**The Political Consequences of Socio-Economic Inequality**

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**Abstract**

The present study focuses on the political consequences of socio-economic inequality, i.e. the rise and success of populism in Europe. Building on the economic history debate on economic inequality from the perspective of political philosophy and economics, it proposes a new theoretical framework of connecting socio-economic inequality via the mediating effect of institutions in-between. Methodologically, the study proposes a mixed-methods approach of combining quantitative multilevel testing of a large inter temporal cross-country cross-individual dataset with comparative case study of populist party strategies in Lithuania and Hungary. The study finds that high levels of institutional trust reduce populist voting, in all, but the most economically insecure part of population. For them trust in institutions does not have a moderating effect, as their support for populist parties remains high regardless of the level of trust in national institutions. In terms of the party strategy of populist parties, the key to understanding the emergence of left authoritarianism is how parties make their position extreme, rather than moderate, in the face of the refugee crisis, but prefer to stay put as far as economic issues are concerned. The case study example of Lithuania and Hungary presented here highlights that the success or failure of positional shifts depend on how invested political actors are in the voter-party linkage, and how accommodative the party and electoral systems are to these shifts. The study shows how the rise and success of populism in Europe is a mix of supply (political strategy) and demand factors (voter preferences), which, however, are not triggered solely by socio-economic conditions, but the issues of principle (value) domain as well institutional factors.


**Keywords:** socio-economic inequality, populism, political parties, voting behavior, elections, institutionalism, political economy

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**Acknowledgments**

**Abbreviations**

CHES – Chapel Hill Expert Survey

ESS – European Social Survey

EU – European Union

NUTS - Nomenclature of territorial units for statistics (a hierarchical system for dividing up the economic territory of the EU and the UK)

WID – World Inequality Database

**Introduction**

This dissertation project explores the consequences of socio-economic inequality. Recent studies (Guriev & Papaioannou, 2020; Funke et al., 2020) point that one of the main political consequences of the rise of socio-economic inequality is the emergence and the success of populism around the world. However, do we understand it well? What aspects of socio-economic inequality correlate with the success of populism in Europe? Previous studies point to the fact that increases in economic inequality are associated with low turnout at elections, the increased political inequality or economic insecurity, but not populist voting itself. Other works also argue that economic inequality amplifies grievances associated with economic insecurity or relative deprivation, that in turn lead to the spike in populist voting (Engler and Weisstanner, 2020). However, various concepts around economic insecurity, including job insecurity (Gidron and Mijs, 2019), status anxiety (Gidron and Hall, 2017), the lack of social integration (Gidron and Hall, 2020) and not the economic inequality itself are associated with the support for populist voting.

The purpose of current research is to explore the relationship of socio-economic inequality and populism, through the following research question:

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

The term of socio-economic inequality also has a broader conceptualization than economic inequality, as in addition to straightforward measures of economic inequality of outcome (such as GINI), it also includes polarization of income, inequality of opportunity, perception aspects at the individual level as well as issues of social classes. It could serve both as a cause and consequence of populism. In this case, it is to be operationalized as the main independent variable. The main dependent variable, in turn, is the one related to the phenomenon of populism, in a form of support for political parties or strategies of populist parties themselves.

Additional questions:

Are there other factors that may play a role in moderating the relationship as well? What is the role of different aspects of socio-economic inequality (income polarization, inequality of opportunity, etc.) to each other?

In order to successfully answer the research question of the project, I propose a mixed-methods sequential research design (Tashakkori & Teddlie, 2003), which would combine multilevel modelling for the quantitative (first) part and comparative case study in the qualitative

(second) one. The main strength of this method is that it is not a simple ad-hoc combination of qualitative and quantitative methods, but a carefully planned mixing of the two, consistent with the positivist epistemological position.

Therefore, I propose a mixed-method approach combining the following methods in the sequential order and with the following goals:

| New Theoretical Framework | → | Quantitative Multi-level Testing |
| | | Qualitative Comparative Case Study Testing |
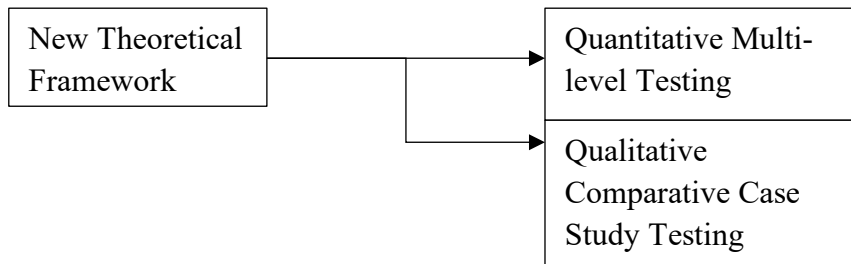
*First*, is to elaborate a new conceptual framework connecting the concept of socio-economic inequality on one hand with populism on the other, while considering the mediating effect of economic and political institutions.

*Second*, test it on a large sample of European cases using relevant quantitative methods – multiple multilevel multivariate regressions, which would provide causal explanation of every connection in the conceptual framework. Both multi-level framework combining data on individuals, regions (NUTS-levels) as well as country variables would provide depth, but also length in terms of using a large timespan, provide a balanced pool of data for research.

*Finally*, a comparative qualitative case study based on the results of the quantitative part compares most similar cases. It would complement the quantitative analysis with an in-depth comparative case study discussion with a smaller sample of country-cases. The selected case studies focus on *populists in power* - successful populist political parties that have managed to not only get elected to local or national legislatures but have also managed to partake in government cabinet formation at the national level.

The main tool of the quantitative part of the study is multilevel analysis. As defined by Luke (2019, p.3), multilevel analysis is mostly about the context as well as taking account of "characteristics or processes occurring at a higher level of analysis are influencing characteristics or processes at a lower level". In my case, the higher level of analysis is regional and country-level data, such as overall economic and political situation in a particular country or institutional quality in the region, while the lower level are the individual characteristics. Multilevel modelling

is a statistical set of tools for empirical estimation of the relationship of such constructs as defined at different levels, and the hypothesized relations between these constructs operate across different levels. In other words, Multilevel modelling is designed to explore and analyze data that come from populations which have a complex structure. Because many political and economic phenomena are multilevel in nature, to ignore the context would be a mistake and would lead to inflated error terms and the assumption that the regression coefficients apply equally in all contexts.

I am mostly interested in how phenomena at the country, regional and individual levels interact between each other forming connections and gaining new meanings; therefore, the quantitative analysis – a multilevel random-effects model or a hybrid model based on data coming from large-N household surveys is the most suitable for my research. The analysis uses secondary data with data consolidation and harmonization between multiple datasets. Moreover, calculations of various indices of socio-economic inequality: economic insecurity, income polarization as well as inequality of opportunity weighted for different income groups are included as well.

The research design focuses on a two-stage design of combining cross-national quantitative work with a comparative case study. In the first stage, the study tests it on a large sample of European cases using relevant quantitative methods – multiple multilevel multivariate regressions, which would test the conceptual framework. In the second stage, a comparative qualitative case study based on the results of the quantitative part compares most similar cases. It complements the quantitative analysis with an in-depth comparative case study discussion with a smaller sample of country-cases. The selected case studies focus on *populists in power* - successful populist political parties that have managed to not only get elected to local or national legislatures but have also managed to partake in government cabinet formation at the national level.

The main sources of data for the quantitative research are databases containing variables on socio-economic characteristics (European Social Survey and World Income Database), as well as databases on political parties (Chapel Hill Expert Survey and Parl Gov database). While the former contains socio-economic data on individuals as well as answers to questions related to values as well as self-reported voting data, the latter is concerned about the ideological positions of parties on various policy questions, their electoral success as well as seat shares in the legislature.

The study uses an original database created in the three-stage process. At the first stage of the research, the economic data is being matched from World Income Database (WID) (containing

data on income polarization and income inequality) with political preferences and socio-economic profile of the voters from European Social Survey (ESS) (voting results) on NUTS (regional) level. At the second stage, the voting preferences are re-coded as well as the classification of populist parties, as well as harmonization of the data with other sources is taking place. At the third stage, construction of indices (economic insecurity, income polarization, etc.) for the use in the empirical measurements is taking place.

The dissertation project proposes four steps to tackle this research question in five sections.

In Chapter, 1 I review the growing literature on socio-economic inequality (including economic insecurity, income polarization, etc.) and the demand (voter preferences) and supply (party strategy) side of populism. Political consequences of inequality are analyzed either through policy implemented by governments or influence on voters, as well through the prism of distinct approaches: populism as ideology (i), populism as political strategy (ii), populism as discourse or style (iii) and populism as political logic (iv). The end of Chapter, 1 concludes that the two approaches – populism as ideology and populism as strategy as built on assumptions of suitable for cross-country and temporal empirical analysis.

Chapter 2 introduces a new theoretical framework connecting socio-economic inequality and populism. It links all the main concepts related to socio-economic inequality suitable for cross-national empirical research (inequality of income or wealth, economic insecurity, income polarization, perception of inequality, the inequality of opportunity). On the side of populism, voter support/electoral success for political parties as per the individual decisions to vote for political candidates as well as populist attitudes are presented. The most innovative part of the theoretical framework is the inclusion of the middle of the scheme that represents political and economic institutions as mediating variables.

Chapter 3 explores the roots of populist voting for different socio-economic groups from an institutionalist perspective. I draw on the ideas of North (1994), Williamson, (1998), Gërxhani and Wintrobe, (2020) and Hudson (2006) to formulate my conceptualization of the quality of institutions using institutional trust relevant to the context of populist voting. I find that when enlarging the definition of economic insecurity, institutional trust moderates populist voting of various socio-economic groups differently. When an individual is highly economically insecure, trust in national institutions does not alter the probability of voting for populist parties and populist voting remains generally high. They seem to represent the closest candidate to being the real "economic voters". For them, when making a voting decision, trust in national government does not matter, and their economic situation is the main determinant: their experience with long-term

unemployment, their less secure jobs and their limited ability of making ends meet is key to their voting decision.

Chapter 4 tests the theoretical framework presented in Chapter 2 from using an inquiry into the supply side relation of socio-economic inequality. It explores the political strategies of populist parties in Central and Eastern Europe and finds they shift their positions in the times of refugee crisis and to the less extent for the economic one. In addition, such shifts are correlated with shifts in principle (core belief and values, value-based social and cultural issues) domain rather than pragmatic (economic policy). The comparative case of Lithuania and Hungary shows the need to analyze positional shifts beyond the shift-electoral success dichotomy, uncovering additional factors at play. While Fidesz invested heavily in voter-party linkage, institutionalizing itself through engaging with the civil society, their three positional shifts were successful. The Labor Party of Lithuania invested less in the voter-party linkage, impeded mostly by the corruption scandals. Instead, it tried to shift on the immigration dimension preemptively, but heavily overestimated the magnitude of the refugee crisis in Lithuania and have suffered electoral losses.

All in all, the recipe for the success of populism in Europe is a combination of both supply (party strategies, policy when in government) and demand (voter preferences) factors. While socio-economic inequality in the changing global economic conditions is an important determinant of success of it, it is not the only factor behind its persistency, especially in Central and Eastern Europe. Other factors, such as the experience of the refugee crisis first-hand, corruption scandals, competition in the party system, quality of institutions are important signals for both populist parties and its voters.

**Chapter 1: Literature Review**

**1.1 Introduction**

What is the impact of inequality on populism?

In order to find the answer to this question it is pertinent to divide it in three key elements: inequality, populism as well as any confounding factors that represent alternative explanation of the relationship between the two.

**1.2 Inequality**

Inequalities are imminent it is an inherent characteristic of all human societies, they surround us everyday (Molander, 2016). Such inequalities can be seen on two levels, with each having their own distinct consequences.

On the micro-level, inequality affects the individual. Individuals differ in terms of inequality of outcome as well as inequality of initial conditions – opportunities that define their present income level beyond their control (Roemer; 1998, 1999) and in the experience of inequality in the historical perspective (Scheidel, 2018). Growing differences in-between cohorts and deepening across different generations in recent years (Chauvel, 2014; Chauvel & Schröder, 2015) as well as individual measures of subjective well-being - the decreasing levels of happiness (Clark et al., 2008) are among other consequences of growing inequality. Rising inequality might indicate declining income, especially in the times of economic downturns. If the trend of growing economic inequality continues in the developed world, then it might signal that the income gap is widening because of the worsening situation of the poor. Others (Western, 2006) have established the link between the rise of economic inequality in the past half of the century with the rising incarceration rates, especially among the poorer wage-earners. Access to healthcare and health outcomes themselves - physical and mental health, infant mortality, life expectancy, crime and incarceration and educational performance, all seem to be correlated with the lower distribution of income (Krieger, 1999; 2016; Wilkinson and Pickett, 2009).

Growing nominal inequality (inequality of income at present time), in turn, produces perceptions of differences in position on the income distribution and its fairness (Clark & D'Ambrosio, 2015), as the primary preoccupation is with their income position relative to others on the global scale (Milanović, 2016; Bourguignon, 2017). The source of income of different groups of people, the disproportionate growth of wages relative to rents Piketty (2014, 2015) leads to the differences in the degree accept income gaps between individuals that are seen to be undeserving. In the context when such inequalities are not addressed by inclusive institutions (Acemoglu & Robinson; 2005, 2013) and does not keep the society within a narrow margin of democratic order (Acemoglu & Robinson, 2022), it produces conflicts and tension that come in cycles, judging by the events of the past (Kuznets, 1955).

The macro-level reasons why the debate on economic inequality is pertinent to current times is divided into two: *intrinsic* and *instrumental* reasons, with a blurred line in terms of difference between them (Gornick & Jäntti, 2014). Okun's (1975) classic essay *Equality and Efficiency: The Big Tradeoff* provides the main *intrinsic* reason of concern for inequality, that the pursuit of greater efficiency comes at the cost of more inequality. He also points out that inequalities in income are embedded in capitalism, and more massive and rapid equalization would require a new capitalist system (p.51, 1975). Such rise in inequalities are generally in line with theories that

take into account limited mobility of the factors of production (Ohlin, 1952) that might lead to income polarization globalization of a society (Levy & Murnane, 1992; Wolfson, 1994; Esteban & Ray; 1994).

However, inequality might not be all that bad. In fact, Kornai (2016) gives three reasons for it. First, while drawing examples beyond the established capitalist and liberal democratic systems, he points to a healthy level of inequality - difference in pay and pay gaps are clearly signs of incentives for workers to reach for promotion. Communes in China, *kolkhoz* in the Soviet Union and production cooperatives in Hungary all had problems with motivating labor, beyond other things. Substantial incentives bring about competition as well as effort that can translate into results and income as well as wealth. Second, inequality brings about stimulation in the entrepreneurial activities (also in Xavier-Oliveira et al. 2015). Kornai (2016) points to the complexity of such connection, "because the stimulus comes not from the actual existence of inequality and wealth, but from how the entrepreneurs see the prospect of great success" (p.24). Third, capitalist system is inherently inequal in monetary incomes, in difference in productivity as well as accumulated wealth. Since capitalism is primarily connected with liberal democracy, the political system is in a way not compatible with inequality-free world. Therefore, a healthy level of inequality is embedded in the capitalist system, is stimulating for the entrepreneurs, firms and workers and might be beneficial, if in moderation.

Referring to the Blank's (2001) four consequences of growing economic inequality, the main *instrumental* reason of growing economic inequality is the harmful effects it has on political processes. The logic behind the argument is that most importantly, inequality seems to adversely affect the political representation - not including different income groups, ethnic, sexual and other minorities, but instead bringing elites and the wealthiest into the decision-making seats in positions of power, lowering chances for a fair democratic process and political decision making (Strolovitch, 2008; Hertel-Fernandez, 2019). The main consequence of it, as proposed in works by Stiglitz (2012, p.117, p.229), one of the costs of inequality is widespread degrading trust (in economic and political institutions) and a claim that *our democracy is being put at peril* through voter disillusionment, perceptions of unfairness, and eventually - disenfranchisement. The presence of high or increasing levels of inequality raises concerns about equity and justice, which connects itself with the questions of how public and private institutions function equitably with regards to opportunities, outcomes, or both (Gornick & Jäntti, 2014, p.3). The goal of this thesis is to develop the argument and to further explore the political consequences of economic

inequality and relate it to the frustration through support for populist political movements. This is to be done considering that variations in inequality are also country specific and not fixed in time, thus both cross-sectional and longitudinal dimensions are key in understanding the phenomenon in detail.

Most modern approaches to linking economic inequality to populism do so in a way picking and choosing a particular variable from an umbrella term of socio-economic inequality. For example, Guiso et al. (2017) as well as Inglehart and Norris (2019) focus on economic insecurity, Zagorski et al (2020) emphasize the role of relative deprivation (which in their conceptualization is very similar to economic insecurity). However, the review below goes in details in presenting different aspects of socio-economic inequality (in addition to economic inequality) and its relation to populism: economic insecurity, income polarization, perception of inequality, inequality of opportunity, the role of rents and the top one percent of wealth.

### Economic Insecurity

Anderson & Pontusson (2007) state that economic insecurity is often being used as an *umbrella term for different manifestations of material well-being ranging from a general sense of material well-being to job-related anxieties or individuals' assessments of recent changes in their personal financial situation* (p.212). Such a definition summarizes different approaches, ranging from worries about one's job (Anderson & Pontusson, 2007; Gallie et al., 2016), past and present wealth levels (Bossert & D'Ambrosio (2013) as well as *people's subjective anxieties with respect to different types of hazards* (Osberg, 2015). Another group of theories embeds economic insecurity with the concepts of risk and uncertainty. Their definitions include *exposure of individuals, communities and countries to adverse events, and from their inability to cope with and recover from the costly consequences of those events* as well as *economic insecurity - the intersection between perceived and actual downside risk* (Jacobs, 2007). Stiglitz et al. (2009, p. 198) state that economic insecurity may be defined as *uncertainty about the material conditions that may prevail in the future*, as it generates stress and anxiety, as well as creates impediments for household investments in housing and education. For Hacker (2019), economic insecurity – *psychologically mediated experience of the prospect of hardship –causing economic losses.*

Economic insecurity is related to populism in a two-way direction with a potential reverse causal effect. Insecurity and worries about ones' job or wealth produces frustration and alienation that might give an impulse to vote against an incumbent and for a populist through a protest vote

on the demand side of the equation. At the same time, on the supply side of populism - parties themselves may tailor their political manifestos to the needs of the most economically insecure or attempt to affect insecurity in terms of policy. In terms of policies that might aggravate the situation of the economically insecure, although possible as theorized by Anderson & Pontusson (2007), it is hard to measure and is not only conditioned by the type of party in power (populist versus non-populist). In both ways, however, institutions have a mediating effect through filtering through information, trust in traditional politics and economic opportunities on the regional level. In addition, Anderson & Pontusson (2007) highlight two types of institutions that are relevant in this respect: the ones that have to do with labor relations in individual firms or workplaces (employment protection, employability attributes), as well as other, which have to do with government regulation of employment conditions (labor market conditions and active labor market policy) (p.214). In conclusion, when dealing with the demand side of populism exclusively, as well as focusing on an individual as the main unit of measurement, the potential for the reverse causal effect is minimized (although this needs to be tested empirically) and together, with relevant institutions that could have a mediating effect, provides the connection to the right-side of the scheme in Figure 3.

### Income Polarization

The concept of income polarization is closely related to income inequality, however, as pointed out in Gradín (2000) and later in Duclos & Taptué (2014), its development emerged as a result of some dissatisfaction in the use of standard inequality measurements to deal with formation of different groups in society. When considering measures of income inequality, Pigou-Dalton transfer principle is in effect: when regressive transfer in income takes place - from a member of a low-income group to the middle or high-income, social welfare decreases or increases if the opposite happens (Bosmans et.al., 2009). Income polarization describes a process in which income concentrates into two (or more) separate groups of the whole population. For example, it can concentrate around lower and upper ends of income distribution, hollowing out the middle-income earners[1]. In this case, the values for both income inequality and income polarization would increase. However, the spike in income polarization also occurs, unlike in inequality, in the situation when the variability of incomes among high-income earners declines (incomes converging around a certain median) with low-income earners clustered around their

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[1]If middle-income earners are classified as middle class based on their income bracket, then it is possible to discuss the *hollowing out of the middle class* as a whole

own median (incomes converging around their local median, meaning around some value on another end of the scale). In this case, standard income inequality measures would not grasp such an effect, while income polarization would capture it depending on the measure used[2]. This is due to the fact that three principles (axioms) of income polarization are considered, one out of which differs itself from income inequality as it describes bipolarity, in which polarization increases when the income distribution becomes concentrated into two poles that do not *traddle the middle* (Dinca-Panaitescu & Walks, 2015).

Income polarization is another aspect of economic inequality, which is defined as *polarization in which observations move from the middle of the income distribution to both tails* (Levy & Murnane, 1992). There are two main concepts which gave birth to modern usage of the term. Wolfson (1994, 1997) conceptualizes polarization as *shrinkage of the middle class* (also Levy & Murnane, 1992; Chakravarty & D'Ambrosio, 2010) through hollowing out of the middle-class incomes, whether due to job loss, inability to recover from the economic downturn or inability to move up across income mobility spectrum. The second, a more complicated axiomatic approach to income polarization, comes from Esteban & Ray (1994) which regards polarization as *clustering around local means* of the distribution, depending where they are located on the income scale (p.821). While introducing the two different approaches, Chakravarty & D'Ambrosio (2010) present the former as a *situation of bipolarization,* and the latter a more generalized version of it. However, in terms of its applicability and possible connections to the phenomenon of populism, Wolfson's approach (1994, 1997) as well as further developments (Wang & Tsui, 2002; Duclos et al., 2004) provide the possibility to connect the measure to median voter as well as general frustrations with the status quo in the economy and offering economic voting as the result. Since a simple GINI measure cannot fully grasp the full extent of the phenomenon of polarization, some authors have used quintile income shares (as data is presented in the World Income Database), while others have used the fraction of the population in various income ranges defined in terms of the mean or median income. Wolfson's approach (1994) compares standard measures of economic inequality and income percentiles (quintile income shares), empirically showing the difference between the two proving duality or complementarity between polarization and inequality.

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[2]This is also explained by Esteban & Ray (1994), income polarization presents the axioms of inequality measurement that fail to adequately distinguish between the *convergence* to the global mean (or median of the income distribution) and *clustering* around local means (p. 821).

*Income bipolarization* as well as *socioeconomic polarization* are of particular interest when establishing relationship with populism. The core of the logic behind it is that the support for populists results from alienation caused by the tensions that develop in the temporal dimension between different members of different groups who either gain or lose in terms of income and other socioeconomic characteristics such as job, status, etc. The expectation is that the support for populism is a result of a revolt of a particular social stratum against the current system. In fact, the same reasons to study polarization have been invoked by Esteban & Ray (1994) that growing polarization could lead to *generation of tensions, to the possibilities of articulated rebellion and revolt, and to the existence of social unrest in general* (p.820). Persistence, intensity and distance from other social classes are all important elements of it. Protest voting in the stratum of the population, potentially most affected by the crisis, in terms of decline in income as well as the loss of positions previously held in a particular social class could all result because of growing polarization.

Instead of inequality, the presence of equality demands explanation rather than inequality (Molander, 2016). However, the growing tensions that emerge between those who benefit from the results of globalization and the liberalization of trade and those who do not might give rise to the shifts in preferences on redistribution policies, but also in terms of more conservative values and the nostalgia about the times of the past (Rodrik, 2008). Such tensions in terms of different experience of inequality of different strata of population presents itself as an opportunity for developing a breeding ground (Mudde, 2007) of particular socio-economic conditions that populist politicians (not exclusively) are presented with an opportunity to exploit and capitalize politically. In addition, for populism to gain ground and prosper in a particular setting, economic triggers might not be the main or the most salient issues in terms of attracting voters in favor of anti-establishment politics.

Earnings of the middle class is also a key element related to populism. Besides normative explanations of *betterness* of a society as well as social equity, middle class directly or indirectly accounts for the biggest share of a country's tax revenue, is a key provider of skilled labor as well as constitutes an important market for goods and services (Duclos & Taptué, 2014). Furthermore, a bigger middle class is empirically associated with higher incomes and higher growth rates, less political instability and more democracy (Easterly, 1999). Therefore, the key assumption is that, especially in the times of crisis, middle class plays a decisive role in terms of being the driving

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force for the economy as well as in political terms, being the most numerous and the most active stratum of the population.

### The Perception of Inequality

The perception of inequality does not fully fit in the single particular type of inequality: outcome versus opportunity, because in most part, it is concerned with the judgement of an individual about his or her current socio-economic position. The literature on the perception of inequality is scarce and it is rather connected to the psychological aspects of self-perceptions of individuals, it also places the perception of inequality under the inequality of outcome.

Perception of inequality underlines the growing importance of social and intergenerational mobility, both of which play an important part of how individuals perceive their position as related to the reference group. This is also in line with the accounts of Ray (1998) as well as Corak (2004, 2013) who highlight the importance of decreasing social mobility across generations as the main consequence of growing inequality. In the context where institutions are weak and inequality is high it is harder to escape the social trap in terms of the deficit of trust in formal and formal institutions (Rothstein, 2005).

The relation of perception of economic inequality to populism starts from the assumption about the voter. Under the rational choice hypothesis, *homo oeconomicus* prefers a redistribution from rich to poor. According to it, voters having lower than median income tend to vote for those politicians who support redistribution (Meltzer & Richard, 1981). Therefore, if a populist party appeals to such preferences of the voters for redistribution (on the supply side of populism), then the relation is bi-directional.

Another possibility is that the link to populism is provided by *tunnel effect theory* (Hirschman & Rothschild, 1973). Instead of the classical median theory of voting which suggests that attitudes of the voters are solely determined by their position in the income distribution, *tunnel effect theory* proposes that in terms of expectations, inequality in short-run can be positively perceived even by those at the bottom of income distribution, because it could be interpreted as a signal for future general improvement. Pushing the metaphor further, an average voter might prefer to go through the hard times and wait in *traffic* before the tunnel for some time, waiting for an imminent light and exit at the end of the tunnel, which represents the promise of upward social mobility and growth in income or wealth. This potentially means, that individuals would support programs of political parties that address the issues of redistribution (including populist parties)

if they perceived themselves as economically unequal, rather than actually caused by living in a region or a country with a large GINI. In order to conclude the applicability of the theory it should be tested empirically on a large cross-country sample, emphasizing the difference between the perceived and actual inequality.

### The Political Elite, State Capture and Rents

What happens when the very rich and affluent, besides having access to significantly more resources than most population, influence politics in a variety of ways? The answer is not simple.

First, it can be done through donations to political campaigns where finance regulations are not stringent, asserting influence over policy through formal as well as informal meetings with key stakeholders, through lobbying as well as other mechanisms (Gilens, 2012). This can lead to clientelism, predation and exploitation in terms of those who have access to public funding and those who do not (Grzymala-Busse, 2008). Such cohabitation of public and private through political class can produce a form of a state capture especially if it aims at providing long-term privileges to captors by exploiting the power of government for private benefit (Hellman et al, 2000; Stoyanov et al, 2019). State capture contributes to a violation of good governance rules as well as is detriment to equal treatment of citizens and interests and the principle of meritocracy apply equally to all citizens and interests. If captured, the state could be described as virtual long-term privatization of the state functions which ensures a systemic privilege for those in power. Different factors act in terms of enablers for the state to be held captive from the side of complacent institutions, media and other environmental factors, individual with significant power to capture the state as well as apply business pressure (Stoyanov et al, 2019).

Second, in the context when the important roadblocks in the system of checks and balances are weak, it offers the possibility for rents and the exploitative behavior of those in charge. Mihályi and Szélenyi (2016), discern between three different rent-seeking mechanisms, under post-communism: market capture by political elites (Hungary), state capture by oligarchs-wealthy individuals who attempt to "privatize the state" (Moldova, Georgia, etc.) as well as capture of oligarchs by autocratic rulers (Putin's inner circle). The first example have been the most clear in the case of Hungary under prime minister Orbán who resists the rent-destructing forces of globalization by going on a downward spiral of corruption and ideological degeneration turning post-2010 Hungarian regime into a "mafia state" (Magyar, 2016; Győrffy and Martin, 2022). The political institutions could be affected not only by the most affluent 1%, but also by the political

elite itself. Such an influence can be described as "oligarchical" state capture when the oligarchs capture the state institutions. Alternatively, a "political" state capture, when the political elite, like in the case of Hungary, an informal network of politicians and subordinated oligarchs capture the state under the direction of the prime-minister Orbán in the form of the political capture of political institutions.

Third, such a significant role of the top 20 earners in rent-seeking and taking over the state can happen in times when institutions are weak. The judicial branch, campaign finance regulations as well as the increase of electoral competitiveness have the power to reduce the role of money in politics and protect the most vulnerable one from the extractive institutions. While shifting the source of political contributions from large donors to interest groups (through contribution limits or public financing), campaign finance reform has the potential to help equalize representativeness to more-and less-well-off citizens (Gilens, 2012). However, innovations in transparency of party accounting and accountability, registering meetings with political parties, as well as party financing regulations all play a role in limiting the role of the wealthiest citizens in politics.

The key issue that provides the connection to the political is the disproportionately major influence the top end of the wealth distribution might exercise on politics. Besides the problems of underrepresentation of the low-income earners and overrepresentation of the rich and their interests at the level of decision-making, the difference between the affluent class and the top 1% of the upper distribution of wealth is the key in understanding how it affects populism through political institutions.

Rents is another aspect that requires particular attention in the context of populism. The source of income of different groups of people, the disproportionate growth of wages relative to rents Piketty (2014, 2015) leads to the differences in the degree accept income gaps between individuals that are seen to be undeserving. As defined by Mihályi and Szélenyi (2016), Piketty's (2014) take on the rising inequality focusing on the difference in growth of capital and wages omits the literature of rent as an important determinant. They find that "rent-driven inequality undermines the meritocratic legitimacy of liberal capitalism and the efficiency of capital investments" (p.21, Mihályi and Szélenyi, 2016). In addition, they argue that inheritance of top 10-20% of income earners becomes a problem in future generations, since wealth is perceived an "unearned" and society tends to become more "patrimonial".

Populist politicians use extractive institutions for rent-maximization. They aim to stop rent-destructing globalization and the development of institutions that provide equal opportunities for social mobility of a country's citizens, limiting the competition in the political elite. Populists claim to create a broad alliance of some sections of the working class, civil servants and upper middle class promising them a level of protection: relative job security, bringing back jobs lost due to outsourcing, restore their relatively privileged incomes to pre-globalization times. However, in the foreground, they have different sources of risk and intensity levels and build up their private capacity for exploitation of the state capture vulnerabilities.

Both Hungary and Poland experienced attempts to reassert political monopoly, with public power being exercised primarily for private gain (Hellman et al., 2000). The lack of control of corruption prevents the state for being resilience to private interests that subvert the legitimate channels of political influence having an effect on the party systems within the region, turning them into a form of a corporate state capture.

**The Inequality of Opportunity**

*The inequality of opportunity* is a measure that goes beyond traditional ones of income or wealth inequality. Introduced by Roemer (1993, 1998), later developed by Fleurbaey (2008), and in terms of measurements by Checchi & Peragine (2010) and Ferreira & Peragine (2016), it has been successfully tested empirically on multiple occasions (Björklund et.al. 2012; Brunori et.al., 2013; Brunori, 2015; EBRD, 2016) on both case study and large cross-country basis. When wealth or income inequality is an *ex post* measure dealing with what can be measured as the outcome, *the inequality of opportunity* is essentially an *ex ante* concept concerned with how equal are individuals *at the starting point are* (Atkinson, 2015). In fact, it is widely regarded as *the unfair part of inequality* (EBRD, 2016)*, it is measured in the space across time between people facing similar *circumstances* (gender, ethnicity, family background and other factors beyond one's control) as opposed to the concept of *effort*, which is fully dependent on ones' decisions throughout life. Eventually both *effort* and *circumstances* determine education, job and ultimately income. In the restatement of the same concept by Brunori (2015), inequality of opportunity is *the inequality owing to circumstances beyond individual control*. Empirical work suggests that *inequality of opportunity* establishes a floor – but not necessarily a ceiling for income inequality, as high levels of inequality of opportunity, in most of the countries, are highly correlated with income inequality, which is often also as high as opportunity (EBRD, 2016, p.47).

It has been stated on multiple occasions that the literature on distributive justice is divided into *two strands, a large normative one and a small descriptive one* (Roemer & Trannoy, 2015, p.259). It is also true that normative theories of distributive justice are primarily concerned with the questions of *fairness,* which is quite subjective and are often not suitable for cross-national empirical work within the positivist epistemological perspective. However, if one focuses rather on measuring to what extent ones' *circumstances* as opposed to *effort*[3] affects outcomes (income, job, etc.) through the concept of *the inequality of opportunity* normative aspects of the distributive justice theory are kept to the minimum.

Both inequality of opportunity and perception of the inequality of opportunity provide the connection to populism through frustrations based on the perceived or measured *circumstances* at the *ex post* level of costs. The intuition is that although circumstances are generally quite rigid and do not change significantly during a period, a general frustration with the status quo and unhappiness due to circumstances produces the impulse to vote for populist parties or express populist attitudes in times of crisis, with the latter being more salient. In addition, because circumstances are often country-specific, the relation between the inequality of opportunity and populism is complex.

**Institutionalism**

Institutional accounts provide the link from socio-economic inequality to populism, since they analyze inequality through the prism of democratization (Meltzer & Richard, 1981; Acemoglu and Robinson, 2000) which, if effective, is found to likely lead to increased taxation and redistribution (decreasing inequality). This is due to changing nature of the *median* voter, who, in the context of the rise of the middle class has become the most decisive and interested in widening the spread of the distribution. Other, more recent works (Acemoglu, Naidu, Restrepo and Robinson, 2015) have used advanced panel data methods and found the relation to be negative – with democratization increasing government taxation and revenue as fractions of GDP, arguing that *political reforms can be viewed as strategic decisions by the political elite to prevent widespread social unrest and revolution.* Furthermore (Acemoglu & Robinson, 2008; 2015; Acemoglu, Naidu, Restrepo and Robinson, 2015) point to the endogeneity in the relation between different aspects of democracies and economic inequality (also economic growth) and generally conclude that the impact of the political system on distribution depends on the laws, institutions,

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[3] *Luck* is the third component, but is often excluded as per the lack of the possibility to measure it

and policies enacted by the system. Earlier works by Acemoglu & Robinson (2008) also introduces different dimensions of analysis: *democratization* and *consolidation* (of democracy) emphasizing both political institutions (universal suffrage) as well as economic institutions (policy concessions, taxation systems, etc.) in the role of different paths towards democratization in a historical and cross-national perspective. While democratization is a credible commitment to future redistribution and as inequality increases, democracy becomes costlier to the elites, but *consolidation* might not be the case and not go hand-in hand with the early stages of democratization (Acemoglu and Robinson, 2008).

Acemoglu & Robinson (2015), emphasize the synergy between *inclusive* economic and political institutions that induces economic development and lowers economic inequality. This is opposed to *extractive* institutions which concentrate wealth among the narrow strata of population, creating inequalities of different kind. By eliminating the cultural arguments (geography, culture and others), Acemoglu & Robinson (2015) demonstrate the dynamic and the interaction between the two types of institutions and how *extractive* economic and political institutions become *inclusive* from neatly picked comparative cross-country historical examples. Referring to the ideas put forward by institutionalists, the endogeneity in the interaction between economic inequality and institutions (democratization) is the key innovation, as the direction going both ways.

However, the role of institutions has its critics as well. The lack of economic inequality can be artificially sustained even in the regimes where political inequality exists and is build around extractive institutions. Milanović (2016) states that in some political regimes, such as the Soviet Union, concentrated political power, does not necessarily entail concentrated economic power (p.102). However, such an counter-argument is based on a unique country case, and would not prove robustness checks on a cross-country basis. However, it is not the institutions themselves which are the only affecting force in driving inequality down, but the difference between *inclusive* and *extractive* ones (country specific as well), which work towards economic prosperity of an individual, household or a particular region.

### 1.3 Political Populism

Most scholars studying modern populism classify parties and leaders, with certain variations, across the lines approaches focusing on the political aspects: (i) populist in terms of stated ideology (Mudde, 2017), (ii) the level of *antielitism* and *antipluralism* (Müller, 2016), (iii)

populist in terms of style (Moffit, 2016), (iv) or discourse sceptic of the system of checks and balances (Taggart, 2000), as well as (v) the rhetoric style of communication (Norris and Inglehart, 2019). While mostly overlapping, the five main definitions are presented below in Table 1:

**Table 1. The Contemporary Classification of Populist Parties**

| Authors | Definitions of *populism* |
| --- | --- |
| Mudde (2007; 2017); Mudde and Rovira Kaltwasser (2017) as well as Stanley (2008) | The minimal definition of populism as a *thin*-centred ideology or a set of (sometimes contradictory) ideas. |
| Müller (2016) | The level of *antielitism* (necessary, but not sufficient condition) and *antipluralism* (providing moral justification for the antagonism), combined with identity politics |
| Moffit (2016) | Populism as discourse or style. Appeal to the people versus the elite (i); bad manners (ii) and crisis, breakdown or threat (iii) |
| Taggart (2000) | Populism as discourse critical of democratic institutions, pitting the elite against the members of *the heartland* (a virtually homogenous construct) |
| Norris and Inglehart (2019) | Populism as the antithesis to pluralism evidenced in the rhetoric style of communication |

In their *minimal* definition (Mudde, 2007; 2017; Mudde and Rovira Kaltwasser, 2017) as well as Stanley (2008) define populism as a *thin-centered* ideology. *Thin,* in Stanley's terms means a distinct concept, which conveys a distinct set of ideas (sometimes contradictory) about politics that interact with the established ideational traditions of *full* ideologies. In it by itself, it is not able to stand alone as a practical political ideology, because *it lacks the capacity to put forward a wide-ranging and coherent programme for the solution to crucial political questions* (Stanley, 2008). Unlike other grand theories, it lacks the capacity to propose solutions to crucial political questions. Other ideologies or their parts with strong economic or social political solutions – Marxist, neoliberal or welfare-state, could in theory, *thicken* populism into a full-fledged ideology (Kubik, 2020). Importantly for our purpose, it implies that economic populism does not systematically comes with political populism. In fact, the economic dimension of populism only

applies in a subset of politically populist scenarios where the economic issues are emphasized to *thicken* the populist appeal.

An important aspect that the ideational approach appears to miss is the importance of both political and economic institutions on both the demand and supply side of populism. In case the economic and political institutions are weak and trust in institutions is low: it creates room for institutional change, including the appearance of charismatic populist leaders or the populists in government. This frustration, in turn, would aim at normalizing the counterbalance between *the people* (a large base of voters) and *the elite* (a narrow stratum of political elites) through *the general will* and deteriorating economic and political institutions (democracy) as a result. Blaming Brussels over frustrations or previous regimes of economic mismanagement is part of the story as well. This important element is related to deliberate weakening of political institutions, especially in the cases of judicial reforms in Poland and Hungary or creation of the new ones or the institutionalization of the political and economic systems under forms of *clientelism* or the return to *statism* in the post-socialist Central and East Europe. The main advantage of this minimal definition of populism is in its inclusivity: it is applicable for a large variety of *populisms* (differing in discourse and ideology and the extent of anti-elitism and anti-liberalism) as well as suitable for cross-nation comparison and empirical work.

Müller (2016) generally agrees on what a populist party is overall, with the difference on the sub-classification of the parties. He highlights that populist actors must contain some form of *antielitism* (necessary, but not sufficient condition), *antipluralism* (providing moral justification for the antagonism), combined with a form of identity politics. In comparison with a minimalist framework produced by Mudde that provides the possibility to assign label and classification in the cross-country, he emphasizes the measurement of the level of *antipluralism* and *antielitism* necessary to a reach a particular threshold to be classified as a populist political actor in regards to the democratic institutions.

**Populism as political style**

Another important aspect, that defines populists and populist parties are their leaders whose political *style* contains three main features: appeal to the people versus the elite (i); bad manners (ii) and crisis, breakdown, or threat (iii) (Moffit, 2016). For Moffit, both linguistic and non-linguistic aspects are important and the form of the discourse, the so-called *performance*, and balancing between *extraordinariness* and *ordinariness* is the key. The role of political parties on

the foreground is overshadowed by the charismatic leader and their political style. Mediatization plays a crucial role, as it serves as an intermediary or a catalyser in the representation of the people influencing the outcome of a dynamic process between leaders, constituencies, audiences and the media (p.111; also De La Torre, 2010).

Having in mind that the performance, where the role of the leader is central, there is a clear distinction between the populist style and ideology (ex. Chavez – populist style of leadership, but ideologically socialist – left-wing populism in economic terms), to what extent is it a leader can be considered populist, just by their style? Moffit's definition of *style* is a way in which we order or bring together disparate objects or phenomena with similar characteristics so to schematize them in a comprehensive fashion (p.33, 2016). However, as seen in numerous examples (Trump and the Paris Agreements, immigration policy in the US and Italy, judiciary reform in Poland) populists not only talk, but to a different extent deliver on their promises. Therefore, although quite evident in certain case study examples, perceiving populism through style alone, does not allow for a cross-national analysis, nor provides external validity on the temporal basis.

### Populists and institutions

Paul Taggart, in his seminal book *On Populism* (2000), defined populism as *an episodic, anti-political, empty-hearted, chameleonic celebration of the heartland in the face of crisis* (p.5). *The heartland* is presented as the place where, in the populist imagination, a virtuous and unified population resides (p.95). In their further interpretation, references to *the heartland* as a virtually homogenous construct is the key in forming a discourse around it, pitting *the people* (numerous and indigenous to *the heartland*) to the elites or minorities, who possess qualities of *extraneous* to it. Taggart points to the fallacy of logic of populist discourse as well, as the sense that the numbers (majority) or a *silent* majority matters more than the respect of the variety of opinions of the minority is erroneous. In the understanding of populists, *the people are monolithic, seen as a single entity, devoid of fundamental divisions, unified and solidaristic* (Taggart, 2000, p.92). While there is some depth to what is meant by *the people*, similarly to *the heartland* there is too much variation and room for interpretation, for such a thin concept to serve as a guiding principle of populism.

Taggart points to the deep ambivalence in attitudes of populists towards institutions - those of the state, universities, bureaucracy, financial institutions, similarly to McCarthyanism in the US. Populists present the system of checks and balances as malignant in the times of crises:

conspiracy theories, populist reaction to representative politics or parliamentary elections, charismatic and authoritarian leadership are all examples of it (Taggart, 2000, p.78-79). Unlike pure opportunistic or loud party leaders, such an attack on political (and potentially economic) institutions represents if not a real danger to democracy, then some form of *hollowing* and *backsliding* in the democratic representation and performance of the countries where populists are in power (Greskovits, 2015).

**Anything in-between?**

An alternative definition of populist parties is given by Pippa Norris and Ronald Inglehart (2019) who divide populist parties into *Authoritarian-Populist* parties versus *Libertarian-Populist*[4]. Their definition of populism is focused on the form of discourse (rhetoric style of communication) about the first order principles of governance, delegitimizing established power structures and the role of elected representatives in liberal democracy while claiming that *the people* should rule. Instead of the division into right-wing and left-wing, far-right/left and extremes they claim that *all populists are illiberal*, working to hide their authoritarianism under the veil of loud rhetoric, communicated through a particular style of political communication, reaching towards masses, previously not participating in electoral exercises, or disinterested in politics (Norris and Inglehart, 2019). They place populism as the antithesis to pluralism. In such a reverse negation, all the elements and features of populism which pluralism is not, they construct the definition of what populist parties are. Basing their operationalization on the value dimension, their innovation is the analysis of the emergence of the new cleavages – left-right division over economic values; -legitimate source of governance and -authoritarian -libertarian on cultural values (Norris and Inglehart, 2019). While being very liberal in their definition of what populism is what parties are classified under its umbrella definition of political program and the style of communication, they put emphasis on the empirics, which is the key in adaptability and replicability of their work, and it is among the best-suited for the cross-sectional research.

All five approaches to the classification of populist parties evolve around the mostly political aspects of populism with variations across certain aspects that generally overlap when it comes to the actual classifications of the parties. Classifications of Roodujin et al. (2019) as well as Norris and Inglehart (2019) differ, but the consensus on the core of the populist parties generally remains

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[4] A third variation in their classification is a White Supremacist party organization.

the same. In order to include the variation and distinct features, it is necessary to go back into the older definitions of populism rooted in economic grievances.

**The Latin American Macroeconomic Populism**

The first attempt at defining the economic aspects of populism as a separate phenomenon has been done by Dornbusch and Edwards (1990, 1991, 2007) in their analysis of 20th century populism in Latin America. They define macroeconomic populism as:

*an approach to economics that emphasizes growth and income distribution and deemphasizes the risks of inflation and deficit finance, external constrains, and the reaction of economic agents to aggressive nonmarket policies* (Dornbusch and Edwards, 1991, p. 9).

They point to the fact that in most cases of populism, it manifested itself as irresponsible macroeconomic prudency in the post-Washington consensus Latin America, which led to an overall collapse of the economic system. Heavy constraints in foreign exchange, extreme inflation as well as massive political instability, coups, and violence as the result of growing inequalities were among the direst consequences of such short-sighted economic policies (Dornbusch and Edwards, 1991). Moreover, while populist movements might have had (dynamic) strategic considerations to use the macroeconomic tools when in power, their emphasis on macroeconomic management as a tool of solving the consequences that created the societal inequalities was *particularly weak.*

In terms of policy-making mechanism, they present the populism paradigm in Latin America as having three key features: *initial conditions* (i), the absence of constraints (*no constraints*) (ii) and *policy prescriptions* (iii). *Initial conditions* (i) represent the background that attracts the support for populists – the overall dissatisfaction with the slowing down of economic performance of the region. The stabilization policies and the unpopular implementation of liberalization programs in the Latin American region as well as the consequent stagnation explain the dissatisfaction with the status quo by the general population of these countries. The second feature of economic populism is having virtually *no constraints* (ii) on its economic policies. The policymakers were prone to overuse the economic instruments at hand without the risk of running into external constraints, under the logic that expansion is not inflationary. While rejecting the mainstream conservative economic thinking by ignoring the constrains on the macroeconomic policy, populist policymakers ran into dire consequences that included hyperinflation and the rise of the economic inequalities. The third feature are the *policy prescriptions* (iii) of the populist

programs, which emphasize the three elements, closely associated with the left-wing policies: *reactivation*, *redistribution of income*, and *restructuring of the economy*. However, in most of the cases, such strategies resulted in an active use of macroeconomic policy to redistribute income, which, in the long run, created massive structural problems, since overcompensation for economic losses of the most vulnerable ended up in the patronal networks of the ruling elites.

**The Return of Economic Populism**

Modern studies (Guriev and Papaioannou, 2020; Norris and Inglehart, 2019; Guiso et al., 2017; Rodrik, 2018) point to the fact that the recent success of populism around the world is at least partially a supply-side phenomenon related to the economy. On one hand, Guiso et al. (2017) refer to supply as a mix of policies in political documents that populist parties offer to its potential voters. Guriev and Papaioannou (2020) as well as Norris and Inglehart (2019) conceptualize the supply of populism in terms of political strategies of political parties. On another hand, Funke et.al (2020) focus on economic policies of populists in power, while Guiso et al. (2017) provide a second definition of populist supply in terms of economic policies that aim at short-term protection with the disregard for future consequences, referring both to the right and left-wing of populism.

For Rodrik (2018), short-sighted economic policies are not the basis for the *economic* populism, instead he focuses on (mostly) economic determinants of the rise of populism, and the economic cleavages that are being used by left-wing populists to further gain support. While generally agreeing with Dornbusch and Edwards' account in the case of the Latin American experience, Rodrik (2018) considers the modern-day European populism to be different for two reasons. First, the regional specificities as well as the ideological position of populists in power is a key difference in the economic variety of populisms around the world (also in Binev, 2022). Second, in Rodrik's view, the Latin American populism of 1980s was mainly of the left-wing type, mostly due to pre-existing economic cleavages. The presence of the narrow, but visible wealthy groups with a strong bargaining power within the economy, created a minority that dictated the rules of the game, pitting themselves against the lower income groups without access to power (Rodrik, 2018).

Instead of the salience of inequality in Latin America, the mostly right-wing European populism is based on cultural, national, ethnic cleavages, and the *us* against *them* (outsiders) divide (Zaslove, 2009). While inequality is a salient issue as well, it is of a different kind. It is namely welfare chauvinism and increased competition with immigrants for in-kind benefits and

public housing, that had propelled populists forward on the economic dimension in Western Europe (Rodrik, 2018). Interestingly, the US case presents a zone for both kind of cleavages and the emergence of the two types of populism in parallel – the left and the right-wing variations, as exemplified in the presidential campaign of Donald Trump and Bernie Sanders. Rodrik (2018) goes to identify that:

*imports (especially from China) and trade agreements (with Mexico, Asian countries) were politically salient issues, around which large number of voters could be mobilized. The financial crisis and the differing fates of large banks versus low-income homeowners engendered anger at the financial elites. At the same time, immigration from Mexico, the threat of radical Muslim terrorism, and lingering racial divides were ripe for political manipulation* (Rodrik, 2018).

He emphasizes the two salient economic issues that have grabbed attention of populists in power: trade agreements in the US, and competition over welfare payments in Western Europe. In Rodrik's assessment, globalization and its consequences, which is important in both cases, are the main determinant of the emergence of the *breeding ground* for the support for populism. While in Europe benefits from globalization have been more equally distributed by inclusive institutions through an expansion of the overall economic welfare for many citizens, in Latin America it has generally produced distortions, regional inequalities, wide discrepancies in economic outcomes as well as a significant number of people on the flip side of the gains from global trade. However, while globalization surely has a big upside in promoting mobility of capital and those actors who are capital-abundant, the impact of robotization and labour substitution might feel different for the blue-collar workers, who are the most susceptible to such risks. This produces general concerns over job insecurity, across the region, which takes the form of perception of unfairness of the system and unequal opportunities for fair and stable work conditions (Benczes et al, 2020; Rawls, 1971; Dworkin, 1981; Roemer, 1998).

**Alternative explanations for the rise of populism**

Recent studies (Guriev & Papaioannou, 2020; Funke et al., 2020) point that one of the main political consequences of socio-economic inequality is the emergence and the success of populism around the world. However, is it the only reason it became successful? Populism has multiple causes and economic reasons might not even dominate. Inequality is only a partial explanation of populism.

While early works (Kitschelt, 2002) point to slowing down of the economic performance of contemporary democracies, more recent works (Guiso et al., 2017; Inglehart and Norris, 2016, 2019) arrive at the common conclusion that *economic insecurity* (as a specific conceptualization under the umbrella term of socio-economic inequality) of those left behind (as the result of globalization or crises) is one of the forces behind the rise in support of all populist parties (including radical ones). Inglehart and Norris (2016) conceptualize economic insecurity as a subjective feeling of income insecurity (reported difficulty of living on current household incomes), theorizing that the most insecure and threatened groups in terms of income seek authoritative leaders to protect them. They divide political parties into populist versus cosmopolitan (cultural cleavage) on the one hand, and into economic left (state management, redistribution) and economic right (free market, deregulation, low taxation) on the other. This produces a matrix of populism, with a set of thresholds on which parties qualify as populist. In their conclusion, the economic insecurity thesis is only partially supported by their empirical work, with cultural variables having a stronger effect than the economic ones in determining the causes of populism on a large sample of countries.

Cultural backlash thesis relates to the discourse on inequality in two ways. First, welfare chauvinism as well as the threat to the traditional blue-collar occupations being pushed out by competing immigrants stay at the core of the triggers of those who fear them. Therefore, inherently, in accordance to Kornai (2016) discrimination or a perception of insecurity on the value dimension is related to the economic insecurity. Second, cultural dimension seems to be a context and time-dependent factor. Here, the cultural disparities between the Western and the Eastern parts of Europe have its say in terms of the socialist past, but also experience of "the otherness" in terms of a different culture, religion or race. This combination of the lack of first-hand experience with economically insecure position in terms of job and the lag in economic convergence with the more economically developed parts of the EU, makes Central and Eastern Europeans more susceptible to the exclusionary populist discourse.

In another take on the reasons for populist voting, Guiso et al. (2017) use a broader definition of populism, focusing on anti-elite rhetoric and elements of *short-term protection* in party manifestos. They base their classification of the parties on the work of Van Kessel (2015) which produces quite different results from the classification of populist parties by Inglehart and Norris

(2016).[5] Guiso et al. (2017) also discern between the left and right variations of populist parties, pointing out however, that the presence of short-term protection policies is a common feature for both, with the left-wing populists preferring more drastic redistribution measures.[6] On the surface, the identity politics and the exclusionary discourse of rightwing populist parties does not necessarily rely on economic claims to the extent that is commonly seen in political manifestos of the left-wing ones (Mudde and Rovira Kaltwasser, 2013). However, in a Western European context, the appeal to economic insecurity of the right-wing parties is based on welfare chauvinism and is oriented to shield against the competition from immigrants for the economically insecure voters. In the Eastern European context, where competition over welfare provisions is not strong, security in terms of employment becomes an issue for the right-wing populists as well.

For Guiso et al. (2017), populism does not have a cultural cause, but rather an economic insecurity one, with an *important and traceable cultural channel*. The main conclusion of their study is that the effect of the crisis, although not affecting the rising economic insecurity directly, prepares the ground for the rise of populism through electoral participation consisting of *abstentionism, disillusionment effect, making economic insecurity appear to be the real driver of populism on the demand side*. For Guiso et al. (2017), economic populism does not exist, instead, they define populist a *party that champions short-term protection policies while hiding their long-term costs by using anti-elite rhetoric*. The economic side are policies that fit under this paradigm. In their account, they agree with Rodrik on the division and importance of the differentiation between the demand and the supply side of populism as well as between the left and right-wing variations. While the latter focuses on inequality cleavage, progressive voters and people dependent on income from the government, distribution and guaranteed income, populists prefer drastic measures in the matters of redistribution. This is compatible with the account of Dornbusch and Edwards (1991) for the Latin American story and partially for the cases of Spain and Greece. For right-wing populism, besides the national identity cleavage, protection of national companies as well as flat low taxes instead of income distribution is preferred.

Burgoon et.al. (2018) have tried to link measures of deprivations and inequality with the support for radical right populist parties and establish how initial conditions shape them. They

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[5] For the complete list refer to Table A1 in Guiso et al. (2017).

[6] This is reminiscent of the account of Dornbusch and Edwards (1991) for the Latin American experience in the late 20th and early 21st century and partially for the cases of modern-day Spain, Greece and Italy as well as the supporters of left-wing populist parties in Netherlands (Gidron and Mijs, 2019) .

find that, on the one hand, support for radical right populism is more likely among individuals facing more *positional deprivation* (how much a given voter's decile has experienced real income growth that is outstripped by the growth of other deciles in the country's income distribution) (Burgoon et.al. (2018)). On the other hand, subjective low income more strongly spurs support for radical right populist parties in voters with higher *positional inequality* (measuring the gap in the growth (or decline) of the wealthier deciles relative to the growth (decline)of poorer deciles), where the wealthiest deciles experience greater gains than (or suffer less than) the median or poorest earners.

Algan et.al. (2017) have used actual region-level voting data rather than self-reported information from surveys and have found strong relationship between increases in unemployment and voting for non-mainstream populist parties with 1 percent point change in unemployment implies 1 percent point change in the populist vote. Contrasting with the findings of Inglehart and Norris (2016) and siding with Guiso et.al. (2017), their study finds that *economic insecurity explains a substantial share of the rise in populism, when controlling for time-invariant factors* (p.6).

Other studies also look at the role of technology in decreasing trust in mainstream politicians (Guriev et al, 2020), the expert use of social media in manipulating the electoral campaigns (Baldwin-Philippi, 2019) or the influence of foreign powers on the public discourse (Russia as a major actor in this field) (Helmus et al, 2018).

The exponential technological development, fueled by globalization, gave birth to the new tools that contribute to the transformation of the political sphere in terms of new ways of communication and manipulation (DeBlasio and Sorice, 2018). Guriev et al. (2020) connect technology with populism through the decrease in trust in government, particularly with the spread of the broadband internet 3G and 4G coverage. In the hand of autocrats (Guriev and Treisman, 2022) technology becomes both a tool of disinformation, but also liberation. On one hand, technology helps people to circumvent censorship and thus hold corrupt and non-democratic governments accountable, but, on another, internet is the source of disinformation used by populists in a very sophisticated manner (Bartlett et al, 2011). Social media platforms become a place for populists to disseminate disinformation at an enormous speed and a wide reach. In the case of the United States, Trump campaign strategies of controlled and user-generated content campaigning engage show a technological advantage of a simple and a minimalist populist messaging (Baldwin-Philippi, 2019).

Russian influence in the emergence of populism is two-fold. On one hand, Russia champions the technological progress and the social media. It plays an important role as a player which had built a propaganda machine for the internal suppression, but also have successfully managed to deploy it abroad. Evidence shows that it employed a sophisticated social media campaign against former Soviet states that includes news tweets, anonymous comments on web pages, troll and bot social media accounts, and fake hashtag and Twitter campaigns (Helmus et al, 2018). On another hand, Russia managed to persuade some European populist parties of the Right and Left to unite to challenge the notion of the West, by a "common aversion to the ongoing modernization and liberalization of society and the economy" (Chryssogelos, 2010, p.267)

Although empirically sound and theoretically driven, these effects still look like they are more of a mediating variable effect within a particular context of weak institutional context, rather than the main triggers, which still, seem to be driven by mainly economic and cultural triggers. However, is doubtful that the spread of the internet per se that matters but the specific use of social networks for political activity. In addition, the role of education as well as the gender aspect of populist voting has not been thoroughly analyzed, which presents a gap to be explored in the consequent sections of this work. What seems to be clear from the works of Guiso et al (2017) and Norris and Inglehart (2019) is that men are more likely to vote populist that goes in line with the cultural backlash argument. However, this should be elaborated more and discussed via their inclusion in the empirical part as independent variables later on.

### 1.4 The Moderating Role of Institutional Trust

Since economic and political agents do not make decisions in a vacuum, their actions reflect the opportunities and constraints generated by the particular institutional set-up in which they make these decisions. Such *rules of the game* play a role in a variety of spheres, including the political one (North, 1994). Some authors argue that the institutional environment, understood as formal rules and governance, impacts economic outcomes (Williamson, 1998). Others have also pointed out that different starting points and improvement in political institutions lead to different economic outcomes, in other words – political institutions rule over the economic ones (Acemoglu and Robinson, 2013).

While institutions are often perceived as a rigid set of rules and regulations, institutional trust of citizens has been argued to reflect their own cumulative experience with public institutions (Gërxhani and Wintrobe, 2020), public services (Mattila and Rapeli, 2017) or viewed as a product of a strong civil society (Putnam, 1993), particularly in individualistic societies (Amini et al.,

2021). The proponents of using trust in government as a proxy for the measurement of institutional quality refer to it as political (Bertsou, 2019) *bridging* (as opposed to *bonding* (community) trust (Korosteleva et al., 2020) or institutional trust (Hudson, 2006). The consensus in the literature is to measure institutional trust at the individual level using direct or indirect survey questions and to construct a simple index of highly correlated variables on trust in various institutions. Some authors focus on the interplay between country and individual level of trust in formal institutions (Clausen et al., 2011; Grönlund and Setälä, 2007) while others focus on individual level relative trust - i.e. the difference in trust in certain institutions over trust in other ones (Hudson, 2006).

Institutional trust becomes an essential factor to consider when analyzing the context of a decision to vote for any party, and a populist party in particular. While in a position of power, populists aim to discredit what they believe is 'the corrupt elite' via attempting to dismantle the system of checks and balances within a country, or deploy an Eurosceptic discourse aiming at discrediting the authority of supranational institutions on both the right- (Reungoat, 2010) as well as the left-wing of political spectrum (Stavrakakis and Katsambekis, 2014). Voters who are most distrustful of their government or become so as the result of the effective rhetoric, might be attracted to vote for populist parties, seeking an alternative to the system of democratic representation.

Both Inglehart and Norris (2016) and Guiso et al. (2017) use some form of institutional trust as controls in their models. Geurkink et al. (2020) find that political trust mainly reflects the anti-elitism of populism, Agerberg (2017) find the strong link between perceived local quality of governance and populist support in Europe, while Dustmann et al. (2017) illustrates the correlations between dissatisfaction towards the prevailing political establishment and the rise of populist parties in Europe.

What seems to be missing in the literature is a deliberate focus on investigating institutional trust and socio-economic conditions jointly. It is an important question for three main reasons. First, institutional trust could increase people's tolerance of insecurity. High trust in institutions could potentially overshadow the current economic hardships of the voters with a hope that their government will take care of them in the future. In the Eastern parts of the European Union, citizens with historically low trust levels towards their local government might trust the EU much more, in hope that further economic convergence of the bloc might raise their economic wellbeing. At the same time, citizens elsewhere within the EU might be looking at their national institutions as superior to the supranational ones.

Second, coupling insecurity and lack of trust could lead to much more populist voting, combining the accounts of Guiso et al. (2017) as well as Dustmann et al. (2017). In other words, differences among voting patterns would not only depend on the level of trust in the government or voter's economic conditions but would also be contingent on how different socio-economic groups express the trust in their government, based on their level of economic insecurity. For some socio-economic groups, their level of trust in institutions might not be a determinant for whom to vote as their primary concern might be purely economic. Others might feel loyal to a party as well as the government system under which they prosper and which they associate with the improvement of their personal economic conditions in the past.

Third, rises in both economic insecurity and decline in institutional trust seem to be related to the business cycle and the ups and downs of the economy (Stevenson and Wolfers, 2011; Lipps and Schraff, 2020). Public trust in institutions of those countries in the EU that have experienced the largest rise in unemployment as a result of global financial crisis also saw public confidence in their national governments decline. However, while population might become disappointed with how government handles the crisis, the trust in the functioning of a democracy – the institutional system of government, including legal as well as political systems – might be less prone to sudden changes.

All in all, it also implies that if institutional trust and economic insecurity are considered jointly, it would provide an answer to the question on how trust in institutions can either amplify or dampen the political decision at the individual level, considering particular socio-economic conditions and vice-versa.[7]

The moderating effect of institutional trust is in line with the literature on economic voting. The classic monograph of Duch and Stevenson (2008) narrows the focus from macro-phenomena political performance (aggregate measures of institutional performance) to the level of an individual (survey data on interpersonal and institutional trust and perceptions of economic and political performance, also in Mishler and Rose, 2001). Both political (parties and party systems, trade unions, courts, etc.) (see Lewis-Beck and Paldam, 2000) and economic institutions (markets, the banking system, the system of property rights, etc.) are treated as *filters* (or moderating variables) that influence the process for the experience and ultimately reduce or amplify the impact of the underlying variables resulting in the individual voting choice or attitudes. On

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[7] How can different levels of economic insecurity moderate the probability of voting for people with similar levels of trust?

another occasion (Andrews et.al. 2014), institutional trust was found to substantially moderate the negative relationship between economic strain and perceptions of cohesion.

The moderating effect of trust is also in line with the account of Rothstein and Uslander (2005) who find that there is no direct effect of trust on inequality; rather, the causal direction starts with inequality itself. Drawing from evidence of low trust high inequality environment, they find that at the individual level, people who express a high level of trust in community are more inclined to have a positive view of their democratic institutions, to participate more in politics, and to be more active in civic organizations. Helliwell et al. (2012) find that people who are more trustful of others seem to feel happier. Rothstein and Uslander (2005) draw the connection to the policy realm, as they find that countries with an initial level of high inequality and with dishonest government are less likely to establish universal social programs that could resolve the problems of inequality, locking themselves in a perpetual inequality or a social trap. They claim that the roots of generalized trust lie in a more equitable distribution of resources and opportunities in a society.

However, their external validity is limited. They admit that their results do not travel well beyond the former Iron curtain: they exclude countries with socialist heritage in their sample claiming that "communism made it difficult to trust anyone outside one's own family" (Rothstein and Uslander, 2005, p.49). The context of Central and Eastern Europe is different and unique. Economic inequality does not seem to be the most salient of issues, but rather economic insecurity, fueled by limited job prospects, quality employment and stable contracts, seem to be the key determinants, while the overall level of trust in institutions, is relatively low, but not comparable to other developing parts of the world.

### 1.5 Reverse Causality

What about the other direction from populism (policy or party positions before elections) towards economic inequality? Government policies can have a large impact on economic equality, if not to diminish or eliminate it completely, alleviate the consequences of it to manageable levels (Rothstein and Uslaner, 2005). While inequality is a part of human condition, nevertheless, it can be influenced and the decisive policy decisions are taken primarily in the political sphere (Kornai, 2016). People's position in income distribution can be improved with the major gaps between rich and poor minimized to sustainable levels (Molander, 2016). Political parties can choose to make their position on redistribution more extreme, and, thus attempt to address the issue of economic inequality if it is salient for their electorate. Voters have not been the only ones who need to adjust

to the new realities of the post-economic and post-migration crises era. Political parties may, or may not, choose to shift in unison with voters, and thus have the possibility to adapt, stay put or zig-zag on their policy stances between elections. This becomes extremely important in the case of populist parties, who, regardless of their ideological stances claim to represent *the pure people* in the face of *the corrupt elite* (Mudde, 2017; Mudde & Rovira Kaltwasser, 2017). They seem to have no choice, but to keep constantly moving alongside the preferences of its electorate or emphasize the salience of new issues in the face of crises.

We know from the party politics literature what determines a successful shift for mainstream (Abou-Chadi, 2016; Abou-Chadi & Krause, 2018; de Vries & Hobolt, 2020) or niche (Meguid, 2005), activist or leadership-dominated (Schumacher et al., 2013), office or policy-seeking parties (Schumacher et al., 2015). However, few studies have investigated how and why those shifts happen for parties that have evolved throughout time and can be classified under multiple categories, going from a challenger party into the mainstream with experience in government and the ability to close the gap in terms of economic inequality.

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happen for parties that have evolved throughout time and can be classified under multiple categories.

### Addressing Inequality through Positional Shifts

Changing party policy positions to make them more distributive as stipulated in their political programs is a risky business. Constant switching of positions might confuse voters, with some of them might perceive the party as trying to pander to their interests in an opportunistic way. However, if based on a salient issue, timed and communicated well, a shift of a party position on a specific policy stance can refresh the image of a party and attract new voters.

Political science literature talks about the patterns of shifts, their causes, and consequences.

In terms of causes, parties might switch their positions because of *external* or *internal* reasons. The most important *external* reason is that the process of the shift is "demand-driven" based on the emergence of new cleavages on the side of the voters (Lipset & Rokkan, 1967). Based on the logic of the voter-party linkage (Kitschelt et al. 1999), some parties might be highly attentive to the responses of their electorate to rapidly changing social and economic conditions (Adams & Somer-Topcu, 2009; De Vries & Hobolt, 2020). Parties would get their cues from median voter shifts based on the results from the past elections or opinion polls, with parties in opposition more willing to change their profile than the ones in government (Meyer & Wagner, 2013). Parties that have been successful in the last elections are likely to "stay put" to avoid the negative effects of changing their positions or being accused of pandering.

On the *internal* reasons, shifts might depend on the size a party and are initiated from within. The nature and the timing of the shifts might depend on whether a party is niche or mainstream (Meguid, 2005), a challenger or mainstream (experience in government) (de Vries & Hobolt, 2012), is activist or leadership-dominated (Schumacher et al., 2013), and whether a party is office-seeking or policy-seeking (Schumacher et al., 2015). Abou-Chadi (2016) as well as Abou-Chadi & Krause (2018) have shown that mainstream right parties in Europe move right on multiculturalism and immigration in response to far-right party success. Meyer & Wagner (2013) go one step further and propose to look at positional shifts in a dynamic way, that parties can employ mainstream or niche party strategies to moderate or make their position in response to previous results. Basu (2019) distinguishes between the policy position adopted by a party on an issue and how much it emphasizes the issue in its campaigns, blending the salience and positional theories together.

On the side of consequences, the literature is scarcer. In the years prior to the global financial crisis of 2008, Tavits (2007) finds that the success of policy shifts depends on the type of issues they involve, and that they benefit parties more when they take place in the pragmatic (economic policy) rather than the principle (core belief and values, value-based social and cultural issues) domain. Spoon & Klüver (2020) also conclude that although, many established parties have adopted a so-called 'accommodative strategy' by taking a more immigration-skeptical policy, going tough on immigration does not help mainstream parties to prevent vote losses to their far-right competitors. While electoral victory is the key element in estimating the success of a particular shift, the overtaking an issue or co-option of niche-party discourse (far-right for example) by mainstream parties can also be considered a victory, even if the latter are defeated in the electoral booth.

The minimal[8] model (Figure 1) divides voters and parties into two fields. The voter-party linkage from the left to the right side of the model (as discussed in Kitschelt et al. 1999) indicates that if an issue becomes salient for voters, it might translate over to parties who chose to emphasize certain elements in the electoral campaigns (Budge & Farlie, 1983; Meguid, 2005; Rovny, 2012). As vote-maximizers they aim at electoral success through the pursuit of votes and office (Downs, 1957) as well as competing over issue ownership (Petrocik, 1996). Parties can also choose to adapt and change their position, through performing a cost-benefit analysis. At the same time, the relationship between positional shifts and electoral success or failure is endogenous at time t-1, as it also depends on the results of the previous elections, but fades with time (Somer-Topcu, 2009).

**Figure 1**

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[8] The minimal nature of the model omits many other systemic factors (regulation of media, campaign and party financing, institutional variable, etc.) may have either direct or mediating effect on the electoral result. This is being done on purpose in order to keep the model as simple as possible for the cross-country analysis, but uncover other factors, as the result of the comparative example in the second part.

<u>Voters</u>

Issue Salience
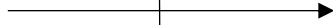
<u>Parties</u>

Issue Salience

Positional

Shifts

Electoral Success

/Failure

costs: internal conflict, pandering

t-1

success: issue ownership

The minimal model above allows to re-test empirical findings of Tavits (2007) whether the shifts in voter preferences that result in positional shifts in party positions are associated with the electoral gains for the same time period. Since populist parties claim to represent "the people", as compared to the mainstream political parties, they have no choice but to be highly sensitive and constantly shift their policy positions with their electorate, in order to deliver on their promises. The triggers of the refugee and economic crises should prompt their reaction alongside their electorate and point to the success or loss in electoral terms.

### 1.6 The Rise of Populism in Central and Eastern Europe

Is the Central and East European region different in terms of the emergence of populism? I claim that the process of the rise of populist parties in Central and Eastern Europe is structurally different from those in the Western Europe and elsewhere.

First, such parties (depending on definition) are usually right-wing or the new *centrist populism* (Učeň, 2007), either directly or indirectly appealing the nationalist reaction to economic, cultural (immigration), and political (European integration, internationalization of politics) processes of *denationalization* (Kriesi, 2014).

Second, the legacy of socialism in terms of the transition of the old economic and political systems into the new one converging with the West is bringing along the emergence of new cleavages that still must be addressed, 30 years after the collapse of the old system. The Washington-consensus type of reform packages (generally, and almost in all the region) of the economy including decentralization, liberalization of financial markets as well as privatization of property although successful, has contributed to the rise in demand for the emergence of the new contenders to the system.

Third, as Kriesi (2014) pointed out, as compared to the Western democracies with long-standing political party culture, Central and Eastern European party systems are lacking in effective *institutionalization[9]* of their party systems, which gave rise to populist parties. Furthermore, he states that Central and Eastern European region has not produced mainstream parties that *would adequately represent its constituencies* in the same way it has been done in Western Europe (Kriesi, 2014). Instead, populist parties in Central and Eastern Europe articulate a new structural conflict pitting winners and losers of globalization against each other.

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[9] refers to a process by which a practice or organization becomes well established and widely known, if not universally accepted' (Mainwaring and Scully, 1995). In the context of political competition, it refers to the internal structure of political parties within a stable system.

Fourth, the economic system is embedded in the life of a society to a larger degree in Central and Eastern Europe than in the more advanced economies of Western Europe (Offe, 2000; Magyar and Madlovics, 2020). This happens primarily because of the lack of separation of spheres of social action (division of social, political and market activities) that is more evident in the post-socialist countries with the remnants of patronalism and clientelism. At the same time, in the situation with the lack of the division of public from private sphere (politicians having not only the roles of civil servants, but also interest in business, media, etc.), vested interest become economic in nature. Those two important elements become the key also in the times of crisis, changing the way how the state interacts with society, and shows resilience. In addition, the democratic culture manifested in the immunity of the institutional system has been different in Western countries than in CEE, especially in Hungary (and partly Poland). In Hungary, the blurring lines between the public and private and between the state and market were enabled by the state via extractive institutions which resulted in media capture. Unlike the relatively independent media elsewhere (USA under Trump, for example), Hungarian media landscape has been captured as a result of the destructive actions of populism in power. The same could be said about the judiciary, which had not initiated any indictments against pro-government stakeholders between 2010 and 2017 in Hungary under Fidesz.

Fifth, there is a less of evidence that mistrust and economic inequality are correlated in the context of post-socialist regions (Uslaner 2002; Rothstein and Uslaner 2005). The argument is that democracy, which concerns access to government power, is tested in the context of populism that in itself attacks the system of checks and balances especially in the Central and Eastern European region (Rothstein, 2011).

Sixth, in the process of transition from communist dictatorship towards liberal democracy, institutional trust plays an even larger role within the state-society relations. On the one hand, in order to converge with more established democracies of the West, a successful democracy in transition requires that citizens have certain level of interest in politics, be rational as well politically active. Such societal characteristics is more frequently found in the successful rather than in the unsuccessful democracies as well as in countries where civil society organizations are more active (Almond and Verba, 1963), although such activity could turn into a problem if it shifted into excessive loyalty towards the regime (Norris, 2011). Political theories emphasize the key role of civic culture for democratic performance (Tabellini, 2008; Weingast, 1997), accumulation of 'democratic capital' in a society (Persson and Tabellini, 2009; Putnam, 1993),

while the proponents of institutional perspectives argue that democratic capitalism is sustainable only if it remains in the narrow corridor created by a strong state and a strong society (Acemoglu and Robinson, 2019).

While most studies apply rigorous quantitative methods using mainly political manifesto data of Western European parties (Abou-Chadi, 2016; Abou-Chadi & Orlowski, 2016; Hobolt & de Vries, 2020; Schumacher et al., 2013; Schumacher et al., 2015) the question of external validity remains open. This is particularly true in the case of the Eastern part of the EU, where, in the process of democratization, the inclusion of citizens into the political body preceded the phase of contestation, thus prompting parties to behave in a substantially different way from those in established liberal democracies (Enyedi, 2016). Unlike in the West, the change of the regime and the emergence of a liberalized party system in the post-socialist countries, came about after the waves of mobilization of citizens through social movements, such as *Sąjūdis* in Lithuania or *Solidarność* in Poland.

The current political horizon is dominated by many successful populist parties in Central and Eastern Europe, that can be characterized by so-called "left authoritarianism", that is, a combination of redistributive stances on economic issues (primarily job insecurity and family policies) with conservative preferences on the cultural dimension. The most vivid examples include Fidesz in Hungary, PiS in Poland, GERB in Bulgaria and SDS in Slovenia that successfully combine such positions in the way, slightly reminding of the "reddish" and "brownish" coalitions (communist successor parties and nationalists) in the early years of transition (Ishiyama, 1998).

### 1.7 Further Steps

Therefore, the focus of the present study is contributing to the academic debate in a variety of ways. First, the main interest is to prepare the consistent and empirically testable theoretical framework to explore how economic inequality but also other existing factors in populism literature (cultural backlash in particular) prepare the *breeding ground* for the rise and the continuing support for populism in Europe (Mudde, 2007). Second, by basing the empirical research on some elements of the approach by Guiso et al. (2017) as well as Inglehart & Norris (2016, 2019) in terms of populist voting, the exploration brings different aspects of different approaches together, enriching it with multi-level regional dimension through the establishing the relationship between the different elements. Third, further exploration relates to the reverse effect the supply side of populism (in terms of party strategies of populist parties) might have on socio-

economic inequality, in terms of adapting to the new conditions as well as tests it empirically in the context of Central and Eastern Europe. Fourth, the definition of populist parties based on ideology is brought to the forefront, underlining their relation to political and economic institutions through amalgamation of theories. Fifth, by taking a wide approach on inequality from a variety of disciplines of ranging from mainstream economics to sociology, different aspects of economic inequality (as well as relation between them) are considered: *income polarization, economic insecurity, the perception of inequality* as well as *the inequality of opportunity*. Sixth, this research contributes to a better understanding of political consequences of growing inequality as well as economic voting, enriching contemporary studies and theories on the determinants of the success of populism in Europe – mainly from political science, and their relation to the economic dimension. Finally, by proposing to contextualize institutions as mediator variables, the emphasis is being put on the experience of an individual within the macro-level processes of political participation, which is mediated by institutions in the time-variant and cross-national perspective.

More precisely, it might be economic insecurity, and not economic inequality that is associated with populist voting. Although economic inequality and economic insecurity are *deeply interwoven* concepts; however, they are not the same (Hacker, 2019, p.2). While the former may stir up envy of those at the top or resentment from at the bottom (of the income or wealth distribution), the prospect of the latter – of suffering a considering drawback - *being laid off, or losing health coverage, or having a serious illness befall a family member* – stirs up *anxiety* (Hacker, 2019, p.7). In other words, economic insecurity has to do with *volatility* of income and instability of income from one day to another and having basic confidence and economic buffer to rely on in times of economic downturn.

Previous studies point to the fact that increases in economic inequality are associated with low turnout at elections, the increased political inequality or economic insecurity, but not populist voting itself. Other works also argue that economic inequality amplifies grievances associated with economic insecurity or relative deprivation, that in turn lead to the spike in populist voting (Engler and Weisstanner, 2020). However, various concepts around economic insecurity, including job insecurity (Gidron and Mijs, 2019), status anxiety (Gidron and Hall, 2017), the lack of social integration (Gidron and Hall, 2020) and not the economic inequality itself are associated with the support for populist voting. The following section deals with the effect of economic insecurity on populist voting, considering the context of national and supranational institutions, via evaluations and institutional trust by voters.

**Chapter 2: Conceptual Framework**

This chapter focuses on presenting conceptualization of the theories discussed in the previous section as well as some of the measurement issues.

**2.1 Conceptualization**

Socio-economic inequality can be conceptualized in a variety of ways. On the theoretical level, as reviewed in Ivanov (2022), there is a clear division in the debate is between *utilitarian* (*welfarist*) (Piketty; 2014; 2015; Atkinson, 1975l 2015; Stiglitz, 2017;) economists, who are concerned about the inequality of the outcome (GINI, income, consumption, etc.) and *egalitarian* (Rawls, 1971; Dworkin, 1981; Cohen, 1989; Sen, 1992; Roemer, 1998) political philosophers as well as sociologists who are concerned about the inequality of opportunity, but with a normative interpretation of *fairness* behind it (resources, capabilities, etc.).

These concepts seem to relate to populism through the theoretical framework proposed by Guiso et al. (2017) who present populism as a demand/supply side phenomenon, but also not quite in a straight-forward relationship. The lines between the demand and supply of populism when it comes to issues of redistribution are blurred. In other words, certain supply factors of the populist programs are in play, when determining the support for them, the demand side of populism. In fact, the support coming out of a fairly unequal society, seeking distributional policies, might not just be because of the demand side of populism (popular support), but the will of the populist leaders themselves. Also, a complicated supply-side product of the previous regime (socialist in CEE) night also plays a role in the tendency of populist politicians to substitute, hide inequalities with appealing to concerns over nationalism (nativism), which in purely pragmatic calculations would let them ignore the growing economic differences and real concerns between the different strata of the society.

I construct the new conceptual framework connecting the two respective phenomena, which is later tested empirically with quantitative and comparative case study methods in the subsequent chapters.

**2.2 The New Theoretical Framework**

The newly proposed scheme below (Figure 2) builds up on previous research on the topic, by systematically connecting different conceptualizations of socio-economic inequality with populism (divided into supply and demand). As posited in Chapter, 1, the concept of socio-

economic inequality is multilayered. While the amount of research conducted on the topic is colossal with literature from different fields taking a unique disciplinary look at it, the notion of *populism* is a relatively modern concept. The link between the two provides an innovative angle, especially in the context of a vast European and Central and Eastern European regions, where it had found the most success. In order to connect the two and provide a valid theoretical framework for empirical testing, links are formed and described below.

The left-hand side of the scheme presents all the main concepts related to *socio-economic inequality* suitable for cross-national empirical research. If economic inequality is to be studied within the realm of economics, it can be divided into two separate concepts: inequality of *income* or *wealth* (as instructed by Atkinson, 1975) in terms of the unit and the source of measurement. Furthermore, *income inequality* is also related to a broader concept of *inequality of outcome* (a bigger rectangular-shaped figure) and, in turn, contains at least three concepts, which are interchangeably related to one another: *economic insecurity* (Anderson & Pontusson, 2007; Bossert & D'Ambrosio, 2013; Gallie et al., 2016; Osberg, 2015)*, income polarization* (Levy & Murnane, 1992; Wolfson, 1994; Esteban & Ray, 1994) as well as *the perception* component of inequality. The inequality of *wealth* is a recently new topic in the empirical academic research, which, however, confronts issues of data gathering as well as its validity. The focus on the wealthiest members of a group (this case – within countries) is the key in linking wealth inequality to the concept of populism. The dotted line to the rectangle of political institutions is, although universal, is especially relevant to the area of Central and Eastern Europe, where the strong influence of politics on the formation of rich domestic elites also represents the way how the ruling party controls the elite. Alongside with other issues related to slowing down of democratization and the emergence of the democratic backsliding and the emergence of *patronal autocracy* (Magyar and Mádlovics, 2020) is an important difference between the post-socialist region and the West.

Simultaneously, *inequality of opportunity* (an oval-shaped form below the *inequality of outcome*) is a concept, widely used in sociology as well as political philosophy, also known as the *unfair* part of inequality, out of which *circumstances* versus *effort* as well as *the perception of opportunity* could be discerned. *The inequality of opportunity* and *the inequality of outcome* are very different concepts, which are often juxtaposed in modern literature and should be treated as such. Nevertheless, both are related to the concept of populism via their separate connections.

On the side of populism, we have *voter support/electoral success* for political parties as per the individual decisions to vote for political candidates as well as *populist attitudes* (Akkerman et.al., 2014; Hawkins et.al., 2012). Both concepts are related to the micro (individual) level of research and are interrelated. The logic behind it is based on an assumption of the fact that if a person manifests populist attitudes and preferences for populism politicians, then it results in voting for the respective candidates.

The most innovative part of the conceptual framework is the inclusion of the middle of the scheme that represents political and economic institutions as mediating variables. Surely, institutions have been explored in the causal context as structural bases and causes of economic inequality and populism on separate occasions before (Acemoglu et.al., 2013; Algan et al., 2017). However, the theoretical framework treats institutions as mediating between inequality and populism. The main hypothesis in this regard is that growing socio-economic inequality boosts populist voting, however, it contributes to even larger support for populist parties, when the quality of institutions is poor or is deteriorating (depending on the country/regional context).

Adapting the middle of the scheme from the classic monograph of Duch & Stevenson (2008) on how political and economic institutions condition election results in the process called *economic voting* (below the scheme) narrows the focus from macro-phenomena to the level of an individual. Both political (parties and party systems, trade unions, courts, etc. and support and individual trust in them.) and economic institutions (markets, the banking system, the system of property rights, etc. including the individual trust in them) are treated as *filters* (or mediating variables) that influence the process for the experience and ultimately influencing the individual voting choice or attitudes. The same has been proposed by Gornick & Jäntti (2014) as well, who emphasize the way that the influence of institutions on inequality also varies cross-nationally. For this and other reasons, cross-national comparisons offer a natural framework for inequality research, as allowing for variables to reflect how the rule of law as well as other institutions play the key role and are region-specific for the most part. Digging deeper in operationalization and what the center of the framework means, it is referred to as *bridging* – institutional trust across broader local society (Korosteleva et.al., 2019). The last part of the framework is the reverse causality from the supply side of populism back to socio-economic inequality. It refers to two components: strategy of parties (populist) that adapt to the changes in *socio-economic inequality* as one of the main economic cleavages and/or to policy that has the potential to address it.

**Figure 2**

## Socio-Economic Inequality

Reverse Causality

The Political Elite

Income

**Populism (Supply Side)**

Wealth

State Capture

Inequality of Outcome
-Economic Insecurity
-Income Polarization
- Perception

Political Institutions

**Populism (Demand Side)**

# FILTERS

-Populist Voting

Economic Institutions

-Populist Attitudes

Inequality of Opportunity

Circumstances versus Effort
Perception

- Economic Voting  - Political Consequences of Growing inequality

**2.3 Measurement**

**2.4 The left-hand side: The Inequality of Opportunity versus Outcome**

**Inequality of Wealth and Income**

As described in the literature review section, income and wealth inequality are two different parts to the same umbrella term of what is meant by economic inequality. In general terms, income refers to direct monetary benefits received by a person or household over some period (wages, salaries, and government-assistance, as well as fringe benefits) and thus, the inequality of income is the discrepancy in such monetary terms between different persons (or other level of aggregation). Wealth refers to the stock of assets (financial holdings and savings, and also less liquid assets, such as family homes, etc.) held by a person or a household at a single point in time (Piketty & Zucman, 2014). Income inequality is defined based on further disaggregation of different components of income according to the framework provided by Atkinson (1975; 2015) and implemented in Luxembourg Income Study (LIS). Current income is divided into *factor* and *transfer* incomes further disaggregating into different aspects: *labor* and *capital* income in the former and *pensions*, *public social benefits* as well as *private transfers* in the latter. There is an overlap in definitions between income and wealth, especially when it comes to including non-income benefits such as social benefits and pensions.

Furthermore, the two concepts are interrelated at the core in the temporal perspective as well, because wealth, if used correctly and invested wisely, generates additional income for the current and wealth for the next generation. Such intergenerational consequences, increase the inequality between those who inherit and those who do not, which has proved to be *quantitatively significant* in the modern world (Piketty & Saez, 2012). Since inheritance accounts for a sizeable fraction of the wealth of the group of top-income earners, there is observed inequality of opportunity for the next generation of the less better-off as well (Atkinson, 1975; 2005). Therefore, wealth goes beyond the division between the inequality of outcome versus the inequality of opportunity (as seen from the Figure 3), meaning that the wealth of the current generation becomes the opportunity of the next one.

**The Top of Wealth**

The main problem of measuring wealth inequality is based on limited data availability (Piketty & Zucman, 2014). The sources of data for its measurement is similar to income inequality – from either administrative (tax returns and real estate information) sources or large household

surveys (Jones, 2015). The efficiency and the reliability of the latter has proven to be questionable simply because respondents are hesitant to give responses about their own wealth. Roine & Waldenstrom (2010) have not only pointed to the main problem of the measurement of the top 1% of wealth but have estimated the corrected top 1 % using estimates of offshore wealth held abroad by the rich. The presence of tax heavens – tax evasion in the situation of the absence of global taxation makes it almost impossible to trace it (Zucman, 2014). The dotted line in the relation to political institutions on Figure 3 hints at this very fact. In order to accurately measure wealth inequality, annual wealth tax declarations for the entire population are needed, which is, however impossible to have for various reasons. Annual wealth taxes, however, often do exist, and when they do, the data generally do not cover long periods of time and is restricted in terms of the number of countries available for analysis (Piketty & Zucman, 2014, p.1319).

Therefore, what is proposed here in terms of operationalization is to instead of measuring the wealth inequality itself; rely on measures of political institutions, which would limit the potential role of money in politics. Regulations on campaign financing, increase in electoral competitiveness of parties, transparency in interactions of parliamentarians with donors as well as other well-off members of the society would mean that attempts to minimize the role of big money in politics have been put into place in certain countries[10]. The dotted line in the scheme (Figure 3) points to the unavailability of reliant measures of wealth inequality that would prove the connection, due to multiple obstacles mentioned above.

### Income Polarization

Different approaches can be implemented in terms of measurement. The starting point for *bipolarization of income* is to measure the change of the size of the middle class throughout time, which presumes that it produces a greater separateness of the bottom and top income distribution. The starting point is to define middle class in the classical economic view per belonging to specific income brackets with bottom and top cutoff points. For example: the share of the population with incomes between 75% and 125% of median income (Thurow (1984); Blackburn & Bloom (1995)) as well as broadening the definition it to encapsulate a bigger volatility of income (60–225% of

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[10]The idea is to include country-specific dummy variables on campaign finance regulation, electoral competitiveness and transparency in public decision making

median income or 85–115% of median wage). Another approach is to rely on the classic works of Esteban & Ray (1994), and a later updated version of Esteban, Gradín and Ray (1999, 2007), that propose an index of polarization (*ER Index* and later *EGR Index*) to measure the distances between different income groups clustered at the local means as well as distributions that are not necessarily located in pre-arranged in groups.

Measuring *socioeconomic polarization* is slightly more complicated. The starting point is to use Gradín (2000) approach that every individual, together with his own income is endowed *with a vector of other characteristics or attributes, such as his educational level, race, labor category* among others. By taking this approach further, classification of the new seven social classes: *elite, established middle class, technical middle class, new affluent workers, traditional working class, emergent service workers* and *precariat* is provided by the works of Savage et.al (2013) and Savage (2015). This would propel *socioeconomic polarization* further and allow to form groups beyond the division in classes based on income levels, showing salience of different social groups in the temporal as well as cross-national perspective. By adapting to the new class literature, the connection between new social class classification, would expand the scope of the study and provide answers to additional questions of what classes interact with the populism variables, is there a statistical significance in belonging to a specific group.

In terms of institutions, which might provide mediatory confounding effect and act as *filters* in the model, the ones that promote social mobility through propelling a member of a society towards a new social class or an income group should be taken into consideration. Examples of such institutions are: primary as well as tertiary education to provide for elevating on the social ladder, or potentially induce the effect where it is not provided. In addition, employment or the lack of it, would proxy for opportunities to shift within the groups and would allow for social class mobility. Regional as well as sub-regional levels are key in this regard, as well as the temporal dimension on the change of the quality of institutions and access to them.

**Economic Insecurity**

In terms of measurement, modern research on economic insecurity operationalizes it in terms of job insecurity, as well as other measures related to wealth, drops in income as well as

poverty. Furthermore, while reflecting on the current state of measurement literature, Bossert & D'Ambrosio (2013) state that:

*the modern measures can roughly be described as (i) the share of the population facing the risk of poverty; (ii) the fraction of the population who experience a drop in disposable family income of at least 25% from the previous year and lack an adequate financial safety net; and (iii) a weighted average of the "scores" achieved in different attributes* (p.1017).

In their own work, Bossert & D'Ambrosio (2013, 2016), and D'Ambrosio & Rohde (2014) operationalize it in terms of current wealth levels as well as its variations experienced in the past. Their base their measurement on proposed axioms considering the temporal perspective of past, present wealth values to represent a buffer for future experiences including absorbing shocks in times of crises. Furthermore, Bossert & D'Ambrosio (2013) identify economic insecurity as *the current wealth level multiplied by minus one plus weighted sums of the wealth gains (losses) experienced in the past* (p.1019). However, focusing on wealth as the sole determinant of economic insecurity focuses numerous problems. First, data limitations reduce access to reliable sources of self-report or tax data. Second, economic insecurity is a multifaceted notion, especially considering the assumption that households do not necessarily save their wealth and use it in times of crises. As saving patterns vary across time and space, communities in some countries have it more culturally appropriate than in others. However, economic insecurity in terms of wealth allows for the one direction in its connection to populism (from the left to the right only), as populist parties are not usually linked or able to directly influence the wealth of regular households.

The most updated version of the Guiso et.al. (2017) article constructs an index combining three components in terms of answers from the European Social Survey: unemployment for some time for the past five years, a measure of financial distress (finds it hard to live on current income) and an indicator on exposure to globalization (having a low-skilled manufacturing job). It is then standardized and rescaled from 0 to 1 (from most insecure to least insecure) based on the three above-mentioned factors. Besides capturing heterogeneity, the main advantage of this measure is in the fact that it does not contain numerical values of income and thus not interfering with the economic inequality or polarization variable. It could also allow for an additional question of how

economically insecure members of a society are when in relation to their income throughout time. The main disadvantage is that the third component (having a low-skilled manufacturing job) does not grasp the full exposure to globalization as it is not only factory workers exposed to the risks of being outcompeted in the market.

Although arriving at a conclusion that cultural variables have a bigger effect on populist voting, Norris & Inglehart (2019) focus on individual-level economic insecurity controlling for various economic factors as well. Their key explanatory variable *subjective economic insecurity* is measured by a single response from the ESS on whether respondent found it difficult to live on their present household income (using a 4-point scale where 'very difficult' was high) (Inglehart & Norris, 2016). Additional controls measuring occupational class and household income, direct experience of long-term unemployment, dependency on state benefits and employment in manufacturing industry and dissatisfaction with the overall performance of the national economy were added as well. Methodologically, Inglehart & Norris (2016) point to the fact that there should be a continuation between individual preferences as influenced by economic conditions and the success of a particular populist party at the national level. Although quite logical and methodologically sound, authors seem to focus extensively on subjective measure of feeling insecure, which does not provide the widest variety of choices. In addition, their occupational classification seems outdated and does not consider a wider choice of modern occupations, which could be associated with voting for populist parties as well.

All in all, in order to fully grasp economic insecurity, its measurement should incorporate all three elements highlighted above: job insecurity (Anderson & Pontusson (2007)), wealth (at time-1) (Bossert & D'Ambrosio (2013)) as well as feeling of being insecure (Inglehart & Norris (2016) and Guiso et.al. (2017)). The starting point is to seek out a set of questions in European Social Survey or World Value Survey similarly to the works of Inglehart & Norris (2016) and Guiso et.al. (2017) and to construct a simple scale. At a later stage, depending on data availability, enrich the scale with data on job insecurity and wealth turning it into a multidimensional index of insecurity.

**The Perception of Inequality**

In some cross-country accounts like in Gimpelson & Monusova (2014) it is conceptualized as related to wealth inequality, while in others, to the *sense of entitlement* through time (Brunori, 2010) or opinions about the general state of inequality in ones' society (Gimpelson & Treisman, 2018). All the studies mentioned above conceptualize the perception of inequality as a subjective measure of well-being with operationalization focusing on personal answers to questions related to the perception of respondents[11].

The difference between the real and the perceived inequality is at the core of all above-mentioned approaches. Gimpelson & Monusova (2014) state that while perceptions vary across countries as well as across individuals within countries, *ordinary citizens looking around for themselves can hardly distinguish inequality with the Gini coefficient equaling 0.30 from the inequality with the Gini of 0.40* (p.3). In fact, Gimpelson & Treisman (2018) have proven empirically on a myriad of countries that perceived inequality is highly significant in and is positively correlated with the support for redistribution at both country and individual levels, while actual income is not.

In terms of institutions that matter and produce the filtering effect on the way to populism, on the surface the same ones in with the actual measured inequality should in play in case of its perception. However, people feel different about themselves in different countries as per the results of Gimpelson & Monusova (2014), with the countries of Hungary, Ukraine, but also France, Estonia and Italy leading in the most perceived inequality in Europe[12]. Interaction with country-level institutional variables, might explain the differences[13]. The variation across countries could be provided by the typology for specific institutional and historical backgrounds

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[11] Gimpelson & Monusova (2014) measure perception of inequality from the module in ISSP with the help of two statements: *"Differences in income in <Rs country> are too large"*, the second - *"It is the responsibility of the government to reduce the differences in income between people with high incomes and those with low incomes"*.

[12] Interestingly, this set of countries all have populist parties in Parliament

[13] Gimpelson & Monusova (2014) have found that family income has a potentially strong impact on the perception of inequality. This could be used as a potential instrumental variable later, as populism is generally not known to have an effect on family income.

of the countries surveyed and might coincide with those of the variety of capitalism (Hall & Soskice, 2001) or their legal origin (La Porta et al, 1999).

**The Inequality of Opportunity**

The starting point to measure inequality of opportunity is to follow Checchi & Peragine (2010) and Roemer & Trannoy (2015) on dividing the population in certain *types* (or groups) which are formed based on classification by certain characteristics of *circumstances*. These characteristics of circumstances are always beyond ones' control but have an effect on the outcome (in terms of income, securing a job or education), such as, for example, education of parents (no more than lower secondary education, completed secondary education, and at least some tertiary education). The same could be done by adding or creating groups separately based on education levels of participants (non-tertiary, which does not depend much on the effort, but on circumstances). The next step is to calculate GINI or polarization ratios, based on predicted differences in income between the groups and then to compare them to them to the reference grouping based on income (EBRD, 2016). In this way, the amount of inequality that is attributed to circumstances could be measured, while effort is the error term or the non-decomposed part of the measure of inequality. Increasing the number of background characteristics - *types* as per the example in Björklund et.al. (2012) would generally increase the accuracy of the estimation of the circumstance compound in inequality, which in their analysis on the case study of Sweden generally over 70% of income inequality is due to *effort*. The drawback of increasing the number of types is that many of the characteristics are country-specific, and empirical testing for many *types* across different countries proves to be extremely difficult (Brunori et.al., 2013). In addition, as per criticism given by Roemer & Trannoy (2015), they are quite sceptic of using World Value Survey in measuring inequality of opportunity because *the questions address the beliefs of respondents concerning the determinants of success in a given country*, rather than tailored to the specific theories (p.262).

In terms of institutions that would act as *filters* on its way to the right-hand side of the scheme (populism) the relation is two-fold, because it depends on the institutions in question and

on the dimension of time[14]. An obvious question to ask is why institutions act as filters and not have a direct effect on circumstances instead. This is true, however, it happens at time *t-1* (past) when institutions facilitate and condition circumstances for individuals and are *leveling the playing field* at an early age, before the effects of individual *effort* come into effect. Economic and political institutions that frame employment opportunities for parents[15], quality of their education, healthcare and primary education for individuals in focus that come in terms of implemented social policy all influence the circumstances aspect of the inequality of opportunity. However, at time *t* (present) and potentially *t+1* (future) unequal access to opportunities (but also income) may also lead to a loss of confidence in the key economic and political institutions, and in fact *is associated with lower levels of support for the market economy and democracy* (EBRD, 2016, p.45). Frustrations that are related to the increase in voting for populist parties or having populist attitudes, are related to the inequality of opportunity through institutions, but it makes sense only if the right-hand side of the equation is there and political will is exercised to show the decrease for the level of support for democracy. In other words, frustrated voters punish incumbent and not institutions themselves, poor performance of which are day-to-day struggles for the voters.

## 2.5 The center of the graph: institutions as moderator variables

What are the institutions that matter? The starting point is Glaeser et.al. (2004), who estimate the effect of institutions on economic growth as their dependent variable. Their measurement of institutions is the most innovative part and is useful to borrow from their theoretical framework. For Glaeser et.al. (2004), institutions are *constrains* – constitutions and electoral rules. Their definition of institutions come from an early definition from Douglass North (1981*): a set of rules, compliance procedures, and moral and ethical behavior norms designed to constrain the behavior of individuals in the interest of maximizing the wealth or utility of principals* (p.201-202). Another,

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[14] Adding the regional as well as multi-level dimension to enrich analysis is the key here, which together with the problem of underdevelopment and underfinancing of remote and rural areas provides an in-depth look at the issue.

[15] Roemer & Trannoy (2015) proposed that parents affect the opportunities of their children through the *provision of resources and social connections, the formation of beliefs and skills in children through family culture and investment, genetic transmission of ability, and the formation of preferences and aspirations in children* (p.261).

a later definition provides a broader definition what is an institution: *humanly devised constraints that shape human interactions* (North, 1990, p.3).

In terms of other examples of variables used in cross-national empirical work, Glaeser et.al. (2004) provide and test the effect of a set of variables measuring institutions, dividing them into several groups: *Executive constraints, Democracy and Autocracy, Autocracy-Polity IV, Expropriation risk, Autocracy-Alvarez, Government effectiveness, Judicial independence, Constitutional review, Plurality, Proportional Representation* as well as multiple proxy variables, among which - years of schooling and primary school enrollment. The problem with Glaeser et.al. (2004) operationalization is that some of the indices are outdated or not applicable to the context of European Union where several formal rules and coordination of legal framework is implemented across the union as a whole, minimizing the discrepancies between the countries, providing for low variation in the variable. Another database of different relevant institutional variables is provided by Thorsten Beck et al. (2001), who introduce the new Database for Political Institutions, which has been later picked up by World Bank and later updated by Scartascini et.al. (2015; 2017) contains the most updated (180 countries for 40 years, 1975-2017) institutional and electoral results data such as measures of checks and balances, *tenure* and *stability of the government*, *identification of party affiliation* and *ideology*, and *fragmentation of opposition* and *government parties in the legislature*, among others.

## 2.6 The right-hand side: Populism

### Populist Voting

*Populist voting* in Figure 3 is meant by self-reported voting for any representative of a populist party at any sort of elections, in other words - voter support as well as the electoral success of such parties during the elections. The starting point to decide whether a particular party is populist or not is to use the classification provided by the *The PopuList* project (Rooduijn et.al. (2019)), which is suitable for cross-country empirical research. It uses the definition of populism based on the *ideational approach* outlined in the *minimal* definition, the *thin-centered ideology* (Stanley, 2008) as well as the idea of division between *the pure people* and *the corrupt elite* (Mudde, 2007; 2017; Mudde & Rovira Kaltwasser, 2017). Furthermore, *The PopuList* project

decomposes all parties into three: *populist* (Mudde, 2004), *far right* (Mudde, 2007), *far left* (March, 2012*)* and *Eurosceptic* (Taggart & Sczcerbiak, 2004). Under such classification, they are not mutually exclusive and one single party could fit under two or more categories at the same time[16]. Another advantage of this classification is that it is a dynamic database, meaning that although it contains data on parties from 1998, it is being constantly updated with the new information on the change of the rhetoric of the old parties or the appearance of the new ones (which obtain at least 2% of the vote in at least one national parliamentary election). The strategy is to use all the parties that are classified as *populist* in the binary form of the dependent variable (1 if voted for it, 0 if not) and further disintegrate it, and use three separate dependent variables in multiple regressions for *populist*, *far right* and *far left*[17].

When considering the left and the right hand-sides of the equation, one might notice that a reverse causality is not excluded: if economic inequality affects populism, populism could affect economic inequality as well. This has also been explored by Acemoglu at.el. (2015) and many others in terms of how democracy affects economic inequality. In terms of populism, this could potentially happen if populists come to power and tackle inequality through policy. However, certain conceptual aspects must be considered. First, because the measurement of populism is proxied by two variables at the individual level: populist voting (voting or not for a populist party) and populist attitudes (expressing or not preferences for authoritarianism), it is ultimately up to the individual to decide on populism. Because only the demand side is in play (supply side on party strategies, campaigns and policies are excluded), this personal decision does not have a reversal effect on individual feelings about inequality nor does it influence income. Second, voting for populist parties propels them to power, which allows for implementation of specific social policies that would increase or decrease economic inequality. However, this is not the case as per the proposed scheme, because the connection is present to voting for populist parties only, the endogeneity is not there, because vote does not necessarily mean that populists have aggravated

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[16] For example, Fidesz in Hungary is both *populist*, *far right* and *Eurosceptic* (since 2002) in their classification, while The Left in Germany is *populist*, *far left* and *Eurosceptic*, but ANO in Czech Republic is just *populist*.

[17] Most of parties classified as *populists* are also classified as *Eurosceptic*, therefore such a division at this stage is not envisioned.

or improved economic inequality. In fact, other non-populist parties could be implementing such policies instead of them.

In terms of reverse causality, a point could be made, however, if the case in focus is a repeated vote. In such an example, voters might also seem to be voting with their pockets – decision-making based on economic conditions of the past (like in countries with long-standing populist parties in government – Poland and Hungary) or they are propelled to vote for anti-establishment parties due to the consequences of the external shock of the economic crisis. While former presents a legitimate concern about the reverse causality; therefore, instrumental variable technique should be implemented in order to tackle the problem, (or some variables from the supply side of populism should be added to the framework), the latter has been debunked by Algan et.al. (2017) that *few would argue that it was the rise in populist and Eurosceptic voting that led to the downturn of 2008- 2010 and the deep recessions in the European periphery* (p.20).

### Populist Attitudes

In comparison to empirical studies in voting behavior, much less research has been conducted on measuring populist attitudes at the using massive cross-national surveys. Hawkins et.al. (2012) construct the cumulative score of a series of four statements[18] that capture key elements of populism: *Manichean view of politics*, *a notion of a reified popular will*, and *a belief of a conspiring elite* (p.7). They juxtapose it with attitudes associated with *elitism* as well as *pluralism*, which they find to be structurally different using factor analysis and later use populism as the main dependent variable in multiple regressions. Populist attitudes in this attempt do not significantly explain voting behavior; however, they are correlated with the actual voting, although the evidence is specific to the selection of case studies. In terms of relation of populist attitudes to voting behavior and populist voting, the assumption should also differentiate

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[18] The questions elaborated and presented in the study are: POP1 Politics is ultimately a struggle between good and evil; POP2 The politicians in Congress need to follow the will of the people; POP3 The power of a few special interests prevents our country from making progress; POP4 The people, not the politicians, should make the most important policy decisions.

according to the type of parties in focus: far-right, far-left, Eurosceptic or populist. In addition, empirical testing is pertinent before making any further judgements or generalizations.

**Reverse Causality**

Reverse causality is especially important in case of economic insecurity. Insecurity and worries about ones' job or wealth produces frustration and alienation that might give an impulse to vote against an incumbent and for a populist through a protest vote on the demand side of the equation. At the same time, on the supply side of populism - parties themselves may tailor their political manifestos to the needs of the most economically insecure or attempt to affect insecurity in terms of policy. In terms of policies that might aggravate the situation of the economically insecure, although possible as theorized by Anderson & Pontusson (2007), it is hard to measure and is not only conditioned by the type of party in power (populist versus non-populist). In both ways, however, institutions have a mediating effect through filtering through information, trust in traditional politics and economic opportunities on the regional level. In addition, Anderson & Pontusson (2007) highlight two types of institutions that are relevant in this respect: the ones that have to do with labor relations in individual firms or workplaces (employment protection, employability attributes), as well as other, which have to do with government regulation of employment conditions (labor market conditions and active labor market policy) (p.214). In conclusion, when dealing with the demand side of populism exclusively, as well as focusing on an individual as the main unit of measurement, the potential for the reverse causal effect is minimized (although this needs to be tested empirically) and together, with relevant institutions that could have a mediating effect.

The connection to the right-side of the scheme in Figure 3 allows to re-test empirical findings of Tavits (2007) whether the shifts in voter preferences that result in positional shifts in party positions are associated with the electoral gains for the same time period. Since populist parties claim to represent "the people", as compared to the mainstream political parties, they have no choice but to be highly sensitive and constantly shift their policy positions with their electorate, in order to deliver on their promises. The triggers of the refugee and economic crises should prompt their reaction alongside their electorate and point to the success or loss in electoral terms.

## 2.7 Hypotheses

Therefore, the main hypotheses connecting the left and the right side of the framework[19] are as follows:

*H1: High economic insecurity has a positive effect on individual support for populist parties, in the context of the negative moderating effect of institutional trust.*

The first hypothesis tests whether a combination of high levels of economic insecurity of an individual and a low level of trust in institutions leads to more populism (in terms of votes). Since this hypothesis aims at measuring the moderating effect – the interaction term in the model, the effect can also be vice-versa: the moderating effect of economic insecurity on trust, in its relation to populism (voting).

*H2: High economic insecurity has a positive effect on individual support for populist parties, in the context of the positive moderating effect of the difference of institutional trust in supranational and national institutions.*

The second hypothesis tests whether a combination of high levels of economic insecurity of an individual and a low level of trust in institutions leads to more populism (in terms of votes). However, this time, I focus on the difference in trust in national (legal system, politicians, political parties as well as the partliament) over supranational (EU parliament). Since the design of the EU is built on the multi-level governance model, citizens are "nested" within their own communities, cities and countries, each level interacting with the supranational body – the European Union. This hypothesis tests whether the difference in trust in national institutions over supranational ones have the same effect. Some parts of the EU might have citizens trusting their national institutions more than the EU, especially in the case of populists using Eurosceptic discourse, which might have an effect over its citizens via the supply side of populism.

Since this hypothesis aims at measuring the moderating effect – the interaction term in the model, the effect can also be vice-versa: the moderating effect of economic insecurity on different

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[19] The hypotheses are in line with the methodological innovations outlined by Berry et al.(2012) who argue that the moderating effect has to be measured based on the levels of high/low insecurity and high/low institutional trust. This is captured by the fact that the insecurity index is treated as a categorical variable.

levels of trust in its relation to populism (voting). Following the same logic, citizens with high levels of trust and low levels of economic insecurity would have the lowest propensity to vote for populist parties.

The main set of hypotheses on the reverse causality are the following:

*H3: Policy shifts on pragmatic domain (economic dimension) are associated with electoral gains.*

This hypothesis tests whether change in a position (in discourse or political manifestos) over economic policies before or in-between elections is associated with gains in terms of votes for populist parties.

*H4: Policy shifts on principle domain (cultural dimension) are associated with electoral losses.*

This hypothesis tests whether change in a position (in discourse or political manifestos) over policies related to cultural dimension before or in-between elections is associated with losses in terms of votes for populist parties.

## Chapter 3: Economic Insecurity, Institutional Trust and Populist Voting

### 3.1 Introduction

The key contribution of this chapter is to empirically test the theoretical framework presented in the previous section, focusing on the moderating effect of institutions presented in the previous chapter. More importantly, I use trust in institutions as a proxy for the quality of institutions. It has been noted on several times that trust plays a role of social lubricant (Zmerli and Van der Meer, 2017) as well as can be used as a simplified measure of the effectiveness of instiutions, as a result of personal interaction with a particular institution (Dalton and Welzel, 2014). Thus, the research goal of this chapter is to estimate how institutional trust moderates populist voting via its interaction with economic insecurity. In other words, it attempts to answer the question how different levels of institutional trust, as a key variable, can amplify or dampen populist parties supports depending on voter's economic insecurity.

Assuming that institutions (and trust in them) change over time, the question remains open: *how can they provide a moderating effect on the relationship between economic insecurity and the individual decision to vote for populist parties?* To answer this question, conceptualizing trust in institutions at the individual and regional levels might provide more insight to what influence the voting decision.

### 3.2 Data and Variables

I construct two samples with the data from the European Social Survey (ESS), which contains cross-sectional face-to-face interview data of twenty-eight European countries. The first one is a multi-country cross-sectional survey for every two-year period between 2002 and 2016. The second sample is reduced, and it is from the multilevel archive of ESS that contains regional indicators (NUTS-levels), which we use for robustness checks. I re-work the self-reported voting responses into a classification of parties into populists and not (1 and 0) according to the *PopuLIST* (Rooduijn et al., 2019). In addition, we merge data on income polarization from World Inequality Database (WID) on the ratio of shares (top 10% over bottom 50%) by country and year. To

construct the sample, we exclude all countries which are not covered in the *PopuLIST* classification (non-EU).[20]

The independent variables are derived from the literature reviewed in the previous sections. The description of the variables is reported in Table 2. They can be classified into three main groups:

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[20] See Annex A and Table S1 in Supporting Information for descriptive statistics.

**Table 2: Description of the Variables**

| | *Description* | *Source/Literature* |
|---|---|---|
| *Dependent Variable* | | |
| Populist Voting | Binary variable recoded as: 1 if self-reported to vote for a populist party, 0 – if not | Classification of populist parties provided by the *PopuList* project (Rooduijn et al., 2019) |
| *Independent Variables* | | |
| Income Polarization | Describes a situation where the distribution of income is very unequal in a society, and the frequency distribution by income brackets is pluri-modal. Measured as a country-level ratio of the shares of top 10% earners over bottom 50% (Alvaredo et al., 2018). | World Inequality Database |
| Economic Insecurity | The Expanded Index of Insecurity, which ranges on a scale from zero to three. The value of the index: 3= finding it hard or extremely hard to survive on current income, has experienced long-term unemployment (three months or more) and is an unskilled worker<br>2 = at least two of the above-mentioned elements are true<br>1 = at least one is true<br>0 = none is true | European Social Survey (2002-2016), skill classification according to the Erikson–Goldthorpe–Portocarero (EGP) (Erikson et al., 1979) occupational classification coding in Leiulfsrud, 2005). Expanded from the base index of Guiso et al. (2017) |
| Perception of Inequality | A subjective measure of socio-economic inequality, not correlated with other measures (less than 0.03). Method similar to the work of Gimpelson and Monusova (2014) general questions about inequality in ones' society. | Question H1C[21] from the common questionnaire of ESS on how important it is in their view to treat everybody equally and to provide the same opportunities in life. |
| Immigration Attitudes | Proxy cultural values via measuring attitudes towards immigration from non-European countries (Guiso et al., 2017). It is measured on the 1 (minimum) to 4 (maximum) scale | ESS, using the answer to the question B40 in the ESS core questionnaire opposing immigration from outside Europe. |
| Education | The logarithm of years of education | European Social Survey (2002-2016) |
| Age | The logarithm of age (total years) | |
| Gender (self-reported) | Female=1, 0 - otherwise | |
| *Moderator Variables* | | |
| Institutional Trust Index | An equal scale comprised of four equally weighted components: trust in politicians[22], trust in political parties, trust in parliament and trust in legal system. It is then turned into an index and is re-scaled from 0 to 1 from the complete lack of trust to the full trust respectively (scale reliability statistics (0.8996) shows high correlation between the components). | European Social Survey (2002-2016), individual and also aggregated to regional NUTS1 level |
| Relative Institutional Trust Index | The difference of trust in national (index above) versus supranational institutions (EU parliament), lying in a range between -1 (full trust in EU parliament over the national institutions) and +1 (full trust in national institutions over EU parliament) on individual level | European Social Survey (2002-2016), individual and also aggregated to regional NUTS1 level |

[21] The direct wording of the H1C question with instructions can be accessed online at https://www.europeansocialsurvey.org/methodology/ess_methodology/source_questionnaire/.

[22] Trust in politicians is included into measuring institutional trust, because, contrary to the theoretical expectations, empirically, it is highly correlated with other measures of formal trust (>0.5) and is not with the measures of social trust (around 0.3)

Source: Provided in the table.

Table 2 includes key independent variables, which comprise of country-level income polarization, subjective perception of inequality as well as the expanded index of economic insecurity (individual-level) to control for all aspects of socio-economic inequality. The index embeds three elements of economic insecurity found in the modern literature: job insecurity (Anderson and Pontusson, 2007), feeling of insecurity (Inglehart and Norris, 2016; and Guiso et al., 2017) and unemployment (Gallie et al., 2016). It is based on the principle proposed by Guiso et al. (2017) but reworked and expanded in terms of whom to classify as 'insecure'. Borrowing the class classification from Norris and Inglehart and Erikson-Goldthorpe-Portocarero (EGP) (1972), it includes all unskilled workers (instead of simply blue-collar manufacturing workers, as the most susceptible to the crisis) who find it *hard* and *extremely hard* to survive on present income with experience of long-term unemployment. This dramatically increases the number of observations and provides a better variability in the sample[24].

An important aspect is further aggregation of institutional indices to regional level and cross-level interaction, which provides robustness check for two main reasons. First, it provides information on the levels of trust in particular regions. This allows for different-level interactions, answering the question of how higher-level aggregation variables of interest affect individual voting decisions.[25] Second, individual trust aggregated to regional level dilutes the effect of the extremes – those who completely mistrust institutions as well as those who fully trust institutions get blended in with their neighbours who are in the middle of the distribution of trust. Third, the aggregation attenuates the risk posed by possible measurement issues at the individual level. Therefore, it allows for an inclusion of a variable whose distribution is more centred around the

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[23] For the full formula, please refer to the Annex D in Supporting Information.

[24] Please refer to Annex E in Supporting Information for more information about the index as well as the distribution by countries in the sample.

[25] The distribution of the index by countries in the sample can be found in the Supporting Information.

mean, without losing important information at the regional level, which could otherwise be done at the country-level manually.

### 3.3 Methodology and Results

**Estimation Method: Multilevel Modelling (MLM)**

In this study we employ a multilevel modelling; the justification for it is two-fold. First, the data itself is hierarchical. Respondents who live in Europe are clustered within countries and across time (a two-level analysis), or also within regions (a three-level analysis), and they are expected to exhibit similar characteristics within their respective cluster groups. Failure to account for the nested structure of data (dependence of observations due to the clustering of data) would lead to biased results, especially for coefficients of predictors that are measured at the group level (Rabe-Hesketh et al., 2005). MLM (if specified and estimated correctly) improves the fit of the model and minimizes standard errors and helps to avoid bias. The second reason is the interest in hierarchies and clustering from a theoretical standpoint, in terms of the effect (interaction) of regional (NUTS) and country-level variables on individuals. As seen further in the analysis, economic inequality (especially polarization) is a phenomenon which can be conceptualized and operationalized as a country or region-level variable; the same applies for the measures of institutional trust. Therefore, the interaction between the effect at the country-level (socio-economic conditions) and individual decision on voting is of key interest to current research question.

In order to check whether institutional trust has a moderating effect on the way economic insecurity affects voting for populist parties, we estimate the following model:

Functional Form of the proposed model (Multilevel Mixed Probit):

$$P_{ij} = \beta_0 + \beta_1(X_{ij} * I_{ij}) + \beta_2 X_{ij} + \beta_3 I_{ij} + \beta_4 Z_{ij} + \sum \delta_i T_i + \sum \gamma_j E_j + u_j + e_{ij} \quad (1)$$

Where $P_{ij}$ is a binary indicator that takes the value 1 if an individual $i$ in country $j$ votes for a populist party (across time and space), and

$X_{ij}$- economic insecurity indicator

$I_{ij}$- measures of perception of institutional trust

$Z_{ij}$- vector of individual characteristics that includes dummies for being a female, education(log) and age(log)

$T_i$- time as binary variable (dummy), t-1 time periods.

$E_j$- country as binary variable (dummy), j-1 countries.

$u_j + e_{ij}$ - 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

For the two-level (individuals representing Level 1 and country-time - Level 2[26]), 11.2% of variance in voting for populist parties can be attributed to differences between countries and across time. For the three-level model that is augmented to include NUTS1 regions as an extra level, an additional 2.1% of variance in voting for populist parties can be attributed to regional differences at NUTS1 level on a reduced sample.[27]

### 3.4 Regression Analysis: The Expanded Index of Insecurity and Institutional Trust

Table 3 below reports the regression coefficients[28] in the results of the multilevel regressions on the moderating effect of the individual trust.

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[26] Three-level regressions, while preferred, cause convergence problems, highlighted by Schmidt-Catran et al. (2015).

[27] Full calculations can be found in Supporting Information.

[28] The predicted probability of populist voting can be calculated using these coefficients.

**Table 3. Multi-level mixed effects Probit regressions.**

| VARIABLES | (1) Direct effects | (1.2) Inst. Trust Individual-level Interaction | (1.3) Individual Immigration | (1.4) Inst. Trust Regional-level Interaction | (1.5) Regional Immigration | (2) Direct effects | (2.2) Inst. Trust Individual-level Interaction | (2.3) Individual Immigration | (2.4) Regional Interaction | (2.5) Regional Immigration |
|---|---|---|---|---|---|---|---|---|---|---|
| Age (log) | 0.295*** | 0.294*** | 0.270*** | 0.293*** | 0.265*** | 0.293*** | 0.291*** | 0.259*** | 0.293*** | 0.265*** |
|  | (0.040) | (0.040) | (0.039) | (0.046) | (0.044) | (0.040) | (0.040) | (0.039) | (0.046) | (0.044) |
| Education (log) | 0.074** | 0.076** | 0.101*** | 0.061* | 0.088*** | 0.038 | 0.038 | 0.074*** | 0.060* | 0.086*** |
|  | (0.030) | (0.030) | (0.027) | (0.035) | (0.031) | (0.028) | (0.028) | (0.025) | (0.035) | (0.031) |
| Gender (female=1) | -0.115*** | -0.115*** | -0.113*** | -0.121*** | -0.119*** | -0.103*** | -0.104*** | -0.100*** | -0.121*** | -0.120*** |
|  | (0.015) | (0.015) | (0.015) | (0.019) | (0.020) | (0.014) | (0.014) | (0.015) | (0.019) | (0.020) |
| Insecurity(1) | 0.101*** | -0.002 | -0.009 | -0.039 | -0.044 | 0.137*** | 0.134*** | 0.128*** | 0.132*** | 0.127*** |
|  | (0.014) | (0.036) | (0.037) | (0.099) | (0.103) | (0.015) | (0.016) | (0.016) | (0.018) | (0.018) |
| Insecurity(2) | 0.160*** | 0.017 | -0.001 | -0.278** | -0.300** | 0.230*** | 0.224*** | 0.207*** | 0.240*** | 0.226*** |
|  | (0.026) | (0.050) | (0.048) | (0.136) | (0.134) | (0.029) | (0.031) | (0.031) | (0.041) | (0.041) |
| Insecurity(3) | 0.159*** | -0.181* | -0.207** | -0.379* | -0.375* | 0.224*** | 0.230*** | 0.214*** | 0.288*** | 0.280*** |
|  | (0.049) | (0.098) | (0.094) | (0.222) | (0.226) | (0.047) | (0.050) | (0.049) | (0.050) | (0.048) |
| Institutional Trust (individual) | -0.904*** | -1.094*** | -1.026*** |  |  | 0.340*** | 0.428*** | 0.401*** |  |  |
|  | (0.124) | (0.140) | (0.142) |  |  | (0.066) | (0.083) | (0.078) |  |  |
| Insecurity(1)#Institutional Trust (individual) |  | 0.265*** | 0.278*** |  |  |  | -0.158** | -0.155** |  |  |
|  |  | (0.092) | (0.092) |  |  |  | (0.068) | (0.067) |  |  |
| Insecurity(2)# Institutional Trust (individual) |  | 0.407*** | 0.429*** |  |  |  | -0.189* | -0.200* |  |  |
|  |  | (0.134) | (0.133) |  |  |  | (0.105) | (0.103) |  |  |
| Insecurity(3)# Institutional Trust (individual) |  | 1.093*** | 1.146*** |  |  |  | -0.010 | -0.005 |  |  |
|  |  | (0.233) | (0.227) |  |  |  | (0.198) | (0.208) |  |  |
| Income Polarization | 0.494 | 0.495 | 0.514 | -0.605 | -0.603 | 0.510 | 0.508 | 0.537 | -0.364 | -0.378 |
|  | (0.484) | (0.484) | (0.489) | (0.558) | (0.556) | (0.480) | (0.480) | (0.487) | (0.538) | (0.541) |
| Perception of Inequality | 0.030* | 0.030* | 0.017 | 0.026 | 0.011 | 0.035** | 0.034** | 0.018 | 0.026 | 0.011 |
|  | (0.016) | (0.016) | (0.015) | (0.019) | (0.016) | (0.017) | (0.016) | (0.014) | (0.019) | (0.016) |
| Institutional Trust (NUTS) |  |  |  | -3.464*** | -3.243*** |  |  |  | 0.749 | 0.721 |
|  |  |  |  | (0.990) | (0.972) |  |  |  | 0.235 | 0.246 |
| Insecurity(1)# Institutional Trust (NUTS) |  |  |  | 0.407* | 0.407* |  |  |  | (0.234) | (0.248) |
|  |  |  |  | (0.221) | (0.227) |  |  |  | 0.749** | 0.808** |
| Insecurity(2)# Institutional Trust (NUTS) |  |  |  | 1.266*** | 1.280*** |  |  |  | (0.371) | (0.351) |
|  |  |  |  | (0.356) | (0.350) |  |  |  | 1.363*** | 1.375*** |
| Insecurity(3)# Institutional Trust (NUTS) |  |  |  | 1.534*** | 1.502** |  |  |  | (0.484) | (0.500) |
|  |  |  |  | (0.588) | (0.593) |  |  |  | 0.235 | 0.246 |
| Immigration Attitudes |  |  | 0.115*** |  | 0.125*** |  |  | 0.143*** |  | 0.125*** |
|  |  |  | (0.024) |  | (0.029) |  |  | (0.023) |  | (0.029) |
| Constant | -2.194*** | -2.123*** | -2.418*** | -0.023 | -0.382 | -2.486*** | -2.481*** | -2.833*** | -1.449*** | -1.716*** |
|  | (0.487) | (0.486) | (0.495) | (0.695) | (0.702) | (0.472) | (0.473) | (0.478) | (0.558) | (0.554) |
| Observations | 289,542 | 289,542 | 280,526 | 179,368 | 173,983 | 264,018 | 264,018 | 257,138 | 179,368 | 173,983 |
| Number of groups | 157 | 157 | 157 | 100 | 100 | 157 | 157 | 157 | 100 | 100 |
| Country Dummies | YES | YES | YES | YES | YES | YES | YES | YES | YES | YES |
| Year Dummies | YES | YES | YES | YES | YES | YES | YES | YES | YES | YES |
| NUTS1 | NO | NO | NO | YES | YES | NO | NO | NO | YES | YES |

Reference group of interactions is at insecurity equals zero; Institutional Trust becomes relative for Models 2-2.5; Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1.

We first estimate the direct effects of the Expanded Index of Insecurity (Direct Effects 1) on the likelihood of voting for a populist party in a model including a standard set of control variables on age, education, gender as well as country and year dummy variables. The results of the base model highlight several main findings. The standard controls for age and gender are highly significant and are in line with the literature, indicating that the support for populist parties in Europe is generally stronger among the older generation, and is weaker if the respondent is female. The control for education has the same effect found in Guiso et al. (2017), which is losing significance when controlling for more variables as well as the interaction of insecurity and institutional trust in line with the literature, including Inglehart and Norris (2016).

In order to address the potential omitted variable bias, perception of inequality (individual-level) as well as income polarization are included jointly alongside the economic insecurity variable. All these variables must be included together in order to grasp the full effect of socio-economic inequality including all three elements: the country-level polarization, subjective perception of inequality and individual economic insecurity. These elements are not correlated (less than 0.03) and can thus be included jointly, with no concern for potential multicollinearity. Direct Effects (1) shows that the Expanded Index of Insecurity produces a positive and significant effect on populist voting by itself (1-3) as compared to the reference group of zero (0) (not economically insecure). Standalone, institutional trust is highly significant (at 1%) as well with a negative sign.

Model 1.2 introduces an interaction term[29] to test whether institutional trust moderates the effect of the insecurity index on populist voting. It produces a significant and positive effect (at different values of the institutional trust distribution) indicating that, depending on a socio-economic group according to the level of economic insecurity, the higher level of trust reduce the probability of populist voting for all groups, except for the highly insecure ones. Model 1.3 adds attitudes towards immigration as the component from the *cultural backlash* thesis (Inglehart and Norris, 2016), which is highly significant, but does not alter the significance nor coefficients of the insecurity-trust interaction. Models 1.4 and 1.5 provide additional robustness check to my

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[29] Interactions of other inequality measures -- income polarization or perception of inequality – with institutional trust do not produce statistically significant results. Interactions with the calculated inequality of opportunity produced statistically significant results, however, are difficult to interpret without further disaggregation and go beyond the scope of this research.

initial models.[30] Model 1.4 shows that the relationship still holds, when including an additional level of analysis (regional) and a more focused time-dimension (post-2008). Model 1.5 adds immigration attitudes to the regional equation; it is highly significant but does not alter the significance nor the coefficients of the insecurity-trust interaction at the regional level.

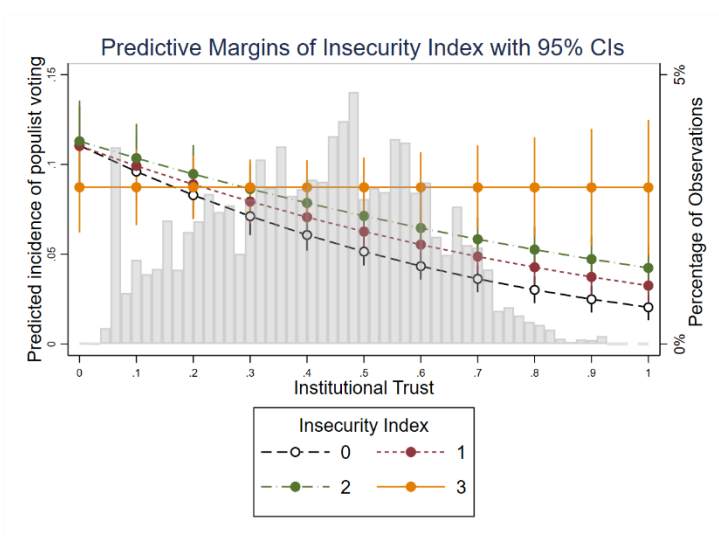**Figure 3. Predictive Margins of Insecurity Index and Institutional Trust**



Figure 3 depicts the results of the interaction between different levels of the Expanded Index of Insecurity (all levels) and Institutional Trust at the individual level on the x-axis. The y-axis on the left represents the predicted incidence of voting for populist parties, while the one on the right indicates the percentage of observations of the histogram of institutional trust index. Statistically significant differences between the groups according to their level of economic insecurity starts at around 0.4 (also confirmed by t-tests) and continues for the higher levels of trust. High institutional trust reduces the probability for most secured respondents (index=0) to vote for populist parties from 7% at 0.3 point for trust, down to 4% at the 0.65 (at the 90th percentile of trust) and to 2% at the highest level of trust in national legal system, politicians, political parties as well as parliament. The increase of institutional trust at the individual level for the low rate of economic insecurity (Index of Insecurity=1) has a negative moderating effect diminishing the decision to vote for populists from roughly 7% at mid-point for trust, down to 4% at the full trust

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[30] The full graphical representation of the relationship can be found in the Supporting Information section

level. For all groups, except for the most economically insecure with the maximum value of the index, institutional trust produces a negative moderating effect decreasing the incidence of populist voting. As seen in Figure 3, while controlling for country and time differences, being the most economically insecure (experience of long-term unemployment, low-skilled profession as well as feeling insecure to provide on current income) increases chances of voting for populist parties by 9%. In addition, if a person falls into a higher category according to the level of economic insecurity (from 0 to 1 or 2, thus becoming more economically insecure) with the same level of trust in institutions, their probability of voting for populists increases.[31]

Overall, an important finding is that economic insecurity does matter for populist voting: an increase in insecurity always leads to an increase in populist voting, a result already discussed in Guiso et al. (2017) for example. However, we have been able to nuance this result in an important way, by adding an interaction term with institutional trust. Some voters will withstand some degree of economic insecurity and not be tempted to vote for populist parties because they still have faith in their national institutions. They may thus believe that their situation will improve or that they will be supported in some ways, at least partly because of competent institutions. This is in line with the framework of Duch and Stevenson (2008) on institutions as *filters* in the voting process. However, this effect appears to be absent for highly economically insecure individuals; even very high levels of institutional trust will not deter them from voting for populist parties. In fact, they seem to be the true *economic voters*, undeterred by the trust in government, and truly voting with their own pocket. For *the losers from the global markets* (according to their most insecurity) (Inglehart and Norris, 2016), the level of trust in their government does not matter when they enter the voting booth and they are more likely to vote for populist parties, irrespective of their trust in institutions.

### 3.5 Relative Institutional Trust (Difference)

The second important aspect is to include the interaction of the relative trust (institutional trust in national institutions at the expense of the supranational ones), with the index of insecurity. Controlling only for institutional trust, as it is often done in the literature, is only one facet of the analysis. Relative trust could be a better measure. First, it allows us to correct the way personal

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[31] For graphs comparing different isolated groups, please refer to the Additional Information section.

sources of variations in responses (for example people who tend to agree with the statements they are given, whatever they are). Second, relative trust conveys a more tailored information for my research question. European populists often blame the EU for mishaps at the national level, resulting in the decrease in trust for supranational institutions. This has been especially the case for the populist parties in government for a long period of time, such as Hungary and Poland, and thus, the difference in trust into national institutions versus supranational ones would provide insight on the extent the anti-Brussels rhetoric is effective in the context when populists represent the government itself. Some voters might distrust national institutions at the expense of the EU: previous research demonstrated that supporters of liberal principles of democracy tend to be more supportive of the EU, while supporters of more direct forms of citizen influence are more Eurosceptic (der Brug, et al., 2021). Others mistrust both or the other way around, preferring the supranational ones over the national ones without the anti-Brussels rhetoric (van Bohemen, et al., 2019).

For the sake of transparency and in order to allow the comparison with the literature, we present both as an alternative measurement for institutional trust.

Similar to the previous set of regressions on the interaction of the institutional variable with the economic insecurity, the starting point is the Direct Effects (2) regression (presented in Table 3) with an analogous set of independent variables to address the different aspects of socio-economic inequality: the country-level polarization, subjective (perception of inequality) and individual economic insecurity. Model (2) shows the direct effect; the Expanded Index of Insecurity produces significant effect on populist voting by itself (1-3) as compared to the reference category of zero (0) (not economically insecure), confirming Guiso et al. (2017) finding that an increase in economic insecurity increases the probability of populist voting. Interaction model (2.2) shows that regardless of the level of economic insecurity, the higher level of trust in national institutions than in supranational ones increases the probability of populist voting for all socio-economic groups. Model (2.3) adds attitudes towards immigration as the component from the *cultural backlash* thesis (Inglehart and Norris, 2016), which is highly significant, but does not alter the significance nor coefficients of the insecurity-trust interaction. Model (2.4) shows that the relationship still holds when including an additional level of analysis (regional) and a more focused time-dimension (post-2008). Model (2.5) adds cultural attitudes to the regional equation;

they are highly significant, but again do not alter the significance nor the coefficients of the insecurity-difference in institutional trust interaction at the regional level.

The results are presented in Figure 4.

**Figure 4. Predictive Margins of Insecurity Index and Relative Institutional Trust**
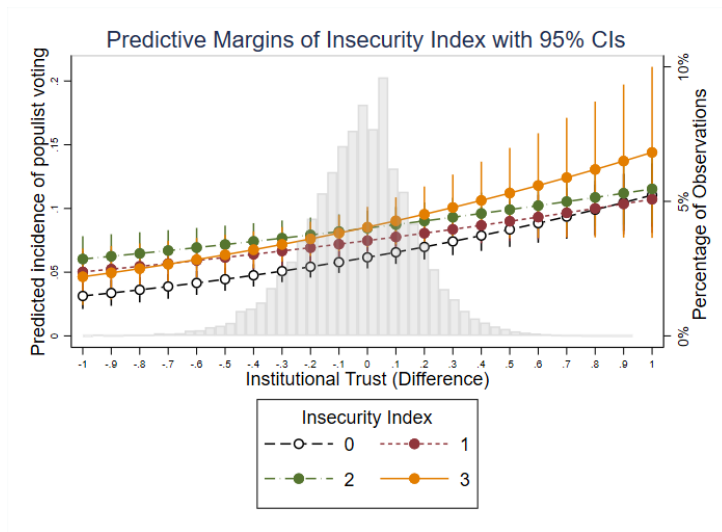


Figure 4 depicts the interaction between different levels of the Index of Insecurity (all levels) and the Institutional Trust (difference between national and supranational institutions) at the individual level on the x-axis. The positive values on the x-axis point to the trust of the voters for national institutions over the EU ones, while the negative ones measure the opposite. The increase in trust for the national institutions over the supranational ones positively moderates the support for populist parties across all the spectrum of groups of insecurity. As seen from the histogram of the distribution of institutional trust, the majority of all observations are centred around the mean with 90 percent of all the observations in the sample lay in between -0.3 and 0.2 for trust.

When comparing insecurity index levels at the maximum and minimum values - highly insecure (3) with secure (0) -- relative institutional trust has significant positive moderating effect for respondents of both groups. Their decision to vote for populist parties in Europe as defined solely by their level of insecurity determines their vote at around 7% for the minimum level of insecurity at the 90th percentile of the relative institutional trust (value of 0.2), and at 9% for the maximum level of insecurity in the same percentile of trust. At the same time, the decrease in the trust of national institutions over European Parliament potentially points to the lesser susceptibility to populist discourses, as it reduces the probability for all respondents, regardless

of their insecurity, to vote for populist parties. The probability of voting for populist parties decreases from 9% at 0.2 points for trust, down to 7% at the lowest level of the difference in institutional trust at the 10th percentile in the distribution (-0.3) with the steepest slope for the most economically insecure. The probability that the least economically insecure vote for populists, decreases with a lesser magnitude of the effect, from 7% to 4% at the 10th percentile in the distribution (values of the difference in the institutional trust at -0.3).

Roughly the same can be said about the difference between the less economically insecure (index=2) and least economically insecure (index=0). There is a statistically significant difference between the interaction of insecurity and relative institutional trust between the two across the 90% of the distribution of trust (from -0.3 to 0.2), producing a less steep curve (than for the more insecure). In addition, the increase of trust in European Parliament over the set of national institutions for those with the value of the Expanded Index of Insecurity equal to two (2) has a negative moderating effect diminishing the decision to vote for populists from roughly 9% at mid-point for trust (90% percentile at 0.2), down to 6% at the negative value of the institutional trust difference (-0.3).[32]

Overall, an important finding from this analysis is that relative trust in institutions, and its moderating effect on economic insecurity matters when it comes to populist voting. Although the direct effect of relative institutional trust on populist voting has been found significant in the works of Dustmann et al. (2017), the current analysis provides an important insight. The moderating effect of the difference in institutional trust for groups according to their economic insecurity is similar, reducing the propensity to vote for a populist party by roughly two percent, with a slightly steeper effect for the most economically insecure (by almost five percent). It points to an interesting finding that economically insecure individuals might not be influenced by their level of trust in national institutions in the voting booth, but might have a lot to say about the EU-level institutions. On one hand, it points out to the salience of the EU issue dimension for all groups of voters according to the level of their economic insecurity. On another hand, it shows the effectiveness of the anti-Brussels rhetoric, especially of populist parties that have been in government for a long-time. From another perspective, when individuals trust their national institutions more than the EU parliament, improving their economic security could reduce their

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[32] For graphs comparing different isolated groups, please refer to the Additional Information section.

propensity to vote populist. This points to the importance of national and regional politics as well as the experience of the voters with their regional institutions for all socio-economic groups.

Chapter, 3, tested the theoretical framework on a cross-national sample of European countries as well as presented the statistically significant results. The moderating effect of institutional trust on populist voting using different groupings by economic insecurity is particularly insightful. I find that when enlarging the definition of economic insecurity, institutional trust moderates populist voting of various socio-economic groups differently. When an individual is highly economically insecure, trust in national institutions does not alter the probability of voting for populist parties and populist voting remains generally high. Nevertheless, the same cannot be said about those who are comparatively a bit less economically insecure, and those who are on the opposite side of the scale – *the secure ones,* who are economically better-off. Institutional trust appears significantly more important for them, in their voting choice for anti-establishment populist parties. The more trust they have in political parties, politicians, legal system and the parliament, the less prone they are to vote for populists.

## Chapter 4: The Supply Side of Populism

### 4.1 Introduction

The demand side of voting patterns and the support for populist parties have been thoroughly explored in the previous section. The current chapter empirically tests the reverse causality mechanism of populist parties addressing the particular economic and value dimensions, exacerbated by the economic and refugee crises in the European context.

Retesting of the empirical findings of Tavits (2007) on a sample of Central and Eastern European populist parties is imminent for two reasons. First, the previous findings are based on the time preceding the crises, thus limiting the possibilities for parties to significantly shift their positions in unison with the voters. Second, most previous studies on positional shifts were conducted on a (predominantly) Western Europe sample of countries (Abou-Chadi, 2016; Abou-Chadi & Orlowski, 2016; de Vries & Hobolt, 2020; Schumacher et al., 2013; Schumacher et al., 2015). There seems to be a clear gap in how these findings would hold for Central and Eastern Europe specifically, where legacy of the past, party competition (Haughton & Deegan-Krause, 2015), as well as the level of party system institutionalization (Casal Bértoa & Van Biezen, 2014) create a significantly different dynamic of conditions for positional shifts. By taking a step further and focusing on the variety within the Central and Eastern European region, the case study comparison focuses on uncovering additional factors that contribute to the electoral success of party shifts of the long-standing populists in the region.

The hypotheses introduced at the end of Chapter,2 retest the empirical findings of Tavits (2007) in the new context of post-crises Central and Eastern European countries, focusing on populist parties. These are descriptive and correlation based. Moreover, association does not necessarily imply a causal mechanism. It also allows for a bidimensionality of the effect, meaning shifts can be (but not necessarily) why electoral results change, but also electoral losses might be a trigger for a more visible ideological shift as per Figure 1.

The current chapter sets two goals. On one hand, using descriptive statistics I describe the positional shifts of populist parties in Central and Eastern Europe. Furthermore, I identify whether these positional shifts (independent variable) on policy issues were successful (dependent variable). The second goal is to go further into the analysis and uncover additional factors behind the success of those shifts in the case of Hungary and the lack of it, in case of Lithuania. The

chapter applies a unified approach of spatial and salience theories, based on the results of the study of the election manifestos as well as Chapel Hill Expert survey data.

This chapter is structured as follows. The next section introduces methodology. The fourth presents the empirical analysis of all populist parties in Central and Eastern Europe. The fifth and sixth sections present two case studies, of Fidesz and the Labor Party respectively. The final section then discusses the results and concludes.

## 4.2 Methodology

The study is conducted using an analysis of issue and salience positions from Chapel Hill expert survey and election results from the Parl Gov database. Chapel Hill expert survey is based on expert evaluations on opinions of party leaders on particular issues before or in-between elections measured at a particular time. These variables usually do not reflect any political scandals or swift policy proposals that happen between the years when variables are generated (such as, in the Hungarian sample, the utilities cut or the fight against Multinational Corporations that have not been adequately represented by the data). These measures are usually standardized and rescaled from 0 to 5 to allow for the cross-national comparisons. The main outcome of interest is electoral performance, measured by the percentage of votes, which produces seats in the respective country's parliament, and, thus, it is in line with the literature on consequences of positional shifts (Spoon & Klüver, 2020; Tavits, 2007).

The main independent variable are the shifts themselves, measured by the differences in positions from time at t-1 and t. This refers primarily to the changes in party strategy and shifts in ideology stipulated at the time before or in-between the elections. The shifts are measured quantitatively, using party positions on issues of immigration and economy from the Chapel Hill expert survey, in line with major empirical works on the topic (Somer-Topcu, 2009; Abou-Chadi & Orlowski, 2016). The classification of populist parties is according to the *PopuLIST 2.0* database (Rooduijn et al., 2019), which applies the *ideational* approach to the definition of populism (Mudde, 2017; Mudde and Rovira Kaltwasser, 2017).

In the first part, the study looks at positional shifts of parties using descriptive statistics and re-coded data from Chapel Hill Expert Survey and Parl Gov database. The empirical analysis contains data on parties that have gained at least one percent at parliamentary elections and have been observed on two occasions in the expert survey. The second part is a paired comparison using the Most Similar Systems Design (MSSD) focusing on cases with similar positional shifts

(independent variable) which only differ in the electoral outcome (dependent variable) (Tarrow, 2010). The case study analysis eliminates problems of unavailability of measurable empirical data (e.g. Political Manifesto Project does not contain manifesto data for Hungary from 2014 and for Lithuania from 2016 onwards as nor does Chapel Hill on salience of issues). Completing the expert survey data with context of the period before the elections, allows to link positional shifts with what happened within the party competition or environmental incentives (shifts of other parties) as well as to uncover additional factors that contributed to success or failure in party strategy, beyond the dichotomous shift-success dimension.

While both Lithuania and Hungary have similar initial conditions and have seen significant shifts in positions of populist parties (also seen in the growing discrepancies between populist and non-populist voters in Annex R and Annex S) , the variables which are controlled for include EU membership, post-socialist experience, tri-polar party competition and the presence of long-standing mainstream populist parties (Ramonaitė, 2020). However, the outcome in the two cases is different, with the Hungarian case resulting in a successful shift, while the Lithuanian one being less so, by almost falling out of Parliament in 2016. Both parties are populist, and are within the realm of "exclusionary populism" (Kaltwasser and Mudde, 2013). However, there are ideological differences between the two, in their embodiment of populism. While Fidesz fits well into the *paternalistic populism* definition (Enyedi, 2020) of following the clear discourse of the "us" versus "them" divide and nativist claims, the Labor Party is very ambivalent in its ideology. It is rather populist in its policy positions on economic redistribution (overpromising on social payments) and the communication style of its leader. The Labor Party portrays "the economic have-nots" as those who belong to the nation and the pure people, while in the Hungarian case, the ethnic principle is the key (the economic dimension of the competition in the case of Fidesz is focused around addressing job insecurity and demographic challenges as well as a significant tax rebate for families with children).

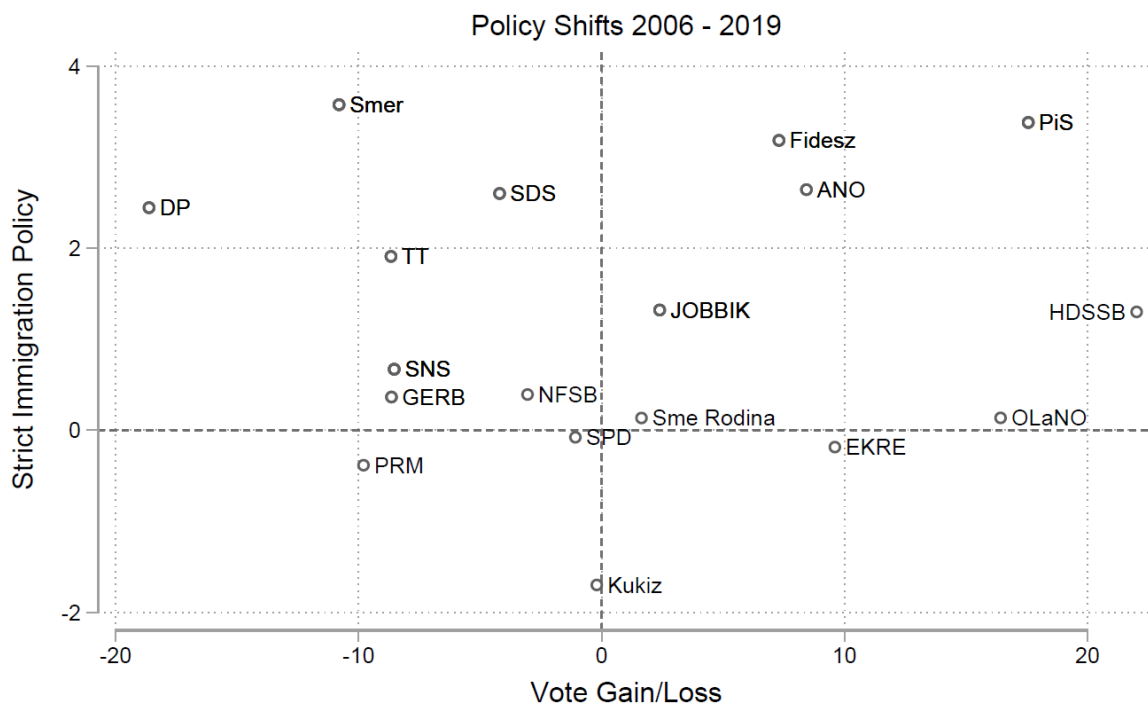**4.3 Shifts of Populist Parties in Central and Eastern Europe**

Expert survey data shows that positional shifts might not be necessarily correlated with electoral success, and that some of these patterns run counter to expectations.

Figure 5 looks at the electoral gains of populist parties in all Central and Eastern European elections between 2006 and 2019 according to their shifts on the immigration (principle domain). As seen from the graph, most of the parties have shifted their positions towards the direction of

preferring a strict immigration policy (higher values on the y-axis) during the period of 2006-2019 that covers the time before and during or after the refugee crisis. Overall, there is a strong correlation between the electoral success and the shifts in the position on the anti-immigration scale (r= 0.703).

Parties can be divided into those that have shifted their positions significantly (above >2 points) and have seen a concomitant electoral success (Hungarian Fidesz, Czech ANO as well as Polish PiS) or loss (Lithuanian DP, Slovak Smer and Slovenian SDS). Those who have benefited during the time of the medium-level shifts (Hungarian JOBBIK, Croat HDSSB) and those who did not (Lithuanian TT and Polish Kukiz). There were parties that preferred to stay put (+- 0.5) and stick to their position during that time period, with a parallel loss of votes (Bulgarian GERB and NFSB, Czech SPD, Romanian PRM) as well as for whom not shifting on immigration dimension is correlated with electoral gains (Slovak SNS, Sme Rodina, OLaNO and Estonian EKRE). These results are in line with the shifts in salience profile of these issues (Annex T), but do not suggest the nature of the positions and their policy stances which can be on strict or loose immigration policy, but rather the degree of those shifts in the time of crisis.

**Figure 5.**



Source: Chapel Hill Data Survey

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For many successful populist parties in Central and Eastern Europe, which are often located within the ideological mainstream, expressing mostly centrist views on most of the issues (Učeň 2007; Hanley et al., 2007; Pop-Eleches 2010; Hanley & Sikk 2016; Engler, et al., 2019), these are important positional changes. In addition, for at least half of them, such shifts have come on the background of electoral gains. Therefore, the findings go against the hypothesis based on shifts of mainstream parties for whom shifts on cultural domain are associated with electoral loss.

Figure 6 looks at the electoral gains of populist parties in all Central and Eastern European elections between 2006 and 2019, according to their shifts on the economic left-right positions (pragmatic domain). As seen from the graph, there is no general trend on the shifts (the availability of data also decreased the number of parties) with nearly half on the y-scale preferring government to play an active role in the economy (below zero), while the other half want a reduced role for government (above zero). There is a weak correlation between the electoral gains and the positional shifts on the left–right scale (r= 0.1525). The magnitude of the shifts is also much smaller than on the immigration dimension. Parties can be divided into those that have shifted their positions significantly (above >1 point shift) and have seen a concomitant electoral success (Czech ANO) or loss (Slovak Smer and Slovenian SDS). Those who have benefited during the time of the medium to low-level shifts (Hungarian JOBBIK and Fidesz, as well as Polish PiS) and those who did not (Lithuanian DP and TT, Slovak SNS, Polish Kukiz as well as Bulgarian GERB). These results are generally in line with the salience profile of these issues (Annex U), and do not suggest the nature of the positions and their policy stances which can be or loose immigration policy, but rather the degree of how parties shifted.

**Figure 6**



Policy Shifts 2006 - 2019
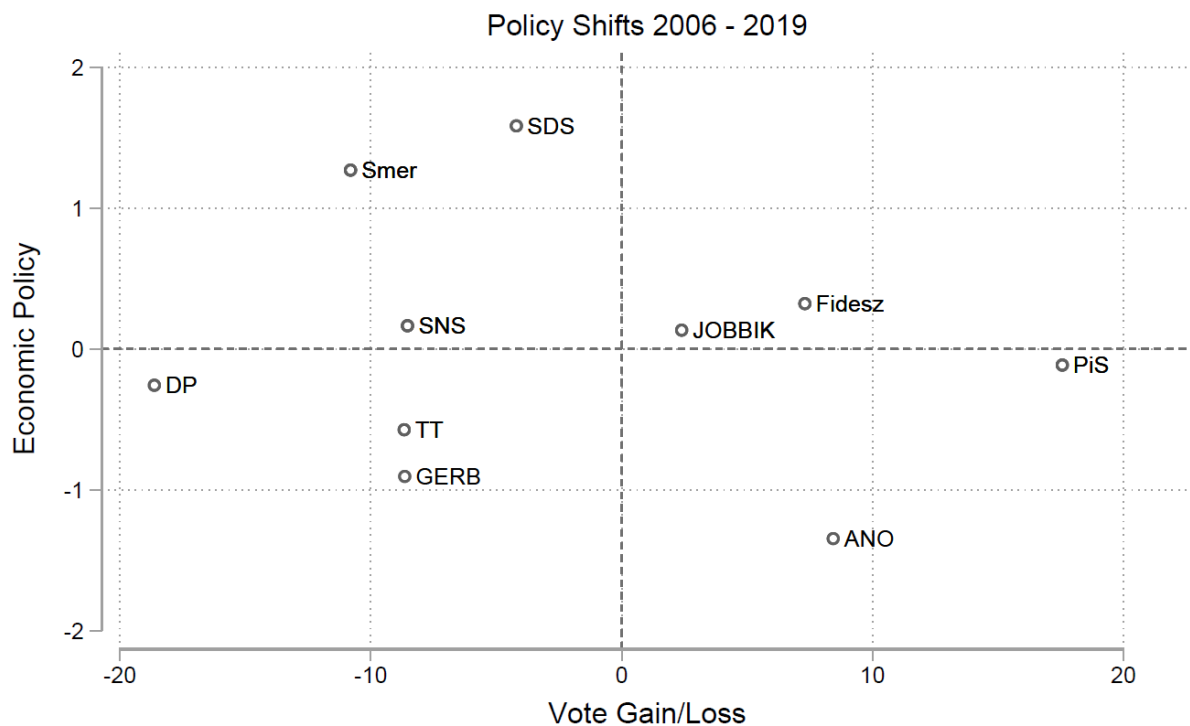
Source: Chapel Hill Data Survey

Although the evidence points in detrimental to the second hypothesis, the lack of widespread shifts on the economic dimension towards the preference for redistribution is not surprising. As posited by Engler et al. (2019), most populist parties in the CEE region, already had a high preference to redistribution before the economic crisis with many simply did not have to shift in as much to offer a social buffer for their population. In fact, the combination of left-wing economic policies and authoritarian/nativist stances (including the issues of immigration), is generally widespread in Central and Eastern Europe, which can be classified as left-authoritarian parties (Lefkofridi et al., 2014; Pop-Eleches & Tucker, 2020; Vachudova, 2020). Moreover, in the context of populism, redistributive economic policies fit well into the "us" versus "them" cultural divide, as long as they benefit the 'in-group' of 'the pure people' (Mudde and Rovira Kaltwasser 2013).

When combining the shifts and their relative success in one, the following table is produced:

**Table 4**

| Strategy | Successful | Unsuccessful |
|---|---|---|
| "Zig-zagging" (significant shifts in both dimensions) | Czech ANO | Slovak Smer and Slovenian SDS |
| "Adapting" (significant shift in one dimension) | Hungarian Fidesz and JOBBIK; Polish PiS; Croat HDSSB* | Lithuanian DP and TT, Bulgarian GERB, Slovak SNS, Polish Kukiz* |
| "Staying put" (no significant shifts) | Slovak Sme Rodina*, OLaNO*; Estonian EKRE* | Bulgarian NFSB*; Czech SPD*; Romanian PRM* |

*Data available only on immigration dimension

The multifaceted nature of the dimensions, and particularly the complexity of the shifts and the not-so-straight forward connection to the electoral outcomes behind those shifts suggest caution in making causal conclusions. The need to further explore the mechanisms of the above-mentioned shifts on the comparative examples of the two parties belonging to the same party system, but differing in the outcome, which are the successful case of Hungary and the unsuccessful one in Lithuania provides opportunity to uncover additional factors at play.

### 4.4 Hungary. The three positional shifts of Fidesz

Fidesz has been the sole party in power at the national level since 2010 under the leadership of the prime-minister Viktor Orbán. It is most frequently defined as a national-conservative right-wing political party in Hungary that has turned to the far-right politics in recent years (Greven, 2016). However, there have been at least two more ideological turns since its foundation in 1988 and it is possible to associate them to distinct time-periods as well.

### The first shift – from liberalism to conservatism

The first period was the early liberal period since its foundation in 1988 as an activism-oriented political party with an openly declared anti-communist rhetoric. Campaigning on a program emphasizing economic liberalization, it focused on the restructuring and minimal involvement of the state.

In the first free and competitive elections of 1990, Fidesz faced tough competition from a highly fragmented party system with a multitude of participating parties, six of which acceded to the Parliament. The liberals of SZDSZ and center-right conservatives of the Hungarian Democratic Forum (MDF) were the main victors, with the latter responsible for appointing the coalition

government with two other parties. The Round Table Talks produced a consensus of creating a mixed electoral system with half of the deputies elected by the proportional method and half by the majoritarian system, not favoring either party. A strong reformist mandate given by the voters (ex-communists from the Hungarian Socialist Party (MSZP)) got only around ten percent of the vote), also hinted at a strong voter-party connection, as almost all the leaders of the democratic opposition were linked to various grassroot movements or reformist wings of the communist party.

However, the start of the conservative turn can be traced back to the fifth party congress in Debrecen in 1993. The leadership structure of the party was reorganized from a seven-member *választmány* (board) to a more vertical structure, electing Viktor Orbán as a party chairman. Still in the same year, many party members of MDF, a conservative competitor, adhered to Fidesz, replacing its liberally minded party members who at the time started to leave the party *en masse*.

In the political program before the 1994 elections, although still self-identifying as liberals, Fidesz already claimed to be in the center, ideologically. In addition to the economic program, the dimensions of freedom and security were added as well, highlighting the need for a new social contract. Ideologically, Fidesz gradually started to occupy the conservative space in Hungarian politics, crowding out other parties such as the MDF, while continuing to attract its members to switch sides.

After earning a less-than anticipated score at the elections, the year 1995 has been the official start of the conservative turn. During the seventh party congress in Budapest, Fidesz added 'the Hungarian Civic Party' (*Magyar Polgári Párt*) to its name as well as adopted a program statement entitled For a Civic Hungary (*Polgári Magyarországért)*.

**The second shift- strengthening voter-party connection via civil society**

The period from 2002-10 is marked as the time when Fidesz spent two terms in opposition, while the governing coalition (Hungarian Socialist Party and Alliance of Free Democrats) took over the office. This is also the time when the whole political system in Hungary suffered one major exogenous shock (the economic crisis of 2008) as well as one endogenous shock (a scandal triggered by leaked MSZP conversations). Both had serious consequences for the economic and political life of the country and were interrelated.

During the 2000s and under the socialist government, the country embarked on an irresponsible deficit-financing policy. Instead of increasing competitiveness of its small and medium as well as
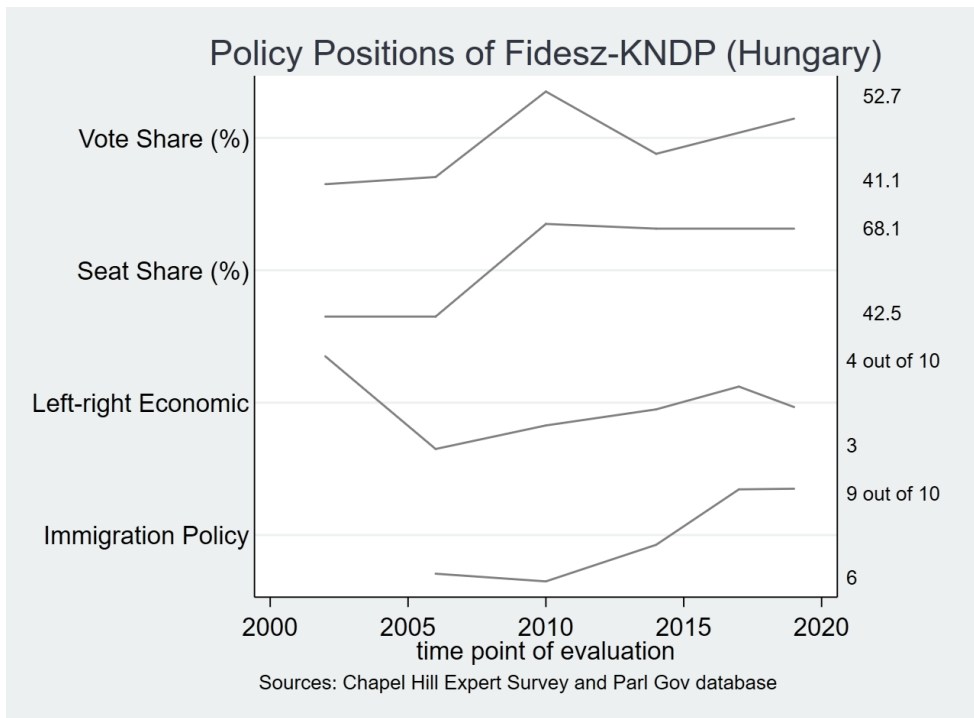
state-owned enterprises, it accumulated debt, while raising public-sector wages in a short-sighted strategy (Benczes, 2011). As a result, the economic crisis caused a decrease of 6.7 percent of Hungarian GDP between 2008 and 2009, of which 2.9 percent could be linked with the industry, catching the country off-guard and in an extremely weak structural and financial positions. This, alongside a steep depreciation of the local currency, led to job losses, insolvency of many households, and an overall increase in feelings of insecurity about the future.

In the meantime, looking back at the results of the 2002 and 2006 elections, Fidesz attempted to regroup. While the political system tried to mobilize and prepare for elections, Fidesz invested in the voter-party linkage through the politicization of Hungarian civil society. This was done by capitalizing on the party's civic activism and attracting an educated conservative middle class via its Civic Circles Movement (Polgári Körök). As demonstrated by Greskovits (2020), about 4800 events were organized, co-organized or sponsored by the movement and attended by its members in July 2002–April 2006. These events consisted mostly of discussions, newsletters, and protests around the issues of identity and socio-economic grievances. By engraining and investing itself into the interactions with conservative grassroots networks and hierarchical (church) organizations, Fidesz has transformed civil society and has managed to dislodge the left and the liberals (Greskovits, 2020). By the 2010 elections, it also managed to transform itself from into a "catch-all people's party". Alluring to a broader spectrum of its electorate through nativism, by reinventing Hungarian holidays and heroes it managed to appeal to the interests of Hungarians living in the wider Carpathian basin region.

Moreover, this shift is also seen not only from its political manifestos, but also from the Chapel Hill Survey data. Figure 7 below shows vote and seat shares of Fidesz followed by two policy dimensions: economic left-right dimension (scale from 0 to 10, from left to right, the maximum representing right economic position with less involvement of the state) as well as immigration policy (0 (open immigration policy) to 10 (restrictive immigration policy)). Starting with the earliest available year (2004), Fidesz's economic position on the left-right spectrum has been generally in the lower half of the 10-point scale, with a general decrease from 2002 to 2006, and a further increase until 2020. The fluctuations are not significant, and are less than one standard deviation, with Fidesz keeping its position generally around the middle for the whole period, including the post-crisis years. On the economic dimension, although some movement had taken place, it is not significant and not substantial enough to be correlated with the electoral success of

2010. Instead, the economic woes and mismanagement on the side of the incumbent government propelled the newcomer, Fidesz, to electoral success.

**Figure 7.**



Policy Positions of Fidesz-KNDP (Hungary)

Sources: Chapel Hill Expert Survey and Parl Gov database

On the immigration dimension, the shift is much more evident, especially for the period from 2010, which was highlighted by the return of Fidesz to power and accelerating around 2015 (jumping to almost maximum values of 9 out of 10, with the standard deviation of 1.67). Year 2015 represents the time when the refugee crisis took off from the television screens on to the streets of the Hungarian capital. The situation escalated when thousands of refugees from Syria had been camping outside *Keleti* train station in Budapest for weeks, and then suddenly allowed to leave by local authorities for Austria and Germany without visa checks. The anti-immigration sentiments fueled by home developments gave start to open attacks on EU immigration policy and refugee relocation schemes. It continued through Orbán's discourse, replacing the words for refugees with migrants (*migráns* instead of *bevándorló*) and framing it around *the us* - Europe's Christian identity against *them* and the threat from the outside - the influx of Muslim refugees (Vidra, 2017).

**Third shift: becoming the far right**

The anti-immigrant and xenophobic discourse existed in the Hungarian political system before Fidesz and prior to the refugee crisis of 2015. Jobbik has been one of the successful parties retaining issue ownership over nationalist discourse regarding Hungarian Roma and Euroscepticism, championing the nativist division between "us" versus "them". Building up its discourse on appeals to its nationalistic support base, "Hungary belongs to the Hungarians" (*Magyarország a Magyaroké!*) had been one of the slogans of Jobbik ahead of EU Parliament elections in 2009 as well for the general elections in 2010. Moreover, the campaign proved successful for Jobbik, winning 47 seats in the National Assembly accumulating 16.7 percent of the vote share, with 20.2 percent in 2014 and 19.1 in 2018, prompting other parties to adopt a similar stance, normalizing the anti-refugee discourse.

The party system and the success of far-right competitors has been the key determinant for the third shift of Fidesz post-2010. As it can be seen in Figure 8 (Chapel Hill survey data), while being the most strict on the positions on immigration, from 2010 to 2017 there was a trend of convergence between Fidesz and Jobbik on the same issue (as well as moving across the dimension in unison), with Fidesz overtaking it by 2019. As the name of the parties preceding the year (in bold) indicates, in 2014 the gap between Jobbik and Fidesz on immigration has started to shrink as compared to other parties, while economically both presented almost identical positions. The move of Fidesz further towards the right has also prompted Jobbik to reelect its leadership, reorganize its organizational structure and eventually moderate its positions, pushing it to move to the center in an attempt to reclaim at least a fraction of its former supporters who have shifted their loyalty to Fidesz.

**Figure 8.**



Policy Positions of parties in Hungary (2002-2019)
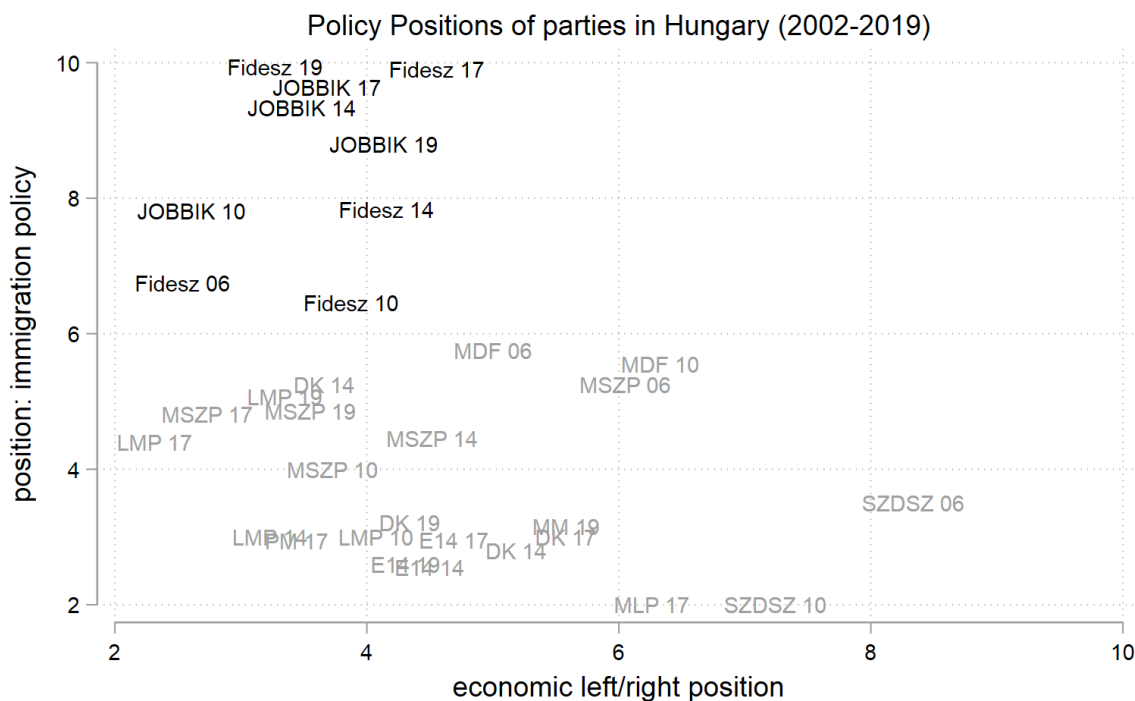
Source: Chapel Hill Data Survey

The landslide victory of Fidesz in the electoral year of 2010 and the return to government, presented a perfect opportunity to deliver on its electoral promises. This has also been the period of conventional economic reforms: the macroeconomic stabilization and the extensive use of EU cohesion funding, as well as the unconventional ones: extra tax on foreign banks as well as the controversial internet tax proposal.

This period in power, saw the introduction of the Public Work Scheme (PWS), aiming at "offering temporary employment to individuals, generally living in disadvantaged districts and settlements" (Ministry of Interior, 2015). Run by local governments, in the first five years of its existence, it almost doubled its participants from 75 thousand to more than 200 thousand workers on average per year from the most economically backward regions of Hungary. With most of the temporary workers involved activities that did not require specific qualifications, the program aimed to address immediate grievances associated with the job loss and unemployment, rather than invest in long-term re-qualification of the workers or to provide an adequate pay and long-term contracts.

Somewhere during the time in government, Fidesz had also taken advantage of its unique position holding the Constitutional majority to produce significant changes to the electoral rules in 2012. The electoral rules reform made the system unbalanced, overcompensating the winners of the elections.

The second win of Fidesz in the 2014 elections (Figure 10), represents the time when the party earned a lower score on popular vote in 2014 than in 2010, but got overly compensated with the same number of seats due to the new electoral rules. Besides being advantaged by the newly changed electoral rules, Fidesz has also benefitted from the fragmented opposition: only five parties united under the *Összefogás* (Unity) political alliance on the left with Greens (LMP) and Jobbik running on their own lists.

Fidesz' following term in government (2014-2018) represented the success of populist rhetoric and the full embrace of the "us" versus "them" ideological divide. This included the continuation of the combination of favoring redistribution on economic dimension and an open anti-migrant, anti-Brussels rhetoric, nativist appeals on the cultural dimension. The following elections (2014, 2018) already represent the continuation of success of a populist party under the changed the electoral rules that sustain the constitutional majority through overcompensation of the winner of elections. As also carefully argued by Győrffy and Martin (2022) the latest time-period in focus represents "a downward spiral of ideological degeneration and corruption by undermining government performance" and by targeting a growing number of voters with lower socio-economic status.

### 4.5 Lithuania. The use nativism as an electoral tool- *Darbo Partija*

As compared to Hungary, the Lithuanian case is much less publicized. The Labor Party (*Darbo Partija*) is a center-left populist party that, similarly to the charismatic Viktor Orbán of Fidesz was mostly associated with its long-standing leader - the Russian-born Lithuanian businessman Viktor Uspaskich. He is best known for his absurd antics, eccentric appearances on TV-shows, organizing ice-cream runs by throwing coupon vouchers out of a helicopter, leading some to identify him with political "trolling". Unlike in the case of Fidesz, ideological turns of the Labor Party since its foundation in 2003, are harder to identify and are mostly linked to time-periods of the aftermath of different crises within and outside of the party.

**From the project of newness to the mainstream**

The Labor Party entered the political arena by winning parliamentary elections on a platform of the project of newness. Starting out as a challenger party in 2004, it subsequently became a mainstream party, serving in government coalitions on two separate occasions (Sikk, 2012). Similarly to Fidesz, it obtain its significant success in the aftermath of an endogenous shock to the Lithuanian political system, which consisted of the impeachment of the newly elected president Rolandas Paksas (Jastramskis, 2021). This event triggered a general disappointment with establishment parties and politics in general, manifested by an all-time low in turnout, which paved the way for the success of the challenger anti-establishment populist rhetoric of the Labor Party. Its newness and ideological ambiguity (other than anti-establishment sentiments) set it apart from other parties in the 2004 campaign and led to the biggest single party win with 28.4% of votes and 39 seats out of 141 (Jurkynas, 2004).

The Labor Party spent the period of 2004-06 in government, serving half of the Parliamentary mandate in a leftist coalition with Social Democratic Party of Lithuania (LSDP), Lithuanian Popular Peasants' Union (VNDS) and New Union (social liberals), with the latter splintering off in the reshuffle of the government coalition. The Labor Party spent the rest of the term, 2006-08, in opposition, losing its place in the coalition to its short-lived splinter Civic Democracy Party (PDP).

During the early stages, the Labor Party structured its political discourse and all of its electoral manifestos stressing the issues of social security: pensions, minimum wages and unemployment. The emphasis on economic issues, as well as the charismatic Russian-born leader of the party, hinted at a symbolic flirting with the times in the Soviet past of full employment. The emphasis on social security, calling for higher investment, securing social rights and job creation as well as willingness to participate in various types of coalitions after the elections, signaled center-left allegiances (Jurkynas, 2004).

Beyond the evident populist style of its long-standing chairman and leader, as well as other leading figures of the party, at its early stages it has been populist primarily in its economic dimension. For the Labor Party the "us" versus "them" division was primarily economic, thus claiming to represent the economically insecure or "the left behinds" with the aim at the elite and those at the top of the wealth distribution.

**Corruption scandals in opposition – staying put during the crisis**

While still under Uspaskich's leadership, the Labor Party spent the following term in opposition, rebuilding its leadership, investing into voter-party linkage through attempts to institutionalize its structure - an equally important component of electoral success (Ibenskas, 2014).

However, its electoral success diminished ever since winning the elections in 2004, scoring the disappointing 9 percent in 2008. The poor electoral performance was overshadowed by corruption scandals, a court case on illicit party financing and consequential fleeing of the leader of the party to Russia. In the end, after a decade-long process, the leaders of the party got convicted of fraudulent bookkeeping, ending up with a compulsory fine. Nevertheless, the damage to the reputation was done, and the consequential elections have all reminded the voters of the scent of corruption, thus undermining the claim of the competence of the party and prompting it to focus on the pragmatic policy dimension (mostly economic) instead.
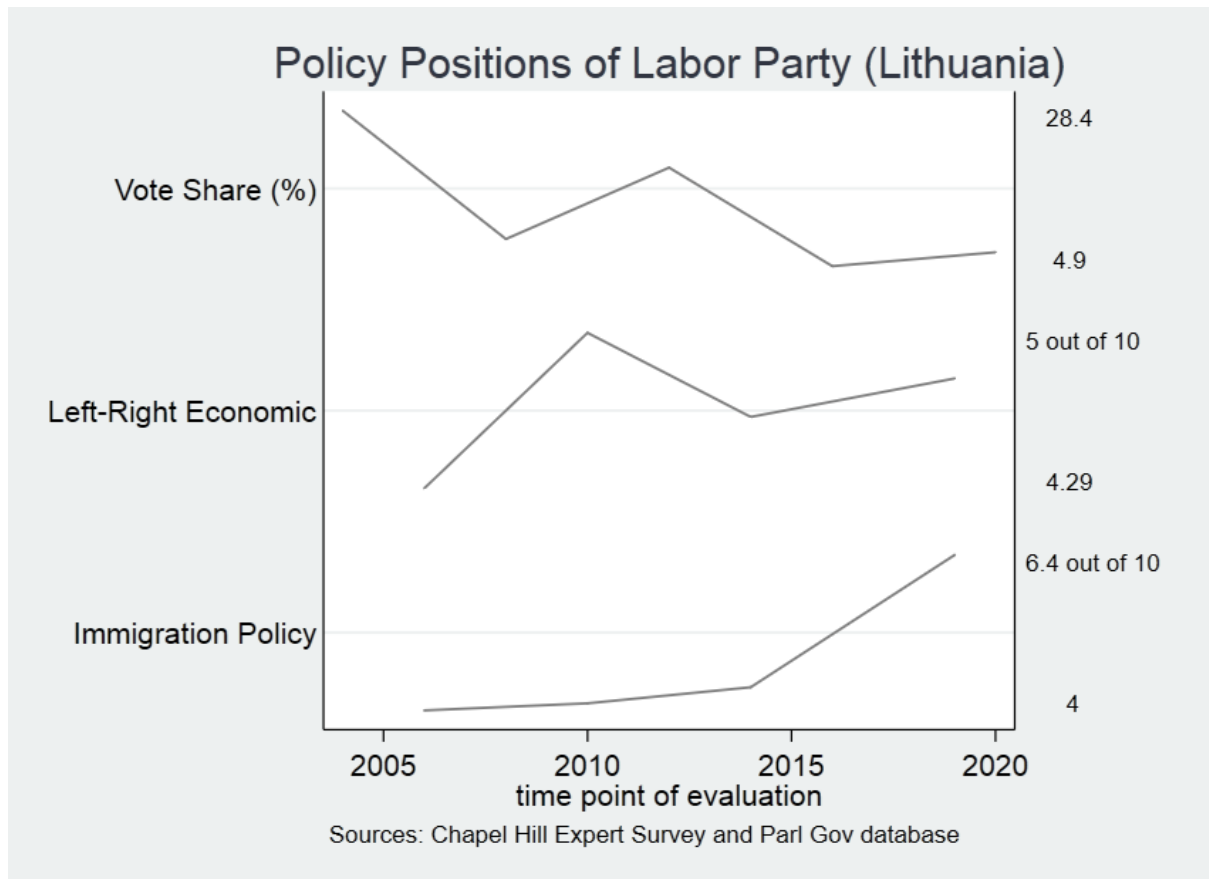
In the 2008 elections, the party campaigned on the platform of protecting small and medium enterprises and aimed at capitalizing on the support of small towns of Lithuania, which proved to be rather unsuccessful. They failed to distinguish themselves in the highly fragmented party system, and eventually had to relinquish the office to the conservative government. By staying in opposition with a limited number of MPs in the parliament, similarly to Fidesz, the Labor Party managed to wait out on one of the most economically difficult period - the global financial crisis. By the middle of 2008, inflation increased to double figures and the government, headed by the conservative Homeland Union–Lithuanian Christian Democrats coalition started to face an increasing budget deficit on the background of the economic recession.

Similarly, to the Hungarian experience, Lithuania suffered from the crisis on the enormous scale, however, unlike the austerity measures in Hungary, Lithuanian policy makers implemented a rather long-term oriented approach. The Baltic country has narrowly escaped Latvia's fate of having to obtain a loan from the IMF but slumped 14.7 percent of its GDP in 2009. During this time, the conservative coalition went ahead to pursue highly unpopular austerity measures, which included the long-term macroeconomic stabilization as well as short-term increases of value-added and income taxes. It included cuts of state-owned employees' salaries, decreases in pensions, as well lowered social benefits all of which have been inflated during the pre-crisis years of the fast economic growth. The latter solution has been extremely unpopular among general

population, and, although, paved the way for economic recovery after the crisis, cost the conservative government the following election, thus, propelling the Labor Party forward.

Figure 9 below shows the combination of vote share, left-right economic positions (ten-point scale) as well as its stance on immigration policy (ten-point scale) on the same graph. As seen from the graph, the Labor Party was the most successful in its debut in national elections in 2004 with a consequent drop in 2008 and the return to the government in 2012. While in 2016 it did not manage to accumulate the 5% threshold, it bounced back in the most recent elections in 2020 with seven percent of the popular vote. While the pattern of shifts on the economic dimension seems to resemble zigzagging in-between elections, the fluctuations are not significant (one to two standard deviations of 0.37) and are still balancing around the midpoint position typical of five out of ten. On the issue of immigration, the Labor Party scored generally low, in the lower half of the ten-point scale up until 2019, ramping up its anti-immigrant rhetoric since the refugee crisis in 2015 (four standard deviations). All in all, the Labor Party had not fluctuated in its stance on economy, but did so on the question of immigration, moving towards a preference of a strict immigration policy throughout the later years.

**Figure 9.**

## Policy Positions of Labor Party (Lithuania)

Sources: Chapel Hill Expert Survey and Parl Gov database

**Back into government coalition, capitalizing on anti-austerity 2012-16.**

Not afraid to capitalize on the anti-austerity sentiments of the voters, after the handling of the economic crisis of 2008 by the competitors on the right, the Labor Party returned with an electoral campaign emphasizing the issues of unemployment, minimal wage, and pensions. While the salience profile of the economic issues was raised, the program also contained a dose of populism when it comes to the ways on how to implement it.

Lithuanian left-wing parties favoring left-leaning economic positions in the aftermath of the crisis enjoyed strong results, which led the Labor Party to form a left-of-center coalition government with the winners, Social Democrats (LSDP), as well as two other parties: national-conservative Order and Justice (TT), and the Electoral Action of Poles of Lithuania (LLRA).

The period in government was highlighted by mismanagement in the regulation in the agricultural sector as well as the "golden spoons" scandal, which involved a public procurement of cutlery in the army, for which the state paid up to eight times the market price.

The introduction of the euro, strategic energetic diversification projects as well as subsidies to renovation of housing have been high on the agenda and the main success of the government, while a significant lack of structural reforms in the areas of education, health and public administration, and Lithuania's long-term competitiveness challenges have not been addressed. Social benefits were not brought back to the inflated levels before the austerity measures of the previous government were introduced, for the risks of overheating of the economy. However, since the economic growth gained momentum in post-crisis Lithuania, the issues related to economic insecurity, promised to be addressed by the previous government lost in salience.

**The shift on anti-immigration in 2016.**

Similarly to the Hungarian case, the attempt to capitalize on the anti-immigrant sentiment was seen from the electoral campaign of 2016, which besides the usual emphasis on unemployment, minimal wage and pensions also introduced a rhetoric against refugee relocation quotas. An active billboard, video and written op-ed campaign encouraged potential voters to take off the "pink glasses" of preferential treatment of refugees as well as claimed that the possible "invasion" of refugees to Lithuania "is not a theory, but the reality" (Vireliūnaitė, 2016).

The open opposition towards immigration as the result of the refugee crisis prompted the party to take up a more extreme and clearly defined identity position that it was lacking before. While the economic crisis, did not trigger the shift towards more redistribution, having an already relatively high policy stance on that dimension allowed it to stay put. Besides the open anti-immigrant electoral campaign, the party had not acquired a clear ideological stance.

Besides being a center piece in its electoral manifesto, the shift towards strict immigration policy, took place from 2014 to 2019 (the Labor Party is marked in bold as DP on Figure 10). Similarly to the Hungarian case, it is converging with the national-conservative Order and Justice party (marked in bold as TT on Figure 13). Similarly to the Hungarian Jobbik, before the refugee crises, it held the issue ownership over the questions of anti-immigration and nativism with a constant presence in the parliament. Unlike the lone-governing Fidesz in Hungary, Order and Justice it served as the Labor Party's minor coalition partner in Butkevičius governments 2012-16.

**Figure 10.**

Policy Positions of parties in Lithuania (2002-2019)
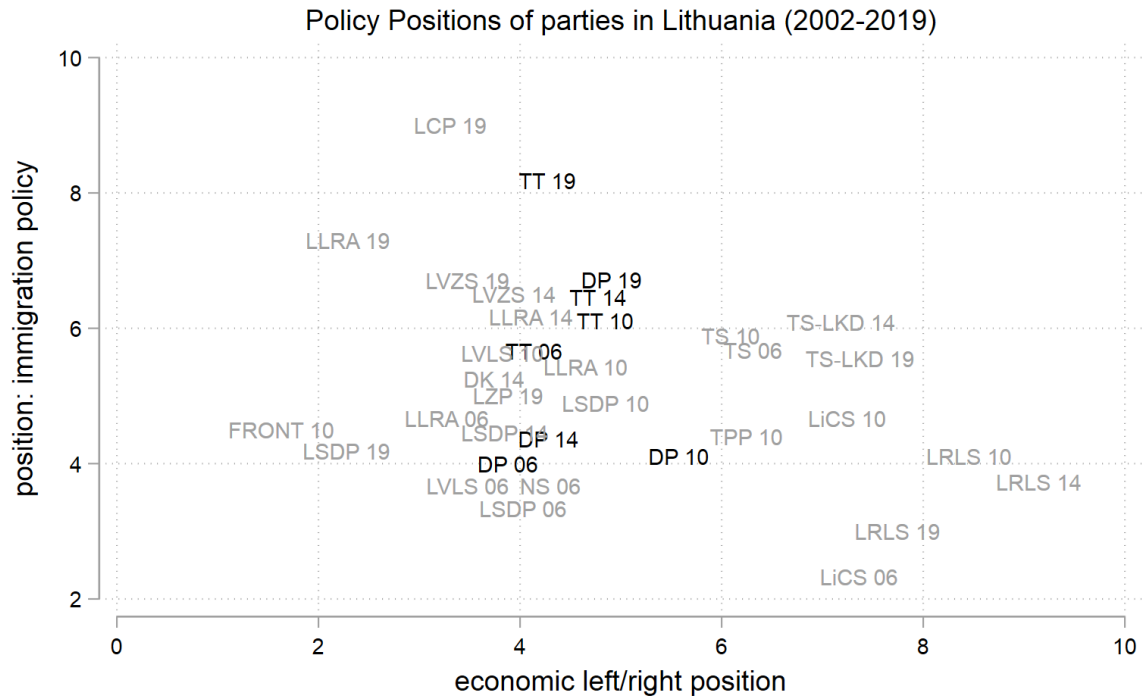


Source: Chapel Hill Data Survey

However, the magnitude of refugee crisis in Lithuania was the complete opposite from what the Labor Party had anticipated. As compared to the total EU number of over 1.3 million of asylum applications in 2015 and further 1.2 million in 2016, Lithuania received only 315 and 425 in the same consecutive years, with a commitment to resettle a total of up to 1105 additional refugees from other EU member states until 2017 (Eurostat, 2020; IOM, 2016). With the numbers decreasing, the discussions around refugee quotas faded away and did not crystallize into a real concern in the discussions of Lithuanian domestic politics lowering the salience of the issue in the society at large, also among the voters of populist parties (Annex R).

Unlike the first-hand experience with refugees in the Hungarian case, betting on the wrong horse cost the Labor Party enormously, and at least partially led to them losing the fraction in the Parliament and gaining only two seats through the multi-member party system in the general elections of 2016. Unlike Fidesz in Hungary, the Labor Party lost its momentum to become a large dominant "catch all" party.

The comparative case study discovered at least three factors that need to be take into account in order to update the minimal model (Figure 7) that determine the success of policy shifts: corruption scandals, competition in the party system as well as the role of electoral system. The

party system refers to the systematic interaction between parties, number of relevant parties and the degree of fragmentation, while electoral rules refer to a set of regulations on how elections are to be conducted and their results determined (Mair, 1997). The role of institutional changes in the electoral system is important to the stability of the party system and they condition, rather than have a direct effect on, electoral success (Kitschelt et.al. 1999).

Therefore, a right combination of positional shifts with a concomitant and accommodating change in electoral rules (i.e. system) could amplify or limit the electoral success or failure of a positional shift. At the same time, a positional shift with favorable conditions in the party system – the level of institutionalization of the party system or the patterns of party competition over issue ownership all have a mediating effect as well.

In addition, the failure of the shifts in the case of the Labor Party depended to a large extent on the failure of its politicians to establish and sustain a strong voter-party linkage. Participation in talk shows as well as political "trolling" seem to aim to brush off accusations of corruption but proven to be ineffective in the long run. Although some attempts to institutionalize the party and renew its leadership existed, a strong interaction with civil society and conversion a part of it into its supporters that had propelled Fidesz forward, did not take place in Lithuania. Such linkage could have provided Lithuanian populists an important source of information on how to modify its long-term strategy according to the demand (voter preferences) as well as dynamics of salience of certain issues in the society.

The results, contrary to the initial expectations, point to the fact that populist parties do not switch their positions on economic dimensions in face of the economic crisis. This means the issue of economic inequality is not salient to the parties and they do not see possibilities of gain votes if basing the electoral campaigns on this issue. In fact, the successful policy shifts, are correlated with shifts in principle (core belief and values, value-based social and cultural issues) domain rather than pragmatic (economic policy). In addition, the chapter provided a further analysis into the variety of shifts within the Central and Eastern European region, where populist parties have been the most successful. For the most part, Central and Eastern European populist parties shift on the issue of immigration but stay put on the issues of economic redistribution. They acquire the left authoritarian profile, if they had the combination of left-wing economic policies and authoritarian/nativist stances. The comparative case of Lithuania and Hungary showed the need to analyze positional shifts beyond the shift-electoral success dichotomy, uncovering additional

factors at play, such as voter-party linkage, corruption scandals, electoral rules as well as competition in the party system.

In the current wave of populism, macroeconomic prudence seems to be followed so much more closely than it was in the 80s and 90s, because of lessons learned from the past and the existence of stringent borrowing mechanisms. A seemingly irresponsible form of economic policy by which a government engages in a period of massive public spending financed by foreign loans, periods of hyperinflation and harsh economic adjustments are less common. In some cases, an overall trend of better governance, the ability to sustain the current account deficit as well as use the exchange rate flexibility can increase the capacity of a country to accommodate external shocks (Edwards, 2004; Özmen, 2005). In others, both the net-borrowers and net-creditor governments as well as the increasing intergovernmentalism of crediting bodies, as well as stringent balanced budget rules dampen the political business cycle (Rose, 2006). This, in combination with the effect of globalization, makes periods of hyperinflation and macroeconomic mismanagement less unnoticeable for other players in the world economy, and thus less plausible.

The combination of left-wing economic positions with conservative ideological stance is not limited to Lithuania and Hungary. In fact, the current political horizon is dominated by many successful populist parties in Central and Eastern Europe, that can be characterized by so-called "left authoritarianism", that is, a combination of highly distributive stances on economic issues with conservative preferences on the cultural dimension. The politically conservative component is important for the left-authoritarians for two reasons. First, using the thin ideology of populism, it delineates which groups belong to "true people", using appeals to nativism, xenophobia and nationalism. Second, the embrace of populism in their discourse and through the thin ideology prepares the ground for redistribution and compensation of "the true people" through family policies, public work programs, price caps, etc. The most vivid examples include Fidesz in Hungary, PiS in Poland, *Ataka* in Bulgaria and *Smer* in Slovakia that successfully combine such positions, in a way reminiscent of the "reddish" and "brownish" coalitions (communist successor parties and nationalists) of the early years of transition (Ishiyama, 1998). For the most part, Central and Eastern European populist parties acquire the left authoritarian profile, if they had the combination of left-wing economic policies and authoritarian/nativist stances, further exacerbated by the global economic and refugee crises. These parties fit the ideological definition of populism in its definition as a thin ideology and have been the most successful with multiple stints in power.

In addition, this group has been the one that had either contained a dose of economic program aiming at redistribution in their political manifestos or managed to implement short-sighted economic policies, when in government.

The second category includes the ideologically ambiguous populist DP - Labour Party (Lithuania), also comparable to some Western parties: M5S - Five Star Movement (Italy), *Sinn Féin* (Ireland and UK) and SP - Socialist Party (Netherlands). All three parties started out as initially left-wing, but have used nativism as electoral tool or have shifted their positions between elections to make them closer to the centre or less well-defined. Some, like the Lithuanian Labour Party or the Italian Five Star Movement do not have a clearly defined ideological stance, but have served in coalition governments. Others, like *Sinn Féin* or the Dutch Socialist party are left-wing, deeply rooted in republicanism and a subject to historical specificities of the respective party systems in these countries, and thus have moderated their positions throughout time, while in opposition.

**Conclusion**

This dissertation project explored the consequences of socio-economic inequality, more importantly through the prism of the rise and success of populism in Europe. The main value added of the dissertation the new theoretical framework and empirically proves the existence of an intermediary factor in-between socio-economic inequality and rise of populism, namely the institutions, both political and economic.

Methodologically, the research focuses on a two-stage design of combining cross-national quantitative work with a comparative case study. In the first stage, the study tests it on a large sample of European cases using relevant quantitative methods – multiple multilevel multivariate regressions, which would test the conceptual framework. Both multi-level framework combining data on individuals, regions (NUTS-levels) as well as country variables provides depth, but also length in terms of using a large timespan, through a balanced pool of data for research. In the second stage, a comparative qualitative case study based on the results of the quantitative part compares most similar cases. It complements the quantitative analysis with an in-depth comparative case study discussion with a smaller sample of country-cases. The selected case studies focus on *populists in power* - successful populist political parties that have managed to not

only get elected to local or national legislatures but have also managed to partake in government cabinet formation at the national level.

Chapter, 1 reviews the literature on the linkage between socio-economic inequality in all of it conceptualizations: economic insecurity, income and wealth inequality, income polarization, perception as well as inequality of opportunity and populism, including alternative explanations and additional literature on rents, state capture and the moderating role of institutions.

In the second part of Chapter, 1, the most recent research advances on political consequences of inequality either through policy implemented by governments or influence on voters. In addition, recent studies (Guriev & Papaioannou, 2020; Funke et al., 2020) point that one of the main political consequences of socio-economic inequality is the emergence and the success of populism around the world. Most scholars studying modern populism conceptualize it, with certain variations, across the lines of four distinct approaches: populism as ideology (i), populism as political strategy (ii), populism as discourse or style (iii) and populism as political logic (iv). Chapter, 1 concludes that the two approaches – populism as ideology is built on assumptions of suitable for cross-country and temporal empirical analysis.

Chapter, 2 introduces a new theoretical framework connecting socio-economic inequality and populism. It links all the main concepts related to socio-economic inequality suitable for cross-national empirical research (inequality of income or wealth, economic insecurity, income polarization, perception of inequality, the inequality of opportunity). On the side of populism, voter support/electoral success for political parties as per the individual decisions to vote for political candidates as well as populist attitudes are presented. The most innovative part of the theoretical framework is the inclusion of the middle of the scheme that represents political and economic institutions as mediating variables.

In Chapter, 3 I have explored the moderating effect of institutional trust on populist voting using different groupings by economic insecurity. I drew on the ideas of North (1994), Williamson, (1998), Gërxhani and Wintrobe, (2020) and Hudson (2006) to formulate my conceptualization of the quality of institutions using institutional trust relevant to the context of populist voting. I also built on the empirical developments of Guiso et al. (2017) as well as Inglehart and Norris (2016), by expanding the index of economic insecurity to include a wider spectrum of population. Using a large inter temporal cross-country cross-individual dataset and

multilevel modelling methods, I found support for my hypotheses concerning the moderating effects of institutional trust on economic insecurity in terms of voting for populist parties.

While there is some empirical evidence showing the direct effect of economic insecurity and institutional trust on populism (e.g. Guiso et al. (2017), Dustmann et al. (2017)), this is the first study of its kind to show how the impact of economic insecurity on populism varies depending on the level of institutional trust. I find that when enlarging the definition of economic insecurity, institutional trust moderates populist voting of various socio-economic groups differently. When an individual is highly economically insecure, trust in national institutions does not alter the probability of voting for populist parties and populist voting remains generally high. They seem to represent the closest candidate to being the real "economic voters". For them, when making a voting decision, trust in national government does not matter, and their economic situation is the main determinant: their experience with long-term unemployment, their less secure jobs and their limited ability of making ends meet is key to their voting decision.

Nevertheless, the same cannot be said about those who are comparatively a bit less economically insecure (which I have classified as being at moderate levels of insecurity), and those who are on the opposite side of the scale – *the secure ones,* who are economically better-off. Institutional trust appears significantly more important for them, in their voting choice for anti-establishment populist parties. The more trust they have in political parties, politicians, legal system and the parliament, the less prone they are to vote for populists.

When measuring institutional trust in national over supranational institutions, the result is homogenous for all socio-economic groups. The more a person trusts the national institutions over the ones of the European Union, the more prone they are to vote for a populist party for all levels of economic insecurity. The results point to the susceptibility of anti-EU discourse of many populist parties across Europe and the Eurosceptic effect it has on all strata of its population, this reflects the effect theorized by Reungoat (2010) as well as Stavrakakis and Katsambekis (2014).

The results contribute to a better understanding of populism as well as institutional trust. Since the results show that the choices of both right and left-wing populist voters are driven by economic insecurity and moderated by a lack of trust in institutions, populism as ideological tool used by a variety of populist parties in the region seems to have the same root causes for support. In terms of institutional trust, the findings point to the significance of the proposition by Krueger et.al. (2021) to focus on *swift* trust in transient economic settings, which are especially important in the

voting booth and might be structurally different from institutional trust on any other day or a different context. Since voting requires a snap judgment at a particular point in time under economic circumstances, swift trust might be more dependent on the experience with institutions in ones' network rather than a *macro* trust - an established opinion about governments in general.

My findings from Chapter 3 have important implications for policy makers. Any policies targeting bridging of local communities, should be smart, and directed towards specific strata of the population. The mode, intensity, and interaction with institutions on regional level helps citizens build trust in government, that will help them push through economic hardships. However, trust in local political bodies does not automatically translate into trust in national government. Citizens identify themselves more easily with power and governments that are closer to them since they are more familiar with their local governments and participate local politics on a more active basis. A further decentralization, a focus on increasing institutional capacity and giving more decision-making power to the local authorities might provide a further consolidation, *bridging* of communities and their integration into the decision-making mechanisms.

As documented by Table 3 results and illustrated in Figure 5, the same does not happen with the most economically insecure, who are most susceptible to the Eurosceptic discourse and are the most attracted by anti-establishment rhetoric. My results suggest that policy makers concerned to increase trust in institutions should first try to understand more carefully which aspects of the institutional environment is deficient, and then work systematically to improve them, focusing consistently on the long term as well as short term changes. Moreover, real institutional reform needs to start from the experience of the population on the ground, with a special focus on the most economically insecure.

Chapter, 4 provides an inquiry into the supply side relation of socio-economic inequality. The relationship between the policy shifts of the populist parties in Central and Eastern Europe and the electoral success is not straightforward. Contrary to the empirical findings of Tavits (2007), the success of policy shifts, exacerbated by the economic and refugee crises, are correlated with shifts in principle (core belief and values, value-based social and cultural issues) domain rather than pragmatic (economic policy). For the most part, Central and Eastern European populist parties shift on the issue of immigration but stay put on the issues of economic redistribution. They acquire the left authoritarian profile, if they had the combination of left-wing economic policies and authoritarian/nativist stances. For the most part, since the shifts on the economic

dimension are not significant, left authoritarians build on their preferences for redistribution before the economic crisis. The comparative case of Lithuania and Hungary shows the need to analyze positional shifts beyond the shift-electoral success dichotomy, uncovering additional factors at play.

In fact, the comparative example of the Labor Party and Fidesz, shows that contrary to empirical findings of Abou-Chadi & Orlowski (2016) when both parties became dominant mainstream parties with experience in government, they did not have an incentive to moderate their position. They do not seem to sharpen their positions in terms of economic inequality. Instead, both employed a "niche party profile" (Meyer & Wagner, 2013), choosing a more extreme position on the issue of immigration, emphasizing them in their campaigns. The main purpose behind the shift was to use the established voter-party linkage as a leverage to overtake the issue ownership from the successful challengers on the far right, from either coalition partners (Lithuania) or the main competitor on the ideological spectrum (Hungary).

In addition, the findings help to nuance the conclusions by Spoon & Klüver (2020) in an important way. The comparison of Fidesz and *Darbo Partija* (Hungary and Lithuania) shows that taking a more immigration-skeptical position helped the former party to capitalize on votes by taking over issue ownership from the competition on the far right, while going tough on immigration did not prevent losses for the latter, with the concomitant decrease in salience of the issue. The voter-party linkage (Kitschelt et al. 1999) is the key element and determinant of the difference of success in Hungary and Lithuania. While Fidesz invested heavily in voter-party linkage, institutionalizing itself through engaging with the civil society, their three positional shifts were successful. The Labor Party of Lithuania invested less in the voter-party linkage, impeded mostly by the corruption scandals. Instead, it tried to shift on the immigration dimension preemptively, but heavily overestimated the magnitude of the refugee crisis in Lithuania and have suffered electoral losses.

In terms of compensation by the accommodative electoral system and the party system, both are particularly important for the third shift of Fidesz, which took place under the confounding conditions of the changes in the electoral law, compensating the party for the lost popular vote. In the context of highly fragmented political system of Lithuania, the mediating effect of its parallel mixed electoral system is smaller, but enough to prevent *Darbo Partija* from dropping out of the Parliament completely by 2016.

The limitation of Chapter,4 is the external validity of the two cases beyond the area of Central and Eastern Europe. Paths for further study include a large-N study design aiming at including more regions in the analysis and expanding the scope of the factors that might influence the shifts: regulation of media, campaign and party financing as well as other factors.

All in all, the rise of populism in Europe is a product of both supply (party strategies, policy when in government) and demand (voter preferences). While socio-economic inequality in the changing global economic conditions is an important determinant of success of it, it is not the only factor behind its persistency, especially in Central and Eastern Europe. Other factors, such as the experience of the refugee crisis first-hand, corruption scandals, competition in the party system, quality of institutions are important signals for both populist parties and its voters.

The dissertation contributes to a better understanding of populism. Institutions matter, also in terms of populist voting, as their positive evaluation by voters, prevents them from voting for anti-systemic parties, depending on the level of economic insecurity. When analyzing the evolution of political parties, the need to discern nativism from populism is the key, highlighting the importance of the proposal by Art (2020). Some parties become populist, by fully embracing the thin ideology of the "us" versus "them" divide, while changing their ideological positions or moving across the ideological spectrum towards the radical right. Others might use nativism only as an electoral tool, while leaving their ideological stance in ambiguity.

**Supporting Information**

**Annex A. Descriptive Statistics**

As seen from Table S1 below, the difference in the number of observations is attributed to the availability of data, as some, such as regional level trust, is available only from 2008 onwards when the EU NUTS classification was introduced into the ESS. The full sample is estimated at 333,102 observations, limited by the availability of the data across various variables. Income Polarization is a country-level variable, while Institutional Trust is available at both individual and regional (NUTS) levels.

**Table S1. Summary Statistics**

| VARIABLES | (1)<br>N | (2)<br>Mean | (3)<br>sd | (4)<br>min | (5)<br>max |
|---|---|---|---|---|---|
| The Expanded Index of Insecurity | 333,102 | 0.724 | 0.821 | 0 | 3 |
| Income Polarization (Top 10%/Bottom 50%) | 304,575 | 1.191 | 0.250 | 0.725 | 1.740 |
| Perception of Inequality | 319,993 | 2.069 | 1.031 | 1 | 6 |
| Populist (dummy) | 333,102 | 0.0744 | 0.262 | 0 | 1 |
| Institutional Trust (Individual) | 330,590 | 0.416 | 0.187 | 0 | 1.000 |
| Institutional Trust (Regional-NUTS1) | 226,636 | 0.406 | 0.0928 | 0.155 | 0.632 |
| Institutional Trust (Difference) | 299,729 | -0.028 | 0.1969 | -1 | 0.932 |
| Institutional Trust (Difference/ Regional-NUTS1) | 226,631 | -0.029 | 0.0789 | -0.237 | 0.161 |
| Immigration Attitudes | 321,365 | 2.557 | 0.904 | 1 | 4 |
| Gender (female=1) | 332,777 | 0.533 | 0.499 | 0 | 1 |
| Age (log) | 331,671 | 3.789 | 0.434 | 2.565 | 4.812 |
| Education (log) | 331,913 | 1.026 | 0.523 | 0 | 4.007 |
| Years | 333,155 | 2009 | 4.504 | 2002 | 2016 |
| Countries | 333,102 | 14.05 | 8.07 | 1 | 28 |

**Annex B. Income Polarization (Top 10% / Bottom 50%) from the WID data**



Graphs by Country
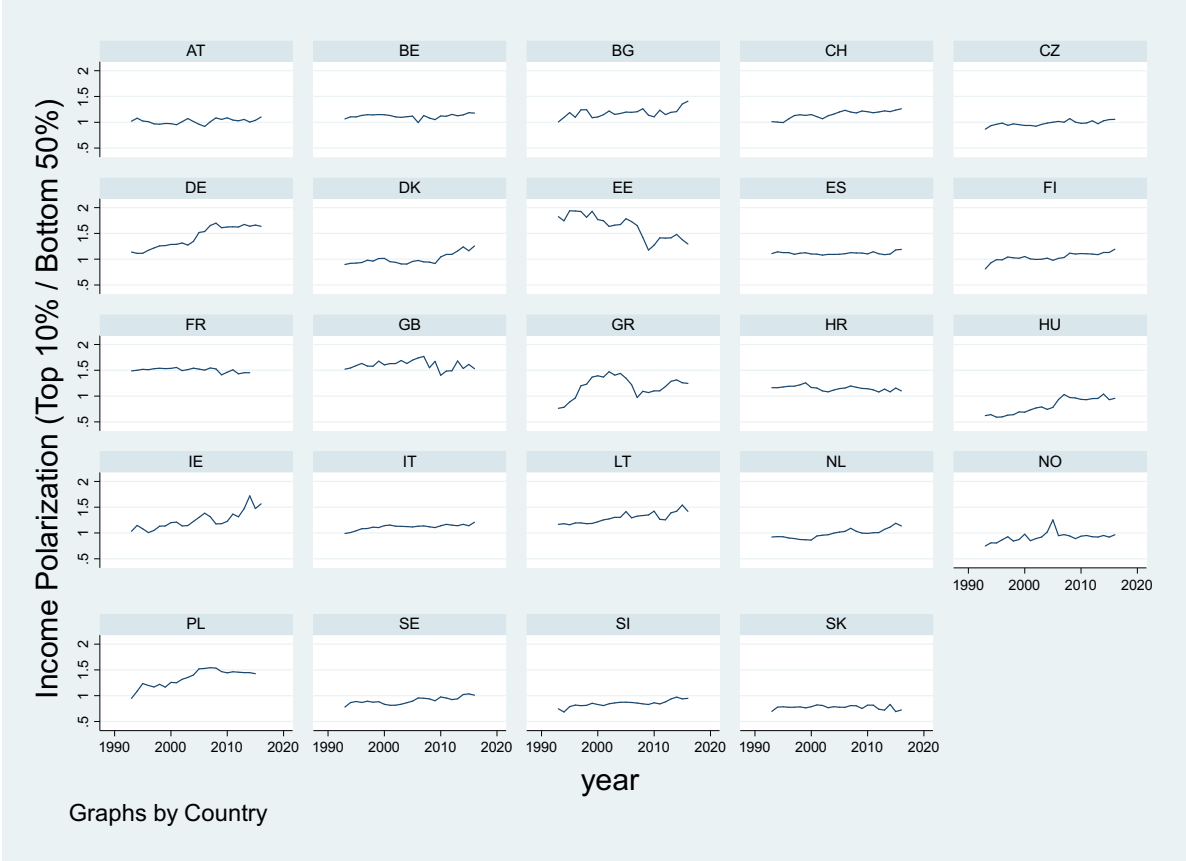
**Annex C. Income Polarization (Top 10% / Bottom 50%) in the final (merged) sample**



Graphs by Country
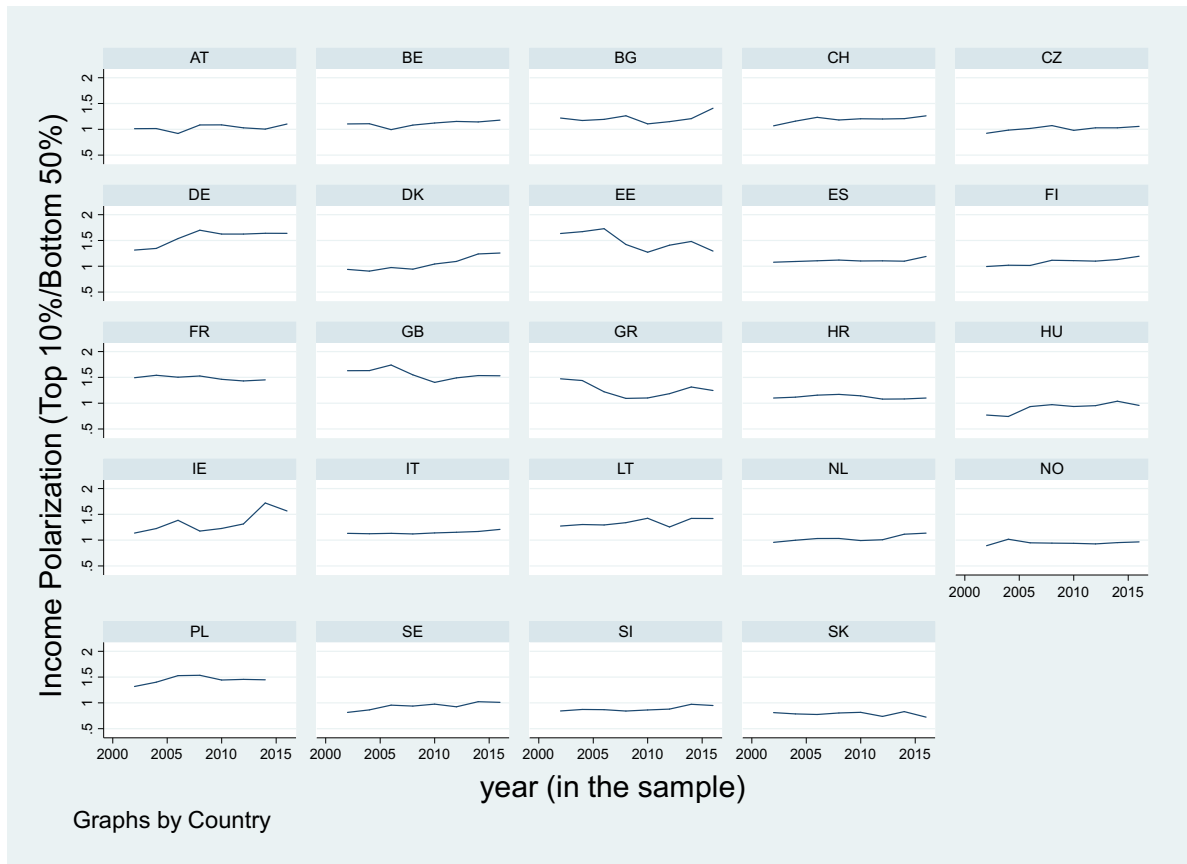
**Annex D. Relative Trust Formula**

$$\Delta Relative\ Trust\ (difference)$$
$$= Trust\ (National: Parties, Politicians, Legal\ System, Parliament)$$
$$- Trust\ (EU\ Parliament)$$

**Annex E. The Expanded Index of Insecurity**

The problem with the index of insecurity provided by Guiso et al. (2017) is that, as replicated, it is does not have enough coverage in ESS (as replicated by the author) and it does not allow one to grasp the effect of the growing insecurity of all the unskilled workers, beyond only those employed in the blue-collar manufacturing industry. This is also true, especially in the context of the Covid-19 pandemic, which uncovers the precarious position of all low-skilled workers in times of crisis as well as the imminent risk of eventual labour substitution due to robotization (automation) and AI.[33] Guiso et al. (2017) propose an index, which is comprised of four values, each made up with equally weighted components, mainly coming from the ESS dataset. The index takes values from 0 – not insecure to 3 – very insecure in the following fashion:

3= finding it extremely hard to survive on current income (question in the ESS), 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

*The Expanded Index of Insecurity* is composed from three elements:

3= finding it hard or extremely hard to survive on current income, has experienced long-term unemployment (three months or more) and is an unskilled worker (according to the Erikson–Goldthorpe–Portocarero (EGP) occupational classification coding in Leiulfsrud, 2005).

2 = at least two are true

1 = at least one is true

0 = none is true

As seen below and compared to the Guiso et al. (2017) index, the Expanded Index of Insecurity has a much better coverage when using the ESS database, has a relatively similar distribution, with a larger number of the very insecure category due to the broader occupational definition of the most insecure. It is worth mentioning that although the occupational definition is more inclusive, bringing more of the sample population to the ends of the spectrum, a more restrictive question on long-term unemployment is filling out the middle of the distribution.

**Table S2. Comparison of the two indices of insecurity (ESS 2002-2016).**

| Values of the index | Guiso et al. 2017 Index (re-coded) | Percent | Cumulative | The Expanded Index of Insecurity | Percent | Cumulative |
|---|---|---|---|---|---|---|
| 0 (Secure) | 31,928 | 36.55 | 36.55 | 160,637 | 48.22 | 48.22 |
| 1 (Less secure) | 34,942 | 40.00 | 76.56 | 114,164 | 34.27 | 82.50 |
| 2 (Less insecure) | 20,097 | 23.01 | 99.56 | 47,950 | 14.39 | 96.89 |
| 3 (Insecure) | 381 | 0.44 | 100.00 | 10,351 | 3.11 | 100.00 |
| Total | 87,348 | 100.00 | | 333,102 | 100.00 | |

Both indices are highly correlated (0.61), but the new index is more liberal with whom to classify as 'insecure'. Borrowing the class classification from Norris and Inglehart and EGP classification, it includes all unskilled workers (instead of simply blue-collar manufacturing

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[33] This is not to claim that other occupations on the low-high skilled spectrum are more resilient in the face of economic downturn, but is to point to the fact that low-skilled workers might have lower savings rates and thus lower economic buffer and requalification possibilities.

workers) who find it *hard* and *extremely hard* to survive on present income. This dramatically increases the number of observations and provides a better variability in the sample.
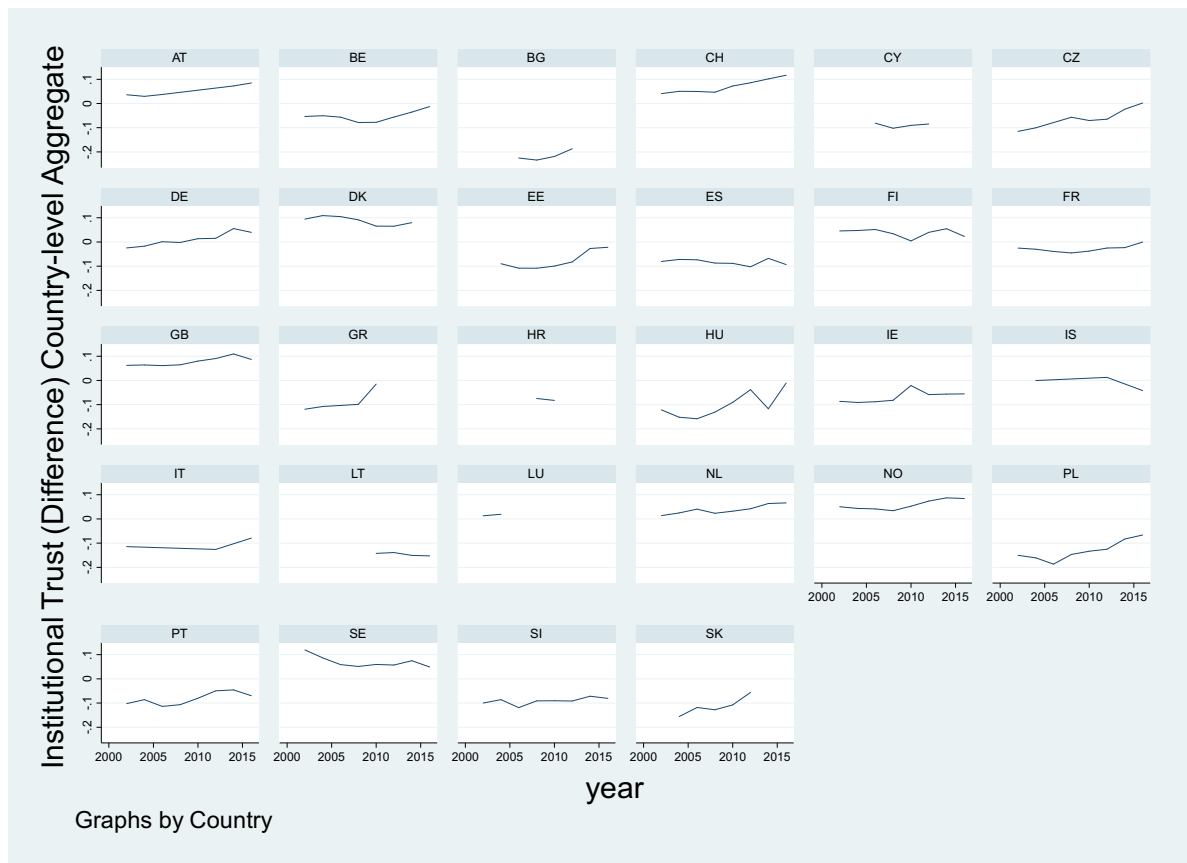
**Annex F. Country-level Aggregation of the Expanded Index of Insecurity**



Graphs by Country
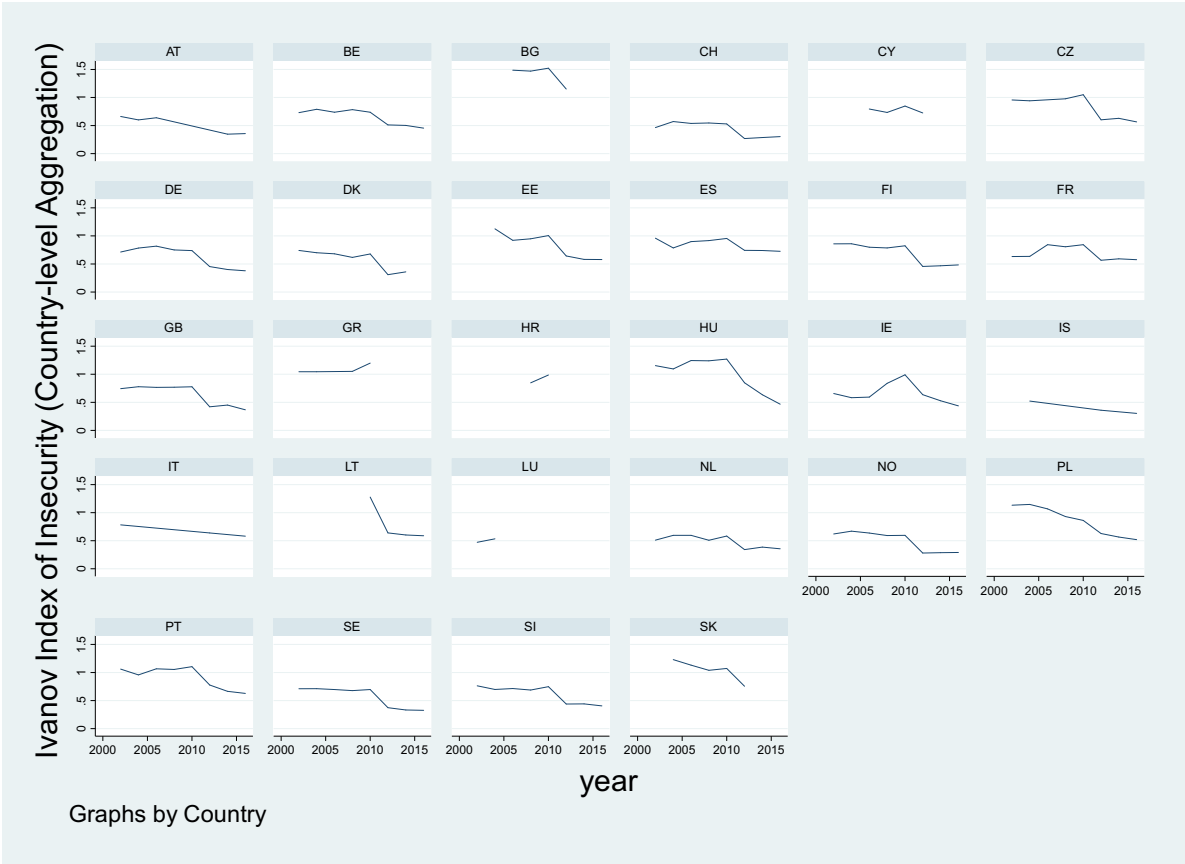
**Annex G. Country-level aggregates of institutional trust in the sample**



Graphs by Country
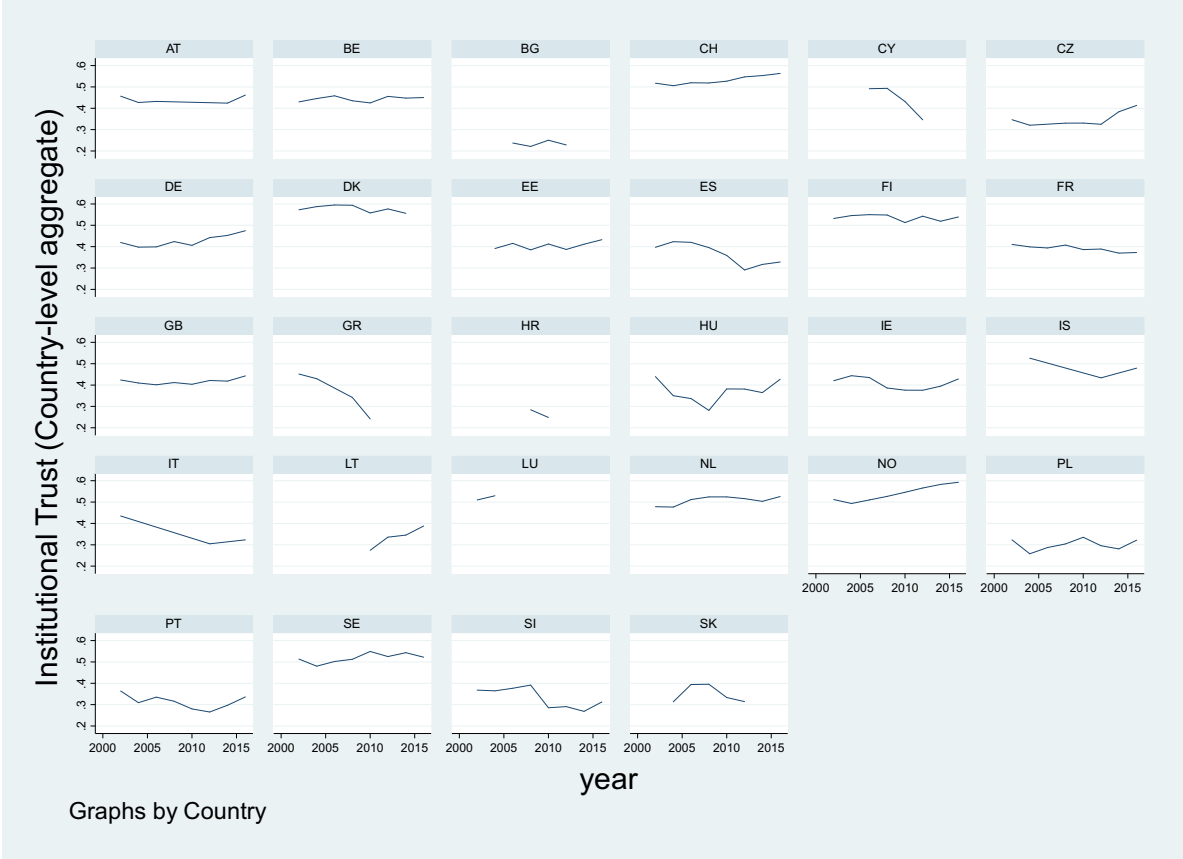
**Annex H. Country-level aggregates of institutional trust (difference) in the sample**



Graphs by Country

**Annex I. Calculations of Variance-Partition Coefficient (VPC)**

11.2% of variance in voting for populist parties can be attributed to differences between countries and across time:

- Total variance = 0.00764+0.060405=0.0680

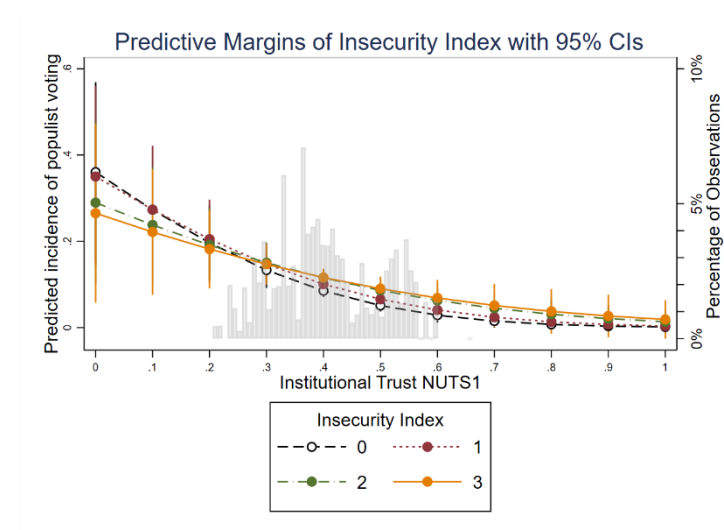- VPC (country-time)=0.00764/0.0680= 0.11235

For the three-level Country-time NUTS1 model additional 2.1% of variance in voting for populist parties can be attributed to regional differences at NUTS1 level on a reduced sample:

- VPC(NUTS1)= 0.0016/0.0759=0.021

- 2.1% of variance in voting for populist parties can be attributed to regional differences at NUTS1 level on a reduced sample
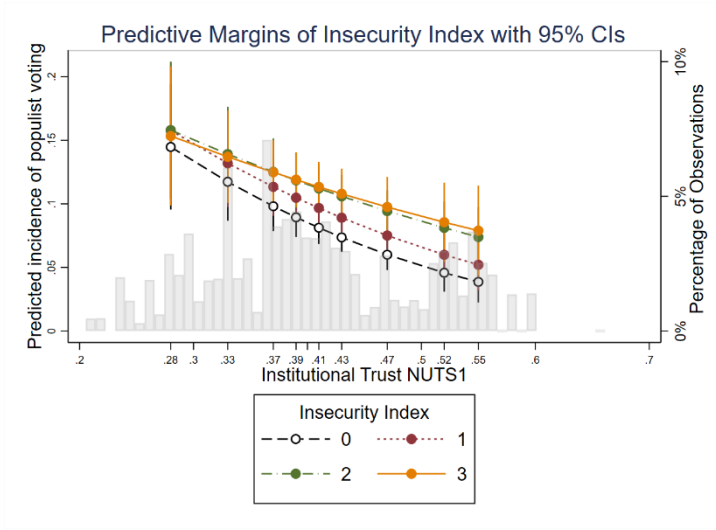
**Annex K. Graphs of the isolated groupings Institutional Trust and Insecurity Index**



Predictive Margins of Insecurity Index with 95% CIs



Predictive Margins of Insecurity Index with 95% CIs
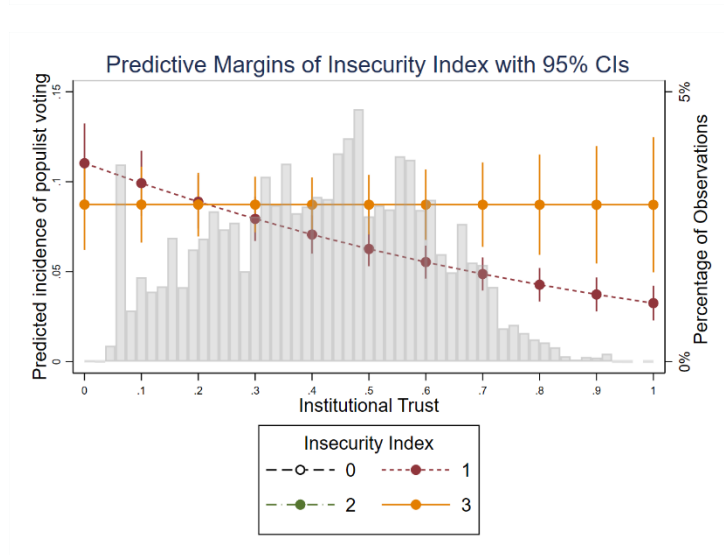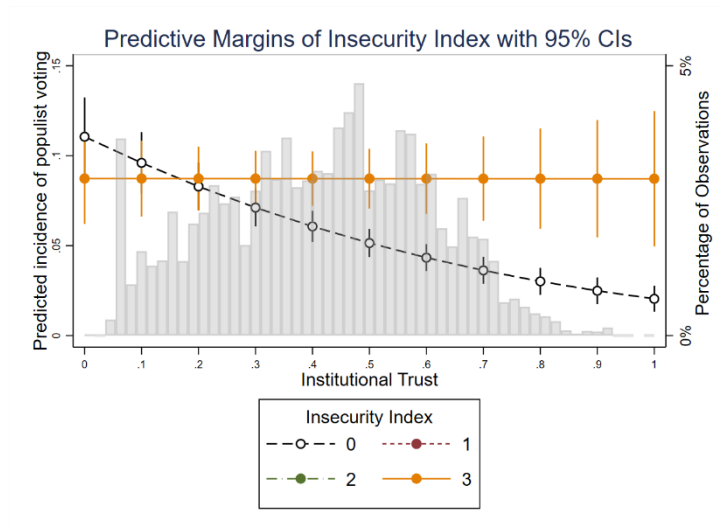
**Annex L. Graph for the full distribution of Institutional Trust (NUTS1)**



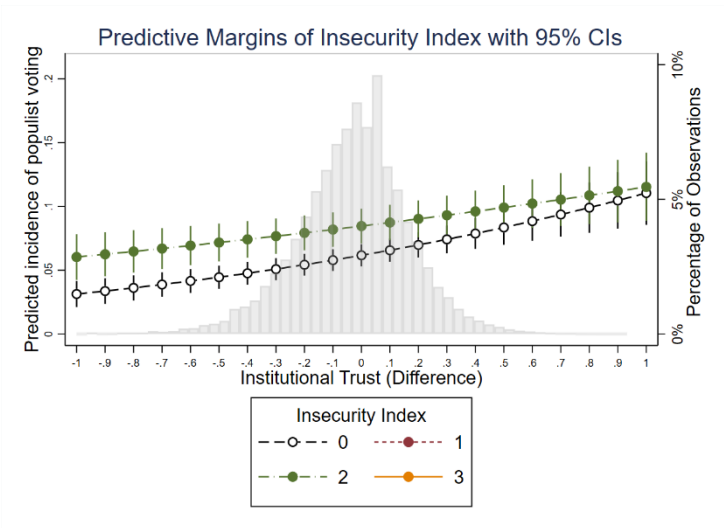Predictive Margins of Insecurity Index with 95% CIs

**Annex M. Graph for the 90% percentiles of the distribution of Institutional Trust Difference (NUTS1)**



**Annex N. Graphs of the isolated groupings of Relative Institutional Trust and Insecurity Index**
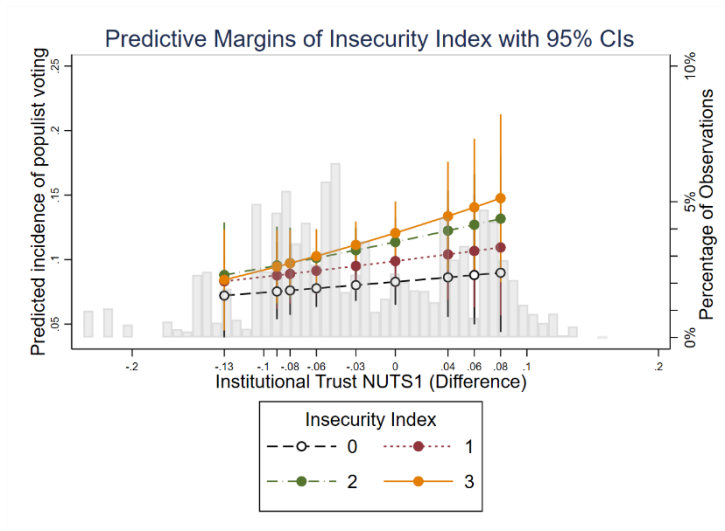
Predictive Margins of Insecurity Index with 95% CIs
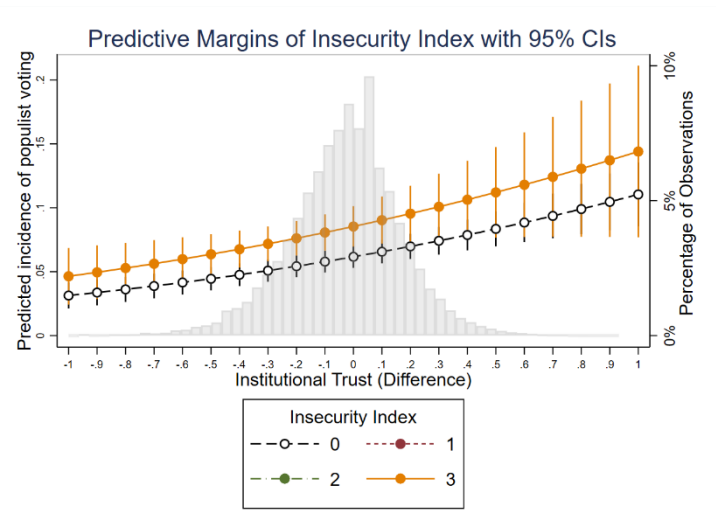
**Annex O. Graph for the full distribution of the Relative Institutional Trust (difference) (NUTS1)**



Predictive Margins of Insecurity Index with 95% CIs
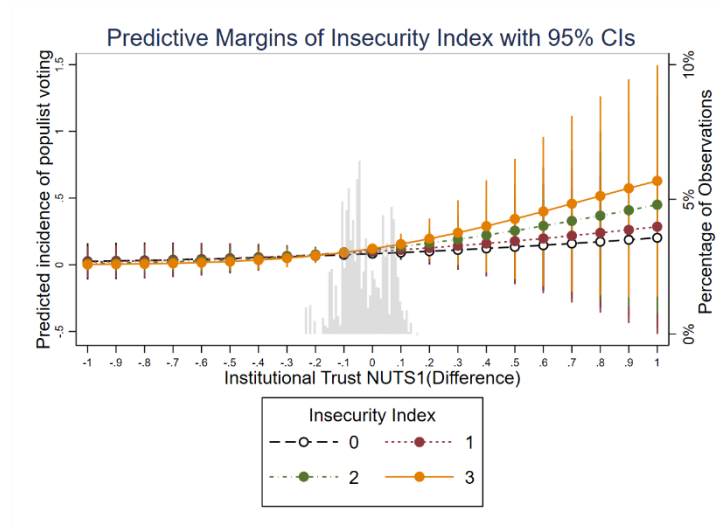
**Annex P. Graph for the 90% percentiles of the distribution of the Relative Trust (diff) (NUTS1)**



**Annex Q. Voter Shifts in Preferences on Economic and Immigration dimensions**
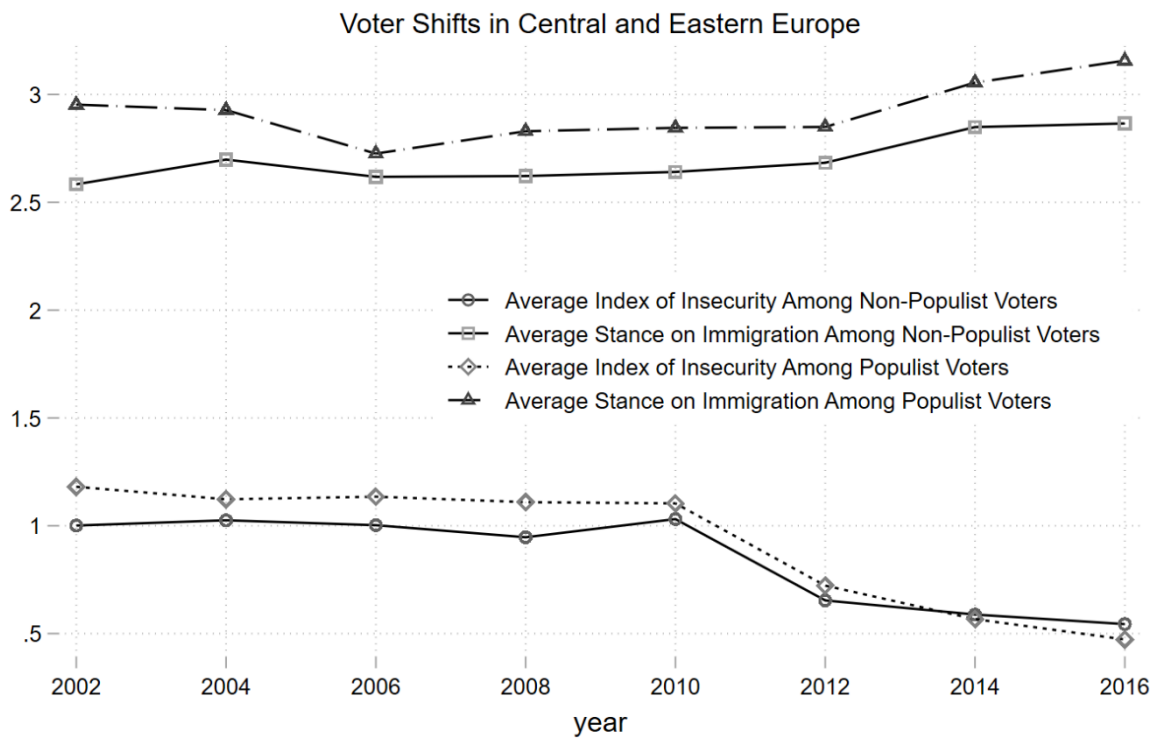


The graph above presents shifts in public opinion among voters and non-voters for populist parties among the countries of Central and Eastern Europe (Source: European Social Survey, countries in the sample: Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia).

The two lines in the upper corner represent attitudes to immigration for the two groups on the four-point scale (with four being the harshest - not allowing any immigrants from non-EU countries at all). The two lines in the lower part of the graph represent the index of insecurity, which is composed from three elements:
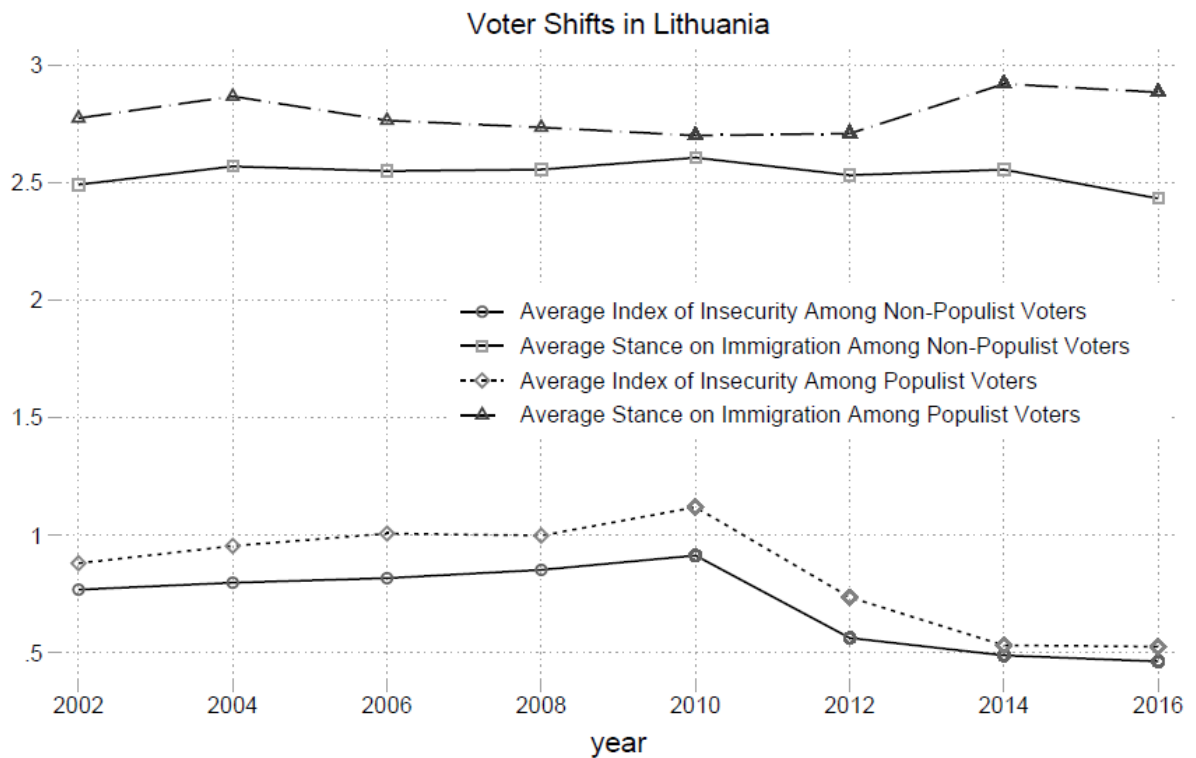
3= finding it hard or extremely hard to survive on current income, has experienced long-term unemployment (three months or more) and is an unskilled worker (according to the Erikson–Goldthorpe–Portocarero (EGP) occupational classification coding in Leiulfsrud, 2005).

2 = at least two are true

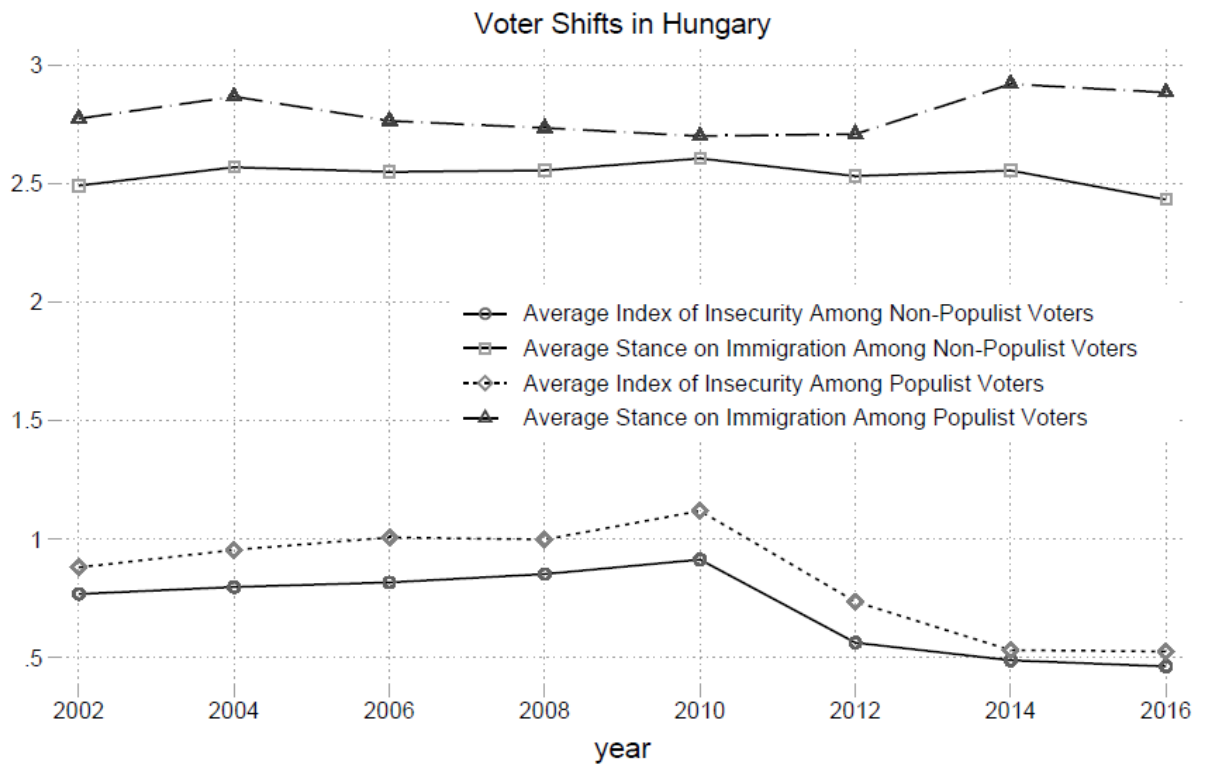1 = at least one is true

0 = none is true

**Annex R. Voter Shifts in Preferences on Economic and Immigration dimensions in Lithuania**



Voter Shifts in Lithuania

Legend:
— Average Index of Insecurity Among Non-Populist Voters
— Average Stance on Immigration Among Non-Populist Voters
— Average Index of Insecurity Among Populist Voters
— Average Stance on Immigration Among Populist Voters

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**Annex S. Voter Shifts in Preferences on Economic and Immigration dimensions in Hungary**



Voter Shifts in Hungary

Legend:
- —◦— Average Index of Insecurity Among Non-Populist Voters
- —□— Average Stance on Immigration Among Non-Populist Voters
- ··◇·· Average Index of Insecurity Among Populist Voters
- —▲— Average Stance on Immigration Among Populist Voters

**Annex T. Salience of Immigration Policy of Populist Parties in Central and Eastern Europe**



Policy Shifts 2006 - 2019
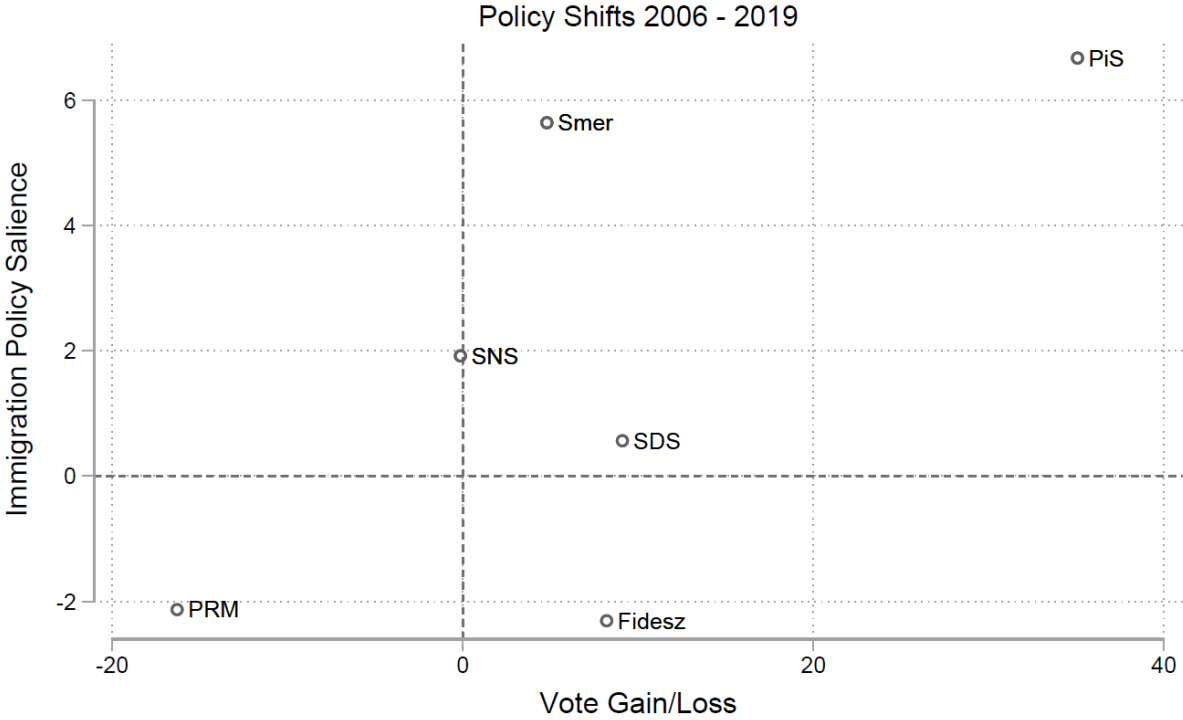
Source: Chapel Hill Data Survey

**Annex U. Salience of Economic Policy of Populist Parties in Central and Eastern Europe**

### Policy Shifts 2006 - 2019
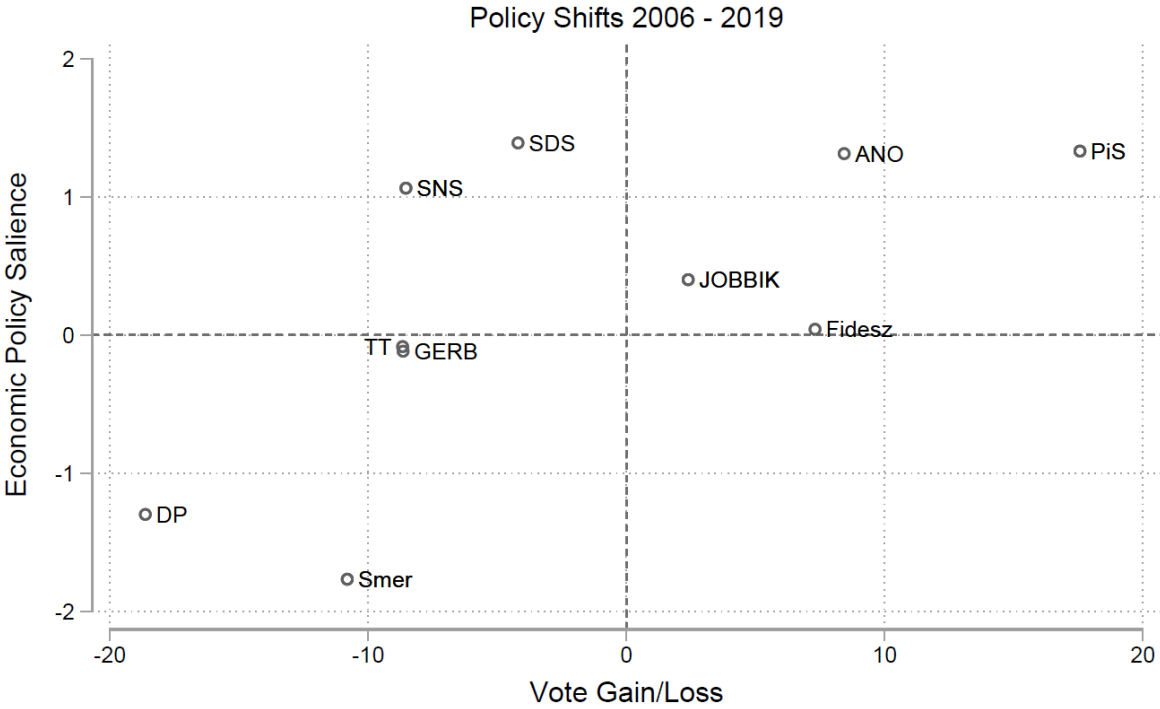


Source: Chapel Hill Data Survey

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