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**Research Report**

## The Cost of Populism: Evidence from history

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## **ECONtribute**

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# **The Cost of Populism: Evidence from History**

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February 2021

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# The cost of Populism: Evidence from history

Manuel Funke, Moritz Schularick, Christoph Trebesch

16. February 2021

*The rise of populism in the past two decades has motivated much work on its drivers, but less is known about its economic and political consequences. This column uses a comprehensive cross-country database on populism dating back to 1900 to offer a historical, long-run perspective. It shows that (1) populism has a long history and is serial in nature – if countries have been governed by a populist once, they are much more likely to see another populist coming to office in the future; (2) populist leadership is economically costly, with a notable long-run decline in consumption and output; and (3) populism is politically disruptive, fostering instability and institutional decay. The analysis suggests that populism is here to stay.*

The rise of populism in the past two decades has motivated much work on the determinants of populist voting (see the review by Guriev and Papaioannou 2020, or Guiso et al. 2017 and Rodrik 2017). In contrast, we still have limited knowledge on 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 on the past 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. 2020) we build a comprehensive cross-country database on populism, identifying 50 populist presidents and prime ministers in the period 1900–2018. 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). 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 centre 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).

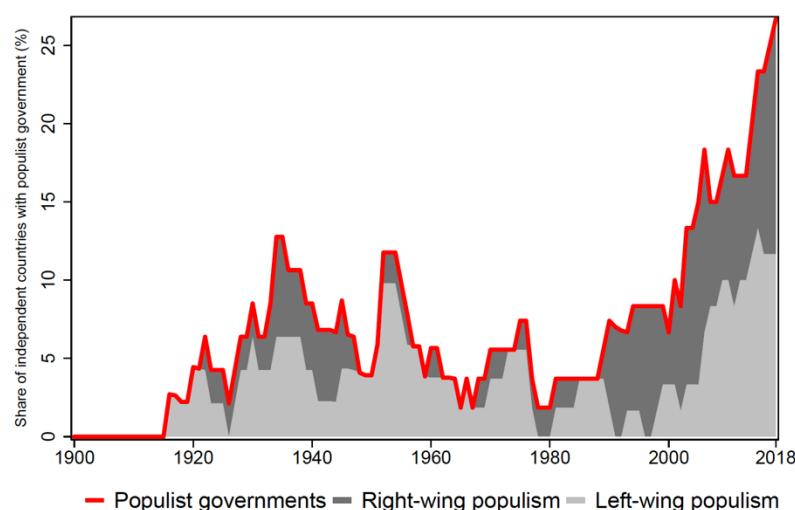
For coding, we collected, digitised and evaluated more than 20,000 pages of scientific literature on populism and identify 50 leaders that clearly fit the above definition of a populist politician. More specifically, we evaluated approximately 1,500 leaders (i.e. president, prime minister, or equivalent) in 60 countries since 1900 or independence. We start in 1900 since, prior to that date, there is little evidence of populists in government at the federal level (in 1896 the populist William Jennings Bryan ran for president in the US but lost). Using this sample, we conduct a historical analysis on the ups and downs of populist leadership worldwide over the past 120 years and we gauge its political and economic fallout. Three main takeaways emerge.

## Populism has a long history and it is serial in nature

Figure 1 summarises 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 the general election of Argentina in 1916. Since then, there have been two main peaks: during the Great Depression of the 1930s and in the 2010s. The 1980s was the low point for populists in power. However, after the fall of the Berlin Wall, from 1990 onward, populism returned with a vengeance. The year 2018 marked an all-time high, with 16 countries ruled by whom the political science literature describes as populists (more than 25% of the sample). The most recent increase can mainly be attributed to the emergence of a new populist right in Europe and beyond.

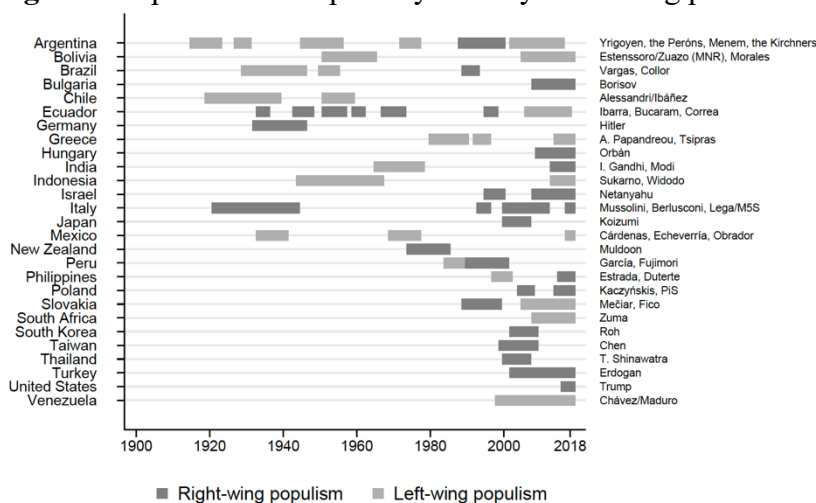
**Figure 1** Populists in power: Share of countries in sample



A particularly interesting new insight from our long-run data are the recurring patterns over time. Figure 2 shows the 27 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 grey bars represent its populist leader spells.

The key message from the figure is that populism at the government level appears to be serial in nature, as it is observable in the same countries again and again. We identify long and repeating spells 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 saw switches from left-wing to right-wing populism or vice versa.

**Figure 2** Populist leader spells by country: Recurring patterns



## Populism is economically costly

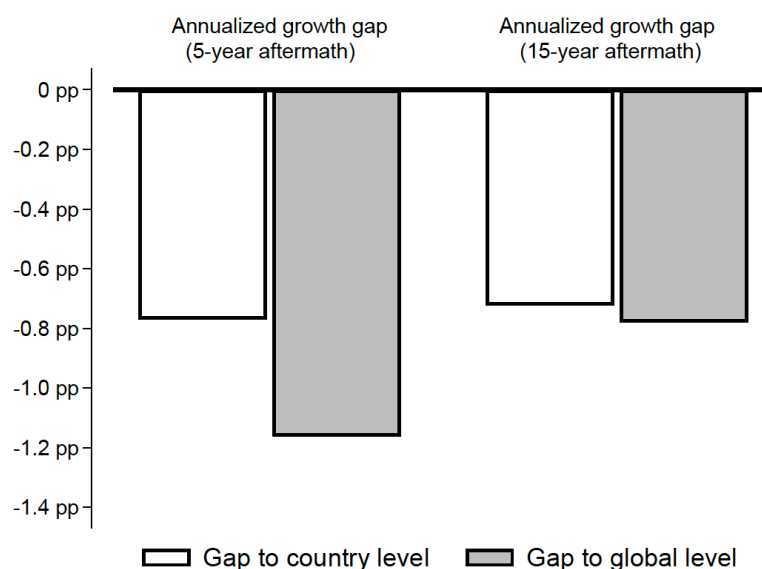
Figure 3 gives a hint of what economic consequences we can expect from the global surge of populist politics in recent years. Panel B shows four unconditionally averaged performance gaps in annualized real GDP growth after populists come to power, inspired by Blinder and Watson's (2016) measurement of a Democrat–Republican president performance gap in US postwar data. The answer is affirmative. Countries underperformed by approximately one percentage point per year after a populist came to power, both compared to their country's typical long-run growth rate (white bars) and the (then-)current global growth rate (grey bars). This is true for the short term of five years and the long term of 15 years after a populist gains power.

The results of Panel A are unconditional on economic events surrounding the populist entering into office and year over year dynamics, and they do not use a strict control group. All this is especially important since the selection of countries into the populist government is likely not random with regards to the economy.

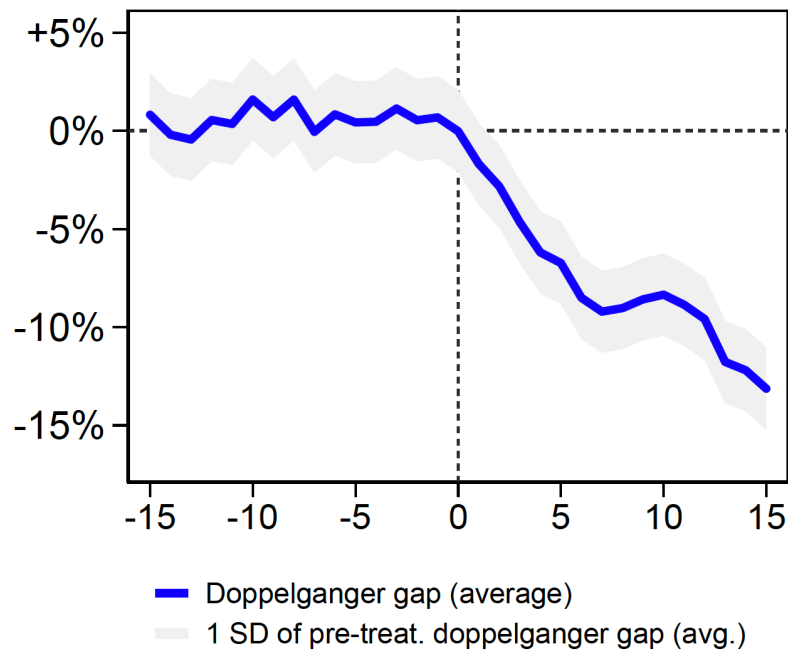
This is why we get more rigorous in Panel B. We apply the synthetic control method (SCM) proposed by Abadie et al. (2010) to construct a doppelganger for each case, using an algorithm to determine which combination of 'donor economies' matches the growth trend of a country with the highest possible accuracy before the populist comes to power.

Comparing the evolution of this synthetic doppelganger with actual data for the populist economy quantifies the aggregate costs of the populist 'treatment'. We take averages of the path around the populists' entries into in office and compare them to the average estimated counterfactual path. Subtracting the synthetic control from the treated series results in the doppelganger gap that measures the average growth difference due to populism.

**Figure 3** The economic costs of populism: Growth gaps



Panel B: Synthetic control average



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

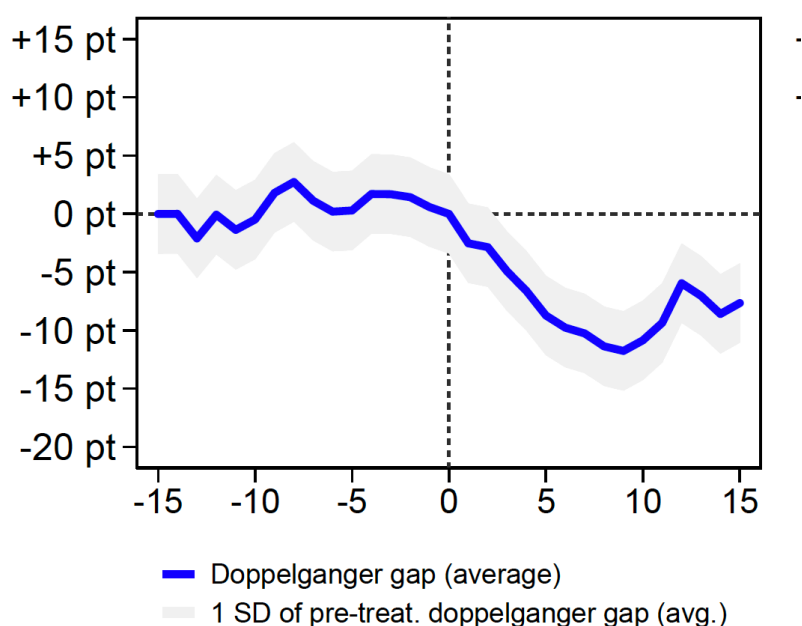
The cumulative difference to the doppelganger economy is large, exceeding ten percentage points after 15 years. The GDP path starts to diverge visibly from the synthetic counterfactual soon after populists enter government, and the economy does not recover.

Importantly, all these results are robust to cutting the sample along the left-wing versus right-wing populist dimension and several other dimensions: geographical region, historical era, length of the rule, and initial conditions, such as financial crises before/during the election year. We further conduct ‘country placebo’ and ‘time placebo’ tests that support our main results.

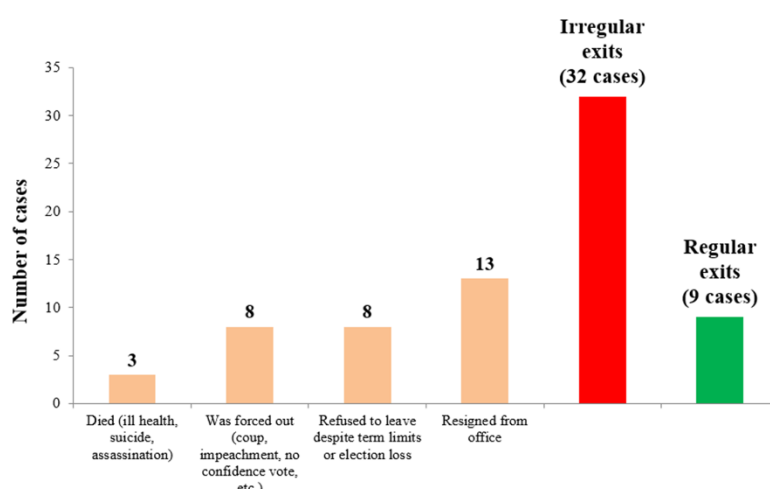
## Populism is politically disruptive

Populism is also costly for democratic institutions. To provide one example, we study the evolution of executive constraints. Panel A of 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 Varieties of Democracy (V-Dem). 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 of the executive, decline markedly after populists come to power, especially when compared to the non-populist counterfactual. These results are robust to cutting the sample across left-wing and right-wing cases. We find similar results for other institutional variables such as electoral and press freedoms.

**Figure 4** The political consequences of populism: Institutional decay and ‘messy exits’  
Panel A: Decline in judicial constraints (SCM)



Panel B: Exit patterns of populist leaders (since 1970)



As a second example, Panel B of Figure 4 provides an overview of the circumstances in which populists have left office, using the 41 more modern populist governments in our sample (since 1970, i.e. in a modern political economy environment). It shows that populists rarely leave office without drama, disregarding democratic procedures. There are only nine cases in which the populists left office in a regular manner. The large majority of exits (32 cases) were irregular, meaning that populist leaders refused to leave office despite losing an election or reaching the term limit (eight cases), they died in office (three cases), they resigned (13 cases) or were forced to resign because of a coup, impeachment or a vote of no confidence (eight cases).

The erosion of democratic norms may 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 confirming evidence for two other channels that are core fields of government policy and that also play a prominent role in the populism literature: economic nationalism and disintegration, in particular via protectionist trade policies (e.g., Born et al. 2019) and the classic Sachs (1989) and Dornbusch and Edwards (1991) macro-

populism studies on unsustainable macroeconomic policies, resulting in spiraling public debt and inflation.

## Conclusion

When populists come to power, they can do lasting economic and political damage. Countries governed by populists witness a substantial decline in real GDP per capita, on average. Protectionist trade policies, unsustainable debt dynamics, and the erosion of democratic institutions stand out as commonalities of populists in power.

Looking ahead, a main risk is the serial nature of populism. The historical data we gathered suggest that populism is a persistent phenomenon, with countries like Argentina or Ecuador witnessing on-and-off populist leadership all the way back to 1916. The big question is whether advanced countries will share a similar fate from here on, witnessing ‘serial populism’ for the next years and decades. In the light of history, this is not an unlikely scenario, unfortunately.

*Authors’ note: The views expressed herein are solely the responsibility of the authors and should not be interpreted as reflecting the views of the Federal Reserve Bank of New York or the Board of Governors of the Federal Reserve System. We thank Sergei Guriev for helpful comments and feedback on this column.*

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