

Populism and Economic Dynamics

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Populism

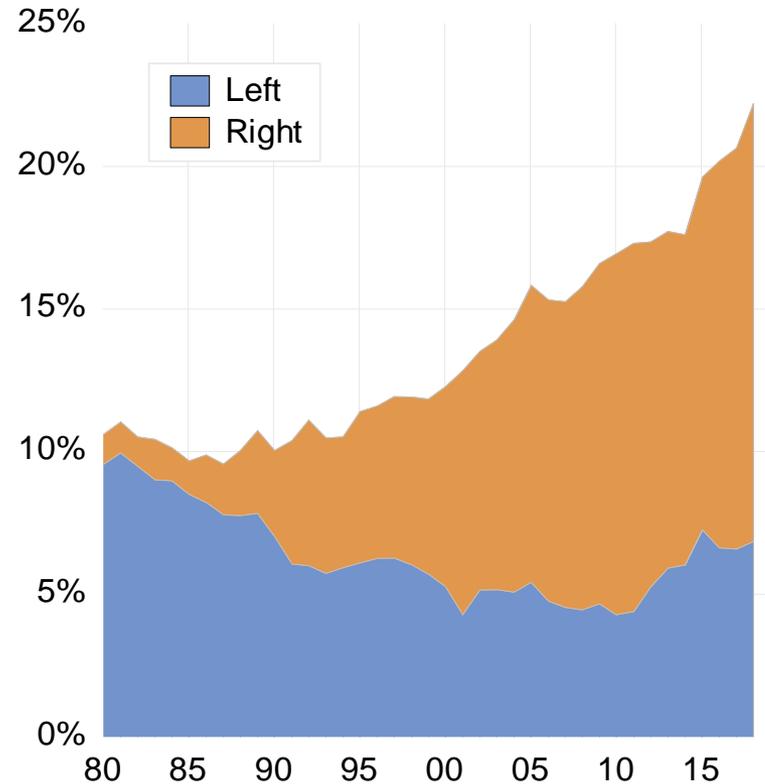


- Long definitions in the literature; short definitions in dictionaries:
 - Oxford Advanced American Dictionary: *A type of politics that claims to represent the opinions and wishes of ordinary people.*
- Eichengreen (2018):
 - *The awkward fact is that there is no agreed definition. Populism is a multidimensional phenomenon with multiple perspectives on each dimension.*
 - *Here I define populism as a political movement with anti-elite, authoritarian, and nativist tendencies. Since populist movements combine these tendencies in different ways, there are different variants of the phenomenon.*
 - *... the Left emphasize[s] the anti-elite element ... the Right emphasize[s] hostility towards foreigners and minorities.*
- Difficult to measure; statistical work must be based on proxies.

Authoritarian Populism Index Timbro (2019)



- Votes of populist parties in parliamentary elections.
 - Left: Gradual fall until 2010, then rise until 2015. Stable since. Southern Europe.
 - Right: Gradual rise & jump in 2015. Initially Eastern Europe; spread subsequently.
- Return of right-wing populism?
 - Fell after WW2.
 - Returned after the collapse of communist regimes around 1990.

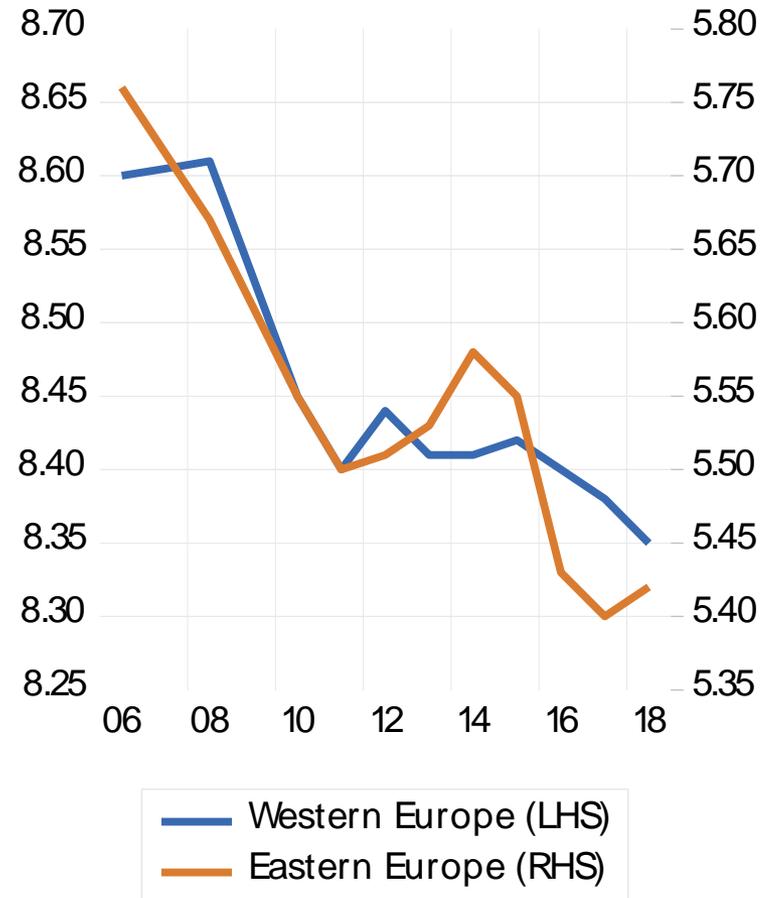


- EU, Iceland, Norway, Switzerland, Serbia and Montenegro.
- Countries included progressively.

EIU Democracy Index (2018)



- Panel data that seek to measure “democracy.”
 - Likely to fall under authoritarian populist regimes.
- Declines to 2011:
 - Followed by recovery in Eastern Europe but not in Western Europe as 2nd downswing hits.
 - Decline in both Eastern and Western Europe from 2015 onward.



What is driving these changes?



- By analogy to real GDP growth, perhaps useful to distinguish between different types of changes?
 - Secular changes:
 - Declining support for the Left and rising support for the Right, that perhaps reflect structural changes to the economy and shifting societal values?
 - Social media makes it easier for political challengers to reach voters.
 - Cyclical factors:
 - Increases in unemployment rate – as a broad measure of economic insecurity – reduces the support for the Right in the case of the Timbro Index.
 - Idiosyncratic shocks:
 - Refugees surge in 2015.

Cyclical factors



- To what extent is populism driven by poor economic outcomes?
 - Financial crises boost right-wing populism (Funke et al. 2016; Funke and Trebesch 2017).
 - Few economic and financial crises in Europe between 1945 and 1973.
 - Austerity following the financial crisis boosted support for Brexit (Becker et al. 2017; Fetzer 2019).
 - Support for the *Sweden Democrats* boosted by tax cuts and social welfare reductions *to make work pay* (Dal Bó et al. 2018).
 - Austerity did apparently not boost *AfD* (Schwander and Manov 2017).
- Social safety net and labour market institutions are hugely important (Eichengreen 2018; Vlandas and Halikiopoulou 2016).
 - Populism receives less of a boost if safety nets are strong.

What do populist economic policies look like?



- Definition in conference invitation:
 - *... policies oriented towards short-term gains at the cost of long-term structural growth, favors pressure groups at the cost of minorities and other groups ... and do generally not attach great importance to economic facts and analysis.*
- Historically, focus on left-wing economic populism:
 - Often combined with some interpretation of socialism (Mudde 2015).
 - Dornbusch and Edwards (1991) focus on Latin American left-wing populism:
 - Large deficits of national and regional authorities, and state-owned firms, financed by central bank, leading to high inflation.
 - Few recent examples in Europe.
 - Syriza in Greece, 2015-2019.
 - Unable to pursue many of its policies because of the conditionality associated with borrowing under the EU-ECB-IMF Troika programme.

Populist economic policies (cont.)

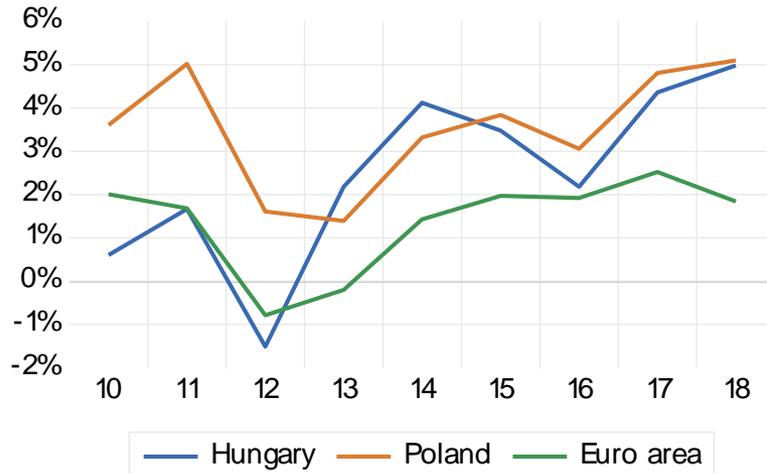


- Right-wing economic populism:
 - Frequently associated with nationalism (Mudde 2015).
 - Right-wing populist parties in power are also rare in Europe.
 - Poland and Hungary are the best examples, but constrained by EU membership.
 - Short-lived government in Italy.
 - Lubin (2019) argues that, with the exception of Trump, current right-wing populist leaders are not given to irresponsible macroeconomic policies.
 - Self-reliance is the only way to keep global capital at arm's length.

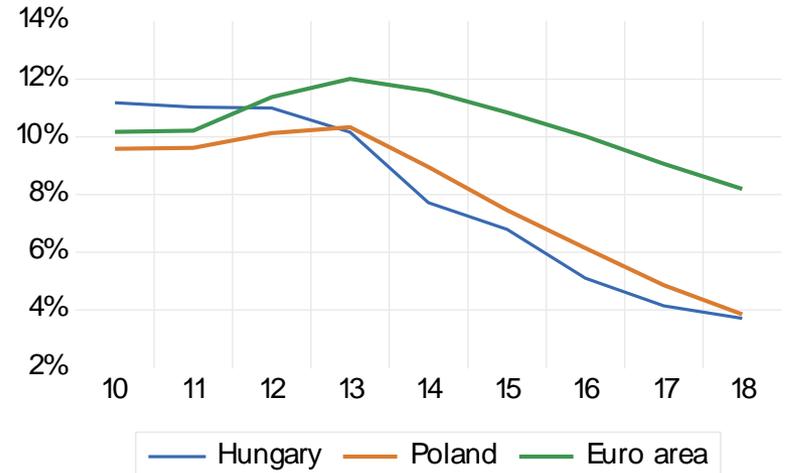
Hungary and Poland



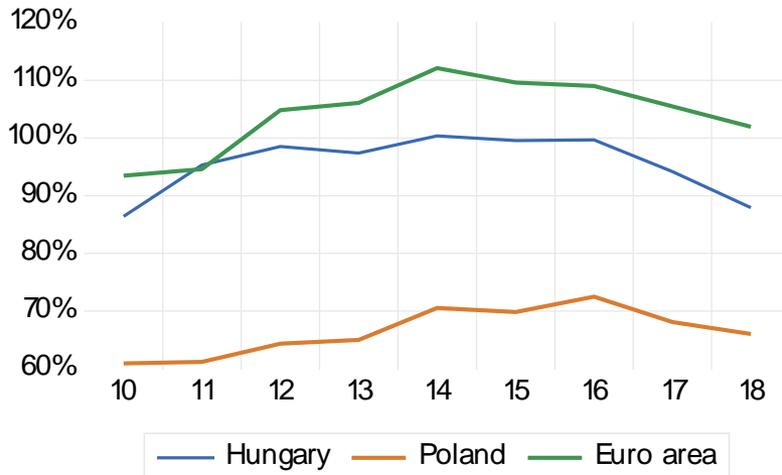
Real GDP growth



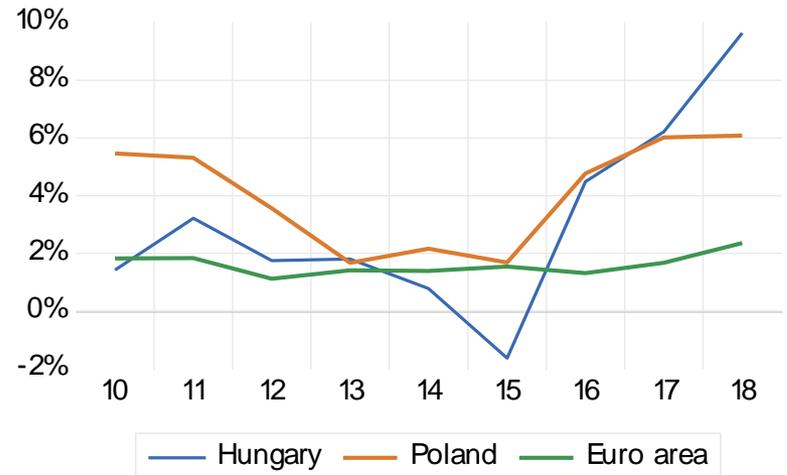
Unemployment



Gross Public Debt, % of GDP



Workers' compensation



Tackling right-wing populism



- The effectiveness of measures to tackle right-wing populism depends on its sources (Rodrik 2019):
 - Is right-wing populism due to a deepening rift in values between social conservatives and liberals, with the former supporting nationalist, authoritarian politicians ...
 - Younger generations have become richer, more educated, and more secure, and have adopted secularism and diversity at the expense of religiosity, traditional family structures and conformity.
 - Older generations have become alienated, vote in greater numbers and are more politically active.
 - Urbanisation is a process of spatial sorting. It creates thriving, multicultural, high-density areas where socially liberal values are dominant and leaves behind rural areas and smaller cities that are socially conservative and averse to diversity.
 - ... or does it reflect economic anxiety and insecurity, fuelled by financial crises, austerity and globalisation?

Tackling right-wing populism (continued)



- Seems likely that both factors have played a role and reinforced each other.
- Suggests that right-wing populism can be tackled by economic policy:
 - Eichengreen (2018) notes that there are plenty of historical examples of the latter (e.g., Bismarck’s social policies, Roosevelt’s New Deal).
 - Rodrik (2019): *Economic remedies to inequality and insecurity are paramount.*

Sum up



- Support for populist parties has risen sharply in Europe since 1980.
 - Left-wing parties have lost some importance.
 - Right-wing parties have become much more prominent.
- These changes reflect a mixture of secular developments, economic downturns and idiosyncratic developments.
- Changes in relative incomes between groups important.
 - Often a consequence of austerity (UK); sometimes policy (Sweden).
 - Effective social safety nets are important for combatting populism.
- The little experience there is of right-wing populist governments in Europe suggests that their economic policies may be prudent (although perhaps not in Italy).