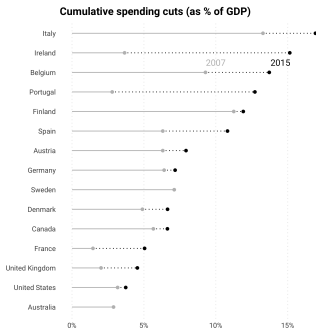# AUSTERITY, ECONOMIC VULNERABILITY, AND POPULISM

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MOTIVATION

RESEARCH QUESTION: What are the electoral implications of austerity in times of enhanced economic risk?

AUSTERITY IN OPEN ECONOMIES

EXPOSURE TO AUSTERITY

CONTEXT: economic risk requires social safety nets

AUSTERITY: enhances rather than mitigates risk of vulnerable voters

ECONOMIC VULNERABILITY:
– factor logic: low-skilled
– sectoral logic: manufacturing
– occupational logic: routine jobs

POLITICAL EFFECTS

VOTERS: learn that government subordinates the goal of social stability to efficiency

POPULIST PARTIES: propose policy alternatives
– reverse austerity
– address the root cause of risk

TESTABLE IMPLICATIONS

Populist vote share should increase more in economically vulnerable than in economically prosperous electoral districts.

Economically vulnerable individuals are more likely to vote for populist parties than economically safe individuals.

DISTRICT-LEVEL: EMPIRICAL STRATEGY

DIFFERENCE-IN-DIFFERENCE SPECIFICATION:

$$y_{cd,t} = \alpha + X_{cr(d),baseline} \times Austerity_{c,t}^{'}\beta + \gamma_{ct} + \delta_r + \epsilon_{cd,t}$$

where y is support for populism; X is a matrix including share of manufacturing and low-skilled workers; γ_{ct} are country-election year fixed effects; δ_r are NUTS-2 fixed effects (CLEA 1991-2018)

CONTROLS: *China Shock*, FDI inflow, export growth, and share of workers in agri-culture (interacted with *Austerity*)

ESTIMATION: OLS regression with robust standard errors clustered by country-election year
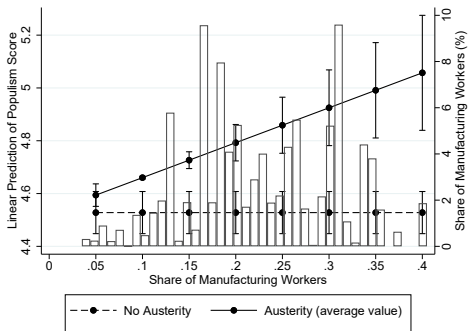
AUSTERITY AND POPULISM: SKILLS
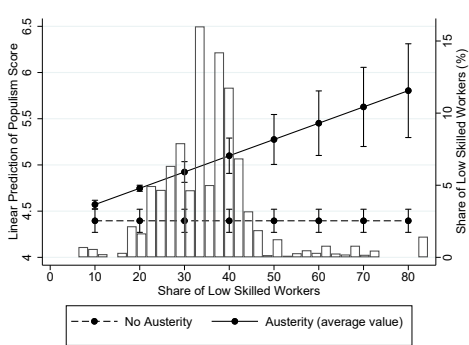
Note: During (average) austerity measures, support for populism increases by 8 percent, moving *Share of Low-skilled Workers* from one standard deviation below the mean to one standard deviation above the mean.

▸ Table   ▸ Figure

AUSTERITY AND POPULISM: MANUFACTURING

Note: During (average) austerity measures, support for populism increases by 11 percent, moving *Share of Manufacturing Workers* from one standard deviation below the mean to one standard deviation above the mean.

▸ Table ▸ Figure

INDIVIDUAL-LEVEL: EMPIRICAL STRATEGY

DIFFERENCE-IN-DIFFERENCE SPECIFICATION:

$$y_{ic,w} = \alpha + X_{ic,w}\zeta^{'} + X_{ic,w} \times Austerity^{'}_{c(i),w}\eta + \gamma_{cw} + \epsilon_{ic,w}$$

where y is support for populism; X is matrix including education, manufacturing and RTI; γ_{cw} are country-wave fixed effects (ESS, 2002-2016)

CONTROLS: age, gender and dummies for retired respondent, student, unemployed respondent, self-employed respondent, and respondent working in services (interacted with Austerity)
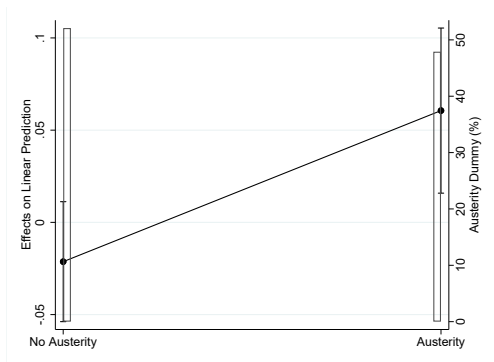
ESTIMATION: OLS regression with robust standard errors clustered by country-wave
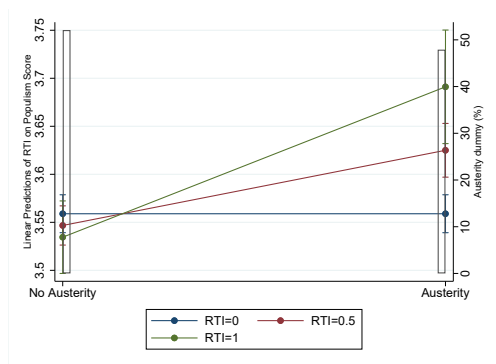
AUSTERITY AND POPULISM: EDUCATION
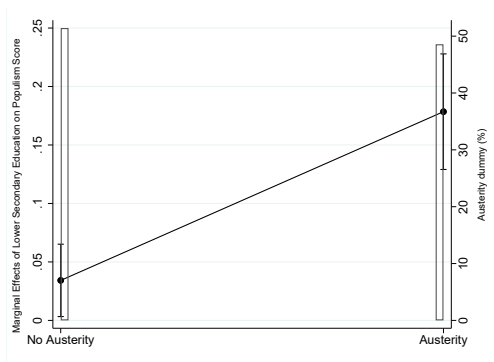
▸ Table

AUSTERITY AND POPULISM: MANUFACTURING

▸ Table

AUSTERITY AND POPULISM: RTI

▸ Table

ADDITIONAL ANALYSES

- ▶ Other outcomes capturing populism ▸ Figures
- ▶ Left and right radical parties ▸ Table ▸ Figures
- ▶ Parallel trend assumption ▸ Table
- ▶ Macroeconomic circumstances ▸ Table
- ▶ Linearity issues related to the interaction terms ▸ Table
- ▶ Pre-2008 vs. post-2008 ▸ Figures
- ▶ Robust to exclude one country at the time. ▸ Figures

CONCLUSION

KEY FINDINGS:
- Austerity helps to explain the economic origins of populism
- Austerity pushes vulnerable voters towards populist parties

IMPLICATIONS:
- Policies play a crucial role for the backlash against globalization
- Austerity has political implications even if majority approves
- Economic policy still matters in open economies

Many Thanks!