Ideology and Voter Preferences as Determinants of Financial Globalization

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We propose that the global spread of ideas affects international economic openness policies, and that to omit ideology as an explanatory variable for economic globalization is to risk omitted variable bias. Using voting data, we create measures of global ideology regarding economic openness and propose that changes in both global and domestic ideology influence how open or closed to international finance an economy is. We also test other influences on liberalization, including proposed state-centered diffusion mechanisms. Using PCSTS and system-GMM models, we estimate the determinants of change in international capital account regulation for 82 countries, 1955 to 1999. We thereby examine diffusion of both liberalizations (1950s and 1990s) and closures (1960s and 1970s). Changes in both global and domestic ideology robustly influence liberalization and closure. The capital account policies of neighboring countries (positively) and of the leading economies (negatively) also influenced a country's capital account liberalization.

Scholars have long claimed that the spread of ideas matters for the adaptation and reform of government policies (see, e.g., the essays in Hall 1989). In this article, we investigate the effects of changes in both global and domestic ideology and voter preferences on government policy administering international financial flows. The main hypothesis we test is that global and domestic changes in ideology drive in part financial globalization policies. We argue that excluding change in ideology as an explanatory variable creates a possible omitted variable problem. Our dependent variable, $\Delta CAPITAL$, is change in capital account regulation, described in the data appendix. We use voting data to create valid indicators of ideological change that will aid in identifying the mechanisms through which liberalizations or closures spread.

In addition to proposing hypotheses about global ideology and economic openness, we build on recent studies of international policy diffusion, which are concerned with external influences on government policies. The work of Simmons, Dobbin, and Garrett (2006; hereafter, "SDG"), Elkins, Guzman, and Simmons (2006), and Swank (2006) show that the behavior of other governments influences government policy. We incorporate their theory and findings in our research design.

We organize the article as follows. In the first section, we offer a theoretical basis for hypothesizing that the global and domestic spread of ideas affects economic openness policies. We turn, in the second section, to our indicators of ideological change. The third section discusses our models and methods. The final sections report the results of our study and offer concluding remarks.

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The Global Spread of Ideas

During the second half of the twentieth century, several distinct waves of international financial openness and closure spread worldwide. Previous scholarship has identified many of the domestic and international political economic forces that account for these changes in international financial openness.[1] While this literature explains some determinants of policy liberalization and closure, to our knowledge scholars have not studied the effects of either the *global* or the domestic spread of ideas as an influence on a government's policy choices.

We hypothesize that capital account regulation in a range of countries is directly, significantly, and systematically influenced by changes in both global and domestic ideology. That is, the regulation of international financial transactions is likely to be more (less) restrictive as anticapitalist (procapitalist) ideology is widespread because political leaders are likely to be either influenced or conditioned by how widespread anticapitalist ideology is. Ideology is measured by voter preferences toward capitalism, as revealed in part through fair and open electoral competition. Voting outcomes over time provide a valid and reliable indicator of the depth of anti- and procapitalist ideology. The effects of these preferences should be distinguished from the effects of democracy, however, which we will also assess.

The global spread of ideas is not the only form of diffusion considered. SDG conceive policy diffusion as states being influenced by the behavior of other states in the system, which we also examine.[2]

Diffusion Mechanisms

Society-Centered Approaches

Two major sets of perspectives have guided recent studies of policy diffusion. The realist perspective is primarily operationalized in terms of a state responding to either international pressures from or experiences of other states (competitiveness and learning, respectively). This state-centered version of diffusion has been influential in international relations studies (see, e.g., SDG).

Constructivist understandings, in contrast, see diffusion processes as operating through cultural channels. These analyses rely heavily on the existence of dominant or elite actors who are the propagators and the receptors of ideas. Elite identities are formed through what Lee and Strang (2006) refer to as the process of "communication and mutual sense-making among peers," for example, through professional groups. Epistemic communities, transnational networks of elites, or international organizations offer similar channels for policy diffusion by espousing certain orthodoxies or "schools of thought" that are interpreted in similar ways across societies (see also Kogut and MacPherson 2005; Wotipka and Ramirez 2006).

The world-society approach in sociology offers a related set of insights into channels for diffusion. Scholars in this tradition conceive of the state not as a bounded and unitary actor, but instead as an entity exogenously constructed by individuals and groups, both inside and outside the state, through their engagement in state and policy formation (Meyer et al. 1997). Meyer (2004) further conceptualizes the state as embedded in the "ether" of world society. The ether may emanate and diffuse at the grassroots level. Moreover, as Acharya (2004) and Risse, Ropp, and Sikkink (1999, especially 6–18) note, global beliefs are often transformed or reconstructed in the process of "localization" in order for them to achieve greater congruence at the national or local level.

These society-centered channels of diffusion point to limitations of state-centered "rational actor" approaches to diffusion. Government officials rely on heuristic shortcuts (bounded rationality; Weyland 2005), retrospective learning biased towards the most recent events, "error-learning" (i.e., adjusting based on perceived past mistakes; Jonung 2005), or responding to changes in perceived public or voter preferences. (See also Meseguer and Gilardi 2005.)

Society-centered approaches therefore recall the earliest studies of the diverse means through which ideas diffused (e.g., Ryan and Gross 1943). The classical model, developed by Rogers in the early 1960s, defines diffusion as the spread of innovations (ideas, practices, objects) "through certain channels over time among the members of a social system" (1983, 5). In our study, society-centered channels of diffusion join state-centered channels of diffusion as being among the many paths through which policy ideas diffuse in the world social system.

We draw upon various strands of the society-centered literature to offer a possible mechanism for international policy diffusion based on changes in preferences among elites and citizens about international capitalism. We propose that government officials are influenced by changes in how widespread global ideology is as it alters the incentives and opportunities for them and because the forces

[1]For general literature reviews on capital account liberalization, see Eichengreen (2001) and IMF (2001). Examples of papers on the determinants of liberalization are Brune et al. (2001); Kastner and Rector (2005); Li and Smith (2002); Quinn (2003); Quinn and Inclan (1997); Simmons and Elkins (2004); Zhang (2002).

[2]That is, the choices governments make about policies are interdependent.

that shape belief formation among individuals globally can be assumed to influence political elites.

To examine the direct effect of anti- and procapitalist ideology as an important force shaping national response to the broad spread of global liberalism, we consider changes in electoral support for Communist parties (CPs) worldwide as indicative of changes in global ideology. CPs were ideologically consistent in their hostile stance towards international economic liberalism for a long period. Their electoral performance should tell us something about global and national preferences regarding those policies in which the party maintains consistent views. We expect that their domestic support will matter in the choices made by a democratic government. Of greater interest here is whether change in their support *worldwide* will affect a particular government's regulatory policies.

State-Centered Approaches

Coercion and Structural Dependency. To supplement our hypotheses about the global spread of ideas, we also test the effects of state-centered mechanisms of influence on policy. First, the literature on economic globalization often assumes, consistent with structural dependency theory, that OECD countries have influenced or compelled developing countries to pursue liberal policies in trade and finance (see, e.g., Drezner 2001; Evans 1997; Fourcade-Gourinchas and Babb 2002; Gwynne and Kay 1999). Even those who assert that states retain policy autonomy still assume that governments must adjust national policies to the fait accompli of liberalized capital (e.g., Mosley 2003). The degree of international financial openness of the world's leading economies might therefore affect the international financial policies of other nations. The mechanisms of influence might include (1) demonstration effects of the results of their policies (learning or emulation); (2) enhanced difficulties in trading with partners with a given financial payments regime (network externalities); (3) development of profit opportunities for economic agents in arbitraging differences in regulatory systems (strategic competition); (4) the threat or reality of capital flight (indirect coercion of market forces); and (5) overt political pressure from the governments of the leading economies to permit their firms greater economic freedoms in the host country (direct coercion).

One inference, therefore, is that once the leading economies deregulated more or less completely, other countries would come under increasing pressure to do the same. This logic underpins much of the literature on structural dependence, as well as the logic in the realist/dominant actors school of IR theory.

Second, we test whether international institutions influenced government decisions on capital account openness. It is widely argued that the International Monetary Fund (IMF) is able, through terms of conditionality[3] in negotiating a program, to impose its policy preferences.[4] Be that as it may, the Fund rarely to almost never imposed capital account liberalization on nations as part of program conditionality.[5] Moreover, Abiad and Mody (2005, 73) show that various financial reforms in 35 countries, from 1973 to 1996 (including capital account liberalizations), were uncorrelated with IMF programs. Even so, we examine whether a country's participation in an IMF program has an influence on its liberalization strategies (see Przeworski and Vreeland 2000 for a discussion of some effects of IMF programs).

The IMF has long argued, however, that governments should have sound macroeconomic outcomes before liberalizing capital accounts. Dreher (2002, 62) reports that reducing external debt appeared in 96% of conditionality agreements. Maintaining a positive balance of payments is generally a precondition for a government's capital account liberalization, and we use that indicator as a second proxy for IMF policy preferences for whether a particular country should liberalize its capital accounts. Consistent with that view, Abiad and Mody (2005) find that balance of payments crises spurred a variety of financial reforms.

Emulation, Learning, and Competitive Pressures. A standard hypothesis from the IR literature is that the experiences of neighbors influence nations (Simmons 2000), and we must allow for the possibility that capital account policies follow an emulative pattern. Governments that adopt policies because of emulation either are taking informational shortcuts, without fully assessing the range of available policies and their expected outcomes, or are part of a network of countries where "acceptable policies" are regionally defined. Perhaps this could be characterized as weak learning. We therefore introduce several regional

[3] See Conway (2004) for a discussion of the fundamental endogeneity of IMF conditionality programs.

[4] Henisz, Zelner, and Guillen (2005) find this to be increasingly the case as later beneficiaries of multilateral aid face greater pressures than earlier ones to conform to practices that are also more widespread over time.

[5] Dreher (2002, 51, 62) shows that, from 1988 to 1992, capital account liberalization appeared in 18.75% of conditionality agreements and, between 1999 and 2001, in only slightly more than 3% of conditionality agreements. Beginning with Thailand (August 14, 1997), the IMF has made public the details of the Letters of Intent and the terms of conditionality. We undertook a content search of the hundreds of Letters of Intent from August 1997 to November 2004 and found only seven that mentioned capital account liberalization.

variables for capital account openness (Δ*Regional CAPITAL*) to test for emulation. We recognize that governments within regions also have reasons beyond emulation for adopting regionally common, coordinated economic policies (see, e.g., the discussions in Abiad and Mody 2005 and Mansfield and Milner 1997; see also Gleditsch and Ward 2006).

Because capital account liberalization produces complex results, governments are likely to consider the experience of their neighbors and adopt successful policies. Learning, in contrast to emulation, involves progressive rethinking about policies, sometimes involving "natural experiments" (SDG). For learning to take place, there should be plausible reasons of comparability for why states draw on each other's experiences (SDG; Meseguer 2003). We explicitly test for informed learning (as opposed to heuristic "shortcuts") by interacting regional capital account regulation with regional economic growth, assuming that regional emulation processes can be distinguished from learning with information about economic performance.

Finally, we consider national competition for goods and resources. As SDG note, many of the studies of competitive dynamics have not specified clearly a competition hypothesis where policy changes in one country are linked to those in competitor countries. Elkins, Guzman, and Simmons (2006) and Simmons and Elkins (2004) are exceptions that do find competitor effects. Capital account liberalization offers a reasonably clean test of the competitive linkage hypothesis among countries with structural similarities. We test this by including a variable that measures *CAPITAL* for potential export *competitors* (*CAPITAL in Competitors*). The measure is analogous to a "potential competitor" indicator and allows for dynamism in economic relations.

Anti- and Prointernational Capitalist Ideology

Those who are distrustful of capitalism as a system might still begrudgingly, or even actively, accept a domestically focused capitalism, which can be directed by the state and whose disequilibrations can be managed through corporatist-style institutions (see Katzenstein 1986). International capitalism, though, is a harder-to-tame force: the state can regulate it, but only within the limits of international financial markets logic. When a nation liberalizes its capital accounts, it commits itself to abandoning the role of *dirigiste* and assigns itself the role of regulator. Under liberalized capital markets, a government's incentives change regarding economic policy as it finds key macroeconomic choices constrained: e.g., Mundell famously proposed that under free capital flows, a government may fix the value of either its currency or its domestic interest rates, but not both. Moreover, state ownership of a society's means of production becomes increasingly difficult.

Hostility toward international capitalism was apparently widespread in the interwar and immediate postwar periods among both citizens and elites. Parties committed to anticapitalist agendas fared well in electoral competition. Many emerging market countries through the 1980s explicitly rejected the model of international financial openness advocated by leading economies. They did so partly in accordance with a world systems or *dependencia* interpretation of modern capitalism. This view suggested that "peripheral" countries were better situated through isolation from "core" countries, whose exploitation of the periphery was central to core nation wealth and peripheral nation poverty. In this understanding of development, often associated with Raul Prebisch (1950) and Immanuel Wallerstein (1976), peripheral nations should undertake import substitution industrialization to improve their terms of trade, which requires partial financial closure. Other theorists advocated nationalizing industries owned by core country residents or blocking "core" capital flows as a means of establishing economic independence.[6]

The changes in global preferences regarding international capitalism partly alter the incentives governing elites face regarding their economic policies. In periods where global ideology favors international capitalism, reformists can plausibly point to external experiences and beliefs to justify their reforms. In such times, more autarkic-minded elites find their preferred policies at odds with global trends, leaving them politically exposed in the event of economic failures to the charge of enacting antiquated policies. In contrast, when global ideology runs against international capitalism, governing elites who restrict capital control flows to defend both domestic economic targets and a currency value do so with greater legitimacy.

How do we measure worldwide anti-international capitalist ideology?[7] The difficulty of measuring the force of ideas is legendary. Two problems are particularly

[6] See J. Quinn (2002) for a discussion of ideology and nationalization in Sub-Saharan Africa in the 1960s.

[7] We make a distinction between our conceptualization of anticapitalist ideology and other associated ideologies such as antiglobalization, anti-Americanism, or antiprotectionism (see Rodrik 1995, 1997 and Scheve and Slaughter 2001). Anticapitalist ideology, for our purposes, is not as all-encompassing an idea as antiglobalization, as chauvinistic as anti-Americanism.

salient. First, how do we know which ideas are held by whom, when, and where? Second, how forceful are the ideas?

A standard solution to the first problem has been to rely on citizen survey data. This is inadequate for current purposes. Respondents frequently have an incentive to deceive about beliefs, especially those regarded by elites as dangerous (see Bonardi and Keim 2002). Furthermore, survey data regarding citizen perceptions of economic performance and associated government policies are prone to producing misleading results (e.g., due to survey question ordering, the timing of "cues" about the economy, and inconsistency of survey responses; see Duch and Palmer 2001). Finally, we have been unable to find relevant polls on preferences about capitalism, with consistent questionnaires, offering sufficient cross-sectional and temporal data points to allow an econometric study.

One solution to both problems has been to observe behavior in political and economic markets in settings where actors have choices and privacy is protected. Simply put, voting results give us some insight into the political beliefs of individuals. Because political markets are contested in democracies, we can expect widely held beliefs to influence public policy through the selection of elites who share those views or through the adaptation by elites to those beliefs (for discussions, see Page and Shapiro 1992; Stimson, McKuen, and Erikson 1995; Wittman 1995).

Many political parties have adopted, at varying times and places, anticapitalism as part of their electoral platform. One political party stands out, however, as having had a consistent line through time and space about international capital movements. As shown below, one of the world's leading agents of globalization, the CP of the Soviet Union, and Soviet-line CPs had consistent ideas regarding international capitalism, a consistency enhanced and enforced through Leninist "democratic centralism."[8] Indeed, no common profree market political party has taken root in multiple countries! Hence, it is harder to answer the related question—how widespread was the global *support* of internationalized capitalism?[9] (We propose a validation test for our measures below that draws on some measures of the spread of free market ideas.)

Other political parties have shown less consistency regarding financial liberalization. While many social democratic parties rhetorically opposed international capitalism, socialist and labor parties tended to liberalize international finance when their countries had abundant highly skilled labor (Li and Smith 2002; Quinn and Inclan 1997). Right-wing parties also often restricted international finance when their domestic capitalists were at an international disadvantage. And, as Swank and Betz (2003) note, the new radical right-wing populists are hostile to economic globalization, but are mostly explicitly hostile to the inward immigration that they associate with globalization. (We also test below whether CP voting and voting for Right-Wing Populist Parties (RWP voting) are correlated.)

Ideological Consistency

Anti-international capitalism, rooted in Leninist ideology, was a common doctrine for CPs following the Soviet line, at least through the 1980s (see especially Chapter V, "Export of Capital" in Lenin [1916] 1971). Lenin, following Hilferding's analysis ([1910] 1981), understood the export of capital by Western firms to be the key mechanism of First World imperialism. If a nation were to accept the export of Western capital, it sets itself up for, at best, economic colonialism. Leninist theory, hence, proscribes international capital mobility, a motif echoed later by Prebisch (1950) and Wallerstein (1976).

More practical than Leninist ideology for solidifying the anti-international capital ideology of the Soviet CP and its follower parties was the autarkic economic system established through Soviet central planning. While scholars have debated about whether the Soviet system required trade autarky (see LaVigne 1991), almost everyone agrees that currency inconvertibility and prohibitions on private capital transactions were central to the system. Indeed, the two Soviet Bloc members who were also members of the IMF, Poland and Czechoslovakia, either withdrew or were expelled (respectively) from the IMF over noncompliance with rules mandating the easing of international financial restrictions. Within the Soviet Bloc, most retained full capital account restrictions until the 1980s. The Soviet government forbade inward foreign direct investment until January 1987; foreign direct investments in the former Soviet Bloc nations were zero to negligible.[10]

[8]This was the case, at least, until the 25th International Communist Party Congress in 1989. Italy's CP, however, began its break with the hard-line Soviet position earlier than most other CPs in reaction to the Soviet invasion of Czechoslovakia.

[9]Not that we, and others, didn't try. We began to collect data on worldwide subscriptions to leading economics journals and admission to leading economics Ph.D. programs by country of origin. Apart from collection problems, these efforts stumbled against the valid objection that the content of economics as a discipline is itself affected by the global spread of anticapitalist and procapitalist ideas. Please see Chwieroth (2002) and Kogut and MacPherson (2005) for valiant and important innovations.

[10]See *East European Business Law* (1991) and (Hart and Dean 1994).

The former Soviet Bloc nations liberalized finance in the 1990s. Russia began liberalization in 1990 and had substantially liberalized by 1994 (EBRD 1994). None of these developments reflected an ideological change of heart by the Russian CP, however. Many Western European CPs edged away from the Soviet line, with major breaks occurring in the late 1980s into the 1990s. Even so, as of 1993, all CPs continued to rank on the extreme to far left of the Huber and Inglehart (1995) party space location continuum.[11]

Therefore, to measure global anticapitalist ideology, we use the percentage of the votes across countries garnered by CPs (hereafter "CP votes"). We include data only from countries where all parties, including the CP (or a renamed subsidiary) have been free to compete in secret balloting from 1949 to 1952 through 1999.[12] There are 23 such countries in the data set.[13]

For the 23 countries with home CPs, we expect that their governments will be responsive to changes in *Home CP* vote shares. For those countries, we seek to identify separately the influences of change in global ideology and change in domestic support for anticapitalist policies.

Measuring Procapitalist Ideology

As noted above, it is harder to compile valid measures of procapitalist ideology. Using available data on party manifestos, however, we validate our results regarding our central measure of anticapitalism. The authors of the Comparative Manifesto Project (CMP) provide content analyses of the party election platforms of more than 150 parties in 20 countries for 56 wide-ranging policy issues (see Budge 1992; Kim and Fording 2003; Volkens 1995). The data from the project begin in a few cases in the 1920s and end as late as 1988. A relatively complete set of data is available from 1945 to the early 1980s.

The CMP authors did not code party platforms on the issue of capital account liberalization. They did include, however, a related survey category on economic affairs, which is "Item 401." Item 401 assesses a party's statement of support for economic liberty, free enterprise, and free trade.[14] (It states: "Favorable mentions of free enterprise capitalism, superiority of individual enterprise over state and control systems, favorable mentions of private property rights, personal enterprise and initiative, need for unhampered individual enterprises.")

We use the CMP Item 401 data to construct a domestic and worldwide "procapitalism" indicator (*Free enterprise*). If a party manifesto contains a standardized score of at least "1" in the favorable mention of economic liberty and free markets, we sum its vote share with those of other parties with mentions of economic liberty. Joining vote share data to the CMP data allows us to develop a global measure of the support of procapitalist parties. The data for 17 countries from 1945/60 to 1981 are available.[15]

Assumptions and Limitations

Our analysis contains assumptions that need to be tested, and some limitations that we need to control for, in the investigative design. Our three key assumptions are (1) CPs worldwide are similar in their opposition to international capitalism, but different compared to other types of political parties; (2) voting for CPs is "preference revealing" in that changes in CP vote totals tell us about changing voter preferences in general; and (3) global economic processes do not drive both support for communist parties worldwide and the domestic capital account policies of countries. We assess these assumptions in the results section.

A key limitation of the research design is that the voting systems of countries vary widely, so that voting for

[11]Their left-to-right scale ranged from 1 (extreme left) to 10 (extreme right). The 16 CPs on the 1993 list had a mean ideological spatial position of 2.19. The Ukrainian CP was the most "rightward" CP, at 3.67, and the CP of France was at the mean. The CP of Brazil was the most left-leaning at 1.33.

[12]The data are provided in an appendix available from Dennis Quinn. Let us note some data problems. (1) The German CP was banned for 10 years in the late 1950s and early 1960s. Germany's data are excluded, therefore. (2) CPs frequently joined in alliance with other parties. Where, as in the case of Finland in 1991 and 1995, the CP is the dominant partner (of the Left-Wing Alliance), the Left-Wing Alliance's total votes are entered as CP votes. Italy in 1948 and Denmark (Unity List) are treated that way. In other cases, such as Sri Lanka where the CP is a junior partner in the People's Alliance, the CP vote total is entered as zero. The CP of Netherlands (Green Left) is treated this way. (3) CPs frequently fissure. Where the resulting parties describe themselves as loyal to Marxist-Leninist theory, the vote totals are summed. This is the case for India, where the CP of India (pro-Soviet) and the CP-Marxist (pro-Chinese) split in 1964. In Israel, Maki and Rakah are summed. Hadash is treated as the successor party. (4) A few CPs, notably the Vansterpartiet in Sweden and Italy's CP, which was the largest and most successful one in Western Europe, have gradually broken with Leninism (see their history at http: //www.vansterpartiet.se/ and http: //www.fact-index.com/i/it/italian_communist_party.html). For the purposes of this article, they are treated as being a CP.

[13]These are Austria, Belgium, Denmark, Finland, France, Iceland, Ireland, Italy, Luxembourg, Malta, the Netherlands, Norway, Sweden, Switzerland, United Kingdom, Australia, New Zealand, Canada, the United States, Israel, India, Japan, and Sri Lanka.

[14]The project coders count favorable mentions (called "quasi-sentences") of free trade in party manifestos and other sources. These scores are standardized by dividing by the length of the document. Zero represents no positive mention of economic liberty and free enterprise.

[15]These are Austria, Australia, Belgium, Canada, Denmark, France, Germany, Ireland, Israel, Italy, Japan, New Zealand, the Netherlands, Norway, Sweden, the United Kingdom, and the United States.

a CP in one context might take on very different meaning from another. To offset that limitation, we rely on change indicators of CP voting. We will also estimate fixed-effects models, which will control in the statistical investigation in part for national differences in voting systems.

Models and Methods

Our general empirical strategy was outlined in Dobbin, Garrett, and Simmons (2003, 14). They proposed

$$LIB_{it} = \beta_1 \sum X_{i,t-1} + \beta_2 \sum X_{i,t-1} + \beta_3 \sum LIB_{j,t-1} + \mu \quad (1)$$

where the three determinants of country i's policy choice of capital account liberalization are domestic conditions β_1 at $t-1$; external shocks β_2 at $t-1$, and the liberalization of policies of j other countries β_3 (trade liberalization, democratization, tax restructuring, etc.) at $t-1$.

We adapt their model by distinguishing between domestic economic and domestic political conditions (β_1 (economic) at $s-1+\beta_2$ (political, electoral, and previous levels of policy) at s − 1) in a five-year average panel (s). We explicitly model changes in global ideology (β_4 at s − 1). We also hypothesize that either liberal or illiberal policies can diffuse: change in policy is the dependent variable, and we allow for either liberalization or closure policies by other countries (β_3 at s − 1). See equation 2:

$$\Delta Policy_{i,s} = \beta_1 \sum Economic_{i,s-1} + \beta_2 \sum Political_{i,s-1} + \beta_3 \sum Policy_{j,s-1} + \beta_4 \sum WorldViews_{j,s-1} + \mu$$

The prospect that international finance might be liberalized could induce economic and political actors to alter their current behavior. Hence, we also estimate a model with contemporaneous, endogenous right-hand side (using a system-Generalized Method of Moments—see below). See equation 3:

$$\Delta Policy_{i,s} = \beta_1 \sum Economic_{i,s} + \beta_2 \sum Political_{i,s} + \beta_3 \sum Policy_{j,s} + \beta_4 \sum WorldViews_{j,s} + \mu$$

Models

The base model seeks to explain change in a government's capital account policies from one period to another. The model incorporates domestic and international political economic variables and ideology measures. We develop a second model that introduces other diffusion mechanism variables. We continue with robustness checks to account for the collapse of the Soviet Bloc (by omitting data from the 1990s).

We use five-year nonoverlapping panel data starting at 1955–59 and continuing to 1995–99. We employ the notation, $i = 1, 2, \ldots, 82$, and the index s, representing five-year intervals. This means, e.g., that $\Delta CAPITAL_{i,s}$ for the $s = 1985$–89 period is examined using data from the $s-1 = 1980$–84. Five-year panels are employed both for econometric reasons (discussed below), and in recognition of the uncertainty of the timing of the effects of economic and political variables on a government's regulatory decisions. (For comparison purposes, we also report the results of OLS models estimated using annual data.)

Our dependent variable is $\Delta CAPITAL$. The key independent variables are the indicators of global ideology and policy diffusion: changes in World CP vote totals and changes in Home CP vote totals. We are also interested in the state-centered diffusion variables: the degree of financial openness of the world's leading economies, a country's balance of payments position, changes in policy within a region, EU accession, the capital account policies of a nation's competitors, participation in an IMF program, and a measure of the economic results of prior liberalization experiences (see the data appendix).

Changes in global ideology are more relevant in this investigation since we hypothesize that they influence government officials. Moreover, because variables measured in levels are frequently collinear with other political economy processes, change indicators have more desirable estimation properties.[16]

Other independent variables in the investigation are either levels or changes for a country's domestic political economic variables.[17] We employ country fixed effects.[18]

[16]One way of measuring the collinearity among variables is to examine a variable's Variance Inflation Factor (VIF) in a multivariate regression. The VIF for CP vote totals in levels on other variables in the models reported below is 47.2, whereas the VIF for CP vote in changes is 3.09.

[17]We use an error correction representation for the economic variables to allow for short-term versus longer-term economic effects: a wealthy nation, e.g., might have a long-run tendency toward financial openness, but a short-term growth shock might have an independent, contrary effect in the same country. Trade and Investment are treated similarly with levels and changes. Unit roots tests (Augmented Dickey-Fuller and Phillips-Perron, available from the authors) reject the null hypotheses of a unit root in these (logged) economic data.

[18]The Hausman test for fixed versus random effects strongly rejected the random effects models. The sample analyzed is, in any event, the full sample of all the data that are available. The fixed effects represent hard-to-measure differences in political economic structures across countries.

The subscript *s* denotes a five-year time period such that, e.g., dependent variable data for the 1995–99 period are examined using independent variables measured in 1990–94. We enter a time trend to control for the possibility of a secular temporal process in financial liberalization.

The base model (equation 4) is as follows:

$$\begin{aligned}
&\Delta CAPITAL_{i,s} \\
&= ß_0 + ß_1(\text{Capital}_{i,s-1}) + ß_2(\text{Growth}_{i,s-1}) \\
&\quad + \beta_3(\text{LogIncome}_{i,s-1}) + \beta_4(\Delta\text{Investment}_{i,s-1}) \\
&\quad + \beta_5(\text{LogInvestment}_{i,s-1}) + \beta_6(\text{Population Growth}_{i,s-1}) \\
&\quad + \beta_7(\Delta\text{Trade Openness}_{i,s-1}) + \beta_8(\text{LogTrade Openness}_{i,s-1}) \\
&\quad + \beta_9(\text{RevolutionsCoups}_{i,s-1}) + \beta_{10}(\text{Democracy}_{i,s-1}) \\
&\quad + ß_{11}(\Delta\text{WorldCPVote5}_{\Sigma j,s-1}) + \beta_{12}(\Delta\text{HomeCPVote5}_{i,s-1}) \\
&\quad + \beta_{13}(\text{Time Trend}) + ß_{14,15}\ldots \\
&\qquad \times(\text{Country Dummy Variables}) + \varepsilon_{i,s} \\
&\qquad\qquad i = 1, 2, \ldots, 82; \text{s} = \text{1955-59, .., 1995-9.}
\end{aligned}$$

We also estimate models where the party-manifesto free-enterprise measures,[19] $ß_{11}(\text{WorldFreeEcon5}_{\sum j,s-1}) + \beta_{12}(\text{HomeFreeEcon5}_{i,s-1})$, replace the CP Vote measures.[20] To the base model, we add measures of variables meant to capture diffusion processes described in DGS 2003:

$$\begin{aligned}
&\beta_{14}(\text{FiveCap5}_{s-1}) + \beta_{15}(\text{EUMembership}_{i,s-1}) \\
&\quad + \beta_{16}(\text{Regional Capital Policies}_{j,s-1}) \\
&\quad + \beta_{17}(\text{Competitor Capital Policies}_{j,s-1}) \\
&\quad + \beta_{18}(\text{Balance of Payments}_{i,s-1}) \\
&\quad + \beta_{19}(\text{Capital Account Liberalization} * \text{Economic} \\
&\qquad \text{Growth for Regional Neighbors}_{j,s-1}) \\
&\quad + \beta_{20}(\text{IMF Program}_{i,s-1})
\end{aligned}$$

Regression Methods

We begin by estimating fixed-effects OLS models using panel-corrected standard errors. None of the independent variables in equation 4 is contemporaneous with the dependent variable.

The OLS estimations are potentially plagued by several methodological problems, including multicollinearity (discussed below), serial correlation,[21] and possible endogeneity in the relationships between capital account liberalization and several independent variables. Five-year lags in independent variables attenuate the possible endogeneity bias.

To further address endogeneity concerns, we use the Generalized Method of Moments system estimator (GMM-SYS) proposed in Arellano and Bover (1995) and Blundell and Bond (1998).[22] (See Eichengreen and Leblang 2003 for an application.) The base GMM-SYS model (equation 5) is as follows:

$$\begin{aligned}
&\Delta CAPITAL_{i,s} \\
&= ß_0 + ß_1\Delta\text{Capital}_{i,s-1}[ß_1\Delta\text{Capital}_{i,s-2}] \\
&\quad + ß_2(\Delta\text{Growth}_{i,s}) + \beta_3\Delta(\text{Income}_{i,s}) \\
&\quad + \beta_4(\Delta\text{Investment}_{i,s}) + \beta_6(\Delta\text{Population Growth}_{i,s}) \\
&\quad + \beta_7(\Delta\text{Trade Openness}_{i,s}) + \beta_9(\Delta\text{RevolutionsCoups}_{i,s}) \\
&\quad + \beta_{10}(\Delta\text{Democracy}_{i,s}) + ß_{12}(\Delta\text{Global CPVote}_{\Sigma j,s}) \\
&\quad + ß_{12}(\Delta\text{Home Country CPVote}_{i,s}) + \beta_{13}(\text{Time Trend}) \\
&\quad + \varepsilon_{i,s} \quad \text{i} = 1, 2, \ldots, 82; \text{s} = \text{1955-59}, \ldots, \text{1995-9.}
\end{aligned}$$

The GMM-SYS model employed here explicitly treats the independent variables as endogenous and uses internal instruments and fixed effects to account for these endogenous relationships.[23] The GMM-SYS estimation combines transformed and level equations. The instruments for the transformed equation are lags two through five of the right-hand side variables. The instruments for the levels equations are lag one of the right-hand side variables and the country fixed effects. In order to achieve uncorrelated residuals, we enter either $s-1$ or $s-2$ of *Capital* in the GMM system estimation; achieving uncorrelated residuals drives the lag choices.[24]

As with the OLS models, we also estimate GMM-SYS models with the free enterprise manifesto party measures-$ß_{12}(\Delta\text{FreeEcon5}_{\sum j,s-1}) + \beta_{13}(\Delta\text{FreeEcon5}_{i,s-1})$, as well

[19] This variable is not expressed in changes because its construction contains information about the changing platform content of parties. The variable contains little information overlap with other independent variables.

[20] The panel correlation between ΔCPVote5 and FreeEcon5 is $-.66$.

[21] We assess serial correlation in the OLS models by computing the residuals of a model, and running a model with the lagged residuals on the residuals.

[22] All GMM-SYSTEM dynamic panel modeling is done using *PC-Give 10*.

[23] Lags of *CAPITAL* are explicitly modeled, and for this variable, for the levels equation, the GMM levels lags are set to two, and, for the transformed equation, the GMM lags are 3 . . . 5.

[24] No serial correlation is indicated in GMM-SYS models when the Arellano-Bond test for second-order serial correlation is not significant, and the AR1 test shows evidence of significant negative serial correlation in the differenced residuals. For a discussion, see Doornik and Hendry (2001, 69).

Table 1A National Differences or Ideological Differences in Free Trade Positions?

Summary	Types of Parties	Sum of Mentions	Average Mentions	Variance
Denmark	4	8.770277	2.192569	6.154963
France	4	5.424834	1.356209	2.427759
Israel	4	2.141722	0.53543	0.269268
Italy	4	5.525975	1.381494	1.641198
Japan	4	0.313043	0.078261	0.024499
Norway	4	15.35487	3.838718	41.65522
Sweden	4	18.28731	4.571828	39.98022
CP401	7	0.425424	0.060775	0.017612
Left401	7	1.649063	0.23558	0.026661
Center401	7	16.40776	2.343966	2.83335
Right401	7	37.33578	5.333684	33.18738

ANOVA

Source of Variation	*SS*	*Df*	*MS*	*F*	*P*-value
Countries	66.66812	6	11.11135	1.335839	0.292361
Types of Parties	126.7375	3	42.24584	5.078917	0.0101
Error	149.7219	18	8.317883		
Total	343.1275	27			

as models with various diffusion variables entered: $\beta_{14}(\Delta\text{FiveCap5}_s) + \beta_{15}(\Delta\text{EU Membership}_{i,s}) + \beta_{16}(\Delta\text{Regional Capital Policies}_{j,s}) + \beta_{17}(\Delta\text{Competitor Capital Policies}_{j,s}) + \beta_{18}(\Delta\text{Balance of Payments}_{i,s}) + \beta_{19}(\Delta\text{Capital Account Liberalization} * \text{Economic Growth for Regional Neighbors}_{j,s}) + \beta_{20}(\text{IMF Program}_{i,s})$. These variables are also treated as endogenous to the system, which allows for important (spatial) cross-national correlations to be accounted for in the analysis (see Franzese and Hays 2007; Jahn 2006). For the transformed equation, the instruments are lags two through five of the endogenous variables, and for the levels equation, lag one of the endogenous variables. Each methodological approach has strengths and weaknesses.[25] We have greatest confidence in results found in both the OLS and GMM-SYS models.

Results

We assess two of the starting assumptions of our project: that CPs were ideologically homogenous regarding economic liberty and international economic affairs among themselves, but different when compared with other types of parties; and that voting for CPs provides information about the preferences of electorates as a whole. Regarding ideological homogeneity, on Item 401, party manifesto codings are available for eight CPs.[26] To assess the degree of ideological homogeneity on international economic issues, we match the manifesto data for these eight CPs to those for left, right, and center parties in the same countries over the same periods.[27] We ask whether the average number of favorable mentions of economic liberty differs by type of party or by country or both.

Table 1A assigns parties into Communist, left, right, and center groupings.[28] Seven countries have left, right, center, and Communist parties with data for Item 401. The analysis of variance rejects cross-national variation as a source of variability in the data. In contrast, type of party is highly statistically significant, which

[25] In the presence of various forms of endogeneity, OLS coefficient estimates are potentially biased, as Franzese and Hays (2007) point out. It is not evident, however, what valid instrument to use for changes in global public opinion.

[26] These are Denmark, France, Israel, Italy, Japan, Luxembourg, Norway, and Sweden.

[27] We used Huber and Inglehart's (1995) ideological rankings to group parties into left, right, and center groupings and supplemented their analysis with data from Swank's party grouping data set, described below.

[28] The assignment of ideological grouping is primarily taken from Swank's "Codebook for 21-Nation Pooled Time-Series Data Set" accessed at http: //www.marquette.edu/polisci/Swank.htm, which is based on Castles and Mair (1984). Israel's parties are assigned according to data found in Krayem n.d., and http: //www.country-data.com/cgi-bin/query/r-6788.html, in Appendix B. Luxembourg had no "right" party, and is not included in the first part of the analysis.

TABLE 1B F-Test of the Hypothesis That Means from Two or More Samples Are Equal. (Mean Positive Mentions of Free Trade in Party Manifestos; CPs Compared to Other National Parties by Ideology Type)

	F	*P-value*
Communist Parties vs. Left Parties	6.841	0.02**
Communist Parties vs. Center Parties	16.174	0.001***
Communist Parties vs. Right Parties	6.755	0.02**
Left Parties vs. Center Parties	13.479	0.003***
Center Parties vs. Right Parties	2.068	0.174
Right Parties vs. Left Parties	6.275	0.026**

Note: ***p < .01; **p < .05.

implies that the main differences within the party manifesto data on Item 401 are partisan and ideological, not national.

In Table 1B, we undertake pairwise analyses of variance to assess whether CPs in eight countries differed in terms of support of Item 401 from left, right, and center parties. The analysis strongly supports the claim that the CPs show great ideological homogeneity in opposition to economic liberty, free enterprise, and free trade during the period of data availability and that they systematically differed from other types of parties, including other left-wing parties.[29]

We next assess a second key assumption, which is that CP vote totals are useful in revealing shifts in public opinion preferences either for or against economic liberalism. We examine the contemporaneous within-country correlation of votes for CPs compared to votes for parties supporting Item 401 within those countries where both sets of data are available.[30] If we observe a negative, statistically significant correlation between CP votes and votes for liberalizing parties, we propose that CP voting reflects changes in policy preferences for the political spectrum. If, in contrast, we observe a positive, statistically significant correlation, increases in both CP voting and voting for parties supporting international economic liberalization might instead reflect a political polarization. The Pearson's r between the two series is −.21, which is statistically beyond the .05 level using a two-tailed test.

A related question regarding political polarization is whether CP voting and voting for Right-Wing Populist Parties (RWP voting) are positively correlated. A statistically significant positive correlation coefficient between the series would suggest that CP voting was capturing a political polarization effect. Using data taken from Swank and Betz (2003) and Swank (n.d.) and matching them to our sample, we find the within-country correlation between CP voting and RWP voting to be negative (−.11), but not close to conventional levels of statistical significance.

These results, combined with the above result on CP ideological homogeneity versus other parties, suggest that changes in CP voting provide information about changing voter preferences regarding international capitalism. CP voting, furthermore, is not driven by political polarization.

Second, Figure 1 shows worldwide means, 1948 to 1999, for capital account openness as measured by *CAPITAL*, and compares them to CP Voting and Item 401 voting. The late 1940s through 1960 was a period of liberalization, with some of the largest postwar increases in the annual global mean occurring in the early to mid-1950s. A retreat from international financial openness characterized the 1960s through 1980s. The early 1980s are associated with the lowest global mean values of *CAPITAL* since 1951. In the 1960s through the early 1980s, it was financial *closure,* not openness, that diffused worldwide. The mid-1980s through the 1990s are widely and accurately described as a period of liberalization. Not since 1929 and 1930 had the world been so open to international capital transactions as it was in the late 1990s. CP Voting, as visually examined in Figure 1, appears to move in opposite directions to capital account openness. Regression analyses, however, are necessary to establish the relationship.

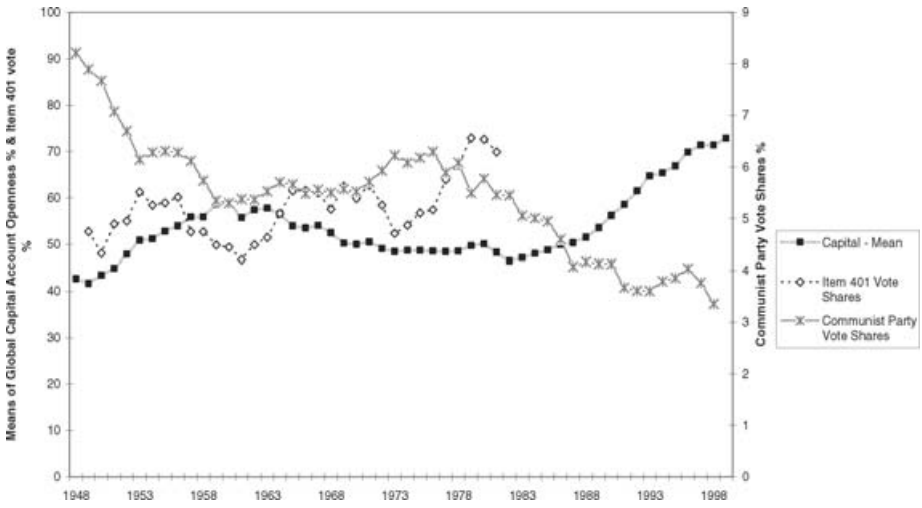
Regression Results

Our main interest is estimating the effects of diffusion and global ideology variables on capital account liberalization. In Table 2, we present three fixed-effects models: one for the full sample of 82 nations (2.1), another for the 61 nations without CPs that continuously competed in elections ("no Home CPs"; 2.2), and a third for 21 nations with continuous home CPs ("Home CPs"; 2.3). Models 2.1 and 2.2 show broadly consistent signs and levels of statistical significance for the coefficients, but model 2.3, which looks only at the home CP sample, shows some differences in parameter estimates in economic variables.

[29] Left and center parties differed from each other at a statistically significant level, with center parties showing greater support for free enterprise. Center and right of center parties, however, did not differ at statistically significant levels.

[30] These countries are Australia, Austria, Belgium, Canada, Denmark, France, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, the United Kingdom, and the United States. The panels are the five-year averages used in this investigation, the correlations are for within country, the series are from 1945 (or earliest available) to 1979, and n = 108.

FIGURE 1 Measures of Global Ideology and Global Capital Account Openness



Our key variable, however, is the coefficient for change in the vote share of CPs worldwide, and each is negatively and statistically significantly associated with capital account liberalization in all three models. The coefficients for change in home-country CP are also negative and statistically significant in the relevant models. The interaction term for the effects of World CP votes in countries with a home CP has a positive and statistically significant coefficient, which indicates that the slope estimates differ. World CP vote share has a negative and statistically significant effect in countries with a home CP, but the estimated coefficient is a third to half the size of the coefficients in the other model. The democracy variable, consistent with previous findings, has a statistically significant positive coefficient in two models. (We treat the other domestic economic and political variables as control variables and limit our discussion of these variables.) For comparison purposes, we reestimate models 2.1, 2.2, and 2.3 with annual data where the independent variables are lagged one year and found very similar results (see Appendix Table A1).[31]

In Table 3, we reexamine the models 1, 2, and 3 from Table 2 using system-GMM estimation methods. We report one-step-GMM-system with robust standard errors and fixed effects. The diagnostic statistics are good. The disturbances show no sign of serial correlation, and the Sargan test fails to reject the null hypothesis of the validity of the instruments. The joint Wald-test and R^2 indicate that the model explains much of the variance in capital account liberalization.

The results once again show that World CP vote has a negative and statistically significant coefficient in all three models. The coefficient estimates are substantially smaller and the standard errors are somewhat larger compared to the OLS estimates (as expected for GMM-system estimations). The estimated effects of Home country CP vote share continue to be negative and statistically significant. This confirms again that governments in democratic societies respond directly to voter preferences as measured by Home CP.

As a necessary test of our third assumption—global economic processes do not independently influence both support worldwide for CP vote shares and government capital control policies—we reestimate models 2.1, 2.2, 2.3, 3.1, 3.2, and 3.3 by adding two global economic processes variables: global economic growth and global inflation.[32] (Please see the data appendix for details.) The correlation of these two variables is negative and statistically significant (−.8), as expected. Global growth and Global inflation are, however, essentially uncorrelated with global Communist Party vote totals (.01 and .05, respectively). In none of the models do the estimated coefficients of global growth approach statistical

[31]We also estimate a model where the dependent variable is annual change in the global mean of *CAPITAL*, and the regressors are the global values of most of the variables used in Appendix Table A1. Despite few degrees of freedom, the adjusted R^2 of the regression is 36.7%, and change in world CP vote has a statistically significant t-stat of −1.756. Results available on request.

[32]The results are not reported here to save space, but are available from the authors.

TABLE 2 Base Models. Dependent Variable = Change in Capital Account Regulation (*ΔCAPITAL*) Unbalanced Panel Estimated Using OLS with Panel Correct Standard Errors

	A. Communist Party Votes, 1955–99			B. Full Model, 1955–99		
Variable	**Model 2.1 Full Sample 82 Nations**	**Model 2.2 61 Nations with No CP**	**Model 2.3 21 Nations with a CP**	**Model 2.4 Full Sample**	**Model 2.5 61 Nations with No CP**	**Model 2.6 21 Nations with a CP**
CAPITAL (s−1)	−0.433***	−0.496***	−0.327***	−0.499***	−0.535***	−0.391***
	(0.044)	(0.054)	(0.059)	(0.047)	(0.059)	(0.056)
Growth (s−1)	−0.068	−0.095	0.452	−0.243	−0.263	0.064
	(0.240)	(0.261)	(0.556)	(0.235)	(0.256)	(0.567)
Income (s − 1) (Per Capita, PPP-Adjusted)	−1.222	−0.808	7.200	−5.251**	6.157*	8.000
	(3.072)	(3.398)	(5.737)	(3.174)	(3.681)	(5.651)
ΔInvestment (s−1)	0.994*	1.414**	−0.749	1.335**	1.324**	0.397
	(0.541)	(0.621)	(1.013)	(0.526)	(0.617)	(0.961)
Level of Investment(s − 1) (share of GDP)	−0.812	−0.099	−4.716	4.108**	4.553*	2.364
	(1.949)	(2.154)	(4.840)	(2.209)	(2.445)	(5.358)
Population Growth (s−1)	−2.715***	−3.060**	0.202	−3.222***	−2.771**	−1.795
	(1.032)	(1.218)	(1.550)	(0.878)	(1.079)	(1.633)
ΔTrade Openness (s−1)	−0.057	−0.091	0.092	−0.318*	−0.305*	0.079
	(0.170)	(0.176)	(0.745)	(0.168)	(0.175)	(0.706)
Level of Trade Openness (s−1)	4.670**	5.048**	−9.755**	3.534**	4.476**	−3.038
	(1.948)	(2.266)	(4.830)	(2.025)	(2.199)	(5.253)
Revolutions & Coups (s − 1)	0.640	0.672	0.264	0.579	0.625	0.392
	(0.527)	(0.600)	(0.757)	(0.497)	(0.578)	(0.721)
Level of Democracy (s−1)	**0.380****	**0.478*****	1.023	**0.333****	**0.376****	−1.335
	(0.154)	**(0.160)**	(1.292)	**(0.149)**	**(0.168)**	(1.416)
ΔVote Share of CPs, s−1 ($\Delta CPVote5_s$)	**−9.182*****	**−9.958*****	**−3.557****	**−10.619*****	**−11.096*****	**−5.163*****
	(1.411)	**(1.463)**	**(1.489)**	**(1.431)**	**(1.592)**	**(1.510)**
ΔVote Share of Home Communist Party, s−1	**−0.977*****		**−1.164*****	**−0.950*****		**−1.091*****
	(0.317)		**(0.313)**	**(0.324)**		**(0.323)**
Home CP Countries ∗ ΔVote Share of CPs, s−1 ($HomeCP * \Delta CPVote5_s$)	**4.614****			**4.381****		
	(1.982)			**(1.841)**		
Five Leading Economies CA Openness				**−0.667*****	**−0.768*****	**−0.397*****
				(0.109)	**(0.161)**	**(0.138)**
EU Membership				2.564	6.889	−2.956
				(2.449)	(4.663)	(3.280)
Regional CA Openness				**0.250*****	0.144	**0.294*****
				(0.061)	(0.090)	**(0.092)**
Balance of Payments				**0.166*****	**0.175*****	**0.327**
				(0.055)	**(0.060)**	**(0.289)**
Competitor CA Openness				−0.045	0.098	**−0.320*****
				(0.066)	(0.102)	**(0.100)**
ΔCA Openness ∗ Growth				**0.028****	**0.027***	**0.042****
				(0.012)	**(1.867)**	**(0.018)**
Time Trend	0.140	0.035	0.361***	0.771***	0.800***	0.401**
	(0.085)	(0.099)	(0.136)	(0.121)	(0.176)	(0.174)
Adj. R^2	30%	32.4%	22.7%	35.9%	36.4%	33.7%
Number of Countries/Obs.	82/624	61/437	21/186	82/620	61/433	21/186

Notes: ***p < .01; **p < .05; *p < .1, two-tailed test. All models are fixed-effects models, which are not reported.

TABLE 3 GMM-System Estimator, Dependent Variable = Δ*CAPITAL*

	A. Base Model, 1955–99			B. Full Model, 1955–99		
Variable	**Model 3.1 All Countries**	**Model 3.2 Countries without Home CPs**	**Model 3.3 Countries with Home CPs**	**Model 3.4 All Countries**	**Model 3.5 Countries without Home CPs**	**Model 3.6* Countries with Home CPs**
ΔCAPITAL s−1	−0.277***	−0.333***	*Variable*	−0.352***	−0.154*	*Variable*
	(0.075)	(0.087)	*omitted because of correlated residuals*	(0.082)	(0.079)	*omitted because of correlated residuals*
ΔCAPITAL s−2	−0.246***	−0.220***	−0.469***	−0.230***	−0.121*	−0.449***
	(0.059)	(0.062)	(0.060)	(0.063)	(0.071)	(0.070)
Δ Growth	0.637**	0.797***	−0.244	0.467**	0.404*	−0.409
	(0.252)	(0.241)	(0.434)	(0.233)	(0.228)	(0.338)
Δ Income (Per Capita, PPP-adjusted)	3.897	1.835	14.406*	4.503	1.205	9.687
	(3.577)	(3.415)	(8.465)	(4.003)	(1.449)	(7.735)
ΔInvestment	−0.840	1.516	−10.451**	0.015	0.879	−4.814
	(2.768)	(2.902)	(4.585)	(2.737)	(1.591)	(5.876)
ΔPopulation Growth	−0.575	−0.913	2.349	−0.152	−.199	1.688
	(0.937)	(1.059)	(2.278)	(1.223)	(0.930)	(2.162)
ΔTrade Openness	7.504***	6.312***	−3.493	4.771**	2.061*	−0.388
	(1.995)	(2.224)	(4.079)	(2.023)	(1.227)	(4.469)
ΔRevolutions and Coups	0.037	−0.151	1.174	−0.374	−0.312	1.719**
	(0.684)	(0.734)	(0.971)	(0.610)	(0.529)	(0.802)
ΔDemocracy	−0.231	0.112	1.093	−0.187	0.171*	−0.796
	(0.317)	(0.260)	(1.592)	(0.256)	(0.099)	(0.936)
ΔWorld CP Vote Share	**−6.500*** **	**−7.920*** **	**−2.029** **	**−4.289*** **	**−3.643** **	**−3.986** **
	(1.410)	**1.757**	**(1.017)**	**(1.652)**	**(1.734)**	**(1.692)**
ΔDomestic CP Vote Share	**−1.252** **		**−0.768** **	−0.484		**−0.871*** **
	(0.622)		**(0.358)**	(0.616)		**(0.308)**
ΔEU Membership				7.809	2.179	2.650
				(5.188)	(5.049)	(3.831)
Δ*CAPITAL* Five Leading Economies				−0.108	0.046	0.029
				(0.222)	(0.325)	(0.247)
ΔRegional *CAPITAL*				0.239***	0.233***	−0.009
				(0.085)	(0.076)	(0.106)
Δ*CAPITAL* in Competitors				0.042	0.032	−0.200
				(0.112)	(0.114)	(0.126)
Δ*CAPITAL* ∗ Growth				0.017	0.030	−0.059
				(0.020)	(0.022)	(0.043)
ΔBalance of Payments				−16.018	−13.626*	16.929
				(11.41)	(7.660)	(15.980)
Time Trend	−0.297**	−0.451***	−0.038	−0.213	−0.348	−0.172
	(0.139)	(0.171)	(0.268)	(0.274)	(0.320)	(0.188)
R^2	54.46%	51.50%	54.71%	51.88%	69.63%	52.09%
Wald (joint)	244.3 **	240.5 ***	182. 8**	296.4**	144.0**	2357.0**
AR1	−3.371**	−2.522*	−3.623**	−2.829**	−2.041*	−2.369*
AR2	−0.686	−0.215	1.008	−1.055	−1.603	−1.383
Number of Countries	80	59	21	80	59	21

Notes: The results are from the 1-step estimations except the Sargan test and AR1/AR2 tests, which are taken from the 2-step estimations. The R-square is defined as 1−(rss/tss). Estimates in Table 3 are based on Arellano and Bover (1995) and Blundell and Bond (1998). A negative and statistically significant AR1 term plus a statistically insignificant AR2 term indicates NO serial correlation.
*Model 3.6 is a random effects model. There are too few degrees of freedom for fixed effects. ***p < .01; **p < .05; *p < .1, two-tailed test.

significance. The estimated coefficients of global inflation are far from statistically significant in the OLS models (2.1, 2.2, and 2.3), though the estimated coefficient for global inflation is positive in one of the GMM-SYS models. The coefficient estimates of the Communist Party vote variables are very similar with the global economic variables entered, though the standard errors are somewhat smaller, leading to *higher* levels of statistical significance. Our assumption—that global economic processes do not drive both global Communist Party voting and domestic capital controls—is sound, by this evidence.

In Table 2, models 2.4, 2.5, and 2.6, we used OLS-PCSE methods and entered the state-centered diffusion variables to the base models in 2.1, 2.2, and 2.3. World CP vote share and Home CP vote share continue to have negative and statistically significant coefficient estimates. The indicator of the capital account policies of the leading economies has a negative and highly statistically significant coefficient in all three models—a result utterly at odds with the coercion hypothesis. Regional capital account openness has a positive and statistically significant coefficient in two models, though not for the model for countries without a home CP. When we substitute immediate neighbors' capital account openness for regional capital account openness, we get a similar result, though the statistical power of the models and the coefficient estimates decrease in magnitude, and the standard errors increase. The interaction term between capital account openness and economic growth in neighboring countries is positive and statistically significant, suggesting that nations adapted their policies in light of the successes and failures of neighboring countries. When we add a variable to models 2.4–2.6 for whether a country was in an IMF program, we must shorten the time sample (omitting the 1990–99 cross-section because of data limitations). The overall results do not change, and the IMF program variable coefficient, while positive, never approaches statistical significance. (These models are not reported to save space, but are available.)

We reestimate models 2.4, 2.5, and 2.6, ending the analysis in 1989 and omitting the two former Soviet Bloc countries in the data set. The adjusted R^2 for all three equations increases markedly, and the coefficient estimates for the CP vote share variables increase, remain negative, and are two and a half to nearly six times their standard errors. The other coefficient estimates are nearly identical. We also rerun models 2.4, 2.5, and 2.6 adding oil price variables. The results do not change. (Results are available upon request.)

In Table 3, models 3.4, 3.5, 3.6, we reexamine models 2.4, 2.5, 2.6 from Table 2 using system-GMM estimation. The system-GMM is a punishing test, and null results should not be overinterpreted. Once again, World CP vote share has negative and statistically significant coefficients. The indicator for Home CP had a negative and statistically significant coefficient in the model restricted to the countries with a home CP, but not in the overall model. The regional emulation indicator had positive and statistically significant coefficients in the overall model and in the no-home CP subsample. The other state-centered diffusion coefficient estimates are not statistically significant or show no consistent pattern.

How does omitting the global and domestic ideology variables alter the model estimations? In the OLS estimations of models 2.1 and 2.4 (base model and full model), omitting the ideology variables leads to a 6.4–7.4% reduction in adjusted R^2. With the omission, the democracy coefficients are markedly larger with far higher levels of statistical significance. The negative coefficients for growth and income are also much larger (more than doubling) and, in model 2.4, achieving statistical significance beyond the .05 level. In the GMM-system estimations of models 3.1 and 3.4, omitting the ideology variables leads to a 4.8% and 1.1% reduction in the model's explanatory power (which is defined as 1-(residual sum of squares/total sum of squares)). The GMM-system coefficients for both revolutions/coups and investment have negative and statistically significant coefficients. Omitting ideology seemingly inflates the influence of democratic reform and political economic crisis variables on financial globalization.

We examine the robustness of the results in Table 4, models 4.1, 4.2, and 4.3, which reestimate models 2.1, 2.2, and 2.3, substituting the "procapitalist" global and domestic opinion indicators for the anticapitalist indicators. The "procapitalist" indicators are positive and statistically significant at the level in the overall model combining types of countries (model 4.1). In the model including countries without party manifesto data (4.2), the procapitalist indicator is statistically significant and positive. In the models using data for countries with party manifesto data, the "home" procapitalist preferences indicators are positive and statistically significant, though the global indicator is not. The OLS models that include the diffusion variables and "free enterprise" global ideology measures are reported in Table 4, models 4.4, 4.5, and 4.6. The results are generally similar to the parallel results in Table 2, models 2.4–2.6. Global and domestic support for free enterprise is positively and statistically significantly associated with subsequent liberalization in four of the five possible cases. The capital account indicators of the leading economies (negatively) and regional neighbors (positively) are associated with subsequent liberalization in two of the three models. The interaction term between *CAPITAL* and

TABLE 4 Party Manifesto Support of Free Enterprise. Dependent Variable = Change in Capital Account Regulation (ΔCAPITAL)

	Base Model 1955–84			Full Model, 1955–84		
Variable	**Model 4.1 Full Sample**	**Model 4.2 Countries with No PM Data**	**Model 4.3 Countries with Data**	**Model 4.4 Full Sample**	**Model 4.5 Countries with No PM Data**	**Model 4.6 Countries with Data**
Capital (s−1)	−.550***	−0.506***	−0.638***	−0.652***	−0.633***	−0.516***
	(0.061)	(0.068)	(0.074)	(0.061)	(0.064)	(0.084)
Growth (s−1)	−0.620*	−0.623*	−0.392	−0.817***	−0.881***	−1.468**
	(0.322)	(0.352)	(0.613)	(0.283)	(0.302)	(0.679)
Income (s − 1) (Per Capita, PPP-adjusted)	−6.260**	3.294	−12.330	2.003	4.165*	−1.374
	(3.079)	(2.315)	(9.546)	(3.240)	(2.234)	(10.32)
ΔInvestment (s−1)	1.469**	2.538***	0.201	2.010***	2.202***	1.526
	(0.695)	(0.786)	(1.293)	(0.623)	(0.747)	(1.220)
Level of Investment (s−1) (share of GDP)	2.189	1.841	1.722	9.315***	8.054**	−10.624
	(2.876)	(3.038)	(10.170)	(3.062)	(3.124)	(11.60)
Population Growth (s−1)	−3.500**	−5.840***	−1.482	−4.752***	−5.399***	0.275
	(1.500)	(1.834)	(2.701)	(1.349)	(1.635)	(2.715)
ΔTrade Openness (s−1)	−0.684**	−0.806**	0.962	−0.932***	−0.929***	0.139
	(0.302)	(0.319)	(1.540)	(0.255)	(0.275)	(1.618)
Level of Trade Openness (s−1)	7.102**	1.795	19.422**	4.096	6.884**	14.445
	(3.272)	(3.212)	(9.370)	(3.463)	(3.252)	(10.27)
Revolutions and Coups (s−1)	−0.723	−0.771	−1.226	−0.373	−0.471	−0.613
	(0.665)	(0.731)	(1.004)	(0.607)	(0.662)	(1.156)
Level of Democracy (s−1)	0.170	0.265	−0.184	0.063	0.279	−0.277
	(0.240)	(0.223)	(2.236)	(0.228)	(0.214)	(3.195)
Home 401	**0.171****		**0.133****	**0.124***		**0.119****
	(0.083)		**(0.055)**	**(0.066)**		**(0.049)**
Global 401	**0.683****	**1.459*****	0.219	**0.575***	**0.643***	−0.057
	(0.331)	**(0.415)**	(0.383)	**(0.294)**	**(0.366)**	(0.384)
Manifesto Countries ∗ Global 401	−0.193			−0.244		
	(0.204)			(0.201)		
IMF Program Countries				2.448	2.621	−6.673*
				(2.173)	(2.407)	(3.898)
CA Openness 5 Leading Economies				−0.508***	−0.571***	−0.058
				(0.095)	(0.099)	(0.137)
EU Membership				8.250**		−6.150
				(3.499)		(4.357)
Regional CA Openness				0.381***	0.240**	0.136
				(0.084)	(0.078)	(0.147)
ΔCA Openness of Competitors				−0.032	0.192*	−0.179*
				(0.082)	(0.108)	(0.127)
Balance of Payments				0.288***	0.286***	−0.398
				(0.066)	(0.067)	(0.739)
ΔCA Openness ∗ Growth				0.047***	0.044**	0.053**
				(0.014)	(0.017)	(0.020)
Adj. R^2	32.4%	24.7%	48.64%	42.2%	39%	39.55%
Number of Countries/Obs.	78/380	61/282	17/96	78/376	63/293	17/92

Notes: ***p < .01; **p < .05; *p < .1, two-tailed test. Because of serially correlated residuals, the time trend is not estimated. All models are fixed-effects models, which are not reported.

economic growth in neighboring countries continues to be positive and statistically significant. The choice of ideology measure does not drive the results.

As another test of robustness, we add Right-Wing Populist (RWP) vote totals to models 2.1, 2.2, and 2.3. The estimated coefficients and standard errors for CP vote totals are essentially unaffected by the inclusion of the RWP vote. The coefficient estimates for RWP vote are a quarter or less of the size of their standard errors, and remain so even when CP vote totals are omitted from the analysis. The absence of an effect from RWP voting on financial liberalization is not surprising given that the societies studied in Swank and Betz (2003) liberalized their financial markets long before the emergence of high levels of RWP voting.

Conclusion

Our aim in this article was to establish whether, where, and by how much worldwide anticapitalist and procapitalist ideology influenced international financial liberalization. We proposed that CP votes in free elections provide a valid measure of global anticapitalist ideology, allowing us to study its direct effects, as well as to study some mechanisms of diffusion of capital account openness and closure. We also examined the influence of domestic public opinion on financial globalization in using home country CP vote share. We also developed a procapitalist indicator, though the resulting data are far thinner. We used two methods, OLS in a pooled, cross-section, time-series framework, and system-GMM estimators.

The results offer strong support for a society-centered view of diffusion in general and for the proposition that changes in global preferences directly affected national capital account policies, in particular. In addition, domestic anticapitalist preferences robustly influenced capital account liberalization. Everett Rogers's original conception of diffusion as the spread of ideas through multiple levels of social systems via numerous channels remains relevant to understanding international finance policymaking.

We also find evidence for state-centered views of diffusion, along the lines developed in SDG and evident in Simmons (2000). We see some evidence for the learning and emulation diffusion hypotheses, at least as measured by regional growth $*$ regional liberalization and regional capital account openness, whose coefficients were positive and frequently statistically significant.

The coercion and structural dependency hypotheses, at least as can be construed from our indicators, received no empirical support. Indeed, the coefficient estimates of the financial policies of the leading economies were usually negatively (wrongly) signed and statistically significant, and those for the indicator of being in an IMF program never approached statistical significance. At a time when leading economies were liberalizing, many emerging market economies were closing. In light of this result, we note that policy innovations need not originate and spread unidirectionally from the core to periphery, as is seemingly implied by the structural dependency approach.

When the ideology variables are deliberately omitted, we find that democracy's influence is inflated, as are the negative influences of growth and income. In the parallel GMM estimations, the negative influences of investment and revolutions/coups are overestimated. These results suggest that estimating the effects of either democratic reforms or political economic crises on international economic reform, *without* controlling for the influences of changing global and domestic beliefs, risks model misspecification.

Our main conclusion is that the force of both global and domestic ideas, while difficult to measure, are powerful influences on international economic policy. To omit ideology from an examination of financial globalization is to risk attributing its influence to other, more easily measured, variables.

Appendix

Data and Data Sources

We operationalize international financial regulation through two indicators of change in international financial openness or closure, described in Quinn (1997) and Quinn (2003). *CAPITAL* and *CURRENT* are the main components of *OPENNESS* created from the text of an annual volume published by the International Monetary Fund (IMF), *Exchange Arrangements and Exchange Restrictions*. The measure is available from 1950 to 1999 for 58 countries, and for a shorter period for 33. *CAPITAL* is scored 0–4, in half integer units, with 4 representing an economy fully open to inward and outward capital flows. We transformed the measures into a 0 to 100 scale taking $100 * (CAPITAL/4)$. The data on CP vote totals are taken from Mackie and Rose (1991, 1997); http://www.electionworld.org; *Keesings' Contemporary Record*, various issues; and http://www.polisci.com/almanac/nations/nation/FI.htm. The economic data are from Penn World Tables Mark 6.1, by Heston, Summers, and Aten (2001). The data on revolutions, coups, etc., are updated Cross-National Times-Series data from Banks (2001). The democracy

TABLE A1 Base Models. Dependent Variable = Change in Capital Account Regulation (ΔCAPITAL) Unbalanced Panel Estimated Using OLS with Panel Correct Standard Errors

	Communist Party Votes, 1955–99		
Variable	***Model A1.1*** **Full Sample 82 Nations**	***Model A1.2*** **61 Nations with No CP**	***Model A1.3*** **21 Nations with a CP**
ΔCAPITAL (t−1)	−0.000	0.005	−0.011
	(0.023)	(0.027)	(0.029)
CAPITAL (t−1)	−0.066***	−0.076***	−0.052***
	(0.009)	(0.009)	(0.013)
Growth (t−1)	0.037	0.050	−0.050
	(0.029)	(0.032)	(0.041)
Income (t−1) (Per Capita,	0.089	0.069	0.816**
ppp-Adjusted)	(0.284)	(0.328)	(0.407)
$\text{Log(Investment)}_{(t-1)}$	−0.142	−0.577	3.293**
	(0.643)	(0.709)	(1.362)
Level of Investment(t−1)	−0.021	0.013	−0.191**
(share of GDP)	(0.045)	(0.050)	(0.080)
Population Growth (t−1)	−0.085	−0.113	−0.126
	(0.144)	(0.148)	(0.218)
$\text{Log(Trade Openness)}_{(t-1)}$	0.082	0.474	−0.084
	(0.405)	(0.461)	(0.379)
Level of Trade Openness(t−1)	0.004	0.002	−0.002
	(0.009)	(0.009)	(0.011)
Revolutions and Coups (t−1)	−0.072	−0.107	
	(0.077)	(0.083)	
Level of Democracy (t−1)	0.075***	0.079***	0.195**
	(0.025)	(0.029)	(0.099)
ΔVote Share of Home CP_{t-1}	**−0.166*** **		**−0.167** **
	(0.063)		**(0.072)**
ΔVote Share of $CPs_{,t-1}$	**−0.901***	**−0.732***	**−1.200***
(ΔCPVote5$_s$)	**(0.379)**	**(0.432)**	**(0.695)**
Time Trend (annual)	0.053***	0.050***	0.024
	(0.012)	(0.015)	(0.015)
Constant	−102.709***	−96.807***	−57.172**
	(22.950)	(29.460)	(26.720)
R^2	4.9%	5.2%	4.9%
Number of Countries	82	61	21
Number of Observations	3409	2423	1002

Notes: All models include a lagged endogenous variable, which precludes the use of fixed effects, but which achieved serially uncorrelated residuals in all cases. We enter regional dummy variables, whose coefficient estimates are not reported to save space, but are available from the authors. The interaction term between a dummy variable for the presence of a home country CP and the world CP vote share in model A1.1 was far from statistical significance (t-stat of −0.636), and was therefore excluded from the final model. ***p < .01; **p < .05; *p < .1.

indicators are from the Polity project (Gurr and Jaggers 1999). We use the World Bank's regional codes in creating regional dummy variables. We also create an "immediate neighbor" variable. Both the regional dummy variables and the immediate neighbor variables are meant to capture emulation effects. Competitor capital policies are nations identified by the World Bank as offering similar export products to a home country's, and are meant

to capture competitive dynamics.[33] Participation in an IMF program is measured by Przeworski and Vreeland (2000), and is operationalized as a dummy variable available from 1955 (or independence) until 1990. We operationalize global growth and global inflation in two ways: one is creating indicators based on the same sample as the CP Vote country sample; the other is to use data from the full sample of countries. The reported results are not affected by which sample is used to create the indicators.

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[33]The World Bank Development report (in the "yellow sheets fixed factors") classifies nations in terms of their competitive position. It lists nations as exporters of manufactures, exporters of nonfuel primary products, exporters of fuels (mainly oil), exporters of services, diversified exporters, not classified by export category. While this indicator of a nation's competitor is less precise than the measures used in Simmons and Elkins (2004), the categorization is consistent with the theoretical categories in Dunning (1988) and is available for the full period.

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