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Taking back control over the economy

From economic populism to the economic consequences of populism

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1. Introduction¹

Thirty years ago, the supply-side concept of “economic populism” was a novel and original approach to conceptualise the failed development trajectories of Latin American economies. Certainly, populism has never been a purely economic phenomenon, and the relevance of the political dimension of populism was not denied by policy analysts at the time, but they harshly criticized social scientists for having “struggled to provide a meaningful and precise definition” of populism (Dornbusch and Edwards 1990, 246). At the heart of the research programme on

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economic populism was the analytical description of the boom-and-bust cycles and the main elements of the adopted policy package that favoured income redistribution and structural changes that brought about the eventual collapse of the economy (Dornbusch and Edwards 1990, 1991b, Sachs 1989).

Over the years, the concept of economic populism has lost its analytical strength and academic attractiveness. For one thing, current-day (political) populism cannot be simply equated with accelerating deficit, debt and/or inflation, current account crisis, etc. Except for Venezuela (de la Torre 2017), nowadays it is quite rare to witness populist cabinets openly engaging in excessively opportunistic economic policies to appease their voters. Second, the term economic populism has gone through serious conceptual stretching over the years. It has come to denote just too many real-world phenomena that might not be of any help in understanding contemporary populism. Apart from its original meaning, i.e., expansionary and myopic policies with dire consequences adopted in developing countries, economic populism today is often used as the synonym of income redistribution from the rich to the poor, triggered by growing income inequalities and the intensification of economic insecurity in advanced economies (Rodrik 2018a).² Third, while there has been a boom in scholarly attention for detecting the economic causes of populism, scholars seem to have lost interest in studying its economic consequences. Analysts highlight the importance of globalisation (Rodrik 2018a) along with the intensification of international trade (Autor et al. 2017; Colantone and Stanig 2018), growing income inequality (Pastor and Veronesi 2020), the occurrence of economic crises and the presence of economic insecurity (Guiso et al. 2017), and the erosion of trust (Dustmann et al. 2017) – without showing too much interest in doing (comparative) research on what populists actually do in power.³

² Inability of the central government to properly (re)act to increased indebtedness of the private sector induced Csaba (2008) to define the pre-2008-crisis era in the Baltic states as a “new kind of macroeconomic populism”.

³ A notable exception to this trend has been Bartha et al. (2020), who put together a conceptual framework for policy analysis based upon the substantive, procedural and discursive components of populist public policies.

But just because the classical form of economic populism does not prevail any longer, or the term lacks conceptual clarity, or research on the demand side is more rewarding in terms of academic recognition, scholars cannot give up on analysing the impact of populist takeover in the economy, especially that “[t]here is virtually no empirical research on the effectiveness of specific policy solutions” (Guriev and Papioannou 2020, 5). Empirical research, however, should ideally be built upon a common understanding of populism itself. Since the classical concept of economic populism is of no help, the paper turns to the so-called “ideational” approach of populism, the mainstream conceptualisation of the phenomenon in the social sciences, in order to provide an analytical framework for studying the economic consequences of populism. The operationalisation of the ideational definition can help highlight what policy analysts should possibly be looking at and assess while studying the supply side of populism. Based upon the definition of (political) populism, three major (and possible) consequences are identified in the paper: (1) the inclination of populist incumbents to embark on redistributive policies favouring “our” people against “others”, (2) their critical attitude towards autonomous organisations, professionals and institutions, and (3) their antagonistic relationship with the competitive market mechanism as a “blind” allocational mechanism. With the help of these three points, a cursory look can be initiated, thereby preparing the ground for more nuanced case study and comparative analyses of populist incumbency. Thereby, the paper helps to identify the major focus points for further analyses and it also aims at bringing back the “spirit” of the original concept of economic populism, often considered obsolete by many, by demonstrating that contemporary populism also has a strong inclination for negligence. This time, however, populism is not about the neglect of the budget constraint of the general government; instead, it tends to disregard the institutional constraints of the economy along with efficiency considerations. Therefore, studying the economic consequences of populism can underline the differences amongst existing populisms worldwide and as such it can provide

more substance to the thin ideology of populism, a process that can be called “thickening, a process via which populist ideology acquires additional features” (Kubik 2018, 4-5).

Following the introduction, section 2 highlights the main features of the original concept of economic populism. Section 3, while criticises the classical concept of economic populism, also introduces the mainstream ideational approach of political science to populism. Section 4 argues that income redistribution might be a direct consequence of populism, but it does not necessarily invoke unsustainable positions. Section 5 elaborates on the implications of populism on organisations and institutions, while section 6 concentrates on the consequences of populist takeover on the meta-institution of competitive market mechanism. Section 7 concludes.

2. The classical concept of economic populism

The concept of (macro)economic populism was developed by Dornbusch and Edwards (1990, 1991a, 1991b), by taking stock of the failed modernisation experience of post-World War II Latin America. The authors argued that the populist macroeconomic policies showed remarkable similarities across the region, despite the high degree of heterogeneity among the political regimes. Dornbusch and Edwards’s (1990) first study focused on Salvador Allende’s Chile (1970-1973) and Alan Garcia’s Peru (1985-1990). This was followed by a critical analysis of six countries – Argentina, Brazil, Chile, Mexico, Peru, Nicaragua (see Dornbusch and Edwards 1991b). In turn, economic populism was defined as “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 1991a, 10).

Both Dornbusch and Edwards (1990) and Sachs (1989) turned to Drake (1982) on interpreting populism as a reform-oriented policy that aimed at accelerating economic growth

and providing opportunity for the masses to rid themselves of their past (i.e., poverty). This was how populism became the exclusive paradigm of Latin American countries struggling with the dual problems of underdevelopment and a highly uneven income distribution. The social origin of populism was, therefore, directly linked to a concrete level of economic development, namely industrialisation at the periphery (Hawkins 2010).

Explanations of populism from a historical perspective normally tend to emphasise underdevelopment and the late-comer status of these countries (Vilas 1992). Yet, in the original understanding of Dornbusch and Edwards (1991a), the voluntarist development programmes themselves did not justify economic populism. Instead, the concept of economic populism traced the origins of the phenomenon back to the antagonistic social and economic conflicts of Latin America, emphasising the extremely unequal distribution of income and wealth. With the advent of universal suffrage, populist governments targeted the urban population, employees in the manufacturing industry, the public sector and the informal sector with their policies. Coalitions amongst classes were created to support import substitution industrialisation, with the general aim of a comprehensive social and economic reform (Sachs 1989).

Economic populism was identified as a paradigm on the basis of four salient features. (1) *The similarity of initial conditions*, mostly in the form of moderate economic growth (or even recession), the perceived decline of living standards and the widening of the income gap between the rich and the poor. (2) *The neglect of economic constraints*, which practically meant the generous assumption of the existence of idle capacities throughout the economy that provide room for incumbents' expansionary policies. (3) *The populist policy package*, which centred around the slogan of reactivation with redistribution – referring basically to the enforcement of rapid import substitution industrialisation. (4) *The ultimate collapse of the economy*, as a result of unsustainable policies and ill-conceived development strategies.

The so-called “populist policy cycle” was a common feature of these countries (Dovis et al. 2016; Sachs 1989). In the first phase, economic growth and real wages increased, without the emergence of bottlenecks. Demand was boosted without hurting the sustainability of the macroeconomy. The second phase, though, revealed the inner contradictions of the paradigm. The position of the general government started to worsen, international reserves were used up quickly, inflation started to accelerate, and, in turn, administrative regulation was introduced to fix the evolving difficulties. The third phase witnessed the emergence of a shortage economy, as inflation galloped without limits, and dramatic imbalances in the current account were accompanied by a massive capital flight. Real wages declined and the national currency was devaluated. In the last stage, economic collapse became inevitable. The current account crisis culminated in a full-fledged economic crisis, often followed by violent political riots and coups.

Since the populist cycle always ended up in failure and even disaster, it is puzzling why incumbents still continued to pursue unsustainable policies. Sachs (1989) argued that the highly uneven income distribution kept reproducing economic populism. Latin American economies were simply not able to leave behind the trap of deep social and economic cleavages. Acemoglu et al. (2013) added that Latin American populists defined their positions so that policies were always to the left of the median voter, thereby signalling the detachment of incumbents from the corrupt elite. That is, voters preferred the denial of corruption to even unsustainable policies.

3. Political populism over economic populism

The analytical strength of the classical concept originated from the fact that those policy objectives, mechanisms and measures were identified which ultimately generated a populist policy cycle, characterised by increased level of inflation, capital flight and economic chaos. As the concept established a direct causal relationship between various types of social and economic conflicts as drivers and policy cycles as consequences, it soon became a prolific and

productive idea, widely used in scholarly works (see for instance Ball et al. 2019, Dovis et al. 2016, Rode and Revuelta 2015).

Yet, following the lost decade of the 1980s, Latin American governments seemed to give up on irresponsible economic policies and excelled as the top students of the Washington consensus, initiating macroeconomic stabilisation, market liberalisation and privatisation (Edwards 2010). The pro-market attitude was paired with stabilisation-oriented neoliberal policies that characterised the ruling of Menem, Collor de Mello and Fujimori in the 1990s. Populism, however, revived in a completely new form, giving place to an unexpected affinity between neoliberal economic philosophy and political populism (Weyland 1996).

In the new millennium, populism became a world-wide phenomenon. It managed to evolve first in opposition only and mostly on the far right (Mudde 2007). Later on, it has consolidated its positions in the mainstream on both sides of the political spectre and successfully made through to the government from the US to Europe and Asia. That is, economic populism is simply not capable of adequately addressing the most recent waves of right-wing (or exclusionary) populism which is hardly engaging with unsustainable macroeconomic policies. As a corollary, “populism should not be defined on the basis of a specific type of economic policies” (Rovira Kaltwasser et al. 2017, 14).

In the meantime, the so-called ideational approach has emerged as the mainstream paradigm for studying and understanding contemporary populism. The ideational approach identifies populism as a thin-centred ideology, which separates society into “two homogeneous and antagonistic groups, ‘the pure people’ versus ‘the corrupt elite’, and which argues that politics should be an expression of the *volonte generale* (general will) of the people” (Mudde 2004, 543).⁴

⁴ Thinness means that the particular ideology “is limited in ideational ambitions and scope” (Freeden (1998, 750).

In contrast to classical ideologies such as liberalism, socialism or conservatism, populism is restricted to a few core concepts. The term “people” refers to a homogenous and morally distinct community, the populist (leader) is being one of them, representing the interest of the people against the elite. The division line between the bad and the good is, however, quite flexible; purity is often related to a particular majority. The target group and the category of the people can be reinterpreted from context to context (Canovan 2005). The morally decaying corrupt elite, forming typically the country’s establishment, on the other hand, is simply the antithesis of the pure people and always puts its own interest first at the expense of the people. Populism is conceptualised therefore as a Manichean worldview, where good constantly fights bad. As the bad people are ignoring the interest of the true people, populists declare themselves as anti-establishment forces who often turn directly to their constituency. Last, but not least, popular sovereignty has a somewhat vulgar Rousseauian interpretation: politics has to be about the non-partisan or non-ideological general will of the pure, homogenous people and only about them. Populism is about serving simple remedies for alleged (or real) anomalies in the system by moving politics away from special interest to the implementation of the general will.

The minimal definition of populism allows scholars to conduct comparative research without geographical limits. As Mudde argued (2017), it helps unambiguously categorise a case if it fits the cohort of populism or not; it allows for further categorisation within populism itself; the usage of the concept is not constrained either in space or in time; both the supply and the demand sides can be explained.

Nevertheless, the ideology-based approach is not without criticisms either. From the perspective of policy analysis, the major failure of the ideational approach is that being a thin-centred ideology, it “remains silent about second order principles, concerning what should be done, what policies should be followed, what decisions should be made” (Inglehart and Norris 2019, 4). Populism has, in fact, a “chameleonic” character as it co-exists with other full-blown

ideologies (Taggart 2000). Its marriage with conservatism would imply the respect of the idea of a small state, larger room for market activity, the dominance of private property, etc. If it is paired with socialism, there is an appetite for a larger state sector, active state involvement, increased welfare provision and subsidies etc. That is, populism, as a morally driven thin-centred ideology, can take various forms. Its thinness does not allow it to systematically and distinctively engage with well-specified economic regimes that prescribe for a unique way of organising and governing the economy. In terms of policies, seemingly, anything is possible, or as populists tend to phrase it: nothing is impossible (Kyle and Gultchin 2018).

4. Manichaeian worldview and redistributive policies

The definition of populism has a clear reference to the people and the elite and to their conflictual relationship – a line of reasoning which has been taken up in economic research too (Guriev 2017). For Acemoglu et al. (2013) and Guiso et al. (2018), one of the main defining pillars of populism was the antagonistic worldview that divided the community into two. For Eichengreen (2018), besides authoritarianism and nativism, anti-elitism was the defining feature of populism. Dustmann et al. (2017) applied the vocabulary of political scientists, too, when the conflict between residents and foreigners was highlighted. In Ivaldi and Mazzoleni (2019) pure people were the hardworking labourers, who created economic prosperity without reaping the rewards.

Economics research is rather biased in studying redistribution under populist rule. The imprinting of Dornbusch and Edwards (1990) was so substantial amongst economists that their scholarly works tend to recycle the original concept of economic populism when political populism is equated with large scale redistribution programmes and the neglect of macroeconomic constraints of the economy. Reflecting upon the extremely high level of income inequality in Latin America, Acemoglu et al. (2013) demonstrated that redistributive

policies were not just to the left of the political bliss point of the median voter, but as such they were also harmful in their overall consequences, pushing the countries to the brink. Redistribution-induced (hyper)inflation and poor macroeconomic performance were in the focus of the empirical analysis of Latin American post-dictatorship era in Bittencourt (2012), too. Populism is still equated with unsustainable fiscal policy in both Latin America (Edwards 2010, 2019) and India (Jaffrelot and Tillin 2017). In the context of the EU, Dustmann et al. (2017) put a heavy emphasis on the redistribution of income, too, from the privileged to the common man and emphasised the disregard of the fiscal and current account constraints of false promises. An anti-austerity rhetoric can also be a winning strategy in contemporary Europe (Kahn and Tananbaum 2015). Most recently, Funke et al. (2020) found on a large sample of countries that populists typically engaged in expansionary redistributive policies irrespective of their geographical location.

Yet, massive redistribution programmes that finally end up in unsustainable macroeconomic positions can hardly be identified in countries with populist governments today. With a few exceptions such as Venezuela under Maduro and the late Chavez, no excessive fiscal deficits or deteriorated macro balances can be observed in countries with a populist government. Even one of the most well-known radical left-wing populist parties, the Greek Syriza, signed up for the fiscal adjustment programme prescribed by the European Commission and the IMF eventually.

The prevalence of relatively sound macroeconomic policies in countries of populists in power, however, does not render the analysis of the economic *consequences* of contemporary populism totally irrelevant. The definition of Mudde (2004) is quite helpful in operationalising what exactly policy analysts should look for. Populism is not about irresponsible macro policies any longer (Rovira Kaltwasser et al. 2017); yet, redistribution itself is a natural implication of the division of the political community into two seemingly homogenous groups, the good and

the bad people. Any policy which does not address the need of the people (the majority, in fact) but serves specific interests should be understood as a compromise that is morally unacceptable. Cracking down on unauthentic elites is, in consequence, a moral obligation (a quest) of a populist. Importantly, the division line between the two groups is morally defined and not, for instance, economically, which, of course, does not prevent populists to name and blame certain economic groups, e.g., businessmen, economic migrants, international financial institutions, etc., which put their own interest above the morally superior majority. Furthermore, populism is a highly adaptable phenomenon; its political profile and programme can easily be altered so that the largest possible segment of the population can be targeted with it (Rovira Kaltwasser 2018). The classification of who belongs to which group is not rock-solid, it can change from time to time to serve the interest of the populists in power.

That said, policy analysis should focus on who the governing forces favour (the pure people) and whom it punishes (the others), along with the main mechanisms of such morally driven redistribution and its consequences. The ideational approach helps to understand that redistribution does not have to be unsustainable in order to be populist.

By adopting the ideational approach, it can be shown that both a pro-rich flat tax system in Hungary and a pro-poor progressive tax regime in Latin America can be compatible with populism. Also, current account surplus in Greece (under Syriza), Poland (PiS) or Hungary (Fidesz) did not make these countries less populist than the Trump administration which faced a huge trade deficit.⁵ Advanced economies are typically the home to so-called exclusionary (or right-wing) populism, where the demarcation line lies between the native people and the foreigners, like migrants (Mudde and Rovira Kaltwasser 2013). In such regimes populists directly attack on the welfare state itself and propagate welfare chauvinism (Greve 2019). In

⁵ On Hungary and Poland, see Bod, Pócsik and Neszmélyi (2021), Enyedi (2016), Orenstein and Bugaric (2020), Scheiring (2020), Toplisek (2019), on Greece, see Pappas and Aslanidis (2016), Stavrakis and Katsambekis (2014), on Trump, see Kazin (2016).

consequence, there is an increasing tendency in these countries to reshape the domestic welfare system so that only the favoured members of the nation can get access to its benefits, while “others” (not necessarily foreigners) are excluded. Inclusionary populism, on the other hand, is characteristic to left-wing anti-establishment movements, where populists concentrate on corruption and poverty in their quest. These (radical) left-wing parties embark on the politicisation of material issues, blaming the business elite or capitalism itself. They tend to endorse large scale welfare programmes targeting the poor and the left-behind segments of the society.⁶

5. People are everything – institutions are nothing

According to the ideational approach, populism is more than a Manichean opposition of the bad and the good; it is also about equating politics with the common will of the people. Populism is, therefore, not simply anti-elitist, but also anti-pluralist. In contrast to the pluralist notion of democracy, politics under populist rule is no longer seen “as a battleground between different policy positions” (Kyle and Gultchin 2018, 7). For populists, the delicate system of constitutional checks and balances along with the respect of minority rights or the rule of law can only compromise the integrity of the pure people (Müller 2016). But if policy positions and goals cannot be debated as only populists can have the legitimate right to define the common goal, all those vessels, channels, institutions and mechanisms would prove to be redundant which are otherwise considered as essential in the functioning and survival of a liberal democracy.

Populists show a significant dislike towards the institutions of liberal democracy. Anything which impedes the embodiment of the general will of the people and, in turn, favours the special interest of non-authentic groups of the society, is considered an irritating obstacle.

⁶ See for instance Edwards (2010, 2019) and de la Torre (2017) on Latin America, or, more specifically, Aytac and Önis (2014) on Argentina, Ricz (2017) on Brazil, and Madrid (2018) on Bolivia.

One of the major quests of populists is, therefore, to name and shame those independent institutions and organisations which might (have) not serve(d) the interest of the majority. Certainly, malfunctions exist (both Rodrik 2018b and Rovira Kaltwasser 2019 provide a few concrete cases); yet the main point for a populist is to question the *raison d'être* of anything that does not seem to serve the interest of their people. As a corollary, just like in politics, populists tend not to respect institutional constraints on the conduct of economic and public policy either, since such constraints prevent the elected representatives of the people from serving their electorates' will (Rodrik 2018b). They are especially critical to those bodies, agencies and organisations which limit their ability to directly take part in decision-making and to attain control over resources (White 2017). Correlation with the classical concept of economic populism is straightforward: there it was the neglect of macroeconomic constraints that defined economic populism. More recently, however, it is the institutional constraints, often the result of decades-long evolution, that populists want to undo.

Historically, the independence of central banks, the relatively large degree of autonomy of various regulatory bodies and watchdog institutions such as fiscal councils have been the consequence of the recognition that democratically elected politicians often have a short-term time horizon and are blind to the long-term consequences of their decisions. Once in government, rational politicians have an inclination to embark on time-inconsistent policies. One of the major lessons of Latin American economic populism was that countries needed to delegate decision-making to independent and autonomous bodies with a longer time horizon guaranteed by law in order to break the boom-and-bust cycles (Dovis et al. 2016). Time-inconsistent behaviour induced democracies worldwide to adopt rules and institutions that constrain short-sighted politicians' actions.

Delegating authority to non-elected institutions can, however, be problematic from a normative viewpoint. If such institutions are not exposed to democratic control and

accountability, their legitimacy can be questioned (Streeck 2016). This is exactly what populists do in the name of the people. Putting the Rousseauian idea of the ideational definition of populism into effect and equating the (pure) people with the sovereign, populists claim that no independent bodies or international treaties or any sort of unelected technocracy, which is seen as integrative element of the elite, can exercise control over the sovereign (Eichengreen 2018). In practical terms, populists may simply replace the elite in independent and autonomous bodies with their own comrades, or they can redesign these institutions by altering their financial and operational conditions, or they can simply ditch the unwanted institutions.

Moral duty also implies that attacks on technocrats or on autonomous institutions and organisations are not dictated by efficiency considerations on the side of incumbents. Changes initiated by populists are motivated instead by breaking down the status quo, that is, by attacking on the establishment and favouring the people and especially those who represent the majority. Differences do exist in relation to whom to target in this battle. Exclusionary populism often challenges supranational structures, including the EU, and multilateral agreements and organisations, whereas inclusionary populism prefers attacking international financial institutions, multinationals and the process of globalisation.

6. Populists *versus* competitive markets

The ideational approach to populism makes it evident that populism is the antithesis of pluralism. However, the very idea of market competition is a pluralist notion too. In principle, competitive markets as meta-institutions can work effectively only if they turn a blind eye on who belongs to the group of the pure people and who does not. Competition, in its ideal form, allows every actor to enter the game and rewards the best performers (and only them), that is, those who are willing to pay the highest price and those who can produce at the lowest cost. Whereas the competitive market is a benchmark case for its ability to give a definitive answer

to the questions of what, how and for whom to produce in an environment of scarcity, populists might find it problematic to accept the competitive market as the main allocational mechanism due to their morally defined standpoints.

If the definition of the ideational approach is taken at face value, populists must have a highly ambivalent and rather sceptical understanding of not just concrete organisations and institutions but also of more abstract concepts such as competition and the very idea of a competitive market economy as, by definition, the latter cannot antagonise any relationship based on morally driven clusters in the economy. Under populist rule, just like *de jure* political constraints that are constitutive elements of a liberal democracy by preventing anyone to gain direct and unlimited access to political power, all those economic institutions that supposedly safeguard the solid and proper functioning of a competitive market economy are regarded as morally unacceptable constraints in pursuing the general will of the majority.

If the outcome provided by the allocational mechanism of the competitive market is at odds with what populists see as the general will of the (pure) people, they might feel it their moral obligation to intervene. The concept of Pareto efficiency is concerned only with the efficiency of the allocation of resources (whether all mutually beneficial transactions have been carried out) and says nothing about the distribution of gains. Governments often try to intervene in the economy; by changing the initial endowment, incumbents try to shift the economy to a (more) preferred outcome. According to the second welfare theorem, in a *competitive* market economy, any Pareto efficient outcome is attainable. That is, just because a certain (the initial) distribution of income (wealth) is disliked, it should not imply the abandonment of the competitive market mechanism itself. However, the second welfare theorem makes any sense only if, following the intervention, the government allows actors to make their own decisions on production and consumption by relying on the decentralised structures of a competitive market (Stiglitz 2000).

Re-regulating the market, i.e., directly or indirectly intervening in its functioning, is a logical consequence of populist rule. If, however, the rules of the game are changed according to the needs of the (otherwise flexible category of the) pure people, agents will certainly engage in bargaining with the state (the regulator) to alter the conditions of market exchange in their favour. In such a case, the rules cannot be held exogenous any longer to the game itself and the new market equilibrium will favour only those who are backed by administrative power (Riczi 2021). A populist government, therefore, can define itself as a broker amongst competing parties, thereby endogenising market rules and institutions to political power.

As with redistributive policies, preferences with regard to (market) regulation may vary from country to country. Nationalisation can co-exist with re-privatisation (Voszka 2018), deregulation does not prevent even the same government to impose re-regulation in the economy (Röth, Afonso and Spies 2017). The ideational approach does not help to detect the concrete forms of action taken by populists. Nevertheless, it draws attention to the welfare implications of such measures, as for populists “politics is about respecting popular sovereignty *at any cost*” (Mudde and Rovira Kaltwasser 2018, 1669, italics added). The term cost can be interpreted as loss in allocational efficiency, which is certainly hard to precisely measure but clearly underlines the existence of a price a society must pay for populist rule – even if no unsustainable macroeconomic policies have been undertaken.

The supply-side analysis of populism should therefore also focus on the purposeful and intentional alteration of the institutional landscape of an economy by populists. The term institutions should be interpreted broadly, referring to not only concrete organisations or bodies. Institutions defined as the incentive structures of an economy that shape the decisions and actions of economic actors allows researchers to embark on a mezzo-level analysis in which both the concrete policies, as well as all those formal and informal constraints that directly shape the process of economic decision-making, are scrutinized (Williamson 2000). Weakened

institutions (such as property rights) alter the perceptions of economic agents, who will calculate with higher transaction costs and show less interest in investing in long-term activities, including the accumulation of physical and human capital. According to the historical analysis of North (1991, 97), the major difference between the poor and the rich countries lies exactly in the robustness and effectiveness of their “humanly devised constraints that structure political, economic and social interaction”. It is exactly these humanly devised constraints that can be effectively attacked and altered by populists in the economy.

Conclusion

The ideational definition of populism is not without limitations. For instance, Weyland (2017) argued that while populist leaders do in fact use the (true) people, one of the core concepts of populism, as reference in their discourses, once in government, they tend to monopolise power. His political strategic interpretation therefore is more interested in what populists actually do, instead of what they are saying. As a thin-centred ideology, populism might also be lacking of ideological coherence, and, in turn, no single policy area can be identified where all populists would agree on what to do and how to do it (Aslanidis 2017). Such deficiencies, however, can also be viewed as assets of the definition of Mudde (2007). One of the major lessons that can be learnt from the ideational approach is the highly flexible and adaptable nature of populism. Populism is highly context-dependent (Hartwell 2021). The ideational definition can help social scientists along with policy analysts to identify populism across a wide range of countries and contexts, without limiting the study of the phenomenon to any particular set of economic or public policies. Policies are, in fact, just means in the hands of populists, not ends; therefore, “they need to be popular rather than coherent” (Böttcher and Wruuck 2017, 3).

But a lack of coherence and in particular a well-defined populist policy package does not imply that the ideational approach would not inform researchers about the possible policy

decisions of populists in power. It is, in fact, imperative to do research on the policy implications of populism, considering especially that populists tend to legitimise all their actions (both in the economy and outside of it) by referring to the general will of the people (Müller 2016). The actions of populists on the government can have serious short-term and long-term implications in the economy, which may or may not serve the interest of the people they wish to represent, not mentioning the whole electorate (see the criticism of Weyland 2017 above).

One of the major findings of a supply-side analysis is that as opposed to the original concept of economic populism (of Latin America), contemporary populist governments seem to have internalised macroeconomic constraints in their decisions. Leaving macroeconomic sustainability intact, however, does not necessarily imply that populists would not do any harm to their economies. By reallocating resources through the reshaping of the rules, procedures and institutions of their economy, populists do not simply wish to redistribute income to a favoured group but also to pit the people against the elite (or the others) and to cement – or if needed, create – antagonistic divide in the society for good, without being explicit about the long-term negative consequences of their actions. The costs of the alteration of the humanly devised constraints of their economies are less direct now, however, than what the situation was with economic populism in the 1970s and 1980s. Nowadays, costs come mostly in the form of the degeneration of democratic institutions in general and the loss of allocational efficiency in particular, which are hard to quantify in exact terms. Populist governments, therefore, can hide the costs of reshaping the institutional landscape relatively easily – at least in the short run. Changing ownership structure, modifying the conditions for market entry, relativizing contractual engagement, or, generally speaking, changing the rules of the game according to the preferences of the majority (and only them), are the factors that may add up to the bill in the medium and long run. Populist politics is, after all, about the desire of and, practically, the

means by which incumbents try to take control over the resources of their countries in the name of the people.

From a broader perspective it also means that the supply-side analysis can help social scientists to better understand populism in the making. Policy-decisions might have a secondary role in determining what sort of populism evolves in a particular country, but the adopted public policies can massively thicken the ultimate profile of populism. Comparative research on contemporary populism is inadequate therefore without keeping a critical eye on policy consequences as well.

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