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The Political Economy of Populism*

Sergei Guriev[†] and Elias Papaioannou[‡]

November 18, 2020

Abstract

We synthesize the literature on the recent rise of populism. First, we discuss definitions and present descriptive evidence on recent increase in support for populists. Second, we cover the historical evolution of populist regimes since the late 19th century. Third, we discuss the role of secular economic factors related to cross-border trade and automation. Fourth, we review studies on the role of the 2008–2009 global financial crisis and subsequent austerity, connect them to historical work covering the Great Depression, and discuss likely mechanisms. Fifth, we discuss studies on identity politics, trust, and cultural backlash. Sixth, we discuss economic and cultural consequences of growth in immigration and the recent refugee crisis. We also discuss the gap between perceptions and reality regarding immigration. Seventh, we review studies on the impact of the internet and social media. Eighth, we discuss the literature on the implications of populism’s recent rise. We conclude outlining avenues for further research.

*This review is dedicated to the memory of our friend, mentor, and collaborator Alberto Alesina, whose pioneering work helped establish the modern field of political economy. Alberto provided feedback and comments on this project and pushed us to explore new avenues. We thank the editor Steven Durlauf and four anonymous referees for useful comments and suggestions. We also thank Bruno Caprettini, Ben Enke, Spyros Kosmidis, Kostas Matakos, Stelios Michalopoulos, Moises Naim, Thorsten Persson, Andrei Shleifer and Jeff Frieden for useful comments and suggestions. We also thank participants of the 2020 NBER Summer Institute, the Global Labor Organization’s webinar, MIT (IAP), Harvard, and UBS-Zurich for suggestions. Maxim Chupilkin, Nicolo Dalvit, and Kuljeetsinh Nimbalkar provided excellent research assistance. The paper was mostly written before the COVID-19 crisis. Due to space constraints, the coverage of the emerging literature on the relation between populism and COVID-19 is very brief. All errors are our own.

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1 Introduction

The specter of populism is haunting the West.¹ A few years ago, populism was regarded mostly as a Latin American phenomenon (Dornbusch and Edwards, 1991). Nowadays, populism is spreading globally, reaching countries previously considered immune to it, such as Germany and Sweden. 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 system's foundations. Since Brexit, the European Union has lost a member, while an increasing number of Europeans view the Union with skepticism.² Voters are questioning the merits of 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.

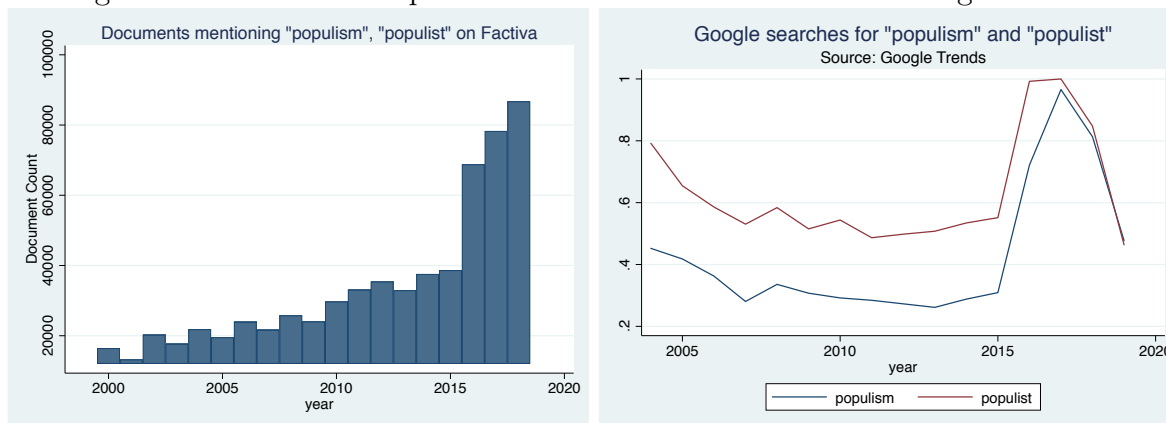
At the first glance, these patterns look striking, given the historically unprecedented levels of prosperity and security after World War II and the fall of the Berlin Wall (see Rosling, Rosling, and Rosling Rönnlund, 2018, and Pinker, 2018). On the other hand, they are worrisome, as they are contemporaneous with rising within-country inequality (Atkinson, Piketty, and Saez, 2011), stagnating social mobility (Chetty *et al.*, 2017), falling confidence in core democratic institutions (Mounk, 2018), and political polarization (Klein, 2020).

The rise of populism around the world has been swift and synchronized. Its upswing became apparent with the global economic crisis. 2010 marked the rise of the Tea Party movement in the United States (U.S.). That same year, Victor Orban took power in Hungary, advocating the paradigm of *illiberal democracy*. The appeal of populist parties has only grown since then. In 2014, populists did well in the European Parliament elections, securing the top spot in France (National Front) and the United Kingdom (United Kingdom Independence Party, UKIP). In early 2015, a strange coalition between SYRIZA, a radical-left party, and Independent Greeks, a nationalist, conspiracy-theory-espousing, far-right party, took power in Greece. Employing aggressive anti-institution and anti-media rhetoric,

¹The first time the famous Marx and Engels quote was rephrased as the opening sentence in a study of populism was probably in Ionescu and Gellner (1969, p.1). More recently, it was also used by Müller (2016, Ch. 1) and Algan *et al.* (2017).

²See, for example, the letter signed by 30 intellectuals to 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," January 21, 2019).

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 the English language only.

the coalition threatened to take 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 and the election of Donald Trump in the U.S. Even in countries where populists failed to take over, they substantially increased their support. In 2017, the National Front’s leader, Marine Le Pen, entered the second round of the French presidential election, and the far-right Alternative for Germany (AfD) party won seats in Germany’s Bundestag for the first time. Italy was next; in 2018, right-wing Lega Nord (Northern League), which used to advocate for the secession of Italy’s northern regions, formed a coalition with Movimento 5 Stelle (M5S, the Five-Star Movement), another populist party. While some populist leaders have mishandled the ongoing coronavirus pandemic, it is unclear whether this failure will lower their appeal. Even though Donald Trump lost the 2020 U.S. presidential election, he obtained roughly 47%, receiving more votes in absolute terms than in 2016

Emerging markets have followed suit. In addition to the traditional left-wing populist movements of Hugo Chavez and Nicolás Maduro in Venezuela, Rafael Correa in Ecuador, and Evo Morales in Bolivia, all of which focused on inequality and redistribution, there has been a surge of authoritarian far-right populism, represented by Jair Bolsonaro in Brazil and Rodrigo Duterte in the Philippines. Leaders like Recep Tayyip Erdogan in Turkey and Narendra Modi in India have been increasingly relying on nationalism, attacking religious and ethnic minorities, and subverting and/or bypassing constitutional checks and balances.

Figure 2: Mentions of Populism Over Time in Academic Research

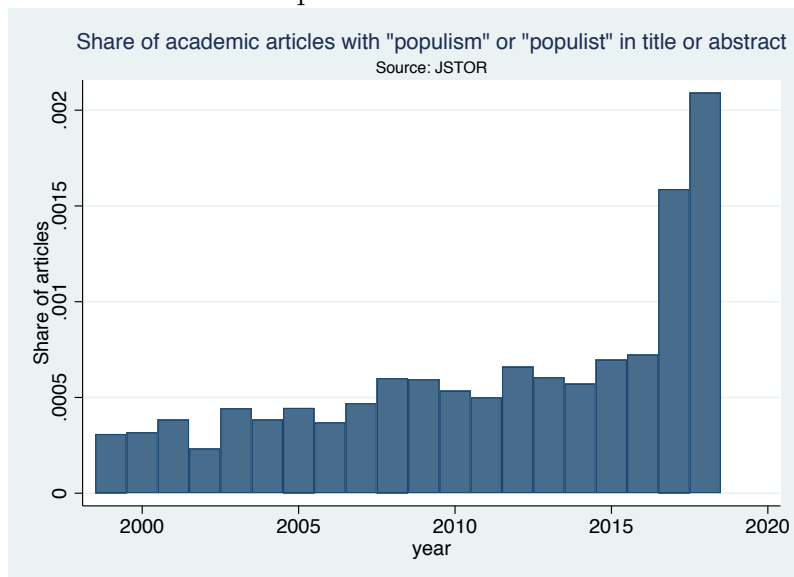


Figure 1 illustrates the salience of populism as a topic in the news media. There is a steady rise from 2000 to 2015; in 2016, the number of documents doubles; then growth (albeit slower) continues. Google Trends shows a somewhat similar curve, peaking in 2016 (see the right-hand panel in Figure 1). In 2018 and 2019, interest reverts to pre-2016 levels, most likely because by now, people have a clearer view of the issue.

Before 2016, academics paid relatively little attention to populism. As populism has spread, research has shifted into high gear (Figure 2). Employing various approaches, numerous researchers in economics, political science, and sociology aim to identify the correlates, origins, and implications of populism. Meanwhile, we've also seen a proliferation of general-audience books on the topic (e.g., Judis, 2016; Müller, 2016; Mudde and Rovira Kaltwasser, 2017; Eichengreen, 2018; Eatwell and Goodwin, 2018; Norris and Inglehart, 2019; De Vries and Hobolt, 2020).³

Given the recent surge of research and the public's growing interest, we believe it is time to summarize the main takeaways. Our review centers around four sets of questions:

1. What is populism? What are its key characteristics? How can we quantify its evolution?

³In addition, Acemoglu and Robinson (2019) and Levitsky and Ziblatt (2018) discuss generally the role of institutional and cultural features in sustaining liberty, democracy, and development.

2. What are the main drivers of its recent (and past) rise? Are they mostly economic or cultural? Or is it 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 (2008–2009) global financial and economic crisis? And what is the role of austerity that many countries implemented shortly after the crisis?
 - (c) Is there a cultural backlash? How do social capital, identity, and morality matter?
 - (d) What is the role of immigration?
 - (e) Has the expansion of the internet and social media platforms contributed to the rise of populism?
3. What are populism’s implications for growth, inequality, institutions, and beliefs? What do populists do once in power? Do they stick to their promises, or do they pivot?
4. If the recent rise of populism is a problem, what can societies do about it?

Two caveats are in order. First, the quantity and quality of research is uneven across these questions; for example, dozens of empirical works explore the role of trade and that of the 2008 – 2009 crisis, but few so far focus on austerity or welfare-state policies. Likewise, most recent research is empirical; theoretical research on the recent rise of populism is limited. There is virtually no empirical research on the effectiveness of specific policy solutions. Second, to identify causal relationships, most recent empirical studies focus on a single driver of populism. In reality, different drivers are likely to interact with each other; for example, cultural factors may be activated by economic shocks.

Our survey starts with a discussion of definitions and core features of populism (Section 2). Section 3 provides an overview of the history of populism and its recent resurgence. In Section 4, we review evidence on the role of secular economic trends, focusing on cross-border trade, and technological progress. Section 5 is devoted to studies on the role of the global financial crisis and austerity. In Section 6, we review evidence on the cultural

backlash and identity politics; in addition to empirical work, we also discuss the emerging theoretical literature. In Section 7, we discuss the roles of immigration and the recent refugee crisis. Section 8 reviews papers on the role of the internet and social media. Section 9 looks at evidence on the impact of populists in power and other implications of the recent rise of populism; we briefly discuss the fast-growing literature on the relationship between the rise of populism and responses to COVID-19. In Section 10, we conclude and outline avenues for further research.

2 Definitions and Core Features of Populism

Populism is not easy to define; it comes in vintages and is continuously evolving. Populists include different personalities (e.g., Erdogan, Duterte, Trump, Chavez) who embrace different ideologies (radical-left and extreme-right; pro-church, like Poland’s Law and Justice Party, and anti-church, like the Dutch Party of Freedom). Populists often claim they’re not populists, further complicating their categorization.

In public debate, it is often assumed that it is clear who the populists are; Eichengreen (2018) describes this view by rephrasing U.S. Supreme Court Justice Potter Stewart’s definition of pornography: “*I know it when I see it.*” However, to quantify and analyze the recent rise of populism, we should employ an operational definition, as there is always a temptation to use the populist label for “everyone we do not like.”

2.1 Definitions

The Lowest Common Denominator Our preferred definition of populism is the one introduced by Cas Mudde. Mudde (2004, 2007) and Mudde and Rovira Kaltwasser (2017) define populism as a “*thin-centered ideology*” that considers society to be ultimately separated into two homogenous, antagonistic groups: “*the pure people*” and “*the corrupt elite.*” This definition has several implications. First, it does not entail any socioeconomic priorities. Populism is about the pure 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, populism is not an ideology, but a theory of society (Bonikowski *et al.*, 2019). Second, the two groups’ homogeneity leaves no room for pluralism, protection of minorities, or diversity of opinions. Third, the *anti-elite* aspect implies that populists can bypass or suppress checks and balances—as they are

considered tools of corrupt elites. Although Mudde’s definition does not explicitly refer to antidemocratic or nativist aspects, it does imply that populism is incompatible with liberal democracy.

Plus Identity Other definitions of populism add more features—thus becoming special cases of Mudde’s definition. Müller (2016) concurs with the anti-elite and anti-pluralism aspects, but appends *identity politics*, as populists need to define who the “real” people are. Identity can take many forms: race, ethnicity, religion; it may also expand to citizen nation.

Plus Authoritarianism Eichengreen’s (2018) definition shares the anti-elite and nativist (i.e., identity) angles, adding *authoritarianism*, as populism goes hand in hand with the weakening of checks and balances on the executive, attacks on minorities, and violence. His definition is close to that of 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.”*

Economic Populism These definitions differ substantially from the one that has been used in economics until recently. As formulated by Dornbusch and Edwards (1991), populism is “*an 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 nonmarket policies.*” This definition described well the pro-redistribution Latin American populist movements dating back to Juan Peron in Argentina and Getúlio Vargas in Brazil. This vintage 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, except for SYRIZA in Greece.⁴

The recent rise of populism has mostly brought about politicians with a very different agenda: 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 have avoided the basic monetary and fiscal policy mistakes that characterized Latin American populism (Rodrik 2018b).⁵ Yet, because all populists dislike checks and balances, the weakening of institutions (e.g., property rights protection, executive constraints, and contract enforcement by the independent judiciary) will result in lower investment, misallocation, and slower growth.⁶

Taking Stock There is no consensus in the literature on what populism is. However, Mudde’s definition, based on two essential features—anti-elitism and anti-pluralism—provides the most general description of populism. Other modern definitions that add nativism, authoritarianism, attachment to tradition, and oversimplification of solutions to difficult problems are eventually special cases of Mudde’s.⁷

2.2 Populist Agenda and Communication Style

We now apply Mudde’s definition to describe the main features of modern populism.

(i) *No clear common ideology.* Populism is a “thin-centered” ideology, or even a non-ideology, a style of political discourse. Left-wing populists support redistribution while right-wing populists oppose it. Left-wing populist parties are usually secular, while the far right (most but not all, see Minkenberg (2018)) places Christianity at the center of

⁴Other left-wing populists include the Podemos party in Spain, Bernie Sanders in the United States, and Jean-Luc Mélenchon in France.

⁵For example, while Recep Tayyip Erdogan and Vladimir Putin started off with an anti-elite agenda, their economic policies in the early years were sustainable and even successful. They would therefore qualify as populists under Mudde’s definition, but not under Dornbusch and Edwards’.

⁶On the importance of institutions on economic development, see Acemoglu, Johnson, and Robinson (2005) and Acemoglu and Robinson (2012).

⁷Mudde’s definition is probably the broadest possible one. Dropping either anti-elitism or anti-pluralism would result in including politicians who are not populist. For example, anti-elitism is a property of any democratic movement that strives to bring about change and fight corruption, be it anti-communists in 1980s Eastern Europe or former U.S. President Barack Obama (Gurri 2018). Nor does anti-pluralism alone suffice, as it would include regimes with elites sowing ethnic and religious divisions. Neither of these alone is usually considered populist.

their political agenda. Most right-wing populists are culturally conservative, but some, like Geert Wilders in the Netherlands, have a liberal position on gender and LGBT rights.

(ii) *Anti-elite and anti-expert sentiment.* The specific types of elites that populists target often include center-right and center-left parties that have alternated in power in recent decades in the West, judges, unelected technocrats running central banks, independent regulatory agencies and international organizations, mainstream media, national and international NGOs, and corporate lobbyists. Anti-elite sentiment naturally extends to rejecting experts, who are allegedly not objective, having been coopted by the elites to justify the status quo. Left-wing populists usually suspect that experts are paid by corporate interests, while right-wing populists emphasize the links between experts and unelected cosmopolitan elites. In either case, populist leaders accuse experts of failing to offer fair solutions on pressing issues, such as automation, trade, and immigration.

The anti-expert narrative is also related to populists' suspicious attitude toward science. Populists often support anti-vaccination movements and deny the anthropogenic view of global warming as an "elite conspiracy" or simply a "hoax." As the climate agenda is formulated by scientists, anti-expert politicians cannot pursue it in a consistent way. Not surprisingly, there are no Green populist parties. Anti-elite and anti-science sentiments drive certain politicians to be open about and even proud of making factually incorrect statements. In 2016, Newt Gingrich told CNN's Alisyn Camerota (who said, contrary to Gingrich's insistence, that data showed that violent crime in the U.S. was falling) that "*as a political candidate, I'll go with how people feel, and I'll let you go with the theoreticians.*" In 2019, U.S. Congresswoman Alexandria Ocasio-Cortez, when confronted by Anderson Cooper on CBS about a 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.*"

(iii) *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 (though not always) associated with nativism and identity politics. The "open versus closed" cleavage replaces the conventional left-right divide as the main dimension of political conflict (De Vries, 2018; Algan *et al.*, 2018); anti-globalization bias helps explain how extreme left and extreme right populists now join forces to defend a parochial agenda against the mainstream center, which represents markets and globalization. For example, in Europe, both the extreme left and the extreme right oppose the EU: the radical and

communist left for the EU’s promarket agenda; the extreme right for its interventionism, redistribution, and suppression of national identities. Both claim that “Brussels” does not represent ordinary people.

(iv) *Anti-pluralism and authoritarian angle.* Because populists treat the “moral” people as homogeneous, they reject the need for democratic checks and balances. Since all people are similar to each other, politics can be reduced to a single leader representing the whole people. There is little—if any—need for parliaments, independent agencies (including central banks), and media; these institutions serve the elite and obstruct people’s direct rule. The choice of judges should be based on “morality” and ideology rather than competence and independence. The simplification of governance enables the need for a “strong leader.” This has happened both in autocratic or hybrid regimes (e.g., Russia, Turkey, Brazil, and Venezuela) with relatively low levels of democratic capital (Persson and Tabellini, 2009) and in established democracies (e.g., Italy, Hungary, and the United States).⁸

(v) *Communication style.* The nature of populist politics implies distinctive patterns of communication:

- Simplicity of message. Populists fit complex economic and security issues into Twitter feeds or even single tweets. Trump often discusses NATO policy via Twitter, while the Brexiteers bypass the complexity of UK-Europe relations with “*we want our country back*” slogans. As the choices are moral—“*with us*” or “*against the people*”—there is no need for nuance. In addition, sophisticated arguments and discussions about tradeoffs must involve experts, who are not supposed to be trusted.
- Aggressive style. As populists discuss security and identity, they raise the stakes. The debate is no longer about tax rates or welfare-state policies; instead, it is about the quintessential survival of the nation. This war-like situation entails aggressive tactics and controversial messages, often labeling opponents as “*enemies of the people*.” For example, Nigel Farage argued that “*parliament will start to fear the electorate and gosh they need to.*”

⁸Not all populists are authoritarian, nor are all strong leaders populist. Guriev and Treisman (2019) identify many “*informational autocrats*” (including the pioneer of informational autocracy, Lee Kuan 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, they are not generally classified as populists—their legitimacy relies on fear rather than on populist discourse. Anti-elitist dictatorships are uncommon. Geddes et al. (2018) classify dictatorships into military, party, and personalistic. By definition, the military and party dictatorships reflect the corresponding elites. Among personalistic regimes, monarchies cannot be anti-elitist as well.

- Social media. The internet has played a major role in the rise of many populist leaders, including Beppe Grillo and the Five-Star Movement in Italy (Campante, Durante, and Sobbrío, 2018). The fact that Donald Trump’s main communication tool is Twitter is not a coincidence. This is not the first time in history populists have used new communication technology to circumvent mainstream-media gatekeeping. However, as we discuss in Section 8, certain features of modern online media make them especially conducive to the dissemination of populist narratives.

3 History

In this section, we discuss the evolution of populism in the 20th century and 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 late-19th-century American People’s Party (also known as the Populist Party), which had an anti-elite and anti-globalization agenda.⁹ Its leader, William Jennings Bryan, said in 1896, “*You shall not crucify mankind upon a cross of gold.*” The first wave of globalization, from 1870 to 1913, marched forward due to reduced transportation costs (after the spread of steamboats and railroads) and other technological improvements (in energy and medicine), while the gold standard facilitated cross-border financial and trade flows.¹⁰ The People’s Party also fought against corruption and abuse of market power by the trusts that dominated steel, oil, railroads, and other crucial sectors.¹¹ The People’s Party also objected to the influx

⁹It is tempting to refer to Russian *narodniki* in the 1860s and 1870s as the first populists—*narodniki* literally means *populists* in Russian. However, as Eichengreen (2018) argues correctly, this is a misleading parallel. Narodniki—representatives of the intelligentsia—indeed focused on “going to the people,” as peasants, who constituted the vast majority of the Russian empire’s population, were presumably the source of moral values superior to the upper classes. Peasants, however, viewed narodniki with suspicion, and even with hostility, because narodniki’s understanding of peasant life was disconnected from reality.

¹⁰*The Wizard of Oz* eloquently portrays populists’ fight against the gold standard; the populist team includes Bryan (the Cowardly Lion), farmers (Scarecrow), workers and miners (Tin Woodman), and Dorothy, with the Silver Shoes, traipsing over the Yellow Brick (i.e., golden) Road. “Free Silver” was an important part of the Populist agenda, which sought to move away from the gold standard to bimetallic money. Free coinage of silver would result in higher inflation—which would facilitate achieving one the Populists’ main goals, reducing the real value of farmers’ debt burden.

¹¹Eichengreen et al. (2019) explore the correlates of Populist votes in the 1896 U.S. presidential election. Bryan did well in areas with high mortgage rates, low railroad penetration, and a considerable decline in crop prices in the earlier years. Postel (2007) attributes the post-1896 decline of the Populist movement to

of immigration from Asia and Eastern Europe. Although the movement included Black Populists, the vast majority of the Populists supported segregation and believed in Caucasian suprematism (Kazin, 1998; Postel, 2007). On the other hand, Populists supported women’s voting rights and access to jobs. They also believed in the importance of education and science as the drivers of progress. The antitrust and anti-corruption concerns of the Populists were not only legitimate but also benefited the U.S. economy and society, as Theodore Roosevelt and the Progressives endorsed them, implementing a bold reform agenda in the early 20th century (Rodrik, 2018a).

Fascism, a vastly different type of populism, emerged after the Great War, alongside communism and other radical movements. It spiked with the Great Depression, when far-right parties took control throughout Europe via coups, elections, and civil violence. According to Capoccia (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. The extreme right gained ground even in countries that stayed democratic, such as the United Kingdom and France. Rodrik (2018a), among others, attributes the U.S.’s unwillingness to endorse far-right nationalism and xenophobia in the 1930s to Franklin Delano Roosevelt’s New Deal policies, which preempted populist leaders such as Huey Long and Father Coughlin. Eco (1995) identifies 14 common features of fascist regimes, which include distrust of intellectuals and a fear of diversity. Eco’s (1995) definition of “Ur-Fascism” has many other properties, some of which are recognizable in modern populist movements, like the cult of tradition, brute force, and victimhood. Yet, some features—such as the use of doublethink and newspeak—are no longer relevant.¹² é Gradually, populism moved to Latin America, where it effectively came to define the region’s economic, social, and political development. Populist leaders such as Juan Peron, Getúlio Vargas, Lázaro Cárdenas, and José Velasco Ibarra advocated quick-and-easy solutions for reducing their countries’ high levels of inequality (which originated in colonialism and early industrialization). Their redistribution policies were disastrous: subsidies and transfers were financed via deficits monetized by the central banks, leading to recurrent macroeconomic crises. The studies collected by Dornbusch and Edwards (1991) on the ori-

the increase in global agricultural prices.

¹²Rydgren (2018) compares today’s far right to the “*fascist minimum*,” which consists of three elements: (i) the rebirth myth, (ii) populist ultranationalism, 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 virtually absent—the radical right’s narrative nowadays is to restore the glorious past rather than to create a “new society.” Yet, while new far-right movements differ from the fascist ones of the 1930s, it is hard to make a watertight demarcation between the two.

gins and the aftermath of populist policies in Argentina, Brazil, Chile, Peru, Mexico, and Nicaragua identify the following common features: inflation, capital outflow, devaluations, pervasive shortages, and decline in real wages despite populists' message that they would serve the interests of the people (see also Edwards, 2019).¹³

3.2 Recent Trends

Even with a given definition of populism, quantifying the recent rise of populism is not an obvious task, as there are several reasonable proxy measures: the presence of populists in government (as a senior or junior member in a coalition); populists' vote share in the latest elections; the populists' share of seats in national or European parliaments; survey-based measures of voter attitudes to populist ideas, parties, and ideology; and politicians' values and ideology as reflected in their speeches.¹⁴ These measures are correlated but are not exactly the same. For example, different electoral systems imply a nonlinear association between vote shares, shares of seats, and membership in the ruling coalition.

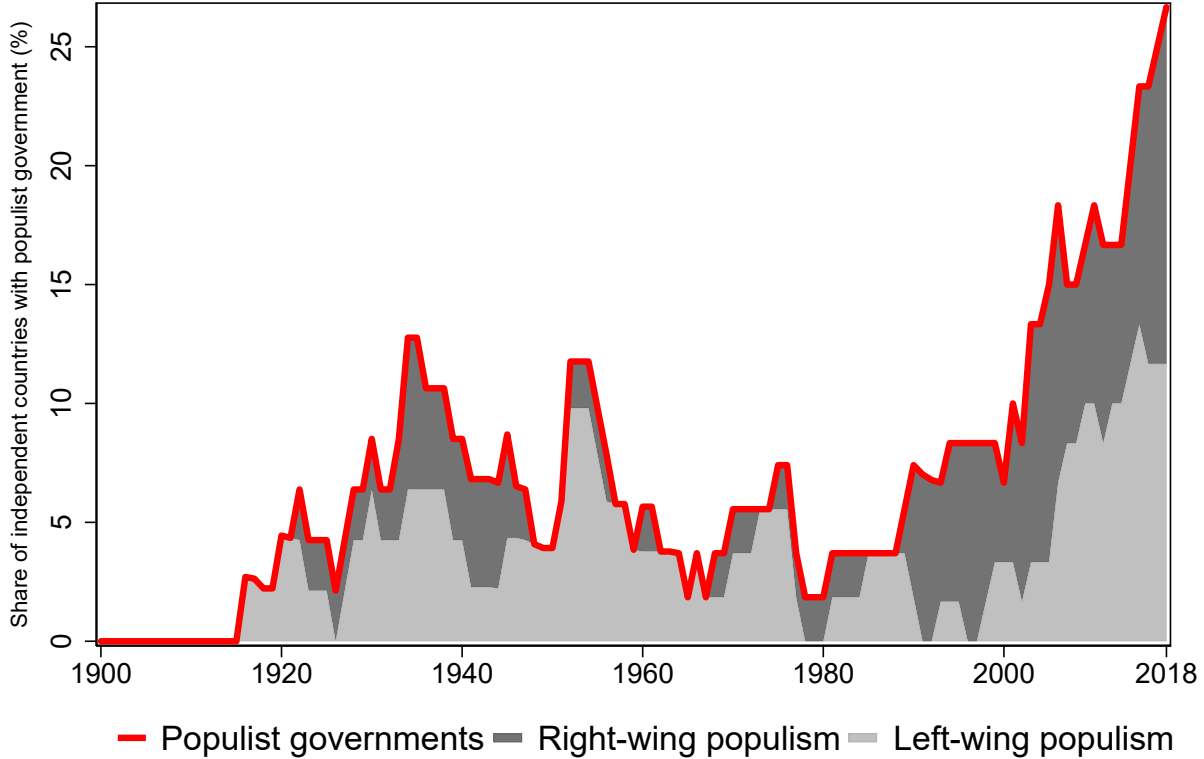
Funke, Schularick, and Trebesch (2020) focus on populists in power across 60 countries that account for more than 95% of global GDP. They show that the recent rise of populism has been unprecedented in history (Figure 3): in 2018, populists ran the government in 16 countries (26% of their sample). The number of left-wing (right-wing) populists in power increased from 2 (2) at the turn of the 21st century to 7 (9) by 2018.

Figure 4 presents the five-year average vote shares for left-wing versus right-wing pop-

¹³Acemoglu, Egorov, and Sonin (2013) explore Latin American populism theoretically, asking why populists propose policies noticeably to the left of the median voter's ideal point. They consider a signaling model in an environment with weak institutions; after elections, right-wing elites may capture elected politicians. To distinguish themselves from corruptible politicians, honest candidates choose left-wing policies. The unscrupulous politicians also announce left-wing policies *ex ante* to portray themselves as honest, then shift to the right *ex post* in exchange for bribes. The model's attractive feature is that while it uses left-wing populism as an inspiration, it integrates the anti-elite nature of the populist agenda, demonstrating the link between Mudde's and Dornbusch and Edwards' definitions. The fact that the populists propose policies left of the median voter in equilibrium stems from the *ex-post* political capture by right-wing elites. Acemoglu, Egorov, and Sonin (2013) further show that if there is potential *ex-post* collusion with left-wing elites, then right-wing populism can emerge in equilibrium. Furthermore, if there is potential for capture by both left- and right-wing elites, there will be both types of populists with stronger reelection chances for the one opposing the more influential elites. Matsen, Natvik, and Torvik (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 than sacrificing macroeconomic stability with fiscal deficits or slowing growth by imposing higher taxes).

¹⁴Castanho Silva et al. (2019) reveal various inconsistencies of cross-country proxies of populist attitudes. Wuttke, Schimpf, and Schoen (2020) discuss conceptual challenges of measuring populism and propose operational ways to compare survey-based measures across countries.

Figure 3: Left-Wing and Right-Wing Populists in Power Since 1900



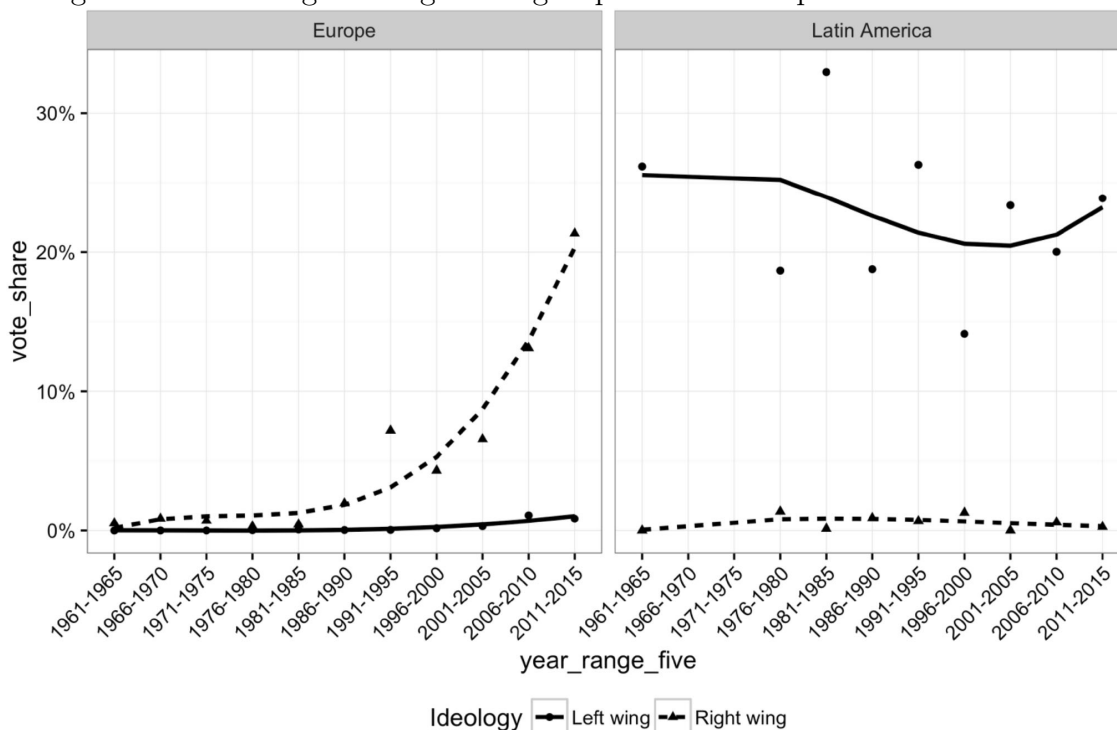
Source: Funke, Schularick, and Trebesch (2020), Figure 1. The sample comprises 60 large countries.

ulist parties using Rodrik’s (2018a) classification; he defines *populist* as “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.” His sample includes 19 countries in Europe and Latin America. The rise of populism in Europe in the 21st century reflects the increasing popularity of right-wing nationalistic parties, such as UKIP, the National Front, Golden Dawn, Sweden Democrats, and Jobbik. 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 signal a change (Rodrik’s data end before Bolsonaro’s election).

In Figure 5, we consider four alternative classifications of populist parties and produce a population-weighted annual average populist vote share in Europe from 2000 to 2018 (using the latest election).¹⁵ All classifications show steady growth of populist vote shares

¹⁵The respective country samples are (i) Algan et al. (2017)—EU-28 excluding Croatia, Latvia, Lithua-

Figure 4: Left-Wing and Right-Wing Populists in Europe and Latin America



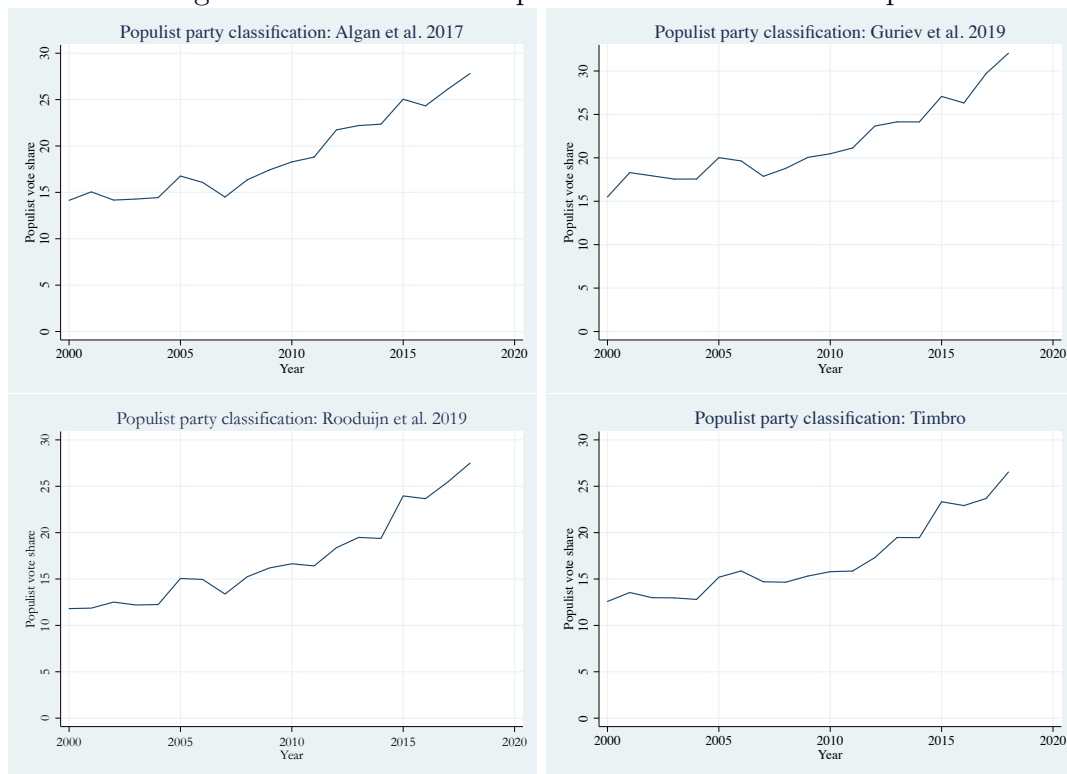
Source: Rodrik (2018a), Figure 4. The sample includes only countries with at least one populist party in their history.

in the 2000s and a surge after 2010. The populist vote share roughly doubles from 10–15 percentage points in 2000 to 25–30 percentage points in 2018.

While most studies rely on binary classifications of populist parties, there are also finer measures for a continuous “degree of populism.” The Chapel Hill Expert Survey (CHES), an ongoing project of the University of North Carolina at Chapel Hill’s Center for European Studies, regularly surveys leading scholars of European politics. In 2014, CHES included two questions on the “salience of anti-establishment and anti-elite rhetoric” and the “salience of reducing political corruption” in the public stance of each European party. Three hundred thirty-seven experts provided salience scores (on a 0–10 scale) for 268 parties in 31 countries (EU-28 plus Norway, Switzerland, and Turkey). CHES (2014), therefore, provides a comprehensive cross-sectional mapping of populism in Europe when populism

nia, Luxembourg, and Malta plus Iceland, Norway, and Switzerland; (ii) Guriev, Melnikov, and Zhuravskaya (2019)—EU-28 excluding Ireland and Malta plus Norway, Switzerland, Montenegro, and Northern Macedonia; (iii) Timbro—EU-28 plus Iceland, Norway, Switzerland, Montenegro, and Serbia; (iv) Rooduijn et al. (2019)—EU-28 plus Iceland, Norway, and Switzerland; this classification follows Van Kessel (2015), which however stops in 2013.

Figure 5: Evolution of Populists' Vote Share in Europe



Sources: Algan et al. (2017), Guriev, Melnikov, and Zhuravskaya (2019), Rooduijn et al. (2019), populismindex.com (accessed in October 2019).

was gaining momentum (see Polk *et al.*, 2017). CHES posed these questions again in 2017 (but only for 14 European countries) and again in 2019 for 31 countries. Figure 6 compares the anti-elite scores in 2014 and 2019 for the 206 political parties covered in both surveys. While some parties have become much more antiestablishment (e.g., Poland's PiS and Hungary's FIDECZ), the intensity of parties' anti-elite sentiment has declined slightly (from 4.5 to 4.0). However, one should not interpret this decline as evidence of lower support for populism. First, populist parties' vote share has increased.¹⁶ Second, there has been substantial entry and exit of parties. According to CHES, both exiting and entering parties are disproportionately populist. In 2019, CHES included 71 parties that did not exist in 2014; their mean anti-elite salience is 5.6 (the difference in anti-elite salience between the new and the old parties is statistically significant). Bakker *et al.* (2020b) also

¹⁶We have calculated the vote-share-weighted populism score in each of the 14 countries present in both the 2014 and 2017 CHES surveys and then averaged across countries (weighted by population). This weighted average anti-elite score increased from 3.7 to 4.8 between 2014 and 2017.

a continuous index of populism ranging from zero to two, studying leaders' speeches.¹⁷ Hugo Chavez gets (almost) the maximum score, 1.9, followed by his successor Nicolas Maduro; Evo Morales and Recep Tayyip Erdogan notched a 1.5 and 1.6, respectively. Viktor Orban, Silvio Berlusconi, and Donald Trump score around 0.8–0.9. Angela Merkel and Tony Blair get the minimum scores, 0 and 0.1, respectively. From 2000 to 2018, the average score across 40 countries doubled from 0.2 to 0.4. In Europe, the average increased from 0.14 to 0.24. As the index ranges from 0 to 1, this change roughly translates into a 10-percentage-point increase.

Taking Stock Various attempts to classify populists and to quantify their rise deliver a similar message¹⁸: in the 21st century, there has been a rise in populist support by 10–15 percentage points of the vote, effectively doubling populists' vote share. This rise took place mostly in advanced economies and mostly stems from the rise of nationalist, right-wing, and authoritarian populist parties.

4 Economic Drivers: Secular Trends

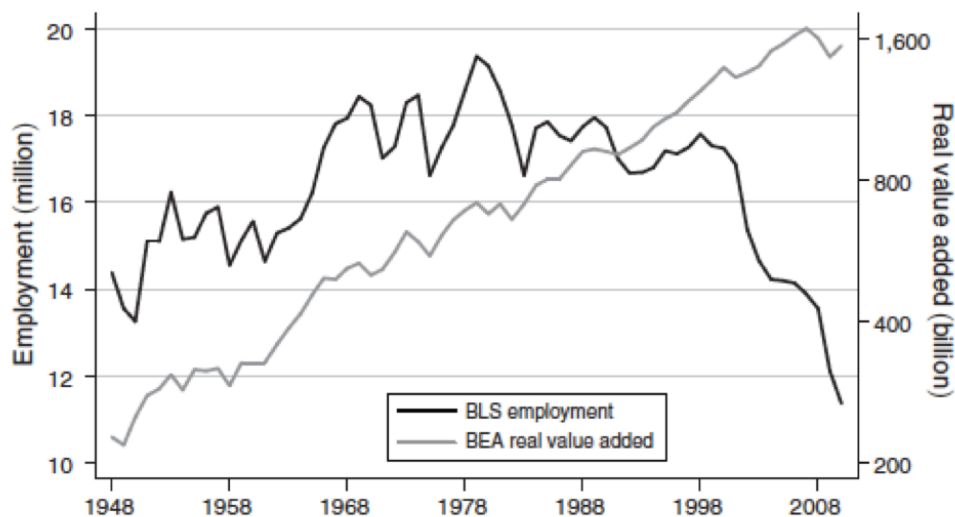
In this section, we consider the role of trade globalization and automation in the rise of populism. Both globalization and automation have allegedly contributed to de-industrialization of advanced economies in recent decades. The formerly manufacturing-based communities provided a fertile ground for populists (see Frieden (2019)). Donald Trump did well in the Rust Belt¹⁹; support for Brexit concentrated in manufacturing towns in the Midlands; Marine Le Pen's Front National did very well in deindustrializing areas. Using data from 63,417 electoral districts across all EU countries in the 2019 Elections for the European Parliament, Dijkstra, Poelman, and Rodríguez-Pose (2020) show that voting for anti-EU parties is considerably higher in areas of industrial decline. Broz, Frieden, and Weymouth

¹⁷The Team Populism's Global Populism Database was commissioned by the *Guardian*. The dataset includes the EU-28 minus Belgium, Cyprus, Denmark, Estonia, Finland, Ireland, Lithuania, Luxembourg, Malta, and Slovenia plus Norway, Argentina, Bolivia, Brazil, Mexico, Canada, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Paraguay, Peru, Venezuela, the United States, India, Russia, and Turkey. See also Gennaro, Lecce, and Morelli (2019) for a similar speech-based measure of populism.

¹⁸See also the *Varieties of Democracy* (2020) database that assesses party position across various policies (e.g., liberalism, political pluralism, immigration, religion). The recently released dataset also includes classifications of populism and anti-elite rhetoric.

¹⁹Preliminary tabulations of the 2020 US Presidential Election show that Donald Trump's support in sub-urban areas of industrial decline has remained robust.

Figure 7: U.S. Manufacturing Employment and Value Added



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

(forthcoming) show that urban centers’ specialization in services shielded them from the populist wave that spread in rural and suburban communities in the US and Western Europe.

Growing competition from imports from low-wage countries, such as China and Vietnam, and increased automation of low/middle-skilled jobs have contributed to stagnation of real wages of noncollege graduates and rising inequality in the advanced economies. These shocks have been particularly salient in manufacturing. Figure 7, taken from Pierce and Schott (2016), provides a stark illustration of these two phenomena in the United States. In roughly ten years, from the late 1990s until the crisis in 2008, US manufacturing lost a staggering six million jobs, a third of its workforce. Automation’s impact is evident: while employment fell, the total value added doubled (from 800 billion to 1.6 trillion). The “China Import Shock” is also apparent: the decline in employment accelerated in the early 2000s when China joined the World Trade Organization (WTO).

While globalization and technological progress are separate forces, they reinforce each other. Technology reduces transportation costs facilitating cross-border commerce. Improvements in information and communication technology (ICT) also promote trade in both services and goods, allowing for better inventory management and cheaper cross-border marketing. In turn, the integration of goods and services markets accelerates technological progress, as the potential access to a larger market incentivizes investments in

research and development (R&D) and the adoption of new technologies.

We first discuss the major trends in trade and technology over the past decades and review studies of their impact on advanced economies' labor markets. Then, we go through the evidence on their role in the rise of populism, as well as their influence on trust, values, and beliefs. As the literatures on trade and technology employ similar empirical designs, we discuss methodological details in Section 4.1 on trade and then only briefly refer to this discussion in Section 4.2 on technology.

4.1 Trade

4.1.1 Patterns

Cross-border trade has grown steadily around the globe since the late 1980s, when tariffs, quotas, and nontrade barriers fell considerably. 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 financial crisis, this ratio now hovers around 60 percent—more than double the level half a century ago. Trade growth was especially fast in emerging economies. In 1985, high-income countries accounted for more than 80 percent of world exports of goods and services; in 2015, this share was 61 percent (Pavcnik, 2017). Among emerging markets, China accounts for more than half of the increase—its exports grew from 1% of world exports 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), contributing crucially to the “commodity supercycle” of 2001–2007. 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

Neoclassical trade theory, based on technological differences (Ricardo) or differences in factor proportions (Heckscher-Ohlin), suggests that globalization increases aggregate output, but there are winners and losers. High-skilled workers in rich (human-capital abundant) countries benefit from market integration as low-skilled workers in poor (human-capital scarce) countries. While low- and middle-skilled workers in advanced economies may benefit from cheaper (imported) goods and “aggregate demand” effects, their jobs are at risk, as the production of goods with low human-capital intensity shifts to low-wage countries.

Middle-skilled jobs are especially vulnerable, as their higher wages (relative to the low-skilled jobs) create stronger incentives for outsourcing and offshoring; also low-skilled jobs usually involve manual services and thus require presence in the country. In line with this framework, globalization is a major contributor to *job polarization* in advanced economies and increased inequality.²⁰ If social safety nets do not counter the adverse impact of trade, an anti-globalization constituency may emerge. Populist politicians gain support accusing the principal beneficiaries of globalization—highly educated elites residing in metropolitan areas who produce knowledge-intensive services (banking, consulting, software) that industrial countries export. Part of the anti-EU rhetoric is also related to trade integration—against the “unelected, amorphous, and bureaucratic” European Commission that enforces the Single Market. Pastor and Veronesi (2020) establish theoretically that globalization spurs populism when voters dislike inequality. The authors also present cross-country correlations between inequality, trade deficits, and protectionist attitudes.

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

The share of U.S. imports from low-wage producing countries almost doubled over the 2000–2007 period (15% to 28%), with China accounting for 89% of this growth (Autor, Dorn, and Hanson, 2013). A large body of research suggests that a non-negligible portion of manufacturing’s decline is attributable to the “China shock,” which started in the early to mid-1990s and accelerated in the early 2000s. Acemoglu *et al.* (2016), Bernard, Jensen, and Schott (2006), Pierce and Schott (2016) document that increased exposure to import competition from low-wage countries is associated with the closure of manufacturing plants and a sizable drop in employment in industries that faced the largest declines in Chinese import tariffs.²¹ For example, Autor *et al.* (2014) compare observationally similar workers across industries from 1992 to 2007; they show that in sectors exposed to higher import penetration from China, workers earned lower wages and there was greater job churning.

²⁰Autor and Dorn (2013) sort U.S. occupations by skills and show that from 1980 to 2005 the employment share declined for jobs from the 15th to the 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, Manning, and Salomons (2014) show that in Europe, the “middling” occupations’ share of employment declined by 9.3 percentage points from 1993 to 2010, while the share of low-wage and high-wage occupations increased 3.7 and 5.6 percentage points, respectively.

²¹Caliendo, Dvorkin, and Parro (2019) calibrate a dynamic trade model with spatially distinct labor markets subject to varying exposure to international trade, labor and goods mobility frictions, and input-output linkages. They estimate that the China shock has contributed to a loss of half a million jobs in the U.S., approximately 16% of the overall decline from 2000 to 2007.

In an influential paper, Autor, Dorn, and Hanson (2013) assess the impact of the China shock on U.S. local labor markets. The starting point of their analysis is the calculation of the shock at the level of commuting zones (CZ). ΔIP_τ^c is the product of the growth of Chinese imports at the national level at a given industry (i) over a given time period (τ) and employment share of industry i in a commuting zone c , summed across industries:

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

Here, $\Delta M_{i,\tau}^{US}$ is the share of U.S. imports from China in industry i over period τ and $L_{i,t}^{US}$ is total U.S. employment in this industry at the beginning of period t .

To identify the causal effect of rising Chinese imports on the U.S. labor market, the authors use industry-level data on the growth of Chinese exports to eight other high-income countries, $\Delta M_{i,\tau}^{other}$. Thus, they construct the following instrument for ΔIP_τ^c (to account for anticipation effects, they lag all employment variables by ten years):

$$\Delta IP_\tau^{c,other} = \sum_i \left(\frac{L_{i,t-10}^c}{L_{t-10}^c} \frac{\Delta M_{i,\tau}^{other}}{L_{i,t-10}^{US}} \right). \quad (1)$$

They find that CZs 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 was stable, indicating little emigration. Hence, unemployment and non-participation in the labor force increased considerably. Employment decreases went hand in hand with falling wages, which were only modestly compensated by transfers (see Autor *et al.* 2014).

The China shock is not purely economic; it is also related to poorer health, inferior marriage outcomes, unstable mental health, increased use of opioids, and deaths of despair (Colantone, Crinò, and Ogliari, 2019; Hummels, Munch, and Xiang, 2016; Pierce and Schott, 2020; Autor, Dorn, and Hanson, 2019; Case and Deaton 2020).

The growing research on the local labor-market impact of the China shock in other industrial countries reaches similar conclusions. For example, Malgouyres (2017a) estimates that the average increase in Chinese import competition between 2001 and 2007—approximately \$1,000 per worker—across French local labor markets caused a fall in regional manufacturing employment growth of about 6 percentage points. There is an adverse

spillover effect on the local service sector, implying local multiplier effects that may amplify resentment. Likewise, Dauth, Findeisen, and Suedekum (2014), Dippel *et al.* (2018), and Marin (2018) find that increased imports from China since the late 1990s and Eastern Europe since the late 1980s go hand in hand with falling wages and employment across German regions.

4.1.4 The Political Implications of Trade Shocks in the United States

Early Correlational Studies Margalit (2011) regresses the change in the county-level Republican vote share between the 1996 and 2004 elections on the percentage of workers hurt by trade, proxied by petitions filed at the Department of Labor’s Trade Adjustment and Assistance division. U.S. firms filed 22,287 such applications during this period, 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 most affected industries. The correlational analysis conditions on the unemployment levels and changes, racial composition, and employment characteristics. A one-percentage-point increase in the share of a county’s workforce loss due to competition with imports costs the incumbent president 0.15 percentage points, twice as large as the drop due to other job losses (such as domestic competition).

Jensen, Quinn, and Weymouth (2017) examine the impact of trade on the U.S. presidential elections from 1992 to 2012, distinguishing between trade in manufacturing and services. The U.S. is a net exporter of services. Its exports of services have expanded in recent decades; in 2016, they accounted for a third of total U.S. exports. Because services are R&D-intensive, comparative advantage logic suggests U.S. gains. The analysis associates the incumbent vote share’s change with employment interacted with indicators for tradable high-wage manufacturing, tradable low-wage manufacturing, tradable high-wage services, and tradable low-wage services (the omitted categories were nontradable manufacturing and services). Incumbents fare worse in counties experiencing a drop in low-wage manufacturing employment but perform 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 driven by trade in line with trade theory.

Causal Estimates Autor *et al.* (2020) study the political implications of increased competition from China in the U.S., examining political alignment and actual voting (using

the instrument for China shock similar to (1)). Their analysis establishes the following important regularities. First, the China shock has affected TV news viewership; Fox News' share increased considerably in CZs exposed to the China shock at the expense of CNN and, to a lesser extent, of MSNBC. Second, the China shock has moved 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 CZs with a sizable white population, but absent in areas with large Hispanic and African American communities. Third, Chinese import penetration increases both left-wing and right-wing campaign contributions; there is no correlation with moderate donors' contributions. Trade shocks therefore partly explain the rising polarization of U.S. politics, a trend that started in the 1980s.

The electoral implications of the China shock are as follows. First, Chinese import competition is associated with higher turnout. Second, while the China shock helped Democratic candidates in CZs that have been strongholds of *either* party, in competitive congressional districts the shock benefited the Republicans. (Competitive districts are those where neither party obtained more than 55% of the vote; there are 129 "safe" Democratic districts, 124 "safe" Republican districts, and 179 competitive ones; the analysis covers 432 electoral districts in the U.S. mainland.) As a consequence, congressional districts with greater exposure to Chinese imports were more likely to elect a Republican to congress. This pattern did not emerge after China's WTO accession and the dramatic rise of Chinese imports to the U.S.; it arose after the 2010 congressional elections that brought many Tea Party Republicans to the House of Representatives, and it has since persisted. Third, the impact is strong in districts that had a majority non-Hispanic white population in 2000; it is weak and statistically indistinguishable from zero in other districts.

Autor *et al.* (2020) also examine the impact of rising trade exposure on the ideology of elected representatives. Districts facing a higher penetration of Chinese imports were much more likely to elect a conservative Republican—at the expense of moderate Democrats and, to a lesser extent, of moderate Republicans. Conservative candidates benefitted from the China shock considerably more in counties with white majorities. In contrast, in minority non-Hispanic white districts exposed to the China shock, liberal Democrats fared better, at the expense of moderate Democrats.

Finally, Autor *et al.* (2020) explore the role of the China shock on the change in Republican vote share between the 2000 presidential election (George W. Bush versus Al Gore) and the 2008 election (Barack Obama versus John McCain) and between the elections

of 2000 and 2016 (Donald Trump versus Hillary Clinton). Rising import competition from China is associated with a significant increase in the vote share of *both* McCain in 2008 and Trump in 2016. The estimates imply that the Republican two-party vote share rose by approximately 1 percentage point for an interquartile range of Chinese imports' penetration. The gains are substantial, especially taking into account the "winner takes all" structure of the Electoral College system.

Feigenbaum and Hall (2015) show that politicians from districts experiencing a rise in Chinese imports are more likely to vote for protectionist legislation; this pattern is stronger in competitive districts. There is not much of an impact on other kinds of legislation. A \$1,000 increase in import penetration per worker results in a 0.7 percent fall in the likelihood that the district's representative casts a "*right-leaning*" or "*free-trade*" vote in Congress, according to the trade score from the Political Institutions and Public Choice (PIPC) Roll-Call Database, and a 2.1 percentage-point decrease in the probability that the district's representative casts a "free-trade" vote according to the Cato Score, which looks only at the most salient trade bills.

Che *et al.* (2016) use 1992–2016 data to explore the role of granting Permanent Normal Trade Relations (PNTR) status to China in late 2000, both on U.S. congressional elections and on legislative activity of elected representatives. PNTR had differential sectoral effects. As industrial production is unevenly allocated across regions, the exposure of U.S. countries to the impact of PNTR was also differentiated. The analysis establishes two main results. First, difference-in-difference specifications suggest that counties with greater exposure to Chinese competition experience relative increases in the vote share of Democrats in the early 2000s (compared to the 1990s). However, this shift toward Democrats disappeared after 2010; the authors explain this change by the rise of the Tea Party in 2010. Second, analyzing close elections, they find that after the implementation of the PNTR, Democratic members of the House were more likely to vote for trade-restricting legislation—as well as for legislation providing economic assistance to those hurt by trade. This effect also disappeared after the Tea Party's electoral success. Since 2010, congressional Democrats and Republicans from PNTR-affected districts have converged in their voting on trade. Jointly, these results suggest that the Republican Party's policy change on trade (due to the rise of Tea Party) paid off.

4.1.5 Europe: Subnational Regions

Chinese exports to other advanced economies have also grown substantially. 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 in 1991 – 1992 to \$262.8 billion in 2007. Colantone and Stanig (2018b) explore the impact of Chinese imports across 15 Western European countries from 1988 to 2007. They construct proxies of the Chinese import shock across 198 NUTS-2 regions,²² interacting the share of sectoral employment in the 1990s in a given region with the countrywide increase in Chinese imports per industry, instrumented with this industry’s exports to the U.S. They combine vote shares with information on parties’ platforms on traditional morality, law and order, protectionism, nationalism, and the EU from the Comparative Manifesto Project (Volkens *et al.*, 2016). Exposure to Chinese imports goes hand in hand with voting for nationalist, far-right, and anti-EU parties. A one-standard-deviation increase in import competition from China increases the vote share of nationalist-right parties by 1.7 percentage points, a considerable magnitude, as far-right parties’ vote share in the 1990s was about 5%. The biggest winners are far-right parties that blend nationalism with a protectionist manifesto. 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. Individual survey data suggest that these patterns apply generally, as there is not much heterogeneity on employment status (employed, retired) and sector.

4.1.6 Europe: Country Studies

United Kingdom Manufacturing imports from China as a share of total U.K. 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 debate was portrayed as standoff between ordinary people and elites; Conservative MP and leader of the Leave camp Michael Gove argued on TV that “*the people in this country have had enough of experts.*” Second, the Leave campaign was built on nationalism; its major slogan was “*We want our country back.*” Third, the Leave campaign

²²NUTS is the EU-wide nomenclature of (subnational) territorial units. There are 104 NUTS-1 regions (3 to 7 million inhabitants), 281 NUTS-2 regions (0.8 to 3 million), and 1348 NUTS-3 regions (150,000 to 800,000 inhabitants) each.

used misleading statements and outright lies (for example, about refugees and immigrants, and about U.K. contributions to the EU); it offered simplistic solutions to complex issues.

Colantone and Stanig (2018a) construct regional trade-shock measures, multiplying the increase in Chinese imports in a given industry with employment shares across districts in 1989. The Chinese import penetration was on average €320 per worker; but it varied considerably across 167 NUTS-3 regions, from €60 in Camden and the City of London to €750 in Leicester. Then the authors link the Leave vote share—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 U.S. analog. A one-standard-deviation increase in the Chinese import shock in the same macro-region (Wales, England, Scotland) yields a two-percentage-point increase in the share of Leave (Figure 8); the China shock explains a seventh of the variation in the Leave vote.

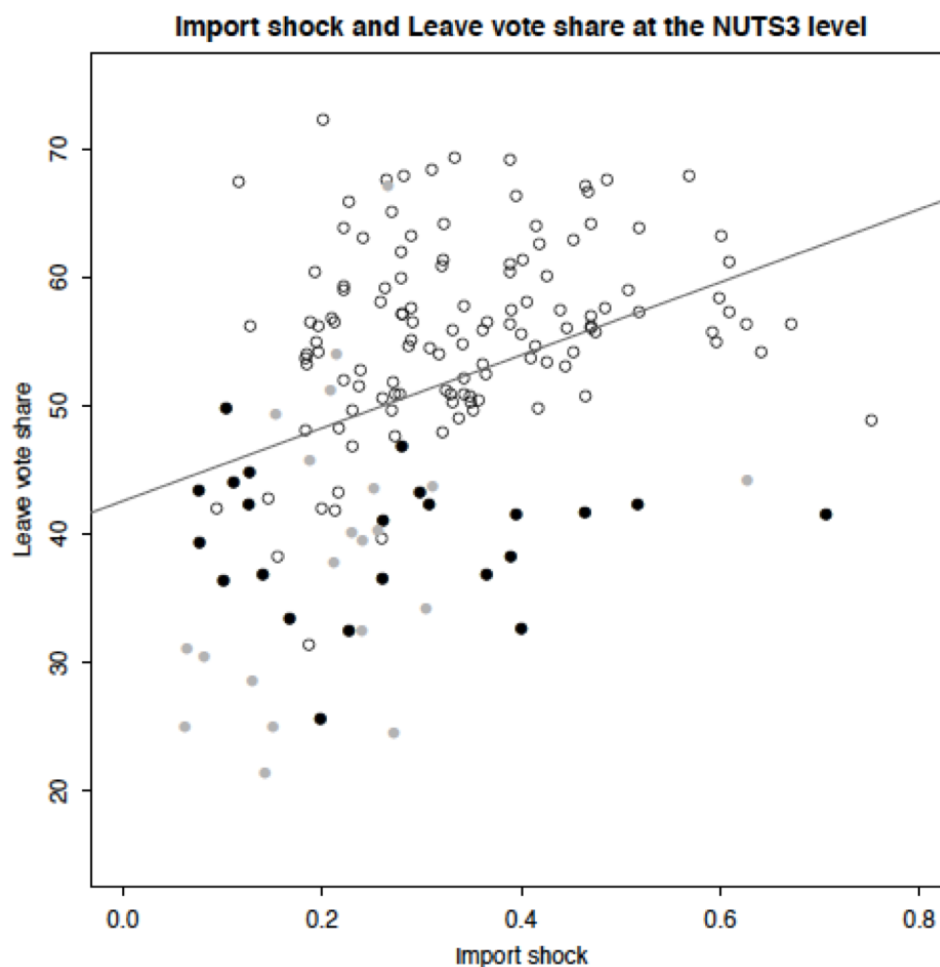
Becker, Fetzner, and Novy (2017) show that trade with European countries (proxied with the share of value-added in U.K. NUTS-2 regions attributed to consumption and investment demand in the EU) is also a robust correlate of the Leave vote (see also Springford *et al.*, 2016).²³

Germany Dippel *et al.* (2018) study the political implications of rising exposure to trade across 322 German regions (*landkreise*) from 1987 to 2009, looking at the role of Eastern European imports that increased following the fall of the Iron Curtain, and of Chinese imports that rose from 1998 to 2009. For each shock, they construct a shift-share instrument interacting import increases in Germany with preshock industrial specialization across districts; to account for Germany-specific conditions, they instrument German industry-level imports and exports with their analogs in Australia, Canada, Japan, Norway, New Zealand, Sweden, Singapore, and the U.K. They find, first, that the increases in *net* exposure to trade are associated with adverse effects on manufacturing wages and employment.²⁴ Second, trade competition increases support for fringe extreme-right parties. A one-standard-deviation increase in trade exposure (1,372 euros per worker) boosts

²³Trade integration with the EU is highest in East Yorkshire and Northern Lincolnshire, Cumbria, Leicestershire, Rutland, and Northamptonshire (over 14%), manufacturing areas that import and export final and intermediate goods to Europe. EU integration is lowest in Inner London, North Eastern Scotland, Eastern Scotland, and the Highlands and Islands (around 4%).

²⁴Autor *et al.* (2013, 2014, 2019) focus on gross imports from China in the U.S. and consider net import change only in the sensitivity analysis. However, German imports from low-wage countries and German exports to these countries are more balanced than in the U.S. and are positively correlated across countries (Dauth, Findeisen, and Suedekum, 2014).

Figure 8: Import Shock and 2016 Leave Vote Share at the NUTS3 Level



Notes: Black dots are the NUTS3 regions of Scotland; gray dots are the NUTS3 regions of London, the hollow dots are the remaining NUTS3 regions of England and Wales. The gray solid line is the least-squares fit on the whole sample.

Source: Colantone and Stanig (2018a), Figure 4.

extreme-right parties' vote share by 0.12 percentage points. Third, the authors examine the role of the China shock on the vote share of the *Alternative for Germany* (AfD) party. AfD was established during the European crisis; it initially focused on criticizing 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 toward the far right. Fourth, the authors describe a countervailing effect of increased exports, a finding consistent with trade theory that has immediate pol-

icy implications, as exports can mitigate adverse impacts due to import penetration from low-wage countries. Fifth, the German Socioeconomic Panel data analysis shows that these patterns stem mostly from manufacturing workers with no college education.

Italy Barone and Kreuter (2019) and Caselli, Fracasso, and Traverso (2019) explore the electoral impact of the China shock in Italy. China’s rise in the world markets had an especially large impact on the Italian economy, which specialized in apparel, textiles, leather, and furniture—industries increasingly dominated by China. Both papers follow the identification approach of Autor, Dorn, and Hanson (2013). Analyzing 8,000 Italian municipalities, 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 shift in populist vote share of 0.4 percentage points—about a third of its mean value and a tenth of its standard deviation. It is the far-right nationalistic parties—rather than the radical-left ones—that benefit. Caselli, Fracasso, and Traverso (2019) find similar results across 600 labor-market areas. In contrast to Autor *et al.* (2020), 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 U.S.).

France Malgouyres (2017b) examines the impact of competition from low-wage countries on the vote share of the National Front, whose popularity expanded under the leadership of Marine Le Pen. Malgouyres employs the shift-share identification strategy of Autor, Dorn, and Hanson (2013) and Autor *et al.* (2020). The analysis spans 3500 districts from 1995 to 2012. There is a statistically significant but economically small impact of import competition on voting for the National Front: a one-standard-deviation (1,000 USD per worker) increase in imports leads to an increase in the National Front vote share by 0.7 of a standard deviation (0.4 percentage points). This effect increases 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 the National Front’s manifesto away from the free market toward redistributive and protectionist policies seems to have paid off (Ivaldi and Lanzone 2016).²⁵

²⁵Marine 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.

4.2 Technological Progress

4.2.1 The Argument

Technology has transformed labor relations, employment, and wages. Many tasks have become routine, and automation has replaced millions of jobs. As the Fourth Industrial Revolution is marching forward, artificial intelligence, Big Data, machine learning, and robotization penetrate every industry. The International Federation of Robotics estimates that in 2009 there were around 6 million industrial robots globally; in 2017, there were 381 million. The 2022 forecast is for 700 million.

Technological progress and innovation are engines of growth. However, as with trade, there are winners and losers. The winners have mostly been high-skilled “knowledge workers,” whose abstract jobs complement new technology, while the losers have been the low- and middle-skilled workers whose routine jobs are easier to automate. Autor (2014), Acemoglu and Autor (2011), and Harrison, McLaren, and McMillan (2011) review the large body of research showing that the rising education premium explains a non-negligible part of the recent increase in inequality (outside the very top).

The main empirical strategy for identifying the impact of technology on populism is similar to the one employed in the literature on trade. Most authors rely on the International Federation of Robotics (IFR), which collects data on industrial robots from the robots’ producers and then reports them by industry-country-year. By definition, these data cannot measure job-displacing technologies that are not related to industrial robots, like software.

Another popular approach relies on occupation-specific “*routine task intensity*” (RTI). Autor and Dorn (2013), Autor, Dorn, and Hanson (2015), and Goos, Manning, and Salomons (2014) use data on routine, manual, and abstract task inputs for each 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. Compared to the industrial-robot data, the RTI index provides a more nuanced view, as it helps distinguish jobs with differential vulnerability to automation within the same sector.

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

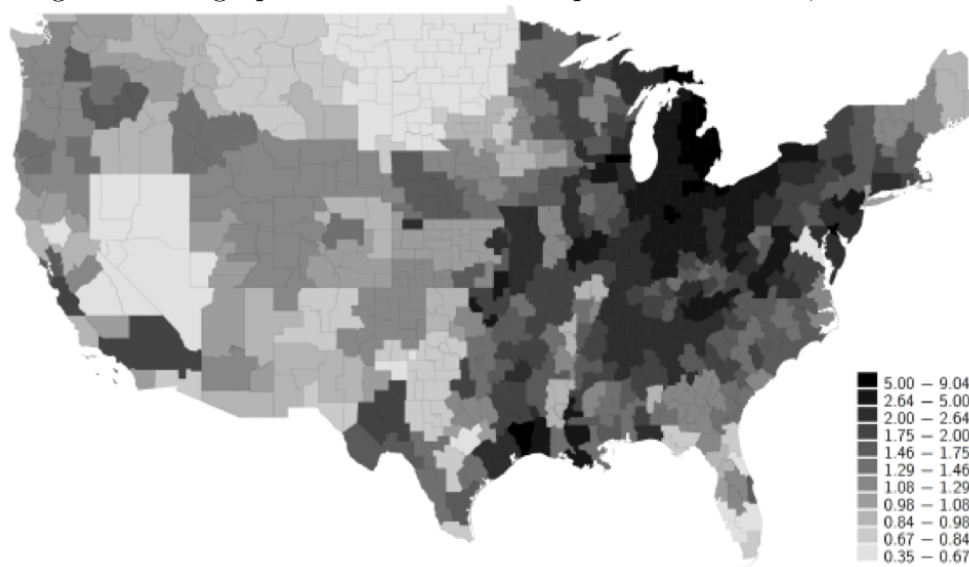
political change. John Maynard Keynes and Wassily Leontief worried about the political consequences of “*technological unemployment*.” Eichengreen (2018) and Frey, Berger, and Chen (2018) discuss the Luddite movement, which violently opposed the spread of machines in the textile factories in England. The Luddites rioted, broke the machines, and burned factories (see Hobsbawm, 1952, for an insightful overview).

Caprettini and Voth (2020) study another important historical case of violent opposition against automation: the “Captain Swing” riots in 1830s England and Wales. They show that replacing hand-threshing with mechanical threshing machines led to riots that, in turn, 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. As threshing was rural workers’ most important income source during the winter months, the introduction of this labor-saving technology led to deprivation and fueled unrest (Hobsbawm and Rudé, 1969). In the second half of 1830, more than 3,000 riots erupted across 45 counties. There is a strong correlation between the presence of a machine and riots. To identify the causal effect of new technology on unrest, the authors use soil suitability for grain as an instrument for the adoption of threshing machines. There were neither pretrends in riots nor significant differences in socioeconomic characteristics between regions with “suitable” and “unsuitable” soil. A new machine translated into 6.5 more riots. This effect is muted in areas proximate to manufacturing hubs, as those provided alternative employment opportunities. On the contrary, in enclosed areas where such opportunities were limited, the correlation between threshing machines and riots was strong. These results are related to the modern debate on the urban-rural differentials in the recent rise of populism.

4.2.3 Automation and the Recent Rise of Populism

United States Frey, Berger, and Chen (2018) analyze the political impact of vulnerability to automation in the U.S. Their starting point is Acemoglu and Restrepo’s (2020) mapping of industrial robots’ penetration across CZs from 1993 to 2007. As shown in Figure 9, there is substantial geographical heterogeneity. The empirical exercise associates changes between the 2012 and 2016 presidential elections to changes in robot exposure. The authors 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 U.S. analog. The 2SLS specification (Figure 10) suggests that a one-standard-deviation (5-percentage-point) increase in the share of jobs vulnerable to robotization is associated

Figure 9: Geographic Distribution of Exposure to Robots, 1993–2007



Note: The figure depicts the increase in number of robots per thousand workers from 1993 to 2007.

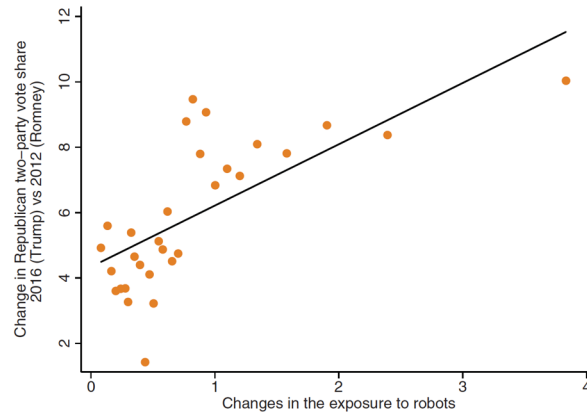
Source: Acemoglu and Restrepo (2020), Figure 4.

with a 0.2-standard-deviation increase in the vote share for Donald Trump. They then conduct a simple counterfactual analysis that predicts 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 gone for Clinton had the impact of robots been just 10% lower than actual; yet for Michigan and Pennsylvania to turn Democratic, automation’s impact would have had to be 25% of actual.

Petrova, Schubert, Taska, and Yildirim (2020) also find a reduced-form association between CZs’ automation and voting for Republicans in 2012 and 2016. The correlation remains significant controlling for McCain’s vote share in 2008. The employment and wages of African Americans and Hispanics—rather than of Whites—declined the most in automation-affected areas. This result casts some doubt on the prevalent explanation that the impact of automation on the Trump vote share was driven by non-college-educated, non-Hispanic Whites.

Europe Anelli, Colantone, and Stanig (2019) carry out a similar analysis across 192 subnational NUTS-2 regions in 14 European countries from 1993 to 2016. They calculate time-varying regional exposure to automation by interacting industrial specialization with

Figure 10: Exposure to Robots and the Vote for Trump



Notes: Nonparametric county-level relationship with 30 equal-size bins. The straight line: a fitted OLS regression based on the underlying data.

Source: Frey, Berger, and Chen (2018), Figure 1.

changes across 11 industries in the use of robots in each country. A one-standard-deviation increase in regional exposure to automation increases the support for far-right nationalist parties by 1 percentage point. (The average vote share of these parties was about 6 percentage points.) Far-right parties' gains come at the expense of pro-trade left and liberal-right parties.

A parallel study by Im *et al.* (2019) correlates voting and automation, using the European Social Survey (ESS) data (rounds 6, 7, and 8) across 11 European countries. The results are similar. The likelihood of voting for radical-right parties is considerably higher for occupations affected by automation. The far-right's gains mostly come at the expense of mainstream right-wing parties. The correlation between automation and voting for the far right is especially strong for individuals reporting (very) low income security.²⁶

United Kingdom Gallego, Kurer, and Schöll (2018) examine the impact of digitization on voting. They combine the British Household Panel Study and the Understanding Society Survey with industry investment in information, communication, and technology (ICT) from the EU-KLEMS database. The correlation between ICT investment and wages is sig-

²⁶Recent studies also examine automation's impact on policy preferences. Thewissen and Rueda (2019) explore the impact of RTI on preferences for redistribution across 17 European countries using ESS data from 2002 to 2012. The correlation is statistically significant, though the magnitude is moderate. A one-standard-deviation increase in RTI raises redistribution preferences by 0.05, roughly comparable to the impact of a one-standard-deviation change in education or in offshoring.

nificantly positive for college-educated workers but negative for their non-college-educated counterparts. Moreover, in industries with above-average ICT investment, workers with higher education are more likely to vote for incumbents (especially the Tories).

4.3 Summary

Substantial evidence points to the impact of trade and automation on advanced economies' labor markets, which in turn gives rise to dissatisfaction with the status quo and to the increased support for populists. The integration of China into the world economy has had a differential impact on local labor markets. Communities specializing in labor-intensive manufacturing have lost jobs, as multinationals moved operations offshore and upgraded technology; many smaller producers have been forced to shut down. Limited internal migration has led to rising unemployment, falling labor-force participation, depressed wages of noncollege graduates, and an overall feeling of decline.

The China shock explains only about 20% of the recent decline of employment in U.S. manufacturing, but it has had major political implications. Voters in the communities exposed to the shock have, on average, moved to the right. The U.S. evidence suggests a shift toward conservative (Republican) candidates, at the expense of free-trade Republicans and Democrats. This shift is especially strong in non-Hispanic White communities, hinting that economic grievances may interact with deeper cultural and social ones. The evidence on Brexit is similar; Leave votes—and support for UKIP—have been high where manufacturing has declined, while the rich, cosmopolitan, metropolitan areas (that have benefitted from globalization) have been overwhelmingly against the U.K. leaving the EU. The detailed, country-level studies in Germany, France, and Italy, and pan-European analyses of subnational regions, also evince a link between exposure to Chinese imports and support for antiestablishment populist parties, especially those on the right. The main losers are moderate, liberal, and pro-trade left (Social Democratic) parties, whose electoral power has declined substantially. Interestingly, radical-left and communist parties have not benefited, although many affected communities have been strongholds of the left.

These findings raise obvious questions: Why now? And why nationalist and right-wing populists—rather than their pro-redistribution left-wing counterparts? The studies we discuss in the next two sections shed some light on these issues.

5 The Role of the 2008–2009 Global Crisis

In this section, we examine the impact of economic crises on populism. First, we present the argument. Second, we review contemporary and historical studies linking crises to the rise of populism as well as values and attitudes. Third, we discuss studies focusing on austerity policies that often follow major economic downturns.

5.1 The Argument

As we show in the Section 3.2, the recent rise of populism took place during and shortly after the 2008–2009 global financial crisis. Many nonmainstream parties in the European periphery capitalized on the deep recessions, often aggravated by austerity. In Greece, the radical-left SYRIZA and the far-right Independent Greeks ran on antiestablishment platforms, demonizing “old” politicians and the European Commission. Golden Dawn, a neo-Nazi party at the fringe of Greece’s political system, received 7% of the vote in the 2012 elections. The rise of Podemos in Spain also took place at a time of crisis and austerity.

An old argument in political science asserts that voters punish incumbents when the economy is weak (e.g., Kinder and Kiewiet, 1981; Lewis-Beck and Stegmaier, 2000; and Lewis-Beck, Nadeau, and Elias, 2008) and that sharp output contractions drive political turnover (Frieden *et al.*, 2017). For example, tabulating cross-country data for 16 Western European countries over the 1970s and 1980s, Jackman and Volpert (1996) show that economic downturns push voters toward far-right parties.

The global financial crisis of 2008 – 2009 was the deepest since the Great Depression across both developed and developing countries.²⁷ In Greece, GDP fell by 25%, and unemployment reached 30%. In Spain, unemployment exceeded 20%, while in the U.S., it doubled to 10%. Beyond the intensity of the crisis, four crucial factors may also have contributed to the rise of populism. First, with center-right and center-left mainstream parties in power before the crisis, it was easier for populist leaders to put the blame on the mainstream political players. Second, popular resentment of bank bailouts has provided populists the opportunity to claim that bankers, connected with old parties, got away with their mistakes (or alleged crimes). Third, in countries that implemented austerity policies

²⁷In contrast to globalization, which has mostly affected the political landscape of advanced economies, the crisis affected developing countries as well. The evidence we discuss refers to both developed and developing countries. More work has been published on developed economies: first, due to data availability and, second, because populism is mostly a feature of democracies that are, on average, more prosperous.

after the crisis, the weakening of social safety nets led to a pervasive feeling of unfairness. Fourth, austerity is often part of economic adjustment programs imposed by supranational institutions (the International Monetary Fund and the European Union). This has allowed populists to run on anti-globalization and anti-EU platforms. While mainstream politicians could blame the crisis itself on the faults of the U.S. financial system, austerity policies were a conscious choice of national or supranational elites—naturally resulting in an anti-elite backlash.

5.2 Crisis and Populism: The Evidence

5.2.1 Historical Evidence from 140 Years of Crises

Funke, Schularick, and Trebesch (2016) contrast the political aftermath of major financial crises with ordinary recessions, studying 827 general elections across 20 advanced economies from 1870 to 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 benefit. Far-right parties also gain in the aftermath of ordinary recessions. Moreover, crises are followed by increased political fractionalization, as the number of parties represented in parliament increases considerably. At the same time, strikes, violent riots, street protests, and anti-government demonstrations also rise.

5.2.2 Historical Evidence from the Great Depression

The 2008–2009 global financial crisis has evoked comparisons with the Great Depression, in particular because the latter contributed to the rise of totalitarianism in the 1930s (e.g., Payne, 1996; Berg-Schlosser and Mitchell, 2000).

Global Evidence De Bromhead, Eichengreen, and O’Rourke (2013) examine the impact of the Great Depression on the rise of right-wing and other anti-establishment parties (communist and secessionist) from 1919 to 1939. Using data from 171 elections in 28 countries, they show that economic performance over the past years (or cumulatively since the crisis onset) is a robust correlate of the electoral success of extreme-right parties. This correlation is strong in new—rather than established—democracies, suggesting that democratic capital may shield countries from extremism (see Persson and Tabellini, 2009).

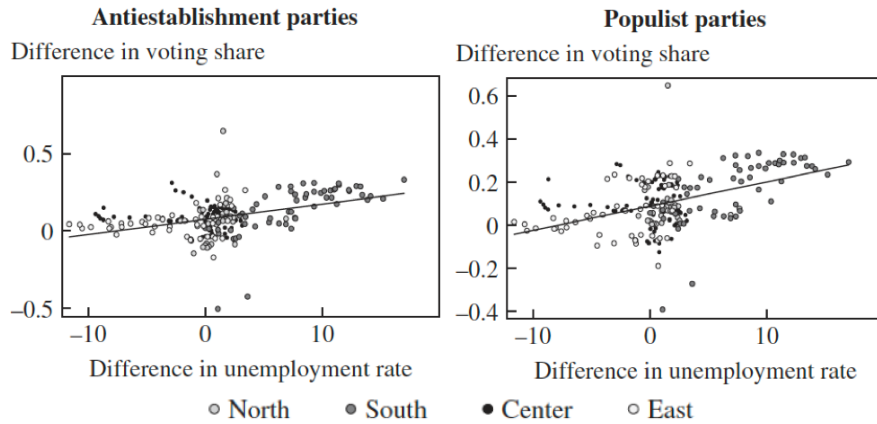
Germany Voth *et al.* (2020) study the rise of the Nazi party in Germany, whose vote share increased from 2.6% in 1928 to 43.9% in 1933, a five-year span during which the country lost 40% of its output. They examine the 1931 banking crisis, triggered by the collapse of Danatbank, one of Germany’s four largest universal banks, led by prominent Jewish banker Jakob Goldschmidt. This crisis contributed to the rise of the Nazis by amplifying the impact of the Great Depression and allowing Nazis to blame Jews. The authors merge firm-bank data with city-level incomes to assess how exposure to Danatbank and another failed lender, Dresdner, affected voting for NSDAP (the National Socialist German Workers’ Party, the Nazis). A one-standard-deviation fall in city income caused by the banks’ collapse leads to a 4.3-percentage-point increase in the NSDAP vote share—around 20% of the average increase from 1930 to 1933. In contrast, a one-standard-deviation income drop unrelated to the exposure to Danatbank and Dresdner increased NSDAP vote share by 1.1 percentage points. The link between the banking crisis and the rise of the Nazi vote is especially strong in cities with a history of anti-Semitism, proxied either by voting for anti-Semitic parties before World War I or by 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 saw more deportations of Jewish citizens to concentration camps and more attacks on synagogues and Jewish-owned property.

China Braggion, Manconi, and Zhu (2020) examine the effects of the 1933 banking crisis in China triggered by the massive U.S. silver purchasing program. Because China was on the silver standard at that point, the purchases of silver by the U.S. cut Chinese banks’ lending capacity. The authors exploit variation in Chinese firms’ exposure to Chinese banks with different silver reserves that were differentially impacted by U.S. policies. Firms exposed to banks with lower silver reserves (which 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 both unrest and the popularity of anti-regime movements.

5.2.3 The Recent Crisis in Europe (2009—2013)

Algan *et al.* (2017) examine the impact of the recent crisis on voting for antiestablishment parties and trust in institutions, exploiting within-region variation across 220 regions in 26 European countries from 2000 to 2016. The first part of the analysis documents a strong

Figure 11: Change in Unemployment and Change in Populist Vote Share in European Regions



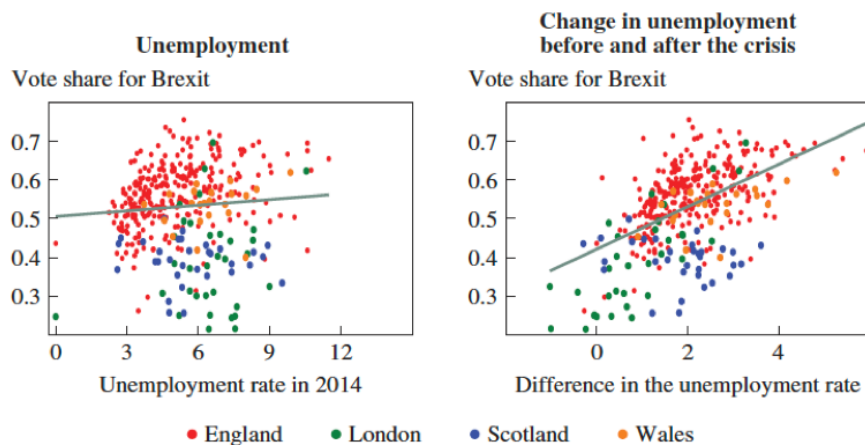
Source: Algan et al. (2017), Figure 4.

link between increases in unemployment and voting for nonmainstream parties. Figure 11 illustrates these patterns. The magnitudes are substantial: A one-percentage-point increase in unemployment is associated with a one-percentage-point increase in the populist vote. The correlation is strongest in Southern Europe, but is also present in the East and the Center. 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 European “core” and in Eastern Europe, unemployment correlates with far-right party voting, as citizens turn their backs toward communist and far-left parties.

In an “out-of-sample” test, the authors show that before-vs.-after the crisis changes in regional unemployment—rather than unemployment *levels*—in British electoral districts are strong correlates of the Brexit vote (Figure 12).

To identify the causal effects, Algan *et al.* (2017) extract the component of the regional change in unemployment predicted by the precrisis share of construction in the regional economy. Construction and real estate played an important role in the financial bubble’s buildup and thus the shock of the crisis. The precrisis share of construction in the regional economy correlates positively with the increase in unemployment during the crisis (the first stage) and with the increase in the populist vote (the reduced form). The same applies to the Brexit vote. The construction-unemployment-voting nexus does not seem to reflect other time-varying regional variables, such as immigration, corruption, or education. The second-stage instrumental variable estimates confirm that the impact of the increase in the regional change in unemployment on the populist vote is causal.

Figure 12: Change in Unemployment and Brexit Vote in British Electoral Districts



Source: Algan et al. (2017), Figure 6.

The authors 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 United Nations. There is negative impact on generalized social trust (trust in other people), but the effect is small in magnitude and often statistically insignificant. The changes in regional unemployment do not correlate with respondents’ self-identification on the traditional left-right axis. Despite the emergence of new political parties, respondents in the crisis-hit regions are more likely to report that *no* party is close to them.

Algan *et al.* (2017) also examine the impact of unemployment on beliefs regarding European integration. On average, changes in unemployment correlate neither with changes in the view that the EU has gone too far nor with attitudes that EU unification should proceed. But this average nonresult masks an important heterogeneity: In the South, higher unemployment maps with aspirations for deeper integration; in the North and the Center, respondents in crisis-hit regions believe 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. For causality, the author uses a “Bartik”-style instrument for the change in regional employment rates. Her results are similar to those of Algan *et al.* (2017) in terms of both signs and magnitudes.

Dustmann *et al.* (2017) use ESS data to document a robust negative relationship between populist voting and trust in national and European parliaments. They also show

that regional GDP and unemployment are significant correlates of political trust. A one-percentage-point increase in local unemployment explains a 4.2-percentage-point fall in trust in the European Parliament and a 22.8-percentage-point decline in trust in national parliaments. Conversely, a 1% decrease in GDP per capita explains 3.2% of the decline in trust in the European Parliament and 20.1% of the reduction of trust in national parliaments. Finally, they show that adverse economic conditions correlate with a higher vote share of parties with an anti-EU agenda.

Guiso *et al.* (2020) also use ESS data to study the drivers of populism across Europe. First, they show that economic insecurity, proxied by individual responses on employment status, income difficulties, and exposure to globalization, is a significant predictor of populist votes. Second, they use pan-European (ESS) and Italian individual-level panel data to show that economic stress also affects views on immigration, political trust, and nativist beliefs. Third, they show that economic insecurity leads to a sizable decrease in turnout among traditional mainstream-party voters. The turnout channel is quantitatively large, explaining more than a third of the change in the intentions to vote for populist parties.

The ESS-based results above are consistent with the studies using Eurobarometer data. Guiso *et al.* (2019) present cross-country correlations between economic insecurity, political distrust (dissatisfaction with democracy, nationalism, Euroscepticism), and populist voting that are much stronger across eurozone member countries compared to other EU nations. The authors argue that this heterogeneity reflects two mechanisms. First, the “policy straitjacket” effect stresses the much-constrained policy space of eurozone countries on fiscal and monetary policy. Second, the “relocation” effect related to firms’ response to competitive pressure from abroad (related to trade globalization) is more pronounced for the eurozone subnational regions. Foster and Frieden (2017) also use Eurobarometer and show that the relationship between economic stress and political distrust is especially strong in highly indebted countries.

5.2.4 Country Studies

Sweden Dehdari (2020) studies the role of economic insecurity and unemployment on the rise of the far-right Sweden Democrats party using granular data of layoff notices spanning 5,668 electoral precincts. The author uses a Bartik-style instrument, using an interaction between the sectorial composition of local economy and nationwide industry-specific layoff trends. He then constructs predicted layoffs for each precinct, looking separately across

high-skilled (those with college education) and low-skilled workers, further distinguishing between natives and foreign-born residents. Yearly layoffs are below 25,000 in 2005–2006; they increase to 40,000 in 2008. In 2009, they reach 100,000, including 70,000 layoffs of low-skilled workers. Unemployment notices among native low-skilled workers predict a right-wing populist vote. The magnitudes are large: for each two laid-off low-skilled natives, Sweden Democrats gains an additional vote. These estimates imply that layoffs of low-skilled natives explain roughly a third of the total increase in voting for Sweden Democrats. Layoffs among foreign-born low-skilled workers are unrelated to far-right voting, most likely because Sweden Democrats' anti-immigration ideology repulses them. Layoffs among high-skilled workers, especially foreign-born ones, is negatively related to Sweden Democrats' vote share. The effect driven by the layoffs of low-skilled natives dominates: in net terms, it explains about 20% of the total increase in far-right voting. The relationship between unemployment notices among low-skilled natives and far-right voting is especially strong in areas with many low-skilled immigrants, suggesting that the impact of economic distress may interact with that of immigration.

Netherlands Gidron and Mijs (2019) study the impact of the crisis on political preferences in the Netherlands, using microdata from the Longitudinal Internet Studies for the Social Sciences, which traced 5,000 Dutch households from 2007 to 2015. Including individual fixed effects allows examining whether changes in income and employment relate to changes in political preferences. The loss of income raises sympathy for the left-wing Socialist Party and support for redistribution; however, the magnitudes are small and the correlations are significant only among middle-income citizens. Income loss also increases support for Geert Wilders' far-right Party for Freedom, but this correlation is present only among low-income individuals.

United States Besides a stark increase in unemployment, the crisis has also resulted in loss of access to credit. Antoniadis and Calomiris (2020) study the impact of the crisis-driven credit supply shocks on the 2008 U.S. presidential election, which took place during a massive contraction of private credit (including for mortgages). The Republican candidate, John McCain, performed worse in counties with sizable mortgage-market contractions. This correlation is stronger in nine swing states, though the estimates suggest that Barack Obama would have won almost all of them even in the absence of the mortgage-market contraction (with the exception is North Carolina, where Obama's winning margin was

only 0.3%, or 15,000 votes). In the 2012 presidential election, Obama, then the incumbent, lost in counties with high mortgage delinquencies. When the authors look at the boom phase of the housing market and mortgage origination (1996–2004), they do not 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—U.S. households’ largest asset—and political donations from around 1 million Americans. He compares households within the same zip code subject to differential housing price shocks and finds that from 2000 to 2014, a one-standard-deviation yearly decrease in house prices is associated with a 22% increase in polarization of donations; the effect is even stronger in the crisis years (30%).

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

Hungary The role of household debt in the rise of polarization and populism is not limited to the U.S. Gyöngyösi and Verner (2020) connect a crisis-driven increase in household debt to the rise of populism in Hungary. Household debt soared from less than 3% of GDP in 2000 to 30% in mid-2008; two-thirds of household debt was denominated in Swiss francs. Thus, when the forint lost a quarter of its value during the crisis, the political impact was substantial. The vote share of the far-right Jobbik (Movement for a Better Hungary) rose from 2.2% in 2006 to 16.7% in the 2010 parliamentary elections. Gyöngyösi and Verner (2020) calculate foreign-currency household loans across postal codes in September 2008 and show that Jobbik’s vote share increased considerably in high-exposure areas. The shock persisted, with Jobbik’s popularity continuing to surge in devaluation-hit communities. Jobbik’s gains came at the expense of the center-left party that ruled Hungary from 2002 to 2010. Foreign-currency debt exposure accounted for around 20% of the overall rise in the far-right vote share. Viktor Orbán, a leader of the once moderately right-wing FIDESZ party, moved the party to the far right and won the 2010 elections on a populist

agenda.

Poland Ahlquist, Copelovitch, and Walter (2020) look at Poland, where the Law and Justice Party (PiS) has challenged the country's relationship with the European Union and attacked core democratic institutions. The nationalist PiS secured a narrow parliamentary majority in the October 2015 elections, getting 235 out of 460 seats with a 38% vote share. A major campaign issue was the treatment of approximately 575,000 households that had Swiss-franc-denominated mortgages; the stock of these mortgages was about 8% of GDP. These households suffered significant losses after the Swiss National Bank unexpectedly decided in January 2015 to let the franc appreciate. As trade and financial links between Poland and Switzerland are thin, the authors isolate a clean exogenous shock, unrelated to Polish government policies. During the campaign, parties took different views on the issue. Both left-wing Democratic Left Alliance and right-wing PiS advocated generous bailouts. PiS emphasized the fact that the creditors were subsidiaries of international banks. The ruling center-right Civic Platform (Platforma Obywatelska) party offered a middle-ground adjustment: borrowers and banks would share costs equally. The liberal Modern (Nowoczesna) party did not see any need for government intervention. Ahlquist, Copelovitch, and Walter (2020) run surveys and experiments just before the elections. Polish voters with foreign-currency-denominated loans favored generous bailout policies and were more likely to vote for PiS; this was not the case for the respondents without Swiss-franc-denominated loans.

Brazil Barros and Santos Silva (2019) examine the impact of Brazil's deep 2014–2018 recession on the success of right-wing populist Jair Bolsonaro, who won the 2018 presidential election. On average, the association between regional employment shocks and voting for Bolsonaro is weak and statistically indistinguishable from zero. This nonresult, however, masks substantial heterogeneity. Bolsonaro gained considerably in regions where the downturn hit male jobs (due to regional industrial specialization). In contrast, in areas where the crisis hit mostly women's employment, Bolsonaro lost. These findings may be an interpreted as evidence of the interaction between economic shocks and cultural factors. During the campaign, Bolsonaro made many misogynistic, homophobic, and racist comments. Not surprisingly, he won 54% of male votes but only 41% of female votes in the runoff. There was no evidence of a gender gap in Brazil's earlier elections.

5.3 Austerity

In many countries, the recent crisis was followed by fiscal austerity. While some countries, most notably the United States and China, implemented large fiscal expansion programs in 2008-2010, the repricing of global risk, the cost of bank bailouts, and high debt made it impossible for many countries to increase government spending and mitigate the shock of the crisis. In sharp contrast to Keynesian prescriptions, many countries slashed public spending and raised taxes. Austerity was especially painful in the European periphery. The EU and IMF bailouts for Ireland, Portugal, Greece, and Cyprus came with strict conditionality of fiscal tightening. The debate on the macroeconomic consequences of such abrupt and large fiscal consolidations continues (e.g., see Alesina, Favero, and Giavazzi, 2018).

Postcrisis austerity may have contributed to the rise of populism for at least two reasons. First, deprived households may radicalize, expressing dissatisfaction with the political system. Unlike the shock of the global crisis per se, which may be exogenous and not the responsibility of the national elites, the response to the crisis—including austerity—is carried out by the elites. Populists therefore can blame the elites for the social cost of austerity. Resentment may be especially strong when the welfare state buffers are weak and when fiscal cuts target social safety nets.²⁸ Second, because in many countries austerity was part of economic-adjustment programs imposed by international organizations (EU or IMF), it was easier for nationalists to blame global elites and their local collaborators.

5.3.1 Historical Evidence

Distinguishing the impact of austerity from that of the crisis is challenging.²⁹ Nevertheless, a couple of innovative recent papers isolate the effects of idiosyncratic aspects of austerity.

²⁸Kaplanoglou, Rapanos, and Bardakas (2015) show the correlation between the success of fiscal consolidations and various proxies of the fairness of welfare-state systems in the OECD countries from 1971 to 2009.

²⁹The descriptive literature on the political implications of austerity does not provide a clear picture. Tabulating data from 19 OECD countries from 1971 to 2008, Alesina, Carloni, and Lecce (2013) find no evidence that governments which 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 from 1870 to 2011. Ponticelli and Voth (2020) examine the within-country correlation between fiscal policy shocks and political instability (riots, demonstrations, general strikes, assassinations, and attempted revolutions) across 24 European countries from 1919 to 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). Tax hikes do not correlate significantly with political unrest.

Galofré-Vilà *et al.* (2020) examine austerity’s contribution to the rise of the Nazi party in Germany. In 1930–1932, Chancellor Henrich Brüning’s centrist government implemented a drastic fiscal consolidation program. The program included higher tax rates and major spending cuts across all main budget categories. The authors associate the results of the 1930, 1932, and 1933 elections with the impact of austerity across cities and districts. To identify the causal effect of austerity, the authors 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. They find that a one-standard-deviation increase in austerity causes a 2- to 5-percentage-point increase in Nazi vote share. The most important determinants of the increase in Nazi vote share were the cuts in housing and health. Austerity’s contribution to the rise of the Nazis was comparable to that of unemployment.

Similarly, Voigtländer and Voth (2019) show that the construction of the Autobahn network, undertaken by Hitler once he was in office, further raised the popularity of the Nazi party—exactly because this project reversed austerity and restored national pride.

5.3.2 Contemporary Evidence

United Kingdom Fetzer (2019) studies the impact of the 2012–2015 welfare-state cuts on the rise of UKIP, the UK’s far-right, anti-EU party that took off after 2010. During this period, the U.K. was not in a recession, its GDP per capita was growing 1.5% to 2.5% per year. The May 2010 parliamentary elections brought to power a coalition of Conservatives and Liberal Democrats led by Conservative Prime Minister David Cameron. Then the government implemented a series of austerity measures, including large budget cuts in education and welfare protection and a freeze on public healthcare spending. Because pension spending was unaffected, austerity had a harsher impact on working-age citizens than it did on retirees. Government spending on unemployment, housing, disability-related benefits, and social allowances fell by around 15% in real terms. Some districts experienced cuts over 40%. The poorest areas, whose citizens rely most heavily on social welfare, were hit especially hard. Drawing on earlier work by Beatty and Fothergill (2013), Fetzer (2019) shows that the Welfare Reform Act of 2012 cost, on average, £440 for every working-age citizen, ranging from £177 in the City of London to £914 in Blackpool. For every £1 reduction in spending, local income fell by around £2.5, suggesting that the cuts did not

generate intended savings for the government coffers.³⁰

Fetzer (2019) also runs district-level difference-in-difference specifications linking UKIP vote share to austerity. He finds that austerity increased UKIP vote share by 3.5 to 11.9 percentage points. Given the close link between voting for UKIP and voting for Brexit, back-of-the-envelope calculations suggest that Leave support in the 2016 referendum would have been 6 to 8 percentage points lower. Because the UKIP vote, if anything, understates Leave support, the results suggest that without the austerity, the outcome of the referendum would have been for the U.K. to remain in the EU. While one should interpret these extrapolations with caution, the magnitudes are sizable and the implications are profound. Finally, the author analyzes individual-level data on 40,000 households from the Understanding Society Study. He finds that Britons exposed to the welfare cuts moved to UKIP shortly after the implementation of austerity; subsequently, these households voted 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 political impact of another austerity measure of Cameron’s government: the reduction of housing allowances for low-income renting families. This policy impacted about 1 million households (3.5% of all households and around 22% of renting households); the cuts amounted to around £470 per year per household. Exploiting quasi-exogenous variation in the cut, the authors find that the policy resulted in more individual insolvencies, increased evictions, and higher homelessness. The savings were limited, as the policy doubled the costs of council housing (which assists homeless people). The policy had important electoral implications. In the affected communities, electoral registration and turnout in elections (and the Brexit referendum) declined considerably. A one-standard-deviation higher district-level exposure to the cut is associated with a 2-percentage-point higher support for Leave. The lower turnout played an important role: polls suggest that among those who did not vote, support for Remain outnumbered support for Leave by a 2 : 1 ratio.

Sweden Dal Bó *et al.* (2019) examine the impact of austerity on the rise of the far right in Sweden. In 2006, the newly elected center-right government implemented a flagship “make work pay” program. Spending for sick leaves, disability insurance, and unemployment

³⁰See Chodorow-Reich (2019) for an overview of local multiplier studies; across many settings, yield multipliers are around 2.

benefits was cut substantially. The new legislation made it harder to claim allowances; 235,000 workers had to leave unemployment insurance (around 8% of all covered). The reform included tax cuts on labor income; these cuts were implemented over five years and brought a person at Sweden’s median income about 10% more disposable income. The authors distinguish between three sets of workers: (i) “secure insiders,” who benefited from the tax cuts and were shielded from the most adverse effects of the crisis; (ii) “outsiders” with unstable or no jobs, who were hit the hardest by the weakening of the welfare state; (iii) “vulnerable insiders,” who had a job but were employed in sectors subject to intense competition from low-wage producing countries and automation.

The authors then examine the implications of the reform and macroeconomic shocks for support of far-right parties. Controlling for municipality fixed effects, they find a significant correlation between the welfare cuts and voting for Sweden Democrats, whose vote share rose from less than 2.9% in 2006 to 12.9% in 2014 (and 17.5% in 2018).

The correlation between austerity and the rise of the far right is significant, even controlling for the direct impact of the crisis. A one-standard-deviation higher share of vulnerable insiders led to a 2.5-percentage-point higher vote share for Sweden Democrats. Moreover, a one-standard-deviation increase in the income gap between insiders and outsiders was associated with a one-percentage-point higher vote share for the far right. Why didn’t voters return to the mainstream-left Social Democratic Party, which had ruled Sweden for most of the past eight decades and favored an active welfare state? The authors address this question using a unique dataset that covers all local politicians and provides information on their income, occupation, and family background. They show that the politicians from the parties (on both the left and the right) are much more likely to be secure insiders, while Sweden Democrat politicians are more likely to be outsiders and vulnerable insiders. The latter are especially likely to represent Sweden Democrats in austerity-hit districts, suggesting that the populist party strategy chooses its candidates for local elections.

5.3.3 Redistribution

The importance of austerity for the rise of populism implies the need for empirical work assessing the role of redistributive policies in countering populism.³¹ A recent paper by Caprettini, Casaburi, and Venturini (2019) examines the electoral impact of a flagship

³¹On the impact of redistribution on the reelection of incumbents, see, among others, Zucco (2013), Manacorda, Miguel, and Vigorito (2011), and Bechtel and Hainmueller (2011). These studies show nontrivial electoral gains that are however short-lived.

redistributive policy of Italy’s Christian Democratic party after WWII. The policy aimed at slowing the rise of communism by redistributing land in specific areas. Employing a panel spatial-regression discontinuity design, the authors compare voting dynamics just inside and outside the policy’s boundaries. The Christian Democrats’ vote share rose sharply and immediately in towns experiencing redistribution. The effects were substantial. In the first postreform elections, the Christian Democrats gained 4 percentage points (the mean in the nontreated areas was 35%). These gains were mirrored by the losses of the Communist party. The gains persisted for 40 years. The authors show that people in treated areas vividly recalled the reform many years later. Moreover, evidence shows that Christian Democrats continued investing in these areas once the benefits started to wane. Little evidence exists on differences in beliefs and norms. While we need more case studies, these results hint that the broad redistribution policies that many European countries implemented after the World War II have contributed to the consolidation of democracy and protection from radicalism.

Albanese, Barone, and De Blasio (2019) study a more recent episode of redistribution. They examine the impact of EU transfers to Italian municipalities from 2007 to 2013. Using regression discontinuity design, they show that eligibility for these EU transfers reduces the populist vote in the 2013 election by about 3 percentage points.

5.4 Summary

Adverse economic shocks, like the Great Recession of 2008–2009 and the subsequent 2010–2012 crisis in the European periphery, provided fertile ground for populist leaders. The evidence on the political implications of these crises is in line with the takeaways from research on the Great Depression—interest in which has naturally increased in recent years. However, some important questions remain open. First, most studies are “reduced-form” and do not pin down the exact channels driving the relationship between crisis and populism. But the few studies that do pin it down point to the importance of the impact of the crisis on attitudes and beliefs, especially on trust in political institutions. Second, it is not clear why nationalist, far-right parties gain the most, while redistribution-oriented -left-leaning parties are less successful. This pattern implies the need to study the noneconomic forces; we discuss this research in the next section. Third, a handful of studies explore the role of redistribution and social safety nets in protecting societies from populist leaders. As the world prepares for the post-COVID-19 era, it is important to assess the impact of

the size and structure of the welfare state on social cohesion and populism.

6 Identity, Status, and Culture

Cross-border trade, automation, crisis, and austerity may not fully explain the rise of populism (Margalit, 2019). In recent years, the populist narrative is evidently related to cultural aspects such as identity, political distrust, and nationalism. In this section, we discuss the noneconomic explanations of populism. First, we describe the main arguments related to cultural backlash, social capital, and other noneconomic factors. Second, we review the empirical evidence. Third, we discuss theoretical research on the role of cultural factors and on the interaction between cultural and economic factors.

6.1 The Argument

People care deeply about nonmonetary factors such as identify, fairness, morality, equality, and status (see Alesina and Angeletos, 2005; Bénabou and Tirole, 2006; Di Tella and MacCulloch, 2009; Enke, 2019; and Guriev, 2018, among many others). The rise of populism may be driven by perceptions that elites neglect these important issues.

Cultural Backlash Norris and Inglehart (2019) argue that the rise of populism reflects the rejection of “progressive” values, preferences, and beliefs that “liberal elites” promoted during the past several decades’ “Silent Revolution.”³² The empowerment of women, support for underprivileged ethnic, racial, and religious groups, the protection of minorities, and cultural globalization have transformed societies. This however has made formerly “dominant” groups (e.g., white men) feel endangered and isolated and fear that their identity is under attack. It may not be surprising, therefore, that people with traditional values support populists who promise to fight the expansion of liberal values and political correctness (see Fukuyama, 2018, and Noury and Roland, 2020).

Ideology Mukand and Rodrik (2018) highlight the role of ideas in political economy. They distinguish two broad sets of political ideas: “worldview politics” and “identity politics.” Worldview politics tries to shape voters’ views on the links between policies and

³²Inglehart (1971) introduced the Silent Revolution concept, arguing that post-WWII economic growth would bring an intergenerational shift toward postmaterialist values.

outcomes. Identity politics focuses on changing voters' perceptions of who they are. By discussing pride and victimhood, identity politicians influence voters' choice of their group identity. In the authors' framework, these two kinds of ideational politics reinforce each other, which helps explain why low-income voters may support a right-wing politician who advocates less redistribution.

Religion The far-right, nationalist vintage of contemporary populism is often linked to religion. PiS and FIDESZ claim that their main goal is to protect Christian values. Donald Trump has tweeted “*We want God*” and gets photographed in churches holding the Holy Bible. The effort of (populist) politicians to appeal to religious conservatives is not new. The populists of the U.S. People’s Party placed religion at the core of their agenda. Besides being fierce churchgoers, populists drew on Methodist networks, had a strong anti-Catholic ideology, and argued that their movement was a “cooperative crusade.” Dehanas and Shterin (2019) and Marzouki, McDonnell, and Roy (2016) provide a collection of case studies on right-wing populist parties seeking to mobilize religious conservatives.

We can distinguish various channels linking religion and populism. First, populists use religion to shape group identity. Religion markers appeal to populists’ division of society into moral people and corrupt elites: “we, the pure and righteous, and they, the impure and undeserving.” This grouping relates to Brubacker’s *Christianism* idea, which relates Christianity to belonging rather than believing. In addition, Oliver and Wood (2014) show that support for ideological conspiracy theories, which is especially strong for ultraconservative voters, is strongly correlated with an attraction to Manichean narratives. Second, there is an analogy between the worldview of some religions and the populist leader’s messianic self-image—related to modern populism’s anti-pluralism. Third, religiosity may be correlated with the anti-science views supported by many populists. Bénabou, Ticchi, and Vindigni (2015, 2020) document the relationship between religious views and church attendance, on one hand, and skeptical attitudes toward science, technology, and innovation, on the other.

Moral Values Sandel (2005) and other political philosophers emphasize morality, arguing that successful politicians embrace values that voters care about, like loyalty. As we discuss below, Enke (2020) provides compelling evidence that the rise of populism is related to the gradual shift of Americans’ moral values away from universalist and toward communal ones.

Status Loss In her influential analysis of the 2016 U.S. presidential election, Mutz (2018) argues that Trump supporters were not driven by “pocketbook” concerns but rather by the threat to their status within the society—and to U.S. global dominance. Trump was successfully conveying the message of reestablishing past status hierarchies. This argument sounds plausible, as the recent wave of populism goes hand in hand with the rise of traditional values and nationalism rather than promises of large-scale redistribution.

Social Capital A distinct cultural explanation focuses on the role of social capital, civiness, and trust. Algan *et al.* (2018), Boeri *et al.* (2018), and Giuliano and Wacziarg (2020) argue that social capital helps cope with economic shocks; thus, it may slow the spread of populist views.³³ Social connectedness has declined in recent decades. As Putnam (2000) puts it, Americans have increasingly been “*Bowling Alone*,” and the importance of loneliness for supporting the politics of intolerance dates back at least to Hannah Arendt. Deteriorating social capital and alienation make the “left-behind” stressed, isolated, and more likely to blame the “elites.”

6.2 Empirical Evidence

6.2.1 Identity and Cultural Backlash

Identifying the causal impact of culture on the recent rise of populism is challenging. Almost by definition, cultural factors are persistent over time. It is, therefore, unclear why they have suddenly risen to prominence in recent years. Proponents of cultural explanations put forward two alternative theories: “culture *plus* economics” and “culture *times* economics” (Gidron and Hall, 2017, refer to them as “additive” and “interactive”).

The culture-plus-economics view suggests that slow-moving cultural features enabled the gradual rise of anti-liberal values, political distrust, and nationalism, empowering 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-point increase of the vote share of UKIP (and Brexit) or Trump. At the margin, these economics-driven

³³Algan and Cahuc (2014), Durlauf and Fafchamps (2005), and Guiso, Sapienza, and Zingales (2011) provide detailed surveys of research on social/civic capital. Alesina and Giuliano (2015) and Fernández (2011) review the literature on culture and institutions and culture and economic performance, respectively.

additional votes may be decisive. For example, empirical studies suggest that trade globalization, the crisis, and austerity have shaped the Brexit referendum outcome. However, even if the economic factors explain jointly 10 percentage points (a generous assessment), deeper cultural—and perhaps historical—factors must explain the remaining 42 percentage points of Leave’s 52% vote share.³⁴ Likewise, economic factors explain a relatively small portion of populism-related individual attitudes and beliefs (Gidron and Hall, 2017). Norris and Inglehart (2019) document correlations consistent with the culture-plus-economics view. In their pooled regressions using ESS, economic and cultural factors both 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* dissatisfaction with the status quo, leading to (re-)emergence of identity politics alongside preexisting cultural fault lines. Economic and cultural factors reinforce each other. Providing descriptive evidence, Inglehart and Norris (2017) argue that economic considerations are instrumental in the timing of the cultural backlash. Elites benefited disproportionately in the past several decades, while median wages stagnated. Rising inequality activated the backlash against the Silent Revolution, leading to a “Silent Revolution in Reverse.”

Cerrato, Ferrara, and Ruggieri’s (2018) analysis of the U.S. 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 bolsters support for conservative anti-trade Republicans (as Che *et al.*, 2016, document for the post-2010 period). Commuting zones with higher import penetration express more negative attitudes toward Asians, Hispanics, and Muslims (but not African Americans). The economic shock triggers identity issues, boosting populism. Textual analysis of candidate speeches reveals that Trump was the only Republican candidate who was more protectionist than his Democratic opponent; Trump was also the most anti-immigration candidate among all his Republican predecessors. Autor *et al.* (2020) also support the economics-times-culture view: the China shock boosts Trump and conservative Republicans’ support *only* in CZs with (non-Hispanic) White majorities. Colantone and Stanig (2018c) produce similar evidence for Europe. Respondents in regions hit hard by Chinese imports are less supportive of democratic institutions and less likely to hold liberal values; in these regions, respondents favor

³⁴There is an important counterargument to Margalit’s (2019) logic. He ascribes all time-persistent variation to cultural factors, although part of persistent variation may be due to (slow-changing) economic factors. In most empirical analyses of the economic drivers of populism, (regional) fixed effects absorb slow-moving economic factors.

strong leaders and express concerns about immigrants’ cultural impact.

The extreme version of the culture-times-economics view implies that cultural factors fuel support for populism only if activated by economic shocks. This is not always the case: populists sometimes manage to take advantage of preexisting cultural divides, even without any economic dislocations. The story of the Austrian Freedom Party (FPö) is illustrative (Ochsner and Roesel, 2019). Until a leadership change in 2005, FPö had used neither anti-Turkish nor anti-Muslim rhetoric. The new FPö leader, Heinz-Christian Strache, brought the Ottoman sieges of Vienna in 1529 and 1683 to public memory. Before 2005, there were no significant differences in anti-Muslim sentiment in Austrian municipalities that were pillaged during the sieges versus nonpillaged ones. By 2008, 32% of respondents in pillaged municipalities said they did not want to have a Muslim neighbor—only 20% in nonpillaged municipalities said so. The resulting increase in FPö’s vote share was not dramatic—1 to 2 percentage points (in the 2008 general election, FPö received 18%), partly because the center-right party, öVP, also adopted 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 expense of FPö).

Similarly, Cantoni, Hagemeister, and Westcott (2019) document a significant correlation between AfD vote share in Germany’s 2017 elections and the vote share of the Nazis in the 1933 elections. The correlation is statistically indistinguishable from zero in the 2013 elections, when the party had not yet moved to the far right. There is no evidence that the history of anti-Semitism interacts with unemployment or trade shocks.

6.2.2 Moral Values

Enke (2020) examines the demand for and supply of moral values in recent U.S. presidential elections. Building on insights from psychology (namely, the Moral Foundations Theory), the author develops a scalar measure of the relative importance of “universalist” versus “communal” values, then uses this measure to evaluate the moral values of both voters and politicians (based on textual analysis of their speeches). Universalist values, like justice, individual rights, impartial fairness, and avoidance of externalities share the key characteristic that they apply no matter the context or identity of the people involved. Communal or particularist moral values, like loyalty, betrayal, respect, and tradition, are tied to certain relationships or groups.

The textual analysis of the speeches in the U.S. Congress between WWII and 2016

demonstrates the divergence of the two parties' moral appeal since the 1960s, with Democrats increasingly stressing universalist moral concepts. The textual analysis of 2016 presidential candidates' speeches shows that Trump's moral language is the most communal of all candidates, including his rivals in the Republican primaries. The author shows that the difference in moral language between the 2016 Republican and Democratic presidential candidates is striking compared to earlier presidential elections. Enke also uses a self-implemented nationally representative survey of 4,000 voters to analyze the association between individual morality and voting. The respondents' relative importance of universalist versus communal values correlates negatively with (i) voting for Trump, rather than Clinton, in the presidential election; (ii) the difference in the propensity to vote for Trump as compared to Romney and McCain; and (iii) voting for Trump in the Republican primaries. These correlations remain significant when Enke controls for a rich set of individual characteristics and county fixed effects. Similar patterns apply across counties. Moral values explain a larger fraction of voting variation than socioeconomic factors such as income, crime, redistribution preferences, and religiosity. Finally, Republicans fare better in counties that have become more communal from 2008 to 2016. (During this period, Americans have become more communal on average, especially in rural areas.)

6.2.3 Loss of Status

Mutz (2018) studies the 2016 U.S. presidential election using cross-sectional voting data and a nationally representative panel of voters, surveyed in October 2012 and October 2016. The latter helps the author identify 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 secondary role. However, tabulating the same data, Morgan (2018) argues that economic explanations are at least as important as those related to the threat of status loss. The first difference between Mutz (2018) and Morgan (2018) regards the interpretation of international trade: Morgan views it as primarily economic, Mutz as social. The surveys suggest that in 2016, U.S. voters were slightly more anti-trade and *pro*-immigration than in 2012; both changes are in the 0.3–0.4 range on a 1–7 scale (Mutz, 2018). The anti-trade shift is strong for Republican voters, with no change among Democrats.³⁵ As Morgan

³⁵The pro-immigration shift is recorded among Democrats and Republicans both (but is stronger among Democrats). The support for inclusive immigration policy is not inconsistent with Norris and Inglehart's (2019) silent-revolution conjecture. Young cohorts are more likely to adopt liberal values, increasing support for immigration. This may contribute to the cultural backlash if older generations maintain traditional values.

(2018) shows, the change in economic attitudes (including trade) accounts for two-thirds of the total explained variation in the switch. The second difference regards education, which captures both income and social status. Mutz (2018) focuses on the “education gradient,” the additional votes Trump received among Americans without a bachelor’s degree relative to those with a degree. Among all voters, the education gradient is 20 percentage points—of which 14 are explained by economic factors (once trade is reclassified as an economic factor).

Gidron and Hall (2017) also examine the loss of status using data covering 15 developed 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. The authors speculate that economic and cultural issues are likely to interact rather than to add up.

6.2.4 Social Capital

The rise of populism goes hand in hand with a crisis of trust. Algan *et al.* (2017) show that regional unemployment shocks increase both distrust in political institutions and support for populists. Using ESS data, Boeri *et al.* (2018) find a negative correlation between membership in civic associations and voting for populist parties, controlling for respondents’ economic situation (see also Dustmann *et al.*, 2017).³⁶ The correlation is significant both before and after the crisis, but it is stronger after 2008, most likely because social capital helps to cope with the crisis. Likewise, Giuliano and Wacziarg (2020) document a negative correlation between social capital (measured either by density of memberships in civic, religious, and sports organizations or by generalized trust) and support for Donald Trump in 2016.

Algan *et al.* (2018) use a monthly panel of 17,000 French voters to study the role of social capital in the 2017 presidential election, where both extreme left (Mélenchon) and extreme right (Le Pen) candidates did well. Voters with low interpersonal trust were more likely to vote for Le Pen. In contrast, Mélenchon voters had high levels of trust—

³⁶Papaioannou (2020) presents correlations between populist voting and distrust toward institutions, which he interprets via the lens of Besley’s (2020) model on the co-evolution of civiness and state capacity.

similar to those of the voters for Emmanuel Macron and somewhat higher than those of Francois Fillon voters. While Le Pen and Mélenchon voters have similarly low levels of income and life satisfaction, they differ greatly in their preferences toward redistribution: Mélenchon voters strongly support redistribution, Le Pen voters reject it.³⁷ The authors link preferences for 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.*'s (2018) findings suggest 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.

Like other cultural factors, social capital is persistent. It is not surprising, therefore, that studies using administrative and survey data produce correlational evidence. To identify causal effects, economists rely on randomized experiments with informational treatments that affect political social trust. Di Tella, Dubra, and Lagomarsino (2019) run randomized controlled experiments to study the role of trust in government and business on redistribution preferences in the U.S. Distrust in government is inversely related to redistribution preferences, a pattern that may explain the rise of far-right populism. Alesina, Stantcheva, and Teso (2018) show that a substantial share of low-trust Republican voters believes that the government should play no role in mitigating falling intergenerational mobility. 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 to tackle it.

6.3 Theoretical Explorations

As the recent reincarnation of populism hinges on identity rather than on redistribution, the traditional median-voter approach to modeling political conflict between the left and the right needs to be revisited. Recent theoretical research on populism departs from the classical paradigm (Acemoglu *et al.*, 2013), adding models of social identity and multidimensional political calculus. Economic theory is increasingly drawing on political science,

³⁷While Le Pen's National Front favored redistribution much less than other parties, it has been shifting to the left in economic terms. Ivaldi (2015) analyzes National Front's manifestos since the 1980s and finds that in 2007–2012 the party became less economically liberal, more economically egalitarian, and more supportive of welfare policies. Ivaldi explains this shift by attempting to attract the median voter after the global economic crisis—somewhat consistent with the culture-times-economics view. See also De Koster, Achterberg, and Van der Waal (2013) and Schumacher and Van Kersbergen (2016) for an analysis of the populist right's opportunistic transition from *welfare populism* (“*the poor do not deserve support*”) to *welfare chauvinism* (“*the natives deserve more support but immigrants do not*”).

and social and cognitive psychology (in particular, Tajfel’s (1974) 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 in political economy (Shayo, 2020, surveys this literature).

Recent research recognizes that individuals have several identities (e.g., gender, race, occupation, region, religion) and, therefore, can choose which identity to prioritize. Shayo (2009) models this choice as a tradeoff between gains from group status in society and costs of joining the group related to distance from the other members of the group. Therefore, the formation of social identity is endogenous to economic factors. This creates a two-way relationship: economic shocks affect the choice of identity; in turn, identity affects voting and political change, shaping economic policy. While Shayo (2009) initially applied this framework to redistributive taxation, Grossman and Helpman (2020) use it to understand trade policy. A change in the economic environment (e.g., terms of trade) may bring a discrete shift in people’s self-identification as “workers” against the “elites” and a resulting discrete increase in protectionism. Starting with heterogeneity by skills, they show how endogenous identity may result in polarization (of low-skilled workers against high-skilled elites) and the rise of populism.

Gennaioli and Tabellini (2019) develop a model with endogenous social identities, adding multiple political cleavages (economic left versus economic right, open versus closed, culturally liberal versus conservative).³⁸ The authors emphasize that social identity reflects the salience of the issue that may change due to economic shocks and allow for identity-based cognitive biases.³⁹ Under some conditions, a political equilibrium emerges where the left-right divide is replaced by a liberal-conservative or an open-closed one. They also show how identity politics results in polarization of beliefs and of voting. This is similar to Karakas and Mitra (2019), who apply identity politics theory to immigration policy. Voters filter information through the lens of their identities—which results in polarization. Levy, Razin, and Young (2020) assume that some citizens hold oversimplified views of reality (ignoring certain relevant facts). Although their world view is incorrect, they occasionally win elections against rational citizens in a dynamic citizen-candidate model with learning. Once in power, the citizens with a misspecified model choose extreme and ineffective policies. Besley and Persson (2019) consider a dynamic setup, where voters’

³⁸Grossman and Helpman (2020) also consider a model extension with a second dimension of identity based on race/ethnicity.

³⁹This approach follows the salience paradigm developed by Bordalo, Gennaioli, and Shleifer (2012; 2013; 2016).

beliefs change over time—which results in endogenous party/group formation. The main drivers of change are economic outcomes and the salience of the noneconomic dimension (for example, preferences about immigration).

Bordalo, Tabellini, and Yang (2020) show that beliefs and views held by Republicans and Democrats are not very dissimilar, yet voters exaggerate these differences, especially on issues that individuals consider more important. The authors then develop a salience theory of stereotypes that explains (perceived) ideological polarization and populism. They further show that distortions on social beliefs and values became more salient after the fall of the Iron Curtain, which shifted Americans away from external threats. The reverse happened after 9/11—the terrorist attack in New York City switched people’s attention back to foreign affairs.

Cultural issues related to identity, and cognitive biases are certainly essential for understanding modern populism. Nonetheless, Buisseret and Van Weelden (2020) show that populist challengers to the establishment may emerge even in a traditional voting model with multiple dimensions of 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 to run, either as a third-party challenger (an equilibrium when the electorate is not too polarized) or in an internal primary (if polarization is high). The outsider creates a significant 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 with the outsider who would draw anti-globalist voters from both the left and the right. This result is similar to Besley and Persson (2019), where a new anti-immigration party emerges when economic polarization is not too high. In Agranov, Eilat, and Sonin (2020), high inequality results in the breakdown of trust between the public and the elite: the public knows that the elite is better informed but prefers to ignore the elite’s proposals.

6.4 Summary

Many cultural explanations of the recent rise of populism seem plausible. Yet, well-identified empirical analysis is scant. By definition, culture is persistent; it is therefore hard to identify causal relationships, explaining the role of culture in the fast growth of populist appeal in recent years. Theoretical work has successfully modeled interactions between

culture, economics, and support of populism, but testing these relationships empirically is hard. We expect more work in this area, as economists are increasingly studying culture to explain politico-economic phenomena and as the use of insights from social psychology and other neighboring disciplines is becoming more common.

7 Immigration

In this section, we turn to the roles of immigration and the recent refugee crisis. Immigration is an economic and cultural issue; populist leaders have exploited both angles. We first discuss the main immigration patterns and summarize the key takeaways regarding its impact on labor markets. Second, we review studies documenting large discrepancies between reality and people’s perception of immigrants’ share, origin, and education. Gaps between perception and reality are crucial for understanding the rise of populists, who skillfully take advantage of stereotypes and further distort people’s views. Third, we discuss studies exploring the impact of immigration and refugees on support for populism.

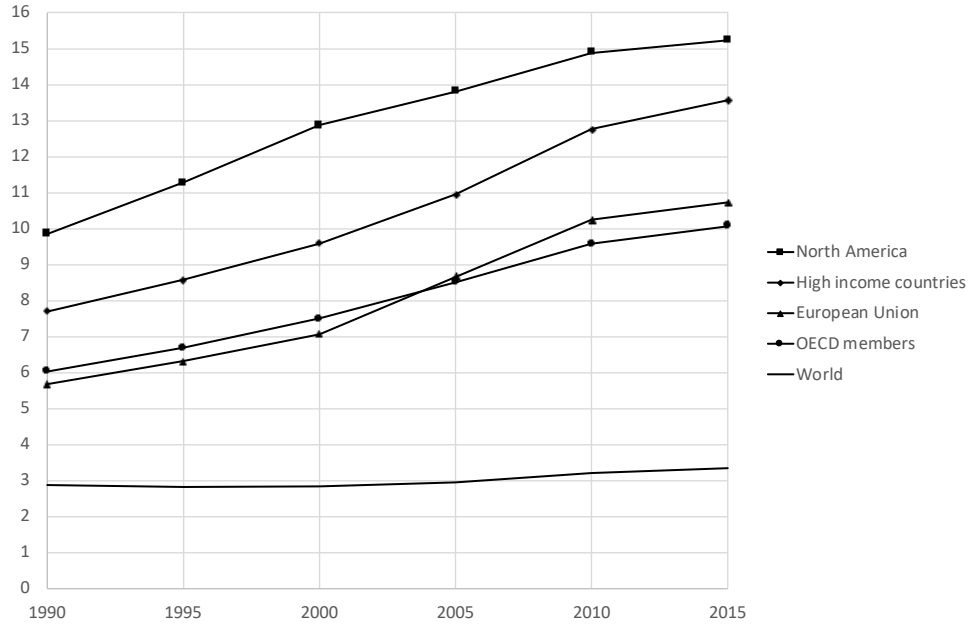
7.1 Patterns

Immigration is a top agenda issue of today’s populists. Some argue that immigrants take away jobs from native workers and suppress their wages. Others say that immigrants do not work and rely on the host country’s generous welfare system. Many claim that immigrants’ values and social norms are incompatible with those of the host country, posing an existential threat to its 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 increased only slightly, from 2.9% in 1990 to 3.3% in 2015, advanced economies have experienced much faster growth (see Figure 13). The share of international migrants as a share of population in OECD (high-income) countries has increased from 6% (8%) in 1990 to 10% (14%) in 2015; in North America, it has risen from 10% to 15% and in the EU from 6% to 11%.

Growth of cross-border migration reflects both “push” (supply) and “pull” (demand) factors. Industrial countries face demographic challenges; therefore, attracting working-age population may be economically beneficial and help sustain “pay-as-you-go” pension systems. The increase in supply reflects declining costs of cross-border migration. Trans-

Figure 13: International Migrant Stock, as a Percentage of Population



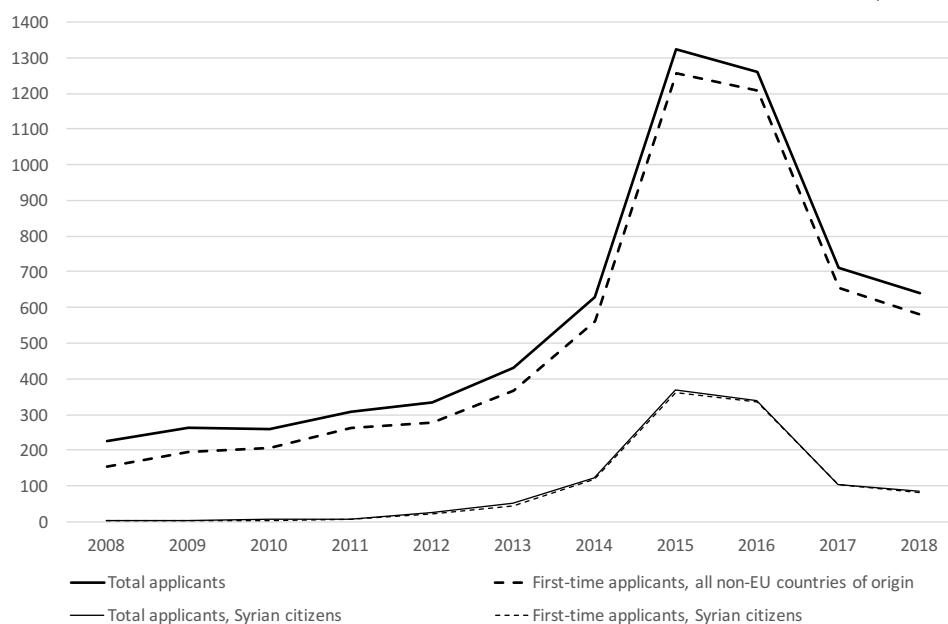
Note: International migrant stock is the number of people born in a country other than that in which they live, including refugees.

Source: U.N. Population Division.

portation costs are falling, as are information asymmetries. Furthermore, contrary to conventional wisdom, income growth in sending countries also fosters migration, as the relationship between development and emigration is nonlinear (e.g., Docquier, Peri, and Ruysen, 2014; Dao *et al.*, 2018). As sending countries move from low- to middle-income, a greater share of their population has means to cover the migration costs.

In Europe, this secular growth of immigration has been complemented by the acute shock of the 2015–2016 Syrian refugee crisis (see Figure 14). The number of Syrian refugees in Europe is small—relative to both the EU population and to the total number of Syrian refugees and internally displaced persons. However, the abrupt spike in 2015 placed the refugee crisis at the center of political debate. For example, despite only a handful of Syrian refugees reaching the United Kingdom, this issue was very salient during the Brexit referendum campaign.

Figure 14: Asylum Applications in the EU-28 by Non-EU Citizens (thousands)



Notes: Total: in 2008–2014, 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.

Source: Eurostat.

Extensive research has been conducted on the economic effects of immigration on wages, employment, innovation, and productivity. The evidence implies that immigration’s aggregate economic impact on receiving countries/regions/communities is likely to be positive (Peri, 2016). On the other hand, immigration creates both winners and losers. If immigrants directly compete in the labor market with specific groups of native workers, the latter suffer (Borjas, 2014). This suggests that the political implications of immigration may be context-specific and depend on the skill composition of migrants and natives.

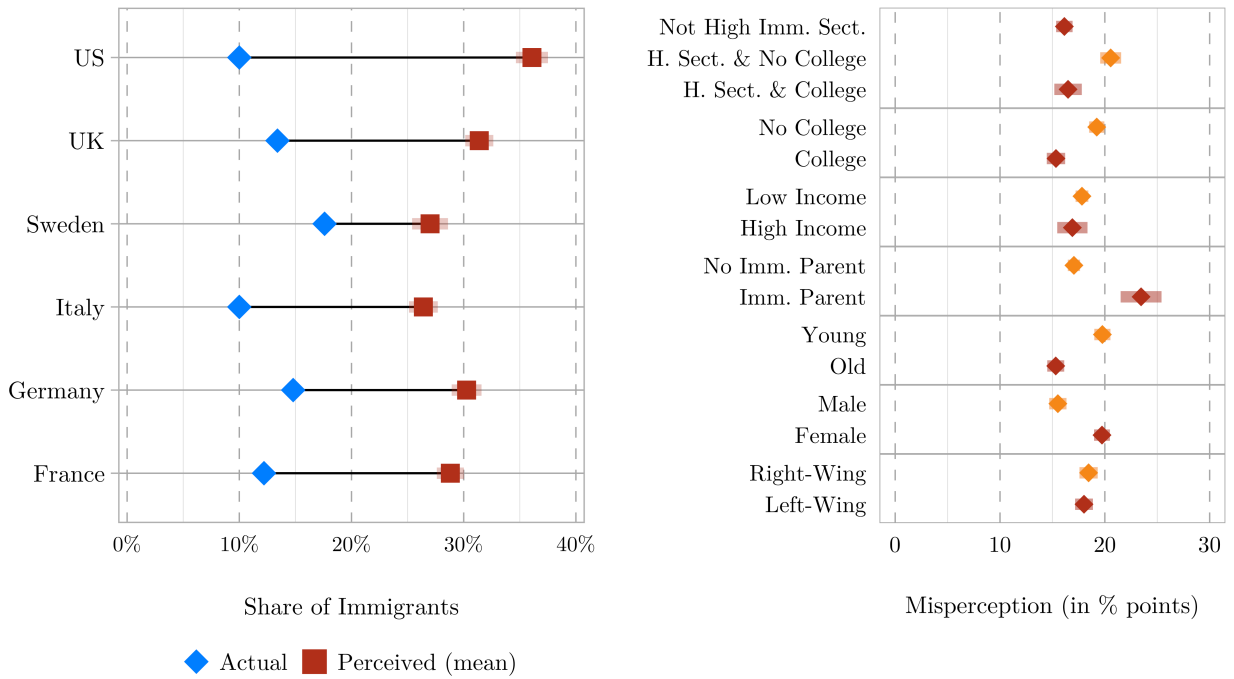
Populists not only stress the adverse economic effects of immigration on selected categories of workers, they also emphasize issues related to security and crime, the costs to the social welfare system, and cultural differences. The political implications of the immigration-driven cultural concerns are also likely to depend on the scale and composition of migration flows. If migrants are culturally similar to natives (e.g., Ukrainians in Poland), the real or perceived threat to identity may be less salient. Even if migrants are different, local communities may be more welcoming toward a smaller number of migrants or refugees, as they are more likely to integrate. The “contact theory” (Allport, 1954) suggests that actual contact with migrants and refugees increases empathy and reduces support for xenophobic politicians.

7.2 Perceptions Versus Reality

While advanced economies have received a substantial number of immigrants in recent decades, actual immigration is much smaller than what the public perceives. Alesina, Miano, and Stantcheva (2019) run extensive surveys in France, Germany, Italy, Sweden, the U.K., and the U.S. and find that 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 the actual number is about 10% (Ipsos surveys find similar results in other advanced economies; Duffy, 2018). The perceptions of composition of migrant population are also distorted. For example, Italians and Swedes believe that one in two immigrants is Muslim, while the actual share of Muslim immigrants is around 30%. U.K. citizens believe that only 25% of immigrants have a college education, while actually 50% do. Figure 15 further documents that the biases are substantial across all categories of respondents.⁴⁰

⁴⁰Likewise, 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’ beliefs.

Figure 15: Perceived and Actual Levels of Immigration



Notes: The left panel shows the average perceived share of immigrants in the country 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 characteristics listed to the left). The shaded areas are 95% confidence intervals around the mean.

Source: Alesina, Miano, and Stantcheva (2019), Figure 6.

The overestimation of the scale of immigration helps explain the central role of immigration in political debate. Where do these gaps between perceptions and reality come from? Theories of endogenous social identity (discussed in Section 6.3) predict that the salience of a political issue may bias beliefs on the topic and increase political polarization. Individuals identifying with a group slant their beliefs toward their group and against those of the respective outgroups. The socioeconomic shocks may make a new issue, such as immigration, more salient, replacing the old political cleavage (e.g., the left versus right divide regarding redistribution) with a new one (e.g., open versus closed) and forming new identities and biased beliefs on the issue. For example, Barrera *et al.* (2020) show how immigration’s salience draws support for Marine Le Pen even though voters understand that she misrepresents the facts.

The perception biases raise a major challenge when 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 surveys and randomized controlled experiments. In the latter, informational treatments affect participants’ beliefs and attitudes toward immigrants and affect self-reported support for populist politicians. Both methods have pros and cons. Studies with “actual” immigration data cannot observe perceptions (perception surveys are conducted after the immigration shocks). Studies of perceptions observe neither real-world exposure to immigration nor ultimate vote outcomes.

7.3 Empirical Evidence

The relationship between immigration and populism is multifaceted and challenging to identify. Empirical analysis of this relationship has to address an array of endogeneity issues. First, there is reverse causality: potential immigrants may avoid areas with anti-immigrant attitudes; the resulting spurious correlation may erroneously suggest that immigration decreases populism. This is not an abstract possibility, as support for populist politicians and parties is considerably lower in cities and urban hubs, where immigrants are likely to work. Second, there are obvious concerns related to omitted variables. Many factors may affect immigration, employment opportunities, and political attitudes at the same time. The large urban-rural gap in populist support (e.g., Dijkstra, Poelman, and Rodríguez-Pose, 2020), immigration, and development is likely to be explained by dozens of important variables. Third, measurement error is likely to be nonnegligible, since perceptions are correlated with

socioeconomic characteristics and political preferences. In addition, migrants, by definition, often move, making their assignments to localities tricky. Fourth, the effects of immigration are heterogeneous depending on the composition of migration flows and characteristics of the host community.

The literature employs two primary identification schemes to address these challenges. First, some studies exploit quasi-random variation in the allocation of migrants and refugees to communities by central authorities. Second, because immigrants tend to move into areas where earlier generations from their country of origin settled, some studies use a “shift-share” empirical design, where historical settlements across regions are interacted with the overall migration inflow (see Card, 2009, and Angrist and Krueger. 1999).

7.3.1 Immigration Increases Vote Share of Populist Parties

A few studies document that in some contexts, immigration increases populist support. Dustmann, Vasiljeva, and Piil Damm (2019) show that the Danish government’s quasi-random assignment of refugees from 1986 to 1998 increased anti-immigrant voting in small municipalities but reduced the anti-immigrant vote in large cities. Barone *et al.* (2016) find that Silvio Berlusconi’s Forza Italia gained support in regions with higher immigration (instrumented by earlier immigrants’ settlements from the same country). Employing a similar identification strategy, Halla, Wagner, and Zweimüller (2017) find a positive impact of immigration on the vote share of Jörg Haider’s far-right Freedom Party (FPö) in Austria. Likewise, Edo *et al.* (2019) find that immigration (especially inflow of low-skilled workers from non-Western countries) increased the vote share of far-right presidential candidates in France from 1988 to 2017.

Becker and Fetzer (2016) show that the arrival of Eastern European migrants to the U.K. following its labor-market opening in 2004 boosted UKIP’s vote share. Viskanic (2019) focuses on Polish immigrants, who constituted the largest inflow of workers from the EU’s new member states to the U.K. He instruments the allocation of post-2004 Polish immigrants across the U.K. with the location of military bases, where the British government settled Polish officers fighting with the Royal Air Force during World War II. He finds that the greater influx of Polish workers after 2004 has a strong positive impact on the UKIP vote share.

An increasing number of researchers study the political impact of the inflow of refugees. Hangartner *et al.* (2019) and Dinas *et al.* (2019) show that the arrival of refugees on Greek

islands, instrumented by proximity to the Turkish coast, increased the vote share of the far-right Golden Dawn party. Ajzenman, Aksoy, and Guriev (2019) show that exposure to refugee transit routes in 18 countries in Central and Eastern Europe decreases trust in political institutions and increases anti-migrant sentiments.

We noted earlier that immigration is not a new phenomenon. An interesting strand of the literature exploits increasingly accessible historical records and archives to analyze the impact of large historical episodes of migration. For example, Tabellini (2020) looks at European immigration across U.S. cities between 1910 and 1930. Although American citizens benefited economically from immigration (via higher employment and industrialization), immigration led to the election of conservative legislators (who eventually voted to curb immigration) and lowered support for redistribution. The author further shows that these patterns are stronger when linguistic and religious differences between established Americans and newcomers are considerable, pointing to the importance of cultural factors.

7.3.2 Immigration Lowers Vote Share of Populist Parties

Other studies produce opposite results. Colantone and Stanig (2018a) and Alabrese *et al.* (2019) show that EU immigration is negatively correlated with the Leave vote in the Brexit referendum. Steinmayr (2020) shows that refugees' assignment to Austrian municipalities improved attitudes toward them and reduced the vote share of the far-right FPö party. (However, he also shows that exposure to refugees' transit increases support for the FPö, in line with Ajzenman, Aksoy, and Guriev, 2019).

Vertier and Viskanic (2018) study the resettlement of refugees from the “Calais Jungle” migrant encampment to French municipalities. The assignment of refugees to a municipality reduced populist and nativist votes. Lonsky (2020) finds similar results in Finland, where a one-percentage-point increase (68% of the mean) in immigrants in a municipality decreases the vote share of the anti-immigrant True Finns Party by 3.4 percentage points (68% of the mean).

7.3.3 Emigration

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

2018). The brain drain undermines entrepreneurship and productivity growth. Emigration also accelerates depopulation, which raises concerns related to identity. In the past 30 years, some East European countries have lost a quarter of their population; citizens are naturally worried that the continuation of the trend may threaten the very survival of their national language and culture. Balkan countries are also affected. EBRD (2018) explores the link in its *Transition Report*, using data from 510 elections, during 2001 – 2017 from 19 European countries. The regional analysis (across 160 subnational administrative units) does not detect a significant relationship between cross-border emigration and populist vote share. The relationship between emigration and the rise of populism thus remains an open question and requires further empirical research.

7.4 Taking Stock

While the studies of the relationship between immigration and the rise of populism use reasonably convincing identification strategies, they 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 in terms of magnitudes. How can we reconcile these findings?

The first potential explanation is related to the substantial gap between perceptions and reality; the second regards the magnitude of immigration flows. When the number of refugees per native is small, the contact theory suggests that increased exposure to refugees increases empathy and reduces the populist vote. If flows are large, the fear of nonintegration overcomes empathy. In Steynmair’s study, only 1 – 1.5 refugees per 100 natives were assigned on average to Austrian municipalities. The Calais Jungle resettlement in France was, on average, similar. Vertier and Viskanac (2018) show that the impact of refugee resettlement on far-right vote changes sign at about 4 refugees per 100 natives: further increases raise support for anti-immigration populists. A median Greek island received 250 refugees per 100 natives, so it is not surprising that there immigration led to higher far-right vote share. The third explanation is 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 refugees in transit.

The fourth explanation driving the differential political effects of immigration regards skill composition. Host communities may be more open to high-skilled immigrants. Mori-coni, Peri, and Turati (2018) examine the role of immigrants’ skills using data from 28 elections across in 12 European countries from 2007 to 2016. Instrumenting immigration

flows by prior settlement, they find that the arrival of high-skilled immigrants reduces the nationalist vote, while the influx of low-skilled immigrants has the opposite effect. Mayda, Peri, and Steingress (2020) carry out a similar exercise for the U.S. They also find that high-skilled immigration reduces the Republican vote share in presidential elections, while low-skilled immigration increases it.

The results suggest that the relationship between immigration and the populist vote share is complex. Another open question is whether this relationship is driven by economic or cultural factors. Algan *et al.* (2017) show that voters in regions hit by an economic crisis are more likely to become critical of immigrants for economic rather than cultural reasons. Margalit (2019) acknowledges that immigration may affect voters' incomes, but points to studies showing that anti-immigration attitudes systematically arise among those whose jobs are not directly involved. Margalit interprets this as evidence of the “cultural” mechanism.⁴¹ He provides evidence—in agreement with Gennaioli and Tabellini's theory—that the cultural divide may shift beliefs on economic insecurity.

8 Communication, the Internet, and New Media

We now turn to the role of new media in spreading populist messages. We first lay out the main argument linking populists' narrative to their communication strategy via the internet and social media. Second, we discuss the growing evidence.

8.1 The Argument

The recent rise of populism has been contemporaneous to the expansion of mobile broadband internet and social media. History suggests that it may not be a coincidence: populists have always used new communications technology. In 1896, the U.S. Populist Party's presidential candidate, William Jennings Bryan, made unprecedented use of the railway and the

⁴¹This per se is not inconsistent with Algan *et al.*, who show that it is regional rather than individual unemployment that affects the populist vote. Even if a worker still has a job, the rise in local unemployment affects his or her labor-market opportunities and quality of life in general. A similar critique applies to Adler and Ansell (2020), who show that support for Brexit and National Front is correlated with a decline in local housing prices. They argue that while for homeowners this effect reflects an economic shock, for nonhomeowners, this correlation should be seen as a “geotropic” effect, which they interpret as evidence of the noneconomic drivers of populism related to the sentiment of local decline. However, Adler and Ansell (2020) find no significant effect for nonhomeowners. Second, even if the geotropic effect were present, it could also be interpreted as an economic driver of populism: declining local prices do reflect lower economic opportunities in the future.

telegraph (Eichengreen, 2018). Decades later, the Nazis’ skillful use of radio contributed to their rise to power (Adena *et al.*, 2015). One reason why successful populists have always relied on new media technology is straightforward: people often associate mainstream media with the elites and with the status quo. Hence, anti-elite narratives are easier to promote outside the established media environment.⁴²

It is not surprising that Donald Trump has been actively propagating his messages via Twitter, where he has about 87 million followers—more than any media organization. As traditional media outlets often turn to social media for story ideas, Twitter feeds and Facebook posts propagate both online and offline.⁴³

Zhuravskaya, Petrova, and Enikolopov (2020) survey the literature on the political effects of the internet and social media. Reviewing a plethora of studies, they argue that social media are more attractive to populists than previous communications technologies for several reasons. First, social media, by design, have practically zero barriers to entry. Any anti-elite entrant can launch an online campaign without substantial external funding. The low cost makes the anti-establishment narrative more credible—extensive financing would likely come from the elites. Second, “Internet 2.0” encourages two-way communications with the audience and immediate feedback. This environment appears more conducive for populist discourse—it emphasizes the populist leader’s direct (i.e., nonintermediated) reach to the “people.” Social media may further promote the idea of people’s homogeneity (rather than diversity), as their algorithms tailor news, tweets, and messages to match initial beliefs, cultivating a sense that there are “many people who think like us.” Confirmatory biases are therefore likely to be reinforced. In addition, populists claim that user-generated content is more likely to reflect “true people”. Third, social media are well-suited for generating and disseminating simplistic (even if distorted and misleading) messages. Fourth, modern social media create “cyber-cascades,” which lead to a proliferation of falsehood-based narratives within “echo-chambers” (Sunstein 2001; 2017). While there is no specific research on the issue, social media appear to be uniquely positioned in spreading conspiracy theories, which appear prevalent in the U.S. (Oliver and Wood, 2014). Fifth, there is an evident regulatory vacuum that allows the spread of fake news on social media.

⁴²There 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 rise to the top.

⁴³Only one politician has more followers than Donald Trump—his predecessor, Barack Obama. However, Obama is much less active than Trump, for whom Twitter is the essential element of his communications strategy.

8.2 Evidence

In an early contribution, Campante, Durante, and Sobbrío (2018) trace the political implications of the rollout of broadband internet across Italian municipalities in the 21st century. The identification strategy uses plausibly exogenous variation in broadband internet due to proximity to preexisting voice telecommunications infrastructure (which lowered the costs of connecting to high-speed internet). Increased internet access and use initially suppressed voter turnout; this lower turnout was more pronounced for potentially extreme voters. The authors attribute the negative effect on turnout by substitution of political information with entertainment. However, from 2008 to 2013, the negative impact on turnout was reversed. After 2008, the spread of the internet resulted in higher support for the populist Five-Star Movement, which consciously used online media to connect to voters; M5S got a larger number of votes in municipalities with higher broadband internet penetration.

Guriev, Melnikov, and Zhuravskaya (2019) consider the impact of the expansion of mobile broadband internet on the rise of populism across 398 subnational regions in 33 European democracies covering 102 elections between 2007 and 2018. The rollout of third-generation (3G) mobile telecommunications affects both left-wing and right-wing populist vote share. Over this period, the average European subnational region's population with 3G access increased from 37% to 90%. The authors show that this increase in 3G coverage, by 53 percentage points, results in a 4.6-percentage-point higher vote share for the right-wing populists and a 3.6-percentage-point 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 13.6% and 6.5%, respectively. The authors find no relationship between 3G expansion and the vote share of nonpopulist opposition. They also fail to detect any association between increased 3G expansion and the rise of Green parties. These results are consistent with the conjecture that Green parties are qualitatively different from their populist counterparts: the Greens' message depends on scientific knowledge (hence it cannot be anti-elite) and sophisticated rather than simplistic narratives.

Liberini *et al.* (2020) examine the role of social media in the 2016 U.S. presidential election campaign. They use data on Facebook advertising prices and show that microtargeting Facebook users has first-order effects on voting, especially when targeting is based on location, ethnicity, gender, and political orientation (following Facebook's algorithm). They find that microtargeted ads reduced turnout among Clinton supporters, whereas they increased turnout and support for Trump among targeted moderates and less-informed vot-

ers.

How and why do populists benefit from the spread of modern online media? There is growing evidence that social media make it easier to disseminate false news and xenophobic stereotypes, enhance polarization, and create echo-chambers.⁴⁴ Allcott and Gentzkow (2017) quantify the importance of the propagation of false news stories on Facebook during the 2016 U.S. presidential election. In the three months before the election, false news stories favoring Trump were shared about 30 million times; false news stories favoring Clinton were shared 8 million times. The authors estimate that the average American was exposed to one false news story during this election period. Guess, Nyhan, and Reifler (2020) find that Trump’s voters were visiting websites with factually dubious content during the 2016 election and subsequently reposting that content on Facebook. However, such content accounted for a small share of the total information consumed. Most important, there is considerable self-selection, as these stories were mostly read by people with views that were very close to Trump’s.

Guess, Nagler, and Tucker (2019) study the characteristics of Facebook users who shared false news during the 2016 campaign. Partisanship and age are significant predictors of sharing false news stories. Users over 65 shared seven times as many false news stories as younger users. Vosoughi, Roy, and Aral (2018) study the circulation of false stories on Twitter in 2016 and 2017. They use data on 126,000 stories tweeted and retweeted over 4.5 million times by 3 million people. Their analysis yields alarming results. Dissemination of false stories is significantly faster, broader (to a larger number of users), and deeper (with a larger number of retweets). The difference between the speed and breadth of being able to spread false narratives versus being able to disseminate true stories is unusually large for stories with political content, compared to reports on terrorism, natural disasters, science, urban legends, or finance.

There is also growing evidence on the emergence of echo-chambers in recent years. When social media were in their infancy, there was no segregation of online and offline information sources (Gentzkow and Shapiro, 2011). Recently, however, such evidence emerged both for Facebook (Bakshy, Messing, and Adamic, 2015) and Twitter (Halberstam and Knight, 2016). Allcott *et al.* (2020a) ran a randomized experiment on 2,743 Americans in the run-up to the 2018 U.S. midterm elections. They showed that users who deactivated

⁴⁴See Lazer et al. (2018) and Nyhan (2020) for surveys of research on “fake news” and misperceptions, respectively. We prefer “false news” and “alternative facts” to “fake news,” as the latter term has been appropriated by Donald Trump for his goal of attacking the mainstream media.

their Facebook accounts for a month experienced significantly reduced political polarization (along with decreased awareness of political news and increased well-being).⁴⁵

8.3 Summary

As Twitter, Facebook, and other social media transform communication, and as user data become increasingly accessible and easy to process, research on their impact is likely to grow. The amounts spent on social media by political campaigns and the rapid professionalization of social media political consulting suggest that their role is already substantial. It is too early to judge whether social media is just a new communication technology where innovative populists—possibly, temporarily—outpace mainstream politicians who are slow to adapt. It may also be the case that the very design of social media is especially conducive to foster stereotypes, increase isolation, propagate fake news, and thus amplify economic concerns and anxieties, thus making them uniquely suited for the populist narrative (see Tufekci, 2018, and Haidt and Rose-Stockwell, 2019).

9 Implications

The impact of populism is manifold. First, as populists come to power, they directly influence policies. In the past decade, populist parties have won elections in Hungary, Greece, Poland, the United States, Italy, and Brazil. Second, populist parties may get enough votes to enjoy veto power or to join the government as minority partners.⁴⁶ Third, even in cases where populists do not hold an office, their rising support pushes establishment parties to shift their platforms toward populists (Haegel and Mayer, 2018).⁴⁷

We first review the evidence on the economic performance of populists when they are in

⁴⁵Boxell, Gentzkow, and Shapiro (2017) provide descriptive evidence on the relationship between internet use and political polarization in the U.S. While the long-run increase in polarization is larger in demographic groups that are less likely to use the internet, the situation is different in recent years. From 2012 to 2016—when mobile broadband internet and social media took off—polarization increased substantially among the groups with the highest internet use and slightly decreased among the groups with the lowest internet use.

⁴⁶Increased 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% of the vote uniformly distributed across the country may not secure many seats in the parliament. In a proportional system, such a party would form a large faction in the parliament.

⁴⁷Bernhardt, Krassa, and Shadmehr (2019) show theoretically how a benevolent government may choose suboptimal policies when faced with competition from “demagogues” catering to myopic voters.

office.⁴⁸ Second, we discuss the implications of the rise of populism for institutions, beliefs, and social norms.

9.1 Economic Performance of Populists

9.1.1 Historical Evidence

An extensive body of research studies the consequences of Latin American populism (see Kaufman and Stallings, 1991, and Edwards, 2019, for overviews). Dornbusch and Edwards (1991) collect evidence from many populist regimes and show how their disrespect of macroeconomic constraints ends in crises. The authors identify a common, four-phase cycle. During the first phase, there is popular dissatisfaction with high inequality, and populists take over and begin pursuing fiscal expansion and redistribution, often coupled with “import substitution” and loose monetary policy. There is a short-term boost in economic performance, and the populists seem vindicated. In the second phase, as aggregate supply fails to keep pace with fiscal and monetary expansion, inflation starts to rise, and foreign currency grows scarce. Higher inflation expectations result in the buildup of inventories and further decline of aggregate supply. In the third phase, inflation gets out of control, capital flies, and the economy slows. Populist governments respond with food and transportation subsidies that weaken the country’s fiscal stance and further raise inflation expectations. Eventually, the economy becomes “dollarized,” with multiple exchange rates (official and black-market). Real wages fall, often dramatically. If the government introduces price controls, pervasive shortages result. The populist government eventually falls, unable to cope with rising unemployment, high inflation, shortages, and capital flight. In the fourth phase, a new government pursues orthodox stabilization, often with IMF support. Real wages decline further and stabilize at a level below the beginning of cycle. But as stabilization takes place amidst austerity and without substantial improvement in institutions, trust in the new government and the system collapses, planting the seeds of the new crisis cycle (Di Tella and MacCulloch, 2009).

Funke, Schularick, and Trebesch (2020) carry out a quantitative evaluation of 50 populist regimes in power in 60 large countries (that account for 95% of global GDP) from 1900 to 2018, looking at the evolution of real GDP growth in the 15 years before and 15 years after the populist takeover. The authors employ the “synthetic control” methodology

⁴⁸These studies fit a more general literature on the impact of leaders on macroeconomic performance (e.g., Jones and Olken, 2005, and Easterly and Pennings, 2020).

of Abadie, Diamond, and Hainmueller (2010): for each populist-run economy, they construct a “synthetic” counterfactual, a weighted average of nonpopulist economies based on the matching of pretreatment characteristics. The authors show that the populists underperform significantly: 15 years after the populist takeover, GDP per capita is 10% below the nonpopulist counterfactual, implying a yearly cost of around 0.7 percentage points of GDP. There is no evidence of an efficiency-vs.-equity trade-off: under populist rule, income inequality does not fall. The authors further show that the slowdown is likely to be driven by economic nationalism and the weakening of institutions.

9.1.2 Populism in the 21st Century

We start our discussion on the impact of contemporary populism with the two best-studied cases: the Brexit referendum and Donald Trump’s rise to power in 2016. We then review the studies of other countries taken over this century by populist parties and politicians.

United Kingdom Strictly speaking, the 2016 Brexit referendum is not per se an example of a populist party winning an election. But Brexit came to define the populist wave, not only because of its profound impact on the U.K., the European economy, and the world economy but also because it demonstrated the toolkit that helps populists succeed.

A methodological benefit of studying Brexit is that the referendum was very close (51.9% for Leave and 48.1% for Remain). Its outcome can therefore be considered quasi-random. There is by now a considerable empirical literature on Brexit’s impact on output, firm productivity, inflation, trade, and FDI (see Sampson, 2017, for an overview). Research on Brexit started immediately after the referendum, with economists calibrating workhorse macroeconomic and trade models in an effort to estimate its impact.

Output Employing the synthetic control method, Born *et al.* (2019b) analyze U.K. GDP growth before and after the referendum, comparing it to a weighted average of other industrial countries. They find large negative results: each year since June 2016, U.K. GDP has been losing 1 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 per week for U.K. taxpayers, there has been about 350 million pounds weekly *loss* for the economy.

Using a different model, Dhingra *et al.* (2017) estimate Brexit’s long-term effects on

U.K. GDP. In different scenarios, the impact of Brexit ranges from -6.3% to -9.4% .⁴⁹

Productivity Bloom *et al.* (2019) look at Brexit’s impact on firm productivity. First, they document a substantial impact of Brexit on uncertainty; this effect is present three years after the referendum; half of the surveyed firms list uncertainty as one of their three main concerns. Second, anticipation of the U.K.’s exit from the Single Market has reduced investment by around 10%. This decline has occurred gradually, not abruptly. Third, U.K. productivity has declined by about 2% to 5% over the three years since the referendum, reflecting mostly an adverse within-firm effect. There is also a smaller, negative between-firm effect, as more productive, internationally exposed firms have reduced investment more than less productive firms servicing the domestic market.

Foreign Investment Breinlich *et al.* (2020) focus on Brexit’s impact on foreign direct investment. They also use the synthetic-control method to construct appropriate counterfactuals of inward and outward FDI trends. The results reveal sizable costs. First, Brexit resulted in a 17% increase in outward investment transactions in the remaining EU-27 member states, whereas transactions in non-EU OECD countries were unaffected. Following the referendum, British companies started setting up European subsidiaries to retain access to the EU market after Brexit. Second, inward FDI from the EU-27 declined by around 9%. Serwicka and Tamberi (2018) estimate a roughly 20% decline in greenfield foreign investment from mid-2016 through mid-2018.

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

Breinlich *et al.* (2019) assess Brexit’s 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 applied both to direct consumption of imported

⁴⁹As of this writing, there is still no clarity on the ultimate Brexit trade deal. There is also uncertainty on the U.K.’s relationship with the EU. The U.K. government’s effort in September 2020 to bypass specific provisions of the agreement with the EU—thus violating international law—has added confusion and uncertainty.

goods and to the use of imported inputs in domestic production. Second, there was almost a complete pass-through of import costs to consumer prices. Brexit raised consumer prices by 2.9 percent; this implies an additional cost for the average household of £870 per year. Third, the heterogeneity analysis indicates similar costs for low-income, middle-class, and high-income households. But, there is a sizable regional variation; inflation costs are highest in Northern Ireland, Wales, and East Midlands and lowest in London and the South East.

Costa, Dhingra, and Machin (2019) show that post-Brexit wages and training fell considerably after the pound sterling's sharp depreciation in sectors where intermediate-goods prices increased the most. The complementarity between wages and intermediate-goods prices is interesting—it reveals a potential channel linking Brexit with slowing productivity and wage stagnation.

Global Effects Hassan *et al.* (2019) use computational linguistic tools and develop a text-based method to proxy Brexit's impact 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 considerable adverse effects of Brexit across the world. For example, due to Brexit risk, the average listed Irish firm cut investment and employment by 4%. For U.S.-domiciled firms (which are, on average, about as exposed to Brexit as Italian firms), average investment and employment growth rates are down 0.4% and 1.2%, respectively. The impact for firms with U.K. exposure appears more extensive; 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 A growing strand of research is assessing the impact of Donald Trump's surprise victory in 2016. Empirical studies examine both the aggregate macroeconomic performance of the U.S. economy and specific policies such as the 2017 tax cuts and Trump's escalating trade war with China.

Output Born *et al.* (2019) use the synthetic-control methodology to evaluate the impact of Trump's election on output dynamics. They build a “doppelganger” of the U.S. economy, a weighted average of GDP of 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). They find no significant difference between the behavior of the actual U.S. economy (GDP, employment, and labor-force participation) and its “analog” after Trump’s election. It is plausible that the gains due to deregulation and tax cuts were offset by the costs of Trump’s trade wars.

Trade In early to mid-2018, the Trump administration imposed tariffs, ranging from 10% to 50%, on about \$300 billion of U.S. imports, mostly from China. Many trade partners, including China, the EU, Canada, and India, retaliated by imposing tariffs on imports from the U.S. Early studies reveal substantial costs to the U.S. economy. For example, Amiti, Redding, and Weinstein (2019) estimate that U.S. consumers had lost \$3.2 billion to \$4.6 billion by the end of the year. Fajgelbaum *et al.* (2020) document a complete pass-through of tariffs to consumers. The authors approximate the short-run costs at about \$50 billion, or 0.3% of U.S. GDP. Rose (2019) further shows that Trump’s low popularity abroad and the weakening of U.S. leadership dampened U.S. exports.

Blanchard *et al.* (2019) and Fetzer and Schwartz (2019) show that these costs already had an impact on the outcomes of the 2018 midterm elections, when Republicans were more likely to lose in counties affected by trade retaliation.

Taxes Expectations of corporate tax cuts were an important driver of the stock market’s positive reaction to Trump’s victory in 2016. Wagner, Zeckhauser, and Ziegler (2018) document relative stock-price increases for high-tax-paying firms and firms with large deferred tax liabilities; the stock market thus anticipated that Trump would cut corporate taxes.

The evidence suggests that Trump’s 2017 tax cuts did result in a modest short-run boost (e.g., Barro and Furman, 2018). Mertens (2018) estimates that the tax cuts should lead to a 1.3% increase in the U.S. GDP by 2020.

Emerging Economies The populists of the 21st century have mostly learned from the macroeconomic mistakes of their Latin American predecessors; unsustainable deficits and hyperinflation are no longer common. There are, however, two major exceptions: Venezuela and Turkey.

Hugo Chavez tried to reduce inequality via massive redistribution policies. His rule coincided with a period of high oil prices, which helped to pay for redistribution and compensated for growing inefficiencies, 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 evidence of falling inequality and some alleviation of poverty, though the statistics should be interpreted cautiously (Hetland, 2018). However—unlike other oil exporters, who understood the need for macroeconomic prudence and created substantial reserves for a rainy day—Venezuela was left unprepared for the decline in oil prices that started in 2014. In the five years after Chavez, under his handpicked successor, Nicholas Maduro, Venezuelan GDP declined by half. Beyond capital flight, millions of Venezuelans themselves also left the country. Hyperinflation, shortages, and political conflict has eroded all the gains accrued during the boom.

Turkey has also failed to learn the harrowing lessons from 20th-century Latin American populists. The country's recent credit expansion resulted in economic overheating, inflation, devaluation, underinvestment, and loss of real output. Acemoglu and Üçer (2020) provide an eloquent discussion of macroeconomic developments since 2001, tracing low productivity and rising inequality to Erdogan's populist policies and the deterioration of the country's political and economic institutions.

Southern Europe Populism spread in Southern Europe in the 2010s, alongside deep recessions and austerity, blamed on foreigners, international institutions, and the political and economic establishment.

In Greece, the radical-left SYRIZA party came to power in January 2015 on a platform of reversing austerity, which it blamed on establishment parties, and the troika of international creditors (the IMF, the EU, and the ECB). SYRIZA formed an alliance with Independent Greeks, a populist, nationalistic offspring of the conservatives. The coalition tried to “blackmail” the EU and the IMF, on the basis that a “Grexit” would result in global financial turbulence, potentially threatening the survival of the euro. Months of negotiations with international creditors resulted in the July 2015 referendum asking the Greek citizens whether they approve a third bailout and the associated preliminary debt sustainability analysis (this was literally the question.) The referendum was a vast—and largely unexpected—success for SYRIZA—63% of the electorate rejected the deal with international creditors. However, after the referendum, Prime Minister Alexis Tsipras reversed course: the ruling coalition rejected the results of the referendum and signed a new (third) economic adjustment program with terms inferior to those he had turned down before (Mounk, 2018). SYRIZA expelled many of its radical MPs and began pursuing orthodox macroeconomic policy. Building on the fiscal consolidations carried by the previous

governments, this coalition of populists delivered budget surpluses over 3.5% of GDP. By mid-2019, Greece had resumed growth, completed the bailout program, and managed to return to financial markets. However, because SYRIZA failed to deliver on its (unrealistic) promises, it was voted out of office. The example of Greece is interesting: it shows that populist parties may dramatically change their policy platforms when confronted with reality.

The Italian populist government formed in 2018 followed a different trajectory. The coalition brought together the far-right Northern League, which won Italy's Northern regions, and the pro-redistribution M5S, which won most Southern provinces. While both parties used populist rhetoric and communication strategies, their economic manifestos were very different. Northern League advocated lower taxes, while M5S's campaign promised generous social support. High levels of government debt, coupled with tight monitoring by financial markets and the European Commission, made it impossible to deliver on both parties' electoral 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 *et al.* (2020) show that political-risk shocks have adversely affected the economy and estimate that the downturn would have been much larger had the ECB not followed accommodative monetary policy. Differences among coalition parties were becoming increasingly apparent, and the government fell apart after just one year in office.

Central and Eastern Europe In Hungary, the return of Victor Orbán's FIDESZ party to power in 2010 and its subsequent electoral victories in 2014 and 2018 have not resulted in major economic achievements. From 2010 to 2018, Hungary's GDP per capita, in constant purchasing-power-parity-adjusted dollars, grew 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) were somewhat higher, both at 3.3% per year. EBRD (2017) carried out a synthetic-control analysis for its member countries which showed that despite receiving about 3% of GDP from the EU funds every year, Hungary has underperformed relative to its doppelgänger since 2010.

Poland, on the other hand, has outperformed comparators and remained the poster child of post-Communist transition. The populist Law and Justice (PiS) party has delivered on its flagship campaign promises. Most importantly, in 2016 PiS launched its Family 500+ redistribution program, which gives parents 500 zloty (about 150 euros) per month per child, tax-free. This program has proved to be both popular and effective in reducing

poverty (Goraus and Inchauste, 2016; Brzezinski and Najsztab, 2017), especially in rural areas where the purchasing power of 500 zloty is much higher than in Warsaw.⁵⁰ Furthermore, this redistribution program has undermined neither fiscal health nor growth. Several explanations may exist for Poland’s robust performance under PiS’s populist rule. First, it is still premature to quantify the implications of PiS’s assault on political and legal institutions. Second, due to the previous governments’ reforms, the Polish economy remains competitive. Third, PiS improved tax collection. Fourth, the economy has benefited greatly from the influx of cheap, skilled, ethnically similar Ukrainian workers following Russia’s invasion of East Ukraine in 2014 and the subsequent economic crisis there. About 2 million Ukrainians had received work permits in Poland by 2019 (with total Polish employment at 16.5 million). For a Central European country suffering from ageing and emigration, this inflow of labor is an important positive aggregate supply shock.

9.2 Institutions and Norms

The impact of populism is not purely economic. Populism often destroys political institutions such as constraints on the executive, checks and balances, rule of law, and independent bureaucratic agencies.⁵¹ At the same time, while populism reflects deeper cultural factors, it also *shapes* beliefs, norms, and values. As institutions and cultural norms evolve slowly, it is too early to examine the full impact of the recent rise of populism, but some research has already emerged.

Institutions Even when populists perform poorly, they are not always voted out of office. When populists realize that they cannot deliver on their promises, to entrench themselves in office they try to capture the political and economic institutions, weaken independent agencies, and bypass checks and balances. In this scenario, populists can create lasting damage. Funke, Schularick, and Trebesch (2020) show that from 1900 to 2018, populist leaders have stayed in power, on average, longer than nonpopulist ones despite weaker

⁵⁰Initially, the 500+ Program targeted only larger families, but it has been extended to all families. Textbook economics would suggest that poverty alleviation programs should target low-income and underprivileged families. However, targeted social assistance can be costly to administer. Programs similar to 500+ may therefore be effective and not too different from the universal basic income schemes supported by some liberals and libertarians.

⁵¹Sasso and Morelli (2020) model the interaction between populism and public administration. Populists prefer loyal bureaucrats over competent ones. In equilibrium, the quality of the administration deteriorates and the bureaucracy loses some of its independence.

GDP growth. The populists were rarely peacefully voted out and were likelier to leave after a scandal, impeachment, resignation, coup, or even suicide. The authors further show 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 (forthcoming) illustrate how Viktor Orbán has carried out a takeover of independent media by pro-regime oligarchs. Under Orbán’s rule, Hungary has become much more corrupt (Magyar, 2016; Civitas Institute and Transparency International Hungary Foundation, 2018). According to the World Bank’s Governance Indicators in 2010, Hungary was a median Central European/Baltic country in terms of corruption. By 2017, it was behind the region’s mean and median by 0.5 global standard deviations—and close to the global average (unusually inferior performance for a high-income country).

Beliefs and Norms One of the implications of the rise of far-right nationalist politicians is the normalization of previously unacceptable behavior. Bursztyn, Egorov, and Fiorin (forthcoming) conducted online experiments in the weeks just before and after the 2016 U.S. presidential elections. Participants were offered cash if they authorized the authors to donate to a strongly anti-immigrant organization on the participants’ behalf. Before Trump’s victory, such profitable xenophobic behavior was seen as a major social stigma (the authors also examined differences between anonymous and potentially observable donations). This stigma completely disappeared after Trump’s victory. The authors ran an additional experiment in Pittsburgh in 2018; participants were informed whether Trump or Clinton won in their district. The “Clinton won” participants still attached a stigma to xenophobic behavior—while there was no stigma in the “Trump won” group. Using dictator games, the authors further show that individuals are judged less negatively for expressing xenophobic views in the environment where these views are widespread. The authors find no evidence that exposure to Trump’s victory changes views; instead, it “normalizes” public expression of such opinions.

The rise of populism affects policies even when populists do not win elections. Abou-Chadi and Krause (2020) measure the impact of radical-right parties’ entry into parliament on mainstream parties’ policy positions on multiculturalism across 23 European countries. They use a regression discontinuity design and exploit variation around electoral threshold, the minimum vote share needed to enter parliament. They show that populists’ entry into parliament has a substantial causal effect on mainstream parties’ attitudes toward

multiculturalism. The magnitude of the shift is roughly equivalent to the distance between center-right and center-left parties in the Netherlands. It is double the sample standard deviation of the change of parties' positions over time.

Hate Crime The spread of xenophobia after Trump's election has had profound social implications beyond changing perceptions and norms. Müller and Schwarz (2020) identify a causal relationship between Trump's anti-Muslim tweets and hate crimes in counties with high Twitter penetration. In order to identify a causal effect, the authors instrument the county-level Twitter penetration with the number of county residents who attended the South by Southwest festival in 2007, which triggered early adoption of Twitter. Trump's anti-Islam tweets correlate positively with hate crimes against Muslims after his campaign started (but not before). The effects are considerable: a one-standard-deviation increase in Twitter usage relates to a 38% increase in anti-Muslim hate crimes. Trump's tweets also predict anti-Muslim Twitter activity by his followers and higher cable news coverage, particularly by Fox News. These correlations are also present when the authors look at (arguably more exogenous) Trump's tweets about Muslims on days when he plays golf.

The link between the rise of populism and hate crime is not unique to the United States. Albornoz, Bradley, and Sonderegger (2020) document a substantial increase in hate crime in the U.K. after the Brexit referendum. Romarri (2020) studies close elections in Italian municipalities from 2008 to 2018 and shows that the elections of far-right mayors results in a four- to five-percentage-point increase in hate crime. Müller and Schwarz (2021) study users' posts on AfD's Facebook page. They find a correlation between the number of anti-refugee posts on this page by users from a given municipality in a given week and anti-refugee hate crime in this municipality-week (controlling for municipality and week fixed effects). In order to identify the causal effects, they exploit quasi-exogenous internet and Facebook outages; they show that during such outages the correlation between hate posts on AfD's Facebook page and local hate crime disappears.

9.3 COVID-19

The unanticipated, global spread of the novel coronavirus SARS-CoV-2 and COVID-19 (the disease it causes) is major challenge for both mainstream and populist politicians, who need to simultaneously tackle the pandemic's health implications and its adverse economic impacts. In this section, we survey the rapidly growing literature that tries to identify the

implications of the recent rise of populism for the effectiveness of response to COVID-19.

Kavakli (2020) finds that populist governments have been slower in their response to the pandemic than their nonpopulist peers. In particular, populists implemented fewer protective health measures in February and March 2020. Several mechanisms may drive the differential impact of COVID-19 in countries run by populists—and on populists themselves. First, to respond to the pandemic, governments had to rely on science, experts, and capable civil servants. Populists who attack experts and weaken technocratic state agencies now had to respect and work with them. Second, effective response to the pandemic has required social capital and interpersonal trust, values that are at odds with right-wing populists. Third, the virus has undermined the messianic image of many populist leaders; the pandemic has shown that all were vulnerable, more so if they did not follow social distancing (defying scientific advice). Jair Bolsonaro and Donald Trump, whose countries had the highest number of COVID-19 deaths, themselves got the virus.

As of this writing, the pandemic is far from over, so we cannot yet take full stock of the literature on populism and COVID-19. Most of this literature reports correlations rather than identifies causal effects. Nonetheless, it is worth briefly discussing the main directions of this recent research.

9.3.1 Political Beliefs and COVID-19

The first strand of this literature looks at the role of political attitudes and polarization of beliefs about the pandemic and social distancing. Working with a nationally representative sample of about 50,000 U.S. residents, Makridis and Rothwell (2020) show that political affiliation is the most significant correlate of social distancing and beliefs about COVID-19. Partisanship matters more than age, race, poor health, and infections at the county level. Gadarian *et al.* (2020) find similar patterns in a self-conducted survey of 3,000 American citizens in mid-March. Allcott *et al.* (2020b) also show that partisanship explains a sizable fraction of the large variation in Americans' response to the pandemic. Political beliefs correlate strongly with social distancing (measured via mobile data and surveys), even conditioning on state, county, and individual characteristics; Republicans appear considerably less likely to follow social distancing than Democrats. Grossman *et al.* (2020) show that U.S. state governors' social distancing recommendations were more effective in Democratic-leaning than in Republican-leaning counties. Using microdata and machine learning, Milosh *et al.* (2020) demonstrate that partisanship is the most important predic-

tor of mask use—far more important than local policies or the local severity of COVID-19; policy does not offset the impact of partisanship on mask use. On the other hand, Donald Trump’s (brief yet fleeting) public endorsement of masks in mid-July temporarily increased former mask-deniers’ positive sentiment toward mask use.

Cornelson and Miloucheva (2020) examine how political polarization affects compliance with social distancing measures. They focus on U.S. states where the governor won a close election—thus using the quasi-random variation in election outcomes to identify the causal effects of the governor’s partisanship. They find that individuals who live in states governed by the other party are significantly less likely to report hand washing, staying home, and canceling or postponing planned travel. The authors show that this bias does not stem from differences in perceived gravity of the pandemic nor by differences in trust in healthcare experts (these differences are small).

In contrast, there are large differences in trust in the state government. These differences are greater in states with high levels of political polarization. Druckman *et al.* (2020) study to the role of affective polarization—the tendency to dislike and distrust supporters of the other parties. Using a panel of roughly 2,500 Americans before and during the pandemic (summer 2019 and spring 2020, respectively), the authors ask survey participants about their views on government’s handling of the pandemic, randomizing the wording of the questions between “Trump” and the “United States” government. On average, Republicans rank the handling of the health crisis by Trump higher than the handling by the generic United States. The opposite is the case for Democrats. Polarization also matters: polarized Democrats assign similarly low scores to Trump and the “United States”; likewise, polarized Republicans score equally highly the response of Trump and of the “United States.”

9.3.2 Social Capital, Civicness, and COVID-19

The second strand of research explores the role of social capital and civicness (which, as we showed above, is negatively correlated with support for populists).

A number of papers document that areas with higher social capital and civicness exhibit greater voluntary social distancing. Durante, Guiso, and Gulino (2020) demonstrate a link between civic values and social distancing across Italian provinces, both early in the pandemic when social distancing was largely voluntary (January 2020) and during the lockdown (May 2020). They show that if all provinces had the same civic capital as the top quartile, the COVID-19 deaths would be reduced by a factor of ten. Barrios *et al.*

(2020) provide similar evidence in the U.S., using mobile data to measure social distancing. Brodeur, Grigoryeva, and Kattan (2020) also find a positive correlation between trust and social distancing across U.S. counties. Similarly, Bian, Li, Xu, and Foutze (2020) establish a relationship between individualist culture and the absence of social distancing across the U.S. Bazzi, Fiszbein, and Gebresilasse (2020) link rugged individualism to a weaker collective response to the health crisis, lower civicness, partisanship, and distrust in science. This U.S.-based evidence is in line with the cross-country correlations in Frey, Presidente, and Chen (2020), who show that societies with more collectivist values have been more successful than countries with individualist values in embracing social distancing measures. Bartscher *et al.* (2020) find a similar correlation across Austrian, German, Dutch, Swiss, and British regions. They show that regions with high social capital experienced 12% to 32% fewer COVID-19 cases per capita from mid-March to mid-May.

9.3.3 Distrust in Science and COVID-19

The third strand of research focuses on the role of distrust in science. Brzezinski *et al.* (2020) show that the proportion of people who stay at home after local lockdowns and follow social distancing (proxied by county-level data on mobile-device use) is significantly lower in counties with high concentration of climate-change skeptics. Beliefs on climate change predict social distancing both across and within Democratic- and Republican-leaning counties. Swami and Barron (2020) show that rejection of conspiracy theories goes hand in hand with social distancing. Evans and Hargittai (2020) find that Republicans' distrust of medical experts during COVID-19 mostly stems from Protestant and Catholic skepticism of scientific knowledge.

9.3.4 Media and Communication

In the fourth strand of this literature, several papers identify the role of media and communication. Ananyev *et al.* (2020), Ash *et al.* (2020), and Simonov *et al.* (2020) use quasi-exogenous variation in TV viewership and identify a causal impact of exposure to Fox News on mobility. Bursztyn *et al.* (2020) compare two popular Fox News shows, *Hannity* and *Tucker Carlson Tonight*, which have covered the pandemic in very different ways. They document that misinformation during the pandemic led viewers to downplay COVID-19's threat and subsequently resulted in higher numbers of cases and deaths. Ajzenman *et al.* (2020) and Mariani *et al.* (2020) show that public speeches of Brazilian President Jair

Bolsonaro opposing preventive health policies has had a substantial negative impact on social distancing in municipalities with higher support for the president. Arceneaux *et al.* (2020) present experimental evidence that people’s views on the pandemic are malleable, as endorsements by politicians have changed behavior.

9.4 Summary

The evidence suggests that the rise of populism bears substantial economic and noneconomic costs. First, the Latin American vintage of populism is associated with recurrent crises, devaluations, (hyper)inflation, and falling real wages. While populism emerges from people’s rejection of inequality, all studies suggest that radical redistribution with inefficient transfers, weakening political institutions, and demagoguery are not the solution. Second, while recent populists have avoided their (Latin American) predecessors’ ineffective macroeconomic policies, their overall economic performance has been meager. Synthetic-control analyses that compare output in populist-run countries with plausible counterfactuals suggest substantial medium-term costs. Many studies on Brexit establish that people have incurred nonnegligible losses (even before Brexit took place in 2020): lower inward FDI, capital flight, stagnating wages, anemic growth, and rising inflation. However, these costs have been milder than the catastrophic ones that Remain supporters predicted in the media during the campaign. Third, the negative impact of populism is likely to be substantially larger in the long run, due to the weakening of institutions and the altering of cultural norms that matter crucially for long-run development and growth.

Similar results emerge from the fast-growing literature on the relationship between populism and COVID-19. Populist leaders have been slower in responding to the pandemic. Populist anti-science attitudes and lower social capital among populist supporters are significantly correlated with lower likelihood of taking the health risks seriously, less social distancing, and laxer preventive measures.

10 Conclusions

Here, we summarize the main takeaways regarding the four questions we formulated in the introduction and discuss the potential avenues for future research.

10.1 Summary

Definitions and Trends Populism is defined many ways, but a consensus exists on what constitutes its lowest common denominator: anti-elitism and anti-pluralism. Some definitions add more features, such as authoritarianism, nativism, and identity politics, but the minimal definition remains a useful reference point.

Whatever definitions are used, populism is no doubt on the rise in advanced economies, especially in Europe. In the past two decades, populist party vote shares have increased by about 10 to 15 percentage points (i.e., they have roughly doubled), and populist parties have taken power in more countries than ever before. The rise was especially salient after the global financial crisis. The main beneficiaries of this increase have been mostly right-wing, nativist, xenophobic, authoritarian parties rather than pro-redistribution, radical-left parties.

Causes Ample evidence shows that the rise of populism is caused by economic factors, both secular (trade and automation) and crisis-related (the rise in unemployment, the credit squeeze, and the post-crisis austerity). Evidence is mounting that the spread of broadband internet and social media have also played a chief role. Regarding the importance of cultural factors, the jury is still out. Cultural traits, like distrust, correlate with populist voting; but most studies are descriptive, as identification is challenging. Culture is highly persistent over time, so it is hard to explain why the rise of populism is taking place exactly now. The emerging consensus (yet to be backed by rigorous empirical research) is that economic shocks may have activated preexisting cultural divides and exacerbated polarization and identity politics.

Substantial evidence on the role of immigration also exists. However, the direction of the effect depends on many factors: the intensity of immigrant inflows, their skill composition, transit versus settlement, rural versus urban host municipalities. Exposure to a small number of refugees seems to create empathy, while a large influx triggers the fear of losing one's identity as well as upending law and order. Another important takeaway from this research is that perceptions of the scale of immigration often differ vastly from reality (especially in locations that are not exposed to immigration); the effect of immigration is therefore likely to interact with that of new communication technologies.

Implications We have a few preliminary takeaways on the implications of the recent rise of populism. Most modern populists have learned from the macroeconomic mistakes

of their Latin American predecessors, where populism is a synonym of (hyper)inflation, huge fiscal deficits, unsustainable debts, and inefficient redistribution. However, evidence is mounting that populists still exact nonnegligible economic costs. For example, the literature on the short-run effects of Brexit suggests that the referendum raised economic uncertainty, spurred inflation, led to the exodus of capital, and lowered wages and employment. More generally, no populist government (with the important exception of Poland) has outperformed the counterfactual in terms of GDP growth—most have significantly underperformed.

On the other hand, there have been almost no macroeconomic disasters (except for Venezuela). One potential explanation is the resilience of democratic institutions in advanced economies. Courts in the U.S., U.K., Italy, Poland, Greece, and other countries have blocked many irresponsible populist policies. Yet, populists have strike back, trying to replace judges, independent agencies, and uncooperative public servants.

It is therefore not surprising that authoritarian populists almost everywhere try to subvert political institutions and remove constitutional checks and balances. As we noted, Hungary has become substantially more corrupt, with much more limited freedom of speech—unfortunately, the Hungarian experience is the rule rather than the exception. Also, populists in power often change social norms, for example legitimizing xenophobic discourse (which can result in the rise of hate crimes).

Solutions Given the negative implications and outcomes of populist rule, what should be done? What can be done? Unfortunately, there is scant empirical research on potential solutions. Sharing our diagnosis (attributing the rise of populism to economic factors, social media, and identity), 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 specific measures, the research on the causes of populism we have 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 also fight against the abuse of market power, which is especially likely to occur in the “winner takes all” globalized economy. Rising concentration and markups, and monopoly and monopsony power are problems for both economic and political reasons (see Philippon, 2019).

The mainstream parties should invest in communications, especially online. Political se-

lection mechanisms should change—to provide greater opportunities for politicians without elite backgrounds to rise through their party ranks. Finally, governments should support broader use of deliberative democracy (e.g., citizens’ assemblies), which promote ownership of the reforms and reduce the gap between voters and elites.

Another under-researched area is the role of spatial policies. 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—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, relatively little work has been done on using place-based policies to prevent the rise of populism (with the notable exceptions of Bartik, 2020; Dijkstra, Poelman, and Rodríguez-Pose, 2020; and Rajan, 2019).

Besides, global elites, mainstream politicians, businesspeople, academics, pundits, and, more generally, the urban upper-middle class should pay close attention to rural and suburban communities that have suffered from globalization and automation. Modern democracies definitely need stronger cohesion. As Sandel (2020) stresses, this should start from empathy with the suburban and rural communities that increasingly feel isolated, neglected, and believe that their values are dismissed by urban elites.

10.2 Future Research

The other important lesson from our survey is that while some aspects of populism have been extensively researched, others evince clear gaps. We believe that the following twelve avenues for future research are the most promising.

First, we need more work measuring the understudied facets of populism. For example, immigration and redistribution policies, as well as quantifying populist interventions that remove institutional constraints. Likewise, research could more precisely measure populists’ attacks on media, academic, and business elites.⁵² Moving from binary to finer measures will allow a deeper understanding of commonalities and differences among populist parties. Ideally, such finer measures should allow for tracking the evolution of populism.

Second, though research on globalization’s role has focused on trade, we should also

⁵²Here, we see an analogy to approaches measuring democratic rule. While there are merits to using binary definitions of democracy (Papaioannou and Siourounis (2008); Acemoglu et al. (2019)), it is also important to think about its main components: executive constraints, political competition, civil liberties and rights (as the widely used nonbinary measures of the Polity Project and the Freedom House do).

examine the impact of financial openness and outsourcing. Regarding automation, future research should study the role of public expectations regarding the rise of new technologies. Also, because there has been substantial variation in both globalization and technological progress in past centuries, we need to study historical cases, especially because this allows identifying both short-run and long-run implications.

Third, while contemporary and historical research has established a link between adverse economic shocks and populism, identifying the exact mechanisms is still an open question. Why, for example, have recent crises led mostly to the rise of the right-wing—rather than left-wing—populism? A related issue that deserves more research is the role of austerity (and more generally of stabilization policies); the fascinating studies of Dal Bó *et al.* (2019), Fetzer (2019), and Fetzer, Sen, and Souza (2020) imply that austerity may result in very high political costs.

Fourth, more work is needed on the role of cultural factors—such as social norms, values, attitudes, and beliefs—in the rise of populism. While substantial work exists on identity and on trust, we need a systematic analysis of morality—the issue that populist politicians often spearhead (see Enke (2020) and Enke, Rodríguez-Padilla, and Zimmermann (2020))—and the role of collective emotions (see Altomonte, Gennaro, and Passarelli (2019)). The major challenge for the research on culture is related to identification, as cultural factors are highly persistent.

Fifth, we believe that an exciting avenue of research concerns interactive effects—for example, the interactions between economic shocks and cultural factors, and the interactions between misinformation and salience (see Alesina, Miano, and Stancheva (2019, 2020), and Gennaioli and Tabellini (2019)). In general, research on populism will certainly benefit from relying on insights from behavioral economics and social psychology.

Sixth, we need to separate economic factors from cultural factors if and where they are separable, for example, in the case of immigration. Looking at historical episodes of immigration (e.g., Tabellini (2020)) and population movements (e.g., Benos *et al.* (2020)) seems promising for understanding their political and social implications.

Seventh, we see an open avenue for research into the strategies of populist parties and the supply of populism more generally (see Guiso *et al.* (2019) for a joint analysis of demand and supply). This research requires blending demand features with textual analysis of political speeches (see Gennaro, Lecce, and Morelli (2019)) and data on politicians' characteristics (Dal Bó *et al.* (2019)). Such analysis raises questions about mainstream politics as well; why don't mainstream parties promote charismatic leaders who can withstand competition from

their populist peers? In a related note, there is an emerging consensus that populists have successfully pursued communication strategies based on using 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 mobile broadband internet is more conducive to propagating populist messages? Tackling such questions will most likely entail an interdisciplinary approach, relying on insights from data science, cognitive psychology, and economics.

Eighth, most research on the causes of populism focuses on factors that promote it; much less work exists on what prevents or slows its rise. What is the role of redistribution policies? Does providing social protection, health care, and education, protect societies from populism? Can compensation programs targeting the losers from trade, automation, and immigration help? How should they be designed?

Ninth, as populists' tenure in office increases, we expect to see more papers analyzing their impact on growth, investment, employment, and wages. Future research, however, should also look at populists' impact on political institutions (such as courts), independent agencies, media freedom, and political and human rights. Likewise, we believe it is important to study the impact of populist rule on values, attitudes, and social norms.

Tenth, country-specific puzzles contribute to the vast heterogeneity of the episodes of populist rule. Why do some populist parties gradually move to the center while others do not? Why are there such wide differences in macroeconomic performance, ranging from the disaster in Venezuela to Poland's robust growth? Why have Silvio Berlusconi's many years of corrupt, economically ineffective rule not immunized Italians against populism? Why has Portugal seen no substantial rise in populism?

Eleventh, more research is needed to understand the emerging generation divide on populist vote and values. In addition, it is worthwhile examining how experiences shape voting and ideology. For example, the evidence suggests that young Britons voted strongly for Remain, while the elderly voted for Leave; but those old enough to have experienced World War II voted mostly for Remain (Eichengreen, Lee, and Twaites, 2020).

Twelfth, we still do not fully understand how traditional mainstream parties move their positions in response to the rise of authoritarian populism, globalization, and fake news. For example, while a considerable fraction of the US Republican Party is openly embracing extreme rhetoric and ideas, Christian Democrat parties in continental Europe, like Germany's CDU, have moved to the centre.

Thirteenth, while empirical research on populism has grown rapidly, we have seen only

a few recent theoretical studies. Clearly, we need more theoretical studies to make sense of the wealth of empirical findings produced since 2016. Expanding the dimensions of the political debate seems a natural way forward. Endogenizing identity and thinking more carefully about participation may also yield additional insights.

Fourteenth, while populism is relatively recent phenomenon, some of its core features, authoritarianism, appeasing the polloi, pleasing the masses, putting the blame on the elites, and accusing others are as old as Thucydides history of the demise of Ancient Athens in the Peloponnesian War. Theoretical work should try to model such issues, while new data could distinguish various political aspects of modern democracies and political parties.

Fifteenth, it is intriguing to us that the rise of populism and its core anti-sentiment coincides with the inability of political polls to reflect voter's preferences. While speculative, it seems that the origins of people's resentment with the status quo relate to voter's increasing dissatisfaction with opinion pollsters.

Finally, the literature on the relationship between populism and the COVID-19 pandemic, though growing rapidly, is still scant. Populists' anti-expert and anti-“deep-state” rhetoric undermines effective policy response. Because populism is likely to prevail in societies with low civic capital, populist-run countries are likely to suffer more from the epidemic. Whether the COVID-19 experience will affect support for populists also remains an open question.

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