

FMI GRADUATE SEMINAR

POPULISM

Nicolás Cachanosky

Metropolitan State University of Denver

ncachano@msudenver.edu

Agenda

- What is populism
- Who are the populists (old and new)
- Recent work on populism
- Measuring populism (or trying to...)
- Borjas meets Argentina
- Potential areas of research

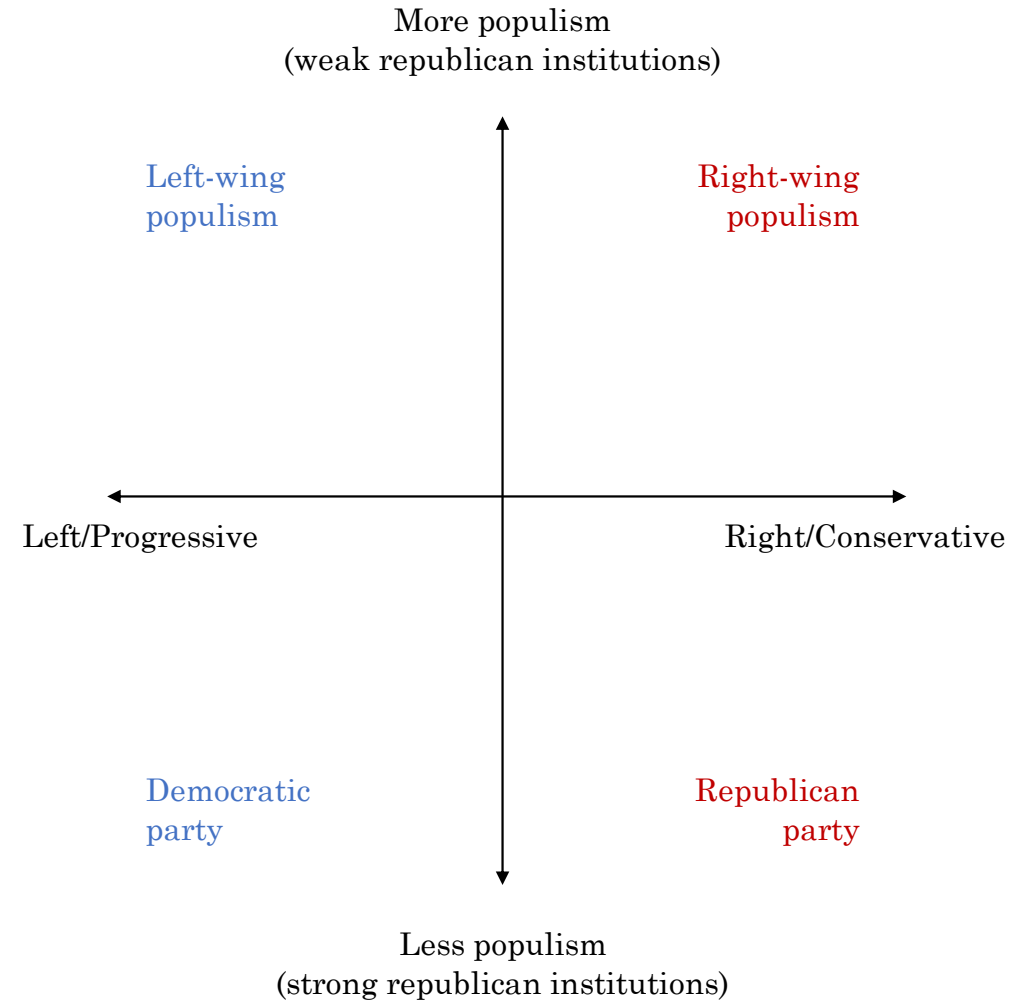
WHAT IS POPULISM

What is populism

- It is very difficult to define
 - Is populism an exaggeration of democratic features?
 - Is there anything “conceptually” different in a populist regime from a democratic type of government?
 - Is it just being popular (democratic)?
- Populism as a separation between *democracy* and a *republic*
 - Keep *democracy*, drop the *republic*
 - Social divide (“us” versus “them”)
 - Direct (rather than indirect) legitimacy from the people
 - Populism is *a*-ideological
 - Left, right, etc...

What is populism

- Being “right” or “left” does not make you a populist
- Democracy is not in itself a populist regime



WHO ARE THE POPULISTS

OLD AND NEW

Who are the populists (old)

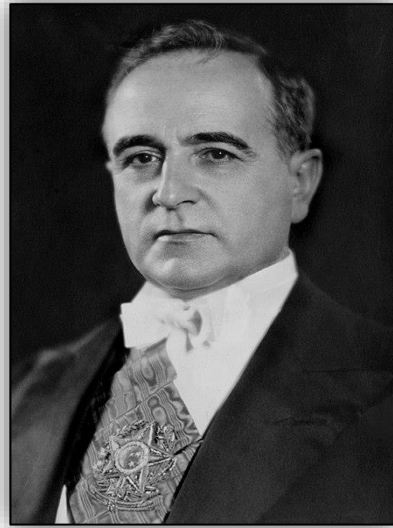


ARGENTINA

Juan D. Perón

1946 – 1955

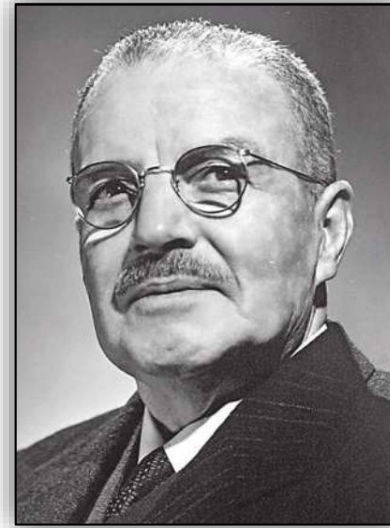
1973 – 1974 (†)



BRAZIL

Getulio Vargas

1951 – 1954



CHILE

Carlos Ibañez del Campo

1927 – 1931

1952 – 1958



CHILE

Salvador Allende

1970 – 1973

Who are the populists (new)



VENEZUELA

Hugo Chávez

1999 – 2013



VENEZUELA

Nicolás Maduro

2013 – today



ARGENTINA

Néstor Kirchner

2003 – 2007



ARGENTINA

Cristina Kirchner

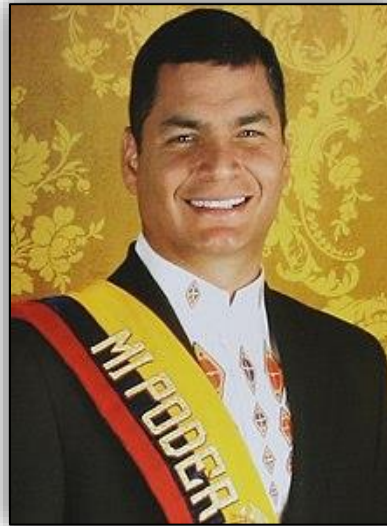
2007 – 2015

Who are the populists (new)



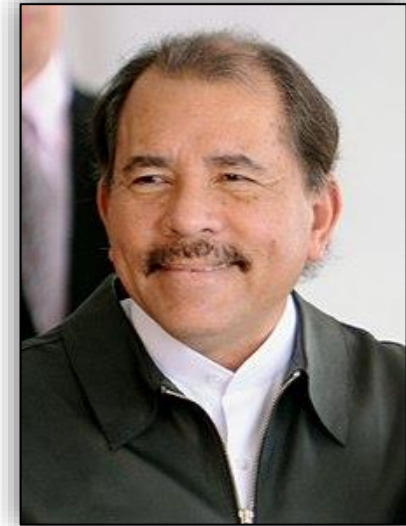
BOLIVIA
Evo Morales

2006 – 2019



ECUADOR
Rafael Correa

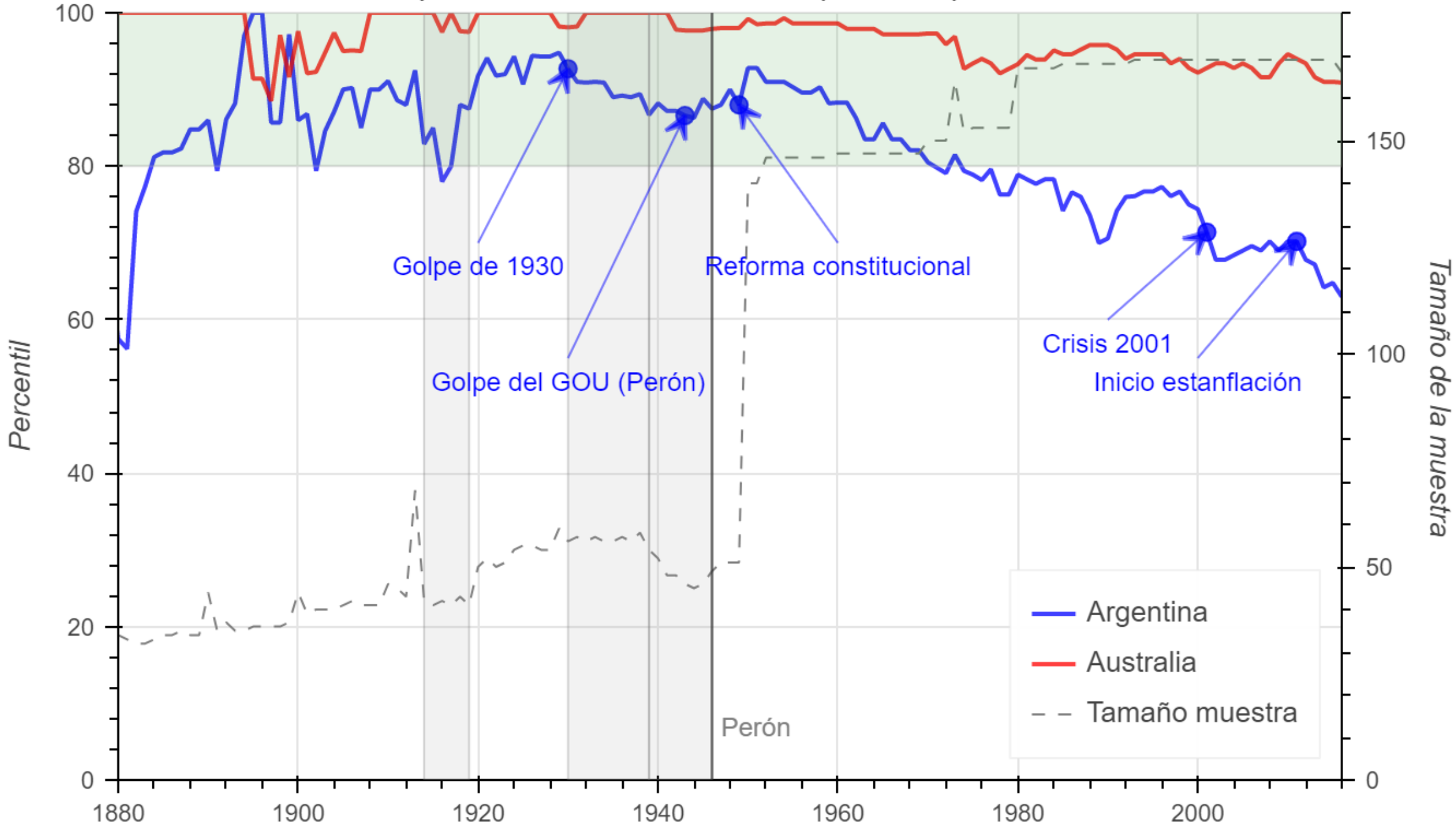
2007 – 2017



NICARAGUA
Daniel Ortega

2007 – present

EL HUB ECONÓMICO | PBI PER CAPITA REAL PPP (2011 US\$): RANKING GLOBAL



RECENT WORK ON POPULISM

Recent work on populism

- Origins of populism
 - Maybe Napoleon III
 - 1930s
 - Right-wing populism in Europe (Germany, Austria)
 - Hitler was the first successful populist political of the 20th century
 - He started as a populist, he ended as a totalitarian
- Populism re-appeared in South America
- 21st century populism
 - Pink wave in Latin America
 - Right-wing populism
 - Donald Trump
 - Jair Bolsonaro

Recent work on populism

- Foundational paper: Dornbusch and Edwards (1990)
 - Macroeconomic populism
 - Prioritize economic growth and income distribution at the expense of inflation, deficits, and external constraints
 - Unsustainable macroeconomic policies/boom
 - Look at Chile (Salvador Allende) and Peru (Alan García)
 - Common economic policies in different countries and periods
 - Can infer a typical populist policy?

Recent work on populism

- Foundational paper: Dornbusch and Edwards (1990) (cont...)
 - Populist's reading of the country's situation
 - Initial conditions
 - Poor growth performance
 - Income distribution
 - Recent important event (such as an economic crisis)
 - Initial conditions happen under IMF's economic plan
 - No constraints
 - Reject orthodoxy (real resource constraints)
 - Policy prescription
 - Reactivation
 - Redistribution of income
 - Restructuring of the economy

Recent work on populism

- Foundational paper: Dornbusch and Edwards (1990) (cont...)
 - Phase I
 - During the first years, the populist policies (push aggregate demand) are vindicated
 - A (left-leaning) populist may be Keynesian
 - But being a Keynesian does not mean you are a populist
 - The unsustainable boom
 - Phase II
 - Bottlenecks start to appear (domestically and internationally –lack of reserves)
 - Starting to run out of inventories (and idle resource)
 - Government tries to maintain his policies by applying some regulations
 - Higher deficits
 - Growing underground economy

Recent work on populism

- Foundational paper: Dornbusch and Edwards (1990) (cont...)
 - Phase III
 - Shortages are significant
 - Capital flight
 - Accelerated inflation
 - Even higher deficit
 - It is clear now that populist policies are a failure
 - Phase IV
 - New government implements orthodox policies
 - IMF program takes place
 - Real wages fall to level lower than in Stage I

Recent work on populism

- Foundational paper: Dornbusch and Edwards (1990) (cont...)
 - Chile: Salvador Allende (1970 – 1973)

Chile: Main macroeconomic indicators.

	1970	1971	1972	1973
Inflation ^a	34.9	34.5	216.7	605.9
Growth	2.1	9.0	−1.2	−5.6
Real wages (1970: 3 = 100)	98.4	115.1	103.5	70.3
Government revenue ^b	23.7	20.4	18.2	20.2
Government spending ^b	26.4	31.1	31.2	44.9
Budget deficit ^b	2.7	10.7	13.0	24.7
Money growth ^a	52.9	99.3	100.9	264.4
International reserves (\$ million)	320	129	95	36
Trade balance (\$ million)	246	73	−161	−73
Black market premium (‰)	99	358	898	2349

^aPercent, Dec.–Dec.

^bPercent GDP.

Recent work on populism

- Foundational paper: Dornbusch and Edwards (1990) (cont...)
 - Peru: Alan Garía (1985 – 1990)

Peruvian macroeconomic indicators.

	1985	1986	1987	1988
Inflation ^a	158	63	115	1722
Growth	2.5	9.5	6.9	−8.4
Real wage ^b	111	126	137	105
Trade balance (\$)	1173	−67	−463	−84
Government revenues ^c	42.7	32.1	25.9	23.5

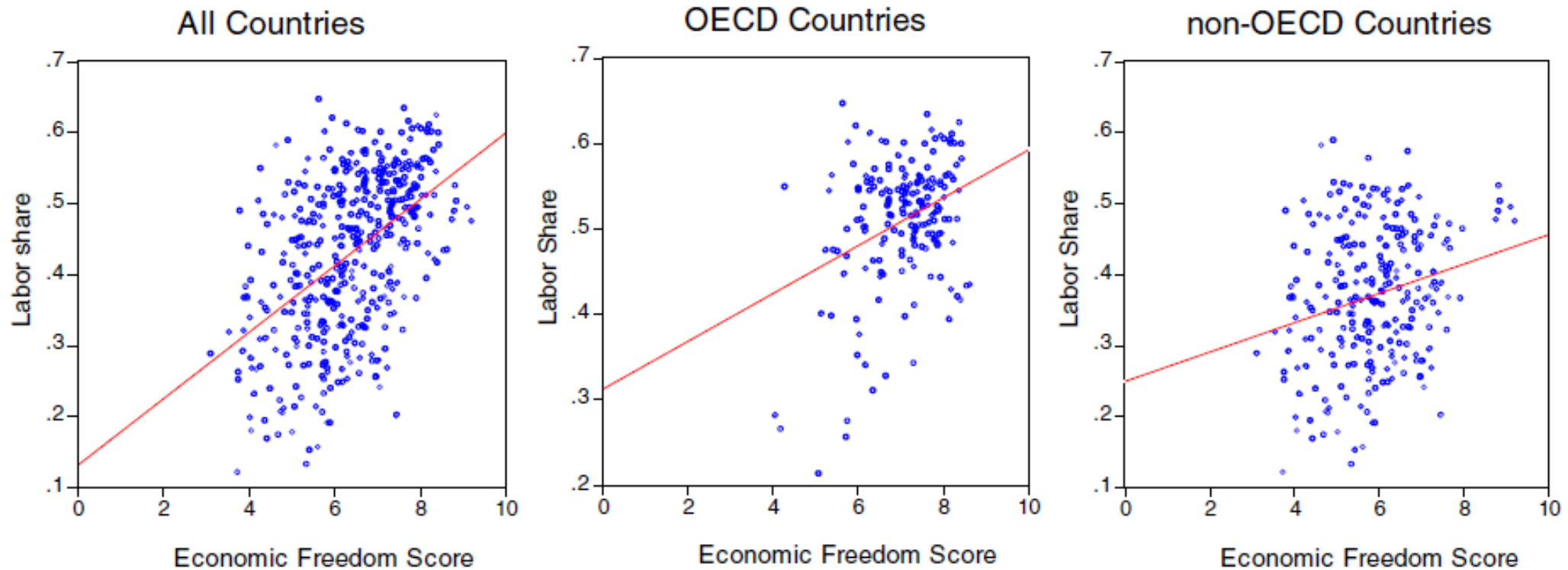
^aDecember–December.

^bIndex July, 1985 = 100.

^cPercent of GDP.

Recent work on populism

- Aside: Does more capitalism reduce income-share of labor?



Recent work on populism

- Ocampo (2015): Commodity prices and populist regimes
 - Populist regimes need resources to fund the (unsustainable) boom
 - Latin America exports commodities
 - Peronist narrative
 - High commodity prices mean that landowners (the oligarchy) will become richer and regain power (taken away by Perón)
 - Rising nominal prices are easy to observe by most economic agents
 - Populism is branded as a defense against the oligarchy
 - Do price of commodities correlate with populist regimes?

Recent work on populism

- Ocampo (2015): Commodity prices and populist regimes
 - In the last century there have been four major supercycles in agricultural commodity prices
 - 1916 – 1920
 - 1946 – 1951 [intense populism]
 - 1973 – 1974 [intense populism]
 - 2006 – 2012 [intense populism]

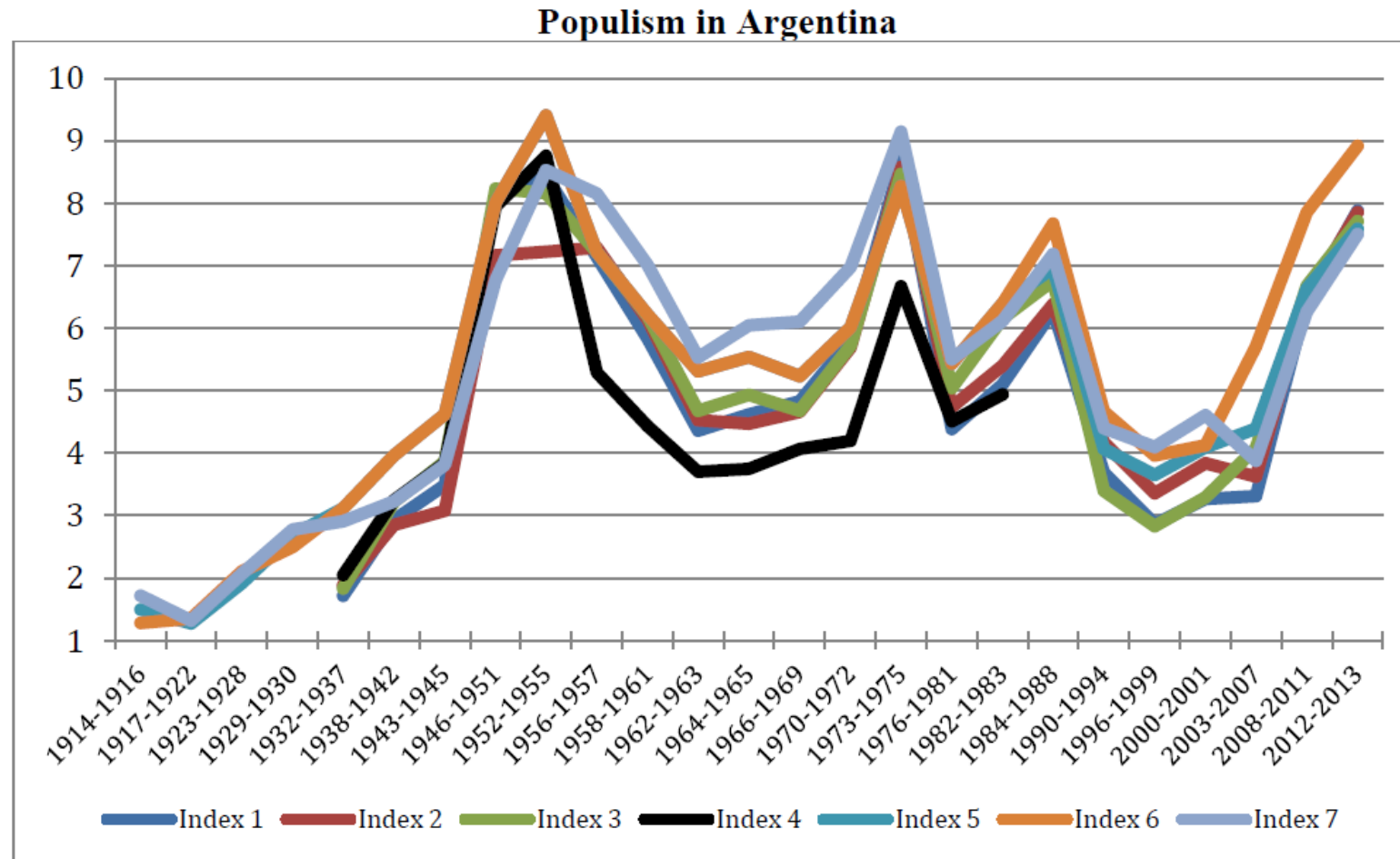
Recent work on populism

- Ocampo (2015): Commodity prices and populist regimes
 - Empirical strategy
 - First: Develop a “index of *economic* populism” (*IP*) for Argentina (more on this later)
 - Advantage: Complete time-series to fit Argentine politics and economics
 - Disadvantage: Non-replicable for other countries
 - Second: Run a simple OLS regression model
 - $\%IP = \alpha + \beta\%ACP + \gamma D + \varepsilon$
 - *ACP* is the average nominal price of Argentina’s agricultural exports
 - *D* is a matrix of dummy controls (types of government)
 - Are these controls enough..?

Recent work on populism

- Ocampo (2015): Commodity prices and populist regimes
 - Ocampo's index
 - Exchange rate gap (official versus black market)
 - Public spending in terms of GDP
 - Fiscal deficit in terms of GDP
 - Income share of labor as percent of GDP
 - Index of real wages
 - Number of public employees
 - Rate of resource extraction from the agricultural sector

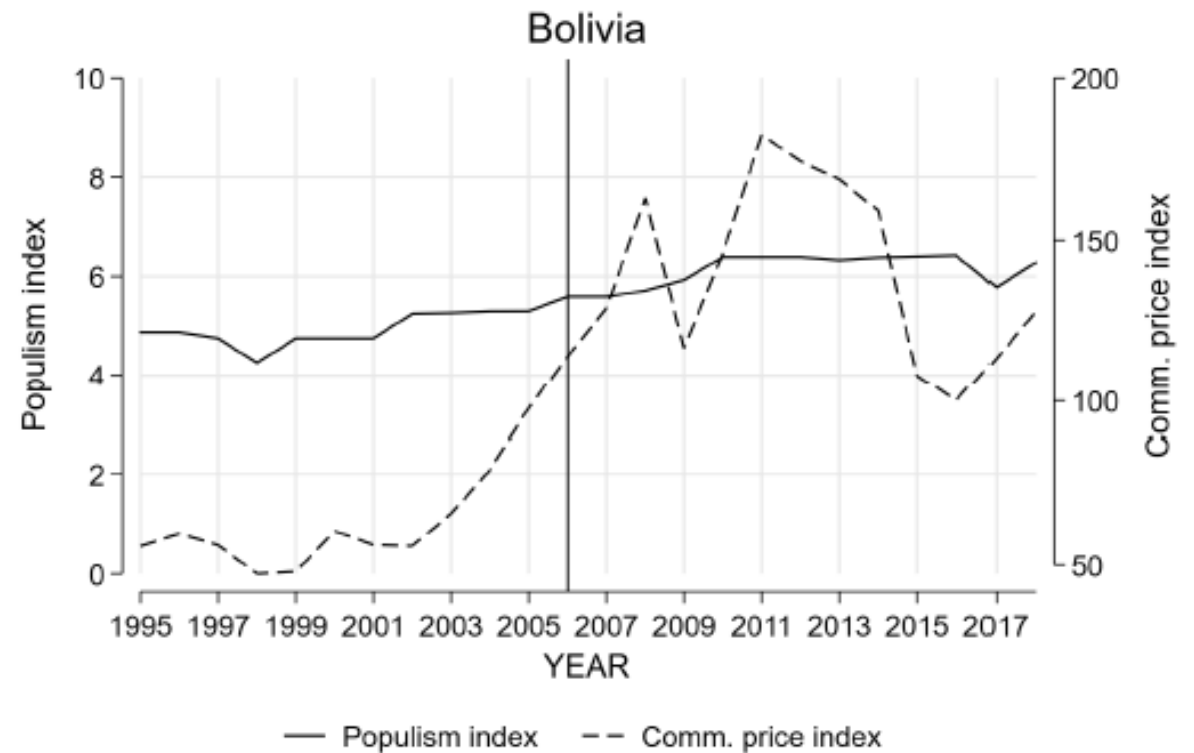
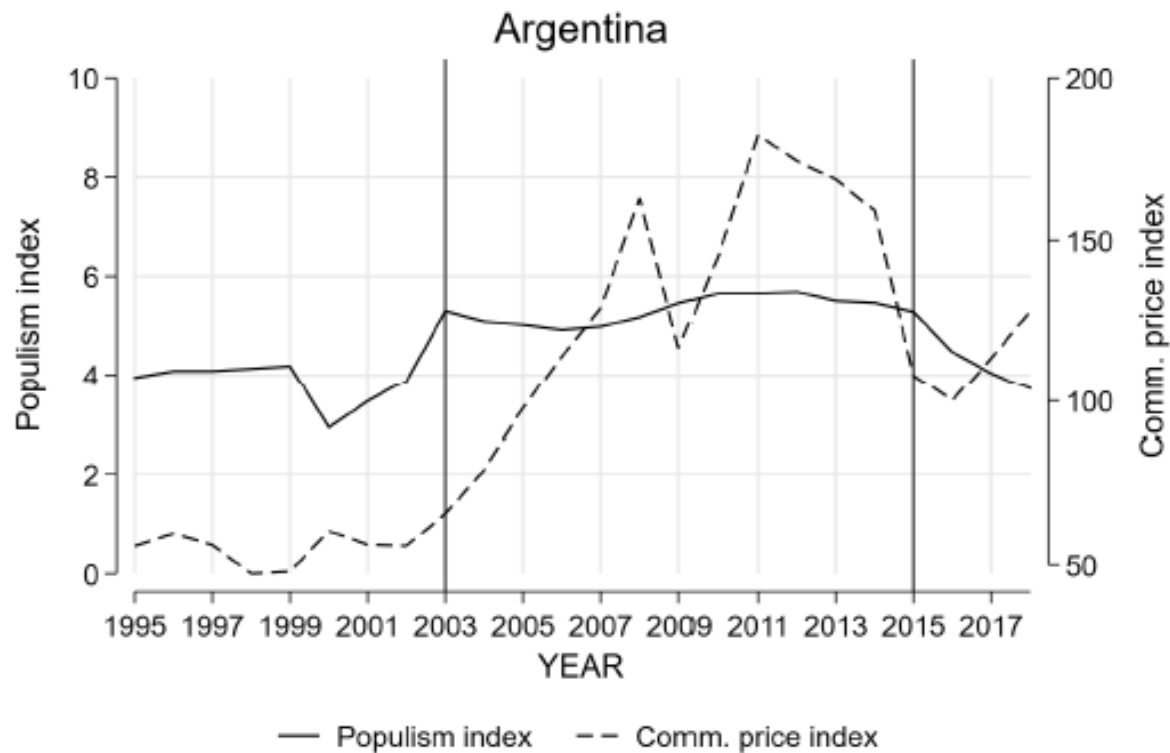
Recent work on populism



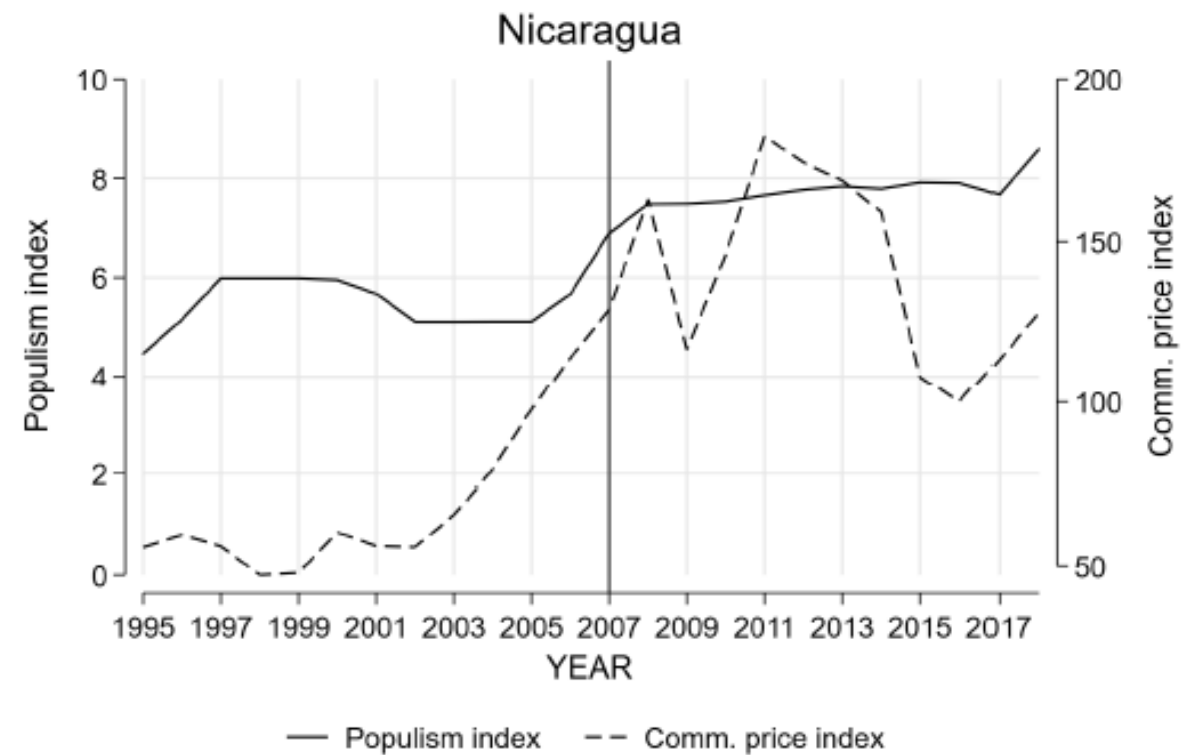
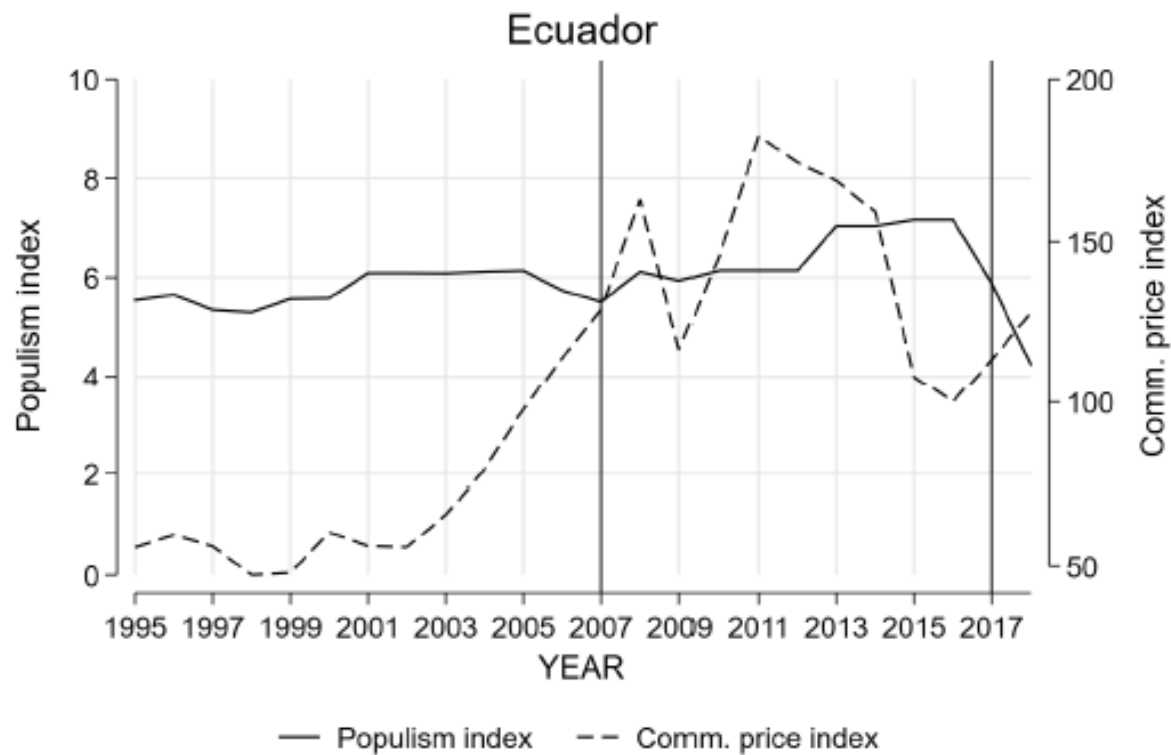
Recent work on populism

- Ocampo (2015): Commodity prices and populist regimes
 - Empirical strategy
 - Model implications
 - After 1945 (Perón), everyone is a populist
 - What differs is the price of commodities
 - How much funding the populist gets
 - How much the populist rhetoric resonates with the public

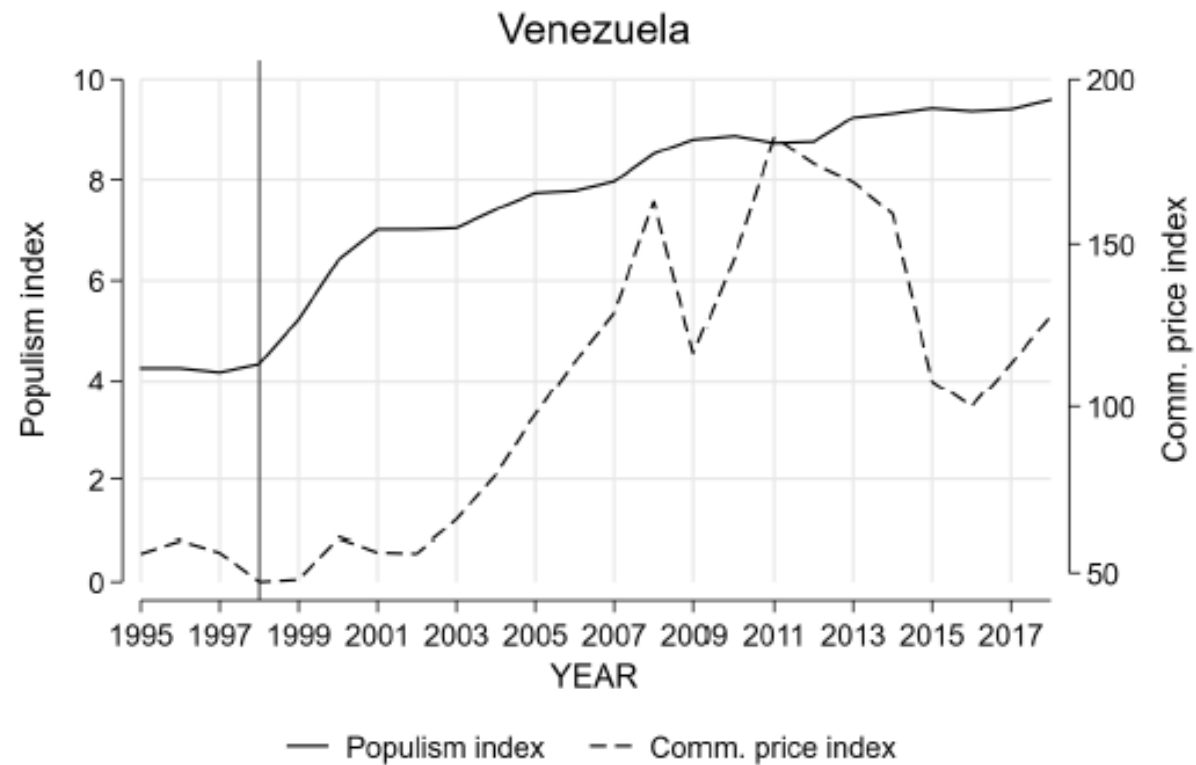
Recent work on populism



Recent work on populism



Recent work on populism



Recent work on populism

- Rode and Revuelta (2015): Populism and EFW
 - Good literature review
 - Populism literature
 - Empirical work is very important
 - Lack of clear definition of what populism is
 - Lack of variables that measure populism
 - Literature relies on dummy variables (0: not populist; 1: populist)
 - All populisms (left and right) emphasize the defense of “the people’s interest”
 - How much, if any, does populism affect economic freedom?

Recent work on populism

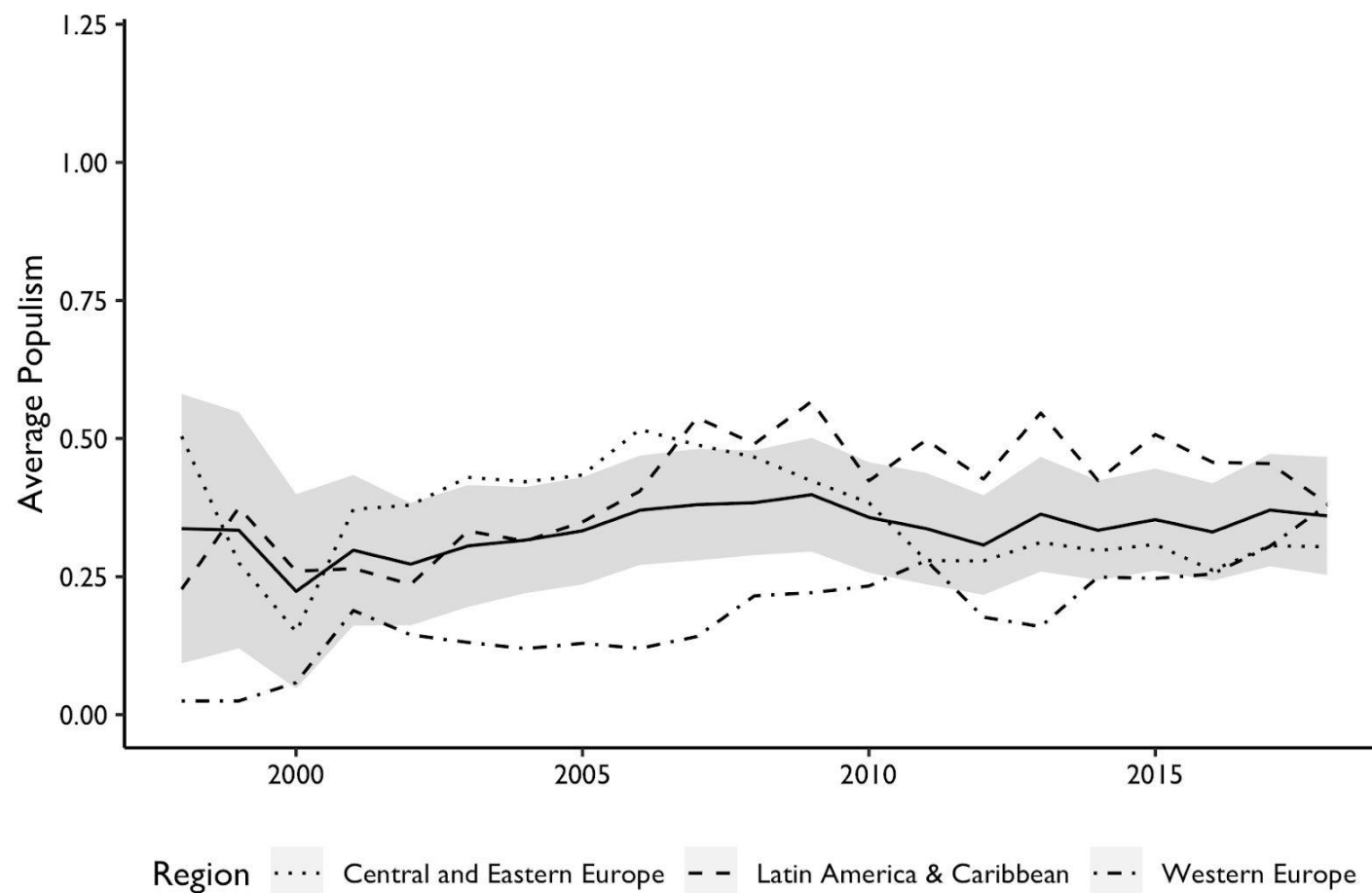
- Rode and Revuelta (2015): Populism and EFW
 - Empirical strategy
 - Use Hawkins (2009) index of populism
 - Based on the rhetoric used by political leaders
 - Panel data regression
 - $\Delta EFW_{\{i,t\}} = \beta_1 EFW_{\{i,o\}} + \beta_2 PS_{\{i,t\}} + controls + \varepsilon_{\{i,t\}}$
 - *PS*: Populism score (0: low to 2: high)
 - Model implications
 - Presence of populism is associated with a statistically significant declines in EFW
 - Populism has a larger impact on ΔEFW than the initial value of *EFW*
 - EFW areas impacted are Area 2 (Legal System and Property Rights), Area 4 (Freedom to Trade Internationally), and Area 5 (Regulation)

MEASURING POPULISM

Measuring populism

- Global Populism Database
 - Textual analysis of political speeches
 - Scope: 215 chief executives from 66 countries, 270 government terms, between 2000 and 2018
 - Use a rubric to evaluate *tone*, *style*, and *quality of argument*
 - Campaign speech
 - Ribbon-cutting speech
 - International speech
 - Famous speech
 - Scores
 - 0: Not populist
 - 1: Some populism
 - 2: Very populist

Measuring populism



Measuring populism

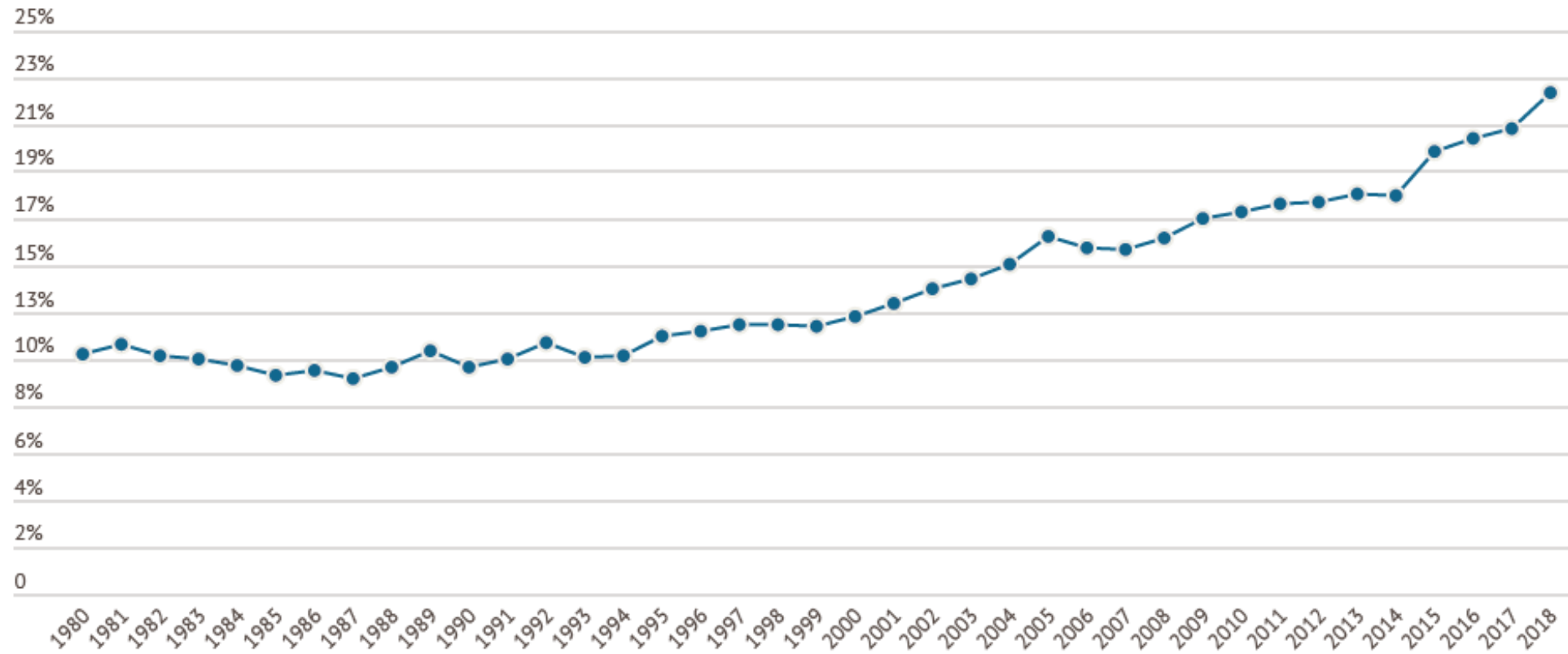
- Global Populism Database
 - Some oddities
 - Néstor Kirchner has a lower score than Menem
 - Cristina F. de Kirchner has a score of 0
 - Important:
 - The index measures populist rhetoric, not the execution of populist policies
 - Fernando Henrique Cardoso more populist than Lula da Silva?

Measuring populism

- Timbro Authoritarian Populism Index
 - Share of votes for populist parties
 - Scope
 - Europe
 - 33 countries
 - Non-democracies are excluded
 - 1980 – 2020
 - The index exogenously defines what parties are populists
 - Measures votes to populist candidates (input), not populist policies (output)

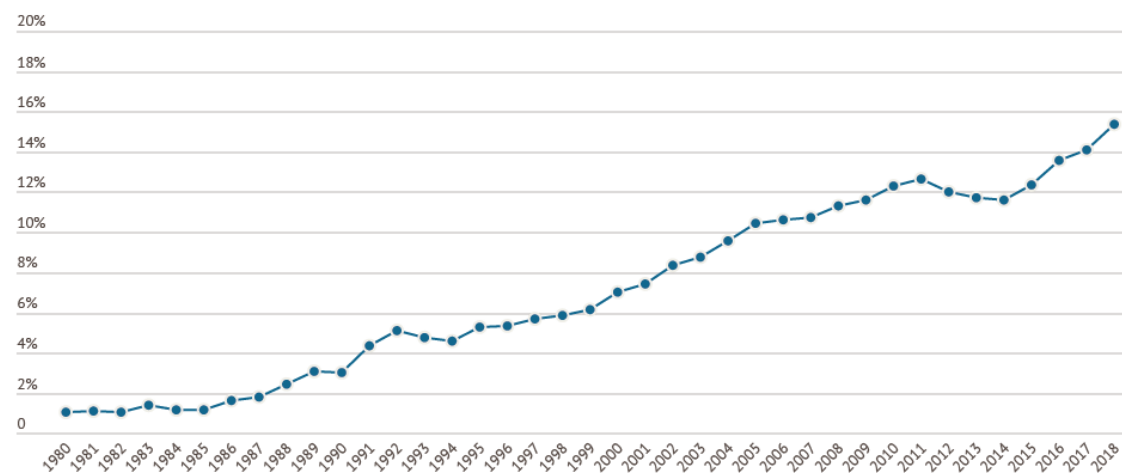
Measuring populism

Average share of votes for populist parties 1980–2018

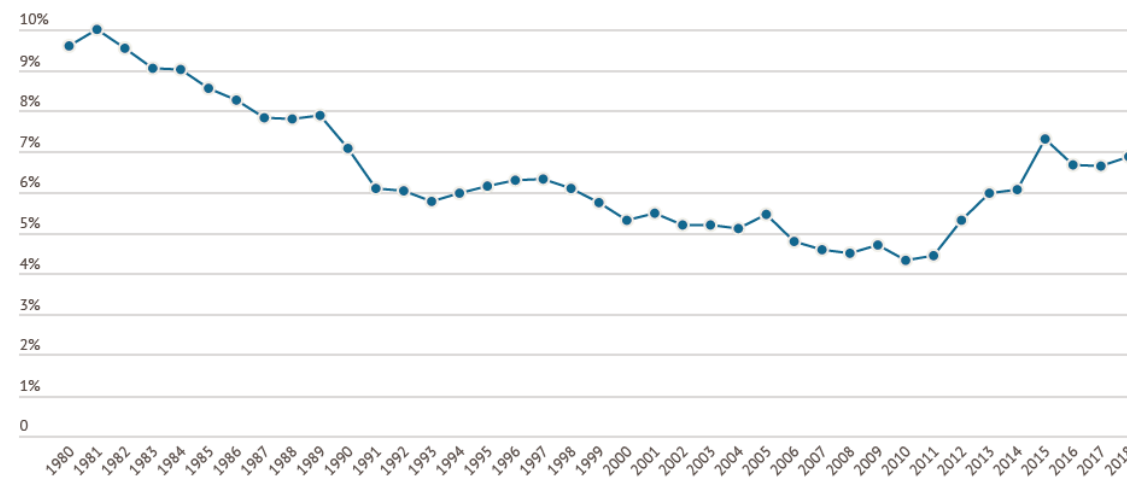


Measuring populism

Average electoral support right wing parties Europe 1980–2018

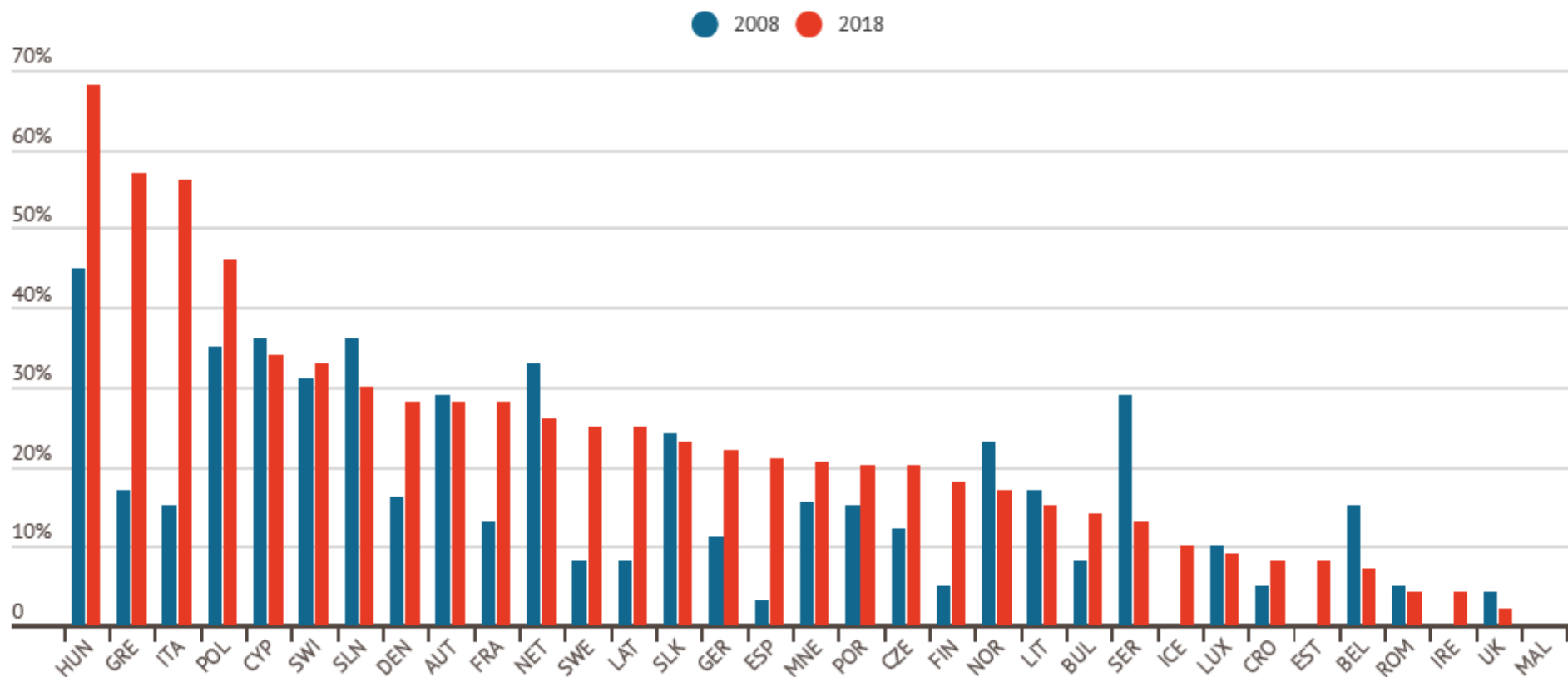


The comeback of the radical left



Measuring populism

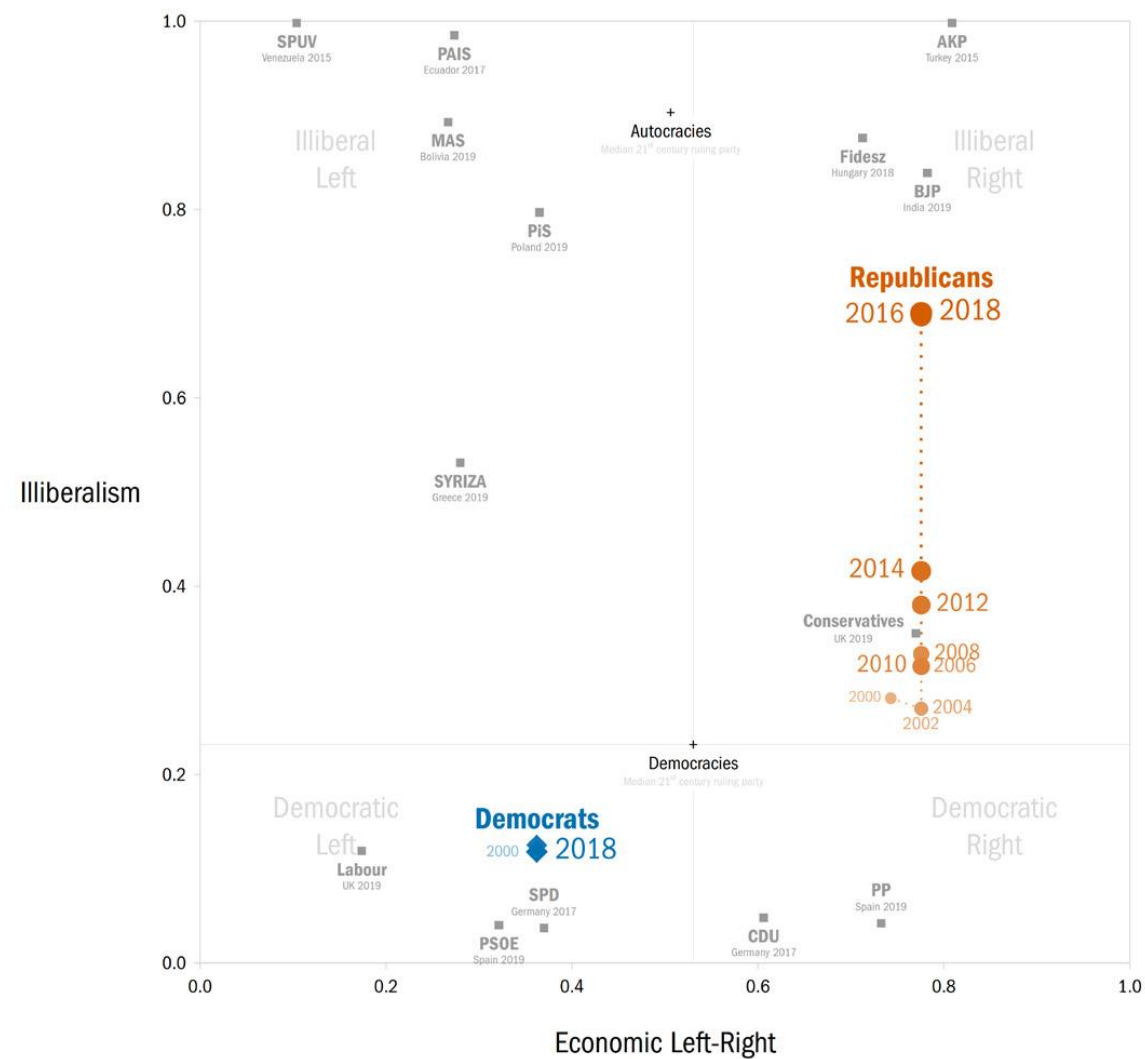
Percent of votes for populist parties 2008 and 2018



Measuring populism

- V-Dem: V-Party dataset (version 1)
 - Questionnaire based
 - Populism: From 0 (less populist) to 1 (more populist)
 - Illiberalism: From 0 (less democratic) to 1 (more democratic)
 - Scope
 - 169 countries
 - 1970 – 2019
 - 1,955 political parties
 - 1,560 elections

Measuring populism



BORJAS MEETS ARGENTINA

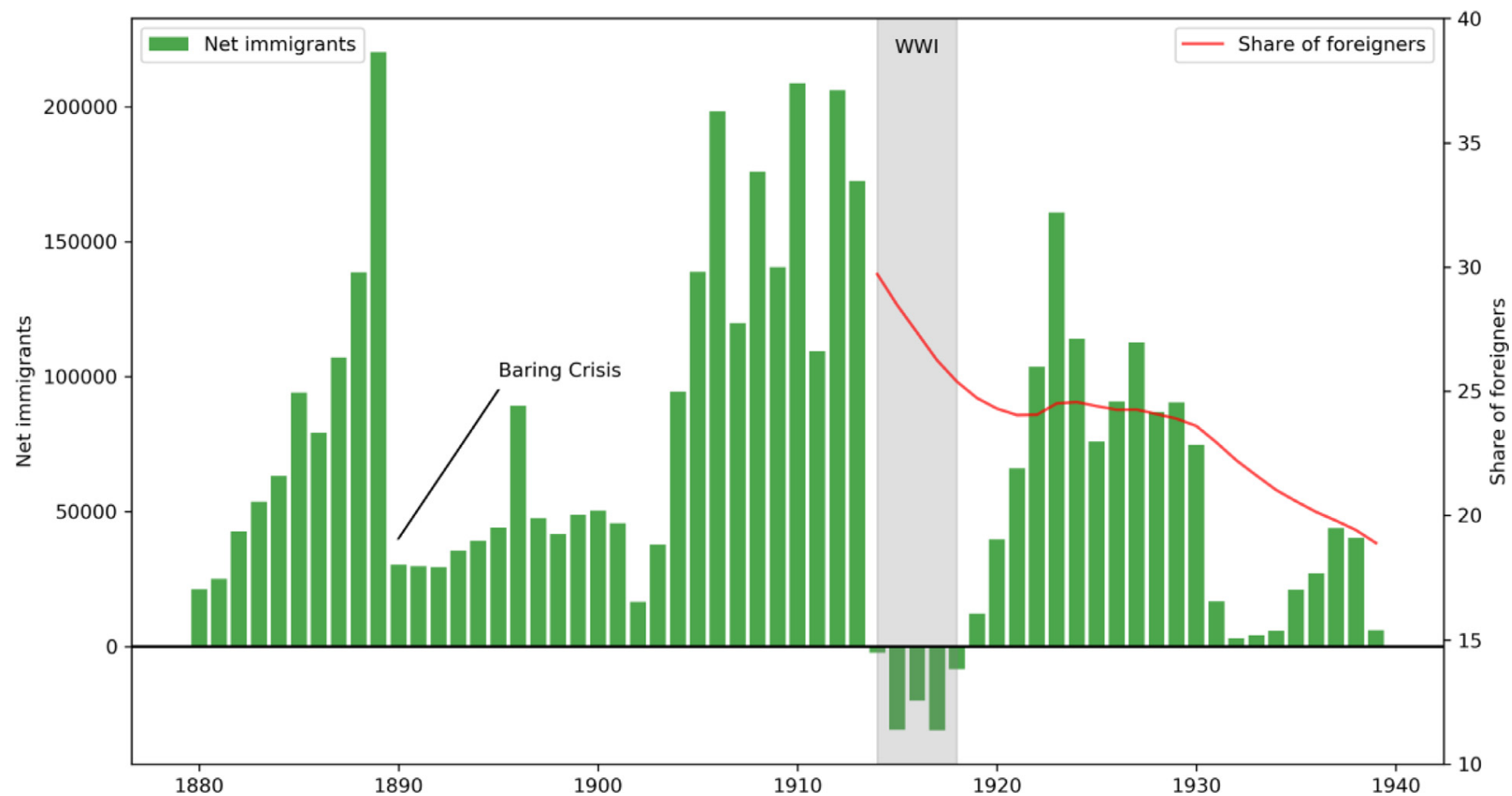
Borjas meets Argentina

- Overlapping fields
 - New case for immigration restrictions
 - If a large wave of immigrants with a different institutional and cultural background enter the country, then the host country's institutions can be affected
 - Immigrants: Low EFW
 - Host country: High EFW
 - Is size of immigrants is large enough, then host's EFW can be negatively affected
 - Let
 - I : be the institutional quality of the country
 - ω : Share of native population
 - $I = \omega EFW_H + (1 - \omega) EFW_L$

Borjas meets Argentina

- Argentina in the late 1890s and early 1900s
 - Not one, but (at least) two large waves of immigrants
 - Country with largest immigrant flow in the world
 - Country with largest stock of immigrants in the world
- Immigrants from: Italy, Spain, Poland
- A “few” years after the immigration wave: Perón!
 - At first sight, Argentina seems to be a good case in favor of the new case for immigration restrictions
 - A closer look shows that immigrants are unrelated to the rise of Perón

Borjas meets Argentina



Borjas meets Argentina

- Three arguments against Borjas' thesis
 - Argument 1: Peron's nondemocratic origin
 - Perón did not start his political career as a democratically appointed official
 - He started his career through a coup d'état in 1943
 - He used his power in the military government to build a support base through labor unions

Borjas meets Argentina

- Three arguments against Borjas' thesis (cont...)
 - Argument 1: Peron's nondemocratic origin (cont...)
 - Was the 1943 coup related to immigrants?
 - The *de facto* government doctrine was related to fraudulent elections, not to immigrants (1942 fraudulent elections –Ramón Castillo)
 - Argentina remained *neutral* during WWII because Europe was a primary source of agricultural exports
 - The coup tried to stop Patrón Costas (supporter of the allies) to win the elections who was handpicked by Ramón Castillo
 - The *pro-axis* were the minority, they joined the *neutralists* for strategic reasons

Borjas meets Argentina

- Three arguments against Borjas' thesis (cont...)
 - Argument 1: Peron's nondemocratic origin (cont...)
 - Was Perón's support driven by the presence of immigrants?
 - Proof shows as lack of evidence
 - There is no mention of immigrants in studies looking at this matter
 - What about fraudulent elections?
 - A practice that pre-dates the arrival of immigrants
 - Immigrants did not naturalize (therefore, not allowed to vote)
 - What's the point? Trying to return to Europe
 - Not willing to risk losing the support of immigrant networks
 - For foreigners, Perón was too similar to the authoritarian type they were running away in the first place
 - Perón: Trained by German soldiers and admirer of Mussolini ■

Borjas meets Argentina

- Three arguments against Borjas' thesis (cont...)
 - Argument 2: Foreign immigration vs. domestic migration
 - Perón's support comes from domestic migrants (not foreign immigrants)
 - Domestic migrants
 - Moving from the inlands to the big cities (mainly Buenos Aires)
 - Domestic migrants come from areas unaffected by foreign immigrants
 - Domestic migrants come from areas with *criollo* and *gaucho* culture
 - This culture relied on the presence of a *patrón* (paternalistic figure)
 - When moving to the city, the *criollos* need to find a new *patron*
 - What about foreign immigrants' descendants
 - Moving away from the working class into middle class (business and administrative positions)

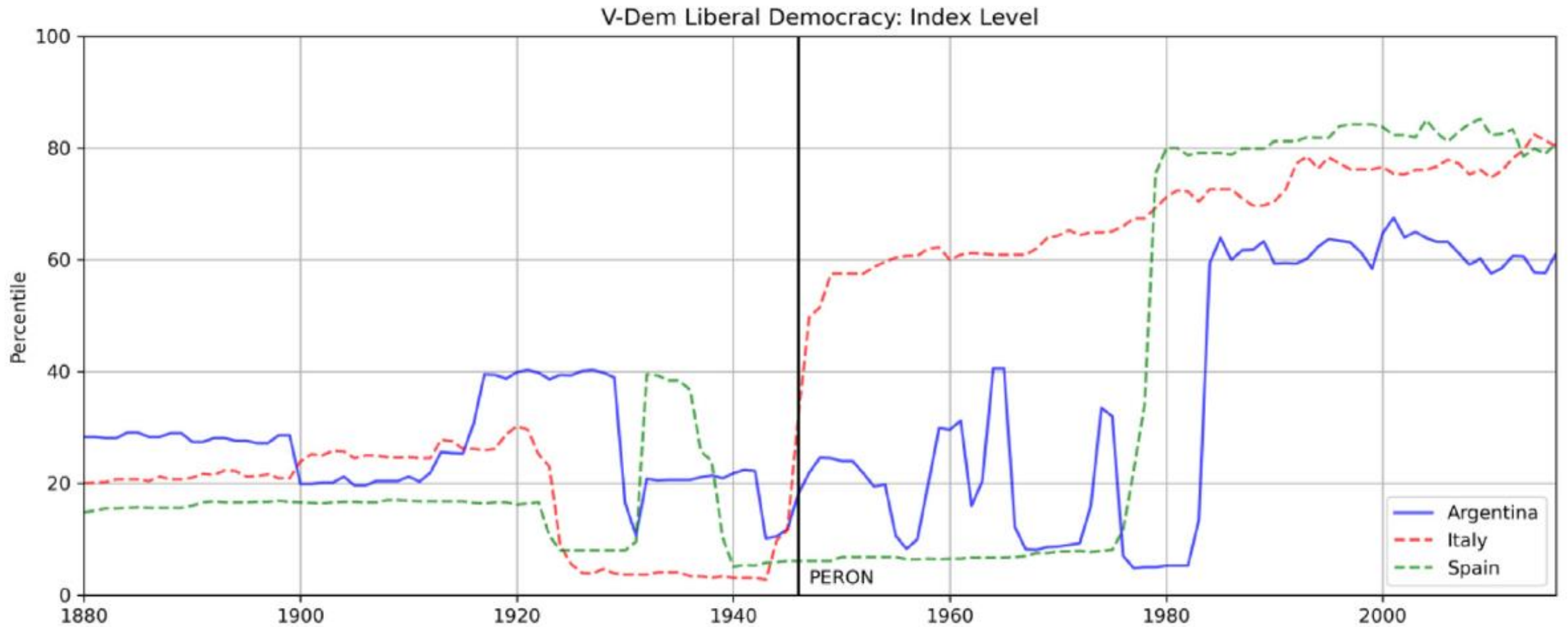
Borjas meets Argentina

- Three arguments against Borjas' thesis (cont...)
 - Argument 2: Foreign immigration vs. domestic migration (cont...)
 - Perón filled the need of a *patrón*
 - Evita, “saved” by Perón, coming from a similar situation than domestic migrants
 - The *criollos* were now related to industrial producers, not landowners
 - Industrial producers were more inclined to ask for protectionists policies
 - Why was there domestic migration?
 - Closing of international trade due to WWI
 - Import substitution (requires more labor than agricultural production)

Borjas meets Argentina

- Three arguments against Borjas' thesis (cont...)
 - Argument 2: Foreign immigration vs. domestic migration (cont...)
 - What happens with the institutions of the countries where immigrants come from?
 - If immigrants bring bad cultural institutions, we should find some evidence in their home countries
 - Look at Italy and Spain (home country of most immigrants)

Borjas meets Argentina



Borjas meets Argentina

- Three arguments against Borjas' thesis (cont...)
 - Argument 3: The creation of the Argentine culture
 - Independence: 1816
 - Secure the borders: 1880
 - There was no typical Argentine
 - Different languages
 - High analphabetism
 - Different religions
 - A national policy, through education programs, to create the “Argentine”

Borjas meets Argentina

- Three arguments against Borjas' thesis (cont...)
 - Argument 3: The creation of the Argentine culture
 - Creating the Argentine: Curriculum
 - The Argentine was a nationalistic individual
 - Students performed rituals designed to resemble military practices
 - Military figures are presented as heroes and morally superior to the regular person
 - Civilians were educated to see the military as the ultimate source of authority
 - Also
 - The military ID was the document required to cast votes in elections
 - Perón was also subjected to this type of training
 - Immigrants' descendants were “filtered” through this educational program ■

POTENTIAL AREAS OF RESEARCH

Potential areas of research

- Macroeconomic populism v2.0 (work in progress)
 - Re-do Dornbusch and Edwards canonical paper on Latin American populism
 - Do 21st century populist follow the similar 4 stages of macroeconomic populism?
 - What are the differences, if any, and why?
 - Also...
 - Maybe expand their sample size beyond 2...
 - ... are their results robust?

Potential areas of research

- Populism and weak institutions (work in progress)
 - There is consensus that populism deteriorates the institutions of the country
 - There is the hypothesis/intuition that weak institutions precede a populist regime
 - Statistical analysis
 - $pr(P) = f(\text{institutional strength}, \text{controls}, \varepsilon)$
 - Must be creative on how to work with data problems (discontinuity, etc.)
 - Analytical narrative
 - Look at representative cases of populist movements

Potential areas of research

- The historical setting of populist movements
 - Populists rely on “us versus them” rhetorical strategy
 - We saw this situation in Argentina
 - For Perón “them” were the landowners (oligarchy)
 - For each country with a strong populist presence
 - What is the historical origin of their “us versus them”?
 - Are the categories in “us versus them” constant, or do they change in time?
And why?

Potential areas of research

- How do populist leaders get to power
 - Many of the “old” populist leaders started their careers through a coup (they had a military background)
 - 21st century populist seems to get to power through a democratic process
 - Why do populist leaders get to power in a different way
 - What are the implications for their governments
 - Does the democratic origin give the populist more support from the median voter?
 - Does a democratic origin protect the populist leader from being overthrown

Potential areas of research

- Populist as bandits
 - Mancur Olson bandits
 - Robbing bandit
 - Stationary bandit
 - Populist as a bandit
 - A stationary bandit *de jure*
 - A robbing bandit *de facto*
 - What are the party dynamics that allow this behavior?
 - Does this phenomenon relate to the issue of weak institutions as a prerequisite for a populist leader to seize power?

Potential areas of research

- Populist as bandits (cont...)
 - Maybe build a little toy: Roving bandits world
 - Settlements: $i = 1, \dots, n$
 - $E[Y_i] = p(B) \cdot 0 + (1 - p(B)) \cdot Y_i$
 - $Y_i = AF(K, L)$
 - Roving bandits: $j = 1, \dots, m; m \leq n$
 - $\pi_j = pY_i - C_R$
 - $p(B) = \frac{m}{n}$

Potential areas of research

- Populist as bandits (cont...)
 - Maybe build a little toy: Stationary bandits world
 - Settlements: $i = 1, \dots, n$
 - $E[Y_i] = p(B) \cdot (1 - t)Y_i + (1 - p(B))Y_i$
 - $Y_i = AF(K, L)$
 - Stationary bandits: $j = 1, \dots, m; m \leq n$
 - $\pi_j = tY_i - C_B$
 - $p(B) = \frac{m}{n}$
 - Incentives to have the settlement increase A (because of good institutions)?
 - How does C_R and C_B differ?

Potential areas of research

- Populist as bandits (cont...)
 - Maybe build a little toy: Stationary bandits world
 - Once you have both bandits...
 - ... under which condition do we observe the populist bandit?

Potential areas of research

- “The road to serfdom”
 - An extension of Hayek’s famous book
 - Do populists depict an inclination to become authoritarian?
 - A populist leader is one that defies the principles of a republic even if he keeps the democratic forms
 - According to Ocampo, Hitler started as a populist, to later become an extreme authoritarian
 - Reverse the question: How likely are authoritarians to start as populists?

Potential areas of research

- Measuring populism (incomplete work)
 - Problems
 - Populist policies can vary from country-to-country
 - For a policy to be populist, its execution must have a populist meaning
 - An income redistribution policy may not be populist
 - Two dimensions
 - Economic populism (*EP*)
 - Institutional populism (*IP*)

Potential areas of research

- Measuring populism (incomplete work) (cont...)
 - Build in index with institutional and economic areas
 - Affect each area by a populist index *a la* Hawkins (or V-Party)
 - Example (intuition):
 - $$I = \frac{(H \cdot EP) + (H \cdot IP)}{2}$$
 - $H, EP, IP \in (0,10)$
 - EP and IP capture the populist output (policies, institutional deterioration, etc).
 - H captures the “populist meaning” of EP and IP

Potential areas of research

- Institutional impact of populist regimes (work in progress)
 - SCA of populist regimes
 - Are any outliers?
 - Ecuador maybe?
 - Are any institutions, such as dollarization, that can constrain a populist leader?

The end ☹