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**THE POPULIST THREAT TO LIBERAL DEMOCRACY**

**Emilio Ocampo**

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## **The Populist Threat to Liberal Democracy\***

Emilio Ocampo\*\*

### **Abstract**

Populism is no longer considered a disease of the developing world. In recent decades it has spread throughout Europe and North America, while maintaining its grip on its historical stronghold, Latin America. Populism now represents the biggest threat to the survival of liberal democracy. However, confusion about what it means prevails, even among academics. Unlike communism, which attacked democracy frontally and sometimes violently, populism works from within by appealing to negative emotions that weaken society's cultural antibodies. In any of its ideological variants, it proposes simplistic, arbitrary and costless measures to overcome society's structural problems that end up damaging the economy and weakening the rule of law. This essay outlines the main elements of a conceptual framework that can be useful to analyze the roots of modern populism, understand how it chooses its ideology and predict how it will likely evolve. It also draws parallels with threats to liberal democracy during the interwar period and extracts insights from the contemporary interpretation provided by two leading intellectuals: Joseph A. Schumpeter and Friedrich A. Hayek.

*Key words:* populism, liberal democracy, authoritarianism.

\* Revised version: [May 3, 2021](#). This version includes substantial changes on the original.

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## The Populist Threat to Liberal Democracy

Emilio Ocampo

*Of those men who have overturned the liberties of republics, the greatest number have begun their career by paying an obsequious court to the people; commencing demagogues, and ending tyrants.*

Alexander Hamilton, The Federalist Papers

*The tyranny of the majority is now generally included among the evils against which society requires to be on its guard.*

John Stuart Mill, On Liberty

In a recent interview Mario Vargas Llosa warned that the worst and most dangerous enemy of liberal democracy is no longer communism but populism: “No one in their right mind wants to model their country on North Korea, Cuba or Venezuela. Marxism is already on the fringes of political life but that’s not the case with populism, which shatters democracies from within. Far less direct than an ideology, it is a tendency weak democracies are unfortunately vulnerable to.”<sup>1</sup> It now seems evident that even in the most politically advanced countries unchecked populism can not only corrode but also destroy the foundations of liberal democracy.<sup>2</sup>

What is populism? Almost two decades ago, political scientist Margaret Canovan noted that very few of her colleagues in academia paid attention to populism because they considered it a “pathological symptom of some social disease” characteristic of less developed countries, or a

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<sup>1</sup> Vargas Llosa (2018). See also Vargas Llosa and Vargas Llosa (2018).

<sup>2</sup> Recent events have also shown that individual freedom faces other threats as well. In the face of the Covid-19 pandemic, democratically elected governments throughout the world have restricted economic and civil liberties (see Freedom House, 2020) Time will tell whether these restrictions are transitory or become permanent.

political phenomenon that eluded a precise definition.<sup>3</sup> This is no longer the case. After being dormant for almost a century, populism has resurfaced in Europe and North America. Populist parties have tripled their vote in the past two decades, placing their leaders in government in eleven European countries and increasing thirteen fold the population living under populist regimes.<sup>4</sup> Populism is an insidious virus that corrodes democracy from within. It has even infected supposedly immune Anglo-Saxon countries such as the US and the UK. This modern strain of populism is different from the one that has prevailed in many Latin American countries for most of the postwar era. Instead of fostering class conflict, it appeals to racism, xenophobia, and anti-globalization. In this regard, it has a closer resemblance to early 20<sup>th</sup> century European populism.

Despite increased attention by academics, consensus over a definition of populism remains elusive.<sup>5</sup> Confusion prevails, even among politicians. During a press conference at a NAFTA summit in mid-2016, Mexico's President Enrique Peña Nieto criticized politicians who "using populism and demagoguery... choose the easiest way to solve the challenges of today's world." His comment was aimed at the yet to be nominated Republican presidential candidate whose poisonous rhetoric targeted Mexico and its citizens. To Peña Nieto's surprise, President Obama rebuked him. "I'm not prepared to concede the notion that some of the rhetoric that's been popping up is populist," he said. According to Obama, a populist politician was one who cared about "social justice issues or making sure that poor kids are getting a decent shot at life or have healthcare." Trump was a "xenophobic chauvinist" not a "true populist." Obama claimed the label for himself and Bernie Sanders.<sup>6</sup>

Peña Nieto was closer to the truth. Populism is not simply about caring for the downtrodden, embracing popular causes and/or promoting redistributive policies. What distinguishes it from other political strategies or movements is its contempt for the status quo, the simplistic, arbitrary, and costless way in which it pretends to solve society's structural problems and the negative emotions it promotes with an antagonistic and Manichean discourse that divides society between

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<sup>3</sup> Canovan (2004). For a more in-depth exposition of the analysis that follows see Ocampo (2018).

<sup>4</sup> Lewis et al (2018).

<sup>5</sup> Mudde and Rovira Kaltwasser (2017).

<sup>6</sup> *Time* (2016).

“the people” (those who vote for it) and “others” (who are their enemies.) If persistent, populism undermines the rule of law and degrades democracy’s institutional fabric and civic culture.

Populism is not, and cannot be equated with, a specific ideology. Instead, as Ernesto Laclau always emphasized, it is “a way of doing politics.” There is left-wing populism (e.g., *Chavismo*), right-wing populism (e.g., Nazi-fascism) and chameleonic populism (e.g., early Peronism).<sup>7</sup> The first promotes class conflict, the second, xenophobia and/or racism while the third opportunistically combines elements of both. All strains of populism promote chauvinism, fanaticism and resentment. All are potential lethal to democracy and freedom. There is no such thing as “good populism.”<sup>8</sup> People living under right wing populist regimes may think left-wing populism would be less damaging despite substantial evidence to the contrary.<sup>9</sup> Populism is culturally, institutionally and temporally idiosyncratic. In the US, the Electoral College favored the emergence of right-wing populism. Unless there is a major change in demographics, left wing populism is unlikely to succeed at the national level but may do so at the state or municipal level (e.g., California and New York City.)

Although sometimes used as synonyms, populism and demagoguery have slightly different meanings. In current usage, a demagogue is a political leader “who makes use of popular prejudices and false claims and promises in order to gain power.” The term therefore denotes an electoral strategy rather than a set of policies. Following Aristotle and Polybius, Rousseau proposed the term “ochlocracy” (mob rule) to describe the regime that emerges when demagoguery is successful.<sup>10</sup> The Founding Fathers took demagoguery as a serious threat when drafting the US constitution. They viewed civic virtue and a system of “checks and balances” as the only antidote.

Despite its ancient lineage, populism is essentially a modern phenomenon.<sup>11</sup> The first self-titled populist party –the People’s Party– was founded in the US in 1891. However, despite having a

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<sup>7</sup> Early Fascism significantly differed from Nazism. For starters, anti-semitism was not part of its doctrine. Mussolini had two Finance Ministers and many advisors of Jewish origin. Only after 1938, under pressure from Hitler, he started persecuting Jews.

<sup>8</sup> See Rodrik (2021).

<sup>9</sup> The other mistake is to believe that left wing populism as it exists in Venezuela is not populism or socialism.

<sup>10</sup> Rousseau (1762), p. 58. See also Riker (1982), pp.13-14.

<sup>11</sup> Napoleon III can be considered the first populist politician of modern times.

strong following in the Southern and Western states, it vanished after two decades.<sup>12</sup> In the 1920s and 1930s, right-wing populism emerged in Europe's fledgling parliamentary democracies. Mussolini led the way with his "March on Rome."<sup>13</sup> Hitler tried to emulate him but failed. While in prison, he studied Gustave Le Bon's lessons on mass psychology and when he regained his freedom he became "a demagogue of the first water and an orator and agitator of real ability."<sup>14</sup>

In the 1930s, populism also surfaced in several Latin American countries, always adapted to local culture and political circumstances. Mexico's Lázaro Cárdenas inaugurated the region's long lasting addiction.<sup>15</sup> After WWII, populism disappeared in the Old World while it thrived in South America. Argentina's Juan Perón is considered the quintessential Latin American populist leader. He was also one of the most successful politicians of the 20<sup>th</sup> century. Although he originally reached power through a military coup, he won the presidency in free elections with an overwhelming majority three times. There is probably no other country in the world in which a political leader active in the mid 20<sup>th</sup> century had such a profound and lasting impact.<sup>16</sup> Perón ruled Argentina from June 1943 until September 1955 and between May 1973 and his death in July 1974. His party has governed the country 80% of the time since the reestablishment of democracy in 1983.<sup>17</sup> Peronism not only dominates Argentine politics but has also influenced other countries in Latin American. Chávez once described himself as "a true Peronist."<sup>18</sup>

Whatever its ideology, populism is a political scam. As Arrow, Riker, and others have demonstrated logically no electoral system can coherently express the "will of the people." Therefore, no politician can claim to represent it either, no matter what percentage of votes he or she wins in a free election.<sup>19</sup>

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<sup>12</sup> The first to use the term populist were the Russian *narodniks* in the late 19<sup>th</sup> century. However, Russia did not have a democratic system at the time.

<sup>13</sup> Mussolini became Italy's prime minister not as a result of an election but of a decision of King Victor Emmanuel II within the rules of the parliamentary system. He governed in accordance to those rules until January 1925.

<sup>14</sup> Wertheimer (1931), p.66. For the impact of Le Bon's ideas on Hitler see Müller Frøland (2017), p.128.

<sup>15</sup> Hitler was the first successful populist politician of the 20<sup>th</sup> century. However, late stage Nazism was not right-wing populism but totalitarianism. See Paxton (2004), Finchelstein (2017) and Eatwell (2017).

<sup>16</sup> For an analysis of Peronism as a populist movement see Ocampo (2020c).

<sup>17</sup> Some provinces in Argentina have been governed uninterruptedly by Peronism since 1983, when democracy was reinstated.

<sup>18</sup> *La Nación*, 2008.

<sup>19</sup> Arrow (1950) and Riker (1982).

*Populism as a “Solution”, the Populist Leader as Savior*

Academics have debated for decades what is the proper definition of populism without reaching the consensus. Attempting to settle this debate is a futile task. However, it is necessary to establish at least certain definitional boundaries if we are to understand the threat posed by populism. First, as Aristotle and Polybius pointed out, populism is a degeneration of democracy that has its own life cycle. Without electoral legitimacy in its origin it cannot exist and it ceases to exist when it becomes authoritarian. Second, a popular politician is not necessarily a populist one. In a democracy the vote of the majority is necessary to govern and it can be obtained without resorting to populism. Hence, populism is not a necessary condition for the existence of a right or left wing democratic government. Third, populism always imposes some type of redistribution of collective resources but not all redistribution necessarily implies populism. Fourth, populism is not an ideology but a way of doing politics that can be articulated from the left or the right. Finally, all forms of populism appeal to extreme nationalism, which also can be packaged with a right or left wing ideology.

To understand the origins of populism it is useful to focus on three elements.<sup>20</sup> First, a simplistic, arbitrary and supposedly costless “solution” (the “populist solution”) to structural problems that have generated a widening divergence between the aspirations of a majority of the electorate and reality (the “frustration gap”).<sup>21</sup> Second, a narcissistic, charismatic and opportunistic politician that advocates and justifies the implementation of the “populist solution” with a Manichean narrative that challenges the status quo and appeals to chauvinism and certain predominant beliefs, prejudices and anxieties that are culturally and temporally idiosyncratic (the “populist narrative”). Third, a majority that finds the “populist solution” convincing and emotionally appealing and votes for it.<sup>22</sup>

The frustration gap is the sociological humus in which populism rises and develops. It is a necessary but not sufficient condition for its emergence. It can have an objective cause, such as a

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<sup>20</sup> Ocampo (2018) and (2019).

<sup>21</sup> Defining populism as a “solution” allows for the inclusion of populist manifestations such as Brexit into the analysis. No populist candidate won an election in England but a populist solution received a majority of the vote.

<sup>22</sup> In this context, a majority is defined as the minimum number of votes required in a specific electoral setting to secure the power of the executive.



financial crisis, war, great migration, technological progress or radical change in the international economic order (e.g., protectionism in the 1930s or deindustrialization due to globalization in recent decades). It can also result from a subjective comparison of the present with unfulfilled expectations or with an idealized vision of the past. The success of the populist politician depends on his or her ability to promote such comparison.<sup>23</sup> But this is not enough. He or she also has to convince voters that the frustration gap is not a result of a natural catastrophe but of a conspiracy carried out by the enemy of the people. Only the perception of unfairness can feed resentment among voters. Resentment is the emotional fuel of populism.

A widening frustration gap with such characteristics inevitably generates a reaction among voters. Such reaction can take the form of a demand for measures to neutralize a perceived cultural, ethnical or religious threat to the established order (or an idealized order that was supposedly lost not too long ago) or for a redistribution of the economic resources it “unfairly” generated. Right wing populists emphasize the former reaction, whereas left wing populists the latter. The wider the frustration gap and the more unfair its origin is perceived, the more likely an opportunistic politician will be able to take advantage of it. This situation is common in countries that impoverished themselves after periods of prosperity (e.g., Argentina and Venezuela), those in which median incomes have stagnated for decades (e.g., the US), or those in which a majority feels that society’s culture, religious values and/or ethnic composition are threatened by “outsiders” (e.g., the US, Western and Eastern Europe).

Regarding the nature of the “populist solution”, simplicity is key. The populist leader must explain the origin of the “frustration gap” in a simple way that can be easily understood by voters with the lowest level of education. Its effectiveness must seem assured by its simplicity, which rests on the twin pillars of Manichaeism and paranoia. The essence of the populist narrative is the struggle between good (“the people”) and evil (“the enemy of the people”), the latter always conspiring to harm or exploit the former.<sup>24</sup> When effectively delivered, this narrative inevitably

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<sup>23</sup> It is an historical fact that most successful populist leaders have been men. Eva Perón is a notable exception. Although she rose to power thanks to her husband, her ability to stir the masses was as his equal and she ended up wielding as much power as he did (see Zanatta, 2011). Cristina Kirchner also rose to power in similar way and later claimed Eva’s mantle.

<sup>24</sup> Populist politicians conceive politics as described by Carl Schmitt: the only distinction which is valid in politics is antagonistic (Schmitt, 1927, 26). Schmitt’s ideas were revived by modern ideologues of left-wing populism such as Laclau (2005).

breeds resentment, which is populism's psychological nutrient and one of the most powerful tools to manipulate the masses.

Second, the populist solution arbitrarily tramples on established institutions (formal and informal). Since the populist leader supposedly represents the "will of the people", he or she is not subject to the rule of law or any customs or institutional constraint. Government arbitrariness is the antithesis of the rule of law, one of the pillars of liberal democracy.<sup>25</sup> Once effectively installed, it opens the door to authoritarianism.

Third, the populist solution proposes to close the frustration gap at no cost to those who vote for it. That cost must be borne by those who the populist leader identifies as "the enemies of the people." The enemies can be domestic and foreign. The former are minorities with limited electoral weight that are denied their rights and persecuted; the latter are punished with deportation of immigrants, embargos, punitive tariffs, nationalization and/or expropriations.<sup>26</sup> The populist narrative –which is grounded and appeals to predominant cultural values and beliefs– provides a "justification" for this arbitrariness. As Tocqueville warned in order, "to commit violent and unjust acts, it is not enough for a government to have the will, or even the power; the habits, ideas, and passions of the time must lend themselves to the committal of them."<sup>27</sup>

Finally, the populist "solution" is a fake solution. It not only fails to resolve the underlying structural problems that gave birth to it but in fact actually tend to worsen them. When this happens, distorting and denying the facts and proposing spurious causal relationships becomes essential for the regime's survival. The leader explains that the self-inflicted crisis is not the result of misguided policies but of exogenous factors or a conspiracy orchestrated by the internal and external "enemies of the people."<sup>28</sup> Any independent media outlet that challenges this narrative, is automatically incorporated into it as another foe. The regime tries to impose its own

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<sup>25</sup> Throughout this article I will use the term 'liberal' in its British definition, i.e., consistent with the tradition of 19<sup>th</sup> century Western thought. In the US the term has almost the exact opposite meaning (see Hayek 1944, p.ix).

<sup>26</sup> War and invasion are populism's *ultima ratio*, particularly for extreme right-wing variants.

<sup>27</sup> Tocqueville (1896), p. 131.

<sup>28</sup> For example in Argentina, populist governments typically blame inflation on supermarket chains or the rise of international commodity prices.

version of reality through propaganda channeled through state-owned media or by “friendly” journalists (typically amply rewarded with public advertising.)

It is also important to note that the electoral majority that brings a populist candidate to power is not a homogenous group of low-income voters but a coalition that cuts across all income levels.<sup>29</sup> In fact, in most modern democracies with a certain degree of economic and institutional development, the vote of a substantial portion of the middle class is key to the electoral success of a populist candidate. A growing number of dissatisfied middle-income voters is a better predictor of the rise of populism than a large percentage of the population living in poverty.<sup>30</sup> As Eric Hoffer pointed out in *The True Believer*, “it is usually those whose poverty is relatively recent, the ‘new poor’, who throb with the ferment of frustration. The memory of better things is as fire in their veins. They are the disinherited and dispossessed who respond to every rising mass movement.”<sup>31</sup>

In summary, to reach and maintain power, populism requires a charismatic and opportunistic politician that can “articulate” the populist narrative and link the disparate demands of a majority of the electorate that feels unsatisfied and frustrated with the established order (what Laclau defined as “the logic of equivalence”).<sup>32</sup> In Latin America, so called “social justice” was the rallying cry of traditional populist leaders such as Juan Perón.<sup>33</sup> The “narrative” plays a critical role in the emergence of successful populism: it explains in very simple terms the origin of the frustration gap and those measures required to close it. Underlying it there is always an antagonistic relationship between “the people” and the existing power structure that supposedly prevents its demands from being justly satisfied. According to Laclau, the “crystallization” of this antagonism is the essential and most important part of the populist leader’s “discourse.”<sup>34</sup>

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<sup>29</sup> Even Perón, who is usually associated with the “shirtless” peasants, won his first election in February 1946 with the support of a broad coalition that even included the most reactionary members of the conservative elite.

<sup>30</sup> This statement has to be qualified. First, there is a negative relationship between poverty and institutional quality. Second, under certain circumstances steadily rising poverty levels might be an indication not of explosive population growth (e.g., India) but a shrinking middle class, which is a good predictor for the rise of populism.

<sup>31</sup> Hoffer (1951), p. 26.

<sup>32</sup> In addition to developing a theory of populism, Laclau also contributed to its implementation. Until his death in 2014 he was the intellectual mentor (and advisor) of several left-wing populist leaders that emerged in Latin America and Southern Europe.

<sup>33</sup> Under Peron’s regime “social justice” meant higher salaries and social benefits for industrial workers and higher profits for crony capitalists. The former divorced were from productivity and the latter from efficiency, both financed by exactions on the agricultural sector and higher prices to consumers. The stagflation generated by this system hurt the poor disproportionately.

<sup>34</sup> Laclau (2005), p.110.

His or her electoral success depends on his or her ability to foster (or reinforce) a feeling of dissatisfaction with the status quo among a significantly large number of voters, which in turn requires convincing them that they do not have the same standard of living, respect or recognition that they deserve and other easily identifiable smaller groups enjoy (which, *ipso facto*, become the “enemy of the people”). In other words, the leader has to reinforce the feeling that a majority has been unfairly deprived of something that it is entitled to.

The proposed definition allows a distinction between populist politicians, populist policies and populist regimes. A populist politician is a politician that proposes a “populist solution” to win an election. However, many politicians who start their career as populists end up as dictators. Populist policies are those government policies needed to close the frustration gap in a manner consistent with the “populist narrative.” Electoral success and the implementation of the “populist solution” are necessary conditions for the existence of a populist regime.<sup>35</sup> But as we shall see below, populist regimes tend to degenerate into autocracies. Finally, an authoritarian regime does not become populist by applying populist economic policies.

### *The Role of Malignant Narcissism*

Malignant narcissism is key to understand populism. As mentioned above, extreme nationalism is a common denominator of left wing and right-wing populism. As a sentiment, nationalism feeds of malignant collective narcissism, which has as its most obvious and frequent symptom a belief in “the superiority of one’s group and the inferiority of all others.” If anything or anyone threatens this belief, the predictable reaction is aggression and resentment.<sup>36</sup> To build up this feelings of superiority it is often necessary to re-interpret national history. In Latin America, where both politics and history are imbued by magical realism, it is not uncommon for populist leaders to propose a metempsychosis with national heroes, as Chávez did with Bolívar in Venezuela and Perón did with San Martín in Argentina.

The populist leader is a narcissist who embodies in an exaggerated manner certain psychological and cultural traits that are typical of a country’s median voter. Generally these traits do not have

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<sup>35</sup> Mao and Castro were not populist leaders but dictators. What they all have in common is extreme malignant narcissism.

<sup>36</sup> Fromm (1964), p.85-86. See also Golec de Zavala and Keenan (2020).

a positive connotation but they facilitate the process of identification of the followers with the leader. Sigmund Freud described this process in *Group Psychology and the Analysis of the Ego* (1921) and Erich Fromm developed it further in *The Heart of Man* (1960).<sup>37</sup> As Fromm explained, “the narcissism of the leader who is convinced of his greatness, and who has no doubts, is precisely what attracts the narcissism of those who submit to him.”<sup>38</sup> This was as true for Hitler, Perón, and Chávez, as it is for Trump, Erdogan, and Orban.<sup>39</sup> Any mass movement that describes itself with a surname is likely to reflect some form of malignant narcissism.

Leaders that exhibit this personality disorder need to create a reality of their own that satisfies their self-image:

If they [malignant narcissists] have the talent to appeal to large masses and are shrewd enough to know how to organize them, they can make reality conform to their dream. Frequently the demagogue on this side of the borderline to a psychosis saves his sanity by making ideas that seemed “crazy” before appear to be “sane” now. In his political fight he is driven not only by the passion of power, but also by the need to save his sanity.<sup>40</sup>

Hitler was an extreme case of this pathology. According to Fromm, his narcissistic psychosis and necrophilia took Germany down the path to self-destruction. The Nazi leader was “not capable of seeing reality objectively... his only reality was his wishes and thoughts” and would have probably suffered “a manifest psychosis had he not succeeded in making millions believe in his own self-image, take his grandiose fantasies regarding the millennium of the ‘Third Reich’ seriously, and even transforming reality in such a way that it seemed proved to his followers that he was right.”<sup>41</sup> This large-scale transformation of reality is unlikely to happen if strong and independent media constantly challenges a populist leader.

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<sup>37</sup> Freud (1921) pp.37-42 and Fromm (1964).

<sup>38</sup> Fromm (1964), p.106.

<sup>39</sup> A well-known US political consultant described Trump as “an avatar” for the “worst instincts” and “deepest desires” of the American people (Wilson, 2018, p.2).

<sup>40</sup> Fromm (1973), p.391.

<sup>41</sup> Fromm (1964), pp. 108-109, 76.

## *The Ideology of Populism*

Laclau always emphasized that populism was not an ideology but “a way of constructing politics.”<sup>42</sup> In reality, what determines the ideology of a particular populist strain is how the populist leader identifies the “enemy of the people.”<sup>43</sup> This identification is culturally and temporally idiosyncratic. Right-wing populists tend to define the “enemy” based on ethnic, religious or cultural characteristics. Left-wing populists instead usually defined it by an economic dimension. However, in the aftermath of the collapse of the Soviet Union, post-Marxist intellectuals have attempted to move beyond the class struggle narrative. Laclau and Mouffe, who must be credited for giving an intellectual patina to modern left-wing populism, propose to use it as an instrument to achieve what they call “radical democracy”, which is essentially illiberal. This requires incorporating new dimensions of conflict in populist discourse such as “the rise of the new feminism, the protest movements of ethnic, national and sexual minorities, the anti-institutional ecology struggles waged by marginalized layers of the population, the anti-nuclear movement, the atypical forms of social struggle in countries on the capitalist periphery.”<sup>44</sup> A foreign enemy (or enemies) that threatens national greatness is common to both strains of populism.<sup>45</sup>

Ideology is also strongly correlated with the outlook of a populist movement. Right wing populist leaders promise to defend a threatened cultural and/or ethnic status quo (or an idealized past version of it), while those of the left wing variety a utopian future that can only be achieved by confiscating resources from the privileged few who benefit from the current state of affairs.

The experience in the 2016 primary and presidential elections in the US illustrates this point. Both parties had populist candidates –Donald Trump and Bernie Sanders– who agreed on the underlying problem (the “American dream is over”) but proposed alternative explanations of the origin of the “frustration gap” and identified different groups or nations as “enemies of the people.” Consequently they also proposed different solutions. According to Trump, the culprits

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<sup>42</sup> Laclau (2005), p.6, and Mouffe (2018), p.10.

<sup>43</sup> Carl Schmitt, the legal ideologue of the Nazi party, was the first to propose this dichotomy as a political strategy (see Schmitt, 1932, pp.29-30).

<sup>44</sup> Laclau and Mouffe (1985), p.9.

<sup>45</sup> This also explains why economic autarchy and protectionism are common denominators for right-wing and left-wing populist regimes.

of America's decline were unfair competition from Mexico, China, and Muslims.<sup>46</sup> Sanders, on the other hand, blamed income inequality and Wall Street bankers. Whereas Trump proposed tariffs, travel bans and deportation of illegal immigrants (“make foreigners pay”), Sanders advocated higher taxes on the top 1% (“make the rich pay”) and massive redistribution.

Those who vote for a populist leader due to ideological affinity are likely to be disappointed. A narcissistic leader only cares about him or her. Ideas are always subordinated to the political needs of the moment and the psychological demands of his or her own ego. Perón offers the best example of an ideologically chameleonic populist leader. He started as a staunch anti-communist allied with the Army and the conservative Catholic Church, then he became the champion of nationalism and the urban underclass; later, when the economy crashed, he showed a friendly attitude towards the United States and foreign investment while he confronted the hierarchy of the Catholic Church; after being ousted in 1955 he courted the insurrectionist left inspired by Fidel Castro, whom he publicly praised, and, finally when he returned to power in 1974 he veered again to the right.<sup>47</sup> This ideological zigzagging inevitably led to violent clashes within the Peronist movement that eventually triggered the closest thing to a civil war Argentina experienced in the 20<sup>th</sup> century.<sup>48</sup>

The identification of the “enemy of the people” not only defines the ideology of a populist regime but also its economic policy. Left-wing populists try to improve the material welfare of low-income groups through redistributive policies and deficit spending, while right wing populists favor policies that transfer resources from targeted minorities and/or foreigners to middle and high-income groups (i.e., they are more plutocratic). In the short run, the former tend to boost consumption, while the latter, to foster savings and investment. Both, in different degrees, resort to protectionism, interventionism and nationalizations. Both foster crony capitalism and corruption. However, left-wing populism has proven to be more destructive in economic terms.

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<sup>46</sup> The evidence shows that automation was a more important factor (see Acemoglu and Restrepo, 2017).

<sup>47</sup> Perón entered politics in 1943 by leading a military coup which had as one of its main objectives to prevent a communist revolution from taking place in Argentina.

<sup>48</sup> Hugo Chávez' socialism became more extreme as his regime became more authoritarian but crony capitalism thrived under his rule and that of his successor. *Chavismo* has meant socialism and misery for the masses and capitalism and riches for the *nomenklatura*.

## *The Life Cycle of Populism*

According to Polybius's theory of constitutional change (*anacyclosis*), what we now call populism is a degeneration of democracy. But this degeneration goes through its own phases: demagoguery (the strategy used by a populist politician to win the election), ochlocracy (a government that implements the "populist solution") and autocracy (a government that restricts economic and civil liberties by abusing power.) In the first phase, populism is a contender for power and, in the last two, an incumbent. The dynamics of each of these stages are different and their length can vary due to economic, cultural and institutional factors that are country specific. Some populist regimes never reach the final stage due to the existence of strong cultural and institutional antibodies.

The first stage always requires legitimization by the popular vote; even Hitler had to go through it.<sup>49</sup> In the Weimar Republic, Nazism operated "formally on a perfectly legal democratic basis" and an effective "campaign of demagoguery finally led to the establishment of a tyranny."<sup>50</sup> In the second stage, the regime may appear to be "closing" the frustration gap with some degree of success. But this is a mirage disguised by favorable exogenous factors or an unsustainable redistribution of resources at the expense of those minorities identified as the "enemies of the people." However, this strategy is short lived. The targets of populist rage evade exactions via capital flight and/or emigration or its resources are depleted. Over time, the arbitrary measures of the populist regime degrade institutional quality and the absence of structural reforms ensures that the "frustration gap" widens. The electoral coalition that brought the demagogue to power splinters and reduces the chances of obtaining majority vote in a free election. This opens the door to populism's third stage: autocracy. With free elections, a broad and growing discontent threatens the survival of the populist regime. The populist leader usually reacts to this threat by doubling down, using state controlled media to promote a conspiratorial narrative (the crisis is due to the perverse deeds of the "enemies of the people") and systematically abusing executive power (by violating property rights, restricting press freedom and tampering with the electoral

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<sup>49</sup> Before being appointed Chancellor, Hitler was described as a demagogue "of the first water." This doesn't mean equating Nazism with populism, it means Nazism used populism to rise to power. One could argue that Hitler was a tyrant disguised as a demagogue. He used the system of democracy to destroy it. This was obvious to Classic and Enlightenment thinkers.

<sup>50</sup> Schacht (1948), p.269.



system). Under a populist system, “the temptation and the ability to weaken the electoral sanction are especially strong.”<sup>51</sup> If a democracy does not have strong institutional and cultural antibodies, it is eventually destroyed, and, in its last stage, if ever reached, populism mutates into a dictatorship. History shows that once in power populist leaders can quickly jump to the last stage. It only took Hitler two months.

Economic performance is a key factor in explaining populism’s life cycle (the other being electoral considerations). Whether right or left wing, as Nobel Prize winner Jean Tirole has pointed out, populist policymakers show contempt “for elementary economic mechanisms.”<sup>52</sup> In essence, populism is “anti-economics”, as it rejects the idea that society, and therefore government, faces any constraints. Populist policies are predicated on the assumption that if society faces any constraints, it must be because internal and/or external forces inimical to the interests of “the people” have imposed them. The populist program follows logically from this premise. Revenge is always one of its key psychological ingredients.

In a paper that has become a classic, Dornbusch and Edwards defined the typical Latin American populist economic policy paradigm as a set of measures that seek to redistribute income and expand aggregate demand as if the country faced no financial constraints.<sup>53</sup> This paradigm is characteristic of the left-wing variety. These populist leaders reject the idea that deficit financing through monetary expansion can lead to high inflation and believe fostering consumption through expansive fiscal and monetary policies is non-inflationary and leads to real output growth. In reality, as Dornbusch and Edwards also pointed out, the implementation of these policies eventually leads to stagflation.

From an economic standpoint, the Latin American variants of populism –Perón’s 1946-55 experience being archetypical– have followed three phases: first, a short-term consumption boom fueled by wage increases and expansionary fiscal and monetary policies; second, increasing bottlenecks that lead to creeping inflation and foreign-exchange shortages; and third, a full-blown crisis followed by a period of adjustment (sometimes under a non-populist government).

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<sup>51</sup> Riker (1982), p.249.

<sup>52</sup> Tirole (2018), pp.28-29.

<sup>53</sup> Dornbusch and Edwards (1991). See Ocampo (2020b) for a description of the populist economic policy paradigm.

Usually, at the end of the cycle, average real wages are lower.<sup>54</sup> There is a strong association between the economic and political phases of populism. From an economic standpoint, the first phase coincides with its second political stage, and the second and third, with its degeneration into autocracy or the revival of democracy.

Given that it tends to emphasize investment rather than consumption, the life cycle of right wing populism is different. The effects on the economy tend to be less destructive, at least in the medium term. However, to the extent they rely too much on protectionism and crony capitalism right wing populists also generate output and productivity losses. Right wing populist regimes tend to be more respectful of property rights as long as managers and shareholders do not openly criticize them. Also, since they are more likely to go to war, they can actually be much more destructive.

#### *Lessons from the Interwar Period: Schumpeter and Hayek*

Except for the US and a few other countries, liberal democracy is essentially a 20<sup>th</sup> century phenomenon. For the rest of the Western Hemisphere, World War I was a turning point. It unleashed forces that contributed to the emergence of the democratic system and also the most serious threats to it: Stalinism and Nazism. During the Interwar period both movements not only evolved and consolidated their hold on power but also contributed to World War II. Intellectuals on both sides of the Atlantic attempted to explain the rise of this threat and what it meant for the future of the democracy. In the vast literature that followed, two views stand out both for their pessimism and lasting influence: Joseph A. Schumpeter's *Capitalism, Socialism and Democracy* and Friedrich A. Hayek's *The Road to Serfdom*. Although Schumpeter and Hayek had grown up in Vienna, been trained as economists in the Austrian tradition, adhered to a liberal ideology and wrote their books almost simultaneously, they reached opposite conclusions regarding the relationship between capitalism, socialism and democracy.<sup>55</sup> Schumpeter had an American audience in mind for his book whereas Hayek a British one. It was, and is still common, to treat their conclusions as predictions. In reality, both extrapolated prevailing trends to their logical conclusion. Whereas Schumpeter's book has been hailed as a major contribution to

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<sup>54</sup> Ocampo (2020b).

<sup>55</sup> For a comparison of their political and economic ideas see Streissler (1983) and Klausinger (1995).

contemporary social theory, Hayek's as a political pamphlet and dismissed by many academics as the bible of resurgent 19<sup>th</sup> century liberalism. Schumpeter died in 1950 and was not able to see how his thesis stood the test of time; Hayek, who was 16 years younger, died in 1992 and was able to revise his conclusions. Although neither one explicitly addressed the populist threat, reframing their analysis in the current context yields valuable insights about it.<sup>56</sup>

According to Hayek, communism and Nazism competed for “the support of the same type of mind” and had Western liberalism as their common enemy. Since both prioritized the interests of the community over those of the individual and both ended up destroying freedom he labeled them “collectivism.”<sup>57</sup> In Hayek's view, it was a mistake to believe –as was common in England in the 1930s– that Nazism was a “a capitalist reaction, against socialism;” instead it was just “a peculiar form of socialism, a sort of middle-class socialism, not a proletarian socialism.”<sup>58</sup> The main argument of *The Road to Serfdom* was that by concentrating immense power in the hands of people who were the most likely to abuse it, a centrally planned economy in which the state owned the means of production would gradually degenerate into totalitarianism (such as then existed in both Germany and the Soviet Union).

In Hayek's definition, populism is a variety of collectivism, as it prioritizes the community over the individual. This definition is still useful but for most developed democracies equating communism, fascism and populism can lead to confusion. In autocracies, malignantly narcissistic leaders impose collectivism through violent revolution, whereas in developing democracies they do it with demagogy, i.e., they resort to populism.<sup>59</sup> Mussolini and Hitler became dictators playing by (and then eliminating) the rules of vulnerable parliamentary democracy.

Hayek downplayed this essential distinction between Nazism and communism. In fact, he argued that during the 1920s the “fusion of radical and conservative socialism” had driven “everything

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<sup>56</sup> It is beyond the scope of this essay to provide an in-depth analysis of Schumpeter's and Hayek's work. What follows is a summary deemed relevant by the author for the analysis of populism.

<sup>57</sup> Hayek (1944), p.33.

<sup>58</sup> Hayek (1982), p.277.

<sup>59</sup> There is no such thing as a freely elected communist dictator. Salvador Allende, who was a Marxist, won Chile's presidential election in 1970 as head of a broad based center leftwing coalition. In more recent times, Daniel Ortega of Nicaragua is the only possible exception that confirms the rule. He won a presidential election in 1984 as leader of the Sandinista movement after the overthrow of right-wing dictator Anastasio Somoza and then again in 2007. However, Sandinismo is a variant of left-wing nationalism very common in Latin America that mixes Marxist ideas with anti-Yankee sentiment. Under Ortega,

that was liberal” out of Germany and set the stage for the emergence of an authoritarian regime. In his view, Hitler’s rise was the inevitable consequence of these trends.<sup>60</sup> More importantly, Hayek also believed that a Nazi-type mass movement would not succeed in England due to cultural and institutional factors and that creeping socialism with extensive nationalizations under a parliamentary system was a more likely scenario. For several decades events proved him right: in the 1930s Mosley’s British Union of Fascists (BUF) was an electoral failure, and in the postwar era, the Labor party succeeded in socializing the British economy without resorting to demagoguery.<sup>61</sup>

One of Hayek’s key insights was that any form of collectivism inevitably degenerates into a *kakistocracy* (the government of the worst). To explain why Hayek delved superficially into group psychology, reaching conclusions that in many respects are consistent with Freud’s ideas mentioned above.<sup>62</sup> According to Hayek, the desire of an individual to identify with a group is “the result of a feeling of inferiority” which can be compensated if membership “confers some superiority over outsiders.”<sup>63</sup> Second, mass movements not only tend to disproportionately attract individuals with low moral standards but also once it incorporates them, it reduces any prior restraints on their behavior. Another typical characteristic of mass movement is unanimity of values and beliefs, which requires appealing to the lowest common denominator. Finally, sycophancy and loyalty to the leader are more likely among “those whose vague and imperfectly formed ideas are easily swayed and whose passions and emotions are readily aroused.” The “deliberate effort of the skillful demagogue” was required to “weld together a closely coherent and homogeneous body of supporters.” Hayek also anticipated a key conclusion of contemporary analyses of populism:

It seems to be almost a law of human nature that it is easier for people to agree on a negative programme, on the hatred of an enemy, on the envy of those better off, than on any positive task. The contrast between the ‘we’ and the ‘they’, the common fight against those outside the group, seems to be an essential ingredient

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<sup>60</sup> *Ibid.*, p.125.

<sup>61</sup> For an analysis of Mosley’s career see Ocampo (2020a).

<sup>62</sup> Unlike Mises, Hayek was always very critical of Freud (*Ibid.*, pp. 68, 73). However, it seems he was not totally familiar with the latter’s work, particularly regarding group psychology. In fact there are many points of agreement between them.

<sup>63</sup> Hayek (1944), p. 138.

in any creed which will solidly knit together a group for common action. It is consequently always employed by those who seek, not merely support of a policy, but the unreserved allegiance of huge masses. From their point of view it has the great advantage of leaving them greater freedom of action than almost any positive programme. The enemy, whether he be internal like the ‘Jew’ or the ‘*Kulak*’, or external, seems to be an indispensable requisite in the armoury of a totalitarian leader.<sup>64</sup>

The intellectual roots of this “friend versus enemy”, “good versus bad” Manichean dichotomy can be traced back to Carl Schmitt, one of the ideologues of Nazism.<sup>65</sup> Not surprisingly, left wing intellectuals have Schmitt from obscurity and not only incorporated his concept of antagonism into their sociological theories but also recommended it as an electoral strategy.<sup>66</sup> Today it is an essential weapon in the discursive arsenal of any successful populist leader.

Hayek identified another negative selection factor that operated in any collectivist regime: “the unscrupulous and uninhibited are likely to be more successful” in rising to the top of the *nomenklatura* than well-intentioned idealists.<sup>67</sup> This inevitably leads to abuses of power, corruption and economic inefficiency. Hayek also pointed out that the institutions of collectivism could not be divorced from its “morals.” Under a collectivist regime the main guiding principle of government policy is to do what is “good for the people” even if it means trampling on the rights of the individual, i.e., the end justifies the means.<sup>68</sup>

In a populist regime, the leader always claims to be the faithful and exclusive interpreter of the people’s will. In reality, what he or she decides ends up being good for certain interest groups that are close to the regime’s leader and its *nomenklatura*. This explains why cronyism, patrimonialism and clientelism flourish under populism.<sup>69</sup>

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<sup>64</sup> *Ibid.*, p.139.

<sup>65</sup> Schmitt (1932), pp.29-30.

<sup>66</sup> Laclau and Mouffe (1985) and Mouffé (1993).

<sup>67</sup> Hayek (1944), p.136.

<sup>68</sup> *Ibid.*, p.146.

<sup>69</sup> A patrimonialist system is “a regime where the rights of sovereignty and those of ownership blend to the point of being indistinguishable, and political power is exercised in the same manner as economic power” (Pipes, 1974, pp.22-23).

Finally, and particularly relevant today, Hayek warned about how under a collectivist regime truth becomes “something which has to be believed in the interest of the unity of the organised effort, and which may have to be altered as the exigencies of this organised effort require it.”<sup>70</sup> He also anticipated that democracy could slide into despotism when a strong demand for “quick and determined government action” and “dissatisfaction with the slow and cumbersome course of democratic procedure” lead to the emergence of a strongman that inspires confidence that “he can carry out whatever he wants.”<sup>71</sup>

Schumpeter proposed a radically opposing view. Although he agreed with many of *The Road to Serfdom*'s arguments, he thought its main thesis was flawed and crucially dependent on Hayek's adherence to the utilitarian rationalist “political sociology” of John Stuart Mill (ironically, in his view, also shared by British socialist intellectuals.) Schumpeter argued that democracy had given “dominant power” to the masses, but the masses had never really embraced the principles upon which capitalism and democracy had emerged and developed. “Excepting intellectuals and politicians, nobody has changed his ideas. It is the people whose ideas count politically that have changed.”<sup>72</sup>

According to Schumpeter, capitalism would self-destroy due to its internal dynamics and would be inevitably replaced by socialism, which was not only compatible with democracy and freedom of choice, but also economically viable.<sup>73</sup> However, as noted by one reviewer his book proved that “one may predict socialism, believe in its inevitability, and yet hate it thorough.”<sup>74</sup> All three propositions contradicted the main thesis of *The Road to Serfdom*. However, Hayek and Schumpeter defined democracy differently. For the latter, democracy was simply an institutional mechanism to ensure competition for political leadership, whereas for the former it also included a set of institutions that protected individual freedom.<sup>75</sup>

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<sup>70</sup> *Ibid.*, p.163.

<sup>71</sup> *Ibid.*, p.136.

<sup>72</sup> Schumpeter (1946), p. 270.

<sup>73</sup> Schumpeter (1942), pp.296-302, 422.

<sup>74</sup> Machlup (1943), p.301.

<sup>75</sup> Schumpeter (1942), pp.259-262, 269. For Hayek liberal democracy was simply a means to an end: protecting individual rights. See also Riker

In *Capitalism Socialism and Democracy* Schumpeter mentioned several factors that not only supported his main thesis but also help explain the origins of populism. First, he noted that most voters were ignorant and behaved irrationally and that personal ambition and interests conditioned the behavior of politicians. Consequently it was “only the short-run promise that tells politically and only short-run rationality that asserts itself.”<sup>76</sup> Regarding the rhetorical and discursive arsenal of the demagogue he pointed out that politicians preferred a “democratic phraseology” that flattered the masses and offered “an excellent opportunity not only for evading responsibility but also for crushing opponents in the name of the people.”<sup>77</sup> He also observed that fostering “the association of inequality of any kind with ‘injustice’” was an important “element in the psychic pattern of the unsuccessful and in the arsenal of the politician who uses him.”<sup>78</sup> Finally, he argued that in certain countries in which there was a successful ethnic minority, racism would assure “popular success to any politician who cared to appeal to it.”<sup>79</sup>

With respect to the possibility of regime change within a democratic setting, Schumpeter emphasized that for an “active hostility” against the status quo to exist, it was necessary that “there be groups to whose interest it is to work up and organize resentment, to nurse it, to voice it and to lead it.”<sup>80</sup> In his view, disgruntled intellectuals, and to a lesser extent special interest groups, played the key role in this process. Schumpeter never mentioned demagoguery as a factor, even though he had seen the effect of demagogues in Austria and Germany.<sup>81</sup> This omission may be explained by two factors. First, in *Capitalism, Socialism and Democracy* Schumpeter concerned himself mostly with the future of the United States. Second, he specifically stated that Gustave Le Bon’s analysis of crowd psychology did “not fit at all well the normal behavior of an English or Anglo-American crowd.” However, Schumpeter made an important point relevant to the analysis of populism:

The phenomena of crowd psychology are by no means confined to mobs rioting in the narrow streets of a Latin town. Every parliament, every committee, every council of war composed of a dozen generals in their sixties, displays, in however

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<sup>76</sup> *Ibid.*, p.261.

<sup>77</sup> *Ibid.*, p. 268.

<sup>78</sup> *Ibid.*, p. 254.

<sup>79</sup> *Ibid.*, p. 277.

<sup>80</sup> *Ibid.*, p. 145.

<sup>81</sup> See McCraw (2007), p.175.

mild a form, some of those features that stand out so glaringly in the case of the rabble, in particular a reduced sense of responsibility, a lower level of energy of thought and greater sensitiveness to non-logical influences. Moreover, those phenomena are not confined to a crowd in the sense of a physical agglomeration of many people. Newspaper readers, radio audiences, members of a party even if not physically gathered together are terribly easy to work up into a psychological crowd and into a state of frenzy in which attempt at rational argument only spurs the animal spirits.<sup>82</sup>

Finally, Schumpeter seems to have anticipated the rise of Peronism (and indirectly even supported it.) In a postscript of *Capitalism, Socialism and Democracy* he essentially proposed the Catholic Church's social doctrine as "an alternative to socialism that would avoid the "omnipotent state."<sup>83</sup> Schumpeter, who was catholic, failed to realize that the "Third Way" was not a viable alternative but a catalyst for the trends he described so convincingly in his book.

Until the first oil shock it seemed both Hayek and Schumpeter had been wrong (or at a minimum too pessimistic.) In the postwar era, the "hot socialism" Hayek described in *The Road to Serfdom* was no longer an "acceptable" policy, capitalism did not collapse but instead thrived, and, a growing welfare state did not lead to totalitarianism. Until 1989 communism represented the most serious menace to liberal democracy. However, it was an external military threat.

Although Hayek survived Schumpeter by forty years and even wrote an essay on him, he never reviewed *Capitalism Socialism and Democracy* (which was published a year earlier than his own) or frontally attacked its thesis.<sup>84</sup> Although in *The Road to Serfdom*, he had denied that socialism was inevitable in a 1977 interview he admitted that Schumpeter had been right on this point. "Our present political structure inevitably drives us into socialism, even if people do not want it in the majority," he said. In Hayek's view, capitalism had raised expectations that it could not fulfill: "Unless we take from government the powers to meet the demand of particular

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<sup>82</sup> *Ibid.*, p.257

<sup>83</sup> Schumpeter (1942), p.422. It is unclear whether Schumpeter ever considered Peronism as a practical implementation of Catholic social doctrine. It is more likely he had his compatriot Engelbert Dolfuss in mind. On Schumpeter and Catholic social doctrine see Stolterer (1950) and Waters (1961).

<sup>84</sup> Hayek always felt in debt with Schumpeter. When he visited the US in the early 1920s, Schumpeter, already a well known economist on both sides of the Atlantic, provided him with several letters of recommendation (see Ebenstein, 2001, p.32).



groups, which are raised by their success, I think it will destroy itself. This applies to both capitalism and democracy.”<sup>85</sup>

Hayek believed that a growing welfare state would over time lead to the same result as central planning, albeit through an indirect, and possibly slower, route.<sup>86</sup> Behind this new threat to freedom was a growing demand for “social justice”, a “misleading” and “empty” term that served as the pretext for “almost every claim for government action on behalf of special interest groups.”<sup>87</sup> Applying the principle of “social justice” to its logical extreme would produce “a kind of society which in all essential respects would be the opposite of a free society.”<sup>88</sup> Argentina provides some empirical validation for Hayek’s view: as mentioned earlier, “social justice” has been the cornerstone of the policies with which Perón and his successors took Argentina down the road of unprecedented economic and institutional decline.

In the sixties and seventies, Hayek also started hinting at the populist threat. In *The Constitution of Liberty* he argued, as Tocqueville and Mill had done in the 19<sup>th</sup> century, that a “degeneration of democracy” would occur when demagogues successfully managed to impose the principle that what is “right is what the majority makes it to be.”<sup>89</sup> Any regime that justified any “coercive measure” if it seemed to serve “a good purpose” was problematic, since “anything or anybody which will help the politician be elected is by definition a good purpose.”<sup>90</sup> This one of guiding principles of any populist regime. But in the mid 1970s anything remotely resembling current populist movements was unthinkable in the advanced Western democracies.<sup>91</sup>

Of the many reviews and analyses of Schumpeter’s and Hayek’s work, there is one worth singling out because it directly and presciently connects with populism. In the early 1970s, Paul Samuelson, who had been Schumpeter’s student at Harvard, proposed an alternative view of the future of capitalism, socialism and democracy. First, he argued that Hayek’s thesis was wrong

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<sup>85</sup> Hayek (1978), pp. 87-88.

<sup>86</sup> *Ibid.*, pp. 59-60. It is important to note that in Hayek’s definition socialism described an economy in which the state owned and controlled the means of production and government planners made all relevant economic decisions.

<sup>87</sup> Hayek (1976), p.65.

<sup>88</sup> Hayek (1960), p.164.

<sup>89</sup> *Ibid.*, p.171.

<sup>90</sup> Hayek (1978), pp. 88, 165.

<sup>91</sup> In fact, the following decade ushered the Reagan and Thatcher reforms, making Hayek’s dire warnings seem overstated, which is ironic given that he partly inspired them. Byrne (2018), pp.32-42 and Thatcher (1995), pp.50-51, 253, 604.

not only in terms of its prediction but also in the interpretation of the historical evidence. “Hitler’s Fascism and Lenin’s Communism were not, as Hayekians believe, the inevitable consequences of Bismarckian-type social security, Lloyd George-type tax reforms or FDR New Deals,” he claimed.<sup>92</sup> Second, he contended Schumpeter had also been partially wrong. According to Samuelson, what threatened the mixed-economies of the West was not a slide into Soviet or Maoist version of socialism, nor Tito’s Yugoslavian experiment, nor its 1970s Swedish variety, nor Oskar Lange’s 1930s pseudo market socialism, but the type of populism prevalent in South America, particularly the one Juan Perón imposed on Argentina between 1946 and 1955.<sup>93</sup> Ten years later, in 1980, Samuelson reiterated his prediction: “If you want to read the shape of things to come, perhaps you should turn your gaze from Scandinavia and toward Argentina.”<sup>94</sup> At that time, he was convinced that the slide into populism was inevitable:

The same gasoline that classical economists thought ran the laissez faire system, namely self-interest, will in the context of democracy lead to use of the state to achieve the interest of particular groups. It is a theorem of von Neumann’s theory of games that this should be the case. Long before Marx, John Adams and Thomas Macaulay warned that giving votes to all would mean that the poorest 51 percent of the population would use their power to reduce the affluence of the richest 49 percent. Stagflation, upon which I could write a very long book, is one important manifestation of what is implied in this fundamental diagnosis.<sup>95</sup>

Samuelson’s pessimism was based on the assumption that stagflation was an inherent feature of the mixed economy and deeply rooted “in the humane nature of the welfare state.” As a result, the mixed economy system that prevailed in the Western World had turned into a zero-sum game. Therefore there was no guarantee that the forces of democracy would “converge” to optimal government interventions in the economy and forsake “all other temptations that involve deadweight loss and distortion.”<sup>96</sup> In essence, Samuelson reformulated Schumpeter’s thesis by replacing capitalism with “stagnating mixed-economy” and socialism with “Latin American style

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<sup>92</sup> Samuelson (1971), p.34. He also rebutted Hayek’s thesis in his best selling economics textbook, see Samuelson (1973), p.868.

<sup>93</sup> Samuelson (1971), p.277. Given that Samuelson and Friedman were rarely in agreement on these matters, it is interesting to note that at this time the latter also worried that Western democracies could follow the same path as Argentina (Friedman, 1975).

<sup>94</sup> Samuelson (1981), p.44.

<sup>95</sup> *Ibid.*, p. 43.

<sup>96</sup> Samuelson (1980), p. 895.

populism.” However, he seems to have been more concerned about the latter’s impact on economic performance than on individual freedom.

Samuelson turned out to be wrong about secular stagflation and many other things (including a prediction that the economy of the USSR would eventually surpass that of the US.) Until very recently, it seemed as if his reformulation of Schumpeter’s prophecy would meet the same fate as the original.<sup>97</sup> The resurgence of populism in Europe and North America in the 21<sup>st</sup> century, suggests that it may not, but in a way that is different from the one Samuelson had imagined.

Left wing populism was responsible for the economic, cultural and institutional decline of Argentina and Venezuela, two countries that during several decades of the 20<sup>th</sup> century were not only the wealthiest in Latin America but also among the wealthiest in the world. The Venezuelan case shows how fast a country can go down the road to serfdom and misery under autocratic populism: the Maduro regime systematically violates human rights and 95% of the population lives under the poverty line.<sup>98</sup> Despite having the world’s largest oil reserves, the country fell from 54 in global GDP per capita rankings in 1999, when Chávez rose to power, to 130 by 2019, which is remarkable given that almost 5 million Venezuelans have emigrated (almost 20% of the population.)<sup>99</sup>

However, it would be a mistake to believe that only left-wing populism poses a threat to freedom. Modern right-wing populist regimes may not undermine the economy as much, but they also degrade the institutional and cultural fabric of liberal democracy. The biggest danger in fact arises from the confusion right-wing populist leaders have generated in the electorate of many advanced countries. A substantial portion of conservative voters who traditionally supported economic freedom now seem willing not only to restrict the civil liberties of those who disagree with them but also to accept protectionism and interventionism. Only a distorted

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<sup>97</sup> Schumpeter emphasized that his thesis about the future of capitalism was not a prophecy but the logical outcome of certain prevailing trends.

<sup>98</sup> For evidence of human rights violations in Venezuela see Human Rights Watch (2020) and United Nations Commission on Human Rights (2021).

<sup>99</sup> The rankings are calculated using the IMF’s PPP estimate of GDP per capita.

and naïve interpretation of Hayek’s book could lead anyone to believe that the only effective antidote to serfdom is right-wing populism.<sup>100</sup>

### *Conclusion*

Contrary to some influential voices in academia, there is no such thing as “good” populism.<sup>101</sup> Left-wing populist regimes start by limiting economic liberties, while right wing populist regimes by restricting civil liberties. By their own internal dynamics both tend to undermine the system of checks and balances that prevents the concentration of power.<sup>102</sup> The road to autocracy and misery under populism is not straight; there are no iron laws and multiple equilibria are possible. It is a mistake to believe that the best way to stop socialism is by electing a supposedly right wing populist strongman. German conservatives tried that in the 1930s and it didn’t work out. The only sure outcome of such strategy is the destruction of liberal democracy.

There is an antidote to the populist virus: preserving strong institutions and promoting a vibrant and committed civic culture that supports them. Written laws alone are not enough unless there is a widespread commitment to uphold them. According to James Buchanan an institutional framework that protects individual freedom can only survive if a majority of the electorate shares three fundamental values and beliefs: autonomy, Kantian inter-dependence and collective good sense. The first requires that most people trust that their success (or failure) depends mostly on their own efforts. The greater the conviction that external forces interfere or limit an individual’s chances of progress, the lower general confidence will be and the greater the likelihood of anti-social behavior. The second requires that a majority values fairness, justice, respect and tolerance for others and explicitly deplors and actively fights against fraud, deceit, theft, dishonesty and corruption. The last of Buchanan’s conditions implies that most people recognize the limits of collective action. This belief is obviously related to a society’s predominant worldview. It implies that a majority of voters has its feet on the ground and will not be duped by demagogues who promise utopian projects of social or economic transformation. According to Buchanan, if a majority of the electorate does not understand that in the medium and long term the collective

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<sup>100</sup> This is the mistake made by German conservative leaders in 1932-33. They thought they could make Hitler their puppet and instead he ended up their master.

<sup>101</sup> See Rodrik 2017, 2018 and 2021.

<sup>102</sup> Somebody could take Hayek’s view to its logical extreme and suggest that right wing populism is the only effective antidote to serfdom.

will (embodied in the State) cannot override economic laws, freedom or growth will likely be sacrificed.<sup>103</sup>

We must add another condition to Buchanan's list: a sufficiently large number of citizens must be prepared to actively defend the institutions that guarantee their freedom. As John Stuart Mill put it almost two centuries ago:

A people may prefer a free government; but if, from indolence, or carelessness, or cowardice, or want of public spirit, they are unequal to the exertions necessary for preserving it; if they will not fight for it when it is directly attacked; if they can be deluded by the artifices used to cheat them out of it; if, by momentary discouragement, or temporary panic, or a fit of enthusiasm for an individual, they can be induced to lay their liberties at the feet even of a great man or trust him with powers which enable him to subvert their institutions –in all these cases they are more or less unfit for liberty; and though it may be for their good to have had it even for a short time, they are unlikely long to enjoy it.<sup>104</sup>

As recent events demonstrate, Mill's warning is applicable not only to the world's youngest democracies but also its oldest.

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<sup>103</sup> Buchanan (2005), pp. 12-18.

<sup>104</sup> Mill [1861], pp.14-15.

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