

RIGHT-WING POPULISM AND MACROECONOMIC SHOCKS IN GERMANY AND BULGARIA

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Introduction

The votes for Brexit and Trump in 2016 and the parliamentary elections in the Netherlands, France, and Germany in 2017 marked a prominent trend in politics on both sides of the Atlantic: the rise of right-wing populism. Populism is defined across social sciences in various ways. Stankov (2017) summarizes the debate for political science and economics. Populists are extreme right or extreme left parties or leaders who fight against the elite political and corporate establishment (Hawkins, 2009; Dalio, 2017). In Europe, Heinö (2016) argues, populism has been on the rise for a long time but only recently it has moved to the political mainstream. This is especially valid for the right-wing brand which, in the European context, has traditionally contained a xenophobic element. The 2017 German elections for Bundestag have underscored this trend in right-wing populist insurgence in Europe, while the 2017 Bulgarian elections have propelled right-wings populists into the ruling government coalition for the first time since 1989.

The literature considers several major factors for the insurgence of populism: 1) the depth of a recession and the ensuing unemployment (Dornbusch and Edwards, 1991; Moffitt, 2015); 2) austerity and inflation (Stankov, 2017, among others); 3) persistent inequality (Dornbusch and Edwards, 1990) and (Kaufman and Stallings, 1991) 4) immigration and trade liberalization (Rodrik, 2017), and 5) natural resource abundance (Matsen et al., 2016; Mazzuca, 2013). This paper links the above factors with data on populist support in two countries: Germany and Bulgaria.

Data

Two streams of data collection on populism have recently emerged. On the one hand, Rode and Revuelta (2015) collect data on rhetorical populism, i.e. populism as a political discourse emphasizing the us-against-them rhetoric. On the other hand, Heinö (2016) produces data on electoral support for populists based on actual election outcomes. To this date, it has been the most comprehensive

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data on populist support in Europe. It covers 33 European countries since 1980, which enables a longer-term analysis of the rise of populism across Europe. It also produces indices of left-wing and right-wing populism. This is exactly why I prefer using it in this case.

Data on per capita income, unemployment, inflation, government expenditures in GDP, trade openness, natural resource rents and population size are taken from the World Development Indicators (World Bank, 2017). The data on income inequality are taken from UNU-WIDER (2017). The data on net migration are taken from United Nations (2017).

Model

The following model can inform on how total populist dynamics, as well as the underlying trends in left-wing and right-wing populism, depend on macroeconomic and social shocks:

$$POP_{it} = X_{it}'\beta + f_i + f_t + u_{it}, (1)$$

where POP_{it} is either the total electoral support (TAP) or the support for left-wing (TAP-LW) or right-wing populist (TAP-RW) parties. X_{it} is a matrix containing: Log(GDP/c.), CPI inflation, unemployment, government expenditures in GDP, Gini coefficient, trade openness, natural resource rents, net migration, Log(population), an interaction of those with an after-crisis dummy (AC), as well as country- and time-fixed effects. Because of data limitations, difference estimation and including lags of explained and explanatory variables was not possible.

Results

Table 1 presents the results from running the model in two sets: with and without country – and time fixed effects. Models (1), (2) and (3) run the model without the fixed effects, whereas models (4), (5) and (6) include them. In each set of models, three separate estimations were done. The first model uses the overall populism index, the second model uses the index for left-wing populism, and the third model uses the index for the right-wing brand.

The following results in Table 1 are worth discussing. First, income per capita growth coincides with right-wing populist insurgence. This is seen from the first row of the table. The results are highly statistically significant. Second, inflation measured as an increase in the CPI plays a statistically significant but politically negligible role for the rise of overall populism but not so for any sub-brand. Third, a rise of unemployment, income inequality, trade openness and net migration is associated with an increase in electoral support for right-wing populism. The

impact of income inequality is less pronounced for left-wing populists after the Crisis, as seen by some of the negative and significant estimates on the Gini*AC variable. However, income inequality plays a significantly stronger role for right-wing populists after the Crisis in both countries. Fourth, right-wing populism rises despite the coincidental increase in government social expenditures. Fifth, the effects are stronger after the Great Recession. This is seen from the parameter estimates on the interaction term between the above explanatory factors and an After-Crisis dummy (AC) variable. Finally, notable differences emerge on how right-wing and left-wing electoral support for populism is associated with macroeconomic and social shocks, especially when it comes to the electoral response to austerity, an increase in natural resource rents, and inequality and migration dynamics after the crisis.

No matter how naturally the above results fall within intuitive hypotheses, caution is needed before reading too much into them. First, the number of observations is small. This leaves some of the parameter estimates without a specified standard error estimation. In turn, this flags all the rest of the estimates. Second, R-squared is too high, even without the country- and time fixed effects. This means non-stationary variables could be standing on both sides of the equation which calls for difference estimation with the appropriate lags of variables included. Third, increasing the sample size would probably help in getting those results closer to a normal R-squared for a panel data estimation. I deliberately chose those two countries for the purposes of the conference. I would prefer a larger sample if presenting the results to a larger audience. In fact, an earlier and extended version of this work (Stankov, 2017) does exactly that.

Conclusion

The rise of populism to political prominence on both ends of the political spectrum is becoming a trend in most European nations. However, little is known empirically on what drives it. This paper explores how eight factors known in the literature are associated with the rise of both left-wing and right-wing populism in two European countries: Germany and Bulgaria. The results are intuitive but should nevertheless be interpreted with caution.

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productive environment, and two anonymous referees for their further suggestions for improvement.

Table 1. Populism and Macroeconomic Shocks in Germany and Bulgaria: 1980 – 2016

	(1)	(2)	(3)	(4)	(5)	(6)
	TAP	TAP-LW	TAP-RW	TAP	TAP-LW	TAP-RW
L(GDP/c.)	11.148***	1.139***	10.323***	17.315***	-6.450	23.765***
	(1.686)	(0.252)	(1.175)	(0.000)	(.)	(0.000)
Infl.	0.001***	0.001	0.000	0.002***	0.002	-0.000
	(0.000)	(0.001)	(0.000)	(0.000)	(.)	(.)
Unempl.	0.146***	0.111	0.103***	0.238***	0.106	0.133***
	(0.007)	(0.085)	(0.027)	(0.000)	(.)	(0.000)
G/GDP	0.011	-0.127***	0.150***	0.115	-0.013	0.128***
	(0.010)	(0.003)	(0.005)	(.)	(.)	(0.000)
Gini	-0.066	0.001	-0.066***	-0.064	-0.210	0.146***
	(0.044)	(0.032)	(0.001)	(.)	(.)	(0.000)
Trade	0.055	0.088	-0.029	0.008***	0.003	0.006***
	(0.047)	(0.061)	(0.020)	(0.000)	(.)	(0.000)
Rents	-0.377	-1.989**	1.797***	-1.488***	-1.140	-0.348***
	(0.629)	(0.890)	(0.641)	(0.000)	(.)	(0.000)
Net migr.	-0.070	-0.111	0.077	0.122***	0.101	0.021***
	(0.157)	(0.115)	(0.063)	(0.000)	(.)	(0.000)
L(Pop)	-7.652***	1.607***	-9.275***	23.756***	24.879	-1.122
	(1.331)	(0.404)	(0.951)	(0.000)	(.)	(.)
L(GDP/c.)*AC	1.169	9.492	-7.997	-11.729***	33.814	-487.803
	(2.019)	(12.253)	(9.909)	(0.000)	(.)	(.)
Infl.*AC	-0.783***	-0.312	-0.468	-1.902***	-1.158	-2.134
	(0.035)	(0.569)	(0.532)	(0.000)	(.)	(.)
Unempl.*AC	-0.556	1.103	-1.718*	0.161***	3.486	-5.435
	(0.439)	(1.326)	(0.920)	(0.000)	(.)	(.)
(G/GDP)*AC	-0.057**	-2.582	2.508	-1.612	-1.044	1.817
	(0.029)	(3.357)	(3.302)	(.)	(.)	(.)
Gini*AC	0.155	-0.731**	0.887***	-0.477***	-1.869	2.235***
	(0.203)	(0.361)	(0.142)	(0.000)	(.)	(0.000)
Trade*AC	-0.033	-0.184	0.144	-0.443***	-1.240	1.045***
	(0.095)	(0.265)	(0.172)	(0.000)	(.)	(0.000)
Rents*AC	1.532***	-0.516	1.852	0.243	-8.694	-0.545

	(0.137)	(1.836)	(1.569)	(.)	(.)	(.)
Net migr.*AC	-0.039	-0.600***	0.522*	-2.927***	-7.084	6.062***
	(0.115)	(0.173)	(0.311)	(0.000)	(.)	(0.000)
L(Pop)*AC	-1.083	-3.389	1.826	7.906***	-33.767	362.45***
	(2.266)	(9.663)	(6.913)	(0.000)	(.)	(0.014)
Fixed Effects	No	No	No	Yes	Yes	Yes
<i>N</i>	48	47	48	48	47	48
<i>R</i> ²	0.95	0.85	0.97	0.99	0.98	0.99

Notes: The estimated equation is $POP_{it} = X_{it}\beta + f_i + f_t + u_{it}$, where POP_{it} is either the total electoral support (TAP) or the support for left-wing (TAP-LW) or right-wing populist (TAP-RW) parties. X_{it} is a matrix containing: Log(GDP/c.), CPI inflation, unemployment, government expenditures in GDP, Gini coefficient, trade openness, natural resource rents, net migration, Log(population), an interaction of those with an after-crisis dummy (AC), as well as country- and time-fixed effects. Robust standard errors are presented in parentheses. Data source: Heino (2016), WDI, UNPD, WIID. Symbols: * $p < .10$, ** $p < .05$, *** $p < .01$

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Abstract

I study right-wing populism in Germany and Bulgaria since 1980. The data is a merge between Heinö (2016) and macroeconomic dynamics. Fixed effect panel data methods estimated in levels produce that: 1) income per capita growth coincides with right-wing populist insurgence; 2) a rise of unemployment, income inequality, trade openness and net migration correlates with more right-wing populism; 3) the effects are stronger after the Great Recession.

Key words: right-wing populism, Germany, Bulgaria, recession, migration, income inequality.

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