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Economic Causes for the Rise of Populist and Nationalist Movements*

In recent years, radical right-wing political groups and populist movements have strongly gained popularity in many Western democracies. The presidency of Donald Trump and the increasing political polarization in the US, the Brexit vote in the UK, as well as the electoral successes of nationalist parties in many Western countries – such as the Alternative für Deutschland (AfD) in Germany, Rassemblement National in France, the Sweden Democrats, or the Movimento 5 Stelle, Lega, or Fratelli d'Italia in Italy – serve as evidence of this trend. One of the key features of many of these movements is an anti-establishment, anti-immigration, and anti-globalization rhetoric. They stoke fear against foreigners and foreign cultures, reject pluralism, promote political and economic nationalism, and advocate for protectionist policies.

The rise of radical right-wing and populist movements has spurred research into its causes. Researchers discuss many possible factors including cultural backlash, a loss of democratic space, or the role of social media and fake news. In both economics and political science, there are also numerous studies linking the rise of populist and far-right movements to changing economic conditions. Indeed, there have been significant economic transformations in recent years and decades, such as advancing globalization and increasing automation, but also crises and conflicts, such as the economic and financial crisis, the Covid-19 pandemic, and wars that have caused worldwide economic strain. It thus seems obvious to assume that these trends are connected.

In this article, we summarize the existing literature studying the extent to which economic causes contribute to the rise in populism. This literature has focused especially on the relevance of the following economic factors:

- General and personal economic situation
- Economic uncertainty
- Economic and financial crises
- Economic globalization and structural change
- Migration and economic insecurity

In the remainder of this article, we discuss the insights provided by the economics and political science literature regarding the aforementioned factors.

GENERAL VS. PERSONAL ECONOMIC SITUATION

The literature on the influence of economic conditions on political preferences can be broadly divided into two groups. The first group focuses on the influence

KEY MESSAGES

- **Radical parties and populists benefit from deteriorating macroeconomic conditions. For voters, the overall economic development appears to be more important than their actual personal economic situation**
- **The most important economic factors explaining the rise of populism as well as the loss of trust in political institutions are a widening income gap between people and between regions, exposure to economic shocks, high economic uncertainty, and worries about the future**
- **Financial and economic crises, high exposure to global trade competition, an accelerating structural transformation, and immigration are discussed as key factors for increasing economic uncertainty**
- **Populists benefit from misperceptions about immigration and from perceptions of increasing economic risks, even if they differ from objective developments**
- **To combat the rise in populism, democracies need to increase resilience. That requires well-designed welfare and education systems that shield citizens from the consequences of economic crises and ensure equal opportunities; sound and sustainable fiscal policy to be able to react to economic crises; and targeted economic policies and instruments to limit economic uncertainty during crises and to support regions and people that feel left behind**

of macroeconomic developments, such as economic growth, the unemployment rate, and various measures of income inequality. The second group deals with the influence of an individual's economic situation. Here, for example, the development of one's own income or employment history are considered, as well as a person's relative position in the income distribution.

The first strand of the literature has a long tradition in both economics and political science and has been thoroughly reviewed in several articles (Healy and Malhotra 2013; Lewis-Beck and Stegmaier 2000; Stegmaier and Lewis-Beck 2013). Early studies falling into this category document robust correlations between leading macroeconomic indicators and the approval of the incumbent government. Lower economic growth, higher unemployment, and inflation, for instance, are associated with poorer election re-

* The article is largely based on an excerpt from a review conducted for a study on behalf of the nonprofit Hertie Foundation (Dorn et al. 2023b).

sults for political parties and/or politicians in power. Some of these studies also show that it is not only the actual economic development that matters, but also citizens' own (sometimes differing) perception of the macroeconomic situation. More recent studies also show that radical parties in particular benefit from deteriorating economic conditions (Algan et al. 2017; Funke et al. 2016; Mian et al. 2014). Algan et al. (2017), for instance, report that rising unemployment is associated with higher support for populist parties in Europe. Trust in national and European political institutions is also declining. Lechler (2019) and Dijkstra et al. (2020) document a strong correlation between rising unemployment and greater rejection of the EU.

Related studies have focused on the influence of (income) inequality for the success of populist movements. For instance, several studies report a strong association between greater inequality and increasing political polarization in the US (Duca and Saving 2016; Garand 2010; Poole et al. 2016; Voorheis et al. 2015). Inequality also plays a role in Europe, but the exact effects vary. Winkler (2019) documents a positive correlation between inequality and rising support for left-wing parties. Dorn et al. (2020), on the other hand, find a positive effect of growing inequality between regions on the support for radical right-wing parties in Germany, albeit with the caveat that the effects differ depending on the definition of the radical parties considered. In addition to the radical right, left-wing extremist parties are also benefiting from growing regional economic inequality. However, while the German left-wing party Die Linke benefits only from increasing inequality in West German regions, radical right-wing parties – especially the AfD – are particularly successful in East Germany. The exact effect of inequality could therefore depend on the political environment and other contextual factors. These factors may depend, for example, on regional economic development, but also on the individual experiences of the affected voter groups. Roth and Wohlfart (2018), for example, find that people who have experienced greater inequality in their formative years are more likely to reject redistribution and less likely to support left-wing parties.

The second strand of studies linking economic conditions to political outcomes focuses on the importance of people's individual economic situations. However, in their literature review, Stegmaier and Lewis-Beck (2013) find that the overall economic situation appears to be more important than the individual situation for electoral outcomes. This also appears to apply to the success of radical parties. In their study, Dorn et al. (2023a) show that the popularity of radical parties, dissatisfaction with democracy, and the loss of trust in the political system and established parties increases across all income groups in economically disadvantaged regions in Germany.

ECONOMIC INSECURITY

Aspects other than objective economic characteristics such as income or unemployment can also play a role in political attitudes. For example, the fear of losing a job can influence political decisions, even if the job loss has not (yet) occurred. In addition, individual perceptions of economic risks can differ from objective developments. In the existing literature, these economic risks and their perception are often summarized under the term “economic insecurity.” The design of the social security system also plays an important role in the literature, as it mitigates the consequences of economic risks and can therefore reduce economic uncertainty.

In their study, Guiso et al. (2019) utilize survey data from 31 European countries and measure economic insecurity along three dimensions (ability to live on current income, experience of unemployment, impact of globalization on job). The findings of their study suggest that increasing economic insecurity correlates with higher support for populist parties. Rising uncertainty also increases the likelihood of not voting, especially among former voters of non-populist parties. Economic insecurity also correlates with lower trust in (established) political parties in general and higher rejection of migration.

Dal Bó et al. (2018) analyze the consequences of cuts to the social security system in Sweden. These reforms increased economic insecurity as they re-



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duced protection in the event of job losses. After the 2008 financial crisis, unemployment rose sharply, and the right-wing populist Sweden Democrats gained support, especially in regions that were particularly hard hit by the reforms and the financial crisis. These same authors also document that people with lower incomes and higher job insecurity are overrepresented among the ranks of Sweden Democrats politicians. This shows that economic shocks not only increase the demand for populist parties, but potentially also the supply of candidates for radical parties.

ECONOMIC GLOBALIZATION AND STRUCTURAL TRANSFORMATION

For a long time, economists assumed that the economically disadvantaged would primarily turn to left-wing parties, as these advocate redistributive policies and social equalization (Romer 1975; Meltzer and Richard 1981). However, it is currently mainly nationalist and right-wing populist parties that are particularly popular in economically strained times. There are various explanations for this. Aggeborn and Persson (2017) argue that this is primarily because nationalist parties place a particular focus on policy areas that benefit the domestic population. Left-wing parties, on the other hand, are generally willing to contribute to the financing of “global” goods and services that do not directly benefit the domestic population, such as development aid or climate protection. Antràs et al. (2017) and Sinn (2003) point out that the possibilities for redistribution in a globalized (economic) world are limited, as tax increases entail the risk of capital flight. In an open economy, the welfare state’s hands may therefore be tied when it comes to compensating the losers of globalization. For this reason, protectionist messages, such as those sent out by nationalist parties, are particularly popular.

Against this backdrop, economics and political science scholars have become interested in the effects of increasing globalization on political outcomes. In particular, the literature has dealt with the effects of international trade. Different regions within a country tend to be affected very differently by increasing international competition due to differences in their industrial structure. This is why the effects of globalization on regional labor markets also vary greatly within a country, which offers the opportunity to identify causal effects through the application of treatment-control group designs and instrumental variable estimation.

One of the most influential studies in this field is the one by Autor et al. (2013), which investigates the consequences of China’s increasing importance in the global economy on regional labor markets in the US. The authors find that US regions that are more affected by import competition and trade with China experience greater declines in manufacturing employment and wages. In a later study, Autor et al. (2020)

show that regions that are particularly affected by this “China syndrome” also exhibited greater political polarization. In addition, the study suggests that the exposure to import competition from China had a substantial effect on Donald Trump’s electoral success.

There are similar results for other countries. Colantone and Stanig (2018a) show that greater exposure of regions to globalization increased support in the UK for the Brexit referendum. They also show that the effect is not limited to employees in the affected sectors, but that regional economic shocks generally lead to more skepticism toward the EU. In another study, Colantone and Stanig (2018b) conduct a similar analysis for 15 Western European countries and find similar results. The authors also show that economic shocks adversely affect attitudes towards migration and democracy.

For Germany, Dippel et al. (2022) examine the relationship between trade with low-wage countries and voting behavior in affected regions. They find that greater exposure of a region to import competition leads to higher support for nationalist parties, especially the AfD. However, they also show that higher exports from a region can have the opposite effect. The effects of globalization therefore do not necessarily go in only one direction, but voters seem to be able to distinguish whether their jobs and income depend on globalization with a strong export economy. Based on individual data, Dippel et al. (2022) also show that in the manufacturing sector in particular, people with a low level of education turn to nationalist parties.

Overall, the literature shows that negative economic shocks triggered by structural change and globalization can increase support for populist parties. To what extent it is the poor economic situation of the region or of the individual caused by the globalization shock is usually not clear from the studies. There is also the question of the extent to which other economic shocks besides the globalization shock can lead to similar reactions. Di Tella and Rodrik (2020), for example, show in information experiments that job losses triggered by poor management increase support for better social security. In contrast, job losses due to offshoring lead to more support for protectionist trade policies, but not in favor of better protection. In this respect, negative economic effects attributable to globalization are most likely to play into the hands of right-wing and protectionist parties.

Other studies also show the political impact of structural transformation, which can be attributed to technological and digital change or the green transformation. Anelli et al. (2021), for example, document a correlation between individual concerns about automation and support for radical right-wing (and to a lesser extent radical left-wing) parties for 13 Western European countries. Colantone et al. (2022) examine the effects of a ban on high-pollution cars in Milan. Voters affected by this were more likely to support the right-wing populist party Lega. Voters who were com-

compensated for the ban did not change their preferences. These results show that the impact and distributional effects of the current structural transformations in democratic countries can have substantial effects on voting behavior and political stability.

ECONOMIC AND FINANCIAL CRISES

History shows that economic and financial crises occur regularly and lead to economic uncertainty. The political effects of these crises have therefore also been studied intensively in the existing literature. Funke et al. (2016) analyze financial crises in 20 industrial nations over the last 140 years. After financial crises, the share of votes for far-right parties increases by an average of 30 percent. Far-left parties, on the other hand, appear to benefit significantly less from crises. The authors also show that these strong political reactions are a special feature of financial crises. Economic crises that do not lead to turmoil in the financial sector have a much smaller effect on vote gains for radical parties. Other studies have focused on the 2007–2008 global financial crisis. Algan et al. (2017) document a strong association between the rise in unemployment in European regions and support for populist parties. They also show that trust in national and European institutions declined in the aftermath of the global financial crisis.

One consequence of the 2007–2008 global financial crisis and the subsequent sovereign debt crisis was the need to implement fiscal austerity measures in many countries. Fetzner (2019) finds that the spending cuts in the aftermath of the financial crisis in the UK led to higher support for UKIP and a more negative attitude towards the EU. Furthermore, Fetzner (2019) estimates that without austerity measures, support for leaving the EU would have been 6 percentage points lower, meaning that the “Remain” option would have won the Brexit referendum. For Sweden, Dal Bó et al. (2018) report that the welfare spending cuts contributed to the rise of the Sweden Democrats.

MIGRATION AND ECONOMIC INSECURITY

Migration policy is one of the core topics of right-wing populist and nationalist parties. In their anti-immigration rhetoric, they typically highlight the fiscal costs associated with the intake of refugees or stoke fears that an inflow of immigrants reduces native residents’ employment opportunities and wages. In this regard, economic insecurity and the fear of losing one’s job, as well as the feeling of not getting what they believe they are entitled to, indeed often go hand in hand with anti-immigration attitudes and can even lead to an increase in far-right motivated violence (Becker et al. 2017; Guiso et al. 2019; Davis and Deole 2016; Falk et al. 2011; Facchini and Mayda 2009; Mayda 2006).

Against this backdrop, economic literature examines whether immigration can explain an increase

in the electoral success of populist and extremist parties. Alesina and Tabellini (2022) summarize this literature. In principle, a large part of the literature discussed there finds that immigration has positive effects on the election results of populist and nationalist parties (e.g., Ajzenman et al. 2022; Dustmann et al. 2019; Edo et al. 2019; Halla et al. 2017). However, the effects also appear to be strongly context-dependent. A number of factors influence the effects, including the size of the migration flow, socio-economic composition, educational and cultural background of the group of migrants, and interactions between the groups, i.e., between host society and immigrants.

One particularly interesting insight reported by Steinmayer (2021) is that support for nationalist parties becomes smaller the closer the citizens of a country get in touch with immigrants. The author examines the effect of immigration to Austria during the refugee crisis of 2015 and exploits regional variation in the number of vacant buildings that are suitable for refugee accommodation to identify causal effects. The results reveal that municipalities which refugees had only passed through had higher right-wing vote shares, while municipalities in which refugees settled for longer periods experienced lower vote shares for right-wing parties. Steinmayer (2021) interprets this result as support for the “contact hypothesis,” which states that attitudes towards immigrants develop positively the more people interact with them.

Another important aspect is the difference between the perception and reality of immigration. Surveys conducted by Alesina and Tabellini (2022) in six countries (France, Germany, Italy, Sweden, the UK, and the US) found that the number of immigrants is greatly overestimated in all countries. In addition, immigrants are perceived to be more often Muslim, unemployed, and less educated than they actually are. This distorted perception of migration, and in particular the socio-economic characteristics of migrants, thus plays into the hands of nationalist parties’ anti-migration rhetoric.

POLICY IMPLICATIONS

Populist and nationalist parties and movements have enjoyed increasing public support in recent years, posing a threat to the stability of Western democracies. Strategies to counter these developments should be based on a sound understanding of the factors behind the success of populist movements. This article summarizes the findings of recent economics and political science research into the economic causes of the rise in populism. The most important factors explaining the rise of populism as well as the loss of trust in political institutions are a widening gap between rich and poor, growing regional disparities, economic uncertainty, and exposure to economic shocks, as well as fears about future economic development and social decline.

What can be done to counter populist and nationalist movements? Above all, it's important that countries become resilient to economic shocks and remain able to shield their citizens from the consequences of economic crises. To achieve this, provisions must be put in place to compensate a country's citizens for the income loss they may experience in case of an economic downturn and, at the same time, enable them to adapt to changing economic conditions. This requires functioning welfare and education systems that provide a safety net for people affected by economic shocks, ensure equal opportunities, and enable all citizens to participate in society. It also requires a sound and sustainable fiscal policy to be able to react to economic crises. Well-designed economic policy instruments may limit the adverse effects of economic downturns and the perceived economic uncertainty. In addition, improving economic conditions is essential to improving people's perception of their prospects – which is particularly important in more economically disadvantaged regions.

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