

Bridgewater®

Daily Observations

March 22, 2017

©2017 Bridgewater Associates, LP

(203) 226-3030

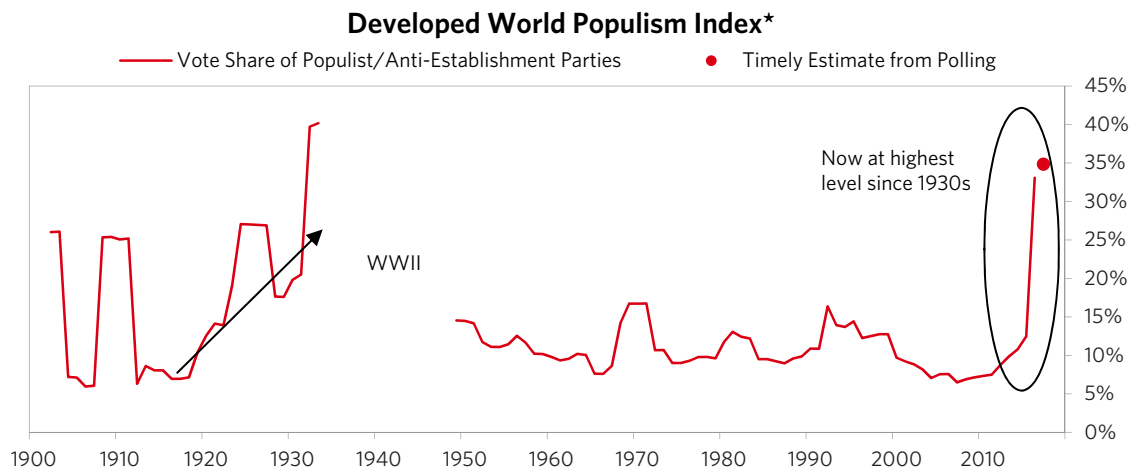
Ray Dalio
Steven Kryger
Jason Rogers
Gardner Davis

Populism: The Phenomenon

This report is an examination of populism, the phenomenon—how it typically germinates, grows, and runs its course.

Populism is not well understood because, over the past several decades, it has been infrequent in emerging countries (e.g., Chávez's Venezuela, Duterte's Philippines, etc.) and virtually nonexistent in developed countries. It is one of those phenomena that comes along in a big way about once a lifetime—like pandemics, depressions, or wars. The last time that it existed as a major force in the world was in the 1930s, when most countries became populist. Over the last year, it has again emerged as a major force.

To help get a sense of how the level of populist support today compares to populism in the past, we created an index of the share of votes received by populist/anti-establishment parties or candidates in national elections, for all the major developed countries (covering the US, UK, Japan, Germany, France, Italy, and Spain) all the way back to 1900, weighting the countries by their population shares. We sought to identify parties/candidates who made attacking the political/corporate establishment their key political cause. Obviously, the exercise is inherently rough, so don't squint too much at particular wiggles. But the broad trends are clear. Populism has surged in recent years and is currently at its highest level since the late 1930s (though the ideology of the populists today is much less extreme compared to the 1930s).



*The latest point includes cases like Trump, UKIP in the UK, AfD in Germany, National Front in France, Podemos in Spain, and Five Star Movement in Italy. It doesn't include major emerging country populists, like Erdogan in Turkey or Duterte in the Philippines. In the rest of the study, we look at populists of the past rather than those now in office in order to study the phenomenon because the stories of ones in power or possibly coming to power are still being written. For example, while we consider Donald Trump to be a populist, we have more questions than answers about him and are using these other cases to assess him against by seeing if he follows a more archetypal path or if he deviates from it significantly.

© 2017 Bridgewater® Associates, LP. By receiving or reviewing this Bridgewater Daily Observations™, you agree that this material is confidential intellectual property of Bridgewater® Associates, LP and that you will not directly or indirectly copy, modify, recast, publish or redistribute this material and the information therein, in whole or in part, or otherwise make any commercial use of this material without Bridgewater's prior written consent. All rights reserved.

Given the extent of it now, over the next year populism will certainly play a greater role in shaping economic policies. In fact, we believe that populism's role in shaping economic conditions will probably be more powerful than classic monetary and fiscal policies (as well as a big influence on fiscal policies). It will also be important in driving international relations. Exactly how important we can't yet say. We will learn a lot more over the next year or so as those populists now in office will signal how classically populist they will be and a number of elections will determine how many more populists enter office.

In any case, we think now is the time to brush up on our understandings of populism and what to watch out for. While we're not experts in politics, we wanted to share our research to understand the phenomenon.

In this report, we describe what we see as the "archetypical populist template," which we built out through studying 14 past populist leaders in 10 different countries. In that way, we can show their similarities and differences. While no two cases are identical, most cases are similar—so much so that one might say that there is a "populist playbook." By knowing these historical cases well, we will then be able to compare the developments of contemporary cases with those of the past, both to better understand the phenomenon and to better visualize how it might develop.

The Archetypical Populist Template

Populism is a political and social phenomenon that arises from the common man being fed up with 1) wealth and opportunity gaps, 2) perceived cultural threats from those with different values in the country and from outsiders, 3) the "establishment elites" in positions of power, and 4) government not working effectively for them. These sentiments lead that constituency to put strong leaders in power. Populist leaders are typically confrontational rather than collaborative and exclusive rather than inclusive. As a result, conflicts typically occur between opposing factions (usually the economic and socially left versus the right), both within the country and between countries. These conflicts typically become progressively more forceful in self-reinforcing ways.

Within countries, conflicts often lead to disorder (e.g., strikes and protests) that prompt stronger reactions and the growing pressure to more forcefully regain order by suppressing the other side. Influencing and, in some cases, controlling the media typically becomes an important aspect of engaging in the conflicts. In some cases, these conflicts have led to civil wars. Such conflicts have led a number of democracies to become dictatorships to bring order to the disorder that results from these conflicts. Between countries, conflicts typically occur because populist leaders' natures are more confrontational than cooperative and because conflicts with other countries help to unify support for the leadership within their countries.

In other words, populism is a rebellion of the common man against the elites and, to some extent, against the system. The rebellion and the conflict that comes with it occur in varying degrees. Sometimes the system bends with it and sometimes the system breaks. Whether it bends or breaks in response to this rebellion and conflict depends on how flexible and well established the system is. It also seems to depend on how reasonable and respectful of the system the populists who gain power are.

In monitoring the early-stage development of populist regimes, the most important thing to watch is how conflict is handled—whether the opposing forces can coexist to make progress or whether they increasingly "go to war" to block and hurt each other and cause gridlock.

Classic populist economic policies include protectionism, nationalism, increased infrastructure building, increased military spending, greater budget deficits, and, quite often, capital controls.

In the period between the two great wars (i.e., the 1920s-30s), most major countries were swept away by populism, and it drove world history more than any other force. The previously mentioned sentiments by the common man put into power populist leaders in all major countries except the United States and the UK (though we'd consider Franklin D. Roosevelt to be a quasi-populist, for reasons described below). Disorder and conflict between the left and the right (e.g., strikes that shut down operations, policies meant to undermine the opposition and the press, etc.) prompted democracies in Italy, Germany, Spain, and Japan to choose dictatorships because collective/inclusive decision making was perceived as tolerance for behaviors that

undermined order, so autocratic leaders were given dictatorial powers to gain control. In some cases (like Spain), strife between those of conflicting ideologies led to civil war. In the US and UK, prominent populist leaders emerged as national figures (Oswald Mosley, Father Charles Coughlin, Huey Long), though they didn't take control from mainstream parties.

In summary, populism is...

- Power to the common man...
- ...Through the tactic of attacking the establishment, the elites, and the powerful...
- ...Brought about by wealth and opportunity gaps, xenophobia, and people being fed up with government not working effectively, which leads to:
- ...The emergence of the strong leader to serve the common man and make the system run more efficiently...
- ...Protectionism...
- ...Nationalism...
- ...Militarism...
- ...Greater conflict, and...
- ...Greater attempts to influence or control the media.

The table shown immediately below points out the major populist politicians from the interwar period and what characteristics they shared:

Characteristics of Populists from 1930s/Interwar Period

Politician	Country	Conditions at the Time			Major Positions/Policy Goals						
		Very Weak Economy	High Income Inequality	Political Paralysis	Attacked the Political Establishment	Attacked Corporations /Banks	Strongly Nationalistic	Stronger Executive (or Less Democracy)	Protectionist/Anti-Trade	Anti-Immigrant/Foreigner	Political Alignment
Roosevelt	USA	Yes	Yes			Yes		Yes			Center-Left
Long	USA	Yes	Yes		Yes	Yes		Yes			Far Left
Coughlin	USA	Yes	Yes		Yes	Yes	Yes	Yes		Yes	Far Right
Mussolini	ITA	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Far Right
Hitler	DEU	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Far Right
Thälmann	DEU	Yes	Yes	Yes	Yes	Yes		Yes	Yes		Far Left
Franco	ESP	Yes	Yes	Yes			Yes	Yes	Yes		Far Right
Mosley	UK	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Far Right
Blum	FRA	Yes	Yes	Yes		Yes					Center-Left
Woodsworth	CAN	Yes			Yes	Yes			Yes	Yes	Far Left
Vargas	BRZ	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Far Right

Other iconic populists from other times and the characteristics they shared:

Characteristics of Other Prominent Populists

Politician	Country	Era	Conditions at the Time			Major Positions/Policy Goals						
			Very Weak Economy	High Income Inequality	Political Paralysis	Attacked the Political Establishment	Attacked Corporations /Banks	Strongly Nationalistic	Stronger Executive (or Less Democracy)	Protectionist/Anti-Trade	Anti-Immigrant/Foreigner	Political Alignment
Jackson	USA	1830s	Yes			Yes	Yes	Yes	Yes			Center-Left*
Bryan	USA	1890s	Yes	Yes			Yes					Center-Left
Lenin	RUS	1910-20s	Yes	Yes	Yes	Yes	Yes		Yes	Yes		Far Left
Perón	ARG	40-50s	Yes	Yes		Yes	Yes	Yes	Yes	Yes		Far Left
Poujade	FRA	50s			Yes	Yes		Yes			Yes	Far Right
Muldoon	NZL	70-80s	Yes			Yes					Yes	Center-Right*
Chávez	VEZ	90-00s	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes		Far Left

*Had policies on both sides of the left/right spectrum

For the most part, the populist patterns were clear (e.g., the conflicts within the countries intensified) though they played out in somewhat different ways and to varying degrees in the different cases.

What follows is an examination of 14 of those populists listed above, in 10 countries—some 55 pages of it. It is both too long and too short. It's too long because 50-plus pages is more than many of you are going to want to read. It's too short because describing multi-decade careers of major historical figures in an average of four pages is woefully inadequate in conveying the picture. If you think it's too much, we recommend that you pick the particular characters that you're interested in and review them. To help you do this, a table of contents is provided (note that we don't include full profiles of a couple of the people listed in the tables above):

14 Populists in 10 Countries

1930s Cases

Franklin Roosevelt (US)	8
Huey Long (US)	11
Father Charles Coughlin (US)	12
Benito Mussolini (Italy)	13
Adolf Hitler (Germany)	18
Francisco Franco (Spain)	24
Oswald Mosley (UK)	28
1930s Japan	31

Other Cases

Andrew Jackson (US 1830s)	35
William Jennings Bryan (US 1890s)	38
Vladimir Lenin (Russia 1910-20s)	42
Juan Perón (Argentina 1940-50s)	45
Pierre Poujade (France 1950s)	50
Robert Muldoon (New Zealand 1970-80s)	52
Hugo Chávez (Venezuela 1990-2000s)	56

The Populists of the Interwar Period (1920-30s)

Before delving into these cases, we want to make clear that the populism of the interwar period came at a time of global debt crises that induced economic depressions, so it is not clear how much of the bad economic conditions of that period were the result of the debt crises and how much they were due to populist policies such as protectionism.

As explained in our prior reports, there are a number of similarities between economic conditions now and those in the mid-1930s (e.g., relatively high levels of debt, high levels of central bank debt monetizations, interest rates near zero, large wealth gaps, etc.), though there are also important differences (e.g., this time debt monetizations came quicker, leading to less bad economic conditions, and there is a longer history of democratic institutions). For these reasons, we think that while the populist cases of the 1930s are analogous to those of today, it is likely that those of today will be less extreme.

At the same time, we want to emphasize that we are not saying that those populists in office today will follow in the footsteps of those in the 1930s. What we are saying is that it is important to have in mind those cases and the template to see whether or not they do.

We identified our populist cases of the 1930s by identifying those who (to use the definition from Wikipedia) adhered to “a political doctrine that proposes that the common people are exploited by a privileged elite, and which seeks to resolve this.” While there are significant differences in the stories of these populists (very different ideologies, contexts, levels of power attained, etc.), they also have a lot in common. To provide more detail on the concepts outlined above:

- By and large, these populists took advantage of the confluence of several characteristics of the times:
 - **Weak economic conditions**, which made people disillusioned with the current ruling parties.
 - An **uneven recovery in which the elite was seen as prospering** while the common man was struggling.
 - **Political squabbling/ineffectual policy making**, preventing the bold action people saw as necessary.
 - A feeling among a country's majority that foreigners, or those who didn't share the same background/ethnicity/religion, were **threatening their values and way of life**.
- Where populists achieved some measure of success, **they would refuse to join governing coalitions or support government policies, making the gridlock that they campaigned against even worse and preventing policies that would boost the weak economy**. This, in turn, tended to increase support for populists. In that way, **a rise in populism can be self-reinforcing**.
- And while their political ideologies vary, the 1930s populists shared most of these core beliefs and policy goals:
 - They **aligned themselves with “the people” or “the common man.”**
 - They **were anti-establishment and attacked the current ruling interests** (government, corporations, wealthy individuals, etc.), calling them elites who were out of touch and had failed the people.
 - They **sought to undermine those elites** in favor of others by, for example, advocating wealth redistribution or the nationalization of industry.
 - They were **strongly nationalist and held national unity** as a key aim.
 - They **detested the debate and disagreement inherent in democracy**, and sought to empower the executive branch, using strong-arm tactics to prevent others from getting in their way and, in more extreme cases, undermining democracy.
 - They tended to be **anti-international, anti-global trade, and anti-immigrant**. They often railed against foreign influence in their countries. This often translated to hostility toward other countries, which pushed those countries to embrace political extremes as well.
- Conflicts between factions became increasingly intense, leading to great obstructionism, crackdowns on opposition and free media, etc. This led to more autocratic leadership. Those that had the weakest norms/shortest history of democratic institutions were quickest to move away from democracy to dictatorship.

1. The US: FDR, Huey Long, and Father Coughlin

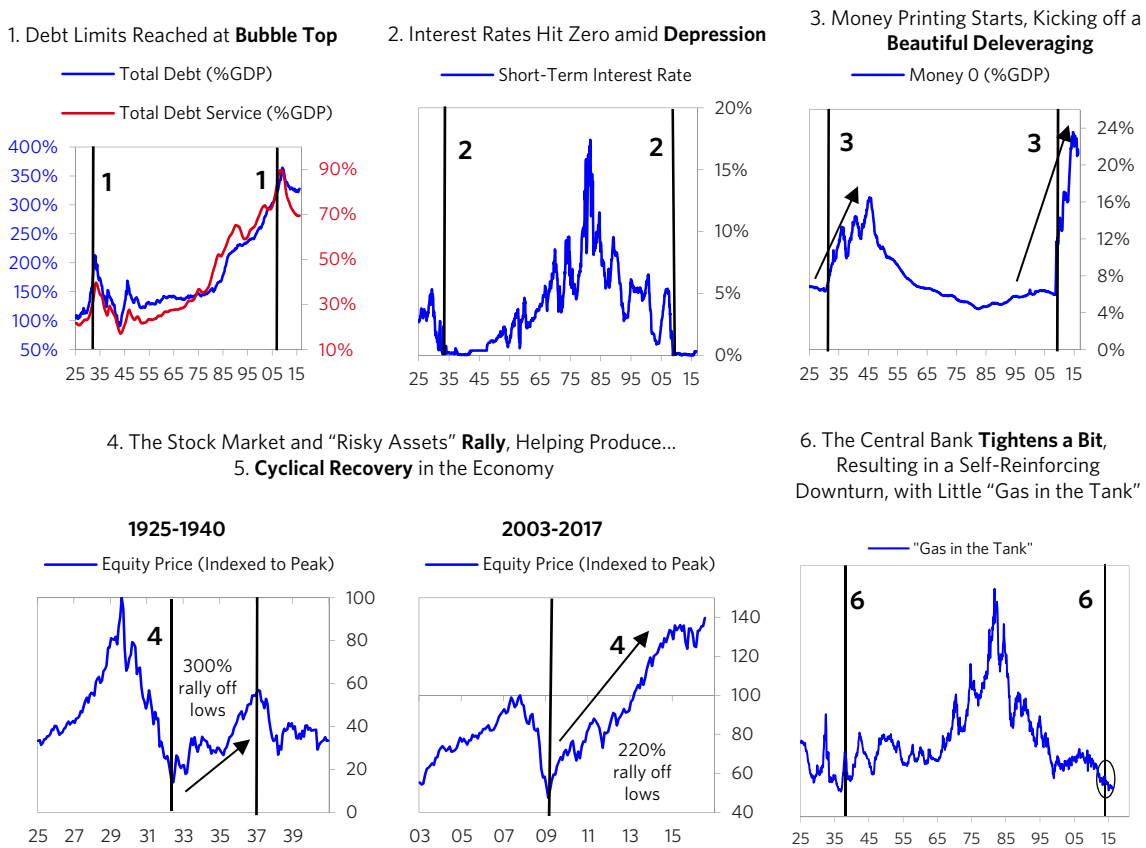
While populism was a force in the US, and some would say that Roosevelt was a populist of the left—because his policies were both populist and rather extreme at the time (though much less so in retrospect)—we will consider him a “quasi-populist.” If you are interested in more classic cases, you might skip to the next section to review those in Europe.

The Economic Context

In the 1930s, the US saw populists emerge on all sides of the political spectrum—Huey Long was an extreme populist of the left, Father Coughlin showed fascist leanings, and FDR was a center/left populist (depending on one’s own perspective).

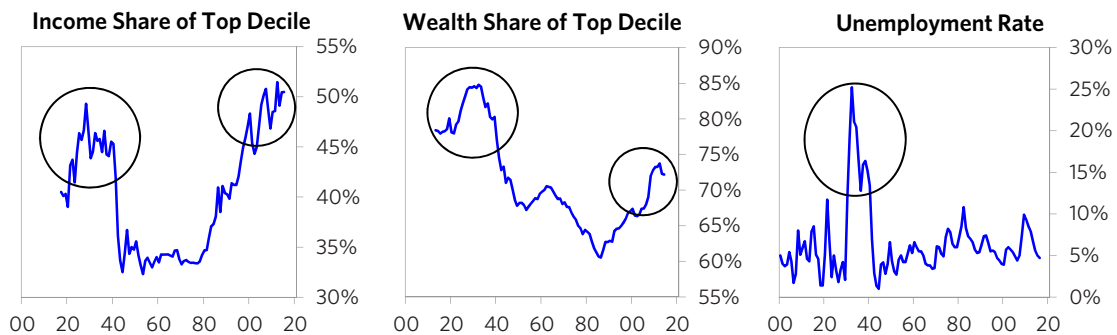
Before we profile them, we will convey the economic/social context of the 1930s. It’s no coincidence that populism emerged then. The Great Depression, beginning late in 1929 and not reaching its bottom until 1933, created extremely painful conditions that drove people to blame establishment politicians and seek answers from outside the political mainstream. Over the last 10 years, much of the developed world has seen the same dynamic—the end of the debt supercycle—play out again (though not as severely). The following charts convey the rough sequence of events. We’ve previously shown you these charts, so we won’t go into much detail again, but in brief, the analogue is as follows:

- (1) Debt Limits Reached at **Bubble Top**, Causing the Economy and Markets to Peak (1929 & 2007)
- (2) Interest Rates Hit Zero amid **Depression** (1932 & 2008)
- (3) Money Printing Starts, Kicking off a **Beautiful Deleveraging** (1933 & 2009)
- (4) The Stock Market and “Risky Assets” **Rally** (1933-1936 & 2009-2017)
- (5) The Economy Improves during a **Cyclical Recovery** (1933-1936 & 2009-2017)
- (6) The Central Bank **Tightens a Bit**, Resulting in a Self-Reinforcing Downturn (1937)

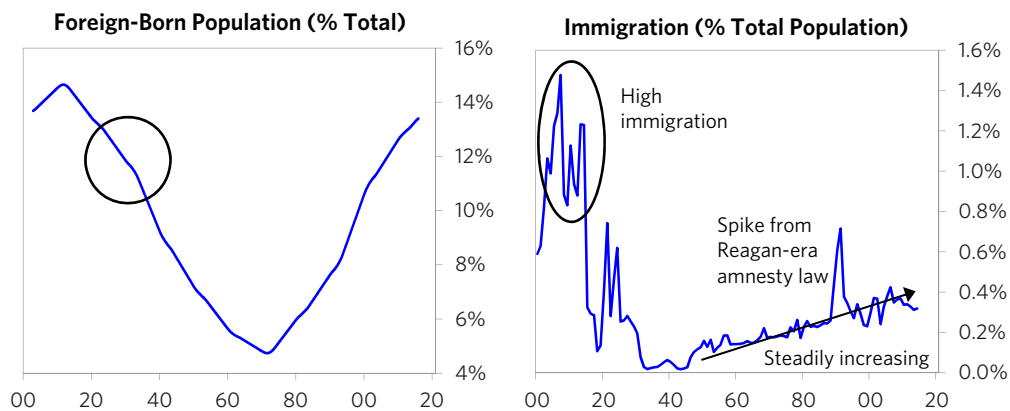


Roosevelt was inaugurated on March 4, 1933 at the depths of the depression and engineered a large transfer of wealth through money printing, the dollar's depreciation, big fiscal deficits to fund big spending programs to create jobs, and big debt write-downs (e.g. by revoking "gold clauses" in private contracts, which would have forced debtors to pay in gold instead of depreciated dollars). These were fairly classic moves by populists of the left.

While the recovery began in 1933, these charts obscure the fact that conditions remained terrible for years for the average American. Much like today, inequality in the US, both of income and of wealth, rose substantially, peaking in the early 1930s and remaining elevated through much of the decade. Then, the top 10% earned 45% of income (compared to 50% today), and owned 85% of the wealth (higher than the 75% they own today). However, in the 1930s, the unemployment rate was much higher than it is today. Then, like now, crusaders against the wealthy/corporate interests advocated against banks and in favor of wealth redistribution (see our description of Huey Long below).



Populists of the right at the time were xenophobic, as the foreign-born share of the population was relatively high as a result of very high immigration around the turn of the century that was largely shut down by immigration reforms in 1924. Still, immigrants provided a ready scapegoat for domestic problems. For instance, Father Coughlin was an isolationist who attacked Jews, one of the larger immigrant groups at the time. Notably, the foreign-born population is back near early 1900s highs, as a result of steadily increasing immigration over the last few decades (chart on the right shows legal immigration only).



Below we profile three prominent 1930s US populists: Franklin Delano Roosevelt (who we'd consider a 'quasi-populist' of the left), Huey Long, and Father Charles Coughlin.

Franklin Delano Roosevelt

Rise to Power

The depressed economic conditions led Roosevelt to campaign on a “New Deal” to replace Herbert Hoover’s old way of doing things. He promised big changes, and he was elected by the poor and organized labor to make those changes. He won in a landslide in 1932, winning 42 of 48 states and carrying 57% of the national vote. Populists such as Long and Father Coughlin supported Roosevelt’s first bid for president. He embraced populist rhetoric even more so in subsequent elections, emphasizing the struggle between “the American citizen” and the “economic tyranny” of an “industrial dictatorship” and pursuing a number of populist policies.

While he did not come from outside of the political establishment (he had been elected as governor of New York as a Democrat, and was the Democrats’ candidate for vice president in 1920), the policies he ultimately implemented were of a populist nature.

Key Policies

Upon election, Roosevelt immediately devalued the dollar to produce debt relief and implemented sweeping reforms of an unprecedented scale. His New Deal policies sought to tackle the economic depression through a vast expansion of the role of government and support for workers, debtors, and the unemployed. He created Social Security and unemployment insurance; increased financial regulation; created large government programs that directly employed people; and strengthened labor rights. He engineered big debt write-downs that benefited debtors at the expense of creditors, created an agency to aid underwater mortgage borrowers, and created federal agencies to support mortgage lending. He financed his spending programs in part through a significant expansion of the deficit rather than through increased taxation, contributing to the fiscal boost.

Unlike some other populists, he sought to lower tariffs and roll back protectionist policies. Protectionism had taken hold in the 1920s in response to the struggles of American farmers faced with high debts and low commodity prices. The push for protectionism became a central issue in the election of 1928 and ultimately resulted in the Smoot-Hawley Tariff in June 1930, which increased tariffs on over 20,000 goods and is widely considered to be the biggest step away from free trade in modern American history. By the time Roosevelt was elected in 1932, the trade wars that resulted from Smoot-Hawley were seen to have hurt the US economy, and Congress authorized Roosevelt to roll back tariffs when other countries agreed to do the same.

In the interwar period, Roosevelt was more interventionist in foreign affairs relative to his recent predecessors. While the US remained technically neutral during the 1930s, it greatly expanded its military sales to Allied powers through the “cash and carry” policy in 1939 and later through the Lend-Lease Act in 1941. Roosevelt also aimed to deter Japan’s military expansionism through enacting more restrictive trade policies with Japan. This strengthened the hand of hardliners in Japan, who escalated the conflict. It was Roosevelt’s 1940-41 oil embargo that allowed the Japanese military to take full control of their government’s foreign policy and provided the pressure that spurred Japan’s attack on Pearl Harbor. It was a classic example of how aggressive foreign relations can empower leaders who hold more extreme positions (we cover these events in more detail in the section on Japan).

It’s also worth highlighting that by the 1930s, the US had already largely closed itself off to immigrants, so immigration wasn’t a big issue during the Great Depression. In the 1920s, anti-immigrant sentiment led to the passage of the National Origins Act in 1924 (expanded in 1929), which capped the number of immigrants who could enter the US each year, established quotas on immigration for certain regions, and created the Border Patrol to crack down on illegal immigration. Immigration in the 1930s had declined by over 90% compared to its peak in the early 1900s.

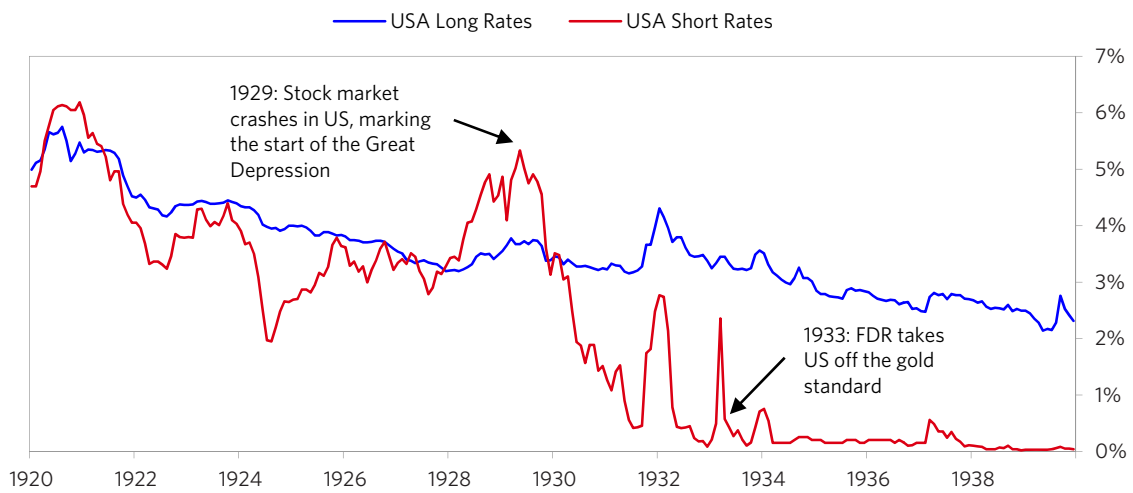
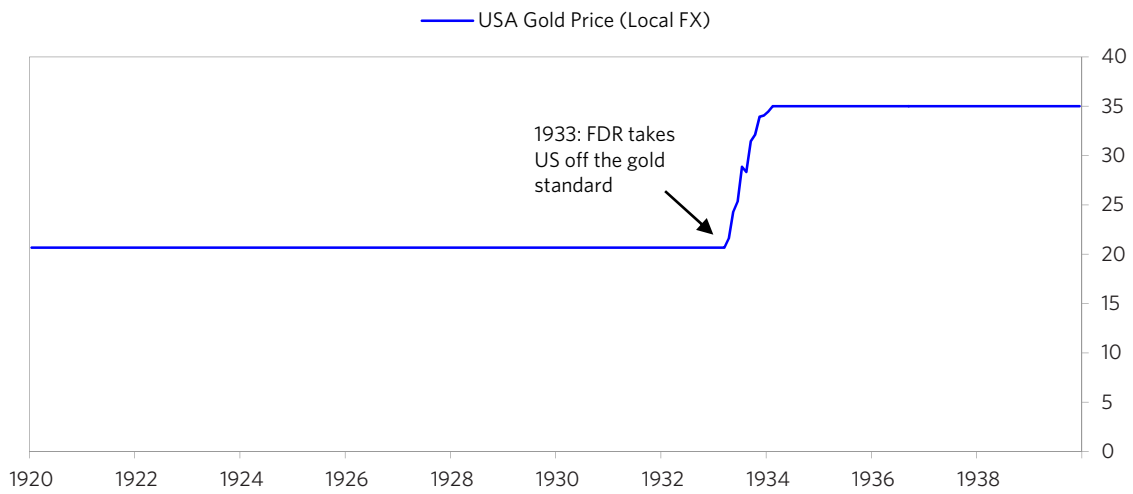
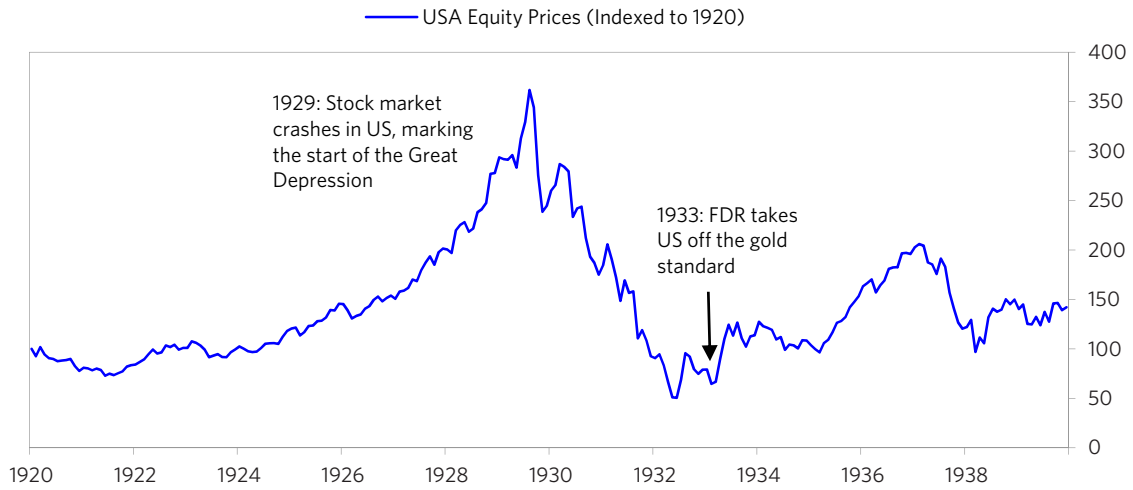
Over time, Roosevelt expanded his base of support, positioning the Democrats as the “big tent” party, which alienated the more ideological left-wing populists. Additionally, he brought new constituencies into the fold,

including Western progressives, intellectuals, rural farmers, and ethnic minorities (who had typically supported Republicans).

Populism-Related Quotes from Roosevelt

- "The money changers have fled from their high seats in the temple of our civilization. We may now restore that temple to the ancient truths." (1933)
- "The people of the United States have not failed. In their need they have registered a mandate that they want direct, vigorous action. They have asked for discipline and direction under leadership. They have made me the present instrument of their wishes." (1933)
- "For too many of us the political equality we once had won was meaningless in the face of economic inequality. A small group had concentrated into their own hands an almost complete control over other people's property, other people's money, other people's labor, other people's lives. For too many of us life was no longer free; liberty no longer real; men could no longer follow the pursuit of happiness. Against economic tyranny such as this, the American citizen could appeal only to the organized power of government. The collapse of 1929 showed up the despotism for what it was. The election of 1932 was the people's mandate to end it." (1936)
- "The hours men and women worked, the wages they received, the conditions of their labor—these had passed beyond the control of the people, and were imposed by this new industrial dictatorship. The savings of the average family, the capital of the small business man, the investments set aside for old age—other people's money—these were tools which the new economic royalty used to dig itself in. Those who tilled the soil no longer reaped the rewards which were their right. The small measure of their gains was decreed by men in distant cities." (1936)

US: Asset Markets in the 1920s and 1930s



Huey Long, a US Crusader against the Wealthy and Big Corporations

Huey Long was the Bernie Sanders of his time—i.e., a classic firebrand populist of the left.

He was governor of Louisiana and a US senator (1932-1935) who ran for president, polling 10% nationally, but was assassinated during the primary in 1935 (because of an unrelated Louisiana dispute). He held anti-corporate and anti-Federal Reserve positions and was in favor of radical wealth distribution (for instance, 100% tax on wealth greater than \$100 million). Roosevelt called him “one of the two most dangerous men in America” (the other was General Douglas MacArthur).

Rise to Prominence

Long was a lawyer early in his career, mostly defending individuals against big businesses, often in workers’ compensation cases. In his first bid for the governorship of Louisiana, he campaigned on economic equality, though he eventually lost. He won his next bid four years later in 1928, railing against the old money New Orleans aristocrats who had dominated state government and corporations like Standard Oil that he believed had undue influence. His self-written campaign song, “Every Man a King” (a phrase borrowed from William Jennings Bryan), captured the essence of his platform. Once in office, Long (according to many accounts) governed with a heavy hand and expanded Louisiana’s welfare programs.

Long won a Senate seat in 1932, his first foray into national politics. He initially supported FDR, before deciding to oppose him in 1933 over the New Deal, which Long deemed inadequate. Long wanted to cap income at \$1 million and inheritances at \$5 million and establish a 30-hour federal workweek. He promoted these beliefs nationwide, and in the early 1930s his grassroots supporters established over 25,000 “Share Our Wealth” clubs. He denounced powerful, wealthy Americans for hoarding the country’s wealth and believed the root cause of the economic pain was unsustainable income inequality. Long’s Share Our Wealth Society sought to redistribute incomes and achieve a minimum standard of living for all via a high inheritance tax and a graduated income tax. When the media was not in his favor, he began his own radio show, characterized by his animated speeches. He regularly had around 25 million listeners—about 1 in 5 Americans. A hallmark of his speeches (many of which were ad-libbed) was listing the failures of the Roosevelt administration, including failing to redistribute wealth, lower unemployment, and curtail debt. Long’s assassination in 1935 ended the hopes of many that he’d become president.

Populism-Related Quotes from Long

- “They’ve got a set of Republican waiters on one side and a set of Democratic waiters on the other side, but no matter which set of waiters bring you the dish, the legislative grub is all prepared in the same Wall Street Kitchen.” (1932)
- “God invited us all to come and eat and drink all we wanted. He smiled on our land and we grew crops of plenty to eat and wear. He showed us in the earth the iron and other things to make everything we wanted. He unfolded to us the secrets of science so that our work might be easy. God called: ‘Come to my feast.’ Then what happened? Rockefeller, Morgan, and their crowd stepped up and took enough for 120 million people and left only enough for 5 million for all the other 125 million to eat. And so many millions must go hungry and without these good things God gave us unless we call on them to put some of it back.” (1934)
- They say they don’t like my methods. Well, I don’t like them either. I really don’t like to have to do things the way I do. I’d much rather get up before the legislature and say, ‘Now this is a good law and it’s for the benefit of the people, and I’d like you to vote for it in the interest of the public welfare.’ Only I know that laws ain’t made that way. You’ve got to fight fire with fire.” (1932)

Father Charles Coughlin, an American Who Espoused Fascist Views

Father Charles Coughlin was a classic anti-capitalist populist, sympathetic to fascist leaders in Europe. He was a Roman Catholic priest and one of the first major political radio personalities, with about 30 million listeners at his peak (nearly a quarter of the US population at the time). Though he began as a prominent supporter of FDR and the New Deal, he eventually turned against the president, and his show became increasingly anti-Semitic and sympathetic to the fascist movements that had come to power in Europe.

Father Coughlin started broadcasting on the radio in the late 1920s, with his early shows focused on religious topics and Catholic services. In 1930, he gained a national platform, and he began to discuss political topics, expressing strong opposition to both communism and the greed of capitalism. He supported FDR during the 1932 presidential election and the early New Deal, saying "the New Deal is Christ's deal." His opposition to the president grew, however, both as Roosevelt distanced himself from Coughlin and as Coughlin found him too supportive of finance. He then founded a political group, the National Union for Social Justice, which supported populist economic policies that would protect workers.

As his message became more extreme and the aggression of the fascist states became clear, he lost influence and faced opposition from both the US government and the Catholic Church hierarchy. His radio show was removed from the air waves, and in 1942 the church hierarchy forbade him from further political activity, forcing him to retire from political life until his death in 1979.

Populism-Related Quotes from Coughlin

- "While we sympathize with the Serbian or the Russian, with the Jew in Germany or the Christian in Russia, the major portion of our sympathy is extended to our dispossessed farmer, our disconsolate laborers who are being crushed at this moment while the spirit of internationalism runs rampant in the corridors of the Capitol, hoping to participate in setting the world aright while chaos clamors at our doors."
- "I have dedicated my life to fight against the heinous rottenness of modern capitalism because it robs the laborer of this world's goods. But blow for blow I shall strike against communism, because it robs us of the next world's happiness."
- "Oh you poor laborers and farmers, we have tried, time and again, to tell you that there can be no resurrection for America until Congress begins to coin and regulate the value of money. We have endeavored to teach you, time and again, that there can be no coming out of this depression until what you earn goes to sustain your wife and your children."
- "We shall barter our sovereignty as a free, independent nation or accept the decisions of a World Court as a super-nation to manage our affairs."
- "Roosevelt has a poor brand of Russian communism...I think it is significant the leaders among the communists of the world never once attacked international bankers. Roosevelt will not touch that subject."
- "We maintain the principle that there can be no lasting prosperity if free competition exists in industry. Therefore, it is the business of government not only to legislate for a minimum annual wage and maximum working schedule to be observed by industry, but also so to curtail individualism that, if necessary, factories shall be licensed and their output shall be limited."

Core Europe: Italy/Mussolini, Germany/Hitler, Spain/Franco

Next, we profile countries where populist extremists gained power: Italy, Germany, and Spain. In all three of these cases, democracies became dictatorships as a result of the conflicts.

2. Italy: Mussolini

Benito Mussolini came to power somewhat earlier than other leaders we profile (1922), and he gained power through force rather than the ballot. But he took advantage of an environment similar to the ones experienced by other populists—social strife, a weak economy, and ineffective leaders—and he also inspired more extreme politics in many of them. Prior to his rise to power, poor economic conditions had led to widespread strikes, factory seizures, and social unrest. Italy's democratically elected leaders were unable to resolve these problems, as politics had become fragmented and unstable. Mussolini promised to turn the chaos and inefficiencies into order and efficiency—to “make the trains run on time.” And with these promises, Mussolini was able to mobilize a broad set of disaffected Italians and upend Italy's democracy to take control. Of course, a lot happened from the time he became prime minister in 1922 until he was shot and hanged in 1945. What follows is only a brief review.

Economic/Political Background

Before World War I, Italy's economy was still mostly agrarian, and living standards and production capacity lagged behind countries like Germany and the UK. The war made things worse. In the aftermath of the war, Italy experienced a substantial economic downturn and high inflation. Unemployment was high from the weak economy and the demobilization of the army, which left many former soldiers out of work. In prior years, Italians who struggled to find work often emigrated to the US, but newly restrictive US immigration laws ended that path. These conditions contributed to substantial labor unrest. Workers seized factories, occupied land, and went on strike.

The democratically elected government failed to resolve these issues. Politics had been especially ineffective and unstable since the 1919 elections, in which the socialists won the most seats for the first time under a new proportional representation system. The socialists were unable to form a governing coalition, and over the next three years Italy quickly cycled through four different prime ministers, none of whom were able to stem the rising social instability. The strikes and occupations carried out by the growing workers' movement challenged the interests of landowners and businesses and raised fears of communists seizing power. Meanwhile, nationalist sentiment was on the rise, as nationalists (including many out-of-work soldiers) felt that Italy had been treated unfairly in post-World War I territorial settlements.

Rise to Power

The combination of nationalist resentment and chaotic domestic conditions created a prime opportunity for Mussolini to galvanize the support of disillusioned ex-soldiers and frustrated property holders. Mussolini's fascism defined itself in opposition to both socialism and the political elite, and promised to restore Italy to its past glory through territorial expansion. He believed that Italy needed “a man who is ruthless and energetic enough to make a clean sweep” and deal with Italy's social and economic problems, and offered himself as such a man. Along with ex-soldiers, Mussolini also appealed to the frustrations and fears of middle-class Italians and business owners, who had tired of the persistent labor strikes, riots, and general chaos that had characterized socialist rule. For those people, Mussolini's rousing oratory and promise to restore order made him an acceptable—even desirable—alternative to the status quo.

While initially Mussolini sought power through the democratic process, his party did not do well in its first elections. His ultimate path to power relied on political violence. He established a paramilitary force that violently repressed socialist movements, put down labor strikes, and seized de facto control of large parts of Italy, especially the more industrialized north. In 1922, in response to plans for a general strike, his supporters

organized what would later be called the March on Rome. His militia occupied strategic areas of the country, and 30,000 people marched on the capital. The king, fearing a civil war, asked Mussolini to form a government.

Initially, Mussolini formed a cabinet within the existing parliamentary structure, governing in coalition with other parties. The initial transfer of power was tolerated by business and political elites. Business elites thought Mussolini wasn't much of a threat and could be manipulated—after all, his early speeches had a free-market bent. Meanwhile, the king and other politicians thought that Mussolini would operate within the existing political order, rather than overthrowing it. However, Mussolini soon changed electoral laws to favor his supporters and make it easier to obtain a parliamentary majority, bypassed constitutional limits on his power, and manipulated the media to propagate an image of himself as the savior of Italy. Simultaneously, his paramilitary allies continued their campaign of political violence, intimidating or assassinating his detractors. These measures allowed him to achieve a parliamentary majority in the 1924 elections. By 1925, he had largely dismantled Italy's democratic institutions and created a one-party police state.

Key Policies

Mussolini's goal was to turn Italy into a modern industrialized state, shore up its access to strategic resources, and restore its national glory (e.g., through territorial expansion). While his initial economic policies were classically liberal (reducing taxes, cutting subsidies, taking measures to attract foreign capital, privatizations), his economic policies gradually evolved over time to involve more and more control over private industry and eventually direct ownership of much of the productive capacity, bending companies to serve the interest of the state. Mussolini described his policies as "state capitalism," and by 1934 he claimed that "three-fourths of Italian economy...is in the hands of the state." To summarize some of his policies:

- *Controlling private businesses:* Mussolini preferred a "corporatist" approach in which the state would exert heavy control over industry, but actual ownership would initially remain in private hands. To achieve this, he pursued political and bureaucratic control of both labor and industrial organizations, nationalizing trade unions and forcing companies to join government-controlled "employer syndicates" that determined major production/investment decisions in each industry. Later, during the Great Depression, the government directly took over many of Italy's large companies.
- *Protectionist policies:* He enacted high import tariffs and regulations aimed at capping import volumes, spearheaded a failed attempt to make Italy self-sufficient by ramping up grain production (thus reducing agricultural imports) and increasing intra-empire trade as a share of total trade, and enacted capital controls that eventually prevented Italians from investing abroad.
- *Xenophobic policies:* After striking an alliance with Nazi Germany, he published a racist manifesto and legally prohibited Jews from participating in the economy and in most forms of public life.
- *The media:* Mussolini had the same attitude toward the media as he did toward the rest of the economy: the role of the media was to serve the interests of the Italian fascist state, and the state would intervene to ensure this was the case. In line with this, newspaper editors were appointed by the Fascist party, journalists had to be registered Fascists, and local officials were given the power to suppress publications. Rival political newspapers were banned, and authors who stepped out of line could quickly find their works banned as well. This produced a culture of broad self-censorship, where almost everyone refrained from criticizing the state out of fear of retaliation. Moreover, the central government took a direct hand in deciding what news would and wouldn't be covered by sending out regular directives to editors. These measures transformed the news into an instrument of centrally-directed state propaganda, at first overseen by Mussolini's Press Office and, later, by the newly created Ministry of Popular Culture.
- *Centralization of power:* He outlawed all other political parties and abolished local autonomy, replacing elected mayors and councils with appointments by the Italian Senate.

- *Government stimulus:* Mussolini spent on public works, education, and social welfare, including big pushes to modernize infrastructure.
- *Muscular foreign policy:* Mussolini sought to partially restore the Roman Empire, through claiming and retaking parts of North Africa and the Balkans. He also directly funded and provided training and support to German and Spanish fascists. Though he was personally dismissive of the Nazi's racial theories and rhetoric, Mussolini adopted the German expansionist concept of *Lebensraum* for his own state in justifying his wars in Libya, Ethiopia, and later the Balkans. Italian fascism became the source of inspiration for the other major far-right movements in 1930s Europe.

The Economy, Asset Markets, and Wealth

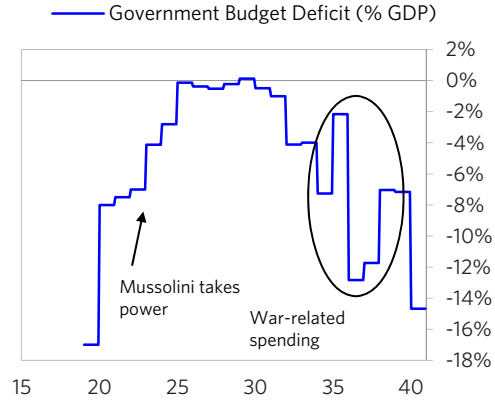
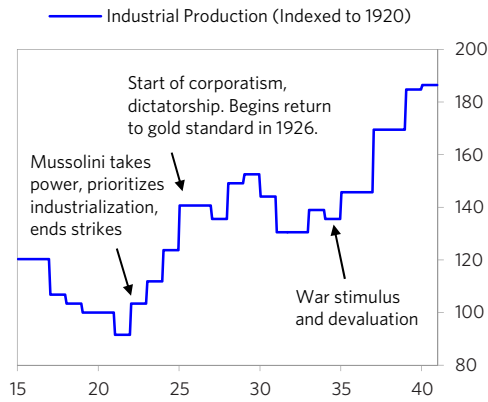
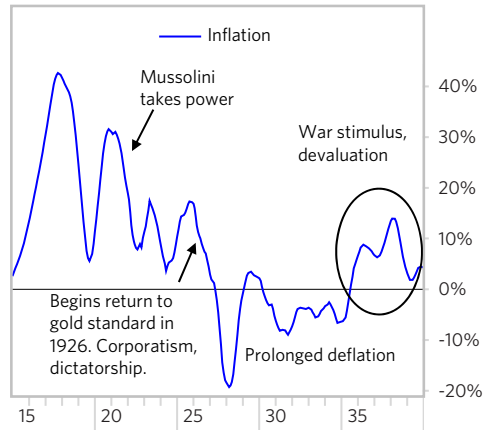
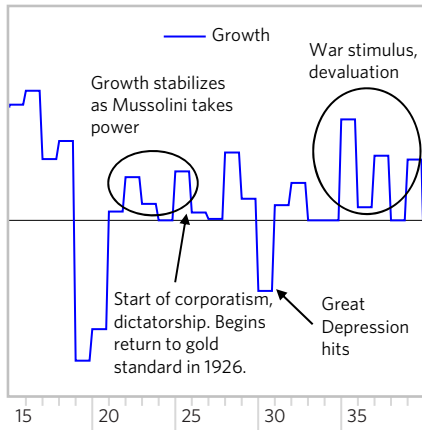
Mussolini's policies had mixed impacts on the economy and markets. In his first few years in power, the transition from labor unrest to order and the pursuit of free market policies contributed to a recovery in growth and a positive investment climate. Equities did well, rising about 70% in real terms from 1922 to 1924. However, as Mussolini established full dictatorial control in 1925 and began consolidating his power over industry, equities generally fell. That said, his infrastructure programs provided substantial fiscal stimulus, and his social programs established safety nets that proved helpful in the Great Depression. While growth stagnated, the economic contraction in Italy was substantially smaller than in its fellow gold bloc country, France.

After Mussolini's initial ascent to power, there wasn't much capital flight and little emigration (emigration slowed, while return migration picked up). That said, years later, when the peg came under pressure during the Great Depression, the government began to interfere more significantly in asset markets, imposing capital controls and forcing repatriation of financial assets. Subsequent to the reestablishment of the gold peg, which began in 1926, there was a modest but persistent drain of reserves, which accelerated substantially following the devaluations of the pound and the US dollar in the early 1930s. In response, in 1934, most foreign exchange transactions were banned (with the exception of trade financing and transactions for travel abroad), as was the purchase of foreign securities. Banks and firms were required to sell all their foreign assets to the government, including FX payments received for past trade transactions. In 1936, the government forced all Italians to exchange their foreign securities for Italian treasury bonds, and Italians were "encouraged" to hand over private gold holdings to the government. The forced swap of foreign assets for government debt was used to finance the government's increased debt issuance related to the occupation of Ethiopia.

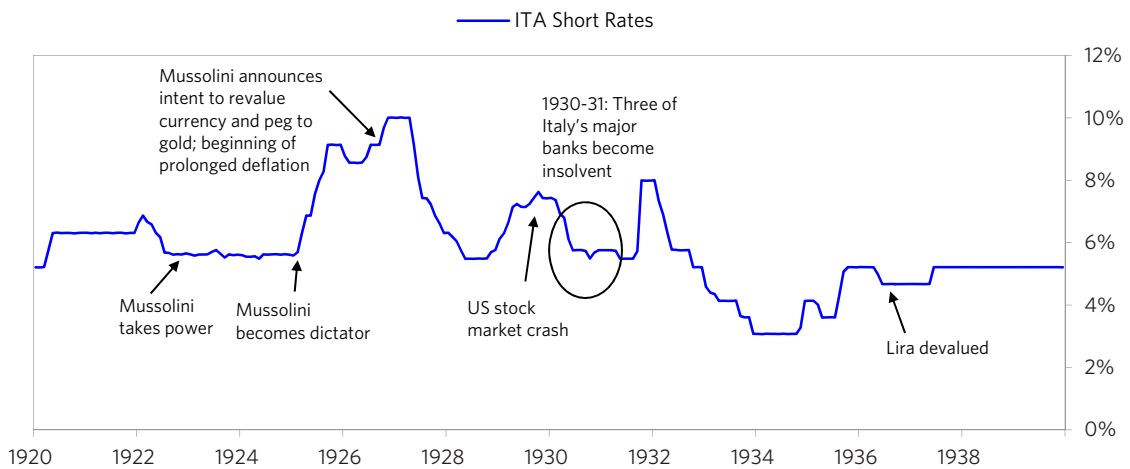
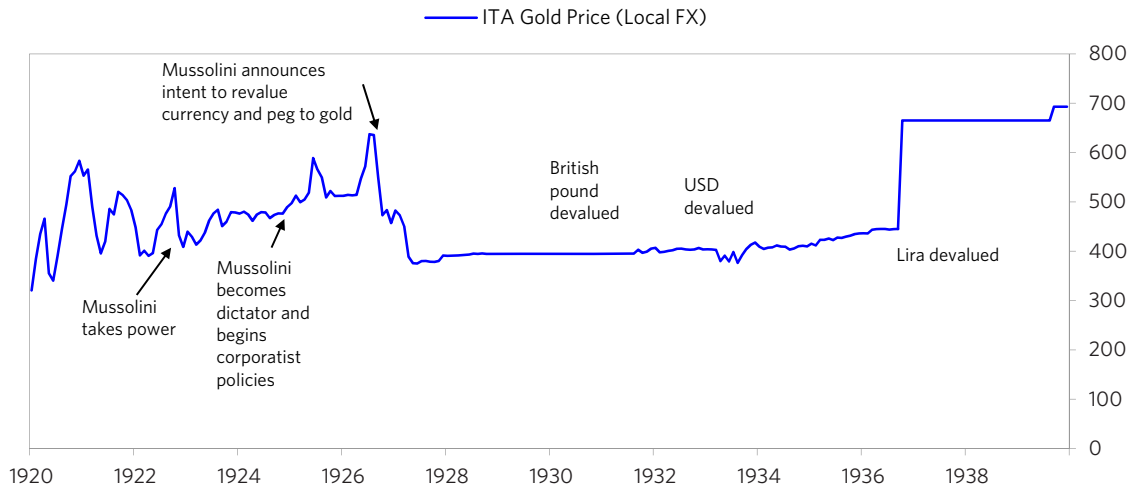
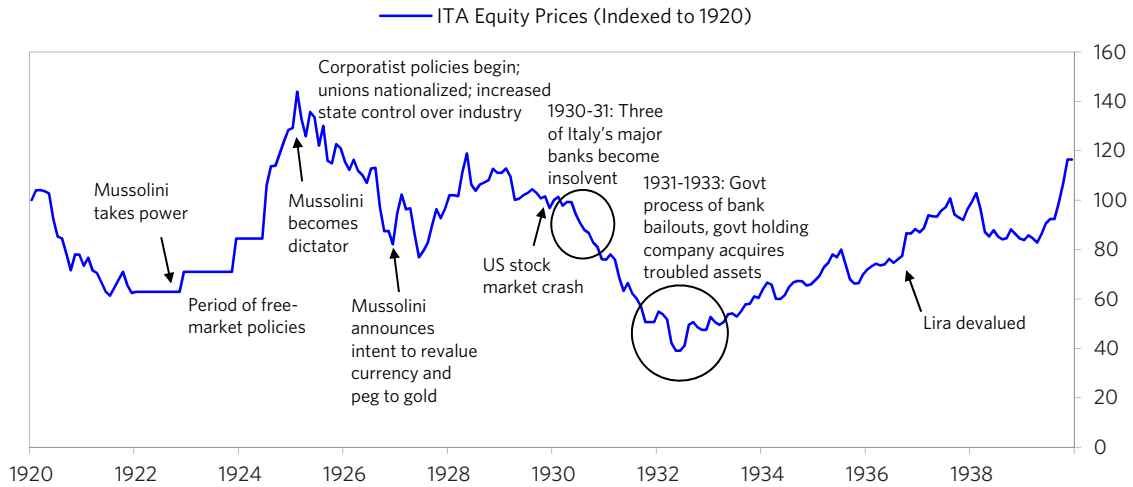
Populism-Related Quotes from Mussolini

- "This is what we propose now to the Treasury: either the property owners expropriate themselves, or we summon the masses of war veterans to march against these obstacles and overthrow them." (1919)
- "I declare that henceforth capital and labor shall have equal rights and duties as brothers in the fascist family." (1937)
- "If I tried to harness the capitalistic force up to now, it was because it was already active. But when the first resistance occurs, it will be replaced without hesitation by a new, entirely different and more worthy force." (1937)
- "We go to battle against the plutocratic and reactionary democracies of the West...This gigantic struggle is nothing other than a phase in the logical development of our revolution; it is the struggle of peoples that are poor but rich in workers against the exploiters who hold on ferociously to the monopoly of all the riches and all the gold of the earth." (1940)
- "We are fighting to impose a higher social justice. The others are fighting to maintain the privileges of caste and class. We are proletarian nations that rise up against the plutocrats." (1945)

Italy: Economic Conditions in the 1920s and 1930s



Italy: Asset Markets in the 1920s and 1930s

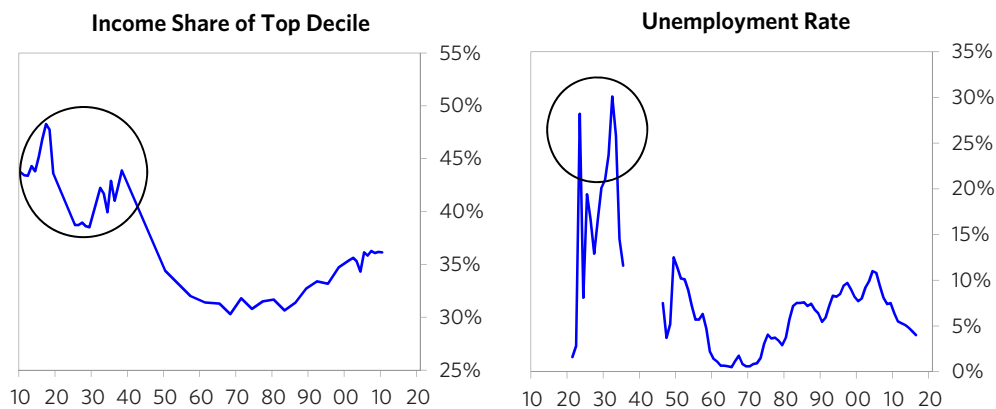


3. Germany: Hitler

We won't go into detail on all of the terrible things Hitler did when he was in power, as they are well known. We do, however, want to highlight the role of political discord and economic conditions that helped Hitler turn Germany from a democracy into a dictatorship.

Economic/Political Background

By the early 1930s, Germany had experienced 15 years of extreme economic environments. Germany was barely out of its period of hyperinflation (between 1921 and 1924) before growth started slipping in 1929 and the Great Depression began in 1930. Throughout the economic turmoil, elites were seen to be prospering while others faced the brunt of the economic pain. Through the 1920s, the top 10% earned about 40% of Germany's income (higher for Germany than at any time since WWII).



Moderate leaders struggled to govern, and Nazi opposition made the dysfunction worse. In 1928, going into the Great Depression, the government was a weak coalition headed by Germany's Social Democratic Party (center-left, it was the largest party but only had about 30% of seats in the Reichstag) and included the National People's Party (center-right) and Centre Party (Catholic centrists). Prone to squabbling and struggling to govern, the moderates were unable to make the country run well, leading the Nazi and Communist parties to gain popularity as the population became fed up with how things were going for them. The Nazi and Communist parties both gained significantly in the election of 1930. The Nazis became the second-largest party (with 18% of the vote), and the Communists were close behind. In the highly fractured Reichstag, the President Paul von Hindenburg appointed the leader of the fourth-largest party to be chancellor, leading to a minority government that governed by majority decree. It was against this chaotic backdrop that the Nazi Party was able to win the most seats in the subsequent election (1932), and Hitler could eventually seize power. We describe these events in more detail below.

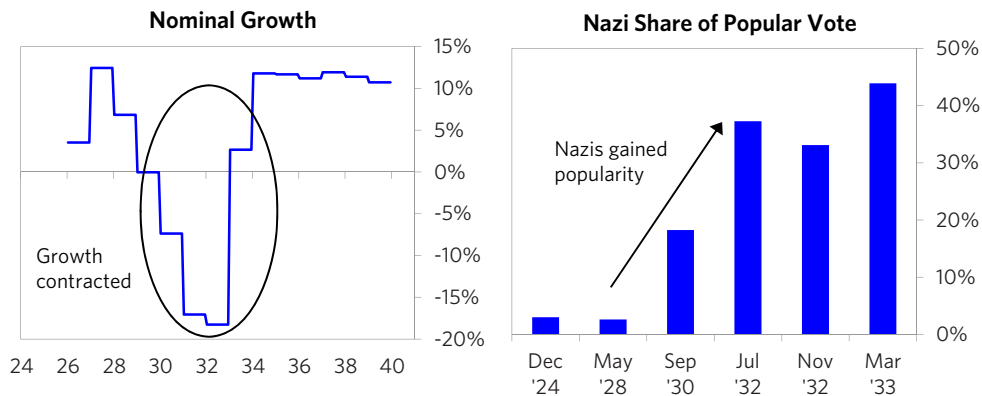
Prior to Hitler's rise, Germany had little control over its foreign policy; it was largely at the mercy of the French and British under the Treaty of Versailles. Germany's weakened position internationally was seen as intolerable by many Germans—particularly ex-soldiers—which fostered its inclinations toward nationalism and militarism to return Germany's former glory.

Hitler's Path to Power

Hitler was a disaffected ex-soldier. He was inspired by Mussolini's paramilitary toppling the Italian government during the 1922 March on Rome. He wrote a letter to Mussolini expressing his admiration for the newly installed dictator and based his failed 1923 Beer Hall Putsch on Mussolini's coup. Hitler praised Mussolini in his 1925 autobiography, writing:

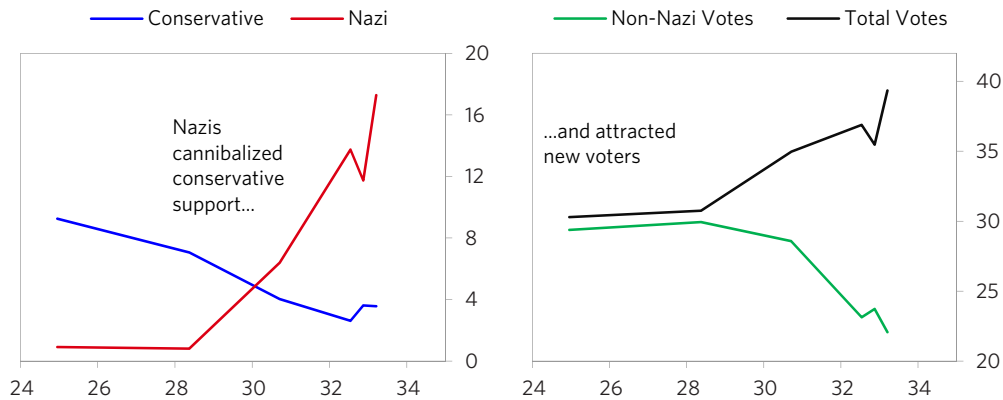
"I conceived the profoundest admiration for the great man south of the Alps, who, full of ardent love for his people, made no pacts with the enemies of Italy, but strove for their annihilation by all ways and means. What will rank Mussolini among the great men of this earth is his determination not to share Italy with the Marxists, but to destroy internationalism and save the fatherland from it."

With the economy weakening and the government at a stalemate, Hitler's message of economic revival, anti-communism, anti-Semitism, and anti-Treaty of Versailles rhetoric resonated with the desperate German citizenry. In the next presidential election, in April 1932, Hitler got 37% of the vote against von Hindenburg, and the subsequent Reichstag election of July 1932 saw the Nazis again win 37% of the vote, which was enough to be the largest party. Together with the Communists, they had a bit more than half of the Reichstag seats, making a political coalition of mainstream parties impossible. Still, Germany's government wasn't yet willing to cede power to one of these extremist parties. Von Hindenburg appointed an obscure mainstream politician, Franz von Papen, chancellor and governed by emergency measure, not seeking parliamentary consent.



The Nazis gained electoral success primarily by drawing in voters who had previously not been active in politics, a coalition largely consisting of rural laborers, formerly mainstream conservatives, and lower-middle class workers. Four million more voters—a nearly 15% increase—joined the electorate in the 1930 federal elections, many to support Hitler. Most of the rest of their support came from taking votes from center-right nationalist parties.

Federal Election Votes (Mln)



About half of the workers who joined the party between 1925 and 1932 came from villages with populations under 5,000, primarily Protestant villages. Anecdotes from the time suggest that the Nazis garnered support among lower- to middle-class workers who were mobilized by fears of their way of life being under attack from socialism, trade unions, urban elites who didn't share their values, big corporations, and market turbulence. Notably, the unemployed (of which there were plenty in the early 1930s) tended to be drawn toward supporting the Communists, who also saw their vote share rise in the period.

Without an effective government, economic conditions worsened and Germany descended into chaos. Street violence between the paramilitary wings of the Communist and Nazi parties intensified, and the government wasn't able to restore order. Hoping to break this impasse, von Hindenburg called another election in November 1932, within months of the prior election. The Nazis actually lost a few seats but still remained the largest party.

Eventually, in January 1933, von Hindenburg and the moderates decided to form a coalition government headed by Hitler, with von Papen as vice chancellor. They hoped they could control Hitler by surrounding him with more mainstream cabinet ministers (Nazis got only 3 of 11 cabinet positions), and likewise hoped that his extremist rhetoric from the campaign wouldn't be how he governed. Hitler generally wasn't seen as a threat. For instance, a prominent newspaper columnist wrote that it would be "a hopeless misjudgment of our country to believe a dictatorial regime could be forced upon it." A Jewish newspaper published that the new government wouldn't "dare touch their constitutional rights."

It didn't take long for Hitler to seize total control. A month into Hitler's chancellorship, the Reichstag was set on fire, reportedly by a young Dutch communist. The Nazis seized on the crisis, claiming the burning of the Reichstag presaged an imminent Communist coup. Using legislative precedent to take emergency measures, Hitler demanded "temporary" extraordinary powers from von Hindenburg. He assented, passing the Reichstag Fire Decree, an executive order rescinding the right to assembly, freedom of the press, and habeas corpus. Simultaneously, Hitler led a campaign to imprison thousands of Communists, his primary political opposition. Several days later, the previously scheduled Reichstag election saw the Nazis rise in vote share up to 45%—but even with heavy intimidation of other parties and the recent fire, the Nazis didn't win the election.

Citing national security, Hitler's cabinet designed the Enabling Act, which provided a four-year window in which they could legislate by decree. Through a combination of intimidation, deal making, twisting parliamentary rules, and imprisoning political opponents, they passed the act, 441-84—well above the two-thirds majority they needed. The votes of the Catholic Centre Party secured the act the remaining votes it needed after Hitler promised to protect the rights of Germany's Catholics. All in all, it took two months from Hitler being named chancellor to total authoritarian control. Within another three months, all other political parties were outlawed.

After gaining political power in 1933, the Nazi Party quickly consolidated its control over the media. They banned all other political parties, which gave them a legal justification to raid opposition party papers and destroy or

repossess their equipment. As for independent publishers, they asserted control through multiple avenues: using market tactics, controlling the labor supply, and ultimately relying on state force. They ran independent papers out of business by getting Nazi sympathizers to flood the market with cheap papers, and then when they were nearly bankrupt, bought competitors using a constellation of holding companies that disguised their ownership. In a push to consolidate labor power, the Nazi Ministry of Propaganda took over the German press guild, forbade entry to political enemies, and outlawed unfavorable press coverage. The ministry also sent detailed guidelines to local and regional papers describing which stories to publish and how to report on them. Those who defied these rules were fired or sent to concentration camps.

The Economy, Asset Markets, and Wealth

To gather support among industrialists, Hitler presented himself as an alternative to the looming threat of communism. Immediately after becoming chancellor, Hitler invited the wealthiest Germans to a meeting where he made the case that “private enterprise cannot be maintained in a democracy” and that only by supporting him could they protect their property claims.

The Nazis inherited a business landscape that was already somewhat centralized. Almost all commercial banks had been nationalized after the crisis in 1932, and many industries were organized into cartels that enabled broad cooperation. To further cement their power, the Nazis took four main steps:

- *Centralize labor power:* In May 1933, the SA raided all union offices and forcibly replaced their leadership with Nazi Party members. They were reorganized into a single union, the National Labor Front, which was later given the power to set wages and working hours, as well as blacklist workers.
- *Increase cartelization of industry:* In July 1933, the government encouraged industries without cartels to form them. This worked without notable coercion, with the government promoting the benefits of increased efficiency and improved production techniques.
- *Print money and create demand:* Hitler began an expansive infrastructure program to create employment—first railways, waterways, and highways, and later rapid military rearmament—financed by money printing and budget deficits. This supported private industry. Equity prices rose more than 15% in both 1933 and 1934. Additionally, through the passage of the German Credit Act in 1934, the government was given broad jurisdiction over all credit institutions, having the authority to set rates, commissions, fees, and other business terms. In this way, the government could provide both funding and demand for production and steer industry in whatever direction it desired.
- *Implement foreign-exchange controls and price controls on raw materials:* With strong domestic demand and falling unemployment, the government needed to prevent inflation from overheating as well as manage balance of payments pressures. By March 1934, companies were banned from using raw materials for nonessential purposes, and price caps were implemented. By September, Reichsbank President Hjalmar Schacht created a plan to implement foreign-exchange controls. All flows of goods and foreign currency were closely monitored. Incoming payments were transferred to the Reichsbank or approved commercial banks. Exporters were required to report the value and type of all commodities traded. Importers were required to report every transaction in detail (quantity, price, credit terms, trading partner) to supervisory agencies, which evaluated and approved them. There were severe penalties for noncompliance. These controls were broadly effective, and Germany was able to maintain its currency’s value without raising interest rates, even while other countries devalued. Germany primarily managed its exchange rate by selling reserves.

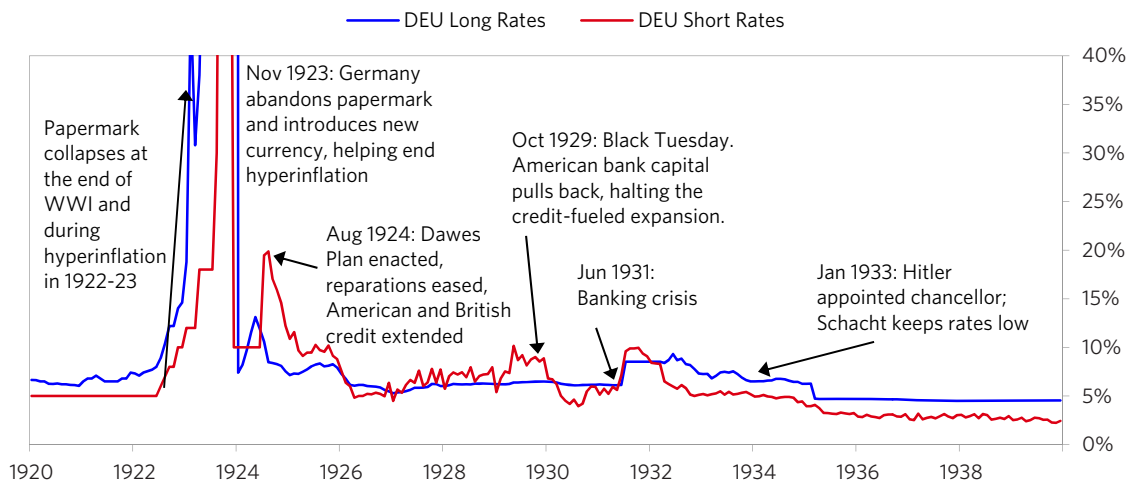
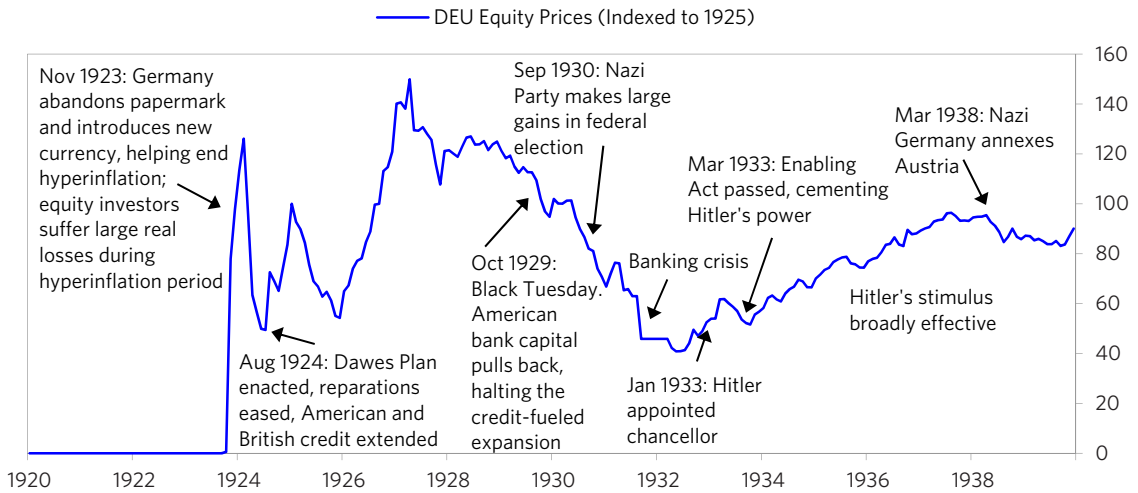
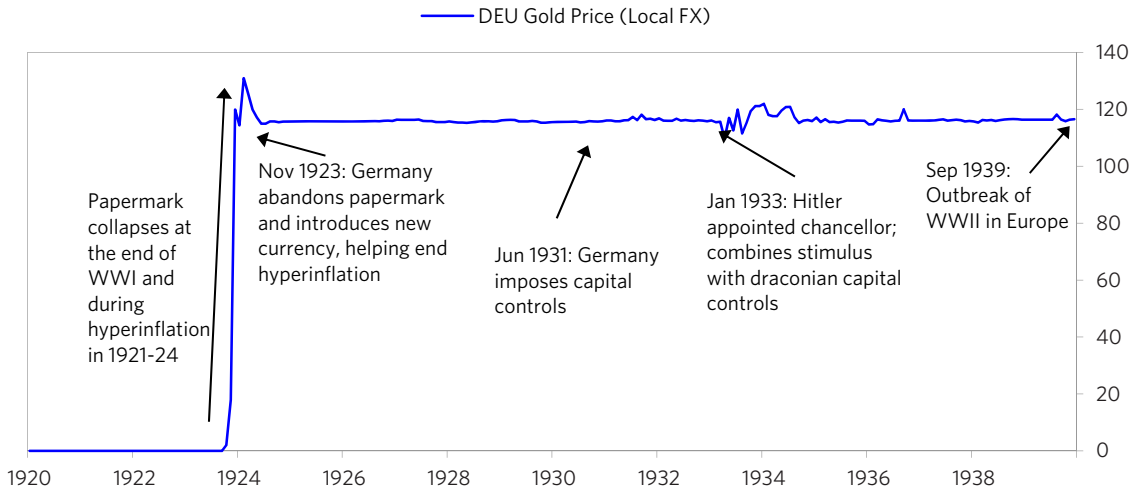
In addition to these steps, the government defaulted on much of its external obligations by stopping reparation payments in the summer of 1932, and defaulted on its US debts in the summer of 1934. While it didn’t shut down asset markets per se, it did tightly control them and generally had broad legal cover for whatever actions the bureaucracy saw fit to take. Later, closer to the beginning to World War II, Germany did outright nationalize war-related industries (the main state-owned conglomerate Reichswerke Hermann Göring was probably the largest company in the world at the beginning of WWII).

Capital flight was most widespread among persecuted minorities. Those who attempted to leave Germany with their assets were subject to harsh fines. The Reich Flight Tax was enacted before Hitler took power. It assessed a tax on wealthy individuals who attempted to leave and applied retroactively to those who left years earlier. The Nazis expanded the scope of the tax (raising its rate from 25% initially to 65% in 1934 and over 80% in 1936) and its enforcement mechanism. The tax authority worked in conjunction with the Gestapo to monitor individuals who were considered flight risks and could require citizens to surrender a security deposit if they seemed suspicious. In this way, Jews and other minorities who were able to leave Germany had most of their wealth confiscated. At its peak in 1938, the tax earned the government 340 million Reichsmarks, equivalent to 1% of German GDP.

Populism-Related Quotes by Hitler

- "I only acknowledge one nobility—that of labor." (1936)
- "What matters is to emphasize the fundamental idea in my party's economic program clearly; the idea of authority. I want the authority; I want everyone to keep the property he has acquired for himself according to the principle: *'Benefit to the community precedes benefit to the individual.'* But the state should retain supervision and each property owner should consider himself appointed by the state." (1931)
- "Whenever I stand up for the German peasant, it is for the sake of the Volk. I have neither ancestral estate nor manor." (1936)
- "The main plank in the National Socialist program is to abolish the liberalistic concept of the individual and the Marxist concept of humanity and to substitute therefore the folk community, rooted in the soil and bound together by the bond of its common blood." (1937)
- "And numerous people whose families belong to the peasantry and working classes are now filling prominent positions in this National Socialist State." (1937)

Germany: Asset Markets in the 1920s and 1930s



4. Spain, the Spanish Civil War, and Rise of Franco

Spain's story—like those of Italy, Germany, and Japan—is one in which a democratically led government was unable to maintain order in the midst of a conflict between populists of the left and populists of the right. In this case, the conflict was so severe that a civil war began in 1936 during the democracy of the Second Republic between right-wing Nationalists and left-wing Republicans. This is one of those classic cases in which the military took control. Franco was the top general of the Nationalists and assumed power in 1939 when the Nationalists took Madrid. He subsequently governed as a populist.

Economic/Political Background

To quickly scan the complex timeline (and to give a sense of the chaos), in the 20-year period from 1920 to 1940, Spain shifted between several governments, moving from:

- A limited and ineffective republic dominated by political elites...
- To a military dictatorship driven by promises of order and the turning around of the economy (1923)...
- To a contentious and bitter democracy alternating between left (Republican/socialist) and right (Nationalist/fascist) coalitions (1931)...
- Which eventually devolved into open violence and civil war (1936)...
- ...And a victory by the fascists, led by Franco (1939).

In broad strokes, ineffective government dominated by elites prompted the populace to support a coup, and when democracy was restored after the coup ended, the left (Republican) and right (Nationalist) coalitions enacted increasingly extreme policies, with little interest in compromise or consensus-building with the other side. This created a feedback loop—as both sides felt increasingly threatened and unable to cooperate, they sought to punish the other party and repeal all of their policies upon taking power. This quickly eroded democratic norms and structures and fed social unrest, eventually culminating in the Spanish Civil War, which led to 40 years of dictatorship under Franco.

The Nationalists' and Franco's Rise to Power

In 1931 a coalition of left-wing Republicans swept the country's first genuine elections and began the period known as the Second Spanish Republic. Almost immediately after its founding, violence against the clergy (who were monarchists and supporters of the landowning class) increased dramatically, with mobs burning churches across several Spanish cities. Though officially denounced by the government, the Republicans were slow to curb the riots and were seen as complicit in the violence. In addition to this social unrest, the Republicans passed a new constitution that was seen as hostile to landowners (imposing an eight-hour workday, giving tenure and land rights to some farm workers) and the Catholic Church (separation of church and state, removal of special privileges in taxation and other operations).

Due to the social unrest and rapid legislative changes, former monarchists, aristocrats, and supporters of the dictatorship quickly coalesced into a right-wing coalition (soon known collectively as the Nationalists) aimed at undoing the Republican reforms. In late 1931, landowners refused to plant crops or hire farm workers, which precipitated strikes and violence in rural areas.

The Nationalists won a large victory in the 1933 elections and immediately began to undo most of the Republican reforms. This triggered the "two black years" in Spain—a period during which more than 330 people were assassinated and another 1,500 injured in politically motivated violence. The left became increasingly radical— anarchist movements grew in popularity, and strikes and riots became more frequent. The right increasingly relied on paramilitary and vigilante actions to maintain order. During this time, the Nationalists took aggressive policy actions that were seen as unacceptable by the Republicans, including halving the minimum wage of farm workers and purging the military of Republican members and sympathizers.

The prewar news media mirrored the tense and polarized political situation, with propagandists on both sides publishing fake news articles that caused tensions to rise. On the right, organizations such as the Catholic Association of Propagandists created spurious leaflets and wrote articles that claimed the Republicans were attempting to outlaw religion and confiscate private property. On the left, communist activists published pamphlets that were harshly critical of the military. This combative environment contributed to the growing unrest and turmoil of the prewar period.

In 1936, the Republicans won control of the government by a slight majority and began to purge the Nationalists from the military. This precipitated a coup, which quickly transformed into the Spanish Civil War.

Unlike other populists of the time, Franco had no political role prior to the military coup that precipitated the Spanish Civil War. At the start of hostilities in 1936, he was one of several generals that coordinated the war efforts for the Nationalists. By 1937, following the deaths of several other leading generals, Franco consolidated power, heading the Nationalist war effort and eventually becoming Spain's leader after the war.

Key Policies

- *Authoritarianism*: Franco banned political opposition and ruled by intimidation.
- *Stringent protectionism*: Franco pursued an isolationist economic policy with the goal of creating a Spanish autarky—that is, a state that is entirely self-sufficient and not reliant on external trade or support. Only the state could legally trade with foreigners. There were extremely limited imports and exports. There was complete capital control for outbound and inbound investment. Trading goods on the black market was a crime punishable by death.
- *Nationalization of industry*: Industries were nationalized and clustered into vertically integrated syndicates, where wages, working conditions, and employment and production quotas were set by the state. Mediation between owners and workers was controlled by the state. Though never fully implemented, the government also took steps toward collectivizing farmland, and at several points set a mandatory price for agricultural products that producers then had to sell to the government.
- *Spanish nationalism*: Franco banned the use of languages other than Spanish in government, schools, advertising, and publications (despite Spain having many minority groups that spoke other languages). He also heavily promoted Spanish culture and suppressed aspects of minority cultures.

The Economy, Asset Markets, and Wealth

Capital Flight and Asset Forfeitures in the 1930s

After King Alfonso XIII's ouster in 1931 and the beginning of Spain's descent into civil war, many monarchists and aristocrats reportedly attempted to move their assets out of Spain, through banks in France or British-owned Gibraltar. Though the capital flight was acknowledged as a problem, attempts to limit it were largely unsuccessful until the last Republican government in 1936, when stricter border controls and searches started to hinder the movement of assets abroad. Then, the government froze bank accounts in many cities to prevent further capital flight. This meant that many households and companies realized large losses in their deposits, as the value of the peseta fell around 60% between 1929 and 1939.

During and around the civil war, assets were frequently confiscated. The Republican government issued a call that all Spaniards yield the gold they possessed to the government for financing the war effort. Private lands were frequently appropriated by anarchist communes or the state directly, leading to further contractions in industrial and agricultural output and further spikes in the price of basic goods. Inflation in some Republican-controlled areas was up to 1,500%.

The defeat of the Republicans at the end of the Spanish Civil War precipitated a movement of about 500,000 refugees into France. About 280,000 of these refugees were either forcibly or voluntarily repatriated to Spain,

but the rest ended up settling in France or South America, exacerbating labor shortages and contractions in industrial and agricultural output during the beginning of Franco's rule.

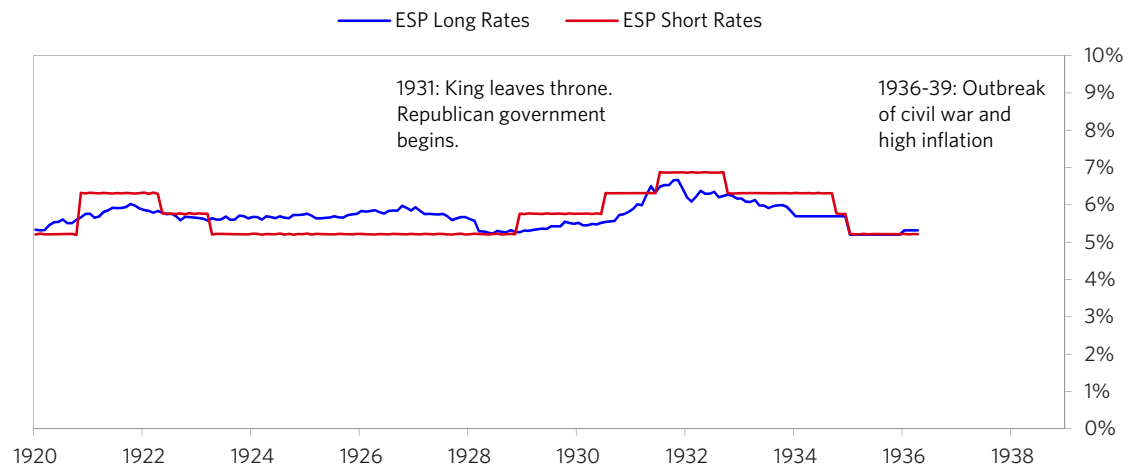
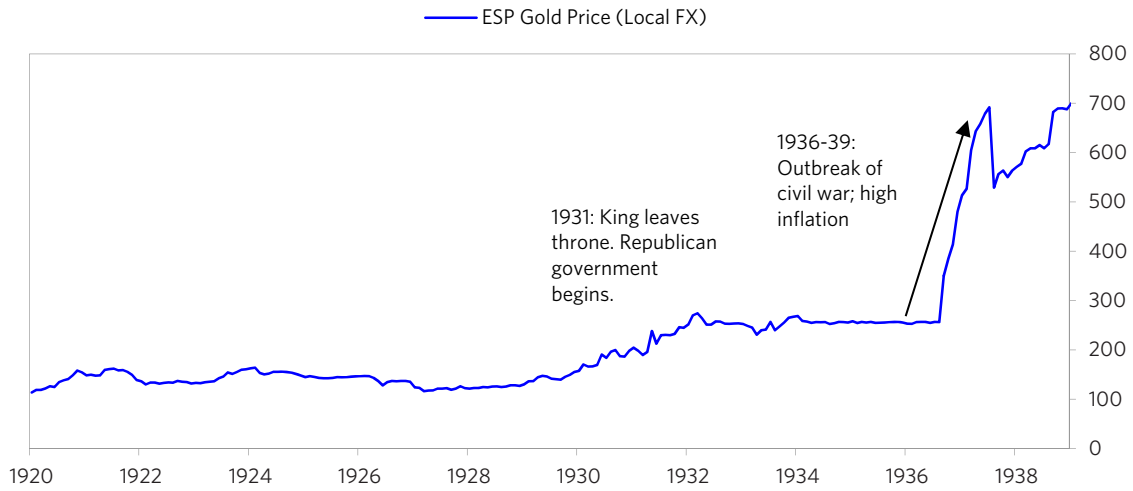
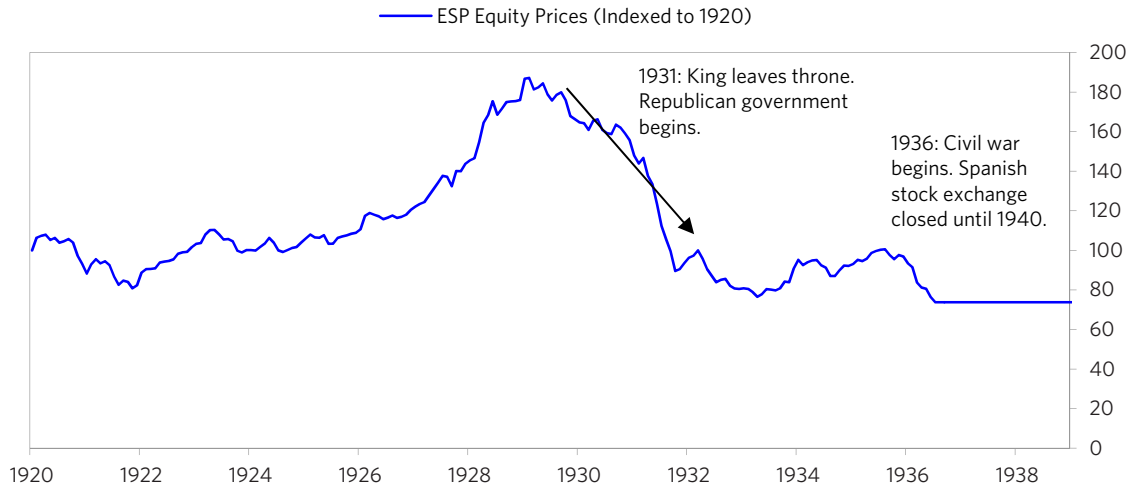
Franco Period

Franco's policies—while less overtly hostile to businesses than the late Republican period—did little to increase overall wealth. From 1939 to 1959, the Francoist government pursued an autarkist economic policy that banned all private foreign trade, both imports and exports; all capital inflows and outflows not approved by the government; and mandated that agricultural and industrial products be sold at a fixed price. The lack of impetus for private investment meant that agricultural and industrial output continued to contract during this time—for example, industrial output would only regain its 1936 levels in 1955. While output shrank and the government kept official prices artificially low, a black market for goods flourished. As a result, inflation was high and many basic products were unaffordable for Spanish workers. These early years of Franco's regime were known as the "Years of Hunger," and up to 200,000 Spaniards died of starvation immediately following the civil war.

In keeping with fascist-corporatist theory, Franco also established "vertical trade unions" that grouped owners and workers into combined unions that were run by the government. Most companies and farms were technically still privately owned entities (though Franco did directly nationalize several defense-related industries, such as armaments, steel production, and shipbuilding); however, the owners had no authority to fire workers, set prices or wages, or negotiate working conditions. As a result, most companies were inefficient and unprofitable, with returns only being realized through government subsidies or from owners selling some of the output on the black market.

Franco exercised heavy control over the media during his decades in power. During the civil war, his provisional government passed the Press Law of 1938—a piece of legislation inspired by a similar Italian fascist law that allowed the government to suspend any publication without appeal, and appoint and dismiss journalists and editors from both public and private-owned media. Additionally, all journalists had to register with the government and have their reports submitted to government censors, who would eliminate any information they found unacceptable. The Francoist regime also issued instructions to newspapers and radio stations, telling them to interpret events in a particular way or to avoid coverage of certain subjects. The result of this was little to no political news, beyond a straight recitation of official press releases.

Spain: Asset Markets in the 1920s and 1930s

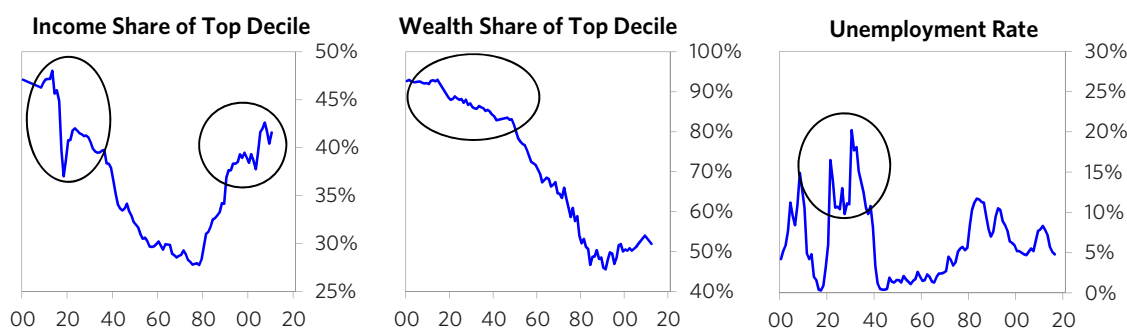


5. UK: Oswald Mosley, a British Fascist

Like the US, the UK saw the rise of prominent populists from the extremes who didn't end up gaining much power. Below, we profile the UK's most prominent fascist, Oswald Mosley.

Economic/Political Background

The context in which Mosley arose was not dissimilar to what was happening in the US. The economy severely contracted in the Great Depression and faced high (though declining) levels of wealth and income inequality. Many of those who turned to extremist policies in the UK during the 1930s opposed the establishment politicians, who had failed to alleviate the economic pain of the depression. For instance, standard economic thinking of the time called for balanced budgets, and the British government initially cut unemployment benefits rather than incur deficit spending as revenues collapsed and unemployment rose. Overall, many viewed the government's response to the Great Depression as weak, indecisive, and ineffective.



Through the 1920s, fascism in Britain was a fringe movement, with its influence limited to minor demonstrations and petty acts of vandalism by a handful of radical groups. In the 1930s, the ideology gained in popularity as the Great Depression worsened in the UK. To some, the emerging Italian and German autocracies began to look like examples of effective "modern" government in comparison to the UK, with streamlined state control that cut through the bureaucracy.

Rise to Prominence

While still a member of Parliament in the Labour Party, Mosley was considered a rising star, noted for his bold ideas and brilliant speechmaking. In response to the Great Depression, Mosley authored a far-reaching, 16-page plan to support the economy (called the Mosley Memorandum) in 1930.

The memorandum was narrowly defeated by Parliament, though many of his protectionist ideas would be brought back in 1932. Mosley believed the hung Parliament of the time to be too prone to inaction and too slow to respond to the depression. In response, Mosley resigned from the Labour Party and spent two years unsuccessfully leading an opposition political party called the New Party, which failed to win any seats in the 1931 elections. The New Party's campaign was to "save and rebuild the nation" through protectionism and massive public works.

Following his defeat in the 1931 election, the New Party fell apart. Mosley went to Italy, where he met with Mussolini. Though he found the dictator to be "affable but unimpressive," he was inspired by the economic progress of Italy's fascist-corporatist model. He believed that the only way to solve the problem of high unemployment was through government intervention to strengthen industry. And he believed that the UK needed an empowered executive and less debate/democracy to be able to respond to the crisis. Mosley's interest in Italian fascism was great enough that he modeled his violent "blackshirt" supporters directly off of Mussolini's paramilitary enforcers.

Mosley returned to the UK and founded the British Union of Fascists (BUF) at the end of 1932. In the early days, Mosley spread his message by traveling the country giving speeches. The party's membership jumped in 1934 after the well-known conservative newspaper, *Daily Mail*, publicly endorsed the BUF and defended it against media attacks. At its peak, the organization was estimated to have 50,000 card-carrying members. The group's strongest base of support was in London's East End, with pockets of strength in industrial northern areas around Manchester, primarily working-class neighborhoods. As one writer described them at the time, "the stereotypical BUF member was a lower-middle-class youngster from South London whose father was a Roman Catholic civil servant." The group attracted the unemployed and displaced professionals, as well as occupational groups like dairymen, taxi drivers, bakers, and newsagents.

It also attracted more violent elements—by 1933, the organization had the "blackshirts," who attacked hecklers at BUF rallies. Mosley's star began to wane by the end of 1934, as his violent rallies drew increasing censure from the press, and the Night of the Long Knives in Nazi Germany began to change the British perception of fascism.

As he became increasingly isolated from the mainstream, his ideas became more radical and paranoid—he grew more interested in anti-Semitism and began advocating the violent overthrow of the British government. The economic platform that drove his early popularity faded out of his speeches, and he was increasingly seen as the pariah leader of a radical fringe. The BUF was officially banned in 1940, and Mosley was arrested and held in custody until 1945.

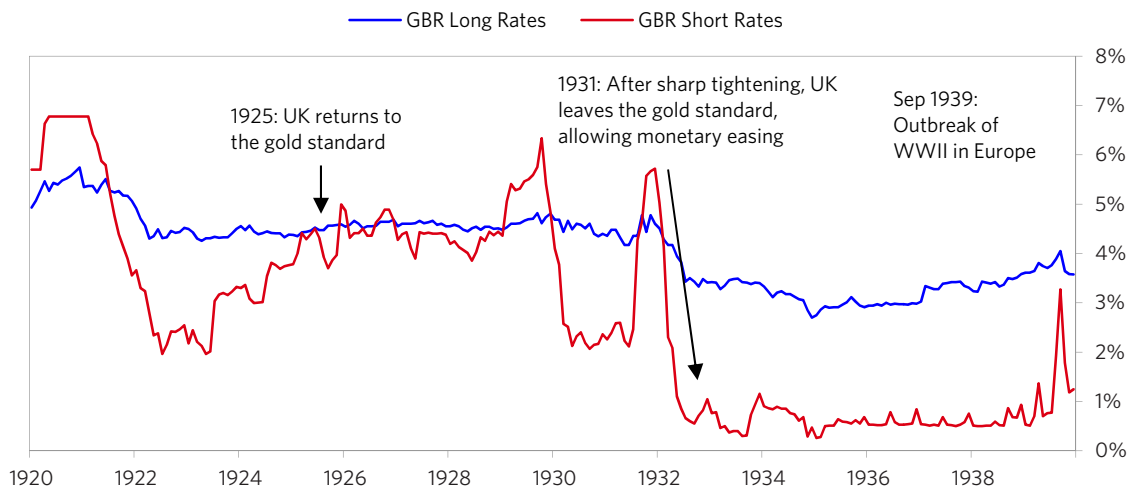
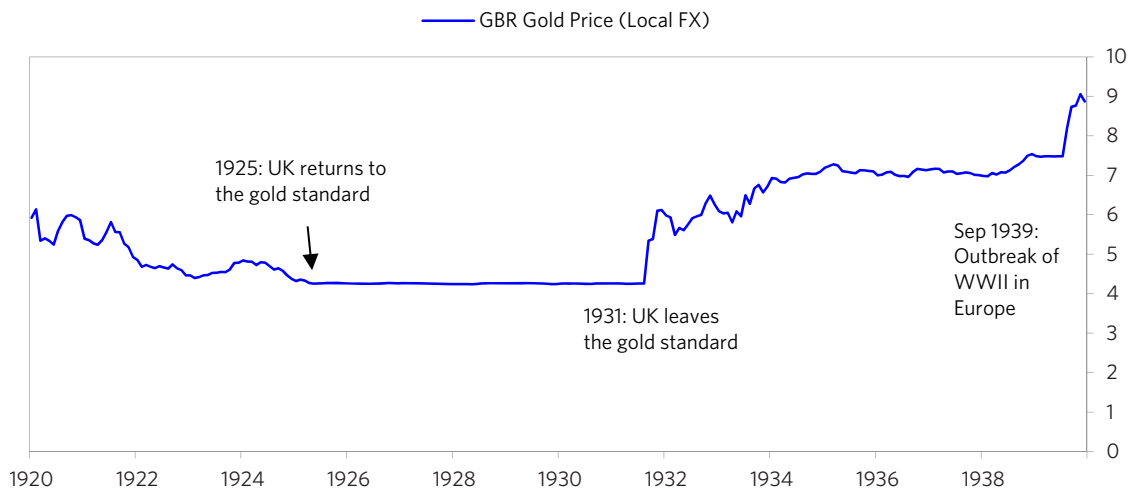
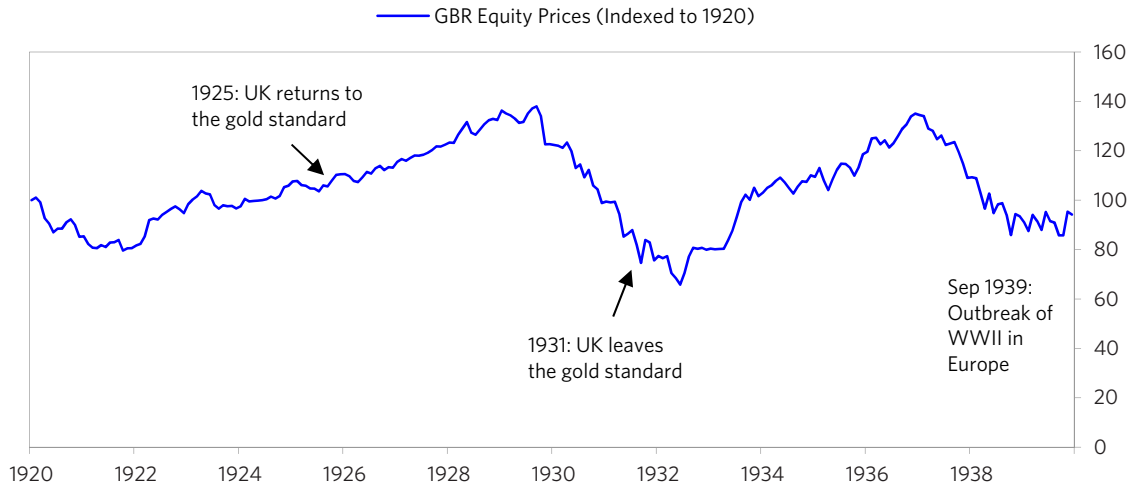
Key Positions

- *Protectionist policies:* He supported import controls and an "insulation" of the UK market from the world economy—with an emphasis on shifting away from exports and toward development of the home market.
- *Centralized power:* The BUF believed Parliament lacked the capacity for strong leadership. Mosley advocated for a new and powerful six-man executive cabinet authorized to use all of the nation's resources to fight the economic disaster by bypassing the normal political decision-making process.
- *Anti-foreigner:* Mosley was suspicious of the influence of other countries and international organizations and aimed for Britain to be self-sufficient. Drawn toward anti-Semitism.
- *Government stimulus:* He supported an increase in government deficit spending on "jobs programs" to lower unemployment and stimulate demand (Keynes and Mosley ran in similar social circles, and Keynes allegedly provided Mosley with feedback on his stimulus plan).

Populism-Related Quotes from Mosley

- "Capitalism is the system by which capital uses the nation for its own purposes. Fascism is the system by which the nation uses capital for its own purposes."
- "We challenge the 50-year-old system of free trade which exposes industry in the home market to the chaos of world conditions, such as price fluctuation, dumping, and the competition of sweated labor, which result in the lowering of wages and industrial decay."
- Mosley believed that the economic conditions in Britain were "tragic proof that economic life had outgrown our political institutions" and the parliament was too engaged "in detailed debate of every technical measure."
- "To grapple with this problem it is necessary to have a revolution in the machinery of government." He advocated forming "a central organization...operating under the direct control of the Prime Minister and the head of the Civil Service himself."

UK: Asset Markets in the 1920s and 1930s



6. Japan and the Rise of Military Rule

After WWI, Japan, like much of the developed world, experienced poor economic conditions, political dysfunction and the increasing desire for strong leadership. This led to a shift from a weak democracy to a militaristic dictatorship. This is another case in which the desire for a strong leader to take control led to the military taking control. Many of the dynamics that pushed Japan in this direction are evident in other 1930s cases.

Economic/Political Background

In the interwar period, Japan's nascent democracy (its first elections were in 1890) was struggling with big issues—like who should be able to vote, how the economic system should be structured, etc. And more than any other country, Japan struggled with the issue of foreigners, which led to strong xenophobia. Throughout the period, Japanese military was still largely independent and pursued aggressive foreign policy objectives that were often at odds with the civilian government's wishes.

During the 1920s, politics became increasingly fractured and violent. The first postwar prime minister, Hara Takashi, faced weak economic conditions and became unpopular with both sides. The nationalist right accused him of being too lenient with Japan's colonies and held him responsible for Japan not getting what it wanted out of the Versailles Treaty. The left was angry that he didn't support universal suffrage (only allowing some taxpayers to vote). In 1921, he was assassinated by a right-wing railroad worker, and in 1923 a Marxist university student attempted to assassinate Prince Regent (and future Emperor) Hirohito. In 1925, the emperor and his cabinet, led by Prime Minister Kato Takaaki, responded to this violence, as well as political demonstrations, with a compromise measure, instituting universal male suffrage while also banning extremist political parties, defined as any association aiming at "the altering of the national identity [*kokutai*] or the system of private property."

These political reforms didn't control rising extremism, and political divisions meant that subsequent governments lacked clear mandates and were short-lived, with elections held in 1928, 1930, and 1932. Weaker economic conditions, driven by the Showa Financial Crisis in 1927, further contributed to discontent. Military intervention in politics increased: Prime Minister Tanaka Giichi and his cabinet were forced by the army to resign in 1929, after he objected to the military assassinating a warlord in Manchuria. His successor, Prime Minister Hamaguchi, responded to the Great Depression in Japan by implementing fiscal austerity and returning Japan to the gold standard. The resulting economic downturn, combined with his conciliatory foreign policy, made him unpopular, and he was assassinated in 1931. Meanwhile, anti-foreign sentiment and nationalism continued to grow in response to foreign treaties limiting the size of the Japanese military, as well as restrictions on Japanese migration to the US.

Military's Rise to Power

By the end of the 1920s, the combination of economic pain, rising anti-foreigner sentiment, an ineffective political establishment, and rising political violence undermined Japanese democracy and created an atmosphere conducive to the military taking power.

The military asserted its power by unilaterally invading Manchuria in 1931 without prior government approval. At the same time, political violence continued to rise. In 1932, ultra-nationalists assassinated Prime Minister Inukai Tsuyoshi, after he opposed the invasion of Manchuria and attempted to rein in the military. They ended up being given very lenient sentences, as they were broadly viewed sympathetically by the public. From then on, it was clear that there was no real check on the military's influence. The military acted largely independently abroad, insisted on major roles in government, and by 1936 could veto the selection of most cabinet members. Although explicit support for far-right parties remained small (fascist parties received about 5% of the vote in general elections in 1936 and 1937), the mainstream political parties became increasingly powerless and subordinate to military rule. In 1940, the major political parties were merged into the Imperial Rule Assistance Association, effectively creating a one-party state. The most prominent military leader to rise to power in this period was

General Hideki Tojo, who served in the Sino-Japanese War before taking the role of Prime Minister from October 1941 through July 1944.

Key Policies

As its power grew, the nationalistic government pursued policies to secure resources for the military and expand its empire. Domestically, the government focused on directing the economy toward military production. Since the start of Japan's industrialization, there had been a limited number of family-controlled, dominant monopoly companies called *Zaibatsu*, which had tight ties to the government and shifted to military-related production. The military government also maintained Japan's very high tariffs, which had risen during the 1920s to serve the interests of domestic producers, especially the *Zaibatsu*.

Japan's military ambition required that it secure the necessary military resources that it lacked domestically, especially oil. A vicious cycle of escalating tensions with Western powers ensued, as aggressive Japanese foreign policy led to Japan's isolation and trade restrictions imposed by other countries, which in turn increased Japan's perception of itself as under threat. Below are some of the highlights of the deteriorating relationship over the 1930s:

- *Seizure of Manchuria*: In 1931, Japan invaded a part of China and in 1932 established the puppet state of Manchukuo. Japan subsequently pushed for industrial development plans, so that the state could help supply the Japanese military. When the invasion was condemned by the League of Nations, Japan withdrew from the League.
- *US trade restrictions*: After Japan went to war against China again in 1937, the US began to place stringent trade restrictions on Japan, including the termination of a commercial treaty in 1939, and blocking the shipment of munitions, airplanes, and other materials to Japan (though oil was not included in this act).
- *Tripartite Pact and Japanese occupation of French Indochina*: As trade restrictions increased, Japan bolstered its ties to the European fascist powers. Japan first placed troops in French Indochina in the summer of 1940 and in September signed a formal agreement to station troops there with the French Vichy government. Also in September, Japan signed the Tripartite Pact, an alliance of Germany, Italy, and Japan.
- *US oil embargo*: The US continued to increase trade restrictions on Japan, first banning scrap metal exports in late 1940, then freezing Japanese assets and banning oil and gasoline exports in August 1941. This last embargo was especially damaging, meaning 80% of Japanese oil imports were cut off.
- *Attack on Pearl Harbor*: Japan attacked the US Pacific Fleet at Pearl Harbor, partly in the hopes of preventing US intervention in the subsequent Japanese seizure of resource-rich territories, such as Indonesia.

In the early 1930s, the military government began to tighten its grip on the media, and over the next decade enacted dozens of new regulations censoring all aspects of it. In 1935, films "insulting the national polity, military, or foreign policy" were banned; in 1937, anything regarding national security and foreign relations was deemed a state secret; in 1941, American and British films were banned from theaters. The final takeover came with the 1938 National Mobilization Law and its 1941 revision, which fully eliminated freedom of the press, blocked new media entrants, forced consolidation among the existing outlets, and mandated all publications to be screened by the government prior to publishing. The number of newspapers fell from about 1,500 to 54 by late 1941.

The Economy, Asset Markets, and Wealth

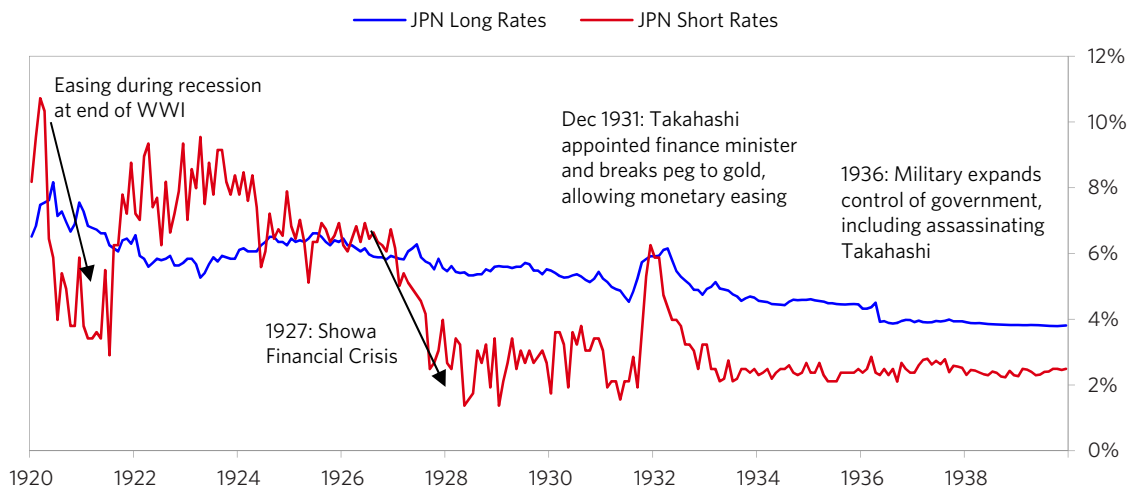
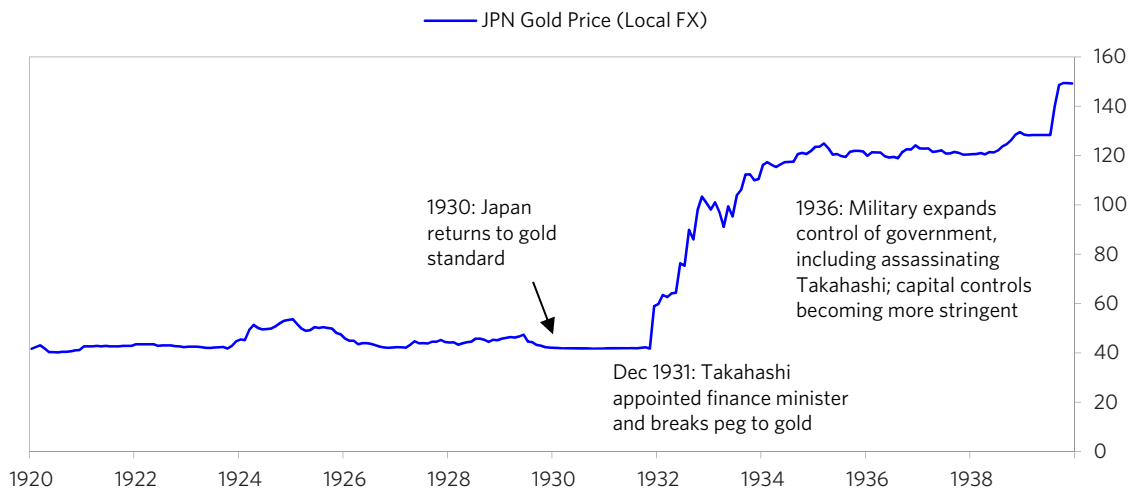
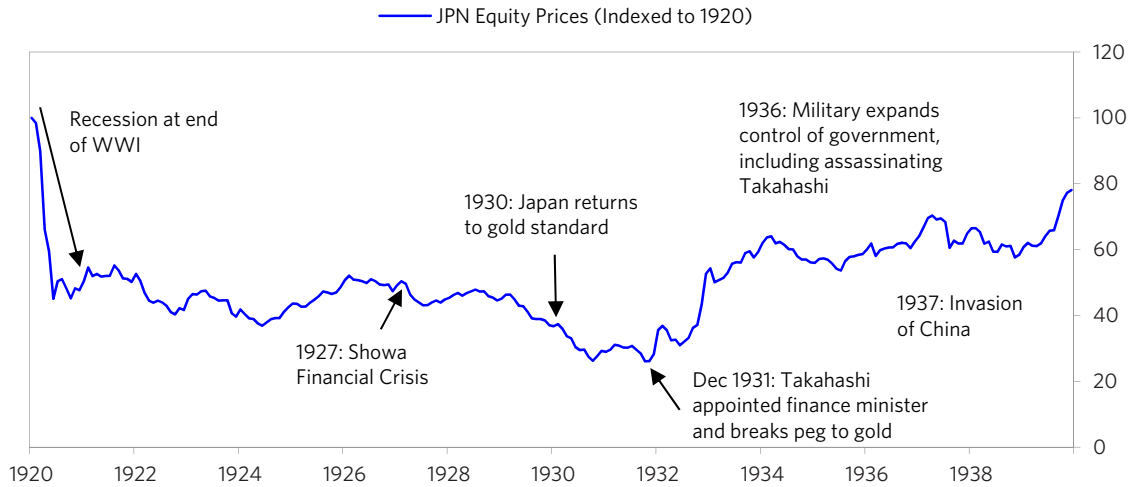
Initially, Japan had one of the better economic bounces following the Great Depression because it was one of the early countries to break the peg with gold (yen fell 60% versus gold) and print money. Combined with military-oriented fiscal spending, it helped produce a strong economic recovery, which led local equity prices to rise about 150% in local currency terms. But Japan's continued reliance on lots of money printing to finance fiscal spending eventually contributed to continued yen devaluations and accelerating inflation.

At the same time, a combination of high tariffs and strict capital controls led Japan's economy to become more isolated from the rest of the world. Investors couldn't take their money out (or in some cases control companies they invested in domestically), especially after the outbreak of war with China in 1937.

Additionally, Japan pushed foreign competitors and joint foreign-Japanese partnerships out of the domestic market through a series of new laws that restricted foreign ownership in certain companies and industries. These policies prevented further investment and pressured foreign companies to sell their Japanese operations. As the decade progressed, the government passed increasingly restrictive capital controls until essentially every industry was fully owned and operated by Japanese citizens.

To discourage capital outflows, Japan enacted the Capital Outflow Prevention Law in 1932, which gave the government unilateral power to "regulate capital movements between Japan and other countries due to domestic or overseas conditions." Further legislation in 1932 created more regulations on capital movement. These vaguely worded laws were loosely enforced at the beginning of the decade, but enforcement hardened over time. By 1937, any Japanese citizen or company needed written permission from the Ministry of Finance to purchase imported goods or make an investment overseas. In the same year, the government restricted the export of any and all commodities without the written permission of the Ministry of Finance.

Japan: Asset Markets in the 1920s and 1930s



7. Other Historical Cases of Populism

Below, we scan cases of prominent populists (some democratically elected, some not) from times other than the 1930s, going roughly chronologically. As you'll see, similar patterns are evident in many of these cases.

US 1830s: Andrew Jackson

Andrew Jackson was president from 1829 to 1837—the first US president who was neither a wealthy Virginian plantation owner nor a member of the wealthy Adams family from Boston. Like other populists, he came to power by running against the political and economic elites and supporting the common man. He defeated John Quincy Adams' reelection campaign—Adams had presided over an ineffective and unpopular administration after his controversial election in 1824. Once elected, Jackson ruled as a strong chief executive, while appointing inexperienced people to government posts, favoring agrarian interests over economic elites (such as through his opposition to a national bank), and supporting US expansionism into territory held by Native Americans.

Economic/Political Background

Jackson's populism came at the right time, demographically and economically. Demographically, the US electorate had just expanded to include a far broader portion of the US male population, as property qualifications for voting were significantly decreased in the 1810s and 1820s. And the admission of nine new states to the Union shifted power away from the urban centers and toward the "western" frontier.

Many of these frontier voters also broadly felt like the economic system wasn't working in their favor. The Panic of 1819 was made significantly deeper by the Second Bank of the United States (the de facto central bank) tightening monetary policy, worsening conditions. The mismanagement of the crisis, combined with a fraud scandal concerning some of the bank directors, made the bank broadly unpopular. The deflation that resulted was especially painful for agricultural states, prompting distrust of the bank and the political elite. Jackson, as a self-made man who rose to prominence as a war hero, would embrace this distrust during his presidency.

Jackson also benefited from increasing regional tensions: while the Democratic-Republicans were the only major political party by the late 1810s, this unity masked divisions among the states over major issues, including slavery, economic policy, and westward expansion. These divisions came to a head with the Missouri Crisis (1820), over whether Missouri should be admitted to the US as a slave state or free state. A compromise was reached (admitting Missouri as a slave state along with Maine as a free state, to maintain the balance of slave and free states in the Senate), but it left a bad impression on both sides, leaving an opening for an outsider like Jackson.

Rise to Power

Jackson first ran for president in 1824, one of four candidates to contest the election. He won a plurality, though not a majority, of both the popular vote and Electoral College, with his support concentrated outside the Northeast. Since no candidate received a majority of the Electoral College, the election was decided by the House of Representatives. The House elected John Quincy Adams as president after the fourth-place finisher, Henry Clay, directed his supporters to vote for Adams. Clay was subsequently appointed secretary of state by Adams. Jackson and his supporters were embittered and described the result as a "corrupt bargain."

Jackson prepared for a second presidential run, founding the Democratic Party with Martin Van Buren. His campaign argued that the last election had been stolen from Jackson, and it benefited from the unpopularity of Adams' policies, especially outside the Northeast. Adams had supported a major expansion of tariffs in 1828, referred to among his opponents as the "Tariff of Abominations." In this period, tariffs were mainly supported by Northern industry, while rural communities in the South opposed them since they made imports more expensive and, in some cases, hurt agricultural exports. Jackson won the election by a significant margin, winning all Southern and Midwestern states. He then remained president for two terms, before being succeeded by his second vice president, Martin Van Buren.

Newspaper circulation was growing rapidly in the early 1800s and Jackson used newspapers to spread his message. During his 1828 campaign, Jackson's supporters created an extensive network of newspapers across the country that tailored his populist message to the voters of their region. Once in office, he included several prominent newspaper editors in his "kitchen cabinet" of advisors.

Key Policies

Jackson's governing philosophy mainly focused on supporting agrarian interests and promoting the people at the expense of the political/financial elite. Two of his most prominent policies in favor of agrarian interests were his support of forcibly relocating Native American populations (ignoring the Supreme Court's order against it) and his vociferous opposition to the new national bank, the Second Bank of the United States. He also defended the powers of the federal government against efforts of Southern states to claim greater autonomy, leading to one of the biggest conflicts of his presidency, the Nullification Crisis.

Jackson's populist tendencies were on display from his inauguration, when he invited the public to attend the White House ball afterwards, prompting a wild party. For this and other activities, he was nicknamed "King Mob." Similarly, he expanded the usage of the president's power to replace civil service workers through political appointments, to minimize the autonomy of government bureaucracy. He then appointed inexperienced people to government roles, which produced a dysfunctional cabinet for much of his first administration.

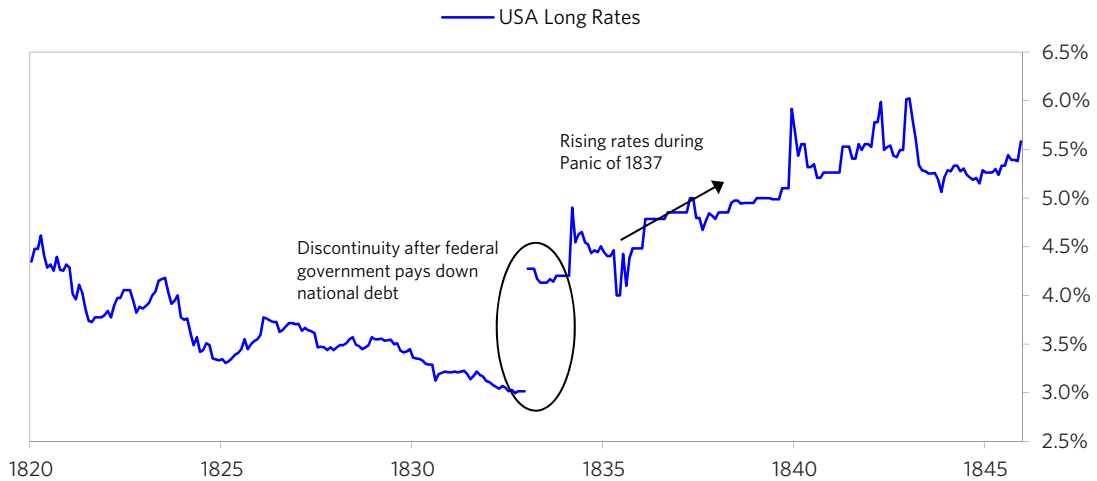
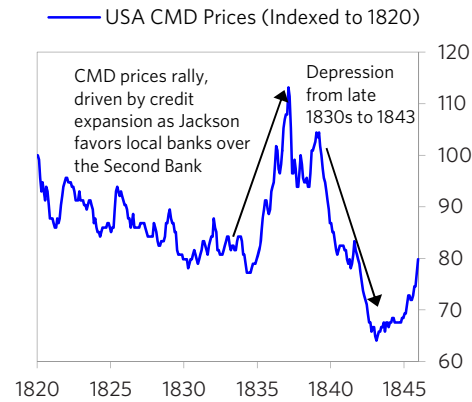
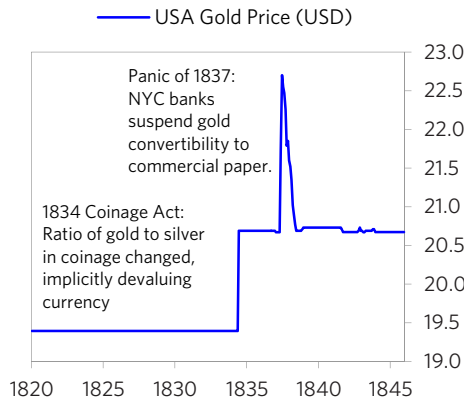
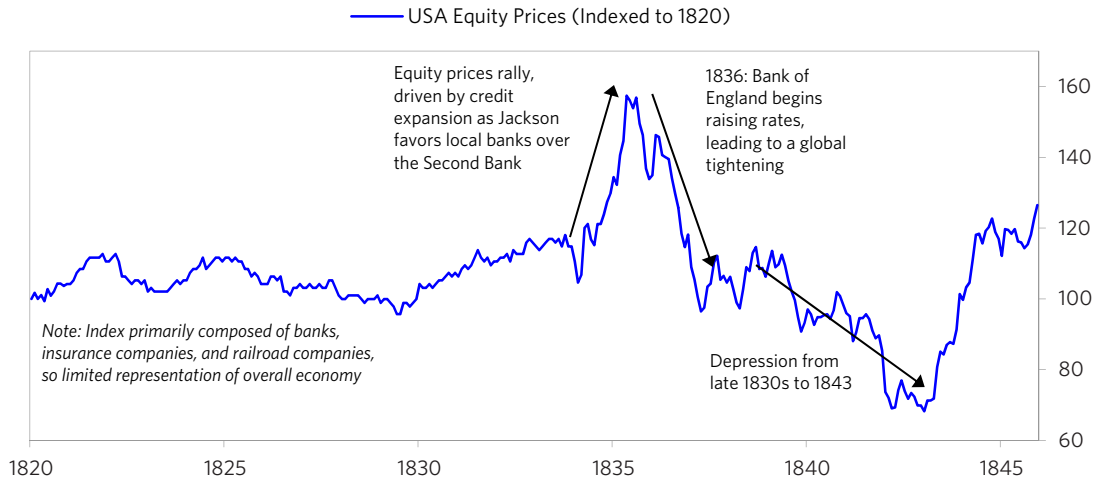
Nullification Crisis and Tariffs

While Jackson's policies were predominantly in favor of Southern, agrarian interests, he also opposed the arguments of Southern states that they could nullify federal laws or secede from the union. Southern states opposed Adams' "Tariff of Abominations," and South Carolina attempted to nullify the law in the state. Jackson opposed the tariff, but firmly supported the power of the federal government to create it. He publicly feuded with Vice President John C. Calhoun over the issue and threatened to send troops to South Carolina to enforce the law. A compromise was reached when Congress lowered tariff rates in 1833, and South Carolina agreed to respect the old law; the larger dispute over states' rights versus the federal government, however, would continue until culminating in the Civil War.

Economic Policies and Opposition to the Second Bank

Jackson also viscerally distrusted economic elites, especially banks, and wanted the government to have a smaller economic footprint (for example, he paid off the US national debt). This distrust led him to oppose the new Second Bank of the United States. Agrarian interests blamed the bank for the Panic of 1819, and Jackson believed that it had corrupt ties with the political elite and abroad. He first vetoed a bill that would have renewed the bank's charter from Congress. The controversy over the bank became a major issue in the 1832 election, and Jackson successfully made the populist case against the bank. After winning the election of 1832 by an even bigger margin than the previous election, Jackson transferred all federal deposits from the Second Bank to smaller state banks. This move both weakened the Second Bank, which eventually liquidated in 1841, and created a vast boom in credit, as it dramatically increased the ability of smaller banks to create deposits. Jackson's opposition crippled the ability of the US to form a centralized monetary policy until the creation of the Federal Reserve in 1913.

More immediately, Jackson's economic policies worsened the impact of the Panic of 1837. His support of local banks, combined with a slight devaluation against gold, had spurred a real estate bubble, especially concentrated in the sale of former government-owned land in Western territories. To limit the speculation, the government ordered that all purchases of government land be paid in hard currency. This tightening, combined with rising interest rates in Europe, led to a sharp contraction in credit and an economic recession after the Panic of 1837.



Populism-Related Quote from Jackson

- “It is to be regretted that the rich and powerful too often bend the acts of government to their selfish purpose...When the laws undertake to add to these natural and just advantages artificial distinctions, to grant titles, gratuities, and exclusive privileges, to make the rich richer and the potent more powerful, the humble members of society—the farmers, mechanics, and laborers—who have neither the time nor the means of securing like favors to themselves, have a right to complain of the injustice of their government.”

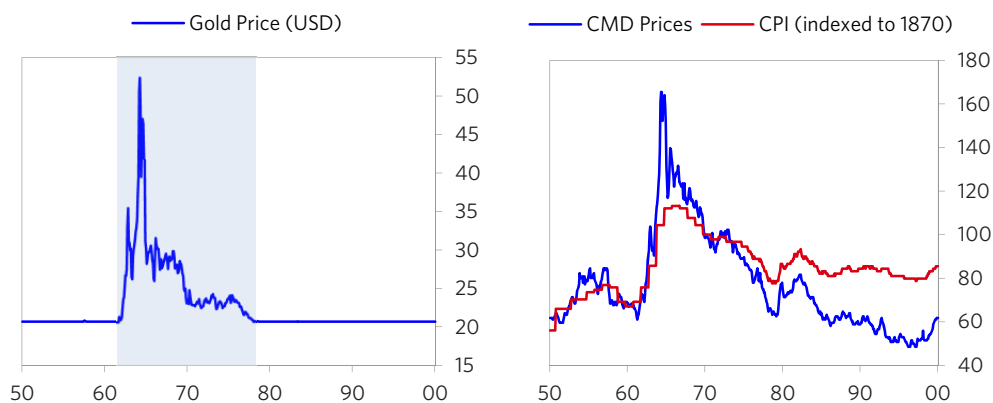
US 1890s: William Jennings Bryan

William Jennings Bryan, known as “The Great Commoner,” rose to prominence in 1896 when broad populist support lifted him to the Democratic Party’s presidential nomination. Against the backdrop of debtors (especially farmers) being hurt by deflation/tight money, his fiery campaign rhetoric targeted financial elites and championed a return to bimetallism as a way to ease debt burdens.

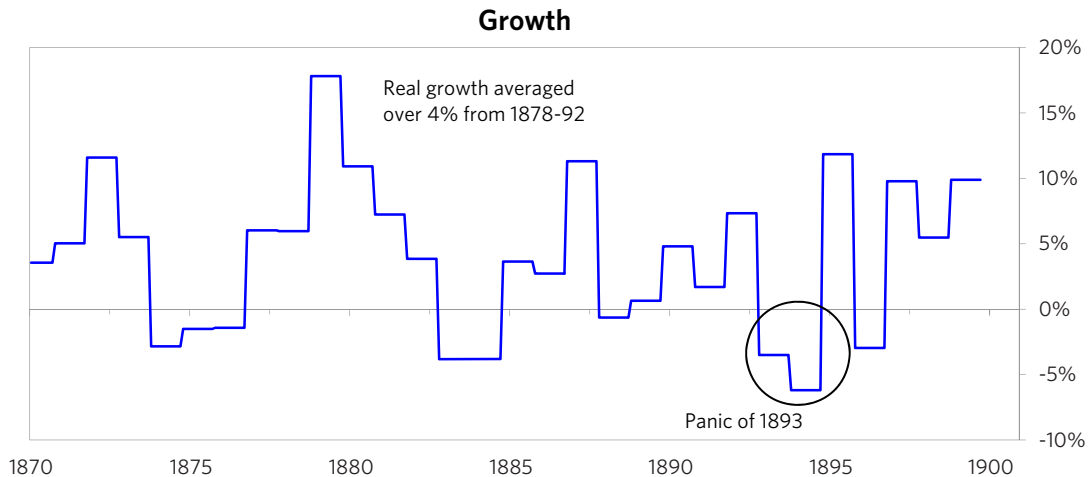
Economic/Political Background

Bryan’s populist rise is deeply rooted in the US government’s monetary policies of the late 1800s and the resulting deflationary economic environment. Prior to the Civil War, the US maintained a bimetallic standard, which guaranteed the convertibility of dollars into either gold or silver at fixed exchange rates. But during the war, the government ended this convertibility and moved to a fiat system—which allowed the government to print money freely in order to fund wartime spending. The money printing that followed pushed up prices and in response, after the war, a push to return to a commodity-backed currency started to gain traction. This push was supported strongly by Northeast bankers/creditors, who had suffered losses as inflation eroded the value of their loans, but support was widespread among a population that had grown wary of inflation and saw a commodity-backed dollar as a return to stability.

Debate ensued about how to reinstate the commodity backing of dollars. The idea of re-pegging at the prewar exchange rate to gold and silver was popular but presented problems. Gold had appreciated relative to silver and policy makers feared that a re-pegging to both metals at prewar exchange rates would drain gold reserves from the system, resulting in a de facto silver peg. This worry, the desire to support exchange rate stability by adopting a gold peg in line with Britain’s, and pressure from the banking sector (lobbying for a more deflationary policy) swayed policy makers toward a series of policies to return the dollar to a gold-backed monetary system, instead of the prewar bimetallic system. The Coinage Act of 1873 and the Resumption Act of 1875 decreased the money supply until the dollar was re-pegged to gold at the prewar price on January 1, 1879, and full dollar convertibility was reestablished. Relinking the dollar to gold pushed the US economy into two decades of persistent deflation. From 1875 to 1896, prices in the US fell by 1% per year and commodity prices fell nearly 3% per year (with farmers hurt further by overplanting in response to higher prices).



Despite falling prices, prior to the 1890s the US economy prospered, and this growth exerted continued deflationary pressure on the economy—as the quantity produced increased but the money supply was fixed. But while the economy as a whole experienced strong growth, it produced big winners and losers, sowing the seeds of populism. The biggest losers of deflation were the debtors, who struggled to service their nominal debts as prices and incomes fell. Farmers were among the most affected, since their livelihoods revolved around a seasonal cycle of borrowing and repayment and commodity prices tumbled during the period. Conversely, the biggest winners of deflation were the lenders, who were mostly banks concentrated in the Northeast.



“Free silver” advocates (“Silverites”) seized on this dynamic through the 1880s, declaring that a return to bimetallism would boost prosperity across economic classes and claiming that the dollar’s link to gold was a conspiracy perpetrated by economic elites. In addition, supporters promoted bimetallism as a way of decreasing inequality: those who held their wealth in silver tended to be poorer and would gain relative to wealthier people who chiefly held gold. Opponents of bimetallism argued that a gold-backed monetary policy aligned with global standards and facilitated international trade.

The Panic of 1893 hit the US hard. As banks and businesses failed in droves, unemployment rose above 10% nationwide and certain hard-hit states saw unemployment rates over 30%. The economic collapse brought the simmering populism to a boil, and increased support for the easier money bimetallism would provide. Voters blamed the Democrats (who held the House, Senate, and presidency), leading to Democrats losing 127 seats in the House in 1894 (one of the largest percent swings in history) and setting the stage for the Free Silver wing of the Democratic party to subsequently take control of the party.

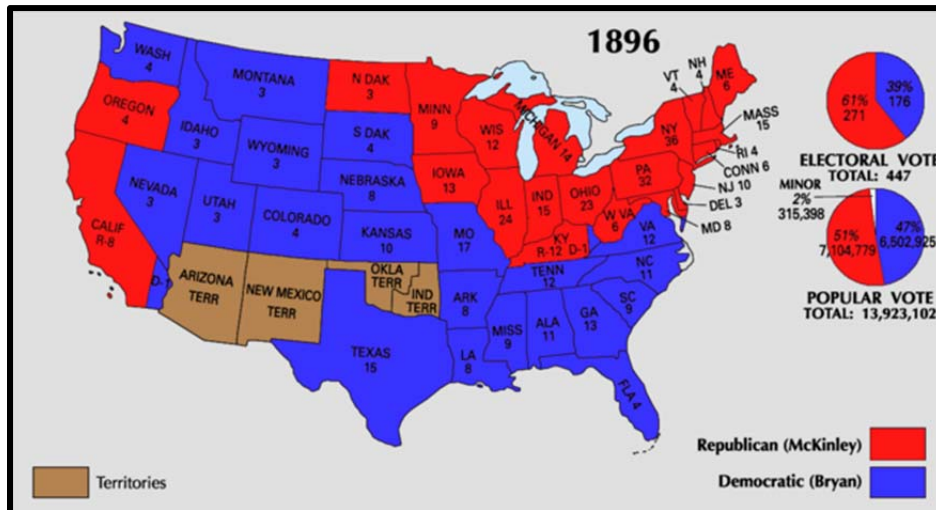
Rise to Prominence

Bryan first held public office after winning the congressional seat for the First District of Nebraska in 1890, but his true rise to prominence came several years later, when he embarked on a two-year national speaking tour after the panic. His renowned oratorical skills helped him build a reputation as an advocate for the common man, earning him the nickname “The Great Commoner.” As the crux of his platform, he championed “free silver” and the unlimited coinage of silver at the prewar 16:1 silver to gold exchange rate (“16:1” was widely featured in campaign marketing).

Going into the Democratic convention in 1896, Bryan was a dark horse candidate—younger, far less experienced (having served as a representative for just five years), and not especially well-known compared to the other candidates. Bryan’s famous “Cross of Gold” speech (which was met with 30 minutes of cheering afterward) sealed his nomination. He attacked wealthy Eastern elites (“the idle holders of idle capital”) for supporting the gold standard and urged the Democratic Party to join the side of the “struggling masses.” The Democrats’ 1896 party platform embraced the ideological shift signaled by Bryan’s candidacy—the resentment of globalized financial elites that had become intertwined with the economic arguments for “free silver”:

“We are unalterably opposed to monometallism, which has locked fast the prosperity of an industrial people in the paralysis of hard times. Gold monometallism is a British policy, and its adoption has brought other nations into financial servitude to London. It is not only un-American, but anti-American, and it can be fastened on the United States only by the stifling of that spirit and love of liberty which proclaimed our political independence in 1776 and won it in the War of the Revolution.”

Ultimately, Bryan could not shake his Republican opponent William McKinley's charges that bimetallism would cause rampant inflation, which convinced the key contingent of urban workers/union members to support McKinley. In an electoral map that is remarkably similar to what the US has seen in recent elections (though parties swapped), the election saw urban areas swing strongly toward McKinley, and southern/rural areas support Bryan. The Midwest was seen as the main battleground—Ohio ended up being the state that most mirrored national results.



After Bryan's first campaign, gold discoveries in Alaska and South Africa and technological advancements in gold smelting (partly incentivized by the US gold standard) greatly increased the supply of gold and allowed the money supply to expand, curbing the disinflationary pressures. As popular support for bimetallism waned, Bryan rebuilt his platform by shifting his focus toward other common populist causes.

Key Positions

Bryan's first presidential campaign in 1896 included populist positions that were distinctly agrarian and focused on the issue of bimetallism, namely:

- Championing the "free silver" movement to reinstate bimetallism at a ratio of 16:1, increase the money supply, and help debtors (especially farmers) service their debts.

In his later presidential campaigns, when bimetallism became less politically relevant, Bryan turned his anti-establishment rhetoric toward attacking entities he saw as taking power away from the common man:

- Supported antitrust actions to stem the rising influence of big corporations and banks
- Advocated for income and inheritance taxes
- Called for all campaign contributions made by corporations to be made public before Election Day
- Opposed the use of the Navy for the collection of private debts
- Opposed US imperialism, including its control over the Philippines

Populism-Related Quotes from Bryan

- On the gold standard's unfairness to debtors: "making a man pay a debt with a dollar larger than the one he borrowed...If this robbery is permitted, the farmer will be ruined, and then the cities will suffer."
- "The man who is employed for wages is as much a business man as his employer...the miners who go down a thousand feet into the earth, or climb two thousand feet upon the cliffs, and bring forth from their hiding places the precious metals to be poured into the channels of trade are as much business

men as the few financial magnates who, in a back room, corner the money of the world. We come to speak of this broader class of business men."

- "Upon which side will the Democratic Party fight; upon the side of 'the idle holders of idle capital' or upon the side of 'the struggling masses'? That is the question which the party must answer first, and then it must be answered by each individual hereafter. The sympathies of the Democratic Party, as shown by the platform, are on the side of the struggling masses, who have ever been the foundation of the Democratic Party."
- "Money is the worst of all contrabands because it commands everything else."
- In response to a senator's suggestion that a Robespierre may rise from among the silver advocates: "What we need is an Andrew Jackson to stand, as Jackson stood, against the encroachments of organized wealth."

Russia 1910-20s: Vladimir Lenin and the Russian Revolution

While the Bolsheviks in Russia gained power through revolution, many of the underlying drivers of populism in other countries drove the revolution there. In particular, high inequality and weak economic conditions combined with an ineffective/out-of-touch government and very weak political institutions to produce a revolution and ideological extremes. The revolution and rise of communism in Russia is also interesting because it was relevant to the 1920-1940 developments around the world—the communist ideology was viewed as either a threat or an opportunity (depending on one's perspective) in a number of countries.

Economic/Political Background

In the early 1900s, most Russians were still extremely poor. It was only in 1861 that the Russian government abolished serfdom (a system in which large portions of the rural population lived essentially as slaves), but the former masters of serfs largely kept ownership over land, and the freed serfs were forced to pay a special tax to the state until 1907. Russia's rapid industrialization in the late 1800s also created a large population of urban poor. Russia was ruled by an autocratic, Tsarist monarchy that was seen as ineffective and largely ignored the well-being of these lower classes.

Russia began to descend into political chaos after the Russo-Japanese War (1904-05) as the defeat of the underprepared military spurred major labor strikes, military mutinies, and political violence—the Revolution of 1905. This revolution ended with military suppression and some minor political reforms: though an elective legislative body was created, suffrage was limited, and the tsar retained control over policy and appointment of ministers. Efforts to push through fundamental reforms – for example, Prime Minister Pyotr Stolypin tried to expand land ownership among the rural poor – were stymied by resistance from extremes on both sides. Stolypin himself was ultimately assassinated after several prior attempts on his life.

World War I proved to be Tsarist Russia's death knell: Russia's military suffered severe defeats against Germany, leading to massive casualties, as well as high inflation and food shortages. In response, an initial revolution occurred in early 1917 (the February Revolution), forcing the abdication of Tsar Nicholas II and producing a liberal republic that legalized political parties.

Rise to Power

It was during Russia's short-lived and weak democratic period that Vladimir Lenin and the Bolshevik Party were able to seize power. The new provisional liberal government, formed by members of the prior legislative assembly, was barely more effective than the earlier regime. It was forced to share power with the councils of workers (the "Soviets") that helped organize the revolution and had more support from workers and soldiers. The provisional government became unpopular when it unsuccessfully continued Russian participation in WWI.

With political parties no longer barred, Lenin decided to return from his exile in neutral Switzerland (with the help of the German army, which hoped to create further disorder in Russia). Lenin helped lead the Bolshevik Party to prominence, and in the October Revolution of 1917, he led a second (initially largely bloodless) revolution against the new Russian republic, seizing power. Hoping to give the revolution democratic legitimacy, the Bolsheviks still held a previously planned election in November—which they lost to a different socialist party (the Socialist Revolutionaries) that was broadly supported by the rural poor. But Lenin was able to take advantage of Russia's weak democratic institutions, no rule of law, and disunity among the Socialist Revolutionaries to void the election and maintain control. Almost immediately, anti-communist forces rebelled against Bolshevik rule, sparking a brutal, multi-sided civil war that resulted in the victory of the more united and better organized Red Army, and the creation of the USSR in 1922.

Immediately after the October Revolution, the Bolsheviks banned opposition newspapers. They publicly claimed that it was merely a "temporary measure" to "stem the torrent of filth and slander" by the "bourgeois press," and would adopt liberal press freedoms as soon as "normal conditions of social life set in." This never happened. The

Bolsheviks requisitioned all printing supplies— paper, presses, and other equipment— and soon tightened state control over the media, first by making advertising a state privilege and thereby cutting off the revenue source of independent papers, and later by instituting censorship bureaus.

Economic Policies and Impact on Assets and Wealth

Lenin aimed to create an economy where the means of production were state-owned and centrally planned. As a central Bolshevik policy, abolishing private property was one of Lenin's first moves. Following the Russian revolution, the Decree on Land in October 1917 abolished private property and seized the estates of wealthy Russians with no compensation, giving the land to the state and allowing peasants to continue to farm. Lenin also launched a campaign to seize the personal wealth of the aristocracy and return it to the government, rallying mobs to prevent the wealthy from escaping the country:

"The bourgeoisie are concealing in their coffers the riches which they have plundered, and are saying, 'We shall sit tight for a while.' We must catch the plunderers and compel them to return the spoils."

This was followed by the compulsory nationalization of Russian industry. Nationalizations started at the company level, with workers, empowered by Lenin's decrees, replacing the factory owner with newly formed committees to run the business. Later on this process became more centralized, as entire sectors were nationalized at once as the Bolsheviks installed commissioners to oversee major corporations or industries. By mid-1918, the Bolsheviks had nationalized most factories, mines, and farms, and the government was strictly regulating production and prices—ordering workers to produce, then seizing and reissuing the output.

Lenin's nationalization of the banks appeared to precipitate an economic crisis. In late 1917, Lenin seized all deposits of the aristocracy and corporations, sparing only the small savings accounts of workers, effectively creating capital controls on the aristocracy's ability to get wealth out of Russia. In addition, Lenin's policies criminalizing capitalism expanded through 1918 to outlaw interest payments and he defaulted on all government debt (worth over \$600 billion in today's dollars), wiping out most of the wealth that investors had left in Russia.

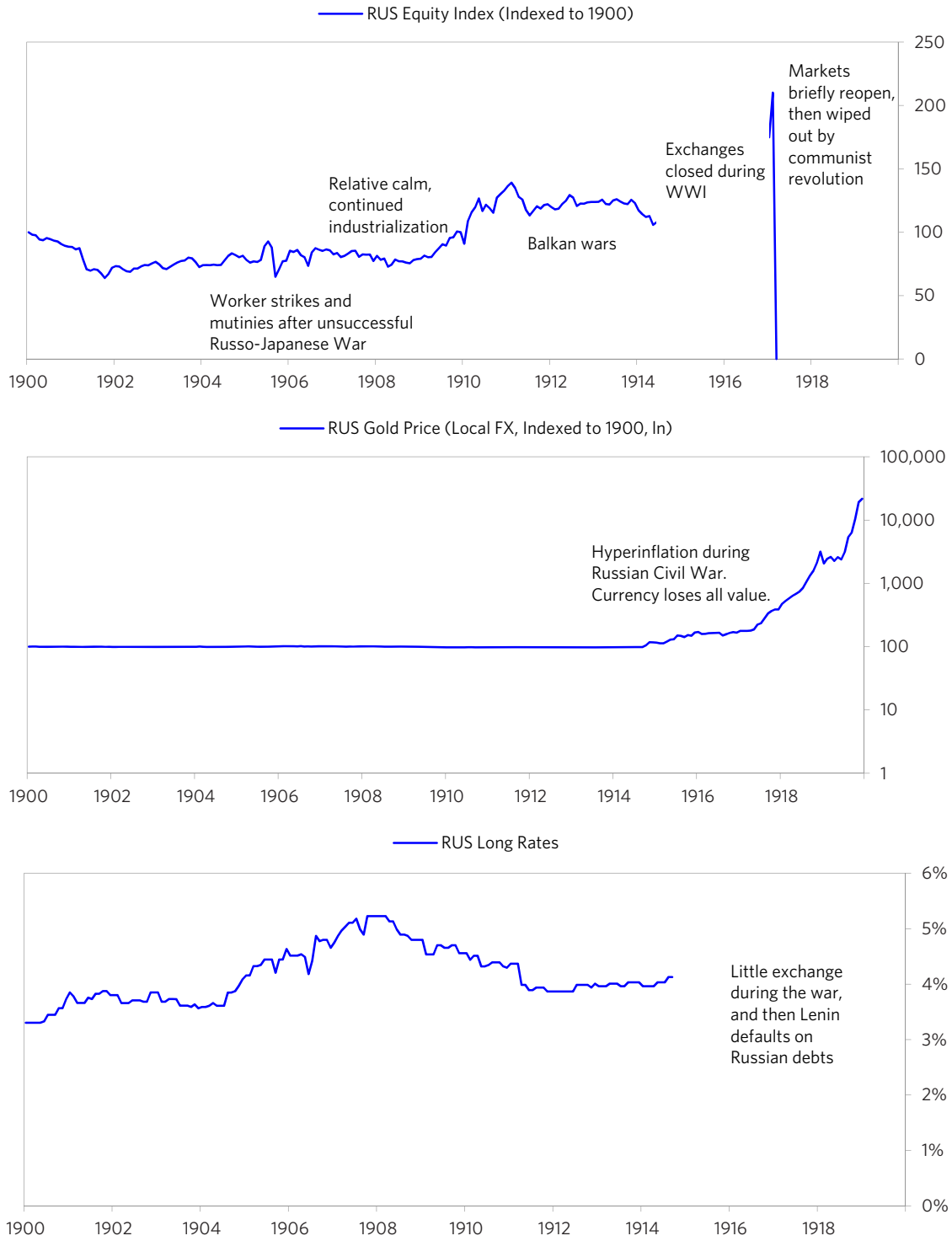
Liquidity seized up in response. A strike by bank workers in response to nationalization, starting in December 1917 and going for months, effectively shut down the banking system, meaning many newly nationalized businesses that relied on banks couldn't pay their workers. The government responded to the crunch by printing money to fund the newly nationalized industries. Still, many factory committees, in search of someone to blame for late wages, fired managers and other senior employees, making it difficult to function and meet the decreed production quotas. At the same time, foreign governments retaliated against the Russian default by freezing Russia's foreign assets. As controls escalated, many Russians tried to move what remained of their wealth, and often themselves, out of the country, reinforcing the squeeze. From 1917 to 1920, between 1 and 2 million Russians left the country and settled across the globe.

The resulting economic collapse—caused by the combination of asset confiscation, civil war, and a banking crisis—was devastating. As capital pulled out, the ruble collapsed, and the economy spiraled into hyperinflation. By 1921, the Russian economy was operating at a fraction of its 1913 level—heavy industrial output was down 80%, coal production fell over 70%, and the grain harvest was cut nearly in half. The economic chaos, the requisitioning of food by the new government, and a drought created severe food shortages and resulted in a famine that caused around 5 million deaths. As the ruble lost all value, barter increasingly replaced money as a medium of exchange and wages were paid with goods rather than money.

By the time Lenin shifted direction in 1921, nearly all private wealth in Russia had been wiped out. After the Russian Civil War, Lenin stepped back some from central economic planning, instituting the "New Economic Policy," which Lenin described as an economic system including "a free market and capitalism, both subject to state control." Through the policy shift, Russia opened for international trade, and some free enterprise was introduced (Deng Xiaoping was influenced by these policies when he opened China's markets to the world in the

late 1970s/1980s). After Lenin's death, Joseph Stalin shifted economic policy more toward collectivism and central rule of the economy, which led to widespread famine.

Russia: Asset Markets in the Early 1900s



Argentina 1950s: Juan Perón

Juan Perón was a left-wing populist who served as president of Argentina between 1946 and 1955 and between 1973 and 1974. He first came to power following a period of political disillusionment and economic upheaval. A decade of rule by autocratic, corrupt political elites had produced dissatisfaction with the existing political establishment. At the same time, rapid economic change had disrupted the lives of many workers and exacerbated class tensions. As minister of labor in a military regime, Perón earned the support of working-class Argentines by supporting unions and rolling out improvements to working conditions. When the military leaders became wary of Perón's increasing influence, they imprisoned him, but riots from his blue-collar base forced the military to release him and hold a free election. Those voters carried him to victory in the 1946 presidential election.

Economic/Political Background

In the first decade of the 1900s, Argentina was as rich as Western Europe, with GDP per capita at about 95% of the level of the UK and 80% of the US. Its agricultural-export-oriented economy drew many immigrants and attracted plenty of foreign capital to finance growth in railways and industries. Parallels between the United States and Argentina were common.

The Great Depression was the beginning of a long period of political instability, poor governance, and relative economic decline for Argentina. During the Depression, Argentina devalued quickly (in 1929), but the big decline in global trade and the collapse in the prices of Argentina's agricultural commodity exports caused unemployment to rise significantly. Taking advantage of the social unrest, right-wing business elites and the military launched a coup, ushering in what would subsequently be called "the infamous decade."

Importantly, the collapse in agricultural exports, coupled with the economic policies of the new government, produced a rapid structural shift in the economy that disrupted the economic conditions of many Argentines. The new government pursued economic self-reliance, attempting to shift the economy away from its traditional agricultural base and promote industrialization through a policy of import substitution (ISI). The traditional agricultural economy was left to stagnate as investment was diverted toward industry, many small landowners were ruined, and rural laborers lost their jobs. Unemployed agricultural workers migrated en masse into urban areas in search of work, and shanty towns sprang up around major cities. As a result, urban workers faced unprecedented competition from this influx of low-cost, non-unionized labor. Real wages declined, and labor unrest increased. Industrial unions became increasingly important and began agitating for workers' rights, carrying out a series of strikes throughout the 1930s. The emergence of this group of increasingly politically active, dissatisfied urban workers set the stage for a populist to arise.

Rise to Power

Perón rose to power by positioning himself as an ally of Argentina's disaffected working classes and labor unions. In June 1943, Perón had played a relatively minor role in the coup against the widely unpopular government that had ruled Argentina during "the infamous decade." After the new military-dominated administration began a crack-down on communists and labor unions, Perón joined a growing wing of the party that was sympathetic to labor. Less than a year later, those dissenters seized power, and Perón was appointed minister of labor. He passed a series of social reforms to improve working conditions, planting early seeds of loyalty among working-class Argentines and earning him the support of key unions. Conservative members of Perón's party, fearing his rising prominence, arrested and imprisoned him in October 1945. A mass demonstration of loyal working-class supporters forced Perón's release four days later.

Perón then ran for president in June 1946. After the US ambassador to Argentina attempted to intervene in the election by accusing Perón of having had fascist ties, Perón successfully framed the election as a question of Argentinian nationalism against foreign imperialism. Widespread support among poor and working-class Argentines, combined with antagonism against meddling foreign interests, swept Perón to victory. He would be

re-elected in 1951, and would govern until he was deposed by a military coup in 1955 (returning briefly in 1973, until his death the following year).

Key Policies

Perón's policies were characterized by aggressive interventions in the economy with the aims of achieving economic self-sufficiency and improving the condition of working-class Argentines. He centralized economic control in the hands of the state, promoted industrial development via import substitution and nationalized industries, and rolled out social programs and pro-labor policies.

The defining thrust of Perón's economic policy was his push toward self-sufficiency and industrialization through import substitution (ISI). In line with this, Perón took measures to discourage agricultural exports, while supporting the industrial sector and encouraging industrial capital goods imports. He engineered this shift by making extensive use of subsidies, price controls, capital and import restrictions, and having the state control the allocation of credit. Price controls kept agricultural prices low (discouraging further investment in agriculture), while import prohibitions encouraged substitution to domestically produced goods. Perón also used a system of multiple exchange rates to incentivize industrialization.

Perón carried out extensive nationalization of industries. Between 1946 and 1948, he spent foreign reserves to buy out foreign owners of utilities, bringing the electricity, gas, railway, and telecom sectors (among others) under state control. In 1946, bank lending was de facto brought under state control: banks' reserve requirements were raised to 100%, and the central bank took control of all lending decisions. The central bank then massively expanded credit to sectors like industry and housing but effectively cut off the agricultural sector.

Perón pursued many policies aimed at improving the condition of working-class Argentines. He used price controls to cap the cost of basic necessities; implemented a minimum wage; and used executive decrees as well as his control over unions and industries to raise wages (real wages would rise 25% between 1947 and 1952). He established a national social insurance system and constitutionally enshrined social welfare provisions for all workers. He developed close ties with unions. In an echo of Mussolini's corporatist approach, one of his first moves as minister of labor was to limit each industry to only one union and ban competing unions.

Perón heavily attacked the press and limited press freedom. He nationalized the country's stock of newsprint and took control over its distribution, reducing the allowances of papers that were hostile to his administration (de facto restricting the amount of physical pages of news that they could print). By 1946, he had established an official government bureau tasked with investigating "lies," which, in practice, referred to any criticism of his government.

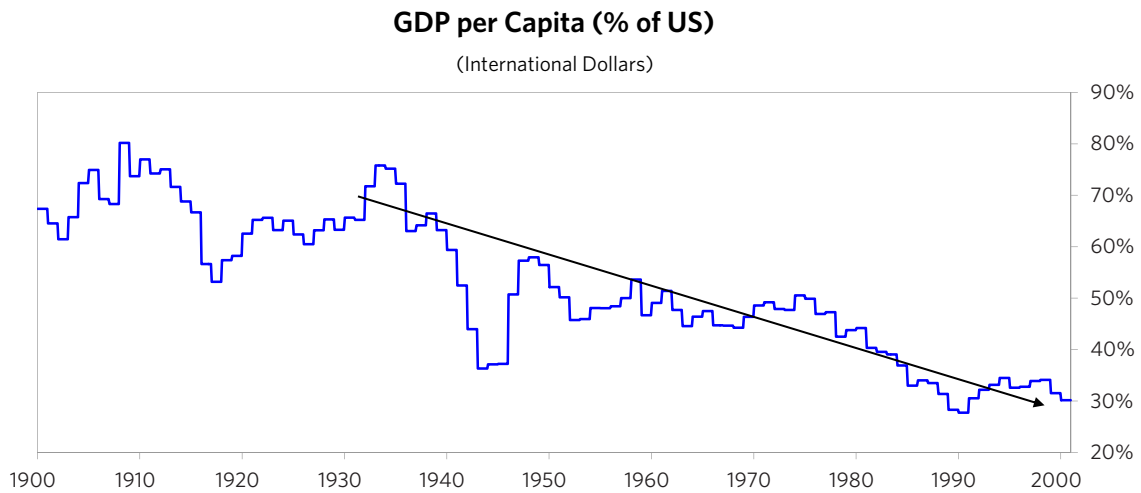
The Economy, Asset Markets, and Wealth

Perón's import substitution policies and large spending programs initially boosted domestic demand and industrial profitability, but ultimately produced a much more inefficient economy. While growth averaged about 10% per year over Perón's first two years in office, this proved short-lived. The economy weakened substantially in subsequent years—from 1949 to 1953, growth would average about 1%. Over time, his policies substantially eroded Argentina's competitiveness and productivity. His pro-labor policies contributed to higher real wages, while import substitution supported inefficient industries, drove up domestic prices, and led to a decline in agricultural production and export revenues. Inflation rose rapidly, accommodated by money printing. Moreover, his program of nationalization discouraged foreign investment, and bureaucratic mismanagement and corruption contributed to inefficiency within the nationalized industries. Perón had to borrow substantially from abroad to finance the increasing subsidies necessary to support his economic program. These policies would ultimately produce unsustainable pressure on the balance of payments: Perón would engage in three successive currency devaluations totaling over 70% during his time in power, and default on Argentina's debts in 1951.

Markets became substantially less free under Perón. Capital controls and multiple exchange rates were in use throughout his time in power, and agricultural prices were heavily controlled by the state. The equity market

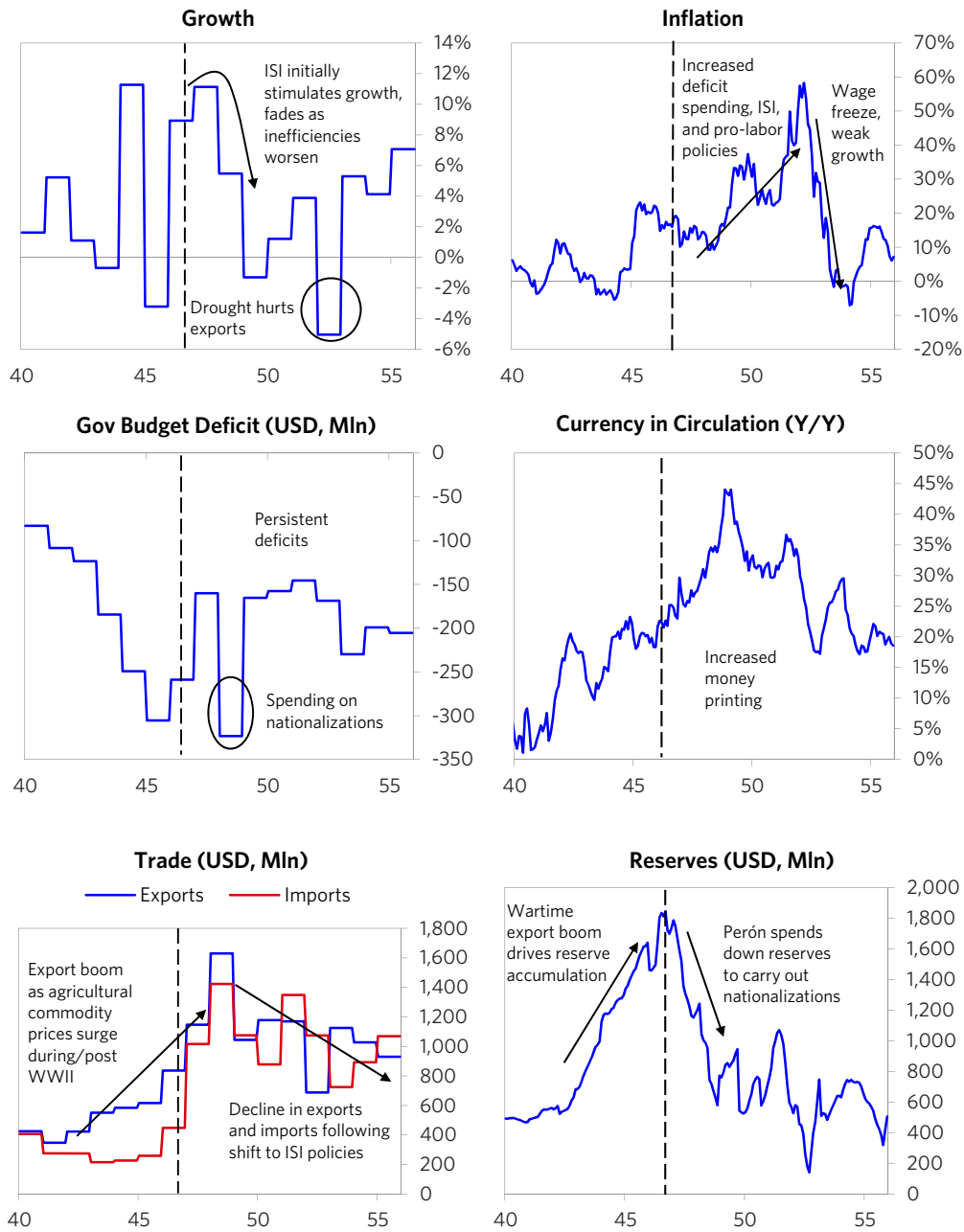
stayed open—after an initial bump over the first year of Perón’s presidency, returns stagnated, and equities performed poorly as competitiveness problems grew and balance of payments pressures worsened. With respect to Perón’s nationalizations of foreign investment, it’s worth noting that foreign owners were typically compensated (e.g., his utilities nationalizations were paid for using foreign exchange reserves).

Following Perón’s time in power, Argentina continued its long decline in relative prosperity. The subsequent decades saw repeated periods of political instability, military coups, economic mismanagement, and balance of payments crises, each of which would echo the dynamics at play in the time of Perón.

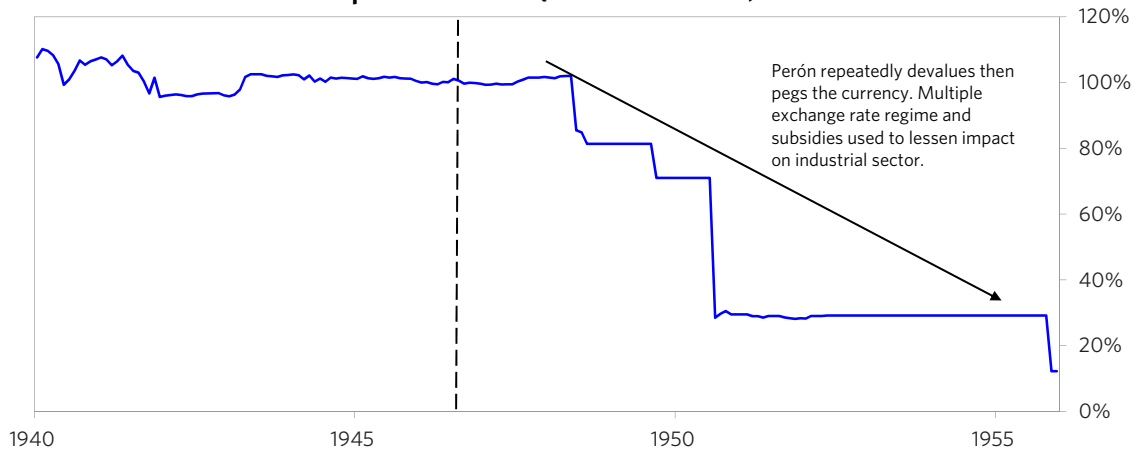


Argentina: Economic Conditions

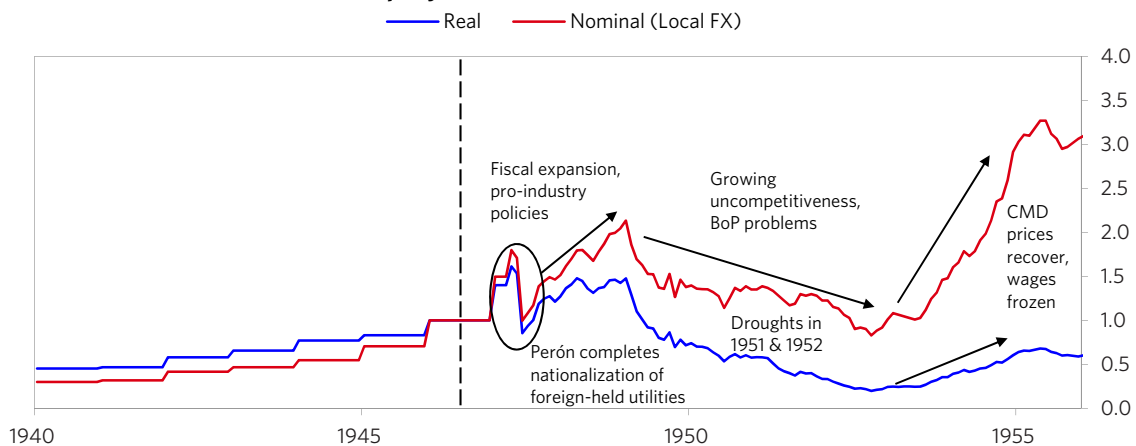
----- June 1946, Perón takes office



Spot FX vs USD (Indexed to 1946)



Equity Prices (Indexed to 1946)



Populism-Related Quotes from Perón

- "Italian fascism led popular organizations to an effective participation in national life, which had always been denied to the people. Before Mussolini's rise to power, the nation was on one hand and the worker on the other, and the latter had no involvement in the former. [...] In Germany happened exactly the same phenomenon, meaning, an organized state for a perfectly ordered community, for a perfectly ordered population as well: a community where the state was the tool of the nation, whose representation was, under my view, effective. I thought that this should be the future political form, meaning, the true people's democracy, the true social democracy."
- "Mussolini was the greatest man of our century, but he committed certain disastrous errors. I, who have the advantage of his precedent before me, shall follow in his footsteps but also avoid his errors."
- "The *justicialista* [i.e., Perónist] economy asserts that the production of the economy should first satisfy the needs of its inhabitants and only export the surplus; the surplus, nothing more. With this theory the boys here, of course, eat more every day and consume more, so that the surplus is smaller. But these poor guys have been submerged for 50 years; for this reason I have let them spend and eat and waste everything they wanted to for five years...but now we undoubtedly must begin to reorder things so as not to waste any more."
- "We are not in any way enemies of capital, and it will be seen that we have been its true defenders. It is necessary to discriminate clearly between that which is international capitalism of large consortiums and that which is national industrial and commercial capitalism. International capitalism is an instrument of exploitation and national capitalism is one of welfare. The former represents...misery while the second is prosperity."

France 1950s: Pierre Poujade, a Right-Wing Populist

Pierre Poujade was the founder of a French right-wing populist protest movement that saw modest electoral success in the mid-1950s (enough so that his flavor of populism, “Poujadism,” is used in France today to pejoratively refer to any anti-elite movement). He was anti-establishment, anti-tax, anti-modernity, nationalist, and anti-foreigner, and received support from poorer rural voters and traditional small business owners. His movement had some success as a tax protest but never managed to transition beyond a narrow issues protest party. His movement devolved into infighting and fell apart quickly when Charles de Gaulle returned to power at the head of the new, more politically stable Fifth Republic in 1958 (though one of the youngest Poujadist MPs, Jean-Marie Le Pen, would later found the right-wing populist National Front).

Economic/Political Background

Post-WWII French politics were characterized by a series of weak, ineffectual governments, with administrations changing more than once a year on average throughout the Fourth Republic (1946-1958). In particular, government was seen as ineffective at dealing with France’s colonial legacy, with the colonies increasingly embroiled in conflict and slipping out of France’s grasp. Economically, this was a period of strong growth, high inflation, and rapid change. The Marshall Plan had helped rebuild France after the destruction of the war, but some felt the push toward modernization threatened traditional parts of France’s economy (smaller producers, retailers, and farmers). At the start of the 1950s, about half the population was self-employed; by the end of the decade, this would fall to about 30%. Moreover, the modernization of the French tax system following the war resulted in the creation of a business tax in 1948 and rising tax burdens through the early 1950s.

Rise to Prominence

Poujade’s movement began as a tax protest. At the time, many small French towns were in decline, as smaller local industries failed and people moved to cities during the push for economic modernization. It was relatively common for small-town shopkeepers to resort to tax evasion to pocket some extra income. In 1953, as a municipal councilor in rural France, Poujade began organizing local shopkeepers to resist visiting tax inspectors. The movement spread through the region, and within a few months Poujade had founded a party, the Defense Union of Shopkeepers and Craftsmen.

Poujade positioned himself as a protector of small businesses and traditional French lifestyles that were threatened by social and economic change, particularly by the newer and larger industries emerging in France’s modern economy. He opposed modernization, industrialization, and urbanization, presenting himself as a defender of the common man (particularly the rural Frenchman) against the economic and political elite. He would boast about his lack of formal education. His support came primarily from shopkeepers and discontented poorer voters in rural areas. He also capitalized on nationalist dissatisfaction with decolonization—he supported a French Algeria and resented France’s withdrawal from Vietnam in 1954. He exhibited xenophobia and anti-Semitism, attacking the then-prime minister’s Jewish background.

His movement initially focused on carrying out strikes and protests against taxation. These protests culminated in a 1955 rally of 100,000 supporters in Paris, at which Poujade threatened a general tax strike and a larger march on Paris; tax concessions were granted two months later, when a new government came into power. In 1956, he decided to contest elections nationally; in a surprise outcome, his movement won nearly 12% of the vote, electing 52 representatives to parliament (about 10% of seats).

His movement was short-lived and did not accomplish much in parliament. Infighting tore his party apart, and he failed to make the step from a protest movement to a party with a clear vision and broad appeal. Poujade himself was soundly defeated when he finally decided to stand in an off-cycle election; his movement disintegrated quickly with de Gaulle’s return to power (which brought stability to government) and was mostly a non-factor by 1958.

Key Positions

Poujade's movement never formed a government and didn't receive much electoral success after the first election it contested; as such, it never really developed a comprehensive platform beyond its core protest areas. The movement was primarily concerned with opposing taxes; supporting traditional French small businesses and the condition of rural French people; opposing industrialization and modernization; and supporting French colonialism. It also had an anti-foreigner bent. Poujade himself also had anti-parliamentary sentiments: he initially refused to stand for office personally, claiming "democracy is done for in France," and advocating a return to the Estates General from the dawn of the French Revolution.

Populism-Related Quote from Poujade

- "I must systematically take the side of the small, the downtrodden, the trashed, the ripped-off, the humiliated who live with three times nothing."

New Zealand 1970-80s: Robert Muldoon

Robert Muldoon was a three-time prime minister of New Zealand, serving from 1975 to 1984. Though he was a career politician in a mainstream center-right party, he took a populist turn when he stood for election during a period of economic decline, promising a continuation of New Zealand's generous social welfare programs and economic protections. His message resonated with elderly and rural voters, who helped bring him to power. His time in office was characterized by a mix of interventionist economic policies (including wage freezes and price controls), combined with heavy fiscal spending and the creation of a government-run pension system described as "the most generous universal pension scheme ever introduced in any country in any era." He disdained technocrats and experts and frequently ignored their advice, instead pursuing a number of fiscally unsustainable policies.

Economic/Political Background

For New Zealand, the mid-20th century was an extended period of economic prosperity. New Zealand's economy at the time was driven by agricultural exports and was heavily dependent on the UK market. This dependency was enforced through preferential treatment, where the UK guaranteed high buying quotas at a fixed price for New Zealand exports, and New Zealand imposed high tariffs on non-UK imports to encourage buying from the UK. While restrictive, this was extremely beneficial for New Zealand, which experienced 15 years of uninterrupted growth starting in 1952, close to zero percent unemployment, and among the highest living standards in the world. Because of these favorable trade terms and a growing economic base, the government was able to operate generous pension and social welfare programs. Over the same period, New Zealand politics were largely quiet and uncontroversial. The country had a two-party system (the left-leaning Labour Party and the right-leaning National Party), yet both were in agreement on most economic issues.

The long period of prosperity came to an end as the economic situation worsened over the late 1960s and early 1970s. In 1955, the UK had stopped guaranteeing a fixed price for New Zealand exports, leaving New Zealand more vulnerable to shifts in trade. Eventually, commodity-price-driven balance of payments pressures (wool prices collapsed) led to a currency devaluation that contributed to inflationary pressures, which were later exacerbated by the collapse of the Bretton Woods system. Ultimately, this prompted the government to institute price and wage freezes. This series of events had a large impact on New Zealanders' standard of living, which fell from third highest in the world in 1953 to 22nd highest by 1978. The subsequent oil shock made things even worse—growth slowed, equities crashed, inflation hit double digits in 1975, and balance of payments pressures led to another devaluation.

While New Zealand's political system remained stable, the political consensus around social welfare spending began to break down as the economic situation worsened. The ruling Labour Party favored fiscal austerity coupled with trade liberalization. These reforms were met with strong opposition from the National Party, which remained staunchly protectionist and advocated a continuation of the government's substantial social spending.

Rise to Power

Muldoon was a career politician in the center-right National Party who rose to power mostly along a traditional political path, spending over two decades gradually rising through the ranks of his party before his election as prime minister. For most of this time, he was known as an aggressive and confrontational statesman, but also a conventional conservative (favoring generally limited government spending and private enterprise). In contrast to his conventional political background, Muldoon's 1975 electoral campaign was classically populist, with an emphasis on bolstering social welfare and providing relief from economic pain through protectionism and government intervention. A cornerstone of his platform was to repeal the Labour government's pension scheme (which had a paycheck-deduction component) and replace it with a universal, government-paid program. His campaign slogan—"New Zealand - The Way You Want It"—reflected his platform of crowd-pleasing social welfare programs and economic protectionism.

Muldoon's populist image benefited from his opponents' attempts to label him as crass and emotional. This characterization backfired as Muldoon embraced the role and became popular with rural, older voters. His supporters named themselves "Rob's Mob" in solidarity with his perceived empathy for "the ordinary bloke." Muldoon further emphasized the divide between himself and his opponents by running a divisive and personal campaign, which included some of the first attack ads in New Zealand politics. In one ad—a Hanna-Barbera-created cartoon—the National Party accused Labour of being communists because they were attempting to liberalize the pension system, using dancing Cossacks and Russian architecture to hammer the point home. Though mild by today's standards, the ads were shocking breaches of protocol for the time. Muldoon ultimately won the election by a large margin.

Key Policies

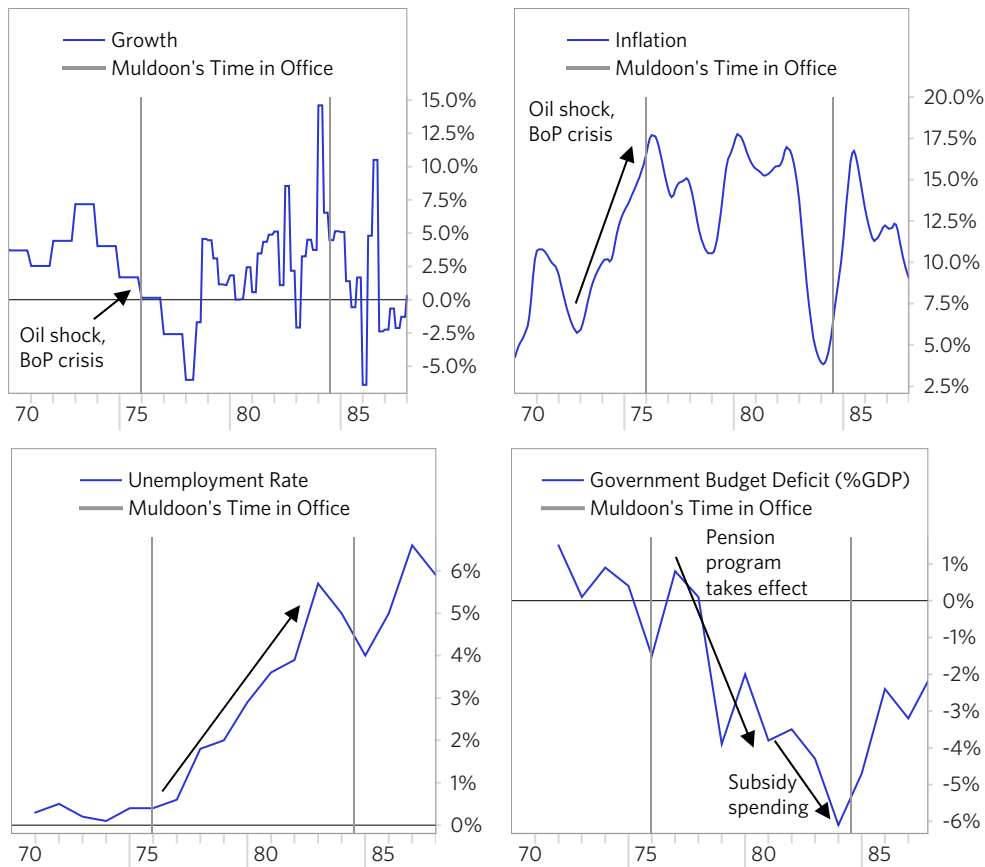
Muldoon's policies were characterized by fairly heavy-handed interventions in markets (freezing wages, price controls, and subsidies) and a large increase in social spending (through the creation of an extraordinarily generous pension scheme), funded through deficit spending. He also pursued increased free trade with Australia, which he saw as an effective way to bolster New Zealand's export-oriented economy.

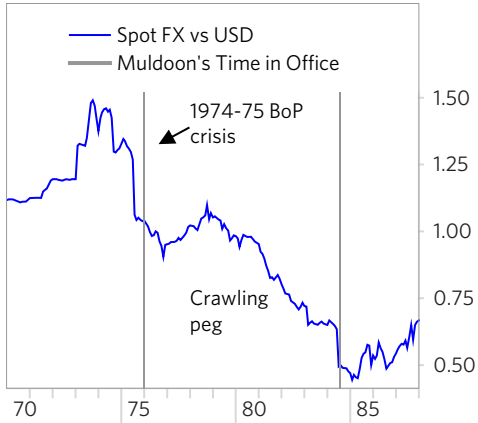
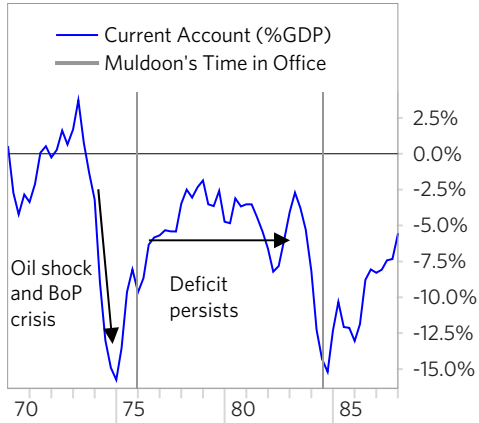
Muldoon struggled with four economic problems while in office—the current account deficit, inflation, the fiscal deficit, and unemployment. He tried to solve the current account deficit and unemployment by stimulating exports through subsidies, and he tried to solve inflation through intermittent government-imposed wage and price freezes. With respect to the fiscal deficit, he assumed a pickup in growth would increase government revenues and make his massive expansion on pension spending sustainable in the long run. As such, deficits expanded massively under Muldoon. He was also reluctant to meaningfully devalue the New Zealand dollar or curb domestic consumption. It's worth noting that Muldoon broadly rejected his own Treasury's counsel (which was essentially to enact liberal reforms) when pursuing these policies, reflecting his disdain for technocrats. Here is level-down detail on his particular policies:

- *Pension program*: In 1977, Muldoon passed the "National Superannuation" pension program, which stipulated that every New Zealander over the age of 60 would be given monthly payments equivalent to 70% of the average wage, regardless of their savings and without making contributions to the system. One economist called the program, "Perhaps the most generous universal pension scheme ever introduced in any country in any era...it was neither affordable from the existing tax base nor sustainable in the long term for demographic reasons." The pension almost immediately pushed the government from a fiscal surplus into a persistent fiscal deficit.
- *Farm subsidies*: Muldoon heavily subsidized agricultural production in an attempt to boost exports. According to one researcher, "by 1984, nearly 40 percent of the gross income of New Zealand farmers came from government subsidies."
- *Wage and price freezes*: Muldoon implemented a 12-month wage freeze in late 1977 in an attempt to control inflation—restricting the right of unions to bargain and the right of companies to freely set wages. He took more extreme measures in 1982, imposing a national wage and price freeze that greatly antagonized both unions and business owners.
- *Capital and import controls*: Muldoon continued pre-existing controls on foreign direct investment, and required New Zealanders to seek government approval to invest money offshore in financial assets. To protect foreign reserves, Muldoon also maintained pre-existing import controls that required all importers to obtain government licensing and approval.
- *FX policy*: Muldoon resisted meaningfully devaluing the NZD. When faced with balance of payments pressures, he favored a crawling peg and a slow devaluation. Near the end of his time in office, he re-established a hard peg.
- *Heavy spending on public-private coordinated infrastructure* (most projects ended up unviable).
- *Trade liberalization*: In an attempt to stimulate exports, Muldoon renegotiated the New Zealand-Australia Free Trade Agreement (NAFTA) and expanded its mandate—eliminating all tariffs between the two countries and standardizing the legal framework for goods sales between the two countries.

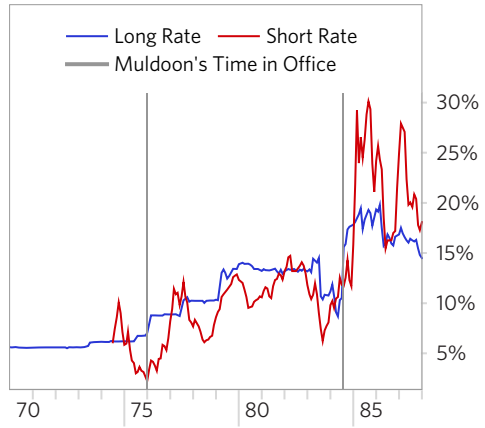
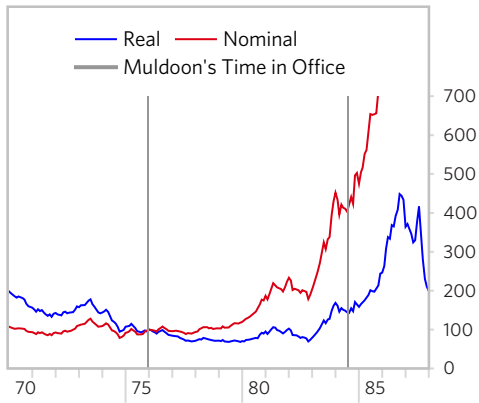
The Economy and Asset Markets

New Zealand experienced volatile growth, high inflation, and significantly higher unemployment during Muldoon's time as prime minister. While many of these conditions arose from exogenous circumstances (such as the end of the Bretton Woods system and the 1970s oil shocks flowing through to high inflation globally), other changes were a direct result of Muldoon's policies. In particular, Muldoon's extremely generous universal pension program created a persistent fiscal deficit, and his price and wage freezes exacerbated the severity of the 1977 contraction. His reluctance to allow sharp devaluations in the New Zealand dollar (he instead would switch between trying to hold the line and allowing gradual, crawling devaluations) contributed to balance of payments pressures throughout his time in office. New Zealanders living through this period experienced an acute and painful inflationary recession, followed by a short recovery that led into another difficult period of high inflation and rising unemployment. As for assets, equity prices rose substantially after the currency was allowed to depreciate, though for much of Muldoon's time in office they did not keep up with inflation.





Equity Prices (Indexed to 1976)



Venezuela 2000s: Hugo Chávez

Hugo Chávez was a left-wing populist who governed Venezuela from 1999 to 2013. He came to power following years of political and economic decline that saw living standards fall, corruption spread, and inequality rise. His rise to power capitalized on resentment among the poor and working classes, who were moved by his promises to end corruption, eradicate poverty, and reform politics. When in government, he centralized power in the presidency and allowed corruption to spread unchecked. Economically, he pursued socialist economic policies with the aim of redistributing wealth and improving the conditions of the disadvantaged: intervening in markets, nationalizing businesses, placing controls on prices and capital flows, and massively expanding government spending. These economic policies contributed to continual currency declines, high inflation, and, ultimately, hyperinflation.

Economic/Political Background

In the 1970s, Venezuela was a relatively prosperous and stable country. Politics was dominated by two major parties, one of the center-right and one of the center-left, that cooperated to support orderly transitions of power and keep other parties (in particular the communists) from gaining influence. The 1973 oil shock had substantially boosted Venezuela's oil profits and allowed for a massive increase in government spending. Growth boomed, and living conditions improved for much of the decade.

That all changed in the 1980s, as the economic and political situation deteriorated materially. The Latin American debt crisis brought recession to much of the region. In Venezuela, growth began to slow in the late 1970s, and the economy entered a prolonged recession in the early '80s. Meanwhile, rising inflation in the late '70s had contributed to an overvalued bolivar. And rising oil prices were no longer a support to incomes: oil prices peaked in 1980 and would decline substantially in real terms over the rest of the decade. Living standards fell: by the mid-1980s, real GDP per capita was down about 25% from its 1977 peak. In 1983, Venezuela devalued its currency by almost 70% and defaulted on its external debts.

Politically, there was growing dissatisfaction with the two main parties, which were increasingly viewed as corrupt. The oil boom had exacerbated perceptions of income inequality, and poorer Venezuelans felt left out. The hegemony of the two main parties was beginning to erode—by 1993, a former president would run on his own third-party ticket and win, bringing about an end to the old political order.

Venezuela's international relations largely hinged on its bilateral relationship with the US. This relationship was broadly strong at the government level due to economic ties, but there was a great degree of resentment over the power of US oil corporations in Venezuela, which created anti-American and anti-elite sentiments among segments of the population.

Rise to Power

Chávez's rise to power began within the military. Early in his military career he was inspired by left-wing military dictators in Peru and Panama (whose ideals and policies he admired), and he was soon exposed to Marxist literature, which resonated with him. He became convinced that a left-wing government was needed to serve the interests of the people, even if it had to be installed through a military coup. He began building support for a left-wing revolutionary movement within the armed forces, though with no immediate plan to act.

Social and political instability worsened following the 1989 election of Carlos Andrés Pérez, a centrist. While Pérez had argued fiercely against seeking help from the IMF during his campaign, once he was elected he accepted an IMF loan in exchange for engaging in Washington Consensus reforms. His ensuing cuts to government spending and liberalization of domestic gas prices (which caused an immediate rise in prices) were met with outrage. Widespread protests and looting ensued. The protests were repressed violently by the government, resulting in the deaths of hundreds of protesters. In response, Chávez began planning a coup, which he would launch three years later in 1992.

The coup failed. Chávez did not have enough support in the military and the coup was poorly executed; he was captured before he could seize the president. However, the coup made Chávez famous. He became a media star; the face of resistance to the policies of the current regime. Supporters carried out pro-Chávez demonstrations. After the president was forced out of government in a corruption scandal the following year, the newly elected president released Chávez from prison.

Chávez spent the next few years building support for his movement. The economic and social situation continued to be rocky—crime was on the rise, growth was moderate, and inflation was now running at around 30-40%, (peaking at over 100% in 1996 following yet another sharp devaluation in the bolivar). Chávez considered a second coup, but, after seeing one of his allies win a state election, he was persuaded to stand in the presidential election. He formed a political party in 1997 and ran on a platform of ending corruption, eradicating poverty, and reforming politics to end the old system of two-party dominance in the 1998 presidential election. He won support of some of the smaller left-wing parties. Above all, his message resonated with poor and disenfranchised Venezuelans—his support in his first election came disproportionately from the poor (though he also received substantial support from the middle class). His personal charisma and adoption of a more “working-class” style of communication reportedly helped him while campaigning. He won the election with 56.2% of the vote and was inaugurated in February 1999. He would be re-elected three times, serving as president until his death from cancer in 2013.

Key Policies

Chávez governed as a left-wing socialist with an authoritarian streak. He redistributed wealth and land to benefit the poor, rolled out poverty-reduction programs, and provided poor Venezuelans with free health care and housing subsidies. His spending was financed through a mix of oil revenue, deficit spending (particularly in his later years in office), and money printing. He intervened in markets and business; while he allowed private business to continue, he showed little respect for property rights, nationalized a number of companies, and imposed price controls on food. He resorted to exchange controls early on, in response to persistent currency weakness and capital flight. Measures of economic freedom declined substantially over the course of his presidency.

Politically, he concentrated power in the presidency and exerted control over much of Venezuelan society. Elections continued throughout his 14 years as president—he would be re-elected in all three of the subsequent elections he stood in—though he used his powers to stack the deck against the opposition. While the opposition was allowed to field candidates and received a substantial share of the vote, Chávez’s allies engaged in gerrymandering, and intimidated or banned individual opposition candidates, as well as used state resources for propaganda purposes. Corruption spread during his time in office. That said, it looks like he managed to maintain substantial popular support throughout his rule (with the major exception of the upper classes). His opposition to American “imperialism” and his redistributionist policies helped galvanize his supporters.

Chávez also cracked down on freedom of the press. In response to criticism during his first couple of years in power, Chávez passed laws that would allow him to fine and shut down broadcasters, increase penalties for those who defamed the president, and threatened critics with prosecution or revocation of their licenses. He would call out reporters and news outlets he disliked, and his supporters carried out a number of violent attacks on anti-government media outlets. These measures encouraged self-censorship and substantially reduced freedom of the press. At the same time, Chávez expanded government-controlled media. Famously, he used his control of state television to give himself his own talk show, which provided him a regular platform to speak directly to his supporters.

The Economy, Asset Markets, and Wealth

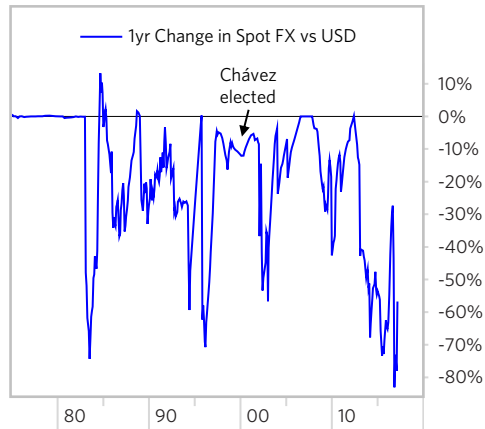
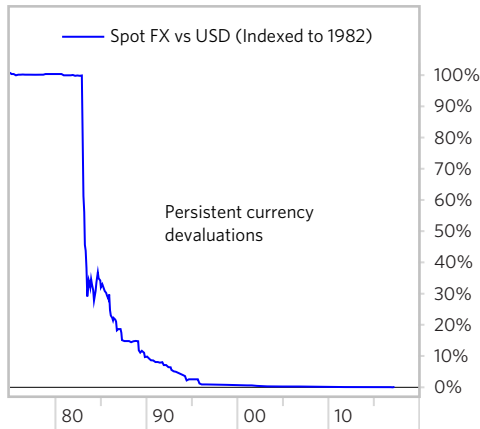
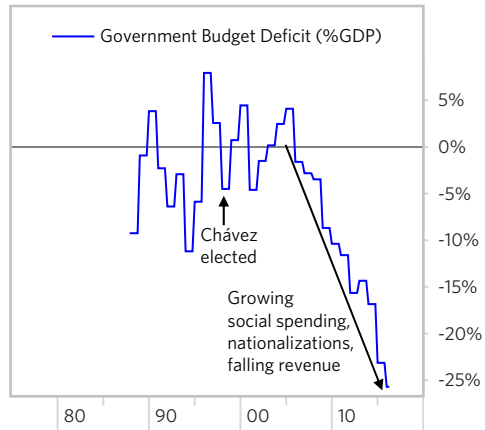
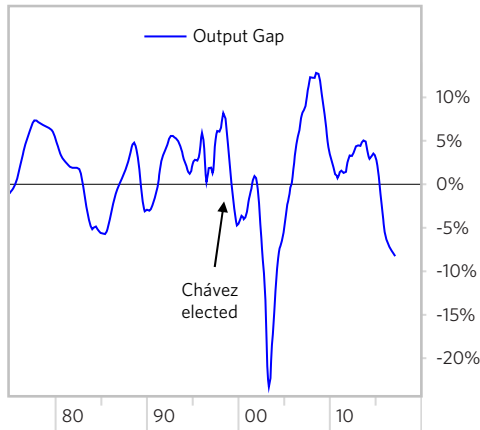
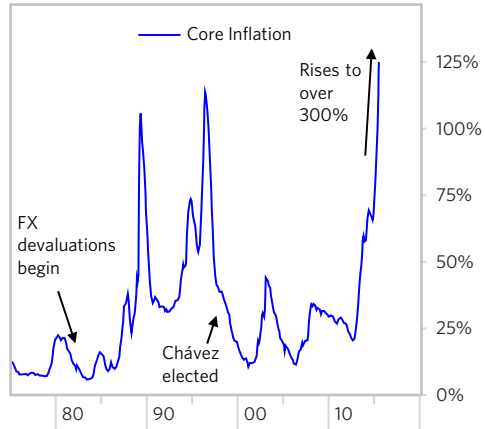
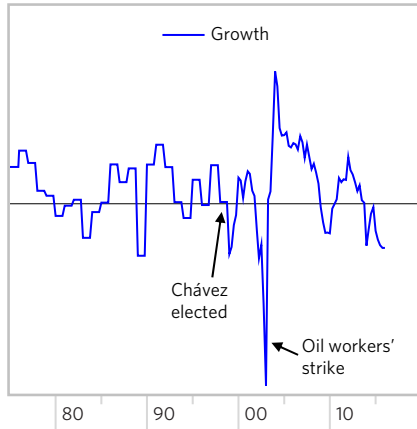
Chávez intervened heavily in the economy and asset markets, employing measures ranging from nationalizations, to capital controls, to price fixing. His policies contributed to persistent currency weakness, high inflation, capital flight, inefficiencies, and a substantial increase in indebtedness.

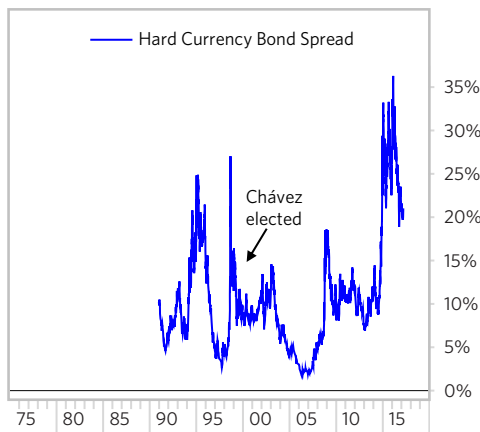
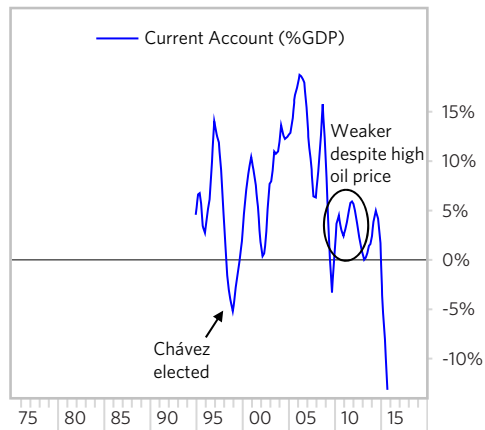
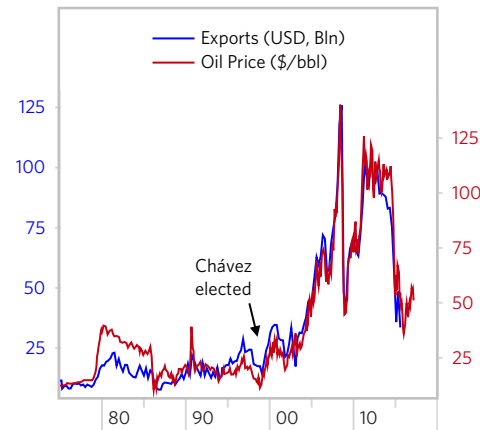
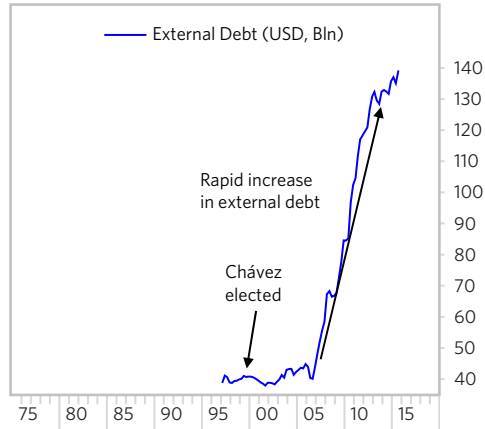
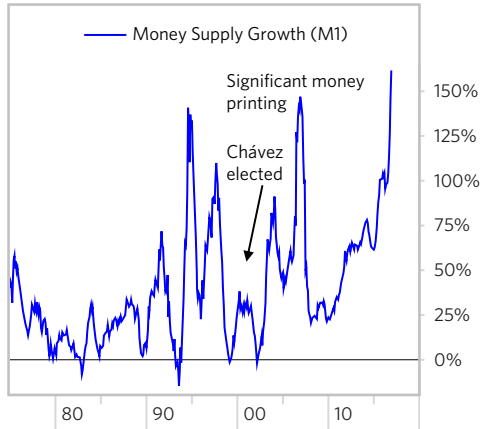
Chávez's program of nationalizations resulted in a substantial forced transfer of assets into the hands of government. Sometimes these were compensated (generally at some later date, after a complaint by the former owners); other times there was no compensation. Nationalizations touched broad sectors of the economy (more than 1,000 businesses were nationalized), and the assets seized ranged from ownership in companies, to individual projects, to land, and even to homes. In terms of industries, Chávez's government seized foreign-owned oil assets; agricultural companies and land; small and medium banks; the entire cement sector; gold mining projects; steel mills; telecoms; power producers; and assets from several other industries (including private homes to use for state-run tourism). Often these assets were seized from foreign corporations, though occasionally Venezuelan-owned companies were nationalized as well.

As for asset markets:

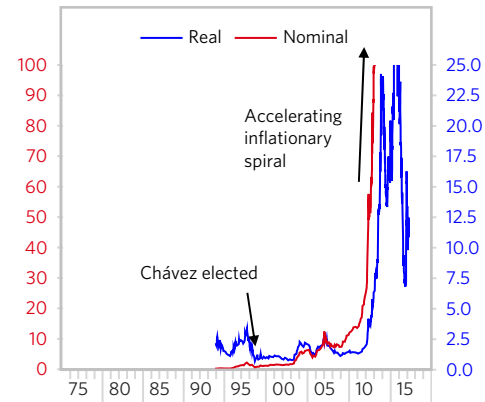
- Chávez first imposed capital controls after a general oil workers' strike in 2003 produced worries of capital flight. The controls were later expanded into a complex, multiple-exchange rate regime, with quotas and approvals processes required to access the various rates; this resulted in the emergence of a black market that typically traded at a significant discount to official rates. The currency experienced persistent and substantial depreciation throughout Chávez's time in power.
- Apart from a brief technical default on its external debt in 2005 (when, during a PDVSA strike, it missed part of a payment on oil-indexed bonds for a technical reason), Venezuela generally continued to pay its foreign bond holders throughout Chávez's time in power. The spreads on its bonds rose substantially from 2008 onward, as budget deficits continued to spiral out of control and the balance of payments situation worsened.
- Venezuela's equity market remained open and operational throughout Chávez's tenure (apart from some short disruptions), although government takeovers reduced the number of companies trading on the exchange and the last IPO under Chávez was in 2005.

Chávez's economic policies ultimately placed Venezuela on a path to depression and hyperinflation (though high oil prices delayed the reckoning for a long time). Heavy government spending and accommodative monetary policy contributed to persistent high inflation, while capital controls and nationalizations discouraged foreign investment and encouraged capital flight. The government allowed persistent currency devaluations, which worsened the inflation, which it would accommodate with continued easy policy and printing. Nationalizations and price controls contributed to inefficiency and resulted in shortages of goods. Venezuela's oil industry went into decline as a result of underinvestment, inefficiency, and corruption: production peaked the year before Chávez took power and had fallen by more than 25% by the time of his death. The government borrowed substantially in foreign currencies to be able to continue its social spending programs; by the end of Chávez's time in power, this had resulted in spiraling deficits and unsustainably high debt burdens. Following the decline in oil prices in the years after Chávez's death, the country is now facing hyperinflation.





Equity Prices (Local FX, Indexed to 1999)



Note: Capital controls limit the ability of foreign investors to effectively access the domestic market

Populism-Related Quotes from Chávez

- “We must confront the privileged elite who have destroyed a large part of the world.” (2002)
- “Privatization is a neoliberal and imperialist plan. Health can’t be privatized because it is a fundamental human right, nor can education, water, electricity and other public services. They can’t be surrendered to private capital that denies the people from their rights.” (2005)
- “Let the dogs of the [US] empire bark, that’s their job; ours is to battle to achieve the true liberation of our people.” (2005)
- “The world has an offer for everybody but it turned out that a few minorities—the descendants of those who crucified Christ, the descendants of those who expelled Bolivar from here and those who in a certain way crucified him in Santa Marta, there in Colombia—they took possession of the riches of the world, a minority took possession of the planet’s gold, the silver, the minerals, the water, the good lands, the oil, and they have concentrated all the riches in the hands of a few; less than 10 percent of the world population owns more than half of the riches of the world.” (2005)

Bridgewater Daily Observations is prepared by and is the property of Bridgewater Associates, LP and is circulated for informational and educational purposes only. There is no consideration given to the specific investment needs, objectives or tolerances of any of the recipients. Additionally, Bridgewater’s actual investment positions may, and often will, vary from its conclusions discussed herein based on any number of factors, such as client investment restrictions, portfolio rebalancing and transactions costs, among others. Recipients should consult their own advisors, including tax advisors, before making any investment decision. This report is not an offer to sell or the solicitation of an offer to buy the securities or other instruments mentioned.

Bridgewater research utilizes data and information from public, private and internal sources, including data from actual Bridgewater trades. Sources include, the Australian Bureau of Statistics, Asset International, Inc., Barclays Capital Inc., Bloomberg Finance L.P., CBRE, Inc., CEIC Data Company Ltd., Cerulli Associates Inc., Consensus Economics Inc., Credit Market Analysis Ltd., CreditSights, Inc., Corelogic, Inc., Dealogic LLC, Ecoanalitica, Emerging Portfolio Fund Research, Inc., Eurasia Group Ltd., Factset Research Systems, Inc., The Financial Times Limited, Fundata Canada, Inc., GaveKal Research Ltd., Global Financial Data, Inc., Harvard Business Review, Haver Analytics, Inc., The Investment Funds Institute of Canada, Intercontinental Exchange (ICE), Investment Company Institute, International Energy Agency, Investment Management Association, Markit Economics Limited, Mergent, Inc., Metals Focus Ltd, Moody’s Analytics, Inc., MSCI, Inc., National Bureau of Economic Research, Organisation for Economic Cooperation and Development, Paramita Tecnologia Consultoria Financeira LTDA, Pensions & Investments Research Center, Property and Portfolio Research, Inc., RealtyTrac, Inc., RP Data Ltd, Roubini Global Economics, LLC, Rystad Energy, Inc., S&P Capital IQ LLC, Sentix GmbH, Shanghai Wind Information Co., Ltd., Spears & Associates, Inc., State Street Bank and Trust Company, Thomson Reuters, Tokyo Stock Exchange, TrimTabs Investment Research, Inc., United Nations, US Department of Commerce, World Bureau of Metal Statistics, World Economic Forum, and Wood Mackenzie Limited. While we consider information from external sources to be reliable, we do not assume responsibility for its accuracy.

The views expressed herein are solely those of Bridgewater as of the date of this report and are subject to change without notice. Bridgewater may have a significant financial interest in one or more of the positions and/or securities or derivatives discussed. Those responsible for preparing this report receive compensation based upon various factors, including, among other things, the quality of their work and firm revenues.