Paycheck Politics

Minimum Wage Dynamics and the Populist Vote

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Abstract

Lorem Ipsum

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Introduction

Nestled in the heart of Thuringia, the German district of Sonneberg made headlines with a historic moment—it became the first constituency to elect a district administrator from the right wing Alternative for Germany (AfD) party. In an unexpected turn, Robert Sesselmann of the AfD won a closely contested run-off election against the conservative Christian Democratic Union (CDU), securing 52.8% of the votes. The results not only marked a seismic shift in local politics but sent shockwaves through the established political order (Schuetze 2023).

Intriguingly, Sonneberg also holds the distinction of having the highest percentage of minimum wage workers in Germany—44%. This paper aims to explore the connection between minimum wage recipiency and the support for right-wing populist movements, using Sonneberg as a focal point. Employing data from the WSI and the German Federal Election Officer in an Ordinary Least Squares (OLS) regression, the findings reveals a significant correlation between these variables, even when accounting for other relevant controls.

Initially, I will review the existing literature regarding the economic determinants of populism in both economic and political research. Following this is a concise overview of the data utilized and the regression methodology employed in the subsequent section. Subsequently, the results will be presented, followed by a discussion of these findings and their contextualization within existing research.

Literature Review

This analysis is related to several strands of existing literature on the economic drivers of populism. The research field has expanded significantly in recent years, owing to the rise of populism in the aftermath of the Financial Crisis. An Overview of the literature is provided by Guriev and Papaioannou (2022) and Fischer and Meister (2023), who both focus on trade exposure, financial crisis and subsequent austerity, immigration and inequality / social mobility as main economic drivers of populist voting behavior.

There are several different papers focused on showing the regional impacts of different drivers on populist votes. In their study, Gabriel, Klein, and Pessoa (2023) investigate the political costs of austerity measures, utilizing a database of european NUTS 2 regions, including Germany, to analyze the effects of fiscal austerity on voting behavior. They find that a 1% reduction in fiscal austerity corresponds to a 3% increase in populist vote share. Furthermore, the study highlights that austerity-driven recessions exacerbate these effects, leading to decreased trust in government

and heightened political polarization, particularly during times of economic hardship. Dippel et al. (2022) focus on the impact of trade exposure on populist voting in german districts. Building an index of trade exposure on the local level, they show that areas with greater exposure to imports from low wage countries witness heightened vote for populists, especially among low-skilled manufacturing workers.

Other research highlights the different socio-economic backgrounds of AfD voters that could explain the party's rise. Using data from the German Longitudinal Election Study, Pickel (2019) focuses on the reasons for the high mobilisation of previous non-voters and finds cultural as well as economic reasons. In particular, working-class men and lower-status civil servants vote for the AfD, but in recent elections the party's base has broadened and a simple explanation is no longer possible. Hövermann (2023) investigates the working conditions of AfD voters and showes that they were dissatisfied with their working conditions with above-average frequency, have lower esteem of their work and are more likely to rate their labour market prospects as poor if they lose their job. Additionally they often report a lack of dignity and recognition - whether due to inadequate pay or a lack of appreciation from superiors.

A newer strand of research focuses on the relative individual position and status of populist voters, exemplified by Kurer and Staalduinen (2022). They examine the concept of status discordance, calculating expected status based on parents'occupation in the past and comparing it to achieved status in reality. They find that men and individuals in eastern Germany experience particularly high levels of status discordance, which may contribute to feelings of dissatisfaction and disillusionment.Similarly, Brian Burgoon et al. (2019) explores the notion of positional deprivation, wherein slower income growth relative to others influences voting behavior. This sense of being left behind economically may lead individuals to retreat from mainstream parties, fostering support for populist alternatives as a response to perceived loss and marginalization. These studies highlight the importance of considering individuals' perceived social and economic standing in understanding the appeal of populist movements.

Cultural factors also play a role in the formation of populist parties, as shown by Cantoni, Hagemeister, and Westcott (2019). The authors show that municipalities with strong support for the Nazi Party (NSDAP) in 1933 also had a higher vote for the AfD in the 2017 election. One explanation for this is the cultural persistence of values across generations, which could influence voting decisions today. In this argument, the AfD represents a party with little social stigma to express the xenophobic and nationalist values of voters.

The literature on Minimum Wage and Politics is not yet completely developed. Most of the literature on the political economy of Minimum Wages focuses more on the height of it, e.g. Zavodny (2020), and not the political support side of it. A more general research focus lies on labor market policies and their impact in mediating vote for right wing populist parties. Bergman (2022) finds that some types of policies, especially high employment protection legislation, leads voters to support right wing parties that argue for the continuation of these sometimes wasteful policies. Halikiopoulou and Vlandas (2016) focus on the impact of unemployment benefits on populist vote and differentiated results based on unemployment benefit height, explaining the lagged rise of populist in some Western European States. The remainder of the Paper will present the data and methods used for the analyisis and discuss the results before concluding.

Data

The analysis is based on data compiled by Pusch and Seils (2022) at the Institute of Economic and Social Sciences (WSI). They provide an estimate of the share of workers in a given district who will be affected by the increase in the minimum wage to €12 in October 2022 (henceforth minimum wage workers). The data basis for the number of minimum wage earners comes from the German Socio-Economic Panel (SOEP) and is regionalised using data from the German Federal Employment Agency (BA) and projected to the first of October 2022.

Pusch and Seils (2022) acknowledge some limitations of their results. The underlying SOEP data underestimate the number of marginally employed (mini-jobs), which make up a higher proportion of the workforce in West Germany. The estimate of these groups of people, most of whom receive a minimum wage, is therefore considered to be conservative, especially in Western Germany.

Alternative for Germany (AfD) results from the federal election on the 26.10.2021 are from the Federal Election Commissioner. Elections in Germany take place in constituencies (Wahlkreise), which are different from the standard counties (Landkreise). Therefore, the data is transformed by the election office, which does not lead to any loss of data.

Additional data on socio-economic and socio-demographic factors are provided by the regional statistical offices of the Länder. Most of these data are for the year 2022, with the exception of population density estimates, for which more recent data are not yet available.
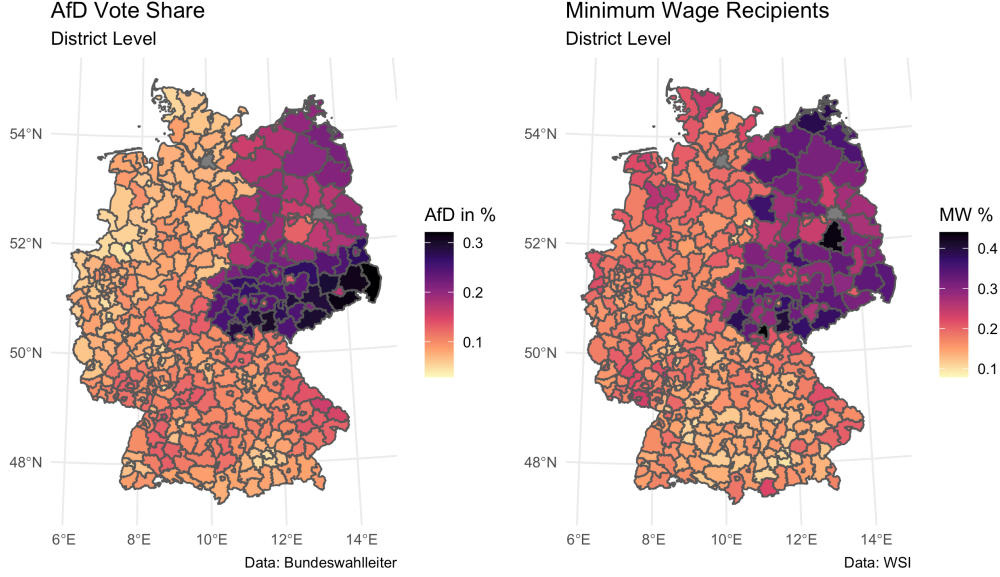
Figure 1: Representation of Minimum Wage and Vote Share Data

Methodology

In this study, regression analysis serves as the primary methodological approach for investigating the relationship between minimum wage recipiency and support for right-wing populist movements. Regression analysis offers several distinct advantages that align with the goals of the research. Firstly, it provides a systematic framework for assessing the relationship between variables while controlling for potential confounding factors. By including relevant control variables in our regression models we can isolate the effect of minimum wage recipiency on voting behavior, thereby enhancing the internal validity of our findings.

$$\text{afd}_i = \beta_0 + \beta_1 \text{mw}_i + \sum_{2}^{k} \beta_k \text{controls}_{i,k} + \epsilon_i \tag{1}$$

The Equation 1 describes the regression formula, where afd_i represents the vote share of the AfD in a given district i and mw_i the share of minimum wage recipients in this district. The variable $controls_{i,k}$ comprise a number of different controls for the given district and ϵ_i a standard error term.

Drawing from the literature review, the controls include a dummy variable representing East Germany to capture regional differences in political and economic contexts. Additionally, I include the unemployment rate and log GDP per capita as economic indicators, recognizing their significance in shaping individuals' socio-economic outlook and political preferences. Sociodemographic factors are also accounted for, with variables such as average age, population density

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(logged), and the proportion of foreigners in the population. These sociodemographic controls are crucial for capturing nuances in local demographics and social dynamics, which may impact voting behavior independently of minimum wage recipiency.

Table 1: Summary Table of all Variables

Statistic	N	Mean	St. Dev.	Min	Max
AfD Results	400	0.113	0.058	0.029	0.321
MW recipiency	400	0.194	0.064	0.079	0.440
LINKE results	399	0.045	0.029	0.015	0.155
Unempl. Rate	400	0.052	0.022	0.019	0.148
GDP p.C.	400	40,329.500	16,743.150	17,553	158,749
Avg. Age	400	45.277	2.008	40.700	51.000
Pop. Density	400	536.540	708.669	35.300	4,788.200

Results

In this section, I present the results of the regression analysis examining the relationship between minimum wage recipients and the vote share of the Alternative für Deutschland (AfD). Through rigorous econometric modeling, the influence of minimum wage policies and various socio-economic factors on AfD's electoral performance is explored.

Figure 2 illustrates the relationship, where each point on the scatter plot represents an electoral district with its position determined by the respective values of minimum wage share and AfD vote share. The x-axis represents the minimum wage share, while the y-axis represents the AfD vote share. Additionally, a linear regression line is superimposed on the scatter plot, providing a visual representation of the overall trend in the data. The shaded area around the regression line denotes the standard error of the estimate.

The figure depicts a clear positive correlation between the variables across electoral districts. This suggests that areas with higher proportions of minimum wage earners tend to exhibit greater support for the AfD.

Building upon the visual depiction of the correlation between minimum wage recipients and AfD vote share illustrated in the preceding figure, the subsequent Table delves into a more granular analysis of this relationship. Through a series of regression models, I explore the nuanced interplay between minimum wage rates and various socio-economic factors in influencing political preferences at the district level. Each regression model introduces additional control variables, allowing for a comprehensive examination of the impact of economic, demographic, and re-
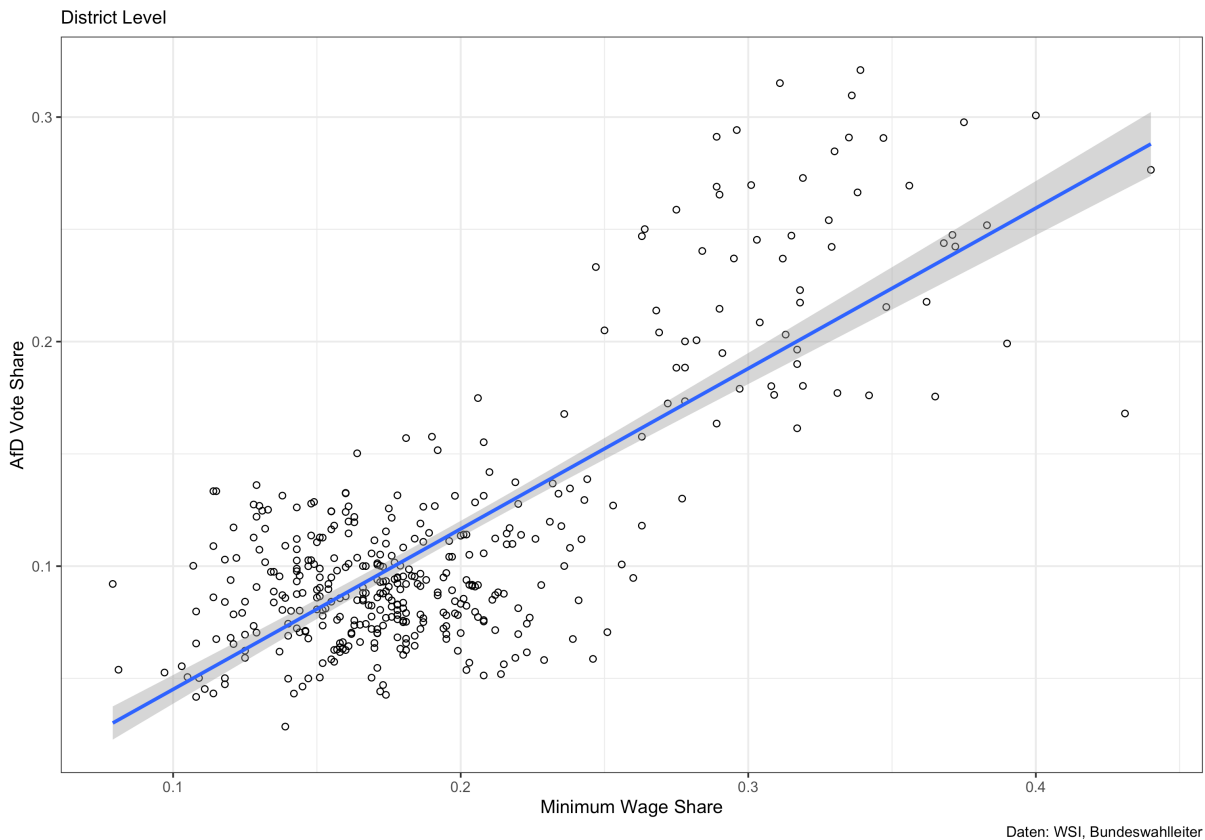
Figure 2: Visualization of Regression Results

gional characteristics on AfD's electoral performance.

In the regression analysis, I observe consistent patterns across various models. Model 1, focusing solely on the Minimum Wage Rate, reveals a significant and positive association ($\beta = 0.714$, $p < 0.01$) between an increase in the minimum wage rate and a higher AfD vote share, indicating that areas with a greater proportion of minimum wage recipients tend to exhibit stronger support for the AfD. A 1% increase in the share of people receiving minimum wage increases the AfD results by 0.714%.

Expanding the analysis in Model 2 to include a Dummy for Eastern Germany alongside the Minimum Wage Rate reaffirms the robustness of the relationship observed in Model 1. Both variables retain their significance, although the estimate for the minimum wage coefficient drops, suggesting that regional disparities do not substantially alter the association, but have an impact on voting. Moreover, the slight increase in the Adjusted R^2 value indicates improved model fit, reflecting the added explanatory power of the East Germany indicator in capturing variation in AfD support across electoral districts.

In subsequent models (Models 3-6), the inclusion of additional control variables such as the Unemployment Rate, Log GDP per Capita, Average Age, and Log Population Density provides

Table 2: Effect of Minimum Wage Recipients on AfD Vote Share

	Dependent variable:					
	AfD Vote Share					
	(1)	(2)	(3)	(4)	(5)	(6)
Minimum Wage Rate	0.714***	0.291***	0.308***	0.301***	0.227***	0.220***
	(0.028)	(0.039)	(0.039)	(0.044)	(0.044)	(0.044)
East Germany		0.086***	0.088***	0.088***	0.081***	0.082***
		(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Unemployment Rate			−0.279***	−0.275***	−0.244***	−0.163*
			(0.071)	(0.072)	(0.070)	(0.093)
Log GDP p. C.				−0.002	0.011*	0.013**
				(0.005)	(0.006)	(0.006)
Avg. Age					0.006***	0.006***
					(0.001)	(0.001)
Log Pop. Density						−0.003
						(0.002)
Constant	−0.026***	0.040***	0.051***	0.071	−0.332***	−0.315***
	(0.006)	(0.007)	(0.007)	(0.060)	(0.091)	(0.092)
Observations	400	400	400	400	400	400
Adjusted R^2	0.612	0.732	0.742	0.741	0.760	0.761
Residual Std. Error	0.036	0.030	0.030	0.030	0.029	0.029

Note: *p<0.1; **p<0.05; ***p<0.01

further insights into the socio-economic context influencing AfD vote share. Notably, while some of these variables exhibit significant associations with AfD support, the Minimum Wage Rate consistently retains its significance across all models. This persistence highlights the independent impact of minimum wage policies on shaping political preferences, independent of other economic and demographic factors.

Additionally, the vote results of the party DIE LINKE, a left populist german party, tested against the minimum wage share. The results show that there is a similar relationship, with the R^2 value lower than in the AfD regression. However, the coefficient estimates are not statistically significant in all model definitions, suggesting that the relationship between minimum wage recipiency and left-populist vote share is less definitive.

Overall, our results underscore the complex interplay between socio-economic factors and political preferences in contemporary German politics. The significant and consistent association between minimum wage recipients and AfD vote share across various models supports my approach to explain the AfD Vote Share. In the subsequent Section, I discuss these results and situate them in the existing research.

Discussion

To explain the rise of the AfD, it is crucial to acknowledge its intricate and multifaceted nature, where no singular apporach can explain its ascendance. Populism, by its very essence, defies simple categorization or explanation, drawing upon a complex interplay of economic, social and political factors. Indeed, the allure of populism stems from its ability to tap into a diverse array of grievances and disappointments, reflecting the multitude of realities of its voter base.

Nonetheless, economic factors do play an outsized role in explaining the rise of populism, exemplified by the diverse quantitative literature in the economic sciences. Following my results, minimum wage seems to play a role in explaining it and I posit that minimum wage recipiency is one of the channels translating the abstract factors presented in the literature into the individual votes for right wing populists.

Fundamentally, the argument contends that a complex interplay of economic phenomena, including the financial crisis, austerity measures, and trade exposure, manifests in tangible outcomes within the labor market, particularly in the form of minimum wage and low-wage sectors. These economic circumstances contribute to a lack of upward mobility, exacerbate status discordance, and foster a pervasive sense of disillusionment among segments of the population. The stagna-

tion or decline in real wages, coupled with rising living costs and limited opportunities for social advancement, amplifies feelings of economic insecurity and disempowerment. As individuals experience firsthand the challenges of making ends meet, their trust in traditional political institutions wanes, creating fertile ground for populist sentiment.
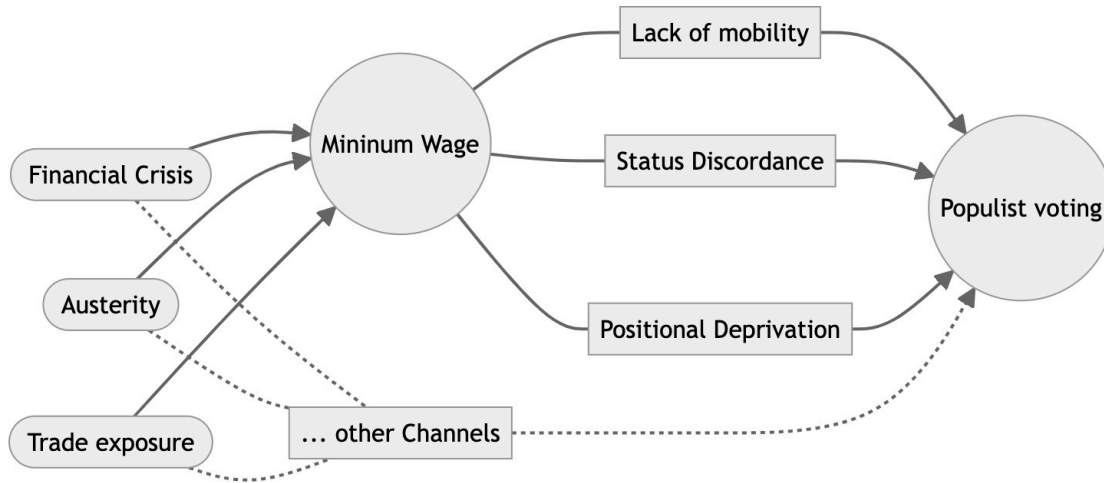

Figure 3: Factors leading to populist vote

Drawing from the insights provided by Nau and Soener (2019), the financial crisis emerges as a pivotal factor contributing to the formation of income precarity among the working class in the US. These effects reach far into middle class families, which have a higher risk of income loss due to the 2008 crisis. The macro-leven instability translates itself into micro-level income losses, which reach groups not touched by this risk before.

Austerity, especially the post crisis austerity in Europe, also had an imopact on the low wage sector. As shown by Cunningham and James (2020) and Busch et al. (2013), policies implemented in austere times had averse effects on the wage growth, especially due to the obstruction of collective bargaining. This had the effect of inflating the low wage sector and increasing inequality.

These effects complement the existing effect of exposure to international trade with low income countries. Utar (2018) explores the effect of these imports in high-wage Denmark and finds significant negative effects on earnings and employment trajectories. A large share of affected manufacturing workers move into the service sector, which is associated with job insecurity and lower wages and many cant recuperate lost income.

In Germany, the described effects of an increase in the service sector and the low-wage sector in general take place mostly at the lower barrier, the minimum wage. As documented by Bossler

et al. ([2022]), in the service sector a large share of workers benefited from the minimum wage increase, especially in the hotel and restaurant sector (more than 50%).

In summary, macro-level factors have expanded the low-wage sector and heightened income precarity among working-class individuals. The fallout from the 2008 financial crisis, coupled with austerity policies inhibiting wage growth and collective bargaining, has exacerbated income disparities and inflated the low-wage sector. Additionally, international trade has adversely affected earnings and employment trajectories, particularly for manufacturing workers transitioning into the service sector, where job insecurity and minimum wages persist.

Case Example: Sonneberg

Conclusion

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Appendix

Affidavit