Between Power and Growth:
Leadership survival as a source of regime differences in open economy reforms

Paper Prepared for the ISA Meeting
San Francisco

April 2013

Nobuhiro Hiwatari
University of Tokyo

Abstract

When do governments embark on open economic reforms such as market liberalization, deregulation, and fiscal restraint? We argue the answer depends on how open economic growth affects the political leader's survival prospects. Democratic leaders, who have to compete in regular, free elections, take on reforms after an economic crisis to win the voter's confidence of their economic competence. To convince the median voter, the leaders often ask for sacrifice from their supporters but shy away from drastic reforms that breed opposition, especially in the face of tight budgetary constraints or large economic inequalities. By comparison, autocratic leaders contemplate reforms when they are confident that the benefits of open economic growth will preferentially accrue to their support base and not their opponents. Our empirical analysis of open economic reforms corroborates the view that political survival calculations during an economic crisis shape economic reforms, enhancing our understanding of the democratic policymaking and questioning the assumption that economic policies are a linear function of the degree of democracy

I. Why Open Economic Reforms?

The spread of democracies and the fall of communist regimes has ushered in a new phase in the global economy. Economic globalization spread as countries undertook reforms to take advantage of the new trends. The Great Recession of 2008-09 did not witness the collapse of an open global economy under the weight of national competition and domestic unrest, like the Great Depression of the late 1930s. Instead, open market reforms, such as capital liberalization, market deregulation, and fiscal restraint remains the standard prescription for government leaders. Government leaders have been urged by international economic organizations, such as the IMF, the World Bank, and OECD and to take harsh economic measures even after the Great Recession for the sake of national and global economic growth.

The resilience of open economic recommendations renders relevant some of the questions that have been puzzling political economists since the onset of the current wave of democratization and globalization. In particular, why are government leaders willing to undertake economic reforms that are likely to inflict "short-run pain," ignite vocal opposition, and possibly aggravate market inequality even if they are expected to return "long-run gains"? (Kaminsky and Schmukler 2003) Although it is desirable that government undertakes drastic reforms to realize future growth from an economist's point of view, such is not the calculations of political leaders. Since the utmost concern for political leaders is to survive in power, it seems unreasonable, from a political scientist's perspective, to expect government leaders to promulgate reforms that undermine their political standing.

The purpose of this paper is to answer the question, why do government leaders embark on open economic reforms that could hurt their political prospects even if they are deemed necessary to enhance economic competitiveness and growth? Since it is obvious that government leaders would not undertake policies that hurt their political prospects, our question can be rephrased as "when and why do political leaders find implementing open economic reforms contributive to their political survival in a global economy?" Rather than addressing the question, the political economy literature has focused on empirically ascertaining whether economic reforms actually hurt leaders in following elections (Brender and Drazen 2008, Buti et al 2010, Alesina, Carloni, and Lecce 2011), acknowledging that government leaders actually do take on reforms that are likely to hurt their political prospects. Hence, an explanation is still in need to explain the motives of political leaders.

In order to develop an argument focusing on the survival imperatives of political leaders, we build upon two different strands of literature: firstly, we adopt the basic tenets of Selectorate theory (Bueno de Mesquita et al. 1999, 2002; 2003), which provides

the basic insight into how the requirements for political survival differ according to political regimes. Secondly, we utilize the recent empirical developments in the studies of economic voting and spatial party competition, which we listed under the rubric of democratic competition theory. Economic voting theory has recently found that the leaders political fate in a democracy depends on the voter's evaluation of the leaders' economic competence (van der Brug, ven der Ejik, and Franklin 2007, Dorussen and Taylor eds. 2007, Duch and Stevenson 2008, 2010; Tilley and Hobolt 2011, Hellwig 2007, 2011; Hellwig and Samules 2010). Numerous empirical studies of spatial competition theory have demonstrates that to win power, major parties compete over policies that satisfy the preference of the median voter, most importantly its economic policy preference (Alvarez, Nagler, and Willette 2000, Arceneaux 2003, 2008; Adams et al 2004, Adams et al. 2006, Ladner and Wlezien. 2007, Steenbergen et al. 2007, Hobolt and Klemmemsen. 2008, Adams and Ezrow 2009, Adams and Somer-Topcu. 2009a, 2009b; Adams, Ezrow and Somer-Topcu 2011, Ezrow et al. 2011, Hellwig 2001,Ward, Ezrow, and Dorussen 2011).

By enhancing our understanding into the conditions of leadership survival in a democracy, and hence by showing how democracies work differently from non-democracies, democratic competition theory also makes a decisive improvement to Selectorate theory. Selectorate theory is at is best when comparing the two extremes cases of its logical construct, namely modern democracies and pre-modern dictatorships such as kingdoms and fiefdoms. As such, the theory has difficulties differentiating among modern autocracies, fragile and new democracies, and democracies, which can be defined as different points a continuum. By comparison, democratic competition theory suggests a fundamental divide between democracies and autocracies. In a democracy, the survival of democratic leaders depends on the outcomes of elite competition with the guarantee of regular and free elections being defining characteristic of democracies. New democracies are fragile because such institutions are precariously established and are subject to non-democratic challenges. By comparison and by reasons provided by Selectorate theory, autocracies cannot allow open elite competition by free and regular elections. Allowing such competition would only invite a political challenge against the leader.

In short, by bringing together a number of explanations that suggest that the policy requirements for leadership survival differ significantly according to regimes, we address our original question; when and under what conditions do government leaders find open economic reforms contributive to survival in a global economy?

The remainder of the paper is organized as follows. The next section outlines our framework, which combines the insights of Selectorate and democratic competition theory. The theories share a common view that leadership survival depends on how and

to whom leaders are held accountable. We explain how competitive accountability to the median voter, which is characteristic of democracies, requires an economic crisis to facilitate open economic reforms; reforms that are moderated by domestic opposition and compensatory measures. By comparison, autocracies promote facilitate economic reforms during stable economic times when they are certain that its benefits would accrue to their restricted support base, and this calculation makes them unrepresentative to the reforms' distribute consequence or to the demands for compensation. Based on this contrast, we expect new democratic leaders to be trapped in the worst of two worlds: they must expedite drastic reforms to establish voter confidence without having the institutional means to commit opponents. These expectations are empirically corroborated in Section III by using data on policy reforms. The final section concludes by briefly explaining the how our argument improves the understanding of the democratic politics of economic policymaking and how that enables us to beyond the widely shared assumption that economic policies are a linear function of the degree of democracy.

II. Political Survival and Open Economic Reforms

Our framework constructs policymaking from the viewpoint of government leaders trying to remain in power: it asks, in a globalizing economy, would adjustment policies help government leaders remain in power? Selectorate theory and democratic competition theory provide valuable suggestions with regard to the conditions for leadership survival: Selectorate theory explains how democracies and autocracies differ in ways political leaders are held accountable for their policies. Within the rubric of democratic competition theory, Duch and Stevenson (2008, 2010) convincingly explains why democratic leaders are held accountable for their economic policy competence (see also Hellwig 2007, Hellwig and Samuels 2007, Hobolt and Klemmensen 2008, Tilley and Hobolt 2011), whereas spatial competition theory (McDonald and Budge2008) empirically substantiates the fundamental axiom of spatial competition theory that major parties compete to win the support of the median voter (Downs 1957). Based on such insights we explain how competitive accountability compels democratic leaders to undertake the seemingly paradoxical behavior of promulgating unpopular economic reforms. The synthesis of the two perspectives enables us to specify how political leaders differ in the way they mobilize pro-reform coalitions and respond to reform opposition, and how that difference differentiates four types of political regimes— democracies, new democracies, developmental autocracies, and dictatorships.

Selectorate theory explains why democratic and autocratic leaders are likely to exhibit different preferences toward the open economic reform and its distributive consequences. Even though open economic reform might increase economic inequality

(Revney and Li 2003, Timmons 2010) and thus ignite political opposition, autocratic leaders undertake open economic reforms as long as such reforms preferentially benefit the leaders' support base. Selectorate theory (Bueno de Mesquita et al. 1999, 2002; 2003) provides the key insight as to why autocratic leaders are incapable of accommodating the opponents of reform. If autocratic leaders hope to expand their support base (or the "winning coalition" in Selectorate theory terminology), they need to provide non-exclusive collective goods, such as economic growth. Indeed, recent studies have shown that contemporary autocratic leaders establish biding legislatures and allow limited elections in order to mobilize mass support for economic growth and to assure their growth commitment by allowing to be institutionally constrained (Gandhi 2008, Wright 2008). However, for autocratic leaders, the provision of collective goods to expand the winning coalition also increases the danger of a leadership challenge: the provision of non-exclusive collective goods makes it easier and less costly for potential leaders to defect from the winning coalition to launch a challenge. The autocratic leaders' dependence on selective goods to maintain their winning coalition in effect drives them to disadvantage potential challengers by excluding them from the goods.

In order to deter a leadership challenge, autocratic leaders who aspire to expand their support base by generating growth must take steps to assure that the fruits of growth are accrue selectively to the winning coalition; an exclusive winning coalition that can only be maintained by the use of force and limits on political freedom. In the context of economic globalization, economic reforms conducive to growth would be market-friendly policies that can attract international investors and traders. Thus, autocratic leaders have an incentive to promote reforms that attract international businesses as long as the policy preferentially benefits to their support base. The tighter the leaders' political grip on the winning coalition, such as during good economic times, the more likely such leaders would undertake drastic reforms, being aware that further growth would not undermine their power. It is under such conditions that autocratic leaders are more likely to enter trade agreements, provided that the country's trade partners' leaders are seeking trade agreements to complement domestic economic reforms.

Note that the above reasoning applies to autocratic leaders who govern a universal "selectorate." A selectorate refers to those eligible to select leaders, of which the leaders' support base (the winning coalition) is only a part (Bueno de Mesquita et al. 1999, 2002, 2003). We use the title "autocracies" for regimes with a universal selectorate that are governed by leaders who can control the size of the winning coalition. Such autocracies are distinct from personal or hereditary "dictatorships," which are characterized by a limited selectorate. In theory, dictators can rule without worrying about expanding the winning coalition or about a leadership challenge, and hence their open economic policies are at their whim.

Selectorate theory, however, faces difficulties when it tries to explain why democratic leaders undertake economic reforms and enter trade agreements at the risk of benefitting their opponents and alienating their support base. The novelty of this paper is in our explanation of how elite competition compels democratic leaders to pursue growth-oriented reforms during bad economic times when they are likely to face intense leadership challenges. To understand why democratic leaders would advocate reforms in ways that are suicidal for autocratic leaders, it is necessary to go beyond Selectorate theory and realize that democracies and autocracies are qualitatively different and are not merely different points in a continuum. From this paper's point of view, the holding of free and regular elections is a defining feature of democracies that sets them apart from autocracies in ways that is not captured by Selectorate reasoning.

Democratic competition theory provides the fundamental insight about the workings of competitive accountability: in order to win the majority of the votes, and hence power, competing leaders must promulgate policies that align with the preference of the median voter (Downs 1957). If democratic leaders were to construct a pro-reform coalition, the median voter is pivotal. The most recent developments in economic voting explain how a pro-reform coalition is constructed. On the one hand, political leaders have to make their policy positions known to the voters, especially during electoral campaigns. Intense competition during electoral campaigns helps inform voters of the parties' and leaders' positions (Alvarez 1998, Erikson et al. 2002, Vavreck 2009, Soroka and Wlezien 2010). On the other hand, recent empirical studies in economic voting (van der Brug et al. 2007, Duch and Stevenson 2008, Tilley and Hobolt 2011) have found that voters evaluate the economic *competence* of government leaders rather than how the economy is performing: This implies that voters evaluate whether the state of the national economy ("sociotropic voting") can be ascribed to the policies of government leaders. Hence, voters may not punish government leaders for a bad economy if they blame international economic shocks (Hellwig 2007, Hellwig and Samuels 2007, Duch and Stevenson 2008, 2010, Hobolt and Klemmensen 2008, Tilley and Hobolt 2011). When combined, these scholarly developments suggest that in order to win democratic elections and hence power, competing leaders must convince the median voter that they are more competent than their rivals in managing the economy and achieving growth, especially during a recession when the voters care about the economy and when the status quo policies are unacceptable (Drazen and Grilli 1993, Rodrik 1996, Drazen and Easterly 2001).

The voters are most likely to scrutinize the economic competence of the leaders competing for power during an economic crisis when the existing policies seem woefully inadequate (Alvarez, Nagler, and Willette 2000). During an economic crisis, democratic leaders are hard-pressed to present reform blueprints to convince the median voter that they can competently and effectively turn the economy around. In the context of

economic globalization, such reform plans must be market-friendly to quell the fears of international investors and stabilize volatile currency and financial markets; market conditions typical of severe recessions. International investors are likely to react negatively to government reform plans and aggravate market volatility if they suspect that the government is trying to sabotage market-friendly reforms in order to protect the vested interests of its political supporters (Leblang and Bernhard 2000, Leblang and Satyanath 2006, Keefer 2007b): And such negative market signals would be ammunition to the opposition, which is likely to accuse the government of pandering to well-established partisan support groups by wasting economic recovery. Hence, regardless whether their party is the in-party or the out-party, competing party leaders must present policies that depart from the status quo and convince the median voter that such reforms are necessary to win the trust of international traders and investors and set the economy on a growth path.

However, the democratic leaders' attempt to sell their economic competence to the median voters and forge a broad pro-reform coalition is likely to alienate parts of the leaders' winning coalition that are expected to be hurt by the reforms. In order to prevent dissent within the winning coalition to ignite a leadership challenge and/or increase voter desertions, party leaders must tailor the reforms to accommodate opponents: they can mollifying the impact of reforms on the "losers" by moderating the reforms or by providing financial compensation. As such, competing democratic leaders cannot advocate nor undertake drastic reforms.

So far, we have argued that democratic competition theory suggests that democratic leaders face difficulties different from developmental autocratic leaders. Democratic leaders must convince the median voter that they can undertake reforms that accommodate international traders and that they are capable of reducing the selective benefits hitherto enjoyed by their supporters (Cukierman and Tommasi 1998). However, democratic leaders can express willingness to take on the vested interests only to the extent that the reforms would not rupture the pro-reform coalition. Hence, democratic leaders promulgate economic reforms at times of economic crisis in ways that accommodates the reform opponents.

Note that the above description of competitive accountability assumes a democracy with orderly changes of power based on free and regular elections. What about new democracies where the challengers opposed to market reforms are also likely to be anti-democratic in nature? Unlike established democracies, leaders in new democracies face the danger of losing power to anti-democratic forces either at elections or by the use of military force. While new democratic leaders strive to generate economic growth to expand their support by promulgating drastic reforms, especially during a crisis when their economic competence is questioned, they have difficulties in

consolidating a pro-reform coalition. Unlike autocratic leaders, new democratic leaders cannot oppress opponents by force or denying selective benefits. Unlike democracies, new democratic leaders are severely handicapped institutionally in forging a pro-reform coalition by accommodating opponents and persuading the median voter. New democratic leaders have difficulties committing anti-democratic opponents to a policy deal. Such leaders also have problems persuading the median voter since that voter might be indifferent to democratic rule or powerless if a new government is established by the use of force. Based on the unique circumstances surrounding new democracies, we distinguish between "new democracies" and established democracies, which we refer to simply as "democracies."

So far, we have provided the reasons why, in a globalizing economy, we expect the timing and conditions of open economic reforms differ among regimes. In autocracies, leaders are selectively accountable to their tightly controlled support base. Hence, they are likely to embark on open economic reforms under stable political conditions and as long as the reforms preferentially benefit the winning coalition. By comparison, democratic leaders are likely to compete in promulgating economic reforms during an economic crisis; reforms drastic enough to demonstrate economic policy prowess to the median voter and moderate enough not to split the pro-reform coalition and alienate reform opponents. Finally, leaders of new democracies are likely to present drastic reforms during an economic crisis, without being able to selectively reward supporters, repress opponents, or to secure the commit opponents to reform. As such, open economic reforms in new democracies are most likely to be politically destabilizing.

Hypotheses

This paper's argument elaborated so far is evaluated empirically by examining reforms aimed at effectively adjusting to the global economy; such reforms consist of capital liberalization, market deregulation, and fiscal restraint. Among these reforms, capital liberalization is somewhat unique: governments promoting open economic growth through trade and foreign investment may still have strong incentives to resist capital openness to maintain control over monetary policy and hence the macroeconomic policy. As explained below, governments can realize exchange rate stability, helpful to increase trade and investment, without abandoning monetary policy as long as they maintain control over cross-boarder capital flows. Market deregulation is further divided into financial market reform, labor market reform overall market deregulation. Such regulatory reforms are aimed at increasing factor mobility in order to increase productivity and competitiveness, which are critical in realizing economic growth in a global economy. Fiscal restraint, which entail cuts in taxes and expenditures, is regarded helpful to enhance economic competitiveness in the following way: income tax cuts and balancing the budget can stimulate private investment, while cutting expenditures helps balance the budget. Cutting public employment helps balance the

budget and releases workforce in the private sector. Provided that capital liberalization, market deregulation, and fiscal restraint can be regarded as reforms beneficial to open economic growth, how are different regimes expected to pursue these reforms?

As mentioned above, capital liberalization is unique in the sense that it fringes on the government's ability to cope with business cycles and this makes it an ideal case to examine whether open economic reforms are subject to political survival. Apart from making international financial interactions easier, governments hoping to generate growth by international trade and investment prefer exchange rate stability, representing the interests of international investors and international market-oriented industries (Frieden 1991). However, under capital openness, the goal of exchange rate stability comes at the cost of ceding monetary policy autonomy: a fundamental insight known as the Mundell-Fleming theorem. Capital control enables governments to manage recessions by making it easier for central banks to ease monetary policy, the government to run fiscal deficits, and but for the governments to lean on central banks to finance fiscal deficits (Alesina, Grilli and Milesi-Ferretti. 1994, Clarke et al. 1998, Clarke and Hallerberg. 2000, Way 2000). Hence, government leaders, especially those whose tight control of business cycles are critical for survival, may resist capital openness even if the policy facilitates financial transactions and is demanded by international banks and traders (Li and Smith 2002)

Furthermore, it is important to understand that capital liberalization makes it easier for financial markets to send signals about the state of the economy and the soundness of the government's economic policy. When financial markets are internationally integrated, government leaders conducting questionable economic policies are likely to face capital outflows and volatile financial markets. Democratic leaders may not detest such revelations since it could legitimize their reform measures and can be expected to endorse capital openness when the country's financial institutions and traders are competitive, capable of taking advantage of financial globalization. By comparison, autocratic leaders would hesitate to pursue policies of capital liberalization and prefer retain control over capital markets. For, an autocratic leader's survival depends on economic outcomes, and not on their ability to defend their economic competence. Hence, the leader cannot allow internationalized markets to render a verdict on their economic policies, even if capital openness facilitates inward investment and contribute to competitiveness. As such, autocratic leaders are likely to relinquish capital controls only when taking advantage of economic globalization does not threaten their political survival and at the same time benefits their supporters. The argument presented so far can be formulated in terms of the following hypotheses, which can be tested by examining whether currency crisis facilitates capital openness for democracies and not for autocracies.

> Hypothesis 1 ("Capital Liberalization"): Democratic leaders promote capital openness after experiencing international economic crises, whereas autocratic leaders might gingerly undertake similar measures when they are benefitting from the globalizing economy.

With regard to deregulation, our theory predicted that as the national economy becomes dependent on the global economy, democracies and autocracies have reasons, albeit different ones, to promote as well as moderate such reforms. Our theory expects democracies to reform after having experienced economic crises as long as the opponents to opposition are weak, mollified or compensated. As a way to distinguish among the three policy options, we assume that reforms that take place shortly after an economic crisis are those that have ignited only weak opposition. Otherwise, reforms are a function of the numbers of recessions experienced by the country. When recurring economic volatility strengthens the leaders' case for reforms, as the competing leaders and the voters come to the reckoning that the time is ripe for action, the leaders still have two options: they can town down the reforms when faced with strong opposition or they can offer financial compensation for the assumed damages.

At this point, it is important to recall that the kinds of political calculations that are required for democratic political survival is counter-productive for authoritarian leaders. It is in the interests of authoritarian leaders to drive a wedge between the supporters and opponents by benefiting the former and excluding the latter. Accommodating the opponents of reforms could make it easier for potential challengers to defect without serious disadvantages and to mobilize those discontented with current policies. These different preferences toward economic reform can be stated in the following way.

> Hypothesis 2: ("Deregulation"): Democratic leaders enact market reforms after having experienced economic crises, by accommodating or compensating opponents if necessary, whereas autocratic leaders are unlikely to carry out reforms in response to economic crises or to appease reform opponents.

As have been suggested above, this hypothesis incorporates three different scenarios in the way democratic leaders enact economic reforms: and these scenarios have to be evaluated separately because policy data are compiled without exception according to policy areas. What are the three scenarios? Firstly, there are cases in which democratic leaders promptly enact reforms in response to an economic crisis. It is likely that such reforms were swiftly realized because they did not ignite strong and wide political opposition. We assume that in this type of case, the need to show economic competence distinguishes democratic leaders, who take on reforms, and autocratic leaders, who hesitate in spite of no strong opposition. Secondly, there are cases in which

democratic leaders moderate the reforms when facing the possibility of strong opposition. In this case, we expect the potential for opposition to modify reforms only for democracies, since autocratic leaders are highly unlikely to accommodate such voices in policies aimed at benefitting their supporters. Finally, there are cases in which democratic leaders quell opposition by compensating the opponents. In such cases, a large fiscal state is expected to facilitate reforms for democracies but not for autocracies. As explained earlier in Section II, autocratic leaders have stronger incentive to turn supporters into beneficiaries of open growth than compensate its losers. In short, for democratic leaders, regulatory reforms are more likely to come by as a result of experiencing currency crises, although at the cost of accommodating opposition, whereas autocratic leaders are likely to pursue similar open reforms during stable economic times without having to be responsive to reform opponents.

Finally, democratic leaders would have faced far less trouble adjusting to economic globalization had the expansion of the public economy remained a viable option in the current wave of economic globalization like the 1950s or 1960s. In the current global economy, promoting growth and competitiveness after an economic crisis requires political leaders to stimulate private investment by keeping corporate tax burdens and interest rates low. For this purpose, governments are required to rein in fiscal deficits, especially where automatic stabilizers are expected to balloon government borrowing during a sever recession. With the room for revenue increase being limited for reasons just discussed, governments have to prioritize expenditure cuts. This problem is especially acute for democracies, which had expanded compensatory government spending in the past to promote economic openness (Cameron 1978, Burgoon 2001 Adsera and Boix 2002, Hays, Ehrich, and Peindhart 2005) Hence, government leaders, in particular democratic leaders, face a sharp dilemma between regulatory reform and fiscal policy when they contemplate open economic reforms.

Notwithstanding this paradox in pursuing open economic reform, the democratic leaders' response to the fiscal restraint imperative is quite straightforward according to our framework. International financial shocks are likely to prod democratic leaders to promulgate fiscal restraint, which are restrained by domestic opposition, fueled particularly by high degree of inequality. By comparison, autocratic leaders are more likely to engage in fiscal restraint in spite of high degree of inequality.

> Hypothesis 3 ("Fiscal Restraint"): Democratic leaders enact fiscal restraint after having experienced international economic crisis as long as they are not hampered by domestic inequality, whereas autocratic leaders are willing to pursue fiscal restraint in spite of domestic inequality.

To summarize our discussion so far, we expect only democracies to promote capital openness in response to an economic crisis. In addition, democracies are expected to advance regulatory reforms and fiscal restraint as they experience recurring economic crises; reforms which are somewhat diluted by strong opposition or are realized by providing compensation. By contrast, autocratic leaders promote capital liberalization, market deregulation, and fiscal constraint when such measures can be expected to further benefit their support base, and thus their decisions are insensitive to the need of addressing market inequality or providing compensatory spending. Note that we expect new democracies to show a hybrid pattern of democracies and autocracies and that we are not making predictions with regard to dictatorships, where policies are subject to the whim of the personal dictator. With the expected policy outcomes according to regime type having been identified, the next section describes the data and discusses the results of the regression models.

III. Empirical Analysis

Data and Variables

The data consists of a panel of nearly 200 countries covering the period 1978 to 2009. Linear regression models are used to model temporal trends as well as cross-country differences. All specifications, as seen in the below equation, use a lagged dependent variable (DV), a lagged economic control variable, a lagged independent variable (INDV), political regime variables (PR), an interaction term of the independent and political regime variables, and country fixed effects (CFE). The Appendix Table lists the variables, descriptive summary statistics, and data sources.

$$DV_t = DV_{t-1} + \underset{(GDPpc\,+\,GDPpc2)+(CCrises\,+\,CCrises2)}{\text{Economic control variables}} + INDV_{t-1} + PR_{t-1} + INDV_{t-1} * PR_{t-1} + CFE$$

The dependent variables (DVs) for the hypotheses are, respectively, **capital openness** for Hypothesis 1; and the degree of **capital openness**, financial market reform (**financial reform**), labor market reform (**labor reform)**, and overall **market deregulation**, and for Hypothesis 2; and the size of **transfer** expenditures, general government **expenditure**, and general government **revenue** for Hypothesis 3. **Capital openness** is derived from the monetary trilemma dataset compiled by Aizenman, Chinn, and Ito (2010).[1] **Financial reform** is derived from the dataset compiled by Abiad, Detragiache, and Tressel (2010).[2] The two other regulatory reform variables are taken from the Economic Freedom Index compiled by the Fraser Institute. **Market deregulation** is a compound index of capital market, production market, and labor market deregulation. Finally, all the fiscal policy variables were downloaded from the World Bank's World Development Index (WDI) database and were checked by using the IMF's World Economic Outlook (WEO) database. Augmented Dickey-Fuller tests of time

series unit roots were conducted for all the dependent variables . We found that two variables, **financial reform** and **market deregulation**, to be suspect of unit roots.

The right hand side of each regression equation consists of economic control variables, independent variables (INDVs), political regime variables (PRs), and their interaction terms, as stated earlier. For the economic control variable, the sum of GDP per capita (GDPpc) and its square value were used to measure economic development and the frequency of **currency crises** (CCrises) and its square value to measure the impact of economic crisis associated with economic globalization. In addition, a lagged GDP growth was entered in the fiscal policy equations aimed at testing Hypothesis 3. Although **currency crises** is our favored measure to capture the direct impact of economic crises associated with economic globalization, to ascertain the results returned by **currency crises**, we recalculated our regressions by using **trade dependency** (= (imports + exports)/GDP). **Trade dependency** is used as a measure of economic openness that does not capture economic crises. Data for trade dependency were retrieved from the WDI database as well as the WEO database: since both returned similar results, we only discuss the results using former dataset. The square values were entered on the assumption that the dependent variables were curvilinear functions of economic development and economic crises, meaning that the impact of economic development and economic crises declines with the per capita income and crises frequency. Indeed, the curvilinear measures showed a better model fit and improved the results for all variables albeit marginally.

Three types of variables were entered in the models as independent variables: the first difference of **currency crises** (**δ currency crises**) as a measure of the impact of an economic crisis; the **Gini** index of economic inequality to measure potential opposition to open economic reforms;[3] and general government **expenditure** as a proxy for the government's compensation capacity. **Currency crises** is compiled by counting the number of times in a year when monthly changes in exchange rates and foreign reserves fell more than two standard deviations below the mean. IMF's Intentional Financial Statistics database was used to derive the data for the calculations.

The political regime (PR) variable was derived from the winning coalition index of the political survival dataset of Bueno de Mesquita et al. (2002) (hereafter, Survival dataset). The Survival dataset was constructed by combining the POLITY regime scores with indices of executive recruitment competition and executive recruitment openness, and standardized to take values between 0 and 1. Here, 0.75, 0.5, and 0.25 of the winning coalition size index distinguishes between democracies (≧0.75), new democracies (<0.75, ≧0.5) , autocracies, (<0. 5, ≧0.25), and dictatorships (< 0.25). All the models used two other regime variables, one being the Hadenius and Teorell (2007) dataset of authoritarian regimes and the other being the POLITY figures.[4] We, only discuss the

equations using the Survival dataset since it is the best representation of our regime classification, although results of the other regime variables often returned better results.

The trend in the number of different regimes using our PR variable depicted in Figure 1 shows that the PR valuable seems to be capturing what is intended. The trends shows that the number of democracies and dictatorships is relatively stable, with a gradual increase in the former, and a gradual decrease in the latter. By contrast, it is the new democracies and autocracies that exchanged places in the early 1990s—the number of new democracies increased rapidly, while the opposite occurred with respect to autocracies.

Figure 1

Having explained the variables used in the regressions, we are ready to conduct a systematic analysis to see the different survival requirements of political regimes translate into distinct open economic reform strategies.

Analysis

The results of the regression models that evaluate the hypotheses put forth in Section II are presented in Table 1 through 3. Coefficients for the country dummies and the constants are not displayed. For the non-democracy variables, only the results of the regime variables and the interaction terms are shown. For each variable, the correlation coefficients, standard errors, z-values, and p-values are presented.

Table 1 displays the results of the model used to test Hypothesis 1, which states that the impact of international economic crisis on capital openness is regime differentiated. Firstly, a reading of Model 1.1 indicates that past experiences of being hit by international economic crises (i.e., **currency crisis**) are likely to advance capital openness, while the numbers of such crisis are like to invite capital control. The coefficient for **currency crises** is positive and significant, while the coefficient for its first difference; i.e., a currency crisis (**δ currency crises**) is negative and significant. However, for democracies the situation is different: the coefficient of **democracy** *__δ currency crises__ in Model 1.1 is positive and significant. Hence, in the case of democratic leaders, past experience with currency crises as well as the outbreak of a crisis compel them advance capital openness. By comparison, the results in Models 1.2 and 1.3 show the results for non-democracies. In the case of new democracies the interaction term for both **currency crises** and **δ currency crises** are both negative, suggesting that new democracies are likely to resort to capital regulations and hence lag in their degree of capital openness. Similarly **autocracy *δ currency crises** is negative and highly significant where as, **autocracy *currency crises** is positive and insignificant. The

results indicate that autocracies resort to capital controls when hit with a currency crisis, but their capital control is not affected by the number of currency crises. A comparison of the coefficients of **new democracy *δ currency crises** and **autocracy *δ currency crises** indicates that autocracies are much likely to resort to drastic capital controls.

Table 1 about here

From the above we can claim that the results in Table 1 corroborate Hypothesis 1: democracies advance capital openness in the wake of a currency crisis, but not new democracies. For democracies, past experience with a number of currency crises actually promotes capital openness. By comparison, new democracies are likely to respond to a currency crisis by suspending capital openness, resulting in a degree of capital openness that is not proportionate to the frequency of crises they endured. Finally, autocracies are likely to introduce capital controls during a currency crisis, and liberalize such controls in ways that are not related to crises frequency. To ascertain that capital openness is affected by economic crises and not merely by economic globalization, we recalculated Model 1.1 through 1.3 by replacing **currency crises** with **trade dependency**. The results are presented as Model 2.1 through 2.3. A coarse reading of the regime interaction terms makes it abundantly clear that trade openness is unrelated to capital openness. The Models show that almost all the regime interaction term to be insignificant at the usual levels. Thus, what matter for political leaders is not the degree of trade openness but the outbreak of a currency crisis.

Whether regime leaders pursue regulatory reforms differently is explored in the results presented in Table 2. Hence, the results presented in Table 2 evaluate Hypothesis 2. The results for the four regulatory variables—**capital openness**, **financial reform**, **labor reform**, and **market deregulatio**n—are presented respectively in Model 1.1 through 4.1 in full form for democracies. Model 1.2 through 4.2 show the results of our non-democracy models for the independent variables relevant to our discussion; variables in which the democracy*INDV interaction term was statistically significant.

In the discussion of Hypothesis 2, we envisioned three scenarios in the way democratic leaders can pursue economic reforms according to our theory. To recapitulate, having experienced a number of economic crises, democratic leaders implement reforms: (a) in direct response to an economic crisis when they are not facing formidable political opposition; (b) by moderating the reforms when faced with formidable opposition; or (c) by offering compensation to opponents. A reading across the results presented in Table 2 suggests that capital openness and financial reform are characteristic of scenario (a). By comparison, labor reform shows the features of scenario (b), whereas market deregulation fit the expectations of scenario (c). Taken together the results corroborate Hypothesis 2 to the best extent possible given

numerous data restrictions.

Table 2 about here

Above all, the analysis of capital liberalization and financial reform show democratic leaders responding to an economic crisis without strong political reaction. In both Model 1.1 and Model 2.1, **democracy *δ currency crises** is positive, although the interactive term does not reach the normal levels of statistical significance for **financial reform** in Model 2.1. The result that **democracy *currency crises** is negative and significant in Model 2.1 suggests that financial reform in democracies have reached a plateau, which is partly a result of the way the data is constructed. Furthermore, neither **democracy *Gini** nor **democracy *expenditure** is significant in Model 1.1 or 2.1, except for **democracy *Gini** in Model 1.1: this exception suggests income inequality has only limited effects in moderating capital liberalization. So far, the results of Model 1.1 and 1.2 fit the pattern described as scenario (a): democracies embark on capital openness and financial reform in response to a financial crisis without having to face formidable opposition. Obviously, evidence of scenario (a) does not corroborate Hypothesis 2, unless there is evidence of both scenario (b) and (c).

Before searching for other patterns of regulatory reform, we need to examine the results of **capital openness** and **financial reform** for non-democracies presented in Models 1.2 and 1.3, and 2.2 and 2.3. A reading of Models 1.2 and 1.3 show new democracies resort to capital controls and financial regulation in the wake of a currency crisis. The correlates of **new democracy** *****δ currency crises** is negative and highly significant for both Model 1.2 and 2.2. By comparison, although autocracies follow the policies of new democracies, they are less responsive to the outbreak of an economic crisis: **autocracy** *****δ currency crises** for both Models is negative and statistically insignificant. If we turn to Model 1.3 and 2.3, which show the results concerning the effects of experiencing a number of currency crises, we find that currency crises have no effect on capital controls. In Model 1.3, the coefficient of the **currency crises** interaction terms is insignificant. By comparison, both **new democracy *currency crises** and the **autocracy *currency crises** are highly significant. The results indicate that new democratic and autocratic leaders tend pursue financial reform as they experience a number currency crises, autocratic leaders far more drastically than new democratic leaders. When the effect of currency crisis and their recurrence are taken together, it seems that new democracies respond to the onset of a currency crisis by resorting to capital controls and financial regulation. However, new democracies pursue financial reforms by reversing their crisis decision. By comparison, autocracies continue financial reforms by being less responsive to the outbreak of a crisis. Hence, the results displayed in Table 1 fit with our expectations of the way regime leaders carry out economic reforms when hit with a currency crisis and where strong opposition to reform is not

expected.

If we turn to other areas of regulatory reform, the results of the labor reform regressions, presented as Models 3.1 and 3.2, exhibit features expected of economic reforms that ignite opposition but cannot be easily compensated (i.e., scenario (b)). The correlates in Model 3.1 show that for democracies, the number of past currency crises facilitates labor reform, whereas income inequality restrains reform. In Model 3.1, **democracy** ***currency crises** is positive and significant, whereas **democracy** ***Gini** is negative and significant. Hence, income inequality tends to pull back labor reforms in democracies, reforms that are prodded by currency crises. By comparison, the coefficients of **democracy *expenditure** is positive but hardly significant, clearly indicating that the size of government expenditure has no effect on labor market regulation. If we turn to Model 3.2, the regime interaction terms indicate that new democracies, more than autocracies, are likely to pursue labor reforms in the face of income inequality. In Model 3.2, the coefficient of **new democracy** ***Gini** is larger and more significant than **autocracy** ***Gini**. A comparison of **new democracy *currency crises** and **autocracy *currency crises** in the labor reform regressions (not shown in Table 2), showed that only the former coefficient reached near significance levels: this implies that new democratic leaders, unlike their autocratic counterparts, pursue labor reforms in response economic crisis.

Finally, the claim that market deregulation fits the pattern expected of democratic leaders advancing reforms by compensating opposition can be substantiated by a reading of Model 4.1 and Model 4.2. Above all, **democracy *expenditure** is positive and significant, indicating that democracies with large government expenditures are likely to advance deregulatory reform. Furthermore, as expected **democracy *Gini** is insignificant, although has the right sign. Income inequality in democracies is likely to be an obstacle to market deregulation but not to an extent that can be captured by statistical significance. On the other hand, in Model 4.1, neither **democracy *δ currency crises** nor **democracy *currency crises** is significantly correlated with market deregulation, which means that we cannot assert that economic crisis broadly affects all areas of regulatory reform. If we turn to the results for non-democracies in Model 4.2, as expected **new democracy *expenditure** performs better than **autocracy *expenditure**, suggesting that government expenditures are strongly associated with regulatory reforms in new democracies than autocracies. The sign of both interaction terms are negative suggesting that the leaders of these regimes realize general deregulation with less overall government spending than democracies: this result is in line with our argument that expects democratic leaders are most pressed of devising a reform package that accommodates opponents, having to satisfy the median voter.

The discussion of the results presented in Table 2 has explained the results

corroborate Hypothesis 2 albeit in three separate steps. Having evaluated Hypothesis 2, we are ready to examine Hypothesis 3, our final hypothesis. The results presented in Table 3 evaluate Hypothesis 3, which expected democratic leaders to show fiscal restraint as they face a number of economic crises, although income inequality is expected to moderate such restraint. By comparison, autocratic leaders are expected to conduct fiscal policy with little consideration for income inequality. Model 1.1 through 3.1 in Table 3 displays the results for our fiscal policy variables, namely, the size of **transfer** expenditures, general **expenditure**, and general government **revenue** for democracies. For non-democracies, Model 1.2 through 3.2 presents the correlates of the regime interaction term for currency crisis (**δ currency crises)**, Model 1.3 through 3.3 for **currency crises**, and Model 1.4 through 3.4 for **Gini**.

A reading across Model 1.1 through 3.1 corroborates the expectation that democracies with past experiences with economic crises tend to reduce government spending and tax burdens. The correlates of **democracy *currency crises** are all negative and significant at the 90 percent level for transfer expenditure, government expenditure, and government revenue. This result holds in spite of the fact that the occurrence of a currency crisis (**δ currency crises**) increases expenditures for democracies, although it has no effect of government revenues. **Democracy *δ currency crises** is positive and significant for transfer expenditures (albeit at the 90 percent level) and government expenditures. In addition, **democracy *Gini** is close to statistically significant levels for all three fiscal policy variables in Model 1.3 through 3.3. Hence, for democracies, the size of transfer expenditures, general expenditures, and revenues are negatively associated with the number of past currency crises and positively related to income inequality as expected.

The above findings are complemented by the regression results for the non-democratic regimes. Above all, a reading of the political regime interaction term of **δ currency crises** in Model 1.2 through 3.2 show that while the expenditures of new democracies are sensitive to the occurrence of an economic crisis, those of autocracies were less so. **New Democracy** ***δ currency crises** is significant for both transfer expenditures and government expenditures. Furthermore, the outbreak of a currency crisis has no effect on government revenues regardless of the regime specification as can be inferred from Model 3.1 and Model 3.2.

Provided that the spending policies of democracies are sensitive to the outbreak of a currency crisis, a reading across Model 1.3 through 3.3 show that autocracies are likely to increase spending and revenues as they experience a number of currency crises. **Autocracy** ***currency crises** is positive and significant across the three fiscal policy areas. By comparison, **new democracy *currency crises** is positive and significant for only the two spending variables and the interaction term coefficients are smaller than

autocracies. Interestingly, only autocracies seem capable of expanding the tax base in times of economic globalization. So far, the results suggest that autocracies increase the size of their fiscal state in both the spending and tax sides, although the result is not necessarily the effect of past currency crises as suggested in Model 1.3 through 3.3. When we reran the three Models by replacing **currency crises** with **trade dependency** (not shown in Table 3), the latter variable showed a similar effect on fiscal expansion as currency crises in terms of the levels of statistical significance. Hence, we can assume that autocracies expand the size of expenditures and revenues to a larger degree and less unconstrained by economic cycles than democracies.

Finally, a reading of the non-democracy **Gini** interaction term across Model 1.4 through 3.4 indicates that income inequality reduces the size of the fiscal state—transfer expenditures, government expenditures, and government revenues—for both new democracies and autocracies. The correlate of the **Gini** interaction term is negative for all regime specifications although they seldom reach statistical significance. To examine whether the mixed result is affected by currency crises, we reran the regression by replacing **currency crises** with **trade dependency**, the results of which are shown in Supplementary Model 1.4 through 3.4. The new results make it abundantly clear that income inequality provides strong incentives for autocratic leaders to reduce the size of the fiscal state: this reluctance to provide collective goods in order to maintain inequality between insiders and outsiders of the winning coalition is something that has been predicted by Selectorate theory (see above). By comparison, **new democracy** ***Gini** remains negative but hardly significant in the Supplementary Models.

From the above discussion of Table 3, we can claim that the results presented corroborate Hypothesis 3. The examination of three fiscal policy variables support the view that democratic leaders undertake fiscal restraint after experiencing currency crises, although such efforts are weakened by income inequality. By comparison, autocratic leaders tend to expand the fiscal state not necessarily in response to currency crises but thwarted by income inequality!

Taken together, the empirical analyses in this section have provided evidence that the policy response of regime leaders to economic globalization can be explained a function of their survival imperatives by way of corroborating Hypothesis 1 through 3. The evaluation of Hypothesis 1 through 3 has found that democratic leaders are the only ones that carry out capital liberalization in response to a currency crisis, although other types of leaders are likely to follow suit. In addition, democratic leaders enact regulatory reforms in response to the number of currency crises, if necessary by moderating the reforms or by accommodating opposition. In addition, democratic leaders strive to reduce the size of the fiscal state after facing a number of currency crises, although such efforts are checked by the size of income inequality. By comparison, new democratic

leaders and autocratic leaders pursue regulatory and fiscal reform in spite of larger income inequalities and smaller fiscal bases compared to democracies. The difference between new democratic leaders and autocratic leaders is that the former tend to embark on reforms having faced a number of crises, whereas autocratic leaders undertake the same measures without be responsive to economic conditions or inequality levels. In short, the findings of Table 1 through 3 corroborate Hypothesis 1 through 3 in ways that are expected from our framework explained in Section II. Having provided evidence corroborative of our framework, we are ready to discuss some of its implications.

IV. Concluding Remarks

We conclude this paper by briefly explaining the how our argument improves the understanding of the democratic politics of international economic policymaking that enables us to beyond the widely shared assumption that economic policies are a linear function of the degree of democracy. The originality of this paper lies in its argument that competitive accountability under free, open elections is what is unique about democracies that compels its leaders to enact open economic reforms in ways that might seem absurd and suicidal from an autocratic leaders point of view. Democratic leaders, when faced with an economic crisis, embark on reforms that risk their political survival, without which they have a lesser chance of electoral survival. Hence, in planning the reforms, democratic leaders try to accommodate reform opponents. By comparison, autocratic leaders are incapable of enacting reforms that do not benefit their support base and hence does not strengthen their grip on power. As such, autocratic leaders are highly unlikely to contemplate reforms in times of economic crisis, and they are less likely to accommodate opponents in planning the reforms.

The fundamental difference between democracies and autocracies not only explains the distinctness of new democracies but also questions the commonly held idea that economic polices are a liner a function of regimes, in which democracies, new democracies, and autocracies can be conceptualized as different points in a continuum. We have explained that new democratic leaders must demonstrate their economic policy competence in times of crisis without being able to institutionally secure the commitment of reform opponents. We can easily expect that such predicaments lead to erratic policy changes and increased political instability. If such were the case, assuming democracies, non democracies, and autocracies to be regimes with different values of "democracy" would not be a very productive way of thinking how regimes differ in their policies. From our point of view, regarding economic policies as a curvilinear function of regimes in a democracy-autocracy continuum seems far more appropriate.

The usefulness of the curvilinear view of international economic policy, based on regime-differentiated survival imperatives, can be evaluated by examining how it addresses the problems endemic to existing accounts of capital market liberalization and financial market reform. For instance, studies of capital market liberalization among democracies are at odds with each other over whether the promoters of such reforms are economic actors or political institutions, e.g., export-oriented sectors or conservative political parties (Quinn and Inclán 1997; Li and Smith 2002; Kastner and Rector 2003, 2005). Li and Smith (2002) argue that the agents of capital market liberalization are stable majority governments whose supporters include various trade sectors, whereas Kastner and Rector (2003, 2005) find government ideology to be a significant determinant of capital market liberalization. In particular, they suggest that right-wing party governments are instrumental in liberalizing capital controls, which remain the status quo as the result of multiple veto players. Thus, there main point of disagreement in this literature is on the likely agents of such reforms.

With regard to the agents of capital market liberalization, this paper has argued that what is most salient to democratic policymaking is not the size of the government's majority or its ideological bent but imperatives of electoral competition over economic competence. If enacting the preferred policies of the median voter is as important as expected, the policies of competing parties should be similar and should not diverge after a government change; furthermore, these policies should be moderated to accommodate market preferences while satisfying the median voter. Hence, the party closest to the median voter should be the agents of capital liberalization regardless of its ideology; this logic helps bridge the ostensible gap between Li and Smith (2002) and Kastner and Rector (2003, 2005). Furthermore, our account explains why some democracies can enact more ambitious plans than others and why capital market liberalization progressed with the outbreak of a financial crisis.

In addition, our curvilinear view provides a much needed domestic foundation to the existing literature that cannot explain why economic development prods government leaders to undertake capital market liberalization and financial market reform: The current scholarship simply assumes that a country's level of economic development explains such moves (Alesina et al. 1994, Leblang 1997, Abiad and Mody 2005). Hence, the existing accounts cannot not explain when and why autocratic leaders contemplate capital liberalization and financial reform. For instance, Way's (2005) account of financial reform suggests that autocratic leaders are unwilling to open capital markets and reform financial markets unless economic stagnation threatens their survival and the reforms of the surrounding countries have proven successful. If such were the case, we should expect a difference in the ways in which autocracies and democracies adopt reforms, and this is exactly the point this paper contributes to the current literature. Furthermore, Way's account does not explain why the countries surrounding the

autocratic leader in question had carried our reforms earlier on. A well-cited study of international policy diffusion found that competition for capital as the strongest determinant of capital liberalization and bilateral investment treaty membership (Simmons and Elkins 2004, Elkins, Guzman and Simmons 2006). Although we do not intend to contradict their findings, we claim that our account can specify when and under what conditions leaders are likely to make decisions to increase capital inflows.

In short, this paper presents an alternative to the economic development view of reform enactment and reform diffusion, while offering clarity as to the question of who enacts reforms in democracies. This paper has presented an agent-centered perspective on the relationship between economic development and capital market liberalization. The regime-differentiated explanation explains why democracies are ardent promoters of market-oriented reforms, especially in the aftermath of economic crises, and why autocracies foster market-oriented reforms during good economic times in ways that benefits their support base.

Beyond the above implications, this paper opens up some promising ways to address issues for scholars interested in the effects of globalization on democracy and inequality. Suffice here to say that the current inquiry into whether economic globalization promotes democracy, and vice versa, or whether economic globalization aggravates inequality has been conducted with in mind what we call, the "linear template" (Li and Rueveny 2003, Rueveny and Li 2003, Giavazzi and Tabellini 2005, Eichengreen and Leblang 2008, Timmons 2010). All of these studies assume that the effects of economic globalization will be translated into political changes or income inequality indifferent of regardless of the type of regime leader. This paper has made the case that the effect of globalization on economic reform, on income inequality, and on political stability will differ according to the type of regime.

References

Abiad, Abdul, and Ashoka Mody. 2005. "Financial Reform: What Shakes It? What Shapes It?" *American Economic Review* 95 (1): 66-88.

Abiad, Abdul, Enrica Detragiache, and Thierry Tressel. 2010. "A New Database for Financial Reforms." *IMF Staff Papers* 57 (2): 281-302.

Adams, James, Michael Clark, Lawrence Ezrow, and Garrett Glasgow. 2004. "Understanding Change and Stability in Party Ideology: Do Parties Respond to Public Opinion or to Past Election Results." *British Journal of Political Science* 34: 589-610.

Adams, James, Michael Clark, Lawrence Ezrow, and Garrett Glasgow. 2006. "Are Niche Parties Fundamentally Different from Mainstream Parties? The Causes and Electoral Consequences of Western European Parties" Policy Shifts, 1976-1998." *American Journal of Political Studies* 50 (3): 513-529.

Adams, James and Lawrence Ezrow. 2009. "Who Do European Parties Represent? How Western European Parties Represent the Policy Preferences of Opinion Leaders." *Journal of Politics* 71 (1): 206-223.

Adams, James, Andrea B. Haupt, and Heather Stoll. 2009. "What Moves Parties? The Role of Public Opinion and Global Economic Conditions in Western Europe." *Comparative Political Studies* 42 (5): 611-639.

Adams, James and Zeynep Somer-Topcu. 2009a. "Moderate Now, Win Votes Later: The Electoral Consequences of Paties' Policy Shifts in 25 Postwar Democracies." *Journal of Politics* 71 (2): 678-692.

Adams, James and Zeynep Somer-Topcu. 2009b. "Policy Adjustment by Parties in Response to Rival Parties' Policy Shifts: Spatial Theory and the Dynamics of Party Competition in Twenty-Five Post-War Democracies." *British Journal of Political Science* 39: 825-846.

Adams, James, Lawrence Ezrow and Zeynep Somer-Topcu. 2011. "Is Anybody Listening? Evidence That Voters Do Not Respond to European Parties' Policy Statements During Elections." *American Journal of Political Science* 55(2) 370–82.

Adsera, Alicia and Carles Boix. 2002. "Trade, Democracy, and the Size of the Pubic Sector: The Political Underpinnings of Openness." *International Organization* 56 (2): 229-262.

Aizenman Joshua, Menzie D. Chinn, and Hiro Ito. 2010. "The Emerging Global Financial Architecture: Tracing and Evaluating New Patterns of the Trilemma Configuration." *Journal of International Money and Finance* 29 (4): 615-641.

Alesina, Alberto, Vittorio Grilli, and Gian Maria Milesi-Ferretti. 1994. "The Political Economy of Capital Controls." In Leonardo Leiderman and Assaf Razin, eds. *Capital Mobility: The Impact on Consumption, Investment, and Growth*. Cambridge: Cambridge University Press, 289-328.

Alesina, Alberto, Silvia Aradagna, and Francesco Trebbi. 2006. "Who Adjusts and When? The Political Economy of Reforms." *IMF Staff Papers* 53: 1-29.

Alesina, Alberto, Dorian Carloni, and Giampaolo Lecce. 2011. "The Electoral Consequences of Large Fiscal Adjustments." *NBER Working Paper Series* 17655.

Alvarez, R. Michael. 1998. *Information and Elections*. Rev. ed. Ann Arbor: University of Michigan Press.

Alvarez, R. Michael, Jonathan Nagler and Jennifer R. Willette. 2000. "Measuring the Relative Impact of Issues and the Economy in Democratic Elections." *Electoral Studies* 19(2-3): 237-53.

Arceneaux, Kevin. 2003. "The Conditional Impact of Blame Attribution on the Relationship Between Economic Adversity and Turnout." *Political Research Quarterly* 56(1): 67-75.

Arceneaux, Kevin. 2008. “Can Partisan Cues Diminish Democratic Accountability?” *Political Behavior* 30(2): 139-60.

Brender, Adi, and Allan Drazen. 2008. How Do Budget Deficits and Economic Growth Affect Reelection Prospects? Evidence from a Large Panel of Countries.” *American Economic Review 98* (5): 2203-2220.

Brug, Wouter van der, Cees van der Eijk, and Mark Franklin. 2007. *The Economy and the Vote: Economic Conditions and Elections in Fifteen Countries*. Cambridge: Cambridge University Press.

Bueno de Mesquita, Bruce, James D. Morrow, Randolph. M. Siverson, and Alastair Smith. 1999. "Policy Failure and Political Survival: The Contribution of Political Institutions." *Journal of Conflict Resolution* 43 (2): 147-161.

----------. 2002. “Political Institutions, Policy Choice, and the Survival of Leaders.” *British Journal of Political Science* 32 (4): 559-590.

Bueno de Mesquita, Bruce, Alastair Smith, Randolph. M. Siverson, and James D. Morrow. 2003. *The Logic of Political Survival*. Cambridge, MA: MIT Press. (Dataset available as the Logic of Political Survival Data Source)

Burgoon, Brian 2001. “Globalization and Welfare: Disentangling the Ties that Bind.” International Organization (Summer): 509-551.

Buti, Marco, Alessandro Turrini, Paul Van den Noord, and Pietro Biroli. 2010. “Reforms and Re-Elections in OECD Countries.” *Economic Policy* 25 (61): 61-116.

Cameron, David. 1978. “The Expansion of the Public Economy.” *American Political Science Review* 72: 1241-1261.

Chinn, Menzie D., and Hiro Ito. 2006. “What Matters for Financial Development? Capital Controls, Institutions, and Interactions.” *Journal of Development Economics* 81 (1): 163-192.

Choi, Seung-Whan, and Yiagadeesen Samy. 2008. “Reexamining the Effect of Democratic Institutions on Inflows of Foreign Direct Investment in Developing Countries.” *Foreign Policy Analysis* 4 (1): 83-103.

Clark, William Robert, Usha Nair Reichert, Sandra Lynn Lomas, and Kevin L. Parker. 1998. “International and Domestic Constraints on Political Business Cycles in OECD Economies.” *International Organization* 51 (1): 87-120.

Clark, William Robert and Mark Hallerberg. 2000. “Mobile Capital, Domestic Institutions, and Electoral Induced Monetary and Fiscal Policy.” *American Political Science Review* 94 (2): 323-346.

Cukierman, Alex and Mariano Tommasi. 1998. When Does it Take a Nixon to Go to China?” *American Economic Review* 88 (1): 180-197.

Dorussen, Han and Michael Taylor eds. 2002. *Economic Voting*. London and New York: Routledge.

Downs, Anthony. 1957. *An Economic Theory of Democracy*. Boston: Addison Wesley.

Drazen, Allan, and William Easterly 2001. “Do Crises Induce Reform: Simple Empirical Tests of Conventional Wisdom.” *Economics & Politics* 13 (2): 129-157.

Drazen, Allan, and Vittorio Grilli. 1993. “The Benefit of Crises for Economic Reforms.” *American Economic Review* 83 (3): 598-607.

Duch, Raymond M., and Randolph T. Stevenson. 2008. *The Economic Vote: How Political and Economic Institutions Condition Election Results.* New York: Cambridge University Press.

Duch, Raymond M., and Randy Stevenson. 2010. “The Global Economy, Competency, and the Economic Vote.” *Journal of Politics* 72 (1): 105-123.

Elkins, Zachary, Andrew T. Guzman and Beth A. Simmons. 2006. “Competing for Capital: The Diffusion of Bilateral Investment Treaties, 1960-2000.” *International Organization* 60 (4): 811-846.

Ezrow, Lawrence. 2010. *Linking Citizens and Parties: How Electoral Systems Matter for Political Representation*. New York: Oxford University Press.

Ezrow, Lawrence, Catherine De Vries, Marco Steenbergen, and Erica Edwards. 2011. “Mean Voter Representation and Partisan Constituency Representation: Do Parties Respond to the Mean Voter Position or to Their Supporters?” *Party Politics* 17 (3): 275-301.

Erikson, Robert S., Michael B. MacKuen, and James A. Stimson. 2002.*The Macro Polity*. Cambridge: Cambridge University Press.

Frieden, Jeffry A. 1991. “Invested Interests: The Politics of National Economic Policies in a World of Global Finance.” *International Organization* 45 (4): 425-451.

Gandhi, Jennifer. 2008. *Political Institutions under Dictatorship*. New York: Cambridge University Press.

Hadenius, Axel, and Jan Teorell. 2007. “Pathways from Authoritarianism.” *Journal of Democracy* 18 (1): 143-156. (Data available as Authoritarian Regimes Data Set version 2.0)

Hays, Jude C., Sean D. Ehrlich and Clint Peinhardt. 2005. “Government Spending and Public Support for Trade in OECD Countries: An Empirical Test of the Embedded Liberalism Thesis.” *International Organization* 59: 473-494.

Hellwig, Timothy. 2007. “Economic Openness, Policy Uncertainty, and the Dynamics of Government Support.” *Electoral Studies* 26 (4): 772-786.

Hellwig, Timothy T. 2001. “Interdependence, Government Constraints, and Economic Voting.” *Journal of Politics* 63 (4): 1141-1162.

Hellwig, Timothy, and David Samuels. 2007. “Voting in Open Economies: The Electoral Consequences of Globalization.” *Comparative Political Studies* 40 (3): 283-306.

Hobolt, Sara Binzer, and Robert Klemmensen. 2008. “Government Responsiveness and Political Competition in Comparative Perspective.” *Comparative Political Studies* 41 (3): 309-337.

Kaminsky, Garciela and Sergio Schmukler. 2003. “Short-run Pain, Long-run Gain: The Effects of Financial Liberalization.” *NBER Working Paper* No. 9787.

Kastner, Scott L., and Chad Rector. 2003. "International Regimes, Domestic Veto-Players, and Capital Controls Policy Stability." *International Studies Quarterly* 47 (1): 1-22.

----------. 2005. "Partisanship and the Path to Financial Openness." *Comparative Political Studies* 38 (5): 484-506.

Keefer, Philip. 2007a. “Clientelism, Credibility, and the Policy Choices of Young Democracies.” *American Journal of Political Science* 51 (4): 804-821.

----------. 2007b. “Elections, Special Interests, and Financial Crisis.” *International Organization* 61 (3): 607-641.

Leblang DavidA. 1997. “Domestic and Systemic Determinants of Capital Controls in the Developed and Developing World.” *International Studies Quarterly* 41(3): 435-454.

Leblang David, and William Bernhard. 2000. “The Politics of Speculative Attacks in Industrial Democracies.” *International Organization* 54 (2): 291-324

Leblang David, and Shanker Satyanath. 2006. “Institutions, Expectations, and Currency Crises.” *International Organization* 60 (1): 245-262.

Li, Quan, and Adam Resnick. 2003. “Reversal of Fortunes: Democratic Institutions and Foreign Direct Investment Inflows to Developing Countries.” *International Organization* 57 (1): 175-211.

Li, Quan, and Dale L. Smith. 2002. “The Dilemma of Financial Liberalization: State Autonomy and Societal Demands.” *Journal of Politics* 64 (3): 764-790.

Mansfield, Edward D., Helen V. Milner, and B. Peter Rosendorff. 2002. “Why Democracies Cooperate More: Electoral Control and International Trade Agreements.” *International Organization* 56 (3): 411-513.

Mansfield, Edward D., Helen V. Milner, and Jon C. Pevehouse. 2007. “Vetoing Co-operation: The Impact of Veto Players on Preferential Trading Arrangements.” *British Journal of Political Science* 37 (3): 403-432

---------. 2008. “Democracy, Veto Players, and the Depth of Regional Integration.” *The World Economy* 31 (1): 67-96.

McDonald, Michael and Ian Budge. 2008. *Elections, Parties, and Democracy: Conferring the Median Mandate*. Oxford: Oxford University Press.

Quinn, Dennis P., and Carla Inclán. 1997. “The Origins of Financial Openness: A Study of Current and Capital Account Liberalization.” *American Journal of Political Science* 41 (3): 771-813.

Reuveny, Rafael and Quan Li. 2003. “Economic Openness, Democracy, and Income Inequality: An Empirical Analysis.” *Comparative Political Studies* 36 (5): 575-601.

Rodrik, Dani. 1996. “Understanding Economic Policy Reform.” *Journal of Economic Literature* 34 (1): 9-41.

Simmons, Beth A., and Zachary Elkins. 2004. "The Globalization of Liberalization: Policy Diffusion in the International Political Economy." *American Political Science Review* 98 (1): 171-89.

Soroka, Stuart N., and Christopher Wlezien. 2010. *Degrees of Democracy: Politics, Public Opinion, and Policy*. Cambridge: Cambridge University Press.

Steenbergen, Marco R., Erica E. Edwards, and Catherine E. de Vries. 2007. “Who’s Cueing Whom? Mass-Elite Linkages and the Future of European Integration.” *European Union Politics* 8 (1): 13-35.

Tilley, James, and Sara B. Hobolt. 2011. “Is the Government to Blame? An Experimental Test of How Partisanship Shapes Perceptions of Performance and Responsibility.” *Journal of Politics* 73 (2): 316-330.

Vavreck, Lynn. 2009. *The Message Matters: The Economy and Presidential Campaigns*. Princeton: Princeton University Press.

Ward, Hugh, Lawrence Ezrow, and Han Dorussen. 2011. “Globalization, Party Positions, and the Median Voter.” *World Politics* 63 (3): 509-547.

Way, Christopher R. 2000. “Central Banks, Partisan Politics, and Macroeconomic Outcomes.” *Comparative Political Studies* 33 (2): 196-224.

Way, Christopher R. 2005. “Political Insecurity and the Diffusion of Financial Market Regulation.” *ANNALS of the American Academy of Political and Social Science* 598 (1): 125-144.

Wright, Joseph. 2008. “Do Authoritarian Institutions Constrain? How Legislatures Affect Economic Growth and Investment.” *American Journal of Political Science* 52 (2): 322–343.

Appendix

Appendix Table 1

Notes

[1] **Capital openness** is created by coding capital account controls listed in the IMF's Annual Report on Exchange Arrangements and Exchange Restrictions and is a *du jure* index of policy intentions.

[2] The Abiad, Detragiache, and Tressel (2010) is a composite index of seven components of financial sector policy, such as interest rate liberalization, bank entry deregulation, and banking privatization, amongst others. The maximum value of 21 applies to most advanced democracies of recent years.

[3] The Gini index is used as a proxy of opposition to open market reforms. The rational is based on the assumption that globalization increased income inequality and hence income inequlity generates opposition to open economic reforms. Actually, we ran a number of regressions to calculate the impact of economic globalization—the number of **currency crises**, the size of **trade dependency**, and the size **foreign investment**—on inequality. All the equations used income per capita and its square as control variables. The results confirmed that the degree of economic globalization explains significantly the degree of income inequality. Data of foreign investment was taken from the WDI.

[4] The Hadenius and Teorell (2007) dataset of authoritarian regimes does not differentiate among democracies, though it can be arranged to distinguish between party-ruled autocracies, referred to here as autocracies, and other (traditional) autocracies. The POLITY IV regime index used here groups the POLITY regime scores, which range from -10 to 10 (autocracies–democracies) in order to distinguish between democracies (over 8), new democracies (0 to 8), autocracies (0 to –8), and established autocracies (below -8).

Table 1: Political Regimes and Capital Openness

Model 1.1	Coef.	Std. Err.	t	P>|t|
Capital Open (t-1)	0.892	0.008	111.19	0.000
GDPpc (t-1)	3.E-08	3.E-06	0.01	0.992
GDPpc (t-1)2	-5.E-11	5.E-11	-0.96	0.338
C Crises (t-1)	0.009	0.002	4.30	0.000
C Crises (t-1)2	-0.001	0.000	-2.67	0.007
Democracy	0.003	0.014	0.24	0.808
Dem*C Crises (t-1)	0.004	0.002	2.13	0.033
Dem* d_Ccrises	0.027	0.009	3.00	0.003
Model 1.2				
New Democracy	-0.011	0.014	-0.77	0.440
Autocracy	-0.030	0.016	-1.83	0.067
Dictatorship	-0.009	0.015	-0.62	0.537
New Dem*d_C_Crisis	-0.019	0.010	-2.03	0.043
Auto *d_C Crises	-0.070	0.014	-4.91	0.000
Dict * d_C Crisies	-0.008	0.012	-0.70	0.482
Model 1.3				
New Democracy	-0.024	0.011	-2.16	0.031
Autocracy	-0.017	0.014	-1.25	0.212
Dictatorship	-0.028	0.013	-2.25	0.025
New Dem*C Crises (t-1	-0.003	0.002	-1.74	0.082
Auto* C Crises (t-1)	0.004	0.003	1.05	0.292
Dict *C Crises (t-1)	-0.006	0.003	-2.29	0.022

Model 2.1	Coef.	Std. Err.	t	P>|t|
Capital Open (t-1)	0.893	0.008	113.13	0.000
GDPpc (t-1)	8.E-06	2.E-06	3.42	0.001
GDPpc (t-1)2	-1.E-10	5.E-11	-2.80	0.005
Trade Dep (t-1)	3.E-04	2.E-04	1.36	0.173
Trade Dep (t-1)2	-6.E-07	8.E-07	-0.76	0.447
Democracy	0.070	0.021	3.35	0.001
Dem* Trade Dep (t-1)	-3.E-04	2.E-04	-1.60	0.109
Dem* d_Trade Dep	2.E-04	6.E-04	0.28	0.779
Model2.2				
New Democracy	-0.067	0.021	-3.20	0.001
Autocracy	-0.079	0.023	-3.46	0.001
Dictatorship	-0.079	0.022	-3.68	0.000
New Dem*d_Trade Dep	0.000	0.001	0.13	0.893
Auto*d_Trade Dep	-0.001	0.001	-0.90	0.366
Dict* d_Trade Dep	0.000	0.001	-0.81	0.415
Model 2.3				
New Democracy	-0.037	0.011	-3.42	0.001
Autocracy	-0.058	0.012	-4.75	0.000
Dictatorship	-0.051	0.012	-4.31	0.000
New Dem*T Dep (t-1)	0.000	0.000	1.67	0.095
Auto *T Dep (t-1)	0.000	0.000	0.90	0.367
Dict *T Dep (t-1)	0.000	0.000	1.41	0.158

Table 2: Regimes and Regulatory Reforms

Capital Openness				
Model 1.1	Coef.	Std. Err.	t	P>|t|
Capital Open (t-1)	0.799	0.014	55.78	0.000
GDPpc (t-1)	2.E-06	5.E-06	0.48	0.629
GDPpc (t-1)2	-1.E-10	9.E-11	-1.45	0.146
C Crises (t-1)	0.024	0.006	4.07	0.000
C Crises (t-1)2	-0.002	0.001	-4.06	0.000
Gini (t-1)	-0.0002	0.0006	-0.35	0.724
Expenditure (t-1)	0.001	0.001	1.63	0.103
Democracy	0.062	0.080	0.78	0.435
Dem*C Crises (t-1)	0.011	0.004	2.37	0.018
Dem* d_Ccrises	0.051	0.013	3.94	0.000
Dem* Gini (t-1)	-0.002	0.001	-1.55	0.121
Dem* Expend (t-1)	0.000	0.001	0.06	0.949
Model 1.2				
New Democracy	-0.033	0.023	-1.42	0.155
Autocracy	-0.029	0.029	-1.02	0.306
Dictatorship	-0.028	0.027	-1.04	0.298
New Dem*d_C_Crisis	-0.047	0.013	-3.58	0.000
Auto *d_C Crises	-0.043	0.024	-1.81	0.070
Dict * d_C Crisies	-0.010	0.023	-0.43	0.669
Model 1.3				
New Democracy	-0.024	0.031	-0.77	0.439
Autocracy	-0.030	0.038	-0.79	0.430
Dictatorship	0.012	0.036	0.33	0.739
New Dem*C Crises (t-1)	-0.003	0.004	-0.73	0.464
Auto* C Crises (t-1)	-0.001	0.007	-0.08	0.934
Dict *C Crises (t-1)	-0.011	0.006	-1.75	0.081

Financial Reform				
Model .12	Coef.	Std. Err.	t	P>|t|
Financial Reform (t-1)	0.823	0.013	61.40	0.000
GDPpc (t-1)	4.E-05	7.E-05	0.61	0.545
GDPpc (t-1)2	-9.E-10	1.E-09	-0.76	0.445
C Crises (t-1)	0.473	0.078	6.10	0.000
C Crises (t-1)2	-0.026	0.006	-4.07	0.000
Gini (t-1)	-0.003	0.009	-0.35	0.723
Expenditure (t-1)	0.013	0.009	1.45	0.147
Democracy	1.332	1.133	1.18	0.240
Dem*C Crises (t-1)	-0.159	0.055	-2.87	0.004
Dem* d_Ccrises	0.172	0.155	1.11	0.268
Dem* Gini (t-1)	-0.016	0.020	-0.79	0.428
Dem* Expend (t-1)	0.013	0.017	0.78	0.436
Model 2.2				
New Democracy	-0.263	0.366	-0.72	0.474
Autocracy	-0.543	0.428	-1.27	0.204
Dictatorship	-0.832	0.427	-1.95	0.051
New Dem*d_C_Crisis	-0.405	0.152	-2.66	0.008
Auto *d_C Crises	-0.216	0.287	-0.75	0.451
Dict * d_C Crisies	0.265	0.317	0.84	0.403
Model 2.3				
New Democracy	-1.064	0.464	-2.30	0.022
Autocracy	-1.709	0.522	-3.27	0.001
Dictatorship	-1.512	0.537	-2.81	0.005
New Dem*C Crises (t-1	0.141	0.053	2.67	0.008
Auto* C Crises (t-1)	0.287	0.085	3.37	0.001
Dict *C Crises (t-1)	0.169	0.107	1.57	0.116

Labor Reform				
Model 3.1	Coef.	Std. Err.	t	P>|t|
Labor Reform (t-1)	0.708	0.021	33.70	0.000
GDPpc (t-1)	7.E-05	2.E-05	3.35	0.001
GDPpc (t-1)2	-1.E-09	3.E-10	-3.00	0.003
C Crises (t-1)	-0.118	0.041	-2.86	0.004
C Crises (t-1)2	0.009	0.003	2.98	0.003
Gini (t-1)	0.005	0.005	0.95	0.343
Expenditure (t-1)	-0.001	0.006	-0.18	0.856
Democracy	0.834	0.510	1.63	0.102
Dem*C Crises (t-1)	0.080	0.025	3.21	0.001
Dem* d_Ccrises	0.044	0.067	0.65	0.513
Dem* Gini (t-1)	-0.025	0.009	-2.76	0.006
Dem* Expend (t-1)	0.000	0.009	0.02	0.985
Model 3.2				
New Democracy	-1.064	0.343	-3.10	0.002
Autocracy	-0.939	0.684	-1.37	0.170
Dictatorship	-1.211	0.781	-1.55	0.121
New Dem*Gini (t-1)	0.022	0.010	2.25	0.024
Auto* Gini (t-1)	0.019	0.013	1.47	0.141
Dict *Gini (t-1)	0.028	0.020	1.39	0.164

Market Deregulation				
Model 4.1	Coef.	Std. Err.	t	P>|t|
Mkt Deregulation(t-1)	0.872	0.015	57.41	0.000
GDPpc (t-1)	3.E-05	1.E-05	2.01	0.044
GDPpc (t-1)2	-5.E-10	2.E-10	-2.36	0.018
C Crises (t-1)	0.028	0.018	1.52	0.129
C Crises (t-1)2	-0.0005	0.0016	-0.31	0.760
Gini (t-1)	-0.003	0.002	-1.50	0.133
Expenditure (t-1)	-0.004	0.003	-1.44	0.151
Democracy	-0.379	0.272	-1.39	0.164
Dem*C Crises (t-1)	0.006	0.013	0.41	0.679
Dem* d_Ccrises	0.011	0.039	0.27	0.784
Dem* Gini (t-1)	-0.002	0.005	-0.47	0.641
Dem* Expend (t-1)	0.012	0.004	2.92	0.004
Model 4.2				
New Democracy	0.443	0.165	2.69	0.007
Autocracy	0.392	0.227	1.73	0.084
Dictatorship	0.466	0.186	2.51	0.012
New Dem* Expnd (t-1)	-0.013	0.004	-3.00	0.003
Auto *Expend (t-1)	-0.014	0.008	-1.83	0.067
Dict* Expend (t-1)	-0.016	0.007	-2.32	0.020

Table 3: Regimes and Fiscal Reforms

Model 1.1 DEP =Transfer					Modle 2.1 DEP =Expenditure				Model 3.1 DEP= Revenue			
	Coef.	Std. Err.	t	P>|t|	Coef.	Std. Err.	t	P>|t|	Coef.	Std. Err.	t	P>|t|
DEP (t-1)	0.894	0.010	87.74	0.000	0.726	0.017	42.00	0.000	0.568	0.022	25.56	0.000
GDPpc (t-1)	0.000	0.000	2.50	0.012	0.000	0.000	1.40	0.161	0.000	0.000	-1.50	0.134
GDPpc (t-1)2	0.000	0.000	-2.37	0.018	0.000	0.000	-1.94	0.053	0.000	0.000	0.63	0.526
d_GDP (t-1)	-0.013	0.006	-2.12	0.034	0.013	0.021	0.62	0.538	0.094	0.027	3.48	0.001
C Crises (t-1)	0.045	0.033	1.35	0.179	0.059	0.179	0.33	0.743	0.557	0.223	2.50	0.012
C Crises (t-1)2	0.000	0.003	0.00	0.998	0.025	0.016	1.59	0.111	-0.004	0.020	-0.22	0.826
d_C Crises	0.077	0.065	1.19	0.233	0.427	0.261	1.64	0.101	0.164	0.333	0.49	0.624
Gini (t-1)	0.001	0.006	0.13	0.897	-0.034	0.018	-1.90	0.058	-0.076	0.023	-3.33	0.001
Democracy	-0.551	0.516	-1.07	0.286	-1.154	1.820	-0.63	0.526	-1.101	2.326	-0.47	0.636
Dem*C Crises (t-1)	-0.130	0.026	-5.01	0.000	-0.244	0.131	-1.87	0.062	-0.265	0.166	-1.60	0.110
Dem* d_Ccrises	0.195	0.107	1.82	0.069	0.839	0.392	2.14	0.032	0.017	0.506	0.03	0.974
Dem* Gini (t-1)	0.016	0.011	1.49	0.136	0.078	0.043	1.81	0.070	0.094	0.052	1.81	0.070
model 1.2					model 2.2				model 3.2			
New Democracy	0.510	0.144	3.54	0.000	-0.760	0.704	-1.08	0.28	-1.602	0.849	-1.89	0.059
Autocracy	0.427	0.203	2.10	0.036	-1.674	0.903	-1.85	0.064	-1.178	1.104	-1.07	0.286
Dictatorship	0.334	0.195	1.72	0.086	-0.987	0.859	-1.15	0.25	-3.842	1.050	-3.66	0.000
New Dem*d_C_Crisis	-0.274	0.109	-2.51	0.012	-1.112	0.403	-2.76	0.006	-0.070	0.519	-0.13	0.893
Auto *d_C Crises	-0.410	0.232	-1.77	0.077	-0.145	0.746	-0.19	0.846	-0.894	0.963	-0.93	0.353
Dict * d_C Crisies	-0.545	0.218	-2.50	0.013	-1.372	0.748	-1.83	0.067	-0.151	0.966	-0.16	0.876
model 1.3					model 2.3				model 3.3			
New Democracy	-0.248	0.191	-1.30	0.194	-1.941	0.904	-2.15	0.032	-1.738	1.079	-1.61	0.107
Autocracy	-0.258	0.250	-1.03	0.301	-3.161	1.158	-2.73	0.006	-5.306	1.411	-3.76	0.000
Dictatorship	-0.270	0.243	-1.11	0.266	-2.656	1.114	-2.38	0.017	-5.054	1.371	-3.69	0.000
New Dem*C Crises (t-1)	0.142	0.027	5.35	0.000	0.241	0.130	1.86	0.063	0.050	0.163	0.31	0.760
Auto* C Crises (t-1)	0.150	0.054	2.78	0.005	0.385	0.205	1.88	0.061	1.202	0.262	4.59	0.000
Dict *C Crises (t-1)	0.102	0.048	2.11	0.035	0.387	0.192	2.01	0.044	0.378	0.245	1.54	0.124
model 1.4					model 2.4				model 3.4			
New Democracy	1.323	0.530	2.50	0.012	0.954	1.841	0.52	0.604	0.455	2.312	0.20	0.844
Autocracy	0.885	0.647	1.37	0.172	1.581	2.302	0.69	0.492	6.799	2.907	2.34	0.019
Dictatorship	-0.003	0.701	0.00	0.997	3.085	2.135	1.44	0.149	1.837	2.705	0.68	0.497
New Dem*Gini (t-1)	-0.021	0.012	-1.76	0.078	-0.048	0.044	-1.09	0.277	-0.050	0.053	-0.94	0.345
Auto* Gini (t-1)	-0.014	0.014	-0.98	0.329	-0.077	0.051	-1.52	0.128	-0.182	0.063	-2.89	0.004
Dict *Gini (t-1)	0.005	0.016	0.35	0.726	-0.105	0.049	-2.12	0.034	-0.132	0.061	-2.18	0.029
Supplementary Model 1.4 (Trade dependency instead of C Crises)					Supplementary Model 2.4 (Trade dependency instead of C Crises)				Supplementary Model 3.4 (Trade dependency instead of C Crises)			
New Democracy	0.792	0.481	1.65	0.100	0.888	1.834	0.48	0.628	2.084	2.054	1.01	0.310
Autocracy	1.967	0.564	3.49	0.000	5.135	2.283	2.25	0.025	5.002	2.577	1.94	0.052
Dictatorship	-0.257	0.649	-0.40	0.692	2.362	2.119	1.11	0.265	4.382	2.389	1.83	0.067
New Dem*Gini (t-1)	-0.010	0.011	-0.94	0.345	-0.050	0.045	-1.12	0.261	-0.078	0.047	-1.65	0.099
Auto* Gini (t-1)	-0.035	0.013	-2.78	0.005	-0.149	0.051	-2.94	0.003	-0.166	0.055	-3.01	0.003
Dict *Gini (t-1)	0.011	0.015	0.74	0.461	-0.087	0.049	-1.79	0.073	-0.181	0.053	-3.40	0.001

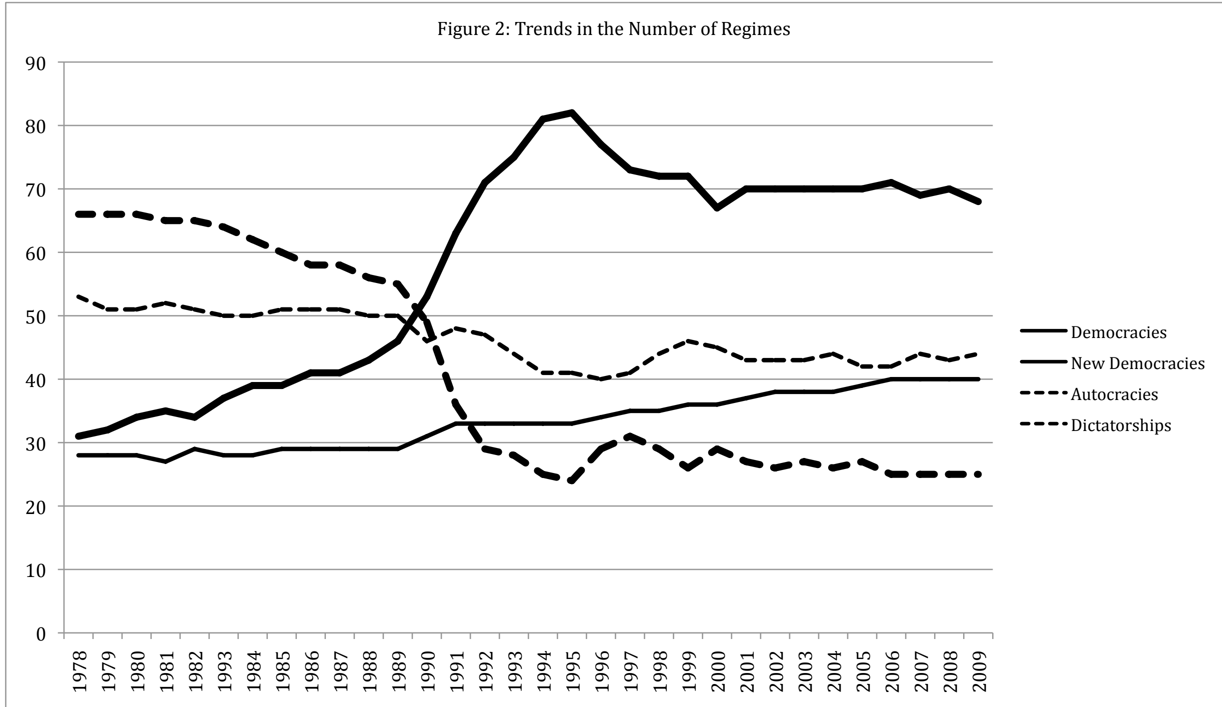
Figure 2: Trends in the Number of Regimes
90
80
70
60
50
40
30
20
10
0
1978
1979
1980
1981
1982
1993
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
Democracies
New Democracies
Autocracies
Dictatorships

Appendix Table 1: Summary of Variables

Variable Name	Summary					Sources
	Obs	mean	sdv	min	max	
Regime	5419	2.158	0.813	1	3	Authoritarian Regimes Data Set, Hadenius and Teorell (2007)
Selectorate	5727	0.596	0.290	0	1	The Logic of political survival data source, Bueno de Mesquita (2002)
POLITY	4555	1.528	7.315	-10	10	POLITY IV Project Dataset <www.systemicpeace.org/polity/polity4.htm>
Currency crisis	4437	3.593	2.770	0	16	Calculated by the author using IMF International Financial Statistics <http://elibrary-data.imf.org/FindDataReports.aspx?d=33061&e=169393>
Capital openness	4500	0.428	0.356	0	1	Aizenman, Chinn, and Ito (2010)
Financial market reform	2311	11.202	6.156	0	21	Abiad, Detragiache, and Tressel (2010)
GDP per capita	5122	5763.416	8657.418	62.237	56624.7	World Development Index <http://data.worldbank.org/data-catalog>
Trade dependency	4576	81.6022	45.6891	0.309	456.646	
Government Expenditure	3053	32.0428	13.7844	0.19	204.17	
Government Revenue	3086	29.8975	13.5784	0.036	161.864	
Government Transfer	2995	9.43965	8.16376	0	37.2	
Labor Reform	1954	5.67866	1.59322	1.8	9.7	Economic Freedom of the World Database <http://www.freetheworld.com>
Market Dreguation	1954	5.67866	1.59322	1.8	9.7	
Gini index	3459	39.4864	10.6413	16.63	73.9	World Income Inequality Database V2.0c <http://www.wider.unu.edu/research/Database/en_GB/database/> and the World Development Index <World Development Index <http://data.worldbank.org/data-catalog>>