Economics, Culture, and The Rise of Right-wing Populism

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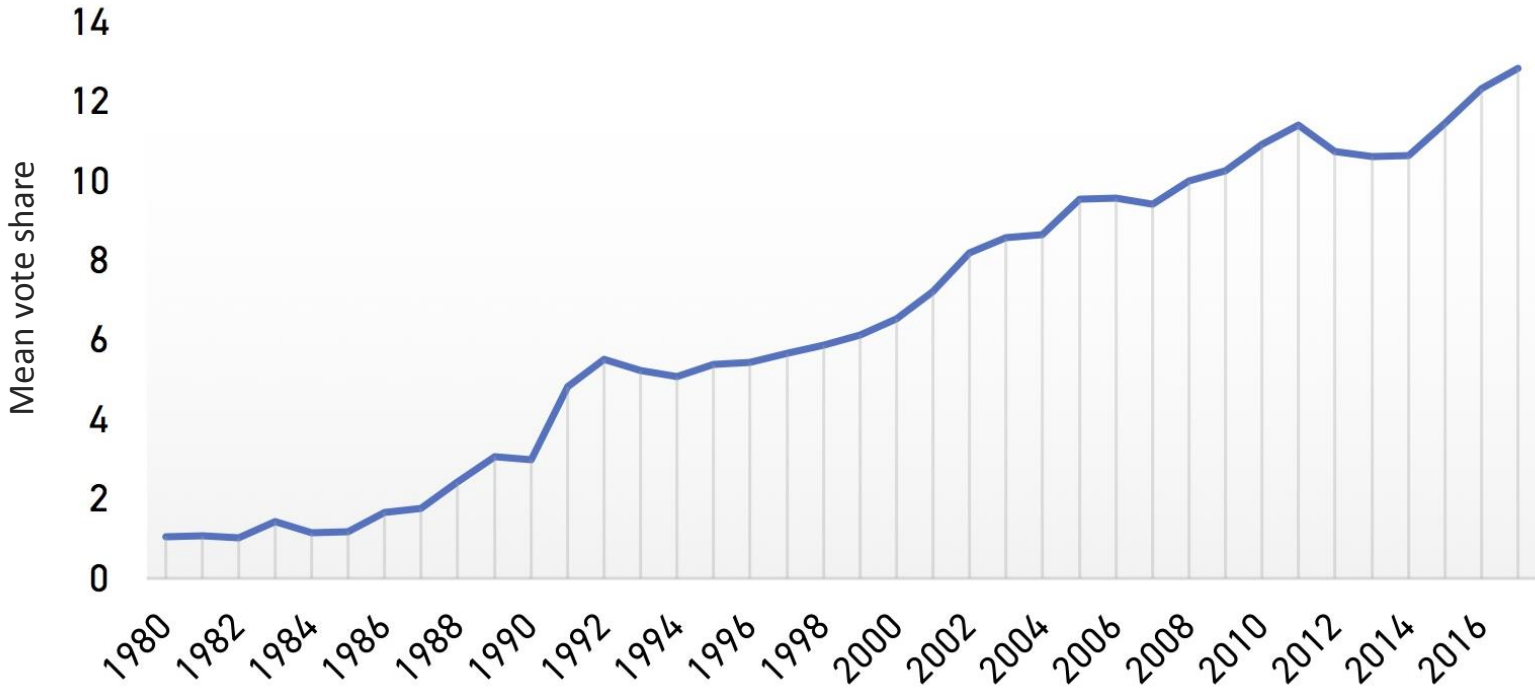
Outline

Rising Support for Right-wing Populism in Europe



Source: Timbro Authoritarian Populism Index 2017 via Heino (2018)
Note: Percentage of votes received in elections to national parliaments in 33 European countries deemed democracies by Freedom House.

What Is Right-wing Populism?

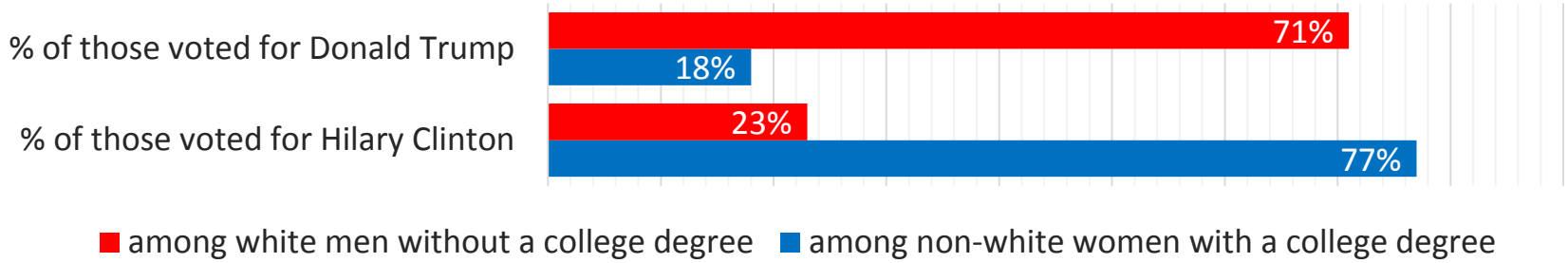
- Populism (Mudde, 2007)
  - A loose set of ideas sharing three core features:
    I. nativism
    II. anti-establishment
    III. authoritarianism
- Right-wing populism (Guiso et. al, 2017)
  - capitalizing on the national identity cleavage
  - pro-people policies, without an explicit redistributive component

  $\Longrightarrow$ importance of secondary policy dimension
- Populist values (Ingelhart and Norris, 2017)
  - representing one pole of a cultural continuum on which *cosmopolitan liberalism* located at the opposite pole

  $\Longrightarrow$ importance of cultural values

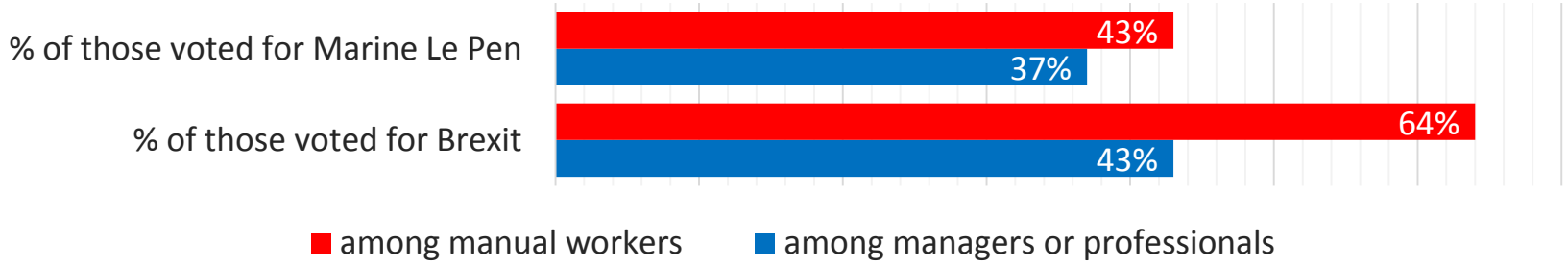
Who Voted for Right-wing Populism?

- A broad coalition of older, white, low-educated men



Source: Edison Research via The New York Times (2016)

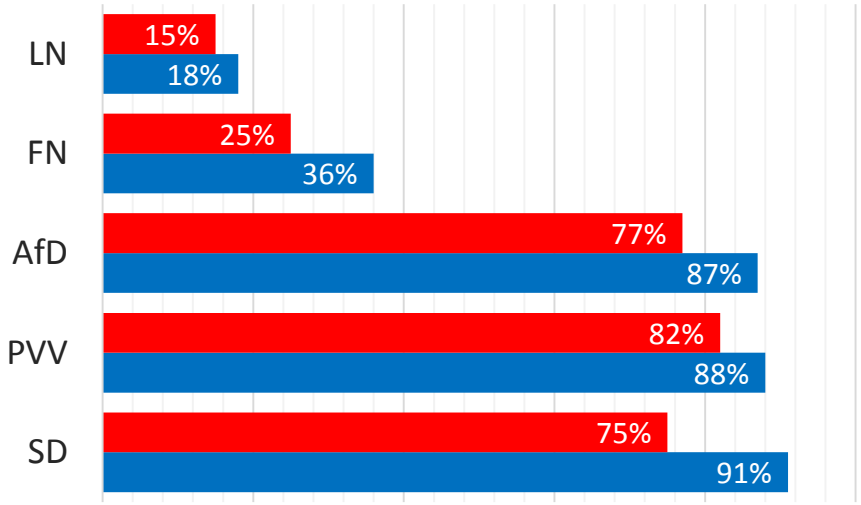
- Those at lower levels of the income and occupational hierarchies



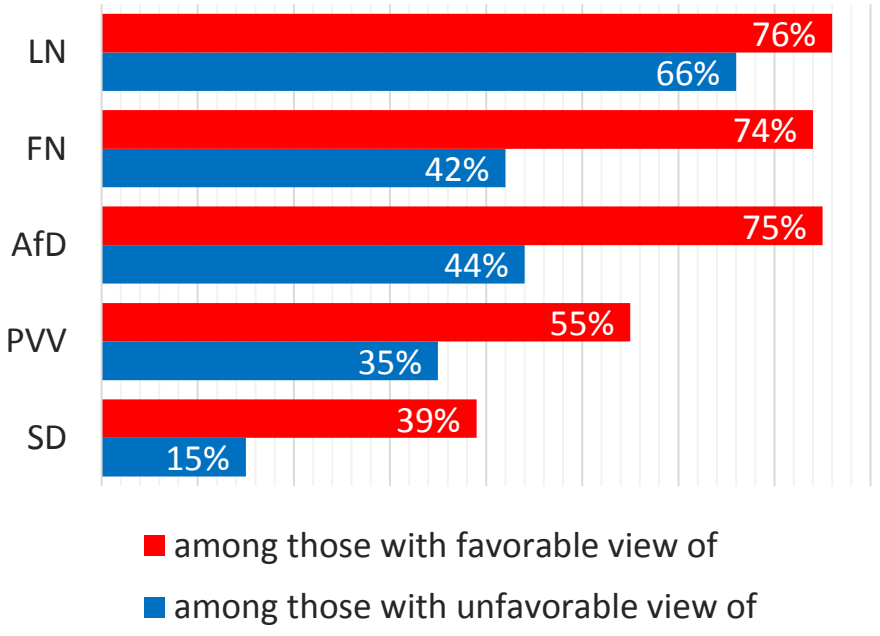
Source: Edison Research via The New York Times (2016)

Is It Economics or Culture?

% of those who agree with "the current economic situation in our country is good"



% of those who agree with "it is important to have been born here in order to truly be one of us"



Source: Pew Research Center via Stokes (2018)

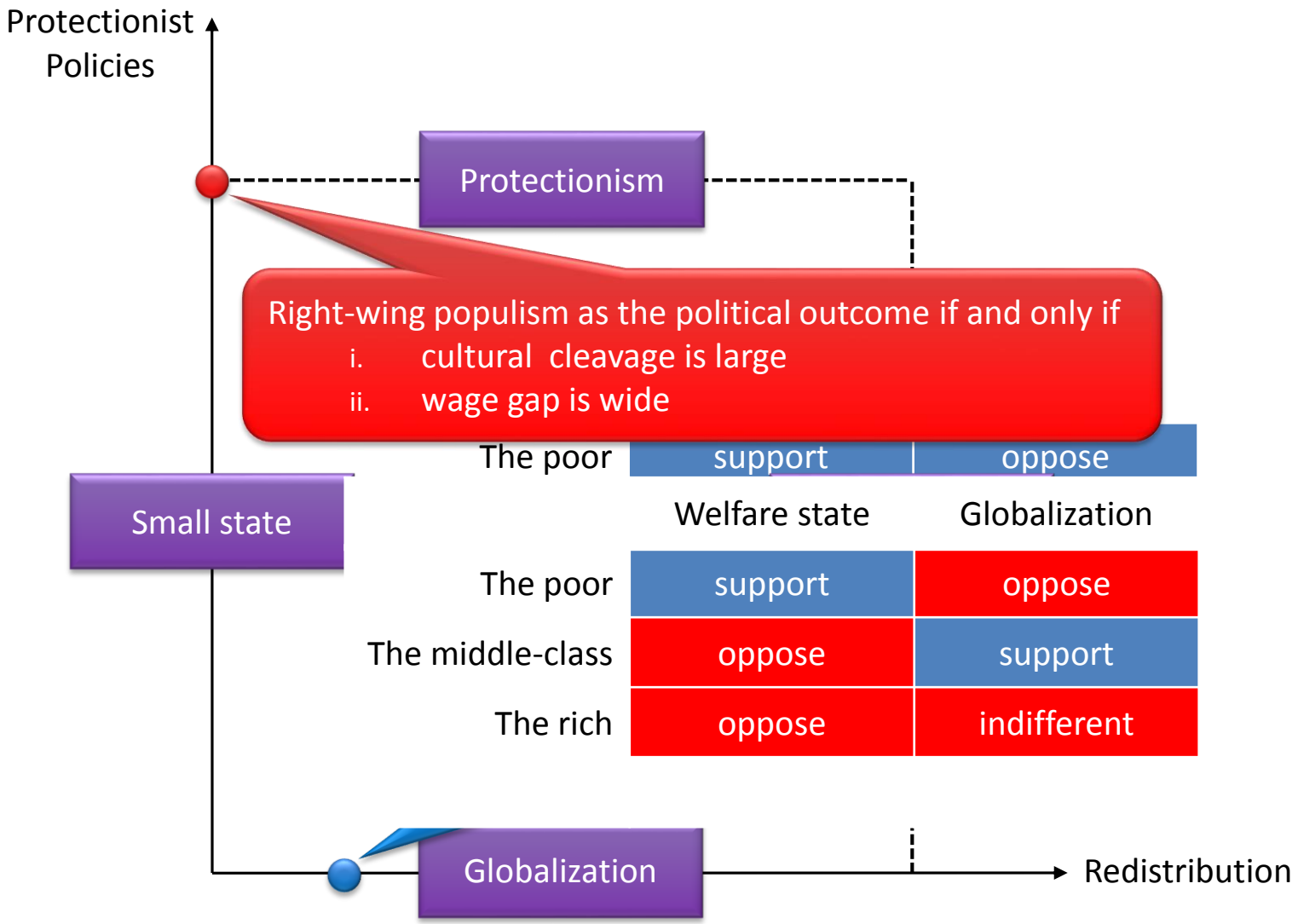
⟹ Economic insecurity thesis

⟹ Cultural backlash thesis

Main Question

- Right-wing populism policy platform
  I. Low redistribution
  II. Extreme anti-globalization policies
    i. opposing *economic openness*
    ii. confronting *progressive values*
- Established policy platform
  I. Moderate redistribution
  II. Commitment to globalization, both economically and culturally,
- A broad question from theoretical perspective:
  - How extreme policy platform of right-wing populists gaining majority support?

An Econo-cultural Theory of Right-wing Populism



Related Empirical Literature

- The supply-side of right-wing populism
  - Salience of non-economic issues (Zakharov, 2014)
  - Failure of representation: Iversen (2006), Rydgren (2004), Berger (2017)
- The demand-side of right-wing populism
  I. The income security thesis
     - Failure of compensation from trade exposure: Autor et al. (2017a; 2017b; 2016; 2013), Malgouyres (2017), Jensen et al. (2017)
     - Economic crisis and trust in government: Algan et al. (2017), Dustman et al. (2017), Foster and Frieden (2017), Frieden (2016)

  II. The cultural backlash thesis
     - Ingelhart and Norris (2017; 2016), Blyth (2106), Hall et al. (2014), Gidron and Hall (2017)
- The demand-side vs. the supply-side
  - Rodrick (2017), Guiso et al. (2017),

Related Theoretical Literature

- Theoretical models of right-wing populism/extreme policies
  - Acemoglu et al. (2013), Di Tella and Rotemberg (2016), Aggeborn and Persson (2017), Greco (2018)
  - Krasa and Polborn (2013), Buisseret and Van Weelden (2018)
- Importance of secondary issues in political competition
  - Glasser et al. (2005), Krasa and Polborn (2012), Saint-Paul et al. (2014), Karakas and Mitra (2017), Esteban et al. (2018)
- Our contributions
  - Introducing protectionist policies as secondary policy dimension through which *economic* and *cultural* developments induced by globalization intertwine
  - No informational asymmetry

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ii. Political Environment

III. Political Outcomes

i. Preferred Policies

ii. Equilibrium Policies

iii. Comparative Statics

IV. Extensions

i. Xenophobia and Redistribution

ii. Financial Globalization

V. Concluding Remarks

Baseline Model: Economic Environment

- The economy
  - A highly unequal economy with comparative advantage in skilled labor being subject to globalization
- Policy vector: (τ, ρ)
  - $\tau \in [0,1]$: income tax rate
    - proceeds redistributed lump-sum by a budget balancing transfer T
  - $\rho \in [0,1]$: degree of protection
    - higher value of ρ representing higher protection
- Three socio-economic groups:
  - the rich (R), the middle-class (M), and the poor (P)

$$n_R < n_M < n_P < \frac{1}{2}, \qquad \sum_{i \in \{R,M,P\}} n_i = 1$$

    - No group is in a majority!

Preferences

- Utility function of the middle-class and the rich

$$u_i(c) = c, \qquad i \in \{R, M\}$$

- Utility function of the poor

$$u_P(c, \bar{\sigma}) = c - \lambda\bar{\sigma}, \qquad \lambda \geq 0$$

cultural cleavage

where

λ: cultural intolerance

$\bar{\sigma}$: measure of cultural (racial, religious, …) diversity

- No cultural preferences for the middle-class!
- Additive-separable cultural preferences for the poor
  - More general cultural preferences: Extension I

Consumption

- Capital owners' consumption

taxable assets' income — cost of capital reallocation

$$c_R = (1-\tau)(1+r)(K-\kappa) + \left(1+\underline{r}\right)\kappa - \Lambda(\kappa) + T, \qquad \Delta r = r - \underline{r} > 0$$

non-taxable assets' income

  - w.o.l.g. assume that

$$\Lambda(\kappa) = \left(\frac{\vartheta}{2}\right)\kappa^2, \qquad \frac{\Delta r}{K} < \vartheta < \frac{1+\underline{r}}{K}$$

$\Longrightarrow$ Tax-avoidance function: $\kappa(\tau)$ where $\kappa'(\tau) = \frac{1+r}{\vartheta}$ for $\tau \in \left(\underline{\tau}, \overline{\tau}\right)$

  - More general functional form for cost of capital reallocation: Extension II

- Workers' consumption

$$c_i = (1-\tau)\omega_i(\rho)l + T, \qquad i \in \{M, P\}$$

  - assume that

$$(1-n_P)\omega_P(\rho)l < n_M\omega_M(\rho)l < n_R(1+r)K, \qquad \forall\rho \in [0,1]$$

Protectionist Policies

I. Distributional effect

- Assume that higher protection decreases (increases) skilled (unskilled) workers' wage, i.e.

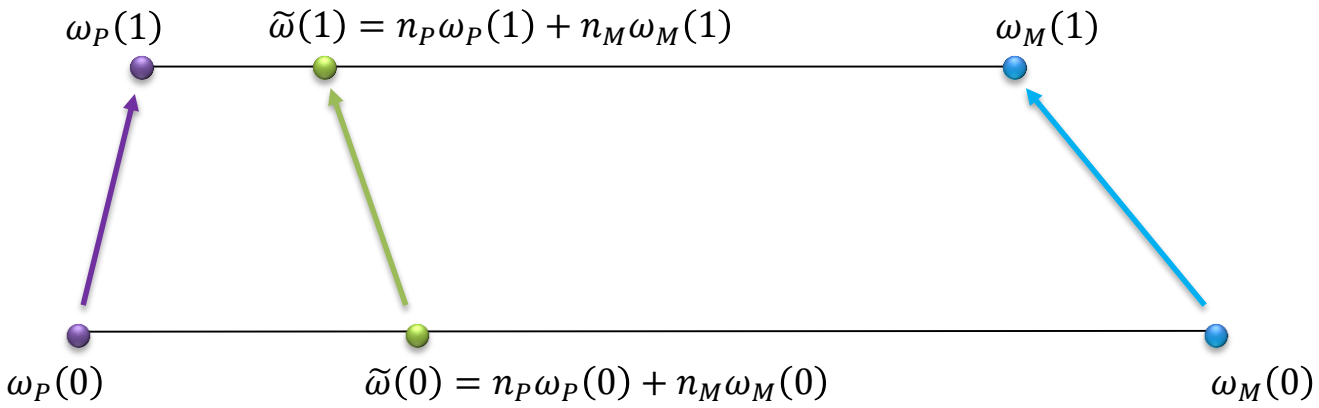
$$\omega_M{}'(.) < 0, \qquad \omega_M{}''(.) > 0$$

and

$$\omega_P{}'(.) > 0, \qquad \omega_P{}''(.) < 0$$

- Furthermore, assume that higher protection decreases average wage, i.e.

$$\left(\frac{n_P}{n_M}\right)\omega_P{}'(\rho) < |\omega_M{}'(\rho)|, \qquad \forall \rho \in [0,1]$$



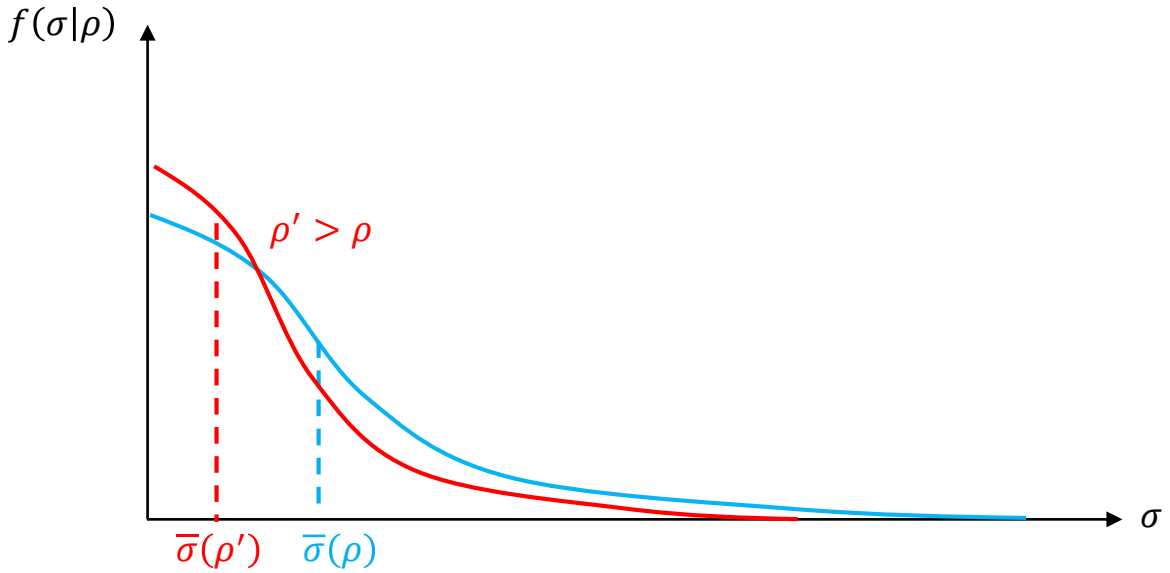
Protectionist Policies (cont'd)

II. Cultural effect

- Assume that higher protection decreases the measure of cultural diversity, i.e.

$$\bar{\sigma}'(.) < 0, \qquad \bar{\sigma}''(.) \geq 0$$

where $\bar{\sigma}(0) = \hat{\sigma} > 0$ and $\bar{\sigma}(1) = \bar{\sigma}'(1) = 0$.



Inequality

- Inequality measures

  I. Income gap:

$$\Omega(\tau,\rho) = \overline{y}(\tau,\rho) - \omega_P(\rho)l$$

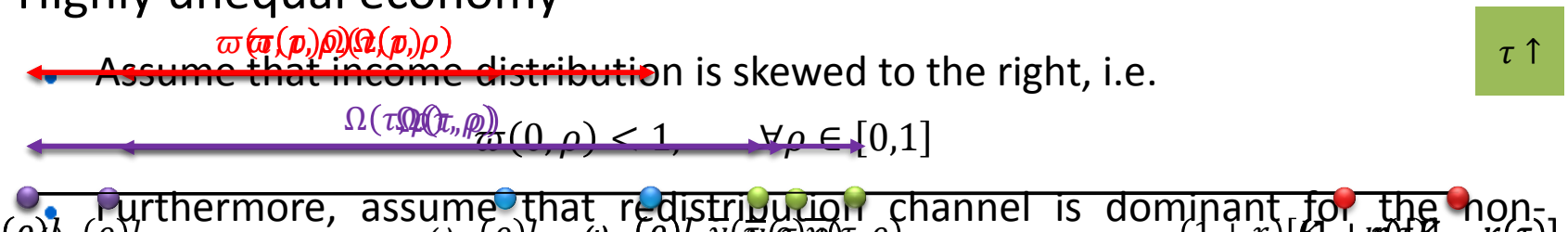
  where

$$\overline{y}(\tau,\rho) = [n_P\omega_P(\rho) + n_M\omega_M(\rho)]l + n_R(1+r)[K-\kappa(\tau)]$$

  II. Ratio of wage gap to income gap:

$$\varpi(\tau,\rho) = \frac{[\omega_M(\rho) - \omega_P(\rho)]l}{\Omega(\tau,\rho)}$$

- Highly unequal economy



  Assume that income distribution is skewed to the right, i.e.

$$\varpi(0,\rho) < 1, \qquad \forall\rho \in [0,1]$$

  Furthermore, assume that redistribution channel is dominant for the non-xenophobic poor, i.e.

$$\omega_P{}'(\rho)l < \underline{\tau}\Omega(0,0), \qquad \forall\rho \in [0,1]$$

Baseline Model: Political Environment

- Political competition
  - Citizen-candidate framework
- Timing
  1. Each representative can decide to run as a candidate, at a cost of $\varepsilon \to 0^+$ (in terms of consumption)
  2. An election is held among those running as candidates; whoever receives a majority of the votes wins, and the tie is resolved by tossing a coin
  3. The elected candidate chooses policy vector (τ, ρ); if no candidate decides to run, a default policy, $(\hat{\tau}, 0)$ with $\hat{\tau} \in (0, \underline{\tau})$, is implemented.
  4. Agents – specifically, capital owners – make their economic decisions.

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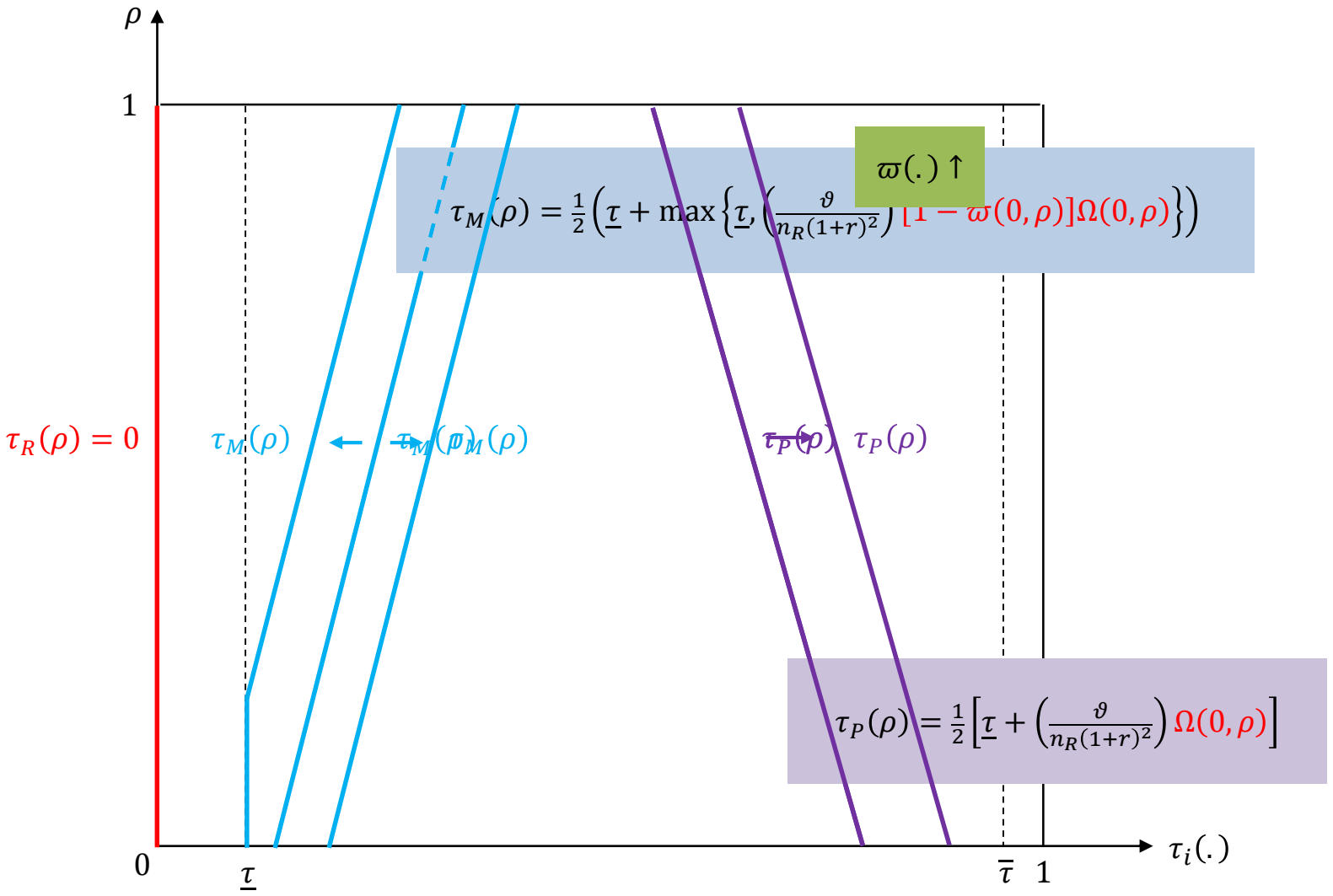
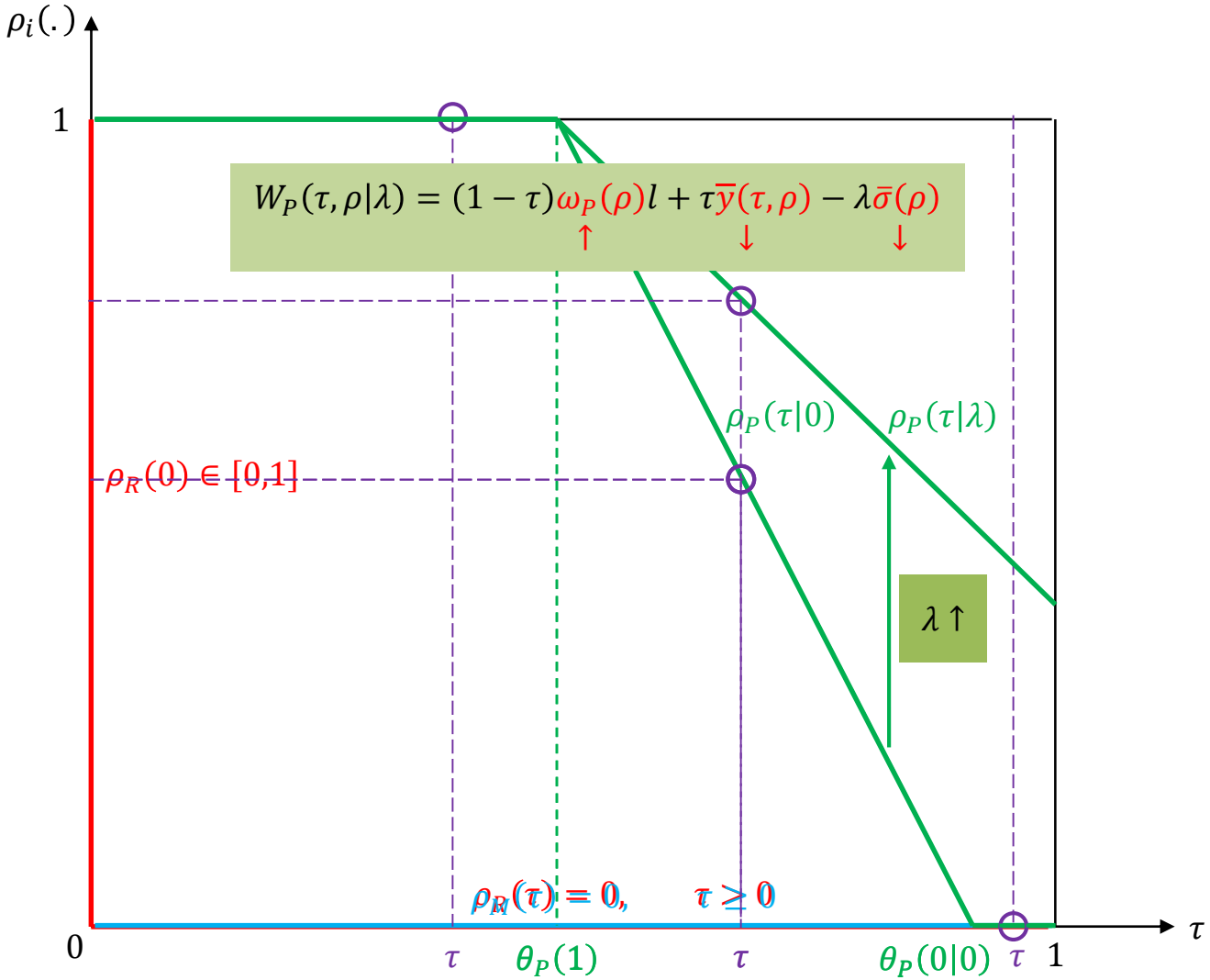
Political Outcomes: Preferred Policies

- Citizen-candidate framework features:
  I. Policy-motivated politicians
     - committed to policy proposal, if indifferent
  II. Sincerely voting
- Preferred policies:
  I. Preferred tax rate: Lemma 1
  II. Preferred degree of protection: Lemma 2
  III. Preferred policy vector: Proposition 1, and Corollary 1

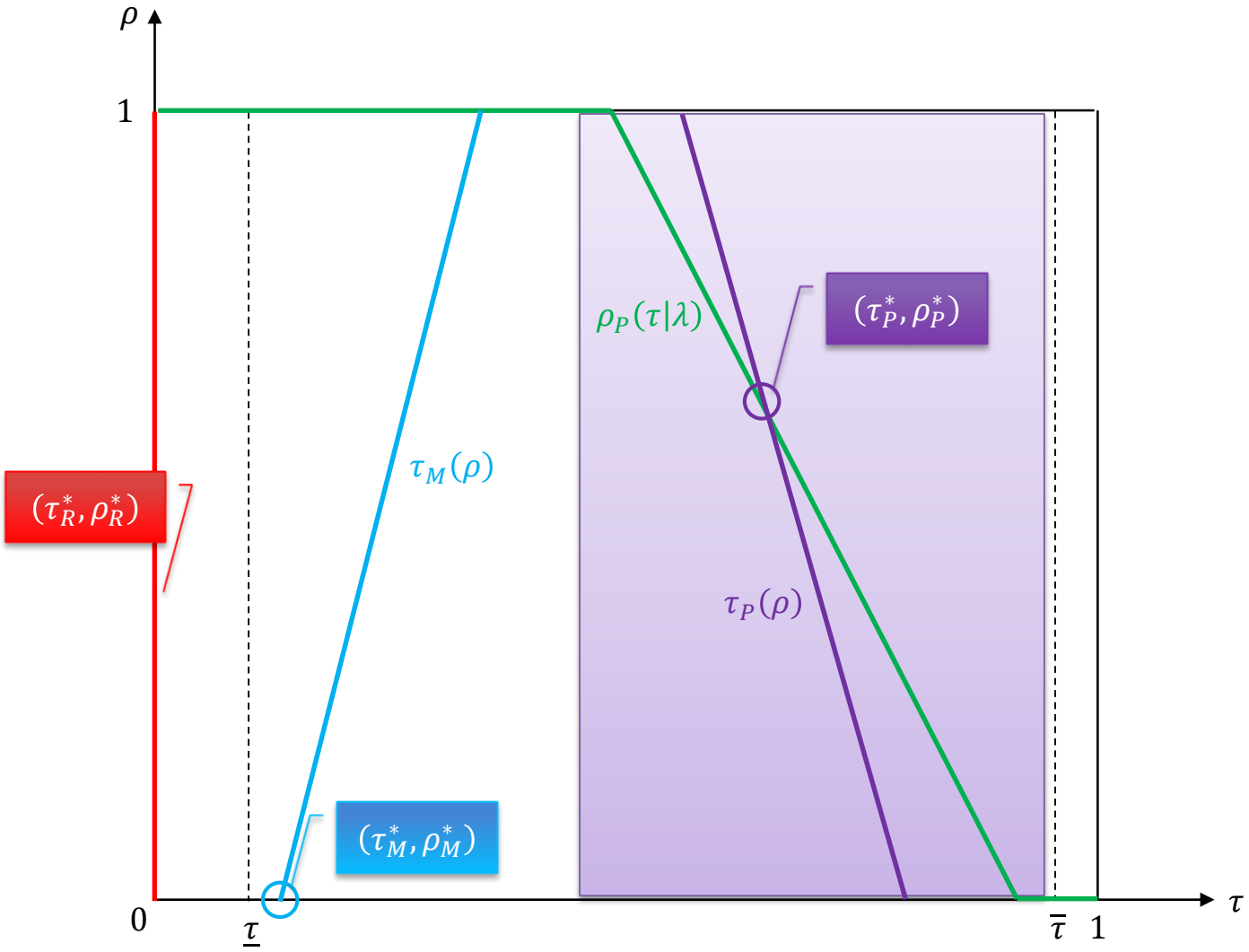
Preferred Tax Rate



Preferred Degree of Protection



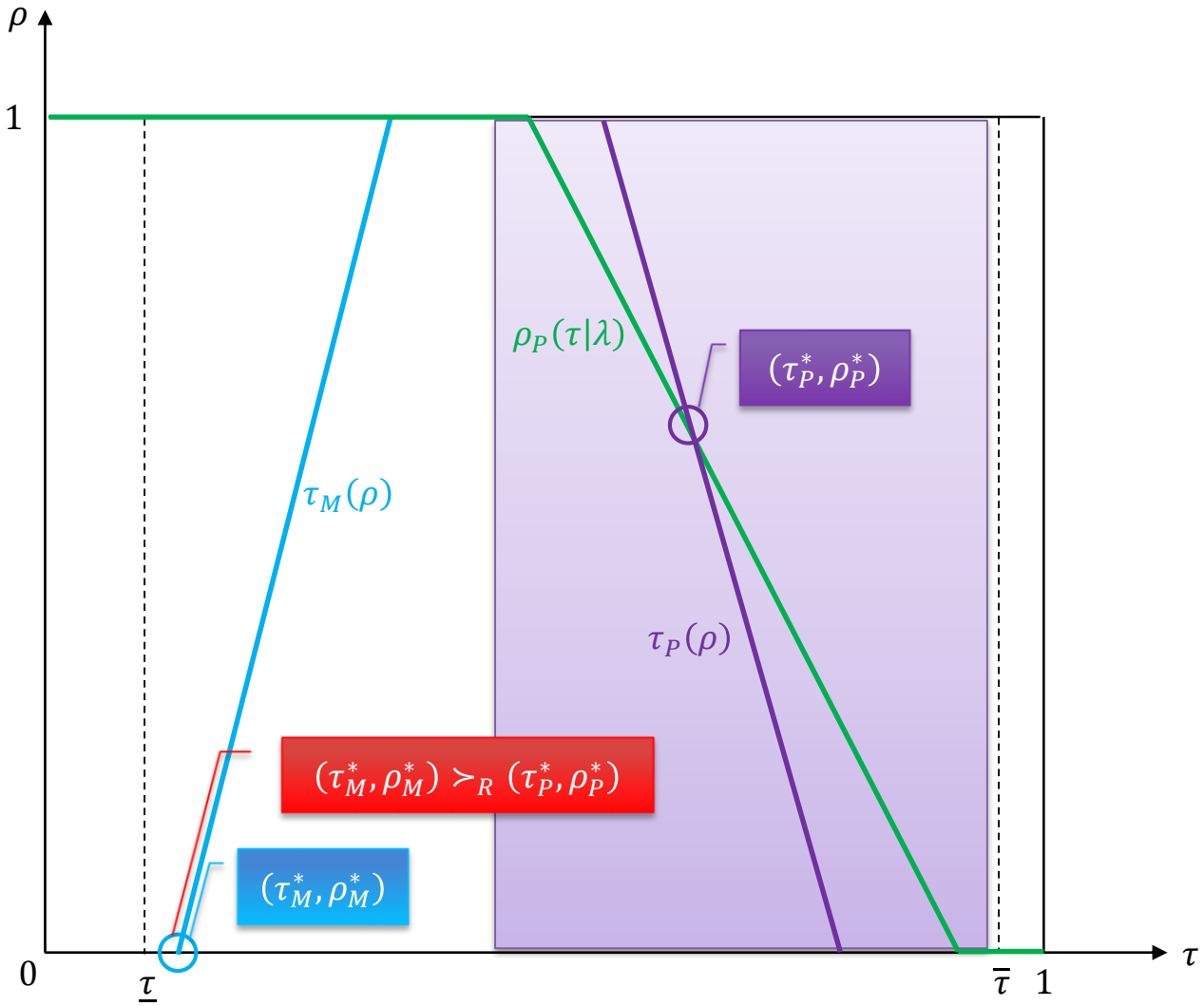
Preferred Policy Vector



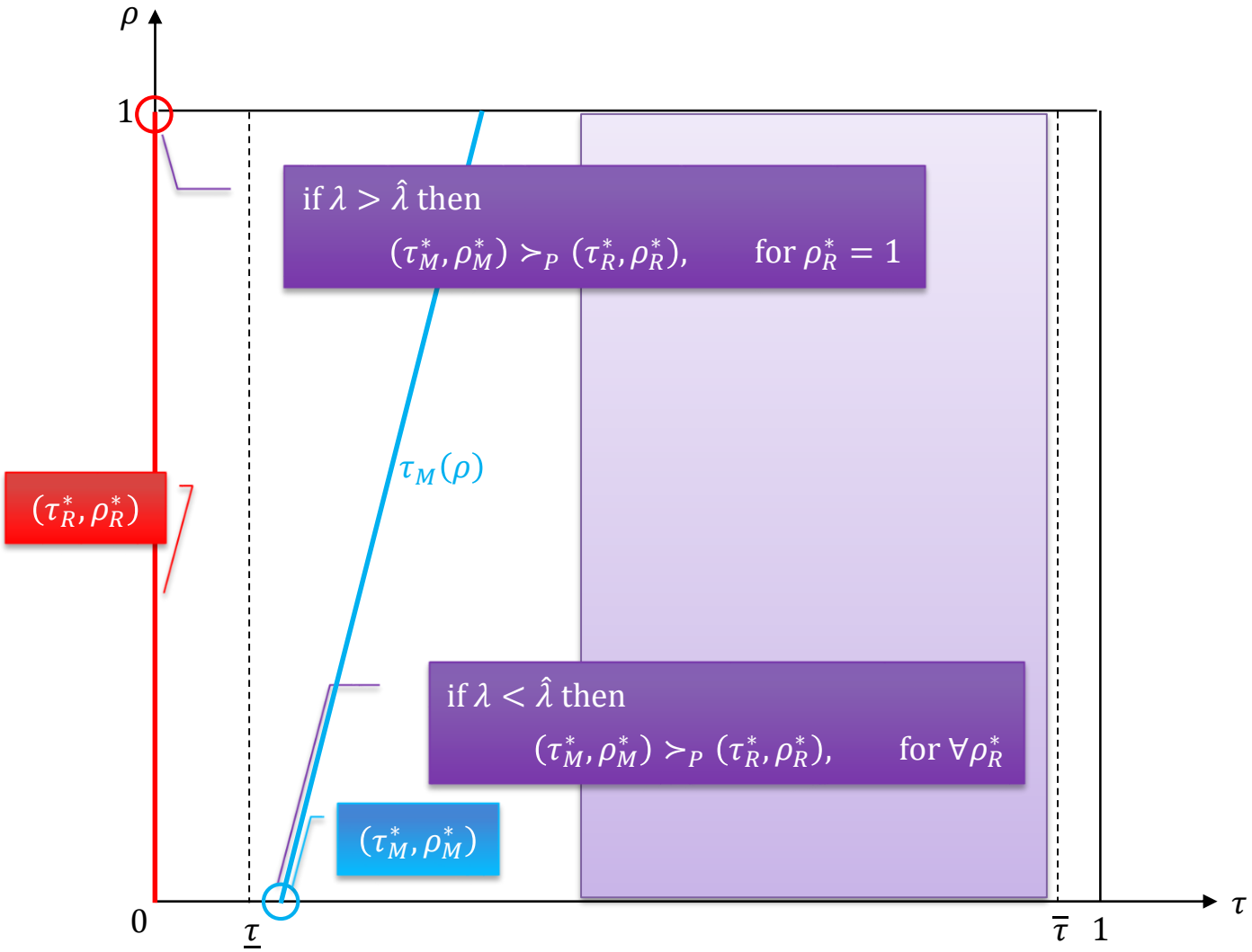
Political Outcomes: Equilibrium Policies

- Our focus
  - One-candidate equilibria (pure equilibria)
- Political contests
  I. The middle-class representative vs. the poor representative : Lemma 3
  II. The middle-class representative vs. the rich representative : Lemma 4
  III. The poor representative vs. the rich representative : Lemma 5
- Political equilibria
  - Established equilibrium vs. xenophobic equilibrium: Proposition 2

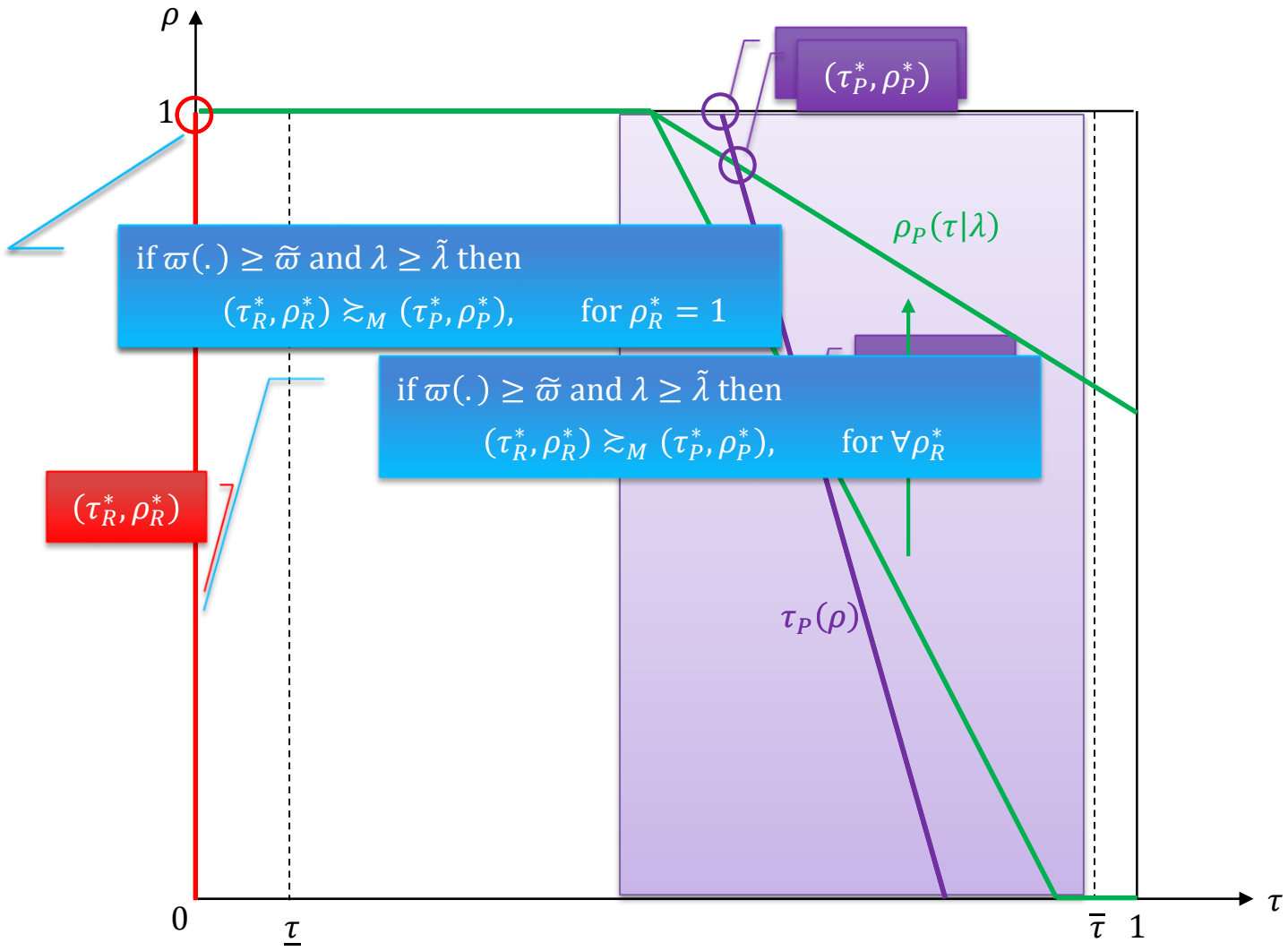
Political Contest I



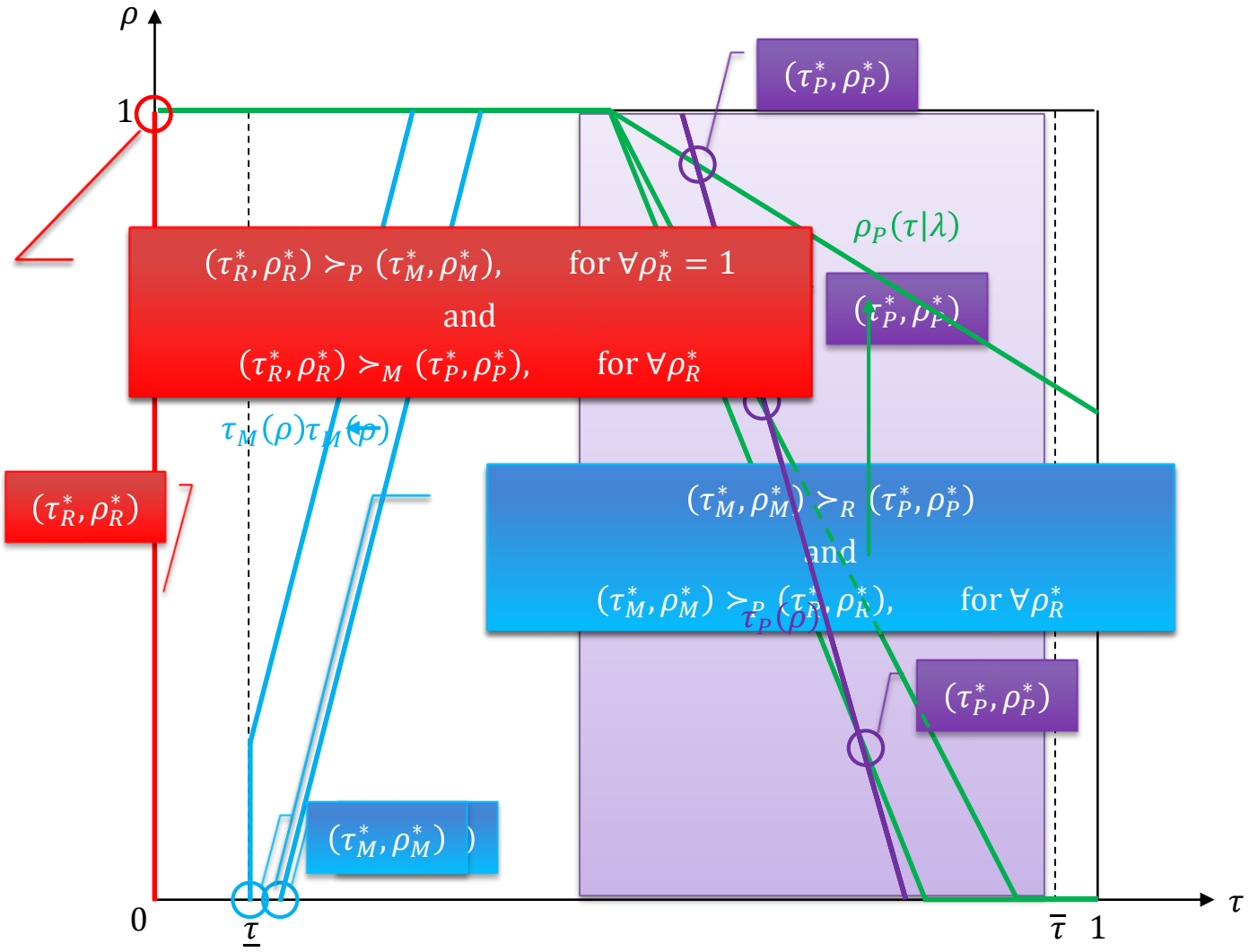
Political Contest II



Political Contest III



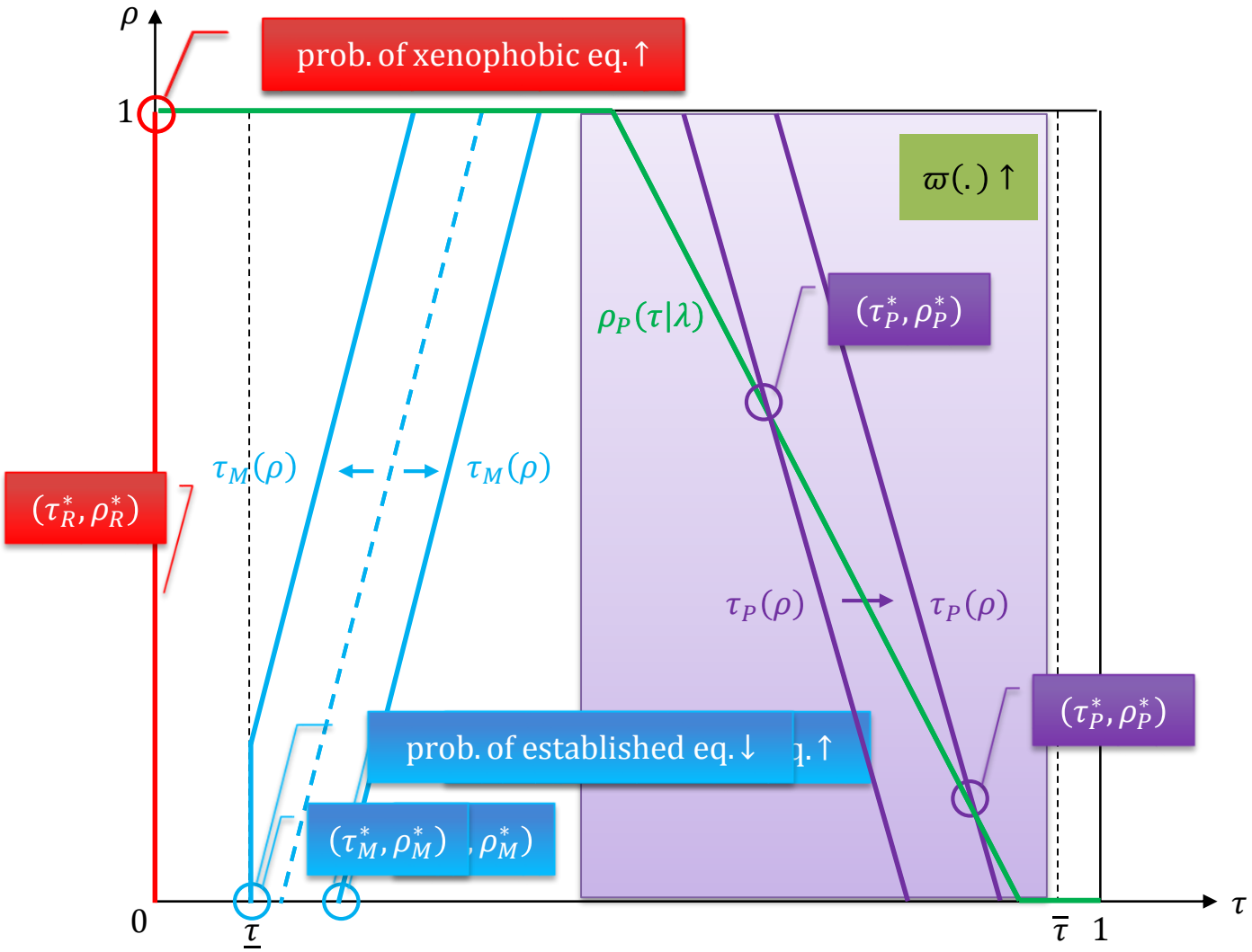
Political Equilibria



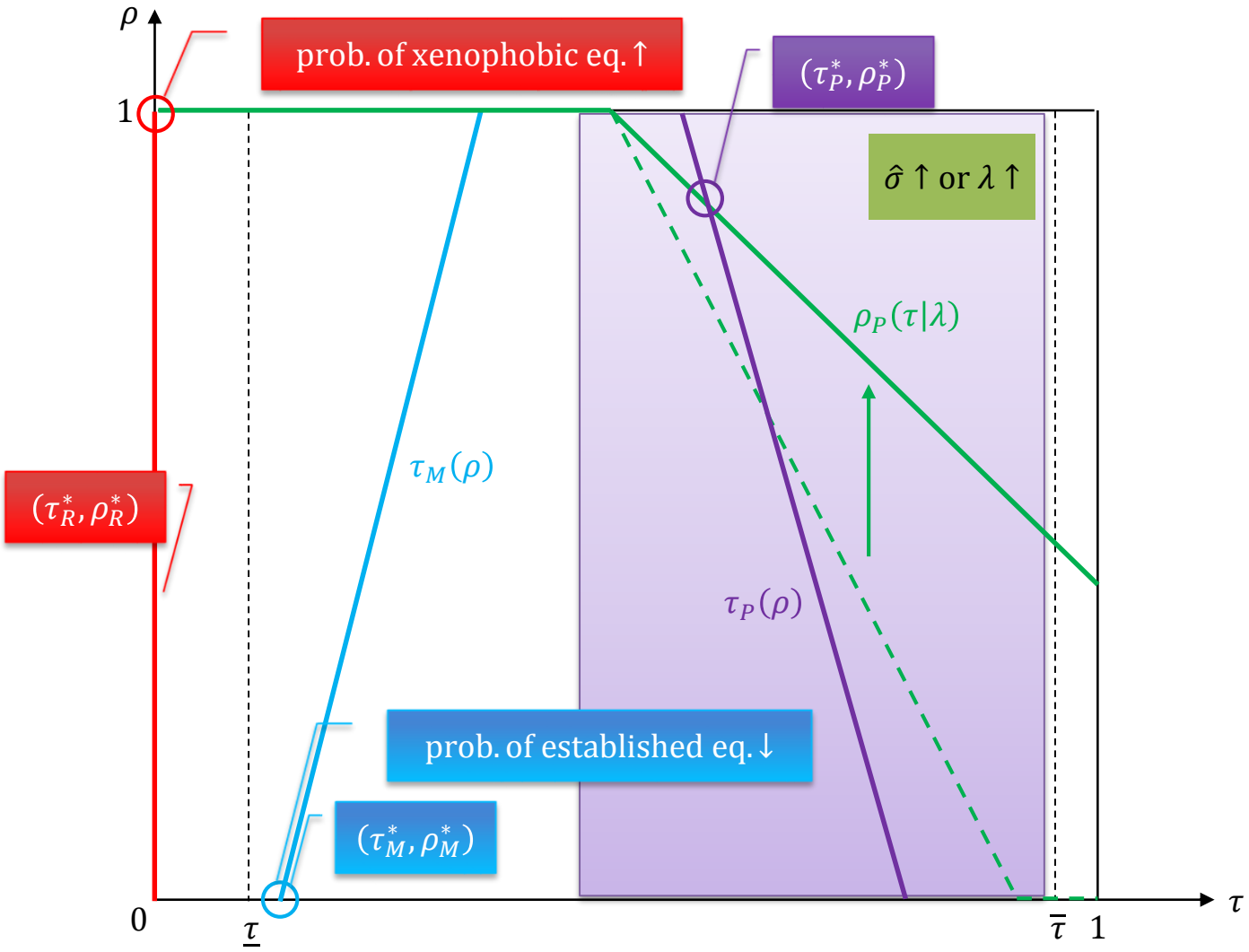
Political Outcomes: Comparative Statics

- Comparative statics
  I. Inequality cleavage: Corollary 2
  II. Cultural cleavage: Corollary 3

Comparative Statics I



Comparative Statics II



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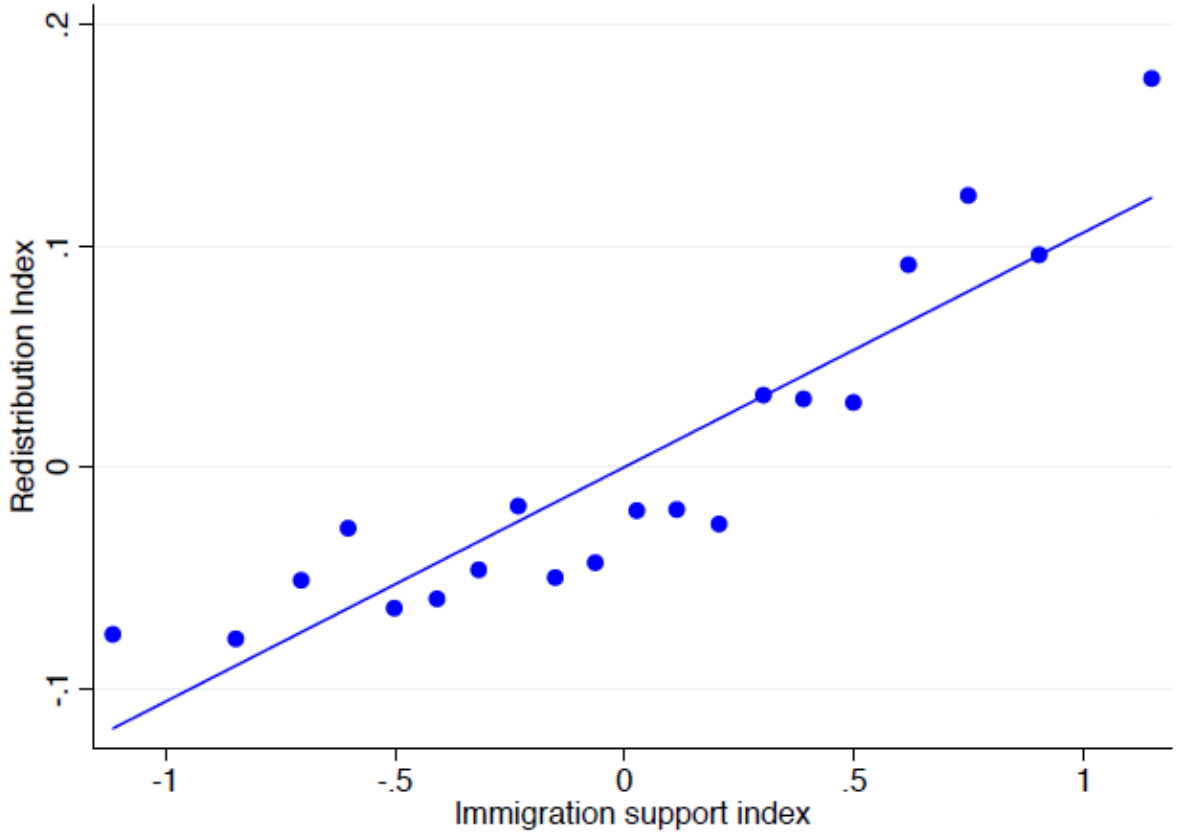
Xenophobia and Redistribution



Source: Alesina et al. (2018)

Note: Indices are constructed following the methodology in Kling et al. (2007). Each dot is the average residual in each bin from regressing respondents' redistribution and immigration indices on all individual level controls (income, education, political alienation, etc.), including country fixed effects.

Xenophobia and Redistribution (cont'd)

- How xenophobia undermining demand for redistribution?

I. The distraction hypothesis

$$c - \lambda\bar{\sigma}(\rho), \qquad \lambda \geq 0$$

where $\bar{\sigma}(0) = \hat{\sigma} > 0$, $\bar{\sigma}(1) = \bar{\sigma}'(1) = 0$ and for every $\rho \in (0,1)$

$$\bar{\sigma}'(\rho) < 0, \qquad \bar{\sigma}''(\rho) > 0$$

II. The anti-solidarity hypothesis

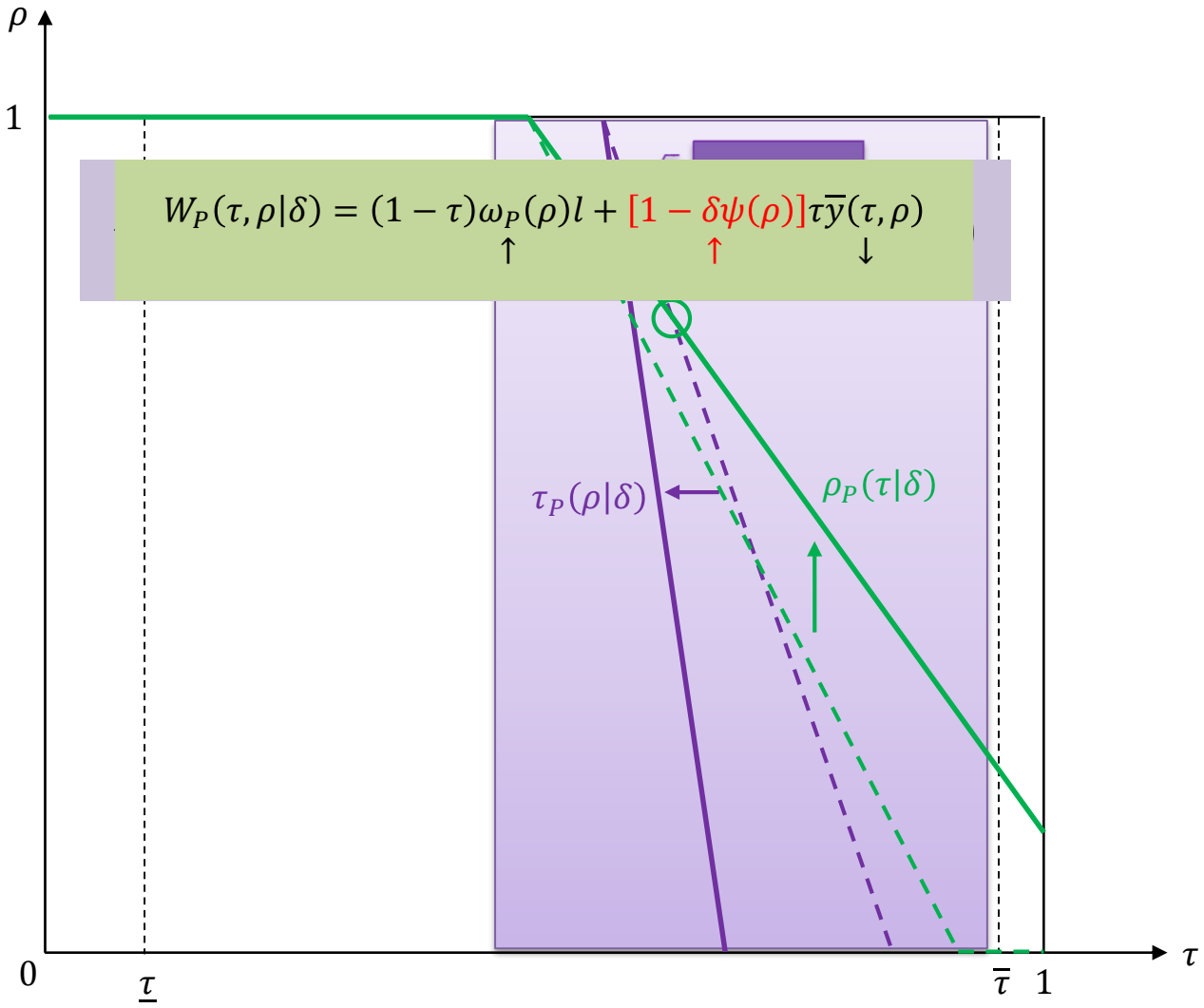
$$c - \delta\psi(\rho)T, \qquad 0 \leq \delta < 1$$

where $\psi(0) = 1$, $\psi(1) = \psi'(1) = 0$ and for every $\rho \in (0,1)$

$$\psi'(\rho) < 0, \qquad \psi''(\rho) > 0$$

- General results of Proposition 2 unchanged!
  - Effect of cultural cleavage more pronounced

The Anti-solidarity Hypothesis



Financial Globalization

- Cost of capital reallocation

$$\Lambda(\kappa, \rho)$$

where $\Lambda(.,.) \in \mathbb{C}^3$,

$$\frac{\partial}{\partial \kappa}[\Lambda(\kappa,.)] > 0, \qquad \frac{\partial^2}{\partial \kappa^2}[\Lambda(\kappa,.)] > 0$$

$$\frac{\partial}{\partial \rho}[\Lambda(.,\rho)] > 0, \qquad \frac{\partial^2}{\partial \rho^2}[\Lambda(.,\rho)] > 0$$

and

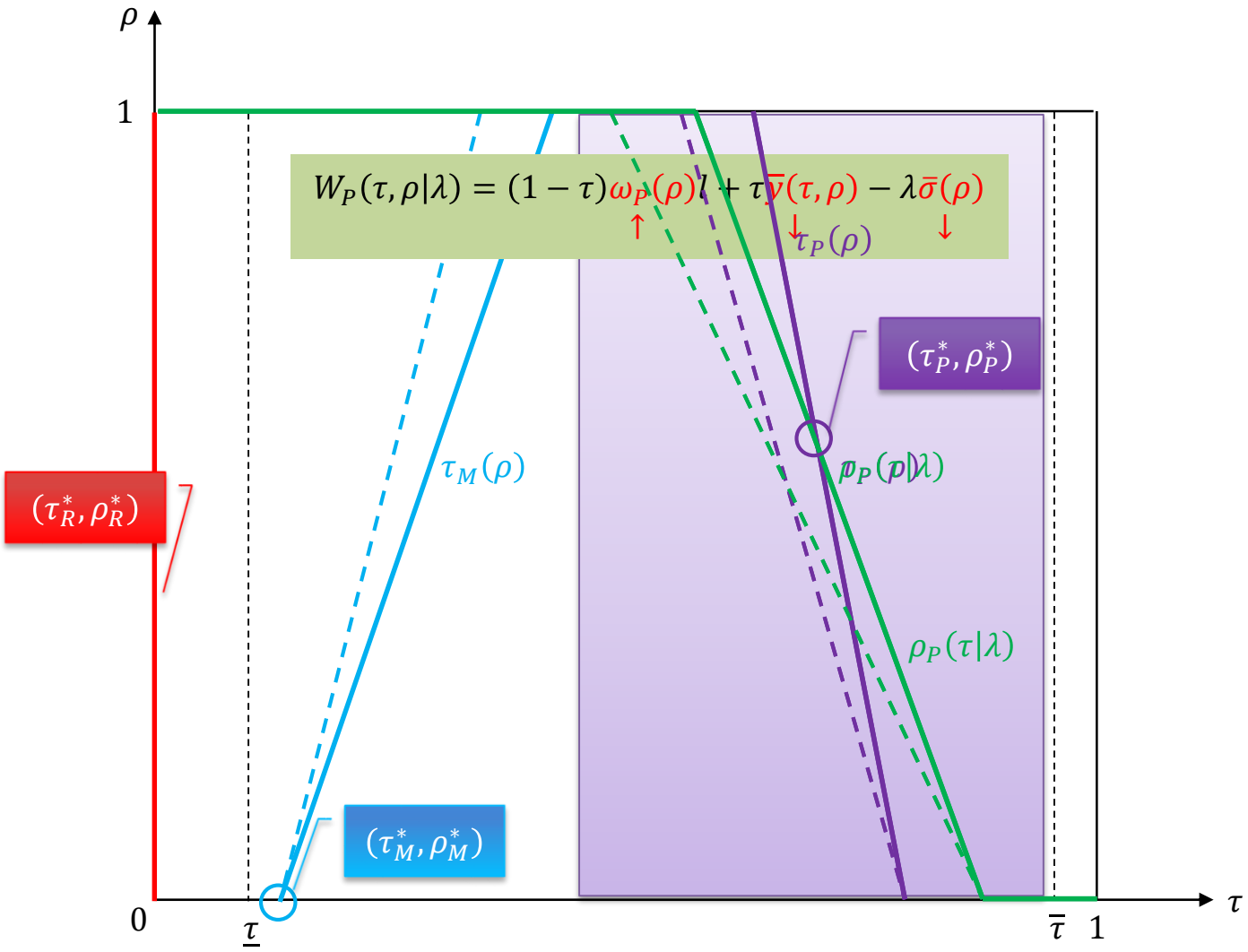
$$\frac{\partial^2}{\partial \kappa \partial \rho}[\Lambda(\kappa,\rho)] > 0$$

$\Longrightarrow$ Tax-avoidance function: $\kappa(\tau, \rho)$ where $\frac{\partial}{\partial \rho}[\kappa(.,\rho)] < 0$.

- General results of Proposition 2 unchanged if

$$\frac{\partial}{\partial \rho}[\overline{y}(.,\rho)] < 0 \Leftrightarrow |n_P \omega_P{}'(\rho) + n_M \omega_M{}'(\rho)| l > \left|\frac{\partial}{\partial \rho}[\kappa(.,\rho)]\right|$$

Financial Globalization: $\frac{\partial \overline{y}(\tau,\rho)}{\partial \rho} < 0$



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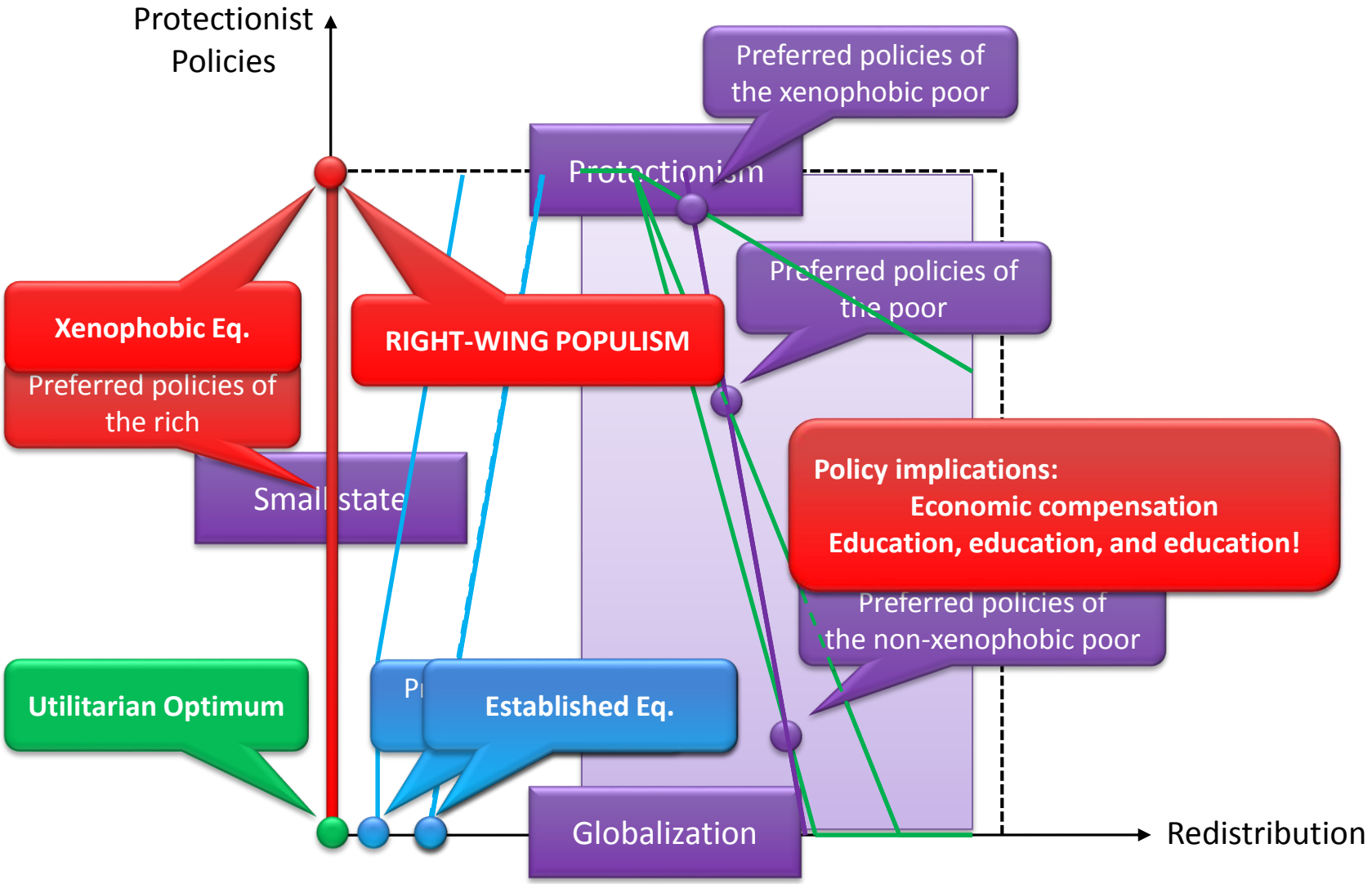
Concluding Remarks

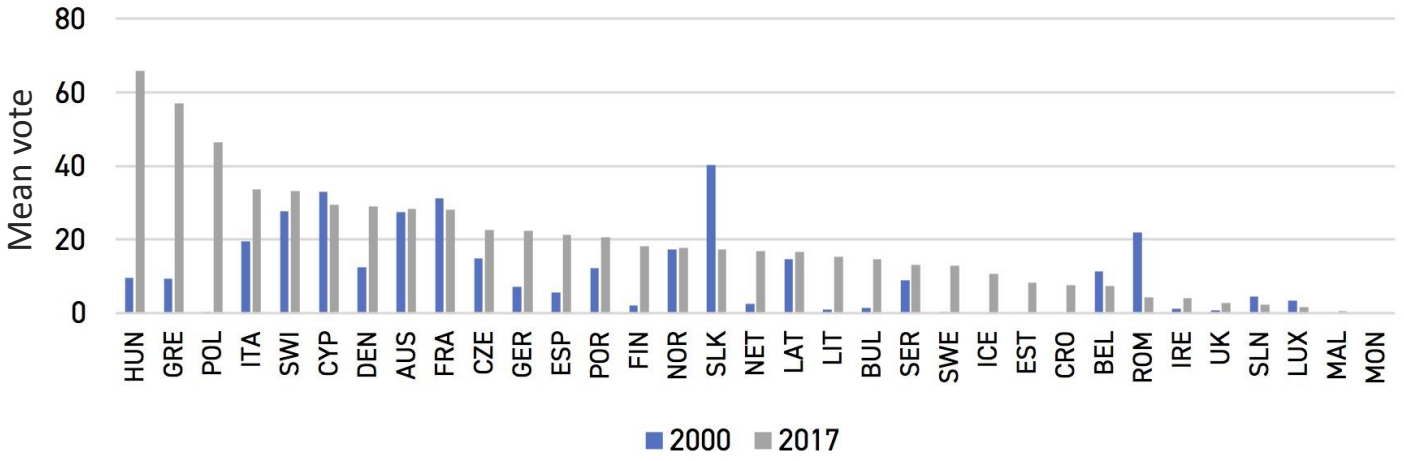


Thank You
for
Your Attention!

Appendix

LEMMAS, PROPOSITIONS, REMARKS, AND FIGURES

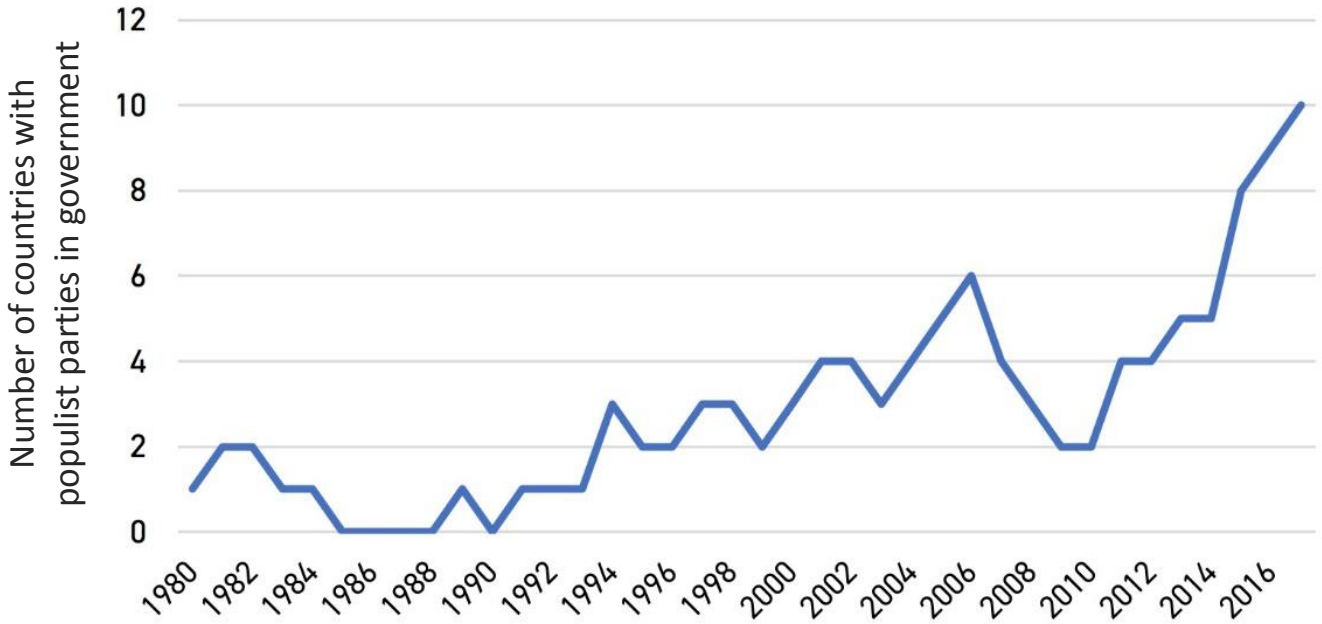
Rising Support for Right-wing Populism in Europe (cont'd)



Source: Heino (2018), from Timbro Authoritarian Populism Index 2017

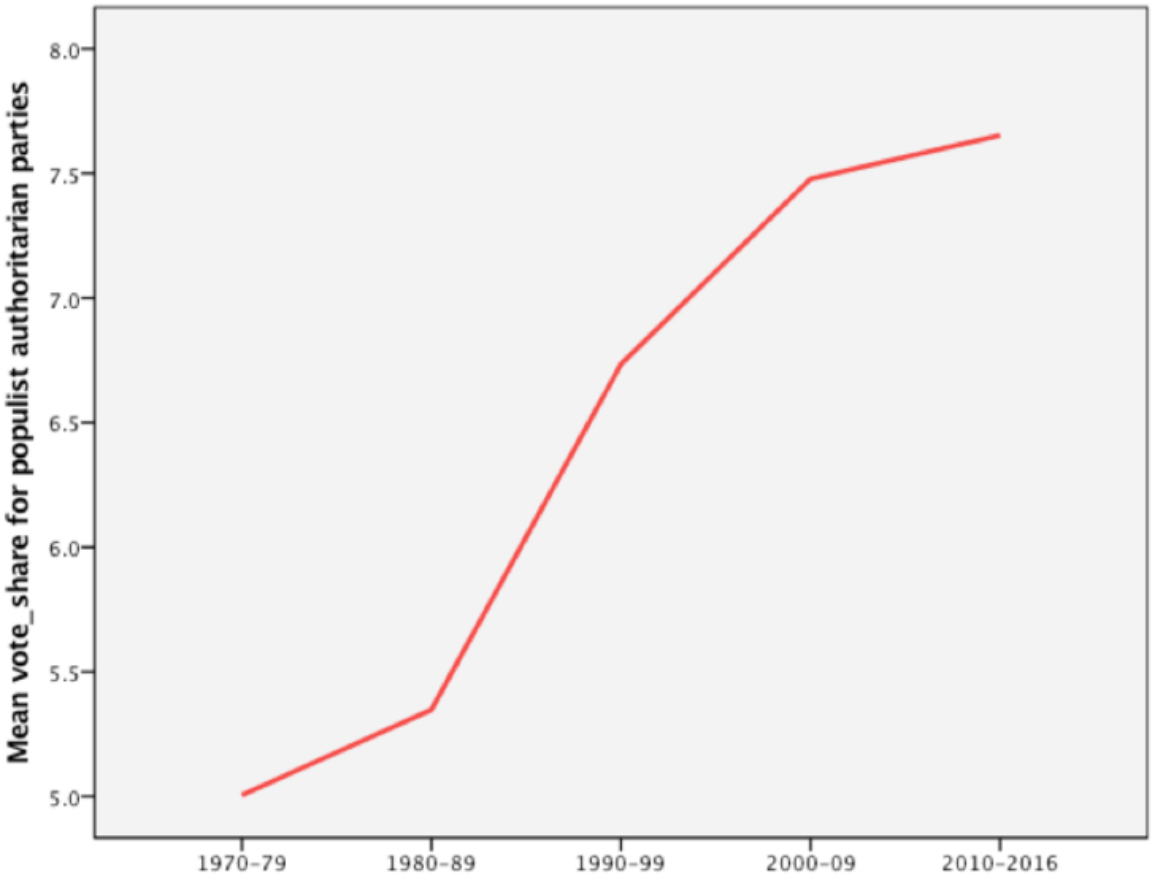
Note: Percentage of votes received in elections to national parliaments in 33 European countries deemed democracies by Freedom House.

Rising Support for Right-wing Populism in Europe (cont'd)



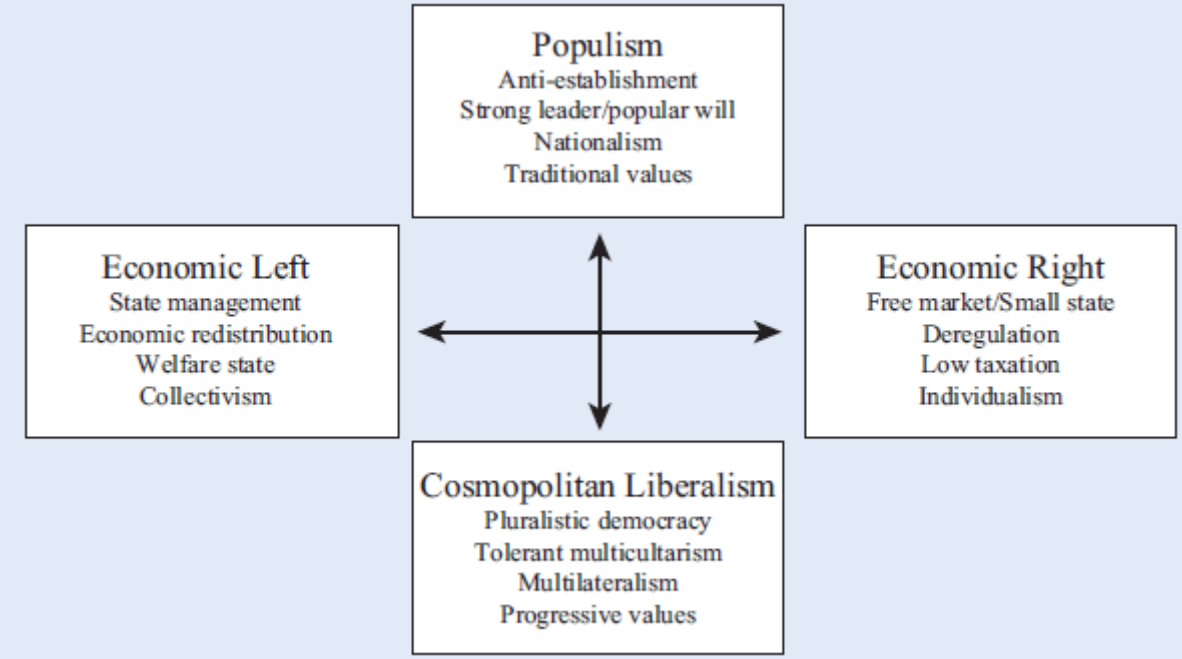
Source: Heino (2018), from Timbro Authoritarian Populism Index 2017

Rising Support for Right-wing Populism in OECD Countries



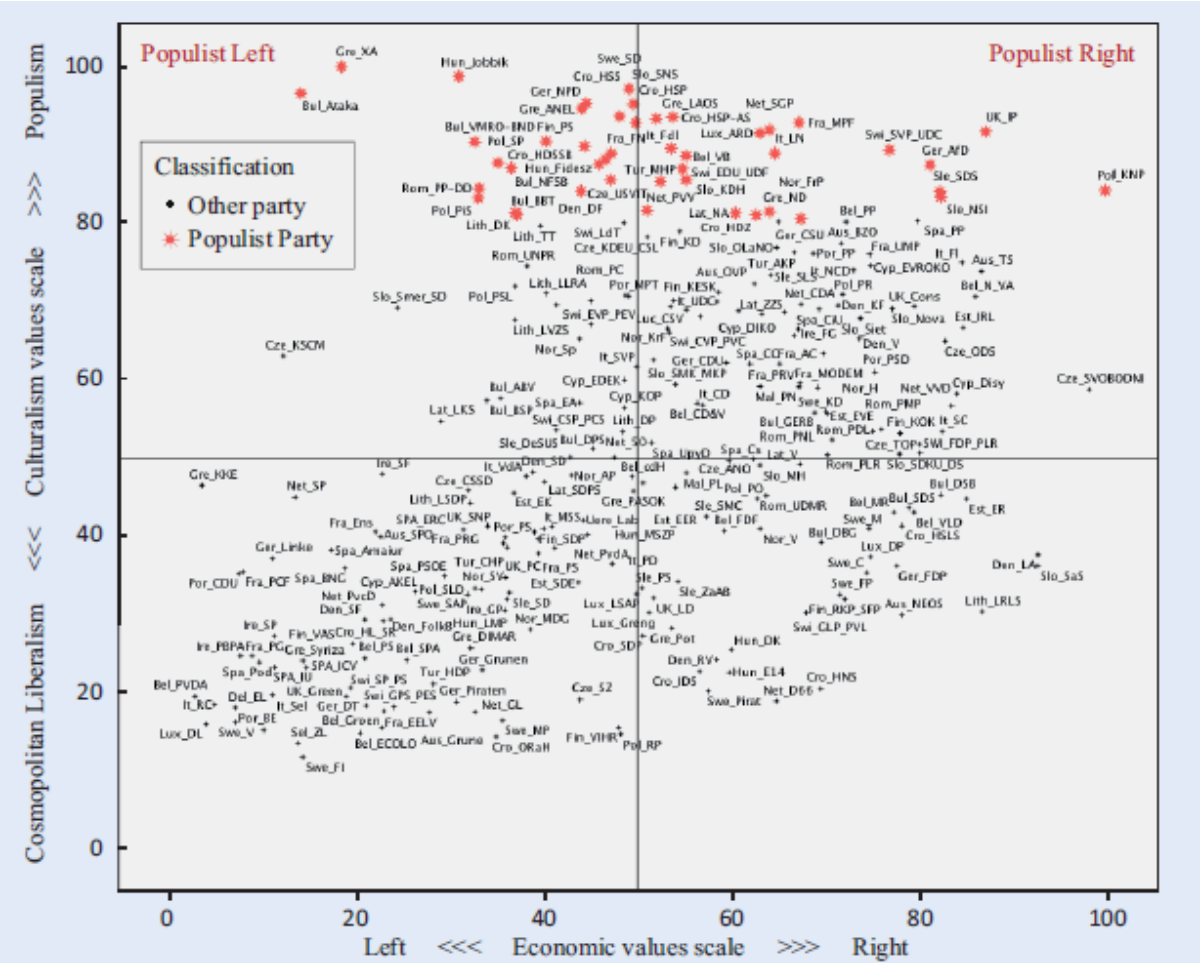
Source: Ingelhart and Norris (2017)

Four-way Classification of Political Parties



Source: Ingelhart and Norris (2017)

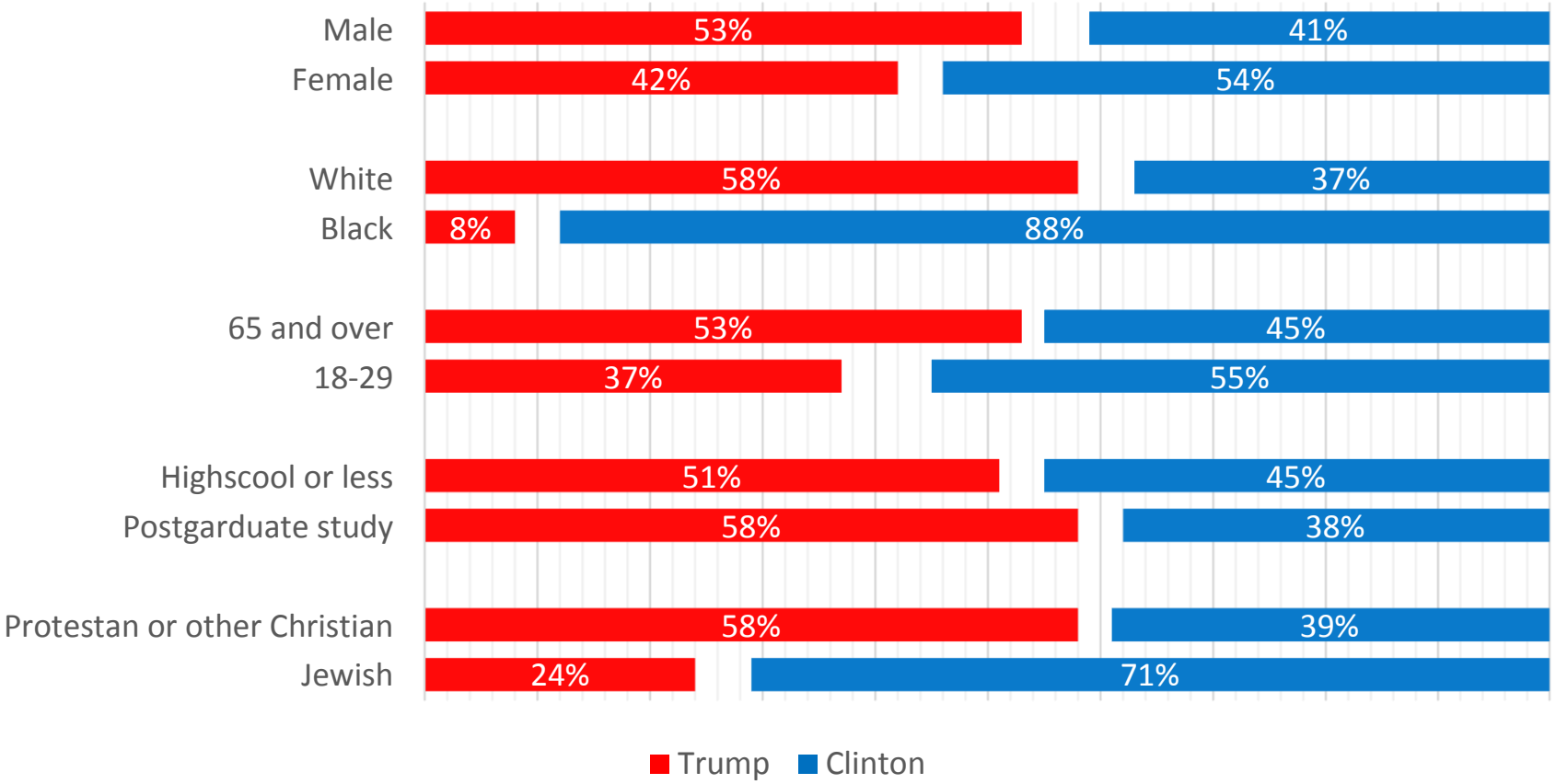
Classification of European Political Parties



Source: Ingelhart and Norris (2017)

Note: CHES 2014 expert survey of political party positions in 31 countries including all E.U. members plus Norway, Switzerland and Turkey. Factor analysis with rotated varimax with Kaiser Normalization.

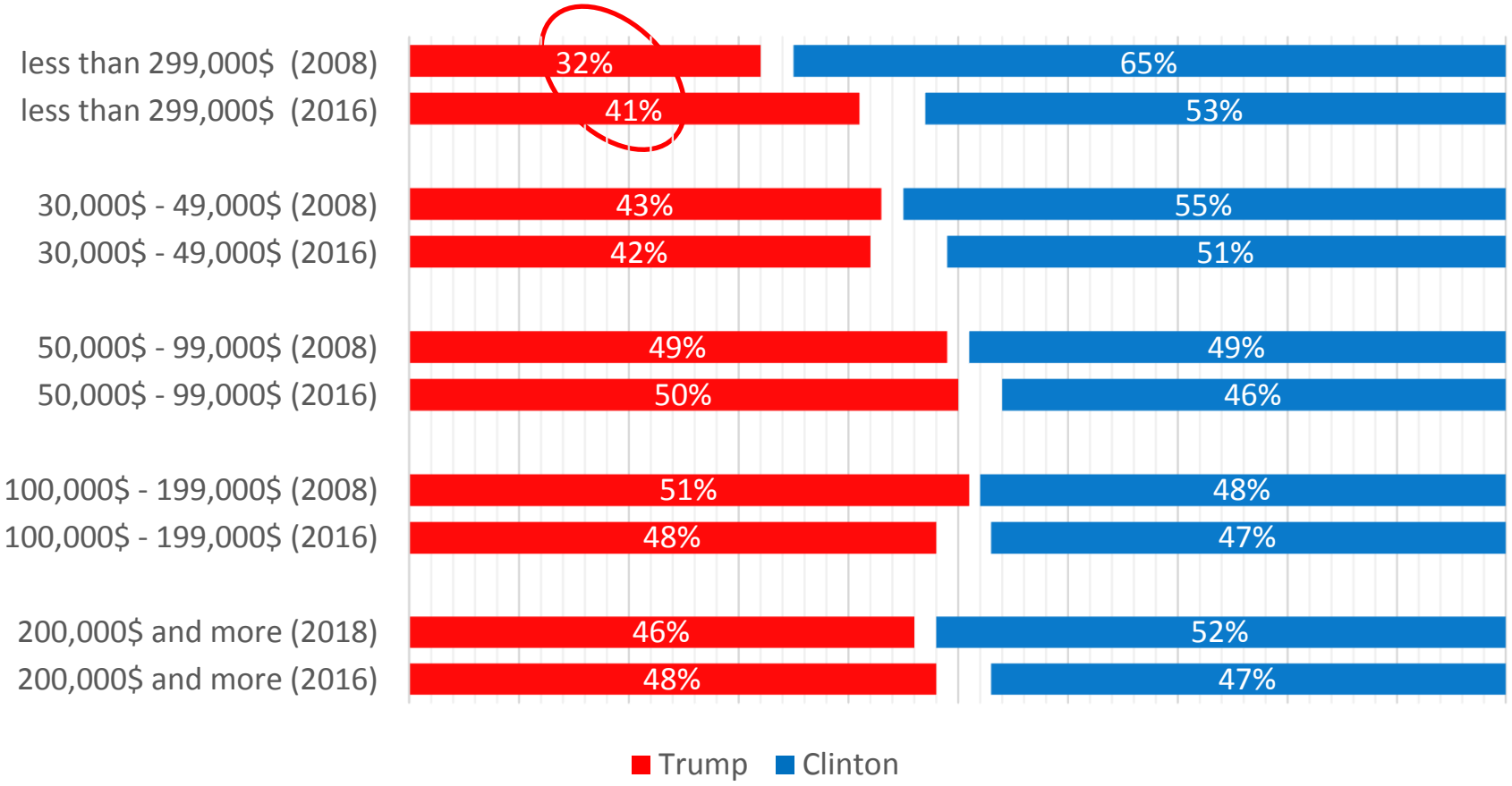
Who Voted for Donald Trump?
by Demographic Characteristics



Source: Edison Research via The New York Times (2016)

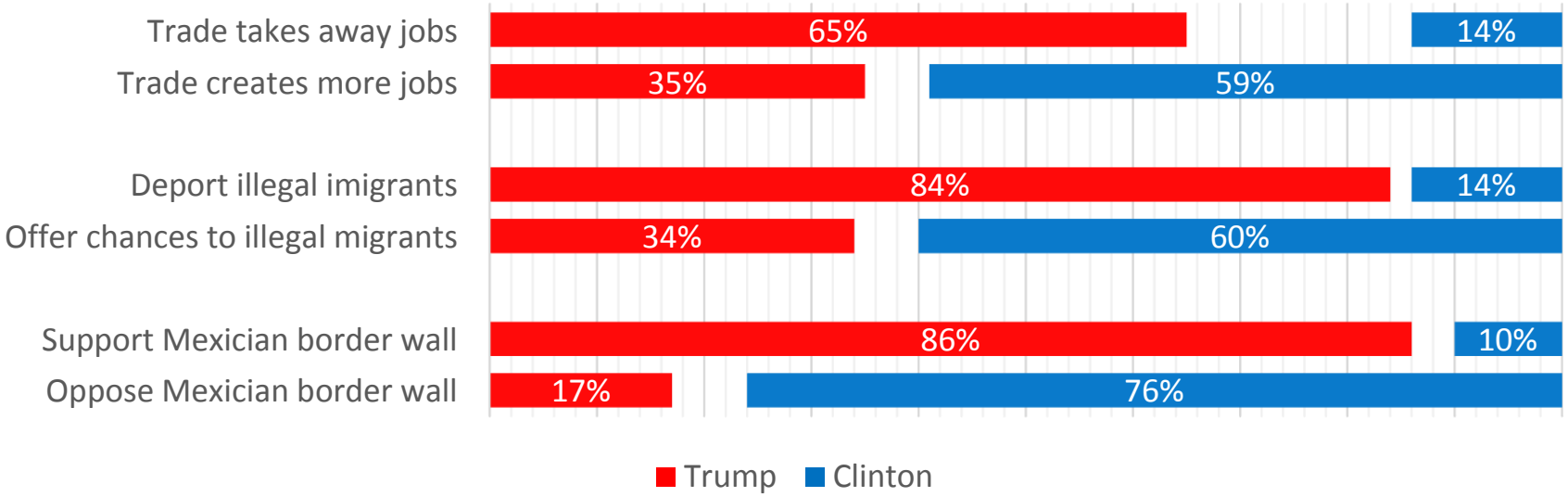
Who Voted for Donald Trump?

by Income Level



Source: Edison Research via The New York Times (2016)

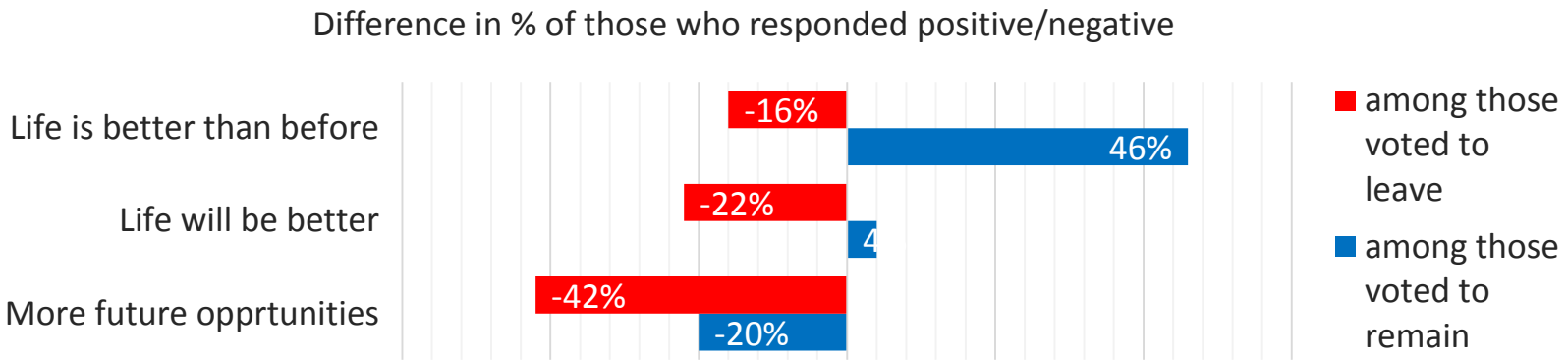
Who Voted for Donald Trump?
by Opinion about Globalization



Source: Edison Research via The New York Times (2016)

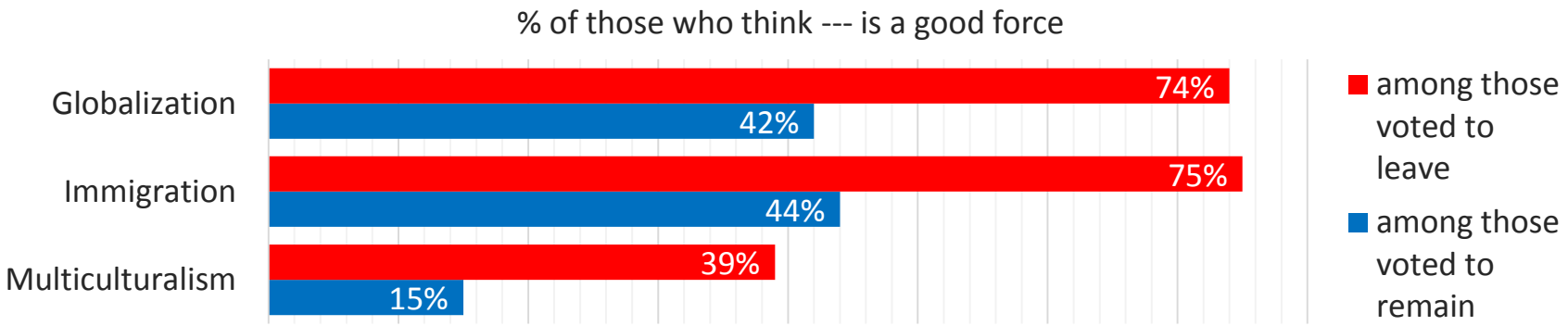
Who Voted for Brexit?

I. Those with negative view about "the economy"



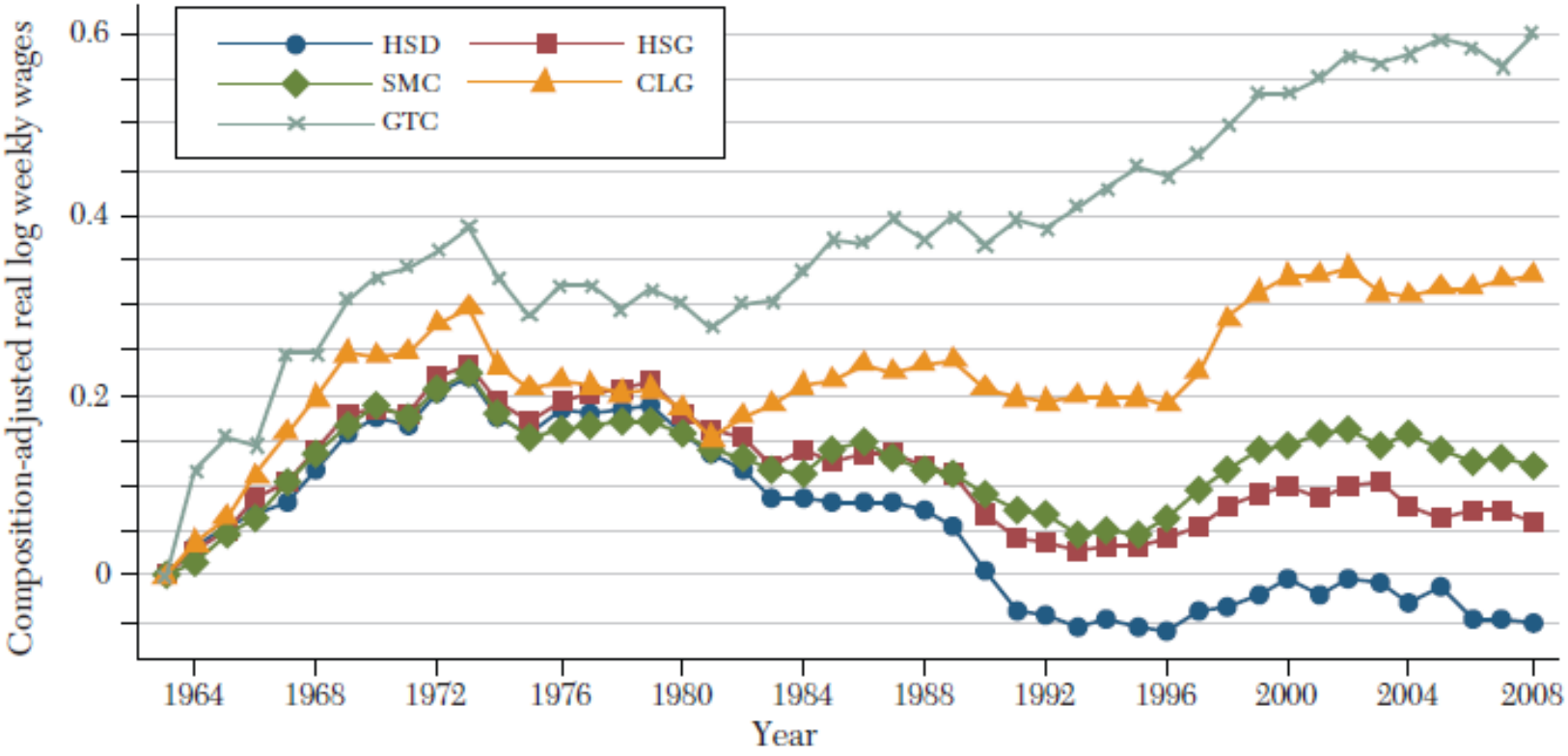
Source: Lord Ashcroft Polls via Gidron and Hall (2018)

II. Those with negative view about "progressive values"



Source: Lord Ashcroft Polls via Gidron and Hall (2018)

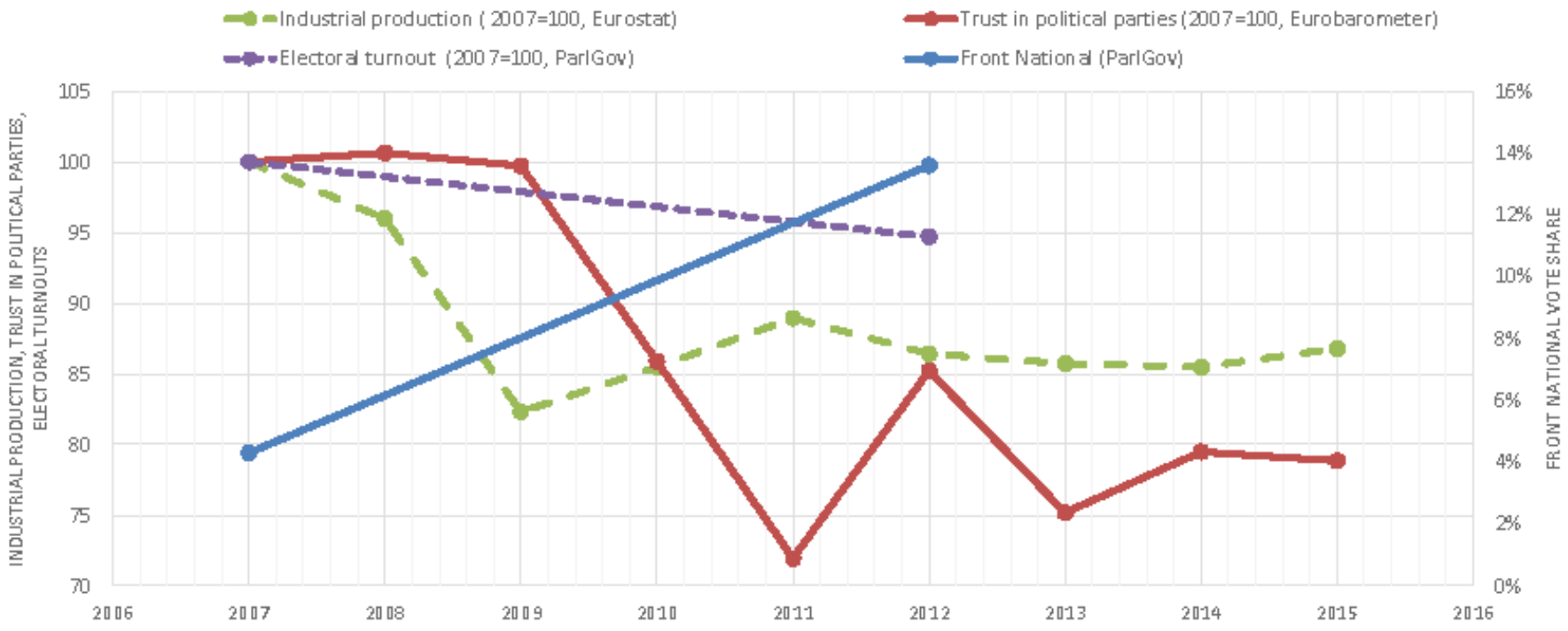
The Economic Insecurity Thesis



Source: Acemoglu and Autor (2012)

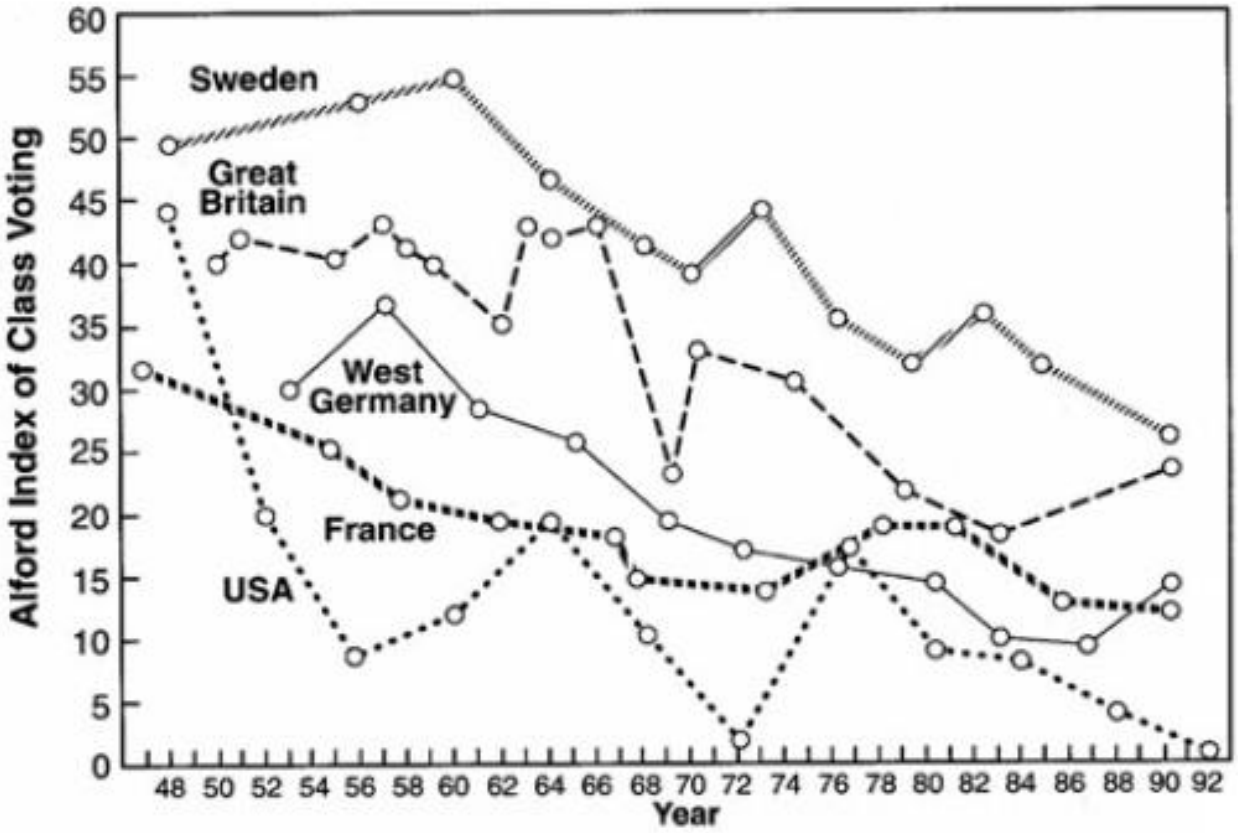
Note: March CPS data for earnings years 1963–2008. The real log weekly wage for each education group (high school dropout, high school graduate, some college, college graduate, greater than college), is the weighted average of the relevant composition adjusted cells using a fixed set of weights equal to the average employment share of each group.

The Economic Insecurity Thesis (cont'd)



Source: Guiso et al. (2017)

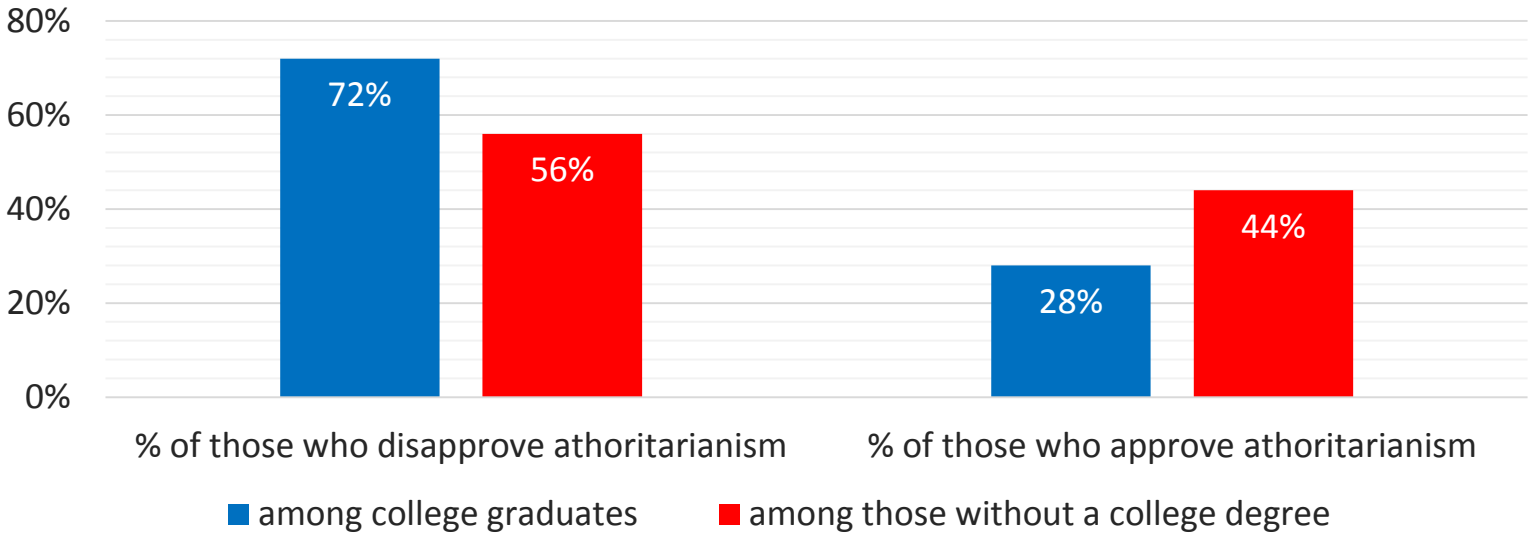
The Cultural Backlash Thesis



Source: Inglehart (1997)

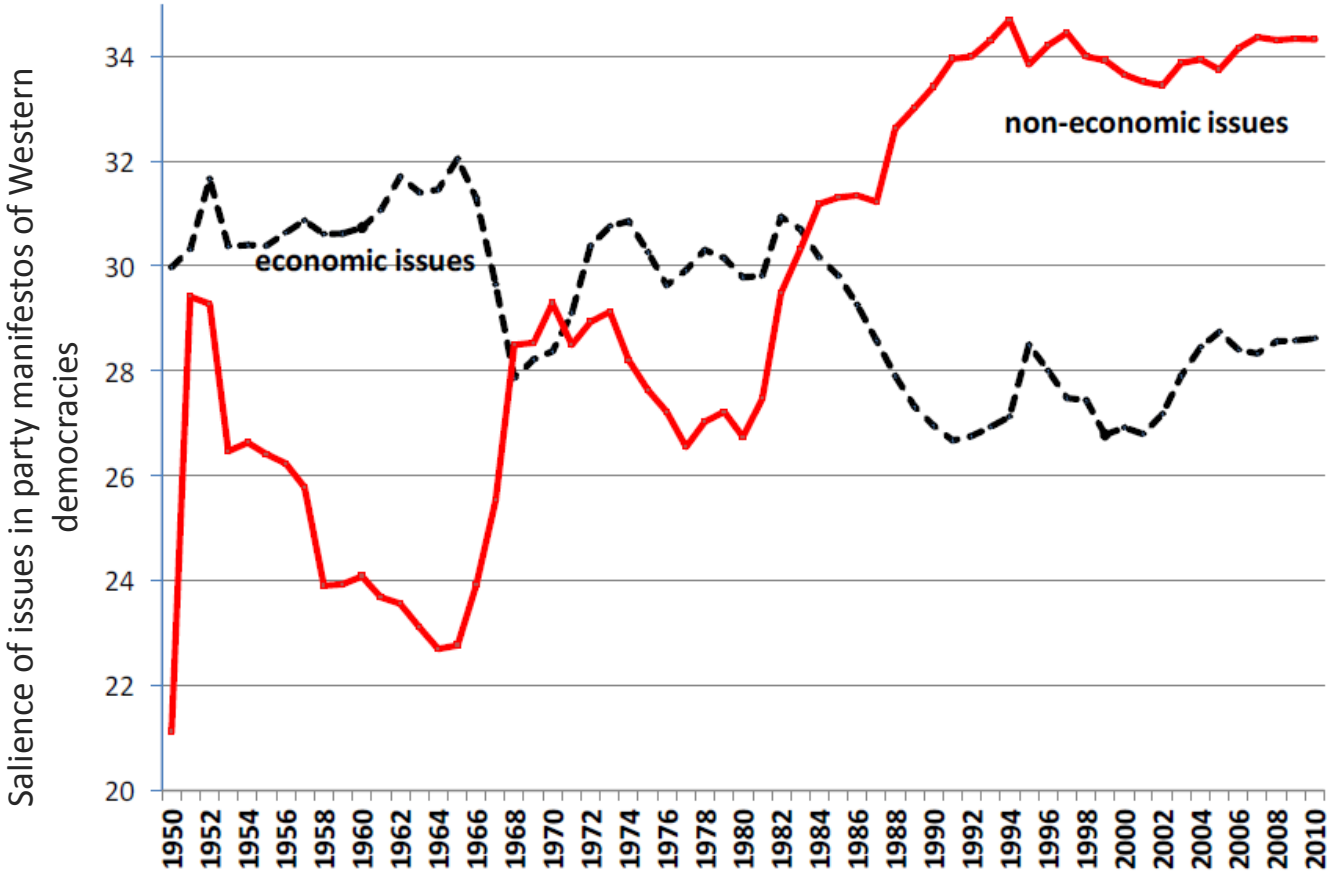
Note: Alford index reports the proportion of the working class voting left minus the proportion of the middle class voting left.

The Cultural Backlash Thesis (cont'd)



Source: World Values Survey, 6th wave (2011) via Inglehart and Norris (2016)

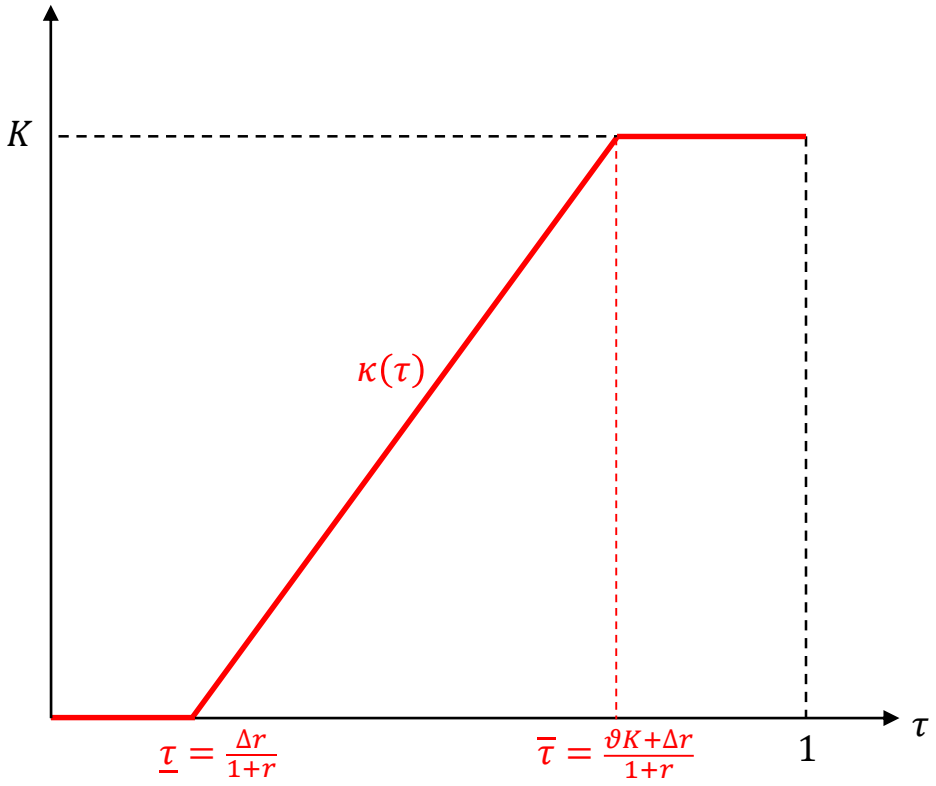
The Supply-side Dynamics



Source: Zakharov (2012), from Comparative Party Manifesto database.

Note: Proportion of references to each kind of issue in party manifestos weighted by party vote share in the most recent election for each country.

Capital Owners' Tax-avoidance Function



Preferred Tax Rates

- **Lemma 1**

I. *For every protection level* $\rho \in [0,1]$*, the rich prefer zero taxation, i.e.*

$$\tau_R(\rho) = 0, \qquad \forall \rho \in [0,1]$$

II. *Preferred tax rate of the middle-class is*

$$\tau_M(\rho) = \frac{1}{2}\left[\underline{\tau} + \max\left\{\underline{\tau}, \left(\frac{\vartheta}{n_R(1+r)^2}\right)\varpi(o,\rho)\Omega(0,\rho)\right\}\right], \qquad \forall \rho \in [0,1]$$

where $\tau_M'(.) > 0$ *for* $\tau_M(.) > \underline{\tau}$.

III. *Preferred tax rate of the poor is*

$$\tau_P(\rho) = \frac{1}{2}\left[\underline{\tau} + \left(\frac{\vartheta}{n_R(1+r)^2}\right)\Omega(0,\rho)\right], \qquad \forall \rho \in [0,1]$$

where $\tau_P'(.) < 0$.

Moreover, we have

$$\underline{\tau} \leq \tau_M(.) < \tau_P(.) < \overline{\tau}$$

Preferred Protection Levels

- **Lemma 2**

I. *The rich are indifferent between different protection levels under no taxation*

$$\rho_R(0) \in [0,1]$$

and prefer no protection under positive taxation

$$\rho_R(\tau) = 0, \qquad \tau > 0$$

II. *For every tax rate $\tau \in [0,1]$, the middle-class prefer no protection:*

$$\rho_M(\tau) = 0, \qquad \tau \in [0,1]$$

III. *Let*

$$\theta_P(\rho|\lambda) = -\frac{\omega_P{}'(\rho)l - \lambda\overline{\sigma}'(\rho)}{\Omega'(0,\rho)}, \qquad \rho \in [0,1]$$

Preferred Protection Levels (cont'd)

- **Lemma 2 (cont'd)**

III. (cont'd)

There exists some $\underline{\lambda} \in (0, \infty)$ *such that* $\theta_P(0|\underline{\lambda}) = 1$ *and*

i. if $0 \leq \lambda \leq \underline{\lambda}$*, then preferred protection level of the poor is*

$$\rho_P(\tau|\lambda) = \begin{cases} 1 & \tau \in [0, \theta_P(1|\lambda)] \\ {\theta_P}^{-1}(\tau|\lambda) & \tau \in (\theta_P(1|\lambda), \theta_P(0|\lambda)) \\ 0 & \tau \in [\theta_P(0|\lambda), 1] \end{cases}$$

ii. if $\lambda > \underline{\lambda}$*, then preferred protection level of the poor is*

$$\rho_P(\tau|\lambda) = \begin{cases} 1 & \tau \in [0, \theta_P(1|\lambda)] \\ {\theta_P}^{-1}(\tau|\lambda) & \tau \in (\theta_P(1|\lambda), 1] \end{cases}$$

Moreover, we have $\rho_P{}'(\tau|\lambda)$ *for* $\tau \in [\theta_P(1|\lambda), \min\{\theta_P(0|\lambda), 1\}]$ *and if* $0 \leq \lambda < \lambda'$ *then*

$$\begin{cases} \rho_P(\tau|\lambda) = \rho_P(\tau|\lambda') = 1 & \tau \in [0, \theta_P(1|0)] \\ \rho_P(\tau|\lambda) < \rho_P(\tau|\lambda') < 1 & \tau \in (\theta_P(1|0), \min\{1, \theta_P(0|\lambda)\}) \end{cases}$$

Preferred Policy Vectors

- **Proposition 1**

I. *The set of the rich preferred policy vectors is*

$$\{(\tau_R^*, \rho_R^*)\} = \{0\} \times [0,1]$$

II. *The middle-class preferred policy vector is*

$$(\tau_M^*, \rho_M^*) = (\tau_M(0), 0)$$

III. *There exists some* $\underline{\Omega} > 0$ *and some increasing function* $\overline{\Omega}(.) > \underline{\Omega}$ *such that*

i. *if* $\Omega(1) \leq \underline{\Omega}$*, then the poor preferred policy vector is*

$$(\tau_P^*, \rho_P^*) = (\tau_P(1), 1)$$

ii. *if* $\underline{\Omega} < \Omega(1)$*, then there would be two possible cases:*

a. *If* $\lambda \leq \underline{\lambda}$ *and* $\underline{\Omega} < \Omega(.) < \overline{\Omega}(\lambda)$ *or if* $\underline{\lambda} < \lambda$*, then the poor preferred policy vector is*

$$(\tau_P^*, \rho_P^*) = \left(\tau_P\left(\tilde{\rho}_P(\lambda)\right), \tilde{\rho}_P(\lambda)\right)$$

where $\tilde{\rho}_P(\lambda) \in (0,1)$ *is the fixed point of the function* $\rho_P{}^{-1}(\tau_P(.)|\lambda)$.

b. *If* $\lambda \leq \underline{\lambda}$ *and* $\overline{\Omega}(\lambda) \leq \Omega(0)$ *then the poor preferred policy vector is*

$$(\tau_P^*, \rho_P^*) = (\tau_P(0), 0)$$

Political Contest I

- **Lemma 3**

  The rich voters always prefer the middle-class representative to the poor representative, i.e.

$$(\tau_M^*, \rho_M^*) \succ_R (\tau_P^*, \rho_P^*)$$

Political Contest II

- **Lemma 4**

  There exists some $\hat{\lambda} > 0$ such that

  I. if $\lambda < \hat{\lambda}$, then the poor voters always prefer the middle-class representative to the rich representative, i.e.

  $$(\tau_M^*, \rho_M^*) \succ_P (\tau_R^*, \rho_R^*), \qquad \text{for } \forall \rho_R^* \in [0,1]$$

  II. if $\lambda > \hat{\lambda}$, then the poor voters prefer the rich representative proposing full protection to the middle-class representative, i.e.

  $$(\tau_R^*, \rho_R^*) \succ_P (\tau_M^*, \rho_M^*), \qquad \text{for } \rho_R^* = 1$$

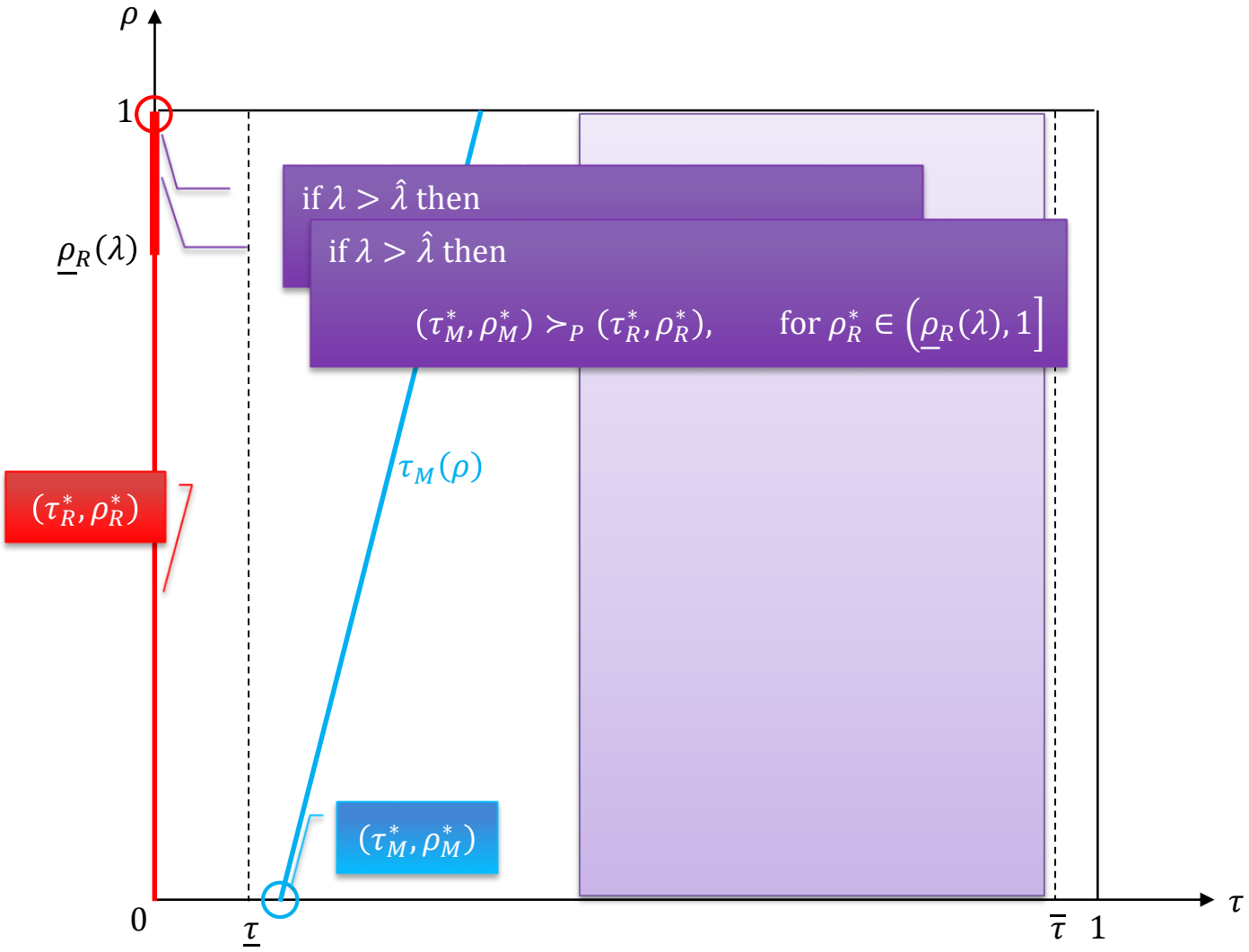
Political Contest II (cont'd)

- **Remark 1**

  Suppose $\lambda > \hat{\lambda}$. There exists some continuous decreasing function $\underline{\rho}_R(.) \in (0,1)$ such that the poor voters prefer the rich representative proposing sufficiently high level of protection to the middle-class representative, i.e.

$$(\tau_R^*, \rho_R^*) \succ_P (\tau_M^*, \rho_M^*), \qquad \text{for } \forall \rho_R^* \in \left(\underline{\rho}_R(\lambda), 1\right]$$

Political Contest II (cont'd)



Political Contest III

- **Lemma 5**

  There exists some $\tilde{\lambda} \geq 0$ *and* $\tilde{\varpi} > 0$ *such that if*

  $$\lambda \geq \tilde{\lambda} \quad \text{and} \quad \varpi(.) \geq \tilde{\varpi}$$

  then the middle-class voters (weakly) prefer the rich representative to the poor representative, i.e.

  $$(\tau_R^*, \rho_R^*) \gtrsim_M (\tau_P^*, \rho_P^*), \qquad \forall \rho_R^* \in [0,1]$$

Equilibrium Policies

- **Proposition 2**

  I. *Established equilibrium:*

  The middle-class representative runs and wins the election by proposing no protection if and only if

  $$\lambda < \hat{\lambda}$$

  II. *Xenophobic equilibrium:*

  The rich representative runs and wins the election by proposing full protection if and only if

  $$\lambda > \max\{\hat{\lambda}, \tilde{\lambda}\} \quad \text{and} \quad \varpi(.) \geq \tilde{\varpi}$$

Xenophobic Equilibrium

- **Remark 2**

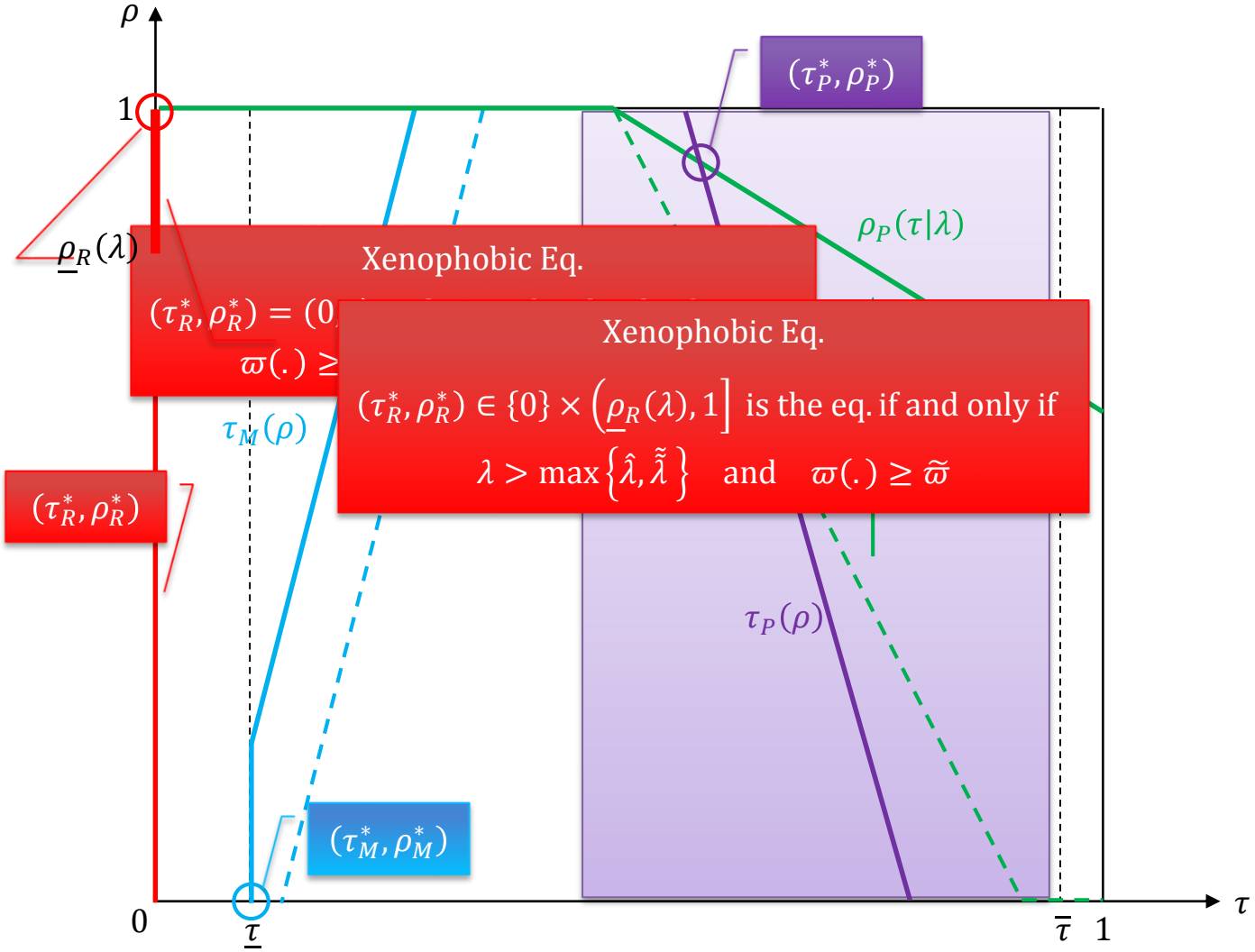
  There exists some $\tilde{\tilde{\lambda}} \in [0, \tilde{\lambda}]$ *such that the rich representative runs and wins the election by proposing*

$$(\tau_R^*, \rho_R^*), \qquad \text{for } \forall \rho_R^* \in \left(\underline{\rho}(\lambda), 1\right]$$

  if and only if

$$\lambda > \max\left\{\hat{\lambda}, \tilde{\tilde{\lambda}}\right\} \quad \text{and} \quad \varpi(.) \geq \tilde{\varpi}$$

Xenophobic Equilibrium (cont'd)



Comparative Statics I

- **Corollary 2**

  I. *An upward shift in $\Omega(.)$, ceteris paribus, decreases (increases) the probability of xenophobic (established) equilibrium.*

  II. *An upward shift in $\varpi(.)$, ceteris paribus, increases (decreases) the probability of xenophobic (established) equilibrium.*

❑

Comparative Statics II

- **Corollary 3**

  I. An increase in $\hat{\sigma}$, ceteris paribus, increases (decreases) the probability of xenophobic (established) equilibrium.

  II. An increase in λ, ceteris paribus, increases (decreases) the probability of xenophobic (established) equilibrium.

Xenophobia and Redistribution

- **Proposition 3**

Financial Globalization

- **Proposition 4**