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Economic and Institutional Consequences of Populism

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Abstract

We analyze the institutional and economic consequences of populism in Latin America in the last 50 years. Populist regimes weaken institutions and macroeconomic (fiscal, monetary, and external) indicators, resulting in crises and worse income distribution. The duration of populist regimes depends on favorable external conditions. In particular, the commodity super-cycle of the 2000s and easy financing conditions allowed populists to stay in power longer than in past episodes.

JEL Classification: N1, E0

Keywords: political economy, populism, Latin America, institutions, Commodity supercycle

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Nicolás E. Magud and Antonio Spilimbergo

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We analyze the institutional and economic consequences of populism in Latin America in the last 50 years. Populist regimes weaken institutions and macroeconomic (fiscal, monetary, and external) indicators, resulting in crises and worse income distribution. The duration of populist regimes depends on favorable external conditions. In particular, the commodity super-cycle of the 2000s and easy financing conditions allowed populists to stay in power longer than in past episodes.

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I. INTRODUCTION [1]

What are the macroeconomic policies that populist governments pursue? What are the consequences of these policies? What are the consequences of populist regimes to the strength of institutions? To answer these questions, we examine the experience of Latin America, a region with a long history of populist regimes. Latin America has experienced several waves of populism, but recent academic literature has focused extensively on the causes of populism, rather than its economic and institutional consequences. This paper aims to fill this gap.

To that end we:

- Use as an identification strategy the exogenous definition of populist regimes established by the political science literature, which is based on politicians' speeches rather than more tautological economic outcomes or policies;
- Use several alternative statistical methodologies;
- Analyze the association between populism and institutions;
- Specifically consider the role of external factors, and;
- Incorporate the recent wave of populist governments in Latin America.

The book by Dornbusch and Edwards (1991; DE henceforth) triggered a discussion about the economic effects of populism in Latin America during the 1970s and 1980s. Their conclusion was that, even though rhetoric and economic conditions differed, populist governments ended up implementing a remarkably similar set of policies. Yet DE had several limitations. First, it defined the concept of populism tautologically by defining populist regimes as those implementing macroeconomically unstainable policies. Though this reflected the state of the art at the time, in the last thirty years the political science has made considerable progress analyzing and defining populism. Second, it was based mostly on a narrative approach; this was a necessary choice given the few episodes at the time. Third, it focused only on macroeconomic variables. We address all three of these issues.

The definition of populism has been long discussed. We do not take a stand over the definition of populism, and draw on the classification of populist governments made by others in order to make it exogenous to rest of our data—the macroeconomic and institutional variables.[2] Owing to

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[2] As institutional variables we consider voice accountability, investment freedom, contract viability, and democratic accountability; the sources are described in the appendix table. While there is always arbitrariness in defining a rating for institutions, we utilize the most used and accepted.

data limitations we take the sample of countries/periods in DE for the period prior to 1990, but take those identified by the political science literature for the 1990s onwards.

According to the literature, a typical populist leader claims to represent and defend "the people" against the elites in power, who are themselves purported either to be stealing from the oppressed, underrepresented, locals, etc., for their own benefit or simply ignoring the people's claims (see, e.g., Mudde and Rovira Kaltwasser, 2017).[3] This definition is sufficiently flexible to include both traditional left-wing populists and right-wing populists. Thus, our sample includes the populists included by DE, but also rightwing populists of the 1990s. To be as encompassing as possible, we explore many available databases to include as many identified populists as possible.

The effect of populism on macroeconomic and institutional variables is difficult to identify because of omitted variable bias and reverse causality. We use a variety of methodologies to address these issues. We first present a few bivariate descriptive correlations and panel regressions. We use local projections and a synthetic control method to analyze the dynamic relationships and to discuss causality. Across **all** these methodologies we observe a strong and statistically significant association between populism indicators and several macroeconomic and institutional variables.

We find the following:

First, the recent wave of populists in power coincides with a windfall coming from favorable external conditions (namely, high commodity prices and easy financing conditions). In turn, this has helped to extend their duration in power compared to past events.

Second, populist governments weaken a country's institutions, including democratic accountability, property rights, and business freedom. This effect persists even after populist regimes are gone and represents one of the negative long-run consequences of such regimes.

Lastly, under populist governments the size of the public sector increases, the fiscal balance deteriorates, an inflation tax is often used, the domestic currency appreciates in real terms, and the external current account deficit increases (or the surplus falls). All these policies frequently result in a domestic boom that eventually collapses as the economy adjust to its fundamentals. However, populist regimes do not seem to have a differential effect on real GDP growth when compared with non-populists. We also present some suggestive evidence that the distribution of income worsens in the aftermath of populist economic policies. Though more marked from left-wing populist regimes, these findings are for the most part general to all populists in the region. We also discuss the existence of populist leaders in the region who were able to avoid macroeconomic unsustainability.

These results suggest the following. Beneficial external conditions enable populist governments to loosen the public purse in order to pursue populists' redistributive policies. Populist leaders also

[3] Note that Latin American left-wing populism often identifies the "people" using economic and social class criteria rather than ethnicity. In addition, we do not analyze or take a stand on whether or why elites may or may not ignore the people's claim.

weaken some institutions to help achieving these objectives. But usually, the gains from populist policies result in an economic crisis. The policies that Latin American populist leaders implemented have not been sustainable. That is because populists in power excessively increase public expenditure which results in domestic demand pressures and inflation; with a rigid nominal exchange rate (usually aiming at containing inflationary pressures), the real exchange rate appreciates. Moreover, a strong currency has often been implicitly pursued in Latin America to help win elections, thus temporarily helping to validate the notion that the expansionist policies, and thus the fiscal deficits cum inflation, are achieving their redistributive and growth objectives. However, the loss in competitiveness resulting from the real appreciation and the unsustainable increase in domestic demand weakens the current account. These imbalances often ultimately lead to a balance of payment crisis and sharp real exchange corrections.

The rest of the paper is organized as follows. Section II reviews the literature emphasizing the recent developments in economics and political science. Section III provides a (very) brief history of populism in Latin America; it discusses the historical context, the ideological framework, and the international background. Section IV documents eight stylized facts of populism in Latin America. Section V tests a few hypotheses that have been discussed in the literature (and that are discussed in section II and for which stylized facts are presented in section IV); the section presents panel and local regressions and synthetic control. Section VI concludes.

II. Populism in the Economic and Political Science Literature

The study of the effect of populism on the economy has been challenging because its definition remains elusive, reflecting a large heterogeneity across populist experiences. The political economy studies, which flourished in the 1980s, were mostly focused on the political (or electoral) cycle in advanced economies. This changed with the work of Dornbusch and Edwards in the early 1990s. Recent political science literature defines populism in more general terms and is based on narratives of "we" against "them" or "the people" vs. "the elites.".

In the absence of a widely-accepted definition of populism, DE define macroeconomic populism as "an approach to economics that emphasizes growth and income distribution and deemphasizes the risks of inflation and deficit finance, external constraints, and the reaction of economic agents to aggressive non-market policies."[4] This definition is based on the policymakers' stated objectives. This approach, which at the time was innovative, has been updated by definitions based on the government's ideology rather than their objectives.

[4] An earlier definition by Drake (1982) indicates that populism has three features: 1) it uses political mobilization, recurrent rhetoric and symbols designed to inspire the people; 2) it draws on a heterogeneous coalition; 3) it proposes a reformist set of policies to promote development without explosive class conflicts. This definition is not particularly useful to draw economic implication from because it is based on mobilization, type of coalition, and proposed policies, instead of objectives. Possibly for this reason, DE (1990) proposed their own definition. It is fair to say, however, that DE's definition is part affected by circularity, which we try to improve upon by the exogenous definition in the political science literature that we follow for the most recent cases.

DE document how several Latin American countries experienced populist regimes during the 1980s with similar disastrous long-term effects on per capita income and income distribution. After DE, the literature on the macroeconomic effects of populism was silent over the ensuing 20 years. For instance, the encyclopedic book *Political Economy in Macroeconomics* (2000) by Drazen mentions populism just once, referring to the work by Dornbusch and Edwards. Indeed, the relative neglect of the topic in the 1990s may have been due to the belief that countries had by then permanently abandoned populist policies.

While there was little work by economists, political science has made substantive conceptual and empirical progress.[5] In particular, political scientists have developed a new definition of populism as a 'thin-centered ideology that considers society to be ultimately separated into two homogenous and antagonistic camps, "the pure people" versus "the corrupt elite," and which argues that politics should be an expression of the *volonté générale* (general will) of the people' (see Mudde and Kaltwasser, 2017). We base our results on this definition—detailed below.

However, political scientists have largely ignored the economic implications of populism. For instance, the comprehensive Oxford Handbook of Populism (2017) has 34 chapters, including on the relationship between populism and technocracy, nationalism, fascism, foreign policy, identification, gender, religion, and media; but not on the economy (and specifically not macroeconomic policymaking). Rovira Kaltwasser (2019) concludes that 'there is no such thing as "economic populism" because of the heterogeneity of economic policies implemented by populists. This paper takes a difference view and shows that there is a consistent set of policies which are common to populists in power.[6]

Moreover, the recent wave of economic literature on populism has focused on the *causes* of populism (Acemoğlu et al., 2013; Algan, et al., 2017; Guiso, Herrera, and Morelli, 2017; Inglehart and Norris, 2016; Boeri et al., 2018a and 2018b; Edwards (2010); Eichengreen, 2018; Finkelstein, 2017).[7] The main question remains whether the causes of populism are mainly economic (crises

[5] Oxford Handbook of Populism (2017) gives a comprehensive and exhaustive overview for specialists, while Mudde and Rovira-Kaltwasser (2017) presents a brief and accessible summary of the literature.

[6] The reasons why Rovira Kaltwasser comes to this conclusion are threefold. First, the concept of economic populism developed by DE (1991) was focused on Latin America before the 1990s and did not have a broader perspective. Second, economic populism was applied only to left-wing (or inclusionary) populism. Third, economic populism comes with a negative connotation while many other countries can run similar policies but are not defined as populist. This paper shows that these points have some limits. While it is true that we focus only on inclusionary populism, it is also noticeable that the same findings hold for very different periods (pre-1980s and post-1990s). In other words, we have an 'out-of-the-sample' confirmation of the initial DE (1991) intuition. Additionally, the findings hold when using the very same definition as political scientists, thus avoiding tautological definitions. Also, the fact that non-populist regimes have sometimes inconsistent macro policies is not a reason to deny that this is a prevalent feature of populist governments. Finally, it seems that all populists undermine the institutions of liberal democracy, which are key for long-term growth. All these factors suggest that there are indeed a set of policies that often (though not always) are associated with (inclusionary) populism. Therefore, the question posed by the present paper is legitimate.

[7] Gerchunoff and others (2019) elaborate on structuralist causes for populism, in which the social equilibrium differs from the market equilibrium. The latter is achieved with external and fiscal equilibrium, while the former

or income inequality) or cultural (cultural deprivation or other social concerns). However, the macroeconomic and especially the institutional effects of this new wave of populism have not been studied. This paper attempts to fill these gaps.

The closest paper to ours in Funke and others (2020), which also mostly focuses on the consequences of populists. One main difference is in terms of sample. Our timespan is much shorter, as Funke and others (2020) go back to the year 1900, while we start our regression analysis in 1970, and especially on the recent events since year 2000.[8] We use the same three empirical methodologies: panel regressions, local projections, and synthetic control models. We rely mostly on the first two methods, while they focus on the SCM owing to their interest in the longer-run implications of populist leaders. Interestingly, however, about half of the sample in Funke and others (2020) is from Latin America, the region that we focus on. Importantly, we stress the role of external factors, which are key in Latin America.

In terms of findings, unlike ours, Funke and others (2020) document long-lasting effects of populist leaders on economic activity (15 years after populist leave power). Given our special interest in the more recent episodes in Latin America, we can't focus on the long-term impact of populists as many of these episodes ended only a few years ago—we leave that for future work. In the short run, our results find that populist regimes do not appear to engineer faster economic activity than non-populist despite that being one common aim of populist leaders. As we do, Funke and others (2020) do not find that populists improve income inequality. Both papers find than populists' policies mostly result in deteriorating macroeconomic conditions (though we put a marked emphasis on the external sector, while Funke and others (2020) on fiscal/monetary issues) and weaker institutions, although the variables regarding the latter differ, in part owing to data availability, since the institutional variables that we focus on have only recently been collected (since the mid-1990s).

III. A Brief History of Populism in Latin America

A. Who is a populist?

As discussed before, populism has always been an elusive concept. Sometimes it is used in a derogatory way against political adversaries; other times it is used as a synonym for demagoguery or nationalism; yet still other times is used with a positive connotation. Facing this challenge, DE (1991) defined economic populism as a set of (time) inconsistent economic policies.

A problem with the definition of populism of DE (1991) is that the definition is tautological: a government is classified as populist based on policy outcomes (e.g., fiscally irresponsibility). It is

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implies full employment along with external and fiscal deficit owing to a structurally stronger equilibrium real exchange rate than the market equilibrium owing to the perception of the "fair" real wage.

[8] The baseline definition of populism is not the same, although Funke and others (2020) use our definition for robustness checks.

therefore no surprise that these episodes end up with unsustainable macroeconomic outcomes.[9] In order to avoid this problem we use the prevailing definition in political science.

Mudde and Rovira Kaltwasser (2017) define populism following the ideational approach. Along these lines, Hawkins (2009) constructs a continuous variable measuring the degree of populism, based on the analysis of public speeches that identifies modern day populists.[10]

Given such a wide definition spectrum of populism, we try to be as encompassing as possible and include in our dataset many Latin American populists as defined by several authors. Table 1 lists the populist events.[11]

Table 1. Populist Events

Event	**Country**	**Period**	**Source**
Perón	Argentina	1973-76	Dornbush-Edwards
Vargas	Brazil	1951-54	Dornbush-Edwards
Goulart	Brazil	1961-64	Dornbush-Edwards
Sarney	Brazil	1985-90	Dornbush-Edwards
Allende	Chile	1970-73	Dornbush-Edwards
Echeverría	Mexico	1970-76	Dornbush-Edwards
Velasco	Peru	1968-75	Dornbush-Edwards
Belaúnde	Peru	1963-68	Dornbush-Edwards
García	Peru	1985-90	Dornbush-Edwards
Pérez	Venezuela	1974-78	Dornbush-Edwards
Collor	Brazil	1990-92	De la Torre
Menem	Argentina	1989-99	Team Populism, Casullo, and De la Torre
Fujimori	Peru	1990-2000	Casullo and De la Torre
Morales	Bolivia	2006-18	Team Populism, Casullo, Edwards, and Finkelstein
Correa	Ecuador	2007-17	Team Populism, Casullo, Edwards, and Finkelstein
Ortega	Nicaragua	2007-17	Team Populism, Edwards, and Finkelstein
Alan Garcia	Peru	2006-11	Team Populism
Chávez-Maduro	Venezuela	1999-2018	Team Populism, Casullo, Edwards, and Finkelstein
Fernandez de Kirchner	Argentina	2007-15	Casullo, Edwards, and Finkelstein

[9] We thank Rovira-Kaltwasser for stressing this point in bilateral discussions.

[10] The author not only identifies these regimes in Latin America, but also in Europe. Here, we focus on Latin America only. To compute a metric of populism by discourse based on holistic grading methods, Hawkins interprets textual speeches of Latin American leaders. Analysts read the speeches and, after interpreting their content in a systematic way, tabulate speeches as either non-populist (0), mixed (1), or populist (2). The analyzed speeches should be comparable in length (number of words) and situation (i.e., inauguration, campaign speech, ribbon cutting, international speech, and "famous" speech—typically inauguration or annual address reports). We thank Professor Hawkins for providing the original data set, as well as its update through 2017 available online in the project Team Populism.

[11] Edwards (2010) also suggest more recent experiences of Latin American populist. As of this version, however, our sample ends in 2017 and therefore does not include leaders emerged after that.

B. Characteristic of the three waves of populism in Latin America

There have been three waves of populism in Latin America to date.[12] These waves come with different ideological connotations and with different external conditions. Regardless of which wave of populism is focused on, what it is clear is that populism in Latina America seems to always come back, as suggested by Casullo (2019).

First wave

The first wave of populism (or classical populism) started in the 1930s and ended in the 1960s. Populism started on the back of the international crisis in the 1930s, followed by protectionist policies in advanced economies, and the attendant collapse in the price of natural resources. Many countries in Latin America saw a massive urbanization during this period. Workers, who left the impoverished countryside in search of a better life in the cities, were the main supporters of populist leaders. Populist leaders presented themselves as the champions of the *pueblo* (the common people) against the elites, which were accused of colluding with foreign powers.[13] There was an effort to expand the franchise to groups which had been previously discriminated against (for example, the extension of voting rights to women in Argentina by 1951). In some instances, previous stigmas turned into positive virtues (see *descamisados* in Argentina). Charismatic leaders presented themselves as the voice of the underdog along with the authoritarian appropriation of people's will. In some countries, various enduring political organizations were created, including APRA in Peru, the Peronist Party in Argentina, and the *Movimiento Nacionalista Revolucionaro* in Bolivia. Notable leaders included Vargas, Perón, Velasco Ibarra, and Haya de la Torre. This first wave of Latin American populism ended in the 1960s with right-wing bureaucratic authoritarian regimes—though some returned in the 1970s.

The economic policies of this first wave of populism were focused on import substitution and state-sponsored industrialization. State 'dirigisme' was a key feature drawing from the experience of Italian corporativism under fascism and from the Soviet Union's central economic planning.

Second wave

The second wave of Latin American populism occurred in the 1990s and reflected neo-liberal economic policies. Examples include Menem in Argentina, Collor de Mello in Brazil, and Fujimori in Peru. Their rhetoric focused on defending the citizens against incompetent domestic elites. While the first wave emphasized foreign exploitation of domestic riches in collusion with local leaders, the leaders of the second wave focused on the sheer incompetence of domestic elites.[14]

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[12] This section draws on the chapter on Latin America in the Oxford Handbook of Populism

[13] Curiously the definition of *pueblo* included the urban masses but excluded indigenous people.

[14] Thus, by definition, this second wave of populists would aim at achieving sustainable macroeconomic policies. This is also consistent with the failure of past industrial substitution policies and the debt defaults that resulted in the 1980s been labelled Latin America's "lost decade."

The economic policies of this second wave focused on market-friendly reforms, presented as necessary to eliminate previous corruption and inefficiencies under the umbrella of the Washington Consensus. These leaders also weakened institutions, however, sometimes doing so in response to frustrations related to their inability to implement reforms due to vested interest. For instance, Fujimori staged the "autogolpe" in 1992 and assumed full legislative and judicial power; this gave him free rein to implement some reforms but at the cost of destroying the necessary checks-and-balances.

Third wave

The third wave of populism in Latin America occurred in the late 1990s, when the *pueblo* was described as suffering from the economic and social consequences of 'neoliberal' policies. Unlike the first wave of the 1930s, the pueblo now included the masses in the countryside in addition to the urban populations, often emphasizing the indigenous component (for instance, ethno-populism in Bolivia). The dominant ideologies were Socialism and Anti-imperialism, and examples of these regimes include Chávez/Maduro in Venezuela, Correa in Ecuador, and Ortega in Nicaragua. Often these leaders advocated constitutional changes to purportedly give more voice to the people and to strengthen their power (through constituent assemblies). Under such views, constitutions became living documents that needed to be updated roughly every ten years, and would be aspirational rather than simply designed to limit power or enforce the rule of law and property rights (see Edwards, 2010 for a thorough analysis). Consequently, constitutions became very long and detailed documents, as opposed to traditional short constitutions, potentially increasing uncertainty. More flexible constitutions also resulted in shifts from a traditional 3-power system (executive, legislative, and judicial) to a 5-power system that includes citizens' power and electoral power, resulting in more frequent referendum-like decision mechanisms. The economic implications of the third wave led to a far bigger state with the goal of improving income distribution and nationalization, especially in the energy sector.

Even though domestic political dynamics played a big role, (external) economic conditions were key in all three episodes. The Great Depression of the 1930s and the accompanying fluctuations in commodity prices are key to understanding the first wave of Latin American populism. Likewise, concerns about worsening income distribution triggered the third wave of populism, this time on the back of strong improvements in terms of trade as a result of the commodity super-cycle.[15] Below we focus on external conditions, which played a key role in prompting and perpetuating populism.

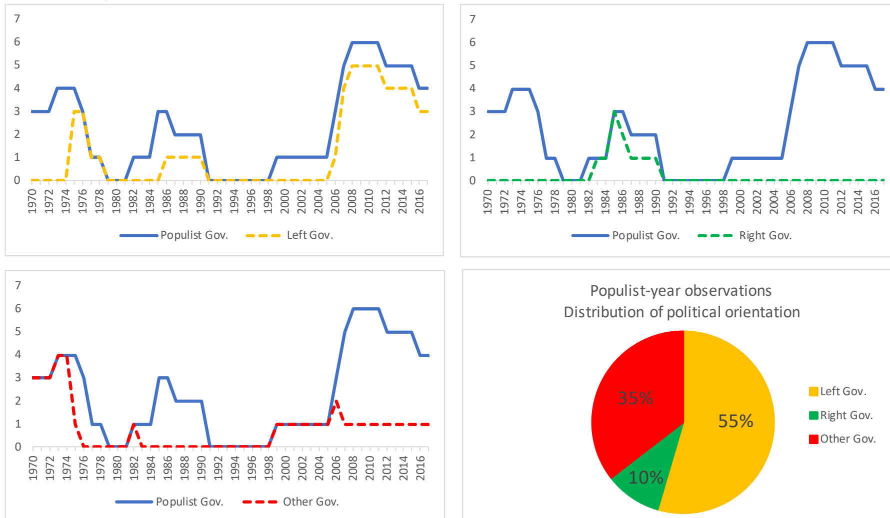
The three waves came with different ideologies

Populism is generally considered a "thin ideology," implying that it may be associated with other ideologies. For instance, a populist rhetoric may be related to a nationalist ideology (as it is often the case in contemporary Europe) or it can be linked to a leftist ideology that emphasize income

[15] Di Tella and others (2019) suggest that populists are effective communicators in order to convince voters.

redistribution (as it is often the case in Latin America).[16] Consistent with this, and although Figure 1 shows a prevalence of leftist populism in Latin America, it also shows that right-wing populism has not been unusual, especially in the 1980s.

Figure 1. Political spectrum of Latin American populists.



Source: authors' calculation based on Hawkins (2009) and IDB (2017). For details, see the appendix.

IV. Populism: Past and Present Experience—Stylized Facts

In this section, we present eight stylized facts on macroeconomic and institutional variables from when populists were in power in Latin America. The episodes are described in Table 1. Most figures are reported in the Appendix.[17]

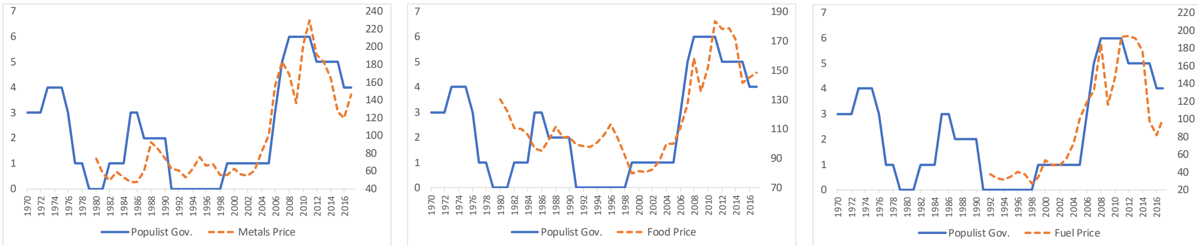
Fact 1: Favorable (Unfavorable) terms-of-trade during recent (past) populist episodes

External conditions play a key role. Latin American economies have traditionally been (and still are) dependent on exporting natural resources. This dependency means that commodity prices have an impact on economic and political developments. Figure 2 shows that there is a remarkable correlation between commodity prices and the rise of populism in the region. This correlation holds for various commodity prices.

[16] Sometimes the specific terms 'exclusionary' or 'inclusionary' populism are also used.

[17] We label the time in which the populist government starts as period *t=0*. *t=0* is for: Argentina (1973), Argentina (1989), Brazil (1951), Brazil (1961), Brazil (1985), Brazil (1990), Chile (1970), Mexico (1970), Peru (1963), Peru (1968), Peru (1985), Peru (1990), Venezuela (1974), Argentina (2007), Bolivia (2006), Ecuador (2007), Nicaragua (2007), El Salvador (2004), and Venezuela (1999). The forward duration of each window depends on the length of each identified populist government. The evidence is organized around the phases identified above. Panel A reports the results for pre-1990 episodes and panel B for recent episodes.

Figure 2. Commodity prices and populist governments in Latin America.



Source: authors' calculations based on Hawkins (2009) and WEO (Gas Live).

This analysis holds even when looking at the experience of individual countries. In the past, terms of trade were constant or falling during the first two years of populist governments in most cases (see Appendix Figure A.1, Panel A). The opposite is true in all the recent episodes related to the third wave of populism (Appendix Figure A.1 panel B).

Fact 2: Recent populist governments have lasted longer than in the past

Past populist governments lasted an average of just over five years, with a standard deviation of 2.6 years (Table 2). In contrast, recent populist governments have at times lasted more than 11 years (i.e., more than two times longer on average) with a standard deviation of 5.5 years.

Table 2. Duration of Populist Regimes—Past and Present

Past events		Recent events	
Episode	Duration (years)	Episode	Duration (years)
Perón (ARG), 1973-76	3	Fernández de Kirchner (ARG), 2007-15	8
Vargas (BRA), 1951-54	3	Morales (BOL), 2006-19	13
Goulart (BRA), 1961-64	3	Correa (ECU), 2007-13	10
Sarney (BRA), 1985-90	5	Ortega (NIC), 2007-13	6
Allende (CHL), 1970-73	3	Chavez-Maduro (VEN), 1999-19	20
Echeverría (MEX), 1970-76	6		
Velasco (PER), 1968-75	7		
Belaúnde (PER), 1963-68	5		
García (PER), 1985-90	5		
Pérez (VEN), 1974-78	4		
Collor (BRA), 1990-92	2		
Menem (ARG), 1989-99	10		
Fujimori (PER), 1990-00	10		
Average	5.1		11.4
Standard deviation	2.6		5.5

Source authors' calculations.

Fact 3: Populist regimes are associated with weaker institutions

By its own nature and rhetoric, populism weakens check and balances which are fundamental in a liberal democracy.[18] Populists claim to be the *only* legitimate representative of 'the people.' For this reason, they are intrinsic opponents of a pluralistic society, which includes checks and balances as well as intermediate social bodies (see Boeri et al., 2018). The consequence is that the quality of institutions worsens over time while these regimes are in power.[19]

The data for institutional variables is available only from the mid-1990s and not for all countries. Figures A.2-A.4, using as examples property rights, business freedom, and democratic accountability (more details in the regressions section below), present more clearly the link between populist governments and the deterioration of institutional variables. Figure A.5 also depicts suggestive evidence, based on distributions, of weaker institutions during populist governments.

Fact 4: Populist governments favor strong fiscal expansion

In all these events, both for past and more recent episodes, government spending rose (Figure A.6). This was the case regardless of whether the episodes were selected based on unstainable and inconsistent macroeconomic management, or on the messages contained in leaders' discourse.

Fact 5: Past populist governments were associated with inflation, recent ones less so

Financing fiscal deficits with an inflation tax is a common thread in Latin American populist administrations, past and recent alike. Higher inflation enables artificially financing of growing fiscal deficits. Not surprisingly, fiscal balances deteriorate on the back of an increasing rate of inflation (Figure A.7).[20]

In all these episodes the fiscal balances worsened. In more recent events the fiscal deterioration happened despite the fact the commodity super-cycle' windfall resulted in higher tax revenues. However, unique from the previous cases, only one case, Venezuela, ended up resulting in hyperinflation. In other words, inflation was remarkably stable when compared with the former experience.[21]

[18] Moreover, Laclau (2005) claims that populist should "democratize" democracy, which includes weakening the liberal democratic order institutions. Furthermore, as mentioned above, recent populism regimes seemed to have aimed at relaxing constitutions, affecting institutions more generally.

[19] It is also true that attempts to strengthen institutions in Latin America were mostly short-lived and countries quickly reverted back to their underlying "extractive" norm, once conditions become more favorable.

[20] Some episodic data are missing, especially those related to hyperinflation events.

[21] However, inflation in countries with populist governments is still higher on average than in countries with non-populist governments.

What explains this difference? Essentially, four factors. The commodity super-cycle, which started at the beginning of the 2000s, helped to finance the deficit and so loosened the budget constraint (Fact 1). The commodity super-cycle also appreciated the real exchange rate, boosting consumption, and through that channel boosted revenues. The large trade balance surpluses helped finance the external accounts and accumulate reserves. Additionally, massive expansionary monetary policies in advanced economies (in response to the Global Financial Crisis) reduced the cost of international financing; capital flows to emerging markets, including to Latin America further eased hard-currency financing and strengthened domestic currencies. Second, the entire world had a secular slowdown in inflation dynamics. Third, even populist politicians may have learned that monetary financing could be dangerous, leading to hyper-inflation. Fourth, modern populists found alternative ways to finance the increasing deficits through nationalization (see Bolivia, Ecuador, and Venezuela), the freezing of tariffs for energy, or raising import and export taxes.

Fact 6: Populist governments are associated with real exchange rate appreciation (especially in the past) and external current account deterioration

Domestic inflation above foreign inflation ends up appreciating the domestic currency, owing to rigid exchange rate arrangements in all of the observed populist governments (Figure A.8). Exchange rate pegs—be they through traditional fixed exchange rate regimes, crawling pegs, or highly managed exchange rate regimes—were the norm in the past. It has also been the exchange rate regime chosen by the most recent populist experiments in Latin America (see the regression analysis to support this point). The latter partly reflects the intention of using the nominal exchange rate as an inflation anchor on the back of highly regulated foreign exchange markets. Real appreciation has also been used to support consumption booms with the intention of creating the image of successful re-distributional policies—aimed at increasing popular support and voting intention during elections periods. Furthermore, many trading partners of populist countries had flexible exchange rates in recent episodes. As flexible currencies depreciated in response to negative terms-of-trade shocks, populist governments with rigid exchange rate arrangements saw their currencies appreciate in real multilateral terms, even if their inflation rates were not higher than their trading partners' inflation.

In turn, the expansion of aggregate demand and the strength of the domestic currency—which also made domestic goods expensive in U.S. dollar terms—have driven consumption booms (Figure A.9). To the extent that these terms-of-trade cycles are transitory—however persistent—the external current account will eventually need to adjust. The ensuing real depreciation also reflects the change in income owing to shifts in the terms of trade (see Adler, Magud, and Werner, 2018) for historical evidence on these adjustments in emerging market and developing economies).

Fact 7: Boom-bust cycles—Populist regimes generate short-lived domestic demand booms, followed by growth slowdown and deterioration of economic conditions.

For most episodes for which there are data, populist governments start with domestic demand booms (similar results are obtained by looking at private consumption). However, we also note that these booms frequently are not sustainable (Figure A.10). In part, such unsustainability is the outcome of the macroeconomic policies implemented. That said, in some cases the collapse in domestic demand is only observed after a populist departs from power.

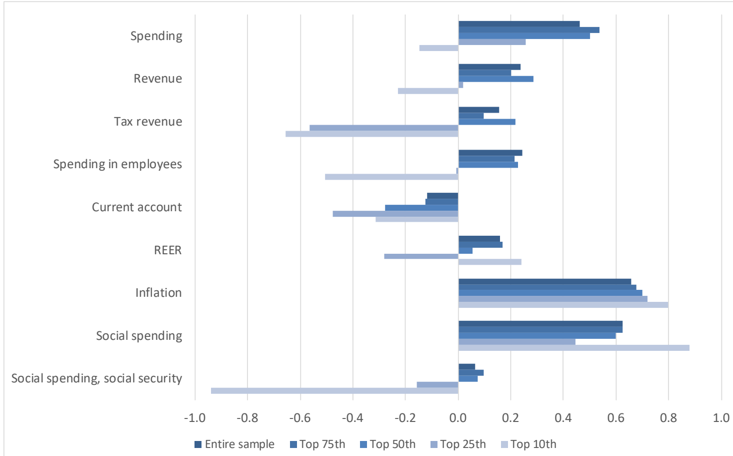
Ultimately, these demand-driven expansions adjust, generating a slowdown of real GDP—if not a contraction—to accommodate domestic demand to the country's long-term income (Figure A.11). In turn, the adjustment helps contain inflationary pressures to the extent that relative prices return to levels aligned with each country's fundamentals—in particular, the real exchange rate.

The adjustments that followed populist governments have been associated with real GDP contractions and lower inflation, which reduced tax revenue, on the back of real depreciation—eventually resulting in an improvement in the external current account balance (Figure A.9).

Fiscal policy variables' dynamics suggest some improvement in social spending (probably to mitigate the collapse in activity), which may explain the increase in spending in most cases (though it could also, in part, be the result of the collapse in GDP and inflation). Figure 3 depicts some correlations between these variables.

It shows that after a populist regime ends, a marked reduction in government expenditure may not be observed, while the expected drop in the fiscal balance is like that seen during populists' tenure. However, the chances of a contraction in activity increases on the back of an increase in the probability of a real depreciation, higher inflation, and a correction of the external current account balance. Such a combination of fiscal and external variables, on the back of real depreciation, results in no change in the likelihood of a drop in private consumption. However, it does trigger an increase in the chances of private investment and domestic demand contracting, in line with the adjustment in the current account. Moreover, these conditional probabilities seem to suggest that one of the legacies of populist governments is that the probability of a deterioration in the income distribution increases. The latter is quite striking given that populist leaders presumably rise because of large income inequality—and with the purpose of implementing policies to improve it.

Figure 3. Correlation between populism and selected macroeconomic variables in the aftermath of populist regimes



Source: see the appendix.

Table 3. Macroeconomic impact after populists leave office

	Probability of negative change	
	During Populist	After Populist
Government expenditure (percent of GDP)	16.1	2.6
Fiscal balance (percent of GDP)	16.1	13.1
Real GDP growth (percent)	45.1	50.0
REER	19.3	31.6
Inflation (percent)	24.1	34.2
CA (percent of GDP)	33.9	52.6
Real consumption	33.9	34.2
Real investment	25.8	29.0
Real domestic demand	19.4	26.3
Gini coefficient	14.5	7.9

Source: authors calculations.

Fact 8: Macroeconomic variables are different during populist regimes than during non-populist regimes

More generally, macroeconomic variables differ from those of non-populist governments. In fact, looking at distributions, we observe that in Latin America the macroeconomic variables as well as the institutional variables perform worse in those country-events when a populist leader is in power (Figure A.13).

V. Econometric analysis

In this section we systematically analyze some of the stylized facts mentioned above. In particular, we focus on the issue of omitted variable bias, dynamic effects, and causality. We conduct three exercises. First, we implement a multivariate unbalanced panel dataset for 36 Latin American and Caribbean countries for the period 1970-2017, with annual frequency; this is to check if the correlations uncovered in the previous section are robust to the inclusion of covariates. Second, we implement a local projections' model to explore the dynamic effects that the panel may not capture. Third, we do synthetic control to disentangle the issue of causality.

A. Data

Macroeconomic variables include: government spending (in percent of GDP), fiscal balance (in percent of GDP), inflation rates, real GDP growth, real effective exchange rates, external current account balance (in percent of GDP), trade balance (in percent of GDP and in real terms), export and import volumes, real domestic demand, real consumption, and real investment. All these variables are from IMF databases. The real effective exchange rate is from the IMF's *Information Notice System* (INS). All other macroeconomic variables are from the *World Economic Outlook* database (WEO).

The institutional variables that we use are: rule of law, regulatory quality, government effectiveness, voice and accountability, property rights, business freedom, labor freedom, trade freedom, investment freedom, financial freedom, contract viability, democratic accountability, economic risk rating, financial risk rating, law and order, political stability, and political risk. For the sources for these and other variables see the Appendix.

Populism is a continuous variable with range [0;2], as documented in Hawkins (2009). This variable is dichotomized: if the index is larger or equal to 0.7, the government is classified as populist—non-populist, otherwise. Commodity prices are from IMF's *World Economic Outlook* database. The exchange rate classification is based on Ilzetzky, Reinhart, and Rogoff (2017).

B. Panel regressions

This section tests some of the stylized facts discussed in the previous sections. All specifications account for country fixed effects, α_c, to control for country-specific time-invariant effects. We also control for global aggregate shocks through time dummies, γ_t. To the extent possible, this set of fixed effects intends to mitigate the omitted variable bias. Additionally, *c* refers to country, while *t* to year.

External factors as a driver of populism (fact 1)

First, we examine the role of external factors that result in the establishment of a populist government. Using the following model, we investigate if the terms of trade impact the chances of having a populist government in place:

$$Pop_{c,t} = \alpha_c + \gamma_t + \sigma ToT_{c,t} + RealGDPpc_{c,t} + \epsilon_{c,t} \qquad (1)$$

In which, $Pop_{c,t}$ denotes having a populist government, and $ToT_{c,t}$ stands for the natural log of the terms of trade. $RealGDPpc_{c,t}$ is added as control for initial conditions (as suggested in DE). The error term is $\epsilon_{c,t}$. As an alternative measures of external income shocks, we use income windfall (Adler and Magud, 2015, updated through 2017) and the change in the terms of trade. Regardless of the external income shock variable, we observe that, consistent with the suggested evidence above, higher external income is associated with having a populist in office (Table 4). These results are consistent with the casual evidence in Figure 2 and Stylized Fact 2.

Table 4. External shocks and populism.

VARIABLES	(1) populist	(2) populist	(3) populist
logTT	0.252***		
	(0.0356)		
WI		0.450**	
		(0.185)	
DeltaToT			0.00115**
			(0.000565)
gdp_r_pc	-2.83e-05***	-4.18e-05***	-2.35e-05***
	(4.44e-06)	(9.42e-06)	(4.52e-06)
Constant	-0.775***	0.0994	0.352***
	(0.175)	(0.260)	(0.0736)
Observations	950	396	931
R-squared	0.16	0.24	0.11
Number of countries	21	19	21
F-statistic	3.32	2.09	2.24
Country-FE	Yes	Yes	Yes
Time-FE	Yes	Yes	Yes

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

This finding is very robust and is consistent with two (complementary) explanations. The first is that the exogenous increase in windfall gains in highly-polarized societies generates demand for more income redistribution and this is channeled through populist parties. The second is that populist parties already in power have a less stringent budget constraint and this allows a longer permanence in power.

Populist regimes weaken institutions (Fact 3)

Next, we assess how changes in domestic institutional characteristics are associated with having a populist government, controlling for time and country fixed effects as well as the lagged value of the institutional variable and, given the results in Table 4, the terms of trade. That is:

$$\Delta Inst_{c,t} = \alpha_c + \gamma_t + \sigma Pop_{c,t} + \beta ToT_{c,t} + \varphi Inst_{c,t-1} + \epsilon_{c,t} \tag{2}$$

This specification implies that populist regimes weaken domestic institutions. These institutional variables are described above, and in more detail in the Appendix. The results suggest that populism is associated with weakening voice accountability, investment freedom, contract viability, and democratic accountability (Table 5). The association between populism and quality of institutions is strong. Though this suggest causality, it only provides support for correlation. That said, this correlation shows that there is a statistically significant difference when populists are in power.[22]

That populism results in weakening institutions can also be observed by running the same regression as in (2) but using lagged populism as the explanatory variable. That is:

[22] We have also tried using central bank independence as an institutional variable related to fiscal dominance. The results were not statistically significant, however, and deserve further analysis.

$$\Delta Inst_{c,t} = \alpha_c + \gamma_t + \sigma Pop_{c,t-1} + \beta ToT_{c,t} + \varphi Inst_{c,t-1} + \epsilon_{c,t} \tag{3}$$

We run these experiments for the same institutional variables, presenting the results in Table 6. Results hold. Results in Tables 5 and 6 are consistent with stylized fact 3.

Table 5. Domestic institutional factors are associated with populist governments.

	(1)	(2)	(3)	(4)
VARIABLES	Change Voice Acc.	Change Inv. Freedom	Change Contr. Viab.	Change Dem. Acc.
ln(ToT)	0.0431	-5.008***	-0.162	0.0592
	(0.0413)	(1.431)	(0.104)	(0.0565)
Populist	**-0.0601****	**-4.398*****	**-0.208*****	**-0.220*****
	(0.0256)	(1.167)	(0.0723)	(0.0472)
Voice Acc.(t-1)	-0.428***			
	(0.0384)			
Inv. Freedom(t-1)		-0.210***		
		(0.0256)		
Contr. Viab.(t-1)			-0.320***	
			(0.0373)	
Dem. Acc.(t-1)				-0.102***
				(0.0153)
Constant	-0.0581	37.20***	1.627***	0.261
	(0.191)	(7.406)	(0.526)	(0.274)
Observations	465	555	384	791
R-squared	0.37	0.20	0.23	0.16
Number of countries	31	26	24	24
R-squared (between)	0.04	0.00	0.02	0.22
F-statistic	14.63	5.21	5.62	3.86
Country-FE	Yes	Yes	Yes	Yes
Time-FE	Yes	Yes	Yes	Yes

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 6 Domestic institutional factors are associated with lagged populist governments.

VARIABLES	(1) Change Voice Acc.	(2) Change Inv. Freedom	(3) Change Contr. Viab.	(4) Change Dem. Acc.
ln(ToT)	0.0413	-5.399***	-0.213**	0.0718
	(0.0411)	(1.436)	(0.105)	(0.0567)
Populist(t-1)	**-0.0568****	**-3.097*****	**-0.0407**	**-0.243*****
	(0.0245)	(1.181)	(0.0720)	(0.0478)
Voice Acc.(t-1)	-0.426***			
	(0.0382)			
Inv. Freedom(t-1)		-0.206***		
		(0.0261)		
Contr. Viab.(t-1)			-0.299***	
			(0.0382)	
Dem. Acc.(t-1)				-0.105***
				(0.0154)
Constant	-0.0509	38.66***	1.789***	0.195
	(0.191)	(7.439)	(0.530)	(0.275)
Observations	465	555	384	791
R-squared	0.37	0.19	0.21	0.16
Number of countries	31	26	24	24
R-squared (between)	0.04	0.01	0.02	0.22
F-statistic	14.62	4.84	5.06	4.00
Country-FE	Yes	Yes	Yes	Yes
Time-FE	Yes	Yes	Yes	Yes

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Macroeconomic implications of populist regimes (Facts 4-8)

Based on the above, we move on to assess the differential macroeconomic implications of having a populist government in office. We specify the following model:

$$y_{c,t} = \alpha_c + \gamma_t + \pi X_{i,t} + \beta ToT_{c,t} + \mu Pop_{i,t} + \epsilon_{i.t} \tag{4}$$

$y_{c,t}$ stands for different macroeconomic variables, namely government expenditure, fiscal balance, real GDP growth, the growth rate of the real effective exchange rate, trade balance, import volumes, export volumes, real consumption, real investment, and the exchange rate regime, respectively. Depending on the specification, we include additional controls (*X*), such as the lagged left-hand-side variable for highly persistent processes, or the real exchange rate in some cases. We also control for the terms of trade ($ToT_{c,t}$) given that these changes help explain the existence of populist regimes—Table 4. Although this introduces some multicollinearity and thus some of the statistical power of populism drops compared to not adding this control, it is a variable worth including.

The results indicate that, under populist leaders, government spending is higher, resulting in weaker fiscal balance (Table 7). In line with the stylized facts, however, there is no association between populism and stronger real GDP growth. We also find that during populist governments, the fiscal stimulus and associated domestic demand pressures (as in consumption and investment boosts) results in a stronger domestic currency, which deteriorates the trade balance. In turn, the latter results from a worsening in real imports—as imports volumes are higher during populist governments—with no apparent effect on exports. Populists are more likely to have a rigid exchange rate regime, which seems consistent with the real exchange rate dynamics described above. All these results are concordant with the stylized facts 4-8 that we outlined above.

Table 7. Macroeconomic effects of populism.

Panel A

	(1)	(2)	(3)	(4)
VARIABLES	G/GDP	Fisc bal/GDP	Fiscal bal/GDP	Real GDP_gr
Populist	**0.755***	**-0.0390****	**-0.0424****	**-0.00521**
	(0.413)	(0.0186)	(0.0195)	(0.00559)
ln(ToT)	0.335	-0.0172	-0.0172	0.00352
	(0.419)	(0.0187)	(0.0190)	(0.00705)
G/GDP(t-1)	0.745***			
	(0.0253)			
Inflation	-0.0158***			
	(0.00274)			
Fiscal bal/GDP(t-1)		0.811***	0.810***	
		(0.0171)	(0.0172)	
Inflation x Populism			-0.000293**	
			(0.000125)	
Real GDP_gr(t-1)				0.301***
				(0.0517)
Constant	2.262	0.228*	0.228*	0.0317
	(2.921)	(0.118)	(0.119)	(0.0341)
Observations	748	712	704	402
R-squared	0.69	0.82	0.82	0.39
Number of countries	32	32	32	9
R-squared (between)	0.99	0.99	0.99	0.89
F-statistic	43.43	95.22	90.12	4.60
Country-FE	Yes	Yes	Yes	Yes
Time-FE	Yes	Yes	Yes	Yes

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Panel B

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
VARIABLES	REER growth	Trade bal/GDP	Real imports	Real exports	Real Consumption	Real Investment	Exch. Rate regime
ln(ToT)	-0.0328	4.511**			-0.956	4.665***	-0.396***
	(0.0377)	(2.026)			(1.380)	(0.869)	(0.105)
Populist	**0.131*****	**-4.893*****	**3.367***	**0.469**	**2.143***	**2.380*****	**-0.585*****
	(0.0347)	(1.645)	(1.893)	(1.418)	(1.167)	(0.848)	(0.109)
REER growth(t-1)	-0.265***						
	(0.0289)						
REER growth		-0.00571	-0.000111*		-0.00401	0.0116***	
		(0.00402)	(5.73e-05)		(0.00283)	(0.00165)	
REER growth x Populism		0.00845			0.00679	-0.0177***	
		(0.00623)			(0.00438)	(0.00304)	
Constant	0.134	-45.92***	38.72***	11.32	76.27***	-0.210	3.305***
	(0.220)	(14.55)	(14.34)	(10.95)	(10.10)	(5.029)	(0.508)
Observations	1,197	815	821	851	826	1,189	1,481
R-squared	0.14	0.12	0.23	0.16	0.07	0.23	0.18
Number of countries	32	28	28	28	25	32	32
R-squared (between)	0.12	0.08	0.30	0.65	0.13	0.04	0.15
F-statistic	3.75	2.35	5.57	3.11	1.33	6.63	6.47
Country-FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time-FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

C. Local projections' model

The previous section has shown that some correlations are robust to the inclusion of control variables. In this section, following Jordà's (2005) local projection method, we investigate using the following specification:

$$y_{i,t+h-1} - y_{i,t-1} = \alpha^h + \sum_{j=1}^{J} \rho_j^h \Delta y_{i,t-j} + \sum_{j=0}^{J} \beta_j^h x_{i,t-j} + \mu_i^h + \varepsilon_{i,t}^h$$

where $y_{i,t}$ denotes each macroeconomic or institutional variable in country i and period t (such that the dependent variable measures cumulative values between $t-1$ and $t+h$); x denotes a set of controls; μ_i are country fixed effects; and $\varepsilon_{i,t}$ is a random disturbance.

The local projections method requires some additional steps to improve efficiency and reduce any potential biases. First, the error term follows a moving average process of order $h-1$ by construction, so it requires an estimator that is robust to serial correlation. Second, the local projections method implies a loss in efficiency that increases with the horizon h. Jordà (2005) suggests that efficiency can be significantly improved by including the residual from the estimation corresponding to horizon $h-1$ as an additional regressor in the estimation for horizon h,[23] and thus we include it. It turns out that adding the residual from the regression for horizon $h-1$ also addresses a potential bias identified in Teulings and Zubanov (2014).[24]

The cumulative impulse-response functions show that upon the entrance of a populist to power (*t*=0), the real exchange rate appreciates on the back of stronger government spending (Figure 4). There is not too much of an impact on economic activity (if anything, it seems to weaken initially), including on consumption. The stronger currency is reflected in the loss of export volumes and increase in import volumes, driving a weakening of the trade balance. Institutions deteriorate, as can be seen by looking at the rule of law, voice accountability, democratic accountability, and government effectiveness (Figure 5). After some time, labor freedom, financial freedom, and trade freedom also deteriorate.

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[23] This procedure has been implemented in a different context by Faust and Wright (2011), who show that augmenting a forecasting model with ex-post forecast errors observed between t and $t+h$ improves forecast accuracy by reducing the variance of the error term.

[24] Teulings and Zubanov (2014) show that not controlling for innovations in the regressors between periods t and $t+h$ when estimating the impulse response at horizon h can bias the local projection estimates of the impulse response. However, innovations in those regressors are included in the error term, which means that augmenting the regression with the residual from the previous stage regression ($h-1$) can approximate the solution proposed by Teulings and Zubanov (2014) to address this problem.

Figure 4. Cumulative impulse-response functions of select macroeconomic variables to a populist raise to power.

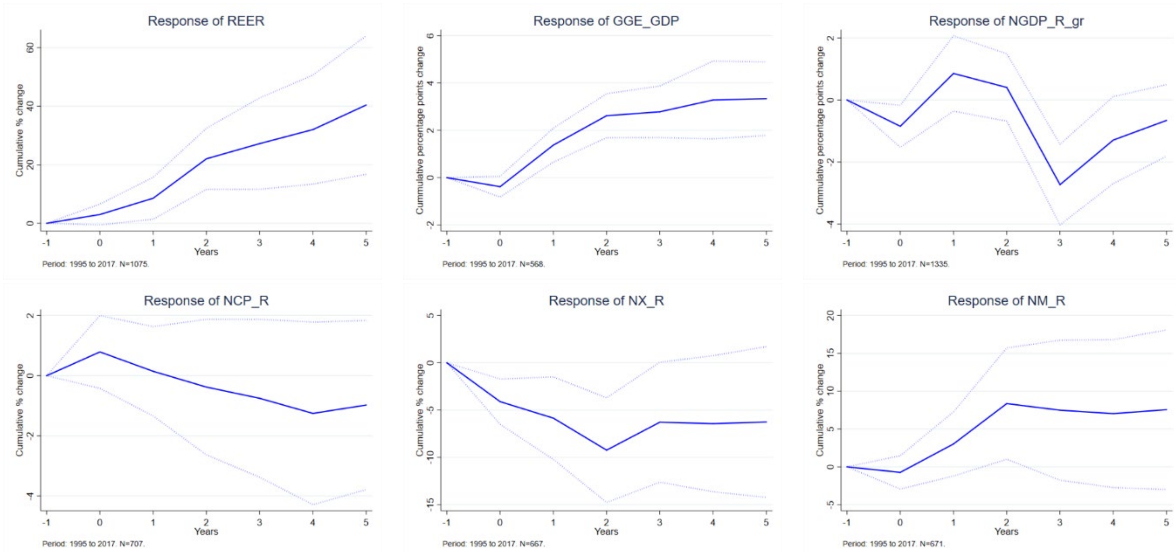
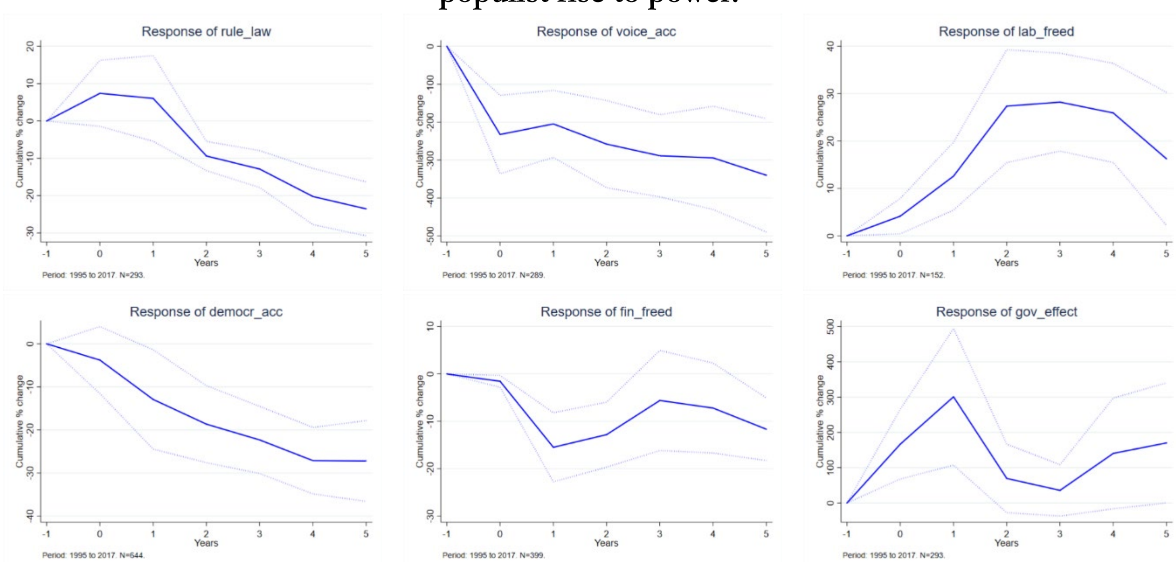


Figure 5. Cumulative impulse-response functions of select institutional variables to a populist rise to power.



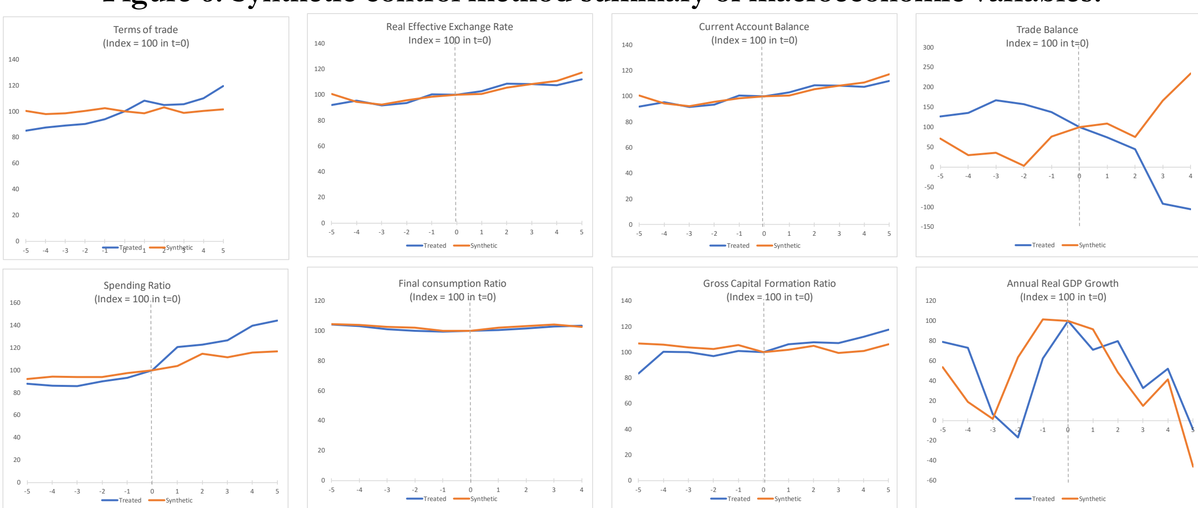
D. Synthetic control model

To investigate further the issue of reverse causality and omitted variables, we use the synthetic control method (SCM), as in Abadie and Gardeazabal (2003), Abadie and others (2010), and

Abadie (2020).[25] Following the usual notation in this literature, we denote populist events as the "treated" group and the "donors" as the countries from which, based on a set of variables, the synthetic is constructed. The donors are countries that do not experience any populist event throughout our sample duration. Conceptually, based on the donors' variables, the SCM finds the best fit combination of these variables to replicate the trajectory of the variable of interest of the treated country before treatment (in this case, the year in which a populist takes office). Then the observed trajectory of the treated variable is compared with the counterfactual generated by the synthetic. In this way, it enables the comparison before and after treatment—in this case, the rise to power of a populist leader or regime.

We present only the averages at each point in time for these variables.[26] We label *t=0* as the year in which a populist takes power and present the trajectory of these variables before and after *t=0*. Countries that have more than one populist event over our data span are included as many times as populist events occurred, so that we can include each event as a separate (time-series) observation of a populist in power. Specifically, each variable is mainly explained by its own lag. We chose only one lag, as adding more reduced the number of synthetics that we could build given the time span of our data.

Figure 6. Synthetic control method summary of macroeconomic variables.



On average, populist leaders enjoy beneficial external conditions (as given by the terms of trade), which at first are reflected in stronger currencies that end up weakening on the back of domestic policies (Figure 6). A stronger currency, along with substantial fiscal expansion aimed at stimulating economic activity, results in higher imports to the detriment of domestic consumption and investment, which then deteriorates the trade balance. Owing to strong external conditions, at first, we observe the improvement of the external current account. Eventually, however, it deteriorates owing to the expansive policies resulting in the eventual

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25 We refer the reader to the latter for a comprehensive description on the SCM.

26 Country-specific SCM charts are available from the authors upon request.

weakening of the domestic currency. Despite the populist claim of aiming at growing faster, we observe no difference in growth as a result of having a populist leader—just a switch from private sector to public sector demand.

We also investigate some institutional variables (Figure 7). We note a deterioration in democratic accountability, government integrity, government stability, monetary freedom, and property rights. There is not much difference regarding internal conflict.

Figure 7. Synthetic control method summary of institutional variables.

SCM confirms the results of the previous sections despite its lower fit (in part owing to the averages presented in these charts).

VI. Caveats in the Interpretation of the Results

Our results need three strong qualifications. First, populist governments are not the only ones to create macroeconomic imbalances. Second, not all populist governments have implemented irresponsible economic policies. Third, populist politicians, by bringing new issues to the political arena, have also helped address important social issues. We take the three issues in turn.

First, populist governments have not been the only ones engineering unsustainable consumption-driven boom-bust cycles and weakening institutions. Many of the (in)famous Latin American macroeconomic and financial crises took place under non-populist regimes, such as the Tequila crisis that took place in Mexico in 1994-95 and in Brazil circa 1999. Also, in Argentina the governments of Alfonsín and Menem, which are not classified as left-wing populist, implemented macroeconomic policies which ended up being unsustainable; the ensuing economic crises had political implications.

Second, not all governments labeled as populist by the political science literature implemented unsustainable economic policies. A primary example is Bolivia between 2006 and 2019. The macroeconomic policy mix implemented by Evo Morales has been relatively more conservative, in macroeconomic terms, than most of the other populist presidents since the late 1990s—especially when compared to those regimes that can be labelled as left-wing populist governments. Crucially, it did not end in high inflation or economic crisis.[27] The same can be said for Fujimori in Peru during the 1990s.

In addition, several countries in the region took advantage of the commodity super-cycle during the early 2000s, implementing social policies that were macroeconomically sound. For example, Brazil's programs (e.g., "Bolsa Familia") aimed at reducing poverty and improve income distribution, resulting in a large share of the poor moving into the middle class. In Bolivia, income inequality improved during the same time period on the back of redistribution policies. Mexico implemented several plans focused on poverty reduction by improving education, health, and malnutrition of the poor (e.g., "Oportunidades," followed by "Prospera"). Peru put in place several social programs, including "Pension 65" to help retirees that are in extreme poverty, or "Juntos," a conditional cash transfer program to reduce poverty. Uruguay's center-left coalitions have also been quite successful in implementing social improvements without major macroeconomic unsustainability.

Third, populist leaders may raise issues that the dominant elites have avoided. Some of these issues are then accepted into the main political mainstream. For instance, the Peronist movement in Argentina enfranchised large sectors of the population, including extending voting rights to women in 1951, who were previously excluded from the political process. In Bolivia, President Evo Morales strove to include large segments of the native population which had theretofore been excluded. In other cases, populists, even if not in power, force ruling parties to change their agenda and to be more inclusive. For instance, the Governor and U.S. Senator of Louisiana during the late 1920s and early 1930s, Huey Long, may have had some impact on the New Deal agenda, though causality is not clear.

Thus, although we document the economic unsustainability and institutional deterioration of populist regimes, we do not mean to disqualify some of the *policy objectives* that brought populist regimes to power. Regardless of whether governments were democratically elected or not, or whether leaders were or were not populist, the problem with Latin American populist policies has not been lack of genuine demands, but unsustainable policies to achieve such social needs.

VII. CONCLUSIONS

Populism is a recurrent phenomenon and appears to be on the rise once more. There are several recent papers looking at the *causes* of populism, but far fewer focus on its *effects*. While political scientists have made great progress in the conceptualization of populism following the more

[27] The lack of economic crisis in Bolivia under Evo Morales is interesting, as Evo Morales is considered an example of a left-wing populist regime. Part of the explanation could be the high price of gas during most of his governments; part remains to be explained. This raise the broader question of why populism remains popular in Latin America (see for instance Casullo, 2019.) The relatively prudent macro-economic management is considered one of the reasons of why Morales' party won a landslide victory in the elections in October 2020.

recent wave of populist regimes, they have not looked at the economic consequences. We define populists based on the political science, which we take as exogenous, thus strengthening our identification strategy. Specifically, populists are identified based on leaders' discourse—as opposed to simply looking for their policies.

We document that the latest wave of populism is characterized by a very different external environment than past episodes. The commodity super cycle and the relatively favorable external financing conditions have helped populists to stay in power longer than in previous episodes. This has allowed them to pursue their policies for a longer period without running into budget constraints. While this has not changed populism's basic economic effects, the longer duration of these policies may have had a deeper and longer lasting effect on the weakening of some institutions than has been previously considered. To the extent of our knowledge, the latter contribution is new and sheds light on important long-term consequences of these regimes.

By and large, the main macroeconomic features identified by Dornbusch and Edwards (1991) hold, including that populists tend to follow inconsistent economic policies which often result in economic crises. We also find suggestive evidence of a deterioration in the income distribution, which deserves further exploration.

Appendix

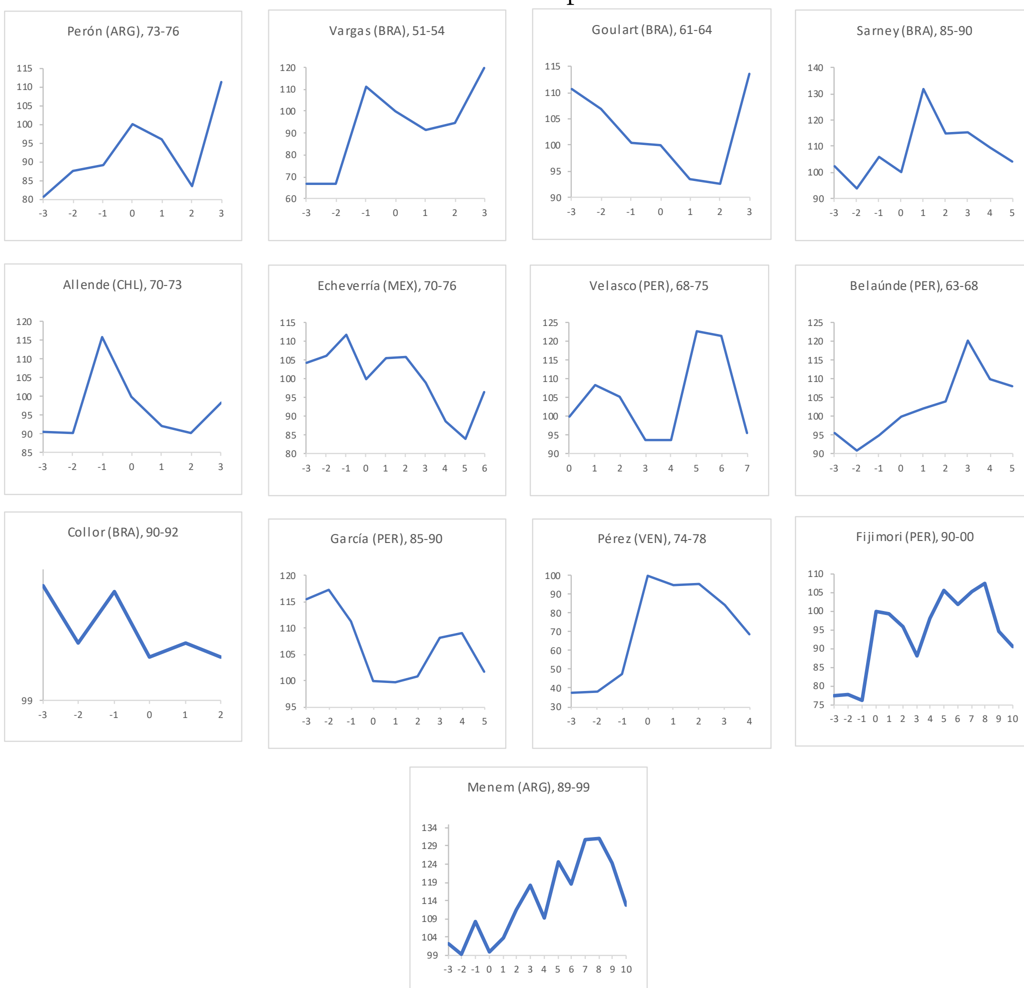
POPULISM IN LATIN AMERICA - DATA SOURCES					
	Variable	**Source**	**Link**	**Time frame**	**Countries**
1	Business Freedom	The Heritage Foundation	https://www.heritage.org/index/explore?view=by-region-country-year	1995-2018	26 countries
2	Commodity Prices (Metal, Food, Fuel)	World Economic Outlook database (WEO)		* Metals & Food: 1980-2017 * Fuel: 1992-2017	
3	Consumer Price Index (CPI)	* Dornbush & Edwards (1991) * IMF's World Economic Outlook Database (WEO) * De Pablo (2005)	* Dornbusch & Edwards: http://www.nber.org/chapters/c8296.pdf * De Pablo. *La economía argentina: en la segunda mitad del siglo XX.*	1948-2017	ALL +
4	Contract Viability	The PRS Group - via IMF Library	https://epub-prsgroup-com.libproxy-imf.imf.org/customer/countrydata/	1984-2018	24 countries
5	Current Account (net total)	* Dornbush & Edwards (1991) * Datastream * De Pablo (2005) * IMF's World Economic Outlook Database (WEO)	* Dornbusch & Edwards: http://www.nber.org/chapters/c8296.pdf * De Pablo. *La economía argentina: en la segunda mitad del siglo XX.*	1948-2017	ALL +
6	Democratic Accountability	The PRS Group - via IMF Library	https://epub-prsgroup-com.libproxy-imf.imf.org/customer/countrydata/	1984-2018	24 countries
7	Economic Risk Rating	The PRS Group - via IMF Library	https://epub-prsgroup-com.libproxy-imf.imf.org/customer/countrydata/	1984-2018	24 countries
8	Exchange Rate Regime Classification	Based on Ilzetzky, Reinhart, and Rogoff (2017)	http://www.carmenreinhart.com/data/browse-by-topic/topics/11/	ALL	1970-2016
9	Export Volumes	IMF's World Economic Outlook Database (WEO)		1970-2017	28 countries
10	Financial Freedom	The Heritage Foundation	https://www.heritage.org/index/explore?view=by-region-country-year	1995-2018	26 countries
11	Financial Risk Rating	The PRS Group - via IMF Library	https://epub-prsgroup-com.libproxy-imf.imf.org/customer/countrydata/	1984-2018	24 countries
12	Fiscal Balance	* Dornbush & Edwards (1991) * IMF's World Economic Outlook Database (WEO)	* Dornbusch & Edwards: http://www.nber.org/chapters/c8296.pdf	1970-2017	ALL
13	Gini Coefficient	World Bank	https://data.worldbank.org/indicator/SI.POV.GINI?view=map	1979-2016	24 countries
14	Government Effectiveness	Worldwide Governance Indicators (WGI) - World Bank	http://info.worldbank.org/governance/wgi/index.aspx#home	1996-2017	ALL
15	Import Volumes (percent of GDP)	IMF's World Economic Outlook Database (WEO)		1970-2017	28 countries
16	Inflation	* Dornbush & Edwards (1991) * IMF's World Economic Outlook Database (WEO)	* Dornbusch & Edwards: http://www.nber.org/chapters/c8296.pdf	1948-2017	ALL +
17	Investment Freedom	The Heritage Foundation	https://www.heritage.org/index/explore?view=by-region-country-year	1995-2018	26 countries
18	Labor Freedom	The Heritage Foundation	https://www.heritage.org/index/explore?view=by-region-country-year	1995-2018	26 countries
19	Law and Order	The PRS Group - via IMF Library	https://epub-prsgroup-com.libproxy-imf.imf.org/customer/countrydata/	1984-2018	24 countries
20	Political Ideology of the populist governments in power	* Authors' calculation based on Hawkins (2009) * The Database of Political Institutions 2017 (DPI2017) by the Inter-American Development Bank	https://publications.iadb.org/en/publication/database-political-institutions-2017-dpi2017	1970-2017	ALL
21	Political Risk	Worldwide Governance Indicators (WGI) - World Bank	http://info.worldbank.org/governance/wgi/index.aspx#home	1996-2017	ALL
22	Political Stability Rating	The Economist Intelligence Unit (EIU)	http://data.eiu.com/EIUTableView.aspx?initial=true&pubtype_id=182391002	1997-2017	8 countries

POPULISM IN LATIN AMERICA - DATA SOURCES (cont.)					
	Variable	**Source**	**Link**	**Time frame**	**Countries**
23	Populism Score	Hawkins, 2009		1970 - 2017	ALL
24	Populists Governments	* Pre-1990s Populists Governments: Dornbusch and Edwards, 1991 * Post-1990s Populists Governments: Hawkins, 2009	* Dornbusch, Rudiger; Edwards, Sebastian (1990). "Macroeconomic Populism". Journal of Development Economics. 32 (2): 247–277: https://www.sciencedirect.com/science/article/pii/030438789090038D *Dornbusch, Rudiger; Edwards, Sebastian. editors (1991). The Macroeconomics of Populism in Latin America. NBER conference report: https://www.nber.org/books/dorn91-1	1970 - 2017	ALL
25	Property Rights	The Heritage Foundation	https://www.heritage.org/index/explore?view=by-region-country-year	1995-2018	26 countries
26	Real Domestic demand (as percent of GDP)	IMF's World Economic Outlook Database (WEO)			
27	Real Effective Exchange Rate	IMF's *Information Notice System* (INS)		1948-2017	ALL
28	Real GDP	* Dornbush & Edwards (1991) * IMF's World Economic Outlook Database (WEO)	* Dornbusch & Edwards: http://www.nber.org/chapters/c8296.pdf	1948-2017	ALL +
29	Real GDP growth	* Dornbush & Edwards (1991) * Mauro, Romeu, Binder and Zaman (2013) * IMF's World Economic Outlook Database (WEO)	* Dornbusch & Edwards: http://www.nber.org/chapters/c8296.pdf * Mauro et al.A Modern History of Fiscal Prudence and Profligacy.	1948-2017	ALL
30	Regulatory Quality	Worldwide Governance Indicators (WGI) - World Bank	http://info.worldbank.org/governance/wgi/index.aspx#home	1996-2017	ALL
31	Revenue	* Dornbush & Edwards (1991) * Mauro, Romeu, Binder and Zaman (2013) * IMF's World Economic Outlook Database (WEO)	* Dornbusch & Edwards: http://www.nber.org/chapters/c8296.pdf * Mauro et al.A Modern History of Fiscal Prudence and Profligacy.	1948-2017	ALL +
32	Rule of Law	Worldwide Governance Indicators (WGI) - World Bank	http://info.worldbank.org/governance/wgi/index.aspx#home	1996-2017	ALL
33	Spending	* Dornbush & Edwards (1991) * Mauro, Romeu, Binder and Zaman (2013) * IMF's World Economic Outlook Database (WEO)	* Dornbusch & Edwards: http://www.nber.org/chapters/c8296.pdf * Mauro et al.*A Modern History of Fiscal Prudence and Profligacy.*	1948-2017	ALL +
34	Spending in Employees	IMF's World Economic Outlook Database (WEO)		1994-2015	ALL +
35	Spending in Social Benefits	IMF's World Economic Outlook Database (WEO)		1970-2017	ALL
36	Spending in Social Benefits, Social Security	IMF's World Economic Outlook Database (WEO)		1994-2015	ALL +
37	Tax Revenue	* Dornbush & Edwards (1991) * IMF's World Economic Outlook Database (WEO)	* Dornbusch & Edwards: http://www.nber.org/chapters/c8296.pdf	1994-2015	ALL +
38	Terms of Trade	* Dornbush & Edwards (1991) * Díaz Alejandro (1970) * IMF's World Economic Outlook Database (WEO)	* Dornbusch & Edwards: http://www.nber.org/chapters/c8296.pdf * Díaz Alejandro. *Essays on the Economic History of the Argentine Repubic.*	1970-2017	ALL
39	Trade balance (in percent of GDP and in real terms)	IMF's World Economic Outlook Database (WEO)		1970-2017	ALL
40	Trade Freedom	The Heritage Foundation	https://www.heritage.org/index/explore?view=by-region-country-year	1995-2018	26 countries
41	Voice and Accountability	Worldwide Governance Indicators (WGI) - World Bank	http://info.worldbank.org/governance/wgi/index.aspx#home	1996-2017	ALL
42	Windfall Income	IMF's World Economic Outlook Database (WEO)		1970-2017	ALL

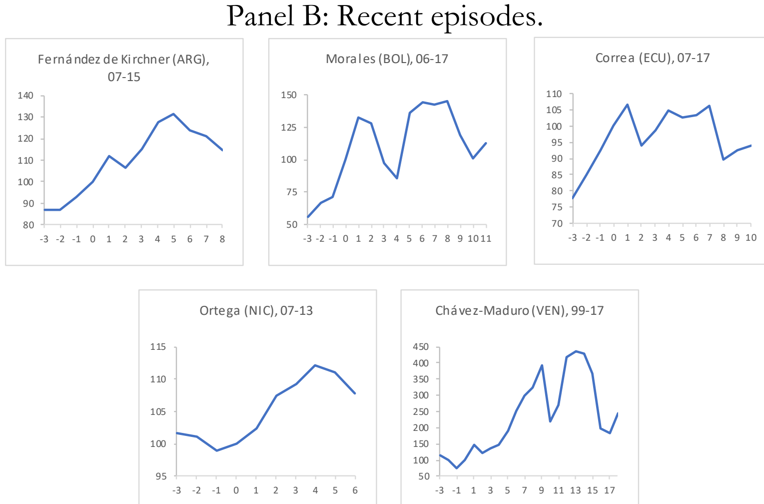
Figure A.1. Populist expansions and terms of trade.

(TOT = 100 in $t = 0$)

Panel A: Past episodes

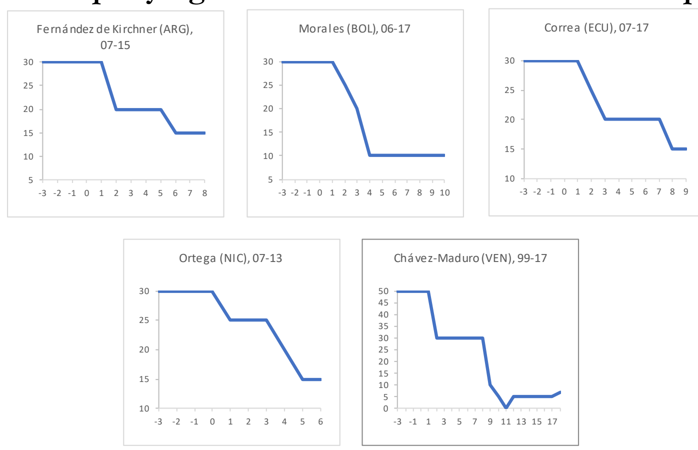


Panel B: Recent episodes.



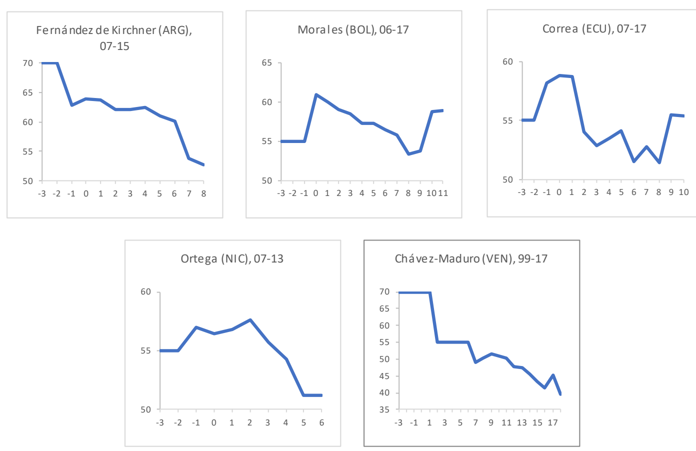
Source: IMF's World Economic Outlook.

Figure A.2. Property rights deterioration is associated with populism.



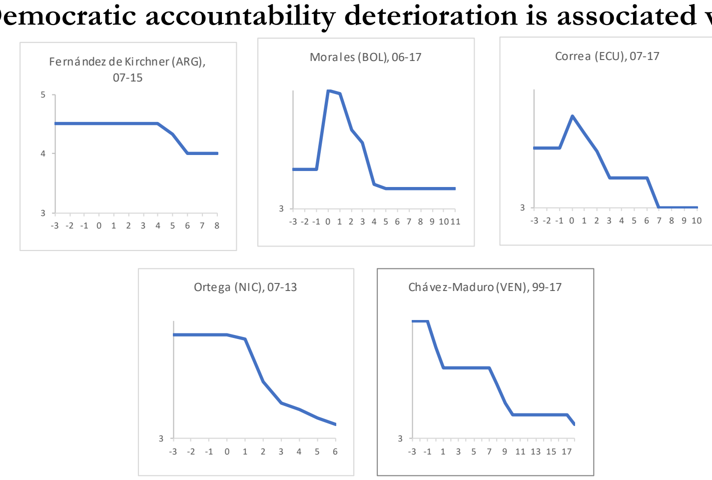
Source: see appendix.

Figure A.3. Business freedom deterioration is associated with populism.



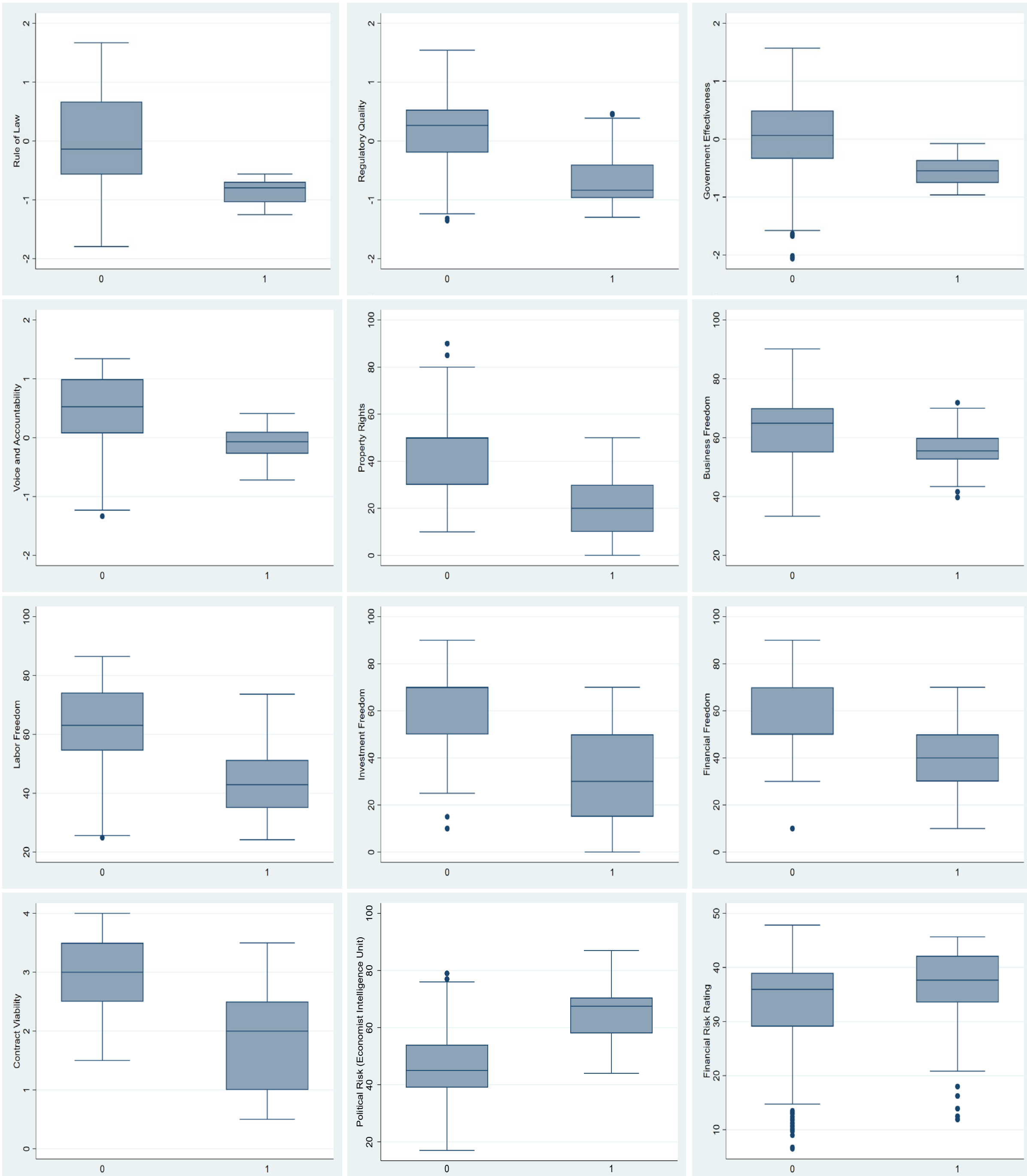
Source: see appendix.

Figure A.4. Democratic accountability deterioration is associated with populism.



Source: see appendix.

Figure A.5. Comparison of institutional outcomes between Populist vs. non-populist regimes.



Source: See the Appendix for institutional variables' definitions and sources.

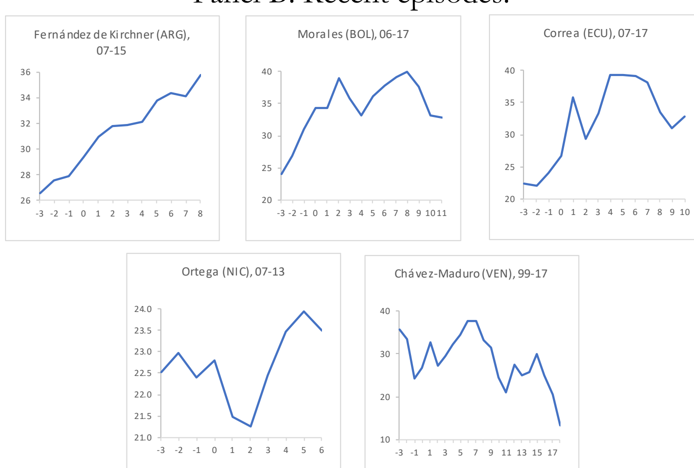
Note: we label as "zero" the observations corresponding to not having a populist in place and "one" for those with a populist government.

Figure A.6. Populist governments and fiscal expansions.

(percent of GDP)

Panel A: Past episodes

Panel B: Recent episodes.

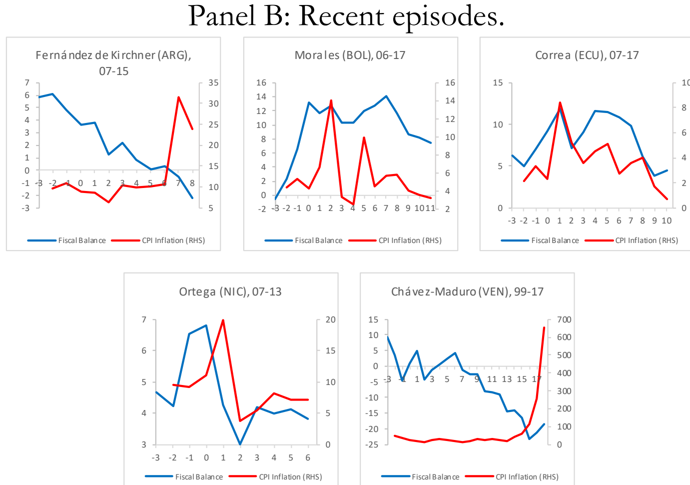


Source: IMF's World Economic Outlook.

Figure A.7. Inflation tax-financed fiscal expansions.
(percent and percent of GDP)

Panel A: Past episodes

Panel B: Recent episodes.

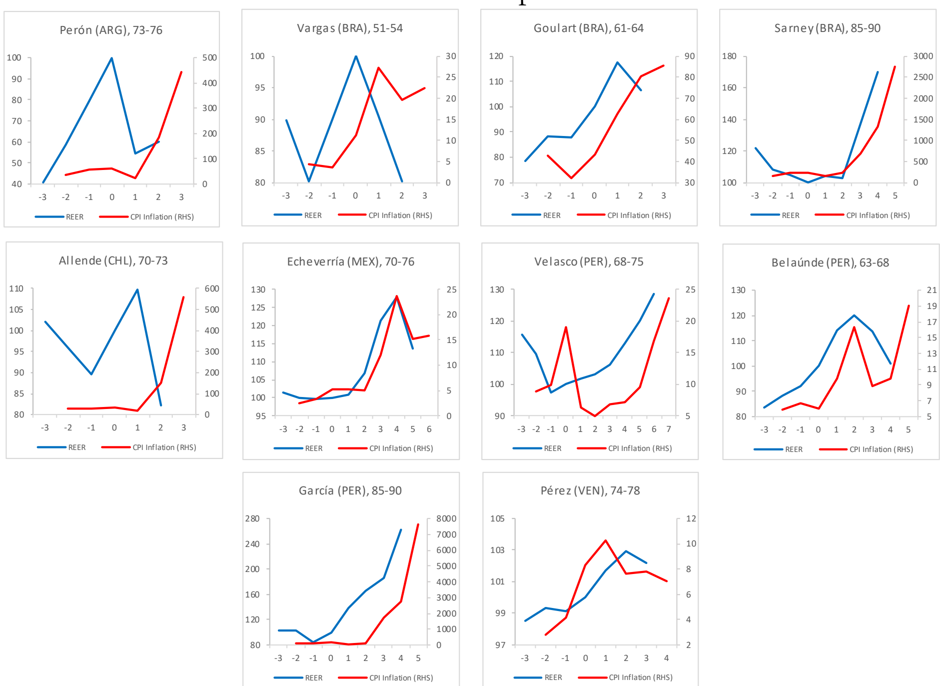


Source: IMF's World Economic Outlook.

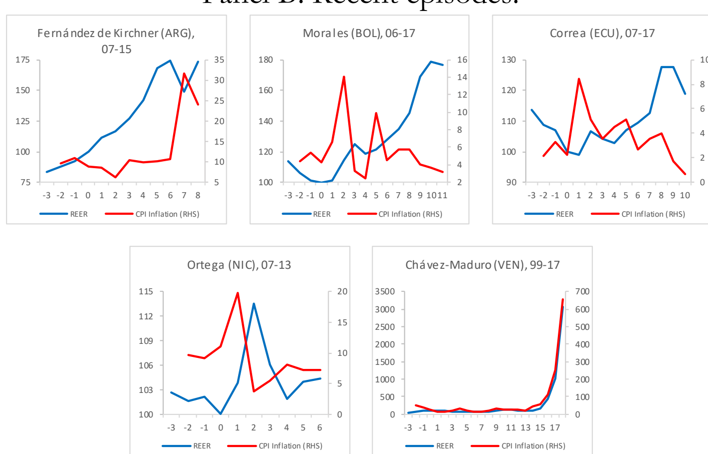
Figure A.8. Inflation rates and real exchange rate appreciation.

(percent and REER = 100 in t = 0)

Panel A: Past episodes



Panel B: Recent episodes.

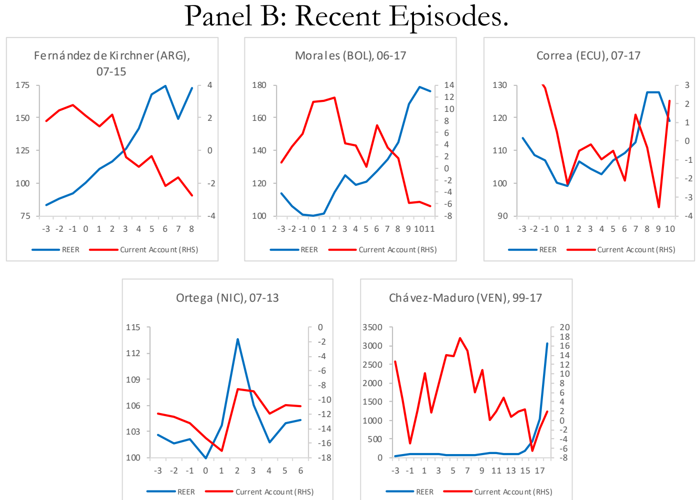


Source: IMF's World Economic Outlook.

Figure A.9. Real exchange rate appreciation deteriorates current account balances.
(REER = 100 in t = 0 and percent of GDP)

Panel A: Past Episodes

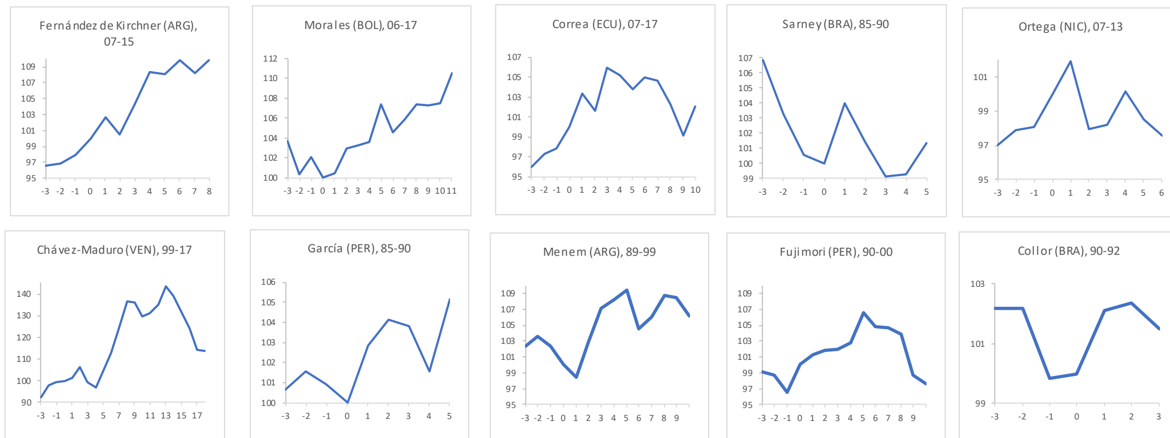
Panel B: Recent Episodes.



Source: IMF's World Economic Outlook.

Figure A.10. Domestic demand boom-bust populist cycles.

(Index = 100 in t=0)

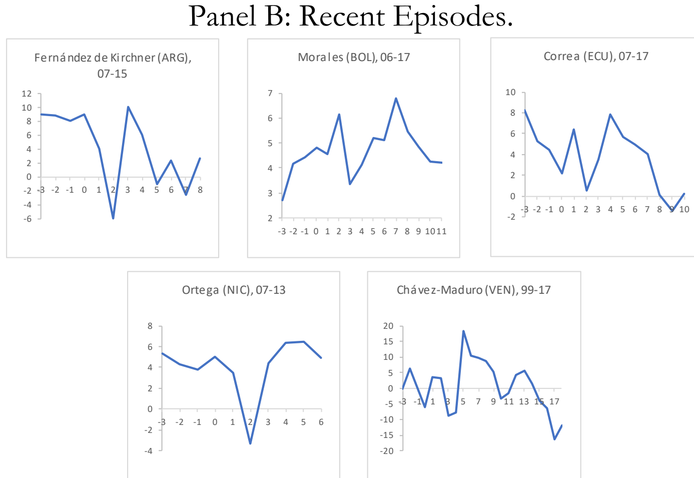


Source: IMF's World Economic Outlook

Figure A.11: Slowing economic activity.
(percent)

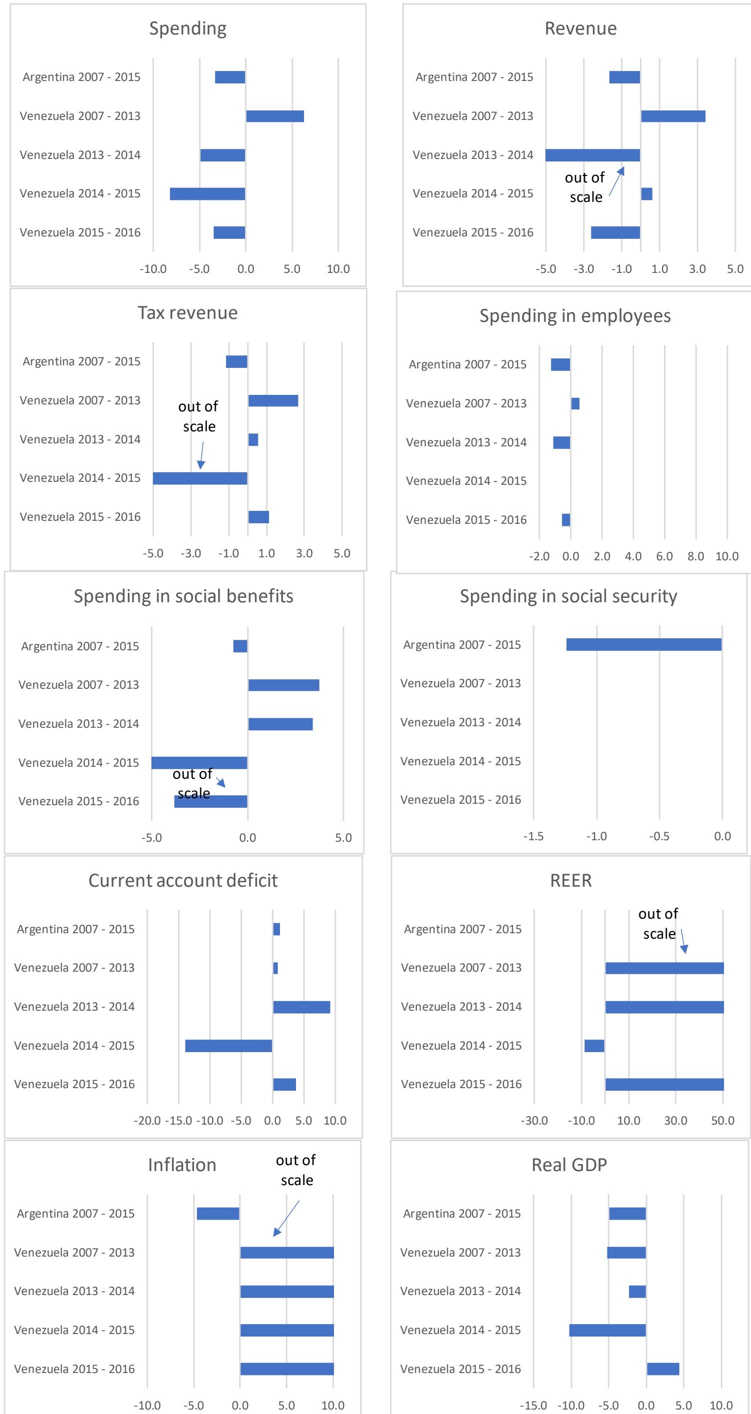
Panel A: Past Episodes

Panel B: Recent Episodes.



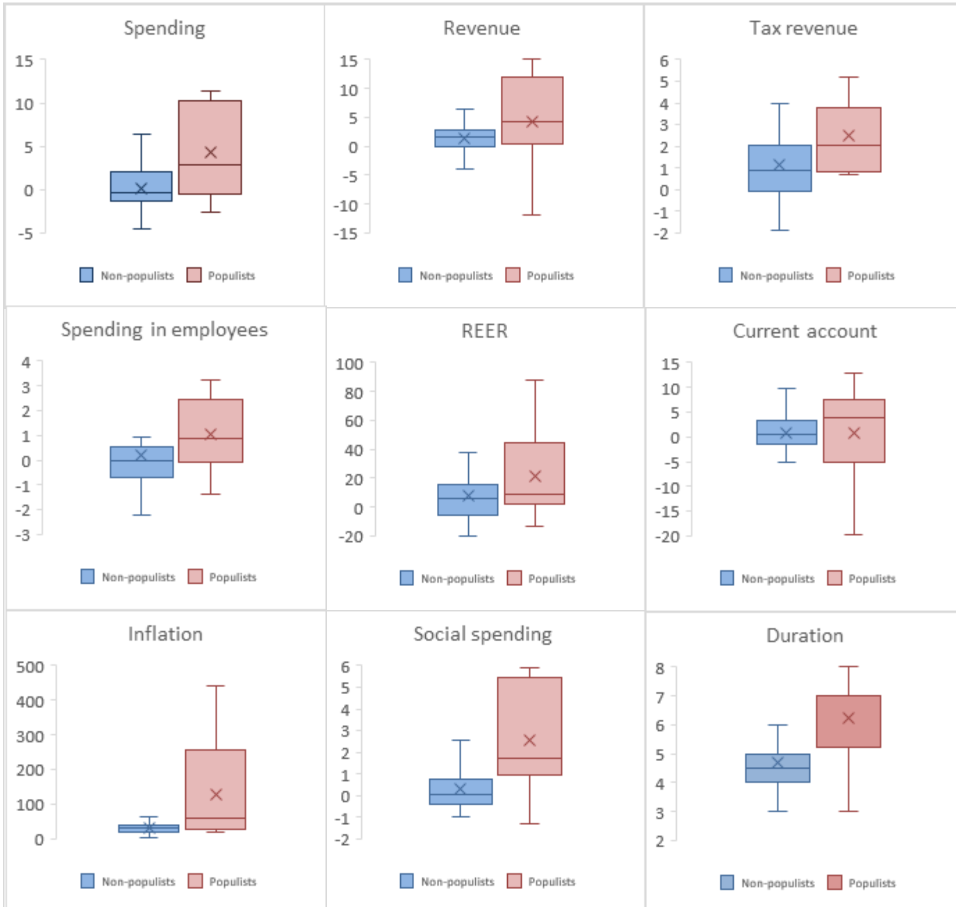
Source: IMF's World Economic Outlook.

Figure A.12. Selected variables after populist collapses.



Source: IMF's World Economic Outlook.

Figure A.13. Comparison of macroeconomic outcomes between Populist vs. non-populist regimes.



Source: IMF's World Economic Outlook and see the Appendix for institutional variables.

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