

Indication of Economic Populism in Local Governance: A New Approach for Classifying Populist Behaviour

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ABSTRACT

Purpose: The extant literature on populism posits that populists frequently find themselves at odds with the neoliberal economic paradigm, as evidenced by rising debt, a public-investment deficit, and substantial deficit-financed government spending. Populist decision-making is characterised by short-termism and can, therefore, be distinguished from non-populist governance through economic variables. This study introduces an innovative quantitative approach that analyses local-government financial data to classify populist economic behaviour.

Design/Methodology/Approach: Adhering to the scholarly consensus that short-termism is a fundamental indication of populism, we operationalise economic populism with five financial variables, scrutinised using cointegration analysis and a probabilistic approach. The selected

variables are grounded in the literature on economic populism. The underlying data are publicly available for Czechia—the country examined—and for many other states. We verify the methodology by analysing governing coalitions in major municipalities.

Findings: Examination of 6,240 municipalities in post-communist Czechia between 2002 and 2021 reveals indications of economic populism in 6.2 % of cases. Result verification shows that these municipalities are frequently governed by populist parties or varied local initiatives, rather than by established non-populist parties.

Academic contribution to the field: This study employs an innovative quantitative assessment of financial indicators, diverging from mainstream populism research, which is usually based on qualitative assessment of sources such as statements, narratives and historical context. Moreover, it emphasises the local level of government in the study of economic populism—a phenomenon typically assessed at the central-government level.

Research implications/limitations: The findings suggest that populism may represent a strategic approach for certain local governments, particularly in smaller towns and villages where limited fiscal discipline can impede development. Some identified financial patterns may stem from incompetence or lack of expertise rather than intentional populism. Additionally, many municipalities in the sample are governed by a 'grey zone' of local initiatives, complicating result verification. Because the methodology is novel at the local level, there are virtually no comparable studies; consequently, our findings are considered alongside various Central European studies on populism.

Originality/Value: This study develops an original quantitative approach applicable at the local-government level to analyse extensive datasets. It enriches discourse on economic populism by examining the phenomenon through the lens of short-termism in financial data.

Keywords: economic populism, short-termism, local governance, financial data, Czechia

Kazalniki gospodarskega populizma v lokalnem upravljanju: nov pristop k razvrščanju populističnega vedenja

POVZETEK

Namen: Literatura o populizmu navaja, da so populisti pogosto v konfliktu z neoliberalno gospodarsko paradigmo, kar se kaže v čedalje večjem dolgu, naložbenem primanjkljaju in znatni javni porabi, ki se financira iz primanjkljaja. Odločitve populistov zaznamuje kratkoročna usmerjenost. Zato jih lahko od nepopulističnega upravljanja ločimo z gospodarskimi spremenljivkami. Pri študiji gre ta inovativen kvantitativni pristop, ki analizira finančne podatke lokalnih oblasti za razvrščanje gospodarskega populističnega vedenja.

Zasnova/metodologija/pristop: V skladu z znanstvenim konsenzom, da je kratkoročnost temeljni pokazatelj populizma, operacionaliziramo gospodarski populizem s petimi finančnimi spremenljivkami, ki jih preučujemo s kointegracijsko analizo in verjetnostnim pristopom. Izbrane spremenljivke temeljijo na literaturi o gospodarskem populizmu. Podatki so

javno dostopni za Češko republiko, ki je primer proučevane države, ter za številne druge države. Metodologijo preverjamo z analizo koalicij, ki vladajo v večjih občinah.

Ugotovitve: Analiza 6.240 občin v postkomunistični Češki med letoma 2002 in 2021 razkriva znake gospodarskega populizma v 6,2 odstotka primerov. Preverjanje rezultatov kaže, da te občine pogosto vodijo populistične stranke ali raznolike lokalne iniciative, namesto uveljavljenih nepopulističnih strank.

Znanstveni prispevek: Študija uvaja inovativen kvantitativni pristop k ocenjevanju finančnih kazalnikov in se oddaljuje od prevladujočih raziskav populizma, ki večinoma temeljijo na kvalitativnih virih, kot so izjave, narativi in zgodovinski kontekst. Poleg tega v ospredje postavlja lokalno raven upravljanja pri proučevanju gospodarskega populizma. Gre za pojav, ki ga običajno analiziramo na ravni centralne oblasti.

Praktične omejitve in implikacije raziskave: Rezultati nakazujejo, da je lahko populizem strateški pristop za nekatere lokalne skupnosti, zlasti v manjših mestih in vaseh, kjer pomanjkanje fiskalne discipline ovira razvoj. Nekateri zaznani finančni vzorci so lahko posledica nesposobnosti ali pomanjkanja strokovnega znanja, ne nujno namernega populizma. Številne občine v vzorcu vodi »siva cona« lokalnih iniciativ, kar otežuje preverjanje rezultatov. Ker je metodologija na lokalni ravni novost, skoraj ni primerljivih študij; zato rezultate primerjamo z različnimi srednjeevropskimi raziskavami o populizmu.

Izvirnost/vrednost: Raziskava razvije izviren kvantitativni pristop, ki ga je mogoče uporabiti na ravni lokalne samouprave za analizo obsežnih podatkovnih nizov. Bogati razpravo o gospodarskem populizmu, saj pojav preučuje skozi prizmo kratkoročnosti v finančnih podatkih.

Ključne besede: gospodarski populizem, kratkoročnost, lokalno upravljanje, finančni podatki, Češka Republika

JEL: D72, H72

1 Introduction

The research on populism is evolving in geographical, political, or administrative settings. As pointed out by Waller (2024), scholars tend to apply their own interpretations and methods to analyze the existence of populism. In general, populism is investigated as case study research employing qualitative methods, such as the analysis of political narratives (Kyle and Mayer, 2020). However, this approach has limitations and is difficult to apply on a larger scale.

Populism is a complex political phenomenon indeed (Moffitt and Tormey, 2013) and the crucial challenge of today (Trebesch et al., 2020), but populist politics and policy have an impact on institutions, economy, and wealth (Seghezza and Pittaluga, 2018). As argued by Acemoglu et al. (2013) and Ausserladscheider (2024), populists in power are supposed to produce their specific economic policy distinguishing them from non-populists. We follow this idea and discuss a possible way to capture populism in terms of quantitative analysis.

We are aware of the breadth of the issue of populism; therefore, in this paper we focus only on its economic dimension (i.e. economic populism). Economic populism is considered in the literature as a link between populism and public financial management (Aslanidis, 2015; Franko and Witko, 2018; Bellodi et al., 2023). It is defined on the basis of a number of indicators and characteristics, but these vary from study to study (Waller, 2024). However, there is a consensus among the authors that populism is usually associated with short-termism in planning and decision-making (Andersen et al., 2017; Gnan and Masciandaro, 2020; Velasco, 2017, Saint-Paul, 2020; Guiso et al., 2017). We are aware that these are not the only features, but they are essential and can be identified using statistical methods. It is this symptom that we focus on in this paper and subject short-termism to a detailed quantitative analysis.

Populism is an economically devastating policy that leads to an increase of public sector inefficiency. Public decision-makers should have relevant information tools to counter this phenomenon. Quality information is a determinant of an efficient public sector and quality public services. Therefore, quality public services depend on quality information (Hub and Sedlák, 2014). The importance of information for public decision-making is emphasized by Stiglitz (1997; 2002), who classifies its insufficiency as one of the government failures, as well as by Almunia et al. (2024), who argue for the use of information based on scientific research in public policy making. The relevant information provided by an appropriate tool has the potential to reduce the problem of limited knowledge. Moreover, good quality and accessible data enables governments to deliver services that are more responsive, ethical, open, and fair (OECD, 2019). The relevance of information tools in the public sector has also been highlighted by Brill (1979). Decision-making tools should facilitate working with information and offer solutions. However, it is a fact that public decision-makers still often face challenges related to, among others, evidence-based decision-making, in addition to budgetary constraints (Marchand and Brunet, 2019).

Populism is usually studied at the central level of government, while studies focused on the local level of government are rare. However, populism does not avoid the environment of local or regional governments, which are made up of independent self-governing units (Drápalová and Wegrich, 2021; Ron, 2014; Fischer, 2014). Our ambition is therefore to focus on the local level and to contribute to filling the gap in the research of populism at the local level. In this paper, we employ local government financial data to capture economic policy that might be associated with populism.

The aim of this paper is to design an information tool for public decision-makers to identify symptoms of economic populism (short-termism), in this case at the local level of government. Within this framework, a new quantitative approach is introduced to classify suspicious economic behavior that may indicate economic populism. Although we focus on more aspects within this study, our main effort is directed towards introducing the classification tool. On a methodological level, this study seeks to contribute to the discourse

on development of novel quantifiable methodologies for analyzing economic populism. The transferability of the proposed tool is guaranteed by the fact that it is based on widely used concepts of populism, standard tools of economic analysis, and publicly available data.

We focus on experience from the European region, in particular post-communist Czechia. In particular, we are not concerned with what the root causes of populism are, but with the economic relations that can indicate populism in a large sample of statistical data. This study provides a methodology for identifying symptoms of economic populism in municipalities based on a robust statistical sample of more than 6,200 municipalities in Czechia between 2002 and 2021. The methodology is verified by analysing the governing coalitions in 20 largest of the captured municipalities.

2 Theoretical Background

Economic populism, committed by those who are considered populists, is contrary to neoliberal economic policies (Queiroz, 2023). Dornbusch and Edwards (1990; 1991) declared that economic populism approaches the economy by emphasizing the redistribution of growth and income and de-emphasizing the risks of inflation and deficit. In the example of Latin America, they argue that populist economic policies eventually fail, leading to a deterioration in financial indicators, culminating in collapse, and imposing costs on those who were supposed to benefit from these policies. Andersen et al. (2017) state that populist economic policy is designed for people who feel abandoned by the state.

Economic populism is then characterized by (Andersen et al., 2017): a) short-termism; b) the denial of intertemporal budget constraints; c) not evaluating the pros and cons of possibilities and compromises between different policies. Similarly, Gnan and Masciandaro (2020) defined five general features of economic populism; these include: a) short-termism; b) distrust of liberal mainstream politics and its institutions; c) nationalism and distrust of globalization; d) extreme electoral focus and resulting neglect for minorities; e) neglect of facts and analysis. The short-termism of populist economic policies and their negative effects are also noted by Unda-Gutierrez (2024). Although short-termism of public policies is a classic symptom of economic populism, Velasco (2017) adds that in the short term, such bad policies pay off for populists because the deterioration or destruction of the economy and the weakening or collapse of the state that populism tends is a long-term process.

Benczes (2022) argues that populism is also associated with income redistribution and that the economic consequences of populism need to be addressed. These include the privileging of some inhabitants ('our people') over others through the redistribution of public funds, a critical attitude toward autonomous subjects (institutions, organizations, professionals) and an antagonistic relationship with market mechanisms. In fact, this is a manifestation of the conflict between the elites and the people, as argued by Mudde (2004).

Regarding the impacts of economic populism, it is useful to mention Magud and Spilimbergo (2021) and their research on the institutional and economic consequences of populism in Latin America over the last 50 years. In one line with other researchers (e.g., Andersen et al., 2017; Gnan and Masciandaro, 2021), they argue that economic populism is intertwined with demonstrable deterioration in macroeconomic indicators leading to worse redistribution and economic crises. They also argue that favorable financing conditions allow populists to remain in power.

Noury and Roland (2020) argue that in the European environment, economic variables play a significant role in the emergence of populism. In particular, there is an interaction between values and trauma of society, political goals, and economic issues. Broz et al. (2021) even argue that in the case of wealthy countries, trade, automation, and offshoring have been lowering the economic standards of industrial workers since the 1970s and accelerating the growth of disparities between small towns and cities. Another cause of economic populism can be seen as passiveness in addressing inequality in society, which Franko and Witko (2018) examined in this context in the United States.

In Europe and the United States, Ivaldi and Mazzoleni (2019) conducted research on economic populism. In the context of right-wing populist politics, they define the link between the economy and the values of society. Their research also confirms that the economic narratives of populists in the European Union and the United States are shared, albeit interpreted differently. This view thus corresponds with the often-used paradigm of the general theory of populism, which argues that populism deliberately builds hostility between elites and citizens (Mudde, 2004), which populists then abuse (Devinney and Hartwel, 2017; Brubaker, 2020).

In Central and Eastern Europe, populists are using country-specific issues in addition to established schemes. These may include a 'backlash' against democratic reforms, fears of democracy, nationalism or a racist agenda (Kaltwasser et al., 2017; Pappas, 2013; Škobla and Filčák, 2020). Populism has a long tradition in Austria, where it was present for almost the entire post-war era (Ausserladscheider, 2024). However, since the turn of the millennium populism has also been on the rise in the whole post-communist region, in particular in Hungary (Bretter, 2022), Poland (Pirro and Stanley, 2022), as well as in the Balkan countries - Bulgaria (Domaradzki and Milosavljević, 2021) and Romania (Feldmann and Popa, 2022). In the Baltic region, populism has been linked to political entities backed by Russia (Ulinskaitė, 2020; Kazharski and Makarychev, 2020).

In Czechia, populism has been on the rise since 2010 (Havlík, 2015) and populist topics include criticism of political parties, corruption and incompetence of elites, fear of migration, the Green Deal, and the war in Ukraine. Following the research of Havlík (2019) and Kim (2020), populist political entities in Czechia include two main parties - ANO ('Action of Disaffected Citizens'), and SPD ('Freedom and Direct Democracy'); as well as a large number of small independent political entities of local or regional importance. Both main parties (ANO and

SPD) are labeled as populist in the Freedomhouse National Reports (2024). Furthermore, both are listed in the PopuList database (Rooduijn et al., 2023).

At the local level, populism in Czechia has been explored on a pilot basis by Pernica et al. (2024). Using a combination of quantitative pre-sampling and qualitative follow-up survey in a small sample of municipalities, they assumed that populism is a true phenomenon at the level of local governments. However, as they acknowledge, the approach used to analyse populism is too rigid and time-consuming, so innovative quantitative approaches to capture populism must be sought (Pernica et al., 2024).

It should also be emphasized that economic populism is conceptualized in this paper as an etatist, dirigist, and interventionist approach. While this characterization applies to numerous populist parties and movements, particularly in Central and Eastern Europe, it is important to acknowledge that neoliberal and radical libertarian economic principles also play a significant role in contemporary populism on a global scale. However, this study examines a specific instance of economic populism, using Czechia as a case study, which is defined not by neoliberal or libertarian principles, but rather by etatist, dirigist, and interventionist economic policies.

3 Analytical Framework

Given the complexity of the topic, we are aware of the limitations associated with research on economic populism. In particular, Aslanidis (2022) points to possible methodological and conceptual shortcomings associated with research on economic populism. However, our study has the ambition to propose a methodology that would be able to capture the existence of this phenomenon.

The scholars discussed above agree on several typical features of economic populism, which are short-termism, the denial of intertemporal budget constraints, not evaluating the pros and cons of possibilities and compromises between different policies, distrust of liberal mainstream politics and its institutions, nationalism and distrust of globalization, extreme electoral focus and resulting neglect for minorities, neglect of facts and analysis. They also share the view that a common and fundamental symptom of economic populism is a deterioration in economic indicators caused by short-termism. In particular, they point out short-termism that is involved in economic decision-making, economic opportunism, and budgetary irresponsibility of public decision-makers. Short-termism is then represented by populists' emphasis on expanding aggregate demand at the cost of future outcomes, or by privileging instant benefits over long-standing ones. Short-termism is also a characteristic that can be quantitatively evaluated in terms of economic analysis. These arguments are essential to the choice of short-termism as a feature of populism, which forms the basis for the analysis below.

We follow these findings to develop an original quantitative approach that can be applied at the local government level to access a large sample of data.

Our ambition is to contribute to the research on economic populism by analyzing this phenomenon through the assessment of short-termism in the financial data shared by Czech city managers with the Ministry of Finance. Moreover, the methodology is verified by analysing the governing coalitions in the largest of captured municipalities. Thus, this study can fill a part of the gap in economic populism research, which has been analyzed so far more at the level of central politics. Finally, this study is based on an innovative quantitative assessment of financial indicators, while the mainstream research on populism is usually based on the qualitative assessment of resources, e.g. statements, narratives, and historical context.

3.1 Model of Relationships in the Studied Environment

To understand the principles of governance in democratic market economies, we start with a description of the relationships between the relevant actors in the environment. The actors are presented in Figure 1 within an arena model based on the Pestoff triangle (1992). An arena model allows to analyze relationships, interests and agendas among households (electorate), firms (markets), and the government (public power), as proposed by Benáček (2006) and Jakubičová and Pernica (2016).

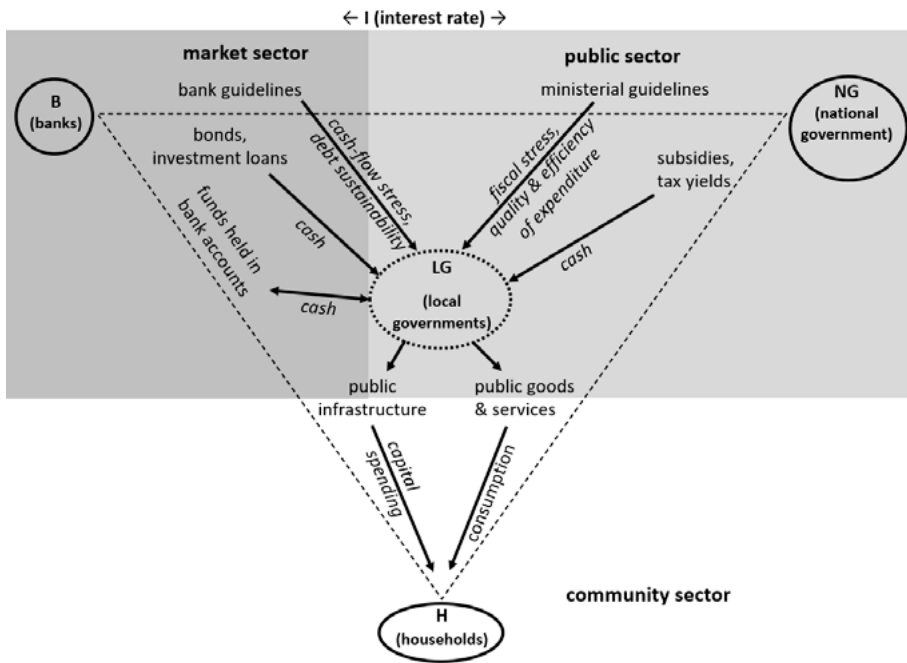
We apply the model to explain the position of local governments as an actor whose economic decision-making is influenced by demands and resources from many sides. The model pays close attention to the following.

- The national government (NG) – holding legislative power, collecting taxes, and organizing fiscal federalism in favor of households welfare (H).
- The local governments (LG) – taking care of the needs of households residing in municipalities and managing public funds in accordance with budget law and bank regulation.
- The banks, i.e., money market (B) – keeping current accounts of local governments and provide loans to fund infrastructure projects intended for purposes of provision of public goods and services.
- Interest rate (I) – the cost of money is a signal indicator for an investment strategy, bank guidelines, subsidies, etc., i.e., impacting whole environment. As pointed above, the favorable financing conditions allow populists to remain in power (Andersen et al., 2017; Gnan and Masciandaro, 2021).

As suppliers of local governments (LG) with cash, both the national (central) government (NG) and the banks (B) take care of financial risks. In addition, they continue to assess the quality of financial management of each local government that has a financial relationship with them. Although the private banks and the national government may differ in financial indicators assessed following institutional guidelines, they are usually interested in indicators reflecting the neoliberal paradigm of economics, i.e., actors can exercise choices through spending (Friedman, 1951). In particular:

- The banks want their money back with only little risk of loss for their stakeholders (Lucas and McDonald, 1992). Therefore, they care about the cash-flow stress and creditworthiness of business partners.
- The national government wants to give taxpayers' money to the local government only with a higher level of economy and efficiency (Smith, 2006). Furthermore, it is also interested in the development of budget deficits, i.e., fiscal stress, to avoid a growing of income inequalities and the intensification of economic insecurity (Rodrik, 2018).

Figure 1: An arena model of relationships among actors



Source: own

Also, the behavior of a local decision-makers is under both public (NG) and market (B) control, where national and private experts provide the financial analysis (feedback) of the financial health of a municipality (LG). In addition, this function is supported by households (H) and entities in the civic sector, such as local activists, cells from political parties/movements, and NGOs dealing with issues of transparency, corruption, and fair budgeting (Burger and Owens, 2010).

Considering literature review above, municipal managers, as providers of public goods and services, have to manage run cost in the short run and they have to sustain development in the long run by investment (Smith et al., 2011), in particular:

- They have to follow the development of interest rates (*I*) for purposes of favorable investment,
- They have to keep budget in balance when investing to prevent from an excessive debt rising the risk of a potential bankruptcy,
- They have to keep the budget in balance to prevent an excessive deficit inflating the debt and rising the risk of a potential bankruptcy.

3.2 Variables and Data

Concerning the accessibility of data, an arena model of relationships between actors (Figure 1) and the current literature on economic populism, the analysis of short-term behavior of public decision-makers assesses the relationships between five financial variables. In particular, we employed an interest rate (*I*) which can be considered an exogenous variable in our analysis, since its level is based on the National Bank's decision, which is implemented on the market via the banking sector. Also, we applied four economic indicators of municipal financing. Our approach to capture economic populism through short-termism is operationalized with variables that are summarized and argued in Table 1. These variables are available from public sources in Czechia, as well as in many other countries. The analysis covers the period of 2002-2021 and all municipalities of Czechia, in particular 6,240 entities.

Following economic theory and the studies discussed above, the existence of link between variables under examination can be considered as short-term behavior, and therefore a symptom of possible populism. These links do not necessarily mean populism per se; they are just indications. However, it can be assumed that if more symptoms (links) appear for some entities, their occurrence strengthens the probability of populism. Also, some of the variables are ratio-based, and hence links between variables that have common components are not assessed, for instance, links between the indicators of 'ratio of deficit to capital expenditure' and 'ratio of savings to deficit'.

Information on total and capital expenditures, budget deficits, and funds in bank accounts for individual years has been retrieved from the Monitor database, which is operated by the Ministry of Finance of the Czech Republic (2023). Information on interest rates has been retrieved from the Czech National Bank (2023). Interest rates, however, change during the year; for this reason, average annual interest rates have been calculated using the simple 30/360 method, treating a month as 30 days and a year as 360 days.

Since the analysis examines different types of variables, we standardized all variables on a scale between 0 and 1. This transformation allowed us to preserve information about dynamics, which is valuable in determining co-integration residues for particular pairs of variables.

Table 1: Variables under examination and links to populism in the literature

Variable	Explanation	Links to populism
Interest rate (I)	Refers to the profitability of investment. It effectively expresses the price and availability of money in the national economy. We applied the repo rate.	Favorable financing conditions allow populists to implement their policy and stay in power (Feldmann and Popa, 2022; Andersen et al., 2017).
Ratio of capital expenditure to total expenditure (RCT)	Reflects the quality and efficiency of expenditure, in particular, the creation of both long-term assets and short-term activities, and vice-versa.	Preference for short-term benefits at the expense of long-term ones is a major feature of populism (Saint-Paul, 2020; Guiso et al., 2017).
Government budget balance (GBB)	Expresses intertemporal shifts in expenditure. In addition, it represents fiscal stress for the local government.	Populists neglect economic constraints and increase debt (Andersen et al., 2017; Gnan and Masciandaro, 2020).
Ratio of deficit to capital expenditure (RDC)	Mirrors how the funds are spent on investments in the case of lack of cash. It shows the sustainability of debt financing and long-term solvency.	Populist movements pander to certain demand conditions and disregard future consequences (Masciandaro and Passarelli, 2020; Saint-Paul, 2020).
Ratio of savings to deficit (RSD)	Reflects the creditworthiness of municipalities. Also, it represents cash-flow stress for the local government.	Populism manifests itself in voluntaristic overspending and economic irresponsibility (Weyland, 2017; Benczes, 2022)

Source: own

3.3 Co-integration approach to the populism assessment

Now we have to explain why do we assess the relationships between the variables rather than simply their levels. Based on the limitations mentioned in literature, the analysis of indicator levels to be insufficient. First, it is related to the issue of setting indicator thresholds, which vary significantly between municipalities of different sizes. Second, it is difficult to classify a municipality given the evolution of indicators over a longer period in which conditions change significantly (e.g., the pattern of redistribution of resources, central and local government officials, acceptability of risk, etc.). Both issues were faced by Pernica et al. (2024) using Mixed Populism Indication approach. However, these issues remain a challenge that we address in this paper.

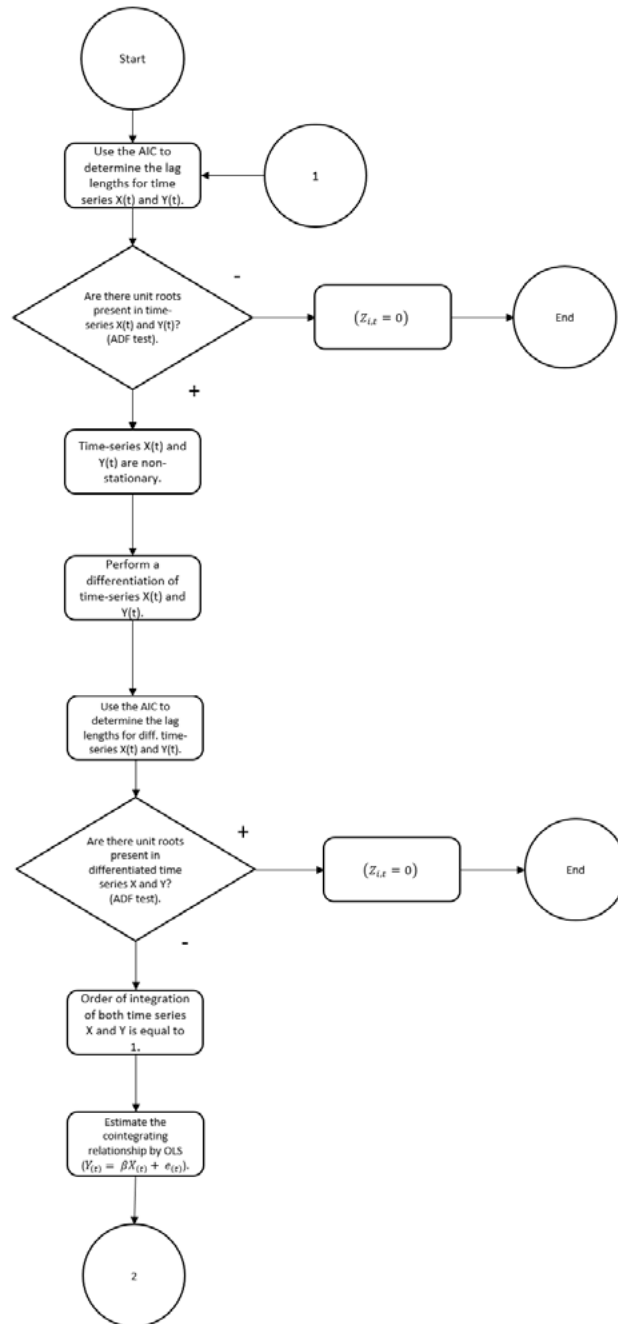
The use of the co-integration approach to the issue of populism is new. However, given that co-integration has a wide application and has proven itself in the analysis of a wide variety of problems in both economics and social sciences (Pesaran, 2007; Tu et al., 2019). Here we go beyond the Mixed Populism Indication approach (Pernica et al., 2024), which indicates economic populism based on predetermined threshold values of individual indicators.

To assess the relationships between the variables, we employed the conventional co-integration approach. This helped us to avoid the spurious regression problem, which is very common for many economic time series, since these time series usually involve trends (Nelson and Plosser, 1982). Simply put, the co-integration approach does not examine whether time-series walk together, while it examines whether variance between their means remains stable or not.

We applied the conventional Engle-Granger two-step method (1987), which builds up on testing the residuals created based on static regression for the presence of unit roots. In particular, we had to check the individual time series and to confirm that they are non-stationary and that their orders of integration are equal to 1. If so, we had to estimate the co-integrating relationship by ordinary least squares. This procedure (first step) is described in-detail by an algorithm (Figure 2).

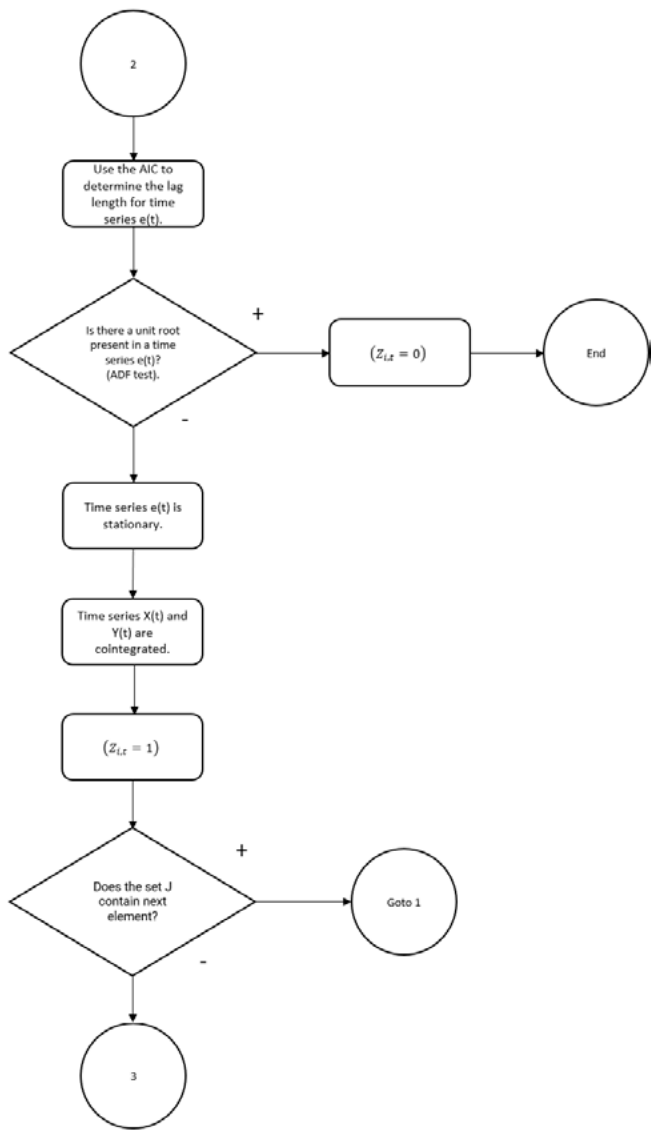
The second step consisted of the examination whether the order of integration of co-integrating residuals is equal to 0 (i.e., whether their time series is stationary). Considering the residuals are stationary, which means has a constant mean, constant variance, and autocorrelations that depend only on the time distance between any two variables in the series, we say that series and are co-integrated (Wooldridge, 2006). This procedure (second step) is described in-detail by an algorithm (Figure 3). To examine whether the series were non-stationary or stationary, we applied the augmented Dickey-Fuller t-test (ADF) with an intercept (Said and Dickey, 1984) in both steps. When proceeding with the ADF, we used the Akaike information criterion (AIC) (1974) to determine the appropriate lag length for variables.

Figure 2: Our application of Engle-Granger two-step method – step 1



Source: own

Figure 3: Our application of Engle-Granger two-step method – step 2



Source: own

When accessing possible relationships between variables, it was always necessary to apply the Engle-Granger two-step method for each municipality in the sample. The computational complexity caused by the individual testing of each pair of variables per each municipality in the sample results in maintaining a high level of information connected with the high robustness of the method (Pesaran, 2007; Pesaran et al., 2009). In particular, tens of thousands of statistical tests were required to evaluate the sample. Therefore, we employed a probabilistic approach to simply explain the findings. It rests in the

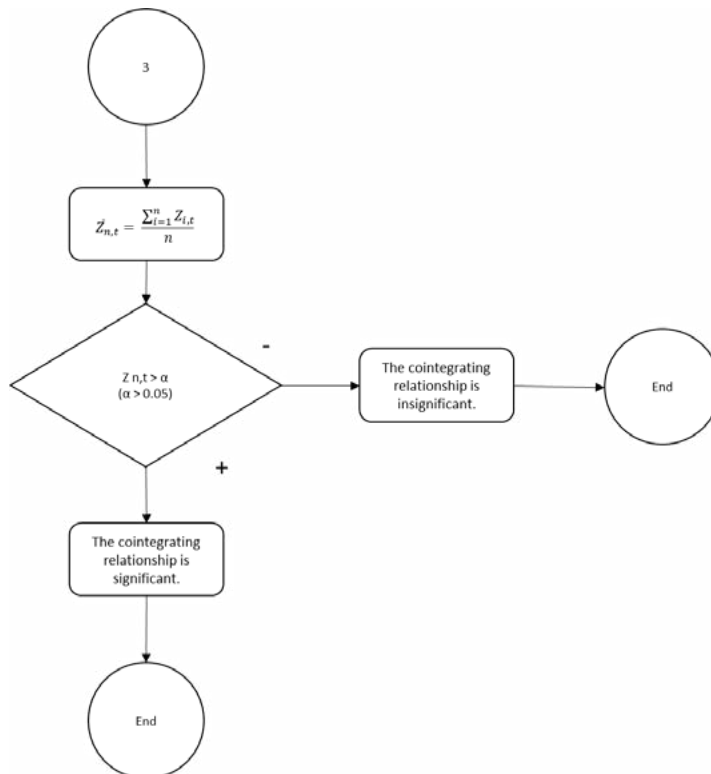
assessment of the ratio ($\bar{Z}_{n,t}$) between the number of municipalities that met the established criteria of co-integration ($Z_{i,t} = 1$) and all municipalities in the sample ($n = 6240$), see (1)

$$\bar{Z}_{n,t} = \frac{\sum_{i=1}^n Z_{i,t}}{n} \quad (1)$$

This approach was advocated by Pesaran (2007) and Pesaran et al. (2009), who was looking for a way to summarize the results of large-sample testing in time-series analysis. Based on the Monte Carlo simulations, Pesaran (2007) showed that during the application of tests with the null of unit roots (e.g. ADF) a low ratio ($\bar{Z}_{n,t}$) getting below the size of the test α , as n and $t \rightarrow \infty$ (2), can be expected in case of insignificant relationships. And vice versa, relationships can be spoken of, if $(\bar{Z}_{n,t}) > \alpha$, whereas it is getting closer to the unity, as n and $t \rightarrow \infty$ (3). One can also interpret these connections as: 'the higher the ratio ($\bar{Z}_{n,t}$), the more valid the conclusion about relationships'. We attach the algorithm with an in-detail description of the procedure (Figure 4).

$$\lim_{n,t \rightarrow \infty} E(\bar{Z}_{n,t} | H_0) = \alpha \quad (2) \quad \lim_{n,t \rightarrow \infty} E(\bar{Z}_{n,t} | H_0) = 1 \quad (3)$$

Figure 4: Pesaran's probabilistic approach to explain the results

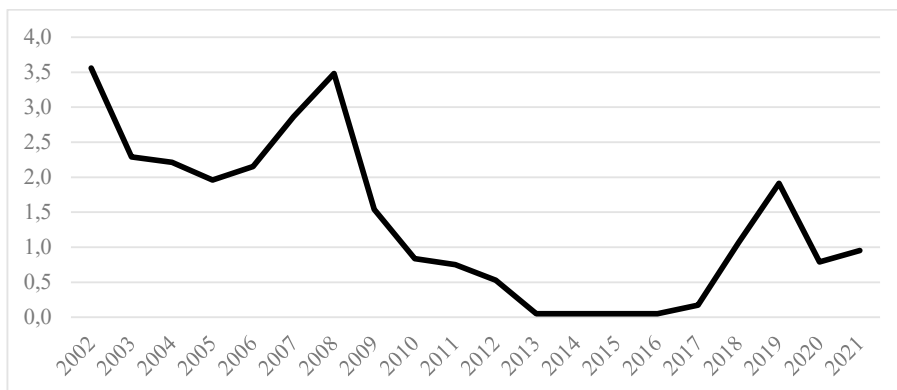


Source: own

4 Results

Figure 5 shows the development of the interest rate (I), which determines the cost of debt financing. A decrease of I can be used not only to increase investment, but also consumption because of the increased availability of money. It can therefore be assumed that the fall of I is being used by populist individuals to secure funds for the realization of their short-term objectives.

Figure 5: Interest rate development (I, in %)



Source: own processing based on Czech National Bank (2023)

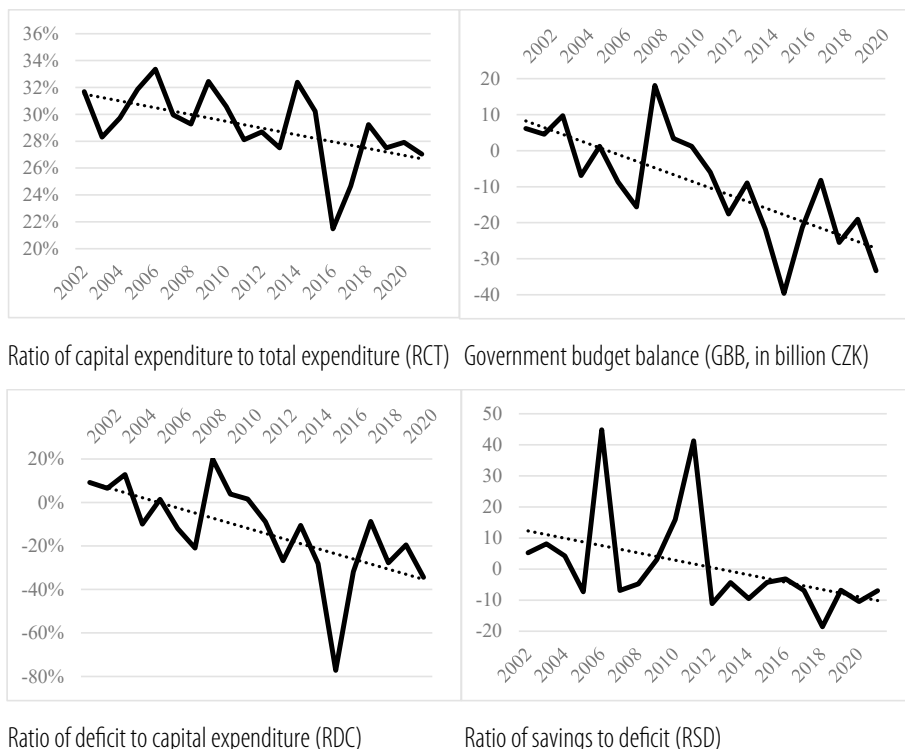
In Figure 6, trends in aggregated municipal financing variables are shown. Trends are negative in all cases. In general, therefore, one can point out the following:

a decline in the quality and efficiency of expenditure, which results from the decline of ratio of capital expenditure to total expenditure (RCT);

1. An increase in the use of resources at the expense of the future, which results from a decline of government budget balance (GBB);
2. A growing mismatch between borrowing and investment activity (the deficit is increasingly used to cover consumption), as a result of the decline of ratio of deficit to capital expenditure (RDC);
3. A decline in the solvency of municipalities, in particular a decline in the ability to cover debt creation with liquid assets, which is the result of a decline in the ratio of savings to deficit (RSD).

The development of financial variables can be related to a variety of circumstances, such as the phase of the economic cycle, changes in legislation, announced central government subsidies, extraordinary events, etc., but it can also be a short-termism. Of course, without the broader context, it is impossible to conclude the possible causes of the developments shown. However, it can be assumed that the existence of links between variables that are compatible with the symptoms of populism may be a preliminary indication of its presence. It is the analysis of these links that research should focus on.

**Figure 6: Development of financing variables in municipalities
(average of 6,240 municipalities)**



Source: own calculations based on Ministry of Finance of the Czech Republic (2023)

4.1 Outputs of the co-integration analysis

Within the research framework defined above, the short-term behavior of public decision-makers, is assessed by the links between financial variables for each of the 6,240 municipalities. The numbers of municipalities for which symptoms of possible populism (i.e., evidences of short-termism) were identified using the Engle-Granger two-step method are summarized in the matrix Figure 7.

Based on the results, we argue that for more than 750 municipalities, the decline of I led to a decrease in RCT. This trend implies a relative increase in consumption at the expense of investment, i.e., the quality and efficiency of expenditure are decreasing if the availability of debt financing is increasing. This can be assessed as short-termism. Furthermore, based on a probabilistic approach, this finding can be considered statistically significant, since the share of identified relationships (for 12% of municipalities) exceeds the standard level of significance ($\alpha = 5\%$).

Similarly, the downward effect of I on RDC growth is also considered. The relationship was identified for more than 320 municipalities (5.2%). Again, we

argue that the relative growth of deficits at the expense of investment supported by the increased availability of debt financing is a short-termism.

We also found that nearly 350 municipalities (5.5%) experienced an increase in GBB when I decreased. This phenomenon can also be considered statistically significant. However, its interpretation is ambiguous. Although the increase in debt at low I could be considered a sign of possible populism, it could also be considered a 'seizing the opportunity', if the borrowing would performed for an investment purposes. Whether it is more a sign of populism or rationality can only be deduced after putting the information into a broader context. Finally, there is no evidence that RSD decreases with decreasing I, as this relationship was identified in only 2% of municipalities.

Figure 7: Numbers and shares of municipalities with indications of populism

	I	RCT	GBB	RDC	RSD
I					
RCT	757 (12%)*				
GBB	346 (5.5%)*	520 (8.3%)*			
RDC	324 (5.2%)*	x	x		
RSD	122 (2.0%)	419 (6.7%)*	x	x	

Notes: * rejects null of no relationship between the variables in the Czech municipalities at the 0.05 level of significance.
Source: own

To obtain a broader context, or indications that can be used to talk about possible symptoms of populism or, on the contrary, to refute them, the relationships between the RCT and debt financing indicators (GBB, RSD) were also analyzed. As can be seen from the matrix (Figure 7), for a statistically significant number of municipalities (520, i.e., 8.3%), the share of investment in total expenditure decreases when deficits increase. This implies that the quality and efficiency of expenditure decrease as the debt increases. This debt financing of consumption can be described as a short-termism. Similarly, nearly 420 municipalities (6.7%) have been identified in which RCT is declining along with RSD. This can also be interpreted as a decline in the quality and efficiency of expenditure, but this time with an associated decline in solvency. At the same time, these negative trends are driven by a relative increase in consumption, which is covered by debt financing. This phenomenon, which is statisti-

cally significant among municipalities in Czechia, can also be considered as a clear short-termism, or possibly an indication of populism.

The findings have many practical implications, as they describe in detail the situation of Czech municipalities in the context of their approach to effective governance. Particularly unique are the responses to the changing availability of debt financing and the preference for short-term consumption goals at the expense of long-term investment goals. This behaviour can be considered threatening in relation to the future development needs of local governments.

4.2 An indication of populism

As noted above, the demonstration of an individual relationship that bears the hallmarks of short-termism can be considered as an indication, but not as a smoking gun, of populist management. However, we can assume that the more indications of populism are identified for a particular municipality, the stronger the conclusion about the presence of populism we obtain. Therefore, the findings of the co-integration analysis are evaluated further, looking for common occurrences of the relationships identified. The results of this investigation are summarized in Table 2. Due to the statistical insignificance found above, the relationships between *I* and *RSD* are not considered in this part of the analysis.

Table 2: Occurrences of multiple evidence of short-termism in municipalities

Evidence of short-termism	Number of municipalities
two, at least	384 (6.2%)
three, at least	82 (1.3%)
four, at least	10 (0.2%)

Source: own

Considering the occurrence of two evidences of short-termism at the same time to be sufficient, we can argue that populism is a phenomenon facing almost 400 municipalities in Czechia. Therefore, it is a systematic and statistically significant phenomenon, since the share of occurrence (6.2%) exceeds the level of significance ($\alpha = 5\%$). The most frequent symptoms are 'the fall in interest rates leads to an increase in municipal budget deficits' and 'when deficits increase, the share of investment in total expenditure decreases'. However, the least frequent connection was that of a 'relative increase in deficits at the expense of investment when interest rates fall' with a 'decrease in the ratio of capital expenditure to total expenditure accompanied by a fall in solvency'.

In general, multiple evidence of short-termism is more often in small municipalities. The median population in the sample of captured municipalities is 409, and the interquartile range <186; 853>. However, we also found several

microregional centers with more than 5 thousand inhabitants, and even one large regional center (Ústí nad Labem, with more than 90 thousand inhabitants), which show two evidences of short-termism, at least.

We should point out that the check of leaders and governing parties between 2014 and 2024 in these larger municipalities showed that many are (and were) governed by representatives of the populist parties, i.e., ANO and SPD. Furthermore, a significant segment of the municipalities is governed by parties and movements of regional or local importance, which cannot be clearly identified as populists or non-populists. However, established non-populist parties of national importance are marginal in these suspected municipalities (see Table 3).

If the requirement for three populism evidences of short-termism is tightened in a single municipality, it is possible to talk about meeting the condition in about 80 municipalities. In this case, however, it would no longer be a significant phenomenon, but rather a randomness that does not have statistical significance at $\alpha = 5\%$.

These results are valuable not only because they reveal indications of populism but also because they indicate which municipalities are showing undesirable trends in ensuring effective local governance. Thus, they also have practical applicability in optimising the efficiency of public administration in Czechia.

Table 3: Governing parties in the largest municipalities with indication of possible populism

		Election period		
		2014–2018	2018–2022	2022+
Municipality:	Population:	Governing parties/part of coalition:		
Ústí nad Labem	92,984	ANO	ANO	ANO+SPD
Znojmo	33,823	ANO	ANO	ANO+SPD
Kolín	31,123			
Kroměříž	29,002	ANO		ANO
Chrudim	23,102		ANO	ANO
Říčany	15,236			
Letohrad	6,283			
Skuteč	5,053	ANO	ANO	ANO
Vizovice	4,729			
Unhošť	4,636			
Mosty u Jablunkova	3,789			
Velká Bystřice	3,280			
Zruč-Senec	3,232			
Zeleneč	3,173			
Hanušovice	3,166			
Nový Hrozenkov	2,647			
Strašice	2,496			
Tlumačov	2,472			
Hovězí	2,386			
Solnice	2,211			

	Main populist parties
	Local or regional parties and movements
	Main non-populist parties

Source: own

5 Discussion

The literature review and analysis of economic populism at the level of local governments presented in the previous sections implies the following major findings for discussion:

1. The issue of local economic populism has not been explored enough and its theory is still undeveloped.

2. There are indications of economic populism at the local level in Czechia.
3. Populists exploit low-interest rates and decrease the quality and efficiency of expenditure to pursue their short-term goals at the expense of development.
4. There are several limitations to our approach.

First, considering the literature review, we found no appropriate analytical framework on the issue of economic populism that we could apply to the large sample of local governments. Therefore, it is necessary to build on the available research and definitions of economic populism in general (see Dornbusch and Edwards, 1990; 1991; Gnan and Masciandaro, 2020; Rodrik, 2018; Magud and Spilimbergo, 2021; Benczes, 2022). Subsequently, we assume that the symptoms of the most significant attributes, which result from the definitions of economic populism, can be approximated by the financial variables (Masciandaro and Passarelli, 2020).

We go beyond Pernica et al. (2024), who indicate economic populism in Czechia municipalities based on predetermined threshold values of individual indicators. In our study, the symptoms of economic populism, captured by evidence of short-termism, were selected and operationalized using financial variables and the relationships between them. When establishing the symptoms and related financial variables, we followed a broad discussion of scholars engaged in this field of research (e.g., Feldmann and Popa, 2022; Guiso et al., 2017; Andersen et al., 2017; Saint-Paul, 2020; Weyland, 2017). However, the employment of the innovative approach implies that there are almost no studies with which to compare our results.

Second, indication of economic populism at the local level in Czechia is an analogy to many other recent studies on populism behavior in post-communist countries of the Central and Eastern European region, however these studies are usually proceed at the level of the central government. Also, our results are compatible with the findings of Pernica et al. (2024), who found that economic populism is a reality in Czechia, especially in small municipalities environment.

Third, the neglect of stimulus of a lower interest rate on investment goes against the expected effects of macroeconomic policies of both the central government and the national bank (McKenna and Zannoni, 1990; Hall et al., 1977). This mismatch between local and national policies decreases the potential for further development. In particular, public investment is the main determinant of growth and development (Barro, 1991), while the 'non-favorable' behavior of local authorities, on the other hand, results in the outflow of investment (Snieska et al., 2018). This is followed by a decrease in regional competitiveness (Capello et al., 2011), brain drain and adverse labor market effects (Lucas, 1988), regional disparity, social tensions, etc. (Barro and Sala-i-Martin, 2004). All in all, this kind of short-termism results in a downward spiral of development.

Fourth, we are aware that our findings call for further qualitative research. It is crucial to determine whether populism is truly a political agenda of local authorities, or, on the other hand, the unfavorable links in financial indicators are just a side effects of lack of knowledge, incompetence to govern, etc. The results were verified only indicatively in the 20 largest municipalities with short-term captured. We found that some of them are indeed governed by populist parties, while reputable non-populist parties are only marginally represented in the sample. However, a significant number of municipalities with an indication of populism are ruled by a 'grey zone' of local initiatives. These political bodies often emerge ad-hoc and do not have a clearly formulated and publicly accessible programme. Therefore, it is difficult to classify these entities as populists or non-populists (Havlík, 2019; Pernica et al., 2024).

6 Conclusions

Although empirical research has not yet focused sufficiently on this area, it can hardly be assumed that any kind of populism would not occur at the level of local governments. Therefore, this study aimed to introduce a new approach for classifying populist economic behavior using a quantitative approach, which was applied to economic indicators in the environment of local governments. Our approach follows the idea that populists in power are supposed to produce their specific economic policy distinguishing them from non-populists. We also follow the consensus in the literature that short-termism is an essential indication of populism.

The research focusses on a post-communist Czechia, and our study explains how economic populism could be examined by an application of the arena model, clarifying the construction of fiscal federalism and substantial relationships among actors in a specific country, as well as which variables are significant for such research on a long period. In this respect, the econometric approach is easy to employ.

An implementation of the developed econometric framework on a sample of 6,240 Czech municipalities established the existence of short-termism as the symptom of economic populism. Considering the capture of multiple evidence of short-termism may indicate populism, we argue that populism is a phenomenon facing almost 6.2% of municipalities in Czechia. A verification of our results shows that populist parties govern the municipalities in the researched sample (with an indication of populism) more often than reputable non-populist parties.

Therefore, we argue that populism is not a random phenomenon, but a strategy among some of the local governments. However, several of the municipalities in the sample are governed by a 'grey zone' of local initiatives, where the verification of the results would be difficult. We found that the municipalities arguably affected by economic populism tend to be small municipalities and that a reduction in fiscal discipline could impact their development potential.

The strength of the methodology is its flexibility. The methodology can be used in a variety of environments, enabling the objectification of populism symptoms through the outputs of financial analysis. Moreover, it extends comparative analyses to deepen understanding of economic populism in an international context. Finally, the proposed methodology strengthens the research base aimed at the link between populist governance and fiscal policy. At a practical level, this approach represents a robust tool for focusing public policies in local and regional governments.

We admit, however, that the ambiguities within local governance create complexities in establishing a direct causal relationship between financial patterns and political ideology. Some of the relationships and unsatisfactory results in financial indicators that we examined could also be a side effects of lack of knowledge or incompetence to govern. This complicates the definitive attribution of every instance of unfavorable financial behavior that appears to resemble populist governance to actual populist governance. Thus, in some cases, our approach may reveal other disorders in local government and not only economic populism. This poses a challenge in integrating our findings into the broader academic discourse on economic populism. However, these findings are also important for public decision-makers. In addition to the disturbing truth about the financial behavior of some local governments in the period investigated, the study raised new questions for research on populism at the local government level.

The challenge for future research is, in addition to applying the methodology in other environments, to integrate other features of populism, i.e. to examine the possibilities of developing this methodology towards a more comprehensive quantifiable assessment of other features of economic populism.

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