

# Topics in Banking and Political Economy

## Module 5: The (Financial) Origins of Populism

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Limoges, June 2–3, 2026

## Key questions

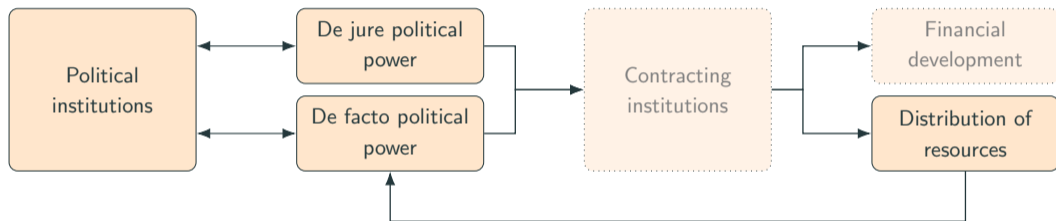
How do financial crises reshape politics?

What is populism and what are its consequences?

How do banking crises and creditor–debtor conflicts contribute to political radicalization and the rise of populism?

To what extent have banks supported the advent of populist politicians into power, historically and contemporaneously?

# Conceptual framework



Source: [Lambert and Volpin \(2018 \[11\]\)](#)

## **Politics after financial crises**

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## Financial crises, polarization, fractionalization

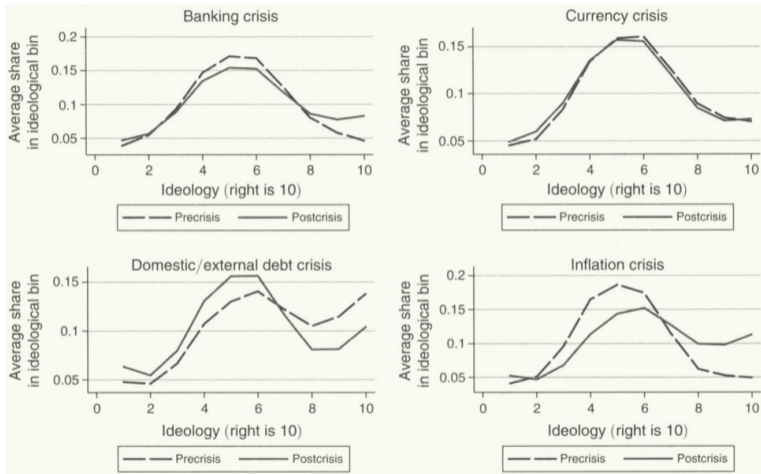
Financial crises are typically followed by deep economic contractions and sustained waves of volatility, often resulting in “secondary” crises (e.g. debt crises following banking crashes)

Mian, Sufi and Trebbi (2014 [12]) show that not only economic polarization (i.e. **inequality**), but political polarization systematically increases around financial crises

Voters become more ideologically polarized and government coalitions weaker (+ party fragmentation)

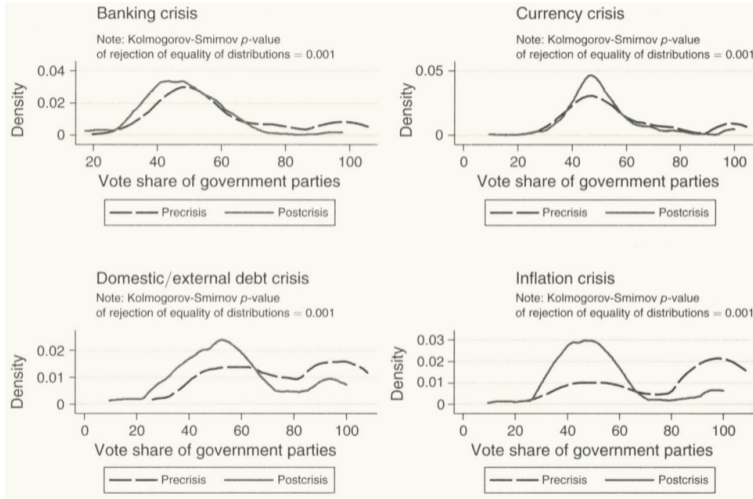
Political gridlock and lack of reform/intervention is a natural outcome (e.g. the failure of the US Congressional Super-committee on deficit is the norm, not the exception)

# Post-crisis decline of mass at the ideological center



Source: Mian et al. (2014 [12])

# Post-crisis decline in government majority margins



Source: Mian et al. (2014 [12])

# Weak governments, strong oppositions

TABLE 2—POLITICS AFTER THE CRISIS: WEAKER GOVERNMENTS, STRONGER OPPOSITIONS

	Banking crisis		Currency crisis		Domestic/external debt crisis		Inflation crisis	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Panel A. Dependent variable: Government vote share</i>								
Postcrisis	-10.6029 [1.4469]***	-6.8459 [1.4906]***	-5.6889 [1.4648]***	-2.9830 [1.0052]***	-17.0451 [2.8974]***	-3.3900 [2.3458]	-26.6331 [2.9077]***	-10.2615 [1.6419]**
R <sup>2</sup>	0.09	0.67	0.03	0.77	0.13	0.84	0.27	0.92
Observations	534	534	599	599	236	236	279	279
<i>Panel B. Dependent variable: Opposition vote share (excluding unaligned parties)</i>								
Postcrisis	8.6544 [1.5059]***	7.7531 [1.3673]***	2.8580 [1.5110]	0.5635 [1.0068]	10.9867 [2.7145]***	2.5713 [2.6374]	20.4801 [2.8892]***	6.3344 [2.1033]**
R <sup>2</sup>	0.06	0.71	0.01	0.75	0.07	0.74	0.17	0.86
Observations	534	534	599	599	236	236	279	279
<i>Panel C. Dependent variable: Polarization</i>								
Postcrisis	0.1761 [0.0625]***	0.1002 [0.0637]	0.0971 [0.0646]	0.0605 [0.0489]	0.2732 [0.0753]***	0.1126 [0.0840]	0.4836 [0.0616]***	0.1099 [0.0727]
R <sup>2</sup>	0.01	0.64	0.00	0.63	0.03	0.57	0.09	0.67
Observations	752	752	753	753	366	366	411	411

*Notes:* This table estimates precrisis and postcrisis levels of three different dependent variables. Independent variable is a postcrisis indicator variable. Columns 2, 4, 6, and 8 include country and year fixed effects. Robust standard errors in brackets. Includes only country and year observations within five years before or after a crisis. All 70 Reinhart and Rogoff (2011) countries. All crises 1975–2010.

## Why is this important?

Financial crises increase **polarization** and **political fractionalization**, making reform (including bailouts) more difficult

Crises are occasionally viewed as “critical junctures” that enable reform by disrupting entrenched interests, but evidence suggests the opposite may occur

Political gridlock delays policy responses and can prolong economic downturns

Gridlock also increases political uncertainty, which can trigger sovereign debt stress (e.g. the European debt crisis)

When reforms do pass despite gridlock, they tend to reflect the influence of well-organized political interests (cf. Module 3: banks vs. mortgage debtors)

## Anemic post-crisis reforms

Mian et al. (2014 [12]) apply a similar event-study approach to examine post-crisis reforms

They study reforms in: (i) interest rate controls; (ii) directed credit and reserve requirements; (iii) entry barriers and competition policies; (iv) privatizations; (v) capital account restrictions; (vi) banking supervision; and (vii) securities market liberalization

Large reforms (whether liberalizations or retrenchments) are rare: only around 1 in 10 crises generates a sizeable policy response (e.g. creditor rights reforms)

Cf. Module 3 on Dodd-Frank and other post-crisis reforms

## Instance of polarization in the U.S. experience

Debt contracts are largely non-contingent on macroeconomic conditions

When asset prices collapse and the economy contracts, nominal debt obligations typically remain unchanged:

- As a result, debtors bear most of the adjustment burden.
- This can generate severe macroeconomic consequences through debt overhang and deleveraging dynamics

creditors may nevertheless resist renegotiation or debt relief during downturns

A write-down that appears manageable in a boom may become systemically destabilizing in a recession

These **creditors–debtors conflicts** can **intensify political polarization** after crises

## U.S. net worth distribution for homeowners in 2007

	<b>Net worth (\$000s)</b>	<b>Home value / Total assets</b>	<b>Financial assets / Total assets</b>	<b>Debt / Total assets</b>	<b>Home debt / Home value</b>
Quintile 1	32.8	0.821	0.034	0.705	0.709
Quintile 2	115.1	0.752	0.111	0.406	0.505
Quintile 3	234.1	0.659	0.207	0.225	0.306
Quintile 4	443.0	0.515	0.271	0.153	0.250
Quintile 5	1194.7	0.299	0.395	0.059	0.161

Source: Survey of Consumer Finances, 2007; homeowners only; sample split using population weights.

## Further evidence from the long run, 1870–2014

Funke, Schularick and Trebesch (2016 [6]) study the political fall-out from systemic financial crises over the past 140 years

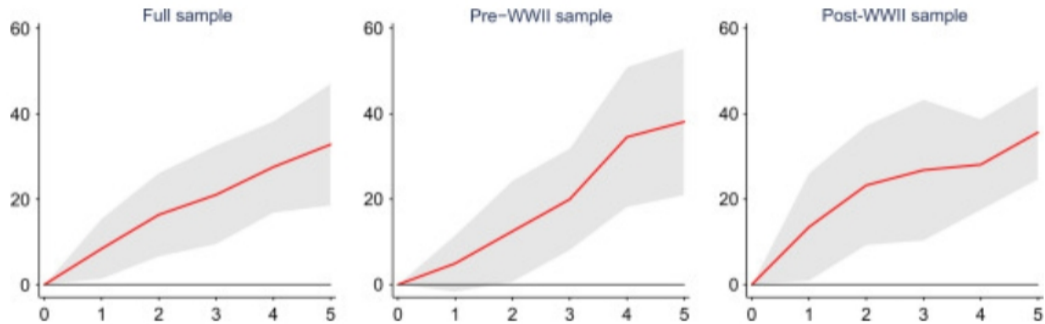
They construct a dataset covering 20 advanced economies and 800+ general elections

They use LPs to project the path of political variables over a 5 and 10 year horizon, comparing the political aftermath of crisis recessions to the aftermath of (non-financial) recessions:

$$\Delta_h y_{it+h}^k = \alpha_i^k + \theta_N^k N + \theta_F^k F + \sum_{j=0}^p \Gamma_j^k Y_{it-j} + u_{it}^k, \quad k = 1, \dots, K; h = 1, \dots, H,$$

where  $\theta_N^k$  is the *normal* recession treatment ( $N = 1$ ) and  $\theta_F^k$  is the *financial* recession treatment ( $F = 1$ )

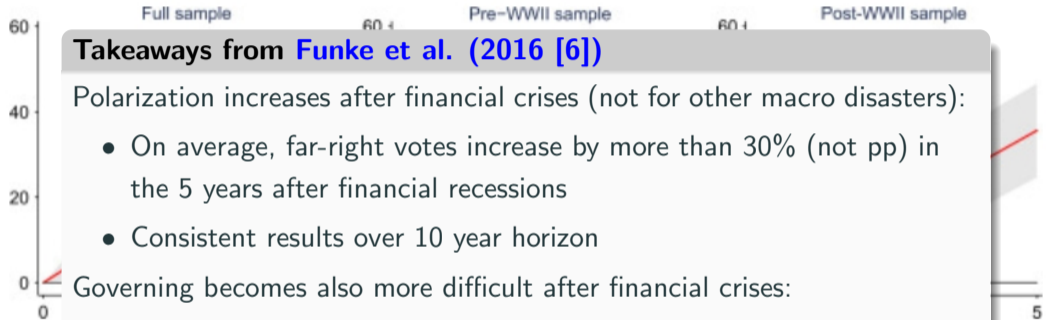
# Going to extremes



Far-right vote shares

Source: [Funke et al. \(2016 \[6\]\)](#)

# Going to extremes



## Takeaways from [Funke et al. \(2016 \[6\]\)](#)

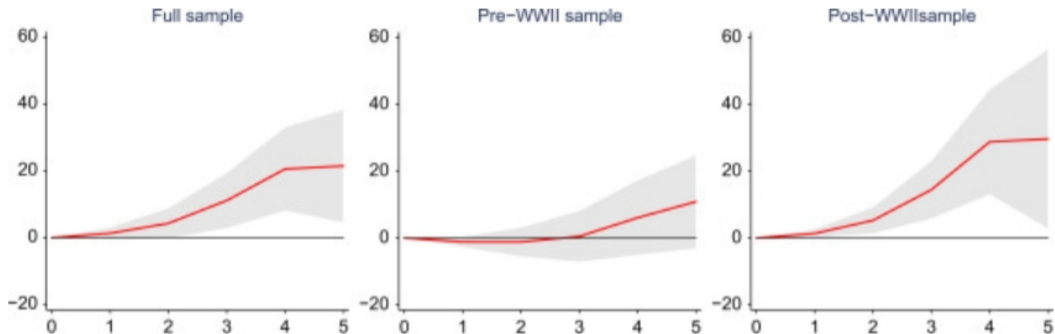
Polarization increases after financial crises (not for other macro disasters):

- On average, far-right votes increase by more than 30% (not pp) in the 5 years after financial recessions
- Consistent results over 10 year horizon

Governing becomes also more difficult after financial crises:

- Shrinking government majorities
- Strengthening of opposition
- Greater political fractionalization

## People also take to the streets



Percentage deviation from trend in the combined number of street protests (general strikes, violent riots and anti-government demonstrations) per year

Source: [Funke et al. \(2016 \[6\]\)](#)

# Credit and silver in China (1931-1935)



1933: The Roosevelt administration launched the **Silver Purchase Program**, largely in response to domestic silver-industry lobbying

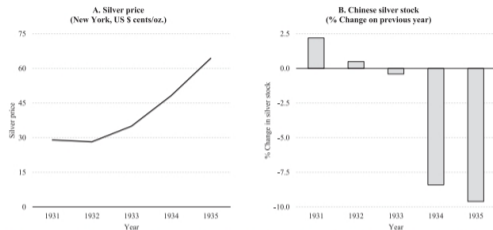


Fig. 2. Silver prices and changes in Chinese silver stock, 1931–1935. Panel A reports the silver price quotes in New York over the period 1931–35 (source: *Economy Xun Kan* [经济旬刊], Vol. 4, No. 13, p. 11). Panel B reports yearly changes in the Chinese stock of silver reserves (source: *Ilawski, 1980*, pp. 394).

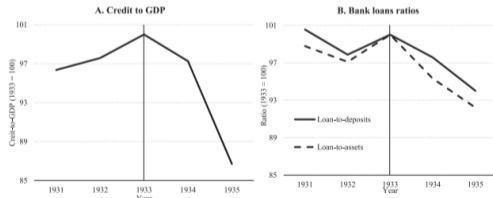


Fig. 3. Aggregate credit in China, 1931–1935. The graphs report measures of aggregate credit provision in the Republic of China over the sample period. Panel A plots the total credit-to-GDP ratio for the Republic of China, rescaled so as to take the value of 100 in 1933. Total credit is the aggregate of the loans data reported on bank balance sheets, used throughout; GDP is based on manufacturing output from factories (Brandt and Sargent, 1989; Table 5). Panel B plots two additional ratios, again for the Republic of China: total loans-to-deposits and total loans-to-assets. Total loans are obtained as the aggregate of the loans data reported on bank balance sheets, used throughout; and deposits and total assets data are retrieved from Cheng (2003, Appendix II).

Source: Braggion, Manconi and Zhu (2020 [3])

# Credit and silver in China (1931-1935)

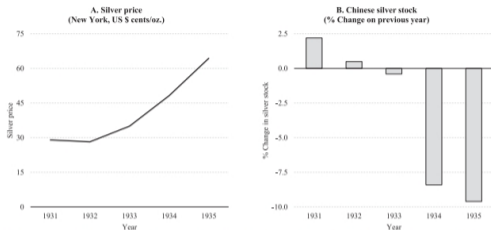


Fig. 2. Silver prices and changes in Chinese silver stock, 1931–1935. Panel A reports the silver price quotes in New York over the period 1931–35 (source: [Brandt and Sargent, 1989, Table 5](#)). Panel B reports the percentage change in the Chinese silver stock over the period 1931–35 (source: [Cheng, 2003, Appendix II](#)).

## Clever identification of [Braggion et al. \(2020 \[3\]\)](#)

- Rising silver prices triggered a sharp outflow of silver from China, reducing banks' lending capacity and causing a credit contraction
- Banks with lower pre-1933 silver reserves were more exposed to the shock and cut lending more aggressively

1933:  
launched  
largely

silver-industry lobbying

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# Communist mobilization and labor activism



**Fig. 1.** Chinese credit and social unrest intensity, 1931–1935. Panel A describes Chinese banks' credit in the bank balance sheet sample in Section 3.1 over the 1931–1935 period, relating it to the banks' silver holdings. We partition the set of Chinese modern banks in three groups based on their 1931 silver holdings in excess of the 60% threshold (*Excess silver*): high (top quartile), low (bottom quartile), and the rest. Within each group, we then regress the Chinese dollar loan amounts on year indicators, i.e., we estimate  $Loan_{bt} = \sum_{t=1931}^{1935} \beta_t I[t] + \varepsilon_{bt}$ , where  $b$  denotes a given bank and  $I[t]$  are indicators for years  $t = 1931, \dots, 1935$ . We compute standardized coefficients  $100 \times \hat{\beta}_t / \hat{\beta}_{1933}$  for each group of banks (i.e., equal to 100 in 1933), and plot the difference between the standardized coefficients on the “low excess silver” and the “high excess silver” groups. For each year (other than 1933) we also obtain standard errors on the standardized coefficients, which we use to plot the 90% confidence bands. Panel B plots the average number of labor unrest episodes, described in Section 3.3, per plant, and Panel C plots the number of plants in which support for Communist activities was detected, described in Section 3.4, as a fraction of membership of the Communist-sponsored union (Shen, 1987, pp. 143; Stranahan, 1998, pp. 154). The plots for Panels B and C are constructed similarly as in Panel A, except that in those cases we partition the set of firms based on their excess silver pool access (*Excess silver pool*). The plots show that, after the Silver Purchase program is initiated, banks with lower silver reserves reduce lending relative to banks with higher silver reserves. Furthermore, firms and plants with greater exposure to the Silver Purchase shock—in the vicinity of banks with lower silver reserves—experience intensified labor unrest episodes and Communist activities after 1933.

## Political economy of populism

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## Populism faces





Brexit referendum dynamics and political polarization



"Judges as enemies of the people"

# Populism faces (cont'd)



# Latin American populism



Eleanor Shakespeare

# Peronism



# United States People's Party



William Jennings Bryan

The **People's Party** emerged in the early 1890s amid rising inequality, deflation, and discontent among farmers and workers

The movement gained momentum after the **panic of 1893**, one of the most severe financial crises of the 19th century

Populists opposed financial and railroad monopolies and criticized the constraints imposed by the **gold standard**

**William Jennings Bryan**, Democratic presidential candidate in 1896, became the leading political figure associated with the movement through his famous "Cross of Gold" speech

## Fascism in the 1930s: Italy and Germany



## Fascism in the 1930s: United Kingdom



## Fascism in the 1930s: United States



## Definition of populism

Justice Stewart's definition of pornography: *"I know it when I see it"* — rephrased by Eichengreen (2018 [5])

What constitutes its **lowest common denominators**?

- [Mudde \(2004 \[13\]\)](#): *"a [thin-centered] ideology that considers society to be ultimately separated into two homogeneous and antagonistic groups, 'the pure people' versus 'the corrupt elite', and which argues that politics should be an expression of the *volonté générale* (general will) of the people."*
- Consensus: populism, so defined, has two opposites: **elitism** and **pluralism**
- Challenge of institutional constraints (courts, judges, political parties, independent agencies, traditional media, scientific community, . . . )

See [Guriev and Papaioannou \(2022 \[13\]\)](#) for discussions on several other aspects

Populism is a three-part phenomenon (Guiso, Herrera, Morelli and Sonno 2017 [8]):

1. Anti-elite rhetoric
2. Immediate protection offer
3. Disregard for the long-term consequences of the protection policies proposed

→ Economists (unlike political scientists) emphasize non-sustainable promises (“demagoguery”)

## Right-wing vs. left-wing populists

The anti-elitism of **right-wing** populists primarily centers on **cultural issues**

- Targeting minorities and foreigners as threats to national identity, but also typically promotes pro-business regulations, low taxes, and limited government

The anti-elitism of **left-wing** populists primarily stems from **economic issues**

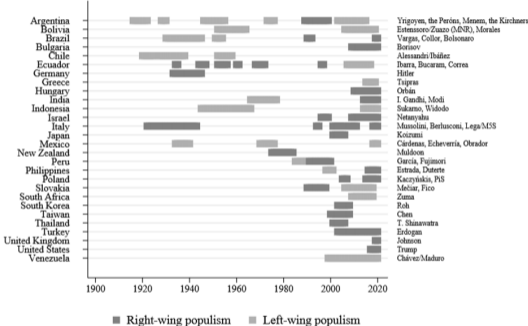
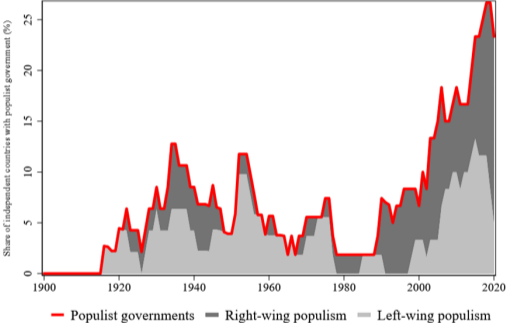
- Targeting financial and capitalist elites, opposing globalization, and frequently advocating for state intervention, economic nationalism, and multicultural inclusivity

# Driving forces of populism

1. Secular economic factors; industrial decline; inequality
  - Trade globalization; the China shock
  - Automation and Outsourcing
2. Economic shocks; the Great Recession; business cycle shocks
  - Unemployment, non-labor-force participation, poverty
  - Austerity
  - Welfare state
3. Immigration
  - Economics – culture
  - Facts and alternative facts
4. Cultural backlash and identity politics
5. Communication technology; social media; Internet 2.0

→ [Guriev and Papaioannou \(2022 \[13\]\)](#) provide a literature overview of these forces

# Populist-led countries



Source: Funke, Schularick and Trebesch (2023 [7])

# Populist risk to financial stability

## ECB warns of populist risk to financial stability

Central bank cautions that rise of insurgent parties makes economic reform more difficult



Norbert Hofer with his supporters © Getty

The rising tide of populism has raised the threat of economic and financial instability in the eurozone and could make it harder for governments to service their debts, the [European Central Bank](#) has warned.

The ECB said in the latest edition of its twice-yearly [Financial Stability Review](#) that a rise in political risk “pose[s] a challenge to fiscal and structural reform implementation and, by extension, public debt sustainability”.

Claire Jones in Frankfurt

Published MAY 24 2016

FINANCIAL TIMES

# The populist legacy

Funke et al. (2023 [7]) examine the economy (real GDP + other outcomes) 15 years after **populist treatment**

But allocation into populist treatment is NOT random

They use SCM (“doppelganger economy”):

- Algorithm to determine which combination of donor economies matches the growth trend of a country with the highest accuracy pre-treatment (15 years)
- Compare realized outcome to reasonable counterfactual prediction:

$$\hat{Y}_{1t}^N = \sum_{j=2}^{J+1} w_j Y_{jt}, \quad \text{and} \quad \hat{\tau}_{1t} = Y_{1t} - \hat{Y}_{1t}^N.$$

## SCM: pre-treatment weights

See [Abadie \(2021 \[1\]\)](#) for an overview

Simple weights (averages):

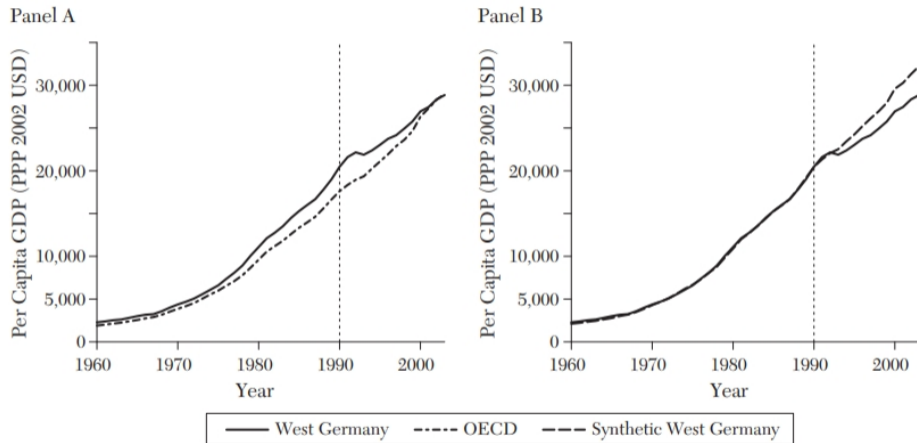
$$\hat{\tau}_{1t} = Y_{1t} - \frac{1}{J} \sum_{j=2}^{J+1} Y_{jt}, \quad \text{and} \quad \hat{\tau}_{1t} = Y_{1t} - \sum_{j=2}^{J+1} w_j^{pop} Y_{jt}.$$

Synthetic control of GDP predictors (e.g. inflation, debt, I, NX, GDP lags):

$$\|X_1 - X_0 W\| = \left( \sum_{h=1}^k v_h (X_{h1} - w_2 X_{h2} - \dots - w_{J+1} X_{hJ+1})^2 \right)^{1/2}$$

1.  $W(V)$ : minimizes mean squared prediction error (MSPE) given  $V$
2. Choose parameters  $V$ : importance of each predictor to minimize prediction error of GDP

# SCM example: West Germany



Source: [Abadie \(2021 \[1\]\)](#)

# Value of GDP predictors for West Germany

ECONOMIC GROWTH PREDICTOR MEANS BEFORE THE GERMAN REUNIFICATION

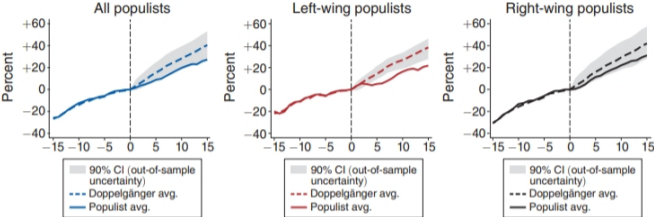
	West Germany (1)	Synthetic West Germany (2)	OECD average (3)	Austria (nearest neighbor) (4)
GDP per capita	15,808.9	15,802.2	13,669.4	14,817.0
Trade openness	56.8	56.9	59.8	74.6
Inflation rate	2.6	3.5	7.6	3.5
Industry share	34.5	34.4	33.8	35.5
Schooling	55.5	55.2	38.7	60.9
Investment rate	27.0	27.0	25.9	26.6

*Note:* The first column reports  $\mathbf{X}_1$ , the second column reports  $\mathbf{X}_0 \mathbf{W}^*$ , the third column reports a simple average of  $\mathbf{X}_j$  for the 16 OECD countries in the donor pool, and the last column reports the value of  $\mathbf{X}_j$  for the nearest neighbor of West Germany in terms of predictors values. GDP per capita, inflation rate, and trade openness are averages for the 1981–90 period. Industry share (of value added) is the average for 1981–89. Schooling is the average for 1980 and 1985. Investment rate is averaged over 1980–84. See Abadie, Diamond, and Hainmueller (2015) for variable definitions and sources. The nearest neighbor in column 4 minimizes the Euclidean norm of the pairwise differences between the values of the predictors for West Germany and for each of the countries in the donor pool, after rescaling the predictors to have unit variance.

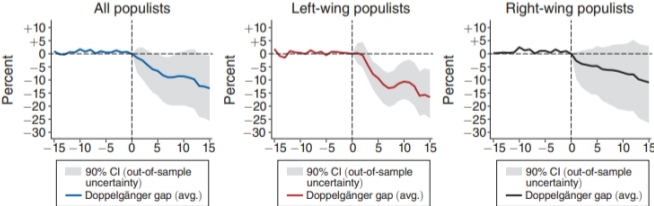
Source: [Abadie \(2021 \[1\]\)](#)

# Effects of populism treatment on real GDP per capita

Panel A. Trends

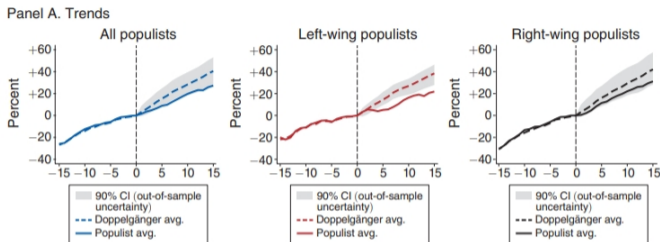


Panel B. Doppelgänger gap



Source: Funke et al. (2023 [7])

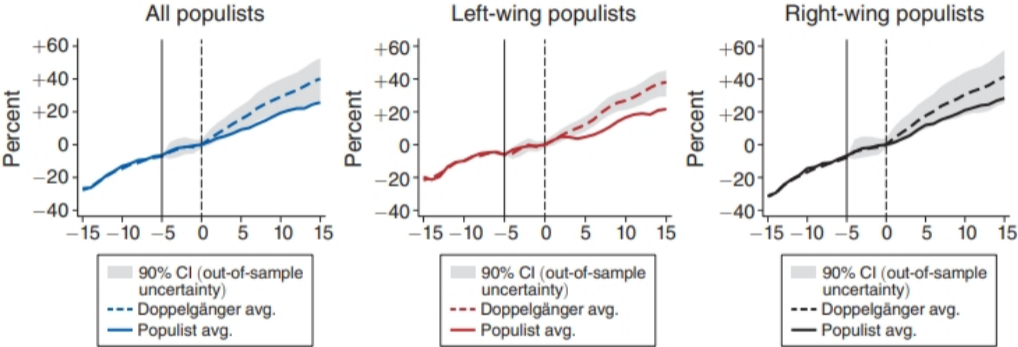
# Effects of populism treatment on real GDP per capita



## Main results of [Funke et al. \(2023 \[7\]\)](#)

- The average real GDP path following the rise to power of a populist is substantially lower than that of a synthetic counterfactual
- The cumulative difference exceeds 10 pp after 15 years
- The GDP path starts to diverge visibly from the synthetic counterfactual approximately 2–3 years after populist treatment

# Time placebo



5-year backward shift of the populist entry into Office

Source: Funke et al. (2023 [7])

# The populist legacy: evidence from 1900–2020

Funke et al. (2023 [7]): populists lead to subpar economic outcomes

1. Lower real GDP per capita
2. Unsustainable public debt dynamics
3. Higher inflation
4. Little reduction in inequality
5. Protectionism and economic nationalism (trade and financial disintegration)
6. Erosion of democratic institutions (judiciary, media, elections)

## **Finance and the rise populism**

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# Financial shocks and populism: evidence from Europe

1. Populist wave in Europe: Guiso, Morelli, Sonno and Herrera (2025 [9]) → 2008 financial crisis
2. Popularity of far-right populist party Jobbik: Gyöngyösi and Verner (2022 [10]) → currency crisis
3. Rise of Nazi party: Doerr, Gissler, Peydró and Voth (2022 [4]) → banking crisis

## Economic insecurity and distrust in institutions

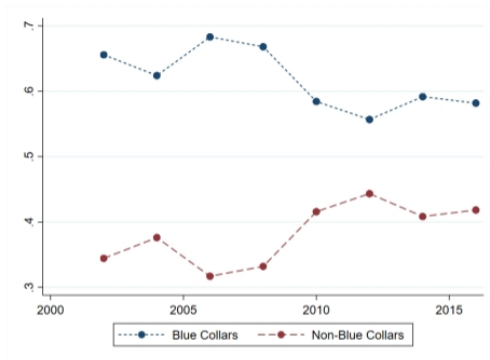
The **2008 financial crisis** created **economic insecurity** among groups previously less exposed to globalization ([Guiso et al. 2025 \[9\]](#))

Unlike immigration, globalization, or automation—which mainly affected low-skilled workers—the financial crisis had a pronounced impact on **the middle class**

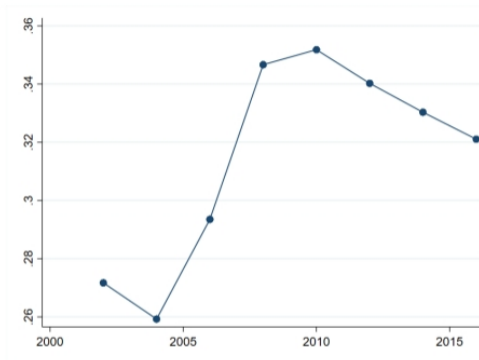
The crisis reshaped **political supply**: new parties emerged and established parties adapted their manifestos

Populist voting rose most in countries with **limited fiscal space**, where identity-based protection (right-wing) was more credible than redistribution (left-wing)

# Insecurity among blue-collar workers and members of the middle class



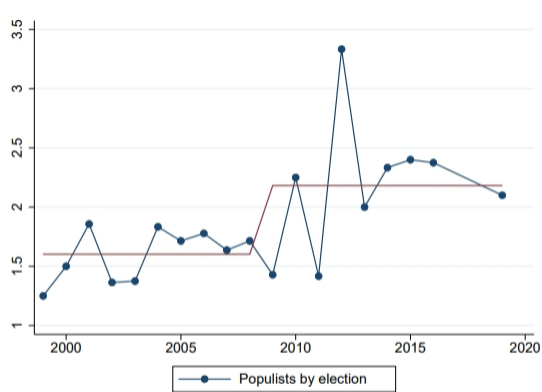
(a) Blue Collar



(b) Middle Class

*Notes:* Panel (a) plots the share of blue-collar and non-blue-collar workers in the top quartile of economic insecurity during the sample period. Panel (b) shows the share of people in the mid-50% of the distribution of income in each country-wave.

# Populist parties



*Notes:* The graph shows the number of populist parties (in blue) and the average number of populist parties (red line) actively participating in elections.

Source: [Guiso \(2025 \[9\]\)](#)

## Economic insecurity and the populist vote

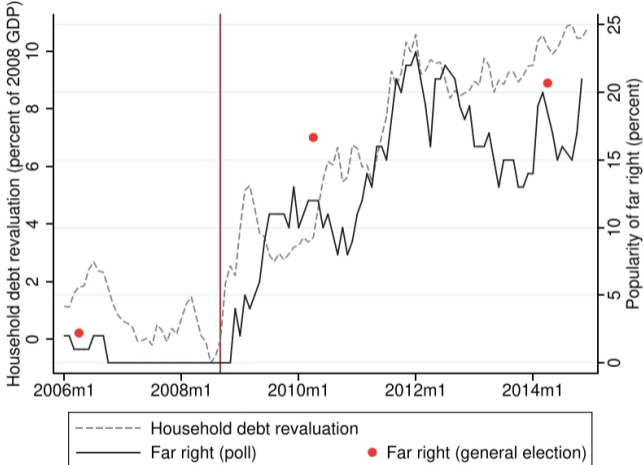
Dep. Variable	(1)	(2)	(3)	(4)
	Populist vote			
Estimation	OLS		2SLS	
Economic insecurity	0.0956*** (0.0301)	0.128*** (0.0234)	0.790*** (0.149)	0.850*** (0.193)
Obs	2,310	2,310	2,310	2,310
Wave, Country, Cohort FE	Yes	Yes	Yes	Yes
Controls	No	Yes	No	Yes
KP F			18.80	18.10

*Notes:* OLS estimation in columns 1 and 2, 2SLS estimation in columns 3 and 4. Dependent variable: Populist vote. *Economic insecurity* is the survey-based measure of economic insecurity. In all regressions we control for cohort, country, and wave fixed effects. In columns 2 and 4 we add also cohort-level time-varying controls described in section 3. Table A12 in Appendix I includes control variables' coefficients. Errors are clustered at the cohort level. Kleibergen-Paap F-statistic are reported for columns 3 and 4.

What do [Gyöngyösi and Verner \(2022 \[10\]\)](#) do?

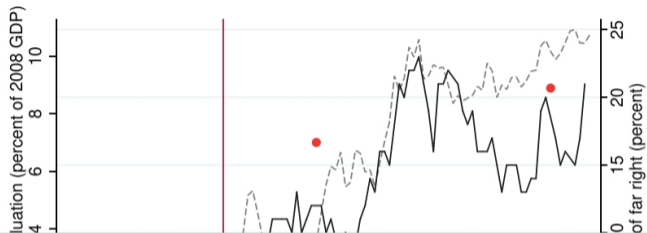
- Question: does debtor distress increase support for a far-right populist party?
- Setting: variation in exposure to foreign currency (FC) household loans during a currency crisis in Hungary
- Neat identification: cross-zip-code variation in exposure to FC loans
- Main outcome: support for Jobbik (Movement for a Better Hungary)

# Household FC debt shock and support for the populist far right



Source: Gyöngyösi and Verner (2022 [10])

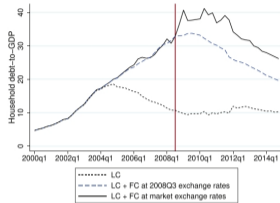
# Household FC debt shock and support for the populist far right



## Pitch

- Massive foreign-currency lending boom before 2008
- Hungarian forint (HUF) depreciation sharply increased debt burdens
- Political backdrop: rapid rise of Jobbik after the GFC

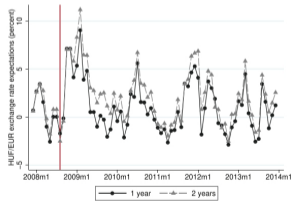
----- Household debt revaluation  
—— Far right (poll)      • Far right (general election)



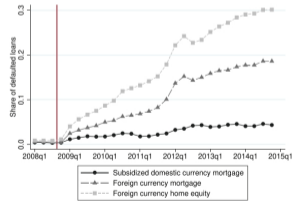
Panel (a) Household debt



Panel (b) Exchange rates



Panel (c) Exchange rate expectations



Panel (d) Default rate by currency

## Zip-Code-Level Descriptive Statistics

This table presents descriptive statistics for the main zip-code-level variables used in the analysis. Observations are weighted by the number of eligible voters in 2006.

Main Variables	<i>N</i>	Mean	<i>SD</i>	p10	p90
FC share, <i>FCS</i>	3,475	0.63	0.089	0.52	0.73
FC debt share	3,475	0.66	0.094	0.54	0.77
FC loans per capita	3,475	0.057	0.019	0.035	0.079
LC loans per capita	3,475	0.035	0.015	0.019	0.05
Debt revaluation to income	3,475	0.087	0.032	0.052	0.13
Control Variables	<i>N</i>	Mean	<i>SD</i>	p10	p90
Debt-to-income	3,475	0.59	0.21	0.36	0.86
Per-capita number of loans, 2008	3,475	0.089	0.03	0.054	0.12
Vocational share	3,475	0.2	0.055	0.12	0.26
High school share	3,475	0.27	0.068	0.17	0.35
College share	3,475	0.15	0.095	0.053	0.27
Log per-capita income	3,475	7.7	2.1	6.2	12
Log number of eligible voters, 2006	3,475	9.4	1.8	6.9	12
Unemployment rate, 2007	3,475	0.073	0.058	0.023	0.15
Share of people age 18 to 29	3,475	0.16	0.014	0.15	0.18
Share of people age 59+	3,475	0.22	0.033	0.18	0.25
Dependent Variables	<i>N</i>	Mean	<i>SD</i>	p10	p90
Vote share, far right, 2010	3,475	15	7.3	8	26
Vote share, center right, 2010	3,475	50	13	31	65
Vote share, center left, 2010	3,475	17	6.4	8.9	26
Vote share, far left, 2010	3,475	0.11	0.4	0	0.28
Turnout, 2010	3,475	64	6.1	56	72

# Measuring exposure to the depreciation

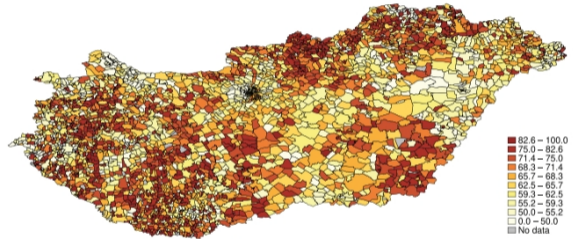
Foreign-currency loan share ( $FCS_i$ )  
in zip code  $i$  in September 2008:

$$FCS_i = \frac{N_{FC,i}}{N_{FC,i} + N_{LC,i}}$$

with:

- $N_{FC,i}$ : number of FC loans
- $N_{LC,i}$ : number of LC loans

→ Higher  $FCS_i$  implies greater  
exposure to HUF depreciation



**Figure 3. Share of foreign currency loans in September 2008.** This figure shows a zip-code-level map of the share of foreign currency denominated mortgage and home equity loans in September 2008,  $FCS$ . The shading represents the deciles of the foreign currency loan share.

Source: Gyöngyösi and Verner (2022)

# What is the correlation with other zip code characteristics?

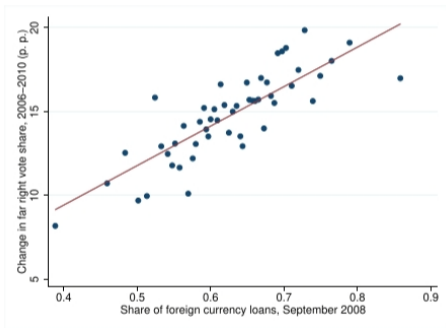
## Correlates of the Zip-Code-Level Foreign Currency Loan Share

Each row in this table reports a bivariate regression in which the dependent variable is foreign currency share of loans in September 2008 and the independent variable is listed in the first column. The regressions are weighted by the number of eligible voters in 2006. Standard errors are clustered at the subregion level (175 units). \*, \*\*, and \*\*\* indicate significance at the 0.1, 0.05, and 0.01 levels, respectively.

	Coefficient	Standard Error	N	R <sup>2</sup>
Debt to income, 2008	-0.063***	0.0099	3,475	0.040
Per capita number of loans, 2008	-0.083	0.130	3,475	0.002
Vocational share	0.59***	0.047	3,475	0.140
High school share	-0.38***	0.044	3,475	0.084
College share	-0.42***	0.045	3,475	0.200
Log per capita income, 2007	-0.011***	0.002	3,475	0.063
Log number of eligible voters, 2006	-0.013***	0.002	3,475	0.073
Unemployment, 2007	0.42***	0.067	3,475	0.076
Share of population age 18 to 29	0.84***	0.330	3,475	0.017
Share of population age 59+	0.15	0.210	3,475	0.003
Employment share of exporters, 2007	-0.068***	0.015	3,475	0.025
Employment share of manufacturing, 2007	0.012	0.021	3,475	0.001
Employment share of firms with FC debt, 2007	0.0095	0.014	3,475	0.000
Corporate foreign currency share of debt	-0.056***	0.018	2,867	0.023

Source: Gyöngyösi and Verner (2022 [10])

# Does household financial distress increase populist far-right support?



## Effect of Household Foreign Currency Exposure on the Populist Far-Right Vote Share

This table presents regression estimates of equation (1) at the zip code level using election years from 1998 to 2010. *Post* is a variable that equals 1 in the 2010 election and 0 in previous elections. *FCshare* is the share of FC loans in total housing loans in a zip code. Unreported controls are the number of loans in 2008 per eligible number of voters, debt-to-income in September 2008, and log settlement population (all interacted with *Post*). Regressions are weighted by the number of eligible voters in 2006. Standard errors are clustered at the subregion level. \*, \*\*, and \*\*\* indicate significance at the 0.1, 0.05, and 0.01 levels, respectively.

	(1)	(2)	(3)	(4)
FC share × Post	5.171*** (1.279)	4.397*** (1.174)	4.187*** (1.079)	4.567*** (1.372)
Vocational share × Post	24.48*** (6.160)	16.78*** (6.177)	19.72*** (5.217)	13.59** (6.612)
High school share × Post	4.003 (4.693)	-15.10*** (5.273)	-1.702 (3.141)	-12.86** (5.814)
College share × Post	-23.08*** (6.122)	-28.30*** (6.023)	-19.80*** (2.412)	-21.99*** (5.925)
Log income, 07 × Post		-0.258 (0.208)	0.0199 (0.222)	-0.312 (0.228)
Unemp. rate, 07 × Post		-19.02*** (5.099)	-16.65*** (4.876)	-16.79*** (5.903)
Young share, 07 × Post		15.08* (8.965)	7.113 (7.664)	15.47 (11.08)
Old share, 07 × Post		-10.21** (4.009)	-20.96*** (4.250)	-9.331** (4.636)
Election FE	✓	✓	✓	✓
Zip code FE	✓	✓	✓	✓
County-election FE	✓	✓	✓	✓
Controls		✓	✓	✓
Subregion-election FE			✓	
Zip code linear trend				✓
R <sup>2</sup>	0.910	0.913	0.933	0.969
Observations	13,900	13,900	13,900	13,900

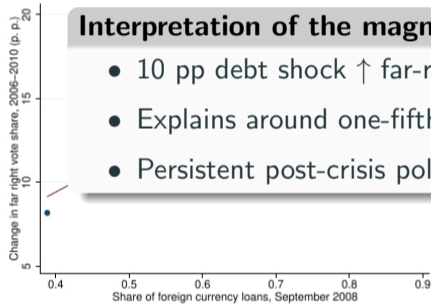
# Does household financial distress increase populist far-right support?

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This table presents regression estimates of equation (1) at the zip code level using election years from 1998 to 2010. *Post* is a variable that equals 1 in the 2010 election and 0 in previous elections. *FCshare* is the share of FC loans in total housing loans in a zip code. Unreported controls are the number of loans in 2008 per eligible number of voters, debt-to-income in September 2008, and log settlement population (all interacted with *Post*). Regressions are weighted by the number of eligible voters in 2006. Standard errors are clustered at the subregion level. \*, \*\*, and \*\*\* indicate significance at the 0.1, 0.05, and 0.01 levels, respectively.

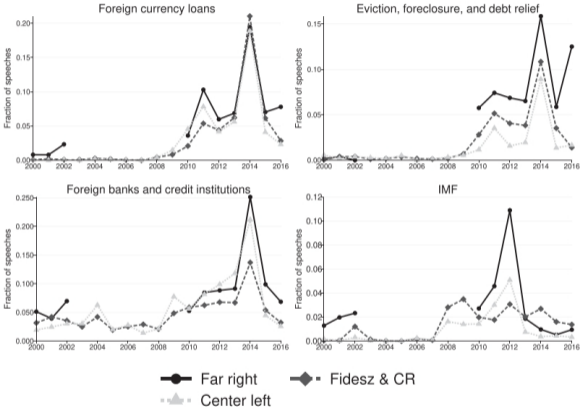
### Interpretation of the magnitudes

- 10 pp debt shock  $\uparrow$  far-right vote share by roughly 1.6–3.0 pp
- Explains around one-fifth of Jobbik's rise
- Persistent post-crisis political effects



Unemp. rate, 07 $\times$ Post		-19.02**	-16.65**	-16.79**
		(5.099)	(4.876)	(5.903)
Young share, 07 $\times$ Post		15.08*	7.113	15.47
		(8.965)	(7.664)	(11.08)
Old share, 07 $\times$ Post		-10.21**	-20.96***	-9.331**
		(4.009)	(4.250)	(4.636)
Election FE	✓	✓	✓	✓
Zip code FE	✓	✓	✓	✓
County-election FE	✓	✓	✓	✓
Controls		✓	✓	✓
Subregion-election FE			✓	
Zip code linear trend				✓
$R^2$	0.910	0.913	0.933	0.969
Observations	13,900	13,900	13,900	13,900

# Mechanism: debtor-creditor conflict



Rhetoric and policies regarding the FC debt crisis

Source: Gyöngyösi and Verner (2022 [10])

# Debtor-creditor conflict: additional evidence

## Household Default Rates and Populist Far-Right Support

This table presents zip-code-level regressions of the change in the far-right vote share from 2006 to 2010 on the change in default rates between 2008 and 2010. The default rate is either the overall default rate on housing loans (column (1)) or the default rates on FC and LC housing loans (columns (2) to (4)). Controls are defined as in Table VI. Regressions are weighted by number of eligible voters in 2006. Standard errors are clustered at the subregion level. \*, \*\*, and \*\*\* indicate significance at the 0.1, 0.05, and 0.01 levels, respectively.

	$\Delta$ Far Right Vote Share			
	(1)	(2)	(3)	(4)
$\Delta$ Default rate	0.122*** (0.0389)			
$\Delta$ Default rate, FC loans		0.0906*** (0.0297)		0.0891*** (0.0296)
$\Delta$ Default rate, LC loans			0.0310 (0.0297)	0.0239 (0.0298)
Controls	✓	✓	✓	✓
County FE	✓	✓	✓	✓
$R^2$	0.686	0.686	0.685	0.686
Observations	3,473	3,473	3,473	3,473

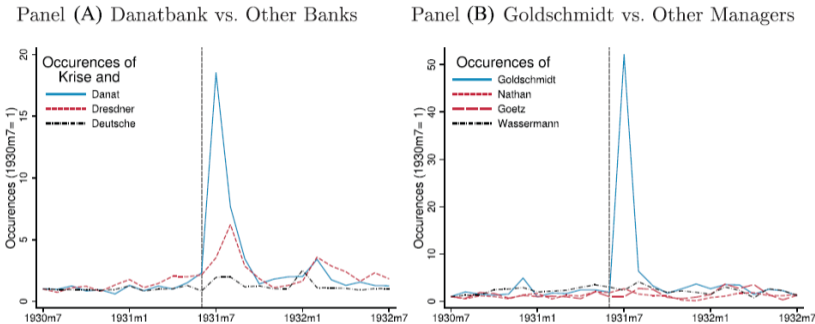
## Foreign Currency Debt Exposure and Populist Far-Right Support in Survey Data

This table presents linear probability model estimates of the intention to vote for the far right based on survey data from the Tárki Monitor. Variables are measured in February 2010, two months prior to the April 2010 election. Individual controls include education, income, gender, and household size. Robust standard errors in parentheses. \*, \*\*, and \*\*\* indicate significance at the 0.1, 0.05, and 0.01 levels, respectively.

	Pr(Far-right vote)			
	(1)	(2)	(3)	(4)
Loan	0.0463*** (0.0178)	0.0360** (0.0181)		
FC loan			0.0618*** (0.0228)	0.0543** (0.0235)
LC loan			0.0286 (0.0224)	0.0164 (0.0225)
Individual controls		✓		✓
Settlement FE		✓		✓
Observations	1,833	1,833	1,833	1,833

Source: Gyöngyösi and Verner (2022)

# Collapse of Darmstädter Nationalbank (Danatbank or Danat) in July 1931



**Figure 1. Danatbank and the crisis in newspapers.** Panel A shows a frequency count of the number of mentions of Danatbank, Dresdner Bank, and Deutsche Bank in connotation with the word “Krise” (crisis) in German-speaking newspapers in the 12 months before and after the failure of Danatbank in July 1931. Panel B shows the number of mentions of Goldschmidt (Danatbank’s leading manager), Nathan and Goetz (of Dresdner Bank), and Wassermann (of Deutsche Bank) in connotation with their respective banks over the same period. Source: ANNO database of the Austrian National Library. (Color figure can be viewed at [wileyonlinelibrary.com](http://wileyonlinelibrary.com))

# Anti-Semitic cartoons from the pro-Nazi newspaper "Der Stürmer"



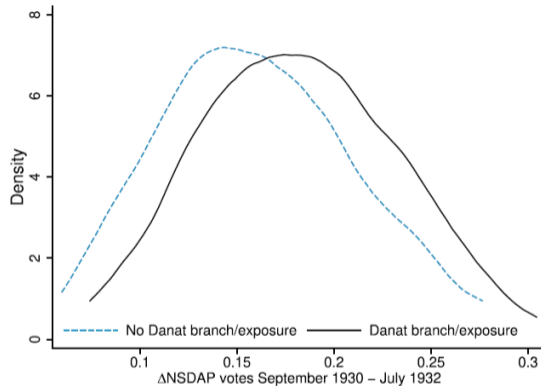
The Jewish businessman



The worm

Source: Doerr et al. (2022 [4], Internet Appendix)

# The banking crisis and Nazi voting



**Figure 2. The banking crisis and Nazi voting.** This figure shows a density plot of the September 1930 to July 1932 change in the *Nationalsozialistische Arbeiterpartei Deutschlands* (NSDAP) vote share (conditional on city-level controls) for municipalities with and without Danat presence. (Color figure can be viewed at [wileyonlinelibrary.com](http://wileyonlinelibrary.com))

## City-exposure measures

Two variables:

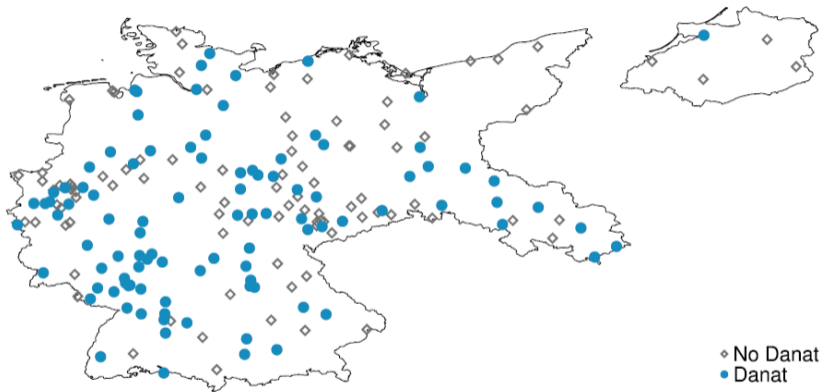
1. Presence of a Danatbank branch (dummy if Yes)
2. Importance of Danat-connected firms in the local economy:

$$Exposure_c = \sum_f I_{f,c} \times \frac{Assets_f}{Assets_c} \times Danat\ connection_f$$

Key idea:

- Large German banks lent nationwide
- Pre-crisis bank relationships generate variation in exposure
- Compare cities more versus less exposed before the collapse

## Geographic footprint of Danatbank (1930)



Source: [Doerr et al. \(2022 \[4\]\)](#)

## Geographic footprint of Danatbank (1930)



### Balancedness

- Danat-exposed cities were not systematically different before in terms of unemployment, income, and share of Jewish, Protestant, blue-collar workers
- Only city population predicts Danat presence → used as control
- Danat did not appear to lend to weaker firms in terms of pre-crisis leverage and size

→ Post-crisis outcomes reflect a bank shock rather than borrower selection

# Danat exposure and voting for the Nazi party

## Danat and Nazi Voting

This table reports results for regression (2). The dependent variables are the change in the vote share of the *Nationalsozialistische Arbeiterpartei Deutschlands* (NSDAP) across different federal elections. In Panel A, *Danat* takes a value of 1 if a city has above-average exposure or a branch of Danatbank. In Panel B, *Exposure* is city-level exposure to Danat; the dummy *Branch* takes a value of 1 if a city had a Danat branch. Controls include log population, share blue collar, share Protestant, and share Jewish, all as of 1925. Standard errors are robust. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ .

Panel A. Exposure or Has Branch						
	Δ NS 30-7/32			Δ NS 30-11/32	Δ NS 30-3/33	Δ NS (avg)
	(1)	(2)	(3)	(4)	(5)	(6)
Danat	0.024** (0.010)	0.025*** (0.008)	0.029*** (0.008)	0.029*** (0.009)	0.029*** (0.009)	0.027*** (0.008)
Observations	196	196	196	194	204	189
R <sup>2</sup>	0.039	0.500	0.585	0.443	0.412	0.491
City Controls	-	✓	✓	✓	✓	✓
Province FE	-	-	✓	✓	✓	✓

Panel B. Exposure versus Branch						
	Δ NS 30-7/32	Δ NS 30-11/32	Δ NS 30-3/33	Δ NS 30-7/32	Δ NS 30-11/32	Δ NS 30-3/33
	(1)	(2)	(3)	(4)	(5)	(6)
Exposure	0.041*** (0.015)	0.025 (0.017)	0.032** (0.015)			
Branch				0.018* (0.009)	0.022** (0.010)	0.025** (0.010)
Observations	196	194	204	196	194	204
R <sup>2</sup>	0.568	0.414	0.382	0.564	0.424	0.395
City Controls	✓	✓	✓	✓	✓	✓
Province FE	✓	✓	✓	✓	✓	✓

Source: Doerr et al. (2022 [4])

# Danat exposure and voting for the Nazi party

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This table reports results for regression (2). The dependent variables are the change in the vote share of the *Nationalsozialistische Arbeiterpartei Deutschlands* (NSDAP) across different federal elections. In Panel A, *Danat* takes a value of 1 if a city has above-average exposure or a branch of Danatbank. In Panel B, *Exposure* is city-level exposure to Danat; the dummy *Branch* takes a value of 1 if a city had a Danat branch. Controls include log population, share blue collar, share Protestant, and share Jewish, all as of 1925. Standard errors are robust. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ .

Panel A. Exposure or Has Branch						
	Δ NS 30-7/32			Δ NS 30-11/32	Δ NS 30-3/33	Δ NS (avg)
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Danat	0.024** (0.010)	0.025*** (0.008)	0.029*** (0.008)	0.029*** (0.009)	0.029*** (0.009)	0.027*** (0.008)
Observations	196	196	196	194	204	189
R <sup>2</sup>	0.039	0.500	0.585	0.443	0.412	0.491
City Controls	-	✓	✓	✓	✓	✓
Province FE	-	-	✓	✓	✓	✓

Panel B. Exposure versus Branch						
	Δ NS 30-7/32	Δ NS 30-11/32	Δ NS 30-3/33	Δ NS 30-7/32	Δ NS 30-11/32	Δ NS 30-3/33
City Controls	✓	✓	✓	✓	✓	✓
Province FE	✓	✓	✓	✓	✓	✓

## Economic magnitude

Danat exposure ↑ Nazi vote share by approximately 2.9 pp or 17% of the average ↑ in Nazi voting

Source: Doerr et al. (2022 [4])

# Cultural channel, economic channel, or both?

## The Cultural Channel: Danat versus Dresdner

This table reports results for variants of regression (2). The dummy *Danat* (*Dresdner*) takes on a value of 1 if a city has above-average exposure to or a branch of Danatbank (Dresdner Bank). Controls include log population, share blue collar, share Protestant, and share Jewish, all of 1925. Standard errors are robust. *No AS* (*No pog*) refers to cities in which a historical anti-Semitic party did not enter the election or received a zero vote share (which had no pogrom between 1349 and 1920), *Yes AS* (*Had pog*) refers to cities in which the party received a positive vote share (that had a pogrom). \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ .

	$\Delta$ Income		No AS    Yes AS    No pog    Had pog $\Delta$ NS 30-7/32					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Danat		-0.065** (0.029)		0.029*** (0.008)	0.019* (0.010)	0.062*** (0.012)	0.018* (0.010)	0.051*** (0.015)
Dresdner	-0.070** (0.028)	-0.069** (0.028)	0.001 (0.009)	-0.001 (0.008)	0.003 (0.010)	-0.017 (0.012)	0.001 (0.010)	-0.000 (0.018)
Observations	193	193	196	196	152	44	147	49
$R^2$	0.168	0.191	0.554	0.585	0.467	0.753	0.473	0.617
City Controls	✓	✓	✓	✓	✓	✓	✓	✓

Source: Doerr et al. (2022 [4])

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### Interpretation

- The **economic channel** matters for **radicalization** (declining incomes led directly to greater Nazi backing)
- Yet, The differential effects of Danat and Dresdner suggest that **cultural factors** are key to understanding the surge in Nazi party support
- Further confirmed by firm-level evidence

## Persecution after 1933

This table reports results for regression (2). The dependent variable *Persecution* is the first principal component of three variables—anti-Semitic letters to the editor of *Stürmer*, destruction of synagogues, and deportations of Jews. The dummy *Danat* takes a value of 1 if a city has above-average exposure to or a branch of Danatbank. *Exposure* is city-level exposure to Danat; the dummy *Branch* takes a value of 1 if a city had a Danat branch. Controls include log population, share blue collar, share Protestant, and share Jewish, all as of 1925. Standard errors are robust. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ .

	Persecution					
	(1)	(2)	(3)	(4)	(5)	(6)
Danat	0.259*			0.266*		
	(0.142)			(0.147)		
Exposure		0.743***			0.577**	
		(0.238)			(0.247)	
Branch			0.193			0.281*
			(0.154)			(0.154)
Observations	191	191	191	191	191	191
$R^2$	0.313	0.323	0.306	0.423	0.424	0.421
City Controls	✓	✓	✓	✓	✓	✓
Province FE	–	–	–	✓	✓	✓

Source: Doerr et al. (2022 [4])

# Persecution after 1933

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This table reports results for regression (2). The dependent variable *Persecution* is the first principal component of three variables—anti-Semitic letters to the editor of *Stürmer*, destruction of synagogues, and deportations of Jews. The dummy *Danat* takes a value of 1 if a city has above-average exposure to or a branch of Danatbank. *Exposure* is city-level exposure to Danat; the dummy *Branch* takes a value of 1 if a city had a Danat branch. Controls include log population, share blue collar, share Protestant, and share Jewish, all as of 1925. Standard errors are robust. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ .

	Persecution					
	(1)	(2)	(3)	(4)	(5)	(6)

### Interpretation

- Anti-Semitic sentiment triggered by the banking crisis had repercussions long after Danat's failure
- Voters were radicalized not only at the ballot box but also in their actions party support

Source: Doerr et al. (2022 [4])

## Conclusion

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## Summary

Most definitions of **populism** emphasize two core features: **anti-elitism** and **anti-pluralism** (lowest common denominator)

Financial crises are followed by a significant increase in support for far-right parties, while the radical left benefits little

Evidence discussed from Eurozone, Hungary, and interwar Germany highlights the **role of financial crises** in bringing populists to power

Countries governed by populists witness **subpar economic outcomes** evidenced by a substantial decline in real GDP

**Thank You**

[thomaslambert.org](http://thomaslambert.org)

[poleconfin.org](http://poleconfin.org)

# Appendix

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## Why are reforms delayed?

Alesina and Drazen (1991 [2]): reforms may be delayed because groups engage in a **war of attrition** over who bears the adjustment costs

Key intuition:

- Stabilization is socially beneficial, but its costs are unevenly distributed
- Each group prefers the other side to bear a larger share of the burden
- Waiting is costly because economic conditions continue to deteriorate
- The cost of waiting is private information: each side hopes the opponent will concede first
- Over time, each side learns how costly delay might be for its opponent
- Reform occurs only when one side eventually gives in

**Proposition 4:** the less polarized is society  $\rightarrow$  the sooner the stabilization

# Contribution of each unit in the donor pool in the German reunification example

SYNTHETIC CONTROL WEIGHTS FOR WEST GERMANY

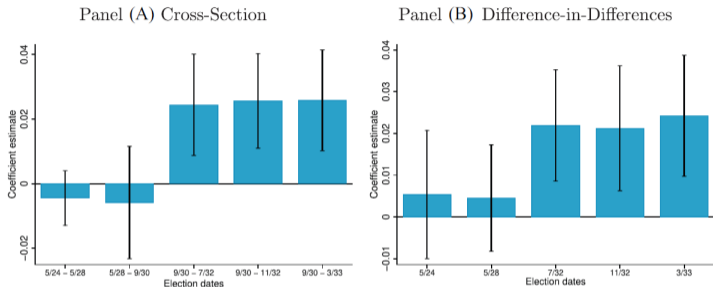
---

Australia	—
Austria	0.42
Belgium	—
Denmark	—
France	—
Greece	—
Italy	—
Japan	0.16
Netherlands	0.09
New Zealand	—
Norway	—
Portugal	—
Spain	—
Switzerland	0.11
United Kingdom	—
United States	0.22

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Source: [Abadie \(2021 \[1\]\)](#)

# Parallel trends



**Figure 5. Pretrends.** Panel A shows the coefficient and 90% confidence interval for regression equation (2), where we use the change in *Nationalsozialistische Arbeiterpartei Deutschlands* (NSDAP) vote shares for different federal elections relative to the 1930 results as outcome variables. Panel B presents estimates of  $\beta_t$  and 90% confidence intervals for  $NS_{c,t} = \sum_{y \neq 1930} I_{t=y} \beta_t Danat_c + \theta_c + \tau_t + \epsilon_{c,t}$ . The dependent variable is the NSDAP vote share in each election and  $Danat_c$  is a dummy with a value of 1 if a city has above-average exposure to Danat-bank. Regressions include baseline controls interacted with a dummy equal to 1 for elections after July 1931 and 0 otherwise. (Color figure can be viewed at [wileyonlinelibrary.com](http://wileyonlinelibrary.com))

Source: Doerr et al. (2022 [4])



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