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The political economy of populism regime length

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Abstract
Left-leaning populist regimes in 21st-century Latin America have become notoriously long, including some that maintained their power by repealing term limits. Along with changes in external factors, we argue that repealing term limits allowed populist leaders to develop longer time horizons and behave more like stationary than roving bandits. We show that, relative to those constrained by time limits, unconstrained populist leaders mitigate the economic effects of the populist cycle of boom, stagnation, and bust. Populists constrained by term limits act like roving bandits, engaging in more extractive rent-seeking that leads to more significant economic fluctuations.

Keywords Latin America · Populism · Term limits

JEL Classification P30 · O43 · E50

1 Introduction

In the twenty-first century, left-leaning populist regimes in Latin America have become notoriously long-lasting, with leaders able to remain in power for at least ten years. We attribute this increased regime length to two key factors. First, there has been a reduction in foreign intervention in Latin America since the end of the Cold

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War, dramatically decreasing the number of coups in the region. Second, populist leaders have been able to promote constitutional reforms that repealed term limits.

We analyze the political economy of populist regime length through the lens of Olson's (1993) *roving* and *stationary* bandits. We argue that the behavior of populist leaders depends on the expected duration of their regime upon assuming office. Populist leaders constrained by term limits are more likely to behave like roving bandits. Given their short time horizons, they attempt to extract rents as quickly as possible. In contrast, we contend that populist leaders who were able to repeal term limits early in their mandates developed longer time horizons. Expecting to remain in office for long periods, they are more prone to act like stationary bandits, extracting rents more cautiously over the long run.

Our analysis focuses on differences in term limits *within* the twenty-first century[1] observed in the five iconic left-leaning populist regimes in Latin America: (1) Argentina under the Kirchners, (2) Bolivia under Evo Morales, (3) Ecuador under Rafael Correa, (4) Nicaragua under Daniel Ortega, and (5) Venezuela under Chávez and Maduro. Using these case studies, we use the populist cycle framework developed by Dornbusch and Edwards (1990, 1992) (henceforth D&E). The selection of these five populist regimes as representative cases of left-leaning populism is consistent with the literature (see Funke et al., 2023, p. 12). Two clarifications are important. First, other left-leaning populist regimes in the region either do not last as long or are less intense than these iconic cases.[2] Secondly, even if less frequent in Latin America, right-wing populist regimes recently became more popular in the region.[3]

Our findings suggest that more volatile economies (those with shorter stages of the populist cycle), which are consistent with a *roving* populist behavior, are those constrained by term limits. Conversely, those who expected to remain in power for extended periods—the *stationary* populists—experienced less volatility and steadier growth. Although their policies also eventually lead to negative economic outcomes, extraction of rents by *stationary* populists is less distortive, and thus leads to less dramatic economic cycles.

Our focus on populist regimes should not be taken to mean that we deny or ignore the possibility of similar effects occurring under other non-populist authoritarian regimes or any government in general. Populist regimes, perhaps more than other types of government, are often described as executing irrational policies. This paper suggests that what appears to be irrational behavior can, in fact, be interpreted rationally. Finally, we employ a cross-country case-study approach. The absence of a strict control approach highlights future research questions in countries that deviate from the predicted behavior.

1 In Sect. 3 we discuss why the greater prevalence of coups prevents the development of long time horizons in the twentieth century, regardless of differences in term limits.

2 Fernando Lugo in Paraguay (2008–2011) and Manuel Zelaya in Honduras (2006–2009) are short lived with a low V-Dem populism score of 0.40 and 0.30 respectively. Another example is Ollanta Humala in Perú (2011–2016), with a higher V-Dem populist score of 0.80 but with no clear evidence of taking his populist rhetoric into action.

3 Jair Bolsonaro (Brazil), Nayib Bukele (El Salvador), and Javier Milei (Argentina) have been identified as three cases of 21st-century right-wing populist regimes (Pereira, 2023).

We commence by delineating the populist cycle and the typical policies associated with macroeconomic populism. Subsequently, we proceed to contextualize the five populist countries studied in this paper within our analytical framework, considering the length and depth of economic crises and distinguishing between roving and stationary populists. Finally, we delve into an in-depth exploration of each case.

2 Populists and their macroeconomic policies

Scholars have struggled to provide a consistent definition of populism. Rather than constituting a specific form of government with a rigid set of policies, scholar have focused on various facets of populism, including the rhetoric employed by its leaders (de la Torre, 2013; Laclau, 2005), its economic paradigm (Dornbusch & Edwards, 1990, 1992; Ocampo, 2019; Rode & Revuelta, 2015; Sachs, 1990), and its political and ideological characteristics (Abts & Rummens, 2007; de la Torre, 2016, 2017a; Doyle, 2011).[4]

Drake (1982) identifies three main characteristics of a populist leader: mobilizing voters and political actors through emphatic rhetoric and inspiring political symbols; forming a heterogeneous coalition inclusive of the middle class and segments of local elites, to advance the interests of the working class; and pursuing a reformist agenda.[5]

Populists are typically charismatic leaders who adopt a personalistic style. They rely on an "us versus them" narrative, in which the populist leader "saves" the people—conceived as a unique and homogeneous body—from the abuses of a ruling elite (usually allied with foreign interests). In contrast to the rule of law, "The People" is the ultimate source of legitimacy (Abts & Rummens, 2007; de la Torre, 2013). This narrative also has a nationalistic component (de la Torre, 2017b), given that large multinational corporations generally comprise the elites. In Latin America, where left-wing populism dominates, populists notoriously accuse organizations like the International Monetary Fund of imposing "neoliberal" policies that benefit the rich.

De la Torre (2019a, pp. 8–9 italics added) defines populism as "political discourses and strategies that aim to rupture institutional systems by polarizing society into two antagonistic camps. [...] Populist leaders claim that they represent and even embody the interests, will, and aspirations of homogeneous people. All of those who challenge their claim to be the incarnation of the people are branded as enemies of the people, the leader, and the nation. *Populists do not face political adversaries; they confront enemies*."

D&E (1990, p. 247) offer an *economic* definition of populism that remains relevant for this paper, stating, "Macroeconomic populism is an approach to economics

[4] For a recent comprehensive review of the literature, see Barr (2022, Chapter 2), de la Torre (2019b), Guriev and Papaioannou (2022), Kaltwasser et.al. (2017), Ocampo, E. (2015b), and Weyland (2001, 2009).

[5] While this definition accurately describes the Latin American left-leaning cases, it is too narrow encompass all types of populism. See the work of Mudde (2004, 2007) for a broader definition.

that emphasizes growth and income distribution and deemphasizes the risks of inflation and deficit finance, external constraints and the reaction of economic agents to aggressive non-market policies." In short, populism violates the "good economics" of fiscal responsibility, budget constraints, and efficiency (Edwards, 2019).

The initial conditions of a populist regime comprise an unequal society that is eager for political change due to standards of living at undesirable levels. D&E call the set of policies used to reverse this situation the "three *R*'s" of populist macroeconomics: *reactive*, *redistributive*, and *restructure*.

Recognizing a significant output gap is crucial, as it allows the expansionist agenda to stimulate aggregate demand without inflation. If the ailment is dormant industries, the remedy begins with *reactivation*, followed by *redistribution* through a substantial increase in real wages.[6] Finally, the government *restructures* the domestic economy through an industrialization plan.[7] From the 1960s to the 1980s, industrial policies followed the recommendations of the United Nations Economic Commission for Latin America and the Caribbean (*Comisión Económica para América Latina y el Caribe*—CEPAL), which historically involved subsidies to the industry and import substitution industrialization policies.[8]

D&E argue that the implementation of populist policies typically unfolds in four stages, each lasting approximately one year:

- Stage 1: Initially, the macroeconomic landscape responds positively to populist policies, with expansion leading to increased output, employment, and real wages. In the short term, ample inventories, idle capacity, and central bank reserves mitigate shortages and inflation risks.
- Stage 2: Roughly a year later, foreign reserves approach critical levels, leading to decreased imports that affect producers of durable and capital goods. This shortage of essential inputs negatively impacts domestic industries. Bottlenecks emerge, shortages become commonplace, and inflation accelerates. The government resorts to exchange rate manipulation, subsidies, and price controls to stabilize the economy.
- Stage 3: As nominal wages rise to keep pace with inflation, more subsidies are necessary to stimulate output, further deteriorating the fiscal balance and increasing budget deficits; additionally capital flight intensifies. Chaotic shortages result in substantial budget deficits since tax revenues decline amid reduced economic

[6] In our view, the redistribution of income has two interesting aspects. The economic rationale is that lower income brackets direct a larger share of their income to consumption, while the elites are only "extracting rents"—*los rentistas* ("the rentists") are culprits that can be found in every crime scene of Latin American politics. The second related purpose is to appeal for the political narrative of "us versus them", of inequality and exploitation of the people by the elites.

[7] A contention by de la Torre (2017b, p. 196) is that industrialization was mainly intended for relatively more developed nations such as Argentina, Brazil, and Mexico. Industrialization is not found among the populist policies of Bolivia, Ecuador and Peru. However, as we shall see, Bolivia has extensively promoted its natural gas industry under Morales.

[8] These ideas were famously advocated by scholars such as Raúl Prebisch (1976, 1987) and Celso Furtado (1961). For a discussion of these ideas, see Aguilar (1986) and Ocampo, J. A. (2001).

activity. When the economy finally collapses, real wages fall rapidly, the government slashes subsidies, and the economy grinds to a halt.

- Stage 4: A new government implements orthodox policies to stabilize the economy, often with the support of the IMF. As the economy contracts, real wages continue to decline, and the country's income level is lower than it was at the beginning of Stage 1. Recovery hinges on local politics permitting adjustments and being credible enough to attract foreign direct investment.

Our theory adds an institutional element to D&E's populist cycle. Namely, the length of each stage depends on the expected time horizon of populists at the time of taking office. The shorter the time horizon, the faster the populist will attempt to extract rents. This insight connects our theory to others who argued on the impact of institutional constraints on populist behavior, namely Kaufman and Stallings (1991) and Acemoglu et al. (2013). Both studies contend that short-time horizons incentivize the implementation of redistributive policies early in an administration.

However, our contribution offers key distinctions. First, Kaufman and Stallings (1991, p. 26) do not consider the possibility of a long-term horizon populist,[9] because short-term horizons are the defining characteristic of populists due to "institutional uncertainties" that are endemic in Latin America. But as we argue in detail in the next section, the twenty-first century reduced such uncertainties and allowed the rise of populists with long time horizons.

Acemoglu et al. (2013) instead argue that populists will implement redistributive policies because they want to stay in power—notably, by repealing term limits. Redistributive policies are thus *instrumental* in acquiring strong popular support.[10] We contend in the next section that removing term limits as a strategy to remain in power is only possible if there is no chance of removal by a coup. Further, our results aim to show that while more forward-looking populists may indeed implement *more* populist policies to repeal term limits,[11] they will adopt *fewer* populist policies after they successfully repeal term limits.

3 Populism in the twenty-first century

Since the late 1990s, beginning with Chávez in Venezuela, 21st-century populism has become substantially more durable. We argue that longer regimes are primarily a result of reduced foreign intervention in regime changes following the end of the Cold War (Kalyvas & Balcells, 2010). For instance, between the 1950s and 1970s, the United States Central Intelligence Agency (CIA) sponsored at least seven regime

9 Because the presidential seat is always open to dispute, populists need to promote radical change as soon as they arrive in power. The alternative to the short-run populist is a political coalition under a stable democracy, where "by definition, abrupt changes of regime are less likely" (p. 26).

10 Specifically, they offer a signal of his "pro-People" character. Thus, voters can trust him to be an unconstrained representative of their will.

11 In the model of Acemoglu et al., (2013, p. 801) forward-looking politicians discount future periods less, increasing the expected value of remaining in office, and thus incentivizing the adoption of even more populist policies to repeal term limits and remain in office.

changes in Latin America (Berger et al., 2013).[12] Cuba and the Soviet Union were likewise involve in regime change in various countries, mainly by financing revolutionary militias and insurgency groups (e.g. Berrios & Blasier, 1991; Miller, 1989). Between 1980 and 1999, there were 40 coup attempts in Latin America, compared to only five in the 2000–2020 period,[13] an eight-fold reduction (Bjørnskov & Rode, 2020).

This regime change effect allowed all populists in the twenty-first century to extend their regime length, relative to the previous century. However, there is still substantial variance within more recent regimes. This variance stems from populists who enacted constitutional reforms, allowing longer mandates, and thereby extending their power. Venezuela, Ecuador, and Bolivia adopted an entirely new constitution.

More broadly, these populist leaders effectively seized control of the electoral process and other branches of the state (legislative and judiciary), making it increasingly challenging for the public to replace the populist regime through democratic means. Ortega repealed term limits through a constitutional amendment, while Morales did so through a series of judicial tricks facilitated by the constitutional court erected under the new constitution. By considering this fresh source of institutional variation, we can elucidate disparities in populist behavior that influence the economic outcomes in these nations.

Although constitutional reforms occurred in the twentieth century, they often failed to ensure leaders could stay in power. One example is Juan D. Perón's reform of the Argentine constitution in 1949, which repealed term limits. However, as Llanos (2019) argues, the repeal was ineffective, as "the regime instability prevailing after 1930 de facto *shortened the term* of (elected and unelected) presidents until re-democratization in 1983" (emphasis added).

Repealing term limits cannot extend the time horizon of political leaders if their position is constantly vulnerable to *coups d'état*. For instance, Allende's position in Chile would arguably have been even more vulnerable had he proposed a whole new constitution instead of simply amending it. Under an unstable environment, radical constitutional changes justify interventions by political challengers who argue that order must be reinstated.

The greater political stability of the twenty-first century allowed for longer populist time horizons. While we describe the reduced number of abrupt regime changes as a necessary condition, we focus on the constitutional differences *within* the twenty-first century—namely, term limits—as the basis of our analysis. Within the twenty-first century, we explore the implications of repealing term limits early in their administration on their economic behavior. More specifically, we study how longer time horizons affect populists' economic policies.

[12] These are Guatemala (1954), Ecuador (1963), Brazil (1964), Chile (1964), Bolivia (1964), Chile (1973), and Panama (1981). Absher, Grier, and Grier (2023) who study the local economic effects of these regime changes (except for the Chilean and Guatemalan cases), find that ten years later these interventions have reduced income per capita by 10%, on average.

[13] These are Ecuador and Paraguay in 2000, Venezuela in 2002, Haiti in 2004, and Honduras in 2009. They were unsuccessful in Venezuela and Paraguay (Bjørnskov & Rode, 2020).

Table 1 V-Party populism index. *Source* Calculations by the authors based on the V-Party index

President	Term	V-Party index
Argentina		
Néstor Kirchner	2003 – 2007	0.75
Cristina Kirchner	2007 – 2015	0.85
Bolivia		
Evo Morales	2006 – 2010	0.91
Evo Morales	2010 – 2015	0.91
Evo Morales	2015 – 2019	0.86
Ecuador		
Rafael Correa	2007 – 2009	0.98
Rafael Correa	2009 – 2013	0.96
Rafael Correa	2013 – 2017	0.96
Nicaragua		
Daniel Ortega	2007 – 2012	0.68
Daniel Ortega	2012 – 2015	N/A
Daniel Ortega	2015 – 2020	0.69
Venezuela		
Hugo Chávez	1999 – 2007	0.99
Hugo Chávez	2007 – 2013	0.99
Hugo Chávez	2013 – 2013	0.99
Nicolás Maduro	2013 – 2020	0.99

The index goes from 0 (less populism) to 1 (more populism)

4 Method

Building on Olson (1993), we argue that the behavior of populist leaders will fall on a spectrum between a *roving* and a *stationary* bandit, conditional on their institutional constraints, particularly their *expected* term limit. As in Olson's tale, the *roving* populist (short-time horizon) goes from community to community and extracts all available rents as soon as possible. This is the typical case described by D&E, in which populist policies generate sharp economic fluctuations. In contrast, the *stationary* bandit settles in a community to extract rents over a lengthy period. As a residual claimant, the bandit's incentive is to see the community grow in the long run, and so the policies of the populist are comparatively less distortive.

To be clear, we are not arguing that unconstrained populists adopt a different macroeconomic agenda that will benefit society.[14] As will be seen below, the types of policies—and the theoretical justification for them—are strikingly similar for all populists. Rather, we claim that constrained and unconstrained populists will mostly differ as a matter of degree, not content. After all, they are still bandits (in Olson's terminology).

[14] Empirical evidence by Absher, Grier, and Grier (2020) shows that all but one durable populist regime in Latin America generated a large income penalty relative to their synthetic counterfactual. The exception is dollarized Ecuador. Further, Cachanosky et al. (2025) show that all cases of populism included in this paper placed a significant toll on liberal institutions.

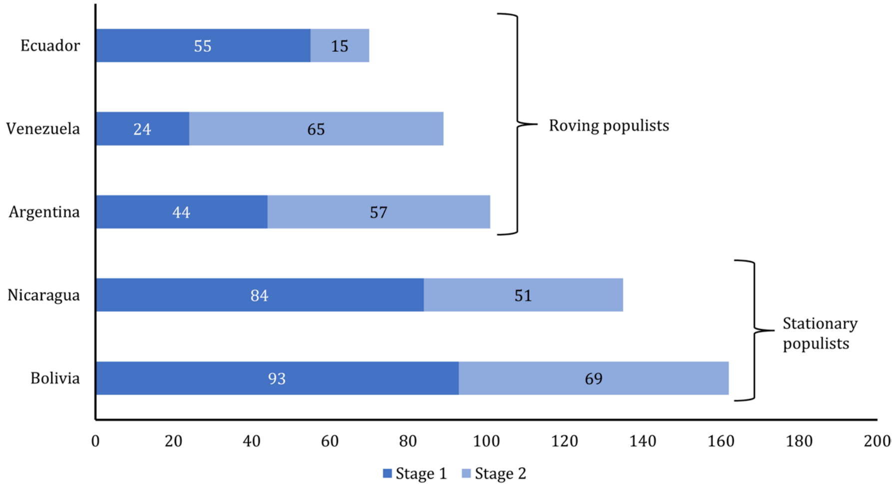

Fig. 1 21st-century populism duration (in months) and classification

We follow Funke et al. (2023) in analyzing the five "consensus" cases of 21st-century populism in Latin America[15]: Argentina under Néstor and Cristina Kirchner (2003–2007 and 2007–2015); Evo Morales's government in Bolivia (2006–2019); the presidency of Rafael Correa in Ecuador (2007–2017); Daniel Ortega's rule in Nicaragua (2007-present), and Hugo Chávez's tenure in Venezuela (1999–2013), followed by Nicolás Maduro (2013-present). This categorization is further supported by the V-Party populism index (Table 1).[16]

We develop a measure of populism cycle length that relies on the framework proposed by D&E (1990). As described earlier, they define a cycle in four stages: (1) boom, (2) stagnation, (3) bust, (4) reforms. Our measure of length simply captures how long each of these stages lasts. The core intuition of our idea is quite simple. Roving populists, who extract rents—notably from natural resources—and promote aggressive redistribution early in their administration, create severe economic distortions. These distortions generate a populist cycle where each stage—boom, stagnation, and bust—is *short*. The crisis arrives quickly and severely.

In contrast, since *stationary* populists have their position in power secured, there is no hurry to extract rents. Consequently, their extraction of rents is less predatory and generates fewer distortions, which attenuate the populist cycle. This leads to

[15] To create their consensus cases, Funke et al. (2023) not only evaluates available populism indices but reviews "770 books, chapters, and articles on populism from all social sciences, comprising more than 20,000 pages of case studies on populist politicians" (p. 12).

[16] We are aware of other left-leaning regimes in the region. Besides not being part of the "iconic five" in the literature, they fall short next to our sample. For instance, Fernando Lugo's presidency in Paraguay (2008–2012) has one observation with a V-Dem score of 0.40. Peru's Ollanta Humala (2011–2016) depicts a V-Dem score of 0.80, but there is no evidence of institutional or economic populist advances. Finally, Hondura's Manuel Zelaya (2006–2009) V-Dem score is below 0.30 for the whole presidential term.

longer stages, implying it takes longer for the economy to eventually reach a crisis. By mapping the stages of boom, stagnation, and bust, we can establish cutoff dates that will allow us to calculate the lengths of the stages proposed by D&E. We apply this idea to the five countries in our sample. For each of them, we analyze their macroeconomic fluctuations for trend breaks in key indicators (Fig. 1).

We use Argentina as an example to illustrate our approach. Detailed country-specific discussions are provided in the Appendix. Néstor Kirchner rises to power in the aftermath of the 2001 crisis under favorable conditions, including a rare fiscal surplus. He expanded social programs and imposed price controls on utilities at pre-crisis levels. By the end of his term, inflation rose abruptly, which we propose as the event marking the end of the first stage, ending the boom and leading to stagnation—3 years and 8 months after the beginning of populism.[17]

During the next four years, mostly under the presidency of his wife, Cristina Fernández Kirchner, GDP rose timidly, and the growth in central bank results completely stagnated. On the other hand, CFK kept pushing government spending substantially (see Fig. 2). We propose that the stagnation ends, and the bust begins, as the government imposes capital controls. Around this time, there is another clear break in GDP growth, which stops growing altogether, and a sharp decline in central bank reserves (Tables 2, 3, 4 and 5). Thus, our stage length is set to 4 years and 9 months. The third stage, the bust, ends four years later, as Mauricio Macri rises to office and launches a series of reforms, ending populism. Table 2 through Table 6 summarize our proposed stage lengths following this method .

5 Cross-country results

Having explained our approach, we can now discuss cross-country comparisons.[18] The key question becomes whether these *roving* and *stationary* behaviors (i.e. short and long stages) map onto the existence of term limits. With one exception, the answer is clear. Argentina and Ecuador clearly illustrate cases where populist leaders failed to repeal term limits. The observed outcome of a populist cycle with short stages is consistent with the idea that *roving* populists will attempt as much as possible to extract rents early on, quickly leading to a crisis.

On the other hand, Morales and Ortega were able to bypass term limits, de facto and *de jure*, respectively.[19] The populist cycles of Bolivia and Nicaragua featured significantly longer stages, which are consistent with the behavior of stationary bandits, who extract rents more gradually over an extended period, leading to fewer

[17] Figures 3 and 4 in the Appendix also show a clear trend break in the rise of central bank reserves, and a slight trend break in GDP, which confirmed itself as more substantial by the next quarter, supporting our choice as the beginning of stagnation.

[18] We recall the reader that the analyses are provided in full detail in the Appendix.

[19] This reflects that populists may use different tactics to gain control of power. For instance, Pedro Castillo in Perú in 2022, attempted an *auto*-golpe to sidestep term limit constraints and keep pushing his policies by playing the victim.

distortions that allow the economy to grow more steadily— it takes longer for the crisis to arrive.

Figure 1 summarizes our results by plotting the length of the first and second stages on the horizontal axis and listing the countries on the vertical axis. Countries are sorted from shortest to longest regimes, from top to bottom. We focus on stages 1 and 2 because they indicate how fast a crisis arises, and thus are more indicative of their *roving* vs *stationary* behavior. Stationary populists, such as Nicaragua and Bolivia, have longer terms, and did not face term limits. On the other hand, more intense populism is found in cases with stricter term limits, as in the cases of Argentina and Ecuador.

Venezuela, the sole exception, warrants special attention. Indeed, Chávez repealed term limits, but it was only in 2009, a decade after he first came to power in 1999. We contend that, until then, the length of his tenure was uncertain, if not entirely expected to be soon over—especially given that he faced a coup attempt and a recall referendum.[20] Hence, the lack of regime stability may have induced a *roving* bandit behavior. The fact that Chávez implemented most of his revolutionary reforms early in the administration is consistent both with extracting rents as soon as possible (anticipating his potential removal), and with the attempt to signal his commitment against the elites—as in Acemoglu et al. (2013)—that could (only *eventually*) allow him to remain in power by repealing term limits.

5.1 Case study: roving populists

What characterizes the archetypical roving bandit? The economies of Argentina and Venezuela exhibit higher inflation rates and greater volatility compared to Bolivia and Nicaragua. Ecuador, a dollarized economy, follows a different pattern; here, the impacts of populism are more apparent on the fiscal side, with a deficit hovering around 6% of GDP. Interestingly, government spending (as % of GDP) for Argentina and Ecuador follows a similar trajectory once the populist regimes take power. In both cases, it rises fast above the regional average starting circa 2007, when Correa and Cristina Fernández de Kirchner took office.

There is also a marked contrast in how oil production levels evolved under a roving bandit. In Venezuela, oil rents were primarily employed for short-term gains by the government, leading to the rapid nationalization of the entire oil industry under the state-owned national oil company PDVSA (*Petróleos de Venezuela, S.A.*). The company became a powerful tool of patronage—and also the regime's piggy-bank. The boom in the price of commodities contributed to this strategy. Neglecting maintenance and investment resulted in facility deterioration, and despite the substantial oil price boom, production never returned to pre-Chávez levels (Grier & Maynard, 2016). Crucially, all of this occurred *before* Chávez could repeal the term limits he faced.

[20] We discuss this episode at greater length in Venezuela's case study in the Appendix).

5.2 Case study: stationary populists

Unconstrained populists also adapted their strategies to their circumstances. Constitutional reforms that altered electoral rules allowed leaders to extend their time in power. With longer time horizons, their behavior resembled that of stationary bandits, leading to extended (above-average) stage lengths.

We see this behavior clearly among the stationary bandits. Unlike Venezuela's PDVSA, Bolivia's national oil company took a longer-term approach. *Yacimientos Petrolíferos Bolivianos Fiscales* (YPBF) redirected a significant portion of its revenues toward future investments, boosting productivity, discovering new reserves, and expanding its *megacampos*.[21] Per capita production of oil and natural gas increased from approximately \$150 in 2000 to nearly \$600 in 2014 (Toscani, 2017). In Argentina, where natural gas accounts for 50% of total energy demand, the country grew increasingly dependent on Bolivian exports.

Unlike its Argentinian and Venezuelan counterparts, the Bolivian central bank effectively managed inflation during this period. From 2006 to 2014, inflation averaged 6.5%, with peak rates of 14% in 2008 and 9.9% in 2011. Subsequently, inflation steadily declined, reaching 1.8% in 2019 when Morales left office. It is worth noting that while government did impose price controls and limited exports of specific items to manage inflation shocks, it also eventually removed them, possibly to boost export revenues and halt the reduction of international reserves (Estremadoiro, 2017).

Monetary policy leaned towards expansionary measures, occasionally employing unconventional methods but also relying on orthodox open market operations. Excess liquidity was sterilized and kept out of the financial system. The *boliviano* experienced a significant real appreciation against the dollar, supported by extensive international reserve accumulation during most of the period, and external debt remained at low levels.

In the case of Nicaragua, Ortega managed to maintain a balanced budget, giving rise to "fiscally-responsible populism" (Cruz, 2018). During the 2008 financial crisis, inflation surged to nearly 20%, gross capital formation dropped by approximately 25%, and unemployment increased from 5.1% at the beginning of Ortega's government to 8.4% in 2009 (Grigsby, 2010). Nicaragua, however, experienced a relatively smooth recovery. Following the initial shock, inflation averaged 5% annually, and by 2012, capital formation had returned to 2008 levels, hovering around 2% of GDP. Up until 2017, the regime maintained an average GDP growth rate of nearly 5%, with GDP per capita experiencing a 2% increase.

Our analysis of 21st-century populism illustrates that the mere existence of this regime is not a sufficient condition for catastrophic economic outcomes. Instead, our assumption of variable term limits helps to elucidate the economic ramifications of roving and stationary populism. Our contribution can also be extended to argue that it was not solely their populist nature but rather the short time horizons of leaders

[21] Exogenous factors also played a pivotal role, as roughly one-third of Brazil's natural gas demand was supplied by Bolivia, pressuring Petrobras—Brazil's state-owned oil company—to accept less favorable terms to maintain its operations in Bolivia.

Table 2 Populism stages: Argentina

Stages	Start	End	Length	End event	President(s)
Stage 1	May 2003	Jan 2007	3Y 8M	Inflation starts	NK
Stage 2	Jan 2007	Oct 2011	4Y 9M	Capital controls	CFK
Stage 3	Oct 2011	Jan 2016	4Y 3M	Presidential elections	CFK
Stage 4	Jan 2016	Jan 2020	4Y 0M	Return of populism	MM

NK, Néstor Kirchner; CFK, Cristina Fernández de Kirchner; MM, Mauricio Macri

Table 3 Populism stages: Bolivia

Stages	Start	End	Length	End event	President(s)
Stage 1	May 2006	Feb 2014	7Y 9M	Reversal of terms of trade	EM
Stage 2	Feb 2014	Nov 2019	5Y 9M	Electoral fraud	EM
Stage 3	–	–	–	–	–
Stage 4	–	–	–	–	–

EM, Evo Morales

Table 4 Populism stages: Ecuador

Stages	Start	End	Length	End event	President(s)
Stage 1	Jan 2007	Dec 2012	5Y 11M	Labor compensation stagnation	RC
Stage 2	Dec 2012	Mar 2014	1Y 3M	Launch of digital currency	RC
Stage 3	Mar 2014	May 2017	3Y 2M	Presidential elections	RC
Stage 4	May 2017	–	–	–	LM, GL

RC, Rafal Correa; LM, Lenin Moreno; GL, Guillermo Lasso

Table 5 Populism stages: Nicaragua

Stages	Start	End	Length	End event	President(s)
Stage 1	Jan 2007	Jan 2014	7Y	Loss of financial aid	DO
Stage 2	Jan 2014	Apr 2018	4Y 3M	Social security crisis	DO
Stage 3	Apr 2018	-	6Y 4M*	*Ongoing*	DO
Stage 4	-	-			

DO, Daniel Ortega

* Up to December 2024

such as Allende and García (the case studies of D&E) that engendered such economic pitfalls. A single-term limit in the constitution constrained both leaders.[22]

[22] Article 62 of the Constitution of Chile prohibited reelections. Article 205 of the 1979 Peruvian Constitution only allowed for non-consecutive elections.

Table 6 Populism stages: Venezuela

Stages	Start	End	Length	End event	President(s)
Stage 1	Jan 2001	Jan 2003	2Y	Currency and price controls	HC
Stage 2	Jan 2003	Jun 2008	5Y 5M	Oil crash and nationalizations	HC
Stage 3	Jul 2008		16Y 6M*	*Ongoing*	HC, NM
Stage 4	–	–			

HC, Hugo Chávez; NM, Nicolás Maduro

* Up to December 2024

6 Conclusions

Our study seeks to address the following question: Why is the behavior of 21st-century Latin American populism less extreme than that of many of its 20th-century predecessors? We argue that the anticipated term limits faced by populist leaders are a key variable for understanding this phenomenon.

First and foremost, we emphasize that in the twenty-first century, populists have been able to prolong their stay in power and extract economic benefits through constitutional reforms that modified term limit regulations and nationalized the hydrocarbon industries in their respective countries. Drawing on the insights of Olson, we utilize this variation in institutional constraints to elucidate the disparities in populist behavior, distinguishing between roving and stationary populists. Populists who endeavor to gain popular support for pushing through constitutional reforms tend to implement aggressive redistributive policies and extract rents rapidly due to the precarious nature of their grip on power. This behavior leads to significant economic fluctuations. In contrast, populists who abolish term limits and secure their position in power adopt longer time horizons and exhibit the characteristics of stationary bandits. Knowing that they will remain in control for an extended period, they prioritize maximizing rents over the long term, resulting in more modest economic fluctuations.

It is imperative to underscore that our paper does not contend that other factors contributing to longer or shorter time horizons are irrelevant. Factors such as commodity price cycles, changes in foreign interventions in the region, and the waning influence of the Soviet Union can also potentially elucidate the behavior and duration of populist regimes. Our argument operates on a ceteris paribus basis, asserting that, all else being equal, the expected term limits play a significant role in explaining the observed behavior of various populist regimes.

Appendix

Here, we provide the details for our estimated stage lengths for each country. The data sources for each plot are provided in their respective captions. Unless otherwise referenced to a specific study, other basic data mentioned through the text (e.g.

Table 7 Data sources

Country	Sources
Argentina	Instituto Nacional de Estadísticas y cencos (INDEC) "Inflación Congreso" (collected by the authors)
Bolivia	Instituto Nacional de Estadística; Banco Central de Bolivia
Ecuador	See main text for sources
Nicaragua	Instituto Nacional de Información de Desarrollo Banco Central de Nicaragua National Electricity Transmission Company (ENATREL) Petronic S.A
Venezuela	Instituto Nacional de Estadística Banco Central de Venezuela Petróleos de Venezuela, S.A

poverty, unemployment, sector outputs, monetary aggregates) comes from the following sources:

See Table 7.

Argentina

Néstor Kirchner assumed the presidency in May 2003, less than two years after Argentina experienced one of the most severe economic crises in its history: the 2001 Argentine Great Depression. Both Néstor and his wife, Cristina Fernández de Kirchner (CFK), were elected under the political banner of the Partido Justicialista (PJ), founded in 1947 by Juan Domingo Perón, a prominent figure in Latin America's "golden age" of populism (de la Torre, 2017b; Gambini, 1999). Between the resignation of Fernando de la Rúa (UCR—Unión Cívica Radical) on December 20, 2001, and the commencement of Néstor's presidency in May 2003, Argentina witnessed the tenures of five presidents, with four of them representing the PJ.[23]

There is a classification challenge. At the beginning of Néstor's presidency, he and Cristina could have taken turns as presidents and avoided the two-year term limit. However, Néstor prematurely passed in 2010, limiting Cristina's presidency to one more consecutive term. Néstor's passing in 2007 explains why his presidency was more prudential looking, behaving more as a stationary than a roving bandit. It also explains why populism in Argentina was accentuated when Cristina Kirchner became president in 2007 when there was a sudden change of her expected time in power.

[23] After de la Rúa, Ramón Puerta (PJ) assumes for a period of two days, being replaced by Adolfo Rodriguez Saá (PJ) on December 22nd, who declared the largest default in Argentine history at the time. A week later, on December 30th, he was forced out of office. Finally, on January 2nd, Congress appointed Eduardo Duhalde (PJ) as the President to complete de la Rua's original term. When new elections were called in 2003, Néstor became president after Menem dropped from the ballotage.

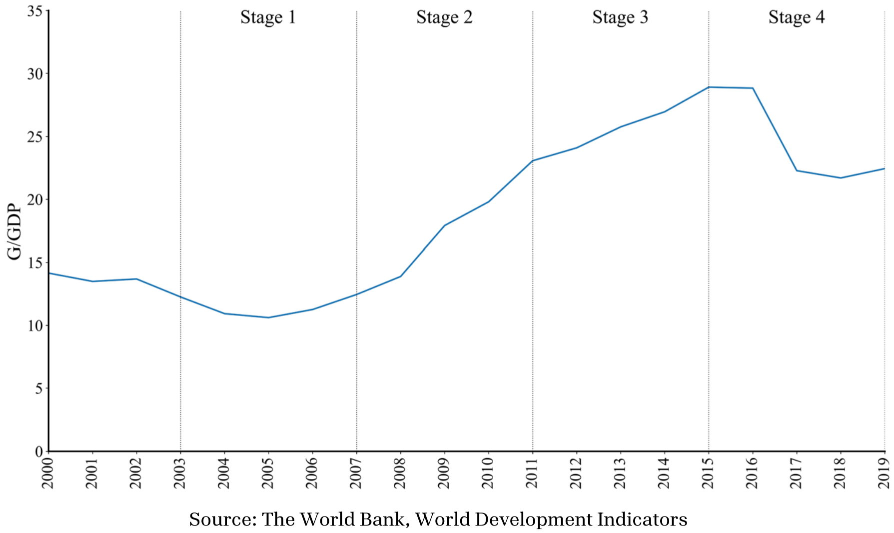

Fig. 2 Argentina's Government Spending (%GDP). *Source* The World Bank, World Development Indicators

Néstor Kirchner initiated stage 1 of macroeconomic populism under favorable conditions. The aftermath of the 2001 crisis left behind substantial output gaps, high poverty rates, and a significant public demand for political leaders to address these issues. Moreover, Néstor inherited a rare fiscal surplus in Argentina, as a result of tax hikes and the 2001 credit default. Néstor and Cristina capitalized on the institutional crisis, responding to public demands and benefiting from the post-crisis economic rebound and rising commodity prices.[24]

The Kirchner administration expanded social programs targeting low-income households and the unemployed while maintaining utility prices (e.g., gas, energy, and public transportation) at pre-crisis levels. Utility providers billed customers in *pesos* at pre-crisis rates, but they had to purchase their inputs in dollars at the new depreciated exchange rate, thereby exerting pressure on the central bank's reserves. The government subsidized utility companies to offset these costs. Government expenditure rose from 13% in 2003 to 24% of GDP after the Kirchner administration in 2015. This growth in government size remained steady, persisting even as the economy entered stagflation. Austerity measures only commenced in the second year of Macri's administration (Fig. 2).

Social programs and subsidies imposed a significant burden on the Treasury, pushing it into persistent deficits in 2007. Between 2003 and 2015, these two components accounted for 65% of total government expenditure. With limited access to international markets, the Kirchners resorted to alternative financial sources, including confiscations and monetization. The latter triggered a new era of high

[24] For a more detailed treatment of the following discussion, see Sturzenegger (2019) and Thomas and Cachanosky (2016).

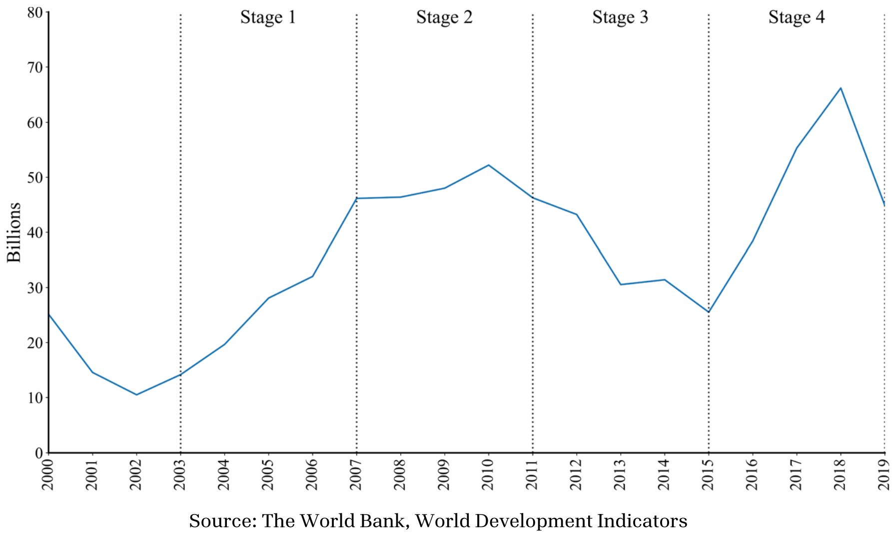

Fig. 3 Argentina's central bank reserves. *Source* The World Bank, World Development Indicators

inflation, with the inflation rate rising from 9% in 2007 to a steady 27.8% in 2015.[25] The Kirchners employed left-populist rhetoric to assemble a support base that would accept the confiscation of major corporations and attribute inflation to big businesses and external factors.[26]

The depletion of reserves was substantial. During the 2001 crisis, the Argentine central bank lost 3.68 billion USD in international reserves. During the capital controls implemented between 2011 and 2015, the central bank lost 22.678 billion USD in international reserves, six times the amount lost in 2001 (Fig. 3). Not even the windfall from record-high commodity prices could cover the costs of the Kirchners' populist policies.

The Kirchner administration came to an end in 2015 when Mauricio Macri assumed the presidency, leading the *Cambiemos* coalition. By the time Macri took office, the inflation rate had reached 27.8%, the exchange rate was overvalued, and the real economy had stagnated since 2011. The central government faced a deficit of 6.9% of GDP, double the level seen in 2001. The Pontificia Universidad Católica Argentina estimated a household poverty rate of 30%.[27] Under Macri's leadership, central government expenditures decreased by more than 20% in real terms, and the Treasury's deficit shrank to 4.7% of GDP. Macri's administration also turned to the

[25] The government started to tamper with inflation statistics in 2007, leading Congress to publish a composite of private estimations under the informal label of *Inflación Congreso*.

[26] In 2008, CFK nationalizes the private retirement and pension funds, and in 2012, she nationalized the Spanish participation in the oil company Repsol-YPF.

[27] Because of the Kirchners tampering with official statistics, there are no reliable official poverty rate estimations for this period.

International Monetary Fund (IMF) for financial assistance during the currency crisis of 2018.

In terms of real GDP, the early years of populism benefited from a post-2001 crisis rebound and rising commodity prices (Ocampo, 2015a; Thomas & Cachanosky, 2016). Growth continued into stage 2 but stalled at the onset of stage 3 in 2011. Inflation began to rear its head in 2007, and by 2011, output stagnation had set in, persisting through stage 4 (2016–2020) (Fig. 4).

We propose the following four-stage framework to delineate Argentine macroeconomic populism (Table 2). Stage 1 commenced with Néstor's presidency in 2003 and concluded with the escalation of inflation in 2007. Stage 2 came to an end with the implementation of capital controls in 2011, while Stage 3 concluded with the commencement of Macri's presidency in 2016. Table 4 illustrates the four stages of macroeconomic populism in Argentina. The end of Macri's presidency marked the inception of a new cycle of populism stages. Macri failed to secure re-election, with Alberto Fernández, a former Chief of Cabinet during the Kirchner era (from May 2003 to August 2008), emerging as the victor. Cristina Kirchner returned to power as the elected Vice President alongside Alberto Fernández.

Bolivia

Evo Morales served as a labor union organizer for the *cocaleros* (coca leaf growers) and held a leadership position within the Movement to Socialism (*Movimiento al Socialismo*, MAS) since 1998. He gained significant notoriety for his involvement in the Cochabamba Water War in 2000 and the gas conflict of 2003. In 2002, he

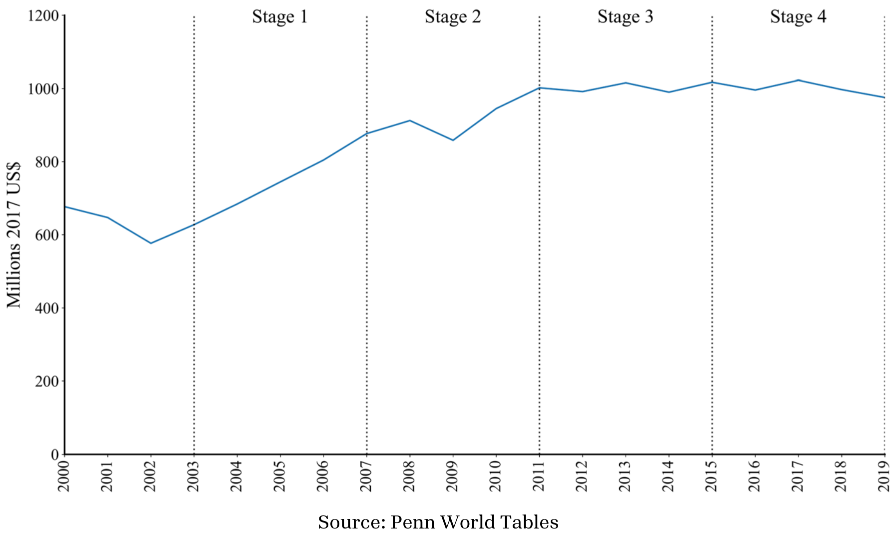

Fig. 4 Argentina's GDP. *Source* Penn World Tables

was expelled from Congress; however, he managed to secure second position in the presidential elections of the same year. In January 2005, he was appointed president, becoming the first indigenous president of Bolivia. Morales remained in office for three consecutive terms until 2019 when he resigned following allegations of electoral fraud (see Escobari & Hoover, 2019).

Morales' case presents classification challenges, particularly because his transition to a long-term presidential horizon was a gradual process. In 2009, a new constitution was adopted, officially declaring Bolivia as a Plurinational State. This constitution implemented various electoral and judicial reforms,[28] recognized coca as a national and cultural heritage, and imposed restrictions on land ownership, capping it at a maximum of 5000 hectares (12,400 acres). However, the period leading up to the constitutional assembly was marked by tension, with certain provinces demanding political autonomy. This discontent with the government, given Morales's promise of granting more administrative independence to these provinces during his campaign, resulted in civil unrest, impacting private investments and leading to some capital flight (Weisbrot et al., 2009). Even though Morales promised he would not run again after a second term, his subsequent actions show that he had no intention to follow through with his promise, in fact running again in 2014 arguing that his 2009–2014 should count as his first term. In 2016 he lost a plebiscite to completely lift term limits. His reaction was to take over the judiciary, running again in 2019. On May 1, 2006, Morales signed a Supreme Decree, enacting the new Hydrocarbon Law,[29] which granted the state full ownership, control, and possession of Bolivia's natural gas reserves, constituting one-third of the country's export revenues. This decree also resulted in a substantial increase in taxes and royalties paid by companies, raising them from 18 to 82%. Consequently, revenues from hydrocarbon extraction surged from \$173 million in 2002 to \$1.57 billion in 2007 and eventually to \$4.95 billion in 2014.[30]

During his initial term, Bolivia's economic performance garnered praise from some authors as "remarkable," primarily due to a substantial increase in public spending (Weisbrot et al., 2009, p. 6). Bolivia's economic growth was closely tied to its hydrocarbon resources, particularly natural gas. This growth was fueled by increased production value, the discovery of new reserves, and rising global prices for the commodity. Furthermore, Morales's distribution of oil revenue within Bolivia's economy after the implementation of the Hydrocarbon Law played a significant role. Per capita production of oil and natural gas increased from approximately \$150 in 2000 to nearly \$600 in 2014 (Toscani, 2017).

[28] Judges shall be elected and not appointed anymore, the electoral authorities become a fourth constituted power, rules for electing members of parliament are changed, the Senate is enlarged, and the possibility of recall elections are introduced. Another important reform is the introduction of presidential term limits, with the caveat that it does not apply to the current elected official, giving Morales two extra terms.

[29] Technically the Law was approved by the congress one year before, in May 2005, with support and leadership provided by Evo's party, MAS, which controlled the Congress. At the time, Carlos Mesa, Bolivia's president, refused to sign the bill. Regardless, the law only started having practical effects with the publication of further provisions under the Supreme Decree signed by Morales.

[30] See Arauz et. al (2019, p. 1) and Harten (2011, p. 181).

Scholars like Weisbrot et al. (2009) and Arauz et al. (2019) argue that hydrocarbon revenues were a driving force behind Bolivia's economic development, highlighting the substantial fiscal policies funded by these new natural gas revenues.

Amidst the 2008 financial crisis, the Bolivian government adopted an aggressive fiscal policy as a counter-cyclical measure, transitioning from a 5% GDP surplus in 2008 to a 0.7% deficit the following year (Weisbrot et al., 2009). Under Morales's leadership, particularly after 2008, Bolivia experienced robust income growth, coupled with a reduction in poverty and unemployment rates. However, Absher et al. (2020) findings indicate that Bolivia still underperformed its non-populist counterfactual.

Hydrocarbon revenues had a substantial influence on critical economic variables in Bolivia, particularly the exchange rate and monetary policy. Bolivia had effectively been dollarized since the hyperinflation crisis of 1986–87, with its exchange rate pegged to the dollar and over 90% of bank deposits and loans denominated in dollars. After 2004, Bolivia embarked on a process of de-dollarization resulting in reduced demand for dollars (Miranda, 2013; Pacajes, 2012). By 2008, approximately 50% of deposits and 70% of loans were dollarized. Following the 2008 crisis, Bolivians increasingly favored their national currency, reducing the dollar's share to less than 40% of deposits and only 31% of credit by 2011 (Pacajes, 2012).

Simultaneously, international reserves began to decrease after peaking at $14 billion in 2014, aligning with the decline in commodity prices. This reduction in reserves is likely attributable to the decline in export values rather than a result of populist policies reaching their limits (Fig. 5).

Bolivia presents a unique case within the conventional four stages of populism outlined by D&E, unlike Argentina and Venezuela, as it did not exhibit the same

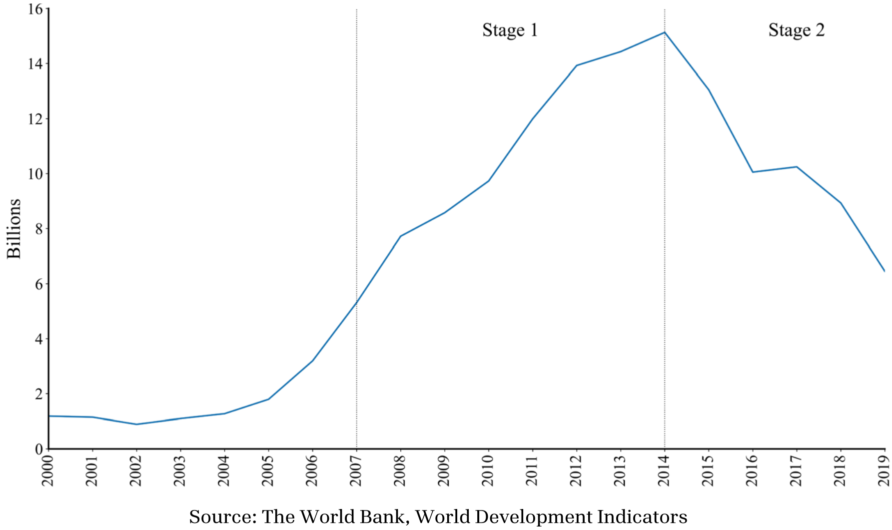

Fig. 5 Bolivia's central bank reserves. *Source* The World Bank, World Development Indicators

macroeconomic policy shifts associated with these stages. Morales can be described as a "responsible populist," one who prioritized the stability of the economy. While the government incurred deficits and expanded the money supply, these actions were relatively modest and balanced by other measures. Although the government did run budget deficits, hydrocarbon revenues predominantly financed this spending.

Taking into consideration these dynamics, we argue that Bolivia's terms of trade shock in 2014 marked a turning point. As commodity prices declined, hydrocarbon revenues dwindled. Alongside this reduced windfall, tax revenues dropped to 20% of GDP by 2018, lower than pre-Morales levels of 21% in 2005. Government net lending experienced a steep decline quickly going from 0.65% in 2013 to −7.2% in 2026, contracting by more than 25 percentage points of GDP (Fig. 6) as the government's financial capacity was compromised.

The annual budget deficit increased to an average of 7.5% of GDP between 2015 and 2018, while international reserves, which had previously been used to finance deficits, halved from $15 to $7.5 billion over the same period (Weisbrot et al., 2009). In 2013, gross public debt stood at 37% of GDP, with net public debt at 12%. By 2018, these figures had risen to 53.5% and 39.6% of GDP, respectively. The external account deficit also escalated from 1.7% in 2014 to 6.3% in 2017 (Endegnanew & Tessema, 2019).

Nevertheless, this fiscal deterioration did not suffice to jeopardize the overall Bolivian economy. GDP per capita continued to grow, albeit at a slower rate, and inflation consistently declined. This was partly due to reduced demand resulting from increasing unemployment, which nearly doubled during the 2014–2019 period. An essential factor contributing to this outcome is that Morales allowed much of

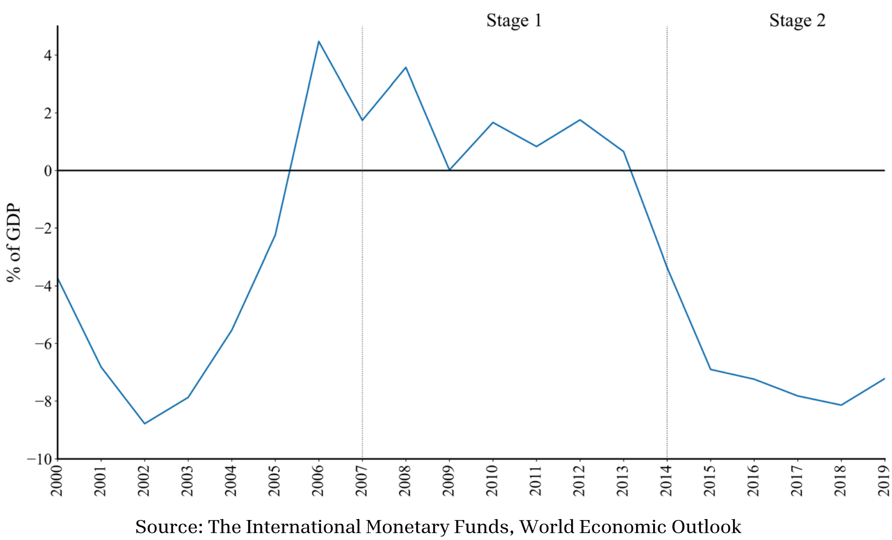

Fig. 6 Bolivia: Net lending (+)/borrowing (−) in terms of GDP. *Source* The International Monetary Funds, World Economic Outlook

the private sector to operate as usual, apart from the aforementioned price controls (Fig. 7).

In the context of Bolivia, we propose the following framework: Stage 1 commenced with Morales's presidency in May 2006 and concluded in February 2014 with the reversal of terms of trade. Stage 2 ended with Morales's resignation amidst the electoral fraud scandal. Bolivia serves as a distinctive case where, owing to institutional factors, a populist regime was interrupted during its second stage (Table 4).

Ecuador

Ecuador presents an intriguing case of populism, particularly because it operates within an officially dollarized economy. While dollarization did not deter a formidable populist figure like Correa from enacting constitutional reforms and implementing other typical populist measures, it did impose constraints on the extent of his populist policies by eliminating the option of resorting to monetary expansion (Cachanosky et al., 2022).

When Correa assumed office, Ecuador enjoyed a budget surplus of 2.13% of GDP, partly attributable to his past role as Economy Minister during Alfredo Palacios's presidency (2005–2007). However, Correa's tenure saw the country transition to a budget deficit in 2009, culminating in a deficit of 5.9% of GDP when he left office. Faced with the inability to directly monetize the deficit, Correa's administration resorted to tax hikes. In 2008, he imposed a 0.5% tax on capital flows, subsequently increasing it to 5% in 2011. This tax eventually constituted 10% of government revenue by 2012. Additionally, Correa imposed a windfall tax on mining and oil industries and introduced a tax on assets held abroad (Clark & García, 2019, p. 236). Alongside tax increases, Correa also turned to debt to finance budget shortfalls. Over a decade, government debt as a percentage of GDP surged by over 50%, rising from 28.8% in 2006 to 44.6% in 2017. Notably, Correa failed to launch Ecuador's first central bank digital currency, known as the *dinero electrónico* (Arauz et al., 2021).

Correa purposefully aimed to drive down the prices of sovereign bonds by adopting an antagonistic and populist stance against foreign investors ("Caught on Camera; Ecuador," 2007). Subsequently, Ecuador would repurchase these sovereign bonds with financial assistance from Venezuela. Another facet of Correa's debt policy involved borrowing from China, with repayments linked to Ecuador's oil exports (Beittel, 2018). These repayment terms contributed to Correa's decision to nationalize the oil industry.

Correa reaped the benefits of dollarization and the upswing in commodity prices, resulting in consistent economic growth in Ecuador since 2000, except for a slowdown during the 2008 international crisis. The government's balance stabilized starting in 2014, as the constraints of dollarization compelled Correa to implement austerity measures. Years of expanding populist policies, coupled with declining oil prices and a severe earthquake in 2016, combined to exacerbate Ecuador's economic challenges(Fig. 7).

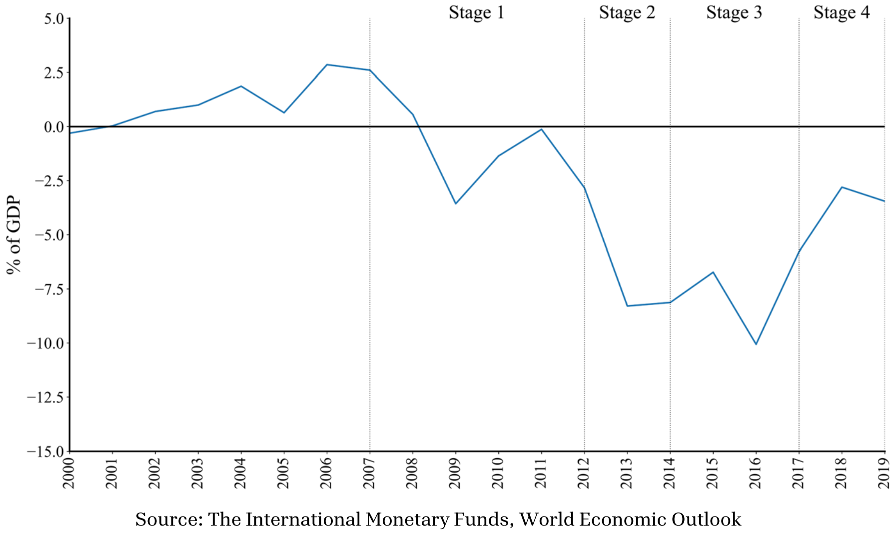

Fig. 7 Ecuador: Net lending (+)/borrowing (−) in terms of GDP. *Source* The International Monetary Funds, World Economic Outlook

Economic stagnation, coupled with controversial regulations, eroded Correa's political support, leading to civil protests in 2015. This decline in his popularity also coincided with a drop in labor compensation (Fig. 8). Furthermore, Correa was ineligible for a fourth presidential term, so he nominated his Vice President, Lenin Moreno, as the presidential candidate for his PAIS Alliance. Moreno was elected president in the second round of the presidential elections. Although the public expected Moreno to continue Correa's policies, his domestic and international

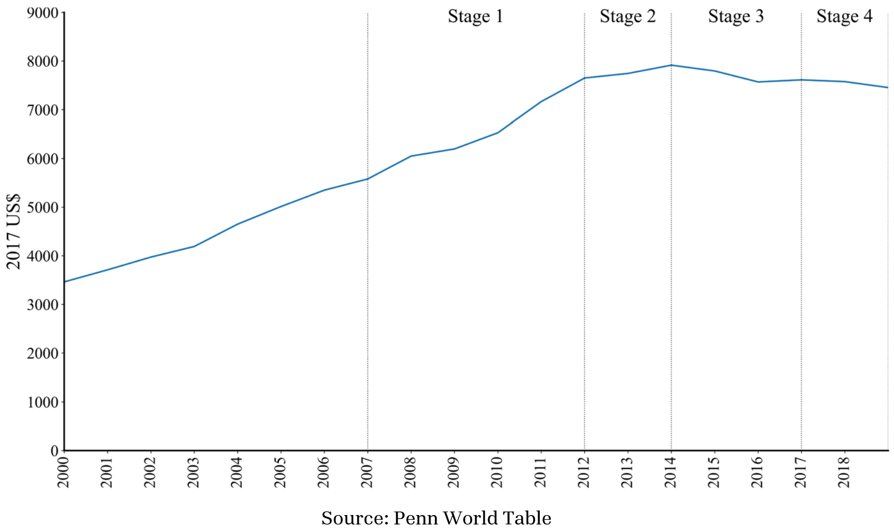

Fig. 8 Ecuador's Labor compensation. *Source* Penn World Table

policies took a complete U-turn after assuming office, effectively ending populism in Ecuador.

We propose the following four-stage framework for understanding Ecuador's populism. Stage 1 commenced with Correa's presidency in 2007 and concluded in 2012 when labor compensation ceased to grow. Stage 3 began with the onset of economic stagnation and the launch of the *dinero electrónico* in 2014, ultimately ending with the 2017 presidential elections. Concurrently, stage 4 commenced with Moreno's departure from Correa's policies. Like Bolivia, the economic consequences of populism in Ecuador were relatively mild compared to other populist regimes. As emphasized earlier, this outcome was influenced by the constraints imposed by the adoption of the dollar as the national currency in 2000.

Nicaragua

Ortega was already a well-known figure when he assumed office in 2006, having previously been recognized as the leader of the Sandinista Revolution. He had previously governed the country from 1985 to 1990. After a period out of power, Ortega ran for president in every election until he eventually reclaimed the presidency in 2006. His victory was facilitated by an agreement known as *El Pacto*, which altered the electoral rules in favor of Ortega's party.

Ortega's second presidency differed significantly from his first in several ways. He temporarily set aside his Marxist background to cooperate with the Catholic Church, supporting anti-abortion laws and advocating for a "spiritual revolution" in his inaugural address (Torres-Rivas, 2007). He also negotiated and signed an agreement with the IMF (Grigsby, 2010). Despite these shifts, Ortega rose to power on the promise of social programs as the centerpiece of his campaign. These policies aimed to address issues such as hunger and unemployment, providing micro-credit to farmers, promoting small businesses, ensuring universal healthcare, and expanding access to education.

In 2007, Ortega's government established a close relationship with Chávez's regime, leading Nicaragua to join the Bolivarian Alliance for the Peoples of Our America (ALBA) in opposition to the American-led ALCA. A significant benefit of joining ALBA was securing a favorable oil deal with Venezuela. Under this agreement, Venezuela would supply Nicaragua with 10 million barrels of oil annually at favorable terms: 50% paid upfront and the rest through a 23-year loan at a 2% interest rate (McKinley & James, 2008). This arrangement allowed Nicaragua to receive aid from Venezuela, disguised as "deferred payments." Between 2008 and 2014, Nicaragua received an average of $470 million annually from Venezuela, totaling $3.6 billion by 2017 (Cruz, 2018). Notably, these funds never officially entered the government budget.

Analyzing his second presidency suggests that Ortega learned from past mistakes. With substantial assistance from Venezuela, combined with loans and aid from multilateral banks, Ortega managed to maintain a balanced budget, giving rise to "fiscally-responsible populism" (Cruz, 2018). The significance of these funds cannot be overstated, as they prevented Nicaragua's government from running annual deficits under Ortega.

During the 2008 financial crisis, inflation surged to nearly 20%, gross capital formation dropped by approximately 25%, and unemployment increased from 5.1% at the beginning of Ortega's government to 8.4% in 2009 (Grigsby, 2010). Nicaragua, however, experienced a relatively smooth recovery. Following the initial shock, inflation averaged 5% annually, and by 2012, capital formation had returned to 2008 levels, hovering around 2% of GDP. Up until 2017, the regime maintained an average GDP growth rate of nearly 5%, with GDP per capita experiencing a 2% increase.

Nevertheless, signs of deterioration began to emerge around 2014. The windfall from Venezuela declined from US$560 million in 2013 to half that amount in 2015, plummeting to a mere US$31 million by 2017, a mere 5% of its peak in 2018. A political crisis ensued when multilateral organizations, primarily from Europe, suspended some of their funds due to allegations of electoral fraud and Nicaragua's association with Chávez's regime (Grigsby, 2010). Gross capital formation declined from 29% in 2015 to 17% of GDP in 2019. Cumulatively, GDP per capita contracted by 12% from 2017 to 2020 (Fig. 9). Perhaps the most remarkable aspect is the decline in foreign direct investment, which plummeted from 9.1% of GDP in 2014 to 1.4% in 2020. In the political arena, the period witnessed repeated attempts at electoral fraud, the consolidation of power, and human rights violations.

In April 2018, due to aging demographics, mismanagement, and corruption, Ortega faced the prospect of the social security program collapsing (Cruz, 2018). Trusting in his authority, he implemented an unexpected reform with little to no legislative discussion. Consequently, elderly protesters took to the streets and were met with severe repression. Students subsequently joined the protests, leading to a

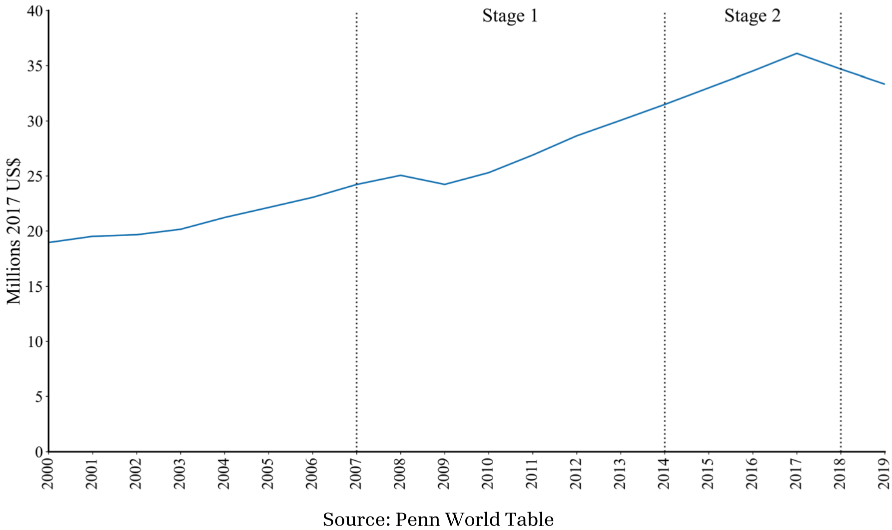

Fig. 9 Nicaragua's GDP. *Source* Penn World Table

further escalation. Over the following year, more than 300 people lost their lives at the hands of government forces and militias. Incidents of rape, torture, and extra-judicial killings were also reported (Buben & Kouba, 2020; Cruz, 2018; Sánchez, 2019).

Predictably, the economy contracted due to road blockades, business closures, and layoffs. According to the Central Bank of Nicaragua, the construction sector shrank by 13.7% in 2018 and 34.5% in 2019. The tourism industry posted similar figures, with negative growth rates of −22.1% and −32.5% in 2018 and 2020, respectively. Private investment plunged by 32.4% in 2018 and 37.9% in 2019, while public investment dropped by 9.8% and 15.4% in the same years. Private deposits decreased by a fifth in 2018. GDP per capita declined by 6.5% in 2018 and 4.2% in 2019, and unemployment doubled between 2017 and 2020. Gains in poverty reduction were reversed, with 9.3% of Nicaraguans falling below the poverty line.

Like other populist regimes in our analysis, Nicaragua experienced an extended initial populist stage, marked by average growth rates of 5% for nearly 11 years until 2017. We identify the commencement of the second stage around 2014 when revenues from Venezuela, aid from multilateral banks, and other sources began to decline. While growth rates remained relatively unaffected, the fiscal situation deteriorated significantly (Fig. 10).

Concurrently, the social security system faced deficits that reached 2.5% of GDP by 2018. During the same period, public enterprises began experiencing financial difficulties, with the already unprofitable National Electricity Transmission Company (ENATREL) doubling its losses between 2012 and 2014. Petronic, the state oil company, which had been profitable thanks to Venezuelan assistance, began

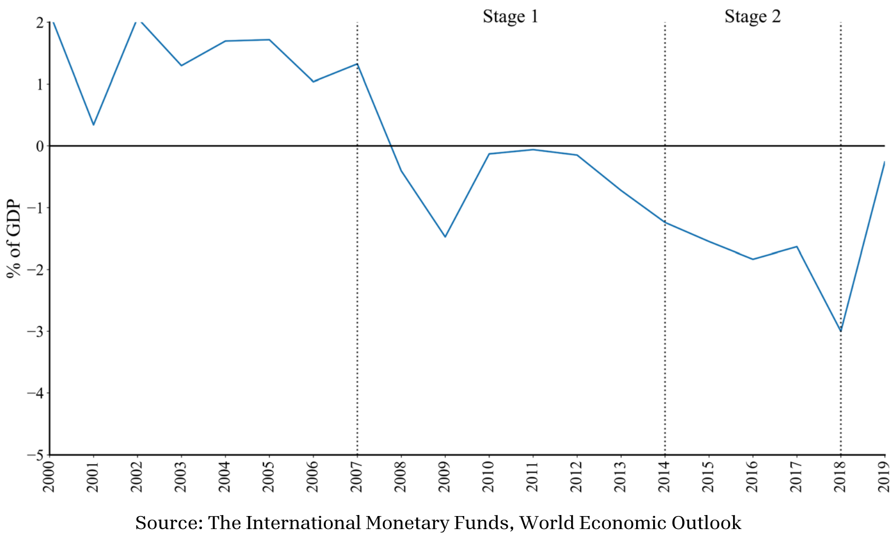

Fig. 10 Nicaragua: Net lending (+)/borrowing (−) in terms of GDP. *Source* The International Monetary Funds, World Economic Outlook

incurring substantial losses starting in 2016. Moreover, government spending as a percentage of GDP began to rise in 2014.

We propose the following framework to delineate Nicaragua's populist stages. Stage 1 began in 2006 with Ortega's return to the presidency and extended until 2014 when financial support from Venezuela and international financial institutions dwindled. Stage 3 commenced with the social protests in April 2018. According to Nicaragua's central bank, real wages in 2020 were lower than they were in 2006.

Venezuela

Venezuela stands as the quintessential example of Latin American populism. Before assuming power, Chávez tried a coup d'état against Carlos Andrés Pérez in 1992, which ultimately led to his arrest following its failure. After being granted a pardon two years later, Chávez went on to establish the Fifth Republic Movement (*Movimiento V [Quinta] República*, MVR) and ran for the presidency, securing victory in the 1998 elections.

Chávez assumed the presidency in 1999 and promptly embarked on a mission to organize a referendum aimed at convening a constitutional assembly. During the proceedings of this constitutional body, the opposition held a mere 6 out of 125 seats, and the reform took place in just 33 days (Marcano et al., 2007, p. 130). The resulting "Bolivarian Constitution" introduced substantial revisions, including changing the nation's name to the Bolivarian Republic of Venezuela, replacing the bicameral Congress with a unicameral Legislative Assembly., and significantly expanding the powers of the Executive branch. For instance, it gave Chávez the right to legislate on civic matters and, importantly for his political strategy, the power to promote military officers. Additionally, the military was given the provision to act domestically on matters related to ensuring public order and national development.

Crucially, the new constitution set a presidential term of six years and allowed for two consecutive presidential terms. While this could indicate that Chávez was early on looking at a relatively long-term horizon, his position was highly challenged. First, Chávez faced a coup in 2002. The coup was not a minor event: Chávez was arrested by the military, indicating a real possibility that his presidency would be terminated. The recent history of coups in Venezuela (in which Chávez was a participant) indicates that it is likely that his long-term horizon was on uncertain grounds. Second, following the coup, Chávez faced a three-month-long general strike that paralyzed the operations of PDVSA, the state-owned oil company that worked as a major source of government funding. Finally, in August 2004, Chávez had to face a recall referendum led by the opposition group *Coordinadora Democrática.*[31]

The newly established constitutional order mandated elections, which Chávez successfully contested, with his supporters securing a majority, winning 101 out of 165 National Assembly seats. This was partly due to the opposition boycotting the election on the grounds of its perceived invalidity. Shortly following these elections, Chávez's congressional majority granted him the authority to rule by decree under

[31] For a complete account of the political turmoil in the initial years of Chávez's government, see López Maya (2004).

Article 203 of the new constitution. Empowered by the *Ley Habilitante*, Chávez issued 49 decrees promoting economic reforms that aligned with his socialist vision for Venezuela. Among these, the Law of Hydrocarbonates was particularly contentious, as it raised taxes on multinational oil companies and established a minimum of 51% government ownership in partially state-owned companies, effectively granting him shareholder control. Other controversial measures included imposing severe restrictions on commercial fishing in favor of small artisan fishermen and instituting extensive land reform, involving the expropriation of large estates, and increasing benefits for peasants.

Despite the record-high increase in oil prices, soaring from $9.5 per barrel in November 1998 to $140 in June 2008, the state-controlled PDVSA failed to revitalize oil production. It never reached its previous peak of 3.5 million barrels daily, even during the steady rise in production throughout the 1990s. Under Chávez's leadership, PDVSA never reached even 3 million barrels per day (Grier & Maynard, 2016, p. 17). Notably, the regime's revenue growth was propelled not by increased oil production but by higher oil prices.

The result was startling: under Chávez's rule, the oil industry contracted by 14.27% in comparison to pre-Chávez levels in 1997. Even when comparing 1997 to the peak of oil prices in 2008, a decline of 10.06% was observed. Mining endured an even more pronounced contraction of 29.87%. Over the same period (1997–2013), GDP growth was primarily driven by the communications sector (351.1%), financial and insurance institutions (311.4%), and the non-profit sector (104.9%). Other sectors, such as manufacturing, experienced an average annual growth rate of only 0.95%, while water and electricity grew by 4.07%, construction by 3.68%, and wholesale and maintenance services by 4.98%.[32]

Official statistics reveal that when Chávez came to power, Venezuela had a GDP per capita of $3900 (in current US dollars), with 49% of the population living below the national poverty line.[33]

In his initial year in office, the Venezuelan economy contracted by 6%, creating fertile ground for future expansion. Leveraging the 183% surge in oil prices from $12 in 1999 to $34 by November 2001, the poverty headcount decreased by 10% by the second semester of 2001. GDP recorded growth rates of 3.7% in 2000 and 3.4% in 2001. However, when oil prices plummeted to $19 in November 2001, Venezuela's economic fortunes took a downturn. Comparing 2003 to 2001, imports fell by 45.8%, while gross capital formation declined by 52.4%. In an attempt to defend the currency, the Central Bank lost more than $7 billion, resulting in a 40% devaluation of the *bolívar* in the first quarter of 2002 alone (Rodríguez, 2008).

A two-month national strike in late 2002 further crippled the nation, causing GDP to contract by 8.9% in 2002 and 7.8% in 2003. By that time, 55% of the

[32] Data from the Central Bank of Venezuela and the National Institute of Statistics. All figures regarding specific sectors are based on changes in the value added by that industry. It is remarkable that no data exists for the post-Chávez period.

[33] Or 9.2% of the population under the 3.20 dollars/day poverty line, according to the World Bank. Unless otherwise noted, statistics presented in this section come from the Central Bank of Venezuela.

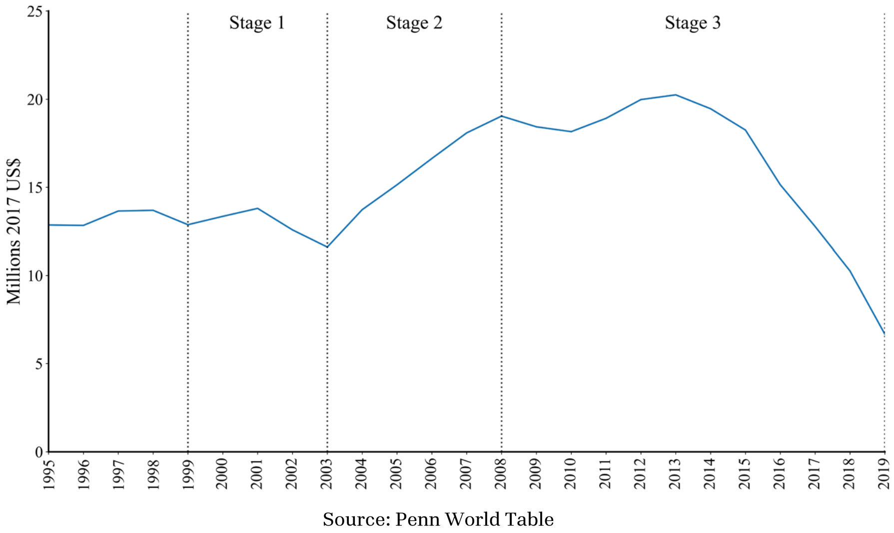

Fig. 11 Venezuela's GDP. *Source* Penn World Table

population had fallen below the poverty line. Following years of growth fueled by high commodity prices, Venezuela's economy collapsed in 2014 as oil prices plummeted (Fig. 11). By 2018 (the latest year for which data is available), the manufacturing sector had shrunk to a quarter of its size in 2008. Certain industries, such as automobiles (−95%), tobacco (−94%), plastics (−93%), and industrial metal objects (−93%), were on the brink of .[34]

Another significant policy implemented was the introduction of capital and price controls in 2003. To avert complete collapse as shortages and capital flight escalated, the Venezuelan government had to expend half of its international reserves between 2009 and 2013, increasing imports by nearly 40%. This decline in reserves commenced in 2008 (Fig. 12).

While the real economy experienced fluctuations during Chávez's tenure, often triggered by oil price shocks, monetary policy remained consistently expansionary. From 1999 until Chávez's passing in 2013, the M2 money supply multiplied by a factor of 114, translating to an average annual increase of 39.5%. Under Maduro, this figure skyrocketed, growing by a staggering 339,384,160,559 times. In sum, Venezuela's populist experience led to an unprecedented expansion of the country's M2 money supply, increasing it by more than 46.2 trillion times.

We identify the following stages of populism in Venezuela. Stage 1 commenced with Chávez's presidency and concluded with the necessity to impose capital and price controls in 2003. Stage 2 concluded with the oil crash and nationalizations. Stage 3 is an ongoing phase.

[34] Measured as changes in industry-specific GDP.

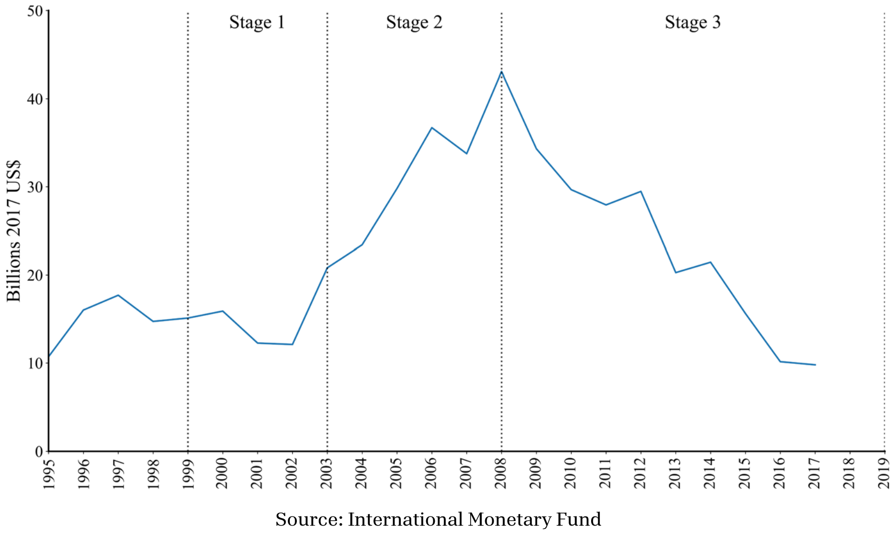

Fig. 12 Venezuela's central bank reserves. *Source* International Monetary Fund

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Declarations

Conflict of interest The authors declare that they have no conflict of interest.

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