD). AfD was established during the European crisis and initially criticized vehemently the bailouts of Greece and Portugal. It quickly moved to the far right. There is a significant relationship between trade competition and voting for AfD that is gaining ground in regions where voters were already moving towards the far right. Forth, there is a countervailing effect of increased exports, a finding that is consistent with trade theory that has immediate policy implications, as exports can mitigate adverse effects due to import penetration from low-wage countries. Fifth, the analysis of the German Socioeconomic Panel data suggests that the results are mostly driven by manufacturing workers with no college education.

**Italy** Barone and Kreuter (2019) and Caselli *et al.* (2019) explore the electoral impact of the China shock in Italy. China's rise in the world markets impacted greatly the Italian economy, with its specialization in apparel, textile, leather, furniture, and other sectors increasingly dominated by China. Both papers follow the identification approach of Autor *et al.* (2013). Barone and Kreuter conduct the analysis at a granular level studying 8,000

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<sup>18</sup>Autor *et al.* (2013, 2014, 2019) focus on gross imports from China across US manufacturing industries and only consider net import change (in imports minus change in exports) in the sensitivity analysis. However, German imports from low-wage countries and German exports to these countries are both more balanced than in the US and also correlate positively (Dauth *et al.* (2014)).



Italian municipalities, while Caselli *et al.* (2019) analyze 600 labor market areas. Barone and Kreuter (2019) find that a one-standard deviation increase in the annual change of imports from China (about 145 dollars per worker in 2000 prices) is associated with a change of the populist vote share by 0.4 percentage points — about a third of its mean value of and a tenth of its standard deviation. Far-right nationalistic parties—rather than radical left ones—benefit the most. Caselli *et al.* (2019) find similar results. In contrast to Autor *et al.* (2019), Barone and Kreuter (2019) find that increased trade exposure is associated with lower turnout and a higher share of invalid ballots (though electoral participation is higher in Italy than in the US).

**France** Malgouyres (2017b) examines the impact of competition from low-wage countries on the vote share of the Front National (FN), whose popularity expanded under the leadership of Marine Le Pen, employing the shift-share identification strategy of Autor *et al.* (2013, 2019). The analysis spans 3500 districts over 1995 – 2012. There is a small, but statistically significant impact of import competition on voting for Front National: one standard-deviation (1000 USD per worker) increase in imports leads to an increase in the far-right share by 0.7 of a standard deviation (0.4%). This effect is increasing over time (and the paper does not include the 2017 Presidential elections, where Le Pen secured 21.3% in the first round and 33.9% in the second round). Marine Le Pen’s strategy to move *Front National* manifesto away from the free-market towards redistributive and protectionist policies seems to have paid off (Ivaldi and Lazone (2016)).<sup>19</sup>

## 4.2 Technological Progress

### 4.2.1 The Argument

Technology has transformed labor relations, employment, and wages. As the Fourth Industrial Revolution is marching forward, artificial intelligence, Big Data, machine learning, and robotization are penetrating every industry. The International Federation of Robotics esti-

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<sup>19</sup>Marine Le Pen has tried to distance the party from its racist origins. At the end of 2011, National Front withdrew from the far-right Alliance of European National Movements and joined the somewhat more moderate European Alliance for Freedom in the European Parliament.

mates that in 2009 there were around 6 million industrial robots globally; in 2017 there were already 381 million. The forecast for 2022 is 700 million. Technological progress and innovation are engines of growth both theoretically (Romer (1990), Aghion and Howitt (1992), Grossman and Helpmann (1991)) and empirically (e.g., Graetz and Michaels (2018)). However, there are winners and losers. As technical progress has been skill-biased since (at least) the 1970s, the winners have mostly been high-skilled workers, whose “abstract” jobs complement new technology. Autor (2014), Acemoglu and Autor (2011) and Harrison *et al.* (2011) review the sizable body of research showing that the rising skill premium can explain a non-negligible part of rising inequality (outside the very top).

The main empirical strategy for identifying the impact of technological change on the rise of populism is similar to the one on trade shocks. However, isolating exogenous swings in technology is challenging. Most authors rely on industrial robots data, available from the International Federation of Robotics (IFR) that collects them from producers and then groups them across industry, country, and year. The data are noisy, missing important distinctions and cannot account for other automating technologies (e.g., software).

#### 4.2.2 Historical Precedents

The political and social implications of automation have been recognized at least since the mid 19th century. Marx and Engels (1848) viewed revolutions in the modes of production and exchange as transforming “*the whole relations of society*,” leading naturally to political change. John Maynard Keynes and Wassily Leontief worried about the political consequences of “*technological unemployment*”. Eichengreen (2018) and Frey, Berger, and Chen (2017) discuss the Luddite movement in England, who opposed the spread of machines in textile violently. The Luddites engaged in riots, physically broke the machines and burned factories.

Capretini and Voth (2019) study a fascinating historical case of violent opposition against automation: the “Swing Riots” that spread around England and Wales amidst the Industrial Revolution in 1830. In particular, they examine how the introduction of the threshing machines that separated grains from chaff, replacing hand-threshing with a frail swung overhead, affected the Swing Riots that played a major role in the extension

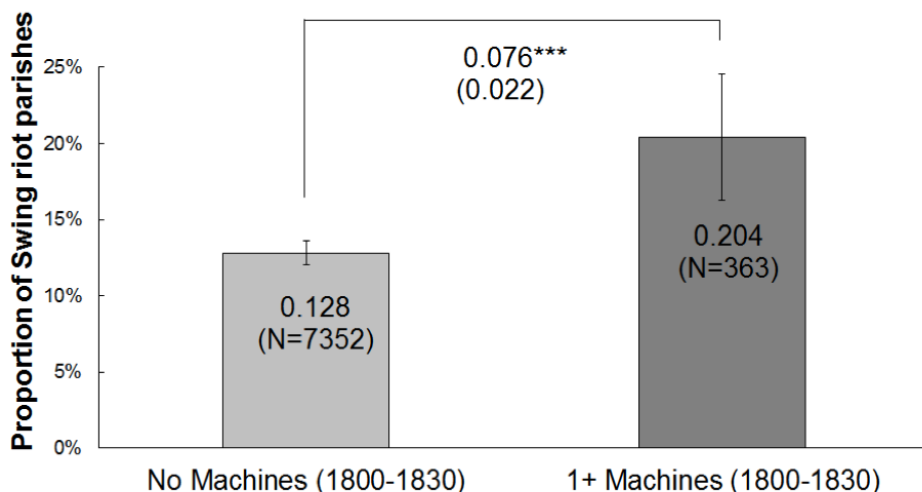
of the franchise (Aidt and Franck (2015)). Threshing machines increased productivity per worker by a factor of 10. Nonetheless, as threshing was the most important source of income of rural laborers during the non-farming period, there was deprivation among poor rural households fueling unrest (Hobsbawm and Rude (1969)). In the second half of 1830, more than 3000 riots erupted across 45 counties. There is a strong correlation between the presence of a machine and riots (see Figure 8). To account for error-in-variables and omitted variables, the authors use soil’s suitability for grain, as an instrument, that correlates significantly with the presence of threshing machines. There are no pre-trends in riots nor major differences in socioeconomic features (population density, share of employment in trade and agriculture) between regions with “heavy” and “non-heavy” soil. One new machine translated into 6.5 more riots. This effect is muted (amplified) in proximate (remote) to manufacturing hubs areas, where alternative employment opportunities were ample (scarce). This result connects to the current sizable urban-rural gap on populist and nationalistic vote. The correlation between the threshing machines and riots is especially strong in enclosed areas as in these regions, workers did not have many alternative employment opportunities.

### 4.2.3 Automation and the Recent Rise of Populism

**United States** Frey *et al.* (2018) analyze the impact of vulnerability to automation across commuting zones on the 2016 US Presidential Elections. Their starting point is the mapping by Acemoglu and Restrepo (2019) of the penetration of industrial robots across US commuting zones between 1993 and 2007. As shown in Figure 9, heterogeneity is considerable. The empirical test associates changes in the voting between the 2016 and the 2012 Presidential Elections to changes in exposure to robots between 2015 and 2011. To account for US supply and demand features affecting both technology adoption and voting, Frey *et al.* (2018) extract the historical component of industrial specialization using sectorial employment shares in 1980 and use robot penetration in ten European countries to instrument for its US analogue.

The 2SLS specifications (Figure 10) suggest that one standard deviation (5 percentage point) increase in the share of vulnerable jobs across is associated with a 0.2 standard

Figure 8: The spread of threshing machines and Swing riots, 1800-1830.

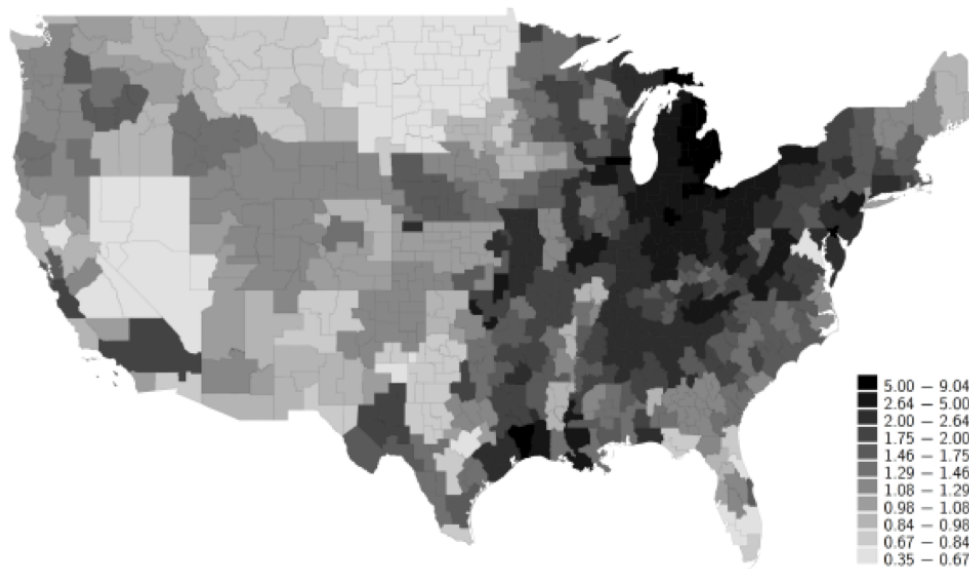


Notes: Proportion of Swing riots by whether a threshing machine was in use in the parish. Source: Capretini and Voth (2019), Figure 1.

deviation increase in the voting share of Donald Trump (versus Mitt Romney). With these estimates they conduct a simple counterfactual analysis that approximates the votes for Donald Trump and Hillary Clinton in nine swing states had the impact of the robots been 10%, 75% or 90% lower. Wisconsin would have moved in favor of Clinton had the impact of robots been just 10% lower than the actual; yet for Michigan and Pennsylvania to turn Blue, the impact of automation had to be 25% of actual. So while automation does matter at the margin, it is unlikely to explain by itself the outcome of the 2016 US Elections

Petrova, Schubert, Taska, and Yildirim (2020) also uncover a reduced-form association between voting for Trump in 2016, as well as Romney in 2012, and automation across CZs. The correlation retains significance conditioning on the vote share of McCain in the 2008 election, suggesting that Trump managed to capitalize on automation shocks. But, it is the employment and wages of African Americans and Hispanics—rather than the Whites—that fall the most in automation-affected areas. This result casts some doubt on the prevalent explanation that (non-college-educated) non-Hispanic Whites supported Trump, due to

Figure 9: Geographic distribution of exposure to robots 1993-2007.



Notes: The figure presents the increase in number of robots per thousand of workers in 1993-2007. Source: Acemoglu and Restrepo (2019), Figure 4.

automation's adverse impact.

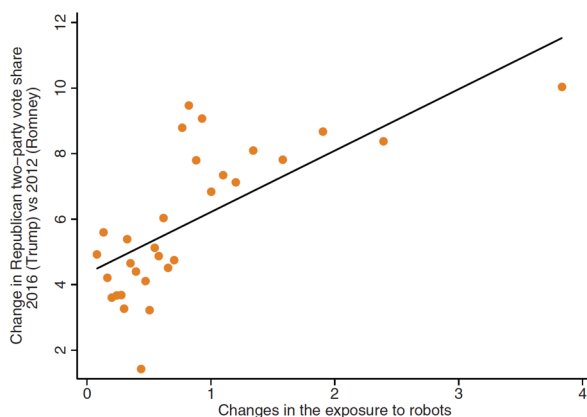
**Europe** Anelli, Colantone, and Stanig (2019) carry out a similar analysis that links voting and beliefs across 192 subnational regions (NUTS-2) in 14 European countries over 1993-2016. They compile time-varying proxies of regional exposure to automation interacting industrial specialization with changes across 11 industries in the use of robots in each European country.<sup>20</sup> A one standard deviation increase in exposure to automation across regions (0.217) increases the support for far-right nationalistic parties by 1.8 percentage points; this effect is considerable, as the average vote share of these parties was about 5 percent. These patterns are corroborated by individual-level specifications that exploit variation on vulnerability to automation across occupations, industry, and education. The far-right parties' gains come at the expense of pro-trade left and liberal-right parties.

The parallel study of Im, Mayer, Palier, and Rovny (2019) that correlates voting and

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<sup>20</sup>The average yearly increase in the stock of operational robots is 7.6 per 100,000 workers in a given region (with the standard deviation of 10).

Figure 10: Exposure to robots and the vote for Trump



Notes: Non-parametric county-level relationship with 30 equal-sized bins. The straight line: a fitted OLS regression based on the underlying data. Source: Frey et al. (2018), Figure 1.

automation, using ESS data (rounds 6, 7, and 8) across 11 European countries yields similar results. The likelihood for voting for radical right parties is considerably higher for occupations affected by automation, an effect that mostly comes at the expense of mainstream right-wing parties. The automation far-right voting correlation is pronounced for individuals reporting (very) low income security.

Besides voting, recent studies examine automation’s role on policy preferences. Thewissen and Rueda (2019) explore the impact of professions’ routine task intensity on preferences for redistribution across 17 European countries between 2002 and 2012 using ESS data.<sup>21</sup> The correlation is statistically significant though the magnitude is small-to-moderate. One standard deviation increase in routine task intensity raises preferences for redistribution by around 0.05 (approximately 1.4% higher than the sample mean).

**United Kingdom** Gallego, Kurer, and Scholl (2018) examine the role of digitization—that increased wages and productivity of skilled workers—on voting. Combining individual data from the British Household Panel Study and the Understanding Society Survey with

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<sup>21</sup>The compilation of the routine task intensity index follows Goos, Manning, and Salomons (2014), Autor and Dorn (2013), and Autor, Dorn, and Hanson (2015), who distinguish between routine, manual, and abstract task inputs, derived per occupation from the Dictionary of Occupational Titles (DOT). The RTI index is the log routine task input per occupation minus the log manual and abstract task inputs.

industry investment in Information, Communication, and Technology (ICT) from the EU-KLEMS database, they first show that the correlation between ICT investment and wages is significantly positive for educated workers, but negative for non-college-educated workers. Second, in industries facing faster than average ICT investment, skilled workers are more likely to vote for incumbents, especially the conservatives.

### 4.3 Summary

There is plenty of evidence on the impact of import competition from low-wage countries and automation on advanced economies' labor markets, which in turn give rise to dissatisfaction with the *status quo* and populist voting. The integration of China in the world economy has affected differentially *local* labor markets in the United States, the United Kingdom and Western Europe. Communities, towns, and small cities specializing in labor-intensive manufacturing have lost jobs, as multinationals moved operations offshore, upgraded technology, and many smaller producers were forced to shut down. Limited internal migration led to rising unemployment, falling labor force participation, depressed wages of non-college graduates, and a more generic feeling of decline.

Although the “China shock” can explain at most 20% of the recent decline of employment in US manufacturing, it has had major political implications. Voters in the communities exposed to the shock have, on average, moved to the right. The US evidence suggests a shift towards conservative (Republican) candidates, mostly at the expense of mainstream free-trade Republicans and Democrats. This move of the electorate is especially strong in non-Hispanic White communities, hinting that economic grievances may interact with deeper cultural-social ones (that we discuss in Section 6). The evidence on Brexit is similar; Leave votes—and the support of UKIP—have been high in the areas of manufacturing decline, while the rich, cosmopolitan metropolitan areas (that have benefited from globalization) have been overwhelmingly against UK leaving the EU. The detailed studies of the relationship between industrial decline and populism in large European countries, Germany, France and Italy or taking a pan-European regional approach also uncover a link between exposure to Chinese imports and support for anti-establishment populist parties of right-wing ideology. The main losers are moderate, liberal and pro-trade left

(Social Democrat) parties whose electoral power has plummeted after the crisis. Interestingly, radical left and communist parties have not benefited, although many of the affected communities have been strongholds of the left.

The uncovered regularities raise some challenging questions. Why nationalism and right-wing ideology and not more redistributive left-leaning policies (and populists)? Why does the trade-populism nexus arise now? One potential explanation is that the reaction to the long-term economic developments was eventually triggered by the shock of the global financial and economic crisis. We discuss the role of the crisis in the next section.

## 5 Economic Explanations: The Role of the Crisis

### 5.1 The Argument

The rise of populism took place during or immediately after the recent crisis. Many non-mainstream parties in the European periphery capitalized on the deep recessions that were aggravated by deep austerity policies. In Greece, SYRIZA, stemming from the radical left and Independent Greeks, originating from the populist right, took extreme anti-establishment views, demonized “old” politicians, questioned Greece’s position in the European Union. Golden Dawn, a neo-Nazi party, always at the fringe of Greece’s political system reached 7% in the 2012 elections. The rise of Podemos in Spain also took place at the time of crisis and austerity. In the United States, where the Great Recession was short-lived, the Tea Party movement gained strength in the 2010 midterm elections.

An old argument in political science asserts that voters punish incumbents when the economy is weak (see, among others, Kinder and Kiewiet (1991), Lewis-Beck and Stegmaier (2000), and Lewis-Black, Nadau and Elias (2008)).<sup>22</sup> For example, tabulating cross-country data over the 1970s and the 1980s, Jackman and Volpert (1996) show that economic downturns in advanced economies push voters to support the far-right parties.

The recent crisis has been the deepest since the Great Depression. In Greece GDP fell

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<sup>22</sup>Adverse economic shocks often trigger political regime changes. Ciccone (2019) and Bruckner and Ciccone (2011) link rainfall-driven income shocks to democratic transitions in Sub-Saharan Africa. Franck (2008) and Franck and Michalopoulos (2018) establish a relationship between income shocks and the French Revolution.



by 25% and unemployment almost reached 30%. In Spain, unemployment exceeded 20%, while in the US it doubled to 10%. Besides the intensity of the crisis, four additional features of this crisis may have played a role. First, as both center-right and center-left mainstream parties were in power before the crisis, it was easier for populist leaders to put the blame collectively on the “old” political players. Second, many countries implemented austerity that weakened the safety net. Austerity fueled dissatisfaction with the political system and led to a pervasive feeling of unfairness. Third, as austerity was often imposed by (or at least blamed on) supra-national institutions (the International Monetary Fund and the European Union), the painful post-crisis restructuring resulted in an anti-globalization, anti-EU, and nationalistic sentiment that populist parties capitalized on. Forth, bank bailouts were unpopular, as people thought that bankers got away with their mistakes. Populists found a fertile ground for their anti-elite narrative that now blended old politicians, bankers, technocrats, even academic economists who did not foresee the crisis.

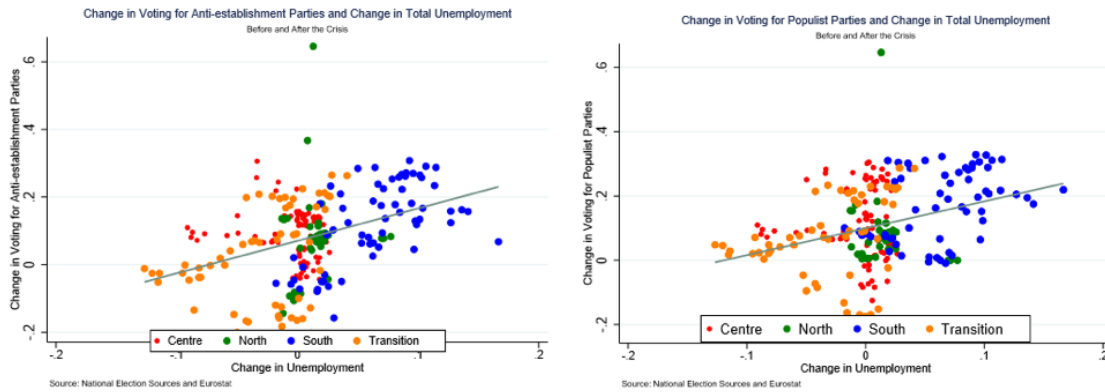
## **5.2 Crisis and Populism: the Evidence**

### **5.2.1 Global Historical Evidence**

Funke, Schularick, and Trebesch (2016) examine the political aftermath of major financial crises and ordinary recessions studying 827 general elections across 20 advanced economies over 1870 – 2014. The before-vs-after analysis reveals that financial crises are followed by a significant increase in the vote share of far-right parties. In contrast, radical-left parties do not seem to benefit. Far-right parties also gain following ordinary recessions. Moreover, crises are followed by increased political fractionalization, as the number of parties represented in parliament increases considerably. At the same, strikes, violent riots, street protests, and anti-government demonstrations also rise.

Similarly, Eichengreen *et al.* (2017) show that William Jennings Bryan and his populist party did especially well in the 1896 Presidential Elections in (mostly rural) areas that have experienced sizable drop in crop prices.

Figure 11: Change in unemployment and change in populist vote share in European regions.



Source: Algan et al. (2017).

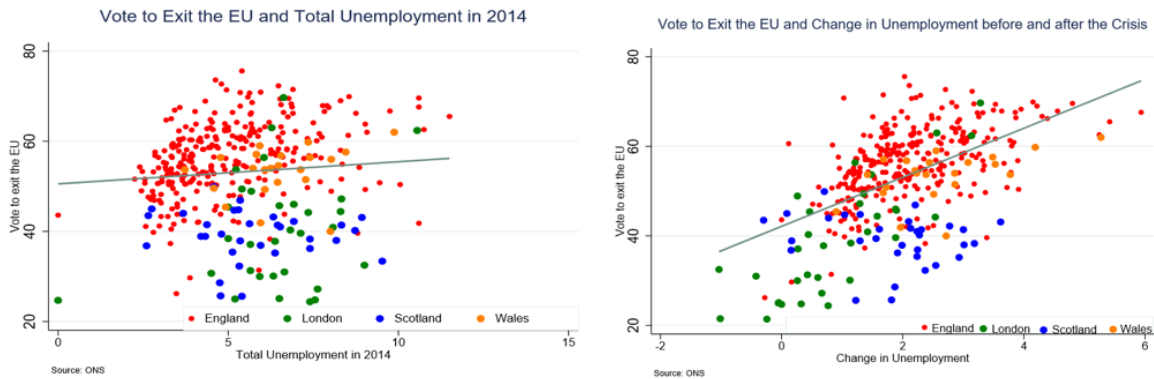
### 5.2.2 The Recent Crisis in Europe

Algan, Guriev, Papaioannou, and Passari (2017) examine the role of the recent crisis on voting for non-mainstream parties and beliefs exploiting within-region variation across 220 regions in 26 European countries in 2000-2017. In the first part of the analysis, they document a strong link between increases in unemployment and voting for non-mainstream (far-right, radical-left, populist, and anti-European) parties. The association is especially strong for populist parties. Figure 11 illustrates these patterns. One percentage point increase in unemployment is associated with a one percentage point increase in the populist vote. The effects are the strongest in the European South, but present also in the East and the Centre; it is not significant in the North. In the South, unemployment goes hand in hand with voting for radical-left parties with a redistributive agenda (e.g., Podemos, SYRIZA). But in the core and in Eastern Europe unemployment correlates with far-right party voting, as citizens are turning their backs to communist and far-left parties.

In an “out-of-sample” test, Algan *et al.* (2017) show that -in the same vein- changes in regional unemployment —rather than the unemployment *levels*—are strong correlates of voting for Brexit (see Figure 12).

To identify the causal effects, Algan *et al.* (2017) extract the component of the regional change in unemployment predicted by the pre-crisis share of construction. Construction

Figure 12: Change in unemployment and Brexit vote in British electoral districts.



Source: Algan et al. (2017).

and real estate played a major role during the build-up and the burst of the crisis around the world. Pre-crisis construction correlates positively with rising unemployment post 2008-2009 (“first-stage”) and with increases in populist vote (“reduced-form” association). The same applies to the Brexit vote. Moreover, the construction-unemployment-voting nexus does not seem to reflect other time-varying regional variables, such as immigration, corruption, or education.

Algan *et al.* (2017) also analyze ESS data on Europeans’ beliefs and attitudes. Increases in regional unemployment map into significant declines in confidence in national and European political institutions. Unemployment does not correlate with distrust in the police or the UN. Changes in regional unemployment do not correlate with respondents’ political self-identification on the traditional left–right axis. In spite of the emergence of new political parties, respondents in crisis-hit areas are more likely to report that *no* party is close to their views. Algan *et al.* (2017) also examine the impact of unemployment on beliefs about the European integration process. On average, changes in unemployment are not related with the view that the EU has gone too far nor with attitudes that the EU unification should proceed. In the South, increases in unemployment map with aspirations for deeper integration. But, in the North and in the Center, in more crisis-hit regions respondents believe that the European project has gone too far.

Lechler (2019) also connects regional employment shocks to anti-EU sentiment, using

both voting data and survey data from Eurobarometer on 260 European NUTS-2 regions over the past two decades. In order to identify the causal relationships she uses Bartik-style instrument for the change in regional employment rates. Her results are similar in term of both signs and magnitudes.

Dustmann, Eichengreen, Otten, Sapir, Tabellini, and Zoega (2017) also use ESS data to document a strong negative relationship between populist voting and trust towards national and European parliaments. They also show that macroeconomic shocks, as reflected in regional GDP and unemployment, are robust correlates of political trust. A one percentage point increase in the regional unemployment explains 4.2% of the fall in trust in the European Parliament and 22.8% of distrust in national parliaments. Conversely, a 1% decrease in GDP per capita explains 3.2% of the decrease in trust in the European Parliament and 20.1% of the decrease of trust in national parliaments. Second, adverse economic conditions correlate with a higher vote share of parties with an anti-EU agenda.

Guiso, Herrera, Morelli, and Sonno (2017) combine ESS data with political parties manifestos to study the drivers of populism across Europe. A novel element of their approach is the joint examination of the demand for populism, stemming from economic insecurity, and the supply of populist policies, by established and new political parties. Economic insecurity, proxied by individual survey responses on employment status, income difficulties, and exposure to globalization, are strong predictors of populist vote. Populist parties benefit further, as individuals facing economic difficulties are less likely to vote. Moreover, the various proxies of insecurity—and their principal component—correlate negatively with political trust, satisfaction with democracy, trust in the EU, and pro-immigration attitudes. These ESS-based evidence are consistent with the Eurobarometer-based results of Foster and Frieden (2017) that the relationship between economic stress and political distrust is especially strong in highly indebted countries.

Turning to the supply side, far-right parties emerge and perform well in right-wing leaning countries with an influx of immigration, especially from Muslim countries, while radical left parties fare well in countries that combine high inequality with a traditionally left-leaning electorate. Populist parties carefully choose their orientation by strategically leaning towards the left or the right depending on the relative salience of the core issues and

the predispositions of the electorate. In response, traditional parties amend their platforms, to get closer to the voters (and the populists).

### 5.2.3 Country Studies

**Sweden** Dehdari (2018) studies the role of economic insecurity and unemployment on the rise of Sweden’s far-right Sweden Democrats party using granular analysis of layoff notices spanning 5,668 electoral precincts (with a mean number of eligible voters in 2010 of just 1257). For identification, he relies on a “Bartik” interaction between sectorial composition of each precinct with nationwide industry trends in layoffs. Using the administrative data on workers’ background, he compiles predicted layoffs for each precinct looking separately across skilled and unskilled workers, further distinguishing between native and foreign-born. Yearly layoffs are below 25,000 in 2005-2007; they increase to 40,000 in 2008 and reach 100,000 in 2009 (including 70,000 layoffs of low-skilled).

Unemployment notices among native-born low-skilled workers is a significant predictor of right-wing populist vote. The implied magnitudes are large: for two layoffs of low-skilled native-born workers, the Sweden Democrats gain an additional vote. As the layoff notices for low-skilled native-born workers in 2007-10 are around 121,000, the estimates imply that Sweden Democrats gained about 56,000 votes; roughly a third of their total vote gain. Layoffs among foreign-born low-skilled workers is unrelated to extreme-right voting, most likely because the anti-immigration nationalistic ideology keeps them away. Layoffs among high-skilled workers, especially foreign-born, is negatively related to voting for Sweden Democrats. The effect of native low-skilled workers layoffs dominates and in net explains about 20% of the total increase in the far-right voting. The unemployment notices among native low-skilled workers voting for far-right nexus is strong in areas with a greater number of low-skilled immigrants, suggesting that economic distress may interact with immigration.

**Netherlands** Gidron and Mijs (2019) study the crisis impact on political preferences in the Netherlands, using micro-data from the Longitudinal Internet Studies for the Social Sciences that traced 5,000 Dutch households over 2007-2015. Including individual fixed-effects allows examining whether changes in income/employment relate to changes in

political preferences. Income losses raise sympathy for the radical Socialist party and support for redistribution; however, the magnitudes are small and the correlations significant only among middle-income citizens. Income losses increase the support for Geert Wilders' far-right party, but this correlation is present only among low-income individuals.

**Brazil** Barros and Santos-Silva (2019) examine the impact of Brazil's deep recession in 2014-2018 on the electoral success of Jair Bolsonaro, who followed an anti-establishment anti-corruption campaign and also accused minorities and women.<sup>23</sup> On average, the association between regional employment shocks and voting for Bolsonaro is weak and statistically indistinguishable from zero. This non-result, however, masks important heterogeneity. Bolsonaro gained considerably in regions where the downturn hit male jobs (due to the pre-crisis industrial specialization of the regional economy). In contrast, in regions where the crisis hits mostly women's jobs, Bolsonaro lost.

**United States** Besides a stark increase in unemployment, the 2007-10 crisis was also characterized by credit contraction. As many lost their jobs, bankruptcy and mortgage defaults soared. Antoniadis and Calomiris (2018) study the impact of crisis-driven credit supply shocks on the 2008 US Presidential election that took place during a massive contraction of private (and mortgage) credit.<sup>24</sup> John McCain performed worse in counties with sizable mortgage contractions; this effect is stronger across nine swing states though the estimates suggest that Barack Obama would have won in almost all of them even in the absence of any mortgage contraction (the exception is North Carolina that Obama narrowly secured by 0.3%, 15,000 votes). In the 2012 Presidential election, it is Obama, now the incumbent, who lost in counties with high mortgage delinquencies. When the authors look at the booming phase of the housing market and mortgage origination (1996-2004),

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<sup>23</sup>The gender gap in this election was considerable; Bolsonaro secured 54% of male votes and just 41% of female votes; there is no evidence of a gender gap in earlier elections in Brazil. Cascio and Shenhav (2020) document the divergence of vote across gender in the US, where women voters increasingly vote for (liberal) Democrats and men for (conservative) Republicans.

<sup>24</sup>Mian, Sufi, and Trebbi (2010) show that representatives from districts that experienced large mortgage default rates were more likely to support the American housing Rescue and foreclosure Prevention Act of 2008. Politicians respond also to campaign contribution from the finance industry. In the same manner, Mian, Sufi, and Trebbi (2013) show that representatives with a faster growth of subprime mortgage origination, as well as higher campaign donations from finance, were voting for looser lending standards.

they do not to detect any association between credit supply and voting. Voters punish incumbents in crisis times, but do not reward them in good times.

Van Straelen (2018) explores the link between crisis-induced swings in housing wealth—US households’ largest asset—on political donations of around 1 million Americans. The granularity of the data accommodates zip-code time effects on top of individual fixed-effects. The estimates that reflect how the same household responds to housing shocks compared to other households in the same zip code suggest that a one standard deviation drop in house prices is associated with a 0.22% – 0.30% increase in polarization of donations.

Garro (2018) conducts a cross-state analysis linking state-level business cycles to polarization in state legislative chambers, measured as the differences between the median ideological score of the Democrat and the Republican representatives. Garro (2018) instruments state output growth with world oil prices interacted with the state’s oil production. The within-state specifications suggest that economic downturns are associated with increased political polarization, a pattern that is primarily driven by first-time Republican candidates; the latter are more likely to be conservative if elected in periods of economic hardship. Moreover, in these periods contributions from individuals favoring more extreme candidates also rise.

**Hungary** Mortgages and household debt are not unique to the US crisis. Leverage rose in the 2000s across the world, fueled, among others, by loose monetary policy in the US, lax lending standards, deregulation, hands-off supervision, and rising demand for safe-like assets from Asia and commodity-producing countries. Gyöngyösi and Verner (2019) connect crisis-driven swings in household debt to the rise of populism in Hungary. Household debt soared from less than 3% of GDP in 2000 to around 30% in mid-2008. As two-thirds of household’s debt was denominated in Swiss francs, when the forint lost half of its value, losses were massive. Far-right Jobbik (Movement for a Better Hungary) surged, its vote share rose from 2.20% in the 2006 Elections to 16.67% in the 2010 Parliamentary Elections. Viktor Orban, the leader of FIDESZ, a moderate right-wing party, moved it further to the right and gained power in 2010 on a populist agenda.

The authors compile estimates of foreign currency household loans across zip codes in

September 2008 and then show that the vote share of Jobbik increased considerably in the 2010 elections in high exposure areas. The shock persisted and Jobbik’s popularity continued being disproportionately high in communities affected by the devaluation. Jobbik’s gains came at the expense of the center-left party that ruled Hungary during 2002 – 10. A 10 percentage point rise in debt-to-income driven by the currency devaluation increased the vote share of Jobbik by 3 percentage points. Foreign currency debt exposure accounted for around 20 percent of the overall rise in the far-right vote share.

FIDESZ also gained in crisis-hit regions,<sup>25</sup> as Viktor Orban was embracing populism. This finding is consistent with the theory and pan-European results of Guiso *et al.* (2017) that mainstream parties will take more extremist positions to cater to the growing demand for populist policies.

**Poland** Ahlquist, Copelovitch, and Walter (2019) look at Poland, where the populist Law and Justice Party (PiS) has challenged the country’s relationship with the European Union and attacked core democratic institutions. PiS secured a narrow parliamentary majority in the October 2015 elections, getting 235 out of 260 seats with a 38% vote share. A major campaign issue regarded the treatment of approximately 575,000 households, which had Swiss-franc denominated mortgages (in total, there were around 40 billion USD worth Swiss-franc loans, about 8% of GDP). These households suffered significant losses, after the unexpected decision of the Swiss National Bank in January 2015 to let the franc appreciate. As trade and financial links between Poland and Switzerland are tiny, the authors isolate a clean exogenous shock, unrelated to the Polish government’s policies. During the campaign, parties took different views on the issue. On the one extreme, PiS on the right and the Democratic Left Alliance on the left advocated generous bailouts. Moreover, PiS used the fact that borrowers were subsidiaries of international banks to bolster its nationalistic message. The ruling Civic Platform (PO) party offered a middle-ground adjustment with borrowers and banks sharing costs equally. At the other extreme, Liberal Nowoczesna (Modern) party did not see any need for government intervention. Ahlquist, Copelovitch, and Walter (2018) run surveys and experiments just before the elections. Polish voters

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<sup>25</sup>Adler and Ansell (2020) report regional-level correlational evidence of rising support for Brexit and Front National in areas with a sizable decline in housing prices.



repaying FX-denominated loans at the time of the election favored generous bailout policies and were more likely to vote for the Law and Justice Party; this is not the case for the respondents without Swiss-franc denominated loans.

#### 5.2.4 Historical Evidence from the Great Depression

The recent crisis brought about parallels with the Great Depression. During the 2008-09 crisis, policy makers explicitly tried to avoid “the mistakes” of the Great Depression.<sup>26</sup> The rise of totalitarianism in the 1930s is considered to be the most profound aftermath of the Great Depression (e.g., Payne (1996) and Berg-Schlosser and Mitchell (2000)).

**Global Evidence** De Bromhead, Eichengreen, and O’Rourke (2013) examine Great Depression’s impact on the rise of right-wing parties as well as other anti-systemic parties (communist and secessionist) in 28 countries in 1919-39 studying 171 elections. Economic performance over the past years (or cumulatively since the crisis onset) is a robust correlate of the electoral success of extreme right-wing parties. This correlation is especially strong in new (rather than established) democracies, suggesting that democratic capital may shield countries from extremism (see Persson and Tabellini (2009)).

**Inter-war Germany** Doerr, Gissler, Peydro, and Voth (2019) look at the most famous case, the rise of the Nazi party in Germany, whose popularity went from just 2.6% in 1928 to 43.9% in 1933, as the country lost 40% of its output. They examine the 1931 banking crisis, triggered by the collapse of Danatbank, one of Germany’s four universal banks, led by Jakob Goldschmidt, a prominent Jewish banker. This crisis contributed to the rise of Nazis both by amplifying the Great Depression and by allowing Nazis to blame Jews. The authors merge firm-bank data with city-level incomes to assess how exposure to Danatbank affected votes for NSDAP. One standard deviation fall in city income caused by the bank collapse is associated with a 4.3 percentage point rise in the NSDAP — around 20% of the mean increase from 1930 to 1933. In contrast, a one standard deviation income drop,

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<sup>26</sup>In contrast to 1929, central banks in 2008-10 decisively (and in a coordinated manner) slashed short-term interest rates and soon afterwards implemented various quantitative easing policies. US and China implemented large fiscal expansion programs. Throughout the world, governments tried to avert protectionism, as this was considered one of the policy mistakes of the 1930s.

uncorrelated with Danatbank exposure, increased Nazi votes by 1.1 percentage points. The link between the banking crisis and the rise of Nazi vote is especially strong in cities with a history of anti-Semitism, as reflected either in voting for anti-Semitic parties before World War I or with pogroms during Medieval times (see Voigtländer and Voth (2012)). Anti-Semitism related to the Danatbank collapse persisted after the Nazi's electoral victory: cities more exposed to the bank's failure witnessed a higher deportation of Jewish citizens to concentration camps, and more attacks on synagogues and Jewish property.

**China** Braggion, Manconi, and Zhu (2019) examine the effects of the 1933 banking crisis in China triggered by the US silver purchase program. The authors exploit variation in exposure to Chinese banks with different silver reserves that were thus differentially impacted by US policies. Firms exposed to banks with lower silver reserves (that cut lending more) experienced a disproportionately large increase in labor unrest and rise of Communist cells. While this study does not connect banking supply shocks to actual voting, it shows that adverse credit conditions fuel unrest and spur the popularity of anti-regime movements.

### 5.3 Austerity and Populism

The recent crisis was accompanied by austerity, as many countries suddenly face binding budget constraints. Keynesian arguments suggest that expansionary fiscal policy, government spending, tax cuts, and investments in welfare state help the economy in periods of falling demand. Some countries, most notably the United States and China, implemented large fiscal programs in 2008-10. However, the re-pricing of global risk, the cost and fear of bank bailouts, and high debt levels made it impossible for many crisis-hit countries to use fiscal policy to mitigate the shock of the crisis. In sharp contrast to the Keynesian prescriptions, many countries drastically cut down public spending and investment and raised all taxes. Austerity was especially painful in the European periphery. The bailouts that Ireland, Portugal, Greece, and Cyprus received from the EU and the IMF came with strict conditionality of fiscal tightening. Setting aside the fierce debate on the macroeconomic

consequences of such abrupt, timely, and large fiscal consolidations,<sup>27</sup> austerity did spur populism.<sup>28</sup>

There are several factors explaining the relationship between austerity and the rise of populism. First, deprived households may radicalize, expressing dissatisfaction with the political system. This may be especially the case when the welfare state buffers are weak or when government cuts target social insurance.<sup>29</sup> Second, as in many countries austerity, was part of Economic Adjustment Programs with international organizations (EU and IMF), it was easier for nationalists and populists to blame foreigners and their local collaborators. Third, during turbulent times conspiracy theories abound and populist politicians capitalize on it, amplifying them.

### 5.3.1 Contemporary Evidence

Distinguishing the impact of austerity from that of the crisis is challenging. Nevertheless, a couple of innovative recent paper manage to isolate the impact of some idiosyncratic aspects of austerity.

**United Kingdom** Fetzer (2019) studies the impact of welfare state cuts in 2012-2015 on the rise of UKIP, UK's anti-EU far-right party that accelerated after 2010, and eventually the UK's Referendum to Remain or Leave the EU. During this period, GDP per capita was, if anything, growing (at 1.5%-2.5%).

Following the May 2010 parliamentary elections, a coalition government between the Tories and the Liberal Democrats was formed under the premiership of conservative leader

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<sup>27</sup>For a review, see Alesina, Favero, and Giavazzi (2019).

<sup>28</sup>There is a broader literature on the electoral aftermath of austerity. Tabulating data from 19 OECD countries over 1971-2008, Alesina, Carloni, and Lecce (2013) find no evidence that governments implemented large fiscal consolidation plans are voted out of office. Similarly, Arias and Stasavage (2019) fail to detect a systematic within-country correlation between expenditure cuts and leader turnover across 32 countries over a long period, 1870–2011. Ponticelli and Voth (2019) examine the within-country correlation between fiscal policy shocks and political instability (riots, demonstrations, general strikes, assassinations, and attempted revolutions) across 24 European countries during 1919 – 2008. Small to moderate public expenditure cuts (less than 3% of GDP) do not correlate with any aspect of instability. However, cuts over 3% and especially 5% triple, on average, political instability (mostly riots and demonstrations). In contrast, tax hikes do not correlate significantly with political unrest.

<sup>29</sup>Kaplanoglou, Rapanos, and Bardakas (2015) show that the fairness of the welfare state correlates with the success of fiscal consolidation programs in a sample of 29 OECD countries over 1971-2009.

David Cameron. Soon after, the administration implemented a series of austerity measures. There were considerable budget cuts in education (of around 20%) and welfare protection and a freeze on public health care spending.<sup>30</sup> Total government spending for unemployment, housing, tax credits, disability-related benefits, and social allowances fell by around 15% in real per capita terms. District-level cuts were more pronounced with spending per capita dropping by almost a fourth during 2010-15. The cuts hit the poorest areas the most, as citizens in these areas were more dependent on social welfare. Some districts experienced cuts over 40%. Drawing on earlier work by Beatty and Fothergill (2013), Fetzer (2019) maps austerity across the UK. The Welfare Reform Act of 2012 cost, on average, GBP 440 for every working-age citizen, ranging from £914 in Blackpool to £177 in the (much richer) City of London. For a every pound lost due to austerity, local income fell by around 2.5, suggesting that once one factors in general equilibrium effects the cuts did not bring that much to the government coffers.<sup>31</sup>

Fetzer (2019) runs district-level difference-in-difference specifications linking UKIP voting share to austerity; austerity increased UKIP vote share by between 3.5 to 11.9 percentage points. Given the close link between UKIP and Brexit voting, back-of-the-envelope calculations suggest that Leave support in the 2016 Referendum would have been 6-8 percentage points lower. And as UKIP vote understates Leave support, the results suggest that the outcome of the referendum would have been for the UK to stay in—rather than leave—the EU. While one should interpret these extrapolations with caution, the magnitudes are sizable and the implications profound. In the second part, Fetzer (2019) scrutinizes data covering 40,000 households from the Understanding Society Study. Britons exposed to the welfare cuts moved to UKIP shortly after austerity hit them; subsequently, these households did vote for *Leave*. Moreover, they were more likely to report that they “*do not have a say in government policy*”, that their “*vote is unlikely to make a difference*” and that “*public officials do not care.*”

Fetzer, Sen, and Souza (2019) quantify the impact on Brexit of another austerity mea-

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<sup>30</sup>Spending on pensions was unaffected, suggesting that austerity differentially affected working age and young citizens, as compared to retirees.

<sup>31</sup>See Chodorow-Reich (2019) for an overview of local multiplier studies that across many settings yield multipliers around 2.

sure of David Cameron’s administration: the reduction of housing allowances for low income renting families in April 2011 affected close to 1 million households (3.5% of all households and around 22% of all households renting); for the average household the costs amounted to around 470 GBP per year. Exploiting quasi-exogenous swings in the cut, Fetzner *et al.* (2019) show that the policy has considerable adverse consequences without saving much. It resulted in rising individual insolvency, increased evictions, and higher homelessness. The costs of local council housing (that assists the homeless) doubled. The authors also studied the impact of the housing allowance cut on voting. Electoral registration and turnout in parliamentary and local elections (as well as in the Brexit referendum) fell considerably in affected communities. A one standard deviation higher level of exposure to the cut in a district is associated with a 2 percentage points higher support for *Leave* in Referendum. This result was likely to be driven by the composition of voters: polls suggest that support for Remain among those who did not vote outnumbered support for Leave by 2 : 1.

**Sweden** Dal Bo, Finan, Folke, Persson, and Rickne (2019) examine the impact of austerity on the rise of the far-right in Sweden. In 2006, a newly-elected center-right coalition administration implemented a flagship “*make work pay*” policy program that, alongside the 2008 financial crisis, increased inequality. There were severe cuts on sick leave, disability insurance, and unemployment benefits. The new legislation made it harder to claim allowances; 235,000 workers (around 8%) had to leave unemployment insurance. The cuts on labor income—implemented over five-years—were modest, increasing around 10% in median household disposable income.

The authors distinguish between three sets of workers and then examine the impact of changes in the composition of workforce and inequality on voting for far-right parties using data over 1979 – 2012 covering the entire population: (i) Protected labor-market insiders who benefited from the tax cuts and were shielded from the most adverse effects of the crisis; (2) outsiders with unstable or no jobs that were hit the hardest by the weakening of welfare state; and (3) vulnerable insiders, protected workers employed, however, in sectors of intense competition from low-wage producing countries and automation. Dal Bo *et al.* (2019) present within-municipality results revealing a significantly positive correlation between

“welfare state reforms” and voting for Sweden Democrats. The vote share of Sweden Democrats, a far-right party with a strong anti-European and xenophobic manifesto, has risen from less than 3% in 2006 to 12.9% in 2014 (and 17.5% in 2018). Its rise has received global attention, given Sweden’s combination of high-income with a generous and efficient welfare state and low levels of inequality.

The correlation between austerity and the rise of Sweden democrats is significant even controlling for the direct impact of the crisis (shown in Dehdari (2019)). A one-standard deviation higher share of vulnerable insiders leads to a 2.5 percentage-point higher vote share for the Sweden Democrats. Moreover, a one-standard deviation higher inequality (insider-outsider income gap) is associated with a one percentage point higher vote share for the far-right. A natural question is why voters do not return to the mainstream left party, which had ruled Sweden for most of the past decades and has been favoring an active welfare state. The authors tackle this question using an impressive dataset that records all local politicians, their profession, income, and family background. Politicians of the mainstream (left and right) parties are way more likely to be secured insiders, while Sweden Democrat politicians are more likely to be “outsiders” and “vulnerable insiders”. Such politicians are especially likely to represent Sweden Democrats in austerity-hit districts, suggesting that the populist party tailors its candidates to local conditions.

### **5.3.2 Historical Evidence**

Galofre-Villa, Meissner, McKee, and Stuckler (2019) examine the role of austerity on the rise of the Nazis. The administration of centrist Chancellor Henrich Brüning implemented a huge fiscal consolidation program in 1930 – 1932. The program entailed higher tax rates and drastic cuts of public expenditure across all main budget categories. It also imposed limits on local authorities on spending and taxation. The authors associate the results of 1930, 1932, and 1933 elections with the impact of austerity across cities and districts. For identification, they use local-level variation in pre-austerity shares of spending in various categories combined with the nationally imposed spending cuts, conditioning on unemployment, wages, and output. A one standard deviation increase in austerity is followed by a 2-5 percentage point increase in Nazi vote share, that climbed from 2.6% in

1928 to 15.7% in the September 1930 to 37.27% in the July and 33% in the November 1932 elections to 43.9% in March 1933. Nazi voting share correlates the strongest with cuts in housing and health, consistent with the evidence on Brexit. While high unemployment also contributed to the rise of Hitler to power (as the contemporary evidence discussed above show), the impact of austerity is only modestly smaller.<sup>32</sup>

### 5.3.3 Redistribution

Surprisingly, there is not much empirical work assessing the role of redistributive policies in countering populism. There are two exceptions. First, Capretini, Casaburi and Venturini (2019) examine the electoral impact of a flagship redistributive policy of Italy's Christian Democratic party after WWII. The policy aimed to halt the rise of Communism, by redistributing land in well-defined and delineated areas. Employing a panel spatial regression discontinuity design, the authors compare the dynamics of voting in areas just inside and outside the policy boundaries. The vote share of the Christian Democrats rose sharply and immediately in towns experiencing redistribution. The effects are substantial. In the first post-reform elections the mainstream right party gained four percentage points (the mean in the non-treated areas was 35%). These gains were mirrored by losses of the Communist party. The gains persisted for forty years, with the Christian Democrats over-performing in these areas. The authors show that people in treated areas have a vivid recollection of the reform. Moreover, there is evidence that Christian Democrats continued investing in these areas once the benefits started to wane. There is not much evidence of differences in beliefs and norms. While we need more evidence, these results hint that the large redistribution policies that many European countries implemented post WWII have contributed to the consolidation of democracy and shielding from radicalism.

Second, Albanese *et al.* (2019) examine the impact of the EU transfers to Italian municipalities in 2007-13. Using regression discontinuity design as well, they show that being eligible for these transfers reduces the populist vote in 2013 election by about 3 percentage points.

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<sup>32</sup>Voigtländer and Voth (2019) show that the subsequent construction of the Autobahn network raised the popularity of the Nazi party, as it reversed austerity and raised national pride.

## 5.4 Summary

There is growing evidence that adverse economic shocks, the Great Recession of 2007-09 and the European periphery crisis of 2010 – 12 provided fertile ground for populist leaders. The evidence from the recent crisis is generally consistent with the takeaways from research on the Great Depression. However, some important questions are still unanswered. First, as most studies are “reduced-form”, the channels driving the recession/crisis-populism nexus are unclear. Second, it is not well-understood, why nationalistic, far-right parties gain the most, while redistribution-focused radical-left parties appear less successful. This pattern suggests that non-economic forces (that we examine in the next section) may also be at play. Third, there are only a handful of studies on the role of redistribution and safety nets in shielding societies from authoritarian populist leaders.

## 6 Non-Economic Explanations. Identity, Status, and Culture

Cross-border trade, automation, crisis and austerity cannot fully explain the rise of populism. Populist leaders may have managed to coalesce coalitions of the economically vulnerable, but there are deeper factors (Margalit (2019)). In this section, we discuss non-economic explanations. First, we describe the main arguments of the cultural backlash and social identity theories. Second, we review the empirical evidence. Third, we discuss theoretical works on the interaction between cultural and economic factors.

### 6.1 The Argument

There is ample evidence that people care deeply about non-monetary aspects, among others, about fairness, morality, equality, and status.<sup>33</sup> Identity is salient, having first-order economic and political repercussions (Akerlof and Kranton (2000, 2010)). The main “cultural” explanation, put forward by Norris and Inglehart (2019), asserts that the rise of

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<sup>33</sup>See, Alesina and Angeletos (2005), Di Tella and Mc Culloch (2009), and Benabou and Tirole (2006), Guriev (2018) among many others. On the role of moral issues on voting, see Enke (2019).



populism reflects the rejection of “progressive” values, preferences, and beliefs that the “liberal elites” promoted in a “*Silent Revolution*” during the past decades.<sup>34</sup> The empowerment of women, support for underprivileged (ethnic, racial, and religious) groups, the protection of minorities, and cultural globalization have transformed societies. Nonetheless, the formerly dominant groups (e.g., white men) feel endangered, isolated, and believe that their identity is under attack. It may not be, therefore, surprising that people with traditional values support authoritarian populists, who promise to fight the expansion of liberal values and political correctness.<sup>35</sup>

In her influential analysis of the 2016 US Presidential election, Mutz (2018) argues that Trump supporters were driven not by “pocketbook” concerns, but by the threat to their status — and US global dominance. In response, Trump was successful conveying the message that he would re-establish status hierarchies of the past. This argument sounds plausible, as the recent wave of populism goes hand in hand with nationalism and traditional values rather than far-reaching redistribution.

A somewhat distinct cultural explanation focuses on role of social capital, civicness, and trust. This starting point of the argument, put forward mostly by economists (Algan *et al.* (2019) and Boeri *et al.* (2018)), is that social capital helps coping with economic shocks.<sup>36</sup> Starting with Alexis de Tocqueville, many have stressed the role of social capital for the industrialization and entrepreneurship in the United States. Yet, social connectedness seems to have declined in recent decades; as Putnam (2000) puts it, over time Americans have increasingly been “*Bowling Alone*”. Deteriorating social capital and alienation make the “left-behind” stressed, isolated, and more likely to blame the “elites.”

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<sup>34</sup>Inglehart (1971) introduced the concept of the Silent Revolution, arguing that the post-war economic growth and resulting unprecedented prosperity would bring an intergenerational shift towards post-materialist values.

<sup>35</sup>See Fukuyama (2018) and Noury and Roland (2019) for the discussion of the relationship between identity and populism.

<sup>36</sup>Algan and Cahuc (2014), Guiso, Sapienza, and Zingales (2011), and Durlauf and Fafchamps (2005), provide detailed review of research on social/civic capital. Fernandez (2011) and Alesina and Giuliano (2014) survey the literature on the relationship between culture and economic performance, and between culture and institutions, respectively.

## 6.2 Evidence

### 6.2.1 Identity and Cultural Backlash

It is challenging to identify the one-way impact of culture on the recent rise of populism. As cultural factors are persistent, it unclear why they suddenly rose to prominence. Proponents of cultural explanations put forward two alternative views (Gidron and Hall (2017) refer to them as “additive” and “interactive”): “culture only, or possibly culture *plus* economics” and “culture *times* economics”.

The “*culture plus economics*” view suggests that slow-moving cultural features enabled the gradual rise of anti-liberal values, distrust, and nationalism, providing fertile ground to populism. Economic insecurity related to automation, cross-border trade, and the crisis added a relatively minor contribution. Margalit (2019) argues that economic explanations have “*outcome significance*”, but not “*explanatory significance*,” while the opposite holds for cultural aspects. He argues that economic reasons account for a few percentage points increase of the vote share of Brexit-UKIP or Trump. At the margin, these additional votes are decisive (due also to specific features of electoral systems). On Brexit, for example, the empirical studies we reviewed above suggest that trade globalization, the crisis, and austerity have shaped the referendum outcome. Even if the economic factors explain jointly ten percentage points (a generous assessment), deeper cultural—and perhaps historical—factors must explain the big chunk of *Leave’s* 52% vote share. Likewise, economic factors explain a relatively small portion of populism-related individual attitudes and beliefs (Gidron and Hall (2017)). Norris and Inglehart (2019) provide correlations consistent with the “culture plus economics” view. In pooled regressions using European Social Surveys, both economic and cultural factors correlate with populist voting and attitudes. Although cultural proxies have a higher explanatory power, repeated cross-sectional tabulations do not allow for a causal interpretation.

The “*culture times economics*” view asserts that recent economic shocks *triggered* the dissatisfaction with the *status quo* leading to (re-)emergence of identity politics alongside pre-existing cultural fault lines. Economic and cultural factors reinforce each other. Providing descriptive evidence, Inglehart and Norris (2017) argue that economic considerations

are instrumental in understanding the timing of the cultural backlash. Elites benefitted disproportionately in the past decades, while median wages stagnated. Rising inequality activates the backlash against the silent revolution, a “*Silent Revolution in Reverse*.”

Cerrato *et al.* (2018) analysis of the US presidential elections in 2008, 2012, and 2016 supports the “*culture times economics*” view. The “China shock” triggers an anti-immigration and anti-minorities backlash, which in turn bolster support for Republicans. Commuting zones with higher import penetration express more negative attitudes to Asians, Hispanics, and Muslims (but not to African Americans); there is no change in attitudes to trade. Effectively, the economic shock triggers identity issues boosting populism. Textual analysis of candidate speeches reveal that Trump was the only Republican candidate more protectionist than his democratic opponent; Trump was also the most anti-immigration candidate among all his Republican predecessors. The results of Autor *et al.* (2019) offer some support to the economics times culture view, as the China shock boosts support for Trump and conservative Republicans *only* in commuting zones with (non-Hispanic) white majorities.

The extreme version of the “*culture times economics*” view is that cultural factors result in increased support for populism only if activated by economic shocks. This is not always the case: populists often take advantage of pre-existing cultural divides without any economic dislocations. The story of the Austrian Freedom Party (FPÖ) is an important example (Ochsner and Rosel, 2019). Before its leadership change in 2005, FPÖ never used anti-Turkish or anti-Muslim rhetoric. Under the new leadership of Heinz-Christian Strache, FPÖ brought to public memory the Ottoman sieges of Vienna in 1529 and 1683. Before 2005, there were no significant differences in anti-Muslim sentiment in Austrian municipalities pillaged and non-pillaged during the sieges; by 2008, 32% of respondents in pillaged municipalities said they don’t want to have a Muslim neighbor — with 20% in non-pillaged municipalities. The resulting increase in FPÖ’s vote share was not dramatic — 1–2 percentage points (in 2008 general election FPÖ received 18%). The center-right party ÖVP eventually adopted the anti-immigration rhetoric and managed to expropriate the “Vienna Siege” gain from the FPÖ. In the 2017 election, ÖVP did better—by 1 percentage point—in pillaged villages (at the cost of ÖVP’s vote share).

In the same spirit, Cantoni, Hagemeister, and Westcott (2019) document a significant long-run correlation between AfD voting in 2017 elections and the voting share of the Nazis in the 1933 elections. The correlation is much weaker and statistically indistinguishable from zero in the 2013 elections, when the party had not moved much to the right. There is no evidence that a history of anti-semitism interacts with unemployment or trade shocks.

### 6.2.2 Loss of Status

Mutz (2018) studies the 2016 US presidential election using both cross-sectional voting data and a nationally representative *panel* of voters, surveyed in October 2012 and October 2016. The latter helps her identify and describe voters switching from Obama to Trump. She argues that switchers are mostly concerned with the threat of loss of status with economic hardship playing a minor role. However, tabulating the same data, Morgan (2018) argues that economic explanations are at least as important as those of the status loss threat. The main difference regards the interpretation of international trade: Morgan views it as primarily economic, Mutz as social. The surveys suggest that in 2016, US voters are slightly more anti-trade and *pro*-immigration than in 2012; both changes are in the range 0.3 – 0.4 on a 1 – 7 scale (Mutz, 2018, Table S1). The anti-trade shift is strong for Republican voters, while there is no change among Democrats.<sup>37</sup> As Morgan (2018, Table 4) shows, the change in economic attitudes (including those towards trade) accounts for about two thirds of total explained variation in the change of political views. A second difference regards education, which captures both income and social status. Mutz focuses on the “education gradient”, the additional votes Trump received among Americans without a bachelor’s degree relative to those with a bachelor’s. Among all voters, the education gradient is 20 percentage points — out of which 14 are explained by economic factors (once trade is reclassified as an economic concern). The respective numbers for white Americans are 24 and 17 percentage points.

Gidron and Hall (2017) also examine the loss of status using data covering 15 devel-

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<sup>37</sup>The pro-immigration shift is recorded among both Democratic and Republic candidates (but stronger among Democrats). The rise of support for inclusive immigration policy is not inconsistent with Norris and Inglehart (2019) silent revolution conjecture. Young cohorts are more likely to adopt liberal values increasing over time support for immigration. This may contribute to the cultural backlash; older generations maintain traditional values.

oped countries from the International Social Survey Program (ISSP). They argue that (subjective) social status (self-reported placement on a ten-point social ladder) is a *channel* through which economic and social factors affect populism. The correlation analysis shows that individuals with lower subjective social status are more likely to vote for the populist right. However, as the data come from repeated cross-sections, it is hard to produce a rigorous evaluation of the relative contribution of economic and cultural drivers to the decline of the status of populist voters. The authors speculate that economic and cultural issues are likely to interact rather than simply add up.

### 6.2.3 Social Capital

The rise of populism seems to go hand in hand with a crisis of trust. Algan *et al.* (2017) uncover a similar association between unemployment shocks and political distrust, like the ones with populist voting. Boeri *et al.* (2018) study the role of social capital on populism. They use ESS data and find a negative correlation between membership in civic associations and voting for populist parties, controlling for respondents' economic situation (see also Dustman *et al.* (2017)).<sup>38</sup> The correlation is significant both before and after the crisis, though it strengthens post-2008, most likely because social capital helps coping with the crisis.

Algan *et al.* (2018) use a monthly panel of 17,000 French to study the role of social capital in the 2017 presidential elections where both extreme left (Melenchon) and extreme right (Le Pen) candidates did reasonably well. Voters with low interpersonal trust were much more likely to vote for Le Pen. In contrast, Melenchon voters exhibit high trust — similar to the voters for Emmanuel Macron and somewhat higher than of Francois Fillon. While Le Pen and Melenchon voters have similarly low levels of income and life satisfaction, they differ greatly on their preferences towards redistribution: Melenchon voters strongly support redistribution, Le Pen voters reject it. The authors link preferences to redistribution to the large differences in social capital (trust): Le Pen voters do not trust others and therefore do not want the state to fix injustices. Algan *et al.* finding suggests

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<sup>38</sup>Papaioannou (2020) presents similar correlations between populist voting and distrust that he interprets via the lens of Besley's (2020) model on the coevolution of civiness (in this case populism) and institutional capacity.

that the overall populist vote is related to the economic shocks, but its split between extreme left and far-right parties reflects deeper cultural traits.

Di Tella, Dubra, and Lagomarsino (2019) run randomized controlled experiments to study the role of trust in government and business on preferences for redistribution in the US. Distrust in government is inversely related to preferences for redistribution, a pattern that may explain the rise of far-right populism. In the same vein, Alesina, Stancheva, and Teso (2018) document that a non-negligible share of Republican voters with very low trust in government believe that the government should have no role mitigating falling intergenerational mobility. Likewise, Kuziemko *et al.* (2015) show that low trust could explain the somewhat paradoxical result that while many voters care about inequality, they are skeptical about government policies tackling it.

### 6.3 Theoretical Explorations

As the recent reincarnation of populism focuses on identity, the traditional median-voter paradigm and its numerous extensions appear incomplete in studying its rise. Redistribution is not at the core of far-right populist policies. Thus, the scant recent theoretical research on populism departs from the classical paradigm,<sup>39</sup> trying to blend social identity and multi-dimensional political calculus. Economic theory is increasingly drawing on political science, as well as social and cognitive psychology (in particular, Tajfel’s (1974)

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<sup>39</sup>The main pre-2016 theoretical study of populism is Acemoglu *et al.* (2013) who consider traditional Latin American type of populism. The authors address the question of why populists propose policies that are noticeably to the left from the median voter’s ideal point. They consider a signaling model in an environment with weak institutions where upon election some politicians can be captured by right-wing elites. To distinguish themselves from corruptible politicians, honest (non-corruptible) politicians choose left-wing policies. As the corruptible politicians want to pretend to be honest, they also announce left-wing policies *ex ante* (and shift to the right *ex post* in exchange for a bribe from the elites). The nice feature of the model is that while it uses left-wing populism as an inspiration, it integrates the anti-elite nature of populist agenda thus demonstrating the relationship between Mudde’s and Dornbusch and Edwards’ definitions of populism. The fact that the populists propose policies *left* of the median voter in equilibrium is simply an implication of the assumption that the *ex post* capture comes from the *right*-wing elites. In Section V.a, Acemoglu *et al.* (2013) show that if there is a potential *ex post* collusion with the *left*-wing elites then there emerges a *right*-wing populist. Furthermore, if there is potential for capture by both left- and right-wing elites, there will be both types of populists with stronger re-election chances for the one opposing the more influential elites. Matsen *et al.* (2016) apply this model to the resource-rich countries and describe “petro-populism”, where populists overspend resource rents at the expense of future generations (rather at the expense of macroeconomic stability due to chronic fiscal deficits or at the expense of economic growth due to higher taxes).

social identity theory and Turner *et al.*'s (1987) self-categorization theory). Identity has been discussed by economists at least since Akerlof and Kranton (2000, 2010), but now this work is taking a central role, as identity is part of various political economy theoretical work (Shayo (2020) provides a survey of this literature).

Unlike earlier papers, recent research recognizes that individuals have several identities (e.g., related to gender, race, occupation, region etc.) and therefore can choose their identity. Shayo (2009) models identity choice as a trade-off between gains from group status and costs to distance from the group. This creates a two-way relationship: economic shocks affect identity; in turn, identity affects voting and political change, which subsequently shapes economic policy.

While Shayo (2009) initially applied this framework to redistributive taxation, Grossman and Helpman (2018) use it for understanding trade policy. In their framework, a change in economic environment (e.g., terms of trade) may bring a discrete change in self-identification (“workers” against the “elites”) and a resulting discrete increase in protectionism. Starting off with heterogeneity by skills, they show how the endogenous choice of identity may result in the polarization (of low-skilled workers against the high-skilled elites) and the rise of populism.

Besley and Persson (2019) and Gennaioli and Tabellini (2019) develop models with endogenous social identities, adding multiple political cleavages (economic left vs. economic right, open vs. closed, culturally liberal vs. conservative).<sup>40</sup> Gennaioli and Tabellini (2019) emphasize that the social identity is driven by salience of the issue (that may change due to economic shocks) — and allow for identity-based cognitive biases.<sup>41</sup> Their model explains the emergence of equilibria where the left-right political divide is replaced by liberal-conservative or by open-closed one. They also show how identity politics results in polarization of beliefs and therefore of voting.<sup>42</sup> Besley and Persson (2019) consider a dynamic setup, where voters change beliefs over time which allows for endogenous party/group

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<sup>40</sup>Grossman and Helpman (2019) also consider an extension of the model with a second dimension of identity based on race/ethnicity.

<sup>41</sup>This approach follows the salience paradigm developed by Bordalo, Gennaioli, and Shleifer (2012, 2013, 2016).

<sup>42</sup>This is similar to Karakas and Mitra (2019), who apply identity politics theory to immigration policy. Voters process information via the lens of their identities — which results in polarization.

formation. The main drivers of change are economic outcomes and the salience of the non-economic dimension (for example, preferences over immigration).

While the issues related to identities and cognitive biases are certainly important for understanding modern populism, Buisseret and Van Weelden (2019) show that populist challengers to establishment may emerge even in a traditional model of voting once there are multiple dimensions of political preferences. They consider two parties organized around left-right cleavage but there is also a division within each party along the open-closed axis. The distribution of voters' preferences is uncertain. The two-dimensional nature of political conflict creates an opportunity for an outside politician who can run either as a third-party challenger (which is an equilibrium outcome if the electorate is not too polarized) or in an internal primary of one of the parties (if polarization is high).<sup>43</sup> This outsider creates a major challenge for party elites. While the elites prefer an establishment candidate, they understand that blocking an outsider from a primary may result in a third-party challenge where the outsider would draw anti-globalist voters from both the left and the right.

## 6.4 Summary

The cultural backlash conjecture and theories linking populism to identity look reasonable. Yet, the empirical evidence is still scant. As there are challenging identification issues, establishing one-way causal links is still looming. Theoretical work has been more successful modeling interactions, but the mechanisms while intuitive are hard to detect in the data.

## 7 Immigration

In this Section, we turn to the role of immigration and the recent refugee crisis. Immigration is both an economic and a cultural issue; populist leaders have used both angles. We first discuss the main patterns on immigration and summarize the key takeaways regarding its impact on labor markets. Second, we go over studies documenting the vast discrepancy between reality and people's perception on the share, origin, and education of immigrants.

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<sup>43</sup>This result is similar to Besley and Persson (2019) where a new anti-immigration party emerges when economic polarization is not strong.



These gaps between perception and reality are crucial for understanding the rise of populists, who skillfully build on false stereotypes and further distort people’s views on this issue. Third, we discuss studies exploring the impact of immigration and refugees (as well as of emigration) on populism across many countries and settings.

## 7.1 Immigration Patterns

Immigration is a top agenda issue of today’s populists. Some argue that immigrants take away jobs from native workers (or suppress their wages). Others, on the contrary, argue that immigrants do not work, but instead rely on the host country’s generous welfare system. Focusing on identity politics many claim that immigrants’ values and social norms are incompatible with those of the host country posing an existential threat to the host nation’s identity and culture.

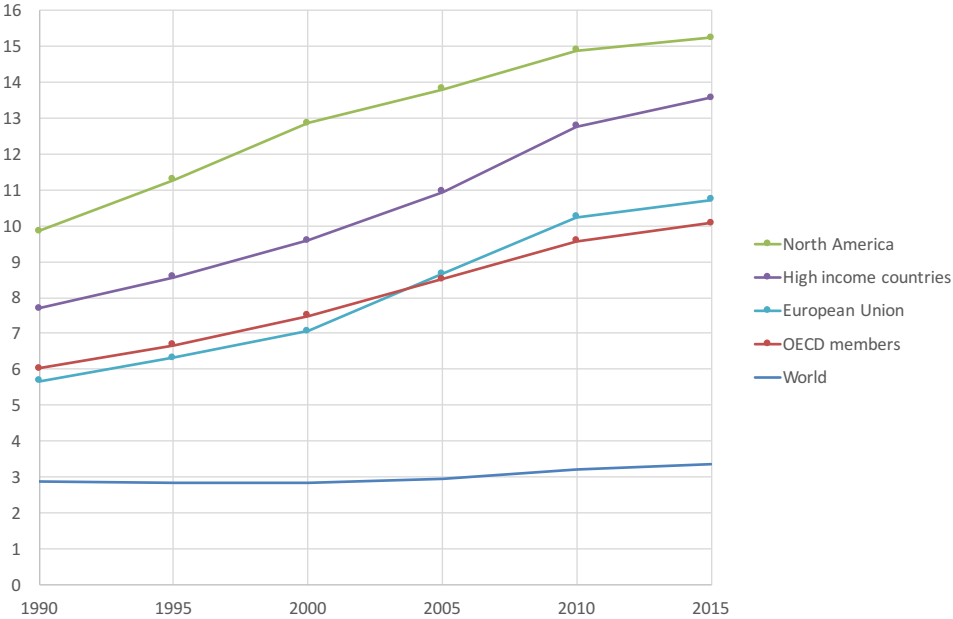
Immigration has always been a sensitive issue. Its salience, though, has increased in recent decades. While the share of international migrants in the world population has grown only slightly, from 2.9% in 1990 to 3.3% in 2015, in advanced economies the growth has been much faster (see Figure 13). In 1990-2015, the share of international migrants as a share of population in OECD (high-income) countries has increased from 6% (8%) to 10% (14%) percent; in North America it has increased from 10% to 15% and in the EU from 6% to 11%.

The growth of cross-border migration to developed countries reflects both “push” (supply) and “pull” (demand) factors. Industrial countries face demographic challenges; attracting, therefore, working age population may be economically beneficial and help sustain “pay-as-you-go” pension systems. The increase in supply reflects declining costs of migration (especially relative to the incomes of potential migrants). Transportation costs are falling, as do information asymmetries. Furthermore, contrary to conventional wisdom, income growth in sending countries also fosters cross-border migration, as the relationship between development and emigration is non-linear (Docquier *et al.* 2014, Dao *et al.* 2018).<sup>44</sup>

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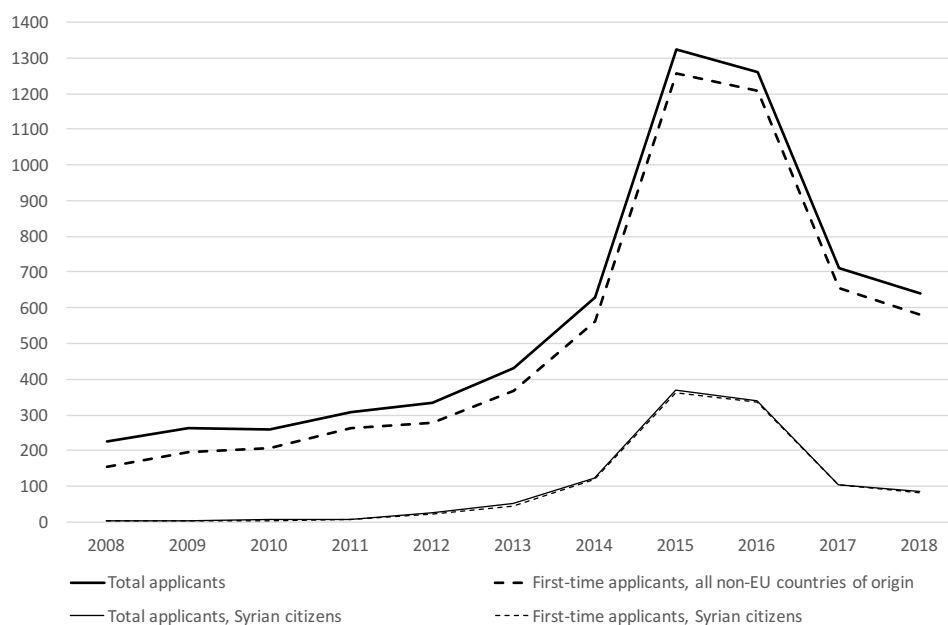
<sup>44</sup>As poor countries develop (up to about six thousand dollars per capita per year) they send abroad a greater (rather than smaller) number of migrants: the growing income make it easier to cover the cost of

Figure 13: International migrant stock, as a percentage of population.



Source: UN Population Division. International migrant stock is the number of people born in a country other than that in which they live, including refugees.

Figure 14: Asylum applications in EU-28 by non-EU citizens (in thousands).



Source: Eurostat. Total: in 2008-14 Croatia not available. First-time applicants: in 2008 Bulgaria, Greece, Spain, France, Croatia, Lithuania, Luxembourg, Hungary, Austria, Romania, Slovakia and Finland not available; in 2009 Bulgaria, Greece, Spain, Croatia, Luxembourg, Hungary, Austria, Romania, Slovakia and Finland not available; in 2010 Bulgaria, Greece, Croatia, Luxembourg, Hungary, Austria, Romania and Finland not available; in 2011 Croatia, Hungary, Austria and Finland not available; in 2012 Croatia, Hungary and Austria not available; in 2013 Austria not available.

In Europe, this secular growth of immigration has been complemented by an acute shock of the Syrian refugee crisis in 2015 – 16 (see Figure 14). While the number of Syrian refugees in Europe is small (both relative to the EU population and to Syrian cross-border refugees and internally displaced persons), the abrupt spike in 2015 placed the refugee crisis at the center of political debate. While only a handful of Syrian refugees reached the United Kingdom, the Brexit campaign placed the topic high in the agenda.

The research on the economic effects of immigration on wages, employment, innovation, and productivity is huge. The evidence suggests that the aggregate economic impact of immigration on receiving countries is likely to be positive (Peri, 2016). However, immigration while the incentives to migrate due to a large wage gap to rich countries are still very strong.

tion creates both winners and losers. If immigrants directly compete with certain groups of native workers in the labour market, the latter face a negative impact (Borjas, 2014). This suggests that the political effects of immigration may be context-specific and depend on the skill composition of both migrants and natives.

Populists do not simply stress potentially adverse effects of immigration on local workers. They mostly emphasize social repercussions, related to crime, the drain of social welfare benefits, and cultural differences. The political implications of the immigration-driven cultural concerns are also likely to depend on the scale and composition. If migrants are culturally similar to natives (e.g., Ukrainians coming to Poland), the real or perceived threat to identity may be less salient. Even if migrants are different, the public may be more welcoming towards a smaller number of migrants or refugees, as they are more likely to integrate not just economically but also culturally. The “contact theory” (Allport, 1954) suggests that the actual contact with migrants (and especially refugees) increases empathy and reduces support for xenophobic politicians.

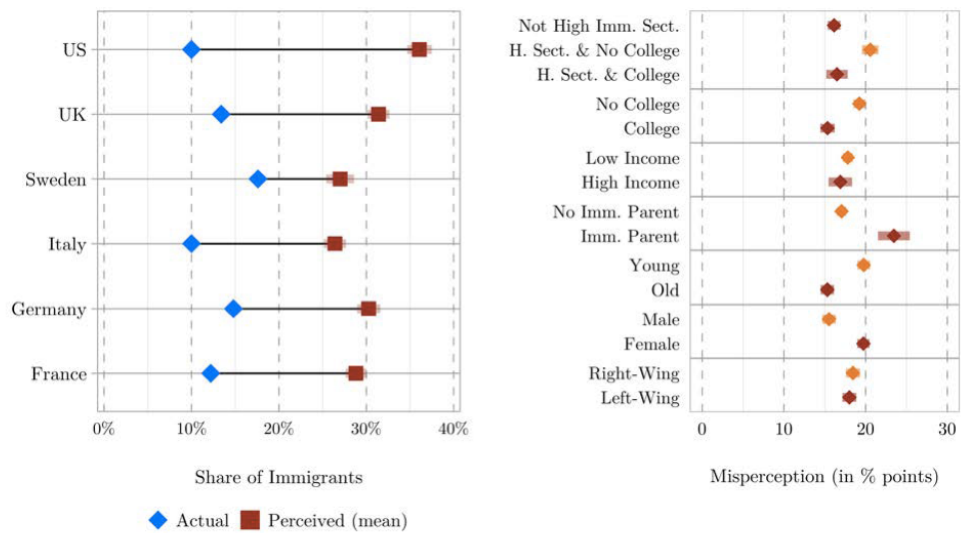
## 7.2 Perceptions versus Reality

While advanced economies have witnessed a substantial growth in immigration in recent decades, the actual levels of immigration are much smaller than those perceived by the public. Alesina, Miano, and Stantcheva (2019) run large surveys in France, Germany, Italy, Sweden, the U.K., and the U.S. and find that the migrants stocks are perceived to be two or three times as large as the actual levels (Figure 15). For example, Americans believe that immigrants are more than 35% of the population, while in reality they are around 10% (Ipsos surveys find similar results in other advanced economies, Duffy (2018)). Natives have also distorted views on the composition of migrants. For example, Italians and Swedes believe that one in two immigrants is Muslim, while in reality the share of Muslim immigrants is around 30%. UK citizens believe that only 25% of immigrants have high levels of education, while 50% hold a university degree. Figure 15 further documents that the biases are linked to respondents’ ideology and political preferences.<sup>45</sup>

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<sup>45</sup>Likewise, Alesina, Stantcheva and Teso (2018) document considerable differences between perceptions and reality regarding social mobility, which strongly relates to political ideology. Alesina, Miano, and Stantcheva (2020) document a related striking polarization of Americans’s beliefs.

Figure 15: Perceived and actual level of immigration.



Notes: The left panel shows the average perceived share of immigrants and the actual share. The right panel shows the average misperception (perceived minus actual share) of the share of immigrants by groups (defined by the indicator variables listed to the left). The shaded areas are 95% confidence intervals around the mean. Source: Alesina et al. (2019)

The overestimation of the scale of immigration by the public helps explain the central role of immigration in political debate. Where do these gaps between perceptions and reality come from? In fact, the theories of endogenous social and economic identity (discussed in the Section 6.3 above) predict that the salience of a political issue may indeed bias beliefs on the issue and increase political polarization. Individuals identifying with a group, slant their beliefs towards those of their groups’ and against those of the respective “outgroups”. The socio-economic shocks may make a new issue (such as immigration) more salient. This in turns results in replacing the existing political cleavage (e.g., left-vs.-right divide regarding redistribution) with the new one (e.g. open-vs.-closed) — forming new identities and biased beliefs on the issue.<sup>46</sup>

The perception biases raise a major methodological question for scholars studying the relationship between immigration and populism. Most researchers use data on actual immigration flows, which may not capture the salience of the topic. Research on perceptions usually employs survey experiments (and randomized control trials). In the latter, informational treatments affect participants’ beliefs and attitudes towards immigrants and may then affect self-reported support for populist politicians.<sup>47</sup>

### **7.3 Evidence on Immigration and Support for Populism**

The relationship between immigration and populism is multi-faceted and quite challenging to identify. The empirical analysis of this relationship needs to address a large array of endogeneity issues. First, there is reverse causality: potential immigrants may avoid areas with anti-immigrant attitudes; the resulting spurious negative correlation may erroneously suggest that immigration decreases populism. This is not an abstract possibility, as the support of populist politicians and parties is considerably lower in cities and urban hubs, where immigrants mostly reside. Second, there is the issue of omitted variables. There are many features that drive both immigration, employment opportunities, and political

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<sup>46</sup>Barrera et al. (2020) show how salience of the immigration issue draws support towards Marine Le Pen even though the voters understand that she misrepresents the facts on immigration.

<sup>47</sup>Both methods have they advantages and shortcomings. Studies of “actual” immigration data cannot observe the perceptions (perception surveys are usually designed long after the immigration shocks). The studies of perceptions observe neither the real world exposure to immigrants nor the ultimate vote outcomes. In what follows, we focus on the former studies. For a few examples of the latter, see Margalit (2019).

attitudes. The large urban-rural gap in populist support, immigration, and development most likely captures dozens of features. For example, the negative correlation between immigration and populism may reflect contact theory. Third, as our discussion above suggests, measurement error is likely to be non-negligible, since reality perceptions differ across socioeconomic and political aspects. Forth, the skill composition of immigrants differs and may interact with that of the host region, giving rise to significant heterogeneity.

The literature employs two main identification schemes to address these challenges and isolate the causal effects of immigration on populist vote. First, it exploits quasi-random variation on the allocation of migrants and refugees across localities. Second, it uses the tendency of immigrants to move into areas where earlier generations from their country/region settled in a shift-share design where historical settlements across regions are interacted with the overall current migration inflow (see Card (2001) and Angrist and Krueger (1999)).

### **7.3.1 Immigration Increases Vote Share of Populist Parties**

A few studies document that in some specific contexts immigration does increase populist support. Dustmann *et al.* (2019) show that the Danish government's quasi-random assignment of refugees to particular municipalities in 1986 – 98 increased anti-immigrant voting in small municipalities, but reduced the anti-immigrant vote in the largest cities. Barone *et al.* (2016) study the impact of immigration on the votes for the anti-immigrant party of Silvio Berlusconi and find that higher immigration (instrumented by previous settlement of immigrants from the same country) leads to greater support for Berlusconi. Halla *et al.* (2017) use the same identification strategy and find a positive causal impact of immigration on the vote share of Joerg Haider's far-right Freedom Party (FPÖ) in Austria. Edo *et al.* (2017) carry out the same exercise for France's presidential elections in 1988 – 2017 and also find that immigration (especially that of low-skilled workers from non-Western countries) increases the vote share of far-right presidential candidates.

Becker and Fetzer (2016) show that the arrival of the Eastern European migrants to the UK following the opening of the UK labour market in 2004 resulted in a major increase of the UKIP vote share. Viskanic (2019) focuses on Polish immigrants (which were by far the

most important part of the inflow of workers from the new member states). He instruments the allocation of post-2004 Polish immigrants across the UK with the location of military bases where British government settled Polish officers fighting with the Royal Air Force during the World War II. He also finds a strong link from greater influx of Polish workers after 2004 opening of UK labor market for the new EU member states and the UKIP vote.

Hangartner *et al.* (2018) and Dinas *et al.* (2019) show that the arrival of refugees to Greek islands, instrumented by proximity to Turkish coast, increased the vote share of the far-right Golden Dawn party. Ajzenman *et al.* (2019) find similar results in 18 transit countries in Central and Eastern Europe.

Tabellini (2019) presents similar evidence linking immigration to hostility looking at European immigration across US cities between 1910 – 1930. Although natives benefited economically from immigration (via higher employment and industrialization), immigration resulted in the election of more conservative legislators (who eventually vote to curb immigration) and lowered support for local redistribution. Tabellini (2019) further shows that these patterns are stronger the stronger the linguistic and religious differences between natives and newcomers hinting that cultural forces are important.

### **7.3.2 Immigration Lowers Vote Share of Populist Parties**

On the other hand, some cases reveal opposing evidence. Colantone and Stanig (2018a) and Alabrese *et al.* (2019) show that the share of immigrants - in particular EU immigrants- is negatively correlated with the Leave vote. Steinmeyr (2018) shows that the assignment of refugees to Austrian municipalities improved attitudes towards refugees and reduced the vote share of the far-right FPÖ party. Vertier and Viskanic (2018) study the resettlement of refugees from the “Calais Jungle” informal refugee camp to French municipalities. They show that assignment of refugees to a municipality reduces populist and nativist vote.

### **7.3.3 Emigration**

While most of the debate on the relationship between cross-border migration and populism focuses on economic and cultural impacts of immigration, in some countries it is *emigration* that plays a key role. For example, the exodus of East European workers may have created



a fertile soil for the rise of populism in the sending countries (Krastev and Holmes, 2018). The brain drain undermines entrepreneurship and productivity growth (EBRD 2018, Ch. 2). Emigration also accelerates depopulation that raises concerns related to identity. In the last 30 years some East European countries have lost a quarter of their population; their voters are naturally worried that continuation of the trend may threaten the very survival of national language and culture. The evidence on the relationship between emigration and rise of populism is yet to be established: EBRD (2018, Box 3.6) uses data on 510 elections in 2001 – 17 in 160 subnational regions of 19 European countries and does not find a significant relationship between gross cross-border emigration rate and populist vote share.

#### **7.3.4 Taking Stock**

These reasonably convincing identification strategies do not deliver unequivocal results. The evidence on the impact of immigration on populism is mixed, both in terms of direction of the effect and magnitudes, both for pre-Arab Spring and for the recent refugee studies. How can we reconcile these results?

An additional to the perceptions-reality gap potential explanation regards the magnitude of immigration. When the number of refugees per native is small, contact theory suggest that increased exposure to refugees increases empathy and reduces the populist vote. If flows are large, the fear of non-integration overcomes the empathy. In Steynmair’s study in Austria, only 1-1.5 refugees per 100 natives were assigned to municipalities. The *Calais Jungle* resettlement in France was on average similar, although some municipalities received many more. Vertier and Viskanic (2018) show that the impact of refugee resettlement on far-right vote changes sign at about 4 refugees per 100 natives: after this number, further increase in refugees per capita raises support for the anti-immigration populists. The evidence from Greek Islands is somewhat similar, as the median Greek island received 2.5 refugee per 1 native.

The non-linearity of the impact of immigration is also related to the distinction between settlement and transit. The contact theory implies that when refugees settle, contact promotes positive attitudes; this mechanism is unlikely to be present for in-transit refugees

though their tragic journeys may fuel sympathy and empathy.

The other important factor driving the differential political effects of immigration is the skill composition of immigrants. Using data from 28 elections across 126 parties in 12 European countries in 2007 – 16, Moriconi *et al.* (2019) examine the role of immigrants skill on electoral outcomes. Instrumenting immigration flows by prior settlement, they find that the arrival of high-skilled immigrants reduces nationalist vote, while the influx of low-skilled immigrants has the opposite effect. Mayda *et al.* (2018) carry out a similar exercise for the US and find that high-skilled immigration reduces the Republican vote share in the presidential elections, while low-skilled immigration increases it.

## 7.4 Summary

The above results taken together suggest that the relationship between immigration and populist vote is complex. Immigration does impact the populist vote but the sign of this relationship depends on the magnitude of immigration inflows, their nature and composition; and the relationship works differently for different kinds of host localities.

There is also no clear evidence whether this relationship is driven by economic or cultural concerns. Algan *et al.* (2017) show that voters living in regions hit by the crisis are more likely to become more critical of immigrant for economic but not for cultural reasons. Margalit (2019) acknowledges that immigration may affect individual voters' economic well-being; on the other hand, he points to a number of studies that show that anti-immigration attitudes systematically arise among those whose jobs are not directly affected by immigration. Margalit interprets this as evidence of the “cultural” mechanism.<sup>48</sup> Guiso *et al.* (2017) argues that culture may be a channel through which economic shocks—that create a perception of economic insecurity—contribute to the rise of populism. Margalit provides evidence—in agreement with Gennaioli and Tabellini's theory—that cultural divide may actually shift beliefs on economic insecurity.

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<sup>48</sup>This per se is not inconsistent with Algan et al. who show that it is the regional rather than individual unemployment that matters for populist vote. Even if a worker still has a job, the rise in local unemployment affects his/her labor market opportunities and quality of life in general.

## 8 Communication, Internet, and New Media

We now turn to the role of new media that appear to have played a key role in the spread of populist message. We first go over the main argument linking the rising appeal of populist parties to their communication strategy via the internet and social media and then discuss the evidence.

### 8.1 Argument

The recent rise of populism has been contemporaneous to the expansion of mobile internet and social media. This reading is consistent with the history, as populists have always used new communications technology. The founder of the US populism William Jennings Bryan relied on the telegraph. Nazis' skillful use of radio contributed to their rise to power (Adena *et al.*, 2015). Donald Trump has been active propagating his message via Twitter, where he has about 70 million followers — more than any media organization.<sup>49</sup> One main reason why *successful* populists have always relied on new media technology is straightforward: the mainstream media are linked with elites and the status quo. Hence, anti-elite narratives are easier to promote outside the established media environment.<sup>50</sup>

Zhuravskaya *et al.* (2020) survey the literature on the political effects of the internet and social media and argue that online social media have additional features that make them more attractive for populists than the previous communications technologies. First, social media have virtually zero entry barriers. Any anti-elite entrant can launch an online campaign without substantial external funding. This makes anti-establishment narrative even more credible, as large funding is likely to come from the elites. Second, the “*internet 2.0*” allows for two-way communications with the audience, immediate feedback and user-generated content. This environment appears more conducive for political discourse, as it emphasizes the populist leader’s direct (i.e., non-intermediated) reach to the “people”. Social media may further promote the idea of people’s homogeneity (rather than diversity),

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<sup>49</sup>There is only one politician who has more followers than Donald Trump — his predecessor Barack Obama. However, Obama is much less active than Trump; for the latter, it is the essential element of his communications strategy.

<sup>50</sup>There may be a selection effect at work: populists who rely on mainstream communication technology are less likely to succeed; thus only the populists who use new communication tools reach are noticed.

as their algorithms tailor news, tweets, and messages to initial beliefs, cultivating a sense that there are “many people who think like us”. A third conjecture argues that social media are well-suited for generating and disseminating simplistic (even if distorted and misleading) messages that are essential to populist politics. Forth, modern social media may also create “cybercascades” which lead to a proliferation of falsehood-based narratives within “echo-chambers” (Sunstein 2001, 2017). Fifth, there is an evident regulatory vacuum in social media that allows the spread of fake news.

## 8.2 Evidence

In an early contribution, Campante *et al.* (2016) trace the political implications of the rollout of broadband internet across Italian municipalities in the 21st century. For identification, the authors exploit plausibly exogenous variation in broadband internet due to the municipalities’ proximity to pre-existing voice telecommunications infrastructure (which lowered the costs of connecting to high-speed internet). First, the authors show that increased internet access and use suppress turnout in the initial years; the turnout decline is pronounced for potentially extreme voters. The authors attribute the negative impact on turnout by substitution of political information with entertainment. However, in 2008–13, the negative impact on turnout gets reversed. Second, post-2008 the spread of internet contributes to the rise of the populist Five Star Movement (M5S) that consciously used online media to connect to voters and got a larger number of votes in places with higher penetration of high-speed internet.

Guriev *et al.* (2019) consider the impact of expansion of mobile internet on the rise of populism across 409 subnational regions in 30 European democracies covering 89 elections between 2007 and 2018. The rollout of third-generation (3G) mobile telecommunications affects both left-wing and right-wing populist vote share. Moving from zero to full 3G coverage results in 7 percentage points higher vote share for right-wing and 6 percentage points higher vote share for left-wing populists. The magnitudes are considerable, as the mean vote shares for the right-wing and left-wing populists in the sample are 5%–6%. The authors also check the relationship between 3G penetration and the rise of Greens, failing to detect a robust association. The green vote share slightly declines in regions experienc-

ing higher 3G access. These results are consistent with the conjecture that green parties are qualitatively different from their populist counterparts: Green’s message depends on scientific knowledge (hence cannot be anti-elite) and sophisticated rather than simplistic narratives.

Durante, Pinotti, and Tesei (2019) document a fascinating link between access to entertainment TV in the last 1980s and voting for Italy’s populist *Movimento 5 Stelle* recently. The authors map the expansion of Mediaset, Silvio Berlusconi’s TV network in the 1980s and connect it to “semi-random” geographical-topological features on signal strength. An interesting feature of Mediaset is its (almost) exclusive focus on entertainment shows; there were little news or political shows before Berlusconi’s entrance in politics. Semi-exogenous swings in Mediaset viewership are associated with a higher vote share of Berlusconi’s *Forza Italia* in the 1990s. This result is intriguing, as Mediaset channels did not have political content and Berlusconi is considered as an early populist leader. The authors then show that in the 2013 elections the populist Five Star Movement did considerably well in areas of high Mediaset penetration in the 1980; the long-run correlation is captivating as Berlusconi was also running, this time with a more mainstream agenda and tone. The authors argue that entertainment television made some voters quite prone to the accessible language and simplistic message of the Five Star Movement.

How and why populists benefit from the spread of modern online media? There is growing evidence that social media promote propagation of false news<sup>51</sup> and xenophobic stereotypes, enhance polarization and create echo-chambers. Alcott and Gentzkow (2017) quantify the importance of the propagation of false news stories on Facebook during the 2016 US Presidential election. In the three months before the election, false stories favoring Trump were shared about 30 million times; false stories in favor of Clinton were shared 8 million times. Alcott and Gentzkow (2017) approximate that the average American voter was exposed to about one false news story during this period.

Guess, Nagler and Tucker (2019) study the characteristics of Facebook users sharing false news during the 2016 campaign. Partisanship and especially age were important predictors of sharing false news stories. Users over 65 years shared nearly seven times

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<sup>51</sup>We prefer “false news” and “alternative news” to “fake news” as the latter term is appropriated by Donald Trump for attacking established media.

as many false news stories as their younger peers. Vosoughi, Roy and Aral (2018) study the circulation of false stories on Twitter in 2006-17. They use data on 126,000 distinct stories tweeted and re-tweeted over 4.5 million times by 3 million people. Their analysis yields alarming results. False stories diffuse significantly faster, more broadly (to a larger number of users), and deeper (with a larger number of re-tweets). The difference between the speed and the width of spreading false vs. true stories is particularly large for stories with political content, as compared to stories on terrorism, natural disasters, science, urban legends, or finance.

There is also a growing evidence on the emergence of echo-chambers in recent years. When the social media were in their infancy, there was no segregation of online (relative to offline) information sources (e.g. Gentzkow and Shapiro (2011)). However, more recently such evidence emerged both for Facebook (Bakshy, Messing and Adamic (2015)) and Twitter (Halberstam and Knight (2016)). Allcott *et al.* (2019) ran a randomized experiment on 2,743 Americans in the run-up to 2018 mid-term elections. They showed that a month-long deactivation of Facebook accounts significantly reduced users' political polarization (also decreasing their awareness of political news but also increasing their well-being).

### **8.3 Summary**

Research on social media is in its infancy. As Twitter, Facebook, and the likes transform communication and as Big Data become increasingly accessible and easy-to-process, research on their impact is likely to grow. The large amounts spent on social media across the world on political campaigns and the massive increase of online media political consultants hint that—in line with the scant empirical evidence and the conventional wisdom—that their impact may be decisive. It may well be the case, that it is not just a new communication technology where innovative populists (temporarily) outpace the mainstream politicians. Specific features of social media uncover their unique position to foster stereotypes, increase isolation, and thus amplify the economic concerns and anxieties. They may also spread fear, fertilizing the ground for populists promising “protection.”

## 9 Implications of the Recent Rise in Populism

The impact of populism is manifold. First, some populists win elections and come to power and directly influence policies. This has happened in Hungary, Greece, Poland, United States, Italy, Brazil, and historically in several other countries. Second, populist, radical, and nationalistic parties may get enough votes to have veto power or join the government as minority partners — thus having an impact on policymaking.<sup>52</sup> Third, even in cases where populists do not hold any office, their rising support pushes establishment parties to shift their platforms towards those of populists (Haegel and Mayer (2018), Guiso *et al.* (2017)).<sup>53</sup>

We first present the evidence on the economic performance of populists once in power. Second, we discuss the role of populism on institutions, trust, and beliefs.

### 9.1 Economic Performance

#### 9.1.1 Historical Evidence

An extensive body of research studies the consequences of Latin American populism (see Kauffman and Stallings (1991) and Edwards (2019) for overviews). Dornbusch and Edwards (1991) discuss evidence from many populist regimes and show how their disrespect of macroeconomic constraints ends in crises. While there is heterogeneity, a five-phase cycle is apparent in most cases. During the first phase, before populists come to power there is dissatisfaction due to high inequality and the failure of (neo)-liberal policies to deliver. Dissatisfaction spreads and radical voices become appealing. Second, demand policies, fiscal expansion, redistribution, often coupled with “import substitution” and loose monetary

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<sup>52</sup>Increased populist vote share may or may not put populists in power depending on electoral rules (Norris and Inglehart 2019). In a majoritarian system, a populist party with 20 percent vote share uniformly distributed across the country may get zero seats in the parliament. In a proportional system, such a party forms a large faction in the parliament.

<sup>53</sup>Abou-Chadi and Krause (2018) apply a regression discontinuity design to measure the impact of radical right parties entering parliament on mainstream parties’ policy positions. For identification, they exploit variation close to electoral threshold discontinuities (the minimum vote share to enter the parliament) across 23 European countries. They document that populists’ entry in parliament impacts mainstream parties’ attitudes to multiculturalism. The magnitude of the shift is roughly equivalent to the distance between center-right and center-left parties in Netherlands and is double the sample-wide standard deviation of change of parties positions over time.

policy boost economic performance. Populists seem vindicated. Third, as inflation rises, there is capital flight, and economic activity slows down. While wages keep up initially (thanks to inflation indexation and government support), inflation expectations further rise. Populist governments respond with food and transportation subsidies that weaken the fiscal stance and further raise inflation expectations. In the fourth phase inflation is out of control; hyperinflation leads to shortages; government tries to cut down expenditure but this increases people resentment and does little to keep capital not leaving. Eventually the economy becomes “dollarized” and there are multiple exchange rates (official and black market). Real wages fall, often dramatically. The populist government eventually falls unable to cope with rising unemployment, high inflation, and shortages. In the fifth phase, a new government pursues orthodox stabilization, often with the support from the IMF. Real wages further decline and stabilize at a level below the beginning of cycle (as the whole cycle is costly for real GDP). But as stabilization takes place amidst austerity—and often by military rule—and without much improvement in institutions, trust in the new government collapses, eventually setting the seeds of the new crisis cycle (di Tella and McCulloch (2009)).

Funke *et al.* (2020) carry out a quantitative evaluation of 50 populist regimes in power in 60 large countries (that account for 95% global GDP) over 1900-2018 looking at the evolution of real GDP growth in 15 years before and 15 years after the populist takeover (thus excluding the very recent 20 populist regimes and focusing on the 30 populists who mostly took power in the 20th century). The authors employ the “synthetic control” methodology developed in Abadie *et al.* (2010); for each economy run by a populist, they construct a “synthetic” counterfactual, a weighted average of non-populist economies based on the matching of pre-treatment observable characteristics. They find that populists in power significantly underperform the counterfactual: 15 years after the populist takeover, GDP per capita is 10% below the non-populist counterfactual implying a yearly cost of around 0.7 per cent. There is no evidence that the slowdown reflects an efficiency-vs.-equity trade-off: income inequality does not fall. The authors show that the slowdown is likely to be explained by economic nationalism and erosion of institutions.



### 9.1.2 Populism in the 21st Century

The populists of the 21st century appear to have partly learned from the macroeconomic mistakes of their (mostly Latin American) predecessors. This is not to say that today's populists always pursue sound economic policies; but soaring deficits and hyperinflation are not common. The two important exceptions are Turkey and Venezuela.

**Turkey** In Turkey credit expansion resulted in economic overheating, inflation, devaluation, underinvestment and loss of real output. Acemoglu and Ucer (2019) provide an eloquent discussion of macroeconomic developments since 2001 tracing low productivity and rising inequality to populist policies of Erdogan and the deterioration of the country's political and economic institutions.

**Venezuela** Venezuela is often cited as the textbook case of failed Latin American populism. Hugo Chavez tried to address some of the deep origins of the country's high inequality. During the commodity super-cycle period, the redistribution policies seemed effective and helped hide the weakening of institutions, rampant corruption, and outright theft. Under Chavez, Venezuelan GDP per capita quadrupled in nominal dollars, increasing by 70% in constant purchasing power dollars. There is also some evidence of falling inequality and improvements in poverty alleviation, though the statistics should be interpreted cautiously (Hetland (2018)). However—unlike other oil exporters who have learned the need for macroeconomic prudence and created substantial reserves for the rainy day—Venezuela was left completely unprepared for the decline in the oil prices which started in 2014. In the five years after Chavez, when the country was run by his hand-picked successor Maduro, Venezuelan GDP per capita declined by half. Besides capital, millions of Venezuelans left the country. Hyperinflation, shortages, and political conflict has eroded all gains of the booming period and future looks very uncertain.

**Greece** In Greece, the radical left SYRIZA came to power in January 2015 on a platform of reversing austerity, blamed on establishment parties and the Troika of international creditors (IMF, EU, and the ECB). Initially SYRIZA that formed a coalition with Indepen-

dent Greeks, a populist and nationalistic offspring of the conservatives, tried to “blackmail” the EU and the IMF, on the basis that a Grexit would spur an Armageddon in the global financial markets threatening the survival of the euro. A semester of polemic with international creditors and the opposition resulted in the July 5th 2015 referendum asking the Greek citizens on whether they approve a third bailout (and the associated Debt Sustainability Analysis). While the referendum was a huge—and largely unexpected—success for SYRIZA as 63% of the electorate rejected the deal with international creditors, Prime Minister Alexis Tsipras made a U-turn. Effectively the coalition rejected the referendum and signed a new (third) economic adjustment program with terms inferior to those he rejected (Mounk (2018)). Subsequently and after expelling many of its radical MPs, SYRIZA pursued conservative macroeconomic policy. A coalition government of a radical-left party and a nationalistic one delivered fiscal surpluses in excess of 3.5%. By mid-2019, Greece had resumed growth, completed the bailout program, and managed to access financial markets. However, as SYRIZA failed to deliver on its (unrealistic) promises, it was voted out of office. The example of Greece is interesting, as it shows that populist parties can adjust their platform when faced with reality. However, we should stress here that given the very tight deadlines that Greece faced at the time made this decision very clear, a situation that is quite uncommon.

**Italy** Italian populist government, formed in 2018, followed a different trajectory. The coalition brought together the far-right *Lega* that surged in Northern regions and pro-redistribution Five Star Movement that won most Southern provinces. While the parties shared a populist rhetoric and political marketing strategies, their manifestos differed considerably on economic policy; *Lega* advocated lower taxes, while the *Five Star Movement* campaigned on a promise of more generous social support for all Italians. High levels of government debt, coupled with tight monitoring from financial markets and the European Commission made it impossible to deliver on all promises. The coalition government entered a heated debate with the EU on the new budget; the associated uncertainty raised the cost of borrowing and slowed investment. Balduzzi, Brancati, Brianti, and Schiantarelli (2020) show that political risk shocks have adversely effected the economy and estimate

that the downturn would have been way larger had the ECB not followed accommodative monetary policy. Differences among coalition parties were increasingly becoming apparent and the government fell apart after just one year.

**Hungary** In Hungary, the return of Victor Orban’s FIDESZ party to power in 2010 and subsequent electoral victories in 2014 and 2018 have also not resulted in major economic achievements. In 2010-18, Hungary’s per capita GDP growth (in constant purchasing power parity adjusted dollars) was 2.8% per year. The (unweighted) average and median growth of other Central European and Baltic countries (Czech Republic, Estonia, Latvia, Lithuania, Poland, Slovakia, Slovenia) was around 3.3% per year. In its 2017 Transition Report, the European Bank for Reconstruction carried out a synthetic control analysis for all its member countries (EBRD (2017)). This analysis showed that despite receiving about 3% of GDP from the EU funds, since 2010 Hungary has underperformed its doppelganger.

**Poland** Poland, on the other hand, has outperformed comparators and remained the poster child of post-communist transition. The Law and Justice (PiS) party did deliver on most of its promised policies. Most importantly, PiS has rolled out a pro-family redistribution program that gives 500 zloty (150 euros) per month per child. This “500+ Program” turned out to be both popular and effective in reducing poverty (Goraus and Inchauste (2016), Brzezinski and Najsztub (2017)), especially in rural areas (where the purchasing power of 500 zloty was certainly much higher than in Warsaw). Initially, the 500+ Program only targeted larger families, but then it was extended to all families.<sup>54</sup> The PiS redistribution program has undermined neither fiscal health nor economic growth. There are several explanations for this. First, it is still premature to quantify the implications of PiS assault on institutions. In the meanwhile, due to the previous governments’ reforms, the Polish economy remains strong and competitive. Second, PiS government did improve tax collection. Third, Poland has greatly benefitted from the influx of cheap, skilled and ethnically similar Ukrainian workers following Russian aggression in East Ukraine in 2014

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<sup>54</sup>While textbook economics would suggest that poverty alleviation programs should be targeted, implementing targeting may be costly to administer. “500+ Program” may indeed it be an effective solution (and not too different from the universal basic income supported by both liberals and libertarians).

and the subsequent economic crisis. About 2 million Ukrainians received work permits in Poland by 2019 (with the total Polish employment of 16.5 million). For a Central European country suffering from ageing and emigration, this inflow of labor was similar to discovering oil.

## Quantitative Analyses of Brexit and Trump

**United Kingdom** There is by now quite a few empirical studies on the impact of Brexit (see Sampson (2017) for an overview).<sup>55</sup>

Employing the synthetic control method, Born *et al.* (2019b) analyze UK GDP growth before and after the 2016 referendum, comparing it to weighted average of other industrial countries. They find strong negative results: each year since June 2016, UK GDP was losing one percentage point of annual GDP relative to the counterfactual. Contrary to the famous *Leave* Campaign’s “Brexit bus” that Brexit would save 350 million pounds, the actual outcome was about 350 million pounds *loss* for the UK economy. Why and how has Brexit vote hurt British economy even before it happened? The authors do not find evidence for the impact of uncertainty. Their results are consistent with the fact that consumers and investors were certain in their expectations that Brexit would slow growth — and therefore reduced consumption and investment before Brexit actually happening.<sup>56</sup>

Broadbent *et al.* (2019) further show that the referendum hit the most non-tradable sectors. As the pound sterling depreciated after the referendum, the tradable sectors were more resilient. These results are consistent with the analysis of the stock return analysis by Breinlich *et al.* (2018) showing that investors anticipated an economic downturn and steep depreciation of the pound sterling.

Breinlich, Leromain, Novy and Sampson (2019a) focus on Brexit’s impact on foreign direct investment using the synthetic control method to construct appropriate counterfactuals of trends in inward and outward FDI. First, the *Leave* vote increased by about

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<sup>55</sup>Research on Brexit started immediately after the referendum, with economists calibrating workhorse macroeconomic and trade models in an effort to approximate its impact (e.g., Van Reenen (2016), Dhingra *et al.* (2017)).

<sup>56</sup>As we are writing this survey, there is still no clarity on the ultimate Brexit trade deal with the EU. Dhingra *et al.* (2017) estimate that the long-term impact of Brexit on UK per capita income ranges from 6.3% to 9.4%.

17% UK outward investment transactions in the remaining EU-27 member states, whereas transactions in non-EU OECD countries were unaffected. In line with anecdotal evidence, the matching estimator suggests that following the referendum British companies started setting up European subsidiaries to retain access to the EU market after Brexit. Second, inward FDI from EU-27 declined by around 9%, though Serwicka and Tamberi (2018) estimate the decline in greenfield foreign investment from mid-2016 til mid-2018 to be around 20%. These estimates suggest non-negligible costs due to market disintegration.

Breinlich, Leromain, Novy and Sampson (2019b) assess the Brexit impact on inflation exploiting product-level heterogeneity on import costs stemming from input-output linkages. Their detailed analysis reveals many interesting patterns. First, inflation increased considerably more for product groups with higher import shares. This effect reflects stems from both direct consumption of imported goods and the use of imported inputs in domestic production. Second, there is almost complete pass-through of import costs to consumer prices with Brexit raising consumer prices by 2.9 percent; this implies an additional cost for the average household of £870 per year. Third, the heterogeneity analysis implies similar costs for poor, middle-class, and high income households, but sizable regional variation with inflation costs being the highest in Northern Ireland, Wales and East Midlands and the lowest in London and the South East.

Costa, Dhingra, and Machin (2019) show that wages and training fell considerably after the sterling's sharp depreciation after Brexit in sectors where intermediate goods prices increased the most. The complementarity between wages and intermediate goods prices is interesting, as it reveals a (theoretically plausible but not yet well-understood) channel linking Brexit with slow productivity and wage stagnation.

Bloom *et al.* (2019) look at Brexit's impact on firm productivity, focusing at the role of uncertainty. First, they find a substantial impact of Brexit on uncertainty; this effect is present even three years after the referendum, as half of surveying firms list uncertainty as one of the three main concerns. Second, anticipation of Brexit has reduced investment by around 10%. This decline occurred gradually, rather than abruptly. Third, UK productivity has declined by about 2%-5% over the three years since the referendum. Most of this drop reflects a negative within-firm effect. There is also a smaller negative between-firm effect

with more productive internationally exposed firms reducing investment relative to less productive firms servicing mostly the domestic market.

Hassan, van Lent, Hollander, and Tahoun (2020) use computational linguistic tools and develop a text-based method to proxy the impact of Brexit on listed firms in 71 countries. The authors first construct a measure on firm-level exposure to Brexit with the share of discussions in quarterly earnings conference calls on the costs, benefits, and risks associated with Brexit. The analysis reveals large adverse effects of Brexit across the world. For example, due to Brexit risk, the average listed Irish firm cut down investment and employment by 4%. For the US-domiciled firms (which are, on average, about as exposed to Brexit as Italian firms), reductions in average investment and employment growth rates are 0.4% and 1.2%, respectively. The impact for firms with the UK exposure are larger, as these firms also face a sizable drop in market capitalization. The textual analysis further shows that firms expect difficulties from regulatory divergence, frictions and caps on labor mobility, and limited trade access.

**United States** There is also a growing strand of work that assesses the impact of Donald Trump’s “surprise” ascent into the US Presidency. Early works examined the stock market reaction, which under market efficiency incorporate expectations and sentiment on policies. For example, Wagner, Zeckhauser, and Ziegler (2018) document relative stock price increases for high-tax firms and firms with large deferred tax liabilities (DTLs), as the “market” rightly priced Trump’s subsequent tax policies. Other works look at trade policies, showing substantial damage of the US-China trade war for US economy and US consumers (see Fajgelbaum *et al.* (2019) and Amiti, Redding, and Weinstein (2019)). Rose (2019) further shows that Trump’s unpopularity abroad and the weakening of US’ leadership lowered considerably US exports. As shown by Blanchard *et al.* (2019) and Fetzer and Schwartz (2019), these costs already had an impact in 2018 mid-term elections when Republicans were more likely to lose in counties affected by trade retaliation. Macroeconomic research is also exploring the impact of Trump’s tax cuts (e.g., Barro and Furman (2018)). While it is still too early for a thorough assessment of their impact, especially factoring in the long-run implications of soaring debt, the evidence suggests some modest

short-run boost.

Born *et al.* (2019a) use the synthetic control methodology to evaluate the impact of Trump’s election on the evolution of US GDP. They build a “doppelganger” of the US economy, a weighted average of GDP in 24 OECD economies where the weights are chosen to minimize the difference between actual and “matched” growth rates before Trump’s election (using quarterly data since 1995). The “matching” approach suggests no major difference between the behavior of the US economy (GDP, employment, and labor force participation) and its “analog” after Trump’s election. It seems that the tax cut stimulated the economy, but these gains are of the same magnitude as the costs of Trump’s “trade war”.

## 9.2 Institutions and Norms

The impact of populism is not purely economic; populism often impacts institutions (rule of law, independent judiciary, executive constraints, and many more). Examples abound. Donald Trump is often attacking judges; Erdogan has fundamentally altered Turkey’s institutions, as established by Kemal Ataturk in the 1920s; Putin has also transformed Russia’s post-Soviet political system and has recently put forward a proposal for rewriting its constitution. The UK’s exit from the EU requires a massive redesign of economic institutions, including regulation, legal structure, and competition policy. At the same time, while populism is an outcome of deeper cultural factors, it also shapes beliefs, norms, and values. For example, as discussed above, survey data show that populist voting goes in tandem with authoritarian beliefs and distrust. Newspaper reports suggest a spike of hate crime against immigrants and minorities following the Brexit referendum. As institutions, the rules of the game, and cultural norms evolve slowly, it is still early to examine the role of populism on them. Yet, some research has already emerged.

Although populists do not seem to perform well, this does mean that they get always voted out of office. When populists realize that they cannot deliver on their promises, they often try to capture political and economic institutions to entrench themselves in office. In this case, populists can create a more lasting damage (Rodrik 2018b). Funke *et al.* (2020) indeed show that an average populist leader in 1900-2018 has lasted longer in office than a

non-populist comparator in spite of weaker growth — exactly because that they are rarely peacefully voted out but because they are likelier to leave after a scandal, impeachment, resignation, coup or even suicide. The authors show that this is consistent with the view that populists—to prevent being voted out after disappointing economic performance—undermine democratic institutions (including judiciary constraints on the executive, press freedom, free and fair elections).

Szeidl and Szucs (2020) illustrate how Viktor Orban has carried out a takeover of independent media by pro-regime oligarchs. Under Orban’s rule, Hungary has also become much more corrupt (Magyar (2016), Civitas and Transparency International (2018)). Unlike other Central European and Baltic countries where both mean and median levels of corruption have declined in 2010-17 (according to the World Bank’s Worldwide Governance Indicators), in Hungary corruption has increased substantially. In 2010, Hungary was a median Central European/Baltic country in terms of corruption. In 2017, it was behind the region’s both mean and median by 0.5 global standard deviations — and close to a global average level of corruption (which is unusual for a high income country).

One of the major implications of the rise of radical-left and especially of extreme-right politicians is that they normalize previously unacceptable behavior. Burzstyn *et al.* (2019) conduct a number of online experiments in weeks just before and just after Donald Trump’s 2016 election as President. Participants were offered cash if they authorized the authors make a donation to a strongly anti-immigrant organization on the participants’ behalf. Before Trump’s victory, such a profitable xenophobic behavior was associated with a major social stigma (the authors also examined the differences between anonymous and potentially observable donations). This stigma completely disappeared after Trump’s victory. The authors also ran an additional experiment in Pittsburgh in 2018 where participants were informed whether it was Trump or Clinton who won in their district. The “Clinton won” participants still attached stigma to xenophobic behavior — while there was no stigma in the “Trump won” group. Using dictator games, the authors also show that individuals are judged less negatively for expressing xenophobic views in the environment where these views are popular. Burzstyn *et al.* find no evidence that exposure to Trump’s victory changes the views themselves; it only “normalizes” public expression of xenophobic views.



The spread of xenophobia after Trump’s election has had grave implications beyond the change in perceptions and norms. Mueller and Schwarz (2019) identify a causal relationship between Trump’s anti-Muslim tweets, anti-Muslim sentiment and hate crimes in counties with high Twitter penetration. They identify causality by instrumenting the county-level twitter penetration by the number of county residents attending South by Southwest festival in 2007 (that triggered early adoption of twitter). They show that Trump’s anti-Islam tweets are highly correlated with anti-Islam hate crimes after the start of his campaign but not before. The effects are large, as one standard deviation increase in Twitter usage relates to a 38% larger increase in anti-Muslim hate crimes since Trump’s campaign starts. Trump’s tweets predict more anti-Muslim Twitter activity of his followers and higher coverage in cable news, particularly by Fox News. These correlations are also present when the authors look at (more exogenous) Trump’s tweets about Muslims on days when he plays golf.

Unfortunately, the link between the rise of populism and the hate crime is not unique to the United States. Albornoz *et al.* (2020) document a substantial increase in hate crime in the UK after the Brexit referendum. Romarri (2020) studies close elections in Italian municipalities 2008-18 and also shows that the elections of far-right mayors results in 4-5 percentage points increase in hate crime.

### 9.3 Summary

The evidence suggests that the rise of populism bears substantial economic and non-economic costs. First, the Latin American vintage of populism is associated with recurrent crises, devaluations, (hyper)-inflation, and falling real wages. While populism itself emerges out of public’s rejection of inequality, all studies suggest that radical redistribution with inefficient transfers, weakening of political institutions, and demagoguery are not the solution. Second, while recent populists have avoided their (Latin American) predecessors’ inefficient macro policies, the overall economic performance is meagre. Synthetic control analyses that compare output in populist-run countries with plausible counterfactuals suggest substantial medium term costs. Many studies on Brexit point non-negligible losses already incurred (even before Brexit took place in 2020): lower inward FDI, capital flight, staggering wages, and rising inflation. Third, while research is scant, the deleterious im-

pact of populism are most likely much larger, due to the weakening of institutions and the altering of cultural norms that matter crucially for development and growth in the long run.

## 10 Conclusion

We conclude summarizing the main takeaways regarding the four questions we formulated in the introduction and then discuss the potential avenues for future research.

### 10.1 Summary

**Definitions and Trends** While there are many definitions of populism, there is a consensus on the lowest common denominator: “anti-elitism and anti-pluralism”. While scholars are often adding features, such as authoritarianism, nativism, identity politics, the minimal definition remains a useful reference point.

Whatever definitions are used, there is not doubt that there is a major rise of populism in advanced economies, especially in Europe. In the last two decades the vote share of populist parties has increased by about 10-15 percentage points (i.e., roughly doubled) and populist parties have taken power in many countries. The rise was especially salient after the global crisis. The main beneficiaries of this increase have been mostly right-wing, nativist, xenophobic, and authoritarian parties rather than pro-redistribution radical-left parties.

**Causes** There is ample evidence that the rise of populism reflects economic factors, both secular (trade and automation) and crisis-related (the rise in unemployment and the crisis-related austerity). There is growing evidence that the spread of fast internet and of online social media have also played a major role. Even though economics alone cannot account for the spectacular rise of populism, even small-to-moderate effects can be pivotal in bringing populists in power. While cultural traits correlate with populist voting, most studies are descriptive, as identification is challenging. As culture is highly persistent over time, it is hard to explain why the rise of populism took place exactly now. The

emerging consensus (yet to be backed by rigorous empirical research) is that economic shocks may have activated pre-existing cultural divides and exacerbated polarization and identity politics.

There is also substantial evidence on the role of immigration. However, the direction of the effect is mixed — depending on the magnitude of influx of refugees and immigrants, their skill composition, transit vs. settlement, rural-vs.-urban host municipalities. Exposure to a small number of refugees seems to create empathy, while a large influx triggers the fear of losing identity and law and order. Another important takeaway from this research is that perceptions of the scale of immigration are often very different from reality (especially in locations which are not exposed to immigration); hence the importance of communication.

**Implications** There are a few preliminary takeaways on the implications of the recent rise of populism. Most modern populists have learned from the macroeconomics mistakes of their Latin American predecessors, where populism is a synonym of (hyper-)inflation, soaring debt and deficits, and inefficient redistribution. However, there is growing evidence that populists still imply non-negligible economic costs. For example, the growing literature on the short-run effects of Brexit suggests that the referendum raised economic uncertainty, spurred inflation, led to capital exodus, and lowered wages and employment. More generally, no populist government (with an important exception of Poland) has outperformed the counterfactual GDP growth though there have been no disasters (with the exception of Venezuela). A likely reason of the non-catastrophic aftermath of populist rule recently regards the strength and resilience of democratic institutions in advanced economies. Courts in the US, UK, Italy, Poland, Greece and other countries have blocked many populist policies.

It should therefore not be surprising that authoritarian populists almost everywhere try to undermine political institutions and remove constitutional checks and balances. For example, Hungary has become a much more corrupt country with much more limited freedom of speech — and Hungarian experience is a rule rather than exception. Populists in power may also change social norms, for example legitimizing xenophobic discourse (which eventually results in the rise of hate crimes).

**Solutions** Given the negative implications of populist rule, what should be done? What can be done? One can only speculate here as there is very little research on potential solutions. Generally sharing our diagnosis (attributing the rise of populism to economic factors, social media, and identity), political scientist Yascha Mounk (2018) suggests focusing on the following three solutions: (i) domesticating nationalism, (ii) fixing the economy, (iii) renewing civil faith. While reasonable, these are, of course, very general recommendations. Regarding more specific measures, the research on the causes of populism summarized above implies that governments should provide more generous social safety nets, fight corruption, tackle tax avoidance and tax evasion by the elites (in particular, being stringent on offshore tax havens, see Zucman (2015)). Governments should enforce limit abuse of market power, which is especially likely in the “winner takes all” globalized economy. Rising concentration and markups, monopoly and monopsony power is alarming both on economic and political grounds (see Philippon (2020)).

The mainstream parties should invest in communications especially online. Political selection could change — with greater opportunities of politicians without elite backgrounds to rise through their party ranks. Finally, governments should promote a broader use of deliberative democracy (e.g., citizens’ assemblies) that promote ownership of the reforms and reduce the gap between voters and elites.

Another under-researched area is the role of spatial policy. Many drivers of populism are geographically concentrated: import and technology shocks affect whole communities, the same is true for crisis and austerity. Even cultural divides are often spatial — as people with similar identities tend to live in the same areas (or, vice versa, people in the same community endogenously converge to the same identity). While this fact is recognized and studied in many of the papers we discuss in our survey, there is relatively limited work on using place-based policies to prevent the rise of populism (with the notable exceptions of Dijkstra *et al.* (2018) and Rajan (2019)).

## 10.2 Future Research

The other important lesson from our survey is that while there is a bulk of substantial research in some areas, there are evident gaps in others. We believe that the following

areas appear promising.

First, we need more work measuring the various facets of populism. For example, on immigration and redistribution, policies, as well as quantifying interventions that remove institutional constraints. Likewise, research could measure more precisely and systematically attacks on media, academic, and business elites.<sup>57</sup> Moving away from binary to finer measures will allow a deeper understanding of commonalities and differences of populist parties. Ideally, such finer measures should allow tracking the evolution of populism.

Second, as research on globalization's role focused on trade, it is important examining also the impact of financial openness and outsourcing. Regarding automation, future research could perhaps think about the role of public's expectations of the rise of new technologies. As technological progress has been far-reaching in the past centuries—rather than decades—studying historical cases, like the Spring Riots (Capretini and Voth (2020)) looks quite promising, especially because it allows tracing both short-run and long-run implications.

Third, while contemporary and historical research establishes a link between adverse economic shocks and populism, pinpointing the exact mechanisms is still an open question. It is important to understand why crises have recently led mostly to nationalism, conservatism, and fascism and not so often to far-left radicalism. A related issue that deserves more research is thinking about austerity (and more generally about stabilization policy). The fascinating studies of Dal Bo *et al.* (2019), Fetzer (2019), and Fetzer *et al.* (2019) imply non-negligible political costs of austerity.

Fourth, it is essential to separate economic from cultural aspects of immigration. Looking at historical episodes of immigration influx (e.g., Tabellini (2019)) and population movements (e.g., Benos *et al.* (2020)) seems promising in understanding their political and social aftermath.

Fifth, more work is needed on the role of cultural aspects, norms, trust, and beliefs on the rise of populism. A related avenue is thinking more carefully about morality that

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<sup>57</sup>We see here an analogy with approaches measuring democratic rule. While there are merits using binary definitions of democracy (Acemoglu *et al.* (2019), Papaioannou and Siourounis (2008)), it is also important thinking about its main components; executive constraints, political competition, civil liberties and rights (as the widely-used fine measures produced by Polity Project and Freedom House do).

populist politicians constantly stress (see Enke (2020) and Enke *et al.* (2019)). Relatedly, follow-up work could explore the role of collective emotions (see Altomote, Gennaro, and Passarelli (2019)). The major challenge here regards identification, but research on cultural economics does offer some strategies to pinpoint the one-way impact of slow-moving cultural norms.

Sixth, there is a very exciting avenue of research on the interactive effects — for example, on the interactions between economic shocks and cultural aspects; or the interactions between misinformation and salience (see Alesina *et al.* (2018, 2019, 2020) and Gennaioli and Tabellini (2019)). More generally, behavioral economics can be quite useful in explaining some somewhat paradoxical patterns: for example, why and how Tory-imposed austerity effectively strengthened their position after Brexit. Or why many voters in response to unemployment and lower wages demand less redistribution.

Seventh, there is an open avenue of research on the strategy of populist parties and the supply of populism more generally (see Guiso *et al.* (2019) for a joint analysis of demand and supply). This requires blending demand features with textual analysis of political speeches and data on politician' characteristics (see Gennaro, Lecce and Morelli (2019) and Dal Bo *et al.* (2019)). The supply analysis raises questions about the mainstream politics as well, in particular, why mainstream parties do not promote charismatic leaders that can withstand competition with the populist peers.

Eighth, there is an emerging consensus (at least *ex-post*) that populists have pursued successful communication strategies, often via social media and the internet. Why can't mainstream parties and politicians follow suit? Is this because establishment politicians are complacent or because the very nature of internet 2.0 is conducive to propagating the populist message? Tackling such questions will most likely entail an inter-disciplinary approach, blending insights from marketing, cognitive psychology, and economics.

Ninth, most research on the causes of populism focuses on aspects that foster it; there is not much work on how societies can protect themselves from populism. What is the role of redistribution policies? Does providing health care, education, and social protection shields societies from the populist virus? Can compensation programs targeting the losers from trade, automation, and immigration help? If yes, of what kind?

Tenth, as populists tenure in office increase, we expect reading more papers analyzing their impact on growth, investment, employment, and wages. More work, however, should look at populists' impact on formal institutions, such as courts and the judiciary, independent agencies, constitutional guarantees of freedom and liberties, bureaucratic quality, and media freedom. Likewise, studying the interconnections between populist rule with authoritarian values, mistrust, and values is chief, as populism's legacy will be long-lasting if it alters cultural norms.

Eleventh, there are important country-specific puzzles, related to the vast heterogeneity of populist rule. While in some places populist parties gradually move to the centre, in others this is not the case. Why are there such wide differences in macroeconomic performance that ranges from the disaster in Venezuela to Poland's robust growth ? Why have many years of corrupt and economically ineffective rule of Berlusconi not immunized Italians against populism?

Twelveth, while there is an explosion of empirical research, there are only a few theoretical studies. Clearly, we need more theoretical explorations to make sense of the wealth of empirical findings unearthed since 2016.

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