Do international rents bolster democratic backsliding under populist governments? Evidence from Latin America

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Abstract
The political science literature often points to populism as the cause of democratic backsliding. The literature purports that populism undermines democracy’s liberal component, meaning the horizontal checks and balances on executive power by legislatures and courts and the vertical checks and balances by civil society, such as a free press and social movements. Populists promote political polarization to build sustainable ruling coalitions during and between elections that legitimize and support the illiberal policies above. However, this debate often ignores the economic tools that populists in power possess, such as capturing direct and indirect international rents to finance clientelist mechanisms to co-opt political support. This paper contributes to the rich literature on how economic rent conditions the negative relationship between populism and liberalism by disaggregating the moderating effects of direct and indirect international rents through panel regression models in 18 Latin American countries from 1991 to 2019. I find that direct international rents, such as natural resource rents, moderated a deepening in processes of democratic backsliding. Contrastingly, indirect international rents, such as remittances, moderately mitigated democratic backsliding.

Keywords
Democratic backsliding, populism, natural resources, remittances, Latin America

Introduction
As the Cold War ended, the remaining Latin American military dictatorships transitioned to presidential democracies, except Cuba. However, many of these transitions to democracy resulted in
aggrandized and unbalanced executive powers compared to the legislative and judicial powers (O’Donnell, 1994; Pérez-liñán and Mainwaring, 2013). Adding to the complexity of these political transitions has been the piecemeal undermining of checks and balances on national executive powers in several Latin American countries, which the political science literature refers to as democratic backsliding conditioned by populist governance (Bauer and Becker, 2020; Bermeo, 2016; Corrales, 2020; López Maya, 2018; Peruzzotti, 2017). Since the 1990s, populist parties and leaders reaching national executive office in Latin America, North America, Europe, and elsewhere have unraveled meaningful electoral democracy in only a handful of cases, such as Nicaragua and Venezuela. Instead, populist governments have undermined democracy’s liberal component, such as the horizontal checks and balances on executive power by legislatures and courts, and the vertical checks and balances by civil society, such as a free press and social movements (De La Torre and Ortiz Lemos, 2016; Huber and Ruth, 2017; Pappas, 2019; Ruth, 2018; Waisbord, 2018). Therefore, democratic backsliding carries the liberal normative assumption that undermining vertical and horizontal constraints on the executive power leads to illiberal authoritarian encroachment (Bauer and Becker, 2020; Levitsky and Way, 2002; Zakaria, 1997). In other words, the presence of populist governments predicts the undermining of liberal constraints on executive power, meaning increased illiberalism even if electoral democracy remains mostly intact.

The literature on Latin America recognizes the importance of populism as a predictor of democratic backsliding. However, this literature places the pork barrel or clientelist spending of state resources by the executive branch as the key conditioning variable leading to increased illiberalism in the region’s political regimes (Bejarano, 2011; Berens and Ruth-Lovell, 2021; Karl, 1997; Kerevel, 2015; Lupien, 2015; Weyland, 2009, 2013). The primary state resources allowing for pork barrel or clientelist spending are international economic rents that governments capture through taxation of rent-producing activities. Economic rents are state revenues resulting from market imperfections that increase a product’s market price well above its supply price and where domestic labor is not the main factor of production (Beblawi and Luciani, 1987; Buchanan, 1980; Elsenhans, 2022; Jenkins et al., 2011). Moreover, governments capturing international rents can capture and redistribute these revenues with little accountability, as their source is mainly unrelated to domestic labor productivity (Karl, 1997; Luciani, 1987). Moreover, the literature on the Global South has well established a negative relationship between the capture and distribution of international rent produced by natural resource exports—particularly oil—and the quality and presence of liberal democratic governance (Guliyev, 2013; Karl, 1997; Kuru, 2002; Pemunta and Tabenyang, 2016; Ross, 2001; Weyland, 2009).

Many Latin American incumbents of both sides of the political spectrum used economic rents to finance clientelist patronage that often complemented populist political strategies. Clientelist spending allowed for the political and economic inclusion of many marginalized societal sectors and built sustainable ruling coalitions, meaning elite and societal groups whose support is critical for the government to remain in power (Corrales, 2014; Lupien, 2015; Mazzuca, 2013). Examples are oil-financed clientelism in Hugo Chavez’s Venezuela and copper-financed clientelism in Alberto Fujimori’s Peru. Regimes such as these ensured their political power by creating electoral majorities, which they maintained through a combination of affective discourses that increased political polarization. However, regimes such as Chavez’s and Fujimori’s gained the support of elite organizations, such as the security forces and sectors of the population, through the pork barrel clientelist distribution of natural resources. The clientelist distribution of international rents granted them the necessary support to circumvent, co-opt, or even suppress their legislative and judicial branches while curbing civil society’s ability to check executive power (Bauer and Becker, 2020; Pappas, 2019; Weyland, 2009). Therefore, Latin America’s form of populism could be best described as
“rentier populism,” where governments’ capture and distribution of international rents moderates the link between populism and democratic backsliding (Mazzuca, 2013).

Nevertheless, there are multiple sources of international rents, such as natural resource rents and migrant remittances. Governments can capture these international rents directly at their supply, such as natural resource rents (Karl, 1997; Mommer, 1996). However, they can only indirectly capture other forms of rent, such as international remittances, by taxing the demand they create (Chaudhry, 1989; Jenkins et al., 2011). As evidenced in Table 1, most Latin American countries accrued direct and indirect international rents. The average share of total annual gross domestic product (GDP) of these rents comes close or surpasses the 8% threshold of annual GDP to classify these countries as “rentier states” (Beblawi and Luciani, 1987). Differentiating between direct and indirect types of international rents begs whether different types of international rents produce different moderating effects between populist governance and democratic backsliding in Latin America. To my knowledge, this research question has received scant attention.

This paper develops and tests a quantitative model to trace how international rents moderate the relationship between populist governments and democratic backsliding in Latin America. I find that direct international rents’ presence, such as natural resource rents, bolstered democratic backsliding processes under populist governance after analyzing 18 Latin American countries, listed in Table 1, from 1991 to 2019.1 On the other hand, indirect international rents’ presence, such as remittances, did not contribute to democratic backsliding and could have mitigated populism’s illiberalizing effect.

### Table 1. Descriptive statistics of the 18 analyzed Latin American countries, average values of the 1991–2019 period.

| Country       | Liberalism coefficient | Periods of populist governments in power | Natural resource rents (% of GDP) | Remittances (% of GDP) |
|---------------|------------------------|------------------------------------------|----------------------------------|------------------------|
| Argentina     | 0.74                   | 2003–2015                                | 2.75                             | 0.10                   |
| Bolivia       | 0.59                   | 2005–2018                                | 6.74                             | 2.79                   |
| Brazil        | 0.86                   | –                                         | 2.68                             | 0.23                   |
| Chile         | 0.95                   | –                                         | 7.01                             | 0.02                   |
| Colombia      | 0.76                   | –                                         | 5.01                             | 1.64                   |
| Costa Rica    | 0.95                   | –                                         | 1.51                             | 1.17                   |
| Dominican Republic | 0.45              | –                                         | 0.70                             | 7.08                   |
| Ecuador       | 0.53                   | 2007–2017                                | 10.31                            | 3.52                   |
| El Salvador   | 0.56                   | 2009–2019                                | 0.68                             | 16.57                  |
| Guatemala     | 0.61                   | –                                         | 1.72                             | 7.75                   |
| Honduras      | 0.50                   | –                                         | 1.72                             | 12.03                  |
| Mexico        | 0.60                   | 2018–2019                                | 3.80                             | 1.87                   |
| Nicaragua     | 0.46                   | 2006–2019                                | 2.11                             | 7.71                   |
| Panama        | 0.72                   | –                                         | 0.17                             | 1.00                   |
| Paraguay      | 0.70                   | –                                         | 1.82                             | 1.56                   |
| Peru          | 0.63                   | 1991–2000, 2011–2016                     | 5.67                             | 1.41                   |
| Uruguay       | 0.92                   | –                                         | 0.99                             | 0.27                   |
| Venezuela     | 0.44                   | 1999–2019                                | 19.25                            | 0.04                   |
| Mean          | 0.66                   |                                           | 4.15                             | 3.71                   |
| SD            | 0.17                   |                                           | 4.64                             | 4.69                   |

Source: Table is created by the author with data specified in the research design section.
GDP: gross domestic product.
The following section discusses the paper’s conceptual framework by first reviewing how the literature purports a negative relationship between populism and democratic backsliding in Latin America, discussing how different types of international rents can moderate the above relationship, and crystalizing the paper’s hypotheses. The third section presents the paper’s research design, which discusses the empirical approach and the data sources. The fourth section presents the study’s results, while the fifth interprets their theoretical implications. The sixth section concludes.

**Conceptual framework**

Latin America’s growth model of exporting rent-producing resources and its socioeconomic structure of high urbanization and urban poverty make the region ripe for “rentier populism,” leading to democratic backsliding (Mazzuca, 2013). Moreover, large percentages of economically marginalized people created a pool of potential political supporters that are relatively inexpensive to co-opt through pork barrel or clientelist mechanisms. These mechanisms include employment patronage and particularistic cash transfers or subsidies that foster rent-seeking political participation (Corrales, 2014; Gandhi and Przeworski, 2006; Mazzuca, 2013; Penfold-Becerra, 2007). This form of political participation based on rent-financed patronage helps populist governments build and maintain ruling coalitions that support illiberal institutional policies that increase executive powers while undermining horizontal and vertical checks and balances on the executive (Lipset, 1955; Pappas, 2019; Simonovits et al., 2021). Nevertheless, not all forms of international rents may condition how populist governments in the region lead to democratic backsliding due to how governments capture these rents. However, it is first imperative to discuss how the populism-democratic backsliding link proposed by the ideational approach, developed in the Global North, ignores the materialist approach that sheds light on the financial tools available to populist governments that predict increased illiberalism in Latin America.

**Reconciling the ideational and materialist approaches to the populism-democratic backsliding link in Latin America**

Following the ideational approach to populism, this political phenomenon is a “thin-centered ideology,” which pits two homogenous and antagonistic groups against each other: The righteous “people” against the corrupt “elite.” Populist leaders use this strategy to mobilize political support for a party or government during and between elections (Hawkins and Kaltwasser, 2017; Mendes and Dennison, 2021; Mudde and Rovira-Kaltwasser, 2017). Leaders of populist political parties can mobilize these groups in a polarized political arena against the “elites” to achieve the people’s “general will” (Hawkins, 2010; Laclau, 2005; Mudde and Rovira-Kaltwasser, 2017). Evidence from the recent successes of far-right parties in the Iberian countries and Italy supports the claim that populist strategies help mobilize polarized sectors of the population that programmatic, clientelist, or personalist linkages to traditional parties fail to reach (Mendes and Dennison, 2021; Zanotti, 2021).

The narrative above purports that populism leads to democratic backsliding, which for this study’s purposes refers to enacting illiberal policies by governments that undermine the executive’s horizontal and vertical checks and balances. Some examples of these illiberal policies are packing the judiciary with judges loyal to the executive, ruling by decree to bypass the legislature, harassing the opposition and creating electoral obstacles for them to win elections, amending the constitution to aggrandize executive powers or eliminate term limits, and curtailing media freedom (Bauer and
Becker, 2020; Bermeo, 2016; Blandino López, 2021; Peruzzotti, 2017; Przeworski, 2005; Przeworski et al., 2015; Ruth, 2018; Waisbord, 2018). Hence, the literature posits that populist governments give way to democratic backsliding as these political operators seek to censor the plurality of political participation and thus punish nonconformity to the people’s “general will” that they allegedly represent (Mendes and Dennison, 2021; Mudde and Rovira-Kaltwasser, 2017; Norris and Inglehart, 2019). The ideational approach provides an essential framework to understand populism as a political tool of popular mobilization, but it presents a fundamental limitation when analyzing Latin American “populists in power” (Pappas, 2019): it takes the materialist dimension for granted. In other words, the ideational approach does not account for the region’s international political economy.

The Latin American politics literature argues that clientelist mechanisms such as clientelist economic patronage by the ruling party are crucial factors allowing populist governments to sustain a majoritarian ruling coalition during and between elections (Berens and Ruth-Lovell, 2021; Corrales, 2014; Mazzuca, 2013; Weyland, 2009, 2013). In addition, affective populist strategies, such as fostering polarization, are essential in producing democratic backsliding (Fierman, 2022). The importance of affective strategies is especially palpable in the Internet age, allowing illiberal populist governments to foster polarization. Fanning polarization’s flame helps build ruling coalitions that politically mobilize large portions of the population in their favor (Guriev and Treisman, 2019; Rød and Weidmann, 2015). However, within-country socioeconomic disparities in Latin America create economic demands that remain mostly unsatisfied by affective identification in a polarized political field. As a result, populist strategies often produce significant non-polarized constituencies, which do not allow populist governments to sustain the majoritarian electoral coalitions needed to keep hold of Latin American presidencies (Corrales, 2014; Lupien, 2015).

Economic patronage through clientelist mechanisms, such as employment patronage and particularistic subsidies or cash transfers, allow governments to foster rent-seeking and thus include society’s non-polarized sectors into the ruling coalition (Corrales, 2014; Freije, 2014; Robinson and Verdier, 2013; Weyland, 2009). Such politico-economic inclusion of marginalized social sectors allows the building of a majoritarian electoral coalition that provides political legitimacy to the ruling party, even if the government enacts illiberal policies (De Mesquita and Smith, 2010; Geddes, 1999; Levitsky and Way, 2002; Lipset, 1955). Latin American governments have employed clientelist mechanisms due to the region’s role in the global political economy. The region’s economic growth model has primarily focused on commodity exports, such as agricultural staples, minerals, and hydrocarbons (Levitsky and Roberts, 2011). Thus, the varying levels of clientelism in Latin American states help explain instances of democratic backsliding in Latin America (Mazzuca, 2013; Weyland, 2009).

Furthermore, the region’s role in the international political economy incentivized rural-to-urban migration as workers and their families sought to benefit from the perceived higher wages of the cities, which along with increasing populations, resulted in swollen cities by the 1990s. Increased urbanization in Latin America, as in many other countries of the Global South, resulted in the swelling of urban poverty, as their growth models relied upon capital-intensive extractive export industries that are not labor-intensive (Fox, 2012; Leon, 2020). The swelling of urban poverty provided a sizable pool of relatively inexpensive supporters to co-opt by populist powers through the clientelist distribution of international rent revenues (Gandhi and Przeworski, 2006; Mazzuca, 2013). Nevertheless, the sources of such international rents likely condition whether “rentier populism” provides populist governments with the necessary economic resources to sustain majoritarian ruling coalitions that bolstered democratic backsliding.
The moderating role of direct and indirect international rents

Many of Latin America’s natural and human resource exports produced international rents. These state revenues allow governments to finance pork barrel or clientelist mechanisms that co-opt sectors of the population to the ruling coalition, as international rents are not the product of domestic labor productivity (Freije, 2014; Guliyev, 2013; Ross, 2001). Moreover, the lower the population’s purchasing power, the more dependent a population can become on pork barrel patronage mechanisms, which further binds the political clientele to the government (Kerevel, 2015; Lupien, 2015; Mazzuca, 2013; Weyland, 2009). In turn, clientelist mechanisms turn vertical checks and balances by civil society upside down, as high rent revenues can produce conditions of “representation without taxation,” which hinders civil society’s ability to demand accountability from the government (Gandhi and Przeworski, 2006; Ross, 2004). The capture of international rents and their deployment through clientelist mechanisms can crucially complement populist governments’ affective mechanisms of coalition-building in support of illiberal policies, such as fanning political polarization.

Nevertheless, different sources of international revenues produce different types of international rents, which may impact how and to what extent governments can capture them and use them to finance clientelist mechanisms. These differences may lead to different or nonexistent moderating effects between populist governments’ presence and democratic backsliding. Broadly, there are two types of international rents: direct and indirect international rents (Jenkins et al., 2011). The critical difference between these two types of rent is whether the government can capture them by accruing these rents from their supply or demand.

Governments that accrue direct international rents, such as natural resource exports, as they capture these revenues from their supply. For example, governments can impose royalties on mineral and hydrocarbon exports or accrue dividends from domestic or foreign companies that extract these natural resources to capture direct rents (Gould and Winters, 2012; Mommer, 1996; Wood, 2004). Moreover, the literature has well established a negative relationship between the capture and domestic allocation of direct international rent and the outcome of liberal democratic governance (Karl, 1997; Ross, 2001; Weyland, 2009). This literature purports that governments capturing direct rents, such as natural resource exports, become largely financially divorced from domestic production, thus becoming “rentier states,” when these rents constitute about 8% of annual GDP (Beblawi and Luciani, 1987). States meeting this threshold of rent accrual have the financial wherewithal to dismantle liberal institutions or maintain illiberal ones, as they are less susceptible to pressures from below and can co-opt other branches of government, state organizations, and key societal groups (Corrales, 2014; Gandhi and Przeworski, 2006; Guliyev, 2013; Kuru, 2002; Pemunta and Tabenyang, 2016).

Contrastingly, indirect rents are those that governments can accrue by taxing the demand that those rent incomes feed. In other words, governments capture indirect rents by taxing the expenditure by domestic actors receiving those revenues. An example of indirect international rents is remittances from migrant workers, such as Mexicans and Central Americans working in the United States, which periodically send some of their earnings to their families back in their countries of origin (Jenkins et al., 2011; Rosenblum, 2004). International remittances in the 21st century matched or surpassed official development assistance and foreign direct investment as a source of foreign exchange for Global South countries (Miller and Peters, 2018).

However, the rentier state literature pays less attention to indirect rents, such as international remittances and focuses primarily on states’ capture of direct international rents, such as natural resource exports, to explain processes related to democratic backsliding (Karl, 1997; Ross,
The vital role that natural resource exports have in the global economy, such as the high global demand for hydrocarbon as an energy source, allows these exports to impact state revenues substantially. As shown in Table 1, Ecuador and Venezuela are two major oil exporters, surpassing the 8% share of GDP threshold to classify as rentier states. As hydrocarbon or mineral exporters, Bolivia, Chile, and Peru also come close to the threshold above. However, the Central American and Caribbean countries of the Dominican Republic, Honduras, Guatemala, El Salvador, and Nicaragua exhibit average yearly remittances’ inflows from 1991 to 2019 that come close to or surpass the 8% share of GDP threshold to qualify as rentier states. Therefore, indirect international rents such as remittances can be as quantitatively impactful as natural resource exports.

Furthermore, the literature evidences the ambiguous effects of high remittance inflows and how they condition a government’s ability to co-opt state organizations and portions of society to support illiberal policies. These indirect international rents can stabilize illiberal and authoritarian regimes, as Cuba exemplifies since they increase the population’s purchasing power and thus reduce their demand for policy changes while generating state revenues (Hoffmann, 2005). However, high remittance inflows can also have a liberalizing effect because governments tend to capture these indirect rents when domestic recipients of remittances spend these revenues domestically. The need to stimulate domestic demand incentivizes governments to respect society’s economic spaces and limit tampering with the state’s fiscal and monetary policies—realms of legislatures and central banks—which curtails executive power (Bastiaens and Tirone, 2019). These possibly unintended incentives to limit executive power can positively moderate a liberalizing effect in populist governments.

It is conceivable that the process of “rentier populism” (Mazzuca, 2013) fosters democratic backsliding. In other words, the possibility for populist governments to complement affective mechanisms of bolstering political support for an illiberal government through clientelist spending depends on capturing international rents. However, different types of international rents, such as rent revenues from natural resource exports or international worker remittances, might moderate how populist governments in Latin America produce democratic backsliding differently.

**Hypotheses**

Following the above theoretical framework, I expect a negative relationship between the presence of Latin American populist parties in governments and the constraints on executive power by other branches of government and civil society, meaning liberalism. Furthermore, it is crucial to test which direct and indirect international rents moderate the impact of populist strategies on liberalism to analyze whether a form of “rentier populism” leads to democratic backsliding in Latin America. Direct international rents, such as natural resource export windfalls exceeding extraction costs, likely moderate a deepening of democratic backsliding. Governments capture this type of rent directly, which allows them to more effectively finance clientelist mechanisms of co-opting domestic actors, such as the urban poor, to build and sustain a ruling coalition that supports illiberal policies. Hence, this paper’s first hypothesis is:

**H1.** Increases in direct international rent windfalls, meaning natural resource rents, moderate a further marginal decrease in the liberal constraints on executive power when populist parties hold national executive office.

Contrastingly, indirect international rents, such as remittances windfalls, can potentially moderate the above relationship in both directions, meaning that remittances deepen or mitigate the
relationship between populist governance and democratic backsliding. Therefore, this paper further tests two competing hypotheses for indirect international rents, which are:

H2.1. Increases in indirect international rent windfalls, meaning international remittances inflows, moderate a marginal decrease in the liberal constraints on executive power when populist parties hold national executive office.

H2.2. Increases in indirect international rent windfalls, meaning international remittances inflows, moderate a marginal increase in the liberal constraints on executive power when populist parties hold national executive office.

Research design

I estimated panel regression models to test this paper’s hypotheses, following Baron and Kenny’s (1986) quantitative process tracing through moderation analyses. Panel regressions help to account for heterogeneity across the 18 analyzed Latin American countries to estimate marginal changes in democratic backsliding from 1991, after most of the region’s countries democratized, up to 2019, before the COVID-19 crisis. The start of the analysis in 1991 allowed to maintain the analysis in the post-Cold War ontological period, which conditioned the furthering and backsliding of democracy.

The model’s outcome variable is liberalism, and it measures the limits on executive power through a coefficient scale from 0 (most illiberal) to 1 (most liberal), which considers the effectiveness of checks and balances by the legislative and judicial branches on the executive, plus the respect of the executive for civil rights (Coppedge et al., 2021). The source of the outcome variable was the “Liberal Component Index” from the Varieties of Democracy (V-Dem) Project database, version 11.1 (Coppedge et al., 2021).

The variable predicting marginal changes in a country’s liberalism is populist government, a dummy variable indicating the presence of a government using antagonistic rhetoric for political mobilization purposes. I coded the presence of significantly populist governments dichotomously by categorizing their presence when an incumbent government scored at or above 1 SD from the mean of all 18 analyzed Latin American countries in the “Populism” indicator of the Varieties of Party Identity and Organization (V-Party) dataset for the duration of its constitutional term (Lührmann et al., 2020). This operationalization of populist governance allows for a stricter classification of ruling parties as populist. Many political agents readily employ populist rhetoric for mobilization purposes but do not enact policies that undermine horizontal checks and balances on the executive branch (Buben and Nemec, 2022).

Furthermore, my theoretical model assumes that direct or indirect international rents moderate the relationship between populist governments and liberalism. Therefore, I operationalized direct international rents as the annual rent windfalls from natural resource exports such as hydrocarbons and minerals as a share of total GDP. This indicator measures the natural resource rent windfalls that a government can potentially capture and not the actual rent revenues accrued by a government. Similarly, I operationalized indirect international rents as the annual remittance windfalls from abroad received by individuals in a country as a share of the total GDP. Remittances are an excellent example of indirect rents that an incumbent government can potentially capture. I sourced both of these indicators from the World Bank (2022).

Furthermore, my model controls for two political and three socioeconomic confounding variables. The political control variables were clientelism and political polarization. The Clientelism Index, an indicator from the V-Dem dataset, is a crucial control variable that helps account for whether incumbent (populist) governments use rent revenues to co-opt political support and legitimacy through clientelist mechanisms (Karl, 1997; Mazzuca, 2013; Robinson and Verdier, 2013).
This indicator measures how governments distribute resources among the population contingent on political support in a continuous coefficient from 0 (least clientelist) to 1 (most clientelist) (Coppedge et al., 2021). Nevertheless, political polarization measures the degree of social antagonism based on individuals’ political identity, which feeds into—or is caused by—the strategies of populists in power (Norris and Inglehart, 2019; Pappas, 2019). I sourced this variable from V-Dem’s “Political Polarization” indicator, which operationalizes this variable through an interval scale from −2 (most polarization) to 2 (least polarization) (Coppedge et al., 2021).

The four remaining confounding variables control the socioeconomic conditions of Internet Penetration, Inflation, and Unemployment. Internet Penetration, sourced from the World Bank (2022), measures the yearly share of the total population that has access to and actively uses the Internet, which helps control the mean with which populist governments have come to directly connect with their constituencies (Guriev and Treisman, 2019). Moreover, I sourced the annual inflation rates from the International Monetary Fund and the annual unemployment rate of the total labor force from the World Bank (International Monetary Fund, 2021; World Bank, 2022). These last two variables help account for the main conditions affecting a society’s purchasing power, which in turn help control for relatively inexpensive constituencies to co-opt politically through clientelist spending (Mazzuca, 2013).

Regarding model diagnostics, I estimated fixed-effects panel regression models because the error terms correlated with the regressors, as indicated by a statistically significant Durbin-Wu-Hausman test. This test’s p-value was less than 0.05 for all estimated models. I also ensured the absence of multicollinearity by determining the Variance Inflation Factor for all condition variables, which ranged from 1.03 to 1.47. Lastly, I ensured that the time series met the assumption of stationarity and heteroskedasticity by conducting the Hadri test of the basic model. The p-value of the Hadri test was less than 0.001.2

Results

This section presents the panel regression models’ results of 18 Latin American countries from 1991 to 2019.3 This paper aims to test whether direct and indirect international rents, such as natural resource rents and remittances, moderate how governments employ populist strategies to garner majoritarian electoral support for illiberal ruling parties that undermine horizontal and vertical checks and balances of executive power. Following Baron and Kenny (1986), I first run a basic panel regression model without the moderators of interest to establish a direct and negative relationship between the presence of populist governments and liberalism, as theorized. After that, I provide two further models, each with an interaction term that tests the theoretical expectations described in this paper’s hypotheses. However, plotting the interaction terms’ marginal effects is crucial to correctly interpret the moderating role of direct and indirect international rents. I follow Berry, Golder, and Milton (2012) in plotting the marginal effects of the different multiplicative interactions to visualize whether the 95% confidence intervals of the interaction terms substantially depart from zero, thus helping to interpret their statistical and substantial significance.4

The basic model without the moderating variables, Model 1, as shown in Table 2, shows that the condition variable of a populist government is highly statistically significant, and its sign is negative. Furthermore, the presence of a populist government reduces the liberalism score by about 0.19 points while controlling for five political and socioeconomic confounders. Hence, the presence of a populist government fosters democratic backsliding. Estimating this relationship established the assumption of a direct effect of the predictor on the outcome variable, thus allowing to continue to test the moderation effect of direct and indirect international rents.
Model 2 aims to test hypothesis H1, relating to the moderating role of direct international rents operationalized as natural resource rents. The predictor was statistically significant in this model, while the interaction term between natural resource rents and populist governments was statistically significant and depicted a negative sign. Its R-square of 0.54 indicates that the model fits over a third of the analyzed cases. These results indicate that direct international rents partially moderate the relationship between populist governments and liberalism, as the predictor variable did not become insignificant by adding the moderating variable. Nevertheless, plotting this interaction term to interpret the results is critical.

Figure 1 plots the interaction term in Model 2, which depicts the marginal effect of different values of natural resource rents when populist governments are present. This plot shows a steep downward slope and 95% confidence interval that significantly departs from zero, thus showing a statistically significant and substantive interaction term. The results show that countries with natural resource rent windfalls of 10% of total GDP see their liberalism score decline by a

### Table 2. Panel regressions of the 18 Latin American countries from 1991 to 2019.

| Dependent variable: | (1) | (2) | (3) |
|---------------------|-----|-----|-----|
| **Liberalism**      |     |     |     |
| Populist government | −0.191*** | −0.131*** | −0.199*** |
| (0.015)             | (0.016) | (0.015) |
| Natural resource rents | 0.004** | | |
| (0.002)             |     |     |     |
| Remittances         | 0.006*** | | |
| (0.001)             |     |     |     |
| Clientelism         | −0.455*** | −0.683*** | −0.662*** |
| (0.026)             | (0.057) | (0.056) |
| Political polarization | −0.027*** | −0.040*** | −0.044*** |
| (0.005)             | (0.006) | (0.005) |
| Internet penetration | 0.001 | 0.0002 | 0.0002 |
| (0.001)             | (0.0002) | (0.0002) |
| Inflation           | 0.0001*** | 0.0004 | 0.0004 |
| (0.00004)           | (0.00003) | (0.00003) |
| Unemployment        | 0.009*** | −0.003* | −0.003 |
| (0.002)             | (0.002) | (0.002) |
| Populist government: |     |     |     |
| Natural resource rents | −0.005** | | |
| (0.002)             |     |     |     |
| Populist government: |     |     |     |
| Remittances         | 0.006*** | | |
| (0.002)             |     |     |     |

| Observations | 507 | 507 | 487 |
|--------------|-----|-----|-----|
| R²           | 0.695 | 0.544 | 0.577 |
| Adjusted R²  | 0.673 | 0.520 | 0.554 |
| F statistic  | 178.915*** (df = 6; 472) | 71.711*** (df = 8; 481) | 78.532*** (df = 8; 461) |

Note: Standard errors are presented in parentheses.

Source: Table is created by the author with data specified in the research design.

*p < 0.1; **p < 0.05; ***p < 0.01.
further 0.05 points, approximately relative to countries with zero rent windfalls. Such a negative moderating effect is moderately substantial given that such effect is about a third of 1 SD of liberalism’s average score for the analyzed countries. Furthermore, the liberalism score is an interval coefficient from 0 to 1, indicating that Latin American countries under populist governance that produce high natural resource rents experience more significant democratic backsliding than natural resource-poor countries. Therefore, Model 2’s interaction term provides evidence in favor of hypothesis H1.

Model 3 aims to test the second hypothesis, H2, relating to the moderating role of indirect international rents, operationalized as remittances. The condition variable and the moderator (remittances) were statistically significant in this model. Moreover, the interaction term between the predictor and moderator variable was highly significant, although with a positive sign. Therefore, these results provide evidence to reject hypothesis H2.1 and in favor of H2.2.

**Figure 1.** Marginal effect plot of Model 2.
The marginal effect plot shown in Figure 2 shows the marginal effect of remittances when populist governments are present. This plot also shows a steep slope and 95% confidence interval that significantly departs from zero and thus shows a statistically significant and substantive interaction term. However, the slope is upward since the coefficient term’s sign was positive. This figure shows that countries with 10% of total GDP remittance windfalls see their liberalism score improve by about 0.06 points, approximately, relative to countries with zero remittance windfalls. Therefore, remittance windfalls moderate an abatement of populist government’s negative effect on liberalism scores, but without substantially reversing such effect. Therefore, Model 3’s interaction term provides evidence in favor of hypothesis H2.2.

I estimated three further models, depicted in Table 3, to test the robustness of the above results, following the exact model specifications as in the models estimated in Table 2 but excluding
Table 3. Panel regressions of the analyzed Latin American countries without Nicaragua and Venezuela from 1991 to 2019.

| Populist government | Liberty  
|---------------------|----------------|
| (4)  | (5)  | (6)  |
| −0.120*** | −0.110*** | −0.181*** |
| (0.013) | (0.024) | (0.015) |
| Natural resource rents | 0.003* | (0.002) |
| Remittances | 0.008*** | (0.001) |
| Clientelism | −0.483*** | −0.431*** | −0.360*** |
| (0.063) | (0.027) | (0.060) |
| Political polarization | −0.036*** | −0.027*** | −0.038*** |
| (0.006) | (0.005) | (0.005) |
| Internet penetration | 0.001*** | −0.0004 | 0.0005*** |
| (0.0002) | (0.001) | (0.0002) |
| Inflation | 0.00002 | 0.0001*** | 0.00001 |
| (0.00003) | (0.00004) | (0.00002) |
| Unemployment | −0.008*** | 0.011*** | −0.007*** |
| (0.002) | (0.002) | (0.002) |
| Populist government: | | | |
| Natural resource rents | −0.007*** | | |
| (0.003) | | |
| Populist government: | | | |
| Remittances | | 0.010*** |
| | | (0.002) |
| Observations | 454 | 454 | 435 |
| R² | 0.353 | 0.665 | 0.476 |
| Adjusted R² | 0.321 | 0.636 | 0.447 |
| F statistic | 39.232*** (df = 6; 432) | 103.347*** (df = 8; 417) | 46.732*** (df = 8; 411) |

Note: Standard errors are presented in parentheses.
Source: Table is created by the author with data specified in the research design.
*p < 0.1; **p < 0.05; ***p < 0.01.

Nicaragua and Venezuela from the analysis. As shown in Figure 3, these two countries showed averaged liberalism scores from 1991 to 2019 below 1 SD from the mean of the 18 analyzed Latin American countries and were the only ones to experience a democratic breakdown during the 2010s, meaning that their electoral processes became uncompetitive. Excluding these two countries, which also had significant natural resource rents or remittances revenues, allows for examining whether these two significant outliers determined the first three models’ effects. The Dominican Republic also showed an average liberalism score below 1 SD. However, I did not exclude this country from the robustness test as it did not experience periods of populist governance and did not experience democratic backsliding during the analyzed period, as shown in Figure 3.

Model 4 shows that excluding Nicaragua and Venezuela from the analysis maintains the direct effect of the presence of a populist government on liberalism scores, as the predictor remains highly statistically significant and with a negative sign. The R-square of this model goes down to about
0.35, from a staggering 0.69 in Model 1, showing that cases of a democratic breakdown do add to the models’ effects and estimating them without them is crucial to establish the analyses’ robustness. Furthermore, Models 5 and 6 show the same result as their counterparts in Models 2 and 3, as natural resource rent and remittance windfalls’ moderation effect between populist governments and liberalism are partial and show the same signs.

Plotting the interaction terms, as shown in Figures 4 and 5, shows that the marginal effect of both moderators when populist governments are present is statistically significant, as the confidence intervals depart from zero. These figures show similar results, as shown in Figures 1 and 2, showing that excluding Nicaragua and Venezuela highlights the robustness of the results shown in Models 2 and 3. Therefore, these results help confirm hypotheses H1 and H2.2 while altogether rejecting hypothesis H2.1. However, the control variables in Tables 2 and 3 point to theoretically relevant findings between the main models and the robustness test models.

In all models, clientelism and political polarization are statistically significant and showed negative signs, as theoretically expected. However, Internet penetration was statistically significant only in Models 4 and 6 after excluding Nicaragua and Venezuela, but the estimate coefficients are relatively small. These results suggest that clientelist mechanisms of electoral coalition-building by populist governments might perhaps drown the effect of the affective mechanisms when maintaining the cases that experienced a democratic breakdown in the analysis as performed in Models 1 through 3. Regarding the other socioeconomic control variables, unemployment was statistically significant and negative in all models, except Model 3, suggesting that this dimension of socioeconomic precariousness likely makes relatively inexpensive societal sectors available to co-opt by rentier populists through clientelist mechanisms. Finally, inflation was the other confounder that controlled for a population’s socioeconomic condition, but this variable was insignificant in

Figure 3. Liberalism scores in the Dominican Republic, Nicaragua, and Venezuela from 1991 to 2019. Note: LATAM-15 refers to the average liberalism scores of the other 15 studied Latin American countries.
all the models, except for Models 1 and 5, which showed weak estimates. Such results suggest that inflation is not a relevant socioeconomic confounder for the analyzed models.

**Discussion: The paradoxical effects of direct and indirect international rents**

After examining 18 Latin American countries from 1991 to 2019, this paper’s statistical results confirmed hypotheses H1 and H2.2. Direct international rents, such as natural resource rents, completely moderated a further increase in democratic backsliding that populist Latin American governments initially fostered. Contrastingly, international remittances, the proxy of indirect international rents, partially and moderately mitigated the negative effect between populist governance
and democratic backsliding. These results are paradoxical, as they suggest that not all forms of “rentier populism” conditioned democratic backsliding in Latin America (Mazzuca, 2013). Discussing each type of international rent helps to interpret the results above better.

**Direct international rents as the catalyst of democratic backsliding**

Direct international rent windfalls in Latin America bolstered democratic backsliding by populist governments. This type of international rent, operationalized as natural resource rents, showed a complete moderation of populist governance’s negative effect on liberalism scores and deepened this negative relationship. Hence, direct international rents acted as a catalyst for rentier populism’s detrimental effect on liberalism. Moreover, the importance of clientelism as a confounder of the
above process indicates that direct international rents condition deepen democratic backsliding due to the relative easiness for populist governments to capture these rents and distribute them through clientelist mechanisms.

Latin American populist governments capturing high amounts of economic rents will be able to maintain high clientelism levels. However, high international rent windfalls do not suffice as a condition of rentier populism. Table 1 shows that most Central American countries received remittances as a share of GDP similar to or exceeding many of the region’s mineral and hydrocarbon exporters. However, only direct international rents had a statistically significant and negative moderating effect on democratic backsliding by populist governments. In this regard, populist governments that capture direct international rents, such as those exporting commodities like natural resources, have a twofold advantage. Populist governments can capture rents with greater ease relative to indirect rents, as they capture them at the supply source of such revenues through imposing royalties on exports made by foreign or national extracting companies (Gould and Winters, 2012; Jenkins et al., 2011; Manzano, 2014; Mommer, 1996; Wood, 2004). Furthermore, clientelist economic patronage conditioned on the capture of direct international rents can increase the purchasing power of the countries’ poor, especially the urban poor.

Clientelist mechanisms, such as employment patronage in public enterprises or particularistic cash transfers before elections to financially co-opt an essential portion of the electorate, can produce economic inclusion at large scales, which high revenues of direct rents like natural resource rents make possible (Corrales, 2014; Leon, 2020; Mazzuca, 2013). Clientelist spending can mobilize sectors of the population unreached by affective populist strategies when socioeconomic conditions are relatively adverse. All models in the previous section exhibited the clientelism confounding variable as highly statistically significant, with a negative sign, and the unemployment variable as well, except for Model 1. These results show that clientelist mechanisms give these mobilized sectors critical economic incentives to maintain support for the populist government, which gives the ruling coalition the necessary political capital to foster or maintain illiberal policies that aggrandize executive powers (Acemoğlu and Üçer, 2020; Berens and Ruth-Lovell, 2021; De Mesquita and Smith, 2010).

It is nevertheless important to note that clientelist mechanisms as a form of economic inclusion are unsustainable in the long run. These financial tools at the populist governments’ disposal create inefficient economic distortions and are viable only if the sources of rent income remain significantly high (Acemoğlu and Üçer, 2020; Berens and Ruth-Lovell, 2021; Freije, 2014; Robinson and Verdier, 2013). The Venezuelan economic collapse exemplifies this pitfall of high levels of rentier populism by capturing and distributing direct rents (Vera, 2017).

**Indirect international rents as a partial mitigator of democratic backsliding**

Indirect international rents, such as remittances, appear to partially moderate a mitigation, but not a complete reversal, of populist governance’s negative effect on liberalism. These results show that indirect rent windfalls do not deepen the processes of democratic backsliding fostered by populist governments, and they might have a slight mitigating effect. However, it is likely that the need to stimulate domestic demand, which allows governments to capture these rents, limits their ability to distribute them through clientelist mechanisms and thus build illiberal ruling coalitions.

A government’s capture of indirect international rents depends on domestic demand’s expansion, as they tax the domestic consumption of international remittances. Countries that capture significant amounts of such indirect rents tend to find the costs of economic inefficiency produced by clientelist mechanisms too high to bear (Robinson and Verdier, 2013). Economic inefficiency leads to downturns in the business cycle, discouraging consumption spending by non-state actors that
receive remittances from abroad, which governments can only capture when individual recipients spend such indirect rents in the domestic economy (Miller and Peters, 2018; Richter and Steiner, 2008).

Therefore, governments capturing indirect rents depend on aggregate domestic demand more than those capturing direct ones. Democratic backsliding by populist governments that the capture of direct rent bolsters makes such governments largely independent from domestic demand if these rent inflows are high enough (Beblawi and Luciani, 1987; Elsenhans, 2022; Jenkins et al., 2011). Moreover, the global demand for direct rents such as minerals and hydrocarbons has remained highly inelastic since the past century, and thus countries allocating direct rents in the economy through clientelist mechanisms can co-opt political support for the ruling coalition without many short-term economic disincentives (Chaudhry, 1989; Eisenack et al., 2012). On the other hand, low global elasticity of demand is not a condition that indirect rents enjoy. Therefore, a populist government capturing indirect rent windfalls will not be independent of domestic productivity as with direct rents (Luciani, 1987; Ross, 2001, 2004).

Venezuela may prove to be an unlikely case providing evidence supporting the logic above. The Venezuelan populist government headed by Nicolas Maduro has implemented a series of splintered economic liberalization reforms, such as erratic and partial dollarization of the economy and rolling back many business-unfriendly price and capital controls that kept the economy closely controlled by Caracas since the early 2000s. These splintered economic reforms attempted to revitalize the economy after the country’s spectacular economic collapse and hyperinflationary pressures due to the 2014 global oil price bust (Rosales and Jiménez, 2021). Venezuela’s splintered economic liberalization comes after oil rents were no longer substantial enough to finance the clientelist mechanisms that kept the county together and after the massive exodus of about six million Venezuelans to neighboring countries made remittances a vital source of international rents (Bahar et al., 2018). Remittance’s windfalls into Venezuela increased from 279 million USD in 2014 to about 4 billion USD in 2020, making this the country’s largest source of hard currency after oil exports (García Nice, 2020; World Bank, 2022). The Venezuelan government’s need to capture this source of indirect rents incentivizes splintered economic liberalization to stimulate domestic demand and thus capture such rents. Whether such haphazard economic liberalization can mitigate or reverse this country’s democratic backsliding processes is a topic for future works.

Some countries, such as the Philippines, have attempted to tax revenues from remittances directly at the supply source by taxing incoming or outgoing transactions. Such a strategy can turn remittances into direct international rents (Light and Lewandowski, 2015). In early 2022 Venezuela attempted to follow in the Philippines’ footsteps to turn indirect rents into direct ones by capturing at the source through a 3% tax on foreign exchange transactions, as remittances constitute a substantial share of such transactions (López, 2022). However, trying to turn indirect rents into direct ones through taxation at the source increases the use of informal channels to send and receive remittances, thus circumventing state fiscal authorities (Light and Lewandowski, 2015). Therefore, indirect rents can rarely condition a form of “rentier populism,” leading to democratic backsliding, as it is difficult for governments to capture and distribute them through clientelist mechanisms to maintain a sustainable illiberal ruling coalition.

Lastly, excluding Nicaragua and Venezuela from the analysis in the robustness tests led the confounding variable of Internet penetration to become statistically significant in Models 4 and 6, with a positive sign but with a small estimate coefficient. Such results suggest that informational technologies were somewhat important for affective populist strategies, but not when direct international rents were the moderator. Similarly, the high degree of “rentier populism” in Nicaragua and Venezuela masked the moderate relevance of Internet penetration when these cases of democratic breakdown were included in the analysis. Affective and clientelist mechanisms of ruling
coalition-building may not be mutually exclusive, even if their statistical significance varies depending on the analyzed cases (De La Torre and Ortiz Lemos, 2016; Zweig, 2018).

Conclusion

This paper contributes to the rich literature on how economic rent windfalls condition the negative relationship between populism and democratic backsliding by disaggregating the moderating effect of different types of international rents (Berens and Ruth-Lovell, 2021; Corrales, 2014; López Maya, 2018; Mazzuca, 2013; Ruth, 2018; Weyland, 2009). This analysis shows that direct international rents, such as natural resource exports, bolstered the democratic backsliding processes that sought to undermine executive power constraints when a populist party held the executive power by analyzing 18 Latin American countries from 1991 to 2019. Contrastingly, indirect international rents, such as remittances, appear to have mitigated democratic backsliding moderately. These findings show that different types of international rent windfalls accrued by populist governments can have different and even paradoxical conditional effects. Furthermore, this analysis helps to highlight the economic tools that populist governments have at their disposal to form and maintain successful ruling coalitions before and between elections.

Further analysis of Latin American countries and elsewhere ought to distinguish between different types of rent revenues and should further explore how states capture these different types of international rents. Better understanding of the mechanism of international rent capture allows explaining rent’s moderating or conditional roles in bolstering or abating the democratic backsliding perpetuated by populist ruling parties and other regime types promoting authoritarian encroachment by undermining the checks and balances on the executive power. Future research should also examine the role played by agricultural exports as a possible source of direct international rents. Agricultural exports may produce rents and profit, which makes it challenging to classify windfalls exceeding production costs as rents (Elsenhans, 2002). Nevertheless, such analyses can provide significant contributions to the literature. In addition, further exploring the economic tools available to populist governments that promote illiberal policies can shed light on the material determinants of democratic backsliding, which have led to authoritarian encroachment from Caracas to Budapest and San Salvador to Manila.

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Notes

1. I only included countries in the analysis with an Iberian colonial past, which is the usual conceptualization of Latin America, and excludes the non-Spanish-speaking Caribbean countries (Pérez-Liñán and Mainwaring, 2013). Furthermore, I excluded Cuba from the analysis because this country never made a transition to democracy and thus the concept of democratic backsliding is inapplicable to it.
2. I conducted these diagnostics through the statistical software R, version 4.1.2, employing the panel econometrics and companion to applied regressions packages (Croissant and Millo, 2008; Fox and Weisberg, 2019).

3. I estimated all panel regression models shown in this section through the statistical software R, version 4.1.2, and using the panel econometrics package (Croissant and Millo, 2008).

4. I plotted all marginal effects of analyzed international terms using the statistical software R, version 4.1.2, and using the “DAMisc” package developed by Dave Armstrong.

5. In Nicaragua and Venezuela, the populist governments presided by Daniel Ortega and Nicolas Maduro, respectively, weaponized the co-opted judicial branch to ban popular and well-funded opposition parties and politicians. Ortega also unconstitutionally removed term limits in 2011 (Balderacchi, 2018; Corrales, 2020; Ruth, 2018).

6. The data on remittances as a share of GDP for Venezuela shown in Table 1 extends only until 2014, as that was the last time that the government reported such data to the World Bank. Secondary sources sporadically report estimates beyond 2014.

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