

Economic Situation and Strategy

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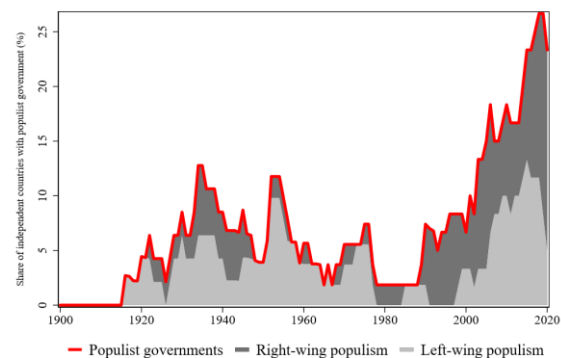
What influence do populists have on the economy?

In recent years, the political tone has sharpened and populist governments have become increasingly socially acceptable: Recep Tayyip Erdogan in Turkey, Nicolás Maduro in Venezuela and Viktor Orbán in Hungary are just a few examples of populist government leaders. Furthermore, with a view to the possible re-election of Donald Trump this year, a populist government leader could once again be at the helm of the world's largest economy. Regardless of whether populists belong to the left or the right, they are very often similar in their appearance and promises. Typically, they see themselves as anti-establishment politicians, representing the "common people" and promising to improve their economic situation. In this issue of Economic Situation and Strategy, we clarify the extent to which populist government leaders actually keep their promises and improve the economic situation of their supporters.

"Populist Leaders and the Economy"

As the initial question is not only extremely complex but also emotionally charged, we looked for a scientifically sound study that covers as long a history as possible and a large number of different economies. In our search, we came across the internationally acclaimed paper "Populist Leaders and the Economy" by Dr. Manuel Funke, Prof. Dr. Moritz Schularick and Prof. Dr. Trebesch.¹

Figure 1: Populists in power – share of countries in sample



Funke, Schularick and Trebesch (2022), "Populist Leaders and the Economy", p.15

How is the study structured? In order to answer the question of whether populist government leaders have a positive or negative effect on the economic development of a national economy, the researchers examined almost 1,500 government leaders from 60 countries and classified them as populist or non-populist. Based on the definition commonly used in academia, populists are characterized by the fact that they place the alleged struggle of the people ("we") against the elites ("they") at the heart of their political campaign and style of government. Left-wing populists express their anti-elitism predominantly in an economic context, attacking capitalist elites who are allegedly plundering the country at the expense of the people. In contrast, the anti-elitism of right-wing populists is predominantly expressed in a cultural context and is directed against third groups such as foreigners and ethnic and religious minorities who threaten the supposed national identity and culture.

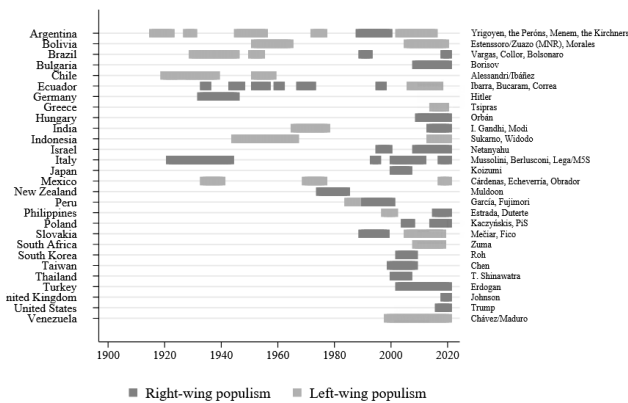
¹ <https://www.ifw-kiel.de/de/publikationen/populist-leaders-and-the-economy-32004/>, April 26. We also recommend the

accompanying YouTube video as an introduction: https://www.youtube.com/watch?v=CtD0_c12ZIA

What are the results?

First of all, the authors identified a total of 51 populists in the period from 1900 to 2020, with left-wing populists from Latin America dominating until the 1990s. Since then, the proportion of right-wing populists has risen, particularly in Europe. It was also noticeable that the average term of office of populists was twice as long as that of non-populists. At the same time, the term of office of populists typically did not come to a "regular" end, but was ended, for example, by an impeachment process, a takeover by the military or suicide.

Figure 2: Populist leader spells by country – recurring patterns

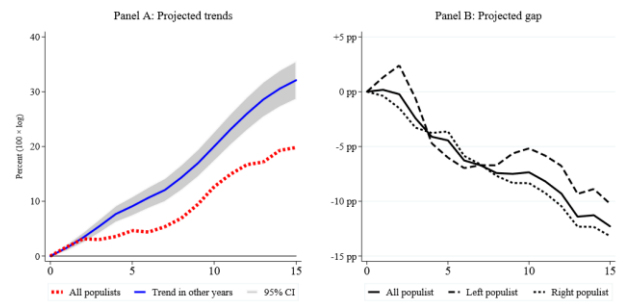


Funke, Schularick and Trebesch (2022), "Populist Leaders and the Economy", p.16

With regard to the promise of populists to improve the economic situation of the "common people", the authors' conclusion is clear: Populist government leaders are bad for the economy and cause long-lasting negative effects. However, as populists do not come to power by chance, but often in the aftermath of economic crises, it is not trivial to estimate the causal relationship. For this reason, the researchers use various strategies.

Firstly, the authors compare the development of gross domestic product relative to previous trend growth. The results are shown in the following figure. It is noticeable that economic growth under the leadership of populists (red dashed line) is at the level of trend growth in the first three years, but then deviates significantly downwards. Economic growth 15 years after the populist took office is around twelve percentage points lower than the projected trend growth. According to the study, it makes no significant difference whether the populists in question were left-wing or right-wing populists.

Figure 4: Real GDP paths after populist governments enter into office – local projections



Funke, Schularick and Trebesch (2022), "Populist Leaders and the Economy", p.27

The scientists arrive at an identical result if they use the economic development of a doppelgänger economy instead of trend growth. Put simply, they look for doppelgängers (non-populist-led) that have a comparable economic development and structure to the populist-led country. Analogous to the first approach, the researchers again find significantly worse economic growth in the economies under populist leadership. However, it is not only gross value added that is lower, other indicators also deteriorate: populist governments are accompanied by economic isolation, an increase in the debt ratio and erosion of institutional quality (e.g. measured by freedom of the press). However, there has been no improvement in income distribution and therefore no improvement in the position of the "common people" on average.

What are the results?

As the first figure underlines, populist government leaders have become socially acceptable again in recent years. With the possible re-election of Donald Trump, another one is on the cusp of becoming the world's largest economy. In our view, it is therefore all the more important to point out the considerable economic costs of populism. Even if populists promise to improve the economic situation of the "common people", the empirical study "Populist Leaders and the Economy" shows very impressively that these are mostly empty promises. At the same time, it is important not to forget the serious cuts populists have made in public life, for example in the freedom of the press or freedom of opinion.

Simon Landt

Market data

	As of 26.04.2024 08:35	Change versus				
		19.04.2024 -1 week	25.03.2024 -1 month	25.01.2024 -3 months	25.04.2023 -1 year	29.12.2023 YTD
Stock markets						
Dow Jones	38086	0,3%	-3,1%	0,1%	13,6%	1,1%
S&P 500	5127	3,2%	-1,8%	4,7%	25,9%	7,5%
Nasdaq	15612	2,2%	-4,7%	0,7%	32,3%	4,0%
DAX	17917	1,0%	-1,9%	6,0%	12,9%	7,0%
MDAX	26043	0,2%	-2,3%	-0,1%	-5,5%	-4,0%
TecDAX	3267	2,5%	-4,5%	-2,1%	-0,2%	-2,1%
EuroStoxx 50	4939	0,4%	-2,1%	7,8%	12,8%	9,2%
Stoxx 50	4377	0,9%	-0,7%	5,9%	7,5%	6,9%
SMI (Swiss Market Index)	11261	-0,3%	-3,2%	0,5%	-2,2%	1,1%
Nikkei 225	37935	2,3%	-6,1%	4,7%	32,5%	13,4%
Brasilien BOVESPA	124646	-0,4%	-1,8%	-2,7%	20,8%	-7,1%
Russland RTS	1179	0,4%	5,7%	5,3%	16,3%	8,8%
Indien BSE 30	74215	1,5%	1,9%	5,0%	23,4%	2,7%
China CSI 300	3580	1,1%	1,6%	7,1%	-9,6%	4,4%
MSCI Welt	3307	1,6%	-3,3%	2,9%	18,5%	4,3%
MSCI Emerging Markets	1029	2,4%	-0,7%	4,1%	6,5%	0,5%
Bond markets						
Bund-Future	129,78	-121	-278	-475	-524	-744
Bobl-Future	116,41	-51	-145	-143	-112	-287
Schatz-Future	105,17	-14	-47	-83	-34	-138
3 Monats Euribor	3,88	-3	-3	-3	61	0
3M Euribor Future, Dec 2024	3,30	7	25	78	33	100
3 Monats \$ Libor	5,59	0	2	0	29	-1
Fed Funds Future, Dec 2024	5,04	5	40	101	213	121
10 year US Treasuries	4,69	7	43	56	130	82
10 year Bunds	2,61	13	26	36	23	61
10 year JGB	0,92	11	19	20	49	30
10 year Swiss Government	0,79	-1	13	-9	-27	9
US Treas 10Y Performance	569,51	-0,6%	-3,2%	-3,5%	-6,8%	-5,2%
Bund 10Y Performance	543,25	-0,9%	-1,8%	-2,2%	0,6%	-3,9%
REX Performance Index	438,98	-0,4%	-0,8%	-0,5%	1,4%	-2,0%
IBOXX AA, €	3,54	8	21	25	-1	47
IBOXX BBB, €	4,11	7	20	18	-36	36
ML US High Yield	8,31	-8	44	37	-17	52
Commodities						
MG Base Metal Index	442,52	-0,2%	12,4%	14,7%	10,1%	13,2%
Crude oil Brent	89,48	2,5%	3,0%	10,0%	10,7%	15,2%
Gold	2338,19	-2,3%	7,4%	15,8%	17,6%	13,2%
Silver	27,32	-4,6%	10,5%	20,0%	10,6%	12,7%
Aluminium	2537,42	-4,6%	11,5%	15,2%	9,2%	8,2%
Copper	9742,15	-0,6%	11,2%	14,9%	14,5%	15,1%
Iron ore	109,68	1,3%	-0,9%	-19,1%	-6,7%	-19,6%
Freight rates Baltic Dry Index	1743	-9,2%	-17,9%	16,3%	15,4%	-16,8%
Currencies						
EUR/ USD	1,0731	0,7%	-1,0%	-1,5%	-2,6%	-2,9%
EUR/ GBP	0,8575	-0,1%	0,0%	0,6%	-3,1%	-1,0%
EUR/ JPY	167,45	1,7%	2,2%	4,1%	13,2%	7,1%
EUR/ CHF	0,9790	1,1%	0,7%	3,9%	0,0%	5,7%
USD/ CNY	7,2446	0,0%	0,4%	1,0%	4,5%	2,0%
USD/ JPY	155,66	0,7%	2,8%	5,4%	16,4%	10,3%
USD/ GBP	0,80	-0,6%	1,1%	1,5%	-0,9%	1,9%

Source: Refinitiv Datastream

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