

# Worker Influence on Capital Account Policy: Inflow Liberalization and Outflow Restrictions

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How do workers impact openness to international investment flows? This paper distinguishes between two types of openness, openness to inflows and openness to outflows of investment. Workers benefit from inflow openness due to increases in wages, productivity, and efficiency and due to reductions in borrowing costs, which are associated with investment inflows. Workers are hurt by outflow openness, as investors gain investment options, and therefore bargaining power, when outflows are permitted. Labor rights help workers overcome collective action problems, and democratic institutions increase policymakers' responsiveness to labor organizations and make their commitment to labor rights credible. The theory thus predicts that, particularly under democratic institutions, labor rights are positively correlated with inflow openness and negatively correlated with outflow openness. Evidence from time-series, cross-sectional data is consistent with the theoretical expectations.

**Keywords:** Finance; Labor Rights; Democracy; Investment; Capital Account Openness; Globalization; Political Economy

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How do domestic interest groups affect openness to international investment flows? Although scholars emphasize the importance of labor groups in the formation of financial policy, our ability to predict their impact on policy has been limited by a lack of consensus about workers' preferences. Many scholars argue that workers benefit from openness, particularly in developing countries, through increased wages (Aitken, Harrison and Lipsey, 1996; Feenstra and Hanson, 1997; Quinn and Inclán, 1997; Jensen and Rosas, 2007; Pinto, 2013; Pandya, 2014), access to new technology (Javorcik, 2004), and financial market competition, which reduces borrowing costs (Levine, 2001). Others hold that workers are hurt by increased unemployment and market volatility, which are often associated with openness (Radelet and Sachs, 1998; MacIntyre, 2001; Owen, 2015) or by the constraints on redistributive policy imposed by capital mobility (Block, 1977; Lindblom, 1977; Przeworski and Wallerstein, 1988; Rudra, 2008).<sup>1</sup>

This article refines the concept of openness by examining the direction of the investment flows. Inflow openness facilitates the entry of foreign investment into the country, while outflow openness enables the exit of domestic investment from the country. The differentiation between inflow and outflow openness resolves much of the conflict present in the literature, because the two types of openness have opposing consequences for workers. Workers prefer inflow openness for the reasons discussed above: Investment inflows increase wages and introduce new technology in the country, which makes labor more productive.<sup>2</sup> Inflow liberalization also fosters competition in the domestic financial market, lowering borrowing costs and likewise benefiting workers.

At the same time, workers prefer outflow closure. The costs associated with openness outlined above stem primarily from disinvestment, which is enabled by openness to outflows,

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<sup>1</sup>Although emphasizing trade openness, Dean (2015*a,b*) takes a nuanced position, arguing that labor is often excluded from the benefits of openness, unless profit sharing institutions are strong.

<sup>2</sup>Depending on factors like labor market competition and mobility, investment inflows may benefit some workers more than others. The theory maintains that in aggregate, workers benefit from investment inflows.

not to inflows, of investment. Disinvestment and offshoring may decrease domestic wages, increase unemployment, and expose the country to economic crisis. Liberalization of outflows, and the unemployment and volatility associated with outflows, is therefore unattractive to workers.

In addition to these direct distributional considerations, outflow openness affects the relative bargaining power of domestic interest groups. In liberalizing outflows, policymakers grant investors better outside options.<sup>3</sup> When capital owners are able to move their investment to another location, they may influence policy by threatening disinvestment. Outflow openness thus increases the bargaining power of capital at the expense of labor. The relative bargaining power of capital and labor is important, because their policy preferences are opposed in many contexts, particularly with respect to taxation and redistribution.<sup>4</sup> Concerns about bargaining power reinforce preferences driven by factor returns: Workers are expected to benefit from and to prefer inflow liberalization and outflow restrictions.

Workers are a diffuse group with heterogenous interests and little concentrated resources; these are the conditions that leave them disadvantaged in taking collective action (Olson, 1965). Nonetheless, two conditions magnify their political influence. Labor rights—including the ability to organize, bargain collectively, and strike—help workers overcome this disadvantage, by allowing them to pool resources, distribute information, and coordinate their behavior. In addition, democratic political institutions make policymakers more responsive to voter interests, and workers, particularly when organized, can form a cohesive voting block (Guillén, 2000). Democratic institutions, and the rule of law they provide, also make the provision of labor rights credible, which may be a necessary precondition for workers to organize. Thus, the theory anticipates that financial policy should be more open

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<sup>3</sup>Outside options are the payoffs that negotiating parties can guarantee themselves without accepting an agreement. The parties to an agreement will not accept less than they could achieve through their outside option (Rubinstein, 1982).

<sup>4</sup>This class-based conflict provides the basis of many models of politics (Meltzer and Richard, 1981; Bates and Lien, 1985; Acemoglu and Robinson, 2001; Boix, 2003).

to capital inflows and closed to capital outflows when labor rights are strong *and* political institutions are democratic. Cross-sectional, time-series data are consistent with the theoretical expectations. Empirical analysis shows that inflow liberalization increases and outflow liberalization decreases in labor rights protection when political institutions are democratic.

## Workers and Capital Account Openness

This article distinguishes between openness to inflows and to outflows of investment to derive a systematic theory of financial openness. The argument is developed in two steps. First, drawing on existing theory and evidence, I derive worker preferences for capital account policy: workers benefit from inflows of foreign capital and are harmed by outflows. Second, I identify the conditions when workers have political influence over policy outcomes. The political preferences of workers are likely to be represented in policy when workers have the ability to organize and when policymakers are responsive to their organization.

This first step can be derived formally using a standard economic model. Imagine that production in the country takes the form of a Cobb-Douglas production function with constant returns to scale,<sup>5</sup>  $y = Ak^\beta l^{1-\beta} - wl - rk$ , where  $A$  is technology in the country,  $k$  is capital invested in production,  $l$  is the domestic labor force,  $w$  are wages, and  $r$  is the return to capital investment, often thought of as the interest rate. Producers use capital and labor to maximize their profits, allowing us to derive the returns to labor (wages) and the returns to capital (interest rates),  $w = A \frac{k^\beta}{l^\beta}$  and  $r = A \frac{l^{1-\beta}}{k^{1-\beta}}$ .

It is straightforward to analyze these returns to derive workers' preferences. Workers benefit from increased wages and, because they are often borrowers, from decreased interest rates. The wage rate increases in the entry of additional capital,  $\frac{\partial w}{\partial k} > 0$ , and wages decrease when capital leaves the market. In addition, interest rates decrease in the entry of additional

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<sup>5</sup>Constant returns are not necessary. As long as returns to scale are decreasing in each factor, the result follows. If returns are increasing in capital, there would be gains from concentrating all production in one country.

capital,  $\frac{\partial r}{\partial k} < 0$ , and they increase when capital leaves the market. Therefore, workers benefit from foreign investment inflows and the policies that facilitate inflows through their impact on wages and the cost of borrowing, and workers are harmed by foreign investment outflows and the policies that facilitate outflows.

The preferences drawn from this simple model are consistent with a large empirical literature. Investment entry increases wages through at least two channels. The entry of foreign investment increases the demand for labor, leading to greater competition among employers and to higher wages (see Frieden, 1991; Pinto, 2013). Foreign investors also introduce new technology that increases labor productivity (Javorcik, 2004; Jensen and Rosas, 2007; Pandya, 2014). In addition to these wage effects, an open and therefore more competitive financial market also benefits workers by increasing the efficiency of credit allocation and reducing the costs of borrowing (Levine, 2001; Henry, 2007; Mishkin, 2007). In short, workers should support openness to inflows of foreign investment.

Outflow openness, on the other hand, does not benefit workers. Outflow openness facilitates the exit of capital and is often associated with lower wages, outsourcing, unemployment, and labor market volatility. In the extreme, openness facilitates capital flight, which may trigger economic crisis.<sup>6</sup> Additionally, outflow openness may constrain the ability of policymakers to implement their preferred policies, particularly tax policy, because openness provides investors with outside options.

These policy constraints can again be seen using the model. Let us consider an investor's decision over where to locate his investment. We now need to differentiate the home country, country  $i$ , from a foreign country, country  $j$ . If the investor retains his investment in country  $i$ , he makes the following returns on his investment,  $r_i(1 - t_i)$ , where  $r_i$  is the return to investment and  $t_i$  is the tax rate in country  $i$ . If he chooses to move his investment elsewhere, say to country  $j$ , he would make the following return,  $r_j(1 - t_j)$ . When the market

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<sup>6</sup>See for example Agénor (1999); Tornell, Westermann and Martínez (2003); Joyce and Nabar (2009).

is open to investment outflows, the tax rate must be set to retain investment, and therefore the return to investing in country  $i$  must be at least as great as the return to investing in country  $j$ :  $r_i(1 - t_i) \geq r_j(1 - t_j) \Leftrightarrow t_i \leq 1 - \frac{r_j}{r_i}(1 - t_j)$ .

Accordingly, the highest tax rate that is consistent with retaining investment under open outflows is  $\bar{t}_i = 1 - \frac{r_j}{r_i}(1 - t_j)$ . This tax rate is increasing in tax rates elsewhere (if country  $j$  offers higher rates, so too can country  $i$ ). Because tax coordination across countries is difficult (Piketty, 2014), governments that want to raise taxes may also want to implement outflow restrictions to reduce the constraints imposed by capital mobility. Outflow restrictions increase the cost of moving capital abroad, and investors thereby lose some influence over distributive policy. As long as wage earners outnumber capital earners and wage income is lower than capital income, workers would prefer increased taxation and redistribution (Meltzer and Richard, 1981), and workers would thus also prefer less openness to investment outflows.

This analysis is consistent with several influential literatures, including theories of tax competition (Basinger and Hallerberg, 2004; Franzese and Hays, 2008), asset mobility and taxation (Boix, 2003; Freeman and Quinn, 2012), structural dependence (Przeworski and Wallerstein, 1988), and labor influence (Guillén, 2000; Silver, 2003). Mauro Guillén expresses the consequences of this threat succinctly: “unions generally feel they have a weaker bargaining position when dealing with multinationals than with local businesses because foreign firms can credibly threaten to ‘exit,’ unlike most local businesses” (Guillén, 2000, 423). In short, opposition to foreign investment frequently comes from the fear of disinvestment and the constraining effect of disinvestment threats. In order to avoid that disinvestment and to maintain their bargaining power, workers support restrictions on capital outflows.

The preceding discussion provides the foundation for workers’ preferences: workers prefer liberalization of inflow restrictions and the maintenance or even intensification of outflow

restrictions. The second step in developing the argument is to present the conditions when workers are able to organize, overcome collective action problems, and effectively lobby for policy changes. Because workers are a relatively large, dispersed group with little concentrated wealth, we expect them to face significant challenges to collective action (Olson, 1965; Acemoglu and Robinson, 2008). In addition, workers may not be aware of the benefits and costs of different investment policies.<sup>7</sup>

Because workers are a large group and are employed in many industries, they are often thought to have disparate preferences for policy. The differentiation between inflow and outflow openness helps resolve these differences. Existing studies have attempted to ascertain whether a specific firm, sector, or industry would benefit from openness to trade and investment flows (perhaps the most referenced political arguments draw on trade theory to derive divergent preferences of workers for trade policy based on their industry of employment, see for example Scheve and Slaughter, 2001). Benefits come from growth to the industry or firm, which drives up wages—growth typically results from increased investment (inflows) in that sector or firm. Costs come from outsourcing, which triggers unemployment and reduced wages—this stems from decreased investment (outflows) in a specific sector or firm. These studies conclude that those firms or industries that are helped by openness support openness and vice versa.<sup>8</sup>

Once we distinguish between inflow and outflow openness, it is plausible to conceive of workers as having shared preferences across industries. Workers benefit from inflows, and are harmed by outflows. Even if some individual workers are employed in firms that are not directly harmed by outflow openness, opposing that openness is consistent with their support for other workers, who are employed by firms where outflow openness would trigger disinvestment. The solidarity of workers may be particularly meaningful if they are part of

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<sup>7</sup>These challenges are similar to the challenges faced by consumers in lobbying for trade policy (Mansfield, Milner and Rosendorff, 2000; Kono, 2006; Guisinger, 2009).

<sup>8</sup>Frieden (1991) presents both the factor- and industry-based preferences for financial policy.

the same union.<sup>9</sup> Thus, once we differentiate between inflows and outflows of capital, it is plausible that workers share preferences for capital account policy.

In addition, these shared preferences are likely stronger when workers can move easily from one industry to another (Hiscox, 2002). In other words, if labor is mobile across industries it is straightforward to think of a worker sharing preferences with workers in other industries: he may be employed by those industries in the future! In low and middle income countries, where worker training is less specialized, we expect to see greater factor mobility. For this reason and due to the intensity of preferences, which is discussed below, the empirical analysis will exclude high income countries, where worker mobility is likely lower.<sup>10</sup>

Shared preferences for inflow openness and outflow closure help alleviate the challenge of internal divisions for collective action. However, workers are still a large group, without significant individual resources, that may lack information and face reprisals for their political organization. Nevertheless, the challenges faced by workers to collective action vary substantially across countries. Labor rights and domestic political institutions shape the ability of workers to secure their preferred policies in important ways.

Labor rights provide the foundation for workers to overcome collective action problems (Dean, 2015*b*; Acemoglu and Robinson, 2008; Olson, 1965, ch 3). This logic applies to their ability to bargain with their employers, as well as their ability to take coherent political action. The rights to organize, form unions, strike, and bargain collectively, as well as protection from violent retaliation, enable workers to more effectively advocate for their interests. Unions help educate workers about their interests—allowing them to overcome informational disadvantages—and they provide united representation in bargaining—preventing employers and politicians from dividing the group.

Through union dues and centralized fundraising, unions also allow workers to pool their

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<sup>9</sup>In a more extreme case, Ahlquist, Clayton and Levi. (2014) find that union members may support policies that are inconsistent with their economic interests when they are prompted to do so by their union.

<sup>10</sup>Results from the full sample, including high income countries, are reported in the Online Appendix.



resources. Unions thus generate concentrated resources for lobbying and other costly actions. For example, strikes are more effective when the union has resources to provide compensation (Dean, 2015*b*; Borjas, 2013). In addition, where workers are protected from violent reprisals, they are able to mobilize more workers and to organize without fear of retribution. Where these rights are absent, workers will be unwilling to join labor unions and unable coordinate their political action. In short, labor rights directly facilitate collective action by workers; once organized, they are able to bargain for higher wages and to demand their preferred policies.<sup>11</sup>

Additionally, organized labor groups should be particularly influential under democratic political institutions. There are a number of ways that democratic institutions increase the influence of labor groups. Democratic institutions are more responsive to large groups of voters (Buena de Mesquita et al., 2003; Milner and Kubota, 2005; Pandya, 2014), which should benefit workers. Workers are a large group of potential voters. Once organized, workers as voters will be more informed and more likely to vote coherently as a political block. By helping workers act in concert, labor rights magnify the political power of workers in democracy.

In addition, democratic institutions may be necessary for the credibility of labor rights protection. Because democratic institutions provide strong rule of law (Jensen, 2008), democratic policymakers will be unable to violate labor rights once they are in place. Similarly, scholars have argued that the codification of human rights without rule of law is ineffective and may actually signal the lack of those rights, as rulers can violate them at will (Vreeland, 2008).

Furthermore, investment inflows might complement worker rights particularly in a democratic context, whereas in autocracy, policymakers could collaborate with foreign firms

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<sup>11</sup>Because the provision of labor rights is an important objective for many labor groups, the presence of labor rights itself indicates that labor groups have been able to effectively lobby and attain their preferred policies in the past (Murillo and Schrank, 2005).

and support violations of worker rights (Guillén, 2000). In sum, the presence of labor rights *and* democratic institutions ensure workers' representation—under these conditions, workers have the ability to organize and policymakers are responsive to their pressure.

Taken together the steps described above provide a foundation for workers' preferences for and influence on capital account policies and produce the following hypothesis.

**H 1.** *When political institutions are democratic, labor rights increase openness to capital inflows and reduce openness to capital outflows.*

Note that the hypothesis does not require that workers have more influence than other interest groups or that inflows are fully open and outflows fully restricted. Rather, it proposes that when labor rights are strong and political institutions are democratic, policy should be closer to the interests of workers.

The theoretical model presented above also lends some insight into the magnitude of workers' preferences in different countries. Labor has the most to gain from inflow openness and outflow closure in developing countries. In the simple model, wages increase at a decreasing rate as capital accumulates,  $\frac{\partial w}{\partial k} > 0$  and  $\frac{\partial^2 w}{\partial k^2} < 0$ . Thus, at low levels of investment, the benefits for workers of additional investment are large, and the costs of outflows are also substantial. As capital accumulates and production gets closer to the frontier, however, the gains from additional investment are relatively small. These effects help explain why the competition for foreign investment is more acute in developing countries than in developed countries (Rudra and Haggard, 2005). Thus, worker preferences for inflow openness and outflow closure should be more intense in developing countries where the benefits associated with foreign investment entry—and the costs associated with exit—are larger.

The policies of Indonesia and Albania during the 1990s help illustrate the theory presented here. Both countries are relatively capital scarce and workers have a great deal to gain from foreign investment entry, and they both experienced movements towards more represen-

tative political institutions. The two countries differ in their respect for and responsiveness to workers.

In Indonesia, labor groups were actively and intensively repressed under the Suharto regime, and they had little if any influence on policy (Hadiz, 1998). In fact, the government authorized only one, state-backed union. All communist literature was confiscated, workers were arrested, labor leaders were persecuted, and a national ban was issued on strikes in vital industries. Firms hired members of the Indonesian military to work as managers and instill fear in the workforce. Violence and intimidation against workers was widespread in Suharto's Indonesia (Hadiz, 1998).

Consistent with the theory outlined above, the domestic market was relatively protected from investment inflows and open to investment outflows. Domestic capitalists enjoyed preferential access to credit and entry restrictions, which limited competition from foreign firms (MacIntyre, 1993; Hamilton-Hart, 2008; Pepinsky, 2013).<sup>12</sup> After Suharto left office in 1998 and political institutions became more democratic, labor rights began to improve. These changes were associated with the reversal of openness to investment outflows, although this reversal also coincided with the financial crisis.

In Albania, labor groups were one of the most powerful interest groups during the transitions from communism to capitalism and from authoritarianism toward democracy. According to the International Labour Office, Albania prohibited compulsory labor and discrimination and maintained the right to collective bargaining, as well as instituted many safety and health protections (International Labour Office, 1995). The political power of workers is reflected in electoral victories of the Communist Party (1991), the centrist Democratic Party (1992), and the Socialist Party (1997) (Pano, 1997, 308).

Socialist President Ramiz Alia (1986-1989) officially acknowledged Albania's need for

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<sup>12</sup>Suharto mandated that all foreign direct investments include joint ventures (with at least 20 percent domestic ownership at inception, rising to majority domestic ownership within 15 years), and all inward investments required Suharto's approval (IMF, 1992, 237).

investment and initiated reforms to attract investment capital (Pano, 1997, 300). In a speech to the Central Committee of the Party of Labour, Alia argued that an “increase in the effectiveness of expenditures, of social labour and capital investments is decisive [for economic growth] everywhere” (Alia, 1990, 17). He also acknowledged that opening up the country to investment could empower capital,

“In all the Eastern countries the working masses are worried because, with the introduction of new economic rules imposed by international capital, those social gains which they had inherited such as guaranteed jobs, housing, pensions, etc. have been placed in jeopardy.” Alia, 1990, 45.

Thus, during the movement toward democratization and capitalism, Alia’s concerns were precisely the concerns outlined above: the importance of attracting capital, as well as the fear of constraints imposed by that capital. While the Albanian economy opened slowly in the early 1990s, openness to financial inflows advanced more quickly than openness to outflows. The provisional constitution (1991) recognized the property rights of foreigners and liberalized the domestic market for the entry of foreign firms and investment (Pano, 1997, 312). For example, inward capital transfers generally did not require government approval, while outward transfers did require approval (IMF, 1992, 7).

Consistent with expectations from the theoretical model presented above, movement toward stronger labor rights and democratic institutions were associated with more openness to investment inflows and less openness toward outflows in Albania and Indonesia. The next section presents a systematic analysis of time-series, cross-sectional data on labor rights and capital account policies.

## Empirics

This article theorizes that workers prefer openness to investment inflows and closure to investment outflows and that their preferences are likely to be adopted when labor rights are strong and political institutions are democratic. To evaluate the theory, we require measures of inflow openness, outflow openness, labor rights, and democracy.

The dependent variables are openness to capital inflows and to capital outflows. Data on both forms of openness are available from Dennis Quinn; they were coded using the IMF's Annual Reports on Exchange Arrangements and Exchange Restrictions.<sup>13</sup> Openness is classified on a directional basis that identifies the challenges faced by a representative investor seeking to move capital into or out of the country. Inflow openness measures the ease with which foreign investors can move their investment into the country, while outflow openness captures the ease with which a resident can move his investment abroad (IMF, 1993, 80).

The inflow and outflow openness variables range between 0 and 50. Both variables are coded 50 when the capital account is unrestricted. They are coded 37.5 when there are minor restrictions on the inflow or outflow of investment, for example, restrictions like taxation that do not prevent the entry or exit of capital but affect the cost of the movements. A value of 25 indicates countries that require approval for flows and are subsequently subject to political considerations; 12.5 captures major restrictions, including prior approval or approval accompanied by requirements to repatriate and surrender foreign currency. 0 indicates those countries where cross-border transactions are prohibited. The data thus provide more nuance than binary measures, which do not measure the intensity of the restrictions (Quinn, Schindler and Toyoda, 2011). Importantly, these restrictions affect investors across a wide range of asset types. For example, taxation of proceeds reduces profits for foreign investors

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<sup>13</sup>The data cover up to 127 countries from 1950 to 2014. Data are from Freeman and Quinn (2012); Quinn and Toyoda (2008); Quinn and Inclán (1997).

without regard to the type of investment. The measures thus account for the directionality of restrictions on direct investment, portfolio investment, bond and money market instruments, and bank lending.

The measure of labor rights is taken from the Collective Labor Rights dataset, compiled by Kucera (2002) and extended by Mosley (2011) and again by Marx, Soares and Van Acker (2015).<sup>14</sup> The regressions employ the positive labor rights score, which is updated every year. It ranges between 0 and 10, with higher scores indicating stronger labor rights.<sup>15</sup> The variable captures both legal provision of labor rights and practical violations of labor rights. It includes six categories: “[1] freedom of association and collective bargaining related liberties; [2] the right to establish and join worker and union organizations; [3] other union activities; [4] the right to bargain collectively; [5] the right to strike; and [6] rights in export processing zones” (Mosley, 2011).

The measure of democratic political institutions is drawn from the Polity IV Project (Marshall, Jaggers and Gurr, 2013). The polity score ranges from -10 to 10 with higher numbers indicating more democratic countries. Polity is interacted with labor rights to allow for the conditional relationship suggested here: Labor rights facilitate workers’ representation, particularly under democratic political institutions. The theory expects that, when labor rights are protected and political institutions are democratic, workers have a greater capacity to organize and lobby the government for their preferred policies, and consequently policy reflects workers’ preferences. Because workers benefit from investment inflows and are harmed by investment outflows, labor rights should have a positive association with inflow openness and a negative association with outflow openness, particularly under more democratic institutions.

While the discussion has emphasized the differential incentives for the implementation

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<sup>14</sup>Mosley’s dataset includes annual observations for 143 countries from 1985-2002. Marx, Soares, and Van Acker extended the dataset for 73 countries from 2003-2012.

<sup>15</sup>The original dataset ranges from 0 to 37; Marx rescales the data to facilitate interpretation.

of inflow and outflow liberalization, the two policies are also closely related to one another. Inflow openness and outflow openness are jointly determined—in setting both policies, policymakers respond to and anticipate changes in exchange rate policy, fiscal policy, and trade balances. In addition, multinational investors may support openness to both types of flows, allowing them to easily move their investment and profits across borders. For these reasons, policymakers may pursue inflow and outflow liberalization in tandem despite the divergent pressures from labor groups. In practice, the two types of openness are positively correlated, with a statistically significant correlation coefficient of 0.74. The correlation coefficients for the two types of openness (and for labor rights and polity) are reported in the Online Appendix.

To address these challenges, the empirical models will account for the joint selection of inflow and outflow openness in several different ways. The first set of results employs seemingly unrelated regression (SUR) models, which allow the regressions on inflow and outflow openness to be linked through their disturbances. The greater the correlation between the equations, the more efficiency is gained by using SUR (Greene, 2008, 257). The Breusch-Pagan test statistic reveals that the disturbances in each of the SUR models here are not unrelated, and the system of equations specifications is therefore more appropriate than individual OLS specifications. However, the joint determination of inflow and outflow openness remains a challenge if the two types of openness also have direct effects on each other. SUR addresses the efficiency loss from joint determination, but it cannot correct for the bias introduced if one type of openness also has a direct effect on the other.

In order to reduce this bias, each set of empirical results introduces a control for the other type of openness: A control for inflow openness is included in the regression on outflow openness and a control for outflow openness in the regression on inflow openness. The positive correlation between inflow and outflow openness cuts in the opposite direction as the hypothesized effect, where labor rights and democracy increase inflow openness and

decrease outflow openness. The exclusion of the control would introduce bias from the divergent effect of labor rights on the other type of openness. For example, if labor rights and democracy decrease outflow openness, this reduction in outflow openness could lead to a reduction in inflow openness. The direct effect of outflow openness should therefore be partialled out of the regression on inflow openness in order to determine the effect of labor rights and polity on inflow openness. For the same reason, the direct effect of inflow openness should be partialled out of the regression on outflow openness in order to determine the effect of labor rights and polity on outflow openness. The regression results are reported with the control and excluding the control below.

The second set of results uses the system generalized method of moments (GMM) estimator.<sup>16</sup> This technique estimates two equations, using differences and levels, to generate estimates of the regression coefficients. In the differences equation, lags of the endogenous variables are used as instruments. In the levels equation, the differences in the lags of the endogenous variables are used as instruments. The endogenous variables here are inflow and outflow openness, the polity score, labor rights, and the interaction between labor rights and the polity score. By generating instruments for the endogenous variables, system GMM helps address concerns about the joint determination of the two types of openness and the direct effect of one type of openness on the other.<sup>17</sup>

The third set of results uses the difference between inflow and outflow openness as the dependent variable (inflow openness minus outflow openness). Because the theory anticipates an increase in inflow openness and a decrease in outflow openness when labor rights

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<sup>16</sup>System GMM is implemented in Stata 14, using the `xtabond2` command with robust standard errors; the command was developed by Roodman (2006).

<sup>17</sup>The Arellano-Bond test for autocorrelation, first and second order (AR(1) and AR(2)), are also reported in the tables. The AR(1) test should be negative and significant, as it is applied to the first difference equation, while the AR(2) test should be insignificant. Tests are consistent with these expectations. The Sargan test statistics are also reported. The Sargan test does not reject the null hypothesis, that the instruments are jointly valid, in two of the regression models. De-trending the data or including time trends do not alter these results.



increase in democratic countries, the difference between the two should also increase as labor rights increase. This specification has the advantage of predicting both types of openness simultaneously. By including both types of openness as dependent variables, these models help alleviate concern that bias may be introduced by the joint selection of inflow and outflow openness. Although imperfect, the similarity of the empirical results across these three modeling strategies increases confidence in the accuracy of the results.

Economic fundamentals also impact the costs and benefits of opening markets. When markets are already deep and competitive, it is likely less costly for policymakers to open markets (Rajan and Zingales, 2003). The models control for GDP in billions of dollars, GDP per capita (both from the Penn World Tables; Heston, Summers and Aten, 2012), total trade (imports plus exports, divided by GDP), and the trade balance (imports minus exports divided by GDP; both trade variables come from World Development Indicators, available from the World Bank). Accounting for the trade balance is particularly important as capital inflows will be necessary to sustain a trade deficit, and capital outflows are needed to sustain a trade surplus. Many countries also come under international pressure to open their markets, in particular when a country agrees to an IMF loan program. The models include a dummy for the year a country agrees to an IMF loan program (Dreher, 2006). Countries that have substantial international debt may need to retain access to foreign reserves (Betz and Kerner, 2016, 2017), which might lead them to implement greater inflow openness and outflow controls. Debtors may also be more susceptible to pressure from international lenders, which might trigger outflow liberalization. To account for these concerns, the models control for international debt as a percent of GDP (from the World Development Indicators). The debt variable reduces the sample size considerably and is thus only included in select models (results from additional model specifications with the debt variable are reported in the Online Appendix). The debt, GDP and trade variables are logged.

Given the greater level of labor mobility across industries, the large benefits associated

with investment inflows, and the large costs associated with outflows in developing countries, the empirical analysis excludes high-income countries (according to the World Bank designation). This sample restriction has the added benefit of excluding many countries that have given up capital account autonomy through international agreements, for example, as part of the European Union. The full sample used in the regression models reported here includes 78 countries from 1985 to 2011.<sup>18</sup>

Descriptive statistics for the variables used in the analysis are reported in the Online Appendix. Models employ robust standard errors clustered by country to account for non-independence within observations from the same country. The models also include year dummies to account for shared trends over time and for global economic shocks. Year dummies provide a flexible time trend, as they place no restrictions on the shape of the trend. Select models include country fixed effects, to account for time-invariant country-specific characteristics, and lagged dependent variables, which account for serial correlation (Beck and Katz, 2011).

Table 1 reports the results of the seemingly unrelated regressions. Column 1 includes only the variables of interest: labor rights, polity, and the interaction between the two. Column 2 adds the controls for the other types of openness. Column 3 adds the full set of economic controls. Column 4 controls for debt. Column 5 includes country fixed effects; column 6 adds the lagged dependent variable; column 7 includes both country fixed effects and the lagged dependent variable.

Figure 1 plots the marginal effect of labor rights on inflow openness (left panel) and then outflow openness (right panel) at different values of the polity score, using the coefficient estimates from Column 3 of Table 1. The figure also depicts the distribution of the polity

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<sup>18</sup>The Online Appendix reports models that include high-income countries for a total of 117 countries. Labor rights are positively correlated with inflow openness when the polity score is sufficiently high across numerous specifications. The results for outflow openness are less robust although still consistent with the theory and significant in many specifications—this is likely because many developed democracies have given up their ability to restrict the capital account through membership in international institutions.

variable in both plots. The marginal effect plots show a positive and statistically significant effect of labor rights on inflow openness at positive values of the polity score. The effect of labor rights becomes positive when the polity score equals negative one, and it becomes statistically significant when the polity score is two. The plots also show a negative and statistically significant effect of labor rights on outflow openness at positive values of the polity score. The effect of labor rights becomes negative when the polity score equals negative three, and it becomes statistically significant when the polity score is zero. For reference, Mexico had a polity score of zero under the single party rule of the PRI in the late 1980s and early 1990s. The score increased from 1994 to 2000 as party competition intensified (first to four, then six, and then eight). These results suggest that workers are able to influence policy when labor rights are strong and political institutions are at least somewhat democratic.<sup>19</sup> These results are similar across a number of different models.

Although the results are consistent with the theory in democratic countries, the effects of labor rights in autocracy are somewhat surprising. The figure shows that when political institutions are undemocratic (at low values of the polity score), an increase in labor rights is associated with a reduction in inflow openness and an increase in outflow openness. Although unanticipated by the theory, this relationship is consistent with work in human rights. For example, Vreeland (2008) argues that unrestrained countries may sign the Convention Against Torture, because accession is costless for them; they are unconstrained by political institutions that would force the government to follow the agreement. A similar dynamic plausibly applies here. Without democratic institutions to guarantee the enforcement of their labor rights, it is costless for some authoritarian regimes to claim to have labor rights without actually instituting them. Anticipating that their rights will not be enforced in these contexts, workers do not organize.<sup>20</sup> The results in undemocratic countries then

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<sup>19</sup>A polity score of six is often used as the threshold for identifying consolidated democracies.

<sup>20</sup>This explains why we may not observe violations of labor rights in countries where the rights would not be enforced; this is important, because violations are captured by the Labor Rights Index.

uncover the effect of labor rights in countries that cannot credibly commit to enforce these rights.

The results from the system generalized method of moments models, reported in Table 2, and using the difference in openness dependent variable, reported in Table 3, largely corroborate the results from the seemingly unrelated regressions. The generalized method of moments estimates and the estimates from the regression on the difference in openness are often significant, and the direction of the coefficients is almost always consistent with the theory across many different models.<sup>21</sup> The empirical models provide evidence that—in democracies—labor rights are positively correlated with inflow openness and negatively associated with outflow openness, consistent with Hypothesis 1.

Reporting the full set of models provides insight into the sensitivity of the results. Across both the SUR and GMM specifications, the results for inflow openness are robust to the inclusion of the lagged dependent variable, but they are sensitive to the exclusion of the control for outflow openness. The negative correlation between inflow openness and labor rights interacted with polity is significant only when the control for outflow openness is included in the models. Although the control is important for theoretical reasons (namely that the two types of openness are jointly determined and likely depend on each other) and the GMM specification helps alleviate concerns about endogeneity, to the extent that the control for outflow openness induces post-treatment bias, the regressions may overstate the effects on inflow openness.

On the other hand, the results for outflow openness are sensitive to the control for the lagged dependent variable, but they are robust to the exclusion of the control for inflow openness. The results for outflow openness lose significance, although they are correctly

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<sup>21</sup>The only model with a coefficient on the interaction term whose direction is inconsistent with the theoretical prediction is the regression on the difference in openness that includes the debt variable, and the coefficient is not significant. The empirical results for the difference models are not as robust as the other results. The sensitivity comes from the inclusion of country fixed effects, which is fairly common when the independent variables, particularly political institutions, change infrequently.

signed, when the lagged dependent variable is included in the model. The correlation between outflow openness and the interaction term is significant with and without the control for inflow openness. Taken together the empirical results lend credence to the claim that labor rights are associated with greater openness to financial inflows and less openness to financial outflows in democratic countries.

After introducing the control for debt, the results change in surprising ways. The coefficient on the interaction term loses significance, and the coefficient on labor rights is positive and significant in the regressions on inflow openness and negative and significant in the regressions on outflow openness (this applies across a full range of modeling choices; see the Online Appendix). To evaluate whether these changes are caused by the sample reduction (including debt reduces the sample by about two thirds) or by the control itself, the Online Appendix reports estimates of models that restrict the sample to only those observations that have coverage in the debt variable but nevertheless exclude the debt variable itself. These results are similar to the results when controlling for the debt variable. This exercise suggests that the differences in the results are driven by the sample change rather than by the content of the debt variable, which increases our confidence in the results from the larger sample.

Additional robustness checks are reported in the Online Appendix. It is plausible that biases in media coverage and the presence of non-governmental organizations affect which violations are included in the coding of the Labor Rights Index, because the index is constructed partially by coding incidents of labor rights violations. To account for press freedom, I first restrict the sample to countries with a maximum score on press freedom that is above the sample average ( $> 54$ ).<sup>22</sup> I then introduce a control for press freedom. The regression results that limit the sample to countries with above average press freedom

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<sup>22</sup>This strategy retains observations where the press freedom score is missing, as long as the maximum press freedom score is above the sample average in some years. This explains the larger sample size in the models without the control for press freedom.

are consistent with the theoretical hypothesis: In democracy, labor rights are positively correlated with inflow openness and negatively correlated with outflow openness, and the results are statistically significant at conventional levels. The regression results with the control for press freedom are consistent with expectations for inflow openness but the results for outflow openness are often insignificant. This is likely because the control for press freedom limits the sample considerably.

Because the financial openness variables are relatively time invariant, non-stationarity is a concern. In short, the openness variable may contain a unit root, threatening inferences made from the data. Inflow and outflow openness are strongly correlated with their lags, and the correlation is significant at the one percent level. Unit root tests are reported in the Online Appendix. The tests suggest that the openness variables are stationary and do not include a unit root when panel means or a time trend are included in the test (depending on the specific test). These tests increase confidence in the results from models with country fixed effects or year dummies.

## **Conclusion**

Existing work has presented conflicting theoretical expectations for worker preferences for openness based on wage effects, efficiency, unemployment, volatility, and bargaining power. By differentiating between openness to inflows of foreign investment and openness to outflows of domestic investment, this paper reconciles these expectations. Workers prefer openness to investment inflows and, at the same time, restrictions on investment outflows. Inflow liberalization allows foreign investors to enter the market, heightening productivity and demand for labor, increasing wages, and reducing the cost of borrowing. Outflow liberalization on the other hand allows investors to disinvest, and disinvestment is associated with unemployment and economic volatility. Outflow liberalization also undermines labor's bargaining power, as it opens up outside options for investors.

Worker preferences, for inflow liberalization and outflow restrictions, are more likely to become policy when labor rights are strong and political institutions are democratic. Democratic political institutions are more responsive to large domestic interest groups, like labor unions, and they make commitments to labor rights provision credible. Where labor rights are enforced, they facilitate the formation of labor unions, which distribute information about the costs and benefits of different economic policies, they help coordinate political action, and they pool the resources of members to more effectively affect policy.

The findings from the empirical models provide support for the theoretical expectations. The models suggest that, when labor rights are protected and political institutions are democratic, the financial market is more open to investment inflows and closed to investment outflows: In democracy, labor rights and inflow openness are positively correlated, while labor rights and outflow openness are negatively correlated. The results are similar across different specifications, and they are significant at conventional levels in many empirical models.

By distinguishing inflow from outflow openness, the theory presented here breaks the standard link between factor endowments and preferences. Applications of Heckscher-Ohlin trade theory to finance expect labor to support financial openness in developing countries where labor is abundant, and to oppose openness in developed countries where labor is scarce (Frieden, 1991; Quinn and Inclán, 1997). The seminal theory emphasizes preferences for overall openness, rather than for inflow and outflow openness, because expectations for flows also come from the theory: Capital flows to developing countries, where labor benefits, and from developed countries, where labor is hurt.

However, flows often violate these expectations.<sup>23</sup> Accordingly, it makes sense to differ-

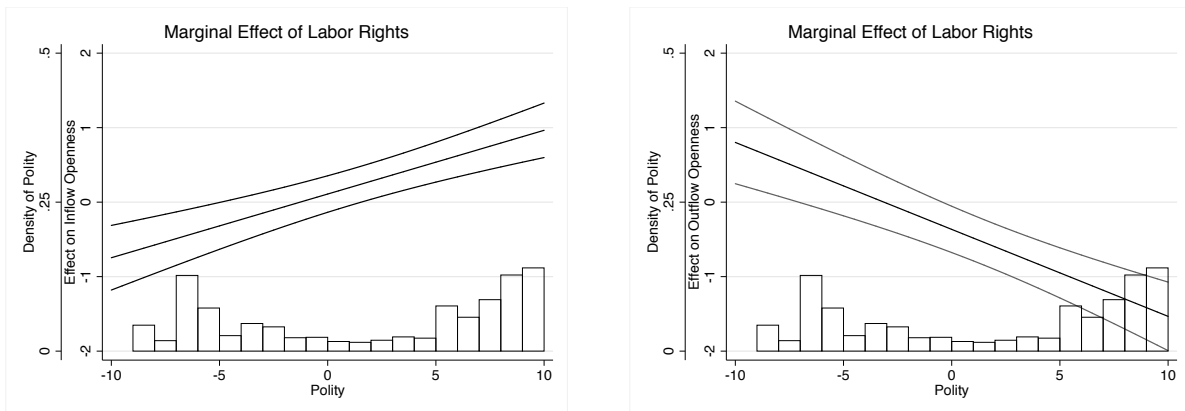
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<sup>23</sup>In fact, developed countries are the largest recipients of investment inflows, and developing countries experience disinvestment fairly often (Lucas, 1990; Caselli and Feyrer, 2007). In addition, policymakers may change their comparative advantage through policies like property rights and contract enforcement (Nunn, 2007), suggesting that comparative advantage is more complex than analyses of factor endowments suggest.

entiate preferences not by endowment, but rather by the type of openness. Inflow openness facilitates the entry of foreign investment. Workers benefit from foreign investment inflows, and the increased wages and efficiency they engender. Outflow openness facilitates the exit of domestic investment. Workers are hurt by outflow openness through the concomitant reduction in their bargaining power. Where workers are politically influential, we expect to see more openness to investment inflows and restrictions on investment outflows.



Figure 1: Labor Rights, Democracy, and Financial Policy



Note: The lines show the marginal effect of labor rights on openness at different values of the polity score. Confidence intervals are 95 percent. The bars represent the density of the in-sample polity data. The graphs represent results from Column 3 in Table 1.

Table 1: Labor Rights, Democracy, and Financial Policy (SUR)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>Dependent Variable: Inflow Openness</b>							
Labor Rights $\times$ Polity	-0.02 (0.02)	0.10*** (0.02)	0.09*** (0.02)	0.00 (0.03)	0.04*** (0.02)	0.02*** (0.01)	0.03*** (0.01)
Labor Rights	0.08 (0.15)	0.55*** (0.11)	0.11 (0.12)	1.09*** (0.25)	-0.21 (0.13)	-0.03 (0.06)	-0.01 (0.08)
Polity	0.76*** (0.15)	-0.63*** (0.11)	-0.43*** (0.11)	-0.09 (0.18)	-0.09 (0.12)	-0.09* (0.05)	-0.13* (0.07)
Outflow Openness		0.78*** (0.01)	0.72*** (0.01)	0.86*** (0.02)	0.70*** (0.02)	0.06*** (0.01)	0.15*** (0.01)
Trade Balance			-0.11*** (0.02)	-0.15*** (0.04)	0.02 (0.02)	-0.02* (0.01)	0.00 (0.02)
log GDP			-1.18*** (0.17)	-0.93*** (0.31)	2.55** (1.12)	-0.17** (0.08)	0.54 (0.71)
GDP per capita			-0.21** (0.09)	-0.51*** (0.13)	-0.95*** (0.21)	-0.06 (0.04)	-0.31** (0.13)
Total Trade			-4.77 (7.45)	-20.14** (9.91)	2.61 (10.90)	-0.53 (3.50)	3.05 (6.90)
IMF Program			-0.10 (0.51)	0.58 (0.85)	-0.79** (0.38)	0.04 (0.24)	-0.25 (0.23)
log Debt				-1.41*** (0.35)			
lag Inflow Openness						0.89*** (0.01)	0.76*** (0.02)
Constant	20.55*** (1.81)	3.68*** (1.37)	21.27*** (2.67)	13.07** (5.19)	-5.21 (10.12)	4.06*** (1.32)	0.03 (6.36)
<b>Dependent Variable: Outflow Openness</b>							
Labor Rights $\times$ Polity	-0.15*** (0.03)	-0.13*** (0.02)	-0.12*** (0.02)	0.01 (0.04)	-0.06*** (0.02)	-0.00 (0.01)	-0.01 (0.01)
Labor Rights	-0.60*** (0.18)	-0.68*** (0.14)	-0.37** (0.16)	-1.52*** (0.27)	0.31** (0.15)	-0.10 (0.07)	0.11 (0.10)
Polity	1.78*** (0.17)	0.95*** (0.13)	0.72*** (0.14)	0.09 (0.20)	0.15 (0.14)	0.09 (0.07)	0.10 (0.09)
Inflow Openness		1.10*** (0.02)	1.17*** (0.02)	1.06*** (0.03)	1.00*** (0.02)	0.09*** (0.01)	0.21*** (0.02)
Trade Balance			0.12*** (0.03)	0.11** (0.05)	-0.09*** (0.03)	-0.01 (0.01)	-0.04* (0.02)
log GDP			1.00*** (0.23)	0.62* (0.36)	0.16 (1.34)	-0.04 (0.11)	1.40 (0.88)
GDP per capita			0.37*** (0.11)	0.61*** (0.14)	0.88*** (0.25)	-0.02 (0.05)	-0.09 (0.17)
Total Trade			3.77 (9.49)	16.24 (11.09)	-23.52* (12.94)	-2.36 (4.40)	-16.36* (8.60)
IMF Program			0.39 (0.65)	-0.54 (0.95)	1.14** (0.45)	0.17 (0.30)	0.37 (0.29)
log Debt				1.62*** (0.39)			
lag Outflow Openness						0.89*** (0.01)	0.74*** (0.02)
Constant	21.53*** (2.14)	-1.00 (1.63)	-16.73*** (3.51)	-5.21 (5.88)	-20.50* (12.01)	1.25 (1.67)	-16.93** (7.92)
Observations	1522	1522	1425	415	1425	1414	1414
Breusch-Pagan: $\chi^2$	691.42	691.42	607.23	218.99	418.72	88.42	10.77
Test of Independence	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)

Robust standard errors, clustered by country, are in parentheses, \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ . All models include year dummies. Column 2 controls for the other type of openness. Column 3 introduces a set of common controls. Column 4 controls for log debt. Column 5 adds country fixed effects. Column 6 adds the lagged dependent variable, and Column 7 includes country fixed effects and the lagged dependent variable.

Table 2: Labor Rights, Democracy, and Financial Policy (System GMM)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		Inflow Openness				Outflow Openness		
Labor Rights × Polity	0.01 (0.01)	0.03*** (0.01)	0.03*** (0.01)	0.01 (0.02)	-0.00 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.03)
Labor Rights	0.03 (0.06)	0.11* (0.06)	0.01 (0.06)	0.33** (0.16)	-0.07 (0.07)	-0.17*** (0.06)	-0.14** (0.07)	-0.25 (0.22)
Polity	-0.01 (0.05)	-0.13** (0.06)	-0.12* (0.07)	-0.01 (0.13)	0.11* (0.07)	0.14** (0.07)	0.14* (0.07)	0.15 (0.15)
lag Inflow Openness	0.94*** (0.01)	0.88*** (0.02)	0.85*** (0.03)	0.76*** (0.04)				
lag Outflow Openness					0.94*** (0.01)	0.85*** (0.02)	0.85*** (0.03)	0.76*** (0.05)
Outflow Openness		0.09*** (0.02)	0.10*** (0.02)	0.19*** (0.04)				
Inflow Openness						0.15*** (0.03)	0.17*** (0.03)	0.23*** (0.05)
Trade Balance			-0.02 (0.02)	-0.08*** (0.02)			0.01 (0.02)	-0.04 (0.03)
log GDP			-0.20 (0.13)	-0.14 (0.26)			0.09 (0.13)	0.24 (0.22)
GDP per capita			-0.09 (0.05)	-0.25*** (0.07)			-0.01 (0.07)	0.09 (0.11)
Total Trade			0.56 (4.78)	-1.54 (6.87)			1.71 (4.71)	6.81 (8.35)
IMF Program			-0.06 (0.35)	-0.28 (0.58)			-0.06 (0.43)	0.01 (0.48)
log Debt				-0.27 (0.24)				0.11 (0.27)
Observations	1511	1511	1414	415	1511	1511	1414	415
AR(1)	-5.60 (0.00)	-5.79 (0.00)	-5.60 (0.00)	-3.37 (0.00)	-5.18 (0.00)	-5.39 (0.00)	-5.14 (0.00)	-2.46 (0.01)
AR(2)	0.09 (0.93)	0.16 (0.87)	0.17 (0.86)	-0.89 (0.37)	-0.39 (0.70)	-0.56 (0.58)	-0.85 (0.40)	0.78 (0.44)
Sargan Test	876.79 (0.11)	1095.97 (0.01)	1142.47 (0.00)	413.49 (0.06)	960.13 (0.00)	1145.65 (0.00)	1172.59 (0.00)	403.31 (0.12)

Robust standard errors are in parentheses, \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ . Labor rights, the polity score, the interaction between labor rights and the polity score, and both types of openness are treated as endogenous in the models. Lags provide instruments in the first difference equation; differences in lags provide instruments in the levels equations. All models include year dummies and the lagged dependent variable. Columns 2 and 6 control only for the other type of openness. Columns 3 and 7 introduce a set of common controls. Columns 4 and 8 add a control for log debt. The AR(1), AR(2), and Sargan Tests include p-values in parentheses.

Table 3: Labor Rights, Democracy, and Difference in Financial Policy

	(1)	(2)	(3)	(4)	(5)	(6)
Labor Rights $\times$ Polity	0.13*** (0.05)	0.12** (0.04)	-0.02 (0.10)	0.06 (0.05)	0.02** (0.01)	0.02 (0.02)
Labor Rights	0.68* (0.37)	0.52 (0.34)	1.65** (0.75)	-0.31 (0.35)	0.08 (0.05)	-0.05 (0.12)
Polity	-1.02*** (0.34)	-0.81** (0.34)	-0.09 (0.55)	-0.15 (0.35)	-0.15*** (0.06)	-0.20 (0.13)
log GDP		-0.53 (0.68)	-0.38 (0.80)	-0.13 (3.32)	-0.00 (0.08)	-1.34 (1.20)
GDP per capita		-0.43 (0.31)	-0.62* (0.35)	-0.88 (0.70)	-0.02 (0.05)	0.05 (0.20)
Total Trade		-1.64 (22.25)	-12.60 (24.32)	23.35 (25.78)	2.43 (3.58)	17.48** (8.04)
Trade Balance		-0.09 (0.07)	-0.09 (0.07)	0.09 (0.07)	-0.00 (0.01)	0.03 (0.03)
IMF Program		-0.58 (0.80)	0.47 (0.98)	-1.14* (0.62)	-0.14 (0.29)	-0.40 (0.32)
log Debt			-1.61* (0.93)			
lag Diff. Openness					0.89*** (0.01)	0.80*** (0.02)
Constant	-0.98 (3.52)	7.22 (7.73)	0.17 (11.51)	20.27 (30.22)	0.42 (1.31)	16.51 (10.97)
Observations	1522	1425	415	1425	1414	1414
Adjusted $R^2$	0.06	0.10	0.31	0.54	0.84	0.84

Robust standard errors are in parentheses, \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ . The dependent variable in all models is the difference between inflow openness and outflow openness (inflow minus outflow openness). Column 2 introduces a set of standard controls, and column 3 introduces a control for log debt. Column 4 includes country fixed effects. Column 5 includes the lagged dependent variable, and column 6 includes country fixed effects and the lagged dependent variable.

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# Online Appendix

Countries included in the regression models: Albania, Algeria, Argentina, Azerbaijan, Bangladesh, Belarus, Bolivia, Botswana, Brazil, Bulgaria, Burkina Faso, Cambodia, Cameroon, China, Colombia, Republic of Congo, Costa Rica, Cote d'Ivoire, Dominican Republic, Ecuador, Egypt, El Salvador, Ethiopia, Fiji, Gabon, The Gambia, Georgia, Ghana, Guatemala, Haiti, Honduras, India, Indonesia, Iran, Iraq, Jamaica, Jordan, Kazakhstan, Kenya, Kyrgyz Republic, Laos, Liberia, Libya, Madagascar, Malaysia, Mauritius, Mexico, Morocco, Mozambique, Myanmar, Nepal, Nicaragua, Nigeria, Pakistan, Panama, Paraguay, Peru, Philippines, Romania, Russia, Rwanda, Senegal, Sierra Leone, South Africa, Sri Lanka, Sudan, Suriname, Syria, Thailand, Tunisia, Turkey, Uganda, Ukraine, Uzbekistan, Venezuela, Vietnam, Zambia, and Zimbabwe.

Figure A-1: Openness to Investment Inflows and Outflows

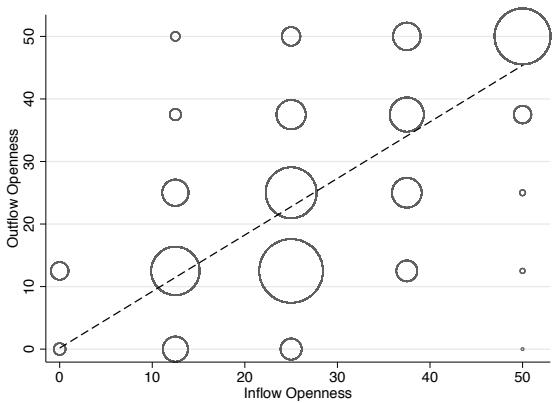


Figure A-1 presents openness to financial inflows and openness to financial outflows for all countries included in the regression sample (non-high income countries from 1985 to 2011, based on the World Bank classification). The data is clustered at certain values, as the indices are composite indices, which capture the absence of multiple types of inflow and outflow restrictions. In order to display the density of the data at each cluster, the size of the data points is weighted by the number of observations at each point. Larger circles at any set of values represent more observations. The upward sloping dashed line displays the predicted values of outflow openness from a linear regression of inflow openness on outflow openness. Although inflow and outflow openness are highly correlated, there exist substantial departures from perfect association between the two indicators.

Figure A-2: Openness to Investment Inflows and Outflows, 2005

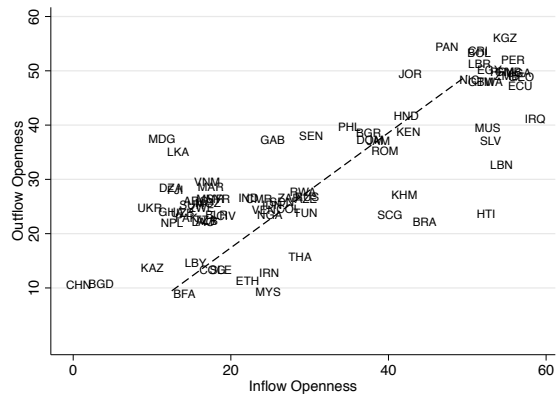


Figure A-2 presents openness to financial inflows and openness to financial outflows for countries included in the regression sample for 2005. The data points are labeled with each country's three digit World Bank country code, and they are staggered to facilitate reading.

Table A-1: Summary Statistics

Variable	Mean	Std. Dev.	Min.	Max.	N
Year	1995.48	6.55	1985	2011	1522
Inflow Openness	27.91	13.03	0	50	1522
Outflow Openness	25.16	15.79	0	50	1522
Labor Rights	6.19	2.09	0	10	1522
Polity	1.12	6.56	-9	10	1522
log GDP	10.96	1.78	5.73	16.44	1499
GDP per capita	5.04	3.82	0.14	20.22	1499
Total Trade	0.06	0.03	0	0.22	1443
Trade Balance	-3.83	10.81	-77.02	45.26	1443
IMF Program	0.19	0.41	0	2	1522
log Debt	1.83	1.07	-1.97	4.31	419

Table A-2: Foreign Debt and Financial Policy (SUR)

	(1)	(2)	(3)	(4)	(5)	(6)
<b>Dependent Variable: Inflow Openness</b>						
Labor Rights × Polity	-0.0211 (0.0222)	0.0855*** (0.0162)	0.00361 (0.0320)	0.0198 (0.0321)	0.0107 (0.0181)	0.00960 (0.0181)
Labor Rights	0.0753 (0.155)	0.109 (0.125)	1.093*** (0.252)	0.745*** (0.261)	0.284* (0.147)	0.327** (0.147)
Polity	0.760*** (0.146)	-0.434*** (0.111)	-0.0893 (0.176)	-0.0919 (0.176)	-0.0109 (0.0989)	-0.0130 (0.0989)
log Debt			-1.406*** (0.350)	-1.276*** (0.351)	-0.227 (0.199)	-0.269 (0.199)
lag Inflow Openness					0.784*** (0.0253)	0.761*** (0.0253)
Outflow Openness		0.718*** (0.0132)	0.856*** (0.0246)	0.766*** (0.0297)	0.161*** (0.0230)	0.187*** (0.0231)
Trade Balance		-0.109*** (0.0220)	-0.148*** (0.0410)	-0.187*** (0.0417)	-0.0760*** (0.0241)	-0.0758*** (0.0241)
log GDP		-1.179*** (0.173)	-0.929*** (0.313)	-1.272*** (0.319)	-0.138 (0.187)	-0.141 (0.187)
GDP per capita		-0.212** (0.0900)	-0.515*** (0.127)	-0.449*** (0.128)	-0.236*** (0.0720)	-0.248*** (0.0720)
Total Trade		-4.770 (7.450)	-20.14** (9.909)	-24.87** (9.948)	-1.245 (5.673)	-1.525 (5.673)
IMF Program		-0.100 (0.509)	0.584 (0.852)	0.654 (0.852)	-0.300 (0.480)	-0.278 (0.480)
Constant	20.55*** (1.810)	21.27*** (2.667)	13.07** (5.188)	21.17*** (5.401)	3.437 (3.189)	3.254 (3.189)
<b>Dependent Variable: Outflow Openness</b>						
Labor Rights × Polity	-0.153*** (0.0262)	-0.117*** (0.0206)	0.0133 (0.0355)	0.00576 (0.0324)	-0.0120 (0.0201)	-0.00745 (0.0275)
Labor Rights	-0.600*** (0.183)	-0.366** (0.159)	-1.522*** (0.268)	-1.113*** (0.265)	-0.220 (0.164)	-0.573** (0.229)
Polity	1.778*** (0.173)	0.722*** (0.140)	0.0916 (0.195)	-0.101 (0.164)	0.149 (0.110)	-0.0140 (0.138)
log Debt			1.621*** (0.387)	-0.0522 (0.372)	0.0582 (0.222)	-0.444 (0.316)
lag Outflow Openness					0.786*** (0.0253)	0.517*** (0.0331)
Inflow Openness		1.166*** (0.0214)	1.056*** (0.0303)	0.894*** (0.0344)	0.197*** (0.0284)	0.422*** (0.0373)
Trade Balance		0.117*** (0.0282)	0.115** (0.0467)	-0.0665 (0.0501)	-0.0443 (0.0270)	-0.0936** (0.0433)
log GDP		1.004*** (0.225)	0.618* (0.355)	6.127*** (2.108)	0.203 (0.207)	3.351* (1.887)
GDP per capita		0.372*** (0.114)	0.613*** (0.140)	0.161 (0.296)	0.0781 (0.0806)	-0.0462 (0.261)
Total Trade		3.765 (9.494)	16.24 (11.09)	-72.41*** (22.77)	6.069 (6.270)	-41.39** (20.44)
IMF Program		0.390 (0.648)	-0.543 (0.947)	0.630 (0.617)	0.0318 (0.531)	0.559 (0.498)
Constant	21.53*** (2.141)	-16.73*** (3.513)	-5.214 (5.884)	-58.47** (25.60)	-2.703 (3.546)	-29.79 (22.80)
Observations	1522	1425	415	415	415	415

Robust standard errors, clustered by country, are in parentheses, \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ . All models include year dummies. Column 2 introduces a set of common controls, as well as a control for the other type of openness. Column 3 controls for log debt. Column 4 adds country fixed effects. Column 5 adds the lagged dependent variable, and Column 6 includes country fixed effects and the lagged dependent variable.



Table A-3: Foreign Debt and Financial Policy, Labor Rights Only (SUR)

	(1)	(2)	(3)	(4)	(5)	(6)
<b>Dependent Variable: Inflow Openness</b>						
Labor Rights	0.0764 (0.163)	0.240* (0.124)	1.113*** (0.206)	0.971*** (0.224)	0.349*** (0.119)	0.384*** (0.119)
Outflow Openness		0.735*** (0.0126)	0.855*** (0.0221)	0.868*** (0.0261)	0.169*** (0.0223)	0.193*** (0.0224)
Trade Balance		-0.104*** (0.0221)	-0.147*** (0.0410)	-0.0139 (0.0482)	-0.0728*** (0.0239)	-0.0731*** (0.0239)
log GDP		-1.053*** (0.173)	-0.852*** (0.302)	-2.027 (2.146)	-0.126 (0.182)	-0.129 (0.182)
GDP per capita		-0.224*** (0.0835)	-0.575*** (0.115)	0.325 (0.295)	-0.208*** (0.0660)	-0.225*** (0.0660)
Total Trade		-0.929 (7.464)	-17.76* (9.700)	66.99*** (23.22)	-2.101 (5.580)	-2.216 (5.580)
IMF Program		-0.228 (0.517)	0.538 (0.855)	-0.553 (0.575)	-0.288 (0.480)	-0.269 (0.480)
log Debt			-1.493*** (0.344)	0.447 (0.366)	-0.204 (0.196)	-0.251 (0.196)
lag Inflow Openness					0.786*** (0.0252)	0.763*** (0.0252)
Constant	19.40*** (1.906)	18.32*** (2.664)	12.21** (4.917)	2.091 (25.57)	2.654 (3.019)	2.561 (3.019)
<b>Dependent Variable: Outflow Openness</b>						
Labor Rights	-0.658*** (0.196)	-0.508*** (0.156)	-1.437*** (0.223)	-1.119*** (0.242)	-0.256* (0.134)	-0.616*** (0.194)
Inflow Openness		1.176*** (0.0202)	1.091*** (0.0283)	1.024*** (0.0308)	0.204*** (0.0282)	0.422*** (0.0371)
Trade Balance		0.107*** (0.0282)	0.129*** (0.0475)	-0.0436 (0.0523)	-0.0400 (0.0269)	-0.0897** (0.0425)
log GDP		0.880*** (0.224)	0.624* (0.349)	4.081* (2.312)	0.145 (0.201)	3.250* (1.870)
GDP per capita		0.465*** (0.104)	0.732*** (0.126)	-0.238 (0.322)	0.147** (0.0738)	-0.0241 (0.256)
Total Trade		-1.869 (9.445)	13.54 (11.05)	-86.24*** (24.91)	3.799 (6.193)	-42.64** (20.20)
IMF Program		0.571 (0.654)	-0.497 (0.967)	0.784 (0.623)	0.0751 (0.533)	0.539 (0.496)
log Debt			1.788*** (0.384)	-0.544 (0.397)	0.151 (0.219)	-0.446 (0.316)
lag Outflow Openness					0.792*** (0.0248)	0.516*** (0.0330)
Constant	20.69*** (2.304)	-14.50*** (3.461)	-6.961 (5.673)	-24.51 (27.70)	-2.352 (3.357)	-27.86 (22.33)
Observations	1547	1450	416	416	416	416

Robust standard errors, clustered by country, are in parentheses, \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ . All models include year dummies. Column 2 introduces a set of common controls, as well as a control for the other type of openness. Column 3 controls for log debt. Column 4 adds country fixed effects. Column 5 adds the lagged dependent variable, and Column 6 includes country fixed effects and the lagged dependent variable.

Table A-4: Sample Limited to Debt Coverage (SUR)

	(1)	(2)	(3)	(4)
<b>Dependent Variable: Inflow Openness</b>				
Labor Rights × Polity	0.0135 (0.0323)	-0.0183 (0.0318)	0.0124 (0.0181)	0.0115 (0.0181)
Labor Rights	1.058*** (0.255)	0.993*** (0.262)	0.270* (0.147)	0.315** (0.147)
Polity	-0.192 (0.176)	0.199 (0.159)	-0.0262 (0.0981)	-0.0315 (0.0981)
lag Inflow Openness			0.790*** (0.0251)	0.767*** (0.0251)
Outflow Openness	0.847*** (0.0248)	0.866*** (0.0260)	0.154*** (0.0227)	0.180*** (0.0227)
Trade Balance	-0.203*** (0.0392)	-0.000651 (0.0478)	-0.0840*** (0.0230)	-0.0855*** (0.0230)
log GDP	-0.704** (0.312)	-2.439 (2.126)	-0.0982 (0.184)	-0.0939 (0.184)
GDP per capita	-0.645*** (0.125)	0.317 (0.301)	-0.253*** (0.0702)	-0.269*** (0.0702)
Total Trade	-21.74** (10.02)	63.08*** (23.19)	-1.361 (5.684)	-1.682 (5.685)
IMF Program	0.329 (0.860)	-0.558 (0.576)	-0.346 (0.479)	-0.332 (0.479)
Constant	10.16* (5.203)	7.719 (25.55)	2.948 (3.162)	2.648 (3.162)
<b>Dependent Variable: Outflow Openness</b>				
Labor Rights × Polity	0.00310 (0.0361)	0.0197 (0.0346)	-0.0124 (0.0200)	-0.00629 (0.0275)
Labor Rights	-1.515*** (0.274)	-1.142*** (0.284)	-0.215 (0.164)	-0.553** (0.229)
Polity	0.212 (0.197)	-0.214 (0.173)	0.153 (0.108)	-0.0231 (0.138)
lag Outflow Openness			0.790*** (0.0246)	0.520*** (0.0332)
Inflow Openness	1.060*** (0.0310)	1.027*** (0.0309)	0.193*** (0.0280)	0.420*** (0.0373)
Trade Balance	0.176*** (0.0455)	-0.0595 (0.0518)	-0.0435* (0.0260)	-0.108** (0.0422)
log GDP	0.333 (0.354)	4.596** (2.293)	0.190 (0.204)	3.861** (1.858)
GDP per capita	0.772*** (0.137)	-0.228 (0.328)	0.0804 (0.0788)	-0.0339 (0.262)
Total Trade	17.83 (11.30)	-81.62*** (24.98)	6.034 (6.268)	-37.23* (20.27)
IMF Program	-0.243 (0.963)	0.787 (0.626)	0.0447 (0.529)	0.550 (0.499)
Constant	-1.243 (5.903)	-31.44 (27.71)	-2.521 (3.519)	-36.45 (22.37)
Observations	415	415	415	415

Robust standard errors, clustered by country, are in parentheses, \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ . The sample is restricted to the observations that are present once debt is included in the model. Comparing the results here to the results that include log debt (Columns 3-6, Table A-2) reveals that it is not the control for log debt alone that changes the results. The restriction of the sample when debt is included causes the interaction to lose significance and increases the significance of the constitutive coefficient on labor rights. Models include year dummies and controls for the other type of openness. Column 2 includes country fixed effects. Column 3 includes lagged dependent variables. Column 4 includes country fixed effects and lagged dependent variables.

Table A-5: Press Freedom and Financial Policy (SUR)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<b>Dependent Variable: Inflow Openness</b>								
Labor Rights $\times$ Polity	0.0929*** (0.0198)	0.0561*** (0.0182)	0.0218** (0.00914)	0.0300*** (0.0112)	0.0825*** (0.0196)	-0.000447 (0.0181)	0.0265** (0.0105)	0.0103 (0.0142)
Labor Rights	0.313** (0.146)	-0.187 (0.147)	0.0130 (0.0670)	-0.0222 (0.0908)	0.246* (0.147)	0.232 (0.146)	0.0170 (0.0795)	0.205* (0.115)
Polity	-0.456*** (0.130)	-0.150 (0.129)	-0.0942 (0.0598)	-0.144* (0.0797)	-0.778*** (0.128)	0.168 (0.116)	-0.163** (0.0686)	0.0458 (0.0911)
Outflow Openness	0.720*** (0.0153)	0.735*** (0.0196)	0.0570*** (0.0105)	0.161*** (0.0155)	0.786*** (0.0154)	0.836*** (0.0187)	0.104*** (0.0138)	0.464*** (0.0203)
Press Freedom					-0.117*** (0.0202)	-0.0864*** (0.0193)	-0.0184* (0.0111)	-0.0423*** (0.0154)
Trade Balance	-0.133*** (0.0239)	0.0185 (0.0270)	-0.0221** (0.0112)	0.00883 (0.0173)	-0.0834*** (0.0257)	0.0213 (0.0258)	-0.00741 (0.0139)	0.0170 (0.0204)
log GDP	-0.928*** (0.216)	0.335 (1.240)	-0.135 (0.101)	0.281 (0.777)	-0.313 (0.206)	-4.840*** (1.371)	-0.106 (0.113)	-3.650*** (1.079)
GDP per capita	-0.464*** (0.122)	-0.147 (0.285)	-0.0349 (0.0561)	-0.114 (0.180)	-0.463*** (0.100)	0.847*** (0.239)	-0.143*** (0.0536)	0.648*** (0.187)
Total Trade	-13.66 (8.715)	0.0912 (11.71)	-3.072 (4.023)	2.635 (7.465)	-2.006 (8.024)	-10.28 (12.39)	2.778 (4.285)	-1.497 (9.765)
IMF Program	-0.308 (0.605)	-0.827* (0.433)	-0.220 (0.276)	-0.476* (0.268)	0.359 (0.629)	-0.420 (0.374)	-0.126 (0.335)	-0.382 (0.293)
lag Inflow Openness			0.899*** (0.0134)	0.753*** (0.0178)			0.851*** (0.0169)	0.424*** (0.0215)
Constant	18.65*** (3.186)	11.83 (11.07)	2.880* (1.529)	1.804 (6.932)	17.98*** (3.321)	59.55*** (12.82)	4.390** (1.934)	40.65*** (10.07)
<b>Dependent Variable: Outflow Openness</b>								
Labor Rights $\times$ Polity	-0.116*** (0.0253)	-0.0602*** (0.0209)	-0.00135 (0.0114)	-0.00257 (0.0139)	-0.106*** (0.0237)	0.00681 (0.0202)	-0.00171 (0.0120)	0.0140 (0.0159)
Labor Rights	-0.515*** (0.185)	0.328* (0.168)	-0.0643 (0.0831)	0.150 (0.111)	-0.488*** (0.176)	-0.316* (0.162)	-0.147 (0.0903)	-0.207 (0.128)
Polity	0.668*** (0.165)	0.156 (0.149)	0.0751 (0.0741)	0.0322 (0.0979)	1.000*** (0.154)	-0.211 (0.129)	0.117 (0.0784)	-0.117 (0.102)
Press Freedom					0.121*** (0.0250)	0.0766*** (0.0217)	0.0242* (0.0127)	0.0494*** (0.0173)
Inflow Openness	1.170*** (0.0248)	0.975*** (0.0260)	0.0896*** (0.0166)	0.234*** (0.0219)	1.161*** (0.0227)	1.035*** (0.0232)	0.146*** (0.0191)	0.584*** (0.0252)
Trade Balance	0.148*** (0.0308)	-0.0853*** (0.0309)	0.00128 (0.0139)	-0.0169 (0.0212)	0.0823*** (0.0314)	-0.0529* (0.0285)	-0.00410 (0.0158)	-0.0225 (0.0229)
log GDP	0.764*** (0.278)	2.380* (1.424)	-0.0519 (0.125)	1.512 (0.952)	0.0775 (0.252)	6.460*** (1.512)	-0.172 (0.128)	3.336*** (1.212)
GDP per capita	0.687*** (0.154)	-0.00137 (0.328)	0.00677 (0.0697)	-0.177 (0.221)	0.611*** (0.121)	-0.826*** (0.267)	0.0218 (0.0614)	-0.323 (0.211)
Total Trade	10.20 (11.13)	-25.11* (13.44)	-3.366 (4.985)	-12.14 (9.143)	-0.888 (9.749)	2.257 (13.80)	0.637 (4.874)	4.815 (10.94)
IMF Program	0.561 (0.771)	1.140** (0.498)	-0.143 (0.343)	0.133 (0.329)	-0.271 (0.764)	0.522 (0.416)	-0.162 (0.382)	0.199 (0.329)
lag Outflow Openness			0.904*** (0.0131)	0.723*** (0.0189)			0.854*** (0.0156)	0.408*** (0.0212)
Constant	-14.89*** (4.164)	-37.27*** (12.66)	0.611 (1.895)	-18.36** (8.483)	-13.68*** (4.176)	-73.13*** (14.16)	1.888 (2.199)	-38.81*** (11.33)
Observations	1045	1045	1036	1036	849	849	849	849

Robust standard errors, clustered by country, are in parentheses, \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ . The first four columns restrict the sample to countries with a maximum press freedom score that is above the sample average ( $> 54$ ). The second four columns control for press freedom. Models include year dummies and controls. Columns 2 and 6 include country fixed effects. Columns 3 and 7 include lagged dependent variables. Columns 4 and 8 include country fixed effects and lagged dependent variables.

Table A-6: Full Sample (SUR)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>Dependent Variable: Inflow Openness</b>							
Labor Rights × Polity	0.0958*** (0.0154)	0.0103 (0.0108)	0.0331*** (0.0116)	-0.0621*** (0.0220)	0.0372*** (0.0122)	0.0130** (0.00541)	0.0175** (0.00749)
Labor Rights	0.655*** (0.125)	0.420*** (0.0868)	0.305*** (0.0988)	1.186*** (0.204)	-0.222** (0.105)	-0.0240 (0.0461)	-0.0688 (0.0645)
Polity	0.110 (0.111)	-0.0751 (0.0776)	-0.149* (0.0805)	0.108 (0.125)	-0.113 (0.0908)	-0.0276 (0.0374)	-0.0571 (0.0561)
Outflow Openness		0.776*** (0.00924)	0.757*** (0.00994)	0.877*** (0.0156)	0.744*** (0.0121)	0.0679*** (0.00731)	0.168*** (0.0100)
Trade Balance			-0.153*** (0.0177)	-0.142*** (0.0274)	0.0328 (0.0203)	-0.0261*** (0.00839)	0.00767 (0.0127)
log GDP			-0.531*** (0.121)	-0.191 (0.175)	-1.356** (0.666)	-0.110* (0.0570)	-0.565 (0.421)
GDP per capita			-0.00330 (0.0229)	0.0782*** (0.0272)	-0.0435 (0.0404)	0.00186 (0.0109)	-0.0111 (0.0250)
Total Trade			8.481** (3.945)	-0.371 (5.120)	1.655 (8.055)	1.369 (1.838)	1.504 (5.046)
IMF Program			0.264 (0.431)	0.936 (0.657)	-0.433 (0.322)	0.135 (0.200)	-0.0869 (0.198)
log Debt				-1.319*** (0.209)			
lag Inflow Openness						0.882*** (0.00895)	0.747*** (0.0117)
Constant	17.88*** (1.427)	3.772*** (1.007)	9.976*** (1.966)	-0.613 (3.036)	27.35*** (6.520)	3.312*** (0.934)	10.26** (4.121)
<b>Dependent Variable: Outflow Openness</b>							
Labor Rights × Polity	0.110*** (0.0189)	-0.000695 (0.0132)	-0.0358** (0.0144)	0.0859*** (0.0238)	-0.0538*** (0.0143)	0.00282 (0.00667)	-0.0124 (0.00921)
Labor Rights	0.302** (0.152)	-0.456*** (0.106)	-0.463*** (0.122)	-1.478*** (0.218)	0.345*** (0.123)	-0.142** (0.0566)	0.0660 (0.0792)
Polity	0.239* (0.136)	0.111 (0.0948)	0.244** (0.0991)	-0.141 (0.136)	0.186* (0.107)	0.0609 (0.0460)	0.140** (0.0688)
Inflow Openness		1.158*** (0.0138)	1.152*** (0.0151)	1.041*** (0.0185)	1.032*** (0.0168)	0.0928*** (0.0112)	0.232*** (0.0146)
Trade Balance			0.170*** (0.0220)	0.120*** (0.0303)	-0.0752*** (0.0238)	-0.00209 (0.0104)	-0.0268* (0.0156)
log GDP			0.452*** (0.151)	0.0140 (0.191)	3.156*** (0.780)	-0.103 (0.0703)	0.947* (0.516)
GDP per capita			0.0867*** (0.0280)	-0.0378 (0.0300)	-0.0336 (0.0476)	0.0202 (0.0134)	-0.00375 (0.0307)
Total Trade			-7.992 (4.872)	0.565 (5.576)	-3.198 (9.488)	-0.781 (2.262)	-7.544 (6.195)
IMF Program			-0.204 (0.531)	-0.856 (0.716)	0.608 (0.379)	0.0336 (0.246)	0.194 (0.244)
log Debt				1.481*** (0.226)			
lag Outflow Openness						0.887*** (0.00898)	0.733*** (0.0123)
Constant	18.19*** (1.744)	-2.515** (1.238)	-6.849*** (2.451)	6.025* (3.288)	-45.42*** (7.621)	2.393** (1.152)	-12.91** (5.060)
Observations	2502	2502	2379	1020	2379	2368	2368

Robust standard errors, clustered by country, are in parentheses, \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ . The sample includes high-income countries. All models include year dummies. Column 2 controls for the other type of openness. Column 3 introduces a set of common controls. Column 4 controls for log debt. Column 5 adds country fixed effects. Column 6 adds the lagged dependent variable, and Column 7 includes country fixed effects and the lagged dependent variable.

Table A-7: Correlation Matrix

	Labor Rights	Polity	Inflow Openness	Outflow Openness
Labor Rights	1.000			
Polity	-0.0886	1.000		
Inflow Openness	-0.119	0.384	1.000	
Outflow Openness	-0.205	0.407	0.740	1.000

The table reports correlation coefficients for the data used in the analyses.

Table A-8: Correlation Matrix

	Inflow Openness	Outflow Openness	lag Inflow Openness	lag Outflow Openness
Inflow Openness	1.000			
Outflow Openness	0.739	1.000		
lag Inflow Openness	0.953	0.715	1.000	
lag Outflow Openness	0.707	0.952	0.728	1.0000

The table reports correlation coefficients for the data used in the analyses.

Table A-9: Unit Root Tests

<b>Inflow Openness</b>		
	Time Trend	Panel Means
Breitung	-2.161 ( 0.015)	9.699 (1.000)
Harris-Tzavalis	0.770 (0.954)	0.876 (0.076)
Levin-Lin-Chu	1.492 (0.932)	-15.627 (0.000)
Dickey-Fuller	2.326 (0.990)	-6.548 (0.000)
<b>Outflow Openness</b>		
	Time Trend	Panel Means
Breitung	-1.796 (0.036)	7.560 (1.000)
Harris-Tzavalis	0.761 (0.873)	0.864 (0.007)
Levin-Lin-Chu	0.929 (0.824)	-7.899 (0.000)
Dickey-Fuller	1.294 (0.902)	-3.057 (0.001)

p-values reported in parentheses. All four tests reject the null hypothesis that there is a unit root when either a time trend is included or when the variables are demeaned. The Dickey-Fuller tests report the statistic for the inverse normal (the other statistics are significant as well in the demeaned test).