

JUNE 2023

How Does Business Fare Under Populism?

Rachel Kleinfeld

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Carnegie Endowment for International Peace
Publications Department
1779 Massachusetts Avenue NW
Washington, DC 20036
P: + 1 202 483 7600
F: + 1 202 483 1840
CarnegieEndowment.org

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Summary

In the past five years, there have been more political leaders who use populist strategies across the globe than at any time since the 1930s—including in the United States. Left-wing populism has well-documented negative effects on businesses and the economy, but the economic effects of self-declared pro-business populists have received less attention. This paper addresses that gap by focusing on the economic effects of right-leaning, pro-business politicians who use populist strategies.

Based on an overview of the literature and three in-depth contemporary case studies—Viktor Orbán in Hungary, Jair Bolsonaro in Brazil, and Narendra Modi in India—this paper finds that **the right-wing populist style, like the left-wing style, has predictable, consistent, negative effects on economies and businesses.** These effects are similar regardless of whether a politician is a natural populist, such as Hugo Chávez in Venezuela, or simply adopts populist strategies as a political tactic, as Orbán did in Hungary after governing for his first term as a classical pro-business liberal.

Politicians who use populist strategies gain voter support by creating or hardening interpersonal divisions, eliminating middle ground, and polarizing their countries. They divide society into an “us” and a “them” and then position themselves as representing the will of the deserving group of people. They are thus able to declare that anything or anyone who stands in their way is against the supposed will of the people. By redefining democracy as majoritarianism, they can gain popular support while ignoring democratic pillars such as the rule of law, rights, and checks and balances.

Populist economic strategies reduce growth and tend toward economic nationalism.

A comprehensive study of populist leaders from 1900 to 2020 found that, after a short honeymoon period, these leaders create a drag on growth of about 1 percent per year even after controlling for a right-wing or left-wing ideology, institutional quality, democracy, trade openness, inflation, and other factors. Debt-to-GDP ratios tend to rise and inflation generally increases under these leaders. Even leaders who posit themselves as pro-business increase tariffs and government redistribution and reduce their country's openness to the global economy.

These direct economic effects are compounded by other negative consequences. Populist strategies have the following effects on businesses and economies:

- **They build intense voter loyalty through polarization, which reduces social trust.** Declining trust is correlated globally with reduced entrepreneurship, lower GDP and growth, increased corruption, and increased crime.
- **They personalize and often centralize government decisionmaking, increasing policy unpredictability, financial volatility, uncertainty, and risk.** Studies find that countries governed by populists have more volatile economies and are more likely to face serious financial crises and stock market crashes. They are also subject to unpredictable policies and/or politicized implementation, such as Modi's overnight decision to retire the two largest Indian rupee notes in circulation.
- **They reduce the power and legitimacy of oversight institutions, allowing corruption and cronyism to increase.** Transparency International data show that corruption increases under leaders using populist strategies, particularly in countries where corruption was previously *less* significant. Meanwhile, personalized power and reduced oversight enables cronyism to tilt entire business sectors toward politically favored businesses.
- **They control or delegitimize the press and judiciary. This leads the rule of law to degrade and statistics to become less trustworthy.** In countries with more criminal violence, political violence also increases. In all three cases in this paper, leaders using populist strategies manipulated or politicized data, statistics, and oversight institutions that would have provided early warnings to businesses about problems with growth, unemployment, inflation, and other economic measures.

Populist strategies do not affect all businesses equally. In Brazil under Bolsonaro, small businesses benefited from reduced regulation and agribusinesses thrived. Conversely, in India, small businesses were devastated by a series of government policy shocks under Modi's Bharatiya Janata Party. In Hungary, the German-affiliated car industry has been protected, but businesspeople linked to Orbán's Fidesz party have overtaken other businesses, sector by sector. Across cases, media received significant pressure to conform or face business repercussions.

Once populism is entrenched, unpredictability, volatility, and personalization make it impossible to determine a safe business strategy. Businesses could face political retaliation, pressure, or sector takeover regardless of whether they are close to the leader or stay far away. Politicians using populism may harm business leaders close to them whom they perceive as having too much power. “Elites” are a universal populist target. They serve as an amorphous category that can include political opponents and minorities, as well as the wealthy or successful. For example, Orbán used public anger at elites to increase taxes on the banking sector.

Could It Happen in the United States?

The vast, strong private sector in the United States may appear safe from populist politicization. But the United States is not immune. In other countries facing such politicization, procurement, licensing, tax, and regulatory agencies are used to harass businesses that do not toe the party line. Government interference in the private sector could happen in the United States given that combined federal, state, and local spending comprised 37 percent of the country’s GDP in 2022; government licenses are needed for nearly 30 percent of U.S. jobs; and the Internal Revenue Service has been politicized in the past. At the state level, polarizing legislation is already creating headaches for businesses that are trying to bridge ideological chasms between employees and political leaders or that are attempting to do business legally across states with differing ideological values. If state-based populist legislation accelerates, it could impinge on whether the United States functions as a huge single market, which is one of the country’s economic strengths.

Warning Signs of a Populist Leader

Leaders matter. While other variables can lead to bad government, none are as decisive as leadership. Leaders who use populist strategies can create polarization where it previously did not exist—as was the case for Brazil and Hungary. While they tend to benefit from inequality, corruption, and economic shocks, they can come to power even in growing and equal economies. Tracing warning signs for democratic instability can be useful, but no other variable matters as much as the election of a leader who uses populist strategies of incitement, division, and distrust to gain and then centralize and personalize power.

For that reason, this paper offers **a list of five factors** that businesses can look out for to determine whether a politician is employing the dangerous populist style.

- **Polarization:** Is a main plank of their political strategy picking identity issues that divide society to build support?
- **Trust:** Do they undermine trust in governmental or other institutions, such as the press?

- **Personalization of Power:** Do they place loyalty above expertise in appointing officials?
- **Centralization of Power:** Do they move independent entities—such as cities or boards—to be under their control?
- **Intolerance for Dissent:** Do they retaliate against people, businesses, or other organizations that voice dissent?

Meanwhile, countries that elect one populist tend to elect other leaders who use the same strategy. In the cases where populism infects a party, it tends to spread to other political aspirants on the same and opposing ideological sides, radicalizing both.

Populism causes economic as well as democratic damage over time. Businesses attempting to operate across employee and customer divisions are caught in the middle. But, as occurred in the case of Brazil, businesses can play a key role in limiting the negative effects of populism.

Part I: The Effects of Populism on Business and the Economy

What Is Populism?

For much of the last fifty years, populism has featured in the popular imagination as a left-wing, largely Latin American phenomenon that had predictably bad consequences for business. In several countries, such as Argentina under president Juan Perón, leaders pandering to the populace let their economies overheat to achieve growth. Ignoring inflation and deficits, they gave away government largesse and jobs to gain voters. The predictable result was a short-term boom followed by a long, inflationary bust.¹ Meanwhile, they railed against foreign enemies to expropriate or nationalize various strategic businesses. In the name of maintaining such sectors for “the people,” they politicized these businesses’ management, filled the staff with political appointees, and drove them into the ground.

This sort of left-wing populism has been well researched and is clearly bad for business. There is no need for more writing depicting the ways Hugo Chávez and his successor destroyed the Venezuelan economy,² or how Andrés Manuel López Obrador has undermined private property and harmed the business environment in Mexico.³ Therefore, left-wing populism is not the topic of this paper.

In the early 2000s, leaders using populist strategies began to emerge from the right.⁴ Elected leaders in countries as diverse as Brazil, Hungary, India, and the United States promised pro-business platforms of low taxes and deregulation. But they were recognizably populist

in their style. This led scholars to realize that populism is ideologically flexible. It isn't a set of policies but is a set of tactics that allow politicians to gain and maintain power. Leaders governing through populism do the following:

- They gain power and maintain intense support by polarizing society. They divide society into an “us” and a “them,” creating or hardening preexisting divides to constantly pit a more authentic “people” against enemies.
- They use that intense support to centralize and personalize power by positioning themselves as able to interpret and achieve the collective will of “the people.”
- They claim that no part of a democracy should stand in the way of the people's will—in other words, they stand for majoritarianism, not liberal democracy. Since they have claimed to represent the will of the people, they can declare that anyone who disagrees with, questions, provides independent information, or slows down their plans is illegitimate and working against “the people.” Leaders using a populist strategy to maintain power use this logic to control or delegitimize independent or governmental institutions that could check their power, such as the press, statistical bodies, ombudsmen, and judiciaries.⁵

Populism is not necessarily antidemocratic: the governing coalition that took power in Italy in 2022 is dominated by populist parties, and, so far, this has not had significant effects on the country's democracy. But the populist redefinition of democracy as majority rule tends to undermine important aspects of the democratic system of government. Leaders governing through populism often dispense with the concept of inalienable rights and ignore the role that checks and balances play in democratic systems to preclude a single source of overwhelming power.

Populism is nonetheless often popular with voters, sometimes with the majority of voters. Leaders succeed with populism because their claims that the majority's wishes have been ignored by establishment elites are often true. Their desire to take personal credit for government largesse usually works. True populists tend to have deep, personal relationships with their voting base. Their confidence that they can win fair elections may lead them to actually improve election-day administration and infrastructure. Meanwhile, their polarization of society creates intense feelings for and against the leader, often mobilizing more people to vote. India's 2019 elections featured the highest turnout the country has ever seen.⁶ U.S. elections in 2018 and 2020 also featured record-setting turnout.⁷ Getting much of the population to vote in a well-administered election is, of course, crucial to democracy. For good reason, voter turnout and election administration are weighted heavily in quantitative democracy indexes, causing them to show that democracy increases under populist governments.

However, the idea that “if elections are fair, then the country is a democracy even if you don’t like the outcome” misses how leaders employ populism. They often affect elections long before election days, for instance, by tweaking laws to disproportionately help themselves. Hungarian Prime Minister Viktor Orbán legally altered Hungary’s districts so that although he only won 44 percent of the vote in 2014, his party gained two-thirds of parliamentary seats, allowing him to continue as prime minister with a supermajority so that his party could alter the constitution. Leaders may also alter election finance laws; in India, Prime Minister Narendra Modi removed the cap on corporate campaign contributions and allowed anonymous donations. Anonymity may have reduced quid pro quo corruption, but the change undeniably helped Modi’s party, the Bharatiya Janata Party (BJP). Ahead of the 2018 elections, the BJP declared five times the funding of the opposition Congress Party.⁸ Where leaders have gained power over the press, such as in India and Hungary, mass media coverage downplays or omits the leaders’ faults while saturating the airwaves with the pectadilloes of their opponents. Leaders may also manipulate data to enhance support, as Modi was accused of doing by withholding negative economic and COVID-19 statistics before elections.⁹ In more criminally violent societies—such as Brazil and the United States—targeted rhetoric during campaign season can increase political violence, which can suppress the votes for opposing groups or candidates.

Meanwhile, democracy is not simply majority rule. The belief that citizens hold some inalienable rights, or that politicians must follow the law regardless of the size of their electoral win, are incompatible with a purely majoritarian definition of democracy. The polarization inherent in a strategy of populism, disregard for the rule of law, and refusal to allow independent institutions to remain independent undermine these nonelectoral aspects of democracy that separate it from absolute control by a 50-percent-plus-one majority. For these reasons, the Varieties of Democracy index put Hungary in 2018 and India in 2021 into an “electoral autocracy” category in which elections may continue and even be free and well run. Leading parties may lose and accept their losses. But other elements of democratic checks against an overweening executive leader or a majoritarian mob are absent.¹⁰

Populists in Power

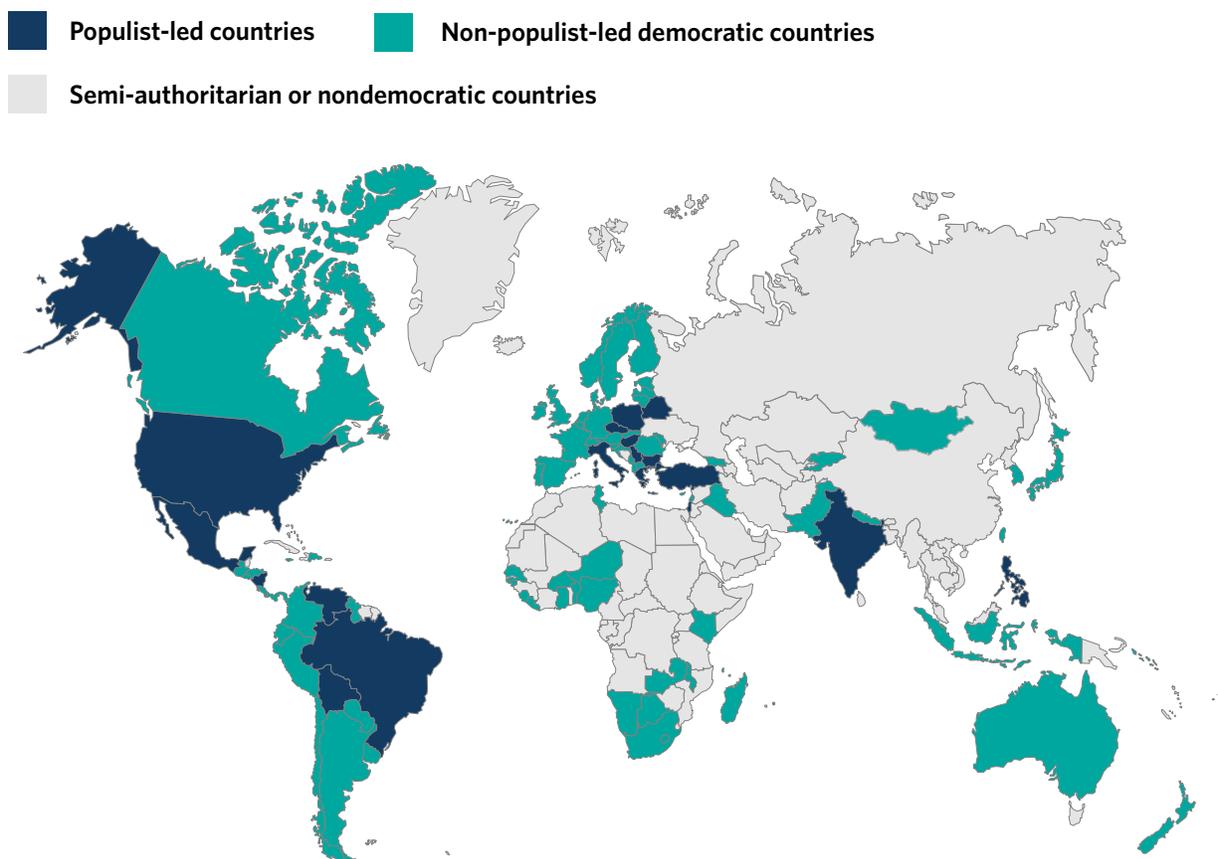
Starting in 2000, globalization has allowed leaders to gain power by polarizing their populations against global corporations, immigration, and foreign enemies. By 2006, sixteen countries had populist leaders, such as Hugo Chávez in Venezuela. Economic shocks have also helped politicians mobilize against what they call corrupt elites, and after the 2008 financial crisis, populism continued to grow. By 2018–2019, leaders who used populist governing strategies led one out of every seven countries that held elections, and they controlled

32 percent of the world's GDP (see figure 1).¹¹ The last time populism was that powerful globally was in the 1930s, after the Great Depression, when right- and left-wing politicians who used populist strategies dominated the globe to disastrous results.¹²

In the last four years, populism has declined slightly. But once voters get a taste of the populist style, they seem to like it. A study of populism over the last one hundred years found that countries that once elect leaders using populism tend to do so again.¹³

Some leaders are natural populists, but other politicians may use populist strategies because they realize that these strategies work. (This is why this paper avoids using the term “populist leader” and instead uses “leaders who use populist strategies.”) Politicians on the same ideological side often mimic the same populist style to maintain an already mobilized base of voters, particularly after a populist strategy succeeds in building a deep, intense, and

Figure 1. Populism in Power Database, 2018



Source: Jordan Kyle and Brett Meyer, “High Tide? Populism in Power, 1990–2020,” Tony Blair Institute for Global Change, February 7, 2020, <https://institute.global/policy/high-tide-populism-power-1990-2020>.

personal base of support for a politician. At the same time, opposition politicians have to break through populist polarization to gain media attention and appeal to their own voters, who are increasingly riled by the other side's populism. Consequently, some opposition politicians may start to employ populist tactics. They may increase polarization or refuse to be bound by democratic institutions, particularly if those institutions have become politicized or polarized. Politicians on either side who refuse to adopt the populist style often fail to capture media and voter attention.

This pattern of populism infecting both parties appears in historical and global case studies on populist governance. These cases show that populists are, at times, followed by a moderate leader. But the normalcy tends to be a short interregnum, after which candidates who use populist strategies from either ideological side return. The populist cycle leads to situations like that of Italy, where populist leader Silvio Berlusconi was followed by moderate leaders from 2011 to 2018, after which the country veered back and forth from far-left to far-right populism. (For a period, a coalition government was led by both.)¹⁴

For these reasons, populist strategies are likely to shape countries' business environments for some time, making the effects of populism on economies and businesses worth examining.

Effects of Populism on Economies and Businesses

The negative effects of left-wing populism on economics and businesses have already been widely examined.¹⁵ For that reason, this paper looks only at right-leaning, pro-business leaders who employ populist strategies to see whether they fare better.

This paper shows that the populist style, regardless of ideology, has negative effects on economies and businesses. The populist strategy of building intense voter loyalty through polarization leads to the decline of social trust, which is strongly correlated with GDP and entrepreneurship levels. Social cohesion also declines, which can increase social unrest. Personalized, often centralized government decisionmaking yields unpredictable policies, increasing uncertainty and risk. It also increases corruption and cronyism, a finding that is particularly strong in countries where these problems were previously less significant. Corruption serves as a distorting tax on most businesses, while cronyism tilts entire business sectors. Finally, the sidelining or delegitimizing of oversight institutions and the press leads the rule of law to degrade.

The populist governing style substantially inhibits economic growth. According to a comprehensive study of populist leaders from 1900 to 2020 by economists Manuel Funke, Moritz Schularick, and Christopher Trebesch, leaders governing in the populist style create a drag on growth of about 1 percent per year after a short honeymoon period.¹⁶ Countries governed by populists also have more volatile economies and are more likely to face serious financial crises.¹⁷ Moreover, regardless of how they posed while campaigning, most leaders adopting populism enact policies from both the left and the right when they come to power. They tend to embrace tariffs and economic nationalism while also giving away substantial government funds to build support with little regard for inflation and debt.

Historically, some businesses do well under populism. In 1933, during a secret meeting in Berlin, nearly two dozen German industrialists backed Adolf Hitler's party. In keeping with modern findings on populist cronyism, the industrialists' returns in the spring after Hitler took power were between 5 and 8 percent higher than other firms' returns.¹⁸ Of course, Jewish businesses faced expropriation, forced sales to whomever would buy in a hurry, and far worse fates. Meanwhile, many other German firms faced decidedly mixed financial as well as moral outcomes as they navigated Hitler's populist leadership.

Populism doesn't affect all business sectors equally, and because the whims of politicians alter, it is impossible for business leaders to ensure that their firms remain in the favored category. The case study of India shows how small businesses have been devastated by Modi's policies; his policy of removing large banknotes from the market caused a short-term 47 percent drop in revenue and major job losses.¹⁹ In Brazil under former president Jair Bolsonaro, small businesses benefited from reduced regulations and licensing requirements, as did agribusinesses in the Amazon Rainforest, but financial firms and externally focused corporations have faced extreme volatility.²⁰ In Hungary under Orbán, some corporate arenas have been protected, but the entire private sector has been politicized, while some other sectors have been nationalized or face state monopolization.²¹ In all of these cases, remaining small or close to the ruling party did not offer lasting protection from politicization, upsetting the fair market. One of the problems with populist governments is that even for businesses that try to ride the tide by becoming close with the government, it is impossible to predict the course of the waves that follow.

This section of the paper draws on generalized findings and case studies to illuminate these tendencies.

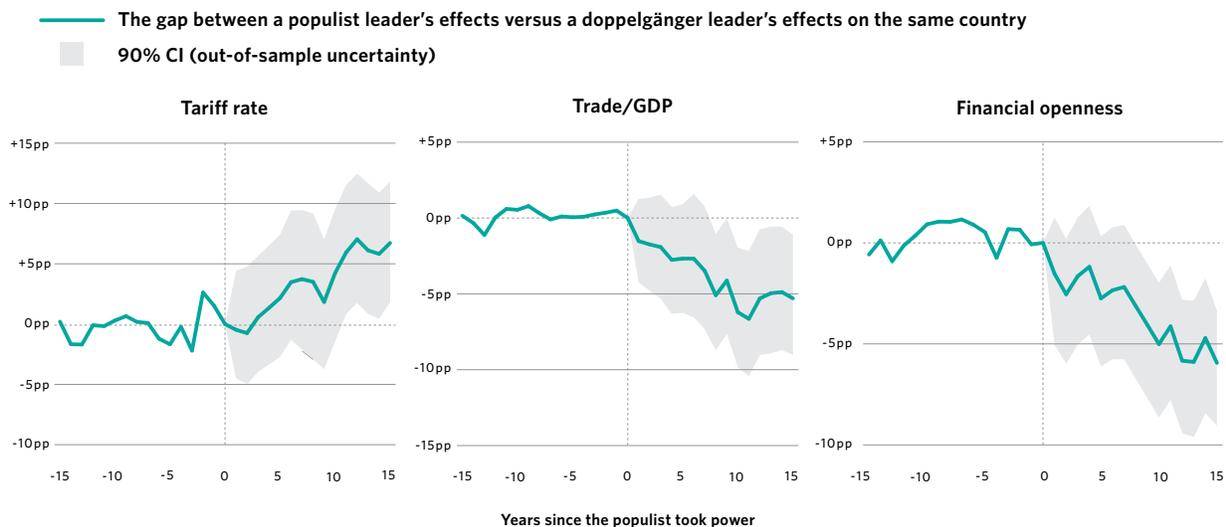
Macroeconomic Costs

Globally, recent right-wing politicians have employed populist strategies but also claim that they wish to reduce regulation, lower taxes, and increase growth. Businesses often give them support, discounting their polarization and tendencies to exercise excess state power. Indeed, these leaders often reduce regulation and lower taxes.

However, even pro-business populism treats economic policy as subordinate to political goals, which ultimately causes economic harm. In Brazil, Bolsonaro splurged on welfare spending in the months before the 2022 election. Rather than reduce the size of government, Orbán put Hungary on course to be the “East European country with the largest share of the population working in the public sector,” according to Simeon Djankov of the Peterson Institute for International Economics.²² State jobs have had the political side effect of enabling the government to nudge workers who rely on government employment into supporting the ruling party. As a poor country, India arguably needs significant welfare spending, and Modi’s increased social programming could simply be responding to need. But his rebranding of preexisting programs as programs of the prime minister, combined with lax implementation, suggests that there is a political purpose as well. This pattern of giveaway spending, often associated with left-wing populists, turns out to persist among self-styled right-wing populists as well. Around the globe, this kind of giveaway spending causes debt-to-GDP ratios to rise and spurs inflation under populist leaders.²³ As of March 2023, Hungary was facing 25 percent inflation, the highest in the European Union (EU).²⁴ In the few cases where leaders employing populist strategies served short periods, the inflationary bill fell on their successors.

The 2021 study by Funke, Schularick, and Trenchsch found that regardless of pro-business posturing, populists tended to be economic nationalists. Thus, compared to a null country, countries led by left- or right-wing populists saw a rise in import tariffs and a decline in their integration into the global economy and openness to trade (see figure 2).²⁵

Figure 2. How Populist Leaders Harm the Economy



Source: Manuel Funke, Moritz Schularick, and Christopher Trebesch, 2023, unpublished manuscript.

They further discovered that populists suppressed growth. Economies under populist leaders did as well as a doppelganger model for the first three years. But after that, a growth gap started to emerge so that populist economies grew a little slower than their counterparts' each year. After fifteen years, countries with both left- and right-wing populist leaders had 10 percent lower GDPs per capita than a nonpopulist counterfactual.²⁶ That gap persisted even after controlling for the quality of institutions, democracy, inflation, trade openness, and a variety of banking, currency, and other economic crises that may have brought the leader to power. In other words, the decline in growth is a result of decisions made by leaders employing populist strategies; it isn't a result of preexisting economic problems or democratic declines.

Democracy scholar Yascha Mounk similarly found that right-wing populists tended to bask in rising stock prices and investor confidence for a few years. But as they damaged the rule of law, personalized policy, and marginalized experts, these effects soured. Within five to ten years, their countries were more likely than similar countries that were not led by populists to suffer from stock market crashes, financial crises, or hyperinflation.²⁷

Why does the populist governing style have these macroeconomic effects—and how is this style experienced by actual businesspeople?

Increased Polarization Destroys Trust and Social Cohesion

Populism requires purposefully reducing social trust. Thus, it benefits leaders trying to gain and maintain power through populism to deepen distrust in independent institutions, experts, and targeted social groups, while cementing a base that believes in them. They often spread or amplify conspiracy theories to do so, and the prevalence of conspiracies has grown in Europe and the United States in tandem with populist parties' growth.²⁸ Orbán promoted conspiracies accusing George Soros, an investor and philanthropist of Jewish and Hungarian heritage, of increasing immigration to dilute Hungary's unique culture.²⁹ As he runs for a second term, former U.S. president Donald Trump has amplified the QAnon conspiracy regarding a pedophilic ring of elite leaders.³⁰ Conspiracies that elections cannot be trusted grew under Trump in the United States and Bolsonaro in Brazil, as did beliefs that experts were lying about COVID-19.³¹ In India, trust in government remains high. But polls from 2017 showed majority support for strongman or military governments, suggesting that many Indians' trust in government was not connected with democratic norms, such as inalienable rights.³² This difference allowed the BJP to simultaneously build trust in itself while reducing social trust among religious groups with divisive language.³³ Globally, people with strong populist views are much more likely to believe in conspiracy theories than nonpopulists.³⁴ And research consistently shows that belief in one conspiracy theory makes belief in another more likely.³⁵ Moreover, once conspiracy theories take hold, they are extremely difficult to change, creating a vicious cycle fed by leaders who use conspiracy theories to continually lower trust in government and in fellow citizens so that the leaders are the only ones left to turn to.³⁶

Low levels of social trust are a problem for business. Numerous studies have found that lower-trust societies also have

- **reduced entrepreneurship**, because less-trusting people are less willing to take risks;³⁷
- **lowered GDP and growth**, because as trust declines, people retreat to doing business with their own groups, balkanizing economies into smaller, less efficient units;³⁸
- **increased corruption**, because people who believe others are corrupt are more likely to feel they are patsies if they do not engage in corruption themselves;³⁹
- **increased crime**, especially violent crime, because social controls on crime break down and because people become less trusting of law enforcement and thus become less willing to provide tips or serve as witnesses;⁴⁰ and
- **reduced ability to deal with complex problems** that can affect businesses, such as COVID-19.⁴¹

Some researchers have also found that lower trust increases risk-taking by banks while reducing financial reporting, transparency, and conservatism—and, as a result, low-trust societies experience greater financial trouble and more bank failures than high-trust societies.⁴² Such findings could be the reason that democracy scholars have found that populist-led countries exhibit greater financial volatility and more economic crises.⁴³

Another way that leaders employing populism erode social trust and build supporter intensity is by hardening social identities, eliminating ambiguity, and creating cultural flashpoints such that society divides into “us” and “them” groups. This strategy bolsters the self-righteous zeal of those who perceive themselves to be “the people.” These voters and the politicians leading them claim a greater right than elites, outsiders, and minorities to control politics, policy, and social norms. The “elites” are always a target, but the term is usefully amorphous: it can include business leaders, banks, foreign businesses, political opponents, experts, or other groups deemed different than “the people.” Because the term is flexible, any identifiable individual or group that speaks against the leader can be cast as an enemy trying to hinder the peoples’ will. In Hungary, Orbán scapegoated (and then taxed) banks for reaping “excess profits” and later did the same against large chain stores, airlines, and a variety of other sectors.⁴⁴ After a currency crash left many Hungarians unable to pay their foreign-denominated mortgages, he forced banks to redenominate most mortgages, then hit them with a “crisis tax”—policies that cost banks more than €1.5 billion.⁴⁵ In the United States, the National Football League (NFL) found itself demonized by then president Trump, despite its owners donating nine to one for Republican candidates, including Trump.⁴⁶ In India, the chairman of one of the country’s leading banks learned that even he could be pegged as an opponent and cast out of Modi’s circle after he commented that the prime minister should focus on business instead of polarization.⁴⁷

The precise groups cast as enemies may change over time. Populist strategies include decrying globalization, such as global companies and banks. Sometimes minorities are scapegoated, for instance, Orbán's insinuations that Soros was bankrolling undesirable immigration.⁴⁸ A country may become polarized by gender, as when Bolsonaro claimed that he would not deign to rape a fellow female parliamentarian.⁴⁹ Or an us-versus-them mentality can be created out of religion. For example, in India under Modi, a BJP member of Parliament advised BJP activists and officials in his state to make a conspiracy theory targeting Muslims the main campaign issue rather than focus on "minor issues" such as water or sewage.⁵⁰ Another BJP member of Parliament called for boycotts against Muslim businesses at an event during which another speaker called for Muslims to be murdered.⁵¹ These occurred after the Modi government in 2020 failed to stop violence in New Delhi during which more than fifty people—two-thirds of them Muslims—were killed.⁵²

This kind of intense, emotional polarization, known as "affective polarization," impacts how people feel about their identity and their place in society. That makes it fundamentally different from even quite strong disagreements on policy issues. Its emotionality creates headaches for business. A study by Boston Consulting Group found that polarization can increase pressure on management to issue statements, while opening unbridgeable ideological gaps among staff members, as well as between staff and shareholders.⁵³ The result can leave corporations open to political retaliation, angry employees, and requests for them to take stands on divisive public issues. It can also increase recruiting costs and restrict access to talent based on the political stances of management or staff. It can limit external partnership possibilities by narrowing the potential partners, endorsers, or celebrities who are viewed favorably in a polarized society, forcing businesses to pick between attracting one set of customers and alienating another.

As societies unravel under polarization, protests and social unrest interfere with main-street businesses and can increase security costs. They can add risk and uncertainty for larger corporations as well. For instance, protests by truckers in Canada and the United States blocked weeks of shipments between the countries, costing the auto industry nearly \$1 billion.⁵⁴ In the United States, retail stores have become the top location for mass shooter events, which have increased alongside more clearly political violence as violence becomes more normalized and social cohesion declines.

The World Economic Forum's Global Risk Report for 2023 found that frayed social cohesion fuels public anger, distrust, and divisiveness. These forces degrade the stability of societies as well as their economic productivity. Respondents to the survey considered the erosion of social cohesion to be among the top five risks over the next two years. Among male business leaders surveyed, it was the third-highest concern.⁵⁵

Personalization of Policy Increases Uncertainty, Volatility, and Risk

Politicians using populism claim that they embody the people's will and, therefore, that the state should bend to their desires. The claim that they alone can interpret the will of the people leads them to personalize policymaking and politicize implementation so that they can take personal credit. Because they are intolerant of internal dissent, ideas are not stress tested or thought through as they are when normal policy processes are followed.

In some cases, these tendencies enable the passage of bold policies that have long been waiting on the sidelines—as with tax reform under Modi in India and pension reform under Bolsonaro in Brazil. But they also allow harmful policies to move quickly, such as Modi's sudden announcement in 2016 that the two largest bills in circulation would be valueless and had to be exchanged for new legal tender currency.⁵⁶ This policy devastated cash-based small businesses, many of which went bankrupt, and 3.5 million people lost their jobs.⁵⁷ In many cases, the populist strategy of personalized rule leads to the sidelining of expertise and the favoring of political loyalty. This leaves policy implementation in the hands of political actors instead of experts, so that even desirable or bold policies can fail because of poor implementation. Thus, whether the policies themselves are pro-business or not, erratic policymaking that avoids the regular processes for policy creation and deliberation results in a less predictable business environment. When combined with fewer checks and balances, weakened rule of law, and increased corruption, business uncertainty and risk increases. In India, for instance, internet shutdowns were originally used in an attempt to reduce social unrest and violence. But shutdowns proved to be useful for numerous other problems, such as stopping teachers, police, and others from cheating on government exams.⁵⁸ There are no clear processes to determine when a state will shut down the internet, and the ensuing unpredictability has left businesses to grapple with the reputational costs and economic losses of suddenly being unable to function normally (see box 1).⁵⁹

Box 1: In India, Government Internet Shutdowns Interfere With Orders

Faisal Hasan ran a small but thriving export business selling home decor products all over the world.⁶⁰ He sent most orders to the nearest ports on Fridays so that they could clear customs early the next week. But on this Friday, a week before Christmas, the government shut down the internet. Hasan's office was just outside the capital of Uttar Pradesh—a state whose population was roughly the size of Brazil's—and the whole capital region had been cut off. The government provided no warning and no information about why or when it would restart. There was no way to notify customers that their orders would be late and no way to determine how late they might be. When service resumed Sunday, he discovered that a wholesale customer had needed a speedy quote and had tried to reach out in every

possible way: WhatsApp, WeChat, email, and Skype. But Hasan's business had been unreachable. He spent Monday calling each of his customers, telling everyone that their orders were not going to arrive on time.

Customers may forgive once, even when Christmas sales hang in the balance. But the following Friday, the government fiddled with the internet again. In fact, under Modi and the BJP, India allowed more internet shutdowns than any other country in the world, including authoritarian countries and those at war.⁶¹

Hasan had learned to juggle the regulations, corruption, and other difficulties that all Indian businesses face. But how can an export company function without reliable internet?

Personalization and Centralization of Power Reduces the Rule of Law

Leaders trying to win by using populism often come to power denouncing corruption. Corruption scandals that undermined their predecessor governments were crucial to the rise of Orbán in Hungary, Modi in India, and Bolsonaro in Brazil. Despite claims that they will “drain the swamp,” however, the personalistic ruling style of populists and their tendency to ride roughshod over institutional checks and balances often increases corruption. Among the populists who took office between 1990 and 2014, 40 percent have been indicted on corruption charges.⁶² Countries that had been in the less corrupt half of the world in Transparency International's Corruption Perceptions Index fell an average of eleven places after electing a leader using a populist strategy.⁶³

These statistics suggest that populism's personalized and centralized policymaking favors cronyism. Of course, nonpopulist governments can also be corrupt. Brazil had such high, systemic corruption prior to Bolsonaro that it is difficult to say whether corruption increased under the populist leader, and India's long history of cronyism means that it faces a similar difficulty, though process tracing shows that cronyism is ongoing. Hungary is the best example here of the ways in which populism might contribute to cronyism. Between 2011 and 2021, companies allied with Orbán were six times more likely to win public tenders than in a truly competitive market (see box 2).⁶⁴ “Pro-market” policies hide a process whereby the Fidesz party helps the business interests that bring party leaders direct financial benefits. Thus, Fidesz has helped favored companies get a leg up on their competitors through cheap government financing, access to special government programs, and regulation or deregulation specifically crafted to help one company while holding back competitors. All of these tactics can skew the playing field for businesses that are trying to compete with superior products, services, or business acumen while competitors are competing via politics.

Box 2: In Hungary, an Advertising Company Harassed Out of Business

In 2012, the company that held the concession for advertising on Budapest’s billboards received an offer from a government-connected businessman. He wanted to buy the company. But the company was not for sale. Not long after refusing, company executives found themselves being questioned by tax authorities. Then, two laws were passed: The first banned all outdoor advertising within five meters of the road, rendering the company’s concession—its main source of profit—useless. The next, while written in general language, exempted a particular advertising group that was closer to the government. Unable to make use of its concession, the company nearly went bankrupt. When the CEO received a depressed offer from another government-linked businessman, he sold. Soon after, the law banning advertising near the road was lifted.⁶⁵

The sense that a company can rely on laws to be applied similarly and equally across cases also generally declines under populists, who stack or attack the courts to ensure that “the people’s will,” interpreted by them personally, prevails. Hungary’s scores on the World Justice Project’s Rule of Law Index have declined throughout Orbán’s tenure, and the country now stands dead last among similar high-income countries for its rule of law.⁶⁶ Brazil also experienced rule-of-law declines under Bolsonaro (though they started under his predecessor). Among its middle-income peers, Brazil now scores in the lowest third, ranking alongside much lower-income countries such as Burkina Faso and Gambia.⁶⁷ India does not score poorly on the rule of law compared to the rest of its income group, and some rule-of-law indicators improved in Modi’s first term. But during his second term, as he leaned into populism and polarization, the World Justice Project found that its scores for India on constraints on governmental powers declined, as did its scores on fundamental rights and open government, while its corruption score was found to have increased.⁶⁸

Reducing social trust, scapegoating portions of society, and undermining the rule of law has predictable results. If people have access to weapons, then political violence and violence against scapegoated groups tend to increase. Under Bolsonaro, political violence in Brazil jumped by over 350 percent compared to the year prior to Bolsonaro’s government, while attacks against Indigenous people—particularly targeted for their land in the Amazon—nearly tripled.⁶⁹ Political violence of many types, including threats against members of Congress and harassment of local officials, skyrocketed in the United States under Trump.⁷⁰ In India, guns are strictly limited, and homicide, terrorism, and insurgency have fallen over the past two decades.⁷¹ But religious lynchings have increased under Modi. After tracking a sharp spike in lynchings in the early years of the Modi administration, the Home Ministry stopped reporting data.⁷² Hungary, where private weapons are tightly regulated, has avoided this trend.

Targeted violence does not necessarily harm all businesses. However, it can create broad economic harm in a variety of ways. For companies that employ members of targeted groups, it can spread fear among employees. While some staff may have trouble focusing on work, others may face safety concerns about whether to come into the office, particularly if they work in locations or jobs where they might be at risk. Media companies must address threats and violence against their reporters (see box 3); for example, India is now one of the most dangerous countries in the world for journalists.⁷³ A government's blind eye to vigilante justice may create conditions in which individual businesspeople may be targeted. For instance, an executive for Dominion Voting Machines in Colorado was forced into hiding following the 2020 U.S. elections after his home address and phone number were published on social media, along with a bounty for his murder.⁷⁴ And even where violence is rare, the threat of force can allow governments to strong-arm business.

Box 3: A Media Mogul's Fear in Hungary

In 2017, Zoltan Varga felt like a titan. His media company, which generated \$66 million a year and employed more than 650 Hungarians, had twenty-five print titles and nineteen online titles. Having reached his 50s, he knew how to navigate the Hungarian business landscape and succeed where others had failed.⁷⁵

But by 2020, Varga was not so sure. The public institution in charge of regulating competition had just blocked a lucrative merger in his online business. Most of his titles were women's magazines and lifestyle brands—but one was the country's most read political website. Had it fallen afoul of the government? Or was it simply that someone close to the prime minister wanted his successful business? He had recently received two curious offers, even though his company was not for sale. He'd seen other media businesses get squeezed this way, pushed by regulatory, tax, and other government authorities until they were forced to shutter or sell to people close to the governing party.

His partner called him, terrified. While she was sitting on their terrace with her daughter and mother, a helicopter started flying close, too close. He tried to downplay the incident, but he had also noticed men in a car with tinted windows keeping watch outside his home. They had been there more than once. Was he going to join the ranks of leaders who sold their businesses and quietly but inexplicably left the country?

Intolerance for Independent Institutions Damages Institutional and Data Quality

If a leader embodies the will of the people, then it follows logically that they should be able to enact policy without being stopped by what they call undemocratic institutions. Thus, power becomes centralized in the leader's hands, while independent institutions that could check a leader's power are sidelined, delegitimized, or controlled. In Hungary, Orbán weakened and centralized control over all sources of independent power, moving workers including firefighters, hospital staff, and teachers from the purview of local governments to that of the national government. In India, a federal country like the United States, Modi implemented welfare programs directly from the national government, skipping state government authority or direction and holding videoconferences directly with local bureaucrats. Modi and Orbán both reduced their parliaments to rubber stamps that barely read legislation, much less exercised oversight. Before Modi became prime minister, 71 percent of all bills were sent to legislative committees that exercised oversight over legislative proposals. That fell to 27 percent in Modi's first term, and by his second term, just 13 percent of bills were sent to these standing committees.⁷⁶

A team of economists found that the gap between a null country and one governed by a populist corresponded to the “difference in institutional quality between Norway and Colombia.”⁷⁷ As independent institutions decline, so does their ability to police self-dealing, cronyism, corruption, and other problems of executive overreach.⁷⁸ They may also no longer be able to provide vital, independent information on which business decisions might be based.

Media organizations are often the first targets in a populist environment because politicians using this strategy want to turn coverage into propaganda. Depending on the composition of the country's laws and media landscape, they may try to control the media by squeezing firms with regulations and taxes until they sell, then placing the firms in the hands of friendly owners, as occurred in Hungary. The Fidesz party pressured independent media firms until most were sold to government-connected businesses. In 2018, over the course of just a few days, these businesses “donated” over 450 media properties to a single foundation so that they could be more easily controlled.⁷⁹ Populist leaders may try to manipulate coverage while jailing journalists who don't comply. In India, newsrooms and think tanks whose coverage was seen as unfavorable to the government have faced raids of their offices during which government authorities have confiscated phones and removed digital data.⁸⁰ Thirty-eight journalists have been accused of sedition under Modi's administration, compared to two under the previous government.⁸¹ Social media firms were forced to censor content deemed unacceptable, including references to a BBC documentary about Modi that aired in early 2023.⁸² Leaders using populist strategies may also try to control the media by making sure that government-friendly firms run most mass media and by attacking more independent journalists. For instance, in Brazil, the mass media market is dominated by conservative family firms, but Bolsonaro still sought to discredit independent news.⁸³ Reporters Without Borders found that Bolsonaro, his sons, and his chief ministers were directly responsible for

580 coordinated attacks against journalists in 2020 alone.⁸⁴ Under all forms of populist rule globally, freedom of the press has fallen.⁸⁵

Government data may also become more suspect. Bolsonaro and Modi both reduced public access to government information and increased classification. Bolsonaro fired the head of the government body charged with monitoring deforestation of the Amazon.⁸⁶ Modi delayed reports with unfavorable statistics on consumption, refused to allow the release of unflattering unemployment data, and delayed or withheld statistics on important indexes, such as consumer spending.⁸⁷ The last manipulation was significant enough that the only two official members of the National Statistical Commission resigned in 2019, causing the agency to collapse.⁸⁸

Markets rely on honest reporting and quality statistics to price businesses and assess risks. Corporations need to know what is really happening with the economy and the markets to make decisions. While main-street businesses might be less harmed by media and statistical manipulation, for many larger businesses, the manipulation of data and the inability to trust the media add to the costs of doing business, as leaders are forced to rely on harder-to-find information or make mistakes based on bad information.

Government oversight entities such as ombudsmen and anti-corruption bodies also tend to suffer under populists. In India, Modi inherited a newly legislated anti-corruption ombudsman, but his government slow-walked appointments and the governing regulations needed for the committee to function until the Supreme Court threatened contempt. In its first functional year, five years after it was supposed to be started, the committee received 1,500 complaints. But three years later, the number was down to just thirty, as Indians realized it was a paper tiger that was unlikely to act on the complaints.⁸⁹

Judiciaries, like the press, are targeted in nearly every case of populism. This places courts and similar independent institutions in a no-win situation. As politicians try to control once-independent institutions or strip them of their powers, these institutions face a choice: They can accept their diminishment—as India’s judiciary has done after some initial push-back—by avoiding or slow-walking controversial cases and allowing legislation that appears blatantly unconstitutional to take effect.⁹⁰ Or they can fight back via rulings, publicity, and even street demonstrations, as Israel’s judiciary has attempted against the government’s attempted reduction to its independence and power to rule against the legislature and executive.⁹¹ However, if these institutions take the latter course, it is nearly impossible for them to avoid appearing as partisan participants in a political fight. That allows leaders to harness populism and denigrate them as partisan.

Thus, when institutions fight back successfully, the process tends to decrease social trust in these institutions, which then become associated with one side of a polarized divide. The sense of politicization everywhere deepens distrust and ties a populist’s base to the leader.

Meanwhile, sometimes the process of fighting for their existence, rightful role, or reputation radicalizes institutions and does create a more partisan and politicized identity. This is how populists radicalize both sides of the ideological spectrum, engendering dangerous behavior from their opponents.

These dynamics might seem to be high politics, unlikely to affect business. But Brazil demonstrates how businesses can be caught in the crossfire. Activist courts fought to maintain democracy against fears of a coup. The fears later turned out to be credible, but their actions against a group of major Brazilian businesspeople struck a blow against private speech and the rule of law (see box 4).

Box 4: In Brazil, Business Leaders' Assets Frozen for Private Chat

A group of Brazilian businesspeople—a billionaire founder of big-box stores, a shopping mall magnate, a restaurant entrepreneur, and others—had a group chat on WhatsApp where they could vent and connect. As Luiz Inácio Lula da Silva, a former leftist president, rose in the polls for the 2022 presidential election, the owner of a shopping center in Rio de Janeiro posted that a coup would be preferable to the return of Lula's Workers' Party. Another person responded with a GIF showing clapping hands. Some wrote that they could give employees bonuses for voting for Bolsonaro. Others noted that would be vote buying. The comments were partisan, and at least one veered toward supporting violence. But the talk was all private. And while Brazil's coup almost fifty years before meant speculation wasn't idle, their chat, whether hyperbolic joking or heartfelt, wasn't illegal.

The chat was leaked to the press. A week later, federal agents raided eight of the businesspeople's homes. Their bank accounts were frozen and their financial and phone records subpoenaed—all on the orders of just one Supreme Court judge.⁹²

Three and a half months later, Bolsonaro supporters attempted a violent coup against the incoming Lula government, and business supporters were accused of paying for buses and other expenses to make it possible. For some Brazilians, the actual coup justified the court's speedy action earlier, which took place a week before the election. Others saw the courts themselves as truncating the rule of law. Either way, the businesspeople paid the price.

How Pro-business Populism Affected the Economic and Business Landscapes in Hungary, Brazil, and India: A Summary of the Cases

The countries mentioned above illuminate how leaders who call themselves pro-business and use populist strategies have affected the businesses and economies of their countries. The cases were chosen to showcase countries that share various similarities with the United States and illuminate how populism played out in these environments.

Hungary is a high-income country whose well-established and high-functioning democratic institutions were rated at the same levels of strength as those of the United States before Orbán started his second term as prime minister and used populist strategies.⁹³ Hungary has a vastly smaller population, geography, and economy than the United States, making it easier to control. However, it holds particular interest because populists in the United States look to it as a model.⁹⁴ The Conservative Political Action Conference in Texas made Orbán its lead speaker in 2022.⁹⁵ Steve Bannon, a political strategist and former adviser to Trump, hailed Orbán as a “hero.”⁹⁶ In 2021, conservative media personality Tucker Carlson broadcast his show from Budapest for a week, providing glowing commentary about the Hungarian model of government.⁹⁷

That model is not business friendly. Over his decade in power, Orbán has centralized power, enabling his Fidesz party to control and manipulate the business sector through procurement power, regulation, and legislation. Businesses face increasing uncertainty and risk, as well as systemic corruption. While favored businesspeople and some corporate sectors thrive, the government doesn't consider any property truly private. No business, large or small, is safe from sudden government entry that can upset the rules of the game. Ten years after Orbán came to power, the private sector is no longer rightly seen as a separate sphere from government. Companies win or lose not because of their business acumen but because of their closeness to the ruling party and willingness to support its policies and rhetoric.

Brazil is nearly as large as the United States geographically, with a third of the population. It is a middle-income country with a large, diverse economy. Like the United States, its president is directly elected separately from legislators and its states have directly elected state parties that wield considerable legislative power and can differ from the national level. It is also a boisterous multiethnic democracy. Another similarity to the United States is its high levels of homicides and political violence. Both Brazil and the United States faced mob attacks on their government institutions following the electoral loss of the populist leader; Brazil's January 8, 2023, insurrection was seen as an imitation of the United States' January 6, 2021, attacks.

During Bolsonaro's single term in power, Brazil's strong institutions protected the business sector from most forms of direct harm. Congress countered Bolsonaro's attempts to change the electoral process and blocked executive actions that would have made it more difficult to investigate Bolsonaro's family for financial irregularities. The courts overturned Bolsonaro's attempts to manipulate data, jail journalists, and override state decisions on COVID-19 policy. But the result was a chaotic cycle in which policy was made by the executive only to be overturned by the courts, leading to increased uncertainty. Unlike the United States, Brazilian society was uniquely nonpolarized just a few years prior to Bolsonaro's rise. It took less than five years for polarization to radicalize the Brazilian public. Increased political violence has made what is already one of the world's most dangerous countries even more volatile. Polarization has also spread to Brazilian institutions. In the case of the courts, it led to activism and overreach as individual judges sought injunctions against individual supporters of Bolsonaro. These injunctions may have helped prevent a coup but may equally have simply stifled free speech.

Bolsonaro privatized companies and increased the central bank's independence. Some businesses benefited from the ideological slant of policies. Businesses that profit from deregulation in the Amazon Rainforest did particularly well. Many small businesses can avoid politics and benefited from reduced regulation and licensing requirements. Some appreciated Bolsonaro's choice to keep the economy open at the height of the pandemic.

But externally oriented corporations and financial institutions faced real harm from increased uncertainty, polarization, and decline in the rule of law. Sluggish growth, record inflation, and rising unemployment characterized Bolsonaro's leadership while the economy contracted. Brazil had been the world's seventh-largest economy prior to Bolsonaro's presidency. It fell to twelfth after his few years in office. Despite Bolsonaro's success in passing long-desired policies such as pension reform, the economy's volatility, slowdown, and increased risk led conservative banks, manufacturers, and business organizations to speak out publicly against the harmful impact of Bolsonaro's leadership on the business community.

India is the world's fifth-largest economy, though it is pocked by extreme poverty as well as plenty. While it has stronger centralization than the United States, its states have wielded significant power over the last quarter century. Also, like the United States, it is a country constitutionally committed to secular government that has struggled with inequality and strife among its diverse multiethnic electorate. Geographically, it is about a third smaller than the United States, with a population three times as big.

Modi has reduced regulation, cut corporate taxes, and eased doing business. At the same time, pro-business policies have been offset by personalistic policymaking that has sidelined experts and by a centralization of power that has neutered some of India's federalism that would have been a source of democratic resilience. Unwilling to allow unflattering data or news, the BJP has manipulated and suppressed government statistics while censoring and jailing journalists. The result has made quality economic statistics and information about the market harder to access and trust.

Modi's populist personalization of policy is directly tied to the short-term volatility experienced by large corporations. The poor implementation and failure to think through effects of his signature policies, such as the removal of large bills from the market, are also directly linked to the enormous costs borne by small businesses. Millions of people who made their living through small businesses have been unable to weather the ups and downs of his stormy policies, and many have had to close altogether.

By 2019, Modi had taken the growing economy he inherited and sent it into a slowdown, with GDP and consumption falling and debt and unemployment rising. His pandemic policies made the situation worse such that 40 percent of white-collar workers experienced salary cuts.⁹⁸ While he did tame the inflation of the previous government, the recent high levels of economic growth are largely a rebound after this prior sharp decrease.

Additionally, Modi's attempts to build support based on polarization have led to rising Hindu nationalism, which has increased lynchings and violence against Muslims and Christians.⁹⁹ At the same time, militant groups' targeted killings of Hindus have increased in Jammu and Kashmir since the BJP government ended the region's special status.¹⁰⁰ The unrest creates particular risks for businesses led by members of targeted groups.

Could It Happen Here? Populism in the United States

The United States is such a large and developed economy that it may seem immune from these economic effects of populism. For instance, it appears far less at risk from centralized government meddling in the market than tiny Hungary. But as in Hungary, government procurement is a potent tool: federal spending, direct and indirect, accounts for nearly a quarter of U.S. GDP. In 2022, combined federal, state, and local government spending accounted for 37 percent of GDP.¹⁰¹ If harnessed as in Hungary, India, and Brazil, procurement provides a great deal of weight for the government to tilt markets.

The U.S. government has many other levers at its disposal that politicians using populist strategies have used to control business. (In Hungary, Orbán has perfected this.) An increasing number of U.S. federal government contracts are awarded noncompetitively, giving the government greater discretion in meting out rewards and punishments through non-merit-based criteria.¹⁰² There are state and federal health, safety, environmental, and other regulations that are used to affect businesses in other countries and could be used in the United States. Government-required licenses affect nearly 30 percent of jobs in the United States, from barbers to real estate agents, making licensing a potentially potent government tool for favoritism, punishment, and manipulation.¹⁰³ Under the administration of former Florida

governor Jeb Bush, for instance, regulations were relaxed to allow out-of-state roofers to help Floridians recover from hurricane damage.¹⁰⁴ But under Governor Ron DeSantis, a county arrested a Texas roofer who had come to help after Hurricane Ian in 2022 for not having an in-state license.¹⁰⁵

The Internal Revenue Service (IRS) has a history of politicization and could be politicized again. Former president Franklin D. Roosevelt used it to give headaches to media magnates who did not like his policies, and former president Richard Nixon spurred thousands of IRS audits against potential enemies.¹⁰⁶ Presidents John F. Kennedy and Barack Obama gave extra scrutiny to conservative organizations.¹⁰⁷ Trump was accused of directing audits against individual foes.¹⁰⁸

Finally, as in Hungary, legally passed legislation can target the business sector in ways that increase uncertainty or affect the freedom of the market. A flood of state laws affects what businesses can do to serve their customers. For instance, cruise lines struggling to recover from pandemic losses tried to promise wary customers that they would verify passengers were vaccinated. DeSantis prevented them from doing so.¹⁰⁹ The Georgia House of Representatives voted to strip Delta Airlines of a \$35 million jet-fuel tax benefit as a payback for its CEO's comment on Georgia's restrictive voter legislation. (The state's Senate did not bring legislation for a vote).¹¹⁰ California Governor Gavin Newsom refused to renew a large contract with Walgreens pharmacies because of the company's attempt to comply with laws in twenty-one other states to withhold pills that can be used for abortions.¹¹¹ Dueling populist state legislation could impinge on the United States' functioning as a single, huge market, which would pose challenges to U.S. businesses.

The Walgreens predicament is one in which an increasing number of U.S. companies find themselves in as they navigate polarization that places politicized laws in conflict with one another in different jurisdictions—or simply creates headaches. California requires all publicly traded companies incorporated in the state to place underrepresented minorities on their boards, while Florida's DeSantis has blocked businesses from training their staff on racial issues.¹¹² In March 2021, the U.S. Securities and Exchange Commission announced the Climate and ESG Task Force that would enforce compliance for environmental, social, and governance (ESG) issues, just as Florida, Texas, and other states passed laws that barred various parts of the state from contracting with financial firms that factor climate or social issues into their investment decisions.¹¹³ House Speaker Kevin McCarthy threatened retribution against AT&T and other telecoms if they turned over records that were required under lawful subpoena by the House Select Committee to Investigate the January 6th Attack.¹¹⁴

Republican legislators in multiple states have already pushed back against interference in business decisions, and the American Bankers Association has written that “government should not be dictating business decisions to the private sector.”¹¹⁵ But the populist governing style that uses polarization to create voter intensity could make it harder and harder to claim this middle space, creating a vicious cycle that catches businesses in its undertow from both sides of the polarized divide.

So, the U.S. economy and business sector are vulnerable to populist governing strategies, just as other countries' economies have been. Businesses recognize that political risk in the United States is increasing. When the U.S. Chamber of Commerce reviewed the annual disclosures for the S&P 500 over the last decade, it found that government risk grew by 30 percent during that period.¹¹⁶

Could a leader use populism to exploit that vulnerability? The United States elected the world's first populist executive—Andrew Jackson—in 1828. He ended the Second Bank of the United States and overheated the economy, which crashed under his chosen successor. At the state level, Huey Long served as the populist governor of Louisiana from 1928 to 1932. He presided over the centralization of government power and corruption that persisted under his brother, his son, and ten other members of his family who held power into the 1980s, leaving a lasting imprint of mismanagement that continues to dog the state. In 2016, the United States witnessed both Senator Bernie Sanders and Trump campaigning with populist strategies of diametrically opposed political ideologies.¹¹⁷

As president, Trump employed each of the populist tactics to deepen his hold on power. He polarized the public into a “real people” and a variety of enemies, scapegoated minority groups, and railed against the corruption of elites and the “deep state.”¹¹⁸ He spread conspiracy theories that diminished Americans' trust in each other and in independent institutions, for example by making false claims that he won the 2020 election.¹¹⁹ He personalized power in himself, firing the heads of watchdog agencies and muddying the independence of the Department of Justice.¹²⁰ And while the United States' federalism is a strong bulwark against centralization, Trump did what he could to reduce the power of executive agencies and undermine institutional checks and balances at the federal level by refusing to appoint manifold positions in the U.S. government, forcing them to be run by acting directors.¹²¹ Such acting directors escape public scrutiny and lack the ability to make major policy decisions, allowing power to more directly vest in the president. Alexander Hamilton wrote in the *Federalist Papers* in 1788 that the reason to have the Senate advise and consent to senior positions in the government was because giving the president “sole disposition of offices” would yield a cabinet “governed much more by his private inclinations and interests” than by the public good.¹²²

As discussed earlier, once a country has elected a leader who uses a populist style, the polarization affects other institutions until they themselves may overreach, abuse their power, and cause democratic harm. The U.S. judiciary is now well along this cycle. A politicized case in the state of New York abuses federalism in an attempt to gain some justice for Trump, who has evaded responsibility for the harm he has done to democracy.¹²³ Dueling judicial opinions on politicized topics, such as abortion,¹²⁴ are politicizing the courts along partisan lines.¹²⁵

The success of populist tactics tends to yield copycat attempts among same-party aspirants and opposing-party politicians. That is in part because many media organizations enjoy reporting on the more emotionally heightened political environment and because leaders

have to attract more polarized voters. That copycat tendency is already apparent in multiple 2024 presidential aspirants.

Leaders matter. While other variables can lead to bad government, none are as decisive as leadership. In Brazil and Hungary, political actors took relatively nonpolarized countries and polarized them, degraded their rule of law, and politicized their institutions in less than five years.¹²⁶ Economic inequality seems to make populism more likely, but it is not always a driver of populism, either: Hungary and Poland were among the more equal countries in the world before populism divided their populations.¹²⁷ Economic downturns can increase votes for outsider parties, but both India and the United States had growing economies prior to electing leaders who ran on populist platforms.¹²⁸ Tracing warning signs for democratic instability can be useful, but no variable matters as much as the election of a leader who uses populist strategies of incitement, division, and distrust to gain power.

Businesses interested in tracking how much a particular politician is employing the dangerous populist style to win and govern can judge the politician based on a few key factors.

- **Polarization:** Is the politician creating a sense of an “us” that is more worthy of voice in the political system than “others” (such as “real Americans” for Trump or the “working class” for Sanders)? Is the politician picking issues that divide members of the country by scapegoating particular groups or individuals, such as minorities, businesses, or religious or nonreligious groups?
- **Trust:** Is the politician undermining trust in government institutions or other groups? Is the politician spreading or amplifying conspiracy theories?
- **Personalization of Power:** Does the politician tend to place loyalty above expertise or to replace independent members of government or oversight institutions with political supporters?
- **Centralization of Power:** Does the politician move power previously held by independent boards or held at the local or county level to their own level of power?
- **Intolerance for Dissent and the Checks of Independent Institutions:** Has the politician retaliated against others in government, the private sector, or the social sector who have voiced dissent? Has the politician criticized independent institutions of expertise for unfavorable decisions or determinations? Has the politician attempted to curb independent institutions by placing them under governmental control or appointing loyalists to key positions?

The United States now has gubernatorial, congressional, and presidential contenders who are echoing the populist style. Their mimicry may not be able to generate the intense personal connection with voters that more charismatic populists enjoy, making them less able to rally an intense, individually loyal base. Some may be more opportunistic than authoritarian

in their instincts, making them more responsive to external dissent in ways that more charismatic populists are not. But the populist style is dangerous in itself. When leaders wield it, they reduce trust and tear the social fabric of democracy, while also harming the bottom line for businesses and the economy. Unfortunately, the ways in which populism has damaged businesses and the economy in other countries are all too relevant to the U.S. business community.

Part II: Full Case Studies

Case 1: Hungary

Hungary—the model for a significant conservative faction in the United States—is likely to be the worst-case scenario for business. It took only eight consecutive years in power for Orbán to bring about an end to the private sector as a sphere outside government control.

Orbán entered politics as a liberal; during his first term as prime minister, from 1998 to 2002, he governed as part of a center-right coalition on a pro-business platform. He lowered taxes, cut inflation, increased employment, and reduced social service contributions from government. Business was happy. But he was voted out by Hungarians who disliked his welfare cuts. After the Socialist Party mismanaged the economy and the 2008 financial crisis added to the pain, a corruption scandal led voters to back Orbán again in 2010. Instead of governing as a pro-business, classically liberal leader, this time he relied on populist strategies to gain and maintain power. He has controlled Hungary ever since.

Centralizing and Personalizing Power

Orbán's first step was to centralize power. He had won 53 percent of the vote in the 2010 elections, but Hungary's voting system gave his party a two-thirds majority in parliament. That was enough to allow Orbán and his party to alter the constitution. A hyperactive lawmaker, he changed fifty constitutional provisions in his first year.¹²⁹ In parliament, his party, Fidesz, passed laws so speedily that no oversight was possible. Some days, parliament

passed more than a dozen major laws. Some legislation applied retroactively, while other provisions helped a single person. Many of the laws mimicked those of other EU countries, but by putting them all together, they each created a plank that further centralized power at the national level, giving Fidesz control over regulatory bodies, commissions, and other institutions.

The blizzard of new laws increased legal uncertainty.¹³⁰ So did Orbán's decision to lower the judicial retirement age, giving him the right to appoint party-supporting judges in the newly retired judges' places. He removed the Constitutional Court's power over budget and tax laws and tweaked the constitution to create a new judicial body with power over all appointments and promotions and appointed a party loyalist to lead it.¹³¹

With control over the courts and the laws, Orbán could make most things go his way: for instance, when the independent National Election Office ruled in 2018 that thousands of mailed-in votes were invalid because their tamper-proof tape had been opened, the government retroactively revoked the law requiring tamper-proof tape on mail-in ballots.¹³² Usually, Orbán was not so blatant. He mostly tinkered with the electoral system; his technical alterations each seemed small, but they added up. In the 2014 and 2018 elections, he won fewer than 49 percent of votes.¹³³ But through his gerrymandering, his party maintained control of two-thirds of parliament—enough to make constitutional changes and more than enough for him to continue as prime minister.

Meanwhile, Orbán brought many municipal functions, such as firefighting, schools, and hospitals, under national control. Globally, deregulation of civil service rules to enable easier firing is often touted as a way to create a more accountable government that doesn't act as a "deep state" to thwart the will of voters. However, in Hungary, these policies made government employees including nurses and teachers directly accountable to Orbán and Fidesz, making it clear that their employment depended on supporting the party.¹³⁴ Orbán also began to use regulatory bodies, government funding, and hiring power to force private entities to spout the party line. Sports teams and arts organizations noticed that if they spoke well of Orbán, grant dollars would flow. If they showed less support, then health and safety inspectors could close their theater on opening night or a government contract could go to a rival.¹³⁵ Government was creeping into all spheres of life. It was the opposite of economist Friedrich Hayek's vision of a small government with active private associations that could help societies manage themselves separate from the state.¹³⁶

Politicization of the Private Sector Increases Uncertainty and Decreases Autonomy

In the business sector, the media industry was the first to feel government pressure. In 2010, Orbán slashed government advertising to media companies that ran negative stories about Fidesz.¹³⁷ Since government ads for the national lottery, tourism campaigns, and job advertisements composed a significant portion of all ad revenue, the industry quickly felt

the pinch.¹³⁸ Private advertising dollars began to follow government ones; no one wanted to get on the wrong side of a capricious leader by supporting media that the government was shunning. Then, the government created a media authority that could fine outlets for coverage deemed unbalanced. In 2011, parliament passed a new law allowing the government to approve any media acquisitions. Over the next five years, most major media companies were bought by government-connected businesspeople after regulatory squeezing and unwarranted tax oversight made them too hard to run or unprofitable. The remaining independent media understood the new rules: they required no official censorship to end any serious coverage of the government.¹³⁹ But that wasn't quite enough to reassure Orbán. Over a few days in 2018, 467 private media outlets were given to the government as gifts, their pro-government owners apparently deciding to be particularly generous. Ignoring competition laws, they were put under a single foundation that now had overwhelming control over the marketplace of information.¹⁴⁰ A few individual, independent websites and newspapers still exist, and there remains no official censorship. But no news source that reached a true mass market was allowed to remain independent.

Media is the canary in the coal mine for populist leaders. But it was not the only sphere in which the Hungarian government exercised pressure. A year after Orbán's election, parliament unexpectedly raised the monthly tax on slot machines fivefold and legislated that operators switch to machines connected to online servers. Restaurants and bars often kept one or two slot machines for customer enjoyment, but the new tax law rendered them unprofitable. Most owners simply turned them over to the government rather than switching to online servers, reducing the number of machines in circulation from 20,000 to 2,000. Then, in October 2012, a new law banned even server-connected machines unless they were in casinos, destroying the investment of about a thousand businesses that had altered their machines. A new law was passed to regulate casinos, allowing up to five concessions without a public tender. Five licenses were summarily issued to a single company whose owner was close to Orbán. After that, parliament passed laws to reduce taxes and legalize international gambling. A few individuals became very wealthy, while thousands of small bars and restaurants lost a source of profit.¹⁴¹

Of course, gambling is regulated and corrupt in many countries. But the experience of Hungarian restaurants and bars with their slot machines was repeated in many other industries, as the earlier example of billboard advertising in Budapest showed. In 2013, Hungary's government suddenly decided to impose a state monopoly on tobacco, citing public health concerns. For many rural cigarette-and-newspaper shops, tobacco products were a profit center; stripped of those sales, more than 35,000 small stores closed the following year, despite having taken no political stance. After their closure, parliament passed a new law increasing the profit margin of tobacco products and allowing businesses to bid on a twenty-year concession. A third of the winning shops had political connections, transforming many such local shops into what the Hungarians started to call a "Fidesz-közeli cég," a "near-to-Fidesz company."¹⁴²

Pro-business Policies Mask Denigration of Private Property

As Orbán centralized power and increased uncertainty, he also delivered what appeared to be a pro-business agenda. By 2017, the Fidesz government had pulled Hungary out of a recession and repaid its loan from the International Monetary Fund (IMF) early, thanks to the forced transfer of private pension funds to the government.¹⁴³ Hungary had 4 percent annual growth, a stable budget and debt, a rise in real income, low inflation, and low unemployment. Some of this economic success was thanks to the EU's cohesion funds, which transfer significant amounts of money from wealthier member states to poorer ones, including Hungary. But many businesses credited Orbán with delivering the pro-business platform they had desired. Yet, at the same time, he attacked the very idea of private property, starting with sectors that rarely elicited deep public support, such as the banking sector.

When Orbán first became prime minister, he inherited a deficit and an IMF bailout that forced an austerity plan on the country. He promised Hungarians no new taxes. Instead, he introduced a new flat tax for individuals and another flat tax for corporations that cut their rate to the lowest in Europe. He also offered easy credit to small and medium businesses to pump growth. In keeping with his center-right agenda, he slashed the public employment program of the socialist government.

But then his policies took a populist turn. He renamed the public employment agency and doubled its budget. With the economy in straits, these public jobs became the only option in some rural villages. By 2016, more than 5 percent of working Hungarians were employed in public-works schemes, giving Fidesz a group of people beholden to the party for their jobs.¹⁴⁴ Since public-works jobs paid less than minimum wage (about a third of the average Hungarian salary), they kept inflation down and allowed Orbán to claim low official unemployment numbers.

Thanks to policies launched under the Socialist government, Hungary's economy had started to fail in 2007 and its currency crashed from 2009 to 2011.¹⁴⁵ Middle-class households found that their mortgages, which were largely denominated in foreign currency, had become impossible to repay.¹⁴⁶ Orbán forced banks to redenominate these mortgages at favorable rates, thrilling homeowners but undermining bank profits. At the same time, he forced utility companies to cut rates, further building his popularity among voters. Then, he hit the financial sector and telecommunications, insurance, and energy firms with new "crisis taxes" while also forcing steep new taxes on foreign businesses.¹⁴⁷ In 2014 alone, the mortgage redenomination and increased taxes cost banks about €1.6 billion.¹⁴⁸ Companies that complained faced populist rhetoric against excess profits and rhetoric that Fox News' Carlson would later repeat, such as, "[Orbán] thinks families are more important than banks."¹⁴⁹ Meanwhile, insinuations about grasping bankers hinted at the polarizing and scapegoating rhetoric against Jews, immigrants, and racial minorities that would soon come.

Orbán's marginalization of the business sector allowed him to start nationalizing. He nationalized private pensions to bring in more government income. Then, he nationalized half of the banking sector and many telecommunications, media, and energy firms, using

regulations and taxes to force owners into positions where they couldn't make a profit and felt they had no option but to sell to the government, sometimes at a price below market value.¹⁵⁰ Waste management and school book publishing were nationalized.¹⁵¹ Foreign businesses were squeezed early on, but many German companies had been protected due to the country's geopolitical importance to Hungary. Yet, over time, the window shrank, even for once-protected corporations. The Act on Hungarian Architecture, due to be passed in July 2023, will dictate products and prices in the construction industry. Foreign companies are already receiving requests from Fidesz-connected businesses suggesting that they sell. If they did sell, the state would have the right of first refusal to purchase the companies.¹⁵²

Like most countries, Hungary requires many businesses to be licensed. The government is in charge of monitoring health and safety. It controls tax authorities and government spending. Now, ownership of half of the financial sector meant Orbán also had power over credit. Control of many utilities and telecoms added to the toolkit of ways Fidesz could apply government pressure on the private sector.

Businesses that believed they could steer clear of politics soon realized the government could affect them. For instance, the majority of construction funds in the country emanated from the EU. By requiring that EU- or government-funded projects could only be designed by agencies approved by the state, the government forced every large architect or engineering firm to toe the government line.¹⁵³ If there was no clear means to control a business directly, Orbán's government would reportedly seek out ways to apply pressure via family members—a private businessman might be personally untouchable, but his mother-in-law might be a nurse whom the government could fire or his son might find himself blacklisted and unable to accept a university job from an institution that was ultimately dependent on government research money.¹⁵⁴ These levers squeezed dissent.

Businesses realized their pro-business prime minister had left them with no freedom of maneuver. Elections remained free in that people could vote for the candidate they chose without fear. In 2014, Orbán only won 44 percent of the vote. But it was too late for accountability: Orbán had gerrymandered election rules so that 44 percent of the vote gave his party control over two-thirds of parliament, propelling himself into a second consecutive term with another majority large enough to alter the constitution.

Cronyism

With so much power, Orbán and other Fidesz power brokers could elevate individuals into massive wealth by selecting them for EU contracts or by forcing businesses to sell to a new, party-connected owner. In just a few years, Orbán's childhood friends and village compatriots became the richest people in Hungary.¹⁵⁵ His father owns a mining company that consistently wins state tenders over its competitors despite their products being up to 70 percent more expensive.¹⁵⁶ By 2018, it had the highest profit margin in the industry, more than double the average.¹⁵⁷ Investigations have shown how markets from streetlighting to

gun sales are regularly skewed when a family member or ally of Orbán becomes interested in a profit-making opportunity.¹⁵⁸ Companies allied with Orbán were six times more likely to win a public tender in 2021 compared to their likelihood in a competitive market.¹⁵⁹

CEOs willing to become political can be successful in modern Hungary, but the wealth is capricious. Orbán doesn't want any potential rivals, so proximity to power doesn't guarantee lasting wealth. Orbán reportedly helped his school friend Lajos Simicska rise to the top of the business ladder. But when Simicska expressed independence, the government forced him to sell or close all of his companies.¹⁶⁰ He wasn't alone. Others who considered themselves government allies, such as finance magnate Sándor Demjén, were pushed aside because they were too rich to be allowed to grow without being cut down to size.¹⁶¹ Meanwhile, lesser politicians were also using their political power to amass business wealth by tilting the playing field in ways that benefited their businesses and hurt the competition. In the market, "the government decides who wins and who loses," explained András Vértés of GKI, a Hungarian business consultancy.¹⁶²

According to Transparency International, Hungary's corruption score has worsened more than any other country in the decade since 2013. It is now the most corrupt country in the EU, with rates higher than those of the prior socialist government that was ousted for corruption.¹⁶³ Hungarian corruption is also more centralized and grand than before, as opposed to decentralized and petty. Corruption has not significantly damaged Hungary's economy, however, because for many years the EU's financial mechanisms continued to give the country significant economic support. But reports outlining the sheer extent of the corruption and its violation of EU rules may reduce the EU's largesse, at which point Hungarian businesses would feel the economic repercussions of Fidesz policies with less cushioning.¹⁶⁴

The government's control over the media means that stories about corruption are covered by independent websites and small newspapers, but they are not amplified by major press outlets and so rarely trigger scandals. And the EU's suspension of funds has not led many voters to blame Orbán because he has succeeded in painting the suspension as foreign interference.

Polarization

The business sector felt early the costs of being on the wrong side of "the people" with a populist leader at the helm. In his first term, Orbán turned the middle class against business elites. His demonization of excess profits and insinuations against business and profits drew on anti-Semitic tropes that had a long history in Hungary. By casting financial institutions and corporations as greedy, he was able to increase taxes and cap profits on some business sectors and nationalize others, keeping prices low for voters in order to build his popularity.

By his second consecutive term, it became apparent that scapegoating to intensify his base support was Orbán's playbook for maintaining votes. He found a new issue every few years to create an us-versus-them discourse that would deepen polarization. He saw that

increased migration during the Syrian civil war would be a vote winner and denied refugees entry during a massive uptick in 2015, posturing as the hard man of Europe. This was merged with his campaign against Soros, whose Jewish roots and Hungarian history made him a useful foil for claims that Jews were controlling immigration and trying to dilute “Hungarian-ness.”¹⁶⁵ By his third consecutive term, Orbán had conflated immigration with an increase of Muslims and tied this to a threat against Christendom. Orbán’s language became increasingly polarizing; eventually, the combination of scapegoating and accusations of “miscegenation” led an adviser who had worked with him for twenty years to quit after denouncing his July 2022 speech on race-mixing as a “Nazi diatribe worthy of Joseph Goebbels,” Hitler’s propagandist.¹⁶⁶

In other countries, this level of scapegoating could lead to polarization and social unrest, protests, riots, and increased hate crimes. But Hungary’s minority communities and opposition supporters have little power and make up only a small percentage of the population, so the population has not become polarized. It also has tightly controlled gun sales that reduce the likelihood of political violence, although there has been tepid police response to far-right paramilitary groups harassing and assaulting Roma communities.¹⁶⁷ Instead, Orbán’s scapegoating deepened antipathy toward Muslims and other minorities more broadly, while cementing his voting base.¹⁶⁸

Conclusion

Orbán and his Fidesz party are often described as center-right. But the high level of state employment, nationalization of key parts of the economy, giveaways to voters, and profit caps on corporations are hardly the stuff of conservative government. Nor is Orbán’s control over religious groups, businesses, and private associations reflective of small government principles: Fidesz has instead argued, “since an elected government represents the will of the people—and since civil society should strive to fulfill the people’s will—then civil society exists to carry out a ruling party’s manifesto.”¹⁶⁹

But it is hardly a left-wing government, given that it has the lowest corporate tax rate in Europe, coupled with a regressive flat tax and high value-added tax. Its labor code appears to be pro-business, but since businesses can be regulated out of existence or into government control at any time, it is really a means of ensuring worker precarity to keep people more dependent, ultimately, on Fidesz.

The economy Fidesz has created is something new. Communism was understood to mean a totalitarian government that dominated the economy, leaving no room for private property or civil society. Democratic, capitalist countries had governments that could set the economic rules but otherwise let the market decide who should prosper or fail. In Hungary, the state wields an iron fist in a velvet glove. It is not totalitarian in the least compared to the Soviet Union or Maoist China. Instead, the state uses its power to deliberately tilt markets.

Business skill and the normal creative destruction of the free market no longer determine winners and losers. Instead, these forces are channeled by Fidesz so that the market is used to enrich friends, punish enemies, and force obeisance.¹⁷⁰

For businesspeople, legal uncertainty and political expediency make it difficult to plan. It is only a matter of time and the personal whims of Fidesz leaders before politicization affects their enterprise. Losing autonomy and praising the government can reduce some risk and uncertainty, but it doesn't always work. The individual deals and work-arounds created by individual businesses are only temporary alliances that the state can break at will.¹⁷¹ These problems are exacerbated by Orbán's slow but steady takeover of elections: in 2022, only 38 percent of Hungarians still believed they could replace Orbán democratically.¹⁷²

Case 2: Brazil

If Hungary is a worst-case scenario for business, Brazil is the best outcome of the three cases, in large part thanks to the actions of the business community. Bolsonaro became president in 2018 following a massive corruption scandal that discredited Brazil's political establishment. He made a virtue of coarseness on the campaign trail, claiming to say what others wouldn't. As president, his indifference toward the rule of law yielded fierce constitutional battles with the National Congress and the Supreme Court, increasing policy volatility and legal uncertainty. After one term, Bolsonaro left Brazil with a contracting economy, high inflation, low growth, and polarization that led thousands of his conspiracy-believing supporters to attack government buildings in the capital in January 2023.

However, Bolsonaro inflicted less damage on businesses than Orbán and Modi did because of two key differences. First, he served only a single term, largely due to the business community's efforts to shore up the democratic system after realizing how dangerous he could be. Second, he never created a strong party that was organized at the state and local levels, meaning that his populism affected voters but had less of an effect on politicians. (In India and Hungary, the ruling parties have become saturated by the populist governing style.)

Polarization

In March 2016, Bolsonaro, a highly ideological congressman, announced his presidential campaign. While in Congress, he had been fined for declaring that he would not deign to rape a fellow congresswoman because she "wasn't worth it." He dedicated his vote to impeach former president Dilma Rousseff to the man in charge of the center where Rousseff

had been imprisoned and tortured as a young woman under the military dictatorship.¹⁷³ As a presidential candidate, he built voter intensity through polarization. He spoke approvingly of civil war, military coups, and torture, in a country where street violence had engendered just such calamities within the lifetimes of many middle-aged and older Brazilians. He claimed that he “would rather have a son die in an accident than be gay” and that he was “proud to be homophobic.” In multiracial Brazil, he mocked the weight of Brazilians in an Afro-Brazilian community, using a measurement term used to weigh cattle and farm products, then claimed that the people in the community “don’t do anything. They are not even good for procreation.”¹⁷⁴ His sons were too “properly raised” to ever love a Black woman, he stated.¹⁷⁵

As Bolsonaro’s campaign was polarizing society and gaining him intense supporters, the investigation into a major corruption scandal was pouring gas on the fire.¹⁷⁶ In 2014, what started as a simple investigation of money laundering through a car wash began to expose a web of political corruption that ran to the top echelons of government. It became known as the Lava Jato (Car Wash) scandal. As the systemic nature of the corruption became clear, it destroyed Brazilians’ trust in their establishment politicians. Bolsonaro, running as an outsider despite his quarter century in Congress, benefited from this distrust.

Meanwhile, his polarization was augmented by that of the Car Wash scandal. In the probe’s early years, Sergio Moro, the main judge, and the prosecutors involved were viewed as national heroes. Righteous fighters against corruption, they were imprisoning scores of politicians and millionaires, letting no one stand above the law. But over time, some Brazilians became less sure. The nature of the corruption seemed systemic, but far more Workers’ Party politicians were being arrested and charged, including beloved former president and then presidential candidate Lula. In 2017, Lula was convicted on charges of corruption. That removed him from the presidential race, just six months before voting and when he was leading in the polls. Some Brazilians began to wonder whether Moro was using real corruption for a political agenda.

Brazil is a vibrant, openly multiracial country, but since democracy returned in the mid-1980s, race, gender, and religion had not correlated with how Brazilians voted. But in 2018, voters cast their ballots along these identity lines.¹⁷⁷

Bolsonaro may have borne the first costs of polarization: he was stabbed by a mentally ill man and nearly killed on the campaign trail. But he also benefited from his claims to outsider status and from the anger many voters had with the governing Workers’ Party, whose economic mismanagement had contributed to the worst recession in Brazil’s history. Much of the country’s new middle class, only recently out of poverty, feared that they were slipping back.¹⁷⁸

Bolsonaro won and appointed Moro as minister of justice and public security. Moro still enjoyed hero status among much of the country. In 2019, however, leaked messages showed that Moro and prosecutors had collaborated to convict Lula. Many Brazilians continued to see the Lava Jato investigators as defenders of the rule of law. But the leaks confirmed for others that an ideologically biased judge had brought down the leading left-wing presidential candidate in order to help Bolsonaro and his own political fortunes.¹⁷⁹

Meanwhile, as president, Bolsonaro doubled down on polarization. He continued his coarse rhetoric against women, LGBTQ individuals, and racial minorities. He also leaned into polarizing policies. In a country with the most homicides on earth,¹⁸⁰ Bolsonaro's first month featured the first of three dozen executive decrees making guns more available, leading to a doubling in the number of guns owned by private individuals.¹⁸¹ He issued executive decrees to pardon police involved in past massacres and tried to provide greater impunity to the police—already among the most deadly forces in any democracy—for shooting to kill.¹⁸² These policies elicited vociferous support from some and hatred from others, showcasing the way polarization helped Bolsonaro solidify his base.¹⁸³

When COVID-19 hit Brazil, he called the disease a “measly cold,” belittled masks and cautious health leaders, and fired two public health officials who refused to publicly defend hydroxychloroquine as an effective treatment.¹⁸⁴ Again, many Brazilians were horrified, but others felt vindicated. Bolsonaro used the virus, which killed hundreds of thousands of people in the country, to open another rift by class. He fought to keep Brazil open for business, casting the choice as a decision to help poor and middle-class people who “needed to work” versus the elites who he depicted as able to wait out the devastation from their countryside homes.¹⁸⁵

By 2022, a country barely polarized just a few years before was starkly divided by race, religion, gender, and an urban left and rural right, similar to the United States.¹⁸⁶ In 2023, the Edelman Trust Barometer put Brazil “in danger of severe polarization,” a stark designation when it showed nearly no signs of polarization a decade earlier.¹⁸⁷

Polarization Undermines Business Orientation

Bolsonaro had not been the preferred candidate of most businesses in the 2018 election. He had a history of voting for protectionism and spending while standing against privatization. But the business community was united in their opposition to the left-wing Workers' Party. The former government had been riddled with corruption, stories of which had been splashed across Brazilian media throughout the Lava Jato corruption inquiry. Rousseff's mishandling of the economy had made a bad situation worse and thrust the country deeper into its worst recession. Her attempt to get out of it resulted in financial mismanagement

that led to her impeachment. She had also increased workers' bargaining power, leading to a significant increase in strikes.¹⁸⁸ So, when Bolsonaro was pitted against a Workers' Party candidate, most businesspeople got behind him to fend off a left-wing victory.

Bolsonaro did his best to live up to his pro-business campaign rhetoric. He brought in a Chicago-trained neoliberal to reassure the business community and immediately embarked on a series of pro-business measures. He granted independence to the Central Bank, which had shown itself under Rousseff to be susceptible to political pressure.¹⁸⁹ He privatized \$23 billion in state assets and pushed a pension reform through Congress that cut major government costs, helping to reduce Brazil's large fiscal deficits. He brought interest rates to their lowest point in recent history. He deregulated multiple industries, particularly cutting environmental regulations that helped agribusiness in the Brazilian rainforest.¹⁹⁰

Small businesses appreciated that he loosened onerous licensing and inspection requirements. Many also appreciated that he tried to keep Brazil open during the pandemic, despite the devastating death toll that put Brazil in the top five countries worldwide for per-capita mortality and despite the stress on hospitals, morgues, and daily life during the worst parts of the pandemic.¹⁹¹

But his economic policies kept running into his populism. The government spent wildly, first during the pandemic and later in large welfare program giveaways to gain an electoral advantage. Bolsonaro ended school attendance and other requirements formerly needed to receive government assistance.¹⁹² Then, he got a state of emergency declared in July 2022 so he could blow past a constitutional cap on spending and get money into voters' hands quickly to help his campaign chances.¹⁹³ Spending was so vast that even as energy prices rose globally following Russia's invasion of Ukraine, they fell in Brazil. National debt grew.¹⁹⁴ Inflation rose such that Brazil's inflation rate was the fourth highest in the Group of Twenty (G20) from 2021 to 2022, even as unemployment was high.¹⁹⁵ The Central Bank was forced to raise interest rates so that by 2022, inflation was above 12 percent while interest rates were also high.¹⁹⁶ Despite modest growth in 2022, Brazil's economy contracted under Bolsonaro, shrinking from the world's seventh largest prior to Bolsonaro's presidency to twelfth by the end of his term.

Polarization and Institutional Sideline Increase Uncertainty

Brazilian presidents can enact provisional measures for up to sixty days and renew them once, after which Congress must legislate.¹⁹⁷ But Brazil has many parties, so compromise is essential to getting any legislation through Congress. And Brazil has strong institutions willing to push back against perceived inappropriate executive action. Thus, despite Bolsonaro's choice to lean into polarizing policies to solidify his identity connection to his

voter base, the courts and Congress repeatedly reversed his executive decrees. That separation of powers, similar to the United States, kept executive overreach at bay in a way that proved less possible in India and Hungary. But the tumultuous pattern of policy being passed by the president and overturned by the courts or legislature increased uncertainty and made it hard for businesses to plan. Meanwhile, Bolsonaro's anger at institutions that impeded what he termed the "will of the people," as interpreted through him, led to intense constitutional fights among institutions that scared Brazilian corporations and investors.

In 2019, when Bolsonaro tried to pass a change to his cabinet structure that sounded technical but would have made it harder to investigate his family for financial improprieties, Congress stepped in and erased those parts of the legislation.¹⁹⁸ Later that year, Congress also reversed parts of Bolsonaro's polarizing but signature crime bill in which he attempted to increase police impunity; Congress altered the bill to force greater due process on both police and the judiciary.¹⁹⁹ When Bolsonaro submitted his 2020 budget, the legislature amended it more than twice as much as they did his predecessor's. Bolsonaro vetoed the amendments, then Congress overturned the veto. Finally, Bolsonaro attempted to alter Brazil's election machinery, having repeatedly declared that election fraud had taken place despite his victory in the 2018 election. Congress rejected his proposal in August 2021.²⁰⁰

Bolsonaro similarly clashed with the Supreme Court. In his first years as president, he repeatedly sought jail time and criminal punishment for political critics, including cartoonists, bloggers, professors, and pundits. But unlike in Modi's India, these politicized charges died in the courts.²⁰¹ In 2019, he attempted to reduce public access to government information and increase classification. Similar attempts would stand in India, but in Brazil, the Supreme Court ruled against it.²⁰² The next year, during the COVID-19 pandemic, he tried to force the economy open by stripping states of the right to restrict peoples' movements. The Supreme Court upheld states' rights. Later, he tried to restrict COVID-19 data as Modi had done in India, but again the Supreme Court forced the information to be released to the public.²⁰³

When he could, Bolsonaro simply avoided following the law. The Supreme Court may have shut down his attempt to increase classification, but his government simply rejected a third of all requests for government data in contravention of the law, the worst record of any Brazilian administration since the law on access to government records was passed in 2011.²⁰⁴

But the constitutional fights continued to heat up. His supporters in Congress first proposed a constitutional amendment to lower the retirement age of judges, which would have given Bolsonaro greater appointment power, as Orbán had done in Hungary. The law did not pass through Congress.²⁰⁵ In the fall of 2021, Bolsonaro declared that he would not abide by any decision taken by Supreme Court Justice Alexandre de Moraes, who oversaw federal police

investigations. At that point, Bolsonaro was facing such an investigation for his baseless claims of election fraud, which may have violated Brazilian law. The president called on Congress to impeach de Moraes and asked the court's chief justice to punish de Moraes.

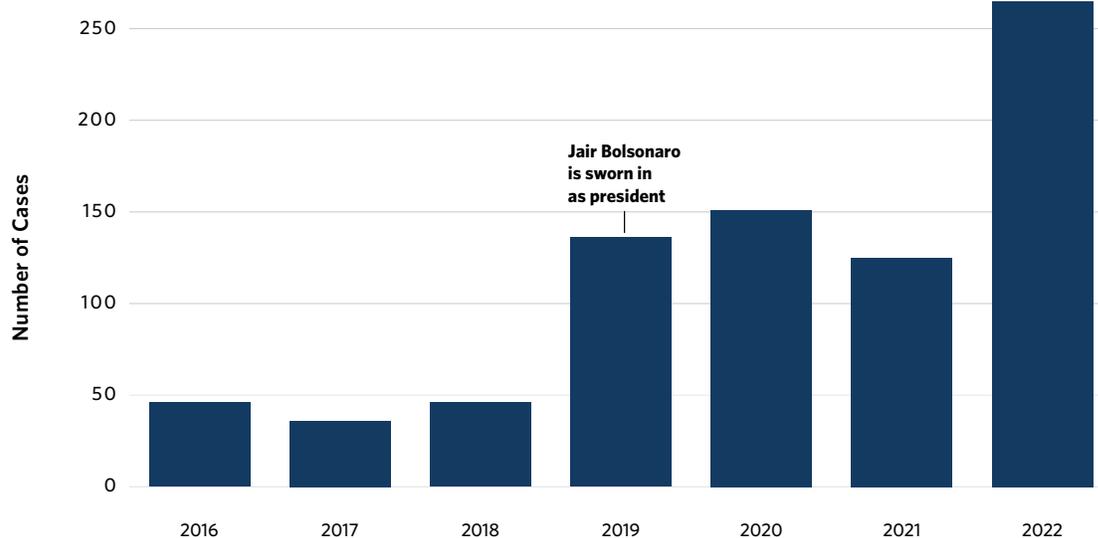
Bolsonaro began to threaten a self-coup to gain more power and avoid these checks and balances. Brazil's past military coup made the threat more realistic, as did Bolsonaro's deep and long-standing base of support among the military during his years in Congress, his appointment of an unprecedented number of military leaders to his cabinet, and the 6,000 active-duty and retired military members in civilian jobs throughout the federal government—more than the number of military members who served in the executive branch during the military-led government of 1964–1985.²⁰⁶

Polarization and support from his base allowed Bolsonaro to attack Brazil's democratic institutions. At a rally of thousands of his supporters who took to the streets to back his claims of election fraud, Bolsonaro called on the chief justice to act or the justice system could “suffer something we don't want.”²⁰⁷ In other speeches, he called for the closure of both the Supreme Court and Congress and even for military intervention.²⁰⁸

The stock market was jittery. Confidence in Brazil's institutions began to erode. Fearing increased risk, private investors reduced their investments. Credit tightened as creditors feared that judges wouldn't force borrowers to pay and became less willing to lend money to entrepreneurs.²⁰⁹ Although the Brazilian government holds power over regulations, subsidies, tax breaks, and contracts that generally make business shy of speaking against it, the level of volatility and political tension altered businesses' risk calculations. Manufacturing businesses and banks took the unusual step of writing an open letter in the fall of 2021 asking Bolsonaro to respect the three branches of government and calling for harmony among them.²¹⁰

It would not be the last business attempt to uphold democracy. Bolsonaro's choice to govern from a polarized extreme and his disrespect for institutional norms led him to continue his claims of electoral fraud and malfeasance, make declarations that only God would remove him from office, and instigate saber-rattling with the military. Businesses became so alarmed about political risk that in the lead-up to the 2022 elections, the usually conservative Brazilian Federation of Banks (Febraban) and the powerful Federation of Industries of Sao Paulo (FIESP) sent a joint open letter asking Bolsonaro to run honest elections.²¹¹ Another open letter in the same vein was signed by the cochairmen of Brazil's biggest banks, the Federation of Trade in Goods, Services, and Tourism of the State of Sao Paulo (FIESP), and the Brazilian Association of Infrastructure and Basic Industries (ABDIB), as well as over a million people.²¹²

Figure 3. Cases of Political Violence in Brazil Soar Under Bolsonaro



Source: Terra de Direitos and Justiça Global.

Notes: Data is as of October 2, 2022. The definition of political violence includes physical violence, threats, or intimidation that affects elected officials, candidates, or pre-candidates; is committed by people involved in politics to destabilize public institutions or democratic functions; or is aimed at restricting the free and full political participation of groups that have historically been discriminated against.

Rule of Law Declines

As the population polarized and institutions faced ongoing attacks, political violence increased, and the rule of law declined. By the end of Bolsonaro's term, there were five times as many cases of political violence than the year before he took office (see figure 3).²¹³

Attacks against journalists also increased. Bolsonaro, his family, and other government officials continually verbally attacked journalists. Bolsonaro's personal lawyer even sent threatening messages to a journalist.²¹⁴ In the first half of 2021, Reporters Without Borders recorded 331 government attacks on the media, 293 of which were made directly by Bolsonaro and his sons.²¹⁵

Bolsonaro's tolerance for rule of law violations was apparent in the blind eye he turned toward illegal logging in the Amazon and the violence it often entailed against other businesses and Indigenous communities. After a British journalist and an Indigenous adviser working in the Amazon were murdered, Bolsonaro's response was simply: "That Englishman was disliked in the area because he wrote a lot against *garimpeiros*, environmental issues, people didn't like him. He should have been much more careful."²¹⁶ Such a blasé attitude encouraged organized criminal groups that were behind half of the illegal farming, logging, gold mining, and other Amazon offenses.²¹⁷

Bolsonaro tolerated family peccadillos as well. By March 2021, all four of Bolsonaro's sons faced corruption allegations. One, a senator, was accused of financial improprieties that were behind Bolsonaro's rebuffed attempt to pass a law that would have shielded his family members from financial scrutiny.²¹⁸ Another son was credibly linked to paramilitary violence.²¹⁹

Meanwhile, the polarization and institutional attacks generated rule of law fissures within the judiciary itself. De Moraes, who had investigated Bolsonaro for his possible election law violations, took increasingly extraordinary steps. Businesspeople whose private group texts were leaked to the press found that de Moraes had authorized search warrants of their homes and had frozen their financial assets. He also froze their social media accounts and raided the homes of pro-Bolsonaro media influencers. He not only accused members of the January 2023 mob that attacked Brazil's governing institutions but also gave social media platforms two hours to block the accounts of individuals accused of inciting the mob, threatening \$20,000 in daily fines if they failed to comply. Telegram refused and was sent an initial invoice for hundreds of thousands of dollars. De Moraes's supporters claimed that he and the Supreme Court, which must fully ratify any decision, were defending democracy from threats and were forced to act because the attorney general, a Bolsonaro appointee, would not. His detractors claimed that he threatened the rule of law by using it for a political witch hunt.²²⁰

According to the World Justice Project, the rule of law began to decline under Bolsonaro's predecessor, Rousseff, and continued to fall throughout Bolsonaro's presidency as polarization took its toll in violence and institutional damage. By the end of Bolsonaro's term, the World Justice Project showed that Brazil's rule of law was below average for the country's income group. Brazil also ranked below average globally on order and security, criminal justice, regulatory enforcement, and constraints on governmental power.²²¹

Conclusion

Bolsonaro's polarization, attacks on institutions, and reductions in the rule of law have taken their toll. Many small businesses appreciated that he fought to keep markets open during the pandemic.²²² But many large corporations, the CEO of Brazil's largest bank, and multiple former Central Bank presidents wrote an open letter declaring that with Brazil among the hardest-hit countries in the world and mortuaries overflowing, it was "not reasonable to expect economic recovery in an out-of-control epidemic" and asking for a real plan for getting COVID-19 under control and the economy back to rights.²²³

Agribusiness and mining, which boomed under Bolsonaro, remained his strong supporters, thrilled by his lax environmental regulation and hostility to Indigenous people's rights claims.²²⁴ Those companies that depended on illegal activity in the Amazon Rainforest also believed they would likely never have another leader willing to turn so blind an eye to their use of violence, slash-and-burn techniques, and other tactics. Such businesses warmed to his

manipulation of data on their behalf, such as his firing of the head of the National Institute for Space Research—which monitored deforestation of the Amazon—and his removal of parts of the Amazon from any monitoring.²²⁵

But other financial leaders saw Bolsonaro's callous approach to the Amazon and his polarizing rhetoric as destroying Brazil's international image and blamed him for stalling free-trade negotiations between MERCOSUR and the EU.²²⁶ As the 2022 campaign got underway, much of the financial sector, large corporations, manufacturers, and externally oriented businesses had soured on the president. Sluggish economic growth, high inflation, and declining foreign capital hurt them.²²⁷ Yet, the problem wasn't simply profit and loss but the level of risk. As the former CEO of an aircraft manufacturer explained, the uncertainties made it impossible to plan or make production investments.²²⁸ After the January 2023 mob attack on the country's democratic institutions, Goldman Sachs' chief Latin American economist explained that high social tension and polarization were keeping risk premiums high.²²⁹ Despite banks' record profits under Bolsonaro, they also suffered from the way Bolsonaro's style increased uncertainty and with it exchange rate and stock market volatility.²³⁰ They also feared personal attacks. A cabinet minister had declared that the banks were making "excess profits"—the kind of accusation that had opened the door for political as well as bottom-line attacks on the business community in Hungary.²³¹

By September 2022, polls showed Bolsonaro having 62 percent support from the business community, down from nearly universal backing four years earlier.²³² Through their votes, open letters to the public, and financial support, a significant plurality of the business community rallied to ensure that what they saw happening in other countries would not happen in Brazil. In an election that broke with 50.9 percent of voters supporting Lula and 49.1 percent supporting Bolsonaro, this loss of electoral and financial support was critical to Bolsonaro's failure at the ballot box.

Brazil is about as much of a success story as a country can be with a populist leader. Bolsonaro handed Brazil a sluggish economy with increased poverty and rising inflation. He provoked the Supreme Court so that it started to overreact to real threats against democracy until it itself was threatening democracy. He also sparked polarization not seen since the country's military coup nearly a half century before. Today, misinformation is rampant, and a recent study found that 35 percent of voters may have voted based on false information in the 2018 election.²³³ Bolsonaro's supporters allowed the peaceful transfer of power but then engaged in mass violence against the Supreme Court, legislature, and presidential palace.

But Bolsonaro's populism did not infect a broader political party because he had run on the ticket of a small vanity party, and he did not choose to strengthen it or to develop a national party organization with grassroots or state-based organizational power. Conservative voters still have other choices. His legacy of support from the military was not enough to inspire a coup (though that may have been helped by the Brazilian military's dependence on U.S.

military support and months of U.S. military leaders making clear that they would not tolerate a coup). Brazil's institutions and trust in them have been damaged, but they did not break. The business community played a strong role in ensuring these outcomes without itself being polarized in the same left-versus-right dynamics that had infected the country.

Case 3: India

Modi became India's prime minister in 2014 after a series of corruption scandals disillusioned voters toward the incumbent coalition and its once-dominant Congress Party. He appealed to voters on a pro-business platform, promising "minimum government and maximum governance" and claiming that he would slash India's mountainous regulatory state, reduce corruption, and increase business opportunities, as he was credited with having done while chief minister of Gujarat State. His charisma and business-first platform gained him the first outright parliamentary majority any Indian leader had enjoyed in thirty years. Modi's second election, five years later in 2019, gave him an even greater win; the election also marked a sharp increase in his polarization of the country and illiberal governance. While most populists pump their economy's growth and end up with high inflation and debt, a series of poor policy choices meant that under Modi, high growth reversed after two years. Below-potential growth tamed his predecessor's inflation, until the war in Ukraine sent it upward again. But Modi's policy mismanagement has caused millions of small businesses to close, and slow job growth, combined with low labor force participation, have sent nearly a third of India's new middle class back into poverty.²³⁴

Centralizing and Personalizing Power

Modi had been the chosen candidate of business and at first seemed intent on making good on his pro-business promises. He reduced onerous licensing requirements and regulations. He opened railways, coal, and mining to foreign direct investment. In two years, he halved the number of procedures and costs required to start a business, and by 2019 India had risen to the rank of 63 out of 190 countries for ease of doing business by the World Bank, up from 132 out of 185 countries the year before Modi took office.²³⁵ He talked of fiscal decentralization, hearkening to his time as a state chief minister (the elected executive in charge of a state, akin to a U.S. governor).

But Modi wanted direct control over the policymaking process. He wanted the public to believe that it was his central government, not state or local governments, that was making a difference in their lives and that he, not a nameless government institution, was the one calling the shots.

Under the Congress Party, India witnessed a dominant central government from the country's founding through the leadership of Indira Gandhi and Rajiv Gandhi. (The former took it to an extreme by suspending democracy altogether during two years of emergency autocratic rule in the 1970s). For the more than three decades after the Gandhis left office, however, India had been moving in a more federal direction, with power shared across jurisdictions. Modi reversed course, using a variety of measures to recentralize power. Many of the measures were innocuous or even positive on their own. But as a whole, the effect was to increase the centralization of power in the executive and personalize power in himself.

India has a parliamentary system, and the executive determines when the legislature sits and determines which bills are sent for oversight prior to votes. Under the previous government, 71 percent of all bills were sent to legislative committees that exercised oversight over legislative proposals. That fell to 27 percent in Modi's first term, and by his second term, just 13 percent of bills were sent to these standing committees.²³⁶ While the number of days the legislature sat had been declining for years, the BJP took advantage of COVID-19 to greatly reduce legislative days in session and thus reduce the ability of legislators to hold the executive accountable.²³⁷ Important laws, such as an election law amendment, were issued as surprise legislation the morning votes were to be taken, with no time for legislators to exercise oversight.²³⁸ The executive dismantled the state of Jammu and Kashmir's special status in similar contravention of established rules and procedures without any recommendation from state legislators or a vote from constituents.

Modi also increased the centralization and partisan use of intelligence agencies. The Indian intelligence community's alleged use of Pegasus software to spy on a variety of opponents, critics, journalists, and activists is well known.²³⁹ But the Modi administration also increased the use of investigations by central intelligence bodies against rivals, critics, and their family members. While previous administrations have occasionally misused intelligence agencies for partisan gain, the BJP's aggressiveness is new: between 2014 and 2021, central intelligence agencies opened 570 investigations against rivals, critics, and their families—compared to thirty-nine investigations into individuals linked to the BJP and its allies—resulting in an imbalance five times as large as the imbalance under the previous government.²⁴⁰

Centralization coincided with personalization. Modi relaunched a series of welfare giveaways that provided toilets, cooking gas, and housing to the poor by renaming each giveaway with the prefix "prime minister" so the locus of largesse was easily credited. He also ran the programs directly from his office, dispensing with state governments and cabinet agencies that previously would have been in charge. Direct transfer programs typically evade corruption, so direct cash transfers have a strong track record globally for promoting development and reducing waste.²⁴¹ But they are also particularly well-suited to greater centralization. For instance, an app that lets Indians notify the government about minor sanitation issues reports straight to the national Ministry of Housing and Urban Affairs rather than a municipal authority. The prime minister and cabinet leaders could then justifiably open direct communication with local bureaucrats and bypass state leadership.²⁴²

In 2019, a former governor of India's central bank, the Reserve Bank of India, wrote, "Not just decision-making but also ideas and plans emanate from a small set of personalities around the Prime Minister and in the Prime Minister's Office."²⁴³ So did appointments. For many years, the prime minister chaired the committee that made many bureaucratic appointments; cabinet ministers also sat on the committee and had a voice. In 2016, Modi ended that role for ministers, giving himself more direct authority over each government appointment.²⁴⁴ In this manner, Modi sidelined ministers and experts, instead working with political loyalists he felt he could trust or working directly with implementers so that no one with independent authority could question his office's decisions.²⁴⁵

This personalization of the policy process left some policies working at cross-purposes. For instance, facing economic turmoil after failed first-term policies, he sought to spur growth by cutting corporate taxes for smaller firms from 35 to 25 percent and lowered interest rates. But he also began reversing twenty-five years' worth of policies reducing trade restrictions. For decades, India was one of the world's most protectionist economies, a situation that started to alter in the 1990s as India opened to business. But under Modi, tariffs began rising again. By 2019, the U.S. trade representative reported India as having "the highest tariffs of any major world economy," after which tariffs were raised again until the average tariff rate put India behind only Sudan, Egypt, and Venezuela, according to the U.S. trade representative.²⁴⁶ Some experts claimed that the goal of the tariffs was not protectionist but to achieve better self-sufficiency from China, but that reasoning is somewhat belied by Modi's slogan of "self-reliant India," as well as the 3,200 items (70 percent of the country's imports) under tariffs.²⁴⁷ Yet, beyond the rising costs caused by tariffs, personalization made the situation more problematic for businesses. The U.S. trade representative explained that tariffs had been raised since 2019 in an ad hoc, opaque, and unpredictable fashion, with no public notice or consultation process leaving businesses subject to "tremendous uncertainty."²⁴⁸

In other cases, major policies launched without expert guidance, oversight, or normal policy procedures proved to be disastrous. That was the case with Modi's demonetization policy. On November 8, 2016, at 8:15 p.m., Modi announced during a television appearance that all 500- and 1,000-rupee notes (\$7.50 and \$15), which accounted for 86 percent of all Indian currency then in circulation, would no longer be legal tender starting at midnight that night.²⁴⁹ He gave people fifty days to exchange their old notes for new currency, otherwise their money would be useless. Millions of small enterprises that relied on cash transactions were caught off guard. Hundreds of millions of people were forced to leave their jobs or shutter their shops and wait in long lines to avoid losing their money. Meanwhile, many could not withdraw money because new banknotes were slow in coming and because of government-imposed limits to ration the new notes, leading the cash-based economy to seize up. Although major corporations and the well off did not keep much in cash, millions of Indians had their life savings in cash, and they stood to lose everything. Small and medium enterprises in India's huge informal sector, a fifth of its total economy, were devastated as consumption went into free fall.²⁵⁰ Supply chains broke.²⁵¹ Corporate investment fell by 60 percent the following year.²⁵² But corporations were the lucky ones: the costs of demonetization were sharp and devastating, but they were a temporary shock that alleviated after a few

months.²⁵³ Large industries faced just a 3 percent fall in their revenue due to demonetization. Many small businesses, however, couldn't weather the storm. Small businesses suffered a 47 percent revenue drop and shouldered 60 percent job losses.²⁵⁴ Many went bankrupt. The policy cost about 3.5 million people their livelihoods.²⁵⁵

Less than a year later, Modi decided to streamline the country's Goods and Services Tax (GST). This was an important economic reform and had been debated and desired by many business leaders, economists, and policy experts for more than fifteen years. Modi hoped to transform India's federal system into a single market with a simpler tax system, a change long needed to ease the process of doing business in India. But by making states more dependent on the central government for funding, the new regimen also allowed Modi to exercise control over states by threatening to withhold funds, further solidifying centralization.²⁵⁶

Meanwhile, a difficult set of compromises with states and regulatory bodies created a complex system requiring thirty-seven filings a year. While these problems were not Modi's personal doing, his administration's rollout of the GST was so poorly implemented and subject to so much ongoing change that it created significant short-term disruptions as businesses scrambled to understand and comply with the new system.²⁵⁷ Corporations could handle the disruption. But as with demonetization, small businesses were hit hard by the sudden start that made getting up to speed difficult and by requirements to file dozens of times a year online, in a country where many small-business owners had no access to a computer. The disruption caused a sudden drop in profit among one-fifth of India's small businesses, leading to another spate of bankruptcies.²⁵⁸ While most businesses eventually benefited from the GST, that was a small consolation to the hundreds of thousands driven out of work.²⁵⁹

These policies created a quick, sharp reversal of India's previous economic progress and pushed the country into an economic deceleration.²⁶⁰ Growth and private investment fell. GDP growth halved to a fifteen-year low, and consumption dropped to its lowest point in four decades. Debt and deficits rose, and unemployment more than doubled to a forty-five-year high.²⁶¹

Controlling Information: Data Manipulation, Media Targeting, and Internet Shutdowns

Data Manipulation: As his policies curdled the economy, Modi's instinct was not to alter course but to politicize the data. His government delayed the publication of a report on the costs of demonetization for nearly a year, until well after state elections in 2017. The news was not good: after all the pain his demonetization policy had caused, just 0.7 percent of the demonetized cash had been removed from the system.²⁶² Modi's claims that the policy would reduce corruption and black-market activities clearly failed. But they had helped his

party, as the timing of demonetization just before important state elections weakened opposition parties that were reliant on small-dollar giveaways and donations, while the BJP had most of its campaign money in banks and could count on large-dollar corporate donations.²⁶³

Censoring bad news was not a fluke. After demonetization and the implementation failures of the new tax policy, he barred the National Statistical Commission from publishing India's unemployment data.²⁶⁴ To protest the suppression, the commission's two official members resigned in 2019, causing the statistical agency to collapse.²⁶⁵ The numbers leaked anyway, revealing that unemployment had hit a forty-five-year high in 2017–2018.²⁶⁶ The government did not officially release the data until after the general elections, in May 2019, had resulted in the BJP's reelection.

The problem continued. The administration withheld unflattering consumer expenditure survey data from 2017–2018, claiming that the quality was bad. In fact, a leaked report showed the data quality was fine. The problem for Modi was that the data showed more bad news: consumer spending had fallen for the first time in forty years, indicating an economic slowdown.²⁶⁷ Over 200 economists and scholars globally wrote an open letter requesting access to such preapproved data, eventually leading to the data's release.²⁶⁸ The government then chose to completely scrap the consumer expenditure survey.

In some cases, data was not withheld but was altered. In 2015, the Modi government altered the methodology used to calculate GDP. That could be justified on any number of technical grounds, but the government withheld the back series data that allows new numbers to be compared with old numbers for three years.²⁶⁹ The new numbers suggested favorable GDP growth over the first two years of the BJP government and that growth under the previous government was actually less than previously reported. However, some of the numbers didn't add up: for instance, corporate and personal income tax revenues were down, as were exports and bank credit, during a supposedly high growth period.²⁷⁰ Over one hundred economists and social scientists in India and abroad accused the government of manipulating growth and employment numbers. They noted that Modi had given data responsibilities to a part of government that had no experience collecting statistics.²⁷¹

Media Targeting: Modi's instinct to control information also affected the media sector. The path was blocked for journalists or businesspeople trying to use right-to-information cases to gather vital data. The Central Information Commission, the final authority in right-to-information cases, was slowed by the government's failure to appoint leaders, leaving nearly 35,000 cases pending at the beginning of 2020.²⁷²

India has a raucous media industry that, as in Hungary, receives significant income from government advertising. The Modi government has used such advertising to pressure more independently minded sources—for example, it banned all government ads for three of the country's largest English-language newspapers, as well as many others—until the financial

pressure led editorial rooms to rein in journalists and halt critiques of the government.²⁷³ TV licensing proved to be a quick, simple process for companies close to the government, such as Republic TV, while a critic of Modi who tried to launch a Bloomberg partner channel was stuck in licensing for over three years, as of 2020.²⁷⁴ Tax inspectors were sent to investigate, confiscate phones, remove data, and even turn off the internet in businesses and other organizations whose publications were deemed unfavorable to the government, including India's top independent think tank and various media organizations.²⁷⁵

Journalists and others who disagreed publicly with the government found themselves facing charges of defamation, contempt of court, and endangering national security. The Modi administration amended a colonial-era anti-terrorism law so that it could be used against individuals rather than groups, the government could designate someone a terrorist prior to trial, and jurisdiction could be moved from the states to the National Investigation Agency.²⁷⁶ Government critics have been charged with terrorism based on their writings, speeches, tweets, Facebook posts, and even their ownership of some books or magazines.²⁷⁷ India has a real terrorism problem, and anti-terrorism and anti-sedition law were used by the previous government at rates that were slightly greater than the rates of the Modi's administration use. What is new under Modi and the BJP is who is being accused and the chilling effect on information. For instance, the previous government accused two journalists and eleven students, academics, artists, and creators under the anti-sedition law—a likely abuse of this power. But under Modi's administration, which has lasted slightly more than twice as long, thirty-eight journalists have been accused of sedition, as well as seventy-four students, academics, artists, and creators.²⁷⁸ These numbers might have been greater had the Supreme Court not suspended the enforcement of the sedition law until it can rule on the law's constitutionality. Even those who won their trials could spend weeks in pretrial detention based on an accusation alone.

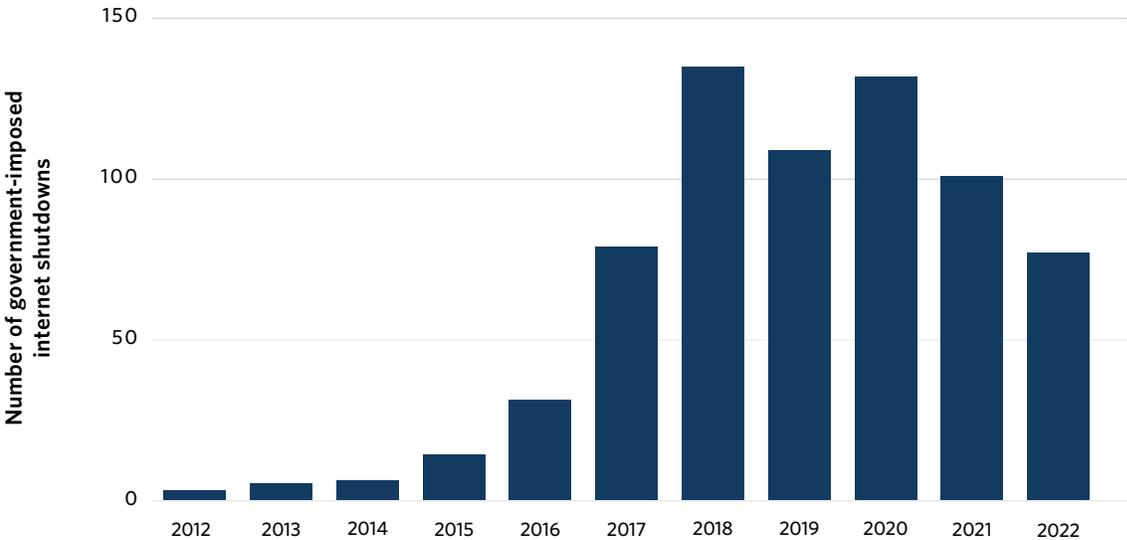
The government proposed a new media law in early 2023, a year before the next general election, allowing it to declare any news “fake” and force it to be taken down. As the law had not yet taken effect, Modi used an emergency measure to ban a BBC documentary critical of his own controversial history as Gujarat's chief minister and prevented tweets and social media mentions about the documentary.²⁷⁹ In addition, new internet rules adopted in 2021 forced all social media firms that provided messaging services to make messages traceable. Though framed as an effort to fight problems such as terrorism and child pornography, the rules were much broader, requiring all large social media firms to remove content that was deemed unacceptable by the government under a vague set of conditions.²⁸⁰ By 2022, India had plummeted down Reporters Without Borders' press freedom index, ranking 150 out of 180 countries.²⁸¹ Even more troubling, India has become one of the deadliest places in the world for journalists, in part because of government inaction against vigilantes who target journalists.²⁸²

For media businesses forced to comply with these new requirements and realities, the threats, investigations, and raids have disrupted business and enforced self-censorship. CEOs cannot make their own choices regarding what to publish or who to keep on staff if they wish to stay in business.

Meanwhile, the self-censorship of the media exacerbates the problem created when the government manipulates data. Businesses that rely on quality statistics and openly reported information to make business decisions, determine risk, or seek new opportunities can no longer do so when the media does not report such information. For investors, the withholding of data on metrics such as unemployment and consumer expenditures or the tweaking of GDP numbers behind closed doors affects accurate pricing of businesses, buying and selling decisions, and stock market movements.

Internet Shutdowns: The easiest way to censor information is to shut down the internet, and India has used that kill switch more than any other country in the world over the last five years (see figure 4). An international organization that estimates the costs of internet

Figure 4. Internet Shutdowns in India Increase Under the BJP



Source: "India's Internet Shutdowns," Software Freedom Law Center India, May 2023, <https://internetshutdowns.in/>.

outages globally found that the shutdowns cost India's economy \$2.8 billion in 2020 alone.²⁸³ That year, Jammu and Kashmir—where Modi's polarizing policies exacerbated protests and social unrest—faced the world's longest shutdown when its internet was shuttered for seven months and then only opened to 2G service.²⁸⁴ The next year, its internet was shut down eighty-five times.²⁸⁵

But Jammu and Kashmir wasn't alone. In 2018, people in the state of West Bengal were cut off from the internet for one hundred days.²⁸⁶ More than twenty shutdowns affected other states, including the capital region of New Delhi, whose 52 million people were denied internet in January 2021 due to protests. Shutdowns occurred at the behest of the federal government and the states, but they happened more often in BJP-run states. When they occurred in other states, they relied on a regulatory framework established by the BJP under Modi and were frequently called due to social violence sparked by the BJP's polarizing rhetoric.²⁸⁷

Most shutdowns affected only mobile internet (except in Jammu and Kashmir). But only 3 percent of the country uses the more expensive wired connections.²⁸⁸ Thus, while a few billion in losses each year is not a great deal given the size of India's economy, internet shutdowns had concentrated effects. They caused heavy losses to e-commerce platforms, such as food and grocery delivery services, ride-hailing, and others that rely on mobile internet to communicate with dispersed service deliverers.²⁸⁹ They also devastated the vendors and people who make their livings from customers of those platforms, as well as the millions of small businesses that rely on their phones for processing money. For instance, 15 million businesses rely on mobile internet to process payments through WhatsApp.²⁹⁰

Rule of Law Breakdowns

For two decades, India has been on a steady path of increasing the rule of law, with falling rates of homicide, terrorist activities, and other markers of violence. But under the BJP, the rate of religious lynchings bucks this trend.²⁹¹

Modi downplayed religious ideology during his 2014 campaign. But since boyhood, Modi has been a dedicated activist for the Rashtriya Swayamsevak Sangh (RSS), a Hindu nationalist social organization that gave birth to the BJP.²⁹² Both the RSS and BJP promote Hindutva, the belief that India was first and foremost a Hindu country, which explicitly and implicitly marginalizes Muslims and other religious minorities.²⁹³ When Modi was chief minister of Gujarat, a vicious pogrom occurred in which more than a thousand people were killed, the majority of whom were Muslim.²⁹⁴ The British foreign ministry believed that Modi may have ordered the police not to intervene. The British ambassador at the time wrote that “systematic campaign of violence” was impossible “without the climate of impunity created by the Government. . . . Narendra Modi is directly responsible.”²⁹⁵ Ultimately, the courts in India did not find a “smoking gun” tying Modi directly to the violence. Instead, his public embrace of polarizing Hindu nationalism helped him build an intensely supportive base in the 2002 election that propelled him to the top of the BJP.

Like the United States, India is a complex country with many disparate communities and a history of political violence. The BJP has built voter intensity by picking religious wedge issues that would inflame the majority Hindu population while marginalizing other Indians, such as Muslims, who comprise about 14 percent of the population. The result has been that despite an overall downward trend in homicides, terrorism, and other forms of violence in India over the last two decades, there has been an increase in vigilantism and lynchings under Modi's BJP, especially violence toward non-Hindu religious minorities.²⁹⁶ As with other statistics, the BJP government has addressed the problem by ending the regular reporting by the Ministry of Home Affairs on religious violence (known as communal violence). Questions in Parliament eked out a few statistics, but these are suspect: for example, the BJP leadership of Uttar Pradesh, the most populous state and site of by far the greatest percentage of incidents in previous years, reported zero religious incidents in both years requested.²⁹⁷ Throughout Modi's leadership, religious violence has risen both in number of incidents and intensity.²⁹⁸ Muslims have been the primary targets, but Christians have also been driven from their homes, beaten, and killed.²⁹⁹

One example of religiously motivated violence has been so-called cow vigilantism. Cows are sacred to Hindus, and soon after the BJP came to power, twenty of twenty-nine BJP-led states passed cow-protecting legislation. Muslims have no taboo against eating beef and are religiously prohibited from eating pork, making them particular targets. Lynchings in the name of cow protection spiked, especially in BJP-run states.³⁰⁰ A 2017 Reuters investigation into two of the many new militias known as "cow protection" vigilantes found that since 2014 they had beaten Muslim farmers and stolen nearly 200,000 cows from Muslims based on claims they would be slaughtered.³⁰¹ Modi rarely spoke about the rule-of-law breakdown.³⁰² Other BJP politicians defended militia members publicly, put them on the dais at campaign events, and even paid for their lawyers.³⁰³

Electoral violence across India has fallen as the strong Election Commission of India has used its power to deploy police and protect polls from partisan activity.³⁰⁴ But in the last few years, the timing of the violence against religious minorities has coincided with electoral campaign seasons during which BJP candidates amplify Hindu identity and the supposed threats posed by other Indian communities.³⁰⁵ A Human Rights Watch report found that religiously divisive language from elected officials rose almost 500 percent during the first five years of the BJP being in national control, compared to the prior five years, and 90 percent of the divisive speeches were made by BJP politicians.³⁰⁶

By Modi's second term, economic pitfalls meant he could not credibly run as a business savior. Instead, cultural issues became his platform. Campaign speeches by BJP politicians and candidates were pocked with cries against the dangers of Muslim terrorists, Muslim immigrants, and Muslims who have lived in India for generations but who lack documents proving their nationality.³⁰⁷ These politicians also repeated a conspiracy theory of Muslims seeking to carry out what they termed a "love jihad" by marrying Hindu women and having more babies to alter India's demographics.³⁰⁸

Polarization was a winning way of mobilizing intense voter support, and after his 2018 win, one of Modi's first acts was to pass a citizenship bill that provided an expedited pathway to citizenship for persecuted religious minorities who hailed from neighboring countries. However, Muslims were left out of the law's protections. Protests broke out around the country.³⁰⁹ Riots took place in New Delhi, and dozens of people were killed and houses burned.³¹⁰ An independent report by the Delhi Minorities Commission, a governmental body, suggested that the police held back from intervening in the violence and showed that the police punished Muslims for violence committed during the riots but did not punish Hindus who harmed Muslims nor the many BJP politicians who incited violence.³¹¹

But how does such targeted violence affect businesses given that overall violence has declined in recent decades? The answer is that it depends on the business. Muslim and Christian business owners have become vulnerable. Businesses in particular areas are significantly affected, especially Jammu and Kashmir, where unrest has allowed the government to use significant coercion. Small businesses in areas where violence occurs are unable to reach their businesses or protect their stock from riots and unrest.³¹² Large corporations, on the other hand, rarely feel this level of threat. Instead, they feel the increased polarization of their employees and customers, creating demands to take public stands and increasing tension in larger, more diverse workplaces.³¹³

Cronyism and Corruption

Modi gained power following a series of corruption scandals that soured voters on the incumbent coalition. Like many populists, he campaigned on draining the swamp. Soon after Modi's election, a number of corrupt business leaders who had previously seemed untouchable were investigated, and a few fled the country.

Some analysts claim that petty corruption has been reduced under Modi.³¹⁴ However, the data might have also been influenced by the Modi government's actions. An ombudsman to combat corruption, legislated in 2013, came into being while Modi was in power. The Modi government hobbled the new entity. It took five years to name committee members, who were placed only after the Supreme Court entertained contempt proceedings. The government then slow-walked regulations for the committee so that it functioned inefficiently.³¹⁵ Many complaints were simply closed without action. The number of complaints declined from nearly 1,500 in 2019–2020 to thirty in 2022–2023. With no public access to the complaints or findings, it is impossible to know whether corruption has improved by 90 percent or if complaints are down because no one sees the committee as a useful venue anymore.³¹⁶ Meanwhile, the World Justice Project found that corruption decreased in Modi's first term but increased in his second.³¹⁷

Cronyism and corruption have a long history in India, where 80 percent of all corporate lending emanates from the public sector, giving a leader significant power to affect which businesses have advantages.³¹⁸ Such cronyism continued under Modi, whose personal ties and help to India's wealthiest businessmen have been well-documented.³¹⁹ Cronyism has likely affected major business sectors, allowing chosen businesses to dominate industries and causing competition to collapse in various sectors.

But to say that cronyism increased because of Modi's populism would be a step too far in a country with an established history of this governmental scourge. Instead, cronyism and corruption are more opaque under Modi due to attacks on journalists and even stock market analysts (at least one of whom was arrested after releasing a negative report on a major real estate conglomerate).³²⁰ As the judiciary retreats from government oversight, accountability decreases. Ongoing cronyism, combined with opacity and harassment of those who would report on bad information, bode ill for a level business playing field and make it more difficult to know how to properly evaluate business opportunities or price risk.

Conclusion

Modi campaigned as a pro-business leader, but his populism places him in a different category than the traditional left- and right-wing classifications. He eased the costs of doing business, deregulated some industries, and opened others for greater foreign direct investment or privatization. At the same time, his party runs the country's largest trade union, which has subsequently been uninterested in reforming labor laws to make it easier to fire workers.³²¹ The BJP has increased tariffs and protected companies from foreign and domestic competition, though Modi's second term did herald a number of bilateral and minilateral free trade agreements.³²²

During Modi's tenure, the number of Indian billionaires has risen from sixty-five to more than one hundred.³²³ These lucky, often handpicked friends of Modi run sprawling conglomerates. Their rise has disrupted entire industries, harming competitors while allowing a few to dominate. But Modi's economic mismanagement has hurt far more; one of the world's fastest growing economies has experienced decelerating growth since 2017 and high unemployment before the pandemic.³²⁴ India's economy is set to be among the fastest growing in 2023, but that is partly a statistical illusion because of the rapid decline in prior years. Meanwhile, the surge in foreign direct investment that came on the heels of Modi's rise to power fell during his second election year thanks to unpredictable policymaking and sudden scapegoating of foreign companies.³²⁵ The result has been that unlike most populists who overheat their economies and reap inflation and debt, Modi has managed to do the opposite. His government lessened growth, which stifled inflation until the price shocks that occurred

because of Russia's invasion of Ukraine. Nevertheless, spending has increased the country's deficit, while high unemployment and low labor force participation have sent nearly a third of the new middle class back into poverty.³²⁶

Modi's erratic policymaking might have been easier to bear if businesses felt that anyone in government was willing to listen and alter course. But Modi's preference for personalizing politics meant that by his second term, power was further centralized in the prime minister's office. The normal ministries and operational parts of government with whom businesses usually communicated kept their titles but had less ability to influence policy, resulting in fewer avenues for businesses to try to make the government aware of the potential pitfalls of a given policy.

A few business leaders have claimed there was an "atmosphere of fear," expressing that they are afraid to criticize government economic decisions.³²⁷ They have reason to worry about telling Modi something he did not wish to hear. Personal ties matter in an economy where the government controls so much of the credit, as well as other opportunities for businesses to prosper. Modi is well-known to sideline critics, so even constructive criticism is likely to cost a business leader access.³²⁸ Deepak Parekh, the chairman of the Housing Development Finance Corporation (HDFC) Group and among the country's most-respected bankers, once chided Modi that he was elected to support business and not polarize ideology. After that, Parekh was reportedly excluded from all meetings and trips with the prime minister.³²⁹

Government power was centralized in India's early decades under a big-tent Congress Party that sought to pull most opponents inside. Under Modi, recentralization has occurred under a polarizing, majoritarian Hindu-first ideology. The ensuing declines in the rule of law and free speech have been so great that in less than a decade, India has slipped to only partially free in Freedom House rankings.³³⁰

About the Author

Rachel Kleinfeld is a senior fellow in Carnegie's Democracy, Conflict, and Governance Program, where she focuses on issues of rule of law, security, and governance in democracies experiencing polarization, violence, and other governance problems.

Notes

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