

A stylized world map composed of a grid of dots. Most dots are light gray, but several are colored red, highlighting specific regions: North America, Europe, and parts of Africa and Asia.

Populism and the Economy:

An Ambivalent Relationship

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- Many economists define populism as an irresponsible economic approach. However, populism should be conceived of as a set of ideas that not only portrays society as divided between “the corrupt elite” and “the pure people,” but also defends popular sovereignty at any cost.
- There are populist forces of different political colors, which usually foster a process of “creative destruction” that can lead to both positive and negative economic outcomes.
- Given that populist forces often raise legitimate questions about the state of economic affairs, academics and policy-makers should listen to their opinions in order to develop suitable answers to these questions.



Content

1. Introduction	2
2. There is no such thing as “economic populism”	2
3. What is populism?	4
4. The economic consequences of populism: a roadmap	6
4.1 Positive effects	7
4.2 Negative effects	10
5. Summary.	12
References	14

1. Introduction¹

Populist forces of different stripes are making headlines around the globe, fueling academic and public interest in the populist phenomenon. Despite growing consensus within the political science literature – and even among many journalists – on defining populism as a set of ideas that not only portrays society as divided between “the corrupt elite” and “the pure people,” but also defends popular sovereignty at any cost, there remains much conceptual confusion. Unfortunately, the very notion of populism is often poorly defined in academic and public debates, especially those centered on the relationship between populism and the economy. For one, both academics and pundits alike are prone to argue that economic factors (e.g. growing income inequality and/or economic downturns) explain the rise of populist forces (e.g. Eichengreen 2018; Judis 2016; Wolf 2017). But there is abundant empirical evidence generated by political scientists showing that this is not necessarily the case (e.g. Hawkins et al. 2019; Kriesi and Pappas 2015; Mudde and Rovira Kaltwasser 2018). Populist radical right parties are particularly successful in Western European countries marked by economic prosperity, low unemployment, and generous social welfare policies (e.g. Austria, the Netherlands, and Switzerland), whereas populist forces are electorally strong only in some Latin American countries (e.g. Bolivia, Brazil, Ecuador and Venezuela), even though most countries of the region are characterized by high levels of socioeconomic inequality and poverty. Accordingly, there is no clear evidence that economic factors such as growing inequality or rising deregulation of financial markets automatically translate into support for populism. Furthermore, economists tend to conceive of populism as an irresponsible economic approach that always and inevitably has damaging consequences (e.g. Acemoglu, Egerov and Sonin 2013; Dornbusch and Edwards 1991; Edwards 2010; Sachs 1989). That view is not only outdated but also of limited utility in comparative research.

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This conceptualization of populism favored by economists was proposed by scholars studying the economic consequences of populism in Latin America in the early 1990s, but the academic literature on populism has made substantial progress in recent decades, particularly when it comes to defining populism and studying it in a comparative perspective. Acknowledging the research on populism produced by political scientists in recent years can provide a much better picture of the ambivalent relationship between populism and the economy. This is the main objective of this publication, which is divided into four sections. We begin by examining the notion of “economic populism” and showing its shortcomings. After that, we briefly explain the so-called “ideational” definition of populism ascendant among political scientists and journalists. In the next section, we propose a roadmap of the impact of populism on the economy and argue that populist forces can have both positive and negative consequences for the economic system. Finally, we close with a short summary of the main arguments discussed in this document.

2. There is no such thing as “economic populism”

Until the rise of populist radical right parties in Europe and of Donald Trump in the US, most academics and pundits thought that populism was something that occurred in developing countries but not in advanced capitalist societies. Nevertheless, recent developments have shown that populist forces can be electorally successful worldwide and, in consequence, it is crucial to work with a concept that is useful for undertaking comparative research. Yet the scholarly debate on populism has been marked by the proliferation of diverse definitions of populism that often treat the specificities of national or regional manifestations of populism as generalizable. This has certainly hindered the broad accumulation of knowledge on the topic, since scholars from different disciplines and interested in different world regions end up developing their own ad-hoc conceptualizations of the phenomenon. At the same time, much of this conceptual debate is fraught with normative associations that usually lead to the depiction of populism as a “disease,” “syndrome” or “virus” that should be eradicated (Rovira Kaltwasser 2014).

Despite the fact that the origins of the word “populism” can be traced back to the US People’s Party that emerged

at the end of the 19th century and the so-called Narodniki movement that arose around the same time in Russia (Taggart 2000), much of the conceptual discussion on this topic has been influenced by the study of populism in Latin America. After all, this region probably has the longest and richest tradition of populist forces in the world, including paradigmatic examples of populist leadership such as Perón in Argentina, Fujimori in Peru and Chávez in Venezuela. Latin American experiences of populism have had a particular influence on economists. The reason for this lies in the pioneering work of Rudiger Dornbusch and Sebastian Edwards, two economists, who at the beginning of the 1990s organized a conference at the Inter-American Development Bank on the economics of populism, which was the basis of the edited volume *The Macroeconomics of Populism in Latin America* (Dornbusch and Edwards 1991a). The authors argue that although it is true that populist episodes always have unique characteristics in different countries, it is possible to identify a common thread: a devastating impact on the economy. In their own words:

[...] populist regimes have historically tried to deal with income inequality problems through the use of overly expansive macroeconomic policies. These policies, which have relied on deficit financing, generalizing controls, and a disregard for basic economic equilibria, have almost unavoidably resulted in major macroeconomic crises that have ended up hurting the poorer segments of society (Dornbusch and Edwards 1991b: 1).

To demonstrate the validity of their argument, the authors provided a theoretical chapter, in which they summarize the existing conceptual debate in no more than two paragraphs and then propose the following definition: “[...] populism is an approach to economics that emphasizes growth and income redistribution and deemphasizes the risks of inflation and deficit finance, external constraints, and the reaction of economic agents to aggressive nonmarket policies” (Dornbusch and Edwards 1991b: 9). In short, the authors claim that populism should be thought of as a damaging, irresponsible macroeconomic approach that might generate some positive outcomes in the short-term but is unsustainable in the long-term and, therefore, paves the way for the emergence of devastating crises (see also Edwards 2010; Sachs 1989).

Curiously enough, the work of these economists has had an influence that goes far beyond Latin America, since

scholars of economics have usually adopted their definition when analyzing populism per se. A case in point is the work of Acemoglu, Egorov and Sonin (2012), who have argued recently that populism should be conceived of as “the implementation of policies receiving support from a significant fraction of the population, but ultimately hurting the economic interests of this majority” (p. 771). This definition is almost equivalent to the notion of economic populism presented above and is still very present in the current public debate (e.g. Velasco 2017). Yet, as we will argue in the next section, the very notion that populism is a defective economic approach is anything but common among political scientists, who increasingly share the view that populism should be defined rather as a set of ideas that not only portrays society as divided between “the corrupt elite” and “the pure people” but also claims that popular sovereignty should be absolutely respected. However, before we present this definition in more detail, it is important to clarify that there is no such thing as “economic populism.” There are three main problems with this concept.

First, the concept of “economic populism” developed by scholars such as Dornbusch and Edwards was not constructed for cross-regional research; rather it was advanced to make comparisons within Latin America. This means that the authors dedicated little effort to building a conceptual category useful for analysis in other regions. Moreover, the country cases they consider are focused on a period during which the policies of the Washington Consensus were not dominant (i.e. before the 1990s) and, in consequence, it remains unclear if the definition provided is still useful. By defining populism in economic rather than ideational terms, economists are ultimately missing what makes these leaders populist in the eyes of most observers, overlooking the logic that drives both economic policymaking and the ambivalence of these leaders towards liberal democracy.

Second, the concept of “economic populism” tends to limit populism to leftist or inclusionary forms (which are more common in poor countries) and effectively exclude right-wing populists (which are more common in rich countries). In other words, “economic populism” is prone to identifying instances of populism that are at odds with the free market, but past and present developments show that this is not always the case. For example, while some populist radical right parties in Western Europe previously showed strong support for neoliberal policies

(Kitschelt 2000), most of these parties have adopted a welfare chauvinist stance lately, i.e. they are in favor of a generous welfare state that should protect only the native population (Rydgren 2013). Neither the neoliberal nor the welfare chauvinist position makes this party family “populist.” As Cas Mudde (2007, 2013) has persuasively argued, the populist nature of populist radical right parties has nothing to do with their economic approach, but rather with their capacity to develop a frame that combines authoritarianism and nativism with a critique of the establishment centered on its supposed collusion with “aliens” who threaten the “pure people.” The usual argument is that businessmen benefit from immigration since this helps them to obtain cheap labor, while the political class allegedly seek to win new voters via the political integration of immigrants who will end up supporting established political forces.

Third and most important, the very notion of “economic populism” has a strong normative connotation. After all, populism means the implementation of “bad,” “defective” and “wrong” economic policies. Seen in this light, one can identify populism by looking at its alleged consequences (i.e. disastrous economic outcomes). However, it remains unclear what the exact criteria for conceptualizing populism as such are. For instance, there is little doubt that the administrations of George W. Bush and Barack Obama in the US ran large budget deficits, but they are normally not characterized as examples of “populist rule.” By contrast, there is wide agreement that the macroeconomic policy of Evo Morales in Bolivia has been quite responsible (e.g. Madrid 2011; Gray Molina 2010), but his regime is normally depicted as an example of “populism.” In short, if “economic populism” is synonymous with an irresponsible or wrong economic approach, one wonders why we should not just forget the word populism and simply talk about “defective” or “unsustainable” economic policies when describing and analyzing the phenomenon in question.

The normative connotation of the term populism also exists in the academic debate among political scientists, who normally depict populist forces as a threat to democracy (e.g. Müller 2016). But there are some authors who take the opposite view and maintain that populist forces should be seen as a democratic corrective (e.g. Mouffe 2018). Nevertheless, to undertake comparative research properly, one needs to construct concepts that have clear criteria and that normally avoid normative con-

notations. Take, for instance, the very notion of democracy. Despite its contested nature, comparative political scientists do not distinguish authoritarian from democratic regimes on the basis of their (“good” or “bad”) outcomes, but rather because they are structured in different ways: whereas in democratic regimes access to political power is determined by periodic free and fair elections, in authoritarian regimes access to political power is controlled by a ruling elite that has little to no tolerance for free and fair elections (Dahl 1971, 1989). Fortunately, political scientists have been developing a comparative research agenda on populism that relies on a clear concept which seeks to avoid normative judgements and therefore fosters empirical research on both the positive and negative effects of populism (e.g. Kriesi and Pappas 2015; Hawkins et al. 2019; Mudde and Rovira Kaltwasser 2012, 2017, 2018; Rovira Kaltwasser and Taggart 2016).

3. What is populism?

In the last few years, a growing number of political scientists have been working with a similar – though not necessarily identical – concept of populism that defines it as a discourse, frame, ideology, or worldview (e.g. Aslanidis 2016; Hawkins 2009; Hawkins et al. 2019; Kriesi and Pappas 2015; Mudde 2004; Mudde and Rovira Kaltwasser 2013, 2017; Stanley 2008; Stavrakakis and Katsambekis 2014). Given that all these definitions emphasize that populism is first and foremost a set of ideas, political scientists increasingly speak about the ideational approach to populism. It is important to acknowledge that ideologies are a set of beliefs or principles which are defended by individuals and organizations (Freedman 2003). Hence, to study populism properly, one has to look at both the discourse of leaders and parties (supply side) and the language used by ordinary people in everyday life (demand side).

In more concrete terms, populism should be thought of as a set of ideas that not only claims that society is divided between “the pure people” and “the corrupt elite,” but also argues that politics is about defending popular sovereignty at any cost. This means that populism is a moral worldview, in which “the people” are depicted as good, whereas “the elite” are bad. Moreover, populism assumes that “the people” are an assembly of individuals with a united will that can be easily identified and is inalienable (Müller 2016). Despite important programmatic differences between populist forces across the contemporary

world, they all propose a particular discourse according to which “the people” are an imagined community with a shared heartland: a version of the past that celebrates an uncomplicated and non-political territory of imagination from which populists draw their own vision of their unified and ordinary constituency (Taggart 2000). By claiming that it is necessary “to take back control,” populist forces frequently sell some type of nostalgia related to a mythical past of a shared heartland.

Last but not least, the populist ideology is characterized by the defense of popular sovereignty at any cost. Because “the people” are seen as good, honest and pure, while “the elite” are portrayed as corrupt, fraudulent and tainted, populists are prone to claiming that nobody has the right to bypass the popular will. This has important consequences for the type of government that populist actors support both in theory and in practice. They certainly favor democracy, defined as respect for popular sovereignty, but at the same time they have serious problems with liberal democracy, defined as respect not only for popular sovereignty, but also for minorities as well as actors and institutions that provide oversight over those in government (e.g. the judiciary, supranational institutions, etc.).

As this brief overview of the ideational definition of populism reveals, populist forces have a difficult relationship with liberal democracy. Given that the populist set of ideas takes for granted that nothing and nobody is above the general will of the people, populists are reluctant to accept the existence of autonomous organizations seeking to produce common goods. No wonder that institutions such as central banks or constitutional courts are usually depicted by populists as puppets of “the corrupt elite” and, in consequence, should not have the right to oppose popular sovereignty. The fact that populism fosters a moral language not only seriously hinders the possibility of reaching agreement but also gives legitimacy exclusively to those who are depicted as the authentic representatives of the people. However, populist forces can help to give voice to segments of the population that do not feel well represented, thereby making their ideas and interests more visible within the democratic system. The main question is how the demands posed by populist forces are processed by existing actors and institutions.

In summary, populism puts liberal democracy under stress. To understand this challenge it is important to bear in mind the transformation of the liberal democratic regime in recent decades. Increasing economic globalization and growing political denationalization have eroded the capacity of elected politicians to meet the demands of certain segments of the electorate, who consequently feel angry with the establishment. As Peter Mair (2009) noted several years ago, the key problem lies in the growing tension between responsibility and responsiveness: the more the political class acts as a responsive agent at the supranational level (e.g. the EU and/or global markets) by implementing policies that are not necessarily supported by the electorate, the more the latter feels that those who govern are anything but responsive. The gap between responsibility and responsiveness generates a fertile breeding ground for the rise of populist forces of different political flavors who pose legitimate questions about the current state of democracy and the economy, although their solutions tend to be more controversial than helpful (Mudde and Rovira Kaltwasser 2018).

As a consequence, one of the main questions of the 21st century is how to handle the tension between responsibility and responsiveness. Mainstream political parties are struggling to find an effective solution and not a few of them are undergoing a process of programmatic adaption, which might lead to increasing responsiveness, but at the expense of responsibility. There is no better example of this than how the Brexit issue has been confronted by both the Conservative Party and the Labor Party in the UK. Neither has been able to offer a responsible answer, but they have certainly been able to act responsively – in particular towards each other’s respective Eurosceptic faction.

The long-term influence of populism is related to its capacity to force mainstream political actors to adapt and thereby foster a process of “creative destruction,” through which traditional parties decay or transform (consider the behavior of the US Republican Party under Trump’s presidency), new political parties emerge (for example, populist radical right parties in Western Europe), and novel patterns of coalition formation may become possible (such as the current governments in Italy and Greece). As we will argue in the next section, this is particularly important when it comes to thinking about the impact of populist forces on the economic system.

Populists often cast – not necessarily without reason – the existing economic architecture as extremely unfair and hold that the time has come to enact bold reforms to deal with the anxieties of the silent majority. One can think, then, that the rise of populist forces opens up opportunities for the implementation of reforms that have both positive and negative economic consequences.

4. The economic consequences of populism: a roadmap

As we have argued above, populism should be defined as a specific set of ideas that is shared at the mass level by certain constituencies (demand side) and employed at the elite level by some political actors (supply side). In its pure form, populism does not say anything specific about the economy. However, populism in the real world almost always appears associated with other ideologies, which are crucial for developing a political project that is appealing to wider sections of the electorate. When looking at contemporary developments, one can identify two subtypes of populism that are dominant across the world and that offer different political projects: exclusionary or rightist populism and inclusionary or leftist populism (Mudde and Rovira Kaltwasser 2013). Whereas the former tends to appear in affluent societies increasingly concerned about immigrants and foreign influences, the latter commonly emerges in poorer societies with problems of widespread corruption and poverty.

Exclusionary populism is particularly visible in Europe, where so-called populist radical right parties are present in almost all national parliaments (Mudde 2007; 2013). This type of populism combines populist rhetoric with a xenophobic understanding of “the people,” according to which only natives should live in the country, and with the promotion of authoritarian values, particularly regarding iron fist policies on crime and the adoption of conservative positions on moral issues. Key examples of exclusionary populism are the National Front in France (now called National Rally) and the Freedom Party in Austria, two political parties that in recent years have adopted welfare chauvinist positions. However, Trump in the US and Bolsonaro in Brazil are examples of exclusionary populism that are inclined towards more market-friendly policies than their European counterparts. Similarities across different cases of exclusionary populist forces are the defense of the native population against immigrants and the promotion of popular sovereignty at the expense of multinational

organizations. These similarities have an impact on the type of economic policies these populists are prone to defend, since they are usually skeptical about allowing (more) economic migration and the advantages of belonging to supranational organizations that infringe on the political power of the nation-state.

In contrast to exclusionary populism, inclusionary populism devotes much more effort to politicizing material rather than identity issues. Therefore, inclusionary populism does not have major problems with immigration and the integration of excluded sectors. In effect, inclusionary populists often develop a very broad understanding of “the people,” who are defined as all those who directly or indirectly have been affected by the unjust socio-economic policies of the past. According to this view, there are no differences between people – they form a homogenous community that wants to remove the establishment from power. Therefore, inclusionary populism is particularly at odds with the business community and its political allies, who allegedly wield political power to construct a development model that generates increasing economic disparities and poverty. It is not a coincidence that this type of populist discourse usually comes together with some socialist ideas to (re) politicize the existing levels of inequality and defend a radical model of democracy aimed at empowering popular sectors. One can find examples of inclusionary populism not only in contemporary Latin America, such as Morales in Bolivia and Chávez/Maduro in Venezuela, but also in some European countries, such as Jean-Luc Mélenchon’s La France Insoumise, Podemos in Spain, and SYRIZA in Greece (Katsambekis and Kioupkiolis: forthcoming). All these types of leftist populist forces are inclined to favor significant state intervention in the economy and are at odds with many elements of economic globalization, in particular with a deregulated financial sector that operates at the global level.

The difference between inclusionary or leftist populism and exclusionary or rightist populism has not gone unnoticed in some recent literature that goes beyond the notion of “economic populism” and thereby seeks to better understand the ambivalent relationship between populism and the economy. For instance, a recent report written for Allianz Global Investors indicates that the populist phenomenon “[...] certainly does not share a uniform agenda, particularly in its approach to business and markets” (Hofrichter 2017). Moreover, a recent



survey of approximately 1,000 economists from different places shows that they consider that, depending on the countries and regions under scrutiny, populist forces can advocate restrictions on trade (e.g. Trump in the US) and greater economic redistribution (e.g. Tsipras in Greece) as well as restrictions on immigration (e.g. Wilders in the Netherlands) (Boumans 2017). In a similar vein, a report prepared by the Deutsche Bank research group states that given that “economic policies are just not [the] defining feature” of populists, this allows “[...] for a considerable range (and changes) of positions on typical economic policy topics such as redistribution and taxation or protectionism and trade” (Böttcher and Wruuck 2017: 3).

In summary, it is clear that different types of populist forces (e.g. inclusionary or leftist populism and exclusionary or rightist populism) will not necessarily have the same impact on the economy. These different impacts relate not so much to populism per se, but rather to the other set of ideas associated with the populist project, such as nativism in the case of exclusionary populism or socialism in the case of inclusionary populism. Nevertheless, it is important to ask if populism as such, independent of the set of ideas that may accompany it, can have specific impacts on the economic system. The short answer is yes. Conceived as a set of ideas that pits “the pure people” against “the corrupt elites,” populism can have both positive and negative effects on the economy. While positive effects mean here an improvement in the economic system’s functioning and the potential formation of coalitions for implementing reforms for improving the well-being of the population, negative effects refer to a worsening of the economic situation that can lead to severe crises and deterioration in quality of life for large swathes of the population. Although not intended as a detailed list of potential positive and negative effects of populism on the economy, the following table presents some arguments that are briefly explained below.

Positive and negative effects of populism on the economy

Positive effects	Negative effects
a) Populism can force segments of the establishment to accept reforms that can improve the economic integration of excluded segments of the population.	a) Populism can use the notion of majority rule to attack scientific thinking and erode the autonomy of technocratic organizations that seek to monitor the economy.
b) Populism can increase the accountability of technocratic institutions, which are pressed to better explain their decision-making processes.	b) Populism can generate high economic uncertainty by making the politics of coalition formation more difficult and unstable.
c) Populism provides an opportunity to reassess the agenda of economic liberalism.	c) Populism can foster the legitimization of corrupt practices and clientelistic exchanges with the aim of supporting “the pure people”.

4.1. Positive effects

a) Populism can force segments of the establishment to accept reforms that can improve the economic integration of excluded segments of the population.

Given that populist forces claim that “the establishment” is corrupt, it not surprising that the two are normally at odds. However, it is worth remembering that “the establishment” is not an objective category. Populist forces do show some important variations when it comes to defining the actors that belong to the “corrupt elite.” There is perhaps no better example of this than Donald Trump in the US, a populist billionaire who claims that he amassed a vast fortune through personal talent, not

connections in the political class. By employing vulgar language and criticizing liberal circles, Trump portrays himself as an outsider in tune with the real problems of “the people.” Nevertheless, populist forces often develop alliances with segments of the elite with the aim of securing support for advancing their populist projects.

In fact, the more radical the agenda of the populist forces in government, the more they need to reach agreement with powerful actors, who otherwise can turn against them and impede the execution of their plans. This is particularly true of their economic agendas, since bold fiscal reforms can touch upon the interests of wealthy segments of society that spare no effort in defending their assets (Winters 2012). Trump’s tax reform was extremely beneficial for the (super)rich; consequently, it was not difficult for him to obtain help from powerful allies to pass the bill in Congress. However, the trade policies adopted by his administration generate friction within the business community. At the time of writing it remains unclear how much further Trump will go with his protectionist measures and the extent to which the economic elite will oppose him over this and other issues (Rovira Kaltwasser 2019: 57). More importantly, it seems very unlikely that Trump’s administration will in the end improve the economic situation of excluded segments of the population.

To better understand the conditions under which populist forces can force segments of the establishment to accept reforms that help to improve the economic integration of poorer sectors, it is important to acknowledge that the process of economic globalization that has taken place in the last decades has paved the way for the emergence of global capitalist actors, who care much more about their own benefit than the general will. As Dani Rodrik (2018: 198) has recently written, “[o]ne can make the argument that the agenda of international trade agreements has increasingly been shaped by special interests – multinational corporations, financial institutions, pharmaceutical and high-tech companies. The result has been global disciplines that disproportionately benefit capital at the expense of labor.” Seen in this light, populist forces that seek to alter the existing rules of the game with the aim of improving the quality of life for those large segments of the population which do not necessarily profit from economic globalization can try to advance their agendas by forming an implicit or explicit alliance with certain segments of the establishment.

Why should certain segments of the economic establishment negotiate with populist forces? There are at least two reasons for this: fear and pragmatism. On the one hand, economic elites might fear that if populist forces gain power it could lead to major reforms adverse to their interests. Therefore, it could make sense to try to reach agreement with populist forces, make some concessions and thus facilitate the generation of economic certainty. On the other hand, economic elites can act pragmatically, meaning that they take into account some of the demands of populist forces and propose a working agenda of potential reforms that can help to generate a better balance between winners and losers of globalization. One can find a proposal of this type in Thomas Piketty (2017), who has recently argued that “[p]opulism is merely a somewhat confused but legitimate response to the feeling of abandonment experienced by the working classes in the advanced countries in the face of globalizations and the rise of inequalities. To construct specific answers to these challenges, we have to build on the most internationalist populist elements.” It is still too early to make a thorough assessment, but the current Spanish government, headed by the Social Democratic Party (PSOE) with the support of the populist party Podemos, could be an example of how populism can force segments of the establishment to accept reforms that help to improve the economic integration of excluded segments of the population.

b) Populism can increase the accountability of technocratic institutions, which are pressed to better explain their decision-making processes.

Populism is normally at odds with autonomous institutions that are neither elected nor directly controlled by “the people.” This criticism arises from the institutions’ vulnerability to colonization by powerful actors, which then use them to advance the interests of narrower groups instead of the will of the majority. Seen in this light, populism brings to the fore the problem of how to control the controllers that is inherent to liberal democratic regimes (Rovira Kaltwasser 2014). The latter are distinguished not only by respect for popular sovereignty and majority rule, but also by a system of division of powers and the existence of independent institutions specialized in the protection of fundamental rights, such as freedom of expression and the defense of minorities. Nevertheless, it is not far-fetched to suggest that under certain circumstances these

independent institutions can end up serving powerful groups which place their interests over the well-being of society (Dahl 1989).

It is worth noting that the problem of how to control the controllers affects not only liberal democratic regimes, but also the very functioning of central banks, supranational organizations such as the European Union and international financial institutions such as the International Monetary Fund. For instance, Goodhart and Lastra (2017) argue that central bank independence is increasingly under stress today, because populist forces maintain – not necessarily without reason – that central banks' mandates have expanded since the Great Recession. Therefore they question the legitimacy of central banks' decision-making processes, which has vast consequences for the population. In a similar vein, Sanchez-Cuenca (2017) has recently shown that the Great Recession has exacerbated the democratic deficit of the European Union by forcing the adoption of painful austerity measures that have allowed for the survival of the Eurozone, but at the cost of severely weakening national representative democracy. Given that it is "[...] extremely doubtful that the 'recommendations' made by the ECB, quite unrelated to monetary issues, were within its formal powers" (Sanchez-Cuenca 2017: 352), one should seriously reflect on the mandate of technocratic institutions and the extent to which their actions respect basic democratic procedures (Tucker 2018).

This means that there are grounds for populist criticism of increasingly powerful independent institutions that push for reforms without a serious process of democratic deliberation at the national level. As Dani Rodrik (2018: 198) has indicated, this type of governance "[...] serves skilled professionals and internationally oriented companies well, but many others feel excluded. Complaints about the [EU's] democratic deficit, and the recent populist backlash, are rooted in this style of technocratic policy making, insulated from politics." To deal with this problem, technocratic institutions need to better explain their decision-making processes and demonstrate that they act in the public interest rather than to please the private interests of financial market participants. Moreover, democratic procedures should also have the capacity to better control the functioning of these technocratic institutions and ensure that they seek the common good.

After all, the very notion of democracy implies that ultimate political authority is vested in the people and not in divine powers or unelected bodies of experts. The latter might be a necessary evil for creating institutions that are insulated from (short-term) political pressures and able to provide common goods. Nevertheless, it is important not only to secure the autonomy of these unelected bodies, but also to scrutinize their power and check that they stick to their mandates. If these technocratic institutions are unable to demonstrate that their actions are driven by the search for efficiency and do not touch on distributional issues that should be addressed by the ordinary policy-making process, one should not be surprised that populist criticisms will continue to mount, resulting in increasing pressure to diminish the autonomy of these technocratic institutions.

c) Populism provides an opportunity to reassess the agenda of economic liberalism.

Populist forces have the ability to (re)politicize issues that the establishment – intentionally or unintentionally – has been unable to address. They are particularly gifted at bringing to the fore issues relevant to certain segments of the population that feel excluded and have the impression that the elite is out of touch. To understand this populist resentment against the establishment, it is important to acknowledge that the world has seen a dramatic transformation in recent decades, as the liberalization of the economy has diminished the power of elected politicians and national governments, while at the same time expanding the room to maneuver of international financial institutions and global markets (Mair 2009, 2013; Rodrik 2012; Streeck 2017).

However, the act of liberalizing the economy has not always been done in a democratic way and politicians have devoted little energy to explaining why these economic reforms are indeed needed. In fact, they have often promoted the implementation of reforms by arguing that "there is no alternative" due to the pressure of powerful multilateral organizations (e.g. EU or IMF) and processes that cannot be stopped (e.g. globalization). Given that most of these reforms are quite complex and involve several tradeoffs, politicians have repeatedly preferred to depoliticize economic liberalization by presenting it as a technical issue to be resolved by experts, who allegedly have the necessary knowledge and enough neutrality to make the right decisions. The

problem is that by depoliticizing the process of economic liberalization political discussions are avoided, limiting the possibility of democratic deliberation of this topic. Moreover, politicians supporting economic liberalization often promise to evaluate its distributive implications and develop compensation policies afterwards, but the latter are rarely implemented, since once the liberalization schemes are in place the winners have little incentive to compensate the losers (Rodrik 2017: 5-7).

Because several aspects of the economic liberalization agenda have been pushed in an undemocratic way, populist forces of different kinds can legitimately seek to (re)politicize the debate about certain dimensions of the economic policy-making process. In effect, populism should be thought of as an illiberal democratic response to undemocratic liberalism (Mudde and Rovira Kaltwasser 2017: 116). By giving voice to groups who are angry with the existing economic situation, populism can ask uncomfortable questions about the ways in which economic liberalization has taken place. The solutions proposed by populist forces are not necessarily adequate, but they are justified in questioning the legitimacy of implemented economic policies and whether they are beneficial for the majority. The way ahead does not necessarily lie in following the advice of populist forces, but rather in investing energy and time in reevaluating the pros and cons of the agenda of economic liberalization as well as in seeking to legitimize economic reforms through democratic mechanisms.

4.2. Negative effects

- a) Populism can use the notion of majority rule to attack scientific thinking and erode the autonomy of technocratic organizations that seek to monitor the economy.

Because populism maintains that politics is about absolute respect for popular sovereignty, there is little doubt that it has majoritarian tendencies. This particular understanding of politics leads to a strict defense of the will of “the people,” even if this implies that the erosion of minority rights, separation of powers, and institutions specialized in the protection of fundamental rights (Abts and Rummens 2007; Mudde and Rovira Kaltwasser 2012; 2017). In fact, populist forces have a tendency to attack independent institutions, since these are seen as undemocratic bodies that have been created allegedly to

protect the interests of “the corrupt elite.” Depending on their level of radicalness, they normally propose two types of solutions (Rovira Kaltwasser 2014). On the one hand, some populist forces claim that these independent institutions should be eradicated and replaced by new ones that are able to truly represent the will of the (silent) majority. On the other hand, many populist forces are of the opinion that these independent institutions should continue to exist, but control should shift from “the corrupt elite” to “the pure people.”

Various scholars have analyzed how the assumption of power by populist actors can potentially harm and sometimes succeed in damaging independent institutions that are pivotal for the proper functioning of liberal democracy (e.g. Mudde and Rovira Kaltwasser 2012; 2017; Müller 2016; Rovira Kaltwasser and Taggart 2016), but little attention has been paid to whether this can also affect technocratic organizations that seek to monitor the economy. However, there are clear signs that this is also very likely (e.g. Goodhart and Lastra 2017; Rodrik 2018). The reason lies not only in the skepticism of populists towards independent institutions in general, but also in their inclination to propose to “take back control” and “common sense” solutions that are at odds with scientific thinking. The latter, after all, is produced by a minority of intellectuals who, because of their cosmopolitan habitus and global networks, are usually depicted as members of “the corrupt elite.”

When criticizing the establishment, populist actors often argue that their ideas are morally superior because they are able to represent the “the pure people,” which cannot be wrong since they are the sovereign. This can certainly affect technocratic organizations such as central banks and financial institutions, which can be targeted for eradication, replacement or colonization by populist forces. Not by chance, some scholars argue that populism has an elective affinity with a paranoid style of politics, according to which shadowy forces control political power in an illegitimate and undemocratic way with the aim of undermining the voice of the people (Hofstadter 1955; Taggart 2000; Müller 2016). This type of thinking facilitates the development of conspiracy theories that can be used by populist forces to attack technocratic organizations that seek to monitor the economy. Current examples of this range from the claims of Nicolás Maduro in Venezuela about the economic boycott against his government to the attack by the current

populist administration in Italy on the European Commission because of the latter's rejection of the Italian budget proposal to Donald Trump's arguments about free trade and the policies of the Federal Reserve.

- b) Populism can generate high economic uncertainty by making the politics of coalition formation more difficult and unstable.

At a theoretical level, populism is neither left-wing nor right-wing. It is a set of ideas that portrays society as divided between "the pure people" and "the corrupt elite" and defends popular sovereignty at any cost. Not by chance, populist actors normally present themselves as beyond the left/right distinction, since they are just interested in giving voice to the (silent) majority that wants their will to be respected. This is why some scholars argue that the rise of populism can pave the way for the formation of a new cleavage between populism and anti-populism that transcends the classic political battles and gives birth to a new type of political landscape (e.g. Ostiguy 2017; Stravakakis 2018). Consider, for instance, Peronism versus anti-Peronism in Argentina, Fujimorismo versus anti-Fujimorismo in Peru, or Chavismo versus anti-Chavismo in Venezuela. These examples reveal that populist leaders who undertake major transformations, as demanded by their supporters but deeply resisted by their opponents, can have an enduring legacy: the formation of a polarized electorate divided into two camps not so much by programmatic differences but by the existence of enduring psychological identifications that generate strong in-group and out-group distinctions (Meléndez and Rovira Kaltwasser 2017). One can identify similar developments in contemporary Europe (Moffitt 2018), particularly in Italy and Greece, where populist forces of very different political colors have come together to form governing coalitions, i.e. SYRIZA and ANEL in the case of Greece and the Northern League and the Five Star Movement in the case of Italy.

Besides the social consequences of this polarization, it is important to consider its impact on the generation of political stability in general and on economic certainty in particular. The very formation of a populism vs. anti-populism cleavage dislocates the programmatic distinction between left and right politics. An important corollary of this situation is that the formation of political coalitions becomes extremely difficult for two complementary reasons. First, populist forces have a

hard time making concessions since they are of the opinion that the will of the people cannot be negotiated: it must be respected. Second, by promoting "common sense" solutions populist actors are prone to maintaining that many programmatic positions are indefensible; as a result, it becomes extremely difficult to build coherent political coalitions. Under these circumstances, the risk of deadlock between political parties increases, which certainly complicates the possibility of building stable governments. As a recent report prepared by the Deutsche Bank rightly indicates, "[f]or economy policy, a potential risk is that minority or heterogeneous multi-party coalition governments may not be in a position to pursue reforms. [...] Alternatively, grand coalitions [can] have comfortable majorities. The risk here is that it might contribute to dissatisfaction with the political system; if grand coalitions came to be seen as the 'lesser evil default option' this might play into the hands of [...] populists fueling anti-establishment sentiments" (Böttcher and Wruuck 2017: 9-10).

Even in those countries where the populism vs. anti-populism cleavage is not dominant, but populist political forces are able to obtain a sizeable share of the vote, the politics of coalition formation has become much more difficult. By entering parliament, populist parties accelerate the process of political fragmentation that is occurring in most countries. This makes the process of government formation not only more time-consuming but also more unstable. By advancing a harsh rhetoric and presenting themselves as the voice of the (silent) majority, populist actors can call for the implementation of radical measures that might reflect the will of the important factions in the electorate, but can be quite irresponsible in economic terms. For instance, the populist radical right party in the Netherlands controlled by Geert Wilders, "Party for Freedom" (PVV), supported the right-wing minority government of the Christian Democratic Party (CDA) and Liberal Party (VVD) until the European financial crisis induced the prime minister to implement additional austerity measures in 2012 and adhere to the three-percent deficit rule set by the European Union. In clear populist fashion, Wilders maintained that he could not support the measures because they were imposed by Brussels (van Kessel 2015: 117).

- c) Populism can foster the legitimization of corrupt practices and clientelistic exchanges with the aim of supporting “the pure people.”

Populism and clientelism are two different phenomena. While the former refers to a set of ideas characterized by the Manichean distinction between “the pure people” and “the corrupt elite,” the latter describes a mode of exchange between electoral constituencies and politicians, in which voters obtain goods (e.g., direct payments or privileged access to employment, goods, and services) conditional on their support for a patron or party (Kitschelt 2000). As a consequence, one can identify both populist and non-populist forces that are prone to engage in clientelistic practices.

Extensive research on clientelism examines its impact on both democracy and the economy (e.g. Kitschelt and Wilkinson 2007; Keefer 2009; Luna 2014; Morgan 2011; Stokes et al. 2013) shows that while it is true that clientelistic practices can help to incorporate certain sectors of society, it has important drawbacks such as corruption and economic stagnation. Not by chance, clientelism has a poor reputation and therefore those who employ clientelist techniques usually do so quietly. In contrast, when populist forces engage in clientelist practices, they normally advertise and defend their clientelism. As Jan-Werner Müller (2016: 46) has indicated “[w]hat makes populists distinctive [...] is that they can engage in such practices openly and with public moral justifications, since for them only some people are really the people and hence deserving of the support by what is rightfully their state.” Take, for instance, the case of Hugo Chávez in Venezuela. He implemented a series of social policies targeted specifically at those who voted for him, thus generating not only a stable basis of core supporters but also clientelist practices as a mechanism to confront the “evil opposition” and defend the “Bolivarian revolution” (Hawkins 2016; López Maya and Panzarelli 2013; Penfold-Becerra 2007). Populist radical right parties take a similar stance when endorsing the adoption of welfare chauvinist measures that seek to provide generous social welfare for the “native” population and cut all types of benefits for “undeserving” immigrants (Rydgren, 2013; Schumacher and van Kersbergen 2016).

As these examples reveal, given that populist forces claim to represent the “the pure people,” they often attack their enemies by denying them material benefits

and political rights. This certainly has important economic consequences, because populist forces seem to favor the strategic use of public resources to please their own constituencies. This is why when populist forces come to power corruption tends to increase rather than decrease. To build a coalition of support at both the elite level and the mass level, populist actors in government usually employ state funds and power in an irresponsible way. After all, according to the populist set of ideas there is nothing wrong with undertaking reforms that generate policy outcomes that benefit only their core supporters, even if this implies the rise of a government that clearly disrespects the rule of law and favors responsiveness to their followers at the cost of responsibility to society as a whole.

5. Summary

Despite the growing interest in and worry about the rise of populist forces around the globe, there is limited knowledge about the relationship between populism and the economy. As I have argued in this document, part of the problem lies in the conceptual confusion surrounding the term populism. Economists tend to think that populism should be defined as “bad economics,” marked essentially by fiscally imprudent expansionist policies. This understanding can be traced back to the work of Dornbusch and Edwards (1991), who were interested in studying the economic consequences of populist administrations in Latin America during the 1970s and 1980s.

However, much has been written about populism in recent years and the scholarly work on this topic produced by political scientists is often overlooked by economists. By reading the academic literature on populism by political scientists one can find increasing agreement on an ideational definition which conceives of populism as set of ideas that not only portrays society as divided between “the pure people” and “the corrupt elite” but also claims that populist sovereignty should be unconditionally respected. An important advantage of this conceptualization is that it is open to empirical research on both the supply side and the demand side of populism.

Conceived as a set of ideas that pits “the people” against “the elite” and that defends popular sovereignty at any cost, populism does not tell us much about specific preferences for certain economic policies over others.

Not by chance, populist forces can advance left-wing and right-wing political projects, which can produce both positive and negative economic outcomes. In fact, populist forces usually foster a process of “creative destruction” that leads to a programmatic adaptation of mainstream political actors and the policies advocated by the existing institutions. To better understand this, in this document I have explained in some detail some potential positive and negative economic effects of populism. Future studies could use this theoretical framework to gain new insights into the conditions that may determine whether the consequences of populism for the economy are positive or negative.

Finally, it is important to mention that demonizing populist forces is anything but useful. When actors respond to populism by employing moral categories, they end up giving more validity and visibility to the discourse advanced by populist leaders and followers (Rovira Kaltwasser 2017). Because populist forces often raise legitimate questions about the existing state of affairs, academics and policy-makers should listen to their opinions not only to develop suitable answers, but also to rethink the pros and cons of the policies that mainstream political parties have been endorsing in recent decades. This is particularly true in respect of balance in the existing economic system: growing inequality and capital concentration gives credibility to the Manichean distinction between “the people” and “the elite” advanced by populist forces of different stripes.

This means that despite their harsh language and tendency to rely on conspiratorial thinking there is often some truth in populists’ criticism of liberal democracy. To understand this, it is important to bear in mind that liberal democracy is a contingent arrangement between two principles that do not necessarily harmonize: the self-determination of the people via elections and the provision of public goods via autonomous institutions. While the former principle refers to the idea that sovereignty comes from the people and that majority rule should prevail, the latter principle refers to the existence of unelected institutions which, by virtue of their insulation from (short-term) political pressures, are able to protect fundamental rights that are crucial for the very survival of democracy and to deliver (long-term) solutions to the problems affecting society. Populist forces distrust these unelected institutions because they can end up serving “the corrupt elite,” which favors its interests over

the well-being of “the pure people.” In other words, populists raise the valid question of how to control the controllers. While the solutions proposed by populists are usually more controversial than helpful, scholars and policy-makers should try to ascertain why more and more voters are willing to support populist forces. Thus, the way ahead does not lie in demonizing populism but rather in understanding why many citizens are angry at the establishment and feel betrayed by mainstream political forces.



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