From Rhetoric to Reality

How Ideology, History and Geography shape Populism's Economic Footprint

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Abstract

We examine the policy changes enacted by populist leaders after coming into power in different historical and geographical contexts. We employ the dataset developed by Funke et al. (2023), based on Cas Mudde's minimalist definition of populism, and expand it to several additional policy dimensions. We find that populist governance is rather heterogeneous both in terms of policy instruments and outcomes, and that it varies depending on historical context, geography, and ideology. We conclude that we should contemplate a more nuanced definition of populism for a better understanding of the phenomenon.

Keywords: Populism, Public expenditure, Corruption.

JEL Classification: D60, E60, N10, P16

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1 Introduction

Democratic countries on both sides of the Atlantic witnessed a rising wave of populist rhetoric after the turn of the millennium. In the short space of twenty years, in continental Europe, the combined average vote share of populist and nationalist parties almost doubled, reaching in the late 2010s a figure of around 35 per cent comparable only to the support received by anti-establishment movements in the mid-1930s (Dalio et al.2017, and Blyth and Hopkin, 2019). In the Anglo-Saxon world, the turning point that marked the ascent to power of populist politics was 2016 – the year of the Brexit referendum and the election of Donald Trump as the 45th president of the United States of America.

The rise of populism is not limited to high-income economies either. In developing countries, the populist wave had been building for a while, with populists moving into power since the late 1990s and early 2000s, as in the case of Hugo Chavez in Venezuela (1998) or Vladimir Putin in Russia (2000), followed more recently by Joko Widodo in Indonesia and Narendra Modi in India (both in 2014).

This unprecedented diffusion of anti-establishment sentiments across countries at different levels of development and with different histories and cultural heritages has attracted the attention of social scientists and political commentators (see, e.g., Bale et al. 2011, Acemoglu et al. 2013, Berezin 2013 and Rovira Kaltwasser, 2013), and fostered a lively debate on the origins and the contours of the phenomenon.

Several factors might be related to this populist *zeitgeist*. Some countries have seen mounting protests against inequality and capitalist institutions, leading to left-leaning policy demands matched by similarly oriented populist political platforms. Indeed, economic insecurity has been shown to play a statistically significant role in explaining voters' preferences (Algan et al., 2017, Becker et al., 2017, and Guiso et al., 2017). In Sweden, for example, increased labour-market insecurity has been linked empirically to the rise of the far-right Sweden Democrats (Dal Bo et al., 2019).

In other countries, right-wing populist movements have found increasing support for platforms aimed at shielding voters from immigrants and globalization (Guiso et al., 2018). Several studies have linked political support for populists to trade-related shocks. Autor et al. (2017) have shown that votes for Trump in the 2016 presidential election across US communities were strongly correlated with the magnitude of adverse trade shocks stemming from greater economic integration with China. All else being equal, the greater the loss of jobs due to rising imports from China, the higher the support for Trump. Similar results hold for Western Europe. Higher penetration of Chinese imports has been found to be associated to support for Brexit in Britain and to the emergence of nationalist parties in continental Europe (Colantone and Stanig, 2016a, 2016b, and 2018).

Some authors emphasize the importance of cultural rather than strictly economic divides. With their famous 'cultural backlash' conjecture, Norris and Inglehart (2019) suggest that the 'silent revolution' of recent decades that promoted younger cohorts' 'post-materialist' values (secularism, autonomy, and diversity) have alienated the older generations, who then switched from mainstream parties to populists. In a similar vein, Tabellini (2019) highlights how nowadays voters tend to identify with social groups defined by education

and cultural norms rather than by income and that, for the near future, we should therefore expect further polarization along these new dimensions of political cleavage.

Finally, the growing relevance of political information online and the emergence of "social" media have also increased the exposition of voters to divisive messages and favoured the diffusion of populist rhetoric (Maldonado, 2017, and Fortunato and Pecoraro, 2022). During the 2016 UK referendum campaign, the leave side dominated the day-to-day volume of tweets. Overall, in the last three weeks leading up to the vote, support for leaving on the platform outstripped support for remaining by a factor of four (Bauchowitz and Hänska, 2017). Similarly, from October 2018 to May 2019 before the EU parliamentary elections, eighty-five percent of all shared Facebook posts originated from all German political parties stemming from the right-wing anti-establishment movement Alternative fur Deutschland (Diehl et al., 2019).

Overall, a variety of economic, social, and cultural explanations have been considered as potential drivers of the recent wave of populism. Explanations that are not necessarily mutually exclusive, as it is plausible that in certain circumstances the economic shocks might have activated or aggravated social or cultural divides. The definition of populism is instead much less contested. A vast majority of scholars generally accept Cas Mudde's characterization which emphasizes the anti-elite and anti-pluralism features of populism: populists claim to represent homogenous, pure people against the corrupt elites thus separating society into two seemingly homogeneous and antagonistic groups (Mudde, 2004). Some also include authoritarian and nativist tendencies (see, e.g., Eichengreen 2019), but the extent to which economists and political scientists have now converged on a common definition of the phenomenon is striking as discussed in a recent survey by Guriev and Papaioannou (2020).

Like most widely accepted definitions, the one on populism owes its fortune to its simplicity and generality. This minimalist definition regards populism as essentially a communication strategy (or a political style) and responds to the quest for a minimum common denominator between different political experiences - taking place at different moments in time and in countries that differ in history, culture, and institutions - that would allow researchers to identify and classify populist episodes, and to investigating empirically the determinants and consequences of these episodes. Funke et al. (2023) gathered and digitized over 20,000 pages of case studies coding country leaders based on whether their political strategy matched the people-centrist and anti-elitist rhetoric. They built the most ambitious database on populism to date covering 60 large countries and a period of 120 years. The same definition has also been employed for the analysis of several case studies in different geographical and historical contexts (see, e.g., Marzetti and Spruk, 2022).

But while the minimalist definition has its own merits and has undoubtedly helped to identify the main determinants of the rise of populism in the twenty-first century, it runs into problems when it comes to the evaluation of the policy and the economic implications of the phenomenon. Indeed, it is hard to identify common threads across populist governments, and while under certain circumstances they have delivered orthodox and technocratic economic policies, in others their action has been inspired by policy autonomy and experimentation. Also, while in some cases populists' ascent to power has been

accompanied by widespread corruption and poor governance, in other circumstances this has not been the case and political transition did not coincide with an impoverishment of the quality of governance.

This paper explores how the emergence of different forms of populism can be explained by the different geographical or historical contexts in which populist leaders accede to power, and by different ideological underpinnings. Following the dataset and econometric technique adopted by Funke et al. (2023) and expanding it along several policy dimensions, we demonstrate that disaggregating the data along ideology, time, and geography reveals the multifaceted nature of the populist *zeitgeist*. This is in contrast with the findings of Funke et al. (2023) who concluded that populism leads to bad economics based on the standard economic indicators as outcome variables which are robust along ideology, time and geography. The complex network of manifestations of the phenomenon further reveals that no single dimension taken in isolation is sufficient to delineate with precision the contours of populism but what matters is the specific combination of dimensions and their multiple interactions. Overall, our results unveil the limitations inherent in the widely adopted minimalist definition of populism when we expand the range of economic indicators under exam and highlight the need for a more careful theoretical characterization of populist governments and the differences among them.

The remainder of the paper is organized as follows. Section 2 presents the main research questions inspiring our analysis. Section 3 introduces the dataset used in our study along with some descriptive statistics and presents the main econometric methodology employed, while Section 4 illustrates the main results of our estimations. Section 5 offers a discussion of the results and Section 6 concludes.

2 From Populism to Populisms?

Our paper tries to shed light on the various forms taken by populism as reflected by the policy decisions of populist leaders in power, depending on the period and country in question, and on the diverse social and ideological foundations underpinning their success. We focus our attention on three dimensions that can contribute to explaining the heterogeneity of the movements and parties qualified as populist; ideology, geography and history.

Ideology can represent a divide between movements of populist inspiration as it is between more established political parties. Left-wing populists generally emphasize distributional and social issues while right-wing populists are more likely to adopt rhetoric centered around cultural and religious topics and therefore less likely to engage in significant policy experimentation. Indeed, the ideological divide emerges around the notion of "the people", which is different between right and left and which therefore identifies different enemies.

Right populism conflates "the people" with an embattled nation confronting its external enemies: Islamic terrorism, refugees, the European Commission, the International Jewish conspiracy, and so on. The left, in marked contrast, defines "the people" in relation to the social structures and institutions – for example, state and capital – that thwart its aspirations for self-determination; a construction which does not necessarily, however, preclude hospitality towards the other. In other words, right-wing or authoritarian populism defines the enemy in personalized terms, whereas, while this is not always true, left-wing populism

tends to define the enemy in terms of bearers of socio-economic structures and rarely as particular groups.

Indeed, we expect left-wing populist leaders to be on average more prone to redistribution and public intervention with strong practical interests in public program financing through direct expenditures, fiscal transfers, debt, and progressive changes in the tax code. This should translate in higher public expenditure and more significant investment in social policy meant to reshape the socio-economic structure and expand access to education or health care for "the people". On the contrary, we have no reason to believe that such an expenditure bias would accompany the ascent to power also of right-wing populists. In their case, identity politics targeted against external enemies as refugees or immigrants would be much more in line with the electoral discourse. In both cases, however, we have reasons to believe that funds directed to foreign policy perceived by the population at large as diversion of resources from national priorities (e.g., military expenditures or international cooperation) should be reduced.

Another divide can be certainly identified in the different historical moments in which populist leaders obtained government responsibilities. The post-1990 era, in fact, with the diffusion of an economic orthodoxy based on monetary targeting and fiscal austerity, often accompanied by stagnating wages and increasing inequality, has given rise to antagonist populist movements announcing a massive reshape of the standard economic playbook, starting from fiscal expansion, to please the losers of the globalization era. Before that date, instead, under the so-called Bretton Woods regime, national democratic authorities were granted more space to regulate markets and influence their outcomes. Inequality was of another order of magnitude in developed and developing countries alike, and the great majority of the population was overall supportive of an economic model that was delivering economic growth and social development. We have no reason to believe that, under these circumstances, populist leaders would be willing to pursue a course correction.

Finally, we believe that also geography matters. The populist leaders in developing economies, especially in Latin America where the institutional set-up is more fragile than in advanced economies and democracy and power balance less entrenched, can find it easier to concentrate much more power in their hands (beyond the executive responsibilities) therefore gaining space to benefit more from their positional advantage. We therefore expect an overall higher increase in corruption after the ascent to power of a populist leader in Latin America than in the US or in Europe.

In the remaining of the paper, we bring these working hypotheses to the data and examine whether the populist economic footprint effectively changes when the ideology, the historical context and the geographical location change.

3 Data and Methodology

The empirical analysis follows the study by Funke et al. (2023) on the causal effects of populism on key social and economic outcomes such as GDP per capita or inequality, among others. We extend and complement their analysis by examining the impact of populist episodes on several additional policy indicators. We draw on several sources of information to construct a set of economic policy outcomes.

Our first key dependent variable is government spending, defined as the ratio of government expenditure as a percent of GDP. We use the aggregate ratio of government expenditure to GDP from the International Monetary Fund's (IMF) public finance database.[5] This database consists of annual data for 144 economies dating back to the year 1800. As pointed out by Mauro et al. (2015), this database has at least two advantages over other public finance databases. First, it adopts a multidimensional approach by providing multiple public finance series with different coverage, including government revenue, primary expenditure, primary balance, real GDP growth, gross public debt, and the interest paid on public debt. This ensures consistency over time. Second, the number of countries and years covered is more than double that of existing public finance databases cover.

Moreover, to examine also the impact of populist governance on the composition of public expenditure, we use first military spending in constant US$ in 2021 which includes all spending on current military forces and activities which is taken from the SIPRI military expenditure database contains annual data for 174 countries for the period 1949-2022. We also use education expenditure, defined as the ratio of general government expenditure on education (current, capital, and transfers) as a percent of GDP. This latter variable is taken from the World Bank database containing annual data for the period 1970-2021.

Another important dependent variable is the Political Corruption Index, which measures the different types of corruption at different levels of the polity, distinguishing between executive, legislative and judicial corruption. This variable is taken from the Varieties of Democracy database, which contains annual data for 180 economies dating back to the year 1789.

Our treatment variable is a dummy determining whether political leaders are populists, taken from Funke et al. (2023). In political science, populism is generally defined as a political strategy that emphasizes the conflict between "the people" and "the elites" (Mudde, 2004). Accordingly, populist leaders are identified by Funke et al. (2023) as those who prioritize the struggle of the people against the elites in their political campaigns and governing style. Based on a literature review of some 1500 political leaders in 60 economies since 1900, Funke et al. (2023) identified 53 leaders who clearly fit their definition of a populist politician. Their study finds that populism is associated with certain stylized characteristics and has economic costs as it reduces consumption and output.

As in Funke et al. (2023), we consider that the allocation into the populist treatment is not random, which raises concerns about potential endogeneity. To mitigate the endogeneity concern, we use the Augmented Synthetic Control Method (ASCM) proposed by Ben-Michael et al. (2021) as the main empirical tool to estimate the causal impact of populism episodes on different economic policy variables across time periods, geographical areas, and ideological groups.

The ASCM builds on the Synthetic Control Method (SCM) framework first developed by Abadie and Gardeazabal (2003), which has since been used extensively in a number of different comparative case studies ranging from labor and development to health economics (for e.g., Cavallo et al. 2013; Kleven et al. 2013; Kreif et al. 2016; Dustmann

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[5] available at https://www.imf.org/external/datamapper/datasets/FPP

et al. 2017; Mohen 2017). Athey and Imbens (2017) argue that the SCM is "the most important innovation in the policy evaluation literature in the last 15 years".

Since in this paper we are interested in investigating the effect of populist leadership on different economic policy outcomes, the ideal solution would be to find a country that did not experience populist leadership but is very similar to a populist economy in a number of different characteristics, such as GDP per capita, institutional quality index and financial crisis history. However, no country can match exactly the pre-treatment trajectory of the treated country. The SCM allows the construction of a synthetic country that most closely resembles the country before a populist party came to power, according to a set of pre-specified conditions. In effect, this method searches through all potential placebo countries and derives a weight that combines the control countries to create a new synthetic country such that the synthetic and treated countries would behave similarly in the absence of a transition to populism (Abadie et al. 2015).

The advantage of using an SCM approach is the transparency of how the counterfactual is constructed. That is, the contribution of each control unit to the overall synthetic unit is explicitly presented. However, Abadie et al. (2015) provided caution that the SCM framework may not yield significant estimation results if the pre-intervention path of the treated unit and its synthetic counterpart do not closely match. One such proposed solution to concerns about pre-intervention outcome trends is suggested by Ben-Michael et al. (2021), who propose an Augmented Synthetic Control Method (ASCM). The ASCM addresses situations where an appropriate pre-intervention matching between treatment and the synthetic unit is not feasible. In such cases, the ASCM uses an outcome model to estimate the bias arising from the inadequate pre-intervention match, and then adjusts the original SCM estimate to account for this bias. Ben-Michael et al. (2021) propose a ridge ASCM that uses a ridge-regularized linear regression model that allows negative weights by relaxing the non-negative weight restriction of the original SCM.

In this paper, we follow the panel data framework used by Ben-Michael et al. (2021) given as follows:

$$Y_{it} = Y_{it}(0), \text{if } Z_i = 0 \text{ or } t \leq T_o \tag{1}$$

$$Y_{it} = Y_{it}(1), \text{if } Z_i = 1 \text{ or } t > T_o \tag{2}$$

Where Y_{it} is the outcome variable of interest, for country i and year t (where $i = 1,...,$ N and $t = 1,..., T$), Z_i refers to the treatment indicator that country i had a transition to a populist leadership at time $T_o \leq t$ where $Z_i = 0$ means that there was never a transition to populist leadership intervention. T_o refers to the year of transition to populist leadership. $Y_{it}(0)$ and $Y_{it}(1)$ refers to the outcome variable of country i in year t within the control group and the treatment group separately.

The estimated treatment effect of the transition to populist leadership on the outcome variable of interest is: $Y_1(1) - Y_1(0) = Y_1 - Y_1(0)$. Ben-Michael et al. (2021) describe how the SCM determines the value of $Y_1(0)$ by calculating a weighted average of the outcome variable among the control group, $Y'_o Y$, through a constrained optimization

process that involves selecting the appropriate weights. In this special case, the bias corrector estimator for $Y_1(0)$ can be written as follows:

$$\hat{Y}_1^{aug}(0) = \sum_{Z_i=0} \hat{Y}^{scm} Y_i + \left(X_1 - \sum_{Z_i=0} \hat{Y}^{scm} X_i \right) \hat{n}^r$$

The ridge ASCM estimator ($\hat{n}^r$) can improve the pre-intervention outcome trajectory between the synthetic and treated units in comparison to the SCM alone by relaxing the assumption to allow for negative weights. The ridge ASCM method has the ability to penalize potential extrapolation directly. This is achieved by adjusting the hyper-parameter Y, which helps to balance the trade-off between improving the pre-intervention match and increasing the approximation error.

In line with the literature (e.g, Autor, 2020; Rodrik, 2018; Colantone and Stanig, 2018; Guiso et al., 2022; Funke et al., 2023), we control for economic variables and for episodes of financial crises, including real GDP per capita, inflation, and a bank crisis dummy among the controls. These variables come from Jorda et al. (2017), Barro and Ursua (2010), Bolt et al. (2018), World Bank WDI (World Bank 2022) and Laeven and Valencia (2020). To disentangle the impact of the populists on different economic policy outcomes from other political and institutional factors, we control for the institutional/democracy quality index (the first principal component of the V-Dem indices on judicial independence, election fairness, and media freedom, and the Polity IV democracy score). Table A2 in the "appendix" shows all the variables used, their definitions, measurement, sources as well as summary statistics.

Table A1 in "appendix", taken from Funke et al. (2023), summarizes the identified transitions to populist episodes for each country over the sample period. Almost half (28) of the 60 countries in the sample experienced a populist leader coming to power. Clearly, the spells of populist leaders are evenly split between the right and the left. Another notable observation is that the recent wave of populist transitions in the US and Europe has been predominantly right-wing, while those in Latin America and South Africa have been predominantly left-wing. The only exception to this is in the case of Greece, where Prime Minister Tsipras, elected in 2015, was left-wing.

4 Results: Populism and Economic Policy Outcomes

We now turn to the specific economic policy outcomes of populists in power. Our main focus is on aggregate measures of economic policy outcomes, in particular government expenditure, but we will also look at the composition of government expenditure by disaggregating it into sub-categories (military and education expenditure) and at more institutional effects of populist rule. We start by presenting the main results and conducting various placebo tests in order to draw causal inferences.

4.1 Synthetic Control Method: Main Results

The synthetic control method allows us to quantify the impact of the transition to populist leadership on different economic policy outcomes relative to a synthetic group. This method based on the assumption that if the synthetic group can track the path of different economic policy outcomes in populist economies in the pre-treatment period and can resemble the values of key predictors, it will lend credibility to our identification strategy that the synthetic group provides the trend of the outcome variable in the absence of the transition to populist leadership.

Figure 1: Policy change on government expenditure after populists take power – Baseline results disaggregated by left-wing and right-wing ideologies
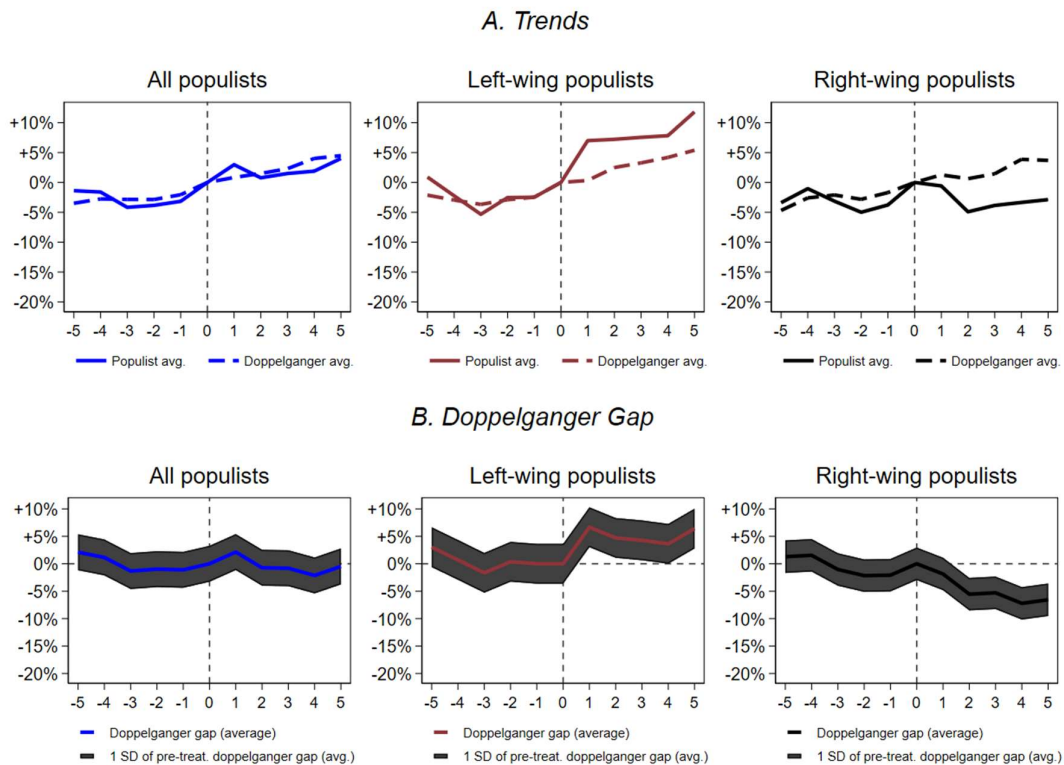

Figure 1 shows the main baseline results. It shows that before the transition to populist leadership in year 0, the values of government expenditure in the populist economy and its synthetic counterpart are quite similar. The average path of government expenditure remains essentially unchanged: there are no significant changes in government expenditure in the SCM estimates after populist leaders take office. This core result applies differently to left-wing and right-wing populist cases (middle and right panels, respectively). Left-wing populists lead to an increase in government expenditure after the transition compared to the synthetic group, while this is not the case for the right-wing populists as they lead to a decrease in government expenditure compared to the synthetic group. The cumulative difference along political ideology is large, exceeding five percentage points after 5 years. Another way of presenting these results is to plot the difference in expenditure dynamics between the treated and the control groups, which we refer to as the "Doppelganger gap". Panel B is a mirror image of Panel A, as we take the difference between the average of the

treated group (solid line in Panel A) and the average of the synthetic group (dashed line in Panel A). The estimated gap effects remain statistically significant which is true for both types (Left/Right) of populism.

As populists often take office in the wake of economic and financial crises when economic growth is slowing (Funke et al., 2016), the SCM framework helps to compare the populist leader economies with other economies with a comparable economic policy stance in the pre-treatment years. However, it is also possible that the economic policy stance and populism are the result of institutional factors or macroeconomic policies that started earlier. It would therefore be important to compare the values of the key predictors for the pre-treatment group with the same values for the synthetic group and an average of 59 countries in the donor pool, and to see whether they show similar trends along these dimensions. Encouragingly, we find that the pre-treatment balances of the treated and synthetic groups for the public expenditure on which we have matched and additional covariates - namely GDP per capita, institutional index, inflation and financial crisis history - are very similar, while the values for the donor pool are different (Table A3 in the Appendix). This means that we are comparing economies with similar pre-treatment economic and institutional paths, differing only along the populist treatment dimension. Table A4 in the Appendix also lists the composition of the doppelganger countries in each of the 20 individual populist sample episodes selected by the SCM algorithm, which are averaged across the cases used in the main SCM results in Figure 1 on government expenditure.

4.2 Causality

To strengthen the causal interpretation of the results, we conduct a series of robustness tests, both "in-time" and "in-space", as suggested by Abadie et al. (2015). For the in-time tests, the year of treatment is shifted back three years in each case. This basically means that we assume, for instance, that Narendra Modi came to power in 2011 instead of 2014, or that Netanyahu took office in 2006 instead of 2009 in Israel. We want to find that this placebo treatment does not lead to a post-placebo treatment divergence in government expenditure trends between the populist economy and the synthetic group. Encouragingly, the results presented in Figure 2 support a causal interpretation of the baseline findings, as the path of the treated and synthetic groups do not diverge visibly between the artificial start year and the actual start year "0" when the populist comes to power.

Figure 2: Time placebo test with total expenditure – Three-year backward shift in populist government taking office
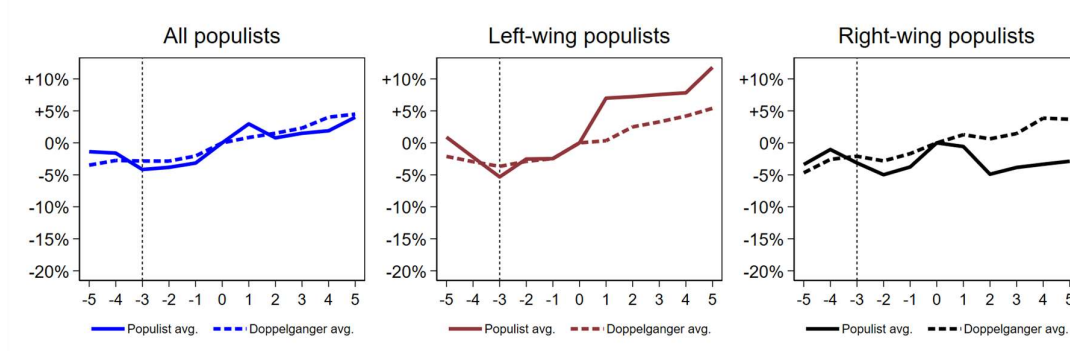

In addition, we conducted an in-space placebo test where the treatment is iteratively assigned to each country in the donor pool using the synthetic control method to construct the synthetic group. This means that we run up to 59 new iterations of the SCM for each case. For instance, in one of the iterations, we assume that instead of India, it is Brazil that experienced the beginning of populist leadership in 2012. Out of the 1200+ iterations, this gives us a method to reach a consensus on the fact that the average government expenditure path for the treatment group is unusually large, by comparing this path with the average placebo results for all countries in the donor pool.

Figure 3 shows the results of the in-space placebo test. The average government expenditure paths for the treatment group and the synthetic counterfactual group look very similar both before and after treatment. The difference with the synthetic group remains very small compared to the gap from our baseline estimation results in Figure 1, which is much larger.

Overall, we find that government expenditure in populist economies and their synthetic counterparts exhibit substantial similarities. However, this finding differs between left-wing and right-wing populist scenarios. Left-wing populists induce a post-transition increase in government expenditure relative to the synthetic group, while the opposite is true for right-wing populists, leading to a decrease in government expenditure relative to the synthetic group. Moreover, our placebo test results lend to support a causal rather than a correlational interpretation.

Figure 3: Country placebo tests with total expenditure – Random assignment of the populist government's entry into office to other countries
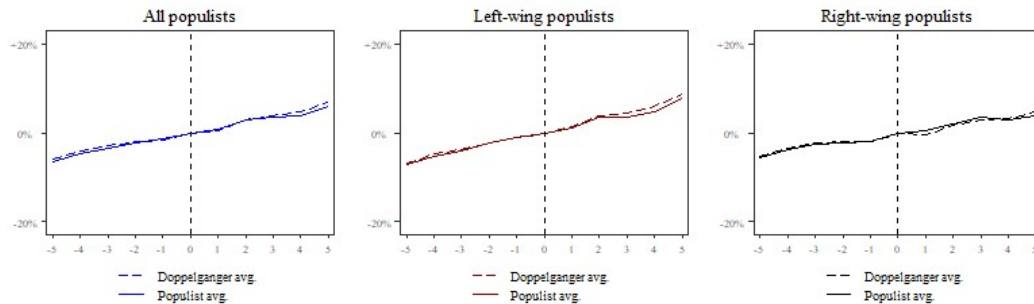
4.3 Public Expenditure Redux

If we disaggregate the data by time and geography, other dimensions of the multifaceted nature of the populist zeitgeist emerge. Figure 4 shows that history matters when comparing the impact of a populist transition on public expenditure before and after 1990. Government expenditure remains essentially unchanged after the populist leader takes office until 1990 (historical cases), and this is true for both left-wing and right-wing cases. After the 1990s, however, the transition to left-wing populist governments leads to an increase in public expenditure of around 20 percentage points after 5 years, as a reaction to the austerity policies of mainstream political parties. Right-wing populists, on the other hand, tend to decrease public expenditure, for instance by more than 5 percentage points reduction after 5 years.

**Figure 4: Policy change on government expenditure after populists take power –
Results broken down by periods before and after 1990**
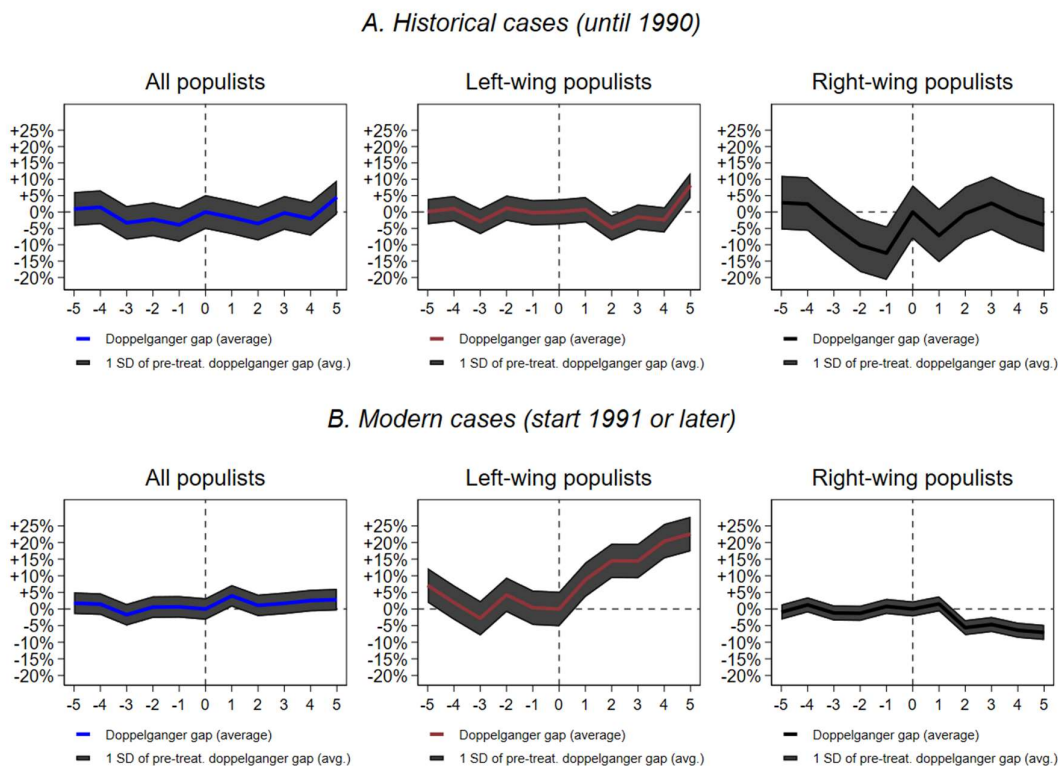
However, when we split the sample geographically and look at the specific case of the EU, we find that the tight fiscal rules imposed by the Maastricht Treaty have succeeded in constraining the actions of populist leaders. In fact, Figure 5 (panel A) shows that both right-wing and left-wing populist governments in Europe have essentially followed the policy stance of previous governments when they came to power, as public expenditure did not increase significantly. In the specific case of European right-wing governments, we find that public expenditure is up to three percentage points lower compared to a synthetic doppelganger.

On the other hand, for Latin American countries, our result indicates that left-wing regimes tend to significantly increase public expenditure. This tendency is likely a response by populist governments to the stringent fiscal rules imposed during the Washington Consensus era (see Figure 5, panel B). The Washington Consensus encompasses a set of policy prescriptions advocating for free market policies such as trade liberalization, privatization, and the adoption of tightened fiscal and monetary policies. These policies were actively promoted in crisis-driven Latin American countries during the 1990s to mitigate fiscal deficits and inflation (Williamson, 1990; Babb et al., 2021). However, their implementation resulted in a shrinking middle class and weakened trade unions in Latin America, fostering widespread dissatisfaction with neoliberalism. By the late 1990s, this discontent propelled a turn towards left-wing populist leaders. Economists argue that the consensus established the support base for figures such as Hugo Chávez in Venezuela, Evo Morales in Bolivia, and Rafael Correa in Ecuador (Williamson, 2004; Rovira Kaltwasser,

2010). Notably, after a period of five years, government expenditures during a left-wing populist episode are observed to be up to fifteen percentage points higher than during a synthetic doppelganger episode.

Figure 5: Policy change on government expenditure after populists take power – Results for the European Union (EU) and Latin America

A. EU

| All populists | Left-wing populists | Right-wing populists |

A. Latin America

| All populists | Left-wing populists | Right-wing populists |
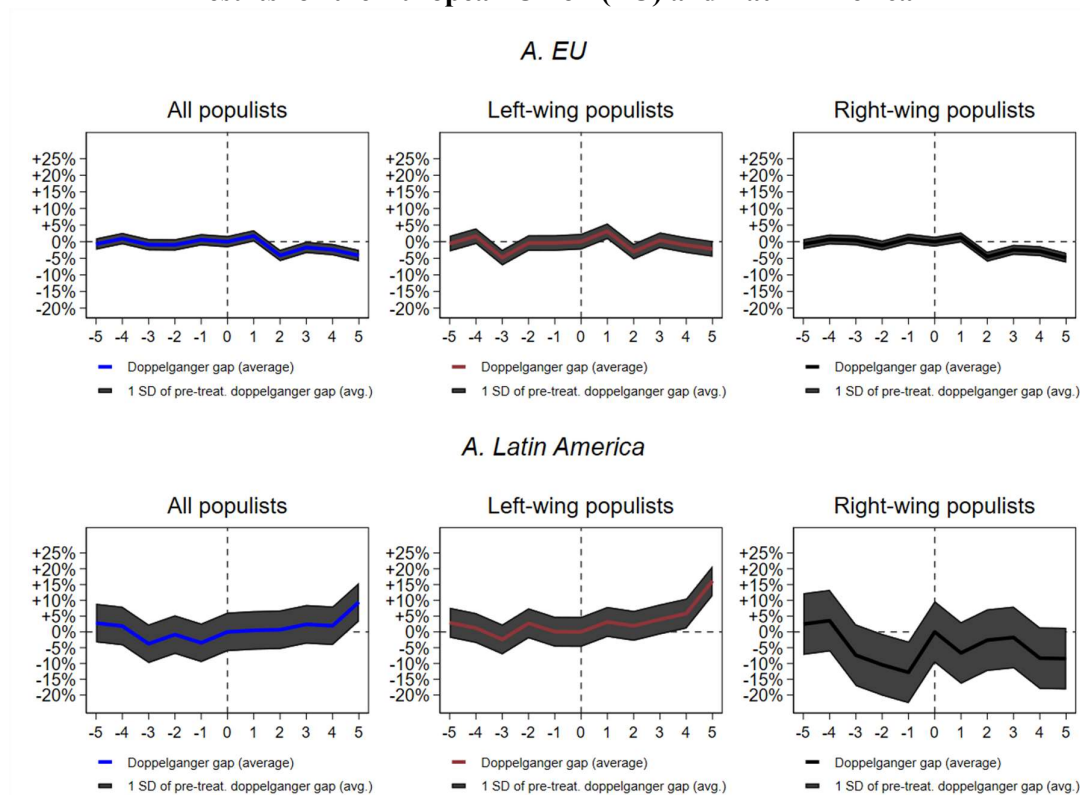
4.4 Disaggregating Public Spending: Military Expenditure Vs. Education

In terms of composition and specific policies, we focus on two important subcategories of public spending: military and education. Populists campaign for supporters by promising local public goods and redistribution, or by playing on cultural identities, depending on their ideological leanings. Once elected, they therefore tend to focus on solving the domestic problems highlighted in their campaign platforms, rather than being particularly pro-active or cooperative at the international level. For this reason, we expect populist leaders to have a negative impact on military spending once in power.

In Latin America, the impact of democratically elected populist-left governments in the 2000s (Fernando Lugo in Paraguay, Evo Morales in Bolivia, Rafael Correa in Ecuador and Hugo Chávez in Venezuela) has been to focus more on investment in domestic and social programmes and less on military spending. The same pattern has emerged more recently in Europe. In Italy, for example, the 5 Star Movement (M5S) somehow saw EU defense cooperation as a way to potentially decrease Italy's own military spending. As stated in its

official programme, 'the European army should be aimed at rationalizing defense spending, eliminating waste and duplication to reinvest savings in society, rejecting the logic of the arms race' (Henke and Maher, 2021).

In parallel, the pronounced preference for domestic priorities, and the willingness to use resources for the direct (and tangible) benefit of their electorate suggest that populist movements are, on average, more prone to indulge in spending on social programmes such as education than more established parties. This should be all the more true for left-wing populists since, as extensive empirical work has shown, left-wing and left-liberal parties tend to be the most forceful advocates of educational expansion in their party manifestos (Ansell, 2010; Busemeyer et al., 2013; Green-Pedersen & Jensen, 2019; Kraft, 2018) and in coalition agreements (Jungblut, 2016). Moreover, we know that voters reward left-wing parties for emphasizing investments in education (Abou-Chadi & Wagner, 2019), providing left-wing parties with electoral incentives to expand education.

Against this background, Figure 6 shows the doppelganger gap for military spending. The graph confirms that military spending decreases significantly under populist rule compared to the synthetic control, especially under right-wing rule. On the contrary, Figure 7 shows an increase in education spending of more than ten percentage points compared to the synthetic counterfactual, driven mainly by left-wing rule.

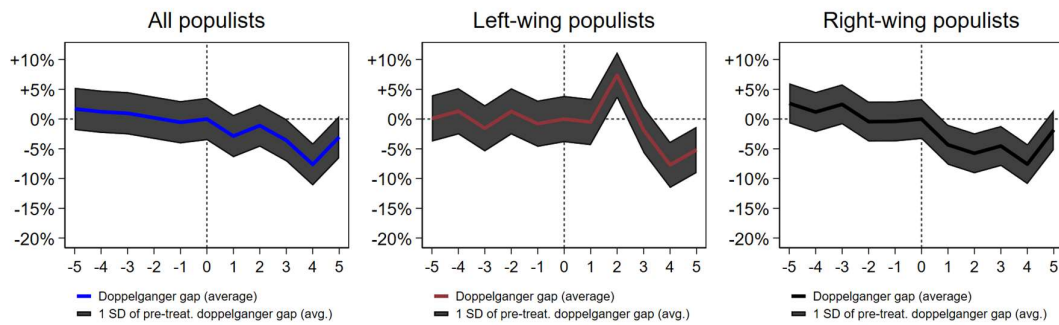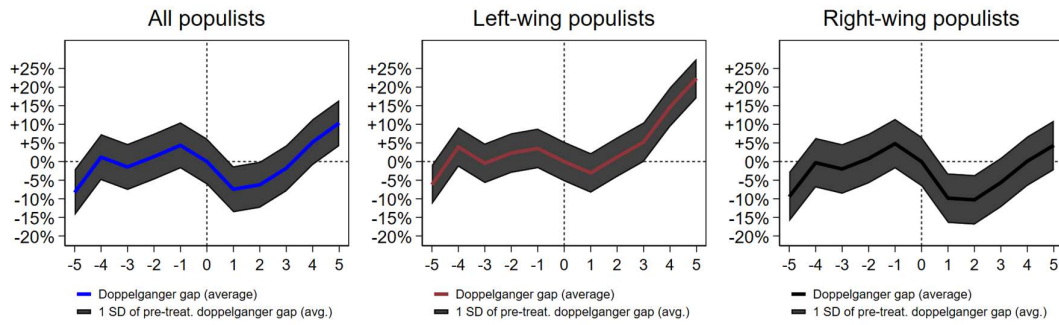**Figure 6: Trends in military spending after populists take power (+/-5 years)**

Figure 7: Trends in education spending after populists take power (+/-5 years)

4.5 Corruption

Finally, we examine the impact of populist rule beyond economic policy by looking at corruption. This is particularly relevant since populists usually claim to represent the pure will of the people against the corrupt traditional political elites who are insensitive to the wishes of citizens (Guriev & Papaioannou, 2020; Mudde & Kaltwasser, 2017).

We find that, once again, political ideology, time, and geography play a role in understanding the impact of populist transitions on corruption indicators. Figure 8 shows that, overall, corruption tends to increase after a transition to populist leadership, especially for left-leaning regimes. After 5 years, the corruption indicator is up to ten percentage points higher during a populist episode compared to a synthetic doppelganger.

However, if we disaggregate the data along time and geographical dimensions, we see a differential impact of populist governance on corruption indicators. Figure 9 shows the differences that emerge over different historical periods. We find that populist regimes (especially left-wing regimes) are associated with an increase in corruption before 1990. Conversely, after 1990, while left-wing regimes are still associated with a significant increase in the perceived corruption index, this is not really the case for right-wing regimes, which are associated with a slight significant reduction in corruption in the short term after the transition to populism.

Figure 8: Policy change on corruption after populists take power – Results disaggregated by left-wing and right-wing ideologies

A. Trends

B. Doppelganger Gap
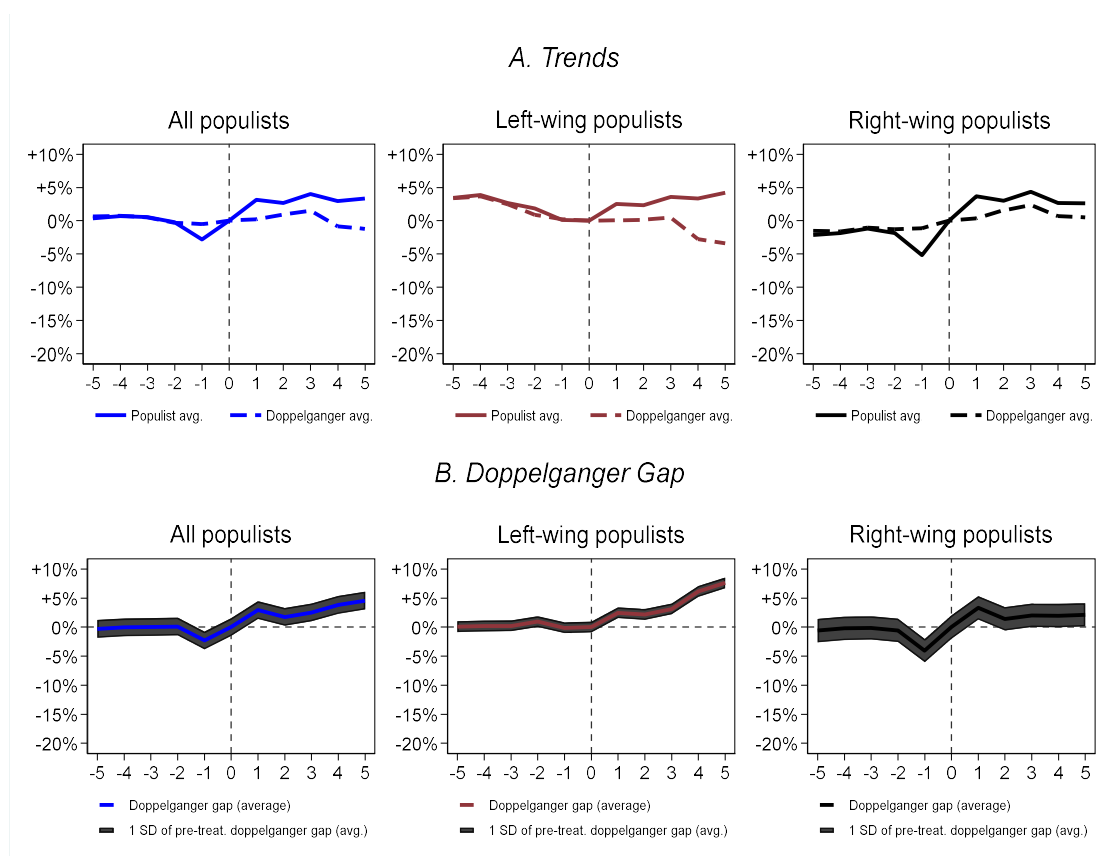
Figure 9: Policy change on corruption after populists take power – Results broken down by periods before and after 1990

A. Historical cases (until 1990)

B. Modern cases (start 1991 or later)
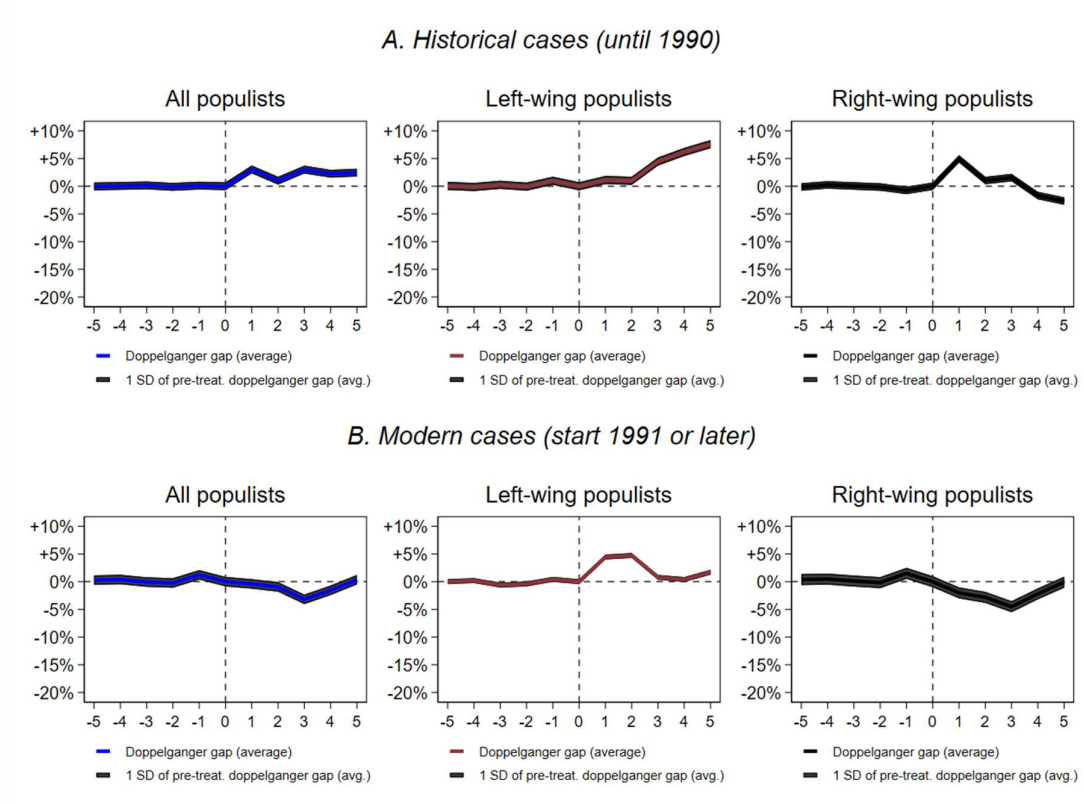
Finally, Figure 10 presents the results in terms of geographical disaggregation. We find that (panel b) populist regimes are associated with an increase in corruption after the transition in Latin America, where the populist leaders have managed to concentrate power in their hands by eroding the quality of established institutions. This is particularly the case for left-leaning populist governments, where the increase in corruption appears to be more permanent. In contrast, in the case of the European Union (panel a), there is only a significant reduction in the corruption indicator for left-wing governments.

Figure 10: Policy change on corruption after populists take power – Results for the EU and Latin America

A. EU

All populists · Left-wing populists · Right-wing populists

A. Latin America

All populists · Left-wing populists · Right-wing populists
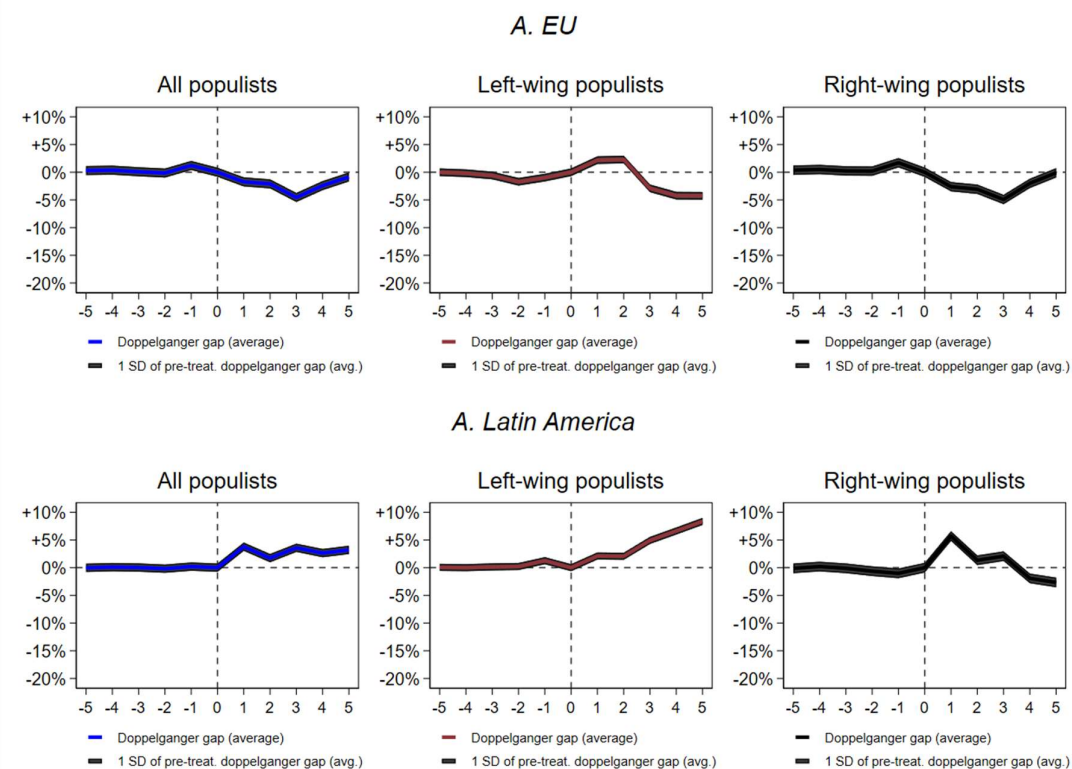
5 Discussion

The divergent experiences and heterogeneous policy orientations of populist leaders across countries and historical periods raises the question of what distinguishes the governance of political movements defined as populist according to Cas Mudde's widely accepted definition. Our paper unveils how ideology, geography, and time shape the policies of populist leaders along several important dimensions, such as public spending (size and composition) and corruption.

Our results show that, in the aggregate, it is difficult to isolate a clear effect of populist governance on public spending. The picture changes, however, when we focus our attention on specific historical periods or geographical areas. After 1990, and all throughout the "Washington Consensus" era, populist governments have increased public spending, especially those characterized by a left-wing ideology. Geography also plays a role: in Latin American economies, populist governments lead to increases in public spending, albeit with a time lag (especially those characterized by the left-wing ideology), while the opposite is true for the countries of the European Union. This result is probably driven by the actions of populist governments being constrained by the strict fiscal rules imposed by the Maastricht Treaty. Furthermore, the dynamic pattern of spending differs according to ideology, with left-wing populist governments spending more after being elected while right-wing populist governments spend less during their mandate.

In terms of composition and specific policies, education spending seems to be the most affected. In particular, left-wing populist governments show an increase in this component. Similarly, military spending as a whole decreases after the election of populist governments, especially those characterized by the right-wing ideology. This is in line with populist propaganda and their attempts to appeal to the most disadvantaged sections of the population, who have paid a high price for globalization, especially in recent decades.

Another important feature for understanding populist governance is corruption. We find that, overall, transitions to populist governments are associated with an increase in the indicator of corruption. But again, ideology, time, and geography matter. A victory of left-wing populist governments tends to be associated with more significant increases in perceived corruption, especially in Latin America. In the European Union, however, it is mainly left-wing populism that is associated with a decrease in corruption, since the strict Maastricht rules and associated limits on public spending may have constrained the predatory capacity of elected leaders.

Taken together, our results reveal the multifaceted nature of the populist phenomenon. Left-wing populist governments, which have built their success on protests against inequality and capitalist institutions have been associated with increases in public and social spending. Conversely, right-wing populist governments, which have traditionally been more likely to adopt rhetoric based on anti-immigration and security stances, have been characterized by more orthodox management of the public budget and less corruption in European Union economies. However, populist governments have been able to escape corruption in Latin America, especially when left-wing populists come to power.

The important structural differences that emerge when we study the main traits of populist governance suggest that the operational definition widely used in the economic and political science literature, which essentially focuses on the anti-elite rhetoric that characterizes populist movements, encompasses political phenomena that are inherently different in their origins and can have different effects on the society. A more careful theoretical characterization of the different episodes of populist governance, which explicitly considers how ideology, time, and geography can shape the populist discourse and policy stances, is crucial to advancing the field.

6 Conclusion

This paper studies the impact of populist governance on the economy by examining the policy measures that different populist governments have implemented after coming to power in different historical and geographical contexts. We rely on the dataset developed by Funke et al. (2023) and expand it to consider several additional economic policy dimensions. Given the difficulties in estimating the effects of populist governance on economic policy and outcomes, we employed the empirical strategy adopted by Funke et al. (2023) , which ultimately reveals a very similar and consistent picture of the complex web of effects of the populist *zeitgeist*.

We show that populist governments to date have adopted quite different stances and that it is probably a stretch to bring these different experiences together, at least insofar as we are interested in the specific economic policy consequences of the phenomenon. Our

results reveal that three dimensions are crucial for distinguishing between different forms of populist governance. Ideology, as the rhetoric and the policies adopted by left-wing populist governments differ markedly from the those of right-wing ones; time, as the post-1990 populist governments share specific traits that were absent in the past; and geography, as when coming into power populist leaders in European Union countries have behaved differently when coming to power than their counterparts in other parts of the world.

Altogether, our paper draws attention to the limitations of the minimalist definition of populism that is widely accepted in the literature, and calls on scholars in both political science and economics to consider new and more nuanced characterizations of the phenomenon. We are well aware that 'populism' is a portmanteau word and that an operational definition needs to be provided (Lazar, 2021). This definition must underline the fundamental unity of the phenomenon to identify its essence and historical relevance. However, it must also allow us to better characterize its multiple forms and the different political and sociological characteristics to promote a better understanding of its causes and effects.

Appendix

Table A1: Populist Government Episodes, 1900-2018.

All Populist events				
Country	**Starting year**	**Ending year**	**Leader**	**Variant of populism**
Argentina	1916	1922	Yrigoyen	Left-wing populist
Argentina	1928	1930	Yrigoyen	Left-wing populist
Argentina	1946	1955	Peron	Left-wing populist
Argentina	1973	1974	Peron	Left-wing populist
Argentina	1974	1976	Martinez	Left-wing populist
Argentina	1989	1999	Menem	Right-wing populist
Argentina	2003	2007	Kirchner	Left-wing populist
Argentina	2007	2015	Fernandez	Left-wing populist
Bolivia	1952	1956	Estenssoro	Left-wing populist
Bolivia	1956	1960	Zuazo	Left-wing populist
Bolivia	1960	1964	Estenssoro	Left-wing populist
Bolivia	2006	2018	Morales	Left-wing populist
Brazil	1930	1945	Vargas	Left-wing populist
Brazil	1951	1954	Vargas	Left-wing populist
Brazil	1990	1992	Collor	Right-wing populist
Bulgaria	2009	2013	Borisov	Right-wing populist
Bulgaria	2014	2017	Borisov	Right-wing populist
Bulgaria	2017	-	Borisov	Right-wing populist
Chile	1920	1924	Alessandri	Left-wing populist
Chile	1925	1925	Ibanez	Left-wing populist
Chile	1925	1925	Alessandri	Left-wing populist
Chile	1927	1931	Ibanez	Left-wing populist
Chile	1932	1938	Alessandri	Left-wing populist
Chile	1952	1958	Ibanez	Left-wing populist
Ecuador	1934	1935	Velasco	Right-wing populist
Ecuador	1944	1947	Velasco	Right-wing populist
Ecuador	1952	1956	Velasco	Right-wing populist
Ecuador	1960	1961	Velasco	Right-wing populist
Ecuador	1968	1972	Velasco	Right-wing populist
Ecuador	1996	1997	Bucaram	Left-wing populist
Ecuador	2007	2017	Correa	Left-wing populist
Germany	1933	1945	Hitler	Right-wing populist
Greece	1981	1989	Papandreou	Left-wing populist
Greece	1993	1995	Papandreou	Left-wing populist
Greece	2015	-	Tsipras	Left-wing populist
Hungary	2010	-	Orban	Right-wing populist
India	1966	1977	Gandhi	Left-wing populist
India	2014	-	Modi	Right-wing populist
Indonesia	1945	1948	Sukarno	Left-wing populist
Indonesia	1949	1966	Sukarno	Left-wing populist
Indonesia	2014	-	Widodo	Left-wing populist

Israel	1996	1999	Netanyahu	Right-wing populist
Israel	2009	-	Netanyahu	Right-wing populist
Italy	1922	1943	Mussolini	Right-wing populist
Italy	1994	1995	Berlusconi	Right-wing populist
Italy	2001	2006	Berlusconi	Right-wing populist
Italy	2008	2011	Berlusconi	Right-wing populist
Italy	2018	-	Lega/M5S	Right-wing populist
Japan	2001	2006	Koizumi	Right-wing populist
Mexico	1934	1940	Cardenas	Left-wing populist
Mexico	1970	1976	Echeverria	Left-wing populist
Mexico	2018	-	Lopez Obrador	Left-wing populist
New Zealand	1975	1984	Muldoon	Right-wing populist
Peru	1985	1990	Garcia	Left-wing populist
Peru	1990	2000	Fujimori	Right-wing populist
Philippines	1998	2001	Estrada	Left-wing populist
Philippines	2016	-	Duterte	Right-wing populist
Poland	2005	2007	Kaczynskis/PiS	Right-wing populist
Poland	2015	-	PiS (J. Kaczynski)	Right-wing populist
Slovakia	1990	1991	Meciar	Right-wing populist
Slovakia	1992	1994	Meciar	Right-wing populist
Slovakia	1994	1998	Meciar	Right-wing populist
Slovakia	2006	2010	Fico	Right-wing populist
Slovakia	2012	-	Fico	Right-wing populist
South Africa	2009	-	Zuma	Left-wing populist
South Korea	2003	2008	Roh	Right-wing populist
Taiwan	2000	2008	Chen	Right-wing populist
Thailand	2001	2006	Shinawatra	Right-wing populist
Turkey	2003	-	Erdogan	Right-wing populist
United States	2017	-	Trump	Right-wing populist
Venezuela	1999	2013	Chavez	Left-wing populist
Venezuela	2013	-	Maduro	Left-wing populist

Notes: "-" represents a populist episode that was ongoing in Dec 2018.

Sources: Table 1 in Funke et al. (2023).

Table A2: Variables used in the analysis – description, sources, and summary statistics.

Variable	Description	Sources	Mean	Std.dev.
Government Spending (1900-2018)	Government Expenditure, (% of GDP)	Mauro et al. (2015), International Financial Statistics, OECD	25.15	15.32
Corruption (1900-2018)	Political Corruption Index (0-1)	McMann et al. (2016) ; V-Dem Codebook	0.32	0.28
Education (1970-2018)	General Government Expenditure (% of GDP)	World Bank WDI (World Bank 2022)	4.61	1.42
Military (1949-2022)	military spending in constant US$ in 2021 (in millions)	SIPRI Military Expenditure Database	9974.13	18445.16
GDP (1900-2019)	Real GDP per capita, series indexed to 2005=100	Jord`a et al. (2017), Barro and Urs´ua (2010), Bolt et al. (2018), World Bank WDI (World Bank 2022)	46.48	37.96
Crises (1900-2018)	Types: banking, currency, sovereign debt; event dummies: 1 = year with ongoing (or outbreak of) crisis	Jord`a et al. (2017), Reinhart and Rogoff (2010), Laeven and Valencia (2020)	0.04	0.19
Inflation (1900-2018)	Year-over-year change in the log of the CPI	Jord`a et al. (2017), Reinhart and Rogoff (2009 and updates), IMF-IFS (International Monetary Fund 2019b), IMF-WEO (International Monetary Fund 2018)	0.08	0.38
Trade (1900-2017)	(Exports+imports)/GDP	TRADHIST database (Fouquin and Hugot 2016), World Bank	0.46	0.34

		WDI (World Bank 2020a, 2020b)		
Populist (1900-2018)	A dummy indicating whether the populist is in power (1/0)	Funke et al. (2023)	0.06	0.24
Judicial constraints (1900-2019)	"Judicial constraints on the executive index", 0;1, higher values = more constraints	Varieties of Democracy (V-Dem) database, Version 12 (Coppedge et al. 2022)	0.66	0.29
Free and fair elections (1900-2019)	"Clean elections index", 0;1, higher values indicate more freedom	Varieties of Democracy (V-Dem) database, Version 12 (Coppedge et al. 2022)	0.53	0.37
Media freedom (1900-2019)	"Alternative sources of information index", 0;1, higher values indicate more freedom	Varieties of Democracy (V-Dem) database, Version 12 (Coppedge et al. 2022)	0.61	0.31

Table A3: Characteristics of the treated unit, synthetic control and donor pool countries before the populist treatment.

	Treated (1)	Synthetic (2)	Donor Pool (3)
EXP	-.10	-.10	-.08
GDP	74.66	67.24	63.16
Institutions	-.62	-.51	-.39
debt crises	.17	.14	.08
Banking crises	.39	.24	.19

Notes: The matching variable is Government Expenditure. Pre-treatment average of expenditure, GDP per capita and institutions in 5 years preceding the treatment year. Crisis dummies capture the crisis probability in the five years before the event. Institutions are the first principal component of the V-Dem indices on judicial independence, electoral fairness, and media freedoms (Coppedge et al. 2022) as well as the Polity IV democracy score (Marshall and Gurr 2020). Data for 60 countries.

Table A4: Donor pool Composition for each populist episode.

No.	Country	Name	Limits	Main Doppelganger Countries
1	Argentina	Peron	1946-1955	Iceland , Spain, Italy
2	Argentina	Peron-Martinez	1973-1976	Poland, Peru, Finland
3	Argentina	Menem	1989-1999	Sweden, Mexico, Peru
4	Argentina	Kirchner-Fernandez	2003-2015	Paraguay, Indonesia, Bulgaria
5	Bolivia	Estenssoro-Zuazo	1952-1964	Paraguay, Indonesia, Bulgaria
6	Brazil	Vargas	1951-1954	Finland, Ireland, Argentina
7	Chile	Ibanez	1952-1958	Italy, United States, India
8	Ecuador	Bucaram	1996-1997	Italy, United States, India
9	India	Gandhi	1966-1977	Iceland, Peru, Mexico
10	Israel	Netanyahu	1996-1999	Paraguay, Spain, Colombia
11	Italy	Berlusconi	1994-1995	India, New Zealand, Spain
12	Italy	Berlusconi	2001-2011	Poland, United Kingdom, South Africa
13	Japan	Koizumi	2001-2006	Croatia, Switzerland, Bolivia
14	Mexico	Echeverria	1970-1976	Poland, Bolivia, Netherlands
15	New Zealand	Muldoon	1975-1984	Peru, Thailand, Argentina
16	Peru	Garcia	1985-1990	Indonesia, Japan, Bolivia
17	Peru	Fujimori	1990-2000	Greece, Philippines, United States
18	Philippines	Estrada	1998-2001	Venezuela, Croatia, Mexico
19	Thailand	Shinawatra	2001-2006	Venezuela, Colombia, Malaysia
20	Venezuela	Chavez-Maduro	1999-	Ireland, Greece, United States

Notes: This table lists the main (i.e. highest weighted) countries chosen by the algorithm to construct thedonor pool for each episode of populist leadership. The three main countries with the highest weights are shown here. The results on government expenditure are shown in Figure 1, averaged across cases listed here. Note that we have 60 countries in the sample i.e., 59 potential donors for each case. When the end of the year is left blank, the populist was still in power in 2019.

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