

NEW POPULISM IN LATIN AMERICA

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OUTLINE

Populism in Latin America

▪ What is populism?

• What is populism?

▪ Historical perspective

• Historical Perspective of Populism in Latin America

▪ First wave

• Three waves:

• First wave (macroeconomic effects - Dornbusch Edwards)

• Second Wave

• Third wave (longer duration: institutional effects)

▪ Third wave

• General lessons

▪ General lessons

WHAT IS POPULISM?

Populism in Latin America

▪ 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’”

▪ Historical perspective

Cas Mudde, 2004, The Populist Zeitgeist, Government and Opposition

▪ First wave

▪ Third wave

▪ General lessons

WHY TO STUDY POPULISM IN LATIN AMERICA?

▪ What is
populism?

Interesting for many reasons:

- It came in different flavors → good to understand the commonalities
- Lasted many years in power → good to study long-term effects of populists in power
- It has been studied thoroughly → good to see many perspectives

▪ Historical
perspective

▪ First wave

▪ Third wave

▪ General lessons

WHY POPULISM IN LATIN AMERICA?

Populism in Latin America

▪ What is populism?

▪ Historical perspective

▪ First wave

▪ Third wave

▪ General lessons

- 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

Populism in Latin America

What is

populism?

Historical perspective

First wave

Third wave

General lessons

- **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 descent)
 - 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 corporativism)

THREE WAVES OF LATIN AMERICAN POPULISM II - NEOLIBERAL

Populism in Latin America

▪ What is

populism?

▪ **Historical**

perspective

▪ First wave

▪ Third wave

▪ General lessons

- **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

Populism in Latin America

▪ What is

populism?

▪ Historical

perspective

▪ First wave

▪ Third wave

▪ General lessons

- **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

Populism in Latin America

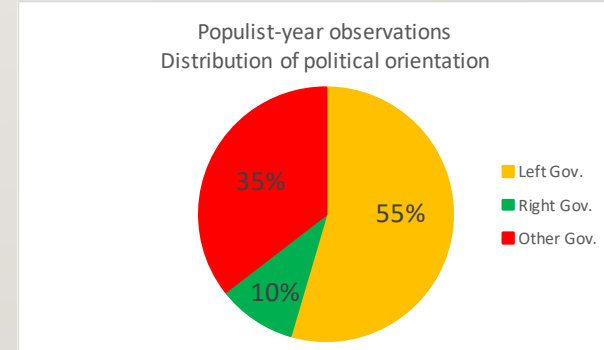
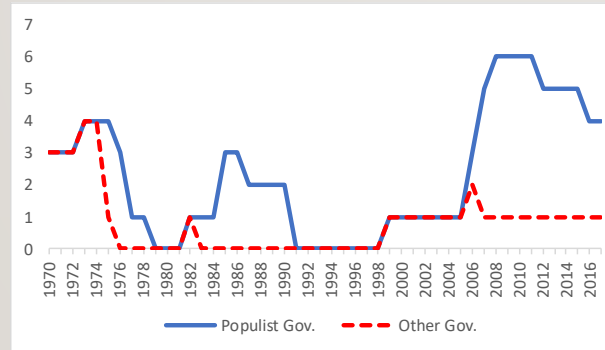
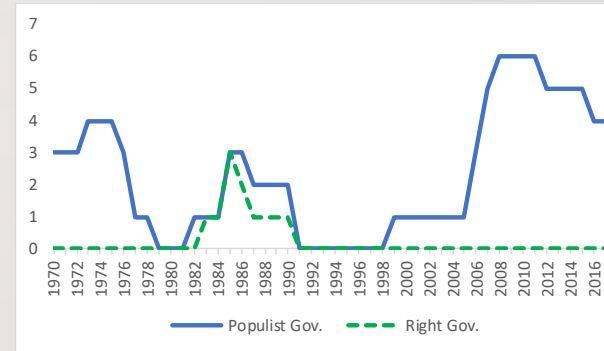
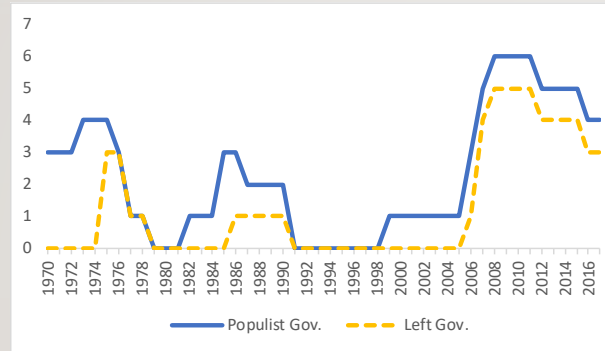
What is populism?

Historical perspective

First wave

Third wave

General lessons



THE POPULIST PHASES IDENTIFIED BY DORNBUSCH AND EDWARDS

Populism in Latin America

▪ What is

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• 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

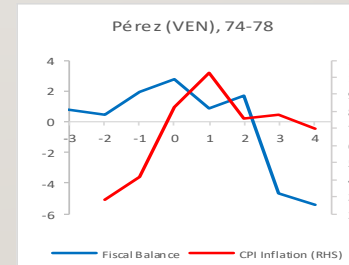
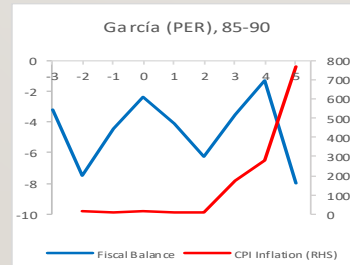
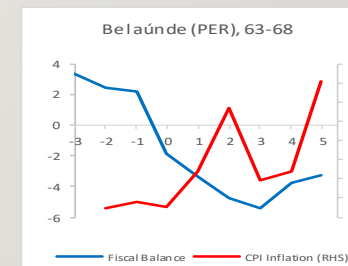
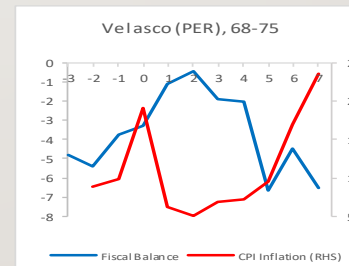
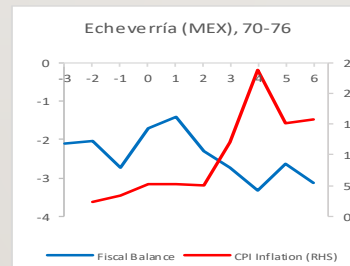
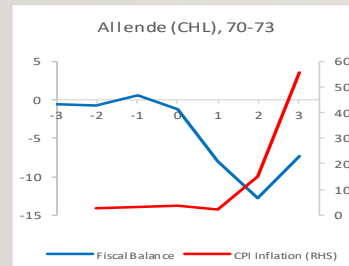
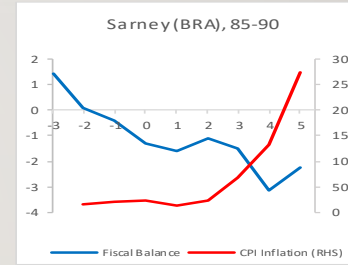
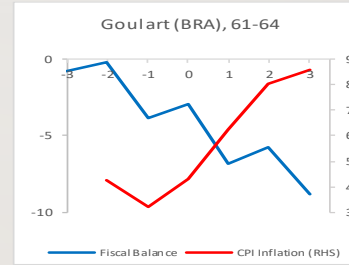
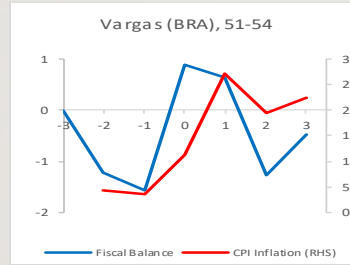
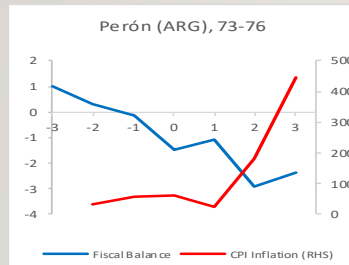
• Pervasive shortage and accelerating inflation. K flights.

• Orthodox stabilization under a new government.

INFLATION-FINANCED FISCAL EXPANSION - **FIRST WAVE**

Populism in Latin America

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



DORNBUSCH AND EDWARDS'S POPULIST PHASES

Populism in Latin America

▪ What is

populism?

- ▶ Political scientists do not like the definition of populism but ...

- ▶ The key results hold using a 'modern' definition

▪ Historical

perspective

- ▶ 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

▪ **First wave**

- ▶ 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

▪ General lessons

THIRD WAVE OF POPULISM

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

POPULISM AND EXTERNAL CONDITIONS

Populism in Latin America

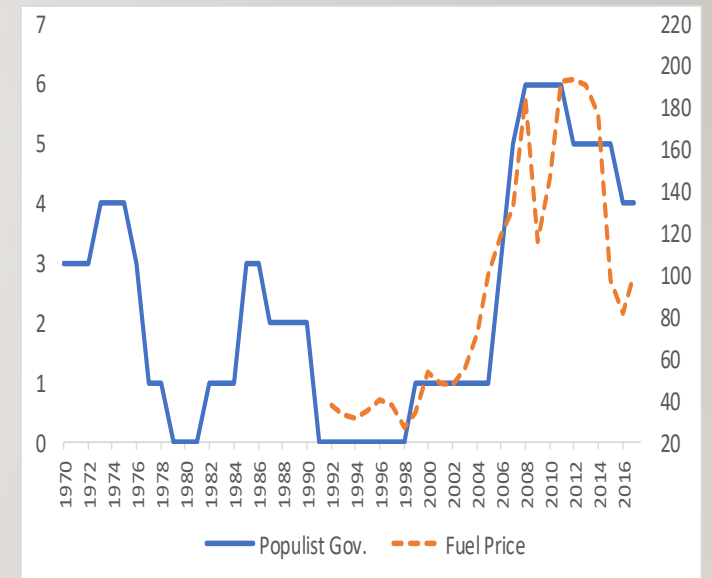
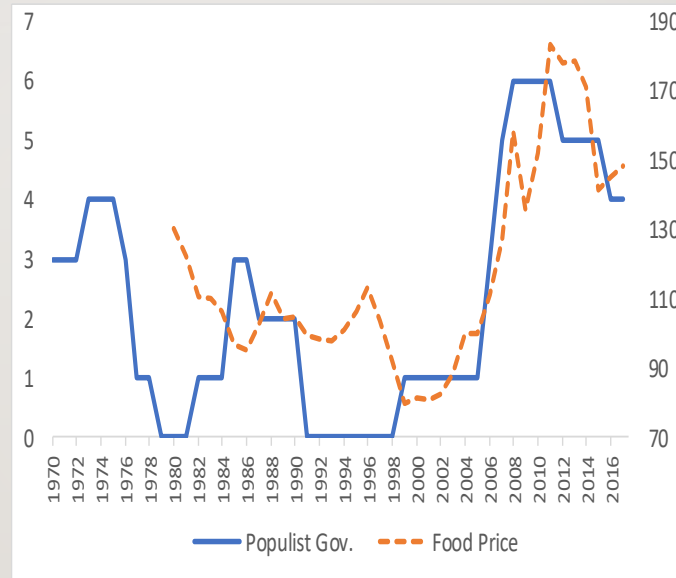
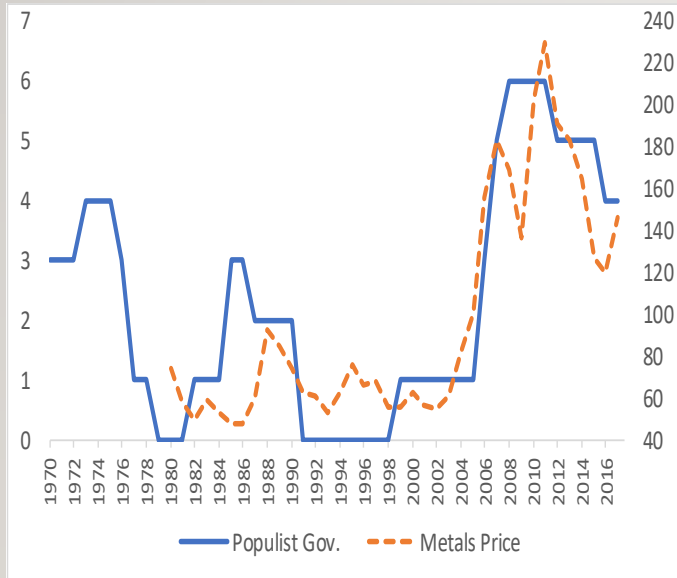
What is populism?

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Source: Magud, Spilimbergo, Werner (forthcoming) based on Hawkins (2009) and WEO

POPULISM AND EXTERNAL CONDITIONS

Populism in Latin America

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VARIABLES	(1) Populist	(2) Populist	(3) Populist
Terms of trade	0.00174*** (0.000212)		
Windfall income		0.471*** (0.170)	
Change in terms of trade			0.000820** (0.000417)
Constant	-0.0633 (0.0469)	-0.269 (0.242)	0.120*** (0.0419)
Observations	1,478	438	1,446
R-squared	0.094	0.178	0.053
Number of countries	32	22	32
F	3.023	1.664	1.636
Country-FE	Yes	Yes	Yes
Time-FE	Yes	Yes	Yes

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

THIRD WAVE OF POPULISM: DIFFERENT CONDITIONS

▪ What is
populism?

▪ Historical
perspective

▪ First wave

▪ **Third wave**

▪ General lessons

- 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?

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perspective

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▪ General lessons

Past events		Recent events	
Episode	Duration (years)	Episode	Duration (years)
Perón (ARG), 1973-76	3	Fernández de Kirchner (ARG), 2007-15	8
Vargas (BRA), 1951-54	3	Morales (BOL), 2006-19	13
Goulart (BRA), 1961-64	3	Correa (ECU), 2007-13	10
Sarney (BRA), 1985-90	5	Ortega (NIC), 2007-13	6
Allende (CHL), 1970-73	3	Chavez-Maduro (VEN), 1999-19	20
Echeverría (MEX), 1970-76	6		
Velasco (PER), 1968-75	7		
Belaúnde (PER), 1963-68	5		
García (PER), 1985-90	5		
Pérez (VEN), 1974-78	4		
Collor (BRA), 1990-92	2		
Menem (ARG), 1989-99	10		
Fujimori (PER), 1990-00	10		
Average	5.1		11.4
Standard deviation	2.6		5.5

WHAT POPULISTS IN POWER DO ?

▪ What is populism?

▪ Historical
perspective

▪ First wave

▪ Third wave

▪ General lessons

- 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

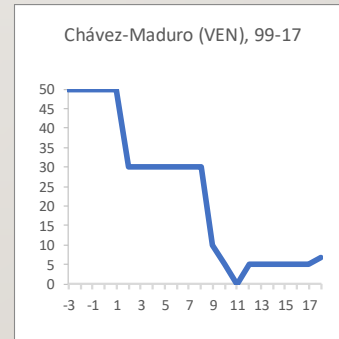
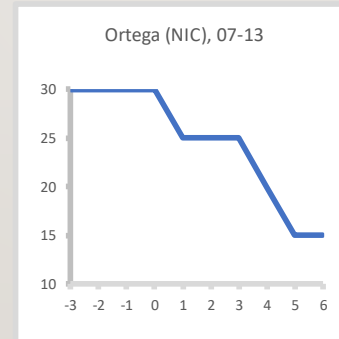
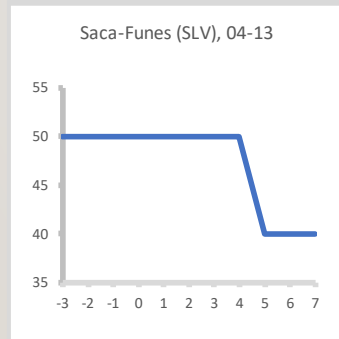
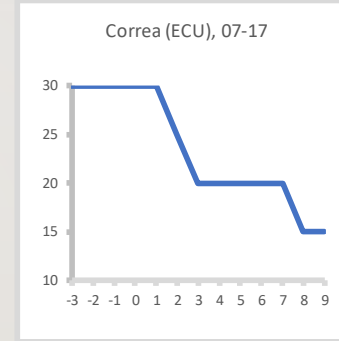
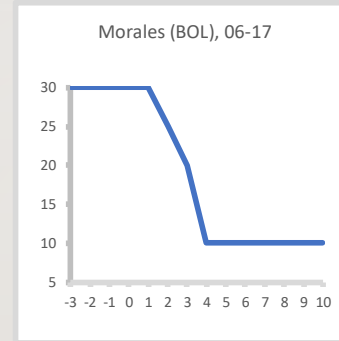
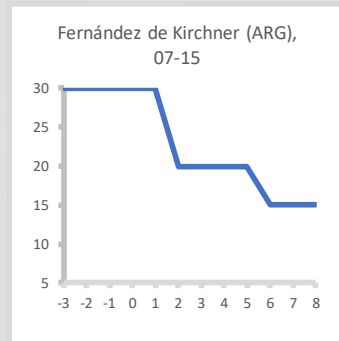
What is populism?

Historical perspective

First wave

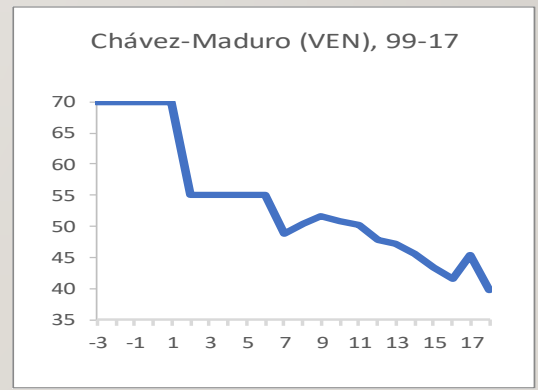
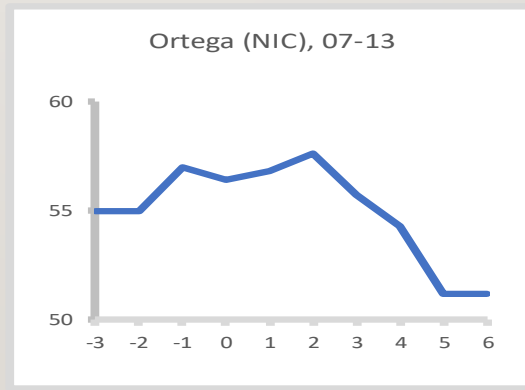
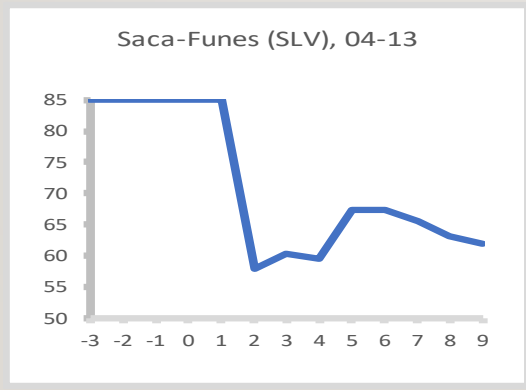
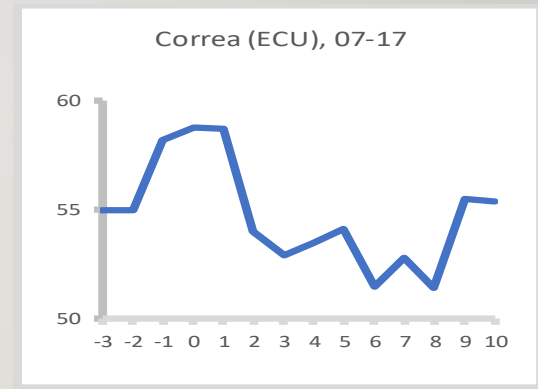
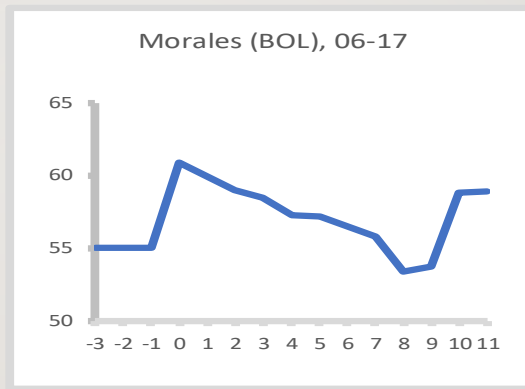
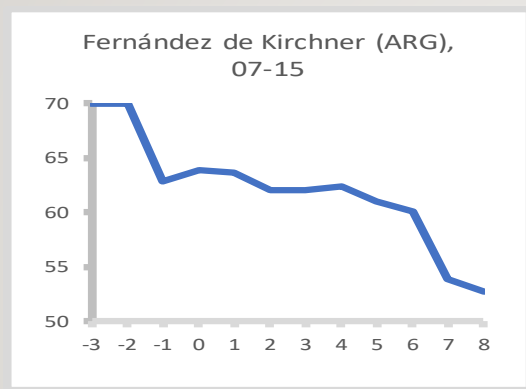
Third wave

General lessons



POPULISM AND BUSINESS FREEDOM

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



DEMOCRATIC ACCOUNTABILITY

Populism in Latin America

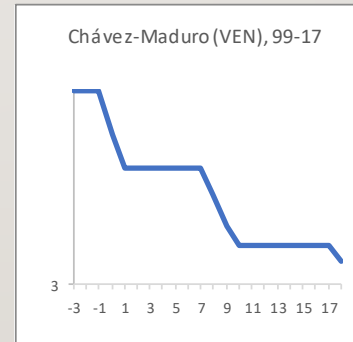
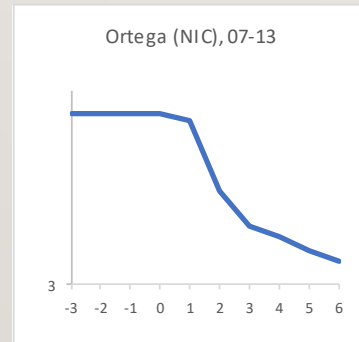
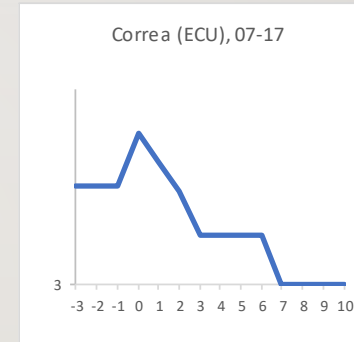
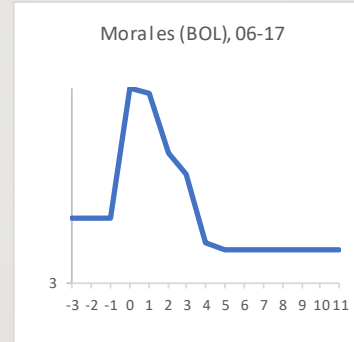
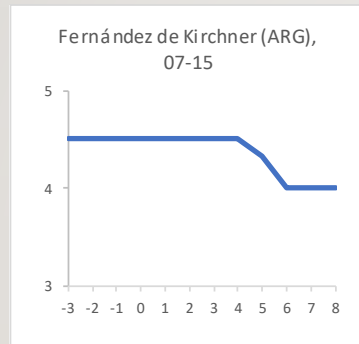
What is populism?

Historical perspective

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POPULISM AND ECONOMICS: A LONG-TERM VIEW

Populism in Latin America

What is populism?

- Before 70s. Dominant view: **Macroeconomic finetuning**

Historical perspective

- After 70s. Problems: **Limits of short-term macro finetuning**
 - Lucas critique
 - Time inconsistency
 - Electoral cycle
 - Trade policy captive of special interest

First wave

- After the 80s. Response: **Delegate to independent institutions / agencies**
 - Central bank independence
 - Fiscal rules
 - EU rules
 - WTO

Third wave

General lessons

- In the 2000s. Populists: **Independent Institutions not accountable to citizens**
 - Populists do not believe in check-and-balances