



Populism Does Not Really Matter

- Populism is a popular scare story but offers limited analytic value; the real issue is governments' long-term legitimacy deficits.
- As governments are seen as increasingly illegitimate and unable to fulfill the social contract, radical political challenges emerge.
- Legitimacy deficits force governments to overcompensate with higher fiscal outlays, market-unfriendly policies, and increased risks of conflict.

In This Report

Implications 7

Appendix..... 11

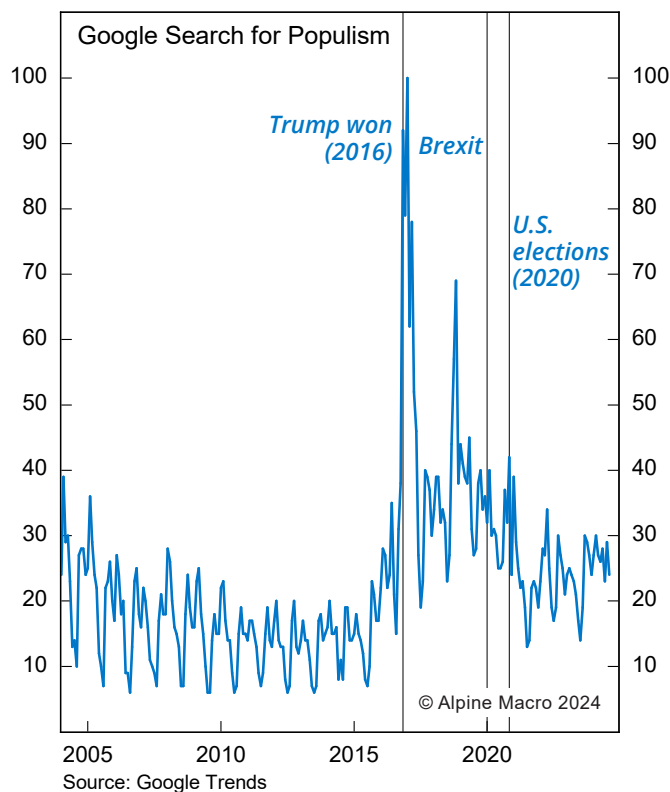
Unexpected election outcomes since the mid-2010s have intensified academic, media, and analytical focus on "populism" ([Chart 1](#)). This term is often described in negative, even apocalyptic, terms, with dire warnings hearkening back to 1930s Europe and fears of looming authoritarianism.

Yet, what is populism? There's a lively academic debate, which, to (grossly) simplify, boils down to:

- "A country's 'true people' are locked into conflict with outsiders, including establishment elites.
- Nothing should constrain the will of the true people."¹

Sounds alarming, right? But this could describe anything from the politics that fueled the rise of dictators like Lenin or Mussolini to those of figures like

Chart 1 Concerns Regarding Populism Have Increased



1 Tony Blair Institute for Global Change, "Populists In Power Around The World" (November 7, 2018).

Tipping Point In Financial Markets: A Melt-up or Meltdown?

Global financial markets are facing increasing challenges: the risk of recession is rising as tight monetary policy has entered its 28th month, while the bull market in big tech has turned parabolic and is due for a shakeout. However, inflation has fallen sharply, and the Fed is poised to ease at a time when political and geopolitical risks have greatly escalated.

At this critical juncture, Alpine Macro's strategists are joined by a group of highly respected outside experts to discuss the pressing issues facing investors, including:

- Are we at the tail-end of the bull market in equities, or does the bull have further to run? Which sectors should investors allocate their capital to, and what will be the new leaders in the marketplace?
- How should investors hedge against the rising risk of wars and conflicts?
- Harris vs. Trump: How will the election result change U.S. economic policies and affect financial markets?
- What's next for commodities and energy? Are we heading for a new super-cycle bull market, and is ESG dead?

Come and join us for a day of debate, discussion, and brainstorming on the big macro themes and how to capitalize on them in this highly uncertain environment.

This is an in-person only event, and seats are already 70% sold out. If you are interested in this event, please register now.

[Click here](#) for a detailed conference agenda

[Click here](#) to register

Guest Speakers + Alpine Macro Strategists



Ruchir
Sharma



Mike
Dooley



Francois
Trahan



Jim
Paulsen



Gina Martin
Adams



Greg
Valliere



Gareth
Shepherd



Tavi
Costa



Lenka
Martinek



Adam
Rozencwajg

Jimmy Carter, Ronald Reagan, Margaret Thatcher, and Barack Obama.

In other words, **populism is a confrontational/highly critical style of politics, not tied to any specific ideology.** And everyone does it. Both Donald Trump and Kamala Harris propose policies that appeal to the masses while attacking elites. Harris focuses on price controls, subsidies, and tariffs, targeting the elites in the shape of the wealthy and big business. Trump offers a somewhat similar mix but rallies against foreign forces and political elites. Both claim to represent the "true people" and argue that nothing should constrain the latter's will.

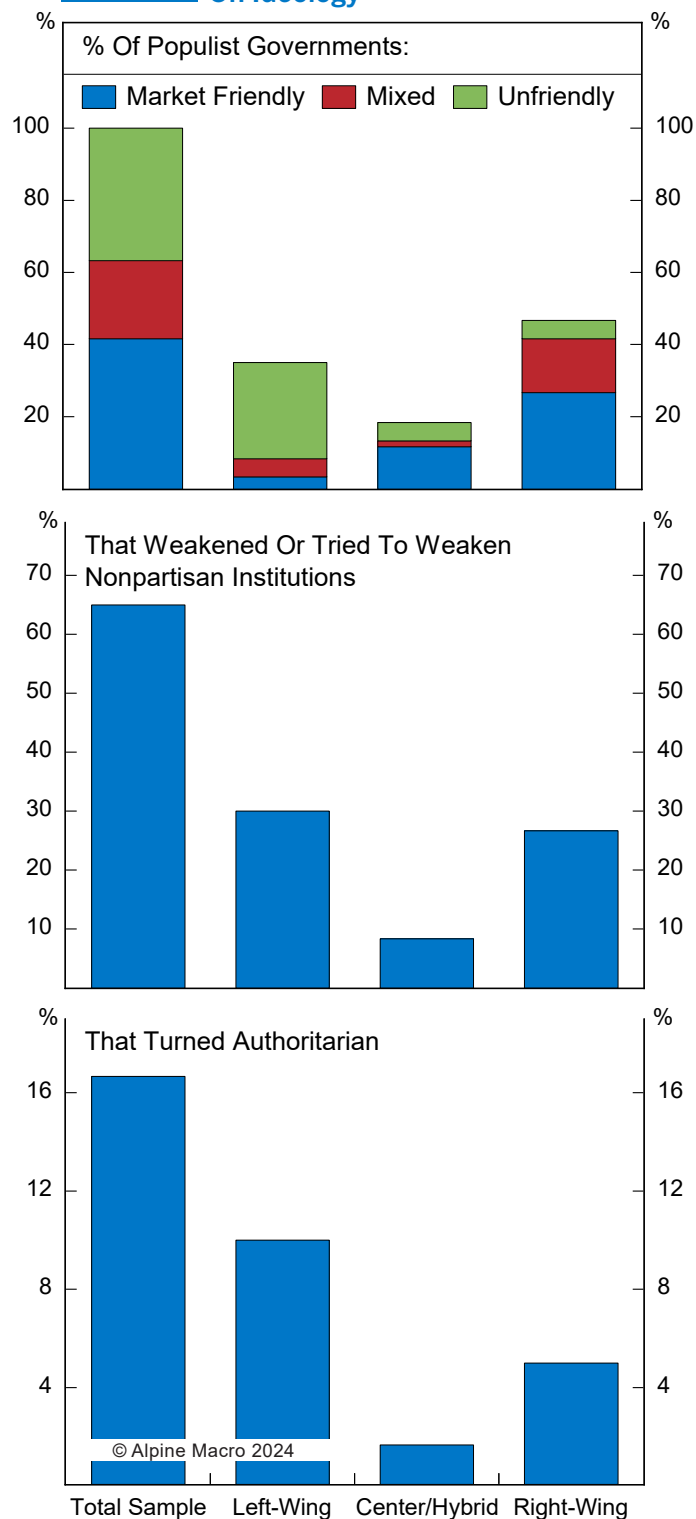
As Richard Nixon might say, "We are all populists now." The definitions of populism are so vague that one could (and should) drive a truck through it.

According to one dataset (which we augment, see [Appendix](#)), **populists include figures ranging from liberal democrats like Poland's Lech Walesa to authoritarian leaders like Vladimir Putin. Socialists like Argentina's Kirchners, and libertarians like President Javier Milei, are both labeled populists.**

What does this all mean? "Populism" seems to serve two purposes. First, it's an insult, painting a politician as a dangerous radical. **Beyond the pejorative use, it describes a confrontational style where politicians rally against an arguably broken status quo, appealing to the populace by portraying elites as out-of-touch, inept, or corrupt.**

The shrill tone of populism, more than its content, seems to define it. Populism is not an end, it is a (rhetorical) tool. It is, in principle, about as value-neutral as any other tool, say a vacuum cleaner.

Chart 2 Populist Governments Behave Differently Based On Ideology



Note: The sample includes 60 populist governments from 1990 onwards, with the list provided in the appendix



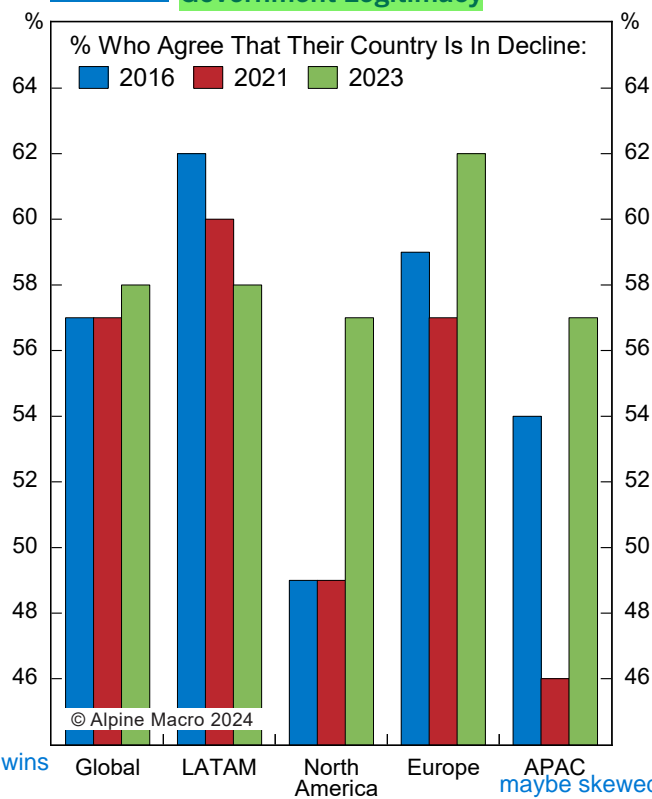
While the downsides of populism are often discussed, it's crucial to remember that populism can also channel popular discontent against authoritarian, ineffective, or corrupt elites. Walesa in Poland, Milei in Argentina, AMLO in Mexico, and Modi in India are clear examples. LMAO

Once in power, populists often misgovern due to their inexperience as outsiders with unconventional ideas. They are frequently constrained by norms and institutions, as seen with leaders like Donald Trump, the Austrian FPÖ in coalition governments, and Duterte in the Philippines. Many populists take shortcuts, pushing for controversial policies or attempting to weaken institutional or constitutional protections. As shown in [Chart 2](#), a significant number of known populist leaders try to weaken institutions, and this tendency is more pronounced in left-wing governments in our sample. eg. Trump to Fed if he wins

However, populism does not inherently threaten democracy; rather, it often reflects voters' natural reaction against the undemocratic qualities of liberal institutions.²

Yet, what fuels populism and broader discontent with the political status quo? We argue the true issue is a decline in, or lack of, governmental legitimacy. In many Western countries, the end of the Cold War, changing growth patterns, new technologies, and shifting demographics have stressed or upended welfare states established post-1945. Additional shocks, including the 2008 financial crisis, the COVID-19 pandemic, and recent inflation, have further eroded governments' ability to govern with consent, as economic security diminishes.

Chart 3 Perceptions Of Decline Lead To Lower Government Legitimacy



Source: IPSOS Populism Survey (Feb 2024)

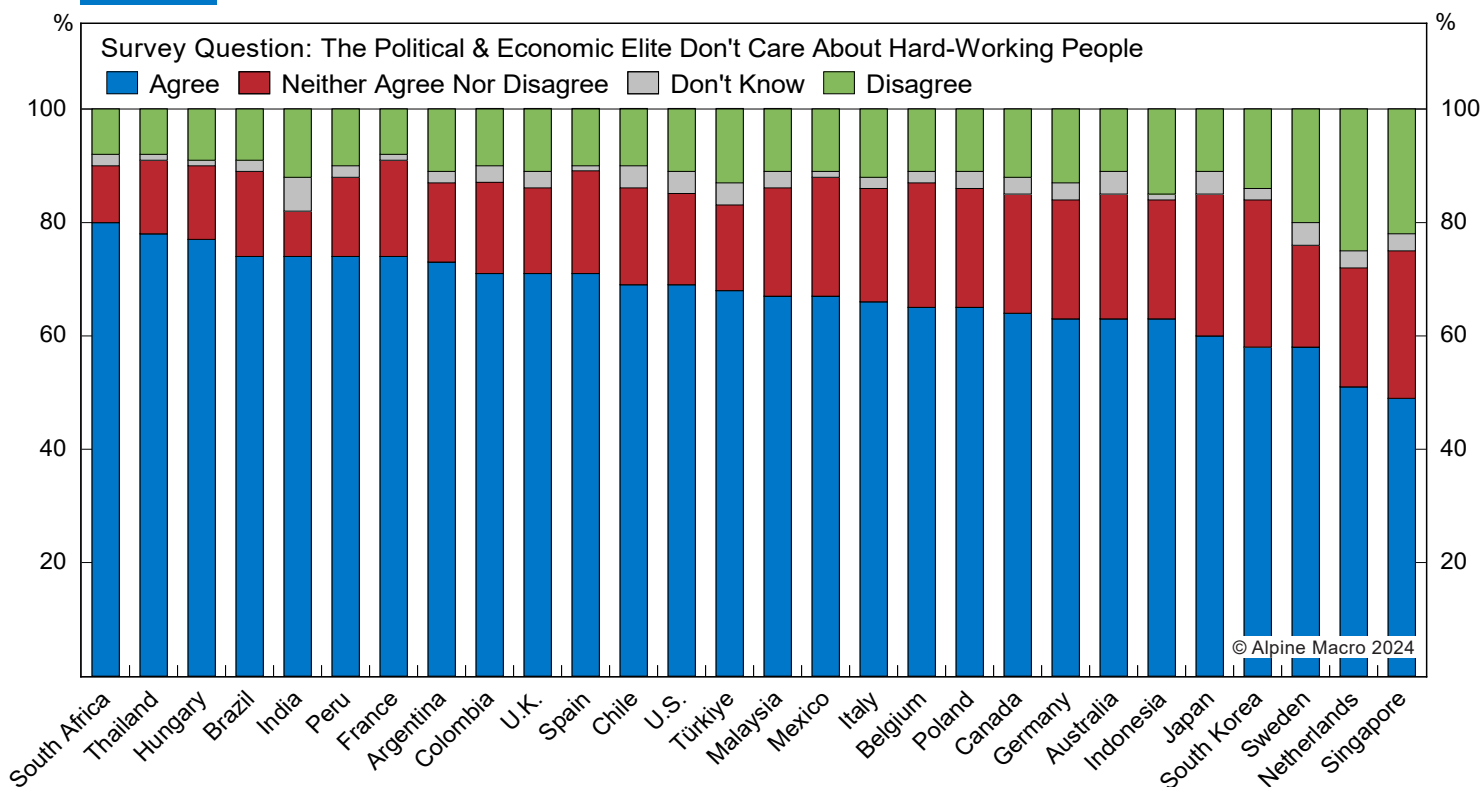
maybe skewed due to China?

This legitimacy crisis is also evident in major emerging markets like Latin America, Eastern Europe, and parts of Asia. Even in China, the government's legitimacy has been impacted by the COVID-19 response and post-pandemic economic stresses. [Chart 3](#) illustrates how many people globally see their countries in decline, contributing to a legitimacy deficit.

We view the "Legitimacy Deficit" as a defining long-term trend, rather than populism, which is merely a symptom. Along with U.S.-China bipolarity and a focus on national security resilience (e.g., supply chain security, reindustrialization), this major trend

² Wilson Center, "Is Populism Really A Problem For Democracy?" (August 2019).



Chart 4 Popular Disenchantment With Ruling And Economic Elites Runs High


Source: IPSOS Populism Survey (Feb 2024)

will shape the geopolitical landscape for the next decade or more.³

Why is this the root issue in our view? We take as axiomatic that the most basic goal of a government is to remain in power. To do so without massive repression (e.g., North Korea, Iran), governments need to uphold a social contract with their people. The social contract typically involves providing economic benefits, appealing to nationalism, religion, or ideology, and offering some form of "voice" to the governed, whether through voting or other means in authoritarian regimes.

In this context, populist politics are largely due to widespread anger at governing elites perceived as

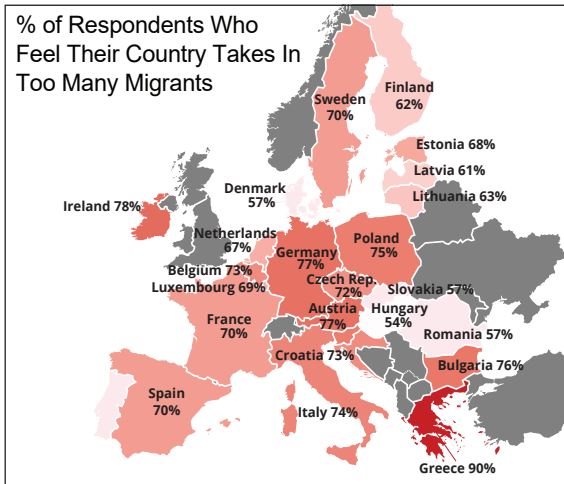
indifferent to citizens' needs (Chart 4), a key delegitimizing factor.

As social contracts fray and governments struggle to deliver economic benefits, populist-style politics have risen. To stay in power and rebuild legitimacy, even establishment politicians adopt populist stances. Joe Biden's industrial policies, tariffs, fiscal expansion, and student debt plans are prime examples, aimed at appeasing an electorate struggling with long-term economic dislocations. Similarly, the Democrats' failed attempts to change longstanding U.S. norms and institutions — such as removing the Senate filibuster, adding Supreme Court Justices, or abolishing the Electoral College — also fall under the populist rubric.

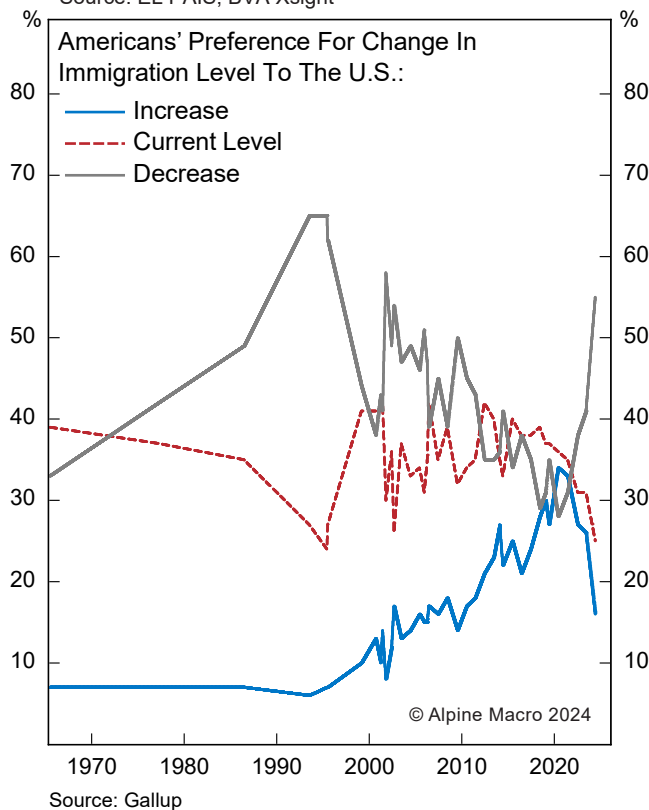
³ Alpine Macro *Geopolitical Strategy*, "The Three Long-Term Geopolitical Trends To Watch" (April 10, 2024).



Chart 5 Strong Majorities In Europe And The U.S. Now Support More Immigration Restrictions

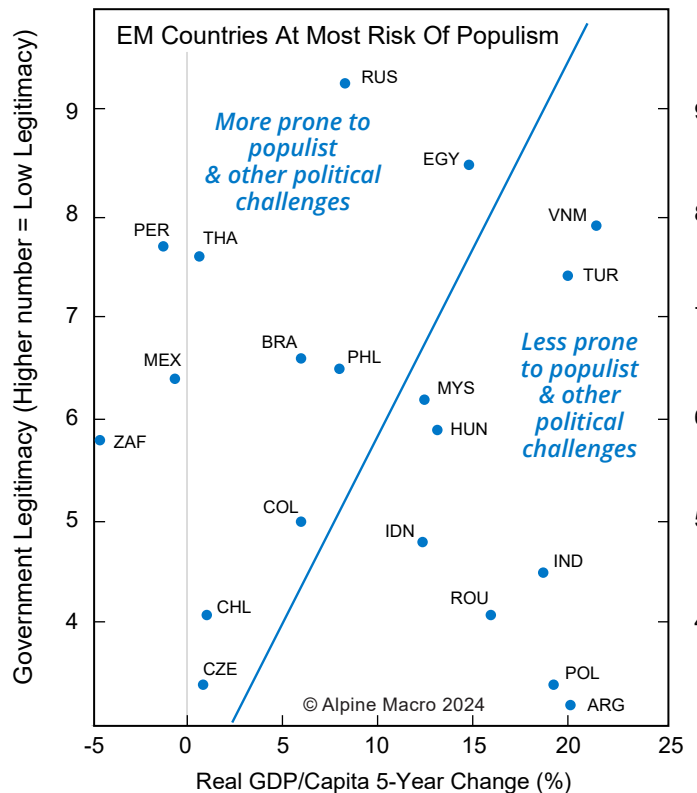
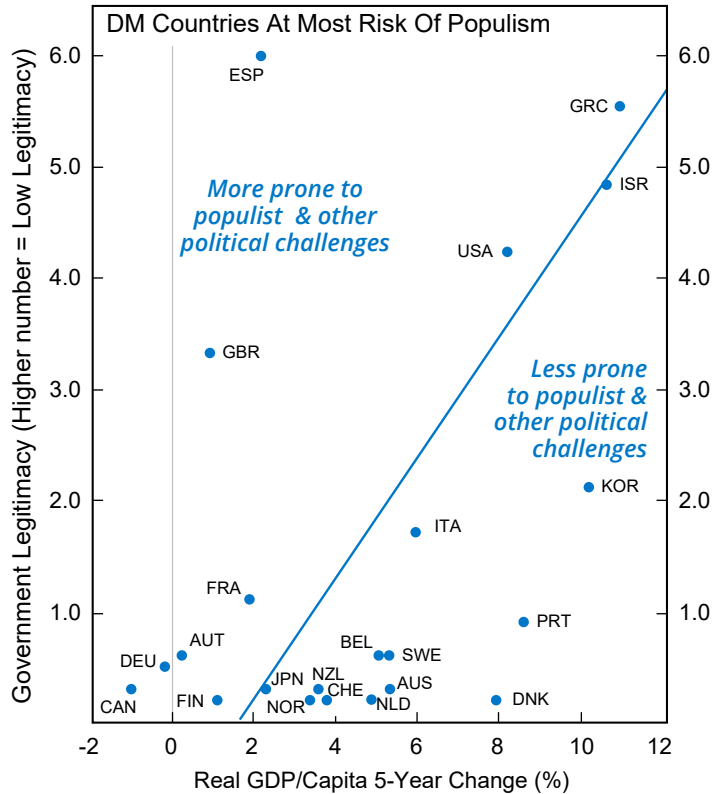


Source: EL PAIS, BVA Xsight



In sum, governments will continue to grapple with reestablishing legitimacy and rebuilding frayed social contracts. For instance, Western voters are increasingly questioning existing immigration policies (Chart 5), forcing politicians of all stripes to

Chart 6 Select DM And EM Countries That Will Struggle With Additional Legitimacy Issues



balance economic and humanitarian considerations against voter anger about this issue. Even some left-wing governments, like in Denmark, have adopted more restrictive immigration policies, reflecting the strong voter preferences.

Implications

Charts 6 shows selected EMs and DMs along two dimensions: political legitimacy and economic growth (e.g., real GDP per capita change over five years). This highlights countries at risk of further populist and political discontent. In the DM panel, the U.S., the UK, and Spain score high in the negative legitimacy dimension, while low long-term per capita growth in Germany, Austria, and Canada may also indicate rising populist pressures.

As governments grapple with a legitimacy deficit, incumbents or their populist challengers will attempt to appeal to citizens through increased economic benefits or by invoking nationalism. While these strategies aren't always negative, they can lead to inefficient economic policies like tariffs, subsidies, and industrial policies.

Governments often respond to broken social contracts, low legitimacy, and populist pressures by increasing spending, especially after major economic shocks like the 2008 financial crisis or COVID-19. **Charts 7 & 8** illustrate the long-term rise of populist party vote shares in select European countries, showing a clear interplay between rising government debt-to-GDP ratios and de-legitimization of incumbents/ demand for political change, centered around these major shocks.

Chart 7 Populism And Fiscal Expansion In European States (Part 1)

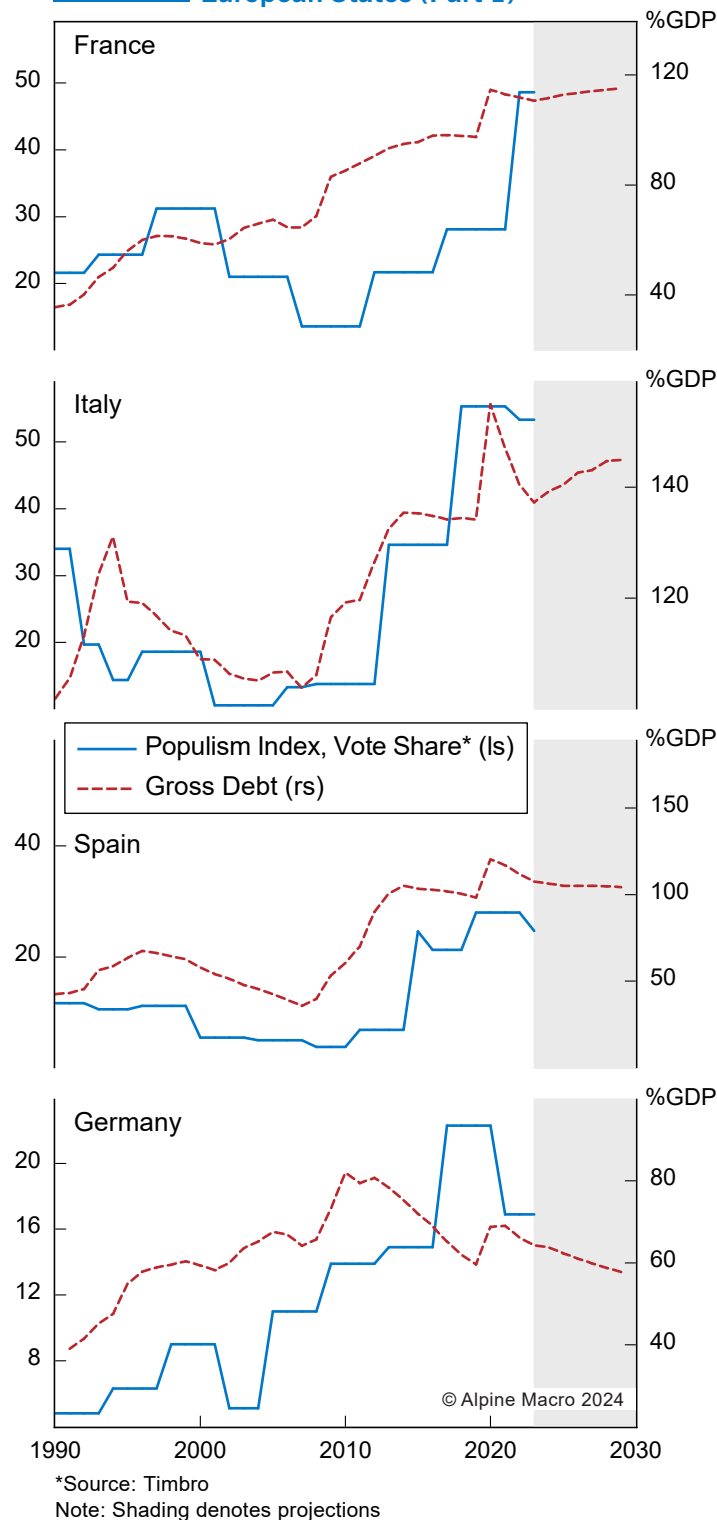
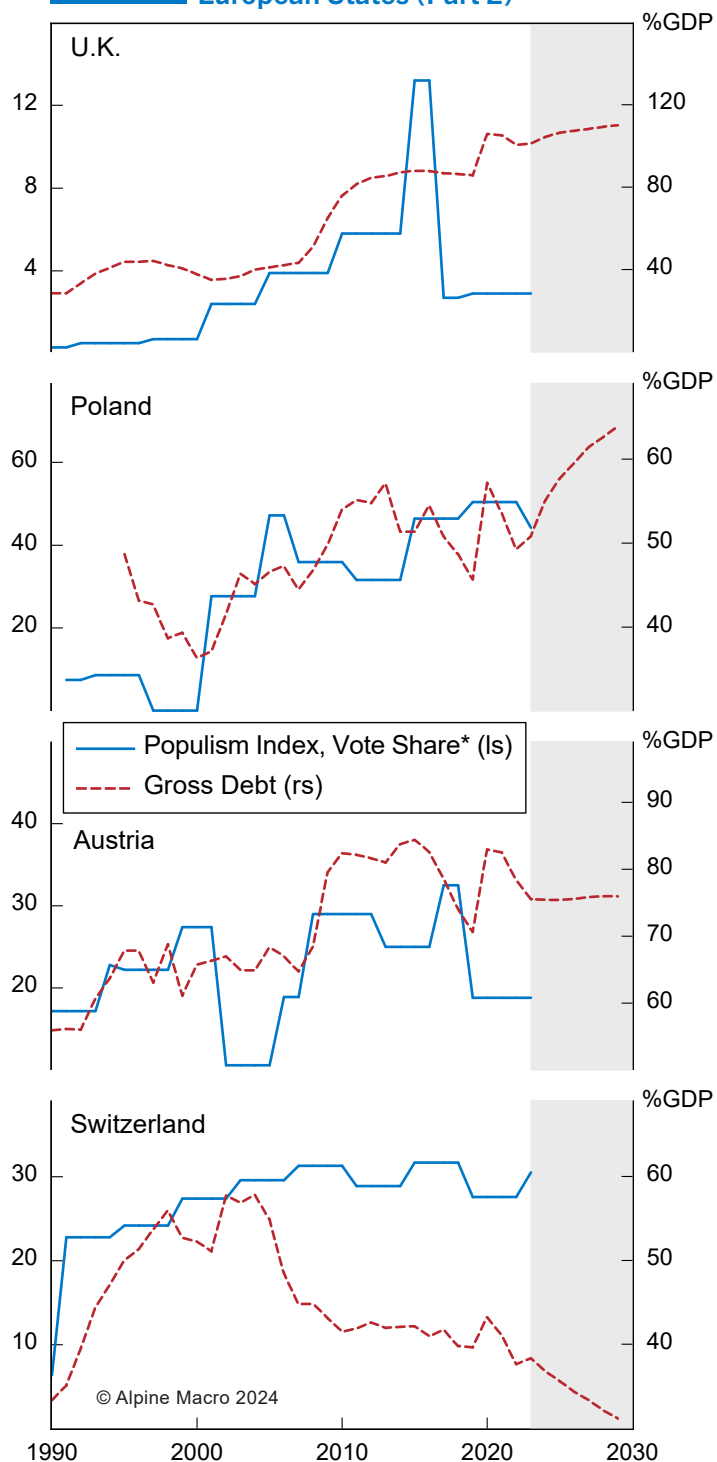
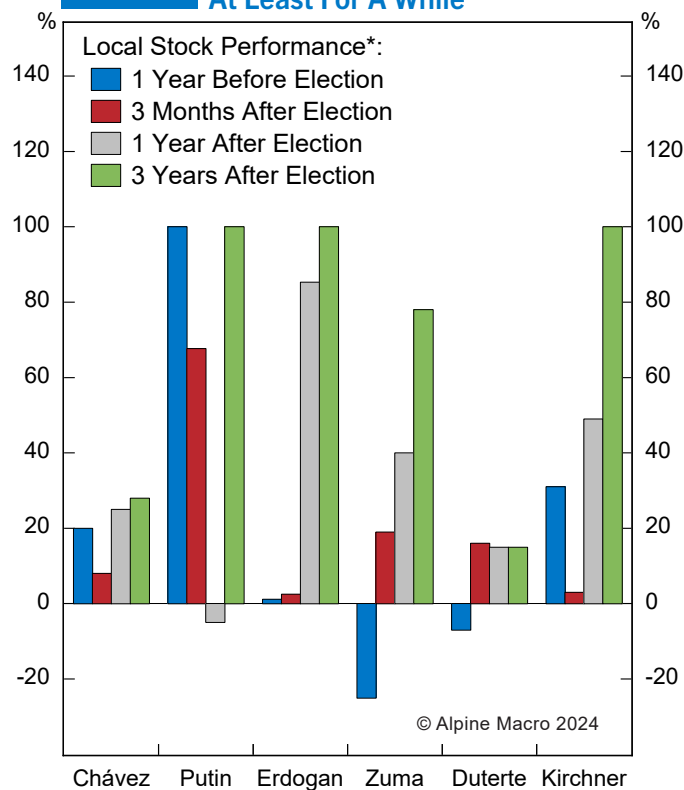


Chart 8 Populism And Fiscal Expansion In European States (Part 2)


*Source: Timbro

Note: Shading denotes projections

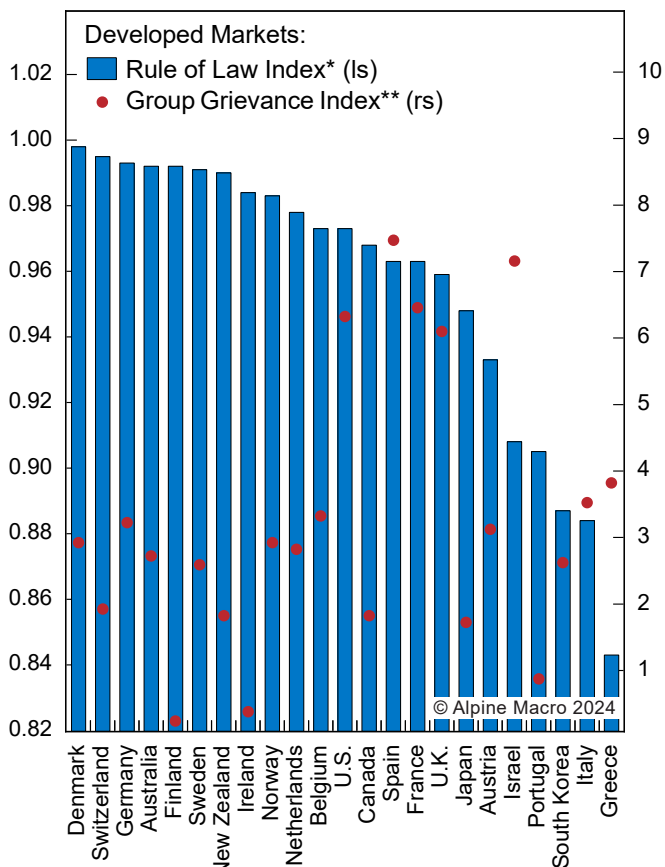
Chart 9 Stock Markets In Some Populist-Run Countries Perform Extremely Well... At Least For A While


*Truncated at 100; actual values for 1 year before election (Putin) is 235, 3 years after election (Putin) is 109, 3 years after election (Erdogan) is 331, 3 years after election (Kirchner) is 360
Note: Data includes Venezuela's Hugo Chávez (1998), Russia's Vladimir Putin (2000), Turkey's Recep Tayyip Erdogan (2003), South Africa's Jacob Zuma (2009), Philippines' Rodrigo Duterte (2016), Argentina's Nestor Kirchner (2003)

Fiscal consolidation will remain challenging, particularly for governments lacking legitimacy. France, as its recent elections indicate, and the U.S. will face ongoing issues with fiscal tightening. Neither major U.S. party currently supports fiscal tightening, and there is little public appetite for it. We believe that only an unpredictable future fiscal crisis might make U.S. fiscal consolidation a priority.

When analyzing governments, their economic policies, and market implications, we think investors should focus on three key issues:

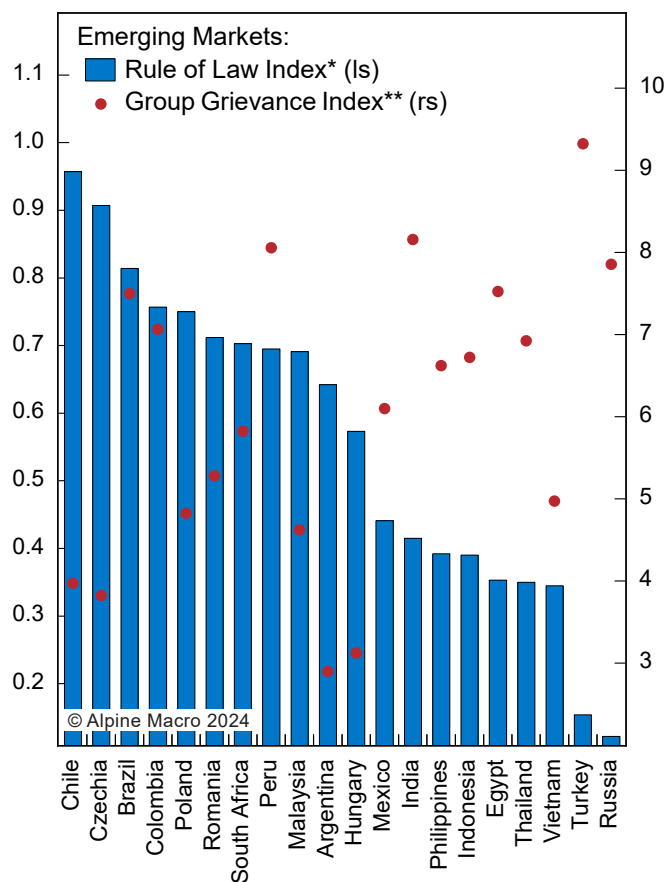
Chart 10 Rule Of Law And Group Grievances, Developed Markets



*Source: Varieties of Democracy Institute

**Source: Fund for Peace

Chart 11 Rule Of Law And Group Grievances, Emerging Markets



*Source: Varieties of Democracy Institute

**Source: Fund for Peace

1. Ignore The Populist Noise, Focus On Market-Friendliness

Which politicians have market-unfriendly or potentially confiscatory agendas? This is a tricky issue. First, investors need to differentiate between populist rhetoric and reality. Then, they must assess whether even market-unfriendly governments face constraints that may compel them to remain investor-friendly. Brazil under Lula, particularly in his current term, is a positive example.

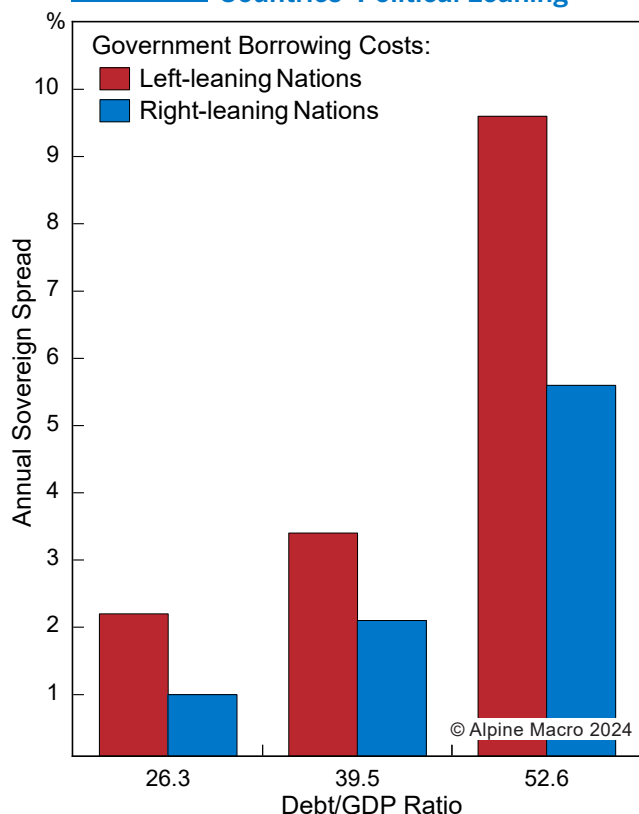
However, these constraints can erode over time, posing significant risks. For instance, under some authoritarian or economically idiosyncratic populist

leaders, stock markets have initially performed well, as [Chart 9](#) shows, though later outcomes often worsened, given policy choices.

Instead of focusing on “populism,” investors should assess whether governments uphold the rule of law. This is especially important in countries with high level of group grievances (another indicator of populist pressure). [Charts 10 & 11](#) display these variables in EM and DM states. Ideology (i.e., left vs. right) in fact plays a much bigger role than populism in determining government policymaking, and generally left-leaning states pay higher borrowing costs than right-leaning ones, as left-wing



Chart 12 Government Borrowing Costs And Countries' Political Leaning



Source: "Sovereign Spreads & The Political Leaning of Nations", NBER Working Paper No. 29197; IMF, World Bank, JP Morgan, the Inter-American Development Bank

governments are often more fiscally expansive and less market-friendly (Chart 12).

2. Are Governments Trying To Alter Constitutions Or Nonpartisan Institutions To Benefit Their Political Causes?

This is more of a long-term issue, but some leaders attempt to change institutions to benefit their political futures or parties. A prime example is AMLO in Mexico, who has sought to centralize power and radically alter or weaken key autonomous institutions, including energy regulators, the National Electoral Institute, and the judicial system. While such attempts may not impact markets in the short term,

or during AMLO's remaining tenure, they will likely erode market and business confidence in the long run. Such actions often serve as leading indicators of creeping authoritarianism, as seen in Venezuela and, to a lesser extent, in Turkey and Hungary.

3. Are Governments Pursuing Belligerent Policies Abroad Or Increased Repression At Home?

Most populist governments are generally peaceful, with some notable exceptions. A regime seeking to re-legitimize itself may resort to force, either to suppress dissent at home or to stir nationalist pride by acting abroad. Russia under Putin has clearly followed this path since at least 2008, with the invasion of Georgia, and intensified its actions in Ukraine from 2014 to 2024, leading to a significant rupture with the West and major implications for investors. Governments that display a potential for belligerence abroad or materially heightened repression at home are usually negative signs for markets, long term.

Dan Alamariu

Chief Geopolitical Strategist

EDITORIAL BOARD

Dan Alamariu
Chief Geopolitical Strategist

Chen Zhao
Chief Global Strategist

David Abramson
Chief U.S. Strategist &
Director of Research

Henry Wu
Senior Strategist & Head of
Quantitative Research

Ria Nagpal
Research Analyst

Tony Boeckh
Editor-in-Chief

Yan Wang
Chief EM & China Strategist

Harvinder Kalirai
Chief Fixed Income & FX Strategist

Mark McClellan
Chief U.S. Bond Strategist

Jay Sharma
Senior Research Analyst

Country	Leader	Years In Power	Ideology	Consistently Market-Friendly	Anti-Establishment	Weakened Or Tried to Weaken Nonpartisan Institutions	Turned Authoritarian**
Argentina	Carlos Menem	1989–1999	●	●		✓	
Argentina	Néstor Kirchner	2003–2007	●	●		✓	
Argentina	Cristina Fdez. de Kirchner	2007–2015	●	●		✓	
Argentina	Javier Milei	2024 –	●	●	✓		
Austria	FPO Party In Coalition Govts	2000–2005, 2017–2019	●	●	✓		
Belarus	Alexander Lukashenko	1994–	●	●		✓	✓
Bolivia	Evo Morales	2006–	●	●	✓	✓	✓
Brazil	Fernando Collor de Mello	1990–1992	●	●		✓	
Brazil	Jair Bolsonaro	2019–2022	●	●	✓		
Brazil	Luis Lula da Silva	2003–2011, 2023–	●	●	✓	✓	
Bulgaria	Boyko Borisov	2009–2013, 2014–2017, 2017–	●	●		✓	
Chile	Gabriel Boric	2022 –	●	●	✓	✓	
Colombia	Gustavo Petro	2022 –	●	●	✓	✓	
Czech Republic	Miloš Zeman	1998–2002	●	●		✓	
Czech Republic	Andrej Babiš	2017–	●	●			
Ecuador	Abdala Bucaram	1996–1997	●	●			
Ecuador	Lucio Gutiérrez	2003–2005	●	●		✓	
Ecuador	Rafael Correa	2007–2017	●	●	✓	✓	✓
Ecuador	Lenin Moreno	2017–2021	●	●			
Egypt	Mohammed Morsi	2012–2013	●	●	✓	✓	✓
El Salvador	Nayib Bukele	2019 –	●	●	✓	✓	
Georgia	Mikheil Saakashvili	2004–2007, 2008–2013	●	●	✓		
Greece	Syriza	2015–	●	●	✓		
Hungary	Viktor Orbán	1998–2002, 2010–	●	●	✓	✓	
India	Narendra Modi	2014–	●	●		✓	
Indonesia	Joko Widodo	2014–	●	●	✓	✓	
Israel	Benjamin Netanyahu	1996–1999, 2009–	●	●	✓	✓	
Italy	Silvio Berlusconi	1994–1995, 2001–2006, 2008–2011, 2013	●	●	✓		
Italy	Five Star Movement/ League coalition	2018–	●	●	✓		

Country	Leader	Years In Power	Ideology	Consistently Market-Friendly	Anti-Establishment	Weakened Or Tried to Weaken Nonpartisan Institutions	Turned Authoritarian**
Italy	Giorgia Meloni	2022 –	●	●			
Japan	Junichiro Koizumi	2001–2006	●	●			
Macedonia	Nikola Gruevski	2006–2016	●	●		✓	
Mexico	Andres Manuel Lopez Obrador	2018–	●	●	✓	✓	
Nether-lands	PVV Party In Coalition Govt	2024 –	●	●	✓		
Nicaragua	Daniel Ortega	2007–	●	●	✓	✓	✓
Paraguay	Fernando Lugo	2008–2012	●	●			
Peru	Alberto Fujimori	1990–2000	●	●	✓	✓	✓
Peru	Ollanta Humala	2011-2016	●	●			
Philippines	Joseph Estrada	1998–2001	●	●	✓		
Philippines	Rodrigo Duterte	2016–	●	●	✓	✓	
Poland	Lech Walesa	1990–1995	●	●	✓		
Poland	Law and Justice party	2005–2010,2015–	●	●	✓	✓	
Romania	Traian Basescu	2004–2014	●	●			
Russia	Vladimir Putin	2000–	●	●		✓	✓
Serbia	Aleksandar Vucic	2014–2017, 2017–	●	●		✓	
Slovakia	Vladimír Mečiar	1990–1998	●	●		✓	
Slovakia	Robert Fico	2006–2010, 2012–2018	●	●		✓	
South Africa	Jacob Zuma	2009–2018	●	●	✓	✓	
Sri Lanka	Mahinda Rajapaksa	2005–2015, 2018–	●	●		✓	
Taiwan	Chen Shui-bian	2000–2008	●	●			
Thailand	Thaksin Shinawatra	2001–2006	●	●	✓	✓	
Thailand	Yingluck Shinawatra	2011–2014	●	●	✓	✓	
Turkey	Recep Tayyip Erdogan	2003–	●	●	✓	✓	✓
U.K.	Boris Johnson*	2019–2022	●	●	✓		
U.S.	Donald Trump	2017–	●	●	✓	✓	
U.S.	Joe Biden*	2021–	●	●		✓	
Venezuela	Rafael Caldera	1994–1999	●	●			
Venezuela	Hugo Chávez	1999–2013	●	●	✓	✓	✓
Venezuela	Nicolás Maduro	2013–	●	●	✓	✓	✓
Zambia	Michael Sata	2011–2014	●	●		✓	

For the "Ideology" Column, **Blue dot**: Right-wing; **Gray dot**: Center; **Red dot**: Left-wing

For the "Consistently Market-Friendly" Column, **Blue dot**: Market-friendly; **Gray Dot**: Mixed; **Red dot**: Market-unfriendly

*Cases that are more debatable than others

**We do not count leaders that were/are quite debatably "semi-authoritarian" like Viktor Orban

Source: Alpine Macro; Tony Blair Institute for Global Change, "Populists In Power Around The World" (November 7, 2018).



Disclaimer and copyright restrictions © 2024, Alpine Macro. All rights reserved.

The information, recommendations, analysis and research materials presented in this document are provided for information purposes only and should not be considered or used as an offer or solicitation to sell or buy financial securities or other financial instruments or products, nor to constitute any advice or recommendation with respect to such securities, financial instruments or products. This document is produced for subscribers only, represents the general views of Alpine Macro, and does not constitute recommendations or advice for any specific person or entity receiving it. The text, images and other materials contained or displayed on any Alpine Macro products, services, reports, emails or website (including this report and its contents) are copyrighted materials proprietary to Alpine Macro and may not be circulated without the expressed authorization of Alpine Macro. If you would like to use any graphs, text, quotes, or other material, you must first contact Alpine Macro and obtain our written authorization. Alpine Macro relies on a variety of data providers for economic and financial market information. The data used in this publication may have been obtained from a variety of sources including Bloomberg Finance L.P., Macrobond, CEIC, Choice, MSCI, BofA Merrill Lynch and JP Morgan. The data used, or referred to, in this report are judged to be reliable, but Alpine Macro cannot be held responsible for the accuracy of data used herein.