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By **Hillel Rapoport** & **Riccardo Turati**

Immigration and the Macroeconomics of Populism

It is important to analyze populism in its own right, for what it implies in terms of civil liberties and democracy. For economists, populism is also of interest from a sheer macroeconomic view-point. Indeed, populism has been shown to negatively affect the macroeconomic performance of countries. While this is something many could suspect, a recent study provides a first quantification: Funke et al. (2023) estimate that countries with a populist leader incur a loss of GDP of 10 percent after 15 years compared to otherwise similar countries. Interestingly, this cumulative gap is generated mostly during the first five years and then persists in the longer run. With 25 percent of all countries in the world now governed by a populist party or coalition, the global macroeconomic cost of populism is therefore truly substantial.

If populism affects the global economy, it is also affected by it. Actually, it is commonly argued that the recent rise of populism in many Western democracies is a backlash against globalization, including, if not mostly, against immigration (Guriev and Papaioannou, 2022; Rodrik, 2021). And indeed, populist leaders and parties specialize in denouncing globalization as being imposed on the people by the elites, and in offering protection against "unfair" competition from goods and people originating from low-wage countries (i.e., they offer a mix of protectionist and anti-immigration stances).

In a recent working paper (Docquier et al., 2024), we ask: i) Is it really the case that people who are more exposed to immigration (and trade) shocks vote more for populist parties? and, ii) Does the skill-content of those shocks matter? The existing literature (Colantone and Stanig, 2018; Autor et al., 2020; Mayda et al., 2022; Moriconi et al., 2022) offers only partial answers to these questions, in part because trade and immigration have so far been analyzed separately (while our research shows they shouldn't), and in part because the skill-content of both has largely been ignored.

We claim two main contributions.

First, on the measurement of populism. Quantitative studies of populism usually proceed in two steps. They start by defining which parties are "populist" and which are not, based on the opinions of experts who apply a holistic approach. Typically, the parties which will be classified as populists are those who put forward a strong anti-elite stance and a strong

commitment to protect the people against the evil forces of global capitalism (for left-wing populism) and/or against threats to national sovereignty and identity (for right-wing populism). A second-step consists in summing-up the share of votes of populist parties and take this sum as a measure of the extent of populism in a given place and time. However, this approach neglects the fact that populist ideas are not restricted to populist parties and can be partly reflected in the platforms and programs of mainstream parties. For example, based on most classifications, the US Republican Party under Donald Trump is not classified as a populist party, while few observers would deny that Donald Trump is a populist leader. Another example would be the British Labour Party, which is usually depicted as a mainstream center-left party; nonetheless, there were times (in the 1970s and 1980s, as well as under the leadership of Jeremy Corbyn) when a populist label would not have been undeserved (Lazer, 1976).

Our contribution on the measurement front, therefore, is double. First, we try to objectify the notion of populism. To do so, we attribute a "populism score" to any party represented in legislative elections based on text analysis of their political manifesto[1]. These individual party scores reflect the intensity of the anti-elite and of the commitment to protect stances — two standard dimensions of populism — in a party's political platform. Once equipped with these scores, we can define a threshold above which a party can be categorized as populist. Second, while we follow the rest of the literature by taking the sum of the vote shares of all populist parties represented in parliamentary elections as a measure of populism (which we denote the "volume" margin, we propose a complementary measure computed as the vote-weighted populist scores of all parties, which we denote as our "mean margin" of populism.

Figure 1.
Evolution of Populism – Volume and Mean Margins

(a) Mean margin of populism

(b) Volume margin of populism
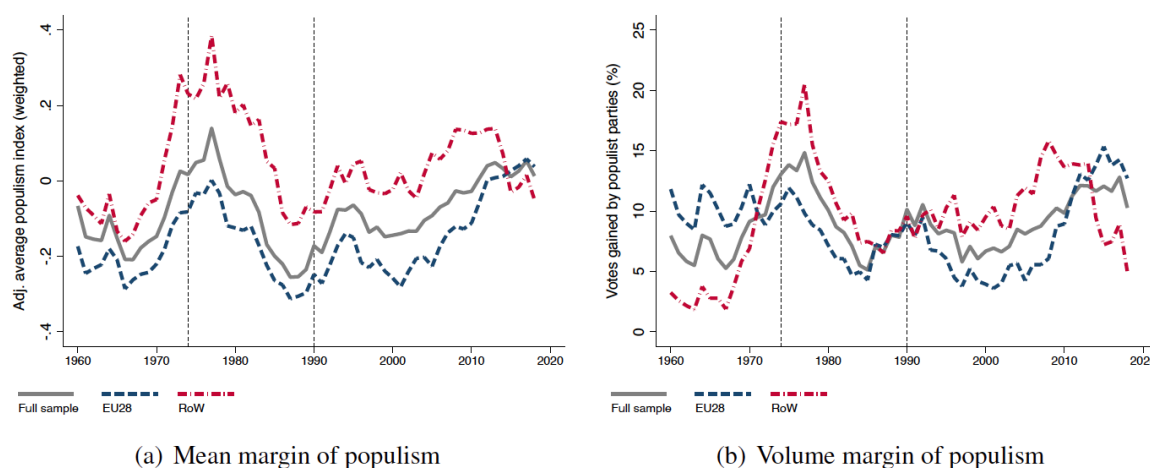
Source: Docquier et al. (2022). Fig. (a) plots mean margin of populism, computed as parties' average populism score. Fig. (b) presents the volume margin of populism, computed as the vote share for populist parties. Both figures show the moving averages including 3 years before and 3 years after each date.

The evolution of the different margins is presented on *Figure 1*. Both the mean and the volume margins of populism has fluctuated since the early 1960s, often reaching peaks in times of economic crises (such as the oil crisis in the late 1970s or the great post-2008 recession). In 2018, populism was higher on average than in 1960 but lower than the peak observed in the late 1970s, with notable differences between Europe (EU28) where it is now at an all-times high and the rest of the world. It is important to emphasize that the rise of populism is Europe cannot be solely attributed to the rise of radical right parties in Eastern European countries: similar trends are observed when focusing on the EU15 countries.

[1]We do so relying on the Manifesto Project Database as data source, which provides content analysis of the platforms of all political parties running in democratic elections for the period 1960-2018 for 55 countries.

Furthermore, while fluctuations in the mean margin up to the 1980s were primarily driven by parties classified as populist, the recent upsurge is due instead to the broader spread of populism within traditional parties. In non-European countries, current levels of populism are lower than those seen in the 1970s (due mostly to the fall of left-wing populism). The evolution of the volume margin follows a similar pattern, but variations in the volume margin are significantly greater than variations in the mean margin, probably due to parties entering or exiting the populist group by changing their political discourse.

Table 1.
Baseline PPML and OLS results – Volume and Mean Margins

	Volume ($\Pi_{i,e,t}^V$)			Mean ($\Pi_{i,e,t}^M$)		
	(1) All	(2) RW	(3) LW	(4) All	(5) RW	(6) LW
$\log \mathrm{Imp}_{i,t}$ (LS)	0.82***	1.32**	1.49**			
	(0.30)	(0.56)	(0.62)			
$\log \mathrm{Imp}_{i,t}$ (HS)	-0.71	-1.30***	-1.25			
	(0.44)	(0.49)	(0.86)			
$\log \mathrm{Mig}_{i,t}$ (LS)	0.14	1.51***	-1.79***			
	(0.34)	(0.55)	(0.59)			
$\log \mathrm{Mig}_{i,t}$ (HS)	-0.27	-1.32***	1.18*			
	(0.29)	(0.48)	(0.64)			
$\mathrm{Imp}_{i,t}$ (LS)				3.77**	4.28***	-0.11
				(1.65)	(1.48)	(0.70)
$\mathrm{Imp}_{i,t}$ (HS)				-0.21	-0.49*	0.36
				(0.43)	(0.28)	(0.23)
$\mathrm{Mig}_{i,t}$ (LS)				-0.22	1.66	-1.28
				(1.94)	(2.47)	(1.28)
$\mathrm{Mig}_{i,t}$ (HS)				2.11	-2.32	3.65
				(5.00)	(4.82)	(3.47)
Country FE	✓	✓	✓	✓	✓	✓
Year FE	✓	✓	✓	✓	✓	✓
Country Controls	✓	✓	✓	✓	✓	✓
Observations	575	575	575	578	461	470
Pseudo-R^2	0.40	0.37	0.51			
R^2				0.50	0.41	0.48

Source: Docquier et al. (2022).
Note: ***, **, and * denote significance at the 1, 5, and 10 percent levels, respectively; clustered standard errors at the country level are reported in parentheses; coefficients presented in column (1) to (3) have been estimated with PPML estimator, while coefficients in column (4) to (6) have been estimated with OL estimator.

Second, we use our volume and mean margins of populism as dependent variables and investigate how they are impacted by the extent and type of globalization shocks (skill-specific import competition and immigration shocks) experienced by voters. The main result from our empirical analysis is that populism levels strongly react to the skill structure of globalization shocks, as shown in *Table 1*. Columns (1) to (3) focus on the volume margin as an outcome, while columns (4) to (6) focus on the mean margin. Given the different nature of the two dependent variables (volume and mean), we rely on different estimators: Poisson Pseudo Maximum Likelihood (PPML) for the volume, and standard OLS for the mean margin. Moreover, columns (2) and (5) explore the effect of globalization shocks on the right-wing dimension of populism, while columns (3) and (6) present the results on left-wing populism.

The detailed analysis reveals a number of important, sometimes surprising results. First, if anything, imports of goods which are intensive in high-skill labor, as well as highly-skilled immigration, have a negative effect on right-wing populism. An increase of 1 percentage point in the high-skill migration rate is associated with a 1.32 percentage points decrease in the vote for right wing populist parties. And second, as far as low-skill globalization shocks are concerned, immigration and trade are not the same: while imports of goods which are intensive in low-skill labor are associated with an increase of both right-wing and left-wing populism, low-skill immigration affects left-wing and right-wing populism in opposite ways: more right-wing populism, and less left-wing populism. This does not mean that voters switch from left-wing to right-wing populism; it could equally be (actually, it is more likely) that the whole distribution of voters shifts to the right in response to low-skill immigration shocks. Third, we find that the mean margin of populism is significantly affected only when considering the effect of low-skill imports. The coefficient is around 4, which means that a 1 percentage point change in the import rate of goods which are intensive in low-skill labor (corresponding to a 25% standard deviation change)

is associated with a 0.04 increase in the mean margin of populism (corresponding to a 14% standard deviation change). This is equivalent to the variation in the mean margin of right-wing populism in the US between 2004 and 2008 (from -0.18 to -0.14) or in the Netherlands between 2003 and 2006 (from -0.06 to -0.01)[2].

All these results are robust to instrumenting globalization shocks with predicted skill-specific migration and trade shocks from a gravity model (Frankel and Romer, 1999; Feyrer, 2019); they are also robust to excluding parties that alternate between left-wing and right-wing political ideology over time. Finally, our analysis highlights the importance of jointly estimating the relationships between migration and trade skill-specific shocks. In particular, the results specific to imports are largely influenced by the inclusion or exclusion of migration shocks, indicating a potential omitted variable bias when estimating the contribution of trade to populism without accounting for migration.

In a final set of regressions, we delve into the question of whether certain circumstances may amplify or mitigate the effects of trade and immigration shocks on populism by estimating the interaction

between globalization shocks and other potential drivers of populism. The findings are illustrated in *Figure 2*. Each sub-figure focuses on the interaction with a potential amplifying or mitigating factor: economic crisis, internet diffusion, and diversity (or lack thereof therein) of trade partners/immigrants. We explore these effects distinguishing between the volume mar- gin of populism (left panel) and the mean margin (right panel), visually separated by a vertical line. Within each panel, there are two sets of estimates: the impact of imports of low-skill labor- intensive goods on the left, and the impact of low-skill immigration on the right. We focus on low-skill shocks due to their positive effect on populism. Lastly, each set consists of three estimates, representing the effect of the interaction term respectively on total populism (depicted by black squares), right-wing populism (depicted by blue triangles), and left-wing populism (depicted by red diamonds). We find that the effect of low-skill globalization shocks are exacerbated in times of economic crisis and de-industrialization, and of internet expansion (with nuances for imports and immigration, depending on their skill-content), while they are mitigated when the set of trade partners and of immigrant-sending countries is more diversified.

[2]Note that the Dutch 2006 election saw the first participation of the Party for Freedom (PVV) of Geert Wilders.

Figure 2.
Interactions with amplifiers for volume and mean margins
Reduced–form IV PPML and 2SLS results

(a) Economic crisis

(b) De-industrialization

(c) Internet coverage

(d) Diversity (Imp) & genetic dist. (Mig)
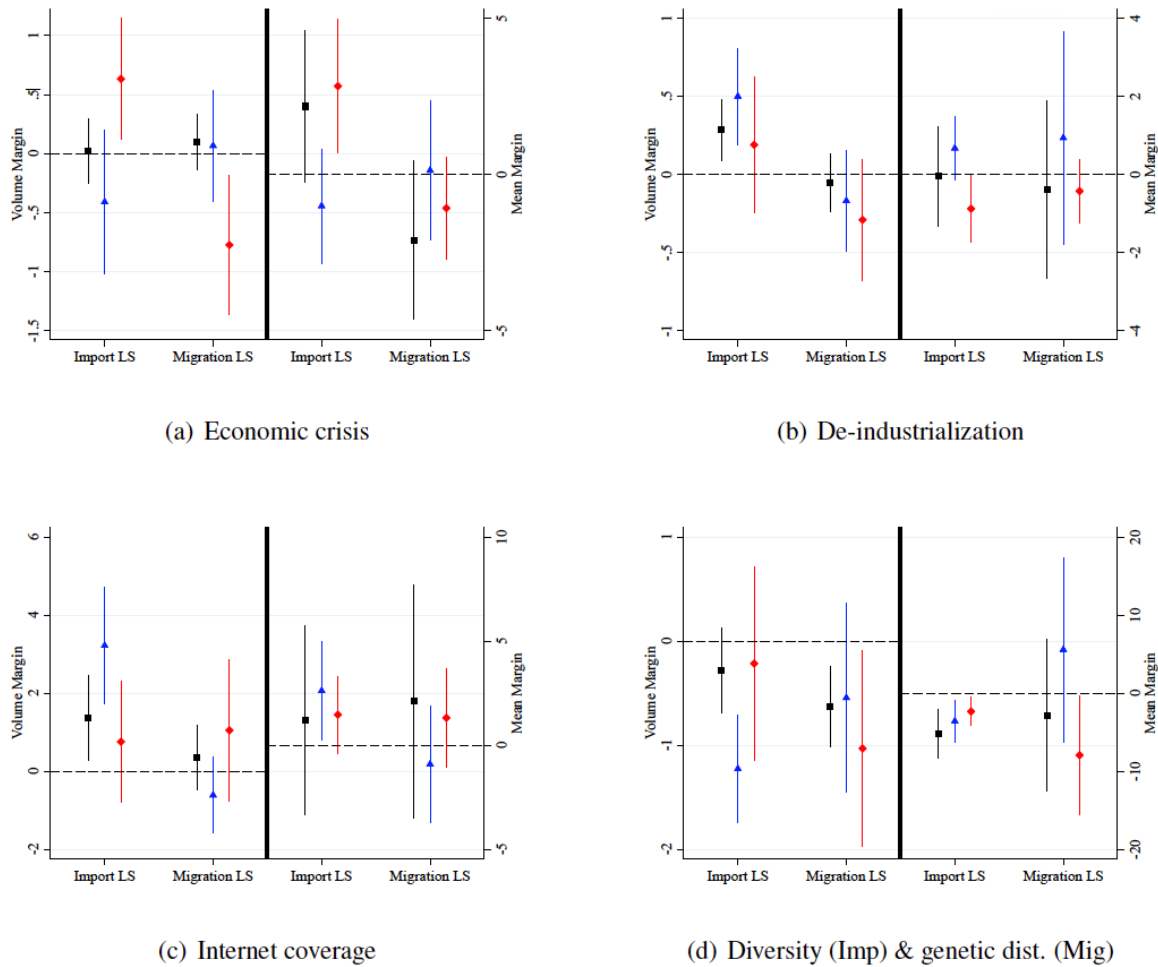
Source: Docquier et al. (2022). Notes: Black (square), blue (triangle) and red (diamond) objects correspond to overall, right wing and left wing dimensions, respectively. Dependent variable is the volume margin on the left panels, while is the mean margin in the right panels. The estimates represent the coefficients of the interaction term between migration (LS) and imports (LS) with a dummy equal to one if the country experienced a year of negative real growth five years prior the election year (Figure a), as well as proxies for de-industrialization (Figure b), for internet coverage (Figure c), and trade diversity and genetic distance (Figure d). 90% confidence intervals are reported.

Taken altogether, these findings emphasize that the blame for the rise of populism cannot be laid solely on globalization as a whole: it is essential to consider the skill–specific nature of globalization. Any policy recommendations concerning trade restrictions (protectionism) or immigration should carefully weigh the diverse impacts of each, particularly in terms of their skill–specific content.

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✦ **Hillel Rapoport** is Professor at the Paris School of Economics and the University Paris 1 Panthéon-Sorbonne. He holds the Paris School of Economics Chair in International Migration Economics.

✦ **Riccardo Turati** is Assistant Professor at the Universitat Autònoma de Barcelona.