FINANCIAL INSTITUTIONS IN AN AGE OF POPULISM

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What do we mean by populism?

People mean a variety of things by populism. The key characteristics of the type of populism we analyze are

- Rejection of elites in favor of “the people”
- Focus on national interests, *narrowly defined*, and rejection of internationalism
- Rejection of existing institutions, which are viewed as broken or rigged
- Scorn for experts and the embrace of “common sense”
- Desire for a strong leader to drive change
11 Key Themes for a Populist Era

Politicization of national and international affairs

• Distinct roles for business and government => “Bolt from the blue” government demands, but also special favors
• Political stability => Political risk
• Peace in the advanced economies => Threats of wars and “cold wars”
• Central bank independence => More political direction of central bank policy

More volatility

• Institutional stability => Institutional instability
• Relatively predictable economic policies => Frequent economic experimentation with more volatile outcomes
• Relatively stable financial markets => High market volatility, both short and long-term
11 Key Themes for a Populist Era (continued)

Major changes in economic conditions

• Low expected real returns => High demanded real returns to offset higher risks
• Disinflation and even deflation => Rising inflation

Less globalization

• International cooperation => National sovereignty
• Expansion of trade and cross-border investment => Slowing or contraction of cross-border flows of goods, services, and capital