NEW POPULISM IN LATIN AMERICA

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OUTLINE

• What is populism?

• Historical Perspective of Populism in Latin America

• Three waves:
  • First wave (macroeconomic effects - Dornbusch Edwards)
  • Second Wave
  • Third wave (longer duration: institutional effects)

• General lessons
WHAT IS POPULISM?

- Populism is a “thin-centered ideology that considers society to be divided into two homogeneous and antagonistic groups, ‘the people’ and ‘the corrupt elite’ and which argues that politics should be an expression of the volonté générale of ‘the people’”

Cas Mudde, 2004, The Populist Zeitgeist, Government and Opposition
WHY TO STUDY POPULISM IN LATIN AMERICA?

Interesting for many reasons:

- It came in different flavors \(\rightarrow\) good to understand the commonalities
- Lasted many years in power \(\rightarrow\) good to study long-term effects of populists in power
- It has been studied thoroughly \(\rightarrow\) good to see many perspectives
WHY POPULISM IN LATIN AMERICA?

• Polarized society (concentration of wealth/income distribution)

• Tradition of Elections

• Rhetoric: *El Pueblo* vs. *Oligarquía*

• Three waves of populism
  • Different definition of conflict - Classical
  • Different supporting ideologies - Neoliberal
  • Different economic effects - Radical
THREE WAVES OF LATIN AMERICAN POPULISM I - CLASSICAL

First wave: in the 30s
- Started with fall in price of natural resources > Large masses urbanizing
  - Definition of people: el Pueblo (caveat: excluded indigenous or people of African descendent)
  - Definition of elites: Colluded with foreign powers
  - Ideology: Americanismo (rejection of right/left category)
  - Issues: Fight against electoral fraud and to expand franchise (for instance extension of voting right to women in Argentina in 1951)
  - Authoritarian appropriation of People’s will
  - Turning stigmas against poor into virtues
  - Some enduring political organization: APRA, Peronist Party, Bolivia’s Movimiento Nacionalista Revolucionario
- Ended in the 60s with bureaucratic authoritarian regimes
- Examples: Vargas, Perón, Velasco Ibarra, Haya de la Torre

Economic Implications
- Import substitution Industrialization
- State dirigisme (some inspiration from Italian corporatism)
THREE WAVES OF LATIN AMERICAN POPULISM II - NEOLIBERAL

- **Second wave** in the 90s
  - Started with domestic economic chaos.
    - Definition of people: citizens suffering because of economic mess
    - Definition of elites: domestic incompetent leaders
    - Ideology: “neo-liberalism”
  - Ended at the beginning of 2000s.
  - Examples: Menem, Collor de Mello, Fujimori

- Economic implications: market-friendly reforms
THREE WAVES OF LATIN AMERICAN POPULISM III - RADICAL

• **Third wave** in the late 90s
  - Started as reaction to “neo-liberal policies”
    - Definition of people: *el Pueblo* suffering from ‘neoliberal’ policies (ethno-populism)
    - Definition of elites: Corrupt political class colluding with foreign powers
      - Ideology: *Americanismo, Socialism, Anti-imperialism*
  - Constitutional changes (constituent assemblies)
  - Examples: Chávez/Maduro, Correa, Ortega

• Economic implications: bigger role of the states, nationalization
THREE WAVES OF LATIN AMERICAN POPULISM - TIMING

- What is populism?
- Historical perspective
- First wave
- Third wave
- General lessons
THE POPULIST PHASES IDENTIFIED BY DORNBUSCH AND EDWARDS

Populism in Latin America

- **What is populism?**
- **Historical perspective**
- **First wave**
- **Third wave**
- **General lessons**

**Highly polarized society. Demand for better income distribution.**

**Increase in real wages. Expansion of the (inflation-financed) fiscal deficit. Price controls. Fixed exchange rate. Increasing imports.**

**Some shortage. Problems in financing the K account.**

**Pervasive shortage and accelerating inflation. K flights.**

**Orthodox stabilization under a new government.**
INFLATION-FINANCED FISCAL EXPANSION - FIRST WAVE

- What is populism?
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Populism in Latin America

- Fiscal Balance
- CPI Inflation (RHS)
Political scientists do not like the definition of populism but …

The key results hold using a ‘modern’ definition

Key underlying issue is the demand for income redistribution and ignoring the budget constraint

Challenge: focused exclusively on immediate economic consequences but the main damage could be on institutions

Lessons for today. Mechanisms are similar but the context is different

- Bretton Woods system with fixed exchange rate
- K markets are different (much bigger and lending to the private sector)
- Duration of the commodity cycle
THIRD WAVE OF POPULISM

- End of 90s / 2000s. Examples: Chávez/Maduro, Correa, Ortega
- Favorable external conditions (commodity supercycle)
- So, more time in power
- Macroeconomic mismanagement
- And, crucially, more damage to institutions
POPOPULISM AND EXTERNAL CONDITIONS

- What is populism?
- Historical perspective
- First wave
- Third wave
- General lessons

Source: Magud, Spilimbergo, Werner (forthcoming) based on Hawkins (2009) and WEO
## POPULISM AND EXTERNAL CONDITIONS

### What is populism?

- **Historical perspective**
  - First wave
  - Third wave

### General lessons

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>(1)</th>
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<tbody>
<tr>
<td>Terms of trade</td>
<td>0.00174***</td>
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<td>Windfall income</td>
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<td>0.471***</td>
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<td>Change in terms of trade</td>
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<td>0.000820**</td>
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<td>Constant</td>
<td>-0.0633 (0.0469)</td>
<td>-0.269 (0.242)</td>
<td>0.120*** (0.0419)</td>
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<td>Observations</td>
<td>1,478</td>
<td>438</td>
<td>1,446</td>
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<td>R-squared</td>
<td>0.094</td>
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Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1
THIRD WAVE OF POPULISM: DIFFERENT CONDITIONS

• External conditions:
  • Longer commodity cycle
  • More developed capital markets
  • Flexible exchange rates
  • Favorable global financial conditions
  • No cold war

• Internal conditions
  • Some fiscal discipline: Evo Morales
  • Military more restrained
# Third Wave of Populism: More Time in Power

## Populism in Latin America

- **What is populism?**
- **Historical perspective**
- **First wave**
- **Third wave**
- **General lessons**

## Table: Past Events vs. Recent Events

<table>
<thead>
<tr>
<th>Past events</th>
<th>Duration (years)</th>
<th>Recent events</th>
<th>Duration (years)</th>
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<tbody>
<tr>
<td>Perón (ARG), 1973-76</td>
<td>3</td>
<td>Fernández de Kirchner (ARG), 2007-15</td>
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<td>Vargas (BRA), 1951-54</td>
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<td>Morales (BOL), 2006-19</td>
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<td>Goulart (BRA), 1961-64</td>
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<td>Correa (ECU), 2007-13</td>
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<td>Sarney (BRA), 1985-90</td>
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<td>Ortega (NIC), 2007-13</td>
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<td>Allende (CHL), 1970-73</td>
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<td>Chavez-Maduro (VEN), 1999-19</td>
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<td>Echeverría (MEX), 1970-76</td>
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<td>Velasco (PER), 1968-75</td>
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<td>Belaúnde (PER), 1963-68</td>
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<td>García (PER), 1985-90</td>
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<td>Pérez (VEN), 1974-78</td>
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<td>Collor (BRA), 1990-92</td>
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<td>Menem (ARG), 1989-99</td>
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<td>Fujimori (PER), 1990-00</td>
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<tr>
<td><strong>Average</strong></td>
<td><strong>5.1</strong></td>
<td><strong>Fernández de Kirchner (ARG), 2007-15</strong></td>
<td><strong>11.4</strong></td>
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<tr>
<td><strong>Standard deviation</strong></td>
<td><strong>2.6</strong></td>
<td></td>
<td><strong>5.5</strong></td>
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</tbody>
</table>
WHAT POPULISTS IN POWER DO?

- Populists need **conflicts** to legitimize their power
- … **disable check-and-balances** (conflicts with judiciary and press)
- … ‘**occupy**’ the state
- … need **continuous contact with the ‘people’** *(Aló Presidente)*
- … like **referenda**
- … promote **mass clientelism** *(Boliburguesía)*
- … (for a while) seem to be **immune to corruption allegation**
- … blame the ‘elites’ for failure (conspiracy theories)
- … are harsh against NGOs and intermediate bodies
POPULISM AND PROPERTY RIGHTS

### Populism in Latin America

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POPULISM AND BUSINESS FREEDOM

- What is populism?
- Historical perspective
- First wave
- Third wave
- General lessons

Populism in Latin America

- Fernández de Kirchner (ARG), 07-15
- Morales (BOL), 06-17
- Correa (ECU), 07-17
- Saca-Funes (SLV), 04-13
- Ortega (NIC), 07-13
- Chávez-Maduro (VEN), 99-17
DEMOCRATIC ACCOUNTABILITY

Populism in Latin America

- What is populism?
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Fernández de Kirchner (ARG), 07-15
Morales (BOL), 06-17
Correa (ECU), 07-17
Ortega (NIC), 07-13
Chávez-Maduro (VEN), 99-17
POPULISM AND ECONOMICS: A LONG-TERM VIEW

- Before 70s. Dominant view: Macroeconomic finetuning
- After 70s. Problems: Limits of short-term macro finetuning
  - Lucas critique
  - Time inconsistency
  - Electoral cycle
  - Trade policy captive of special interest
- After the 80s. Response: Delegate to independent institutions / agencies
  - Central bank independence
  - Fiscal rules
  - EU rules
  - WTO
- In the 2000s. Populists: Independent Institutions not accountable to citizens
  - Populists do not believe in check-and-balances