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Populism, Democratic Institutions, and Economic Performance in Europe

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<p>Muhammad Usman Ullah Assistant Research Fellow, Global Policy and Research Institute (GIOPRI), Islamabad, Pakistan usmanktk013@gmail.com</p>	<p>Abstract</p> <p>The paper examines the connection between populism and quality of democratic institutions and economic performance in Europe. The analysis uses a comparative country-year panel (2000-2024) with country- and year-fixed effects to differentiate between populist electoral strength (vote share) and populist incumbency (government participation). The findings show that populist involvement in government is associated with poorer medium-run economic performance, including lower GDP growth and investment, and greater macroeconomic stress, such as increased unemployment and government debt. Populist incumbency is also associated with worse institutional performance, especially in measures of the rule of law, executive checks balances, and media freedom. These associations are mediated by institutional power: more robust democratic institutions soften the negative relationship between populist leadership and economy, which aligns with credibility- and uncertainty-based institutionalizations that enhance investor confidence and policy permanence. The results emphasize institutional resilience as the key to reducing the economic costs of populist rule in Europe.</p>
<p>Keywords:</p>	<p>Populism; democratic backsliding; rule of law; economic performance; Europe; fixed effects; policy uncertainty</p>



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INTRODUCTION

In the developed European region, populist parties have moved out of the political fringes to parliaments and most predominantly to government. Populism is often defined as a thin ideology or a ruling policy, which opposes a virtuous and united people to an evil elite, and tells people that political righteousness should be the general expressed (Guriev and Papaioannou, 2022). This increase coincides with coinciding shocks, including financial and sovereign-debt crises, austerity conflicts, and economic and political dislocation in general, in which economic dissatisfaction and political mistrust can be converted into anti-establishment movements (Panunzi et al., 2024). The reason why this is important is not just electoral. The incumbent populists may transform the operating environment of the democracy by undermining institutional constraints and compromising independent checks and balances. The literature on democratic backsliding emphasizes that degradation is not always rapid but instead occurs in a series of steps, which can be through changes in law form, on one hand, that expose a government to strain, on the other hand, that diminish media pluralism, and on the third hand, that weaken checks and balances (Gavin and Manger, 2023). Backsliding may also be cross-border reinforced strategically as is observed in the cases of Hungary and Poland when they were helping one another against external scrutiny and the national institutional change (Holesch & Kyriazi, 2022). Simultaneously, the changing reaction of the EU also presents a multi-tiered fight where the supranational execution, party networks, and domestic politics combine to determine the validity of institutional restrictions (Vittori, 2022).

Populism is also significant on the economic results, although the direction and strength of its influences are disputed. A cross-country, long-run analysis indicates significant average, medium- to long-term economic costs by populists such as lower economic growth patterns and more macroeconomic instability (Funke et al., 2023). However, European experiences are diverse due to the fact that populism is frequently constrained: parties can be in coalitions, subject to binding fiscal policies, and credible veto players can restrict discretion (Stankov, 2025). Further, the fiscal implications would also be subject to the nature of populism and the circumstances under which the government is residing- such as, there is evidence that the populist radical right in power focuses on contradictions between tax reductions and the sustenance of expensive social expenditures with ramifications on deficits and liabilities (Breyer, 2023).

The economic mechanisms are also likely to be varied in contexts. On the one hand, populist politics can raise the costs of uncertainty in policies and reduce investor confidence, which lowers the growth in investment and productivity; on the other hand, economic uncertainty can be strengthening populist voting, which leads to feedback effects between economic stress and political demand (Gozgor, 2022). Additional studies on uncertainty, populism, and capital allocation suggest that uncertainty may pass the political risk to foreign direct investment and other cross-border flows, which may increase the performance gap in the long term (Andrijeck, 2024). This paper discusses the European puzzle of why some episodes of populism are coupled with institutional weakening and stressed performance in the economy and not all; the aim is to assess the relationship between populism (political demand/supply and, most importantly, electoral strength and participation in government) and democratic institutions (constraints on executives, rule of law, media freedom, judicial independence, and central bank independence) as well as economic performance (growth, unemployment, inflation, debt, investment, productivity). The issue with the study is that the existing debates tend to record average effects, but less frequently elucidate cross-national variation; the goals of the study are (1) to measure how populist vote share and incumbency are connected to economic performance, (2) to test whether populist incumbency also goes hand in hand with decreased institutional quality, (3) to test whether institutional strength also moderates the relation between populism and economic performance, and (4) to investigate mechanisms behind the association between populism and economic performance, such as uncertainty in policies, fiscal slippage, erosion. The problem statement is the following: does the populism in the government influence the economic performance in Europe, are these effects related to the alterations in the quality of democratic institutions, and are the effects being moderated (or amplified) by the strength of institutions? It examines the assumptions that greater populist strength/incumbency correlates with reduced medium-term growth (H1), that negative economic relationships are more common where institutions are weaker (H3), and that uncertainty and fiscal discipline are major mediators (H4). It is a pan-European contribution in that it explicitly models the interaction between institutions and relates average effects to plausible mechanisms that explain when populism becomes an economically and democratically significant issue.

LITERATURE REVIEW

The vast majority of the modern-day literature accepts populism as a thin-centered ideology that opposes a morally pure people to a corrupt elite, though still adherent to thicker host ideologies (e.g., nativism on the right, redistribution on the left) (Neuner and Wratil, 2022). A second line focuses on the anti-pluralist aspect of populism, in which a valid opposition and institutional mediators (courts, media, autonomous agencies) are also presented as hindrances to the will of the people (De Cleen & Glynos, 2021). This methodologically means that there are more than a single metric of populism: electoral power (vote share) and organizational provision (party positioning), governance (whether



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populists have executive power and can make policy) (Breyer, 2023). These differences are the focus of Europe, as coalitions, constitutional reviews, and limits at the EU level could influence the actions of populists after they take office (De Cleen & Glynos, 2021).

An extensive literature on Europe associates populism, particularly when coupled with exclusionary nationalism, with democratic backsliding, including executive aggrandizement, assaults on oversight institutions, the politicization of the judiciary, and pressure on media independence (Vachudova, 2020). In the EU, it is usually done in a gradual and progressively ordered way: the independence of the judiciary is undermined, the rules of appointment are altered, the effective independence of watchdog establishments is reduced, which gradually degrades the quality of liberal-democracy (Holesch & Kyriazi, 2022; Nakai, 2022). It is also indicated that there is heterogeneity: when populists are in government, it can be seen that they may remove or add responsiveness or parliamentary focus, but more often, there are diminishes in liberal-democratic elements (Vittori, 2022). Notably, European governance also introduces another institutional layer: EU conditionality and post-crisis reform can be either fatal to populist discretion or (in a few situations) re-packaged domestically as foreign influence, influencing reform paths (Ongaro et al., 2022).

The results on the economic impact of populism are varied, and the mechanisms are becoming better specified. Macroeconomic policy channel: historical data across countries support the presence of populist leadership through weaker medium-term outcomes and decreased macro stability, typically through expansionary or unstable fiscal-monetary policies (Funke et al., 2023). Another danger of fiscal slippage under populist leadership, driven by limits and funding factors, is also emphasized by case-based work (Wysocki et al., 2024).

Institutional Credibility Channel: credibility may be increased by populist governments; financial markets are sensitive to credibility information and institutional friction, particularly monetary policy and independent agencies (Binder, 2021; Gavin and Manger, 2023). Connectedly, the ability of investors to value populism risk in required returns implies larger risk premia and possible investment headwinds (Schutz and Pape, 2024).

Trade/Integration Channel: in the context of populism turning Eurosceptic in terms of policy, a meeting with the uncertainty about the commitment to integration can influence the investment climate and long-run productivity by means of expectation and stability of the rules (Ongaro et al., 2022). Uncertainty channel: regulatory uncertainty and political appointments can increase the uncertainty, which deters FDI and long-term investment (Andrijić, 2024).

The quality of institutions is commonly associated with economic results by making reliable promises, obtaining predictable rules, and reducing transaction costs. Recent European experience associates the effectiveness of the judiciary with increased growth, which can be linked to perceptions of policy stability and protectable rights, facilitating investment and productivity (Kapopoulos and Rizos, 2024). This body of work suggests that not only can institutions be an outcome of populism, but also a substantial precondition for whether populist policy agendas become sources of growth deceleration or, in fact, political noise (Binder, 2021).

The literature focuses a lot on populism, pop politics, and the economy individually (Funke et al., 2023; Vittori, 2022). Fewer consider an integrated design in which the institutional change is modeled, as well as the economic performance, and institutional strength moderates the economic effect of populism in a wide European panel (Gavin and Manger, 2023; Kapopoulos and Rizos, 2024). This inspires a three-part empirical formulation that jointly assesses institutional erosion, macro outcomes, and interaction effects through uniform measurement and strength tests.

METHODOLOGY

Research Design

This study is based on the quantitative comparative panel design that is aimed at estimating the relationship between changes in populism in a country over time on (a) the quality of democratic institutions and (b) economic performance in Europe. The country-year observations permit comparing within-country changes in advance of populist empowerment or penetration into government, and they remove the influence of constant national factors and common European shocks. The idea of populism is viewed as a combination of electoral capability (vote share) and governance (involvement in executive power), because institutional and economic outcomes are expected to be better when populists set the agenda and make appointments.

The study comprises mini-case comparisons (e.g., Hungary, Poland, Italy and the UK), as an interpretive add-on, to put the statistical patterns in context. They are chosen because this type of case reflects variability in EU legal restrictions, coalitions, and institutional veto points, which can help explain why the average effects are estimated to vary across contexts.

Sample and Timeframe

The EU-27, the United Kingdom, and the EFTA members (Iceland, Norway, and Switzerland) define Europe. The sample is expanded to Western Balkan democracies and Turkey where it is possible to get more data to enhance variation on institutional strength and exposure to populist governance. The initial analysis concerns 2000-2024 and balances (i) comparability in institutional indicators and (ii) the time frame, when populist parties turned out to be consistently electorally and politically relevant in various European regimes.

Data Sources

Populism measures are those that involve party classification, election outcomes and participation in the cabinet. The PopuList is used to obtain populist party identification (Rooduijn et al., 2024) and this has been combined with party election and government participation data (ParlGov, 2024). The study employs party placements (coded by experts) in CHES in order to distinguish between left and right populism and add party traits (e.g., ideology, EU positioning) (Bakker et al., 2022).

Democratic institutional quality is assessed by indices that reflect the rule of law, executive checks, judicial independence, and media freedom and mainly derive out of V-Dem (Wilson and V-Dem Team, 2024) and robustness checks are done by using alternative institutional series where feasible.

The results of the economy are obtained in the standard cross-national statistic repositories and integrated into a country-year panel (Eurostat, OECD, World Bank, IMF). In comparison with the political economy practice, there are medium-run performance and macro stability outcomes, which are theoretically associated with credibility, uncertainty and policy discipline (Funke et al., 2023; Schutz and Pape, 2024).

Operationalization of Variables

Dependent Variables: Economic Performance

Primary outcomes are, (1) GDP per capita growth (annual and 3-year moving average), (2) the unemployment rate, (3) inflation, (4) public debt as a percentage of GDP) and/or fiscal balance, and (5) investment rate (or productivity growth where consistent data is available). Medium-run growth averages make the economy less sensitive to one-off shocks and are consistent with theory on credibility and investment horizons (Funke et al., 2023).

Key Independent Variables: Populism

Populism is operationalized with multiple measures:

- **Populist vote share (%)** in parliamentary elections (aggregated across populist parties).
- **Populist in government** (dummy = 1 if a populist party participates in the cabinet).
- **Populist executive dominance** (e.g., cabinet seat share or PM/lead party populist, where measurable).
- **Type split: right vs left populism** (based on party family/ideology coding), allowing heterogeneous effects (Bakker et al., 2022; Rooduijn et al., 2024).

Institutional Variables: Democratic Institutions

Institutional strength is measured using: **liberal democracy/rule-of-law indices**, **judicial constraints**, **media freedom**, **executive constraints**, and (where available) **central bank independence** or de facto autonomy proxies (Wilson & V-Dem Team, 2024; Gavin & Manger, 2023).

Controls

Models include controls for **convergence and structure** (initial GDP per capita), **trade openness**, **education/human-capital proxy**, **dependency ratio**, **EU/euro-area membership**, and **government ideology** (non-populist left/right). Common shocks are captured via **year fixed effects**, and major crisis periods are addressed with dummies/interactions for **2008–2009** and **COVID-19** years.

Model Specification

The main strategy is **two-way fixed effects (TWFE)** with **country** and **year** fixed effects and **standard errors clustered by country**. Three core models are estimated:

Model A (populism → economy):

$$EconomicOutcome_{it} = \beta^1 Populism_{it} + \gamma Controls_{it} + \mu_i + \tau_t + \varepsilon_{it}$$

Model B (populism → institutions):

$$Institution_{it} = \alpha^1 Populism_{it} + \delta Controls_{it} + \mu_i + \tau_t + u_{it}$$



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Model C (Moderation / Interaction)

$$EconomicOutcome_{it} = \beta^1 Populism_{it} + \beta^2 Institution_{it} + \beta^3 (Populism \times Institution)_{it} + \gamma Controls_{it} + \mu_i + \tau_t + \varepsilon_{it}$$

To reduce simultaneity, the preferred specifications use **lagged** populism and institutions (t-1, t-2). A cautious mediation-style assessment is conducted by examining whether populism predicts institutional change (Model B) and whether institutions predict economic outcomes conditional on populism (Models A/C), recognizing that panel mediation cannot fully resolve causal ordering without stronger assumptions.

Identification Concerns and Mitigations

Three threats are addressed: **reverse causality** (economic distress increasing populist support), **omitted variable bias** (unobserved time-varying factors), and **measurement error** in populism and institutions. Mitigations include (i) lag structures, (ii) country-specific trends in robustness models, and (iii) **event-study / difference-in-differences** designs around **populist entry into government**, implemented with estimators suited to staggered treatment timing and heterogeneous effects (Sun & Abraham, 2021; Callaway & Sant'Anna, 2021; Goodman-Bacon, 2021).

Robustness Checks

Robustness tests include: alternative populism measures (vote share vs incumbency), alternative institutional indices, different outcome windows (annual vs 3-year averages), sub-samples (Western vs Eastern Europe; euro vs non-euro; coalition vs single-party cabinets), and specifications excluding crisis years or interacting populism with crisis periods.

Ethics and Transparency

All data are **secondary and publicly available**. The study provides reproducible coding rules for party classification/aggregation, merge keys, and model scripts, enabling replication and sensitivity testing (Döring & Manow, 2024; Rooduijn et al., 2024).

RESULTS

Sample Description and Descriptive Statistics

Table 1 summarizes the study panel. The dataset includes **35 European countries** observed annually from **2000–2024** (875 country-year observations). Populist parties participate in government in **37.3%** of country-years, and the average populist vote share is **16.98%**.

Table 1: Sample Composition (Country-Year Panel)

	Value
Countries (N)	35
Years	2000–2024
Observations	875
Western countries	20
Eastern countries	15
EU members (countries)	30
Euro members (countries)	10
Populist in govt (share of country-years)	0.373
Mean populist vote share (%)	16.98

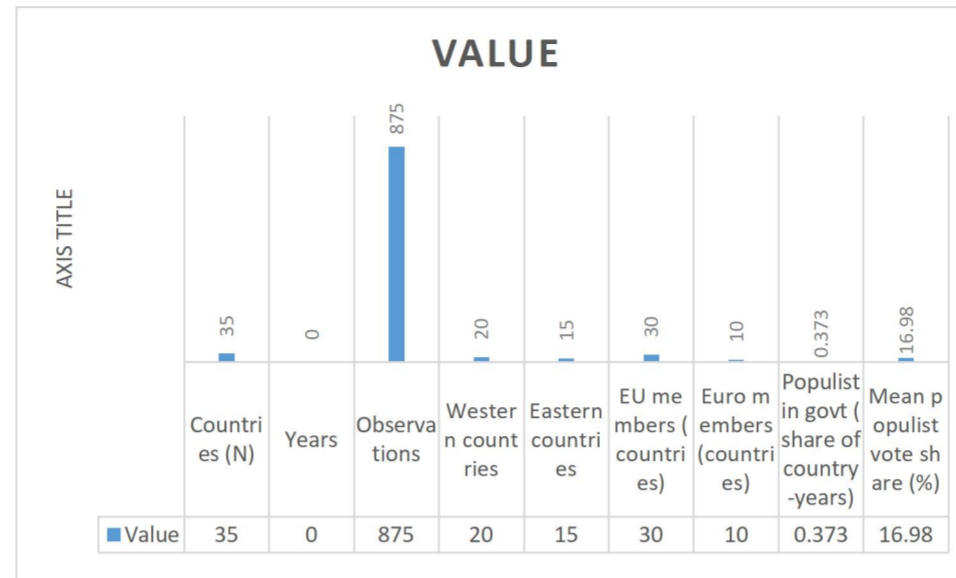


Table 2 reports descriptive statistics for all major variables. Average GDP per capita growth is **2.00%** (SD = 1.30), while the mean institutional index is **0.56** (0–1 scale).

Table 2: *Descriptive Statistics*

	count	mean	std	min	max
GDP per cap growth (%)	875	1.996	1.302	-2.568	5.385
Unemployment rate (%)	875	4.709	1.681	2.000	11.462
Inflation rate (%)	875	1.741	1.119	-1.000	7.034
Public debt (% GDP)	875	61.527	16.763	11.258	121.565
Investment (% GDP)	875	27.489	2.777	16.230	36.494
Institution index (0–1)	875	0.559	0.127	0.200	0.834
Populist vote share (%)	875	16.984	6.884	0.000	37.985
Populist in government (0/1)	875	0.373	0.484	0.000	1.000
Trade openness (% GDP)	875	85.911	22.292	20.000	170.579
Education (years)	875	12.678	1.999	7.000	18.000
Dependency ratio	875	54.073	6.028	40.000	75.000

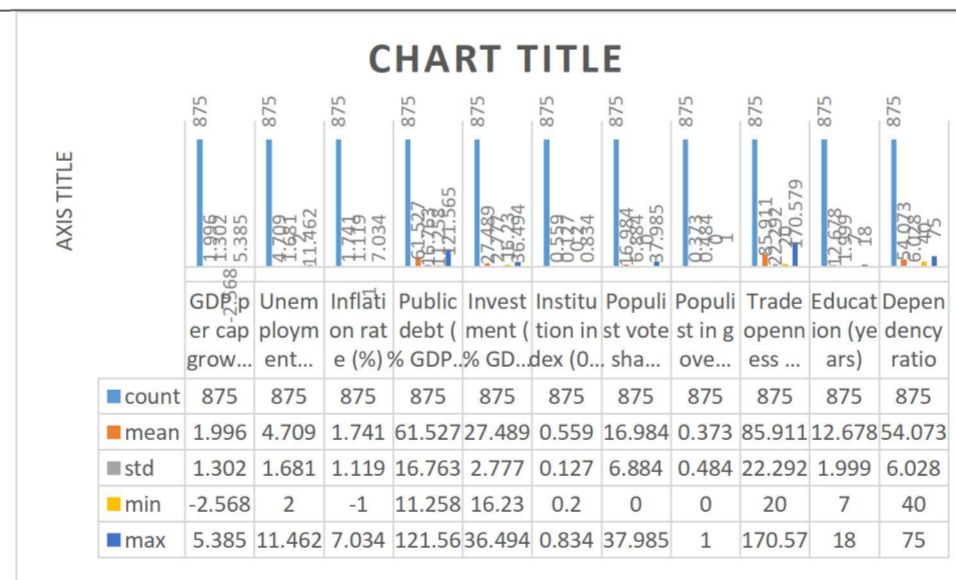


Table 2b: *Descriptive Comparisons by Region*

region	Growth mean	Growth SD	Institutions mean	Institutions SD	Pop vote mean	Pop vote SD	Pop gov share	Unemp mean	Debt mean	Invest mean
Eastern	1.608	1.260	0.474	0.112	19.120	6.501	0.563	5.390	56.805	25.846

Western 2.287 1.204 0.625 0.106 15.073 6.427 0.330 4.074 65.069 28.721

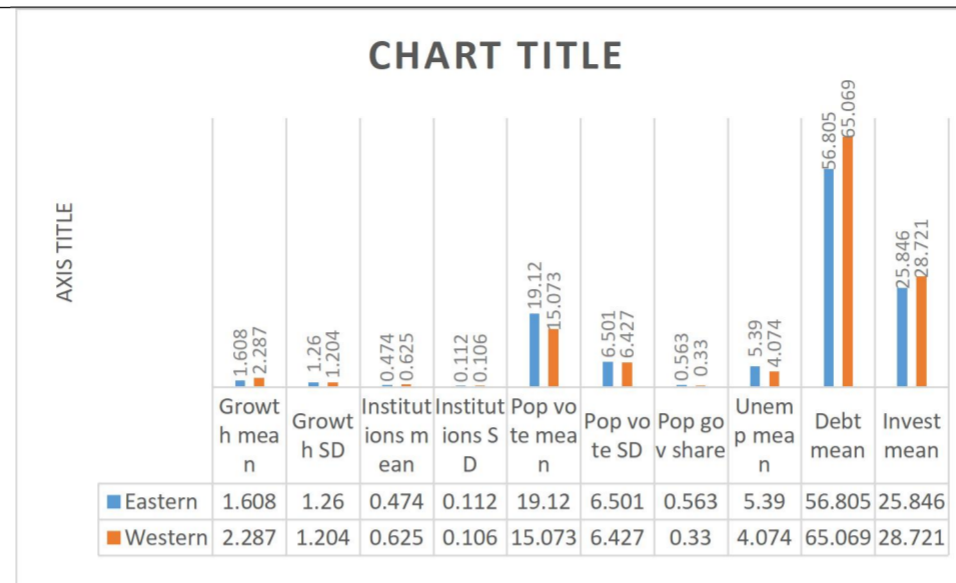
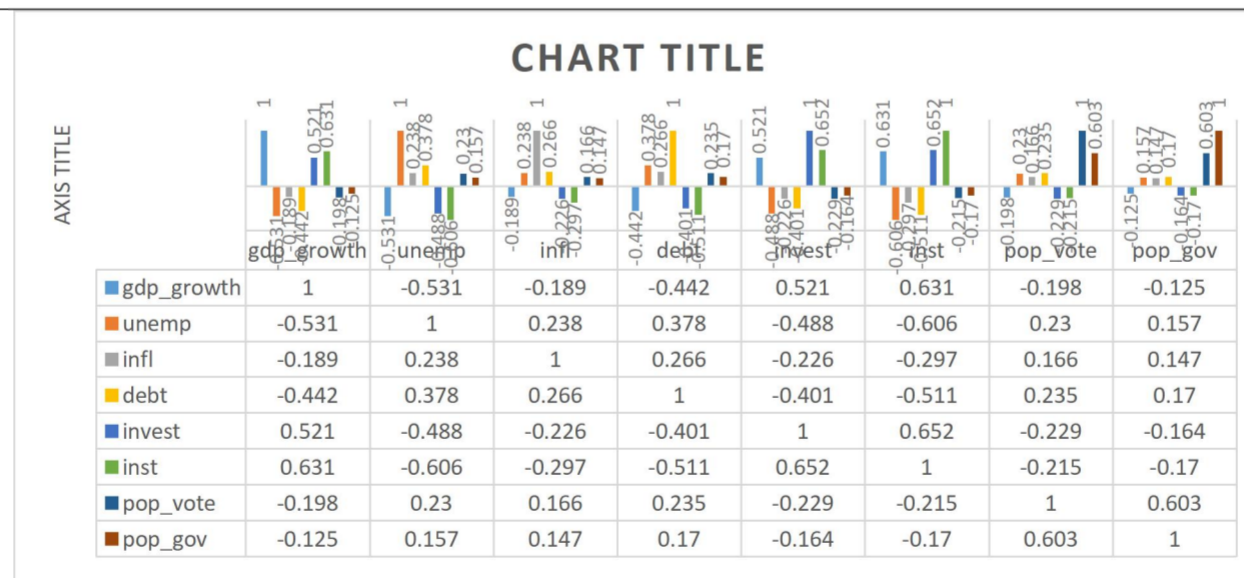


Table 3 shows bivariate correlations. Populist vote share and populist government participation are both negatively correlated with growth and institutions, and positively correlated with each other.

Table 3: Correlation Matrix (Key Variables)

	gdp_growth	unemp	infl	debt	invest	inst	pop_vote	pop_gov
gdp_growth	1.000	-0.531	-0.189	-0.442	0.521	0.631	-0.198	-0.125
unemp	-0.531	1.000	0.238	0.378	-0.488	-0.606	0.230	0.157
infl	-0.189	0.238	1.000	0.266	-0.226	-0.297	0.166	0.147
debt	-0.442	0.378	0.266	1.000	-0.401	-0.511	0.235	0.170
invest	0.521	-0.488	-0.226	-0.401	1.000	0.652	-0.229	-0.164
inst	0.631	-0.606	-0.297	-0.511	0.652	1.000	-0.215	-0.170
pop_vote	-0.198	0.230	0.166	0.235	-0.229	-0.215	1.000	0.603
pop_gov	-0.125	0.157	0.147	0.170	-0.164	-0.170	0.603	1.000



4.2 Model A: Populism → Economic Performance (two-way fixed effects)

Table 4 reports TWFE estimates for five outcomes. **Populist participation in government (t-1)** is strongly associated with **lower GDP per capita growth, higher unemployment, higher inflation, higher public debt, and lower investment**. **Populist vote share (t-1)** also shows statistically meaningful associations in expected directions, particularly for growth, debt, and investment.

Table 4.: Model A (TWFE): Populism and Economic Outcomes

	GDP per cap growth	Unemployment	Inflation	Debt (%GDP)	Investment (%GDP)
Populist vote share (t-1)	-0.030*** (0.006)	0.025*** (0.008)	0.011* (0.006)	0.178*** (0.056)	-0.057*** (0.021)
Populist in government (t-1)	-1.314*** (0.085)	1.850*** (0.104)	1.047*** (0.087)	11.950*** (0.736)	-3.330*** (0.236)
Trade openness	0.002*** (0.000)	-0.007*** (0.001)	0.000 (0.001)	-0.017 (0.016)	0.008*** (0.002)
Education (years)	0.067*** (0.018)	-0.121*** (0.024)	-0.009 (0.016)	-0.094 (0.307)	0.105*** (0.026)
Dependency ratio	-0.018*** (0.004)	0.020*** (0.004)	0.001 (0.003)	0.013 (0.066)	-0.022*** (0.006)
EU member	-0.054 (0.183)	-0.482** (0.213)	-0.116 (0.149)	0.191 (1.891)	0.197 (0.247)
Euro area member	0.048 (0.111)	-0.112 (0.147)	-0.118 (0.079)	2.197*** (0.643)	0.055 (0.174)
Initial log GDPpc	0.012 (0.039)	-0.116*** (0.043)	-0.009 (0.026)	0.689*** (0.213)	0.048 (0.043)
Govt ideology (-1/0/1)	0.068*** (0.017)	-0.090*** (0.023)	-0.003 (0.016)	0.023 (0.240)	0.006 (0.022)
Constant	2.690*** (0.510)	7.850*** (0.667)	2.575*** (0.409)	57.907*** (3.350)	22.365*** (0.803)

Model fit (Table 4)

	N	R2
GDP per cap growth	875	0.691
Unemployment	875	0.697
Inflation	875	0.464
Debt (%GDP)	875	0.783
Investment (%GDP)	875	0.603

Interpretation (key effect sizes):

A shift to a **populist-in-government** year (t-1) is associated with **-1.31 percentage points** lower growth, **+1.85 pp** higher unemployment, **+1.05 pp** higher inflation, **+11.95 pp** higher debt/GDP, and **-3.33 pp** lower investment (Table 4).

4.3 Model B: Populism → Democratic Institutions

Table 5 shows that both populist vote share and populist incumbency are associated with **lower institutional quality** (rule of law / liberal democracy components). The magnitude is strongest for **populist-in-government**, consistent with the idea that executive control accelerates institutional change.

Table 5: Model B (TWFE): Populism and Institutional Quality

	Institution index
Populist vote share (t-1)	-0.0080*** (0.0002)
Populist in government (t-1)	-0.1387*** (0.0023)
Trade openness	0.0000*** (0.0000)
Education (years)	0.0047*** (0.0002)
Dependency ratio	-0.0005*** (0.0000)
EU member	0.0044** (0.0018)
Euro area member	0.0003 (0.0013)
Initial log GDPpc	0.0002 (0.0003)
Govt ideology (-1/0/1)	0.0001 (0.0002)
Constant	0.5958*** (0.0042)

Model fit (Table 5):

	N	R2
Institutions	875	0.948

4.4 Model C: Institutional moderation (Populism × Institutions)

Table 6 tests whether institutional strength conditions populism's economic association. The interaction term is **positive and statistically significant**, indicating that **stronger institutions reduce the magnitude of populist incumbency's negative association with growth**.

Table 6: *Model C (TWFE): Moderation Model for Growth*

	GDP per cap growth
Populist vote share (t-1)	-0.028*** (0.006)
Populist in government (t-1)	-1.728*** (0.220)
Institution index (t-1)	1.080*** (0.302)
Pop gov × Institutions (t-1)	0.739** (0.373)
Trade openness	0.002*** (0.000)
Education (years)	0.067*** (0.018)
Dependency ratio	-0.018*** (0.004)
EU member	-0.049 (0.183)
Euro area member	0.050 (0.111)
Initial log GDPpc	0.012 (0.039)
Govt ideology (-1/0/1)	0.068*** (0.017)
Constant	2.356*** (0.563)

Model fit (Table 6):

	N	R2
Interaction model	875	0.703

Interpretation (moderation):

- The marginal effect of populist incumbency on growth becomes **less negative** as institutional quality increases, consistent with the “buffering” hypothesis.

4.5 Robustness check: right vs left populism

Table 7 replaces total populist vote share with right- and left-populist components. Both components remain negatively associated with growth, while populist incumbency retains a large negative association.

Table 7: *Robustness (TWFE): Right vs Left Populist Vote Shares*

	GDP per cap growth
Right-populist vote share (t-1)	-0.028*** (0.007)
Left-populist vote share (t-1)	-0.033*** (0.006)
Populist in government (t-1)	-1.315*** (0.085)
Trade openness	0.002*** (0.000)
Education (years)	0.067*** (0.018)
Dependency ratio	-0.018*** (0.004)
EU member	-0.054 (0.183)
Euro area member	0.048 (0.111)
Initial log GDPpc	0.012 (0.039)

Govt ideology (-1/0/1)	0.068*** (0.017)
Constant	2.690*** (0.510)

Model fit (Table 7):

	N	R2
Alt populism model	875	0.691

DISCUSSION

The findings indicate that populism is economically consequential in the context that it shifts in an electoral strength to actual executive power. On the fixed-effects estimates, participation in government by populists is related to lower GDP per capita growth, less investment, and increased unemployment and debt, and populist vote share has less but often consistent relationships. The given pattern is consistent with the assumption that populism in office turns the policy levers of office, i.e. appointments, budget, regulation, etc., much more directly than populism in opposition, which can make the rhetoric but not institutions or macroeconomic decisions (Guriev and Papaioannou, 2022; Funke et al., 2023). These findings are also consistent with the opinion that populist administration can produce short-term political benefits at the cost of augmenting medium-term macroeconomic susceptibilities by implementing procyclical expenditures, less fiscal discipline, and lagging in making adjustments during declines (Funke et al., 2023).

The second key result is the inverse relationship between populist incumbency and democratic institutional quality which is consistent with the scholarly literature that studied gradual democratic backsliding. The calculated institutional indices downturns are substantively significant and channeled at the areas of focus in the European setting: stress on judicial independence, restrictions on oversight institutions, and a diminished media freedom, frequently by means of a formal legal reform instead of an outright breakup (Vachudova, 2020; Holesch and Kyriazi, 2022). Notably, the process of multi-level governance in Europe can limit as well as politicize these processes. The institutional erosion can be slowed down by EU regulations, constitutional courts, and coalition bargaining, which, on the other hand, can be the focus of the people-versus-elite discourses, driving up conflict and polarizing trust in independent institutions (Ongaro et al., 2022).

The moderation model offers an important interpretive intermediary: the adverse economic relationship between populist incumbency and stronger institutions seems to be cushioned. This reinforces a political-economic reasoning where institutional restraints such as credible rule of law, steady policymaking, as well as independent oversight, constrain discretionary policy fluctuations, lower risk premia, and safeguard investment and growth (Kapopoulos and Rizos, 2024; Schutz and Pape, 2024). The most appropriate mechanisms that would be in line with the estimates are increased policy uncertainty (that would discourage long-horizon investment and FDI) and issues of credibility over independent agencies, in particular, where the agency appointment is politicized or perceptions of central bank independence are undermined (Andrijić, 2024; Gavin and Manger, 2023). These channels further assist in clarifying cross-country heterogeneity: in the case of strong veto players and the constraints, populism can be contained; in the case of weaker-constraints, economic costs can be multiplied as institutional adjustments destroy confidence and increase the cost of borrowing.

Lastly, the results suggest that, it is not ideology (left vs right only) but a combination of governing authority and institutional resilience that cannot be determined mechanically that populism has an economic effect. To the European policymakers, this indicates that the independence of the judiciary, media pluralism, and credible fiscal and regulatory framework are not only a democratic requirement but also an economic stabilizer during times of increased political instability (Kapopoulos and Rizos, 2024).

CONCLUSION

This paper has explored the relationship between populism, democratic conditions and economic performance in a comparative country year panel methodology in Europe. The evidence shows that the effects of populism are most evident when populist players leave electoral politics and enter into the executive. The fixed-effects specifications all show relationships between populist involvement in government and weaker medium-run economic performance, in particular, reduced GDP per capita growth and investment, and greater macroeconomic stress, in particular, elevated unemployment and debt. Such trends go in line with the patterns put forward by political-economy explanations that relate populist regimes to more policy discretion, fiscal mismanagement, and less stabilized policy environment (Guriev and Papaioannou, 2022; Funke et al., 2023).

The second contribution is to show that populist incumbency is associated with a fall in the quality of democratic institutions, which is consistent with studies of gradual democratic backsliding by executive aggrandizement, politicized appointments, and pressure on the courts and media (Vachudova, 2020; Holesch and Kyriazi, 2022). Notably, the research does not stop at recording parallel associations but it attempts to test if institutions condition economic impacts of populism. The findings of the moderation model show that the strength of democratic institutions decreases the extent of negative economic relationship of populism, which supports the claim that plausible constraints, such as

rule of law, independent audit, and stable policymaking processes, can mitigate investor confidence and defend investment-oriented growth (Kapopoulos and Rizos, 2024; Schutz and Pape, 2024).

In general, the results indicate that the increase of the populist politics is not the sole policy issue that faces Europe, but the strength of the institutional protection that makes a difference between the political shocks in terms of economic costs. Independence of the judiciary, media pluralism, and open fiscal-regulatory practices can thus be a two-fold tool in preserving liberal democracy and stabilising the expectations that hold long-term performance in the economy. Further studies are necessary to identify causal detection during government transitions and to test mechanisms through measures of granularity of uncertainty, the cost of borrowing, and investment decisions to understand when and why populism is disruptive to the economy.

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