Top-down identity politics in a globalized world: Elite cues, identity and their effects on protectionism

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September 24, 2021

Abstract

I characterize a political entrepreneur's incentives to influence voters' identity by using divisive cues. I argue that cues can change the political equilibrium by affecting the payoffs associated with policy choices, increasing the likelihood of electing a divisive candidate into office. I assess these claims in a game theoretic model about protectionism. Counterintuitively, I show that cues are likely to be used when polarization over protectionism is *small*, otherwise the expected value from investing effort finding cues is too small to justify their use. I find that increased import competition provides incentives for using cues, however the size of voting blocs shapes the incentives to target cues to narrower groups, revealing that when most losers from trade are an ethnic majority, the ethnic minority may be disregarded by the political entrepreneur even if they also lose from trade. This paper thus proposes a theory that explains why, how and when should we observe top-down identity politics in response to globalization.

Words: 10749

Keywords: identity politics, globalization, protectionism, populism.

1 Introduction

Far-right political leaders have become successful across the globe. The evidence indicates that their success owes to economic vulnerability among voters (Norris and Inglehart, 2019). Two major hypotheses have emerged: First, economic shocks generate a backlash against establishment politicians because they cannot credibly implement the policies that disgruntled voters demand (e.g., Eguia and Giovannoni 2019). Second, economic vulnerability generates in-group attitudes, and as such voter-groups disregard the well-being of others outside their identity group; these attitudes translate into preferences for far-right wing policies (e.g., Gennaioli and Tabellini 2019). Both hypotheses, however, ignore the key role that political leaders play in this phenomenon.

To address this issue I develop a theory wherein political leaders have the ability to shape identity during elections using cues intended for the political marketplace, which I conceptualize as *top-down identity politics*.[1] I present three relevant implications of this approach: i) identity is a function of people's psychosocial component of self-image, which is malleable insofar changes in the socio-economic environment affect it, ii) changes in people's self-image determine individuals' preferences because self-image is a component of well-being, iii) since preferences are a function of identity, political leaders have incentives to influence people's component of self-image to alter their preferences over policy. Whenever preferences change as a result of (i) and (ii), these changes originate in the electorate; they are *bottom-up*. When changes in preferences are the result from (ii) and (iii), the political leader plays and active role shaping voters' preferences, hence they are *top-down*. This paper develops a theory of supply-side identity politics rooted in the concept of top-down identity politics in contrast to demand-side identity politics, which is bottom-up.

I adopt the ideational approach (Mudde and Kaltwasser, 2017): Identity politics is rooted in a cleavage between the *demos* and the *elite* (two identity groups), wherein the former designates themselves as the only true citizens worthy of consideration. Because the demographic composition of these groups is not predetermined, it takes form through the intervention of a third party. The third party is the political leader, who manages to create a salient division between these two groups by priming in-group attitudes in the demos. During the twentieth century, for example, the demos were often conceived as the proletariat whereas the elite were characterized as the owners of land and capital; today the demos are native workers meanwhile the elite are the liberal and highly-educated members of the population; minorities and migrants are members of the out-group (Kazin, 2017; Finchelstein, 2019). This means that identity is malleable from the top-down.

Examples of top-down identity politics can be found throughout history and across countries,

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[1]This concept is rooted in heresthetics, a political strategy by which politicians manipulate the context and structure of a decision-making process in order to become politically appealing (Riker et al., 1986).

for instance Donald Trump in the U.S. stated:

> *The only antidote to decades of ruinous rule by a small handful of elites is a bold infusion of popular will. On every major issue affecting this country, the people are right and the governing elite are wrong. The elites are wrong on taxes, on the size of government, on trade, on immigration, on foreign policy. [...] Together, we will restore the faith–and the franchise–of the American people.* —Donald J. Trump, The Wall Street Journal, April 14, 2016.

Trump's rhetoric has received much attention from scholars, but his approach is not unique. Textual analyses about populism indicate that this type of speech is pervasive (Hawkins et al., 2018). Invariably, when it is successful, it creates a salient identity cleavage between the demos and elites.

Top-down identity politics departs from the observation that the ability to perceive change enables a leader to take advantage of new opportunities as soon as they arise (Hirschman, 1970). To take advantage of these opportunities, political leaders resort to ideas that can be regarded as hooks on which they hang their interests (Shepsle, 1985). These ideas become *cues* that are then used to obtain political gain. They are relevant insofar as the characteristics of the demos and the elite is refined thanks to them. For example, cues may intend to make salient a class cleavage or to set further boundaries around the identity of the demos by excluding minorities and other groups.[2] I provide microfoundations for this phenomena herein.

I formalize these intuitions in a model of tariff formation. There is strong evidence that import competition is one of the main causes behind the wave of nationalism that bolstered far-right parties (Colantone and Stanig, 2018b; Guriev and Papaioannou, 2020), that politicians have reacted strategically to it (Katitas, 2021), and that as a result policy has become more protectionist (Feigenbaum and Hall, 2015). In fact, protectionism has been a staple of political extremism and populism throughout history thanks to its inherent capacity to redistributive income toward the losers from trade (Dornbusch and Edwards, 2007; Funke et al., 2020). However we known much less about the behavioral underpinnings of these phenomena and the circumstances that bring them about. Particularly puzzling is the observation that whereas protectionist policy by leaders espousing populist views emerged as a result of class cleavages in the past, it now incorporates ethnic cleavages by promoting nativism and exalting ethnic majorities.

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[2]The U.S. is an example: in the 1890s the People's Party pitted small farmers against industrial interests; during the 1960s George Wallace infamously spearheaded the white-backlash embedded in the segregationist movement in the south; in the 1980s divisions between conservatives and liberals were fueled by the coalition between Reagan and the Christian Right; more recently Donald Trump exacerbated these divisions along nativist lines. Examples abound in U.S. history (Kazin, 2017). Examples for other countries can be found in Mudde and Kaltwasser (2017) and Kaltwasser et al. (2017), among other.

The model exploits the stylized fact that import competition harms voters working in import-competing industries. Voters in the import-competing sector are thus worse-off vis-á-vis their peers in other sectors and thus demand more protectionism. To capture the role of identity I rely on the formalization of social identity theory (e.g., Shayo 2009): I assume that voters compare themselves to a prototypical member of an identity group and derive satisfaction from the relative status of that group in society; there is also a cost of dissonance that obtains from identifying with individuals different from one-self (Tajfel et al., 1979; Tafjel, 1981; Turner et al., 1987); voters identify with a group when they obtain a net benefit from doing so. The net benefit of group-identity defines a psychosocial component for well-being and thus it affects their preferences over tariffs. If voters identify broadly with other members of society they exhibit other-regarding attitudes and they moderate their preferences; when narrower identities become salient this no longer occurs. Thus for example, when voters in the import-competing sector identify with workers in other sectors, they moderate their preferences toward protectionism. In contrast, when these voters identify only with other workers that lose from trade, they become more protectionist. Furthermore, a narrower identity, for instance adding ethnic identity, can exacerbate these in-group attitudes.

All in all, I define the psychosocial component as a function of economic outcomes to provide measurable primitives. This is warranted inasmuch as there is plethora of evidence in support of the relationship between identity and economic outcomes using observational data (e.g., Colantone and Stanig 2018a; Dal Bó et al. 2018; Aksoy and Palma 2019), as well as lab controlled experiments (Klor and Shayo, 2010; Marchlewska et al., 2018; Belardinelli and Stanig, 2020).

I make use of the psychosocial component of well-being to inquire about top-down identity politics. Specifically, I assume that politicians can affect the cost of dissonance by investing (costly) effort to find a *divisive cue*. Successful cues are, however, a probabilistic outcome insofar as they depend as well on the relative effort their competitors invest to prevent this and the costs of effort imposed by the institutions that are in place. When they are successful, cues generate in-group identities as intended and alter voters' preferences over protectionism, furthermore they confer a policy advantage to the politician that finds them via issue ownership about protectionism (e.g., Petrocik 1996). I identify the circumstances under which a political entrepreneur invests effort in finding a cue for the political marketplace. Moreover, I identify under what circumstances the politician defines the demos and the elite along the lines of class, and under what circumstances it refines the demos to exclude ethnic groups.

First, when the advantage conferred by issue ownership is relevant, I find that politicians invest effort into finding a cue when the cost of dissonance is low rather than large: A political entrepreneur invests in the risky endeavor of finding a cue when the expected value of such a bet is large because otherwise she would prefer a safer bet, operationalized as Downsian convergence.

This is consistent with the seminal work on heresthetics developed by Riker et al. (1986), however I endogeneize the process by which political actors decide to manipulate (or not) the decision-making process via identity politics.

Second, when she has decided to use cues, the political entrepreneur adopts a more protectionist policy stance vis-á-vis its competitor. This policy divergence is generated because the politician wants to define the demos according to the largest voting bloc with similar policy preferences, which is composed by the losers from trade. Importantly, when the political entrepreneur does not need the ethnic minority for this, the cost-effective option is to only target the ethnic majority that loses from trade, further refining the demos; both groups are targeted when trade shocks are large enough. This finding captures the stylized fact that identity politics is largely protectionist and also fact that identity politics may incorporate and ethnic dimension and not just a class dimension.

Third, I find that import price shocks generate identity politics when the import-pass through is closer to complete when this occurs higher import competition widens the wage gap between low-income workers and high-income workers. When this occurs and identity is activated among the losers from trade, policy preferences between low- and high-income workers become more polarized increasing the expected value of finding a cue, and consequently higher levels of protectionism in equilibrium.[3] Interestingly, I find that identity politics can emerge without the intervention of a third party, but under restrictive conditions: *bottom-up identity politics* necessitates a large economic shock to activate identity in comparison to *top-down identity politics*. This occurs when inequality grows substantially larger than average income following a trade shock, which is more likely to occur in import-competing sectors with higher levels of protectionism prior to the shock, wherein compensation schemes are weak. Bottom-up identity politics also requires high-income workers to have a higher cost of dissonance vis-á-vis low-income workers at the baseline, so the former should care more about inequality than the latter. Since inequality grows, this means that polarization of policy preference must be remarkably high to observe bottom-up identity politics. Top-down identity politics, in contrast, can emerge from gradual economic change.

Fourth, I find that top-down identity politics is an attractive strategy in heterogeneous communities: I find that the likelihood of top-down identity politics increases when the winners from trade become a larger group vis-á-vis the losers from trade, specially when the share of ethnic minorities increases but are not a relevant voting bloc, in which case ethnic minorities are excluded from the demos. When ethnic minorities are necessary to build a winning coalition, the probability of top-down identity politics declines with the size of ethnic minorities unless they become the majority among the losers from trade because in this case the political entrepreneur has incentives to target the ethnic majority without sacrificing losing votes from the ethnic minority, especially if the trade

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[3]The absence of identity politics is characterized by moderated policy preferences.

shock is substantive. Therefore diversity is breading ground for top-down identity poltics.

This article contributes to several literatures. First it is related in general to the emerging literature on the political economy of identity (Shayo, 2019), and specifically to the problem of identity politics in an open economy (Grossman and Helpman, 2018; Gaikwad and Suryanarayan, 2021). This paper extends this literature by considering more seriously the role that political leaders play in dividing the electorate. It also contributes to the emerging empirical literature on top-down identity politics and protectionism (Katitas, 2021; Ballard-Rosa et al., 2021) by developing microfoundations that are currently nonexistent.

Second, it is related Weber's theory of charismatic leadership, which predates the concept of supply-side populist politics. It does so by addressing long-standing questions inquiring about the process of self-selection of a type of political cleavage between the demos and the elite. My answer indicates that economic change affects the cost of opportunity of using divisive rhetoric in electoral competition, and lays out the strategic considerations that undergird this type of identity politics. This contribution also addresses a shortcoming that empirical studies about the success of ideologically extreme parties cannot: Identity politics is identified in hindsight, therefore related empirical studies face a problem of selection on the dependent variable that is amenable to demand-side explanations because these studies naturally bypass this issue. Furthermore, it builds upon recent literature about populism by conceptualizing the notions behind supply-side identity politics, such as the ideational approach (Kaltwasser et al., 2017; Norris and Inglehart, 2019; Gennaro et al., 2020). I do so by characterizing a political candidate's incentives to influence voters' identity in a globalized world by using divisive cues.

Third, it engages directly with the concept behind the insider-outsider dilemma (Rueda, 2005), which conjectures that identity politics emerges because public policy is biased towards groups in a more privileged economic position (the insiders). This phenomenon generates in-group attitudes along job-insecurity lines, and it has been used to analyze Euroscepticism and European and American populism. The framework I present formalizes this as bottom-up identity politics.

2   A case for top-down identity politics

Identity politics herein is rooted in a cleavage between the *demos* and the *elite*. The extant literature establishes three demand-side driven conjectures behind this cleavage: First, identity politics is the result of discontent with the political status quo. This conjecture emerges from the observation that leaders are often political outsiders, examples include Alberto Fujimori in Peru, Donald Trump in the U.S., Joseph Estrada in the Phillipines or Roh Moo-Hyun in South Korea. Fujimori is perhaps

one telling example due to his Japanese ancestry and the fact that he was virtual unknown a month before the 1990 presidential election. Fujimori surged to victory by capitalizing on the crisis of established parties, running against conservative Mario Vargas Llosa, who had the backing of Peru's traditional elite (Levitsky and Roberts, 2011).

The "outsider" status works because the politician can distinguish herself from the elite and in this way she is able to establish a direct link with the masses. In this case voters prefer a demagogue when they believe she is not constrained by special interests or institutional norms, and thus she is more likely to represent the interests of the demos (Acemoglu et al., 2013; Di Tella and Rotemberg, 2018). This idea has been extended further to include the endogenous selection of outsiders (Karakas and Mitra, 2017; Buisseret and Van Weelden, 2020), and to model the strategic nature of political extremism (Eguia and Giovannoni, 2019).

This hypothesis finds echo in the recent success of far-right political parties because it provides a rationale for the rise of anti-establishment politics. Nonetheless it is unsatisfactory to explain the amorphous nature of the demos and thus the exclusion of non-elite groups (e.g., poor ethnic minorities) from it (Mudde and Kaltwasser, 2017). Importantly as well, populists are not necessarily outsiders, they often belong to the elite class or to the political establishment.[4]

Second, scarcity can generate a taste for political discrimination. When resources are scarce there are incentives to exclude others from their use; discrimination is the cost incurred to maintain a group's economic status (Roemer et al., 2007). Recent models of identity have incorporated these insights to study identity politics, using the concept of a social identity equilibrium (Shayo, 2019). Their rationale stresses that individuals' behavior is consistent with their social identity, which is a result of the social environment (historically-defined) and group status. Individuals identify with a given group only if they care about its status; this occurs when the group identity is an optimal choice within context. When attitudes are narrow, in-group preferences prime the benefit of the identity group even at the expense of others.

This hypothesis better characterizes demand-side explanations of identity politics, but it does not take into account the fact that identity politics has also an origin in the supply-side. Political leaders play a role shaping identity in order to organize society and define their political base (De Leon et al., 2020; Puleo, 2021). The ideational approach, for instance, sees populist identity politics as a Manichaean discourse that identifies Good with a unified will of the people and Evil with the elite. The discursive definition describes an innate cultural aspect to populist politics in

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[4]Examples include Geert Wilders in the Netherlands, who was an influential backbencher in charge of foreign policy in the conservative People's Party for Freedom and Democracy before his tenure in Party for Freedom; Rafael Correa in Ecuador who prior to his tenure as President served in Alfredo Palacio's cabinet as as minister of finance; Collor de Mello who had been elected on the ticket of many different parties before becoming president of Brazil; perhaps more surprisingly Donald Trump, son of businessman Frederick Trump and a wealthy individual himself.

the Geertzian sense, which is rooted in our shared ability to assign meanings to the world around us (Eckstein, 1988); it as a set of ideas instead of a set of actions isolated from their underlying meanings for leaders and participants (Mudde and Kaltwasser, 2017). These ideas take the form of narratives, and they are intended to delineate the people from the elite on moral and identity grounds. Everything that does not belong to the demos, is alien to it—excluded from *vox populi*.[5]

Demand-side identity politics strips political leaders from their role galvanizing the masses and shaping the differences between the demos and the elite by assuming they are a mechanism transforming citizens' preferences into policy. But politicians are not passive, they use rhetoric to win voters over (Riker et al., 1986). Supply-side identity politics instead admits that political leaders can bypass institutional constraints through the use of cues, effectively "creating" a demand for identity politics; it admits "[...] top-down political mobilization of mass constituencies by personalistic leaders [...]" (Levitsky and Roberts, 2011). This idea meets considerable support stemming from traditional studies about populism (Kaltwasser et al., 2017); populist leaders participate in identity politics by creating and shaping the cleavages between the demos and the elite. Furthermore, it incorporates the long-standing idea that the politics of identity involve a policy advantage conferred by issue ownership through the use of partisan rhetoric (e.g., Egan 2013).

2.1   Top-down identity politics and protectionism

The seminal work by Dornbusch and Edwards (2007), and subsequent work by Funke et al. (2020), show that macroeconomic policy espoused by populist leaders is redistributive. Tariff policy, in particular, is likely to be protectionist in order to safeguard the import-competing sector, whose economic well-being depends much on the competitiveness of manufactures and other goods produced locally. This attribute is present in Eurosceptisism, Brexit and American nationalism, as a way to address the well-known redistributive effects of international economic integration by means of trade barriers and renegotiating trade deals to protect the import-competing industry.[6]

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[5]Distinctive examples of this are the famous speeches by Eva Perón where she exhorts the Argentinian people to defend Peronism and delineates a clear distinction between the demos: *[...] trabajadores y las mujeres del pueblo; [...] los descamisados* (workers, women and the poor and vulnerable), whereas the elites: the oligarchy, burgouisie and ruling class, are portrayed as the enemy. Similarly, Venezuelan President Hugo Chavez and Evo Morales made clear distinctions between the people—the rightful owners of the political system—and the evil and corrupt elites who use it to their advantage. This distinction is clear as well in President Evo Morales' rhetoric despite he makes a distinction between the pure "mestizo" people and the corrupt "European" elites, playing racialized power balance in Bolivia. In his speech the demos is a smaller, more well-defined set.

[6]For instance, Donald Trump stated as early as June of 2016 that: "I am going to withdraw the United States from the Trans-Pacific Partnership, which has not yet been ratified," calling the deal a "death blow for American manufacturing." Similarly Boris Johnson (UK) and Marie Le Pen (France), have advocated to renegotiate trade deals with strategic protectionism as the middle way. These stances also echo notable populist Pauline Hanson, who has voiced his support for raising tariffs in Australia for years as evidenced in her *Maiden Speech* (Appendix B).

Two groups become relevant in this process: the winners and the losers of international trade. The economic structure maps these groups to the demos and the elite (high v. low income) without locking-in the composition of either identity group, for it is defined by the structure of the labor market and made salient by the political leader. Events of this nature can be traced down to diametrical contexts and spaces; they are not unique to 21st century politics (Kazin, 2017; Kaltwasser et al., 2017; Hawkins et al., 2018). For example, during the long-depression (1880s), France observed a marked contraction in its trade balance. The levels of economic vulnerability engendered by this crisis in the manufacturing sector led to profound and widespread animosities towards the governing Republican elite, who appeared to be indifferent to ordinary people's plights. In this context, George Ernst Boulanger rose to power by promoting aggressive nationalist policies known as *Revanchism*. "Boulangist propaganda was relentless in attacking the parliamentary regime, characterized as a corrupt oligarchy; an assembly of irresponsible, ineffective 'tripoteurs' (shady dealers), indifferent to the concerns of ordinary people" (Hawkins et al., 2018). Boulanger promoted himself as a man of the people, who, as his 1888 program claimed, sided with those desperately looking for work:

> "*Make way for the Reformer who, protecting industry, commerce and agriculture will give you the possibility to feed your children, to raise them, and to make of them good and solid workers! Boulanger will defend you against foreign competition. Boulanger, whose hands are clean of any shameful traffic, will be inspired only by your interests. It is because he is above all honest that those who have sold you out for so long tried to kill him and continue to rabidly fight him. But you will support him, all of you who know nothing but bread honestly earned! You will defend him, workers scorned by those who exploit you. You will fight for him with your votes, workers in all crafts who want to live from your labor and who are tired of languishing unoccupied!*"—George Boulanger, 1988.

Boulanger's campaign employed all the techniques of modern mass politics—advertising, sloganeering, spectacle—to fasten the public's attention on him (Nord, 2017).

Another empirical regularity that has attracted much attention pertains the exclusion of ethnic minorities from the *demos*, despite they may also be losers from trade. Recent evidence shows, for instance, that voters in the United States and elsewhere display strong in-group attitudes in terms of white or national identity and lower concerns from members of ethnic minorities and out-group identities (Kazin, 2017; Finchelstein, 2019). This implies that the composition of the demos can be refined along ethnic dimensions, designating minorities as members of the out-group but not of the elite. However little is known about this in the context of protectionism. I address this shortcoming

herein by considering ethnic and class dimensions in the composition of the electorate.

3 The model

Society is composed of two groups: skilled workers (S) and unskilled workers (U), both of which earn a wage from providing their work inelastically. Let us denote $i = \{U, S\}$. The population is normalized to one such that $\lambda_S + \lambda_U = 1$, with $\lambda_U > \lambda_S > 0$ the respective shares in the population. I relax this assumption in Section 5 to include ethnic identity.

The home country is a small-open economy with two sectors, each producing one good: X, which is exported, and the import-competing good, Z. Both goods are produced competitively, with a constant returns to scale technology using both types of labor. The export good makes relatively intensive use of the skilled labor, while the import-competing good makes relatively intensive use of unskilled labor. I normalize the international price of X to one and denote $q > 0$ as the international price of Z. Governments may impose a tariff (τ) on imports, such that the domestic price of Z is given by $p = q(1 + \tau)$, where q are the terms of trade. Importantly, when imports become cheaper the terms of trade improve (i.e., $dq < 0$). All markets are in equilibrium.

Worker's material welfare is standard:

$$v_i(p, q) = \omega_i(p) + T(p, q) + \Gamma(p)$$

where $\omega_i(p)$ is the wage of an individual in group i, $T(p, q)$ is the per-capita rebate of tariff revenues, $\Gamma(p)$ is the per-capita consumer surplus. We have that $T(p, q) = (p - q)\Omega(p)$ where $\Omega(\cdot)$ is the import-demand function. $v_i(\cdot)$ is increasing and concave, and continuous and differentiable in its arguments. Individuals also enjoy an element of psychosocial well-being:[7]

$$\vartheta_i(p, q) = \mathbb{I}_i\{\overline{v}^N(p, q) - \beta_i[\overline{v}_{-i}(p, q) - v_i(p, q)]^2\}$$

where $\overline{v}^N$ is the average material utility of the average citizen and $\beta_i > 0$ is the marginal cost of dissonance or the degree of discontent with the differences between groups; $\mathbb{I}_i$ is an indicator function defined by

$$\mathbb{I}_i = \begin{cases} 1 & if \quad \overline{v}^N(p, q) - \beta_i[\overline{v}_{-i}(p, q) - v_i(p, q)]^2 \geq 0, \\ 0 & otherwise. \end{cases}$$

[7]For the purposes herein I borrow some elements from Grossman and Helpman (2018).

$\vartheta_i(p,q)$ denotes the net benefit of identifying with the average member of society. $\vartheta_i(\cdot)$ is also increasing and concave. In other words, $\overline{v}^N(\cdot)$ is the benefit for i of identifying with other different from them (i.e., *glow*), whereas $\beta_i[\overline{v}_{-i}(p,q) - v_i(p,q)]^2$ is the *cost of dissonance* from doing so.

The indicator function implicitly defines a social identity equilibrium (Shayo, 2009): individuals compare themselves against the average member of the population; when the perceived material distance from the average member of the nation increases they are less likely to identify with that social benchmark. Whenever the benefit of identifying with this benchmark is lower than the cost of dissonance, workers of group i display in-group attitudes (i.e., $\mathbb{I}_i = 0$).

In this sense, identification with the social benchmark is voluntary and unregulated. Thus we say that when individuals do not display in-group attitudes they identify with average member of a economically diverse society. More importantly, whereas the defining characteristics of groups are exogenous identity salience is not; it depends on the primitives.

A social identity equilibrium establishes that individual-choices are congruent with social identity, and that their identity is consistent with the social environment. Indeed, by combining the material and psychosocial components in standard fashion the utility of the representative member of group i is given by $u_i = v_i(p,q) + \vartheta_i(p,q)$. Thus individual i's, unique, most preferred tariff is characterized by $p_i^\star \equiv \text{argmax}_p\, u_i(p,q)$, which is a function of the indicator function defining whether i displays in-group attitudes ($\mathbb{I}_i \in \{0,1\}$).

To illustrate this, note that i's problem can be written as

$$p_i^\star \equiv \underset{p}{\text{argmax}}\; \omega_i(p) + T(p,q) + \Gamma(p) + \mathbb{I}_i\{Y(p) + T(p,q) + \Gamma(p) - \beta_i[\delta(p)]^2\},$$

where $\delta(p) = \omega_S(p) - \omega_U(p) > 0$ denotes the wage gap, and $Y(p) = \lambda_S \omega_S(p) + \lambda_U \omega_U(p)$ is the aggregate demand. We observe that the psychosocial component has two primitives: international prices (q) and the baseline cost from identifying with the out-group (β_i). When thinking about top-down identity politics, it is unreasonable to assume that a political candidate can effectively manipulate international prices because these are determined by the global economic structure, however politicians do manipulate people's feelings of dissatisfaction because by doing so they organize their political base (De Leon et al., 2020). Thus it is sensical to assume that β_i is the parameter being targeted by cues.

It is evident as well that unskilled workers prefer higher trade tariffs vis-á-vis skilled labor because they are the factor that is used most intensively in the import-competing sector. Figure 1 elucidates this point. In it, I plot the individual utility function as function of the relative price of import-competing goods. Each curve illustrates the utility of a representative worker with skill

i and identity profile $\mathbb{I}_i$. The optimal tariff policy for U is always at the right of S.[8] Note that in the absence of in-group attitudes ($\mathbb{I}_i = 1$) preferences for tariff policy are more moderate along the protectionism-to-free-trade spectrum because individuals display a distaste for inequality in regards to their fellow citizens (i.e., the wage gap). Thus $u_i(p,q|\mathbb{I}_i = 0) < u_i(p,q|\mathbb{I}_i = 1)$. In contrast when $\mathbb{I}_i = 0$ for all i, preferences over policy are more polarized because such element is absent. Therefore there is a conflict over trade policy preferences between skilled and unskilled labor that intensifies when in-group attitudes become salient.[9] This is indicates why identity is politically valuable: when in-group attitudes activate, they generate polarization.

Figure 1: Preferences for tariffs
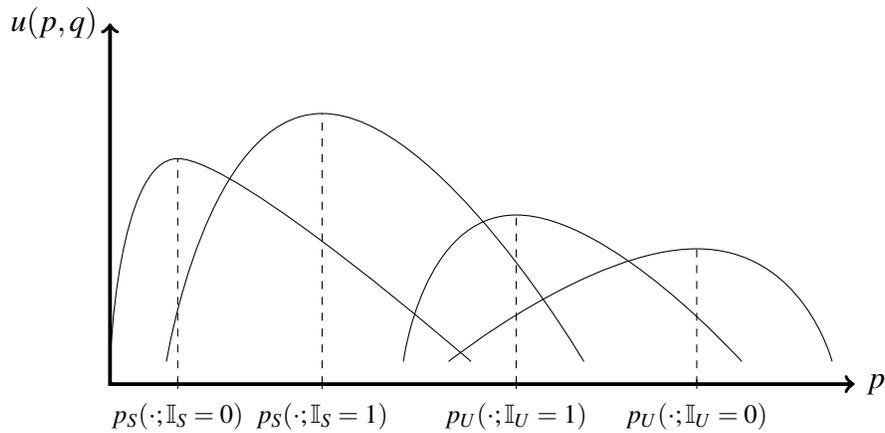
3.1 A game of endogenous identity salience

Two politicians E and O compete for office by proposing a binding tariff policy—the candidate with most votes wins. Denote $k = \{E, O\}$. In the absence of cues political competition does not differ from classic Downsian competition. To introduce the role of cues, on the other hand, E evaluates whether to use divisive rhetoric to activate in-group attitudes among voters. E is thus a *political entrepreneur*. I assume that E can allocate some non-negative level of effort ($e_E \geq 0$) to discover a cue intended to change the underlying cost of dissonance (β_i). For simplicity, if E discovers an effective cue targeted at i, then $\mathbb{I}_i^{\tilde{\beta}_i} = 0$, and we observe top-down identity politics. The other player reacts by engaging in counter-propaganda, investing effort $e_O \geq 0$; O is a *traditional*

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[8]This is a consequence of the well-known Stolper-Samuelson theorem: A rise in the relative price of imports (p) leads to a rise in the real return to the factor which is used most intensively in the production of import-competing goods (i.e., unskilled labor) and to a fall in the real return to the other factor (i.e., skilled labor).

[9]On this regard, Penn (2009) demonstrates that a national identity may not be possible without the potential for rivalry between politically relevant subgroups.

politician.[10] e_O and e_E are chosen simultaneously and O is successful with probability $\phi_O(e_O, e_E)$, where $\phi_O(\cdot)$ is increasing (decreasing) in E's (O's) effort. In other words, trying to find a divisive cue carries some risk.[11] An effective cue, however, confers a policy advantage to E, denoted by $\alpha \in (0, 1/2)$, because they *own* the issue for higher protectionism if the cue is effective; O in contrast owns the mainstream position (i.e., the outcome from Downsian convergence) if the cue fails, which confers her the policy advantage (e.g., Eguia and Giovannoni 2019).

Finally, I assume that E and O face asymmetric costs of effort due to the institutional environment. Norris and Inglehart (2019), for instance, argue that supply-side identity politics is regulated by the institutional environment. Since I focus on the manipulation of context, I operationalize this notion in a reduced form by assuming that E pays a marginal cost of $\gamma > 0$ for every unit of effort; O's marginal cost per unit of effort is fixed to 1. Thus γ subsumes all institutional constraints that E faces to find a cue.[12]

The timing of the game is:

- E and O simultaneously choose their policy platforms.

- E decides whether or not to invest effort to find a divisive cue.

- If E decides investing effort, O and E choose their level of effort simultaneously.

  - If the cue is successful: E has issue ownership advantage over protectionism, the identity profile changes and workers vote for their preferred candidate.

  - If the cue is unsuccessful: O has issue ownership advantage over the mainstream policy, the identity profile does not change and workers vote for their preferred candidate.

- If E does not invest effort, there are no cues and workers vote for their preferred candidate.

[10]Think about counter-propaganda used by establishment parties to ostracize outsiders: Donald Trump's rival in the 2016 elections (Hillary Clinton) ran adds that were mostly devoid of policy content, their objective was instead to discredit Trump (Fowler et al., 2016).

[11]An alternative to this set-up is a costly signaling game wherein the political entrepreneur knows the level of inequality but the voter does not and has a prior; the signal tries to convince the voter that inequality is higher. Nevertheless such a game is less tractable in the context of a Hecksher-Ohlin economy like the one I model herein, and adds little additional insights vis-á-vis this simpler set-up.

[12]This simplifying assumption is warranted insofar the responses from traditional parties often involve the use of formal political institutions such as the courts, the media and supranational institutions, to ostracize divisive political leaders. For instance, the judiciary opposed some of the more illiberal proposals of populists such as the Kaczynski brothers in Poland and Meciar in Slovakia. Similarly, German media has been hostile to populist parties of both the right and left, attacking parties with opposite ideologies such as the right-wing *Die Republikaner* and the *Die Linke* (Mudde and Kaltwasser, 2017). Other responses could include cooptation or coalition formation among parties (e.g., Penn 2008; Holm and Geys 2018). However these alternatives are outside the scope of this paper.

4 Equilibrium

Due to the structure of the game, the equilibrium concept is sub-game perfect Nash equilibrium (SPNE). Thus I proceed to solve the game by backward induction.

4.1 Benchmark equilibrium: no cues

I start by characterizing the sub-game equilibrium wherein E does not use cues: If candidates view all voters as having ideological preferences drawn from a common distribution, the equilibrium policy features convergence in tariff policies, which maximizes the utilitarian social welfare function (Grossman and Helpman, 1996):

$$U(p,q) = Y(p) + T(p,q) + \Gamma(p) + \sum_i \lambda_i \mathbb{I}_i \{Y(p) + T(p,q) + \Gamma(p) - \beta_i [\delta(p)]^2\}.$$

Candidate k's optimal policy is then $p_k = p^w \equiv \text{argmax}_p \, U(p,q)$.[13]

Since the increase in protectionism motivates this paper, we need to determine the conditions under which the optimal equilibrium tariff rate increases when $\mathbb{I}_U$ changes from one to zero in the social welfare function. Evidently this occurs whenever $U_p(p,q|\cdot,\mathbb{I}_U=1)=0$ and $U_p(p,q|\cdot,\mathbb{I}_U=0)>0$. Note that $U_p(p,q|\cdot,\mathbb{I}_U=0)>U_p(p,q|\cdot,\mathbb{I}_U=1)$ if and only if $\beta_S > \beta_U$.

Figure 2 illustrates the utilitarian social welfare functions for different permutations of the vector $(\mathbb{I}_U,\mathbb{I}_S)$ as a function of the relative price of import-competing goods. Equilibria at $p^w = q$, p_U, p_S and $p_{U,S}$ are all possible outcomes associated with $(\mathbb{I}_U,\mathbb{I}_S)=(0,0)$, $(\mathbb{I}_U,\mathbb{I}_S)=(0,1)$, $(\mathbb{I}_U,\mathbb{I}_S)=(1,0)$ and $(\mathbb{I}_U,\mathbb{I}_S)=(1,1)$ respectively. It is evident that $U(p,q|(\mathbb{I}_U,\mathbb{I}_S)=(1,0)) < U(p,q|(\mathbb{I}_U,\mathbb{I}_S)=(1,1))$ and $U(p,q|(\mathbb{I}_U,\mathbb{I}_S)=(0,1)) < U(p,q|(\mathbb{I}_U,\mathbb{I}_S)=(1,1))$ because at a given price p there is a net (positive) psychosocial benefit from identifying with the social benchmark (i.e., the average member of society). Likewise $U(p,q|(\mathbb{I}_U,\mathbb{I}_S)=(0,0)) < U(p,q|(\mathbb{I}_U,\mathbb{I}_S)=(1,0))$ and $U(p,q|(\mathbb{I}_U,\mathbb{I}_S)=(0,0)) < U(p,q|(\mathbb{I}_U,\mathbb{I}_S)=(0,1))$.[14]

Note also that the utilitarian maximum for $(\mathbb{I}_U,\mathbb{I}_S)=(0,0)$ satisfies $p^w = q$ because for a small country the equilibrium tariff policy involves free trade. If $(\mathbb{I}_U,\mathbb{I}_S)=(0,1)$ for example, the maximand includes a component that is decreasing in the wage gap because it induces an aversion to inequality on the part of elites. Since a marginal change in the tariff has a negligible effect on ag-

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[13]$u_i(\cdot)$ is continuous and differentiable because $v_i(\cdot)$ is continuous and differentiable, and since the sum of two continuous and differentiable functions is both continuous and differentiable, $U(\cdot)$ is also continuous and differentiable in its arguments thus the maximization problem is properly defined.

[14]All in all, this means that salient in-group attitudes are associated with a loss in social welfare.

gregate material welfare at $\tau = 0$, and since a tariff reduces the wage gap via the Stolper-Samuelson theorem, the maximand generates a positive tariff in this case (i.e., $\tau^w > 0$). A similar logic can be applied to the remaining permutations. Unsurprisingly, the most protectionist policy emerges when unskilled voters adopt in-group attitudes.

Figure 2: Tariff policy in equilibrium
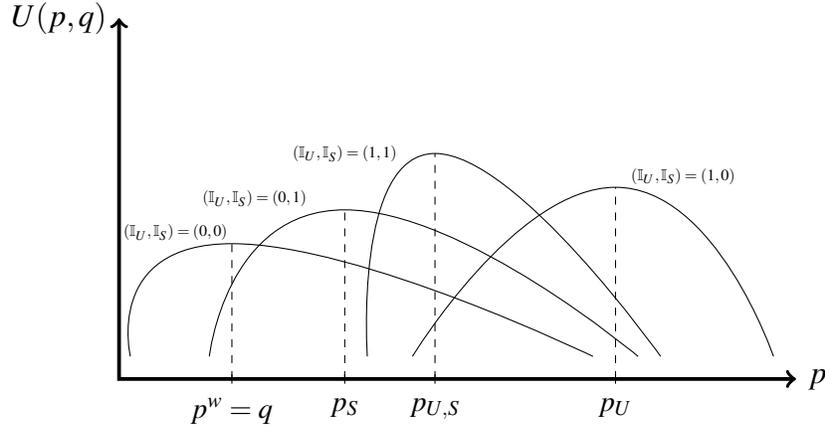
Finally, it is natural to inquire when does protectionism increase in response to a trade shock that makes imports cheaper ($dq < 0$). A few calculations show that

$$\frac{d\tau_i^w}{dq}\frac{q}{1+\tau^w} = -1 + \frac{(1+\mathbb{I}_i)q\Omega'(p^w)}{p^wU''(p^w,q)}, \tag{1}$$

takes a negative value whenever $\delta''(p) \geq 0$ and $\Omega''(p) \leq 0$.

Since an improvement in the terms of trade widens the wage gap via the Stolper-Samuelson effect ($\delta'(p) < 0$) and increases the demand for imports because import-competing goods become cheaper ($\Omega'(p) < 0$), policy displays a protectionist reaction when an improvement in the terms of trade reduces the marginal efficiency cost of protection ($\Omega''(p) \leq 0$) while also boosting the responsiveness of the wage gap to the domestic price ($\delta''(p) \geq 0$). Therefore protectionism emerges from two forces that reinforce each other: First, a decline in the price of import-competing goods alters the elasticity of the import-demand curve, making it less elastic such that the demand for imports becomes less sensitive to changes in import prices. Second, inequality increases more sharply with a lower price from import-competing goods. This means that the efficacy of tariffs to protect workers in the import-competing sector declines when international competition increases because the marginal deadweight loss from tariffs falls, resulting in unambiguous preferences for more protectionism. In other words, compensation from government transfers is insufficient to compensates the losers from trade as a result of constraints determined by the structure of the economy. Thus I make the following assumption from here onward:

Assumption 1. $\delta''(p) \geq 0$ and $\Omega''(p) \leq 0$.

4.2 Top-down identity politics: the role of cues

Since U is the largest group, E's dominant strategy is to target U because this is the most cost-effective alternative. Hence the skilled endogenously take the role of the (economic) *elite* whereas the unskilled become the *demos*. A successful cue is therefore $\tilde{\beta}_U$ such that $\mathbb{I}_i^{\tilde{\beta}_U} = 0$, creating in-group attitudes in the demos.

Cues effectiveness is a probabilistic outcome $\phi_e(e_E, e_O)$. For tractability, let us assume $\phi_E(\cdot, \cdot)$ follows a standard contest success function:

$$\phi_E(e_E, e_O) = \frac{e_E}{e_E + e_O}. \tag{2}$$

where $e_E \geq 0$ denotes the effort that E invests to find a cue and $e_O \geq 0$ the effort that O invests to prevent this from happening. We can think of e as the amount of resources used to find a cue.

Having the previous in mind, E's objective function is given by:

$$\underset{e_E}{\text{argmax}} \; R\left[\pi_E^I(p_E, p_O; q, \alpha)\phi_E(e_E, e_O^\star) + \pi_E^{NI}(p_E, p_O; q, \alpha)(1 - \phi_E(e_E, e_O^\star))\right] - \gamma e_E.$$

$\pi_E^{NI}(\cdot)$ denotes E's probability of winning when she does not discover an effective cue and $\pi_E^I(\cdot)$ when she does. Thus E seeks to maximize the expected value of holding office net of the material costs of finding a cue. The problem is similar for O.

The solutions are characterized by

$$e_E^\star = \frac{\lambda_U R}{(1+\gamma)^2} \cdot \left[\vartheta_U(p_O, q | \mathbb{I}_U = 1) - \vartheta_U(p_E, q | \mathbb{I}_U = 1)\right]. \tag{3}$$

and

$$e_O^\star = \frac{\gamma \lambda_U R}{(1+\gamma)^2} \cdot \left[\vartheta_U(p_O, q | \mathbb{I}_U = 1) - \vartheta_U(p_E, q | \mathbb{I}_U = 1)\right]. \tag{4}$$

Hence the effort invested by both candidates is a function of the difference in the benchmark psychosocial utility given by O and E's tariff policies.

A necessary condition for $e_k > 0$, for all k, requires that $\vartheta_U(p_O, q | \mathbb{I}_U = 1) > \vartheta_U(p_E, q | \mathbb{I}_U = 1)$, otherwise $e_k^\star = 0$ for all k. Hence

$$\overline{v}^N(p_O, q) - \overline{v}^N(p_E, q) > \beta_U[\delta(p_O)^2 - \delta(p_E)^2].$$

16

Furthermore it must be that $p_E > p_O = p^w$ (Lemma 1).

Lemma 1. *A necessary condition for $e_k > 0$, for all k, requires that $p_E > p_O$, and that $p_O \equiv p^w$, and p_E to be no larger than the autarky price, at identity regime $(\mathbb{I}_U, \mathbb{I}_S) = (1,1)$.*

Proof in Appendix A.

Using Lemma 1, the inequality above can be re-written as

$$\beta_U < \frac{\overline{v}^N(p_O, q) - \overline{v}^N(p_E, q)}{\delta(p_O)^2 - \delta(p_E)^2}.$$

Thus we can define the critical value

$$\beta_U^\star = \frac{\overline{v}^N(p_O, q) - \overline{v}^N(p_E, q)}{\delta(p_O)^2 - \delta(p_E)^2}. \tag{5}$$

Finally, we assume that the policy advantage conferred by issue ownership is high enough such that a cue emerges if and only if candidates invest non-zero effort (i.e., $\alpha \to 1/2$). This advantage produces policy divergence in tariff policy platforms and guarantees Lemma 1.

In equilibrium, whenever $\beta_U < \beta_U^\star$ there is top-down identity politics, otherwise there is no need for cues and candidates converge to the same policy platform (Proposition 1). This counter-intuitive finding indicates that there are few reasons to use cues when there is little return to be obtained from using them. E invests effort in the risky business to find a divisive cue when she expects high returns, just like the standard business entrepreneur would do. This implies that top-down identity politics is used to create political opportunities when there may be none.

Note also that if $\beta_U > \overline{v}^N(p^w, q)/\delta(p^w)^2$, meaning that the cost of dissonance is high enough at the baseline, then identity politics occurs without the intervention from a third party. I elaborate on this special case in Section 4.3.

Proposition 1. *The SPNE of the game described above is:*

  i) *If $\beta_U > \beta_U^\star$: the vector $(p_O, p_E, e_O, e_E) \equiv (p^w, p^w, 0, 0)$ characterizes the SPNE.*

  ii) *If $\beta_U < \beta_U^\star$: the vector $(p_O, p_E, e_O, e_E) \equiv (p^w, p_E, e_O^\star, e_E^\star)$ where $e_O^\star$ and $e_E^\star$ are defined as in equations (3) and (4) respectively. The equilibrium policy is p_E with probability $\pi_O^I(p_O, p_E, q)\phi_e(e_O^\star, e_E^\star)$, and it is p^w otherwise.*

Proposition 1 also captures the stylized fact that political parties may not use identity politics if the conditions are not adequate. For instance, the far-right party *Die Linke* in Germany is the successor to the ruling party of the German Democratic Republic, the Socialist Unity Party. Moreover,

17

two of the most successful populist radical right parties in western Europe, the Freedom Party of Austria and the Swiss People's Party, started out as traditional, mainstream parties; party leaders Jorg Haider and Christopher Blocher eventually transformed them into radical parties.

I also find that $\beta_U^\star$ increases in response to an improvement in the terms of trade; politicians' effort (e) also increases in response to the trade shock (Lemma 2). This finding is key because it shows that import price shocks provide incentives for political entrepreneurs to find divisive cues.

Lemma 2. *Both $\beta_U^\star$ and $e_k^\star$ (for all k) increase in response to an improvement in the terms of trade.*

Proof in Appendix A.

4.3 Bottom-up identity politics

A trade shock may also generate identity politics without the intervention of a third party if the square of the wage gap, $\delta(\cdot)^2$, increases faster than the average income, $\overline{v}^N(\cdot)$, at the status-quo policy p^w evaluated at $(\mathbb{I}_U, \mathbb{I}_S) = (1,1)$. Thus define $\beta_U^{\star\star} = \overline{v}^N(p_O, q)/\delta(p_O)^2$ such that when $\beta_U^{\star\star}$ falls it becomes more likely that $\mathbb{I}_U = 0$.[15]

An improvement in the terms of trade generates a fall in $\beta_U^{\star\star}$ when $d\beta_U^{\star\star}/dp > 0$, or equivalently

$$\frac{\delta'(p_O)}{\Omega'(p_O)} > \frac{p_O - q}{2\overline{v}^N(p_O, q)}.$$

The right-hand side of the inequality is less than one and likely small, thus we focus on the left-hand side, which needs to be larger than the right-hand side. The latter is likely to occur when p_O is high at the baseline because, by Assumption 1, the responsiveness of the wage gap is high to changes in import prices whereas the marginal efficiency cost of protection is small. That is, inequality increases fast as a result of an import price shock whereas tariff rebates increase slowly. In such a scenario, the losers from trade are not adequately compensated for the decline in income.

Taken together, my findings indicate that we should expect a stronger protectionist reaction from workers in those industries with a larger import-price pass-through because in these industries the demand for import-competing goods is more responsive to lower import prices—consistent with the vast evidence on the effects of the *china shock* (e.g., Feigenbaum and Hall 2015; Colantone and Stanig 2018b). However, *bottom-up identity politics* is more likely when the import-competing sector enjoys high trade barriers prior to the shock. *Top-down identity politics*, in contrast, is more

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[15]Recall that by Lemma 1 $p_E = p_w$ at $(\mathbb{I}_U, \mathbb{I}_S) = (1,1)$, furthermore $\beta_U^{\star\star} > \beta_U^\star$ as shown in the lemma's proof.

likely when trade barriers are lower prior to the shock, because if trade barriers are high, the expected return to effort for the political entrepreneur is smaller.

Furthermore, since $\beta_U^{\star\star} > \beta_U^\star$, the size of trade shock for bottom-up identity politics must be larger than the one needed for top-down identity politics.[16] Not only that, bottom-up identity politics requires the additional assumption that $\beta_S > \beta_U$ (see Section 4.1). Hence bottom-up identity politics should be much less common that top-down identity politics. Importantly, however, since γ does not determine the likelihood of bottom-up identity politics insitutional constraints cannot restrict identity politics from the bottom, up.

These findings are reasonable: Social movements need to develop a frame through which they are able to identify the relevant social grievance affecting society. Grassroots movements, for instance, need to define a common identity (the demos) and a common enemy (the elite), relying on its capacity to interpret a widespread feeling of anger with the political status quo, for which the solution lies in the (sovereign) people.[17] Finding such a frame is not an easy task because it entails a process of aggregation of preferences and to define who is part of the demos and who is part of the elite. Only major events—such as economic crises—can create a focal points for the organic emergence of such a social movement (Fukuyama, 2018). Top-down identity politics does not need such a crisis, it emerges when political entrepreneurs see an opportunity by creating an identity frame through their narratives; using cues.

5   Ethnic identity

Let us assume that society is composed of two cross-cutting groups: a worker group and an ethnic group. Workers can be skilled (S) or unskilled (U); an ethnicity can belong to the majority (m) or the minority (n). Let $i = \{U, S\}$ and $j = \{m, n\}$ and $l \in i \times j$. The population is normalized to one such that $\sum \lambda_l = 1$, see Table 1. Furthermore $\lambda_{U.} > \lambda_{S.}$ consistent with the previous model, and $\lambda_{.m} > \lambda_{.n}$ such that ethnic minorities are the smallest ethnic group regardless of their skill type.

The structure of the economy is the same as before and Assumption 1 holds. For simplicity, I assume that the marginal productivity of labor is the same for any ethnicity belonging to the same skill group. Likewise the baseline identity profile is at $(\mathbb{I}_{Um}, \mathbb{I}_{Un}, \mathbb{I}_{Sm}, \mathbb{I}_{Sn}) = (1, 1, 1, 1)$.

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[16]Moreover $d\beta_U^{\star\star\,2}/d^2 p < 0$, hence bottom-up identity politics indeed becomes more likely for large shocks v. small.

[17]Examples include the "we are the 99%" movement or "indignados" in Spain.

Table 1: Group shares

Group	Unskilled	Skilled	Total
Minority	λ_{Un}	λ_{Sn}	λ_n
Majority	λ_{Um}	λ_{Sm}	λ_m
Total	λ_U	λ_S	1

The voters' problem is similar as before:

$$p_l^\star \equiv \underset{p}{\operatorname{argmax}}\ \omega_l(p) + T(p,q) + \Gamma(p) + \mathbb{I}_l\{Y(p) + T(p,q) + \Gamma(p) - \beta_l[\delta(p)]^2\},$$

Hence when $\mathbb{I}_l = 0$ for all l the preferences for each skill group are the same regardless of their ethnic identity because $\omega_{\cdot m}(\cdot) = \omega_{\cdot n}(\cdot)$.

The game is also similar to the one defined in Section 3.1. However, the inclusion of ethnicity enriches the game: Since Um is the largest group, E always has incentives to target it with a divisive cue, but if everyone can vote and $\lambda_{Um} < 0.5$, targeting Um does not necessarily create a winning coalition. Therefore E's top-down strategy depends on the vote share of Um relative to all other groups. Interestingly, this depends on whether minorities can vote.

For the analysis herein I study three cases: i) The unskilled minority cannot vote but unskilled labor comprises the majority of voters, ii) The unskilled minority can vote but the unskilled ethnic majority comprises the majority of voters, and iii) The unskilled minority can vote and unskilled labor (as a whole) comprises the majority of voters.[18]

Case 1: Unskilled minorities cannot vote and $\lambda_{Um}/(1 - \lambda_{Un}) > 1/2$. The analysis of this case mirrors exactly the case with only a class-cleavage. Therefore the political entrepreneur (E) invests effort in finding a divisive cue when $p_E > p_O \equiv p^w$ at identity regime $(\mathbb{I}_{Um}, \mathbb{I}_{Un}, \mathbb{I}_{Sm}, \mathbb{I}_{Sn}) = (1, 1, 1, 1)$. Herein

$$p^w \equiv \underset{p}{\operatorname{argmax}}\ Y(p) + T(p,q) + \Gamma(p) + \sum_{ij \neq Un} \frac{\lambda_{ij}}{1 - \lambda_{Un}} \mathbb{I}_i\{Y(p) + T(p,q) + \Gamma(p) - \beta_i[\delta(p)]^2\}.$$

Since we have demonstrated that $p_E > p_O$ under Assumption 1 (see Lemma 1), there exists a critical point $\beta_{Um}^\star$ such that when $\beta_{Um} < \beta_{Um}^\star$ top-down identity politics is more likely.

Case 2: Unskilled minorities can vote and $\lambda_{Um} > 1/2$. This case is similar to the previous

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[18]If $\lambda_{Um} < \lambda_S$ and the unskilled minority cannot vote, then the winning coalition is made up of skilled workers. This goes against the empirical regularity that motivates this paper: political entrepreneurs pit the demos against the elite.

one, however

$$p^w \equiv \underset{p}{\operatorname{argmax}} \ Y(p) + T(p,q) + \Gamma(p) + \sum_{ij} \lambda_{ij} \mathbb{I}_i \{Y(p) + T(p,q) + \Gamma(p) - \beta_i [\delta(p)]^2\}.$$

Hence if $\beta_{Un} > \beta_{Um}$, we have that p^w is smaller than in *case 1*, and if $\beta_{Un} \leq \beta_{Um}$, p^w is larger. This means that when there is top-down identity politics the gap between p_E and p_O can decrease (increase) if ethnic minorities experience a larger (smaller) cost of dissonance, and thus $\beta_{Um}^\star$ falls (grows) and top-down identity politics is less (more) likely.[19]

Case 3: Unskilled minorities can vote and $\lambda_{Um} < 1/2$. Since targeting the biggest skill group is a dominant strategy, E invests effort e_E^{Um} on finding a cue that activates in-group preferences in the ethnic majority, and effort e_E^{Um} which activates in-group preferences in the ethnic minority. Similarly as before, O can invest in counter-propaganda.

Having the previous in mind, O's objective function is given by:

$$\underset{\mathbf{e}_E}{\operatorname{argmax}} \ E[R|\mathbf{p}, \mathbf{e}, \alpha] - \gamma(e_E^{Um} + \phi e_E^{Un}),$$

where $\phi > 0$ is the relative cost of targeting the ethnic minority v. the ethnic majority; similarly for O. R is large enough to justify the use cues on the path of play.

Since the maximization problem is additively separable the solutions are given by

$$e_E^{Um\star} = \frac{\lambda_{Um}}{(1+\gamma)^2} \cdot \left[\vartheta_{Um}(p_O, q | \mathbb{I}_{Um} = 1) - \vartheta_{Um}(p_E, q | \mathbb{I}_{Um} = 1) \right]$$

and

$$e_E^{Un\star} = \frac{\lambda_{Un}}{(1+\gamma\phi)^2} \cdot \left[\vartheta_{Un}(p_O, q | \mathbb{I}_{Un} = 1) - \vartheta_{Un}(p_E, q | \mathbb{I}_{Un} = 1) \right].$$

If $\phi \neq 1$ the equilibrium of effort $e_E^{Un\star}$ is contingent on this differential cost of effort, but this is not very informative for our purposes so let us assume $\phi = 1$ from here onward. Therefore, if $\beta_{Um} = \beta_{Un}$, the ethnic majority and the ethnic minority are highly homogeneous and we find ourselves in the previous section, wherein cues are targeted toward the unskilled group.[20] More interestingly, if $\beta_{Um} \neq \beta_{Un}$ we need to know if Un's preferences lie at the left or right of Um to determine E and O's best responses.

If $\beta_{Un} > \beta_{Um}$ then $u_p(p, q|\cdot, \mathbb{I}_{Um} = 0) > u_p(p, q|\cdot, \mathbb{I}_{Um} = 1)$ because p must be sub-optimal

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[19]Notice as well that bottom-up identity politics becomes more (less) likely when β_{Un} is larger (smaller) than β_{Um}, because p_O increases (falls).

[20]This occurs because the marginal productive of labor is the same and thus Um and Un's preferences are identical and thus they can be treated as one group of size $\lambda_{Um} + \lambda_{Un} = \lambda_U > 1/2$.

when Um's identity activates, therefore $p_{Un} < p_{Um}$. Hence $e_E^{Um\star} > 0$ if

$$\beta_U < \frac{\overline{v}^N(p_O,q) - \overline{v}^N(p_E,q)}{\delta(p_O)^2 - \delta(p_E)^2},$$

and $e_E^{Un\star} > 0$ if

$$\beta_U < \frac{\overline{v}^N(p_O,q) - \overline{v}^N(p_E,q)}{\delta(p_O)^2 - \delta(p_E)^2}.$$

Therefore E invests positive effort on a cue for the ethnic majority when $\beta_{Um} < \beta_{Um}^\star$; the same occurs for the ethnic minority when $\beta_{Un} < \beta_{Un}^\star$; and note also that $\beta_{Un}^\star > \beta_{Um}^\star$. If $\beta_{Un} < \beta_{Um}$, in contrast, then $p_{Un} > p_{Um}$ and $\beta_{Un}^\star < \beta_{Um}^\star$ by the same logic.

An important limitation in the previous analysis is that β_l is likely measurable in a lab or survey experiment but it is unlikely to be measurable in observational data, because the cost of dissonance may not be a surveyed quantity or simply because a reasonable proxy may not exist. Therefore it can be difficult to determine if $\beta_{Un} < \beta_{Um}$ or $\beta_{Un} > \beta_{Um}$. What we can conclude with certainty is that a fall in import prices ($dq < 0$) increases the likelihood of identity politics by Lemma 2, and if the shock is large enough the political entrepreneur targets both ethnicities losing from trade with cues but puts more effort in activating identity among the ethnic majority.

5.1 Measurement

To address the latter issue let us assume that the marginal cost of dissonance is also a function of the group size. In other words, voters care more about inequality when their group is larger. Therefore

$$p_l^\star \equiv \underset{p}{\mathrm{argmax}}\, \omega_i(p) + T(p,q) + \Gamma(p) + \mathbb{I}_l\{Y(p) + T(p,q) + \Gamma(p) - \beta_l\lambda_l[\delta(p)]^2\}.$$

This means that there are now three primitives that determine identity (β_l, p and λ_l), two of which depend on the structure of the economy: group sizes and international prices, hence outside of the political entrepreneur's purview.

Since group sizes can be measured through the level of diversity of the workforce and also through voter diversity, we can redefine the cut-off strategies on the basis of diversity by assuming that $\beta_l = \beta = 1$ for all l at the baseline. This also allows us to focus on top-down identity politics vis-á-vis bottom-up identity politics because the necessary condition for more protectionism resulting from bottom-up identity politics—a large out-group size—is likely violated. This also enriches our empirical predictions, as we will see next, by making a function of diversity the

critical values the determine the incentives for using cues.

Case 1: Unskilled minorities cannot vote and $\lambda_{Um}/(1 - \lambda_{Un}) > 1/2$. Using Lemma 1, there exists a critical point

$$\lambda_U^\star = \frac{\overline{v}^N(p_O,q) - \overline{v}^N(p_E,q)}{\delta(p_O)^2 - \delta(p_E)^2}.$$

such that when $\lambda_{Um} < \lambda_{Um}^\star$ top-down identity politics is more likely.

This implies that an increase in the share of ethnic minorities raises that probability of top-down identity politics because λ_{Um} falls without affecting the fact that they comprise the majority of voters. Therefore ethnic diversity moderates the effect of a trade shock on the likelihood of top-down identity politics, increasing the likelihood of observing divisive cues from a political entrepreneur when there is ethnic diversity in the composition of the labor force.

Importantly, since we hold β_l constant, if we observe changes in diversity but not a differential reaction by political entrepreneurs to a trade shock, and yet we observe more protectionism and political polarization, it must be that the assumption β_l is constant and equals to one is violated. It also indicates that the baseline cost of dissonance goes in the opposite direction of λ_l empirically speaking and that $\sum_j \lambda_{Sj}\beta_{Sj} > \lambda_{Um}\beta_{Um}$. Therefore when we observe higher levels of polarization over policy but no incremental effort from the political entrepreneur as a result of a trade shock, it is likely that identity politics is bottom-up.[21]

Case 2: Unskilled minorities can vote and $\lambda_{Um} > 1/2$. Since $\lambda_{Un} < \lambda_{Um}$, p^w is larger than in *case 1*. This means that the gap between p_E and p_O increases and $\lambda_{Um}^\star$ grows, making top-down identity politics more likely. This effect is stronger when the share of the ethnic minority grows. The remaining empirical implications analysis are the same as in the previous case.

Case 3: Unskilled minorities can vote and $\lambda_{Um} < 1/2$. Since $\lambda_{Un} < \lambda_{Um}$, then $p_{Un} > p_{Um}$. Therefore there exist $\lambda_{Un}^\star > \lambda_{Um}^\star$ such that E invests positive effort on a cue for the ethnic majority when $\lambda_{Um} < \lambda_{Um}^\star$, and she invests in a cue for the ethnic minority when $\lambda_{Un} < \lambda_{Un}^\star$. Therefore when minorities are part of the winning coalition, if the political entrepreneur targets the ethnic majority with cues it must target the ethnic minority as well, therefore generating only a class cleavage in order to identify the demos. Furthermore if the share of the unskilled-minority grows vis-á-vis the share of the unskilled-majority, top-down identity politics becomes less likely unless the former become the majority of unskilled workers, in which case the political entrepreneur disregards the ethnic minority via the use of cues.

The previous findings are summarized in the following lemma:

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[21]This must be consistent with the previous finding wherein I state that bottom-up identity politics is more likely in places with high levels of protectionism and a high import-price pass-trough preceding the shock (Section 4.3).

Lemma 3. *If ethnic minorities can vote and $\lambda_{Um}/(1-\lambda_{Un}) > 1/2$, or if ethnic minorities can vote and $\lambda_{Um} > 1/2$ an increase in the share of ethnic minorities increase the probability of top-down identity politics. If $\lambda_{Um} < 1/2$ and ethnic minorities can vote, the probability of top-down identity politics declines unless ethnic minorities become the majority of unskilled workers.*

Therefore we can conclude that diversity matters. In particular, ethnic diversity is likely to increase the likelihood of top-down identity politics when ethnic minorities are not necessary for the winning coalition.

6 Discussion

The model herein indicates that the role of identity politics in the study of protectionism is a complex phenomenon that can be studied using a few attributes from the economic structure. First, it establishes that when import prices' pass-through is more complete, identity politics becomes more likely because increasingly high tariffs become necessary to protect and compensate the workers in the import-competing sector. This can occur for instance if imports are close substitutes for local products and consumers strongly substitute for imports, consistent with Assumption 1. If this is the case, the losers from trade benefit from protectionist policies, more so when they display in-group preferences because these increase the level of polarization between the winners and the losers from trade. This for example occurs in the U.S. (Fajgelbaum et al., 2020), where it has long being argued that identity politics is at play (Kazin, 2017; Cerrato et al., 2018; Finchelstein, 2019).

Second, knowing that in-group preferences can polarize the electorate and confer her issue ownership over protectionism, a political entrepreneur has incentives to invest effort in finding divisive cues that can activate in-group preferences in the losers from trade (which are one of if not the biggest voting bloc), endogenously adopting a much more protectionist stance v. her political rival. Therefore it comes as no surprise that trade shocks generate high levels of protectionism consistent with Dornbusch and Edwards (2007) seminal work about populism in Latin America, and recent evidence by Funke et al. (2020) on the rise protectionism during the 20th and 21st centuries. This is also consistent with the link established between Chinese import competition, nationalism and protectionism (Colantone and Stanig, 2018a,b). My findings are also consistent with the idea that identity politics may not only entail class conflict but that it may also include a form of ethnic conflict, because ethnic minorities are excluded from the demos when they are not needed to generate a winning coalition from the losers from trade.[22] Therefore both ethnic and

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[22]This is consistent with work on identity and conflict in comparative politics by Posner (2017), and correlational for evidence protectionism by (Katitas, 2021).

economic diversity matters.

Third, bottom-up identity politics needs a major trade shock to emerge in equilibrium whereas top-down identity politics can emerge from small shocks, because they can provide the necessary incentives to a political entrepreneur for using cues to make identity salient. Furthermore, from the politics side, the model suggests that whereas institutional constraints play little to no role in bottom-up identity politics, they can reduce top-down identity politics–although institutional constraints must be quite restrictive to fully prevent this.

Importantly, the concept of top-down identity politics developed herein reveals three implications for the study of populism and protectionism: First, empirical work about identity politics (populism in particular) suffers from an inherent problem of selection in the dependent variable because societies self-select into identity politics; a populist is only identified ex-post. This limitation justifies the use of theory to understand this phenomenon better. Second, top-down identity politics is an attractive strategy in economically heterogeneous communities wherein there are no salient divisions at the baseline because there are votes to be gained form using cues. This provides an alternative to bypass the problem of selection on the dependent variable insofar as top-down identity politics can be identified by analyzing a single candidate effort, and the content of their effort, during the campaing trail. Third, it generates testable hypotheses for lab and survey experiments and the necessity for identifying the behavioral primitive that characterizes the cost of dissonance (β). Finally, it provides a clear justification for exploring the hetereogenous effects emerging from localities with different pre-treatment economic and ethnic structures using observational data.

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A Formal proofs

Proof of Lemma 1. Assume

$$\overline{v}^N(p_O, q) - \overline{v}^N(p_E, q) > \beta_U[\delta(p_O)^2 - \delta(p_E)^2].$$

at identity regime $(\mathbb{I}_U, \mathbb{I}_S) = (1,1)$ as required. Trivially, it cannot be the case that $p_E = p_O$ or $p_E = p_w$ because then $e_k = 0$ for all k. Below I explore the remaining cases:

Case 1: $\overline{v}^N(p_O, q) < \overline{v}^N(p_E, q)$ and $\delta(p_O) > \delta(p_E)$. The inequality above is not satisfied; we arrive to a contradiction. So it cannot be that $p^w > p_E > p_O$.

Case 2: $\overline{v}^N(p_O, q) > \overline{v}^N(p_E, q)$ and $\delta(p_O) < \delta(p_E)$. Since U becomes more protectionist when preferences are activated, any k has incentives to deviate toward p^w if they are less protectionist than welfare maximizing policy because p^w is the Condorcet winner, thus $e_k = 0$ for all k. So it cannot be that $p^w \geq p_O > p_E$.

Case 3: $\overline{v}^N(p_O, q) < \overline{v}^N(p_E, q)$ and $\delta(p_O) < \delta(p_E)$. Players seek to maximize their expected value of holding office by using the least amount of effort (e) holding β_U constant. Effort is smallest for both players whenever the ratio

$$\frac{\overline{v}^N(p_O, q) - \overline{v}^N(p_E, q)}{\delta(p_O)^2 - \delta(p_E)^2}$$

is the tiniest possible. However the ratio cannot be less or equal to one because it must be that $p_O > p_E \geq p^w$ for $\overline{v}^N(p_O, q) < \overline{v}^N(p_E, q)$ and $\delta(p_O) < \delta(p_E)$.

Since $p_O > p_E$ in this case, under Assumption 1, this means that the distance between p_E and p_O must be the biggest possible because lower import prices reduce the marginal efficiency cost of protection (reducing the marginal response of the numerator to a change in prices) while also boosting the responsiveness of the wage gap (increasing the marginal response of the denominator to a change in prices). So p_E must be as close as possible to p^w because p_O cannot be larger than the autarky price (p^A s.t. $\Omega(p^A) = 0$). Furthermore, $p_O \leq 2(p_U - p_O)$. Hence $p_O = \min\{p^A, 2(p_U - p^w)\}$. However, since it must be that $p_E > p^w$, E always has incentives to deviate because she always wants to get infinitesimally closer to p^w. Thus $p_O > p_E$ cannot be an equilibrium.

Case 4: $\overline{v}^N(p_O, q) > \overline{v}^N(p_E, q)$ and $\delta(p_O) > \delta(p_E)$. Using cases 1-3 we know that $p_E > p_O = p^w$ because of Assumption 1, moreover $p_E = \min\{p^A, 2(p_U - p_O)\}$. Since $\delta(p_E) < \delta(p_O)$ by the Stolper-Samuelson effect, and $\overline{v}^N(p_E, q) > \overline{v}^N(p_O, q)$ because higher tariffs generate a larger dead-weight loss, the inequality we started with is satisfied.

Finally, by Assumption **??**, it must be that

$$\frac{\overline{v}^N(p^w, q)}{\delta(p^w)^2} > \frac{\overline{v}^N(p_O, q) - \overline{v}^N(p_E, q)}{\delta(p_O)^2 - \delta(p_E)^2}.$$

Since $p_O = p^w$ we can simplify the previous expression to obtain

$$\frac{\overline{v}^N(p_E, q)}{\delta(p_E)^2} > \frac{\overline{v}^N(p^O, q)}{\delta(p^O)^2}.$$

Therefore it must be that

$$\overline{v}^N(p_E, q) - \beta_U \delta(p_E)^2 > \overline{v}^N(p^O, q) - \beta_U \delta(p^O)^2,$$

which is the same as

$$\beta_U > \frac{\overline{v}^N(p^O, q) - \overline{v}^N(p_E, q)}{\delta(p^O)^2 - \delta(p_E)^2}.$$

Since $\overline{v}^N(p^E, q)/\delta(p^E)^2 > \beta_U$ by Assumption **??**,

$$\frac{\overline{v}^N(p^E, q)}{\delta(p^E)^2} > \frac{\overline{v}^N(p^O, q) - \overline{v}^N(p_E, q)}{\delta(p^O)^2 - \delta(p_E)^2}.$$

$\square$

Proof of Lemma 2. Using the implicit function theorem and the chain rule:

$$\frac{d\beta_U^\star}{dq} = \frac{(p_O - q)\Omega'(p_O)(1 + \tau_O) - (p_E - q)\Omega'(p_E)(1 + \tau_E) + \tau_E \Omega(p_E) - \tau_O \Omega(p_O)}{\delta(p_O)^2 - \delta(p_E)^2}$$
$$- \frac{\left[\overline{V}^N(p_O, q) - \overline{V}^N(p_E, q)\right]\left[2\delta(p_O)\delta'(p_O)(1 + \tau_O) - 2\delta(p_E)\delta'(p_E)(1 + \tau_E)\right]}{\left[\delta(p_O)^2 - \delta(p_E)^2\right]^2}.$$

Since $\tau_E \Omega(p_E) - \tau_O \Omega(p_O) < 0$, $\overline{V}^N(p_O, q) - \overline{V}^N(p_E, q) > 0$ and $\delta(p_O) - \delta(p_E) > 0$, both

$$(p_E - q)\Omega'(p_E)(1 + \tau_E) > (p_O - q)\Omega'(p_O)(1 + \tau_O)$$

and

$$\delta(p_E)\delta'(p_E)(1 + \tau_E) > \delta(p_O)\delta'(p_O)(1 + \tau_O)$$

are sufficient conditions for $\frac{d\beta_U^\star}{dq} < 0$.

Dividing the previous sufficient conditions and re-organizing:

$$\left[\frac{\delta(p_O)}{\delta(p_E)} \right] \cdot \left[\frac{\delta'(p_O)}{\delta'(p_E)} \right] > \left[\frac{\tau_O}{\tau_E} \right] \cdot \frac{\Omega'(p_O)}{\Omega'(p_E)}.$$

Using Assumption 1, it follows that the right-hand side of the inequality is greater than one and the left-hand side less than one. Thus the inequality is always satisfied.

Since $e_k^\star$ also depends on the ratio

$$\frac{\overline{v}^N(p_O, q) - \overline{v}^N(p_E, q)}{\delta(p_O)^2 - \delta(p_E)^2}$$

which defines $\beta_U^\star$, it follows that

$$\frac{de_k^\star}{dq} < 0$$

for all k. □

B Selected speeches

Maiden Speech:

"*How can we compete with Japan, Germany and Singapore, which enjoy rates of two per cent, 5.5 per cent and 3.5 per cent respectively? Reduced tariffs on foreign goods that compete with local products seem only to cost Australians their jobs. We must look after our own before lining the pockets of overseas countries and investors at the expense of our living standards and future. Everything I have said is relevant to my electorate of Oxley, which is typical of mainstream Australia. I do have concerns for my country and I am going to do my best to speak my mind and stand up for what I believe in... I consider myself just an ordinary Australian who wants to keep this great country strong and independent, and my greatest desire is to see all Australians treat each other as equals as we travel together towards the new century.*"—Pauline Hanson, 1996.