

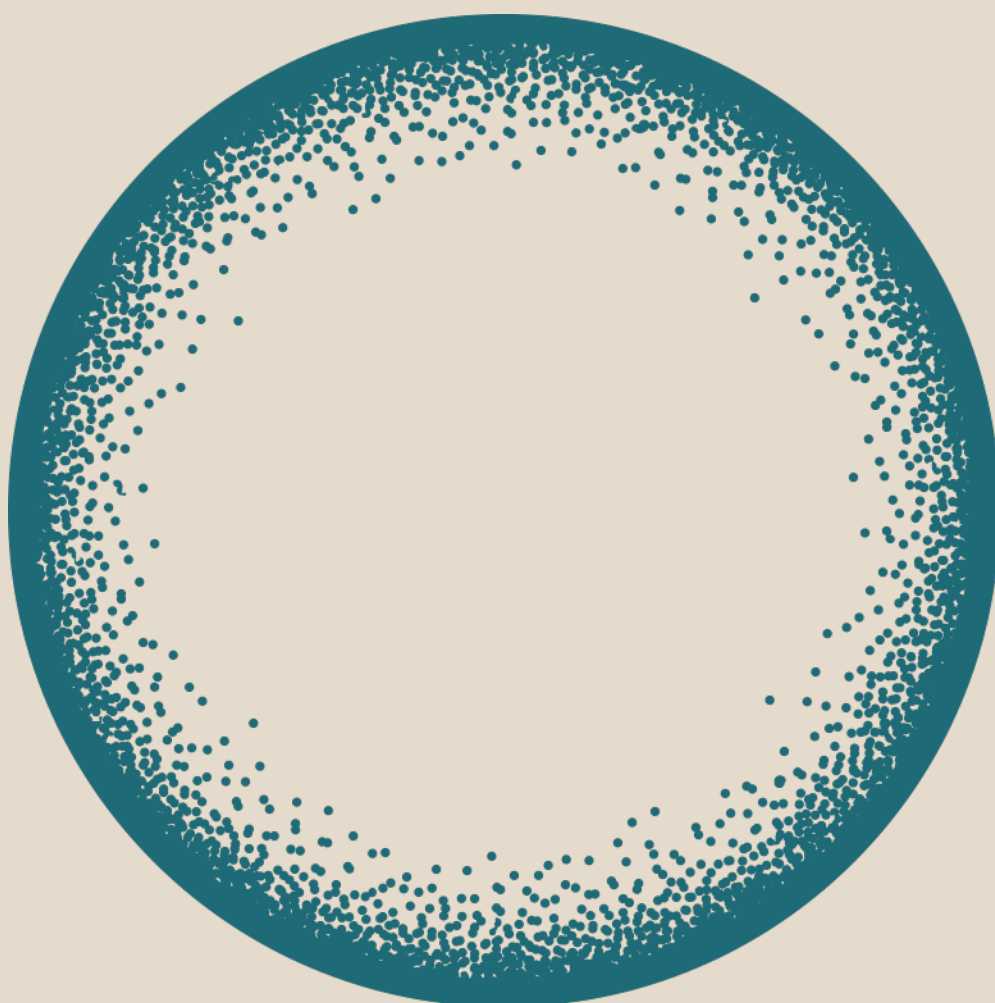
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FROM A BETTER UNDERSTANDING OF THE DRIVERS OF POPULISM TO A NEW POLITICAL AGENDA

Robert Gold*, IfW Kiel

Abstract

This paper explores how economic policies can tackle populism. Creating development perspectives for regions and individuals left behind in structural change is the main policy challenge derived from the related literature. While welfare policies are important, redistribution alone will not cure the dissatisfaction with globalization and technological change, that is one major reason for increasing populist support. It must be accompanied by labor market policies and regional policies that enable disadvantaged regions and individuals to participate in the successes of international economic development. Simultaneously, political communication has to adjust, reaching out to the supporters of populist parties and politicians.

JEL codes: F6, F62, F63, F68

Keywords: populism, globalization, technological change, redistribution policies, regional development

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1. INTRODUCTION

Donald Trump's success in the 2016 Presidential election spurred a great lot of astonishment, disbelief and bewilderment worldwide—and intense research efforts to better understanding the drivers of populism. Before, economic research on populism had largely concentrated on Latin American countries and their left-wing branch of populism (see Edwards, 2019, for an overview). The recent years, however, have seen a rise and spread of populism in Western democracies, and the research focus has shifted accordingly. In line with the political development, economic research has concentrated on the socio-economic factors that explain increasing support of populist parties and candidates from the right fringe of the political spectrum (c.f. Rodrik, 2018). This paper reviews this recent literature with a specific focus on its policy implications. The aim is to derive avenues for policy interventions that may help to counter populism.

Indeed, the election of Donald Trump to be the 45th President of the United States and the “Brexit”-referendum in the UK 2016 just mark climaxes –some say low points— of a development that set in earlier, and has been going on ever since (see Funke et al., 2020). In many wealthy, industrialized countries with functioning democratic institutions, parties and candidates who propose anti-elitist, anti-liberal and anti-internationalist agendas have gained support over the last two decades (c.f. Rooduijn et al., 2021). Although the research on the root causes of this development is still ongoing, we already know a lot about the socio-economic drivers of populism. Conversely, we have yet little evidence on effective policy measures that may help to counter this development. Preliminary conclusions can already be drawn from the available literature, though.

This paper argues that economic policy can decrease support of populist parties and candidates by addressing the inequalities that result from globalization and technological change. However, redistributive policies alone –i.e. policies that compensate “losers” from structural change by transfer payments— are not sufficient to tackle the “populist backlash”. They must be accompanied by labor market policies and by regional policies that create development perspectives for individuals and regions left behind. Moreover, populist rhetoric must be countered by modern-day political communication, that brings facts and figures across in an understandable way via multiple channels. The challenge is to ensure a reliable informational basis for the population at large, which is actively undermined by populists' distorted dealing with data and evidence.

Based on recent research, the causes of populism can be roughly grouped into two categories, namely 1) cultural factors and 2) economic factors (c.f. Margalit, 2019. For a comprehensive overview, see Guriev and Papaioannou, 2021). The cultural roots of populism relate to social norms, values and beliefs shared by the supporters of populist parties and candidates. Over the last decades,

Western economies have liberalized considerably, not only by de-regulating markets, but also in societal terms. Most societies have become more heterogeneous and pluralistic, and the acceptance of alternative lifestyles has increased – in general. Regulatory reforms have been imposed to strengthening minority rights, furthering equal opportunities and fighting discrimination in many dimensions, e.g. discrimination due to gender, sexual orientation, or race. Such reforms were often enacted in the context of international agreements and super-national institutions. It seems fair to say that economic and social liberalization have gone hand in hand.

Adherents of traditional values that prefer homogenous societies found it difficult to identify with all these developments habitually. Often, they regard liberalization to be driven by a political elite that has lost track with the original “will of the people”. Populists address these cultural roots by promising to cut back liberal reforms and concentrate on the interests of the traditional –self-declared— mainstream society (Norris and Inglehart, 2019). In contrast, the economic roots of populism relate to macro-economic developments like globalization and technological change that unequally benefit different social groups. Those on the losing side of such developments are more likely to support populist parties and candidates. The reason is that populists propose a remedy for the economic inequalities their supporters suffer from. By cutting down globalization and unwinding international cooperation – but focusing on a nationalist economic agenda instead – they promise to eradicate the root cause of economic insecurity faced by individuals left behind in an ever-accelerating structural change, i.e. their electorate.

This paper focuses on the latter category for two reasons. First, economic causes are better equipped to explain the recent rise of populism, while cultural causes are more relevant for explaining level differences in this development (Fetzer and Gold, 2019). Culture is comparatively time-consistent, and social norms and values change rather slowly. Thus, cultural factors may well explain why populism is more prominent in some countries than in others, why certain regions have a long tradition of supporting nationalist parties and candidates, or why specific sub-populations are particularly supportive of populism (Voigtländer and Voth, 2012; Cantoni et al., 2020). Economic research, however, tends to be more interested in common trends, and the populist trend can be well explained by common economic shocks experienced by all Western democracies alike. Second, the economic roots of populism can be more straightforwardly addressed by economic policy, and such policies are the core interest of this paper. Addressing the cultural roots of populism would require societal change. Not only is it difficult to come up with concrete, evidence-based policy suggestions how to manage this process, it is also questionable whether changing social norms should be regarded a legitimate policy goal. In contrast, economic policies geared at mitigating the inequalities caused by macro-economic developments may well reduce populist support as a side effect, thus stabilizing the political system and increasing the consent with welfare-enhancing economic developments.

Obviously, cultural and economic factors interact in increasing populist support (Guiso et al., 2018; Rodrik, 2018). On the one hand, there is an overlap between the electorate suffering from the inequalities caused by structural change, and the electorate that is skeptical towards societal change but sticks to traditional values. On the other hand, economic development and societal change reinforce each other. When it comes to voting decisions, it is difficult to disentangle both channels. This holds even more since populist campaigning is successful in linking the adverse consequences of economic developments to cultural change. Unfortunately, research has not yet looked closely into these interactions between the cultural and the economic roots of populism. Particularly, the interrelation between an increasing demand for populism, i.e. an increasing propensity to support populist parties and candidates, and an increasing supply of populism, i.e. the spread of parties and candidates campaigning on populist platforms, has not yet been thoroughly explored. Thus, policies addressing the economic causes of populism may well mitigate the populist response to cultural change as well, and vice versa.

International economic integration, for instance, does not only facilitate the exchange of goods and services, but spurs migration as well, which increases cultural diversity. Moreover, it contributes to proliferating liberal norms and values. The development of the European Union's institutions is a point in case. The expansion of the Single Market removed trade barriers, and facilitated freedom of movement. This economic development goes in hand with committing the member states to adhering to social, environmental and democratic standards, including the protection of minority groups and anti-discrimination legislation. This leads to institutional adjustments in the national economies, but may also contribute to some people's fears and anxieties of losing their national identity. While identity issues may be of minor importance in times of economic prosperity, they may make people more susceptible to populist rhetoric when they face economic hardships (c.f. Guiso et al., 2020). Eventually, populist campaigning successfully links economic developments to social developments, which complicates attempts to identify the decisive factors in an individual's decision to support populist parties and candidates. In any case, policies that address the economic causes of populism may help to mitigate the "populist backlash" to global economic developments. Those policies alone will not eradicate populism, though.

Most studies dealing with the economic causes of populism focus on the demand side. Specifically, the effects of globalization and technological change on voting support of populist parties and candidates has been studied intensively (c.f. Guriev and Papaioannou, 2021). In these settings, electoral votes are seen as a revelation of political preferences for protectionist policies off-the-mainstream. Such preferences are not specific to "populism" as compared to other fringe policies. This is to say that inequalities caused by economic development increase the voting potential for any party that convincingly promises protection from the adverse effects of structural change. The very fact

that populist parties, particularly those from the right fringe of the political spectrum, managed to tap into this voting potential, may well be specific to the “populist way” of leading political campaigns and of mobilizing support. Accordingly –and well in line with the literature— this paper will not strictly distinguish between populist parties and extremist parties when discussing policies that may decrease the voting potential for populists. The reason is that the voting potential for extremist parties is, by and large, a subset of the voting potential for populist parties, and effective policies will decrease the voting potential for both sets of parties alike. When discussing the supply side, i.e. policies that address the populist way of campaigning, this paper will more stringently focus on populist parties and candidates.

This leads to the question why economic research should be concerned with policies to counter populism at all. Indeed, the rise of populism to some degree just confirms the efficacy of democratic institutions. If a growing number of voters is dissatisfied with the established parties’ political programs, one would expect the entry of new parties that cater to the dissatisfied voters’ demands. Accordingly, increasing voting support of populist parties often comes with increasing turnout, i.e. populist parties manage to mobilize voters to participate in elections and express their dissent at the ballot box (Guiso et al., 2018). As such, decreasing populist support may be of strategic interest for other parties, but countering populism is not necessarily a welfare-maximizing policy goal in itself. In this respect, economic policies that mitigate the adverse effects of economic shocks and decrease the inequalities resulting from macroeconomic developments decrease populist support just as a side effect. The more people benefit from global economic developments, the less likely they are to oppose such developments.

However, populism is not a pure fringe phenomenon anymore (Abou-Chadi and Krause, 2020; c.f. Buisseret and Van Weelden, 2020). The populist way of campaigning, specifically the fact-ignoring, opinion-based way of political communication, has already transcended into the mainstream. If mainstream politicians and even governments spread misinformation just to increase their popularity, this erodes the basis for a meaningful public debate on socially optimal policies. In this respect, countering populism is necessary to improve the average voter’s level of information. Political communication has to adjust to populist campaigning in order to enable voters to make informed decisions on the basis of facts and figures. Otherwise, it will become increasingly difficult to organize consent for welfare-enhancing policies.

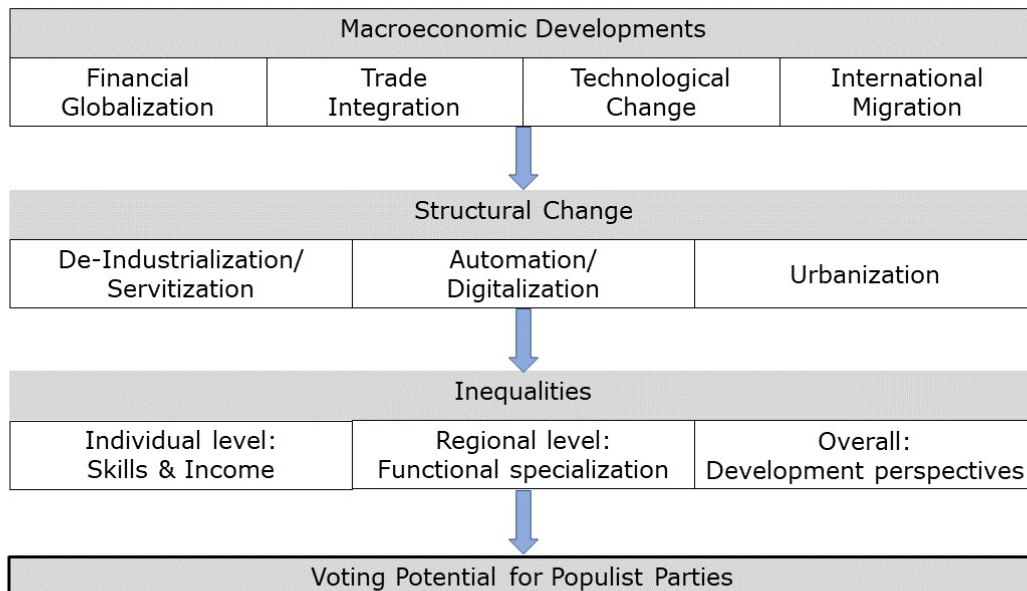
The remainder of this paper is organized as follows: Section 2 summarizes the recent literature on the economic causes of populism. Section 3 discusses avenues for economic policies to address those causes and mitigate the “populist backlash” to economic development. Section 4 puts a specific focus on migration, which is an overarching topic for populists in Western democracies. Section 5

deals with the supply side and discusses options to counter the populist rhetoric in the public debate. Section 6 looks closely into some particularities of populism in Germany. Section 7 concludes.

2. THE ECONOMIC CAUSES OF POPULISM

The recent literature on the economic causes of populism has concentrated on the increasing support of populist parties and candidates in Europe and the U.S. (for an overview, see Rodrik, 2020; Fetzer and Gold, 2019). Thus naturally, research results mainly relate to the rise of right-wing populism, which is dominant in the countries considered. As a general pattern, the literature finds that macroeconomic developments, most of which increase aggregate welfare, lead to structural adjustments in the affected countries that increase inequalities both between regions and individuals. While certain subpopulations and regions benefit from economic change, others loose out in relative and sometimes also in absolute terms. Those who are negatively affected by global economic developments turn to support populist parties that propose a nationalist alternative to the mainstream policies geared at intensifying international cooperation. The populists’ promise is to impose policies that care about the needs of the “ordinary” people in a given country, not the interests of the elitist, internationalist few (Mudde, 2004).

Figure 1: Economic Causes of Populism



The literature so far has identified four major economic drivers of populism, i.e. financial globalization (with a strong focus on the political consequences of financial crises; e.g. Funke et al. 2016; Voth et al., 2021; Gyöngyösi and Verner, 2021; Ahlquist et al., 2020), international trade (with a focus on the effects of increasing import competition from low-wage countries, specifically from China; e.g.

Autor et al., 2020; Dippel et al., 2021; Malgouyres, 2017; Caselli et al., 2019; Barone and Kreuter, 2019), technological change (with a focus on the effects of automation and digitalization; e.g. Anelli et al., 2019; Frey et al., 2018) and international migration (with a specific focus on the effects of the “European refugee crisis”; e.g. Dustmann et al., 2019; Halla et al, 2017, Steinmayr, 2021; Dinas et al., 2019).

Most academic papers try to separate out the effects of single economic shocks in isolation. When it comes to deriving policy implications, however, the interrelation between those developments must be taken into account. For instance, international trade integration requires financial globalization to finance the international exchange of goods and services. At the same time, international trade is facilitated by technological progress. Conversely, industries losing comparative advantage to low-wage countries may invest into automation to withstand the international competition. All these developments foster international migration. As such, these developments increase the welfare of the countries affected. Thus, the populist promise to undo international economic exchange, to thwart technological progress and to cut down migration cannot be the socially optimal solution (Amiti et al. 2019; Bloom et al., 2019; Sampson, 2017). Still, the adjustment processes to economic developments may bring about adverse effects that decrease the acceptance – and the electoral support— of welfare-enhancing policies. Mitigating the inequalities resulting from structural change could thus decrease the support of populist parties and candidates (Pástor and Veronesi, 2021), without forgoing the positive effects of economic development.

In industrialized countries, globalization has led to a decline of the manufacturing sector but a growth of the service sector. Labor saving technologies helped to tackle low-wage competition from emerging economies and to upscale production and the related jobs. These developments accelerated the trend towards urbanization, since new jobs rather emerged in the urban agglomerations than in the hinterland specialized in manufacturing activities. As such, this is no new phenomenon. Since the industrial revolution, structural change is an ever-ongoing process that sees new sectors grow at the expense of others. Although it may induce some turbulence, this process has led to safer and better paid jobs that also improve work-life balance. However, globalization and digitalization have not only increased the dynamics of structural change, they also raised the hurdles for sectoral mobility. Historically, workers who lost their jobs e.g. in the declining carriage industry could find similar jobs e.g. in the emerging automobile industry fairly easily. Today, assembly line workers in the electronics industry find it much more difficult to benefit from the expansion of the R&D department of a tech company when production moves abroad.

Rodrik (2017) nicely describes the political consequences of these developments. Since people are used to structural change in general, they do not change their voting behavior as long as they

expect to find new and better jobs in the near future. Competition is accepted as being fair, if people feel they can influence their life perspectives by just exerting enough effort. Conversely, if whole industries move abroad due to increasing international trade, this is seen as unfair competition, since no matter how hard you work, the jobs will not come back. This is the political brisance of globalization and technological change: some people may feel that they are not prepared to withstand the competition from new technologies and from abroad, and turn to support populist parties that offer protection as a consequence.

Economic theory is well aware of the adjustment costs to structural change, but relies on sectoral mobility to solve the underlying conflict in the longer run. When people find new jobs in growing sectors, the decline of unproductive industries is less of a problem. Similarly, regional mobility can act as a mechanism to balance out economic shocks if people move from local labor markets in distress to booming agglomerations. Unfortunately, mobility has turned out to be much lower than expected. Apparently, many people face costs from moving away from their home region that are not captured by economic models. There seem to be non-pecuniary benefits from living in a social environment people are familiar with that cannot easily be compensated for by higher wages earned in distant regions (c.f. Bartik, 2020). This is not to say that increasing regional mobility could not help to mitigate the adverse effects of economic shocks and the political backlash related. One has to accept that mobility is restricted by non-economic factors, though.

Even more, sectoral mobility comes with significantly higher frictions than usually assumed in economic theory. The skills required in emerging industries do not necessarily match the skills obtained in the old industries. Thus, even if laid-off workers find a new job in a different sector, they will often have to write off quite some of their previous skill premium. The inter-sectoral skill-mismatch explains the shortage of skilled workers in some sectors, although there is still qualified labor available on the market. Importantly, this also implies that mobile workers are great beneficiaries of globalization and technological change. They may find better jobs in nicer places and substantially improve their living standard. The problem is that immobile workers find it increasingly difficult to keep up with this development.

As a consequence, the inequalities resulting from structural change are increasingly difficult to bridge, since they reinforce each other. On the individual level, inequalities between labor income and capital income have increased. Moreover, globalization and technological change come with a skill bias, i.e. they pay wage premia to high-skilled employees, while medium or low skilled employees see their wages stagnate (Card and DiNardo, 2002; Lemieux, 2006; Goos et al., 2014). Thus, lower-skilled employees have to deal with an increasing wage gap to their high-skilled colleagues. Furthermore, while high-skilled individuals can afford to buy financial assets and benefit from the

increase in capital income, lower-skilled individuals increasingly depend on their wage income only. Accordingly, income inequality fosters wealth inequality. Thus, low-skilled, low-income individuals are regularly left behind in structural change, indeed.

Following their comparative advantage, high-wage countries have specialized in high-end production of goods at services. This is mirrored in a functional specialization of regions (Duranton and Puga, 2005). Urban regions attract both high-paying jobs and high-skilled individuals at the expense of traditional manufacturing heartlands. Accordingly, both economic development and development perspectives show pronounced regional heterogeneity within Western Economies. Most obviously, this has consequences well beyond the economic sphere. Social and cultural life flourishes in the regions that benefit from structural change as well. Conversely, the standard of living declines in structurally declining regions beyond just the loss of jobs¹.

In summary, the “losers” from structural change do not just face temporary shocks that put themselves on new development trajectories. On the contrary, peripheral regions find it difficult to compensate for the loss of jobs and the selective out-migration of high-skilled individuals, i.e. to catch up to—or hold pace with—the urban boom regions. Likewise, lower-skilled individuals find it difficult to carve out a professional career that allows for substantial upward mobility. This loss of development perspectives is the major reasons why people turn into the populist camp in reaction to globalization and technological change (c.f. Rodríguez-Pose, 2018).

The inequalities resulting from structural change, as it is caused by macro-economic development, thus increase the voting potential for populist parties. Importantly, not only voters directly affected by adverse economic shocks turn away from supporting established parties. More generally, individuals living in regions struggling with structural decline are more likely to support populist parties and candidates, even if their own jobs are not susceptible to automation or offshoring (Dijkstra et al., 2020; c.f. Dippel et al., 2015). In short, communities that lose development perspectives due to structural change blame established parties and politicians for this development, and seek protection elsewhere. This does not explain why they support populist parties, though. In principle, any party that offered protection from the adverse consequences of globalization and technological change could be an electoral alternative for voters left behind in economic development. Why is it that just the support of populist parties has increased?

The very fact that populist parties and politicians successfully tap into the voting potential generated by economic shocks, but not their opponents, relates to the populist way of campaigning.

¹ In this context, it is interesting to note that membership in clubs and associations decreases an individual’s propensity to support populist parties and candidates (Boeri et al., 2021). That is to say that social interactions, i.e. “Social Capital” in a broader sense, acts as buffer against populist campaigning.

First, populists present themselves as outsiders to the political system which they blame to be responsible for their voters' dissatisfaction. Second, they successfully develop a narrative that links economic hardships to social and cultural developments opposed by their voters. Third, they explicitly address their voters' feeling of being left behind and being overlooked by countering facts and figures with arguments constructed from common knowledge and everyday beliefs. As a consequence, they manage to present themselves as credible alternative to the political elite who is said to care for special interest groups only. Indeed, right-wing populists do have an advantage over left-wing populists here, since they can credibly claim to care about the national interest, i.e. the will of the ordinary people (but not "the others", e.g. minorities/foreigners/cosmopolitans), while left-wing populists tend to favor redistribution without clearly distinguishing between insiders and outsiders (Arzheimer, 2009; Sommer, 2008).

Eventually, the left-right distinction is not too meaningful when comparing populist parties in Europe anyhow (Algan et al., 2018). Different from other fringe parties, populist parties less strictly stick to a well-defined ideology, but rather rely on ad-hoc positions on specific policy issues, while stressing a perceived cleavage between the ordinary people and the governing elite (Mudde 2004, 2007). Essentially, it is not their nationalist or socialist agenda that differentiates a populist party from an established party, but its willingness to exclude "elitist" societal groups from the political process. This may explain why right- and left-wing populists found it easy to form coalition governments time and again. The Economist (2016) nicely summarized this new political divide: "Farewell, left versus right. The contest that matters now is open against closed."

3. AVENUES FOR ECONOMIC POLICIES TO COUNTER POPULISM

This section discusses options for policy interventions to decrease populist support. The focus is on economic policies to reduce inequalities from globalization and technological change that may be particularly effective in reducing the voting potential for populist parties. Economic policies to address the link between migration and populism will be discussed in the next section 4, while section 5 will look into policies to tackle the populist way of campaigning.

3.1. Welfare Policies

Most obviously, welfare policies help to cushion the adverse impacts of any economic shock. Moreover, they are the basic tool for redistributing gains from welfare-increasing economic developments (Antràs et al., 2016). The general idea is to tax the beneficiaries of globalization and technological change to compensate its "losers". Welfare policies buffer the financial consequences for those suffering from structural change, provide some labor market security, and may increase social justice. In doing so, welfare policies also stabilize the political system that governs market interactions

(Manacorda et al., 2011). This is needed to legitimize welfare-increasing policies that have distributional consequences. As nicely set out by Rodrik (2018), welfare policies are an effective tool to securing political support for globalization, i.e. the internationalization of economic and political activities that transcend the national institutional framework, in particular.

Consequently, the “populist backlash” to international economic integration is weaker in countries with strong welfare states. In a widely cited study, Colantone and Stanig (2018) provide evidence that increasing import competition from China increases the support of populist parties in structurally declining regions throughout Europe. Glitsch (2021) uses the same data and methodology to decompose Colantone’s and Stanig’s original effect according to the welfare state generosity of the countries observed. It turns out that the correlation between import competition and populist support is centered on countries with comparatively weak welfare state institutions. There is one exemption, this is strong welfare states that cut down welfare benefits. These results are well in line with Fetzer’s finding that welfare benefit cuts in the UK significantly increased the support of leaving the European Union in the 2016 referendum (Fetzer, 2019). Put differently, welfare policies help to reduce voters’ propensity to turning to support populist parties and candidates in reaction to economic shocks.

Most obviously, welfare policies alone are not sufficient to counter populism. Populist parties and candidates gained support in almost all European states, even in those with strong welfare states. However, welfare state institutions mitigate the political consequences of the inequalities caused by macro-economic developments. This moderating effect does not only result from the payment of transfers directly, but also from the insurance effect that may reduce fears and anxieties about future developments. Still, welfare policies cannot make up for the loss of development perspectives faced by the individuals and communities affected by structural change. To substantially reduce the voting potential for populist parties, it is not sufficient to just compensate the “losers” from structural change for their income losses, or provide insurance against such losses in the future. The loss of development perspectives implies non-pecuniary losses that cannot easily be compensated by transfer payments. To dry out populist support, economic policies must go well beyond just redistribution to provide people and regions left behind in structural change with new development perspectives.

3.2. Labor Market Policies

Labor market adjustments to structural change have been proven to be an important mechanism through which economic developments translate into populist support (Dippel et al., 2021; Algan et al., 2017). Traditionally, high levels of unemployment have been an explanation for protest voting. To some degree, the populist success results from mobilizing unemployed individuals that lost their jobs due to offshoring and automation. On a positive note, there are indications that the increasing

turnout observed in many elections recently results from the populist's success in mobilizing voters that previously abstained from elections completely². As such, it is certainly preferable that individuals dissatisfied with the political system raise their voice to express their dissent, instead of withdrawing from the political process completely (c.f. Dal Bó et al., 2021). In any case, labor market policies that aim at avoiding unemployment and at assisting unemployed individuals to find a new job can help a lot to increase the consent with the political system (c.f. Dustmann et al., 2017).

However, populist support is also strong among employees, specifically those with low or medium qualifications. Obviously, the fear of losing one's job in the future also contributes to raising populist support (Guiso et al., 2018). Importantly, the labor market effects on populist support work in two directions, following the skill-divide. High-skilled individuals who see their job market prospects improve due to structural change are less likely to support populist parties and candidates. The labor market effects on populist support are centered on those individuals who struggle with less promising prospects, i.e. lower skilled individuals with comparatively low upward-mobility. Why exactly they decide to support populists is difficult to determine, the potential reasons are manifold. Affected individuals may have good reasons to fear for their job, or they may exaggerate the risk of becoming unemployed. They may just envy their higher-skilled colleagues, or they may mourn their original life script coming to fail for reasons they are not responsible for. They may indeed face labor market competition from migrants, or just blame foreigners as scapegoat. In any case, labor market distress increases workers' susceptibility for populist rhetoric (Lechler, 2019), while the beneficiaries of labor market developments are more resistant to populism (Dippel et al., 2021).

Consequently, labor market policies that address the adverse labor market affects of structural change and that tackle the increasing skill divide on the labor markets also help to mitigate the populist backlash to globalization and structural change. However, labor market policies are often too much focused on the former aspect, but disregard the latter. There are good reasons to avoid unemployment, e.g. by subsidizing labor costs in times of economic crisis, or to invest into the qualification of unemployed people, e.g. by publicly funding training programs. However, addressing the labor markets' skill bias requires further action. The challenge is to enable also employees with comparatively low levels of formal qualification to participate in the job upgrading that comes with globalization and technological change.

Labor market policies should expand the focus from avoiding unemployment to improving the job perspectives of individuals who are susceptible to automation and offshoring (Bode and Gold,

² Empirical results on populism's impact on turnout are inconclusive, and depend on the concrete occasion. While analyses of the shift of votes suggest that populist parties manage to mobilize former absentee voters, there are also indications that the populist success relates to mainstream supporters not participating in elections, e.g. Fetzer et al. (2020). C.f. Guiso et al. (2020).

2018). This requires training and qualification measures for people on the job to frequently update their skill levels. Governments may provide infrastructure and incentives but eventually, employers must be taken on board. To substantiate the buzz-word of “life-long-learning,” employers must invest into on-the-job training of their workforce. Given the shortage of skilled and high-skilled labor in most industrialized countries, they should even have a common interest to so. The problem is that single firms face little incentive to invest into their employees’ job mobility, if other firms can free-ride on these investments. Thus, regulatory action may be needed to universally establish qualification measures that upgrade employees’ skills beyond the requirements of their current job.

The challenge becomes most obvious when looking at low-skilled labor. In Germany, for instance, the establishment of the low-skilled sector contributed to reducing unemployment. However, upward mobility of low-skilled workers is low. This lack of perspectives seems to be more important in explaining the populist voting response to adverse labor market shocks than the comparatively low incomes themselves. Increasing upward mobility by training would provide such perspectives. To this ends, regulation and financial incentives must go together to improve on-the-job training of employees. Moreover, public demand can incentivize and enforce investments into human capital. Public tenders for service contractors can require applicants to have a human resources concept that includes skill-upgrading of lower skilled employees. Public service itself could set an example by reducing the share of public employees with precarious contracts, and by setting up training and qualification schemes for its employees.

Somewhat paradoxically, technological change itself could contribute to narrowing the skill divide on the labor markets, particularly in aging societies with a shortage of skilled workers. Over the last decades, technological change mainly increased the productivity of skilled labor but replaced unskilled labor. It is not yet clear whether this trend will continue with new technologies like artificial intelligence advancing. Indeed, intelligent machinery could complement medium or low skilled workers better than high skilled workers by making up for their comparative disadvantages. Researching and developing applications of new technologies that help to bridge the skill divide, which broadly rests on formal qualifications, is another policy task that goes beyond standard labor market policies. There is a potential for significantly improving the productivity of lower-skilled labor by improving man-machine interaction for this subset of the workforce. The way technologies affect the labor markets is not predetermined. The development of technology applications that complement labor instead of replacing it can be influenced, and public research may contribute to this development.

3.3. Regional Policies

Labor market inequalities are not the only driver of populist support. Similarly, regional inequalities stemming from globalization and technological change increase the voting potential for populists in

deprived regions, while regions benefitting from those developments see a decline in populist support (Broz et al., 2021; Dippel et al., 2021). Research shows that people living in structurally declining regions turn to supporting populist parties and politicians in reaction to economic shocks, even if their own labor market prospects are not directly affected. In almost all countries, voting support of populist parties is characterized by stark regional heterogeneities. Thus, even in countries like Germany that greatly benefit from globalization and technological change, populist parties have their regional strongholds. They get significantly lower support in the booming agglomerations, though.

Indeed, structural change accelerates the growth of cities at the expense of traditional manufacturing regions in the periphery. Servitization and urbanization go hand in hand. Well-paying service jobs are created in the cities around company headquarters. They attract high-skilled workers, who have a preference for urban lifestyles and are willing to pay for the amenities typically offered by cities. In consequence, cities' supply of amenities further increases, which attracts both more high-skilled workers and more high-skilled jobs. Peripheral regions, on the contrary, not only lose jobs and people. They have to struggle with a selective out-migration of young, well-educated people with a willingness to pay for regional amenities. Thus, the increasing liveliness of urban agglomerations is mirrored in a decreasing liveliness of the periphery. As a consequence, the quality of life decreases for many people who stay in peripheral regions, even if they do not face adverse labor market effects. This impacts on the regional development dynamics. The spatial sorting of jobs and people makes it difficult for peripheral regions to keep pace with the development of the agglomerations, if not to catch up. Peripheral regions are left behind with little perspectives to regenerate in the future.

Obviously, the adverse effects of this regional inequality could be mitigated by further increasing spatial mobility, specifically of lower-skilled individuals. The more people participate in the success of the agglomerations, the less people are left behind in the periphery. However, spatial mobility has turned out to be much lower than expected. Apparently, many people face non-pecuniary costs from moving away from their social network that are not well captured in economic models. And even if they would like to move, low income earners may find it difficult to afford the cost of living in the urban centers. Even if they move to earn higher wages in the city, they may decrease their living standard due to price differentials. Thus, the challenge is to also improve the development perspectives of peripheral regions, since spatial mobility alone will not balance out the regional inequalities resulting from structural change.

The European Union and most of its member states have a long history of regional policies meant to support regions in decline. Indeed, those policies also help to reduce populist support in struggling regions. Both Gold and Lehr (2021) and Albanese et al. (2019) show that investments of the European Regional Development Funds (ERDF) significantly decrease the support of populist

parties in European regions. Still, poor regions are more likely to support populists, but populist support grows much weaker if regions receive ERDF support. More research is needed to better understand which type of investments have the strongest impact on populist support. However, it seems that regional policy already works at the extensive margin, i.e. the very fact that a region is taken care of already reduces the populist backlash, independent of the extent or type of spending.

With their regional policies, the EU sticks to the goal of “convergence”, i.e. the ideal that living conditions should harmonize between rich and poor regions in the long run. However, given the increasing structural differences between urban agglomerations and peripheral regions, the EU as well as many national governments also take insights from the endogenous growth theory into consideration, that allow for different regional development trajectories according to a region’s strengths and weaknesses. Indeed, such policy approaches aiming at “smart specialization” of regions seem promising when it comes to providing feasible development objectives for regions left behind (see Di Cataldo et al., 2021, for a critical discussion. C.f. Balland et al., 2019). Instead of just subsidizing jobs, smart specialization explicitly takes the comparative advantages and disadvantages of regions into account. Again, a shift from convergence-oriented regional policies to smart specialization implies moving away from just “compensating” regions for their losses in production and population to actively developing trajectories that may improve a region’s competitiveness and livelihood, even if it grows slower than the main beneficiaries of globalization and technological change.

Examples include investments into transportation infrastructure that facilitate commuting into the next agglomeration, investments into digital infrastructure that allow people to work from home, or investments into hiking trails and bike paths that may help to attract tourists, specifically day-trip tourists from the agglomerations nearby. The general idea is to provide peripheral regions with an infrastructure that allows them to participate in the success of urban regions. Instead of just trying to attract any jobs to the periphery, regional policy may well create development trajectories according to the regional strengths, that take a given region’s interlinkages with its neighboring regions into account.

Developing and implementing smart specialization strategies requires the cooperation of local administrations. However, administrations in the periphery may lack the competencies for regional planning with such a long-run perspective. Governments could provide pooled resources for regional planning that can be used by local administrations on demand. Central offices for regional planning could assist local administrations in working out development strategies – and to plan for concrete projects – in case they need help. This could help peripheral regions to advance economically, and provide those who chose to live there with a perspective to advance their livelihood on-site. Creating development perspectives for the regions left behind would help a lot to decrease the dissatisfaction

with economic change and the policies that led to it, consequently drying out the populist support in remote places.

4. ECONOMIC POLICIES IN THE CONTEXT OF MIGRATION

Migration is probably the most prominent issue that unites all right-wing populists across the globe. However, research on both the economic as well as the political impacts of migration is yet inconclusive. International migration may both increase or decrease support of populists, depending on the type of migration, the type of contact between migrants and “natives”, migrant characteristics (skill, origin), characteristics of the receiving region, and migration policies (c.f. Edo et al., 2019). This is not to say that populist parties were not successful with their anti-migration rhetoric. The question is whether this success does indeed relate to actual migration, or just the populist voters’ perception of it. Answering this question is complicated by the fact that the “salience” of migration – i.e. the degree to which people are aware of the issue and care about it — matters a lot, changes over time, and these changes are not necessarily aligned to the development of actual migration figures. For instance, people constantly tend to over-estimate the share of migrants living in their region (perception) (Alesina et al., 2021). They tend to do so even more if migrant groups are particularly visible, e.g. around “Ramadan” (salience). And consequently, voters are more likely to support populist parties in elections taking place shortly after Ramadan, although their actual exposure to immigrants has not changed (Colussi et al., 2021).

Arguably, migration is a topic where cultural issues and economic issues strongly interrelate (c.f. Bonomi et al, 2021). Countering the “populist backlash” to migration thus requires policy approaches that go well beyond economic policy. Still, economic policy may contribute to mitigating migration’s political consequences. Focusing on the purely economic mechanisms through which international migration may affect populist support, one may distinguish three dimensions that can be affected by economic policy. First, deprived regions/voters are more susceptible to anti-immigration rhetoric. The insecurities resulting from structural change translate into increasing concerns about potential impacts of immigration (Guiso et al., 2018). The policy options discussed above would help to reduce this susceptibility. Moreover, information policies may help voters to update their perceptions of the actual prevalence of migration, and of its likely consequences.

Second, immigration may increase the competition on the labor markets, at least in the perception of people (Dehdari, 2021). In the aggregate, migration seems to have no adverse labor market effects (see Dustmann et al., 2016, for an overview). However, certain subpopulations may indeed be negatively affected by labor market competition through migrants, specifically low-skilled employees and migrants already living in a country. That is to say that without being particularly xenophobic, there are individuals who have comprehensible reasons to oppose immigration, and support populist

parties as a consequence. The labor market policies discussed above may help to mitigate the problem by improving low-skilled employees' upward mobility. These policies may also help to reduce anxieties from just the perception of being exposed to labor market competition from migrants.

Third, immigration may increase the competition for public goods, at least in the perception of people (Dahlberg et al, 2012). Indeed, there is a pronounced in-group/out-group dynamic involved when people reflect about public goods provision (Alesina et al., 1999), and a tendency to understand the allocation of public goods as zero-sum game. Sometimes, this may be justified. When a region is exposed to a sudden increase in immigration, like during the “European refugee crisis”, there may indeed be shortages in the provision of certain public goods like daycare facilities or social housing (c.f. Cavaille and Ferwerda, 2016). Needless to say that this is an effect of a sudden increase in the local population which is unrelated to the origin of the immigrants per se. If more people move into a specific region, the scarcity of public goods increases, if nothing else changes. In any case, public spending should not be reduced in regions that face high levels of immigration to avoid crowding costs. On the contrary, public good provision helps to mitigate the social conflict that results from distributional conflict. That is to say that governments must take the availability of public goods into account when allocating migrants, particularly refugees, to host regions.

However, the origin of immigrants does matter a lot in the perception of people. Psychologically, people are more willing to share with culturally similar individuals, than with migrants who are regarded to be culturally different. Taking this in-group out-group dynamics into account, there is ample opportunity to alleviate the very perception of distributional conflict, which has a lot to do with the “salience” of migrants and migration policies. Some assume that transfers payed to foreign migrants – in the on way or the other – reduce the amount of transfers payed to the native population. Clever policy design can avoid this perception. For instance, measures to support migrants, e.g. language courses, can be included into broader policies that also benefit the native population, e.g. a more general training program for the left behind. This would avoid the impression that an out-group receives benefits at the expense of an in-group, but make the mutual benefit of public goods provision explicit. It would be particularly straightforward to reduce the “salience” of migration just by organizing administrative procedures more efficiently. For instance, foreign migrants frequently have to deal with local administrations to fill out their paperwork. Often, this causes crowding costs for both the migrant and the native population –in terms of time spent e.g. in the city hall— which could be easily reduced. As additional benefit, the perception that migrants were competing with natives for the provision of public goods would be avoided.

Populists use such experiences people make – like waiting on crowded floors together with migrants for the next public official available— to spread their narrative that migrants were overusing

public goods. As important as it is to counter this narrative, as easy it would be to avoid the perception of distributional conflict by decreasing the “salience” of migration in the contact between people and local administrations.

Of course, populist parties’ anti-immigration stance is successful mainly for other reasons than just the “salience” of migrants. Preferences for cultural homogeneity may play a more important role, as well as Xenophobia and even racism. Thus, immigration and integration policies are certainly more important for addressing the “populist backlash” to immigration than economic policy alone. However, policies that decrease the perception of distributional conflict would be easy to implement, and could prevent people from developing distinct anti-immigration attitudes in the first place. More generally, economic policies that mitigate the distributional conflict stemming from the inequalities caused by globalization and technological change by sufficiently supporting those who are disadvantaged in this process, independent of their origin, would undermine the populist’s anti-immigration rhetoric. If the scarcity of public goods is reduced, there is less inclination to envy single groups for the benefits they receive.

5. ADDRESSING POPULIST CAMPAIGNING

Economic developments have increased the voting potential for populist parties, but the rise of populism cannot be explained by the demand-side only. Indeed, populist parties have been particularly successful in collecting the votes of the left behind. The success relates to their specific agenda, that relies less explicitly on a clear ideology but on the alleged “will of the people” (Mudde 2004), which is defined broad enough to be attractive for a heterogenous group of voters. But it also relates to novel – and often innovative—ways of political communication, that caught out established politicians, journalists, and opinion leaders. Right now, there is no coherent strategy how to tackle the selective interpretation of facts, ignorance of scientific prove, and blatant lies brought forward by populists in arguing against the “elitist” mainstream. On the contrary, some established opinion leaders seem to be willing to adopt those strategies. From an economic perspective, this is a critical development, since reliable information is key in making good decisions. The more people get used to relying on false information and ignoring the facts, the less able will they be to make sound judgements.

The role of Social Media in spreading false news and in fostering populist support has been intensively discussed (see Zhuravskaya et al., 2020, for an overview). Indeed, populist parties are

particularly successful in using Social Media channels to mobilize voters (Guriev et al., 2021; Campante et al., 2018. Compare Falck et al., 2014; Schaub and Morisi, 2020)³. This is not to say that Social Media caused the rise of populism. It is just the case that populists have developed very effective Social Media strategies. First, they managed to attract voters who distrusted traditional media anyhow by using new communication channels. Second, the way of communicating via Social Media, that relies on short messages, mixing emotions with arguments and information with entertainment, fits well to the populist way of delivering simplified messages. Third, populists have well understood how to use the opportunities provided by Social Media, e.g. communicating via different channels (text, picture, sound) simultaneously or interacting with users directly. Established parties and politicians as well as governmental bodies and administrations must make up for that lead and use new communication channels more efficiently, not only to bring their message across, but to spread reliable information more broadly.

However, Social Media are just an obvious example for the populist way of campaigning. More generally, the populist way of leading political debates presents a challenge to established parties. While simplification and polarization have always been a stylistic device in political communication, an utmost flexible approach to truth is at the core of populist messaging. It is difficult to deal with opponents who ignore facts and data but insist on being right out of “common wisdom”.⁴ As such, this conduct matches the anti-elitist approach that treats all opinions equally, whether they are backed by the facts or not. Populists constantly blur the boundaries between the interpretation of facts and the facts themselves, which often leads to misleading statements. Of course, it is legitimate to argue about the socio-economic consequences of immigration or of a pandemic. However, putting actual migration figures or scientific data on a pandemic’s impact into question just by the means of conviction obstructs the information of the general public. It is important to counter these attempts to sow mistrust in independent sources of information. A meaningful public debate needs common ground that is beyond dispute, i.e. the acceptance of verifiable facts and figures.

Countering lies and bluster with facts and figures is thus a challenge for everybody who is involved in public debates. This includes journalists, academics, as well as administrative bodies. Populists seek to erode trust in all these “experts” and try to politicize their statements as being biased towards supporting the governing “elite”. Apparently, the way people consume information has changed over the last decade, and communication styles have to adjust to spread reliable information.

³ More generally, Social Media are an important channel for spreading false and biased information, that seem to benefit populist candidates more than others (Allcott and Gentzkow, 2017). While the concrete political impacts of this development are not yet fully understood – specifically since Social Media may contribute to democratization as well – spreading false information is not innocent, but has socio-economic consequences like increasing hate crime (Müller and Schwarz 2021a; 2021b).

⁴ And once people are convinced of “fake news”, it is difficult to convince them back with facts and figures, as Barrera et al. (2020) show experimentally.

Additionally, with the decline of traditional journalism and the loss in trust in traditional media, consumers must be better equipped to filter and evaluate information themselves. Countering false information but using New Media to improve the average consumer's level of information is a process of trial and error. However, it is important to face this challenge, to prevent social division into a well-informed group of people who carefully considers their decisions, and a group of people who follow their instincts on the basis of beliefs and perceptions only.

6. SOME GERMAN SPECIFICITIES

Support for populist parties and candidates has risen in all European countries, but with different dynamics and to different levels. In comparison to other European countries, Germany is indeed a latecomer in this process. Only in 2013, a right-wing populist party, the “Alternative for Germany” (AfD) was founded. Originally, the party was focused on opposing policies meant to stabilize the European currency (Euro) in reaction to the global financial crisis, but campaigned for a return of the Deutsche Mark. On this platform, the party nearly missed the five percent threshold to enter the federal parliament in 2013. It was only when the party developed a distinct anti-immigration stance, combined with a more general “Germany-first” agenda, that the party successively entered all state parliaments and gained 11 percent of the votes in the 2017 federal election.

The reason why Germany was such a latecomer in the rise of populism may well relate to the political culture in Germany that was strongly influenced by the experiences of the 20th century. There was a strong consensus among all major parties that democracy must shield itself against the fringes of the political spectrum, and that a strong nationalism would not be compatible with the democratic values enshrined in the German constitution. This conviction was shared by the large majority of the population. Accordingly, supporting parties right-of the mainstream conservative party “CDU” was considered deviant behavior. Still, one can observe a voting response to structural change even before the populist AfD was founded – it was just centered on more extreme right-wing parties that were active in Germany before, but received only small votes shares in the aggregate. Yet, voting support for right-extremist parties in the 2000s is a strong predictor for voting support of the AfD more recently.

Another reason why populists gained ground in Germany fairly late relates to the fact that the German economy was quite successful in adjusting to structural change. Different from e.g. the U.S., German manufacturing industries could withstand low-wage competition from Southern Asia and use the eastward enlargement of the Single Market to optimize their value chains, increase productivity, and expand their exports. While jobs were lost in the adjustment process, the labor markets developed fairly well in the aggregate (Dauth et al., 2014). Structural change affected German regions very

differently, but the average region still benefitted from globalization. The support of nationalist parties increased in regions suffering from structural change, but it was compensated by the decreasing support of nationalist parties in the booming regions. To some degree, the discontent with globalization remained under the radar – but in concentrated in certain regions that became populist strongholds when the AfD entered the stage.

A striking peculiarity of Germany is the stark difference in populist support between East Germany, the former German Democratic Republic (GDR), and West Germany, the part that was democratically ruled before reunification already. In the 2021 election to the federal parliament, the AfD gained 10.3 percent of the votes, which made it the fifth-largest party in Germany. In the West German states combined, the AfD gained only 6.5 percent, while it managed to attract 21.5 percent of the votes in the East German states⁵. Accordingly, the AfD is a relevant political player in East Germany. In the 2021 election, the AfD was at least the third-largest party in all East German states, and the strongest party in the states of Saxony and Thuringia.

These East-West differences are a good example for the interrelation between economic and cultural factors, between actual developments and the perception of it, when it comes to explaining populist support. Even 30 years after reunification, the Eastern part of the country is still lagging behind economically, although there has been significant convergence over the last decades. Interestingly, populist support in the West is more responsive to contemporary economic shocks than populist support in the East (Dippel et al., 2021).⁶ Conversely, the original size of the manufacturing sector is a stronger predictor for populist support in the East than it is in the West (Dippel et al., 2015). This implies that the experiences made after reunification in East, i.e. the privatization of state-owned enterprises, firm closures and mass unemployment, have had a long-lasting effect on voting behavior in East Germany (Kellermann, 2021).

The economic impacts of reunification and structural change in East Germany have been exacerbated by selective out-migration of young, aspiring, well-educated individuals. Beyond the direct economic consequences, this has contributed to a feeling of being left behind shared by many people living in East Germany. This feeling may be particularly strong, since 40 years of Socialist rule had led to a strong reliance on the state (Alesina and Fuchs-Schündeln, 2007; Bauernschuster et al., 2012). Consequently, the feeling of betrayal may be particularly strong as well if the state does not manage to buffer economic hardships. Moreover, there has been a distinct skepticism towards immigrants in many Eastern communities that was easily catered by the AfD.

⁵ Disregarding the city-state of Berlin, which cannot unambiguously be classified as East or West.

⁶ The size of the manufacturing sector after reunification indicates exposure to structural change in general, i.e. independent of additional shocks like the financial crisis or increasing trade exposure.

Consequently, the party successfully developed an East-specific platform, which is significantly more radical than the platform it campaigns on in the West. The Eastern AfD managed to mingle economic hardships with sentiments towards a political elite dominated by West Germans, and with wide-ranging Xenophobia, to present itself as advocate of East German interests against the influences of a corrupt political class. The West German branch of the AfD is much more moderate in its platform, and rather seeks to connect to the conservative middle class. More research is needed to disentangle those different channels that make East-Germany a populist stronghold, but their existence clearly asks for a balanced policy approach, that takes regional heterogeneities in the supply of populism into account, adjusts its measures accordingly, and considers regional sensitivities in the way it communicates with the local population.

7. CONCLUSION

The rise of populism in Western democracies is an expression of some people's discontent with the socio-economic developments that took place over the last decades. While economic and cultural developments may re-enforce each other, increasing inequalities between the beneficiaries of economic progress and those who lose out in structural change are at the core of this development. As such, economic inequalities provide the breeding ground for populist campaigning to succeed. Mitigating the inequalities resulting from economic progress would thus help to counter the "populist backlash" to globalization and technological change.

As a general pattern, beneficiaries from structural change are less likely to support populist agendas, while "losers" from structural change are more susceptible to populist rhetoric. Importantly, it is not sufficient to just compensate the losers by transfer payments to dry out populist support. The challenge is to not just compensate for income or wealth differentials in the short run, but to empower those who are left behind in structural change to participate in the manifold opportunities provided by economic development in the future.

Regional policies must create development trajectories that allow struggling communities to increase the liveliness for the local population, even if the local labor markets are disadvantaged in an ever-ongoing structural change (smart specialization). They must be accompanied by active labor market policies that enable disadvantaged workers to bridge the skill-divide, and to participate in the job-upgrading that comes with technological progress (training and qualification). Those policies must be embedded in welfare state institutions that provide insurance against economic shocks, not only to raise income security, but also the predictability of individual life concepts. Accordingly, public good provision must not only ensure that the "losers" from structural change have the chance to make up for their disadvantage – it must also avoid the perception of distributional conflict between

subpopulations, e.g. “natives” and “migrants”. This alone will not eradicate populism, but it will dry out the ground for increasing populist support.

Populists differ from former political fringe-movements by not blaming a well-defined subpopulation for undesirable development (e.g. foreigners, capitalists, “the Jews”), but an amorphous “elite” that acts against the interest of the “pure” people (often in complicity with traditional scapegoats like foreigners, capitalists, or “the Jews”). In their political campaigning, populists actively undermine the trust in what they regard to be “elitist” actors, be it politicians, journalists, or scientists. This is the most significant challenge from populism, since it touches upon the very basics of liberal democracies and market economies. Both economic and political theory rely on the informed individual to make reasonable decisions. Countering the populist attempt to erode the population’s informational basis with reliable facts and figures –and communicating unbiased information via all channels available— is thus a necessary condition to safeguard the functioning of democratic market economies. In the end, economic progress requires the consent of the people affected, i.e. they must be convinced of its advantages.

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