Populist policy makers

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Abstract

Far-right politicians are increasingly successful across the globe. However, we know little about the characteristics of rank-and-file far-right politicians or the substantive consequences of them acquiring power at the grassroots level. In this paper, we use hand-collected data on approximately 30,000 political candidates for local council elections in the German state of Saxony to study the characteristics of and policies implemented by far-right and populist *Alternative für Deutschland* (AfD) politicians. We find that AfD politicians are mostly new entrants into local politics rather than long-time supporters of other parties. Results from a close-election design tailored to Saxony's proportional electoral system also show that AfD councilors have no significant influence on fiscal policy or broader local outcomes, such as the settlement of refugees. We conclude that far-right policy makers – at the local level – use populist rhetoric primarily to gain the informal benefits of local political office and not to influence policy.

Keywords: Populist politics, political selection, fiscal policy, local governments, Germany, Saxony **JEL codes**: H71, H72, R10

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1 Introduction

A notable trend in contemporary politics is the rising popularity of right-leaning political movements that only a few years ago used to be at the fringes of the political landscape (Guriev and Papaioannou, 2022). In fact, the crawl of the far-right fringe into the halls of power is a global phenomenon, with prominent examples including the "Make America Great Again" movement shaped by Donald Trump in the US, the increasingly successful populist and nativist parties in Europe, and right-wing populist presidents in South America.

At first glance, the electoral success of previously fringe political movements heralds a tectonic shift in policies. The key electoral message of the new brand of populist leaders is that the older set of mainstream politicians have chosen policies that reflect the narrow interests of "elites" and "minorities", but go against wishes of "regular" people. By voting populist leaders into power, the "silent majority" could expect policies that are finally in line with their wishes (De Cleen, 2019).

But can they? Politicians – even populist politicians – do not become all-powerful once they assume office. They are constrained by checks and balances, constitutional rules, supra-national agreements, and real-world tradeoffs. As such, populist leaders may be aware that some of the policies they promise are not feasible or too costly economically, but propose them nonetheless as a figleaf to garner electoral support and political power.

In addition, political leaders have traits that differ from those of voters. Politicians typically have a higher socio-economic background – as proxied by their educational attainment or occupational training – and tend to be positively selected on other traits as well (Bo et al., 2017). Populist leaders – at least in the setting we analyze in this paper – are no exception in this regard: they too are generally selected along characteristics that differ from their voters. Once in power, populist leaders might thus be indifferent about whether or not a particular policy is preferred by their voters and instead pursue their own agenda (which might or might not be in line with the wishes of their voters).

For example, one of the legislative achievements of Donald Trump during his presidency was the Tax Cuts and Jobs Act in 2018. This act included significant tax cuts for the wealthy. It is not clear how these tax cuts benefited large sections of his supporters (Aviña and Blais, 2021). In fact, the tax cuts appear to be in marked contrast to the anti-elite rhetoric advanced by him on the campaign trail.¹

Using unique, hand-collected individual-level data on 29,473 political candidates for local elections across 419 municipalities in the German federal state of Saxony, we study the characteristics of and the policies implemented by far-right populist leaders, focusing in particular on whether their policies conform to the (sometimes implicit) electoral promises their party makes to voters. Germany and specifically Saxony is a unusually promising context to study populist policy makers for at least three reasons.

¹This is possible as long as electoral accountability is not perfect (Ferejohn, 1986). For example, voters usually vote for a policy package: they might accept some policies they oppose as long as they get their preferred policies in other domains. In addition, the voters of populist parties are not homogeneous and often share contradictory policy preferences. Some may prefer lower taxes while others might want more place-based policies that benefit their locality. Some may be concerned about the unemployment rate, while others would like to see more generous social transfers. Even assuming that populist leaders want to align their policies with the preferences of their voters, it is unclear what part of their voter base they will consider as particularly important.

First, the rise of right-wing populist parties was delayed in Germany compared to other European countries, arguably due to the stigma attached to far-right positions there after World War II. Before the entry of the *Alternative fi¿l/2r Deutschland* (AfD) – Germany's primary far-right party – into the federal parliament in 2017, far-right parties have had no representation in the federal and only marginal representation in state parliaments. This changed after the rise of the AfD. The AfD was particularly popular in Saxony and, at the local level, entered more than one hundred councils after the local council elections of 2019. Saxony is thus a setting where populist leaders could meaningfully impact political outcomes essentially for the first time in generations, allowing us to identify their effect without potential contamination by past populist policies.

Second, Saxony employs an open-list system for local elections. As such, key information on candidates' characteristics such as their gender, age, and occupation, is available. This allows us to compare the characteristics of AfD candidates to both the characteristics of the candidates from other parties as well as the characteristics of the broader electorate. In turn, we can infer to what extent certain policy choices benefit AfD councilors personally rather than their voters.

Third, the proportional electoral system in Saxony, where votes are mapped to seats as per the D'Hondt method, allows for the implementation of an identification strategy centered around closeelections. Following approaches such as in Folke (2014), Curto-Grau et al. (2012) or Fiva et al. (2021), we replicate the seat distribution based on the original vote vector to compare municipalities where the AfD barely won an additional council seat with municipalities where it barely failed to do so. One important complication in this regard is that the AfD was unable to fill all seats it had won in the 2019 election. Thus, the AfD winning an additional seat does not necessarily increase AfD representation in the council. We address this issue by reporting results for a subsample of municipalities where the AfD had a sufficient number of candidates to fill all seats it had won.

Our first core result pertains to the selection of AfD candidates. AfD candidates are disproportionately male, self-employed, and are less likely to have tertiary education. In fact, they stand out from all other major parties along these three dimensions. AfD candidates are also typically "new" candidates rather than "turncoats" who had competed for other parties in previous elections. Overall, the surge in support for the AfD led to the entry of a new and different selection of politicians into local councils.

Our second core result is that higher AfD representation has no substantive effects on key outcomes. Winning an additional seat does neither affect local tax rates – an outcome directly under the control of local councils – nor other outcomes that can be indirectly influenced by municipalities – notably aggregate municipal expenditures, the number of settled refugees, or the unemployment rate. Overall, AfD politicians appear to be remarkably ineffective in influencing policies during the 2019-2024 legislative term.

These findings provides new insights into populist policy making at the local level. Populist movements attain power by selling new political ideas. Yet, with the success of populist movements, it is foremost new politicians that reach the levers of power. It is these new politicians who must ultimately translate populist rhetoric into practical policy. Our findings imply that there is no clear link between populist politicians' rhetoric and the policies that are implemented by the political offices they enter. An open question is why populist politicians appear ineffective in Saxony. One possible reason, as discussed above, is that populist politicians are in reality disinterested in shifting policies toward the preferences of their voters. They might use their populist rhetoric and the associated electoral promises as a figleaf to gain political power to pursue those policies they themselves prefer. However, this does not explain why local business tax rates fail to decline when the AfD wins an additional seat. AfD politicians are disproportionately often self-employed and thus would personally benefit from lower business taxes, irrespective of how their voters would view a tax cut. However, even in councils with many self-employed councilors, we find that AfD councilors are ineffective in influencing tax policies.

Another reason for their ineffectiveness might be that AfD politicians are blocked by councilors from other parties from implementing their favored policies. Other parties' willingness or ability to block policies varies with their relative strength in the council. Councils where left-wing councilors are well represented should thus be more likely to block policies that are preferred by AfD councilors. Yet, we find that AfD councilors are neither more or less effective in councils with more councilors from right-leaning parties and thus where left-wing councilors should be relatively weak.

Yet another possible reason for the ineffectiveness of AfD councilors, at least in some policy domains, are institutional constraints. For example, local politicians in Germany have no official jurisdiction over immigration policy. The initial allocation of asylum seekers across municipalities is based on federal rules and thus outside of the control of local governments. If populist leaders were to attain power at higher tiers of government, notably state or federal, they may have substantive effects on policy choices in this domain after all. On the other hand, even at higher levels of governments, different sets of institutional constrains will continue to limit the type of policies that can be implemented. Also, we find no effects for local tax policy – a policy domain entirely under the control of local governments. As such, institutional constraints are likely not the main explanation for the ineffectiveness of AfD councilors.

If neither disinterest nor opposition from other parties, what else can explain the failure of AfD politicians to affect policies? First, populist politicians – at the local level – might be interested in political power for its own sake. Local councilor is a high-status position within the community and this informal perk of might be what truly motivates grassroots populist politicians to pursue office of local councilor, not the substantive power over policies that comes with the office. Second, albeit small, the financial compensations paid to local councilors might provide a further incentive.

This paper contributes to a nascent literature in Economics and Political Science on populist policy makers. While the reasons for the emergence and success of populist parties across many advanced democracies have been studied extensively², the literature on the consequences of populist politicians

²Many different explanations have been explored in the literature. For example, Dahlström and Sundell (2012) show that in Sweden, populist parties benefit electorally if mainstream parties adopt their policy positions (notably with respect to immigration). Fremerey et al. (2024) find that in Germany, the inflow of refugees increases the vote share for far-right parties at the county-level but not at lower levels of geography. Edo et al. (2019) find that immigration increases the vote share for far-right parties at the departmental level. Gabriel et al. (2023) show that austerity in the wake of fiscal consolidations increases the vote share of extreme parties. Similar evidence for the importance of economic insecurity using survey and voting data for Europe is offered by Guiso et al. (2024) and Gozgor (2022), respectively. Gromadzki et al. (2024) find that in Poland, cash-transfers paid by populist governments increase populist parties' vote share in subsequent elections. Rodrik (2021) argues that globalization is one of the main drivers of populism. Ansell et al. (2022) find that house prices over the electoral cycle are an important predictor for populists' electoral performance in the Nordic Countries.

attaining political office is small (Noury and Roland, 2020), arguably because populist policy makers in government is a relatively new phenomenon in advanced democracies.

Most of the existing studies are situated in Macroeconomics and explore national-level outcomes. Funke et al. (2023) find that countries have 10% lower GDP after 15 years of populist rule. Wysocki et al. (2022) find that fiscal sustainability has deteriorated under populist governments in Poland. On the other hand, Stöckl and Rode (2021) find that right-wing populist national government reduce risk-assessments by financial markets, which they explain by the tendency of right-wing populist parties to align themselves with "big business". Similarly, de Sousa et al. (2021) find that populist governments have no long-run (negative) effects on the business climate in European countries. Focusing on Donald Trump, **?** find that despite the positive development of key economic indicators, there is no causal (positive) effect of his presidency.³

Populists attaining political power at the national level is naturally consequential, especially in the long-run. However, the policy domains that are salient at the national level are different from those that are relevant at the grassroots level. How populist politicians shape local policies is arguably equally if not even more important to the day-to-day lives of citizens. Yet, the literature on the implications of populist politicians attaining power at the local level is almost non-existent.

Moreover, the few existing studies on the local level focus on the mayors rather than local councilors. For example, Cerqua and Zampollo (2023) and Bracco et al. (2018) show that in Italy, mayors from anti-immigrant parties reduce inflows of foreigners into their municipalities. Bellodi et al. (2024) find that populist mayors in Italy reduce bureaucratic quality and worsen indicators of fiscal performance (e.g., they make smaller repayments of debts).

This focus on mayors in the literature is presumably due to the elevated position of this office within municipalities. Mayors are visible and have the ability to immediately influence policies within their municipalities. However, while institutional details vary across countries, mayors have limited powers regarding budgetary matters and policy choices that have long-term implications. In these matters, they typically require the consent if not the outright approval of the local (city) council.⁴

We are aware of only one study on populist policy makers in local councils. Folke (2014) finds that right-wing anti-immigration parties can influence immigration policy in Swedish municipalities, but not tax policy.⁵ However, this paper focuses on the "old guard" of anti-immigrant parties that is only superficially comparable to the new brand of populism that paints politics as a battle between

³An older strand of literature in Macroeconomics studies the macroeconomic consequences of the Latin American style populism in the second half of the twentieth century (Dornbusch and Edwards, 1991).

⁴In Saxonian municipalities, in particular, it is the council that defines the overall goals of local policies. While the mayor and local councilors are directly elected, Article 27 of the Saxonian Local Government Code refers to the local council as the "main political body" of the municipality. As per Article 28 of the Local Government Code, it is the local council that must define the key goals for the local administration ("Grundsätze fi²/₆1/₂r die Verwaltung der Gemeinde").

⁵While not specifically focusing on local councils, Ziller and Goodman (2020) find that municipalities with more efficient local governments have witnessed fewer anti-immigrant violence in Germany during the refugee crisis of 2015.

the "common people" and the "elites" and combines anti-elite, anti-progressive and anti-immigration rhetoric (Mudde, 2004, 2007; Mudde and Kaltwasser, 2017).⁶

2 Background

2.1 Fiscal federalism in Germany

Germany is a federal country with three main tiers of administration: the federation, states, and communes. The communes are responsible for the day-to-day lives of their residents and are subdivided further into counties and municipalities, with each county – being the larger territorial unit – comprising several municipalities. Counties are mainly responsible for services that are considered to be supra-local (e. g., public transportation, hospitals, vocational schools). In contrast, municipalities are responsible for local services and, as the lowest tier of administration, the part of the state that is closest to citizens. They provide, e. g., public child care facilities, take care of local roads, and engage in land-use planning (Rellecke, 2019). A few large municipalities are classified as "county-free" and provide both municipality- and county-level services.

Municipalities are mainly financed by grants from the state government and local taxes. Grants are partially rule-based and regulated by law. These rule-based grants are intended to equalize the fiscal capacities of municipalities and thus, in effect, involve inter-regional redistribution. In addition, the state government pays discretionary grants for specific projects it deems as important. In general, municipalities have little influence on the amount of grants they receive annually (besides submitting applications for grants from certain discretionary grant programs).

The two main local taxes are the business tax (*Gewerbesteuer*) and the residential property tax (*Grundsteuer B*). Municipalities also levy a separate tax on agricultural properties (*Grundsteuer A*), but the proceeds from this tax are typically small. While the bases of these taxes are defined by federal law, municipalities can chose the tax rate.⁷ The business tax is paid by firms and self-employed individuals residing within a municipality. The tax base is business profits after various adjustments and exemptions. The residential property tax is paid by all property owners. The residential property tax base is the value of residential and commercial properties as assessed by the tax authorities.⁸ The agricultural property tax is paid by agricultural firms and the tax base is the value of each firm's asset. In 2019, federation-wide revenues from the business tax were about 55.4 billion Euros (about 19% of aggregate local revenues), the revenues from the residential property tax were about 14.0 billion Euros (about 5% of local government revenues).

⁶The anti-immigrant party studied by Folke (2014) is *New Democracy*, a party that saw success in the early 1990s in Sweden, but had faded into irrelevance by the end of the decade. In contrast to newer populist movements with their anti-elite stance, this party projected a conservative and market-liberal image and was, e. g., in favor of European Union membership.

⁷The only caveat is that they must chose a minimum rate.

⁸During the period covered by this paper, the assessed values were based on outdated data and did not necessarily conform to market values.

2.2 Municipalities and local councils in Saxony

Saxony is a state in Eastern-Germany (former GDR) with about 4 million inhabitants. As other eastern states, it has suffered crippling economic decline and sustained depopulation after reunification. While there are by now some growing and economically prosperous urban centers, the rural areas have never recovered economically and had to face substantial outflows of (primarily young) inhabitants.

As of January 1st 2019, Saxony has 419 municipalities. Three large municipalities are county-free while the remaining 416 are organized into ten counties. The governing body of municipalities is the local council.⁹ The council has several elected members and holds ultimate political authority over all matters concerning the municipality. The main responsibility of the municipal council is the approval of the municipal budget. The council also passes statues regulating municipal matters (e.g., local road maintenance or daycare services).

The size of a council is determined prior to a local election and depends on the number of inhabitants. Local council size varies from 8 councilors in municipalities with up to 500 inhabitants to 70 councilors for municipalities exceeding 400,000 inhabitants (Rellecke, 2019). The office of local councilor is a honorary position and does not come with a salary. However, councilors receive a monthly allowance and a financial compensations for each meeting they attend.

2.3 Local council elections

Local councils elections take place every five years on the same date for all municipalities. In every municipality, parties and local voter initiatives submit list of candidates. Candidates can be nominated by political parties or voter associations by secret ballot in a members' assembly.

Each voter has three votes which they can cast either individually for up to three candidates (*panaschieren*) or jointly for one single candidate (*kumulieren*). Seats are assigned to parties according to a proportional rule: if the candidates on a particular list have jointly won 25% of all votes, the party fielding the list is entitled to about 25% of all seats. The specific seat distribution rule as of 2019 was D'Hondt.¹⁰ Which candidates ultimately win a seat is determined by their within-list rank, which is based on the number of personal votes they have received (open list system).¹¹ If parties have not fielded a sufficient number of candidates to fill all seats they have won, the seat remains empty. The council thus becomes effectively smaller than originally intended.

2.4 Politics in Saxony

Saxony has been right-leaning since the (re-)foundation of the state after German Reunification in 1990. In particular, the state government has been consistently headed by the conservative Christian

⁹The second important local political institution is the mayor. The mayor is the chief executive and oversees the administration of the municipality. She is directly elected by the residents of her municipality. Mayor elections are not synchronized across municipalities. The tenure of a mayor is seven years and mayors can be re-elected.

¹⁰For the 2024 election, the distribution rule has been changed to Sainte-Lagu�.

¹¹This electoral system implies that a popular candidate who has received many personal votes may end up without a seat if she runs on a list where the other candidates have performed poorly and vice versa.

Democrats. Another piece of evidence consistent with Saxony being right-leaning is the electoral performance of the far-right *National Democratic Party* (NPD), a party that is widely shunned in Germany but historically did well in Saxony. For example, it received 9.2% of the votes in the state election of 2004. Saxony has also been a hotspot for right-wing popular movements. One nationally famous example is the *Pegida* (Patriotic Europeans Against the Islamisation of the West) movement, which in 2014 started to hold marches in the state capital of Dresden, drawing in up to 10,000 participants.

In local elections, the major national parties as well as local voter initiatives and fringe parties run for council seats. The traditional national parties include the Christian Democrats (CDU, conservative), the Social Democrats (SPD, center-left), Greens (environmentalist), Free Democrats (FDP, market-liberal), and Left-Party (Linke, traditional left). In 2014, a new contender entered the political scene and has become by now a fixture in national politics: the *Alternative fič 1/2r Deutschland* (AfD). The political stance of the AfD has changed over time (see below for details). As of 2019, it was generally considered to be a far-right populist and anti-establishment ("protest") party, though it marketed itself as merely a "more conservative Christian Democrats".

The voter initiatives in Saxony have different names. Many participate under the label "Free Voters" (*Freie Wi¿½hler*), but do not have a joint state-wide policy program. In addition, there are voter initiatives with municipality-specific names such as "Zukunft Sebnitz" (*Future Sebnitz*), "Wv Tourismus" (*Voter Iniatitive Tourism*), or "Regionalbauernverband Erzgebirge" (*Regional Association Erzgebirge*). Finally, there are a number of fringe parties that are generally unimportant at the federal or state level, but manage to win a few seats in local councils.

While local politics is traditionally considered to be less ideological than state or federal politics and focused on day-to-day issues, members of the far-right parties have generally been kept at arm's length by the mainstream parties. In practice, this meant that the mainstream parties would not rely on far-right parties to obtain majorities in the council. This was possible as these parties had only limited representation in local councils and could thus be easily isolated. With the success of the AfD in the 2019 election, however, this strategy has become more difficult. While the official position of the mainstream parties to be one of non-cooperation, it remains unclear what rank-and-file councilors do on the ground. In addition, voter initiatives have no central party leadership that could force a particular policy stance regarding cooperation with the AfD.

2.5 The rise of the AfD

While other European countries – e.g., Austria (*Austrian Freedom Party, FPi₆*^{1/2}, Italy (*Lega Nord*), and Finland (*True Finns*) – have had strong right-wing populist parties for decades, such parties have traditionally struggled and had been marginalized in Germany, arguably due to the nationalist-socialist past. However, this changed when the *AfD* entered the scene.

The AfD was founded in 2013. The impetus for its founding was the payment of bailout transfers to Southern European countries in the wake of the European debt crises of 2010. Besides opposition against these bailout payments, the AfD emphasized "conservative" political positions, notably free-market policies and traditional family values. With this program, it obtained 4.7% of the votes in the

federal election of 2013 and thus performed remarkably well for a new party. However, it failed to clear the electoral threshold of 5% and thus did not receive any seats in the federal parliament.

While its original leaders presumably intended the AfD to become a slightly more conservative and EU-skeptical alternative to the (at the time) ruling Christian Democrats, inner-party conflicts soon erupted. Over time, the original leadership was pushed out and the party moved ever more to the right and is by now considered to be the German variant of the populist, "alt-right" movements that have emerged in the US and elsewhere in Europe. Besides rhetorical opposition against the "elites" and "mainstream parties", its main policy positions include the restriction of immigration (notably by refugees), criticism against the EU and other international organizations, as well as opposition against "liberal" policies in general (e. g., policies that facilitate female employment or DEI policies). On other policy domains, the AfD is (presumably intentionally) ambiguous. For example, while it claims to promote low taxes, it also projects an image as the party of the "common man" (Otto Brenner Stiftung, 2021).

With its tilt toward the far-right, the AfD had remarkable success in subsequent elections. In the federal election of 2017, it received 12.6% of the votes and entered the federal parliament as the third largest party. In the federal election of 2021, it received 10.3% of the votes. Its success in Eastern-Germany, and in particular in Saxony, was even more pronounced, arguably due to its historical susceptibility to right-wing politics mentioned above. In the state election of 2019, the AfD received 28.4% of the votes, comfortably reaching the second spot behind the Christian Democrats. In the Saxonian local council elections of 2019, it received 15,3% of all votes, a notable increase from the 2.5% it received in 2014. In terms of seats, it received 641 (out of 6885 awarded seats) in 2019, but only 31 (out of 7259 awarded seats) in 2014.

3 Data

3.1 Hand-collected local election data

We hand-collect candidate-level data for the local council elections held in 2009-2019 in Saxony as this data is not available from official sources. To collect this data, we rely on the official websites of municipalities, local newspapers, old editions of "Gemeindeblätter", etc.

Figure 1 shows the coverage of the candidates data. As this is hand-collected data, coverage is not complete and generally better for more recent elections. We have information on 4,767 candidates in 2009, 9,787 candidates in 2014, and 14,778 candidates in 2019. The coverage in terms of municipalities also increases over time. For the 2019 election, which we will mainly exploit in this paper, we have data on candidates for 378 of the 419 municipalities. With respect to AfD candidates, note that there were none running in 2009. In 2014, when the AfD had just been founded, our data covers 98 candidates. In 2019, however, we have information on 899 AfD candidates.

This candidate-level data includes the names (and thus gender) of candidates, their occupation, and their age. It also covers their initial list rank (as determined by their parties) as well as the number of votes they have received, their final list rank (as determined by their personal votes), and whether or not they have won a seat.

As candidates themselves can name the occupation that appears on the candidate lists, there is no standardized classification scheme. Thus, we classify by hand occupations into different categories. For example, we classify entries with the prefix "self-employed" or "entrepreneur" as "self-employed". We also use occupations to determine educational attainment. In particular, we code candidates with occupations that require a university degree – teachers, lawyers, engineers – and those that mention their academic degree (Diploma or PhD) as having a "tertiary education".



Figure 1: Data coverage on council elections and candidates. The bar charts show the coverage of our dataset in terms of municipalities and candidates. Subfigure (a) shows the number of municipalities included in our sample in each legislative term (which corresponds with the number of elections for which we have data). Subfigure (b) shows the total number of (AfD) candidates included in our sample per legislative period.

3.2 Administrative data

We obtain various administrative data from the state statistical office. First, we obtain election data on seven municipality elections held between 2009 and 2022 for all 419 municipalities from the Statistical State Office of Saxony. This data covers the aggregate number of votes each party received, their vote share, and the corresponding distribution of council seats. However, as alluded to in the previous section, this administrative data does not provide any information on candidates (neither their characteristics nor the number of votes they had received). We also collect various data on municipal characteristics, notably tax rates for local taxes, population size, unemployment rates, debt, and expenditures per capita.

4 Descriptives

4.1 AfD representation in local councils after the 2019 election

Figure 2 shows a map that illustrates the share of council seats held by the AfD after the 2019 local elections across municipalities. The AfD did not field a list in several municipalities (these are left blank). Typically, these are rural municipalities where local voter initiatives are strong and where no



Figure 2: AfD representation across municipalities in Saxony as of 2019 in municipality councils. This figure shows the seat shares of the AfD across councils in Saxony after the 2019 election.

national parties run.¹² Overall, Figure 2 shows that the AfD electoral success in 2019 was not clustered in certain regions but rather a state-wide phenomenon.

In Figure 3, we report the number of excess candidates. The number of excess candidates is an important complication for implementing our identification strategy below. Positive values indicate that the AfD has won more seats than it could fill (missing candidates). Negative values indicate the number of candidates on the electoral list of the AfD that were not elected. Zero indicates municipalities where the number of seats won by the AfD is exactly equal to the number of candidates on the list. Among the municipalities where the AfD fielded lists and for which we have candidate-level data, there are 68 municipalities where the AfD could not fill all seats it won in 2019 (while it could fill all seats it had won in 96 municipalities). However, there are no spatial patterns: municipalities with many excess or missing candidates are not geographically clustered, respectively.

4.2 Characteristics of AfD candidates

In this section, we study the characteristics of AfD candidates who ran for a seat in the 2019 election and compare them to the candidates of the other parties running for local council seats. Table 1 collects the mean values for selected candidate characteristics across parties (both elected and unelected).

First, the share of self-employed candidates is the highest among all other major parties, higher than their share among the candidates of the free-market liberals (FDP), a party that caters specifically to this demographic. In contrast, only 15% of the AfD candidates are women, a noticeably lower share than in

¹²See Table A.1 in the Appendix, which shows that municipalities where the AfD won at least one seat are significantly larger.



Figure 3: Number of excess candidates on AfD lists across municipalities in the local council elections of 2019. This figure shows the number of unelected candidates per municipalities for the sample of municipalities where we have appropriate date (i.e., where the AfD has fielded lists in the 2019 election and we were able to collect the candidate-level data). Negative values imply that the AfD had more candidates on its list than it had won seats (unelected candidates), positive values indicate that the AfD had won more seats that it had candidates on the list (missing candidates).

	(AfD)	(CDU)	(SPD)	(Greens)	(FDP)	(Left Party)	(NPD / Fringe RW)
Age	51.26	50.06	50.93	49.71	50.54	55.38	47.19
Female share	0.15	0.20	0.28	0.38	0.19	0.36	0.16
Self-employed	0.11	0.08	0.04	0.04	0.07	0.02	0.13
Tertiary education	0.11	0.20	0.23	0.24	0.21	0.20	0.05
PhD degree	0.02	0.04	0.06	0.07	0.05	0.04	0.01
Farmer	0.02	0.02	0.00	0.01	0.02	0.01	0.03
Pensioner	0.10	0.06	0.08	0.04	0.06	0.19	0.04

Table 1: CANDIDATE CHARACTERISTICS

Notes: This table reports mean values for different candidate characteristics by party. The sample covers elected and non-elected candidates that were running in the 2019 municipality election.

other parties. The AfD candidates are also less likely to have an university degrees (Diploma, Master of Arts, etc.) or a PhD. Finally, only the Left-Party, the party with the oldest candidates, has fielded more retired candidates than the AfD. Overall, we find that AfD candidates significantly differ in important dimensions from the candidates of the other major parties.

5 Are AfD candidates "new" candidates or turncoats from other parties?

In this section, we explore whether the AfD candidates in 2019 are "new" candidates or whether they are turncoats who had run for other parties in previous elections. Studying this question helps us to better understand to what extent the rise of the AfD has led to the entry of a new slate of individuals into local politics.

Table 2 shows the number of candidates per party in 2019 and the share of these candidates who were running either for the same or another party in 2014.¹³ In most parties, about 30% of candidates in 2019 were already running in 2014. In contrast, only 7% of AfD candidates were re-running candidates. This result suggests that AfD candidates are mostly "new".

Party	Number of candidates	Probalility of re-running
AfD	940	0.07
CDU	4066	0.31
SPD	1216	0.29
Greens	480	0.20
FDP	853	0.27
Linke	1311	0.31
NPD / Fringe RW	81	0.36
Other parties	5998	0.27

 Table 2: PROBALILITY OF CANDIDATES RE-RUNNING

Notes: This table reports the number of candidates running for each party in 2019,

as well as, the corresponding probability that each was already running in 2014.

These probabilites are idependent of party affiliation in 2014.

We look into the re-running AfD candidates further in Table 3. According to this Table, 44% of the 63 re-running AfD candidates had been running for other parties in 2014. While re-running candidates only make up a small fraction of AfD candidates in 2014, the proportion of turncoats among these re-running candidates is thus high.

Next, we explore from which parties the turncoats to the AfD originate. In Table 4, we construct a matrix that shows for all turncoats the origin (i. e., the party for which they ran in 2014) and destination party (i. e. the party for which they ran in 2019). For the AfD, most turncoats originate from the conservative CDU. There are also a few turncoats from other parties. However, it is remarkable that there were no turncoats from other far-right parties.

Finally, we explore whether turncoats to the AfD (and other parties) were electorally successful. Table 5 shows the number of turncoats per party who were elected in 2014 and 2019, respectively. None of

¹³We match candidates by their full name (first name and surname).

Party	Candidates already run- ning 2014	Share of turncoats
AfD	63	0.44
CDU	1242	0.02
SPD	353	0.03
Greens	95	0.24
FDP	233	0.06
Linke	412	0.02
Right-wing (extremist) parties	29	0.14
Other parties	1620	0.07

Table 3: SHARE OF TURNCOATS

Notes: This table presents the number of candidates that where already running in 2014 by party, along with the share of turncoats among them.

Origin 2019	CDU	SPD	FDP	Greens	Linke	NPD and other	Other parties
AfD	9	4	1	0	2	0	12
CDU	-	4	5	0	1	1	18
SPD	0	-	0	1	0	0	9
FDP	6	1	-	0	1	1	6
Greens	1	0	0	-	0	0	22
Linke	1	2	0	1	-	0	6
Right-wing	0	0	1	0	0	-	3
Other parties	59	32	12	5	3	3	-
Total	76	43	19	7	7	5	76

Table 4: Parties turncoats switched to

Notes: This table displays the inter-party movements of turncoats. The columns refere to the party of origin, the rows to the party for which they ran in 2019. Only parties where at least one turncoat was identified to originate from are displayed as columns.

the turncoats to the AfD had been elected in 2014. Once they switched to the AfD, 21 managed to win a seat in 2019. As such, for many of the turncoats to the AfD, switching parties was a gamble that payed off.¹⁴

Overall, the rise of the AfD led to the entry of a new selection of politicians into local politics. Most AfD candidates in 2019 had not competed for a seat in 2014. Even among the AfD candidates of 2019 who had been running for a different party in 2014, none had won a seat in that election. In addition, with the new AfD councilors represented a different selection of politicians. They were even more likely to be male than the councilors of the other parties, more likely to be self-employed, and disproportionately likely to be pensioners.

	2014		2010	
	2014		2019	
	Number	Share	Number	Share
AfD	0	0.00	21	75.00
CDU	39	51.32	15	51.72
FDP	5	26.32	2	13.33
Greens	0	0.00	11	47.83
Linke	3	42.86	2	20.00
Right-wing (extremist) parties	4	80.00	0	0.00
Other parties	26	34.21	50	43.86
SPD	11	25.58	2	20.00
Total	88	37.77	103	44.21

Table 5: ELECTEI	TURNCOATS IN	2014 AND 2019
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Notes: This table reports the number of elected turncoats in the 2014 and 2019 municipality elections, as well as, the percentage share of elected turncoats among turncoats of that party in a given year. Thus, the year 2014 refers to the number of turncoats that where elected while running for their party of origin, while 2019 refers to elected candidates after they switched their party affiliation.

6 Empirical strategy

After exploring the characteristics of AfD councilors, we now study whether their entry into local councils has affected policies or broader economic outcomes within municipalities. We also explore whether AfD councilors are more effective in councils with certain characteristics.

6.1 Model and estimation framework

6.1.1 Structural relationship

We want to study the effect of AfD councilors on policy choices. The corresponding structural specification is as follows:

$$y_i = c_i + Share AfD \ councilors_i + \varepsilon_i, \tag{1}$$

¹⁴The only other party where turncoats fared well were the Greens. None of the turncoats to the Greens were elected in 2014, while in 2019 11 of them won a seat.

where y_i is the policy outcome in question in municipality *i* in the legislative term following the local election of 2019, c_i being controls, *Share AfD councilors* is the share of seats in a particular local council held by the AfD, and ε_i the error term.

While straightforward, estimating this specification using OLS is problematic due to endogeneity. For example, municipalities with fiscally conservative voters might prefer low taxes as well as be more likely to vote for AfD candidates – voter preferences are likely one important omitted but unobservable variable in Equation 1.

6.1.2 Close-election designs

A standard strategy to solve such endogeneity issues in Political Economics is to rely on close elections. In majoritarian systems, where a candidate can win an election by obtaining a plurality of votes, implementing close-election identification strategies is straightforward: researchers would typically run a regression discontinuity design using the margin of victory of the winning candidate against the runnerup as forcing variable (Lee et al., 2004). The identifying assumption is that, e. g., constituencies where candidates from party A barely won (against candidates from party B) are similar in all observable and unobservable characteristics to constituencies where candidates from party B had barely won, but will differ decisively in the political ideology of the elected representative.

In settings with proportional electoral rules (as is the case in Saxony), close election designs are still feasible, even though their implementation is less straightforward than in majoritarian settings. One example for a research design tailored to proportional settings is by Folke (2014), who explores the impact of parties on local policy in Sweden. He relies on the randomness induced by the rules that map the distribution of votes across parties to seats in the council to compare councils where green (or anti-immigration) parties have barely won one additional seat with councils were they barely failed to win another seat.¹⁵ Similar approaches, adapted to their specific settings, have been developed by, e. g., Curto-Grau et al. (2012) in Spain and Fiva et al. (2021) in Norway.

6.1.3 Close elections for the last seat

Following such approaches, we implement a close election design tailored to the Saxonian setting. First, we replicate the official seat allocation after the 2019 local election. As Saxony uses D'Hondt seat distribution formula, we calculate, for municipality i, n = 1, ..., N D'Hondt "quotients" for each party p as follows:

$$Q_{p,n;i} = \text{Aggregate Votes Party}_{n;i}/n,$$
 (2)

with $n = 1, ..., N_i$ = Council size of municipality *i*.

¹⁵His approach relies on the observation that votes shares are continuous while seats are discrete (i. e., it is not possible to win half a seat). As such, there cannot be a perfect mapping of vote shares to seats. How seats are distributed across parties thus depends on the vote vector across all parties. Depending on the seat distribution rule – e.g., D'Hondt, Sainte-Lagu�, Largest remainder, etc. –, a slight change in the configuration of vote shares across parties can result in discontinuous changes in seat distributions.

We then order all quotients $Q_{p,n;i}$ from highest to lowest. The parties associated with the N_i highest quotients among all quotients (i. e., from of *all* parties) receive a seat in a given municipality *i*. The seat that is allocated to the N_i^{th} highest quotient can be considered as the "last" seat. The party that receives this seat has thus just won the last seat awarded in municipality *i* while the party with the $N_i + 1^{th}$ quotient has just missed winning an additional seat.

However, winning the last seat does not necessarily imply that it was a closely contested seat. The N_i^{th} and $N_i + 1^{th}$ - highest quotients could be several orders of magnitude apart. Alternatively, even the $N_i - 1^{th}$ seat could have been won only barely, i. e., the $N_i - 1^{th}$, N_i^{th} , and $N_i + 1^{th}$ quotients could all be of similar magnitudes.

To identify whether or not a the race for a seat was close, we define the victory threshold in each municipality *i* as follows:

$$T_i = \frac{Q_{N;i} + Q_{N+1;i}}{2}.$$
(3)

That is, T_i is the average of the lowest quotient that has won a seat and the highest quotient that has failed to win a seat.

We then calculate the relative distance of each quotient $Q_{p,n;i}$ to the victory threshold as follows:

$$F(\mathcal{Q}_{p,n;i}) = \frac{\mathcal{Q}_{p,n;i} - T_i}{T_i}.$$
(4)

If $F(Q_{p,n;i}) > 0$, the quotient $Q_{p,n;i}$ was sufficiently high to win a seat and vice versa. The absolute value of $F(Q_{p,n;i})$ identifies the degree of closeness. Smaller values represent "closer" wins or losses of seats, respectively.

6.1.4 RD Design

We rely on $F(Q_{p,n;i})$ to implement a standard RD design. The goal is to identify the effect of an AfD victory on various outcomes. Specifically, we estimate the following RD model:

$$y_{i} = \alpha + \beta A f D \ victory_{p=AfD,n;i} + F(Q_{p=AfD,n;i}) + A f D \ victory_{p=AfD,n;i} \times F(Q_{p=AfD,n;i}) + \varepsilon_{i},$$
(5)

where y_i is a given municipality-specific outcome, $F(Q_{p=AfD,n;i})$ is an indicator for how close the AfD was to winning or losing a seat. AfD victory_i is a dummy variable that is one if the AfD quotient $Q_{p=AfD,n;i}$ was sufficiently high to win a seat.

Note that with this implementation, each municipality can appear in the sample N_i times, as there are N_i quotients calculated for each party, and thus for AfD as well. However, quotients that are far away from either being able to win or lose a seat will not contribute to identification. As such, we limit the RD sample to observations with $F(Q_{p=AfD,n;i}) < 0.05$. Nevertheless, depending on how close the AfD quotients are to the threshold, a municipality could appear multiple times in the RD sample. We therefore weight each observation by the inverse of duplicates in the RD sample.

When estimating Equation 5, we report results for different bandwidths to establish the robustness of the results to bandwidth choices. Also, following Gelman and Imbens (2019), who recommend lowerorder polynomials, we typically include the forcing variable as a linear function. Specifically, we report five models in the baseline. In model (1) and (4), we use the common Mean-Square-Error-optimal bandwidth (MSERD) reported by the rdrobust command. In model (2), we use one half of the MSEoptimal bandwidth. In model (3), we use twice the MSERD-optimal bandwidth. In model (4), we use the Coverage Error Rate (CER)-optimal bandwidth selector. All models except model (5) use a linear polynomial. In model (5) we add quadratic polynomial.

6.2 RDD First-stage

The structural relationship described by Equation 1 relates the seat share of the AfD to municipalitylevel outcome y_i while Equation 5 compares municipalities where the AfD barely won one additional seat with municipalities where the AfD barely missed to win an additional seat. The link between Equation 5 and the structural relationship in Equation 1 is that municipalities that appear to the right of the threshold should have a higher share of seats in the council.

This link between the RD design and the structural relationship can be made explicit by means of a Fuzzy-RD-design, where the dummy *AfD victory* serves as an instrument for *Share AfD councilors* in Equation 1. However, it turns out that this approach faces a complication in our setting. As discussed in Section 4.1, the AfD was unable to fill all seats it had won. As such, municipalities to the right of the threshold in Equation 5 do not, on average, have a higher seat share of the AfD.

To see this explicitly, consider the results in Table 6. In Panel A, we report what would be the first stage for a standard fuzzy RD-design based on Equation 5. The corresponding RD plot is in Subfigure (a) of Figure 4. There is no significant effect, reflecting the fact the AfD was not able to fill all seats it had won.

In contrast, in Panel B of Table 6, we show how the AfD seat share would have changed if it had been able to fill all seats it had won. As expected, there is a positive and significant effect. On average, AfD seat shares would increase by 6ppt (see subfigure B of Figure 4 for the RD plot). Finally, in Panel C of Table 6, we relate the actual seat share of the AfD to an AfD victory for the last seat in the subsample of municipalities where it was able to fill all seats. In this subsample, we observe that the AfD seat share increases by about 10-11ppt (see subfigure C of Figure 4 for the RD plot).

As such, we opt in the following for a sharp RD design as described in Equation 5. This allows us to report results for both the full sample, where actual AfD representation does not increase on average, as well as the subsample of municipalities where the AfD was able to fill all seats it had won (and where actual AfD representation increases if the AfD has won an additional seat).

The reason for (also) studying the full sample, where actual AfD representation does not increase even if the AfD wins an additional seat, is that the non-AfD councilors might implicitly give the remaining AfD councilors more weight in council decisions. That is, AfD councilors might point to a stronger political mandate than their actual representation would warrant. Ex-ante, it is unclear whether it is actual representation or the political mandate that flows from winning council seats that is more consequential for policy choices.

Table 6: FIRST STAGE: AFD VICTORY FOR THE LAST SEAT AND AFD COUNCIL SEAT SHARE

	(1)	(2)	(3)	(4)	(5)	
Panel A: Actual	seat share					
AfD victory	0.457	-1.319	0.714	0.175	-2.833	
	(1.965)	(2.408)	(1.349)	(2.210)	(2.736)	
Bandwidth type	MSERD	MSERD/2	2MSERD	CERRD	MSERD	
Bandwidth size	0.21	0.21	0.21	0.15	0.16	
Polynomial	Linear	Linear	Linear	Linear	Quadratic	
N	310	159	726	208	220	
Municipalities	158	139	162	150	152	
Mean (SD)	17.68 (7.52)	17.30 (7.71)	17.74 (7.59)	17.76 (7.62)	17.74 (7.55)	

ranci D. Hypoti	icucal scat share					
AfD victory	6.750*** (1.914)	6.242*** (2.005)	6.007*** (1.485)	6.142*** (1.983)	5.135** (2.150)	
Bandwidth type Bandwidth size	MSERD 0.15	MSERD/2 0.08	2MSERD 0.30	CERRD 0.11	MSERD 0.15	
Polynomial	Linear	Linear	Linear	Linear	Quadratic	
N Municipalities	209 150	116	475	160 140	211 151	
Mean (SD)	20.94 (5.95)	20.54 (6.17)	20.94 (5.97)	20.55 (6.09)	20.91 (6.01)	

Panel C: Seat share in Municipalities with sufficient AfD excess candidates

AfD victory	11.098*** (2.598)	9.141*** (2.905)	10.008*** (1.912)	10.109*** (2.740)	9.267*** (2.988)	
Bandwidth type	MSERD	MSERD/2	2MSERD	CERRD	MSERD	
Bandwidth size	0.15	0.07	0.29	0.11	0.17	
Polynomial	Linear	Linear	Linear	Linear	Quadratic	
Ν	130	64	287	100	157	
Municipalities	85	62	93	82	89	
Mean (SD)	21.42 (6.16)	21.31 (6.45)	21.39 (6.16)	21.02 (6.36)	21.34 (6.31)	

Notes: This table reports regressions of the treatment dummy on the seat share of the AfD in a given municipality. The treatment dummy is one if the AfD won the last seat awarded in a council. Model (1)-(4) include a linear forcing variable. Model (5) includes a quadratic polynomial of the forcing variable. The optimal bandwidth is the MSE-optimal bandwidth selector reported by the rdrobust command in Stata. Standard errors are robust to heteroscedasticity and clustered at the level of municipalities. A municipality can appear williple times in the sample if multiple AfD candidates were close to winning or losing a seat. We weight observations by the inverse of the number of duplicates in the sample. Panel A relates an AfD victory for the last seat to its actual seat share. As the AfD was short of candidates in many municipalities, there is no strong effect. Panel B relates an AfD victory for the last seat to the intended seat share (if the AfD would have had sufficient candidates on its list). Panel C relates an AfD victory to the actual seat share of the AfD in the group of municipalities where its alloted number of seats is equal to its actual number of seats (i. e., where the AfD had a sufficient number of candidates to fill all seats it had won).



(a) Actual AfD seat share, full sample



(**b**) Intended AfD seat share, full sample

(c) Actual seat share, restricted sample

Figure 4: AfD victory for the last seat and AfD council seat share. This figure shows RDD plots that relate an AfD victory for the last seat on the AfD seat share in the council. Subfigure (a) shows the effect of an AfD victory on the actual AfD seat share in the full sample. Subfigure (b) shows the effect of an AfD victory on the hypothetical AfD seat share if the AfD had been able to fill all seats it had won. Subfigure (c) shows the effect of the an AfD victory on the actual AfD seat share in the subsample of municipalities where the party was able to fill all seats it had won.



Figure 5: McCrary Plot. This figure shows a McCrary plot for the victory margin for the AfD using the full sample.

6.3 RDD Validity

The core identifying assumption that underlies the RD design described above is that municipalities where the AfD has barely won an additional seat are similar in observable and unobservable characteristics to municipalities where the AfD barely failed to win another seat. To explore this, we estimate Equation 5 while using municipality characteristics during the previous legislative term (i. e., characteristics averaged over the period 2010-2014) as outcome variable.

We study municipalities' population size, the female to male ratio (to proxy gender relations), the number of employees (as a proxy for the economic importance of a city), the number of unemployed (as a proxy for prevailing economic conditions), and the business tax revenues (as a proxy for the local tax base).

The results are collected in Table 7. Panel A reports results for the full sample (where actual AfD representation does not increase if the AfD wins an additional seat) and Panel B reports results for a sample restricted to those municipalities where the AfD was able to fill all seats it had won. In both panels, none of the characteristics are significantly different. It appears that the RD ensures local randomization.

In Figure 5, we also report a McCrary plot to explore whether the AfD is more likely to win an additional seat than to lose it. Any imbalance at the threshold in the likelihood of an AfD victory or loss, respectively, would point towards manipulation of close races. However, we observe no such discontinuity. There is no evidence of manipulation, either in favor or to the detriment to the AfD.

	(1 – Population)	(2 – Gender ratio)	(3 - Emplyoment)	(4- Unemployed)	(5– Busienss tax revenues)
Panel A: full sar	nple				
AfD victory	-0.189	0.005	-0.257	-0.115	-0.246
	(0.211)	(0.016)	(0.288)	(0.251)	(0.205)
Bandwidth type	MSERD	MSERD	MSERD	MSERD	MSERD
Bandwidth size	0.18	0.20	0.18	0.19	0.19
Polynomial	Linear	Linear	Linear	Linear	Linear
Ν	264	288	270	272	274
Municipalities	154	157	155	155	154
Mean (SD)	9.30 (1.18)	0.03 (0.04)	8.14 (1.45)	5.85 (1.40)	5.45 (0.55)
Panel B: restrict	ed sample				
AfD victory	0.466	0.003	0.698	0.613	-0.121
	(0.365)	(0.020)	(0.438)	(0.455)	(0.225)
Bandwidth type	MSERD	MSERD	MSERD	MSERD	MSERD
Bandwidth size	0.17	0.17	0.17	0.16	0.21
Polynomial	Linear	Linear	Linear	Linear	Linear
Ν	156	158	157	154	193
Municipalities	89	89	89	89	89
Mean (SD)	9.63 (1.24)	0.04 (0.03)	8.57 (1.45)	6.22 (1.49)	5.51 (0.51)

Table 7: BALANCE IN MUNICIPALITY CHARACTERISTICS: AFD VICTORY FOR THE LAST SEAT AND MUNICIPALITY CHARACTERISTICS DURING THE PREVIOUS TERM

Notes: This table reports regressions of the treatment dummy on municipality characteristics during the 2015-2019 electoral term. Panel A reports results for the full sample. Panel B reports results for the sample restricted to municipalities where the AfD was able to fill all seats it had won. The dependent variable in model 1 is the (log of) average population size during the 2015-2019 term, in model 2 the (log of) average female to male population ratio, in model 3 the (log of) average number of employees in a municipality, in model 4 the (log of) average number of unemployed, and in model 5 the (log of) business tax revenues. Standard errors are robust to heteroscedasticity and clustered at the level of municipalities.

7 Results

7.1 Local tax policy

In this section, we report the results from estimating Equation 5 for various outcomes. We first focus on the rates for the business tax, the residential property tax, and the agricultural property tax. These tax rates are under the immediate control of local councils and the council can adjust them annually with each budget.

The results are collected in Table 8. As discussed before, we report results for various bandwidths and polynomials (models 1-5) as well as different samples (Panels A-C). We also report results where we additionally include pre-treatment covariates to account for small-sample bias. Covariates might also be important to account for non-random selection in the restricted sample, even if the balance tests in Table 7 indicate no imbalances.

In Panel A of Table 8, we explore the impact of the AfD winning an additional seat in 2019 on the business tax rate chosen during the following years. We find no significant effect in the full sample when including no controls (Panel A1). With controls, there is evidence for a small increase of the business tax rate, by 1%, in municipalities where the AFD had won (Panel A2). In the restricted sample, the evidence for a tax hike appears initially stronger. We find a positive and highly significant effect when we include no controls (Panel A3). However, once we add covariates, the estimated coefficient for an AfD victory declines in magnitude and becomes statistically insignificant. Overall, we conclude that there is at best only a mildly positive reduced-form effect of an AfD victory on the business tax rate.

In Panel B, we explore the effect of an AfD victory on the residential property tax rate. In the full sample, we again find no strong effects, irrespective of whether we add covariates or not (Panel B1 and B2). In the restricted sample, we find large and statistically significant positive effects when we include no covariates, i. e. an rate hike by about 7% according to model 1. However, this effect becomes smaller once we add covariates, even though it is significant for some bandwidth choices. Overall, we conclude that the evidence for a rate hike in the residential property tax is limited.

Finally, we explore the effect of an AfD victory on the rate for the agricultural property tax in Panel C. For this outcome, we find no significant effect in any of the specifications. It appears that an AfD victory is not consequential for this tax either.

	(1)	(2)	(3)	(4)	(5)
Panel A: Business tax rate					
A1: without controls, full sample					
AfD victory	0.004	0.001	0.005	0.001	0.002
	(0.010)	(0.012)	(0.008)	(0.011)	(0.012)
A2: with controls, full sample					
AfD victory	0.010*	0.012	0.004	0.011*	0.012*
	(0.005)	(0.007)	(0.004)	(0.006)	(0.007)
A3: without controls, restricted sample					
AfD victory	0.038**	0.057***	0.032***	0.048***	0.042**
	(0.016)	(0.015)	(0.012)	(0.016)	(0.017)
A4: with controls, restricted sample					
AfD victory	0.005	0.012*	0.007	0.005	0.005
	(0.005)	(0.007)	(0.005)	(0.006)	(0.006)
Panel B. Residential property tay rate					
<i>R1: without controls full sample</i>					
AfD victory	-0.001	0.003	0.002	-0.004	-0.003
THE fictory	(0.005)	(0.005)	(0.006)	(0.005)	(0.006)
B2: with controls, full sample	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
AfD victory	0.004	0.015*	-0.003	0.009	0.005
	(0.008)	(0.008)	(0.007)	(0.008)	(0.009)
B3: without controls, restricted sample					
AfD victory	0.074**	0.088*	0.047**	0.078**	0.090**
	(0.033)	(0.051)	(0.023)	(0.039)	(0.044)
B4: with controls, restricted sample					
AfD victory	0.009	0.016*	0.001	0.019**	0.017
	(0.010)	(0.009)	(0.006)	(0.010)	(0.011)
C. Agricultural property tax rate					
C1: without controls full sample					
AfD victory	0.022	0.017	0.009	0.024	0.023
	(0.022)	(0.028)	(0.019)	(0.024)	(0.026)
C2: with controls, full sample	(***==)	(0.0-0)	(0.000)	(0.02.1)	(
AfD victory	-0.011	-0.003	-0.010	-0.009	-0.010
	(0.012)	(0.016)	(0.009)	(0.014)	(0.015)
C3: without controls, restricted sample					
AfD victory	0.018	0.015	0.007	0.016	0.019
-	(0.027)	(0.040)	(0.023)	(0.032)	(0.033)
C4: with controls, restricted sample					
AfD victory	-0.001	0.004	0.000	-0.002	-0.003
-	(0.005)	(0.007)	(0.007)	(0.006)	(0.007)
Bandwidth type	MSERD	MSERD/2	2MSERD	CERRD	MSERD
Polynomial	Linear	Linear	Linear	Linear	Quadratic

Table 8: BASELINE RESULTS: AFD VIC	CTORY FOR THE LAST SEAT AND TAX POLICY OUTCOMES
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Note: This table reports regressions of the treatment dummy on local tax rates during the term followin the 2019 elections (2020-2024). We average the data for each outcome over all available years. Panel A shows results for the business tax rate (*Gewerbesteuer*). Panel B shows results for the residential property tax rate (*Grundsteuer A*). For each outcome, we report results for the full sample and for a sample restricted to those municipalities where the AD was able to fill all seats, as well as with and without pre-treatment control variables. The pre-treatment control variables are averaged over all years of the previous term (2015-2019) and included as logs. The following controls are included in all models with control variables: population size, gender ratio, number of employees, number of unemployed, and business tax revenues. In each model, we additionally include the average of the respective outcome variable in the previous legislative term. Standard errors are robust to heteroscedasticity and clustered at the level of municipalities.

7.2 Indirect policy outcomes

In this section, we study the effect of an AfD victory on outcome that are only indirectly influenced by the council. First, we explore the total local expenditures. The budget is initially drafted by the municipal administration and can also be adjusted during its implementation. As such, even though the budget must be approved by the council, it does not have full control over aggregate expenditures.

The second outcome we explore is the number of asylum seekers. The number of asylum seekers can only be indirectly influenced by the council. The initial allocation of refugees to municipalities is determined by a federation-wide formula and asylum seekers are not allowed to leave their alloted residence while their application is processed. However, municipalities may try to informally limit the number of refugees they are expected to receive by delaying to provide acceptable housing or by applying with higher-level governments for exceptions from the requirement to accept refugees. Naturally, there could be also a response on part of refugees. They might be less willing to stay in municipalities with higher AfD representation (either actual or hypothetical if the AfD had been able to fill all seats it had been alloted), and once allowed to do so, opt to leave.

The number of unemployed in a municipality is an outcome that is arguably important for inhabitants but which is only indirectly influenced by municipalities. While municipal governments can hire staff, this is not an option to shift the unemployment rate significantly given obvious budget constraints. However, by adopting appropriate policies – i. e., attracting investments by adjusting the business tax rate or providing useful infrastructure – the local government could affect the unemployment rate in the medium–term. On the other hand, a higher representation of the AfD might induce firms to scale back investments given the stigma that was associated with the party as of 2019.

We collect the results in Table 9. In Panel A of Table 9, we find no significant effect of an AfD victory on adjusted total expenditures. While some of the coefficients are significant in Panel A4, the effect is not robust across specifications. In Panel B, we study the effect of an AfD victory on asylum seekers. We fail to find a significant effect in any of the specifications. In Panel C, we explore the unemployment rate. As for the other outcomes, however, we find no significant effect. Overall, the AfD does not appear to be – at least in the short – to medium-term – consequential for outcomes that can only be influenced indirectly by local governments.

	(1)	(2)	(3)	(4)	(5)
Panel A: Adjusted expenditures					
A1: without controls, full sample					
AfD victory	0.001	-0.016	-0.007	-0.001	0.018
	(0.069)	(0.100)	(0.048)	(0.084)	(0.096)
A2: with controls, full sample					
AfD victory	-0.041	-0.038	-0.019	-0.039	-0.025
	(0.034)	(0.039)	(0.025)	(0.038)	(0.044)
A3: without controls, restricted sample					
AfD victory	0.041	-0.022	0.017	-0.006	0.053
	(0.071)	(0.097)	(0.052)	(0.082)	(0.096)
A4: with controls, restricted sample					
AfD victory	-0.069*	-0.081	-0.038	-0.089*	-0.075
	(0.040)	(0.053)	(0.028)	(0.046)	(0.054)
Panel B: Asylum seekers					
B1: without controls, full sample					
AfD victory	0.036	0.133	0.161	0.161	0.088
5	(0.478)	(0.644)	(0.352)	(0.546)	(0.591)
B2: with controls, full sample					
AfD victory	0.152	0.052	0.069	0.151	0.174
	(0.240)	(0.339)	(0.159)	(0.290)	(0.299)
B3: without controls, restricted sample					
AfD victory	0.647	1.206	0.557	0.977	0.944
	(0.643)	(0.833)	(0.450)	(0.725)	(0.792)
B4: with controls, restricted sample					
AfD victory	0.400	0.517	0.145	0.543	0.596
	(0.281)	(0.397)	(0.204)	(0.341)	(0.366)
C: Unemployed					
C1: without controls, full sample					
AfD victory	0.052	-0.555	0.144	-0.238	-0.172
-	(0.420)	(0.538)	(0.320)	(0.485)	(0.523)
C2: with controls, full sample					
AfD victory	0.059	-0.100	0.041	-0.035	-0.143
	(0.121)	(0.142)	(0.098)	(0.132)	(0.152)
C3: without controls, restricted sample					
AfD victory	1.003	1.041	1.034**	0.782	1.107
	(0.720)	(1.024)	(0.517)	(0.859)	(0.844)
C4: with controls, restricted sample					
AfD victory	0.120	-0.226	0.074	-0.023	0.230
	(0.161)	(0.170)	(0.131)	(0.161)	(0.197)
Bandwidth type	MSERD	MSERD/2	2MSERD	CERRD	MSERD
Polynomial	Linear	Linear	Linear	Linear	Quadratic
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Table 9: BASELINE RESULTS: AFD VICTORY FOR THE LAST SEAT AND INDIRECT POLICY OUTCOMES

Note: This table reports regressions of the treatment dummy on local tax rates during the term followin the 2019 elections (2020-2024). We average the data for each outcome over all available years. Panel A shows results for total adjusted local expenditures. Panel B shows results for the number of asylum seekers. Panel C shows results for the number of unemployed. For each outcome, we report results for the full sample and for a sample restricted to those municipalities where the AfD was able to fill all seats, as well as with and without pre-treatment control variables. The pre-treatment control variables are averaged over all years of the previous term (2015-2019) and included as logs. The following controls are included in all models with control variables: population size, gender ratio, number of employees, number of unemployed, and business tax revenues. In each model, we additionally include the average of the respective outcome variable in the previous legislative term. Standard errors are robust to heteroscedasticity and clustered at the level of municipalities.

8 Extensions

We now study whether the effects of an AfD victory for the last seat vary depending on the composition of the council. We focus on two council characteristics that are arguably consequential for policy choices in the Saxonian setting. First, the share of self-employed councilors. As discussed in Section 4.2, AfD candidates are disproportionately often self-employed. As such, one additional councilor from the AfD could be more effective in influencing policy when the proportion of self-employed councilors in the council is higher: self-employed councilors – irrespective of their party affiliation – could vote together on issues of common interest.

Second, we explore heterogeneity by the ideological composition of the council. Even without formal agreements, additional AfD councilors could be more consequential for policies in councils with many "right-wing" councilors, at the very least because left-wing parties might find it harder to block policies that are pushed by AfD councilors.

In the German context, the two major parties that are traditionally considered right-wing are the CDU and the FDP. The AfD also markets itself as a right-wing party, specifically as a more "conservative" version of the CDU. Along some dimensions, the AfD candidate lists are clearly to the right (i. e, less "progressive") than those of the CDU. For example, the AfD has even fewer women in its ranks than the CDU. Along other dimensions, AfD candidates are, as discussed, similar to FDP candidates, notably with respect to the occupational background and the propensity to be self-employed.

8.1 Heterogeneity in tax policy

In Table 10, we study heterogeneity by the share of self-employed in the council with respect to tax policy. We report two sets of results. In Panel A, we focus on self-employed AfD councilors. In Panel B, we study the overall share of self-employed councilors. We divide councils by whether they have at least one self-employed councilor from the AfD (Panel A) and by whether the share of self-employed councilors from any party is at least 10% (Panel B). We then re-estimate Equation 10 for each of the three local tax rates with these two subsamples and the respective classification of low and high number of self-employed.

As in the baseline, we report results with and without controls as well as results for the full sub-sample and a restricted sub-sample of municipalities where the AfD was able to fill all seats it had won. Overall, we find no consistent evidence for effect heterogeneity. An additional AfD councilor is neither more or less effective when the share of other self-employed councilors is high.

In Table 11, we study whether tax policy shows heterogeneous effects with respect to the existing share of "right-wing" councilors when the AfD wins an additional seat. As discussed, we classify councilors from the CDU and FDP as right-wing. Anecdotally, the "Free Voter Initiatives", which field a large share of councilors, are often considered to be as right-wing as well. However, we classify them as politically "neutral" as they are typically focused on local issues and lack a consistent state-wide policy program. We divide municipalities by whether the share of CDU and FDP councilors exceeds 30% and re-estimate Equation 5 for each of the three local tax rates with these two subsamples. However, as with

respect to the share of self-employed, we find no consistent evidence for heterogeneous effects: a higher share of right-wing councilors does not make an additional AfD councilor more or less effective.

	(1) Business	(2) tax	(3) Residential pro	(4) perty tax	(5) Agricultural pro	(6) operty tax
	Low	High	Low	High	Low	High
Panel A: Self-employed AfD co	uncilors					
A1: without controls, full sample						
AfD victory	-0.001	-0.001	0.044	-0.025	-0.018	0.035
	(0.013)	(0.013)	(0.028)	(0.027)	(0.032)	(0.027)
A2: with controls, full sample						
AfD victory	0.010*	0.010*	0.004	0.004	-0.012	0.022
	(0.005)	(0.005)	(0.008)	(0.008)	(0.012)	(0.022)
A3: without controls, restricted s	ample					
AfD victory	0.014	0.037	0.065	0.023	-0.040	0.085
	(0.018)	(0.031)	(0.043)	(0.052)	(0.045)	(0.061)
A4: with controls, restricted sam	ple					
AfD victory	0.009	0.024	0.020	0.016	0.003	0.085
	(0.007)	(0.018)	(0.015)	(0.020)	(0.010)	(0.061)
Panel B: Self-employed council	ors from all parties					
B1: without controls, full sample	-					
AfD victory	0.019	0.007*	0.006	0.001	-0.006	0.024
-	(0.012)	(0.004)	(0.009)	(0.013)	(0.020)	(0.030)
B2: with controls, full sample						
AfD victory	0.012	-0.011	0.029	-0.043	0.033	0.024
	(0.016)	(0.015)	(0.019)	(0.031)	(0.031)	(0.030)
B3: without controls, restricted s	ample					
AfD victory	0.039**	0.006	0.035	0.103**	-0.013	0.052
	(0.016)	(0.025)	(0.026)	(0.046)	(0.036)	(0.049)
B4: with controls, restricted sam	ple					
AfD victory	0.009	0.007	0.015	0.014	0.014	0.052
	(0.006)	(0.011)	(0.009)	(0.018)	(0.012)	(0.049)
Bandwidth type	MSERD	MSERD	MSERD	MSERD	MSERD	MSERD
Polynomial	Linear	Linear	Linear	Linear	Linear	Linear

Table 10: EXTENSIONS: AFD VICTORY AND THE SHARE OF SELF-EMPLOYED IN THE COUNCIL

Notes: This table reports regressions of the treatment dummy on local tax rates during the term followin the 2019 elections (2020-2024). We average the data for each outcome over all available years. We study effect heterogeneity by splitting the sample according to the share of self-employed councilors. Models (1),(3), and (5) are estimated with a busbample of municipalities with a high share of self-employed councilors. Models (2), (4), and (6) are estimated with a subsample of municipalities with a low share of self-employed councilors. In Panel A, a municipality is considered to have a high-share of self-employed councilors. If the seat share of self-employed councilors, if the seat share of self-employed councilors if it has at least one self-employed councilors, a municipality is considered to have a high share of self-employed councilors. If the seat share of self-employed councilors, if the seat share of self-employed councilors (from any party) exceeded 10%. Otherwise, a municipality is considered to have a low share of self-employed councilors. For each outcome, we report results for the full sample and for a sample restricted to those municipalities with a seat be to fill all seats, as well as with and without pre-treatment control variables. The outcome (dependent variable) in Columns (1)-(2) is the business tax rate (*Gewerbesteuer*), in columns (3)-(4) the residential property tax rate (*Grundsteuer A*). The pre-treatment control variables are averaged over all years of the previous term (2015-2019) and included as logs. The following controls are included in all models with control variables: population size, gender ratio, number of employees, number of unemployed, and business tax revenues. In each model, we additionally include the average of the respective outcome variable in the previous legislative term. Standard errors are robust to heteroscedasticity and clustered at the level of municipalities.

Table 11: EXTENSIONS: AFD VICTORY AND THE SHARE OF RIGHT-WING COUNCILORS

	(1)	(2)	(3)	(4)	(5)	(6)
	Business tax		Residential property tax		Agricultural property tax	
	Low	High	Low	High	Low	High
A1: without controls, full sample						
AfD victory	-0.001	0.008	0.005	-0.003	0.046*	-0.003
	(0.013)	(0.017)	(0.022)	(0.038)	(0.025)	(0.037)
A2: with controls, full sample						
AfD victory	0.003	0.015*	0.009	-0.004	-0.002	-0.003
	(0.004)	(0.008)	(0.009)	(0.011)	(0.006)	(0.037)
A3: without controls, restricted sample						
AfD victory	0.037*	0.047	0.053	0.089	-0.013	0.046
	(0.019)	(0.029)	(0.037)	(0.063)	(0.035)	(0.042)
A4: with controls, restricted sample						
AfD victory	0.002	0.014	0.005	0.024*	-0.003	0.046
	(0.004)	(0.009)	(0.006)	(0.014)	(0.007)	(0.042)
Bandwidth type	MSERD	MSERD	MSERD	MSERD	MSERD	MSERD
Polynomial	Linear	Linear	Linear	Linear	Linear	Linear

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8.2 Heterogeneity in indirect policy outcomes

In Table 12, we study effect heterogeneity of an AfD victory with respect to the share of self-employed councilors on non-tax outcomes. As in the baseline, the non-tax outcomes are total expenditures, the number of asylum seekers, and the number of unemployed. However, we again find no consistent evidence for heterogeneous treatment effects. AfD councilors are neither more nor less effective in influencing non-tax outcomes when the share of self-employed councilors is higher.

In Table 13, we study effect heterogeneity with respect to the share of right-wing councilors. Here, we find some evidence for effect heterogeneity in the restricted sample – where actual AfD representation increases with an AfD victory. AfD councilors appear to be more effective in cutting expenditures when the share of other "right-wing" councilors is low. On the other hand, the number of asylum seekers increases with an AfD victory when the share of right-wing councilors is otherwise low.

The latter two findings indicate that the marginal impact of an AfD councilor varies depending on context. When few other right-wing councilors are in the council, an additional AfD councilors seem to be consequential to push through budget cuts (or a slower increase in expenditures). This may be because AfD councilors vote against projects that are preferred by left-wing councilors, thus reducing overall expenditures. On the other hand, municipalities with an additional AfD councilor, but with fewer other right-wing councilors, appear to receive or retain more asylum seekers. This indicates that AfD councilors are less effective in achieving this particular policy goal when few other right-wing councilors are in the council.

	(1) Adjusted expendi	(2) tures	(3) Asylum seeker	(4) s	(5) Unemployed	(6)
	Low	High	Low	High	Low	High
A1: without controls, full sample						
AfD victory	-0.068	0.014	0.005	-0.507	0.401	-0.717
	(0.072)	(0.089)	(0.677)	(0.764)	(0.860)	(0.573)
A2: with controls, full sample						
AfD victory	-0.068	0.014	0.005	-0.507	0.401	-0.717
	(0.072)	(0.089)	(0.677)	(0.764)	(0.860)	(0.573)
A3: without controls, restricted sample						
AfD victory	-0.042	0.096	0.965	-0.482	1.073	0.129
	(0.080)	(0.075)	(0.841)	(1.229)	(1.225)	(1.186)
A4: with controls, restricted sample						
AfD victory	-0.072***	-0.106	0.577	-0.676	0.363*	0.129
	(0.028)	(0.074)	(0.385)	(0.535)	(0.209)	(1.186)
Bandwidth type	MSERD	MSERD	MSERD	MSERD	MSERD	MSERD
Polynomial	Linear	Linear	Linear	Linear	Linear	Linear

Table 12: EXTENSIONS: INDIRECT POLICY OUTCOMES AFTER AN AFD VICTORY AND THE SHARE OF SELF-EMPLOYED IN THE COUNCIL

Notes: This table reports regressions of the treatment dummy on three non-tax outcomes during the term following the 2019 elections (2020-2024). We average the data for each outcome over all available years. We study effect heterogeneity by splitting the sample according to the share of self-employed councilors. Models (1),(3), and (5) are estimated with the subsample of municipalities with a log hard or self-employed councilors. Models (2), (4), and (6) are estimated with a subsample of municipalities with a low share of self-employed councilors. Models (2), (4), and (6) are estimated with a subsample of municipalities with a log hard or self-employed councilors. Models (2), (4), and (6) are estimated with a subsample of municipalities with a low share of self-employed councilors. For each outcome, we report results for the full sample and for a sample restricted to those municipalities where the AfD was able to fill all seats, as well as with and without pre-treatment control variables. The outcome (dependent variable) in Columns (1)-(2) is total adjusted local expenditures, in columns (3)-(4) the number of asylum seekers, and in columns (5)-(6) the number of unemployed. The pre-treatment control variables are averaged over all years of the previous term (2015-2019) and included as logs. The following controls are included in all models with control variables: population size, gender ratio, number of unemployed, and business tax revenues. In each model, we additionally include the average of the respective outcome variable in the previous legislative terms. Standard errors are robust to heteroscedasticity and clustered at the level of municipalities.

 Table 13: EXTENSIONS: INDIRECT POLICY OUTCOMES AFTER AN AFD VICTORY, HETEROGENEITY BY THE SHARE OF "RIGHT-WING" COUNCILORS

	(1)	(2)	(3)	(4)	(5)	(6)
	Adjusted expenditures		Asylum seekers		Unemployed	
	Low	High	Low	High	Low	High
A1: without controls, full sample						
AfD victory	0.064	-0.068	0.900	-1.104*	-0.957	0.079
	(0.105)	(0.085)	(0.720)	(0.627)	(0.599)	(0.914)
A2: with controls, full sample						
AfD victory	-0.002	-0.091*	0.127	-0.188	-0.162	0.079
	(0.041)	(0.052)	(0.376)	(0.316)	(0.157)	(0.914)
A3: without controls, restricted sample						
AfD victory	-0.152***	0.070	2.553***	-0.744	0.519	1.224
	(0.054)	(0.126)	(0.702)	(0.933)	(0.896)	(1.315)
A4: with controls, restricted sample						
AfD victory	-0.121***	-0.074	1.338***	-0.049	0.193	0.055
	(0.033)	(0.068)	(0.497)	(0.470)	(0.179)	(0.265)
Bandwidth type	MSERD	MSERD	MSERD	MSERD	MSERD	MSERD
Polynomial	Linear	Linear	Linear	Linear	Linear	Linear

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9 Conclusion

In this paper, we study the characteristics of grassroots political candidates that compete on the ticket of a new and electorally successful populist party, the AfD in Saxony. We find that AfD candidates largely represent a new selection of politicians. They differ in important dimensions from candidates of other parties and had not run for (local) political office in previous elections.

We then study how AfD representation in municipal councils affects local policy and broader municipality-level outcomes. Using a close-election RD design tailored to proportional electoral systems, we find that the implications of the AfD winning an additional seat are limited, at least in the shortto medium-term. Neither tax policy, which is under the direct control of the local council, nor other key outcomes that can be indirectly influenced by local governments, such as the number of refugees settled within a municipalities, are affected by a quasi-randomly induced higher AfD representation. Only in certain contexts – notably when the share of councilors from other "right-wing" parties is small, an additional AfD councilor seems to be consequential. In fact, with respect to policies toward the settlement of asylum seekers, the effect is the opposite of what is promised by the AfD: an additional AfD councilor increases the number of residing asylum seekers.

Overall, these findings imply that despite the rhetoric of being an anti-establishment party, the AfD's substantive effects on policy choices are small. This can be explained by the selection of AfD candidates. Rather than being societal outcasts, AfD candidates are disproportionately often self-employed and pensioners, demographics that tends to be more established within their localities. As such, it appears that the anti-establishment rhetoric of populist politicians – at least at the grassroots-level – is mainly a tool to gain political power and any informal (or financial) benefits it entails, rather than a sincere reflection of political beliefs.

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Online appendix

	(1.000)		(D. 1.00)	(7.17.)	(01.)
(Var)	(AfD)	(Control)	(Diff)	(Std.Err.)	(Obs)
Log(Population)	8.86	7.86	1.00***	0.08	419
Female to Male ratio	1.02	1.01	0.01***	0.00	419
Share > 65	26.35	25.74	0.61*	0.33	419
Share < 15	12.76	12.95	-0.19	0.15	419
Log(revenues)	16.26	15.20	1.06***	0.09	419
Log(debt)	5.86	5.55	0.31**	0.13	418
Businesss tax	394.99	391.38	3.61**	1.78	419
Property tax A	311.53	312.76	-1.23	2.83	419
Property tax B	416.26	412.68	3.58	3.51	419
Gymnasium p.c.	0.03	0.01	0.02***	0.00	418
Unemployment rate	3.33	2.76	0.57***	0.10	418
Asylum seeker rate	4.76	2.50	2.26***	0.57	419
Housing transfer rate	0.94	0.70	0.24***	0.04	418

Table A.1: AFD VS. CONTROL MUNICIPALITIES

Notes: This table provides t-tests on municipality characteristics to compare municipalities with and without AfD representation. Variables are averaged by municipality over the election period 2014-2018, revenue and debt refer to per capita values. Stars indicate significance levels at 10%(*), 5%(**) and 1%(***).

Table A.2: Impact of AfD affilition on candidate characteristics including municipality fixed effects

Dependent Var.	AfD affiliation	Std. Error	Constant	Obs.
Age	0.80	0.53	50.31	11,041
Female	-0.09***	0.01	0.30	14,776
Self-employed	0.04***	0.01	0.06	13,464
Tertiary education	-0.10***	0.01	0.04	13,464
PhD degree	-0.03***	0.01	0.05	13,464
Farmer	0.01	0.01	0.02	13,464
Pensioner	0.03***	0.01	-0.01	13,464

Notes: This table reports results from linear and linear probability regressions including municipality fixed effects, where each candidate charakteristik is regressed on a dummy, indicating AfD affiliation (1) or not (0), controlling for population size. The coefficients are estimated in a linear probability model, apart from the effect on age. Stars indicate significance levels at 10%(*), 5%(**) and 1%(***).