
Discussion of
“Fiscal Populism
and Monetary Policy Rules”

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Paper motivation: rising tide of populism

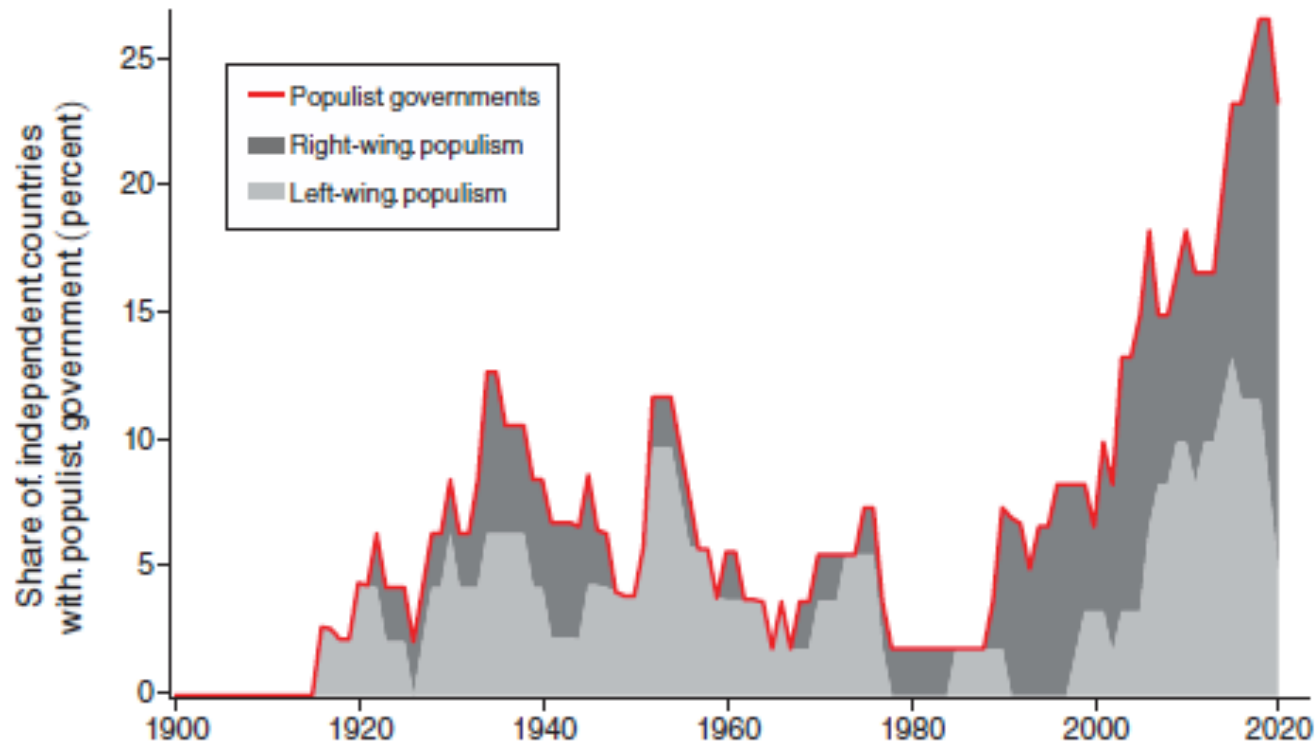


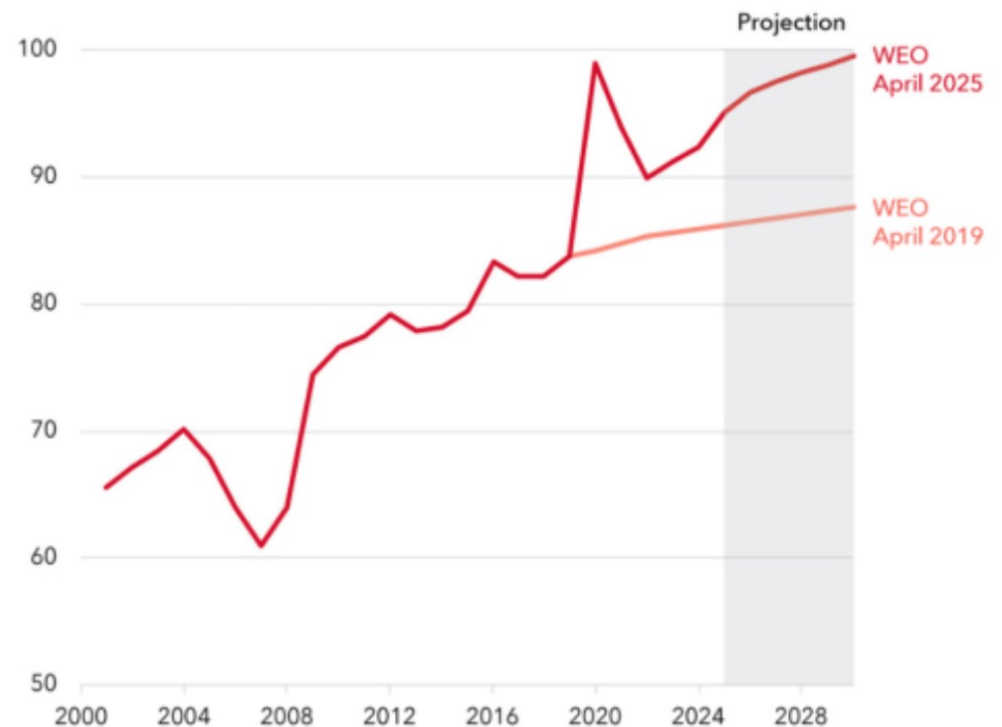
FIGURE 1. POPULISTS IN POWER: SHARE OF COUNTRIES IN SAMPLE

Funke, Schularick and Trebesch, AER 2023

Paper motivation: rising public debt

- Aging populations
- Breakdown of fiscal checks on spending – spending during expansions
- Inability to impose taxes
- Spike during covid
- Interest payments
- Increased military spending
- ... inflation tax

Global public debt, percent of GDP



Sources: World Economic Outlook April 2025; IMF staff calculations.

Hypotheses

- Do populist governments tend to run up spending, rely on credit from the Central Bank and thus fuel inflation?
- Having had an experience with populism and inflation, does subsequent monetary policy need to be more stringent?

Part 1: link between populism, CB credit to the govt and inflation

- Populism:
 - Leader divides society into “the people” and “the elites”
 - Leader claims to be the sole representative of the true people
- Left-leaning populist governments financed by CB credit
- CB lending leads to more inflation
- Regression analysis tests for the link between the change in CB credit *after a new populist regime*

Treatment: Differential in CB credit in the aftermath of a new populist regime relative to those "not experiencing populist regime nor in the projection horizon" of 10 years

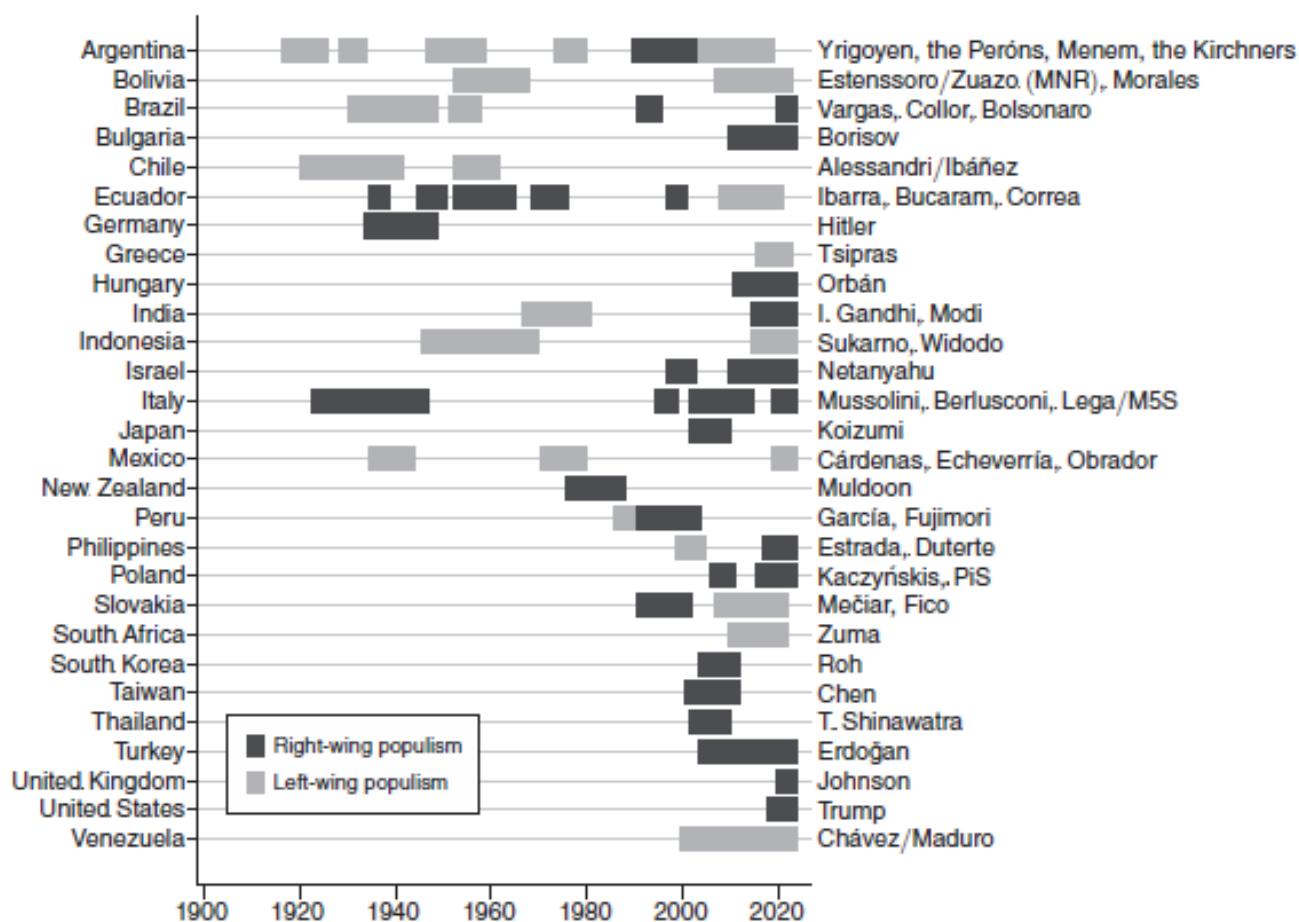


FIGURE 2. POPULIST LEADER SPELLS BY COUNTRY

Which are the treated group?

Data break in 2008?

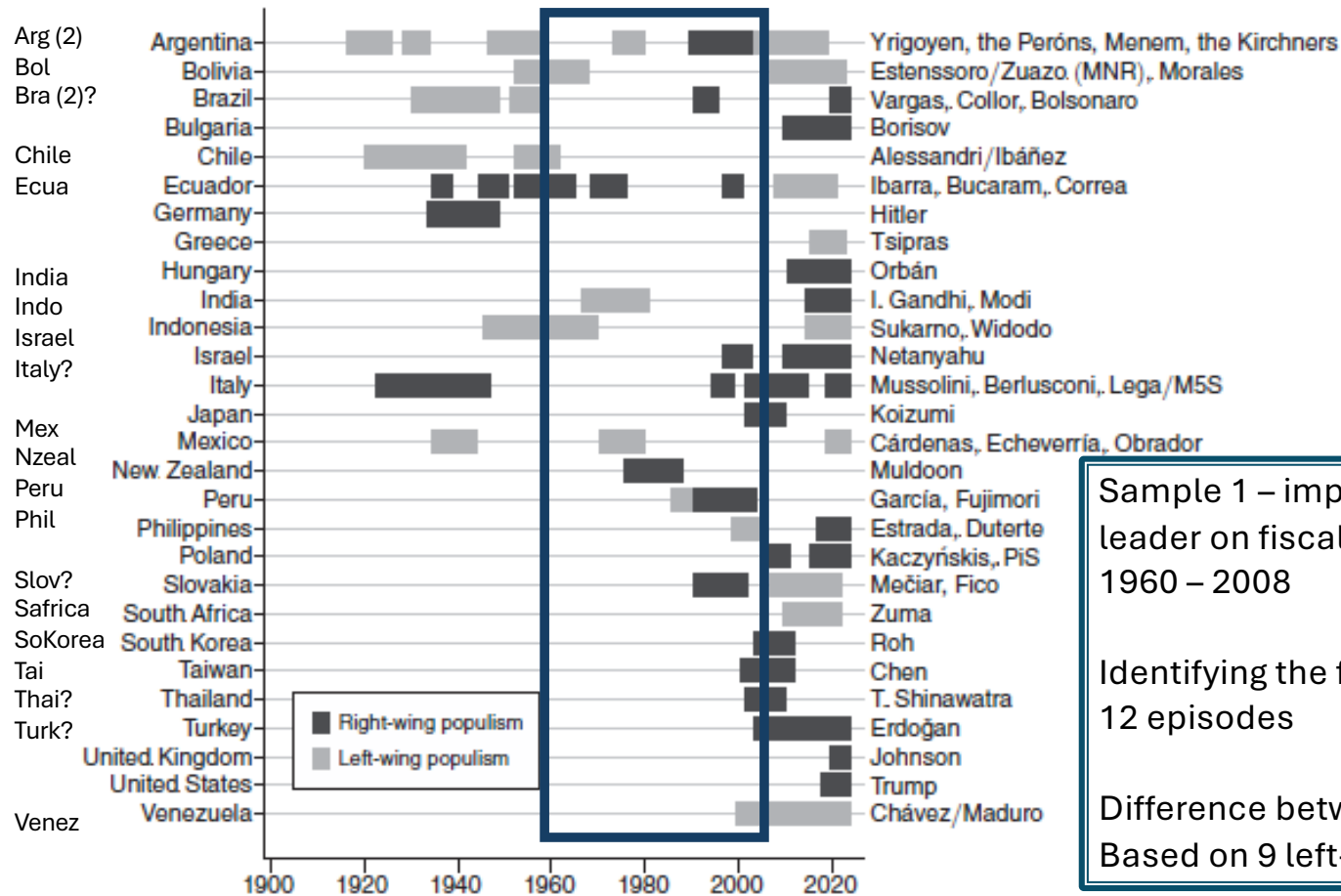


FIGURE 2. POPULIST LEADER SPELLS BY COUNTRY

Sample 1 – impact of populist leader on fiscal outcomes 1960 – 2008

Identifying the fiscal effect from 12 episodes

Difference between left and right Based on 9 left-wing cases?

Part 2: estimate coefficients of a Taylor rule

- Want to test whether the inflation coefficient in the rule differs for countries that have experienced populism
- Sample: Start date from when inflation target is established and estimate forward
- Number of years experienced a populist regime up to 10 years prior to the adoption of the IT regime

Countries with populist governments and inflation targeting				
		Date of IT	past pop	
	Argentina	na		
	Bolivia	na		
	Brazil	1999	1990-1992	yes
	Bulgaria	na		
	Chile	1999		no
	Ecuador	na		
	Germany	na		
	Greece	na		
	Hungary	2001	2010-	future populism
	India	2015	2014-	concurrent populism
	Indonesia	na		
	Israel	1997	1996-1999	concurrent populism
	Italy	na		
	Japan	na		
	Mexico	2001		no
	New Zealand	1989	1975-1984	yes
	Peru	2003	1990-2000	yes
	Philippines	2002	1998-2001	yes
	Poland	1998	2005-2007	future populism
	Slovakia	na		
	South Africa	2000	2009-2018	future populism
	South Korea	2001	2003-2008	future populism
	Taiwan	na		
	Thailand	2000	2001-2006	concurrent populism
	Turkey	2006	2003-	concurrent populism
	UK	na		
	US	na		
	Venezuela	na		

12 cases of countries with a history of populism and inflation targeting

Of those, 4 experienced populism in the decade prior to IT date

4 countries continued in a populist regime along with inflation targeting; 4 had populism after IT

How can we infer a difference between inflation targeting for these countries relative to the non-populist countries?

What defines a “populist” government?

- Paper uses *regime*, *government* and *leader* interchangeably
 - Leader divides society into “the people” and “the elites”
 - Leader claims to be the sole representative of the true people
- But are they the same thing?
 - Trump defined as a populist in 2017 – US is not (yet) a popularist country
 - The countries that tend toward populism also have weak institutions – is it the nature of the government, or the lack of checks and balances?
- Definition of populism is “detached” from economic outcomes
 - But reverse causation from economic outcomes to populism is also likely

What do populist governments do?

- They spend more.... on what?
 - Infrastructure
 - Social services
 - Military
 - Vanity projects
- Different multipliers associated with these expenditures
- Populism or weak institutions?

Picky points

- *experiential learning* – not experience learning
- Would be helpful to add an appendix explaining the sample of countries, selection criteria and time period for each econometric test

Conclusion

- Super interesting paper on an important topic
- I actually believe the results, even though I am sceptical of the econometric power of the tests
- Very important to bring knowledge from political science and other fields to our understanding of government policy