# ECONOMIC INSTITUTIONS AND POLITICAL DEVELOPMENT

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# *Economic Institutions and Political Development*

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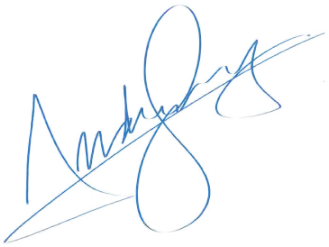

*(firma del doctorando)*

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Pamplona, 3 de julio de 2020

(firma del Director)

(firma del subdirector)

*To my grandmother,*

*who I lost along this PhD journey without being able to say goodbye.*

# Preface

This Ph.D. dissertation was written between September 2016 and May 2020, during my studies at the School of Economics and Business Administration at the University of Navarra. I am grateful to the association *Amigos de la Universidad de Navarra* and *Banco Santander* for their financial support. Thanks also to the *Tuborg Research Centre for Globalization and Firms* for their economic support during my research stay at Aarhus University.

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Had it not been for Begoña Fuentes, Carmen Cueto, Mamen Cabezón, and Teresa Erroz, I would have stopped researching and would still be working on the accounting for the travel expenses and administrative tasks. Similarly, if Susan Stilling hadn’t helped me, I would very likely still be finding my way around the hallways of Aarhus University. I would like to express my most sincere appreciation to all of them.

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*Andrea Sáenz de Viteri Vázquez*

*Pamplona, May 2020*

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# Introduction

This Ph.D. dissertation consists of three self-contained chapters on New Institutional Economics (NIE). Ever since the expansion of neoclassical economics during the three decades following World War II, economists have realized that their theoretical approach can be applied to analyze a broader set of topics, including politics and law.

Despite the rapid development the study of institutions, as important factors for economic development, has had; there is no clear consensus to agree on a unique defection of institutions. However, most of the exiting definitions coincide in the facts that institutions play an important role reducing uncertainty and transaction costs (North, 1990; Coase, 1998), shaping growth and development (North, 1991; Williamson, 2002) and with it the fate of entire societies (Acemoglu and Robinson, 2012). Institutions are commonly understood as to be shaped by two indispensable mechanisms; institutions should act as a rule or prescription, while simultaneously serving as sanction or prohibition (Ostrom, 1986; Voigt, 2013). The degree to which sanctions are enforced and the source of its design determines the type of institution. Institutional economist generally distinguish between formal institutions, which generally include constitutions, contracts, and rules (e.g., North, 1990; Lowndes 1996) and informal institutions, set up by traditions and customs, moral values, religious beliefs, and behaviors (North, 1991; Pejovich, 1999).

While it is true that the analysis of institutions in economics began with a purely descriptive approach and rarely showed interest in theorizing (Hodgson, 1998), the objectives of NIE have grown more ambitious. Today, most academics are interested at measuring the potential effects of institution on economic, political, and sociological outcomes; and to do so, they rely on a number of tools and inductive thinking techniques. The use of econometric tests and social experiments has allowed the comparative analysis of institutions at different levels and many have been the contributions highlighting their effects and as the understanding of their determinants. However, there are still important intellectual challenges and a lot of interesting work to be done on the mater. This doctoral thesis aims to contribute through the empirical analysis formal and informal institutions as both, explanatory and explained variables, by focusing on current political and economic phenomena around the globe.

NIE economists commonly suggest that diversity of political behaviors across countries can be explained by the differences in their institutional constrains (Voigt, 2019). Constitutions play an important part in this matter acting as contracts between the people, as principal, and the government, as agent. In other words, constitutions are documents that not only define the process of political decision-making, but also constrain current and future policy-makers from taking specific decisions (Buchanan and Tullock 1962). In *Chapter 1*, we attempt at explaining the differences on corrupt behavior display by politicians subject to constitutional constraints.

Most liberal democracies today rely on the principle of separation of powers. Ever since the Roman Republic, the separation of political powers was deemed essential to avoid usurpation and tyranny by the holder of these powers. This principle, however, was forgotten during the period of the Great Empires and it was not until the 18$^{th}$ century, when it was re-introduced by James Madison, Locke and Montesquieu as a key feature of constitutional design. In theory, dividing power among different actors would result in a conflict of interests in which each body prevents the other from abusing its power. Constitutions in principle affect these balances by determining the amount of discretionary *de jure* power allocated to different government branches, specifying who has the right to make decisions and which decisions cannot be made, and outlining which procedures allocate which powers under which circumstances. This however is not the only mechanism in which constitutions can contain political actors in perusing their own interests. Constitutions additionally define the degree to which veto players are able to align politically or remain effective veto institutions. In *Chapter 1*, we therefore ask whether the concentration of power in both the executive branch as well as national parliament affect how corrupt a society is. To do so, we focus on the concentration defined by the constitution, i.e. through the most basic institutional decisions. We hypothesize that societies that present a more even concentration of power between the executive and legislative branches, and that are characterized by strong ideological fractionalization, i.e. of no de facto political concentration should experience lower levels of corruption. We, therefore, argue that identifying the relationship between the balance of power granted by the constitution and corruption, in addition to testing one of the basic principals in liberal democracies, may offer a unique opportunity to identify a policy option to combat political corruption.

For a long time, mainstream economists disregarded the possibility of considering institutions as something different than exogenously given. Ignoring by this, the fact that non-economic elements such as geography, history, or even personal trails of politicians, could possibly determine the quality of institutions. Counter to our focus in *Chapter 1*, where we attempt at explaining political phenomena

by the differences in Latin American constitutions, in *Chapter 2*, we shift our focus and test whether constitutions can also function as the explained variable. In particular, we are interested on the direct consequences constitutions may suffer when a populist leader arrives into office.

Populists often stand in contrast to, and depict themselves as in opposition to and different from, representatives of regular politics. They claim that the regular political system and features of the existing political institutions somehow stand in the way of policies and changes that would be to the benefit of 'the people' or whichever segment of society that they claim to represent. As such, in *Chapter 2* we hypothesize that populist leaders have substantial incentives to engage in changing the existing constitution. As previously mentioned, different mechanisms to constrain the abuse of power exists within democratic constitutions. In addition to accounting for constitutional changes intending to get rid of constraints on policy-making, we also test if, over time, populist leaders aim at removing veto institutions or even interfere with the ability of the judiciary.

For NIE, this study is particularly interesting given that constitutions meant to create stability and a predictable institutional environment. Constitutional theory often claims, that to work as intended and affect the economic performance and the political environment, constitutions should be entrenched and stable document (Stasavage 2002; Kurrild-Klitgaard and Justesen 2013; Versteeg and Zackin 2016; Vanberg 2018). The potential costs of changing the most basic rules of society can be huge, since the principals may lose the ability to control politicians, allowing this agents to act as their will. With this chapter, we aim at contributing to the growing literature that tries to answer what happens when populists gain office, addressing important vacuums in this literature.

One of the main challenges faced by NIE economists, is finding a way to correctly measure institutions. The absence of a clear definition and, with it, a reliable measure for populism, has limited the empirical analysis of its causes and consequences. We alleviate this issue developing our own index of populism. While consistent with the few alternative measures of such as the one from Hawkins (2009), our index has the advantage of not being affected by the domestic political environment. Our index relies on a set of indirect assessments of populism based on newspaper reports in leading US and British newspapers. This index, therefore, allowed us to account for the degree of populism associated with many leaders across several countries. With our populist index, together with original data on aspects of *de jure* constitutional change, we were able to explore whether populist leaders are likely to introduce important constitutional changes to get rid of constraints on policy-making. For *Chapters 1* and *2*, we focused on the Latin America and Caribbean

region for a number of reasons. The region´s unbroken experience with populist government, and combination of frequent constitutional change, as well as the substantial differences in the levels of political corruption, makes it ideal to estimate long-run effects of our variables. Both chapters rely on similar databases that cover 22 Latin American and Caribbean countries between 1970 and 2014.

Nowadays, the emergence of populist leaders is no longer limited to Latin American countries. The rise of these particular political actors in many western countries has awakened great interest within scholars. While there are a number of studies that account for its effects, more studies have to be done in order to understand its origins. Existing literature argues that the increasing populism (Ballard-Rosa et al., 2017), nationalism (Acemoglu and Yared, 2010) and global de-integration, exemplified by the Brexit and the policies of the Trump administration (Piketty, 2016; Brakman et al. 2018), are but a political backlash that answers to the perils of globalization.

Given its trajectory, we have learned that globalization is a phenomena that shapes economic development through a multi-facetted process that encompasses political, social, and economic aspects (Dreher, 2006), affecting by this both; formal and informal institutions. Novel academic research denotes the positive impacts of globalization; fostering peace (Hultman et al., 2014) and easing the spread of technology (Kanwar, 2012) and skill complementarities between international workers (Alesina et al., 2016) are only a few examples of its many gifts. Yet, there are several forceful criticisms of the perilous effects of globalization. For instance, the public and academic discourse associate globalization with the rising of inequality (Dreher and Gaston, 2008; Fuckuyama, 2019), job insecurity (Autor et al., 2013) and an offshoring of environmental pollution (Baghdadi et al., 2013). Mainly due to recent economic downturns, these criticisms and discontents have been strengthened up to the point where some wonder if “globalization has gone too far?” (Rodrik, 1998).

In *Chapter 3*, we study individual attitudes towards an important argument in the modern political economy; the Compensation Hypothesis. This normative proposal states that extensive globalization is only sustainable politically if coupled with a large welfare state that compensates the losers from economic openness and cushions domestic economies from the risks and volatility imposed by global markets. In particular, we test whether the content of the normative compensation hypothesis is supported in public opinion surveys, adding also an evaluation of political party manifestos. In other words, this chapter focus its interest on the legitimacy the State and the adopted actions (rules and policies) of its representatives. In particular, we study the possibility of formal institutions, in particular government policies, altering informal institutions.

Again, one of the main challenges in NIE is how to quantitatively measure institutions, while the use of surveys is rather well accepted, a general problem arises from the nature of this data. We contribute to the literature that studies the microeconomics of the compensation hypothesis by including a role for political ideology and acknowledging the need to account for expressiveness (Bertrand and Mullainathan 2001, Hillman 2010). In our study, expressiveness arises when relying on in responders who favored compensation did not actually have to pay to help. We also account for the potentially mediating role of political ideology in a cross-country setting, and include a role for the positions of political parties towards compensation. Through these contributions, we test whether the content of the normative compensation hypothesis is supported in public opinion surveys and party manifestos.

With these three chapters, on the one hand, we have tried to measure the positive effects that the different institutions (in the form of constitutional constrains) have on the behavior of political leaders. On the other hand, we also study institutions (in the form of constitutional change/design) as an explanatory variable instead. Finally, we also try to derive normative policy consequences on informal institutions (as individual preferences).

As the following chapters address institutions at different levels of analysis, they build on various different datasets. Those data include well-established macro datasets like the *Economic Freedom of the World (EFW)* index by Gwartney et al. (2016) or the *Chinn-Ito Index of capital account openness,* while individual attitudes rely on the *World Values Surveys/European Values Studies* (WVS) and the *Comparative Manifesto Project* (CMP). For *chapters 1* and *2*, measures of de facto institutional quality come from Henisz's (2017) *Political Constraints* dataset and the *Varieties of Democracy* database (Coppedge et al. 2016), while measures for constitutional change are based on information from *Comparative Constitutions Project* (CCP). Aspects of de jure constitutional change build from the *Index of Parliamentary Legislative Influence* (IPLI) by Bjørnskov and Voigt (2018), as well as our own *Index of Executive Influence* (IEI). Finally, as mentioned above, we also develop our own measure of populism.

In order to provide relevant advice for effective decisions, we carefully chose suitable methods for the context and level of analysis in question. More specifically, it is important to consider several factors that might drive both outcome and explanation as dynamics are intertwined in the multi-causal settings of institutions and political development. For this purpose, panel data approaches are applied in all chapters, which help to control for various unobserved factors. Every

chapter, therefore, makes an individual contribution to the research on institutional economics, employing innovative methodology, different models, and new datasets to accomplish this task.

The findings of each chapter have already been published in a peer-reviewed journal, or have at least past the first step of the review process. The academic output of each has been the following: A similar version of chapters one and two are currently under consideration at *Constitutional Political Economy* and *Journal of Institutional Economics* respectively, both with Christian Bjørnskov as a co-author. Chapter three has been published in *European Journal of Political Economy*, with Martin Rode figuring as a co-author. Also, different versions of each chapter have been presented at a number of international conferences.

# Chapter 1

## Constitutional Power Concentration and Corruption: Evidence from Latin America and the Caribbean.

*Join work with Christian Bjørnskov*

**Abstract**

Just as its constitutional development is characterized by frequent change and substantial concentration of power, the Latin American and the Caribbean area is known to host some of the most corrupt countries of the world. A group of countries such as Chile, Barbados and Uruguay, however, report levels of corruption similar to those displayed by most European countries. We ask whether the concentration of power in the executive, as well as in the national parliament in this particular region, affect how corrupt a society is. Using panel data from 22 Latin America and Caribbean countries from 1970 to 2014, we find that constitutional power concentration is in fact a determinant of corruption. Yet, the constitutional provisions allocating powers of government appear only to be consistently important when parliament is ideologically fractionalised..

"It is not just the bad people who effect corruption, but the institutions that make it possible"

Lessig, L. (2011). *Republic, lost: How money corrupts congress and a plan to stop it*. New York: Hachette.

## 1.1 Introduction

The Latin American and the Caribbean areas are known to host some of the most corrupt countries of the world. Bolivia, Nicaragua and Venezuela consistently experience high levels of corruption, similar to levels reached in Bangladesh and large parts of Sub-Saharan Africa. Yet, Barbados and Chile have traditionally experienced low corruption levels similar to those in Northern European countries, while Uruguay is about as corrupt as those in Southern Europe.

Despite differences in nature, context, and political dynamics, corruption – typically defined as the abuse of public power for personal gains – is present in all governments (Nye 1967). A long list of studies has therefore emerged that attempt to find causal explanations of corruption (Ades and Di Tella 1999; Treisman 2000) and its detrimental effects on economic development and growth, as well as a number of features of social development (Rose-Ackerman 1999; World Bank 2001; Gupta et al. 2002; Bjørnskov and Freytag, 2016). Although there is an evident relationship between corruption and particular differences in political institutions, relatively few papers have empirically studied this connection (Montinola and Jackman 2002; Dreher et al. 2008) and even fewer have explored the links between corruption and different constitutional features.

Theoretically, constitutions play an important role in averting the risk of corruption by defining both rights and the allocation and concentration of discretionary power (cf., Klitgaard 1988). This is mainly achieved through the creation of a predictable institutional environment, setting clear and enforceable norms for individuals in positions of power as well as preventing the concentration of power in the hands of a single person or body through the creation of veto institutions (Buchanan and Tullock 1962). Constitutions help maintain stability within the political environment by constraining the actions of government and distributing power among its different branches. In addition, the balance of power between the executive and the legislature is defined by how constitutions structure the legislative process. In order to entrench these institutions, constitutions should be stable documents (Buchanan and Tullock 1962; Ordeshook 1992).

Compared to the European constitutional tradition where new constitutions and constitutional amendments are rare events, the constitutions of most Latin American countries are characterized by

frequent change and instability. Unstable constitutions may fail to constrain politicians, ultimately allowing them to ignore or change the existing rules in order to accommodate rent-seeking behaviour (Versteeg and Zackin 2016). Latin America and the Caribbean nevertheless offer a particularly suitable setting for empirically testing whether the concentration of power in the executive and the national parliament in different constitutions has an effect on the levels of political corruption. The region offers sufficiently frequent constitutional changes to be able to identify effects, and the countries in the region are so similar in culture, historical background and social norms that such characteristics cannot be important confounders. In addition, to the best of our knowledge, the connection between constitutional characteristics and corruption remains unexplored in the existing literature on corruption.

In this paper, we therefore ask whether the concentration of power in both the executive branch as well as national parliament affect how corrupt a society is. We focus on the concentration defined by the constitution, i.e. through the most basic institutional decisions, and on Latin America and the Caribbean as a region with both substantial variation in corruption and constitutional change. We hypothesize that societies that present a more even concentration of power between the executive and legislative branches, and that are characterized by strong ideological fractionalization, i.e. of no de facto political concentration should experience lower levels of corruption.

To test to which extent the classical doctrine of separation of powers limits the levels of corruption within 22 Latin American and Caribbean societies, we rely on the Varieties of Democracy (V-Dem) dataset, combined with constitutional information in the Comparative Constitutions Project (CCP) and a number of additional constitutions not covered by the CCP. Measures in V-Dem of overall corruption and judicial accountability allow us to follow de facto institutional changes over time. To track changes in the constitutional concentration of power, and thus the degree to which parliament and the executive branch are constrained by constitutional design, we rely on the Index of Parliamentary Legislative Influence (IPLI) developed by Bjørnskov and Voigt (2018) and we develop a similar Index of Executive Influence (IEI).

Although our findings reveal no significant effect of the amount of power granted by the constitution to the national parliament on the levels of corruption, they provide evidence that an increase in the concentration of power in the executive branch combined with an ideologically fractionalized environment is associated with lower levels of political corruption and higher judicial accountability. The rest of the chapter is structured as follows: Section 1.2 presents our theoretical considerations based on a review of existing literature and introduces our central hypothesis. Section 1.3 describes the data, main variables, and the empirical methodology employed. Finally, sections 1.4

and 1.5 contain our main findings and a discussion of these results in the context of various alternative explanations. Section 1.6 concludes.

## 1.2 Theoretical Considerations

Since James Buchanan and Geoffrey Brennan developed the contractarian view in constitutional political economy, the government-citizen relationship has commonly been studied from a principal-agent perspective (Buchanan 1975; Brennan and Buchanan 1985). In this context, the government takes the role of an agent, which citizens, as principals, interact with in order to obtain security, justice and public goods. The basis of the social contract is defined by constitutional, statutory and common law. In other words, citizens rely on constitutions to establish and simultaneously control a government (Buchanan and Tullock 1962). Constitutions include features such as separation of powers, de jure certainty of frequent elections, and the creation of veto institutions to create a predictable institutional environment that with time will not only constrain those currently in power, but also bind these characteristics across generations (Buchanan and Tullock 1962).

Becker (1968) argued that for corruption to become a substantial problem, two factors have to be present. First, it requires a government or civil service with sufficient discretionary power over the allocation of the principals' (voters') resources. For grand corruption or state capture – i.e. corruption among politicians, high judges and other high-level political decision-makers with the aim of affecting institutional and policy decisions – it is a problem of relatively unconstrained government power while petty or bureaucratic corruption is more a problem of bureaucratic influence (cf. Knack 2007). Second, the existence of corrupt dealings rests on a relative lack of a judicial overview and sufficiently strong and politically independent judicial institutions (Padovano et al. 2003). Such institutions would otherwise enable the detection of attempts to abuse political power to obtain rents while judicial institutions under direct political control may be prevented by political actors from investigating corruption.

Constitutions in principle affect these balances by determining the amount of discretionary de jure power allocated to different government branches, specifying who has the right to make decisions and which decisions cannot be made, and outlining which procedures allocate which powers under which circumstances. Although all liberal democracies rely on the principle of separation of powers, the concentration of power in the executive and the legislature varies depending on how the legislative process is structured by the constitution (Diermeier and Myerson 1999). In particular, the executive and the legislative branches have different powers and incentives in different political systems such as presidential versus parliamentary democracies. In addition, the outcomes of these systems rest on

the degree to which veto players, as defined by the constitution, are able to align politically or remain effective veto institutions.

In this paper, we therefore focus specifically on how the different constitutions allocate power among these bodies but combine a constitutional view with the degree to which political actors may align politically and thus de facto dissolve their role as potential veto players. Our analytical starting point is that two conditions logically must hold if constitutional veto institutions are likely to be effective in upholding de facto separation of power: veto players have to be sufficiently powerful, and they cannot be politically aligned with other political majority actors. In other words, we focus on the apparent paradox that in order to keep powerful political interests in check, one needs sufficiently powerful political veto players. While the first condition is typically defined de jure by the constitution, the second is shaped by ordinary politics.

**Balancing institutional powers**

In theory, the right balance of power among executive and legislative branches should allow for a conflict of interests so that each body prevents the other from abusing its power. The body in charge of maintaining the balance of power within this constitutional setting is the judicial branch. Characterized by its formal independence from the other two bodies, the judiciary is charged with preserving the integrity of the legal system, upholding the abstract concept of justice and avoiding the rent seeking and interest group pressures that corrupt the activity of the other two branches (Buchanan and Tullock 1962). When the constitution contributes to greater concentration of discretionary power, it also strengthens the incentives for the holders of specific powers to further their own interests without being held accountable by other government bodies (Buchanan and Tullock 1962; Treisman 2007). Political institutions with strong presidents and relatively weak parliamentary leaders provide one such example where power concentrated in the executive may arguably cause more corruption (cf. Gerring and Thacker 2004).

Conversely, when the constitution creates effective competition among agents, the implied checks and balances constrain the amount of transfer activity that can take place (Klitgaard 1988). Such transfers can both include direct support for groups favoured by specific political actors, and they can include direct transfers created by economic policy, unequal access to institutions such as the judiciary, and by regulatory decisions. Effective de jure separation of powers and thus limited concentration of discretionary power in either the executive or the legislature would therefore – in a strictly constitutional analysis – reduce the incidence of corruption. Yet, for such a situation to create de facto separation of powers requires that sufficient power is actually concentrated in the vetoing

political actors. Contrary to simple intuition, separation of powers therefore rests on sufficient concentration of power, but in separate actors.

**Political concentration**

However, as emphasized by a growing literature, the de jure institutional status may not always reflect the de facto separation of powers, institutional independence or power concentration. (Ginsburg and Melton 2014; Foldvari 2017). Apparent competition can take different forms and not all institutional competition affects the de facto concentration of power and while constitutionally defined veto institutions ideally constrain political corruption by limiting the discretionary influence of potentially corrupt agents, such de jure institutions may not have de facto importance (Voigt 2013). We emphasize two types of mechanisms that may either lead constitutional power concentration to be ineffective, or cause it to only be effective under specific political conditions.

First, when constitutions are unstable, veto institutions do not become entrenched and fail to prevent actors from circumventing the constitution, and may de facto enable them to entirely ignore those provisions (Versteeg and Zackin 2016). In other words, constitutional instability weakens principals' ability to monitor and control agents holding positions of power and enables the creation of mechanisms to protect those who are corrupt. In such conditions, de jure limitations on political decision-making is unlikely to result in de facto limits. This may be particularly relevant in the context of Latin America and the Caribbean where constitutions have been amended and replaced much more frequently than in Europe and most parts of Asia and even in a number of cases, voters have expressed their support to remove these constitutional mechanisms (Acemoglu et al. 2013). In addition to ensuring high levels of effective concentration of power, a number of authors that have argued that the survival of authoritarian regimes in Latin America could not have been possible without the collaboration of the judges (e.g. Hilbink 2007). As mentioned above, the judiciary plays an important role ensuring the accountability of the political system. However, this is only possible if the judiciary is truly independent, or in other words, free from incentives to collude with the other branches and from direct political control (Salzberger 1993). Which mechanisms exist for holding judges accountable is thus another factor we account for in this paper. Overall, these complications are more frequent in Latin America and the Caribbean and may decouple any relation between constitutional power concentration and the de facto incidence of political corruption.

Second, we argue that the political situation is likely to affect the degree to which principals can hold actual political actors and decision-makers accountable. In particular, if all decision-makers are political aligned, the constitution may include as many veto points as possible without having any certain effect. In other words, as Henisz (2002) argues, de jure veto institutions are only likely to be

effective when veto players not only have the constitutionally defined option of blocking particular decisions, but also have a juridical or political incentive to apply their blocking power. As such, we expect that the constitutional de jure separation of powers is most effective in constraining political corruption when it is accompanied by a situation of de facto political non-alignment, i.e. when different political actors with some veto strength represent different interests.

However, judging when that condition is likely to hold is not a simple matter. Multiple may often represent similar interests, implying that one cannot merely assess the degree of fractionalization in parliament. In addition, fractionalization can lead to severe rent-seeking problems, including corruption, when it results in extensive logrolling (cf. Uslaner and Davis 1975; Tullock 1981). If parliament is fractionalized, i.e. there is apparent non-alignment, extensive logrolling is likely to lead to even more political corruption than a situation in which legislative power is concentrated such that the incumbent government does not need to logroll. As such, a situation of de facto political non-alignment requires at least some level of fractionalization in parliament and the absence of likely logrolling. In the following, we argue that such a situation is most likely when parliament is ideologically fractionalized, i.e. that ideologically different and potentially antagonistic parties are sufficiently equally represented in parliament.

**Theoretical expectations**

Overall, our thesis thus is that an effective separation of powers rests both on how the constitution defines the concentration of power in the executive and legislative branches. Yet, we expect this to only have limited influence if not accompanied by a de facto situation of political non-alignment. This second condition must hold for de jure veto players to act effectively, as they otherwise have no political interest in exercising their veto power. The de jure constitutional provisions and de facto non-alignment may thus be complements in shaping problems of political corruption.

In other words, we argue that identifying the relation between the balance of power granted by the constitution and corruption, in addition to testing one of the basic principals in liberal democracies, may also offer a unique opportunity to identify a policy option to combat political corruption. In the following, we focus on the Latin American and Caribbean given the extensive variation of the levels of corruption observed across the region in addition to its unusual constitutional development. Compared to the European constitutional tradition, where new constitutions and constitutional amendments are rare events, the constitutions of most Latin American countries are characterized by frequent change and instability. According to the Comparative Constitutions Project, Ecuador has introduced ten new constitutions since 1950 and the Dominican Republic has introduced seven, while Mexico has introduced new amendments to its constitution at least once most years since

1917 (Elkins et al. 2009). Although only implementing two new constitutions, Brazil has amended its current constitution 92 times since 1988, and at least once in 45 years since 1950. On average, Latin American constitutions are substantially amended every five years and replaced every 10 to 15 years. This specific context allows us to capture changes in the concentration of power over time in a large number of constitutions, combined with changing de facto fractionalization of parliamentary interests. [1]

However, it bears noting that while constitutionally defined veto institutions ideally constrain political corruption by limiting the discretionary influence of potentially corrupt agents, such *de jure* institutions may not have *de facto* importance (Voigt 2013). Specifically, when constitutions are unstable, veto institutions do not become entrenched and fail to prevent actors from circumventing the constitution, and may *de facto* enable them to entirely ignore those provisions (Versteeg and Zackin 2016). In other words, constitutional instability weakens principals' ability to monitor and control agents holding positions of power and enables the creation of mechanisms to protect those who are corrupt.

We then ask whether *de jure* limitations on political decision-making also result in *de facto* limits. In addition to ensuring high levels of effective concentration of power, a number of authors that have argued that the survival of authoritarian regimes in Latin America could not have been possible without the collaboration of the judges (e.g. Hilbink 2007). Which mechanisms exist for holding judges accountable is thus another factor we account for in this study. Finally, we argue that the political situation is likely to affect the magnitude to which principals can hold actual political actors and decision-makers accountable. In particular, if all decision-makers are political aligned, the constitution may include as many veto points as possible without having any certain effect. As Henisz (2002) argues, *de jure* veto institutions are only likely to be effective when veto players not only have the constitutionally defined *option* of blocking particular decisions, but also have a juridical or political *incentive* to apply their blocking power.

[1] Latin America and the Caribbean is distinct from Europe and the European offsprings by having substantially more constitutional change. However, so is Africa and parts of Asia where Thailand for example has implemented 15 new constitutions since 1945. We nevertheless refrain from using data from other parts of the developing world, as African and Asian constitutional development is often characterised by the use of interim constitutions and the comparatively frequent cancellation of the constitution. By focusing exclusively on Latin America and the Caribbean, we thus avoid the problem of how to deal with the phenomenon of constitutional limbo.

As such, we thus expect that the constitutional *de jure* separation of powers is most effective in constraining political corruption when it is accompanied by a situation of *de facto* political non-alignment. Hence, we argue that identifying the relation between the balance of power granted by the constitution and corruption, in addition to testing one of the basic principals in liberal democracies, also offers a unique opportunity to identify a policy option to combat political corruption.

## 1.3 Data and Methodology

To capture how much political actors manipulate the instruments of the state for their own personal benefit, we use as our main outcome measures two indices from the *Varieties of Democracy* project (Coppedge et al. 2016). The first measure allows us to account for overall political corruption, since the index results from the average of the equally weighted assessments of four distinct types of corruption that cover both different areas and levels of the polity realm: corruption in the 1) public sector; 2) the executive branch; 3) the legislative branch; and 4) the judiciary. We therefore mainly identify consequences of the constitutional concentration of power on what is often termed either *grand* corruption or state capture, which we treat as a feature of government organizations (Banfield, 1975; Knack 2007). Given the evidence, especially in Latin America, of judges collaborating with authoritarian regimes (Hilbink 2007) by supporting them in pursuing their agendas, we also include a direct measure of judicial accountability. This index captures the likelihood that judges are removed from their posts or otherwise disciplined if they are found responsible for serious misconduct. We thus test if variation in the amount of power concentrated in the other two branches of government has an effect on judicial accountability. This measure also comes from the V-Dem project database.

To account for the actual concentration of power granted by the constitution, we rely on the Index of Parliamentary Legislative Influence (IPLI) developed by Bjørnskov and Voigt (2018) and develop our own similar Index of Executive Influence (IEI). Both indices are coded based on information in the Comparative Constitutions Project (CCP), which we update and expand in two separate ways. We first start with the available data and expand them based on whether or not amendments change any of the 14 provisions included in either index.[2] Second, we code several

[2] In a large number of cases, all observations in the CCP are missing following constitutional amendments that were not coded. The data then reappear after either a new constitution is implemented or a major amendment is coded by the CCP team. We have filled in these missing values by reading all amendments in between observations and coding any changes within the amendments that concern the 14 provisions entering either index.

additional constitutions not included in the CCP, mostly from small Caribbean island states. For each element in the indices, listed in **Tables 1.1a and 1.1b,** we code a score of 1 when the legislature/executive has actual power, .5 if the provision is uncertain, and 0 if the legislature/executive does not have actual influence on the topic. The final IPLI and IEI are simple averages across the 14 components capturing the degree of influence that the legislature / executive have on central policy elements. Please note that these indices are also used in ***Chapter 2***.

**Table 1. 1a Elements in Constructing the IPLI**

| Element | Description | Correspondence in CCP |
|---|---|---|
| 1 Dismissal of executive | Do procedures exist to dismiss the executive and if so, does the legislature have power to do so? | HOGDISS, HOGDCOND |
| 2 Cabinet selection | Does the legislature have power over the selection of ministers / members of the cabinet? | CABRESTL |
| 3 Cabinet nomination | Can the legislature nominate ministers / members of the cabinet? | CABAPPT |
| 4 Approving cabinet | Do ministers / members of the cabinet need to be approved by the legislature? | CABAPPR |
| 5 Executive investigation | Can the legislature investigate the behaviour of the executive? | INVEXE |
| 6 Initiating legislation | Can the legislature initiate legislation? | LEG_IN |
| 7 Legislative review | Is legislation decided by the legislature subject to judicial review? | INTERP |
| 8 Immunity | Are members of the legislature immune to prosecution? | IMMUNITY |
| 9 Election | Are members of the parliament / lower house elected? | LHSELECT |
| 10 Constitutional election | Do constitutional amendments need to be approved by the legislature? | AMNDAPPR |
| 11 Declaring war | Does the legislature have the power to declare war? | WAR |
| 12 Foreign treaties | Does the legislature have the power to initiate or approve international treaties? | TREATINI, TREATAPP |
| 13 Selecting judges | Can the legislature propose or approve the dismissal of judges? | JREMPRO, JREMAP |
| 14 Electoral restrictions | Are there restrictions on who can be elected or appointed to the legislature? | LHREST, UHREST |

**Table 1.1b. Elements in Constructing the IEI**

| Element | Description | Correspondence in CCP |
|---|---|---|
| 1 Dismissal of executive | Do procedures exist to dismiss the executive? | HOGDISS |
| 2 Investigation of executive | Does the legislature have the power to investigate the activities of the executive branch? | INVEXE |
| 3 Initiate legislation | Can the executive initiate general legislation? | LEG_IN |
| 4 Cabinet nomination | Can the executive nominate ministers / members of the cabinet? | CABAPPT |
| 5 Approving cabinet | Do ministers / members of the cabinet need to be approved by the executive? | CABAPPR |
| 6 Dismiss cabinet | Can the executive dismiss the cabinet/ministers? | CABDISS |
| 7 Immunity | Is the executive immune to prosecution? | IMMUNITY |
| 8 Nominate attorney general | Is the executive involved in the nomination of the attorney general? | AGNOM |
| 9 Approve attorney general | Is the executive involved in the approval of the attorney general? | AGAP |
| 10 Constitutional amendment | Is the executive allowed to propose amendments to the constitution? | AMNDPROP |
| 11 Declaring war | Does the executive have the power to declare war? | WAR |
| 12 Foreign treaties | Does the executive have the power to initiate or approve international treaties? | TREATINI, TREATAPP |
| 13 Selecting judges | Can the executive propose or approve the dismissal of judges? | JREMPRO, JREMAP |
| 14 Legislature dismissal | Can the executive dismiss the legislature? | LEGDISS |

In order to assess positions in the policy spectrum, we use the ideological categorization of political parties behind the government ideology in Berggren and Bjørnskov (2017), which we update to include the most recent years and more countries in our region.. Each party in parliament is coded on a simple five-step scale, capturing their ideological preferences for economic policy and institutions: -1 corresponds to communist and unreformed socialist parties; -.5 denotes modern socialist parties; 0 are modern social democrat and non-ideological parties; .5 are conservative parties, while we reserve a score of 1 for the very few parties in Latin America and the Caribbean with a classical liberal background. As such, the measure does not necessarily capture other dimensions of political ideology than those associated with classical positions on economic policy and redistribution, regulatory activity, and property rights protection (cf. Poole and Rosenthal 2011).

We use these party categorizations to develop a measure of ideological fractionalization, which can be interpreted as a proxy for the probability that two randomly drawn representatives from the legislature will be from different parties and of different ideological convictions. In other words, it is essentially a proxy for the *lack* of political and ideological alignment in parliament and thus also a proxy for the formal strength of purely political veto players. The measure is a standard Herfindahl-

Hirschmann index, with each party share of seats in parliament weighted with the party's ideological distance to the average position in parliament. The index is thus the sum of squares of all parties' seat share in parliament (or the lower house of parliament) times its ideological distance to the average position. As such, the maximum attainable index is a situation with two parties – one far left and one far right – that each hold half of the seats in parliament. In this situation, the index will be $(2 * .5)^2 = 1$.

In the tests in the following, we furthermore interact the IPLI and IEI (respectively) with ideological fractionalization, which allows us to assess whether the *de jure* constitutional concentration of power has different effects when the ideological preferences represented in parliament are more or less diverse. We also add Berggren and Bjørnskov's (2017) simple measure of government ideology, which is the seat-weighted average ideological position of parties in government. In additional tests, we interact with the government ideology index and with democracy in order to test alternative explanations.

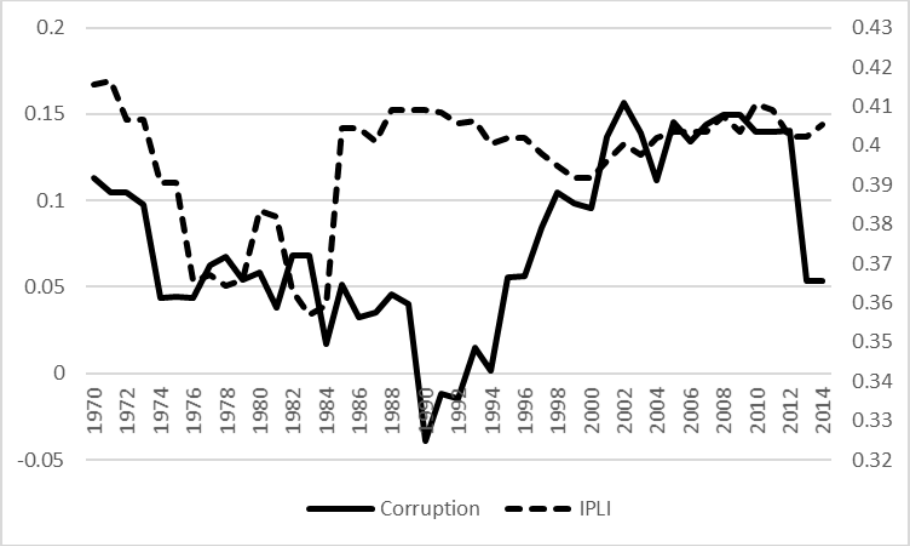
We further include a set of a priori necessary control variables to account for effects on corruption beyond the relative bargaining power of either of the branches. Although there is no clear consensus on the causal direction of effects, the existing literature on rent-seeking and corruption finds evidence of an unambiguously negative association between trade and corruption. Most of existing studies argue that it reflects a negative impact of trade on corruption (Ades and Di Tella 1999; Gatti 1999). However, some studies have also emphasized the possibility that openness could lead to more corruption, and that corruption could affect trade (Treisman 2000). Given this evidence, we include a variable that controls for the volume of trade in each country. We add the logarithm to real GDP per capita and the size of the population as simple controls of the size and performance of the economy; these data are all from the Penn World Tables (Feenstra et al. 2015).

In addition, we also control for the existence of two chambers in the national legislature, as the existence of a bicameral legislature might prevent the enactment of laws, which could unfairly impact or favour specific special interests. However, the complexity of the political process could also incentivise bribery and other rent-seeking behaviour in order to, for example, accelerate the passage of certain laws. Finally, we therefore control for democracy, as it may make this process more difficult and less prone to rent-seeking (Acemoglu et al. 2001; Treisman 2007). We follow recent studies in using the dichotomous indicator from Cheibub et al. (2010), which is based on a minimalist conception of democracy. The data in the following are from Bjørnskov and Rode's (in press) update of Cheibub et al. (2010).

As noted above, countries in Latin American and Caribbean area display great variation in the observed levels of political corruption. Additionally, the region is characterized by substantial

constitutional instability, and both anecdotal and empirical evidence suggest that under certain conditions, voters in these countries actively support the dismantling of checks and balances (Acemoglu et al. 2013). In **Figure 1.1**, we illustrate the development over time of both corruption and the concentration of power granted by the constitution to the legislative branch, which is essentially the variation that gives us identification in the following.[3]

**Figure 1. 1 Corruption and IPLI over Time**




All data are described in Table A1 in the appendix. The variation over time illustrated in **Figure 1.1** is matched by similar variation in the IEI, and substantial variation across countries. As all estimates are obtained by two-way (country and annual) fixed effects OLS between 1970 and 2014 and across 22 Latin American and Caribbean countries. The variation that provides identification in the next section is thus the within-country variation over time in constitutional features and corruption across Latin America and the Caribbean. One must therefore also keep in mind that a large number of otherwise interesting characteristics such as federalism, colonizer identity and other historical influences, religion and culture, and the particular time countries became independent are fully captured by the fixed effects (cf. Treisman 2000).

[3] We also provide first indications of the association between corruption and the direction of the constitutional reforms in Figures A2 and A3 in the appendix, where we plot the association between the average corruption between 1970 and 2014 and the IPLI and EIE respectably. As the figures illustrate, the correlation between corruption and the IPLI and IEI are far from homogeneous.

## 1.4 Results

We report our main results in **Table 1.2** where columns 1-4 display the results for the model for overall political corruption, while columns 5 and 6 show the results with the same baseline specification, but using judicial accountability as the outcome variable.

**Table 1. 2 Main Results for All Sample**

| | All Corruption | All Corruption | All Corruption | All Corruption | All Judicial acc. | All Judicial acc. |
|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 |
| Judicial | - | - | .272*** | .295*** | - | - |
| accountability | | | (.088) | (.089) | | |
| Democracy | .432** | .436** | .273 | .281 | .584*** | .528** |
| | (.203) | (.188) | (.186) | (.168) | (.191) | (.169) |
| Log GDP per | .399 | .403 | .359 | .359 | .151 | .146 |
| capita | (.254) | (.258) | (.251) | (.259) | (.332) | (.343) |
| Log population | 1.251 | 1.199* | 1.033 | .931 | .799 | .909 |
| size | (.649) | (.657) | (.634) | (.623) | (.485) | (.494) |
| Trade volume | .028 | .026 | .136 | .141 | -.397** | -.392** |
| | (.205) | (.205) | (.201) | (.199) | (.182) | (.193) |
| Bicameral | .303* | .292* | .310** | .281** | -.024 | .037 |
| | (.165) | (.172) | (.141) | (.141) | (.249) | (.230) |
| Government | -.034 | -.035 | -.018 | -.024 | -.056 | -.037 |
| ideology | (.079) | (.076) | (.065) | (.063) | (.088) | (.094) |
| Ideological | .515 | 5.515 | .732 | 11.539* | -.800 | -20.416** |
| fractionalization | (.904) | (6.925) | (.772) | (6.473) | (.902) | (8.670) |
| IEI | -1.086 | -.822 | -.756 | .089 | -1.214 | -3.086 |
| | (1.044) | (1.224) | (.902) | (.974) | (1.312) | (2.088) |
| IPLI | .485 | .651 | .481 | .539 | .0120 | .378 |
| | (1.069) | (1.163) | (.964) | (.986) | (.870) | (.758) |
| IEI * | | -7.002 | | -22.414 | | 52.231* |
| fractionalization | | (16.417) | | (13.935) | | (29.172) |
| IPLI * | | -4.336 | | -2.274 | | -6.993 |
| fractionalization | | (6.686) | | (6.061) | | (13.511) |
| Country FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 897 | 897 | 897 | 897 | 897 | 897 |
| Countries | 22 | 22 | 22 | 22 | 22 | 22 |
| R sq. within | .273 | .278 | .374 | .391 | .376 | .409 |
| R sq. between | .180 | .184 | .090 | .082 | .007 | .004 |
| F statistic | - | - | - | - | - | - |

Note: *** (**) [*] denote significance at p<.01 (p<.05) [p<.10].

Before turning to our main variables of interest, we briefly comment on the effects of our control variables. Our results indicate that larger countries with bicameral political institutions, tend to exhibit lower levels of corruption. Similarly, democracies seem to have substantially less political corruption and higher levels of judicial accountability. While higher levels of trade are associated with lower judiciary accountability and therefore, strongly associated with corruption.

Turning to our main estimates, although we find no significant effects on corruption from the amount of power granted by the constitution to the legislative (the IPLI), we find, in column 6, some evidence that an increase in the concentration of power of the executive branch (IEI), when interacted with the ideological fractionalization of parliament, may be associated with better judicial accountability. However, we must emphasize that the estimate per se indicates the effect of concentration at no fractionalization – a situation that only occurs in single-party dictatorships – and the estimate of fractionalization per se indicates an effect at a zero value of the IEI, which we never observe (cf. Brambor et al. 2006). The potential effect of the IEI at sufficient levels of the fractionalization index appears intuitive: an increase in effective political competition, as proxied by increasing ideological fractionalization, constrains the de facto effective power of the executive to actions that have broad political backing. In such political circumstances, strong executive powers cannot be used to benefit narrow special interests or protect select parts of the bureaucracy. Conversely, countries with weak executive powers may lack effective oversight over the many potentially corruptible actors in such situations.

## 1. 5 Are democracies different?

We nevertheless need to test whether these relatively weak findings are due to alternative explanations. As a set of final tests, we provide indications in **Table 1.3** of whether our main results are stable to taking alternative explanations into account: whether ideological fractionalization merely proxies for ideological differences or the existence of democracy, and whether the main findings are robust to excluding all observations from years in which countries were not fully democratic.

As a background for the first test, we note that it remains a possibility that ideological fractionalization either merely picks up broad differences between democracies and autocracies when the relevant autocracies either do not allow multiparty parliaments or are in a position that leaves little parliamentary influence. Second, it may also be the case that it is not ideological fractionalization *per se* that drives the results, but a particular ideological set-up of parliament. We deal with these problems by providing alternative interactions between the IEI / IPLI and a democracy dummy and government ideology, respectively.

**Table 1. 3 Results, Alternative Explanations**

| | All Corruption | All Corruption | Democracies Corruption | Veto inst. Corruption | All Judicial acc. | All Judicial acc. | Democracies Judicial acc. | Veto inst. Judicial acc. |
|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| Judicial accountability | .276*** | .272*** | .235*** | .199** | - | - | - | - |
| | (.094) | (.088) | (.080) | (.093) | | | | |
| Democracy | .275 | .772 | - | .316 | .498*** | -.428 | - | .315* |
| | (.186) | (1.197) | | (.203) | (.174) | (1.101) | | (.189) |
| Log GDP per capita | .356 | .358 | -.042 | -.049 | .185 | .173 | .416 | .352 |
| | (.254) | (.247) | (.234) | (.247) | (.330) | (.329) | (.345) | (.308) |
| Log population size | 1.029 | 1.048 | 1.144* | 1.149* | .837* | .847* | .896* | .877 |
| | (.631) | (.633) | (.618) | (.598) | (.479) | (.466) | (.463) | (.499) |
| Trade volume | .137 | .131 | .077 | -.027 | -.369** | -.381 | -.376** | -.478** |
| | (.198) | (.194) | (.188) | (.208) | (.186) | (.177) | (.168) | (.197) |
| Bicameral | .308** | .316** | .294 | .968*** | -.004 | -.059 | .560 | .719 |
| | (.144) | (.132) | (.227) | (.189) | (.211) | (.234) | (.700) | (.486) |
| Government ideology | -.116 | -.032 | .028 | -.006 | 1.927** | -.048 | .002 | .000 |
| | (.446) | (.057) | (.040) | (.043) | (.847) | (.094) | (.094) | (.097) |
| Ideological fractionalization | .726 | .595 | 3.322 | 5.746 | -.601 | -.959 | -26.743*** | -22.978*** |
| | (.757) | (.688) | (6.475) | (4.997) | (.957) | (.961) | (7.791) | (5.758) |
| IEI | -.754 | .018 | -2.264** | -1.647* | -1.114 | -1.592 | -4.449** | -2.733 |
| | (.904) | (1.946) | (.863) | (.873) | (1.121) | (1.967) | (2.112) | (1.764) |
| IPLI | .484 | .456 | .655 | .240 | -.117 | -1.131 | 2.383 | .780 |
| | (.977) | (1.203) | (.844) | (.691) | (.745) | (.763) | (1.458) | (.998) |
| IEI * fractionalization | | | -2.307 | -7.131 | | | 66.220*** | 55.569*** |
| | | | (16.077) | (12.086) | | | (24.473) | (16.628) |
| IPLI * fractionalization | | | -3.628 | -2.846 | | | -11.252 | -8.118 |
| | | | (4.440) | (4.599) | | | (10.706) | (8.779) |
| IEI * ideology | .195 | | | | -4.430** | | | |
| | (.909) | | | | (1.928) | | | |
| IPLI * ideology | .027 | | | | .033 | | | |
| | (.463) | | | | (1.448) | | | |
| IEI * democracy | | -1.153 | | | | .332 | | |
| | | (2.011) | | | | (2.285) | | |
| IPLI * democracy | | .192 | | | | 1.904 | | |
| | | (1.253) | | | | (2.066) | | |
| Country FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Observations | 897 | 897 | 760 | 710 | 897 | 897 | 760 | 710 |
| Countries | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 22 |
| R sq. within | .375 | .379 | .348 | .385 | .427 | .384 | .379 | .370 |
| R sq. between | .089 | .092 | .175 | .132 | .007 | .008 | .001 | .001 |
| F statistic | - | - | | - | - | - | - | - |

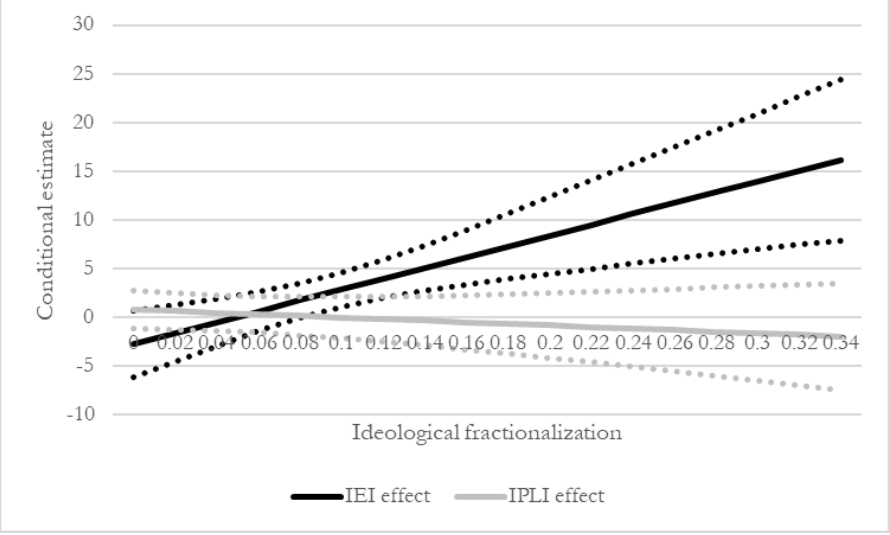
Note: *** (**) [*] denote significance at p<.01 (p<.05) [p<.10].

An additional problem is that the literature on constitutions in general shows that constitutional constraints are often ineffective, as political actors can simply ignore them or are able to easily circumvent them (Feld and Voigt 2003; Bjørnskov and Voigt 2018). We therefore need, as a final test, to ask if the results in Table 2 are driven by autocratic episodes in our data. Similarly, we also test if the findings are driven by episodes in which countries have had no or only extremely weak veto institutions, as measured by Henisz's (2017) PolCon III index. We address these questions by running an identical specification on the respective subsamples. For this, we define countries with actual veto institutions as those with a PolCon III index above .2. We report these tests in **Table 1.3.**

We find that none of our main variables are consistently significant in the corruption regressions, with the exception of judicial accountability in columns 1-4. While the power of the executive (IEI) appears significant in columns 3 and 4, we must remind that the specifications include an interaction with fractionalization. As column 3 excludes all autocracies and column 4 excludes all societies with no or very weak veto institutions, a 'pure' effect of the IEI – i.e. one evaluated at zero democracy or veto institutions – will therefore be an out-of-sample prediction as these values are absent from the restricted samples.

Conversely, in the right-hand side of the table where the dependent variable is judicial accountability and we restrict the sample to either only democratic observations or observations in which veto players had some influence, we find substantial evidence in columns 7 and 8, that executive concentration is *positively* associated with accountability when the parliament is sufficiently ideologically fractionalized. In other words, allocating more power to the executive branch in the constitutions is associated with improved institutional quality when that power is checked by effective veto politics in the form of substantial ideological differences in a democratically elected legislative branch. As a final observation, in **Figure 1.2** we therefore plot the effects of the IEI / IPLI conditional on the level of ideological fractionalization.

**Figure 1. 2 Effects at Levels of Ideological Fractionalization**



While concentration of power in parliament (the IPLI) is never significant – the 95 % confidence interval denoted by the dotted grey lines in the figure always includes zero – we find evidence that above a fractionalization level of .1, a concentration of power in the executive branch is significantly associated with higher levels of judicial accountability. A crucial side effect is that *through* its effects on judicial accountability, power concentration under such circumstances also limits the amount of political corruption. This is the case for approximately a sixth of all observations in our data.

A final potential worry when studying corruption is the problem that if corruption is as entrenched as to be endemic, one would suspect that it could affect both election outcomes and constitutional design (cf. Aidt 2003). As the coding scheme behind the Bjørnskov and Rode (2020) database implies that no society can be coded as democratic when election outcomes can be 'bought', we address alleviate this worry by excluding all observations from autocracies in Table 3. Given that we obtain similar or stronger results than in the full sample, we believe we can reject the idea that corruption or a lack of judicial accountability is likely to substantially affect the ideological fractionalization of parliament. In other words, we argue that this feature makes one of the two constitutive terms of the interaction between the IEI and fractionalization plausibly exogenous such that the heterogeneous effects of constitutional concentration of power can be interpreted causally (Nizalova and Murtazashvili 2016). However, we are aware that if endemic corruption was to imply that corruption and / or judicial accountability or the deeper political causes of it could also affect constitutional design, the above interpretation might not necessarily apply to the average effect.

Yet, if reverse causality would be a main problem, we would also expect to find a *general* association between constitutional power concentration and corruption / judicial accountability, or at least an association in the relatively more corrupt countries in the sample. However, **Figures A3** and **A4** in the appendix do not indicate that there is such a general association between corruption or judicial accountability and the IEI. Further tests (not shown) also reveal that there is as little association in the half-sample with higher levels of corruption and worse judicial accountability. While this is not solid evidence of no endogeneity bias in **Tables 1.2 and 1.3** – we indeed do not believe that such evidence is likely to be produced with the data currently available – we argue that while we cannot rule out a minimal degree of endogeneity, it should not be a major concern, and that at least the heterogeneous effect of constitutional power concentration can be interpreted causally.

Overall, we thus find that constitutional power concentration is a determinant of corruption, and that the transmission mechanism runs through judicial accountability. Yet, the constitutional provisions allocating powers of government appear only to be consistently important under quite specific political conditions of full democracy and levels of ideological fractionalization sufficient to create substantial de facto political competition. In further tests reported in appendix **Table A2**, we show that the same combination of constitutional and political conditions is associated with substantially more independence from political influence of the judiciary. Conversely, we find no evidence that the effects are simply due to heavy-handed

attacks on the judiciary, such that our findings could have been a reflection of political processes to dismantle democracy or similar extraordinary events. In other words, our findings are inconsistent with an interpretation in which the effects are due to political attacks on otherwise well-functioning institutions, but more likely reflections of systematic ills within the institutions. We therefore end the paper by briefly discussing the implications of these findings.

## 1.6 Conclusion

The Latin American and Caribbean area is generally known for high levels of corruption, although not all countries are equally corrupt and some have only quite minor problems. In addition to the significant variation in the levels of corruption, the region characterises by a history of constitutional instability and high levels of effective concentration of power, which could both reduce the efficiency of its constitutional provisions and allow political actors to either circumvent or entirely ignore those provisions and diminish the credibility of veto institutions and judicial constraints.

In this paper, we uniquely combine these two topics – corruption and constitutional change – by asking whether changes in the constitutionally defined concentration of power in the executive branch and in the national parliament affect the levels of corruption in society. For our purpose, the Latin American and Caribbean area is ideal, as the combination of frequent constitutional change and substantial changes in political corruption allows us to estimate long-run effects of constitutions.

Although we find no significant effect of the amount of power granted by the constitution to the national parliament on the levels of corruption, our findings suggest that an increase in the concentration of power in the executive branch is associated with lower levels of political corruption and with higher judicial accountability. Yet, these effects only occur when the legislature is characterized by sufficient ideological fractionalization, i.e. when increased *de jure* concentration of power in the executive is checked by some level of *de facto* non-aligned political veto players. As such, one way of understanding these findings is that constitutional constraints on the executive and legislative branches of government are mainly effective when it is in the political interest of some actors with actual veto influence to enforce them. When this is not the case, we find no effects on corruption. In other words, in our specific situation, it may require a fortuitous combination of *de jure* and *de facto* institutions to constrain corruption.

# Appendix 1A

**Figures 1A.1 and 1A.2** illustrate the association between the average corruption and the amount of power granted by the constitution to the legislative (IPLI) and the executive (IEI) between 1970 and 2014.

**Figure 1A. 1 Corruption and IPLI**

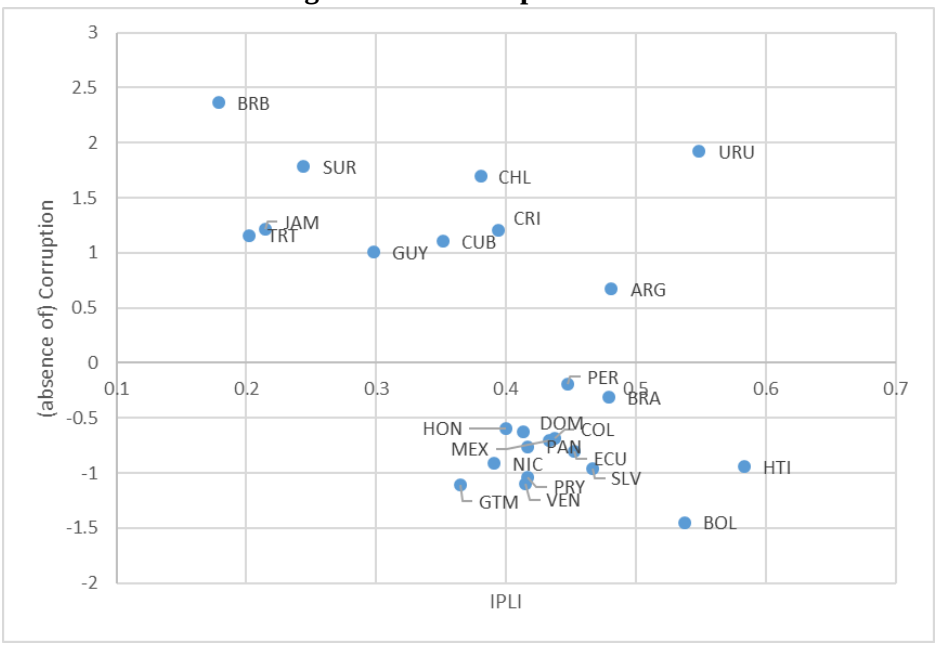



**Figure 1A. 2 Corruption and IEI**

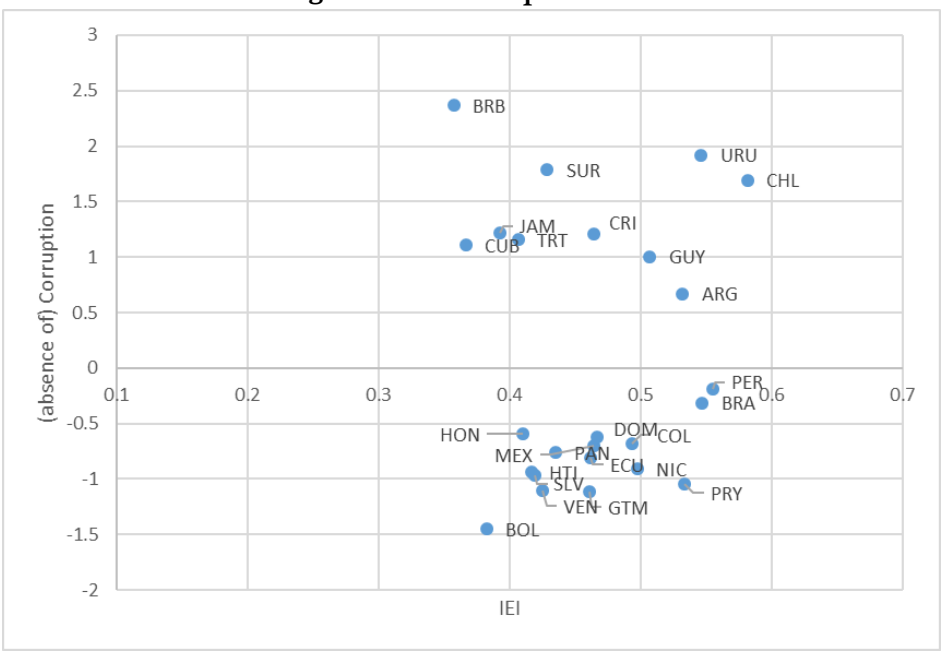


**Figure 1A. 3 Executive Concentration and Corruption**

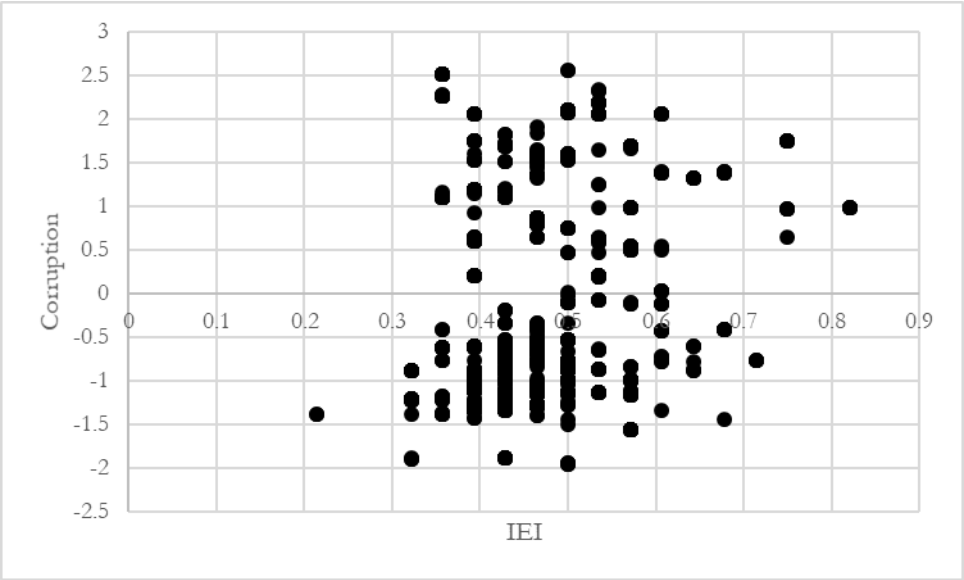
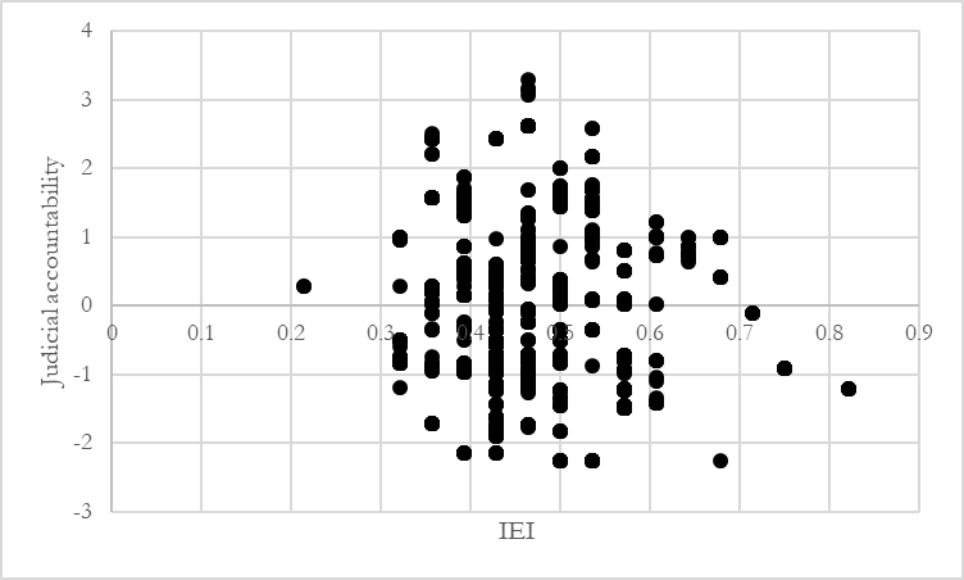



**Figure 1A. 4 Executive Concentration and Judicial Accountability**



# Appendix 1B

**Table 1A.1 Descriptive statistics**

| | Mean | Standard deviation | Observations |
|---|---|---|---|
| Political corruption | .077 | 1.249 | 1675 |
| Judicial accountability | .143 | 1.292 | 1675 |
| Democracy | .771 | .421 | 2881 |
| Log GDP per capita | 8.957 | .699 | 2099 |
| Log population size | .339 | 2.512 | 2099 |
| Trade volume | .688 | 1.729 | 2099 |
| Bicameral | .484 | .499 | 2665 |
| Government ideology | .035 | .511 | 1636 |
| Ideological fractionalization | .038 | .046 | 1672 |
| IEI | .434 | .099 | 2098 |
| IPLI | .375 | .133 | 2091 |
| HC independence | .145 | 1.346 | 1675 |
| LC independence | .340 | 1.304 | 1675 |
| Attacks on judiciary | .083 | 1.220 | 1675 |

**Table 1A.2 Alternative Indicators**

| | All HC independence | Democ HC independence | All LC independence | Democ LC independence | All Attacks on judiciary | Democ. Attacks on judiciary |
|---|---|---|---|---|---|---|
| Democracy | .992*** | - | .924*** | - | .049 | - |
| | (.133) | | (.185) | | (.335) | |
| Log GDP per | .271 | .494 | -.096 | .214 | -.041 | .017 |
| capita | (.299) | (.345) | (.284) | (.329) | (.396) | (.349) |
| Log population | .218 | -.116 | -.836 | -.868 | -.634 | -.056 |
| size | (.725) | (.802) | (.606) | (.594) | (.8039 | (.613) |
| Trade volume | -.296 | -.483 | .093 | -.076 | .559** | .622*** |
| | (.458) | (.402) | (.255) | (.192) | (.229) | (.162) |
| Bicameral | 1.079*** | .910 | .727* | -.049 | -.435 | .187 |
| | (.211) | (.549) | (.377) | (.779) | (.346) | (.609) |
| Government | .065 | .037 | .034 | .074 | .136 | .149 |
| ideology | (.115) | (.113) | (.076) | (.062) | (.116) | (.111) |
| Ideological | -22.115*** | -24.426*** | -14.196 | -20.791* | 10.686 | -4.016 |
| fractionalization | (6.711) | (7.912) | (9.439) | (11.907) | (13.738) | (13.108) |
| IEI | -3.886** | -4.730** | -2.538** | -3.864** | 1.296 | -1.074 |
| | (1.535) | (1.702) | (1.066) | (1.695) | (1.983) | (2.264) |
| IPLI | 1.436* | 2.308 | 2.051** | 2.278 | 2.766** | 2.261 |
| | (.843) | (1.382) | (.894) | (1.415) | (1.397) | (1.713) |
| IEI * | 61.333** | 70.075*** | 52.759* | 70.635** | -30.025 | .269 |
| fractionalization | (24.113) | (26.651) | (28.806) | (35.604) | (29.971) | (30.202) |
| IPLI * | -7.478 | -13.278 | -15.741 | -21.104 | 5.145 | 5.884 |
| fractionalization | (13.310) | (13.054) | (12.379) | (12.487) | (8.807) | (10.543) |
| Country FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 897 | 760 | 897 | 897 | 897 | 897 |
| Countries | 22 | 22 | 22 | 22 | 22 | 22 |
| R sq. within | .449 | .326 | .433 | .331 | .183 | .162 |
| R sq. between | .015 | .199 | .268 | .111 | .021 | .016 |
| F statistic | - | - | - | - | - | - |

Note: *** (**) [*] denote significance at p<.01 (p<.05) [p<.10]. HC (LC) independence refers to the political independence of the high (lower) court.

# Chapter 2

## Populism and Constitutional Reform: Evidence from Latin America and the Caribbean.

*Join work with Christian Bjørnskov*

**Abstract**

Populists stand in contrast to, and depict themselves as in opposition to and different from, representatives of regular politics. As they claim that the regular political system and features of the existing political institutions somehow stand in the way of policies and changes that would be to the benefit of 'the people', in this paper we test whether populist governments are more likely to change the constitution to suit their specific needs. Exploring the frequency and direction of constitutional reforms with a unique dataset for 42 Latin America and Caribbean countries since 1970, we find evidence suggesting that when in power, populist governments challenge the regular political establishment by changing the constitution or implementing measures to undermine the power of opposition and other institutional constrains.

## 2.1 Introduction

Despite the limited consensus on exactly what populism is and which kind of phenomena it is associated with, a general feature of all conceptualizations is that populists – contrary to established parties and interests – tend to aim at securing the median vote and be supported by non-encompassing interests (e.g. Spruyt et al. 2016). They also try to, or claim that they try to, represent interests in the broad population that they argue are not represented by existing political parties or political leaders (Hawkins 2009). In particular, they consider themselves as the true and only representatives of 'the people'. This attitude is evident in Turkish President Recep Tayyip Erdoğan's response to his political opponents: "We are the people. Who are you?" (cited in Müller 2016). As recently exemplified by the PiS government in Poland and the Orbán regime in Hungary, populist leaders therefore often argue that the existing constitution is in the way of their 'doing good'.

This paper aims to contribute to the growing literature that tries to answer what happens when populists gain office. We do so by focusing on the meta-institution regulating the conduct of politics, the constitution. Constitutions are important documents that not only define the process of political decision-making, but also the limits of those decisions and constrain current and future policy-makers from taking specific decisions (Buchanan and Tullock 1962). They are meant to create stability and a predictable institutional environment that limits rent-seeking and similar political problems by, among other things, dispersing power between several actors and thereby creating veto institutions. While it can be argued that constitutions ought to be able to change when fundamental circumstances change or when a consensus arises that some elements are missing, they must nevertheless be stable and entrenched documents to work as intended and affect the economic performance and the political environment (Stasavage 2002; Kurrild-Klitgaard and Justesen 2013; Versteeg and Zackin 2016; Vanberg 2018).

However, as populists oppose institutions that in their view fail to represent the will of `the people´, our central conjecture, for which numerous examples exist, is that populist governments with sufficient discretionary power are therefore likely to introduce important constitutional changes to get rid of constraints on policy-making. The Argentine president Juan Peron for example argued that "I put the spirit of justice above the Judicial Power, as this is the principal requirement for the future of the Nation. But I understand that justice, besides from being independent has to be effective, and it cannot be effective if its ideas and concepts are not with the public sentiment." (cited in Alston and Gallo 2010, 192). Peron thus echoed the main argument of populist governments that existing constitutional and judicial structures are somehow in the way of good intentions or inconsistent with the 'public will' (Eichengreen 2018).

In this paper, we first hypothesize that populist governments that have sufficient discretionary power are likely to introduce important constitutional changes, as in their view, existing institutions stand in their way of implementing the will of `the people´. Conversely, populists may choose the alternative strategy of

reducing the strength of veto players and undermining judicial institutions implementing non-constitutional procedures. As voters commonly attribute partisan issue competences (Petrocik 1996), we additionally put forward the hypothesis that when in power, right-wing populists will pursue formal authority based on the support of the traditional political structures, strengthening the parliament and the language of constitutionalism to remain in power, while left-wing populists will seek out change in alternative ways. In both cases, populist governments tend to undermine existing institutions and policies (Edwards 2010; Rode and Revuelta 2015).

To answer these questions, we build a unique dataset on populism and aspects of de jure constitutional change for 42 countries in Latin America and the Caribbean since 1970. We first update and expand the Index of Parliamentary Legislative Influence (IPLI) developed by Bjørnskov and Voigt (2018) and develop a similar Index of Executive Influence (IEI) as described in ***Chapter 1***. The data allow us to explore our main question in a panel of Latin America and Caribbean countries, which we focus on for two reasons: 1) the region arguably has a stronger, unbroken experience with populist government than other places in the world; and 2) Latin American and the Caribbean has a particularly strong regional tradition of frequent constitutional change. Combining our indices with recently developed data on the political ideology of incumbent government, we explore the frequency as well as the direction of constitutional reforms. We find that when constitutional changes are implemented by populist leaders, they strongly tend to grant more powers to the parliament while the changes implemented weakly reduce the degree of influence the executive has on central policy issues. Yet, the former changes mainly occur when the populist positions of the government are embedded in a rightwing host ideology while the latter constitutional changes primarily occur with leftwing populists. In addition, populist governments throughout the ideological political spectrum tend to reduce the strength of veto players and undermine judicial institutions.

The rest of the chapter is structured as follows: Section 2.2 presents the theoretical considerations based on existing literature and introduces our central hypotheses. Section 2.3 defines populism and how it has previously been measured. Section 2.4 describes the data, main variables, and empirical methodology employed. Section 2.5 begins with a first look at our data and proceeds to show the results and discusses them, while section 2.6 concludes.

## 2.2 Theoretical Considerations

Lipset (1959, 92-93) noted that "Democracy requires a universalistic political belief system in the sense that it legitimates different ideologies." Constitutions with democratic principles can ideally facilitate the inclusion of different beliefs and allow different actors to contest those principals in any given period (Buchanan and Tullock 1962). Populism is nevertheless often presumed to be in tension with the mechanisms and values of constitutionalism, and particularly with constraints on the will of popular sovereignty or checks and balances

as an obstacle in the leader´s way of their 'doing good' (Böckenförde 1997, 12). Conovan (2002) attributes this experience of dissatisfaction with representative institutions by populist leaders to the often opaque and complex decision-making system required in democracies. Similarly, Urbinati (1998) suggests that the tension between liberal democracy and populism stems from how populist ideologies perceive the relations between representative institutions and the "will of the people."[4] For this, reason populist parties, while in opposition, share the promise of rebalancing the distribution of political power among established and emerging social groups once they have reached power.

Our main argument rests on the theoretical consideration that by introducing constitutional changes, populists can establish a new set of rules for the political game to bring credibility and durability to their personal commitments. To this, Müller (2016) suggests that when in power, populists continue to stand by the claim that they are the only true representatives of the people and engage with the existing institutions in three different ways: 1) colonization or occupation of the state, commonly acting against the independence and freedom of both courts and media; 2) engaging in granting favours for mass political support; and 3) a systematic representation of civil society.

Empirical evidence provided by Rode and Revuelta (2015) and in line with Müller´s argument on colonizing the state suggests that populist leaders, in particular those situated on the left-hand side of the political spectrum, tend to rapidly increase the size of government. Similarly, Edwards (2010) claims that once in power, populists attempt to augment redistributive government programs. Ádám (2020), provides evidence that authoritarian populists bring back private political contracting as a dominant political coordination mechanism re-feudalizing democracy by weakening impersonal collective political contracting. Moreover, analysing the consequences of such policy decisions on democratic principles, Weyland (2001) argues that current 'neo-liberal' economics and populist politics are quite compatible in contemporary Latin America. Nonetheless, most empirical studies find that while adopting a range of socioeconomic rights in the constitution, populist regimes actively reduce economic freedom and erode legal security (Rode and Revuelta 2015; Bjørnskov and Mchangama 2019). This can occur through different mechanisms such as engaging in court-packing strategies, and by tightening economic regulation, promoting the prohibition of monopolies or restricting the competition of foreign labour (Versteeg and Zackin 2016). Weyland (2013) argues that these changes are a threat to democracy and the rule of law, characterising the approach as 'for my friends everything; for my enemies, the law', or what has come to be known as 'discriminatory legalism.'

Populist leaders therefore have particular incentives to engage with the existing constitution in a variety of ways. On one hand, populist leaders might overcome these institutional obstacles by engaging with

[4] Ironically, developments since the 1950s in public choice and social choice have clearly shown that the will of the people, the public will or, indeed, the public good are analytically empty concepts under most conditions (Black, 1948; Arrow, 1951).

the constitution and convening participatory constituent assemblies tasked with writing a new constitution reflecting specific norms and values that have a more direct relation with 'the people' (Müller 2016). Alternatively, they may implement significant constitutional amendments to undermine the enforcement of parts of the constitution that constrain the government, thereby allowing populist leaders to exceed the bounds of their authority without facing any legal retribution and implement their desired policies (Versteeg and Zackin 2016). On the other hand, when constitutional documents are sufficiently entrenched and therefore difficult to change, populist leaders may instead pursue political developments outside and around the formal constitution, treating it as a mere façade (Uitz 2015). This was for example the case of the Argentinian military junta from 1976, which after coming into power through a coup d'état imposed a series of supraconstitutional acts and statutes. Similarly, Honduras's government in 2012 started to depose members of the Supreme Court, replacing them with individuals who were loyal to the president. As the Honduran case exemplifies, when faced with judiciaries attempting to block their actions, populist leaders may sometimes resort to packing the Supreme Court and subsequently asking it to reinterpret the existing constitution. This suggests that populists de facto aim to disable pluralism and limit the power of their political opponents by any means. Populists might also stretch the political limits and implement extra-constitutional procedures such as reducing the strength of veto players and undermining judicial institutions in order to maintain power. For this reason, we here test the potential consequences of populist behavior at both the executive and parliament levels.

However, given that most populist parties are embedded in a host ideology, we expect that the way populist leaders engage with the constitution in order to overcome the institutional constraints that limit their actions will differ between ideological preferences. While some populists might invoke a constituent power to change the rules of the political game, others might consider themselves as guardians of the existing constitution and instead attempt to implement a very specific interpretation of it (Kaltwasser 2019). These differences also imply differences in issue ownership, as partisan association is commonly an attribute that produces a claim of superior competence in specific policy areas. In other words, based on the typical performance of the incumbent and the constituencies of the parties, voters perceive preference differences between parties as well as differences in their ability to successfully handle different political aspects (Petrocik 1996). Left-wing parties are perceived more successful in providing social welfare and competent in issues that comprise fairness and care, such as protecting social security or helping the poor. Conversely, conservative parties are traditionally seen as more competent in issues regarding authority, institutions and traditions reflecting resistance to change and acceptance of inequality (Petrocik 1996, Graham et al. 2009). As such, we additionally hypothesize that when in power, rightwing populists will pursue formal authority based on the support of the traditional political structures, strengthening the parliament and the language of constitutionalism to attack the 'enemies of the people' while left-wing populists will seek out change in alternative ways given that often, their definition of the enemies of the people is linked to a coalition of international business groups, traditional political parties and media owners (Kaltwasser 2019).

In summary, there is relatively limited consensus on exactly what populism is and which kind of phenomena it is associated with. However, a general feature of all conceptualizations is that populist politicians try to, or claim that they try to, represent interests in the broad population that they argue are not represented by existing political parties or political leaders. Populists therefore stand in contrast to, and depict themselves as in opposition to and different from, representatives of regular politics. They claim that the regular political system and features of the existing political institutions somehow stand in the way of policies and changes that would be to the benefit of 'the people' or whichever segment of society that they claim to represent. As such, we hypothesize that populist leaders have substantial incentives to engage in changing the existing constitution and, over time, to remove veto institutions or weaken existing veto players and interfere substantially with the ability of the judiciary to constrain policy-making (cf. Eichengreen 2018). Additionally, we argue that the changes adopted by populist leaders are sensitive to ideological preferences and party issue ownership.

## 2.3 Defining and Measuring Populism

As is evident from the discussion above, populism is a difficult phenomenon to define, and existing research in the social sciences relies on four rather different definitions. All of these definitions focus on a specific trait of what is broadly considered a socio-political phenomenon. These definitions are either of a structural, economic, political-institutional, or discursive nature (Hawkins 2009).

**Definitions**

The *structural* and *economic* approaches share the main assumption that populism finds its origins in social conditions. The structural definition, in addition, commonly associates populism with development strategies such as import substituting industrialization (ISI) in countries allocated at the 'periphery' of the world economy (Cardoso and Faletto 1969). The approach, which to some extent originates in Marxist dependency theory, claims that populist regimes are capable of implementing these strategies without major social unrest by forming a large cross-class coalition (Di Tella 1965, 1997; Drake 1982). Conversely, the economic definition extends the study of populism by analyzing the policy output of populist governments. Such policies are immediately appealing to the lower income segments, but not necessarily beneficial for the country´s overall long-run development. Both the economic and structural definitions have been challenged for being unable to adequately capture right-wing populism by restricting the definition of populism to political phenomena exclusively based on socioeconomic and redistributive traits and excluding the possibility of the presence of populist movements with a right-wing or conservative orientation (Weyland 2001).

The third definition of the concept of populism instead focuses on the institutional aspects of the phenomenon. Studies adopting a *political-institutional approach* find the origins of populism in the struggle

over the control of government, policy and core values of a given community (Weyland 2001). Although this definition includes both right- and left-wing populist regimes, studies within this approach do not analyze the consequences produced by populist economic policy since the approach is based purely on political analysis. However, contrary to other definitions, a political-institutional approach is sensitive to differences in core values across populist parties that reflect ideological preferences and issue ownership (cf. Petrocik 1996). As most populist parties are embedded in a host ideology, such differences arguably need to be taken seriously (Albertazzi and McDonnell 2008).

The final definition is the most influential in economic and political research on populism and has been particularly used by those who focus on European populist parties that position themselves as right-wing (Mudde 2007; Hawkins 2010; Mudde and Kaltwasser 2012). The *discursive approach* conceptualizes populism as a Manichaean discourse by assigning a binary moral dimension to political conflicts (Hawkins 2009). Through the discourse, populist leaders identify Good with a unified will of the people and Evil with conspiring elites. Scholars who define populism discursively use a variety of labels—referring to it as a political "style" (Knight 1998), a "discourse" (de la Torre 2000), a "language" (Kazin 1998), an "appeal" (Canovan 2002), or a "thin ideology" (Mudde 2004). Yet, despite the variety of labels, all of these studies understand populism as a set of ideas rather than a set of actions and thus avoid the problems associated with applying functional definitions.

Despite the multiple attempts to define it, the concept of populism therefore remains vague. This complicates empirical investigations of its political and economic outcomes even though most people would agree on the *practical* categorization of populist politicians. Such problems lead Hawkins (2009) to argue that the main problem with all definitions of populism is that they are either not applied toward measurement or they are measured in imprecise ways that usually lack descriptions of how the measurement took place.

**Existing empirical measures of populism**

As such, definitions to be used in studies of the consequences of populism cannot rest on functionalist traits and must provide some basis upon which to operationalize a set of ex ante conditions for how to measure populism. Several attempts to capture the degree of populist preference thus quantify both the demand and the political supply sides.

Even though most of these attempts are based on discursive definitions of populism, a few qualitative case studies instead rely on a non-discursive approach (de la Torre 2000; Panizza 2005). Usually, these studies compare a small number of political leaders within a single country. Betz (1994) and Taggart (1996) develop a measure for right-wing populism in Western Europe, which allows cross-national analyses. Finding significant differences in leaders' discourses, Armony and Armony (2005) account for populist discourse in a large number of speeches by two Argentine presidents using a computer-based technique of content analysis.

Similarly, Jagers and Walgrave (2007) produce an empirical measure of populist parties analyzing broadcasts of Belgian political parties. In spite of the empirical justification in measuring populism, the scope of these textual analyses is usually limited across time and space given that most are single country studies.

This type of measure has been strongly criticized by Hawkins (2009) who argues that they are characterized by a lack of a systematic empirical justification for applying the label of populist. Instead, he claims, these studies use a common sense approach by coding leaders as populist when they are 'known' to be populist. Rising to his own challenge of conceptualizing and measuring populism consistently in a large-scale exercise, Hawkins (2009) therefore develops a quantitative measure of populist discourse suitable for cross-country and historical analysis. Unfortunately, even though the index allows for cross-country analysis, it is limited to a few countries, leaders and specific time periods. In the following, we therefore primarily use Hawkins's (2009) measure as validation of our more common sense approach, which we outline in the following.

**A new populism measure**

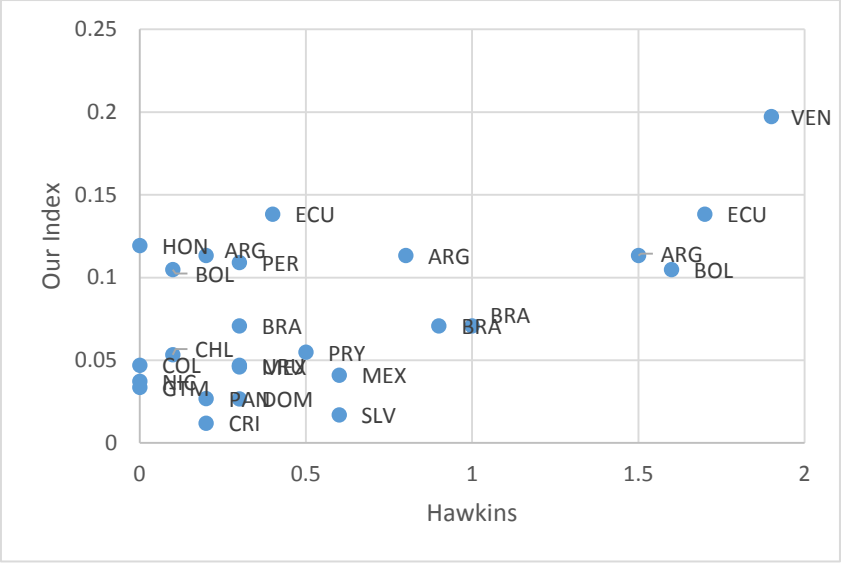
As emphasized above, one of the main challenges in the study of populism is how to measure the degree of populist preferences. Instead of following existing approaches and using the relatively limited available data, we develop a new index of populism that relies on a set of indirect assessments of populism. We obtain these assessments by searching a set of leading US and British newspapers for indications that specific heads of government in Latin America and the Caribbean are associated with populism or populist policies. The assessments are therefore effectively made by a large set of English-speaking journalists and revealed in their coverage of government leaders in the region. As such, while journalists may be biased against certain countries, the bias is reduced by including newspapers that are known to be ideologically different. Furthermore, any remaining bias is relatively unproblematic as a shared bias is likely merely to affect the average degree of assessed populism and not its direction.

The resulting index of populism is the share of all articles in the American *New York Times*, *Washington Post*, *Wall Street Journal*, and *Los Angeles Times* and the British newspapers *London Times*, *the Telegraph*, *the Guardian* and *the Observer* that mention government leader *X* in country *Y* in relation to populism. We decided to rely on a mix of American and British newspapers given that a number of small countries mostly in the Caribbean that are or have been British colonies are rarely mentioned in the American news. In addition, British journalists are likely to be better informed than their American counterparts of the situation in, e.g., Trinidad and Tobago, which has been independent from the United Kingdom since 1962, and Turks and Caicos that remains an overseas territory. Conversely, US newspapers more regularly cover events in Latin America, in particular the *Los Angeles Times*. While this process may result in a number of false negatives, we believe that it captures the main populist leaders and governments in the sample.

The data indicate that the most populist government leaders in the sample are Venezuela's undisputed leader between 1999 and 2012 Hugo Chavez (.62), and Bolivian president Jamie Paz Zamora (.50). Slightly more than half of all country-year observations and 147 of the 335 separate government leaders in the dataset have a positive populism score, and 47 have scores above .1. This latter group includes a number of relatively recent heads of government that are broadly viewed as strongly populist, including Christina Kirchner and her husband Nestor Kirchner, Alberto Fujimori, Evo Morales, Dilma Rouseff and Rafael Correa. We also observe that former and current British colonies tend to have zero populism scores while what might be termed the 'usual suspects' with Latin American machismo traditions – Bolivia, Ecuador, Peru and Venezuela – have on average the highest scores.

Another indication, which is more than a simple 'smell test' of whether well-known populist governments are captured by our index, is how strongly correlated the index is with the detailed measure in Hawkins (2009). We note that the correlation between our index and the available measure from Hawkins is .69, which is immediately visible in **Figure 2.1** that depicts the association between the Hawkins measure and the country averages of our measure. Our index is unlikely to be biased by the availability of information or journalist's experience with specific government leaders: while the index of populism would be higher if it was affected by journalists' continued exposure to governments or government leaders, we find that the correlation between the populism score and the number of years a government leader has been in power is essentially zero. In addition, it is unlikely that constitutional changes lead journalists to consider government leaders as populists, as only seven percent of all articles we surveyed mentioned the constitution in any way.

**Figure 2. 1 Measure Comparison – Populism Index**



## 2.4 Data and Empirical Strategy

**Outcome measures**

As noted above, a key feature of populist policies is an emphasis on getting things done and claims that existing institutions and norms somehow stand in the way of the types of policies and institutional changes desired by the populist parties. In the following, we aim at measuring both an extensive and an intensive margin of the outcomes of populism. Our empirical analysis is based on a panel dataset for up to 42 Latin American and Caribbean countries between 1970 and 2014. This dataset includes eight outcome variables.

First, we use information on constitutional change from the Comparative Constitutions Project (CCP; Elkins et al. 2009) as updated in Bjørnskov and Rode (in press). This allows us to form two dummy variables capturing the extensive margin of the potential changes that populist parties may want to implement. The first captures whether a new constitution was introduced in a given year while the second includes both whether a new constitution was implemented as well as whether a non-negligible constitutional amendment was implemented. These two variables thus capture whether *any* constitutional reform was adopted. As noted above, only seven percent of all the articles that define leaders as populists mention the constitution and even fewer relate populism to constitutional change. We believe that this eliminates an important potential source of reverse causality, as the indirect assessments on which our populist index is based on would give rise to simultaneity bias if journalists labelling a leader as populist based their assessments on his constitutional changes.

We capture the intensive margin, i.e. in which direction and how large the change is, through two separate variables, both of which effectively capture elements of power concentration. First, we use the Index of Parliamentary Legislative Influence (IPLI) developed by Bjørnskov and Voigt (2018). And our own Index of Executive Influence (IEI). Please refer to **Tables 1.1a** and **1.1b** in ***Chapter 1*** for a list of the components that enter each index.

Finally, we also add the much-used PolCon III index of political constraints and veto player strength from Henisz (2017) and a number of measures from the *Varieties of Democracy* (V-Dem) database to measure *de facto* changes on the intensive margin (Coppedge et al. 2016). PolCon captures a number of similar elements as the IPLI and IEI, but moreover takes into account the de facto influence of veto players. Henisz (2017) for example captures whether potential veto players are politically aligned, in which case they are unlikely to have any effective influence. The V-Dem measures capture aspects of how government behaves towards the judiciary and whether the executive branch tolerates the independence of the judiciary through: 1) the influence these powers have over the judiciary, 2) the level of judiciary independence and 3) the likelihood that the government complies with judicial decisions. The first consists of the average of V-Dem measures of judicial accountability, government attacks on the judiciary, judiciary purges, and government packing of primarily

the high court; the second is the average of the V-Dem indices of high court and lower court independence; and the third consists of the V-Dem measures of general government compliance with the judiciary and compliance with high court rulings. Most of such changes are not constitutional in nature, but may have similar effects as formal constitutional changes that remove *de facto* barriers to policy-making.

**Government ideology and control variables**

While a measure of populism provides possible identification of average effects, virtually all populist parties and governments are embedded in a "host ideology" (Albertazzi and McDonnell 2008). We therefore match the populism index to a measure of government ideology used in recent research including Berggren and Bjørnskov (2017), which we update to include the most recent years and more countries. Please refer to ***Chapter 1*** for a more detailed description. In the following, we furthermore interact the government ideology index with the populism index, which allows us to separate potential effects of left-wing and right-wing populism.

While we prefer to keep the baseline specification fairly parsimonious, we add a number of a priori necessary control variables. We employ a number of indicators of political institutions available in Bjørnskov and Rode's (in press) update and expansion of the Democracy and Dictatorship dataset developed by Cheibub et al. (2010). We first add dummies for electoral systems with proportional voting, bicameral parliaments, and communist regimes (e.g. the Sandinistas in Nicaragua). We also add a dummy for whether a successful coup appeared in a given year, as coups often result in the suspension or abolishment of the entire constitution. Next, we account for the logarithm to the age of the constitution as a direct measure of the degree of constitutional entrenchment (Versteeg and Zackin 2016). Third, we follow Cheibub et al. (2010) in distinguishing between presidential democracies, civilian autocracies and military dictatorships; the comparison category thus becomes parliamentary democracies.

Finally, we add the logarithm to real GDP per capita and the size of the population as simple controls of the size and performance of the economy; these data are from the Penn World Tables mark 9 (Feenstra et al. 2015). In all cases, we also include decadal fixed effects, which accounts for joint effects such as the end of the Cold War as well as international constitutional developments. All of these variables are listed in **Table A1** in the appendix.

### Empirical strategy

As noted, we separate an extensive and an intensive margin in the sense that we first estimate the potential influence of populism on the likelihood of observing new constitutions and new constitutional amendments. We separate new constitutions per se from a broader measure of constitutional change that also includes amendments. Second, we estimate what can be thought of as an intensive margin: given that change occurs, are changes under populist governments more likely to remove veto institutions and concentrate power? For the extensive margin, we employ a conditional logit fixed effects estimator while we estimate changes on the intensive margins using a country fixed effects OLS estimator with a lagged dependent variable included. For the intensive margin, we both employ the full sample as well as a subsample that only includes country-years in which some constitutional change occurred.

## 2.5 Empirical Results

### A first look at the data

As noted above, Latin America and the Caribbean is characterized by substantial constitutional instability. Ecuador has introduced ten new constitutions since 1950 and the Dominican Republic has introduced seven while Mexico has introduced new amendments to its constitution at least once most years since 1917. Although only implementing two new constitutions during the full period, Brazil has amended its current constitution 92 times since 1988, resulting in amendments in 45 years since 1950. On average, the age of the constitution among the 33 countries in our sample that are independent is 23 years, and these constitutions are amended on average every five years. However, the typical country in Latin America and the Caribbean has changed its constitution every 15 years and amended it every third year while a small group primarily consisting of current and former British colonies exhibits much more stable constitutions.

The full data from 1970 to 2014 include 430 constitutional events of which 60 are new constitutions and 370 are larger constitutional amendments. We illustrate the development in **Figure A2** in Apendix B, in which we plot the development over time, including nine new constitutions written at independence. We also provide a first indication of the association between populism and the direction of the constitutional reforms in **Figure 1.2**, where we plot the association between the average populism score between 1970 and 2014 and the IPLI. As the figure illustrates, the correlation between populism and the IPLI is .53, and .71 without the two clearly visible outliers Ecuador and Venezuela. **Figure 1.3**, in which we plot the association between populism and the IEI, shows a similar pattern although with weaker correlations of .38 and .59, respectively.

**Figure 2. 2 Populism and Parliamentary Power Concentration**

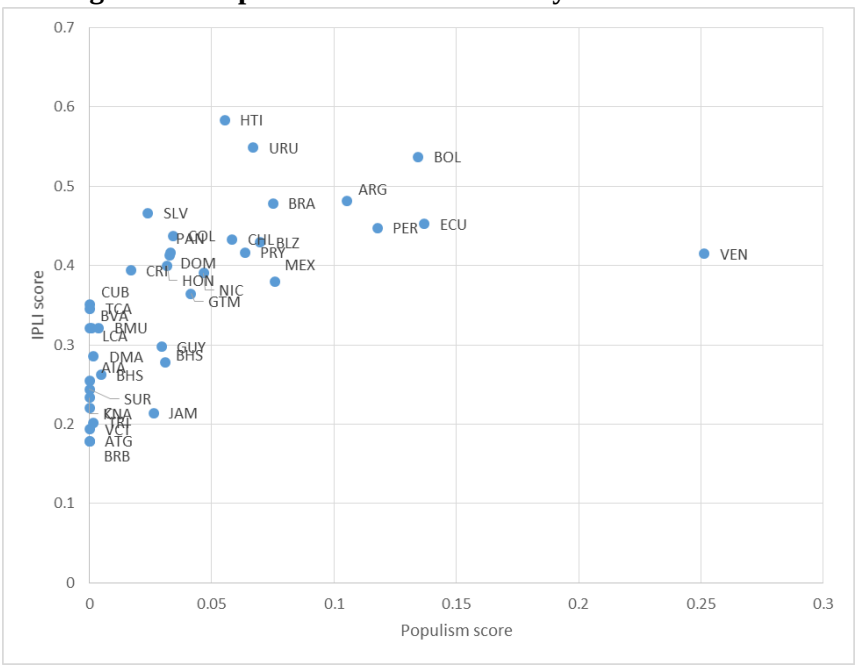
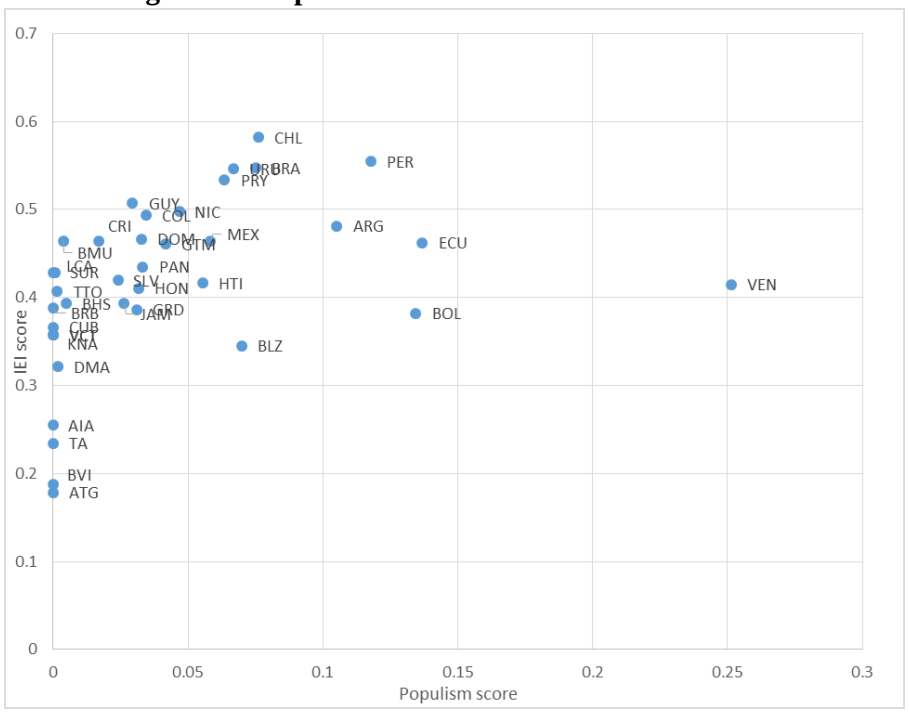



**Figure 2. 3 Populism and Executive Power Concentration**



## Populism and constitutional change

Column 1 in **Table 2.1** reports the likelihood of observing new constitutions while column 2 reports the likelihood of new constitutional amendments, conditional on populism and a set of constitutional and political characteristics. As expected, we observe a positive correlation of populism with new constitution, although it is statistically far from significance. We find similar non-effects for the broader measure of constitutional reforms ("const. change") that includes amendments. Our results display that older and thus more entrenched constitutions are less prone to change, that constitutional amendments are less likely in richer countries, colonies and countries that have experienced a successful coup, which very often result in a new constitution. Similarly, independent countries with an existing bicameral parliament are more likely to implement a new constitution. Moreover, we find significant evidence that presidential regimes, civilian autocracies and military dictatorships, as well as electoral systems with proportional voting are less likely to introduce a new constitution, all other things being equal. These results support to a certain degree the arguments by Hardin (1989) and Weingast (1997). In addition, the persistence result is in line with the equilibrium concept of constitutional stability, which implies positive time dependence (Hardin 1989).

In columns 3-6, we instead estimate the effects of populism on the intensive margin. In columns 3 and 5, we report the estimates using the full sample, while columns 4 and 6 display the results of the same models when employing a subsample that includes only country-years in which some constitutional change occurred. We do so in order to capture the average power concentration in parliament and the executive across the number of years as well as one-year effects when a constitutional change was imposed. All four models include the lagged dependent variable, which seems to be positive and significant, but always smaller than unity.

Our results show that non-constitutional factors such as, being a presidential democracy, a civilian autocracy and a communist regime all are positively and weakly significantly associated with the degree of formal influence the legislative branch has on central policy elements. Similarly, the degree of influence for the executive seems to be reduced under presidential democracies, in civilian autocracies and colonies, and when having proportional voting, given that there is constitutional change, while it is particularly associated with the existence of a bicameral parliament, having a communist regime, and being a wealthy country.

**Table 2. 1 Main Results**

| | New const. | Const. change | IPLI | IPLI | IEI | IEI |
|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 |
| Lagged | | | .814*** | .478*** | .823*** | .429*** |
| dependent | | | (.115) | (.182) | (.037) | (.134) |
| Log age of | -4.045*** | -.753*** | | | | |
| constitution | (.787) | (.151) | | | | |
| Proportional | -13.255*** | -1.070** | .014 | -.025 | .001 | -.042** |
| voting | (1.716) | (.512) | (.009) | (.029) | (.003) | (.020) |
| Bicameral | 2.355* | -.922 | -.002 | .009 | .011** | .039*** |
| parliament | (1.283) | (.640) | (.009) | (.029) | (.004) | (.014) |
| Successful coup | 5.631* | -16.134*** | -.025 | - | .004 | - |
| | (3.376) | (.679) | (.027) | | (.003) | |
| Communist | .135 | -1.459 | -.008 | .059* | -.001 | .054*** |
| regime | (1.866) | (1.274) | (.022) | (.032) | (.011) | (.018) |
| Presidential | -14.462*** | -.118 | .019*** | .063* | -.009** | -.014* |
| democracy | (5.343) | (.663) | (.007) | (.035) | (.004) | (.008) |
| Civilian autocracy | -18.817*** | -1.363 | .014* | .058 | -.013*** | -.022** |
| | (6.369) | (.755) | (.007) | (.035) | (.003) | (.009) |
| Military | -14.650*** | -.596 | .016 | - | -.006 | - |
| dictatorship | (4.148) | (.581) | (.018) | | (.006) | |
| Colony | -15.948*** | -15.375*** | -.002 | - | -.012*** | - |
| | (2.175) | (1.208) | (.004) | | (.004) | |
| Log GDP per | -2.711 | -.932* | .001 | -.005 | .005* | .009 |
| capita | (2.532) | (.491) | (.005) | (.015) | (.003) | (.013) |
| Population size | .116 | .589 | -.005 | -.012 | -.006 | .004 |
| | (1.559) | (.688) | (.008) | (.022) | (.004) | (.015) |
| Government | -.436 | .214 | .001 | -.016 | .001 | .007 |
| ideology | (2.041) | (.256) | (.003) | (.012) | (.001) | (.006) |
| Populism index | 4.061 | -1.491 | .025 | .213** | .001 | -.026 |
| | (2.041) | (2.156) | (.030) | (.107) | (.010) | (.031) |
| Ideology * | 5.847 | -.641 | .016 | .223** | -.032*** | -.075* |
| populism | (12.092) | (1.889) | (.030) | (.089) | (.012) | (.044) |
| Decadal fixed | Yes | Yes | Yes | Yes | Yes | Yes |
| effects | | | | | | |
| Country fixed | Yes | Yes | Yes | Yes | Yes | Yes |
| effects | | | | | | |
| Observations | 1096 | 1382 | 1352 | 310 | 1354 | 312 |
| Countries | 35 | 35 | 35 | 33 | 35 | 33 |
| Within R squared | .799 | .097 | .766 | .581 | .776 | .380 |
| Log likelihood | -26.347 | -471.088 | - | - | - | - |
| Wald Chi squared | 8813.63 | 2547.60 | - | - | - | - |
| *Marginal effect of populism at:* | | | | | | |
| Ideology = -1 | -.002 | -.000 | .009 | -.010 | .034*** | .049 |
| | (.018) | (.000) | (.027) | (.063) | (.013) | (.043) |
| Ideology = -.5 | .001 | -.000 | .017 | .101 | .018* | .011 |
| | (.011) | (.000) | (.024) | (.077) | (.009) | (..031) |
| Ideology = 0 | .005 | -.000 | .025 | .213** | .001 | -.026 |
| | (.007) | (.000) | (.030) | (.107) | (.010) | (.031) |
| Ideology = .5 | .008 | -.000 | .033 | .324** | -.015* | -.064 |
| | (.009) | (.000) | (.041) | (.145) | (.013) | (.044) |
| Ideology = 1 | .012 | -.000 | .041 | .436** | -.031* | -.101 |
| | (.015) | (.000) | (.054) | (.186) | (.018) | (.063) |

Note: *** (**) [*] denotes significance at p<.01 (p<.05) [p<.10]. Parentheses provide standard errors clustered at the country level.

Turning to our main interest, we observe positive and significant effects on the IPLI around constitutional changes when the government displays higher levels of populism. Conversely, populism appears on average unrelated to the IEI. The marginal estimates (reported in the lower panel) nevertheless reveal that the overall effects on the IPLI are mainly driven by those on the right side of the political spectrum while we observe effects of populism on the IEI when associated with a more left-wing ideology. These results indicate that when implementing constitutional changes, populist parties and particularly right-wing populists tend to concentrate power in the parliament and somewhat away from the executive. This results go in line with the constitutionalism analyzes made by Kaltwasser (2019) In addition, this findings might suggest that populist leaders gradually implement non-constitutional measures to get rid of the opposition, for example by shutting down newspapers or prohibiting the existence of political parties.

**Populism and de facto behavior**

Yet, how populist leaders achieve such goals remains an open question, as they could both move towards legalizing their policy decisions or simply create a *de facto* institutional environment in which they can disregard most constitutional constraints on political decision-making. We provide further tests in **Table 2.3** where we use Henisz's measure of veto institutions in addition to the three indicators based on the V-Dem database, which capture elements of the behavior of the executive and parliament towards the judiciary.

Across indicators, we find very substantial persistence over time with highly significant lagged dependent variables and estimates close to one. We also find that civilian autocracies and military dictatorships are negatively and substantially associated with all measures across estimates. While presidential democracies are associated with higher judiciary independence, weaker veto institutions and lower levels of compliance with the judiciary, we similarly find adverse effects of coups d'état on the likelihood of high court compliance. Finally, our findings display a positive association of having a bicameral parliament with judiciary independence; proportional voting is associated with higher levels of compliance. We also find substantially stronger veto institutions the richer the country is.

Turning to our main aim, we observe in the full samples that populist governments adversely affect two of the four characteristics: the strength of veto players and high court independence. Only one characteristic differs between left- and right-wing populists: strongly left-wing populist regimes are substantially less likely to respect the independence of the Supreme Court and other high courts with some influence over constitutional interpretation. Yet, in even-numbered columns of Table 4, we only include years in which government power changed hands, which more directly allows us to test the immediate discretionary influence of populist government. Comparing estimates in the full sample and the reduced sample, in which only observations after effective elections are included, reveals that the effects of populism over the judiciary appear positive and immediate for right-wing populists while the negative effects with left-wing populists must logically appear

more gradually. This difference also alleviates endogeneity concerns if populist governments are more likely to be elected under specific institutional conditions.

Evaluating the quantitative importance of these effects of populism, we find that particularly their influence on the judiciary is non-negligible: populist regimes on average increase this influence by a full standard deviation. In summary, we thus find no evidence for populist consequences on the extensive margin but substantial evidence on the intensive margin: when implementing constitutional changes, populist parties and particular right-wing populists tend to concentrate power in the parliament and somewhat away from the executive.

Over time, populists also remove veto institutions or weaken existing veto players and in general interfere substantially with the ability of the judiciary to constrain policy-making. As these findings support and generalize several case studies of how populists remove both *de jure* and *de facto* barriers to implementing their preferred policies and more generally to getting things done, we proceed to discuss their implications.

**Table 2. 2 Specific Actions**

| | Veto institutions | | Influence over judiciary | | Judiciary independence | | Compliance with judiciary | |
|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| Lagged dependent | .669*** | .383*** | .737*** | .626*** | .822*** | .628*** | .804*** | .654*** |
| | (.028) | (.096) | (.027) | (.129) | (.044) | (.177) | (.046) | (.134) |
| Proportional voting | .002 | -.075 | .079 | .188 | -.021 | -.009 | .056* | .222*** |
| | (.020) | (.061) | (.061) | (.207) | (.057) | (.241) | (.029) | (.086) |
| Bicameral | .005 | -.102 | -.015 | .191 | .152*** | .392** | .050 | .159 |
| parliament | (.023) | (.072) | (.057) | (.165) | (.032) | (.179) | (.073) | (.149) |
| Successful coup | -.060 | -.031 | -.117 | -.188 | -.133 | -.379 | -.130 | -.546** |
| | (.049) | (.043) | (.114) | (.437) | (.119) | (.292) | (.098) | (.237) |
| Communist regime | .081 | - | .013 | - | -.004 | - | -.158 | - |
| | (.063) | | (.078) | | (.079) | | (.173) | |
| Presidential | -.041 | -.313*** | -.079 | .033 | -.056 | .484** | -.114** | .212 |
| democracy | (.065) | (.056) | (.061) | (.138) | (.058) | (.189) | (.054) | (.129) |
| Civilian autocracy | -.061 | -.260*** | -.3332* | -1.039** | -.419*** | -.624** | -.520** | -.957* |
| | (.062) | (.059) | (.199) | (.409) | (.114) | (.289) | (.214) | (.506) |
| Military | -.151** | -.459*** | -.138* | - | -.223*** | - | -.360*** | - |
| dictatorship | (.072) | (.069) | (.072) | | (.078) | | (.088) | |
| Colony | - | - | - | - | - | - | - | - |
| Log GDP per | .033* | .113** | .022 | -.247 | -.038 | -.108 | .098 | -.038 |
| capita | (.018) | (.051) | (.072) | (.202) | (.049) | (.245) | (.070) | (.195) |
| Population size | -.035 | -.005 | .136 | .189 | -.198* | -.195 | -.092 | -.299 |
| | (.027) | (.079) | (.115) | (.167) | (.111) | (.282) | (.112) | (.272) |
| Government | -.003 | -.028 | .020 | .092 | -.019 | .125 | .029 | .111 |
| ideology | (.009) | (.024) | (.029) | (.062) | (.034) | (.106) | (.034) | (.078) |
| Populism index | -.241*** | .029 | .049 | .989*** | .227 | -.003 | -.092 | .521 |
| | (.081) | (.204) | (.150) | (.372) | (.141) | (.491) | (.139) | (.519) |
| Ideology * | -.065 | .173 | .618*** | 1.039* | .699** | .601 | .190 | .888 |
| populism | (.089) | (.243) | (.213) | (.587) | (.261) | (.577) | (.139) | (.816) |
| Decadal fixed effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Country fixed effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 1106 | 148 | 889 | 126 | 889 | 126 | 889 | 126 |
| Countries | 30 | 30 | 22 | 22 | 22 | 22 | 22 | 22 |
| Within R squared | .657 | .426 | .758 | .661 | .852 | .626 | .892 | .826 |
| F statistic | 174.11 | - | - | 121.04 | - | 238.98 | - | 108.53 |
| *Marginal effect of populism at:* | | | | | | | | |
| Ideology = -1 | -.177 | -.144 | -.568*** | -.049 | -.473** | -.604 | -.282 | -.367 |
| | (.122) | (.104) | (.195) | (.280) | (.203) | (.707) | (.349) | (.426) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Ideology = -.5 | -.209** | -.058 | -.259* | .470 | -.112 | -.304 | -.187 | .077 |
| | (.093) | (.107) | (.138) | (.149) | (.117) | (.536) | (.227) | (.243) |
| Ideology = 0 | -.242*** | .029 | .049 | .989*** | .227 | -.003 | -.092 | .521 |
| | (.081) | (.204) | (.150) | (.372) | (.141) | (.491) | (.139) | (.519) |
| Ideology = .5 | -.274*** | .115 | -.359 | 1.509** | .577* | .297 | .003 | .965 |
| | (.091) | (.318) | (.221) | (.653) | (.245) | (.602) | (.158) | (.902) |
| Ideology = 1 | -.306** | .202 | .668** | 2.029** | .926** | .598 | .099 | 1.409 |
| | (.118) | (.436) | (.313) | (.942) | (.367) | (.806) | (.261) | (.1.300) |

Note: *** (**) [*] denotes significance at p<.01 (p<.05) [p<.10]. Parentheses provide standard errors clustered at the country level.

## 2.6 Conclusions

Populist politicians often claim that the regular political system and features of the existing institutions stand in the way of policies and changes that would be to the benefit of 'the people', which they claim to represent. As such, we hypothesize that populist leaders have substantial incentives to engage in changing the existing constitution and, over time, to remove veto institutions or weaken existing veto players and interfere substantially with the ability of the judiciary to constrain policy-making (cf. Eichengreen 2018).

We explore our main question in a panel of Latin America and Caribbean countries given the region's considerable experience with populist government and its unique constitutional development, which has been characterized by frequent change and instability. Our findings suggest that given that government implements constitutional changes, right-wing populist leaders in particular strongly tend to grant more powers to the parliament and concentrate power. Yet, we also find that populists of all ideological convictions tend to remove or weaken formal veto players and that particularly left-wing populists behave in a way that undermines the ability of the judiciary to hold parliament and government accountable. Populists in Latin America and the Caribbean have, for example, for almost half a century regularly attacked the judiciary, purged the courts of certain judges, packed them with their own supporters, and for left-wing populists specifically also often undermined the de facto independence of the supreme courts.

Our findings thus suggest that in power, populist governments both change the constitution and often gradually implement non-constitutional measures to be able to undermine the influence of the opposition and the judiciary. In other words, Latin American and Caribbean populists, even when democratically elected, tend to remove democratic barriers and safeguards that prevent them from behaving like elected dictators. We can only speculate whether these effects also explain the unstable and occasionally disastrous policy choices that are endemic to the region. Whether populist traditions in Latin America and the Caribbean also explain why the region diverged from Western Europe and North America in the 20$^{th}$ century must be a question left for future research.

# Appendix 2A

**Table 2A. 1 Descriptive Statistics**

| Variable | Mean | Standard deviation | Observations |
|---|---|---|---|
| New constitution | .038 | .190 | 2872 |
| New or amended constitution | .208 | .406 | 2582 |
| IPLI | .374 | .133 | 2091 |
| IEI | .434 | .099 | 2098 |
| PolCon | .253 | .189 | 1728 |
| Log age of constitution | 2.780 | 1.096 | 2831 |
| Proportional voting | .494 | .500 | 2634 |
| Bicameral parliament | .484 | .499 | 2665 |
| Successful coup | .023 | .157 | 2881 |
| Communist regime | .029 | .169 | 2881 |
| Presidential democracy | .296 | .457 | 2881 |
| Civilian autocracy | .092 | .289 | 2881 |
| Military dictatorship | .109 | .312 | 2881 |
| Colony | .029 | .167 | 2881 |
| Log GDP per capita | 8.957 | .698 | 2099 |
| Population size | .339 | 2.512 | 2099 |
| Government ideology | .047 | .512 | 1627 |
| Populism index | .085 | .206 | 2419 |
| Judicial purges | .310 | 1.164 | 1675 |
| Judicial attacks | .083 | 1.220 | 1675 |
| High court independence | .201 | 1.318 | 1675 |
| High court compliance | .323 | 1.253 | 1675 |
| Court packing | .377 | .964 | 1675 |

# Appendix 2B

**Figure A1** displays the appendix illustrates the association between country averages of the index based on Spanish newspaper reports and the similar index based on newspapers in the US and the United Kingdom. While Figure A.2 displays constitutional changes in the region.

**Figure 2A. 1 Comparing US /UK-based and Spanish-based Measures**

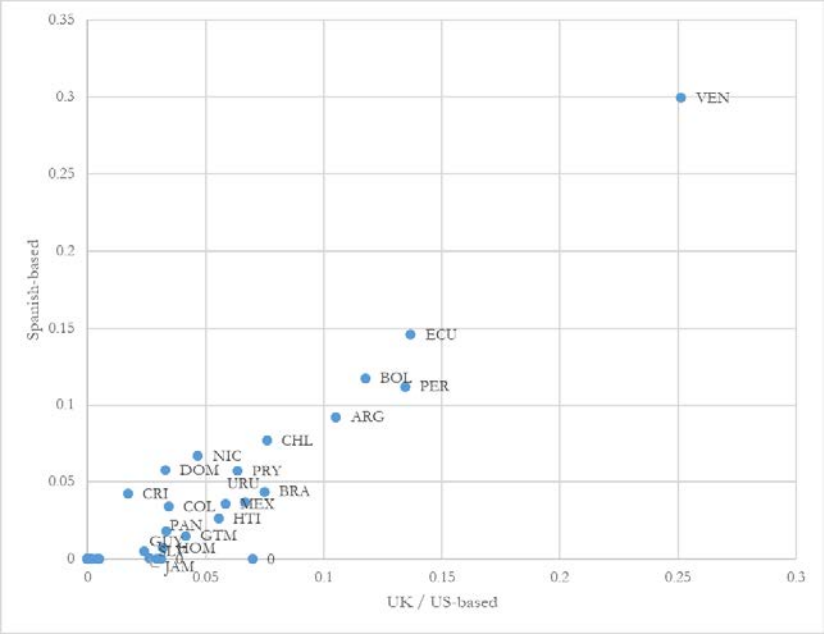
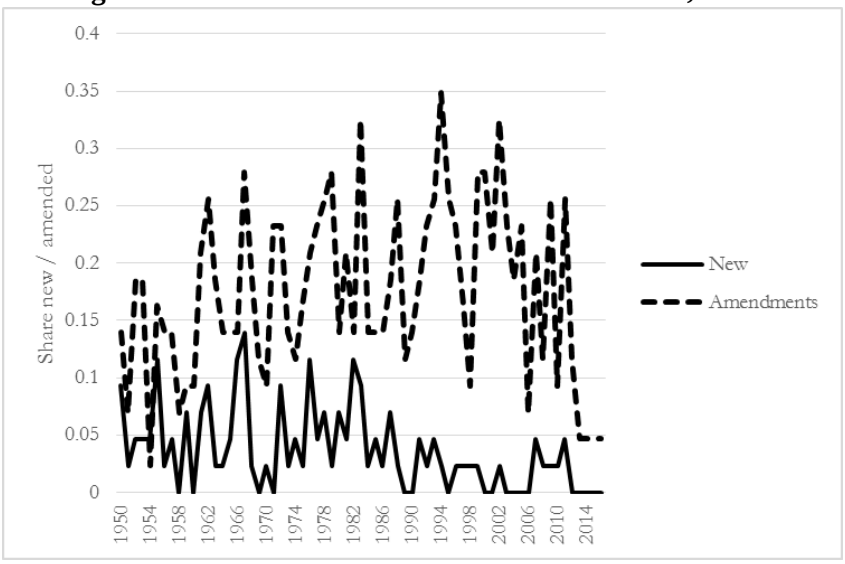



**Figure 2A. 2 New Constitutions and Amendments, 1950-2015**



# Chapter 3

## Expressive attitudes to compensation: The case of globalization.

*Join work with Martin Rode*

**Abstract**

Using survey data from the World Values Survey and the Comparative Manifesto Project, we empirically study attitudes towards the proposal that government compensation should be provided for individuals adversely affected by globalization. We include roles for personal experience with globalization and ideology of individuals and political parties, noting also the general problem of expressiveness in survey data, where responders who favored compensation did not actually have to pay to help. Findings indicate that attitudes to actual compensation depend on exposure to globalization but are substantially qualified by ideology.

## 3.1 Introduction

Globalization is a popular term for freer trade and market integration, increased information flows, and more flexible migration. In economic terms, although the gains far outweigh the losses, globalization produces winners and losers (e.g. Autor et al. 2016). There has also been opposition to globalization on ideological grounds, because markets are viewed as restricting the scope of government policy and creating inequality (Schulze and Ursprung 1999, Piketty 2014). As such, people may have quite different attitudes towards globalization depending not only on their idiosyncratic views of what globalization does, but also on their further policy preferences.

In this paper, we therefore study popular attitudes to globalization based on data from the World Values Survey and the Comparative Manifesto Project. Our question is whether people believe that governments should provide compensation to losers from globalization. The empirical strategy combines personal experience with globalization (possibly through own consumption and via events in the media) with self-reported ideology. Generally, individuals' self-assessed political ideology should be intimately associated with views on compensation to losers from efficient change (Haidt 2013, Hillman 2019, chapter 6): The 'right' values efficiency independently of whether compensation is provided to losers, whereas the 'left' wants compensation because it values equality and generalized fairness principles. We test for the link between political ideology and views on the need for compensation from economic globalization.

Two previous studies are closely related to ours: In an attempt to test the micro-foundations of the compensation hypothesis (cf. Lindbeck 1975, Cameron 1978, Katzenstein 1985, Rodrik 1998), Baker (2008) employs data from the World Values Survey (WVS) to evaluate the effect of globalization on attitudes towards compensation, finding only weak evidence of expressions for support of an active re-distributional welfare state policy. Starting from a similar motivation, also Walter (2010) finds some support for a link between trade openness and welfare state demands in WVS data for Switzerland.[5] It is noteworthy that, by employing a research strategy at the individual level, empirical and normative statements on compensation are essentially blended in important ways. Our study expands on both papers in three meaningful areas: First, while Baker's study does not take into account the potentially mediating role of political ideology in a cross-country setting, we do so. Second, we include a role for the positions of political parties towards compensation, thereby accounting for the political supply side of policies. Third, even though Walter (2010) considers the nexus between compensation preferences and ideology, her study is limited to one country and treats ideology and voting as purely instrumental, rather than potentially expressive.

[5] Relatedly, Rehm (2009) finds evidence for an association of risk and demand for redistribution at the occupational level. Schaffer and Spilker (2016) encounter support for the embedded liberalism hypothesis at the individual level, where welfare state generosity improves views of globalization.

Yet, the issue is complicated because survey respondents incur no costs in the answers they give (Bertrand and Mullainathan 2001) and some respondents may thus formulate expressive responses based on an identity that is not necessarily consistent with actual behavior (Hillman 2010). They may therefore express themselves as favoring compensation for losers from globalization, because the expression of an opinion is costless and they do not actually have to pay if they declare that they favor paying (Tullock 1971). Likewise, political party programs can also be regarded as expressive in response to expressive political support from voters (Hillman 2010).

Similar to Kauder et al. (2018) we hypothesize that expressiveness, interpreted as a deeply rooted personality trait, potentially presents a direct association with opinions on government intervention, but also indirectly by influencing a person's political opinions on globalization and ideology. False identity could thus be present in survey data, which is partly based on ideological identification: By self-definition, many respondents on the 'left' expressively support government compensation, and do not necessarily require experience with adverse effects of globalization to do so. This might also be the case, because many supporters of the 'left' believe that globalization is undesirable in terms of economic inequality and that it erodes social cohesion (Haidt 2013). This would mean that experiences with globalization should only reinforce what left-wingers feel about compensation in any case, namely that there should be more of it. In turn, an expressive person on the 'right' could potentially face an internal conflict between the fairness of compensation for those who are hurt by globalization, and an ideologically motivated belief that efficient change should not be compromised by government policies. The question thus becomes, whether experience with globalization induces some (expressive) right-wingers to deviate from an important element of their ideology and at least verbally support actual compensation as well.[6]

Our findings confirm a preference for actual compensation associated with ideology on the left. As expected, this finding is somewhat more pronounced for left-wing individuals that we identify as expressive. On the right, experience with globalization is not correlated with a support for actual compensation, at least not at the individual level. In fact, more experience with globalization means that individuals who identify with the right are also increasingly opposed to compensation, which also holds for expressive personalities on the right.

The remainder of the paper is organized as follows: In section 3.2 we describe the data, main variables, and empirical methodology. Section 3.3 presents the findings and discusses the results, while section 3.4 concludes.

[6] The fact that voting behavior should largely be regarded as expressive, does not exclude the fact that political ideology can however have consequences for the actual policies adopted (Potrafke 2018). It just means that there is no direct feedback mechanism from individual electoral choice to the cost born by the individual, creating a potentially negative externality in collective decision-making (Congleton 2001, Caplan 2007).

## 3.2 Data and Research Strategy

Our empirical analysis of the association of globalization and government compensation attitudes is based on two different datasets: First, the integrated World Values Surveys/European Values Studies (WVS) file to capture the attitudes of persons on the political demand side. Second, the Comparative Manifesto Project (CMP) dataset to reflect party positions on the political supply side. As we conduct an individual-level analysis in both cases, at the margin it is quite unlikely that personal (and party) attitudes are pivotal for the design and quality of national policies and institutions towards globalization, eliminating one important potential source of reverse causality.[7]

**World Values Survey**

The WVS is a global network of social scientists studying changing values and their impact on life perceptions. It consists of representative surveys conducted in almost 100 countries since 1981 using a common questionnaire. The combined dataset is currently made up of 6 WVS, and 4 EVS waves. Due to missing questions, we only use observations since 1990.

Personal attitudes towards the rather broad concept of government compensation are assessed by using WVS data from all survey waves since the early 1990s. With reference to Posner (1971), we argue that there are, in principle, two ways that government can compensate citizens disadvantaged by globalization: via transfers, or via protective regulation. Survey questions that directly address both issues would be ideal, but these are unfortunately not available in WVS. We are therefore forced to evaluate rather broad individual positions regarding the appropriate regulatory and redistributive role of government in the economy (cf. Pitlik and Rode 2017). In particular, responses to three distinct survey questions are used to create an average score for government intervention, broadly representing demand for regulation:

- Government responsibility: "People should take more responsibility to provide for themselves" vs. "The government should take more responsibility to ensure that everyone is provided for."

- State ownership: "Private ownership of business should be increased" vs. "Government ownership of business should be increased."

- Competition: "Competition is good. It stimulates people to work hard and develop new ideas" vs. "Competition is harmful. It brings out the worst in people."

[7] The possibility that a party is pivotal in the design of national policies is somewhat more likely, compared to the individual voter. Still, it is unlikely that results for the party dataset are systematically plagued by reverse causality, as the design and sustention of democratic trade policies over time never depend on one party alone.

Personal attitudes towards compensation via transfers are captured by responses to one specific survey question:

- Income equalization: "We need larger income differences as incentives for individual effort" vs. "Incomes should be made more equal."

A principal component factor analysis over all available observations (across time and countries) confirms that these four variables load on to two separate factors. We argue that it is possible to answer all survey questions in a 'market-friendly' manner, and still be in favor of Pareto-efficient compensation, so what we capture are attitudes toward actual compensation. Original responses to all four questions are Likert-scaled on a 1-10 point ladder. For ease of common interpretation, we rescale both variables *Government Intervention* and *Income Equalization* to range between zero and one, where higher values indicate a more positive view of both.

In order to assess positions in the policy spectrum, we use the ideological self-placement scale in the WVS, which is based on the following question: "In political matters, people talk of 'the left' and 'the right'." How would you place your views on this scale, generally speaking?" Original responses are on a ten point ladder, where higher values indicate more right-wing political positions. For our purposes, we rescale answers to an indicator between -1 and 1, where more positive values indicate more right-wing positions, and 0 is the political center. To coincide with the numerical coding, the corresponding variable is referred to as *Right-Wing Ideology*.

For a comprehensive measure of openness to globalization, we follow authors such as Berggren and Jordahl (2005), who use a sub-indicator from the Economic Freedom of the World (EFW) index by Gwartney et al. (2016) to compare countries' trade regimes. In general, the EFW index is published annually by the Canadian Fraser Institute, and reflects the degree to which the economic institutions and policies of a country correspond to free market principles. It has been divided into five major areas, measuring government size, legal quality, access to sound money, freedom to trade, and regulation. The overall index and all of its sub-indicators are measured on zero-to-ten scales, with zero representing the least free and ten the most free.[8]

For our purposes, we employ the EFW Area 4, *Freedom to trade*, to measure access to world markets across time and countries. This area is composed of four sub-areas that measure (A) *Tariffs*, (B) *Regulatory trade barriers*, (C) *Black Market exchange rates*, and (D) *Controls of the movement of capital and people*. The components are thus designed to measure a wide variety of restraints on international exchange that are usually

[8] The EFW index has been used extensively by social science research in recent years. It is based entirely on data published in secondary sources, which means it can be easily verified and duplicated by others. This transparency feature adds to its credibility.

employed by governments that favor protectionism. Contrary to the volume of trade over GDP, this specific area of the EFW index is a way of capturing countries' institutional openness to trade. So rather than measuring trade outcomes, which could potentially capture factors such as geographical location and the like, this index area reflects the underlying policy choices that have been made with respect to trade openness. It is reasonable to assume that countrywide openness to trade is visible to individuals via their consumption and related events in the media, broadly capturing average national experiences with globalization at the individual level. Notwithstanding, we also employ a subcomponent of the KOF Globalization Index by Dreher (2006) as an alternative measure to ensure that no central result is driven by data bias.[9]

Finally, since the EFW Area 4 is mainly an indicator of current account openness, we further use the Chinn-Ito Index of financial openness as an alternative independent variable (i.e. Chinn and Ito 2006). Rodrik (2017) renews many of his earlier claims on the populist backlash to free trade, identifying financial globalization as the main culprit for rising inequality and growing political resistance. For our setting, this would suggest that increased support for actual government compensation is perhaps primarily driven by capital account openness.[10]

To test for general attitudes towards compensation, government intervention (GovInt) and income equalization (IncEqual) preferences of person i living in country j at time t are regressed on personal right-wing ideology (RIdeo), freedom to trade (TradeFr), plus a set of individual level covariates ($X_{ijt}$), and country level controls ($Z_{jt}$):

(1) $GovInt_{ijt} = \beta_0 + \beta_1 RIdeo_{ijt} + \beta_2 TradeFr_{jt} + \beta_3 X_{ijt} + \beta_4 Z_{jt} + \varepsilon_i$

(2) $IncEqual_{ijt} = \beta_0 + \beta_1 RIdeo_{ijt} + \beta_2 TradeFr_{jt} + \beta_3 X_{ijt} + \beta_4 Z_{jt} + \varepsilon_i$

Individual covariates X include gender, age groups, household income (low and high income groups, middle income as reference group), educational status (low and high education, middle education as reference group), employment status (self-employed, unemployed), and a dummy specifying whether the respondent declares to have children. Further individual controls are dummies for people declaring to be in state of good or very good health (bad or very bad as reference group), religious persons, and individuals with high social trust, life control, and expressiveness. Social trust is a dummy variable that indicates an elevated level of generalized trust towards unknown and anonymous others. According to previous literature, we expect people who trust others to also have a higher propensity to demand income equalization (Bergh and Bjørnskov 2011,

[9] Employing the indicator's subcomponent on economic globalization, which captures overall trade flows and restrictions, we find practically identical results to those reported below. These are not shown, but available from the authors upon request.

[10] Similar ideas are also forwarded by Gemmell et al. (2008) and Autor et al. (2016).

Di Gioacchino et al. 2014), while the association with government intervention is uncertain (Di Gioacchino et al. 2014, Pitlik and Rode 2017). Life control is a dummy indicating persons with a strong perception to be in control of one's own life and the way that it will turn out, which we expect to be negatively related with both government intervention and income equalization (Pitlik and Rode 2016, Kauder et al. 2018). Following Kauder et al. (2018), we further attempt to capture expressive personalities with a dummy indicating that respondents evaluate friends and politics both as very important in their lives. This should adequately account for individuals who enjoy socializing and actively live out their desire for an audience on political issues. Ceteris paribus, we expect politically expressive individuals to be more in favor of government intervention and income equalization.

Countrywide covariates Z include GDP per capita as a measure of overall wealth, and the logarithm of the total population to account for the fact that smaller countries, which are more dependent on trade might also create bigger public sectors by default (Rodrik 1998, Schulze and Ursprung 1999). In order to control for the current scope of already existing government compensation, we include the EFW index Area 1, which measures the size of government.[11] Summary statistics for all variables are shown in **Table A1** of Appendix F. Unobservable heterogeneity in the cross-country dimension and common shocks are further accounted for by employing country and time fixed effects.

To test for the dependency of compensation attitudes on political ideology, we introduce an interaction term of our variables trade freedom and right-wing ideology.

(3) $GovInt_{\mathrm{ijt}} = \beta_0 + \beta_1 RIdeo_{\mathrm{ijt}} + \beta_2 TradeFr_{\mathrm{jt}} + \beta_3 (RIdeo_{\mathrm{ijt}} \times TradeFr_{\mathrm{jt}}) + \beta_4 \mathrm{X}_{\mathrm{ijt}} + \beta_5 \mathrm{Z}_{\mathrm{jt}} + \varepsilon_{\mathrm{i}}$

(4) $IncEqual_{\mathrm{ijt}} = \beta_0 + \beta_1 RIdeo_{\mathrm{ijt}} + \beta_2 TradeFr_{\mathrm{jt}} + \beta_3 (RIdeo_{\mathrm{ijt}} \times TradeFr_{\mathrm{jt}}) + \beta_4 \mathrm{X}_{\mathrm{ijt}} + \beta_5 \mathrm{Z}_{\mathrm{jt}} + \varepsilon_{\mathrm{i}}$

The causality assumption specified for the trade variable would only hold for the interaction term, if ideology is also credibly exogenous to views on government intervention and income equalization. As the origin of political ideology is contested at the individual level, where it is uncertain whether it is largely driven by innate values and often irrational (e.g. Caplan 2007, Haidt 2013), or reflects economic interest with a somewhat logical background (e.g. Downs 1957, Lane 1962, Chai 1998), it should be noted that our interaction variable cannot be interpreted as exogenous. In this sense, the findings forwarded below should be seen as indicative, specifying meaningful correlations, rather than causality.

[11] Gini coefficients by Solt (2014) were also introduced as a robustness check to capture income inequality in some specifications, yielding practically identical findings. Due to the large reduction of the sample, these results are not shown, but are available upon request.

As hypothesized, expressiveness might also have an indirect effect on our dependent variables via political ideology, as left-wingers might be more expressively inclined towards actual government compensation per se, while right-wingers are potentially faced with an internal conflict. To account for this fact, we repeat the basic estimation for a sub-sample of expressive individuals only. Theoretically, this should produce stronger findings for individuals on the left side of the political spectrum, while results for the right are more uncertain.

Finally, by splitting the data and separately analyzing a post-2008 sample, we also take into account the claim that globalization and free trade might constitute a multi-dimensional issue space after the 2008 financial and economic crisis (see Otjes 2016). This would mean that the support or disapproval for globalization does not align with the traditional left-right axis, drawing supporters (and opponents) from both sides of the political spectrum. According to Plott (1967) and Holcombe (1989), this would mean there is no unique and stable majority rule outcome in a median voter setting, making the potential influence of political ideology ambiguous.

**Comparative Manifesto Project**

The Comparative Manifesto Project (CMP) is a database of political manifestos and electoral performance compiled since 2003 by the Social Science Research Center in Berlin, Germany. The database contains quantitative evaluations of electoral programs via content analyses, assigning scores on positions formulated by parties on a very diverse range of issues. Variables indicate the share of quasi-sentences in the respective category calculated as a fraction of the overall number of allocated codes per document. The CMP contains data for more than 1000 parties from 50 countries covering all democratic elections since 1945. Due to the incorporation of many countries since the end of the Cold War, and for reasons of comparability with the individual level analysis, we again only use observations since 1990.

Standpoints towards government intervention and income equalization are captured in the CMP by evaluating similar items to those employed in the WVS, which also reflect positions towards actual compensation. In particular, we use the following to capture party positions on government intervention:

- Market Economy vs. Market Regulation
- Open Economy vs. Protectionism/Nationalization
- Laissez Faire vs. Keynesian Demand Management

To capture party standpoints towards income equalization, we focus on the following:

- Welfare State Limitation vs. Welfare State Expansion/Income Equality

Again, we use principal component factor analysis over all available observations to confirm that these items load onto two separate factors. For ease of common interpretation we also rescale both variables to range between zero and one, where higher values indicate a more positive view.

To quantify the political ideology of parties, the CMP further calculates a score from all items contained in the electoral program. Of course, these are also based on positions towards economic and welfare state policy, but the ideology score further evaluates items in a number of different categories, namely: external relations, freedom and democracy, political system, fabric of society, and social groups. Similar to individual political ideology, the party version is thus based on a large range of policy positions and is certainly not identical to our measures of government compensation. To make the indicator comparable to our WVS version, we rescale party positions to an indicator between -1 and 1, where more positive values indicate more right-wing positions, and 0 is the political center.

As with the WVS data, we use Area 4 of the EFW index to measure openness to globalization in the current dataset. Furthermore, we employ a similar estimation model to the ones outlined in equations 1 to 4. Individual party covariate X now controls for the vote share of the respective party. Starting with Downs (1957), a large body of public choice and political economy literature has credibly shown that a party's vote share is related to how extreme the policy positions are that it adopts. Countrywide covariates Z again include GDP per capita, introducing also time and country fixed effects. Summary statistics for all variables are shown in Table A2 of Appendix G.

## 3.3 Results

**Tables 3.1** and **3.2** show results of pooled OLS estimates, where **Table 3.1** displays findings from the WVS individual level data and **Table 3.2** employs the party level CMP data. T-statistics are reported in parentheses. In all estimations, standard errors are clustered at the country level to correct for the Moulton bias that would otherwise causes the standard errors of our countrywide macro-covariates to be far too small (Moulton 1990).

**Individual level results**

Before turning to our covariates of interest, we take a brief look at the control variables: Women are more inclined towards government intervention and income equalization than men, in line with the well-known fact that they are more risk averse (e.g. Jianakoplos and Bernasek 1998, Borghans et al. 2009). Also unemployed people are more in favor of both, as are individuals with a low education, those living in a low-income household, and respondents with an expressive personality, where especially the latter finding is very much in line with results by Kauder et al. (2018). In turn, the self-employed, individuals with a high level of education,

good health, living in a high-income household, having a high feeling of life control, and the religious are less in favor of government intervention and income equalization. Interestingly, the age group between 15 and 30 is favorable to government intervention, but not income equalization, whereas it is exactly the contrary for the age group above 60. Similar to the findings by Di Gioacchino et al. (2014), individuals with high social trust are not in favor of government intervention, but endorse income equalization, reflecting the findings of Bergh and Bjørnskov (2011) that average social trust levels are a major driver of comparative welfare state size. Finally, we find no effect of our macro-controls GDP per capita, log total population, or the size of government.

Turning to the variables of special interest, in equation 1 we observe the expected positive correlation of trade freedom with government intervention, although statistically insignificant, and a negative and statistically significant association of right-wing ideology with government intervention. On the one hand, this would mean that individuals that are more politically on the left are also more inclined towards government intervention, confirming common intuition. On the other hand, we cannot confirm that individuals in countries that are more open to trade are also per se more significantly inclined towards government intervention.

To calculate effects of trade freedom conditional on right-wing ideology, we introduce an interaction term of both variables in equation 2. As expected, the interaction variable is negative and statistically highly significant. However, it is well known that in models with interaction terms the total marginal effect that a variable exerts on the dependent variable consists of two parts: the coefficient on the interaction term multiplied by the interacting variable, as well as the coefficient on the individual variable of interest (Brambor et al. 2006). The marginal effects graphic in **Figure 3.1** shows that an increase in trade freedom is only associated with an increase in government interventionist attitudes for individuals that declare themselves to be rather far on the left end of the political spectrum. In turn, there is no correlation with those in the political center, and individuals that declare themselves as political right wingers actually prefer less government intervention following an increase in freedom to trade. This would tentatively confirm our ideas on the role of political ideology and attitudes towards compensation from globalization. Regarding the numerical meaning of the estimated effects in this model: a one standard deviation increase in openness to globalization is on average associated with a 0.02 increase in government interventionist attitudes for individuals who declare to be ‘radical left-wingers’ (i.e. RIdeo=-1), and vice versa for ‘radical right-wingers’. Given that the standard deviation of our government intervention variable is close to 0.2, this is not an overly large effect of approximately 10 percent, but neither is it inconsequential.

**Table 3. 1 Individual Positions on Government Intervention and Income Equalization.**

| | Government Intervention | | | | | Income Inequality | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | EFW | EFW | Chinn-Ito | Post 08 | Expressive | EFW | EFW | Chinn-Ito | Post 08 | Expressive |
| | 1 | 2 | 4 | 3 | 5 | 6 | 7 | 9 | 8 | 10 |
| Freedom to Trade | -0.00 | -0.00 | -0.00 | -0.01 | 0.00 | -0.01 | -0.01 | -0.01 | 0.01 | 0.01 |
| | (-0.24) | (-0.18) | (-0.63) | (-1.07) | (0.07) | (-1.35) | (-1.35) | (-0.78) | (0.79) | (0.89) |
| Right-Wing Ideology | -0.06*** | 0.09** | -0.04*** | 0.35*** | 0.12** | -0.10*** | 0.05 | -0.09*** | 0.27* | -0.03 |
| | (-6.02) | (2.53) | (-5.50) | (6.06) | (2.62) | (-9.32) | (1.25) | (-10.49) | (1.71) | (-0.41) |
| Female | 0.02*** | 0.02*** | 0.02*** | 0.02*** | 0.02*** | 0.01*** | 0.01*** | 0.01*** | 0.01*** | 0.01 |
| | (12.46) | (12.61) | (12.66) | (9.78) | (3.03) | (5.32) | (5.31) | (5.34) | (2.88) | (1.45) |
| Age 15-30 | 0.01*** | 0.01*** | 0.01*** | 0.00 | 0.02** | -0.00 | -0.00 | -0.00 | -0.01 | -0.00 |
| | (3.13) | (3.06) | (3.13) | (0.50) | (2.62) | (-0.30) | (-0.34) | (-0.32) | (-1.19) | (-0.53) |
| Age 60< | -0.01** | -0.01** | -0.01** | -0.00 | -0.02** | 0.01* | 0.01** | 0.01** | 0.01* | -0.00 |
| | (-2.29) | (-2.06) | (-2.16) | (-1.00) | (-2.40) | (1.87) | (2.13) | (2.03) | (1.76) | (-0.07) |
| Selfemployed | -0.02*** | -0.02*** | -0.02*** | -0.02*** | -0.00 | -0.02*** | -0.02*** | -0.02*** | -0.05*** | -0.02 |
| | (-5.03) | (-5.11) | (-4.47) | (-3.42) | (-0.37) | (-3.93) | (-3.91) | (-4.29) | (-4.16) | (-1.54) |
| Unemployed | 0.02*** | 0.02*** | 0.02*** | 0.00 | 0.02* | 0.02*** | 0.01*** | 0.02*** | 0.01 | -0.01 |
| | (4.75) | (4.58) | (4.68) | (0.47) | (1.74) | (4.45) | (4.35) | (4.54) | (0.48) | (-0.63) |
| Low Income | 0.02*** | 0.02*** | 0.02*** | 0.02*** | 0.02** | 0.03*** | 0.03*** | 0.03*** | 0.02** | 0.03* |
| | (5.28) | (5.19) | (4.95) | (2.71) | (2.11) | (3.89) | (3.88) | (3.80) | (2.12) | (1.86) |
| High Income | -0.02*** | -0.02*** | -0.02*** | -0.01 | -0.01 | -0.04*** | -0.04*** | -0.04*** | -0.05*** | -0.05*** |
| | (-4.01) | (-4.08) | (-4.15) | (-1.41) | (-0.94) | (-7.50) | (-7.57) | (-7.26) | (-6.00) | (-3.37) |
| Low Education | 0.02*** | 0.02*** | 0.02*** | 0.01 | 0.03*** | 0.03*** | 0.03*** | 0.03*** | 0.03 | 0.03*** |
| | (6.15) | (6.15) | (6.04) | (1.49) | (4.60) | (3.90) | (3.93) | (4.08) | (1.58) | (2.76) |
| High Education | -0.02*** | -0.02*** | -0.02*** | -0.02*** | -0.00 | -0.03*** | -0.03*** | -0.03*** | -0.03*** | -0.02* |
| | (-6.43) | (-6.49) | (-6.51) | (-4.83) | (-0.27) | (-7.15) | (-7.22) | (-7.65) | (-3.98) | (-1.78) |
| Children | -0.00 | -0.00 | -0.00 | 0.01 | -0.00 | -0.00* | -0.00* | -0.00* | 0.03*** | 0.01 |
| | (-0.41) | (-0.30) | (-0.20) | (1.67) | (-0.38) | (-1.84) | (-1.77) | (-1.98) | (3.06) | (1.13) |
| Good Health | -0.02*** | -0.02*** | -0.02*** | -0.03*** | -0.03*** | -0.01*** | -0.01*** | -0.01*** | -0.02*** | -0.01 |
| | (-12.38) | (-12.32) | (-12.15) | (-8.07) | (-5.56) | (-4.80) | (-4.64) | (-4.75) | (-3.63) | (-0.46) |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Religious | -0.00 | -0.00 | -0.00 | -0.00 | -0.04*** | -0.01*** | -0.01** | -0.01*** | -0.02* | -0.03** |
| | (-1.06) | (-0.79) | (-1.06) | (-0.64) | (-5.15) | (-2.86) | (-2.61) | (-2.73) | (-1.86) | (-2.08) |
| Social Trust | -0.00 | -0.00 | -0.00 | 0.00 | 0.02*** | 0.01*** | 0.01*** | 0.01*** | 0.00 | 0.03*** |
| | (-0.26) | (-0.34) | (-0.16) | (0.06) | (4.45) | (3.96) | (3.86) | (3.75) | (0.24) | (2.76) |
| Life Control | -0.01*** | -0.01*** | -0.01*** | -0.01*** | -0.00** | -0.01*** | -0.01*** | -0.01*** | -0.01*** | -0.01*** |
| | (-7.57) | (-7.82) | (-7.51) | (-6.22) | (-2.57) | (-10.38) | (-10.60) | (-9.73) | (-3.66) | (-4.84) |
| Expressive | 0.01*** | 0.01*** | 0.01*** | 0.00 | - | 0.01*** | 0.01*** | 0.01*** | -0.01 | - |
| | (3.14) | (2.77) | (2.76) | (0.31) | - | (3.89) | (3.41) | (3.75) | (-0.55) | - |
| GDP per Capita | 0.00 | 0.00 | 0.00 | -0.00*** | -0.00*** | -0.00 | -0.00 | -0.00 | 0.00 | 0.00*** |
| | (0.14) | (0.23) | (0.58) | (-3.50) | (-3.51) | (-0.67) | (-0.63) | (-0.55) | (0.75) | (2.79) |
| Log Population | 0.04 | 0.05 | 0.06 | 0.00 | -0.00 | 0.00 | 0.01 | -0.04 | -0.01 | 0.00 |
| | (0.82) | (0.90) | (1.11) | (0.60) | (-1.13) | (0.02) | (0.05) | (-0.36) | (-0.59) | (0.32) |
| Size of Government | 0.01 | 0.01 | 0.00 | -0.01 | -0.00 | 0.01 | 0.01 | 0.01 | 0.00 | 0.01 |
| | (1.29) | (1.30) | (0.96) | (-1.65) | (-0.91) | (1.55) | (1.53) | (1.60) | (0.34) | (1.10) |
| RIdeo*FT | - | -0.02*** | -0.02*** | -0.06*** | -0.02*** | - | -0.02*** | -0.01** | -0.05** | -0.02* |
| | - | (-4.01) | (-3.93) | (-6.92) | (-3.42) | - | (-3.55) | (-2.17) | (-2.45) | (-1.96) |
| Constant | 0.25 | 0.24 | 0.20 | 0.67*** | 0.46*** | 0.53* | 0.51 | 0.58 | 0.35* | 0.39*** |
| | (1.56) | (1.48) | (1.19) | (7.00) | (10.49) | (1.69) | (1.63) | (1.66) | (1.72) | (4.62) |
| Observations | 157,415 | 157,415 | 158,716 | 67,564 | 8,703 | 173,266 | 173,266 | 174,559 | 69,917 | 10,116 |
| Clusters | 69 | 69 | 70 | 53 | 58 | 72 | 72 | 73 | 53 | 63 |
| R-sq | 0.146 | 0.149 | 0.148 | 0.103 | 0.096 | 0.126 | 0.128 | 0.127 | 0.055 | 0.095 |
| Prob > F | 0,0000 | 0,0000 | 0,0000 | 0,0000 | 0,0000 | 0,0000 | 0,0000 | 0,0000 | 0,0000 | 0,0000 |

Note: Robust t-statistics in parentheses *** p<0.01, ** p<0.05, * p<0.1

In equation 3, we repeat the exercise with a sample for the years following the 2008 financial and economic crisis, finding very similar results that would not point towards a substantial change of this association in the aftermath of the downturn (see marginal effects **graphic A1** in Appendix A). Equation 4 estimates the model with the Chinn-Ito index of capital account openness. Findings are, again, very similar to those of equation 2, meaning that openness to financial globalization produces no substantially different correlations with the demand for government intervention than openness to trade (see marginal effects **graphic A5** in Appendix C). Finally, equation 5 repeats the estimations for expressive individuals only, accounting for the potentially indirect effect of expressiveness via political ideology. This greatly reduces our available number of observations, meaning that results should be regarded with a certain amount of care. Nonetheless, it is noteworthy that findings are very similar to those of equation 2 on both sides of the political spectrum, clearly showing that globalization experiences also don't induce expressive right wingers to deviate from their ideology. Interestingly, the numerical effects seem to be somewhat larger for both ideological sides, at least on the point estimates (see marginal effects **graphic A9** in Appendix E).

Turning to compensation via transfers, equation 6 shows a negative correlation of trade freedom with income equalization, which is also not statistically significant, while we again observe a negative and statistically significant association of right-wing ideology with income equalization. On introducing the interaction term in equation 7**, figure 3.2** shows that an increase in trade freedom is actually associated with a reduction in income equalization attitudes, but only at the right side of the political spectrum, while it is insignificant for those individuals in the center and the political left. Again, these results were also largely confirmed by the post 2008 period in equation 8 (marginal effects **graphic A2** in Appendix A), the Chinn-Ito index in equation 9 (marginal effects **graphic A6** in Appendix C), and the explicitly expressive individuals in equation 10 (see marginal effects **graphic A9** in Appendix E).

**Figure 3. 1 Marginal Effect of Trade Freedom on Government Intervention**

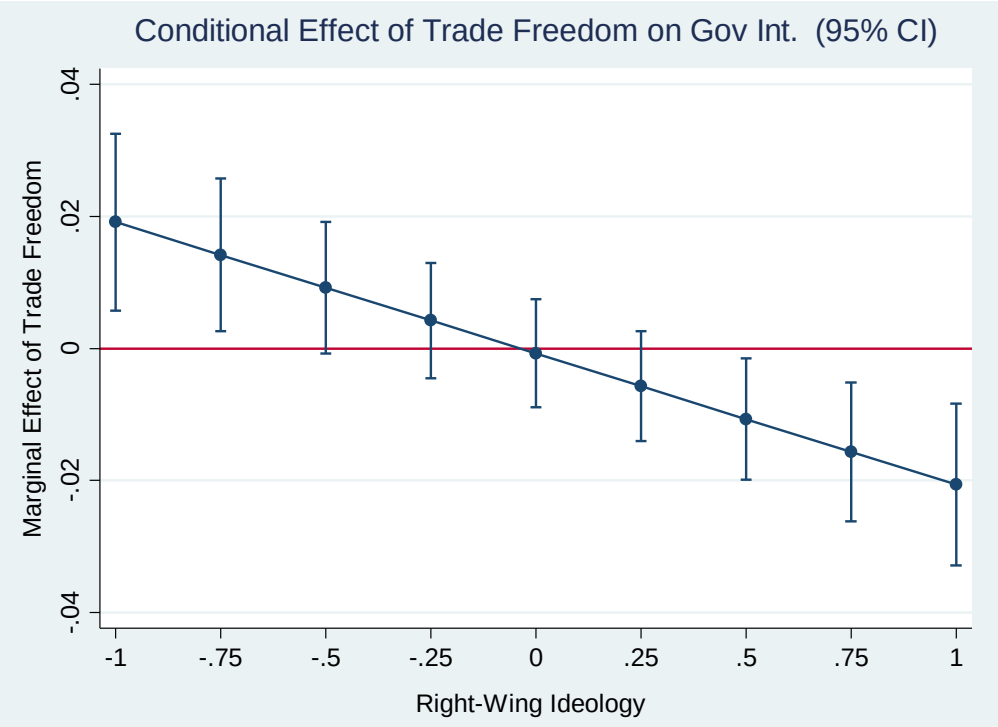
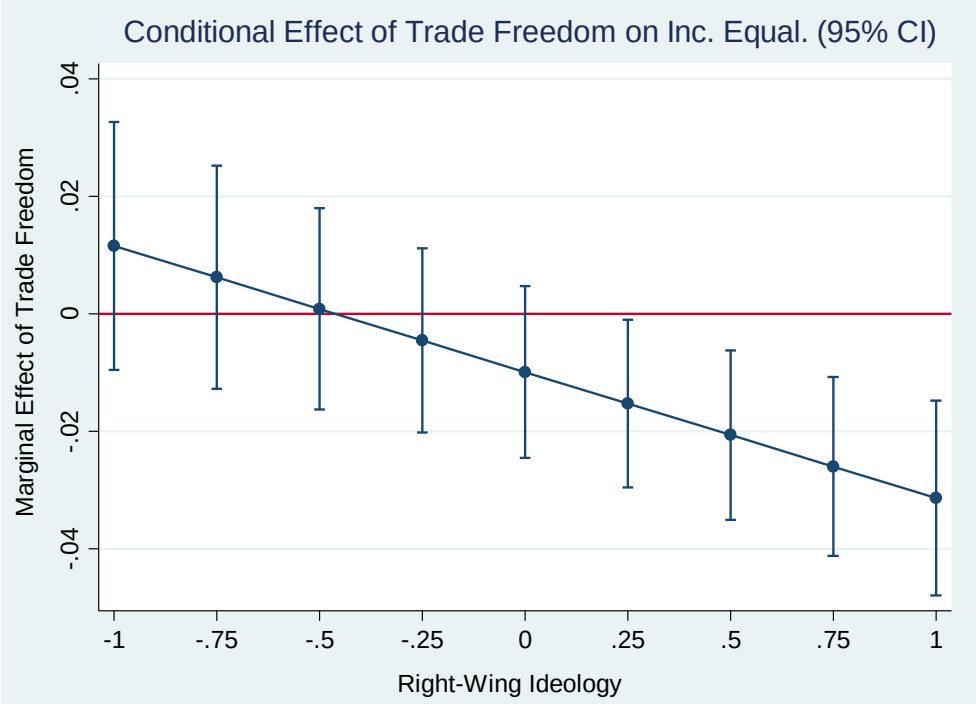



**Figure 3. 2 Marginal Effect of Trade Freedom on Income Equalization**



**Party levels results**

At the party level we find the following with respect to the control variables in **Table3.2**: Parties with a higher vote share are significantly more skeptical of government intervention, but interestingly there is no association with income equalization whatsoever. Also, richer countries are not more inclined towards either of the two positions.

**Table 3. 2 Party positions on Government Intervention and Income Equalization**

| | Government Intervention | | | | Income Equalization | | | |
|---|---|---|---|---|---|---|---|---|
| | EFW | EFW | Post 08 | Chinn-Ito | EFW | EFW | Post 08 | Chinn-Ito |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| Trade Freedom | -0.01** | -0.01** | 0.02 | -0.00 | -0.01* | -0.01* | -0.01 | -0.00 |
| | (-2.03) | (-2.33) | (0.99) | (-0.61) | (-1.69) | (-1.76) | (-0.34) | (-0.22) |
| Right-Wing Ideology | -0.16*** | 0.20** | 0.41 | -0.13*** | -0.23*** | -0.06 | -0.01 | -0.22*** |
| | (-11.09) | (2.19) | (1.05) | (-8.45) | (-13.68) | (-0.71) | (-0.04) | (-12.13) |
| Vote share | -0.00*** | -0.00*** | -0.00*** | -0.00*** | 0.00 | 0.00 | 0.00 | 0.00 |
| | (-5.33) | (-5.22) | (-3.23) | (-5.23) | (1.42) | (1.47) | (0.55) | (1.33) |
| GDP p.c. | 0.02 | 0.01 | 0.01 | 0.00 | -0.00 | -0.00 | 0.01 | -0.01 |
| | (1.11) | (1.08) | (0.89) | (0.15) | (-0.07) | (-0.16) | (0.86) | (-0.30) |
| Ideo*TF | | -0.05*** | -0.08 | -0.03*** | | -0.02* | -0.03 | -0.01 |
| | | (-4.11) | (-1.57) | (-3.99) | | (-1.87) | (-0.82) | (-1.23) |
| Constant | 0.32** | 0.35*** | 0.14 | 0.39* | 0.51*** | 0.52*** | 0.43*** | 0.53* |
| | (2.28) | (2.75) | (0.82) | (1.85) | (4.59) | (4.54) | (3.65) | (1.97) |
| Observations | 2,154 | 2,154 | 564 | 1,713 | 2,154 | 2,154 | 564 | 1,713 |
| Countries | 52 | 52 | 47 | 46 | 52 | 52 | 47 | 46 |
| R-sq | 0.364 | 0.380 | 0.313 | 0.423 | 0.492 | 0.494 | 0.395 | 0.495 |
| Prob > F | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |

Robust t-statistics in parentheses; *** p<0.01, ** p<0.05, * p<0.1

Regarding our variables of interest, we observe a negative and significant association of trade freedom and right-wing ideology with government intervention in most specifications. This means that parties in countries that are more open to trade are on average less inclined towards government intervention, while parties that are politically on the left are, as expected, more inclined towards it.

To calculate effects of trade freedom conditional on ideology, we again introduce an interaction term of both variables in equation 2, which enters the model with a negative and statistically significant sign. **Figure 3.3** shows that an increase in trade freedom is not only associated with an increase in the supply of government interventionist party positions on the left of the political spectrum, but it is also significantly correlated with a reduction of government interventionist attitudes for those parties that are at the center and right. The corresponding numerical effects are easily deduced from the graph. Again, we repeated the exercise for a post-2008 sample in equation 3, finding some indications of multidimensionality for globalization on government intervention positions, especially for right wing parties (marginal effects **graphic A3** in Appendix B). We again encounter very similar results to those of equation 2 when employing the Chinn-Ito index of financial openness in equation 4 (marginal effects **graphic A7** in Appendix D).

Equations 5 and 6 also display a negative and mostly significant association of trade freedom and right-wing ideology with respect to income equalization. On introducing the interaction term in equation 6, **figure 3.4** shows that an increase in trade freedom is only marginally associated with a reduction of income equalization positions for far right-wing parties, while ideological differences are insignificant between the far left and right of the political spectrum.

Results for the post-2008 sample in equation 7 also show indications of multi-dimensionality for globalization on income equalization positions, especially for right wing parties where positions seem to drift apart quite drastically (marginal effects **graphic A4** in Appendix B). An important question raised by these findings is why individuals with a right-wing ideology do not seem to be affected by an increase in trade freedom with respect to their government compensation attitudes, while parties that are politically on the right seem to drift apart on these issues as a consequence of more trade freedom? This could potentially mean that there is indeed an issue of multi-dimensionality, where conservative parties are becoming more divided on how government should react to advances in globalization.

Finally, findings in equation 8 show that an increase in financial openness is not correlated with the supply of income equalization position by parties and there are no ideological differences between the far left and right of the political spectrum (marginal effects **graphic A8** in Appendix D). All in all, the impact of financial globalization on the supply and demand for government compensation thus seems to be no different from that produced by overall economic globalization.

**Figure 3. 3 Marginal effect of Trade Freedom on Government Intervention**

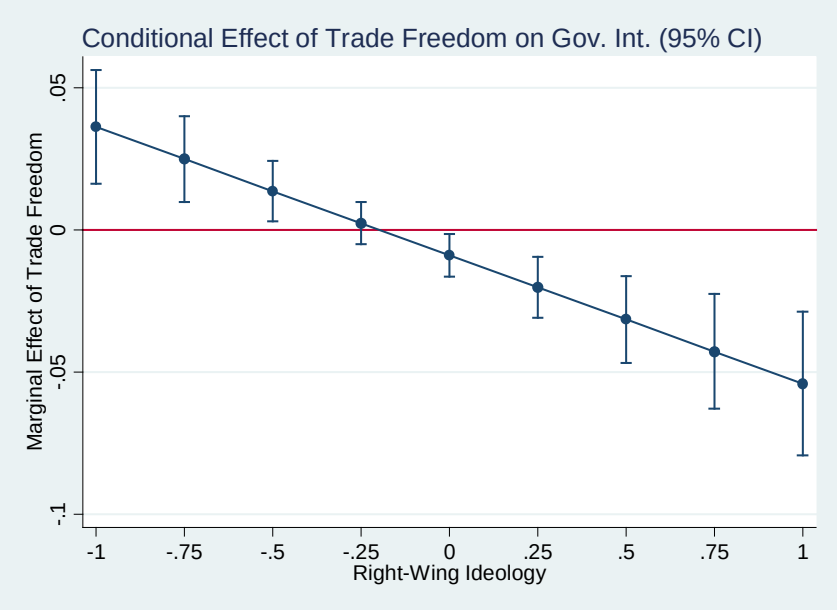
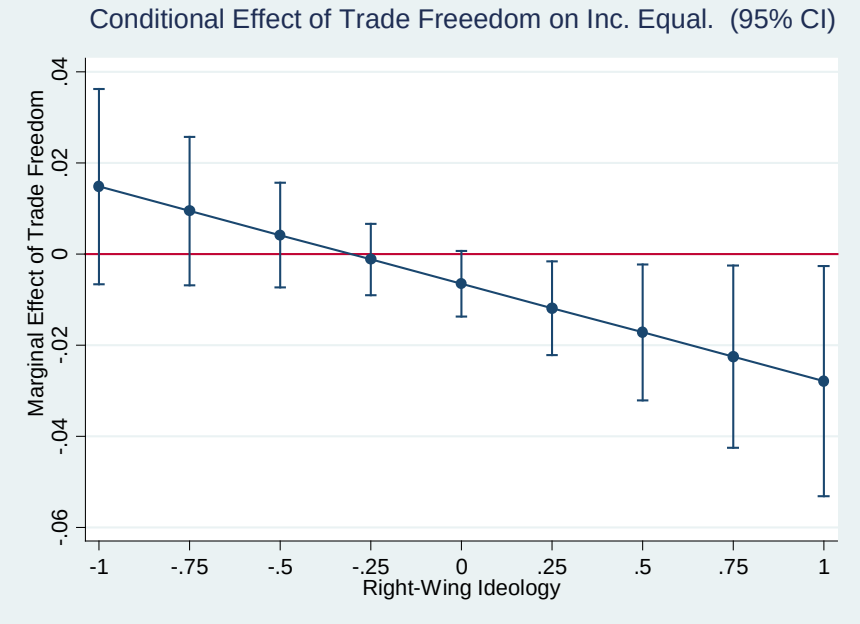



**Figure 3. 4 Marginal effect of Trade Freedom on Income Equalization**



## 3.4 Conclusions

The compensation hypothesis is a normative proposal about policy, which in the context of globalization states that governments should provide security mechanisms to make open markets and free trade distributionally fair. The positive counterpart is the prediction that this will happen (Rodrik 1998). Similar to earlier papers, we test whether the content of the normative compensation hypothesis is supported in public opinion surveys, adding also an evaluation of party manifestos. Contrary to earlier work, we include a role for political ideology and acknowledge the need to account for expressiveness (Bertrand and Mullainathan 2001, Hillman 2010), which hypothetically influences opinions towards compensation directly, and indirectly via political ideology. An important question here is, whether globalization experiences induce expressive right-wingers to deviate from their ideology, perhaps due to social agreeableness, and verbally support actual compensation as well.

We find that openness to globalization does not universally shape attitudes towards compensation: On average, there is practically no association between globalization and income equalization attitudes. At most, experience with globalization leads the right to be even more opposed to income equalization than before. Instead, we find something that could rather resemble a polarization effect for government intervention, whereby previously existing opinions of each ideological side are reinforced by experience with globalization. This result is further confirmed for individuals that we identify as expressive, where polarization could even be somewhat more pronounced. Therefore, the right does not deviate from its ideology and supports actual compensation as a reaction to globalization. It rather seems to be the contrary, indicating that right-wingers often move in social circles where the expressive support for less compensation from globalization is an accepted opinion (cf. Kauder et al. 2018).

In the reality of policymaking, this would mean that only left-wing governments can build on a popular support base for actual compensation, which contradicts the apolitical paradigm that underlies the predictions made by Rodrik (1998). Our findings are more in line with results by Cusack (1997) and Iversen and Cusack (2000), reflecting the original compensation hypothesis by Cameron (1978) and Katzenstein (1985) that proposed a historical explanation for the evolution of the Scandinavian welfare state associated with the presence of strong labor unions and social democratic parties. Also contrary to Rodrik (2017), the effect of financial globalization for attitudes toward compensation seems to be no different from that of overall economic globalization.

We also encounter evidence that attitudes towards government intervention and income equalization have become multi-dimensional as a result of greater openness to globalization after the 2008 financial and economic crisis. This is mainly observed for political parties, rather than at the individual level, which may indicate that parties react to attitudinal polarization. Especially in countries with more than one political party on the right, these seem in to drift apart on issues of actual compensation from globalization, providing a tentative explanation for the current surge of support among right-wing populist parties in Europe.

# Appendix A

**Graphical Results Demand Side (Post 08)**

**Figure 3A. 1 Marginal effect of Trade Freedom on Government Intervention (Post 08)**

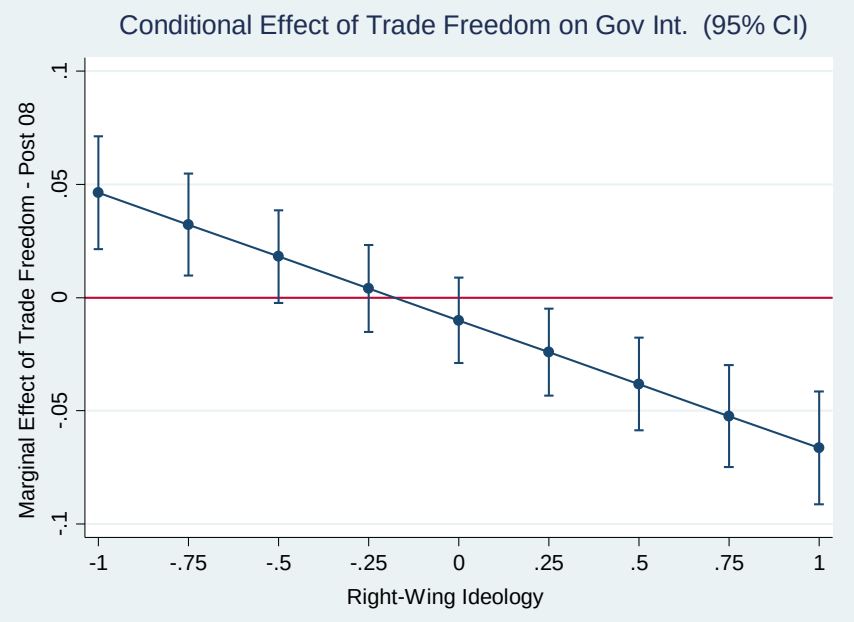
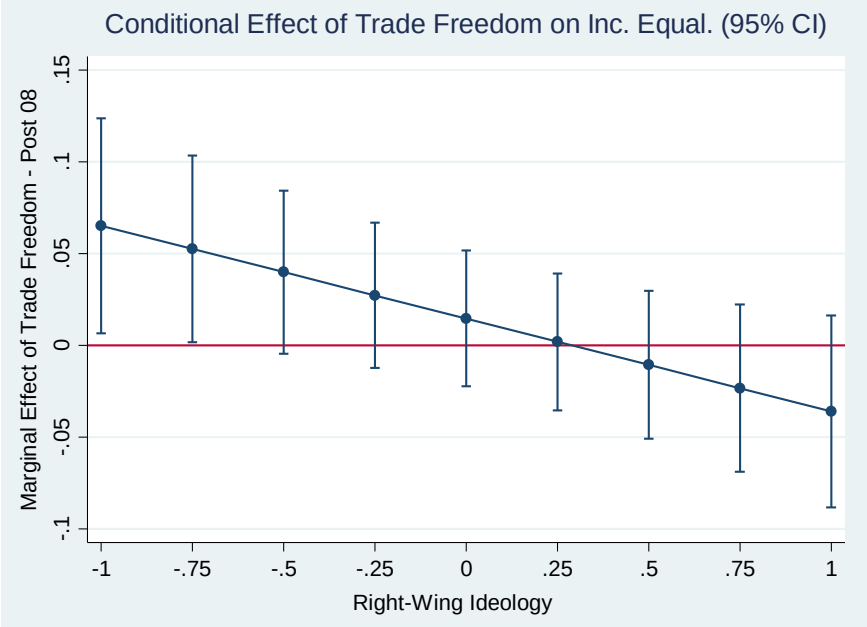



**Figure 3A. 2 Marginal effect of Trade Freedom on Income Equalization (Post 08)**



# Appendix B

**- Graphical Results Supply Side (Post 08)**

**Figure 3A. 3 Marginal effect of Trade Freedom on Government Intervention (Post 08)**

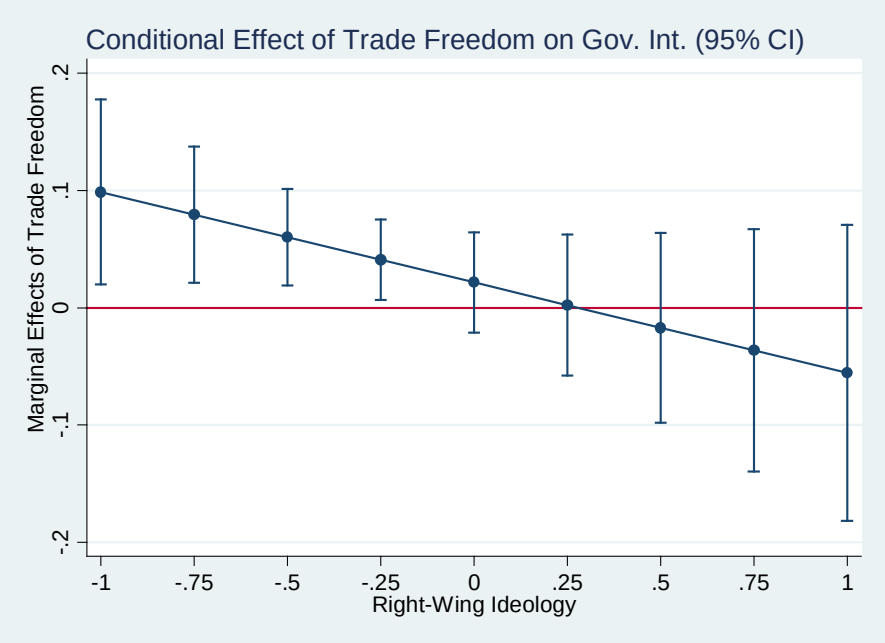
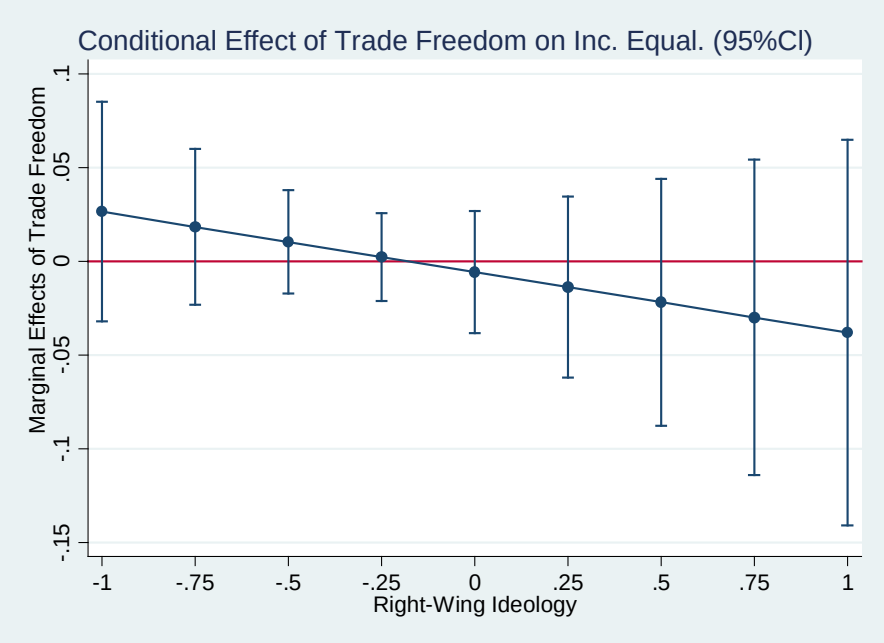



**Figure 3A. 4 Marginal effect of Trade Freedom on Income Equalization (Post 08)**



# Appendix C –

**Graphical Results Demand Side (Chinn-Ito)**

**Figure 3A. 5 Marginal effect of Financial Openness on Government Intervention**

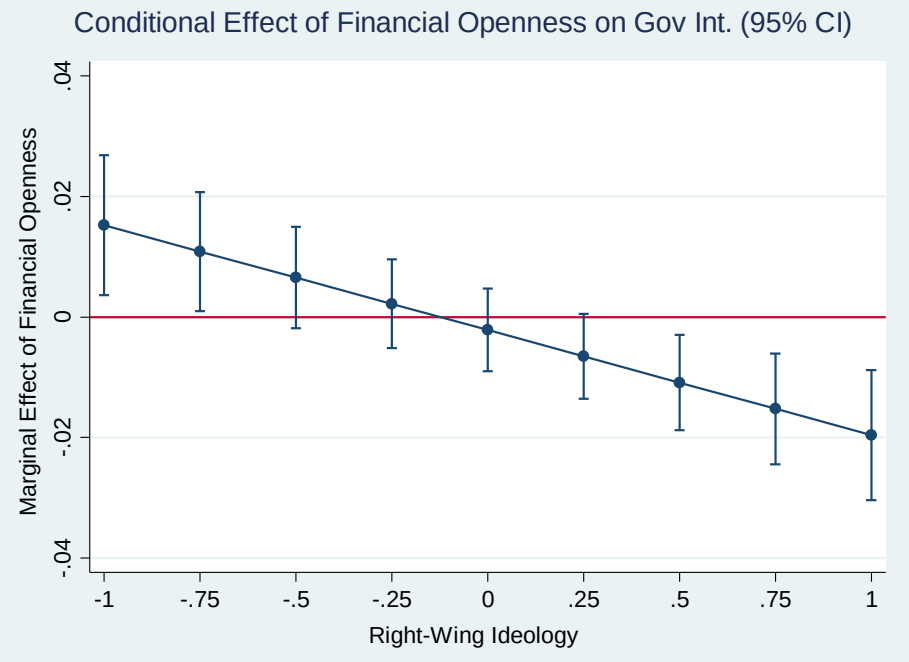
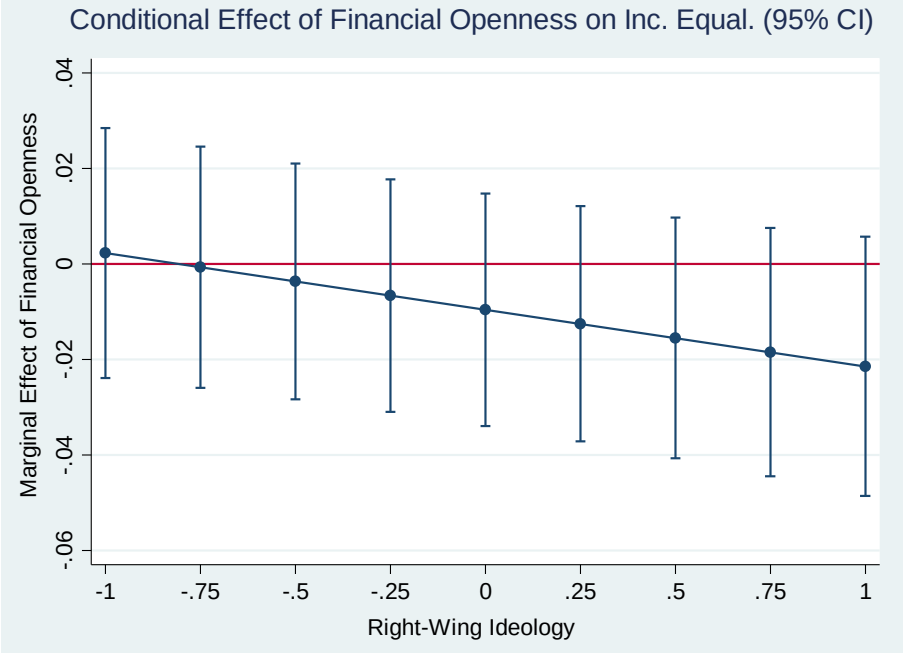



**Figure 3A. 6 Marginal effect of Financial Openness on Income Equalization**



# Appendix D –

## Graphical Results Supply Side (Chinn-Ito)

**Figure 3A. 7 Marginal effect of Financial Openness on Government Intervention**

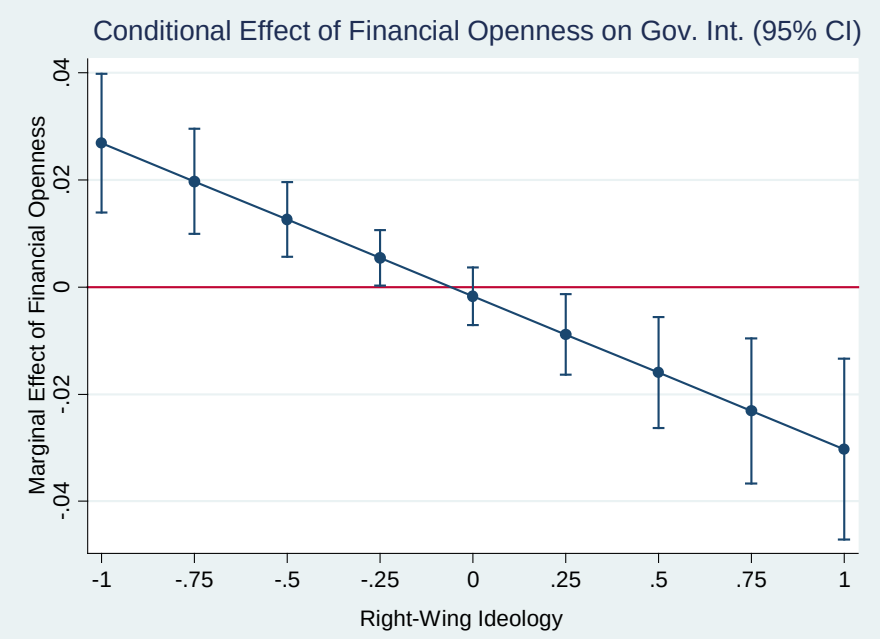
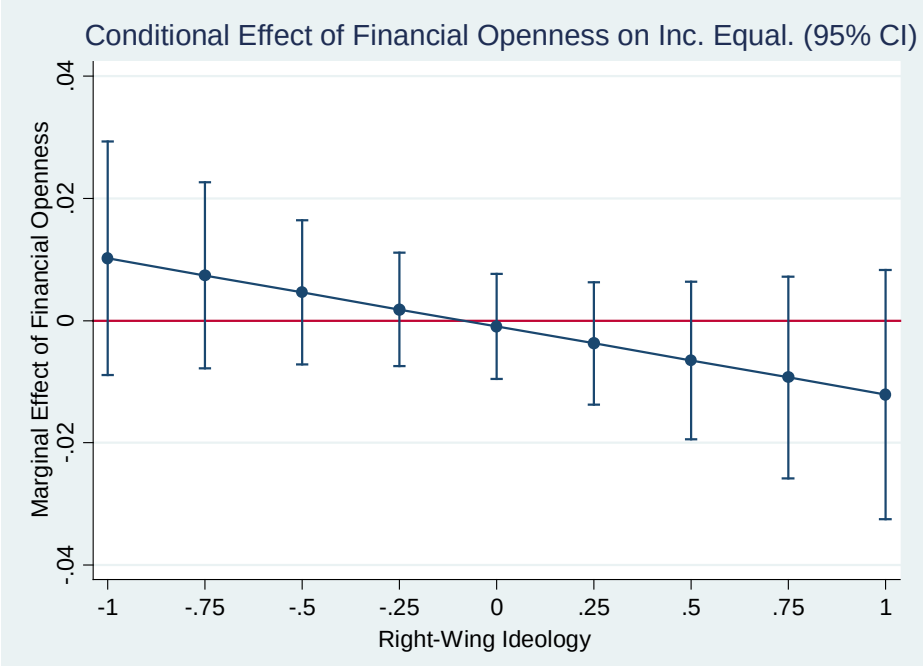



**Figure 3A. 8 Marginal effect of Financial Openness on Income Equalization**



# Appendix E

**- Graphical Results Supply Side (Expressive)**

**Figure 3A. 9 Marginal effect of Trade Freedom on Government Intervention (Expressive)**

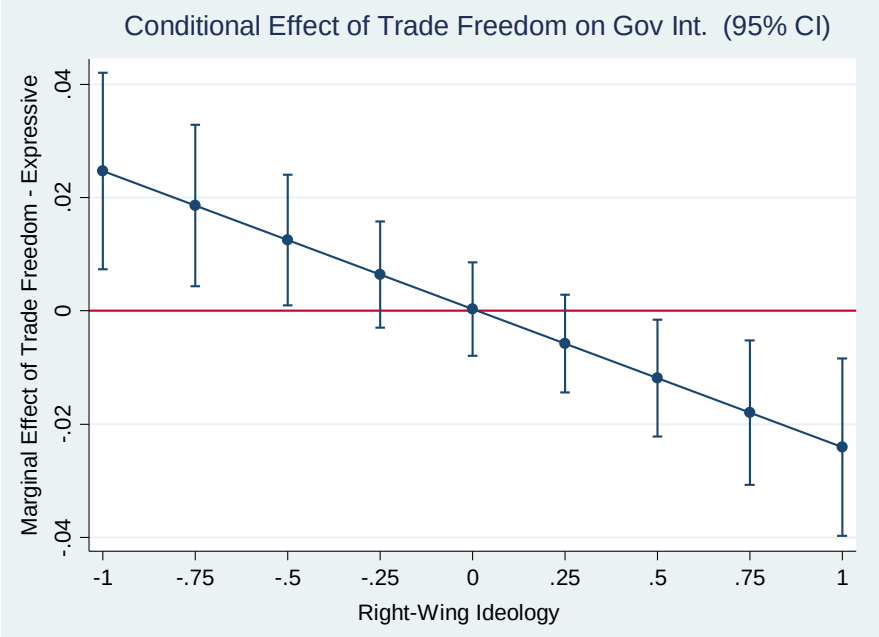
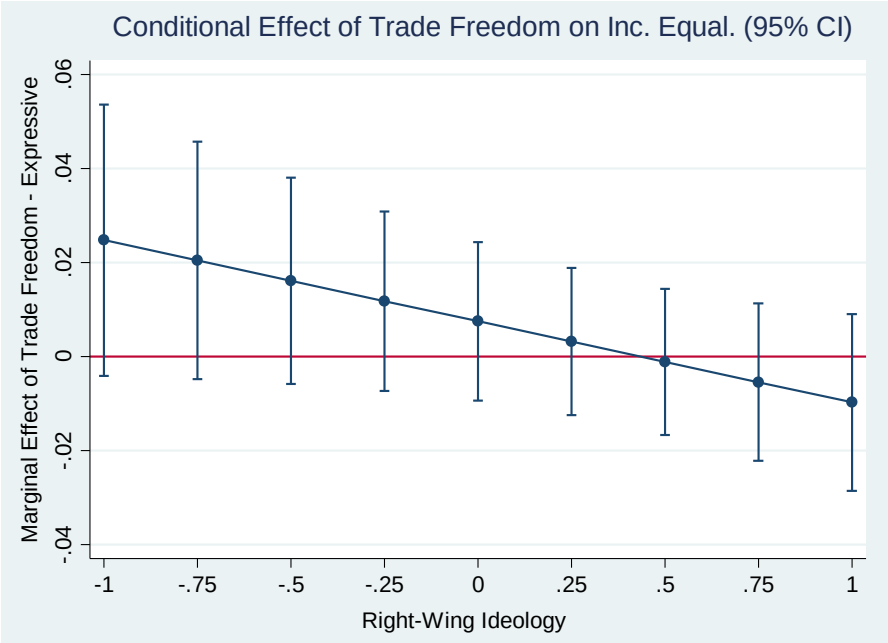



**Figure 3A. 10 Marginal effect of Trade Freedom on Income Equalization (Expressive)**



# Appendix F

**Summary Statistics Demand Side**

**Table 3A. 1 Descriptive Statistics at individual level**

| VARIABLES | N | mean | sd | min | max |
|---|---|---|---|---|---|
| **Dependent Variables** | | | | | |
| Government Intervention | 157,415 | 0.4089596 | 0.1988098 | 0 | 1 |
| Income Equalization | 157,415 | 0.4795427 | 0.32314 | 0 | 1 |
| **Micro Controls** | | | | | |
| Political Ideology | 157,415 | 0.0126227 | 0.5076974 | -1 | 1 |
| Female | 157,415 | 0.4970556 | 0.4999929 | 0 | 1 |
| Age 15-30 | 157,415 | 0.2834292 | 0.4506644 | 0 | 1 |
| Age 60< | 157,415 | 0.1794746 | 0.3837505 | 0 | 1 |
| Children | 157,415 | 0.3334625 | 0.4714517 | 0 | 1 |
| Selfemployed | 157,415 | 0.103891 | 0.30512 | 0 | 1 |
| Unemployed | 157,415 | 0.0756599 | 0.264454 | 0 | 1 |
| Low Income | 157,415 | 0.2398691 | 0.4270048 | 0 | 1 |
| High Income | 157,415 | 0.4395515 | 0.4963341 | 0 | 1 |
| Low Education | 157,415 | 0.158422 | 0.3651374 | 0 | 1 |
| High Education | 157,415 | 0.3560779 | 0.4788401 | 0 | 1 |
| Good Health | 157,415 | 0.6946606 | 0.4605525 | 0 | 1 |
| Life Control | 157,415 | 0.156422 | 0.3851374 | 0 | 1 |
| Social Trust | 157,415 | 0.3061208 | 0.460882 | 0 | 1 |
| Religious | 157,415 | 0.6687037 | 0.4706808 | 0 | 1 |
| Expressive | 157,415 | 0.0532533 | 0.2245384 | 0 | 1 |
| **Macro Controls** | | | | | |
| EFW Trade Freedom (A4) | 1004 | 7.436852 | 1.362571 | 1.352 | 9.66 |
| Chinn-Ito index | 1004 | 0.9923395 | 1.527571 | -1.903586 | 2.374419 |
| Log Population | 1004 | 3.146207 | 1.540746 | -1.367304 | 7.053619 |
| Log GDP per Capita | 1004 | 18,358 | 16,799 | 274.3408 | 69,095 |
| Size of Government (A1) | 1004 | 5.748551 | 1.467411 | 1.055034 | 10 |

# Appendix G

**Summary Statistics Supply Side**

**Table 3A. 2 Descriptive Statistics at party level**

| VARIABLES | N | mean | sd | min | max |
|---|---|---|---|---|---|
| **Dependent variables** | | | | | |
| Government Intervention | 2154 | 0.425975 | 0.0888583 | 0 | 1 |
| Income Equalization | 2154 | 0.525814 | 0.1052907 | 0 | 1 |
| **Micro Controls** | | | | | |
| Ideology | 2154 | -0.11771 | 0.2669215 | -1 | 1 |
| Vote share | 2154 | 13.40769 | 13.12684 | 0 | 69.693 |
| **Macro Controls** | | | | | |
| Chinn-Ito index | 304 | 1.393721 | 1.333891 | -1.90359 | 2.37442 |
| EFW Trade Freedom (A4) | 304 | 7.8353 | 0.9930477 | 2.8 | 9.8 |
| Log GDP per capita | 304 | 9.964542 | 0.6958817 | 7.49053 | 11.45314 |

# Conclusion

It is now widely recognized that interdisciplinary research has made important contributions to mainstream economics. The novel work from many scholars in understanding the role of institutions has shown that they, in fact, affect economic performance and are determinants of growth, income levels, and social welfare. Nonetheless, there are still important intellectual challenges and open questions that research needs to address if we want to know more about the general implications of institutions.

Recently, political economics literature has concentrated its attention on the strategic interactions that take place within democratic institutions. In most countries, these interactions are defined by the constitution. Constitutional law is often analyzed through two different approaches; the normative perspective, where constitutions are understood as documents that define rules and constraints. And the positive approach, which focuses on understanding both the different choices of constitutional rules and its outcomes (Voigt 1999).

Overall, constitutions are meant to create stability and a predictable institutional environment that limits rent-seeking and similar political problems by, among other things, dispersing power between several actors and thereby creating veto institutions. By creating competition among government branches, the amount of transfer activity that can take place is reduced (Klitgaard 1988). For this reason, when the constitution contributes to a greater concentration of discretionary power, it also strengthens the incentives for the holders of specific powers to further their interests without being held accountable by other government bodies (Buchanan and Tullock 1962; Treisman 2007).

Acting as institutional constraints, in Chapter 1, we find that constitutions are mainly effective when it is in the political interest of specific actors with actual veto influence to enforce them. In other words, it may require a fortuitous combination of *de jure* and *de facto* institutions to constrain corruption. In particular, we find no significant effects on corruption from the amount of power granted by the constitution to the legislative. However, we do find that an increase in effective political competition, as proxied by increasing ideological fractionalization in parliament, constrains the *de facto* effective power of the executive to actions that have broad political backing. In such political circumstances, strong executive powers cannot be used to benefit narrow special interests or protect select parts of the bureaucracy. Conversely, countries with weak executive powers may lack effective oversight over the many potentially corruptible actors in such situations. These results are particularly interesting because one could say that allocating more power to the executive branch in the constitutions is associated with improved institutional quality when that power is checked by effective veto politics in the form of substantial ideological differences in a democratically elected legislative branch.

Analyzing these results in further depth, we thus find that constitutional power concentration is a determinant of corruption and that the transmission mechanism runs through judicial

accountability. Yet, the constitutional provisions allocating powers of government appear only to be consistently important under quite specific political conditions of full democracy and levels of ideological fractionalization sufficient to create substantial *de facto* political competition. In Chapter 1, we also show that the same combination of constitutional and political conditions is associated with substantially more independence from the political influence of the judiciary. Conversely, we find no evidence that the effects are simply due to heavy-handed attacks on the judiciary, such that our findings could have been a reflection of political processes to dismantle democracy or similar extraordinary events. In other words, our findings are inconsistent with an interpretation in which the effects are due to political attacks on otherwise well-functioning institutions, but more likely reflections of systematic ills within the institutions.

In contrast to Chapter 1, where we study institutions as part of the explanans, in Chapter 2 we change our focus and treat institutions as the explained variable. In particular, we are interested in accounting for the direct changes of constitutional rules when populist leaders are in power. Despite the multiple attempts to define it, the concept of populism remains vague, complicating the empirical investigations of its political and economic outcomes. In the chapter, we develop a new index of populism, which allows us to contribute with new insights on populists and their consequences for economic institutions. We find that when constitutional changes are implemented by populist leaders, they strongly tend to grant more powers to the parliament while the changes implemented weakly reduce the degree of influence the executive has on central policy issues. Yet, these changes mainly occur when the populist positions of the government are embedded in a rightwing host ideology while the latter constitutional changes primarily occur with leftwing populists. As such, these results are in line with the constitutionalism analysis in Kaltwasser (2019).

Similar to Chapter 1, we provide further tests to capture elements of the behavior of the executive and parliament towards the judiciary. Our results then show evidence that populist leaders remove veto institutions or weaken existing veto players and in general interfere substantially with the ability of the judiciary to constrain policy-making. These findings support and generalize several case studies of how populists remove both *de jure* and *de facto* barriers to implementing their preferred policies and more generally to getting things done. Interestingly, these findings might suggest that populist leaders gradually implement non-constitutional measures to get rid of the opposition, for example by shutting down newspapers or prohibiting the existence of political parties.

Chapters 1 and 2 focus on the Latin American and Caribbean area, given its variety in levels of corruption, its history of constitutional instability, and its uninterrupted experience with populism. These results are especially relevant since they empirically demonstrate that the potential costs of changing the most basic rules of society, constitutions, can be huge. On the one hand, constitutional instability weakens the ability of the citizens to monitor and control politicians holding positions of power and may even enable the creation of mechanisms to protect those who are corrupt. On the other hand, particular leaders might, therefore, undermine the existing institutions, change the constitution, and gradually implement non-constitutional measures to be able to undermine the influence of the opposition and the judiciary.

Finally, normative design is subject to the complex relationship between formal and informal constraints (North 1990). Awareness of individual preferences has always been important in the study of political economy; especially since nobody´s wants or beliefs should be more important than those of anybody else (Buchanan 1959). Normative constitutional economics commonly states that given that rules have consequences for society as a whole, every member of a society has to voluntarily agree upon them. While globalization promises gains such as the upgrading of trade industries and poverty reduction, this is by no means a mechanistic process as many undesirable outcomes around the globe indicate. In contrast, globalization is a perilous process, highly dependent on the different layers of international and national policymaking. As a response toward the risk of globalization, "societies seem to demand (and receive) an expanded government role as the price for accepting larger doses of external risk" (Rodrik 1998: 998). This statement highlights the question of how interactions of voters and government can be coordinated so that order and prosperity for all may result.

Compared to earlier studies on the micro-foundations of the compensation hypothesis, the study in Chapter 3 contributes to this literature in three meaningful areas. We first take into account the potentially mediating role of political ideology in a cross-country setting. Second, we include a role for the positions of political parties towards compensation, thereby accounting for the political supply side of policies. Third, rather than treating ideology as purely instrumental, the study includes potential expressive responses based on an identity that is not necessarily consistent with actual behavior expressiveness. Findings, therefore, offer new insights on attitudes to compensation depend on exposure to globalization.

While our findings confirm a preference for actual compensation, these results are substantially qualified by ideology. On the right side of the political spectrum, experience with globalization shows no signs of correlation with support for actual compensation. Instead, we find something that could rather resemble a polarization effect for government intervention, whereby previously existing opinions of each ideological side are reinforced by experience with globalization. Yet, these results might be driven by the general problem of expressiveness, common when using survey data. One should be aware that survey respondents incur no costs in the answers they give (Bertrand and Mullainathan 2001) and some respondents may thus formulate expressive responses based on an identity that is not necessarily consistent with actual behavior (Hillman 2010). Likewise, political party programs can also be regarded as expressive in response to expressive political support from voters (Hillman 2010). Additionally, we also encounter evidence that indicates that political parties react to attitudinal polarization given that attitudes towards government intervention and income equalization have become multi-dimensional as a result of greater openness to globalization after the 2008 financial and economic crisis.

In the reality of policymaking, these results would mean that only left-wing governments can build on a popular support base for actual compensation. Our results constitute empirical evidence that increasing globalization might be associated with fundamental changes in the relationship between governments and the political demand and supply.

The "art of political economy", as referred to by Keynes (1955), deals with the possibilities between "is" and "ought". If we take a look at the bigger perspective, it is no exaggeration to claim that research on constitutional economics, and perhaps institutional economics in general, is still at a rather early stage. The only thing that seems to be certain is that the role of institutions seems to be vital. The theoretical underpinnings of this idea are sound, and they make an important case for the continued integration of the institutional approach into mainstream economic theory.

Every one of the three chapters makes an individual contribution to empirically assessing the determinants and outcomes of institutions. The individual questions are in essence very different from one another, but they all constitute advances in their respective subject matters. However, I have to recognize that this doctoral thesis probably raises more questions than it ultimately answers. For example; is the rise of ideologies such as populism or even individual populist leaders´ characteristics important factors for constitutional change? Are the current measures of populism adequate? To what degree are insights from constitutional economics applied in constitutional design? Why are some individuals eager to get rid of checks and balances, if in theory they are there to control and constrain politicians? How can we use the results obtained from empirical investigations to formulate concrete policy recommendations? How are political and economic institutions interrelated?

Throughout this thesis, I have aimed at providing elements that contribute to a better understanding of institutions and their effects on the economy and the consequences of economic policies. Understanding institutional structures that align the prosperity interests of the individual with those of society can help to advance economic performance and secure social peace and prosperity for future generations in an ever more interrelated world.

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