# Populist Leadership and Economic Decline[1]

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## Introduction

Most work on populism has investigated the reasons why voters choose populist leaders and governments. In our new research (Funke et al., 2023), we study the economic and political costs of populism and find that it leads to slower economic growth, undermines democratic institutions, and can leave a country more vulnerable to future populist governments.

The rise of populism in the past two decades has motivated much work on the determinants of populist voting (see the review by Guriev and Papaioannou, 2020, or Guiso et al., 2017, and Rodrik, 2017). In contrast, we still have limited knowledge of the economic and political consequences of populism. How does the economy perform after populists come to power? Is populism a threat to liberal democracy or not?

1 This is an abridged, edited, and updated version of the article "Populist Leaders and the Economy" by Manuel Funke, Moritz Schularick, and Christoph Trebesch, published in the *American Economic Review* in December 2023. To parts of this text and the figures the following copyright notice may apply: Copyright American Economic Association; reproduced with permission.

These questions have not been sufficiently addressed. Moreover, most existing analyses focus on individual countries or data just from the past 20 or 30 years. What is missing is a bigger picture and a global, long-run perspective.

To address these questions, in a new paper (Funke et al., 2023) we built a comprehensive cross-country database on populism, identifying 51 populist presidents and prime ministers in the period 1900–2020. To code populist leaders, we rely on today's workhorse definition in political science, according to which populism is a political strategy that focuses on the conflict between "the people" and "the elites" (e.g., Mudde, 2004). Precisely, we define a leader as populist if he or she places the alleged struggle of the people ("us") against the elites ("them") at the center of their political campaign and governing style (for example, based on this definition, Putin, Reagan, or Obama cannot be classified as populists, but Bolsonaro, Berlusconi, or Trump clearly can).

For coding, we collected, digitized, and evaluated more than 20,000 pages of scientific literature on populism and identified 51 leaders who clearly fit the above definition of a populist politician. More specifically, we evaluated approximately 1,500 leaders (i.e., president, prime minister, or equivalent) in 60 countries starting in 1900 or the year in which the country achieved independence. We started in 1900 since there is little evidence of populists in government at the federal level prior to that date (in 1896 the populist William Jennings Bryan ran for president in the US but lost).

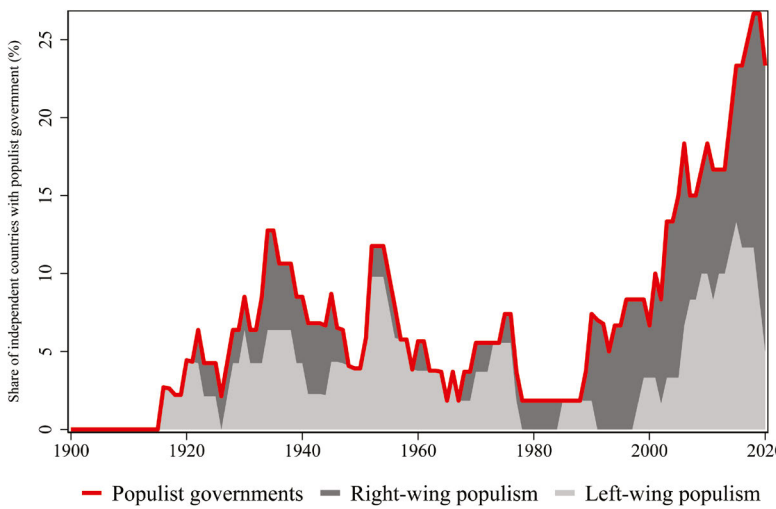
Using this sample, we conducted a historical analysis of the ups and downs of populist leadership worldwide over the past 120 years and gauged its political and economic fallout.

## Populism has a long history and it is serial in nature

Figure 1 summarizes the historical evolution of populism, by plotting the proportion of independent countries in our sample of 60 countries governed by populists each year since 1900 (bold red line). The figure shows that populism at the country level has existed for more than 100 years, and that it has reached a historical high in the past decade.

The first populist president was Hipólito Yrigoyen, who came to power in the general election of Argentina in 1916. Since then, there have been two main populist peaks: during the Great Depression of the 1930s and in the 2010s. The 1980s was the low point for populists in power. However, after the fall of the Berlin Wall, from 1990 onward, populism returned with a vengeance. The year 2018 marked an all-time high, with 16 countries governed by leaders described by the political science literature as populists (more than 25% of the sample). This most recent increase can mainly be attributed to the emergence of a new populist right in Europe and beyond.

**Figure 1: Populists in Power: Share of Countries in Sample**

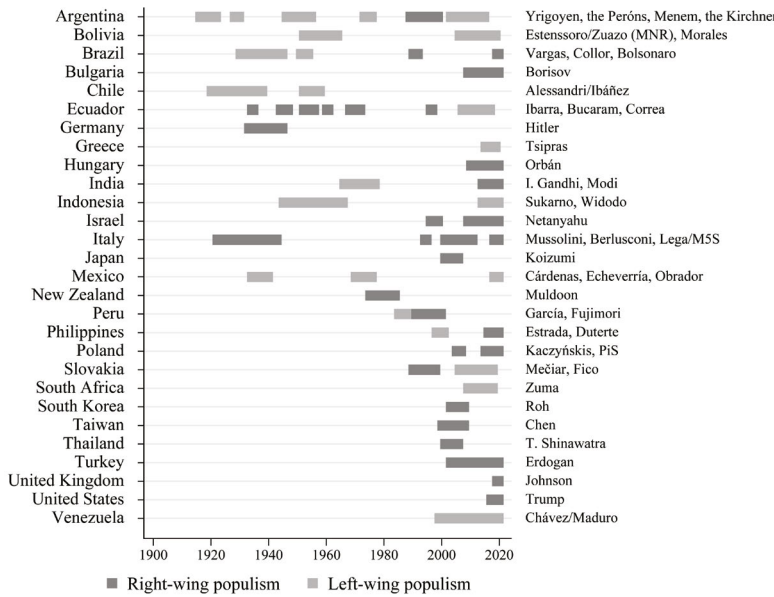



Source: Funke et al. (2023)

A particularly interesting insight from our long-run data is the re-occurrence of patterns of populism over time. Figure 2 shows the 27 countries (from our 60-country sample) that have a history of populist leadership (i.e., at least one populist government in power since 1900 or independence). For each country, the grey bars represent periods of populist leadership.

The key message from Figure 2 is that populism at the government level appears to be serial in nature, as it is observable in the same countries again and again. We identify long and repeating periods of populist rule, and establish that having been governed by a populist in the past is a strong predictor of populist rule in a country in recent years. Interestingly, half of the countries in Figure 2 with recurring periods of populist leadership saw switches from left-wing to right-wing populism or vice versa.

**Figure 2: Populist Leader Periods by Country: Recurring Patterns**




Source: Funke et al. (2023)

## Populism has high economic costs

Figure 3 gives a hint of the economic consequences we can expect from the global surge of populist politics in recent years. Panel A shows four unconditionally averaged performance gaps in annualized real GDP growth after populists come to power, inspired by Blinder and Watson's (2016) measurement of a Democrat–Republican president performance

gap in US postwar data. Countries underperformed by approximately one percentage point per year after a populist came to power, both compared to their country's typical long-run growth rate (white bars) and the (then-)current global growth rate (grey bars). This is true for the short term of five years and the long term of 15 years after a populist gains power.

The results in Panel A are unconditional on economic events surrounding the populist entering office or year-over-year dynamics, and they do not use a strict control group. All this is especially important since the identification of countries as having populist governments is likely not random with regards to the economy.

This is why we get more rigorous in Panel B. We apply the synthetic control method (SCM) proposed by Abadie et al. (2010) to construct a doppelganger for each case, using an algorithm to determine which combination of "donor economies" matches the growth trend of a country with the highest possible accuracy before the populist comes to power.

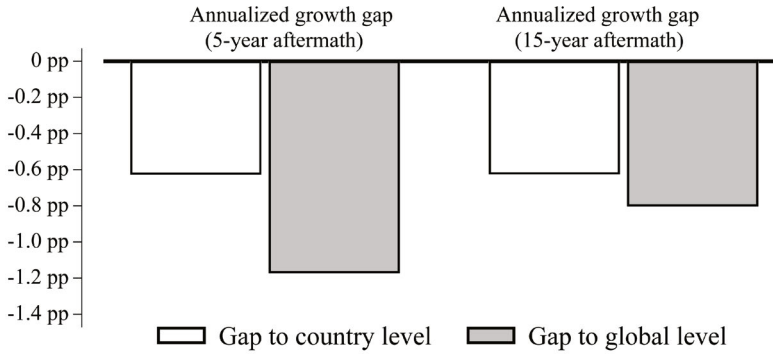
Comparing the evolution of this synthetic doppelganger with actual data for the populist economy quantifies the aggregate costs of the populist "treatment". We take averages of the path around populists entering office and compare them to the average estimated counterfactual path. Subtracting the synthetic control from the treated series results in the doppelganger gap that measures the average growth difference due to populism.

Panel B displays the results of this exercise. The blue line is the average difference (or gap) in GDP dynamics between treated (populist) and synthetic control (non-populist) groups, using a time horizon of 15 years before and after the entry into power (the red and black lines represent the left-wing and the right-wing populist dimension, respectively). We use simulation-based confidence intervals (CI; 90%) following Cattaneo et al. (2021, 2022).

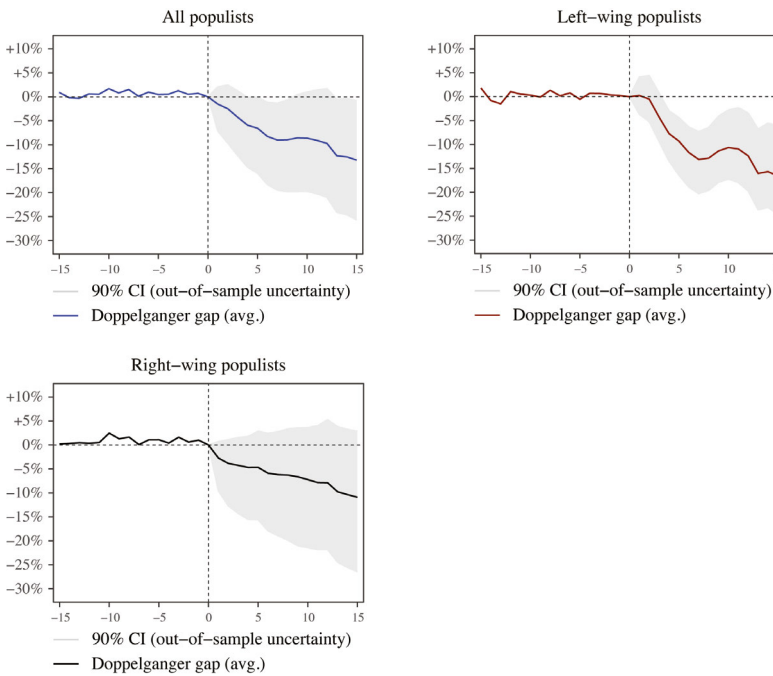
The cumulative difference to the doppelganger economy is large, exceeding ten percentage points after 15 years. The GDP path starts to diverge visibly from the synthetic counterfactual soon after populists enter government, and the economy does not recover.

**Figure 3: The Economic Costs of Populism: Average GDP Growth Gaps**

**Panel A**: Unconditional annual loss (in percentage points, pp)



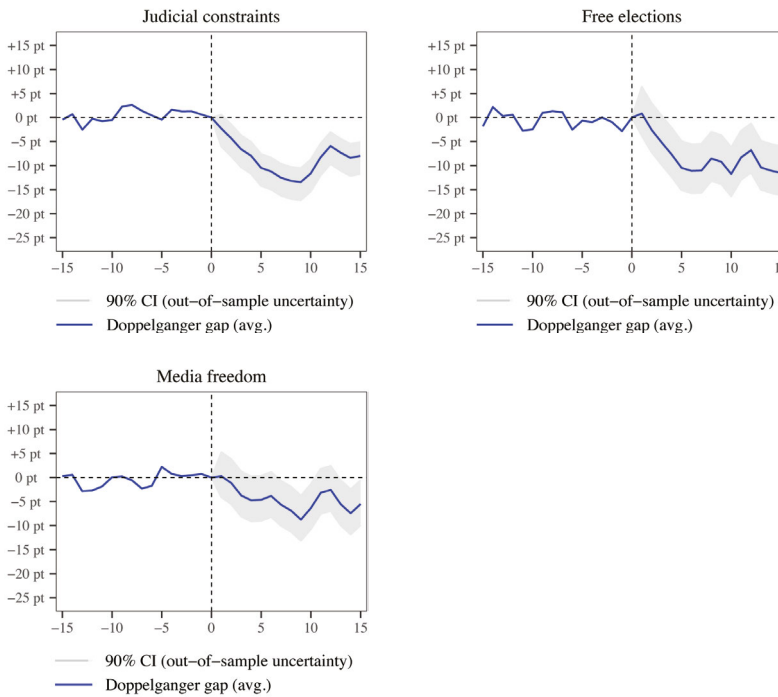

**Panel B**: Loss compared to synthetic control group (in %, relative to entry into office)




Source: Funke et al. (2023)

Importantly, all these results are robust not only when we cut the sample along the left-wing versus right-wing populist dimension, as can be seen, but also for several other dimensions: geographical region, historical era, length of the rule, and initial conditions, such as financial crises before/during the election year. We further conduct "country placebo" and "time placebo" tests that support our main results. The results also held when using SCMs that account for multiple treated units and staggered adoption (Abadie and L'Hour, 2021; Ben-Michael et al., 2021).

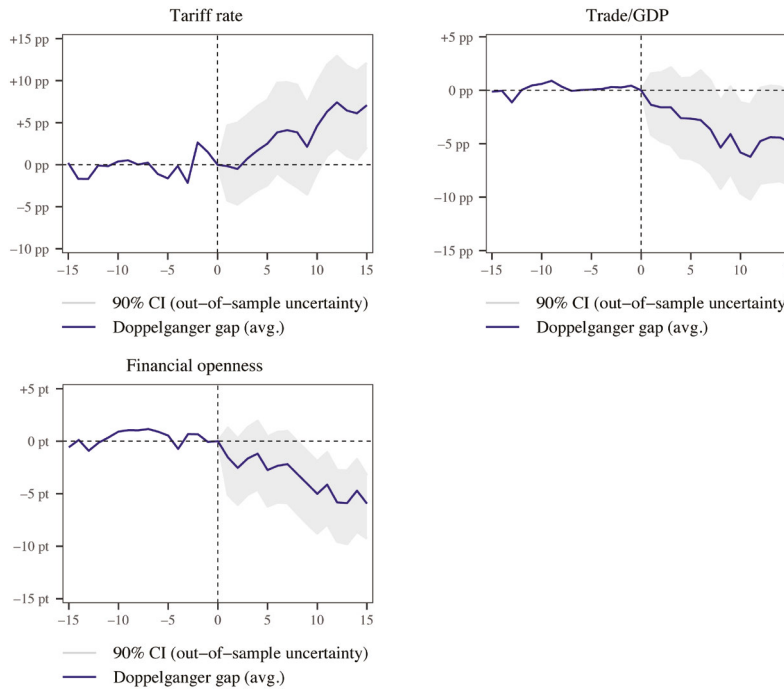
**Figure 4: The Political Consequences of Populism: Institutional Decay**



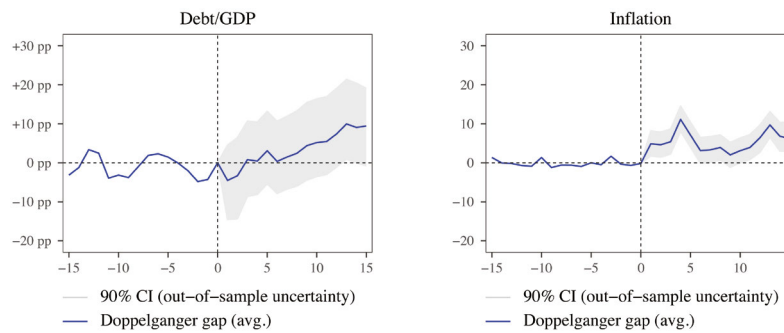

Source: Funke et al. (2023)

**Figure 5: Core Government Policies Under Populists: Economic Disintegration, Debt, and Inflation**

**Panel A**: Economic nationalism




**Panel B**: Macroeconomic policies




Source: Funke et al. (2023)

### Populism is politically disruptive

Populism is also costly for democratic institutions. To provide one example, we study the evolution of executive constraints. Figure 4 shows SCM results for all populists in our sample (similar to the blue line in Panel B of Figure 3 on GDP), using indices of judicial constraints on executive, electoral, and media freedom from the Varieties of Democracy (V-Dem) database. Higher values indicate a higher degree of institutional strength. As can be seen, these checks and balances decline markedly after populists come to power, especially when compared to the non-populist counterfactual. These results are again robust to cutting the sample across left-wing and right-wing cases. The erosion of democratic norms may explain both the persistence and the negative economic outcomes of populism (e.g., Acemoglu et al., 2005, 2013, 2019; Guriev and Treisman, 2019).

### Economic nationalism and unsustainable macroeconomic policies

Regarding the impact on growth, we also found confirming evidence for two other channels that are core fields of government policy and that also play a prominent role in the populism literature: economic nationalism, in particular via protectionist trade policies (e.g., Born et al., 2019), and the classic Sachs (1989) and Dornbusch and Edwards (1991) macro-populism studies on unsustainable macroeconomic policies, resulting in spiraling public debt and inflation. The results, again using the SCM, are reported in Figure 5.

### Conclusion

When populists come to power, they can do lasting economic and political damage. Countries governed by populists witness a substantial decline in real GDP per capita, on average. Protectionist trade policies, unsustainable debt dynamics, and the erosion of democratic institutions stand out as commonalities of populists in power.

Looking ahead, a major risk is the serial nature of populism. The historical data we gathered suggest that populism is a persistent phenomenon, with countries like Argentina and Ecuador witnessing on-and-off populist leadership all the way back to 1916. The big question is whether advanced countries will share a similar fate going forward, witnessing "serial populism" for the next years and decades. Unfortunately, in the light of history, this is not an unlikely scenario.

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