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.
• Votes of populist parties in parliamentary elections.
  – Left: Gradual fall until 2010, then rise until 2015. Stable since. Southern Europe.
• Return of right-wing populism?
  – Fell after WW2.
  – Returned after the collapse of communist regimes around 1990.
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).
  – 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.
• 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.
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).