

Discussion of “Lessons from Populism in Latin America”

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Introduction and overall assessment

- Research question: What are the institutional and economic consequences of populist leaders in Latin America?
- Research methodology: Cross-country comparisons between the performance of populist and non-populist leaders using local projection methods.
- Research conclusions: Populist leaders weaken institutions and worsen macroeconomic outcomes.
- Overall assessment: Excellent and rigorous paper that provides a lot of new and useful information. But it can be improved in a few dimensions...

What makes a leader “populist”?

- Alternative views:
 - Dornbusch and Edwards (1990): Inconsistent macroeconomic policies
 - Funke et al. (2023): The opinion of social scientists
- Hawkins index asks political scientists to rate speeches from leaders:
 - Anti-Establishment rhetoric
 - Us vs Them mentality
 - Appeal to the common people
 - Emotional appeal
 - Simple language
 - Direct engagement
- The first two items are about change and conflict. The third item is alignment along class lines, supporting the least favored. The last three items are about communication style and effectiveness.

What should we expect a populist leader to do?

Fact 1: The recent wave of populist leaders enjoyed unprecedented favorable terms-of-trade.

Fact 2: Recent Latin American populists, supported by external conditions, lasted longer than other populist regimes.

Fact 3: Populist governments favor strong fiscal expansion.

Fact 4: Populist governments are associated with real exchange rate appreciation and external current account deterioration.

Fact 5: Populist regimes are associated with weaker institutions.

What should we expect a populist leader to do?

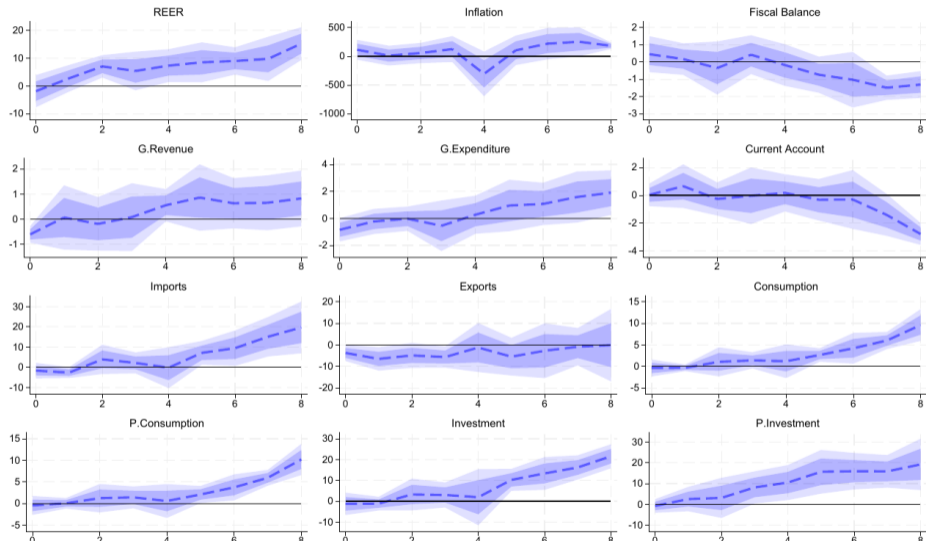
Fact 6: Populist leaders are associated with a reduction in investment and capital inflows.

Fact 7: Populist leaders are ineffective at implementing their policies initially but, if they remain in power long enough, they improve their effectiveness.

Fact 8: Populist leaders reduce property-rights protection initially but, if they remain in power long enough, they might improve it.

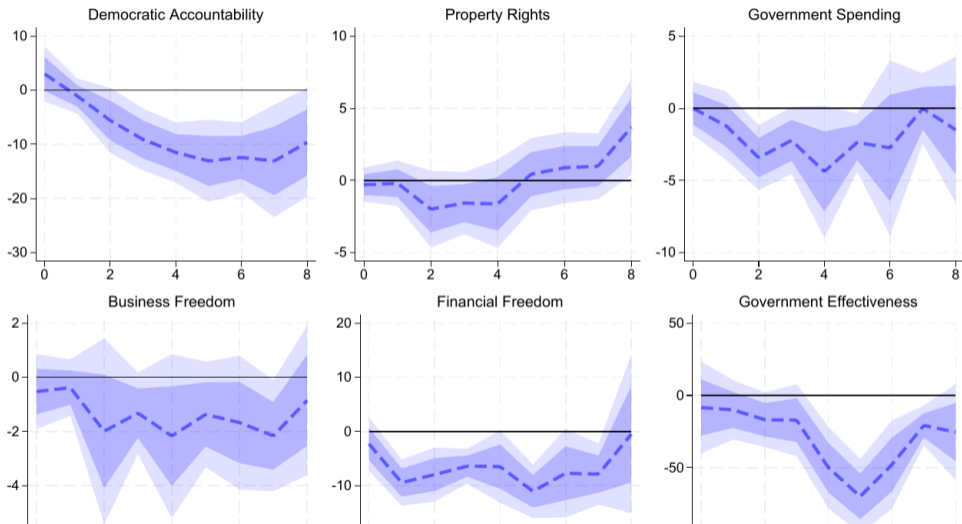
Fact 9: Populist leaders worsen the business and financial environment.

Figure 3: Macroeconomic effects of populist leaders



Source: Magud, Spilimbergo and Werner (2026), Figure 3.

Figure 4: Institutional effects of populist leaders



Source: Magud, Spilimbergo and Werner (2026), Figure 4.

Democratic Accountability Index

- PRS Group / ICRG measure of government responsiveness to the people, scored as a political-risk component using five qualitative regime categories.
1. **Alternating Democracy:** free and fair elections; viable opposition; checks and balances; independent judiciary; protected personal liberties; executive has not served more than two successive terms.
 2. **Dominated Democracy:** similar democratic features, but the executive has served more than two successive terms.
 3. **De Facto One-Party State:** elections are held, but the system is designed or distorted to ensure dominance; opposition activity is restricted by unequal media access, harassment, obstacles, or fraud.
 4. **De Jure One-Party State:** constitution requires only one governing party; no legally recognized political opposition.
 5. **Autarchy:** single person or group not subject to electoral franchise, for example through military power or inherited right.

Other institutional measures

- **Property Rights:** Composite 0–100 index based on expropriation risk, respect for intellectual property rights, and quality of contract enforcement.
- **Business Freedom:** Composite index based on access to electricity, business environment risk, regulatory quality, and women's economic inclusion.
- **Financial Freedom:** Qualitative 0–100 index capturing regulation of financial services, state ownership, credit allocation, financial-market development, and openness to foreign competition.
- **Government Spending:** Heritage Foundation score based on a nonlinear penalty for higher general government expenditure as a share of GDP; lower scores indicate larger government spending.
- **Government Effectiveness:** World Bank WGI measure of public-service quality, civil-service independence, policy formulation and implementation, and credibility of policy commitments.

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