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**ECONOMIC PERFORMANCE UNDER
POPULIST LEADERSHIP AND LIBERAL DEMOCRACY
(TWO DECADES OVERVIEW)**

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Eri Yoga Sidharta
(Indonesia)

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Members of the Examining Committee:

Prof. Dr. S.M Mansoob Murshed
Prof. Dr. Peter Van Bergeijk

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Inquiries:

International Institute of Social Studies
P.O. Box 29776
2502 LT The Hague
The Netherlands

t: +31 70 426 0460
e: info@iss.nl
w: www.iss.nl
fb: <http://www.facebook.com/iss.nl>
twitter: [@issnl](https://twitter.com/issnl)

Location:

Kortenaerkade 12
2518 AX The Hague
The Netherlands

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List of Acronyms

GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GPD	Global Populism Database

Abstract

Populism poses consequences to domestic and global economic growth as it has a strong tendency to destabilize established political and economic regimes through means of unconstitutional interventions or even implementation of economic policies based on exclusionary rhetoric, such as economic nationalism. While it is commonly agreed that populism brings adverse effects to globalization, it is still not quite clear whether populist leadership brings a positive or negative impact to the economic growth rate in the country level. This research paper regress the latent variable of economic performance against a set of explanatory variables, including the variable of populist leaders from 40 countries and their respective civil liberty score (as a proxy to liberal democracy) from 1998 to 2018. The regression results show that there are significant correlations between the economic growth rate and all of the explanatory variables presented in the main specification model in this paper. In the country level, the degree of civil liberty seems to have a significantly greater impact on the economic growth rate if compared to populist leadership.

Relevance to Development Studies

Populism has been corroding the fundamentals of liberal democracy in recent years. It grows by amplifying the existing polarization in societies and pit them against one another through the ever-expanding arms of social media. One of the most pressing matters about populism is the absence of practical and epistemological consensus regarding its definition, hence the inability of civil society to effectively mitigate its consequences. In order to formulate a robust strategy to lessen the detrimental effects of populism, more studies on this particular matter are highly imperative.

Keywords

Economic growth, populism, populist leadership, liberal democracy, civil liberty

Chapter 1

Introduction

Global populism is on the rise as more countries are now joining the bandwagon of the latest divisive rhetoric in the world political scene. Populism brings discord in democratic societies and tearing communities apart by undermining liberal democracy practices to shake up the established politics. Populism poses consequences to global and domestic economic growth as it has a strong tendency to destabilize established political and economic regimes through means of unconstitutional interventions or even implementation of economic policies based on exclusionary rhetoric, such as economic nationalism (Riedel, 2017). Economic nationalism denounces free trade and globalization in favor of protectionism. It argues that present-day socioeconomic and cultural problems are caused by the neoliberal forces that have been shaping the course of economic growth in our modern era (Cooper, 2007). Recent research by Rodrik (2017) confirms the perverse effects of economic nationalism beyond theoretical discourse in which the role of Europe in developing trade and investment as well as globalization has been weakened by an increase of populist parties' involvement in European countries' governments.

While it is commonly agreed that populism brings adverse effects to globalization, it is still not quite clear whether populist leadership brings a positive or negative impact on economic growth in the short and long term. Only a handful of research has been addressing issues related to the economic impact of populism in a limited scope of the area and time-frame (ie: Dornbusch, 1991; Ruth-Lovell, 2019; Rodrik, 2019). The jury is still out on the economic impact of populism, hence it is interesting to measure the actual impact of populist leadership on the economic performance given the tendency of populist leaders to exercise a set of economic policies based on their illiberal values.

1.1 Research objective

In a democratic country, an elected national leader has the capability to exercise political power in the formulation of crucial state policies which inevitably features a short and long term consequences to the respective state's economic and democratic environment. An ideal national leadership agenda would indiscriminately portray the will of the voters and set towards the realization of common goals while upholding democratic values and practices. However, the world is a strange place nowadays. Checks and balances, prudence, diplomacy, tactfulness and many other proper values of leadership have been increasingly neglected under the charade of populism. The antics of the populist leaders all over the globe have been degrading the quality of democracy as we know it. The new breed of democracy without respect for civil liberty values has been normalized and somehow deemed acceptable mainly by the frustrated, the insecure, the senile, the under-educated, and the neglected members of our hyper-globalized society. In this world torn by economic crises, wars, and record-setting inequality levels, it is comprehensible that people are starting to lose faith in established economic and political mechanisms. Populist leaders are now being elected into the office all over the globe and it has a likelihood of bringing an impact to economic growth on the domestic and global scale.

The research objective in this paper is to contribute to the discourse to define populism by finding a common thread from the existing preconceptions of what populism is according to semantic and epistemological perspectives. This paper also aims to measure the impact

of populist leadership and compare it with the impact of liberal democracy (using civil liberty as proxy) towards the economic growth rate of a country using empirical evidence. The goal of this research paper is thus to provide additional information to enrich our understanding regarding the risks and benefits of populism and liberal democracy.

Chapter 2

Literature Review

The wave of populism has been outpacing globalization in recent times, but is it a new phenomenon or is it just history repeating itself? This paper will try to explore plausible explanations regarding the features and traits of populism, and define populism based on the underlying arguments presented in this chapter.

2.1 What is Populism?

Populism is a tenuous term used to label recent tendencies of raw political sentiments that have been wreaking havoc in established world democracies especially during the past ten years following the global financial meltdown in 2008. Populism is a relatively re-emerging topic in the research field, hence it is imperative to define populism regarding its linguistic, social, political and economic dimensions in a proper manner of discourse since there is no consensus on its conceptual core among scholars from various disciplines. For the sake of brevity, this paper will try to elaborate on populism only through the lens of political science and economics.

Populism can be described as a thin-cored ideology that juxtaposes the people against the elites or outsiders (Mudde, 2004). Populism is not a new phenomenon, it dates back to the 19th century when ‘prairie populism’ took place in North America where groups of farmers stood up against the ruling elites consisted of bankers and politicians (Ostler, 1993). More often than not populism campaign strategy and political rhetoric is built upon bombastic ideas, false promises, and disparaging issues of racial prejudice or even religious crusades. It is important to note that populists do not entirely reject democracy as they operate in it.

The underlying framework of populism is a dualistic, binary, dichotomous, black or white mindset toward certain issues that do not allow for gray areas. It is built upon on the idea of *vox populi*, or the voice of the people, combined with a vast array of elements, such as xenophobia, anti-elitism, racism, sexism, jingoism, etc, depending on which political view is embedded to it. Populism can be differentiated into the left and right-wing (Gandesha, 2018). Right-wing populism has a tendency toward an exclusionary vision of society. It rejects the notion of pluralism which acknowledges society as a melting pot of diverse social groups (Rice-Oxley and Kalia, 2018). On the other hand, left-wing populism rhetoric often based on anti-establishment, anti elites, anti-globalization, and anti-capitalism sentiments (Zaslove, 2008). The right-wing populism tends to stampede over the civil rights of the cultural or religious minority groups. On the other hand, the left-wing populism also tends to infringe on the civil rights of the political or economic elites, which is problematic since there is no clear definition or boundaries of what segment of a society can be regarded as elite or not. Both types of populism have a similarity in a way that they tend to trample the liberal values of democracy.

Table 1
Approaches to populism

	Definition of populism	Unit of analysis	Relevant methods	Exemplars
Political ideology	A set of inter-related ideas about the nature of politics and society	Parties and party leader	Qualitative or automated texts analysis, mostly of partisan literature	Mudde (2004, 2007), Kaltwasser and Mudde (2012)
Political style	A way of making claims about politics; characteristics of discourse	Texts, speeches, public discourse about politics	Interpretative textual analysis	Kazin (1995), Laclau (2005), Panizza (2005)
Political strategy	A form of mobilization and organization	Parties (with a focus on structures), social movements, leaders	Comparative historical analysis, case studies	Roberts (2006), Wayland (2001), Jansen (2011)

Source: Gidron & Banikowski, 2013

2.1.1 Forms of populism

In general, populism can be categorized into its underlying dimensions, which are cultural and economic populism (Rodrik, 2019). Economic and cultural aspects are often intertwined in society, hence it is arduous, although not impossible, to distinguish between the two forms of populism.

According to McGuigan (2011), cultural populism can be described as an intellectual assumption by scholars of popular culture which argues that the symbolic experiences of common people are more important to be analyzed than the culture of the elite. Cultural populism paradigm based its scope of discourse on a strong predicament against the cultural elites since it strictly divides cultural dimensions between the common people and the elites. However, the problem of cultural populism paradigm lies in the fact that if any aspect of daily life is seen culturally as being as valid as other aspects, then “the significance of culture is judged, not only by terms of pure commercialism, but also by its usefulness as an instrument for social management or as a good alibi for reasoning.” (Ahponen and Kangas, 2005). In a nutshell, cultural populism is prone to be abused by the people who seek to gain or preserve economic and political goals. By manipulating discourses over the definition of the common people and the elites, populism is able to influence the mass and mobilize them for political causes.

Meanwhile, economic populism can be described as an unsustainable type of economic policy through which a country begins a phase of large, foreign-financed public spending, that ensues with hyperinflation and tough economic adjustments (Mudde and Kaltwasser, 2017). The policies associated with economic populism such as fiscal stimulus, printing additional money, and growing deficits, as opposed to austerity, may emphasize wealth distribution but in the meantime highlighting the dangers of rising inflation and budgetary deficit. Whiles sometimes needed, a reckless implementation of such policies may harm the

economy in the long run. These phenomena had been observed in Latin America countries in research by Dornbusch (1991).

2.2 What is illiberal democracy?

Liberal democracy can be described as a democracy that upholds civil rights or minimizing bias against it in the presence of strong political and property rights. It derives from the principles of classical liberalism which advocates civil liberties under the protection of the law. A civil right is a notion that individuals deserve freedom from discrimination and infringement of their rights by the state, social or private institutions, and other private individuals. It also ensures the rights of individuals to participate in civil and political arena free from any kind of repression. Illiberal democracy, on the other hand, has all the elements of liberal democracy except for the lacking presence of certain rights, most notably minority civil rights. In illiberal democracy, minorities tend to have little to no bargaining power due to the lack of resources, which differs from the elites; and numbers, which differs from the majority. Their lacking of capacity to create a meaningful threat to the establishment impacts the provision of their rights by the state. The role of the state in enabling illiberalism has been described by Rodrik (2018) as a kind of “authoritarian politics featuring popular elections but little respect for the rule of law or the rights of minorities”.

In 1997, American journalist Fareed Zakaria coined the notion of illiberal democracy. He proposed that illiberal democracy is a kind of democracy without constitutional liberalism, a democracy where some personal liberties and democratic rights are limited. The attempt was made to define regimes holding elections, but failing to respect the rule of law and to overrule constitutional checks and balances of their political systems frequently. The assumption that elections, representative institutions and the rule of law would always fit neatly together in a democracy setting was somehow an illusion. He used the term illiberal democracy in his book *The Future of Freedom* (2003) to refer to nations in which the mechanisms and processes of free and fair elections were not supported by fundamental values of freedoms that constitute the essence of real democracy. Zakaria traces the development of democracy and draws the important conclusion that democratic institutions are just a system. The outcomes they achieve rely on their principles, and without liberal values, democracy can and does easily become a device of despotism by an intolerant majority over minority groups. This phenomenon has been expressed recently across the world such as the case of Brexit in the United Kingdom, Trump's election as an illiberal platform in the United States, and retrogression from internationalism in a number of nations.

2.2.1 Objections to the concept of illiberal democracy

In his article *The Problem with Illiberal Democracy* (2016), Jan-Werner Muller argues that it is profoundly misleading to call what is happening in Poland, Hungary, and Turkey as illiberal democracy. He argues that it is not just liberalism, but democracy itself, that is being attacked. To accept the dichotomy of "liberal democracy" versus "illiberal democracy" is to acknowledge that leaders such as Kaczynski, Orban, and Erdogan are genuine Democrats who are disturbed by excessive private freedom and are merely looking for a less libertarian, more community-based democracy. Muller perceives those figures as the agents of authoritarianism hence his objection to the semantic selection of illiberal democracy as a terminology. A similar remark was also made by Janos Kornai (2016) by saying that the notion of an illiberal democracy as an impasse. To him the term illiberal democracy is like an 'athe-

ist Pope', the composition of the adjective is contradictory to itself. He made it very clear that all democracies are supposed to be liberal without any feature of authoritarianism. Despite strong objections to the rhetoric of illiberal democracy, it would be a mistake to denounce the idea and logic behind the term itself when in reality the shifts toward illiberalism could only happen in an environment where liberal values are being upheld, an environment we have come to know as a liberal democracy. It is interesting to note that the pull of political values away from the liberal democracy spectrum might explain the phenomenon of populism. While it might sound too simplistic to regard populism as a movement toward illiberalism in a democratic context, it offers a plausible explanation of populism and opens an opportunity to engage in a dialectical discourse to scrutinize recent populism phenomenon in a democratic setting. A usable parameter to measure the degree of liberal democracy are readily available and accessible, hence it is only sensible to employ it in this paper along with other parameters to make an inference on how it affects economic growth.

2.3 Populism as a movement toward Illiberal democracy

Rather than separating populism as a new class of political ideology, Mukand and Rodrik (2019) elaborate on the phenomenon of populism in the context of democracy. Using their perspective, populism can be regarded as a tendency toward 'illiberal democracy', a term coined by Fareed Zakaria in 1997. In their paper (2015) Mukand and Rodrik presented a taxonomy of political regimes to distinguish variants of democracy based on the presence of three sets of rights, which are property, political, and civil rights. Property rights mainly benefit the wealthy elite, political rights benefit the majority (organized masses), and civil rights benefit those who are normally excluded from privilege or power spoils, such as ethnic, religious, or ideological minorities.

Table 2
Taxonomy of political regimes

		Property rights			
		<i>No</i>		<i>Yes</i>	
		Political rights		Political rights	
		<i>No</i>	<i>Yes</i>	<i>No</i>	<i>Yes</i>
Civil rights	<i>No</i>	Personal dictatorship or anarchy	Dictatorship of the proletariat	Right-wing autocracy	Electoral/ Illiberal democracy
	<i>Yes</i>	n.a	Democratic communism	Liberal autocracy	Liberal democracy

Source: Mukand and Rodrik, 2015

The recurring rise of populism from time to time has shown how the politicians can mobilize a significant portion of society by triggering illiberal sentiments through a movement such as 'Make America Great Again' for an instance. In the past, populism was a form of movement to channel dissatisfaction and resistance to economic, societal and cultural establishments, as in the case of left-wing 'Peronism' movements in Latin America back in the early 20th century. Recent waves of populism, however, have been fueled by pressing social concerns that occurred under the hegemony of globalization, such as immigration,

precarious employment, and also the erosion of the welfare state caused by neoliberal economic agendas (Burmester 2018). Some parts of a society are more vulnerable to the exposure of populism rhetoric, especially people who feel marginalized. "Those who are older, and especially those with less education often cannot separate the noise from the signal and subscribe to those negative messages" (Murshed, 2019).

Populism grows by exploiting cleavages in politics, such as the degree of detachment of society with their mainstream political parties. Nevertheless, a fertile breeding ground alone is insufficient for populism to thrive. A strong leader figure who is able to convey the extravagant messages of populism to the gullible masses is crucial for the movement to be able to flourish and holds ground against the established politics. Charismatic populist leaders, such as Sebastian Kurz in Austria and Emmanuel Macron in France, both have successfully won their respective voter bases using a similar strategy which is by re-branding their respective party values and turn it into a cause to induce political movements. Austria is a curious case since it has been a country with a respectable degree of civil liberty despite being ruled by the conservative and right-wing parties for decades. Only as recent as 2016 that they have turned toward populism in the wake of the refugee crisis in Europe, an issue they perceived as an imminent threat to their homogeneous society.

"Exploring the ideational foundations of liberal democracy would also help throw light on the rise of populism and the erosion of liberal democratic norms that we see across the globe" (Mukand & Rodrik 2019). While it is arduous to elaborate the phenomenon of populism using a completely new ideological lens, it is more plausible to explain the matter using the aforementioned notion that populism is, in reality, a movement toward illiberalism. A movement toward abandonment of rights, a spectrum within the framework and discourse of democracy instead of a new political class or ideology of its own.

2.4 Role of social media and post-truth

Populists are persistent in their endeavor to challenge the established social, political, and economic values, and to reinvent those values according to their idealistic modality. Populists have a firm understanding of how democracy works and are able to systematically exploit its weaknesses to their advantage. They are able to achieve their goals without any use of violence, instead, they are using media as propaganda factories to gain broad public support or even using them as an instrument to shape public opinion.

Social media offers a context where normal people and politicians can convey their populist thoughts directly to other members of society (Hemeleers, 2018). The rapid propagation of populism ideas and messages has been made possible due to the unprecedented expansions of social media in recent years. In the online context, the boundaries between the favored in-group and the opposed out-group could be constantly compared and symbolically expressed (Hampton, 2016). Social media creates communities in which people feel safe to share their nostalgia about the past, and grievances or fears about today and tomorrow. However, anonymity in online communities has also provided an incentive for people to engage in such communities relatively free from judgments and real-world consequences, a safe bubble and an echo chamber where misinformation can easily spread unchallenged. The novel ideas of illiberalism flourish through the means of advances in information technology, benefiting the populists who have managed to optimally utilize its potentials to create illiberal propaganda within the boundaries of freedom of speech, an important pillar of democracy.

The recent wave of populism has been build upon the disregard of facts and fear-mongering rhetoric, more commonly known as post-truth. Post-truth politics has been the

centerpiece of populism for its capability to stir controversies and later on mobilize people for flimsy or even false causes. Post-truth is rooted in the postmodernist school of thought, where the notion of universal truth is rebutted based on the absence of absolute truth. In other words, all truth is relative to each individual depending on their sets of beliefs. The terminology was coined by Steve Tesich (1992) in his book where he wrote: "deception is becoming more prevalent in the media-driven world". One of the key characteristics of post-truth politics is that populist campaigners are persistently repeating their rhetoric even if the news media and experts in the related field have presented evidence that contradicts their rhetoric. Brexit is a good example of how such rhetoric based on pretense, evidence, and logic has won an important public discourse and set a country's trajectory into uncharted territory.

2.5 Ideology and economic growth

Empirical evidence indicates that political ideology significantly affects economic growth (Bjørnskov, 2005). The paper shows that right-wing democracies have grown more rapidly than other democratic societies in the last decade. It indicates that such communities have a tendency to develop better legal systems and fewer government interventions which explain most, but not all, the gap in development between countries with various ideologies. A study by Acemoglu et al (2015) shows that democracy significantly increases progress when it comes to development. Compared to countries that had been authoritarian states, countries that moved to democratic rule have seen a 20% rise in GDP over a duration of 25 years. It disproves a 2006 meta-analysis by Doucouliagos and Ulubasoglu that the impact of democracy on economic growth is not clear. It has, however, found significant indirect effects of democracy that lead to growth. Rodrik (1997) argues that democracies perform better in several areas: they generate fewer randomness and uncertainty, control shocks better and deliver more favorable distributive results. He concludes with three assumptions as to why democracy could contribute to improved economic growth. First, the scope of viable economic policies under democracy is constrained by median voters' preferences, which means a fewer risk of disastrous policy outcomes. Secondly, institutionalized ways of political participation encourage a larger turnout without the risk of confrontation and civil conflict. Third, the defeated party in democratic participation are more difficult to be excluded from economic rewards. Democracy helps to build a competitive market environment through various means. The structure of checks and balances that restricts the exploitation and misuse of political power and maintains the rule of law is an inherent part of liberal democracy. It strengthens political accountability, reduces incentives to bribery, and prevents control of government institutions by interest groups. A functional liberal democracy also provides permanent protection and stability for rights to the property. A government's democratic legitimacy will also allow it to make economic choices that are unpopular but sometimes badly needed in times of economic uncertainty.

Democratic governance leads to higher potential growth through pro-market policies, increased investment, economic reforms, improved public-sector spending in education and health-care, and also decreasing social unrest. "As democracy expands in developing countries, newly empowered workers are likely to demand better living conditions, health care, access to clean water, and so on—all conditions that contribute to increased life expectancy and, in turn, to increased productivity" (Baum and Lake, 2003). Although the market economy can also flourish in the absence of democracy, as in the case of China, it has a bigger chance to exist under the democratic ruling. It is also worth noting that the market economy could help build and sustain a liberal democracy (EBRD, 1999). In a market economy,

the government is not the single owner of production means nor the single employer. It enables citizens to be economically independent in terms of making economic decisions and owning the means of production. The limitations of government interference in the market economy create a room for civil liberties to grow along with economic freedom.

Table 3
Correlation between ideology and economic growth

Researcher	Year	Correlation
Acemoglu	2015	Positive
Baum & Lake	2003	Positive
Bjørnskov	2005	Positive
Doucouliafos & Ulubasoglu	2006	Inconclusive
Rodrik	1997	Positive

2.5.1 Liberal democracy and economic growth

Economists were always critical toward the probable links between civil liberty and the level of economic development. Contradictory results on the effect of civil liberty on economic growth have been identified in various research. Acemoglu, Johnson, and Robinson (2005) explain that commitment issues that are inherent in the use of political power could contribute to economic inefficiencies or even poverty. A strong pledge towards the protection of human rights is one way to address a number of the government's commitment issues. A study by Benyishay and Betancourt (2010) found that civil liberty, especially personal autonomy and individual rights, has a significant effect on long term economic growth. It impacts economic activities directly by enhancement of labor mobility and the complete exercise of ownership rights.

A society built upon the principals of civil liberty will thrive in the future as it has the capability to act in promoting the well-being of the people and their environment. Take the issue of climate change, for instance. Liberal democratic countries have been able to face such a challenge relatively better than the rest, and even turn it into an economically feasible sector. Renewable power sources, such as state of the art electric electric-generating windmill or solar cell technology are good examples of how the civil liberty-oriented countries have chosen to develop in an ethical and environmentally conscious manner. It is very unlikely that such a civilized way to accomplish sustainable economic growth would have had happened in a non-liberal democratic country with little regard for the well being of the people, let alone the environment.

2.6 Economic factors behind the rise of populism

The impacts of globalization, including international free trade, mobility of capital, inequality, unemployment and the perception that the middle class is losing out, are believed to be the main drivers of populist movements. Those factors are believed to be the cause of economic insecurities which eventually play a significant role in the rise of populism (Rodrik, 2019). It is also important to acknowledge that the increase of populism and the increasing rejection of liberalism can not be explained by economic factors alone. There are other important factors such as culture, piety, attitude towards immigration, and so on. In the mire

of this complexity, it is imperative for this research to employ economic variables that have been measured for at least a certain period.

Globalization is one of the main topics where populists often share a highly critical stance. International economic integration has been seen as the driver of structural changes that resulted in economic uncertainties and job losses at the domestic level, especially in developed countries. Globalization is presented by the populists as a process whereby large parts of the domestic population lose out, while the elite benefits. “The benefits of globalization are distributed unevenly because our current model of globalization is built on a fundamental and corrosive asymmetry” (Rodrik, 2018). The globalization trend breaks down when the disparity in income raises too much and the burden of redistribution becomes too high (Van Bergeijk, 2019). Globalization has also effectively created domestic economic disintegration by undermining the autonomy and interests of the domestic economy for the sake of world economic integration.

International free trade has also been a subject of great significance in the context of globalization. While it can make the global economy better off, international free trade usually advantages only those who work in the export-import related industry. Sectors that compete with imported goods are usually the ones who are losing out. In Europe and North America, poorly skilled employees have been lost; jobs are scarce and salaries have stagnated. The free trade winners did not make up for the losers (Krugman, 2008). Chinese exports supplied cheap products which kept prices down in the United States and Europe, subsequently endangered domestic manufacturer of goods. It also provides pressure on the income of low-skilled employees for the sake of price competitiveness. Indeed, the incorporation of China and India into world economies has led to a huge rise in the worldwide supply of less-skilled labor compared to higher-skilled labor and capital. Many manufacturers that employ relatively unqualified workers have moved production to China, Vietnam, Bangladesh, and India. Cheaper Chinese goods also found to have a role in support for Brexit in the United Kingdom and far-right nationalists rise across Europe (Rodrik, 2019).

The stagnation of median incomes in various developed countries may add reasons for economic insecurities among common people besides globalization and international free trade. The fact that the UK and the US are experiencing stagnation on median incomes may also account for the election of a populist president in the US and Brexit in the UK to some degree. While there may be a correlation between low median income growth and the rise of populism in the US and the UK, a similar pattern may not be present in several continental European countries. Despite there has not been a significant median income growth in some nations, such as France, Italy, and Spain, populism did not flourish in those countries. Also, In the last two decades, median incomes have been increasing significantly in the Netherlands, Denmark, and Austria, yet these nations have been home to some of Europe's greatest populist pressures.

Rising inequality has been a major concern in many countries as it has been alleged of fueling the rise of populism. Branko Milanovich (2012) has found that globalization plays a big role in widening inequality where the rich are getting richer and the poor are becoming more miserable by the day. According to a French economist, Thomas Piketty (2014), democracies around the world are failing to curb the rising inequality and hence the rise of populism. Exponential economic growth during the last several decades does not seem to be successfully foster inclusive socioeconomic progress or even promote a broader social inclusion between socioeconomic classes. Populists are seemed to have successfully capitalized on this particular issue and have proven to be correlated with reductions in inequality

all over the globe (Ruth-Lovell et al, 2019). It is not an overstatement to regard inequality as one of the most critical issues of our time since it has an enormous potential to shape the faces of our democracies in the future if not addressed properly.

The unemployment level is another substantial source of economic insecurity perception in many countries. There is a strong correlation between the increase of populist parties votes in Europe with rising unemployment, especially in the aftermath of the global financial crisis in 2008. According to research (Algan et al, 2017), increased unemployment level results in a loss of trust in the established national and European political institutions, hence opening the door for anti-establishment politics to enter the mainstream political scene. The rising distrust towards democratic institutions caused by unemployment is alarming and may destabilize liberal democracies by the means of populist rhetoric.

2.6.1 Is it really the economy?

While populism tends to be increasing in moments of economic uncertainty, unfortunately not many empirical studies on the background of populist attitude have effectively been conducted among voters. One among a few of those studies (Anduiza and Rico, 2016) has found that the fundamental explanation for populist attitudes is not lies on people's economic vulnerability or financial difficulty, but rather their perceptions of the economic condition of their country. Various non-economic factors, such as immigration and racism, could also exacerbate negative perceptions on economic conditions and adding the fuel to spur the growth of anti-establishment sentiments we have come to know as populism.

The world has been engaging in a persistent endeavor against the conundrum of isolationism for centuries. Ideas such as nativism and protectionism are nothing new, they have been around even before the day of the Philistines came to the Middle East from Caphtor (Crete). Those ideas are directly in opposition to the ideas of global free trade where people are free to move across borders to trade or simply to find better opportunities. While nativism is built upon a nationalistic epistemology, it does not resemble the concept of nationalism in the modern era (Guia, 2016). Today's nativism does not necessarily build on nation-building spirit, quite the contrary, in many countries it is based on racism, anti-immigrant sentiment, or an initiative to protect homogeneity in society. In these times where multiculturalism prevails as a result of globalization, such negative sentiments would only jeopardize the long term social-politic stability of a country.

Another point of interest in the discourse of non-economic factors of populism is the backlash against social liberalism. For the right-wing populists, the idea of secularism and individual rights are to blame for breaking the social fabric of communities and the disruption of traditions. Similarly, for the left-wing populists, the neoliberal economic doctrine is to blame for the demise of a social system which is based on principals of commonality and replace it with the ideas of individualistic materialism and resource exploitation. Both sides of the spectrum have strong and valid arguments against liberalism, and hence globalization.

2.7 Economics of populism

Populist economic policies are served for individuals who fear of losing social status and are deserted by the established political institutions. A short-term economic agenda, the

denial of constraints and failure to evaluate the advantages and disadvantages of different policy options are the characteristics of a populist economic agenda. Certain economic and political problems are often disproportionately highlighted, such as the negative impacts of globalization and immigration. They also tend to ignore the formal policymaking process with proper due diligence in favor of half-baked or even imprudent economic policies. Interventions on the independence of central banks have already happened in Turkey under Erdogan, India under Modi, the USA under Trump, Venezuela under Chavez and many more. In some countries, it leads to artificially low bank rates which have been compromising the ability of the respective economies to cope with market reality.

2.7.1 Expansive Macroeconomic Policy

The macroeconomic policy of populist countries is usually expansive in nature (Dornbusch, 1991). It highlights the advantages of more government spending or reduced taxes while downplaying the adverse effects of increased government debt or inflation. The populist macroeconomic policies tend to ignore the negative implications of fiscal expansion. Populists insist that it will not occur since the decision of stimulating demand via fiscal expansion is justified by the economic growth that will eventually pay off the expansionary policy. It can be seen in the case of populist economic policy in Latin America, where the populists have been found to be associated with the left-wing type of populism (Dornbusch and Edwards, 1990). Just like their counterparts, which are the right-wing populists in the west, they believe that there is sufficient idle capacity available in their respective economies to implement deficit-funded expansionary policies without risking of increasing inflation. Take a recent example from the United States, in spite of the increasing amount of government debt that would call for fiscal restructuring, Donald Trump announced expansionary fiscal measures for the US instead. Such action is not a necessary one since the US economy is close to full employment. A mixture of debt-funded expansionary policies, higher domestic wages, and domestic price controls are commonly presented in the populist policy prescription to avoid inflation. Although expansionary fiscal and monetary policy can bring benefits rapidly, it generally takes time to experience the negative effects of increasing debt burdens.

2.7.2 Economic nationalism

Populists have also been constructing their economic policies based on the idea of economic nationalism. Economic nationalism is a stance against forces of globalization that drive social, cultural, and economic interdependence around the globe in order to achieve worldwide economic efficiency, an idea first popularized by David Ricardo in 1817. Economic nationalists denounce free trade and constantly condemn globalization, which they consider responsible for the current economic, social and cultural ramifications. Despite the current rise of economic nationalism around the globe, “conventional wisdom holds that economic nationalism is an outdated ideology in this age of globalization and economic liberalization” (Helleiner, 2002). Economic nationalism has emerged in many distinct parts of the globe as a contemporary type of protectionism (Cooper, 2007). Protectionism policies such as tariffs, quotas, restrictions on foreign investments, and other autarkic measures are seen by the supporters of economic nationalism as means to promote unity, identity, and economic autonomy of a country that has been under the control of globalization forces for far too long. In recent research, Colantone and Stanig (2019) suggest that a bigger exposure to the China imports (more known as the China shock) have caused an increase in support for nationalist and isolationist parties in Western European countries. It shows that the phenomenon of economic nationalism is indiscriminately occurring not on-

ly in countries that may have suffered under the global free trade regime but also in countries that greatly benefited from it.

Economic nationalism shares a similar paradigm to populism in the sense that it has the spirit of illiberalism embedded in its characteristics. Populists either left or right, are known to exploit adverse sentiments toward globalization, often by utilizing post-truth rhetoric, to shake up established powers and flip the course of economic liberalism. The rise of both kinds of populism is the result of the long-term failure of neo-liberal policies (Zabala, 2017). Hugo Chavez with his 'Bolivarian revolution', Donald Trump's trade war against China and Brexit movement in the UK are only several of many cases where the populists have successfully weaponize economic nationalism for their campaigns. Economic uncertainties brought by the rising populism may jeopardize global economic stability, growth, and development of many countries in the long run.

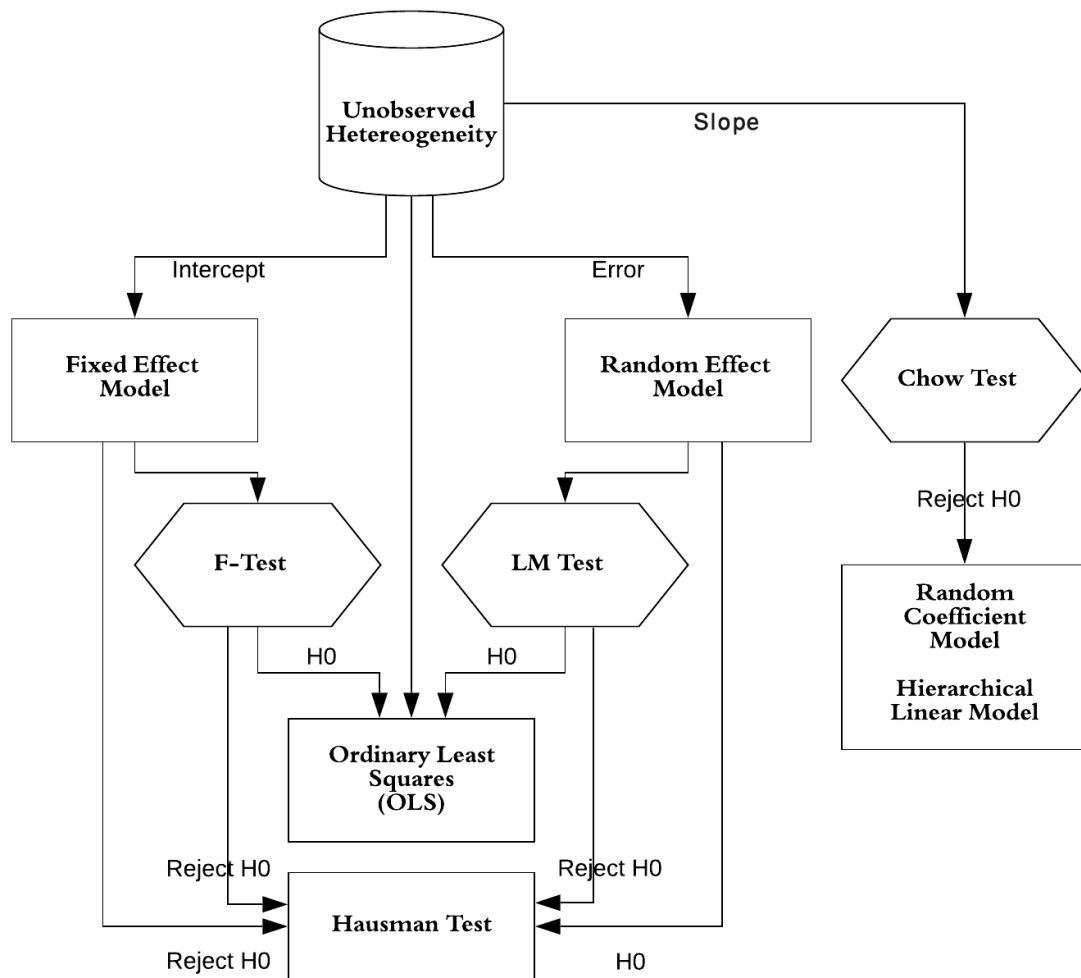
Chapter 3

Methodology and Data

This research paper will regress the latent variable of economic performance against ex-

planatory variables, including the variable of populist leaders and civil liberty (as a proxy to liberal democracy) from 1998 to 2018. A model selection to work with the data set will be decided using the Hausman test to determine whether to employ fixed or random effects. Only after determining the country and time-specific effects the model of this research can be properly specified.

Figure 1. Panel data modeling process



Based on the model illustrated by Park (2011)

3.1 Data set

This paper utilizes panel data compiled by Team Populism and The Guardian in 2019. The Guardian provided a grant for Team Populism, a global network for scientists who study

the causes and consequences of populism, to extend their research and publish the Global Populism Database. The database provides an insight into the extent of populist rhetoric in the statements made by democratic world leaders during the last two decades.

The Global Populism Database (GPD) identifies populist and non-populist leaders across 40 democratic countries between 1998 to 2018. The database covers 92 government terms in Central and Eastern Europe, 86 terms in Latin America and the Caribbean and 55 terms in Western Europe. On average, Latin America is the most populist, followed by Central and Eastern Europe.

The GPD compilation process employs a speech analysis method to measure the degree of populism of country leaders. The method employs a holistic grading system where researchers make evaluations based on the overall context of the speeches. The comprehensive speech analysis process involved 46 researchers which analyze 728 speeches of presidents, prime ministers, and chancellors of 40 countries in 13 languages.

The grades are extracted from textual analysis of the speeches, which is one of the most common methods used by political researchers to quantify populism level. Speeches by country leaders are examined in their original language by native speakers in order to increase the accuracy of the grading process. For quantitative analysis reason, Team Populism divide populist leadership into four categories; not populist (scores 0 to 0.49); somewhat populist (scores 0.5 to 0.99); populist (scores 1 to 1.49); very populist (scores 1.5 to 2). Similar data sets using different compilation methods were also considered, ie: Archigos, Zarate, and Timbro. The Global Populism Database is chosen due to its robust compilation criterion and methodology.

The data set for this paper is built on the aforementioned Global Populism Database by adding variables that are relevant to economic growth. The civil liberty variable is then added in order to complete the specification model needed to infer a comparative assumption to populist leaders variable. The data for explanatory variables are obtained from credible sources, which are The World Bank and V-Dem data repositories.

3.2 Specification

In general, growth models can be divided into exogenous and endogenous growth models. Investment and development of productive capacity were a determining factor for growth according to classical economists. Later on, three factors of economic growth, which are land, capital, and labor were identified in the first half of the 20th century by neoclassical economists. The exogenous growth model is based on the neoclassical economic theory which assumes that growth is driven by technological progress, regardless of economic factors. The better the use of these factors, the greater the economic growth can be achieved in capitalistic countries. The endogenous growth model, on the other hand, focuses more on the economic factors that affect growth. It tries to answer why and how do individual countries produce a larger amount of goods than they did in the past. It also accounts for the role of human capital in economic growth and the reason for the deepening divergence between countries. Paul Romer (1990) suggests it is the result of the increasing return on labor. The key factors of economic growth are established within the endogenous growth models. Ideology can be endogenously defined as it may have significant cultural influences. These cultural determinants are usually very persistent (Facchini and Melki, 2012).

The advantage of using panel data in order to analyze the growth equation is the ability to control for country-specific and time effects. Heteroskedasticity and/or auto-correlation issues will be accounted for via clustered standard errors, assuming the Hausman test result suggests that the fixed effect is the preferred method to initiate the growth regressions. The data set that will be examined in this paper, while not all balanced, are fixed.

The dependent variable in this research paper is the real GDP growth rate per capita. Based on a production function of Cobb-Douglas developed by Biswas and Ram (1986), growth models typically include investment share in real GDP, labor force, economic openness and share of total government spending in real GDP. Bjørnskov and Potrafke (2013), however, argue that government size is not an ideological issue so it can be excluded from the baseline specification. Populist leaders and civil liberty (as a proxy for liberal democracy) will be included in the extended specifications. Policies need time to translate into economic growth, hence it is reasonable to add a one year lead (year+1) for the dependent variable (ΔGDP), while all explanatory variables on the right-hand side of the equation will be presented at level at year t except for initial income per capita which will be presented in log level ($\ln\text{Gdp}$).

$$\begin{aligned} \Delta\text{GDP}_{it+1} = & \beta_0 + \beta_1 \ln\text{GDP}_{it} + \beta_2 \Delta \text{POPULATION}_{it} + \beta_3 \text{MYEDU}_{it} + \\ & \beta_4 \text{GROSSCAP}_{it} + \beta_5 \text{OPENNESS}_{it} + \beta_6 \text{INFLATION}_{it} + \\ & \beta_7 \text{SPPOPULIST}_{it} + \beta_8 \text{CIVLIB}_{it} + \eta_i + \theta_t + \varepsilon_{it} \end{aligned}$$

where ΔGDP_{it+1} denotes the real GDP growth rate per capita in the year $t+1$, in country i . η_i denotes the country fixed effects, θ_t denotes time (year) fixed effects and ε is the error term.

3.3 Variables

This section offers a description of the variables included in the specification presented in this paper.

3.3.1 Real GDP growth rate (ΔGdp)

Growth Domestic Product growth (GDP) is a financial measurement of the market value of all the final goods and services manufactured over time, usually measured annually. While GDP is considered as a flawed and outdated parameter by many economists, due to its incapability to account for inflation and measure human well-being among many others, it is still by far the most commonly used measure of economic activity. GDP growth reflects how effective a government stimulates its economic productivity through a set of macroeconomic policies. It has been found that populism has the ability to influence the aforementioned policies. Take the G-20 countries, for instance, G-20 plus Spain's combined nominal production is about 64 trillion dollars and populist administrations now control 41% of it. In comparison, the figure was only 4 percent in 2007 before the sub-prime mortgage crisis and its domino effect hit the planet (Bloomberg, 2019). Real GDP growth rate by one year lead (GDP year+1) will be used as the dependent variable in this paper. A real GDP growth rate lead by one year is used to minimize the inherited previous regime economic performance. GDP growth rate data from the year 1998 to 2018 is obtained from the World Bank open-access database. GDP growth rate percentage used in this paper is based on constant 2010 U.S. dollars.

3.3.2 GDP per capita (lnGdp)

This variable is the log value of GDP per capita at year t in country i . This variable serves as the convergence variable in the specification presented above. Deriving from Solow's (1956) work, economists have made significant progress in understanding differences in cross-country economic growth, including the proposition of unconditional and conditional convergences. A study that controls for a country-specific steady state is called a conditional convergence analysis. On the other hand, a study that assumes a common steady state for all countries is called unconditional convergence analysis. Initial GDP per capita data from the year 1998 to 2018 is obtained from the World Bank open-access database, based on constant 2010 U.S. dollars.

3.3.3 Trade openness (openness)

Trade openness can be described as the willingness of a country to open its economy to foreign access, whether it is inward or outward. Trade openness has been asserted to bring many economic advantages, including greater transfers of technological spillovers, skills transfer, enhanced labor quality, and increased overall productivity factor and economic growth. In spite of all those benefits, research has discovered that voters for the populist right and left tend to oppose more to trade openness compared to non-populist voters (Van der Waal, 2018). Left-wing populist supports protectionism in order to mitigate the adverse effects of globalization such as inequality. Right-wing populist, on the other hand, shares a similar sentiment but for an entirely different reason, such as taking back control of the domestic economy which they alleged has lost under the hegemony of globalization. The data for trade openness ratio in this paper is obtained from the World Bank open-access database. Trade openness is measured using a ratio of trade (imports and exports) relative to GDP.

3.3.4 Gross fixed capital formation (grosscap)

Gross Fixed Capital Formation (GFCF) is the capital accumulation of a country during a specific accounting period. The term refers to additions of capital goods, such as equipment, vehicles, and other assets used for economically productive activities. "Gross capital formation is measured by the total value of the gross fixed capital formation, changes in inventories and acquisitions less disposals of valuables for a unit or sector (OECD, 2001)." It is presented as a percentage of GDP. Generally speaking, the higher an economy's capital formation, the faster an economy can increase its aggregate revenue. Data for gross capital formation in this paper is obtained from the World Bank open-access database.

3.3.5 Inflation (inflation)

Inflation is the rate at which the price of goods and services increases over a period of time, usually measured monthly, quarterly, and annually. Volatility in the inflation rate is usually associated with the inability of a government to manage the economy. Poor macroeconomic policies are usually also translated into an increased inflation rate which leads to price volatility. This may be seen by investors as a bad sign that the government is incapable of providing stability to an economy. Data for inflation in this paper is obtained from the World Bank open-access database.

3.3.6 Mean years of schooling (myedu)

Education is a fundamental factor in the formation of human capital resources of a country. Empirical research (Grant, 2017) suggests that better education contributes to higher economic growth in the long run. Mean years of schooling is a common measure of the level of education in a country based on a methodology proposed by Barro and Lee (2010). The data for mean years of schooling are collected from annual surveys conducted by national ministries and is commonly used to compare the stock of human capital among countries. The data of mean years of schooling used in this paper is obtained from the Human Development Reports (HDR) database presented on the United Nations Developments Programme (UNDP) open-access website.

3.3.7 Population growth rate (Δ population)

Population growth rate measures the increase rate of the number of individuals living in a country. The population growth rate may contribute to GDP due to increased consumption and productivity in an economy. Whether the growth rate of a population has a positive or negative impact may depend on many other socioeconomic factors. Nevertheless, it will be incorrect to exclude this variable since it may have a significant impact on economic growth. The data for the population growth rate in this paper is obtained from the World Bank open-access database.

3.3.8 Populist leaders (sppopulist)

The populism measurement of a leader in this paper is provided by the Global Populism Database that has been compiled by Team Populism and The Guardian. The database features 182 leader-terms from 40 countries across the globe. Measures of populism are based on the holistic grading procedure proposed by Hawkins (2009). The measurement to gauge levels of populism was derived from textual analysis of speeches by leaders. Team populism employs a technique known as holistic grading where researchers asked to consider the speeches in its entirety rather than judging them based on words or sentences alone. In this paper, the scores of holistic grading textual analysis will be categorized as 1 for non-populist leaders, 2 for somewhat populist leaders, 3 for populist leaders, and 4 for very populist leaders.

3.3.9 Civil liberty score (v2x_civlib)

This variable is a measurement to what extent is civil liberty has been respected. Liberal democracy is assessed by the presence of civil liberty. “Civil liberty is understood as liberal freedom, where freedom is a property of individuals. Civil liberty is constituted by the absence of physical violence committed by government agents and the absence of constraints of private liberties and political liberties by the government” (V-Dem, 2018). Data for this variable is obtained from the V-Dem website.

Chapter 4

Result

The results from the various test in this paper are going to be presented in chronological order. First, Hausman test is going to be performed in order to determine whether Fixed or Random effects is the suitable method to be employed in the following regressions. Second, the multicollinearity test is going to be performed in order to measure the degree of correlation between explanatory variables. Third, the main regressions are going to be performed, and the resulting coefficients will be used to explain the empirical results in this paper. Last, robustness check or sensitivity analysis is going to be performed to test the stability of the core model in this paper.

4.1 Hausman test

Table 4
Hausman test for fixed vs random effects model

	Coefficients		(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
	(b)	(B)		
	fixed	random		
lnGdp	-4.86371	-.9852322	-3.878478	1.005428
population	-2.036138	-1.152997	-.883141	.2249903
myedu	-.6350704	.0031181	-.6381884	.2366198
grosscap	.0858508	.0686815	.0171692	.0236643
opennes	.0436913	.0033572	.0403341	.0072409
inflation	-.0249333	-.0114783	-.0134549	.0049941
sppopulist	.5221168	.1458988	.376218	.1028022
v2x_civilib	7.314885	1.256978	6.057906	1.667906

b =

consistent under Ho and Ha; obtained from xtreg

B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(26) = (b-B)'[(V_b-V_B)^(-1)](b-B)

= 80.82

Prob>chi2 = 0.0000

The Hausman test result presented in Table 4 shows that there are no significant differences between the coefficients for the fixed effects and random effects model. Therefore, the fixed effects model, controlling for country-specific and time fixed effects, is going to be employed in the regressions.

4.2 Multicollinearity test

Table 5
Correlation Matrix

e(V)	lgdp	pop	myedu	grosscap	opennes	inflat~n	sppopu~t	v2x_ci~b
lgdp	1							
pop	-0.0361	1						
myedu	-0.0382	0.0243	1					
grosscap	-0.371	-0.0885	0.0916	1				
opennes	-0.124	-0.1254	-0.0476	0.1897	1			
inflation	0.1371	-0.0391	-0.0575	0.0321	-0.0938	1		
sppopulist	-0.0633	0.034	0.0376	-0.1557	-0.1223	0.1325	1	
v2x_civlib	0.0047	0.1397	0.028	0.0207	0.0322	-0.0266	0.186	1

According to the multicollinearity test result above, there is no signs of significant multicollinearity between the explanatory variables, hence it is safe to include these variables in the specifications.

4.3 Fixed effects regression

Table 6
Impact of Populist leader and civil liberty on the economic growth rate

Variables	Impact on GDP growth rate		
	Control for capital	Control for capital, openness, and inflation	Control for all variables
lnGdp	-4.371*** (1.129)	-4.733*** (1.031)	-4.864*** (1.022)
population	-2.071*** (0.307)	-2.177*** (0.276)	-2.036*** (0.275)
myedu	-.649** (0.271)	-0.679*** (0.257)	-0.635** (0.254)
grosscap	.040 (0.035)	0.095*** (0.032)	0.086*** (0.032)
openness		0.045*** (0.008)	0.044*** (0.008)
inflation		-0.028** (0.013)	-0.025* (0.013)
sppopulist			0.522*** (0.184)
v2x_civlib			7.315*** (2.065)
Constant	46.578***	46.403***	40.663***
R2 (within)	0.385	0.428	0.443
N	756	723	723
rho	0.77305748	0.84674252	0.84282519
Akaike crit. (AIC)	3532.879	3204.382	3189.460
Bayesian crit. (BIC)	3643.952	3323.550	3317.795

*** p<0.01, ** p<0.05, * p<0.1

Table 7
Main regression result
(Control for all variables)

growth	Coef.	St.Err	t-value	p-value	Sig.
lnGdp	-4.864	1.022	-4.76	0.000	***
population	-2.036	0.275	-7.39	0.000	***
Mean years of education	-0.635	0.254	-2.50	0.013	**
gross capital	0.086	0.032	2.69	0.007	***
openness	0.044	0.008	5.40	0.000	***
inflation	-0.025	0.013	-1.96	0.051	*
populist leader	0.522	0.184	2.84	0.005	***
civil liberty	7.315	2.065	3.54	0.000	***
_cons	40.663	9.339	4.35	0.000	***
Mean dependent var	2.385		SD dependent var		3.115
R-squared	0.443		Number of obs		723
F-test	19.422		Prob > F		0.000
Akaike crit. (AIC)	3189.460		Bayesian crit. (BIC)		3317.795

*** p<0.01, ** p<0.05, * p<0.1

4.4 Robustness check

Robustness test is performed to minimize model uncertainty by comparing the main model

specification to alternative model specifications by adding regressor variables that are relevant to the economic growth rate. This test is also expected to test whether the estimated effects are prone to changes.

Table 8
Sensitivity check

Variables	Impact on GDP growth rate		
	Control for core variables	Add fdi	Add unemployment
lnGdp	-4.864*** (1.022)	-4.875*** (1.022)	-6.020*** (1.1101)
population	-2.036*** (0.275)	-2.021*** (0.277)	-2.113*** (0.289)
myedu	-0.635** (0.254)	-0.633** (0.254)	-0.565** (0.253)
grosscap	0.086*** (0.032)	0.084*** (0.032)	0.089*** (0.033)
openness	0.044*** (0.008)	0.043*** (0.008)	0.046*** (0.008)
inflation	-0.025* (0.013)	-0.025* (0.013)	-0.031** (0.013)
sppopulist	0.522*** (0.184)	0.530*** (0.184)	0.558*** (0.183)
v2x_civlib	7.315*** (2.065)	7.314*** (2.067)	7.300*** (2.055)
fdi		0.009 (0.017)	0.009 (0.17)
unemployment			-0.078 (0.049)
Constant	40.663*** (9.339)	40.743*** (9.345)	51.158 (10.351)
R2 (within)	0.443	0.443	0.457
N	723	723	703
rho	0.84282519	0.84313876	0.89072691
Akaike crit. (AIC)	3189.460	3191.133	3089.260
Bayesian crit. (BIC)	3317.795	3324.051	3225.921

*** p<0.01, ** p<0.05, * p<0.1

4.5 Empirical tests result interpretation

The regression results in Table 6 show that there are significant correlations between economic growth rate and all of the explanatory variables presented in the main specification model.

The estimated coefficient of the lagged log of per capita GDP is significantly negative (-4.9). Since the regression in this paper accounts for country fixed effects, the result is supposed to be of conditional convergence. Conditional convergence is the tendency that poorer countries grow faster than their richer counterparts before finally converge to similar levels of per-capita income. The convergence depends on individual constants for each country respectively at a rate of around 4.9 percentage points per year. However, there is also a tendency to overestimate convergence in the presence of country fixed effects due to the Hurwicz bias in the estimated coefficient of a lagged dependent variable.

The impact of population growth on the economic growth rate has been inconclusive at best, depending on various factors and country-specific effects. The result of the regression presented in Table 6 shows that 1 percentage point of population growth rate may have a significantly negative impact on the economic growth rate as much as 2 percentage points. This result is in line with Klasen and Lawson (2007) research which finds that high population growth in Uganda negatively affects their economic growth rate. There are various reasons why population growth can be a hindrance to economic development, among them are reduced rate of capital formation per head in the respective country, increasing requirement for investments in order to maintain the level of per-capita income, reduction in labor force efficiency due to demographic transitional phase, and also the problem of rising unemployment and poverty level.

The adverse effect of the variable mean years of schooling to economic growth rate requires a careful interpretation in order to avoid any possible misleading inference. The accumulation of knowledge, as a proxy for human capital, is an important component of a nation's capability to produce higher economic added values. The more added values that the human capital of a country has to offer, the higher the economic growth rate it can achieve in the long run. Despite that, the result of regression in this paper shows that a 1 year of increase in the mean years of schooling may reduce the economic growth rate by 0.6 percentage points. It might be due to the possibility that education requires more time before it can contribute positively to the economic growth rate. The other explanation of the adverse effect might have been presented by Laverde-Rojas et al (2019) who argues that the predictive power of years of education as a proxy for human capital has been decreasing. The decrease started in the 1990s as the schooling in many countries started to become homogeneous, therefore renders this particular variable unsuitable to be included in future growth models especially in countries that have already reached steady-state growth.

In order to increase their economic growth rates, many countries are investing heavily in infrastructures, housing projects, plants, machinery and so on. In this paper, gross fixed capital formation (GFCF) is shown to have a significant positive impact on the economic growth rate just as inferred by De Long and Summers (1992) and Lach (2010). An increase in GFCF is expected to contribute to economic growth in the long term through an increase in productive capacity which leads to higher aggregate demand. The percentage of GFCF in advanced countries tends to be decreasing since they are mainly based on service sectors and intellectual property products if compared to countries that rely heavily on manufacturing sectors such as China, South Korea, and Japan. The impact of GFCF on the economic growth rate might have been better captured if countries in the data set are divided by their dominant economic sectors. Another consideration worth mentioning is to acknowledge the volatility of the impact of GFCF on the economic growth rate during periods of economic expansion and recession.

There is no clear consensus on the empirical evidence regarding the benefits of trade openness towards economic growth rate. Rigobon and Rodrik (2005) found that it may increase income but detrimental to economic growth in the long run. Other research even postulates that trade barriers (such as tariff) may have a positive impact on the economic growth rate (Siladzij and Mehic, 2018). However, the result of regression in this paper shows a significantly positive impact of trade openness to economic growth rate, just as inferred by Harrison (1991), Capolupo and Celi (2008), and later confirmed by Gries and

Redlin (2012). An increase of trade openness by 1 percentage point may increase the economic growth rate by .04 percentage points.

The relation between economic growth and inflation is complicated. Empirical studies have shown a positive, negative, and neutral correlation between economic growth and inflation. Inflation can adversely impact economic growth rate as it increases the cost of capital needed to fund productive economic activities. According to the regression result presented above an increase of 1 percentage point in inflation may significantly decrease economic growth rate as much as .02 percentage points. However, it is worth mentioning that Barro (2013) found that “the significant negative influence of inflation on growth still shows up only when the high-inflation observations are included”. A similar conclusion also presented in research by Švigir et al (2017). It seems that the impact of inflation on the economic growth rate is still open for further examinations.

Populist leadership seems to have a significant positive impact on the economic growth rate in the past two decades. A maximum increase in a country leader's populism score may impact the economic growth rate positively by merely 0.5 percentage points if compared to the non-populist leader. This suggests that populist leaders may deliver on their promise on improving the wealth of a nation albeit in a minuscule magnitude. While populist leadership brings a positive impact to economic growth rate, it should also be a subject of meticulous scrutiny since it has many unfavorable side effects notably in non economic affair such as polarization in society, uncertainty in non economic policies (ie: immigration), and also its tendency to undermine checks and balances embedded in a healthy democratic mechanism.

Civil liberty seems to have a greater positive significant impact on the economic growth rate if compared to populist leadership. A country with a maximum point on civil liberty index (score of 1) may experience economic growth rate as much as 7 percentage points higher if compared to a country with a minimum score of 0 in the civil liberty index. It suggests that civil liberty, as a proxy to liberal democracy, is an important determinant to economic growth rate, more so than having a populist leader sitting on the throne.

Chapter 5

Conclusion

Discourse on the definition of populism in this paper concludes that it is a form of political movement towards the direction of illiberal democracy, a kind of democracy with no respect towards civil rights. The empirical evidence suggests that populist leadership has a significant positive impact on the growth rate in the past 20 years. The positive impact is allegedly due to the tendency of populist leaders in implementing persistence expansionary economic policies with little to no attention to the principals of financial conservatism and prudence, as being witnessed in recent years. It is worth considering that such policies, if not managed properly, may harm the economy in the long run due to budget deficit, rising inflation, and intrusion to the efficiency and balance of market economy mechanisms.

On the other hand, civil liberty seems to have a greater significant impact on the economic growth rate if compared to populist leadership without bearing the risks associated with populism, such as political turmoil, economic policy uncertainty, protectionism, and market instability. Higher respect towards civil liberty, as the cornerstone of liberal democracy, seems to provide a favorable and conducive environment for growth where citizens may optimize their productivity relatively free from any form of persecution and harassment by the state and peer citizens.

Finally, populism is here to stay. It is indeed a phenomenon we are yet fully understood, but its capability to push our democracy to the edge of a precipice is not to be taken lightly. It is our duty to protect democracy as we know it, the one that steadfastly upholds civil liberty. Liberal democracy is rare and fragile but is massively favorable to economic growth. The current established economic and political systems may seem to be broken, and they might require a change. However, a change based on pretenses and hollow promises is a change that will lead us to our own demise.

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Appendices

Summary statistics (populist leaders by country)

country	N	mean	sd	min	max
ARG	21	1.095	.301	1	2
AUT	21	1	0	1	1
BGR	21	1.238	.436	1	2
BOL	21	2.619	1.359	1	4
BRA	21	1	0	1	1
CAN	21	1	0	1	1
CHL	21	1	0	1	1
COL	21	1	0	1	1
CRI	21	1	0	1	1
CZE	21	1.381	.805	1	3
DEU	21	1	0	1	1
DOM	21	1	0	1	1
ECU	21	2.619	1.359	1	4
ESP	21	1	0	1	1
FRA	21	1	0	1	1
GBR	21	1.143	.359	1	2
GTM	21	1	0	1	1
HND	21	1.429	.507	1	2
HRV	21	1.333	.483	1	2
HUN	21	1.429	.507	1	2
IND	21	1.238	.436	1	2
ITA	21	1.476	.512	1	2
LVA	21	1.286	.463	1	2
MEX	21	1	0	1	1
NIC	21	1.952	.921	1	3
NLD	21	1	0	1	1
NOR	21	1	0	1	1
PAN	21	1.238	.436	1	2
PER	21	1.714	.845	1	3
POL	21	1.143	.359	1	2
PRY	21	1.238	.436	1	2
ROU	21	1	0	1	1
RUS	21	1.524	.512	1	2
SVK	21	1.286	.463	1	2
SWE	21	1	0	1	1
TUR	21	2.048	1.203	1	4
URY	21	1	0	1	1
USA	21	1.095	.301	1	2

1 is non populist; 2 is somewhat populist; 3 is populist; 4 is very populist

Summary statistics (civil liberty score by country)

country	N	mean	sd	min	max
ARG	21	.903	.015	.872	.921
AUT	21	.943	.013	.899	.957
BGR	21	.902	.022	.86	.928
BOL	21	.853	.012	.831	.874
BRA	21	.855	.03	.803	.889
CAN	21	.942	.007	.92	.953
CHL	21	.939	.006	.921	.946
COL	21	.687	.079	.578	.804
CRI	21	.95	.017	.879	.962
CZE	21	.956	.013	.918	.965
DEU	21	.957	.008	.937	.966
DOM	21	.886	.013	.852	.901
ECU	21	.853	.022	.81	.906
ESP	21	.951	.009	.932	.961
FRA	21	.957	.017	.916	.969
GBR	21	.933	.018	.901	.967
GTM	21	.699	.062	.518	.773
HND	21	.771	.028	.699	.815
HRV	21	.906	.051	.752	.945
HUN	21	.912	.029	.832	.938
IND	21	.731	.034	.666	.791
ITA	21	.928	.01	.905	.944
LVA	21	.94	.009	.93	.958
MEX	21	.719	.011	.7	.748
NIC	21	.757	.146	.191	.863
NLD	21	.948	.005	.932	.953
NOR	21	.97	.005	.961	.975
PAN	21	.912	.017	.866	.932
PER	21	.77	.149	.411	.852
POL	21	.927	.036	.834	.966
PRY	21	.838	.013	.815	.86
ROU	21	.9	.018	.862	.921
RUS	21	.586	.076	.475	.757
SVK	21	.929	.021	.883	.954
SWE	21	.967	.007	.946	.978
TUR	21	.607	.134	.337	.767
URY	21	.942	.016	.909	.956
USA	21	.93	.015	.903	.946
VEN	21	.661	.105	.41	.846

Maximum score is 1