

Sujet traité : Le populisme n'a pas vraiment d'importance / Populism Does Not Really Matter

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GEOPOLITICAL STRATEGY

August 29, 2024

Populism Does Not Really Matter

- Populism is a popular scare story but offers limited analytic value; the real issue is governments' long-term legitimacy deficits.
- As governments are seen as increasingly illegitimate and unable to fulfill the social contract, radical political challenges emerge.
- Legitimacy deficits force governments to overcompensate with higher fiscal outlays, market-unfriendly policies, and increased risks of conflict.

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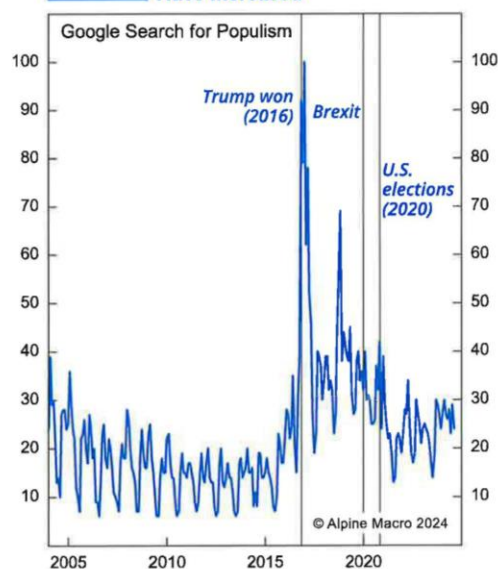
Unexpected election outcomes since the mid-2010s have intensified academic, media, and analytical focus on "populism" (Chart 1). This term is often described in negative, even apocalyptic, terms, with dire warnings hearkening back to 1930s Europe and fears of looming authoritarianism.

Yet, what is populism? There's a lively academic debate, which, to (grossly) simplify, boils down to:

- "A country's 'true people' are locked into conflict with outsiders, including establishment elites.
- Nothing should constrain the will of the true people."¹

Sounds alarming, right? But this could describe anything from the politics that fueled the rise of dictators like Lenin or Mussolini to those of figures like

Chart 1 Concerns Regarding Populism Have Increased



1 Tony Blair Institute for Global Change, "Populists In Power Around The World" (November 7, 2018).

Jimmy Carter, Ronald Reagan, Margaret Thatcher, and Barack Obama.

In other words, populism is a confrontational/highly critical style of politics, not tied to any specific ideology. And everyone does it. Both Donald Trump and Kamala Harris propose policies that appeal to the masses while attacking elites. Harris focuses on price controls, subsidies, and tariffs, targeting the elites in the shape of the wealthy and big business. Trump offers a somewhat similar mix but rallies against foreign forces and political elites. Both claim to represent the "true people" and argue that nothing should constrain the latter's will.

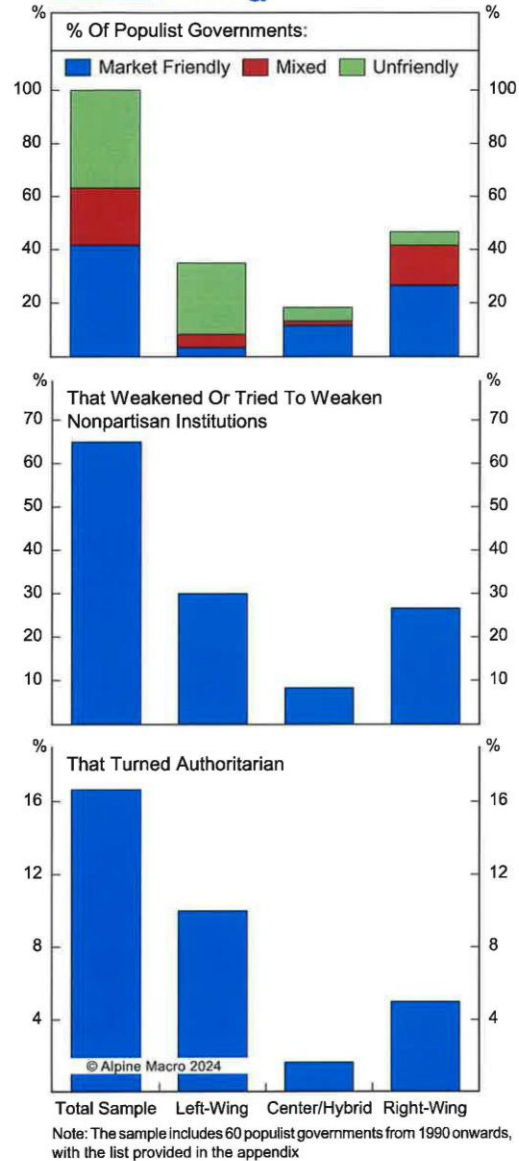
As Richard Nixon might say, "We are all populists now." The definitions of populism are so vague that one could (and should) drive a truck through it.

According to one dataset (which we augment, see [Appendix](#)), populists include figures ranging from liberal democrats like Poland's Lech Walesa to authoritarian leaders like Vladimir Putin. Socialists like Argentina's Kirchners, and libertarians like President Javier Milei, are both labeled populists.

What does this all mean? "Populism" seems to serve two purposes. First, it's an insult, painting a politician as a dangerous radical. Beyond the pejorative use, it describes a confrontational style where politicians rally against an arguably broken status quo, appealing to the populace by portraying elites as out-of-touch, inept, or corrupt.

The shrill tone of populism, more than its content, seems to define it. Populism is not an end, it is a (rhetorical) tool. It is, in principle, about as value-neutral as any other tool, say a vacuum cleaner.

Chart 2 Populist Governments Behave Differently Based On Ideology



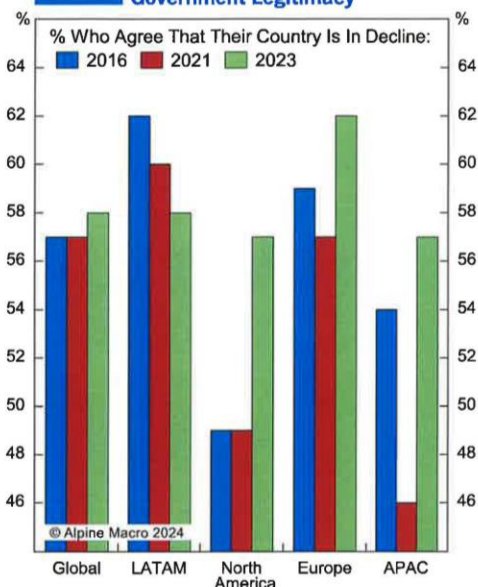
While the downsides of populism are often discussed, it's crucial to remember that populism can also channel popular discontent against authoritarian, ineffective, or corrupt elites. Walesa in Poland, Milei in Argentina, AMLO in Mexico, and Modi in India are clear examples.

Once in power, populists often misgovern due to their inexperience as outsiders with unconventional ideas. They are frequently constrained by norms and institutions, as seen with leaders like Donald Trump, the Austrian FPÖ in coalition governments, and Duterte in the Philippines. Many populists take shortcuts, pushing for controversial policies or attempting to weaken institutional or constitutional protections. As shown in Chart 2, a significant number of known populist leaders try to weaken institutions, and this tendency is more pronounced in left-wing governments in our sample.

However, populism does not inherently threaten democracy; rather, it often reflects voters' natural reaction against the undemocratic qualities of liberal institutions.²

Yet, what fuels populism and broader discontent with the political status quo? We argue the true issue is a decline in, or lack of, governmental legitimacy. In many Western countries, the end of the Cold War, changing growth patterns, new technologies, and shifting demographics have stressed or upended welfare states established post-1945. Additional shocks, including the 2008 financial crisis, the COVID-19 pandemic, and recent inflation, have further eroded governments' ability to govern with consent, as economic security diminishes.

Chart 3 Perceptions Of Decline Lead To Lower Government Legitimacy



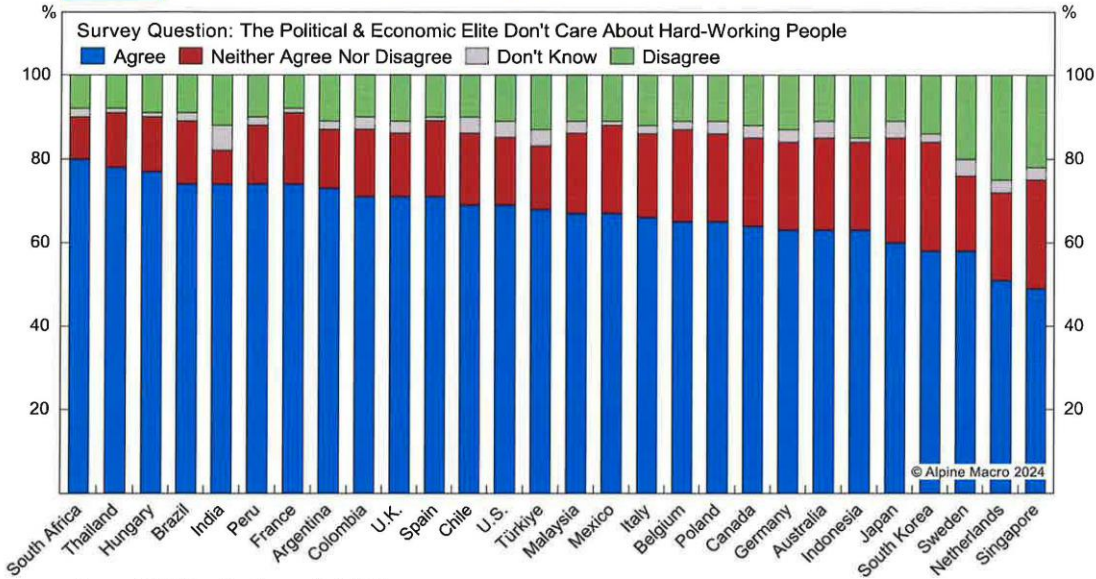
Source: IPSOS Populism Survey (Feb 2024)

This legitimacy crisis is also evident in major emerging markets like Latin America, Eastern Europe, and parts of Asia. Even in China, the government's legitimacy has been impacted by the COVID-19 response and post-pandemic economic stresses. Chart 3 illustrates how many people globally see their countries in decline, contributing to a legitimacy deficit.

We view the "Legitimacy Deficit" as a defining long-term trend, rather than populism, which is merely a symptom. Along with U.S.-China bipolarity and a focus on national security resilience (e.g., supply chain security, reindustrialization), this major trend

² Wilson Center, "Is Populism Really A Problem For Democracy?" (August 2019).

Chart 4 Popular Disenchantment With Ruling And Economic Elites Runs High



will shape the geopolitical landscape for the next decade or more.³

Why is this the root issue in our view? We take as axiomatic that the most basic goal of a government is to remain in power. To do so without massive repression (e.g., North Korea, Iran), governments need to uphold a social contract with their people. The social contract typically involves providing economic benefits, appealing to nationalism, religion, or ideology, and offering some form of "voice" to the governed, whether through voting or other means in authoritarian regimes.

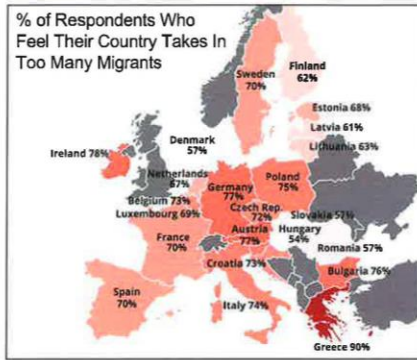
In this context, populist politics are largely due to widespread anger at governing elites perceived as

indifferent to citizens' needs (Chart 4), a key delegitimizing factor.

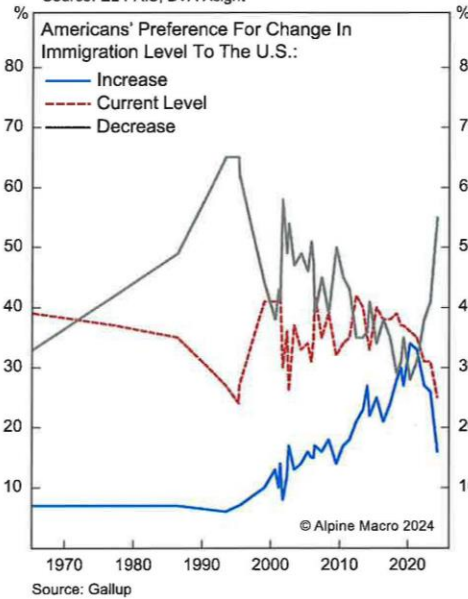
As social contracts fray and governments struggle to deliver economic benefits, populist-style politics have risen. To stay in power and rebuild legitimacy, even establishment politicians adopt populist stances. Joe Biden's industrial policies, tariffs, fiscal expansion, and student debt plans are prime examples, aimed at appeasing an electorate struggling with long-term economic dislocations. Similarly, the Democrats' failed attempts to change longstanding U.S. norms and institutions — such as removing the Senate filibuster, adding Supreme Court Justices, or abolishing the Electoral College — also fall under the populist rubric.

³ Alpine Macro Geopolitical Strategy, "The Three Long-Term Geopolitical Trends To Watch" (April 10, 2024).

Chart 5 Strong Majorities In Europe And The U.S. Now Support More Immigration Restrictions



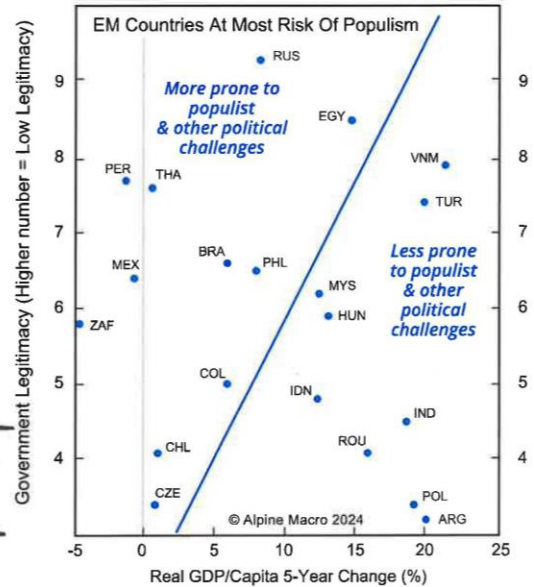
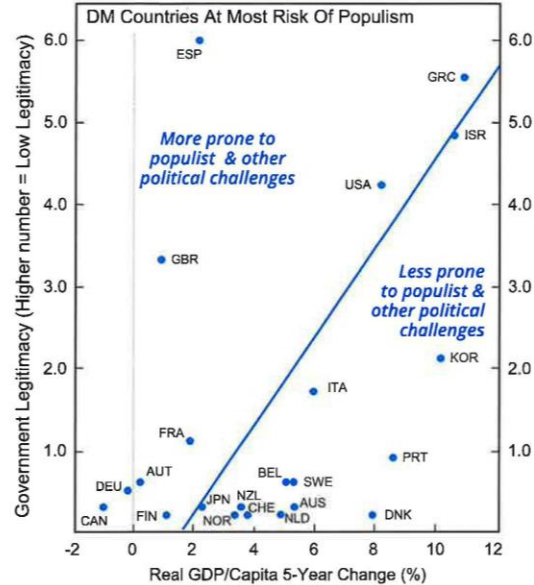
Source: EL PAIS, BVA Xsight



Source: Gallup

In sum, governments will continue to grapple with reestablishing legitimacy and rebuilding frayed social contracts. For instance, Western voters are increasingly questioning existing immigration policies (Chart 5), forcing politicians of all stripes to

Chart 6 Select DM And EM Countries That Will Struggle With Additional Legitimacy Issues



balance economic and humanitarian considerations against voter anger about this issue. Even some left-wing governments, like in Denmark, have adopted more restrictive immigration policies, reflecting the strong voter preferences.

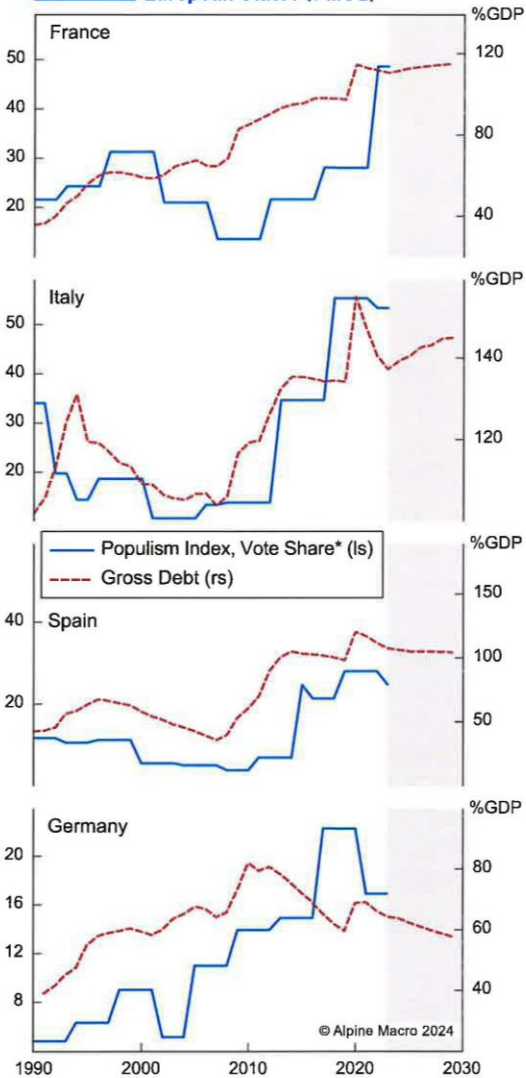
Implications

Charts 6 shows selected EMs and DMs along two dimensions: political legitimacy and economic growth (e.g., real GDP per capita change over five years). This highlights countries at risk of further populist and political discontent. In the DM panel, the U.S., the UK, and Spain score high in the negative legitimacy dimension, while low long-term per capita growth in Germany, Austria, and Canada may also indicate rising populist pressures.

As governments grapple with a legitimacy deficit, incumbents or their populist challengers will attempt to appeal to citizens through increased economic benefits or by invoking nationalism. While these strategies aren't always negative, they can lead to inefficient economic policies like tariffs, subsidies, and industrial policies.

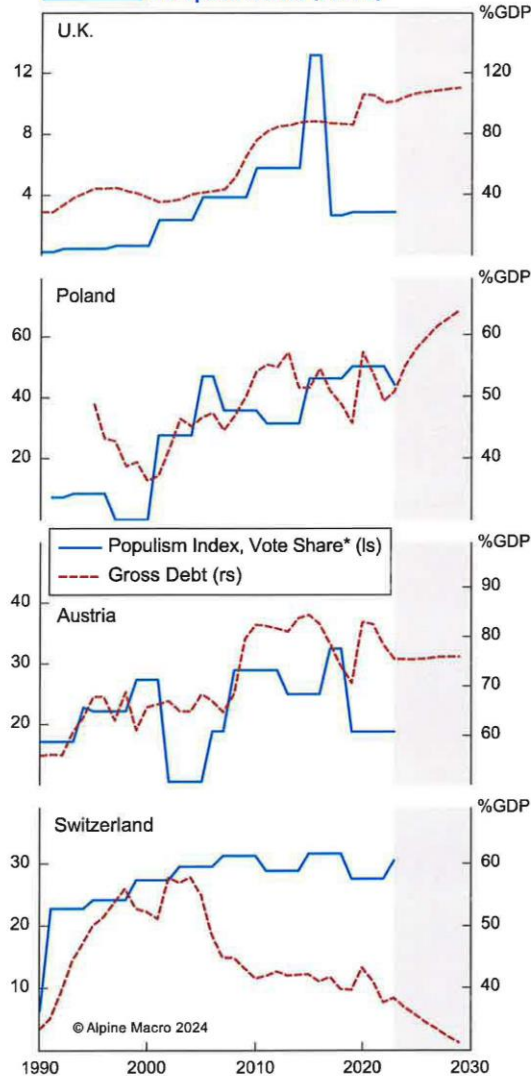
Governments often respond to broken social contracts, low legitimacy, and populist pressures by increasing spending, especially after major economic shocks like the 2008 financial crisis or COVID-19. **Charts 7 & 8** illustrate the long-term rise of populist party vote shares in select European countries, showing a clear interplay between rising government debt-to-GDP ratios and de-legitimization of incumbents/ demand for political change, centered around these major shocks.

Chart 7 Populism And Fiscal Expansion In European States (Part 1)



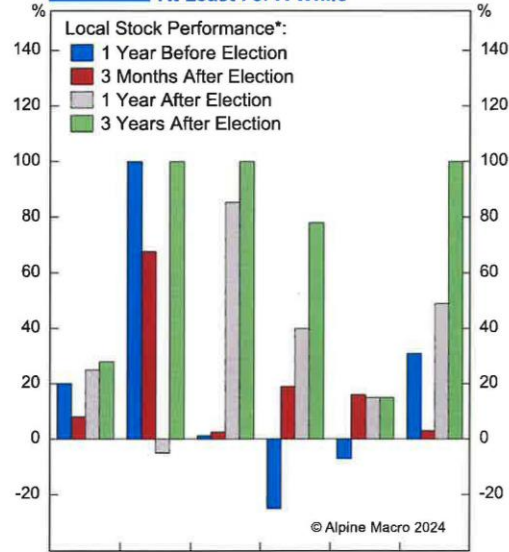
*Source: Timbro
Note: Shading denotes projections

Chart 8 Populism And Fiscal Expansion In European States (Part 2)



*Source: Timbro
Note: Shading denotes projections

Chart 9 Stock Markets In Some Populist-Run Countries Perform Extremely Well... At Least For A While

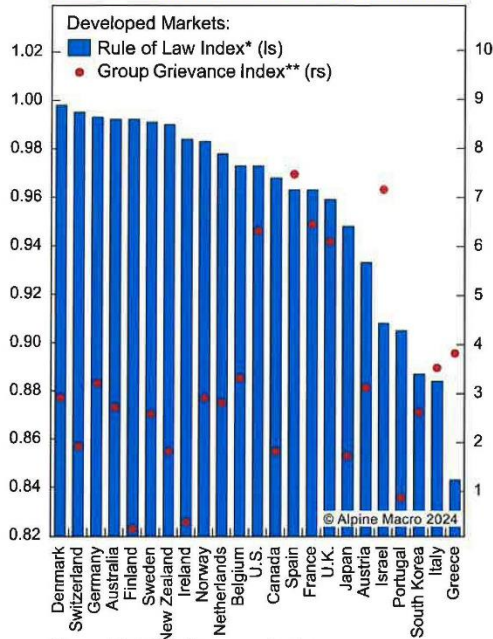


Chávez Putin Erdogan Zuma Duterte Kirchner
*Truncated at 100; actual values for 1 year before election (Putin) is 235, 3 years after election (Putin) is 109, 3 years after election (Erdogan) is 331, 3 years after election (Kirchner) is 360
Note: Data includes Venezuela's Hugo Chávez (1998), Russia's Vladimir Putin (2000), Turkey's Recep Tayyip Erdogan (2003), South Africa's Jacob Zuma (2009), Philippines' Rodrigo Duterte (2016), Argentina's Nestor Kirchner (2003)

Fiscal consolidation will remain challenging, particularly for governments lacking legitimacy. France, as its recent elections indicate, and the U.S. will face ongoing issues with fiscal tightening. Neither major U.S. party currently supports fiscal tightening, and there is little public appetite for it. We believe that only an unpredictable future fiscal crisis might make U.S. fiscal consolidation a priority.

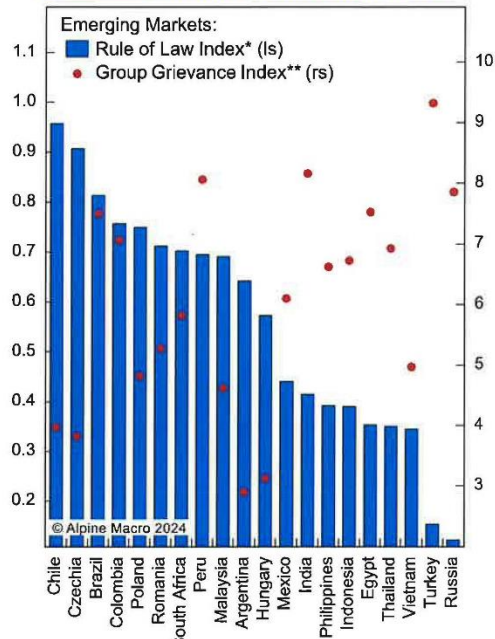
When analyzing governments, their economic policies, and market implications, we think investors should focus on three key issues:

Chart 10 Rule Of Law And Group Grievances, Developed Markets



*Source: Varieties of Democracy Institute
**Source: Fund for Peace

Chart 11 Rule Of Law And Group Grievances, Emerging Markets



*Source: Varieties of Democracy Institute
**Source: Fund for Peace

1. Ignore The Populist Noise, Focus On Market-Friendliness

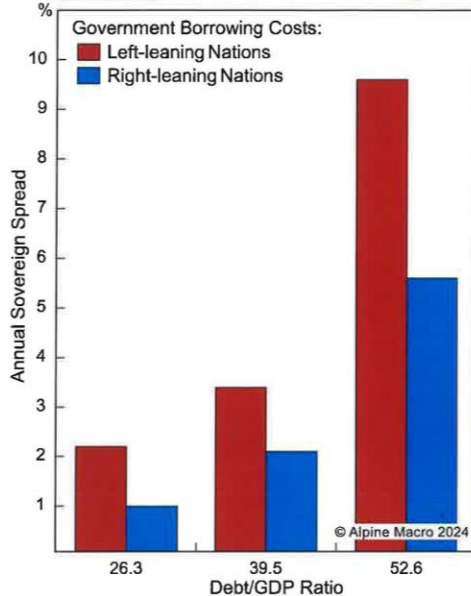
Which politicians have market-unfriendly or potentially confiscatory agendas? This is a tricky issue. First, investors need to differentiate between populist rhetoric and reality. Then, they must assess whether even market-unfriendly governments face constraints that may compel them to remain investor-friendly. Brazil under Lula, particularly in his current term, is a positive example.

However, these constraints can erode over time, posing significant risks. For instance, under some authoritarian or economically idiosyncratic populist

leaders, stock markets have initially performed well, as **Chart 9** shows, though later outcomes often worsened, given policy choices.

Instead of focusing on “populism,” investors should assess whether governments uphold the rule of law. This is especially important in countries with high level of group grievances (another indicator of populist pressure). **Charts 10 & 11** display these variables in EM and DM states. Ideology (i.e., left vs. right) in fact plays a much bigger role than populism in determining government policymaking, and generally left-leaning states pay higher borrowing costs than right-leaning ones, as left-wing

Chart 12 Government Borrowing Costs And Countries' Political Leaning



Source: "Sovereign Spreads & The Political Leaning of Nations", NBER Working Paper No. 29197; IMF, World Bank, JP Morgan, the Inter-American Development Bank

governments are often more fiscally expansive and less market-friendly (Chart 12).

2. Are Governments Trying To Alter Constitutions Or Nonpartisan Institutions To Benefit Their Political Causes?

This is more of a long-term issue, but some leaders attempt to change institutions to benefit their political futures or parties. A prime example is AMLO in Mexico, who has sought to centralize power and radically alter or weaken key autonomous institutions, including energy regulators, the National Electoral Institute, and the judicial system. While such attempts may not impact markets in the short term,

or during AMLO's remaining tenure, they will likely erode market and business confidence in the long run. Such actions often serve as leading indicators of creeping authoritarianism, as seen in Venezuela and, to a lesser extent, in Turkey and Hungary.

3. Are Governments Pursuing Belligerent Policies Abroad Or Increased Repression At Home?

Most populist governments are generally peaceful, with some notable exceptions. A regime seeking to re-legitimize itself may resort to force, either to suppress dissent at home or to stir nationalist pride by acting abroad. Russia under Putin has clearly followed this path since at least 2008, with the invasion of Georgia, and intensified its actions in Ukraine from 2014 to 2024, leading to a significant rupture with the West and major implications for investors. Governments that display a potential for belligerence abroad or materially heightened repression at home are usually negative signs for markets, long term.

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