

The Political Economy of Populism: An Empirical Investigation

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What is this project about?

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What drives populist support?

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What drives populist support? Macro shocks important but which ones matter more?

Importance of addressing the question:

- Understanding the recent rise of populism
- Understanding past episodes
- Pre-empting populist resurgence, if possible

What is populism?

An elusive concept

2 definitions:

- 1 Political science: "specific political communication style", a discourse
→ close to the people, anti-establishment (Jagers and Walgrave, 2007, p.475) and (Hawkins, 2009)
- 2 Economics: a specific set of policy priorities: "Macroeconomic populism is an approach to economics that emphasizes growth and income distribution and deemphasizes the risks of inflation and deficit finance, external constraints and the reaction of economic agents to aggressive non-market policies." (Dornbusch and Edwards, 1990, p.247)

Typically: extreme left or extreme right parties.

Drivers in the literature:

- 1 Severity of **recessions** → **unemployment**, overall dissatisfaction: Dornbusch and Edwards (1991), Moffitt (2015);
- 2 **Austerity** → voter discontent at incumbent governments, lack of compensation: Dornbusch and Edwards (1990), Kaufman and Stallings (1991);
- 3 Income **inequality** → undermined sense of fairness in society: Greskovits (1993);
- 4 (High) **Inflation** → powerful redistribution mechanism: Bittencourt (2010);
- 5 **Migration** inflows → competition for existing jobs, “us-against-them” feeling (Cahill, 2007); anti-immigrant rhetoric.

Measuring populism

3 data sets (none has a clear superiority)

- 1 Rode and Revuelta (2015) expand Hawkins (2009): speeches of incumbent leaders across the globe, emphasis on Latin America: 33 countries, 252 obs., 55 obs. after 2007 → populism as a rhetorical style
- 2 Heinö (2016): actual national election outcomes in 33 European countries since 1980: the 28 EU countries + 5 others: right-wing and left-wing populist support for pre-defined populist parties, total populism index also constructed → LW-Pop; RW-Pop; TAP, nascent support for populism.
- 3 global data from actual election outcomes constructible from the Cruz, Keefer, and Scartascini (2016): chief executive/incumbent government nationalistic + left-wing or right-wing (but not centrist), or “progressive, authoritarian or xenophobic” → 1) chief executive populism (CEP); 2) incumbent government populism (IGP), and 3) both CEP and IGP (BOTH): 0-1 populism measures.

1) population-averaged (PA) probit model:

$$Pr(POP_{it} = 1|X_{it}) = F(X_{it}\beta), \quad (1)$$

where $Pr(POP_{it} = 1|X_{it})$ is the probability Pr of observing populism (POP) of a certain type in country i in year t ; X_{it} : Log(GDP/c.), unemployment (Unemp.), inflation (Infl.), the share of government expenditures in GDP (G/GDP) and the Gini coefficient for country i in year t ; After-Crisis dummy + AC* X_{it}

2) random-effects (RA) probit model:

$$Pr(POP_{it} = 1|X_{it}, u_{it}) = G(X_{it}\beta + u_{it}), \quad (2)$$

I run models (1) and (2) the the binary populism data, and

3) Fixed-effects panel OLS on the Rode and Revuelta (2015) data.

Results: the binary populism data (DPI-2015)

	Population-Averaged Probit			Random-Effects Probit		
	(1) CEP	(2) IGP	(3) BOTH	(4) CEP	(5) IGP	(6) BOTH
L(GDP/c.)	-.140 (.115)	-.237** (.104)	-.129 (.116)	-.434* (.230)	-.864*** (.321)	-.439* (.240)
Infl.	.000*** (.000)	.000*** (.000)	.000*** (.000)	.001 (.001)	.000 (.001)	.000 (.001)
Unempl.	.018 (.019)	-.001 (.016)	.017 (.017)	.018 (.036)	-.066* (.038)	-.005 (.038)
G/GDP	.002 (.024)	.024 (.023)	-.005 (.025)	.041 (.044)	.101** (.045)	.028 (.045)
Gini	.003 (.008)	.012 (.008)	.006 (.008)	.012 (.021)	.039* (.021)	.015 (.021)
After Crisis	.680 (1.001)	.491 (.960)	-.455 (.692)	9.224 (9.828)	4.700 (28.530)	3.192 (23.566)
L(GDP/c.)*AC	-.194** (.089)	-.396** (.189)	-.116 (.084)	-2.108 (2.041)	-3.424 (8.970)	-2.912 (7.086)
Infl*AC	-.130*** (.048)	-.058 (.037)	-.133** (.059)	-.201 (.299)	-.514 (1.396)	-.453 (1.166)
Unempl*AC	-.017 (.032)	-.088*** (.033)	-.119*** (.028)	.122 (.166)	-.221 (.786)	-.220 (.489)
(G/GDP)*AC	.044 (.027)	.044** (.022)	.065*** (.023)	.128 (.250)	.259 (.750)	.283 (.583)
Gini*AC	.014 (.015)	.050*** (.017)	.032*** (.012)	.059 (.100)	.375 (.985)	.324 (.739)
N	1255	1234	1213	1255	1234	1213
C'ry FEs	No	No	No	No	No	No

Notes: The estimated Population-Averaged (PA) model is $Pr(POP_{it} = 1|X_{it}) = F(X_{it}\beta)$, where $Pr(POP_{it} = 1)$ is the probability of a populist being elected as a chief executive (CEP), or a populist party gaining majority in the incumbent government (IGP), or both (BOTH). X_{it} is a vector of explanatory variables detailed in the text. Robust standard errors are presented in parentheses for the PA model. Data source: DPI2015, WDI, Milanovic (2014). Symbols: * $p < .10$, ** $p < .05$, *** $p < .01$

Results: rhetorical populism (Rode and Revuelta, 2015)

	(1)	(2)	(3)	(4)	(5)	(6)
L(GDP/c.)	-.118 (.093)					-.008 (.155)
L(GDP/c.)*AC	-.039 (.028)					-.021 (.016)
Infl.		.000*** (.000)				.000 (.000)
Infl*AC		-.001 (.001)				-.002 (.002)
Unempl.			.003* (.002)			.006 (.006)
Unempl*AC			-.009 (.007)			-.006* (.004)
G/GDP				-.014* (.008)		-.010 (.009)
(G/GDP)*AC				.000 (.002)		.001 (.005)
Gini					-.007** (.004)	-.005 (.004)
Gini*AC					.000 (.001)	.000 (.002)
After Crisis	.394 (.276)	.031 (.032)	.114 (.091)	.033 (.052)	-.024 (.027)	.254 (.211)
<i>N</i>	252	252	246	252	186	185
C'ry FEs	Yes	Yes	Yes	Yes	Yes	Yes

Notes: The estimated equation is $PS_{it} = X_{it}\beta + f_i + u_{it}$, where PS_{it} is the Populism Score (PS) from Rode and Revuelta (2015), normalized to 1, NPS. X_{it} is a vector of explanatory variables detailed in the text. Robust standard errors are presented in parentheses. All models include country fixed effects. Data source: Rode and Revuelta (2015), WDI, Milanovic (2014). Symbols: * $p < .10$, ** $p < .05$, *** $p < .01$

Results: authoritarian populism (Heinö, 2016)

	Bivariate estimates			Multivariate estimates		
	(1) Δ TAP	(2) Δ TAP-RW	(3) Δ TAP-LW	(4) Δ TAP	(5) Δ TAP-RW	(6) Δ TAP-LW
$\Delta L(\text{GDP}/c.)$	-19.100** (8.976)	-9.056* (5.327)	-10.061* (5.546)	-27.142 (16.819)	-18.458* (1.397)	-8.724 (1.756)
$\Delta \text{Infl.}$	.001 (.035)	-.022 (.051)	.023 (.017)	-.347 (.223)	-.481* (.239)	.134 (.110)
$\Delta \text{Unempl.}$	.567** (.210)	.224 (.170)	.343*** (.116)	.569* (.310)	.271 (.283)	.298 (.226)
$\Delta \text{LT-Unempl.}$	.154* (.086)	.038 (.079)	.116** (.050)	-.336** (.159)	-.295** (.111)	-.041 (.120)
$\Delta G/\text{GDP}$	.398 (.482)	.582 (.571)	-.181 (.257)	-.443 (.700)	.163 (.522)	-.605 (.425)
ΔGini	.642** (.291)	.570 (.367)	.074 (.153)	.579 (.475)	.313 (.450)	.268 (.195)
C'ry FEs	Yes	Yes	Yes	Yes	Yes	Yes
N				53	53	53
adj. R^2				.335	.197	.400

Notes: The estimated fixed-effects panel OLS equation is $\Delta PS_{it} = \Delta X_{it}\beta + f_i + \Delta u_{it}$, where PS_{it} is TAP, TAP-RW, or TAP-LW. The bivariate models capture different number of observations, typically 63. Robust standard errors are presented in parentheses. All models include country fixed effects. Data source: Heinö (2016), WDI, Milanovic (2014). Symbols: * $p < .10$, ** $p < .05$, *** $p < .01$

Results: a summary

Contemporaneous correlations:

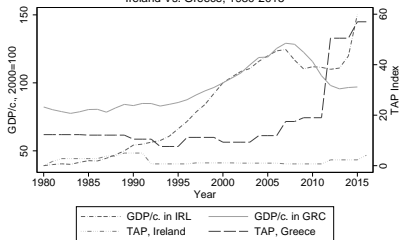
- Income per capita recessions consistently correlated with rise of populism (but not with immediate change in political rhetoric)
- Countries with higher inflation ruled by populists more often – but inflation/deflation play politically negligible role for electing populists
- Voters AC more sensitive to income drops and rise in income inequality
- Macro shocks rarely play a short-term role for populist rhetoric (FEs important?)
- The effects could be different *within the same country* over time: populism cannot be explained well by short-term correlations

Estimations in differences:

- Income per capita recessions consistently explain the change in populist support;
- Left-wing and right-wing populist support possibly driven by different macro shocks (e.g. unemployment);
- Austerity and inequality not crucial for voter attitudes.

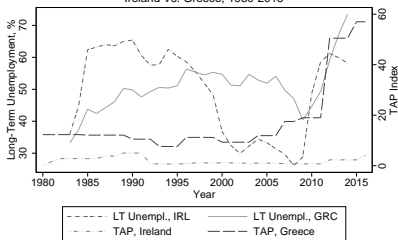
Case studies: Ireland vs. Greece

GDP per Capita and Populism
Ireland Vs. Greece, 1980-2015



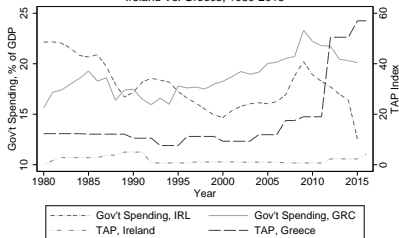
Source: Own calculations. Data source: Heino (2016) and WDI.

Long-Term Unemployment and Populism
Ireland Vs. Greece, 1980-2015



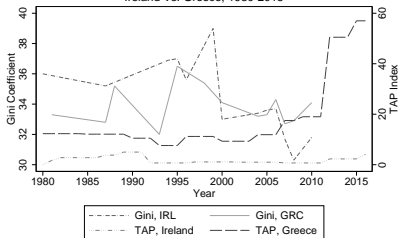
Data source: Heino (2016) and WDI.

Government Spending and Populism
Ireland Vs. Greece, 1980-2015



Data source: Heino (2016) and WDI.

Income Inequality and Populism
Ireland Vs. Greece, 1980-2015

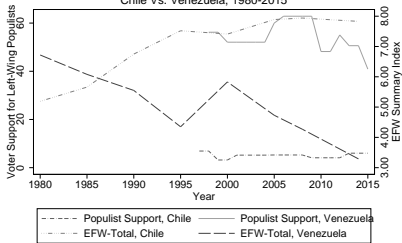


Data source: Heino (2016) and Milanovic (2014)

Case studies: Chile vs. Venezuela

Left-Wing Populism and Economic Freedom

Chile Vs. Venezuela, 1980-2015

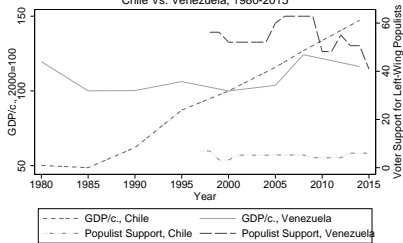


--- Populist Support, Chile — GDP/c., Venezuela
 --- EFW-Total, Chile — EFW-Total, Venezuela

Data source: EFW, Nohlen (2005), <http://www.electionguide.org>

GDP per Capita and Left-Wing Populism

Chile Vs. Venezuela, 1980-2015

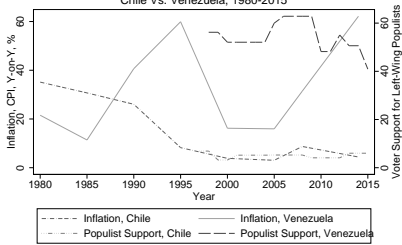


--- GDP/c., Chile — GDP/c., Venezuela
 --- Populist Support, Chile — Populist Support, Venezuela

Data source: WDI, Nohlen (2005), <http://www.electionguide.org>

Inflation and Left-Wing Populism

Chile Vs. Venezuela, 1980-2015

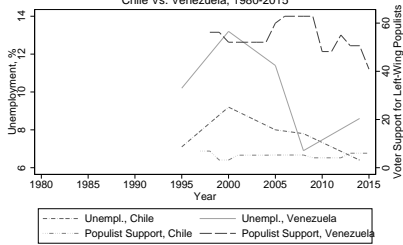


--- Inflation, Chile — Inflation, Venezuela
 --- Populist Support, Chile — Populist Support, Venezuela

Data source: WDI, Nohlen (2005), <http://www.electionguide.org>

Unemployment and Left-Wing Populism

Chile Vs. Venezuela, 1980-2015



--- Unempl., Chile — Unempl., Venezuela
 --- Populist Support, Chile — Populist Support, Venezuela

Data source: WDI, Nohlen (2005), <http://www.electionguide.org>

- 1 Populism is here to stay
- 2 Need to understand what empowers it, and what tames it
- 3 It can be defined and measured – imperfectly
- 4 Recessions affect populism, especially drops in income per capita
- 5 Other factors less consistent
- 6 Case studies: More freedom can raise GDP/c. → populism less likely.
- 7 Case studies: Perhaps, careful redistribution may also be necessary in the current political environment → Enter Macron-ism?

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