The Dilemma of Financial Liberalization:  
State Autonomy and Societal Demands

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Under what conditions do governments shift their capital control policies toward liberalization? Under what conditions do societal supporters influence that liberalization? We postulate the following: (1) The desire to maintain state autonomy leads all governments to prefer capital controls to their liberalization, but strong governments, regardless of partisanship, are more able to act on that preference and more likely to maintain controls longer than weak governments. (2) Strong partisan governments are influenced toward liberalization if their core societal constituency increasingly supports it—skilled labor for the left government, multinational corporations (MNCs) and commercial banks for the right government. (3) Skilled labor, MNCs, and banks may also influence capital decontrol, regardless of whether its political party is in power, if the group has broad national significance and captures government policy making. Our theory extends beyond existing pluralist and statist explanations. In an empirical test of 17 OECD countries over 22 years, the evidence largely supports our theoretical expectations.

The study of financial globalization is a rapidly expanding research program in the field of international political economy, and a large body of literature addressing the causes of financial liberalization has accumulated.1 A central question is why states choose to liberalize the controls they impose on capital account transactions. The pluralist approach to political economy considers liberalization the outcome of the balance of power among competing socioeconomic groups. Where influential societal interests are in favor of the free movements of capital, controls over capital transactions are reduced or revoked. Alternatively, the statist approach sees characteristics of government, particularly its partisanship, as important in explaining liberalization. Left governments favor capital controls while right governments support their liberal-

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1 For comprehensive reviews of this literature, see Cohen (1996) and Andrews and Willett (1997). For an empirical test of these competing explanations, see, for example, Li and Smith (forthcoming).
A more encompassing understanding of the causal process, we argue, requires a theoretical explanation that addresses both the role of interest groups and the effect of government attributes.

The theory we offer extends both theoretical approaches, but it begins by assuming that any government has two core interests: the desire to maintain state autonomy and the desire to retain office. The first interest leads all governments, regardless of partisanship, to prefer the maintenance (or even increase) of capital controls to their liberalization. Barriers to the cross-border movement of capital provide governments with considerable degrees of freedom by allowing them to retain seigniorage, a domestic tax base, and policy autonomy, and to reduce the risks of currency and financial crises. The second interest leads governments to satisfy the demands of their core constituencies. In the best of worlds, these two interests would be complementary, but often they conflict, presenting a policy dilemma. Under what conditions do governments choose to liberalize capital controls, thereby reducing their own autonomy? Under what conditions are societal interests translated into public policy? A coherent explanation for why states choose to liberalize capital controls should address both of these questions.

We argue that governments, regardless of their partisanship, are inherently interested in maintaining capital controls, but they choose to liberalize those controls when the electoral gains exceed the benefits from capital controls. Societal actors may influence the policy-making process directly or indirectly when their favorite political party controls the government. We subject these arguments to an empirical test for 17 industrialized democracies over 22 years and find empirical support.

The paper proceeds as follows. The first section reviews previous studies of the causes of capital controls in the societal and statist approaches. The second section offers an integrated model of capital control liberalization. The third section discusses the research design for the empirical test. The fourth section presents the findings and their implications. The fifth section concludes the paper.

Societal and Statist Explanations of Capital Liberalization

Scholars approach the causes of financial liberalization from systemic, societal, and statist perspectives (Andrews and Willett 1997; Cohen 1996). Because our analysis focuses on the effect of the interaction of societal interests and partisan governments, we discuss the arguments of the societal and statist approaches without attempting a comprehensive literature review.\(^2\)

\(^2\)The systemic approach argues that the imposition or removal of capital controls results from macro-changes in the international system, such as the growing worldwide financial market integration or the policy competition among national governments (Andrews 1994; Helleiner 1994; Leblang 1997; Martson 1995; Mathieson and Rojas-Suarez 1994).
The societal or pluralist approach suggests that interest groups compete to influence government policy. Within democracies, elected politicians must meet the demands of their own constituencies in pursuing reelection. Hence, government policy is little more than a result of the balance of power among competing interests. Frieden (1991), Goodman and Pauly (1993), Haggard and Maxfield (1996), Mathieson and Rojas-Suarez (1994), and Sobel (1994) argue that capital liberalization has important distributive effects upon different groups in the domestic economy. The expected distributional consequences of any policy change motivate various interest groups to compete for influence over the policy outcome. Where supporters of liberalization become politically dominant, capital liberalization occurs.

Using a specific factors model, Frieden (1991) identifies several key societal actors who are affected by financial globalization: owners of capital, owners and workers in specific sectors, producers of traded goods, international investors, and producers of nontraded goods. The distributional effects of capital mobility lead to political realignments among the different groups. In the developed countries, increasing capital mobility benefits financial capital owners and multinational corporations but hurts specific factor owners. Thus, the key supporters of financial liberalization are owners and managers of financial assets and multinational corporations (MNCs) with internationally diversified investments. In a comparative analysis of the capital decontrol experiences of Japan, Germany, France, and Italy, Goodman and Pauly (1993) find that multinational firms and domestic financial intermediaries in these countries have increasing interests in investing abroad and diversifying their portfolios internationally. Sobel (1994) offers a multicausal argument that liberalization in the securities market is a dynamic political process that involves conflicts within the domestic financial services industry, macroeconomic shifts favoring specific segments of that industry, and some triggering event.

Based on the Heckscher-Ohlin model and the Stolper-Samuelson theorem, Quinn and Inclan (1997) argue that highly skilled labor supports financial openness in those countries where it is abundant relative to capital because skilled labor acquires the benefit of higher wages from competition by foreign capital, while semi-skilled labor and unskilled labor are unlikely to benefit from liberalization in OECD nations. In a comprehensive study of the U.S., Slaughter and Scheve (2000) find that policy preferences cut across labor-market skills. While the less skilled workers tend to oppose commercial and financial globalization, the more skilled workers tend to support it.

According to these scholars, the adoption of policies liberalizing capital flows usually coincides with the growing support for capital mobility by financial institutions, MNCs, and highly skilled labor. Scholars of the societal approach have certainly identified sources of the demand for liberalization policies, thus offering one of the key explanations for why such policies are adopted.
The statist approach contends that the policy preferences of state leaders and political institutional structures determine the supply of capital liberalization policies. The partisan model in this approach suggests that the partisan bias of governments affects capital control policy (Alesina, Grilli, and Milesi-Ferretti 1994; Grilli and Milesi-Ferretti 1995; Oatley 1999; Quinn and Inclan 1997). Because politicians need to sustain partisan support from their core constituencies in order to stay in office, they adopt policies in line with societal preferences. Left governments are more inclined toward Keynesian-type economic intervention and demand-side management in order to secure the electoral support from labor. Capital controls are thus more likely under left governments because they prevent capital flight, secure a large tax base and the extraction of an inflation tax, and maintain the effectiveness of expansionary economic policies. But right governments are more oriented toward laissez-faire economics and financial deregulation in order to appeal to multinational corporations, capital owners, and the financial community. Right governments are more likely to endorse financial liberalization, which allows these groups to diversify risks, lower transaction costs, and acquire greater profit margins.

The partisan model, however, confronts mixed empirical evidence. Alesina, Grilli, and Milesi-Ferretti (1994) and Grilli and Milesi-Ferretti (1995) find that the political leaning of a government does not affect its decisions on capital controls. Quinn and Inclan (1997, 795) find empirical support for the partisan difference only for the period from 1953 to 1979. Oatley (1999) finds that the bias which left governments have for capital control only appears to hold under fixed exchange rate regimes.

According to studies in the statist approach, governments, interested in maximizing revenues and seigniorage, have an incentive to impose capital control and financial repression (Leblang 1997). Strong or majoritarian governments are more likely to impose and maintain capital controls than the weak or minority governments (Alesina, Grilli, and Milesi-Ferretti 1994; Grilli and Milesi-Ferretti 1995; Quinn and Inclan 1997). A strong (i.e., majority) government may want to extract more seigniorage and thus prefer to adopt and sustain capital controls. In addition, because the electorate holds a strong government more accountable than a weak government, due to its greater policy making capacity, the strong government has more incentives to restrict capital flows in order to pursue stimulative economic policies.

The statist approach scholars have also found that central bank independence is positively associated with capital liberalization (Quinn and Inclan 1997) and negatively associated with capital control imposition (Alesina, Grilli, and Milesi-Ferretti 1994; Grilli and Milesi-Ferretti 1995). Greater central bank independence implies stricter monetary discipline and greater technocratic independence. Under higher central bank independence, the government is less able to manipulate monetary policy and less likely to impose an inflation tax. Consequently,
it has less incentive to impose capital controls. In addition, voters vote retrospectively only when the political responsibility of the government is clear. Since greater central bank independence implies less clarity of political responsibility for a government, voters are less likely to penalize the government for performance, providing less incentive for the latter to pursue capital control and expansionary policies.

The statist studies have shed light on causal factors influencing the supply of capital control policies and, therefore, provide a useful complement to the societal approach. Most studies in either the societal or statist tradition, however, have failed to look at the interaction of societal and statist forces, or in other words the equilibrium between the supply and demand of capital controls. In an exceptional study, Quinn and Inclan (1997) argue that the inclination toward capital control of a left government is ameliorated by the presence of a factor advantage in highly skilled labor, while the preference for capital decontrol of a right government is weakened by the relative closure or low international contestation of domestic markets. Still, their argument emphasizes what affects the supplier of capital liberalization, without examining the unconditional effects of societal forces.3

Sobel (1998, 1999) proposes a sophisticated causal sequence accounting for financial liberalization. The private and public policy choices in some key states externalize into pressures at the systemic level; the systemic changes in turn affect private choices and public policies in other countries and these policy changes evolve further into greater systemic pressures. Hence, the causal feedback loop involves interactions between public and private, domestic and international, and context and individual choices. A fully specified model of Sobel’s argument requires a simultaneous equations model of the complex causal feedbacks. Although we do not propose such a comprehensive model, we seek to specify how the private sector and the state interact, solving a central piece in his complex model.

Below we argue that both societal interests and governments are important and that the equilibrium capital control results from policy supply, demand, and their interaction.

An Integrated Model of Financial Liberalization

Assume that a country lies somewhere along a continuum from total capital control to complete liberalization. At any given point in time, its leaders must decide whether to move toward greater control or greater liberalization or to stay where they are. We contend that two core interests motivate the government’s choice of capital control policy: the desire to maintain state autonomy

3 By including only interaction terms between government partisanship and the structural feature of factor endowment, Quinn and Inclan (1997) essentially assume that societal influences are minimal and approach zero when their corresponding parties are not in power.
and the desire to retain office by satisfying the demands of their electoral constituencies. The “state autonomy” interest drives all governments, whether of the right or the left, to prefer capital controls to their liberalization. Yet typically only strong governments are able to get what they want due to their greater control over the policy-making process. This argument is detailed in the state autonomy section below. The “electoral” interest leads governments to respond to the demands of core constituencies, in which case partisanship is important. Where a constituency group’s political representative controls the policy-making process, its interests are better reflected in government policy. Left governments are more likely to respond to labor, right governments to business and financial groups. Hence, the partisan effects are conditional, an argument discussed further below. Finally, interest groups may also have a direct impact on policy making, as elaborated below in the section on societal capture. Powerful, broadly based groups have the ability to influence capital control policy, regardless of which party controls the government.

State Autonomy

Imposing and maintaining capital controls is equivalent to maximizing the state’s autonomy in economic policy making and resource control vis-à-vis society.\(^4\) First, capital controls allow a government to maintain macroeconomic stability by reducing excessive short-term capital flows, exchange rate volatility, and balance of payments crises. Second, under the Mundell-Fleming conditions, a government can achieve only two of the following: capital mobility, a fixed exchange rate, and monetary policy autonomy. With capital controls, a government can have both exchange rate stability and monetary policy autonomy; however, after liberalizing capital controls, it must make a sacrifice between the two. Third, with capital controls, a government can trap and channel domestic savings to domestic investment opportunities and limit the foreign ownership of domestic factors of production. Fourth, capital controls allow a government to tax domestic financial activities, income, and wealth without fearing capital flight. The government can impose a tax on securities transactions, income taxes on interest and dividend income, and an “inflation tax” on holding domestic monetary instruments, to finance public expenditures more easily. Without capital controls, a government cannot impose on footloose capital taxes that are higher than those by foreign governments. Instead, it must lower taxes or cut government expenditures, limiting the scope of its fiscal policy objectives. Fifth, capital controls also allow the government to seek rent from foreign investors who attempt to access the domestic capital markets. In

essence, a liberalized capital market limits a government’s abilities to print money, tax, borrow, and regulate (O’Brien 1995). 5

Arguably, capital liberalization has short-term costs but may bring long-term gains to the state if lower barriers bring in more capital, thereby promoting growth and increasing tax receipts. However, the loss of autonomy due to capital liberalization is immediate, direct, and real for the government, while the efficiency gains from capital liberalization are indirect and distant, deriving from the activities of the private sector. Hence, since all governments should prefer more state autonomy than less, and politicians tend to emphasize the short run politically, we may conclude that, ceteris paribus, all governments prefer capital controls to liberalization.

It is important to note that while holding everything else constant, all governments prefer capital controls; it is true that not all governments have the same policy-making capacity to impose and maintain capital controls. Because capital control and liberalization have distributive consequences, the policy is the object of political struggle among societal groups with competing interests. Hence, despite their preference for capital controls, weak governments, those of limited political capacity, may not be able to impose and sustain capital controls. Conversely, strong governments are able to maintain capital controls longer than weak governments. Our perspective can be summarized in the following proposition: all else equal, all governments prefer capital controls and strong governments are able to maintain them longer than weak governments, regardless of the ideological orientation and partisan identity of a government.

If governments favor capital controls for the benefit of state autonomy, what does it take for societal supporters of capital liberalization to motivate governments into removing capital controls? As identified earlier, financial institutions, multinational corporations, and skilled laborers are potential supporters of capital control liberalization. Under what conditions does each of these groups influence the government and bring about the removal of capital controls?

### Conditional Partisan Effects

Under the partisan model, government leaders, who are elected politicians seeking to remain in office, adopt certain policies to appeal to their core constituencies. Capital controls facilitate the levy of a capital tax and an inflation tax, whereas capital liberalization increases the efficiency of financial services, investment productivity, risk diversification, and access to international financial markets. Hence, capital control or liberalization policies are marked by the distributive consequences associated with a partisan bias. Pro-labor left governments are more likely to impose a higher tax rate on capital and an “inflation tax” due to overspending on social welfare. Therefore, left governments tend to adopt and maintain capital controls. On the other hand, pro-capital right gov-

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5 Though the extent of such limitation remains debated. See, for example, Garrett (1998).
ernments derive support from owners and managers of firms and financial institutions, who generally favor less restriction over capital flows and wider access to international capital markets. Hence, right governments tend to support capital decontrol.

We argue, however, that such partisan distinction must be qualified in important ways in order to be usefully applied to explain capital control liberalization. First, the preferences of labor and capital are not as clear-cut as it seems once we allow sectoral and temporal heterogeneity to labor and capital. Broadly speaking, while labor favors capital controls, not all types of labor hold the same preference at all times; while capital owners favor liberalization, not all of them prefer it at all times. As discussed earlier, in contrast with unskilled and semi-skilled laborers, skilled labor when relatively abundant actually prefers capital liberalization because of the benefit of higher wages. As discussed earlier, owners of capital, specifically financial asset holders and MNCs, generally prefer liberalization while specific, domestically oriented industries may oppose it. Within the camp of either labor or capital, there may be both support for and opposition to capital control liberalization. For the purpose of our analysis, we focus on the potential societal supporters of liberalization that include skilled labor, banks, and MNCs.

These potential supporters may not always prefer capital liberalization. For example, they may not favor capital liberalization when skilled labor is still scarce, when commercial banks are not competitive and focus on domestic markets, or when the MNCs have concentrated investments and enjoy monopolistic or oligopolistic status in select host countries. We argue that only when these societal interests prefer financial openness do they push for removing capital controls. A partisan government’s decision to satisfy the demand of its constituency for liberalization depends on the intensity of the societal demand. In other words, the strength of the partisan effect is conditional on the nature and intensity of societal preferences. A strong partisan government prefers to liberalize only when it expects that the support from its key constituency is more beneficial than the spoils from capital controls. This offers one explanation for the timing of capital control liberalization.

Furthermore, under the partisan model, the demands from societal actors do not translate directly into policy outcomes; it is the government that designs and implements capital control policies. Hence, the effectiveness of societal lobbying is contingent upon the identity of the governing party: MNCs and banks are likely to find encouraging and supportive policy responses from a strong right government while skilled labor is likely to find support from a strong left government. The partisan effect is pronounced when the partisan agent of a societal interest is in power.

Therefore, the partisan effect over capital control liberalization is observable empirically only when a partisan government’s core constituencies prefer liberalization over control and when the societal supporters of liberalization find that their political agent has a strong hold over the policy-making process.
Do societal influences over liberalization always have to be contingent upon the partisan identity of a government? The societal capture theory suggests that the partisan model provides only a partial story of how and when societal forces affect public policy. Under certain conditions, societal supporters of liberalization may bring about liberalization regardless of government partisanship.

**Societal Capture**

The interest group model posits that some industries or interest groups, through their control over either votes or resources, are able to utilize the state and capture regulatory policies for their own benefits (Schattschneider 1935; Stigler 1971). Public policies become mere reflections of dominant societal influences. In our context, as financial institutions, MNCs, and skilled laborers become more interested in removing capital controls, their economic strength feeds into their political capacity to influence public policy. The logic is similar to how trade protectionist groups get organized and influence trade policies (Rogowski 1987). Once they become sufficiently powerful, liberalization is implemented regardless of the partisan identity of a government. The consequence is the unconditional influence of societal supporters of capital liberalization.

We argue that the ability of the different actors to influence public policy may vary depending on the nature and scope of their political power. Skilled labor tends to sit in the median voter position in many industrialized countries (Kitschelt 1993). Given the importance of the median voter for reelection-oriented politicians, it is not surprising that governments of both the political left and right court the support of skilled labor. Hence, the control over votes equips skilled labor with the potential of a disproportionately large influence over capital control policies.

Banks, whose performance is highly affected by international financial market integration, can have an economy-wide impact. Banks engage in loan contracts (assets) with terms longer than those of deposit contracts (liabilities). They cannot adjust loan contracts flexibly to deal with a shock in the supply of deposits. When some exogenous event such as rising international competition leads to a decline in the supply of deposits, the interest rate on deposits rises and banks have to pay more on deposits than they make on loans. With decreasing profit and increasing total cost, some banks may fail, which disrupts financial stability and sends negative ripple effects across the national economy (Cukierman, Webb, and Neyapti 1992). With rising financial market integration, banks face more severe international competition, increasing the chances of bank failures. The national significance of the banking community gives them enormous political clout, making the prevention of bank failures a policy goal for many governments. Enhancing commercial banks’ competitiveness by lifting restrictions over their international business takes on national significance and motivates changes toward capital liberalization.
Increasingly, MNCs have become the target of competition among governments that are interested in attracting foreign capital. MNCs have gained more bargaining leverage vis-à-vis governments trapped in the race to the neoliberal bottom. Compared with skilled labor and commercial banks, however, MNCs may have relatively narrower political influence. The concentration of MNCs in particular industries affords them the ability to influence industry-specific policies, but it gives them relatively less clout over policies with broad impact. Capital control policies are most likely to have economy-wide impact, thus subject to relatively less influence by the MNCs.

The theoretical discussion above leads to the following hypotheses:

**State Autonomy Hypothesis**

• **Hypothesis 1**: Strong governments, regardless of partisanship, are more likely to adopt capital controls.

**Conditional Partisan Effect Hypotheses**

• **Hypothesis 2A**: When a strong left government is in power, the positive effect of highly skilled laborers over capital liberalization is stronger.

• **Hypothesis 2B**: When a strong right government is in power, the positive effect of MNCs over capital liberalization is stronger.

• **Hypothesis 2C**: When a strong right government is in power, the positive effect of commercial banks over capital liberalization is stronger.

**Societal Capture Hypotheses**

• **Hypothesis 3A**: As highly skilled laborers increase in the population, capital control is more likely to be liberalized.

• **Hypothesis 3B**: As MNCs become more interested in capital liberalization, capital control is more likely to be liberalized.

• **Hypothesis 3C**: As commercial banks become more interested in capital liberalization, capital control is more likely to be liberalized.

**Research Design and Methodology**

The sample includes 17 OECD countries from 1968 to 1989, a pooled time-series, cross-sectional design.\(^6\) (The countries are listed in the Appendix.) Since we believe that our theoretical model is generalizable to capital control liberalization across industrialized countries, this design is most appropriate.

\(^6\) Missing data on the dependent variable or key independent variables cause the exclusion of six OECD states (Greece, Iceland, Portugal, Spain, Switzerland, and Turkey).
Dependent Variable

The dependent variable is a measure of capital account openness from Quinn (1997) and Quinn and Inclan (1997). Based on the detailed country descriptions in the IMF’s *Annual Report of Exchange Arrangements and Exchange Restrictions (AREAER)*, Quinn coded a country’s legal regulations over current account transactions, capital account transactions, and international agreements and created an additive measure of a country’s overall financial openness. Since we focus on the regulation of capital flows, we use Quinn’s measure of restrictions over capital account transactions only. This measure of capital account openness ranges from 0 to 4 with half-point breaks. In contrast to alternative measures that rely on *AREAER*’s summary tables, Quinn’s measure takes into account not only more categories of restrictions on capital payments but also information on receipts, offering more information on the process of liberalization over time and across countries. Because the Quinn measure observed in our sample ranges only from 1.5 to 4, we normalize it to take integer values only, bounded between 0 and 5, with 0 equivalent to 1.5 and 5 equivalent to 4 on Quinn’s scale. The higher the score, the fewer restrictions a country imposes over its capital transactions. The appendix includes descriptive statistics for the dependent variable by country.

Independent Variables

To capture the state autonomy argument, we need an indicator that measures both the strength of government and its partisanship. Using data from Woldendorp, Keman, and Budge (1998, 2000), we create three dichotomous variables, representing strong governments of the left, center, and right, respectively. The strong right government measure is coded 1 if the right parties in government control more than 50% of the seats in parliament, and 0 otherwise. The strong left and strong center government variables are coded analogously using the seats in parliament controlled by the left or center parties in government. The reference category for all three variables is a weak government in which the parties in government control 50% or less of the seats in parliament.

For studies using less detailed measures based on the *AREAER*’s summary tables, see, for example, Garrett (1995), Leblang (1997), and Li and Smith (forthcoming).

The coding of the religious party is somewhat different between Woldendorp et al. (1998) and Woldendorp et al. (2000). Consistent with their 1998 practice, we code as right religious parties whose Huber and Inglehart (1995) scores are greater than six.

For the United States, the government is considered strong and the variables coded 1 if the Democrats (left) or the Republicans (right) control both the presidency and Congress, and 0 otherwise.

Within the estimation sample, 56 cases (15% of the sample) are strong left governments, 101 cases (27%) are strong right governments, 6 cases (1.6%) are strong center governments, and a total of 163 cases (44%) are strong governments. Strong left and strong right governments each occupy a significant portion of the cases. However, one must use caution in interpreting the strong center result. We also estimate a model excluding the cases of strong center governments and find
While these three variables allow us to test the unconditional effects of strong left, center, and right governments separately, the state autonomy argument posits that all three variables should be negative. The implication suggests a more parsimonious test in which the strong government measure is coded 1 if the incumbent government is strong left, center, or right as coded above, and 0 otherwise.

We use three measures for the unconditional effects of three major supporters of capital liberalization to test the societal capture hypotheses. The influence of MNCs is represented as a state’s foreign direct investment as a percentage of its gross domestic investment. This ratio reflects the extent to which these firms are interested in liberalizing restrictions over capital flows across borders. As MNCs increase foreign direct investment abroad, they become more interested and more active in pushing for removing restrictions on capital flows.

We measure the preference of domestic financial intermediaries for investing abroad to diversify their portfolios with the percentage ratio of domestic money deposit banks’ foreign assets over the sum of their assets abroad and in the domestic private sector. As their foreign assets increase relative to domestic assets, banks are more likely to demand capital control liberalization.\textsuperscript{11} Data on both the MNCs and banks are collected from the IMF \textit{International Financial Statistics Yearbook}.

The influence of skilled labor is operationalized as the proportion of highly skilled labor in the national population. An increase in this ratio boosts a country’s relative abundance in the factor, allowing skilled laborers to benefit increasingly from financial openness. As the proportion of skilled labor increases, so too does their political influence. Data are from Quinn and Inclan (1997). The variable is demeaned to purge the linear trend in the data for each country.

Because the removal of capital controls may cause changes in the behaviors of domestic financial institutions, multinational firms, and skilled labor, the causality between these independent and dependent variables may run in both directions. We control for the possibility by following the conventional practice of lagging the independent variables by one year. Following Hypotheses 3A, 3B and 3C, we expect the three variables to be positive.

\textsuperscript{11} As one reviewer points out, this measure is not able to distinguish between the more centralized banking systems found in Europe and the more fragmented American system, which leads to a broader range of financial institutions and possibly different perceptions regarding international capital controls. A more refined measure would require data on which group within this fragmented sector had the greatest political voice. While such data are unavailable at present, this would make an intriguing direction for future research. In a sense, our result for the banks variable reflects the net average effect of this particular sector, which turns out to be quite significant.
We create three interaction terms—strong left government with skilled labor, strong right government with banks, and strong right government with MNCs—to test the conditional partisan effect hypotheses (2A, 2B, 2C). We expect the three interaction terms to be positive.

**Control Variables**

**CENTRAL BANK INDEPENDENCE.** Central bank independence has been found to correlate with lower inflation and less variability in inflation and real interest rates (Alesina and Summers, 1993; Cukierman, Webb, and Neyapti, 1992). Lower inflation reduces the need for contractionary monetary policy, and less variability in these rates is also associated with less drastic capital flows across borders in search of higher returns. Hence, under conditions of high central bank independence, the government is less able to use capital controls to extract an inflation tax and has less incentive to impose capital controls to smooth capital flows. Arguably, another reason why central bank independence correlates with more capital liberalization is because the ceding of monetary policy autonomy to the technocracy further incapacitates the government’s policy-making capacity, making capital controls less effective. Regardless, it is important to control for central bank independence to avoid spurious findings. Our measure is the aggregate legal index of central bank independence from Cukierman, Webb, and Neyapti (1992). We expect central bank independence to be positive.

**FIXED EXCHANGE RATE REGIMES.** A country’s exchange rate regime also affects its choice of capital controls. According to the Mundell-Fleming conditions, under a fixed exchange rate regime, a country that intends to maintain the effectiveness of monetary policy must impose and sustain capital controls to prevent disruptive, speculative, short-term capital flows. Conversely, under a flexible exchange rate regime, a government that intends to retain monetary policy autonomy is not compelled to maintain capital controls. We use two dichotomous variables to capture different exchange rate regimes. The first variable is coded 1 if a country is under the Bretton Woods fixed rate system, and 0 otherwise. The second variable is coded 1 if a country is under a managed floating system, and 0 otherwise. The reference category for both variables is the flexible exchange rate regime. We expect both indicators to be negative. Data are from the IMF’s *International Financial Statistics Yearbook*.

**SYSTEMIC PRESSURE.** Increasing global capital mobility has greatly increased the costs of maintaining capital controls and undermined the effectiveness of doing so, exerting systemic constraints over policy choices by individual governments (Andrews 1994). The competitive diffusion of capital liberalization policies may also develop. As an increasing number of countries liberalize their capital controls, it becomes increasingly difficult for any individual government to maintain effective capital controls at an acceptable level of costs. The
systemic pressures push decision makers toward policies that reduce or remove restrictions on capital transactions. The measure of systemic pressure is the number of states that have reached very high financial openness based on Quinn’s data. It is expected to be positive.

CURRENT ACCOUNT BALANCE. Before liberalizing capital transactions, any policy maker must first consider the economic feasibility of such a policy choice. The greater the surplus in the current account balance, the less likely liberalization induces unbearable shocks in terms of capital flight, and the more favorable the conditions for liberalizing capital controls. Alternatively, countries in deficit are less likely to liberalize capital controls. The current account balance is measured as a percentage of GDP and then lagged one year. Data are from the IMF *Balance of Payments Yearbook*.

TRADE OPENNESS. A country’s trade openness may affect its tendency toward liberalization in two ways. On the one hand, trade openness leads to greater interest in capital decontrol, which permits access to more credit to finance trade. On the other hand, greater openness to the world economy implies more exposure to international market risks. State leaders might be reluctant to liberalize capital controls since freer capital flows could lead to greater volatility in the exchange rate and adversely affect trade. Hence, there is no definitive expectation on how a country’s trade openness might affect its leader’s decision on capital liberalization. Trade openness is measured as the one-year lagged value of exports plus imports divided by GDP. Data are from the Penn World Tables Mark 5.6a (Summers and Heston 1991).

POLICY INERTIA. Public policies, once adopted, become part of the institutional structures constraining public and private behaviors. Institutions, including rules and regulations, are self-reinforcing and difficult to change because they require low costs to maintain and have greater legitimacy due to the existence of a constituency with vested interests in the status quo (Gilpin 2001, 39–40). The same logic also applies to capital controls, which are path dependent and characterized by inertia. We use the lagged dependent variable to capture the capital control policy inertia and expect it to be positive.

**Statistical Model Specification and Methods**

Conceptually, at any given time point, the degree of a country’s capital control or liberalization lies somewhere along a continuum from complete restriction to complete freedom. Such a continuum, however, is unobservable. Reflecting the underlying continuum, the dependent variable measures capital control liberalization along a scale from 0 to 5, based on Quinn’s coding of country descriptions in the *AREAER*. Because the scale merely measures the rank order of different scores, it is more appropriate to treat the measure as ordinal. Treating
the scale as interval level presumes equal distance among the scores, an assumption unlikely to hold because the data, based on subjective coding of country descriptions, lack the precision that is inherent in interval-level measurement. For an ordinal categorical dependent variable, OLS regression is inappropriate, so we use the ordered probit instead.\footnote{Aldrich and Nelson (1984), Greene (2000), and Long (1997) have detailed discussions of the estimation and interpretation of ordered probit models.}

The statistical model takes the following form:

\[ y^* = \beta'x + \epsilon, \]

where \( y^* \) is the unobserved continuous dependent variable, the degree of capital liberalization, \( x \) is a vector of explanatory variables, \( \beta \) is the vector of unknown parameters, and \( \epsilon \) is the error term, normally distributed with mean zero. Instead of \( y^* \), however, we only observe an ordinal indicator of liberalization denoted \( y \) that is related to \( y^* \) as follows:

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\begin{align*}
y_i &= 0 \text{ if } y^* \leq \mu_0 \\
y_i &= 1 \text{ if } \mu_0 < y^* \leq \mu_1 \\
y_i &= 2 \text{ if } \mu_1 < y^* \leq \mu_2 \\
y_i &= 3 \text{ if } \mu_2 < y^* \leq \mu_3 \\
y_i &= 4 \text{ if } \mu_3 < y^* \leq \mu_4 \\
y_i &= 5 \text{ if } \mu_4 < y^*
\end{align*}
\]

where \( y_i \) is the observed level of capital control liberalization, \( \mu \) is a vector of unknown threshold parameters to be estimated together with the \( \beta \) vector, and there are six ordered levels observable. The \( \beta \) estimates contain information about the effect of the independent variables \( x \) on the underlying capital liberalization \( y^* \). The probability that \( y_i \) is at some \( j \)th observable level equals the probability that \( y^* \) is in the \( j \)th range, which can be computed based on the parameter estimates.

The data are a pooled time-series, cross-sectional design, which is susceptible to such familiar econometric problems as heteroskedasticity and serial correlation. We estimate Huber/White robust standard errors adjusted for clustering over country. This robust estimator gives consistent estimates in the presence of heteroskedastic error variance and is robust against serial correlation within the country unit (Wiggins 1999). Furthermore, the lagged dependent variable also helps to soak up the temporal dependence in the data. A table of descriptive statistics is included as an appendix.
Findings and Implications

We discuss the statistical results in three steps. First, we test our hypotheses regarding the effects of the major independent variables. Since all but one of our hypotheses are directional, we apply the one-tailed significance test for all parameters with the exception of trade openness. Second, we use the parameter estimates to illustrate how societal interests interact with the types of government to effect the predicted degree of liberalization. The coefficient estimates measure the effects of the independent variables on the continuous unobserved dependent variable \( y' \), a nation's degree of capital liberalization. Third, we discuss briefly the results for the control variables.

Parameter Estimates

Table 1 presents the statistical results for two model specifications based on alternative measurements of strong governments. The pseudo R\(^2\) show that both models have reasonably good fit.

In Model 1, the three variables for strong left, strong right, and strong center governments, respectively, are all negative and statistically significant as expected.\(^{13}\) In Model 2, the composite measure for strong government is also negative and statistically significant. These results support Hypothesis 1 that all strong governments, regardless of partisanship, prefer the autonomy they obtain from capital controls. Relative to weak governments of any partisanship, strong governments are better able to sustain capital controls and are slower to liberalize them.\(^{14}\) Then, under what conditions do these control-prone governments move toward liberalization?

Consistent with the conditional partisan effect hypotheses (2A, 2B, and 2C), all interaction terms are positive and statistically significant for both models except for the strong left and skilled labor interaction in Model 1. The statistical insignificance of the strong left and skilled labor interaction in Model 1 is most likely caused by the collinearity between the strong left and the interaction term (correlation = 0.62). Not surprisingly, in Model 2, the strong left and skilled labor interaction is statistically significant, indicating that a strong left government becomes prone to liberalization as the proportion of skilled labor in the population increases. In contrast, where MNCs or commercial banks become more interested in the free movement of capital, the strong right gov-

\(^{13}\)The negative effect of the strong right is larger than that of the strong left, although they both have the same sign and the actual difference in size depends on the values of other variables in the model.

\(^{14}\)One reviewer is concerned that this finding might have resulted from the fact that strong governments do not start as equal with weak governments in their prior level of capital controls. To exclude this possibility, we conduct three tests of the difference in means of the lagged level of capital account openness between strong and weak governments within our sample. The results of all three tests (F-test, W-test, and t-test) are far from rejecting the hypothesis that strong and weak governments start off at the same level of capital account openness.
government is more likely to liberalize capital restrictions. For strong left and strong right governments, their desire to maintain state autonomy appears counteracted by the electoral incentive to pursue the support of their own constituencies that favor capital liberalization. To interpret the results from the perspective of societal interests, skilled labor, MNCs, and commercial banks have stronger influences over capital liberalization when their respective political party controls the policy-making process. But do these societal actors influence the cap-

### TABLE 1

**Ordered Probit Estimates for Capital Control Liberalization in Industrial Democracies**

<table>
<thead>
<tr>
<th></th>
<th>Expected Sign</th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong left government</td>
<td>−</td>
<td>−0.551</td>
<td>0.223</td>
</tr>
<tr>
<td>Strong center government</td>
<td>−</td>
<td>−0.589</td>
<td>0.223</td>
</tr>
<tr>
<td>Strong right government</td>
<td>−</td>
<td>−1.219</td>
<td>0.311</td>
</tr>
<tr>
<td>Skilled Labor</td>
<td>+</td>
<td>0.117</td>
<td>0.052</td>
</tr>
<tr>
<td>Strong left×Skilled Labor</td>
<td>+</td>
<td>0.067</td>
<td>0.130</td>
</tr>
<tr>
<td>MNCs</td>
<td>+</td>
<td>−0.004</td>
<td>0.027</td>
</tr>
<tr>
<td>Strong right×MNCs</td>
<td>+</td>
<td>0.082</td>
<td>0.059</td>
</tr>
<tr>
<td>Banks</td>
<td>+</td>
<td>0.014</td>
<td>0.007</td>
</tr>
<tr>
<td>Strong right×Banks</td>
<td>+</td>
<td>0.028</td>
<td>0.013</td>
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**Control Variables**

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Bank Independence</td>
<td>+</td>
<td>1.622</td>
<td>0.534</td>
<td>***</td>
<td>1.709</td>
<td>0.472</td>
<td>***</td>
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<tr>
<td>Bretton Woods</td>
<td>−</td>
<td>−0.427</td>
<td>0.201</td>
<td>**</td>
<td>−0.368</td>
<td>0.197</td>
<td>**</td>
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<tr>
<td>Managed Floating</td>
<td>−</td>
<td>−0.660</td>
<td>0.222</td>
<td>***</td>
<td>−0.531</td>
<td>0.203</td>
<td>***</td>
</tr>
<tr>
<td>Systemic Pressure</td>
<td>+</td>
<td>0.155</td>
<td>0.077</td>
<td>**</td>
<td>0.126</td>
<td>0.071</td>
<td>**</td>
</tr>
<tr>
<td>Trade Openness</td>
<td>−,+</td>
<td>−0.010</td>
<td>0.005</td>
<td>**</td>
<td>−0.010</td>
<td>0.005</td>
<td>**</td>
</tr>
<tr>
<td>Current Account Balance</td>
<td>+</td>
<td>−0.024</td>
<td>0.031</td>
<td></td>
<td>−0.024</td>
<td>0.029</td>
<td></td>
</tr>
<tr>
<td>Policy Inertia</td>
<td>+</td>
<td>2.118</td>
<td>0.008</td>
<td>***</td>
<td>2.106</td>
<td>0.233</td>
<td>***</td>
</tr>
</tbody>
</table>

μ0 | 0.151 | 0.299 | 0.352 | 0.249 |
μ1 | 3.110 | 0.626 | 3.268 | 0.586 |
μ2 | 4.798 | 0.799 | 4.965 | 0.769 |
μ3 | 8.477 | 0.898 | 8.553 | 0.881 |
μ4 | 9.782 | 1.077 | 9.819 | 1.067 |

N | 371   |
Log likelihood | −184.21 | −185.97 |
Pseudo R² | 0.688  | 0.685  |

**Note:** • ***significant at 1% level, **significant at 5% level, *significant at 10% level.
• White robust standard errors, adjusted for clustering over country.
ital control policy when their respective party does not have a firm grip on power?

Consistent with the societal capture hypotheses (3A and 3C), skilled labor and banks are positive and statistically significant in both models, while MNCs are statistically insignificant in both models. Even where the incumbent government is not a strong left government, skilled labor still affects capital control policy. Likewise, regardless of the strength and partisanship of the incumbent, commercial banks are able to influence capital control liberalization. On the other hand, MNCs only seem to influence government policy when a strong right government is in power.

Collectively, these results offer strong support for our hypotheses regarding state preferences, the interests of societal actors, and their interactions. Below, we illustrate these relationships using the parameter estimates from Model 1 of Table 1.

Interactions of Societal Interests and Type of Government

The net effect of the five political actors on capital liberalization is summarized as follows:

- Effect of strong left government: \(-0.551 + 0.067 \times \text{Skilled Labor}\)
- Effect of strong right government: \(-1.219 + 0.082 \times \text{MNCs} + 0.028 \times \text{Banks}\)
- Effect of skilled labor: \(0.117 + 0.067 \times \text{Strong Left}\)
- Effect of banks: \(0.014 + 0.028 \times \text{Strong Right}\)
- Effect of MNCs: \(-0.004 + 0.082 \times \text{Strong Right}\)

The main effect of strong government (left or right) is negative, but the interactive effect allows the constituencies that favor liberalization to reduce that negative impact and move government policy toward liberalization as the groups’ political power and interest in capital control liberalization grows. The main effect of skilled labor is 0.117, which increases substantially by 0.067 when a strong left government is in power. The main effect of banks is 0.014, which increases by 0.028 when a strong right government is in power. Finally, the main effect of MNCs is neither in the expected positive direction nor significant, but the interactive effect is positive, significant, and much larger than the insignificant main effect, suggesting a substantial influence for MNCs under a strong right government.

The estimated parameters show how changes in the independent variables affect the continuous and unobserved underlying measure of capital liberalization, \(y^*\). Using the parameter estimates from Model 1 and making assumptions about the values of the independent variables, we directly calculate the predicted \(y^*\) as a linear function of the independent variables.\(^{15}\) Figures 1–3 illus-

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\(^{15}\) See Aldrich and Nelson (1984), Berry (1999), and Long (1997) for this interpretation.
Figure 1 shows how the degree of capital control liberalization is affected by increases in skilled labor from its 10th percentile value to its 90th percentile value, with the values of MNCs and banks set at their means. Several patterns emerge as to the influences of skilled labor. First, strong left and strong right governments begin with lower predicted levels of liberalization than weak governments, consistent with the state autonomy hypothesis. Second, as the proportion of skilled labor increases, all types of governments tend to become more favorable toward capital control liberalization, as indicated by the upward slopes of all three lines. The effect is consistent with the societal capture hypothesis. Third, as skilled labor increases, the strong left government line rises more rapidly than the other two lines, consistent with the conditional partisan effect hypothesis.
Figure 2 shows how MNCs affect the degree of capital control liberalization with MNCs increasing from its 10th to 90th percentile values, while the values of banks and skilled labor are set at their means. First, the fact that the strong left and strong right government lines begin substantially below the line for weak governments is again consistent with the state autonomy hypothesis. Second, the unexpected negative (but insignificant) parameter estimate on MNCs produces the slight downward sloping lines for both strong left and weak governments. The figure illustrates that MNCs do not have a positive unconditional impact on liberalization. Third, MNCs do have a positive impact when strong right governments hold power. In this case, the societal capture explanation is not supported, but the conditional partisan effect is. This result is not surprising. Given that MNCs tend to concentrate in specific sectors and industries, they lack nationwide political influence over public policy. As Figure 2 shows, their influence is almost exclusively contingent upon a strong right government being in power.

Figure 3 shows how commercial banks affect capital liberalization, with the values of skilled labor and MNCs set at their means. The patterns in Figure 3 are again consistent with our theoretical expectations. As the state autonomy hypothesis expects, strong left and strong right governments have lower predicted levels of liberalization than weak governments, when the value for the
banks variable is low. As the commercial banks become more interested in capital control liberalization, all types of governments move to liberalize capital controls, consistent with the societal capture hypothesis. Third, the predicted level of liberalization increases much more rapidly when strong right governments hold power, illustrating the conditional partisan effect of Hypothesis 2.

Results for the Control Variables and Some Substantive Scenarios

Turning to the control variables, we find both the Bretton Woods and managed floating variables are statistically significant and negative as expected. Relative to the flexible exchange rate regime, both the fixed exchange rate regime under the Bretton Woods and the managed floating system exert less pressure toward liberalizing capital transactions. Alternately, the flexible exchange rate system increases pressures for liberalization.

Central bank independence is positive and statistically significant as expected. This corroborates the finding in earlier research that central bank independence facilitates the adoption of liberal policies on capital transactions.

Trade openness has a significant negative impact on capital liberalization. Rising trade openness brings about greater exposure to international market
risks and more caution in capital account liberalization. Contrary to the expectation, current account balance is negative and insignificant.

Systemic pressure is positive and statistically significant. As more states within the system liberalize, pressures for the remaining states to follow suit increase. Such pressures increase the likelihood that state leaders choose liberalization.

Policy inertia is statistically significant and positive, suggesting a strong tendency for capital controls to persist over time. Prior policy choices exert enormous constraints over current policy making.

It is worth noting that the marginal effect of an independent variable on the probabilities of choosing the categories of capital account openness is not equal to its coefficient (Greene 2000, 876). The coefficient measures the effect of the independent variable on the unobserved latent variable. The actual size of the effect of an independent variable on the probability of choosing a certain observable category requires some extra calculation. To illustrate, we use the parameter estimates from Model 1 to examine how a change in some key independent variable affects the probability of capital account openness shifting from category 2 to category 3. We hold other variables constant by setting exchange rate regime as flexible, the policy inertia variable at 2, and other variables at their mean. Under a strong left government, increasing the value of skilled labor by one standard deviation leads to a 0.17 increase in the probability of capital liberalization shifting from category 2 to 3. Increasing the value of central bank independence by one standard deviation leads to a 0.10 increase in the probability. Moreover, increasing the value of system pressure by one standard deviation leads to a 0.09 increase in the probability. In contrast, under the strong right government, increases in MNCs and banks lead to increases in the probability of capital liberalization shifting from 2 to 3 by 0.13 and 0.28, respectively, while increases in central bank independence and systemic pressure lead to increases of 0.10 and 0.09, respectively. Therefore, under strong partisan governments, societal actors (skilled labor, MNCs, or banks) have strong impacts on the probability of capital liberalization, vis-à-vis either central bank independence or systemic pressures.

Conclusion

Under what conditions do governments shift capital control policies toward liberalization? Under what conditions do societal supporters influence that liberalization? In addressing these two questions, we postulate the following: (1) The desire to maintain state autonomy leads all governments to prefer capital controls to liberalization, but strong governments, regardless of partisanship, have the greater ability to act on that preference and are more likely to maintain controls longer than weak governments. (2) Strong partisan governments are influenced toward liberalization if their core societal constituency increasingly supports it—skilled labor for the left government, and MNCs and
commercial banks for the right government. (3) Skilled labor, MNCs, and banks also influence capital decontrol, regardless of which political party is in power, if the group has broad national significance and captures government policy making. By proposing the state autonomy argument, qualifying the usual partisan model, and applying the societal capture theory, our integrated theory offers coherent answers to our two research questions.

In an empirical test of 17 OECD countries for 22 years, we find that the evidence largely supports these theoretical expectations. Strong governments, regardless of partisanship, are less likely to liberalize controls, which supports the state autonomy argument. Societal groups may have both a direct impact on policy making and a conditional impact. Skilled labor, given its salient political position in the industrialized economies, tends to directly influence all governments’ decisions to liberalize, but it is able to extract stronger responses from strong left governments. Commercial banks, given their national economic and political significance, are able to shift all types of governments toward liberalization; they also get a stronger response from strong right governments. MNCs are able to acquire more liberalization under strong right governments but exhibit no across-the-board influence over capital decontrol.

Throughout, we have held constant the determinants of societal interests and treated growing international market integration as exogenous. Both societal interests and systemic changes may be endogenous. Although we have controlled for possible endogeneity by lagging the independent variables, the issue points to areas of potentially fruitful future research. However, by integrating the state autonomy argument, the partisan model, and the societal capture theory, our analysis extends previous work within the statist and societal approaches and reveals previously undiscovered patterns in the interactions between the interests of policy makers and the demands of societal groups. The empirical test, though limited in scope, applies an appropriate statistical model and substantiates a novel theory.

Our research also suggests two other directions for future research. The first would be to expand the focus beyond the OECD countries. For late liberalizers, such as the developing countries, the state autonomy argument would remain the same, but the domestic political effects may be less important than pressures emanating from the international system and international actors such as the IMF. The second direction would be to examine different types of restrictions on capital flows. For instance, distinguishing between restrictions on short- versus long-term capital flows or restrictions on inflows versus outflows may shed light on important differences in the interests of the key societal actors.

Our focus in this article has been on international financial liberalization, but all governments, irrespective of issue area, share the core interests of maintaining state autonomy and retaining office. Ideally those interests would always be complementary. Governments could increase their state autonomy while satisfying their domestic constituencies. However, in an increasingly globalized
world, these two interests often stand in conflict with one another. Which of the two interests dominates the policy-making process hinges on both government attributes and the demands of societal supporters. We have focused on those groups that support continued liberalization, but a whole range of domestically oriented groups have reason to oppose it. While actions by environmental, labor, and human rights groups, such as the Seattle demonstrations, may indicate a growing public backlash against globalization, the groups favoring globalization, by converting benefits from greater openness into political strength, still appear to have the greatest influence over the policy-making process in the advanced industrialized democracies. And it is the demands of these pro-liberalization groups that create the greatest policy dilemmas for their respective governments. Satisfying their demands for continued liberalization often results in policies that reduce the state’s autonomy.\(^{16}\) How governments will be able to balance the demands of these competing groups as well as their own interests remains to be seen.

### Appendix

#### Sample Summary Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Number of Observations</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
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</thead>
<tbody>
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<td>2.6415</td>
<td>1.4494</td>
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<td>Strong governments</td>
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<td>0.4394</td>
<td>0.4970</td>
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<tr>
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<td>0.0162</td>
<td>0.1263</td>
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<td>1.0000</td>
</tr>
<tr>
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<td>0.3585</td>
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<tr>
<td>Strong right</td>
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<td>0.2722</td>
<td>0.4457</td>
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<td>1.0000</td>
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<td>2.0157</td>
<td>2.3653</td>
<td>-2.9241</td>
<td>10.6359</td>
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<tr>
<td>Skilled labor</td>
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<td>4.1156</td>
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<td>Strong left * skilled labor</td>
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<td>MNCs</td>
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<td>Central bank independence</td>
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<tr>
<td>Bretton Woods</td>
<td>371</td>
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<td>0.5013</td>
<td>0.5007</td>
<td>0.0000</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

\(^{16}\)The policy dilemma is not restricted to the developed countries alone. As India’s former Finance Minister Manmohan Singh commented, “We learned that there were advantages to having access to international capital markets, [but] the government’s ability to deliver and control shrank the more it opened to the world.” (Friedman 2000, 108).
### By Country Statistics for the Dependent Variable

<table>
<thead>
<tr>
<th>Country</th>
<th>Mean Level of Capital Account Openness</th>
<th>Number of Liberalization Changes</th>
<th>Number of Restricting Changes</th>
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</thead>
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<td>3</td>
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</tr>
<tr>
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<td>2</td>
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<tr>
<td>Belgium</td>
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<tr>
<td>France</td>
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*IMF Balance of Payments Yearbook.* Washington DC: IMF.


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