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# Determinants of Populist Voting

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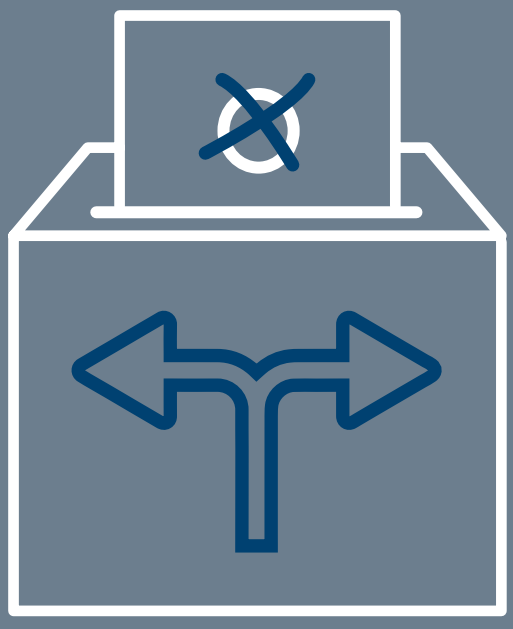

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## FORUM

# Determinants of Populist Voting



## REFORM MODEL



## RESEARCH REPORT



## DATABASE



## NEWS

# Determinants of Populist Voting

*Sascha O. Becker, Thiemo Fetzer and Dennis Novy*

## Who Voted for Brexit?[1]

### INTRODUCTION

The UK referendum on European Union membership on 23 June 2016 was a key moment for European (dis) integration. Although the outcome had been expected to be tight, in the days running up to the referendum bookmakers and pollsters predicted a win for the Remain side. Many observers were left puzzled and keen to understand who voted for Leave. Various newspapers and blogs were quick to link the referendum vote to key characteristics like the age profile of the population (Burn-Murdoch 2016). It was also pointed out that the Brexit vote relates to class identification and social attitudes more generally (Kaufmann 2016a). In our paper (Becker et al. 2016) we follow these early contributions and analyse the Brexit referendum vote in greater detail. We study the EU referendum result in England, Wales and Scotland in a disaggregated way across 380 local authorities (and across 107 wards in four English cities). We relate the vote to the fundamental socio-economic features of these areas. Figure 1 plots the Vote Leave shares across the local authority areas (excluding Northern Ireland and Gibraltar).

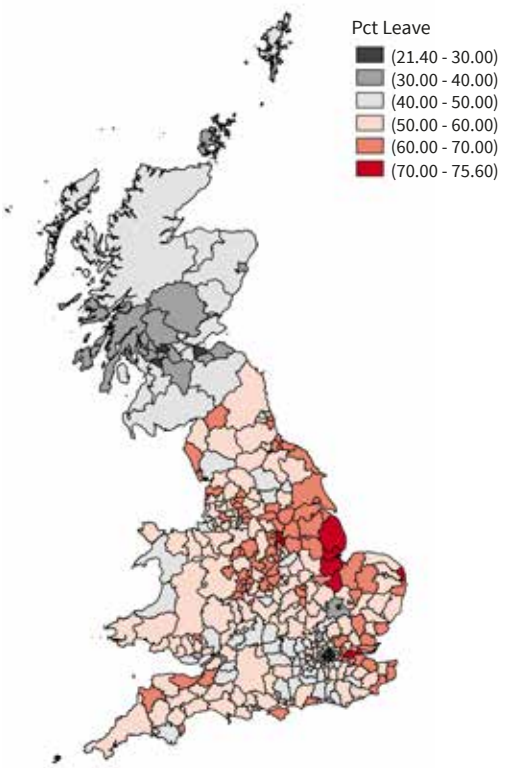
We capture different subsets of socio-economic variables that best 'predict' the actual referendum result. We cannot possibly give a causal explanation of the referendum result, because the election outcome is obviously multi-causal and multi-faceted. In other words, our results reflect a broad range of correlation patterns.

Figure 2 reports the goodness of fit in regressions that use different sets of explanatory variables. This helps to shed light on the relative explanatory power of different salient "issues". For example, we find that demography and education (i.e., the age and qualification profile of the population across voting areas) explain just under 80% of the Vote Leave share. The economic structure explains just under 70%. Variables in this group include the employment share of manufacturing, unemployment, and wages.

Surprisingly, and contrary to much of the political debate in the run-up to the election, we find that relatively little variation (under 50%) in the Vote Leave share can be explained by measures of a local authority area's exposure to the European Union. These measures include a local authority's trade exposure to the EU (albeit measured at a coarser spatial resolution), its receipts of EU structural funds, and importantly, the extent of immigration. We find evidence that the growth rate of immigrants from the 12 EU accession countries that joined the EU in 2004 and 2007 is linked to the Vote Leave share. This link mirrors findings in Becker and Fetzer (2016) who study the role of immigration from Eastern Europe explaining the growth of UKIP. It stands in contrast to migrant growth from the EU 15 countries or elsewhere in the world. It suggests that migration from predominantly Eastern European countries has had an effect on voters, albeit quantitatively small. However, we cannot identify the precise mechanism – whether the effect on voters is mainly

Figure 1

**Map of the Leave Share (in %) Across Local Authority Areas in the 2016 EU Referendum**




Source: Becker, Fetzer and Novy (2017). © ifo Institute

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[1] https://doi.org/10.1093/epolic/eix012
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economic due to competition in the labour and housing markets, or reflects changing social conditions instead.

## FISCAL CONSOLIDATION

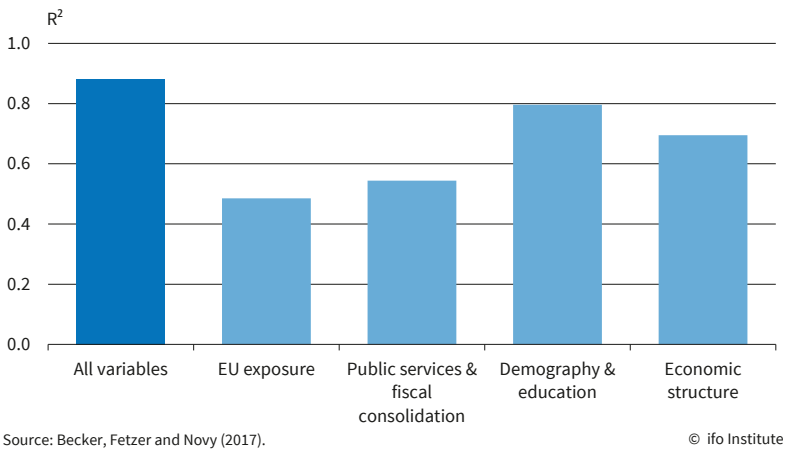
In the wake of the global financial crisis, the UK coalition government brought in wide-ranging austerity measures to reduce government spending and the fiscal deficit. At the level of local authorities, spending per person fell by an average 23.4% in real terms from 2009/10 until 2014/15. But the extent of total fiscal cuts varied dramatically across local authorities, ranging from 46.3% to 6.2% (see Innes and Tetlow 2015). It is important to note, however, that fiscal cuts were mainly implemented as de-facto proportionate reductions in grants across all local authorities. This setup implies that reliance on central government grants is a proxy variable for deprivation, with the poorest local authorities being more likely to be hit by the cuts. This makes it impossible in the cross-section (and challenging in a panel) to distinguish between the effects of poor fundamentals and the effects of fiscal cuts. Bearing this caveat on the interpretation in mind, our results suggest that local authorities experiencing more fiscal cuts were more likely to vote in favour of leaving the EU. Given the nexus between fiscal cuts and local deprivation, we think that this pattern largely reflects pre-existing deprivation.

## WHICH FACTORS ACCOUNT MOST FOR THE VARIATION IN THE VOTE LEAVE SHARE?

Demography, education, and economic structure, i.e., fundamental, slow-moving factors explain more of the variation in the Vote Leave share compared to measures of EU exposure, fiscal consolidation, and public services. We therefore find a rather striking disconnect between the factors driving the Brexit vote shares across the UK and how these factors relate to the EU, with the partial exception perhaps of the immigration of low-skilled Eastern Europeans.

Figure 2

**Goodness of Fit in Regressions Using Different Sets of Explanatory Variables**
Measured as R-squared




Source: Becker, Fetzer and Novy (2017).



## DID TURNOUT BY AGE MATTER?

According to detailed polling conducted after the referendum, turnout for the bracket of youngest voters aged 18-24 was 64%. This compares to turnout for the same age group of less than 50% on average in UK general elections since 2000; and to an average turnout in the referendum across all age groups of 72.2%. At the other end of the age spectrum, voters aged 65 and above had a turnout of 90%. Support for Leave steadily increased with age, rising from just 27% for 18-24 year-olds to 60% for voters aged 65 and above.

Could the referendum have ended up in a victory for Remain if more young people had turned out? We calculate that turnout amongst younger people or people more generally who were supportive of Remain would have had to be close to 100%. Clearly, this would not have been feasible. We therefore conclude that different turnout patterns would not have overturned the referendum outcome. Nevertheless, it is important to bear in mind the potential for strong inter-generational conflict entailed by Brexit.

## FIRST-PAST-THE-POST IN THE UK ELECTORAL SYSTEM AND THE LACK OF DEMOCRATIC REPRESENTATION

Our results are consistent with the notion that the voting outcome of the referendum was largely driven by longstanding fundamental determinants, most importantly those that make it harder to deal with the challenges of economic and social change. These fundamentals included a population that is older, less educated, and confronted with below-average public services. We therefore doubt that a different style of short-run campaigning would have made a meaningful difference to vote shares. Instead, a more complex picture emerges regarding the challenges of adapting to social and economic change.

It is clear that a majority of politicians and the media were caught off guard by the referendum result. This suggests that the needs of under-privileged areas of the country may be under-represented in the political decision process and the corresponding media attention. This is sometimes referred to as the “Westminster bubble”.

In fact, as a result of the first-past-the-post voting system, a mismatch arises. Despite strong electoral support in European Parliament (EP) elections, which follow a proportional voting system, UKIP (the right-wing party that has advocated Brexit since the 1990s)

currently only has one Member of Parliament in the House of Commons out of over 600. Voters went for an untested political entity. But given their fairly long history of electoral success in EP elections to date, UKIP should not be an untested political entity. UKIP members should have been put in positions of responsibility over the years to demonstrate whether they are able to follow up on their slogans and promises with real political change that improves people's lives. It may therefore be appropriate to consider ways of introducing more proportional representation into British politics to allow more diverse views to be represented in Parliament, and to subject them to public scrutiny in the parliamentary debate.

The political system also needs to better explain what the EU does and what it doesn't do. This is particularly important in the British context. For instance, the EU has essentially no influence over house-building and health care provision in the UK – two salient issues on voters' minds. Clearly, the role of the press is paramount in this context. Given the outlandish claims made in sections of the British yellow press and increasingly in more established titles like The Daily Telegraph too, politicians will find it hard to stem the populist flow.

## REJECTION OF THE STATUS QUO WITH NO CLEAR ALTERNATIVE

The conundrum of the Brexit vote is that it amounted to a rejection of the status quo without a clear alternative on the ballot paper. What exactly will Britain's new relationship with the EU be? Even six months after the vote we know precious little, and the government seems reluctant to clearly state the direction that it would prefer the negotiations to take. Most importantly, it is unclear whether Brexit will improve the lives of the very voters who were unhappy with the status quo.

The first cracks are already visible. On the one hand, Britain wishes to retain access to the Single Market in the broadest possible sense. But on the other hand, the EU will not grant broad access unless Britain maintains the free movement of labour. Indeed, the recent change of heart in Switzerland regarding its stance on immigration underlines how adamant the EU is on free movement.

## LESSONS FOR THE EUROPEAN UNION?

The evidence overwhelmingly suggests that free movement of factors of production, and particularly labour, can deliver large welfare gains. In the case of immigration, those welfare gains fall primarily onto the immigrants themselves, but there are also wider spillovers to the host community, at least in the aggregate. Yet the Brexit vote makes it clear that the political system needs to get more closely in touch with voters' concerns on immigration. In particular, it is up to national politics to decide how the benefits from immigration are shared with the wider electorate in the form of investment in public goods and infrastructure. A potential avenue for public debate could be a (fiscal) rule linking immigration to spending on public infrastructure to ensure that the electorate shares the gains from immigration in an appropriate way. This debate would mainly have to happen at the national level. But the EU could presumably also debate whether, in cases of rapid immigration waves, sensible restrictions to slow down immigration would be acceptable to ease the adjustment; or whether immigration should be accompanied by corresponding investment into public infrastructure.

There is no doubt that populism has been on the rise across the EU for several years and has largely been fuelled by nationalistic and anti-immigration sentiment. Italy's "Cinque Stelle movement" and Germany's "Alternative für Deutschland" are only the latest additions to the party spectrum. Of course, we do not claim that the patterns we uncovered for the UK automatically explain voting patterns in other countries. Yet, the fact that the referendum was focused on Britain's EU membership makes it all the more surprising that factors relating to EU integration played a far lesser role than one might have expected.

One may speculate that, scepticism towards the European Union is more a reflection of discontent with economic and social circumstances than an independent factor in other European countries too. It is clear that voters are hardly willing to make economic sacrifices in order to restrict immigration (Kaufmann 2016b). In other words, economic motives seem to be at least as important as anti-immigration preferences. European governments should therefore focus their attention on supporting those who feel disenfranchised. Brexit could either lead to further EU disintegration, or it could be a turning point towards a stronger union.

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# Financial Crises and the Populist Right[1]

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## INTRODUCTION

Almost ten years have passed since the start of the most severe financial crisis of recent decades. The 2008 crash, which was followed by the Eurozone debt crisis in 2011/2012, resulted in a severe decline in GDP and a spike in unemployment. Besides these economic costs, the crisis also triggered major political disruptions. Two-party systems that had been stable for decades were swept away, long-ruling parties saw their vote share drop to single digits and populist parties gained new political space. Right-wing populist parties in particular thrived, as they entered parliaments and, in some cases, government. The election of Donald Trump in the US and the Brexit vote in the UK are the most recent culminations of the rise of populism in the Western world.

In a recent paper (Funke et al. 2016) we asked how the political aftermath of the 2008 crisis compares to previous experiences. Can we identify systematic shifts in the political landscape after financial crises and if so, what do these shifts look like? To answer these questions, we conducted a comprehensive historical analysis of the political fall-out of financial crises. We traced the political history of 20 advanced democracies back to the 1870s and constructed a dataset of over 800 elections from 1870 to 2014. We then complemented this dataset with existing data on over 100 financial crises from Jordà et al. (2017).

The results in Funke et al. (2016) show that financial crises put a strain on democracies: government majorities shrink, parliamentary fractionalization rises, the number of parties in parliament increases, and the far-right parties see strong political gains. In a counterfactual analysis, we find that financial crises have much stronger political effects than other type of economic downturns, such as recessions or output collapses that do not involve financial turmoil. We therefore conclude that political fragmentation, polarization and radicalization are a hallmark of major financial crises.

Here, in this short piece, we build on our long-run work to drill deeper into the political developments of the past decades, with a focus on right-wing populism. To define right-wing populist parties, we follow recent work by Mudde (2015), Pausch (2015), Bauer (2016) and particularly Rodrik (2017), according to whom right-wing populist parties "emphasize a cultural cleavage, the national, ethnic, religious, or cultural identity of the "people" against outside groups who allegedly pose a threat to the popular will." (p. 22/23).

To set the stage, it helps to review the recent literature on the determinants of populist voting, which has mainly focused on the impact of (i) globalization, (ii) cultural and institutional dissatisfaction, and (iii) immigration. Autor et al. (2013), Dippel et al. (2015) and Colantone and Stanig (2017) suggest that populist voting is largely driven by a backlash against economic globalization, particularly in regions with a declining manufacturing sector that have suffered from increasing competition from China and Eastern Europe. Dustmann et al. (2017) show that trust in the political system is eroding, and especially trust in the European Union. Inglehart and Norris (2016) find evidence in favour of a "cultural backlash" hypothesis, as many voters are opposed to the rapid change in Western value systems and increasingly progressive politics. Moreover, Steinmayr (2016) and Halla et al. (2017) study the link between populism and immigration, particularly after the rapid increase in the number of refugees entering Europe after 2015 (with conflicting findings).

Here, we complement these and other studies by focusing on financial crises as an additional, and possibly reinforcing driver of populist voting. More specifically, we study the link between crises and right-wing populism in two main crisis clusters of recent decades: First, we explore the political aftermath of the financial crises in Scandinavia, Switzerland and Italy during the 1990s, and secon, the period after 2008, again with an emphasis on Europe.

## BORN IN THE 1990s: POST-CRISIS POPULISM IN SCANDINAVIA, ITALY AND SWITZERLAND

In the late 1980s and early 1990s, Denmark, Norway, Italy and Switzerland were hit by financial crises.[2] How did right-wing populist parties fare back then? Figure 1 shows the voting shares in national parliamentary elections of the main right-wing populist parties in these four countries. We consider the last election before the outbreak of the crisis and the three elections thereafter. The main takeaway from this figure is that right-wing populist parties gained traction from the financial crises in their countries.

In Norway, the vote share of the right-wing populist Progress Party stalled at 5% or lower for ten years. However, in the wake of the 1988 crisis, its vote share tripled from 3.7% in 1985 to 13.0% in the first post-crisis election of 1989. Subsequently, the party temporarily suffered losses in the 1993 election, but bounced back to 15.3% in 1997, remaining well above the pre-crisis level at all times. Today, the party has become a domi-

[1] This work is part of a larger project kindly supported by a research grant from the Bundesministerium für Bildung und Forschung (BMBF).

[2] Dates of financial crises are based on Jordà et al. (2017). Financial crises are defined as events during which a country's banking sector experiences bank runs, sharp increases in default rates accompanied by large losses of capital that result in public intervention, bankruptcy, or the forced mergers of financial institutions.

nant force in Norwegian politics and made it into the government in 2013.

The Danish Progress Party also benefitted from the Nordic financial crisis. After a stretch of stagnant and decreasing voter support in the late 1970s and 1980s, the party more than doubled its vote share from 3.6% in 1984 to 9% in the 1988 post-crisis election. In the following two elections, the vote share remained above the pre-crisis level, but the party essentially collapsed in the late 1990s. However, a new party, the Danish People's Party was founded by former leaders of the Progress Party in 1995. The People's Party can be interpreted as the de facto successor of the Progress Party and now plays a crucial role in Danish politics. Indeed, the center-right minority governments of the past ten years all relied on the People Party's parliamentary support.

In Switzerland, the right-wing populist People's Party secured roughly 10% of the vote throughout the 1970s and 1980s, including in the 1987 election. However, after the Swiss financial crisis of 1991, the People's Party gained a further 4 percentage points of the vote in the first election after the crisis (1995), and moved towards 30% in the following two elections (1999 and 2003). Since then, the party has continuously experienced these high levels of voter support and has been the largest faction in the Swiss National Council since 1999.

The roots of Italy's Lega Nord party go back to the 1980s. In 1987, the movement (back then named the Lombard League) gained a mere 0.5% of the vote and two mandates in parliament. In the first post-crisis elections (1992), however, it gained 8.7% and 55 deputy seats. The party achieved a similar result in the 1994 elections and formed a short-lived coalition government with the right-wing nationalist Alleanza Nazionale and Silvio Berlusconi's conservative Forza Italia. Lega Nord gained further ground in the 1996 elections and eventually returned to government in 2001-2005 and again in 2008-2011, both times as part of Berlusconi's coalition. The party faced losses in 2013 with votes absorbed by the new protest party Five Star Movement, but is doing far better in recent polls. Its role is likely to be crucial in the next Italian election. In short, the Lega Nord is an important example of how a political force moved from political obscurity to political significance in the wake of a financial crisis.

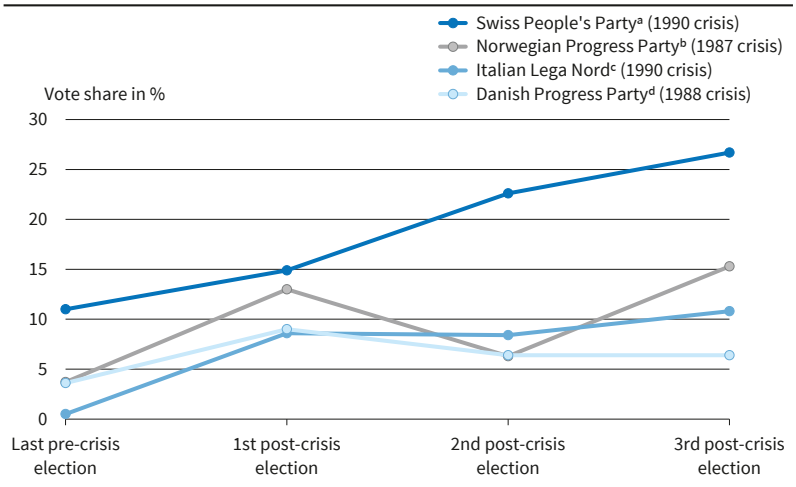
## EUROPE SINCE 2008: RIGHT-WING POPULISM ENTERS THE CORE

In terms of right-wing populism, the European experience after the crash of 2008 has been strikingly similar to that of the more idiosyncratic, country-specific crises of the 1990s. Figure 2 shows the vote shares of right-wing populists in three consecutive general elections after the Lehman collapse of September 15, 2008 (focusing on lower house results in bicameral systems). It is evident that right-wing populist parties found themselves in a considerably better position after 2008 than before. On average, the vote share of right-wing populists was about 5% prior to the crisis. Two elections later, however, their average vote share had climbed to double-digit levels (between 10% and 20%), resulting in significantly higher levels of parliamentary representation. Thus, similar to the evidence from the 1990s right-wing populist parties advanced from the political fringe to the centre of the political arena.

Established right-wing populist parties also capitalized on the crisis. The Freedom Party of Austria improved its vote share from 11.0% in 2006 to 20.5% in 2013 and now has hopes of entering government after the upcoming election in late 2017. Similarly, the Norwegian Progress Party reached an all-time high in 2009 (22.9%) and in 2013 became part of the government coali-

Figure 1

**Right-wing Populist Vote Shares after the Financial Crises of the Late 1980s/Early 1990s**




[a] Nationalrat elections 1987, 1995, 1999 and 2003 (financial crisis in 1991).
[b] Storting elections 1985, 1989, 1993 and 1997 (financial crisis in 1988).
Camera dei deputati elections 1987, 1992, 1994 and 1996 (financial crisis in 1990).
[d] Folketing elections 1984, 1988, 1990 and 1994 (financial crisis in 1987).

Note that Denmark and Switzerland held elections in the crisis outbreak year: the Danish Progress Party reached 4.8% in 1987 and the Swiss People's Party 11.9% in 1991. We exclude these elections because in contrast to the 2008 Lehman collapse it is more difficult to identify the exact month in which the crisis culminated and, thus, whether elections were held before or after that date. However, including the results (either as last pre-crisis or first post-crisis results) does not change the general picture that right-wing populists were successful post-crisis.

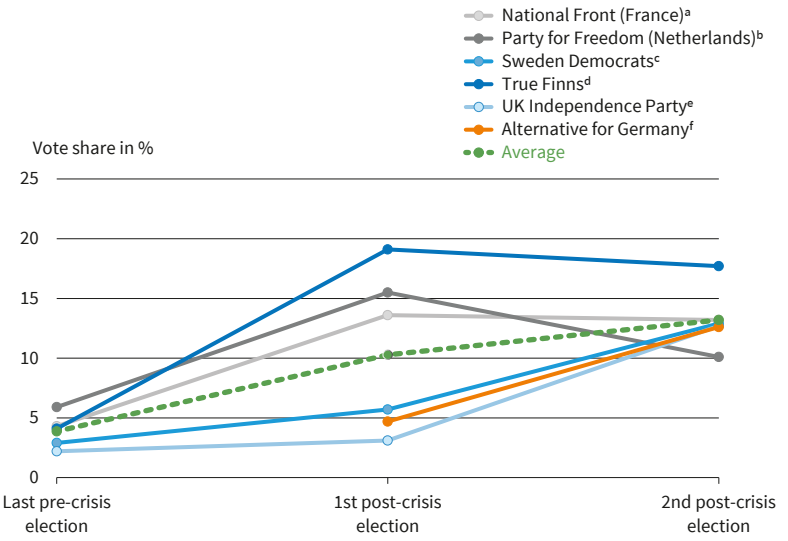
Source: Election results from Döring and Manow (2016); financial dates from Jordà et al. (2017). © ifo Institute

tion, while the Danish People's Party went from 13.8% in 2007 to 21.1% in 2015. Mature right-wing populist parties in Eastern Europe exhibit similar patterns. For example, the Hungarian Fidesz re-entered government in 2010, after the vote share had increased to a record 53.7% in 2007. Likewise, the Polish Law and Justice grew from 32.1% in 2007 to 37.6% in 2015, when it formed a majority government.

Last but not least, we observe the emergence of new right-wing parties. Since 2008, several European countries have witnessed the creation of entirely new right-wing populist parties; and some of these newcomers managed to enter national parliaments in record time. Notable examples of newly founded right-wing entrants include the People's Party in Belgium (after the 2010 election), the Independent Greeks (2012 election), Brothers of Italy (2013 election), Dawn in the Czech Republic (2013 election), Team Stronach in Austria (2013 election), Kukiz'15 in Poland (2015 election) and more recently, the Alternative for Germany (2017 election), whose latest electoral success is also shown in Figure 2.

Figure 2

**Right-wing Populist Vote Shares in European National Elections since the Lehman Collapse (Sep 15, 2008)**




[a] Assemblé national elections 2007, 2012, 2017 (first round results).
[b] Tweede Kamer elections 2006, 2010, 2012.
Riksdag elections 2006, 2010, 2014.
[d] Eduskunta elections 2007, 2011, 2015.
[e] House of Commons elections 2005, 2010, 2015.
[f] Bundestag elections 2013 and 2017 (we include the two post-crisis elections that the party has contested so far).

Source: Döring and Manow (2016); official election statistics. © ifo Institute

The aftermath of the 2008 financial crisis can thus be characterized by a "rise of the right" in several dimensions. Parties that were inexistent or largely unknown prior to 2008 were propelled into the political mainstream. This is also true for a subset of countries like Germany, Finland and Britain that had been largely immune to populist politics for decades. Moreover, in those countries where right-wing populism was already strong to start with, the vote shares of populist forces increased further, thus facilitating their entry into government.

## SUMMARY AND CONCLUDING REMARKS

The main insight from this short piece is that financial crises of the past 30 years have been a catalyst of right-wing populist politics. Many of the now-prominent right-wing populist parties in Europe, such as the Lega Nord in Italy, the Alternative for Germany, the Norwegian Progress Party or the Finn's Party are "children of financial crises", having made their breakthrough in national politics in the years following a financial crash. We also find that the 2008 crisis triggered a wave of governments in which right-wing populists gained power, often as a coalition partner.

As discussed, the crisis is just one of many potential factors explaining the recent successes of right-wing populism in Europe and beyond. Other drivers such as "cultural backlash", the impact of globalization, rising inequality, and the refugee crisis of 2015 surely played a critical role too. However, "the rise of the right" in Europe since 2008 cannot be fully understood without considering the impact of the 2008 and 2011/2012 financial crises.

To conclude, one can ask what makes financial crises so politically disruptive? Why do financial crises lead to the birth and success of extremist politics, whereas other types of economic downturns do not? A first potential explanation is that financial crises are perceived as inexcusable events that result from a failure of policies and regulation, rather than from an external shock. This leads to distrust in government and mainstream politics. Secondly, financial crises typically trigger creditor-debtor conflicts (Mian et al. 2014) and a rise in income and wealth inequality (Atkinson and Morelli 2010, 2011) to levels not observed in normal recessions. Thirdly, we know that financial crashes often involve large-scale bank bailouts and these are highly controversial and unpopular (e.g., Broz 2005). Such bail-out initiatives give traction to extremist ideas at the political fringe. In this environment of distrust, uncertainty and dissatisfaction, right-wing populists have learned to gain votes by offering seemingly simple solutions to complex problems, and by attributing blame to minorities or foreigners.

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# Immigration and the Rise of Far-Right Parties in Europe

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## INTRODUCTION

The immigrant share of the population has risen substantially in most European countries since the beginning of the century. Figure 1 shows this rise for selected countries between 2002 and 2014. Not only is the immigrant share of the population high in absolute terms, exceeding 10% in a majority of the countries in the Figure , but in many cases it has increased quite rapidly, with growth exceeding 50% for several countries during this period. While the rapid increase in the immigrant share of the population has posed major policy challenges for European countries, involving assimilation, education, and employment, inter alia; for many observers the more fundamental challenge has been the coincident rise of far-right wing political parties.

Table 1 presents vote shares for far-right political parties in national parliamentary elections for the period 2002-2017. Many parties secured substantial vote shares (>15%), e.g. FPÖ in Austria, DF in Denmark, Finns Party in Finland, FRP in Norway, Jobbik in Hungary, etc. (see Table 2). Not only does the rise of far-right parties challenge the center-left consensus on which European institutions have come to rely, brought to the fore by Britain's decision to exit the EU; it also raises fundamental questions related to the role of ethnic identity in European societies and the potential for ethnic conflict in Europe.

Given the stridently anti-immigrant rhetoric of far-right political parties, it is natural to ask to what degree these phenomena are linked and, indeed, a significant body of scholarship has emerged that investigates the impact of immigration on the success of far-right parties.[1] These studies largely find that increases in immigration play an important role in the success of contemporary far-right parties in a number of European countries, i.e. Halla et al. (2017) for Austria; Dustmann et al. (2016) and Harmon (2017) for Denmark; Otto and Steinhardt (2014) for the city of Hamburg (Germany); Sekeris and Vasilakis (2016) for Greece; Barone et al. (2016) for Italy; Brunner and Kuhn (2014) for Switzerland; Becker and Fetzer (2016) for the UK.

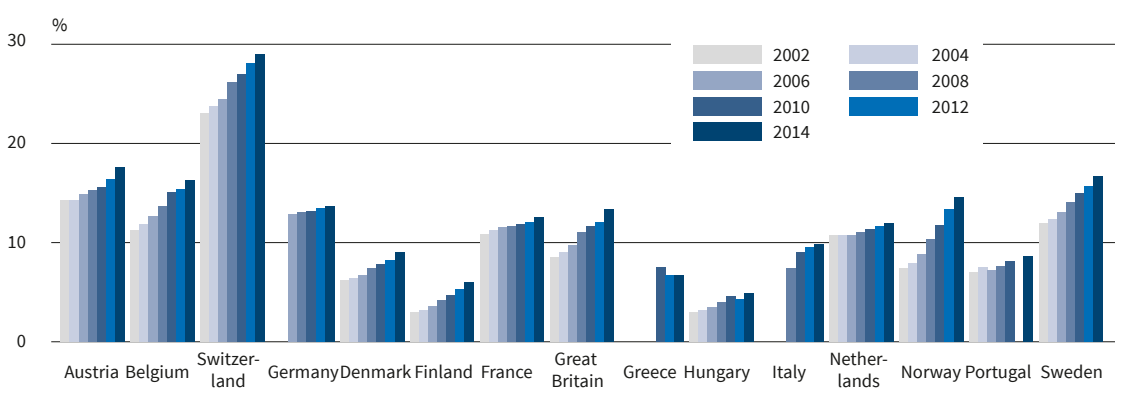
By contrast, Steinmayr (2016) finds evidence consistent with the *contact hypothesis* suggesting that accommodations that hosted refugees showed a decrease in support of FPÖ in Austria. Vertier and Viskanic (2017) investigate the impact of the relocation of refugees from "Calais jungle" in France to temporary refugee-centers (CAO) on votes in favour of the far-right party "Front National" in the 2017 French presidential elections, and provide further evidence of *contact hypothesis*. They find that presence of a CAO reduces the vote share increase of the Front National by around 13.3% compared to other municipalities.

Interestingly, however, these studies also underline a number of characteristics that mediate the association between immigration and the electoral success of far-right parties. For example, using Swiss voting results, Brunner and Kuhn (2014) find that the effect of immigration on the electoral success of far-right parties transmits through cultural differences between immigrants and natives, whereas Harmon (2017) finds that the increases in local ethnic diversity due to immigration explain right-ward shifts in election outcomes in Denmark. Dustmann et al. (2016) exploit the quasi-random refugee allocation in Denmark and underline the heterogeneity effect associated with the impact of immigration on rightwing voting by focusing on municipality level characteristics such as urbani-

[1] Becker and Fetzer (2016), Halla et al. (2017), Barone et al. (2016), Brunner and Kuhn (2014), Otto and Steinhardt (2014), and Harmon (2017) investigate the impact of immigration on electoral outcomes of rightwing parties, whereas, Sekeris and Vasilakis (2016), Vertier and Viskanic (2017), Dustmann et al. (2016) and Steinmayr (2016) consider the effect of refugee inflows. This distinction is important to note because as suggested by O'Rourke and Sinnott (2006), the native response to refugees is broadly less hostile from that to other immigrants.

Figure 1

**Immigrant Share in European Countries**




Source: OECD (2016).

Table 1

**Vote Share of Far-Right Parties in National Parliamentary Elections, 2002-2017**

| Country | Election 1 | Election 2 | Election 3 | Election 4 | Election 5 | Election 6 |
|---|---|---|---|---|---|---|
| Austria | 10.01 | 15.15 | 28.24 | 24.04 | - | - |
| Belgium | 13.57 | 13.96 | 8.27 | 3.67 | - | - |
| Switzerland | 27.71 | 29.46 | 26.8 | 29.5 | - | - |
| Germany | 0.3 | 1.9 | 1.9 | 3.5 | - | - |
| Denmark | 13.3 | 13.9 | 12.32 | 21.1 | - | - |
| Finland | 1.8 | 4.2 | 19.04 | 17.65 | - | - |
| France | 13.23 | 5.88 | 13.6 | 13.2 | - | - |
| United Kingdom | 2.9 | 5 | 12.6 | 1.9 | - | - |
| Hungary | 4.6 | 1.7 | 16.7 | 20.22 | - | - |
| Italy | 5.18 | 10.73 | 4.21 | | - | - |
| Netherlands | 17 | 5.7 | 6.1 | 15.45 | 10.08 | 13.1 |
| Norway | 22.06 | 22.91 | 16.35 | | - | - |
| Portugal | 0.09 | 0.16 | 0.2 | 0.31 | 0.5 | - |
| Sweden | 1.4 | 2.93 | 5.7 | 12.86 | - | - |

Source: European Election Database.

Table 2

**List of Far-Right Parties**

| Country | References | Far-right parties |
|---|---|---|
| Austria | Mudde (2013) | Austrian Freedom Party (FPO)and Bundnis Zukunft Osterreich (BZO) |
| Belgium | Mudde (2013) | Vlaams Blok/Vlaams Belang (VB)and Front National (FN) |
| Switzerland | Ivarsflaten (2006) and Mudde (2013) | Swiss People's Party (SVP), Swiss Nationalist Party (PNOS) and Swiss Democrats (SD) |
| Denmark | Ivarsflaten (2006) | Danish People's Party (DF) and Danish Progress Party (FP) |
| Germany | Ivarsflaten (2006) | National Democratic Party of Germany(NPD)and The Republicans (REP) |
| Finland | Ivarsflaten (2006) | Finns Party (PS) and Finnish People's Blue-whites (SKS) |
| France | Rydgren (2008) | Front National(FN), National Republican Movement (MNR)and Movement for France(MPF) |
| Hungary | Mudde (2012) | Hungarian Justice and Life Party (MIEP)and Movement for a Better Hungary (Jobbik) |
| Italy | Ivarsflaten (2006) | Social Movement - Tricolour Flame (MS-FT)and Lega Nord (LN) |
| Netherlands | Rydgren (2008) and Mudde (2013) | Pim Fortuyn List (LPF and Party for Freedom (PVV) |
| Norway | Rydgren (2008) | Progress Party (FRP) |
| Portugal | Mudde(2012) | National Renovator Party (PNR) |
| Sweden | Ivarsflaten (2006) | Swedish Democrats (SD) |
| United Kingdom | Ivarsflaten (2006) | United Kingdom Independence Party (UKIP)and British National Party (BNP) |

Source: Ivarsflaten (2006); Mudde (2012); Mudde (2013); Rydgren (2008).

zation, pre-policy immigrant shares, unemployment rates and crime rates. For example, in the largest and most urban municipalities, they find that refugee allocation has the opposite effect on far-right voting. In less urban municipalities with high pre-policy immigrant shares and in urban municipalities with high unemployment, they find a pronounced response to refugee allocation. Finally, they find a homogenous effect of higher pre-policy crime rates in strengthening the association between refugee flows and support for anti-immigration parties.

While highly informative, the tendency in this literature to focus on specific countries obscures the degree to which the rise of the right is a pan-European phenomenon with a common set of underlying relationships. It also fails to address systematic differences across countries in the degree to which immigration has fostered support for far-right parties. The remainder of this article addresses these issues.

## DATA

The data for this study comes from the first seven waves of the European Social Survey (ESS), a biennial survey launched in 2002. Our dependent variable is a dummy variable for whether an individual voted for a far-right party in the most recent national election. We construct this variable by matching responses to a question regarding the party an individual voted for in the last election to a list of far-right parties based on work by Ivarsflaten (2006), Rydgren (2008), and Mudde (2012, 2013).[2] Given our interest in immigration and far-right voting behaviour, we restrict the sample to individuals who report voting in the last national election and reside in one of the 14 countries with at least one significant far-right party, and for which the OECD database (2017) reports data on immigrant popula-

[2] See Davis and Deole (2016) for details.

tion share. These countries are Austria, Belgium, Switzerland, Germany, Denmark, Finland, France, Great Britain, Hungary, Italy, Netherlands, Norway, Portugal, and Sweden.[3]

Individual level variables are obtained from the ESS survey responses and include variables indicating information on a variety of demographic, economic and cultural characteristics that may influence their voting decision. Demographic variables include an individual's age, gender, marital status, household size, residential location, and a dummy variable for whether there are children living at home. Economic variables include measures of education attainment and employment status. Cultural variables include an individual's religious affiliation, the immigration status of the individual and their parents, and a measure of religiosity.

Our primary independent variable is the natural log of the immigrant population share, which is taken from OECD (2017). Our focus on the immigrant population share (IPS) is motivated by the salience hypothesis (Blumer 1958; Blalock 1967), which holds that an increase in the presence of another racial or ethnic group tends to increase an individual's awareness of their own ethnic identity, a process that would potentially give rise to native political support for parties with an ethno-nationalist ideology. Given that our dependent variable measures an individual's decision to vote for a far-right party in the last national elections, we match IPS to individual respondents using the year of last national election rather than the survey year.

Given the binary nature of the outcome variable (i.e. decision to vote for far-right parties), we estimate a *probit* regression. Our hypothesis in this respect is that the immigrant share of total population of a country increases the probability of voting for a far-right political party, which is given by

$$\text{Prob}(rightvote_i = 1) = \Phi(\beta_0 + \beta_1 \log(IPS_{ct}) + \alpha' X_i + \gamma_c + \gamma_t), \quad (1)$$

where $rightvote_i$ is a binary dependent variable recording individual i's decision to vote for a far-right party; *IPS* is the immigrant share of total population in country *c* at time *t*; $X_i$ is a vector of individual level characteristics as presented in table 3; $\gamma_i$ and $\gamma_i$ are country and year dummies, which are included to account for unobserved country and period characteristics; and $\phi$ is the standard normal distribution's *cdf*. For ease of interpretation, we report the adjusted predictions at means (APMs) of far-right voting for different values of immigrant share (IPS).

Table 3

**Descriptive Statistics**

| | Mean | sd | Min | Max | Obs. |
|---|---|---|---|---|---|
| Dependent Variable | | | | | |
| Vote to far-right | 0.056 | 0.229 | 0 | 1 | 109477 |
| Demographic characteristics | | | | | |
| Age | 51.379 | 16.592 | 18 | 102 | 109326 |
| Female | 0.502 | 0.500 | 0 | 1 | 109461 |
| Married | 0.577 | 0.494 | 0 | 1 | 109477 |
| Live with children | 0.371 | 0.483 | 0 | 1 | 109404 |
| HH Size | 2.514 | 1.276 | 1 | 22 | 109463 |
| Urban | 0.320 | 0.467 | 0 | 1 | 109374 |
| Economic characteristics | | | | | |
| Education in years | 12.869 | 4.217 | 0 | 56 | 109115 |
| Unemployed | 0.029 | 0.168 | 0 | 1 | 109477 |
| Retired | 0.279 | 0.448 | 0 | 1 | 109477 |
| Self-employed | 0.130 | 0.336 | 0 | 1 | 109477 |
| Owner | 0.015 | 0.122 | 0 | 1 | 109477 |
| Cultural characteristics | | | | | |
| Roman Catholic | 0.231 | 0.421 | 0 | 1 | 105517 |
| Protestant | 0.264 | 0.441 | 0 | 1 | 105517 |
| Eastern Orthodox | 0.047 | 0.211 | 0 | 1 | 105517 |
| Other Christians | 0.010 | 0.101 | 0 | 1 | 105517 |
| Jewish | 0.001 | 0.034 | 0 | 1 | 105517 |
| Islamic | 0.008 | 0.087 | 0 | 1 | 105517 |
| Eastern religions | 0.004 | 0.060 | 0 | 1 | 105517 |
| Other non-chri. | 0.002 | 0.049 | 0 | 1 | 105517 |
| Born in the country | 0.953 | 0.211 | 0 | 1 | 109451 |
| Foreign-born father | 0.075 | 0.263 | 0 | 1 | 109158 |
| Foreign-born mother | 0.075 | 0.264 | 0 | 1 | 109378 |
| Religiosity | 4.597 | 2.915 | 0 | 10 | 109477 |
| Macro indicators | | | | | |
| Immigrant share (IPS) | 11.158 | 5.490685 | 2.924 | 28.7 | 99235 |
| Unemployment rate | 7.507 | 3.620547 | 2.55 | 26.49027 | 99235 |
| GDP per capita | 37686.520 | 10525.8 | 14885.2 | 65658.42 | 99235 |
| Religious diversity | 0.674 | 0.223 | 0.324 | 0.949 | 99235 |
| Individualism index | 66.667 | 16.552 | 27 | 89 | 99235 |

Source: Authors' calculations.

## INDIVIDUAL CHARACTERISTICS, IMMIGRANT POPULATION SHARE AND FAR-RIGHT VOTING

Figure 2 presents the adjusted predictions at means (APMs) for the relationship between immigrant population share (IPS) and far-right voting (FRV) from our baseline specification. We find a strong positive rela-

[3] The list includes both member and non-member countries of the European Union. The non-EU members in our sample are Switzerland and Norway.

tionship between the immigrant population share and the propensity of individuals to vote for a far-right party. While Figure 2 presents the average relationship between immigrant share and far-right voting, it's quite possible that this relationship differs systematically across individuals with different characteristics. To explore this possibility, we augment our baseline regression with terms by interacting the IPS with a variety of individual characteristics including educational attainment, employment status, urban location and religiosity.

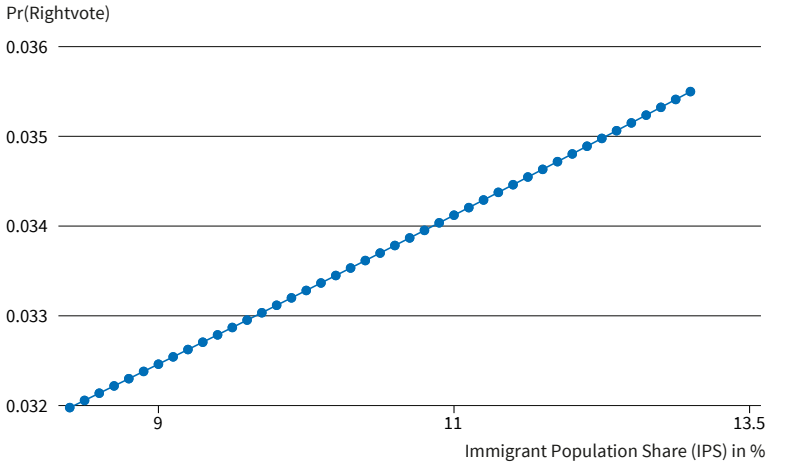
Our choice of characteristics to examine is motivated by prominent theories of racial and ethnic hostility (see Quilian 1995). Our interest in respondents' education and employment derive from group threat theory, which suggests the response to immigration will be more hostile among individuals who perceive themselves as competing with immigrants for jobs or public resources. More educated respondents tend to exhibit lower levels of ethnocentrism, place greater value on cultural diversity and tend to be more optimistic about the economic impact of immigration (Hainmueller and Hiscox 2010). Similarly, unemployed individuals may find competition from immigrants in the labour market as the reason for their unemployment (O'Rourke and Sinnott 2006). Allport's (1954) contact theory suggests that increased contact with immigrants should reduce anti-immigration or xenophobic sentiments. A broad reading of this theory suggests that individuals living in urban areas, with greater exposure to cultural and ethnic diversity, may be less threatened by rising immigration than their rural counterparts. Finally, our investigation of religiosity is motivated by cultural theories of ethnic conflict.

Figure 3 shows the relationship between the immigrant share of the population and far-right voting for various population subgroups. Figure 3a, for example, shows that less educated and highly educated respondents show distinct relationships between IPS and far-right voting. The less educated are defined as individuals with 12 or less years of education. Not only are the poorly educated more likely to vote for a far-right party for any level of immigration, but their voting behaviour is also more sensitive to a rise in immigration, as seen by the steeper slope of the curve.

Similarly, as seen in Figures 3b and 3c, we find far-right voting is also more sensitive to changes in the immigrant population share among the unemployed and the rural population than among their employed and urban counterparts. These results are broadly in line with the predictions of group threat and contact theories. Interestingly, in Figure 3d, we find that far-right voting is higher among non-religious individuals, but it is more sensitive to changes in IPS among the

Figure 2

**Immigrant Share (IPS) and Far-Right Voting**

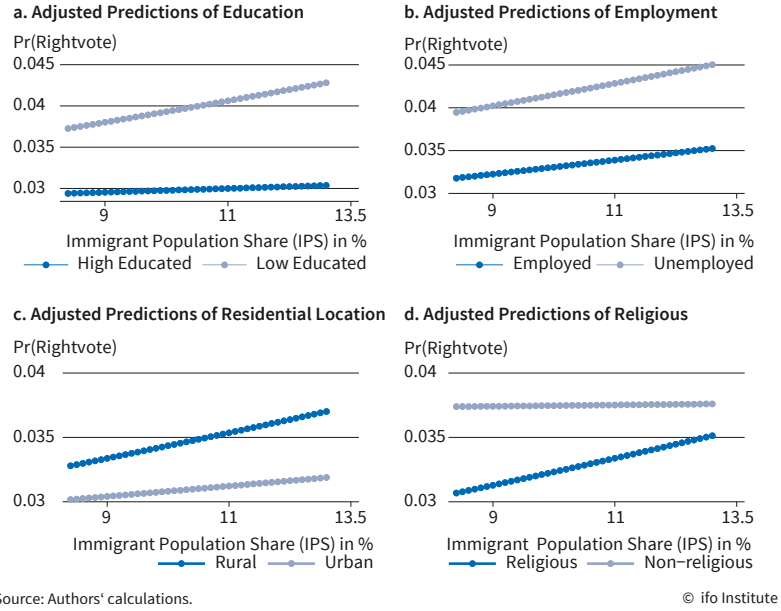



Source: Authors' calculations.



Figure 3

**Individual Variables**



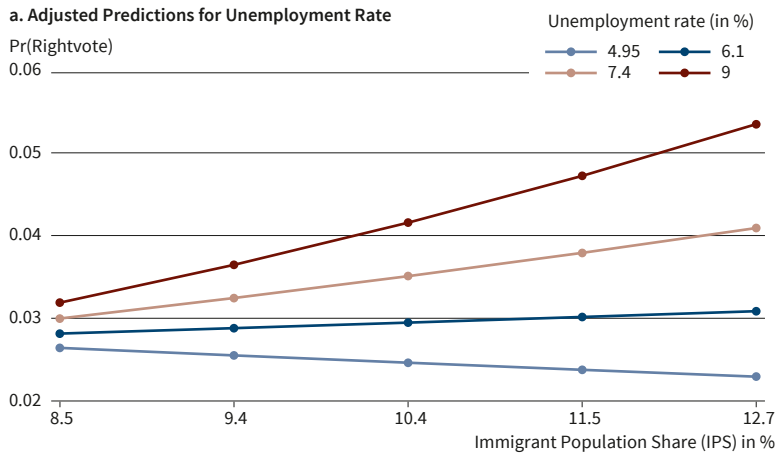

Source: Authors' calculations.

religious. This suggests that religiosity may involve separate and competing effects. For example, a commitment to the humane treatment of others may be coupled with a greater awareness of cultural and religious difference between native and immigrant groups.

These results indicate that the economic, demographic, educational and cultural make-up of a country's population is likely to play a significant role in the degree to which an increase in the immigrant population share generates support for far-right political parties. Next, we consider two country-level variables that also play a role in mediating this relationship.

Figure 4

**Macroeconomic Channels of IPS-Far-Right Relationship**

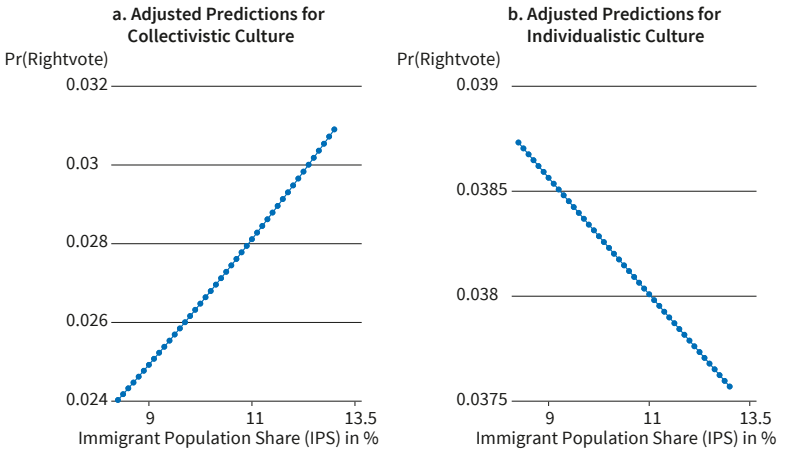



Source: Authors' calculations.



Figure 5

**Macro-Cultural Channels and IPS-Far-Right Relationship**




Source: Authors' calculations.



## DOES THE IPS-FRV RELATIONASHIP DIFFER ACROSS COUNTRIES?

Informal observation of the patterns of immigration and far-right voting across countries, shown in Figure 1 and Table 1, suggests that the political response to immigration differs across time and countries. Here, we consider two plausible hypotheses to explain these patterns, both of which are motivated by group threat theory. The first is that the political response to immigration may depend on macroeconomic conditions in a country. More specifically, difficult economic times may be associated with a greater concern among natives over competition with immigrants for scarce jobs or public resources. To measure the macroeconomic conditions of a country, we consider its national unemployment rate, obtained from OECD Database (2017). As with the immigrant population share, we match these data to individual respondents based on the year of their country's last national election.

Figure 4 shows that national unemployment mediates the positive association between immigrant population share and support for far-right parties. We find that a higher national unemployment rate strengthens citizens' responses to increases in immigrant population shares, as depicted by increasing slopes. This probably reflects a channel of influence related to perceived competition with immigrants over access to scarce employment opportunities.

In Davis and Deole (2016), we find that far-right voting is closely related to cultural concerns over immigration. Motivated by this finding, we consider a measure of individualism developed by Hofstede (2001) that reflects the importance of social relationships to an individual's identity (Gorodnichenko and Roland 2011). If people in individualist societies tend to have weaker parochial, ethnic and religious attachments, they may be less sensitive to the potential threats to these groups and identities posed by immigration. They may also be more prone to judge immigrants as individuals, rather than as members of a larger group.

Figure 5 shows the relationship between immigrant population share and far-right voting for countries with high and low levels of individualism. The more individualist societies in our sample are Belgium, Denmark, France, Great Britain, Hungary, Italy, the Netherlands, and Sweden. As seen, in more individualist societies, the IPS-FRV locus is essentially flat, while

in collectivist societies, it has the familiar positive slope. These results suggest that national culture plays an important role in mediating the relationship between immigration and support for far-right political parties. Overall, voters in more individualist societies appear less likely to respond to immigration by embracing an ethno-nationalist ideology.

## CONCLUSION

The rapid rate of European immigration has breathed life into far-right political movements which, if they continue to gain power, may come to pose fundamental challenges to Europe's governing institutions and to its continued development as a modern, post-ethnic society. Broadly speaking, the potential for immigration to alter the political equilibrium within European countries suggests that immigration policy should not be considered in a vacuum.

More narrowly, the analysis presented here has two implications for European immigration policy. First, the current commitment to relatively free population movements across most European countries may not constitute an equilibrium policy. Continued rapid immigration may foster additional support for far-right parties and the ethno-nationalist identities that support them. And of course, if political support for far-right parties translates into actual political power, as it has in Hungary, for example, it might have significant implications not only for European immigration policies, but also for the stability of trans-European institutions that support the current liberal order. The willingness of left and center right parties to consider marginal adjustments to European immigration policies may be necessary to reduce support for political parties that would institute far more dramatic changes to European policies and institutions.

Second, the analysis suggests that the relationship between immigration and far-right voting differs significantly across well-defined population subgroups and countries with different macroeconomic conditions and national cultures. This information may be of use when considering the appropriate criteria for allocating refugees across European societies (e.g. European Commission 2015).

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*Carl C. Berning*

# Alternative für Deutschland (AfD) – Germany's New Radical Right-wing Populist Party

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Radical right-wing populist (RRP) parties are present and successful all over Western Europe. Until very recently Germany was one of the few exceptions. The German general elections in 2017 changed that and the Alternative for Germany (Alternative für Deutschland, AfD) is now a member of Germany's national parliament. The rise of the AfD has fuelled scientific and public debate over the party's ideological position and its electorate's profile. The AfD's short history has been characterised by power struggles and transformations. Germany witnessed the party's shift from an initially Eurosceptic party to a RRP party. While the AfD is heterogeneous, there is now some scientific consensus on what the party stands for. Looking at the demand side, i.e., the electorate, empirical evidence is still rather limited, but voters' main incentives for supporting the AfD seems to have been identified. The AfD is not the first far right-wing party to seek seats in the German Bundestag after World War II, but it is by far the most successful.

This paper offers an overview of the trajectory and conceptualizations of the AfD, discusses the factors most relevant to its emergence and highlights underlying theoretical explanations. It also presents aggregate level data on the German general elections in 2013 and in 2017. The AfD is subject to constant change. It is a new party and its (potential) electorate is far from established. This review therefore provides more of a summary of what we know to date, than a projection of future volatility.

## CONCEPTUALISATION OF THE FAR-RIGHT AND THEORETICAL EXPLANATIONS

The third wave of far-right parties has generated a great deal of scientific interest. There are currently probably more scientific studies on RRP parties, than on any other party family (Mudde 2007, 2). Their classification, and especially their label, was subject to lively academic debate. Scholars have used many names for far-right parties, including, but not limited to, extreme right (Arzheimer 2012; Ignazi 1992), radical right (Kitschelt and McGann, 1995; Norris 2005), anti-immigrant (Fennema 1997; Van der Brug et al. 2005), neo-populist (Taggart 1995), and populist radical right (Mudde 2007).

Mudde (2007) gives a practical definition and identifies the core ideology as "a combination of nativism, authoritarianism, and populism" (Mudde 2007, 26). The party family is certainly heterogeneous and evolving. Nevertheless, following Betz (1994) "radical right-wing populist parties are radical in their rejection of established socio-cultural and socio-political systems and their advocacy of individual achievement, a free market, and a drastic reduction of the role of the state without, however, openly questioning the legitimacy of democracy in general. They are right-wing first in their rejection of individual and social equality and of political projects that seek to achieve it; second in their opposition of the social integration of marginalised groups; and third in their appeal to xenophobia, if not overt racism and anti-Semitism. They are populist in their unscrupulous use and instrumentalisation of diffuse public sentiments of anxiety and disenchantment and their appeal to the common man and his allegedly superior common sense" (Betz 1994, 4). The economic policy of these parties has changed since Betz conceptualised the far-right, and today, while some still support free market and little government involvement, others advocate protectionism. The economy, however, is not the core issue of RRP parties.

Existing research has identified a rather broad spectrum of factors that determine voting for RRP parties. It mostly differentiates between demand and supply side explanations (Eatwell 2003, 48). Demand-side explanations focus on the electorate at an individual-level, while supply-side explanations capture the cross-national differences of the so-called political opportunity structures (Arzheimer 2009; Arzheimer and Carter 2006). In the literature on demand-side explanations, group threat and group conflict theory are probably the most important theoretical frameworks (Rydgren 2007). Ethnic group threat is the anticipation of negative consequences due to immigration. These ethnic threats arise from perceived competition over scarce material resources, such as employment or housing on the one hand; and relate to non-tangible goods, such as language or religion on the other (McLaren 2003; Stephan and Renfro 2002). The latter is conceptualised as cultural group threat and there is evidence that its effect on preferences for RRP parties is much stronger compared to the effect of economic threat perceptions (Lucassen and Lubbers 2012). A common narrative for the support of RRP parties is the preference for economic liberalism or a pure political protest. There is, however, no empirical evidence for either motivation. Arzheimer (2008) shows that once perceived group threat is controlled for, neither economic liberalism nor political protest significantly affect RRP party preference. RRP parties certainly benefit from dissatisfaction and resentments against established parties (Mudde 2007), but it is not only a vote against an authority, it is usually a motivational mix of dissatisfaction and perceived ethnic threat (Knigge 1998; Swyngedouw and Ivaldi 2001).

Cross-national differences can be partly attributed to differences in socio-demographic composition.

Institutional, political and structural factors are nevertheless relevant too. The position adopted by the far-right's main rival, for example, is expected to provide an opportunity for a new party to rise. Some argue that the AfD's success was only possible, because the CDU moved to the left and created a vacuum on the right. Empirically, there is not much support for this claim (Arzheimer and Carter 2006; Lubbers et al. 2002; Carter 2005).

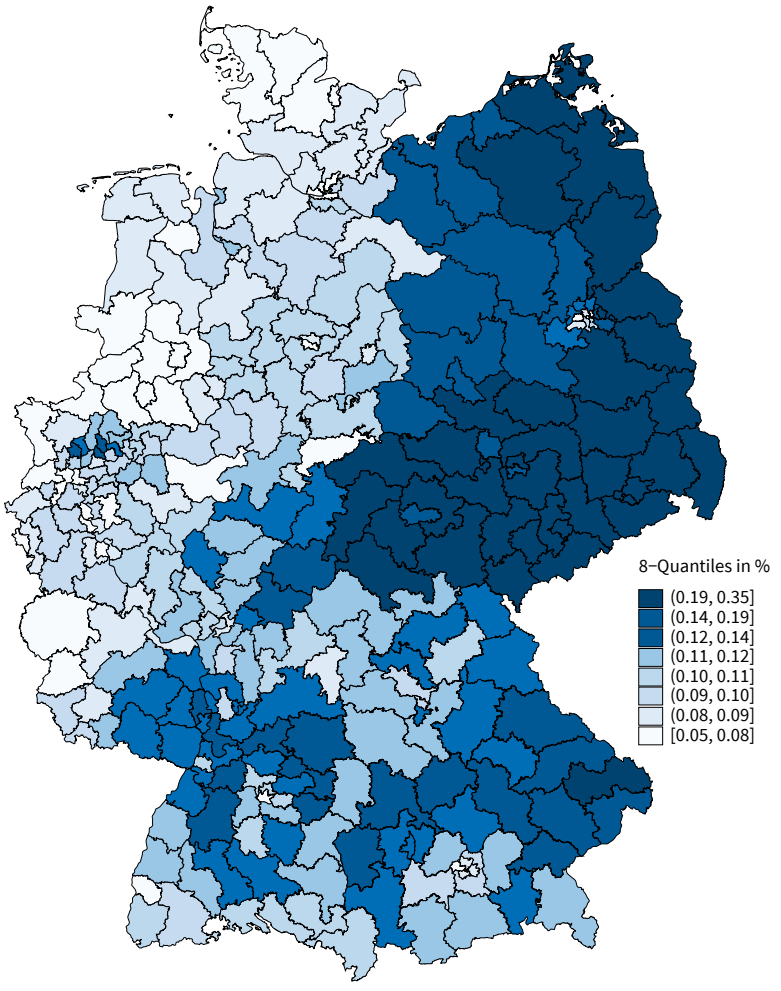
## THE TRAJECTORY OF THE AfD

The AfD was founded in February 2013, just seven months before the general elections. The party arose from neo-liberal political movements, like the Wahlalternative 2013 led by Bernd Lucke, Konrad Adam, and Alexander Gauland. The party's initial policy focus was very clear: the Euro. In 2013, the AfD was therefore what some call a single-issue party. It was only month prior to the 2013 elections and the party programme was relatively short. The media and other political actors repeatedly questioned whether the AfD is a conservative or a far-right party. While the public face of the party, Bernd Lucke, occasionally used populist rhetoric, the party programme provided no evidence for such speculation. In the 2013 general elections, the AfD missed the threshold for entering the German Bundestag by only 0.3 percentage points. After the general elections, the party's programme broadened, but the fiscal focused remained. In the following year, the party won seven seats in the European Parliament. A study by Arzheimer (2015) of the party's European Election manifesto showed that the AfD placed right of the CDU and the FDP on a general left-right dimension, but not significantly different from the CSU and left of the NPD. Furthermore, the party manifesto uses neither radical, nor populist language. However, the party takes on a soft Eurosceptic stance, in the sense that it does not propose to return to national currencies, but opposes the Eurozone in its current form (Arzheimer 2015, 546). By 2014, the party was anything but a grass-roots movement. Many of its founding members were university professors or mangers.

After the European Elections in 2014, Bernd Lucke tried to extend his influence in the party. Power struggles intensified over the following month and in 2015, an inner party debate over links to the anti-Islam movement Patriotic Europeans Against the Islamisation of the West (Patriotische Europäer gegen die Islamisierung des Abendlandes, PEGIDA) mirrored the ideological core of this dispute. Frauke Petry, the AfD's co-spokesperson and head of the state party in Saxony, supported the movement and saw overlapping interests. Lucke initiated a vote for a principal spokesperson and lost to Frauke Petry at the 2015 party conference in Essen. His defeat can be interpreted as an ideological shift to the right. Jörg Meuthen, an economics Professor like Lucke, was elected as a co-speaker. After the party conference, Lucke left the party. He founded a new party, initially called Alliance for Progress and Renewal (Allianz für Fortschritt und Aufbruch, ALFA), which was shortly renamed to Liberal-Conservative Reformers (Liberal-Konservative Reformer, LKR), after a legal dispute about the abbreviation ALFA. Some of the AfD's officials that are more moderate followed Lucke and left the party, as did most of the AfD's repre-

Figure 1

**Results for the AfD in the 2017 General Elections**



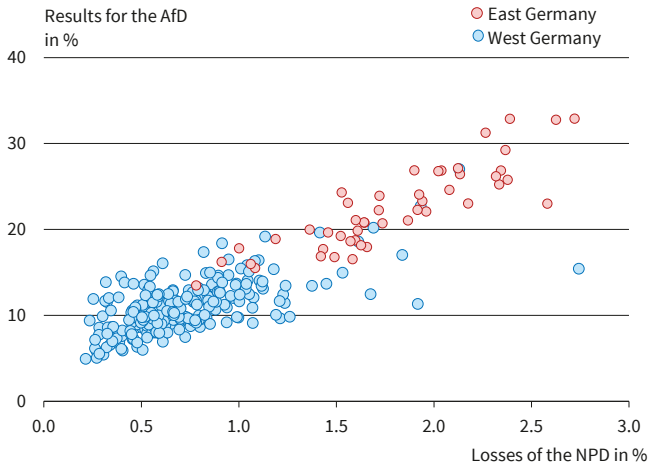

Source: Authors' analysis using data from the Federal Returning Officer (2017). © ifo Institute

sentatives in the European Parliament. The LKR did not run for the 2017 general elections and therefore received little or no media attention.

Since the summer of 2015, the European refugee crisis has dominated the public agenda in Germany. The AfD leveraged the salience of the refugee issue and focused on immigrants and immigration in state election campaigns and public appearances. The party increasingly used a more radical tone and openly sympathised with other far-right parties in Western Europe. The AfD is now part of 14 state parliaments and only narrowly missed the 5% threshold in the 2013 state elections in Hessia.

Figure 2

**Correlation between Votes for the AfD in 2017 and NPD Losses between 2013 and 2017**




Source: Authors' calculations. © ifo Institute

In April, five months prior to the 2017 general elections, Petry attempted to call for a more moderate course at a party conference in Cologne. She argued that she wanted to cater to a conservative, less radical electorate and set the party on a path towards a coalition with the CDU/CSU in the long term. However, she failed to find any broad-based support for this policy within her party. Describing Petry as the moderate face of the party seems foolish and ironic. It was Petry, for example, who supported Wolfgang Gedeon, who got in trouble with his caucus in Baden-Wuerttemberg over his anti-Semitic publications. As described earlier, Petry was, in fact, the politician who led the AfD along the path from a Eurosceptic to a RRP party. Her attempt to change policies was about power and influence, not ideology.

## THE GENERAL ELECTIONS 2017

In the 2017 general elections, the AfD won 12.6% of the votes and is now the third largest group in the 19th Bundestag. The AfD did extremely well in eastern Germany, especially in Saxony where it won 27% of the votes and outpolled the CDU. The data presented is acquired from the *Federal Returning Officer (Bundeswahlleiter 2017)*[1]. Figure 1 shows the regional distribution of AfD support across constituencies.

The regional divide in AfD support is more than obvious. The AfD's heartland is eastern Germany, while it also did very well in some areas of Bavaria and Baden-Wuerttemberg. The AfD performed so strongly in eastern Germany due to a combination of attitudinal resentments, socio-demographic composition and structural factors. One should be cautious with overly dense, mono-causal explanations. The AfD is not only a phenomenon of the East.

[1] https://www.bundeswahlleiter.de/.

In some constituencies, the AfD received the plurality of votes, and in three Saxon districts it won direct mandates. Frauke Petry won one of these direct mandates. However, she announced immediately after the elections that she will not be part of the party's caucus. A day later, Petry left the party. This move came as a surprise to the party and its voters. A handful of AfD members followed her walkout. One of them was Marcus Pretzell, the head of the North Rhine-Westphalian AfD and Petry's husband. This shows that power struggles and splits within the AfD are still a major issue for the party's progression.

In the 2017 general elections, the AfD cannibalised the electorate of most other far-right parties in Germany. For example, the defeat of the NPD, although it did not enjoy any relevant success on a national level anyway, is highly correlated with the AfD's win. Figure 2 presents the correlation between the loss of NPD votes between the 2013 and 2017 general elections and support for the AfD in 2017. Votes for the AfD in 2017 correlate at the aggregate level with the loss of votes for the NPD by r = 0.88. This correlation is smaller in western Germany (blue circles in Figure 2, r = 0.57) and slightly stronger in eastern Germany (red circles in Figure 2, r = 0.89), but support for the NPD was stronger in eastern Germany to begin with. In other words, the NPD didn't have much to lose in western Germany.

Further aggregate level analyses show that the AfD benefitted from losses by the CDU and CSU. However, a closer look reveals that this is mostly the case in eastern Germany, Bavaria and Baden-Wuerttemberg. There are many areas, especially in North Rhine-Westphalia, where the AfD heavily mobilised former non-voters. While the AfD electorate consists predominantly of former CDU/CSU or non-voters, it managed to attract support from across the entire political spectrum.

The figures above show only the distribution across constituencies, but there is also a great deal of unnoticed variation within them. There are many areas

in western Germany, where the AfD received more than its national average of 12.6%. For example, the AfD got 17.0% of the votes in Gelsenkirchen, a traditional working-class city in North Rhine-Westphalia. Gelsenkirchen was seriously affected by the structural change of the economy in the Ruhr area and the consequences are still very real, as unemployment rates still remain high today.

Individual level analysis shows that the AfD does especially well among members of the working class. Its electorate is predominantly male, with medium to little formal education, and is concerned about immigration. This profile reflects the typical RRP voter observed in many Western European countries (Arzheimer and Berning, 2017).

## CONCLUSION

The success and failure of RRP parties has received much scientific, public, and media attention in recent years. In this debate, Germany used to be a rare exception in the post war period, boasting only a few extreme right parties without any national success. As of the 2017 general elections, however, the AfD, a RRP party, is now part of the German Bundestag. While the party is new for Germany, there is a longstanding body of literature on determinants behind the success of RRP parties and scholars agree upon perceived ethnic threat as the most important attitudinal predictor (Berning and Schlueter, 2016; Ivarsflaten, 2008).

Entering the Bundestag will entitle the AfD to funding that will enable it to potentially stabilise its organisation on the ground. However, it remains unclear whether the party is here to stay or not. There are two important points to consider here: firstly, the AfD leveraged the salience of immigration as a political issue, which created a discourse opportunity in their favour. Secondly, the AfD is a heterogeneous party and power struggles challenge the party's appeal to a broader electorate. For now, the party is benefitting from (media) attention, so in-party fighting and deliberate provocation are working in its favour. Whether this is the case in the future remains to be seen.

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*Max Friedrich Steinhardt*

# The Relationship between Immigration and the Success of Far-Right Political Parties in Germany

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## INTRODUCTION

The success of the far-right party *Alternative für Deutschland* (AFD) in recent national elections in Germany has once again highlighted the importance of attitudes towards immigration and its political consequences. Although the massive influx of refugees that Germany experienced mainly in 2015 had ceased by 2016, immigration and its consequences for German society turned out to be a dominant topic during the election campaign in 2017. Apparently, AFD's slogan "We will get our country back!" appealed to 13% of voters, instantly making the newcomer party AFD the third strongest and the first far-right party to enter German parliament (*Bundestag*).

While the link between the electoral success of far-right parties and immigration has been an underexplored topic for many years, a rich body of empirical literature has emerged recently. The existing studies on European countries indicate that immigration increases support for far-right parties. For example, Barone et al. (2016) conclude that immigration in Italy has increased votes for the centre-right coalition with political platforms less favourable to immigrants. In line with this, Halla et al. (2017) find that immigrant inflows into Austrian communities had a significant impact on the increase in the FPÖ vote share. Both studies make use of an IV estimator based on historical settlements to deal with endogenous location choice of immigrants. Dustmann et al. (2016) opt for a different identification strategy and exploit a policy conducted in Denmark that assigned refugee immigrants to municipalities on a quasi-random basis. The estimates imply that larger refugee shares increase the vote share not only for parties with an anti-immigration agenda, but also for centre-right parties. A similar result has been found by Harmon (2017) for Denmark who uses an IV identification strategy based on historical housing stock data and concludes that ethnic diversity increases support for nationalist parties. In a related paper, Facchini et al. (2017) exploit variations in immigrant concentrations in Sweden through a placement policy and do not find any support for immigration impacting the vote shares of New Democracy, a populist, anti-immigration party. In another recent paper, Becker and Fetzer (2017) exploit the 2004 EU enlargement to Eastern Europe as a natural experiment and find that migration from EU accession countries contributed to the rise of UKIP, which heavily agitates against immigrants. A noteworthy exception is the work by Steinmayr (2016) on Austria, which uses pre-existing group accommodations as an instrumental variable, and is the only study which finds that hosting refugees reduces support for the far-right.

For Germany, evidence of the link between electoral support for the far-right and immigration is scarce. In section 3, we summarise the main findings of our study on Hamburg, the largest city in Western Germany (Otto and Steinhardt 2014). Before doing so, the following section provides a brief overview of the current situation in Germany.

## MIGRATION AND VOTING BEHAVIOUR – CURRENT TRENDS AND SOME BASIC PATTERNS

The recent increase in net migration to Germany is not unprecedented. Germany experienced a huge influx of migrants in the early 1990s (see Figure 1) when the end of the cold war, as well as civil wars in former Yugoslavia and in African and Asian countries caused mass migrations. After net immigration peaked in 1992 at a level of almost 800 thousand people, immigration flows declined significantly until the end of the decade and in the first years of the new millennium Germany was confronted with rather moderate immigration flows. The recent wave of migration started in 2009/2010 in the aftermath of the global economic crisis and was characterised by an increasing number of migrants from South and East European countries. Then in 2014, the inflow of refugees mainly from Syria, Iraq and Afghanistan boosted migration to Germany, which resulted in a net immigration of 1.1 million people in Germany in 2015.

An obvious way to approach the relationship between extreme voting and immigration is to look at how votes for extreme parties and immigrant concentration are interrelated at the regional level. This is done in Figure 2, which shows the correlation of votes for far-right parties in the federal election 2017 and the share of foreigners in electoral districts.[1] We see a significant negative relationship.[2] Electoral districts with relatively high foreigner shares are characterised by lower support for far-right parties, while those districts with larger support have a relatively low concentration of foreigners.[3] This pattern is mainly driven by the eastern part of Germany, where the share of foreigners is comparatively low and AFD support is disproportionally high. However, that relationship is purely descriptive in

[1] The data is provided by the Federal Returning Officer (Bundeswahlleiter). The population data is from 2015. The data for 2016 will be not available before 2018 due to administrative reasons. Calculating changes in foreigner shares between electoral cycles is not straightforward due to electoral redistricting.

[2] The estimated slope is -0.443 and has a standard error of 0.047.

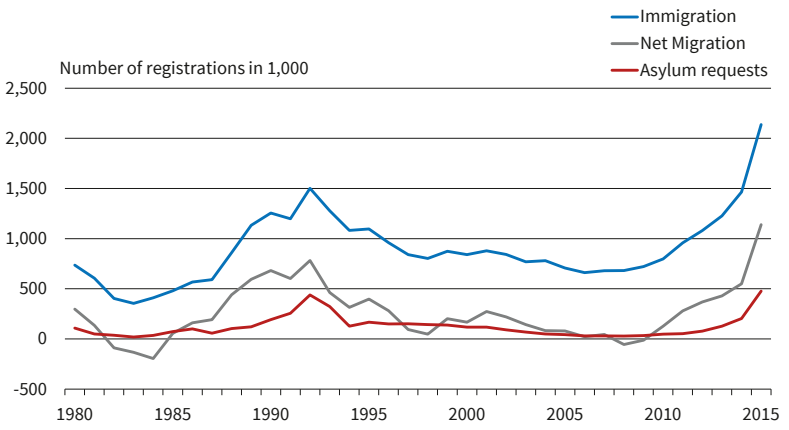
[3] The share of far-right parties consist of votes for the following three parties: NPD: National Democratic Party of Germany (Nationaldemokratische Partei Deutschlands), Republicans (Die Republikaner), AFD: Alternative for Germany (Alternative für Deutschland).

nature, as it is unconditional on the socio-economic characteristics of districts. Furthermore, it possibly just reflects that immigrants avoid regions where there is significant support for far-right parties and instead tend to settle in more tolerant regions (due to political or economic preferences).

When we ignore the regional dimension and simply look at the time dimension, the pattern changes. This is illustrated in Figure 3. The blue bars, labelled on the left vertical axis, show the monthly number of asylum applications between July 2013 and July 2017. The data is provided by the Federal Office for Migration and Refugees (BAMF) and includes initial and follow-up applications. The graph shows that the number of monthly asylum applications has risen steadily since April 2014 and reached a peak of almost 91,000 applications in August 2016. By far the largest group among applicants were Syrians fleeing from war, followed by refugees from Iraq and Afghanistan. After August 2016, asylum applications decreased sharply to 17,000 in July 2017. The main reasons for this strong decline were the closure of the Balkan route and the refugee deal between the EU and Turkey in March 2016.

Figure 1

**Immigration to Germany**
1980–2015




Source: Federal Statistical Office (2017); Federal Office for Migrants and Refugees (2017). © ifo Institute

The red line shows the monthly support, measured by voting intentions, for the Alternative für Deutschland (AFD), a right-wing populist party, which heavily agitates against refugees and immigrants. The data is provided by infratest dimap, a renowned German polling institute that publishes nationwide, representative data on voting intentions on a regular basis.[4] The similarities in the trends of monthly AFD support and asylum applications are striking. Parallel to the strong increase in asylum applications between the summers of 2015 and 2016, support for the AFD rose from 4% to 16% (right vertical axis). One month after the number of asylum applications dropped, the AFD started to lose political support, which dropped to 9% in July 2017. Of course, this pattern is once again purely descriptive in nature and we do not claim to have uncovered any kind of causal relationship. Nonetheless, the graph nicely illustrates the political situation and dilemma in Germany during the refugee crisis in 2015 and 2016. Moreover, the pattern highlights the importance to incorporate the time dimension in an empirical analysis of the link between immigration and extreme voting. In the following section, we will summarise the key findings of one of our recent studies that analysed the impact of immigration on the electoral success of far-right parties at the regional level in the longitudinal dimension.

## EVIDENCE FROM THE CITY OF HAMBURG IN THE 1980S AND 1990S

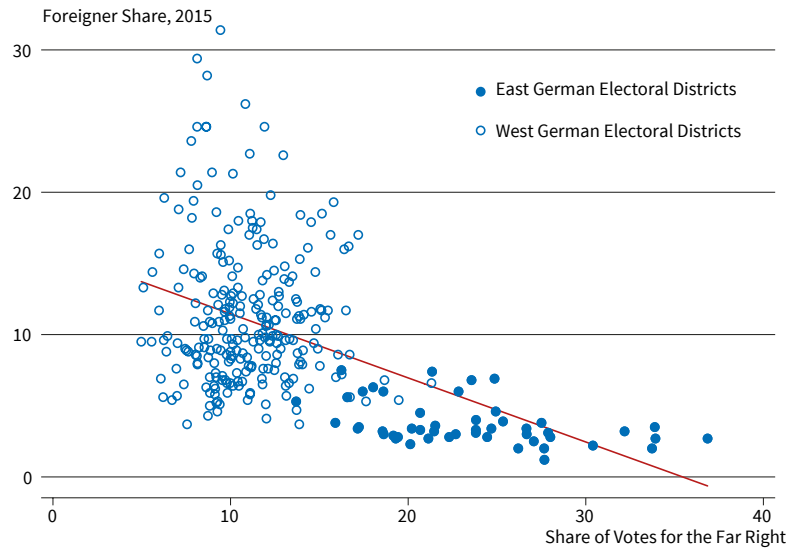
To measure the impact of immigration on voting behaviour, we used a data set on city districts in Hamburg that covered the period from 1987 to 1998 (Otto and Steinhardt 2014). We focused on this period because a major citizenship reform in 2000 introduced *ius soli* and eased naturalisation procedures in Germany substantially. As a consequence, naturalisations increased significantly and, thereby, changed the ethnic composition of the constituency in subsequent years. Moreover, this was a period during which massive immigration – mainly driven by asylum seekers and refugees – gained importance in the political sphere. During those years far-right parties massively (and successfully) campaigned against permissive asylum procedures and integration of foreigners. Between 1987 and 1993 voter support for the far-right in federal state elections in Hamburg rose by 7.1 percentage points and peaked in 1993 at a vote share of 7.6%.

The political landscape of the late 1980s and 1990s in Hamburg was largely similar to today's. Parties like the big-tent parties CDU and SPD, as well as smaller parties like the FDP, the Greens and the PDS (today called "Die Linke") were up for election. What differed in the 1990s was the composition of the far-right that, according to the Federal Office for the Protection of the Constitution (Verfassungsschutz), during this period consisted of six parties: The (German) Conservatives (Die Konservativen), German People's Union (DVU, Deutsche Volksunion), Hamburg's List for Stopping Foreigners (HLA, Hamburger Liste für Ausländerstopp), National List (NL, Nationale Liste), National Democratic

[4] For each poll, also known as the "Sunday question", 1.000 eligible voters are asked the question: „If there were a General Election next Sunday, which party would you vote for?" For each month, we selected the latest poll results available.

Figure 2

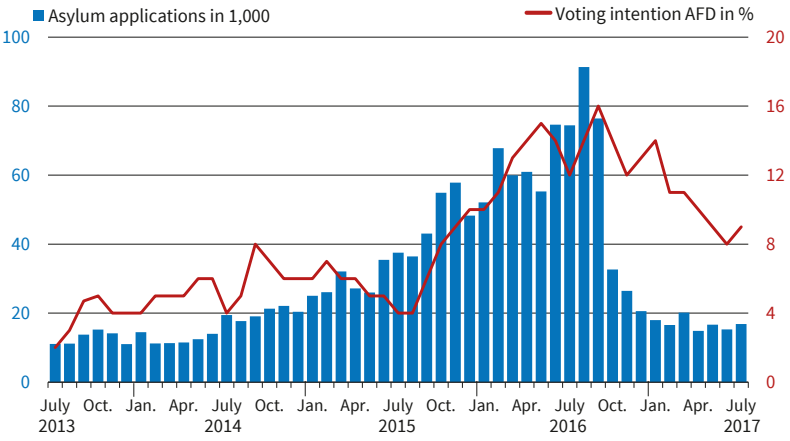
**Support for the Far-Right in the Federal Election 2017 and Share of Foreigners in 2015**




Source: Federal Returning Officer (2017); authors' calculations. © ifo Institute

Figure 3

**Asylum Seekers and Support for the Far-Right in Germany**
July 2013–July 2017




Source: Infratest dimap (2017); Federal Office for Migrants and Refugees (2017). © ifo Institute

Party of Germany (NPD, Nationaldemokratische Partei Deutschlands), Republicans (Die Republikaner). While the far-right parties solely campaigned against immigration, the Greens were the only party conceived by voters to actively campaign for easier immigration procedures and a multicultural society.

To measure the effect of a rising foreigner share on local election results, we employed a fixed effects model for 103 city districts and 7 elections (federal elections and state elections). Since foreigners from EU member countries were allowed to vote in borough and European Parliament elections, we focused on federal and state elections. In our estimations, we controlled for a couple of time-varying, local characteristics of the constituency (e.g. the district's age profile, population, violent crime per inhabitant, voter turnout, income levels and unemployment levels), as well as for cyclical effects and time trends. To account for the possible biases caused by the endogenous location choice of immigrants and the native population (segregation effect), we employed an instrumental variable approach in which a district's foreigner share was instrumented by its foreigner share ten years before.

Our estimates from instrumental variable regressions suggest that an increase in a district's foreigner share led to a substantial increase in the vote share of the far-right. More explicitly, an increase in the local foreigner share of 1 percentage point increased far-right parties' vote share by 0.3 percentage points. Taken to the federal state (or city) level, this effect on average explained almost a quarter of the overall increase in the far-right's vote share. At the same time, a growing local concentration of foreigners reduced the support of the Greens who promoted liberal immigration policies. Our findings proved to be robust for a couple of alternative specifications.

The economic literature on immigration and voting behaviour names four important channels via which rising immigrant shares affect the voting shares of the far-right, namely the political channel (see Ortega 2005), the labour market channel (see Mayda 2006), the welfare channel (Facchini and Mayda 2009) and non-economic channels (see Card et al. 2012). According to the political channel, a change in the composition of the constituency caused by an influx (and naturalisation) of immigrants leads to a change in voting outcomes if migrants' voting behaviour differs from that of the native population. Given our selection of elections (federal and state elections) and the period before the citizenship reform in 2000, we can rule out that this channel explains our results.

The labour market channel highlights the point that increased competition of workers in the labour market caused by the additional labour supply of migrants could motivate native workers to vote against

immigration to fend off competitors. However, in the 1980s and 1990s of the last century asylum seekers had to wait 1 to 5 years before they received a work permit. Furthermore, within cities workers largely live in different districts than they work in and, in addition, over a quarter of the employed commuted to Hamburg from outside the city in 1987. To sum up, on the district level we can almost rule out that the labour market channel played a substantial role in explaining election outcomes during this period.

We did, however, find some support for the welfare channel and the non-economic channel. The welfare channel describes anti-migration sentiments which are caused by voter concerns for (unwanted) redistribution caused by migration. The majority of migrants that came to Hamburg between 1987 and 1998 were relatively unskilled compared to native workers and, given the time they had to wait for work permits, highly dependent on social benefits.

As to the non-economic channel, we found some evidence that concerns regarding local compositional amenities, i.e. changes caused by migrants to neighbourhoods, kindergartens and schools or workplaces (see Card et al. 2012), also shaped voters' behaviour in local districts. However, we could not rule out that voters' support for far-right parties was also fuelled by xenophobic sentiments.

## CONCLUSIONS

The federal German election in 2017 was characterised by controversial debates about immigration and Germany's role as a safe haven for refugees. The AFD heavily agitated against immigrants and liberal asylum laws and managed to enter the German Bundestag with nationwide support of 13%. This once again demonstrated that migration is a major concern in western societies and often becomes a decisive factor in political elections. Therefore, it is of crucial interest to improve our understanding of the relationship between support of far-right parties and immigration.

Our results for Hamburg in the mid-1990s document that growing shares of foreigners can promote the political success of far-right parties, while they can negatively affect support for distinctly pro-immigration parties. While labour market interests of natives were unlikely to drive the stated relationship in the 1990s, natives' concerns about negative implications for welfare and local amenities seem to have been a major driving force behind our estimates.

The current situation in Germany has many parallels to the 1990s. Like then, recent immigration to Germany was characterised by exceptionally strong inflows of refugees and triggered contentious public debates about asylum abuse. As in the 1990s, the increase in refugee numbers came rather unexpectedly and official authorities struggled to cope with the inflow, i.e. the registration of immigrants, the allocation of refugees to German regions and the provision of accommodation. In addition, although the legal labour market access of refugees improved compared to the 1990s, most refugees are still largely dependent on social benefits and are perceived to be a net burden to the existing welfare system – at least in the short term. Moreover, as in the 1990s, the government finally reacted to the situation with legal changes in the asylum system, which significantly reduced the inflow of refugees. It would therefore be very instructive to analyse whether our findings for the 1990s hold in the present context as soon as appropriate data become available.

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*Andreas Steinmayr*

# Did the Refugee Crisis Contribute to the Recent Rise of Far-Right Parties in Europe?[1]

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Almost two million people filed for asylum in European Union countries in 2014 and 2015, compared to 1.6 million during the previous five years (Eurostat). As a result, significant proportions of the European population were exposed to refugees from culturally-distinct countries, not only in cities, but also in rural areas where exposure to non-European foreigners has traditionally been low. At the same time, far-right parties with anti-immigration agendas gained considerable support in many of the countries that experienced significant refugee inflows. Most recently, the Alternative for Germany (AfD), received 12.6% of the vote in the German federal election 2017, making it the third-largest party in the German parliament.

Political observers, the media, and politicians themselves have speculated that the refugee situation helped to fuel support for the far-right. The refugee situation may have affected voting for the far-right based on concerns driven by *macro*-level exposure (e.g., the salience of the refugee situation in (social) media and political rhetoric) and *micro*-level exposure (e.g., personal interactions with and observation of refugees). Both levels of exposure may have influenced voting decisions. However, this is not clear at either level, nor do the effects necessarily need to go in the same direction. For example, media reports about crimes conducted by refugees or concerns over the overall fiscal impacts of refugee immigration (macro-level) may increase support for far-right parties. Negative personal experiences may have a similar effect, but positive experiences could have the opposite impact. In a recent paper, I tried to disentangle these effects for the case of Upper Austria, an Austrian state that held elections in September 2015 at the peak of the refugee crisis. Upper Austria was exposed to the refugee crisis in three ways. First, hundreds of thousands of refugees crossed Austria in 2015 on what became known as the Western Balkan Route (see Figure 1). Most refugees wanted to reach Germany and were shuttled in buses from the southern and eastern borders of Austria to the German border. They then crossed the border to Germany on foot. Thus, Upper Austrian municipalities at the German border experienced the transit of a large number of refugees.[2]

Secondly, over 116,000 refugees applied for asylum in Austria in 2014 and 2015 and were hosted in accommodation in Austrian municipalities. It is worth noting that local authorities and NGOs actively tried to facilitate interactions between natives and refugees. Many municipalities introduced the refugees to the population in official local papers and held welcome events to introduce refugees and natives to each other. On the contrary, the situation in municipalities at the border barely permitted direct and indirect contact between natives and refugees, since the refugees only stayed for a few hours before continuing their journey. Thirdly, the whole population was exposed to the refugee crisis at the macro-level given the high salience of the issue in newspapers, TV etc. All three types of exposure may have affected voting decisions, and possibly in opposite directions.

[1] This article provides a non-technical summary of the research paper Steinmayr, A. (2018): "Contact matters: Exposure to refugees and voting for the far-right". An earlier version was distributed as IZA Discussion Paper 9790 entitled: "Exposure to Refugees and Voting for the Far-right. (Unexpected) results from Austria."

[2] See, for example, an article in the Austrian newspaper Kurier: https://kurier.at/chronik/oberoesterreich/ober oesterreich-oesterreichische-flucht-hilfe-an-der-deutschen-grenze/156.977.219 (6 October 2015 - in German).

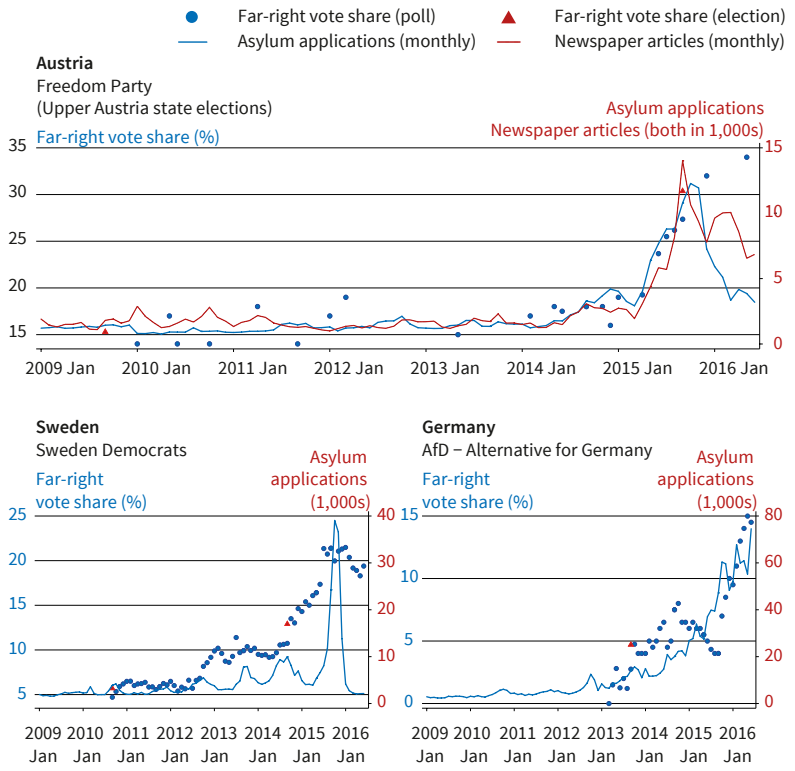
Figure 1

**Upper Austria in the Balkan Route**


Source: Author's illustration based on The Independent (2015).

Figure 2

**Number of Asylum Applications and Support for Far-Right Parties in Europe**




Note: The figure shows the monthly number of asylum applications and support for far-right parties in Austria, Sweden, and Germany. The red triangles indicate vote shares of the far right-parties in parliamentary elections for Germany and Sweden and state elections for Upper Austria. The blue dots indicate monthly averages of poll results for the respective elections. The number of asylum applications obtained from Eurostat. The actual inflow of refugees might predate the application month due to delays in processing the asylum applications resulting from the large number of applications. 'Newspaper articles' is the monthly number of articles in Austrian daily newspapers dealing with immigration, refugees, and asylum.
Source: Author's calculations using data from Austrian Press Agency.



## SUPPORT FOR FAR-RIGHT PARTIES INCREASED IN PARALLEL WITH NUMBER OF ASYLUM APPLICATIONS

In the Upper Austrian state elections in 2015, the far-right Freedom Party of Austria doubled its vote share from 2009 and obtained over 30% of the vote with a fierce anti-asylum campaign. Polls indicate that support for the Freedom Party remained roughly at the level of the 2009 state elections until late 2014, but subsequently increased drastically in 2015 when refugee numbers started to grow (Figure 2, upper panel). The salience of the issue in the media, measured as the number of newspaper articles covering the refugee situation, increased almost in proportion to the number of asylum applications.

Upper Austria was no exception in Europe. The Sweden Democrats, for instance, obtained 5.7% of votes in the 2010 parliamentary elections in Sweden (lower left panel). After that, support increased parallel to the rising number of refugees, which increased earlier in Sweden than in other European countries. In parliamentary elections in 2014, the Sweden Democrats obtained 12.9% of the vote and polled around 20% in late 2015 at the peak of the refugee inflow into Sweden. The Alternative for Germany (AfD) was not founded until 2013. Polls show a sharp increase in support of up to 15%, along with growing refugee numbers (lower right panel).

These correlations over time do not necessarily reflect causal effects, but the close correlation in the timing suggests that a positive causal relationship between the number of arriving refugees and support for far-right parties is the most likely explanation.

## VARIATION IN EXPOSURE AT THE LOCAL LEVEL

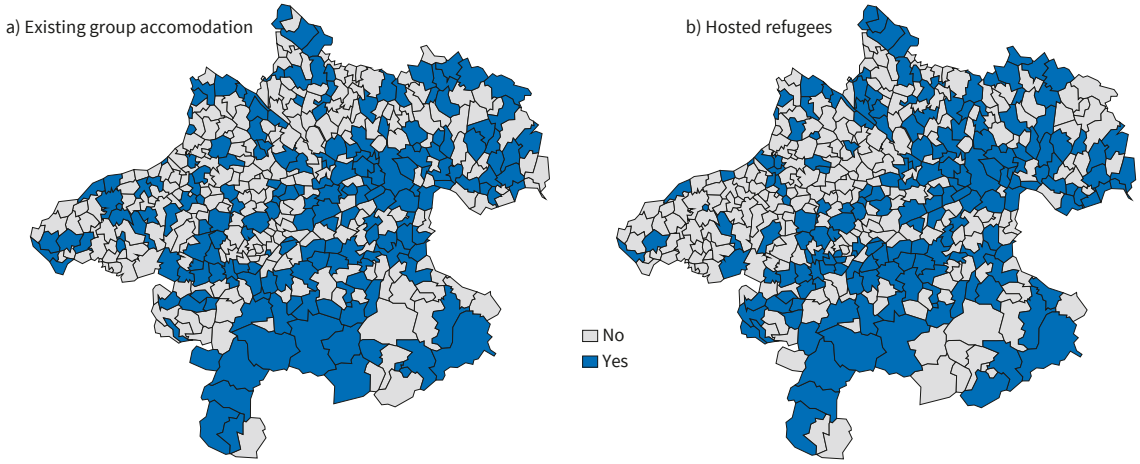
The overall positive relationship between arriving refugees and support for far-right parties may be the result of micro- or macro-exposure; or a combination of the two. We can learn more by looking at geographic variation in exposure to refugees. At the time of the election in September 2015, 42% of Upper Austrian municipalities accommodated refugees (Figure 3b). In these municipalities, refugees accounted for around 1.3% of the population, with relatively little heterogeneity between municipalities. A comparison of municipalities with and without refugees makes it possible to analyse how the presence of refugees in a municipality affects voting for the Freedom Party. A simple comparison of Freedom Party gains in municipalities with and without refugees shows that the gains were slightly lower in municipalities with refugees.

However, this comparison does not take into account that the distribution of refugees was not random but - among other things - the result of local political opposition. Municipalities that host refugees are different from municipalities that do not, and any simple comparison would thus mix these initial differences with a potential effect of refugee presence on voting behaviour.

To overcome this problem, I use the availability of buildings suitable to accommodate larger groups like homes for the elderly, disabled, or students, in combination with the sudden inflow of refugees. These buildings were built for purposes other than hosting refugees and their existence should thus be unrelated to changes in attitudes towards refugees. However, spare capacity in such buildings was used when the numbers of arriving refugees increased sharply in 2014 and 2015.

Figure 3

**Availability of Group Accomodation and Hosting of Refugees in September 2015**




Note: The left figure depicts the availability of group accommodations (Gebäude für Gemeinschaften) based on data from the 2011 building and dwellings census conducted by Statistik Austria. The right figure depicts which municipalities hosted refugees on 21 September 2015. Only individuals who filed for asylum in Austria are included.
Source: Author's illustration using data from Statistic Austria and the Upper Austrian Government. © ifo Institute

The existence of these buildings thus strongly increased the probability that a municipality received refugees, as a visual comparison of Figure 3a and 3b suggests. I can therefore use the existence of these buildings as an instrumental variable to identify the causal effect of refugee accommodation on voting behaviour.

## EXPOSURE AT THE LOCAL LEVEL REDUCED FREEDOM PARTY SUPPORT

This micro-level analysis reveals that the presence of refugees in a municipality dampens the overall trend and causally reduces the vote share of the Freedom Party by 3.45 percentage points (pp.) in state elections. This suggests that 10.8% to 21.6% of potential Freedom Party voters change their vote as a result of extended micro-level exposure.

Votes predominantly go to the conservative Austrian People's Party (ÖVP), thus marking a shift in support from a far-right to a center-right party. Results for local elections are similar, but imprecisely estimated and less robust.

These results are in line with survey evidence collected about one year after the election. Hofinger et al. (2017) find that 68% of the population in municipalities with refugees stated that hosting refugees worked well or very well in their municipality. By contrast, only 58% stated hosting refugees worked well in the state in general. Thus, the perception of the situation at the local level was more positive than the perception of the overall situation.

The second type of micro-exposure occurred in the municipalities at the German border that experienced the crossing of refugees on their way to Germany. Exposure in these municipalities was of a very different nature since it was extremely short-term and did not allow for sustained interactions between natives and refugees. And indeed, the Freedom Party gains in state elections were 2.7 pp. higher than in the rest of the state. Related to these findings, Hangartner et al. (2017) show that ultra-short-term exposure to passing refugees on Greek islands worsened the local population's attitudes towards refugees, immigrants in general, and towards Muslims. Dinas et al. (2017) show that the same episode increased support for the extremist Golden Dawn Party. In other words, micro-exposure to refugees can also strengthen anti-immigrant sentiments and voting for anti-immigration parties if conditions for positive contact are not met.

## CONCLUSION

Far-right parties gained considerable support in many European countries in the wake of the European refugee crisis in 2014 and 2015. These parties appeal to fears and anti-immigrant sentiments in the native population. The strong positive correlation between the number of arriving refugees and support for far-right parties over time suggests a positive effect of the refugee crisis on support for far-right parties. Refugee migration may impact support for far-right parties on the one hand through factors that only vary over time, but little over smaller geographical areas (macro-level). General fiscal concerns or the salience of the refugee situation in media outlets are examples of this type of factors. On the other hand, it may work through exposure that occurs if refugees are located in geographical proximity to voters (micro-level).

My analysis for the state of Upper Austria suggests a positive overall effect of refugee migration on support for the far-right Freedom Party in 2015. Macro-level exposure seems to be the primary mechanism. Direct exposure to refugees in border municipalities without interactions seems to further increase support for the

Freedom Party. However, hosting of refugees in a municipality combined with efforts to facilitate interaction between locals and refugees has the opposite effect; and the resulting micro-exposure reduces support for the Freedom Party.

While exposure to immigrants and refugees can have positive and negative effects on attitudes and relatedly on voting for far-right parties, the specific conditions that lead to one or the other effect deserve further investigation.[3] This paper highlights ways for policy-makers to create conditions whereby contact between a native and a newly-arriving population can reduce far-right voting.

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[3] Dustman et al. (2016) investigate the case of Denmark and also find that local exposure to refugees can increase or decrease anti-immigrant voting, depending on the local conditions.

*Anthony Edo, Jonathan Öztunc and Panu Poutvaara*

# Immigration and Extreme Voting: Evidence from France[1]

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## INTRODUCTION

In recent decades, immigration has become one of the most divisive issues in many Western countries. Opposing immigration has been a central pillar of the platforms of extremist parties in many Western countries, in the Leave campaign against British membership in the European Union, and in Donald Trump's electoral campaign. Opposition to immigration and globalisation were also central in Marine Le Pen's campaign in the French presidential election in 2017. The Front National's Marine Le Pen made it to the second round and won 34% of votes. This was almost twice the 18% vote share that her father Jean-Marie Le Pen won in 2002, the only previous presidential election in which Front National made it to the second round. The Front National's platform is anti-EU, anti-immigration and anti-globalisation.

In this article, we summarise our ongoing research with Yvonne Giesing on extreme voting in France. Given the central role that France plays in the European Union, together with Germany, understanding French politics is important in its own right. Furthermore, French politics is an ideal setting to test the role of immigration and economic concerns in the rise of far-left and far-right voting more generally. The Front National has run, and won more than 10% of votes in all French presidential elections since 1988. Far-left candidates have also won over 10% of votes in all presidential elections since 1988, apart from in 2007. Ours is the first paper that separately analyses the effects of immigration on voting in terms of political support for the far-left and far-right. Importantly, our analysis controls for various economic and demographic factors that could also explain extreme voting, and accounts for the fact that immigrants may prefer to reside in areas where the propensity to vote for extreme parties differs from other places.

[1] This article is based on the research paper "Immigration and Electoral Support for the Far Left and the Far Right" by A. Edo, Y. Giesing, J. Öztunc and P. Poutvaara, presented in the OECD-CEPII conference "Immigration in OECD Countries" in Paris in December 2017, and available as ifo Working Paper No. 244, 2017.

## PREVIOUS RESEARCH

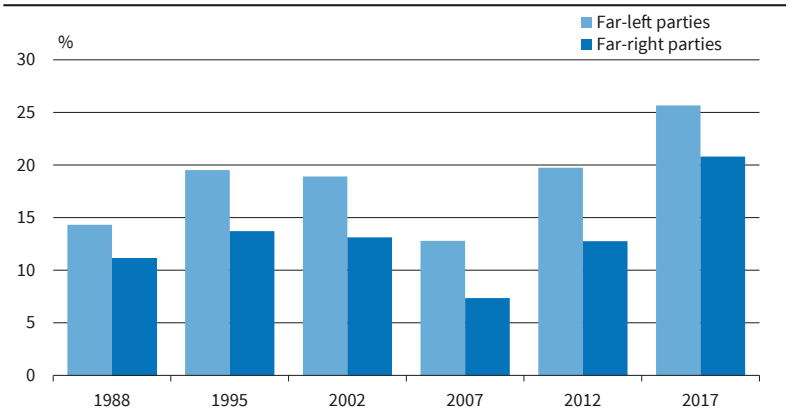
Previous research has already linked immigration and extremist voting, as well as studied the mechanisms behind opposition towards immigration. Otto and Steinhardt (2014) find that larger immigrant shares increased support for the far-right in Hamburg, using data on city districts with fixed-effects. Halla et al. (2017) study the case of Austria and show that increasing immigrant shares lead to higher vote shares for the far-right party. Card et al. (2012) use European Social Survey (ESS) data to study the relative importance of labour market and cultural concerns in driving opposition to immigration. They conclude that compositional amenities related to the utility that natives derive from their neighbourhoods, schools and workplaces are an important reason for negative attitudes towards immigration.

When it comes to the psychological determinants of anti-immigration attitudes, Poutvaara and Steinhardt (2015) show that bitter people who feel that they have not gotten what they deserve in life worry more about immigration. Their analysis uses German Socio-Economic Panel (SOEP) data and holds both in cross sections and a panel approach, when changes in bitterness are used to explain changes in worries about immigration. The link between bitterness and worries about immigration holds among different skill categories, men and women, those living in former West and former East Germany, and young and old. Furthermore, the link cannot be explained away by labour market competition, as it holds among civil servants who have permanent contracts and are not affected by labour market competition as a result.

Nikolka and Poutvaara (2016) analysed voting in the Brexit referendum in 326 local authority districts in England. They show that the share of the electorate with some tertiary education alone can explain 80% of variation in the Leave vote share across local authority

Figure 1

**Vote Share for Far-Left and Far-Right Candidates in France**




Source: Presidential election data (2017) made available by the French government.
Data on vote shares for the year 1988 comes from the centre de données socio-politiques.

districts. Adding the share of electorate aged 45 and over boosts this figure to 85.7%. Adding population shares of EU15, EU accession and non-EU immigrants as additional explanatory variables does not change much, as the share accounted for is then 86%. To a large extent, this can be expected to reflect endogenous migration responses. Migrants are more likely to migrate to areas that are doing well economically, and where people are more likely to support European Union membership, and have positive attitudes towards immigration and globalisation more generally. In the present paper, we account for this potential identification issue – *i.e.* the fact that migrants may prefer to settle in areas where the propensity to support far-right parties is low.

Hainmueller and Hangartner (2013) studied discrimination against immigrants in Switzerland, where some municipalities used to decide on naturalisation of immigrants by referenda on individual applicants. They find that the country of origin is a more important determinant of being naturalised than any other applicant characteristic, including language skills, education, and socioeconomic status. The applicants from ex-Yugoslavia and Turkey are rejected considerably more often than applicants with similar age, education and labour market status from northern and western Europe.

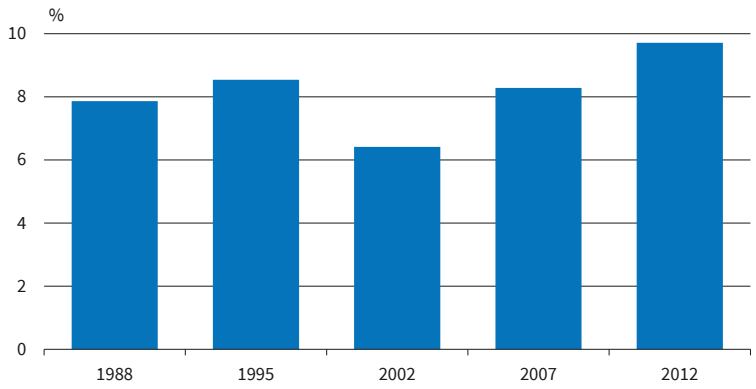
## DATA

We investigate the determinants of voting outcomes for the first round of the presidential elections that occurred in 1988, 1995, 2002, 2007, 2012 and 2017. The data on voting outcomes are available for around 36,000 French municipalities. They record the aggregated number of registered voters, abstentions, cast votes, valid and invalid votes and the votes for each presidential candidate in each municipality. Registered voters refer to all people who are eligible to cast a vote at the ballot box. Registered voters are split into abstentions (people who refrain from voting) and cast votes (people who fill out a ballot paper at the ballot box). Cast votes are split into invalid votes (blank and erroneous votes on the ballot paper) and valid votes (votes that can be ascribed to a presidential candidate). If votes for all different presidential candidates are aggregated, they yield the number of valid votes.

Since we are interested in the determinants of votes for far-left and far-right candidates, we identify presidential candidates that were classified as either far-left or far-right by the media in recent presidential elections. Jean Marie Le Pen, Marine Le Pen, Nicolas Dupont-Aignan, Philippe de Villiers and Bruno Mégret are included in the set of far-right presidential candidates. The set of far-left candidates consists of Jean-Luc Mélenchon, Nathalie Arthaud, Olivier Besancenot, Philippe Poutou, Marie-George Buffet, Robert Georges August Hue, Pierre Juquin, André Francois Lajoinie, Pierre Boussel, George Marchais and Arlette Laguiller. Finally, we aggregate the number of votes for all far-right (far-left) presidential candidates to obtain an aggregated number of votes for far-right (far-left) parties in a presidential election. In order to calculate vote shares, we divide the aggregated votes by the total number of votes cast (invalid and valid votes).

Figure 2

**Development of Unemployment Rate over Time**

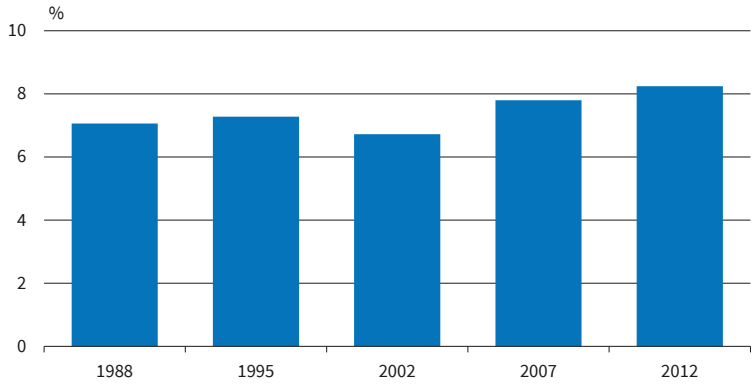



Source: French census data; French National Institute for Statistics and Economic Studies (INSEE).



Figure 3

**Development of the Immigration Share over Time**




Source: French census data; French National Institute for Statistics and Economic Studies (INSEE).

In order to show that our results are not sensitive to the geographical unit of analysis used in the empirical section, we aggregate the data on votes at three different regional levels: the canton, department and region level. While there are around 2,000 cantons, there are 96 departments and 22 regions. Using larger geographical areas allows us to show that our results are not contaminated by the fact that French citizens may respond to the arrival of immigrants in a given area by moving away.

We use the French censuses from 1990, 2007 and 2012 to infer the number of immigrants for the presidential elections of 1988, 2007 and 2012. No census was implemented for the years 1995 and 2002. Instead, we use the pooled 1994-1995 labour force survey (LFS) and 2001-2002 LFS to ensure a high level of precision in estimating our variables for these two election years. For the year 2017, we use the most recent wave of available data, which is the 2015 LFS to infer the number of immigrants for each French region. We define an immigrant as a person born abroad without the French citizenship. This definition allows us to exclude the migrants with French nationality who can vote and avoid any composition effect due to their inclusion in the sample.

We can therefore investigate the impact of immigration on far-right and far-left voting at the canton level between 2002 and 2012, at the department level between 1988 and 2012 and at the regional level between 1988 and 2017.

## DESCRIPTIVE STATISTICS ON FAR-RIGHT AND FAR-LEFT VOTING

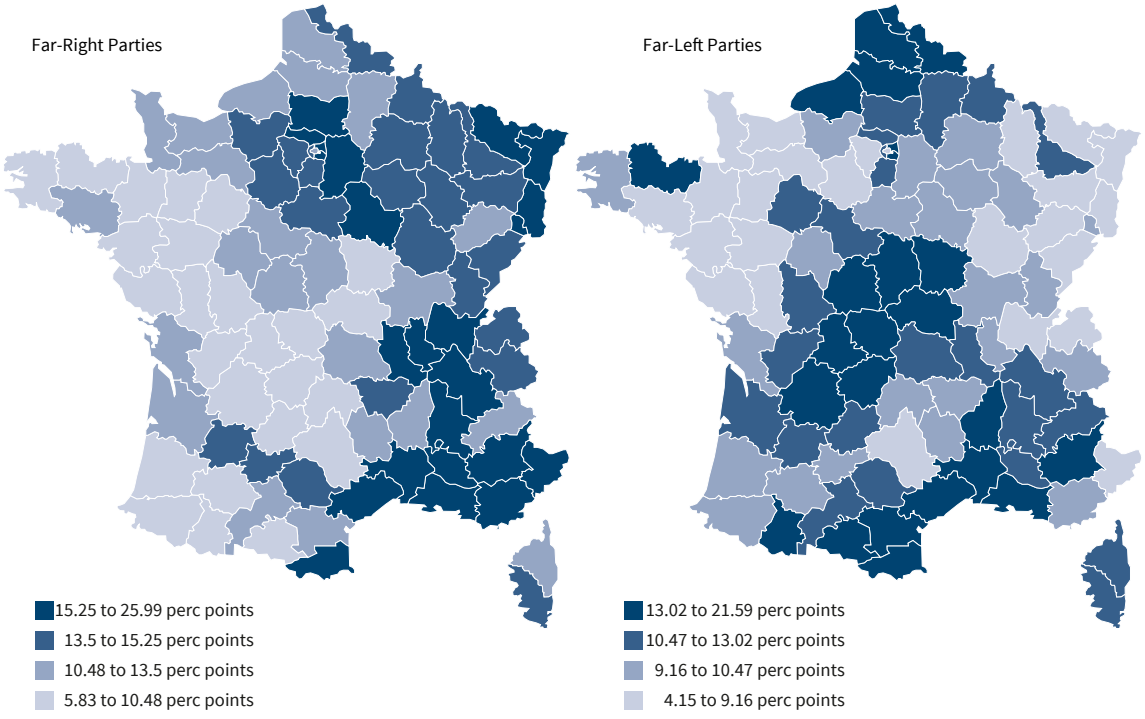
Figure 1 shows how the first-round vote share of far-right and far-left candidates has changed between 1988 and 2017. Both vote shares have increased dramatically since 2007, following the financial crisis, the Eurozone crisis and, most recently, the refugee crisis. Figures 2 and 3 show how unemployment and the population share of immigrants have changed between 1988 and 2012 (2017 data is not yet available). Both unemployment and the population share of immigrants have increased steadily since 2002.

Figure 4 displays the regional distribution of the first-round vote share for far-right and far-left candidates in 1988. Far-right candidates were initially very strong in the southeast of France, while far-left candidates were popular in the north, centre and south of France.

Figure 5 respectively displays the corresponding change in the vote share from 1988 until 2012 for far-right and far-left parties across departments. In contrast to the initial vote share, the increase in the vote share for far-right candidates was concentrated in north eastern departments, departments in the center and to some extent in the southwest of France, as well as Corsica. In these departments, the vote share for far-right candidates increased by between 7 and 16 percentage points. The right-hand side of Figure 5 presents the change in the vote share from 1988 until 2012 for

Figure 4

**Initial Vote Share for Far-Right and Far-Left Parties in France in 1988**




Notes: The heatmaps are made available from https://www.data.gouv.fr/fr/datasets/contours-des-departements-francais-issus-d-openstreetmap/#_ and come from the contributors of OpenStreetMap. We use the 2017 version. The data is available under the Open Database License and the cartography is licensed as CC BY-SA. The copyright of the maps lies with OpenStreeMap (http://www.openstreetmap.org/copyright/en).

Source: Authors' illustration using data from the Open Platform of French Public Data (2017).

far-left candidates. The increase in the vote share for these candidates was particularly concentrated in the north western and eastern French region (ranging between about three and five percentage points).

## EMPIRICAL METHOD: SPATIAL CORRELATION APPROACH

Our empirical strategy exploits the fact that immigrants tend to cluster in a limited number of geographical areas. We use the spatial distribution of immigrants in order to estimate their impact on far-right and far-left-voting. The idea of this spatial correlation approach is to compare the changes in votes for far-right and far-left voting of high-immigration places with those of low-immigration places.

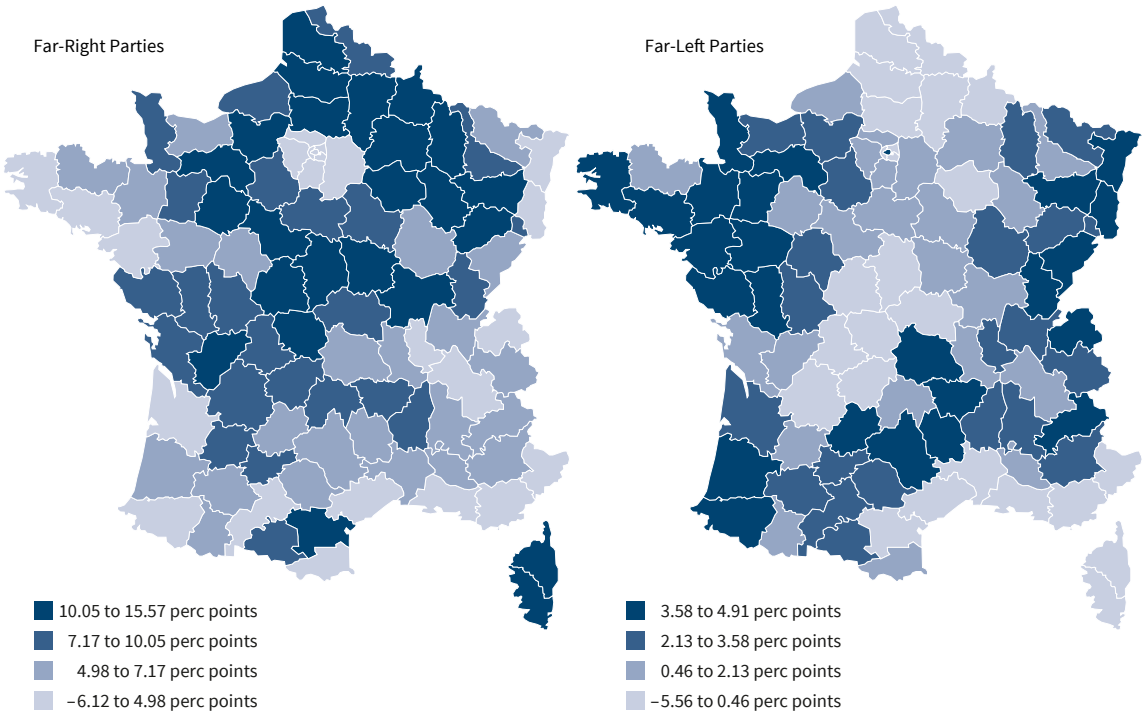
This approach is subject to the main limitation that immigrants are not randomly distributed across areas. They may prefer to settle in areas experiencing positive economic shocks and where the share of far-right voters is relatively low. This behaviour among migrants will create a spurious negative correlation between immigration and far-right voting, contaminating the measured effects of immigration on political outcomes. In order to limit this potential bias, we estimate the impact of changes in local immigrant shares on changes in vote shares. This estimation in first differences accounts for all time-invariant differences between areas that may affect immigrant inflows and votes. We also introduce a large set of control variables to account for omitted variables that could affect immigration and political outcomes within an area. In particular, we include the share of unemployment in the population and control for the age, education and employment structure of each area.

However, it is still possible that immigrants settle in places with a small share of votes for anti-immigration parties. In order to tackle this endogeneity issue, we use an instrumental variable (IV) strategy. The idea is to use variations in immigration that are due to another variable whose changes are plausibly exogenous (unrelated) to the outcome. In this respect, literature on the subject generally uses past migrant networks (past settlements) as predictors for future migration flows. In our study, we use the historical distribution of immigrants across French departments from the 1968 French census as a predictor for their subsequent flows. Our instrument is based on the idea that the stock of previous immigrants has an impact on subsequent flows through network effects, while assuming that past immigrant concentrations are uncorrelated with current unobserved economic shocks (for details, see Edo et al. (2017)).

The use of the 1968 census allows us to predict subsequent inflows based on immigration patterns that took place at least 20 years earlier. Moreover, the *Front National*, which is the first post-1945 extreme right party, was created in 1972 and participated in the presidential election for the first time in 1988. As a result, the spatial distribution of immigrants in 1968 was not

Figure 5

**Increase in Vote Share for Far-Right and Far-Left Parties in France in 1988**




Notes: The heatmaps are made available from https://www.data.gouv.fr/fr/datasets/contours-des-departements-francais-issus-d-openstreetmap/#_ and come from the contributors of OpenStreetMap. We use the 2017 version. The data is available under the Open Database License and the cartography is licensed as CC BY-SA. The copyright of the maps lies with OpenStreeMap (http://www.openstreetmap.org/copyright/en).



Source: Authors' illustration using data from the Open Platform of French Public Data (2017).

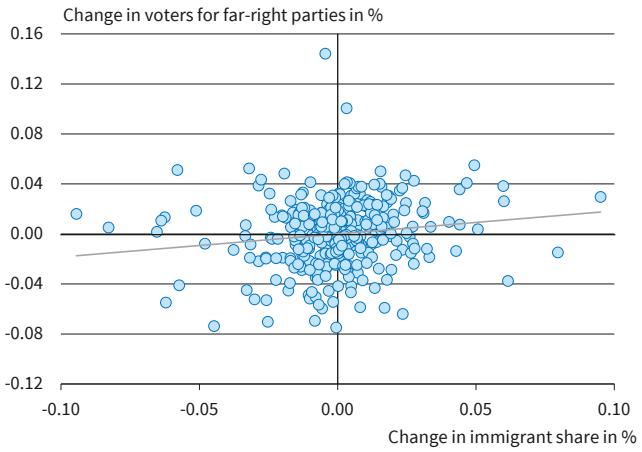
caused by extreme right voting and is very likely to be unrelated to the share of votes for far-right parties in subsequent years.

## THE AVERAGE IMPACT OF IMMIGRATION ON VOTES FOR FAR-RIGHT AND FAR-LEFT PARTIES

Figure 6 provides a preliminary look at the correlation between the change in the vote share for far-right parties within a given department and the change in the share of immigrants for that department.[2] The figure indicates a positive and significant relationship: the estimated coefficient (and T-statistic) is -0.32 (4.00). This preliminary result suggests that the votes for far-right parties grew fastest in the departments that experienced the highest increase in immigration. The econometric results reported in Table 1 shows the robustness of this correlation.

Figure 6

**Relationship Between Far -Right Voting and Immigration**




Note: Estimated coefficient: 0.32, student's t-test: 4.00.
Source: Presidential election data, French censuses and labour force survey (LFS) (1988–2012); authors' calculations.



Table 1 reports the OLS and IV estimated effects of immigration on the change in votes for far-right and far-left parties across French areas. We use past immigrant settlement patterns as an instrument. In addition to using the 96 French departments as our baseline geographical unit of analysis, we also use cantons (1,989) and regions (22) as alternative units. Cantons are smaller than departments, while regions are larger. The regressions at the Canton level are performed over the 2002-2012 period. We extend this period of analysis to the 1988 and 1995 presidential elections when using the department as an alternative unit of analysis. Regressions across French regions even allow us to account for the first-round results during the 2017 presidential election.

The results from Table 1 indicate that immigration has a positive impact on votes for far-right parties and a modest negative impact on those for far-left parties. The fact that the OLS estimates are weaker than the IV estimates is consistent with the fact that immigrants are more likely to migrate to regions where the vote share for far-right parties is low; or to regions with thriving economies that may be less inclined to support far-right parties. In particular, our IV estimates implies that a one percentage point increase in the immigrant share

[2] More specifically, the points in the scatter diagram are the residuals from a regression of the change in votes for far-right parties and the change in immigrant share on a set of year fixed effects. The year fixed effects remove any year-specific effects that are common to all geographical areas.

Table 1

**Impact of Immigration on Extreme Voting Across Alternative Geographical Units**

| | Geographical unit of analysis | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Canton | | Department | | Region | | Region | |
| | OLS | IV | OLS | IV | OLS | IV | OLS | IV |
| Far-right | 0.42*** | 2.55*** | 0.38*** | 2.02*** | 0.97** | 2.52** | 0.99** | 2.29** |
| | (8.61) | (3.39) | (3.57) | (3.46) | (2.52) | (2.26) | (2.63) | (2.17) |
| Far-left | 0.02 | -0.27 | -0.10*** | -0.16 | -0.38* | -0.64*** | -0.32 | -0.70*** |
| | (0.71) | (-0.50) | (-2.82) | (-0.81) | (-1.90) | (-2.75) | (-1.60) | (-2.88) |
| Time Period | 2002–2012 | | 1988–2012 | | 1988–2012 | | 1988-2017 | |
| Observations | 3,895 | | 384 | | 88 | | 110 | |

Note: ***, **, * mean different from 0 at the 1%, 5%, 10% significance level. T-statistics are indicated in parentheses below the point estimate.
Source: Presidential election data, French censuses and labour force survey (LFS) (1988–2012); authors' calculations.

increases the share of votes for far-right parties by 2.02 percentage point at the department level.

## THE IMPACT OF IMMIGRATION ON FAR-RIGHT VOTING ACROSS EDUCATION-NATIONALITY GROUPS

In Edo et al. (2017) we go beyond the average impact of immigration on far-right voting by decomposing its effect across education-nationality groups. We break down the immigrant population into six education-nationality groups and use three education groups: low, medium and high education groups. The low education group is composed of people who have an elementary school diploma or no diploma, the medium education group is composed of people who have a high school degree and a French diploma giving access to high school, the high education group is composed of people who have a college degree, some college or a French diploma giving access to the university. For each education group, we compute the change in the share of non-European and European immigrants.

Our break-down firstly shows that the average positive effect of immigration on extreme right voting is asymmetric across education groups. This effect is fully driven by the share of poorly educated immigrants. This result is consistent with the fact that low-skilled immigration may have detrimental labour market effects, as compared to highly-skilled immigration. Secondly, the positive impact of poorly educated immigrants on extreme right voting is only driven by those migrants who have a non-European nationality. By contrast, medium and high educated non-European immigration have insignificant or negative effects on support for far-right parties. Taken together, our results suggest that the educational composition of immigrants, as well as their origin, matter in determining their impact on votes for far-right parties.

## CONCLUSION

We estimated the impact of immigration on voting for far-left and far-right parties in France, using panel data on presidential elections from 1988 to 2012 (and in some analyses until 2017). We found that immigration increases support for far-right candidates, in all analysed geographical units of observations. This result was especially strong when using instrumented immigration flows, but it was also present in ordinary least squared regressions. There is no robust pattern on far-left voting.

Our additional analyses suggest that an increase in the electoral support for the far-right is driven primarily by low-skilled immigrants from non-Western countries. Furthermore, our results indicate that both economic concerns (related to the educational level of migrants) and cultural concerns (related to migrants' region of origin, most saliently whether they come from Western or non-Western countries) play an important role. Understanding the grievances of those voting for extreme parties is also important to those who do not agree with them. Ignoring these grievances puts gains from globalisation and migration at jeopardy at the ballot box. In the French context, it is notable that the total first-round vote share for far left and far right candidates increased from 34.3% in 2012 to 47.3% in 2017. If labour market reforms do not succeed in boosting economic growth and reducing unemployment, an extremist candidate is likely to win in the next French presidential election.

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# How Bracket Creep Creates Hidden Tax Increases: Evidence from Germany[1]

## BRACKET CREEP CREATES COVERT TAX RATE INCREASES

In recent years Germany has seen a significant increase in its tax revenues, mainly thanks to income tax revenues which have risen steadily as a share of total tax revenues (cf. for example, Breuer 2016; Dorn et al. 2017b, p. 56). Although the favourable situation in the labour market at present is largely responsible for this fiscal growth, 'hidden' tax increases due to the bracket creep also play a key role in this development. It is important to distinguish between tax revenues generated by bracket creep in the narrow and in the broader sense of the term.

### Bracket Creep in the Narrow Sense of the Term

If incomes rise with inflation, gross real income remains constant. The progressive income tax rate based on nominal figures nevertheless leads to an increase in the individual tax burden, and thus lowers the real net incomes earned by citizens. This phenomenon is the so-called bracket creep in the narrow sense of the term. Although the German government has to report to the parliament on the state of bracket creep every two years, this does not involve any legal obligation to adjust the taxation rate accordingly. It remains at the discretion of the federal government in question to carry out tax rate revisions. After the revision in 2010 there was no significant tax rate adjustment to compensate for the bracket creep until 2015, but merely legally stipulated adjustments of the basic tax-free allowance covering the minimum subsistence level, as well as partial changes to tax deductible allowances. In the years from 2011 to 2015 additional tax revenues generated by inflation-related bracket creep totalled 28.2 billion euros (Dorn et al. 2017b). To date the German federal government has only adjusted tax rates for 2016 and 2017, as well as announcing a revision for 2018, which reduces the annual bracket creep, but does not completely offset the additional tax rate burdens of previous years (cf. Beznoska 2016, Dorn et al. 2016, Dorn et al. 2017b).

[1] Parts of this article are based on an article published in ifo Schnelldienst (Dorn et al. 2017a) and a study carried out by the ifo Institute for the FDP parliamentary party (Dorn et al. 2016).

### Bracket Creep in the Broader Sense of the Term

Another aspect of the bracket creep remains largely ignored by the public debate – namely the so-called bracket creep in the broader sense of the term. This second aspect of the bracket creep arises from growth in real income, in addition to or possibly even in the absence of an increase in the overall price level. This extended interpretation of bracket creep earned the state additional tax revenues of 52.1 billion euros from 2011 to 2015, i.e. 23.9 billion euros more than the purely inflation-related increase in bracket creep over the same period. Since revisions of the income tax rate during the period from 2016 to 2018 only aimed to compensate for the inflation-related increase, bracket creep in the broader sense of the term looks set to rise in the future (Dorn et al. 2017b).

An increase in the tax burden borne by individual taxpayers is desirable if the latter earn relatively high incomes compared to other taxpayers. The bracket creep in the broader sense of the term, however, occurs if the level of real incomes rises in an economy; even if individual taxpayers do not earn higher incomes compared to the economy as a whole. In this case the state absorbs an increasingly large share of private revenues due to the progressive tax rate, i.e. a tax revenue elasticity which is greater than one. In the case of real economic growth, a growing number of revenue earners "slip" into higher tax rate brackets, which, in turn, weakens the redistribution effect of the income tax. Germany's tax wedge, which is already one of the largest of all OECD countries, rises as a result which pushes up the tax rate over time even without inflation (cf. Dorn et al. 2016, Dorn et al. 2017b). The state demands a higher percentage of additionally earned income in taxes than it did of the previously prevailing income level. It is precisely this increase in the contributions burden that forms the "second part" of the bracket creep. However, the relative tax burden on society, and by extension the tax rate, should not rise over time due to a mechanism inherent in the tax rate, but should rather remain constant *ceteris paribus*, especially without a specific democratic vote on it.

### A "Rolling" Tax Rate

The additional burden on income earners generated by the bracket creep can be corrected relatively easily. Many economists propose a rolling income tax rate[2], a concept that has already been implemented in several OECD countries (cf. Lemmer 2014). According to this concept, the threshold figures for the tax brackets that define the income tax rate (possibly including tax allowances) are automatically adjusted to the price

[2] See, for example, Sinn (2003, p. 470), German Council of Economic Experts – Annual Report 2011/12, p. 206ff, Lemmer (2014) as well as Dorn et al. (2016). Bach (2016, p. 168ff.), by contrast, is sceptical about the need for a rolling rate and highlights that citizens obtain tax relief in real terms via volume-based taxes and that bracket creep also functions as an automatic stabiliser.

level and/or developments in income. If both components of the bracket creep, namely the effect of inflation and of real income growth, were to be taken into account, the threshold figures and components of the tariff formula would have to be regularly multiplied with a nominal gross income growth factor.[3]

This article begins by presenting the reform options of a "rolling" income tax rate as a tax rate indexation that automatically eliminates the bracket creep. It also quantifies how the bracket creep burden was distributed across the various income groups between 2010 and 2018, and who has borne the greatest tax burdens due to bracket creep.

## ELIMINATING BRACKET CREEP BY INDEXING THE TAX RATE

Since the present income tax rate based on nominal figures does not take bracket creep into account, there seems to be a need for reform. One solution to the bracket creep problem advocated by many economists is an indexation of the tax rate. In this context it seems sensible to monitor two variables: inflation or nominal income, depending on whether the bracket creep in the narrower or broader sense of the term is under consideration.

### Automatic Adjustment to Price Developments – Eliminating Bracket Creep in the Narrow Sense of the Term

If the income tax rate is indexed to the general price level, it is possible to avoid tax increases due to purely nominal changes in income that would otherwise arise in the case of constant and/or even falling real wages. This means that real purchasing power losses generated by the tax system can be circumvented. This would eliminate an inflation-related bracket creep in the narrow sense of the term. Such an automatic annual adjustment of the income tax rate to price developments is already legally binding in many countries including Belgium, Britain, Canada, the Netherlands, Switzerland and the United States of America. In most of these countries the amounts of tax deductible items, along with the tax rate parameters themselves, are automatically adjusted on an annual basis in line with inflation. In countries with no regular legally-binding tax rate indexation like Germany, France and Finland, governments often only sporadically update tax rate benchmarks and thus use bracket creep as a 'hidden' source of additional tax revenues (cf. Lemmer 2014 for an international comparison of tax rate indexation).

A central feature for assessing taxation equity in German tax law is the ability-to-pay principle. According to this principle, each citizen should contribute to financing the community according to his/her individual economic capacity. The tax rate should therefore be adjusted to price developments from an economic point of view, since only income increases that exceed inflation indicate a higher real ability-to-pay on the part of taxpayers. Even if tax rate parameters (and the potential amounts of tax deductible, if applicable) are updated in line with price developments, increases in real income are still coupled with an increase in the tax burden.

Due to the (aggregate) real increases in productivity forecast, a corresponding tax revenue elasticity which is greater than one can still be expected to lead to an increase in the tax rate as measured by the national income. This implies that the state itself absorbs a growing share of private income even if the tax rate is indexed to inflation. There is nevertheless no direct economic justification for the related inherent mechanism of an automatic increase in the tax rate. In terms of the current German income tax rate with its different brackets, it is rather a question of citizens slipping into higher tax brackets, which reduces the social distribution effect of the tax burden. This, in turn, deviates from the distribution effects of the taxation system originally intended by the legislator (and hence the electorate). Lower and middle-income earners in particular face a steadily growing burden in Germany due to bracket creep and will contribute a growing share of tax revenues as a result. There is no explicit democratic legitimation of this automatic change in tax burden distribution.

### Automatic Adjustment Based on Nominal Income Developments – Eliminating Bracket Creep in the Broader Sense of the Term

If developments in nominal income, i.e. the sum of inflation-related and real income growth, are taken into account in measuring taxation instead of inflation, the bracket creep in the broader sense of the term will also be eliminated, and a tax rate increase will be avoided should real income rise. A progressive tax burden in this instance only takes effect in the case of different income increases between taxpaying entities, but no longer in the case of general real increases in wages and income. Although it is accompanied by the renunciation of automatic tax rate increases in the course of an economy's real productivity gains, the tax burden rate related to aggregate income, and in turn the distribution effect of income tax, remains largely constant *ceteris paribus*. From a distributional point of view, it follows that tax rate indexation with nominal growth in income would be desirable. The income tax rate and the amount of tax deductible are annually adjusted to reflect growth in nominal wages in Norway, Denmark and Sweden; and this is a legal obligation in the latter two countries (see Lemmer 2014).

[3] This corresponds to a multiplying with the total of inflation and real gross income growth.


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### Reform Option: a Rolling Income Tax Rate

One of the forms of tax rate indexation frequently recommended and implemented in many countries is the concept commonly referred to as the so called "rolling rate."[4] This procedure is applied directly to adjust the parameters that define the income tax rate. The threshold values of the different tax brackets and certain parameters of the rate formula are automatically adjusted over time according to the growth factor of price levels and/or of nominal gross wages. The advantage of a rolling rate compared to other adjustment options lies in the transparent method of calculating income tax (cf. Dorn et al. 2016 on the calculation method and a discussion of its practical implementation). A rolling tax rate provides sufficient transparency in the taxation process for citizens and, as a result, the political legitimation of a corresponding reform.

## DISTRIBUTION EFFECTS FOR VARIOUS INCOME GROUPS

The effect of the additional tax burden through bracket creep, as well as the relief provided by a rolling tax rate for various income groups in Germany, is simulated using the example of a couple with joint tax assessment and two children with different total gross annual incomes.

### Data and Methodology

To measure the extent of bracket creep, micro-data from the German wage and income tax statistics for 2010 (Statistical Offices 2016) are used to estimate taxation effects with the ifo Income Tax Simulation Model.[5] The calculations are based on static statistical equilibrium analyses, while dynamic labour supply effects are not taken into consideration. Using 2010 as a base year the gross income is updated with gross wage growth up until 2018.[6] The increase in employment, as well as changes in tax deductible allowances and standard deductions like the increase in the employee's standard allowances, advertising cost allowances and allowances for children in the years between 2010 and 2018 are implemented. The reference scenario also takes into account the adjustment of the parameters made in the income tax rate during the years 2010 to 2016, as well as the German federal government's decision of October 2016 to adjust the tax rate in 2017 and 2018.[7] It also takes into account the increases made in the tax-free allowance and the tax allowance for children through 2018. The extent to which the adjustments agreed for the years 2017 and 2018 can compensate for bracket creep in previous years is also analysed. Building on this, the income tax burden of a sample household is simulated for each year using the ifo simulation model while considering tax-free allowances and deductible items.

To calculate the effect of bracket creep, the formula parameters and tax brackets of the income tax rate of 2010 are updated with the consumer price index (to determine bracket creep in the narrow sense of the term) and/or nominal gross wage growth per employee (to determine bracket creep in the broader sense of the term). The parameters are updated through 2018[8] and applied to the incomes which are to be taxed. This income tax burden arising from a hypothetical rolling tax rate applied in 2010 is subsequently compared with the (simulated) income tax due if actual changes in taxation law over the period in question are taken into consideration. Accordingly bracket creep is calculated as the difference between actual income tax amounts and theoretical figures generated by rolling rates.

### Burdening and Disburdening Effects for Sample Families

Our simulation shows that the bracket creep in Germany leads to an annual additional tax burden in the years from 2011 to 2018 across all of the considered income groups. The 'hidden' tax effect is greater if the tax rate parameters are updated with growth in real gross income in addition to inflation. Overall, the bracket creep in the narrow and broader sense of the term created an additional annual burden of 45 euros and/or 211 euros for households liable to tax and with a gross annual income of 25,000 euros in 2010. The absolute estimated annual average burden of a sample household with an annual gross income of 100,000 euros, by contrast, is already as high as 533 euros and/or 1,180 euros. It emerges that a rolling rate in 2010 would have disburdened all of the income groups observed in the subsequent years. The absolute disburdening is greater, the higher the income of the households in question (cf. Figures 1 and 2). For a jointly assessed household with an average annual gross income of 50,000 euros, the potential cumulative tax relief for the years 2011 to 2018 amounts to 1,888 euros and/or 4,811 euros, depending on whether bracket

[4] In principle, there is also the option, in addition to a rolling tax rate, of implementing tax rate indexation using a fixed basic rate with income deflation. For an in-depth discussion and assessment of tax rate indexation reform options, cf. Dorn et al. (2016, p. 4-7).

[5] The data set used represents a 10%-sample of all individuals subject to income tax and covers around 3.9 million observations. The calculations refer to gross taxation revenues, which differ from the final cash revenues.

[6] For gross wage growth per employee through 2015, see the German Federal Statistics Office (2016a). Figures on employment growth, as well as growth in gross wages and wages per employee from the Joint Economic Forecast (2016) are used for the calculations from 2016 to 2018.

[7] The latter serve to compensate for bracket creep for the years 2016 and 2017. For this purpose, the tax rate benchmarks in 2017/2018 are shifted to the right by the expected inflation of the preceding year. The forecast inflation rates are taken from the German federal government's current mid-term economic forecast.

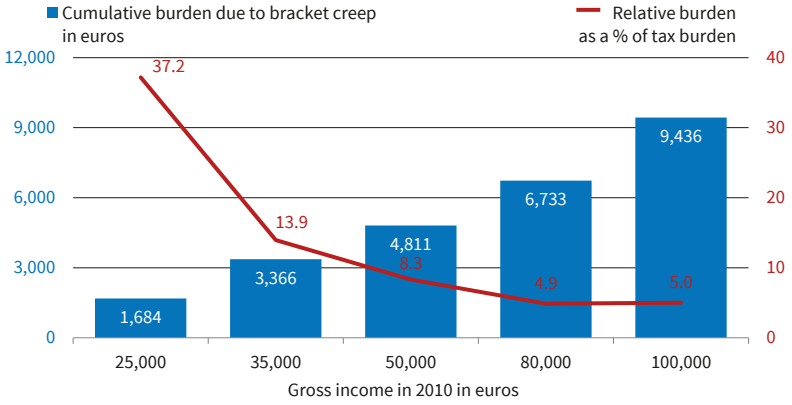
[8] The consumer price index was used for inflation through 2015 (German Federal Statistics Office 2016b). The inflation forecast for 2016 is based on the Joint Economic Forecast (2016). Figures on employment growth, as well as increases in gross wages and earnings per employee from the Joint Economic Forecast (2016) are used for the time period through 2018.

creep is considered in the narrow or broader sense of the term.

In relative terms the introduction of a rolling rate to eliminate bracket creep, by contrast, will particularly disburden households in the middle tax bracket. For a jointly assessed employee household with two children and an annual gross income of 25,000 euros (in 2010), the total additional burden caused by bracket creep (in the narrow sense) amounts to 8.0% and/or 37.2% (in the broader sense) of total income tax. For taxable individuals with a gross annual income of 35,000 euros, the financial disburdening through a rolling rate as opposed to the prevailing tax rates between 2011 and 2018 is 4.9% or 13.9%. Households with a gross annual income of 100,000 euros, by contrast, would receive cumulative relief of between 4,266 euros and 9,436 euros, and/or between 2.3% and 5.0%.[9] However, the disburdening effects at a household level show one thing very clearly: the shift in the income tax rate implemented in Germany in 2016 and the legal decision taken in October 2016 to adjust the tax rate to reduce bracket creep in 2017 and 2018 by no means compensate for the burdens shouldered by taxpayers in the preceding years.

Figure 1

**Cumulative Absolute und Relative Taxation Effect[a] of Bracket Creep**
In the broader sense, from 2011 to 2018 by gross income

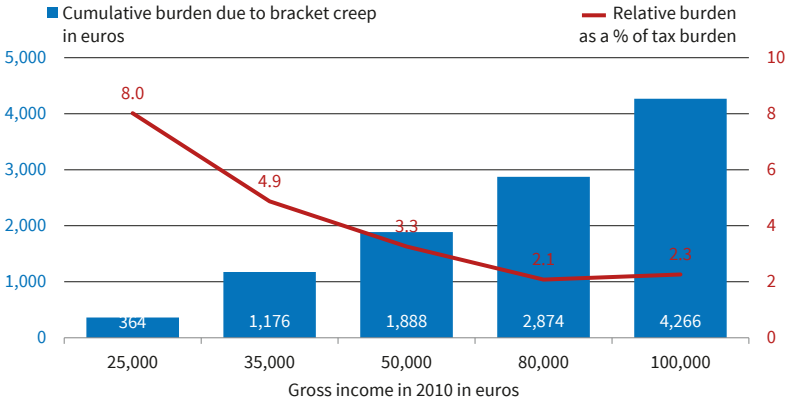



[a] Incl. solidary tax.
Note: The cumulative figures for 2011 to 2018 refer respectively to a household consisting of a jointly assessed couple and two children. The tax rate for 2010 forms the basis for the forward projection of the tax rate indexation.

Source: own calculations, based on Federal Statistics Offices (2016). © ifo Institute

Figure 2

**Cumulative Absolute und Relative Taxation Effect[a] of Bracket Creep**
In the narrow sense, from 2011 to 2018 by gross income




[a] Incl. solidary tax.
Note: The cumulative figures for 2011 to 2018 refer respectively to a household consisting of a jointly assessed couple and two children. The tax rate for 2010 forms the basis for the forward projection of the tax rate indexation.

Source: own calculations, based on Federal Statistics Offices (2016). © ifo Institute

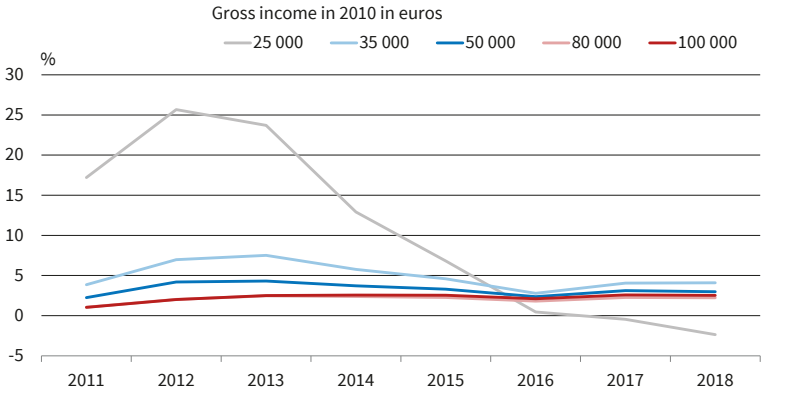
If the annual trend in bracket creep in the broader sense is considered, it becomes clear that the burden for jointly assessed taxable employees with two children continued rising, despite sporadic adjustments to German taxation law. These years are characterised by strong growth in real gross wages. Inflation-related adjustments of the rate parameters in the years from 2016 to 2018 could therefore not compensate for the bracket creep in the broader sense of the term. This means that the state disproportionately skimmed off the productivity gains of the working population between 2011 and 2018.

Since rising income levels also increase the income tax to be paid by households, focusing on the absolute burden effects of bracket creep does not go far enough. As a complement to the previous monitoring of the absolute burden level, Figure 3 shows inflation-related bracket creep as a relative share of the (income) tax burden of various types of households. It becomes clear that in Germany, and especially among the lower middle classes, jointly assessed households with an annual gross income of 25,000 euros bear the highest comparative burden from bracket creep. Between 2011 and 2015 inflation-related bracket creep as a share of the tax burden shouldered by these households amounted to between 6.8% and 25.7%. Although adjustments for tax deductible items and allowances did lead to successive drops of between 6.8% and

[9] Our results on the disburdening and distribution effect by income groups basically fall into line with the results of other studies. Differences arise due to different assumptions regarding the individual, stylized sample case. Cf. Breidenbach et al. (2014) and the German Federal Ministry of Finance (2015).

Figure 3

**Bracket Creep[a] as a Share of the Tax Burden**
In the narrow sense, from 2011 to 2018 by gross income

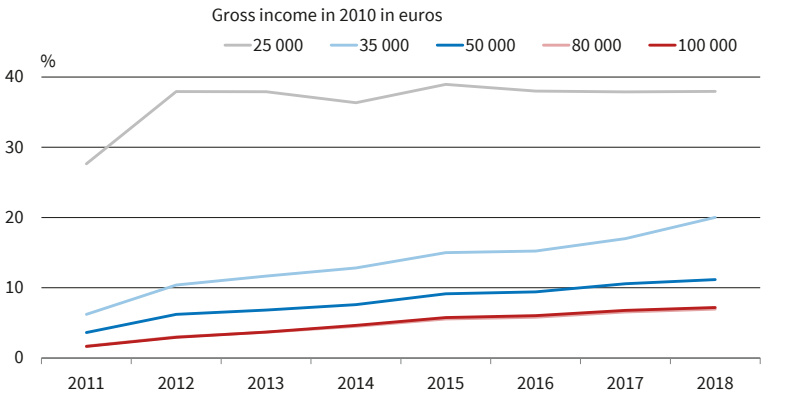



[a] Incl. solidary tax.
Note: The cumulative figures for 2011 to 2018 refer respectively to a household consisting of a jointly assessed couple and two children. The tax rate for 2010 forms the basis for the forward projection of the tax rate indexation.

Source: own calculations, based on Federal Statistics Offices (2016). © ifo Institute

Figure 4

**Bracket Creep[a] as a Share of the Tax Burden**
In the broader sense, from 2011 to 2018 by gross income




[a] Incl. solidary tax.
Note: The cumulative figures for 2011 to 2018 refer respectively to a household consisting of a jointly assessed couple and two children. The tax rate for 2010 forms the basis for the forward projection of the tax rate indexation.

Source: own calculations, based on Federal Statistics Offices (2016). © ifo Institute

25.7% in the inflation-related bracket creep as a share of the tax burden as of 2013, these households nevertheless remained the most heavily affected by bracket creep in comparative terms. This group did not enjoy the greatest tax relief in comparative terms until the compensatory measures taken in the years between 2016 and 2018. For households with a gross annual income of 35,000 euros, the relative burden borne between 2011 and 2018 ranged between 2.8% and 7.5%. Although these households were not given tax relief to the same extent as the lowest income groups, their relative tax burden still fell. For jointly assessed households with a gross income of between 50,000 and 100,000 euros, the relative burdens between 2011 and 2018 remained fairly constant at a level between 1% and just over 4%.

Figure 4 presents the various burden effects of different household incomes for the bracket creep in the broader sense of the term. As for the inflation-related bracket creep, households with the lowest gross incomes also exhibited the highest comparative burden of up to 39%. For the remaining households the maximum burden in 2018 ranges from 7.2% (for households with a gross income of 100,000 euros) and 20.0% (for households with a gross income of 35,000 euros). The relative burden effect of bracket creep in the broader sense of the term falls as annual gross income rises. Unlike inflation-related bracket creep, the burden shares caused by bracket creep in the broader sense of the term remained relatively steady at a high level. In other words, the German federal government fell far short of compensating for the higher tax burden through real income growth with its tax rate adjustments.

Overall, it becomes clear that the recent tax law revisions made to address the bracket creep in the narrow sense of the term between 2016 and 2018 target, but by no means compensate for the additional burden created entirely by inflation from 2011 to 2015. Moreover, the decision not to take a bracket creep in the broader sense into account further weakened the incentive effects of the income tax, which should be geared towards relative income differences within the population liable to pay tax. There is therefore not only a need for future reforms to take a more active approach to the problem of bracket creep, but also a need to compensate taxpayers for 'hidden' additional tax burdens due to productivity gains.

## CONCLUSION

From an economic policy viewpoint, the phenomenon of bracket creep is a welcomed gift to politicians seeking re-election, since it generates tax increases that do not require parliament's approval and are not the outcome of a public policy debate. What is more, these tax increases are 'hidden'. The negative voter reactions that are to be expected from any public debate over tax increases can be sidestepped as a result. Rising tax revenues help to satisfy voter wishes without creating

budget deficits. Consequently, politicians favouring the expansion of state activity will take little interest in a reform that eliminates bracket creep. This does not mean, however, that a reform is not necessary.

Although the bracket creep sporadically crops up in economic policy debates in Germany, such discussions typically focus on a bracket creep in the narrow sense of the term, namely the higher additional taxation burden generated by the increase in the price level. The bracket creep in the broader sense of the term, however, includes the increase in taxes and the taxation rate resulting from growth in real income. A growing share of private revenues – even in the absence of inflation – is absorbed by the state. These additional burdens for taxpayers, however, are largely ignored in the public debate. This second effect of bracket creep is mostly unknown to the public as the media and politicians focus on bracket creep in the narrow sense of the term.

The results of our simulations show that an automatic correction of income tax rate would seem appropriate in order to prevent the inherent mechanism of hidden tax increases. This is particularly true since lower and medium income earners are hit the hardest by bracket creep. The so-called 'middle-class bulge' in the current German income tax rate makes it particularly painful for income earners in these groups to slide up into higher tax brackets due to the progressive marginal tax rate, since the marginal tax rate and, in turn, the relative tax burden, rise sharply. Taxpayers who already pay the top tax rate are affected less by a bracket creep. For them the increase in the average taxation rate, and thus the 'covert tax increase' caused by bracket creep, is comparatively moderate since the marginal tax rate does not rise any further.

In response to the bracket creep, we propose a rolling tax rate. An automatic form of compensation already exists for bracket creep in many countries. From a public finance point of view it seems necessary to account not only for the effect of rising prices, but also the effect of rising real incomes, in order not to change the distribution effect of the taxation system as originally intended by the legislator. Public spending can be kept constant as a result, and excessive 'state expansion' at the expense of the private sector can be prevented. It is important to emphasize that state revenues will continue to grow, even if a rolling rate is applied. Even if bracket creep in the broader sense of the term is taken into consideration, state revenues still rise proportionally to growth in nominal income. A rolling tax rate merely prevents state revenues from rising disproportionately to growth in real income and prices.

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# Does Populism Influence Economic Policy Making? Insights from Economic Experts Around the World

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## INTRODUCTION

Populism in various forms is present across countries and regions. The recent resurgence of populism in Europe and the United States has attracted growing attention from the media, but also from political scientists and economists. The main underlying idea of populist rhetoric in representative democracies focuses on the dichotomy between the people and the ruling elite: Kaltwasser and Taggert (2016) suggest that populism can be defined as "a thin-centred ideology that considers society to be separated into two homogenous and antagonistic groups: 'the pure people' and 'the corrupt elite', and argues that politics should be an expression of the *volonté generale* (general will) of the people." The identity of these people, or '*volonté generale',* and the elite can differ from region to region. In Europe populism is often associated with right-wing politics; while in Latin America, on the other hand, populistic politics are frequently associated with the left. Populism is not the same across the world: different countries and regions can have different conceptualisations of "the pure people" and "the corrupt elite".

Financial crises are notorious for their impact on party politics (Ramiro and Gomez 2017; Funke, Schularick, and Trebesch 2016). Voters have punished incumbents amidst negative perceptions of the state of the economy, a collapse of growth figures and surging unemployment. Right and left wing populist parties may have gained electoral weight, but the variety and extent of their influence differs significantly. A recent report by the European Economic Advisory Group (Andersen et al. 2017) defines the populist economic agenda as "characterised by short termism, the denial of intertemporal budget constraints, the failure to evaluate the pros and cons of different policy options as well as trade-offs between them". Focusing on Europe, they characterise populist economic policy as expansionary, emphasising the benefits of more public spending or lower taxes. Globalisation and international trade is pictured by populist parties as a process in which large portions of the domestic population lose out.

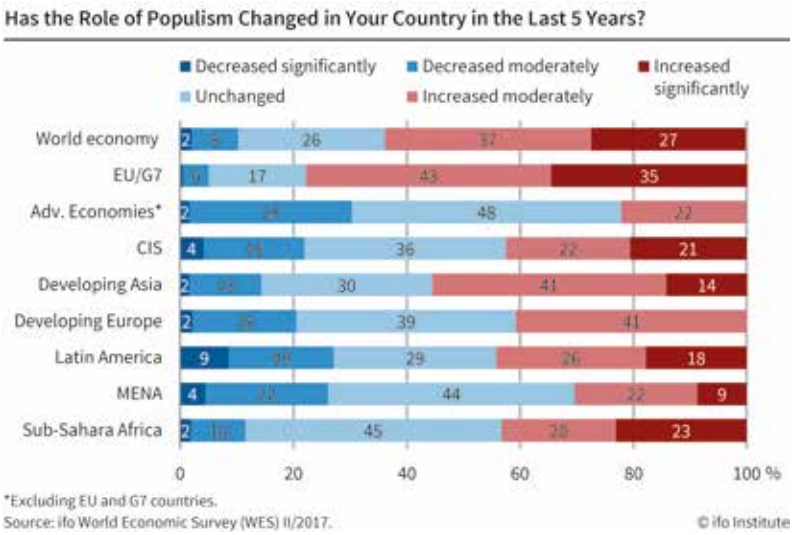
Despite the bulk of academic and journalistic output on populist parties and politicians, the overall picture remains unclear. There is a great deal of in depth knowledge about individual countries, but the larger picture is incoherent. Timbro's Populist Index is one project that tries to address this issue for Europe (Heinö 2016). However, no studies to date have attempted to assess the general impact of populism worldwide. To shed more light onto the different populistic movements and their economic impact across the globe, this article discusses the results of the special question that was asked on populism in April 2017 in the World Economic Survey (Boumans 2017).

## ASK THE EXPERTS: THE WORLD ECONOMIC SURVEY

The World Economic Survey (WES), compiled by the ifo Institute since 1981, aims to provide a timely and accurate picture of the current economic situation, as well as economic trends in over 100 key advanced, emerging or developing economies by polling over 1,000 economic experts on a quarterly basis. In selecting experts the emphasis is placed on their professional competence in economic matters and inside knowledge of their countries. In addition to the assessment of macroeconomic variables, every quarterly survey features a one-off special question covering a relevant political or economic issue around the world. In April 2017 the following questions were asked: "Has the role of populism changed in your country in the last five years?" Possible answers were "decreased significantly", "decreased moderately", "unchanged", "increased moderately", and "increased significantly". In addition, respondents were asked to indicate which political parties they consider responsible for the rise of populism in their country. The second question was related to economic policy making: "In your country does populism in some way influence economic policy making?" Thirdly, respondents were asked to indicate the effects of populism on economic policy making. They could choose from "increase in redistributive policies", "restriction of trade", "increase in short term spending", "tax cuts", "more limits on migration", "restructuring the economy" (Boumans 2017).

986 economic experts from 120 countries answered this special question. A clear majority (64%) of WES experts indicated that populism had increased in their country. A closer look at the different regions shows that the EU and/or G7 countries in particular saw a significant increase in the last five years (see Figure 1). The region where experts indicated the second largest rise in populism globally is Asia. Here 55% of the respondents indicated an increase in populism. By contrast, populism tended to wane in advanced economies, excluding the EU and G7 countries. Here 48% of experts reported no change in populism over the last five years and 31% of experts actually indicated a decrease in populism. In Latin America, a region that is also well known for its left-wing populism, only 44% of respondents indicated an increase in populism in the last five years, whereas 56% of experts indicated either no change or a decrease in populism.

Figure 1




To gain a better insight into each country, we averaged the answers to the first question and mapped them onto a world map (see Figure 2). This clearly shows that in Europe, with the exception of Ireland, Portugal and Norway, experts perceive populism to have increased in the last 5 years. This is striking as Ireland and Portugal have both been shaken by the crisis. O'Malley (2008) offers an explanation for the Irish case, concluding that there has been no development of a radical right or left party in Ireland, as this position is already taken up by Sinn Fein. Although there are some similarities between Sinn Fein and radical right parties, there are major differences in their attitudes towards immigrants. The story in Norway is a little bit different. Norwegian experts clearly state that populism has not increased in the last five years. However, this may be due to the fact that a populist party has been present in Nordic politics for longer than five years. The Progress Party, now under the leadership of Siv Jensen, is Norway's second largest party with 37 seats in the Norwegian Parliament. This party, founded in 1973 as a libertarian, anti-bureaucracy and anti-establishment party, is according to Mudde (2013), more than a one-issue (anti-immigration) party. Although stricter controls over immigration is one of the party's policies, it cannot be compared to, for example, the Front National in France (Schultheis 2017). In Portugal, despite recession and high unemployment, there seems to be no increase in populism. According to the Economist, Portuguese politics remain dominated by mainstream parties, with the Left Bloc (BE) as the only exception. The BE, a Eurosceptic, anti-capitalist party on the left, was initially seen as populistic, but has adopted a more flexible position since 2011 (The Economist 2017).

In Asia populism is also nothing new. After the Asian crisis in 1997 a resurgence of anti-globalisation and populism spread through south-east Asia. In Malaysia and Philippines respondents reported an increase in populism over the last five years. The current Philippine president, Rodrigo Duterte, matches up nicely with the definition of populism by Kaltwasser and Taggart. According to Juego (2017), President Duterte criticises the so-called establishments in Philippine politics, namely, the oligarchical class, the Catholic Church and the United States. WES experts also cite the PDP – Partido Demokratiko Pilipono – the party of President Duterte as the party responsible for the increase in populism.

However, populism does not only emerge in times of financial crises. In Australia the rise of populism is clearly related to the party of One Nation. Mols and Jetten (2016)point out that Australia's One Nation party is an example of a populist party that increased its share of votes during economic prosperity rather economic crises.

Besides some individual countries in Africa, the only region where individual countries also report a decline of populism on average is Latin America; and more specifically in Brazil, Peru and Argentina. However, according to the WES experts, populism gained ground in Chile, Bolivia and Paraguay. Here experts did not indicate that only one party was responsible for the increase of populism, but instead noted that all parties had turned more populistic. Although respondents in Brazil saw a decline in populism over the last five years on average, they hold the *Partido dos Trabalhadores* as the party responsible for the recent upsurge of populism.

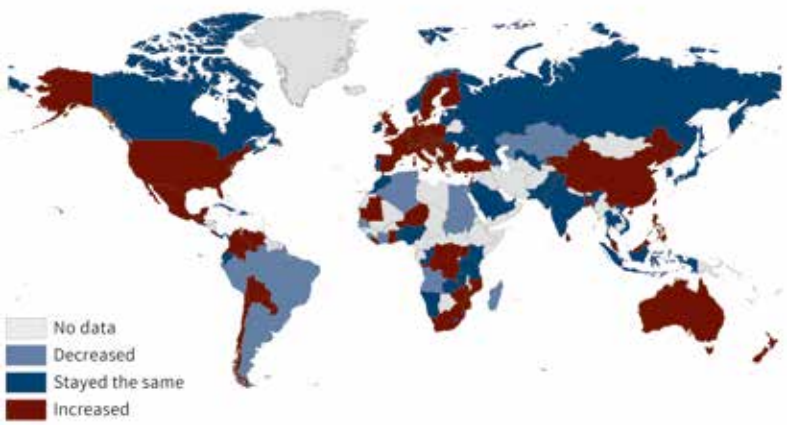
In the second question experts were asked to assess whether populism influences their country's economic policy making in some way. Populist parties do not have to gain many seats in parliament to be effective. Populist rhetoric can fuel sentiments that can pressure traditional parties into becoming more populistic too. Inglehart and Norris (2016) cite the example of the UK independence party in Britain that only won one seat in the May 2015 election. This nevertheless pressured the Conservative party to call a referendum on staying in the EU. Another example is the success of the Jobbik party in Hungary that pushed the ruling Fidesz party further to the right.

Figure 3 shows the averaged responses to the question of whether populism influences the economic policymaking in their respective country by WES experts. When comparing Figure 2 and Figure 3, it becomes clear that although the influence of populism has increased, its effect on economic policymaking has remained moderate in most countries that saw an upsurge. In Europe the exceptions to this rule are

mostly eastern European countries. Greece, Poland, Romania, and Hungary state that populism has increased in the last five years and also indicate that populism strongly influences economic policymaking (see Figure 3). According to Trimbo's Populist Index (Heinö 2016), Greece, Hungary and Poland stand out, as their political landscape is now completely dominated by populist parties. In Poland and Hungary right-wing populist parties gained more votes, whereas in Greece a more left-wing populism emerged. In Greece, the current and second cabinet of Alexis Tsipras, of the more left wing party – Syriza, is in a coalition with the more right wing and anti-austerity party Independent Greeks. The Greece respondents named Syriza and Anel as the parties responsible for the upturn in populism in Greece. In Ukraine and in Bosnia, respondents also stated that populism has affected economic policymaking. In an analysis of the Ukraine, Kuzio (2010) concludes that due to the presence of a weak political system that is highly personalised, as well as a judiciary and media that fail to hold politicians to account, populism can easily flourish. He finds that the entire Ukrainian political spectrum is influenced by populism.

Figure 2

Change of Populism in the Last 5 Years




Source: ifo World Economic Survey (WES) II/2017. © ifo Institute

In the United States, both the Republican and the Democratic Party have their populist examples. According to WES experts based in the US, the current president Donald Trump and Senator Bernie Sanders are responsible for the increase of populism. When comparing Figure 2 and 3, populism in the US has increased in the last five years, and its influence on economic policymaking has been strong. This might de due to the country's political system whereby one party government is the rule. In Europe, by contrast, populism has increased over the last five years, but its influence on economic policy remains moderate, with a few exceptions (Mudde 2013). In Latin America, although respondents indicated a decline in populism, they still stated that economic policymaking was strongly influenced by populism (see Figure 3). This can be attributed to a relatively high level of populism throughout the history of Latin America. Since the 1920s populism has been a part of politics in different countries across Latin America. Although populism in general might be assessed as declining as liberal democrats gain ground, its influence on economic policy making might take longer to decline (The Economist 2016). However, this remains to be seen as in the coming two years Brazil, Colombia, Venezuela and Argentina have elections. In India, most experts mention the BJP – Bharatiya Janata Party – as the party responsible for the rise of populism. This is currently the ruling party of India, and, like the United States, has a president who is very active on Twitter. According to the BJP, Narendra Modi had become the world's most followed leader on social media by January 2017. According to Sinha (2017) Modi's management of the media and social media was a key factor for his election in 2014.

To further unpack the economics of populism, a third question was asked that attempts to assess the

Table 1

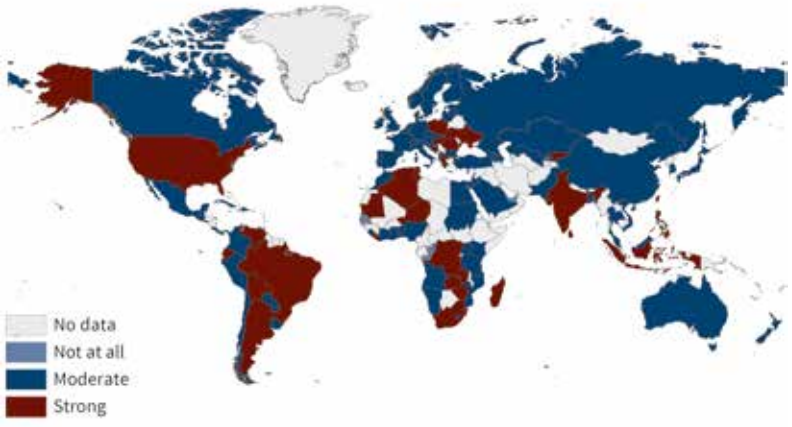
**The Effects of Populism on Economic Policy Making**

| Policy options | World Economy | Euro area and/or G7 | Other advanced economies | CIS | Developing Asia | Developing Europe | Latin America | MENA | Sub-Saharan Africa |
|---|---|---|---|---|---|---|---|---|---|
| Increase of re-distributive policies | 54.1 | 47.1 | 48.7 | 51.4 | 49.2 | 74.0 | 68.0 | 68.2 | 51.9 |
| Increase in short-term spending | 54.0 | 49.9 | 35.6 | 51.4 | 57.1 | 72.6 | 68.2 | 47.6 | 56.2 |
| More limits on migration | 43.6 | 61.0 | 63.9 | 29.2 | 19.4 | 48.9 | 11.9 | 33.3 | 18.3 |
| Restructuring the economy | 36.3 | 24.9 | 23.7 | 41.7 | 57.1 | 46.8 | 49.2 | 55.0 | 47.1 |
| Restriction of trade | 30.7 | 33.8 | 22.9 | 31.9 | 29.0 | 17.0 | 39.8 | 40.9 | 27.6 |
| Tax cuts | 26.3 | 26.6 | 28.0 | 12.7 | 33.3 | 40.6 | 18.9 | 28.6 | 23.8 |

Source: ifo World Economic Survey (WES) II/2017.

Figure 3

Influence of Populism on Economic Policy Making




Source: ifo World Economic Survey (WES) II/2017. © ifo Institute

potential economic effects of populism. Experts were asked to select possible economic outcomes applicable to their country from the list shown in Table 1. As Table 1 shows, an increase in short-term spending and the spread of redistributive policies are among the main effects of populism in all regions. On the other hand, a limit on migration is clearly a European- and advanced economies outcome. This is clearly the case for the Netherlands, where over 90% of the experts indicated restricting migration as an effect. Considerably fewer experts selected any of the other options. For the emerging and developing markets (excluding the euro area and/or G7 and other advanced economies), 40 to 50% of the experts indicated that the economy has been restructured due to the influence of populism over economic policymaking. This corresponds with what the experts indicated for India. In Argentina and the United States, over 70% of the respondents cited restriction on trade as an effect. This might not be surprising for the US, with the Trump presidency looking into renegotiating trade agreements. In Greece, over 70% of the experts indicated that an increase in redistributive policies was among the effects of populism on economic policymaking. Asia is the only region where experts judged tax cuts to be an effect of populism on economic policymaking.

## CONCLUDING REMARKS

Several studies focus on the emergence, effect and impacts of populism in one or two case studies, but few provide a global overview. By asking economic experts from over 120 countries around the world, this article takes a global perspective on populism. The majority of the respondents indicated an increase of populism in their country; suggesting that populism has indeed gained surged in the last five years, and not only in Europe and the US. However, the extent and ways in which it influences economic policymaking clearly differs around the world.

In Latin America respondents indicated a decline in populism; which nevertheless continues to taint economic policymaking. In some other cases, especially in Europe, experts indicated that populism has increased in the last five years; although its effect on economic policy to date has only been moderate. Based on WES experts' assessments, we can conclude that the effects of populism in general are increasing short-term spending and re-distributive policies. However, an anti-immigration stance remains a US and European policy. In Asia the populist agenda seems to favour tax cuts, while in developing countries economic restructuring seems the preferred policy option.

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# How Evidence-based is Regulatory Policy? A Comparison Across OECD Governments

## INTRODUCTION

In an era of "fake news" accusations and "post-factual" political campaigns, vast swathes of the public in democracies across the world appear to base their opinions on ideology rather than facts. Do governments rely on gut-feeling too? Or do they base their decisions on scientific findings? In this report, we outline the degree to which OECD countries use evidence in one important area of policymaking: regulatory policies. These policies include regulations, laws and other instruments used by governments to improve economic and social outcomes. To evaluate government action in this field, the OECD defines two approaches that make it possible to incorporate data, expert knowledge and scientific findings into the policy cycle: regulatory impact assessment (RIA) and ex-post evaluation. Since Denmark began using RIA in 1966, the technique has spread to virtually all OECD countries. By contrast, ex-post evaluation is implemented relatively rarely (OECD, 2015b). This article presents these approaches in greater detail and compares their implementation along the extensive and intensive margin across OECD countries.

## REGULATORY IMPACT ASSESSMENT

RIA aims to predict a regulation's benefits and costs. The fundamental RIA procedure adopted across OECD countries involves several steps. In addition to the large differences in RIA amongst governments, the underlying similarities are listed below (OECD 2015b):

- *Defining the problem.* The problem to be solved, usually either a market or a regulatory failure, and its causes are described.
- *Identifying regulatory options.* Concrete policies are developed and different kinds of regulatory impositions (more restrictive, less restrictive) are scrutinised.
- *Collecting data.* Quantitative and qualitative information is acquired as a basis for further analysis. Beyond the search for existing data, this step can include surveys, focus groups, and other systematic communication techniques. Economic modelling may be used as a supplementary instrument.
- *Assessing regulatory options.* Cost-effectiveness-analysis (CEA), cost-benefit-analysis (CBA), and risk analysis are commonly conducted, as well as a comparison of new options with the existing "baseline" scenario.
- *Identifying the preferred policy option.* A comparison of the assessed options leads to the selection of the most suitable solution.
- *Provisions for monitoring and evaluating.* Methods of monitoring impact over time are determined, as well as a time frame for future policy review.

Although the RIA procedure can constitute a broad repository of evidence, it does not necessarily lead to evidence-based policy-making (Radaelli 2008). Political relationships, missing data, a lack of technical expertise, or little commitment to RIA by politicians may inhibit the appropriate application of RIA (Carroll 2010). Nevertheless, RIA does provide a systematic framework for incorporating evidence into the process of designing regulatory policies.

A recent illustrative example of RIA is provided by the European Commission. In November 2017, the European Commission proposed new emissions standards for passenger and light commercial vehicles until 2030 with a view to achieving commitments under the Paris climate agreement (European Commission 2017a). This proposal was backed by an ex-ante analysis of the impact of new regulatory standards covering various stakeholders in society. The European Commission provides extensive documentation on how its RIA approach follows the structure outlined above (European Commission 2017b, 2017c).

The adoption of RIA over time by OECD member countries is shown in Table 1. The first country to implement RIA was Denmark in 1966. By 1975, only two other countries - the US and Finland - had introduced the framework. During the following decade there were already twice as many adopters; and between 1995 and 2005 15 further governments implemented RIA. During this period the OECD published a checklist for regulatory impact assessment (OECD 1995) and RIA best practices (OECD 1997), both of which might have spurred the introduction of RIA. The last OECD country to adopt RIA was Israel in 2014.

## EX-POST EVALUATION

While RIA is widely adopted by OECD governments, the analysis of policies after their effects have emerged remains relatively rare (OECD 2015a). The ex-post evaluation technique is nevertheless adopted by several governments. According to the OECD (2015a), ex-post evaluation makes it possible to identify flaws in existing regulations, as well as to plan and design new regulatory policy. To determine a policy's long-term impact in terms of its compatability with individual behaviour,

[1] ifo Institute (both)

Table 1

**RIA Adoption Across OECD Countries Over Time**

| Country | Adoption Year |
|---|---|
| Denmark | 1966 |
| United States | 1974 |
| Finland | 1975 |
| Canada | 1978 |
| Austria | 1979 |
| Germany | 1984 |
| Australia | 1985 |
| Netherlands | 1985 |
| United Kingdom | 1985 |
| Hungary | 1987 |
| Estonia | 1993 |
| Norway | 1995 |
| France | 1996 |
| Mexico | 1996 |
| Spain | 1997 |
| Czech Republic | 1998 |
| Korea | 1998 |
| New Zealand | 1998 |
| Sweden | 1998 |
| Iceland | 1999 |
| Ireland | 1999 |
| Italy | 1999 |
| Switzerland | 2000 |
| European Union | 2001 |
| Poland | 2001 |
| Slovak Republic | 2001 |
| Slovenia | 2004 |
| Turkey | 2008 |
| Japan | 2008 |
| Belgium | 2013 |
| Israel | 2014 |

Source: OECD (2009, 2015 and 2016).

markets, or technology, it is crucial to take an ex-post perspective. Due to the hitherto reluctant adoption of ex-post evaluation in OECD countries, an international framework, such as that implemented for RIA, has not yet emerged. Like RIA, ex-post evaluation consists of different elements: an important pillar for ex-post evaluation is the collection of data to successfully assess the effects of an implemented policy. The publication of results and methodology ensures their transparancy and availablity to policymakers and the public. While many evaluations are initiated ad-hoc by either the parliament or a government agency, several countries (Canada, Mexico, New Zealand) require long-term evaluation plans for major regulations. The US and UK parliaments include departments that are responsible for party-independent evaluations of laws. In several countries, including Italy, the UK, South Korea and Denmark, citizens and businesses are also encouraged to communicate dissatisfaction with regulations through official websites.

As for RIA, the EU Commission provides an illustrative example of the ex-post evaluation of regulatory policies on emissions standards for passenger cars and light commercial vehicles, which were implemented in 2009 and 2011 (European Commission 2015).

## COUNTRY INDICATORS FOR RIA AND EX-POST EVALUATION

The degree to which RIA and ex-post evaluation are implemented differs across jurisdictions. Even between OECD governments committed to RIA or ex-post evaluation in regulatory policy, actual practices differ. In order to compare the state of RIA and ex-post evaluation across countries, the OECD has developed quantitative, composite indicators[2]. Each composite indicator consists of four categories, which have equal weight[3] in the aggregate indicator. The four categories are systematic adoption, methodology, oversight and quality control and transparency. For both RIA and ex-post evaluation, these categories describe the legal requirements applicable and their implementation, the kinds of evidence generated, assessments of the methods, and public communication and involvement. By covering such a wide variety of issues, the indicators address some of the concerns expressed by Radaelli (2008) and Carroll (2010), namely political inhibitions and insufficient data quality when implementing evidence-based policy.

To establish quantitative measures of regulatory policy evaluation in different countries, the OECD assigns values between zero and one to the four categories adoption, methodology, oversight and quality control and transparency. A value of one represents the implementation of the particular criterion for all regulations, zero for none. Arndt et al. (2015) provides extensive information on the indicator methodology. The indicator results for RIA refer to nationwide policies initiated by the executive branch of government, while the ex-post evaluation questions additionally covers parliamentary policy-making (OECD 2015a). The values of the aggregate indicators, being the sum of the four composite measures, range between zero and four.

Figure 1 shows the scores for RIA practices in 33 OECD countries[4] and the EU[5], and the ex-post evaluation practices in 34 OECD countries plus the EU, applied to primary laws[6]. The country-scores indicate that the

[2] We do not cover a third regulatory policy approach assessed by the OECD, namely stakeholder engagement, as it adds evidence to the policy cycle to a much lesser degree than the two other approaches of RIA and ex-post evaluation. While the two latter techniques cover various regulatory impacts, including those on stakeholders, stakeholder engagement emphasises the involvement of concerned parties.

[3] See Arndt et al. (2015) for further information on the aggregation of the indicator components.

[4] The US is not covered for RIA, as the White House does not initiate primary laws. Data for Brazil, Colombia, Costa Rica, Latvia, and Lithuania is not available.

[5] We refer to the European Commission as the EU.

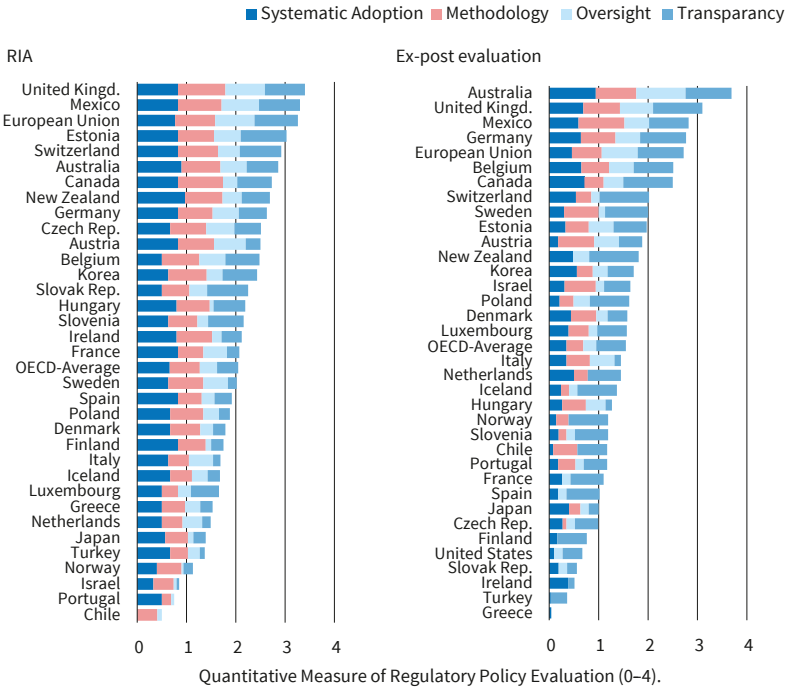
[6] Primary Laws are adopted by parliament, but initiated by the executive in most countries, and lay out principles and guidelines to be specified by secondary legislation.

use of evidence in regulatory policy differs strongly across the OECD.

The UK, Canada, Germany, Mexico, as well as the EU, achieved over 50% of the highest attainable score for both, RIA and ex-post evaluation, while other contries like Norway, Portugal, and Chile have relatively low scores for both assessment types. Many countries, however, do not rank similarly for both evaluation techniques. Slovakia, for instance, scores in the top 40% for RIA, but ranks 32nd out of 35 for ex-post evaluation. Israel, on the other hand, can be found among the lowest ranked countries for RIA, but performs better in ex-post analysis. The lower composite average for ex-post evaluation (1.54, compared to 2.05 for RIA) indicates the lower prevalence of this approach among governments to date.

Figure 1

**RIA and Ex-Post Evaluation Methodology for Primary Laws by OECD Country**




Source: OECD (2015).



There are also considerable differences in the country ranking between the separate categories within the composite indicators of RIA and ex-post evaluation. For RIA, for example, only few countries, such as the Czech Republic and the UK for example, score above average for all categories. Some countries only perform well along selected dimensions. Finland, for example, attains high scores in most indicator categories, but much lower scores for methodology, transparency, and especially oversight. Hungary performs clearly above average for systematic adoption, methods and transparency, but it has very poor oversight mechanisms. Considering the aggregate indicator for RIA implementation, many countries lack RIA quality control practices; this category registers the lowest average score (0.35), followed by transparency (0.43). Appropriate methodologies and systematic adoption are implemented by more countries, both have an average value of above 0.6. For ex-post evaluation, the category scores for each country are also very dispersed for some contries. New Zealand, for example, shows excellent transparency, clearly above-average systematic adoption and oversight, but very poor methodology.

The diverging degree to which regulatory policy is evidence-based in OECD countries, and the different strengths and weaknesses across indicator categories, may be due to a number of factors. According to the OECD (2015b), common law systems have proven more conducive to RIA in general than civil law, a tendency that is confirmed by country scores, which show that four out of five common law jurisdictions in the OECD are ranked among the top 13 countries in three out of four categories. Two out of three presidential systems (Mexico and South Korea) score very well, although the third, Chile, is placed near the bottom of the ranking. According to the OECD, further aspects possibly beneficial to implementing RIA or ex-post analysis include clear long-term political commitment[7], training and results-orientation (in contrast to procedure-orientation) of government officials, as well as administrative experience with regulatory transparency. At first sight, there is no apparent relationship between the presented indicators and other aggregate measures of the politics or economy in a country.

## CONCLUSION

Evidence-based regulatory policy can be conceptualised with two policy approaches, RIA and ex-post evaluation. Through the consideration of multifaceted regulation effects, the harnessing of data, and a comparison of different regulatory trajectories, these approaches make it possible to include evidence in policy decisions following common standards. From 1966 onwards, RIA has spread to virtually all OECD countries. Ex-post evaluation has not yet achieved similar acceptance levels, but has also been introduced by a consid-

[7] For instance through the introduction of a reliable RIA oversight unit, budgetary incentives to use RIA, or the inclusion of a RIA requirement in the constitution (OECD 2015b).

erable share of OECD governments. Nevertheless, the OECD country indicators for RIA and ex-post evaluation show how dissimilarly these concepts are applied in different countries. This, in turn,demonstrates that the application of the techniques themselves is not enough; they also need to be implemented effectively. The presented indicators themselves, however, may not accurately reflect the actual policy processes. Notwithstanding their comprehensive consideration of several dimensions of policy procedures, it is unclear whether the indicator scores capture all policy elements relevant for evidence-based policymaking. Although doubts over the accuracy of the country ranking persist, the OECD indicators shed light on the state of two approaches incorporating evidence into the regulatory policy cycle. They may not provide a flawless reflection of government practices, but suggest that major differences exist with regard to the implementation of the two concepts presented here: namely RIA and ex-post evaluation.

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# Development Aid – Between Illusion and Reality

## INCREASING EFFORTS EVERYWHERE

Foreign aid[2] is not only an important source of funding for millions of people suffering from a lack of nutrition, housing or medical treatment during times of crisis but is also given to promote conditions for peace and stability (Arndt and Jones 2015). In times of natural disasters such as the earthquake in Mexico or the hurricane Irma in the United States and Maria in the Caribbean in September 2017, these needs are recognised all over the planet. Media coverage and the willingness to donate money increase significantly during such humanitarian crises. Both private persons and governments donate money and provide resources to rebuild infrastructure and support the population of the crisis-afflicted countries. Governments around the world are judged by politicians and journalists as to whether their support targets the problems that emerge in a proper and immediate way. Such spending forms part of official development assistance (ODA); most aid labelled ODA is planned and contracted in advance. ODA is defined as government aid designed to promote the economic development and welfare of developing countries. Aid may be provided bilaterally, from donor to recipient, or channelled through a multilateral development agency, such as the United Nations or the World Bank" (OECD 2016b). Parts of ODA are given in the form of loans and infrastructure projects in developing countries. However there are several other forms of aid spending that are summed up as ODA. Since development assistance is a term which is extensively applied to many different aspects of funding, it is necessary to look at actual numbers to assess countries' generosity. This analysis considers the biggest European donors and the United States in terms of absolute spending in 1995, and compares their progress in terms of aid distributions over the last 20 years. Furthermore, it takes a look at ODA relative to GDP to provide a more realistic picture. The article subsequently discussesaid effectiveness, as well as the evaluation of aid projects. All of the countries considered are development assistance committee (DAC) member countries. The DAC is a subsection of the OECD and comprises of a group of countries that are "defining and monitoring global standards in key areas of development" (OECD 2010). The DAC includes the world's main donors and helps to coordinate their efforts.

As shown in Table 1, ODA spending has significantly increased in absolute numbers in the last two decades. Moreover, we can see that total foreign aid donated by DAC countries rose from 79,044 million to 141,989 million US dollars in the period from 1995 to 2015, representing an increase of 79.6%. When we look at individual countries, even bigger increases are seen in Germany, Sweden and the United Kingdom, among others. However, there are several countries that seem to have reduced their efforts over the last two decades, namely France and Spain.

## A MORE REALISTIC COMPARISON

Given that the absolute numbers do not give a true representation of aid spending due to the different sizes of countries' economies, it is helpful to look at aid as a percentage of gross national income (GNI). As early as 1970, the richest countries in the world – most of them are now DAC member countries – declared their goal of

[1] ifo Institute (both)
[2] The terms foreign aid, aid, development aid, development assistance and ODA are used interchangeable.

Table 1

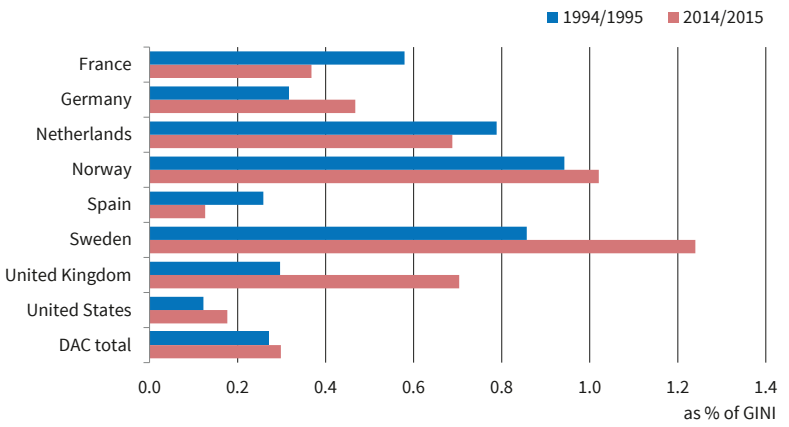
**Net ODA spent by DAC country (in million USD at 2014 prices and exchange rates)**

| | 1994-1995 | 2004-2005 | 2014-2015 | Percentage change between 94/95 and 14/15 |
|---|---|---|---|---|
| France | 11,763.26 | 11,193.73 | 10,659.26 | -9.39 |
| Germany | 9,013.97 | 10,603.95 | 18,804.96 | 108.62 |
| Netherlands | 4,253.55 | 5,657.15 | 6,200.76 | 45.78 |
| Norway | 2,814.21 | 3,831.68 | 5,306.73 | 88.57 |
| Spain | 2,171.30 | 3,274.84 | 1,767.94 | -18.58 |
| Sweden | 2,597.27 | 3,869.88 | 7,378.10 | 184.07 |
| United Kingdom | 5,335.36 | 10,521.60 | 19,530.00 | 266.05 |
| United States | 12,628.09 | 28,522.53 | 31,885.31 | 152.50 |
| DAC total | 79,043.60 | 113,073.09 | 141,988.63 | 79.63 |

Source: OECD (2016a); authors' calculations.

Figure 1

**Net ODA Disbursements**




Source: OECD (2016a).

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spending 0.7% of GNI on development assistance annually. This target was to be reached by 1975 and by no means later than 1980 (OECD 2017). In 2005, the EU and their members pledged to increase their aid spending to the 0.7% target, implying that there may have been problems achieving this goal (OECD 2017). Figure 1 presents the share of GNI spent on aid. As can be seen in Figure 1, the DAC countries are not yet close to the target figure, donating only 0.3% of their GNI overall. This number looks even worse in view of the definition of ODA presented above which is more extensive than the definition used in 1970. The current definition of ODA, for instance, has now been extended to include spending on refugees in the donor country. Furthermore, Figure 1 shows that there has been no significant progress in the last two decades. Comparing ODA as a percentage of GNI reveals a slight increase from 0.27% in 1995 to 0.3% in 2015.

However, there are some remarkable outliers among the DAC countries. Most prominently, the Scandinavian countries, Sweden and Norway, both of which spend over 1% of their GNI on development assistance, are positive examples in this respect. Both countries, as well as their Scandinavian neighbours, have a long tradition of comparatively generous aid spending. Other countries have also made progress in recent years. The UK, for instance, increased its aid share from 0.3% in 1995 to the target value of 0.7% in 2015. The reason for the increasing efforts on aid spending in the UK was a law passed by the government in 2010 committing it to match the United Nations' 0.7% goal. This target was achieved for the first time in 2013 (NAO 2017). Although there are positive examples of countries giving more aid than the United Nations' target, some contribute well below the OECD average. The United States, for example, provided a share of just 0.18% of its GNI as foreign aid in 2015, representing a minor increase from its share of 0.12% in 1995. Other countries, including France and Spain, even reduced their spending. Although US spending in aid is already noticeably below the OECD average, the Trump government is expected to make cuts in this sector. The United Nations responded to those proposed cuts by stating that it would not be able to maintain its essential development programmes in that case, since the US is its biggest single donor (Gladstone 2017). Despite the fact that the US gives the most aid in absolute numbers (Table 1), development spending as a share of its GNI is fairly modest. Different sized economies are one factor explaining the different rankings and trends when comparing Table 1 and Figure 1. Another factor that may be of less importance in this regard could be economic aspects. Spain, for example, blamed its economic recession in recent years for the drop in its disbursements. Nevertheless, this might not be a very important aspect, because generally for all countries, "total aid accounts for a small fraction of government budgets in donor countries, so that changes in overall budget constraints are less important for explaining the variation in aid flows" (Brech and Potrafke 2014).

## AID EFFECTIVENESS

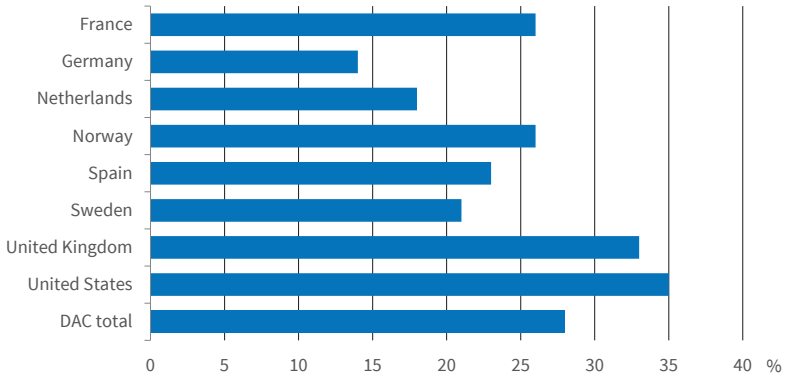
As described in the previous section, aid disbursements are below international targets in terms of percentage of GNI, but in absolute numbers there have been extensive flows in recent decades. It is therefore important to ask whether donors achieved their initial goals of reducing poverty and enhancing economic growth. Easterly (2006) reports that in the past 40 years "$568 billion [has been] spent on aid to Africa, and yet the typical African country is no richer today than 40 years ago." This calls for an evaluation of former development projects. A first suggestion would be to take a look at ODA distributed to the least developed countries (LDCs). Without going into detailed analyses, one may intuitively assume that those countries need the most support. As shown in Figure 2, only 28% of total aid disbursement is given to those countries, but there are remarkable differences among the different DAC donors, ranging from 14% of Germany's total ODA to 35% for the United States in 2015.[3] There is also further evidence that the distribution within a country is not benefitting the poorest. Using household survey data, Briggs (2017) finds that the distribution of aid within a country favours regions with relatively rich people. The author concludes that donors either cannot, or are not willing to control for the allocation within countries.

[3] Here only numbers for bilateral aid flows are displayed. The share of aid to LDCs increases for all countries when the multilateral aid flows channeled from a single donor through an international organisation are also considered.

A second recommendation related to the evaluation of aid projects could be to take a look at the decision making process in the planning phase of projects. For example, the Human Development Index (HDI) or literacy rates, among other indicators used currently to identify aid targets, should play a bigger role in the planning process to increase efficiency as those factors are fundamental to the development process in a country. Governments in donor countries also complement those indicators with subjective political consideration. For instance, by looking at data of the DAC members, Alesina and Dollar (2000) find that countries give more aid to former colonies, and Tingley (2010) suggests that the political ideology of the government (right or left wing) influences aid levels. For the United States, researchers also find that countries' political importance, i.e. their voting powers matter in explaining aid levels. Kuziemko and Werker (2006) conclude that developing nations serving in the United Nations Security Council as a non-permanent member[4] receive more US aid in the years that they hold a seat.[5]

Figure 2

**ODA Going to LDCs in 2015**




Source: OECD (2016a). © ifo Institute

Finally, institutional factors in both donor and recipient countries need to be taken into consideration. Acemoglu and Robinson (2013) conclude that development is predominantly based on a supporting institutional setup in the recipient country. The authors show that extractive governments around the world and political instability lead to huge economic differences in terms of growth and GDP per capita over time. For instance, at the beginning of the 20th century, Argentina was one of the richest countries in the world, on a level comparable to Western-European countries like France and the United Kingdom at that time (Acemoglu and Robinson 2013). However, Argentina is now a rather poor country, with political and economic crises along with bribery and corruption – part of the so called extractive institutions – restraining its prosperous development. The authors conclude that development is largely based on institutions. Similarly, Deaton (2013) observes that a central dilemma for donors is that huge aid flows are not even required when the conditions for development, such as institutions and political factors, are met. As a result, it is crucial to consider the institutional framework and the agendas of political leaders in recipient countries when decisions about official development assistance are being taken. Recalling the example of Acemoglu and Robinson (2013), an evaluation may be easier in retrospect than for upcoming new projects. One possibility for future assessments could be to consider corruption indices , such as the Transparency Internationals Corruption Perception Index, before aid is allocated.[6]

In an ideal setting, all these facets of development assistance should be acknowledged when aid programmes are evaluated and new projects are planned. However, this has not always been the case. Lawson (2016) points out that many programmes have not been assessed at all in the past, explaining why their actual impact is often unclear. An ongoing evaluation process, starting during the planning of the project and continuing at periodical time intervals after the project is finished would lead to meaningful assessments and improve future aid disbursements.

## FUTURE RECOMMENDATIONS

What becomes clear is that foreign aid is not only a philanthropic gift to countries and people in need. There are political considerations involved when money is distributed. ODA may be an instrument for connecting and building relationships with foreign governments, rather than serving its actual purpose. Without further analysis of the share of politically-motivated disbursements, it is unlikely that this spending will be redirected or scaled back. The focus should be on direct humanitarian and development aid to people needing it most. As stated above, ODA is unlikely to be distributed to the poorest people within a country and those countries receiving aid might not have the institutional setup for sustained economic growth.

Evaluation schemes should be used to improve the effectiveness of aid and reduce political influence over it. While Lawson (2016) already sees progress in this regard – new evaluation policies for aid have been

[4] The United Nations Security Council consists of five permanent member states and additionally, ten non-permanent members that serve on the council for a two-year term.

[5] A summary of different aspects determining aid distribution can be found in Fuchs et al. (2014).

[6] Further information can be found at https://www.transparency.org/research/cpi/overview.

established in the US over the past decade – further steps can be taken in terms of data-based assessment. In addition to existing numbers, like the share of people with access to clean water, there is room for new data sources and indicators to detect development projects with a high chance of sustaining success. The most important step in this regard, and one that is comparatively easy to implement, is to rule out the possibility that money is held by recipients' governments and to ensure that it is distributed amongst projects within the country instead. This would eliminate bribery and corruption while boosting efficiency. Many countries and international organisations already work on a project basis, meaning that recipients do not decide on how programme money is spent and projects are funded individually.

Another step in this direction could be the implementation of an independent aid agency, evaluating projects and deciding over future programmes independently of the Ministry of Foreign Affairs. Bertoli et al. (2008) point out that using such institutional setups would lead to aid flows that are less subordinate to electoral cycles and political considerations, and would also lead to more stable aid to GDP ratios. Moreover, the OECD acknowledges and supports this aspect, pointing out that in 2016, 76% of national institutions performed evaluations of former projects, versus just 49% in 2010 (OECD 2016b).It is unfortunate that not all countries have similar institutions in place, but the progress made to date in this area shows that several countries are already trying to adapt.[7]

One final aspect of the institutional framework that might increase the effectiveness of foreign aid is the way disbursements are distributed. Countries should consider channelling more ODA through multilateral organisations such as United Nations or the World Bank. Projects undertaken by international organisations may be less prone to political concerns of single donors compared to bilateral aid flows. In 2016, the share of bilateral aid still equalled 72%, leaving significant scope for progress in this context (OECD 2016a). A centralised organisation would further reduce administrative costs and increase the share of development assistance leaving the donor country.

## CONCLUSION

To sum up, there are several factors that may increase the effectiveness of aid in developing countries. Since aid disbursements differ between countries, there is no one-size-fits-all approach. Slow changes in the institutional framework of donor countries suggest that there is still scope for progress in the future, which may involve the introduction and further improvement of evaluation schemes. In this area in particular, a committee like DAC can help to assess processes and develop policies that are comparable between countries. Nevertheless the biggest problem remains aid shares below the international 0.7% target and this issue cannot be addressed by improving institutions in donor or recipient countries. It is an increasing willingness to distribute aid that is required to achieve sustainable progress.

[7] The individual institutional framework is summarised in OECD (2009) for all DAC member countries.

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# Debt Crisis in the EU Member States and Fiscal Rules

The financial turmoil in September 2008 provoked an economic downturn with a sharp slump in production, followed by slow growth resulting in persistent high unemployment in many EU member states. Bank bail-outs, stabilising measures, high spending on transfers and lower revenues increased sovereign debt in all EU member states. With the exception of Bulgaria and Malta, the increase in the debt ratio in all other member states is also due to the sharp decline in their GDP in 2009. In some countries, GDP continued to decrease in the following years, with additional negative effects on the debt ratio, especially in Cyprus, Greece, Italy, Portugal, Spain, Croatia and the Czech Republic. Cyprus, Estonia, Latvia, Lithuania, Slovenia, Spain, Bulgaria, Croatia and Romania experienced an increase in the debt ratio of over 100% since 2008 and most of the member states are still beyond the Maastricht debt ratio criterion of 60% of GDP (see Table 1).

The significant negative effects on public finances triggered the introduction of additional fiscal rules at the national level in addition to those pre-existing at the supranational level, that were created to ensure financial stability for EU member states like the pre-crisis Stability and Growth Pact, as well as the Maastricht Treaty and the post-crisis European Stability Mechanism. But whether fiscal rules are followed largely depends on their design and how they are institutionally integrated into the budgetary process. To assess whether a fiscal rule is likely to be followed, the DG ECFIN has constructed a Fiscal Rule Index considering

[1] ifo Institute.

Table 1

**General Government Consolidated Gross Debt-to-GDP Ratio in EU Member States 2008–2016, in Percent**

Excessive deficit procedure (based on ESA 2010) and former definitions (linked series)

| Country | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Change 2008/2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Austria | 68.4 | 79.6 | 82.4 | 82.2 | 81.7 | 81.0 | 83.8 | 84.3 | 83.6 | 22.2 |
| Belgium | 92.5 | 99.5 | 99.7 | 102.6 | 104.3 | 105.5 | 106.8 | 106.0 | 105.7 | 14.3 |
| Cyprus | 45.1 | 53.8 | 56.3 | 65.7 | 79.7 | 102.6 | 107.5 | 107.5 | 107.1 | 137.5 |
| Estonia | 4.5 | 7.0 | 6.6 | 6.1 | 9.7 | 10.2 | 10.7 | 10.0 | 9.4 | 108.9 |
| Finland | 32.7 | 41.7 | 47.1 | 48.5 | 53.9 | 56.5 | 60.2 | 63.6 | 63.1 | 93.0 |
| France | 68.0 | 78.9 | 81.6 | 85.2 | 89.6 | 92.4 | 95.0 | 95.8 | 96.5 | 41.9 |
| Germany | 65.1 | 72.6 | 80.9 | 78.6 | 79.8 | 77.4 | 74.6 | 70.9 | 68.1 | 4.6 |
| Greece | 109.4 | 126.7 | 146.2 | 172.1 | 159.6 | 177.4 | 179.0 | 176.8 | 180.8 | 65.3 |
| Ireland | 42.4 | 61.5 | 86.1 | 110.3 | 119.6 | 119.4 | 104.5 | 76.9 | 72.8 | 71.7 |
| Italy | 102.4 | 112.5 | 115.4 | 116.5 | 123.4 | 129.0 | 131.8 | 131.5 | 132.0 | 28.9 |
| Latvia | 18.2 | 35.8 | 46.8 | 42.7 | 41.2 | 39.0 | 40.9 | 36.9 | 40.6 | 123.1 |
| Lithuania | 14.6 | 28.0 | 36.2 | 37.2 | 39.8 | 38.8 | 40.5 | 42.6 | 40.1 | 174.7 |
| Luxembourg | 14.9 | 15.7 | 19.8 | 18.7 | 22.0 | 23.7 | 22.7 | 22.0 | 20.8 | 39.6 |
| Malta | 62.6 | 67.6 | 67.5 | 70.1 | 67.8 | 68.4 | 63.8 | 60.3 | 57.6 | -8.0 |
| Netherlands | 54.7 | 56.8 | 59.3 | 61.6 | 66.3 | 67.8 | 68.0 | 64.6 | 61.8 | 13.0 |
| Portugal | 71.7 | 83.6 | 96.2 | 111.4 | 126.2 | 129.0 | 130.6 | 128.8 | 130.1 | 81.5 |
| Slovak Rep. | 28.5 | 36.3 | 41.2 | 43.7 | 52.2 | 54.7 | 53.5 | 52.3 | 51.8 | 81.8 |
| Slovenia | 21.8 | 34.6 | 38.4 | 46.6 | 53.8 | 70.4 | 80.3 | 82.6 | 78.5 | 260.1 |
| Spain | 39.5 | 52.8 | 60.1 | 69.5 | 85.7 | 95.5 | 100.4 | 99.4 | 99.0 | 150.6 |
| **EA-19*** | **68.6** | **78.4** | **84.1** | **86.0** | **91.4** | **93.7** | **94.2** | **92.1** | **91.1** | **32.8** |
| Bulgaria | 13.0 | 3.7 | 15.3 | 15.2 | 16.7 | 17.0 | 27.0 | 26.0 | 29.0 | 123.1 |
| Croatia | 39.6 | 49.0 | 58.3 | 65.2 | 70.7 | 81.7 | 85.8 | 85.4 | 82.9 | 109.3 |
| Czech Rep. | 28.3 | 33.6 | 37.4 | 39.8 | 44.5 | 44.9 | 42.2 | 40.0 | 36.8 | 30.0 |
| Denmark | 33.3 | 40.2 | 42.6 | 46.1 | 44.9 | 44.0 | 44.0 | 39.5 | 37.7 | 13.2 |
| Hungary | 71.0 | 77.2 | 79.7 | 79.9 | 77.6 | 76.0 | 75.2 | 74.7 | 73.9 | 4.1 |
| Poland | 46.3 | 49.4 | 53.1 | 54.1 | 53.7 | 55.7 | 50.2 | 51.1 | 54.1 | 16.8 |
| Romania | 13.2 | 23.2 | 29.9 | 34.2 | 37.3 | 37.8 | 39.4 | 37.9 | 37.6 | 184.8 |
| Sweden | 37.8 | 41.4 | 38.6 | 37.9 | 38.1 | 40.8 | 45.5 | 44.2 | 42.2 | 11.6 |
| United Kingdom | 49.9 | 64.1 | 75.6 | 81.3 | 84.5 | 85.6 | 87.4 | 88.2 | 88.3 | 77.0 |
| **EU-28**** | **60.7** | **72.7** | **78.5** | **81.6** | **85.2** | **87.3** | **88.2** | **86.1** | **84.8** | **39.7** |

*Non-consolidated for inter-governmental loans (year: bn EUR): 2009: 0.9, 2010: 21.2, 2011: 69.3, 2012: 193.4, 2013: 231, 2014: 240.5, 2015: 231.0 and 2016: 231.0.
**Non-consolidated for inter-governmental loans (year: bn EUR): 2009: 0.9, 2010: 21.2, 2011: 69.8, 2012: 196.4 and 2013: 236.3.

Source: European Commission (2017a).

Table 2

**Scores per Criterion of the Fiscal Rule Strength Index**

| Scores | Criterion |
|---|---|
| | **(1) Statutory/legal base of the rule** |
| 3 | Constitutional base |
| 2 | Legal act (e.g. Public finance Act, Fiscal Responsibility Law). |
| 1 | Coalition agreement or an agreement reached by different general government tiers (and not enshrined in a legal act). |
| 0 | Political commitment by a given authority (central/local government, minister of finance). |
| | **(2) Room for setting or revising objectives: The rule…** |
| 3 | cannot be changed or temporarily suspended except in well-defined situations, i.e. escape clauses encapsulated in the document underpinning the rule. |
| 2 | can only be changed with parliamentary approval. |
| 1 | can be changed by the Government, but it is legally obliged to publicly justify its objectives. |
| 0 | can be changed by the Government at any time: the statutory base of the rule merely contains broad principles of the obligation for the government or the relevant authority to set targets. |
| **Average of** | **(3) Body in charge of monitoring** |
| | **a) respect of the rule** |
| 3 | Independent authority (i.e. fiscal council type of institution). |
| 2 | Court of auditors (if not hosting an independent fiscal council) and/or parliament. |
| 1 | Ministry of finance or other government body. |
| 0 | No regular public monitoring of the rule (no report systematically assessing compliance). |
| +1 | If there is real time monitoring of compliance with the rule, i.e. if alert mechanisms of risk of non-respect exist. |
| **and** | **b) the correction mechanism in case of deviation from the rule** |
| 3 | An independent authority (e.g. fiscal council or court of auditors endowed with appropriate mandate). |
| 2 | The court of auditors and/or parliament. |
| | The ministry of finance or other government body. |
| 1 | No specific body in charge of monitoring the correction mechanism. |
| **plus** | **If there is an independent body providing or endorsing the official macroeconomic** |
| 2 | and budgetary forecasts on which the annual budget is prepared. |
| 1 | or budgetary forecasts on which the annual budget is prepared. |
| | **(4) Correction mechanisms in case of deviation from the rule is/not triggered automatically (TA) and there are/no pre-determined rules framing its nature/size (PDR) and/or timeline (TL)** |
| 4 | TA and PDR and TL (automaticity entails the existence of well-defined criteria for determining the occurrence of a deviation and activating corrective measures). |
| 3 | TA, but no PDR and/or TL. |
| 2 | Not TA, but PDR and/or TL. |
| 1 | Not TA, no PDR and/or TL, but the government is obliged to take or present corrective measures before the parliament or the relevant authority. |
| 0 | Not TA, no PDR and/or TL, and the government is not obliged to propose or adopt corrective measures. |
| **Sum of** | **(5) Resilience to shocks or events outside the control of the government** |
| 1/0 | Does the rule contain clearly defined escape clauses which are in line with the SGP? |
| 1/0 | Is there a budgetary margin defined in relation to the rule (i.e. the planned spending targets are set at a lower level than the expenditure ceilings) or a safety margin linked to the MTO which is enshrined in national legislation? |
| 1/0 | Are targets defined in cyclically-adjusted terms or do they account for the cycle in any way (e.g. targets defined over the cycle)? |
| 1/0 | Are there exclusions from the rule in the form of items that fall outside authorities‘ control at least in the short term (e.g. interest payments, unemployment benefits)? |

Source: European Commission (2017a).

the following criteria for every fiscal rule in force (European Commission (2017b)).[2] Initially, the Fiscal Rule Strength Index (FRSI) is calculated taking into account five criteria: (1) legal base, (2) binding character, (3) bodies monitoring compliance and the correction mechanism, (4) correction mechanisms, and (5) resilience to shocks. Each fiscal rule is evaluated based on the detailed criteria depicted in Table 2. The scores are standardised to values between 0 and 1, and subsequently aggregated using an equal weighting-scheme. These fiscal rule strength indices, which are available for each fiscal rule in each period of time, are then aggregated to a single comprehensive score per country per year. This Fiscal Rule Index is obtained as follows: firstly, the fiscal rule strength indices are multiplied by the coverage of general government finances by the respective rule. Secondly, the products obtained are summed up. If more rules apply to the same general government sub-sector, then the rule with the higher fiscal rules strength index score is assigned weight one, while the second and third weaker rules obtain weights 1/2 and 1/3 respectively. The assigned weights are mainly determined by the fiscal strength of the rule and its coverage. This weighting is adopted to reflect decreasing marginal benefit of multiple rules applying to the same sub-sector of general government.

The values of the Fiscal Rule Index for the European Union countries displayed in Table 3 reveal the impact of the financial crisis. Since then almost all EU countries have enforced additional fiscal rules at the national level besides the EU wide rules in force. Notable exceptions are the Czech Republic where the Fiscal

[2] In the old methodology the strength of fiscal rules is calculated by summing up the scores from the following five criteria: (1) the statutory base of the rule, (2) room for setting or revising its objectives, (3) the body in charge of monitoring respect and enforcement of the rule, (4) the enforcement mechanisms relating to the rule, and (5) the media visibility of the rule.

Table 3

**Fiscal Rule Index, 2008 – 2015**

| Country | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| Austria | -0.04 | 0.26 | 0.26 | 0.34 | 0.51 | 0.51 | 0.51 | 0.49 |
| Belgium | 0.04 | 0.04 | 0.04 | 0.04 | 0.07 | 0.07 | 1.54 | 1.54 |
| Bulgaria | 1.34 | 1.34 | 1.34 | 1.75 | 2.03 | 2.03 | 3.87 | 4.10 |
| Croatia | -0.96 | 0.12 | 0.12 | 1.55 | 1.55 | 1.55 | 1.55 | 0.47 |
| Cyprus | -0.89 | -0.89 | -0.89 | -0.89 | -0.89 | 0.65 | 0.95 | 0.95 |
| Czech Rep. | -0.11 | -0.31 | -0.31 | -0.31 | -0.31 | -0.31 | -0.31 | -0.31 |
| Denmark | 0.94 | 0.94 | 0.94 | 0.09 | -0.58 | 1.04 | 1.56 | 1.56 |
| Estonia | 0.74 | 0.74 | 0.86 | 0.86 | 0.41 | 0.72 | 1.26 | 1.26 |
| Finland | 0.27 | -0.06 | -0.06 | 0.07 | 0.04 | 1.37 | 1.34 | 1.34 |
| France | 0.35 | 0.69 | 0.50 | 1.17 | 1.17 | 3.04 | 2.90 | 3.03 |
| Germany | 0.33 | 0.99 | 0.62 | 1.06 | 1.06 | 2.90 | 2.90 | 2.90 |
| Greece | -0.96 | -0.96 | -0.96 | -0.96 | 0.66 | 0.66 | 0.77 | 0.77 |
| Hungary | 0.33 | 0.10 | 0.10 | 0.10 | -0.96 | -0.23 | 1.82 | 1.91 |
| Ireland | -0.76 | -0.76 | -0.76 | -0.76 | -0.76 | 2.08 | 2.08 | 1.95 |
| Italy | 0.07 | 0.15 | 0.19 | 0.22 | 0.22 | 0.26 | 3.50 | 3.53 |
| Latvia | -0.38 | -0.38 | -0.38 | -0.38 | -0.38 | 2.03 | 2.93 | 2.93 |
| Lithuania | 0.51 | 0.51 | 0.51 | 0.51 | 0.53 | 0.53 | 0.53 | 3.09 |
| Luxembourg | 1.17 | 1.17 | 0.69 | 0.69 | 0.70 | 1.06 | 1.82 | 2.00 |
| Malta | -0.96 | -0.96 | -0.96 | -0.96 | -0.96 | -0.96 | 1.92 | 1.92 |
| Netherlands | 0.44 | 0.44 | 0.44 | 0.44 | 0.51 | 0.51 | 2.82 | 2.76 |
| Poland | 0.73 | 1.09 | 1.09 | 1.41 | 1.38 | 1.23 | 1.52 | 2.13 |
| Portugal | -0.21 | -0.21 | -0.21 | -0.21 | -0.07 | 1.37 | 1.49 | 2.43 |
| Romania | -0.48 | -0.48 | -0.48 | -0.48 | -0.48 | -0.48 | 2.84 | 2.84 |
| Sweden | 1.28 | 1.28 | 1.39 | 1.39 | 1.39 | 1.39 | 1.39 | 1.39 |
| Slovenia | -0.96 | -0.96 | -0.96 | -0.96 | -0.96 | -0.96 | -0.96 | -0.96 |
| Slovak Rep. | 0.00 | -0.03 | -0.03 | -0.03 | 1.81 | 1.81 | 2.52 | 2.52 |
| Spain | 1.13 | 1.13 | 1.13 | 1.94 | 2.53 | 2.53 | 2.87 | 2.91 |
| United Kingdom | 1.38 | -0.96 | 1.13 | 1.09 | 1.09 | 1.09 | 1.17 | 0.53 |

Source: European Commission (2017b).

Rule Index decreased from 2008 to 2009 and remained at this low level (2009-2015: -0.31) and Slovenia with the lowest index value within the EU and still stuck at its pre-crisis level (2009-2018: -0.96). Although the Czech Republic did not enact further fiscal rules to ensure fiscal discipline, its debt ratio increase of 30% since the financial crisis is very moderate when compared to other member states, whereas Slovenia with the lowest Fiscal Rule Index saw the highest acceleration in its debt ratio (+260%) amongst all EU member states (cf. Table 1). Nevertheless both countries have still low levels of debt-to-GDP ratios when compared to EU member states like Greece, Portugal and Italy (cf. Table 1).

Schaechter et al. (2012) differentiate fiscal rules according to the type of budgetary aggregate they seek to control and discuss their advantages and weaknesses (see Table 4). As each type of fiscal rule has particular disadvantages, they are often combined to offset them.

Debt rules restrict public debt relative to GDP to an explicit upper limit. Giving a clear-cut orientation to a debt target, they are easy to comprehend. However, compliance with them is not suitable for short-term adjustments. Reason for this is the effect lag, i.e. the time that austerity measures require to exercise their effect on stock variables, like debt levels. Moreover, in the light of mechanical debt developments that potentially arise due to changing interest or exchange rates, compliance with debt rules might not be the best-informed fiscal policy advice. This is even more the case considering the procyclical character of debt rules.

Budget balance rules are designed to directly control those variables that particularly impact the debt ratio, as each spending needs to be compensated by a specific revenue. They are usually under the control of politicians, which ensures a clear link between debts and policy making. In general, budget balance rules can be divided into four categories: Overall balance, structural or cyclically adjusted balance, and balance "over the cycle". Only the latter three incorporate potential effects of economic shocks. Yet, adjustment policies rely on estimations, which are not easy to communicate and monitor.

Table 4

**Properties of Fiscal Rules**

| Type of Rule | Advantages | Weaknesses |
|---|---|---|
| Debt rule | • Direct link to debt sustainability<br>• Easy to communicate and monitor | • No clear operational guidance in the short run as policy impact on debt<br>• No economic stabilization feature (can be pro-cyclical)<br>• Rule could be met via temporary measures (e.g., below-the-line transactions)<br>• Debt could be affected by developments outside the control of the government |
| Budget balance rule | • Clear operational guidance<br>• Close link to debt sustainability<br>• Easy to communicate and monitor | • No economic stabilization feature (can be pro-cyclical)<br>• Headline balance could be affected by developments outside the control of the government(e.g., a major economic downturn) |
| Structural budget balance rule | • Relatively clear operational guidance<br>• Close link to debt sustainability<br>• Economic stabilisation function (i.e., accounts for economic shocks)<br>• Allows to account for other one-off and temporary factors | • Correction for cycle is complicated, especially for countries undergoing structural changes<br>• Need to pre-define one-off and temporary factors to avoid their discretionary use<br>• Complexity makes it more difficult to communicate and monitor |
| Expenditure rule | • Clear operational guidance<br>• Allows for economic stabilization<br>• Steers the size of government<br>• Relatively easy to communicate and monitor | • Not directly linked to debt sustainability since no constraint on revenue side<br>• Could lead to unwanted changes in the distribution of spending if, to meet the ceiling, shift to spending categories occurs that are not covered by the rule |
| Revenue rule | • Steers the size of government<br>• Can improve revenue policy and administration<br>• Can prevent pro-cyclical spending (rules constraining use of windfall revenue) | • Not directly linked to debt sustainability since no constraint on expenditure side (except rules constraining use of windfall revenue)<br>• No economic stabilisation feature (can be pro-cyclical) |

Source: Schaechter et al. (2012).

Expenditure rules constrain total, primary, or current spending in absolute terms or growth rates - sometimes relative to GDP - with a mid-term perspective between three to five years. While debt sustainability comprises both, the revenue and the expenditure side, expenditure rules only account for the latter. However, combined with other fiscal rules as those mentioned above, they may constitute an instrument to achieve sustainable fiscal consolidation.

Revenue rules set explicit limits on revenues and aim to directly affect revenue collection or excessive tax burden. As this does not consider spending related issues, the relation to public debt is rather an indirect one. Difficulties in the application of these instruments arise when revenues vary substantially with the business cycle. Moreover, revenue rules bear the risk of operating procyclically, when for example a certain tax revenue floor is binding in an economic downturn.

Even if fiscal rules are successful in achieving fiscal sustainability, they bear the risk of deepening and prolonging recessions with undesirable effects on national welfare. Cyclical adjustments allow to reduce these negative pro-cyclical effects, but render the implementation of fiscal rules complicated and hence much less effective. A further question arises with respect to the coverage of fiscal rules (van Eden et al. 2013). All fiscal rules implemented to date only consider explicit government debts, and completely disregard the even more important factor of future government debt, which is rising implicitly within ageing societies (Auerbach 2014).

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# New at DICE Database

### RECENT ENTRIES TO THE DICE DATABASE

In the fourth quarter of 2017, the DICE Database received a number of new entries, consisting partly of updates and partly of new topics. The list below features some of the topics covered by these new entries:

- Investment freedom (Index of economic freedom)
- Financial freedom (Index of economic freedom)
- Top marginal income tax rate (Economic Freedom of the World Index)
- Top marginal income and payroll tax rate (Economic Freedom of the World Index)
- Financial Openness (Chinn-Ito Index)

The interactive graphics application Visual Storytelling was also further expanded.

# Forthcoming Conferences

### 12th Workshop on Macroeconomics and the Business Cycle

**26–27 January 2018, Dresden**

The 12th Workshop on macroeconomics and the business cycle is jointly organised by ifo Dresden and the Helmut-Schmidt University of Hamburg. The workshop aims to provide a forum for discussing the latest results on macroeconomic and business cycle research, as well as helping junior researchers to extend their networks.
Scientific organisers: Prof. Dr. Michael Berlemann, Dr. Robert Lehmann, Michael Weber

### 1st CESifo EconPol Europe PhD Workshop: Economic and Fiscal Policy in Europe

**1-2 February 2018, Munich**

This is the first CESifo EconPol Europe PhD workshop, the aim of which, is to bring together PhD students whose research focuses on economic and fiscal policy issues in the European context and to strengthen the collaboration between EconPol network members. EconPol Europe - the European Network for Economic and Fiscal Policy Research is a unique collaboration of nine policy-oriented university and non-university research institutes that will contribute their expertise to the discussion of the future design of the European Union. The keynote lecture will be delivered by Jörg Rocholl, ESMT Berlin. Please see the call for papers for details on how to submit a paper.
Scientific organisers: Dr. Mathias Dolls, Carla Krolage

### CESifo Area Conference on Applied Microeconomics

**9–10 March 2018, Munich**

This CESifo Area Conference is designed to bring together CESifo members to present and discuss their ongoing research, and to stimulate interaction and co-operation between them. All CESifo research network members are invtied to submit their papers, which may deal with any topic within the broad domain of Applied Microeconomics (industrial organisation, experimental and behavioural economics, market regulation, banking and finance, auctions). The keynote lecture will be delivered by Antonio Cabrales (University College London). Please refer to the full call for papers for further details.
Scientific organiser: Professor Christian Gollier

### 8th ifo Dresden Workshop on Labour Economics and Social Policy

**22–23 March 2018, Dresden**

The workshop aims to facilitate the networking of young scientists and to promote the exchange of their latest research across the range of labour economics, social policy, education economics, demography and migration. Policy relevant contributions, either theoretical or applied, are highly welcome. We particularly encourage PhD students to submit their latest research.
Scientific organisers: Julia Sonnenburg, Michael Weber

### CESifo Area Conference on Public Sector Economics

**12-14 April 2018, Munich**

The conference is intended to give an overview of the current research undertaken by members of the Public Sector Economics area of the network and to stimulate interaction and co-operation between area members. All CESifo research network members are invited to submit their papers which may deal with any topic in Public Economics. Please note that Area Conferences are open to CESifo Network Members only. The keynote lecture will be delivered by Florian Scheuer (University of Zurich).
Scientific organiser: Professor Rick van der Ploeg

### CESifo Area Conference on Employment and Social Protection

**20-21 April 2018, Munich**

The purpose of the conference is to bring together CESifo members to present and discuss their ongoing research, and to stimulate interaction and co-operation between them. All CESifo Research Network members are invited to submit their papers, which may deal with any topic within the domains of employment and social protection. The area has a wide scope of relevant research. It covers positive and normative research questions that are usually pursued in economic

research on social policy, family policy and labour market policy. Further, it covers research questions that deal with inequality, redistribution and the political economy of redistribution and conflict.
Scientific organiser: Prof. Dr. Kai A. Konrad

### CESifo Area Conference on Global Economy

**4-5 May 2018, Munich**

The annual meeting of the Global Economy Area of the CESifo research network will facilitate presentation of current research undertaken by members and will stimulate interaction and co-operation between area members. Papers may be submitted on any topic under the Global Economy field covering trade, international finance, migration, global environmental issues, and other issues. Papers will be discussed in seminar format. Accepted papers will be published as CESifo Working Papers after revision. Keynotes Speakers are: Thomas Chaney (Sciences Po, Paris) and Jonathan Eaton (The Pennsylvania State University). The Call for Papers will be made available in due course.
Scientific organiser: Professor Dr. Peter H. Egger

### 2nd Doctoral Workshop on the Economics of Digitization

**4-5 May 2018, Paris**

This 2-day international workshop (a joint initiative of CESifo Group Munich, Liege Competition and Innovation Institute, Telecom Paris Tech, and Toulouse School of Economics) will gather doctoral students involved in research in the field of the Economics of Digitalization with both theoretical and empirical focus. The keynote lecture will be delivered by Bruno Jullien (Toulouse School of Economics).
Scientific Committee: Paul Belleflamme (Aix-Marseille Université), Marc Bourreau (Telecom ParisTech), Alexandre de Corniere (Toulouse School of Economics), Oliver Falck (CESifo Group Munich), Axel Gautier (Université de Liege), Lukasz Grzybowski (Telecom ParisTech)
Local Organisers: Marc Bourreau & Lukasz Grzybowski

## New Books on Institutions

### Accessing Asylum in Europe: Extraterritorial Border Controls and Refugee Rights under EU Law

Violeta Moreno-Lax
Oxford Studies in European Law, 2017

### Resetting the International Monetary System

José Antonio Ocampo
Oxford University Press, 2017

### Rethinking Public Institutions in India

by Devesh Kapur (Editor), Pratap Bhanu Mehta (Editor), Milan Vaishnav (Editor)
Oxford University Press, 2017