

Populism and its Economic Impact: What Does the Evidence Say?



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ABSTRACT: Populism is an essentially contested phenomenon due to its complex nature. Even more difficult is to study its economic consequences. This paper aims to study populism as an economic phenomenon by reviewing literature devoted to studying its economic impacts. The paper starts with a brief overview of the concept of populism and its history. Further, it delves into economic literature that has so far tried to study its empirical effects on economies around the world. The paper seeks to investigate whether the long-held conceptions of economic theory are corroborated by empirical evidence or not.

INTRODUCTION

Populism is an idea that society is bifurcated into two diametrically opposed groups of people. For the left-wing, this means contrasting the working classes with the property-owning ones, seeking to redistribute resources from the latter to the former. The right wing's conceptualization of populism is significantly different as they generally pit one culture or ethnic group against the other. For example, a populist European politician might be opposed to the idea of allowing refugees from African countries, fearing a dilution of their culture. Though the term is often used as a kind of a political insult, the true populist leader claims to represent the unified 'will of the people', thus giving rise to policies that enjoy widespread support but which may be ultimately harmful such as free services.

Populism is a very frequently used but rarely understood word. One of the most important concepts in contemporary politics, it has influenced a number of policies around the world, from socialist South American states to even capitalist North America. The term mainly carries with itself certain negative connotations despite the fact that populist policies often are formed around the demands of people. Although populism remains a well-researched phenomenon, its implications remain understudied. Why is it that a democratic process which involves listening to people and their demands assumes a negative meaning? Why is it that populist policies are mainly discouraged and considered harmful by social scientists? Do these policies do more harm than good? What does history and experience teach us about populism and populist policies? This article shall aim to study a few of the many populist policies from across the political spectrum and their effects on people and economies.

CONCEPTUALIZING POPULISM

Between 1891 and 1892, the term populism first appeared in American publications. However, populism scholarship did not really take off until the late 1960s. The study of populism has grown exponentially since then, notably since the rise of far-right parties in Europe. With Donald Trump's election as president of the United States and the United Kingdom's decision to leave the EU (i.e., "Brexit") in 2016, populism has become a popular topic in academia and the general public. Populism has traditionally been associated with popular participation in politics and independence from special interests. On the other hand, it has recently been associated with politics of simplicity and opportunism.

The following two questions are frequently raised in academic discussions regarding populism: First and foremost, is populism democratic? Second, is it a political style, a strategy, or an ideology? Populism is intrinsically democratic, upholding the idea of "the people" as sovereign. Populism, on the other hand, is at odds with liberal characteristics of current democracies, such as minority rights, checks and balances, and the rule of law, due to its majoritarian vision of democracy and the primacy of popular sovereignty. Furthermore, populist rhetoric has the potential to justify authoritarian practices and governments.

There are two opposing methods to populism conceptualization. The organisational approach is widely used, especially among Latin American researchers. Populism is defined as "a political approach by which a personalistic leader seeks or exerts government power through direct, unmediated, uninstitutionalized support from a large number of generally disorganised followers." Scholars have recently focused on the stylistic components of populism, particularly populist politicians' "poor manners." Populism is defined as "a particular sort of political interaction between political leaders and a societal substrate, developed and expressed by "low"

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appeals" in this performative style. These appeals vary depending on the setting, and they "resonate and gain favourable reception among specific parts of society for socio-cultural historical reasons."

A CONCISE HISTORY OF POPULISM

Populism is thought to be a modern phenomena, according to scholars. According to popular belief, populism arose in Russia and the United States in the late nineteenth century and is intimately linked to the spread of democracy as an idea and a government. Populism now impacts practically all continents and political regimes, albeit it is most widespread in European and American democracies. While all populists share the same discourse, populism is a highly diverse political phenomena. Individual populist players can be liberal or conservative, left or right, religious or secular. Most left-wing populists combine populism with some form of socialism, whilst most right-wing populists mix populism with some sort of nationalism.

North America, especially the United States, has a lengthy history of populist mobilisation that dates back to the late 1800s. Almost all notable populist forces on the continent have been defined by movements with relatively limited central leadership and structure, frequently at the state level—such as Governor Huey Long in Louisiana or Premier Preston Manning in Alberta. From the late-nineteenth-century agrarian revolution to the early-twentieth-century Occupy Wall Street and Tea Party movements, populism in North America has typically evolved organically, defined by localised mobilisation and weak organisation.

Latin America has the longest and most widespread populist heritage of any continent. High levels of socioeconomic disparity combined with relatively long periods of democratic governance explain why populism has become such a powerful ideology in many Latin American countries. On the one hand, the concentration of economic and political power in a small minority makes populist language particularly appealing, as it aids in identifying the existence of a fake oligarchy that works against the people's preferences. On the other hand, the holding of reasonably free and fair elections on a regular basis provides a platform for voters to express their unhappiness with the current situation.

Even though one of the two original agrarian populist groups arose in Russia at the end of the nineteenth century, populism has had a minor existence in Europe in the twentieth century. The hardships of the peasantry in feudal tsarist Russia gave rise to Russian populism. It demanded democratic reforms to safeguard peasants from both landlordism and agricultural commercialization. Populism did not become a significant political force in Europe until the late 1990s. Populist radical right parties arose across Europe in response to dissatisfactions with the effects of both older and recent transformations of European politics and society, such as European integration and immigration, with varying degrees of electoral and political success. These parties combine populism with two other ideologies: authoritarianism and nativism.

Beyond the three main regions of North America, Europe and Latin America that have been home to the ideology of populism, one can also find traces of the phenomenon around the world in different regions. In other parts of the world, populism is on the rise, particularly in Southeast Asia, the Middle East, and Sub-Saharan Africa. Populism can be found among both ruling and opposition factions in these largely electoral democracies. Given these regions' greater economic, social, and political diversity, it's more difficult to discern obvious trends, yet certain common qualities of populist players can be identified.

POPULISM AS AN ECONOMIC PHENOMENON

Funke et al (2020) analyze the economic effects of populism by building a comprehensive dataset of nearly 50 populist leaders during the period 1900-2018. They find that when under a populist leader, countries underperformed by nearly one percentage points per year, both in the short-run and the long-run. Not only this, they also find that populism is not good for democratic institutions. They conclude that after populists come to power, checks and balances decline significantly. After studying more than 40 populist governments, the authors realized that populists rarely leave office without drama, and this creates uncertainty in the economy and business circles, which is often accompanied with unsustainable macroeconomic policies that result in higher levels of public debt and inflation. The authors conclude that populists can do lasting damage, both in economic and political spheres. Unfortunately, they find that populism is highly serial in nature, i.e., once populism finds a place in a country's political stage, it is hard to get out of its clutches. For example, countries like Argentina and Ecuador have witnessed populist leadership on an on-and-off basis for more than a hundred years now. A major limitation of the study is that it does not study the effects of right-wing populism and left-wing populism separately. Given that both types of populism are inherently different and give rise to very different sets of policies, it is important that they are also analyzed separately.

Edwards (2019) recognizes that the most recent wave of populism is overwhelmingly right-wing in nature and thus, the results of populism cannot be generalized to movements and parties across the populist spectrum. One must study the effects of right-wing and left-wing populism differently. However, this remains a fairly difficult task as right-wing populism is much more difficult to classify and analyze with respect to economic policy outcomes and consequences. It often oscillates between an anti-free trade and sometimes a nationalist stance. Contrary to its left-wing counterpart, it is more common in high-income countries and thus requires a different approach to analysis. Examples of such populism include the Trump administration's anti-immigrant policy, Brexit or trade barriers. As may be evident, the impact of these policies on economies is difficult to tease out, however, some have tried to do so nevertheless. Jones (2021) argues that the main channel through which right-wing populism affects the economy is through

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creation of uncertainty and institutional disruption. He explains that populist moves such as the trade policies under the Trump administration as well as the decision of Brexit created a lot of uncertainty in the business environment and this led to diminished investment and trade. Moreover, trade protectionism by right-wing populist governments erodes trust between countries and invites retaliatory action. Diminished trust may reduce cooperation between countries in areas other than trade, such as global health and pandemic. Lastly, the author explains with the help of evidence how right-wing populist practice of restricting immigration to 'protect jobs' of the native population leads to inefficient labor allocations, reduced output and a fall in trade opportunities. Similar findings are echoed by Kyle and Mounk (2018).

Dornbusch and Edwards (1991) draw on the experience of a number of Latin American countries such as Brazil, Chile, Mexico, Argentina, Peru and Nicaragua to argue that left-wing populism also led to disastrous effects for those very people who were supposed to be the beneficiaries of the populist policies. Absher et al (2020) confirmed these results with their analysis wherein they used synthetic control to create counterfactuals for four regimes Venezuela, Nicaragua, Bolivia and Ecuador. They find that leftist populist policies have had a significantly negative and sizable average effect on income. To be specific, they found that three out of four countries in their study ended up over 20% poorer on average than they would have had in the absence of these populist regimes. They found significant effects on real per-capita GDP in Venezuela, Nicaragua and Bolivia. They also try to investigate whether national income was sacrificed to improve inequality or health, as claimed by many leftists who engage in populism. The authors found no significant trade-off in reduced levels of income inequality or child health relative to what the counterfactuals predict. Unfortunately, beyond the studies of Latin American countries, there is very little rigorous empirical evidence on the consequences of left-wing populism.

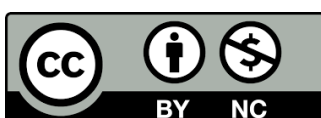
Rodrik (2018) however, does not consider economic populism to be bad for economics always. He explains this with the example of Franklin Roosevelt's policies in the aftermath of the Great Depression. According to him, saving the market and democracy during that time required a significant overhaul of the established economic majority that weren't inherently in the favor of the whole nation and use of populist measures, albeit his analysis provides a defense of only economic populism and not its political counterpart.

CONCLUSION

To conclude, the few studies conducted so far have highlighted populism as a damaging policy that has had lasting negative impacts on economies the world over. Though economic and political theory have long predicted the consequences of populism, there is a clear lack of empirical evidence when it comes to studying the phenomenon. Given that populism, both left-wing and right-wing, is on a rise, it is absolutely essential that more research is devoted to studying its result and consequences.

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