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IFN Working Paper No. 1401, 2021

# **Fairness, Flexibility and the Far Right: Understanding the Relationship between Populism, Social Spending and Labor Markets**

Andreas Bergh and Anders Kärnä

# Fairness, flexibility and the far right: Understanding the relationship between populism, social spending and labor markets

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## Abstract

The large increase in economic inequality and the dismantling of the welfare state in Western democracies has been connected to the rise of populist parties. If populist voting is explained by fear and labor market insecurity and if people care more about procedural fairness than inequality of economic outcomes, national income inequality should be less important than other factors in explaining vote shares of populist parties. Using election results from 33 European countries over the 1980-2018 period, two different classifications of populist parties and three different measures of government/welfare state size, we find no relationship between country-level economic inequality, as measured by the disposable income Gini, and either right-wing or left-wing populism. An alternative hypothesis that right-wing populism is dampened by labor market flexibility and social spending is developed and shown to have empirical support.

**Keywords:** Inequality · Populism · The welfare state · Social spending · Employment protection

**JEL:** P16 · D63 · D31

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# 1 Introduction

The rise of populism in Western democracies has spawned a large body of literature looking for patterns and explanations for (in particular) the success of right-wing populist parties. Among the proposed explanations, rising inequality has a prominent role (Fukuyama, 2019; Pastor and Veronesi, 2018; Hoffmann et al., 2020; Kopczuk and Zwick, 2020), often in combination with structural economic changes and labor market insecurity (Dehdari, 2021; Dippel et al., 2015; Colantone and Stanig, 2018a), and welfare state cutbacks (Swank and Betz, 2003; Fetzer, 2019; Dal Bó et al., 2019).

The present paper departs from the observation that inequality comes in many different varieties, and peoples' attitudes toward inequality are unlikely to be properly captured by a one-dimensional degree of inequality aversion. Both theoretical and empirical research suggests that procedures, context and perceived fairness matter and that people are more accepting of income differences when these are the result of procedures perceived to be fair (Thibaut and Walker, 1975; Konow, 2000; Dunham et al., 2018). In countries characterized by the rule of law, low corruption and high-quality government institutions (La Porta et al. (1999); Rothstein and Teorell (2008)), it is therefore far from obvious that income inequality fosters right-wing populism.

A similar caveat concerns the role of labor market insecurity. Authors such as D'Ambrosio et al. (2021) and Wodak (2020) have described the crucial role that fear plays in the rhetoric of right-wing populist parties—both fear in general and fear of losing one's job due to trade, migration or automatization. Populism thriving on fear of job loss is different, however, from populist parties benefiting from people actually losing their jobs. The distinction is illustrated by the findings by Kurer (2020), who use empirical evidence from Germany, the UK and Switzerland to show that right-wing populist parties tend to be successful among routine workers who manage to cling to their jobs until (early) retirement but less so among voters who have actually lost their job. The latter group is more prone to left-wing voting (if unemployed) or to economically liberal voting (if they find a new and better job).

Together, the findings described above suggest that right-wing populism is not driven by inequality per se. Perhaps more interestingly, they suggest that right-wing populism can be mitigated by flexible labor markets or what is sometimes known as flexicurity arrangements (Viebrock and Clasen, 2009), where labor market flexibility is paired with social safety nets to create a dynamic labor market. In such settings, fear of job loss is dampened because the adverse consequences of unemployment are dampened by the welfare state, because job losses are more common (reducing the associated stigma) and because finding a new job is easier. When labor markets are sufficiently flexible, trade, migration and automatization not only cause disruptive changes but also have the potential to improve matching and lead to job upgrading (Oesch and Piccitto, 2019; Cortes, 2016; Davidson et al., 2014; Foged and Peri, 2016; D’Amuri and Peri, 2014).

This paper examines both the idea that populism is related to income inequality and the competing idea that it is related to rigid labor markets and a lack of social safety nets with country-level data from European democracies for the period after 1980. We do so using two different compilations of election results for populist parties in Europe, cross-country comparable Gini coefficients from the Standardized World Income Inequality Database (Solt, 2020), OECD data on employment protection strictness and several indicators of social and public spending. Running fixed-effects regressions over the 1980-2018 period with votes for populist parties as the dependent variable, we uncover the following patterns (that hold across a large array of robustness tests):

- The Gini inequality of disposable income is unrelated to populism.
- Social expenditure is negatively related to populism (with weak to moderate significance levels).
- Left-wing populism is positively related to unemployment.
- Right-wing populism is positively related to stricter employment protection.

The patterns described above support the idea that populist parties have grown more where labor markets are more rigid, and they speak against the idea that rising income inequality is a major factor explaining populism.

The paper proceeds as follows: The next section describes in more detail related research regarding attitudes toward inequality, labor market flexibility and populism. Section three describes our data and the main empirical findings. Section four concludes, and an appendix contains a large set of additional regressions that illustrate that the results are robust to large adjustments in the empirical specifications.

## 2 Theoretical background and related studies

A large body of literature relates the growth of populist parties to recent changes in globalization, labor market conditions, inequality and an increase in job insecurity for workers. However, there is a lack of consensus regarding the exact motivation for the increase in populism or even how to define the phenomenon.

### 2.1 Populism

We agree with [Huber and Schimpf \(2017\)](#), who suggest that an emerging consensus defines populism using three basic characteristics: an appeal to "the people", a denunciation of the elite, and the idea that politics should be an expression of the "general will" (see also, e.g., [Mudde and Kaltwasser \(2017\)](#)). While most, if not all, populist parties share the three characteristics just mentioned, several scholars have emphasized differences between left-wing and right-wing populism because right-wing and left-wing populist parties highlight different societal cleavages and behave differently in parliaments ([Rodrik, 2018](#); [Otjes and Louwse, 2015](#)). Moreover, the consensus view seems to suggest that left-wing populism is less homogeneous than its right-wing counterpart. While some measurement methods are based on content analysis of texts such as election manifestos ([Rooduijn et al., 2014](#)), the

data sources used in this paper rely on expert classifications, such as those discussed by [Norris \(2020\)](#).

## 2.2 Inequality aversion and procedural fairness

In an ambitious theoretical model of an economy where populism emerges endogenously, [Pastor and Veronesi \(2018\)](#) assume that individuals are inequality averse in the sense made popular by [Fehr and Schmidt \(1999\)](#). The Fehr-Schmidt model of inequality aversion introduces a utility function augmented with parameters capturing the (dis)utility that people experience from having less or more than others. Fehr and Schmidt argue that human behavior deviates from self-interested maximization, as in the case of rejections of unequal offers in the ultimatum game<sup>1</sup>, which are better explained by their model.<sup>2</sup>

An implicit assumption in inequality aversion models is that people’s conception of a fair distribution is consequentialistic. The utility function augmented with inequality aversion depends only on outcomes and is independent of the procedures that led to those outcomes. Such a model of attitudes toward inequality is arguably an oversimplification. At least since the seminal contributions by [Nozick \(1974\)](#) and [Dworkin \(1981\)](#), the normative field of distributive justice has moved away from simple outcome-based models to instead emphasize procedures, responsibility, and the distinction between effort and brute luck (see [Roemer \(1996\)](#) for an overview). More importantly, overwhelming empirical and experimental evidence suggests that procedures matter for peoples’ fairness perceptions. For example, [Hoffman et al. \(1994\)](#) shows that when the role of proposer in the ultimatum game is earned, rather than being randomly assigned, proposers offer less and respondents accept more unequal offers. Similarly, [Konow \(1996, 2000\)](#) propose and confirm the accountability principle, which requires that a person’s fair allocation (e.g., of income) varies in proportion to the

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<sup>1</sup>In the ultimatum game, one player (the proposer) is endowed with a sum of money and proposes a distribution of that sum between herself and another player (the responder). If the responder accepts the distribution, the money is split according to the proposal; otherwise, both players receive nothing.

<sup>2</sup>See, however, [Shaked \(2005\)](#) and [Levitt and List \(2007\)](#) for a critical discussion. Altruism in dictator games also decreases if the dictator needs to earn his or her money rather than spending free resources ([Cherry et al., 2002](#)) and when the stakes increase ([Andersen et al., 2011](#)).

relevant variables which he or she can influence (e.g., work effort), but not according to those which he or she cannot reasonably influence (e.g., a physical disability). [Starmans et al. \(2017\)](#) summarize the research field and conclude that people in general are not bothered by economic inequality itself but by economic unfairness, which is often confounded by inequality<sup>3</sup>.

## 2.3 Labor market insecurity and fear

[Kurer \(2020\)](#) studies routine workers' political reactions to labor market insecurity and notes that "routine workers' situation in an increasingly automated world of work ... provides an ideal case to disentangle the political consequences of *fearing* as opposed to *experiencing* economic adversity" (p. 1800, italics in original). Using individual-level panel data from Germany, Switzerland, and the United Kingdom (because those countries offer the longest panel surveys suitable for the research), Kurer concludes that "a perception of relative societal decline" and "concerns about one's position in the social hierarchy", rather than unemployment or material hardship, drive support for right-wing populist parties (p. 1800). These conclusions say little about the effect of income inequality on populist voting. Larger income differences may contribute to concerns about relative position and social decline but could also be interpreted as a sign of economic progress and development, as described by [Hirschman \(1973\)](#).

The results in [Kurer \(2020\)](#) also suggest that more flexible labor markets can dampen the growth of right-wing populism for several (interconnected) reasons. Note first that empirically, labor market flexibility is unrelated to the average unemployment rate but does affect the variability over time and the composition of unemployment ([Skedinger, 2010](#)). When workers in routine jobs exit unemployment and find new jobs at a faster pace, relatively fewer workers will cling to their routine jobs for a long time, thus decreasing the potential growth of right-wing populist parties, according to the results in [Kurer \(2020\)](#). Second,

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<sup>3</sup>Interestingly, children develop a preference for procedural justice at 4 to 8 years of age (see [Dunham et al. \(2018\)](#)).



the process of actually losing a job may well lead to lower subsequent fear of job loss, especially if social protection is adequate and the chances of finding a new job are high. These hypotheses are supported by Kurer's findings that those who transition from routine jobs to unemployment tend toward abstention or toward left-wing voting. Kurer's (in our view reasonable) interpretation is that unemployment means that actual scarcity of material resources rather than status anxiety becomes the most salient problem. On the other hand, those whose job is upgraded to a nonroutine job are less likely to vote for right-wing populists and more likely to vote for liberal, social-democratic or conservative parties.

Kurer's findings are also useful for interpreting the results of other studies, such as [Dehdari \(2021\)](#), who demonstrate a strong association between layoff notices and support for the Swedish right-wing populist party (*Sweden Democrats*). Based on survey evidence, Dehdari also notes that self-reported unemployment risk is positively associated with voting for the Sweden Democrats among low-skilled respondents. The findings are interpreted as support for the theory that economically distressed voters oppose immigration, as they fear increased labor market competition. On the other hand, studies by [Foged and Peri \(2016\)](#) and [D'Amuri and Peri \(2014\)](#) have shown that if labor markets are flexible, immigration can lead to exactly the type of job upgrading that decreases support for right-wing populism. Using longitudinal data on workers in Denmark during the period 1991-2008, [Foged and Peri \(2016\)](#) shows that an increase in the supply of refugee-country immigrants pushed less educated native-born workers (especially young and low-tenure workers) to pursue less manually intensive occupations. Similar results for 15 Western European countries during the 1996-2010 period are presented in [D'Amuri and Peri \(2014\)](#), who also note that such job upgrading was larger in countries with more flexible labor markets. Along the same lines, [Cortes \(2016\)](#) use panel data from the United States over three decades to show that wage growth over long-run horizons is faster for workers switching out of routine jobs than for those who stay.

Finally, it is worth noting that people who feel more socially marginal are more likely to be alienated from mainstream politics and to support radical parties ([Gidron and Hall](#),

2020). Strong employment protection laws should theoretically induce employers to go for safe options when hiring, at the expense of marginal groups, a theory with some empirical support, according to the survey by [Skedinger \(2010\)](#).

## 2.4 Trade, migration and automatization

While there are obvious differences between trade, migration and automatization, there are also similarities in how labor markets are affected. The commonalities lie in how these phenomena simultaneously disrupt labor markets and foster economic development. When some tasks can be done more efficiently in other countries, with migrant labor or with previously unavailable technology, some workers lose while other groups (including workers, capital owners and consumers) benefit. On the other hand, complementarities and specialization create gains that (at least in the long run) can be used to compensate those who initially lose out. To some extent, the nature of these gains is similar under automatization, trade or migration and can be described in terms of comparative advantage.<sup>4</sup> The size of the gains and the speed with which they materialize differ across countries (as noted above for gains caused by migration), partly because countries differ in their ability to agree on how such gains can be used to compensate losers, what [Lindvall \(2017\)](#) calls reform capacity.

Several studies have linked some aspects of economic globalization to populist voting ([Autor et al., 2020](#); [Colantone and Stanig, 2018b](#); [Rodrik, 2020](#)). On the other hand, [Rommel and Walter \(2018\)](#) finds, using individual-level data from five waves of the European Social Survey for 18 advanced democracies, that offshoring does not affect the propensity to vote for right-wing populist parties, and [Fang et al. \(2021\)](#) find that globalization decreases political polarization. Similarly, [Bergh and Kärnä \(2021\)](#) fail to find a significant association between various measures of economic globalization and (right or left) populism in 33 European democracies.

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<sup>4</sup>For an empirical application on how trade can induce productivity gains through improved labor market matching, see [Davidson et al. \(2014\)](#). See also the discussion of skill-biased technological change regarding the effects of automatization ([Card and DiNardo, 2002](#)).

## 2.5 Synthesis and hypotheses

Factors such as those mentioned above all suggest that we should not expect there to be a simple link between disrupted labor markets, inequality and populism. Regardless of whether people lose their jobs due to trade/outsourcing, automatization or migration, populism can be mitigated if labor markets are flexible and people are able to quickly find new jobs. Even if labor market disruptions increase inequality, people may find that such inequalities are the result of a fair process (and this possibility should be higher when labor markets are flexible, facilitating job upgrading). Finally, populist growth can be further mitigated if social expenditure contributes to safety. We specify our hypotheses regarding correlations at the national level as follows:

1. Labor market flexibility is negatively related to right-wing populism
2. (a) Inequality of disposable income is unrelated to right-wing populism  
(b) Inequality of disposable income is positively related to left-wing populism
3. Unemployment is positively related to left-wing populism
4. Social expenditure is negatively related to both right-wing and left-wing populism

## 3 Data and empirical analysis

The main data source for this paper is [Heinö \(2016\)](#), who uses scientific literature examining the European party system and the Chapel Hill Expert Survey to separate right- and left-wing populist parties. The dataset includes vote shares for 267 parties in 33 countries (the 28 EU countries plus Iceland, Norway, Switzerland, Serbia and Montenegro) from 1980 until 2020. The dataset allows parties to switch between being populist and being nonpopulist depending on, e.g., changes in party leadership. For example, Hungary's Fidesz is classified as populist for the period starting in 2002 but not for years before that. Countries are

included in the index when they are free according to the Freedom House index. Hence, with the collapse of the Soviet Union, most postcommunist countries have been included since 1990, Serbia since 2000 and Croatia since 2001.

To avoid relying on only one index, we verify our main results using Populist 2.0 (as updated in January 2020), a project initiated by the newspaper *The Guardian*. It consists of a list of European populist parties (based on several experts in each country) from 31 countries starting in 1989. Both indices distinguish between right- and left-wing populism, and our choice to rely mainly on [Heinö \(2016\)](#) is based on the longer and wider scope rather than any difference in methodology. As seen in [Figure 6](#), the two sources are closely correlated.

Our source for data on income inequality is the Standardized World Income Inequality Database (SWIID). We follow the consensus in the literature to focus on inequality of disposable income (which includes the effect of taxes and transfers). The distribution of disposable income includes the effect of political efforts to curb inequality and is also a measure of income inequality that captures the lived reality of households, as argued by, e.g., [Brady and Sosnaud \(2010\)](#).

To control for demographic structure, we use the population share aged 15-64 years old (from the World Development Indicators). Education is the average years of education in the population aged 25-64, with the data taken from the International Educational Attainment Database introduced by [Cohen and Soto \(2007\)](#). The remaining variables are taken from the OECD, Penn World Tables, and World Development Indicators. We add a dummy for when countries become members of the European Union, found to matter for populism by [Bergh and Kärnä \(2021\)](#). While we have election data until 2020, our control variables are available only up until 2018, forcing us to limit our analysis to the period up to that date. [Table 1](#) contains summary statistics.

[Figure 1](#) illustrates the development over time of the average disposable income Gini and populism. Interestingly, left-wing populism is clearly declining, while economic inequality is

growing. However, instead of looking at the general trend, we focus on 5-year differences in Figure 2, and the pattern disappears. This lack of pattern between changes in the Gini and populism motivates a more advanced analysis of the correlation between the two variables.

Figure 1: Populism and inequality trends

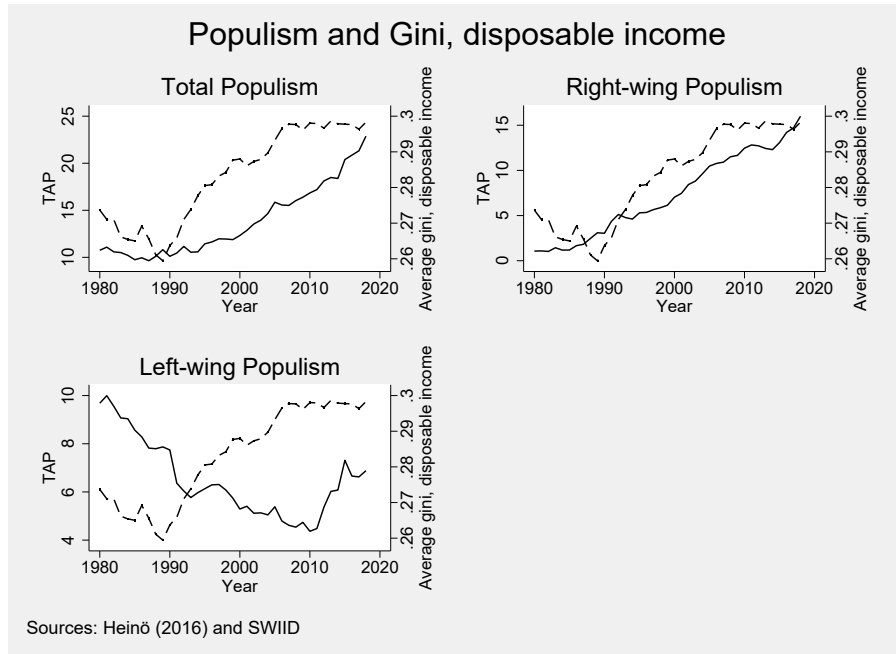


Figure 2: Five-year changes in populism and inequality

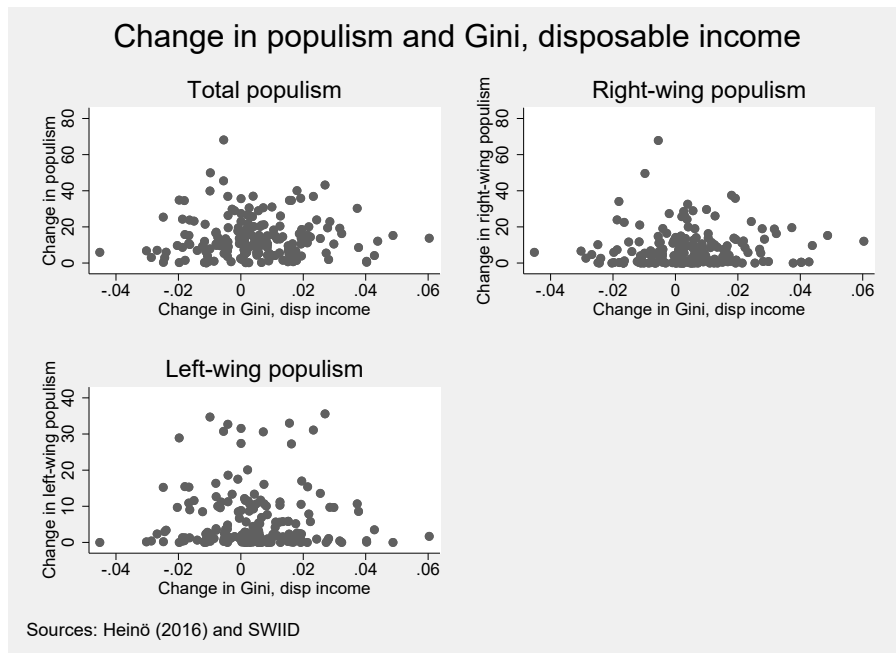


Table 1: Summary statistics

	Observations	Mean	Median	Std. Dev.
Total vote share populist parties	1106	14	11	12.4
Share right-wing votes	1106	8	5	10.6
Share left-wing votes	1103	6.3	2	8.85
Total populism, PopuList data	834	15	12	12.5
Right-wing populist, PopuList data	834	8.1	5	11.1
Left-wing populist, PopuList data	834	6.8	5	7.79
Gini, disposable income	1052	.29	0	.0397
Total social spending, percent of GDP	869	21	21	4.94
Share of population aged 15-64 years old	1106	67	67	1.94
Years of schooling, 25-64	1106	7	7	1.01
Dummy for EU membership	1106	.64	1	.48
Real GDP per capita (log)	1077	10	10	.487
Populist party in power	1106	.15	0	.356
Unemployment	1071	8.2	7	4.78
Employment protection index	712	2.4	2	.783

Notes: Summary statistics for main variables. Observations are country-year.

### 3.1 Regression analysis

To better understand the connection between inequality and populism, we run the following fixed effects OLS regression:

$$Y_{it} = \delta_{it} + X'_{it} + \tau_t + \gamma_i + \epsilon_{it} \quad (1)$$

where  $Y_{it}$  is the electoral vote share for all, right-wing or left-wing populist parties depending on the specification,  $\delta_{it}$  is our definition of inequality,  $X'_{it}$  is a vector of control variables,  $\tau_t$  is a time fixed effect,  $\gamma_i$  is a country fixed effect, and  $\epsilon_{it}$  is an error term.

We begin the analysis by looking at total populism. The results in Table 2 reveal no effect of the Gini coefficient in any specification of the regression. Interestingly, an increase in years of schooling is significantly positive. Total social spending is significant, but only if we add additional control variables (column 4). To test whether the results differ for right- and left-wing populism, we split the analysis based on the type of populism and rerun the regression with identical control variables. The results, in Table 3, are similar, with no significant effect of the Gini coefficient in any regression.

Interestingly, unemployment is significant in all regressions where left-wing (but not right-wing) populism is the dependent variable. Given the success of left-wing populist parties such as Podemos in Spain and Syriza in Greece, countries that experienced very high levels of unemployment following the Euro crisis, this is hardly surprising. It also further strengthens the point that left- and right-wing populism are different phenomena and that the latter is less related to economic circumstances. Relatedly, total social spending is negative and significant in most left-wing populism regressions. Finally, EU membership is strongly significant and positive for right-wing populism and strongly negative for left-wing populism.

Table 2: Total populism

	Dependent var: Total populism							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Gini, disposable income	-0.65 (41.43)	-7.87 (40.92)			-4.55 (47.78)	-11.20 (52.36)	2.90 (55.73)	24.44 (45.41)
Total social spending, percent of GDP			-0.23 (0.34)	-0.55** (0.22)	-0.25 (0.35)	-0.59* (0.31)	-0.24 (0.37)	-0.56* (0.32)
Share of population aged 15-64 years old		-0.82 (0.68)		-0.73 (0.71)		-0.37 (0.77)	-0.33 (0.89)	-0.52 (0.85)
Years of schooling, 25-64		2.65*** (0.94)		4.09*** (0.84)		6.78*** (1.48)	8.46 (5.35)	4.49 (4.03)
Dummy for EU membership		2.93 (3.39)		2.31 (3.61)		1.77 (5.12)	2.93 (5.25)	-0.12 (4.89)
Real GDP per capita (log)							-10.79 (14.24)	3.99 (11.30)
Populist party in power								6.86 (4.55)
Unemployment		0.43 (0.35)		0.69 (0.42)		0.89* (0.48)		0.87* (0.44)
Employment protection index						3.73 (2.81)	1.78 (3.57)	2.82 (2.47)
Constant	12.36 (10.97)	50.77 (44.91)	15.20** (6.07)	43.11 (46.79)	17.81 (14.89)	-6.84 (57.98)	89.54 (112.52)	-30.08 (84.49)
Observations	1,052	1,024	869	858	853	682	684	682
R-squared	0.18	0.22	0.20	0.27	0.20	0.31	0.26	0.35
Number of countries	33	32	26	26	26	26	26	26

Robust standard errors in parentheses. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1  
Country and time fixed effects included. Robust standard errors.



Table 3: Right- and left-wing populism

	Dependent var: Right- and left-wing populism					
	(1)	(2)	(3)	(4)	(5)	(6)
Gini, disposable income	-30.57 (35.71)	-25.54 (34.89)	7.24 (29.37)	19.50 (35.99)	28.58 (41.67)	17.46 (31.07)
Total social spending, percent of GDP	-0.21 (0.24)	-0.10 (0.22)	-0.15 (0.20)	-0.37* (0.21)	-0.13 (0.27)	-0.41* (0.22)
Share of population aged 15-64 years old	-0.25 (0.41)	-0.55 (0.42)	-0.63 (0.47)	-0.10 (0.54)	0.23 (0.66)	0.13 (0.60)
Years of schooling, 25-64	4.50*** (1.06)	2.43 (3.26)	0.45 (3.21)	2.27* (1.20)	6.00* (3.39)	4.01* (1.97)
Dummy for EU membership	8.70** (3.59)	8.93** (3.58)	6.82** (2.75)	-6.94** (2.87)	-6.01* (2.98)	-6.96** (3.26)
Real GDP per capita (log)		5.39 (10.00)	9.43 (10.61)		-16.09* (9.03)	-5.36 (3.94)
Populist party in power			6.85** (2.62)			0.04 (3.12)
Unemployment	0.05 (0.22)		0.11 (0.24)	0.83*** (0.29)		0.76*** (0.24)
Employment protection index	3.66** (1.76)	3.63* (1.97)	2.99* (1.59)	0.04 (1.55)	-1.87 (2.23)	-0.19 (1.39)
Constant	-7.46 (33.41)	-31.90 (76.48)	-61.76 (73.01)	-0.49 (36.45)	119.85* (64.15)	30.05 (39.26)
Observations	682	684	682	682	684	682
R-squared	0.38	0.38	0.46	0.28	0.19	0.28
Number of countries	26	26	26	26	26	26

Robust standard errors in parentheses. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Dependent variable for columns 1-3 is right-wing populism and for columns 4-6 is left-wing populism. Country and time fixed effects included. Robust standard errors.

## 3.2 Robustness checks

Our results could be dependent on several decisions regarding choices of both dependent and independent variables, and we therefore perform a battery of robustness checks. Since there is no universally accepted definition of populism, our first priority is to see if the results hold with a different choice of index. We switch the definition of populism from TAP to PopuList and test both the total and separate regressions for right- and left-wing populism with identical control variables. The results remain similar, with the Gini being nonsignificant in all specifications. While this is perhaps not surprising given the high correlation between the TAP and PopuList definitions, it does suggest that our results are not dependent on one definition of populist parties.

We then perform a battery of robustness checks to test whether inequality has a significant effect on populism depending on the relevant control variables. First, we use the Area 1 coefficient of the Fraser Institute Economic Freedom index as a measurement of government size instead of total social spending. This coefficient is in itself an index and includes government spending, taxation, and the size of government-controlled enterprises. The results remain similar in terms of the Gini effect. Switching instead to total taxation as percentage of GDP as the government size definition, the results again remain similar, with no effect on populism from the Gini.

Focusing instead on other parts of government activity, we look at 3 different measurements of public spending: total government consumption, total government spending on health care, and total government spending on education, all expressed in percentage of GDP. The results reveal no effect of inequality on populism. Spending on health care does, however, lower left-wing populism.

It could be possible that populism is driven not by inequality per se but rather by poverty. We therefore switch from using the Gini to using the share of the population living in poverty, defined as having an income below 50% of the median income. The result reveal that poverty affects left-wing populism but not right-wing populism. This, along with the result regarding

unemployment, suggests that left-wing populism is driven more by material hardship than is right-wing populism.

Hostility toward immigrants is a possible explanation for right-wing populism in particular. However, the data available on the share of foreign-born individuals are only available for a fairly short time span and include all types of immigrants. This means that we cannot separate, e.g., labor immigrants from other EU countries from, e.g., asylum immigrants from Africa. Surprisingly, the results suggest that the share of foreign-born individuals has no effect on left-wing populism and a negative effect on right-wing populism. The relatively short time span for the data, as well as the inability to separate different types of immigration, suggests that this result should be interpreted with a large degree of caution.

It is more prudent to use country-level fixed effects instead of random effects in our empirical setting. Rerunning the regressions with random effects does not, however, change the main results regarding the effect of the Gini on populism. While 33 countries is a slightly less than optimal number for clustered standard errors ([Cameron and Miller, 2015](#); [Abadie et al., 2017](#)), we rerun our main regressions with country-level clustering instead of robust standard errors, with no difference in terms of significance.

All tables are available upon request.

In summary, our main result that inequality is not related to right-wing populism remains strong in all of our specifications and variation in the econometric method. Left-wing populism is more related to indicators of material hardship such as unemployment and poverty, while right-wing populism does not seem to be affected by such factors.

## 4 Conclusions

While a large body of literature has discussed the connection between inequality and the growth of populism, there is a clear lack of correlation when we look at cross-country panel data. Using two difference indices on populism for 33 European countries, we find no signifi-

cant connection between inequality and populism. Following the suggestion made by [Mudde and Rovira Kaltwasser \(2018\)](#), we have tried to avoid starting from scratch and instead built upon existing research by extracting hypotheses from [Kurer \(2020\)](#) regarding the relationship between labor-market flexibility and right-wing populism. We find signs that welfare state size, when measured by social expenditure, is negatively associated with populism, but the effect does not seem to work through reduced inequality.

While our results do not establish a causal relationship, they do suggest that recent causal findings at the local level do not translate into cross-country patterns. We find no clear evidence that an increase in inequality or the existence of economic losers in terms of unemployment or poverty leads to an increase in right-wing populism. On the other hand, we find a positive association between employment protection and right-wing populism in line with the observation by [Kurer \(2020\)](#) that right-wing populism thrives where people cling on to their jobs.

Finally, it is worth noting that material hardships such as unemployment or poverty correlate with left-wing populism but not with right-wing populism. To better understand the rise of right-wing populism economic factors might be less important than cultural dimensions ([Murray, 2017](#); [Goodhart, 2017](#)) and the local economic development ([Autor et al., 2020](#); [Rodríguez-Pose, 2020](#)). Further research could benefit from more fine-grained data on immigration, separating immigration due to asylum and work motivation, as well as immigration from Africa and Asia in comparison with that from within Europe for European countries, as this could be of importance for understanding right-wing populism.

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Figure 5: Populism and Gini, disp. income 1995

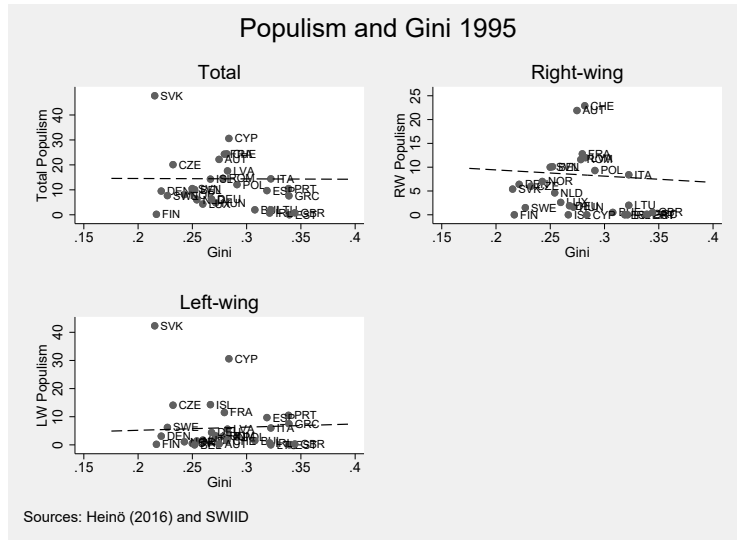


Figure 6: Two different indices of populism

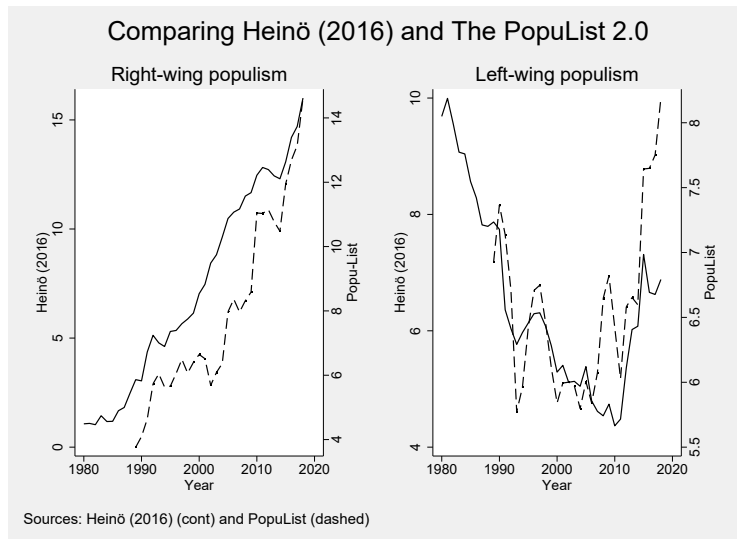




Figure 9: 10-year changes in populism and current level of social spending

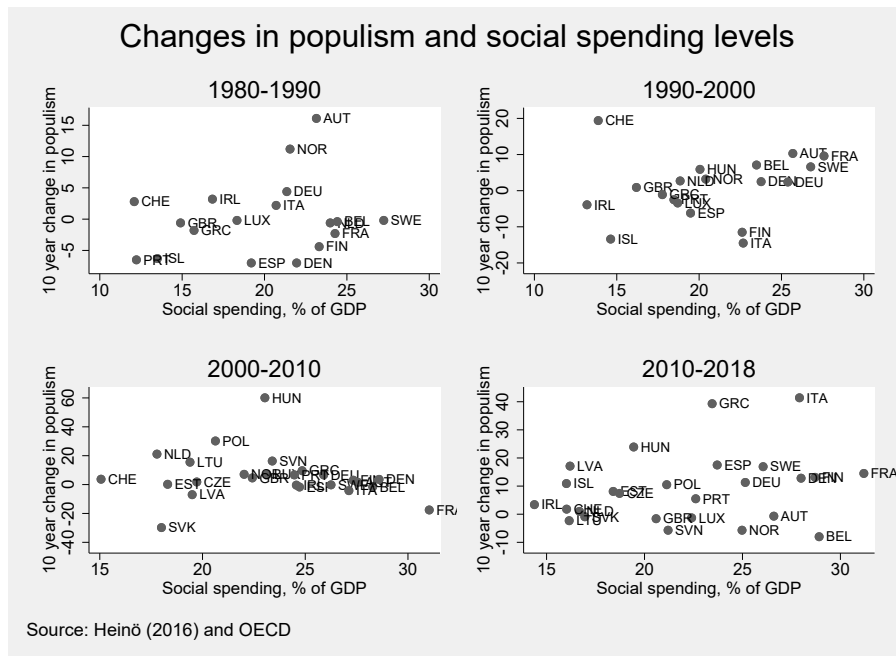


Figure 10: Changes in Gini and size of government

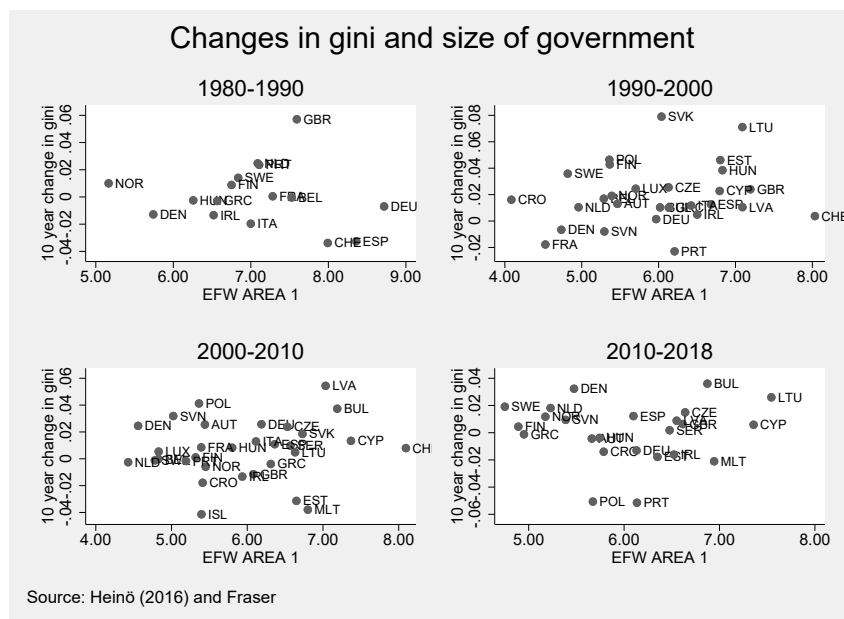


Figure 11: Changes in Gini and social spending levels

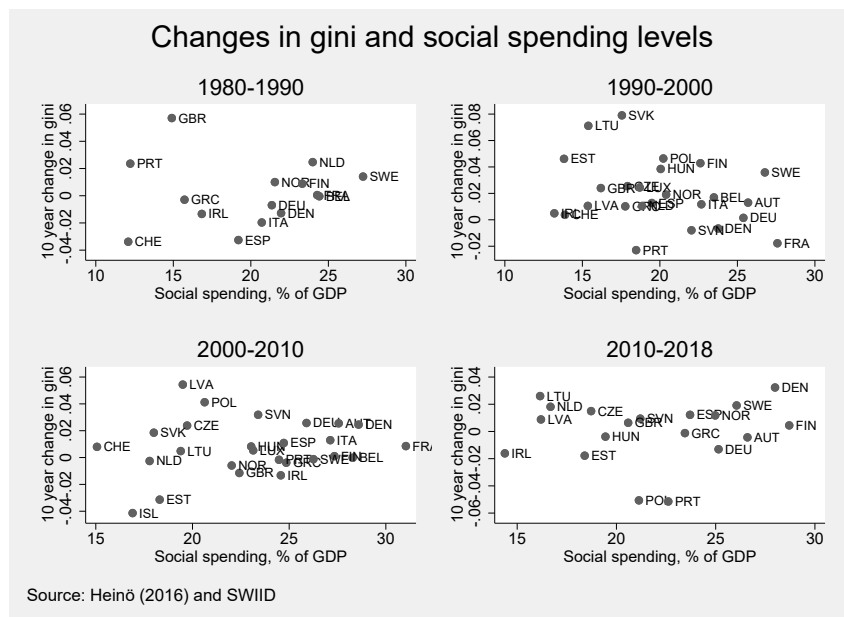


Figure 12: Right- and left-wing populism by country

