

Prudent populists?

The short-term macroeconomic impact of populist policies in Poland

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- ▶ Can populists run (macro)economically prudent policies – boosting economic growth without spurring inflation and fiscal imbalances?
- ▶ Can right-wing populists improve income distribution without hurting growth and the country's fiscal position?

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- ▶ At the same time, they introduced a number of economic reforms
 - ▶ generous monthly cash child benefit of \$125 (34% of disposable income per capita)
 - ▶ lowering the retirement age from 67 to 65 for men and 60 for women
 - ▶ increasing the minimum wage, lowering income taxes
 - ▶ education system reform
 - ▶ imposing a tax on banks
 - ▶ increasing government ownership of the banking sector
 - ▶ attempts at “re-industrialization” of the economy

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- ▶ We do not find any effect of populism on inflation and estimate only small labor market impacts
- ▶ They improved tax revenue collection and reduced public debt
- ▶ The child benefit program and other redistributive policies introduced by the populists significantly reduced overall poverty and almost eradicated absolute child poverty

Previous literature

- ▶ Funke et al. (2020)¹ found that both left-wing and right-wing populists reduce the GDP p.c. by about 10 p.p. after 15 years in power (compared to counterfactual)

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- ▶ Absher et al. (2020)³ and Funke et al. (2020) document that left-wing populists (but not those on the right wing) seemed to somewhat reduce income inequality, but these estimates are often statistically insignificant

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Methodology: (Augmented) Synthetic Control method (ASCM)

- ▶ SCM was originally proposed in Abadie and Gardeazabal (2003)⁴ and involves the comparison of outcome variables (e.g. GDP p.c.) between the treated unit (e.g. countries with populist governments) and a combination of similar but untreated units (e.g. similar countries that, however, did not elect populist governments; 'donor pool') that provide a 'synthetic' counterfactual

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- ▶ Then, after the treatment (under the assumptions of the approach) the difference in the trajectories of the synthetic populist country and a real populist country can be treated as the causal impact of the adoption of populism

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- ▶ SCM imputes the $Y_1(0)$ as a weighted average of the outcome variable within the control group:

$$\hat{Y}_{1T}(0) = \sum_{W_i=0} \gamma_i^{scm} Y_{iT}$$

where W_i is a treatment indicator for unit i , and weights $\gamma_i^{scm} \in [0, 1]$ are estimated to minimize the difference in pre-intervention trends between the treated unit and the synthetic control.

Augmented SCM (ASCM)

- ▶ Ben-Michael et al. (2021)⁵ improve upon the standard SCM by removing the bias that can result from imbalance in pre-treatment outcomes

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- ▶ If the imbalance is large (poor pre-treatment fit), Abadie et al. (2010) recommend against the use of synthetic controls
- ▶ Their preferred bias-corrected SCM estimator is obtained by modeling control potential outcomes using the ridge-regularized linear model (Ridge ASCM):

$$\hat{Y}_{1T}^{aug}(0) = \sum_{W_i=0} \hat{\gamma}_i^{scm} Y_{iT} + (X_1 - \sum_{W_i=0} \hat{\gamma}_i^{scm} X_i) \hat{\eta}^{ridge}$$

where $\hat{\eta}^{ridge}$ are the coefficients of a ridge regression of control post-treatment outcomes Y_{0T} on centered pre-treatment outcomes X_0 .

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Verification of the (A)SCM assumptions

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 - ▶ **Post-treatment shocks** for treated units are the same as for untreated ones

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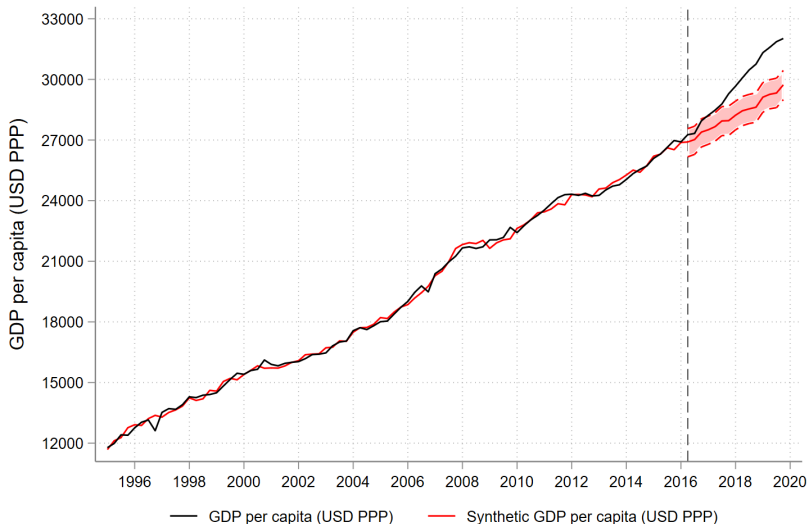
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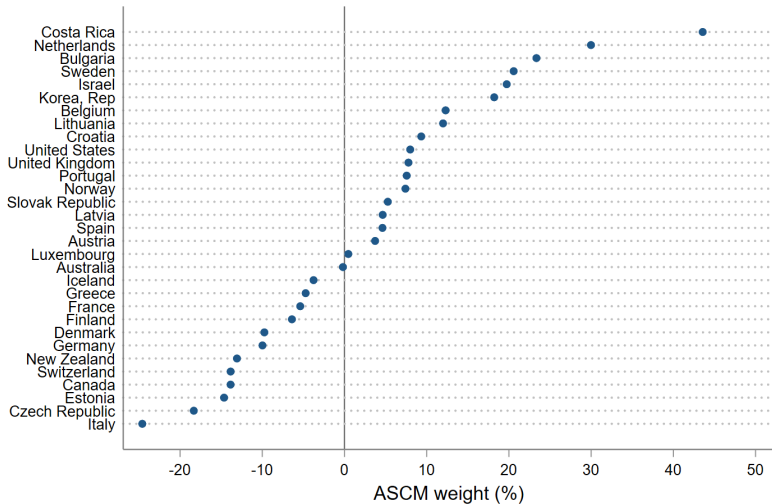
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- ▶ For the GDP as the outcome variable, we use the following covariates:
 - ▶ investment rate
 - ▶ consumption to GDP ratio
 - ▶ net exports to GDP ratio

Results: Populism in Poland and the GDP p.c

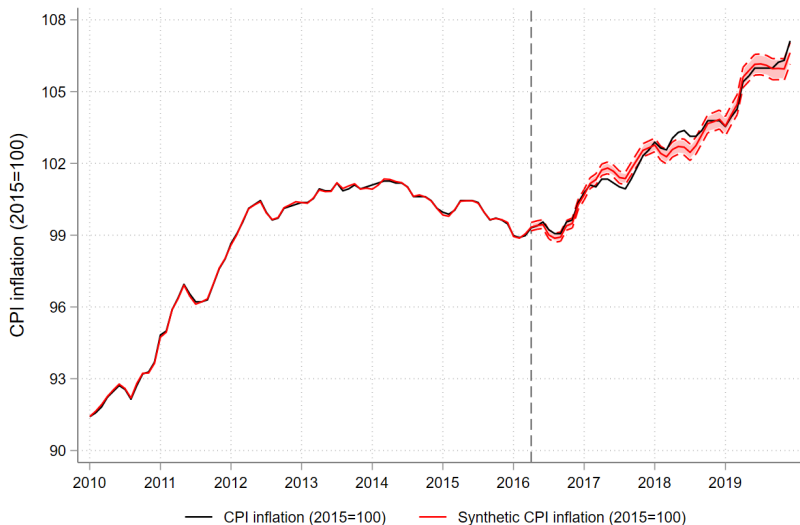


Sample extended to 2022-Q4

Donor countries ASCM weights for synthetic Poland



Results: Populism in Poland and CPI inflation

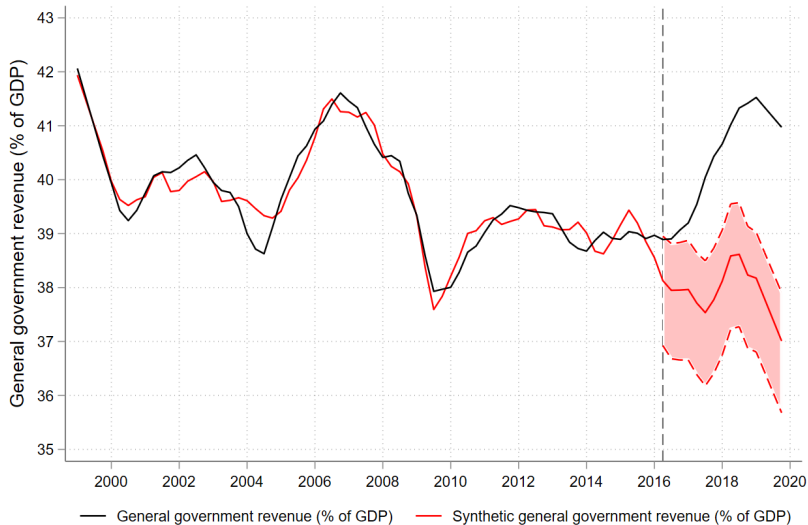


Note: The estimation sample ranges from 1995 on, but the figure show results since 2010 to ensure better visibility.

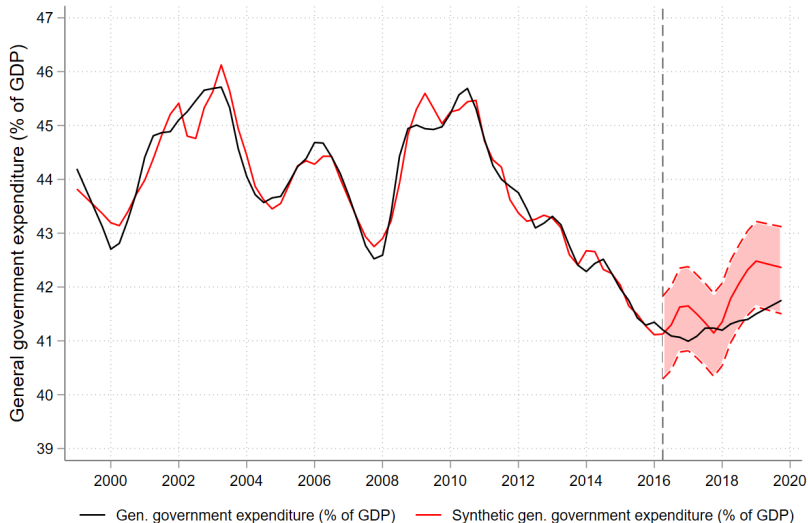
Results: Populism in Poland and employment rate



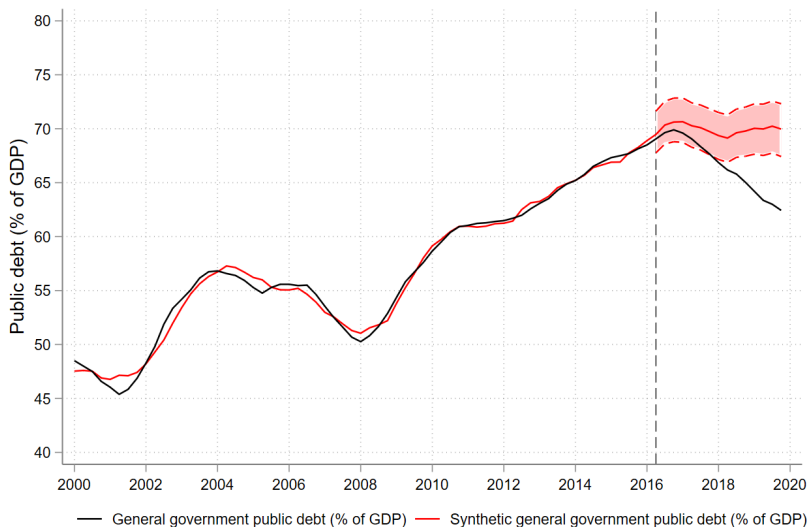
Results: Populism in Poland and government revenue



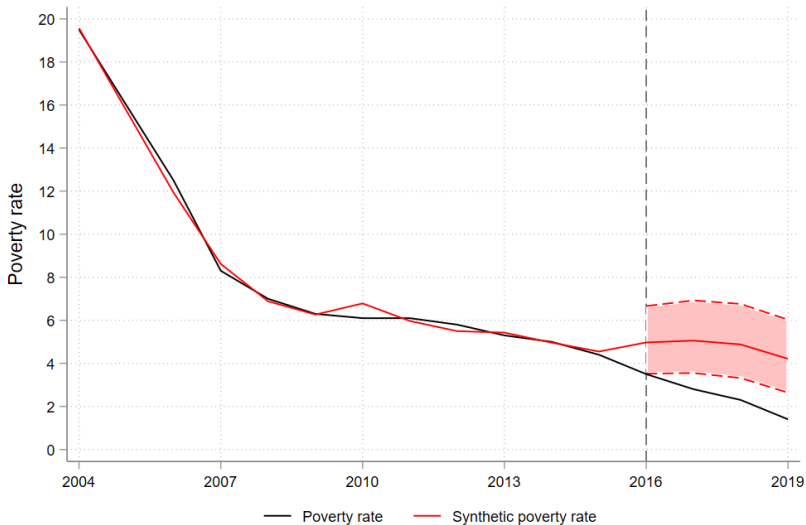
Results: Populism in Poland and government expenditure



Results: Populism in Poland and public debt

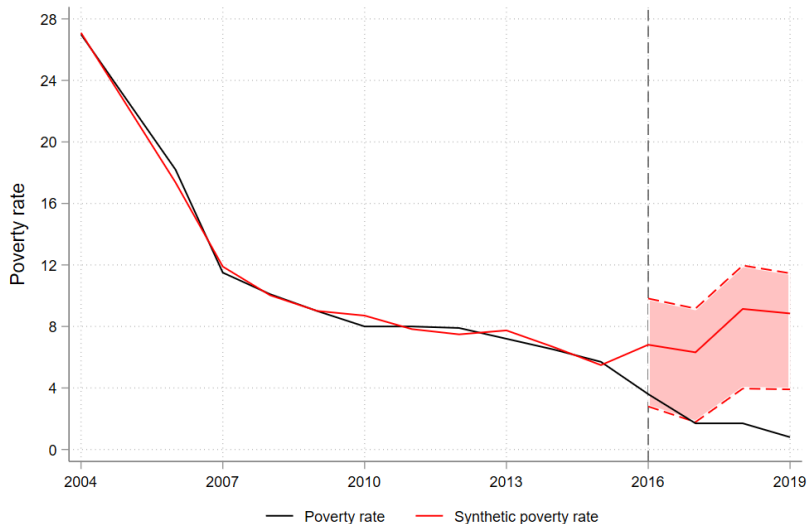


Results: Populism in Poland and poverty rate



Note: Poverty line is “anchored” at 60% of the median equivalized disposable income in 2005.

Results: Populism in Poland and child poverty rate



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Robustness tests

- ▶ Alternative data source: Eurostat
- ▶ Covariates including migration-related labor market shocks
- ▶ (In-time) placebo test – treatment backdated by 3 years
- ▶ (In-space) placebo test – leave-one-out analysis

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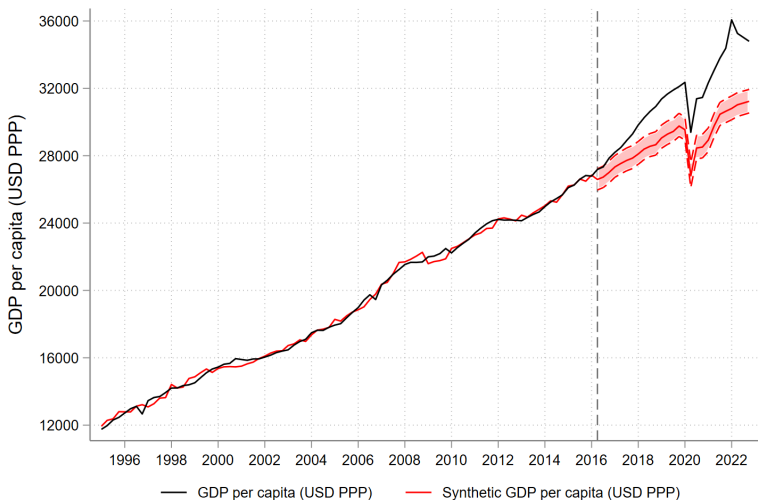
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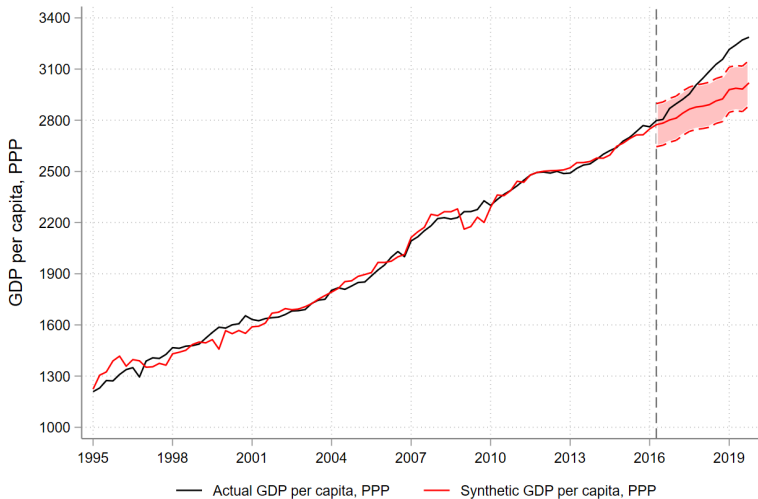
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- ▶ EU membership limits the scope for the populists’ usual engagement in economic nationalism, protectionism, and financial deglobalization

Populism in Poland and the GDP p.c. – sample extended to 2022-Q4

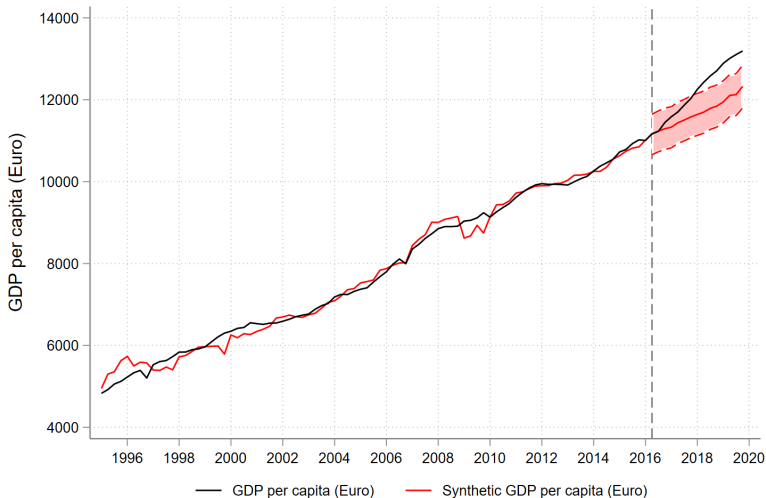


Populism in Poland and the GDP p.c – Eurostat data

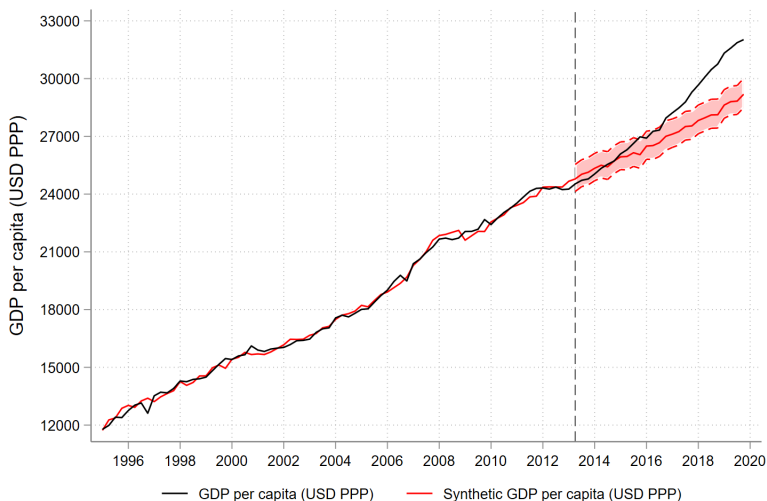


Back

Populism in Poland and the GDP p.c – migration-related labour supply shocks added as a covariate

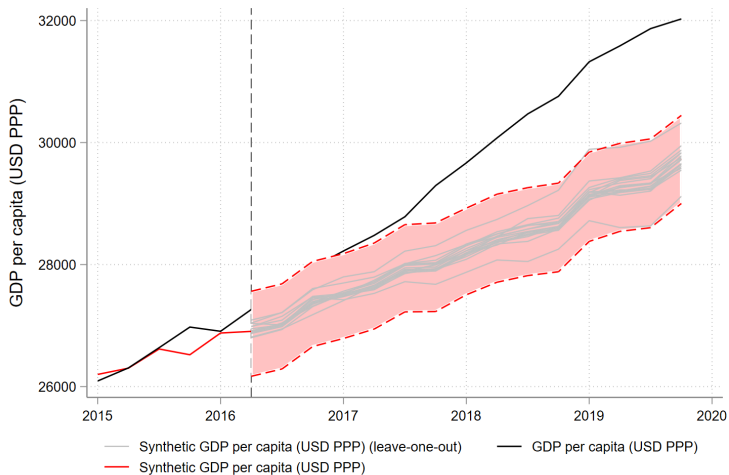


Populism in Poland and the GDP p.c – treatment backdated by 3 years to 2013



Back

Populism in Poland and the GDP p.c – leave-one-out analysis



Notes: Grey lines show the counterfactual estimated by removing from the sample one-at-a-time each of the donor countries contributing positively to the baseline synthetic control from [Figure 1](#). The sample covers the 1995-2019 period, but the figure focuses on the post-2015 period for better visibility.