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Economic determinants of populism

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DIW Roundup

Politik im Fokus

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Economic Determinants of Populism

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Economic Determinants of Populism

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The rise of populism challenges numerous Western democracies and their institutions. In this round-up, we examine economic and societal conditions that are driving forces behind populism. We focus on five domains that are closely interlinked with populist support: globalization, financial crises, migration, inequality, and social mobility. Each domain offers unique insights into how societal shifts, economic disruptions, and perceived injustices can fuel anti-establishment sentiments. As these factors collectively shape the political landscape, understanding their interplay becomes crucial in devising strategies to sustain and strengthen the stability of democracies and institutions.¹

Characterized by an anti-establishment sentiment, populism has gained momentum in Western democracies in recent decades. Populism is oftentimes defined by its dichotomous view of society, splitting it into two homogenous and antagonistic groups: the 'pure people' and the 'corrupt elite' (Mudde, 2004). It proposes that politics should express the general will of the people, often leading to exclusionary or authoritarian tendencies when in power.

Across Europe and the US, populism does not seem to disappear anytime soon. Rather, many populist parties have steadily increased their vote shares over the past decade. Most of them are right-wing and Eurosceptic, such as Forza Italia and Brothers of Italy in Italy; Fidesz and Jobbik in Hungary; Rassemblement National in France; Law and Justice (PiS) in Poland, and the 'Alternative fuer Deutschland' (AfD) in Germany. But also left-wing populist parties have gained popularity, such as the Five Star Movement in Italy, La France Insoumise in France, and Syriza in Greece.

The rising support for populism has brought profound political transformations, including the Brexit referendum in the UK, the election of Donald Trump in the US, and most recently, the election of Giorgia Meloni from 'Brothers of Italy' as Italian prime minister. In their most extreme forms, some populist movements have threatened the very foundations of democracy. This was evident when Trump supporters stormed the US Capitol in January 2021, seeking to overturn election results, and again in Germany in December 2022, when former AfD members plotted a violent coup to resurrect the German Empire.

The potential destabilization of democratic institutions, including the European Union, highlights the importance of understanding the determinants of populism. Globalization has been on the rise for decades, causing many workers to lose their jobs due to outsourcing (Guriev and Papaioannou, 2022). The 2008 financial crisis left affected individuals with a feeling of high insecurity while banks were bailed out (Funke et al., 2016; Algan et al., 2017). Large incoming migration streams due to wars and climate change impose anxieties on some individuals in the destination countries,

¹ Parts of this text were produced with the help of a generative AI model.

fearing for their jobs and worrying about the additional burden for the welfare system ([Edo et al., 2019](#)). Beyond these developments, income inequality, and especially low social mobility, i.e. the difficulty in changing socio-economic status, can be influential in promoting populist ideologies ([Duca and Saving, 2016](#); [Pástor and Veronesi, 2021](#); [Protzer, 2021](#); [Kurer and van Staalduinen, 2022](#)).

This round-up assesses the existing literature on the economic determinants of populism and aims to identify areas for further research. By doing so, we hope to shed light on the recent societal challenges that Western democracies and their institutions face. But in our exploration of economics and populism, one question remains central: As economies evolve and societies change, can policy adjustments mitigate the populist surge or is a more profound societal transformation needed to bridge the divide?

Economic Determinants of Populism: An Overview

Globalization

There is a broad consensus that populism is intricately tied to the economic impacts of globalization. While globalization has brought higher levels of international trade and overall economic growth, its benefits have been unevenly distributed. The surge in trade competition, especially from China, combined with technological advancements, has led to the outsourcing and automation of many low- and middle-skilled jobs in advanced economies. Consequently, many workers have been relegated to lower-paying jobs or pushed out of the job market altogether. This shift has not only widened the gap in political leaders' approval between high and low-skilled workers but also exacerbated income and wealth disparities ([Gurieiev, 2018](#); [Aksoy et al., 2018](#)).

Election results in advanced economies indicate a clear trend: regions that historically relied on low- and middle-skilled jobs or were industrial hubs tend to support populist candidates. For instance, Trump garnered significant support in the US Rust Belt; Brexit drew its primary backing from manufacturing towns in the Midlands; and Marine Le Pen secured votes from France's deindustrialized areas ([Gurieiev and Papaioannou, 2022](#)).

Research by [Autor et al. \(2020\)](#) in the US reveals a distinct correlation between trade exposure and voting patterns from 2000 to 2016. In trade-exposed counties with a predominantly white population, right-wing voting increased, while counties with minorities in their population tended to lean left-wing. Furthermore, [Rodrik \(2021\)](#) finds a significant correlation between voting for Trump in 2016 and an opposition to trade agreements. Similar trends, where regions most impacted by globalization's trade competition shifted towards populism, have been documented in the UK ([Colantone and Stanig, 2018](#)), Italy ([Barone and Kreuter, 2021](#)), France ([Malgouyres, 2017](#)), and Germany ([Dippel et al., 2022](#)). Notably, areas with high unemployment also report heightened economic insecurities, affecting even those still employed ([Gurieiev, 2018](#); [Algan et al., 2017](#)).

Financial crises

Financial crises can also lead to increases in populist approval and anti-establishment sentiments. On top of the economic losses of financial crises themselves, economic adjustment measures after are often associated with austerity policies weakening

social safety nets. Meanwhile big banks, which enabled the financial crisis, like in the recent crash of 2008/2009, are often bailed out, increasing the perception of unfairness and anti-establishment sentiment, and fertilizing the ground for populism (Guriev and Papaioannou, 2022).

Funke et al. (2016) evaluate the political fallout of major financial crises in 20 advanced economies from 1870 to 2014. Their analysis shows a 30% surge in far-right party support following financial crises, a pattern not mirrored after non-financial macroeconomic downturns of comparable magnitude. The researchers posit that financial crises elicit unique reactions because they are often perceived as avoidable failures by financial elites, which disproportionately impact broader society.

Additionally, Algan et al. (2017) identify crisis-induced economic insecurity as a key driver of populism and political skepticism. Their examination of regional data from 26 European countries between 2000 and 2016 reveals a marked link between rising unemployment and increased support for populist and fringe parties. To isolate a causal relationship, they scrutinize unemployment increases in relation to pre-crisis economic structures, particularly emphasizing the role of the construction sector in regional value, given its ties to financial bubbles and subsequent crashes. Their findings underscore the connection between financial crises and a swell in populist voting tendencies.

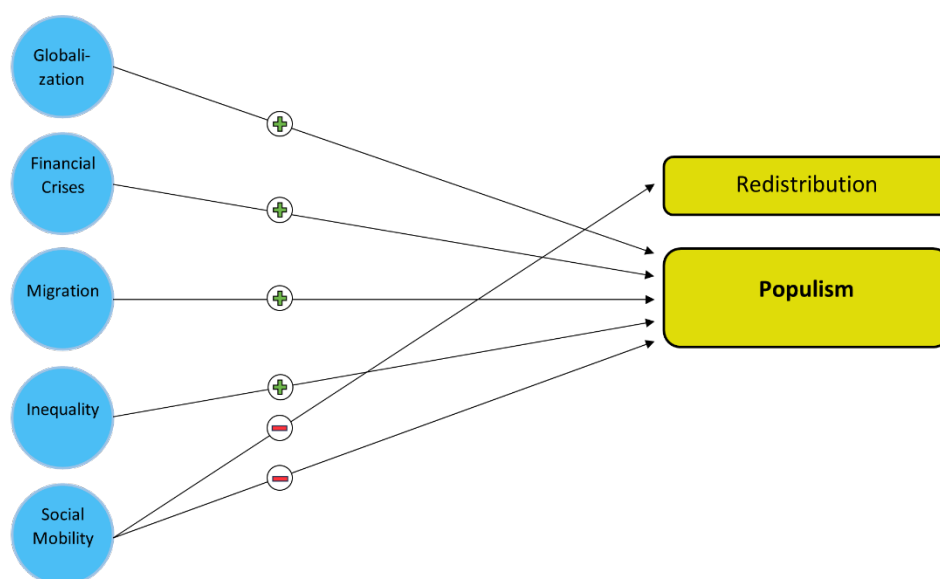


Figure 1: Economic Determinants of Populism.

Migration

Migration plays a pivotal role in right-wing populist narratives. Populist rhetoric capitalizes on the economic fears of those in regions hit by deindustrialization and job outsourcing, framing immigrants as competitors for jobs, social benefits, and housing. This rhetoric is further amplified by misconceptions about immigration (Guriev and Papaioannou, 2022). While a correlation between increased immigration and populist voting exists, the specific impact often hinges on context.

[Steinmayr \(2021\)](#) examines Upper Austria to assess immigration's influence on votes for the far-right FPÖ party. With Austria as both a transit point and a host for asylum seekers, the study reveals mixed outcomes: regions with short-term immigrant exposure leaned more towards the FPÖ, while those with long-term exposure were less inclined. [Dinas et al. \(2019\)](#) provide further insight by studying far-right party support on Greek islands with varying refugee influxes. Islands with sudden large refugee arrivals showed a spike in extreme-right support compared to islands with steadier inflows.

In a related study, [Edo et al. \(2019\)](#) investigate the effect of immigration on votes for the extreme ends of the political spectrum in France. Instrumenting current migration flows with past patterns, the authors find that migration increases far right support and slightly decreases support for the far left. The effect is mostly driven by low-skilled migrants, who are potentially perceived as a burden for public finance and as labor market competitors to low-skilled natives.

Inequality

Income and wealth inequality seem to increase populist voting. Income inequality within many advanced economies has been increasing since the turn of the millennium, especially at the top of the income distribution ([Atkinson et al., 2011](#)). Using a tractable equilibrium model, [Pástor and Veronesi \(2021\)](#) provide cross-country evidence that, among advanced economies, support for populism is stronger in countries with higher levels of inequality. Furthermore, [Duca and Saving \(2016\)](#) note a relationship in the US between increasing inequality and increasing political polarization while [Dorn et al. \(2020\)](#) show a positive correlation between increasing inequality and voting for right-wing parties.

The mechanism behind the findings on inequality and populism might stem from the perception of economic unfairness. Research by [Starmans et al. \(2017\)](#) indicates that humans, from a young age, innately value economic fairness, possibly due to evolutionary factors. Interestingly, people might accept some level of inequality if it is perceived as meritocratic — where rewards are based on effort and skill. [Algan et al. \(2017\)](#) differentiate between such 'fair' inequality, driven by merit, and 'unfair' inequality resulting from uncontrollable factors like birthplace, ethnicity, or parental income. The authors find that higher levels of 'unfair' inequality are associated with lower levels of market reforms. [Hufe et al. \(2022\)](#) observe that while pre-1990s economic disparity in the US was largely merit-based, later years saw a shift towards 'unfair' determinants. This growing perception of an unmeritocratic system could underpin the surge in populist voting.

Social mobility, which describes the dynamics of individuals moving up or down the income distribution, is closely related to inequality. [Corak \(2013\)](#) shows that higher income inequality is related to less intergenerational mobility, oftentimes depicted in the "Great Gatsby Curve". Despite their connectedness, the perception of these phenomena might be quite different in the population. Therefore, social mobility not only matters for populism indirectly by shaping inequality, but also has potential to directly affect populist sentiments in modern democracies.

Social Mobility, Populism, and Preferences for Redistribution

Low social mobility is a phenomenon that occurs when individuals or families find it difficult to move up or down their socio-economic class over time. While substantial research has been conducted on the link between income inequality and populism, it may not be inequality alone that breeds anti-establishment sentiment, but rather low levels of social mobility. The feeling of being permanently stuck in one's social

stratum, and not being able to join the ‘elites’ who benefit from the best education, the highest salaries, and extensive fortune, might fuel populist sentiments.

Economic Determinant	Authors	Data	Empirical Analysis	Findings
Globalization	Aksoy et al. (2018)	Gallup World Poll and UN Comtrade (2002-2015)	OLS regression and IV	Gap in political approval between high and lower skilled individuals with increase in trade shocks.
	Autor et al. (2020)	UN Comtrade Database and Pew Research Center survey data (2004-2015)	Pew Ideology score and OLS regression	Strong link between trade exposure and voting for political extremes.
	Barone and Kreuter (2021)	Observatory of Economic Complexity at the MIT Media Lab	OLS regression	Trade shocks exposure increases populist support in Italian municipalities.
	Colantone and Stanig (2018)	Eurostat COMEXT, U.K. Office for National Statistics (ONS)	OLS regression	Regional economic insecurities, driven by Chinese import shock, led to increase in support to vote Leave in the Brexit referendum.
	Dippel et al. (2022)	SOEP data	OLS regression and causal mediation analysis	Imports from low-wage countries increases the support for nationalist parties in Germany between 1987–2009.
	Malgouyres (2017)	DADS and UN Comtrade	OLS regression with instrumental variable approach	Small but significantly positive impact of import competition exposure on votes for the far-right.
	Rodrik (2021)	American National Election Studies (ANES)	Logistic regression with sample weights	Significant correlation between voting for Trump in 2016 and an opposition against trade agreements.
Financial Crises	Algan et al. (2017)	Eurostat, Chapel Hill Expert Survey and ESS (2000-2014)	2SLS approach	Link between rising unemployment and support for populist parties as well as declining trust in national and European institutions; causal relation between economic insecurity and populism and political distrust.
	Funke et al. (2016)	Archive of 827 parliamentary elections throughout history in 20 developed countries	OLS regression	Financial crises are politically disruptive: votes for far-right increase, government majorities shrink and fractionalization of parliament increases while rises not involving a financial crash right-wing votes do not increase as strongly.
	-	-	Descriptive	Financial crises are followed by significant increase in vote

	Guriev and Papaioannou (2022)			share for far-right parties, populism caused by economic factors (secular and crisis-related) and migration plays a substantial role but depending on inflow, skill composition etc.
Migration	Dinas et al. (2019)	Data by UNHCR and Google Maps	Diff-in-diff and IV	Electoral support for extreme-right party increased in municipalities with sudden refugee inflow and mere exposure to the refugee crisis is sufficient fuel to support for extreme-right parties.
	Edo et al. (2019)	Official French voting data and census data (INSEE)	OLS regression, IV and multinomial logit model	Immigration increases support for far-right parties which is driven by low-educated immigrants from non-western countries while an increase in the population share of high-educated immigrants reduces far-right support.
	Steinmayr (2021)	municipality-level data from Upper Austria	OLS regression	Presence of asylum seekers (with likely contact) dampen trend of supporting far-right, exposure to transiting refugees in municipalities at the German border increased far-right voting (relatively small), microlevel exposure cannot explain gain in far-right voting, macrolevel exposure in form of salience of refugee situation in media as primary mechanism.
Inequality	Atkinson et al. (2011)	Tax and survey data of the respective 22 countries	Pareto interpolation and mean split histogram	Increase of top income shares over the millennium in English speaking countries and India and China.
	Dorn et al. (2020)	German microcensus data and German federal returning officer data	Panel data model, fixed effects via IV regression	Positive effect of increasing inequality on support for right- and left-wing parties.
	Duca and Saving (2016)	U.S. census data	Vector-error correction model (VECM)	Bi-directional effects between income inequality and political polarization.
	Hufe et al. (2022)	PSID (and EU-SILC)	Shapley value decomposition	Unfair inequality rises in line with the inequality growth in the US, originating from decreases in social mobility.
	Pástor and Veronesi (2021)	ParlGov database, Chapel HillSurvey of Experts, ISSP, OECD and World Bank data	Cross-country regression	In advanced economies support for populism is stronger in countries with higher levels of inequality.
	Starmans et al. (2017)	-	Descriptive	Humans prefer naturally fair over equal distributions, especially young ones.

Table 1: Literature overview on the economic determinants of populism: globalization, inequality, financial crises, and migration.

Social mobility refers to the degree to which an individual's socio-economic origins determine economic outcomes in later life. As such, it can be seen as a measure of

opportunity. Several approaches exist to quantify mobility; most are based on income or educational attainment. Intergenerational mobility assesses differences across generations, whereas intragenerational mobility makes comparisons within generations. Relative mobility measures outcomes within the distribution of peers, while absolute mobility contrasts outcomes against a fixed reference point ([Lee and Solon, 2009](#); [Chetty et al., 2014a, 2014b, 2017](#); [Dodin et al., 2021](#); [Riphahn and Schnitzlein, 2016](#); [Bratberg et al., 2017](#)).

Social Mobility and Populism

A few studies try to explore the links between social mobility and support for populism. One notable investigation is by [Protzer \(2021\)](#), who examines regional vote swings towards far-right populists in various elections. He finds a positive correlation between populist vote swings and intergenerational mobility. In the 2016 and 2020 US presidential elections, the focus was on county-level vote swings for Donald Trump compared to the Republican voter share in 2012. For the second round of the 2017 French election, the study centers on department-level vote shares for Marine Le Pen. Meanwhile, the 2019 European Parliament election is analyzed by evaluating country-level vote shares for populist and far-right parties. All these analyses employ a cross-sectional OLS regression framework. Social mobility is quantified using intergenerational income elasticity derived from tax data. The study also considers other potential correlates of populism, such as income and wealth inequality, immigrant stocks, social media usage, and the proportion of senior citizens in the population. Among the factors assessed, the findings consistently show that social mobility is the most potent correlate for regional populism both within and across developed countries. While the French data demands a more nuanced interpretation due to its restrictions, the European data reinforces the idea that low social mobility catalyzes populism in developed nations. Notably, the 2020 US elections demonstrates a significantly reduced influence of social mobility on populist voting compared to 2016, suggesting a waning significance of economic unfairness to voters during that period. However, there are certain limitations to Protzer's study. The measure of populism, particularly the reliance on vote swings in the US, might be imprecise. Additionally, making causal conclusions is challenging due to potential biases from omitted variables, that might influence social mobility and support for populism at the same time.

A mobility measure that might capture frustration more precisely relates to disappointed expectations. [Kurer & Van Staalduinen \(2022\)](#) find that disappointed status expectations are associated with radical voting and abstention from elections. The authors use survey data from the German Socio-Economic Panel and apply random forests, a machine learning algorithm, to predict individuals' occupational expectations based on their characteristics and their fathers' occupation. Comparing these predictions to actual outcomes allows the authors to measure deviations from individuals' expected status – which they call status discordance. Thus, in a broader sense, negative status discordance captures downward mobility or disappointed expectations. Using linear regressions that control for various individual characteristics, the authors show that disappointed individuals tend to either vote rather radical instead of mainstream parties, or not to vote at all. The authors thus deliver evidence on the relationship between downward mobility and populist support. In a subsequent heterogeneity analysis, the authors show that the relation between missed expectations and voting for the radical right is most prevalent for men without a college degree, which aligns well with the literature. While the contribution introduces the novel and useful concept of status discordance, weaknesses may lie in imprecise status predictions due to a limited set of observables and in the lack of a causal interpretation. A causal interpretation is not possible as unobservables, such as

character traits or skills, could determine both disappointed status expectations and voting patterns at the same time.

Disappointment in economic status can also stem from misperceptions about relative income, which leads to an increase in right-wing populist voting tendencies. Using SOEP survey data of German households, [Albers, Kersting and Kosse \(2022\)](#) show that individuals with overly pessimistic beliefs about their relative income position are more attuned with right-wing populist statements. In this context, misperception is defined as the difference between subjective and objective percentiles in the national income distribution. The correlation between populism and misperception is measured using OLS regression with populism as the dependent variable. One limitation might be that misperception of the nation-wide income distribution strongly depends on the local conditions of individuals' environment, potentially introducing a bias that is systematically related to support for populism. Interestingly, gender influences the outcome of pessimistic misperceptions, even though men and women predict their relative income position equally well and are similarly disappointed when misperceiving. But men are more likely to turn their dissatisfaction into populist voting than women. The finding would imply effective policy opportunities to improve citizens information about relative income and therefore reduce populism.

In contrast, research by [Ciccolini and Härkönen \(2021\)](#) suggests that social mobility has limited influence on individuals voting behaviors. The authors analyze pooled data from the European Social Survey, combined with Oesch's occupational class schema and the Mobility Contrasts Model (MCM), to study the relationship between intergenerational occupational class mobility and voting for the center-right, center-left, radical right, and radical left in Western Europe, showing that rather than social mobility it is voters' current occupational class or to a lesser extent their class of origin which determines their political support.

Social Mobility and Redistribution

A closely related outcome to populism is the preference for redistribution. Populist parties are often found at the extreme ends of the political spectrum, where left parties typically support high levels of redistribution and right parties advocate for a minimum of government intervention. Several studies have explored the link between social mobility and redistributive preferences.

[Alesina et al. \(2018\)](#) conduct a cross-country survey in France, Italy, Sweden, the UK, and the US to show how relative social mobility shapes support for redistribution. Across all countries, respondents have misperceptions about social mobility in their own country, as measured by the probability to reach different quintiles from the income distribution when coming from the bottom quintile. Respondents in the US are overly optimistic, while respondents in European countries lean pessimistic. Pessimism and optimism about social mobility are significantly correlated with policy preferences. Respondents with pessimistic views on social mobility tend to favor more generous redistributive policies. Next, the authors conduct a survey experiment to measure the causal effect of social mobility on preferences for redistribution. Treated with pessimistic information about social mobility, left-wing respondents want significantly more redistribution while there is no significant effect on right-wing respondents. This is likely due to negative right-wing views about government and political intervention. The information treatment on social mobility has thus mostly enhanced existing political polarization on government interventions.

The perception of mobility in a society might be different to individuals' own mobility experience. [Weber \(2021\)](#) finds that negative self-experienced social mobility increases

support for redistribution. The author conducts a survey experiment, with an information treatment that updates individuals' beliefs about their own social mobility. The objective measure of absolute social mobility used in the information treatment is derived from the difference in socio-economic status scores (ISEI) between father and child. Respondents, who experience a downward mobility shock and receive the treatment favor more redistribution, higher spending on the poor and greater tax obligations for the rich. Conversely, no effect is found for individuals with an absent or a positive mobility shock. The findings correspond well with the 'self-serving bias', a theory which claims that individuals attribute their failures to causes outside of their control, while taking strong personal credit for their success.

Both on an individual and a societal level, low or negative social mobility has been found to increase support for redistribution. While on a societal level, political preferences strongly determine the effect, on the individual level it is rather the perception that bad luck has led to adverse personal circumstances and thus redistribution seems fair.

Economic Determinant	Authors	Data	Empirical Analysis	Finding
Social Mobility	Albers, Kersting and Kosse (2022)	SOEP data	OLS regression and IV	Pessimist beliefs about income position are more attuned to populist statements and men are more likely to translate dissatisfaction resulting from income misperception into populist attitudes than women
	Alesina et al. (2018)	Tax data of US and Italy, Cross-country survey data	OLS regression and IV	European respondents are more pessimistic about intergenerational mobility than American and the more pessimistic the respondent is, the more likely he supports redistributive policies; left-wing respondents are sensitive to information on mobility while right-wing respondents are not
	Ciccolini and Härkönen (2021)	ESS (1999-2011)	MCM	No impact of general mobility on radical voting patterns, but relevance of voters' class for voting patterns
	Kurer & Van Staalduinen (2022)	SOEP data	Random forests	voter discontent stemming from unmet intergenerational status expectations leads to increased abstention, reduced support for mainstream parties, heightened backing for radical options and varies based on gender, education, and occupation.
	Protzer (2021)	Voting data on the US, France, the EU	Cross-sectional OLS regression	Populism likely to take root in places with low social mobility
	Weber (2021)	ISSP 2014	Differences	Encountering downward mobility amplifies backing for redistribution, whereas upward mobility does not impact distributive preferences

Table 2: Literature overview on social mobility as a determinant of populism.

Conclusion

Determinants of populism in Western democracies have increasingly gained the attention of scholars and policymakers alike. This exploration into the myriad factors influencing the rise of populism reveals the multifaceted nature of its underpinnings. Migration, a cornerstone of right-wing populism, underscores the way economic insecurities, perceptions of competition, and rapid changes in demographic landscapes can fan the flames of anti-establishment sentiment. Financial crises magnify populist leanings by exacerbating economic losses, eroding trust in established institutions, and highlighting perceived disparities in the treatment of big banks versus ordinary citizens.

Meanwhile, growing income and wealth inequality in advanced economies accentuate societal divisions. This economic disparity, especially when seen as arising from unjust systems rather than meritocratic principles, can drive voters towards populist ideologies, seeking a shift from the perceived status quo. On a similar note, globalization, with its accompanying job displacement and shifting economic dynamics, adds another layer of complexity, further entrenching feelings of dislocation and disenfranchisement in sections of the population.

Lastly, the intricacies of social mobility—or the lack thereof—shed light on another dimension of populist support. The inability to ascend socio-economic ladders, regardless of effort or merit, can lead to profound disillusionment. When individuals perceive their aspirations as persistently unmet, or see their socio-economic status as stagnant or declining, they may turn to radical or populist ideologies as a form of protest or as a hope for change.

In essence, while each factor offers a unique perspective, they collectively paint a picture of societies grappling with rapid change, perceived injustices, and uncertainties about the future. The resonance of populist movements across varied regions and contexts underscores the global quest for equitability, representation, and a sense of belonging in an ever-evolving world.

In the future, more comprehensive research that considers the interplay of these factors, and perhaps introduces others, is crucial. Moreover, given the potential policy implications, as hinted by [Albers, Kersting, and Kosse \(2022\)](#), it would be worth investigating how targeted information campaigns or socio-economic interventions can help moderate the rise of populist sentiments. After all, the fundamental hallmark of a democracy, the ability of the people to vote, is paradoxically its most significant vulnerability, as it can lead to the election of populist leaders who may undermine the very democratic institutions they represent.

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