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# Does Populism Influence Economic Policy Making? Insights from Economic Experts Around the World

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*Dorine Boumans*

# Does Populism Influence Economic Policy Making? Insights from Economic Experts Around the World

Dorine Boumans
ifo Institute.

## INTRODUCTION

Populism in various forms is present across countries and regions. The recent resurgence of populism in Europe and the United States has attracted growing attention from the media, but also from political scientists and economists. The main underlying idea of populist rhetoric in representative democracies focuses on the dichotomy between the people and the ruling elite: Kaltwasser and Taggert (2016) suggest that populism can be defined as "a thin-centred ideology that considers society to be separated into two homogenous and antagonistic groups: 'the pure people' and 'the corrupt elite', and argues that politics should be an expression of the *volonté generale* (general will) of the people." The identity of these people, or '*volonté generale*', and the elite can differ from region to region. In Europe populism is often associated with right-wing politics; while in Latin America, on the other hand, populistic politics are frequently associated with the left. Populism is not the same across the world: different countries and regions can have different conceptualisations of "the pure people" and "the corrupt elite".

Financial crises are notorious for their impact on party politics (Ramiro and Gomez 2017; Funke, Schularick, and Trebesch 2016). Voters have punished incumbents amidst negative perceptions of the state of the economy, a collapse of growth figures and surging unemployment. Right and left wing populist parties may have gained electoral weight, but the variety and extent of their influence differs significantly. A recent report by the European Economic Advisory Group (Andersen et al. 2017) defines the populist economic agenda as "characterised by short termism, the denial of intertemporal budget constraints, the failure to evaluate the pros and cons of different policy options as well as trade-offs between them". Focusing on Europe, they characterise populist economic policy as expansionary, emphasising the benefits of more public spending or lower taxes. Globalisation and international trade is pictured by populist parties as a process in which large portions of the domestic population lose out.

Despite the bulk of academic and journalistic output on populist parties and politicians, the overall picture remains unclear. There is a great deal of in depth knowledge about individual countries, but the larger picture is incoherent. Timbro's Populist Index is one project that tries to address this issue for Europe (Heinö 2016). However, no studies to date have attempted to assess the general impact of populism worldwide. To shed more light onto the different populistic movements and their economic impact across the globe, this article discusses the results of the special question that was asked on populism in April 2017 in the World Economic Survey (Boumans 2017).

## ASK THE EXPERTS: THE WORLD ECONOMIC SURVEY

The World Economic Survey (WES), compiled by the ifo Institute since 1981, aims to provide a timely and accurate picture of the current economic situation, as well as economic trends in over 100 key advanced, emerging or developing economies by polling over 1,000 economic experts on a quarterly basis. In selecting experts the emphasis is placed on their professional competence in economic matters and inside knowledge of their countries. In addition to the assessment of macroeconomic variables, every quarterly survey features a one-off special question covering a relevant political or economic issue around the world. In April 2017 the following questions were asked: "Has the role of populism changed in your country in the last five years?" Possible answers were "decreased significantly", "decreased moderately", "unchanged", "increased moderately", and "increased significantly". In addition, respondents were asked to indicate which political parties they consider responsible for the rise of populism in their country. The second question was related to economic policy making: "In your country does populism in some way influence economic policy making?" Thirdly, respondents were asked to indicate the effects of populism on economic policy making. They could choose from "increase in redistributive policies", "restriction of trade", "increase in short term spending", "tax cuts", "more limits on migration", "restructuring the economy" (Boumans 2017).

986 economic experts from 120 countries answered this special question. A clear majority (64%) of WES experts indicated that populism had increased in their country. A closer look at the different regions shows that the EU and/or G7 countries in particular saw a significant increase in the last five years (see Figure 1). The region where experts indicated the second largest rise in populism globally is Asia. Here 55% of the respondents indicated an increase in populism. By contrast, populism tended to wane in advanced economies, excluding the EU and G7 countries. Here 48% of experts reported no change in populism over the last five years and 31% of experts actually indicated a decrease in populism. In Latin America, a region that is also well known for its left-wing populism, only 44% of respondents indicated an increase in populism in the last five years, whereas 56% of experts indicated either no change or a decrease in populism.

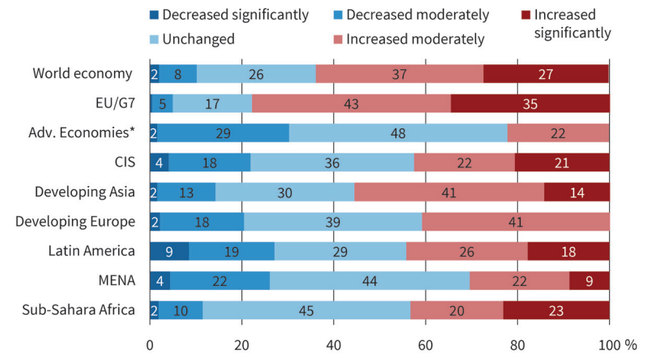




To gain a better insight into each country, we averaged the answers to the first question and mapped them onto a world map (see Figure 2). This clearly shows that in Europe, with the exception of Ireland, Portugal and Norway, experts perceive populism to have increased in the last 5 years. This is striking as Ireland and Portugal have both been shaken by the crisis. O'Malley (2008) offers an explanation for the Irish case, concluding that there has been no development of a radical right or left party in Ireland, as this position is already taken up by Sinn Fein. Although there are some similarities between Sinn Fein and radical right parties, there are major differences in their attitudes towards immigrants. The story in Norway is a little bit different. Norwegian experts clearly state that populism has not increased in the last five years. However, this may be due to the fact that a populist party has been present in Nordic politics for longer than five years. The Progress Party, now under the leadership of Siv Jensen, is Norway's second largest party with 37 seats in the Norwegian Parliament. This party, founded in 1973 as a libertarian, anti-bureaucracy and anti-establishment party, is according to Mudde (2013), more than a one-issue (anti-immigration) party. Although stricter controls over immigration is one of the party's policies, it cannot be compared to, for example, the Front National in France (Schultheis 2017). In Portugal, despite recession and high unemployment, there seems to be no increase in populism. According to the Economist, Portuguese politics remain dominated by mainstream parties, with the Left Bloc (BE) as the only exception. The BE, a Eurosceptic, anti-capitalist party on the left, was initially seen as populistic, but has adopted a more flexible position since 2011 (The Economist 2017).

Figure 1

**Has the Role of Populism Changed in Your Country in the Last 5 Years?**




*Excluding EU and G7 countries.
Source: ifo World Economic Survey (WES) II/2017.

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In Asia populism is also nothing new. After the Asian crisis in 1997 a resurgence of anti-globalisation and populism spread through south-east Asia. In Malaysia and Philippines respondents reported an increase in populism over the last five years. The current Philippine president, Rodrigo Duterte, matches up nicely with the definition of populism by Kaltwasser and Taggart. According to Juego (2017), President Duterte criticises the so-called establishments in Philippine politics, namely, the oligarchical class, the Catholic Church and the United States. WES experts also cite the PDP – Partido Demokratiko Pilipono – the party of President Duterte as the party responsible for the increase in populism.

However, populism does not only emerge in times of financial crises. In Australia the rise of populism is clearly related to the party of One Nation. Mols and Jetten (2016)point out that Australia's One Nation party is an example of a populist party that increased its share of votes during economic prosperity rather economic crises.

Besides some individual countries in Africa, the only region where individual countries also report a decline of populism on average is Latin America; and more specifically in Brazil, Peru and Argentina. However, according to the WES experts, populism gained ground in Chile, Bolivia and Paraguay. Here experts did not indicate that only one party was responsible for the increase of populism, but instead noted that all parties had turned more populistic. Although respondents in Brazil saw a decline in populism over the last five years on average, they hold the *Partido dos Trabalhadores* as the party responsible for the recent upsurge of populism.

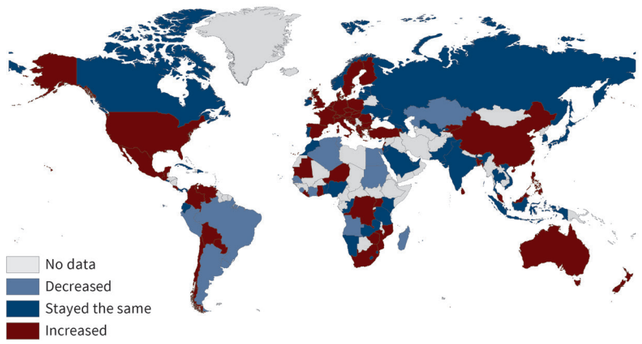
In the second question experts were asked to assess whether populism influences their country's economic policy making in some way. Populist parties do not have to gain many seats in parliament to be effective. Populist rhetoric can fuel sentiments that can pressure traditional parties into becoming more populistic too. Inglehart and Norris (2016) cite the example of the UK independence party in Britain that only won one seat in the May 2015 election. This nevertheless pressured the Conservative party to call a referendum on staying in the EU. Another example is the success of the Jobbik party in Hungary that pushed the ruling Fidesz party further to the right.

Figure 3 shows the averaged responses to the question of whether populism influences the economic policymaking in their respective country by WES experts. When comparing Figure 2 and Figure 3, it becomes clear that although the influence of populism has increased, its effect on economic policymaking has remained moderate in most countries that saw an upsurge. In Europe the exceptions to this rule are

mostly eastern European countries. Greece, Poland, Romania, and Hungary state that populism has increased in the last five years and also indicate that populism strongly influences economic policymaking (see Figure 3). According to Trimbo's Populist Index (Heinö 2016), Greece, Hungary and Poland stand out, as their political landscape is now completely dominated by populist parties. In Poland and Hungary right-wing populist parties gained more votes, whereas in Greece a more left-wing populism emerged. In Greece, the current and second cabinet of Alexis Tsipras, of the more left wing party – Syriza, is in a coalition with the more right wing and anti-austerity party Independent Greeks. The Greece respondents named Syriza and Anel as the parties responsible for the upturn in populism in Greece. In Ukraine and in Bosnia, respondents also stated that populism has affected economic policymaking. In an analysis of the Ukraine, Kuzio (2010) concludes that due to the presence of a weak political system that is highly personalised, as well as a judiciary and media that fail to hold politicians to account, populism can easily flourish. He finds that the entire Ukrainian political spectrum is influenced by populism.

Figure 2

**Change of Populism in the Last 5 Years**




Source: ifo World Economic Survey (WES) II/2017. © ifo Institute

In the United States, both the Republican and the Democratic Party have their populist examples. According to WES experts based in the US, the current president Donald Trump and Senator Bernie Sanders are responsible for the increase of populism. When comparing Figure 2 and 3, populism in the US has increased in the last five years, and its influence on economic policymaking has been strong. This might de due to the country's political system whereby one party government is the rule. In Europe, by contrast, populism has increased over the last five years, but its influence on economic policy remains moderate, with a few exceptions (Mudde 2013). In Latin America, although respondents indicated a decline in populism, they still stated that economic policymaking was strongly influenced by populism (see Figure 3). This can be attributed to a relatively high level of populism throughout the history of Latin America. Since the 1920s populism has been a part of politics in different countries across Latin America. Although populism in general might be assessed as declining as liberal democrats gain ground, its influence on economic policy making might take longer to decline (The Economist 2016). However, this remains to be seen as in the coming two years Brazil, Colombia, Venezuela and Argentina have elections. In India, most experts mention the BJP – Bharatiya Janata Party – as the party responsible for the rise of populism. This is currently the ruling party of India, and, like the United States, has a president who is very active on Twitter. According to the BJP, Narendra Modi had become the world's most followed leader on social media by January 2017. According to Sinha (2017) Modi's management of the media and social media was a key factor for his election in 2014.

To further unpack the economics of populism, a third question was asked that attempts to assess the potential economic effects of populism. Experts were asked to select possible economic outcomes applicable to their country from the list shown in Table 1. As Table 1 shows, an increase in short-term spending and the spread of redistributive policies are among the main effects of populism in all regions. On the other hand, a limit on migration is clearly a European- and advanced economies outcome. This is clearly the case for the Netherlands, where over 90% of the experts indicated restricting migration as an effect. Considerably fewer experts selected any of the other options. For the emerging and developing markets (excluding the euro area and/or G7 and other advanced economies), 40 to 50% of the experts indicated that the economy has been restructured due to the influence of populism over economic policymaking. This corresponds with what the experts indicated for India. In Argentina and the United States, over 70% of the respondents cited restriction on trade as an effect. This might not be surprising for the US, with the Trump presidency looking into renegotiating trade agreements. In Greece, over 70% of the experts indicated that an increase in redistributive policies was among the effects of populism on economic policymaking. Asia is the only region where experts judged tax cuts to be an effect of populism on economic policymaking.

Table 1

**The Effects of Populism on Economic Policy Making**

| Policy options | World Economy | Euro area and/or G7 | Other advanced economies | CIS | Developing Asia | Developing Europe | Latin America | MENA | Sub-Saharan Africa |
|---|---|---|---|---|---|---|---|---|---|
| Increase of re-distributive policies | 54.1 | 47.1 | 48.7 | 51.4 | 49.2 | 74.0 | 68.0 | 68.2 | 51.9 |
| Increase in short-term spending | 54.0 | 49.9 | 35.6 | 51.4 | 57.1 | 72.6 | 68.2 | 47.6 | 56.2 |
| More limits on migration | 43.6 | 61.0 | 63.9 | 29.2 | 19.4 | 48.9 | 11.9 | 33.3 | 18.3 |
| Restructuring the economy | 36.3 | 24.9 | 23.7 | 41.7 | 57.1 | 46.8 | 49.2 | 55.0 | 47.1 |
| Restriction of trade | 30.7 | 33.8 | 22.9 | 31.9 | 29.0 | 17.0 | 39.8 | 40.9 | 27.6 |
| Tax cuts | 26.3 | 26.6 | 28.0 | 12.7 | 33.3 | 40.6 | 18.9 | 28.6 | 23.8 |

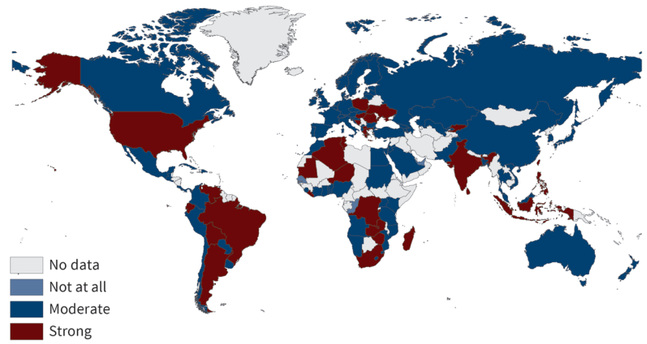
Source: ifo World Economic Survey (WES) II/2017.





Figure 3

**Influence of Populism on Economic Policy Making**




Source: ifo World Economic Survey (WES) II/2017. © ifo Institute

## CONCLUDING REMARKS

Several studies focus on the emergence, effect and impacts of populism in one or two case studies, but few provide a global overview. By asking economic experts from over 120 countries around the world, this article takes a global perspective on populism. The majority of the respondents indicated an increase of populism in their country; suggesting that populism has indeed gained surged in the last five years, and not only in Europe and the US. However, the extent and ways in which it influences economic policymaking clearly differs around the world.

In Latin America respondents indicated a decline in populism; which nevertheless continues to taint economic policymaking. In some other cases, especially in Europe, experts indicated that populism has increased in the last five years; although its effect on economic policy to date has only been moderate. Based on WES experts' assessments, we can conclude that the effects of populism in general are increasing short-term spending and re-distributive policies. However, an anti-immigration stance remains a US and European policy. In Asia the populist agenda seems to favour tax cuts, while in developing countries economic restructuring seems the preferred policy option.

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