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Populists in Power: Economic and Political Consequences^{*}

KEY MESSAGES

- **Populism at the government level is on the rise and we are living in a populist era**
- **Populist leaders cling to power and populism often returns to countries**
- **Populist governments are a drag on economic growth**
- **Economic nationalism and protectionism are a common feature of populists in power**
- **Populist leaders typically undermine democratic institutions**

There are now numerous academic studies that examine the reasons why citizens vote for populist parties. However, it is long past time to go one step further. In our new study (Funke et al. 2023), we examine the economic and political consequences of populism. We find that populism leads to slower economic growth, undermines democratic institutions, and can make a country more vulnerable to future populist governments.

The rise of populism over the last two decades has motivated much work on the determinants of populist electoral success – see the overview by Guriev and Papaioannou (2020), or Guiso et al. (2017), and Rodrik (2017). In contrast, we still know little about the economic and political consequences of populism.

^{*} This is an abridged, edited, and updated version of the article “Populist Leaders and the Economy” by M. Funke, M. Schularick, and C. Trebesch, published in the *American Economic Review* in December 2023. To parts of this text and the figures, the following copyright notice may apply: “Copyright American Economic Association; reproduced with permission.”

How does the economy develop after a populist government comes to power? Is populism a threat to liberal democracy or not? These questions have not yet been sufficiently investigated. Most existing analyses of populism focus on the causes and on individual countries or on data from the last 20 or 30 years. What is missing is a bigger picture and a global, historical perspective on populism.

To answer these questions, in Funke et al. (2023) we built a comprehensive cross-national database on populism and identified 51 populist presidents and prime ministers in the period from 1900 to 2020. To code populist leaders, we rely on the definition commonly used in political science today, according to which populism is a political strategy that focuses on the conflict between “the people” and “the elites” (see e.g., Mudde 2004). More specifically, we define a leader as populist if he or she places the alleged struggle of the true people (“we”) against the corrupt elites (“they”) at the center of his or her political campaign and style of governance. Based on this definition, Vladimir Putin, Ronald Reagan, and Barack Obama, for example, cannot be classified as populists, but Jair Bolsonaro, Silvio Berlusconi, and Donald Trump clearly can.

For the data collection, we collected, digitized, and analyzed more than 20,000 pages of academic literature on populism and identified 51 leaders who clearly fit the above definition of a populist. More specifically, we analyzed approximately 1,500 leaders (i.e., president, prime minister, or equivalent) in 60 countries from the year 1900 or the year in which the country in question gained its independence. We begin our survey with the year 1900, as there is little evidence of populists in government power at the country level before this date (in 1896, populist



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William Jennings Bryan ran for president in the US, but lost).

Based on this comprehensive selection of cases, we conducted a historical analysis of the ups and downs of populist governments worldwide over the last 120 years and assessed their political and economic consequences.

POPULISM HAS A LONG HISTORY AND IS SERIAL IN NATURE

Figure 1 summarizes the historical development 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 has existed at the country level for more than 100 years and that it reached a historic peak in the past decade.

The first populist president was Hipólito Yrigoyen, who came to power in the 1916 elections in Argentina. Since then, populism has experienced two major peaks: during the Great Depression in the 1930s and in the 2010s. The 1980s were the low point for populism in power. After the fall of the Berlin Wall, however, the phenomenon returned with full force from 1990 onward. The year 2018 marked a historic high with 16 countries (i.e., more than 25 percent of the sample) governed by politicians labeled as populists in the political science literature. This recent rise can mainly be attributed to the rise of a new populist right in Europe and beyond.

One particularly interesting finding from our long-term data is the recurrence of populist episodes of power over time. Figure 2 shows the 27 countries (from our 60-country sample) that have been governed by populists in the past (i.e., at least one populist government in power since 1900 or since independence). For each country, the gray bars represent the periods with populist leadership.

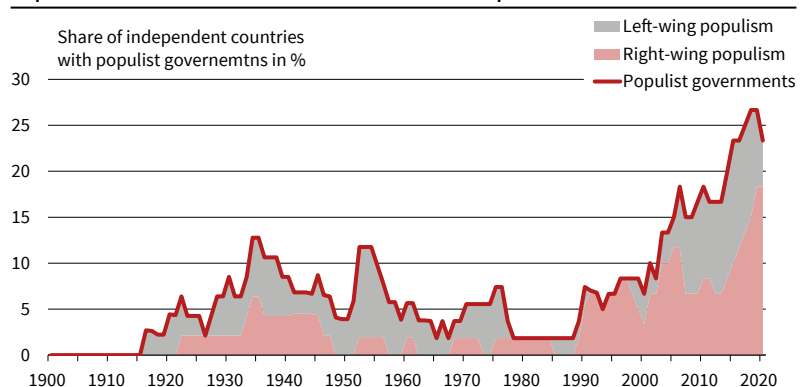
The key message of Figure 2 is that populism at the government level appears to be serial in nature, as it can be observed again and again in the same countries. We find long and recurring periods of populist governance. Moreover, our results suggest that the fact that a country has experienced a populist period of government in the past is a strong predictor of populist rule in recent years. Interestingly, in half of the countries in Figure 2 that have been repeatedly governed by populist forces, there has been a shift from left-wing to right-wing populism or vice versa.

POPULISM HAS HIGH ECONOMIC COSTS

Figure 3 gives an indication of the economic consequences we can expect from the global rise of populist politics in recent years. Panel A shows four average growth gaps in annualized real GDP growth after populists came to power. The method borrows from

Figure 1

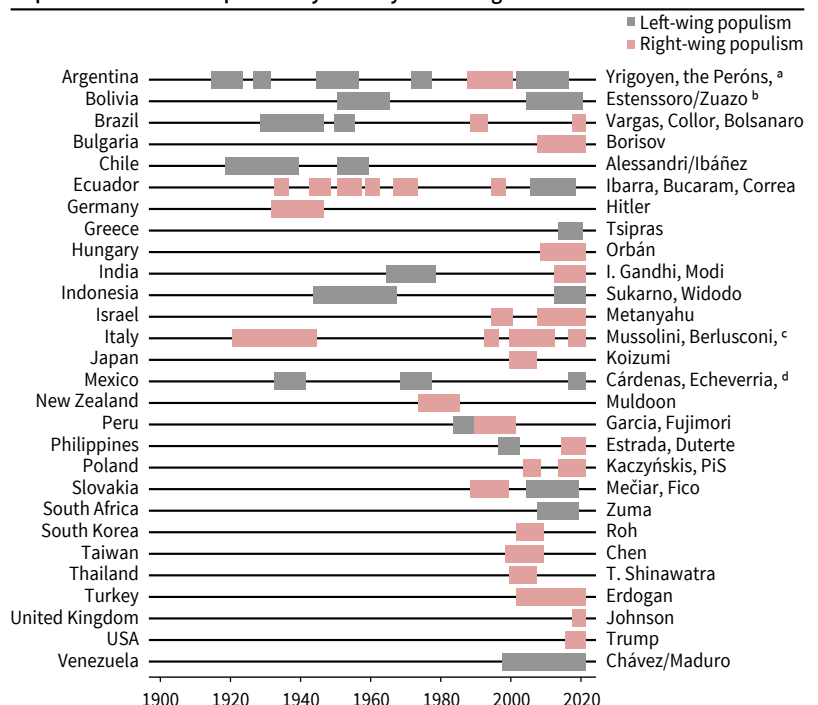
Populist Governments: Share of Countries in the Sample



Source: Funke et al. (2023).

Figure 2

Populist Government Episodes by Country: Recurring Patterns



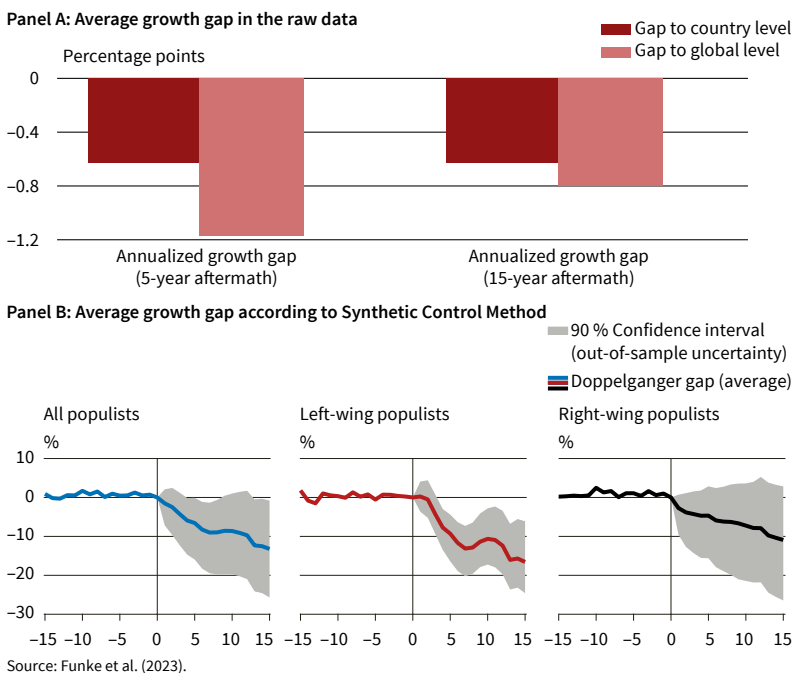
^a Menem, the Kirchners. – ^b (MNR), Morales. – ^c Lega/M5S. – ^d Obrador.
Source: Funke et al. (2023).

Blinder and Watson's (2016) measure of a potential growth gap between Democratic and Republican presidents in post-war US data. The trend from the data is clear. After a populist government came to power, countries performed about 1 percentage point worse per year compared to both their country's typical long-term growth rate (red bars) and the current (at the time of measurement) global growth rate (pink bars). This applies to both the short-term period of five years and the long-term period of 15 years after the populist government took office.

However, the results in Panel A do not consider the economic events surrounding the entry into power of the populist forces or the year-on-year dynamics, and they do not use a strict control group. All of this is particularly important, however, as the inclusion

Figure 3

The Economic Costs of Populism: GDP Growth Gaps



of a country in our group of countries with populist governments is highly unlikely to be random regarding the economy (see Funke et al. 2016).

For this reason, in Panel B we take a more scientifically rigorous approach by using the Synthetic Control Method (SCM) developed by Abadie et al. (2010) to construct a “doppelgänger” for each populist power grab. More precisely, for each case, we use an algorithm that determines which weighted combination of non-populist “donor countries” matched the growth trend of the populist-affected country with the highest possible accuracy before the populist government came to power.

Comparing the evolution of this synthetic doppelgänger with the actual data of the populist economy quantifies the total cost of the populist government episode. We calculate the average values of key indicators ± 15 years around the populist governments in our sample taking office and compare them with

their estimated counterfactual average performance. Subtracting the synthetic control values from the values of the actual populist group yields the so-called “doppelgänger gap,” which measures the average growth differential due to populism.

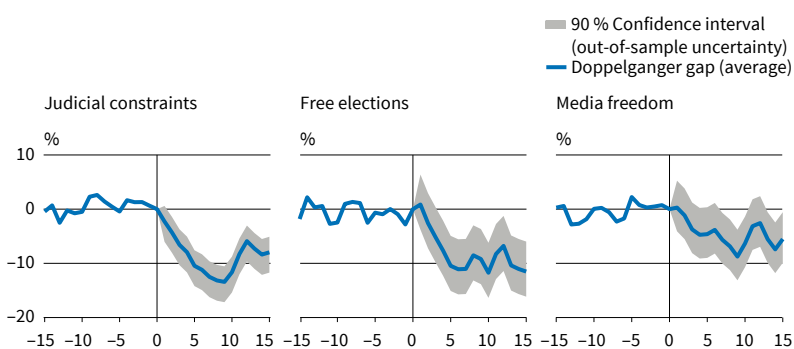
Panel B in Figure 3 shows the results of this analysis. The blue line represents the average difference (or gap) in GDP dynamics between the entire populist-governed group of countries and its synthetic control group (non-populist), based on a time horizon of 15 years before and after the start of government. The red and black lines represent the left-wing populist and right-wing populist dimensions respectively. The gray shaded areas are simulation-based confidence intervals at the 90 percent level based on the methods in Cattaneo et al. (2021) and Cattaneo et al. (2022).

The cumulative difference to the doppelgänger economy is large and amounts to more than 10 percentage points after 15 years. Soon after the populist governments take office, GDP development deviates significantly from that under the synthetic counterfactual case constellation, and the economy does not recover before the end of our observation period.

Importantly, all these results remain robust not only when we split our case selection along the dimension of left- or right-wing populism, as shown in the figure, but also for several other dimensions: geographic regions, historical era, duration of rule, and initial economic conditions, such as major financial crises before or in the election year. We also conduct “country-placebo” and “time-placebo” tests, in which we assign the populist episodes to randomly selected groups of countries and years not actually affected and apply the synthetic control method to these groups. Here we find no negative economic effects, confirming our main results for the truly affected group. The results also hold when using more rigorous SCM estimates that explicitly take into account that we consider many countries and years at once, i.e., examine both simultaneous populism in multiple countries and recurring episodes of populism within a country (Abadie and L’Hour 2021; Ben-Michael et al. 2021).

Figure 4

The Political Consequences of Populism: Institutional Decline



Source: Funke et al. (2023).

POPULISM WEAKENS DEMOCRATIC INSTITUTIONS

Populism is also costly for democratic institutions. To give three examples, here we look at the restriction of executive power by the judiciary, the freedom and fairness of elections, and the freedom of the press, before and after the populist takeovers respectively. The indices used are taken from the Varieties of Democracy (V-Dem) database. Higher values indicate a higher degree of institutional strength in each case.

Figure 4 shows the SCM results for the three institutional metrics on average for all populists in our sample (similar to the blue line in Panel B of Figure 3 on GDP). As can be seen from the negative dop-

pelganger gaps, executive control and electoral and press freedom decrease significantly with the start of populist regimes, compared to the otherwise identical situation without populist leadership. These results also remain robust when the sample is divided into left- and right-wing populist governments. The erosion of democratic norms can explain both the serial nature or persistence and the negative economic consequences of populism (see e.g., Acemoglu et al. 2005; Acemoglu et al. 2013; Acemoglu et al. 2019; Guriev and Treisman 2019).

ECONOMIC NATIONALISM AND SHORT-SIGHTED MACRO POLICIES

In terms of the potential causes of GDP loss under populism, we find confirmation in the data for two channels of impact in particular, which are core areas of any government policy and which also play an important role in the populism literature: first, economic nationalism, particularly through protectionist trade policies (see e.g., Born et al. 2019), and, second, short-sighted macroeconomic policy measures that lead to rising government debt and inflation, as already outlined in the classic macro-populism studies by Sachs (1989) and Dornbusch and Edwards (1991).

The results are shown in Figure 5, again using the SCM (doppelganger gap). Panel A indicates higher import tariffs and lower trade and financial transactions with foreign countries under populist economics. Panel B shows, albeit somewhat less precisely measured, increased government debt and inflation after the populist takeover compared to the control group.

CONCLUSION AND POLICY IMPLICATIONS

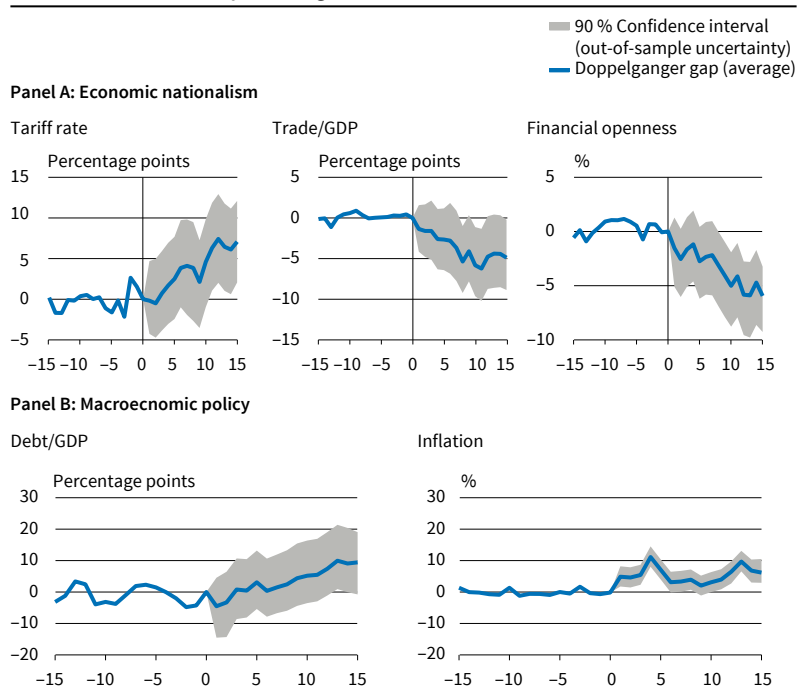
Populist governments can cause lasting economic and political damage. On average, countries with populist regimes experience a significant decline in real GDP per capita. The erosion of democratic institutions, protectionist trade policies, and accelerated debt dynamics are typical characteristics of populism in power.

The erosion of democratic norms could be an important reason for the negative economic consequences of populism, as democracy and strong institutions have a positive impact on economic prosperity in the long term. Institutional uncertainty and high polarization among populist-led countries discourage investors and innovation, including capital flight and brain drain, i.e., the emigration of the country's best-educated minds.

The damage to democratic institutions may also explain why one populist is often followed by another and why populist governments often slip into authoritarianism and cling to power for a long time. Although populists produce economic grievances, they prevent the democratic process of a change of power by erod-

Figure 5

Populist Economic Policy: Disintegration, Debt and Inflation



Source: Funke et al. (2023).

ing the separation of powers, distorting elections, or influencing the judiciary and media.

The serial nature of populism is a major risk for the future. The historical data we have collected suggests that populism is a highly persistent phenomenon, with countries such as Argentina or Ecuador experiencing populist leadership on and off over the past 100 years. The big question is whether Western industrialized countries will suffer a similar fate in the future and experience “serial populism” in the coming years and decades. In the light of history, this is unfortunately not an unlikely scenario. The West might be only at the beginning of a prolonged populist era if politicians do not act now.

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