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The Growth Impact of Populism

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The rise of populism in the last two decades has motivated much work on the determinants of populist voting (see the review by Guriev and Papaioannou, 2022; Guiso et al., 2017; and Rodrik, 2017). In contrast, we still have limited knowledge about the economic and political consequences of populism. How does the economy perform after populists come to power? Is populism a threat to liberal democracy or not? These questions have not been sufficiently addressed. Moreover, most existing analyses focus on individual countries and/or on data from the last 20 or 30 years. What is missing is a bigger picture and a global, long-run perspective.

To address these questions, in a new paper (Funke et al., 2023) we build a comprehensive cross-country database on populism, identifying 51 populist presidents and prime ministers over the period 1900–2020. To code populist leaders, we rely on today's workhorse definition in political science, according to which populism is a political strategy that focuses on the conflict between "the people" and "the elites" (e.g.. Mudde. 2004). More precisely, we define a leader as populist if he or she places the alleged struggle of the people ("us") against the elites ("them") at the center of their political campaign and governing style (for example, based on this definition, Putin, Reagan or Obama cannot be classified as populists, but Bolsonaro, Berlusconi, or Trump clearly can).

For coding, we collected, digitized, and evaluated more than 20,000 pages of scientific literature on populism and identified 51 leaders that clearly fit the above definition of a populist politician. Specifically, we evaluated approximately 1,500 leaders (i.e., presidents, prime ministers, or equivalent) in 60 countries since 1900 or independence. We start in 1900 since there is little evidence of populists in government at the federal level prior to that date (in 1896 the populist William Jennings Bryan ran for president in the U.S. but lost). Using this sample, we conduct a historical analysis of the ups and downs of populist leadership around the world over the past 120 years, and assess its political and economic fallout.

Trends in Populist Leadership

Figure 1 summarizes the historical evolution of populism by plotting the proportion of independent countries in our sample of 60 countries ruled by populists in each year since 1900 (bold red line). The figure shows that populism at the country level has existed for more than 100 years, and that it has reached a historical high recently.

The first populist president was Hipólito Yrigoyen, who came to power in Argentina's 1916 general election. Since then, there have been two main peaks: during the Great Depression of the 1930s and in the 2010s. The 1980s were the low point for populists

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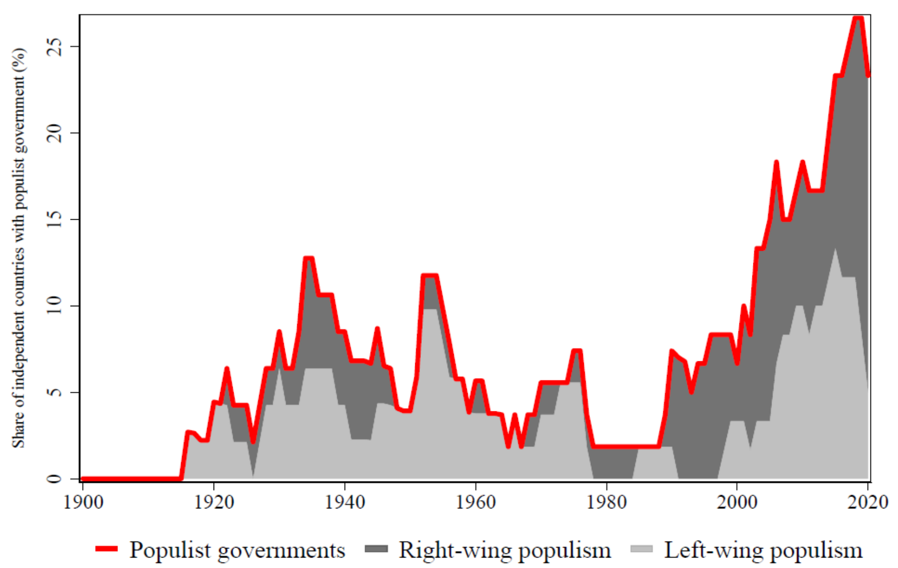
in power. However, after the fall of the Berlin Wall in 1990, populism returned with a vengeance. The year 2018 marked an all-time high, with 16 countries ruled by leaders described as populists in the political science literature (more than 25% of the sample). The recent surge is largely due to the emergence of a new populist right in Europe and beyond.

A particularly interesting new insight from our long-run data is the recurring patterns over time. Figure 2 shows the 28 countries (out of our 60-country sample) with a history of populist leadership (i.e., at least one populist government since 1900 or independence). For each country, the gray bars represent the spells of populist leadership. The key message from the figure is that government-level populism appears to be serial in nature, as it is observable in the same countries again and again. We identify long and repeated periods of populist rule. Having been ruled by a populist in the past is a strong predictor of populist rule in recent years. Interestingly, half of the countries with recurring populist spells in Figure 2 have switched from left- to right-wing populism or vice versa.

Populism has a long history and is serial in nature

Figure 1: Populists in power (share of countries in sample)



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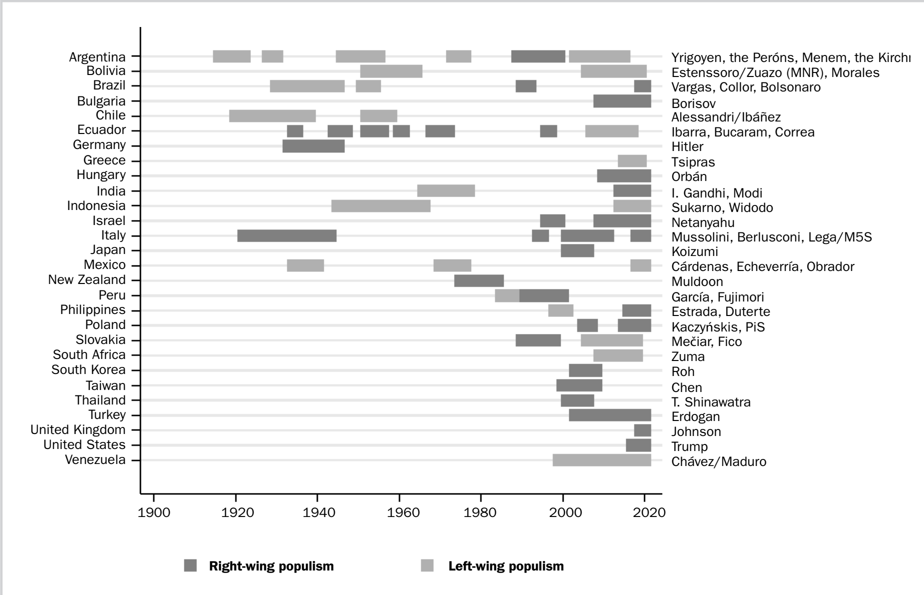


Figure 2: Recurring Patterns in Populist Leadership by Country

Populist leaders and the economy

Figure 3 provides an indication of the economic consequences we can expect from the global rise of populist politics in recent years. Panel A shows four unconditionally averaged performance gaps in annualized real GDP growth after populists come to power, inspired by Blinder and Watson’s (2016) measurement of a performance gap between Democratic and Republican presidents in postwar U.S. data. The growth impact of populism appears to be substantial. Countries underperformed by about one percentage point per year after a populist came to power, both relative to their country’s typical long-run growth rate (white bars) and to the (then) current global growth rate (gray bars). This is true in the short run of five years and in the long run of 15 years after a populist comes to power.

The results in Panel A are unconditional on the economic events surrounding the populists’ inauguration and the year-to-year dynamics, and they do not use a strict control group. All of this is particularly important because the selection of countries into populists government is unlikely to be random with respect to the economy.

Therefore, we become more rigorous in Panel B. We apply the synthetic control method (SCM) proposed by Abadie et al. (2010) to construct a *doppelgänger* for each populist spell – a synthetic control trajectory that mimics the behavior of a treated economy as if it had not experienced populist leadership. We use an algorithm to identify the optimal combination of “donor economies” that best replicates a country’s growth trend with the highest possible accuracy prior to the populist leaders’ rise to power.

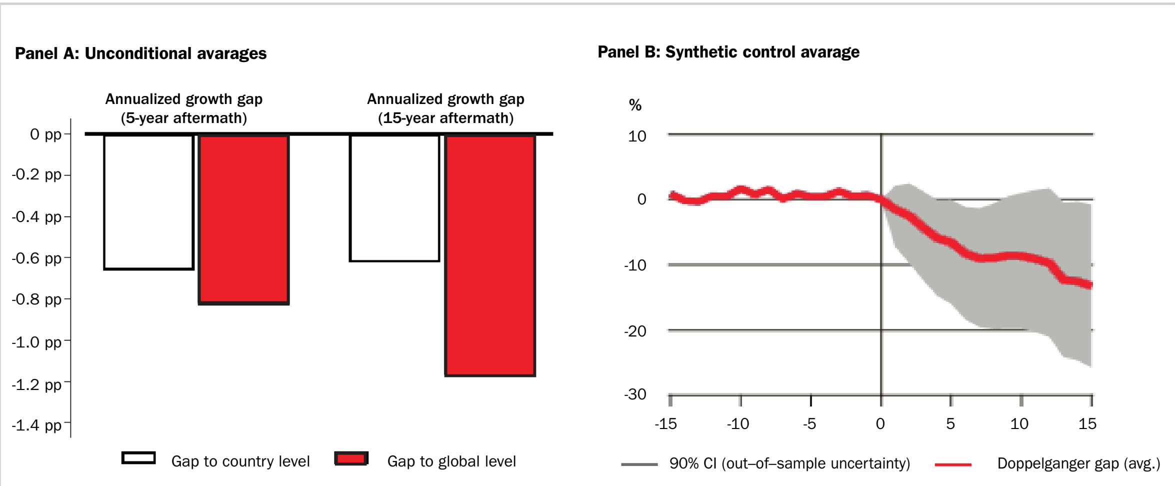
Comparing the evolution of this synthetic *doppelgänger* with the actual data for the populist economy quantifies the aggregate cost of the populist ”treatment”. We take averages of the path around the populists' inauguration and compare them to the average estimated counterfactual path. Subtracting the synthetic control from the treated series yields the *doppelgänger* gap, which measures the average growth differential due to populism.

Panel B shows the results of this exercise. The blue line is the average difference (or gap) in GDP dynamics between the treated (populist) group and the synthetic control (non-populist) group, using a time horizon of 15 years before and after coming to power.

The cumulative difference from the control economy is large, exceeding ten percentage points after 15 years. The GDP path begins to diverge visibly from the synthetic counterfactual soon after the populists enter government, and the economy does not recover. Importantly, all of these results are robust to cutting the sample along the left-right populist dimension and several other dimensions: geographic region, historical era, length of rule, and initial conditions such as financial crises before/during the election year. We also conduct "country placebo" and "time placebo" tests that support our main results.

Populist leadership is economically costly, with a notable long-run output loss

Figure 3: The economic costs of populism: Growth gaps



Populist leaders and governance quality

In our paper, we explore the mechanisms underlying this effect on economic growth. We show that populism is costly for democratic institutions. As an example, we examine the evolution of constraints on the executive. Figure 4 shows SCM results (similar to Panel B of Figure 3 on GDP) using an index of judicial constraints on the executive from the V-Dem (Varieties of Democracy) database. Higher values indicate a higher degree of judicial independence, constitutional integrity, and compliance with court decisions. As can be seen, checks and balances, as measured by constraints on the executive, decline significantly after populists come to power, especially relative to the non-populist counterfactual. These results are robust to splitting the sample into left-wing and right-wing cases. We find similar results for other institutional variables, such as electoral and press freedom.

The erosion of democratic norms can explain both the persistence and the negative economic outcomes of populism (e.g., Acemoglu et al. 2005, 2013, 2019, Guriev and Treisman 2019). For the latter – the impact on growth – we also found corroborating evidence for two other channels that are core areas of government policy and also play a prominent role in the populism literature: economic nationalism and disintegration, especially via protectionist trade policies (e.g., Born et al. 2019), and the classic macro-populism studies of Sachs (1989) and Dornbusch and Edwards (1991) on unsustainable macroeconomic policies leading to spiraling public debt and inflation.

Populism is politically disruptive, fostering instability and institutional decay

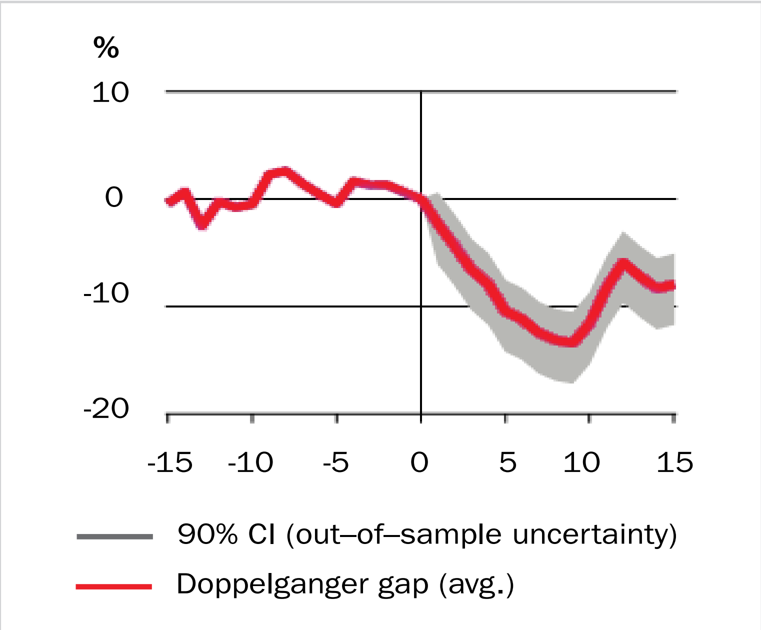


Figure 4: Political consequences of populism: Decline in judicial constraints (SCM)

Conclusion

When populists come to power, they can cause lasting economic and political damage. Countries governed by populists experience, on average, significant declines in real GDP per capita. The erosion of democratic institutions, protectionist trade policies, and unsustainable debt dynamics are common to populists in power.

Looking ahead, a key risk is the serial nature of populism. The historical data we have collected suggests that populism is a persistent phenomenon, with countries like Argentina or Ecuador experiencing populist leadership on and off since 1916. The big question is whether advanced countries will share a similar fate from now on, experiencing "serial populism" for years and decades to come. Unfortunately, history suggests that this is not an unlikely scenario.

Based on:

Funke, M. & M. Schularick & C. Trebesch (2023). Populist Leaders and the Economy. *American Economic Review* 113(12): 3249–3288.

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