

**Economic causes of populism:
Important, marginally
important, or important
on the margin**

Yotam Margalit

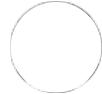
Populism a VoxEU debate

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Economic causes of populism: Important, marginally important, or important on the margin

Yotam Margalit / 20 Dec 2019

A common explanation for the rise of populism is economic insecurity driven by forces such as trade, immigration, or the financial crisis. This column, part of the Vox debate on populism, argues that such view overstates the role of economic insecurity as a driver. In particular, it conflates economic insecurity being important in explaining the overall populist vote and being important by affecting election outcomes on the margin. The empirical findings indicate that the share of populist support

explained by economic insecurity is modest.

This column is a lead commentary in the VoxEU debate on "Populism"

A populist wave is engulfing Western democracies. One would have to go back decades to find a comparable political wave affecting so many countries at the same time in such profound ways. Still in the throes of great political turbulence, making sense of this populist moment is of obvious import. Yet it is far from straightforward.

While the term 'populism' has different definitions, it is first and foremost characterised by its claim to represent the will of the true people versus some 'other', commonly represented as a corrupt and self-serving elite. The Brexit vote in June 2016 and Donald Trump's victory in the US presidential election later that same year have perhaps received the most attention, but the populist phenomenon stretches across a wide range of countries and contexts.

Its widespread and growing appeal has spawned intense debate over both its causes and consequences. A prominent set of studies centre on its economic antecedents (e.g. Autor 2016, Colantone and Stanig 2018, Fetzer 2019, Frey et al 2017, Dippel et al. 2015). Though they cite somewhat different causal factors, they share a similar storyline: a certain development – globalisation, automation, the financial crisis – had transformed labour markets and generated widespread dislocation and economic insecurity. These developments in turn eroded voters' trust in the political system and led those on the losing side to opt for populist parties that represent a break from the status quo and offer seemingly appealing solutions to voters' economic malaise – be it trade protectionism, building a border wall, or exiting the EU.

The debate over the causes of populism has often been framed as pitting these economic-centric arguments against cultural explanations, which focus on structural social changes as the source of populist disaffection (more on which below). Sensibly, contributions to this Vox debate offer more nuanced accounts that assign importance to both sets of causes and note the ways in which they interact. Nonetheless, assigning importance to both sets of causes doesn't address the question of just how important they are.

The answer is not only pertinent for our understanding of the populist phenomenon; it also has considerable implications for the debate regarding how the populist tide may be countered.

I contend that the economic-centric accounts, even in their more nuanced versions, tend to overstate the role of economic insecurity as an explanation of populism's electoral success. In a recent article (Margalit 2019) I discuss several reasons why the focus on economic causes deserves more critical assessment, but here I shall mention two.

First, the claim that economic insecurity is important in understanding the electoral success of populism conflates what I define as 'outcome significance' and 'explanatory significance'. Consider the Brexit vote, which was decided by a margin of less than four percentage points. Economic insecurity and displacement caused by globalisation may well have shifted the vote by a few points, enough to tip the referendum in favour of the 'Leave' camp. The *outcome significance* – transforming loss to victory – was therefore high. However, the overall phenomenon to be explained is why 52% of the electorate voted to leave the EU. The swing of a few percentage points hardly amounts to 'explaining' the phenomenon of the overall electoral backing for Brexit. Put differently, the *explanatory significance* of that factor is low.

The broader point this example illustrates is that a certain factor can have major consequences for the phenomenon of interest, without being a major explanation for that phenomenon. Yet this distinction seems to get muddled in the debate over populism's causes. This can also be seen with other examples commonly used to demonstrate the importance of economic factors in shaping the populist vote.

In explaining Donald Trump's electoral victory in 2016, analysts have often cited his alleged appeal to globalisation's losers, helping him crack the Democrats' 'blue wall' in Pennsylvania, Wisconsin, and Michigan. Analysis by Autor et al. (2016) gives credence to this argument in terms of outcome significance, by finding that the adverse effects of the massive import shock from China accounted for a vote share of several percentage points, sizable enough to flip these states in favour of Trump. Their estimates indicate that if the import shock had been half of what it was, the margin in favour of the Republicans in Pennsylvania would have shrunk by 1.7 percentage

points and the Democrats would have won the state by 0.5%. Likewise, the simulation indicates that the electoral impact would also have been sizable enough in Wisconsin and Michigan (2.2 and 1.8 points, respectively) to overturn the Electoral College results. It may therefore be correct that, without the impact of the China shock, Trump would have lost.

But the magnitudes of the estimated effects indicate that we are dealing with fairly small additions to a much larger electoral phenomenon. Examination of the empirical evidence regarding an array of other European countries reveals a similar pattern: shocks that increase the economic insecurity of voters affect the electoral outcome on the margin, yet the overall explanatory significance for the level of support for populists is modest (e.g. Colantone and Stanig 2018a, 2018b, Dippel et al. 2015, Malgouyres 2017). In some instances, this effect is consequential in differentiating between loss and victory, but that is not always the case. For example, in proportional representation systems, support for populists – particularly far right parties – affects the distribution of votes within the ideological bloc, but has little bearing on the overall division of votes between the competing blocs. In ‘first past the post’ systems, where districts often lean heavily towards one party, support for the populists is too small to meaningfully affect the vote.

Moreover, individual-level studies of the vote for populist parties consistently find that variables that capture labour market standing or economic insecurity explain only a small fraction of the variation of interest (Guiso et al 2017, Gidron and Hall 2017). While variables capturing these explanations are mostly statistically significant, one must not overlook the fact that their usefulness in accounting for the broader question of who supports the populists is, in fact, very limited.

A second issue with attributing a central role for the economic causes has to do with immigration, often the most salient issue for populist parties and voters. In describing immigration as an ‘economic cause’ of populism, there is a need to distinguish between two questions: Is immigration in itself economic-driven? And are the economic effects of immigration – whether real or perceived – a major cause of the populist vote? On the first question, there is ample evidence that, indeed, immigration to the West is largely instigated by economic forces (poverty, lack of jobs opportunities, wage differentials). But on

the second question, the weight of the evidence clearly indicates that Western voters' concerns regarding immigration have little to do with its impact on their material standing or level of economic insecurity. This conclusion comes up in both observational studies and studies employing a range of survey-experimental methods including list, vignette, and conjoint designs (e.g. Sniderman 2004, Janus 2010, Bansak et al. 2017; see Hainmueller and Hopkins 2014 for a review of the evidence). Even when examining cases where the labour market threat posed by immigrants is most direct, the effects on natives' attitudes are very limited (Hainmueller et al. 2015, Malhotra et al. 2013). Thus, while immigration is often a major concern of populist voters, treating it as an economic driver of populism in this latter sense seems misguided.

What, then, explains the populist appeal? Out of space limit, I will note only that structural, long-term social changes strike me as central to understanding the resentment underlying much of its appeal. By this account, structural changes – such as increased access to higher education, urbanisation, and growing ethnic diversity – have led to significant progressive cultural shifts. These changes, and the perceived displacement of traditional social values, have caused a sense of resentment among segments of the population in the West, particularly among white men, older people, conservatives, and those with less formal qualifications (see Inglehart and Norris 2019 for an extensive exposition of this view). Increased exposure to foreign influences that comes with globalisation and, even more so, the effects of waves of immigration have exacerbated the sense of a cultural and demographic threat. With gradual generational change, these formerly predominant majorities have increasingly felt their social standing erode, buying into the populist nostalgia for a 'golden age' when there was cultural homogeneity and traditional values and a strong national identity prevailed. They have also grown receptive to populist charges against a disconnected elite that has turned its back on them and the values they hold dear.

There's an obvious, and understandable, reluctance to accept such 'soft' explanations. Cultural explanations of populism can be harder to measure or identify causally. Yet that of course doesn't mean that a cultural explanation is incorrect. One should be careful not to equate quantifiability with importance.

Note, though, that the cultural account does not dismiss the role of

economic factors. In addition to the electoral impact of the causes noted earlier (e.g. trade, automation), hard economic times also tend to undermine the perceived competence of the economic and political elites, and thus help fuel popular distrust in them. It is therefore likely that the financial crisis contributed to the populist wave, as some have suggested (Algan et al. 2017, Mian et al. 2014). But given the weak empirical association between measures of economic insecurity and support for populism, we should view the crisis as more of a trigger than a root cause of widespread populist support.

Why does this matter?

The view that economic insecurity is a chief driver of the populist vote has major practical implications, as it shapes the debate over ways to counter populism. Specifically, policies aimed at alleviating the sources of economic insecurity are often touted as the solution (for one example, see [Barry Eichengreen's contribution](#) to this debate). These include measures such as increasing investment in the welfare state, introducing more redistribution, expanding worker compensation schemes and re-employment programmes for workers discomfited by globalisation and automation. There are good reasons to promote many of these policies, but countering the broad appeal of populism is probably not one of them. In most likelihood, increased welfare spending or better worker re-training programmes will have only little impact on voters' sense of disaffection from deep-seated social and cultural shifts, be it immigration and changing demographics, depopulation and rural decline, or a growing Muslim population. Addressing the sources of discontentment more effectively will require taking on such challenges, which have less clear policy prescriptions: advancing new cultural integration policies for immigrants, regeneration of rural areas, or investing in local communities as a source of social connection. As murky as such steps may currently seem, developing new policies in these directions will be necessary. And despite the enticing clarity that the explanations centred on economic insecurity offer, one should be cautious not to assign them more weight than they merit.

Author's note: This column is based on an article in the Journal of Economic Perspectives (Margalit 2019).

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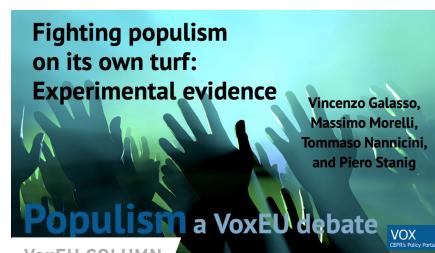
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