

The Rise of Identity Politics: Policy, Political Organization, and Nationalist Dynamics*

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Abstract

The most important global political event since the fall of communism is the rise of a new kind of politics, which has swept across many democratic countries. It has two facets. One is a group of angry citizens, who identify with the nation and are suspicious of immigration as well as the political establishment; the other facet is populist, radical-right politicians who have shaken up existing party systems and push an anti-immigration agenda. We develop a stylized dynamic model of multi-dimensional politics to explore how political cleavages, policies, and social identities evolve over time. The model allows for endogenous political organization in the form of party leadership changes, formation of social movements, and/or entry of new political parties. We study the two-way relationship between politics and nationalism showing that temporary shocks can have permanent consequences.

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1 Introduction

Throughout modern history, political conflict has mostly reflected two key cleavages. The first one – familiar from most political-economics models (like Meltzler and Richards 1981) – is the tension over redistribution. This cleavage between rich and poor is largely seen to follow socioeconomic fundamentals (class). A second political cleavage, which ebbs and flows in terms of its importance, is the tension between liberal and conservative social values. This cleavage is largely seen to follow people’s identities, rather than socioeconomic fundamentals, and was an important component of interwar political conflict. Early post-war conflicts in most liberal democracies, however, was mainly running in the class/income dimension. But the most important global political event since the fall of communism is arguably a new wave of *identity politics* found in a wide range of democratic countries. This political wave has two main components.

One is a group of angry citizens, who identify strongly with their nation and are suspicious of immigration and globalization as well as the political establishment. Outside of formal politics, protesters have voiced these concerns through new and growing social groups, such as Pegida in Germany, Vote Leave in the UK, and various Alt Right groups in the US (Caiani and Parenti 2016 discuss a number of such groups). Along more conventional political channels, concerned citizens have increasingly voted for new populist radical-right parties (Norris and Inglehart 2019, Gidron and Hall 2018, Rydgren 2018). This involves a shift away from the traditional rich-poor cleavage towards an emphasis on a cleavage between social conservatism and social liberalism, which is often subsumed in the so-called GAL-TAN dimension (Kitschelt-McGann 1997). Moreover, among some citizens, this cleavage now appears more salient.

To illustrate some of these changes, we use information from the V-party data base on the fortunes and policy stances of parties across European countries. One clear fact is the rising vote for radical-right parties over the past 20 years. This fact is illustrated by Figure 1, which uses data for a sample of 23 countries to show a steep rise in voting for radical right parties compared to mainstream parties after 2010.¹ As we might expect, these votes are more readily translated into political representation in countries

¹The Appendix gives a list of parties by country that we classify as mainstream and radical right parties in each country.

with proportional representation (PR) rather than majoritarian (plurality) systems. The striking difference is illustrated in Figure 2, with seat shares in the 2010-2019 period close to 13 percent for PR countries but less than 1 percent for plurality countries.

The other dimension of the radical-right wave concerns political representatives. A group of new politicians, who are often members of new political parties, have shaken up existing party systems (Kitschelt 2018). These new parties and politicians are pushing a populist (anti-establishment) and nationalist/nativist (anti-immigration) policy agenda. And this has encouraged some mainstream political parties to shift their positions so as to court socially conservative voters (Wagner and Mayer 2017).

Figure 3 illustrates the last of these facts. Comparing the immigration policies of the same mainstream parties in the first and last elections since the turn of the century, most of them have moved towards a stricter anti-immigration stance (as measured by the “v2paimmig” variable from V-party). But such shifts are only clearly visible in those countries where a radical-right party exists (the gray markers in the figure), and especially when the radical right has formed a governing coalition with one or more of the mainstream parties (the black markers.)

The reasons for these transformational changes in voter behavior and party structures have been much debated. Commentators in the public arena, as well as in academia, have suggested a range of drivers. These include *economic* shifts, like globalization and technological change that have deprived people in certain groups of jobs, incomes, and status. Another alleged force is a *social* shift, fuelled by flows of international migrants who seek a better life or refuge from violent conflicts. Yet another is a range of *cultural* shifts, including a drift towards nationalist values, and an associated wave of identity politics. Finally there are *political* shifts, such as established parties having converged and focused on issues of little concern to the disadvantaged, with new parties filling the resulting void, or mainstream parties – like the US Republicans or UK Tories – adapting to voter discontent by a reshaped candidate and policy mix.

The reality almost certainly involves a combination of such forces, creating a syndrome with a number of associated features. Untangling the causal chains between them involves notoriously difficult questions. For example, what should we make of the fact that some alleged forces behind the radical right (such as globalization) are long standing, while others (such as refugee migration) have struck at different intervals in the last few decades? And,

when it comes to organizational changes – like new nationalist social groups, new radical-right political parties, or an altered composition of existing parties – are these best thought of as drivers, rather than conduits (transmission channels) or equilibrium outcomes?

What makes the recent developments important is the possibility that they permanently disrupt politics away from income redistribution towards a more divisive politics which fractures cohesive elements of society. Such developments in the interwar period contributed to the political schisms that led to World War II, but began with certain kinds of politicians gaining an initial influence via the ballot box. Tides of nationalism, their drivers, and their influence on policy cannot be studied without engaging with the dynamics of values and political organization.

In our view, one needs a formal, theoretical approach to study these difficult questions. However, existing models of political competition are ill-suited to analyzing the observed changes as they tend to operate with fixed political preferences. Moreover, they typically do not consider the dynamics of organization such as new party structures, or newly organized social groups. Existing frameworks may therefore miss mutually reinforcing factors with implications that will remain hidden in want of a new framework.

Roadmap and scope of the paper To address these shortfalls in our tool box, this paper develops a theoretical approach to the statics and dynamics of identity politics. The approach builds on several strands of research both in political economics and in other branches of social science. However, one distinguishing feature of the approach compared to prior work is that it allows endogenous values as well as entry of political movements and parties, which together allow for path-dependent policy dynamics. Section 2 expands on the relation of the paper to antecedents inside and outside political economics.

Section 3 formulates our baseline model, a static framework where voters have conflicting interests in two dimensions: one rooted in incomes of rich and poor and the other rooted in identities of nationalists and cosmopolitans. Each dimension is associated with a policy: more or less redistribution in the rich/poor dimension and more or less strict immigration control in the nationalist/cosmopolitan dimension. These policies are set in electoral competition between two existing parties, which are formed along income lines and both run by cosmopolitans. The immigration policies are more likely to accommodate anti-immigration preferences of nationalist voters when this policy

dimension is more salient to them and/or income polarization is greater.

Section 4 builds three model extensions that all endogenize different aspects of political (and social) organization. In the first, parties can no longer commit to an immigration policy so that stricter policy proposals must be backed up by higher shares of nationalists on the party's ballot. This endogenous mix of candidates opens the door to party takeover by a nationalist politician, making it more costly for a cosmopolitan-run party to accommodate nationalists. In the second extension, nationalist citizens may form a new social group outside of politics. But this group still influences policy indirectly, as it accentuates its members' sense of collective identity, making their immigration-policy preferences more salient and parties more eager to compete for their vote. Forming such a group results in a discontinuous jump to a stricter immigration policy. In the third extension, a new political party may enter to represent nationalist voters, under both plurality rule and proportional representation (PR). Such entry also leads to a discontinuous anti-immigration policy shift that occurs at a lower share of nationalist voters under PR compared to plurality rule.

Section 5 pursues a dynamic extension where the share of nationalists evolves over time as new generations are socialized into nationalists or cosmopolitans. In the baseline model, long-run immigration policies and nationalist shares are correlated, but this reflects a unidirectional link from (expected) policy to nationalism which is governed by exogenous model parameters. With endogenous candidate mix and possible party takeover, a minimal concession to nationalists will eventually generate a nationalistic long-run outcome with strict immigration policy. With endogenous social groups or political parties, the model may have alternative steady states where long-run outcomes depend on initial conditions. More significantly, there can be path dependence (hysteresis), where group formation and/or party entry makes the share of nationalists and stricter immigration policy reinforce each other over time.

2 Related Research

In this section, we relate the modeling in the paper to earlier research. We begin with antecedents in political economics, then go on to predecessors in the social sciences at large.

Political-economics antecedents The workhorse framework for studying left-right politics was developed on Downs (1957) and the best known version uses an economic model based on a single income dimension and a desire for redistribution (Meltzler and Richards 1981, preceded by Romer 1975 and Roberts 1977).

These models assume that parties are opportunistic and care exclusively about winning. Alesina (1988), Calvert (1985) and Wittman (1977), put forward models where parties have policy preferences. The former imposes credibility on equilibrium policies, while the latter two introduce uncertainty about voter behavior. Unlike median-voter models, these predict divergence in policy platforms across parties. A variety of frameworks along these lines are discussed in Persson and Tabellini (2000) using a probabilistic voting framework.

The aforementioned research analyzes the outcomes of two-party competition under plurality rule with a given set of candidates or parties. Endogenous mixes of candidates offered by parties in the context of two-dimensional political conflict are studied by Roemer (2001) and Levy (2004). Entry of candidates into electoral competition is studied in Besley and Coate (1997) and Osborne and Slivinski (1996). Party entry and party formation is also explored in Feddersen et al (1990). Persson and Tabellini (1999, 2000) emphasize how electoral systems help shape the way policies are determined.

In addition to these workhorse models of political competition, our paper is related to the research on identity in economics introduced by Akerlof and Kranton (2000, 2010). Providing a link to the political economics literature, Shayo (2009) proposes a formalized social-identification model, which shows that people who identify with their nation rather than their class demand less redistribution. Very recent research has set out to explain the rise of populism and nationalist policies via the link between social identity and beliefs (Gennaioli and Tabellini 2019), or the mapping from social identity to protectionism (Grossman and Helpman 2020). These papers are complementary to ours but, as Shayo (2009), they rely on static models.

The focus here is on bringing cultural dynamics and organizational dynamics into political economics drawing on earlier work cultural evolution such as Boyd and Richerson (1985) and Cavalli-Sforza and Feldmann (1981).² Persson and Tabellini (2021) survey the growing literature on the interaction

²Such ideas have also been incorporated into economics and game theory (for overviews see, e.g., Bowles 2004, Sandholm 2010, and Weibull 1995).

between culture and institutions from a theoretical perspective (see also Bisin and Verdier 2017). Applications of these ideas include studying the interplay between democratic institutions and democratic values (Besley and Persson 2019a), and the coevolution of organization design and organizational culture (Besley and Persson 2020).

Other social-science antecedents The paper is related to the debates in political science about the dynamics of issue salience. Kitschelt and McGann (1997) discuss two political cleavages: one across left vs. right issues, the other across liberalism vs. authoritarianism. They argue that policy preferences have shifted towards the second dimension and that one should study the strategic responses to this shift by incumbent parties. Similarly, Wagner and Meyer (2017) stress how incumbent parties have accommodated the greater salience of new issues by moving “to the right” in the liberalism-authoritarianism dimension. Carmines and Wagner (2006) review the dynamics of changes as “issue evolution”.

Many papers on populism study the drivers of new nationalistic parties (Kitschelt 2018). A key idea is that policies of existing parties converged on programs for economic and political modernization, which opened the door for new parties with anti-globalization, anti-immigration, and anti-establishment platforms. (Kitschelt 1995, Kitschelt and McGann 1997, Carter 2005, Hobolt and Tilley 2017). More broadly, a rapidly growing literature deals with right-wing populism and its origins. Rydgren (2018) includes up-to-date reviews of different strands in this literature by political scientists and sociologists.

Our focus on identity politics relates the paper to a large body of sociological research in identity theory (Stryker and Burke 2000) that focuses on intragroup structures and behavioral outcomes. Research in social psychology on social-identity theory (Tajfel 1974, Tajfel and Turner 1979) and self-categorization theory (Turner 1985) focuses on intergroup structures and cognitive outcomes. A striking finding is how easily experimental subjects adopt group-specific behaviors that benefit in-group members at the expense of out-groups.

Finally, a whole subfield of political sociology studies mobilizing social movements (Walder 2009 reviews this research), with early work by Tilly (1978), Skocpol (1979), and McAdam (1982). Some later work stresses how social movements foster *collective* identities, stronger than individual identi-

ties (Malucci 1995). Caiani and della Porta (2018) and Gattinara and Pirro (2018) suggest that one ought to apply the notion of social movements to nationalist groups.

3 Baseline Model

In our baseline model, two parties propose policies related to two dimensions of political conflict. One is a traditional left-right dimension, where policy redistributes income and policy preferences depend on income (class). In the second dimension, policy regulates the openness to immigration and the conflicting policy preferences depend on identity (culture). In particular, we assume that people identify either as “nationalists” or “cosmopolitans” and that this rubs off on their policy preferences.³

Two-by-two population sub-groups The baseline model is deliberately simple in order to home in on the main issues. Thus, it abstracts from many realistic features and makes strong symmetry assumptions. (Appendix C shows how these assumptions can be relaxed.)

We begin with a static model of a society with population of size one. Citizens have traits in two dimensions. One is an economic (class) dimension where citizens differ in their fixed earnings ability. We consider two equally-sized groups labelled $J \in \{1, 2\}$, where $J = 1$ are the “poor” and $J = 2$ the “rich”. Incomes are denoted by y^J , with $y^1 < y^2$.

The second is a social identity dimension, where some citizens are “nationalists” labeled N , while others are “cosmopolitans” labeled C . The fraction of nationalists is μ and this fraction is identical among the poor and the rich (by our symmetry assumptions this will be an equilibrium feature of our dynamic model with endogenous identities in Section 5). Some of the population are “irreducibly” nationalist and cosmopolitan, with shares $\underline{\mu}$ and $1 - \bar{\mu}$, respectively, such that $0 \leq \underline{\mu} < \frac{1}{3}$ and $\frac{2}{3} < \bar{\mu} \leq 1$. Thus μ is bounded between $\underline{\mu}$ and $\bar{\mu}$.

We think about these identities as being individually adopted. (Section 4.2 pursues an extension with endogenous formation of nationalist social

³Alternative identity-related sources of conflict over policy could be captured in similar ways. These include pollution taxes striking a balance between the views of “environmentalists” and “materialists”, and labor-market regulation striking a balance between “feminists” and “traditionalists.”

groups and collective, rather than individual, identities for members of such groups).

Two policy dimensions Government determines a redistributive policy and an immigration policy. The former is a tax on income tax at rate $t \in [0, 1]$, which is used to finance welfare-enhancing government spending or lump-sum transfers. Preferences in this dimension are written as $\bar{U}^J(t) = U(t - t^J)$, a group-specific loss (indirect-utility) function, where losses grow in the distance between t and the group’s interior bliss point t^J . Because $y^1 < y^2$, we have $t^1 > t^2$. Moreover, the loss function is *symmetric* in upward and downward bliss-point deviations. One of our extensions (in Section 4.3) simplifies further by making the loss function *linear*: $U(t - t^J) = -|t - t^J|$. In either case, the bliss-point difference $t^1 - t^2$ grows with income inequality $y^2 - y^1$ that can shift – in an exogenous and unanticipated way – due to factors such as technology or globalization.

We think of the immigration policy as a (set of) regulation(s) and denote the policy by $x \in [0, 1]$, with a lower (higher) x representing a stricter (laxer) regulation that allows less (more) immigration. Nationalists have a bliss point of $x = 0$, while cosmopolitans most preferred policy is $x = 1$. These preferences are captured by convex loss functions, $W(1 - x)$ for C and $\sigma W(x)$ for N . Thus, $\sigma > 1$ is the “salience” of (relative weight on) immigration for nationalists, which could represent mere sentiments and beliefs. Note that W is the same function, though it takes different arguments for groups C and N . We allow for – exogenous and unanticipated – shifts in σ , reflecting a latent shift in the perceived threat of migration, due to, say, higher mobility among signatories of an international treaty or a worsening global refugee situation.

This simple specification treats the two policy dimensions as separate and orthogonal to each other. Someone’s attitude to immigration policy does not depend on her income. Exogenous links are easy to introduce, at the cost of more algebra as it breaks the symmetry of the model. In the Appendix (Appendix C), we consider explicitly such an extension, which generates broadly the same results as our symmetric baseline (see further below).

It would be more demanding to extend the model with endogenous identity-based policy preferences, via endogenous economic outcomes (as in Grossman and Helpman 2020) or endogenous stereotyping (as in Gennaioli and Tabellini 2019). Section 5 offers a dynamic extension where identities and policy pref-

erences do evolve over time via a process of cultural evolution, but without a link between the two policy dimensions.

Overall policy preferences Cosmopolitans from income group J have policy preferences $V^{C,J}(t, x) = U(t - t^J) + W(1 - x)$, while nationalists from group J have preferences $V^{N,J}(t, x) = U(t - t^J) + \sigma W(x)$. To simplify notation, define class polarization as

$$\pi = U(0) - U(t^1 - t^2), \quad (1)$$

which gives the utility gain from having the group’s preferred redistributive policy compared to the other income group. Symmetry implies that this gain is the same for the rich and poor. We assume that

$$\pi > W(0) - W(1), \quad (2)$$

where the right-hand side is the maximal loss to cosmopolitans from immigration policy. This condition implies that cosmopolitans always vote based on their redistributive policy preferences. Thus, the voting behavior of nationalists is a key aspect of the model.⁴

Parties There are just two given parties, which are organized along economic lines with the poor and rich parties labeled $J = 1, 2$. We want to capture an “initial situation”, where (i) the main political conflict runs in the class dimension, and (ii) political elites have a more positive attitude towards immigration than citizens at large. To that end, we assume that both parties are led by cosmopolitan members of the income group that the party represents (Section 4.3. pursues an extension with endogenous entry of a third nationalist party).

Each party proposes a platform $\{t_J, x_J\}$ to maximize the expected utility of its leadership. The objective function of party J is thus $E[U(t - t^J) + W(1 - x)]$, where taking expectations reflects electoral uncertainty. The only credible redistributive policies are $t_J = t^J$. For simplicity, we begin by assuming that parties can *commit* to an immigration policy x_J (but Section 4.1 pursues a citizen-candidate extension where a party must recruit nationalist candidates to credibly offer a lower x_J .)

⁴This could be relaxed, but the analysis would become taxonomic depending on which case applies.

Voting Our assumption in (2) implies that all poor (rich) cosmopolitans vote for party 1 (2). However, nationalists are (prospective) swing voters and support the party that offers the highest utility allowing for the possibility of random shocks as in standard probabilistic-voting models, such as Lindbeck and Weibull (1987) or Persson and Tabellini (2000).

Since the treatment is standard, we relegate details to the Appendix (see Appendix A). There, we show that party 1's win probability is given by a continuous function $P(x_1, x_2, \sigma)$, which is decreasing in x_1 and increasing in x_2 . Moreover, immigration policy has larger effects on the probability of winning the higher is σ , the salience of (weight given to) this policy among nationalists. By model symmetry, Party 2's win probability is $1 - P(x_1, x_2, \sigma) = P(x_2, x_1, \sigma)$.

Party objectives Party J 's objective is

$$P(x_J, x_K, \sigma) Z^J(x_J, x_K), \quad J = 1, 2, \quad (3)$$

where $Z^J(x_J, x_K) = \pi + (W(1 - x_J) - W(1 - x_K))$ is the (utility) gain from winning the election to the cosmopolitan leadership. It has two components: the gain from your own vs. the other party's tax policy, and the gain from your own vs. the other party's immigration policy.

This objective reflects the key trade-off in the baseline model. A more restrictive immigration policy (lower x) increases the win probability, as the party becomes more attractive to nationalist voters. However, it imposes a cost on the party's loyal (cosmopolitan) voters, which is internalized by party leaders.

Equilibrium policy The Appendix shows that the party objectives are (log) supermodular, which is convenient both substantively and analytically. Substantively, supermodularity makes policies strategic complements: when one party picks a more restrictive immigration policy, the other party wants to do the same. Analytically, it implies that a Nash equilibrium exists.

This leads to the following characterization of equilibrium policy.⁵

Proposition 1 *Optimal electoral strategies $\hat{x}(\sigma, \pi)$ are the same for both parties and given by a decreasing function $h(\sigma\pi)$, and two bounds \underline{m}*

⁵The proof of this and all of the subsequent results are found in Appendix B.

and \bar{m} such that:

$$\hat{x}(\sigma, \pi) = \begin{cases} 0 & \sigma\pi \geq \bar{m} \\ h(\sigma\pi) & \sigma\pi \in (\underline{m}, \bar{m}) \\ 1 & \sigma\pi \leq \underline{m}. \end{cases}$$

By symmetry, the two parties offer the same policy. The proposition gives three ranges for $\sigma\pi$, the product of the immigration salience and class polarization. When $\sigma\pi$ is high, both parties cater to nationalist swing voters by a maximally strict immigration policy: $x = 0$. In this range, the nationalist vote is very sensitive to concessions and/or high economic polarization makes it crucial to win the elections. If $\sigma\pi$ is low, the opposite is true, and political elites ignore nationalist preferences by a maximally lax policy: $x = 1$. The intermediate case has an interior solution with $x \in (0, 1)$, which trades off the win probability against the utility cost of policy concessions.

Bounds \underline{m} and \bar{m} are precisely defined in the Appendix. They reflect the density of swing voters around the symmetric equilibrium – i.e., how much the vote shifts with a stricter immigration policy. They also reflect the extent to which voters value extreme positions.

Comparative statics The upward-sloping reaction functions make for simple comparative statics. The equilibrium policy is thus fully determined by $\sigma\pi$, the product of immigration salience and class polarization:

Corollary 1 *Parties set a stricter immigration policy – a lower x – when immigration salience σ is higher and class polarization π greater, modulo the interaction between the two.*

Figure 4, where an increase in π or σ is equivalent to a move along the horizontal axis, illustrates this corollary together with Proposition 1.

In the baseline model, it is not the size of the nationalist group, but the underlying salience and polarization that matter for policy. That said, neither class polarization nor immigration salience by itself drives the immigration policy of existing parties. Polarization alone is insufficient, as parties have to attract sufficiently many nationalist voters to make a strict immigration policy worthwhile (i.e., a high enough σ). Salience alone is insufficient, as parties have to care sufficiently about the redistributive gains from winning to bear the cost of courting the nationalist electorate (i.e., a high enough π).

Another way to say this is that the two dimensions of policy – while being *economically* unrelated – are very much *politically* related.

A glance at the data Figure 5 considers empirically the evolution of proxies for the two crucial drivers in the model. As in the model, we thus use changes in inequality to gauge the traditional left-right class cleavage. The left panel thus uses data from the Luxemburg Income Studies to examine changes in inequality over time as measured by the 90-10 ratio – i.e., income at the 90th percentile relative to income at the 10th percentile. Although there are exceptions in the sample, our proxy for polarization π shifts up on average during the last twenty years.

The right panel instead looks at changes in immigration salience across our 23 countries. It uses Eurobarometer data, which asks respondents to name the top-two policy issues facing the country. Here, we average (over surveys) the proportions that name immigration in the early 2000s and the late 2010s. While Spain and the UK are exceptions⁶, average immigration salience went up by a factor of two. Indeed, for many countries, like Germany and Sweden, the hike – which likely reflects the European refugee crisis – is quite sharp, suggesting that immigration salience σ has indeed increased.

Implications These comparative statics help us get a perspective on the debate about the more restrictive stances on immigration. People who look for single causes might argue that more polarization is a prospective explanation. As we have seen, this may be necessary but not sufficient. The complementarity may shed light on a puzzle regarding the timing of the response to polarization – π in the model. If higher polarization reflected more inequality because of technology shifts, these occurred much earlier than the shifts towards stricter immigration control. However, our model says that σ has to rise as well to generate an immigration-policy (and political) response to the economic shocks.

The model may also shed light on observed policy heterogeneities across countries. At least for some time – even in the run up of the 2015 European refugee crisis – political elites in some countries, like Germany and Sweden, appear to have resisted the temptation to court nationalists via immigration

⁶It seems likely that for the UK, the 2016 Brexit immigration reduced salience of immigration since the UK was no longer required to offer freedom of movement to EU citizens post-Brexit.

clamp-downs. One reason suggested by the model is weaker polarization in these countries. However, we can think about the refugee shock as an increase in σ that did produce a change in German and Swedish policy. Analogously, low immigration salience may have held back immigration clamp-downs in countries like the US and the UK, that had seen substantial increases in inequality and polarization. This may help us understand why Donald Trump made immigration a central plank of his two US Presidential campaigns, as did the Leave supporters in the UK Brexit campaign.

As mentioned earlier, the Appendix generalizes the model to allow for different fractions of rich and poor, asymmetric salience between the rich and poor groups and different fractions of nationalists among the rich and poor. This extension shows that the core result on shocks to class polarization and immigration salience continue to hold under slightly stronger assumptions. So these insights are not a figment of a symmetric model. The symmetry is, however, highly useful for the study of organizational change and nationalist dynamics.

But the nature and timing of the immigration response may also depend on other factors that differ across these and other countries. In particular, the next section looks at how political organization might respond to rising nationalism – e.g., via the candidate mixture of existing parties, or via party entry in different electoral systems.

4 Endogenous Political Organization

The advantage of the simple symmetric and separable model of the previous section is that we can extend the model to study three aspects of endogenous political organization. In all three cases, we discover richer responses to shifts in class polarization (π) and immigration salience (σ), as well the spread of nationalism (μ). For the moment, we stick with a static model (but Section 4 allows μ to evolve over time).

First, we relax the commitment assumption in immigration policy and endogenize the composition – in terms of the candidate mix offered to the voters – of the two existing parties (Subsection 4.1). In this case, the organizational effect of nationalism occurs inside existing parties. Second, we allow for the endogenous formation of nationalist social groups. Whether this organizational change takes place depends on the level of nationalism. While group formation takes place outside of electoral politics, it *indirectly* affects

immigration policy via the platforms adopted by existing parties (Subsection 4.2). Third, we permit endogenous entry of a third political party, along the identity-based political cleavage. Moreover, we do so under two electoral systems. This reorganization of the party system *directly* reshapes immigration policy via altered representation (Subsection 4.3).

4.1 Composition of Existing Parties

So far, we have assumed that parties can commit unconditionally to immigration policies, but cannot credibly commit to tax (redistributive) policies. However, a strict immigration policy offered by a party run by cosmopolitans may have as little credibility as a low-tax policy offered by a party run by the poor. This subsection makes the model symmetric in this respect. More importantly, though, it sheds light on the dynamics of party leadership.

The starting point for our baseline model is a situation where cosmopolitans have captured mainstream political parties. The process which has led to this is beyond the scope of this paper but it is likely rooted in a process of political selection that has increasingly professionalized politics among elites with experience of higher education. But, as we capture in this section, such elites face an important trade-off when they respond to political shocks. They can stick to their true values and retain within-party control. Or they can accommodate rising nationalist sentiments, encouraging entry by nationalists in order to make their positions credible and risk losing party control. This trade-off is what we study here. This opens up one dynamic of change is when a largely cosmopolitan leadership is displaced. Stark examples of such events are Donald Trump’s selection as the Republican Party candidate in the 2016 US presidential election, or Boris Johnson’s 2019 election as the UK Conservative Party’s leader (and therefore as Prime Minister). The desire to appeal to nationalist voters after a salience shock and/or greater polarization on income dimensions can spur such processes of leadership transition and hence further moves towards more nationalistic politics.

Requisites for credible policy Following a citizen-candidate approach, suppose now that a credible promise of a stricter policy (a lower value of x_J), requires the party to field a larger share of nationalist representatives – say on a nationalist list under PR and in a set of single-member constituencies under plurality rule (the two systems we study in Section 4.3).

To keep things maximally simple, suppose this relation is one-to-one – i.e., a more restrictive immigration platform $x_J < 1$, requires a proportionately larger share $1 - x_J$ of nationalist candidates. Party leaders now take policy decisions indirectly, by selecting candidates with different identities ⁷.

In general, a party can be run by a cosmopolitan or nationalist, $\tau_J \in \{C, N\}$. However, this subsection begins by focusing on the same baseline as in Section 2, where both parties are run by cosmopolitans. We thus begin by asking how the risk of leadership takeover by a nationalist affects the immigration-policy motives for cosmopolitan-run parties. Leaders have a personal benefit from surviving a leadership contest *after* the policy decision (specific timing below). This modifies the policy objective in the baseline model. At the end of the subsection, we consider the behavior of nationalist party leaders.

The leadership contest We consider a leadership contest in the spirit of Besley et al (2017). A cosmopolitan-party leader faces a baseline probability $\lambda < 1$ of losing power to another cosmopolitan, when the party only contains cosmopolitans ($x_J = 1$). Parameter λ can thus be thought about as a generic measure of leader (un)popularity.

Whenever the legislative representatives contain a set of nationalists, one of them may take over as leader with a probability proportional to the share of elected nationalists. A simple model of this is to set that the full probability of a party leader being ousted at $(1 - x) + \lambda x$, where the first (second) term is the probability that a nationalist (another cosmopolitan) takes over the party. The survival probability of a cosmopolitan party leader is therefore $p^C(x) = (1 - \lambda)x$. Let parameter θ , standing for ego-rent, be the benefit of reappointment, which we assume to be the same for the leaders of both parties.

The earlier party objective (3) is now modified to:

$$P(x_J, x_K, \sigma) Z^J(x_J, x_K) + \theta(1 - \lambda)x_J, \quad (4)$$

where the second term reflects concerns about retaining the leadership when pursuing a stricter immigration policy (lower value of x_J), by fielding a larger

⁷Implicitly, this specification corresponds to two assumptions: (i) after the election, the representatives of the winning party bargain over the implemented policy x , given the policy preferences held by their identity, (ii) the outcome of this bargaining is monotonically declining in $(1 - x)$.

share of nationalist candidates. Since this term is a continuous linear function, the objective function retains the (log) supermodular property from the baseline model. A unique Nash equilibrium thus continues to exist.

Timing The timing of the model is now

1. The state of the party leadership characterized by $\{\tau_1, \tau_2\}$
2. Each party *leader* chooses a share of cosmopolitan candidates $\{x_1, x_2\}$, which translates into electoral platforms for its migration policy.
3. Electoral shocks are realized.
4. The winning party implements its policy platform x_J for $J \in \{1, 2\}$
5. A party leadership contest takes place in each party (In a multiperiod model, like the one in Section 5, this will determine new values of $\{\tau_1, \tau_2\}$.)

Political equilibrium with cosmopolitan leaders The structure of equilibrium policy as a function of $\sigma\pi$ is essentially as in Proposition 1 and symmetric across the two parties. Therefore, we focus on the new comparative statics, with respect to θ and λ . We denote the equilibrium policy as $\hat{x}(\sigma, \pi, \theta, \lambda)$, which varies as follows:

Proposition 2 *With cosmopolitan leaders, both parties pick a common equilibrium immigration policy, which is (weakly) stricter with lower θ and higher λ .*

The threat of losing the leadership reduces the payoff to a strict immigration policy ($x < 1$). By the upward-sloping reaction functions, this dampens the both parties' incentives to please the nationalists. The replacement threat thus widens the range of parameter values for which $\hat{x}(\sigma, \pi, \theta, \lambda) = 1$ relative to the earlier equilibrium $\hat{x}(\sigma, \pi)$. In other words, cosmopolitan leaders are less likely to make policy concessions.

That said, the model predicts that if an incumbent leader does cater to nationalists, $\hat{x}(\sigma, \pi, \theta, \lambda) < 1$, the party will eventually be taken over with

probability $1 - \widehat{x}(\sigma, \pi, \theta, \lambda)$.⁸ Preparing the ground for the dynamic analysis to follow in Section 5, we thus have the following comparative static:

Corollary 2 *Party takeover by a nationalist is more likely, the higher immigration salience σ and class polarization π .*

Thus a salience or economic shock can have repercussions beyond policy responses by changing party control.

Nationalist leaders Consider the policy choices if such a party takeover has taken place. By an analogous argument to that for a cosmopolitan leader, a nationalist leader will maximize:

$$P(x_J, x_K, \sigma) Z^{N,J}(x_J, x_K) + \theta(1 - \lambda)(1 - x_J), \quad (5)$$

where $Z^{N,J}(x_J, x_K) = \pi + \sigma(W(x_J) - W(x_K))$. This payoff is decreasing in x_J regardless of the other party's policy – i.e., a nationalist leader perceives no trade-off between winning and her preferred policy outcome. This means that she has a dominant strategy: she simply implements her bliss point at $x_J = 0$, by fielding a full set of nationalist (and income-level J) candidates. Such a strategy also fully eliminates the threat of replacement. This (stark) case will be relevant when we study the dynamic model in Section 5.

4.2 Formation of Nationalist Social Groups

Our baseline model assumes that identifying as a nationalist or cosmopolitan is an *individual* act, with no collective element. In this subsection, we allow nationalists to get together as a group, at a fixed and sunk cost, with a view to organizing collective action outside formalized party politics. As real-world examples, we have in mind groups and loose organizations such as: the Better Off Out and Vote Leave groups that were active in the UK Brexit campaign; the nationalist activist group Pegida that has carried out large anti-islamic demonstrations in Dresden and other German cities; and the various nationalist groups, often labeled as Alt Right, that have supported

⁸This is because there is always a positive probability of the leader being displaced even if x_J is very small. We could easily build in a threshold effect, with a positive probability of displacement only above some value \underline{x} . This would obviously expand the range of parameter values where cosmopolitans stay in control.

Donald Trump and his policies in the US. These groups have in common a strong nationalist (nativist) orientation and a rage against the political establishment not paying attention to the concerns of group members. They have largely thrived by organizing rallies and protests, with social media serving as a major coordination mechanism.

As mentioned in the introduction, social movements have been studied extensively by sociologists. Many have focused on groups on the traditional left, while fewer studies have been concerned movements on the traditional right, let alone the radical right. Here, we model the main mechanism suggested in the sociological research on mobilizing social movements, namely that members *collectively* identify with the group (Malucci 1995, Flesher Fuminaya 2014).⁹ This enhances their sensitivity to immigration policies increasing the salience of this issue for group members and induces political parties to cater to group members, so that forming a nationalist social group leads to a discrete jump in immigration policy.

Groups We retain the core elements of the baseline model. However, nationalists may now form a social group at an aggregate cost of F which can be shared among group members, so the per-capita cost of forming the group is F/μ . We focus on the case where F is small but positive, to rule out the trivial case when a group does not form just because collective action is costly.¹⁰ This means that a group will not form when it has no political influence.¹¹ In our symmetric framework, either all of the nationalists or none of them will want to join the group if it does form.

⁹We abstract from other channels, such as the traditional role of campaign contributions to influence election outcomes or policies, as emphasized in the political-economics literature (Baron 1994, Grossman and Helpman 1996).

¹⁰In practice, the costs of collective action could be substantial, especially in countries where government puts barriers in the way of civil society. Our results can thus be thought of as an upper bound on the prospects for group formation. In practice, we also expect the costs to differ substantially across people. If this were the case, we would have a “threshold model of collective action” (Granovetter 1978) and only a share of nationalists would join the group.

¹¹Some of the theories of social movements reviewed in Walder (2009) do not require a group to be instrumentally powerful. A social movement could be created purely by affective behavior in response to a sense of grievance whether or not it actually affects policy.

Payoffs of group members An organized nationalist social group can create a collective identity due to in-group attachments. We assume that members of a group internalize the payoffs of other group members as an expression of in-group loyalty.¹² This may reflect formal group activities – newsletters, advertising, or joint actions – that make members more aware of being part of a collective. An outright group may also intensify – word-of-mouth or social-media – communication.

Formally, we write the utility of a nationalist-group member with income (class) J as

$$V^{N,J}(t, x) = U(t - t^J) + \sigma W(x) + \int_i \xi(i) V^L(t, x) di, \quad (6)$$

where i runs across all individuals, whether from the same income class ($L = J$), or not ($L \neq J$). To model identification with the nationalistic in-group, we set the weights $\xi(i)$ to ξ if $i \in N$ and to 0 if $i \notin N$. Parameter ξ thus reflects the in-group loyalty among nationalists.¹³ It will be the basis of a social multiplier that can spur the nationalist citizens to get organized.

Spillover to politics Once a group has been formed, the party- J probability of winning, once a group has been formed, is given by $P(x_J, x_K, \Sigma(\mu, \sigma))$, where $\Sigma(\mu, \sigma) = (1 + \xi\mu)\sigma$ captures the enhanced salience of immigration which is increasing in σ and ξ for all μ .¹⁴ Intuitively, internalization of in-group utilities acts as a multiplier on immigration-policy preferences, a multiplier which grows with the size and loyalty of the nationalist group. The same kind of multiplier will appear in any model where only a subset of nationalists takes part in the social group, as long as the propensity to join is increasing in the share of people who (individually) identify as nationalists μ .

Timing The timing with possible group formation is as follows:

1. There is a given share of nationalists μ , salience σ and economic polarization π .

¹²This is similar in spirit to the assumption about group-member preferences in Besley and Persson (2018).

¹³Introducing out-group hostility – i.e. $\xi(i) < 0$ for $i \notin N$ – would only serve to strengthen the mechanism we highlight.

¹⁴See the Appendix for details.

2. Nationalists choose whether to form an interest group, at per-capita cost F/μ .
3. Parties offer platforms $\{t^1, x_1\}, \{t^2, x_2\}$.
4. Individual and aggregate shocks ω and η are realized.
5. An election is held where party J wins with probability $P(x_J, x_K, \sigma)$ or $P(x_J, x_K, \Sigma(\mu, \sigma))$
6. Payoffs are realized.

If the nationalist group does not form, we get the same outcome as in the baseline model. However, if the group does form, the outcome is similar to that in Proposition 1, but with effective salience increased to $\Sigma(\mu, \sigma) = (1 + \xi\mu)\sigma > \sigma$.

Policy and group formation Since $\Sigma(\mu, \sigma) > \sigma$, it follows from Proposition 1 that formation of an organized nationalist group raises nationalist influence over immigration policy. Moreover, once the group has formed, a higher share of nationalists μ now implies a (weakly) stricter immigration policy since $\Sigma(\mu, \sigma)$ is increasing in μ . But there is still a threshold requirement for π and σ . Specifically, if $\Sigma(\mu, \sigma)\pi = (1 + \xi\mu)\sigma\pi < \underline{m}$, a nationalist group will not influence immigration policy. So we still need sufficiently high σ and π in order for nationalism to shape policy. But now the strength of social ties, ξ , also matters to the strength of nationalist sentiment. If the growth of social media use have enhanced these ties this is one channel through which they influence policy.

Equilibrium group formation A nationalist social group will form if the benefits from doing so exceed the cost. Since we focus on the case where costs are small, i.e. $F \rightarrow 0$, we need only check whether the gain from forming a group is strictly positive. For this, we must be in the range where an active nationalist group influences immigration policy.

We now have:

Proposition 3 *As $F \rightarrow 0$, then for all $\sigma\pi < \bar{m}$, a social group will form when the share of nationalists μ pass the threshold $\hat{\mu} = \left[\frac{\bar{m}}{\sigma\pi} - 1\right] / \xi$.*

The proposition identifies a specific condition for a group to form. If $\sigma\pi > \underline{m}$, then a group will form for all $\mu \in [\underline{\mu}, \bar{\mu}]$ and its sole effect is to magnify the policy concession made to nationalists by incumbent parties. If $(1 + \xi\mu)\sigma\pi > \underline{m} > \sigma\pi$, then the group has to organize for political parties to offer an immigration policy that caters to nationalist preferences (i.e., $x < 1$). Thus, the numerical strength of the nationalist group matters for policy. Also relevant for the entry condition is the social multiplier ξ which determines the ex post political influence of the group on policy. Formation of a group is more likely when ξ is high and the power of social media in recent years may be something that has increased ξ . Finally, it is worth reflecting on why the proposition requires that $\sigma\pi < \bar{m}$. If immigration salience and class polarization are very high, then the parties will pick a maximally strict immigration policy and there is no instrumental reason for nationalists to form a group.

We now have a comparative static on group formation:

Corollary 3 *Given μ , a nationalist social group is more likely to form, when immigration salience σ is higher and class polarization (inequality) π is greater. Changes in these parameters will further influence immigration policy once a group has formed.*

In this static model, the formation of a nationalist social group will lead to a discretely stricter immigration policy, as the collective identity makes immigration salience jump from σ to $\Sigma(\mu, \sigma) = (1 + \xi\mu)\sigma$ at $\mu = \hat{\mu}$. Moreover, this multiplier implies that immigration policy is more sensitive to its drivers with a nationalist group in place. But this result does not nullify the key insight from the baseline model: nationalists are more likely to obtain policy concessions whenever class polarization is large (π high) and/or immigration is more salient for nationalists (σ high).

4.3 Entry by Nationalist Political Parties

An important aspect of the rise in nationalism are the populist radical-right parties that have entered – or grown much stronger – in many countries during the last 10-15 years. This wave of party entry follows an earlier wave of green-party entries in many European countries during the 1980s and 1990s.

In spite of its manifest importance, formal models with endogenous party entry are few and far in between. In this subsection, we extend our model

with prospective entry of a third, nationalist party and investigate the way in which such a party may influence immigration policy. To do so, we have to analyze how three-party systems shape not just electoral outcomes, but government formation. Given that nationalist (and green) parties have been more common in countries where elections are run via proportional representation (PR) rather than plurality, we also consider how electoral rules influence these results.

Here, we show that a necessary condition for a nationalist party to enter is that it is able to influence policy by being part of the government. In plurality rule systems, this means holding power and in proportional systems being part of a coalition. Either way, this is more likely to happen when there is sufficient share of nationalists in the population and, in the status quo, the existing parties are not accommodating the interests of nationalists.

Preliminaries Suppose that nationalist citizens get together and form a party at a per-capita cost of B/μ . To simplify the analysis, we specialize redistributive preferences to a linear distance function: $U(t - t^J) = -|t - t^J|$. This will rule out party entry driven by a desire to change the redistributive policy and thus keeps our focus on nationalism and immigration policy. When rich and poor nationalists form a party, we assume that they maximize joint (average) utility among party members. This requires that they bargain and agree on a tax-rate compromise in the interval $[t^2, t^1]$ which we denote by \tilde{t} . However, as we show below, the nationalist party could still move away from this compromise if it negotiates a coalition with another party.

Let $e \in \{0, 1\}$ be the decision among nationalists whether to enter (leave) a new party in the election. When $e = 0$, we are back to the baseline model with just two parties, which was fully solved in Section 3.

Because entry, $e = 1$, is costly, it will only occur when it helps shift expected policy in a direction preferred by the nationalists. As in the case of a nationalist social group, we will focus on small aggregate costs of collective action $B \rightarrow 0$, such that a party will always form when this implies a policy advantage. Associated with entry will be a probability distribution over policies (t, x) denoted by $q(t, x, \mu, \sigma, \pi)$.¹⁵ Given the model symmetry, the nationalists include equally many poor and rich individuals. If a nationalist party enters and competes in the election, we denote the members' *average*

¹⁵The two specific cases we study below generate different such probability distributions.

expected payoff by $N(\mu)$, which we flesh out in the applications below.¹⁶

Timing The timing of the game is similar to the model with nationalist groups.

1. There is a given share of nationalists μ , salience σ and economic polarization π .
2. Nationalists choose whether to form a party at per-capita cost B/μ .
3. If $e = 0$, the two existing parties offer platforms $\{t^1, x_1\}$, $\{t^2, x_2\}$, individual and aggregate shocks ω and η are realized and the election is held where party J wins with probability $P(x_J, x_K, \sigma)$.
4. If $e = 1$, the election involves three parties offering policies and there are no election shocks. If no party alone wins a majority of seats, policies are determined in post-election coalition formation.
5. Payoffs are realized.

Party entry A nationalist party enters iff

$$N(\mu) - \frac{B}{\mu} > -\frac{\pi}{2} + \sigma W(\hat{x}(\sigma, \pi)), \quad (8)$$

where the left-hand side is the expected payoff with entry ($e = 1$) net of the entry cost, while the right-hand side is the *average* expected nationalist payoff from equilibrium policy without entry ($e = 0$) derived in Section 3.¹⁷ We now explore the implications of this entry condition under two electoral rules.

¹⁶In general this is:

$$N(\mu) = \sum_{(t,x) \in \mathcal{T}(\mu, \sigma, \pi)} \left(\frac{U(t-t^1) + U(t-t^2)}{2} + \sigma W(x) \right) q(t, x, \mu, \sigma, \pi), \quad (7)$$

where $\mathcal{T}(\mu, \sigma, \pi)$ is a finite set of policy alternatives (as will be the case below).

¹⁷We assume that no entry occurs in the case of indifference.

Plurality-rule elections Consider a simple plurality-rule election, where all voters cast a ballot for one of the parties in a single electoral district that coincides with the polity. This election is winner-takes-all, so the party with the largest vote share wins all seats, forms a government, and acquires an unchecked right to choose policy.

Whenever a nationalist party has entered, the earlier shocks to nationalist-voter preferences become irrelevant. Thus the nationalists – like rich and the poor cosmopolitans before – become loyal voters who sincerely cast their ballots for the party that represents their own interests.¹⁸

Equilibrium policies under plurality rule Sincere voting makes each party propose the policies preferred by their voters: even though commitments in immigration policy are possible, policy compromise has little value when all parties faithfully represent their members. Parties 1 and 2 thus offer policy outcomes $\{t^1, 1\}$ and $\{t^2, 1\}$ respectively. As poor and rich nationalists have different views about redistribution, they have to agree on tax policy. We assume they pick the optimal policy compromise $\{\tilde{t}, 0\}$.

In this simple plurality-rule model, the largest party wins the election (or a lottery decides if two parties have equal numbers of votes). By symmetry, the poor and rich parties split the cosmopolitan vote $(1 - \mu)$ equally. A new nationalist party thus wins for sure when $\mu > 1/3$, while each cosmopolitan party wins with 50-50 probability when $\mu \leq 1/3$. Given these electoral outcomes and equilibrium policies, we can write the post-entry payoff as

$$N(\mu) = \begin{cases} U(\tilde{t}) + \sigma W(0) & \text{if } \mu > 1/3 \\ -\frac{\pi}{2} + \sigma W(1) & \text{if } \mu \leq 1/3. \end{cases} \quad (9)$$

Equilibrium entry under plurality rule Applying the entry condition (8), we have:

Proposition 4 *Under plurality rule and small entry costs $B \rightarrow 0$, a nationalist party enters for all $\mu > 1/3$, provided that $\hat{x}(\sigma, \pi) > 0$.*

Entry requires two conditions to be fulfilled. It only occurs when a nationalist party can collect a plurality of votes. But entry must also trigger a stricter immigration policy. Recalling the comparative statics in Corollary

¹⁸If we were to maintain some neutral non-loyal voters in the model, this would likely strengthen the results (on entry) derived below.

1, a nationalist party is thus more likely to enter when immigration is *not* very salient and class polarization *not* very strong. If the opposite is true – meaning that $\sigma\pi > \bar{m}$ – nationalists already get their preferred immigration policy $\hat{x}(\sigma, \pi) = 0$. There is no point in incurring any entry costs, since as the two cosmopolitan parties eagerly compete for the nationalist votes. Nationalist party entry is a substitute for such policy concessions.¹⁹

PR elections Suppose the election is still held in a single polity-wide district, but parties instead obtain seat shares proportional to vote shares. Once again, the earlier shocks to nationalist votes are irrelevant when these voters are represented by their own party as all voters vote sincerely. We also assume that an equilibrium policy must be backed by at least 50 percent of the legislators.

These assumptions are consistent with a parliamentary form of government under PR elections. With full party discipline, a party can form a single-party majority government only when it commands more than half the seats, which requires half the votes. Otherwise, a coalition of two parties must agree on policy. We can see such policy agreement as the result of government formation under a rule of positive parliamentarism.²⁰

Equilibrium policies under PR If $\mu > 1/2$, a nationalist party can form a single-majority government, and set policy at its preferred point $\{\tilde{t}, 0\}$. In this case, the logic of entry is the same as under plurality rule, albeit with a different threshold value of μ . The most interesting question is therefore if entry can occur when $\mu < 1/2$ and, in particular, when $\underline{\mu} < \mu < 1/3$. That is to say, is entry feasible under PR but not under plurality rule?

When $\mu < 1/2$, parties 1 and 2 can always form a “cosmopolitan coalition” to defeat the nationalists in the legislature. We that suppose such a coalition would bargain and maximize its joint surplus by setting policy at $\{\bar{t}, 1\}$. To keep a level playing field, assume that $\bar{t} = (t^1 + t^2)/2$ – i.e., the redistributive compromise is right in between the bliss points of the two

¹⁹This finding has parallels with Buisseret and van Weelden (2020) who consider entry by outside candidates in primaries. They show that outsiders favor entering elections through traditional parties rather than as third-party candidates if and only if polarization is sufficiently high.

²⁰Positive parliamentarism means that forming a government (recognizing a prime minister) requires an active approval by a majority of the legislative assembly.

(equally large) cosmopolitan parties.²¹

To study the entry of a nationalistic party, we must specify the policy of a nationalist-cosmopolitan coalition. Intuitively, a new nationalist party can offer something in the redistributive dimension that the other cosmopolitan party can not. For the latter party represents only one economic class of voters, while a nationalist party represents both rich and poor nationalists. The following result describes the policies that emerge when a nationalist party makes a take-it-or-leave-it offer to a cosmopolitan party:

Lemma 1 *The most favorable arrangement for a nationalist party when it bargains with a cosmopolitan party J has $t = t^J$ and*

$$\hat{x}^J(\pi) = \begin{cases} 0 & \text{if } \frac{\pi}{2} \geq W(0) - W(1) \\ 1 - W^{-1}\left(W(0) - \frac{\pi}{2}\right) & \text{otherwise.} \end{cases}$$

Intuitively, the nationalist party may offer the preferred redistributive policy to its partner, in exchange for its own preferred immigration policy. The cosmopolitan party will accept this offer, if the resulting policy makes it better off than in a redistributive compromise with the other cosmopolitan party, a condition more likely to hold when economic polarization π is large (the first row of $\hat{x}^J(\pi)$ in the Lemma). If this participation constraint does not hold, the nationalist party has to concede some immigration-policy surplus – i.e., pick $x^J > 0$ (the second row of $\hat{x}^J(\pi)$ in the Lemma).

Why is the take-it-or-leave-it assumption and Lemma 1 relevant? A new nationalist party has a strong bargaining position because it has two options: it may enter into a coalition and make a deal with either the rich or the poor. In both cases, the cosmopolitan party gets a better redistributive policy and the nationalist party gets a tougher immigration policy. It is thus plausible that the two cosmopolitan parties compete, a la Bertrand, to form a government coalition with the nationalists.

As the nationalists are equally well off in either coalition, we assume they choose the coalition partner at random. Putting the pieces together, the post-entry nationalist payoff becomes

$$N(\mu) = \begin{cases} -\frac{\pi}{2} + \sigma W(0) & \text{if } \mu > 1/2 \\ -\frac{\pi}{2} + \sigma W(\hat{x}^J(\pi)) & \text{if } \mu \in [\underline{\mu}, 1/2]. \end{cases} \quad (10)$$

²¹If this did not hold, it would be easier for a nationalist party to form a coalition as it would choose to coalesce with the party that was forced to make the largest compromise on redistribution.

Equilibrium entry under PR Using the expressions in (10) and the entry condition (8), we have

Proposition 5 *Under PR and $B \rightarrow 0$, a nationalist party enters for all $\mu \in [\underline{\mu}, 1/2]$, provided that $\hat{x}(\sigma, \pi) > \hat{x}^J(\pi)$, and for all $\mu > 1/2$, provided that $\hat{x}(\sigma, \pi) > 0$.*

A nationalist party can always be in a coalition government, but whether it enters depends on whether the coalition's policy is better than the status-quo outcome without entry. The latter is given by $\hat{x}(\sigma, \pi)$ defined in Proposition 1. Entry under PR is therefore possible in the range $\mu \in (\underline{\mu}, \frac{1}{3})$, whereas it would not occur under plurality rule. In general with $\hat{x}(\sigma, \pi) > \hat{x}^J(\pi)$, a nationalist party enters at a lower share of nationalists under PR. Of course, this theoretical result is entirely in line with the strong empirical pattern portrayed in Figure 2.

Comparative statics We now ask how party entry changes with a shock to σ or π . Under plurality rule and low entry costs, the condition for entry depends only on the size of the nationalist share μ , and reflect σ and π only via the side condition that $\hat{x}(\sigma, \pi) > 0$.

Under PR, higher immigration salience σ by itself may deter entry. This is because it makes the status-quo policy $\hat{x}(\sigma, \pi)$ lower and the incumbent parties are more likely to accommodate nationalist preferences in immigration policy. Greater class polarization π by itself has an ambiguous effect. On the one hand, it makes status-quo immigration policy stricter (which deters entry) but, on the other hand, it makes the incumbent parties keener to compromise with the nationalists and increases the concessions they are willing to make (which stimulates entry).

However, if we take the complementarity stressed in Section 3 into account, we obtain a more subtle prediction under both electoral rules. Suppose that σ is high but π is low enough that $\sigma\pi < \underline{m}$ so we have $\hat{x}(\sigma, \pi) = 1$. This is the most conducive to entry as the two cosmopolitan parties ignore nationalists when no nationalist party has entered. At the same time, high immigration salience makes the nationalists very motivated to enter a new party.

Comparing to Section 4.2, we thus find a similar results for the share of nationalists: a higher μ increases the chances for group formation as well as party entry. But when it comes to polarization and salience, some parameter

constellation may favor group formation but disfavor party entry, and vice versa.

Implications Party dynamics are an important part of the rise of identity politics. Here, we have stressed that a necessary condition for entry under any electoral system is that mainstream parties are insufficiently responsive to concerns of nationalist voters. Now the fraction of nationalist citizens matters but differently across electoral systems. The fact that μ matters since in the next section, μ will be endogenous so that party formation becomes part of a dynamically coevolutionary process between values and political organization.

5 Nationalism Dynamics

We have seen how immigration policy can reflect immigration salience among nationalists, as well as the share of citizens with a nationalist identity. Moreover, the share of nationalist sympathizers appears to have changed over time in a number of countries. To paint a more complete picture of identity politics in the model, we therefore identify the share of citizens that identify as nationalists.

In this section, we develop an evolutionary model of social identity (Subsection 5.1). The extension to a dynamic model allows for a richer analysis of various shocks. In particular, we can ask whether temporary shocks may have long-run consequences. For example, will a temporary stint in immigration salience permanently alter nationalism and immigration policy? As we shall see, the answer is no in the dynamic extension of the baseline model of Section 3 (Subsection 5.2). But all the three extensions in Section 4 turn out to sow the seeds of path dependence (Subsections 5.3 through 5.5).

5.1 Social Identity Evolution

We now extend our previous static framework to an infinite sequence of periods, indexed by s , populated by a stream of sequential generations. In this subsection, we describe the evolutionary dynamics of social identity in the context of the baseline model.

Timing In each s , the timing of events is as follows:

1. The polity enters period s with a share μ_s of nationalists in the current generation.
2. Parties offer platforms $\{t_s^1, x_{1,s}\}, \{t_s^2, x_{2,s}\}$.
3. Individual and aggregate shocks ω and η are realized.
4. An election is held where party 1 wins with probability $\hat{P}(\sigma, \pi)$.
5. Payoffs are realized.
6. Members of the next generation decide to identify as nationalists or cosmopolitans. This determines μ_{s+1} .

Equilibrium fitness We posit a class of dynamics driven by the relative expected payoff from holding one identity rather than another, where the one that “thrives” grows over time. What drives the socialization process is thus the expected-utility difference between nationalists and cosmopolitans, when a fraction μ_{s+1} is expected to be nationalists:

$$\Delta(\mu_{s+1}, \sigma, \pi) = \sigma W(\hat{X}(\mu_{s+1}, \sigma, \pi)) - W(1 - \hat{X}(\mu_{s+1}, \sigma, \pi)). \quad (11)$$

In writing this expression, we use the fact that in (virtually) all our applications, parties converge on the same equilibrium immigration policy, such that we can write $x = \hat{X}(\mu, \sigma, \pi)$.²²

Evolution and socialization Following Besley and Persson (2019b), we formally consider the transmission of social identities across successive generations inspired by the research on cultural evolution. At each date, a generation of “parents” fosters a generation of “children”, with two children in every family. Reproduction follows a matching process with a fraction β of assortative mating – i.e., parents with the same identity. The remaining fraction $1 - \beta$ are randomly matched with some mixed-identity couples.

Parents socialize their children. Two parents with the same identity just pass on this identity to their children. But whether a child with mixed parents becomes a nationalist depends on $\Delta(\mu_{s+1}, \sigma, \pi)$. It also depends on a

²²This is not strictly true for the party-takeover model that can have asymmetric equilibria (see Subsection 4.3). But we do not feel that the notational complexity to explicitly allow for this is justified.

family-specific shock v with infinite support and c.d.f. $G(\cdot)$, which is symmetric around a zero mean with p.d.f. $g(\cdot)$. The child becomes a nationalist if $\Delta(\mu_{s+1}, \sigma, \pi) \geq v$, so the probability of this event is $G(\Delta(\mu_{s+1}, \sigma, \pi))$. With a continuum of families, this is the proportion of nationalist children in mixed-parents couples. Note that $G(\cdot)$ increases smoothly in Δ with $G(0) = 1/2$.

The nationalist share at date $s + 1$, given that μ_s are nationalists at s , evolves as:

$$\mu_{s+1} = \mu_s + 2\mu_s(1 - \mu_s)(1 - \beta) \left[G(\Delta(\mu_{s+1})) - \frac{1}{2} \right]. \quad (12)$$

To interpret this expression, note that assortative matching preserves the proportion of nationalists. However, among the randomly matched, a fraction μ_s^2 are matched with other nationalists. The fraction of mixed-parent households is therefore $2\mu_s(1 - \mu_s)$.

5.2 Baseline Dynamics

In the baseline model, the expected outcome in period $t + 1$ is independent of μ_{t+1} for all values of μ_{t+1} . That is, from Proposition 1 we have $\hat{X}(\mu_{s+1}, \sigma, \pi) = \hat{x}(\sigma, \pi)$. Using this in (11), we obtain:

$$\Delta(\mu_{s+1}, \sigma, \pi) = \delta(\sigma, \pi) = \sigma W(\hat{x}(\sigma, \pi)) - W(1 - \hat{x}(\sigma, \pi)). \quad (13)$$

By Proposition 1, function $\delta(\sigma, \pi)$ more likely takes a positive value the higher is $\pi\sigma$ – i.e., the higher is immigration salience σ and class polarization π . Function $\delta(\sigma, \pi)$ is thus increasing in each argument.²³

Given this dynamic process, we obtain the following paths for nationalism:

Proposition 6 *From any starting point $\mu \in [\underline{\mu}, 1 - \bar{\mu}]$, the polity converges to maximal nationalism $\bar{\mu}$ if $\Delta(\sigma, \pi) > 0$, but to minimal nationalism $\underline{\mu}$ if $\Delta(\sigma, \pi) < 0$.*

This is a useful benchmark for the results in the next three subsections, as the only drivers are parameters σ and π . In addition to affecting policy as in the static model, these parameters now also shape the dynamics of

²³If $\theta = 1$, then $\delta(\theta, z) \geq 0$, as $\hat{x}(\theta, z) \geq \frac{1}{2}$.

nationalism. A polity with low immigration salience and low economic polarization will not create pro-nationalist dynamics. Nationalism goes to its minimum $\underline{\mu}$, whenever $\hat{x}(\sigma, \pi)$ is sufficiently low – i.e., the political equilibrium with cosmopolitan parties does not accommodate the policy preferences of nationalists.

Comparative dynamics Proposition 6 is illustrated in Figure 6. It shows that permanent shocks to σ and π , which change equilibrium immigration policy $\hat{x}(\sigma, \pi)$ and thus the relative fitness of nationalism $\delta(\sigma, \pi)$ by enough, can change steady-state nationalism and alter the direction of the dynamics of nationalism. Specifically, suppose that (σ, π) changes to (σ', π') such that

$$\delta(\sigma', \pi') > 0 > \delta(\sigma, \pi). \quad (14)$$

The two curves in Figure 6 illustrate the alternative dynamic paths with these parameters. Their shape reflect the fact that, by (12), the growth in μ depends not only on $G(\Delta(\mu))$, but also on $\mu(1 - \mu)$, a function which has a single maximum (at $1/2$).

A shift from (σ, π) to (σ', π') will also be associated with a shift in policy. In particular, a shift from a shrinking to a growing share of nationalists will coincide with a shift towards a stricter immigration policy. But the nationalist share is an outcome and not a driver in this process.

To say it differently, the dynamic version of the baseline model entails no feedback from nationalism to immigration policy. We now show how including endogenous political organization – along either of the three extensions considered in Section 4 – creates such feedback effects.

Implications Although only a benchmark, we view Proposition 6 and the associated dynamics as representing a particular view of how politics was evolving in many liberal democracies in the post war era with a move towards cosmopolitan values in an environment where polarization, π , and salience of nationalist sentiment, σ , were conducive to this. As policy became increasing cosmopolitan not only in terms of immigration, there was also greater respect for liberal values in the treatment of certain groups. The fact that mainstream political parties were run by educated cosmopolitan elites gave their views a policy advantage which translated into a cultural fitness advantage of cosmopolitanism. The question is whether shocks to σ and π would be enough to disrupt that path.

5.3 Dynamics with Party Takeover

Section 4.1 already showed how cosmopolitan-led parties, which accommodate changing preferences by running more nationalist candidates, can have transitions to nationalist leaders. We also showed that a nationalist leader will choose a maximally strict immigration policy $x = 0$, implemented by a set of all-nationalist candidates.

In a dynamic version of the model, this effect may cause a permanent shift of identities and policies.

Proposition 7 *As long as the initial parameters are such that the two cosmopolitan-led parties set $\hat{x}(\sigma, \pi, \theta, \lambda) < 1$, the polity will eventually converge to maximal nationalism $\bar{\mu}$ from any starting point $\mu \in [\underline{\mu}, 1 - \bar{\mu}]$.*

Here, the each of the two parties with cosmopolitan leaders has a positive initial probability $1 - \hat{x}(\sigma, \pi, \theta, \lambda)$ of a shift to a nationalist leader. Suppose only one party makes the flip and shifts its immigration policy to $x = 0$ by appointing only nationalist candidates. Then, log supermodularity (complementarity) implies that the other party responds to this nationalist takeover by adopting a more anti-immigration stance (a lower x), implemented by a higher share of nationalist candidates. Sooner or later, both parties will thus become fully nationalist, with maximal nationalism becoming an absorbing state with $x_1 = x_2 = 0$ and

$$\Delta(\mu, \sigma, \pi) = \sigma W(0) - W(1) > 0, \quad (15)$$

for all (σ, π, μ) .

The polity thus ends up in an equilibrium like the upper line in Figure 6 where the arrows point to the right and the dynamics lead to maximal nationalism $\bar{\mu}$. Moreover, these dynamics will continue even if immigration salience and/or class polarization fall back at a level that would imply $\hat{x}(\sigma, \pi, \theta, \lambda) = 1$ in a setting with two parties with cosmopolitan leaders.

Implications Party composition and takeover can respond more effectively than pure electoral competition to nationalist sentiment, as they recompose and displace the elites who make policy. Our model predicts that the leadership/elite displacement will be followed by a nationalist backlash, which reverses previous trends towards cosmopolitanism – we can thus have path dependence in nationalism and immigration policy. We leave it to the reader

to judge whether this mechanism resonates with the developments of the US Republican Party after the 2016 election of Donald Trump, and of the UK Conservative Party after the Brexit vote.

Of course, our simple model does not include any prospective responses by cosmopolitan elites. If they were far sighted (and could commit policy), they could resist accommodation of nationalists even at an electoral cost. Moreover, they could marshal the support of cosmopolitans to form a new party in a mirror image of the party entry that we studied in Section 4.3. However, if the share of nationalists μ is falling, the window of opportunity for such party re-entry may be quite narrow. Although our analysis is simple, it suggests that we ought to put more focus on internal party dynamics in understanding the dynamics of policies and identities.

5.4 Dynamics with Social Group Formation

Section 4.2 already showed how a nationalist social group can form endogenously and how this is more likely with a high share of nationalists μ . The policy change – from $\hat{x}(\sigma, \pi)$ to $\hat{x}(\Sigma(\mu, \sigma), \pi)$ – that accompanies group formation can happen in real time if μ is growing, even without any shift in σ and π . In this subsection, we show that this coevolution of policy and nationalism opens the door to divergent dynamics with multiple steady states and path dependence.

Nationalist cultural fitness Without an existing group, the relative fitness of being a nationalist is still given by (13). When a nationalist group has formed (and is expected to be maintained at $s + 1$), fitness is modified to:

$$\Delta(\mu, \sigma, \pi) = \delta(\Sigma(\mu_{s+1}, \sigma), \pi) = \sigma W(\hat{x}(\Sigma(\mu_{s+1}, \sigma), \pi)) - W(1 - \hat{x}(\Sigma(\mu_{s+1}, \sigma), \pi)). \quad (16)$$

Since $\delta(\Sigma(\mu, \sigma), \pi) \geq \delta(\sigma, \pi)$ the sense of collective identity created by an organized social group creates a fitness advantage to nationalists. However, the signs of the expressions in (13) and (16) remain *a priori* ambiguous.

Equilibrium dynamics We focus on the case where the threshold above which a nationalist group forms is interior, namely

$$\bar{\mu} > \left[\frac{m}{\sigma\pi} - 1 \right] \frac{1}{\xi} > \underline{\mu}. \quad (17)$$

In this case, the possible long-run outcomes are given by:

Proposition 8 *If (17) holds, the dynamic model with endogenous groups has three possible steady states:*

1. *If $\delta(\Sigma(\bar{\mu}, \sigma), \pi) < 0$, the polity converges to the unique steady-state $\mu = \underline{\mu}$ from all $\mu_0 \in [\underline{\mu}, \bar{\mu}]$. No nationalist group will form and any existing group will eventually be disbanded.*
2. *If $\delta(\sigma, \pi) > 0$, the polity converges to the unique steady-state $\mu = \bar{\mu}$ for all $\mu_0 \in [\underline{\mu}, \bar{\mu}]$. A nationalist group will form along the equilibrium path.*
3. *If $\delta(\Sigma(\bar{\mu}, \sigma), \pi) > 0 > \delta(\sigma, \pi)$, there is a critical value $\hat{\mu} \in [\underline{\mu}, \bar{\mu}]$ such that if $\mu_0 \geq \hat{\mu}$ then the polity converges to the maximal-nationalism steady state $\bar{\mu}$, and a nationalist group forms along the equilibrium path. If $\mu_0 < \hat{\mu}$, the polity converges to the minimal-nationalism steady state $\underline{\mu}$ without a nationalist group.*

In the first case of Proposition 8, policy does not move far enough if a nationalist group forms to create a fitness advantage to a nationalist identity. In the second case, the opposite is true and nationalism grows monotonically over time, and eventually creates an incentive for a nationalist social group to form. Once the group has formed, the complementarity between salience and group size sets and the share of nationalists and immigration policy start to reinforce each other.

The third case is arguably the most interesting, as the steady-state outcome depends on the starting point. Here, too, the prospective complementarity between the nationalist share and immigration policy plays a key role. A polity that begins with a high enough share of nationalists μ will see that share rise over time. This, in turn, guarantees that μ eventually crosses the threshold for nationalist group formation (if it has not reached that point already). The group reinforces nationalism by causing a shift to a stricter immigration policy, which starts a two-way feedback process between μ and x . However, if the polity begins with sufficiently weak pro-nationalist momentum, any nationalist group is eventually disbanded, the polity loses its nationalist orientation, and immigration policy becomes more open.

Once a polity has crossed threshold $\hat{\mu}$, no forces restrain nationalism. A *necessary* condition for this outcome is that a group forms. This is because $\delta(\Sigma(\underline{\mu}, \sigma), \pi) < 0$ implies $\delta(\sigma, \pi) < 0$ – i.e., nationalism cannot take off, even

if a nationalist group (counterfactually) exists. The third case in Proposition 8 is illustrated in Figure 7, where the blue curves show the dynamics around a threshold at $\hat{\mu}$ with arrows indicating the possible paths of nationalism. In a polity where $\mu > \hat{\mu}$ nationalism will grow, while it will shrink for initial values $\mu < \hat{\mu}$.

Path dependence One implication of Proposition 8 is the possibility of path dependence (hysteresis), which leads to a permanent effect from a temporary shock. This is illustrated in Figure 7, where the red curves illustrate the response to a temporary shock from (σ, π) to (σ', π') such that $\delta(\sigma', \pi') > 0$. The shifts makes μ_s grow over time. If it grows beyond $\hat{\mu}$ and $\delta(\sigma[1 + \xi\hat{\mu}], \pi) > 0$, as in the figure, there is a permanent effect on the trajectory for μ – nationalism continues to grow even after a reverse shock when σ and/or π fall back from (σ', π') to (σ, π) .

This theoretical logic can be related to the practical attempts of combatting the extreme nationalism that had formed in some countries in the 1930s. In post-war Japan and Germany, the allied forces imposed policies equivalent to $x = 1$. This helped quell nationalist sentiments in young generations that were forming their identities afresh. On top of that, nationalist groups were outlawed. The model could rationalize such legal constraints as a method to reduce nationalist fitness. It could also illustrate the role that a supra-national body – like the EU – might play during events like the recent refugee crisis. By trying to maintain a policy with $x = 1$, such a body might prevent nationalist sentiments from translating into policy in individual countries.

More generally, the logic of Proposition 8 shows that social organization – a part of civil society – creates path dependence if it affects the way citizens with a certain outlook (in our case nationalism) can interact to mobilize. Such forces have doubtless been at work in recent political developments and may have been enhanced by social media – if we think of those as a positive permanent shock to the sense of collective identity, ξ , which lowers the threshold in (17).

5.5 Dynamics with Party Entry

Section 4.3 relied on an extension of our baseline model where a new (third) political party can enter (at a cost) to pursue a nationalist policy agenda. We showed that such entry requires the nationalists in the population to reach a certain threshold share, which is dependent on the electoral rule. In

this subsection, we study how the nationalist share and immigration policy coevolve over time and interact with party entry, in a dynamic version of the party-entry model.

Dynamics with latent party entry Using the results on party entry in Section 4.3, we can rewrite (13), our expression for the (relative) fitness of a nationalist identity as:

$$\Delta(\mu, \sigma, \pi) = \begin{cases} \sum_{(x,t) \in T(\mu, \sigma, \pi)} [\sigma W(x) - W(1-x)] q(t, x, \mu, \sigma, \pi) & \text{if } \mu \geq \tilde{\mu} \\ \delta(\sigma, \pi) & \text{otherwise.} \end{cases} \quad (18)$$

This is a piece-wise continuous function with an upward jump at $\tilde{\mu}$ – i.e., the electoral-rule and parameter-dependent threshold share for the entry a nationalist party that is contained in Propositions 4 and 5.

The jump in the fitness of nationalism at $\tilde{\mu}$ reflects that – under both electoral rules – party entry is instrumental and only occurs when it triggers a stricter immigration policy. Note that Proposition 5 implies that we may have $\tilde{\mu} = \underline{\mu}$, such that nationalist party is always active under PR.

Using (18) in (12), we obtain:

Proposition 9 *The dynamic model with endogenous parties has three possible steady states:*

1. *If $\Delta(\tilde{\mu}, \sigma, \pi) < 0$ the unique steady-state has $\mu = \underline{\mu}$ for all $\mu_0 \in [\underline{\mu}, \bar{\mu}]$ and no nationalist party enters. If $\mu_0 > \tilde{\mu}$, the nationalist party exits along the equilibrium path, as μ passes $\tilde{\mu}$ from above.*
2. *If $\Delta(\underline{\mu}, \sigma, \pi) > 0$, the unique steady-state has $\mu = \bar{\mu}$ for all $\mu_0 \in [\underline{\mu}, \bar{\mu}]$ and if $\mu_0 < \tilde{\mu}$ a nationalist party enters along the equilibrium path, as μ passes $\tilde{\mu}$ from below.*
3. *If $\Delta(\tilde{\mu}, \sigma, \pi) > 0 > \Delta(\underline{\mu}, \sigma, \pi)$, the polity converges to $\bar{\mu}$ with a nationalist party if $\mu_0 \geq \tilde{\mu}$ and to $\underline{\mu}$ without a nationalist party if $\mu_0 < \tilde{\mu}$.*

As with social-group formation, a growing share of nationalists can change political organization. Here, this amounts to the creation of a three-party system due to the entry of a nationalist party. Entry feeds back to expected policy and the share of nationalists. Drawing on Propositions 4 and

5, party entry occurs only when the pre-entry equilibrium does not recognize the forces of nationalism and exhibits a lax immigration policy (a high value of x). If a nationalist party enters, this is associated with a stricter immigration policy, which provides a boost to nationalist identity and anti-immigration preferences, a feedback that can create path dependence. Such path dependence will definitely arise in the third case of Proposition 9, which is analogous to the third case of Proposition 8.

Party entry and comparative dynamics How shocks to σ and π shape nationalism and policy dynamics is quite subtle and dependent on the electoral rule. With plurality, a shock to σ and π can have an effect on μ if $\delta(\sigma, \pi) > 0$ which may eventually trigger formation of a nationalist party. Once $\mu > 1/3$, that party remains in place even if the shock to σ and π reverses. Nationalist policy is thus boosted permanently. This is very similar to the mechanism of social-group formation.

Under PR, entry is less sensitive to μ . A boost to σ and π resulting in $\delta(\sigma, \pi) > 0$ now makes the share of nationalists cross the higher threshold of $\mu = 1/2$ to have a permanent effect which outlasts the shock. If a party is active for all μ , a positive shock to π can actually cause the nationalist party to exit, but only if it pushes down $\hat{x}(\sigma, \pi)$ all the way to 0. If $\hat{x}(\sigma, \pi)$ is initially close to 1, a positive shock to π can induce entry. In both cases, we will see a process towards nationalist dynamics, which may or may not reverse if the shock goes away.

Insights In spite of the subtlety, a key insight from Proposition 9 is that endogenous party entry can generate path dependence for policy, nationalism, and the party system. We may thus have to study party entry in a dynamic model to fully grasp the sustainability of nationalism and immigration policy.

The results in this subsection also show why it is important to interpret events through the lens of a conceptual framework. It is tempting to argue that nationalist parties cause harsher immigration policies and promote nationalist sentiments. But in our framework the party system is more of an outcome, or a mediating variable. The true causes are the fundamentals, σ and π . Similarly, the strength of nationalism, μ , may appear as a short-term cause. But as our model brings out, it should also be thought of as a malleable long-run outcome. In particular, one may want to claim that μ determines immigration policy x . In our setting, this claim would suffer from

a difficult chicken-and-egg problem, as these outcomes coevolve in a two-way dynamic process.

Putting the pieces together Summing up the insights from this section, large enough shocks to ultimate drivers – here called class polarization (π) and immigration salience (σ) – can have long-run consequences on nationalism and immigration policy. If these shocks are *permanent*, then this result is unsurprising and would appear already in a static model (if we interpret equilibria under alternative parameter values as alternative steady states).

The value added of our dynamic analysis is that we can also study *temporary* shocks to these drivers. We have seen that endogenous political organization can serve as a mediator, whereby temporary shocks to class polarization or immigration salience can induce long-term changes in nationalism and immigration policy. By the results in Propositions 4-9, we expect such path dependence to more likely occur via nationalist takeovers of existing parties under plurality rule, but via entries of new nationalist parties under PR.

6 Final Remarks

Part of the success of some democracies around the world has stemmed from building common-interest solutions to policy-making of the kind stressed in Besley and Persson (2011). When economic polarization and salience over other divisive dimensions of policy are low, this kind of politics is easier to sustain. But in the past twenty years, we have begun to see a shift towards a certain kind of identity politics. The forces that have shaped this dynamic are still debated and whether this is a short-term shock that will reverse, or a form of more disruptive long-run change is a key question. Its answer depends on the resulting dynamics of values and political organization.

To gain a better understanding, we have developed a novel framework that highlights organizational change in tandem with the dynamics of identity politics. This framework captures some elements of the clash between incumbent cosmopolitan elites – who control major parties – and an increasingly nationalist electorate. It also helps us uncover the possibilities of path dependence where temporary shocks can have permanent political consequences.

We have focused on just two underlying drivers. Changes in parameter σ represent shifts in nationalist sentiments, which could reflect the European refugee crisis and/or increased salience fostered by social-media interactions. Changes in parameter π embody a range of factors promoting economic polarization, such as the fallouts from globalization or the recession and policies following the financial crisis. We study the comparative statics, as well as the comparative dynamics, of shocks to these parameters.

Distinctive of our dynamic framework is that it allows non-linear responses at “critical junctures.” These can induce organizational change, even for small changes in μ caused by underlying shocks to σ and π . The model helps us think about the timing of events. Observers frequently argue that pressures on manufacturing and other industries due to immigration and trade liberalization predate recent political developments. However, this is exactly what we should expect with threshold effects of the kind suggested by our model. Tensions could build gradually, but suddenly erupt into organized political activity and policy change. Another core aspect of the model – still rare in political economics – is that shocks may trigger the formation of new nationalist social groups and/or the entry of new nationalist political parties. The model suggests that immigration-policy shifts are more likely to be part of incumbent party platforms in plurality-rule electoral systems, but by new nationalist parties in PR electoral systems.

Much has been made of the so-called “cultural backlash” in the wake of a shift towards more liberal values among political elites (Inglehart and Norris 2019). In our framework, the capture of incumbent parties by cosmopolitans cause liberal policies towards immigration, which promote a cultural drift towards cosmopolitanism. A backlash can arise in the model, e.g., from a shock like the European refugee crisis (a higher value of σ). When polarization (parameter π) is high enough, this can produce a policy reversal towards stricter immigration policy (lower x). Such a shock may also produce political reversals: the formation of new nationalist groups and/or the entry of nationalist parties can set in motion a self-reinforcing growth of nationalism. Although we do not have data to support this idea, the descent into fascism in the middle of the 20th century – which followed a period of tolerance and openness – shows that we should not assume that all cultural trends are unidirectional.

A number of extensions would add complexity and realism to our framework. We have already relaxed our baseline symmetric structure in the Appendix. A more extensive treatment can be found in Besley and Persson

(2021), where we allow nationalists to belong disproportionately to different income groups, introduce a less stylized model of income inequality, and permit the salience of nationalism to differ across economic groups. Such extensions can help explain why the mainstream left has suffered more than the mainstream right from the rise of nationalistic forces.

Perhaps the biggest intellectual challenge posed by the events that motivate the paper is to build richer models of political dynamics. The progression of salient political cleavages and of political organization have been explored in political-science writings, but they are not really part of the political-economics tool kit. History starkly reminds us how important it is to have a grasp of such dynamics. In earlier generations, it took a world war and a long period of conscious interventions to deconstruct the 1930s institutions that had evolved to support nationalism. Unless today's political elites understand and act upon the dynamics that underpin the rise of identity politics, they may see history repeat itself.

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Appendix

A Model Details

A.1 Baseline Nash Equilibrium

Electoral strategies As party objectives coincide with voter utilities, all the poor (rich) cosmopolitans always vote for party 1 (2), provided that (2) holds. While the cosmopolitans are loyal voters, the nationalists become swing voters: they vote for the party that offers them the highest utility. But these utilities are subject to random shocks, as in the standard probabilistic-voting models (e.g., Lindbeck and Weibull 1987, Persson and Tabellini 2000).

Formally, let v_J^K be swing-voter utility offered by party J to group K nationalists:

$$v_J^K(t_J, x_J) = U(t^J - t^K) + \sigma W(x_J). \quad (19)$$

For example, a nationalist from group 1 (the poor) votes for party 1 if $v_1^1 + \omega + \eta \geq v_2^1$, where the *idiosyncratic* shock ω in favor of party 1 has symmetric c.d.f. $H(\omega)$, with unimodal p.d.f. $h(\omega)$, and the *aggregate* shock η in favor of party 1 has log-concave symmetric c.d.f. $G(\eta)$ with p.d.f. $g(\eta)$.

As the nationalist shares among poor and rich are equal, the parties offer total swing-voter utilities

$$v(x_1) = \frac{1}{2}(v_1^1 + v_1^2) = \frac{1}{2}[U(0) + U(t^1 - t^2)] + \sigma W(x_1) \quad (20)$$

$$v(x_2) = \frac{1}{2}(v_2^1 + v_2^2) = \frac{1}{2}[U(0) + U(t^2 - t^1)] + \sigma W(x_2) \quad (21)$$

we write these utilities as $v(x_J)$, because the first term in square brackets is exogenous and equal across parties by $U(t^1 - t^2) = U(t^2 - t^1)$. Therefore, the only way for parties to offer more or less swing-voter utility is to vary their migration policy. The maximum swing-voter utility on offer to the nationalists is thus $\frac{1}{2}[U(0) + U(t^1 - t^2)] + \sigma W(0)$, while the minimum is $\frac{1}{2}[U(0) + U(t^1 - t^2)] + \sigma(W(1))$.

Winning probabilities The poor-party vote share among nationalists is $n_1 = H(\eta + v(x_1) - v(x_2))$. It wins the election if its overall vote share is

larger than that of the rich party – i.e., if

$$\frac{1}{2}(1 - \mu) + \mu n_1 \geq \frac{1}{2}(1 - \mu) + \mu(1 - n_1).$$

The condition is thus $n_1 \geq \frac{1}{2}$, or

$$\eta + v(x_1) - v(x_2) \geq H^{-1}\left(\frac{1}{2}\right) = 0, \quad (22)$$

where the equality takes advantage of our assumption that c.d.f. $H(\omega)$ is symmetric.

As the aggregate shock η is drawn from c.d.f. $G(\eta)$, the win probability for poor party 1 is

$$P(x_1, x_2) = G(v(x_1) - v(x_2)) = G(\sigma(W(x_1) - W(x_2))). \quad (23)$$

This probability is independent of μ , the population fraction of nationalists. This is because both parties symmetrically lose loyal cosmopolitan voters when the share of nationalist swing voters rises.²⁴

Gains from winning To study the political equilibrium, we write the surplus from winning the election for party 1 as

$$Z^1(x_1, x_2) = \pi + W(1 - x_1) - W(1 - x_2).$$

Similarly, the surplus for party 2 is

$$Z^2(x_1, x_2) = \pi + W(1 - x_2) - W(1 - x_1).$$

We can thus write the poor party's objective function as $P(x_1, x_2)Z^1(x_1, x_2)$ plus a constant.

Condition (2) implies that both parties want to win the election for all $x_J \in [0, 1]$. Note that $W(1 - x)$ is increasing in x – i.e., a policy closer to the cosmopolitan loyal voters' bliss point $x = 1$. But the probability of winning is decreasing in x – i.e., a policy closer to the nationalist swing voters' bliss point $x = 0$. This means that parties face a standard trade-off: pushing policy closer to the party-members' preference diminishes the chance of winning the election.

²⁴Symmetry of G implies that the win probability of rich party 2 is:

$$1 - P(x_1, x_2) = G(\theta(W(x_2) - W(x_1))).$$

Political equilibrium We now look for a Nash equilibrium in the choices of $\{x_1, x_2\}$, with

$$x_1 \in \arg \max_{x \in [0,1]} \{[Z^1(x_1, x_2)]G[\sigma(W(x_1) - W(x_2))]\} \quad (24)$$

$$x_2 \in \arg \max_{x \in [0,1]} \{[Z^2(x_1, x_2)]G[\sigma(W(x_2) - W(x_1))]\}. \quad (25)$$

The symmetry of economic payoffs $U(\cdot)$, and c.d.f. G , imply that parties face symmetric problems.

A political equilibrium is defined by a winning probability for the poor party (party 1) and two immigration policies

$$\left\{ \widehat{P}(\sigma, \pi), \widehat{x}_1(\sigma, \pi), \widehat{x}_2(\sigma, \pi) \right\}.$$

We have:

Lemma 1 *A Nash equilibrium exists and is unique.*

Proof. The electoral game is log supermodular

$$L(x_1, x_2) = \log[\pi + W(1 - x_1) - W(1 - x_2)] + \log G(\sigma(W(x_1) - W(x_2)))$$

with $\frac{\partial^2 L(x_1, x_2)}{\partial x_1 \partial x_2} =$

$$-\frac{\partial \left[\frac{g(\sigma(W(x_1) - W(x_2)))}{G(\sigma(W(x_1) - W(x_2)))} \right]}{\partial W(x)} \sigma \frac{\partial W(x)}{\partial x_1} \frac{\partial W(x)}{\partial x_2} + \frac{1}{[\pi + W(1 - x_1) - W(1 - x_2)]^2} \frac{\partial W(1 - x)}{\partial x_1} \frac{\partial W(1 - x)}{\partial x_2}$$

> 0 . The first term in $\frac{\partial^2 L(x_1, x_2)}{\partial x_1 \partial x_2}$ is positive, because distribution G is log concave and $W(x)$ is decreasing in x , while the second term is positive because $W(1 - x)$ is increasing in x . We can then appeal to the fixed-point theorem of Topkis (Vives 2005, Caplin and Nalebuff 1991). ■

This relies on the fact that the electoral-strategy game is (log) supermodular. Thus the immigration policies are strategic complements: one party pursuing a more nationalistic policy raises the motive of the other party to do the same. The strategic complementarity reflects two effects. A tougher migration policy by one party: (i) increases polarization, which induces the other party to compete more intensely for office; (ii) appeals more to swing voters and hence reduces the other party's probability of winning, lowering the cost of setting a policy against the interests of its loyal voters. Supermodularity also makes it straightforward to handle corner solutions where $x = 0$ or $x = 1$.

Characterization The political equilibrium has a very simple form. Given the model symmetry, it is perhaps not surprising that the two parties choose the same migration policies $\hat{x}_1(\sigma, \pi) = \hat{x}_2(\sigma, \pi) = \hat{x}(\sigma, \pi)$ and have the same chance of winning the election $\hat{P}_1(\sigma, \pi) = \frac{1}{2}$. To develop some intuition for the next result, consider the first-order condition for party 1 (that defines its reaction function)

$$\begin{aligned} & -W_{1-x}(1-x_1)G(\sigma(W(x_1) - W(x_2))) \\ & + \sigma[\pi + W(1-x_1) - W(1-x_2)]W_x(x_1)g(\sigma(W(x_1) - W(x_2))) \leq 0. \end{aligned} \quad (26)$$

The first term is the cost of conceding to the nationalists while the second term is the benefit of a larger win probability.

As a preliminary step, define function $h(m)$ for $m \in [\underline{m}, \bar{m}]$ from

$$\frac{W_{1-x}(1-h(m))}{W_x(h(m))} = m \frac{g(0)}{G(0)},$$

where $\bar{m} = \frac{W_{1-x}(1)/g(0)}{W_x(0)/G(0)}$ and $\underline{m} = \frac{W_{1-x}(0)/g(0)}{W_x(1)/G(0)}$. It is straightforward to see that $h(\cdot)$ is a decreasing function.

A.2 Probability of Winning in the Group Model

Evaluating (6) for each income class $K = 1, 2$ and summing across across these classes gives

$$v(x_J) = (1 + \mu\xi) \left\{ \frac{1}{2} [U(0) + U(t^1 - t^2)] + \sigma W(x_J) \right\}.$$

The previous utility expressions in (20) and (21) are thus multiplied by $1 + \mu\xi$, an expression which is increasing in μ and ξ . Repeating the steps outlined in Subsection 2.1, and exploiting the model symmetry, the poor party's probability of winning, in the presence of a nationalist group, is now

$$P(x_1, x_2) = G[v(x_1) - v(x_2)] = G[\Sigma(\mu)(W(x_1) - W(x_2))]$$

where $\Sigma(\mu) = (1 + \xi\mu)\sigma$ is the enhanced salience of nationalism once nationalists operate as an organized group. Clearly, the function $\Sigma(\mu)$ is increasing in σ and ξ for all μ .

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B Proofs

Proof of Proposition 1 To prove the proposition, it suffices to note that at an interior solution (26) can be arranged so that

$$\frac{W_{1-x}(1 - h(\sigma\pi))}{W_x(h(\sigma\pi))} = \sigma\pi \frac{g(0)}{G(0)}.$$

Moreover, since $h(\cdot)$ is increasing, there exists $\bar{m} = \frac{W_{1-x}(1)/g(0)}{W_x(0)/G(0)}$ and $\underline{m} = \frac{W_{1-x}(0)/g(0)}{W_x(1)/G(0)}$. The result follows by noting that we obtain a corner solution if $\sigma\pi > \bar{m}$ and $\sigma\pi < \underline{m}$.

Proof of Proposition 2 Recall that the party J 's objective here is

$$P(x_J, x_K, \sigma)Z^J(x_J, x_K) + \theta(1 - \lambda)x_J,$$

where $P(x_J, x_K, \sigma) = G[\sigma(W(x_J) - W(x_K))]$, and $Z^J(x_J, x_K) = \pi + W(1 - x_J) - W(1 - x_K)$. Hence an interior solution x_J will satisfy the first order condition:

$$\begin{aligned} & g[\sigma(W(x_J) - W(x_K))]\sigma W_x(x_J)[\pi + W(1 - x_J) - W(1 - x_K)] \\ & - G[\sigma(W(x_J) - W(x_K))]W_{1-x}(1 - x_J) + \theta(1 - \lambda) = 0. \end{aligned}$$

In equilibrium, both parties pick a common immigration policy, and hence the optimal policy $\hat{x}(\sigma, \pi, \theta, \lambda)$ should satisfy

$$\theta(1 - \lambda) = G(0)W_{1-x}(1 - \hat{x}(\sigma, \pi, \theta, \lambda)) - g(0)\sigma\pi W_x(\hat{x}(\sigma, \pi, \theta, \lambda)).$$

To obtain $\frac{\partial \hat{x}}{\partial \theta}$ and $\frac{\partial \hat{x}}{\partial \lambda}$, we differentiate the both sides and get

$$1 - \lambda = [-G(0)W_{(1-x)(1-x)}(1 - \hat{x}) - g(0)\sigma\pi W_{xx}(\hat{x})] \frac{\partial \hat{x}}{\partial \theta},$$

and

$$-\theta = [-G(0)W_{(1-x)(1-x)}(1 - \hat{x}) - g(0)\sigma\pi W_{xx}(\hat{x})] \frac{\partial \hat{x}}{\partial \lambda}.$$

Since $W(\cdot)$ is convex, we have $\frac{\partial \hat{x}}{\partial \theta} < 0$ and $\frac{\partial \hat{x}}{\partial \lambda} > 0$. This says that both parties will pick a stricter immigration policy with higher benefit of reappointment θ and lower λ (higher popularity). Intuitively, the party leader now face a tradeoff between attracting more nationalist voter on the one hand, and pleasing cosmopolitans and avoiding losing power in the party on the other hand. Now with higher popularity in the party (i.e. lower λ) and better reappointment benefits, the leader is ensured to be able to marginally pick stricter immigration policy for a better chance of winning in the general election.

Proof of Proposition 3 To prove this proposition, observe that for a nationalist, the payoff without a group is

$$\frac{U(0) + U(t^1 - t^2)}{2} + \sigma W(\hat{x}(\sigma, \pi)),$$

while the net payoff with such a group is

$$\frac{U(0) + U(t^1 - t^2)}{2} + \sigma W(\hat{x}(\Sigma(\mu), \pi)) - \frac{F}{\mu}.$$

Recall that as F goes to zero, a nationalist group will form if and only if

$$\sigma [W(\hat{x}(\Sigma(\mu), \pi)) - W(\hat{x}(\sigma, \pi))] > 0.$$

Note that $\hat{x}(\sigma, \pi) = 0$ when $\sigma\pi \geq \bar{m}$, and \hat{x} is (at least weakly) increasing in both its arguments. Hence when $\sigma\pi \geq \bar{m}$, $\sigma [W(\hat{x}(\Sigma(\mu), \pi)) - W(\hat{x}(\sigma, \pi))] = 0$, and there will be no group formation. Hence nationalist group will form if and only if both of these conditions are satisfied: (1) $\sigma\pi(1 + \xi\mu) > \underline{m}$ and (2) $\sigma\pi < \bar{m}$.

Proof of Proposition 4 With $\mu > 1/3$, then for small enough B , the condition

$$\sigma [W(0) - W(\hat{x}(\sigma, \pi))] > \frac{B}{\mu}$$

holds for small enough B , as long as $\hat{x}(\sigma, \pi) > 0$. Moreover, if $\mu \leq 1/3$, entry is always deterred because

$$\sigma [W(1) - W(\hat{x}(\sigma, \pi))] < \frac{B}{\mu}$$

for all $\hat{x}(\sigma, \pi) \in [0, 1]$.

Proof of Lemma 1 The best possible outcome for the nationalists in a coalition with party J is given by

$$\max_{(t,x)} \left\{ \frac{[U(t-t^1) + U(t-t^2)]}{2} + \sigma W(x) \right\} \quad (27)$$

subject to $U(t-t^J) + W(1-x) \geq U(\bar{t}) + W(0)$.

Now note that given our assumption on preferences, $\frac{[U(t-t^1) + U(t-t^2)]}{2}$ is independent of t for $t \in [t^2, t^1]$. To fix ideas, consider $J = 1$ (the argument for $J = 2$ is analogous). This means that $t = t^1$ and $\hat{x}^1(\pi) = 0$ solves (27) if

$$U(0) + W(1) \geq U(\bar{t}) + W(0). \quad (28)$$

Because $U(0) = 0$ and

$$U(\bar{t} - t^1) = \frac{t^1 + t^2}{2} - t^1 = -\frac{t^2 - t^1}{2} = -\frac{\pi}{2}.$$

we need that

$$\frac{\pi}{2} \geq W(0) - W(1).$$

If (28) does not hold, the solution for $\hat{x}^1(\pi)$ is implicitly defined by

$$W(1-x) = W(0) - \frac{\pi}{2}.$$

This expression yields the formula for $\hat{x}^J(\pi)$.

Proof of Proposition 5 We look at entry at \widehat{N}^J policies: $(t^J, \widehat{x}^J(\pi))$. Hence, we postulate equilibrium policy probabilities

$$q(\tilde{t}, 0, \mu, \sigma, \pi) = \begin{cases} 1 & \text{if } \mu > 1/2 \\ 0 & \text{if } \mu \leq 1/2. \end{cases}$$

and

$$q(t^J, \widehat{x}^J(\pi), \mu, \sigma, \pi) = \begin{cases} 0 & \text{if } \mu > 1/2 \\ 1/2 & \text{if } \mu \leq 1/2. \end{cases} \quad J = 1, 2.$$

Putting these pieces together, we have equation (10).

$$N(\mu) = \begin{cases} -\frac{\pi}{2} + \sigma W(0) & \text{if } \mu > 1/2 \\ -\frac{\pi}{2} + \sigma W(\widehat{x}^J(\pi)) & \text{if } \mu \in [\underline{\mu}, 1/2]. \end{cases}$$

If $\mu > 1/2$, then entry will occur if:

$$\begin{aligned} -\frac{\pi}{2} + \sigma W(0) - \frac{B}{\mu} &> \frac{U(t^1 - t^2) + U(0)}{2} + \sigma W(\widehat{x}(\sigma, \pi)) \\ &= -\frac{\pi}{2} + \sigma W(\widehat{x}(\sigma, \pi)), \end{aligned}$$

which always holds as $B \rightarrow 0$. For $\mu < 1/2$, entry requires

$$\begin{aligned} -\frac{\pi}{2} + \sigma W(\widehat{x}^J(\pi)) - \frac{B}{\mu} &> \frac{U(t^1 - t^2) + U(0)}{2} + \sigma W(\widehat{x}(\sigma, \pi)) \\ &= -\frac{\pi}{2} + \sigma W(\widehat{x}(\sigma, \pi)) \end{aligned}$$

or

$$\sigma [W(\widehat{x}^J(\pi)) - W(\widehat{x}(\sigma, \pi))] > \frac{B}{\mu},$$

which holds as B goes to zero whenever $\widehat{x}^J(\pi) < \widehat{x}(\sigma, \pi)$.

Proof of Proposition 6 To see why this proposition is true, note that if $\delta(\sigma, \pi) < 0$, then (12) implies $\mu_{s+1} < \mu_s$ for all $\mu \in [\underline{\mu}, 1 - \bar{\mu}]$. But if $\delta(\sigma, \pi) > 0$, then for all $\mu \in [\underline{\mu}, \bar{\mu}]$ $\mu_{s+1} > \mu_s$.

Proof of Proposition 7: Denote the state by $\{\tau_{1,s}, \tau_{2,s}\}$ where $\tau_{J,s} \in \{C, N\}$. Under mild conditions, party takeover will always result in nationalism convergence to maximum nationalism in the long-run. This gives four possible states and hence four possible values of Δ . To study these, we need to specify what will happen in different kinds of political equilibria since, above, we only considered the case where the state was $\{C, C\}$. In general, let $\tilde{\delta}(\sigma, \pi : \tau_{1,s}, \tau_{2,s})$ denote the cultural fitness of the nationalists in different states. Then observe that

$$\tilde{\delta}(\sigma, \pi : C, C) = \sigma W(\hat{x}(\sigma, \pi, \theta, \lambda)) - W(1 - \hat{x}(\sigma, \pi, \theta, \lambda))$$

in the political equilibrium described by Proposition 2. The sign of this is uncertain a priori.

With $\{N, N\}$ then $\hat{x}(\sigma, \pi, \theta, \lambda) = 0$. Hence

$$\tilde{\delta}(\sigma, \pi : N, N) = \sigma W(0) - W(1) > 0.$$

To complete the analysis, we only need to consider what happens when one party has a cosmopolitan leader and faces a party with a nationalist leader. Without loss of generality, let $\tau_1 = C$ and $\tau_2 = N$. Then $x_2 = 0$ and the optimal choice of x_1 is

$$\tilde{x}(\sigma, \pi, \theta, \lambda) \in \arg \max_{x \in [0,1]} \{[\pi + W(x) - W(0)] G[\sigma(W(x) - W(0)) + \theta(1 - \lambda)x]\}. \quad (29)$$

The supermodular structure implies that $\tilde{x}(\sigma, \pi, \theta, \lambda) < \hat{x}(\sigma, \pi, \theta, \lambda)$.

To complete the proof, note that for $\hat{x}(\sigma, \pi, \theta, \lambda) < 1$, then any party run by a cosmopolitan has a positive probability of becoming nationalist in each period and the lower bound on this probability is $\underline{p} = 1 - (1 - \lambda)\hat{x}(\sigma, \pi, \theta, \lambda) > 0$. Then after date S the lower bound on the probability that a party has a cosmopolitan leader is

$$(\underline{p})^S \rightarrow 0 \text{ as } S \rightarrow \infty.$$

Hence in the limit all leaders are nationalists and

$$\Delta(\mu_{s+1}, \sigma, \pi) = \sigma W(0) - W(1) > 0$$

and $\mu \rightarrow \bar{\mu}$.

Proof of Proposition 8 Incorporating institutional dynamics in response to μ , modifies the timing as follows:

1. The polity arrives to period s with a given share of nationalists μ_s equally split among the rich and the poor, and with given values of salience σ and economic polarization π .
2. Nationalists choose whether to organize a group at per-capita cost F/μ_s . (They can also abandon a pre-existing group.)
3. Parties offer platforms $\{t_s^1, x_{1,s}\}, \{t_s^2, x_{2,s}\}$.
4. Individual and aggregate shocks ω and η are realized.
5. An election is held where party 1 wins with probability $P(\sigma, \pi)$ or $\hat{P}(\Sigma(\mu), \pi)$
6. Payoffs are realized.
7. The next generation of citizens decide to identify as nationalists or cosmopolitans. This determines μ_{s+1} .

The first and second parts are straightforward. If $\delta(\Sigma(\bar{\mu}), \pi) < 0$ then $\delta(\sigma, \pi) < 0$. Hence, whether or not an interest group forms, (12) implies $\mu_{s+1} < \mu_s$ for all μ . If $\Delta(\sigma, \pi) > 0$, then for all $\mu \in [\underline{\mu}, \bar{\mu}]$ $\mu_{s+1} > \mu_s$ using (12). To prove the third part, define

$$\Delta(\mu, \sigma, \pi) = \begin{cases} \delta(\Sigma(\mu), \pi) & \text{for } \mu \geq \left[\frac{m}{\sigma\pi} - 1\right] \frac{1}{\xi} \\ \delta(\sigma, \pi) & \text{otherwise.} \end{cases}$$

This function is increasing and hence can switch sign at most once. From (12) $\mu_{s+1} > \mu_s$, if and only if $\hat{\Delta}(\sigma, \pi, \mu) > 0$. As $\delta(\Sigma(\bar{\mu}), \pi) > 0 > \delta(\sigma, \pi)$ by (17), there must exist $\mu_H \in \left[\left[\frac{m}{\sigma\pi} - 1\right] \frac{1}{\xi}, \bar{\mu}\right]$ such that $\delta(\Sigma(\tilde{\mu}), \pi) > 0$ and by (12) we have $\mu_{s+1} > \mu_s$. When $\delta(\sigma, \pi) < 0$, (17) implies that there exists μ_L such that $\mu_{s+1} < \mu_s$ for all $\mu_L \in \left(\mu, \left[\frac{m}{\sigma\pi} - 1\right] \frac{1}{\xi}\right]$. Hence, there must exist a unique value $\hat{\mu} \in [\underline{\mu}, \bar{\mu}]$ at which $\Delta(\mu, \sigma, \pi)$ switches from strictly negative to strictly positive so that $\mu_{s+1} > \mu_s$ for $\mu > \hat{\mu}$ and $\mu_{s+1} < \mu_s$ for $\mu < \hat{\mu}$.

Proof of Proposition 9 The proof is similar to Proposition 8. The first and second parts are straightforward. If $\Delta(\hat{\mu}, \sigma, \pi) < 0$, then no nationalist party forms and (12) implies $\mu_{s+1} < \mu_s$ for all μ . If $\Delta(\underline{\mu}, \sigma, \pi) > 0$, then for all $\mu \in [\underline{\mu}, \bar{\mu}]$ $\mu_{s+1} > \mu_s$ using (12). To prove the third part, recall that

$$\Delta(\mu, \sigma, \pi) = \begin{cases} \sum_{(x,t) \in T(\mu, \sigma, \pi)} [\sigma W(x) - W(1-x)] q(t, x, \mu, \sigma, \pi) & \text{if } \mu \geq \hat{\mu} \\ \delta(\sigma, \pi) & \text{otherwise.} \end{cases}$$

It follows that $\Delta(\mu, \sigma, \pi) = \Delta(\underline{\mu}, \sigma, \pi) < 0$ for all $\mu < \hat{\mu}$. Hence from (12) $\mu_{s+1} > \mu_s$ if and only if $\mu \geq \hat{\mu}$. When $\Delta(\mu, \sigma, \pi) > 0$, $\mu_{s+1} < \mu_s$ for $\mu < \hat{\mu}$.

C Relaxing Symmetry

We now show that the core static model can be generalized in three directions to allow for (still exogenous) prospective correlations between economic status and identity. First, we let immigration salience differ across nationalists of different economic groups, with σ^K denoting the immigration salience in group $K = 1, 2$. Second, we let the share of nationalists differ across groups, with the share in group K denoted by μ^K . Third, we let $\rho \geq 1/2$ be the fraction of poor citizens in the population.

As in the core model, we suppose that cosmopolitans are loyal voters. The nationalists are still swing voters: they vote for the party that offers them the highest utility. With the earlier assumptions, $\Omega = \rho\mu^1 + (1-\rho)\mu^2$ is the fraction of swing voters, although this group now includes two types with different immigration salience.

Swing voters To study swing-voter behavior, let v_J^K be swing-voter utility offered by party J to group K nationalists:

$$v_J^K(x_J) = U^K(\hat{t}_J - \hat{t}_K) - \sigma^K W(x_J). \quad (30)$$

As in the baseline model, a nationalist from group 1 (the poor) votes for party 1 if $v_1^1 + \omega + \eta \geq v_2^1$, where the *idiosyncratic* shock ω in favor of party 1 is uniformly distributed to $[-1/\xi, 1/\xi]$. and the *aggregate* shock η in favor of party 1 has a log-concave symmetric c.d.f. $G(\eta)$ with p.d.f. $g(\eta)$.

The parties offer swing-voter utilities

$$\begin{aligned}\rho\mu^1v_1^1 + (1-\rho)\mu^2v_1^2 &= \rho\mu^1U(0) + (1-\rho)\mu^2U(\hat{t}_1 - \hat{t}_2) \\ &\quad - [\rho\mu^1\sigma^1 + (1-\rho)\mu^2\sigma^2] W(x_1) \\ &\text{and} \\ \rho\mu^1v_2^1 + (1-\rho)\mu^2v_2^2 &= \rho\mu^1U(0) + (1-\rho)\mu^2U(\hat{t}_1 - \hat{t}_2) \\ &\quad - [\rho\mu^1\sigma^1 + (1-\rho)\mu^2\sigma^2] W(x_2)\end{aligned}$$

The left party's share of swing voters is

$$\begin{aligned}n_1 &= \frac{\rho\mu^1}{2} [1 + \xi [\eta + \pi - \sigma^1 [W(x_1) - W(x_2)]]] \\ &\quad + \frac{(1-\rho)\mu^2}{2} [1 + \xi [\eta - \pi - \sigma^2 [W(x_1) - W(x_2)]]] \\ &= \frac{\Omega}{2} (1 + \xi (\eta + \vartheta\pi - \bar{\sigma} [W(x_1) - W(x_2)]))\end{aligned}$$

In this expression, $\vartheta = [\mu^1\rho - (1-\rho)\mu^2]/\Omega$ measures whether nationalists are more prevalent in the poor or rich population (equal to zero in the symmetric case) while $\bar{\sigma} = (\rho\mu^1\sigma^1 + (1-\rho)\mu^2\sigma^2)/\Omega$ measures average immigration salience among swing voters.

Win probabilities The poor party wins the election if its overall vote share is larger than that of the rich party – i.e., if

$$\rho(1-\mu^1) + n_1 \geq (1-\rho)(1-\mu^2) + (\Omega - n_1).$$

This boils down to

$$\begin{aligned}\eta &\geq \frac{(1-\rho)(1-\mu^2) - \rho(1-\mu^1)}{\Omega\xi} - \vartheta\pi + \bar{\sigma} [W(x_1) - W(x_2)] \\ &= -\kappa + \bar{\sigma} [W(x_1) - W(x_2)].\end{aligned}$$

In this expression,

$$\kappa = \frac{\rho(1-\mu^2) - (1-\rho)(1-\mu^1)}{\Omega} + \frac{\vartheta\pi}{\xi} \quad (31)$$

measures which party has an innate electoral advantage. The case $\kappa > 0$ refers to one where this advantage lies with the poor party. Note also that κ is higher (lower) when there are more poor (rich) nationalists.

As aggregate shock η is drawn from c.d.f. $G(\eta)$, the win probability for poor party 1 is

$$P(x_1, x_2, \sigma) = G(\kappa - \bar{\sigma} [W(x_1) - W(x_2)]). \quad (32)$$

This is increasing κ and in $x_2 - x_1$. Thus if the rich party has a more (less) pro-immigration stance than the poor party this raises (cuts) the win probability of the rich party.

Equilibrium immigration policies As in the symmetric model, we look for a Nash equilibrium in the choices of $\{x_1, x_2\}$, with

$$x_1 \in \arg \max_{x \in [0,1]} \{Z^1(x, x_2) G(\kappa - \bar{\sigma} [W(x) - W(x_2)])\} \quad (33)$$

$$x_2 \in \arg \max_{x \in [0,1]} \{Z^2(x_1, x) G(-\kappa + \bar{\sigma} [W(x_1) - W(x)])\}. \quad (34)$$

A political equilibrium results in a win probability for the poor party (party 1) and two immigration policies

$$\left\{ \hat{P}(\kappa, \bar{\sigma}, \pi), \hat{x}_1(\kappa, \bar{\sigma}, \pi), \hat{x}_2(\kappa, \bar{\sigma}, \pi) \right\}.$$

The log super-modularity properties of the symmetric model carry over this non-symmetric model. Note that if $\rho\mu^1 = (1 - \rho)\mu^2$ then $\kappa = 0$, and we are back to the symmetric model except that $\bar{\sigma}$ replaces σ . We can thus conclude that if $\rho = 1/2$ and $\mu^1 = \mu^2$, the (a)symmetry of immigration preferences does not matter for the political equilibrium.

Consequences of asymmetry? What if we depart from that assumption? The most natural case to focus on is the case where nationalists are more common among the poor: $\mu^1 > \mu^2$. In this case, $\kappa > 0$ if $\rho > 1/2$, and the poor party has an innate political advantage among swing voters.

The first-order conditions, at an interior solution for both parties are:

$$\begin{aligned} & -W_{1-x}(1 - x_1) G(\kappa - \bar{\sigma}(W(x_1) - W(x_2))) \\ & + \bar{\sigma} [\pi + W(1 - x_1) - W(1 - x_2)] W_x(x_1) g(\kappa - \bar{\sigma}(W(x_1) - W(x_2))) = 0. \end{aligned}$$

and

$$\begin{aligned} & -W_{1-x}(1 - x_2) G(-\kappa + \bar{\sigma}(W(x_1) - W(x_2))) \\ & + \bar{\sigma} [\pi + W(1 - x_2) - W(1 - x_1)] W_x(x_2) g(-\kappa + \bar{\sigma}(W(x_1) - W(x_2))) = 0. \end{aligned}$$

Now, we show that $\kappa > 0$ implies that $\hat{x}_2(\kappa, \bar{\sigma}, \pi) < \hat{x}_1(\kappa, \bar{\sigma}, \pi)$ – i.e., the rich party will offer the strictest immigration policy to compensate for its innate political disadvantage. To see this, observe that we can write the first-order conditions as

$$\varphi(x_1) = \gamma(\kappa - \bar{\sigma}(W(x_1) - W(x_2))) Z^1(x_1, x_2) \bar{\sigma} \quad (35)$$

and

$$\varphi(x_2) = \gamma(-\kappa + \bar{\sigma}(W(x_1) - W(x_2))) Z^2(x_1, x_2) \bar{\sigma} \quad (36)$$

where $\gamma(\cdot) = \frac{g(\cdot)}{G(\cdot)}$ and $\varphi(x) = W_{1-x}(1-x)/W_x(x)$ are both decreasing functions. Suppose that, contrary to the claim, $\hat{x}_2(\kappa, \bar{\sigma}, \pi) \geq \hat{x}_1(\kappa, \bar{\sigma}, \pi)$. Then $\gamma(\kappa - \bar{\sigma}(W(x_1) - W(x_2))) < \gamma(-\kappa + \bar{\sigma}(W(x_1) - W(x_2)))$, $Z^1(x_1, x_2) < Z^2(x_1, x_2)$ and $\varphi(x_1) > \varphi(x_2)$. This implies that

$$\begin{aligned} \gamma(\kappa - \bar{\sigma}(W(x_1) - W(x_2))) Z^1(x_1, x_2) \bar{\sigma} &= \varphi(x_1) \\ &\geq \varphi(x_2) \\ &= \gamma(-\kappa + \bar{\sigma}(W(x_1) - W(x_2))) Z^2(x_1, x_2) \bar{\sigma} \end{aligned}$$

which yields a contradiction. Hence the left party will have a more pro-immigration stance than the right party if $\kappa > 0$.

Comparative statics Now consider the comparative statics for changes in π or $\bar{\sigma}$. Given the supermodular structure, we will get unambiguous comparative statics if the right hand side of (35) and (36) are increasing in π and $\bar{\sigma}$. Specifically, $\{x_1, x_2\}$ will then be decreasing in $\{\pi, \bar{\sigma}\}$ as in the symmetric case.

For the asymmetric case, there are two effects to consider.

The first effect is a *direct* and coincides with that in the symmetric model, where the right-hand side of (35) and (36) increase leading to a lower x_1 and x_2 . This operates via the fact that $\bar{\sigma}$ multiplies everything on the right hand side and $Z^1(x_1, x_2)$ and $Z^2(x_1, x_2)$ are both increasing in π .

The second, *indirect* effect renders the overall effect of a change in immigration salience or class polarization ambiguous. Consider first an increase in $\bar{\sigma}$. Since $x_1 > x_2$, and $\gamma(\kappa - \bar{\sigma}(W(x_1) - W(x_2)))$ is increasing in $\bar{\sigma}$, so the indirect effect reinforces the fact that (35) is increasing in $\bar{\sigma}$. However, the same effect decreases $\gamma(-\kappa + \bar{\sigma}(W(x_1) - W(x_2)))$ and hence decreases the left-hand side of (36), all else equal, going against the direct effect. Intuitively, as $\bar{\sigma}$ goes up and as $x_1 > x_2$, the advantage of the poor party decreases and this encourages the rich party to increase x_2 .

Consider instead an increase in π . In addition to the direct effect present in the symmetric model, this shift has a similar indirect effect. Specifically, $\gamma(\kappa + \bar{\sigma}(W(x_1) - W(x_2)))$ on the right-hand side of (35) is decreasing in π when $\vartheta > 0$, while $\gamma(-\kappa - \bar{\sigma}(W(x_1) - W(x_2)))$ on the right-hand side of (36) is increasing in π . Intuitively, as $\bar{\sigma}$ goes up and as $x_1 > x_2$, the advantage of the poor party goes down all else equal. This encourages that party to lower x_1 . If π increases, this increases the advantage of the poor party and encourages it to raise x_1 , all else equal.

Putting this together, a sufficient condition for an unambiguous comparative static in $\bar{\sigma}$ is that the right-hand side of (36) is increasing in $\bar{\sigma}$, meaning:

$$\begin{aligned} & \gamma(-\kappa + \bar{\sigma}(W(x_1) - W(x_2))) Z^1(x_1, x_2) \\ & + \gamma'(-\kappa + \bar{\sigma}(W(x_1) - W(x_2))) Z^1(x_1, x_2) \bar{\sigma} [W(x_1) - W(x_2)] > 0. \end{aligned}$$

A sufficient condition for an unambiguous comparative static with respect to π is that the right-hand side of (35) is increasing in π , meaning:

$$\gamma(\kappa - \bar{\sigma}(W(x_1) - W(x_2))) + \gamma'(\kappa - \bar{\sigma}(W(x_1) - W(x_2))) Z^1(x_1, x_2) \vartheta > 0.$$

Note that in the special case where η follows a Laplace distribution with mean zero, i.e.

$$G(\eta) = \begin{cases} \frac{1}{2} \exp\left\{\frac{\eta}{b}\right\} & \text{if } \eta > 0 \\ 1 - \frac{1}{2} \exp\left\{-\frac{\eta}{b}\right\} & \text{if } \eta \leq 0, \end{cases}$$

then the equilibrium is symmetric even with asymmetries. Moreover, the comparative statics are unambiguous since $\gamma(\eta) = \frac{1}{b}$.