Socio-economic Inequality and the Rise of Populism in Europe

Denis Ivanov

Supervisors: István Benczes, Péter Gedeon

Elodie Douarin, Julia Korosteleva

Early-Stage Researcher, FATIGUE

Corvinus University of Budapest

University College London

Introduction

Research Questions

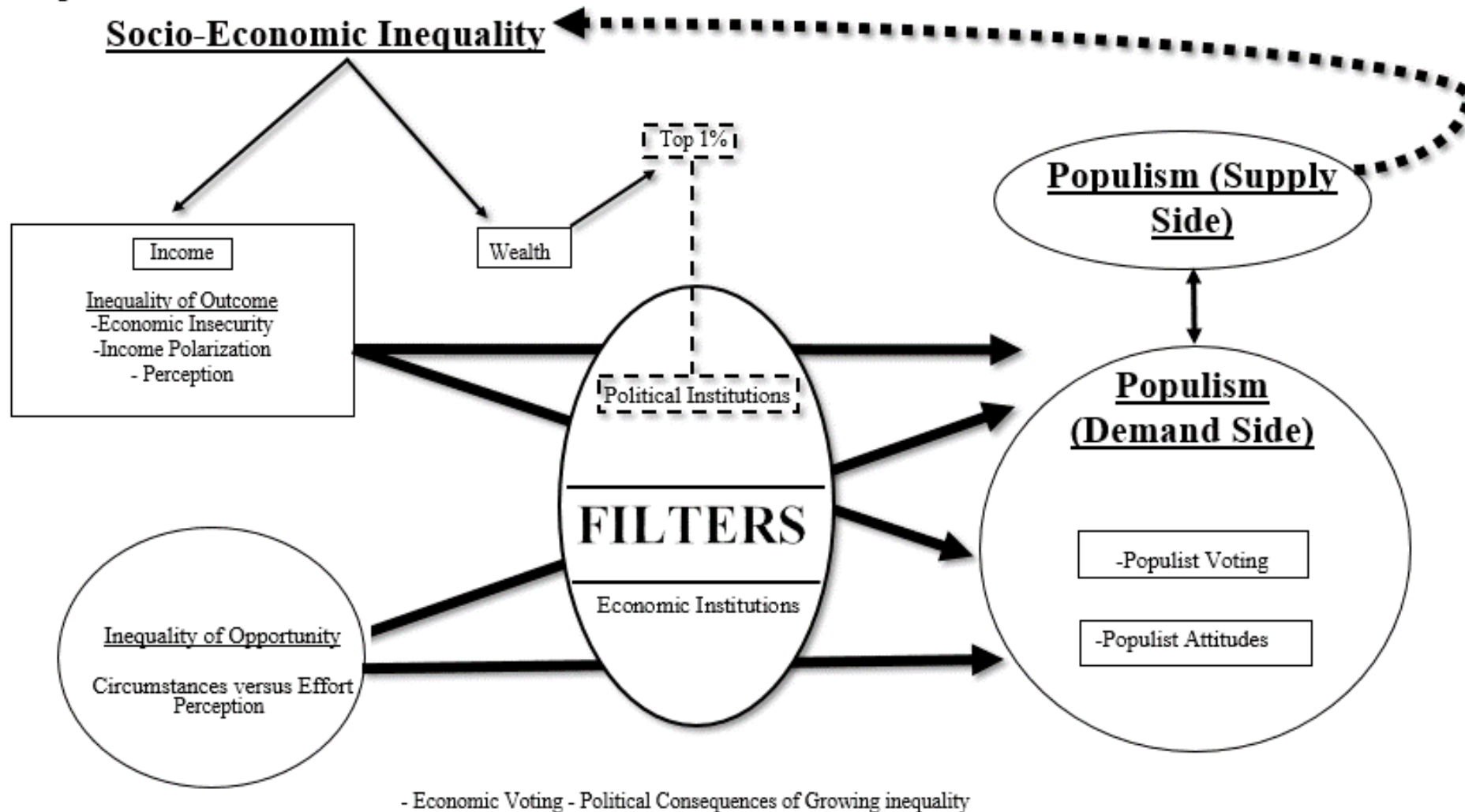The main aim of the project is to answer the question:

- *How socio-economic inequality affects the support for populist parties in Europe?*

Additional Questions:

- *Are there other factors that may play a role in establishing the relationship as well? Is there causality between economic inequality and populism?*

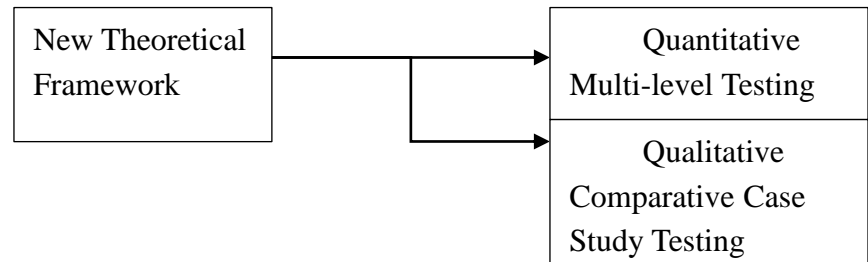# The New Theoretical Framework

Figure 4

What institutions matter?

- <u>New Institutional Economics</u>: individuals have incomplete information, bounded rationality, transaction costs (Menard & Shirley, 2005)

- Institutions as *rules of the game* (North, 1990), institutional environment, formal rules as well as governance (Williamson, 2000)

- Built on the general economic and political institutions, as well as the causal interaction between the two (hierarchy) (Acemoglu & Robinson, 2012)

- Political trust is politically endogenous as it hinges on citizen evaluations of institutional performance (Mishler & Rose, 2001)

- Institutional trust is what matters the most in the individual decision to vote or not to vote for a particular party (Dustmann et.al., 2017)

- Trust in legal system, parliament, political parties, politicians, as well as economic institutions: banks, private foreign companies, etc.

Methodology: Sequential Mixed-methods

Stage I:

Multi-level regression modelling

(econometric models)

New Theoretical Framework	Quantitative Multi-level Testing
	Qualitative Comparative Case Study Testing

Stage II:

An in-depth comparative case study analysis:

Based on the results of the Stage I, the comparison of four different countries, engaging with political economic literature and historical institutionalism.

compare-contrast two cases from Eastern and Western Europe:

for example: Hungary (growing inequality + history of long-term populist rule) and Lithuania (second highest GINI in Europe, populists not successful).

as well as

Italy (regional North-South divide, successful populist parties) and Switzerland (relatively low inequality, populist relatively parties successful)

Multilevel Modelling & Sources of Data

Estimation method: MLM

Characteristics or processes occurring at a <u>higher level</u> of analysis are influencing characteristics or processes at a <u>lower level</u>. Hypothesized relations between constructs operate across different levels
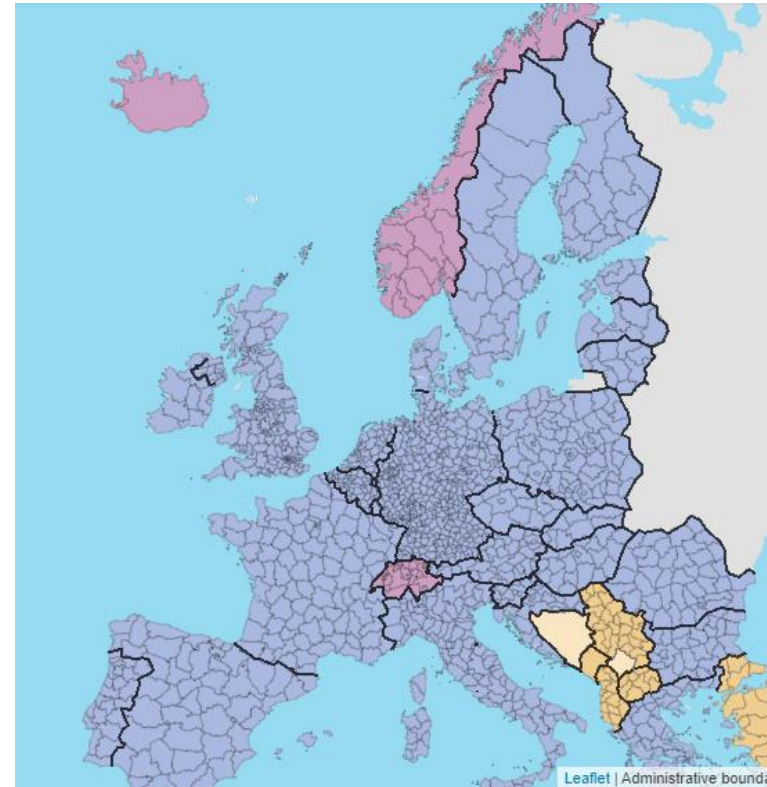
(Luke, 2004, p. 2)

Improves the fit and minimizes standard errors

<u>Ignoring context is a problem</u>

The main sources of data for the quantitative research are databases containing variables on income inequality data from Large-N surveys:

- European Social Survey (2002-16)

- World Inequality Database (WID) (country-level)

What is Economic Insecurity?

- No common definition in the literature
- At least three main aspects to take into account:
  i. Job insecurity (Anderson & Pontusson (2007))
  ii. Feeling of insecurity (Inglehart & Norris (2016) and Guiso et.al. (2017))
  iii. Unemployment (Gallie et.al. (2016))
- The importance of social class and occupational literature (Goldthorpe, 2005; Savage, et.al. 2013)

Current look of the Index of Economic Insecurity – Guiso et.al.

indexsecurity2	Freq.	Percent	Cum.
0	31,928	36.55	36.55
1	34,942	40.00	76.56
2	20,097	23.01	99.56
3	381	0.44	100.00
Total	87,348	100.00	

3= finding it extremely hard to survive on current income, has experienced unemployment in the last 7 years and is blue-collar manufacturing worker

2 = at least two are true

1 = at least one is true

0 = none is true

Improved - *Ivanov* Index of Economic Insecurity (2020)

indexinsecurity3	Freq.	Percent	Cum.
0	160,637	48.22	48.22
1	114,164	34.27	82.50
2	47,950	14.39	96.89
3	10,351	3.11	100.00
Total	333,102	100.00	

The new index is more liberal with whom to classify as 'insecure'
All unskilled workers are included, instead of simply blue-collar manufacturing
Hard <u>and</u> extremely hard to survive on present income

Ivanov vs Guiso et.al.

- The new index is more liberal with whom to classify as 'insecure'

- Borrowing the class classification from Norris & Inglehart and EGP classification

- Dramatically increases the number of observations in current coding

Correlation coeff	Ivanov	Guiso
Ivanov	1.0000	
Guiso	0.6107	1.0000

What is Income Polarization?

a process in which income concentrates into two (or more) separate groups of the whole population

- Shows how polarized is a country in terms of income throughout time

- Is computed based on ordering and aggregation of household incomes to country level, using the methodology of Alvaredo et.al. (2018).

- The intuition is that the wider the gap, the more support for anti-establishment parties there might be

Poland
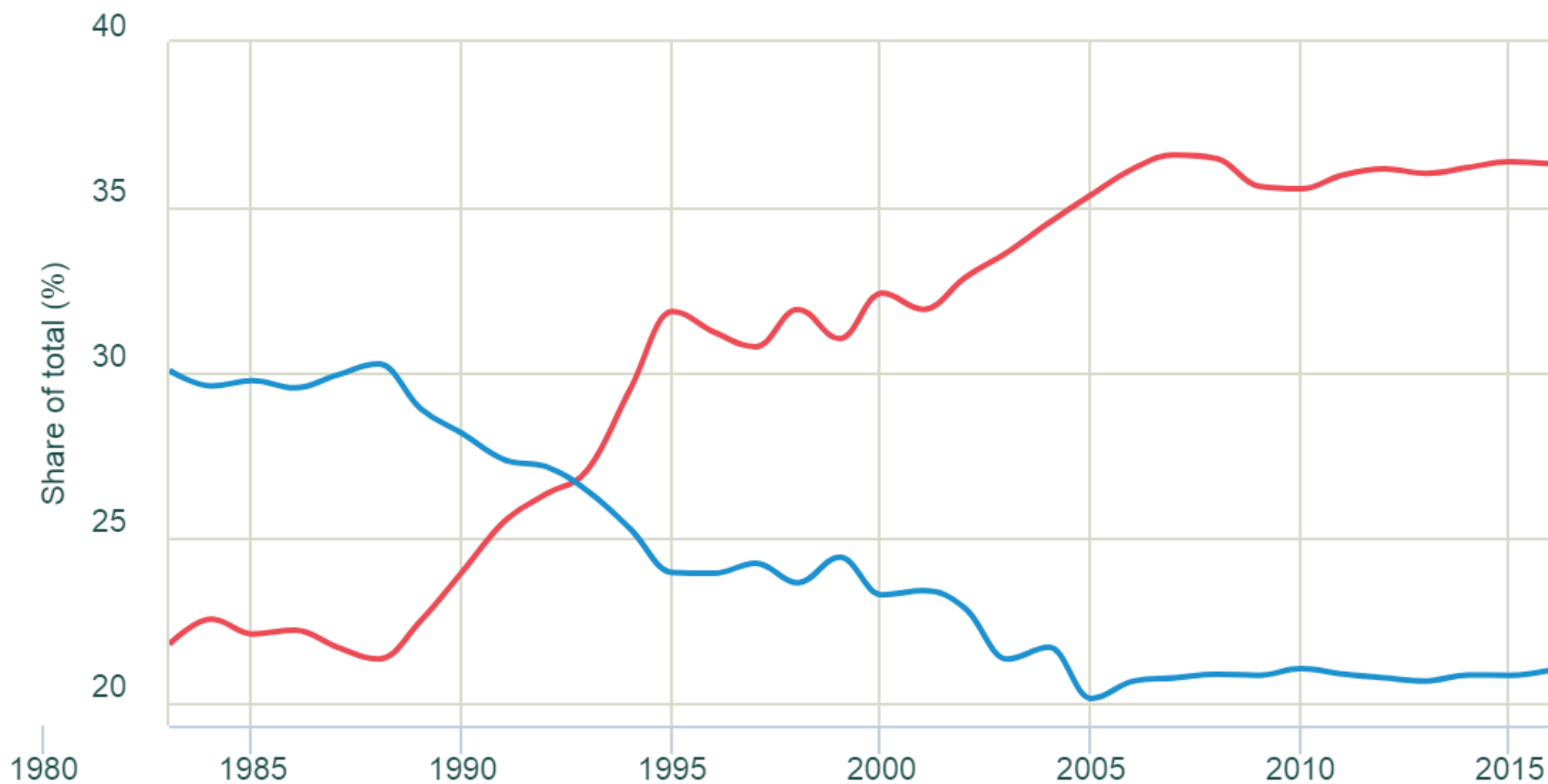
Pre-tax national income | Top 10% | share | adults | equal split
Pre-tax national income | Bottom 50% | share | adults | equal split

Graph provided by www.wid.world

Graphs by Country
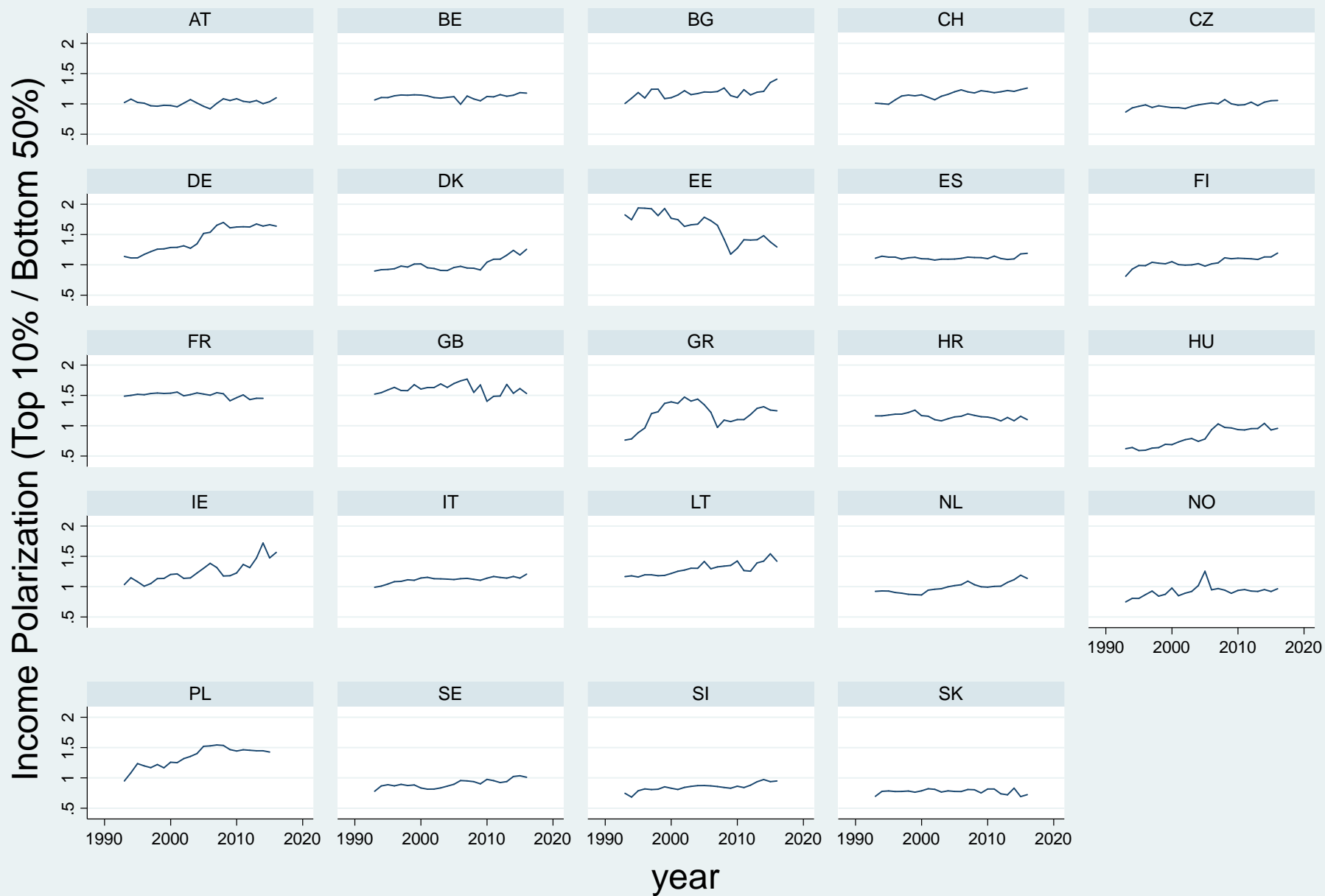
What is Perception of Inequality?

- Similar to the work of Gimpelson & Monusova (2014) on the feeling of insecurity in terms of ones' income as well as general questions about inequality in ones' society.

- "S/he thinks it is important that every person in the world should be treated equally. S/he believes everyone should have equal opportunities in life".

Institutional Trust

- Index of institutional trust, composed from four equally weighted components: trust in politicians, trust in political parties, trust in parliament and trust in legal system.

- Two levels: individual and regional

Institutional Trust (Country-level aggregate)

year
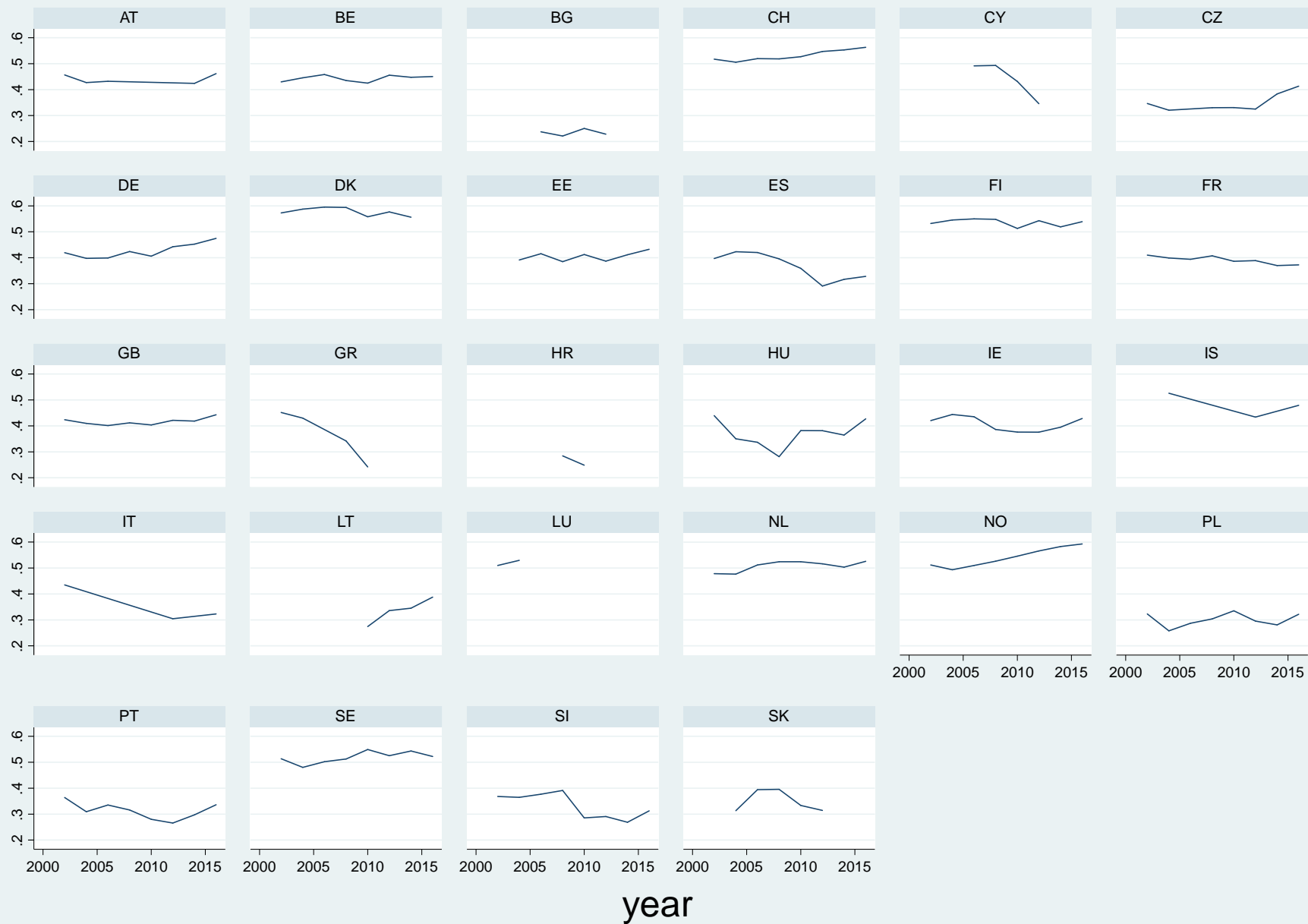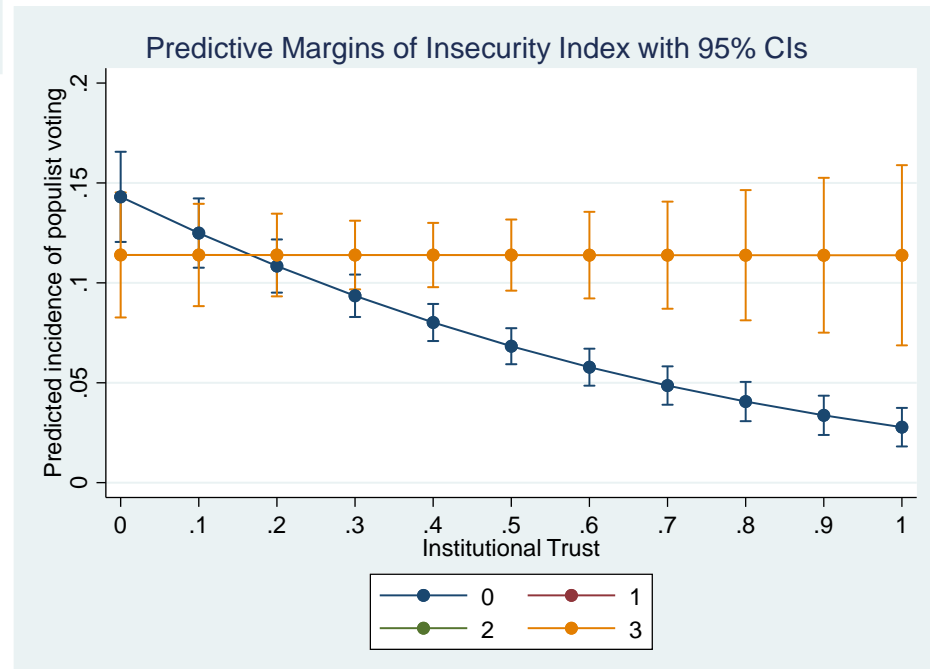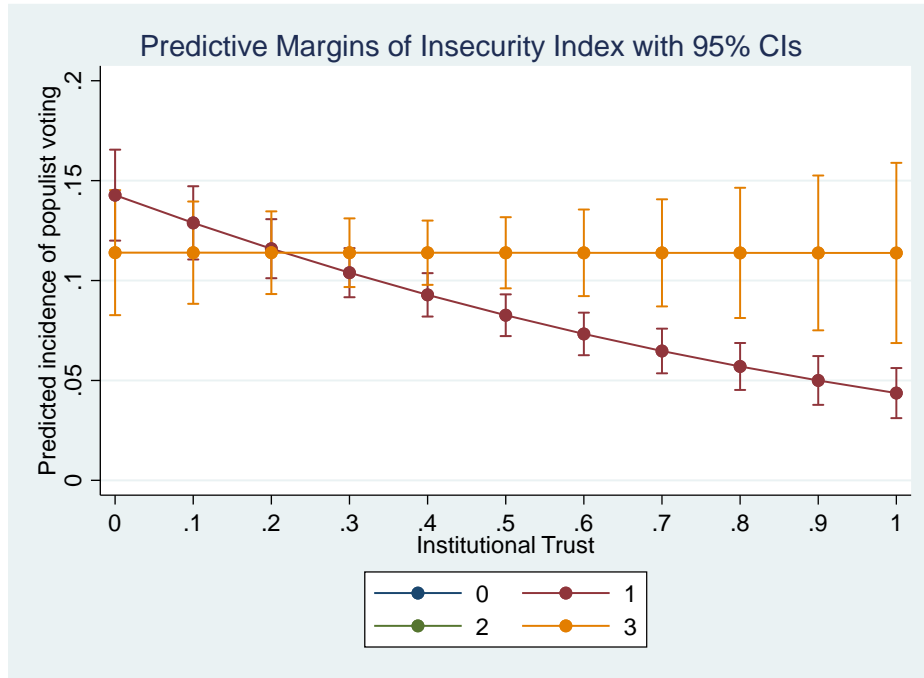
Graphs by Country

Key Hypotheses

- *H1: An increase in <u>economic insecurity</u> has positive effect on individual support for populist parties, in the context of the decrease of institutional trust (positive moderating effect).*

- *H2: An increase in <u>income polarization</u> has a positive effect on individual support for populist parties, in the context of the decrease of institutional trust (positive moderating effect).*

- *H3: An increase in <u>perception of inequality</u> has a positive effect on individual support for populist parties, in the context of the decrease of institutional trust (positive moderating effect).*
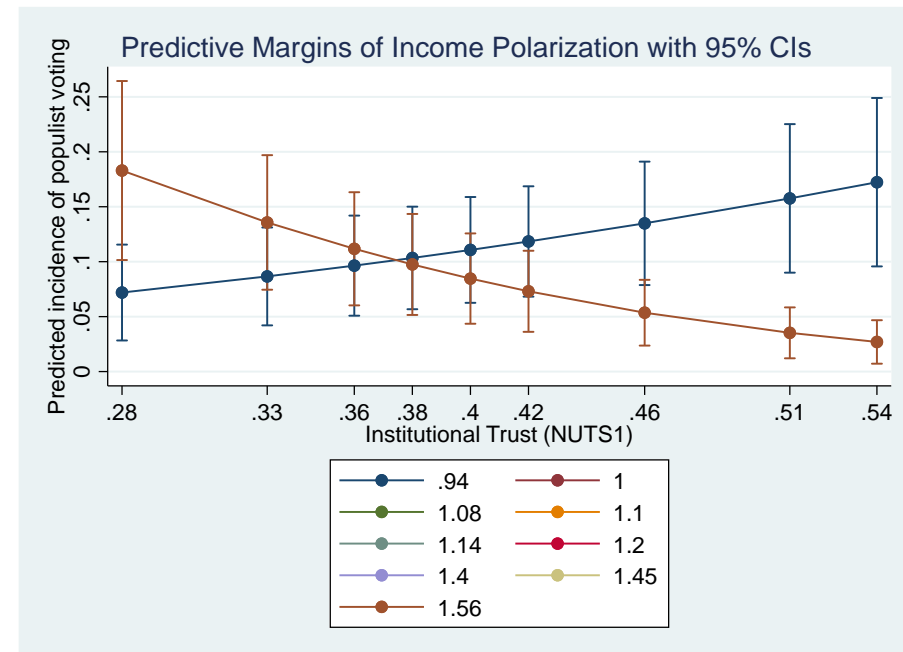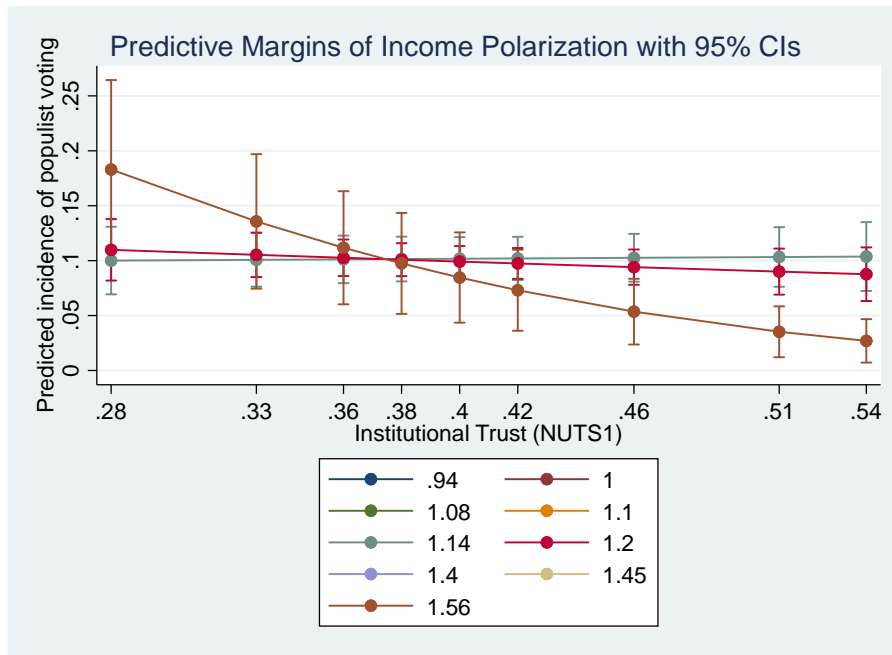
Econometric model (multilevel mixed probit)

$$P_{ij} = \beta_0 + \beta_1(X_{ij} * I_{ij}) + \beta_2 X_{ij} + \beta_3 I_{ij} + \beta_4 Z_{ij} + u_j + e_{ij}$$

- Where P_{ij} is voting for populist parties (across time and space), and
- X_{ij}-inequality indicators
- I_{ij}-perceptional institutional measures
- Z_{ij}-vector of control variables
- $u_j + e_{ij}$ - the random part of the model that contains both first-level and second-level residuals
- u_j- denotes level-1 residual
- e_{ij}–denotes level-2 error term
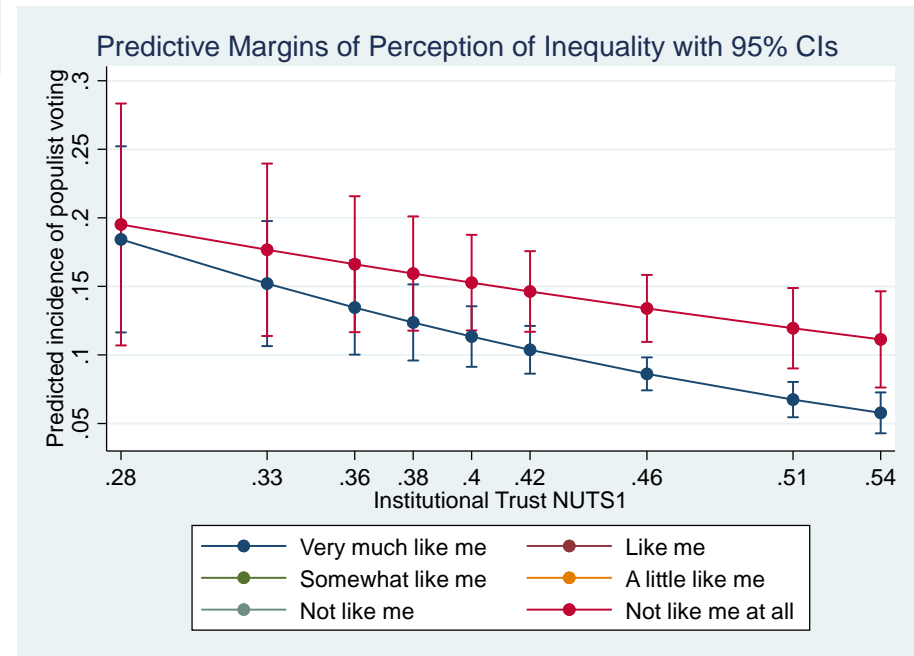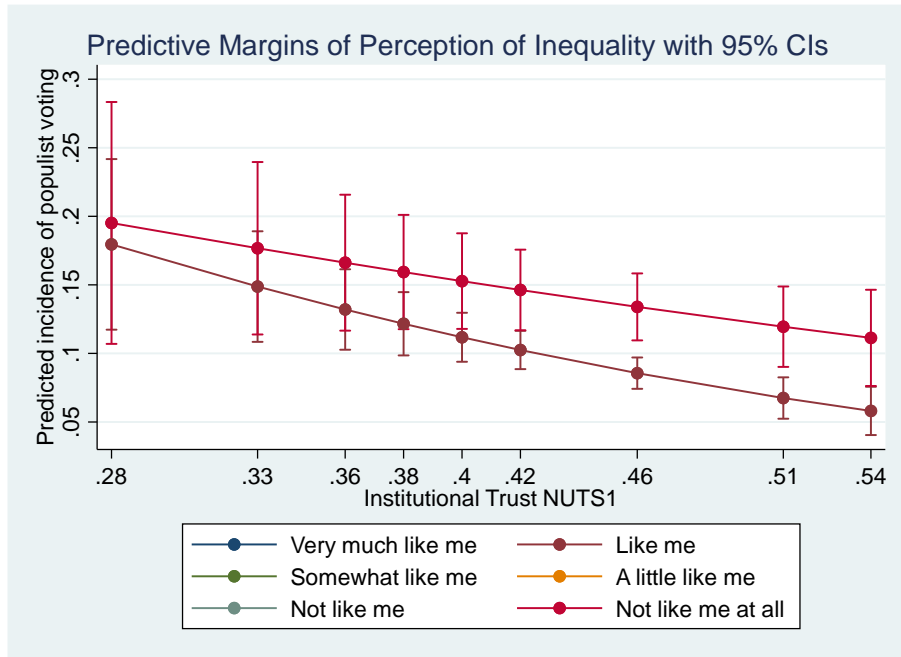- i,j – denotes level-1 and level-2 parameters

Ivanov Insecurity Index

Predictive Margins of Insecurity Index with 95% CIs

Predictive Margins of Insecurity Index with 95% CIs

Income Polarization

Predictive Margins of Income Polarization with 95% CIs

Perception of Inequality

Predictive Margins of Perception of Inequality with 95% CIs

Predictive Margins of Perception of Inequality with 95% CIs

Results

Cannot reject the hypotheses that institutional trust provides positive moderating effect on elements of all inequality of outcome.

- For economic insecurity – increase in institutional trust does not matter for the most economically insecure, but decreases the support for populist parties at both individual and regional levels

- For income polarization – only increase in institutional trust at the regional level decreases the support for populist parties differently for three clusters of countries: low, medium and high.

- For perception of inequality – only increase in institutional trust at the regional level decreases the support for populist parties.

Food for thought for policy-makers?