

# A theory of protectionist populism: The role of elite cues and identity on protectionism

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## Abstract

The combination of populism and protectionism emerged primarily from social class cleavages during the 20th century, to protect those affected by international economic competition. In the 21st century these cleavages have also involved an ethnic dimension, which regards the ethnic majority as the citizens deserving protection even though ethnic minorities are affected by international competition. What does explain this puzzle? I posit that this *protectionist populism* is especially likely to emerge when populists shape voters' preferences over protectionism using elite cues. Cues generate voter polarization by activating voters' social identities, and this benefits populists. However, populists do not use cues on ethnic minorities when their support isn't essential because doing so may not be cost-effective. Counterintuitively, populists use cues when there's little voter polarization ex-ante. I also find that higher international competition is generally insufficient to generate demands for protectionist populism in the absence of elite cues. My findings also provide various empirical implications for studying protectionist populism that can address current shortcomings in empirical work.

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# 1 Introduction

Globalization has bolstered populism and protectionism across the world in recent years. The evidence indicates that international competition is one of the main causes behind the recent wave of populism and economic nationalism in developed economies ([The Niehaus Center, 2022](#); [Colan-  
tone et al., 2022](#)). Specifically, increased import competition—such as cheaper Chinese products—caused lay-offs and lower wages, triggering demands for economic nationalism to protect the livelihoods of workers in the affected sectors. However this *protectionist populism* is not new. Europe and Latin America experienced protectionist populism during the 20th century as evidenced by [Dornbusch and Edwards \(2007\)](#) and [Funke et al. \(2020\)](#).

Herein I examine a puzzling shift in protectionist populism over time. In the 20th century, the combination of populism and extreme protectionism emerged primarily from social-class cleavages, yet in the 21st century these cleavages involve an ethnic dimension.<sup>1</sup> I establish novel microfoundations for addressing this puzzle. I also demonstrate that higher international competition is generally insufficient to generate demands for protectionist populism; we need to consider the supply-side of politics to better characterize this phenomenon. My findings also provide a number of relevant empirical implications that I discuss below.

In a model of protectionism, I incorporate the role of *elite cues* by a politician; i.e., campaign messages, advertising, sloganeering, spectacle, etc. Cues have two characteristics: First, they confer an issue ownership over policy because they are the campaign-hooks onto which the politician hangs her electoral aspirations ([Riker et al., 1986](#); [Petrocik, 1996](#)). Second, they define the politician’s political base by shaping voters’ social identities, creating divisions in the electorate ([De Leon et al., 2020](#); [Puleo, 2021](#)). I characterize the incentives that the politician faces to invest costly effort in finding successful cues in response to increased international competition.

Elites cues are theoretically-relevant because they shape voters’ preferences over protectionism by activating voters’ social identities. That is, voters’ preferences are a function of their identity and not only a function of their material welfare ([Shayo, 2007](#)). In this sense individuals’ behavior is congruent with their social identity, which is voluntary and unregulated. The spectrum of social identities that an individual can identify with are the result of the social environment, historically-defined.<sup>2</sup>

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<sup>1</sup>For example Ernst Boulanger (France), Salvador Allende (Chile) and Alan Garcia (Peru), among many other, banked on class cleavages ([Dornbusch and Edwards, 2007](#)); recently Donald Trump (U.S.), Marie Le Penn (France) and other European political leaders have banked on nativism ([Smith and King, 2021](#); [Hawkins et al., 2018](#)).

<sup>2</sup>There is a spectrum of nominal identities. When an identity activates, the individual professes membership to it, or she is assigned to it by others as a member ([Chandra, 2012](#)).

Identity affects voters' preferences through a psychological channel that responds to the level of inequality between groups. To operationalize this attribute I borrow from the literature on the psychology of identity (Tajfel et al., 1979; Tajfel, 1981; Turner et al., 1987): Voters compare themselves to a prototypical member of their identity group and they derive satisfaction from the relative status of that group in society. There is also a cost of *cognitive dissonance* that obtains from the differences between voters' identity group and all other groups. Voters only identify with a group when they obtain a net psychological benefit from doing so. When voters identify broadly with other members of society, they exhibit other-regarding attitudes and they moderate their policy preferences. If narrower social identities are activated instead, voters exhibit *in-group* favoritism and as a result their preferences become more polarized.

Elite cues work by targeting the cost of dissonance, exacerbating the differences between identity groups, causing narrower identities to activate. For instance, Donald Trump used campaign rhetoric to underline the differences between predominantly white Americans in the import-competing industries, and most other segments of the population (Smith and King, 2021).<sup>3</sup> A populist has incentives to use elite cues because voter polarization created by activated identities can boost her political appeal due to the issue advantage. However, the success of these cues is probabilistic and depends on the effort that the populist invests in finding a cue relative to the effort that her political rival invests to prevent it (e.g., a counter-cue). Hence if the expected value from protectionist populism is too low, there are no incentives to use cues; elite cues are endogenous.

International competition plays an important role in the dynamic described above. A drop in the price of imports reduces the demand for import-competing products, which are produced domestically, harming the workers whose livelihoods depend on them. It also makes them worse-off vis-à-vis their peers in other sectors because inequality increases against them. Hence these "losers from trade" have incentives to demand more protectionism to safe-keep their livelihoods, whereas their peers do not (Rogowski, 1987). Moreover, rising inequality increases the likelihood that voters' identities activate by growing the cost of dissonance because it generates differences between workers in different sectors.<sup>4</sup> If identity activates, the losers from international competition adopt in-group attitudes, their policy preferences toward protectionism become more extreme, and polarization over policy increases (Grossman and Helpman, 2018).

Starting from a baseline where identities are not activated, I demonstrate that the populist is endogenously protectionist because the expected value of using cues is largest if she is able to obtain the support of the largest voting bloc. This bloc is made of unskilled workers, who by

<sup>3</sup>Kazin (2017) and Hawkins et al. (2018) show that this is common in past and recent waves of populism.

<sup>4</sup>The underlying assumption that economic outcomes affect identity and thus preferences has been confirmed using experiments: Marchlewska et al. 2018; Aksoy and Palma 2019.

definition have a low marginal productivity per unit of labor, and are employed especially in the import competing sector. Hence the populist has incentives to activate this *class identity*,<sup>5</sup> creating stronger preferences for protectionism amongst these voters. Thus the populist needs to be an extreme protectionist, and as such she obtains an issue advantage over high protectionism if a cue is successful. In contrast, her rival adopts a less protectionist stance because if the populist's cues fail, she would have an issue advantage over a more moderate policy. Hence populists have incentives to use elite cues in response to international competition.

Importantly, protectionist populism comes at a cost for social welfare. By activating identity, the populist focuses policy on reducing the level of inequality to the benefit of the unskilled labor, but this reduces the average income in society. This policy stance is electorally beneficial because the populist guarantees bigger reductions in inequality that favor the unskilled, boosting her political appeal, even if they come at the expense of lower income growth.

The populist also has incentives to activate narrower identities. In an extension of the model that incorporates *ethnic identity*,<sup>6</sup> I find that if the support of ethnic minorities is not necessary for obtaining electoral victory, the cost-effective option is to use elite cues to activate identity only in the unskilled ethnic majority. In this case protectionist policy by the populist largely reflects the preferences of the ethnic majority vis-à-vis the preferences of skilled labor and ethnic minorities, and it is more moderate than only activating class identity. Furthermore, I show that this is more likely to occur in ethnically-diverse communities because if the ethnic minority becomes a relatively larger group, the expected benefit from creating ethnic polarization increases.

Counterintuitively, the populist has incentives to use elite cues when voter polarization is low ex-ante. When cues are successful, polarization generates large benefits relative to the effort that the populist invests for finding a cue. Hence the benefit of using cues decrease in a divided society, and is zero if identity is already activated. Populists use cues to shake the political landscape by creating divisions because the expected political returns to do so are high.

An increase in import competition also provides incentives for using elite cues. When the effectiveness of protectionism falls in response to lower import prices and the government cannot properly compensate with transfers the losers from international competition, the wage gap between unskilled workers and skilled workers widens. This induces an increase in the level of polarization if identities activate, boosting the expected value of using elite cues.

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<sup>5</sup>The social marker (or descent-based attribute) that defines the social identity reflects the fact that unskilled labor is poorer than skilled labor because on average the marginal return to one unit of labor is comparatively lower for unskilled labor. Thus unskilled workers are income-poor while skilled workers are income-rich.

<sup>6</sup>For tractability I use only two identities: social class and ethnicity. These identities are amongst the most relevant ones, both economically and socially. Ethnicity is broadly defined in terms of the existence of an ethnic majority and ethnic minority, whereby the composition of the ethnic groups is not context dependent.

Identity can activate without elite cues, but the conditions under which this occurs are restrictive. To generate voter demand for extreme protectionism in the absence of cues, protectionism in the import competing sector must be high ex-ante and worker-compensation schemes must be weak. In this case, very high levels of protectionism are necessary to effectively curb import competition and reduce inequality. This may occur when there is a very large increase in import competition under already substantial import tariffs because this event can induce a large enough cost of dissonance—via higher inequality—to activate identity without elite cues.

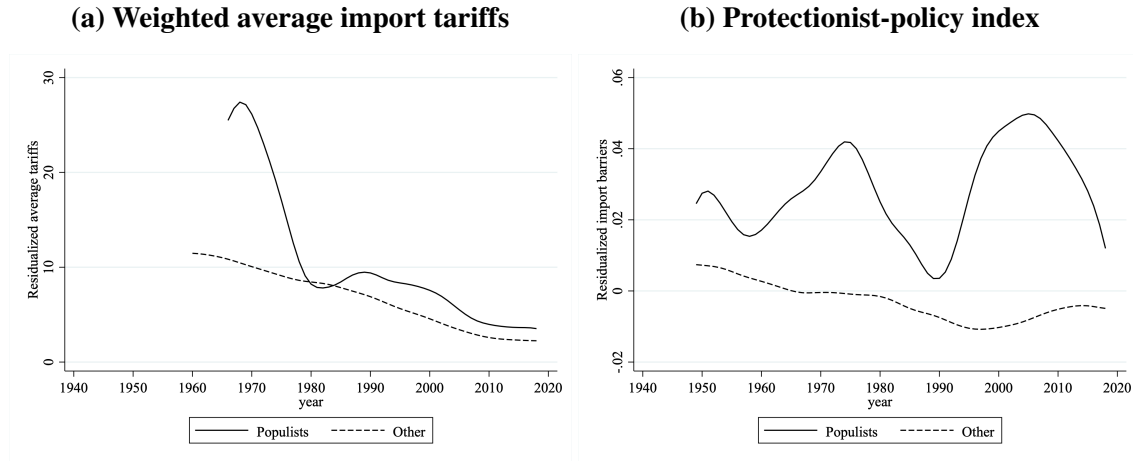
The theoretical findings herein contribute to the understanding of the political economy of protectionist populism (Mansfield et al., 2021; Walter, 2021; The Niehaus Center, 2022; Colantone et al., 2022), especially the role that identity plays in this phenomenon (Ballard-Rosa et al., 2021; Gaikwad and Suryanarayan, 2021; Baccini and Weymouth, 2021). My findings characterize a populist as an opportunistic politician that benefits from adopting extreme protectionism and creating a demand for high protectionism, by generating political polarization between social classes using elite cues. It also shows that ethnic minorities are not always targeted by populist politicians with elite cues, when generating ethnic polarization is not cost-effective electorally. My findings also provide a number of empirical implications for studying populist protectionism (Section 7).

## 2 Populism and protectionism

The work by Dornbusch and Edwards (2007) on populism in Latin America, and subsequent work by Funke et al. (2020) for a bigger number of countries, shows that macroeconomic policy espoused by populist leaders promotes economic nationalism (e.g., Figure 1). Import tariffs are particularly high because they safeguard the import-competing sector, whose competitiveness depends much on the relative price of the goods produced locally against the price of foreign goods. High tariffs shift the demand away from imports to locally produced goods, which benefits the workers in the import-competing sector—boosting wages and employment.

In the process that leads to this *protectionist populism* two social groups become relevant: the winners and the losers from international competition. The losers are the workers in the import-competing sector, who vote for higher tariffs in order to protect their livelihoods by making imports more expensive. The winners do not work in this sector and they benefit from exactly the opposite, because if they work for instance in the export competing sector their relative wages increase with more international competition. Populist leaders can thrive in this context because this process generates inequality between the winners and losers, to the benefit of the former, creating the possibility for generating a social cleavage that they can exploit for electoral purposes. In fact, the

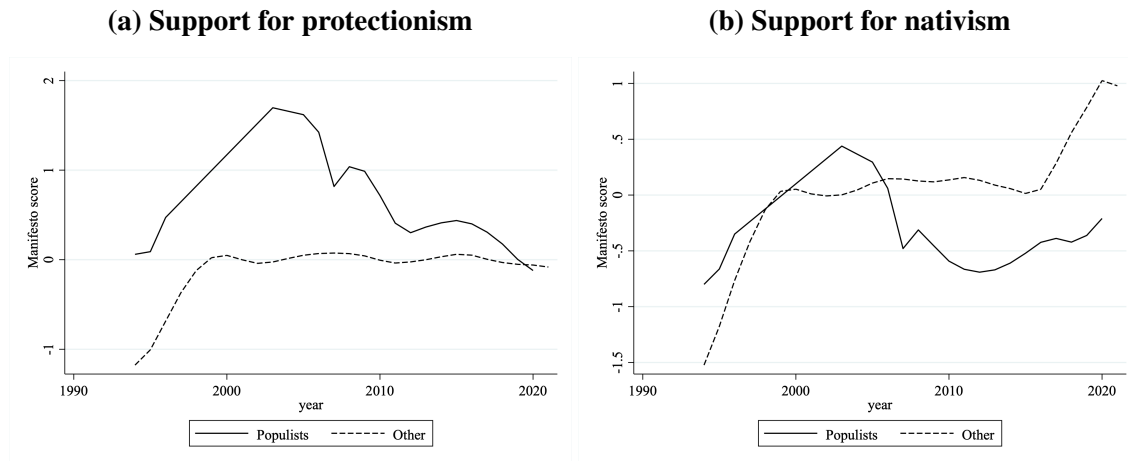
**Figure 1: Protectionism by populist-government-leader status**



**Note:** A description of this data can be found in Appendix B.

literature defines populism in this way: Populism is a political cleavage between a group called the *demos* and another one called the *elite*, where the former designates themselves as the only true citizens worthy of consideration (Mudde and Kaltwasser, 2017). Congruently, populist protectionism promotes the well-being of the *demos* at the expense of all other social groups.

In the context herein, economic forces can naturally map the winners and losers from international competition to the elite and the *demos* respectively. However, this is insufficient. Populists play a proactive role defining and refining the composition of the *demos* along the economic dimension and also along other dimensions, such as ethnicity, religion, nationality, etc. (Kazin, 2017; Kaltwasser et al., 2017; Hawkins et al., 2018). For instance, in the U.S. 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 (Kazin, 2017). Kaltwasser et al. (2017) discusses similar examples for other countries. To illustrate this point further, Figure 6 shows that parties that are identified as populist not only have a programmatic agenda seeking the protection of internal markets, but more recently they express unfavourable references to minorities while expressing heightened nationalism. But how do populists shape these cleavages?



**Note:** A description of this data can be found in Appendix B.

## 2.1 The role of elite cues

Theoretical models about populism usually strip political leaders of their role shaping and defining their political base. Many start from the assumption that populism emerges from a discontent with the political status quo. Voters elect “political outsiders” because they are not constrained by special interests or institutional norms, and thus they credibly represent the interests of the demos (Acemoglu et al., 2013; Buisseret and Van Weelden, 2020). Fujimori is an example of this, due to his Japanese ancestry and the fact that he was virtual unknown a month before the 1990 presidential election. He surged to victory by capitalizing on the crisis of established parties, running against Mario Vargas Llosa, who had the backing of Peru’s traditional elite (Levitsky and Roberts, 2011).

However many populists do not conform to the “outsider” status. For example Geert Wilders in the Netherlands 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, former president of Ecuador, served in Alfredo Palacio’s cabinet as minister of finance; Collor de Mello had been elected on the ticket of many different parties before becoming president of Brazil. The recent literature posits instead that populists are political opportunists that espouse extreme political views for electoral purposes (Mukand and Rodrik, 2018; Eguia and Giovannoni, 2019).

In this regard, the comparative literature about populism sees populism essentially as a Manichaeian discourse that identifies Good with a unified will of the people—the demos—and Evil with the elite (Kaltwasser et al., 2017). The discursive definition describes an innate cultural aspect to populist politics in 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, or *elite cues*, and they are intended to differentiate the demos from the elite on social and economic grounds, such that everything that does not belong to the demos, is alien to it—excluded from *vox populi*. In this sense, populists are not passive “outsiders” that transform voters’ preferences into policy; populists are politicians that use rhetoric, narratives, sloganeering, and spectacle to win voters over (Riker et al., 1986). They engage in a discursive exercise to remold the voters’ interests and its rivals positions, undertaking the task of defining and mobilizing the interests of their political base (Schumpeter, 1942; De Leon et al., 2020).

Populists commitment to the policies they espouse is relevant in this context, because otherwise exhibiting more extreme positions in comparison to the more traditional politician would be too costly (Eguia and Giovannoni, 2019). As with politicians in general, when populists spend time and effort creating narratives supporting a particular policy, they obtain an issue advantage regarding their policy stance (Petrocik, 1996). This issue advantage benefits the populist whenever voters’ preferences shift in favor of her policy stance (Egan, 2013). Thus the populist commitment to an extreme policy stance is a reflection of the electoral incentives that she faces, thanks to the issue advantage she obtains from spending effort in finding narratives for the political marketplace.

The aforementioned characteristics are visible as far back as the 19th century in the context of protectionist policy. 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. Boulanger’s campaign employed all the techniques of modern mass politics—advertising, sloganeering, spectacle—to fasten the public’s attention on him (Nord, 2017). Other notable examples include Juan Peron and Eva Peron in Argentina; Getulio Vargas and Collor de Melo in the case of Brazil; Alan Garcia in Peru; Salvador Allende in Chile; Luis Echeverria and Lopez Portillo in Mexico (Dornbusch and Edwards, 2007).

Another empirical regularity that has attracted much attention involves the fact that recently, populists in developed countries exclude ethnic minorities from the *demos*, despite that they also lose from international competition. In the context of protectionism, Smith and King (2021) analyses Trump’s campaign rhetoric and political actions, finding that he narrates American identity as a tale of predominantly white America, where he advocates for white protectionism while re-



ducing or eliminating initiatives designed to assist non-whites; they write: “Trump is neither an explicit white nationalist nor a true adherent to color-blindness. He is instead a white protectionist.” Similarly [Guisinger \(2017\)](#) and [Katitas \(2021\)](#) indicate that campaign adds often seek to fuel protectionism and nativism. In other countries protectionist populism has also involved an ethnic dimension whereby populists advocate for protectionism for natives. Some notable examples include: Pauline Hanson in Australia; Marie Le Penn in France; Boris Jhonson in the UK; and more generally parties such as Socialistische Partij in the Netherlands, die Linke in Germany, and Partij voor de Vrijheid in the Netherlands ([Van der Waal and De Koster, 2018](#)).

Altogether the characteristic of populism whereby populists seek to create divisions between a well-defined demos and an elite is ubiquitous ([Hawkins et al., 2018](#)). However, one shortcoming is that little is known about the determinants behind populists’ incentives to use narratives to define the demos only along the lines of class, and when do they refine the definition of the demos to exclude some specific social identities. This shortcoming is evident in the study of protectionist populism where this question remains understudied. Next, I address this shortcoming.

### 3 The model

Consider two groups: skilled workers ( $S$ ) and unskilled workers ( $U$ ). Define  $i = \{U, S\}$ . The population is normalized to one such that  $\lambda_S + \lambda_U = 1$ , with  $\lambda_U > \lambda_S > 0$ ; I relax this assumption in [Section 5](#) to include ethnicity to the group typology. The economy has two sectors, each producing a (generic) good using a combination of skilled and unskilled labor. Production technologies exhibit constant returns to scale, are homogeneous of degree one, and are twice differentiable and strictly concave. All markets are perfectly competitive and in equilibrium.

I assume, without loss of generality, that the commodity  $X$  is exported and that  $Z$  is the import-competing good. The exported good makes relatively intensive use of the skilled labor, while the import-competing good makes relatively intensive use of unskilled labor.<sup>7</sup>

The price of  $X$  is normalized to one to serve as numeraire;  $q > 0$  is the international price of  $Z$ . Governments collect taxes on imports using tariffs,  $\tau \in \Re$ , thus the domestic price of  $Z$  is  $p = q(1 + \tau)$ . Importantly,  $q$  captures the relative price of exports in terms of imports—or the *terms of trade*. That is,  $q$  is the amount of imports an economy can purchase per unit of exports. Hence, when imports become cheaper the terms of trade improve and the demand for them increases.

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<sup>7</sup>In developed countries  $X$  can be tied to simple manufactures: furniture, auto parts, textiles, and similar goods.  $Z$  can be associated to complex manufactures: airplanes, robots, smart phones, etc. In a less technologically advanced country,  $X$  can be tied to agricultural products and  $Z$  to manufactures in general. The conclusions for a developing economy hold as long as  $\lambda_U > \lambda_S$  if  $S$ -type workers are landed elites ([Balcazar and Ch, 2023](#)).

Since  $p$  is a linear function of tariffs,  $p$  is also a measure of the level of protectionism.

Workers enjoy two types of well-being: i) material well-being, which is captured by a function  $v_i(\cdot)$ , and ii) psychological well-being, which is captured by a function  $\vartheta_i(\cdot)$ . Both functions are increasing, concave, continuous and differentiable in their arguments. Workers' utility is given by the sum of these two types of well-being:

$$u_i(p, q) = v_i(p, q) + \vartheta_i(p, q).$$

The addition of psychological well-being expands the standard utility function, capturing the stylized fact that individuals not only make choices on the basis of their material well-being but also on other types of well-being (Akerlof and Kranton, 2005).

The material well-being has a standard formulation:

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

where  $\omega_i(p)$  is the wage of an individual in group  $i$ , with  $\omega_S(p) > \omega_U(p)$ ;<sup>8</sup>  $T(p, q) = (p - q)\Omega(p)$  is the per-capita rebate from tariff revenues, where  $\Omega(p)$  is the import-demand function; and  $\Gamma(p)$  is the consumer surplus. The demand for imports and consumer surplus fall as protectionism rises.

The psychological well-being is given by:<sup>9</sup>

$$\vartheta_i(p, q) = \mathbb{I}_i \{ \bar{v}(p, q) - \beta_i \lambda_i [v_{-i}(p, q) - v_i(p, q)]^2 \},$$

where  $\mathbb{I}_i$  is an indicator function defined by

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

$\bar{v}(\cdot)$  is the average material utility in the population, and  $\beta_i > 0$  is the degree of discontent with the differences between groups. The former term captures the benefit or *warm glow* that  $i$  enjoys when they identify with other people different from them. The latter term captures the degree of aversion to inequality because individual care about the relative economic position of their group in society. Workers also care more about inequality when their share in their population increases. Note that when  $\mathbb{I}_i = 0$  individuals only consider the well-being of their group.

<sup>8</sup>Wages are lower for skilled workers because they are less productive than skilled workers per unit of labor.

<sup>9</sup>I borrow some elements from Grossman and Helpman (2018) for this formulation, however their model is a special case of the one I focus on herein because in their model politicians cannot invest effort to find elite cues.

The psychological component emphasizes the idea that individuals face a trade-off between being members of larger, more diverse group vis-à-vis being members of coarser groups. This occurs because there is a *cost of dissonance* from identifying with other individuals that are different from oneself (Tajfel et al., 1979; Tajfel, 1981; Turner et al., 1987).

The indicator function defines a *social identity equilibrium* in reduced form: When  $\mathbb{I}_i = 0$  individuals follow the prescribed behavior of their group and care only about their group status because identity has activated. As a result, they adopt *in-group* attitudes. If  $\mathbb{I}_i = 1$  they exhibit other-regarding attitudes instead. Individuals identify with a group only when the glow is larger than the cost of dissonance. In this sense, social identities are congruent with the socio-economic environment, but they are also voluntary and unregulated (Shayo, 2009).<sup>10</sup>

When identity activates  $i$  is defined by the skill-group, or (what is the same herein) their social class, individuals choices are congruent only with the preferences of their class. This may seem limited at first glance because a person's identity can be multifaceted, and more complex than these two identity groups presuppose (Bernstein, 2005), but this simplification facilitates the exposition of the model and the main results ahead; in Section 5 I add ethnicity as a cross-cutting identity.

Finally, note that we can rewrite  $i$ 's utility function as

$$u_i(p, q) = \omega_i(p) + T(p, q) + \Gamma(p) + \mathbb{I}_i \{Y(p) + T(p, q) + \Gamma(p) - \beta_i \lambda_i [\delta(p)]^2\}. \quad (1)$$

where  $\delta(p) = \omega_S(p) - \omega_U(p) > 0$  denotes the wage gap, which is decreasing in the level of protectionism by the standard Stolper-Samuelson theorem.<sup>11</sup>  $Y(p) = \lambda_S \omega_S(p) + \lambda_U \omega_U(p)$  is the aggregate demand. The glow can thus be proxy by the level of material prosperity per-capita: the average income, whereas the cost of dissonance by the level of inequality between groups.

**Individual preferences over protectionism.**  $i$ 's preferred level of protectionism is characterized by  $p_i^* \equiv \operatorname{argmax}_p u_i(p, q)$ , where a higher  $p^*$  means more protectionism. Unskilled workers prefer higher levels of protectionism vis-à-vis skilled workers because they are the factor that is used most intensively in the import-competing sector, hence they benefit from a higher demand for local products because their wages improve as a result (Rogowski, 1987).

Since  $u_i(\cdot)$  depends on the indicator function defined above, the preferred level of protectionism depends on whether identity is activated or not. When identity is not activated ( $\mathbb{I}_i = 1$ ),  $i$  faces a trade-off between the glow from identifying with a socially diverse society and a cost of dissonance

<sup>10</sup>While the discontinuity is neither necessary nor sufficient, it facilitates exposition.

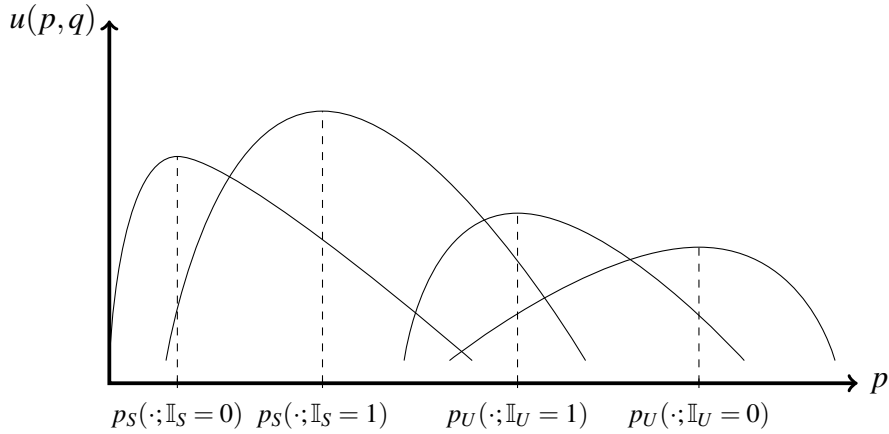
<sup>11</sup>This is a standard theorem in trade theory, and states that a rise in the level of protectionism leads to a rise in the real return to the factor which is used most intensively in the production of import-competing goods (i.e., unskilled labor) and to a fall in the real return to the other factor (i.e., skilled labor).

from identifying with others. As a result,  $i$ 's preferences over protectionism are more moderate. When identity is not activated ( $\mathbb{I}_i = 0$ ), this no longer occurs.

Figure 3 illustrates the previous point. In it, I plot  $i$ 's well-being as function of the level of protectionism. 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  $S$  by Stolper-Samuelson. Note that when identity is not activated, the preferences over tariff policy are comparatively moderate along the free-trade-to-protectionism spectrum (left to right in the x-axis). Thus  $u_i(p, q | \mathbb{I}_i = 0) < u_i(p, q | \mathbb{I}_i = 1)$ . In contrast when identity is activated (for all  $i$ ), preferences over policy are more polarized because individuals only care about their group.

This result shows that there are differences over the preferences for protectionism between skilled and unskilled labor because their policy preferences differ. Moreover, polarization over policy increases when identity activates.

**Figure 3: Individuals' preferences for protectionism**



### 3.1 Political competition

There are two political candidates  $E$  and  $O$  who compete for office by proposing a binding tariff policy; denote  $k = \{E, O\}$ . The candidate with most votes wins.

$O$  is a *populist*; that is an “opportunistic politician” (Section 2).  $E$  is part of the political establishment; I will refer to her more generally as *the establishment*. The difference between these candidates is that the former may use elite cues—campaign speeches, ads, sloganeering, spectacle, etc.—in an attempt to activate (social-class) identity among voters, creating political polarization. Instead, the establishment may try to prevent this from happening by using counter-propaganda.<sup>12</sup>

<sup>12</sup>Counter propaganda is used to discredit candidates that are not from the political establishment (Kaltwasser et al.,

Candidates need to invest costly effort  $e_O \geq 0$  and  $e_E \geq 0$  to find a cue or to use counter-propaganda, respectively. These choices are simultaneous. A cue is successful with probability  $\phi(e_E, e_O)$ , where  $\phi(\cdot)$  is increasing and concave in  $O$ 's effort, and decreasing in  $E$ 's effort. However, both informal and formal institutions can shape this gamble (Section 6).

To activate identity the opportunistic politician needs a mechanism that affects voters' preferences. Among the primitives of the model, manipulating international prices ( $q$ ) and the population shares ( $\lambda$ ) can be prohibitively costly because the opportunistic candidate needs the ability to affect the global and local economic structure by herself. However, politicians often manipulate people's feelings of dissatisfaction because by doing so they can shape, organize and galvanize their political base (De Leon et al., 2020). This means that the populist has the ability to manipulate the degree of inequality aversion ( $\beta_i$ ), and thus the cost of dissonance. If she discovers an effective cue targeted at  $i$ , then  $\beta_i = \tilde{\beta}_i$  such that  $\mathbb{I}_i^{\tilde{\beta}_i} = 0$ , by increasing the cost of dissonance.<sup>13</sup>

When a politician invests time and effort in finding narratives for the political marketplace, she also obtains issue ownership over policy (Petrocik, 1996). This provides an advantage over a policy stance, because the politician becomes the most competent candidate for delivering the policy in the eyes of voters (Egan, 2013). This is valuable for the populist if she is a protectionist vis-à-vis the establishment, because most of the electorate would prefer high protectionism if identity is activated (Figure 3). Further, since by construction the establishment cannot have issue advantage over high protectionism, it must be that she would exhibit an issue advantage over low protectionism. Hence, if the elite cue fails in this case, then high protectionism as a policy stance is a harmful for the populist and thus the populist is punished at the ballot box. I denote the issue advantage by  $\alpha > 0$ , which is a standard assumption used in similar models of electoral politics.<sup>14</sup> In Section 6 I discuss the role of ideology in this regard.

Having the previous in mind, the timing of the game is as follows:

- $E$  and  $O$  simultaneously choose their policy platforms.
- $E$  decides whether or not to invest effort in finding a divisive cue.
- If  $E$  decides investing effort,  $O$  and  $E$  choose their level of effort simultaneously.

2017). For instance, during the 2016 presidential campaign in the U.S., Hillary Clinton ran ads that were mostly devoid of policy content, whose objective was to discredit Donald Trump (Fowler et al., 2016).

<sup>13</sup>This discontinuous jump is neither necessary nor sufficient, but it facilitates exposition.

<sup>14</sup>A costly signaling game could provide an alternative to the contest success function if  $O$  uses a costly signal to convince  $i$  that  $\beta_i$  is higher given some prior about the true  $\beta_i$ . This alternative is less tractable in a model with an open economy, adds fewer additional insights, and eliminates an intuitive aspect behind successful cues: Elite Cues are a gambit whereby the populist's success depends on the level of counter-propaganda by the establishment.

- If the cue is successful (an) identity activates and workers vote for their preferred candidate.
- If the cue is unsuccessful identity does not activate and workers vote for their preferred candidate.
- If  $E$  does not invest effort, there are no cues and workers vote for their preferred candidate.

## 4 Equilibrium

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 elite cues

First, I characterize the sub-game equilibrium where the opportunistic politician does not use cues: If candidates view all voters as having ideological preferences drawn from a common distribution, the equilibrium policy features convergence and the equilibrium policy maximizes the utilitarian social welfare function (Grossman and Helpman, 1996). Hence, using the vote shares as the welfare weights, candidate  $k$ 's optimal policy is

$$p_k = p^w \equiv \underset{p}{\operatorname{argmax}} Y(p) + T(p, q) + \Gamma(p) + \sum_i \lambda_i \mathbb{I}_i \{Y(p) + T(p, q) + \Gamma(p) - \beta_i \lambda_i [\delta(p)]^2\}, \quad (2)$$

where  $p^w$  denotes the welfare-maximizing policy.<sup>15</sup>

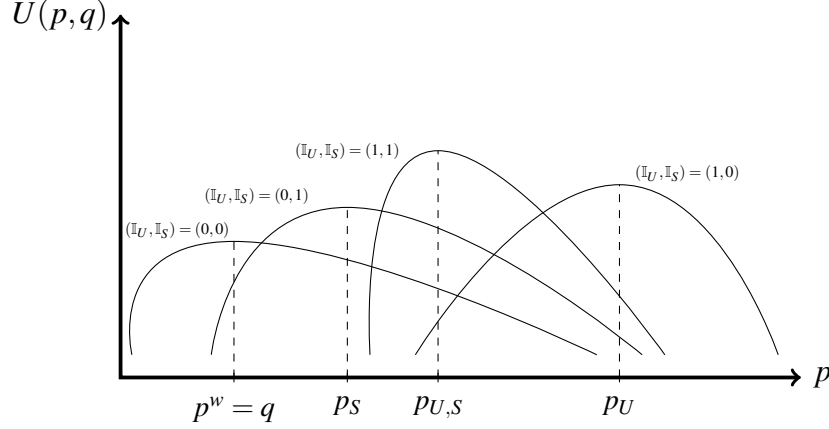
Figure 4 illustrates the utilitarian social welfare functions for different values of the vector  $(\mathbb{I}_U, \mathbb{I}_S)$  as a function of the level of protectionism.<sup>16</sup> Equilibria at  $p^w = q$ ,  $p_U$ ,  $p_S$  and  $p_{U,S}$  are all possible outcomes associated with  $(\mathbb{I}_U, \mathbb{I}_S) = (0, 0)$ ,  $(\mathbb{I}_U, \mathbb{I}_S) = (0, 1)$ ,  $(\mathbb{I}_U, \mathbb{I}_S) = (1, 0)$  and  $(\mathbb{I}_U, \mathbb{I}_S) = (1, 1)$  respectively. Note that  $p^w = q$  when both class identities activate,  $(\mathbb{I}_U, \mathbb{I}_S) = (0, 0)$ , because the optimal policy must be one of free trade. This is a standard result in international trade

<sup>15</sup>The optimal policy maximizes the utilitarian social welfare function wherein the welfare weights are determined by the political clout of the voting blocs. The equilibrium policy possesses similar implications to the median voter's preferred policy because the resulting policy is driven by the group(s) with the largest political clout. This also means that welfare weights need not to depend on population shares.

<sup>16</sup>The socially optimal equilibrium level of protectionism increases if  $U_p(p, q|\cdot, \mathbb{I}_U = 1) = 0$  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  $\beta_S \lambda_S > \beta_U \lambda_U$ .

theory. When identity is not activated,  $p^w > q$  because there is an aversion to inequality, and inequality falls with higher levels of protectionism.

**Figure 4: Tariff policy in equilibrium**



#### 4.1.1 Protectionist populism from the bottom-up

Protectionist populism corresponds to a sharp increase in the level of protectionism. When does this occur? Figure 4 shows that the most protectionist policy emerges when only unskilled voters adopt in-group preferences. Thus let us assume identity is not activated—that is  $(\mathbb{I}_U, \mathbb{I}_S) = (1, 1)$  and the status-quo policy is  $p^w$ . Protectionism increases sharply when the unskilled adopt in-group attitudes  $((\mathbb{I}_U, \mathbb{I}_S) = (1, 0))$ . In the absence of elite cues, this occurs whenever the level of inequality ( $\delta^2$ ) increases faster than the average income ( $\bar{v}$ ). Thus populist protectionism focuses on reducing the level of inequality to the benefit of the unskilled labor at the cost of reducing the average income of society, harming economic growth.

Since I want to understand the effect of import competition on protectionist populism, I analyze when the equilibrium policy becomes more protectionist if imports become cheaper ( $dq < 0$ ). The necessary condition requires that cheaper imports reduce the cost of protection while also boosting the responsiveness of the wage gap to a change in prices (Grossman and Helpman, 2018); see also Lemma 1 below. In other words, if tariffs become less effective for protecting workers in the import-competing sector because the deadweight loss falls, and compensation from government transfers is insufficient for workers, there's a protectionist reaction. Similarly, we should observe a stronger protectionist reaction from workers in industries with a larger import-price pass-through because higher tariffs are ineffective at shifting the demand from imports to local goods. Congruently, I assume that  $\delta''(p) \geq 0$  and  $\Omega''(p) \leq 0$  from here onward.

**Lemma 1.** *If  $\Omega''(p) \leq 0$  and  $\delta''(p) \geq 0$  then  $\frac{d\tau^w}{dq} \frac{q}{1+\tau^w} < 0$ .*



Proof in Appendix A.

Define  $\gamma = \lambda_U \beta_U$  as the *marginal cost of dissonance*.  $\gamma$  increases when both the share of unskilled workers goes up and when unskilled workers care more about inequality. While the former is easy to measure with economic data, the latter is much harder to measure. However, I establish meaningful testable hypothesis in Section 5.1 on the basis of this apparent limitation.

Let us define

$$\gamma_U^{**} = \frac{\bar{v}(p^w, q)}{\delta(p^w)^2} \quad (3)$$

is a critical point such that when  $\gamma_U^{**}$  increases it becomes more likely that unskilled workers adopt in-group attitudes because if  $\gamma_U^{**} > \gamma$  identity activates. A fall in import prices generates a fall in  $\gamma_U^{**}$  when  $d\gamma_U^{**}/dp > 0$ , or equivalently

$$\frac{\delta'(p^w)}{\Omega'(p^w)} > \frac{p^w - q}{2\bar{v}(p^w, q)}.$$

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  $p^w$  is high at the baseline identity profile,  $(\mathbb{I}_U, \mathbb{I}_S) = (1, 1)$ , because inequality would increase fast as a result of an increase in import competition whereas tariff rebates increase slowly. In such a scenario, unskilled workers are not adequately compensated for the decline in their incomes. This lack of compensation is therefore key to understand protectionist populism (e.g., [Ruggie 1982](#)).

## 4.2 The role of elite cues

Recall that elite cues activate identity by increasing the cost of dissonance over the glow that individuals feel from identifying with others by increasing voters' discontent with inequality. Since the unskilled are the largest voting group,  $E$ 's dominant strategy is to target them because this is the cost-effective alternative. Hence skilled workers endogenously take the role of the *elite* whereas the unskilled become the *demos*, in accordance with the literature (Section 2). A successful cue is therefore  $\tilde{\beta}_U$  such that  $\mathbb{I}_i^{\tilde{\beta}_U} = 0$ , creating in-group attitudes in the demos/unskilled labor.

The effectiveness of a cue is a probabilistic outcome. For tractability, let us assume  $\phi_O(\cdot, \cdot)$  follows a standard contest success function:  $\phi_O(e_O, e_E) = \frac{e_O}{e_O + e_E}$ . Recall that  $e$  stands for the amount of resources used to find a cue in the case of the populist ( $O$ ), and the amount of resources used for counter-propaganda in the case of the establishment ( $E$ ).

$i$  maximizes the expected value of holding office net the cost of finding a cue:

$$\operatorname{argmax}_{e_O} R \left[ \pi^I(p_O, p_E; q, \alpha) \phi(e_O, e_E^*) + \pi^{NI}(p_O, p_E; q, \alpha) (1 - \phi(e_O, e_E^*)) \right] - e_O.$$

$\pi^I(\cdot)$  is the populist's probability of winning when the cue is successful, and  $\pi^{NI}(\cdot)$  when it isn't. Recall that the populist receives an issue advantage  $\alpha > 0$  if she discovers a successful cue; this issue ownership is harmful if she fails. The establishment's maximization problem is similar.

Consistent with the literature on elite cues, I assume that the populist (establishment) holds an issue advantage over the establishment (populist) if identity does (does not) activate. However, I do not investigate the implications for equilibrium regarding the size of the issue advantage because this removes our focus from the behavioral incentives of the populist, and places it instead in a rather mechanical feature of elite cues. Hence assume that  $\alpha$  is large enough to generate incentives for investing positive effort into cues and counter-propaganda.

The solutions are symmetric and characterized by

$$e_i^* = \frac{\lambda_U R}{2} \cdot \left[ \vartheta_U(p_E, q | \mathbb{I}_U = 1) - \vartheta_U(p_O, q | \mathbb{I}_U = 1) \right]. \quad (4)$$

The effort invested by both candidates is function of the difference in the psychological well-being from unskilled labor, conditional on the candidates' optimal policies when identity is not activated. This difference captures the electoral benefits from voter polarization if the populist and the establishment run on divergent policy platforms. Note that both candidates invest more effort in finding a cue if the populist can create more political polarization.

A necessary condition for observing cues requires that the populist chooses a policy that is more protectionist than that of the traditional politician, whereas the latter chooses the welfare maximizing policy at  $(\mathbb{I}_U, \mathbb{I}_S) = (1, 1)$  (Lemma 2). This is consistent with the evidence showing that populists are comparatively protectionists (Section 2).

**Lemma 2.** *A necessary condition for  $e_k > 0$ , for all  $k$ , requires that  $p_O > p_E$ , and that  $p_E \equiv p^w$ , and  $p_O$  to be no larger than the autarky price, at identity regime  $(\mathbb{I}_U, \mathbb{I}_S) = (1, 1)$ .*

Proof in Appendix A.

Having the previous in mind, the populist invests effort in finding a cue whenever  $\vartheta_U(p_E, q | \mathbb{I}_U = 1) > \vartheta_U(p_O, q | \mathbb{I}_U = 1)$ , otherwise the cost of using cues is larger than the benefit. Using this ex-

pression and rearranging, define the critical point

$$\gamma_U^* = \frac{\bar{v}(p_E, q) - \bar{v}(p_O, q)}{\delta(p_E)^2 - \delta(p_O)^2}. \quad (5)$$

such that when  $\gamma_U^*$  falls elite cues become more likely because if  $\gamma_U > \gamma$  then both politicians invest positive effort into cues/counter-propaganda. Since the populist must be more protectionist than the establishment, the previous expression implies that protectionist populism is a situation where: *the establishment's policy leads to higher average wage (or economic growth) whereas the populist guarantees lower levels of inequality at the expense of income growth.*

Proposition 1 summarizes the best responses in equilibrium, revealing a counterintuitive implication. The results can be interpreted as follows: The populist has incentives to use elite cues when voter polarization is small ( $\gamma < \gamma_U^*$ ), because by activating identity she generates in-group attitudes in unskilled voters, generating more voter polarization. This in turn increases the expected benefit from using elite cues because the populist guarantees bigger reductions in inequality that favor the unskilled, boosting their political appeal. In contrast, when the cost of dissonance from identifying with others relative to the glow of doing is higher ( $\gamma > \gamma_U^*$ ), there are no incentives to use elite cues. In this case, the amount of additional polarization that cues create is too low, thus the expected benefit from using them is too low as well. Therefore the populist behaves like a more traditional party.

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

- i) If  $\gamma_U > \gamma_U^*$ : the vector  $(p_E, p_O, e_E, e_O) \equiv (p^w, p^w, 0, 0)$  characterizes the SPNE.
- ii) If  $\gamma_U < \gamma_U^*$ : the vector  $(p_E, p_O, e_E, e_O) \equiv (p^w, p_O, e_E^*, e_O^*)$  where  $e_E^*$  and  $e_O^*$  are defined as in Equation 4. The equilibrium policy is  $p_O$  with probability  $\pi_E^l(p_E, p_O; q, \alpha)\phi_O(e_E^*, e_O^*)$ , and it is  $p^w$  otherwise.

*Proof.* Proof in the text. □

Since  $\gamma_U^{**} > \gamma_U^*$  (Corollary 1), if the cost of dissonance is very high ( $\gamma > \gamma_U^{**}$ ), unskilled workers adopt in-group attitudes because identity activates. Nevertheless, because there are no incentives to invest effort in elite cues, both the populist and the establishment's best response is to converge to a more protectionist platform vis-à-vis the baseline where identity is not activated. Thus high levels of protectionism can emerge from the bottom-up (Section 4.1.1).

**Collorary 1.**  $\gamma_U^{**} > \gamma_U^*$

*Proof.* The proof follows directly from the proof for Lemma 2. □

The results above also capture the stylized fact that populists are not necessarily political outsiders, but rather political opportunists that adopt extreme political views for electoral purposes (Proposition 1). For instance, think about two of the most successful populist radical right parties in western Europe: the Freedom Party of Austria and the Swiss People’s Party, which started out as traditional, mainstream parties. Party leaders Jorg Haider and Christopher Blocher transformed them into radical parties. Moreover, they also accept the possibility that even establishment parties may converge to the positions adopted by populists (Corollary 1).

#### 4.2.1 Protectionist populism from the top-down

Does protectionist populism emerges from import competition via the use of elite cues? I have posited that elite cues are an important mechanism whereby import competition increases the likelihood of protectionist populism. Hence I analyze if the critical point  $\gamma_U^*$  falls when imports become cheaper ( $dq < 0$ ). I find that indeed  $\gamma_U^*$  increases in response to more import competition, furthermore politicians’ effort on elite cues and counter-propaganda also increases (Lemma 3).

**Lemma 3.** *Both  $\gamma_U^*$  and  $e_k^*$  (for all  $k$ ) increase in response to an improvement in the terms of trade.*

*Proof.* Proof in Appendix A. □

Since  $\gamma_U^{**} > \gamma_U^*$ , the increase in the level of import competition for observing bottom-up protectionist populism must be larger than the one needed for top-down protectionist populism. Top-down protectionist populism emerges instead when there is an opportunity to boost voter polarization. Hence top-down protectionist populism does not need large import shocks to generate extreme protectionism; bottom-up protectionist populism is thus a rarer phenomenon.

This finding is congruent with the idea that social movements need to develop a frame through which they define the relevant social grievance affecting society. Grassroots movements, for instance, need to define a common identity and a common enemy, relying on its capacity to interpret a widespread feeling of anger with the status quo, for which the solution lies in the (sovereign) masses. Some examples include the “we are the 99%” movement or “indignados” in Spain. However, finding a frame is difficult because social movements need to aggregate preferences and define who is friend and who is not. In this regard, major events—such as economic crises—can create a focal points that generate an organic social movement (Fukuyama, 2018). A crisis is unnecessary for populists—they only need an opportunity to create polarization for their electoral benefit

(Hawkins et al., 2018; Eguia and Giovannoni, 2019). In other words, populists create a focal point that can address collective action problems that are present in bottom-up movements.

## 5 Activating ethnic identity

Identities are multidimensional social constructs, and politicians may build electoral support by appealing to more than one dimension of voters' identity. Populists, for instance, may exclude certain social groups from being considered worthy of protection from international competition, refining the demographic composition of the demos. This is possible because the composition of the demos is not predetermined, it is malleable and the populist plays an active role in shaping it. Indeed, populists have refined the demographic composition of this group to exclude ethnic minorities, even if the latter are affected by import competition (Guisinger, 2017; Van der Waal and De Koster, 2018; Smith and King, 2021). In developed countries, these ethnic minorities are often defined as all other individuals than are not native; this often means non-whites and individuals that are not from European descent (Jardina, 2019).

For tractability and to facilitate interpretation, I analyze populists' incentives to use elite cues when there are two identities: social class and ethnicity. These identities are amongst the most relevant ones, both economically and socially, and also in the study of protectionist populism. However ethnicity is broadly defined in terms of the existence of an ethnic majority and an ethnic minority, whereby the composition of these ethnic groups is not fixed. Hence for the purposes of interpretation, the exact definition of an ethnic minority (or majority) is context independent.

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  $\sum \lambda_l = 1$  (Table 1).  $\lambda_U > \lambda_S$ , consistent with the previous model, and  $\lambda_m > \lambda_n$  such that ethnic minorities are the smallest ethnic group regardless of their skill type. For tractability, I assume that the marginal productivity of labor is the same for any ethnicity belonging to the same skill group, hence  $\omega_m(\cdot) = \omega_n(\cdot)$ .

**Table 1: Group shares**

Group	Unskilled	Skilled	Total
Minority	$\lambda_{Un}$	$\lambda_{Sn}$	$\lambda_n$
Majority	$\lambda_{Um}$	$\lambda_{Sm}$	$\lambda_m$
Total	$\lambda_U$	$\lambda_S$	1

Voters' maximization problem is similar as before:

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

If workers' identities are activated, their preferences for protectionism within-group are the same because workers have the same marginal productivity within skill-group regardless of their ethnicity. If identity is not activated, there are differences in the preferences within skill-group. These differences are determined by the group-specific level of discontent with inequality ( $\beta_l$ ) and their share in the population ( $\lambda_l$ ).

The game is the same one as before (Section 3.1), and no identity is activated at the baseline:  $(\mathbb{I}_{Um}, \mathbb{I}_{Un}, \mathbb{I}_{Sm}, \mathbb{I}_{Sn}) = (1, 1, 1, 1)$ . In this case the populist can use his effort and resources to target four groups with elite cues instead of two. Candidate  $k$ 's utility function is thus given by:

$$\operatorname{argmax}_{\mathbf{e}_k} E[R|\mathbf{p}, \mathbf{e}; q, \alpha] - \sum_j e_k^j, \quad (6)$$

where the bold letters denote vectors. Proposition 2 summarizes the equilibrium results.

**Proposition 2.** *The SPNE of the game described above is:*

- If  $\lambda_{Um} > 1/2$  and  $\gamma_{Um} > \gamma_{Um}^*$  then  $e_k^{Um} = 0$ ,  $e_k^{Un} = 0$  and  $e_k^{S\cdot} = 0$  and the equilibrium policy is  $p^w$  at identity profile  $(\mathbb{I}_{Um}, \mathbb{I}_{Un}, \mathbb{I}_{Sm}, \mathbb{I}_{Sn}) = (1, 1, 1, 1)$ .

*Otherwise:*

- If  $\lambda_{Um} > 1/2$  and  $\gamma_{Um} < \gamma_{Um}^*$  then  $e_k^{Um} > 0$ ,  $e_k^{Un} = 0$  and  $e_k^{S\cdot} = 0$ .
- If  $\lambda_{Um} < 1/2$ , then:
  - If  $\gamma_{Um} < \gamma_{Um}^*$  and  $\gamma_{Un} > \gamma_{Un}^*$  then  $e_k^{Um} > 0$ ,  $e_k^{Un} = 0$  and  $e_k^{S\cdot} = 0$ .
  - If  $\gamma_{Um} > \gamma_{Um}^*$  and  $\gamma_{Un} < \gamma_{Un}^*$  then  $e_k^{Um} = 0$ ,  $e_k^{Un} > 0$  and  $e_k^{S\cdot} = 0$ .
  - If  $\gamma_{Um} < \gamma_{Um}^*$  and  $\gamma_{Un} < \gamma_{Un}^*$  then  $e_k^{Um} > 0$ ,  $e_k^{Un} > 0$  and  $e_k^{S\cdot} = 0$ .

Furthermore,  $p^O$  is the equilibrium policy, conditional on the resulting identity profile, with probability  $\pi_E^I(p_E, p_O; q, \alpha)\phi(\mathbf{e}^*)$ , and it is  $p^w$  otherwise.

Proof in Appendix A.

Proposition 2 can be interpreted as follows: Although unskilled workers are still the largest group, when we consider ethnicity the populist may have incentives to only target the unskilled

ethnic majority ( $Um$ ) with elite cues, if this is the cost-effective alternative. If  $\lambda_{Um} \geq 0.5$  the dominant strategy is to activate in-group attitudes in the unskilled ethnic majority, because their support is sufficient to win the election. Thus if the marginal cost of dissonance is below the critical value because polarization is low enough among the ethnic majority, the populist uses elite cues. This increases polarization to the benefit the populist politician because she is an extreme protectionist.

In this scenario, the populist guarantees big reductions in inequality that favor the unskilled ethnic majority, although this may come at the cost of the votes from the unskilled ethnic minority. Although unskilled minorities are protectionist, they moderate their preferences for protectionism because they care about the other members of the population. As a result, the populist does not consider ethnic minorities as citizens' worthy of his effort to shape his political base.

In contrast, when  $\lambda_{Um} < 0.5$ , the populist has incentives to target other voting blocs using elite cues. However, she targets the unskilled workers since for all other permutations she has incentives to deviate, because these do not maximize the expected return to effort. If the discontent with inequality is low in both groups and similar, then the populist has incentives to activate identity in all unskilled workers using elite cues because she can create substantial polarization to her benefit, and protectionism is more extreme than in the previous case. This occurs because successful elite cues generate a social-class cleavage insofar as the ethnic minorities are part of the winning coalition, whereby polarization increases (Section 3). If ethnic minorities are not targeted because it is not cost-effective, they may still support the populist with probability of a coin toss because both candidates set their policy to make these voters indifferent – hence some ethnic minorities may still vote for the populist – rationalizing the use of elite cues.

A limitation of this set-up is that  $\beta_l$  may not be measurable. Thus it can be difficult to determine whether the cost of dissonance is larger (or smaller) for the ethnic majority vis-à-vis the ethnic minority. However, I address this limitation next. What we can conclude is that a fall in import prices ( $dq < 0$ ) increases the likelihood of using elite cues by Lemma 3.<sup>17</sup>

## 5.1 Ethnic diversity to proxy the cost of dissonance

Assume that  $\beta_U = \beta_u$ , thus any worker with the same skill level faces the same level of discontent with inequality. For simplicity, assume that this parameter is normalized to one. Therefore the cost of dissonance for any group  $j$  only depends on the share of the group in the population ( $\lambda_j$ ). That is, worker diversity or voter diversity—which are widely measured—can be used to redefine

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<sup>17</sup>Recall that the social welfare function is a weighted average of the individual functions. This allows me to characterize separately the relevant comparative statics; the lemma thus holds for two cross-cutting groups.



straightforwardly the equilibrium outcomes because  $\gamma_j = \lambda_j$ ; see Proposition 3.

**Proposition 3.** *The SPNE of the game is:*

- If  $\lambda_{Um} > 1/2$  and  $\lambda_{Um} < \lambda_{Um}^*$  then  $e_k^{Um} = 0$ ,  $e_k^{Un} = 0$  and  $e_k^{S^*} = 0$ .

*Otherwise:*

- If  $\lambda_{Um} > 1/2$  and  $\lambda_{Um} < \lambda_{Um}^*$  then  $e_k^{Um} > 0$ ,  $e_k^{Un} = 0$  and  $e_k^{S^*} = 0$ .
- If  $\lambda_{Um} < 1/2$ , then:
  - If  $\lambda_{Um} < \lambda_{Um}^*$  and  $\lambda_{Un} < \lambda_{Un}^*$  then  $e_k^{Um} > 0$ ,  $e_k^{Un} = 0$  and  $e_k^{S^*} = 0$ .
  - If  $\lambda_{Um} > \lambda_{Um}^*$  and  $\lambda_{Un} < \lambda_{Un}^*$  then  $e_k^{Um} > 0$ ,  $e_k^{Un} > 0$  and  $e_k^{S^*} = 0$ .

$p^O$  is the equilibrium policy, conditional on the resulting identity profile, with probability  $\pi_E^I(p_E, p_O; q, \alpha)\phi(\mathbf{e}^*)$ , and it is  $p^w$  otherwise.

Proof in Appendix A.

Proposition 3 facilitates measurement because the cut-off strategies that define the equilibrium outcomes are defined in terms of population shares. Furthermore, this simplification is useful for other practical matters:  $\lambda_l$  is a good proxy for  $\gamma_U$ . if  $\lambda_U$ . and  $\beta_U$ . are positively correlated across geographical areas. If this is not the case,  $\lambda_U$ . measures  $\gamma_U$ . with error. Hence if we observe polarization, extreme protectionism and (little to) no effort on elite cues (violating Proposition 3), then it must be that at least  $\beta_{Um}$  is high and negatively correlated with  $\lambda_{Um}$ . In other words, the assumption that  $\beta_U$ . is constant is violated. Thus identity has to be activated from the bottom up because elite cues are not mediating the effect of import competition on protectionism.

Another implication of using vote shares to proxy for the cost of dissonance is that they moderate the effect of import competition on the incentives to use elite cues: By Lemma 3 we know that the populist is more likely to invest in elite cues in response to lower import prices ( $dq < 0$ ), because  $\lambda_{Um}^*$  and  $\lambda_{Un}^*$  are growing with higher import competition. In other words, the populist can reduce inequality sharply to the benefit of unskilled labor with extreme protectionism, and thus the expected return of increasing polarization goes up. This implies in turn that an increase in the share of ethnic minorities, ceteris paribus, raises that probability that the populist uses elite cues to activate identity in the unskilled ethnic majority. He does not activate identity in the unskilled ethnic minority because the expected benefit from creating ethnic polarization increases. That is, the cost-effective strategy for the populist is to activate identity in the unskilled ethnic majority.

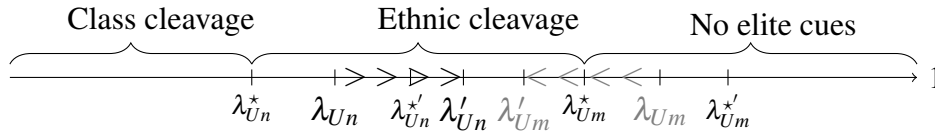
Therefore the likelihood of observing an ethnic cleavage in protectionist populism goes up if the share of unskilled ethnic minorities raises (Corollary 2).

**Collorary 2.** *A rapid increase in the share of ethnic minorities increases the probability that the populist uses elite cues to activate identity only for the unskilled ethnic majority, in response to increasing import competition.*

*Proof.* In the text. □

Figure 5 illustrates the previous finding: To keep things simple, the  $x$ -axis illustrates the best responses of the populist for different shares of unskilled labor, accounting for ethnicity on the basis of Proposition 3. Consider an increase in the share of unskilled ethnic minorities, from  $\lambda_{Un}$  to  $\lambda'_{Un}$  (black arrows), that reduces the share of the unskilled ethnic majority from  $\lambda_{Um}$  to  $\lambda'_{Um}$  (gray arrows). An increase in import competition moves the critical point,  $\lambda_{Un}^*$  and  $\lambda_{Um}^*$ , to the right to  $\lambda_{Un}^*$  and  $\lambda_{Um}^*$ . Before the increase in diversity in the unskilled group, none of the identities were activated because  $\lambda_{Un} > \lambda_{Un}^*$  and  $\lambda_{Um} > \lambda_{Um}^*$ . After the increase we have that  $\lambda_{Un} > \lambda_{Un}^*$  and  $\lambda_{Um} < \lambda_{Um}^*$ . Hence the populist has incentives for using elite cues to make identity salient in the unskilled ethnic majority as a response to more ethnic diversity and import competition, but not in the unskilled ethnic minority. *Thus ethnic diversity raises the likelihood populist protectionism thrives on an ethnic cleavage, which regards the ethnic majority as the only citizens worth of consideration, even though ethnic minorities also lose from international competition.*

**Figure 5: Elite cues as a function of the population shares**



## 6 Extensions

### 6.1 The role of Institutions

We now relax the assumption that both candidates face symmetric costs; i.e., populists may face a higher cost due to the institutional environment: Mainstream parties often use formal political institutions such as the courts, the media and supranational institutions to ostracize divisive political leaders (Norris and Inglehart, 2019). 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, attacking parties with opposite ideologies such as the right-wing *Die Republikaner* and the *Die Linke* (Mudde and Kaltwasser, 2017). Likewise, other institutions like labor unions can increase the opportunity cost of populist politics by providing information and support to workers (Balcazar, 2023b). I operationalize this notion by assuming that the populist pays a marginal cost of  $\gamma_O^j \geq 1$  for every unit of effort, whereas  $\gamma_E^j = 1$ , for all  $j$ .

Therefore  $k$  faces the following maximization problem:

$$\arg\max_{\mathbf{e}_k} E[R|\mathbf{p}, \mathbf{e}; q, \alpha] - \sum_j \gamma_k^j e_k^j, \quad (7)$$

Since  $\gamma_E^j = 1$ , and therefore it is straightforward to prove that an increase in  $\gamma_O^j$  can reduce the equilibrium level of effort (i.e.  $\delta e_O^{*j} / \delta \gamma_O^j \leq 0$ ). In other words, the existence of formal or informal institutions that increase the amount of effort a populist needs to invest to find an elite cue should reduce the likelihood of populist protectionism, especially if these institutions increase the amount of effort to target elite cues over the losers from trade, particularly the ethnic majority.

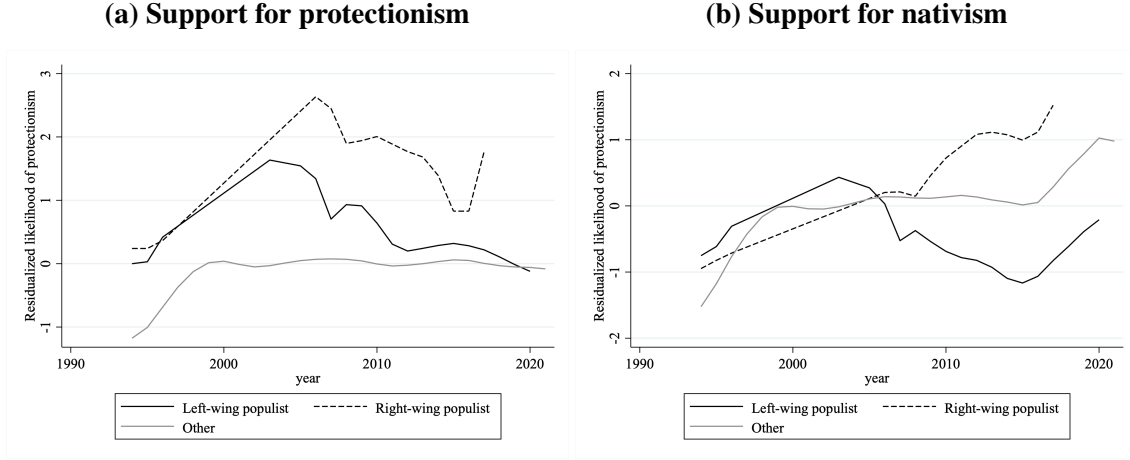
## 6.2 The role of ideology

Protectionism has been historically a policy advocated by left- in relation to the right-wing populists, while right-wing populists are usually more nativist (Figure 6). This is captured by the model because although the issue advantage over protectionism could be higher for a left-wing populist vs. a right-wing one, in equilibrium the effect of the issue advantage is null insofar as in expectation failing to find a successful cue is harmful. Nevertheless, we can think about differences between left and the right populists in terms of the differential cost of effort; i.e. if  $\gamma_O^{Um}$  is comparatively smaller for a right-wing populist whereas  $\gamma_O^{Un}$  it is comparatively lower for a left-wing populist. In this case, the right-wing populist will put in more effort into creating an ethnic cleavage, whereas a class-cleavage becomes more likely with the left-wing populist. This means that if cues are successful left-wing populists are endogenously more protectionist than right-wing ones, because by not activating the ethnic identity, polarization is lower between the winners and losers from trade in the case of right-wing populism, capturing the empirical regularity.<sup>18</sup>

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<sup>18</sup>Left-wing populists are more likely to convert their policy platforms into higher levels of protectionism vis-à-vis right-wing populists (Figure A2). While this can be captured in a citizen-candidate setting (Besley and Coate, 1997), it doesn't provide relevant additional insights to the ones herein.

**Figure 6: Protectionism and nativism, by political ideology**



**Note:** A description of this data can be found in Appendix B.

## 7 Empirical implications

**Self-selection and mediators.** It is hard to study populist protectionism because this phenomenon is endogenous to the political incentives of politicians. Hence there is an inherent problem of self-selection because populist protectionism is identified ex-post. Therefore, although it makes sense to study the direct effect of import competition on economic nationalism as many have done, it is harder to assess the external validity of these results. Additionally, these studies often overlook the behavioral mechanisms by which populist protectionism takes place, by design.

These limitations justify the use of theory to understand this phenomenon better. The model herein provides an alternative to bypass these issues because we can study populist protectionism by analyzing politicians' effort on elite cues during the campaign trail by looking at campaigning activities and TV ads (e.g., [Katitas 2021](#); [Balcazar 2023b](#)). This is relevant because populist protectionism is unlikely to emerge without elite cues—which is perhaps the most important political mechanism discussed in the literature about populism ([Hawkins et al., 2018](#)). Elite cues are thus a relevant mediator in the causal chain from import competition to protectionism, taking into account the endogenous nature of populism. By being an intermediate outcome itself, we should study the effect of import competition on politicians incentives to use elite cues.

**Heterogeneity and moderators.** Ethnic heterogeneity moderates the effect of international competition on populist protectionism (Corollary 2). The model suggests that ethnic diversity pre-dating an import shock increases the likelihood of observing elite cues and populist protectionism more generally. In this regard, diversity can be measured using the demographic composition of the

voting population and also the demographic composition of the population of workers—although this latter proxy is imperfect. Additionally, there are other proxies that can moderate the effect of protectionism but that may be harder to measure like the level of inequality between groups before the shock relative to the average income, and measures of identity salience that proxy  $\beta$ .<sup>19</sup>

The analysis of the model also suggests that we can distinguish populist protectionism from the bottom-up, from top-down populist protectionism. If we observe populist protectionism but no elite cues, this means that populist protectionism emerges from the bottom-up (Section 5.1). This can be subject to empirical scrutiny in four possible ways: Places where we observe little to no elite cues are those where i) Voters are very polarized and protectionist on average preceding an import shock, or ii) Voters experience bigger shocks relative areas with no elite cues, or iii) Policy is ineffective at reducing the demand for imports, or iv) The government cannot properly compensate workers in the import competing sector.

Lastly, when tariff policy is ineffective at protecting workers from the negative effects import competition, protectionist populism becomes more likely. This is a consequence of Lemma 1, which indicates that when import prices' pass-through is more complete, higher tariffs are not very effective at shifting the demand from imports to local goods (e.g., [Fajgelbaum et al. 2020](#)). Therefore increasingly more protectionism is needed to protect workers in the import competing sector. This can occur for instance when there are few substitutes for import competing goods.

**Measurement and confounding.** The extant evidence uses net imports from China as a measure for import competition to study populist protectionism. However it is often difficult to control for unobserved factors affecting both the demand for foreign products, and local changes in politics, in this research design. My findings suggests that we can use prices—measures of import pass-through—to generate an alternative measure to study the effect of import competition on populism and protectionism. This is useful for empirical analysis because shocks to international prices can be used as a quasi-exogenous source of variation to estimate the effect of import competition on populist protectionism, by exploiting price shocks. This can also open the possibility to study the effects of other import shocks, such as increasing import prices due to the impact of COVID-19 on supply chains, due to the impact of the red-sea crisis of 2024 on maritime costs, or due the impact of war such as the Ukraine-Russia war.

Regarding confounding, it is important to recognize that other sources of international economic competition that increase the wage gap between skilled and unskilled workers, such as offshoring and automation, can provide incentives for populists to use elite cues insofar as they usually affect unskilled labor relative to skilled labor. In an empirical analysis, such as a regres-

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<sup>19</sup>A potential option to measure this parameter is using monuments because they capture salient ethnic divisions at the baseline (e.g., [Rahnama 2023](#)).

sion, we would address the effect of these other structural shocks by including them in the regression equation as pre-treatment controls. For example, empirically, [Balcazar \(2023a,b\)](#) show that import competition has an independent effect on numerous political outcomes conditional on automation and offshoring, and viceversa. In fact the scope conditions for these shocks are markedly different: Automation and offshoring are local labor-replacing shocks, but firms need to address the high fixed costs associated to both offshoring and automation (e.g., building a factory abroad or buying industrial robots). Thus they are more likely to affect workers in more competitive firms vis-à-vis less competitive firms. Moreover, Lemma 1 herein indicates that import competition has a distinctive implications. For instance, the local shock travels directly through the prices of imports instead of through the re-structuring of production activities that directly affect the demand for labor across industries instead of only import competing ones. Further, import prices reflect import taxes, which are subject to tariffs which can be used for redistribution through social welfare and unemployment programs such as the Trade Adjustment Assistance in the US ([Kim and Pelc, 2021b,a](#)). These implications, including the scope conditions in the discussion above, establish testable implications for the mechanism considered herein that can be unique to import competition.

**Survey experiments.** International Political Economy scholars have focused substantial resources and effort into trying to understand the impacts of import competition on voters’ policy preferences for protectionism, and when do these preferences reflect a salient ethnic division (e.g., [The Niehaus Center 2022](#)). Often the set-up in these papers involves a priming or informational cue, where voters are faced with a negative or positive or neutral framing regarding the impact of import competition. In some cases, this cue is also meant to elicit a behavioral response along the lines of identity by priming it in the intervention. In other words, these cues change artificially the level of  $\beta$  herein via priming in randomized setting.

These experiments often find that when the identity of the respondent and the priming cue align, which is equivalent to saying that  $\beta_l$  changes for group  $l$ , the treatment generates an effect. While this is informative about the impact of randomized cues on voters preferences over protectionism, they ignore the incentives of politicians in equilibrium to provide elite cues – the when, where and why – which are assessed in the model herein.<sup>20</sup> Further, these experiments emerged from the salience of an ethnic division insofar as we are currently living in a time where these type of elite cues that are meant to be divisive abound, and many have been successful. Thus it is hard to determine whether these treatments would work outside of the scope conditions defined by the controlled setting and the time they take place at, because they do not necessarily incorporate

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<sup>20</sup>Another way to think about this is in the context of cheap talk, where the types that react are those whose type is more likely to which occurs only when the treatment and the type of the respondent are aligned, however costly effort (or signaling) would be better suited to address this because populism is not cheap.

the human factor of strategic behavior. While these shortcoming can be addressed by finding inspiration in the literature on lab-experiments which is concerned with the understanding the primitives of behavior ([Morton and Williams, 2010](#)), more observational work is needed insofar as observational data naturally reflects equilibrium results.

## 8 Conclusions

I established microfoundations to understand the role of elite cues in populism and extreme protectionism, and why sometimes we observe populist protectionism along the lines of class and why sometimes it involves ethnic identity. Elite cues are politically consequential because they activate voters' social identities. I show that voters become more polarized when their identities activate because they adopt in-group attitudes. As a result, those identity groups whose livelihoods have been affected by import competition demand higher levels of protectionism. Voter polarization benefits the populist because she endogenously adopts an extremely protectionist policy platform to exploit a potentially political beneficial cleavage between the demos and the elite. Populists, however, do not target ethnic minorities with elite cues when they are not indispensable for winning an election because finding a successful cue is costly, requiring effort and resources, thus the populist seeks the most cost-effective option for electoral success even if this costs her votes. However, when this occurs extreme protectionism is moderated because polarization is less extreme than in a case where populism only runs on class differences, regardless of ethnic affiliation.

I also show that higher international competition is generally insufficient to generate demands for protectionist populism in the absence of elite cues because the observed level of import competition may be insufficient to justify extreme protectionism without the intervention of a third party. I show that only when higher tariffs do little to shift domestic demand towards local goods and redistribution schemes – such as poor trade adjustment assistance – are very weak, we should observe protectionist populism from the bottom-up.

My model also reveals pathways to empirically examine protectionist populism by establishing numerous testable scope conditions for empirical analysis and suggestions for better measurement an analysis. In this regard, we can learn much from estimating the impact of import prices, and their rate of pass-through, on the effort and resources that politicians invest in elites cues—including campaign rallies, TV ads, and other forms of political propaganda— using observational data. Therefore, the findings herein not only enrich our theoretical understanding of populist protectionism, but they also provide alternatives to enrich the empirical analysis in this regard.



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# Appendices

## **A Mathematical appendix**

## **B Appendix: data and empirics**

B.1	Populism	1
B.2	Positions on import tariffs and import-tariff policy	2
B.3	Additional analyses	3

## A Mathematical appendix

*Proof of Lemma 1.* Calculate  $\frac{d\tau_i^w}{dq}$ . Rearranging terms

$$\frac{d\tau_i^w}{dq} \frac{q}{1+\tau^w} = -1 + \frac{(1+\mathbb{I}_i)q\Omega'(p^w)}{p^w U''(p^w, q)}. \quad (\text{A.1})$$

This right-hand side takes a negative value whenever  $\delta''(p) \geq 0$  and  $\Omega''(p) \leq 0$ .  $\square$

*Proof of Lemma 2.* Assume

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

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

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

*Case 2:*  $\bar{v}^N(p_E, q) > \bar{v}^N(p_O, q)$  and  $\delta(p_E) < \delta(p_O)$ . 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  $p^w \geq p_E > p_O$ .

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

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

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

Since  $p_E > p_O$  in this case, this means that the distance between  $p_O$  and  $p_E$  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  $p_O$  must be as close as possible to  $p^w$  because  $p_E$  cannot be larger than the autarky price ( $p^A$  s.t.  $\Omega(p^A) = 0$ ). Furthermore,  $p_E \leq 2(p_U - p_E)$ . Hence  $p_E = \min\{p^A, 2(p_U - p^w)\}$ . However, since it must be that  $p_O > p^w$ ,  $E$  always has incentives to deviate because she always wants to get

infinitesimally closer to  $p^w$ . Thus  $p_E > p_O$  cannot be an equilibrium.

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

Finally, it must be that

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

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

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

Therefore it must be that

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

which is the same as

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

Since  $\bar{v}^N(p^E, q)/\delta(p^E)^2 > \beta_U$  then

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

□

*Proof of Lemma 3.* Using the implicit function theorem and the chain rule:

$$\begin{aligned} \frac{d\beta_U^*}{dq} = & \frac{(p_E - q)\Omega'(p_E)(1 + \tau_E) - (p_O - q)\Omega'(p_O)(1 + \tau_O) + \tau_O\Omega(p_O) - \tau_E\Omega(p_E)}{\delta(p_E)^2 - \delta(p_O)^2} \\ & - \frac{[\bar{V}^N(p_E, q) - \bar{V}^N(p_O, q)][2\delta(p_E)\delta'(p_E)(1 + \tau_E) - 2\delta(p_O)\delta'(p_O)(1 + \tau_O)]}{[\delta(p_E)^2 - \delta(p_O)^2]^2}. \end{aligned}$$

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

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



and

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

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

Dividing the previous sufficient conditions and re-organizing:

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

Then 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  $e_k^*$  also depends on the ratio

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

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

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

for all  $k$ . □

*Proof of Proposition 2. Case 1:*  $\lambda_{Um} > 1/2$ . Since the maximization problem for candidate  $k$  is additively separable, the optimal levels of effort are characterized by

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

and  $e_k^{Un*} = e_k^{Sn*} = e_k^{Sm*} = 0$ . Therefore it is straightforward to corroborate that there exists a critical point  $\gamma_{Um}^* > 0$  such that when  $\gamma_{Um} < \gamma_{Um}^*$  then  $e_k^{Um*} > 0$ , with  $\gamma_{Um} = \beta_{Um}\lambda_{Um}$ .

The SPNE is therefore:

i) If  $\gamma_{Um} > \gamma_{Um}^*$ : the vector  $(p_E, p_O, e_E^{Um}, e_E^{Un}, e_E^{Sm}, e_E^{Sn}, e_O^{Um}, e_O^{Un}, e_O^{Sm}, e_O^{Sn}) \equiv (p^w, p^w, 0, 0, 0, 0, 0, 0, 0, 0)$  characterizes the SPNE.

ii) If  $\gamma_{Um} < \gamma_{Um}^*$ : the vector

$$(p_E, p_O, e_E^{Um}, e_E^{Un}, e_E^{Sm}, e_E^{Sn}, e_O^{Um}, e_O^{Un}, e_O^{Sm}, e_O^{Sn}) \equiv (p^w, p_O, e_E^{Sm*}, e_E^{Sn*}, e_O^{Um*}, e_O^{Un*}, e_O^{Sm*}, e_O^{Sn*}),$$

characterizes the SPNE.

The social welfare function is a weighted average of the group-level functions and unskilled workers always prefer more protectionism vis-à-vis skilled labor, regardless of their ethnicity. Thus the equilibrium policy is  $p_O > p^w$ —by extending Lemma 2 to two cross-cutting groups—with probability  $\pi_E^I(p_E, p_O; q, \alpha)\phi(\mathbf{e}^*)$ , and it is  $p^w$  otherwise.

**Case 2:**  $\lambda_{Um} < 1/2$ . Since the maximization problem for candidate  $k$  is additively separable, the optimal levels of effort are given by

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

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

and  $e_k^{Sn*} = e_k^{Sm*} = 0$ . Therefore there exist critical points  $\gamma_{Um}^* > 0$  and  $\gamma_{Un}^* > 0$  such that when  $\gamma_{Um} < \gamma_{Um}^*$  then  $e_k^{Um*} > 0$ , and when  $\gamma_{Un} < \gamma_{Un}^*$  then  $e_E^{Un*} > 0$ . The equilibrium policy is  $p_O > p^w$  by Lemma 2, conditional on the resulting identity profile, with probability  $\pi_E^I(p_E, p_O; q, \alpha)\phi(\mathbf{e}^*)$ , and it is  $p^w$  otherwise.  $\square$

*Proof of Proposition 3.* Set  $\gamma_l = \lambda_l$ , and this proof follows directly from Proposition 2.  $\square$

## B Appendix: data and empirics

I elaborate the empirical figures in this paper using a wide collection of data from different sources regarding populism and trade policy, at the party-country-year level, that is comparable across countries and has a long time coverage. I only use this data at the country-year level when focusing on actual government policy, by restricting myself to party or coalition in power. I describe these data below.

### B.1 Populism

The main data on populists comes from Funke et al. (2023), <sup>B.1</sup> which spans more than 100 years and 60 large countries. The database also codes these leaders length of tenure and political orientation (Left versus Right). Not only these data set is the most comprehensive one historically but the definition of populism is commensurate with the one used herein: populis is a political style that centers on an alleged conflict between “the people” and “the elites” (Section 2). These data is cross-checked using different populist leader lists, which have more limited time spans, in particular those by Hawkins et al. (2019); Edwards (2019); Kyle and Meyer (2020); and Magud and Spilimbergo (2021). Classifications display a high rate of agreement, especially vis-à-vis one of the most widely used measures of populism, by Hawkins et al. (2019).<sup>B.2</sup> Left- and right-wing populists are distinguished by whom they attack: left-wing attack economic elites or foreigners and minorities, and the political elites protecting them; right-wing populists predominantly frame their populist discourse in cultural terms and target a third group – foreigners and ethnic and religious minorities, who supposedly threaten the national identity and culture.

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<sup>B.1</sup>Funke, M., Schularick, M., and Trebesch, C. (2023). Populist leaders and the economy. *American Economic Review*, 113(12), 3249-3288.

<sup>B.2</sup>Hawkins, Kirk A., Rosario Aguilar, Bruno Castanho Silva, Erin K. Jenne, Bojana Kocijan, and Cristobal Rovira Kaltwasser. 2019. “Measuring Populist Discourse: The Global Populism Database.” Paper presented at the 2019 EPSA Annual Conference in Belfast, UK, June 20–22.

Edwards, Sebastian. 2019. “On Latin American Populism, and Its Echoes around the World.” *Journal of Economic Perspectives* 33 (4): 76–99.

Kyle, Jordan, and Brett Meyer. 2020. “High Tide? Populism in Power, 1990-2020. ” London: Tony Blair Institute for Global Change.

Magud, Nicolas, and Antonio Spilimbergo. 2021. “Economic and Institutional Consequences of Populism.” CEPR Discussion Paper DP15824.

## B.2 Positions on import tariffs and import-tariff policy

To measure the positions on trade policy I use data from the Manifesto Project, which measures the policy positions of all relevant parties competing in any democratic election in the post-World-War-II period for the following countries: OECD and EU members, Central and Eastern Europe, Latin America and South Africa.<sup>B.3</sup> These manifestos allows for measurement of party and presidents' policy positions across countries and elections within a common framework. Manifestos are understood to be parties only and presidential candidates' main authoritative policy statements and therefore serve as indicators of the parties' policy preferences at a given point in time.<sup>B.4</sup>

To measure actual policy, I use data from Clemens and Williamsom (2004), Glick et al. (2010), and Flores (2022).<sup>B.5</sup> From this data we glean data on average tariff rates, which are calculated as the total revenue from import duties divided by the value of total imports in the same year. In some cases, the sources used do not distinguish between import and export duties, and report total customs duties only. Total customs duties are used in the calculation of average tariff rates (instead of import duties) for countries where the value of export duties has historically been an insignificant share of total customs duties. However, since the time coverage for this data is limited, I also measure the restrictiveness of a country's trade policy is important. The measure covers an unbalanced panel of 157 countries annually between 1949 and 2019. This measure is strongly correlated with existing measures of openness and trade policy but is both more comprehensive—with greater country and time coverage—and more granular.<sup>B.6</sup> In particular, I focus on :

- Import restrictions. For instance, in 2016 Guinea-Bissau had a foreign exchange budget,

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<sup>B.3</sup><https://manifesto-project.wzb.eu>.

<sup>B.4</sup>The manifestos include election programmes of all those parties that have won one (Australia, Japan, New Zealand, North America, South Korea, and Western Europe) or two (Central and Eastern Europe, South America) seats in the respective national elections to the lower house. In the case of a presidential election, it includes election programmes of all those alliances supporting a presidential candidate who has won at least the first round of the presidential election. In addition, manifestos of those parties that were relevant actors in the past (especially members of ruling coalitions), but which no longer meet the selection criteria due to dramatic vote losses, are also coded. For coalitions, the coalition manifesto is coded, or in its absence, the manifestos of the individual parties that have been part of the coalition.

<sup>B.5</sup>Clemens, Michael A., and Jeffrey G. Williamson. "Why did the tariff-growth correlation change after 1950?" *Journal of Economic Growth* 9 (2004): 5-46.

Glick, Reuven, and Alan M. Taylor. "Collateral damage: Trade disruption and the economic impact of war." *The Review of Economics and Statistics* 92, no. 1 (2010): 102-127.

Estefania-Flores, Julia, Davide Furceri, and Mrs Swarnali A. Hannan. A measurement of aggregate trade restrictions and their economic effects. International Monetary Fund, 2022.

<sup>B.6</sup>I use these measures to increase comparability over time since countries have quite complicated tariff schedules. Coughlin (2010) provides a primer on TRIs, and their usefulness for general equilibrium analysis. Anderson and Neary (2005). TRIs use as a standard metric, the uniform tariff that would produce the same overall level of trade restrictiveness as the actual pattern of policies. That is, a TRI would hypothetically, if applied to each import, generate the same effect on economic welfare as the actual set of trade restrictions.

meaning an apriori allocation of a certain amount of foreign exchange for the importation of specific types of goods.

- Financing requirements for imports. As an example, India in 2016 had a financing requirement for imports (minimum financing and advance payment requirements) though “the RBI allows requests from exporters through their AD Category,” banks to offset export receivables against import payables of the same foreign buyer and supplier, subject to certain terms and conditions.
- Documentation requirements for release of forex for imports. In 2016, Kazakhstan “... importers ... [were obligated to] submit to the bank a foreign trade contract or other corroborating document.”
- Import licenses and other non-tariff measures. Laos, in 2016, required import licenses for 25 categories of goods, mostly for quality control, safety, or animal quarantine, but some (e.g., for cement) to limit the overall level of imports.
- Import taxes and/or tariffs. Macedonia had an average unweighted tariff rate for industrial products of 6.1 percent and for agricultural products 15.7 percent, in 2016.
- State Import Monopoly. Niger in 2016, through the Société Nigérienne des Produits Pétroliers, had a monopoly on hydrocarbon imports.

### B.3 Additional analyses

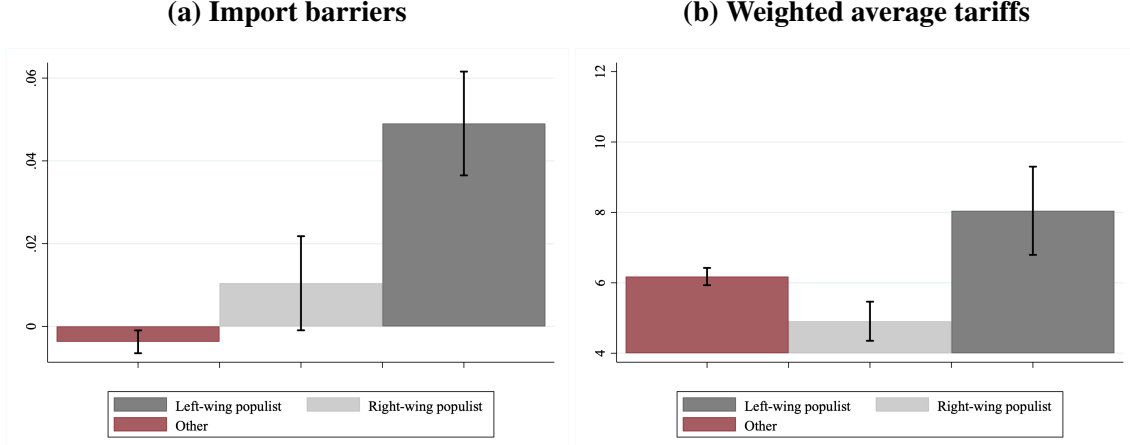
Given the data above, we can assess whether protectionist stances in campaign platforms translate into policy. For this analysis I use the data at the country-year level, restricting myself to party or coalition in power. At a glance, it seems that right-wing populists, while running on a protectionist policy platform (Figure 6), do not necessarily implement higher tariffs (Figure A1). This is consistent with the notion that leftists want the state to take an active role in the economy, while rightist want the state to rarely intervene (Herre, 2023).<sup>B.7</sup>

To assess this I run a heterogeneity-robust regression of tariff policy on the index of attitudes toward protectionism from populists, using year and country fixed effects. Further, I interact the index with the political ideology of the populist (left v. right). Finally, I collect data on numerous macroeconomic variables from the World Bank’s development indicators and the International Monetary Fund historical statistics, as well as data on the pre-treatment quality of institutions

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<sup>B.7</sup>Herre, Bastian. “Identifying ideologues: A global dataset on political leaders, 1945–2020.” *British Journal of Political Science* 53, no. 2 (2023): 740–748.

**Figure B. 1: Average protectionism by populist-government-leader status and ideology**



**Note:** The shaded area corresponds to 95% confidence bands clustered by country. Controls include year and country fixed effects, and macroeconomic pre-treatment controls such as GDP, unemployment, population, composition of the population, quality of democratic institutions and natural resource abundance.

from Varieties of Democracy (V-Dem), to control for pre-treatment confounders. My regression equation is given by

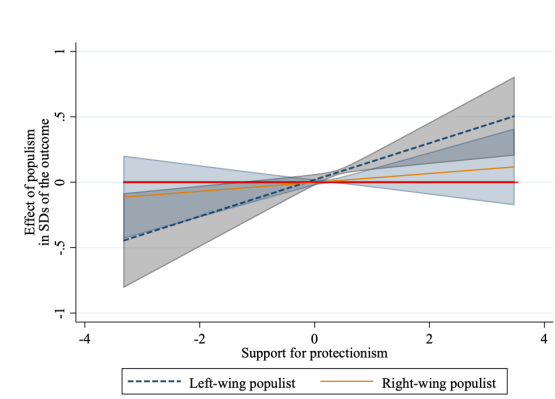
$$P_{ct} = \beta PA_{ct} + X'_{ct} \delta + \mu_c + \gamma_t + \varepsilon_{ct},$$

where  $P_{ct}$  is as measure that captures the extent of protectionist policy in country  $c$  year  $t$ ;  $PA_{ct}$  is the revealed attitudes/preferences of the party in power toward protectionism as captured by their manifestos;  $X_{ct}$  is vector of pre-treatment confounders;  $\mu_c$  and  $\gamma_t$  denote country and fixed effects respectively;  $\varepsilon_{ct}$  is the idiosyncratic error term. Standard errors are clustered at the country level.

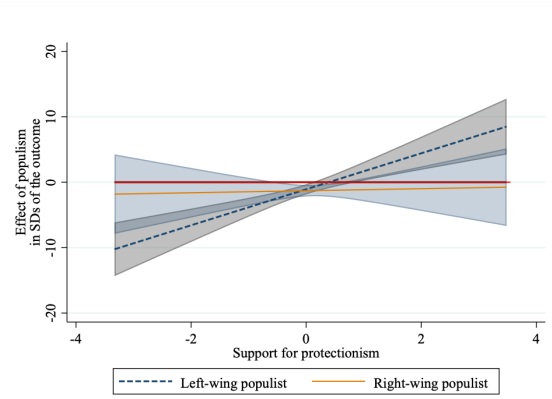
The results of my analysis are displayed in Figure A2 below. While I don't claim that my results are causal in nature, we observe that when comparing left and right-wing populists regarding their revealed stances on protectionism and the policy they implement once in power, we observe a marked difference: Left-wing populists are more likely to implement higher tariffs and other protectionist policies vis-à-vis right-wing ones. Of course, these effects are likely overestimated for the left-wing and overestimated for the right-wing because part of these effects may be driven by unobservables that determine the extent to which left and right-wing politicians have protectionist preferences (Herre, 2023) . However, exploring this further is outside of the scope of this rather theoretical paper. Nevertheless, future work can explore these differences deeper insofar as the citizen-candidate approach to politics has recognized the existence of this possibility.

**Figure B. 2: Conditional differences in means between populist leaders and other**

**(a) Import barriers**



**(b) Weighted average tariffs**



**Note:** The shaded area corresponds to 95% confidence bands clustered by country. Controls include year and country fixed effects, and macroeconomic pre-treatment controls such as GDP, unemployment, population, composition of the population, quality of democratic institutions and natural resource abundance.