

Inequality Aversion, Populism, and the Backlash Against Globalization

Ľuboš Pástor *

and

Pietro Veronesi **

* *University of Chicago, National Bank of Slovakia, NBER, CEPR*

** *University of Chicago, NBER, CEPR*



NEW YORK POST

**Page
Six.**

SATURDAY, JUNE 26, 2015 / Sunny, 88° / Weather P. 20 ••

LATE CITY FINAL

nypost.com

\$1.25

**Around
the world,
voices
cry out:**

POWER TO THE PEOPLE!

Michael Goodwin on the revolt against the elite **SEE PAGES
6-9**

press reader

Printed and Distributed by PressReader
PressReader.com • 1-800-426-4664
©2015 NEW YORK POST INC. ALL RIGHTS RESERVED

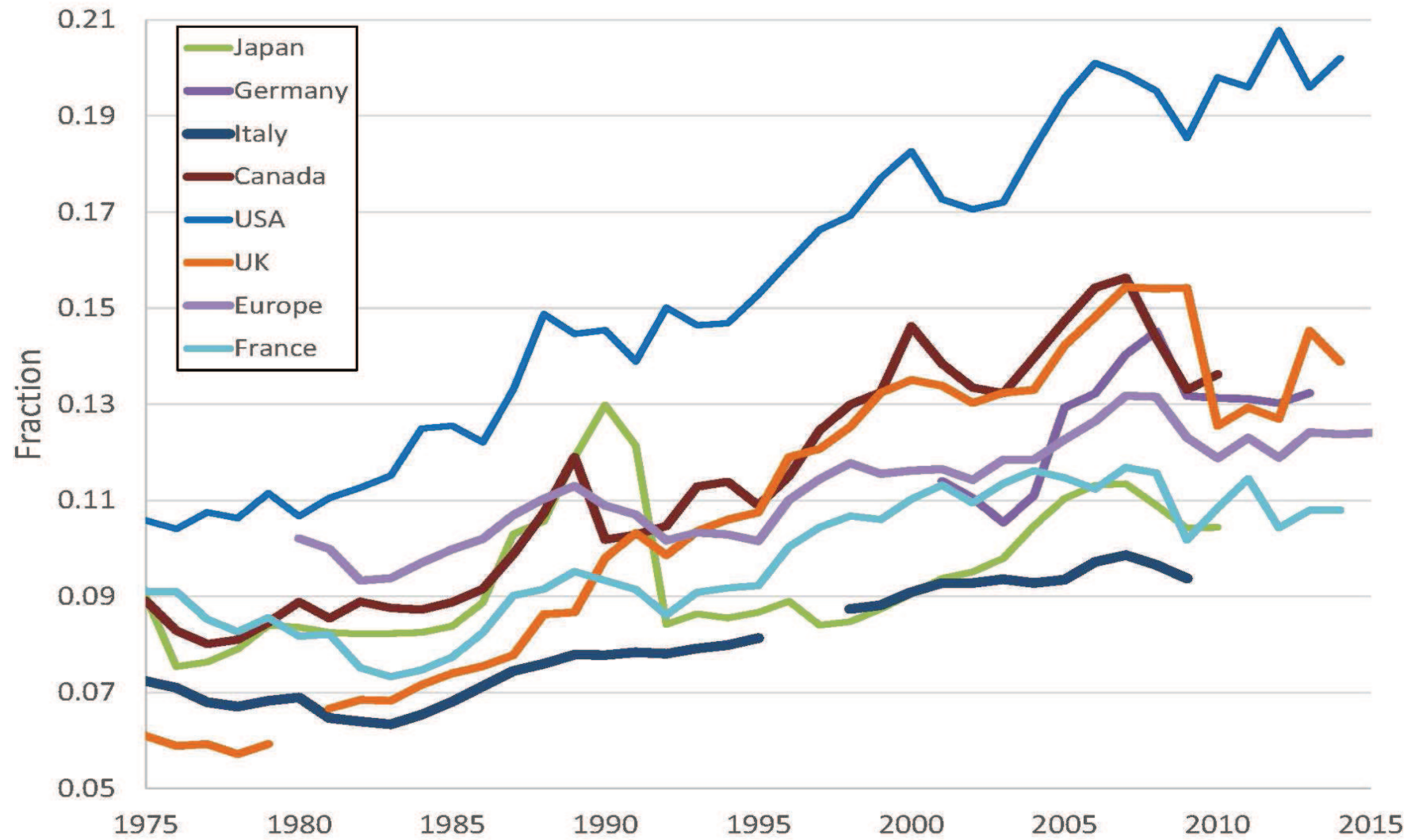
Overview

- Model motivated by the **backlash against globalization** in rich western democracies (Brexit, Trump, etc.)

Overview

- Model motivated by the **backlash against globalization** in rich western democracies (Brexit, Trump, etc.)
- Pushback against globalization emerges endogenously
 - **Rational** voters' optimal **response to rising inequality**

Top 1% Income Share



Overview

- Model motivated by the **backlash against globalization** in rich western democracies (Brexit, Trump, etc.)
- Pushback against globalization emerges endogenously
 - **Rational** voters' optimal response to **rising inequality**

Overview

- Model motivated by the **backlash against globalization** in rich western democracies (Brexit, Trump, etc.)
- Pushback against globalization emerges endogenously
 - **Rational** voters' optimal response to **rising inequality**
 - Globalization carries the seeds of its own destruction

Economic Mechanism

Global growth

⇓ (**heterogeneous risk aversion**)

Inequality ↑

Economic Mechanism

Global growth

⇓ (**heterogeneous risk aversion**)

Inequality ↑

⇓ (**inequality aversion**)

Backlash

Economic Mechanism

Global growth

⇓ (heterogeneous risk aversion)

Inequality ↑

⇓ (inequality aversion)

Backlash

- Backlash = Elect a populist, **Globalization** → **Autarky**
 - **Risk sharing**: Global → Local
 - Consumption ↓ but equality ↑

Economic Mechanism

Global growth

⇓ (**heterogeneous risk aversion**)

Inequality ↑

⇓ (**inequality aversion**)

Backlash

- Backlash = Elect a populist, **Globalization** → **Autarky**
 - **Risk sharing**: Global → Local
 - Consumption ↓ but equality ↑
- Heterogeneous risk aversion: Within countries \implies Inequality
Across countries \implies Imbalances

Empirical Evidence

- Types of evidence
 - Across countries: Vote shares of populist parties + Surveys
 - Across individuals: Brexit + Trump voters

Empirical Evidence

- Types of evidence
 - Across countries: Vote shares of populist parties + Surveys
 - Across individuals: Brexit + Trump voters
- Evidence largely supports the model
 - **Countries:** More populist if they have
 - * Higher inequality
 - * Higher financial development
 - * Lower current account balance
 - **Individuals:** More populist if they are
 - * More risk-averse
 - * More inequality-averse

Model

- Continuum of agents $i \in [0, 1]$ in countries $k \in \{US, RoW\}$

Model

- Continuum of agents $i \in [0, 1]$ in countries $k \in \{US, RoW\}$
- Preferences of agent $i \in \mathcal{I}^k$ at time $t \in [0, T]$:

$$U_i \left(C_{it}, V_t^k, t \right) = e^{-\phi t} \left(\frac{C_{it}^{1-\gamma_i}}{1-\gamma_i} \right)$$

where

$\gamma_i =$ **Risk aversion**

Model

- Continuum of agents $i \in [0, 1]$ in countries $k \in \{US, RoW\}$
- Preferences of agent $i \in \mathcal{I}^k$ at time $t \in [0, T]$:

$$U_i \left(C_{it}, V_t^k, t \right) = e^{-\phi t} \left(\frac{C_{it}^{1-\gamma_i}}{1-\gamma_i} - \eta_i V_t^k \right)$$

where

$$V_t^k = \text{Var} \left(\frac{C_{it}}{\bar{C}_t^k} \mid i \in \mathcal{I}^k \right) = \mathbf{Inequality} \text{ in country } k$$

$\gamma_i = \mathbf{Risk aversion}$

$\eta_i = \mathbf{Inequality aversion}$ (\approx anti-elitism, “envy of the rich”)

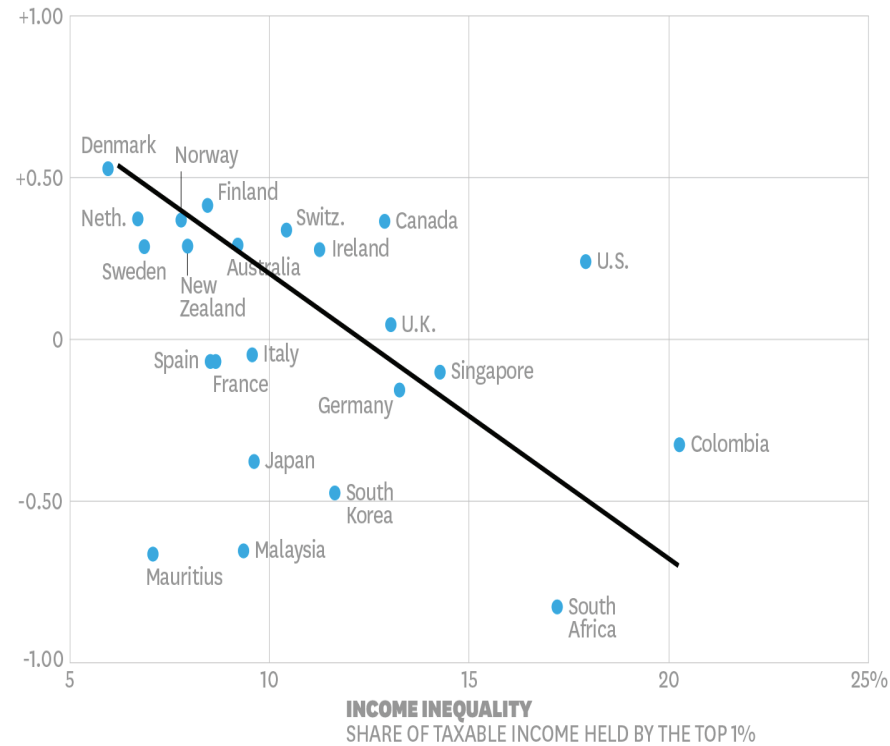
Inequality Aversion

- Evidence
 - Experiments
 - Surveys

Overall Well-Being Drops as National Income Inequality Rises

WELL-BEING

STANDARDIZED LIFE EVALUATION SCORE

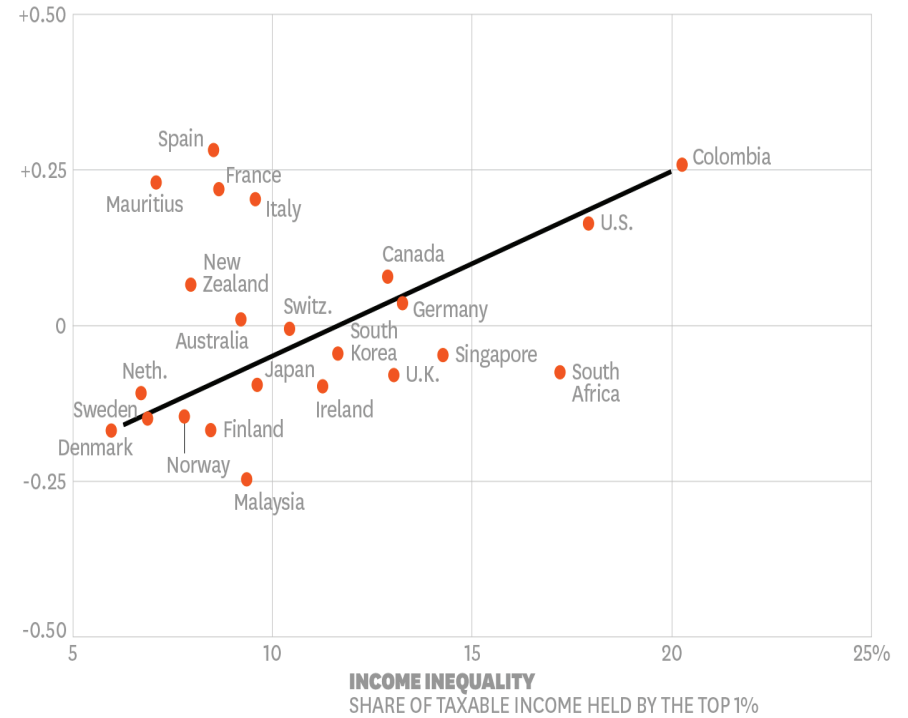


SOURCE JAN-EMMANUEL DE NEVE AND NICK POWDHAVEE

People Report Having More Negative Experiences as National Income Inequality Rises

NEGATIVE EXPERIENCES

STANDARDIZED SCORE



SOURCE JAN-EMMANUEL DE NEVE AND NICK POWDHAVEE

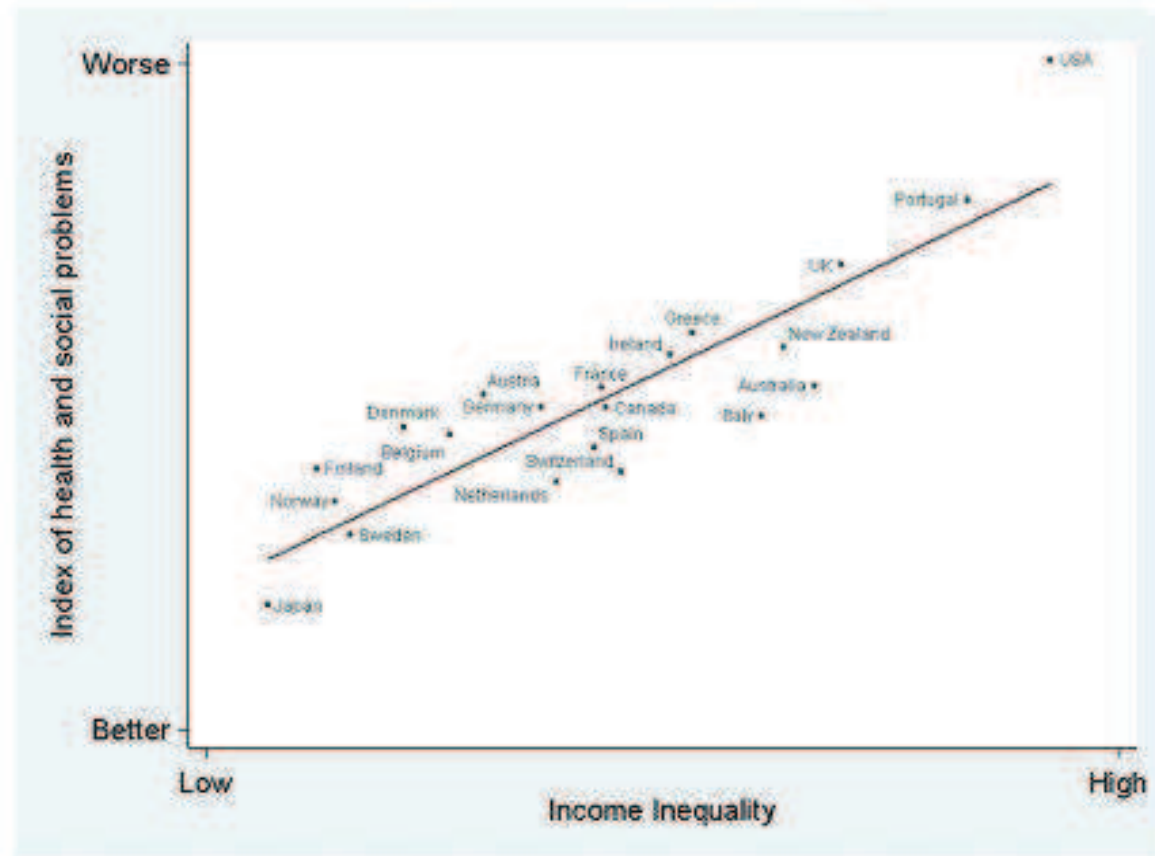
© HBR.ORG

Source: Harvard Business Review

Health and Social Problems are Worse in More Unequal Countries

Index of:

- Life expectancy
- Math & Literacy
- Infant mortality
- Homicides
- Imprisonment
- Teenage births
- Trust
- Obesity
- Mental illness – incl. drug & alcohol addiction
- Social mobility



Source: Wilkinson & Pickett, *The Spirit Level* (2009)

www.equalitytrust.org.uk

Equality Trust

Model

- Continuum of agents $i \in [0, 1]$ in countries $k \in \{US, RoW\}$
- Preferences of agent $i \in \mathcal{I}^k$ at time $t \in [0, T]$:

$$U_i \left(C_{it}, V_t^k, t \right) = e^{-\phi t} \left(\frac{C_{it}^{1-\gamma_i}}{1-\gamma_i} - \eta_i V_t^k \right)$$

where

$$V_t^k = \text{Var} \left(\frac{C_{it}}{\bar{C}_t^k} \mid i \in \mathcal{I}^k \right) = \mathbf{Inequality} \text{ in country } k$$

$\gamma_i = \mathbf{Risk \ aversion}$

$\eta_i = \mathbf{Inequality \ aversion}$ (\approx anti-elitism, “envy of the rich”)

Model

- **U.S. agents are less risk-averse** than RoW agents
 - Interpretation: U.S. more financially developed than RoW

Model

- **U.S. agents are less risk-averse** than RoW agents
 - Interpretation: U.S. more financially developed than RoW
- Technical assumption:

$$\lim_{x \rightarrow \infty} \frac{E^{\mathcal{I}}[e^{x/\gamma_j} \mid j \in \mathcal{I}^{RoW}]}{E^{\mathcal{I}}[e^{x/\gamma_i} \mid i \in \mathcal{I}^{US}]} = 0$$

Examples:

1. $\gamma_i < \gamma_j$ for all $i \in \mathcal{I}^{US}$, $j \in \mathcal{I}^{RoW}$
2. U.S. risk tolerance $\frac{1}{\gamma_i} \sim U[a, b]$, RoW's $\frac{1}{\gamma_j} \sim U[a, c]$, with $b > c$
3. Truncated normals for $\frac{1}{\gamma_i}$ in both countries, same truncation points, same dispersion, higher mean in the U.S.

Model

- Global output: $D_t = D_t^{US} + D_t^{RoW}$. Its log, $\delta_t \equiv \log(D_t)$, follows

$$d\delta_t = \mu_\delta dt + \sigma_\delta dZ_t$$

where $\mu_\delta > 0 \Rightarrow$ output trends upward

Model

- Global output: $D_t = D_t^{US} + D_t^{RoW}$. Its log, $\delta_t \equiv \log(D_t)$, follows

$$d\delta_t = \mu_\delta dt + \sigma_\delta dZ_t$$

where $\mu_\delta > 0 \Rightarrow$ output trends upward

- For simplicity, also assume (relaxed later):

$$\frac{D_t^{US}}{D_t} = \text{U.S. population share}$$

- Agents share risk in **complete markets**
 - Interpretation 1: Financial contracts (stocks, bonds)
 - Interpretation 2: Labor contracts (risky, safe jobs)

Model

- Two possible regimes:
 1. **Globalization**: Cross-border trade allowed
Global risk sharing
 2. **Autarky**: Cross-border trade not allowed
Local risk sharing

Model

- Two possible regimes:
 1. **Globalization**: Cross-border trade allowed
Global risk sharing
 2. **Autarky**: Cross-border trade not allowed
Local risk sharing
- Both countries hold **elections** at known time $\tau \in [0, T]$
 1. **Mainstream** candidate: Keep globalization
 2. **Populist** candidate: Move to autarky
 - Elections decided by the median voter

Model

- Two possible regimes:
 1. **Globalization**: Cross-border trade allowed
Global risk sharing
 2. **Autarky**: Cross-border trade not allowed
Local risk sharing
- Both countries hold **elections** at known time $\tau \in [0, T]$
 1. **Mainstream** candidate: Keep globalization
 2. **Populist** candidate: Move to autarky
 - Elections decided by the median voter
- Expropriation not allowed
 - Can't move to autarky if other country suffers consumption loss

Optimal Consumption

- Complete markets \implies Agent i in country k solves

$$\max_{\{C_{it}\}} E_0 \left[\int_0^T U_i \left(C_{it}, V_t^k, t \right) dt \right] \quad \text{s.t.} \quad E_0 \left[\int_0^T \pi_t^k C_{it} dt \right] = w_i$$

where π_t^k = state price density, w_i = initial endowment

Optimal Consumption

- Complete markets \implies Agent i in country k solves

$$\max_{\{C_{it}\}} E_0 \left[\int_0^T U_i \left(C_{it}, V_t^k, t \right) dt \right] \quad \text{s.t.} \quad E_0 \left[\int_0^T \pi_t^k C_{it} dt \right] = w_i$$

where π_t^k = state price density, w_i = initial endowment

- **Result:** $C_{it}^* = f(\gamma_i, \pi_t^k)$
 - High- γ_i agents choose consumption less sensitive to shocks

Equilibrium under Globalization

- Market clearing: $D_t = \int_{i \in \mathcal{I}} C_{it} di$. Solve for $\pi_t = \pi_t^{US} = \pi_t^{RoW}$.

Equilibrium under Globalization

- Market clearing: $D_t = \int_{i \in \mathcal{I}} C_{it} di$. Solve for $\pi_t = \pi_t^{US} = \pi_t^{RoW}$.

- **Result:** Low- γ_i agents grow disproportionately rich

- Their consumption shares grow with output

$$\frac{C_{it}}{\bar{C}_t^k} \uparrow \text{ in } \delta_t \text{ iff } \gamma_i < \bar{\gamma}^k(\delta_t)$$

- Benefits of growth accrue increasingly to “**elites**”

Equilibrium under Globalization

- Market clearing: $D_t = \int_{i \in \mathcal{I}} C_{it} di$. Solve for $\pi_t = \pi_t^{US} = \pi_t^{RoW}$.

- **Result:** Low- γ_i agents grow disproportionately rich
 - Their consumption shares grow with output

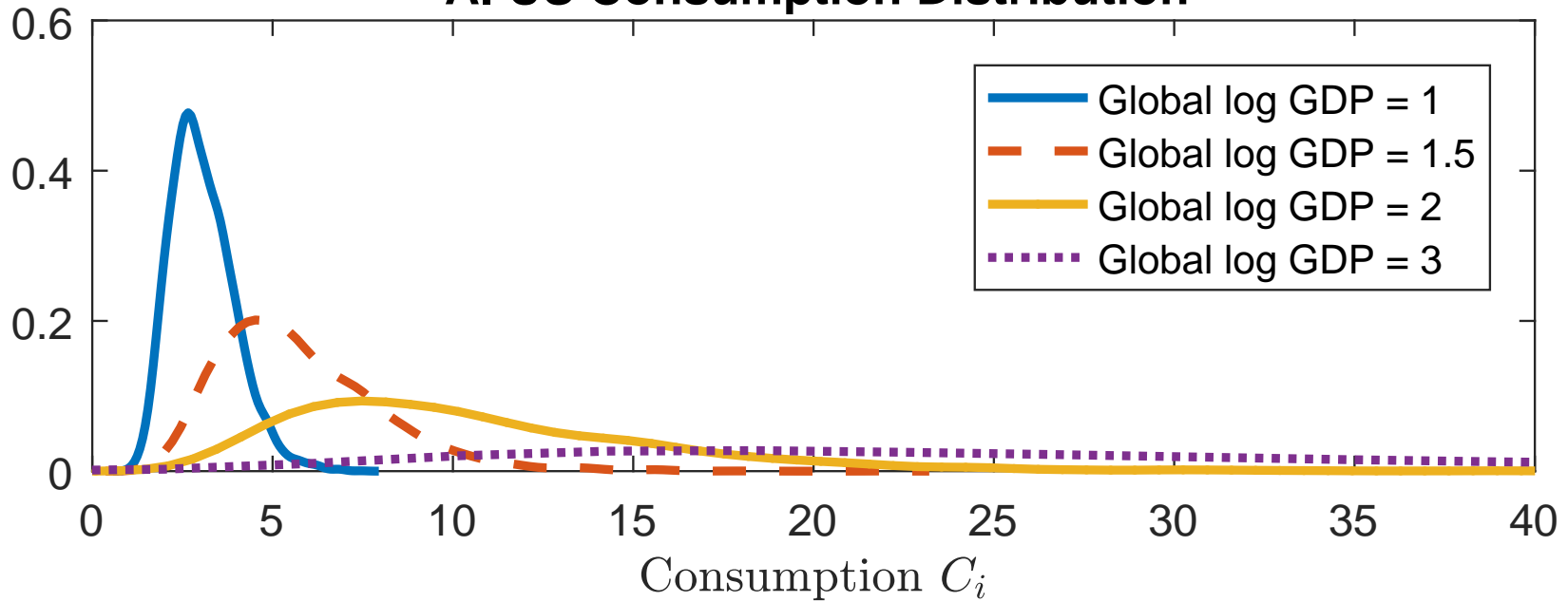
$$\frac{C_{it}}{\bar{C}_t^k} \uparrow \text{ in } \delta_t \text{ iff } \gamma_i < \bar{\gamma}^k(\delta_t)$$

- Benefits of growth accrue increasingly to “**elites**”
- **Result:** Fraction of agents who grow richer declines with output

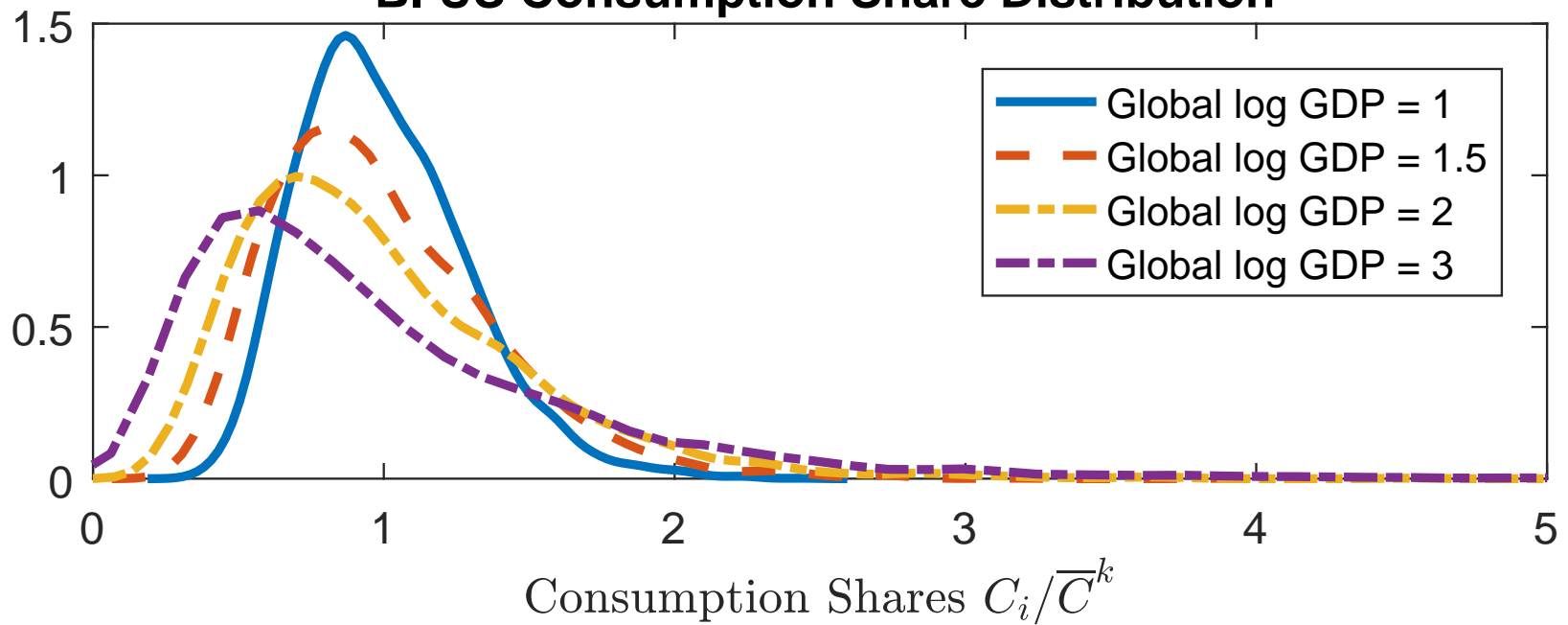
$$\delta_t \uparrow \implies \bar{\gamma}^k(\delta_t) \downarrow$$

- The ranks of elites are shrinking

A. US Consumption Distribution



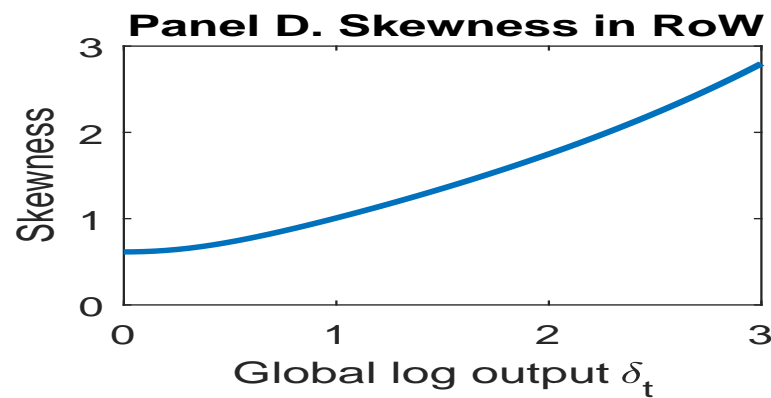
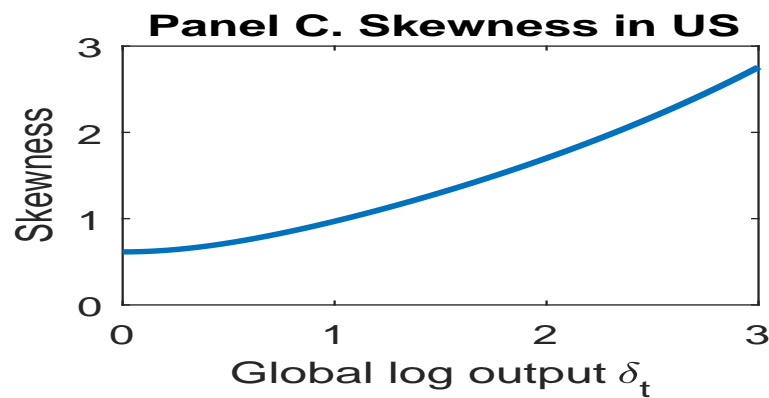
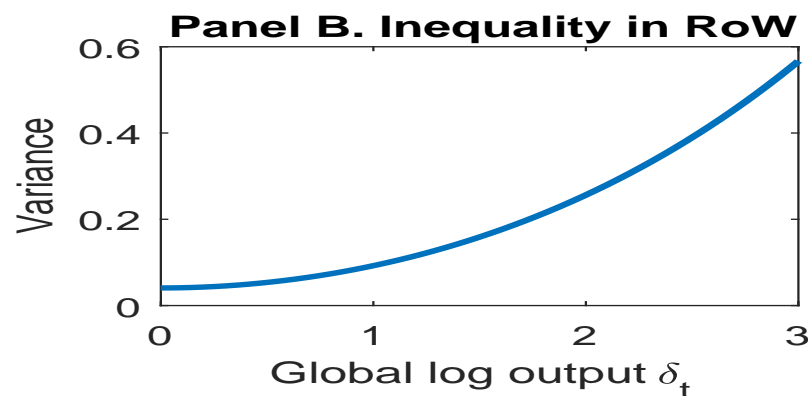
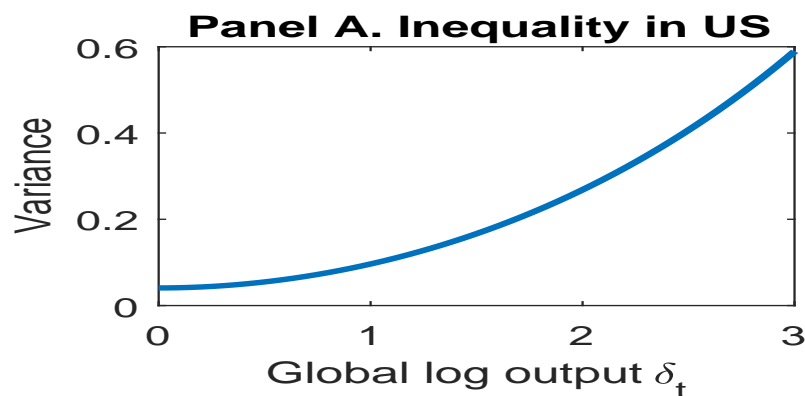
B. US Consumption Share Distribution



Equilibrium under Globalization

- **Result:** Inequality V^k increases, without bounds, as output grows. So does the skewness of consumption shares.

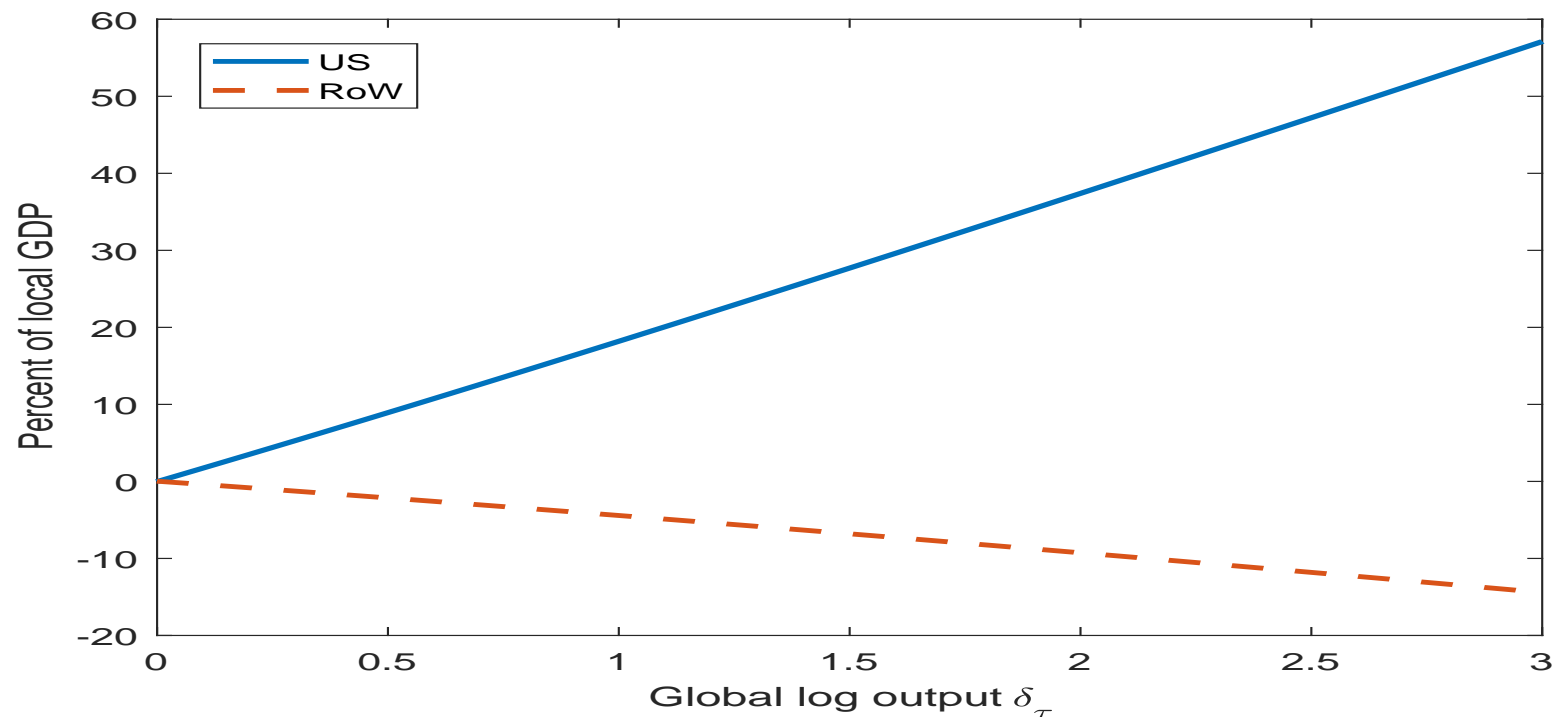
\Rightarrow Inequality grows with output, driven by elites' consumption



Equilibrium under Globalization

- **Result:** U.S. runs a current account deficit, RoW runs a surplus.

$$\int_{i \in \mathcal{I}^{US}} C_{it} di > D_t^{US}, \quad \int_{i \in \mathcal{I}^{RoW}} C_{it} di < D_t^{RoW}$$

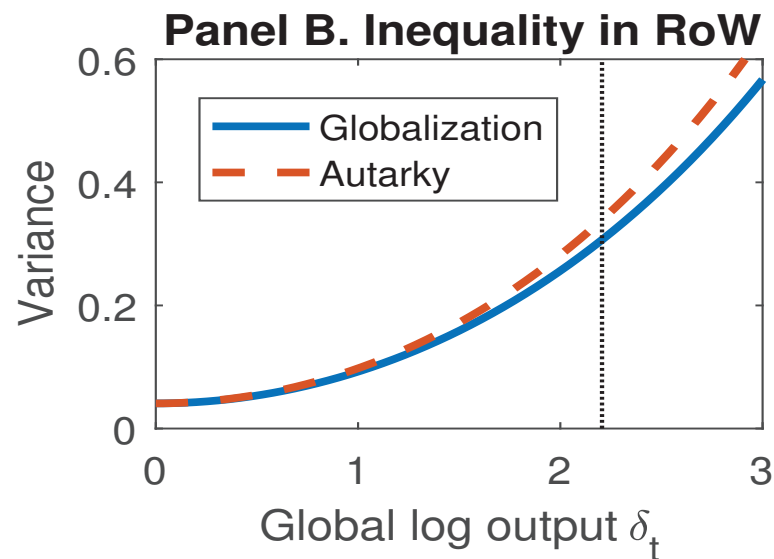
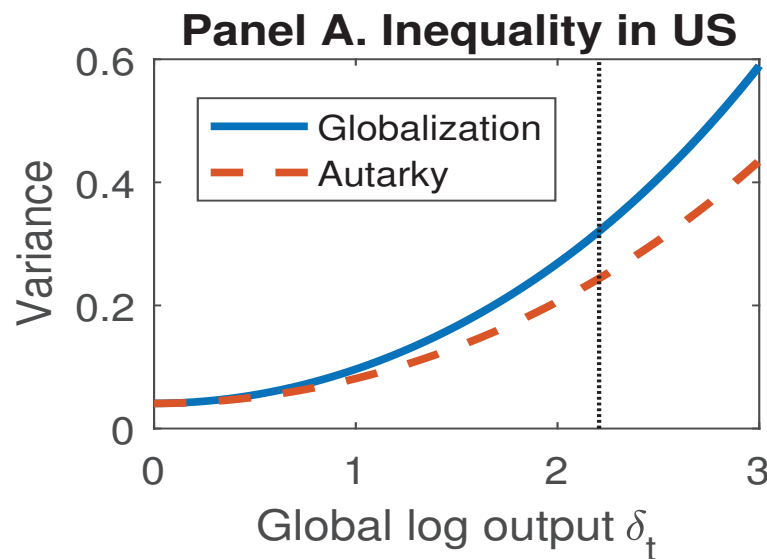


Equilibrium under Autarky

- Market clearing: $D_t^k = \int_{i \in \mathcal{I}^k} C_{it} di$, for $k \in \{US, RoW\}$
 \implies Solve for $\pi_t^{US} \neq \pi_t^{RoW}$

Equilibrium under Autarky

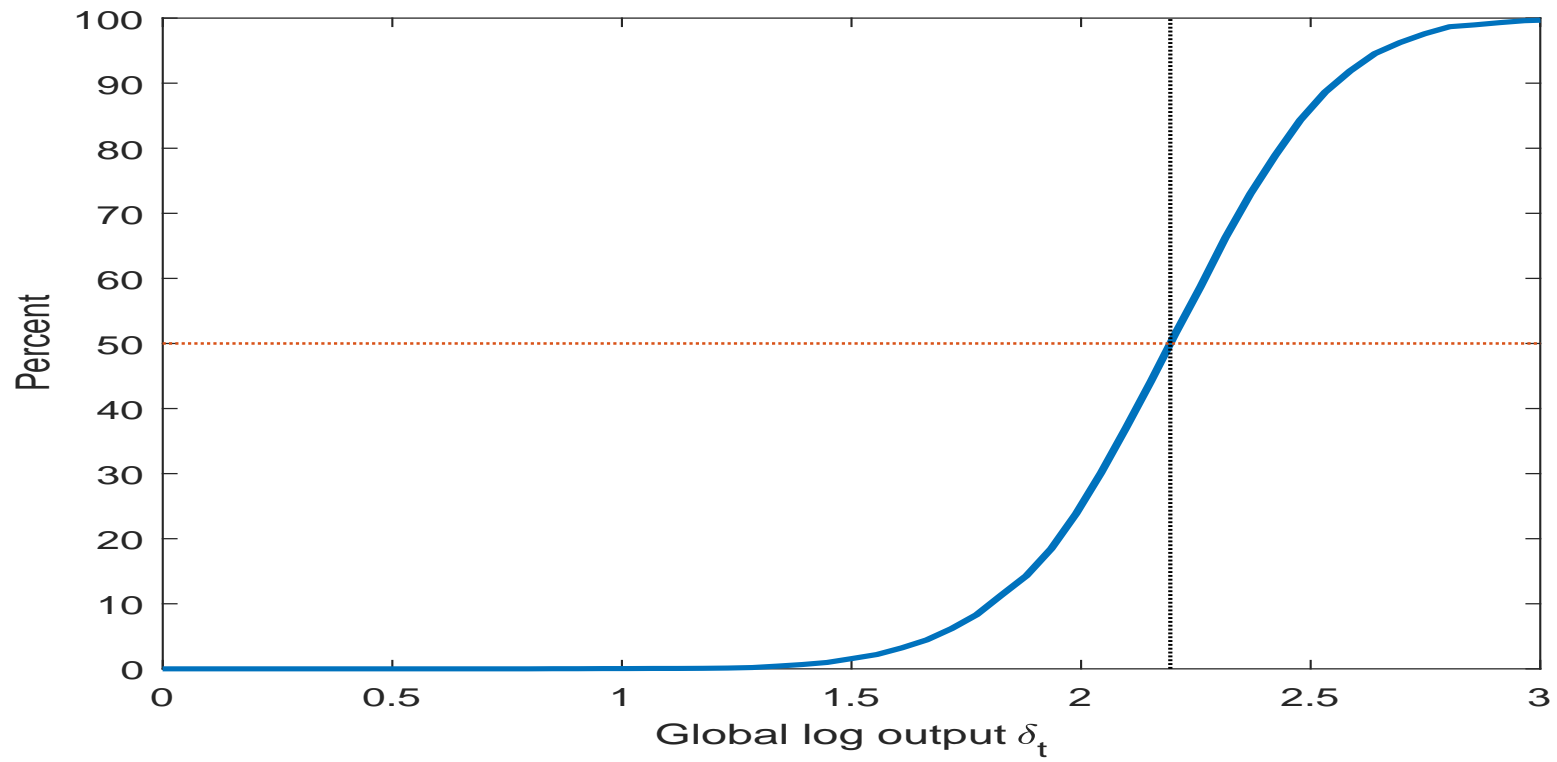
- Market clearing: $D_t^k = \int_{i \in \mathcal{I}^k} C_{it} di$, for $k \in \{US, RoW\}$
 \implies Solve for $\pi_t^{US} \neq \pi_t^{RoW}$
- **Result:** U.S. inequality is lower under autarky than under globalization. The opposite is true for RoW.



Elections

- **Result:** There exists output level $\bar{\delta}$ such that for any $\delta_\tau > \bar{\delta}$, the **populist wins the U.S. election**.

The Populist Vote Share



Elections

- At time τ , agents in country k vote, comparing expected utilities

$$E_{\tau} \left[\int_{\tau}^T e^{-\phi(s-\tau)} \left(\frac{C_{is}^{1-\gamma_i}}{1-\gamma_i} - \eta^i V_s^k \right) ds \right]$$

under the two candidates (mainstream, populist)

Elections

- At time τ , agents in country k vote, comparing expected utilities

$$E_{\tau} \left[\int_{\tau}^T e^{-\phi(s-\tau)} \left(\frac{C_{is}^{1-\gamma_i}}{1-\gamma_i} - \eta^i V_s^k \right) ds \right]$$

under the two candidates (mainstream, populist)

- **Result:** For any U.S. agent i with $\eta_i > 0$, there exists $\bar{\delta}^i$ such that for any $\delta_{\tau} > \bar{\delta}^i$, the agent votes populist.

Elections

- At time τ , agents in country k vote, comparing expected utilities

$$E_{\tau} \left[\int_{\tau}^T e^{-\phi(s-\tau)} \left(\frac{C_{is}^{1-\gamma_i}}{1-\gamma_i} - \eta^i V_s^k \right) ds \right]$$

under the two candidates (mainstream, populist)

- **Result:** For any U.S. agent i with $\eta_i > 0$, there exists $\bar{\delta}^i$ such that for any $\delta_{\tau} > \bar{\delta}^i$, the agent votes populist.
- Intuition: **Consumption-equality tradeoff**
 - Move to autarky $\implies C_{it} \downarrow$ but $V_t^{US} \downarrow$

Elections

- At time τ , agents in country k vote, comparing expected utilities

$$E_{\tau} \left[\int_{\tau}^T e^{-\phi(s-\tau)} \left(\frac{C_{is}^{1-\gamma_i}}{1-\gamma_i} - \eta^i V_s^k \right) ds \right]$$

under the two candidates (mainstream, populist)

- **Result:** For any U.S. agent i with $\eta_i > 0$, there exists $\bar{\delta}^i$ such that for any $\delta_{\tau} > \bar{\delta}^i$, the agent votes populist.
- Intuition: **Consumption-equality tradeoff**
 - Move to autarky $\implies C_{it} \downarrow$ but $V_t^{US} \downarrow$
 - $\delta_t \uparrow \implies$ Marginal utility of $C_{it} \downarrow \implies$ Equality dominates
 - * Equality is a **luxury good**

Can Redistribution Save Globalization?

- Social planner would preserve globalization
 - But market equilibrium \neq social planner solution (externality)

Can Redistribution Save Globalization?

- Social planner would preserve globalization
 - But market equilibrium \neq social planner solution (externality)
- **Result:** Any redistributive policy $\{\mathcal{T}_{i,t}(\delta_t)\}$ s.t. $\int \mathcal{T}_i di = 0$ is equivalent to a redistribution of initial endowments w_i
 - With complete markets, redistributive policies are “traded away”
- Agent i ’s budget constraint under redistribution:

$$\mathbb{E}_0 \left[\int_0^T \pi_t^k C_{it} dt \right] = w_i + \mathbb{E}_0 \left[\int_0^T \pi_t^k \mathcal{T}_{it} dt \right]$$

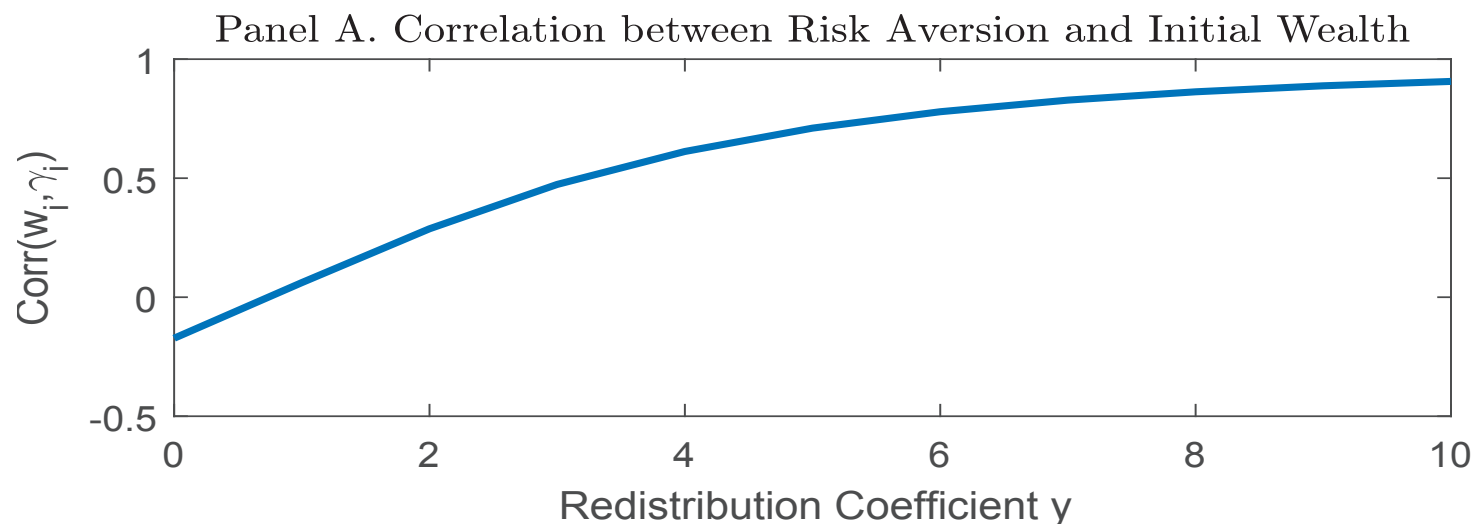
To implement redistributive policy $\{\mathcal{T}_{i,t}(\delta_t)\}$, augment agent i ’s initial endowment by $\tilde{w}_i = \mathbb{E}_0 \left[\int_0^T \pi_t^k \mathcal{T}_{it} dt \right]$. Note: $\int \tilde{w}_i di = 0$.

Can Redistribution Save Globalization?

- For tractability, we consider initial endowments of the form

$$w_i = e^{\psi_i} E_0 \left[\int_0^T e^{-\phi t + (g_t^k - y)/\gamma_i - g_t^k} dt \right]$$

- Increase $y \implies$ Redistribute w_i from low- γ_i to high- γ_i agents
 - From those who benefit from globalization to those who lose



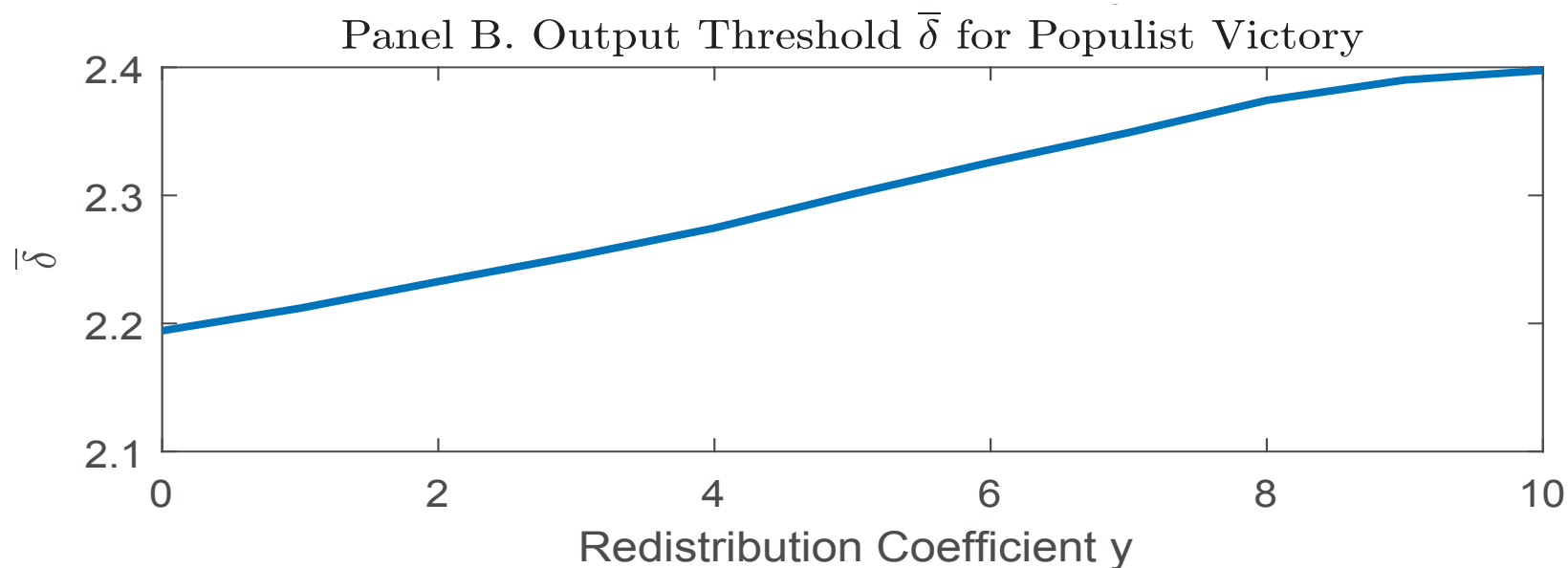
Can Redistribution Save Globalization?

- **Result:** For any redistributive policy y there exists $\bar{\delta}$ such that for any $\delta_\tau > \bar{\delta}$, the populist wins the U.S. election.
 \implies For any given y , when τ is large enough, the populist wins

Can Redistribution Save Globalization?

- **Result:** For any redistributive policy y there exists $\bar{\delta}$ such that for any $\delta_\tau > \bar{\delta}$, the populist wins the U.S. election.

\implies For any given y , when τ is large enough, the populist wins



- **Result:** Redistribution can delay the populist win but not forever

Evidence: Which Countries Are Populist?

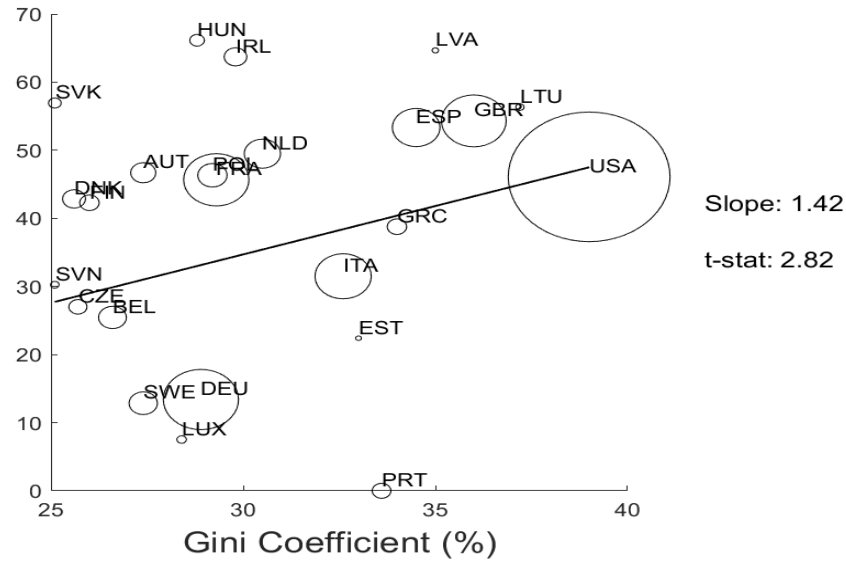
- **Predictions:** Populism is stronger in countries with
 - Higher inequality
 - Lower current account balance
 - Higher financial development

Evidence: Which Countries Are Populist?

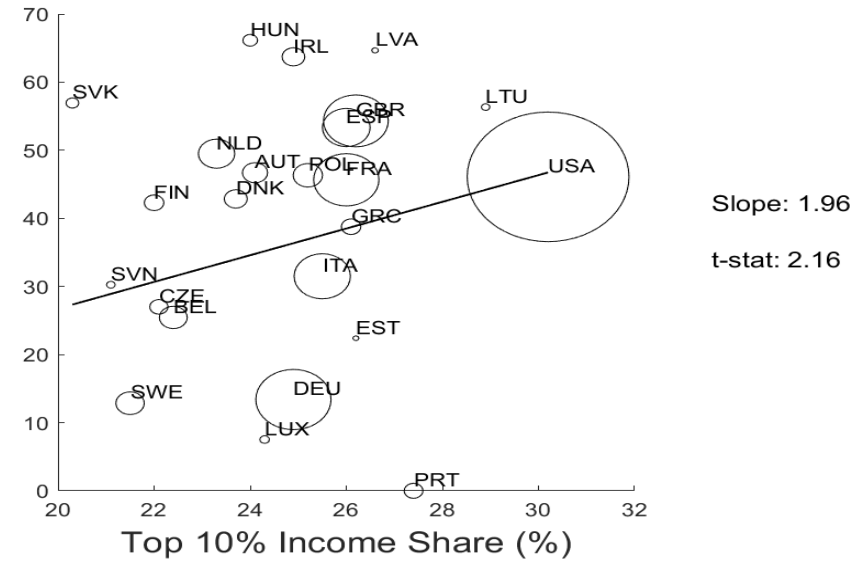
- **Predictions:** Populism is stronger in countries with
 - Higher inequality
 - Lower current account balance
 - Higher financial development
- Examine a recent cross-section of rich countries
- Measure populism in four ways
 - **Vote share of populist parties** in recent elections
 - * Populist = 1. Nationalist, 2. Anti-immigrant, 3. Anti-elite
 - * Data from ParlGov and 2014 Chapel Hill Survey of Experts
 - **Survey**-based support for protectionism; 2013 ISSP data

Vote Share of Nationalist Parties

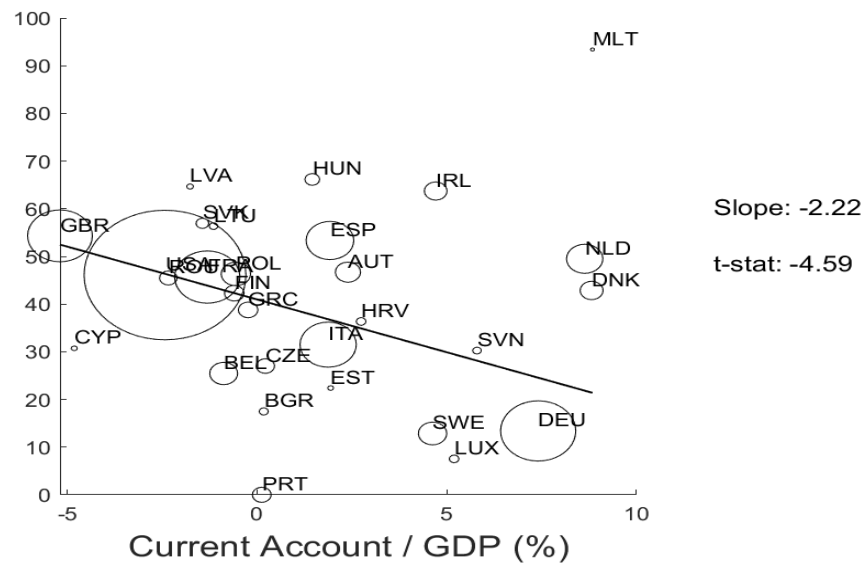
Panel A. Inequality: Gini Coefficient



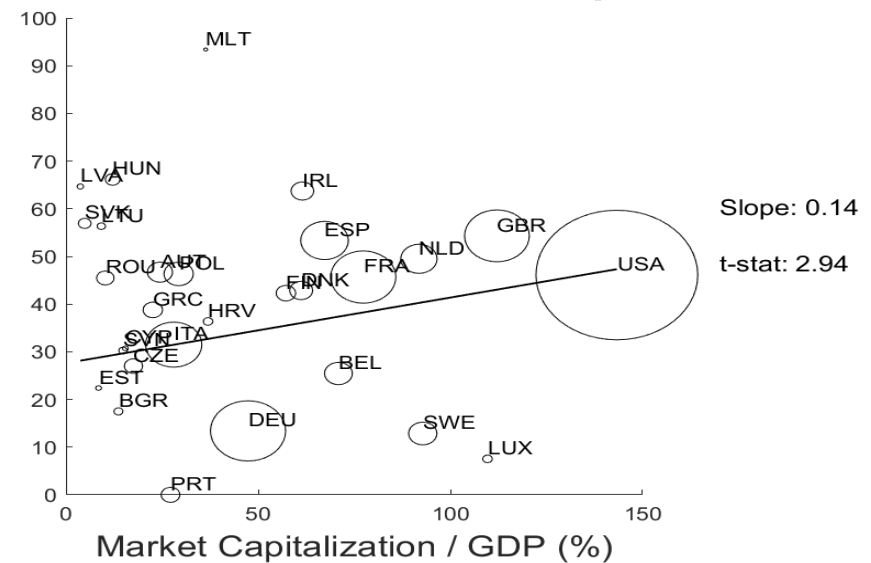
Panel B. Inequality: Top 10% Share



Panel C. Current Account Balance

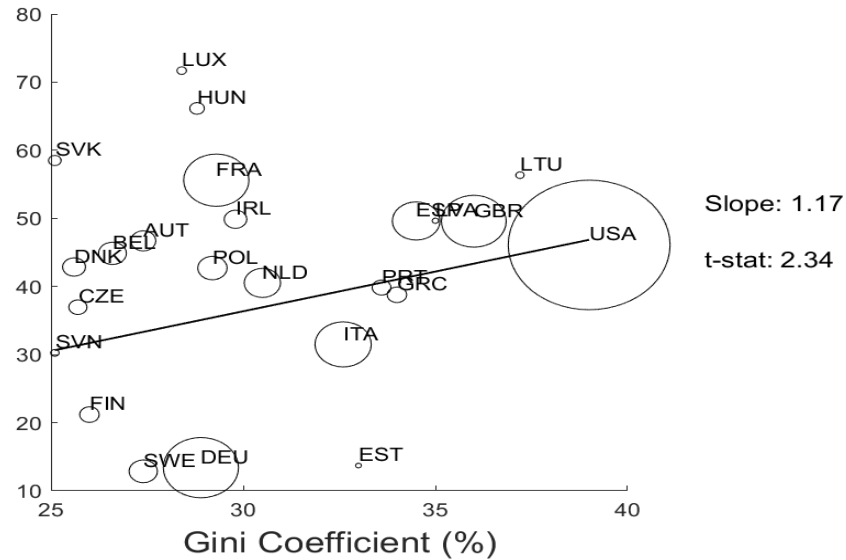


Panel D. Financial Development

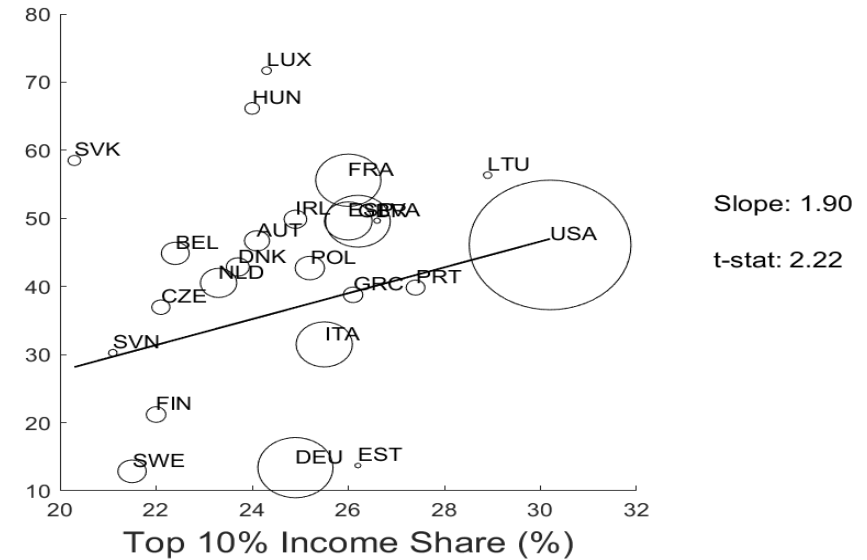


Vote Share of Anti-Immigrant Parties

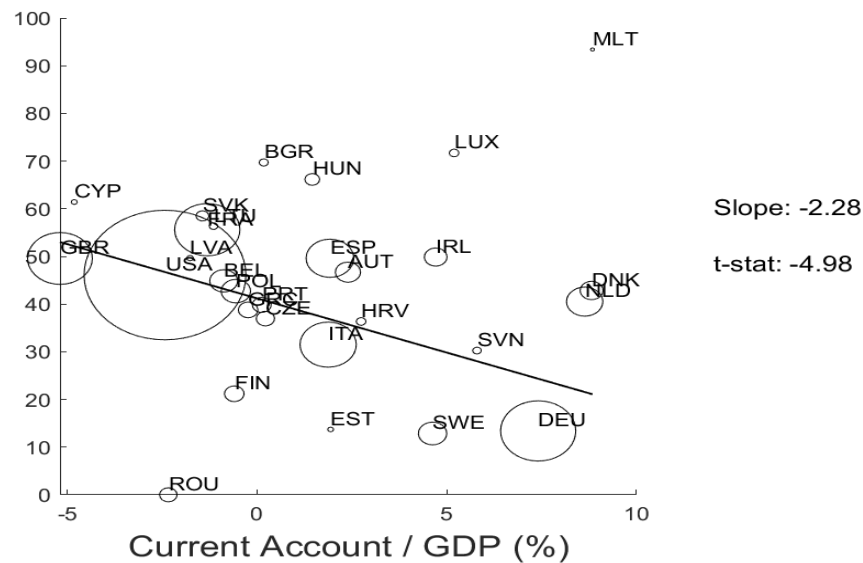
Panel A. Inequality: Gini Coefficient



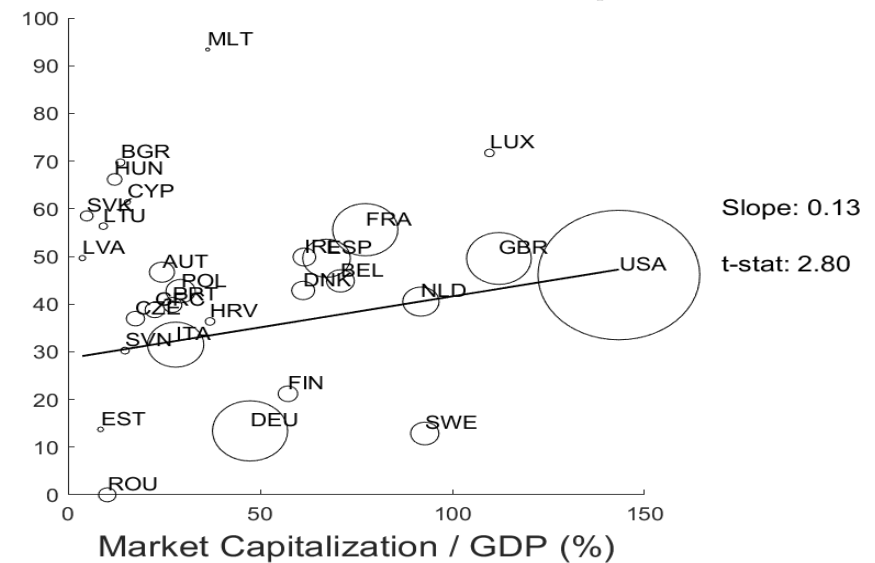
Panel B. Inequality: Top 10% Share



Panel C. Current Account Balance

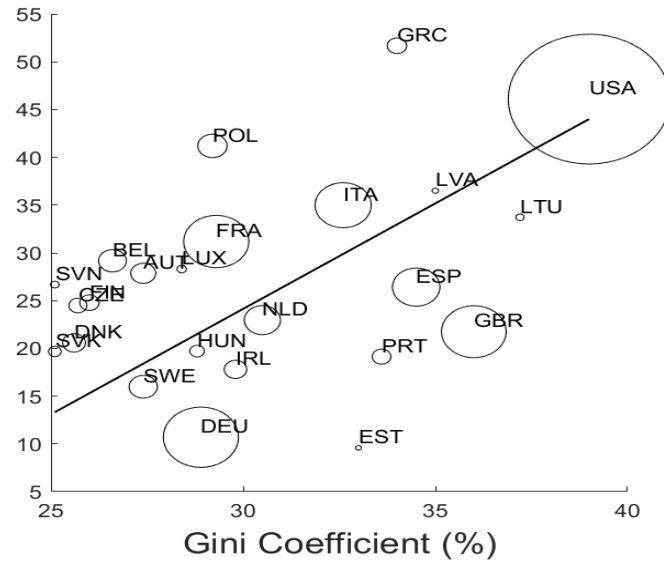


Panel D. Financial Development

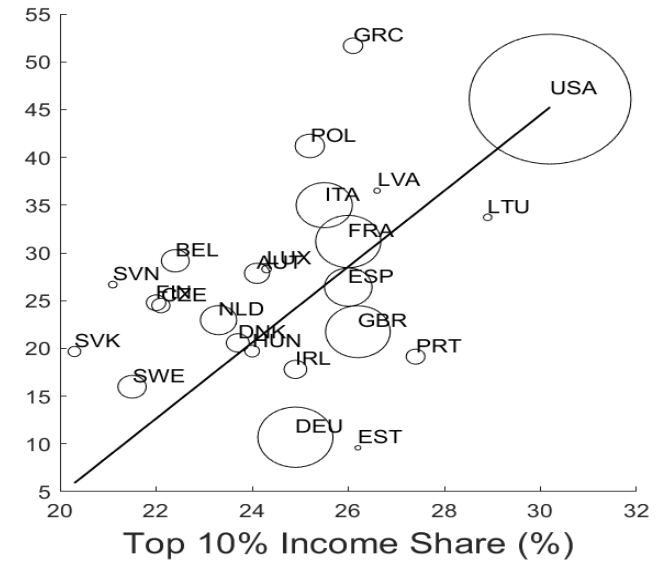


Vote Share of Anti-Elite Parties

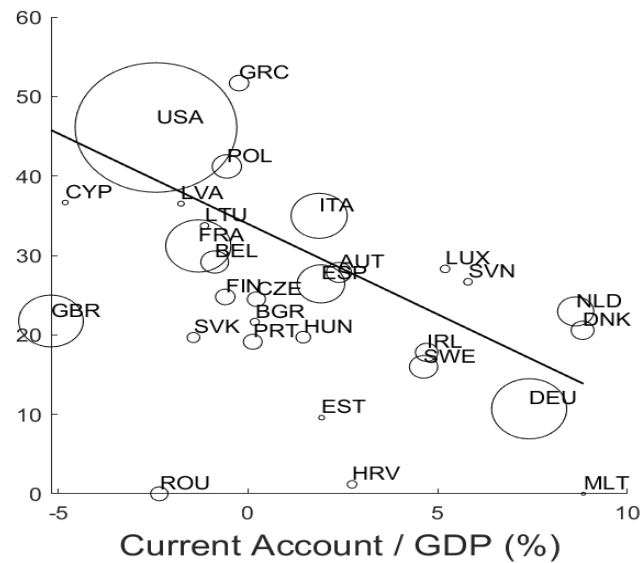
Panel A. Inequality: Gini Coefficient



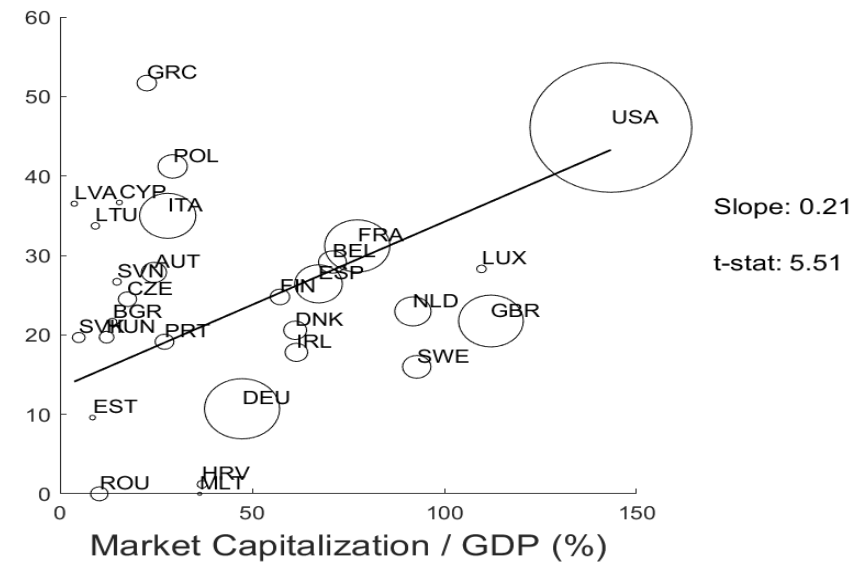
Panel B. Inequality: Top 10% Share



Panel C. Current Account Balance

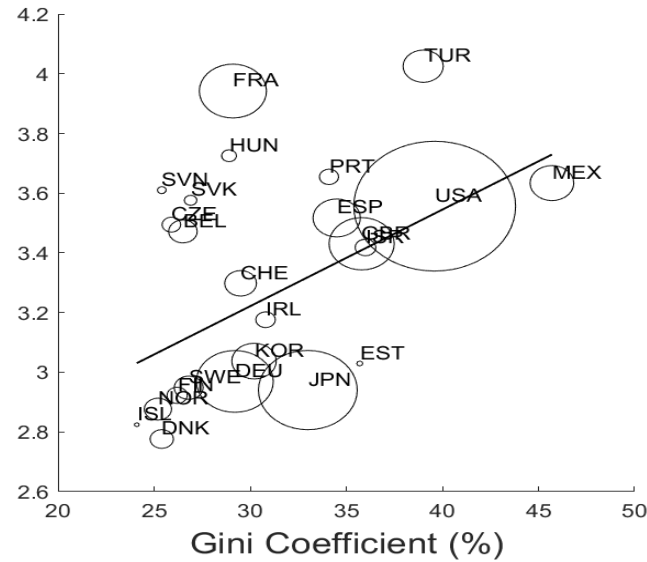


Panel D. Financial Development

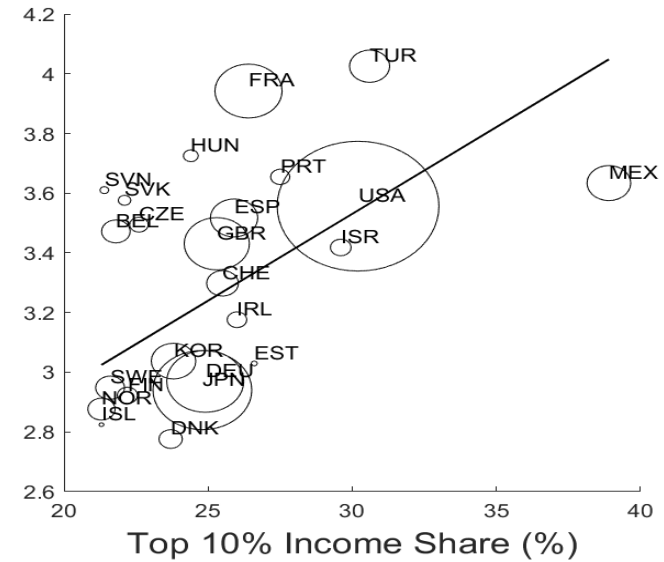


Support for Protectionism

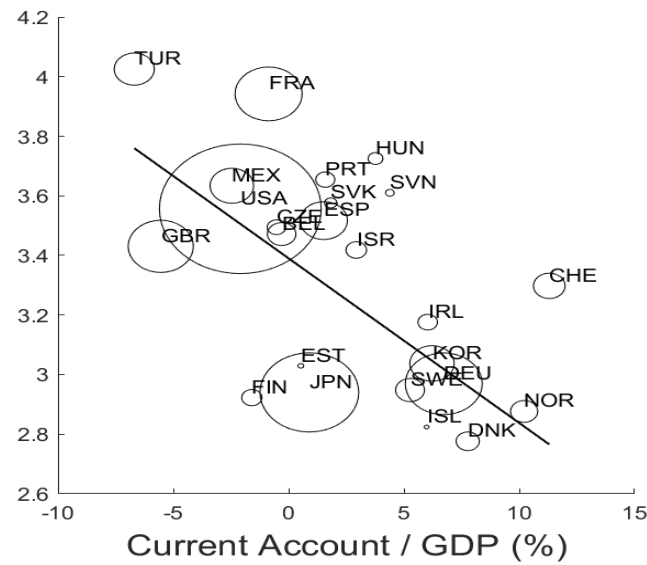
Panel A. Inequality: Gini Coefficient



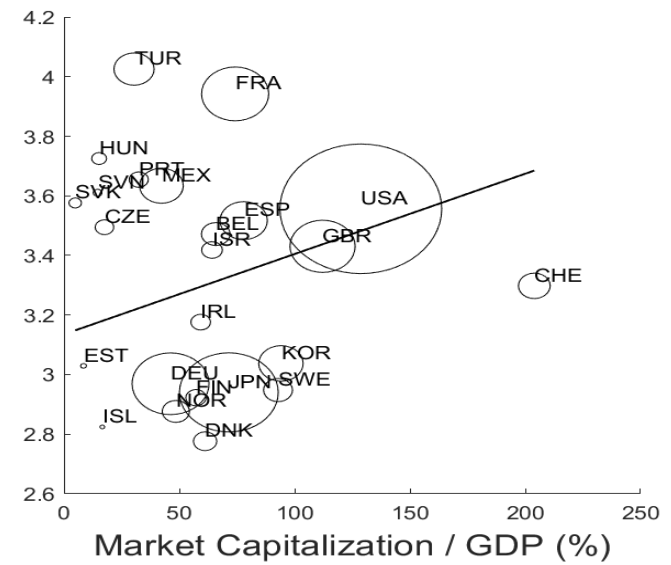
Panel B. Inequality: Top 10% Share



Panel C. Current Account Balance

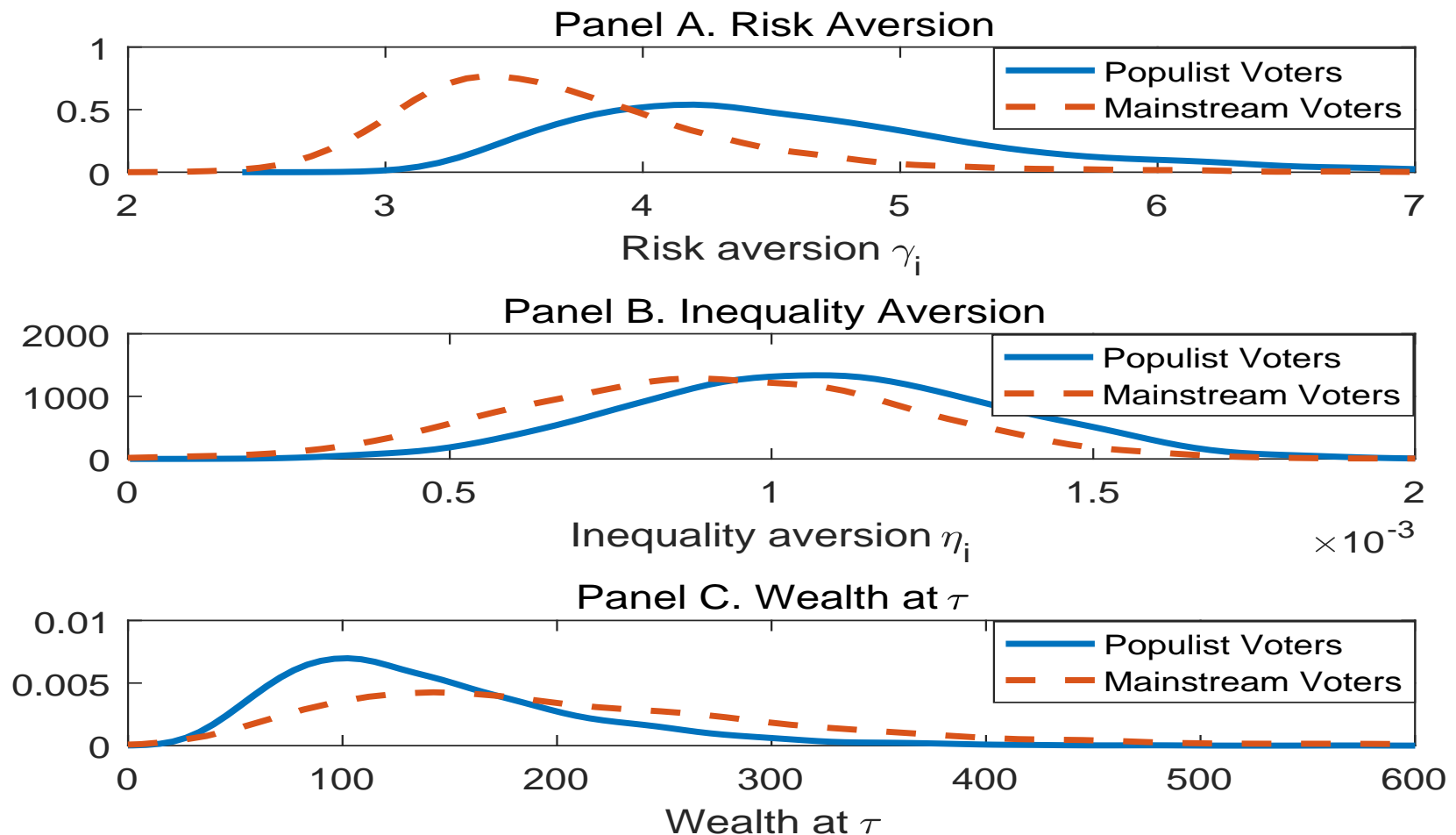


Panel D. Financial Development



Who Are the Populist Voters?

- **Result:** Agents with higher γ_i and η_i tend to vote populist



Evidence: Who Are the Populist Voters?

- Use survey data on Brexit and Trump voters
 - **Brexit:** 2014-2018 British Election Study, panel data
 - **Trump:** 2016 Cooperative Congressional Election Survey
- Empirical proxies:
 - **Risk aversion**
 - * Brexit: *Income, Education, WillingToTakeRisk, Religious*
 - * Trump: *Income, Education*
 - **Inequality aversion**
 - * Brexit: *Income, Religious, LeftRight, InequalityBad, PoliticiansFavorTheRich, LawFavorsTheRich, DoNotTrustExperts*
 - * Trump: *Income, Religious, Republican*

Determinants of the Support for Brexit

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Income</i>	-0.09 (-27.04)			-0.06 (-15.04)			-0.06 (-7.86)	-0.06 (-7.28)
<i>Education</i>		-1.27 (-60.29)		-1.22 (-44.27)			-0.65 (-12.57)	-0.55 (-9.83)
<i>WillingnessToTakeRisk</i>			0.11 (7.86)	0.21 (10.97)			0.17 (4.98)	0.20 (5.54)
<i>LeftRight</i>					0.44 (47.88)	0.47 (41.71)	0.45 (35.20)	0.42 (31.07)
<i>Religious</i>					0.31 (8.52)	0.15 (3.43)	0.16 (3.16)	0.11 (2.07)
<i>InequalityBad</i>					0.12 (3.40)	-0.04 (-0.89)	-0.03 (-0.62)	-0.02 (-0.37)
<i>PoliticiansFavorTheRich</i>						0.29 (10.82)	0.27 (8.73)	0.30 (9.34)
<i>LawFavorsTheRich</i>						0.11 (3.71)	0.07 (1.92)	0.08 (2.17)
<i>DoNotTrustExperts</i>						0.78 (36.94)	0.68 (27.76)	0.66 (25.90)
<i>Minority</i>								-0.54 (-5.53)
<i>Age</i>								0.01 (4.23)
<i>Gender (Male)</i>								-0.14 (-2.55)
<i>Feminist</i>								-0.36 (-11.47)
Observations	31095	40783	40890	25328	15631	13953	10838	10370
R^2	0.02	0.09	0.002	0.11	0.21	0.35	0.36	0.38

Determinants of the Support for Trump

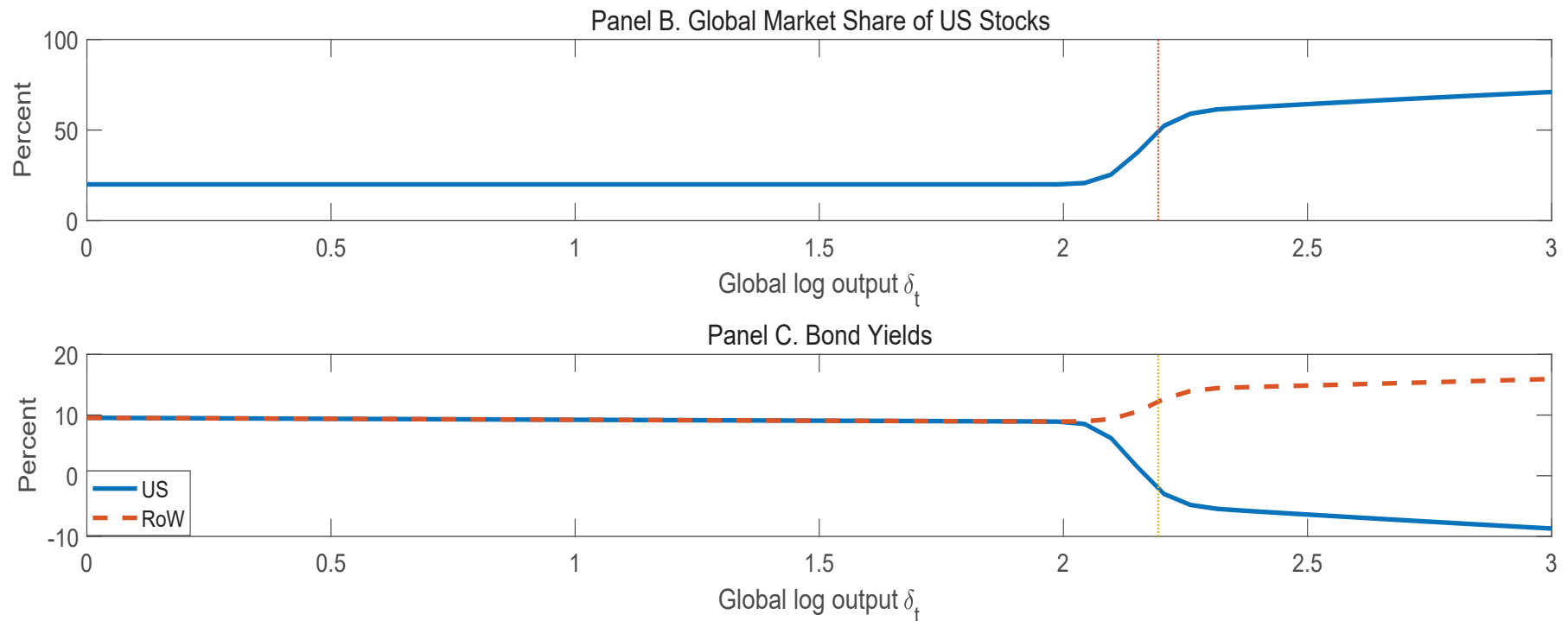
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Panel A. Controlling for Republican Dummy							
<i>Republican</i>	3.06 (95.92)	3.06 (95.93)	3.06 (95.83)	3.05 (94.51)	2.92 (94.66)	2.92 (89.32)	2.86 (84.45)
<i>Income</i>	-0.02 (-4.64)		0.06 (3.86)	0.10 (6.41)		0.11 (6.70)	0.08 (4.82)
<i>Income</i> ²		-0.002 (-5.72)	-0.01 (-5.11)	-0.01 (-4.85)		-0.005 (-4.43)	-0.004 (-3.80)
<i>Education</i>				-0.27 (-28.72)		-0.26 (-27.31)	-0.24 (-23.82)
<i>Religious</i>					0.40 (37.84)	0.37 (32.59)	0.46 (37.82)
<i>Minority</i>							-1.28 (-34.04)
<i>Age</i>							0.01 (14.76)
<i>Gender (Male)</i>							0.57 (21.14)
Observations	40445	40445	40445	40445	45209	40426	40426
<i>R</i> ²	0.32	0.32	0.32	0.33	0.34	0.35	0.40

Determinants of the Support for Trump

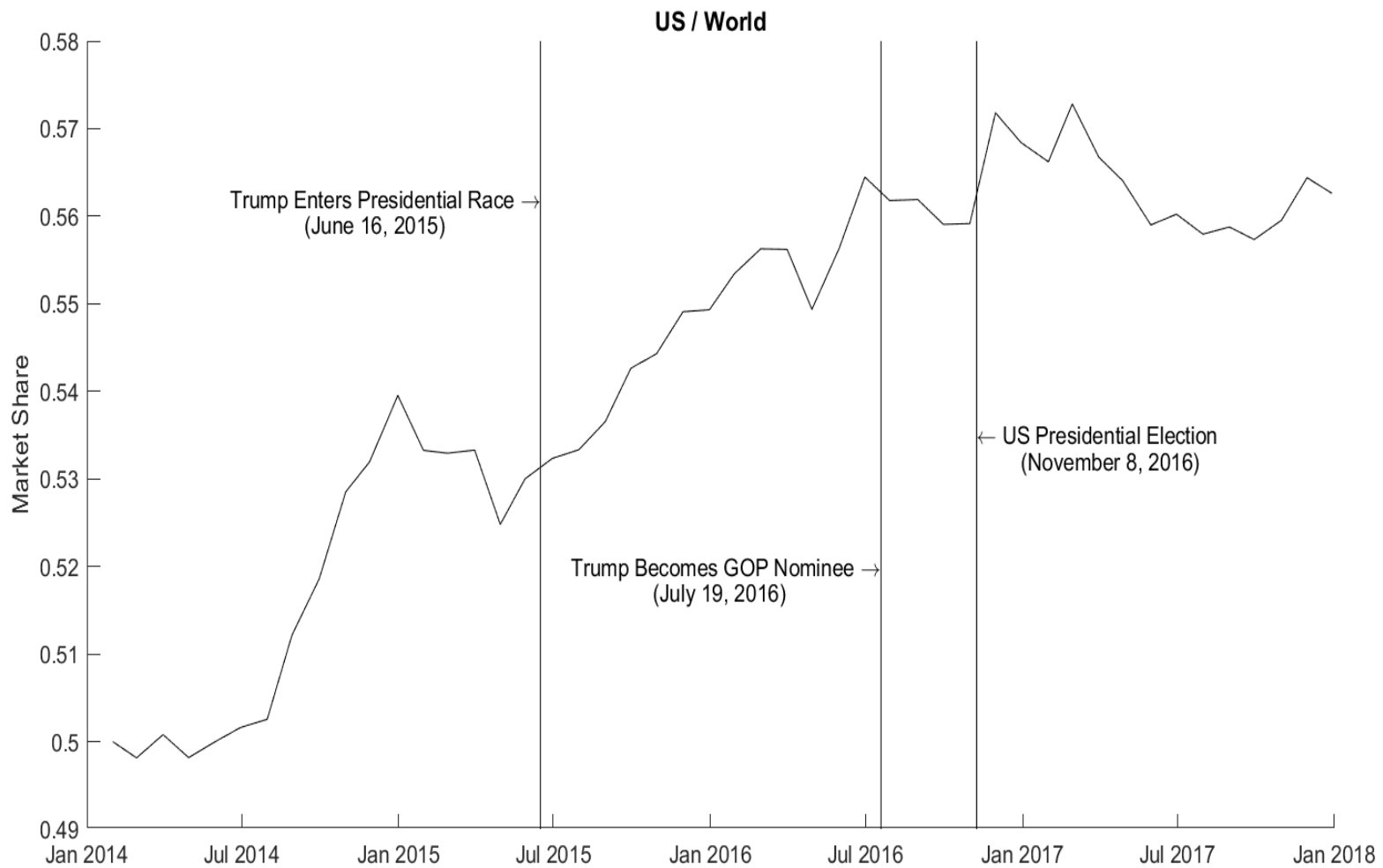
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Panel B. No Control for Republican Dummy							
<i>Income</i>	-0.001 (-0.27)		0.10 (7.30)	0.14 (10.42)		0.15 (10.52)	0.12 (8.15)
<i>Income</i> ²		-0.0004 (-2.10)	-0.01 (-7.58)	-0.01 (-7.22)		-0.01 (-6.36)	-0.01 (-5.43)
<i>Education</i>				-0.28 (-35.71)		-0.27 (-33.09)	-0.25 (-28.58)
<i>Religious</i>					0.53 (58.25)	0.51 (52.02)	0.61 (57.66)
<i>Minority</i>							-1.59 (-47.71)
<i>Age</i>							0.01 (14.54)
<i>Gender (Male)</i>							0.47 (20.32)
Observations	40456	40456	40456	40456	45222	40437	40437
<i>R</i> ²	0.00	0.0001	0.001	0.03	0.08	0.10	0.19

Asset Prices

- **Result:** Global market share of U.S. **stocks** increases before the populist victory.
- **Result:** U.S. **bond** yields fall before the populist victory.



Global Share of U.S. Stock Market



Extensions \implies Same Conclusions

- Time-varying U.S. output share F_t
 - Populist elected if $\delta_\tau > \bar{\delta}(F_\tau)$, where $\bar{\delta}'(F_\tau) > 0$
 - **U.S. output share** $\downarrow \implies$ **Populism** \uparrow
- Time-varying population shares
 - **Immigration** from RoW to U.S. \implies **Populism** \uparrow
- Higher costs of autarky
 - Lower output growth, μ_δ
 - Higher output volatility, σ_δ

Conclusions

- Backlash against globalization arises endogenously in our model
 - Rational voters' optimal response to rising inequality
- Key modeling ingredients:
 - Inequality aversion
 - Heterogeneous risk aversion (within & across countries)
 - Risk sharing (global vs. local)
- Evidence across countries and voters largely supports the model
 - Countries are more populist if they have more inequality, more financial development, and current account deficits
 - Voters are more populist if more risk- and inequality-averse