Does Money Matter?

Regional Transfers and Anti-establishment Voting

Giuseppe Albanese, Guglielmo Barone, Guido de Blasio*

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Abstract. A fundamental driver of voters' preference for protest parties in Western countries is economic insecurity, which disproportionally hit left-behind regions. Regional transfers might provide economic support and have counteracting effects on electoral preferences towards populism. We test this link by analyzing Italian municipalities within a spatial regression discontinuity framework that exploits different treatment statuses under the EU regional policy. We find that EU funds do lower the appeal of populist instances.

Keyword: populism, voting, EU regional policy.
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* Emails: giuseppe.albanese@bancaditalia.it; guglielmo.barone@bancaditalia.it; guido.deblasio@bancaditalia.it. We thank Gabriel Ahlfeldt, Alessandro Borin, Federico Cingano, Italo Colantone, Riccardo Crescenzi, Paolo Sestito, participants at the workshop "Domestic Politics and Global Economics: From Policy Convergence to The Rise of Populism" organized by Scuola Normale Superiore, seminar participants at Bank of Italy, London School of Economics for their useful comments. The views expressed in this paper are those of the authors and do not necessarily reflect those of the Bank of Italy.

1. Introduction

Voters' discontent and their preference for protest parties are on the rise in many developed Western societies. A fundamental driver of populism (see, for instance, Guiso et al., 2017) is economic insecurity, which is unevenly distributed across territories. Non-urban communities are those that suffer most, in a context where market-based convergence mechanisms, such as the flows of people to high-income regions and those of capital towards poorer areas, work only imperfectly (Austin et al., 2018). Becker et al. (2017) show that areas with deprivation in terms of income and employment were more likely to vote Leave in the Brexit referendum. Rodríguez-Pose (2018) argues that "places that don't matter" are prone to revolt in a wave of political populism and advocates policies for lagging and declining areas. Rajan (2019) cautions that in order to limit populist voters' reaction, place-based policy is needed.[1]

In the context of Europe, some cursory evidence suggests that the political trend in favor of anti-establishment instances is taking place notwithstanding the financial efforts made through the EU cohesion policy, which is aimed to reducing regional disparities and the backwardness of the least-favored territories. On August 8 2018, the WSJ highlighted that some of the biggest recipients of EU regional aid were the "hotbeds of the very discontent that's driving the bloc apart". On April 2019, Carole Cadwalladr, a British investigative journalist, mentioned, in a TED talk that quickly became viral, the voting behavior of the residents of Ebbw Vale, South Wales (the journalist's home town), who voted for Leave notwithstanding the infrastructures and public buildings brought there by the EU cohesion funds. More rigorous empirical investigations seem to confirm that regional transfers have no role for local anti-establishment preferences. However, these studies focus mostly on the UK. Becker et al. (2017) find that EU Structural funds have no predictive power for the Leave share and speculate that "EU funding may be perceived by voters as a handout and a symbol of foreign dependence." Crescenzi et al. (2019) implement a regression discontinuity design exploiting the discontinuity East Wales and West Wales and confirm that EU money had no impact on Brexit.

[1] According to Rajan (2019) regional interventions should not be considered as something to be tolerated that limits reallocation to more promising places. Rather, they represent a powerful tool to support local communities as relevant elements of a healthy market economy.

In this paper, we study the link between regional redistribution and anti-system preferences in Italy, a country characterized by a large regional economic divide that neatly separates regions receiving a sizeable amount of disbursements (Convergence Objective) from those for which EU regional funds are much smaller (Competitiveness and Employment Objective). We examine the EU regional policy, which uses a significant portion of the EU budget (349 billion euros, 36 percent of the budget), over the programming period 2007-2013 and relate it to the results of the 2013 Italy's general elections.

Using a spatial regression discontinuity design (RDD), we are able to establish causality between funds and populism by comparing municipalities that are very similar in terms of many socio-economic characteristics and yet are differently exposed to the EU funding, being located on the two sides of the borders that discriminates between aid intensity regimes. Our approach makes sure that competing explanations for the observed variation in anti-system voting are differentiated away: for instance, the areas we compare are very similar not only in terms of geography, demography and the structure of the local economy but also with respect to the strength pre-treatment protest vote, and the degree to which they are exposed to immigration-, trade- and IT-related shocks that the previous literature identifies as drivers of anti-establishment preferences. Moreover, we demonstrate that our findings cannot be attribute to underlying spatial trends in populist voting, potentially omitted variables at the border, sorting, or specification issues. Our results highlight a clean and negative causal effect of funds on populism. According to our estimates, the status of Convergence Objective implies a drop in populism of about 5% of the mean of the dependent variable (94% of its standard deviation). Among the two components of populism, antiestablishment and authoritarianism (Inglehart and Norris, 2018), we show that the only former reflects regional redistribution. We also highlight that regional transfers have a negative impact on populist votes but no effect on non-populist votes and that money matters irrespective of the specific channels (public works, subsidies to households and firms, current expenditures of local administrations) through which it is delivered to local communities. Finally, we show that the effect we estimate at the border is quite stable within the (admittedly, limited) bandwidth for which the Angrist and Rokkanen (2015) assumption allows us to provide some far-from-the-threshold inference. Overall, our empirical findings suggest that EU

structural funds have the potential of diminishing the appeal of anti-establishment political preferences. Therefore, the most studied case of the Brexit might have little relevance for other European countries.

To the best of our knowledge, and with the exception of the work on Brexit quoted above, there is no other work that tests the effect of regional redistribution on the scope of populist views. Our paper is clearly related to the booming literature on populism. In particular, with the literature that underscore economic, rather than cultural, foundations for anti-establishment instances. See, for instance, Algan et al. (2017), Altomonte et al. (2019), Boeri et al. (2018), Dustman et al. (2017), Foster and Frieden (2017), Guiso et al. (2017), Guriev (2018), Kaltwasser (2018), Inglehart and Norris (2018), Rodrik (2018). It is also related to the papers on the consequences of globalization and technological progress (for instance: Autor and Dorn, 2013; Goos et al., 2014; Acemoglu and Restrepo, 2018), in particular with those that look at the consequences on voting choices (Autor et al., 2016; Barone et al., 2016; Barone and Kreuter, 2019; Caselli et al., 2018; Colantone and Staning, 2018 and 2019; Dauth et al., 2014; Halla, 2017; Malgouyres, 2017). The paper also speaks to the rising literature on the socio-economic consequences of within-country differences in economic development (for instance, Austin et al., 2018 and Rajan, 2019) and to that on the effects of EU funding (Becker at al., 2018), especially to the papers about the socio-economic consequences of the financial inflows (Accetturo et al., 2014; Borin et al., 2018).

The remaining of the paper is structured as follows. Sect. 2 describes the institutional details and the data. Section 3 illustrates our RDD identification framework. Section 4 provides the results, which include a full-fledged robustness and placebo supplementary analyses. Section 5 concludes.

2. Institutional details and data

In this Section we first provide the relevant policy details for the EU regional policy we focus on (Para. 2.1). Then, we illustrate how we measure anti-establishment instances in Italy through the Inglehart and Norris (2018) classification (2.2).

2.1 The 2007-2013 EU regional policy

The EU regional policy pursues the goal of economic, social and territorial cohesion by narrowing the development disparities among regions and member states. Its main instruments are the programs financed by the Structural funds, and in particular: the European Regional Development Fund (ERDF), set up in 1975, providing support for the creation of infrastructures and productive job-creating investment, mainly for businesses; the European Social Fund (ESF), set up in 1958, which contributes to the integration into working life of the unemployed and disadvantaged sections of the population, mainly by funding training measures. For the period 2007-2013, the budget allocated to the Structural funds amounted to around € 349 billion, which represented 36 percent of the Community budget.

In Italy, the 2007-2013 EU regional policy accounted for about € 46 billion, including both the money coming from the EU Structural funds and the co-financing from the Italian Government (or local authorities). At the regional level, the distribution of funds follows the EU eligibility rules, which attribute the treatment status of Convergence Objective (former Objective 1) to all regions with a per capita GDP under the threshold of 75 percent of EU average. Among EU countries, Italy is characterized by the contemporaneous presence of a significant number of regions of both types (Figure 1); in particular, 5 out of 20 regions (Basilicata, Calabria, Campania, Puglia and Sicily) were belonging to the Convergence Objective in the 2007-2013 period.

Information on spending is available from the OpenCoesione database, which provides very detailed geo-referenced information at the project level of all projects targeted by the 2007-2013 EU regional policy. We collapsed data on disbursements at the municipality level. Figure 2 shows that the expenditure was negligible in 2007-08, and then it started to increase in 2009-10; from 2011 we observe a significant upsurge, which follows the actions taken by the Italian government to speed-up the spending and re-focusing the programs to counteract the sharp deterioration in the economic conditions. Figure 3 (Panel A) shows the geographical pattern around the border of the average per-capita spending over the 2008-2012 period, which precedes 2013 elections we focus on. As expected, Convergence Objective regions received a substantial amount of funding, while the other areas are less covered by transfers. However, the heterogeneity in funds' distribution is large, also between areas located next to each other.

Finally, it is worth noting that, over the same period, there were also some projects only funded by national sources (in particular the "*Fondo per lo Sviluppo e la Coesione*"). However, their role seems to be limited, as the spending in the 2007-13 period relative to national programs amounted to about one-seventh of those funded by EU programs. We decided not to include expenditures only financed by national sources in our main regressions, also because they follow procedures different from the ones where EU money is at stake, but we checked the robustness of our findings to their inclusion.

2.2 Defining Populism

We analyze the link between EU transfer and populism in the 2013 Italian general parliamentary election. We focus on elections for the lower house of the legislature (Chamber of Deputies), in light of its broader political involvement (in that case, all Italian citizens over the age of 18 have the right to vote). Data on election outcomes at the municipality level come from the Ministry of Interior. Available information includes number of votes for each party, invalid ballot papers, and voter turnout.

We identify the degree of populism for each party relying on the scores developed by Inglehart and Norris (2018). That study exploits the 2014 Chapel Hill Expert Survey (CHES), in which 337 political scientists rate the positioning of 268 parties (those with seats in parliaments) on 13 policy areas. Experts' answers are mapped into a score (0-100 scale) for each party related to two dimension of populism: (i) anti-establishment ideology that considers society to be ultimately separated into two homogenous and antagonistic groups – the "pure people" and the "corrupt elite" – and argues that politics should be an expression of the will of the people ($Antielite_p$); (ii) authoritarianism belief in a strictly ordered society in which infringements of authority are to be punished severely ($Authorit_p$). First we define $Populism_p$ at the party level as the simple average between the two scores:

$$Populism_p = (Antielite_p + Authorit_p)/2.$$

Figure 4 shows these three variables at the party level. Then we map parties' populism intensity into municipalities using the shares of votes that party *p* received in municipality *i* at 2013 general election:

$$Populism_i = \sum_p share_{ip} * Populism_p.$$

Figure 3 (Panel B) shows the variability in populism across municipalities.

In a robustness exercise, we also used the 0-1 classification by Inglehart and Norris (2016), according to which a party is labelled as populist if its overall score is above a given threshold.[2] Accordingly, we consider $\overline{Populism_i} = \sum_p share_{ip} * \overline{Populism_p}$ where $\overline{Populism_p}$ is a dummy equals to one if the party *p* is populist. Table 1 shows the main descriptive statistics.

3. Identification strategy

Throughout the paper we mainly adopt a parametric spatial regression discontinuity design at the municipality level. We focus on the border separating Molise and Lazio on the Northern side to Puglia and Campania on the Southern one (see Figure 1). Populism is regressed on the treatment status, a second-degree polynomial in latitude and longitude and border fixed effect (see Dell, 2010):

$$Populism_i = \alpha_0 + \alpha_1 T_i + f(latitude_i, longitude_i) + \varphi_b + \varepsilon_i \quad (1)$$

where $Populism_i$ is defined above, T_i is a dummy variable equal to one if municipality *i* belongs to a Convergence Objective region and zero otherwise, $f(latitude_i, longitude_i)$ is a second-order degree polynomial in latitude and longitude, φ_b are border fixed effects. We also estimate a variation on equation (1) in which the regressor of interest is the continuous and endogenous treatment given by

[2] In 2013, Italian parties coded as populist are the Northern League (Lega Nord), the Five Star Movement (Movimento Cinque Stelle) and the Brothers of Italy (Fratelli d'Italia).

disbursements that, in turn, is regressed on the Convergence Objective status in a 2SLS framework. Namely, we estimate:

$$Populism_i = \beta_0 + \beta_1 ln(disbursements_i) + f(latitude_i, longitude_i) + \varphi_b + \mu_i \quad (2)$$

$$ln(disbursements_i) = \gamma_0 + \gamma_1 T_i + f(latitude_i, longitude_i) + \varphi_b + \sigma_i \quad (3)$$

where $disbursements_i$ is average disbursements per capita over the 5-year period before elections. As robustness checks we also estimate equation (1) after substituting $f(latitude_i, longitude_i)$ with a second degree polynomial in (Euclidean) distance from the border and allowing for varying slopes on the two sides. We also show that our results are confirmed using a nonparametric approach. Equations (1) and (2) are estimated on different samples: within 75/50/25 km from the border, and within 50 km but excluding municipalities whose distance is lower than 10 km to check that potential spatial spillovers do not drive our results (Figure 5).

The idea behind our spatial RDD approach is that through the border only the treatment status changes with this discontinuous jump, while all the other characteristics are evenly distributed. Under this condition, it is possible to separate the effect of the policy from anything else (Black, 1999). As it is well known, the RDD is deemed preferable to other non-experimental methods because if the units of the analysis (in our case the Italian municipalities) are unable to manipulate precisely the forcing variable, the variation of the treatment around the border is randomized as though the municipalities had been randomly drawn on just one or other side of the boundary (Lee, 2008).

4. Results

This Section starts by illustrating (Para. 4.1) some preliminary evidence that motivates the RDD approach. Then, it provides the baseline results (4.2) and substantiate them with full-fledged robustness and placebo analyses (4.3). We also explore some mechanisms through which the effect of

funding percolates on political preferences, looking at the winners and losers of the political competition, the dimensions of populism (antiestablishment and authoritarianism), and the specific modalities through which EU money reaches the local communities (4.4). Finally, we provide some far-from-the-threshold calculation intended to corroborate the external validity of our local estimates (4.5).

4.1 Preliminary Tests

We start by testing whether the spatial RDD may be a credible identification strategy in our setting. First, we run an RDD regression at the municipality level using disbursements from EU regional policy as dependent variable. In particular, we consider average per capita spending in the five years before the 2013 general election (2008-2012). These "first-stage" results always confirm the relevance of the discontinuity (Table 2): crossing the border implies around a 120 per cent jump in EU transfers (about 125 euros per capita) when focusing on a sample of municipalities whose distance from the border is lower than 50 km. Second, an implication of the local randomized result is that the empirical validity of the RDD can be tested. If the variation in the Convergence Objective status near the edge is approximately randomized, it follows that all "baseline covariates" – those variables determined prior to the start of the policy – should take the same values on the two sides of the border. Table 3 presents a test for the absence of discontinuity in baseline characteristics around the threshold that substantiates the empirical strategy. If no effect is detected, then that variable can be considered as controlled for in the exercise. We focus on a large number of characteristics that should capture most of the heterogeneity at the municipality level. Overall, no jump occurs at the threshold for a number of geographic features (columns 1-3), demographics (columns 4-7), institutional quality of the municipality (from De Angelis et al., 2018; column 8), lagged right-wing votes in general election (column 9), and sectoral composition (columns 10-12).[3]

[3] De Angelis et al. (2018) measure institutional quality in Italian municipalities with the number of days between the deadline the Central state decided for the approval of a local tax (TASI) and the date of adoption that changes at the municipality level. The underling idea is that the earlier a local administration is able to update the rules on local taxation the more it is efficient.

The last four columns are devoted to show that exposure to concurrent economic shocks potentially related to populist vote are balanced around the threshold. Namely, we focus on (*i*) Immigration (Barone et al., 2016), measured as the ratio between immigrants and total population in 2001; (*ii*) exposure to the China shock (Barone and Kreuter, 2019), measured as $\sum_k \frac{L_{ik}}{L_i} \frac{\Delta M_k^{ITA}}{L_k}$ where ΔM_k^{ITA} is the yearly average change in imports from China to Italy observed in sector *k* over the 2008-2013 period, L_k is Italian employment in sector *k* in 2001, L_{ik} is the employment in municipality *i* and sector *k* in 2001, and L_i is the total employment in municipality *i* in 2001; (*iii*) exposure to the euro shock, consistently with the idea – widely spread in the public debate – that loosing flexible exchange rate with respect to many euro countries hurt the Italian economy. Exposure to the euro shock is proxied by $\sum_k \frac{L_{ik}}{L_i} (1 - \vartheta_k) \Delta REER$ where ϑ_k is the sectoral skill intensity in manufacturing sector *k* taken from Bugamelli et al. (2010) (lower sectoral skill content implies higher sensitivity to price competition), $\Delta REER$ is the annual change of the real effective exchange rate of the Italian currency in the 2008-2013 period, whose positive values indicate appreciation and, so, loss of competitiveness; (*iv*) exposure to the fiscal discipline. The Italian sovereign debt crisis peaked between the end of 2011 and the second half of 2012; the following fiscal contraction has been stronger for local economies more dependent on public spending. Exposure to fiscal discipline is proxied by $\sum_k \frac{L_{ik}}{L_i} \rho_k$ where ρ_k is the sectoral dependence on public spending computed as the share of the final demand that is acquired by the public sector according to the 2005 Input-Output accounts. In all cases, exposure to concurrent economic shocks is well balanced around the threshold (columns 13-16).

Nevertheless, one might argue that some unobserved variables, which are simultaneously correlated with populism and the exposure to the EU program but not with all variables shown above, might jump at the regional borders, therefore biasing our results. Examples of potentially omitted refer to variables related to the working of regional administrations, since the EU-status border corresponds to that separating Italy's regional jurisdictions. We provide now an indirect test that this is not the case. We examine whether populism jumps at borders separating regions sharing the same Convergence Objective status. If our findings are due to unobservable variables, rather than the EU financing, we should find an effect on the outcome variable. To keep the sample similar to that used

so far, we focus on the border between Lazio and Molise (both of them are not in the Convergence Objective) and the one between Campania and Puglia (both in the Convergence Objective). After stacking the two samples, we assume that the (fake) treatment is administered to municipalities located in Molise and in Puglia, whose municipalities are compared with those in Lazio and Campania, respectively. Table 4 shows that in absence of a discontinuity in transfers, crossing the regional border does not carry with it any change in local political preferences towards populism. This result holds for various distance from the borders (columns 1-3) and when we restrict the sample to those municipalities that also belong to the sample we use in our baseline regressions (columns 4-6).

4.2 Main Results

Table 5 provides our baseline results. They refer to three different parametric models and for each of them we use bandwidths of varying size (75km, 50km, 25km, respectively). Our dependent variable is *Populism*. Standard errors are clustered by municipality would be very similar if clustered by border segment. In columns from (1) to (3) we report results from equation (1). Our findings suggest that the impact of the transfers on populism is sizable. For the 50km bandwidth, which we will consider as our benchmark, crossing the Convergence Objective border implies a reduction of 2.9 p.p. in *Populism*. This effect corresponds to about 5% of the mean of *Populism* (94% of its standard deviation). The impact is highly significant and robust across the various bandwidths. The second model in columns from (4) to (6) makes use of the actual (log) per capita disbursements received by the municipality and instrument them using the Convergence Objective status (see equations (2)-(3)). Even if eligibility solely depends only on the membership in Convergence Objective regions, this RDD model with continuous treatment takes into account that: (a) all the EU regions receive some treatment, even if it relies on very different endowments; (b) the intensity of treatment differs among municipalities also because of the space-varying distribution of projects financed by EU regional policy. In any case, the 1st stage F-statistics is always reassuring, and the 2nd stage effect is estimated to be of a magnitude similar to those of the previous experiments: if we increase our key dependent variable of one standard deviation, *Populism* decreases by four-fifth of its standard deviation. The third model, Columns from (7) to (9), presents the impact estimated by replacing the latitude and longitude polynomial with a second degree polynomial in the (Euclidean) distance to the Convergence Objective

border. We allow the slopes of the polynomial to be different across the cutoff. These results, which largely confirm the previous ones, are useful because they can be compared with those obtained with nonparametric methods (see below).[4]

Table 6 provides the nonparametric analogues of the specifications that use distance from the border. The estimator for the Convergence Objective status effect is computed using the procedure developed in Calonico et al. (2014) and Calonico et al. (2017). The choice of the bandwidth is based on the optimal bandwidth choice proposed by Imbens and Kalyanaraman (2012). Reassuringly, the estimated impacts are almost indistinguishable from the ones derived with parametric specifications. Figure 6 depicts the canonical RDD graph.

4.3 Robustness Checks

Next we probe the robustness of our results. We start by using the specification of Table 5, Column (2) as benchmark. In Table 7, Column (1), we change our measure of populism. Here, we use the share of votes for populist parties according the 0-1 definition of Inglehart and Norris (2016). We find that transfers still impact negatively on populism, and the effect is highly significant. In Column (2), we drop the observations close (10km) to the two sides of the border. This exercise ensures that the finding are not driven by the reallocation of firms or commuting of people across the Convergence Objective boundary. Results are nicely confirmed, thus validating the identification strategy. As discussed by Lee and Lemieux (2010), because of its local-randomized nature it is not necessary to include additional controls in an RDD setting to obtain consistent estimates. However, doing so might improve the precision of the estimates in small samples (Imbens and Lemieux, 2008). In Column (3) we add as controls all the variables depicted in Table 3. The results show that including additional controls has few consequences. Next, we worry that we might erroneously attribute to the crossing of the Convergence Objective status border some underlying spatial trends in populist voting. To lessen this concern, we replicate our baseline specifications by using fake borders. To be sure, in Column (4) we consider a false border (far 50 km from the true border) within non-Convergence Objective areas,

[4] Unreported evidence (available upon request) shows that the results with the univariate forcing variable are very stable if we replace Euclidean distance with travel distance.

while in Column (5) we consider a false border (far 50 km from the true border) within Convergence Objective territories. The results clearly suggest that we are not mistakenly capturing something different from the impact of the EU programs. Finally, Column (6) confirms our results using a different statistical unit of analysis (local labor market) that might better accommodate measurement errors stemming from spending spillovers across municipalities.

Then, we move to the 2SLS specification (Table 8). Yet again, we change the measure of our outcome variable (Column (1)), drop the observations in the 10km safety belt (Column (2)), and add the baseline covariates (Column (3)). In the next columns, we vary the way we measure expenditure intensity to make sure that the results do not rely on a single proxy. In Columns (4) and (5) we average disbursement by EU programs over a period respectively of 4 and 3 years (in the baseline, this measure refers to a 5-year average). In Column (6), we add nationally-funded cohesion policy. Finally, Column (7) report results using a different statistical unit of analysis (local labor market). The results of these robustness checks do not alter our main findings.

4.4 Heterogeneity

Populism is basically the share of votes to populist parties, where populism intensity is measured on a [0-100] scale. It seems interesting to see whether the detected negative effect comes from an effect on the numerator, the denominator or a combination of both. Table 9 provides the breakdown. EU transfers have a negative discernable impact on the log of the absolute number of populist votes (Columns (1) and (4)), but not on the absolute number of non-populist votes (Columns (2) and (5)). On the other hand, EU aid slows down (log) number of votes (Columns (3) and (6)).

We now consider different dimensions of the populist milieu. According to Inglehart and Norris (2018), there are at least two traceable components (see above). The first one refers to the contrasts between “common citizens” and the “elite,” where the former is seen as virtuous while the latter as fraudulent. The second component refers to a taste for authoritarianism: respecting the popular sovereignty is seen as a priority and liber-democracy checks and balances, in particular those referring to non-elected autonomous bodies, are considered as an obstacle for the realization of people’s will

(Kaltwasser, 2018). Our data allows distinguishing between the two components. Table 10 provides the results, according to which the first component is the one that matters. This is not surprising: the transfers are received from a body considered part of the establishment (the popular narrative, uses the term troika to indicate EU authorities jointly with ECB and IMF). Therefore, receiving a gift from this body might change the feeling against the elite.

Finally, we provide a breakdown of the impact according to the types of the transfers. We can distinguish between incentives to households and firms, public works and current expenditures of local administrations (Table 11). All of them seem to contribute to the slowdown of populist instances.

4.5 Inference far from the threshold

As it is well known, the regression discontinuity design allows unbiased estimates of the treatment effect only at the threshold while the impact of the treatment on infra-marginal municipalities may be interesting too. In what follows we make use of the Angrist and Rokkanen (2015) conditional independence assumption (CIA) to see whether our estimated treatment effect is stable for away from-the cutoff municipalities. The idea of the CIA is to break the relationship between treatment status (Convergence Objective) and outcomes by means of a number of covariates such that, conditional on them, outcome is independent of the running variable (distance). The vector of covariates is then used to identify counterfactual values for the outcome variables of interest.

Choosing such covariates is equivalent to identify the omitted variables in a regression of populism on distance. We do that by means of a double selection procedure based on LASSO (Belloni et al., 2014): starting with 142 potential controls[5], we finally select 11 variables. CIA tests are reported in Table 12, which shows the results from five estimation windows of various width: 10 km, 20 km, 30, km, 50 km (that covers the whole baseline sample). The 20 km bandwidth is the largest one for which the CIA is satisfied while in the next one (30 km) there is evidence of CIA violations on the right side. Further

[5] We use the 15 variable employed in Table 3 as dependent variables (excluding quality of institutions to avoid sample drop), their squared values and two-way interaction, together with 7 border fixed effects.

than 30 km we are not able to provide far-from-the-threshold inference. With these results in hands, in Table 13 we regress *Populism* on the Convergence Objective treatment dummy and the selected covariates. In Column 1 we show the benchmark estimate obtained by estimating equation (1) in which $f(latitude_i, longitude_i)$ is substituted by the forcing variable (distance measured in km). Note that such benchmark estimate differs from that shown in Table 5, column 8, that is obtained controlling for a second-degree polynomial in distance (measured in km) with varying slopes. Overall, estimates suggests that the estimated treatment effect is rather stable within 30 km, ranging from 3 to 3.9 percentage points, compared to 3.5 estimated at the cutoff.

5. Concluding remarks

Recently, the idea that regional differences in development might be at the heart of anti-system electoral choices has gained remarkable support. A pertinent question is then to what extent regional redistribution is able to counteract the appeal of populist views. Some previous evidence - based on the case of Brexit - suggests that regional aid has little role, implicitly inferring that cultural causes might be the source of discontent as alleviating economic insecurity through aid does not seem to matter. This paper shows that that the previous conclusion drawn from the example of Brexit might not have general validity.

We have showed that financial transfers injected by the EU regional policy towards Italian lagging areas have had the ability to change local political preferences. Compared to regions in other EU Objectives, the status of Convergence Objective implies a significant drop in populism. EU money affects the antiestablishment component of populism but has no role for the authoritarianism component. Thus, our estimates are probably useless for countries in which the prevailing feature of local anti-establishment parties is the authoritarian one. The EU financing diminishes populist votes but has effect no effect on non-populist votes. Our findings also highlight that money matters *per se*, irrespective of the specific channels – investment or consumption oriented - through which it is injected towards local communities. This aspect seems to be consistent with the idea that the

potential protest voter is in need of short-term support, and the long-term consequences of the transfers are considered as second-order issues.

We believe that our findings are tremendously interesting for the current design of EU policy and the overall evolution of the EU Institutions. Two caveats are, however, in order. First, the impact we measure refers to transfers with the EU label. Whether national, rather than European, transfers will have similar effect on voting is something on which our result are not informative and that we leave to further research. Second, the impact we document has a local dimension. We show that it holds not only at the border but also in an area which extends for 20 km far from the border discontinuity of the EU funding. Perhaps, citizens from these municipalities can fruitfully compared themselves with their counterfactuals located few kilometers away. However, whether our RDD local results carry over the entire South of Italy remains an issue to be tackled.

Tables and figures

Table 1: Descriptive statistics

Panel A: Whole country – treated and untreated municipalities						
VARIABLES	Units	Observations	Mean	Standard dev.	Min	Max
Populism	Percentage points	7,883	55.378	3.668	30.613	69.587
Convergence Obj.	0-1	7,883	0.268	0.443	0	1
Disbursements	Average euros per capita 2008-2012	7,883	56.046	100.238	0.000	3,399.317
Panel B: Whole country – treated municipalities						
VARIABLES	Units	Observations	Mean	Standard dev.	Min	Max
Populism	Percentage points	2,113	52.456	3.239	30.613	61.774
Convergence Obj.	0-1	2,113	1	0	1	1
Disbursements	Average euros per capita 2008-2012	2,113	143.064	139.980	8.648	3,399.317
Panel C: Whole country – untreated municipalities						
VARIABLES	Units	Observations	Mean	Standard dev.	Min	Max
Populism	Percentage points	5,770	56.448	3.204	30.931	69.587
Convergence Obj.	0-1	5,770	0	0	0	0
Disbursements	Average euros per capita 2008-2012	5,770	24.179	52.586	0.000	1,216.906
Panel D: 50km sample – treated and untreated municipalities						
VARIABLES	Units	Observations	Mean	Standard dev.	Min	Max
Populism	Percentage points	560	53.523	3.092	31.783	63.271
Convergence Obj.	0-1	560	0.532	0.499	0	1
Disbursements	Average euros per capita 2008-2012	560	103.448	187.104	6.303	3,399.317
Panel E: 50km sample – treated municipalities						
VARIABLES	Units	Observations	Mean	Standard dev.	Min	Max
Populism	Percentage points	298	51.910	2.962	31.783	58.306
Convergence Obj.	0-1	298	1	0	1	1
Disbursements	Average euros per capita 2008-2012	298	146.490	234.337	28.326	3,399.317
Panel F: 50km sample – untreated municipalities						
VARIABLES	Units	Observations	Mean	Standard dev.	Min	Max
Populism	Percentage points	262	55.357	2.034	49.484	63.271
Convergence Obj.	0-1	262	0	0	0	0
Disbursements	Average euros per capita 2008-2012	262	54.492	89.273	6.303	975.389

Table 2: First stage

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
Convergence Obj	1.286***	1.234***	1.139***	123.4***	124.5***	83.01**
	(0.110)	(0.131)	(0.180)	(25.22)	(26.70)	(38.22)
Bandwidth	75 km	50 km	25 km	75 km	50 km	25 km
Observations	834	560	269	834	560	269

The dependent variable is ln (disbursements) and disbursements in columns 1-3 and columns 4-6, respectively. The estimation method is OLS. All specifications include a second-degree polynomial in latitude and longitude and 7 border fixed effects. Robust standard errors are in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

Table 3: Balance checks

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Geography				Demography			Quality of inst. & Politics	
Convergence Obj	-0.0156	-35.45	13.78	549.5	122.6	5.669	-0.259	-9.591	1.700
	(0.0395)	(39.93)	(55.44)	(1175)	(74.85)	(21.20)	(0.327)	(7.774)	(1.770)
Dep. Var.	Seaside	Altitude	Slope	Population	Population density	Aging index	Share of graduates	Quality of institutions	% right-wing votes
Observations	560	560	560	560	560	560	560	397	560

The dependent variables are: seaside municipality (col. 1), altitude (col. 2), max altitude - min altitude (col. 3), population (col. 4), population density (col. 5), aging index (col. 6), share of graduates (col. 7), quality of institutions (proxied by the indicator in De Angelis et al. (2018), col. 8), percentage of votes for right-wing parties in 2001 (col. 9). All these dependent variables are measured in 2001 except for quality of institutions that refers to 2012. The estimation method is OLS. All specifications include a second-degree polynomial in latitude and longitude and 7 border fixed effects. The bandwidth is 50 km. Robust standard errors are in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

Table 3: Balance checks (continued)

VARIABLES	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	Sectoral composition			Competing shocks			
Convergence Obj	-2.253	-0.440	2.196	0.00472	-0.00157	-1.548	0.00212
	(2.551)	(1.485)	(2.520)	(0.00314)	(0.00204)	(2.323)	(0.00507)
Dep. Var.	Share industry	Share constr.	Share services	Immigrant share	Exposure to China	Exposure to Euro shock	Exposure to fiscal discipline
Observations	560	560	560	560	560	560	560

The dependent variables are: share of employees industry (col. 1), share of employees in construction (col. 2), share of employees in services (col. 3), share of immigrants over population (col. 4), exposure to China import competition (col. 5), exposure to euro (col. 6), exposure to fiscal discipline (col. 7). All these dependent variables are measured in 2001 except for exposure to fiscal discipline that refers to 2001-2005. The estimation method is OLS. All specifications include a second-degree polynomial in latitude and longitude and 7 border fixed effects. The bandwidth is 50 km. Robust standard errors are in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

Table 4: Continuity at other regional borders

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
Fake treatment	0.974	0.702	0.170	0.156	-0.144	-0.384
	(0.645)	(0.864)	(1.532)	(0.717)	(0.909)	(1.576)
Bandwidth	75km	50km	25km	75km	50km	25km
Obs included in the baseline	N	N	N	Y	Y	Y
Observations	663	378	161	441	296	138

The dependent variable is Populism. Fake treatment is a dummy variable equal to 1 if the municipality is located in Molise or Puglia and 0 if is located in Lazio or Campania. The estimation method is OLS. All specifications include a second-degree polynomial in latitude and longitude, and border fixed effects. Robust standard errors are in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

Table 5: Baseline results

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Convergence Obj	-3.639***	-2.916***	-2.466***				-2.626***	-2.763***	-2.871***
	(0.363)	(0.396)	(0.518)				(0.525)	(0.646)	(0.983)
Ln(disb.)				-2.516***	-2.458***	-2.221***			
				(0.361)	(0.446)	(0.616)			
Band.	75km	50km	25km	75km	50km	25km	75km	50km	25km
2° deg. pol.	Lat-lon	Lat-lon	Lat-lon	Lat-lon	Lat-lon	Lat-lon	Distance	Distance	Distance
Est. method	OLS	OLS	OLS	2SLS	2SLS	2SLS	OLS	OLS	OLS
F				124.665	83.632	42.017			
Observations	834	560	269	834	560	269	834	560	269

The dependent variable is Populism. The estimation method is OLS except for columns 4-6 in which ln (disbursements) is instrumented with the Convergence Obj. status (2SLS). All specifications include a second-degree polynomial in latitude and longitude, except for columns 7-9 in which that polynomial is substituted with a second-degree polynomial in distance (measured in km) with varying slopes, and 7 border fixed effects. Robust standard errors are in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

Table 6: Nonparametric estimates

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
Convergence Obj	-3.876***	-3.912***	-3.912***	-2.928***	-2.767***	-2.767***
	(0.336)	(0.336)	(0.404)	(0.557)	(0.557)	(0.648)
Method	Conventional	Bias-corrected	Robust	Conventional	Bias-corrected	Robust
Observations	7,859	7,859	7,859	1,745	1,745	1,745
Optimal bandwidth	106.6 km	106.6 km	106.6 km	36.6 km	36.6 km	36.6 km
Effective observations	1,115	1,115	1,115	369	369	369

The dependent variable is Populism. The nonparametric estimator of the Convergence Obj. status effect is computed using the procedure developed in Calonico et al. (2014) and Calonico et al. (2017). The choice of the bandwidth is based on the optimal bandwidth choice proposed by Imbens and Kalyanaraman (2012). In columns 1 and 4, estimates do not account for the possibility of the linear fitting bias; in columns 2-3 and 5-6 estimates account for the presence of the linear fitting bias following the bias-correction procedures proposed by Calonico et al. (2014). In columns 1-3 the initial sample is made of all Italian mainland municipalities; in columns 4-6 the initial sample is made of all mainland Italian municipalities whose distance from the border is lower than 200 km. Triangular kernel. *** p<0.01, ** p<0.05, * p<0.1.

Table 7: Robustness checks on the reduced form

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
Convergence Obj	-6.395***	-3.048***	-2.860***			-2.108***
	(1.048)	(0.566)	(0.444)			(0.532)
Fake ob. 1 north				0.534		
				(0.390)		
Fake ob. 1 south					0.314	
					(0.446)	
Distance < 10 exc.	N	Y	N	N	N	N
Addition. controls	N	N	Y	N	N	N
Statistical units	Municipalities	Municipalities	Municipalities	Municipalities	Municipalities	LLMs
Observations	560	455	397	537	528	42

The dependent variable is Populism, except for columns 1 in which populism is measured according to the Inglehart and Norris (2016)'s classification. The estimation method is OLS. The bandwidth is 50 km; in columns 2 and 5 municipalities whose distance from the border is lower than 10 km are excluded. All specifications include a second-degree polynomial in latitude and longitude and 7 border fixed effects; in column 3 we also control for seaside, altitude, max altitudine – min altitude, population density, aging index, share of graduates, share of employees in industry, share of employees in construction, share of employees in services, quality of institutions (proxied by the indicator in De Angelis et al., 2018). In column 4 (5) the fake threshold is obtained by adding (subtracting) 50 km to the original forcing variable. The statistical unit of analysis is municipality except for column 6 in which it is local labor market. Robust standard errors are in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

Table 8: Robustness checks on the 2SLS estimation

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
Ln(disb.)	-5.394***	-2.368***	-2.559***	-2.348***	-1.952***	-6.812***	-1.790***	
	(1.131)	(0.507)	(0.557)	(0.412)	(0.314)	(1.941)	(0.681)	
Dist. < 10 exc.	N	Y	N	N	N	N	N	
Add. controls	N		N	Y	N	N	N	N
Statistical units	Municipalities		Municipalities	Municipalities	Municipalities	Municipalities	Municipalities	LLMs
F	83.632		64.649	52.267	99.233	135.450	13.254	9.810
Observations	560	455	397	560	560	560	42	

The dependent variable is Populism, except for columns 1 in which populism is measured according to the Inglehart and Norris (2016)'s classification. The estimation method is 2SLS: ln (disbursements) is instrumented with the Convergence Obj. status. The bandwidth is 50 km; in column 2 municipalities whose distance from the border is lower than 10 km are excluded. All specifications include a second-degree polynomial in latitude and longitude and 7 border fixed effects; in column 3 we also control for seaside, altitude, max altitudine – min altitude, population density, aging index, share of graduates, share of employees in industry, share of employees in construction, share of employees in services, quality of institutions (proxied by the indicator in De Angelis et al., 2010). In column 4 (5) disbursements are averaged over 4 (3) years before the election; in column 6 disbursements include the national cohesion policy. The statistical unit of analysis is municipality except for column 7 in which it is local labor market. Robust standard errors are in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

Table 9: Adjustment mechanism

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
Convergence Obj	-0.146***	-0.0252	-0.0533***			
	(0.0151)	(0.0163)	(0.0152)			
Ln(disb.)				-0.121***	-0.0198	-0.0435***
				(0.0192)	(0.0137)	(0.0138)
Dep. var.	Ln (pop votes)	Ln (non pop. votes)	Ln (total votes)	Ln (pop votes)	Ln (non pop. votes)	Ln (total votes)
Est. method	OLS	OLS	OLS	2SLS	2SLS	2SLS
F				82.071	82.071	82.071
Observations	560	560	560	560	560	560

The dependent variable is ln (total number of populist votes) in columns 1 and 4, ln (total number of non-populist votes) in columns 2 and 5, ln (total number of valid votes) in columns 3 and 6. The estimation method is OLS in columns 1-3 and 2SLS in columns 4-6 in which ln (disbursements) is instrumented with the Convergence Obj. status. All specifications include a second-degree polynomial in latitude and longitude, ln (voting-eligible population) and 7 border fixed effects. The bandwidth is 50 km. Robust standard errors are in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

Table 10: Populism components

VARIABLES	(1)	(2)	(3)	(4)
Convergence Obj	-5.062***	-0.770		
	(0.723)	(0.664)		
Ln(disb.)			-4.206***	-0.711
			(0.762)	(0.551)
Dep. variable	Populism - antiestablishment	Populism – authoritarianism	Populism - antiestablishment	Populism – authoritarianism
Est. method	OLS	OLS	2SLS	2SLS
F			83.632	83.632
Observations	560	560	560	560

The dependent variable is the antiestablishment component of Populism in columns 1 and 3, and the authoritarianism component of Populism in columns 2 and 4. The estimation method is OLS in columns 1-2 and 2SLS in columns 3-4 in which ln (disbursements) is instrumented with the Convergence Obj. status. All specifications include a second-degree polynomial in latitude and longitude and 7 border fixed effects. The bandwidth is 50 km. Robust standard errors are in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

Table 11: Different types of expenditures

VARIABLES	(1)	(2)	(3)
Ln(disb.)	-0.571***	-1.197***	-2.034***
	(0.0958)	(0.212)	(0.306)
Disbursements related to:	public works	transfers	public proc.
F	86.929	49.679	200.967
Observations	560	560	560

The dependent variable is Populism. The estimation method is 2SLS in which ln (disbursements) is instrumented with the Convergence Obj. status. The bandwidth is 50 km. All specifications include a second-degree polynomial in latitude and longitude and 7 border fixed effects. Robust standard errors are in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

Table 12: Conditional independence tests

WINDOW	(1) Convergence Obj = 0 (control municipalities)	(2) Convergence Obj = 1 (treated municipalities)
10 Km	0.171 (0.124) *N* = 56	-0.0960 (0.155) *N* = 49
20 km	0.00519 (0.0404) *N* = 116	-0.0621 (0.0542) *N* = 98
30 km	0.0109 (0.0189) *N* = 169	-0.0767*** (0.0293) *N* = 147
40 km	0.0198* (0.0117) *N* = 218	-0.0656*** (0.0181) *N* = 205
50 km	0.0312*** (0.00874) *N* = 262	-0.0670*** (0.0137) *N* = 298

The dependent variable is Populism. The Table reports the coefficient of distance (measured in km) in different sample to the left (Convergence Obj = 0) and to the right (Convergence Obj = 1) of the cutoff. All specifications include (max altitude - min altitude), population density, altitude*percentage of votes for right-wing parties in 2001, population density*share of employees in construction, population density*exposure to fiscal compact, aging index* share of employees in services, aging index*percentage of votes for right-wing parties in 2001, and two border fixed effects; all these controls have been selected by means of a lasso double selection LASSO procedure. Robust standard errors are in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

Table 13: Treatment effect far from the cutoff

VARIABLES	(1)	(2)	(3)	(4)
Convergence Obj	-3.526*** (0.471)	-3.020*** (0.553)	-3.550*** (0.494)	-3.913*** (0.466)
The effect is measured at the following distance from the cutoff	0 km	10 km	20 km	30 km
Observations	560	105	214	316

The dependent variable is Populism. Robust standard errors are in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

Figure 1: Convergence Objective regions in Italy 2007-2013

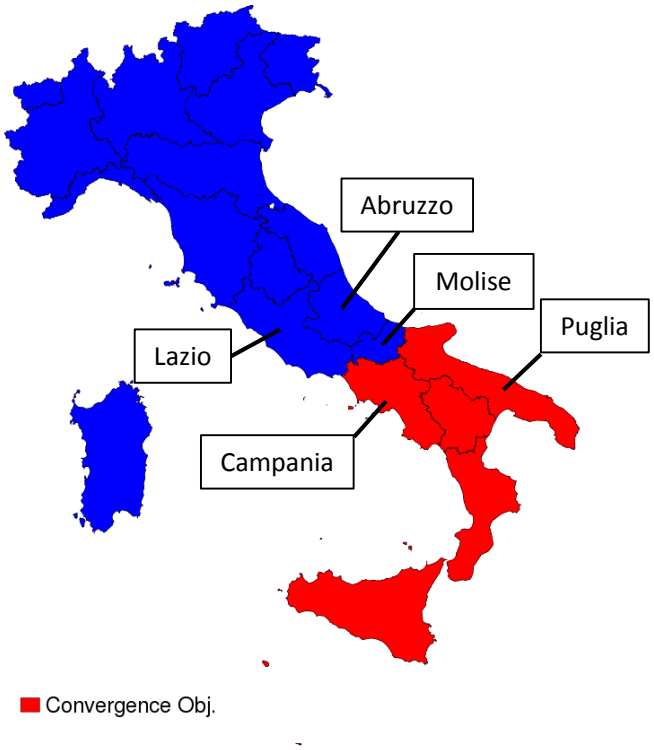
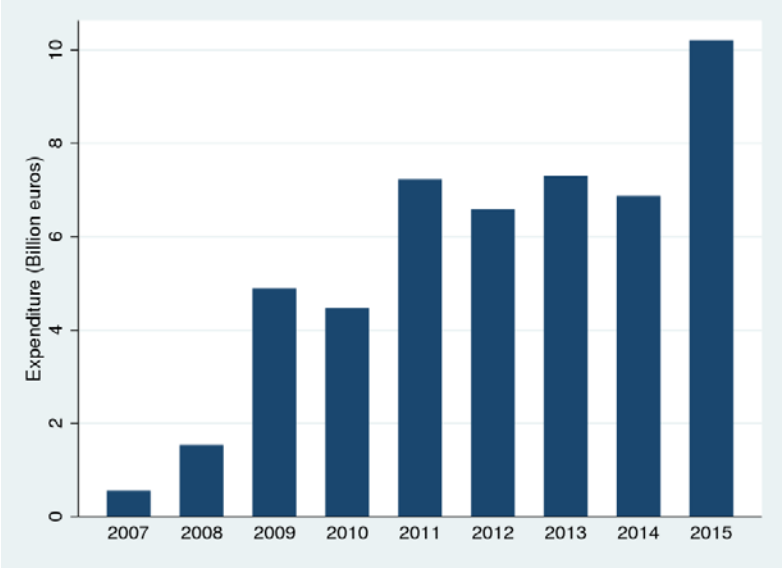


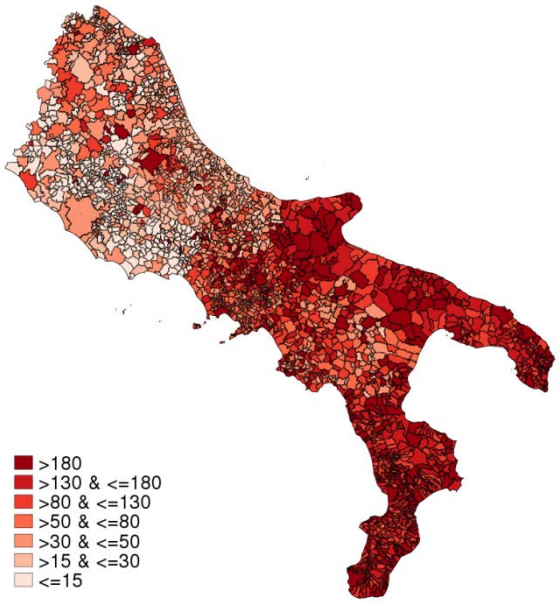
Figure 2: Expenditure from 2007-2013 EU regional policy in Italy



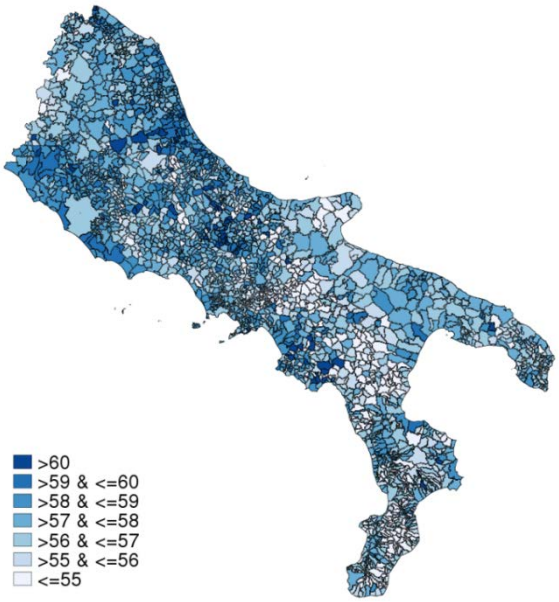
Source: OpenCoesione database

Figure 3: Regional Transfers and Local Voting Behaviour

PANEL A: Transfers from EU regional policy (per capita euros)



PANEL B: Populism



Panel A reports spending by EU regional policy during the years 2008-2012 (i.e. the five years before the 2013 general election) in the group of regions nearest to the Convergence Objective border. Panel B report the index of Populism measured in the 2013 general election (see Section 3.2).

Figure 4: Populism scores at the party level

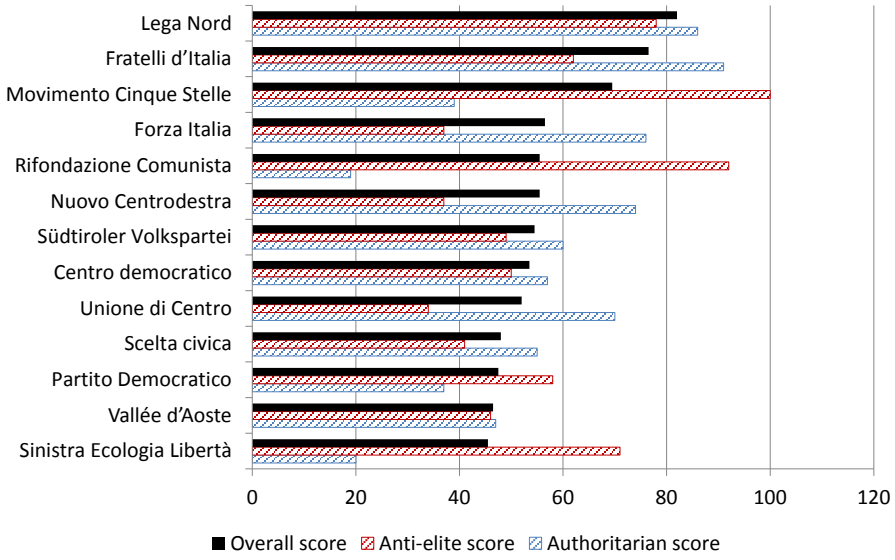
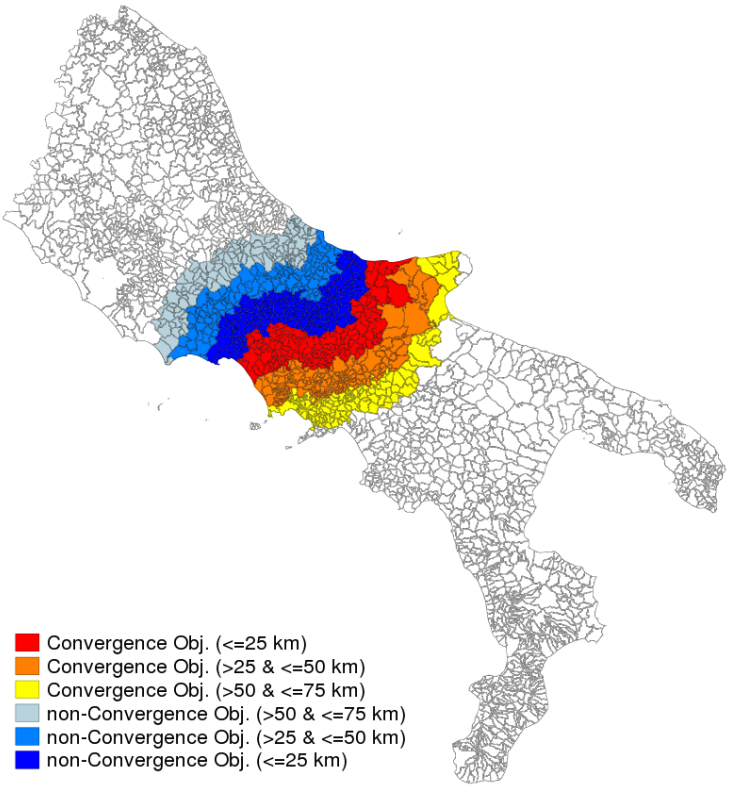
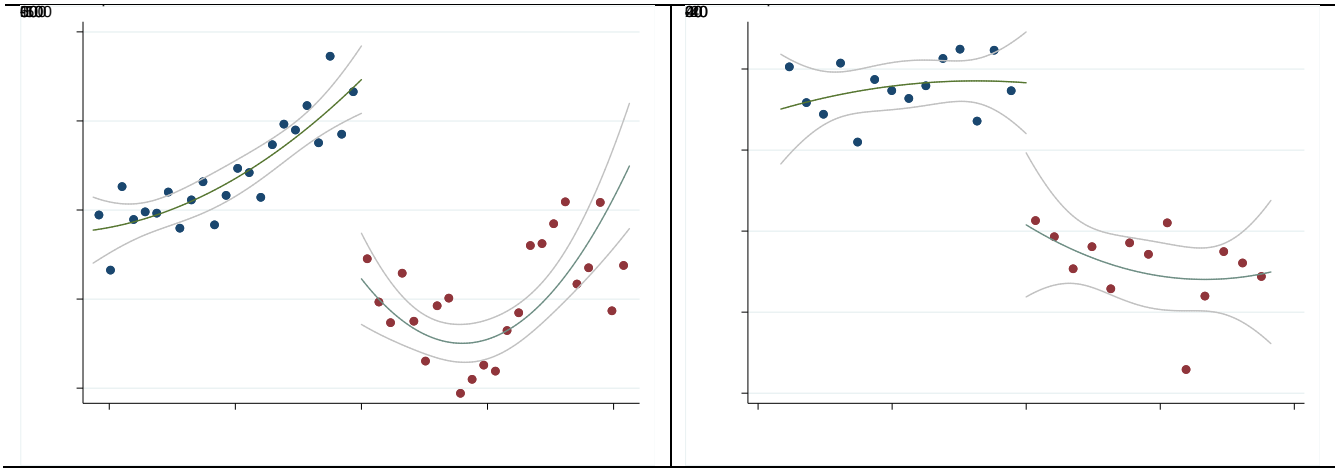


Figure 5: Municipalities in the estimation sample



The map reports the sample of municipalities which are obtained using bandwidths of varying size (75km, 50km, 25km, respectively) around the Convergence Objective border.

Figure 6: Nonparametric RDD estimates



The figure reports the discontinuity in Populism at the Convergence Obj. border. The left graph includes all municipalities within 106.6 km from the border, consistently with the optimal bandwidth detected in Table 4, columns 1-3 while the right graph includes all municipalities within 36.6 km from the border, consistently with the optimal bandwidth detected in Table 4, columns 4-6. The number of bins is computed as min{sqrt(N); 10*ln(N)/ln(10)}, where N is the number of observations.

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