

The Wild Bunch! An empirical note on populism and economic institutions

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Abstract The debate on populism has recently been revitalized by the rise of new political actors, especially in Latin America and Europe. Despite the renewed interest, the concept of populism remains vague, complicating any empirical investigation on its political and economic outcomes. Still, all populist politicians strongly emphasize the defense of the common man’s interest against those of privileged elites, suggesting that such governments will have notable implications for economic policy and institutions. Using a non-partisan indicator of populism, this paper seeks to assess the impact of populist policies on institutional change, as measured by the economic freedom of the world index. Results indicate that populist governments actively reduce economic freedom. In particular, they erode legal security, reduce freedom to trade, and tighten economic regulation. Findings expand on previous research with empirical methodology, questioning the importance of ideological orientation in some definitions of populism.

Keywords Populism · Democracy · Economic institutions · Economic policy

JEL Classification N20 · P44 · P48

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1 Introduction

The (re-) appearance of populism over the past two decades has fuelled extensive debates about this phenomenon by both, the media and the academic world. This is especially obvious in Europe and Latin America, where new political actors have divided constituents over the admissible degree of populist rhetoric in policy making. Still, it is not clear what someone really means, when he labels a politician as populist. The term has been applied to such a broad spectrum of actors that we can find politicians as different as Mahmoud Ahmadinejad, former president of Iran, Silvio Berlusconi, former prime minister of Italy, Hugo Chávez, late president of Venezuela, or George W. Bush, former president of the United States, among them. It is not clear what similarities exist among these ideologically very different chief executives that would justify a joint categorization as populists.

Obviously, the concept lacks clarity and difficulties in defining it have led some observers to dismiss populism as a valuable approach altogether. As a consequence, few scholars have tried to express populism in quantitative terms, which has complicated any empirical investigation on its outcomes. On the other hand, populist executives clearly have important implications for national policies and institutions, as the examples of Venezuela and Italy show. Both countries have recently experienced episodes of political populism, during which their institutional structures were altered considerably. To what degree these examples can be generalized, is an open question though. For this same reason, researchers such as [Hawkins \(2009\)](#) or [Rooduijn and Pauwels \(2011\)](#) agree that the most interesting and relevant questions on populism are empirical in nature.

A case in point is the analysis of populist economic policy, where authors such as [Sachs \(1989\)](#), [Dornbusch and Edwards \(1991\)](#) or [Bittencourt \(2012\)](#) find that different populist governments with a center-left ideology have followed strikingly similar policy cycles throughout the latter half of the twentieth century. These tend to be overly expansive in monetary and fiscal terms, leading to a balance of payment crisis, falling real wages, capital flight, and inflation. All these studies put redistributive objectives at the heart of their populism definition though, and others have therefore criticized that findings cannot be attributed to populist governments in general, as any economic consequences of right wing populists are completely neglected (cf. [Weyland 2001](#)). Similarly, [Mudde \(2007\)](#) and [De la Torre \(2007\)](#) highlight that all populist movements, be they right or left wing, European or Latin American, strongly emphasize the defense of “the peoples’ interest” against those of a privileged elite. If policies are implemented that are in accordance with this type of rhetoric, the economic consequences of any populist government are potentially severe, disregarding their ideology.

A similar issue arises, if we consider the time periods covered by studies on economic populism: [Sachs \(1989\)](#) and [Dornbusch and Edwards \(1991\)](#) analyze populist regimes from the 1970s and 1980s. Do their conclusions still apply to more recent populist leaders, such as Hugo Chávez, who had to take into account a much more globalized economy? The recent contributions by [Bittencourt \(2012\)](#) and [Edwards \(2010\)](#) suggest that Latin American *neo-populist* executives present similarly dismal records than their predecessors, with the important difference that, so far, none has

driven his respective country into a total economic collapse. Still, this might happen in the future, and it is important to study this issue empirically.

To put it in a simple way, there currently exists a gap in the scientific analysis of populism, which is due to the absence of a clear definition and reliable indicators, but contrasts with an identifiable need to empirically investigate its economic consequences. Our study addresses this important vacuum in the literature. Using panel data estimation, we outline the effect of populist governments on countries' economic institutions and policies with a measure compiled by Hawkins (2009). This *populism index* builds on a discursive definition of the concept, which identifies populism as something that is grounded in communication. The Economic Freedom of the World index (Gwartney et al. 2014) is used to measure changes in economic institutions and policies. Results indicate that all populist governments actively reduce economic freedom. At the economic policy level, they tend to erode legal security, reduce freedom to trade, and tighten economic regulation. Interestingly, left wing populists only seem to be marginally more inclined to increase the size of government, while the overall economic policy approach seems to be quite similar. This raises the important question of why some definitions of populism are so centered on ideology, even though ideological orientation doesn't seem to matter a great deal for policy outcomes. In addition, we find that the popular majority received in the last elections has no clear effect on populist policy.

The remainder of this paper is organized as follows. Section 2 discusses earlier work on the economic consequences of populism and revises different definitions, focusing especially on the concept that forms the basis for the populism index. Section 3 describes the data and methodology for estimation. Section 4 presents the results and discusses them, while Sect. 5 concludes.

2 An inquiry into populism

Social science research has established four principal definitions of populism, all of which focus on a specific trait of this sociopolitical phenomenon. Definitions are either of structural, economic, political-institutional, or discursive nature (Hawkins 2009). The first, the structural approach, identifies populism with development strategies in non-western countries, located at the periphery of the world economy. It specifically focuses on the social origins of populist regimes. According to Drake (1982), these rely on forming large cross-class coalitions to implement a reformist set of policies that are supposed to catalyze economic development, without producing explosive social conflict.¹

The second, the economic definition, shares the idea of social conditions as the origin of populism with the structural approach. Merely the focus of the latter is different: Rather than investigating the origins, it centers on the policy output of populist governments, specifying *economic populism* as a set of short sighted policies that are

¹ The structural definition also closely links populist regimes with dependency theory and import-substitution industrialization (Cardoso and Faletto 1979). The latter was an especially popular development strategy among Latin American governments from the 1940s until the late 1970s.

supposed to appeal to the economically weaker classes. In particular, Dornbusch and Edwards (1991) identify economic populism as a perspective that emphasizes growth and income redistribution, while deemphasizing the risk of inflation, deficit finance, and external constraints. An expansive credit and fiscal policy, in combination with an overvalued currency, are distinguished by Sachs (1989) as central elements. These are implemented with the objective of pursuing growth acceleration. Sachs (1989), as well as Dornbusch and Edwards (1991) agree that after an initial phase of strong growth, the *populist policy cycle* entails a balance of payment crisis that is coupled with high inflation. This quickly results in falling real wages, capital flight, and finally culminates in total economic collapse. The last policy phase is usually followed by a new government, supported by the previously marginalized middle-class, often times in the form of a dictatorship that pursues extremely liberal policies. The authors conclude that economic disaster is ultimately a consequence of the populist governments' inability to shift away from its excessively redistributive policies, which are financed by monetary and fiscal expansion. Recently, Bittencourt (2012) empirically confirms the findings of Sachs (1989) and Dornbusch and Edwards (1991), but further suggests that populist economic outcomes in Latin America crucially depend on the underlying economic institutions in place. He concludes that especially an independent central bank can play an important role in controlling the excess of populist inflationist policies.

The economic definition places redistributive objectives at the center of its definition, thus focusing exclusively on left wing populist regimes in Latin America. So what about the economic policies followed by populist right wing governments and their outcomes? Few studies are available on this subject, since right wing populist governments have generally been an observable minority: Palermo and Collins (1998) claim that despite a liberal rhetoric, these economic policies are, at large, also followed by right wing populist governments. Still, most studies that use the economic definition simply do not classify such governments as populist in the first place, arguing that these regimes are not associated with explicit redistributive objectives (Kaufman and Stallings 1991). According to Weyland (2001) the appearance of right wing populism has seriously challenged structural and economic definitions, exactly because these definitions take socioeconomic traits to be an integral part of the concept, thereby excluding other forms of political populism. As a consequence, the question of how exactly a populist right wing economic policy differs from the definitions laid out in economic populism, is still open. In a recent contribution, Edwards (2010) recognizes that populism is not the monopoly of the left, and that it is possible to have populism on the right. Nonetheless, he gives no answer to the questions of what right wing populist economic policies look like, and how the absence of redistributive objectives can be reconciled with the definition of economic populism.

The third definition of populism, the political-institutional approach, is by far the most popular in terms of single contributions to the literature (Hawkins 2009). This unambiguously reflects the dominant position of political science in the recent study of populism. Generally, this approach strongly focuses on the institutional aspects of the populism concept, such as the presence of a charismatic leader, party organizations, the embodiment of *the people* and their supposed will in the leader, a consequently low esteem for the institutions of representative democracy, and populisms preoccu-

pation with identifying a group of outsiders or hypothetical enemies that represent the *anti-nation* (De la Torre 2007). The latter also highlights the tendency of all populist movements, be they right- or left wing, to emphasize the personification of democracy in the movement's leader, who defends the people's interests against those of a privileged elite. Personification eventually results in a marginalization of democratic institutions and a reduction of executive constraints. Therefore, the political and economic consequences of any populist government are potentially severe. In this sense, the political–institutional approach is quite close to the ideas of economic populism. The big difference is that economic outcomes are not part of the political–institutional definition itself. Rather, the latter approach is purely political. It locates populism within a single domain and leaves space for empirically investigating the consequences produced by populist economic policy.

In many aspects, the political interpretation is related to the fourth approach, the discursive definition, which doesn't focus on organization but rather identifies populism as set of *ideas*. According to Hawkins (2009), these ideas are expressed in a *Manichean discourse*, which assigns a moral dimension to everything, no matter how trivial, interpreting it as part of a cosmic struggle between good and evil. Within this dualistic vision, the *good* is, of course, represented by the will of the people. On the other side of this struggle are the conspiring elites that have somehow managed to subvert the will of the people. In fact, populism is preoccupied with identifying this enemy, as a way of constituting the people in the first place. The Manichean discourse further makes two important suppositions: First, to have the will of the people prevail, some kind of *revolution* is needed. A substantial modification of existing institutions is therefore often part of a populist political program. Second, populists tend to identify the minority rights of liberal democracy as unjustly protecting the conspiring elites. As a consequence, they frequently call for their abolition, in order to better express the will of the people. Canovan (2002) and Mudde (2004) have also referred to this particular definition of populism as a *thin ideology*, contrasting it with the full ideologies of liberalism or socialism.

Attempts to express populism in quantitative terms are all based on the latter definition, and all employ some form of content analysis to capture the ideas of populism.² Jagers and Walgrave (2007) were among the first to produce an empirical measure of populist parties, employing this methodology. Defining populism as a communication style, they quantify it by analyzing broadcasts of Belgian political parties. A similar move in that direction is made by Voessen (2010), who empirically compares populist parties in the Netherlands with a set of ideal populist discourses. In a different attempt, Pauwels (2011) measures populism of Belgian parties by a computer based content analysis. These studies succeed in empirically differentiating populist actors, parties, and politicians, from non-populist actors. Unfortunately, they are all limited to one country. This limitation is overcome by Hawkins (2009), who conceptualizes

² Content analysis is defined by Neuendorf (2011) as “a summarizing, quantitative analysis of messages that relies on a scientific method, including attention to objectivity/intersubjectivity, a priori design, reliability, validity, generalizability, replicability, and hypothesis testing”. Among others, it has been successfully used in the analysis of the manifestos of the Dutch political parties by De Vries (1999), British and Irish political parties by Laver and Garry (2000), and Argentinean presidential speeches by Armony and Armony (2005).

populism as political discourses by chief executives. It allows the author to produce an impressive dataset that is feasible for cross country comparisons. As far as we know, it currently is the only one of its kind. A detailed description of its construction is given in the next section.

Despite these successful attempts at the measurement of populism, two important questions remain: First, are the measures derived from the discursive definition valid and reliable? To a great degree, this is a question about the validity of content analysis in general. Here it can be said that, considering the relatively long history of this methodology in social sciences, it can definitely be considered as valid, if certain criteria are met in the research process (Krippendorfer 2012). An answer on reliability is given in a recent article by Rooduijn and Pauwels (2011), where the authors compare a large number of parties from different European countries by a classical and a computer based content analysis.³

The second question is not as easy to answer and has to do with the concern, if a populist discourse doesn't also require real world action to be something observable? Or put in other words, is populism really populism if it is expressed, but never practiced? In this respect, Hawkins (2009) highlights that manifestations of populism cannot exist without some material component and actual discourses are meaningless, unless these are also shared by the followers of a populist leader. Actions alone, such as raising the minimum wage, or repressing the opposition are insufficient conditions. So policies can ultimately be labeled as populist because of the meaning ascribed to them, not because of any objective quality inherent in them.

To further highlight this point, let's consider different possibilities of measurement that a priori might seem more objective. At the center of this controversy is the question, how populist action should be measured, instead of measuring populist rhetoric? For example, it could be argued that fiscal expansion is an observable populist policy maneuver, as it seems to be followed by governments that are economically populist. The downside of such a measure is that it could also be implemented by any democratic government, at the onset of an economic crisis. Obviously, it is impossible to distinguish between both possibilities, without getting tangled up in partisan politics and arbitrary decision-making. The same is true regarding other possible policy indicators, such as a reduction (or increase) in taxes for certain income groups, an increase in the minimum wage, etc.

Measuring populist action with conventional economic indicators is therefore infeasible, and that is exactly where the advantages of the discursive definition come into play: By its nature, this approach will not falsely identify a non-populist government as populist.⁴ Researchers can focus on party documents or speeches, all of which are easily accessible. Measuring populism as a political discourse further means that one uses a minimal definition of the concept, placing it exclusively within the political

³ Rooduijn and Pauwels (2011) are able to quantify the degree of populism in party manifestos, confirming descriptive analysis in a comparative European setting. They further demonstrate that there are no significant differences between a classical- and an electronic analysis, which substantially raise the confidence that one can place in reliability.

⁴ This is not a trivial matter, because the selection of who is a populist, and who is not, can be a highly arbitrary affair. As discussed above, earlier research on populist governments does not sufficiently address this potential problem of selection bias.

domain. Socioeconomic traits are not part of this delineation. We can therefore claim that using a measure of populist political discourse is a good proxy for the degree of real populist policy implementation, while at the same time it guards us against the hazard of ascribing a populist meaning to actions, which can theoretically be taken by any type of government.

The issues highlighted by the literature on populism eventually raise three principal questions for our investigation: First, if we measure populism on the basis of a non-partisan discourse measure and take it to be a proxy of real populist policy implementation, does this policy style have an effect on economic institutions? Second, can the conclusions obtained by [Sachs \(1989\)](#), [Dornbusch and Edwards \(1991\)](#) and [Bittencourt \(2012\)](#) on populist economic policies be confirmed, using this colorless measure and treating also recent populist governments? Third, do left- or right-wing populist governments have significantly different effects on economic institutions, or are they actually quite similar, as suggested by [Palermo and Collins \(1998\)](#)?

3 Data and methodology

The index of populism employed in this paper is from a database compiled by [Hawkins \(2009\)](#). It measures populist discourse at the elite level, because populism is normally associated with leaders who create and consolidate their respective movements.⁵ Political discourses are assessed by previously trained native speakers, who apply the method to more than 200 speeches by 40 different chief executives. Most of these politicians are recent figures, like Venezuela's Hugo Chávez, but some are also historically recognized populist leaders, such as Juan Peron of Argentina.

All speeches are graded on a three point scale, where zero represents a non-populist or pluralist politician, one a mixed discourse, and two an outright populist. To assure scientific standards of reliability, several speeches per chief executive were coded, and all were randomly selected from four different categories. Categories are campaign speeches, ribbon cutting speeches, international speeches, and famous speeches, the latter typically being an inaugural address or an annual report to the nation. The final score for each chief executive is calculated as the average of the evaluated speeches. According to [Hawkins \(2009\)](#), the analysis showed high levels of inter-coder reliability, which improves the confidence one can place in the results.⁶ Populism scores of chief executives are summarized by country in [Table 1](#). It can be observed that of the 37 contemporary politicians, only very few can really be considered to be outright populists. This also fits with descriptive analysis, as completely populist chief executives are not all too common in real world politics. The scores also show that populism is obviously not just a Latin American phenomenon, which it has often times been made out to be. Therefore, the sole fact that our paper does not define populism

⁵ To empirically quantify their discourses, [Hawkins \(2009\)](#) uses a form of content analysis from educational psychology, known as holistic grading. This method establishes a guide for discourse evaluation and employs anchor texts to exemplify different scores in the grading procedure.

⁶ The resulting populism index therefore fulfills the general requirements for content analysis, as laid out by [Weber \(1990\)](#): objectivity, systematic, generality, reliability, and validity. In a recent article, [Rooduijn and Pauwels \(2011\)](#) also agree that the results obtained by [Hawkins \(2009\)](#) are valid and reliable.

Table 1 Populism scores of chief executives

| Country | Chief executive | In office | Period of analysis | Populism score | SD score |
|----------------|----------------------|---------------------------|--------------------|----------------|----------|
| Argentina | Carlos Menem | 08.07.1989– 09.12.1999 | 1990–2000 | 0.8 | 0.5 |
| Argentina | Néstor Kirchner | 25.05.2003– 10.12.2007 | 2003–2007 | 0.2 | 0.29 |
| Bolivia | Carlos Mesa | 17.10.2003– 06.06.2005 | 2004–2005 | 0.1 | 0.25 |
| Bolivia | Evo Morales | 22.01.2006–now | 2006–2011 | 1.6 | 0.71 |
| Brazil | Lula da Silva | 01.01.2003– 01.01.2011 | 2003–2011 | 0.3 | 0.29 |
| Bulgaria | Sergei Stanishev | 17.08.2005– 27.07.2009 | 2006–2010 | 0.1 | 0.17 |
| Canada | Steven Harper | 06.02.2006–now | 2006–2011 | 0 | 0 |
| Chile | Ricardo Lagos | 11.03.2000– 11.03.2006 | 2000–2005 | 0.1 | 0.25 |
| Colombia | Álvaro Uribe | 07.08.2002– 07.08.2010 | 2003–2008 | 0 | 0 |
| Costa Rica | Abel Pacheco | 08.05.2002– 08.05.2006 | 2002–2005 | 0.2 | 0.29 |
| Dominican Rep. | Leonel Fernández (1) | 16.08.1996– 16.08.2000 | 1997–2000 | 0.3 | 0.5 |
| Dominican Rep. | Leonel Fernández (2) | 16.08.2004– 16.08.2012 | 2004–2011 | 0.3 | 0.50 |
| Ecuador | Alfredo Palacio | 20.04.2005– 15.01.2007 | 2005–2006 | 0.4 | 0.14 |
| El Salvador | Antonio Saca | 01.06.2004– 01.06.2009 | 2004–2008 | 0.6 | 0.25 |
| Finland | Tarja Halonen | 01.03.2000– 01.03.2012 | 2000–2011 | 0 | 0 |
| Ghana | John Kufuor | 07.01.2001– 07.01.2009 | 2001–2008 | 0.2 | 0.32 |
| Guatemala | Oscar Berger | 14.01.2004– 14.01.2008 | 2004–2007 | 0 | 0 |
| Honduras | Ricardo Maduro | 27.01.2002– 27.01.2006 | 2002–2005 | 0 | 0 |
| Iran | Mahmoud Ahmadinejad | 24.06.2005– 15.06.2013 | 2005–2011 | 1.2 | 0.58 |
| México | Vicente Fox | 01.12.2000– 30.11.2006 | 2001–2006 | 0.3 | 0.5 |
| Mongolia | Nambaryn Enkhbayar | 24.06.2005– 18.06.2009 | 2005–2008 | 0.1 | 0.17 |
| Nicaragua | Enrique Bolaños | 10.01.2002– 10.01.2007 | 2002–2006 | 0 | 0 |
| Norway | Jens Stoltenberg | 17.10.2005– 16.10.2013 | 2006–2011 | 0.2 | 0.33 |
| Panama | Martín Torrijos | 01.09.2004– 01.07.2009 | 2005–2009 | 0.2 | 0.29 |
| Paraguay | Oscar Duarte | 15.08.2003– 14.08.2008 | 2004–2008 | 0.5 | 0.5 |
| Peru | Alan García | 28.07.1985– 28.07.1990 | 1986–1990 | 0.8 | 0.6 |
| Peru | Alberto Fujimori | 28.07.1990– 22.11.2000 | 1991–2000 | 0.7 | 0.6 |

Table 1 Continued

| Country | Chief executive | In office | Period of analysis | Populism | SD score |
|----------------|------------------------------|---------------------------|--------------------|----------|----------|
| Peru | Alejandro Toledo | 28.07.2001– 28.07.2006 | 2002–2006 | 0.3 | 0.25 |
| Philippines | Gloria Macapagal Arroyo | 20.01.2001– 30.06.2010 | 2001–2010 | 0.5 | 0.41 |
| Russia | Vladimir Putin | 08.05.2000– 07.05.2008 | 2000–2007 | 0.4 | 0.5 |
| South Africa | Thabo Mbeki | 14.06.1999– 24.09.2008 | 2000–2008 | 0 | 0 |
| Spain | José Luis Rodríguez Zapatero | 17.03.2004– 21.12.2011 | 2004–2011 | 0 | 0 |
| Sweden | Göran Persson | 22.03.1996– 06.10.2006 | 1996–2006 | 0 | 0 |
| Ukraine | Viktor Yushchenko | 23.01.2005– 25.02.2010 | 2005–2009 | 1.1 | 0.85 |
| United Kingdom | Tony Blair | 02.05.1997– 27.06.2007 | 1997–2007 | 0.3 | 0.5 |
| United States | George W. Bush | 20.01.2001– 20.01.2009 | 2001–2008 | 1.2 | 0.32 |
| Uruguay | Tabaré Vázquez | 01.03.2005– 01.03.2010 | 2005–2009 | 0.3 | 0.5 |
| Venezuela | Hugo Chávez | 02.02.1999– 05.03.2013 | 2000–2011 | 1.9 | 0.25 |

Sources: Hawkins (2009, 2010), Rulers (2014) and Barcelona Center of International Affairs (2014) Populism scores for Alan García and Alberto Fujimori are taken from a different dataset by the same author

in geographical or ideological terms sets it apart from other research on the outcomes of populist regimes.

Empirically speaking, the high standard deviations of some few chief executives, as shown in Table 1, represent a potential problem of this indicator. These are probably an outcome of the different speech categories, demonstrating that some chief executive adapt their degree of populist rhetoric to the audience they are addressing. To rule out any potential bias, we therefore re-test all of our results by employing an alternative populist dummy variable. Here, populist chief executives are assigned a value of 1, and 0 is for mixed or non-populist chief executives. Table 1 also presents the time period that each leader has spent in office, all of which are in accordance with the Ruler's Website and the BCIA's Political Biographies database. Together with the availability of economic freedom data, governing intervals determine the period of analysis for each country.

Because the principal interest of our paper is the effect of political populism on economic institutions and policies, a comprehensive measure of the latter is also required. Following authors such as Pitlik and Wirth (2003), De Haan and Sturm (2003) and Pitlik (2008), the change in the Economic Freedom of the World (EFW) summary index by Gwartney et al. (2014) is used as a measure of economic liberalization.⁷ This index is published annually by the Canadian Fraser Institute and is employs 43 specific

⁷ The chain-linked version of the EFW Index is used, because it is a more accurate measure across time.

Table 2 Descriptive statistics

| Variable | Mean | SD | Min | Max |
|---------------------|-------|-------|-------|-------|
| EFW Index (overall) | 6.71 | 1.16 | 2.61 | 8.52 |
| EFW Index A1 | 6.66 | 1.37 | 2.60 | 9.28 |
| EFW Index A2 | 5.46 | 2.16 | 1.45 | 9.49 |
| EFW Index A3 | 7.74 | 2.21 | 0.00 | 9.84 |
| EFW Index A4 | 7.12 | 1.50 | 1.23 | 9.4 |
| EFW Index A5 | 6.59 | 1.01 | 3.38 | 8.54 |
| Populism score | 0.44 | 0.51 | 0 | 1.9 |
| Populism dummy | 0.15 | 0.36 | 0 | 1 |
| log GDP p.c. | 9.09 | 0.93 | 6.95 | 10.88 |
| Democracy | 0.87 | 0.34 | 0 | 1 |
| Left wing | 0.49 | 0.50 | 0 | 1 |
| Popular majority | 46.91 | 11.03 | 19.50 | 71.31 |
| Latin America | 0.54 | 0.50 | 0 | 1 |

components, all measured on a zero to ten scale, to measure the degree to which the economic institutions and policies of a country correspond to free market principals. Zero represents the least free and ten the most free.

The EFW Index has been used extensively by economic researchers in recent years.⁸ It is based entirely on data published in secondary sources, which means it can be easily verified and duplicated by others (Berggren 2003). This transparency feature adds to its credibility. The EFW Index is divided into five major areas: 1 Size of government: Expenditure, taxes, and enterprises, 2 Legal structure and security of property rights, 3 Access to sound money, 4 Freedom to trade internationally, and 5 Regulation of credit, labor, and business. The summary rating for each country is calculated by simply taking the mean of the ratings in each of the five areas. Taken individually, the areas have also shown to be useful tools by Heckelman and Stroup (2000), Carlsson and Lindström (2002), Dawson (2003), Berggren and Jordahl (2005) and Justesen (2008).

The strategy employed by De Haan and Sturm (2003), Lundström (2005), Pitlik and Wirth (2003) and Pitlik (2008) is utilized to derive empirical estimates of the effects of populism on changes in economic institutions across countries. As mentioned above, these authors all use the change in the EFW Index as a dependent variable measuring variations in economic liberalization in regression analysis, further introducing the initial EFW Index value as a primary control variable in their models. We follow this same procedure. Furthermore, we use the change in the individual EFW areas as dependent variables, to determine the specific outcomes of populist economic policies. An inverse relationship is expected between the initial EFW value and the change in EFW, indicating that countries with a lower initial EFW rating are likely to liberalize more rapidly in subsequent periods. The same pattern is expected for the individual EFW areas. Table 2 presents summary statistics for the EFW and the other control variables.

The studies mentioned above also find that initial GDP per capita is a fundamental determinant of changes in economic freedom. Wu and Davis (1999), Aixalá and Fabro

⁸ See Berggren (2003) or De Haan et al. (2006) for overviews.

(2009) and Carden and Lawson (2010) also utilize per capita income in similar models. Therefore, the logarithm of initial GDP per capita in purchasing power parity terms is also included in our basic model. This data is taken from the latest version of the Penn World Tables (8,0) by Feenstra et al. (2013). Again, we expect this variable to show up with a negative sign in our regressions, indicating that countries with a lower per capita income will liberalize their economies comparatively quicker in subsequent periods.

Findings by De Haan and Sturm (2003), Lundström (2005), Pitlik and Wirth (2003), Pitlik (2008) and Rode and Gwartney (2012) further identify political institutions as a principal determinant of changes in economic institutions. To capture these adequately and avoid overlap with the other institutional indicators, a minimalist democracy-dictatorship dummy by Cheibub et al. (2010) is employed as a control variable for democracy. According to its creators, this variable avoids the problems inherent in the Freedom House (FH) and Polity IV scores, which they argue are based on overly subjective evaluations and inadequate operational rules. Cheibub et al. (2010) claim that the middle categories of the FH and Polity IV variables add little useful information, in order to distinguish between political regimes.⁹ They also argue that, contrary to frequent practice, the two measures are not interchangeable in regression analysis. As an alternative, they propose a dichotomous variable that takes the value of 1 if a country's legislative and executive offices are chosen by contested and popular elections, and 0 otherwise.¹⁰

To capture the political ideology of our chief executive we further construct a dummy variable that takes the value of 1 in case of a left wing government, and 0 in case of a non-left (center- or right) wing government. Non-OECD political movements are sometimes hard to assign into ideological categories. Therefore, governments are only classified as left wing if there were no doubts regarding their ideological orientation. Political movements of chief executives are matched, according to the Rulers' Website and the Political Biographies database of the Barcelona Center of International Affairs (BCIA).¹¹ Unfortunately, the sample could not be separated into ideological groups, due to the small number of right wing populist governments. As an alternative, we introduce an interaction term between our left wing dummy and the populist score. Its objective is to analyze, if populist governments of different political ideology also have different effects on changes in economic institutions. Finally, we also introduce a dummy variable that takes the value of one for countries that are located in Latin America. If economic populism is indeed a left wing phenomenon in Latin America, these dummies should adequately capture this fact.

As specified in Table 2, we further employ the share of the popular vote received by the corresponding chief executive received in the last elections. These figures are

⁹ Reproducing studies by Rodrik and Wacziarg (2005) and Epstein et al. (2006), Cheibub et al. (2010) show that the choice of democracy measure in different empirical studies does matter, and that it has important implications for the results obtained.

¹⁰ The Cheibub et al. dataset covers the period between 1950 and 2008. In joint work with Christian Bjørnskov we have updated the dataset to 2011 and ensured that all regime changes pertain to the correct year such that regime changes in the latter half of year t are coded as taking effect in year $t + 1$.

¹¹ Especially the BCIA provides detailed information on the political parties of the politicians covered.

obtained from the World Banks' Database of Political Institutions (DPI) by [Beck et al. \(2001\)](#).¹² The idea is to check, how the size of the majority is interpreted as a mandate to change economic institutions, in the sense that higher shares of the popular vote should probably be seen as a greater authorization to the politician in question. To adequately test this hypothesis, we introduce an interaction term between the populism dummy and the popular majority received in the last election.

While the EFW index now covers 141 countries, data for the populism index substantially limits our selection of countries, reducing it to 33. Out of these countries, only 4 figure as non-democratic at some point during our analysis. To ensure that EFW Index variation can really be ascribed to the chief executive in question, a year is only included, if the chief executive had also been in power for at least six months. Otherwise these points are dropped.¹³ Due to the different eras that chief executives spend in office, the resulting dataset is in the form of an unbalanced panel, containing annual information.¹⁴

The dataset is analyzed with a panel estimation method, known as Feasible Generalized Least Squares (FGLS), using annual dummies to control for temporal effects. This method permits efficient estimates, correcting for the unbalanced panel structure, the presence of heteroskedasticity, autocorrelation, and contemporaneous cross-sectional correlation (HPAC) ([Blackwell 2005](#); [Hoechle 2007](#)). The rationale for contemporary dependence was first proposed by Francis Galton in the nineteenth century. Galton stated that treating socio-economic observations as independent units of analysis may be an error, due to the processes of cultural diffusion between societies. In an increasingly globalized world this problem is even more apparent, and therefore it is necessary to empirically address this issue ([Jahn 2006](#)). The presence of heteroscedasticity is confirmed with a Wald test, adapted to the unbalanced structure of the panel ([Baum 2001](#)). Autocorrelation is confirmed by the Wooldridge test for serial correlation in panel data models ([Wooldridge 2002](#); [Drukker 2003](#)).

4 Estimation results

Results from FGLS regression, analyzing the effect of populism on changes in economic institutions, are presented in Tables 3, 5, and 7. As Table 2 shows, the initial EFW score is negative and highly significant as a determinant of following changes in economic freedom. Thus, the cross-country analysis indicates that nations with

¹² In the case of popularly elected presidents, we take the share of the popular vote from the first round of the last presidential election. In the case of prime ministers, we take the share of the popular vote that the corresponding party received in the last legislative elections.

¹³ An exception was only made in the case of Carlos Menem. This is due to EFW data, which before the year 2000 is only available for 1990 and 1995. Menem was removed from power in December of 1999, so attributing the year 2000 to his term in office, is certainly justifiable.

¹⁴ EFW data between 2000 and 2012 is available on an annual basis. Data for 1985 is attributed to 1985–1989, data for 1990 to 1990–1994, and data for 1995 to 1995–1999. This partly affects the terms of 3 chief executives (Leonel Fernández, Göran Persson, Tony Blair), and further affects the total term of 3 more (Carlos Menem, Alan García, Alberto Fujimori).

Table 3 Populism and economic institutions

Dependent variable: ΔEFW

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|---------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------------|
| Initial EFW Index | -0.066*** (-4.50) | -0.064*** (-4.63) | -0.067*** (-4.54) | -0.064*** (-4.60) | -0.065*** (-4.55) | -0.069*** (-4.56) | -0.067*** (-4.57) | -0.073*** (-4.49) |
| Populism Score | -0.078*** (-3.12) | -0.077*** (-2.74) | -0.078*** (-3.06) | -0.072*** (-2.33) | | | | |
| Populism Dummy | | | | | -0.100*** (-2.90) | 0.140 (0.98) | -0.101*** (-2.94) | 0.129 (0.83) |
| log GDP p.c. | -0.005 (-0.46) | -0.005 (-0.42) | -0.003 (-0.22) | -0.003 (-0.20) | -0.001 (-0.10) | 0.002 (0.18) | -0.002 (-0.11) | 0.006 (0.38) |
| Democracy | 0.019 (0.60) | 0.022 (-0.73) | 0.018 (0.57) | 0.020 (0.67) | 0.017 (0.60) | 0.034 (1.02) | 0.019 (0.66) | 0.035 (0.94) |
| Left Wing | | -0.004 (-0.14) | | -0.001 (-0.03) | | | | |
| Left wing \times populism | | -0.004 (-0.08) | | -0.013 (-0.23) | | | | |
| Pop Majority | | | | | | 0.000 (0.32) | | 0.000 (0.28) |
| Pop. majority \times populism | | | | | | -0.005* | | -0.005 |
| Latin America | | | 0.005 (0.20) | 0.009 (0.38) | | (-1.69) | -0.006 (-0.24) | (-1.54) 0.000 (0.00) |
| N | 252 | 252 | 252 | 252 | 252 | 252 | 252 | 252 |

Table 3 Continued

| <i>Dependent variable: ΔEFW</i> | | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|----------------------------------------------------|--|---------|----------|----------|----------|----------|----------|----------|----------|
| Countries | | 33 | 33 | 33 | 33 | 33 | 33 | 33 | 33 |
| Year dummies | | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Wald test | | 1756.04 | 1704.50 | 1689.35 | 1680.89 | 2069.19 | 2047.01 | 1,952.51 | 1,983.42 |
| (<i>p</i> value) | | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) |
| Wald test for | | 1854.97 | 1,988.76 | 1,935.49 | 1,875.07 | 1,113.61 | 1,398.33 | 1,166.74 | 1,494.56 |
| heteroskedasticity | | | | | | | | | |
| (<i>p</i> value) | | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) |
| Wooldridge test | | 244.51 | 244.51 | 244.51 | 244.51 | 244.51 | 244.83 | 244.51 | 244.83 |
| (<i>p</i> value) | | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) |

T-statistics in parenthesis;

* Significant at 10 %; ** significant at 5 %; *** significant at 1 %

lower initial levels of economic freedom tend to achieve larger subsequent increases in economic liberalization. This result is consistent with those of [De Haan and Sturm \(2003\)](#), [Lundström \(2005\)](#), [Pitlik and Wirth \(2003\)](#) and [Pitlik \(2008\)](#). The impact of per capita income is not as clear: Coefficients obtained for log GDP are negative as expected, although the variable is never significant. This is most likely a consequence of our country sample, which is in its majority composed of Latin American countries.¹⁵ In addition, it might also reflect the correlation between two control variables: countries with higher initial EFW ratings tend to have higher initial per capita incomes. Regarding the effects of democracy, we find that it is not significantly related to changes in economic freedom. This contrasts with the results obtained by [De Haan and Sturm \(2003\)](#), [Pitlik and Wirth \(2003\)](#), [Aixalá and Fabro \(2009\)](#) or [Rode and Gwartney \(2012\)](#). Nonetheless, this finding is likely to be a consequence of the country sample, which presents comparatively little variation in political institutions.¹⁶ In any case, all estimations are robust to different measures of political institutions, as employing the Polity IV indicator by [Marshall and Jaggers \(2009\)](#) leaves our results unchanged.¹⁷

Coming to our principal variable of interest, it can be observed in the basic models of equations 1 to 4, that the presence of populist politicians is associated with a significant and substantial decline in economic institutions. Coefficients are highly significant and the impact of populism is, on average, greater than the initial EFW ratings. Populist governments therefore seem to actively reduce economic freedom. The statistical effect is admittedly small, but it should be kept in mind that our dependent variable measures annual changes in the EFW index, meaning that we shouldn't expect it to be very big either.

In equations 2 and 4, the interaction term of the left wing dummy with the populism score is introduced to the model. This is done to control for the effect of populist government's political ideology on economic freedom. It can be observed that, in both cases, the interaction term is negative but statistically insignificant, showing that the negative association is not driven by regular left wing governments. Regarding the impact of populist chief executives, the conditional marginal effect in Table 4 shows that, at the average level of populism, the negative impact of being politically on the left is only slightly higher than that of the overall coefficient for the populism score (cf. Table 3). The negative impact of populism for economic freedom is thus not especially driven by left wing governments. Similarly, equations 3 and 4 show that our findings are not exclusively a Latin American phenomenon, as demonstrated by the introduction of the corresponding dummy variable to the baseline model.

Alternatively, equations 5 to 8 make use of the dummy variable to capture populism of chief executives. One can observe in equations 5 and 7 that the dummy is negative

¹⁵ In general, the sample contains 18 Latin American countries, 8 European countries, 3 Asian countries (without Russia), 3 African countries, and 2 North American countries (without Mexico). According to the current World Bank country classification, there are 7 High Income countries, 15 Upper Middle Income countries, 10 Lower Middle Income countries, and only 1 Lower Income country.

¹⁶ Only 2 countries (Iran, South Africa) are autocratic during the entire observation period, while Peru exhibits an autocratic and a democratic shift.

¹⁷ These are not shown, but available upon request.

Table 4 Effect of populism on economic institutions, conditional on left wing and popular majority

| | (2) | (4) | | (6) | (8) |
|----------------------|---------|---------|--------------------------|--------|--------|
| Left wing × populism | -0.081* | -0.085* | Pop. majority × populism | 0.135 | 0.127 |
| | (-1.86) | (-1.90) | | (0.96) | (0.81) |

and statistically also highly significant, presenting similar coefficients to the previous models. This raises our confidence that populist governments do indeed reduce economic freedom. Only when introducing the size of the electoral majority and the interaction term with the populist dummy in equations 6 and 8 the populism dummy becomes insignificant, which is probably due to the high degree of collinearity that is present between the occurrence of a populist chief executive and the size of the electoral majority. Coefficients on the interaction term are negative and significant at the 10% level in equation 6, meaning that totally non-populist chief executives interpret a large share of the popular majority in the last elections as a stronger mandate to change economic institutions. But as shown by the marginal effects in Table 4, for populist chief executives the size of the majority seems to be irrelevant.¹⁸

These findings are very interesting, if one considers the central importance of ideology in the definition of economic populism. According to our results, the political ideology of populist governments doesn't produce significantly different outcomes for economic institutions. Differences in political ideology are therefore marginally more than verbal, once populist rhetoric is involved. Interestingly, this feature markedly sets populist governments apart from other democratic regimes. Recent findings indicate that ideology plays an important role in formulating the direction of economic policy. For example, in an analysis of OECD countries Potrafke (2010) finds that the political orientation of governments has had a strong influence on the deregulation process of markets. In a similar study on the Canadian Provinces, Bjørnskov and Potrafke (2012) examine the role of government ideology for economic freedom at the provincial level. They find that administrations of right- and left-wing ideology exert a different impact on size of government and the regulatory environment.

The results obtained above are interesting, but they do not determine what exactly the economic policies of populist governments look like. Furthermore, they do not give any information about policy differences between ideologically deviating chief executives and the possible influence of electoral majorities. These questions are tackled in Tables 5 and 7, using the changes in the five individual EFW areas as dependent variables. In all equations, the initial level of the corresponding EFW area rating is also the principal control variable.

In both tables, EFW area ratings are again negative and highly significant in all equations, showing that countries with lower initial area scores also achieve larger subsequent increases in this specific area. The impact of income is again not clear: coefficients obtained for log GDP per capita are negative and significant for area 1, which measures the size of government, positive and significant for area 3, measuring the access to sound money, and insignificant in all other cases. With regards to democ-

¹⁸ Marginal effects are calculated according to Brambor et al. (2006).

Table 5 Populism, political ideology, and economic policy

| Dependent variable | Δ EFW A1 (1) | Δ EFW A1 (2) | Δ EFW A1 (3) | Δ EFW A2 (4) | Δ EFW A2 (5) | Δ EFW A3 (6) | Δ EFW A3 (7) | Δ EFW A4 (8) | Δ EFW A4 (9) | Δ EFW A5 (10) |
|----------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Initial EFW Ai | -0.040*** (-3.57) | -0.049*** (-3.94) | -0.018* (-1.71) | -0.015 (-1.42) | -0.119*** (-6.32) | -0.130*** (-6.56) | -0.073*** (-3.27) | -0.082*** (-3.61) | -0.066*** (-3.82) | -0.068*** (-3.94) |
| Populism Score | -0.021 (-0.90) | 0.020 (0.49) | -0.112*** (-3.34) | -0.140*** (-2.89) | -0.047 (-0.86) | 0.051 (0.76) | -0.092** (-1.98) | -0.060 (-1.00) | -0.097*** (-3.23) | -0.105*** (-2.52) |
| log GDP p.c. | -0.040*** (-2.84) | -0.055*** (-3.10) | 0.008 (0.38) | -0.001 (-0.03) | 0.037** (2.12) | 0.018 (0.87) | -0.016 (-0.86) | -0.025 (-1.23) | -0.013 (-0.98) | -0.002 (-0.11) |
| Democracy | 0.0835*** (2.00) | 0.102** (2.59) | -0.047 (-0.90) | -0.061 (-1.16) | 0.077 (1.04) | 0.133* (1.72) | 0.116** (2.37) | 0.130** (2.51) | 0.044 (1.06) | 0.040 (0.93) |
| Left wing | 0.000 (0.00) | 0.000 (0.00) | 0.012 (0.34) | 0.012 (0.34) | 0.075 (1.48) | 0.075 (1.48) | 0.058 (1.19) | 0.058 (1.19) | 0.040 (1.01) | 0.040 (1.01) |
| Left wing \times populism | -0.075 (-1.29) | -0.075 (-1.29) | 0.066 (1.00) | 0.066 (1.00) | -0.193 (-1.63) | -0.193 (-1.63) | -0.026 (-0.25) | -0.026 (-0.25) | 0.013 (0.21) | 0.013 (0.21) |
| N | 252 | 252 | 252 | 252 | 252 | 252 | 252 | 252 | 252 | 252 |
| Countries | 33 | 33 | 33 | 33 | 33 | 33 | 33 | 33 | 33 | 33 |
| Year dummies | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Wald test | 326.87 (0.000) | 333.80 (0.000) | 177.22 (0.00) | 178.69 (0.000) | 328.12 (0.00) | 336.27 (0.000) | 1200.86 (0.00) | 1102.07 (0.000) | 444.87 (0.000) | 437.49 (0.000) |
| Wald test for heteroskedasticity | 9033.00 (0.000) | 3315.87 (0.000) | 21247.18 (0.000) | 48678.51 (0.000) | 89720.28 (0.000) | 150000.00 (0.000) | 38586.82 (0.000) | 160000.00 (0.000) | 370000.00 (0.000) | 100000.00 (0.000) |
| Wooldridge test | 190.17 (0.000) | 190.17 (0.000) | 59.63 (0.000) | 59.63 (0.000) | 85.16 (0.000) | 85.16 (0.000) | 1357.60 (0.000) | 1357.60 (0.000) | 56.50 (0.000) | 56.50 (0.000) |

T-statistics in parenthesis

* significant at 10 %; ** significant at 5 %; *** significant at 1 %

Table 6 Effect of populism on economic policy, conditional on left wing

| | (2) | (4) | (6) | (8) | (10) |
|----------------------|---------------------|-------------------|-------------------|-------------------|--------------------|
| Left wing × populism | −0.055* (−1, 66) | −0.073 (−1.59) | −0.142 (−1.61) | −0.085 (−1.05) | −0.091* (−1.93) |

racy, the DD dummy presents a significantly positive association with the change in areas 1, 3, and 4. In our country sample, electoral democracy is therefore associated with a significantly smaller increase in the size of government, better access to sound money, and more freedom to trade.

Equation 1 of Table 5 shows that populism presents a negative but overall insignificant association with the size of government. In turn, the introduction of the interaction term in equation 2 finds a negative and significant association of left wing populist chief executives with changes in the size of government, as shown by the marginal effect in Table 6. We therefore find some evidence that clearly left wing populist governments tend to increase the size of government more quickly than right wing populists. This is most likely a consequence of their ideologically oriented economic policies and our result somewhat confirms common intuition. According to [Edwards \(2010\)](#), especially Latin American neo-populists have augmented government redistribution programs in recent years, even though these increases have been moderate by traditional populist standards.

Alternatively, equations 3 and 4 show populist governments to be significantly related with a reduction in area 2, measuring legal structure and the security of property rights. The effect is significant at the 1 % level and coefficients vary little with the introduction of the interaction term. The latter is always insignificant, suggesting that the impact of all populist governments for the security of property rights is negative, disregarding their political ideology. This is not a surprising result, as it is in accordance with populisms' low esteem for democratic institutions and processes ([Weyland 2001](#); [De la Torre 2007](#); [Mudde 2007](#)). Also [Edwards \(2010\)](#) finds that Latin American neo-populists have increasingly eroded the legal environment for free enterprise, threatening businesses with seizures, arbitrary fiscal controls, and an increasingly dependent judiciary.

Equations 5 and 6 employ the change in area 3 as the dependent variable, which measures citizens' access to sound money. Populism only shows up as negative and statistically significant at the 10 % level, when the interaction term is introduced in equation 6, where the latter has no effect at conventional levels. This result is somewhat surprising, as according to [Sachs \(1989\)](#), [Dornbusch and Edwards \(1991\)](#) and [Bittencourt \(2012\)](#), strong inflation is the principal consequence of economically populist policy experiments in Latin America. Especially [Sachs \(1989\)](#) and [Dornbusch and Edwards \(1991\)](#) identify an overvalued currency and money growth as initial parts of the program, enacted by economic populists. All of these features are measured in area 3 of the EFW Index.¹⁹ A possible explanation again comes from [Edwards](#)

¹⁹ The EFW Index area 3 is measured by combining 4 individual variables. These are: *Money growth*, *Standard deviation of inflation*, *Inflation: most recent year*, *Freedom to own foreign bank accounts*.

(2010), who states that the more recent neo-populists have not followed on the path of pro-inflationary policies with the same intensity as their predecessors. Nonetheless, the present result says nothing about the level of inflation, but only observes the change. In all Latin American countries with a populist chief executive, the level of money growth and inflation continues to be comparatively high. On the contrary, it has significantly declined in places like Brazil and Chile, which have not had populist experiences in several decades.

The influence of populist policies on freedom to trade internationally (area 4) is examined in equations 7 and 8. Equation 7 indicates that populist governments actively reduce freedom to trade. Interestingly, with the introduction of the interaction term in equation 8, the significance of the populism score disappears. This might suggest an impact of ideology, but results are not clear as the marginal effect of the interactions is insignificant in Table 6. According to Kaufman and Stallings (1991), economic populists tend to establish trade barriers, due to their ideological closeness to theories of import substitution industrialization (ISI). The age of ISI ended in the late 1980s, but also Edwards (2010) highlights the willingness of neo-populist governments to establish trade barriers, as an expression of their anti-globalization tendencies. Our empirical findings support this observation, but it is not certain if government ideology drives this strategy.

Finally, equations 9 and 10 inquire about populisms' impact on the regulation of credit, labor, and business, measured in area 5. Coefficients for populist chief executives are negative and significant at the 1% level, while the marginal effect on the interaction term is negative and also significant in Table 6. Still, coefficients are very similar and the tendency of populist governments to increase regulation is therefore not specifically driven by populists with a left wing ideology. Sachs (1989) states that one should expect economic populists to enhance regulation, due to their policies of expansive credits in combination with an overvalued currency, and rapidly augmenting real wages. More recently, the tendency of Latin American populists to increase business regulations is described by Edwards (2010). According to this author, regulations are often installed as a method of harassing the opposition, or to reward political followers.

Table 7 again employs the populist dummy variable to validate our previous results. Equations 1, 3, 5, 7 and 9 show that our findings are practically identical with this alternative variable, except in the case of freedom to trade (equation 7) where the populism dummy is now insignificant at conventional levels. In addition, we also introduce the size of the popular majority from the last elections and an interaction term with the populism dummy to check, if the former is interpreted as a possible reinforcing mechanism. One can observe in equations 2, 4, 6, 8 and 10 that the introduction of the popular majority and the interaction term make the populism dummy statistically insignificant in all cases, except for the size of government (equation 2). The reason for this is probably again the high degree of collinearity between our populism dummy and the popular majority variable, which seem to measure something similar in our models. In fact, substituting popular majority for populism, we arrive at very similar results, highlighting the great dependency of populist politicians on sizeable electoral results

Table 7 Populism, electoral majorities, and economic policy

| Dependent variable | Δ EFW A1 (1) | Δ EFW A1 (2) | Δ EFW A1 (3) | Δ EFW A2 (4) | Δ EFW A2 (5) | Δ EFW A3 (6) | Δ EFW A3 (7) | Δ EFW A4 (8) | Δ EFW A4 (9) | Δ EFW A5 (10) |
|----------------------------------|----------------------|----------------------|---------------------|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Initial EFW Ai | -0.038*** (-3.66) | -0.044*** (-4.04) | -0.010 (-0.94) | -0.014 (-1.30) | -0.115*** (-6.64) | -0.119*** (-6.41) | -0.071*** (-3.33) | -0.075*** (-3.38) | -0.063*** (-3.67) | -0.063*** (-3.74) |
| Populism Dummy | -0.014 (-0.46) | 0.413*** (2.77) | -0.094** (-2.23) | -0.135 (-0.62) | -0.143* (-1.79) | 0.213 (0.59) | -0.106 (-1.55) | 0.186 (0.52) | -0.117*** (-2.64) | 0.188 (1.03) |
| log GDP p.c. | -0.039*** (-2.79) | -0.048*** (-3.31) | 0.007 (0.31) | 0.012 (0.49) | 0.039** (2.34) | 0.041** (2.07) | -0.013 (-0.74) | -0.007 (-0.38) | -0.010 (-0.77) | -0.011 (-0.84) |
| Democracy | 0.084** (2.06) | 0.127*** (2.80) | -0.045 (-0.83) | -0.052 (-0.92) | 0.066 (0.97) | 0.101 (1.23) | 0.109** (2.35) | 0.131** (2.29) | 0.045 (1.06) | 0.061 (1.33) |
| Pop. majority | | 0.002 (1.06) | | -0.001 (-0.60) | | 0.001 (0.53) | | 0.001 (0.56) | | 0.000 (0.13) |
| Pop. majority \times populism | | -0.009*** (-2.86) | | 0.001 (0.15) | | -0.007 (-1.00) | | -0.006 (-0.82) | | -0.006* (-1.73) |
| N | 252 | 252 | 252 | 252 | 252 | 252 | 252 | 252 | 252 | 252 |
| Countries | 33 | 33 | 33 | 33 | 33 | 33 | 33 | 33 | 33 | 33 |
| Year dummies | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Wald test | 327.94 (0.000) | 343.01 (0.000) | 172.17 (0.00) | 174.19 (0.000) | 343.23 (0.00) | 337.13 (0.000) | 1496.92 (0.00) | 1290.95 (0.000) | 424.80 (0.000) | 429.70 (0.000) |
| (p value) | 10105.53 (0.000) | 8783.65 (0.000) | 25950.38 (0.000) | 27356.40 (0.000) | 110000.00 (0.000) | 69411.96 (0.000) | 870000.00 (0.000) | 160000.00 (0.000) | 360000.00 (0.000) | 170000.00 (0.000) |
| Wald test for heteroskedasticity | 190.17 (0.000) | 188.82 (0.000) | 59.63 (0.000) | 58.69 (0.000) | 85.16 (0.000) | 84.27 (0.000) | 1357.60 (0.000) | 1309.64 (0.000) | 56.50 (0.000) | 59.75 (0.000) |
| Wooldridge test | | | | | | | | | | |
| (p value) | | | | | | | | | | |

T-statistics in parenthesis

* significant at 10 %; ** significant at 5 %; *** significant at 1 %

Table 8 Effect of populism on economic policy, conditional on popular majority

| | (2) | (4) | (6) | (8) | (10) |
|-----------------------------|--------------------|-------------------|-------------------|-------------------|-----------------|
| Popular majority × populism | 0.404*** (2.76) | -0.134 (-0.63) | -0.206 (-0.59) | -0.180 (-0.51) | 0.181 (1.02) |

for enacting their policies.²⁰ Results in equation 2 show a positive and significant effect of the populism dummy for changes in the size of government, and a statistically negative effect on the interaction term. The latter would mean that totally non-populist chief executives interpret a large share of the popular majority in the last elections as a stronger mandate to increase the size of government. But as shown by the positive and statistically significant marginal effect in Table 8, for populist chief executives the size of the majority is an incentive to reduce the size of government. Still, this finding seems to be highly driven by two chief executives in particular, which are Mahmoud Ahmadinejad in Iran and Evo Morales in Bolivia.

5 Conclusions and discussion

Our results illustrate that populist policy reduces economic freedom. On average, ratings of countries with a populist executive decline by 1,5 percentage points in our dataset. This finding strongly contrasts with the fact that between 1985 and 2012, economic freedom has actually increased on a worldwide basis (cf. [Gwartney et al. 2014](#)). The price of having a populist government is therefore roughly a one point lower score on the EFW Index. Considering the importance of economic freedom in facilitating capital accumulation and growth (e.g. [Berggren 2003](#); [De Haan et al. 2006](#)), these reductions will certainly endanger the future economic performance of affected countries.

Results also indicate that populist governments of different political ideology pursue very similar economic strategies. In fact, they only seem to differ with respect to how quickly they increase the size of government. More research is necessary on this point, but it suggests that populist governments are not principally driven by ideology in the pursuit of their economic objectives. Just as [Palermo and Collins \(1998\)](#) suggest, populist rhetoric may be ideologically different, but their economic policy doesn't really seem to be. If ideology does not have a notable effect on populisms outcomes though, then why should it be such a central part of defining the concept in the first place?

Considering that our empirical strategy is to relate the level of populism to annual changes in economic institutions, we can also be pretty confident about the short run direction of causality in our findings. In the long run, most authors agree that structural determinants will induce the rise of populist politicians into power, particularly historical inequality and weak institutions (e.g. [Kaufman and Stallings 1991](#); [Edwards 2010](#); [Bittencourt 2012](#)). Notwithstanding, these structural determinants are only partly captured by the EFW Index and it is implausible that these long run determinants will have

²⁰ These results are not shown, but are available from the authors upon request.

an influence on the annual variation of our dependent variable. Moreover, [Remmer \(2012\)](#) finds recent empirical evidence that the causes of Latin American populism might not stem exclusively from inequality. Instead, she emphasizes improving external economic conditions during the early 2000s that relaxed constraints on policy and created new opportunities for the pursuit of nationalist and redistributive political projects. Results underline the potential significance of economic fluctuations for understanding electoral dynamics and highlight a potential feedback loop. In this case, the findings of this paper would be part of a larger dynamic, where economic policy, electoral results, and institutions interact to determine a country's political and economic development path (cf. [Acemoglu and Robinson 2012](#)).

Considering that this paper makes use of a very recent dataset, findings do not support the optimistic view that globalization might restrict the self-destructive element of populist economic policies, just like the Wild Bunch of outlaws was not restrained by the onset of the modern world in Sam Peckinpah's epic *Western*. Economic collapse seems to be as much of a danger for populist regimes today, as it was twenty years ago. The process that leads up to it, will probably just take a few years longer. In that case, one can follow that also the original conclusions by [Dornbusch and Edwards \(1991\)](#) are still valid today: By means of their economic policies, populist governments, do not aid the process of economic development and they do not succeed in improving the lives of lower income class citizens. Rather, the costs of their policies are imposed on those it was supposed to favor.

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