THE INSTITUTIONAL IMPACT OF LEFT-LEANING POPULISM IN LATIN AMERICA

**Nicolás Cachanosky**

Center for Free Enterprise

University of Texas at El Paso

[ncachanosky@utep.edu](mailto:ncachanosky@utep.edu)

**Alexandre Padilla**

Department of Economics

Metropolitan State University of Denver

[padilale@msudenver.edu](mailto:padilale@msudenver.edu)

**João Pedro Bastos**

Free Market Institute

Texas Tech University

[joao-pedro-bastos@ttu.edu](mailto:joao-pedro-bastos@ttu.edu)

21-Jun-23

**Abstract**

Abstract text in here

JEL Codes:

Keywords: populism, institutions, Latin America

# Introduction

In this paper, we investigate the impact of left-leaning durable populism in Latin America on liberal democracy institutions. We define liberal democracy as a system of institutions that safeguard individual and minority rights against state tyranny or majority rule. The media, policy networks, and academic literature have argued that populism poses a threat to liberal democracy institutions (Casas-Zamora, 2023; Houle & Kenny, 2018; Ludwig, 2022). Our focus is on left-leaning populist regimes, as they have been more prevalent in the region during the early 21st century compared to right-wing populism.

For instance, in Venezuela, Hugo Chávez gained nearly absolute power through two constitutional reforms, abolished term limits, and increased the number of Supreme Court judges from 20 to 32. Canova Gonzáles et al. (2014) analyzed approximately 45,000 court sentences, revealing an absence of government losses in virtually all cases. In Bolivia, the electoral court issued controversial rulings that enabled Evo Morales to run for a fourth term, despite facing term limits. Morales also excluded opposition participation in the constitutional drafting process and resorted to arresting, intimidating, or exiling other opponents based on fabricated allegations of fraud, corruption, or even genocide (Weyland, 2013). In Nicaragua, Daniel Ortega's government came to power by manipulating electoral rules (Pallais, 2009) and subsequently engaged in human rights violations during the repression of protests in 2018, as reported by the Inter-American Commission on Human Rights (*Nicaragua: Concentración Del Poder y Debilitamiento Del Estado de Derecho*, 2013).

These examples make it evident why populism is perceived as a threat to the republican institutions that serve as checks on democratically elected officials. However, institutional decay in Latin America is not exclusive to populist governments. Coup d’états, persecution of opposition leaders, and the control of state bureaucracy through patronage and corruption have been prevalent throughout Latin American history. This raises the question: would countries prone to electing populist leaders have experienced institutional decay even in the absence of a populist regime?

It is possible that the same underlying characteristics that attract populists are confounding factors influencing institutional decay. Although previous studies have addressed the impact of populism on institutions (Cachanosky & Padilla, 2020; Houle & Kenny, 2018), a potential concern is the lack of control for the fact that populists are more likely to emerge in countries with already weak institutions (Riker, 1982). Indeed, populists do not come to power randomly; they are drawn to notoriously weak institutional environments, enabling them to evade constraints and prolong their stay in power (Kaufman & Stallings, 1991). Therefore, to disentangle these effects and answer the question, we need to examine what would have occurred in each country if a populist leader had not ascended to power.

To identify the causal effect of populism on institutions, we rely on the synthetic control method (SCM) (Abadie, 2021; Abadie et al., 2015; Abadie & Gardeazabal, 2003). This method involves constructing a plausible counterfactual scenario, which is a weighted average of countries sharing similar characteristics. Our synthetic counterfactual reflects the weak institutional environment that attracts populists, but none of the donor countries included in the counterfactual actually experienced a populist episode like the ones observed in the treated countries. Consequently, we can estimate the causal effect of populism on liberal democracy institutions by calculating the difference between the synthetic counterfactual and the actual treated country following the populist episode.

Drawing on previous studies (Absher et al., 2020; Bastos et al., 2023; Cachanosky & Padilla, 2020), we focus on five representative episodes of populism: Néstor and Cristina Kirchner's tenure in Argentina (2003-2015); Evo Morales in Bolivia (2006-2019); Rafael Correa's presidency in Ecuador (2007-2016); Daniel Ortega's regime in Nicaragua (2007-present); and Hugo Chávez and Nicolás Maduro's leadership in Venezuela (1999- ). For each of these countries, we estimate a synthetic counterfactual for various indicators of institutional quality.

DISCUSS RESULTS

The structure of this article is as follows. Section II provides an overview of the literature on populism, with a particular emphasis on Latin America. Section III outlines our data and empirical strategy. Section IV presents our findings, while Section V discusses the robustness of our results. Finally, Section VI concludes.

# Causes and Effects of Populism

Our study examines left populism in 21st-century Latin America, adopting the definition proposed by Seligson (2007). According to Seligson, populism in the region involves the belief that institutions of classical liberal democracy, particularly legislatures and courts, are outdated, inefficient, and inconsistent with the true expression of “the people's will” as interpreted by populist leaders. Populists often claim to represent the people and promise to carry out their will while isolating those who reject it. However, in practice, populism often disregards democratic guarantees such as civil liberties, free expression, and due process.[[1]](#footnote-2)

Contrary to a simplistic interpretation of populist discourse, which suggests that democracy improves by aligning with the will of the people, the reality is quite different. As Seligson (2007) emphasizes, the danger of populism lies in bypassing institutional check and balances. De la Torre (2016) argues that in an environment where institutions are discredited, populist leaders claim to embody the will of the people and override due process and democratic procedures. For instance, Chavez famously stated, “You are not going to reelect Chavez really, you are going to reelect yourselves. The people will reelect the people. Chavez is nothing but an instrument of the people” (quoted in Friedman, 2017). Despite their rhetorical promises, populists ultimately prioritize their own agendas.

However, the ability of Latin American populists to bypass the constraints of liberal democracy can be attributed to the weak institutional environment, which provides fertile ground for populism to thrive. Kaufman and Stallings (1991) argue that the rise of populism is associated with unstable coalitions that are characteristic of emerging democracies in Latin America. Moreover, besides fragility, the institutional environment in the region promotes social conflict. Sachs (1990) posits that high inequality generates a demand for change, and populists capitalize on this by promising redistribution for the poor. This observation has led to various avenues of research. Sachs (1990) and Dornbusch and Edwards (1990) elucidate the macroeconomic policies of populists, which often lead to detrimental consequences at the end of the "populist cycle." By neglecting the adverse effects of fiscal deficits and expansionary monetary policy, populists prioritize income redistribution at any cost, ultimately causing inflation and reducing real wages. As a result, Rodrik (2018, p. 196) contends that populism consists of “irresponsible, unsustainable policies that often end in disaster and hurt most the ordinary people they purportedly aim to help.”

Recent studies have attempted to quantify the effects of populist policies. Houle and Kenny (2018) analyze changes in post-tax Gini coefficients to investigate the impact of populism on income inequality, but find no evidence of greater redistribution efforts under populist governments compared to non-populist ones. Strobl et al. (2023) obtain similar results using a different empirical strategy. Funke et al. (2020) find that countries experience a 10 percent lower income per capita relative to the counterfactual in the 15 years following a populist government. This finding aligns with the results of Cachanosky and Padilla (2020) for a sample of left-leaning populists in the 21st century.

Our study is similar in nature to the works of Grier and Maynard (2016) and Absher et al. (2020), as we examine the effects of populist governments in Latin America using a synthetic control approach. While the former study focuses solely on the impact of Hugo Chavez’s regime in Venezuela, the latter expands the analysis to include Bolivia, Ecuador, and Nicaragua. Both studies find that, on average, populist governments significantly impact income levels (except for dollarized Ecuador). They also explore potential effects on child mortality and inequality, as populists tend to prioritize these "social" outcomes over economic growth. However, neither study investigates the effects on institutional outcomes.

In contrast, Houle and Kenny (2018) explore the impact of populism on democratic institutions using various measures. Their sample includes 19 Latin American countries from 1982 to 2012, comprising 15 populist governments of both left- and right-wing orientations. Their findings indicate that populist governments are associated with a reduction in all measures of democratic constraints, while having no effect on voter turnout. Cachanosky and Padilla (2019) also observe institutional and economic decline following left-leaning populist governments in the 21st century, focusing on indicators such as GDP per capita, economic freedom, freedom of the press, and governance. However, these studies do not adequately address the endogeneity problem discussed earlier.

Our study addresses these gaps in the existing literature and offers important contributions. While previous studies predominantly focus on economic outcomes, our research explores the institutional impact of populism. Considering that institutions play a crucial role in long-term growth (Rodrik et al., 2004), our study provides potential mechanisms to explain the poor economic outcomes during populist regimes. Furthermore, since constitutional-level institutions are more resistant to change, we can better understand why these effects endure following populist regimes.

# References

1. Abadie, A. (2021). Using Synthetic Controls: Feasibility, Data Requirements, and Methodological Aspects. *Journal of Economic Literature*, *59*(2), 391–425. https://doi.org/10.1257/jel.20191450
2. Abadie, A., Diamond, A., & Hainmueller, J. (2015). Comparative Politics and the Synthetic Control Method. *American Journal of Political Science*, *59*(2), 495–510. https://doi.org/10.1111/ajps.12116
3. Abadie, A., & Gardeazabal, J. (2003). The Economic Cost of Conflict: A Case Study of the Basque Country. *The American Economic Review*, *93*(1), 113–132.
4. Absher, S., Grier, K., & Grier, R. (2020). The Economic Consequences of Durable Left-Populist Regimes in Latin America. *Journal of Economic Behavior & Organization*, *177*, 787–817. https://doi.org/10.1016/j.jebo.2020.07.001
5. Abts, K., & Rummens, S. (2007). Populism versus Democracy. *Political Studies*, *55*(2), 405–424. https://doi.org/10.1111/j.1467-9248.2007.00657.x
6. Bastos, J. P., Cachanosky, N., & Faintich, T. (2023). *Macroeconomic Populism in the 21st Century: Revisiting Dornbusch and Edwards* [Preprint]. SSRN. https://doi.org/10.2139/ssrn.4445116
7. Cachanosky, N., & Padilla, A. (2019). Latin American Populism in the 21st Century. *The Independent Review*, *24*(2), 209–266. https://doi.org/10.2139/ssrn.3147096
8. Cachanosky, N., & Padilla, A. (2020). A Panel Data Analysis of Latin American Populism. *Constitutional Political Economy*, *31*(3), 329–343. https://doi.org/10.1007/s10602-020-09302-w
9. Canova Gonzáles, A., Herrera Orellana, L., Rodríguez, R., & Graterol, G. (2014). *El TSJ al Servicio de la Revolución*. Editorial Galipan.
10. Casas-Zamora, K. (2023). Look at Latin America. This is How Democracies Die. *The New York Times*.
11. de la Torre, C. (2013). In the Name of the People: Democratization, Popular Organizations, and Populism in Venezuela, Bolivia, and Ecuador. *European Review of Latin American and Caribbean Studies*, *95*, 27–48.
12. de la Torre, C. (2016). Populism and the Politics of the Extraordinary in Latin America. *Journal of Political Ideologies*, *21*(2), 121–139. https://doi.org/10.1080/13569317.2016.1150137
13. de la Torre, C. (2017). Populism and Nationalism in Latin America. *Javnost - The Public*, *24*(4), 375–390. https://doi.org/10.1080/13183222.2017.1330731
14. Dornbusch, R., & Edwards, S. (1990). Macroeconomic Populism. *Journal of Development Economics*, *32*(2), 247–277.
15. Dornbusch, R., & Edwards, S. (Eds.). (1992). *The Macroeconomics of Populism in Latin America*. University of Chicago Press.
16. Doyle, D. (2011). The Legitimacy of Political Institutions: Explaining Contemporary Populism in Latin America. *Comparative Political Studies*, *44*(11), 1447–1473.
17. Edwards, S. (2010). *Left Behind: Latin America and the False Promise of Populism*. Chicago University Press.
18. Friedman, U. (2017, June 4). How Populism Helped Wreck Venezuela. *The Atlantic*. https://www.theatlantic.com/international/archive/2017/06/venezuela-populism-fail/525321/
19. Funke, M., Schularick, Moritz, & Trebesch, C. (2020). *Populism Leaders and the Economy* (No. 15405; CEPR Discussion Paper). Center for Economic and Policy Research.
20. Grier, K., & Maynard, N. (2016). The Economic Consequences of Hugo Chavez: A Synthetic Control Analysis. *Journal of Economic Behavior & Organization*, *125*, 1–21. https://doi.org/10.1016/j.jebo.2015.12.011
21. Houle, C., & Kenny, P. D. (2018). The Political and Economic Consequences of Populist Rule in Latin America. *Government and Opposition*, *53*(2), 256–287. https://doi.org/10.1017/gov.2016.25
22. Kaufman, R. R., & Stallings, B. (1991). The Political Economy of Latin American Populism. In *The Macroeconomics of Populism in Latin America* (pp. 15–43). University of Chicago Press.
23. Laclau, E. (2005). *On Populist Reason*. Verso.
24. Ludwig, J. (2022). *Can Democracy in Latin America Survive the Populist Temptation?* (Democracy Talks). George W. Bush Presidential Center. https://www.bushcenter.org/publications/can-democracy-in-latin-america-survive-the-populist-temptation
25. Mudde, C. (2004). The Populist Zeitgeist. *Government and Opposition*, *39*(4), 541–563. https://doi.org/10.1111/j.1477-7053.2004.00135.x
26. Mudde, C. (2007). *Populist Radical Right Parties in Europe*.
27. *Nicaragua: Concentración del Poder y Debilitamiento del Estado de Derecho* (Technical Report). (2013). CIDH.
28. Ocampo, E. (2019). *The Economic Analysis of Populism: A Selective Review of the Literature* (Documentos de Trabajo). UCEMA.
29. Pallais, E. (2009). Rule of Law in Nicaragua: The Consequences of Governing by “El Pacto.” *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.1440944
30. Riker, W. H. (1982). *Liberalism Against Populism: A Confrontation Between the Theory of Democracy and the Theory of Social Choice* (Issue 1988). Waveland Pr Inc.
31. Rode, M., & Revuelta, J. (2015). The Wild Bunch! An empirical note on populism and economic institutions. *Economics of Governance*, *16*(1), 73–96. https://doi.org/10.1007/s10101-014-0154-5
32. Rodrik, D. (2018). Is Populism Necessarily Bad Economics? *AEA Papers and Proceedings*, *108*(May), 196–199. https://doi.org/10.1257/pandp.20181122
33. Rodrik, D., Subramanian, A., & Trebbi, F. (2004). Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development. *Journal of Economic Growth*, *9*(2), 131–165. https://doi.org/10.1023/B:JOEG.0000031425.72248.85
34. Sachs, J. D. (1990). Social Conflict and Populist Policies in Latin America. In R. Brunetta & C. Dell’Aringa (Eds.), *Labour Relations and Economic Performance* (pp. 137–169).
35. Seligson, M. A. (2007). The Rise of Populism and the Left in Latin America. *Journal of Democracy*, *18*(3), 81–95. https://doi.org/10.1353/jod.2007.0057
36. Strobl, M., Sáenz De Viteri, A., Rode, M., & Bjørnskov, C. (2023). Populism and inequality: Does reality match the populist rhetoric? *Journal of Economic Behavior & Organization*, *207*, 1–17. https://doi.org/10.1016/j.jebo.2023.01.010
37. Weyland, K. (2013). Latin America’s Authoritarian Drift. *Journal of Democracy*, *24*(3), 18–32.

1. Other definitions certainly exist, but they tend to focus on specific features of populists, such as their rhetoric (de la Torre, 2013; Laclau, 2005), its economic paradigm (Dornbusch & Edwards, 1992; Edwards, 2010; Ocampo, 2019; Rode & Revuelta, 2015; Sachs, 1990), or its political and ideological features (Abts & Rummens, 2007; de la Torre, 2016, 2017; Doyle, 2011). In special, the economic definitions are certainly complementary as the populists in our sample could easily be defined as “macroeconomic populists" as well (Bastos et al., 2023; Dornbusch & Edwards, 1990). We follow Seligson (2007) because it focuses on the institutional effects of populists. Another broader definition (though not necessarily intended for Latin America) is that of Mudde (2004, 2007). [↑](#footnote-ref-2)