6. Regimes and Reforms
Outline

6.1 Globalization, Economic Crisis, and Reforms

6.2 Political Regimes and Economic Reforms

6.3 Political Consequences of Economic Reforms

- *What are the implications for economic cooperation?*

6. Regimes and Reforms
6.1 Globalization, Economic Crisis, and Reforms

- *Embedded liberalism in historical perspective*
  - *What were the conditions for embedded liberalism?*
    - *Trade and capital openness*
    - *Market and policy redistribution*

- *Globalization and economic crisis*

- *Embedded liberalism in a global economy*
  - *Changing circumstances and uneven effects*
    - *Labor power*
    - *Shocks, capital access, and social spending*
    - *Adjustment, social spending, and equality*

6. Regimes and Reforms
6.1 Globalization, Economic Crisis, and Reforms

- *Globalization and economic crisis*

TABLE 1—FREQUENCY OF CRISES OVER TIME

| Type of crisis | Number of crises | | | | | |
| | 1970–1995 | | 1970–1979 | | 1980–1995 | |
	Total	Average per year	Total	Average per year	Total	Average per year
Balance-of-payments	76	2.92	26	2.60	50	3.13
Twin	19	0.73	1	0.10	18	1.13
Single	57	2.19	25	2.50	32	2.00
Banking	26	1.00	3	0.30	23	1.44

Note: Episodes in which the beginning of a banking crisis is followed by a balance-of-payments crisis within 48 months are classified as twin crises.
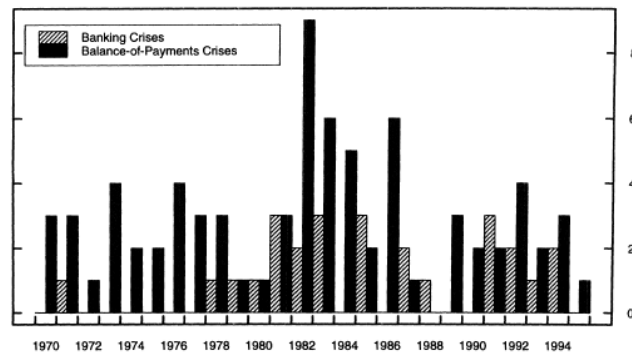

FIGURE 1. NUMBER OF CRISES PER YEAR

Table 7
Probability of crises during specific regimes using the natural exchange rate regime classification (in percent)

| | Bank crisis (1980–97) | | | | Bank crisis (1990–97) | | | |
	Peg	Limited flexibility	Managed floating	Freely floating	Peg	Limited flexibility	Managed floating	Freely floating
All	3.4	4.7	4.5	3.9	3.1	7.1	3.0	3.8
Advanced	0.0	2.7	2.3	4.1	0.0	6.5	0.0	4.2
Emerging	11.4	7.5	7.0	0.0	15.4	8.0	3.8	0.0
Developing	2.8	7.0	3.6	—	2.6	7.1	4.5	—

| | Balance of payments crisis (1970–2000) | | | | Balance of payments crisis (1990–2000) | | | |
	Peg	Limited flexibility	Managed floating	Freely floating	Peg	Limited flexibility	Managed floating	Freely floating
All	4.1	4.1	9.2	4.6	4.7	5.2	9.2	4.3
Advanced	3.3	3.9	7.1	4.9	3.6	5.8	8.6	4.9
Emerging	4.6	5.6	10.0	0.0	8.8	6.1	6.9	0.0
Developing	5.2	2.0	9.7	—	0.0	2.8	15.4	—

| | Twin crisis (1980–97) | | | | Twin crisis (1990–97) | | | |
	Peg	Limited flexibility	Managed floating	Freely floating	Peg	Limited flexibility	Managed floating	Freely floating
All	1.6	1.4	0.8	0.0	3.2	2.6	0.0	0.0
Advanced	0.0	0.7	0.0	0.0	0.0	2.2	0.0	0.0
Emerging	7.7	3.0	1.8	0.0	15.4	4.0	0.0	0.0
Developing	0.0	0.0	0.0	—	0.0	0.0	0.0	—

Note: Probabilities are calculated by dividing the number of occurrences of a crisis under a particular regime by the total number of regime years. Each crisis is counted only once and hence, if it persists over multiple years, the subsequent years are not taken into account for this calculation. Additionally, the years an exchange rate regime transition takes place (i.e., the year preceding, the year during, and the year following the transition) are excluded from this computation. A dash (—) indicates that no crisis data were available for developing countries under freely floating exchange rate regimes.
Source: Authors' estimates.

6. Regimes and Reforms
6.1 Globalization, Economic Crisis, and Reforms

- *Embedded liberalism in a global economy*
  - *Changing circumstances and uneven effects*
    - *Labor power*

Table 7
Fixed Effects Regression Estimates:
The Relationship between Globalization and Labor in LDCs

Variables	Skilled / Low Skilled	Surplus Labor	PLP
Manufactures Exports$_{t-1}$ * LIC	−0.001	−0.194	0.184
	(0.009)	(0.214)	(0.326)
FDI$_{t-1}$ * LIC	−0.187**	5.182**	−7.903***
	(0.085)	(2.056)	(2.978)
Portfolio Flows$_{t-1}$ * LIC	−0.032**	0.626*	−1.773***
	(0.017)	(0.354)	(0.419)
Manufactures Exports$_{t-1}$ * MIC	−0.0005	−0.274	0.205
	(0.009)	(0.214)	(0.326)
FDI$_{t-1}$ * MIC	−0.177**	1.982	−7.699**
	(0.084)	(1.990)	(2.979)
Portfolio Flows$_{t-1}$ * MIC	−0.040***	0.516†	−1.756***
	(0.015)	(0.333)	(0.418)
Manufactures Exports$_{t-1}$	0.003	0.238	−0.191
	(0.009)	(0.214)	(0.326)
Portfolio Flows$_{t-1}$	0.039***	−0.521†	1.758***
	(0.015)	(0.333)	(0.418)
FDI-*$_{t-1}$	0.128†		−2.767
	(1.993)	(0.089)	
	7.716**	(2.980)	
Democracy	———	−0.068*	0.005
		(0.038)	(0.011)
Depend[28]	−0.004**	23.14***	−3.897***
	(0.002)	(2.179)	(0.588)
Urban	−0.003	0.064***	0.005
	(0.004)	(0.013)	(0.004)
Growth	−0.0003	−0.003	−0.003
	(0.0004)	(0.010)	(0.003)
Human Capital Spending	0.2444*	———	———
	(0.135)		
LIC	−0.027	1.154	5.046***
	(0.259)	(2.518)	(0.667)
MIC	−0.414	7.838***	3.969***
	(0.420)	(2.365)	(0.664)
HIC	−0.630	−24.63	22.70
	(0.988)	(19.35)	(29.06)
N	581	834	685
R^2	0.664	0.940	0.846

***$p<0.01$; **$p<0.05$; *$p<0.10$., †$p<0.15$
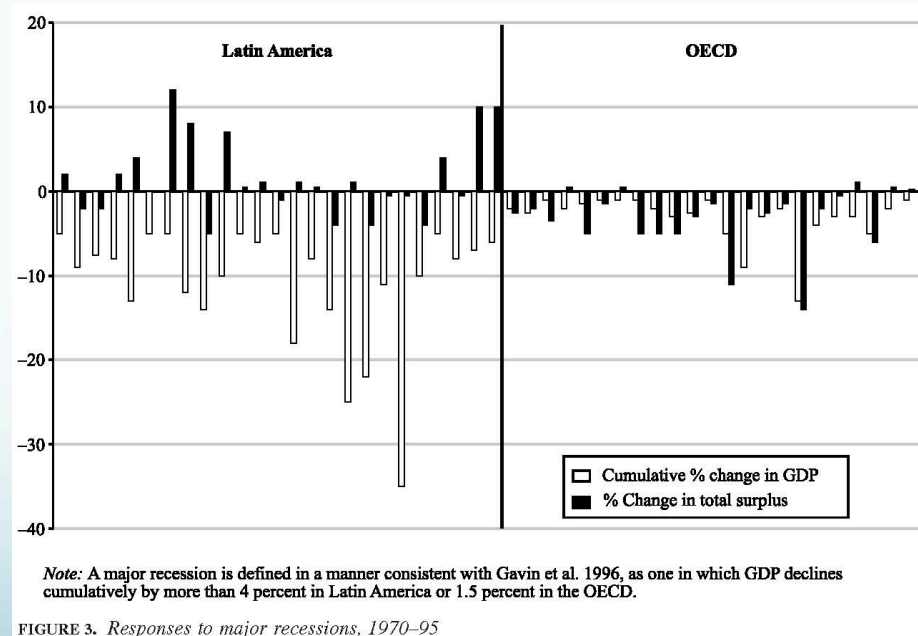 represents instrumental variables.
Figures in parentheses are standard errors; intercept suppressed. Decade dummies are not shown here
As discussed earlier, the percentage of youths was used in place of dependents for the skill/low-skilled model

6. Regimes and Reforms
6.1 Globalization, Economic Crisis, and Reforms

- *Embedded liberalism in a global economy*
  - *Changing circumstances and uneven effects*
    - *Shocks, capital access, and social spending*

Note: A major recession is defined in a manner consistent with Gavin et al. 1996, as one in which GDP declines cumulatively by more than 4 percent in Latin America or 1.5 percent in the OECD.

FIGURE 3. *Responses to major recessions, 1970–95*

6. Regimes and Reforms
6.1 Globalization, Economic Crisis, and Reforms

- **Embedded liberalism in a global economy**

- *Shocks and social spending (cont'd)*

TABLE 3. *Responses of social spending to positive and negative shocks*

Variables	Basic model	Full model		Negative shocks		Positive shocks		PLP model
	All social spending	Human capital	Social security	Human capital	Social security	Human capital	Social security	All social spending
POSITIVE SHOCK		.002	−.002					−.001
		(.002)	(.003)					(.00)
NEGATIVE SHOCK		−.003**	−.003					−.001*
		(.002)	(.002)					(.00)
TRADE	−.09***	−.04	−.10***	−.08**	−.14***	−.003	−.11***	−.24***
	(.03)	(.03)	(.02)	(.04)	(.04)	(.04)	(.03)	(.04)
D. TRADE	−.14***	−.05	−.11***	−.17***	−.11**	.12**	−.11**	−.25***
	(.05)	(.04)	(.03)	(.04)	(.04)	(.06)	(.05)	(.04)
CAPITAL ACCOUNT	.58**	−.09	.38*	.41**	.30	−.65**	.57*	.68***
	(.27)	(.22)	(.22)	(.21)	(.27)	(.31)	(.33)	(.27)
D. CAPITAL ACCOUNT	.36	.45	.10	1.19***	.48	−.27	−.13	.53
	(.34)	(.36)	(.29)	(.30)	(.44)	(.46)	(.40)	(.42)
LEFT VOTE	−.06	−.01	−.06	.03	−.09	−.09*	−.11*	−.02
	(.05)	(.03)	(.05)	(.04)	(.07)	(.05)	(.06)	(.06)
D. LEFT VOTE	−.09	.00	−.04	−.03	−.01	−.09*	−.05	−.08
	(.07)	(.03)	(.06)	(.08)	(.07)	(.05)	(.07)	(.07)
DEMOCRACY	−.01	.21***	−.02	.09	−.14	.24***	.08	.21*
	(.07)	(.08)	(.06)	(.10)	(.10)	(.09)	(.08)	(.07)
D. DEMOCRACY	−.10	.11	−.09	−.08	.05	.26***	−.04	.06
	(.09)	(.08)	(.08)	(.23)	(.35)	(.10)	(.09)	(.07)
PARTY FRAGMENT	.61*	−.29	.49	−.38	−.23	.14	.71*	.54
	(.32)	(.28)	(.31)	(.37)	(.41)	(.37)	(.40)	(.45)
POPULATION > AGE 65	1.03	−1.90*	1.17	−4.16***	4.93**	−1.55	1.60	−5.05***
	(1.06)	(1.04)	(.99)	(1.44)	(2.17)	(1.19)	(1.40)	(1.78)
GDP PER CAP (LOGGED)	−1.78	2.53	−3.54	9.18	−11.55**	1.69	−5.85	.66
	(2.88)	(2.00)	(2.43)	(7.57)	(5.03)	(3.12)	(3.80)	(2.52)
TOTAL SPENDING	−.01	−.24***	−.06	−.40***	−.14*	−.17**	−.00	−.15*
	(.06)	(.07)	(.05)	(.10)	(.08)	(.09)	(.07)	(.08)
D. TOTAL SPENDING	−.29***	−.49***	−.31***	−.73***	−.21*	−.22*	−.30***	−.30***
	(.09)	(.08)	(.08)	(.08)	(.12)	(.12)	(.11)	(.01)
UNION STRENGTH	−.20	−.03	−.26**	.05	−.18	−.11	−.17	−.78***
	(.13)	(.14)	(.11)	(.14)	(.15)	(.17)	(.13)	(.19)
POTENTIAL LABOR POWER								2.29**
								(.63)
OUTPUT GAP	−4.92			−9.51	−8.74	10.27**	1.55	
	(4.38)			(6.84)	(10.11)	(4.78)	(4.81)	
LAGGED LEVEL OF DV	−.36***	−.50***	−.39***	−.43***	−.44***	−.55***	−.43***	−.40***
	(.07)	(.10)	(.06)	(.11)	(.09)	(.11)	(.07)	(.07)
R^2	.39	.43	.42	.66	.60	.56	.55	.50
N	184	198	188	82	77	116	111	145

Note: Shaded area highlights key results. Dependent variable is the first difference in the budget item as a percentage of total spending. The "Basic Model" builds on that in Kaufman and Segura-Ubiergo 2001. Shocks are measured as positive and negative deviations from trend GDP per capita, where trend GDP is measured using an Hodrick-Prescott filter. Results for decade dummies are excluded from the table. Numbers in parentheses are panel-corrected standard errors. D = differenced. PLP = potential labor power.
* significant at .10; ** significant at .05; ***significant at .01

6. Regimes and Reforms
6.1 Globalization, Economic Crisis, and Reforms

- *Embedded liberalism in a global economy*
  - *Changing circumstances and uneven effects*
    - *Adjustment, social spending and equality*

TABLE 3. The Dependent Variable: Income Distribution in OECD Countries

Variables	OECD Countries		
Social security and welfare[#] (spending per capita)	− .0012* (.00062)		
Education[#] (spending per capita)		− .015** (.007)	
Health[#] (spending per capita)			− .0046[†] (.0031)
Growth	.155** (.067)	.127* (.067)	.157** (.067)
POP65	.260 (.342)	.529 (.453)	.308 (.445) (.445)
1970s	− .308 (.738)	− .326 (.748)	− .105 (.749)
1980s	− 1.131* (.615)	− .945[†] (.634)	− .837 (.638)
N	84	84	84
R[2]	.991	.991	.991

Fixed effects regression estimates. Figures in parentheses are standard errors.
***$p < .01$; **$p < .05$; *$p < .10$; [†]$p < .15$.

TABLE 5. The Dependent Variable: Income Distribution—LDCs

Variables	Developing Countries		
Trade*social security and welfare[#]	.00079** (.00039)		
Trade*education[#]		− .0088** (.00043)	
Trade*health[#]			− .0019[†] (.0012)
Social security and welfare[#] (spending per capita)	.055 (.043)		
Education[#] (spending per capita)		.150*** (.047)	
Health[#] (spending per capita)			.417*** (.118)
Trade	.020 (.029)	.104*** (.031)	.098*** (.035)
Democracy	− 3.721** (1.495)	− 3.166** (1.242)	− 2.876** (1.238)
GDPcap	36.73*** (12.02)	− 4.639 (13.29)	3.847 (13.96)
GDPcap[2]	− 3.123*** (.861)	− .033 (.955)	− .778 (1.022)
POP65	− .188 (1.384)	1.776 (1.468)	1.896 (1.513)
Urban	− .255* (.134)	− .293*** (.107)	− .343*** (.118)
1970s	− 1.238 (1.246)	− 1.918* (1.130)	− 1.800* (0.981)
1980s	− .158 (.924)	− .561 (.649)	− .327 (.648)
N	97	107	107
R[2]	.987	.992	.993

Fixed effects regression estimates. Figures in parentheses are standard errors.
***$p < .01$; **$p < .05$; *$p < .10$; [†]$p < .15$.

6. Regimes and Reforms
6.2 Political Regimes and Economic Reforms

- *Democratic advantage or autocratic advantage?*
  - *The theories*
    - *Are crises conducive to reforms?*
    - *Do political regimes differ in crisis response?*
      - *Decisiveness vs. constraint*
        - *War of attrition vs. rent reduction*
      - *Discretion vs. accountability*

- *Evidence on political regimes and reforms*
  - *The relationship between reforms and regimes*
  - *The asymmetric consequences of accountability and representation*
  - *The dilemma of economic growth and political stability*
  - → *Growth consequences*

6. Regimes and Reforms
6.2 Political Regimes and Economic Reforms

- *Evidence on political regimes and reforms*
  - *The relationship between reforms and regimes*
  - → Crises promotes reforms for democracies
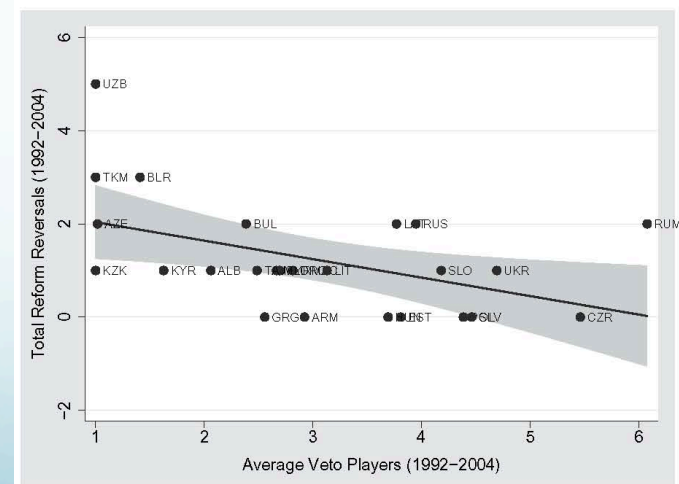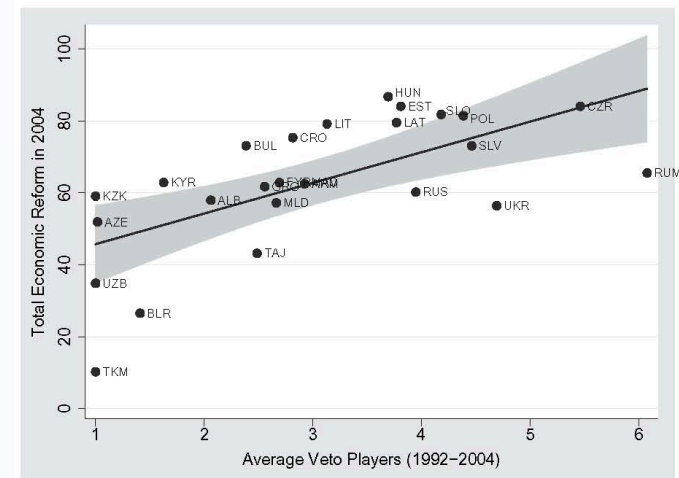
Table 2

Basic Model Specifications

				Dependent variable: efw-score				
Explanatory variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	full sample		sample without high-inc. OECD		full sample		sample without high-inc. OECD	
efw	0.68	0.70	0.71	0.72	0.68	0.70	0.71	0.73
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
growth	0.01	0.04	0.00	0.04	0.01	0.04	0.00	0.05
	(0.337)	(0.009)	(0.630)	(0.011)	(0.600)	(0.009)	(0.737)	(0.007)
polfree	0.74	0.76	0.74	0.75				
	(0.002)	(0.003)	(0.003)	(0.006)				
growth*polfree		−0.08		−0.09				
		(0.011)		(0.008)				
polity					0.65	0.59	0.63	0.53
					(0.001)	(0.000)	(0.004)	(0.002)
growth*polity						−0.09		−0.10
						(0.002)		(0.001)
GDP	0.06	0.08	0.05	0.05	0.12	0.16	0.13	0.13
	(0.579)	(0.400)	(0.630)	(0.620)	(0.213)	(0.040)	(0.199)	(0.106)
trade	−0.09	−0.10	−0.04	−0.03	−0.02	−0.03	−0.02	0.02
	(0.371)	(0.212)	(0.703)	(0.696)	(0.805)	(0.736)	(0.864)	(0.817)
Observations	619	619	481	481	633	633	487	487
Number of coid	120	120	97	97	114	114	93	93
No. instruments	65	75	65	75	76	89	76	89
Hansen-Test	0.309	0.292	0.312	0.252	0.239	0.315	0.382	0.345
AR2-test	0.302	0.446	0.297	0.498	0.563	0.757	0.451	0.747

Notes: All explanatory variables enter with a lag of one period. GDP and trade enter in logs. Estimated by One Step-System GMM. All estimates include a constant, time and country fixed effects. Robust P-values in parentheses.

6. Regimes and Reforms
6.2 Political Regimes and Economic Reforms

- *Political regimes and reforms*
  - *The asymmetric consequences of accountability and representation*
  - → *The unexpected consequences of veto players*
  - *Why this asymmetry?*
    - *Weakened veto players?*
    - *Compensation by agreement?*

- **Political regimes and reforms**
  - *The asymmetric consequences of accountability and representation*
  - *Accountability as overriding force?*

H1: *Increases in the size of the winning coalition (W) are positively associated with growth recoveries from forced exchange-rate devaluations.*

H2: *Increases in the level of democracy as measured by Polity are not significantly associated with recoveries from forced exchange-rate devaluations.*

H3: *Increases/decreases in checks on the chief executive's power to shift policy from the status quo neither unambiguously hinder nor aid recoveries from forced exchange-rate devaluations.*

TABLE 3 Growth Difference and Institutions

Explanatory Variable	Dependent Variable: Growth Difference - Pre & Post 1997							
	W (1)	Polity (2)	Checks (3)	Log Chks (4)	Polcon3 (5)	Chks Sq (6)	Pol3 Sq (7)	Allhouse (8)
Exchange Rate Shock	−.131**	−.014**	.016	−.003	−.032	.084	−.098***	−.079**
	(−2.30)	(−2.50)	(1.21)	(−0.72)	(−1.37)	(1.16)	(−3.57)	(−3.01)
Institutional Variable	−.007	−.000	.004*	.001	−.010	.009	−.047	−.007
	(−0.40)	(−0.13)	(1.90)	(0.18)	(−0.35)	(0.66)	(−0.91)	(−0.89)
Institutional ∗ Exch Rate Shock	.209**	.000	−.023*	−.045*	.099	−.098	.656***	.093**
	(2.09)	(0.14)	(−2.01)	(−1.99)	(0.90)	(−1.26)	(3.37)	(2.65)
Institutional Variable Squared						−.002	.102	
						(−0.81)	(1.27)	
Institutional Sqd ∗ Exch Rate Shock						.016	−1.09***	
						(0.99)	(−3.61)	
Latin America	−.015	−.010	−.014	−.013	−.013	−.007	−.017	−.016
	(−1.10)	(−0.74)	(−0.95)	(−0.96)	(−0.89)	(−0.54)	(−1.19)	(−1.21)
East Asia	−.028	−.015	−.004	−.007	−.022	.002	.009	−.030*
	(−1.65)	(−0.98)	(−0.21)	(−0.42)	(−1.40)	(0.12)	(0.55)	(−1.80)
Sub-Saharan Africa	.003	.005	.005	.003	.006	.009	.006	.002
	(0.26)	(0.38)	(0.40)	(0.22)	(0.50)	(0.78)	(0.51)	(0.13)
Previous Growth 1990 – 1997	−.730***	−.411	−.480**	−.452**	−.498	−.551***	−.755***	−.643***
	(−4.08)	(−1.20)	(−2.05)	(−2.07)	(−1.68)	(−2.94)	(−4.80)	(−3.86)
Log 1997 GDP per capita	−.002	−.006	−.008	−.007	−.003	−.005	−.001	−.001
	(−0.24)	(−0.85)	(−1.68)	(−1.16)	(−0.47)	(−0.77)	(−0.26)	(−0.21)
ELF60 – Ethnic Fractionalization	−.016	−.018	−.026**	−.020*	−.019	−.025**	−.019	−.016
	(−1.16)	(−1.18)	(−2.08)	(−1.73)	(−1.22)	(−2.12)	(−1.54)	(−1.29)
R^2	.73	.67	.73	.74	.68	.77	.77	.76
Root MSE	.018	.020	.018	.018	.020	.017	.017	.017
Number of observations	44	44	44	44	44	44	44	44

Notes: T-stats produced with robust standard errors in parentheses. Significantly different from zero at 90% (*), 95% (**), 99% (***) confidence.

6. Regimes and Reforms
6.2 Political Regimes and Economic Reforms

- *Political regimes and reforms*

➔ *Growth consequence*

  ➔ *Democracies*

  Growth after crisis

Table 1
Growth effects of crises and interaction with political institutions. Estimation: two-step system GMM with Windmeijer (2005) small sample robust standard error correction and time effects.

Dependent variable	Log GDP per capita		Log GDP per worker	
	(1.1)	(1.2)	(1.3)	(1.4)
Crisis	−0.131***	−0.179***	−0.136***	−0.165***
[Systemic BC]	[0.032]	[0.036]	[0.030]	[0.037]
Crisis * polity2		0.013**		0.009**
		[0.005]		[0.004]
polity2	0.004	−0.000	0.001	−0.002
	[0.003]	[0.003]	[0.003]	[0.003]
Control variables				
Initial GDP per capita	0.984***,a	0.986***		
[Log]	[0.023]	[0.020]		
Initial GDP per worker			0.955***	0.954***
[Log]			[0.035]	[0.032]
Trade openness	0.106*	0.076	0.058	0.034
[X + M/GDP, log]	[0.060]	[0.057]	[0.059]	[0.048]
Government burden	−0.154**	−0.145**	−0.075	−0.071
[Government consumption/GDP, log]	[0.064]	[0.070]	[0.063]	[0.053]
Inflation	−0.054**	−0.050**	−0.061***	−0.061***
[Log[1 + inflation]]	[0.025]	[0.022]	[0.020]	[0.019]
Education	0.007***	0.005***	0.005***	0.005***
[Secondary enrollment, log]	[0.002]	[0.002]	[0.002]	[0.002]
Constant	0.240	0.363	0.587	0.704**
	[0.357]	[0.344]	[0.372]	[0.315]
Hansen *p*-value	0.23	0.47	0.19	0.51
AR1 test *p*-value	0.00	0.00	0.00	0.00
AR2 test *p*-value	0.08	0.26	0.19	0.26
Observations	419	419	424	424
Number of countries	78	78	77	77
Number of instruments	75	83	75	83

Time dummies are included in all regressions [coefficients not shown].
Standard errors in brackets.
* Significant at 10%.
** Significant at 5%.
*** Significant at 1%.
[a] Note that we are estimating Eq. (2) in the text, so that the effect on GDP growth for this particular coefficient has to be calculated by subtracting 1.

6. Regimes and Reforms
6.3 Political Consequences of Economic Reforms

- *The consequences of economic reform*
  - *The effect of globalization and political regimes on welfare spending*
    - *Education/health/social security*
    - *Democracies vs. intermediate vs. non-democracy*

Hypothesis 1: Globalization constrains welfare spending and democracy is irrelevant in offsetting these effects. Democratic and authoritarian regimes react similarly to the economic constraints of increased openness to trade and investment.

Hypothesis 2: Globalization has constraining effects on social spending in authoritarian regimes but not in democracies.

Hypothesis 3: Globalization does not have constraining effects on social spending, but democracies spend more on social insurance and services than do non-democracies.

Table 5
Results for Social Security and Welfare

	Social Security and Welfare Spending	
	Democracy	Nondemocracy
Trade	−0.017	−0.022*
	(0.80)	(1.69)
Capital flows	0.011*	0.016
	(1.92)	(1.07)
External debt	0.006	−0.001
	(0.27)	(0.09)
Percentage aged	5.396***	0.072
	(4.79)	(0.07)
Growth	0.016	0.000
	(0.46)	(0.01)
Potential labor power	0.239	0.206
	(1.08)	(0.93)
GDP per capita	−10.038***	1.680
	(4.26)	(0.98)
Seventy	−2.423**	−0.854
	(2.55)	(1.28)
Eighty	−2.099***	−0.977**
	(3.00)	(2.15)
Observations	231	395
R^2	0.94	0.92

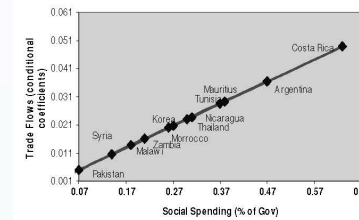*Note:* Parentheses contain z statistics.
*$p < .10$. **$p < .05$. ***$p < .01$.

6. Regimes and Reforms
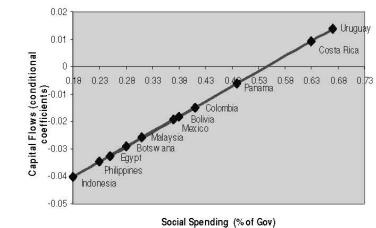## 6.3 Political Consequences of Economic Reforms

- **The consequences of economic reform**
  - **The effect of globalization and welfare spending on democracy**

FIGURE 3 Conditional Effects of Increases in Trade on Democracy Given Different Levels of Social Spending, 1972–1997*

*Some LDCs were excluded to avoid clustering and enhance clarity of presentation.

FIGURE 4 Conditional Effects of Increases in Capital Flows on Democracy Given Different Levels of Social Spending, 1972–1997*

*Some LDCs were excluded to avoid clustering and enhance clarity of presentation.

TABLE 3 The Effects of Globalization on Democracy

Variables	Democracy	
Trade	−0.004	(0.018)
K Flows	−0.062**	(0.025)
Trade * Social Spending (% of Gov)	**0.078***	**(0.046)**
K Flows * Social Spending (% of Gov)	**0.112***	**(0.049)**
Social Spending (% of Gov)	51.86***	(13.50)
Urban	0.048	(0.036)
PLP	−0.137***	(0.042)
Gdpcap	−1.04*	(0.607)
Growth	0.019**	(0.009)
Inflation	0.782**	(0.379)
Regional Democracy	3.99***	(1.46)
World Democracy	−2.28	(2.74)
N	716	
R^2	0.725	

***$p < 0.01$; **$p < 0.05$; *$p < 0.10$; †$p < .15$ (two-tailed).
Fixed effects regression estimates. Figures in parentheses are standard errors.
Note that there are fewer observations than Table 2 because LDC social spending variables are missing for some years.

TABLE 4 The Effects of Globalization and *Changes* in Social Spending on Democracy

Variables	Democracy	
Trade	−0.0008	(0.007)
K Flows	−0.092***	(0.017)
Trade * Δ Social Spending (% of Gov)	**1.08***	**(0.487)**
K Flows * Δ Social Spending (% of Gov)	**0.279***	**(0.082)**
Δ Social Spending (% of Gov)	51.45†	(31.43)
Urban	0.133***	(0.042)
PLP*	0.357**	(0.201)
Gdpcap	−1.75**	(0.753)
Growth	0.044***	(0.013)
Inflation	1.54***	(0.561)
Regional Democracy	4.68***	(1.44)
World Democracy	−8.54**	(3.37)
N	553	
R^2	0.821	

***$p < 0.01$; **$p < 0.05$; *$p < 0.10$; †$p < .15$ (two-tailed).
Fixed effects regression estimates. Figures in parentheses are standard errors.

TABLE 5 The Effects of Trade, Portfolio Flows, and Social Spending on Democracy and Political and Civil Liberties

Variables	Democracy		Political and Civil Liberties	
Trade	−0.035†	(0.022)	−0.020	(0.217)
Portfolio Flows	−0.769**	(0.303)	−0.698***	(0.237)
Trade * Social Spending (% of Gov)	**0.168***	**(0.709)**	**0.117***	**(0.071)**
Port. Flows * Social Spending (% of Gov)	**2.74***	**(0.929)**	**2.06***	**(0.069)**
Social Spending (% of Gov)	52.34***	(13.63)	34.10***	(11.43)
Urban	0.082**	(0.042)	0.089*	(0.051)
PLP*	0.146	(0.190)	0.059	(0.218)
Gdpcap	−1.83**	(0.845)	−0.405	(0.709)
Growth	0.032***	(0.012)	0.011	(0.009)
Inflation	0.635	(0.594)	0.619†	(2.42)
Regional Democracy	4.30***	(1.45)	2.67**	(1.20)
World Democracy	−7.98**	(3.56)	−11.11***	(2.83)
N	575		583	
R^2	0.776		0.881	

***$p < 0.01$; **$p < 0.05$; *$p < 0.10$; †$p < .15$ (two-tailed).

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6. Regimes and Reforms
6.3 Political Consequences of Economic Reforms

- *The consequences of inequality*
  - *Inequality ⇔ democratization (review)*
    - *Negative (Boix)*
    - *Inverted-U (Acemoglu and Robinson)*
    - *Conditionally positive (Ansell and Samuels)*
    - *Indeterminate (Haggard and Kaufman)*

  - *Inequality ⇔ consolidation*
    - *Negative*
      - *Inequality = capital owners share of value added*
    - *Democracy and Autocracy as stable regimes*
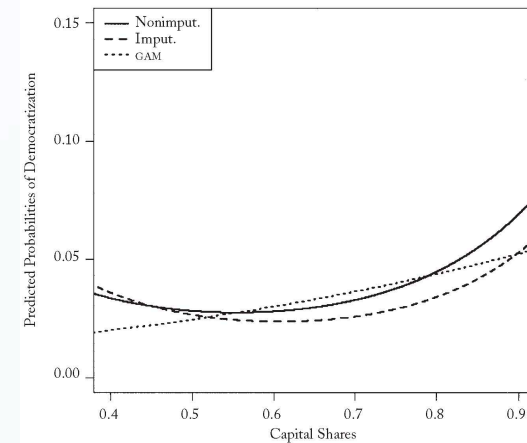   - *→ intermediate regimes = unstable*

FIGURE 1
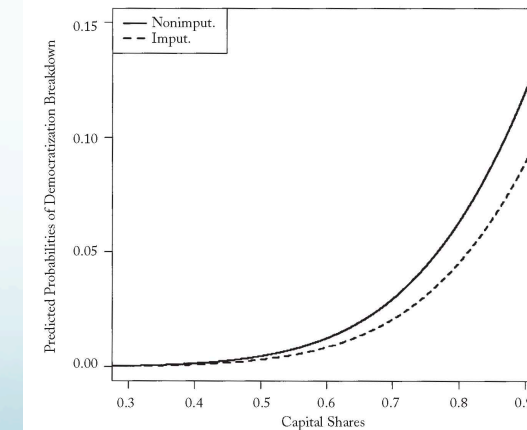PREDICTED PROBABILITIES OF TRANSITION FROM DICTATORSHIP TO DEMOCRACY

FIGURE 2
PREDICTED PROBABILITIES OF TRANSITION FROM DEMOCRACY TO DICTATORSHIP

6. Regimes and Reforms
Summary

- 6.1 Globalization and Economic Crisis
  - *Globalization and economic crisis*
  - *Embedded liberalism in a global economy*

- 6.2 Political Regimes and Economic Reforms
  - *Democratic advantage or autocratic advantage?*
    - *The asymmetric consequences of accountability and representation*
    - *The dilemma of economic growth and political stability*

- 6.3 Political Consequences of Economic Adjustment
  - *The consequences for welfare spending*
  - *The consequences of inequality*
  - *The problem of transitional instability?*
    - *Economic adjustment, inequality, and political instability*

- *What are the implications for economic cooperation?*