Globalization, Populism and Public Policies

Abel Mateus

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CIEP – Centro de Investigação do Instituto de Estudos Políticos
Palma de Cima, 1649-023 Lisboa | +351 217214129 | ciep@ucp.pt
https://iep.lisboa.ucp.pt/pt-pt/ciep-working-papers

Abstract: There is already an established literature on the impact of de-industrialization in developed economies that shows job losses, low wages, and distressed communities in "left behind areas". Even though dominant factors have been technological change and tertiarization, one of the causes of these movements is the impact of globalization. These areas are at the root of the increased votes for populist parties. Next, the paper studies the political economy of public policies undertaken to mitigate or counteract these effects in depressed areas. Adjustment mechanisms working through the markets are not enough, so regional policies are required. We show that tariffs have been used as a populist policy, by targeting to specific regions, but at a large cost to national and the global economies. Can fiscal transfers solve the problem? What efficacy had regional policies in the EU directed to depressed areas? We show that their efficacy depends on good policies and institutional strengthening.

Resumo: Existe já literatura estabelecida sobre o impacto da desindustrialização nas economias desenvolvidas que mostra perdas de emprego, baixos salários e comunidades afectadas nas "áreas deixadas para trás". Apesar de os factores dominantes serem a mudança tecnológica e a terceirização, uma das causas destes movimentos é o impacto da globalização. Estas áreas estão na origem das cada vez maiores votações em partidos populistas. Assim, este paper estuda a economia política das políticas públicas adoptadas para mitigar ou para contra-atacar estes efeitos nas áreas mais afectadas. Os mecanismos de ajustamento que funcionam através dos mercados não são suficientes e por isso são necessárias políticas regionais. Demonstramos que as tarifas têm sido usadas como uma política populista ao visarem regiões específicas com um elevado custo para as economias nacionais e globais. Podem as transferências fiscais resolver o problema? Que eficácia tiveram as políticas regionais na EU dirigidas às áreas mais afectadas? Demonstramos que a sua eficácia depende de boas políticas e de reforço institucional.

Abel Mateus is an integrated researcher at CIEP-UCP e Senior Fellow at the University College of London.
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1. Introduction

For decades, both US and even EU governments have ignored the problems that de-industrialization and globalization have caused in their populations. These include: (i) growing economic inequality and weak wage growth for the lowest qualifications; (ii) regional inequalities with economic divergence of depressed areas; (iii) growing structural unemployment; (iv) loss of industrial know-how and human capital, as well as the off-shoring of value chains; (v) loss of cultural identity and public health problems in depressed areas; and (vi) de-franchise of populations and drifting towards populism.

The reduction in industry and manufacturing jobs throughout the developed world is the result of three factors: (i) technological change biased against routine occupations with low-skilled workers; (ii) demand shifts towards tertiarization of the economies, and (iii) globalization, offshoring and the spreading of value chains. The first two factors are more difficult to identify in political terms, but the third one is easier and clearly identifies with old-time nationalism. Therefore, it can be easily used as a populist agenda. In a figurative way, parliament can vote on tariffs and trade restrictions but cannot legislate on technological change and on demand shift.

We know from theory that the liberalization of foreign trade increases economic well-being to both partner countries but does not ensure a more equitable distribution of income. In theoretical terms, there should be transfers (lump-sum) from the winners to the losers of liberalization. The problem is that governments are not always interested in making these transfers, and the high administrative costs of these transfers.

But the real world is much more complex. The expansion of trade and the immigration of unskilled workers have led to a slowdown in wage growth for the unskilled, while automation and the revolution in information and communication technologies have led to a greater demand for skilled workers, and a shortage of talent, leading to higher wages. One of the economists who has studied these phenomena the most, to try to show the impacts of trade and technology, is David Autor from MIT. Labor markets exposed to competition from imports from China experienced declines in employment, particularly from the manufacturing industry and workers without higher education, which have not been compensated by the rise of “good jobs” in depressed areas. Labor markets susceptible to the computerization of routine tasks have led to an occupational polarization: freed labor is occupied by other labor-intensive jobs, but although total employment is maintained there is a greater divergence of wages between the unskilled

and the more qualified. Mechanisms of adjustment like migration and capital flows have been quite sluggish and levels of community distress have risen.

This paper contribution is to cast the political definition of populism as an anti-establishment and authoritarian regime into political economy terms. From this perspective populism is at the same time a regime that proposes and implements distortive resource allocation policies and influences and even controls institutions to gain and maintain political power. The roots of this definition came from the continental Latin America experience, and in particular the Argentine Peronist regime that led to the stagnation and divergence of that country in the 1946-1955 period. From the political economy perspective, it stablished a protectionist regime, taxed heavily agriculture, where the country had comparative advantage, and pursued a statist and redistributive economic policy which led to Argentina further losing its ranking among developing economies, favoring workers movements and in the name of "fighting for the poor".

The other contribution is to show that big data can now be used to finely target public policies, but it can be used for good or bad economic policies. An example is the current American economic policy of protectionism initiated by President Trump, where he used tariffs to counteract the effects of globalization and in particular the rise of China, targeting the benefit of workers in swing states that voted for him, but at a substantial cost for American consumers and the world economy. Another example is Brexit where the intervention of interest groups and the media distorted the impact of the EU in the British economy to gain power.

A third contribution is to show that the best policies to counteract the effect of globalization in affected areas or groups is to use fiscal policies like the Earned Income Tax Credit (EITC), human capital enhancement policies and fiscal transfers. However, we show that the present system in the EU of fiscal transfers is highly ineffective. Its effectiveness depends crucially on good economic policies and strengthening institutions.

Section 2 addresses the impact of globalization and other factors of de-industrialization in the US and EU, highlighting the impact in depressed areas and non-skilled labor. Section 3 addresses the link between populism and globalization. Section 4 public policies using protectionism, which is a blunt instrument for redistribution, and the use of big data and data mining to target these policies. Section 5 addresses public policies based on regional economies, i.e. location-based policies, which have been given a high preeminence in the EU since the 1980s. Using data for 1995-2020, we show that they have been ineffective in promoting growth and convergence. Good economic policies and

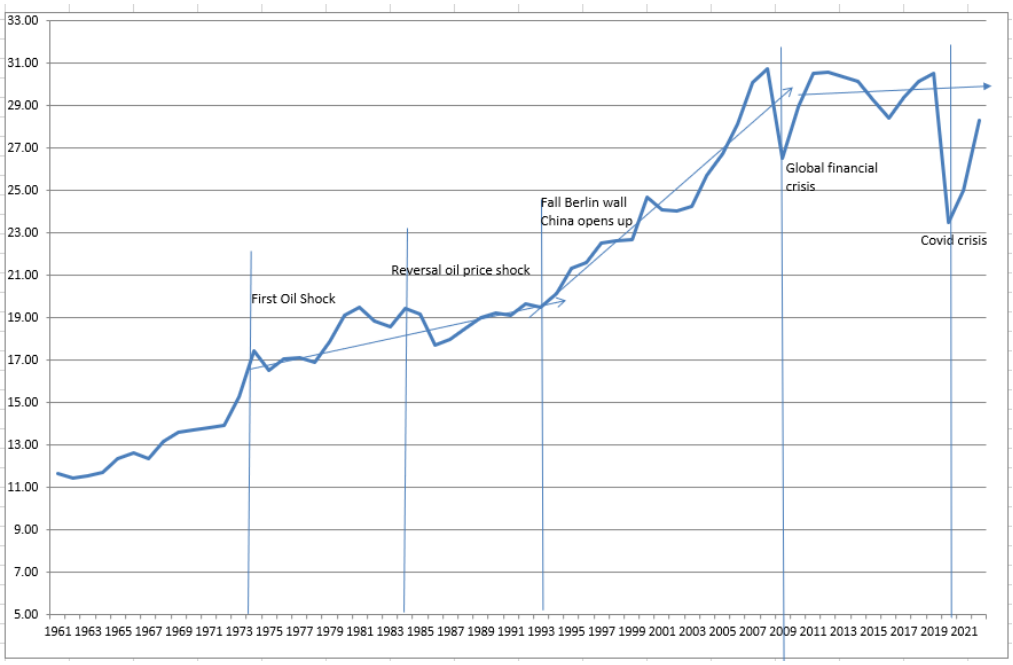
good institutions are a pre-condition for its effectiveness, which has been ignored by the Commission and Council so far, despite some efforts since the Euro crisis to introduce the Macroeconomic Imbalances Procedure. Section 6 concludes and proposes further research.

2. Impact of globalization in the US and EU

Since Clinton signed legislation permanently normalizing trade with China in October 2000, employment in manufacturing has dropped from 16.7 million to 12.9 million in just two decades. But its impact was concentrated in industrial areas from Michigan to Texas, obscuring the gains of urban areas, agriculture, and services, and consumers at large with the reduction in the prices of imported goods. The same phenomenon occurred in the EU, having affected the same industrial centers from Iberia to Germany, with Eastern Europe with a smaller impact. The EU dropped employment from 34.6 in 1995 to 29.9 million in 2017.

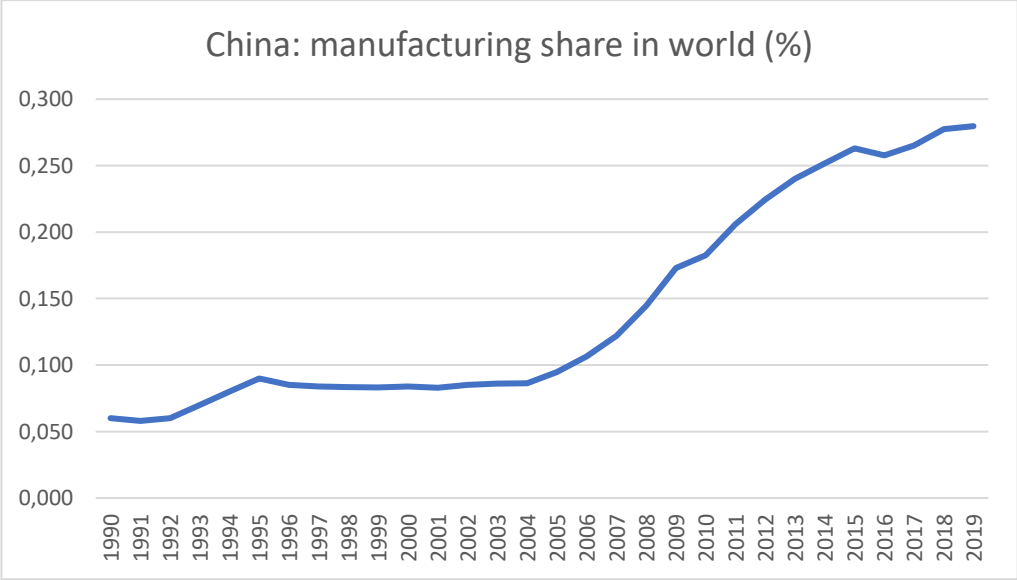
Figure 1 shows the evolution of globalization measured by the ratio of global Exports over global GDP. The first phase was mainly associated with trade liberalization and the formation of large free trade areas. The jump in 1974 is due to the oil price increase, and the deceleration after 1984 to its reversal. Afterwards there was a significant acceleration due to the fall of communism in Eastern Europe and the opening of China. The global financial crisis of 2009 marks a watershed with a stagnation and even possible fall in the rate of globalization. Mateus (2014) shows that the present wave of globalization is related with the decrease in communication and transport costs, lowering of worldwide tariffs, infrastructure developments and market expansion due to the incorporation of the new blocks in the world trade system. Relevant for this paper is that countries´ institutional development is also relevant. The differential in wage rates between developed and Asian countries is also important. The wave of "slowbalization" after 2009 can be explained by the bottoming of trade and communication costs, the rise in protectionism especially after 2017, the reduction in the wage differential and the levelling off in institutional development (mainly in China). The pandemic crisis and the present movement for reducing risk associated with fragmented value chains and policies for reshoring will continue the tendency against globalization.

Figure 1



Source: World Bank, after 2019 projections of WTO

Figure 2



Source: World Bank, World Development Indicators

Figure 2 shows the increase in the share of manufacturing production of China, which mirrors the decrease in the developed countries. That share more than trebled from 2004 with accession to the WTO, to 27% in 2019.

What has been the impact of this massive manufacturing transfer on developed countries?

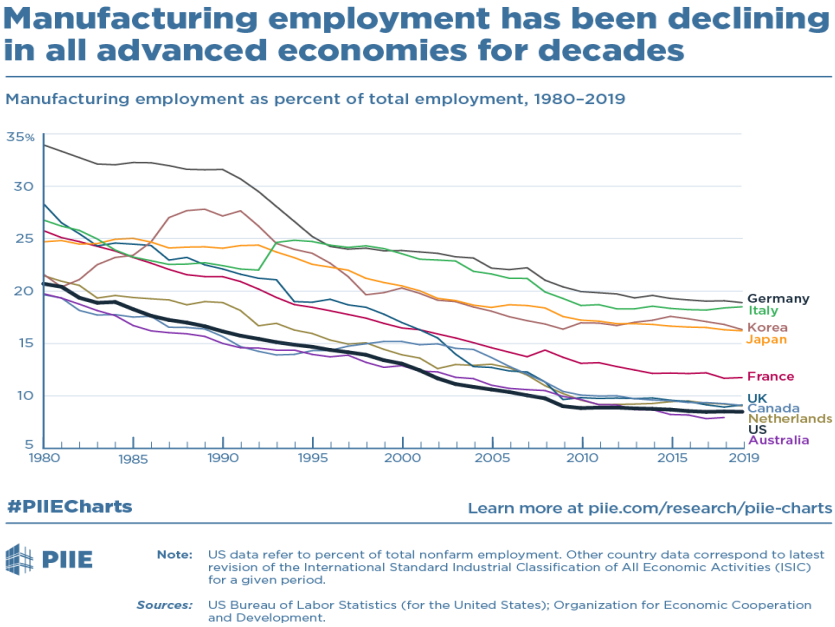
Autor et al. (2013) estimate that around 20% of the reduction in the employment share of manufacturing in the US from 1990 to 2007 resulted from the increase in import competition from China. Bernard, Jensen and Schott (2006), find that US manufacturing plant survival and growth are negatively associated with industry-level exposure to import competition from low-wage countries, with the strongest impact on less capital and skilled labor plants.

The same impact is observed in European countries. Balsvik et al. (2014) find that import competition from China explains almost 10% of the reduction in the manufacturing employment share from 1996 to 2007 in Norway. Using the same methodology as Autor et al (2013) studies for Spain, Netherlands and France find the same result, that the rise in import penetration by China led to a decrease in employment in the affected industries, but in some of these papers there was an even higher impact on related sectors in services. Figure 3 shows the decrease in employment in the manufacturing sector across developed countries: in the UK employment decreased 38,5% in the last 25 years (ending in 2019), in the USA 35.5%, in France 17.5%, in Germany 11.9% and in Italy 9.9%.[2]Thewissen and Vliet (2019) analyse the effects of Chinese trade competition across 17 sectors in 18 OECD countries. They look at a new channel: increased competition from China in foreign export markets which is more important than in import competing sectors. They also find overall employment declines in sectors more exposed to Chinese imports. Furthermore, the results suggest that employment effects are not equally shared across skill levels, as the share of hours worked worsens for low-skilled workers, leading to wage compression (polarization due to value chains spreading to low-wage countries).

Today, a large part of international trade is intra-industry (value chain expansion) (40% of total) and a large share of intra-firm trade (37%), which makes the world more interconnected.

[2] Statistics from OECD data base.

Figure 3



The share of labor income in total income has also decreased in the most advanced economies, from about 67 to 59% between 1970 and 2010 and then stagnated, reflecting the low growth/stagnation of low-skilled workers wage rates.

There are three causes of de-industrialization cum slow growth of employment and wages of non-skilled labor: (i) Globalization and the spread of value chains to Asia and other developing countries – offshoring (10-20% of loss in employment); (ii) Technological change with automation and the shift towards more skilled labor-intensive sectors – skill-based technological change – shift from routine occupations leading to job polarization (50-60%); and (iii) Tertiarization and the demand shift towards services (20-40%). This paper is only concerned with the first factor. Despite not being dominant, it has played the major role in the discussions related with public policies and populism, as we will see in the next section.

3. Populism and its causes: Is it related with the effects of globalization?

Many theories have been advanced and tested to try and account for the rise of populism. Most popular have been two groups: one sees support for populist parties being strongest among those who have benefited least from decades of globalization, who blame their position on the liberal elites who dominate politics and whose class has gained substantially as inequality has increased. The other suggests that populist parties – notably

those with charismatic leaders – draw most heavily on those who have negative views on changes in society, feeling that the world is not the one they grew up and are comfortable in, with immigrants from different cultures being perceived as a major indicator of that change. The two groups overlap. Recent shifts in voting favoring populist parties across Europe, Brexit in the UK and Trump in the USA are all manifestations of populism. The greatest support for populist-authoritarians comes from the – declining in size, both relatively and absolutely – older generations, set against their younger contemporaries who are more likely to favor post-material values and their related politics.

According to the Institute for Global Change,[3] the number of identifiably populist governments around the world has increased five-fold in less than two decades, even without considering the deepening populism in parties of opposition.

Eatwell and Goodwin (2018) characterizes populism by 'four Ds': 'distrust', which highlights the broad success of anti-politics movements as an output from very low levels of public trust in the establishment; the 'destruction' of long-held notions of communal identity by accelerating patterns of globalization in trade and cultures; 'deprivation' brought about by geographic inequalities; and 'de-alignment', the disconnection between personal identity and specific political parties.

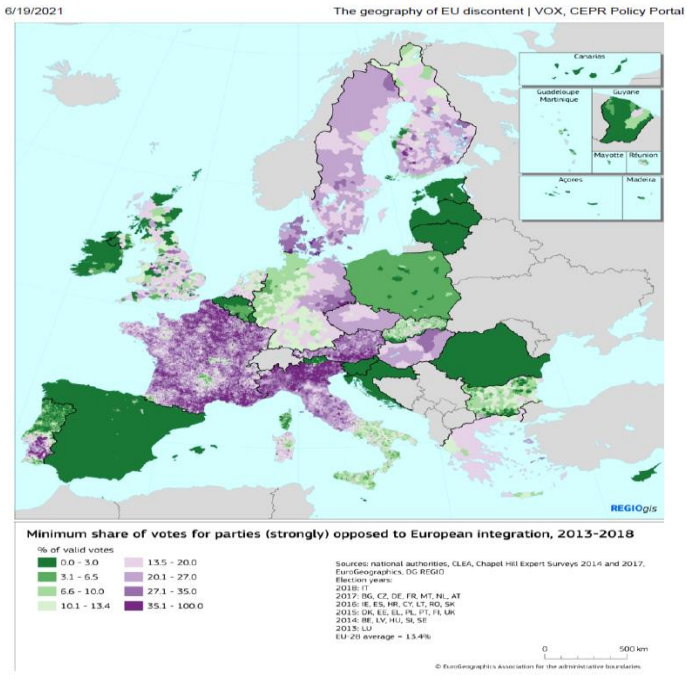
Looking for the causes of populism in Western countries, a recent but rapidly growing literature points to explanations related to economic factors (Colantone and Stanig 2019, Guiso et al. 2017, Guriev 2018). Economic shocks like import competition from low-labor-cost countries, robotization, and the Great Recession, among others, increased economic in security that, in turn, translated in larger support for populist parties.

According to pioneering research by Dijkrista et al. (2019), studying voting patterns of regions in the EU, they show that populism is not most popular among the poorest, but instead in a combination of poor regions and areas that had suffered long periods of decline. The places that "do not matter", not the "people that don't matter". Interpersonal inequality still matters, but the challenge to the system has come from neglected territorial inequalities. They map the vote against EU integration in the last national elections across more than 63 000 electoral districts in each of the 28 EU Member States, covering the period 2013 to 2018. The results show that economic and industrial decline are driving the anti-EU vote. Areas with lower employment rates or with a less-educated workforce are also more likely to vote anti-EU, instead of factors like working-class, older age or

[3] Populists in Power Around the World | Institute for Global Change

male. Areas with lower employment rates or with a less-educated workforce are also more likely to vote anti-EU. Figure 4 shows their mapping.

Figure 4



Source: Dijkistra et al. (2019)

Colantone and Stanig (2018) investigate the impact of globalization on electoral outcomes in 15 Western European countries over 1988–2007 by using election results at the district level and individual-level voting data, combined with party ideology scores from the Comparative Manifesto Project. They compute a region-specific measure of exposure to Chinese imports, based on the historical industry specialization of each region. They find that a stronger import shock leads to (1) an increase in support for nationalist and isolationist parties, (2) an increase in support for radical-right parties, and (3) a general shift to the right in the electorate, which means stronger support for populist parties. They also show that support for the Leave option in the Brexit referendum was systematically higher in regions hit harder by economic globalization. Neither overall stocks nor inflows of immigrants in a region are associated with higher support for the Leave option.

Becker et al. (2017) also find that areas with lower employment rates or with a less-educated workforce are also more likely to vote for Leave, another result of the “left behind areas”. Immigration rates are in general associated with the same effects as import

shocks. Results across the EU suggest that the political climate and media discourses on immigration and asylum might be more relevant, that the frame that political elites and media employ is what matters.

4. Political economy of public policies I: trade policies, a populist instrument

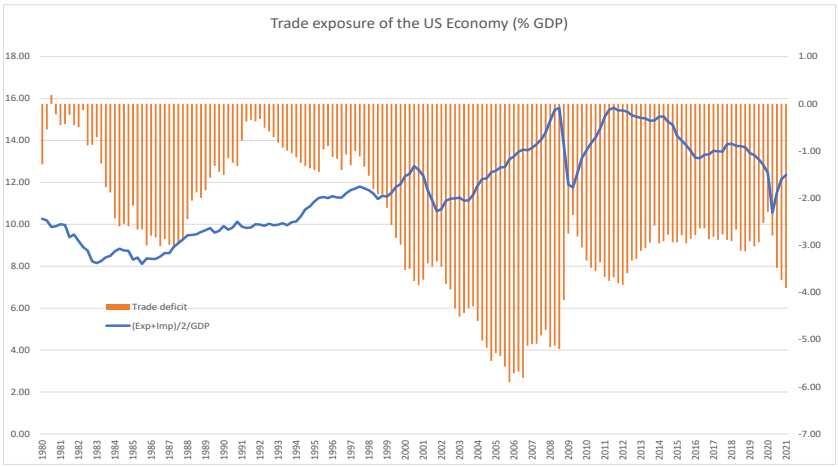
International trade economists label the period since the January 1st, 2017, as the era of "populist trade policy"[4] or of "new protectionism". According to these authors, during the Populist era governments worldwide introduced 2 723 new trade distortions, the cumulative effect of which was to distort 40% of world trade by November 2019, of which the USA and China were responsible for 23% of that total.

The Trump administration had several concerns relative to the US trade deficit and its implications for national policies. The deficit of goods and services was about 2.8% of GDP at the beginning of 2017 (Figure 5), which was not high by historical standards, but under the administration "mercantilist" approach it was a major concern, which depends mostly from the balance of fiscal and monetary policies among trade partners. An additional concern was the level of openness of the US economy to international trade which is a consequence of globalization. Figure 5 uses an indicator of openness measured by the average of imports plus exports over GDP: it shows an increase from 8.2% in 1982 to a record of 15.2% in 2011, a sharp drop with both economic crises, but after the end of 2012 entered a downward trend. By the end of 2019 was at 12.8%. But the Trump administration was concerned about fair trade and industrial and currency manipulation pursued by China and other trade partners.

To cut the external deficit and redress the impact of globalization in depressed areas Trump raised tariffs several times in a large set of goods. It imposed tariffs on $420 billion of US imports (17.6% of total imports), with rates ranging from 10 to 50% (average jumped from 2.6 to 25.8%), without notification to the WTO, based on Trade Act of 1974 and the Trade Expansion Act of 1962. China imposed retaliatory tariffs on $98 billion US exports and the EU, Mexico, Russia, and Turkey also raised retaliatory tariffs on about $36 billion US exports (retaliatory tariffs on 8.7% of exports, increasing from 7.3 to 20.8%). These increases were the largest since the Smoot-Hawley tariffs of the 1930s.

[4] Evenett, S. and J. Fritz (2019).

Figure 5



Source: BEA

Amiti et al. (2019) and Fajgelbaum et al. (2019,2020) found a complete passthrough of the tariffs into domestic prices of imported goods. Fajgelbaum et al. found a consumer welfare loss of $114 billion (0.6% of GDP) in the 2018-2019 period, producer welfare gained $31.8 (no retaliation) or $24.3 billion (with retaliation). Total welfare loss was between $16.4 and $24.8 billion, with or without retaliation.

There is not enough time to gauge long-term effects, but a preliminary empirical analysis by Amiti et al. (2020) show that contrary to mainstream trade theory which suggests that taris levied by a large country, such as the U.S., should cause foreign firms to lower prices, most of the impact of tariffs has been born by domestic consumers. The only case where foreign producers lowered prices was in steel. This is bad news for steel workers which hardly benefit from tariff rises.

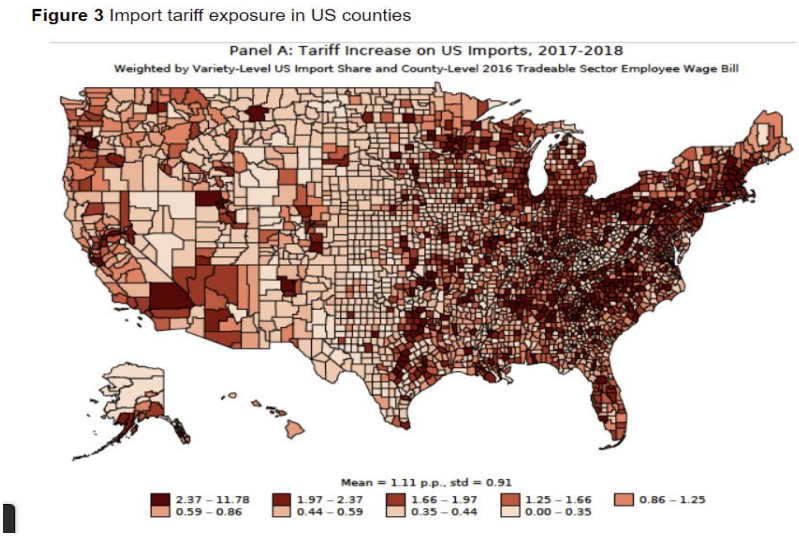
But the most important observation is that the largest group of commodities are intermediate and capital goods which are used in the production of other goods including consumer goods. Raising the prices of inputs increases the final prices of these goods, and since they do not have the protection of a tariff, firms loose competitiveness in the world stage.

In conclusion, the trade policy pursued by Trump and now also adopted by Biden puts a large burden on American consumers, and despite benefiting producers of the goods with increased protection but hurting producers that use these goods. It has a negative impact on GDP in the short and long-run, both in the US and its trade partners.

Thus, we need to look for a political economy rationale for this policy. Grossman and Helpman (2002) have formulated a model where the level of protection of a given sector depends on the political and economic power of an interest group.

Fajgelbaum et al. (2019) have given a nice answer to the question of political economy. Figure 6 gives the distribution of the tariff increases weighted by variety-level US import share, to take into consideration different varieties produced of each good, and county-level tradable sector employee wage bill, to take into consideration different composition of industries. The map clearly shows a concentration in the counties from the Great Lakes down to Florida.

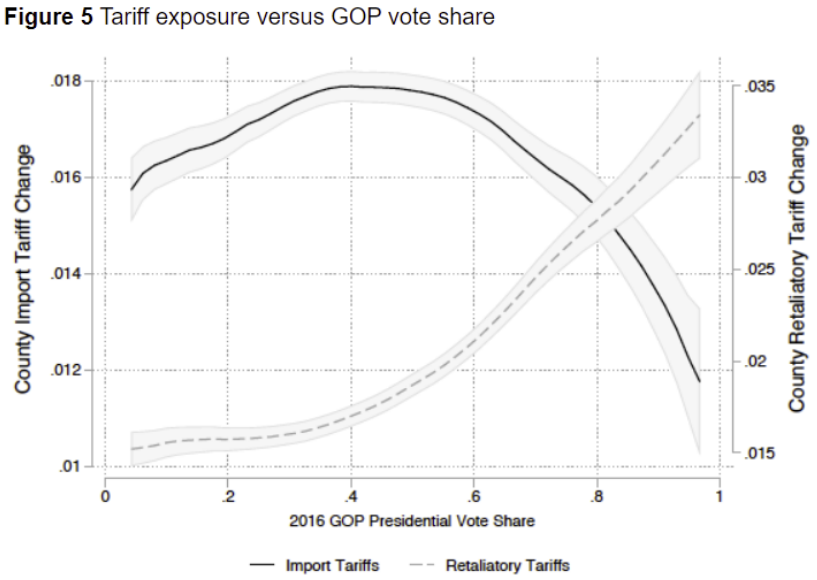
Figure 6



Source: Fajgelbaum (2019)

In fact, the Trump tariffs were targeted to counties with a 40-60% GOP vote, including the swing states which supported Trump in the 2016 Presidential election and gave him the narrow victory. The highest levels of protection were given to sectors concentrated in the Rust Belt (Michigan, Ohio, Pennsylvania). Figure 7, from the same authors, shows the correlation between tariffs (vertical axis) and votes (horizontal axis), which shows exactly that relation. Moreover, it also shows that the retaliatory tariffs implemented mainly by China targeted the counties with the highest percentage of votes for the GOP, which includes the states with a large share of agricultural goods.

Figure 7



Source: Fajgelbaum (2019)

This is a clear example that big data can be used to target public policies, in this case targeting of tariffs to citizen´s votes, following the principle that the import tariff is used to protect the job of the worker that voted for Trump, while the retaliatory tariff is used to punish who is the supporter of the GOP. The cost of these measures is born out by all American (workers) which is a diffuse class. This is an interesting case of populist public policy in the trade area.

It is also revealing that Biden has not so far decreased or abolished most of these tariffs, mainly with China, because it also follows the interest of the Democrats, and there is no contradiction with his policy of using trade policy to protect and favor the American middle class.

5. Political economy of public policies II: the inefficacy of fiscal transfers

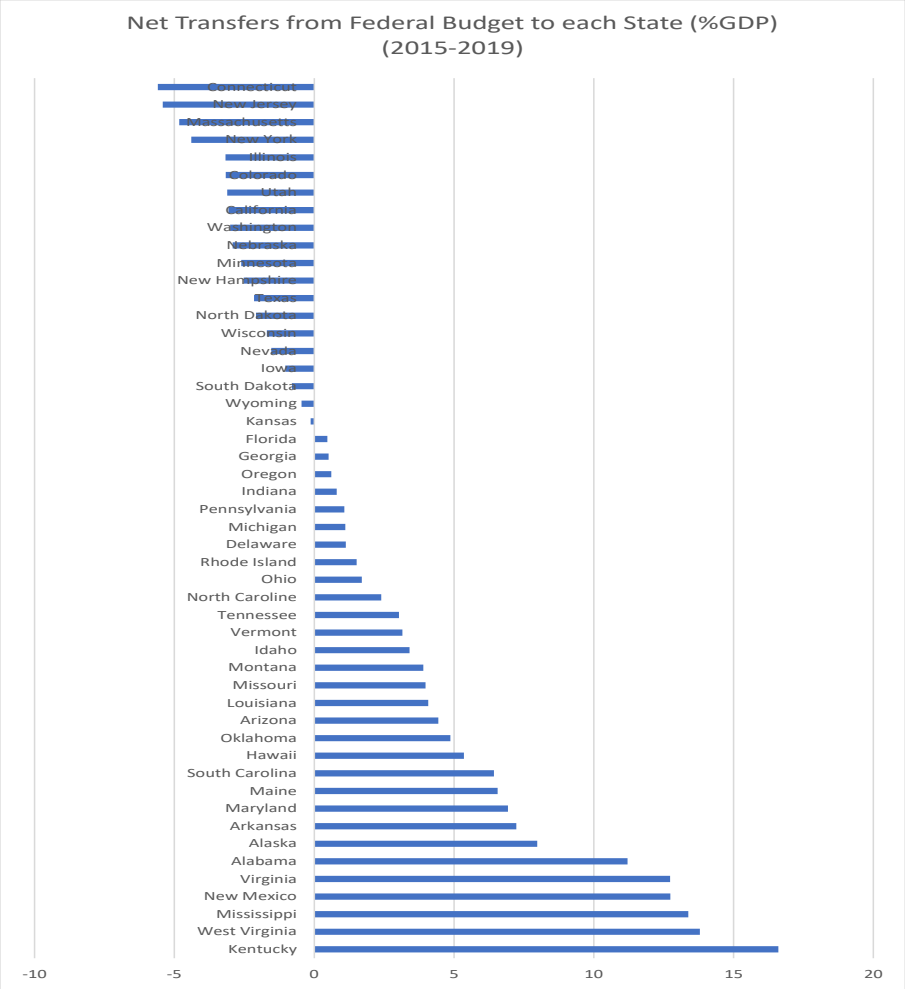
Austin, Glaeser and Summers (2018) argue in favor of reconsidering place-based policies because convergence has stalled or reversed in recent decades. Social problems are increasingly linked to a lack of jobs rather than a lack of income, and subsidizing job creation may be easier at the place level than at the person level, and some evidence suggests that increasing the demand for labor has a materially greater impact on nonemployment in depressed areas. Place-based policies can take the form of more generous employment subsidies, or EITC, in depressed areas, which provide implicit

insurance against place-based shocks but distort migration decisions. Improved schools and training programs (active labor policies) are always positive and do not distort incentives.

The recent Carnegie report that informed Biden external/internal policies proposes the same type of policies. In large part, these are active industrial policies that may favor reshoring, and which have now been dubbed "pro-middle-class policies". Among others, there are policies to: (i) improve education, in particular vocational education, and continuing education, as well as programs that promote the improvement of the skills of the workforce; (ii) programs and investment aimed at certain declining industries or regions, converting activities, or retraining the workforce; (iii) promotion of investment and public and private R&D activities; (iv) accelerate digitization, use of AI and telecommuting. On the other hand, regions and industries follow a certain hierarchical organic structure, which is why policies are also needed that encourage industries or regions that can "pull" the less developed ones. Thus, it is also necessary to continue with research and industrial policies aimed at cutting-edge industries such as biotechnology, software, new materials, renewable energies, etc..

The USA, being a federation, has a degree of centralization of resources that are then allocated to States much higher than the EU. Figure 8 shows net transfers (expenses minus taxes) from the Federal Budget to each state, as a percentage of each state's GDP, for the average of the years 2014 to 2019. Net transfers represent almost 19% of GDP from Kentucky and 16% from Mississippi and West Virginia. Connecticut and New Jersey, on the other hand, contribute more than 5% of their GDP to the Federal Budget. These are joined by New York, California, and Massachusetts as the largest contributors in net terms.

Figure 8

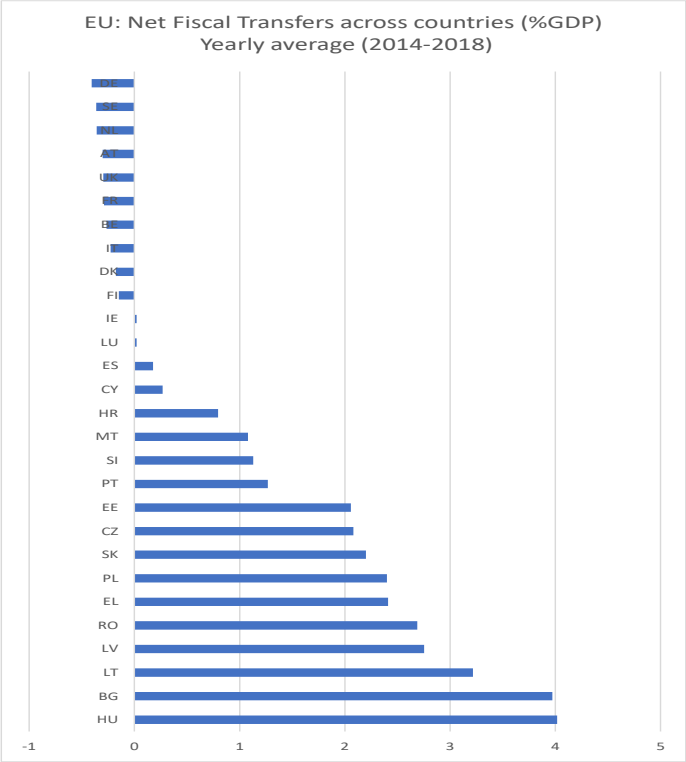


Source: Schultz, L. Giving or Getting, Rockefeller Institute of Government, 2021 and author's calculations

These net transfers are associated with factors such as spending on defense and federal administration, education, health, and income support programs. Only insofar as they cover these social programs can they be said to be redistributive. However, given the large amount of the Federal Budget, where income-sensitive taxes and spending on unemployment benefits are important, it has an automatic stabilization power that has no comparison with the EU budget.

Figure 9 shows net transfers from the EU Budget to Member States in the context of the Multiannual Financial Framework. The states that receive the most, in annual terms and in relation to GDP, are Hungary and Bulgaria with around 4% of GDP. And those that contribute most are Germany, Sweden, and the Netherlands with rates between 0.35 and 0.40% of GDP.

Figure 9



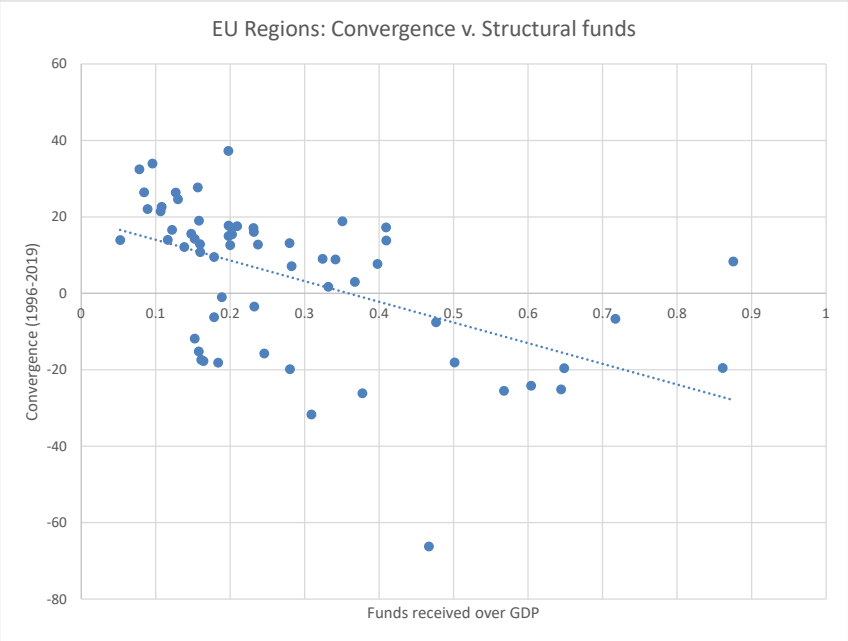
Source: European Commission data

What these data show is that the resources and financial mechanisms for an active regional and industrial policy already exist, the problem is to make them more efficient and oriented towards their specific objectives. Comparing net fiscal transfers between the USA and EU-27 we can see that (i) they represent about 3% of global GNI in both regions, in an annual basis, from 2014 to 2019, (ii) but the US system is much more redistributive than the EU system.

We used data of Eurostat for GDP per capita in PPS, by NUTS-2 regions,[5] and a new database published by the Commission on the distribution of Structural Funds by these regions for the 1988-2019 period.[6] Since the previous communist countries have only accessed the EU in the early 2000s, we started the analysis in 1996. We must underline that we restricted our analysis to regions that in 2018 had a GDP per capita below 71% of the EU average, since we are only interested in less developed regions. Our sample contains 61 of the 238 regions of the EU.

[5] Available here https://ec.europa.eu/eurostat/databrowser/view/tgs00005/default/table?lang=en
[6] The data set is available here for download https://cohesiondata.ec.europa.eu/stories/s/Historic-EU-payments-by-region-1988-2018/47md-x4nq/

Figure 10



Source: Computations based on Eurostat and European Commission

It is preferable to use EU regions to study the impact of fiscal transfers because there is significant variation among them in public policy and institutions, observation which is not valid for the USA. Figure 10 maps the funds received and the convergence achieved by each region and Table 1 shows the regression of the rate of convergence to the EU average and the rate of structural funds received over GDP for the 1996-2018 period. We have used the percentage of adult population that completed tertiary education and the regional index of innovation[7] computed by the European Commission as control variables. The regression coefficient of the funds is negative and significant, confirming the results of several papers. Data on tertiary education is given by the Eurostat regional data base.

[7] Available here https://ec.europa.eu/growth/industry/policy/innovation/regional_en

Table 1

Regression for regional convergence in the EU

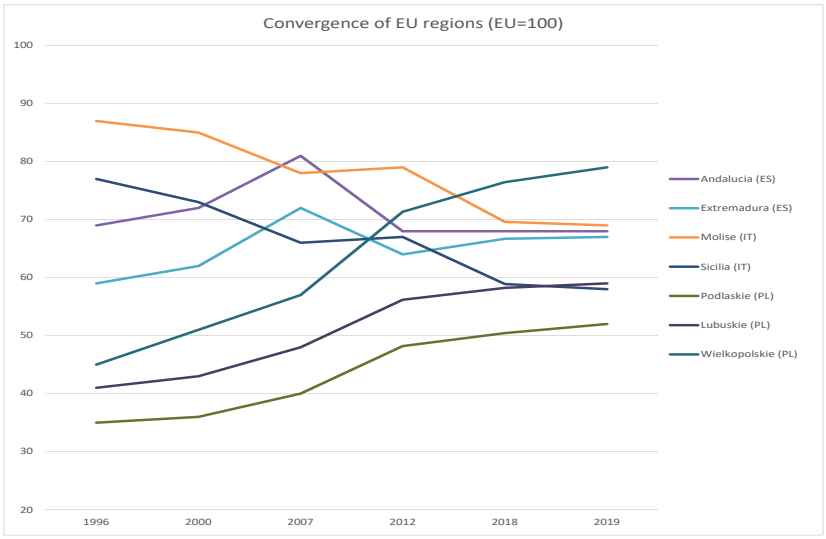
	SUMMARY OUTPUT								
	Regression Statistics								
	Multiple R	0.715954							
	R Square	0.512589							
	Adjusted R	0.486936							
	Standard E	0.385668							
	Observatio	61							
	ANOVA								
		df	*SS*	*MS*	*F*	*gnificance F*			
	Regressio	3	8.916127	2.972042	19.98151	5.65E-09			
	Residual	57	8.478158	0.14874					
	Total	60	17.39428						
		Coefficients	*tandard Err*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*ower 95.0%*	*pper 95.0%*
	Intercept	2.507615	0.20444	12.26579	1.26E-17	2.098232	2.916999	2.098232	2.916999
Funds	X Variable	-0.92091	0.298678	-3.08328	0.003153	-1.519	-0.32282	-1.519	-0.32282
Edu	X Variable	-0.00761	0.007175	-1.06053	0.293375	-0.02198	0.006759	-0.02198	0.006759
Inov	X Variable	-0.01491	0.003454	-4.31585	6.4E-05	-0.02182	-0.00799	-0.02182	-0.00799

Source: author's estimations

Table 3 confirms the results of more than a dozen papers that there is a negative relationship between the rate of convergence and the amount of structural funds relative to the region GDP. This contradicts the most important objective of the EU regional policy that it should promote convergence of EU less developed regions.

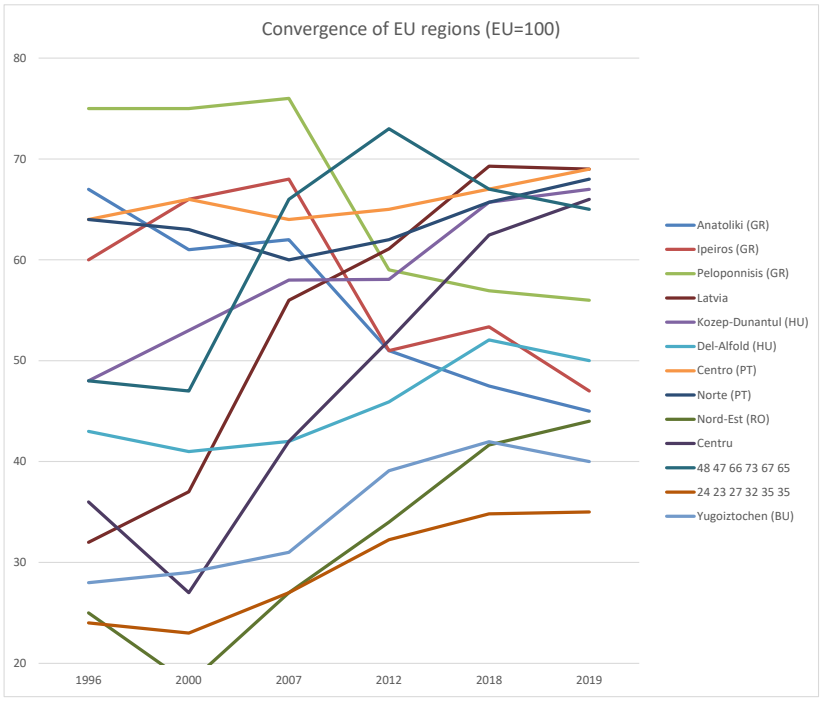
However, a closer look at the data shows that there are different groups of regions: there is a cleavage among countries´ regions. Figure 11 for large countries and Figure 12 for small countries illustrates this difference. For large countries, regions in Italy and Spain have diverged while regions in Poland had a strong convergence, while for small countries, regions in Eastern European countries have converged, Greek regions have diverged strongly and regions in Portugal have almost stagnated.

Figure 11



Source: Eurostat

Figure 12



Source: Eurostat

Table 2 shows the regression of the rate of convergence and the Innovation Index, since the rate of education is one of the components of this index, a proxy for Policies measured by the ratio of the country Public Debt over GDP[8] and a proxy for Institutions measured

[8] Data from Ameco, May 2021.

by the index of the Rule of Law for 2018 for each country´s region computed by the World Bank, Governance Indicators.[9]

We use the Public Debt ratio over GDP as a proxy for good economic policies, since it embodies a long-term story of macroeconomic disequilibria, one of the most important components of a good economic policy.

The indicator regarding the Rule of Law is our proxy for the level of institutional development.

The results show that the national variables are the most significant, with the Innovation Index insignificant. The coefficient of the structural funds is now positive, but not significant in statistical terms.

Table 2

SUMMARY OUTPUT								
Regression Statistics								
Multiple R	0.895							
R Square	0.800							
Adjusted R Sq	0.786							
Standard Erro	9.746							
Observations	61							
ANOVA								
	df	*SS*	*MS*	*F*	*gnificance F*			
Regression	4	21312.25	5328.062	56.09749	6.04E-19			
Residual	56	5318.803	94.97862					
Total	60	26631.05						
	Coefficients	*andard Err*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*ower 95.0%*	*pper 95.0%*
Intercept	-8.269	11.036	-0.749	0.457	-30.377	13.840	-30.377	13.840
Funds	6.770	9.318	0.726	0.471	-11.897	25.436	-11.897	25.436
Inov/HC	-0.040	0.105	-0.384	0.703	-0.250	0.169	-0.250	0.169
Policies	-0.313	0.037	-8.456	0.000	-0.388	-0.239	-0.388	-0.239
Rule of law	0.606	0.180	3.359	0.001	0.245	0.967	0.245	0.967

Source: Author's estimations

This is an especially important result that shows that unless the country pursues good economic policies and has good institutions, fiscal transfers are ineffective to promote convergence.

6. Conclusions and further research

In the last three decades, there have been three factors acting to change in composition of employment and wage distribution: high skill-biased and capital-intensive technological change, tertiarization and globalization. Labor market studies up to Autor et al. (2013) usually found the first factor dominant. Autor and his associates showed clearly for the first time that globalization, and in particular, the massive transfer of manufacturing to

[9] Available here https://info.worldbank.org/governance/wgi/

China, had caused a loss of employment and wage stagnation in depressed areas of the USA. Studies applied to the EU also found the same for the China factor. But all the results only found a 10 to 20% share of explanation for the change in employment due to this factor. There is a need for further research to identify the contribution of each of the three factors identified above. Preliminary work by Colantone and Stanig (2019) for the EU regions shows that the technological factor acts parallel to the globalization factor.

Another branch of work has shown that there has been a five-fold increase in populist governments around the world in the last two decades, and a large increase in votes for populist parties both in Europe and North America. And this increase has the roots in the "left behind areas".

This shift led to the election of Trump in the USA and to Brexit and election of Boris Johnson in the UK which have implemented populist policies and the era of populist trade protectionism. We show that exploring big data, both Trump tariffs and retaliation by China led to targeting the intended interest groups, at a large cost to the economy at large.

All this empirical analysis led to the need of place-based policies. We study regional policies in the EU and found that they have been largely ineffective to pursue the aim of promoting convergence from less developed areas. Its effectiveness depends on pursuing good national economic policies and strengthening institutions.

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