

# FINANCIAL INSTITUTIONS IN AN AGE OF POPULISM

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## What do we mean by populism?

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

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

# 11 Key Themes for a Populist Era

## Politicization of national and international affairs

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

## More volatility

- Institutional stability => Institutional instability
- Relatively predictable economic policies => Frequent economic experimentation with more volatile outcomes
- Relatively stable financial markets => High market volatility, both short and long-term

# 11 Key Themes for a Populist Era (continued)

## Major changes in economic conditions

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

## Less globalization

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