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Economic Predictors of Democratic Backsliding:  
A Comparison of Populist and Non-Populist Leaders

by

*Jacob Winter*

Honors Thesis

Submitted to:

Political Science Department  
University of Richmond  
Richmond, VA

April 28, 2022

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The initial motivation of this research was to develop a better understanding of the primary causes of democratic backsliding, and by extension, how pro-democratic governments, NGOs, and other institutions can most effectively combat democratic backsliding. Previous research has examined the effects of economic conditions (Waldner and Lust 2018) as well as populism (Kyle and Mounk 2018) on a country's democracy, but to my knowledge, no study has examined whether the effect of economic conditions on a country's democracy differs between populist and non-populist countries. My research attempts to provide an answer to this question by examining how personal wealth, price instability, and income inequality have influenced democratic backsliding under populist and non-populist leaders globally since 1990. The most noteworthy finding of my research is that, in contradiction to previous decades' research, increased personal wealth corresponds with democratic backsliding in all countries over the last 30 years, but substantially more so in those with populist leadership. I also find that price instability has virtually no effect on a country's democratic qualities. Lastly, I find that wealth inequality has a small though statistically insignificant effect on democratic backsliding under populist leaders and roughly no effect under non-populist leaders.

### **Introduction**

According to *Freedom House*, 2020 marked the 15th consecutive year that more countries experienced declines in their democracy than those that experienced gains. (Sarah and Slipowitz 2021) Similarly, the 2020 Democracy Index shows that roughly 70% of countries saw declines in their democracy and that the global average democracy score fell to an all-time low since the Index was created in 2006. ("Democracy Index" 2020) It should be no surprise that

democratic scholars have become increasingly concerned with what appears to be a new wave of autocratization. (Lührmann & Lindberg 2019)

At the same time that the world has experienced widespread democratic backsliding, there has been a significant rise in populist leadership, with a greater number of populist leaders and parties in power than almost any time in the last 30 years, just five percent lower than the peak in 2012-2013. (Kyle and Meyer 2020) In 1990, the world had just four populist leaders in power. Since then, populist leadership has increased roughly fivefold. Many of these populist leaders have emerged in regions that have already had a long history of populism, such as Central Europe and South America where populism was confined to at the end of the Cold War. More interestingly, however, is that populism has since spread globally, with every continent except Australia containing populist leadership by 2017. Furthermore, populism has not been restricted to countries with poor democratic institutions and low economic development but has also spread to countries with strong electoral systems and highly developed economies such as Japan and the United States.

These facts indicate that further democratic backsliding as well as an increase in populist leaders globally is likely. As such, it is necessary to gain a stronger understanding of how the two are related. Although previous research provides some evidence that poor economic conditions contribute to democratic backsliding, to my knowledge no research has empirically investigated whether this relationship exists to the same extent under both populist and non-populist governments.

The answer to this question should be particularly important to organizations such as USAID, the United Nations, and other organizations that are involved in promoting global democracy since they would likely benefit by knowing how democracy can most effectively be

pursued. By understanding whether poor economic conditions affect populist countries' democracies to the same extent as non-populist countries' democracies, democracy promotion organizations should better understand whether they should invest in economic development programs or if they should instead focus on other important factors connected to democracy.

The rest of the paper will proceed as follows: First, I will examine the previous literature on the relationships between economic conditions and democratic backsliding as well as populism and backsliding. Next, I will discuss why I expect poor economic conditions to be stronger predictors of backsliding under populist leaders than non-populist leaders. I will then describe my research design before providing my results. Finally, I will conclude by arguing that increased personal wealth corresponds with democratic backsliding, but significantly more so under populist leaders. I will also argue that price stability has no effect on backsliding while wealth inequality has a small effect on backsliding under populists and no effect under non-populists.

### **Literature Review**

The observation that economic conditions are linked to democracy was first advanced by Seymour Lipset in 1959 in his landmark paper "Some Social Requisites of Democracy: Economic Development and Political Legitimacy" which compared various measures of national wealth between democracies and dictatorships, arguing that economic development leads to democracy. Since then scholars have debated the importance of various economic measures and their significance to democracy, both in terms of democratization as well as backsliding. This literature review will focus primarily on how democracy levels are affected by three different economic concepts: personal wealth, income inequality, and price instability. Additionally, I will discuss the literature regarding how populism affects democratic backsliding.

Studies regarding what I will refer to as “personal wealth” typically employ some variation of either GDP or income per capita. While some of these studies will refer to increases of these variables as economic development, the primary concept of interest for the sake of this paper will be personal wealth: the wealth of a country’s typical citizen.

Przeworski and Limongi provided one of the most significant rebukes to Lipset’s argument that economic development leads to democracy. (1997) They instead argue that development has an effect on only backsliding but *not* democratization. In other words, they find that only once democracy is established does economic development play a role regarding democracy levels and that countries with lower levels of economic development are more likely to backslide. Examining 123 authoritarian regimes between roughly 1950 and 1990, their data shows that once dictatorships reach a threshold per capita income of roughly \$6,000 (in 1985 PPP USD), the regime stabilizes as the country becomes more affluent. As such, the argument that rising personal wealth corresponded with democratization was only supported when analyzing countries with income levels below the roughly \$6,000 threshold.

Yet, other studies disagree with the notion that economic development has a causal effect on *either* democratization or backsliding. Acemoglu et al. (2008) agree that increased income per capita correlates with democracy levels but argue that the relationship is non-causal. Through regression analysis, the authors conclude that the correlation that appears in most studies is due to omitted factors, most likely historical factors. Despite this, the authors provide two cautionary notes to this conclusion. First, they claim that a causal link between income and democracy may be present but only when looking at time periods of 100 years or longer. Second, they claim that there could exist a causal link that is conditional on other characteristics, but they were unable to find any evidence for what these characteristics may be.

Some studies have found that a causal effect does exist between economic development and democracy levels, but the predictive power of this relationship has gradually declined over the last century. (Bermeo and Yashar 2017) Boix (2011) finds that in 91% of annual observations of political regimes prior to World War I, whether the country is a democracy can be accurately predicted just by looking at per capita income. This figure drops to 85% for the interwar years and to 76% for observations from World War II to the end of the 20th century.

Little research has been conducted on price instability's effect on democratic backsliding. Further, to my knowledge, all research on this relationship only examines the effect of inflation. No attention has been paid to the potential effects of deflation, despite both economic conditions having the potential to lead to economic instability. (Taylor 2000) The only quantitative research regarding inflation's relationship with backsliding specifically studies the effect of inflation on young democracies. It finds that inflation was more clearly related to democratic backsliding than most other economic variables. (Kapstein and Converse 2008) They find that in 74% of observed democratic reversals, inflation in the first five years of democracy was significantly higher than in the five years prior to democratization. Interestingly, however, they find that hyperinflation has a lower association with backsliding than less extreme levels of inflation. Only 25% of hyperinflation cases led to democratic reversals while 43% of countries with inflation levels less than 100 percent led to democratic reversals, perhaps indicating that inflation contributes to backsliding but that the marginal effect decreases after a certain point.

Scholars have found differing results regarding the impact of income inequality on democracy levels. Boix and Stokes (2003) find that income equality promotes democratization and prevents backsliding. Additionally, they argue that in highly unequal and undeveloped societies the probability of democratic reversal in any given year is 20%. They explain that the

reason for this is that as equality increases (along with economic diversification) that the threat of authoritarianism decreases, likely because the incentive to exert authoritarian rule decreases as well. More recent research agrees that equality helps democratic consolidation but argues that in non-democracies inequality either has no effect on democracy levels or even weakly promotes democratization. (Houle 2009)

Ross Burkhart (1997) argues that the mixed results described in the previously mentioned studies and others are attributed to the fact that the relationship between income inequality and democracy levels is nonlinear. Instead, Burkhart explains that income inequality and democracy have an inverted parabolic relationship. At low levels of inequality, increases in inequality result in increased democracy. Burkhart argues that this is because democracy and capitalism often operate together, and capitalism tends to distribute capital unequally. At a certain point, however, the marginal benefit of inequality on democracy diminishes and further democratization begins to require decreased inequality.

Scholars have paid increasing attention to the effects of populism, especially on democracy, as the number of populists in power has increased dramatically over the last 30 years. Kyle and Mounk provide strong evidence that populist leadership is much more likely to result in democratic backsliding than non-populist leadership. (2018) More specifically, they find that 23 percent of populists cause significant levels of democratic backsliding compared to just 6 percent of non-populists. Furthermore, they find that populists erode various democratic institutions including both individual rights as well as electoral institutions. The authors employ a very simple definition of a populist in studying the effects of populism on backsliding in order to remove as much subjectivity as possible. Their definition of a populist is a leader who meets two conditions: “First, [they claim that the true] people are locked into conflict with outsiders.



Second, [they claim] that nothing should constrain the will of the true people.” Most other scholars are in agreement that populist leaders are more likely to correspond with democratic backsliding than non-populist leaders. (Norris 2017; Bauer and Becker 2020)

Overall, the literature is consistent that populism corresponds with backsliding. However, regarding the effects of personal wealth, price instability, and income inequality, the literature is much less clear despite the abundance of research that has been conducted on the economic predictors of democracy levels. To my knowledge, there has been no research whatsoever on how economic conditions might affect democracy differently under populist and non-populist leaders.

### **Hypothesis**

In response to the question of whether economic conditions play the same role in democratic backsliding under populist and non-populists leaders, I hypothesize that poor economic conditions will result in greater backsliding under populists leaders than non-populist leaders. The reason for this is that because populists are defined by their emphasis on an “insider” group and an “outsider” group, the difference between these two groups will be more salient to a country’s citizens. In the presence of poor economic conditions, a populist leader will be more easily able to justify the dismantling of democratic institutions by blaming an outsider group. If a populist can argue that an outsider group is responsible for the current economic conditions, they will be more likely to persuade the “insider” group to support the dismantling of democratic institutions that allowed that “outsider” group to exercise power in the first place, even if that means that the “insider” group has their own power restricted. I expect this effect to occur across different conceptions of democracy. For example, if a member of the

outsider group holds elected office, a populist could justify restrictions on the country's electoral system since it allows the outsider who is allegedly responsible for the poor economic conditions to hold power. Similarly, if a member of the outsider group writes in a newspaper that supports economic views counter to those of the insider group, a populist would likely be more successful than a non-populist in limiting freedom of the press by emphasizing the difference between the insider and outsider groups.

### **Data and Design**

To compare the effect of economic conditions on democratic change for populists versus non-populists, I ran a total of 4 regressions using RStudio and a dataset of over 5,700 country-year observations. I will now describe each of the variables that I used in these regression analyses before detailing my results.

#### *V-Dem Institute Democracy Data*

To measure democratic backsliding, I use data from the Varieties of Democracy indices from the *V-Dem Institute*. I chose The *V-Dem Institute* as my source for democracy data since it is widely considered among the most comprehensive sources with over 3,500 country experts involved ("V-Dem Project"). Their database utilizes 470 indicators and contains data on 202 polities dating back to the 18th century to create 5 democracy indices. I use 2 of these indices, their electoral democracy and liberal democracy indices, as I expected that these measures of democracy were most relevant to the relationship between economic variables and democratic backsliding under populist versus non-populist leaders.

The *V-Dem Institute* considers electoral democracy to embody the following core values:

1. Rulers are responsive to citizens

2. Suffrage is extensive
  3. Rulers achieve power through fair elections
  4. Political and civil organizations can operate freely
  5. Freedom of expression is protected
  6. An independent media is capable of providing significant alternative perspectives
- (“Codebook - V-Dem” 2021)

Meanwhile, The *V-Dem Institute* judges the quality of a liberal democracy by the limits imposed on its government, emphasizing the protection of individuals and minorities against the tyranny of the state as well as the majority. The *V-Dem Institute* considers the strength of a country’s electoral democracy in evaluating its liberal democracy as a strong electoral system is considered necessary in protecting individual and minority rights. (“Codebook - V-Dem” 2021) Other important considerations include constitutional rights, checks and balances, an independent judiciary, and strong rule of law.

The liberal democracy and electoral democracy indices are provided on a 0 to 1 interval scale, with 0 representing a weak democracy and 1 representing a strong democracy. My research incorporates both the electoral and liberal democracy indices dating back to 1990 for 154 countries. The *Populism in Power* database that I used as my source of populist leaders as well as much of the economic data that I collected from *The World Bank* begins at the year 1990. The year 1990 serves as a useful starting point as it is theorized that the collapse of communism, which had previously distracted from nationalist views, prompted a renewed interest in populism. (Canovan 2004) Additionally, technological innovation and increased globalization since the 1990s may have affected the relationship between economic conditions and democratic backsliding.

I calculate the dependent variable, the change in either the liberal or electoral democracy scores, as the percent change in the current year's score from the previous year. Possible values range from -100 to 100, with negative values indicating backsliding and positive values indicating democratization. The annual percent change in the democracy score of each index serves as my dependent variable. This method of examining democratic change in any single year may be flawed because democratic changes may lag the economic conditions that motivate them. However, I would still expect the relationship between economic conditions and shifts in democratic levels to be apparent when looking at 154 countries across 30 years.

### *Populism Data*

My data for populist leaders comes from the *Tony Blair Institute for Global Change* database. (Kyle and Meyer 2020) The database defines populists as leaders who emphasize two essential claims: “First, [they claim that the true] people are locked into conflict with outsiders. Second, [they claim] that nothing should constrain the will of the true people.” (Kyle and Gultchin 2018) Rather than viewing politics as a debate between those of differing policy viewpoints, populists promote a conception of politics defined by a morally superior class of “insiders” that are inherently opposed to some form of “outsiders.”

It would be wrong to suggest that a database of this type does not contain a strong degree of subjectivity; however, the simplistic definition of populism that the database employs is useful in minimizing the subjectivity by which leaders are defined as populists or non-populists. After the database was created, it was sent to several experts on populism “to verify both whether the leaders from their region of expertise met their understanding of populism and whether there were any additional leaders whom we may have missed.” Other than subjectivity, another

potential issue with the database is that populism is defined as a binary variable, providing no indication of the extent of a leader's populism.

### *Economic Conditions*

I employ three variables to analyze the relationship between populism and democratic backsliding. These are GDP (PPP) per capita, price instability, and the Gini Index. I also attempted to incorporate unemployment rates, but this variable was not used as it had little significance and weakened the regressions overall.

GDP (PPP) per capita is a measure of gross domestic product adjusted for purchasing power and divided by the number of citizens in that country. The purpose of this metric was to serve as a proxy for the wealth of a typical citizen. Some metric for median income likely would have been measuring typical wealth, but this data was much less common and using it would have forced me to significantly restrict my sample size. GDP (PPP) per capita may be a flawed variable to use because it is an average value, meaning that in countries with high levels of inequality the measure will be a poor indicator of the median citizen's wealth. Ultimately, I chose to accept this flaw in order to maximize my number of observations. Data was collected from *The World Bank*. ("GDP per Capita, PPP" 2020) Regressions were run using both raw values, growth values, and log values. Log values are used for my final regressions since they allow economic values that tend to experience exponential growth to fit into a linear model. Additionally, they showed the highest levels of significance of the three transformations.

I collected price instability data from the *International Monetary Fund* which reports government data on the annual price change of a basket of consumer goods. ("Inflation Rate" 2022, Oner) I ran a variety of models to test for the best fit including raw inflation values,

absolute values of inflation, and the absolute value of the difference from 2 percent inflation. The purpose of using absolute values is that both high levels of inflation and deflation should be expected to cause economic instability, and thus create poor economic conditions that may affect democracy levels. (Taylor 2000) The purpose of using the difference from 2 percent inflation rather than 0 percent is that a 2 percent inflation rate is often viewed as a better inflation target for maximizing employment and maintaining price stability. (“Federal Reserve Aim” 2020) Therefore, the larger the difference is from 2 percent inflation, whether this is positive or negative, the worse we should expect economic conditions to be. Ultimately, I decided to examine price instability in terms of the difference from the 2% inflation target as it provided the best fit for my model.

Lastly, the Gini index was used to understand how income inequality factored into the relationship between populist leadership and democratic backsliding. Data was collected from *The World Bank*. (“Gini Index Estimates”) Gini values provide a summary of how equally income is distributed, with 0 representing perfect income equality and 100 representing perfect income inequality. (“Gini Index” 2021) Regressions were run using raw Gini index values.

### *Control Variables*

Three control variables were used to strengthen the model. These were the previous year’s democracy score (either liberal or electoral depending on the regression), corruption, and ethnic fractionalization.

I used the current liberal democracy score for regressions regarding liberal democratic change and the electoral democracy score for those regarding electoral democratic change. The purpose of these scores was to serve as a proxy for the strength of a country’s democracy. I

might expect that countries with an already strong democracy would be more resistant to democratic backsliding under a populist leader. However, I might also expect that countries with weak democracies will have more room to improve, and thus may experience more democratization under the right conditions. Including the current democracy score for each respective regression is an attempt to control for both potential expectations. These variables use the previously mentioned data from the *V-Dem Institute*.

The corruption variable controls for democratic change that occurs due to government corruption rather than economic conditions. I would expect that this variable serves both as an indicator of corruption but also the *perception* of corruption which may lead the public to be less resistant to electoral democratic backsliding of a government it views as corrupt. Because strong electoral systems are expected to protect individual and minority rights (“Codebook - V-Dem” 2021), electoral backsliding will likely correspond with liberal backsliding as well. For this reason, I have included a variable from the *V-Dem Institute*’s democracy dataset called “regime corruption” which incorporates indicators for executive embezzlement, executive bribes, legislative corruption, and judicial corruption. Possible values range from 0 to 1 with 0 representing low corruption and 1 representing high corruption.

Lastly, ethnic fractionalization was used to control for backsliding connected to the ethnic makeup of a population rather than economic conditions. This is because I might expect higher backsliding in countries where ethnic differences are very clear, especially under the leadership of a cultural populist that portrays a significant minority group as an “outsider.” Ethnic fractionalization data was collected from *Harvard Dataverse*’s Historical Index of Ethnic Fractionalization Dataset. (Drazanova 2020) The dataset provides a 0 to 1 value representing the probability that “two randomly drawn individuals within a country are not from the same ethnic

group.” This variable increased the significance of other variables in the regression for liberal democratic change but decreased the significance of other variables in the regression for electoral democratic change, so I only included the ethnic fractionalization index in the former. This is not surprising, as the liberal democracy index largely examines the ways in which minorities are treated, so I would expect ethnic fractionalization to fit into the model of liberal democracy more so than for electoral democracy. Unfortunately, this data ends with 2013 which means that its inclusion resulted in the omission of a significant number of observations. However, using this variable still strengthened the regression for liberal democratic change overall.

#### *Descriptive Statistics and Difference of Means Testing*

Before discussing the regression analyses that I ran using the previously described variables, I will first discuss how mean variable values differed between populists and non-populists in all country-year observations since 1990 (Table 1).

The only economic variable out of the three that I studied that was significant at the 95% confidence level was GDP (PPP). In fact, GDP (PPP) was one of the most significant variables in my difference of means testing. However, the results contradicted what I expected as well as literature suggesting that populism often appeals to those who feel “economically vulnerable.” (Spruyt et al. 2016). Average GDP (PPP) log values were 4.13 for populists and 3.83 for non-populists observations, which converts to \$13,490 and \$6,761.

Price instability, in terms of absolute difference from 2% inflation, proved not to be significant at the 95% confidence level, but the p-value of 0.15 still indicates some significance. However, both mean values appear to be driven by a small number of extreme outliers. This is



most obvious when comparing mean values to median values. Inflation for populist observations averaged 294.62% with a median value of 2.75%, while inflation for non-populist observations averaged 28.21% with a median value of 2.8%. When ignoring the highest 2.5% of values for both groups, the mean inflation values are 13.69% for populists and 16.63% for non-populists, providing even less evidence that the two values are significantly different. However, it is worth stating that despite populist observations only making up 6.7% of my dataset, 3 of the 4 highest inflation values were recorded for populists.

Mean Gini values were extremely similar at 38.28 and 38.39 for non-populists. The p-value for the variable was also the lowest of all the variables that I ran a difference of means test on.

Ethnic fractionalization was significantly different between populist and non-populist observations. Mean values were 0.34 and 0.46 for populists and non-populists, respectively. Again, these values represent the probability that “two randomly drawn individuals within a country are not from the same ethnic group.” These results are interesting because one might expect populism to be more likely when ethnic fractionalization increases and thus ethnic tension increases. However, one may also expect that the larger an ethnic minority group is, the more difficult it would be for a populist to gain power, particularly if that leader’s brand of populism emphasizes the ethnic majority. The values shown in this test provide more support for the latter expectation than the former.

Finally, the means test regarding both previous democracy levels as well as democratic change provided the most interesting results out of my difference of means tests. Populist observations had significantly higher mean liberal democratic index scores than non-populist observations with a mean value of 0.47 compared to 0.39. However, liberal democratic change

was significantly different between the two groups, with populists averaging 0.91% democratic backsliding per year while non-populists averaged 0.41% *democratization* per year.

Results were similar regarding electoral democracy. Populist observations averaged 0.61 for electoral democratic index scores while non-populist observations averaged just 0.50. Meanwhile, populist observations averaged 0.88% electoral democratic backsliding per year while non-populists averaged 0.51% *democratization*.

<b>Table 1: Mean Variable Values for Populists Versus Non-Populists and Difference of Means Testing</b>			
<b>Variable</b>	<b>Populists</b>	<b>Non-Populists</b>	<b>Significance at 95% Confidence</b>
GDP (PPP) (Log)	4.13	3.83	✓
Price Instability (Absolute Difference from 2% Inflation)	294.62	28.21	
Gini	38.28	38.39	
Corruption	0.48	0.50	
Ethnic Fractionalization	0.34	0.46	✓
Liberal Democratic Index Score	0.47	0.39	✓
Electoral Democratic Index Score	0.61	0.50	✓
Liberal Democratic Change	-0.91	0.41	✓
Electoral Democratic Change	-0.88	0.51	✓

Previous literature regarding democratic stability indicates that political institutions and norms are often “sticky,” or resistant to change. (Kyle and Mounk 2018) As such, the best predictor of a country’s level of democracy in any one year is that country’s level of democracy in the previous year. The fact that populist observations report both a higher mean level of democracy as well as a higher level of democratic backsliding for both types of democracy

indicates that the concept of sticky institutions may not apply to populist governments to the same extent as non-populists governments.

### **Results and Analysis**

I will now discuss my results for liberal democratic change (Table 2) then those for electoral democratic change (Table 3) using the research design I just described.

#### *Liberal Democratic Change*

The coefficient for GDP (PPP) is significant and negative for both the populist and non-populist regressions. The coefficient for the populist regression is much lower than for the non-populist regressions with a log of -4.30 and -1.04 for populists and non-populists, respectively. These results suggest that, since 1990, increased personal wealth has led to more democratic backsliding under both populists and non-populists, but the effect has been much larger for populists. This is perhaps my research's most significant finding.

Inflation's coefficients were positive but extremely small in both cases. However, inflation was significant for populist observations but not non-populist observations. The small coefficient and p-value of .41 for non-populists suggests that there is little connection between inflation and backsliding in non-populist countries. Despite the extremely small coefficient for the populist regression, the result is extremely significant. This results runs counter to studies indicating that poor macroeconomic conditions lead to backsliding. However, given that mean inflation values for both populist and non-populists were not significantly different, along with my previous demonstration that mean inflation values for populist countries were heavily influenced by a small number of outliers, I am unsure that inflation would be statistically significant even for populist countries were these outliers to be removed. While some

explanation could be made for why GDP (PPP) could lead to democratic backsliding, I am unable to provide an explanation for how the coefficient for inflation could be positive and significant. Given that the coefficients are extremely small, I find it much more likely that the significance seen in the two populist regressions are driven by a small number of outliers.

The Gini Index provided mixed and insignificant results between the two regressions. In the populist regression, an increase in the Gini coefficient (an increase in inequality) corresponds with a decrease in the level of liberal democracy. Meanwhile, in the non-populist regression, an increase in the Gini coefficient corresponds with a small increase in liberal democracy. While these results are insignificant, they do support my hypothesis that wealth inequality will result in a higher level of backsliding under populist leaders than non-populist leaders.

The control variable corruption results in negative coefficients for both populist and non-populist regressions. However, corruption is a much stronger predictor of liberal democratic backsliding under populist governments than non-populist governments with coefficients of -4.26 and -0.57 respectively. The corruption coefficient for populist governments is the only significant result out of all 4 regressions. As I will show later, the populist coefficient liberal democratic backsliding is higher than for electoral backsliding. This is likely because the methodology for the Liberal Democratic Index score includes the quality of a country's electoral democracy as strong electoral institutions provide individuals and minorities an outlet for exercising power. By this logic, if corruption increases under a government, a justification is created for weakening the electoral system connected to that government, and this weakening may diminish individual and minority power thus leading to liberal democratic backsliding.

<b>Table 2: Regression Analyses: Liberal Democratic Change for Populists Versus Non-Populists</b>				
	<b>Populists</b>		<b>Non-Populists</b>	
<b>Variable</b>	<b>Coefficient</b>	<b>P-Value</b>	<b>Coefficient</b>	<b>P-Value</b>
<b>(Intercept)</b>	19.77	0.01 (*)	3.99	0.01 (*)
<b>GDP (PPP) (Log)</b>	-4.30	0.02 (*)	-1.04	0.00 (**)
<b>Inflation (Absolute Difference from 2%)</b>	0.00	0.00 (***)	0.00	0.41
<b>Gini</b>	-0.01	0.79	0.01	0.37
<b>Corruption</b>	-4.26	0.02 (*)	-0.57	0.35
<b>Ethnic Fractionalization</b>	-1.96	0.37	0.36	0.46
<b>Liberal Democratic Index Score</b>	1.04	0.64	0.62	0.43
<i>Adjusted R Square</i>	0.15		0.01	

Ethnic fractionalization was included as a control variable for the liberal democratic backsliding regressions but not for the electoral democratic backsliding regressions. The reason for this is that I would expect ethnic fractionalization to be directly related to liberal democracy, which is largely concerned with minority rights, but not with electoral democracy. Although the results were statistically insignificant, increased ethnic fractionalization corresponded with greater liberal democratic backsliding in populist observations than non-populist observations. In fact, increased ethnic fractionalization in non-populist observations actually corresponds with democratization. However, this level of democratization under non-populists is much smaller than the level of backsliding under populists. The fact that ethnic fractionalization corresponds with backsliding under populists is unsurprising. As ethnic fractionalization increases, the

salience of ethnic differences also likely increases, providing an opportunity for populists to justify liberal democratic backsliding, especially in countries with poor ethnic relations.

Finally, my control variable for the previous year's liberal democracy level is positive under both populists and non-populists, as I expected, though statistically insignificant. This indicates that the higher the level of liberal democracy is in the previous year, the more likely that a country will experience liberal democratization rather than backsliding.

### *Electoral Democratic Change*

Similar to the regressions ran for liberal democratic change, the coefficient for GDP (PPP) per capita is significant and negative for both the populist and non-populist electoral democracy regressions. Additionally, both regressions are more significant than their respective liberal democracy regressions. The GDP (PPP) per capita coefficient is -5.45 for populists and -1.23 for non-populists, indicating that an increase in personal wealth has a stronger effect on electoral democratic backsliding than liberal democratic backsliding. Personal wealth appears to have a much greater effect on electoral democratic backsliding under populists than non-populists. The fact that the trends seen regarding personal wealth's contribution to democratic backsliding is similar across both sets of regressions, along with the strong level of statistical significance, indicates the validity of these results. As I mentioned earlier, this is likely the most significant finding in my research as it contradicts decades of research indicating that increased wealth prevents backsliding and supports democratic stabilization. The results also provide evidence for the theory that personal wealth has become a weaker predictor of democratization, with my results showing that for the first time personal wealth has actually become a predictor of backsliding.

Like the regressions for liberal democratic backsliding, the Gini Index corresponds with electoral democratic backsliding for populists and an insignificant and very small level of democratization for non-populists. The coefficient for populist electoral democratic backsliding is also insignificant, but is the closest to significance of all four Gini Index regressions with a p-value of 0.15. The Gini coefficient for electoral democratic backsliding is -0.06 indicates that a 10% increase in the Gini score corresponds with 0.6% decrease in the level of a country's electoral democracy. The coefficient also indicates that wealth inequality is a stronger predictor of electoral democratic backsliding than liberal democratic backsliding under populist leaders, as I had expected.

The corruption variable yields statistically insignificant results with p-values of 0.20 for both the populist and non-populist regressions. However, both regressions have negative coefficients, as I would expect. Once again, corruption indicates a much stronger effect on democratic backsliding under populists than non-populists. This is likely because corruption provides populists the opportunity to justify dismantling electoral institutions by blaming an "outsider" group for abusing those institutions. The similarities between both sets of regressions strengthens the corruption variable's validity.

Lastly, the coefficient for the previous year's level of electoral democracy is positive for both populists and non-populists, though the coefficient for populist is roughly ten times higher than for non-populists. Additionally, of all four regressions, the populist regression for electoral democratic backsliding provides the only statistically significant result as well as the largest coefficient by a large extent. Overall, these results suggest that the previous year's democratic score matters for all four regressions but matters most for electoral democratic change under populists.

<b>Table 3: Regression Analyses: Electoral Democratic Change for Populists Versus Non-Populists</b>				
	<b>Populists</b>		<b>Non-Populists</b>	
<b>Variable</b>	<b>Coefficient</b>	<b>P-Value</b>	<b>Coefficient</b>	<b>P-Value</b>
<b>(Intercept)</b>	21.95	0.00 (***)	5.19	0.00 (***)
<b>GDP (PPP) Per Capita</b>	-5.45	0.00 (***)	-1.23	0.00 (***)
<b>Price Instability (Absolute Difference from 2%)</b>	0.00	0.01 (**)	0.00	0.63
<b>Gini</b>	-0.06	0.15	0.00	0.74
<b>Corruption</b>	-2.25	0.20	-0.64	0.20
<b>Electoral Democratic Index Score</b>	5.09	0.01 (**)	0.55	0.39
<b>Adjusted R-Square</b>	0.13		0.01	

### **Robustness Testing**

To address potential concerns regarding any multicollinearity of my three economic variables, I used two methods to test the robustness of my results. First, I ran the regressions for both liberal and electoral democratic change using only a single economic variable and the control variables to see how the coefficients and significance levels compare to the regressions that use all three economic variables together. Table 4 examines how the liberal democratic regressions differ when testing the economic variables independently versus together while Table 5 examines the electoral democratic regressions. Second, I created two correlation matrices, one for populists and one for non-populists, to see how all of the variables I included in the regressions correlated. Table 6 shows the populist correlation matrix and Table 7 shows the non-populist correlation matrix.



Overall, the robustness testing did not change the results in any significant way. When comparing the regressions using a single economic variable versus using all of them together, the only noteworthy difference is that the coefficient for the Gini variable slightly increases in all four cases, resulting in the coefficients changing from negative to positive in two of the cases. However, the original Gini coefficients were already so small in the original regressions that only a small change was needed for the signs to change. Regarding correlation matrices, none of the variables are strongly correlated enough to provide significant concern for the results of my research. Most importantly, the robustness testing did not contradict my results regarding GDP (PPP) per capita, which were the most significant findings of my research.

<b>Table 4: Liberal Democracy Regressions: Economic Variables Tested Independently Versus Together</b>				
	Populist (Independently)	Populist (Together)	Non-Populist (Independently)	Non-Populist (Together)
GDP (PPP) Per Capita	-2.90 (0.03)	-4.3 (0.02)	-0.76 (0.00)	-1.04 (0.00)
Price Instability	0.00 (0.50)	0.00 (0.00)	0.00 (0.53)	0.00 (0.41)
Gini	0.06 (0.13)	-0.01 (0.79)	0.02 (0.08)	0.01 (0.37)

<b>Table 5: Electoral Democracy Regressions: Economic Variables Tested Independently Versus Together</b>				
	Populist (Independently)	Populist (Together)	Non-Populist (Independently)	Non-Populist (Together)
GDP (PPP) Per Capita	-2.36 (0.01)	-5.45 (0.00)	-0.82 (0.00)	-1.23 (0.00)
Price Instability	0.00 (0.76)	0.00 (0.01)	0.00 (0.51)	0 (0.63)
Gini	0.04 (0.34)	-0.06 (0.15)	0.02 (0.05)	0 (0.74)

**Table 6:  
Populist Correlation Matrix**

	<b>GDP (PPP)</b>	<b>Price Instability</b>	<b>Gini</b>	<b>Corruption</b>	<b>Ethnic Fractionalization</b>
<b>GDP (PPP)</b>					
<b>Price Instability</b>	-0.18				
<b>Gini</b>	-0.49	0.21			
<b>Corruption</b>	-0.46	0.14	0.42		
<b>Ethnic Fractionalization</b>	-0.52	0.12	0.21	0.48	
<b>Electoral Democracy Score</b>	0.44	-0.13	0.06	-0.68	
<b>Liberal Democracy Score</b>	0.5	-0.11	-0.09	-0.75	-0.53

**Table 7:  
Non-Populist Correlation Matrix**

	<b>GDP (PPP)</b>	<b>Price Instability</b>	<b>Gini</b>	<b>Corruption</b>	<b>Ethnic Fractionalization</b>
<b>GDP (PPP)</b>					
<b>Price Instability</b>	-0.07				
<b>Gini</b>	-0.42	0.02			
<b>Corruption</b>	-0.58	0.05	0.31		
<b>Ethnic Fractionalization</b>	-0.34	0.02	0.31	0.25	
<b>Electoral Democracy Score</b>	0.43	-0.04	-0.17	-0.67	
<b>Liberal Democracy Score</b>	0.52	-0.05	-0.24	-0.25	-0.76

## Conclusion

Democracy has experienced a global decline over the last few decades. 2020 marked the 15th consecutive year that more countries experienced democratic backsliding than democratization. (Sarah and Slipowitz 2021) Furthermore, the 2020 Democracy Index's global average democracy score fell to an all-time low since 2006 when the Index was first created. Scholars have become increasingly concerned with the widespread reversal of democracy, which appears to have begun just a few years after the conclusion of the Cold War, a time in which it was frequently believed that democracy had won in the battle against authoritarianism. (Lührmann & Lindberg 2019)

Widespread concern regarding the recent trend of global democratic decline has prompted renewed interest on the causes of backsliding, as well as democratization. Scholars have studied the economic predictors of democratic change for roughly 70 years, though there is still widespread debate on how economic conditions affect countries' democracies. Some scholars, for example, have argued that personal wealth has a causal relationship with democratization and backsliding. Others counter that personal wealth only has a causal relationship with backsliding but not democratization; while more recent research indicates that there is a causal relationship with democracy levels but that the predictive utility of this relationship has weakened over time.

Very little research has been conducted regarding the effect of price stability on democratic levels, though at least one study indicates that increased inflation corresponds with a higher chance of democratic backsliding in young democracies. A small body of research has also studied the relationship of income inequality on democratic levels, but no consensus has been reached. Earlier studies indicate that income inequality promotes democratization and

prevents backsliding, but more recent research has suggested that equality only helps democratic stability in countries that have already met a certain threshold level of democratization.

However, the research indicates that in non-democracies inequality either has no effect on democratic levels or even weakly promotes democratization.

The literature on how populist leadership affects democratic backsliding is much more consistent with nearly all studies on the subject indicating that populist leaders are more likely to correspond with democratic backsliding than non-populists leaders. However, to my knowledge, no research has been conducted regarding whether economic conditions play differing roles on democratic levels under populists versus non-populists.

This paper sought to fill this gap in the literature by studying how three economic conditions (personal wealth, price instability, and income inequality) correlated with democratic change under both types of leaders. To do so, I created a dataset of over 5,700 country-year observations with economic data on personal wealth, price instability, and income inequality as well as control variable data for corruption, ethnic fractionalization, and the previous year's level of democracy. Using this data, I ran a total of four regressions to see how economic conditions affect two different measures of democracy under populists and non-populists. These two measures of democracy were the V-Dem Institute's indices for liberal democracy and electoral democracy.

The most significant finding of my research was that increased personal wealth, measured by the log of GDP (PPP) per capita, corresponded not with democratization, as previous studies might suggest, but instead democratic backsliding. This result was highly statistically significant and applied to both populists and non-populists, though the effect was much stronger for populists. This finding directly contradicts research conducted in previous

decades indicating that increased personal wealth promotes democratization and/or prevents backsliding. It also lends some evidence to the notion that the predictive utility of personal wealth has decreased over time, with my research suggesting that the relationship has now switched directions. Additionally, the data shows that this relationship is stronger for populists than non-populists. This finding contradicts my hypothesis that poor economic conditions will be a greater predictor of backsliding under populists. However, the data does support the notion that economic conditions do affect democracy levels differently depending on the type of leader in power, just not in the way that I had expected.

How could it be that increased personal wealth corresponds with democratic backsliding, and why is it that this effect is stronger under populists? The best way to begin answering this question is by examining how the last 30 years, which my research examines, differs from the 20th century, which the literature I discussed examines. The most obvious difference would be the improved technology as well as the public accessibility to this technology that has emerged since the 1990s, perhaps most notably the internet. Multiple studies have partially attributed the recent rise of populism to the concentration of internet usage. (Bennett and Seyis 2021; Eksi 2021) Could it be that wealthier countries, with their increased likelihood of high internet usage, experience greater levels of democratic backsliding because they are more likely to be influenced online by undemocratic populist leaders? This topic should be of great importance to those that are interested in both understanding why democracies fail as well as how the global trend of democratic backsliding can be contained.

My research also examines the way in which price instability and income inequality affects backsliding, as well as how this relationship differs under populists and non-populist leaders. First, the results indicate that price instability has little effect on democratic backsliding

under either type of leader. Second, the results provide some, albeit weak, evidence that increased income inequality corresponds with backsliding under populists and little to no effect under non-populists.

I will conclude by discussing two ways that my research could be built on. First, previous literature indicates that the mechanisms by which democratization occurs may differ from those by which backsliding occurs. However, because the emphasis of my research was on determining whether economic conditions affect populist and non-populist countries differently, I did not study democratization and backsliding independently, and future research may benefit from doing so. Second, as I discussed earlier, GDP (PPP) per capita may not be the best proxy for personal wealth, which is the concept I attempted to study. It would likely be beneficial to examine the relationship between personal wealth and democratic levels by testing different measures of personal wealth to ensure that the results that I have described are not due to the potential flaws of using GDP (PPP) per capita.

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