

THE IMPACT OF THE GREAT RECESSION ON DEMOCRACIES:
DID THE FINANCIAL CRISIS CAUSE GLOBAL DEMOCRATIC BACKSLIDING?

By

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Abstract

Economics and Political Science are two fields that study distribution. Economics studies the distribution of resources under scarcity. Political Science is a study of who gets what, when, and how. Despite being inextricably linked, the two fields are often studied in complete isolation. The Financial Crisis of 2007-2008 sent shockwaves across the world. Economists have studied and published an immense amount of papers and articles describing the economic impacts of the recession. However, there was very little literature on the global political impacts of the Great Recession. This paper is an attempt to bridge the two fields and understand what impacts the Great Recession had on democracies around the world. This study answers this question by looking at World Bank data that describes the economic impacts of the recession on democracies. It also uses the World Bank to understand levels of inequality in these countries. Next, using extensive data from Varieties of Democracy (V-Dem) it measures the levels of democracy on three major indexes- the Egalitarian Index, the Deliberative Index, and the Liberal Index. The study is concluded with an interpretation and discussion of the results as well as the implications of these findings.

Introduction:

What is a democracy and why is it so important to protect? In the field of political science, democracy is constantly being debated, threatened, and defended. Almost every leading scholar has their own definition and/or threshold for what makes a country's government democratic. For a word so central to political theory, the term is extraordinarily ambiguous. The principle of democracy manifest in a multitude of variations, from dictating a state's structure, to guiding governmental decision-making, and even to serving as the rallying cry for oppressed masses. One of the most basic tenets of democracy is public participation in government, generally through the voting process. This essential element leads to democracies often having the best protections for human rights and highest levels of welfare in the world. The wide-reaching benefits of democracy serve as a strong basis for the need to protect democracy. What else is needed to ensure that a country is a democracy? Some argue that elections are all that are necessary for a government to be a democracy, but what if there is only one party, or if the election is rigged to favor a certain candidate, is that still a democracy? There are many obvious issues with calling any country that holds elections and allows people to vote a democracy. Then, with such a variety of possible implementations and thresholds for democracy, how does one define "democracy"?

For the purposes of my research, I will define Democracy as a government that: holds regular, free and fair elections with multiple parties; has institutional and independent checks of power; and acceptance of the legitimacy of rulers and political parties by the losing or minority party. A democracy has three basic institutions: The State, the Rule of Law, and Democratic Accountability.¹⁵ In a democracy, the State has a monopoly on the use of force which it uses to protect citizens from foreign threats, enforce laws, and provide basic public goods. The Rule of

Law is a set of rules that reflect common values and bind the public and the elite who wield power. It is crucial for the Rule of Law to constrain the powerful in a democratic society. Lastly, Democratic Accountability is when governments act in the interests of the whole community and not the self-interests of the rulers. Rulers can be held accountable by citizens voting them out of power with free, fair, and multiparty elections. These processes, institutions, and norms all work together to create a society where every individual – including those of minority ethnicities, religious beliefs, and political parties - has liberties that are protected by the government. Minority rights are a uniquely defining aspect of democracies that are not protected by any other form of government. Using the above definition, one can establish a minimum threshold for democracy and measure fluctuations in how democratic a country is.

The history of democracy is long and tumultuous with major advancements and retreats throughout time and geography. These fluctuations can be measured in number of countries with a democratic government as well as share of global population living in a democratic society. In the political science field, the movements toward democracy are called waves of democratization and the movements away are often called reverse waves of democratization or democratic backsliding. Since modern democracy developed in the early 1800s there have been 3 major waves of democracy: The first wave occurred from the 1820s to 1926 where the number of democracies went from 0 to 26. This was followed by a reverse wave that witnessed the rise and spread of fascism with Mussolini in Italy. It went from 1922 to 1942 and the number of democracies in the world went from 26 to 12. After World War II and the victory of the allies, Democracy reigned supreme and in its second wave, spread from 12 to 36 countries until 1962. Then with the Cold War, a second reverse wave went into effect decreasing the count to 30 countries. In 1975 the third and most impressive wave of democratization began where the world

saw over 30 new Democracies come into existence and included over half of the world's population. Scholars argue whether there was a short reverse third wave or if the Arab Spring constitutes a brief fourth wave. However, what is agreed upon by almost all scholars in the field is that the world is currently in a reverse wave of democratization. Leading democratic trackers point to rises of populism, anti-immigrant sentiment and far right parties across Europe, Latin America, and the U.S. as evidence of the backsliding of democracy across the globe.

While political organization is extremely important to study and often produces strong insights into the state of affairs in international relations, it cannot be examined in isolation. Economic performance is an interesting and powerful determinant of a country's actions. Almost every current example of democracy coexists with capitalism and relatively free markets, even though capitalism is not dependent on democratic governments. As capitalism has developed alongside democracies though, the markets of leading democratic and economic powers have become profoundly interdependent because of increased trade. Among the most intertwined segments of these economies are the financial markets as stocks, bonds, and other investment instruments can be easily transferred across international boundaries at little to no cost. This high level of integration is often promoted by economists and public officials alike because of the reduced likelihood of wars, and increased stability and predictability in the international sphere.

While there are many positives to political-economic interdependence, the downside of interdependence are shocks to the system can ripple across the world. The impact from a global shock will affect many more people than would an isolated economy's shock. One such example of a shock would be an economic crisis or recession. The most recent example was the Great Recession. In 2008, the U.S. financial markets collapsed causing significant impacts to economies across the world. Countries dependent on U.S. consumer spending and imports

suffered. In the following election cycles, there has been marked increase in populist and anti-democratic rhetoric and actions taken by many of the world's democracies.

Thesis: The third wave of democratization has officially ended and been replaced by a global trend toward authoritarianism (or reverse wave of democratization, de-democratization) that has been increasing in severity for a decade. If the Great Recession of the late 2000's- which began with the subprime mortgage collapse in the United States- instigated the backsliding, then the economic downturn will be a clear turning point for democratic progress around the world. Since democracies have election cycles, there is an expected delay of political response to the crisis. This means that even though the crisis is a determinant, measurable backsliding may not be seen until four to six years later.

Research Design

To set about testing the causal relationship of the crisis on democratic progress, I combined the research of economists and political scientists about the scope and impacts of the Great Recession. Economic measurements are often much more quantitative and specific. Things like GDP can easily be measured and thus changes are easy to quantify. However, GDP as a measurement of economic well-being for a country is increasingly coming under-fire because it does little to discuss the distribution of wealth and living standards for the population of a country. Measuring welfare and happiness begin to get very subjective and difficult to quantify as people value and describe their own well-being in many different terms. Using GDP per capita (dividing GDP by population) gets a rough average of wealth per person, but still does not actively measure the distributions of wealth and income in a country. The Gini Index is a respected index that uses a 0-100 scale (0 being perfectly equal and 100 being perfectly unequal) to standardize the measurement of inequality in countries across the planet.

To create an understanding of the economic impacts the Great Recession had on countries, I will be using both the GDP per capita and Gini Index from 2000 - 2018. This will allow me to differentiate between levels of economic development in countries, the size of the economic impact the recession had, and the changes in inequality for each country. I will then separate the countries I observe into groups for ones that experienced minimum economic impact and ones that experienced large economic impact. Minimum economic impact is a country whose GDP per capita may or may not have decreased from 2007-2009 and their GDP per capita recovered to 2008 levels by 2010. Countries with large economic impact saw their GDP per capita decrease from 2007-2009 and did not return to 2008 levels by 2020. Additionally, all countries considered had to have a GDP per capita of more than \$3,000. This not only narrowed

the field of countries considered, but offered a certain level of economic stability and development. That would help ensure they had access to financial markets and the global trading system and any declines in economic health during the period in question could be attributed to the global recession.

Measuring levels of democracy is highly subjective and significantly more difficult relative to economic health because, as discussed above, the wide-ranging definitions of democracy. There are also difficulties when it comes to the differences between a country's constitutional levels of democracy versus that country's implementation and reality of their democratic processes. However, there are entire organizations and institutions that go about defining, measuring, and tracking global democratic progress. Three of the most respected and cited democracy trackers are Freedom House¹⁰, Polity¹⁷, and Varieties of Democracy (V-DEM)¹⁵. These organizations are made up of country experts and academics who use massive data collection efforts to make informed rankings and descriptions of the governments of every country in the world. Using their databases, they track democracy around the world and produce reports about major trends, changes, and risks facing democracies globally as well as regionally.

Each index uses its own definition of democracy and has different variables that factor into their overall final scoring of each country. Freedom House uses a 1-7 scale for an overall freedom rating (1 being the freest and 7 being the least free) that is an average between their political rights and civil liberties ratings. As stated in the name, this focuses on the freedoms individuals exhibit in the society which is almost always associated with higher levels of democracy, but it is not a direct measure of the governments' democratic institutions and practices. Polity uses a -10 to +10 scale to measure governments (-10 being a full autocracy and +10 being a full democracy) that is based on competitiveness of political participation, executive

recruitment process, and constraints on the chief executive. Polity does directly measure governments; however, its narrow definition and scope leads to more inflexible and unresponsive ratings that do not follow country transitions and change in the short time scale needed. V-Dem uses a three-decimal 0.000 to 1.000 scale to measure all 450 factors it identifies and aggregates them into 5 main indexes: The Liberal Democracy Index, the Deliberative Democracy Index, the Egalitarian Democracy Index, the Participatory Democracy Index, and the Electoral Democracy Index. While Freedom House and Polity are more tenured measurements of democracies, they are not as descriptive or responsive as V-Dem. V-Dem produces an annual report as well as their datasets for researchers to compare and track specific countries and regions across all of their 450 factors.

The distinction between the indexes became clear after looking at five salient countries and comparing their scoring. The US, Austria, Canada, Argentina, and Bulgaria offered great test cases with high availability of information on their governments as well as consistent ratings from each index. The Polity and Freedom House ratings were updated every five years until 2016 when Freedom House modernized their scoring system and began issuing ratings annually. Since both Polity and Freedom House have much smaller scales than V-Dem small fluctuations in levels of Democracy are not measured and drastic change must occur to move a country up or down a point on their scales. For Example, Austria experienced over a .100 decrease on V-Dem from 2000 to 2018 while maintaining a 1 on Freedom House and a 10 on Polity over the same time period. However, in Austria, since 2010 and especially since 2017, there has been a strong resurgence of the far-right in Austria. Not only has large amounts of anti-immigrant and populist rhetoric been infused into political discourse, but far-right parties have won increasing percentages of the votes in elections and gained large amounts of influence in the government.

Canada's Polity and Freedom House scores were exactly the same as Austria's over the same time period, but its V-Dem score was almost entirely unchanged. This discrepancy in the scoring for both Freedom House and Polity eliminated them as reliable sources for showing democratic backsliding in the short time period since the recession.

To create the comparative environment necessary to receive meaningful results from the data, I used a similar systems design where I measured twelve countries. Six of these countries had minimum economic consequences as defined above and the other six had larger economic consequences. Additionally, to control for levels of democratization, I separated old and new democracies. Old democracies are assumed to have deeper roots for democratic norms and respect for democratic traditions rendering them more stable and resistant to shock than newer democracies. I defined old democracies as countries with a polity score of 7 or more for at least fifty consecutive years and new democracies as countries with a polity score of 7 or more with less than fifty consecutive years, but twenty or more consecutive years. All countries had to have a minimum score of .500 average of their three main V-Dem indexes since the turn of the 21st century. The countries selected are representative samples of the 28 countries that fit into all of these requirements. There are five new democracies and seven old democracies. The countries selected that made the final sample of the similar systems design are: Australia, Austria, Chile, Costa Rica, Germany, Lithuania, Panama, Poland, Spain, Switzerland, the United Kingdom, and the United States.

Findings

The data gathered from V-Dem and the World Bank reveal several interesting phenomena. As was to be expected, countries that experienced larger economic consequences on average also experienced higher amounts of democratic backsliding. Unsurprisingly, newer democracies also on average experienced more democratic backsliding than old democracies. However, an unexpected result from the data suggests that changes in economic inequality as measured by the Gini index were not correlated to changes in democratic performance. There were also outliers, special cases, and interesting secondary patterns that can easily be seen in the graphs that overlay the GDP per capita and the V-Dem scores for each of the 12 countries.

New Democracies with Large Economic Impacts

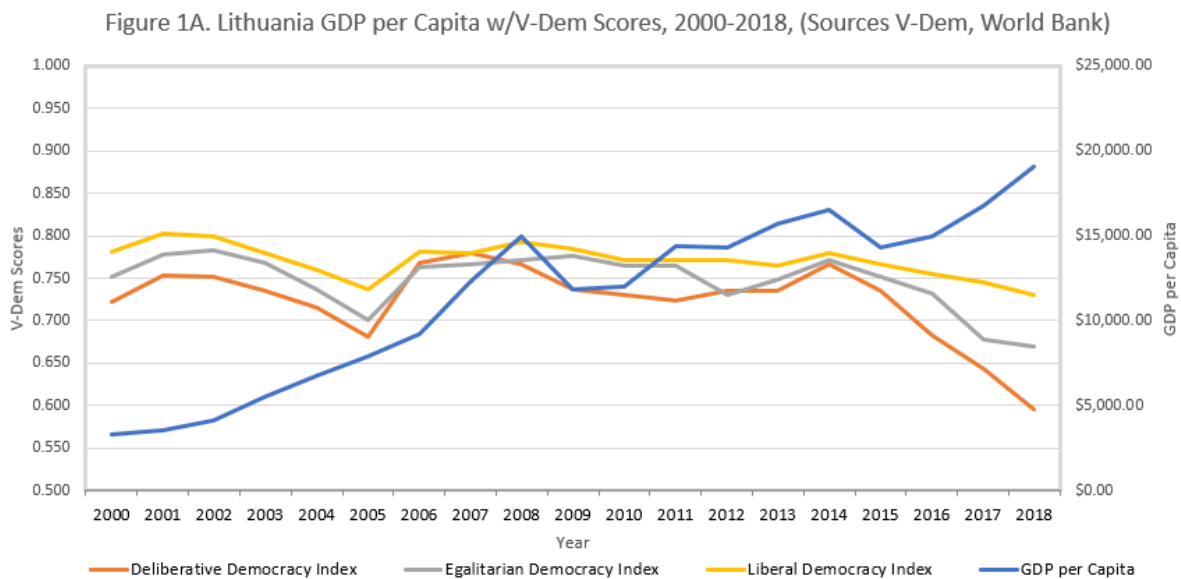


Figure 1B. Poland GDP per Capita w/V-Dem Scores, 2000-2018, (Sources V-Dem, World Bank)

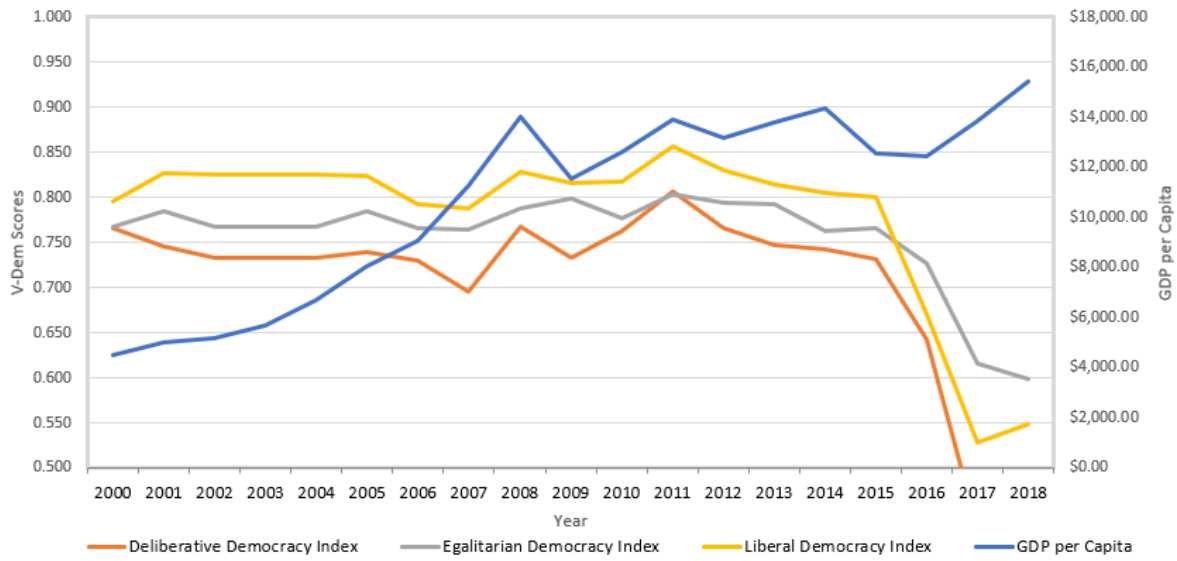
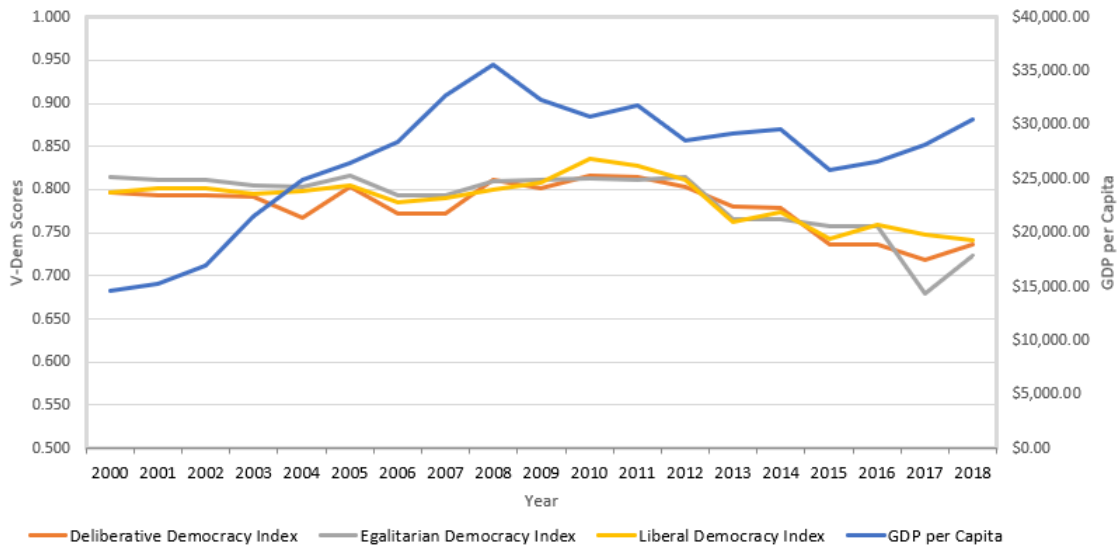
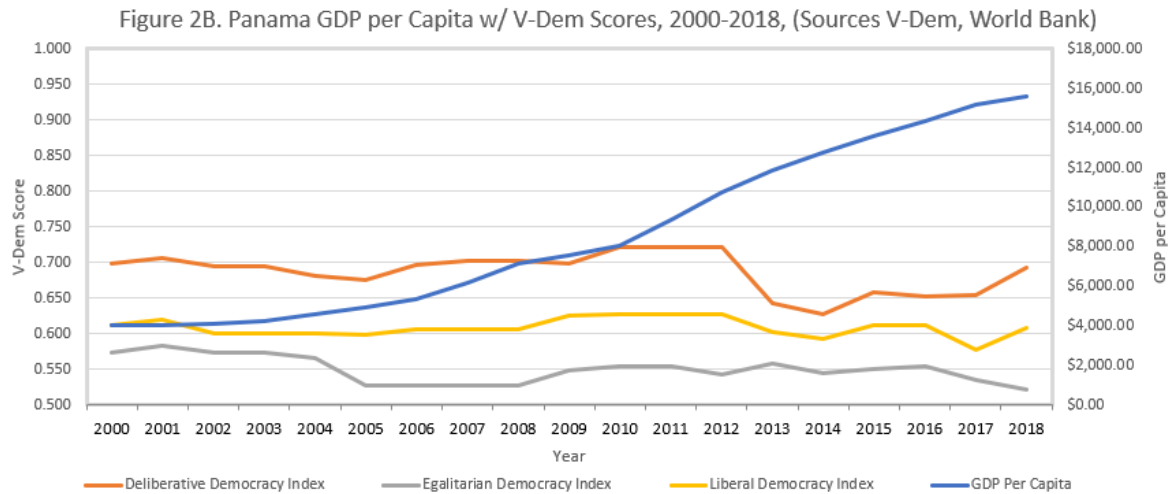
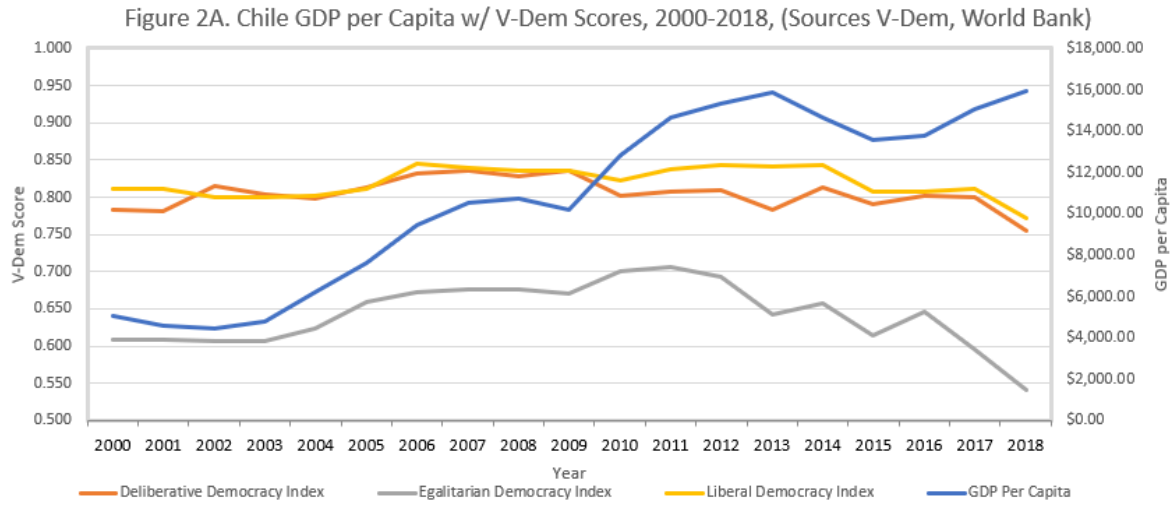


Figure 1C. Spain GDP per Capita w/V-Dem Scores, 2000-2018, (Sources V-Dem, World Bank)



New Democracies with Minimum Economic Impacts



Old Democracies with Large Economic Impacts

Figure 3A. Austria GDP per Capita w/V-Dem Scores, 2000-2018, (Sources V-Dem, World Bank)

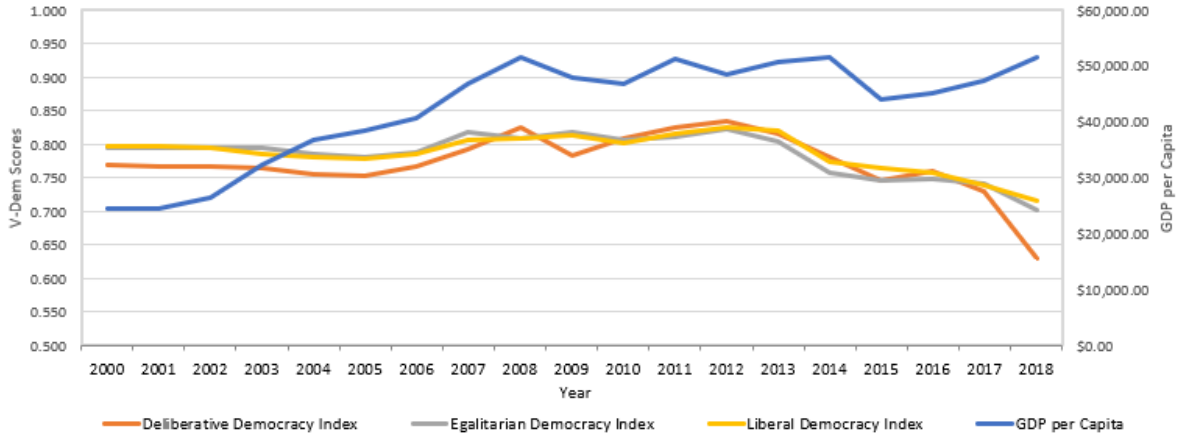


Figure 3B. Germany GDP per Capita w/V-Dem Scores, 2000-2018, (Sources V-Dem, World Bank)

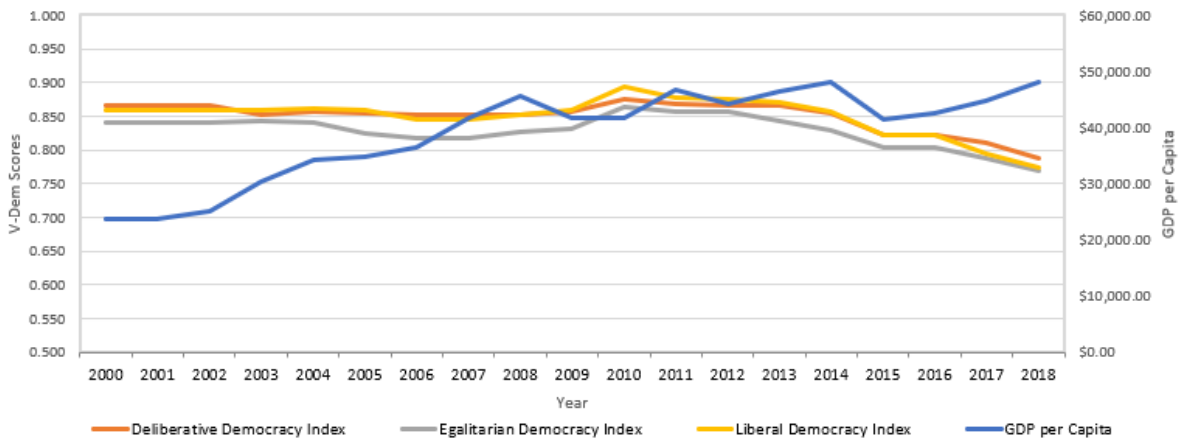
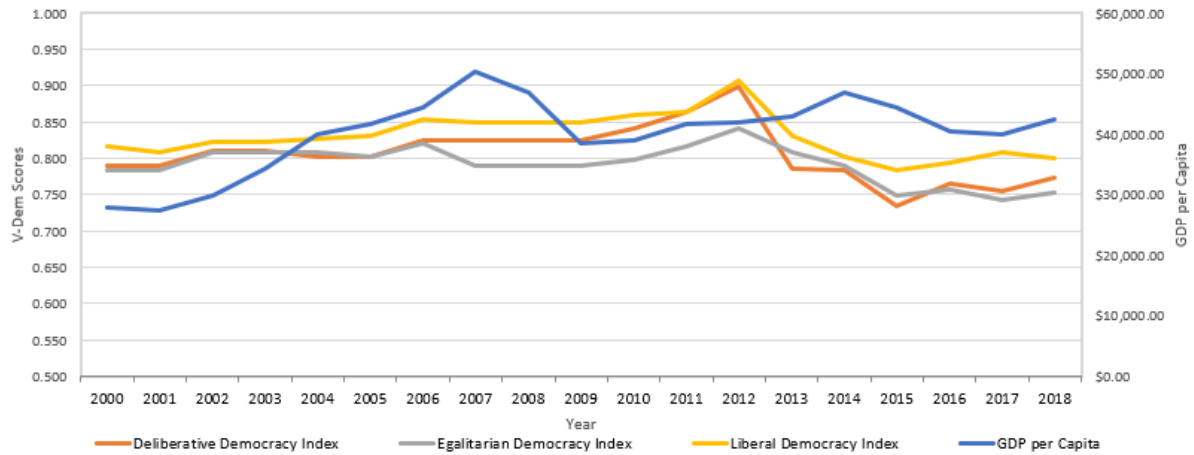


Figure 3C. United Kingdom GDP per Capita w/V-Dem Scores, 2000-2018, (Sources V-Dem, World Bank)



Old Democracies with Minimum Economic Impacts

Figure 4A. Australia GDP per Capita w/ V-Dem Scores, 2000-2018, (Sources V-Dem, World Bank)

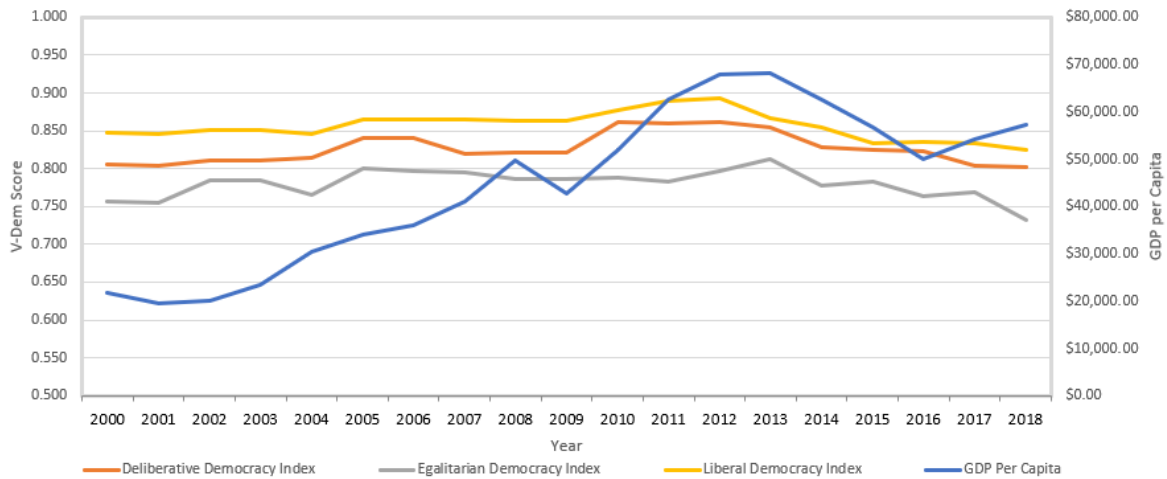


Figure 4B. Costa Rica GDP per Capita w/ V-Dem Scores, 2000-2018, (Sources V-Dem, World Bank)

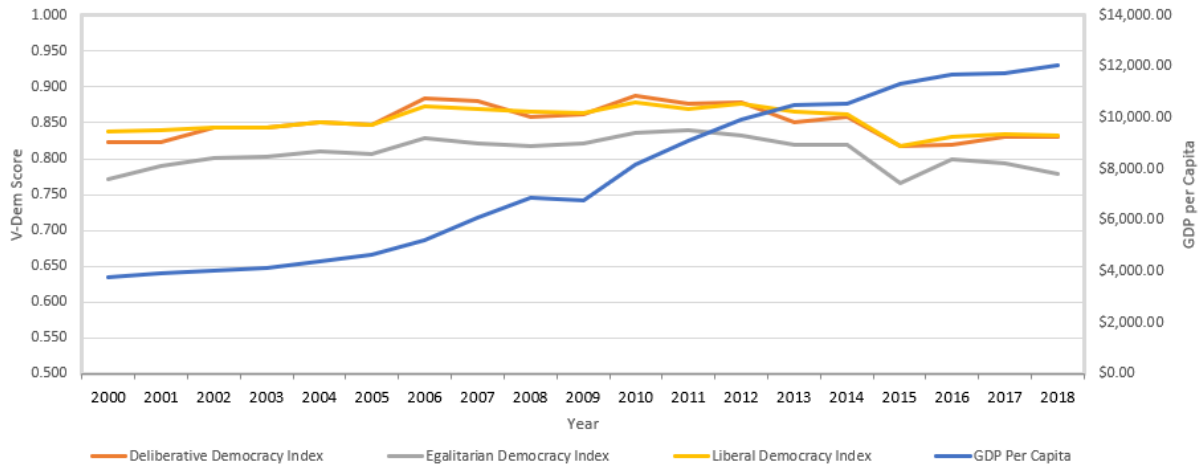
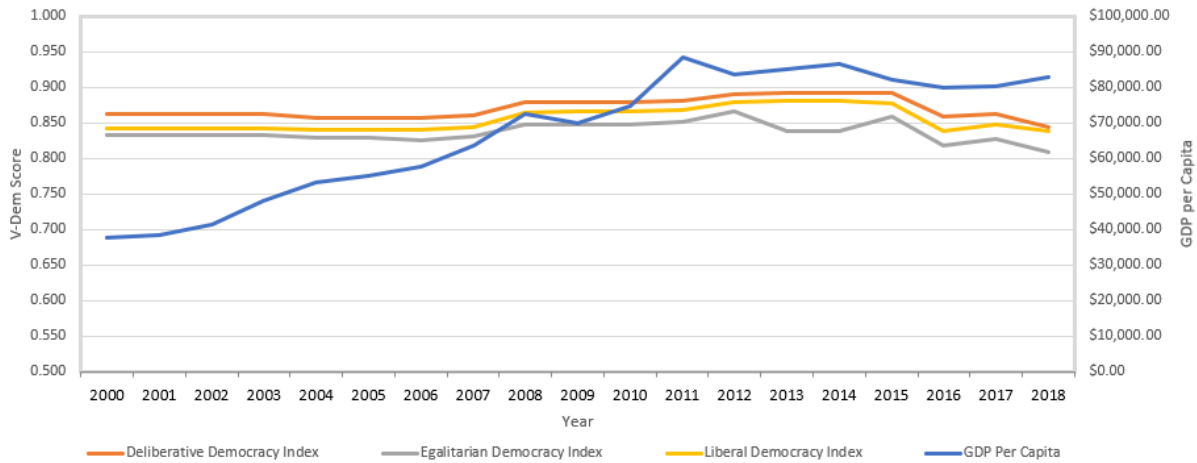
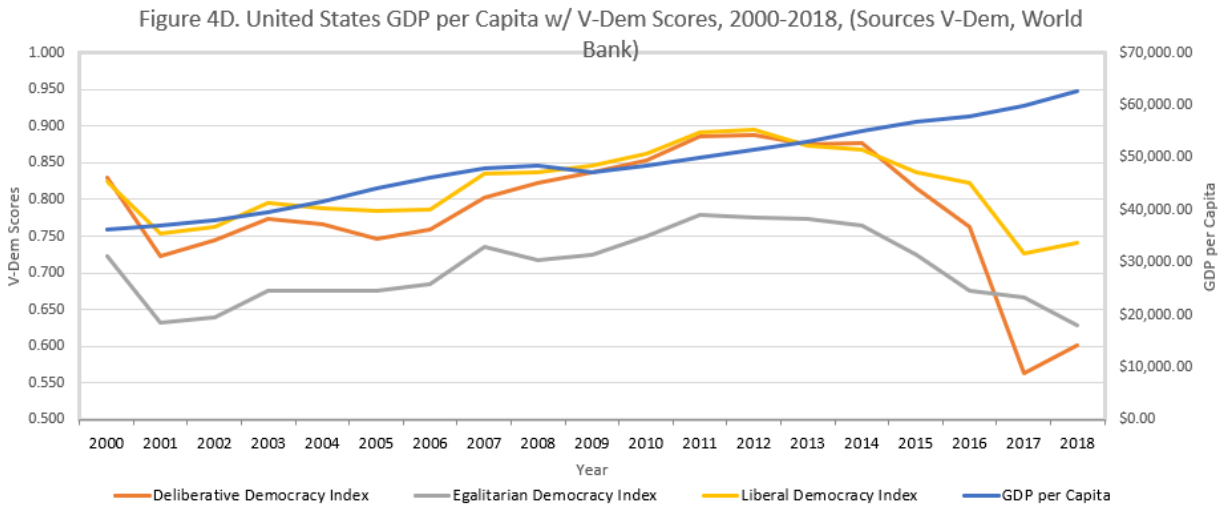


Figure 4C. Switzerland GDP per Capita w/ V-Dem Scores, 2000-2018, (Sources V-Dem, World Bank)





By first looking at the economic impacts of the recession, it is clear that countries felt the economic slowdown all over the world. Across the board, GDP per capita was growing steadily in the early 2000s and turned to decline or significant slowdown from 2008 - 2009. This decline is significant in all European countries except Switzerland (Figure 4C) and is less significant in countries in the Americas (Chile Figure 2A, Panama Figure 2B, Costa Rica Figure 4B and United States Figure 4D) as well as Australia (Figure 4A). Additionally, the recovery time is strongly correlated with the size of the decline for each country.

The trend of countries that experienced larger economic consequences also backsliding more is to be expected because economic stability and growth is a huge indicator of citizen's satisfaction with government. When a population can provide for their families they are more complacent with government regardless of regime type or party in power. However, when the economy begins to contract, they often blame the government regardless of whether or not the government caused or even contributed to the recession. This often leads to a transition of power

in the next election cycle. However, if the recession is substantial and protracted enough, unrest can brew, and transitions in government regime can occur.

During a recession, governments adopt austerity policies during a recession meaning they cut federal spending. This is generally when people need to rely on social programs because they have lost their jobs and can no longer afford many of the goods and services necessary. However, since many programs designed to mitigate individuals' and families' exposure to negative economic impacts get cut, unhappiness and desperation spread. Populism is usually ready to surge alongside. The longer an economy is in recession, the more likely it is that extreme parties will gain momentum. By calling for radical changes while drawing divisive lines in society, populists can rise from both the right and the left. Democratic norms such as mutual tolerance and forbearance begin to wither away. Parties move farther from the center and a loss in the next election becomes seemingly more dangerous to the fundamental values of the country. The democratic breakdown that results can occur through an elite or a public causal linkage.

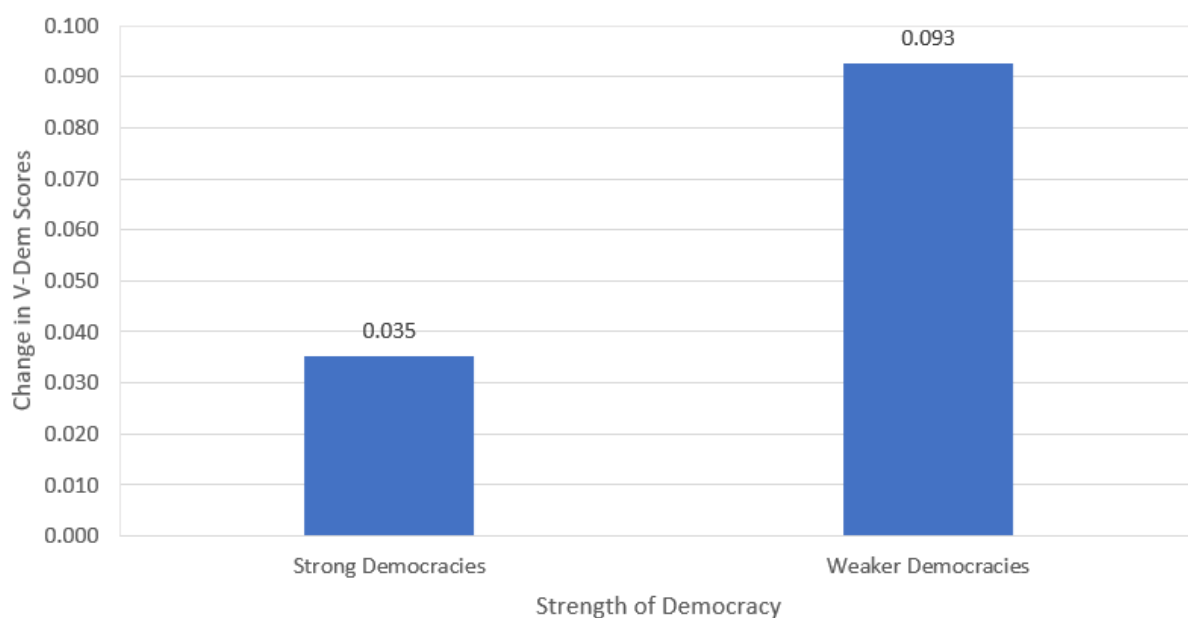
Causal linkages are the parts of society that use civil unrest from diminished standards of living to undermine democratic norms. The elite causal linkage takes form when political elites consolidate power in response to public discontent as a measure to protect their positions of power. Elite causal linkages manifest in the forms of: extending or removing term limits, increasing and consolidating executive power, or outlawing certain types of dissent- often via restriction of the press. The public causal linkage on the other hand, occurs when public discontent rises which then leads to scapegoating and blaming of minorities and disenfranchised groups such as immigrants, religious and ethnic minorities, etc. When this occurs, the public often votes to restrict the rights of those disenfranchised groups which leads to democratic

breakdown through reduced equality of political and civil rights. Both causal linkages- if not recognized and mitigated - can result in the full breakdown of democracy, and establishment of an authoritarian regime, and often oppression of the populous.

The distinction between old democracies and new democracies is quite important because it helps further the idea of the existence of democratic norms as guardrails for democracy. When countries are older with more established democratic norms, it would logically follow that they are more resilient to economic shocks. On average, the new democracies backslid 0.091 points in their average of the three main indexes compared to an average of 0.053 backsliding from old democracies. This difference is even more drastic if the U.S. -a huge outlier for both old democracies and minimum economic effect categories- is not taken into consideration. The average for old democracies without the U.S. is a backsliding of 0.039. This is less than half the V-Dem decrease seen by the new democracies.

Another way to break down the data would be to see if the strength of a democracy would determine how much backsliding it underwent. This can be conducted through a simple delineation of strong democracies of an average V-Dem score in 2000 of greater than .8 compared to weaker democracies of greater than .5 but less than .8. Then one could subtract their 2018 V-Dem scores to see the nominal change, and average across the countries in the two categories. In the sample countries, there were five strong democracies: Australia, Costa Rica, Germany, Spain and Switzerland. This left Austria, Chile, Lithuania, Panama, Poland, the UK, and the US as the other group of weaker democracies. Again, as expected, the strong democracies on average experienced much less backsliding (0.035 decrease) than weaker democracies (0.093 average decrease) (Figure 5).

Figure 5. Comparison Between Strength of Democracy and Levels of Backsliding, Selected Countries, 2000-2018 (Source V-Dem)



While looking at the data, one should keep in mind my distinction of economic impact relied qualitatively on if there was a decline in GDP per capita as well as how long it took a country to recover from the recession. What my definition does not discuss are the severity of the decline in nominal or percentage terms, and it also ignores changes in growth before and after 2008. The impacts of this definition can be seen through the graphs of Germany and Australia, where Australia's rapid recovery placed it into the minimum economic impact category. Germany was slower to recover, and that earned it the designation of a larger economic impact country. However, nominally, Australia's GDP per capita decreased by almost twice as much as Germany's from 2008 to 2009. Another example would be Austria and Switzerland who had high levels of GDP per capita growth before the recession and both have flattened after, but are in different categories because of Switzerland's recovery to 2008 levels by 2010.

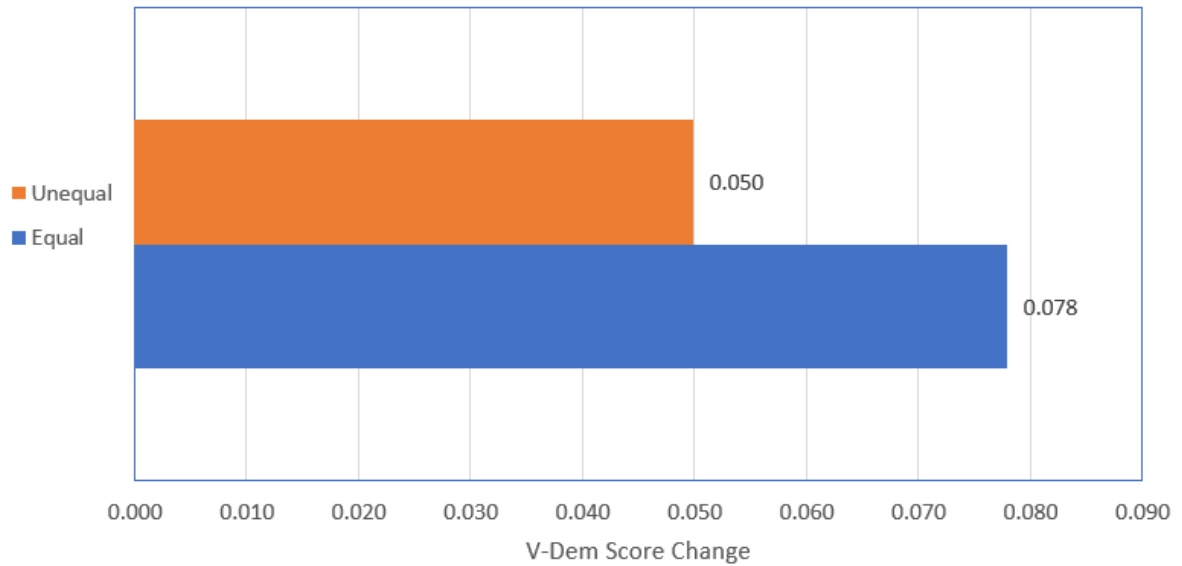
The Gini index of inequality is measured by the World Bank as "the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or

households within an economy deviates from a perfectly equal distribution.”¹¹ Using a Lorenz curve that plots percentage of total income against the number of recipients, a country’s Gini coefficient is calculated as the area between the Lorenz curve and a hypothetical line of absolute equality. As stated earlier, a score of 0 represents perfect equality while 100 represents perfect inequality. The Gini index is used by the World Bank and is largely seen as the most legitimate measure of inequality.

Socio-economic disparities are often seen as huge stressors on the health of a democracy. The distribution of wealth and incomes across a population is often correlated to the distribution of civil and political rights. As economic disparity rises, it is often followed by a breakdown of mutual tolerance and respect among citizens. This is another example of how populism can rise, often from the left along socio-economic stratification rather than ethnocentric lines. Thus, in theory, countries that had higher levels of inequality would presumably backslide more than countries with more equitable distributions of income and wealth. However, the data from the World Bank tells a much different story.

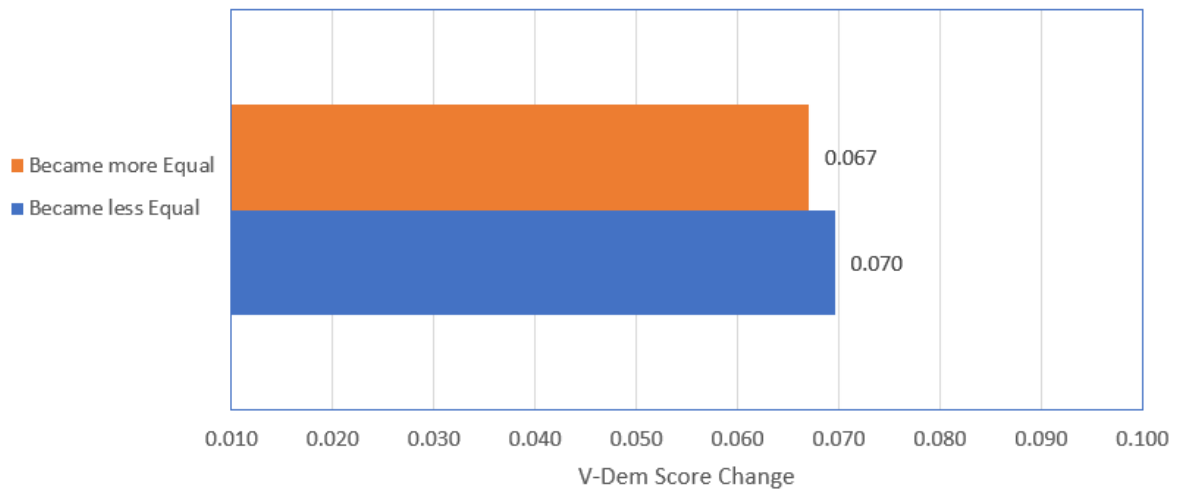
The range of Gini scores for the whole sample was a low of 28.7 (Austria in 2005) and a high of 56.9 (Panama in 2001). Thus, if one delineates the sample into two groups at a Gini score of 40, countries with scores lower than 40 would be relatively equal and those with scores above 40 would be relatively unequal. Again, one can run a simple test to the hypothesis. In this case, the opposite of what was expected actually occurred. Relatively equal democracies backslid on average 0.078 while relatively unequal democracies backslid an average of 0.050 in their V-Dem averages (Figure 6).

Figure 6. Comparison Between Economic Inequality and Levels of Backsliding, Selected Countries, 2000-2018 (Source V-Dem)



A slightly more complex test reveals even less satisfying results. There were countries in the sample who became more equal (their Gini scores declined) as well as countries who became less equal (their Gini scores rose). By grouping the countries by their relative changes in inequality, one would expect that countries that became more unequal also experienced more backsliding. This time, the data reveals no statistically significant difference between the two groups with countries that became less equal experiencing an average V-Dem score decline of 0.070 and those that became more equal experiencing an average V-Dem score decline of 0.067 (Figure 7).

Figure 7. Comparison Between Changes in Economic Inequality and Levels of Backsliding, Selected Countries, 2000-2018 (Source V-Dem)



Thus, it is clear that the levels of inequality and changes in inequality were not strong predictors of democratic backsliding.

Something interesting to look at are the special cases of countries that were outliers in their categories. Specifically, Spain and the United States. Spain (Figure 1C) is categorized as a new democracy with large economic impact. This designation would suggest that Spain was set up for large amounts of Democratic backsliding, especially considering its massive amounts of economic harm inflicted both measured nominally and in recovery time (which it has still yet to return to 2008 GDP per capita levels). Spain, however, was almost exactly the average for all the countries in the sample. This is because my definition of an old democracy required 50 consecutive years of being a 7 or higher on polity. Spain did reach a 7 on Polity from 1931 to 1938, but ended up falling back into authoritarianism until the late 1970s. However, Spain's attempt at democratization as well as an earlier attempt at the turn of the 20th century helped establish certain democratic norms. It also gave the people an understanding of the fragility of democracy and the horrors that come along with backsliding into authoritarian regimes. This

built a resilience in Spain's democracy that is not apparent among the other new democracies, especially the other ones that experienced large economic impacts.

The United States (Figure 4D) is in the opposite position. It is an outlier among the old democracies that experienced minimum economic impacts. The U.S. experienced almost ten times more backsliding than any of the other countries in its category (Australia, Costa Rica, and Switzerland). This is especially surprising since the U.S. has such deep roots of democratic norms and resilience through depressions and wars. However, the gatekeeping by the major parties failed as Donald Trump used ethnocentric and populist rhetoric to win the election. The Trump Administration along with the new Supreme Court justices, and the Republican controlled Congress significantly reduced the equality of civil and political rights across the country as well as the representation in branches of government. This massive decline in democracy is well outside the explanation of simple decreases in GDP per capita or changes in inequality.

The final interesting trend in the data to notice is the secondary recession that every country in the sample experienced except Panama and the U.S. The 2014 oil shock was another setback to economies across the globe. For countries like Lithuania (Figure 1A), Spain (Figure 1C), and The United Kingdom (Figure 3C), the democratic backsliding had already started when the economy turned again, worsening the effects. For others like Poland (Figure 1B), Chile (Figure 2A), Austria (Figure 3A), and Germany (Figure 3B), they had managed to recover from the Great Recession relatively unscathed, but the second shock seems to correspond with the initiation of their backsliding.

Discussion

Democracy as a form of government has experienced global waves of acceptance and rejection. As democracy has been implemented in more countries across the world, the democratic experiment continues to evolve into new forms as it faces and overcomes new challenges. The most recent challenge to democracies across the world was the Great Recession of the late 2000s. The global economic slowdown was deep and protracted for many countries because of their extremely high exposure to financial markets in the United States. The use of austerity measures to limit government deficits during the time led to many people lacking vital government programs. This feeling of abandonment in many places simmered into a need to blame the government or disenfranchised groups and bring about radical change. Thus, the third wave of democracy officially ended as both the public and the elite used the crisis as an opportunity for a populist surge. Organizing along lines of more radical and divisive ethnic or socio-economic groups, democratic norms and policies were under fire. This wave of de-democratization is highly dangerous for ethnic and religious minorities across the world as human rights abuses proliferate with the rise of authoritarianism.

Ultimately, economic stability is crucial for any government to maintain control over its population. Regardless of government institutions or parties in power, people will be more complacent if they can provide for themselves and their families. Democracies are more susceptible to economic downturns though, because of public participation in government. Generally, economic downturns lead to officials being voted out of power in the next election cycle. However, if the downturn is deep enough or long enough, frustration and unrest will brew. This can culminate into the acceptance of radical parties and candidates coming into power through populist appeals.

Since the end of the Cold War, the West has been pursuing expansionist policies to spread democracy as well as capitalism across the world. This political and economic combination was championed by heads of state and the international organizations like the United Nations and the World Bank as an undisputed best option. Democracy and Capitalism led to massive increases in global trade, people living above the poverty line, and social and technological progress. However, unfettered capitalism is susceptible to periods of booms and busts. The Great Recession was a bust.

Due to the high and constantly increasing levels of economic integration since the end of the Second World War, many countries around the world were impacted by the recession. The shockwave sent ripples across the world that slowed consumption, increased unemployment, and dampened trade. Democracies all over the world went into decline. Old, established democracies were not unscathed as EU members suddenly wanted high levels of protectionism and barriers to the free movement of people. Newly established democracies were hit even worse as their fragile systems and newly established norms came under fire from authoritarian and nationalist parties. Those that could recover from the recession quickly were much less likely to experience backsliding, but those that could not recover as fast are witnessing transitions away from democracy.

Conclusion

The turn of the twenty-first century was a time of economic prosperity and the spread of democracy. Countries around the world were experiencing steady amounts of growth as well as enjoying the civil and political freedoms of democracy. More people than any time in human history lived in a democracy. However, less than a decade into the 2000s, that all changed. A massive global economic recession led by the subprime mortgage crisis in the United States started a series of chain reactions that sent democratic norms and institutions on the defensive and eventually into decline.

While it is well known that economic health is crucial to government stability, it was unclear what the impacts of the recession had on democracies around the world. This study used a sample of twelve democracies of varying ages, strengths, sizes, and regions to try and find out just that. The unfortunate findings suggest that there is a strong correlation across the board of the financial crisis ending the third wave of democratization and beginning the new reverse wave. Democracies old and new, strong and weak all witnessed their norms and institutions weakening under pressure from rising populist movements. Calls to fix the economy and provide for the citizens turned into radical ethnocentric hatred and scapegoating as mutual tolerance and forbearance are clinging to threads in many places.

As expected though, many of the older and stronger democracies were better equipped to withstand these economic and social pressures. Additionally, most countries that were able to recover faster quelled the rising tides of populists with strong economic performance. The reverse wave of democratization, though, is far from over as many countries have not recovered fully from the downturn, or are experiencing less economic growth and prosperity since recovering.

Surprisingly, the data suggests that there is no correlation between levels of economic inequality and democratic backsliding. In fact, countries that scored better in the Gini Index actually were likely to experience more severe backsliding than their counterparts. Even more surprisingly, there was no correlation between countries that had reduced their levels of inequality and the level of backsliding. Countries that became more unequal were likely to experience the same severity of backsliding as countries that became more equal.

This may suggest that the form of populism on the rise is not one led by socio-economic differences in populations, but instead by ethnocentrism. Much of the fuel the far-right uses to gain support is an attack on immigrants. Refugees and migrants have flooded into Europe at high rates over the past two decades. The economic hardship along with an influx of people willing to work for lower wages than long-time citizens causes increased divisions along ethnic lines. Much of the rhetoric that led to Brexit was to stop the Free Movement of people throughout the Schengen Zone and the EU. Parties like the SVP in Switzerland use anti-immigrant rhetoric to incite populist “us versus them” sentiment even though its leaders have all been wealthy elites. A rise in ethnocentric populism strongly supports the elite causal linkage. The narrative of us versus them along ethnic divisions allows elites to use their power to propagate hatred and division among working class people as they consolidate power and wealth. Thus, rising inequality is actually a worse predictor than GDP per capita changes.

Finally, this paper tried to bridge the economics field which studies distribution under scarcity and political science which studies how power is distributed across societies. These fields are crucial in understanding structures and constraints that people and institutions operate within. The knowledge of the impacts moves by powerful people and groups is essential in helping guide the world to a more equitable, sustainable, and prosperous future. The movement

away from democracy threatens human rights, the environment, and stability. It is essential for populations to be informed of the consequences of their voting and participation in a democracy to protect their fellow citizens from a breach of the social contract by authoritarian leaders.

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