

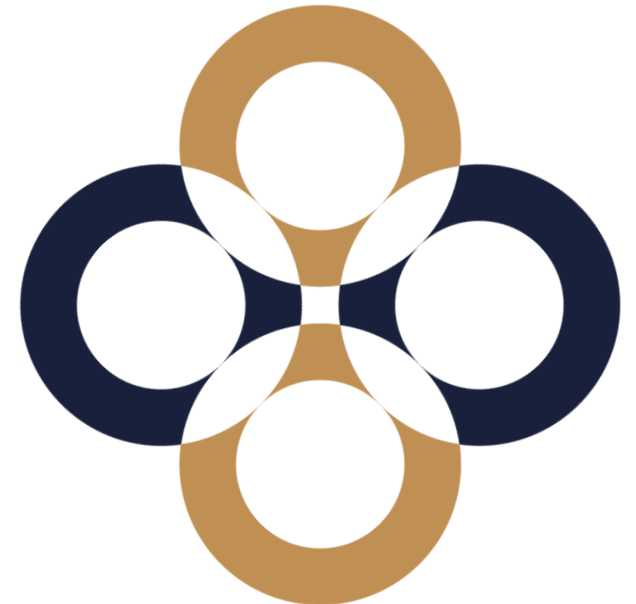
# The effect of populist policies on economic growth in Hungary

Elena Cossu

Corvinus University of Budapest  
Populism in Central and Eastern Europe: Multidisciplinary Perspectives  
Hotel Amarilis, Stepanska 18, Prague, 1-2 April 2022  
Panel 3: Economic populism and inequality

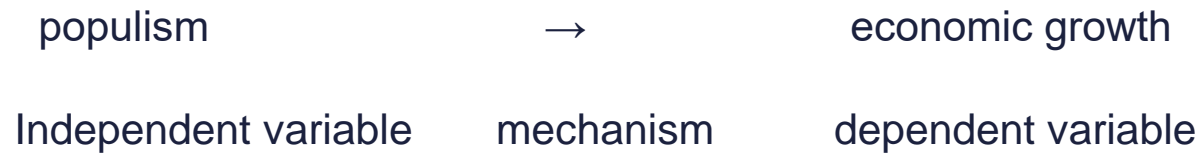


This project has received funding from the European's Union Horizon 2020 research and innovation program under grant agreement no. 765224.



# Introduction

- Research question: what is the effect of populism on economic growth?

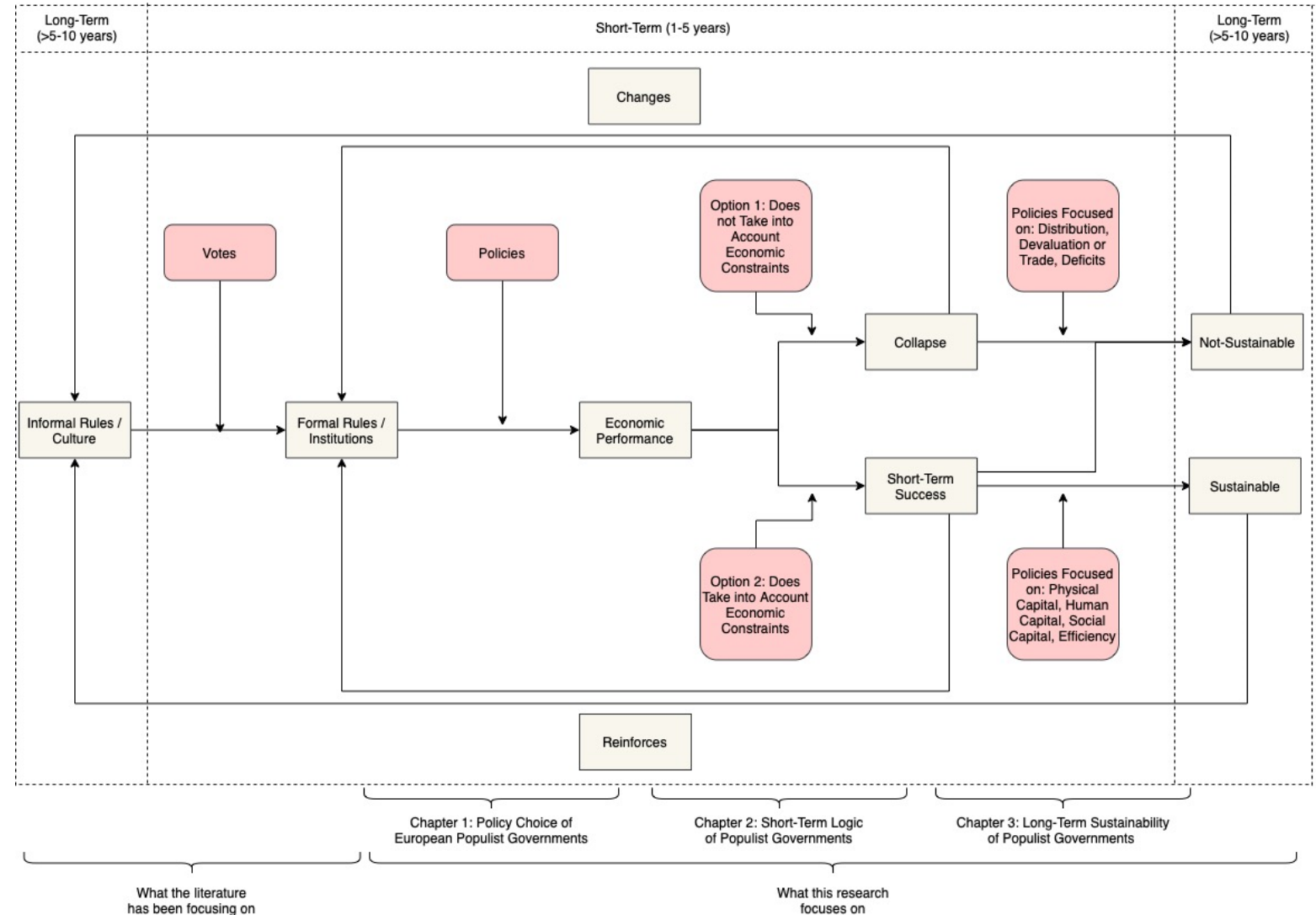


# Literature Review

- conceptualising populism as an independent variable
  - economic populism literature: Cardoso and Faletto (1979); Sachs (1989); Dornbusch and Edwards (1989)
  - populism and globalisation literature: Inglehart (2016); Rodrik (2017)
  - populism as policies: Lutz (2010); Kriesi (2014); Rodrik (2018); Bartha, Boda, and Szikra (2020); Noury and Roland (2020)
  - conclusion: conceptualising populism in Europe (Chapter 1)
- conceptualising economic growth as a dependent variable
  - drivers of economic growth: Barro (1996); Gylfason (2008); Györffy (2021)
  - measuring economic growth as GDP and other measurements: Fleurbaey and Blanchet (2013); Philipsen (2015); Coyle (2016); Stiglitz, Fitoussi, and Durand (2018)
  - conclusion: measuring growth as GDP, but trying to understand its dynamic in a specific context (Chapter 2)
- measuring the effects of policies on economic growth
  - Quasi Experimental Designs (QEDs) in policy evaluation: Angrist and Pischke (2014); Duflo (2020); Cunningham (2021)
  - Synthetic Control Method (SCM): Abadie and Gardeazabal (2001); Campos, Coricelli, and Moretti (2019)
  - Conclusion: synthetic control as the best way to measure effects of policies on GDP on a country level (Chapter 3)

Literature review conclusions:

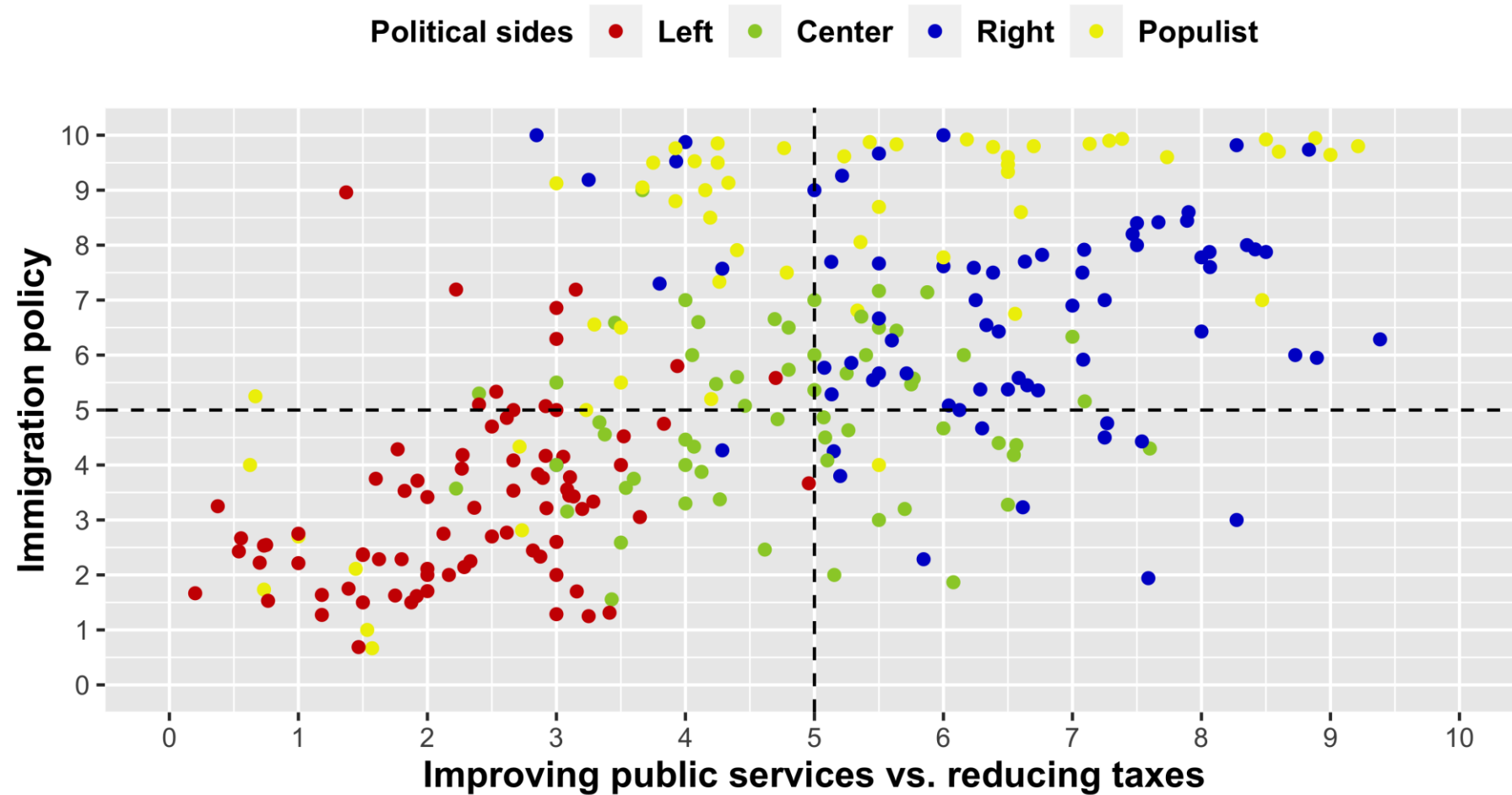
- such analysis can exist only in such framework
- in such framework and in the literature there are three main questions
  - conceptualizing populism in Europe (Chapter 1)
  - understanding the link between populism, policymaking and growth (Chapter 2)
  - measuring the effects of such a mechanism (Chapter 3)



# Chapter 1/3: defining populism as an independent variable

- research question: are policy positions fundamentally different?
- available data: 2014 and 2019 Chapell Hill Expert Survey
- possible methodology to answer the question: cluster analysis of all European parties

## Redistribution for Policy Dimensions Across all Parties in Europe, 2019



Source: 2019 Chapel Hill expert survey

### Distribution of policy clusters by political side and regions in Europe

|                 | Cluster 1<br>The CEE Populists | Cluster 2<br>The Left and Moderate Centre Left | Cluster 3<br>The Pro Europe and Pro Liberalism Centre | Cluster 4<br>The Identity Politics and Intersectional Left |
|-----------------|--------------------------------|--|---|--|
| Left            | 1                              | 43   | 6   | 21   |
| Center          | 2                              | 27   | 21  | 1  |
| Right           | 10                             | 23   | 34  | 0  |
| Populist        | 31                             | 3  | 9   | 10   |
| Western Europe  | 13                             | 34   | 8   | 11   |
| Eastern Europe  | 21                             | 34   | 44  | 4  |
| Northern Europe | 4                              | 17   | 2   | 3  |
| Southern Europe | 6                              | 11   | 16  | 14   |

Source: CHES 2019 data

## Chapter 2/3: understanding the link between populism, policymaking and growth

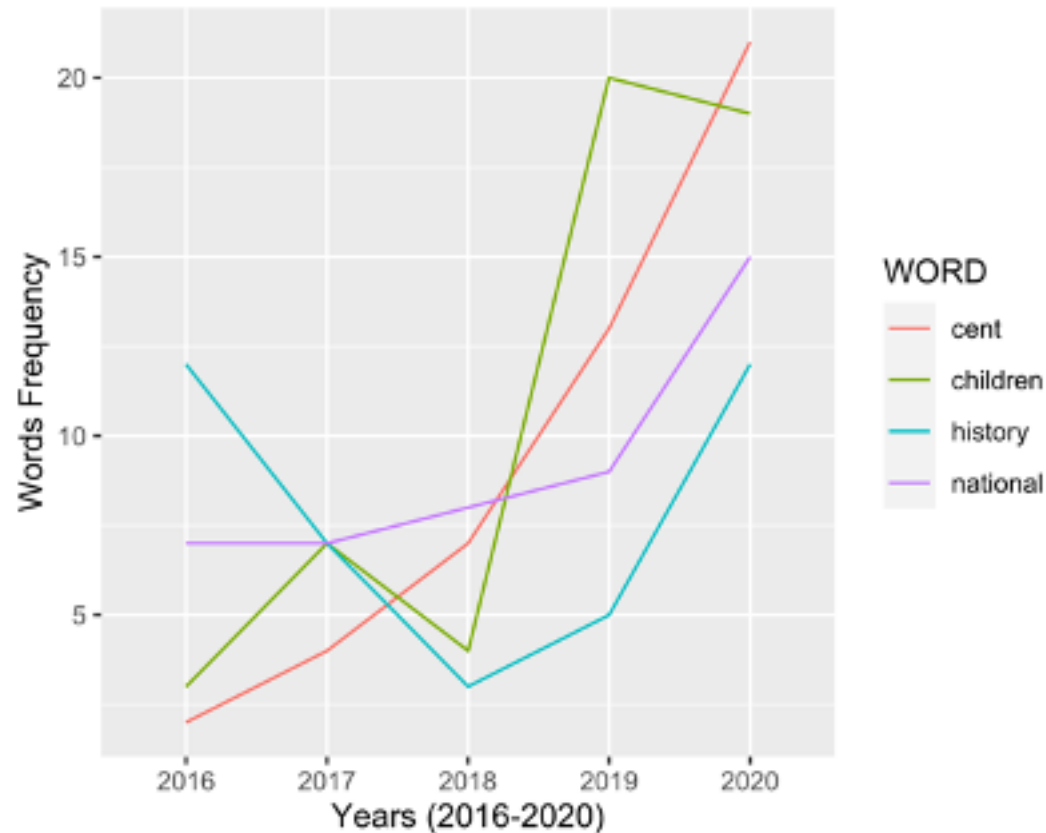
- research question: what is the connection between populist rhetoric, populist policymaking, and high-road model of growth (Gyórfy 2021)?
- available data: speeches website, Eurostat data
- possible methodology to answer the question: realist evaluation



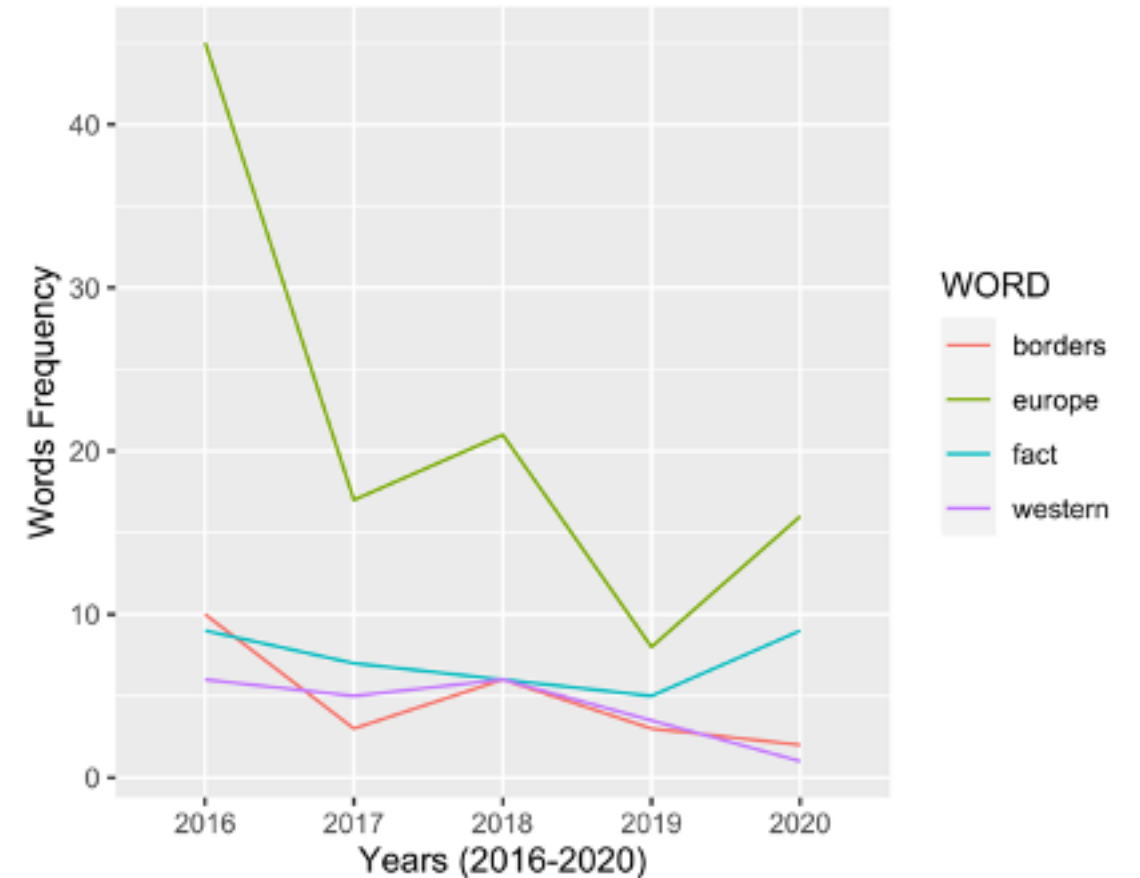
Ten Most Frequent Words per Party Manifesto in 2020, Selected Countries.

| Country    |       |             |       |            |       |           |       |
|------------|-------|-------------|-------|------------|-------|-----------|-------|
| Hungary    |       | Poland      |       | Slovenia   |       | Slovakia  |       |
| Word       | Freq. | Word        | Freq. | Word       | Freq. | Word      | Freq. |
| christian  | 9     | community   | 3     | democratic | 10    | education | 6     |
| european   | 8     | cultural    | 3     | slovenia   | 8     | care      | 5     |
| eu         | 6     | democracy   | 3     | social     | 8     | citizens  | 4     |
| society    | 6     | democratic  | 3     | union      | 6     | economy   | 3     |
| strong     | 6     | dignity     | 3     | movement   | 4     | elections | 3     |
| borders    | 5     | families    | 3     | respect    | 4     | improve   | 3     |
| democratic | 5     | fundamental | 3     | rights     | 4     | justice   | 3     |
| democracy  | 4     | human       | 3     | communist  | 3     | offer     | 3     |

Frequency of the Words ‘Cent’, ‘Children’, ‘History’ and ‘National’ (as a proxy for ‘the economy’, ‘the family’, and ‘the past’) over the 2016-2020 State of the Hungarian Nation Speeches



Frequency of the Words ‘Borders’, ‘Europe’, ‘Fact’ and ‘Western’ as a proxy for ‘European Union’, ‘rhetoric’, and ‘external affairs’) over the 2016-2020 State of the Hungarian Nation Speeches



# Chapter 3/3: measuring the effects of populism on economic growth

- research question: were the last 10 years of populism good or bad on a macroeconomic level?
- available data: World Bank Opendata for purpose and granularity
- possible methodology to answer the question: synthetic control
  1. finding predictors through regression analysis
  2. building the synthetic Hungary based on such predictors
  3. confronting the real and synthetic Hungary

### Step 1: OLS Regression for GDP in Hungary and SCM Selected Indicators

|   | Estimate   | Std.      | Error   | t value  | Pr(> t ) |
|---|------------|-----------|---------|----------|----------|
| (Intercept)                                     | -1.551e+11 | 9.297e+09 | -16.685 | 2,00E-16 | ***      |
| Service imports (BoP, current US\$)             | 1.467e+01  | 2.931e-01 | 50.046  | 2,00E-16 | ***      |
| Container traffic                               | 4.438e+03  | 9.764e+02 | 4.545   | 5.64e-06 | ***      |
| Arable Land                                     | 6.806e+03  | 4.866e+02 | 13.988  | 2,00E-16 | ***      |
| Population in largest city                      | 1.263e+04  | 2.111e+03 | 5.983   | 2.35e-09 | ***      |
| External debt stocks, total (DOD, current US\$) | 2.723e+00  | 9.181e-02 | 29.656  | 2,00E-16 | ***      |

Signif. codes: 0 '\*\*\*' 0.001 '\*\*' 0.01 '\*' 0.05 '.' 0.1 ' ' 1  
 Residual standard error: 5.458e+11 on 4804 degrees of freedom  
 Multiple R-squared: 0.8263, Adjusted R-squared: 0.8262  
 F-statistic: 4572 on 5 and 4804 DF, p-value: < 2.2e-16

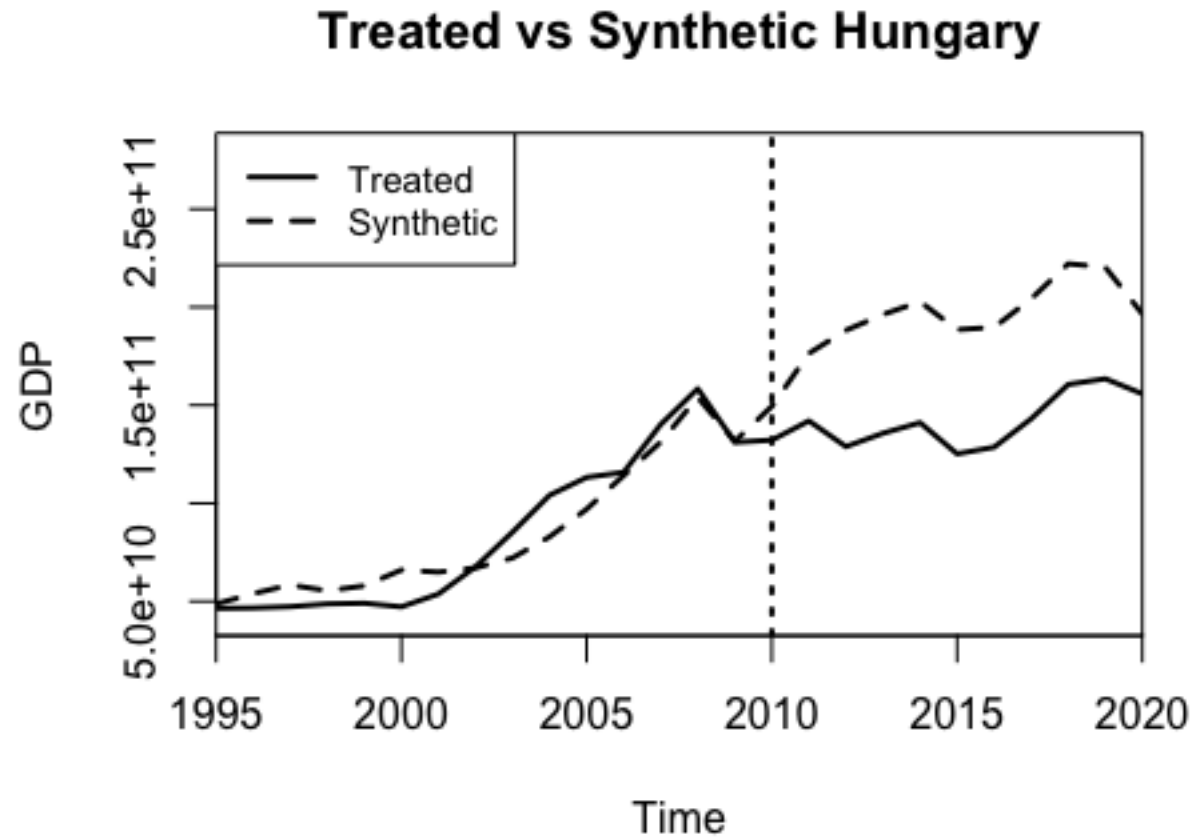
Source: World Bank Opendata, All Indicators, 1995-2020

### Step 2: Weights for the Synthetic Hungary

| Country              | Weight (%) |
|----------------------|------------|
| Hong Kong            | 15%        |
| Niger                | 33%        |
| Singapore            | 4%         |
| Solomon Islands      | 7%         |
| United Arab Emirates | 43%        |
| Total                | 100%       |

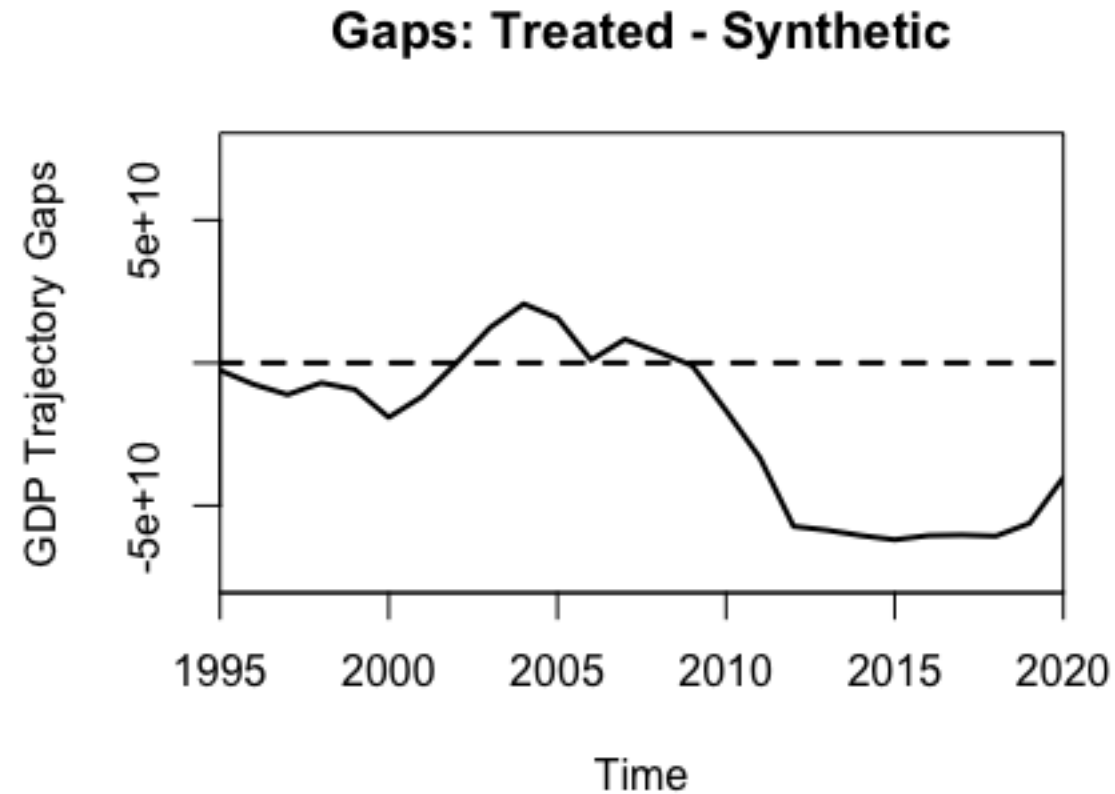
Source: SCM Algorithm based on World Bank Opendata,  
All Indicators, 1995-2020

### Step 3: Treated vs Synthetic Hungary, GDP at Constant 2020 US\$



Source: SCM Algorithm based on World Bank Opendata, All Indicators, 1995-2020

### Step 3: Gaps in GDP estimation



Source: SCM Algorithm based on World Bank Opendata, All Indicators, 1995-2020

# Conclusion

| Chapter          | Research Question  | Outcome Measure  | Results   |
|------------------|--|--|---|
| <b>Chapter 1</b> | What are the characteristics of political entities characterised by populist rhetoric in Europe?   | <p>Exploratory: common characteristics of policies chosen by parties characterised by populist rhetoric</p> <p>Primary: cluster difference between populist, centre, right, and left parties</p> | Tendency to choose pro-identity policies (more than right-wing parties) and centrist economic policies (more than centrist parties). Main cluster around these two pillars located in Central and Eastern Europe. |
| <b>Chapter 2</b> | What is the link between populist rhetoric and policymaking in the representative case of Hungary? | <p>Exploratory: quantitative relation between rhetoric and policymaking</p> <p>Primary: trends of policymaking on GDP growth</p>   | Recurrent and constant rhetorical themes not reflected in policymaking. Public spending leaning towards a middle-income trap model of growth.   |
| <b>Chapter 3</b> | What are the effect of policymaking connected to populist rhetoric in Hungary?                     | Primary: difference on GDP growth between the real and the 'synthetic' Hungary   | Synthetic control sustaining the results found in the previous chapter. Economic growth and convergence could have been even better with a different set of policies.   |



# Conclusion

| Chapter          | Research Question  | Outcome Measure  | Results   |
|------------------|--|--|---|
| <b>Chapter 1</b> | What are the characteristics of political entities characterised by populist rhetoric in Europe?   | <p>Exploratory: common characteristics of policies chosen by parties characterised by populist rhetoric</p> <p>Primary: cluster difference between populist, centre, right, and left parties</p> | Tendency to choose pro-identity policies (more than right-wing parties) and centrist economic policies (more than centrist parties). Main cluster around these two pillars located in Central and Eastern Europe. |
| <b>Chapter 2</b> | What is the link between populist rhetoric and policymaking in the representative case of Hungary? | <p>Exploratory: quantitative relation between rhetoric and policymaking</p> <p>Primary: trends of policymaking on GDP growth</p>   | Recurrent and constant rhetorical themes not reflected in policymaking. Public spending leaning towards a middle-income trap model of growth.   |
| <b>Chapter 3</b> | What are the effect of policymaking connected to populist rhetoric in Hungary?                     | Primary: difference on GDP growth between the real and the 'synthetic' Hungary   | Synthetic control sustaining the results found in the previous chapter. Economic growth and convergence could have been even better with a different set of policies.   |

# Conclusion

| Chapter          | Research Question  | Outcome Measure  | Results   |
|------------------|--|--|---|
| <b>Chapter 1</b> | What are the characteristics of political entities characterised by populist rhetoric in Europe?   | <p>Exploratory: common characteristics of policies chosen by parties characterised by populist rhetoric</p> <p>Primary: cluster difference between populist, centre, right, and left parties</p> | Tendency to choose pro-identity policies (more than right-wing parties) and centrist economic policies (more than centrist parties). Main cluster around these two pillars located in Central and Eastern Europe. |
| <b>Chapter 2</b> | What is the link between populist rhetoric and policymaking in the representative case of Hungary? | <p>Exploratory: quantitative relation between rhetoric and policymaking</p> <p>Primary: trends of policymaking on GDP growth</p>   | Recurrent and constant rhetorical themes not reflected in policymaking. Public spending leaning towards a middle-income trap model of growth.   |
| <b>Chapter 3</b> | What are the effect of policymaking connected to populist rhetoric in Hungary?                     | Primary: difference on GDP growth between the real and the 'synthetic' Hungary   | Synthetic control sustaining the results found in the previous chapter. Economic growth and convergence could have been even better with a different set of policies.   |

# Conclusion

| Chapter          | Research Question  | Outcome Measure  | Results   |
|------------------|--|--|---|
| <b>Chapter 1</b> | What are the characteristics of political entities characterised by populist rhetoric in Europe?   | <p>Exploratory: common characteristics of policies chosen by parties characterised by populist rhetoric</p> <p>Primary: cluster difference between populist, centre, right, and left parties</p> | Tendency to choose pro-identity policies (more than right-wing parties) and centrist economic policies (more than centrist parties). Main cluster around these two pillars located in Central and Eastern Europe. |
| <b>Chapter 2</b> | What is the link between populist rhetoric and policymaking in the representative case of Hungary? | <p>Exploratory: quantitative relation between rhetoric and policymaking</p> <p>Primary: trends of policymaking on GDP growth</p>   | Recurrent and constant rhetorical themes not reflected in policymaking. Public spending leaning towards a middle-income trap model of growth.   |
| <b>Chapter 3</b> | What are the effect of policymaking connected to populist rhetoric in Hungary?                     | Primary: difference on GDP growth between the real and the 'synthetic' Hungary   | Synthetic control sustaining the results found in the previous chapter. Economic growth and convergence could have been even better with a different set of policies.   |

References:

- Abadie, Alberto, and Javier Gardeazabal. 2001. *The Economic Costs of Conflict: A Case-Control Study for the Basque Country*. National Bureau of Economic Research.
- Angrist, Joshua D., and Jör Steffen Pischke. 2014. *Mastering 'Metrics: The Path from Cause to Effect*. Princeton University Press.
- Barro, Robert. 1996. *Determinants of Economic Growth: A Cross-Country Empirical Study*. Cambridge, MA.
- Bartha, Attila, Zsolt Boda, and Dorottya Szikra. 2020. 'When Populist Leaders Govern: Conceptualising Populism in Policy Making'. *Politics and Governance* 8(3): 71–81.
- Campos, Nauro F., Fabrizio Coricelli, and Luigi Moretti. 2019. 'Institutional Integration and Economic Growth in Europe'. *Journal of Monetary Economics* 103: 88–104.
- Cardoso, and Faletto. 1979. *Dependency and Development in Latin America*.
- Coyle, Diane. 2016. 'A Review Essay on GDP: A Brief but Affectionate History'. *Journal of Economic Literature* 54(2): 573–88.
- Cunningham, Scott. 2021. *Causal Inference: The Mixtape*. Yale University Press.
- Dornbusch, Rudiger, and Sebastian Edwards. 1989. *Macroeconomic Populism in Latin America*. National Bureau of Economic Research.
- Duflo, Esther. 2020. 'Field Experiments and the Practice of Policy'. *American Economic Review* 110(7): 1952–73.
- Fleurbaey, Marc, and Didier Blanchet. 2013. *Beyond GDP: Measuring Welfare and Assessing Sustainability*. Oxford University Press.
- Gylfason, Thorvaldur, and Eduard Hochreiter. 2009. 'Growing Apart? A Tale of Two Republics: Estonia and Georgia'. *European Journal of Political Economy* 25(3): 355–70.
- Gyórfy, Dóra. 2021. 'The Middle-Income Trap in Central and Eastern Europe in the 2010s: Institutions and Divergent Growth Models'. *Comparative European Politics*: 1–24.
- Inglehart, Ronald F, and Pippa Norris. 2016. *Trump, Brexit, and the Rise of Populism: Economic Have-Nots and Cultural Backlash*. Rochester, NY: Social Science Research Network.
- Kriesi, Hanspeter. 2014. 'The Populist Challenge'. *West European Politics* 37(2): 361–78.
- Lütz, Susanne, and Matthias Kranke. 2014. 'The European Rescue of the Washington Consensus? EU and IMF Lending to Central and Eastern European Countries'. *Review of International Political Economy* 21(2): 310–38.
- Noury, Abdul, and Gerard Roland. 2020. 'Identity Politics and Populism in Europe'. *Annual Review of Political Science* 23(1): 421–39.
- Philipsen, Dirk. 2015. *The Little Big Number: How GDP Came to Rule the World and What to Do about It*. Princeton University.
- Rodrik, Dani. 2017. *Populism and the Economics of Globalization*. National Bureau of Economic Research.
- . 2018. 'Is Populism Necessarily Bad Economics?' *AEA Papers and Proceedings* 108: 196–99.
- Sachs, Jeffrey. 1990. 'Social Conflict and Populist Policies in Latin America'. *Labour Relations and Economic Performance* (2897): 137–69.
- Stiglitz, Joseph E, Jean-Paul Fitoussi, and Martine Durand. 2018. *Beyond GDP*.

