



Lisbon School  
of Economics  
& Management  
Universidade de Lisboa

**MASTER IN MANAGEMENT**  
**MIM**

**MASTER'S FINAL WORK**  
**DISSERTATION**

PERILS OF LIBERAL DEMOCRACIES AND PROMISES  
OF POPULISM: AN ECONOMIC PERSPECTIVE

ANA MATILDE DE JESUS SABINA LEMOS DAVID

FEBRUARY - 2023



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**SUPERVISION:**

JOSÉ RICARDO BORGES ALVES

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## **Abstract**

Concerns of economic nature are perceived as the main trigger in defining political choices, and a plethora of studies have demonstrated how economic circumstances may influence voting conduct. In the meantime, populism is rising in every corner of the European Union (EU). Considering such instances, this dissertation intends to analyse if and how economic factors contribute to the galloping surge of populism in 28 EU countries from 1990 to 2016, particularly, during periods of austerity. In doing so, a new framework was created by comparing the economic performance of the results obtained right before an election with the overall cumulative results obtained during the political cycle. Evidence suggests that the rise in populism is mostly explained by the perception voters have over the economic performance in the year immediately prior to an election, particularly during austerity periods. Therefore, when elected, populist politicians have no benefit in collaborating and passing meaningful structural legislation, which will create a vicious cycle where the Economy and its citizens forfeit, but populist politicians prevail.

**KEYWORDS:** populism, economic explanations, public policy, economic voting

**JEL CODES:** C33; D702; E24; E32; G01; Z13

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## **Acknowledgments**

First and foremost, I would like to thank Professor José Alves for all the dedication, counselling, exceptional availability, and most of all, for embarking with me through such tumultuous waters and embracing this challenge.

Now, I thank my family – my support system – but, specially, to you: mom, you thought me the work ethic required to reconcile work and school; dad, you pass me down the moto “never give up” which I will always hold close to my heart; and Di, with you I learnt how to dream.

Finally, I would like to dedicate this thesis to you, Fábio. Wherever you are, know that you are missed.

# Perils of liberal democracies and promises of populism: an economic perspective

By Matilde David

Concerns of economic nature are perceived as the main trigger in defining political choices, and a plethora of studies have demonstrated how economic circumstances may influence voting conduct. In the meantime, populism is rising in every corner of the European Union (EU). Considering such instances, this dissertation intends to analyse if and how economic factors contribute to the galloping surge of populism in 28 EU countries from 1990 to 2016, particularly, during periods of austerity. In doing so, a new framework was created by comparing the economic performance of the results obtained right before an election with the overall cumulative results obtained during the political cycle. Evidence suggests that the rise in populism is mostly explained by the perception voters have over the economic performance in the year immediately prior to an election, particularly during austerity periods, which raises issues in launching meaningful and structural legislation.

## 1. Introduction

Albert Einstein once said, “Politics is more difficult than physics” (Dore et al., 2014). This resonates with special sense because developing concrete solutions which aim to bring perpetual change and prosperity to a vast majority of the population is something very hard to achieve, yet very easy to promise.

There is no novelty for the post-war western societies when it comes to populism and its causes have been thoroughly examined by multiple scholars, belonging to a plethora of fields. Considering the after war-period, at first – in the 1980’s –, populism was defined as an “approach to economics that emphasizes growth and income redistribution and deemphasizes the risks of inflation and deficit finance, external constraints and reaction of economic agents to aggressive non-market policies”

(Dornbusch and Edwards, 1989). This was mainly used to describe the first wave of populism which surged in the mid-twentieth-century's Latin Americas.

During the following decade, the classic form of populism mutated into a new one, which installed itself on post-communist eastern European countries after the fall of the Berlin Wall and the Soviet Union (Spoon and Klüver, 2019). This form of populism later gained ground in western societies with robust democracies (Berglof, 2013).

For instance, in 2014, populist parties like the French National Front and United Kingdom Independence Party secure their spots on the European Parliament elections. In early 2015, Greece's populist left called SYRIZA won the general election. In the same year, Poland's Law and Justice Party won the Polish Parliamentary Elections and began a cycle of persecutions towards the judicial system, the media and minorities. In 2017, the far-right Alternative for Germany took seats in Germany's Bundestag. Since then, populists in Europe have only got stronger.

The accepted definition for this somewhat-new form of populism is “a thin-centered ideology that considers society to be ultimately separated into two homogeneous and antagonistic groups, ‘the pure people’ and ‘the corrupt elite’, and which argues that politics should be an expression of the *volonté general* (general will) of the people” (Mudde, 2004). Populism may adopt “host ideologies” encompassing a form of nationalism on the right or of socialism from the left (see, for instance, Loew and Faas, 2019; Rooduijn and Akkerman, 2017; Europe and Mudde, 2007; March and Mudde, 2005). Müller (2017) goes further in their analysis and claims that “populists cannot tolerate the idea of constitutive differences of position or opinion, that is in turn the very bedrock of Western liberal democracy and the party system that underpins it”.

The previous statement establishes one of the crucial features of populism: it rejects pluralism, which is in turn, one of the core features of democracy because it embraces diversity of thought and ideological tolerance. Besides, on one hand populists state to be democratic – claiming the “elites” are the ones who forgot about the wishes of the common folk, which populist will restore as soon as they gain political power. On another hand, populism pivots democracy towards illiberal edges by despising the primary norms and institutions of liberal democracies: belittling free speech; antagonizing the press; spurn the validity of their opposition; not accepting the separation of powers; proposing



anti-constitutional amendments; and not respecting the limits of the executive branch (Berman, 2021).

But one may ask, what is the relevance of such topic? Since the political system of democracy represents freedom to live according to one's own choosing translating into a system of equality of opportunity, by attributing the same freedoms and resources for all under a universal law. Such a system, flawed as it may be, drives the dreams of its citizens, spills over towards innovation and forms a gordian knot around economic prosperity (Robinson, 2006). Populism threatens democracy and without it and its unbiased institutions, the government would decide who can climb the social ladder, who shall thrive and who shall fail, hence, threatening open markets, civil liberties, and legislative checks and balances. Therefore, understanding populism and democratic backsliding may be one of the core subjects that challenges the economic and political sphere.

All of the above is, however, insufficient to explain the rise of populism in the European Union (EU). The literature seem to be divided into three branches of possible explanations: demand-side explanations – divided between sociocultural grievances and economic grievances; supply-side explanations, described as the perpetual decay of institutional foundations; and voluntarist explanations, which focus on the preferences and conducts of politicians amongst the populist parties. Additionally, it is important to note that there is no scientific consensus on the origins of populism, nonetheless, many authors (see Gidron and Hall, 2020; Dorn, Hanson, and Majlesi, 2020) argue the branches mentioned above are interconnected in explaining it.

This thesis will focus on economic reasons as a potential cause for the rise in populism in the European Union from 1990 to 2016 and particularly, during periods of austerity. The chosen timeframe reflects the maximum number of observations. In alignment with this, a new framework is created by comparing the economic performance of the results obtained right before and election with the overall cumulative results obtained during the political cycle. Evidence suggests that the rise in populism is mostly explain by the perception voters have over the economic performance in the year immediately prior to an election, particularly during austerity periods, which raises issues in launching meaningful and structural legislation.

The structure of this thesis is as follows. Section two is dedicated to the revision the theoretical approaches and previous studies covering the economic drivers of populism.

Section three outlines the estimation procedures, empirical models and data employed. Section four reports the empirical findings and discusses it. Section five discloses the main conclusions.

## 2. Related Literature

When studying the economic drivers of populism in the west, researchers direct their efforts towards globalization, technological change and economic crisis (Hawkins et al., 2017; Berman, 2021). Focusing on the latter, an economic downfall causes household debt, economic uncertainty, austerity, unemployment, inequality and income stagnation, which many authors regard as a leading cause for the rise of populist appeal.

### 2.1. *The Rise of Populism and Economic Variables*

Starting with the 1930's, previous publications have empirically highlighted the existence of a significant correlation between austerity measures, financial turmoil and voting for the extreme Nazi far-right party (Galofré-Vilà et al., 2021; Doerr et al., 2021). Simultaneously, Funke et al. (2016) studied the change in general elections after a financial crisis in western countries from 1870 to 2016 and come to conclude that populism rises after a crisis, more so after a financial crisis. Furthermore, parties on the populist-right seemed to benefit the most from economic downfall in comparison to the populist-left. Although, Kates and Tucker (2019) found “*little evidence to support the claim that the Great Recession of 2007–2009 and its aftermath shifted the determinants of support for far-right ideology.*”

Pástor and Veronesi (2021) have investigated how populism expansion may flourish in strong economies with consolidated democracies and found that countries turn more populists after rises in income inequality, trade deficits and financial innovation. Further, a voter prone to be risk-averse and inequality-averse has a higher probability of voting for a populist party.

With an economic slowdown, a rise in unemployment is expected, hence, it is important to understand if or how an increase in unemployment may constitute a potential cause for the expansion of populism. Guiso et al.; (2019) analysed the impact of an economic collapse and its correlation with the support for populism. By relying on the European Social Survey (ESS) database, the authors found that greater unemployment

rates were related to an increase in populist support within the EU countries from 2002 to 2004. Likewise, Algan et al. (2017) followed the shifts of unemployment's idiosyncrasies and its subsequent impact over the vote for populist parties before and after the subprime mortgage crisis in 26 European countries. The authors found that not only unemployment is related to the increase in populism, but the effects of it have a rather significant magnitude: "*1 percentage point change in unemployment implies 1 percentage point change in populist vote*" (Algan et al., 2017). This result is in line with other empirical studies (see e.g., Lechler, 2019). In their paper, Guriev (2018) studies which economic variables affect populist support, in particular, after the subprime mortgage crisis. The author identifies that during the cited period, increasing unemployment as well as increasing inequality and skill-biased shocks are the core instigators of populism. In addition, it is claimed that a rise in unemployment leads to popular distrust of political institutions on a national and European-international level and a disaffection with the establishment parties. In parallel, the trust in other institutions – such as the police, the church or the United Nations – are not affected by this.

When it comes to the impact inequality may have on populist support, it is important to make a clear distinction between inequality of opportunity (the *unfair inequality*, as it is also known) and the so-called *fair inequality* – the inequality of effort and skill (see, for instance, Stoetzer et al., 2021). Guriev (2017), demonstrates that a positive change in *unfair inequality* results in a decrease in support for market reforms, yet *fair inequality* leads to positive appeals for market reforms – which is one of the traits of the traditional form of populism. Complementary to this, the author also analysed the link between attitudinal response towards corruption and ideological vote. Thus, they found the residents who believe corruption it is rising are more leaning to distrust the government. Further, there has been evidence that the escalation of the inequality gap causes distrust in institutions along with scepticism towards mainstream, consolidated parties (Lipps and Schraff, 2020), which may contribute to the support of heterodox parties, namely populist ones. Correspondingly, multiple publications have imply that an increment in income inequality had the potential to escalate right-wing populist support (see e.g., Coffé, Heyndels and Vermeir, 2007; Engler and Weisstanner, 2021; (Jesuit, Paradowski, and Mahler, 2009. Also, the study conducted by Han (2016) empirically demonstrates that income inequality between manual and non-manual workers causes voters to favour right-

wing populist rhetoric. Conversely, Stoetzer, et al., (2021) details inconclusive results when linking income inequality with populist voting.

Economic uncertainty is another determinant variable and cause of an economic recession, specifically in a financial crisis that is caused by a failure of regulation on financial markets. Such causes externalize themselves towards other liquid components of the markets, creating a domino effect that perpetuates an overall increase of the risk, hence leading to increases in economic uncertainty. Gozgor (2022) as well as Kakkar and Sivanathan (2017) reviewed the relationship between economic uncertainty and the rise in populism and found it to be correlated. Moreover, growing economic insecurities make voters captivated by populist – either by choosing nativist appeals on the populist right or choosing a redistributive platform appealing to crony capitalism – as opposed to choosing the establishment (Ramiro and Gomez, 2017). Finally – and even though this economic variable is related with globalization and not with a financial crisis – many European parties perceived as populist have strong anti-immigration views, hence, one might find important to study the relationship between immigration and rise in populism, at least as a supplement variable. First of all, populists with strong anti-immigrant views are not supported on large diverse metropolitan areas, more prone to be inhabited by migrants, and rather gain ground on rural areas with fewer immigrants. For instance, in Germany most of the support for the anti-immigrant party known as Alternative for Germany (AfD) comes from the eastern region which is less populated by immigrants (Havertz, 2021). The academy analyses the dynamics of populism and immigration through two lenses: the culture side and economic side; and this thesis will look at the explanations from the economic side (Rodrik, 2021). The majority of studies for the Euro Zone with a focus on economic explanations overwhelmingly finds a strong correlation between the increase in immigrant population and the growth of populist right-wing parties (Barone et al., 2016, Dinas et al., 2019, and Dustmann et al., 2019). Moreover, most of this research attributes such results to economic dislocations. This phenomenon explains how the arrival of low-skilled immigrants causes an overall drive down of wages in regional labour markets as well as a decrease in public-good provision (such as housing and transfers) to the native residents (Moriconi et al., 2019). In accordance with this, Moriconi et al. (2019) found that the upturn of low-skilled immigrants strengthens nationalist views within each European country, when in fact the presence of high-skilled immigrants

cripples it. However other others found the existence between these components is confirmed in an indirect way; as unemployment grows, sentiments towards immigrants deteriorate in an economic manner (Guriev, 2018; Barrera et al., 2020).

## ***2.2. European Union Sovereign Debt Crisis: The aftermath***

The previous section shed light on which variables associated with economic downfalls stroke impact over populist vote (those being unemployment, inequality, austerity and economic uncertainty). Therefore, its intended to analyse if such variables surged matter for populism growth, in particular during in the European Sovereign Debt Crisis. Furthermore, it is relevant to state no literature was found regarding the hypothetical repercussions of the European Sovereign Debt Crisis over the growth of populism. Although, as mentioned previously, there is literature explaining the role *other* financial crisis play over the growth of populism.

Most of the literature points to various causes concerning the hatch of the European Sovereign Debt Crisis (see e.g.: Overbeek, 2012). For instance, the evolution of debt-to-GPD- ratio during the 2000's, as well as financial imbalances and large external deficits in sectors "*that had little effect on future productivity growth and delayed adjustment to structural shocks*", specially, for Greece, Ireland, Italy, Greece and Portugal –, GIIPs (Lane, 2012). All these factors were intensified during the 2003-2007 period and reach its peak during the subprime mortgage crisis.

This recession that begun on the United States (US) and quickly hit the Eurozone, was initially triggered by the unsustainable and rapid growth of the credit conceded to the construction and real-estate sector (Lane, 2012). Then, the private sector started to default on their credits, leading to parallel problems of increasing loan default and shrinking liquidity to fund the financial markets. Consequentially, this impelled banking distress and sustainability problems all over Europe and the US which, as a result, led to government bailouts for the financial institutions (Lane, 2012). Such events originated an enlargement of budget deficits, which added to the financial imbalances already existent, resulted on rising spreads of government bonds and the inability of countries such as Greece, Portugal and Ireland to oblige by it (Proença et al., 2021). Also, Spain and Italy shown to be right on the edge of default.

The countries who defaulted as well as those close to it had their governance intervene by three institutions (a phenomenon known as Troika) during the 2010-2014

period: the European Commission (EC); the European Central Bank (ECB) and the International Monetary Fund (IMF). But what are the economic implications of this event? According to Eurostat (2018) for the 2010-2014 period for the GIIPs, GDP growth fell approximately 1,4%, unemployment rose on average to 15% and the ratio of inequality of income distribution increased on average 0,5%. Many of these effects were brought by austerity measures which encompass tax increases, pension cuts, reduction of fiscal benefits, cuts on public spending and on public wages (Callan et al., 2011).

### ***2.3. Austerity and Populism***

The austerity literature has shown how voters reacted towards fiscal adjustments or reforms: considering their heterogeneity, voters tend to dismiss material reasonings over ideological ones (Barnes and Hicks, 2018; Hübscher et al., 2021).

Foster and Frieden (2019) examined the influence of austerity measures over political support for European populist parties through 187 elections from 1990 to 2017. The authors found evidence that austerity positively affects the growth of populist support across Europe, however, they also acknowledge populism's increase "*is rooted in long economic and cultural changes*" reflecting historical trends, which may be intensified, yet not caused by austerity and could be resolved through "*social and labour-market policies that foster greater long-term political stability*" (Foster and Frieden, 2019). Dovi, et al. (2016) demonstrate the current economic cycles create two periodic regimes: one where the government increases external deficit to raise budget spending on social transfers which keep low inequality; and a subsequent other where austerity-like policies emerge to repay the existing external deficit, which implies a reduction on social transfers, hence, augmenting inequality. Accordingly, Baccini and Sattler (2021) analysed the relationship between acute austerity and increases in populist vote share. Specifically, the authors aim to identify differences in growth of populist support across economically vulnerable regions. The results show that austerity boosts populist support in economically vulnerable regions and with that, the authors put into question the origins of populism, stating such factors are not purely external, but triggered by domestic factors, namely failures on public policies.

According to Kriesi (2014), Southern European Democracies grant a rich environment for the growth and expansion of populism. First due to the consequences of the subprime mortgage crisis, resulting in austerity and social discontentment which

affected these countries in particular. Second, some of southern European countries that were forced to take a hard toll on the crisis had parties in power who were obligated to embrace neoliberal policies, opposing their core and founding principles.

Greece's political post-world-war history has been filled with populist parties and political figures. Such persistence of populism compelled some authors to argue this feature has become a part of Greece's political genesis (for instance Pappas (2014) refers to it as "*populist democracy*").

Lisi et al. (2019) studied the rise in populist rhetoric in mainstream and challenging parties in Portugal, Spain and Greece after the financial crisis of 2008, by analysing party manifestos. Their conclusion points that populism has escalated – mainly in challenging parties – in all three countries, yet it is much higher in Greece compared to Spain and Portugal. Moreover, populism remains stable in Portugal and Greece, but it is rather surging in Spain, which the authors attribute to the arrival of new political parties.

Gómez-Reino Cachafeiro and Plaza-Colodro (2018) examine the soar of left-leaning populism rhetoric in the Iberian Peninsula after the subprime mortgage crisis and sovereign debt crisis. The authors claim that the economic turmoil led to the allure of anti-austerity rhetoric embodied in left-eurocentric populist parties, constituting the main driver in reshaping the Iberian political structure. With this in mind, they were able to establish a causality link between the austerity period and the upswing of left-eurocentric populist parties in the Iberian Peninsula. In Italy and Ireland's case, studies of the correlation of austerity and populism have been rather scarce. One reason for this might be associated with the fact that most of the populist movements rising in both countries have a far-right genesis. Therefore, political parties with such agendas usually use globalization and migrations as a scapegoat and not center their focus on austerity measures. Nevertheless, populist left-wing parties might use the grim periods of austerity as their main focus to push and entice voters towards their beliefs. Regarding Italy, the only link between austerity and populism was through Carrera (2021) who proves the institutional and economic disturbances of the early 2000's have instigated the rise of right-wing populism. In Ireland's case, O'Malley and FitzGibbon (2014) have shown there is no link between the emergence of populist parties as a result of financial and debt crisis.

#### ***2.4. Supply-side explanations: The role of institutions over populism***

Although demand-side explanations cover most of the economic factors which may influence the sudden wave of populist support on European ground, supply-side explanation offer some insight into the idiosyncrasies of economic policies and their institutional role. Institutional authors claim that the structural tendencies are a result of the processing capacity of institutions to produce favourable or undesirable outcomes which then, cause political reactions (see e.g.: Hall and Taylor, 1996 and Steinmo et al., 1992).

Most of the supply-side explanations that connect populism to efficiency over the institutional capacity for the European Union, focus on their current monetary and fiscal policies (Guiso et al., 2019). Nanou and Dorussen (2013) notably said the “*process of European integration... undermines one of the primary functions of the domestic electoral process—namely to offer voters a broad range of policy alternatives*”. Thus, the country-members of the European Union have more difficulty in responding to a shock, due to their fiscal and monetary constrains. Guiso et al. (2019), predict the success of populist parties after a shock, more so for Euro Zone countries, than for non-Euro Zone countries. The authors attribute this outcome to the “*policy-straight-jacket*” (PSJ) effect, which relates to the fact that Euro Zone countries have a narrow margin to apply fiscal policy as a result of the immense Euro Zone rules, and in addition, have no autonomy when it comes to monetary policy. Such poor toolset in the advent of a crisis may reveal to be insignificant in combating county-specific shocks, or to pose a proper response to a global shock that affects Euro Zone countries asymmetrically.

A symptom of this is reflected upon the persistent decline of mainstream political parties. For decades, Europeans had a longstanding tradition of making their voices heard by affiliate themselves onto a mainstream political party (Mair, 2013). After the turning of the millennium, however, political affiliation, alliances to civil society organizations and activist initiatives declined (Dalton and Wattenberg, 2002, and van Biezen et al., 2002).

All of this creates the perfect storm: on one side, there are shock over economies mirroring their innate cyclical trend, and on the other side, there is the inability of Euro Zone countries to give a proper response to such shocks. Some of these countries – the ones particularly exposed to economic crisis due to their high chronic public debt – in



their inability to combat the shocks with the crimping instruments at their disposal, have to face austerity and witness to the plunge of their citizen's quality of life. This creates a frustration with Europeans and some of them turn their backs to mainstream political parties and give a change to the enticing populist speech that promise to squash all their problems and restores their national hope.

### **3. Data and Methodology**

#### **3.1. Data**

To perform this study, a broad set of historical data is used. This section defines the main variables considered for this analysis – all of which measured at annual frequency and within the timeframe starting from 1990 to 2016 – for the twenty-eight developed European Union countries. It is important to note that the United Kingdom is still included in this analysis, given that this period coincides with its participation in the European Union. Moreover, the timespan used for this study coincided with the maximum number of observations.

The Varieties of Democracy (V-Dem) Institute serve as the source for the populism index depicted in the model, which encompasses every election within the timeframe as well as every party that participated in the respective election and accounts for at least five percent of vote share. The populism index in itself is construed as “*the harmonic mean of rescaled anti-elitism and people-centrism distributions*”. Firstly, anti-elitism is a measure construed by an ascending zero-to-four scale of the voter's perception over the importance each party place on anti-elitism rhetoric during the respective election; secondly, people-centrism is a measure construed by an ascending zero-to-four scale of the voter's perception placed on the glorification of “the people” and the effort to morph the politicians in the party as part of the common folk for the respective election (Lindberg et al., 2022). This index was chosen in contrast to others because, as presented in the introduction section, both anti-elitism and people-centrism are the cornerstones of the current accepted definition of populism proposed by Cas Mudde (2004). In addition, the scale of this index goes from 0 – not populist at all, to 1 – absolute populist.

In the former section, economic phenomena such as financial crises, recessions, economic uncertainty, rise in unemployment, inequality, household debt and austerity measures were shown to positively contribute to the rise in populism. Hence, our model

will include GDP per capita (*realgdp*) from Madison Project (2020); long term unemployment as a percentage of the labour force from (*unemployment*) World Economic Outlook Database (2022); the redistribution difference between the pre-tax Gini coefficient and the post-tax Gini coefficient that describes inequality effects (*redistribution*) from Solt (2019); household debt, loans and debt securities as percentage of GDP (*householdbt*) from the International Monetary Fund (2022); government expenditure (*govexp*) and government debt (*govdbt*) as a percentage of GDP – both from the World Economic Outlook Database (2022) –; the public sector efficiency and its fiscal consolidation (*consolidation*) (Afonso et al., 2022); and finally, migrants inflow (*iflwmigrants*) from Organisation for Economic Co-operation and Development (OECD) International Migrants Database (2022). Table 1 shows the descriptive statistics of the variables used and Tables 2 and 3 depicts the respective correlative matrix for lagged and accumulative variables.

Table 1. Descriptive Statistics

	Obs	Mean	Std. Dev.	Min.	Max.
<i>Δgovdbt</i>	176	10.262	0.0748	0.000	0.520
<i>govdbt</i>	176	61.073	0.496	8.524	10.940
<i>Δrealgdp</i>	213	0.083	16.805	0.000	107.800
<i>realgdp</i>	213	10.021	35.695	4.600	184.000
<i>Δunemployment</i>	203	2.115	2.330	0.000	12.100
<i>unemployment</i>	203	9.072	4.760	0.000	26.500
<i>Δhouseholdbt</i>	176	5.612	5.974	0.000	50.218
<i>householdbt</i>	176	44.359	29.340	0.183	126.850
<i>Δredistribution</i>	210	0.484	0.508	0.000	3.200
<i>redistribution</i>	210	17.550	3.730	8.400	25.300
<i>Δgovexp</i>	184	3.849	6.716	0.000	47.650
<i>govexp</i>	187	40.334	12.442	5.702	94.855
<i>Δiflwmigrants</i>	47	0.399	0.533	0.001	2.155
<i>iflwmigrants</i>	133	0.901	1.244	0.000	7.281

Table 2. Correlation Matrix: Lagged variables

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>govdbt</i>	1.000						
<i>realgdp</i>	0.172	1.000					
<i>unemployment</i>	-0.549	0.130	1.000				
<i>householdbt</i>	0.618	0.221	-0.256	1.000			
<i>redistribution</i>	0.532	0.198	-0.379	0.340	1.000		
<i>govexp</i>	-0.020	0.331	-0.068	0.098	0.141	1.000	
<i>iflwmigrants</i>	0.606	-0.077	-0.394	0.256	0.194	-0.067	1.000

Table 3. Correlation Matrix: Accumulative variables

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
$\Delta govdbt$	1.000						
$\Delta realgdp$	-0.011	1.000					
$\Delta unemployment$	0.213	0.312	1.000				
$\Delta householdbt$	0.281	0.216	0.233	1.000			
$\Delta redistribution$	0.149	0.242	0.229	0.102	1.000		
$\Delta govexp$	-0.040	0.764	-0.047	0.101	0.099	1.000	
$\Delta iflwmigrants$	-0.081	0.073	0.147	0.097	0.351	-0.080	1.000

### 3.2. Methodology

Our analysis will be conducted through a set of panel-data approach within cross-section and time-series dimensions, which will give a comprehensive understanding over the dynamics between populism (as an index) and the variables mentioned above, considering the timeframe previously laid.

As other variables are measured yearly, populism's growth is evaluated within each country's political cycle. Hence, evaluating the effects that the defined variables have on populism without considering the performance of such variables in previous years, would be intellectually dishonest. To shy away from that, our methodology will include two types of explanatory variables: lagged and accumulative. Variables in lagged form correspond to the result bestowed by a certain variable of the year immediately prior to an election. Likewise, variables in accumulative form correspond to the difference between variables in lagged form of the current election and variable of the exact year of the last election.

On one hand, variables in lagged form will be used instead of the ones matching the current year of the election. To justify this choice, one has to consider that an election (which is when populism is accounted for) will most likely occur before the results of other variables for the current year are accounted. Thereby, only the lagged results may affect voting decisions. To make this clearer, take this example: Portugal had presidential elections in January of 2011, but the result of the GDP, unemployment, Gini coefficients, household debt, government expenditures and others, were not yet accounted and, as a consequence, voters could not elect the next president based on data or the impact of something that did not had happened at that point.

On another hand, variables in accumulative form are considered because one may find relevant to understand whether voters consider the economic performance of the last political cycle – and hence, vote accordingly.

Therefore, our methodology intends to respond to three main questions: 1) Do economic variables (namely the ones described on the data section) affect populism from 1990 to 2016 in EU space? 2) Can populism's growth be explained by (namely the ones described on the data section) in which the only year consider is the year prior to an election, from 1990 to 2016 in EU space? 3) Can populism's growth be explained by the accumulative performance of economic variables (namely the ones described on the data section) during the last political cycle, from 1990 to 2016 in EU space?

These questions materialize themselves into two empirical specifications, presented as follows:

$$(1) \quad \text{populism}_{it} = \alpha_{it} + \beta_{1it}X_{t-1} + \eta_i + v_t + \varepsilon_{it}, \quad t = 1, \dots, T; \quad i = 1, \dots, N$$

Equation (1) displays the relationship between populism and lagged control variable with respect to time  $t$  and country  $i$ . Specifically, in this equation, *populism* represents the populism index for country  $i$  in time  $t$ , and,  $X_{t-1}$  depicts the lagged control variables, for country  $i$  one year prior to  $t$ . Moreover,  $\eta_{it}$  and  $v_{it}$  are, respectively, the time effect and the country-specific effect and  $\varepsilon_{it}$  is the arbitrary white-noise effect for country  $i$  and time  $t$ .

$$(2) \quad \text{populism}_{it} = \alpha_{it} + \beta_{1it}\Delta\text{govdb}_{it} + \beta_{2it}\Delta X_{it} + \eta_i + v_t + \varepsilon_{it}, \quad t = 1, \dots, T; \quad i = 1, \dots, N$$

Likewise, equation (2) characterizes the relationship between populism and accumulative variables, with respect to time  $t$ , where  $\Delta$  represents the difference between the year before the current election and the year of the last election; and country  $i$ .

These equations provide a solid foundation for the testing and consequential empirical analysis that may follow. Although, it is important to note that, despite all control variables individually had substantial literature to corroborate their relationship with the dependent variable, they were never studied in this aggregate format.

Furthermore, it is worth of noting that the number of observations of our model's database was rather scarce, given that and as explained above, populism is only accounted periodically – when an election occurs –, which downsizes the yearly account of observation to roughly a third.

To test each equation, one methodology was used. On one hand, our model would a prone candidate to use the Ordinary Least Squares (OLS), with which most fitting equation that captures the linear relationship between populism and the economic control variables with a dynamic component across time – both for lagged and accumulative form – could be generated. On the other hand, panel data is subjectively sensible to cross-sectional misspecifications, which translates into variables presenting temporal dependences. This raises issues given that there might be correlation between omitted and explanatory variables leading to model's misconceptions. Moreover, the literature seems to concur with this possibility. Note that, as referenced in the previous sections, populism is a complex variable, which is affected by a variety of factors divided according to three branches of thought commonly described as demand-side explanations, supply-side explanations and voluntarist explanations. This study only intends to focus on a specific pillar of the demand-side explanations – the economic variables – which, may or may not explain a significant part of populism, but will never explain it completely. Moreover, other pillars of the model, in this case omitted variables, may be correlated with some of the explanatory variables. For instance, Norris and Inglehart (2019) concluded through the analysis of decades of data from the World Values Surveys data, that many of the sociocultural factors related to right-wing populism could be explained by economic insecurity which is in itself an explanatory variable for populism growth, hence raising heterogeneity issues. Other authors concur with this analysis (see Bonikowski (2017) and Gidron and Hall (2020)). Hence, the model will be tested with Driscoll-Kraay estimator (Driscoll and Kraay, 1998), which will be implemented to control cross heteroskedasticity, given the presence of cross-sectional and time-serial dependence amongst the data.

Furthermore, some robustness checks will be conducted. We will use its fiscal consolidation dataset (Afonso et al., 2022) as a to test whether the fiscal component in reducing government debt and its accumulation may affect populism. With this in mind, a final question is intended to be answer: Can populism's growth within a certain country

be explained by its fiscal consolidation paths (which is commonly referred as austerity measures)?

#### 4. Analysis and discussion of results

As elucidated in the former section, the results are split to enlighten the impactful difference that lagged and accumulative variables have on populism's growth for the Driscoll-Kraay methodology. Specifically, table 4 displays the effect that lagged economic variables cause in the rise of populism, and in turn, table 5 presents the homologous results for accumulative variables.

Table 4. Driscoll-Kraay results for the impact of lagged economic variables on populism

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>govdbt</i> <sub><i>t</i>-1</sub>	0.000 (0.000)	0.000 (0.000)	0.001 (0.000)	0.001 (0.000)	0.000 (0.000)	0.001** (0.000)	0.001 (0.000)	0.002*** (0.000)
<i>realgdp</i> <sub><i>t</i>-1</sub>		-0.003 (0.037)						0.023 (0.080)
<i>unemployment</i> <sub><i>t</i>-1</sub>			-0.004 (0.003)					-0.015*** (0.004)
<i>householdbt</i> <sub><i>t</i>-1</sub>				-0.000 (0.000)				-0.000 (0.001)
<i>redistribution</i> <sub><i>t</i>-1</sub>					-0.000 (0.004)			-0.009 (0.006)
<i>govexp</i> <sub><i>t</i>-1</sub>						-0.004*** (0.001)		-0.006*** (0.001)
<i>iflwmigrants</i> <sub><i>t</i>-1</sub>							-0.018 (0.012)	-0.050*** (0.015)
Constant	0.305*** (0.028)	0.338 (0.366)	0.335*** (0.038)	0.317*** (0.033)	0.313*** (0.067)	0.439*** (0.041)	0.331*** (0.037)	0.663 (0.777)
Observations	176	176	176	169	174	160	127	111
R-squared	0.008	0.008	0.016	0.009	0.007	0.083	0.024	0.254

Notes: (a) Robust standard errors in brackets; (b) Constant term estimated but omitted for reasons of parsimony; (c) \*, \*\* and \*\*\* denote statistical significance at the 10%, 5% and 1% level, respectively.

Table 5. Driscoll-Kraay results for the impact of accumulative economic variables on populism

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>govdbt</i> <sub>t-n</sub>	-0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)	-0.000 (0.001)	0.000 (0.000)	0.000 (0.001)
<i>realgdp</i> <sub>t-n</sub>		-0.371** (0.178)						
<i>unemployment</i> <sub>t-n</sub>			-0.007* (0.004)					
<i>householdbt</i> <sub>t-n</sub>				-0.004** (0.002)				
<i>redistribution</i> <sub>t-n</sub>					0.002 (0.028)			
<i>govexp</i> <sub>t-n</sub>						-0.001 (0.002)		
<i>iflwmigrants</i> <sub>t-n</sub>							-0.006 (0.004)	0.060 (0.056)
Constant	0.333*** (0.020)	0.366*** (0.032)	0.345*** (0.023)	0.360*** (0.029)	0.335*** (0.030)	0.335*** (0.024)	0.354*** (0.023)	0.336*** (0.025)
Observations	176	176	176	169	174	157	157	47
R-squared	0.000	0.019	0.007	0.018	0.000	0.003	0.004	0.022

Notes: (a) Robust standard errors in brackets; (b) Constant term estimated but omitted for reasons of parsimony; (c) \*, \*\* and \*\*\* denote statistical significance at the 10%, 5% and 1% level, respectively.

The immediate conclusion over the examination of both tables is that lagged variables can, broadly, explain the surge of populism, while accumulative variables cannot, considering the time and country framework depicted. This outcome cascades into other conclusions that may bear policy implications. One of those being that populist leaders benefit from the short-sighted evaluation conducted by the voters when it comes to economic performance. Stanley (2008) alludes to this “myopia syndrome” by reflecting over the thin centrism of populism, since it lacks the capacity of creating its own agenda and political range of ideas, and rather just mutates itself into a program that tells voters what they want to hear in a particular moment of time. Moreover, the aforementioned results support the thesis that, when elect, populist politicians benefit most from pursuing inert conduct until the last year of re-election. Only then, it seems to be affective to put out “*quick win*” policies, which according to the data, might be enough to boost populist presence in public office. This course of action is not only effective, but also the “easy and hollow one” to take, which is rather worrisome. If politicians only focus on short-term policies to maximize their vote share, then structural and reforming agendas will never occur. Structural policies are, however, the perpetual vehicle of change when it comes to the social, legislative, and economic fabric: they exist to ensure the wellbeing

of citizens in the long run and without it, public infrastructure, goods, services and laws will decay with each passing year.

Aside from the comparison between lagged and accumulative results, some variables in lagged form provided compelling insights in explaining the rise of populism. To start, populism's increase can be explained by an upturn of lagged government debt in conjunction with a decrease of public expenditure in lagged form. Although these results are not explicitly mentioned in the literature, they are corroborated by it. When government debt escalates but public expenditure shrinks, voters could feel as though their fiscal burdens increase with none of the benefits. Some may even view it as bad management on the governments part, amplifying the fracture which divides "them" – the politicians, the elites – over "us": the voters, the people –, which, as the data suggests, leads to in populists' favourability.

Furthermore, the results suggest that a contraction of unemployment in the year immediately prior to an election is statistically significant in explaining populism's boost. At a first glance, these results seem contrary to the literature cited in the respective section, even though it is not the case. The quoted literature, such as Algan et al. (2017), Guiso et al. (2019) and Lechler, (2019), proves that rise in unemployment strives benign results into populism's acceptance. However, these authors – as Chen (2020) noted –, did not "*distinguish between unemployment that existed before the economic downturn and new unemployment caused by the adverse economic shocks*". This meagre difference in the format in describing unemployment produces a great divide in results: the type of unemployment studied by the first authors projects it towards the steady state of the Economy, whilst our type of unemployment intends to portray its performance in year before an election.

In addition, and as a robustness check, we investigated the same variables during the application of components of fiscal consolidation. Table 6 depicts such results. Thus, we empirically tested the hypothesis of the existence of "*new employment caused by the adverse economic shocks*", which in this case encompasses austerity measures. Our results show that the rise in unemployment in the year immediately before an election and during a period of austerity leads to a rise in populism. Chen (2020) presented evidence that concurs, stating that citizens who were laid-off before an economic shock attributed



their jobless state to their own endeavors, while citizens that got unemployed during an economic shock blame the elites.

Table 6. Driscoll-Kraay results for the impact of lagged economic variables on populism when fiscal consolidation in action

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>govdbt</i> <sub><i>t</i>-1</sub>	0.002*** (0.000)	0.002** (0.001)	0.002*** (0.001)	0.001 (0.001)	0.001 (0.001)	0.003*** (0.001)	-0.001 (0.001)	0.003 (0.005)
<i>realgdp</i> <sub><i>t</i>-1</sub>		0.091 (0.097)						1.303*** (0.348)
<i>unemployment</i> <sub><i>t</i>-1</sub>			-0.002 (0.010)					0.063** (0.024)
<i>householdbt</i> <sub><i>t</i>-1</sub>				0.002 (0.001)				-0.012** (0.004)
<i>redistribution</i> <sub><i>t</i>-1</sub>					0.030 (0.024)			-0.064 (0.008)
<i>govexp</i> <sub><i>t</i>-1</sub>						-0.012* (0.006)		-0.004 (0.027)
<i>iflwmigrants</i> <sub><i>t</i>-1</sub>							0.274*** (0.029)	0.512*** (0.166)
Constant	0.0201*** (0.049)	-0.693 (0.950)	0.217** (0.092)	0.188*** (0.050)	-0.283 (0.381)	0.593*** (0.207)	0.190** (0.086)	-12.364*** (4.108)
Observations	46	46	46	46	46	43	33	30
R-squared	0.121	0.132	0.122	0.151	0.191	0.213	0.335	0.588

Notes: (a) Robust standard errors in brackets; (b) Constant term estimated but omitted for reasons of parsimony; (c) \*, \*\* and \*\*\* denote statistical significance at the 10%, 5% and 1% level, respectively.

When it comes to migration, our results also appear to be paradoxical to mainstream literature. However, some remarks must be point out before any linear analysis is taken for granted. First of all, most of literature establish a relationship between the rise in migrants and an upsurge in right-wing populism (see Barone et al., 2016; Dinas et al., 2019 and Dustmann et al., 2019). This draws a particular conclusion to right-wing populism, whilst our aim is to study the impacts of migration in general growth of populism. Besides, the literature focus on the long run inflow of migrants, whereas we try to focus our analysis on the inflow of migrants right before an election takes places. Again, the distinction of the lenses through which we analyze a variable, creates significant differences in the interpretation one can take from it.

Our data suggests that populism decreases with the expansion of migrant population. Given these results, our analysis would be that many migrants are able to choose their destination, henceforth, there might be more migration grants in regions that

are generally more welcoming to immigrants. This could create an adverse paradigm between migration inflow and populism that is aligned with our results. Likewise, migrants usually fixate themselves into urban areas more accepting to foreigners than rural ones (Havertz, 2021).

Nevertheless, Guriev (2020) defends that immigration does not automatically drive populism into its crest or its nadir, because it depends on a multitude of factors. First, a large influx of immigrants may inflate populism's demand, whereas a small inflow may decrease its favorability. Second, the type of migration is also very particular in its effect over populism. If migrants possess similar cultural aspects (for example: religion, similar language, values), voters may not be prone to vote for a populist party. Third, the type of work migrants are offering also affects populism: while the inflow of unskilled work could increase populism, the increase of high skilled labor produces the contrary effect (Moriconi et al., 2019).

When we benchmarked the migration inflow results to our robustness check, we conclude that during an austerity period, a rise in immigration leads to a rise in populism support. In our view, this hypothesis can be corroborated by the analysis of the labor market according to the neoclassical perspective. Austerity is usually caused by unbalanced growth path of government debt, which leads to rises in interest rates and declines in government expenditure. The increment over interest rate causes a contraction on the demand side for goods and services, followed by a decrease in supply, creating a rise in unemployment. Under such conditions, when more citizens are looking for a job and cannot find it, the labor market becomes more competitive. Ergo, the local workers perception over newly arrived foreigners: shifts migrants begging to be "othered" and marginalized, given that they have come to "stole" already scarce jobs for those who were here first. The results are aligned with the literature on the matter (Guriev, 2018; Barrera et al., 2020).

Besides, GDP and household debt were only a significant contributing factor to explain populism when analyzed during an austerity. This might be the case, given that, austerity represents harsh times for citizens: their savings usually dry up at the expense of more fiscal responsibilities. Moreover, GDP is the best instrument to measure a nation's wealth, but it is an imperfect instrument because is a measure of economic productivity and not of economic wellbeing. Thereby, it is conceivable to perceive a

group of politicians boosting achievements such as the growth of the economy sounding tone death to an electorate that in the short-term, only experienced economic turmoil. In this scenario, other politicians who bad-mouths the political elites and pose themselves on the side of “the people” might seem like the only alternative to take.

Table 7. Driscoll-Kraay results for the impact of lagged economic variables on populism including fiscal consolidations

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>govdbt</i> <sub><i>t</i>-1</sub>	0.001*** (0.000)	0.001** (0.000)	0.001** (0.000)	0.001** (0.000)	0.001* (0.000)	0.003*** (0.001)	-0.001 (0.001)	0.002*** (0.000)
<i>consolidation</i> <sub><i>t</i>-1</sub>	0.0034** (0.016)	0.034** (0.016)	0.038** (0.018)	0.029* (0.017)	0.031* (0.017)	0.018 (0.016)	0.028 (0.024)	0.017 (0.033)
<i>realgdp</i> <sub><i>t</i>-1</sub>		-0.007 (0.023)						0.025 (0.055)
<i>unemployment</i> <sub><i>t</i>-1</sub>			-0.004 (0.002)					-0.013** (0.003)
<i>householdbt</i> <sub><i>t</i>-1</sub>				-0.000 (0.000)	0.002 (0.003)			-0.000 (0.000)
<i>redistribution</i> <sub><i>t</i>-1</sub>						-0.004* (0.001)		-0.006 (0.005)
<i>govexp</i> <sub><i>t</i>-1</sub>							-0.012 (0.011)	-0.006*** (0.001)
<i>iflwmigrants</i> <sub><i>t</i>-1</sub>							0.287*** (0.044)	-0.044*** (0.014)
Constant	0.277*** (0.023)	0.350 (0.233)	0.308** (0.028)	0.286*** (0.031)	0.254*** (0.045)	0.407*** (0.041)	0.287** (0.044)	0.516 (0.520)
Observations	162	162	162	159	160	148	115	013
R-squared	0.027	0.027	0.035	0.025	0.026	0.106	0.043	0.243

Notes: (a) Robust standard errors in brackets; (b) Constant term estimated but omitted for reasons of parsimony; (c) \*, \*\* and \*\*\* denote statistical significance at the 10%, 5% and 1% level, respectively.

At last, we did a final analysis to understand how consolidations, as a variable, could affect populism, as shown in table 7. The literature suggests a positive correlation (see Baccini and Sattler, 2021) and Carrera, 2021, among others. Our results support no link between populism and consolidations. However, the previous studies were conducted for specific parts of Europe, namely a particular country (i.e., Italy) or groups of countries (GIIPS), whereas our study is conducted to a heterogenous economic block, which may compromise the results.

## 5. Conclusions and policy implications

Populism is the hot topic of the twenty first century in political science. In this context, understanding the progress of populism in the ballot box is possible by understanding social and economic trends through demand side explanations; by analyzing the perception of the public sector's efficiency through the supply side explanations, and nonetheless, by scrutinizing the portrayal and appeal of political leaders through voluntaristic explanations. This dissertation aims to shed light on the economic perpetrators for the rise of populist parties that will uphold public office, and, particularly, during periods of austerity.

When dissecting the potential causes for the rise in populism, the literature pointed towards unemployment, household debt, government debt, government expenditure and inequality. To study the impact the former variables could potentially have over populism, we use a cross-section time-sensitive panel dataset which was tested considering the Driscoll-Kraay methodology to control the high risk of temporal dependence due to the complexity of populism as dependent variable. Moreover, the aforesaid variables were computed in two formats: lagged and accumulative, through which it is possible to infer voter's sensitivity towards the economic performance accounted in the year right before an election and during the political cycle, respectively, and its consequential effect over populism. Besides, the Driscoll-Kraay method was also employed as robustness check for the framework previously laid during austerity periods.

The findings of this thesis demonstrate that lagged variables are statistically significant in explaining populism, whereas accumulative variables provide no insight in describing the idiosyncrasies of populism. Considering these results, when elected, populist politicians have no benefit in collaborating and passing meaningful structural legislation, which will create a vicious cycle where the Economy and its citizens forfeit, but populist politicians prevail.

When deepening within the lagged model, results of variables such as government debt and expenditure mirror the expected, given the mainstream literature; whilst results of variables such as unemployment and migration display – what it seemed at a first glance –, antithetical results when confronted with available literature. Our results concerning government expenditure and debt show that a boost in government debt in conjunction with declines in public expenditure will contribute an upsurge in populism.

According to our analysis the combination of these two explanatory variables might be interpreted by the electorate as bad management on the government's part, leading them to vote for the alternative that voices "the people's" concerns. To test the bad management hypothesis, future studies related to the economic causes of populism should include in their dataset a control variable related to the efficiency of the public sector.

With regards to unemployment, our results point to a negative correlation with populism but a positive one during austerity. Our explanation for this is aligned with the reasoning of Chen (2020) which alludes to the fact that during "normal periods" (i.e., with no economic shocks) workers tend to blame themselves for their employment status, whereas during austerity periods, unemployed citizens tend to blame the establishment. Finally, our results for migration draw a negative correlation with populism during periods of no austerity, and a positive correlation during austerity periods. On one hand, during periods of no austerity, the literature seems to be divided because, just as populism, migration is a complex variable that is subjective to multiple components such as skills, cultural proximity, and propensity to blend with the native culture. In future studies, these elements of migration should be encompassed in order to draw a stronger relationship with the dependent variable. Moreover, future studies should also try to find data that allowed the distinction between left-wing and right-wing populism. On the other hand, during periods of austerity, our results for unemployment, GDP and household debt match with the cited literature and neoclassical economics explanations.

Our final results of including fiscal consolidations on the lagged model in an attempt to understand how austerity could influence populism reveal no link between these variables. However, we argue that this is due since our model studies fiscal consolidations for the entire European Union – which is a very heterogeneous economic block, hence the results might reflect this dispersion – whilst the most studies focus on a particular country or group of countries that are synced in their economic cycles. Future studies should group countries of the European Union according to their economic tendencies to test whether austerity comprises any statistical significance in explaining populism.

Still, it is important to note that populism is a social construct that depends on a multitude of factors that could never be explained, in its entirety, by economic factors. There will always exist other spheres within the human matrix to influence our choices, how we form groups and create a sense of identity that is deeply rooted in populism's

inception. Now a new form of identity has arrived and surpasses sovereignty territory and culture, because it emerges within virtual spaces. As it is well documented, it is not a coincidence that the sudden rise in populism happened simultaneously with the massification of social media. Therefore, we strongly recommend future studies try to analyse the impact of economic literacy and social media shrewdness in the rise of populism.

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