

The Macroeconomic Consequences of Democratic Transition: Learning Processes in the Third and Fourth Waves of Democratization

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This study examines trends in macroeconomic conditions during democratic transition, focusing especially on how these trends changed between the third and fourth waves of democratization. We first develop hypotheses postulating that the macroeconomic consequences of democratic transition changed diachronically in the late 1980s and early 1990s because of learning processes. We then test these hypotheses using multiple interrupted time series analysis in a panel of democratizing countries. Our findings support the learning-process hypotheses. Like other recent studies, these findings raise doubts about the value of universalistic theories of democratization.

Introduction

The global spread of democracy in the 1980s and 1990s produced considerable debate about how transitions to democracy affect macroeconomic conditions. Much of this debate focused on whether government officials in newly established democracies pursue politically driven economic policies aimed at strengthening popular support for their “fragile” new regimes, rather than on pragmatic policies aimed at promoting sustainable economic growth. The main concern fueling this debate was that this behavior, motivated by short-term political considerations, might have adverse macroeconomic consequences that would undermine these new democracies in the longer term.

During the 1990s, it became increasingly apparent that economic policymakers in new democracies were acting pragmatically and that these new democratic re-

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gimes generally were durable. As a result, concern about the macroeconomic consequences of democratic transition receded, and little empirical research has been carried out on this issue.

Although this benign view of the macroeconomic consequences of democratization may be justified, we believe that the issue must be studied more thoroughly. For one thing, while economic policymakers in new democracies may act pragmatically, several other groups of actors who have received less attention in the literature also influence the economies of democratizing countries. In particular, economic policymakers under outgoing authoritarian regimes, investors, and workers may act in ways that adversely affect macroeconomic conditions during democratic transition, perhaps threatening the survival of new democracies. We should therefore examine a broader range of actors in evaluating the macroeconomic consequences of democratization.

Moreover, the benign view of this issue that emerged in the 1990s may reflect favorable contextual conditions that prevailed at that time. An important branch of the democracy literature has identified various ways in which the causes and consequences of democratization have differed diachronically and across regions. If the macroeconomic consequences of democratization also have differed diachronically or regionally, the experiences of the 1990s may have been exceptional, and new democracies in the future may be less durable. We should therefore also examine diachronic and regional differences in the macroeconomic consequences of democratization.

We present in this article a statistical analysis of the macroeconomic consequences of democratic transition during the past few decades. We begin by reviewing several bodies of literature that focus on the economic behavior of various actors during democratic transition and on variations in the causes and consequences of democratic transition across regions and over time. We then develop and test a series of hypotheses postulating that policymakers under new democratic regimes, policymakers under outgoing authoritarian regimes, and investors learned from earlier democratic transitions and modified their behavior accordingly. As a result, we find diachronic change in the macroeconomic consequences of democratic transition during the period we study. We also consider two alternative explanations that might produce the diachronic change we find that provides important insight into the dynamics of democratization.

The Macroeconomics of Democratic Transition

Democracies are political regimes in which the most powerful positions in government are determined by free, competitive elections, and in which extensive political and civil liberties exist (Dahl, 1971). Democratic transition is the process through which a democratic regime is established in place of a nondemocratic regime. Scholars have identified several types of democratic regime, many types of partially democratic regime (Collier and Levitsky, 1997; Diamond, 2002), and several types of democratic transition (Munck and Leff, 1997). Although these various distinctions may well affect the macroeconomic consequences of democratic transition, it is beyond the scope of this article to explore their effects here. Rather, we examine the macroeconomic consequences of democratic transition in general, focusing only

on transitions to fully democratic regimes, and not distinguishing among the various types of democracy and democratic transition. Our emphasis is on the changing behavior of policymakers under new democratic regimes, policymakers under outgoing authoritarian regimes, and investors during the period when democracy spread rapidly throughout the world in the 1980s and 1990s.

The idea that new democracies are fragile—that they can easily break down, producing a return to authoritarianism—has been a prominent theme in the democracy literature. Juan Linz (1978) argued that policymakers in new democracies face strong pressure to demonstrate their efficacy and satisfy their supporters, leading them to pursue overly ambitious agendas that usually fail, sometimes producing democratic breakdown. Guillermo O'Donnell and Philippe C. Schmitter (1986) stressed the “extraordinary uncertainty” of democratization, implying that new democracies are insecure. Mitchell A. Seligson (1987) and Samuel P. Huntington (1991) argued that democracy has surged and then receded in a series of “cycles” or “waves,” implying that the rapid spread of democracy in the 1980s was tenuous. Considerable work emerged in the 1990s on “democratic consolidation” (Mainwaring, O'Donnell, and Valenzuela, 1992; Higley and Gunther, 1992; Diamond, 1999)—a concept predicated on the idea that new democracies are fragile.

Several scholars have taken this idea a step further, arguing that the fragility of new democratic regimes gives economic policymakers strong incentives to pursue “economic populist” measures (Dornbusch and Edwards, 1991), which increase popular support for these new regimes in the short term but undermine macroeconomic performance in the longer term (Weyland, 2002). John Sheahan (1986) argued that policymakers may unduly increase wages and employment, engage in protectionism, and restrict foreign investment to prop up new democracies. Stephan Haggard and Robert R. Kaufman (1989) argued that policymakers in new democracies may pursue expansionary fiscal and monetary policy to increase employment. Adam Przeworski (1991) argued that such policymakers often avoid undertaking politically difficult economic reforms. Some of these scholars later changed their positions (Haggard and Webb, 1994; Haggard and Kaufman, 1995), and others have argued that such actions are no more likely to occur in new democracies than under other circumstances (Remmer, 1990a; Van de Walle, 2001). The only large-sample empirical study of this issue found that macroeconomic performance is not significantly different in new democracies than in mature democracies (Gasiorowski, 2000).

Less attention has been paid to the behavior of other economic actors during democratic transition. O'Donnell and Schmitter (1986) and others (see Munck and Leff, 1997) have argued that officials under outgoing authoritarian regimes often negotiate “pacts” with the democratic opposition over the terms of democratization, typically trying to limit the scope and pace of democratic transition and protect their fate and prerogatives under the new regime. Haggard and Kaufman (1995) argued that since prevailing economic conditions very much affect the outcome of these negotiations, outgoing authoritarian leaders often pursue stimulative fiscal and monetary policy aimed at building support among key actors and thus improving their prospects. In the absence of pacts, outgoing authoritarian leaders may still have incentives to pursue economic stimulation, either to enhance their chances of remaining in power or to improve their legacies.

Although many scholars have examined the behavior of business leaders during democratic transition (Bartell and Payne, 1995), they have focused primarily on the political behavior of business leaders—mainly, whether or not they support democratization—rather than their economic behavior. However, two related bodies of literature suggest that business leaders may avoid investing in democratizing countries. Some scholars have argued that foreign investors prefer authoritarianism to democracy because they believe their investments will be more secure (Oneal, 1994; Haley, 2001). Others have argued that foreign investors avoid countries where they expect political instability or other sources of “political risk” (Manzocchi, 1999; Harms, 2000)—conditions that often occur during democratic transition. Domestic investors presumably have similar concerns.

The literature on democracy also has paid much attention to the behavior of workers and, more broadly, to the “popular sector” during democratic transition. As with business leaders, this literature has focused primarily on the political behavior of the popular sector, especially on how a “popular upsurge” can affect democratization (O’Donnell and Schmitter, 1986) and on the working class as an agent of democracy (Rueschemeyer, Stephens, and Stephens, 1992). An important exception is Haggard and Kaufman (1995), who argue that political liberalization may lead workers to hold strikes aimed at raising wages, which fuels inflation and thus undermines the viability of new democracies.

Another important branch of this literature emphasizes contextual rather than universalistic explanations and examines how the causes and consequences of democratization have varied diachronically and across regions. Seligson (1987), Karen L. Remmer (1990b), Huntington (1991), and others have argued that the conditions responsible for the “third wave” of democratization, which began in the mid-1970s and blossomed in the 1980s, were very different from those responsible for earlier waves. Mark J. Gasiorowski (1995) and Gasiorowski and Timothy J. Power (1998) found corroborating evidence, showing that inflation adversely affected the prospects for democratic transition and consolidation before the mid-1970s but not after. Similarly, Renske Doorenspleet (2002) found that the conditions affecting the “fourth-wave” democratic transitions of the 1990s were different from those affecting the third-wave transitions of the 1970s and 1980s. Scott Mainwaring and Aníbal Pérez-Liñán (2003) and Valerie Bunce (2000) argued that the conditions affecting democratization in Latin America and Eastern Europe were different from those operating elsewhere. Since the democratic transitions in these two regions occurred mainly during the third and fourth waves of democratization, respectively, these regional differences may account for some of the diachronic differences found by Doorenspleet.

In the same vein, some scholars have examined how the macroeconomic consequences of democratization have varied diachronically or across regions. Jonathan Kriekhaus (2004) found that democracy adversely affected economic growth in the 1960s, positively affected it in the 1980s, and had no effect in the 1970s and 1990s. He speculates that the change from a negative effect in the 1960s to a null or positive effect thereafter may have been due to the growing acceptance of neoliberal economic ideas, which were promoted by influential economists and international lending agencies in this period. Bunce (2001) argued that the new democracies of Eastern Europe were more successful in carrying out economic reform than those

of Latin America and Southern Europe because they had larger popular mandates and stronger commitments to reform. Since the former were established in the 1990s and most of the latter were established in the 1970s and 1980s, this implies that the macroeconomic consequences of democratization have varied not only across regions but also diachronically.

Learning Processes during Democratic Transition

The foregoing suggests that policymakers under outgoing authoritarian regimes, policymakers under new democratic regimes, investors, and workers may behave in ways that adversely affect macroeconomic conditions during democratic transition; and the behavior of these actors may vary diachronically and across regions.

We now present five hypotheses that also postulate that the macroeconomic consequences of democratic transition vary diachronically, though for reasons very different from those discussed above. We argue that *learning processes* took place in the late 1980s and early 1990s: economic actors in countries undergoing democratic transition during this period observed how their counterparts had fared during earlier transitions elsewhere and therefore behaved differently during transitions in their own countries. Our hypotheses clarify the dynamics and macroeconomic consequences of these learning processes. Since appropriate wage data are not available, our hypotheses focus only on the behavior of the first three of our four groups of economic actors.¹

H₁: Policymakers under outgoing authoritarian regimes during the latter part of the period under study (1960–1998) observed that their counterparts had been removed from power easily and often suffered retribution after earlier democratic transitions elsewhere. As a result, they were more likely than their earlier counterparts to engage in economic populism to strengthen their grip on power or improve their prospects under the new regime. Consequently, stimulative fiscal and monetary policy were more likely to occur before and during democratic transitions in the latter part of the period we studied than in the earlier part of this period.

H₂: Policymakers under new democratic regimes during the latter part of the period we studied observed that almost all of the new democracies established elsewhere had survived and flourished, despite initial concerns about their fragility. As a result, they were less likely than their earlier counterparts to engage in economic populism to strengthen popular support for these new democracies. Consequently, stimulative fiscal and monetary policy were less likely to occur after democratic transitions in the latter part of the period we studied than in the earlier part of this period.

H₃: Investors during the latter part of the period we studied observed that political instability and other sources of risk had been limited and investments remained secure during earlier democratic transitions. As a result, they were more likely than their earlier counterparts to invest in countries undergoing democratic transition. Consequently, investment levels were less likely to fall before, during, and after democratic transitions in the latter part of the period we studied than in the earlier part of this period.

The learning processes embodied in these hypotheses are quite simple: economic actors in later-democratizing countries observed how earlier democratic transitions

elsewhere had affected people in similar positions and chose to behave differently from these people to improve their own well-being. These learning processes therefore are based on observation and rational calculation, rather than the hegemonic influence of powerful third parties, competition with other countries, or “social emulation” based on incomplete knowledge, which have driven other international learning and diffusion processes (Weyland, 2004; Simmons, Dobbin, and Garrett, forthcoming).² Under H_3 , the rational calculations of our actors—investors—are based on personal interests: earning profits while avoiding undue risk. Under H_1 and H_2 , the rational calculations of our actors—policymakers under outgoing authoritarian regimes and new democratic regimes, respectively—are based similarly on personal interests: their own political survival. However, since their political survival is closely connected with that of the authoritarian or democratic regimes they are associated with, these actors behave in ways that also affect the survival of these regimes.

Since learning processes are most likely to occur among similar countries (Weyland, 2004), we believe that the effects embodied in these hypotheses took place primarily *within* the major geographic regions that experienced democratization during the period we studied: Southern Europe, Latin America, East Asia, Eastern Europe, and Sub-Saharan Africa. Within these regions, the democratic transitions that culminated in Greece in 1974, Argentina in 1983, the Philippines in 1986, Poland in 1990, and South Africa in 1994 were particularly noteworthy, leading many regional actors to view democracy not only as an important normative goal but also as a powerful, stabilizing force. The transitions in these five countries therefore probably were especially influential in persuading our three groups of economic actors to change their behavior in the ways specified in H_1 - H_3 . However, democratization became a very prominent global issue in the 1980s and 1990s, so these learning processes also probably transcended regional boundaries to some degree. We believe that economic actors in Eastern Europe and Africa, especially, were influenced not only by earlier transitions in their own regions but also by those in other regions, mainly Latin America and East Asia. In any case, neither our hypotheses nor our empirical analyses consider the spatial character of these learning processes.

Our first three hypotheses postulate that certain macroeconomic variables—the fiscal budget, the money supply, and the investment rate—were more likely to be affected by democratic transition in one part of the period from 1960 to 1998 than in another part. In each case, the enhanced effects on these variables were inherently *temporary*, lasting until the time of transition (H_1), fragility (H_2), or political risk (H_3) ended. Since we postulate that these enhanced effects were temporary, they should produce U-shaped or inverted-U-shaped patterns in our variables, rather than J-shaped or step-function patterns. We cannot say *a priori* exactly when the inflection points in these U-shaped patterns occurred, though our hypotheses imply that they occurred during specific intervals in the period surrounding democratic transition; and we expect that these U-shaped patterns each lasted for several years. Fortunately, the analytical methods we use below do not require us to specify the exact shapes of these patterns or when they began and ended. Finally, we expect that the economic populism featured in H_1 and H_2 was manifested more in fiscal

than in monetary policy since some countries have independent central banks that leave monetary policy autonomous from political influences of this sort.

Our two remaining hypotheses examine how the learning processes experienced by our three groups of economic actors *indirectly* affected inflation and economic growth because of their *direct* effects on fiscal and monetary policy and investment, as embodied in H_1 through H_3 .

H_4 : It follows from H_1 and H_2 that higher inflation was more likely to occur after democratic transitions during the early part of the period we studied and before and during democratic transitions during the latter part of this period.

H_5 : The fiscal and monetary stimulation postulated in H_1 and H_2 and the higher inflation postulated in H_4 produce brief periods of faster economic growth, followed by longer periods of slower growth. As implied by these hypotheses, this pattern was more likely to occur after democratic transitions during the early part of the period we studied and before democratic transitions during the latter part of this period. The lower investment levels postulated in H_3 were more likely to produce slower growth before, during, and after democratic transitions in the early part of the period. Consequently, of the various periods under consideration, economic growth was likely to be slowest after democratic transitions in the early part of the period, when both of these effects were operating, and fastest after democratic transitions in the latter part of this period, when neither effect was operating.

The higher post-transition inflation during the early part of the study period and higher pre-transition inflation during the latter part of this period embodied in H_4 should follow inverted U-shaped patterns, reflecting the U-shaped and inverted U-shaped fiscal and monetary patterns embodied in H_1 and H_2 . It is hard to say precisely what pattern the effects embodied in H_5 should produce, since this depends on the timing and magnitude of the various fiscal, monetary, inflation, and investment mechanisms involved. However, we expect they will produce roughly a U-shaped pattern of slower economic growth after democratic transitions in the early part of the period and roughly an inverted U-shaped pattern of faster growth after democratic transitions in the latter part of this period. As with H_1 through H_3 , we cannot say *a priori* exactly when the inflection points in these patterns occurred, though our hypotheses imply that they occurred during specific intervals and lagged a year or two behind the corresponding inflections in the fiscal, monetary, inflation, and investment patterns. Again, these effects are inherently temporary, so the inflation and economic growth rates should eventually return to their previous levels. In addition, since the learning processes underlying our hypotheses directly affect fiscal and monetary policy and investment (hypotheses H_1 - H_3) and only indirectly affect inflation and growth (hypotheses H_4 - H_5), we expect that these latter effects are considerably weaker than the former.

Finally, we cannot say *a priori* exactly when the diachronic changes embodied in these five hypotheses occurred. We believe that they occurred mainly in the late 1980s and very early 1990s, as economic actors observed the consequences of the many democratic transitions that had occurred in the preceding years, both in their own regions and elsewhere. The learning processes engendered by these transitions undoubtedly occurred gradually and differed somewhat across actors and countries in their pace and timing. Rather than speculate about the aggregate contours of

these diverse learning processes, we simply test whether the macroeconomic trends associated with third-wave democratic transitions (of the 1970s and 1980s) differed from those associated with fourth-wave transitions (of the 1990s) in ways that are consistent with our hypotheses.

Research Design

Each of our hypotheses postulates that democratic transition leads certain economic actors to behave in ways that temporarily affect certain macroeconomic variables, with these effects more likely to occur either in the early or the latter part of the 1960–1998 period. Each effect takes the form of a U-shaped or inverted U-shaped curve, beginning and ending within a few years of the date of transition. To test these hypotheses, we use a panel research design in which annual time series of macroeconomic variables from a cross-sectional sample of countries are stacked on top of one another and analyzed jointly. We use statistical techniques to test whether the appropriate U-shaped or inverted U-shaped curves are manifested in the appropriate macroeconomic variables.

To test these hypotheses we use the following five dependent variables:

$$\begin{aligned} \text{Fiscal Budget}_{i,y} &= (\text{Government Revenue}_{i,y} - \text{Government Expenditure}_{i,y}) / \text{GDP}_{i,y} \\ \text{Money Supply}_{i,y} &= \text{M2}_{i,y} / \text{GDP}_{i,y} \\ \text{Investment}_{i,y} &= \text{Gross Fixed Capital Formation}_{i,y} / \text{GDP}_{i,y} \\ \text{Inflation}_{i,y} &= (\text{Percent Growth of GDP Deflator}_{i,y} / 100) / (1 + \text{Percent Growth of GDP Deflator}_{i,y} / 100) \\ \text{GDP Growth}_{i,y} &= \text{Percent Growth of Real GDP}_{i,y} \end{aligned}$$

where i and y identify country and calendar year, GDP is gross domestic product, and M2 is the common measure of money supply size. The transformation featured in our inflation measure is a standard method of reducing skew. We constructed all of these variables with data from

World Bank (2001). We use multiple interrupted time series analysis (Lewis-Beck, 1986) to test whether the expected patterns are manifested in our dependent variables. To use this technique, we first construct dummy variables that identify each of the distinct time periods embodied in the particular pattern we are testing. We then regress the dependent variable on all but one of these dummy variables, together with appropriate control variables. The regression coefficient of each dummy variable gives the vertical distance between the segment of the curve corresponding to that dummy variable and the segment corresponding to the omitted dummy variable; the coefficient's significance level indicates whether this distance is statistically significant. For example, to test whether democratic transition has a U-shaped effect on investment with inflection points two years before and after the year of transition, we would regress the investment variable on dummy variables identifying the time periods before and after the five-year period surrounding transition. If these dummy variables are positive and significant, we can infer that investment declines significantly before democratic transition and increases significantly afterwards. By replacing one of these dummy variables with a dummy variable identifying the five-year period surrounding transition, we can also test whether

investment eventually returned to its previous level, i.e., whether the effect had a U shape, a J shape, or a step shape of some sort.

The U-shaped patterns embodied in our hypotheses are all specified in relation to the date of democratic transition. To construct our dummy variables, we need to identify the dates at which democratic transition occurred in the countries we examine. We obtained these dates from an updated version of Gasiorowski's (1996) *Political Regime Change Dataset*, developed by Gary Reich (2002), which extends Gasiorowski's data through 1998 and adds developed and former Soviet-bloc countries.³ This dataset gives the dates of all democratic transitions that occurred in countries with populations of at least one million in 1980.⁴ The only other large panel datasets that explicitly identify dates of democratic transition are those developed by Przeworski, et al. (2000) and Doorenspleet (2000). We chose not to use these datasets for two reasons. First, unlike the Gasiorowski/Reich dataset, they are based on definitions of democracy that do not encompass civil and political liberties (see Munck and Verkuilen, 2001),⁵ leading them to make many dubious classifications.⁶ Second, these two datasets end in 1990 and 1994, respectively, so they do not include many fourth-wave democratic transitions.

We used the dates of democratic transition in the Gasiorowski/Reich dataset to create the counting variable *Transition Year*_{*i,y*}, which gives the number of years before or after the year of transition for each country *i* and calendar year *y* appearing in our dataset. (Transition Year_{*i,y*} has negative values in pre-transition years.) We then used this counting variable to identify time intervals before, during, and after democratic transition by creating a series of dummy variables *Interval*_{*a,b*}, which have values of 1 for country *i* in calendar year *y* if $a \leq \text{Transition Year}_{i,y} \leq b$ and 0 otherwise. Thus, the dummy variable mentioned above identifying the five-year interval surrounding democratic transition is *Interval*_{-2,2}, with a value of 1 if $-2 \leq \text{Transition Year}_{i,y} \leq 2$ and 0 otherwise. In addition, we use the expression "transition year *a*" to refer to the calendar year that falls "*a*" years after a democratic transition (note that "*a*" can have positive or negative values); and we use "transition interval_{*a,b*}" to refer to the time interval from transition year *a* through transition year *b*, which is also identified with the dummy variable *Interval*_{*a,b*}.

These dummy variables are the key explanatory variables in our analyses. We also include control variables in each of our regressions to improve model specification. In all of our models, we include lagged dependent variables, which are powerful predictors of the current values. We also include in the Fiscal Budget models GDP Growth_{*i,y-1*} and Inflation_{*i,y-1*}, since the rates of economic growth and inflation generally affect government revenue and expenditure. In the Money Supply models, we include GDP Growth_{*i,y-1*} and Inflation_{*i,y-1*}, since policymakers generally adjust the money supply in response to changing growth and inflation rates. In the Investment models, we include *World Investment*_{*y*} (defined as World Gross Fixed Capital Formation_{*y*}/World GDP_{*y*}), GDP Growth_{*i,y-1*}, and Inflation_{*i,y-1*}, which we use as a proxies for the attractiveness of the global and domestic investment climates. In the Inflation models we include *World Inflation*_{*y*} (defined as the annual change in the World GDP Deflator_{*y*}) and GDP Growth_{*i,y-1*} to control for external and domestic cyclical effects on inflation. Finally, in the GDP Growth models, we include *World GDP Growth*_{*y*} and Inflation_{*i,y-1*} to control for external and domestic cyclical effects on the GDP growth rate. Since GDP growth rates and other macroeconomic vari-

ables vary somewhat by region, we also include dummy variables identifying the main geographic regions in each regression.⁶

In choosing these control variables, we include controls that are theoretically relevant (as explained above) and increase the explanatory power of our models, but do not substantially reduce our sample sizes.⁷ We sought especially to control for domestic and global economic conditions that might differ substantially between the third and fourth waves of democratization and therefore confuse the effects of the learning processes. The R^2 s are high in all of our regressions, except those focusing on economic growth (see Table 5 on page 53), suggesting that our control variables are adequate.

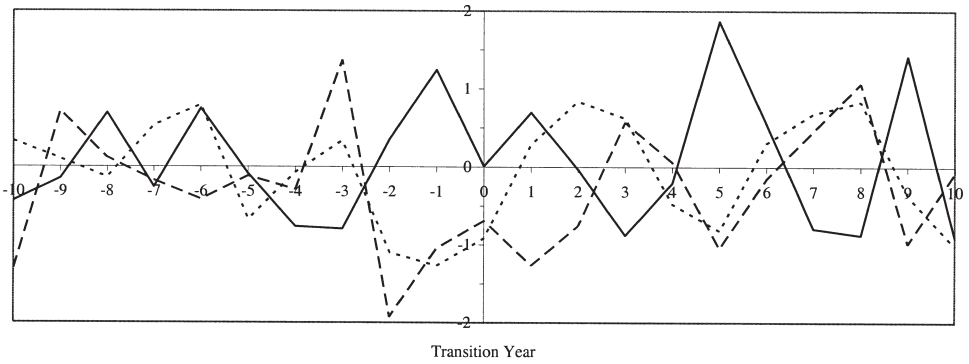
To prevent changes in our sample from affecting our results, we carried out our primary analyses on a dataset containing only those observations with no missing values for *any* of our dependent and explanatory variables. This “uniform sample” dataset contains 605 “country-year” observations from 42 democratizing countries. Eighteen of these transitions occurred during the third wave and 24 occurred during the fourth wave, which we date from the October 1989 transition in Hungary. To examine the robustness of these uniform-sample findings, we also ran each of our regression models on the “full sample,” consisting of all observations in the dataset, with no missing values for the dependent and explanatory variables appearing in that particular model. See the Appendix for a list of countries appearing in our uniform sample and our largest full sample.⁸

We estimated all of our panel regression models using the panel-corrected standard errors estimation technique developed by Nathaniel Beck and Jonathan N. Katz (1995; see also Beck, 2001). This technique corrects for panel heteroskedasticity and both contemporaneously correlated and serially correlated error terms, making it superior to other panel-regression estimation techniques. We estimated our models with the Stata 8.0 software package, using its options for panel-specific serial correlation and pair-wise estimation of covariance matrices. We report 1-tailed t -tests of the significance of our coefficients, since we are testing whether the dependent variable is higher in one transition interval than in another.

Analysis

As discussed above, we cannot exactly say *a priori* when during the period surrounding democratic transition the various effects postulated in hypotheses H₁-H₅ began and ended. We therefore began with an exploratory analysis that involved visually examining the trends in our dependent variables. We could have done this by plotting the averages of these variables for each value of Transition Year, but this would not have incorporated the effects of our control variables and estimation technique. Instead, we estimated multiple interrupted time series models for each dependent variable that included the 21 dummy variables $\text{Interval}_{t,t}$ for each value t of Transition Year from -10 through 10 , together with our control variables. The coefficients of these dummy variables give the vertical distance between the height of the dependent variable in each of these 21 transition years and its height in the combined period below transition year -10 and above transition year 10 , incorporating the effects of our control variables and estimation technique. Plotting these coefficients shows the patterns in our dependent variables during the period sur-

Figure 1
Macroeconomic Trends during Third Wave Democratic Transitions

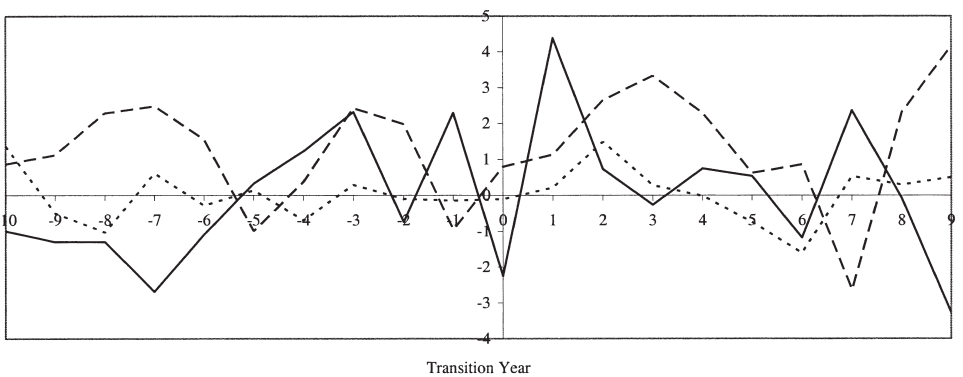


rounding democratic transition, enabling us to determine which transition intervals to examine more rigorously. Figures 1 and 2 present these plots for our Fiscal Budget, Money Supply, and Investment variables, estimated with the third-wave and fourth-wave uniform samples.

Fiscal Policy

In the third-wave sample shown in Figure 1, Fiscal Budget (the solid line) appears to be higher in transition interval $_{-2,1}$ and lower in transition interval $_{2,4}$, after which it fluctuates erratically. These trends suggest a four-year, inverted U-shaped period of fiscal restraint, starting in the pre-transition period and continuing into the first post-transition year, followed by a three-year, U-shaped period of fiscal stimulation in the post-transition period. (Positive values of Fiscal Budget imply fiscal restraint; negative values imply fiscal stimulation.) In the fourth-wave sample shown in Figure 2, Fiscal Budget appears to be generally lower in transition interval $_{-2,0}$ and higher in transition interval $_{1,7}$, though it is very erratic in both periods. These trends sug-

Figure 2
Macroeconomic Trends during Fourth Wave Democratic Transitions



gest a three-year, U-shaped period of fiscal stimulation in the pre-transition and transition periods, followed by a seven-year, inverted U-shaped period of fiscal restraint in the post-transition period.

Table 1 reports multiple interrupted time series regressions that examine these patterns more rigorously. Regressions for third-wave democratic transitions are shown on the left; those for fourth-wave transitions are on the right. The columns on the left of each side list the key explanatory variables in each regression, including control variables, a series of dummy variables $\text{Interval}_{a,b}$, and a constant term. For brevity, we have omitted our regional dummy variables, which are of no substantive interest. The $\text{Interval}_{E,-6}$ and $\text{Interval}_{5,L}$ variables in the third-wave models identify the time intervals from the “earliest” transition year in our sample to transition year -6 and from transition year 5 to the “last” transition year, respectively. In each model, the omitted $\text{Interval}_{a,b}$ variable identifies which transition interval the other dummy variables are measured against. The columns labeled “Uniform Sample” and “Full Sample” show regression coefficients estimated on the uniform sample and full sample described above, together with their standard errors (beneath them in parentheses) and indications of their statistical significance. The R^2 and number of observations for each regression are shown below. Tables 2 through 5 use the same format.

In Models 1 and 3, the coefficients of each $\text{Interval}_{a,b}$ dummy variable give the vertical distance in Fiscal Budget between transition interval a,b and transition interval $-2,1$. The coefficients of $\text{Interval}_{-5,-3}$ and $\text{Interval}_{2,4}$ in these models are all negative and statistically significant, indicating that Fiscal Budget is higher during transition interval $-2,1$ than in the previous and subsequent intervals, as suggested in Figure 1.

The $\text{Interval}_{-5,-3}$ and $\text{Interval}_{2,4}$ coefficients in both models are similar in magnitude, suggesting that the increase during transition interval $-2,1$ may follow an inverted U-shaped pattern. To test this, we replaced $\text{Interval}_{2,4}$ with $\text{Interval}_{-2,1}$ in Models 2 and 4. The coefficients of $\text{Interval}_{-5,-3}$ in these models are both insignificant, showing that Fiscal Budget is not significantly lower (or higher) in transition interval $-5,-3$ than in transition interval $2,4$. Fiscal Budget does follow an inverted U-shaped pattern during transition interval $-2,1$, rising and falling by similar amounts at the beginning and end of this period. The coefficient of $\text{Interval}_{5,L}$ in Model 1 is negative but only very marginally significant ($p = .09$) and that in Model 3 is not significant, demonstrating that Fiscal Budget essentially follows a U-shaped pattern in transition interval $2,4$.

In Models 5 and 7, the coefficients of $\text{Interval}_{-5,-3}$ and $\text{Interval}_{1,7}$ are all significantly positive, which demonstrates that Fiscal Budget is generally lower during transition interval $-2,0$ than in the previous and subsequent intervals, despite the sharp fluctuations apparent in Figure 2. We replaced $\text{Interval}_{1,7}$ with $\text{Interval}_{-2,0}$ in Models 6 and 8 and found that the coefficients of $\text{Interval}_{-5,-3}$ are both insignificant, indicating that the drop in Fiscal Budget during transition interval $-2,0$ follows a U-shaped pattern. The coefficients of $\text{Interval}_{8,L}$ in Models 6 and 8 also are insignificant, which show that Fiscal Budget did not fall significantly after transition year 7.

These Fiscal Budget findings are fully consistent with hypotheses H_1 and H_2 . The inverted U-shaped pattern during transition interval $-2,1$ in both third-wave models and the U-shaped pattern during transition interval $-2,0$ in both fourth-wave mod-

Table 1
Democratic Transition and Fiscal Policy

(Model)	Third-Wave Models			Fourth-Wave Models				
	Uniform Sample		Full Sample	Uniform Sample		Full Sample		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Fiscal Budget _{y-1}	.753*** (.071)	.753*** (.071)	.782*** (.061)	.782*** (.061)	Fiscal Budget _{y-1} .646*** (.086)	.646*** (.086)	.669*** (.078)	.669*** (.078)
GDP Growth _{y-1}	.061* (.029)	.061* (.029)	.063** (.027)	.063** (.027)	GDP Growth _{y-1} .031 (.051)	.031 (.051)	.033 (.047)	.033 (.047)
Inflation _{y-1}	.445 (.924)	.445 (.924)	.706 (.664)	.706 (.664)	Inflation _{y-1} -.193 (2.432)	-.193 (2.432)	-.069 (2.116)	-.069 (2.116)
Interval _{E,-6}	-.620* (.294)	.296 (.342)	-.476* (.286)	.237 (.316)	Interval _{E,-6} .546 (.995)	-.1.483* (.918)	.644 (1.032)	-1.267# (.805)
Interval _{S,-3}	-1.072** (.405)	-.156 (.436)	-.776* (.380)	-.063 (.418)	Interval _{S,-3} 2.109* (1.046)	.080 (1.105)	2.255* (1.094)	.345 (1.053)
Interval _{L,-1}		.916** (.359)		.712** (.303)	Interval _{L,-1} -2.029* (1.131)		-1.911* (1.154)	
Interval _{2,4}		-.916** (.359)		-.712** (.303)	Interval _{1,7} 2.029* (1.131)		1.911* (1.154)	
Interval _{5,L}		-.369# (.280)		-.129 (.259)	Interval _{8,L} .988 (1.879)		1.000 (1.795)	-911 (1.561)
Constant		-2.031* (1.117)		-1.508** (.652)	Constant -3.027*** (.958)		-2.694* (1.580)	-4.519** (1.855)
R ²		.75		.77			.66	.66
N		305		374			300	333

Significance Levels: # ≤ .10, * ≤ .05, ** ≤ .01, *** ≤ .001.

els are consistent with H_1 , which postulates that policymakers under outgoing authoritarian regimes were more likely to pursue stimulative fiscal policy during the latter part of the period we studied than during the earlier part. The U-shaped pattern during transition interval $_{2,4}$ in both third-wave models and the flat pattern after transition interval $_{-2,0}$ in both fourth-wave models are consistent with H_2 , which postulates that policymakers under new democratic regimes were less likely to pursue stimulative fiscal policy during the latter part than during the earlier part. All of these findings hold in both the uniform sample and the full sample, showing that they are robust.

Monetary Policy

As shown in Figure 1, Money Supply (large dotted line) in the third-wave sample seems lower during transition interval $_{-2,1}$ than during transition year -3 and perhaps lower than in the preceding period. It also seems to increase and stay at a higher level after transition year 1 , though it fluctuates. In Figure 2, Money Supply in the fourth-wave sample seems very erratic, appearing higher during transition interval $_{E,-6}$, transition interval $_{-3,-2}$, transition interval $_{2,4}$, and transition interval $_{8,L}$ and lower otherwise.

In Models 1 and 3 of Table 2, the coefficients of Interval $_{-3,-3}$ are significantly positive but those of Interval $_{E,-4}$ are not, indicating that Money Supply in the third-wave sample is lower during transition interval $_{-2,1}$ than during transition year -3 but not lower than during transition interval $_{E,-4}$. The coefficients of Interval $_{2,4}$ and Interval $_{5,L}$ also are significantly positive in both models, showing that Money Supply increases after transition year 1 and thereafter remains generally higher than during transition interval $_{-2,1}$, despite the fluctuations apparent in Figure 1. The coefficients of Interval $_{5,L}$ are insignificant in Model 2 and marginally significant ($p = .06$) in Model 4; thus Money Supply does not clearly fall after transition year 4 . Finally, when we dropped Interval $_{E,-4}$ and Interval $_{-3,-3}$ in Models 1 and 3 (in regressions not shown here), the coefficients of Interval $_{2,4}$ and Interval $_{5,L}$ all were significantly positive. This indicates that Money Supply in the third-wave sample follows an upward-step pattern, remaining generally flat through transition year 1 and then increasing to a higher level and again remaining generally flat.

In Models 5 and 7, the coefficients of Interval $_{-5,-4}$ and Interval $_{-1,-1}$ are all significantly negative, showing that Money Supply in the fourth-wave sample is higher during transition interval $_{-3,-2}$ than during transition interval $_{-5,-4}$ and transition year -1 . The coefficient of Interval $_{E,-6}$ in Model 7 is not significant, so the increase in Money Supply during transition interval $_{-3,-2}$ may simply represent a return to the level that prevailed before transition year -5 . Moreover, the coefficients of Interval $_{0,1}$ in Models 5 and 7 are not significant and none of the Interval $_{2,4}$, Interval $_{5,6}$, Interval $_{7,7}$, and Interval $_{8,L}$ coefficients are significant in both models. This finding shows that the decrease in Money Supply during transition year -1 is only temporary and that Money Supply thereafter does not clearly fall back below its level in transition interval $_{-3,-2}$. When we replaced Interval $_{-1,-1}$ with Interval $_{-3,-2}$ (in regressions not shown here), the coefficient of Interval $_{0,1}$ was significantly positive in both models, demonstrating that Money Supply increased in transition year 0 . In Models 6 and 8, the coefficients of Interval $_{-1,-1}$ and Interval $_{0,1}$ are significantly nega-

Table 2
Democratic Transition and Monetary Policy

(Model)	Third-Wave Models				Fourth-Wave Models			
	Uniform Sample		Full Sample		Uniform Sample		Full Sample	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Money Supply _{y-1}	.864*** (.052)	.864*** (.052)	.894*** (.027)	.894*** (.027)	.930*** (.028)	.930*** (.028)	.965*** (.018)	.965*** (.018)
GDP Growth _{y-1}	.013 (.039)	.013 (.039)	.013 (.023)	.013 (.023)	.063# (.046)	.063# (.046)	.055* (.026)	.055* (.026)
Inflation _{y-1}	-966 (1.926)	-966 (1.926)	-1.511* (.898)	-1.511* (.898)	-6.696*** (2.141)	-6.696*** (2.141)	-4.192** (1.614)	-4.192** (1.614)
Interval _{E,-4}	.610 (.707)	-670 (.743)	.108 (.405)	-750* (.442)	-1.451* (.848)	-2.076** (.821)	-377 (.500)	-1.585** (.534)
Interval _{-3,-3}	2.687** (1.062)	1.407 (1.155)	1.973*** (.606)	1.115* (.661)	-2.565** (.901)	-3.190*** (.923)	-1.192* (.559)	-2.400*** (.640)
Interval _{-2,-1}		-1.280* (.735)		-858* (.438)		-625 (.934)		-1.208* (.652)
Interval _{2,4}	1.280* (.735)		.858* (.438)		-2.988*** (.979)	-3.613*** (1.171)	-1.545** (.614)	-2.753*** (.715)
Interval _{5,L}	1.389** (.591)	.109 (.637)	1.539*** (.434)	.681# (.437)	-1.159 (.956)	-1.784* (.855)	-510 (.657)	-1.718*** (.534)
Constant	4.931* (2.415)	6.211** (2.329)	3.880*** (1.162)	4.738*** (1.168)	.625 (.934)	1.208* (.652)	1.208* (.652)	
					-1.348 (1.083)	-1.973** (.865)	.951# (.742)	-257 (.622)
					-4.627*** (1.232)	-5.252*** (1.142)	154 (1.061)	-1.054 (1.019)
					.408 (1.033)	-217 (.975)	3.863*** (1.260)	2.655* (1.057)
					5.003** (2.101)	4.852** (1.710)	.914** (1.213)	2.121* (1.268)
R ²	.91	.91	.93	.93	.95	.95	.94	.94
N	305	305	572	572	300	300	647	647

Significance Levels: #≤.10, *≤.05, **≤.01, ***≤.001.

tive in both models but those of Interval_{5,6}, Interval_{7,7}, and Interval_{8,L} are not. This indicates that Money Supply increased further in transition year 2 and did not clearly fall again. Consequently, Money Supply is very erratic in the fourth-wave sample, increasing in transition interval_{3,-2}, falling briefly in transition year -1, increasing again in transition years 0 and 2, and thereafter not clearly falling again.

These Money Supply findings do not support hypotheses H₁ and H₂. Although Money Supply increased during transition interval_{3,-2} in the fourth-wave sample, as expected under H₁, it fell sharply during transition year -1. This pattern is not consistent with our expectations about the behavior of policymakers under outgoing authoritarian regimes during the fourth wave. Moreover, Money Supply followed a similar pattern in the third-wave sample, increasing in transition year -3 and falling in transition year -2, so there is no evidence of the diachronic change postulated in H₁. Although Money Supply increased after transition year 1 in the third-wave sample, as expected under H₂, it also did so in the fourth-wave sample. Consequently, there also is no evidence of the diachronic change postulated in H₂.

As discussed above, we anticipated that the trends embodied in hypotheses H₁ and H₂ were more likely to be manifested in fiscal policy than in monetary policy, since some countries have independent central banks that leave monetary policy autonomous from political influence. Consequently, these null findings do not invalidate hypotheses H₁ and H₂.

Investment

Figure 1 shows that Investment (small dotted line) in the third-wave sample may have fallen in transition year -5; it fell further in transition year -2; and it rebounded sharply in transition year 1 and then fluctuated. In the fourth-wave sample shown in Figure 2, Investment looks essentially flat, except perhaps for a brief spike upward in transition year 2 and a spike downward in transition years 5 and 6.

In Models 1 and 3 of Table 3, the coefficients of Interval_{E,-6}, Interval_{-5,-3}, and Interval_{1,3} are all significantly positive, which indicates that Investment in the third-wave sample was lower during transition interval_{-2,0} than during transition interval_{E,-6}, transition interval_{-5,-3}, and transition interval_{1,3}. The coefficients of Interval_{-5,-3} in Models 2 and 4 are insignificant, indicating that Investment was not lower during transition interval_{-5,-3} than during the preceding period. When we replaced Interval_{1,3} with Interval_{E,-6} (in regressions not shown here), the coefficients of Interval_{E,-6} and Interval_{-5,-3} all were negative and either insignificant or very marginally significant ($p = .10$ for Interval_{-5,-3} in Model 2). Investment fell during transition interval_{-2,0} and then returned to its earlier level, following a U-shaped pattern. Finally, the coefficients of Interval_{4,5} in Models 1 and 3 are both insignificant and those of Interval_{6,L} are both significantly positive, showing that the post-transition return to higher investment levels stopped during transition interval_{4,5} but then resumed.

In Models 5 and 6, the coefficients of Interval_{E,-4}, Interval_{3,4}, Interval_{5,6}, and Interval_{7,L} are all insignificant and those of Interval_{2,2} are positive and either significant or marginally significant ($p = .06$ in Model 6). These findings indicate that Investment was essentially flat in the fourth-wave sample, except for a brief upward spike during transition year 2.

The Investment findings are consistent with hypothesis H₃. The U-shaped pat-

Table 3
Democratic Transition and Investment

(Model)	Third-Wave Models			Fourth-Wave Models		
	Uniform Sample		Full Sample	Uniform Sample		Full Sample
	(1)	(2)	(3)	(4)	(5)	(6)
Investment _{y-1}	.754*** (.040)	.754*** (.040)	.775*** (.030)	.775*** (.030)	.781*** (.085)	.821*** (.035)
World Investment _y	.376** (.163)	.376** (.163)	.121 (.141)	.121 (.141)	.199 (.273)	.119 (.200)
GDP Growth _{y-1}	.158*** (.035)	.158*** (.035)	.133*** (.029)	.133*** (.029)	.193*** (.044)	.136*** (.033)
Inflation _{y-1}	-.399 (.643)	-.399 (.643)	-.328 (.685)	-.328 (.685)	1.086 (1.350)	1.698# (1.085)
Interval _{E,-6}	1.600** (.533)	1.600** (.533)	.705* (.434)	.705* (.434)	-.102 (.517)	.074 (.423)
Interval _{-5,-3}	1.016* (.556)	1.016* (.556)	.784* (.484)	.784* (.484)		
Interval _{-2,0}				.080 (.437)		
Interval _{1,3}	1.710*** (.474)	1.710*** (.474)	1.299** (.469)	1.299** (.469)	1.403* (.818)	.767# (.490)
Interval _{4,5}	.424 (.516)	-.1175* (.561)	.055 (.565)	-.649# (.537)	.212 (.740)	.358 (.623)
Interval _{6,L}	1.133** (.399)	-.467 (.403)	1.006** (.418)	.302 (.325)	-.973 (.787)	.218 (.681)
Constant	-4.798# (3.763)	-3.198 (3.885)	1.298 (3.389)	2.002 (3.353)	.464 (.663)	.970 (.918)
R ²	.91	.91	.87	.87	.89	.89
N	305	305	510	510	300	611

Significance Levels: #≤.10, *≤.05, **≤.01, ***≤.001.

tern during transition interval $_{-2,0}$ in both third-wave models and the flat pattern during this interval in both fourth-wave models are consistent with the idea that investors were more likely to invest in democratizing countries during the latter part of the period we studied than during the former, as postulated in H_3 . We expected the U-shaped pattern in third-wave investment levels to continue for a year or two after democratic transition. It did not, suggesting that third-wave investors concluded that the political risk associated with democratization had dissipated once a new democratic regime was installed.

Inflation

We also made plots for Inflation and GDP Growth, but for brevity we do not include them here. These plots suggest that Inflation in the third-wave sample increased in transition year -2 and then returned to its earlier level in transition year 0 , remaining flat thereafter, except for a brief decline in transition year 6 . Inflation in the fourth-wave sample was more erratic, appearing to be higher during transition interval $_{-6,-5}$, transition interval $_{-1,1}$, and transition interval $_{5,7}$ and lower otherwise.

In Models 1 and 3 of Table 4, all of the Interval $_{a,b}$ coefficients are significantly negative, indicating that Inflation in the third-wave sample was higher in transition interval $_{-2,-1}$ than in the other intervals shown. The coefficients of Interval $_{E,-3}$ in Models 2 and 4 are not significant, showing that Inflation followed an inverted-U-shaped pattern during transition interval $_{-2,-1}$. The coefficients of Interval $_{6,6}$ are significantly negative in Model 2 and very marginally negative ($p = .10$) in Model 4, indicating that Inflation may have declined briefly in transition year 6 .

In Models 5 and 7, the coefficients of Interval $_{-4,-2}$ and Interval $_{2,4}$ are all significantly negative, demonstrating that Inflation in the fourth-wave sample was higher during transition interval $_{-1,1}$ than in the preceding and subsequent intervals. The coefficients of Interval $_{-6,-5}$ and Interval $_{5,7}$ are insignificant in Model 5 but significantly negative in Model 7, indicating that Inflation was less erratic in the full sample than in our uniform-sample plot. The coefficient of Interval $_{-4,-2}$ is marginally positive ($p = .08$) in Model 6 and significantly positive in Model 8, indicating that Inflation probably fell more after transition interval $_{-1,1}$ than it rose at the beginning of this interval, following an inverted-J-shaped pattern. The coefficients of Interval $_{5,7}$ are both significantly positive in Models 6 and 8, showing that inflation increased again after transition year 4 .

These Inflation findings offer mixed support for hypothesis H_4 , which postulates that higher inflation was more likely after democratic transitions during the early part of the period we studied and before and during transitions during the latter part of this period. We did not find evidence that Inflation increased after third-wave democratic transitions, as implied by H_4 , even though both fiscal and monetary stimulation occurred after these transitions. Yet the increase in Inflation during transition interval $_{-1,1}$ in the fourth-wave models and the decline that occurred after transition interval $_{-2,-1}$ in the third-wave models together are consistent with hypothesis H_4 , though we expected this fourth-wave increase to follow an inverted-U-shaped pattern rather than an inverted-J-shaped pattern. This increase in Inflation during transition interval $_{-1,1}$ in the fourth wave occurred one to two years after the pre-

Table 4
Democratic Transition and Inflation

(Model)	Third-Wave Models				Fourth-Wave Models			
	Uniform Sample		Full Sample		Uniform Sample		Full Sample	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Inflation _{y-1}	.759*** (.060)	.759*** (.060)	.776*** (.040)	.776*** (.040)	.722*** (.050)	.722*** (.050)	.730*** (.055)	.730*** (.055)
World Inflation _y	.003*** (.001)	.003*** (.001)	.004*** (.001)	.004*** (.001)	-.002# (.001)	-.002# (.001)	.001* (.001)	.001* (.001)
GDP Growth _{y-1}	.001 (.001)	.001 (.001)	.001# (.001)	.001# (.001)	-.003** (.001)	-.003** (.001)	-.001 (.001)	-.001 (.001)
Interval _{E,-3}	-.057*** (.018)	-.009 (.010)	-.041*** (.013)	-.004 (.008)	-.052** (.020)	.021 (.019)	-.072*** (.013)	.039** (.017)
Interval _{-2,-1}		.048** (.018)		.037** (.013)	-.002 (.024)	.070** (.024)	-.059*** (.019)	.051** (.022)
Interval _{0,5}	-.048** (.018)		-.037** (.013)		-.041* (.019)	.031# (.022)	-.076*** (.017)	.034* (.021)
Interval _{6,6}	-.093*** (.030)	-.045* (.026)	-.061** (.021)	-.025# (.019)				
Interval _{7,L}	-.061*** (.017)	-.012 (.010)	-.062*** (.013)	-.025** (.009)	-.072*** (.023)		-.110*** (.022)	
Constant	.037* (.022)	-.011 (.020)	.023# (.015)	-.014 (.011)	-.020 (.028)	.053* (.024)	-.058** (.025)	.052** (.024)
					-.160*** (.038)	-.088** (.035)	-.139*** (.036)	-.028 (.036)
					-.100* (.059)	-.027 (.058)	-.092* (.048)	.018 (.048)
					.095** (.032)	.023 (.030)	.090** (.034)	-.020 (.033)
R ²	.72	.72	.73	.73	.75	.75	.66	.66
N	305	305	656	656	300	300	718	718

Significance Levels: #≤.10, *≤.05, **≤.01, ***≤.001.

transition fiscal and monetary stimulation that took place during transition interval_{-2,0} and transition interval_{-3,-2}, respectively, so we were not surprised that it lasted into transition year 1.

Economic Growth

Our plots suggest that GDP Growth in the third-wave sample fell in transition year -4, rebounded somewhat in transition year -1, and then fluctuated but remained essentially flat. In the fourth-wave sample, GDP Growth seems higher during transition interval_{-4,-2}, lower during transition interval_{-1,2}, and then higher after transition year 2, except for a brief decline in transition year 6.

In Table 5, the coefficients of Interval_{E,-5} in Models 1 and 3 are both significantly positive, indicating that GDP Growth in the third-wave sample did, indeed, fall in transition year -4. However, the coefficient of Interval_{-1,1} is significantly positive in Model 1 but insignificant in Model 3, so it is not clear whether GDP Growth rebounded in transition year -1. The coefficients of Interval_{3,5} in Models 2 and 4 of Table 5 are significantly negative and those of Interval_{3,3} are marginally negative ($p = .06$ and $p = .07$, respectively). None of the Interval_{2,2}, Interval_{4,4}, and Interval_{6,L} coefficients in these models are significant. Consequently, GDP Growth in the third-wave sample was generally flat after transition interval_{-4,-2}, except for brief declines during transition year 5 and possibly transition year 3.

The coefficients of Interval_{E,-5} are negative but only very marginally significant ($p = .09$) in Model 5 and insignificant in Model 7. Similarly, the coefficients of Interval_{-1,2} are negative but only marginally significant ($p = .07$) in Model 5 and insignificant in Model 7. Consequently, there is no clear evidence that GDP Growth was higher during transition interval_{-4,-2} in the fourth-wave sample, as our plot suggests. The coefficients of Interval_{-1,2} in Models 6 and 8 are both significantly negative, indicating that GDP Growth increased after transition year 2. Moreover, although the coefficients of Interval_{6,6} in these models are significantly or marginally negative ($p = .07$ in Model 8), those of Interval_{7,L} are both insignificant. GDP Growth therefore followed an upward-step pattern in the fourth-wave sample, remaining essentially flat through transition year 2 but then rising and remaining at a higher level, except perhaps during transition year 6.

These findings broadly support hypothesis H_5 , which postulates that economic growth was slowest after democratic transitions in the early part of the period we studied and fastest after transitions in the latter part of this period. Although GDP Growth in the third-wave sample was mainly flat after transition year -1, it did decline sharply but briefly during transition year 5. This occurred precisely when the post-transition fiscal stimulation of transition interval_{2,4} ended (see Models 2 and 4 in Table 1), as we anticipated. Yet it was briefer than we expected, perhaps because monetary policy remained stimulative, investment quickly rebounded, and inflation did not increase in the post-transition period, contrary to the assumptions of H_5 . This finding is broadly consistent with H_5 . The increase in GDP Growth in the fourth-wave sample after transition year 2 (except perhaps during transition year 6) occurred at a time of fiscal restraint, higher investment (in transition year 2), and generally lower inflation, as assumed in H_5 . It persisted through the last year included in our sample (transition year 9), following an upward-step pattern rather

Table 5
Democratic Transition and GDP Growth

(Model)	Third-Wave Models			Fourth-Wave Models				
	Uniform Sample (1)	(2)	(3)	Full Sample (4)	Uniform Sample (5)	(6)	Full Sample (7)	(8)
GDP Growth _{y-1}	.246*** (.074)	.246*** (.074)	.235*** (.060)	.235*** (.060)	.364*** (.092)	.364*** (.092)	.293*** (.059)	.293*** (.059)
World GDP Growth _y	.471*** (.186)	.471*** (.186)	.479*** (.126)	.479*** (.126)	.389*** (.165)	.389*** (.165)	.414*** (.136)	.414*** (.136)
Inflation _{y-1}	-1.272 (1.459)	-1.272 (1.459)	-1.631# (1.231)	-1.631# (1.231)	1.281 (2.212)	1.281 (2.212)	-2.277# (1.596)	-2.277# (1.596)
Interval _{E,-5}	3.051*** (.857)	1.342* (.785)	1.478*** (.586)	.825# (.613)	-1.083# (.796)	-1.451# (1.047)	-.215 (.591)	-1.515*** (.617)
Interval _{4,-2}	-1.708* (.862)	-1.708* (.862)	-1.708* (.862)	-1.708* (.862)	-1.384# (.939)	-1.384# (.939)	-1.300# (.822)	-1.300# (.822)
Interval _{1,1}	1.708* (.862)	1.708* (.862)	.653 (.701)	.653 (.701)	-1.752* (1.023)	-1.752* (1.023)	-.719 (.701)	-2.018** (.680)
Interval _{2,2}	1.150 (1.220)	-.559 (1.207)	.061 (.898)	-.593 (.877)	.368 (1.148)	.368 (1.148)	1.300# (.822)	1.300# (.822)
Interval _{3,3}	-.121 (1.262)	-1.829# (1.149)	-.744 (1.032)	-1.397# (.945)	-1.922# (1.389)	-1.922# (1.389)	-.304 (1.177)	-.304 (1.177)
Interval _{4,4}	2.299* (1.291)	.590 (1.150)	.510 (1.046)	-.143 (1.012)	.782 (1.415)	.782 (1.415)	1.303 (1.177)	1.303 (1.177)
Interval _{5,5}	-.396 (1.256)	-2.104* (1.162)	-1.911* (1.036)	-2.564*** (1.010)	2.025 (1.702)	2.025 (1.702)	-3.378 (3.715)	-2.078 (3.536)
Interval _{6,L}	1.220* (.758)	-.488 (.604)	-.096 (.615)	-.749# (.584)	-2.290** (.972)	-2.290** (.972)	-1.604# (1.068)	-1.604# (1.068)
Constant	-.909 (1.059)	.799 (1.005)	1.022 (.838)	1.675* (.826)	2.579* (1.335)	2.579* (1.335)	-.003 (1.175)	-.003 (1.175)
R ²	.28	.28	.23	.23	.24	.24	.23	.23
N	305	305	656	656	300	300	718	718

Significance Levels: # $\leq .10$, * $\leq .05$, ** $\leq .01$, *** $\leq .001$.

than the temporary, inverted U-shaped pattern we had expected. This increase was perhaps because of the fiscal restraint, monetary stimulation, and lower inflation that followed fourth-wave transitions, and broadly supports H_5 .

Finally, note that the R^2 s in our economic growth models shown in Table 5 are much smaller than those for our other models shown in Tables 1–4. Although common in panel models of economic growth, these small R^2 s raise some doubts about the strength of our findings on economic growth.

Alternative Explanations

Our discussion above suggested two alternative explanations that might account for our findings.

First, following Kriekhaus, the spread of neoliberalism during the latter part of the period studied might be responsible for the diachronic changes we found. This explanation is consistent with our finding that policymakers under new democratic regimes were less likely to pursue stimulative fiscal policy during the fourth wave of democratization than during the third wave. It also seems consistent with our finding that investment was higher before and during democratic transition in the fourth wave than in the third wave. Yet this explanation is not consistent with our finding that policymakers under outgoing authoritarian regimes were more likely to pursue stimulative fiscal policy during the fourth wave, since there is no obvious reason to believe they were less receptive to neoliberalism than their democratic successors. Consequently, although the spread of neoliberalism may be responsible for some of the diachronic change, this argument provides a weaker overall explanation of our findings than our learning process hypotheses.

Second, following Bunce, our findings might reflect regional differences in the success of economic reform in new democracies, with the fourth-wave democracies of Eastern Europe experiencing greater success than the many third-wave democracies of Latin America and Southern Europe. This argument does not apply to outgoing authoritarian regimes, so it cannot account for the diachronic change we found in pre-transition fiscal policy and investment. More important, we incorporated statistical controls for region (including Eastern Europe) into all of our analyses, obviating the possibility that regional differences produced our findings.⁹

Summary and Conclusion

Our analysis yielded clear evidence of diachronic change in the macroeconomic consequences of democratic transition. Pre-transition fiscal policy was stimulative during the fourth wave of democratization but not during the third wave, and post-transition fiscal policy was stimulative during the third wave but not the fourth wave. We did not find clear evidence of diachronic change in monetary policy, perhaps because of central bank independence. Investment levels fell before and during third-wave transitions but not in conjunction with fourth-wave transitions. These diachronic changes generally were followed by corresponding changes in inflation and economic growth. Inflation increased after the pre-transition fiscal stimulation of the fourth wave, yet it did not increase after the post-transition fiscal stimulation of the third wave, as expected. Economic growth fell sharply but briefly

after the third-wave post-transition period of fiscal stimulation ended, and it increased in conjunction with the fourth-wave post-transition fiscal restraint and lower inflation.

These diachronic changes are consistent with the learning processes underlying hypotheses H_1 through H_5 , which are based on the idea that economic actors in the latter part of the period (1960–1998) observed how their counterparts had fared during earlier democratic transitions elsewhere and behaved differently during transitions in their own countries. We examined two alternative explanations suggested in the literature and found that neither provides a satisfactory explanation of these changes. Moreover, we tested all of our hypotheses on two different samples to ensure their robustness; and we included various control variables in our models to ensure that changes in domestic and global economic conditions and cross-regional differences were not responsible for these findings.

Our analysis did not take into account the types (or modes) of the democratic transitions. Several authors have emphasized the difference between transitions that involve extensive confrontation between the advocates and opponents of democracy (“reform through rupture”) and transitions that are more accommodative (“reform through transaction”). They argue that this distinction has important implications for the nature of the democratic regime that emerges, the character of politics under the new democratic regime, and even the viability of the new regime (Munck and Leff, 1997). This distinction may also affect the macroeconomic consequences of democratic transition, with confrontational transitions perhaps making policymakers more likely to engage in economic populism and scaring off investors. This is certainly a fruitful area for future research. However, large-sample studies of this issue must await the development of a suitable measure of types of democratic transition.

Our findings suggest that the increasingly benign view of the macroeconomic consequences of democratic transition that emerged in the 1990s may have reflected the generally favorable economic consequences of fourth-wave transitions rather than features of democratization that hold universally. Policymakers in new democracies and investors behaved more favorably during the fourth wave than during the third wave, exercising fiscal restraint and keeping investment rates steady. These actions were at least partly responsible for the lower inflation and faster economic growth that followed fourth-wave transitions. Although policymakers under outgoing authoritarian regimes engaged in fiscal stimulation during the fourth wave, the inflation that resulted was only temporary and had no apparent effect on economic growth; and the post-transition fiscal restraint during the fourth wave presumably helped offset the adverse effects of this pre-transition fiscal stimulation. The macroeconomic consequences of democratic transition were more favorable during the fourth wave than during the third wave, and it is not surprising that scholars and policymakers adopted a benign view of this matter as the fourth wave proceeded during the 1990s.

What does this suggest for the future? Neither our learning-process hypotheses nor the alternative explanations discussed above necessarily imply that the macroeconomic consequences of democratic transition will remain as benign in the future as they were during the fourth wave. Policymakers in new democratic regimes and investors may have learned favorable lessons from earlier transitions, but this

could occur only because those transitions turned out to be relatively painless for their counterparts—if those transitions had been more painful, these actors presumably would have drawn less favorable conclusions. Although democratic transitions in recent years also have been relatively painless, they may not always remain so. Economic actors in the future may learn very different lessons from earlier transitions and behave less favorably. Similarly, while neoliberalism remains influential today, this too may change, perhaps leading policymakers in new democracies to behave differently. Whatever favorable conditions prevailed in Eastern Europe in the 1990s will not necessarily hold in future democratizing countries. If the macroeconomic consequences of democratic transition have changed diachronically, as our analysis demonstrates, they might change again, perhaps reverting to the less favorable patterns of the past. The benign picture that emerged in the 1990s therefore may be misleading. If so, new democratic regimes may be less durable in the future than they have been during the last few decades.

Finally, our analysis joins a growing body of literature that questions the value of universalistic theories of the causes and consequences of democratization. Our results show that the macroeconomic consequences of democratization changed diachronically between 1960 and 1998. Other scholars have found evidence of diachronic change in the conditions surrounding democratization during this period and in earlier periods, and some have identified important cross-regional differences. It seems clear that the causes and consequences of democratization are very much affected by the temporal and regional contexts within which it occurs. Scholars should be cautious in making universalistic generalizations about democratization, and more effort should be made to examine why its causes and consequences differ diachronically and regionally. Much the same probably holds for many other political phenomena. Context very much affects politics.

Appendix

The following lists give the year of democratic transition and range of years covered for all countries appearing in our largest full sample (i.e., the one used in our inflation and growth models), broken down into third-wave and fourth-wave subsamples. The countries and transition years shown in italics appear in our uniform sample. See “Research Design,” above, for an explanation of which countries and years appear in each sample.

Third Wave: Benin, 1960, 1962–1962; Congo, 1960, 1962–1962; Madagascar, 1960, 1962–1970; Somalia, 1960, 1962–1968; Sierra Leone, 1961, 1962–1966; Turkey, 1961, 1970–1970; *Jamaica*, 1962, 1962–1998; Rwanda, 1962, 1962–1962; *Trinidad*, 1962, 1962–1998; Dominican Republic, 1963, 1962–1963; Kenya, 1963, 1963–1965; Togo, 1963, 1962–1966; Sierra Leone, 1968, 1968–1968; Ghana, 1969, 1962–1971; *Greece*, 1974, 1962–1998; *Turkey*, 1974, 1972–1979; *Papua New Guinea*, 1975, 1975–1998; Portugal, 1975, 1962–1998; *Thailand*, 1975, 1962–1975; *India*, 1977, 1976–1998; Spain, 1977, 1962–1998; Burkina Faso, 1978, 1962–1979; *Dominican Republic*, 1978, 1964–1998; *Ghana*, 1979, 1973–1981; *Peru*, 1980, 1962–1991; *Bolivia*, 1982, 1962–1998; *Argentina*, 1983, 1962–1998; *Ecuador*, 1984, 1962–1998; *Brazil*, 1985, 1965–1998; *Uruguay*, 1985, 1974–1998; *Philippines*, 1986, 1973–1998; *South Korea*, 1988, 1962–1998; *Pakistan*, 1988, 1962–1992.

Fourth Wave: *Hungary*, 1989, 1962–1998; *Bulgaria*, 1990, 1982–1998; *Chile*, 1990, 1974–1998; Czechoslovakia, 1990, 1992–1992; *Mongolia*, 1990, 1983–1998; *Namibia*, 1990, 1990–1997; *Nicaragua*, 1990, 1962–1998; *Poland*, 1990, 1992–1998; *Slovenia*, 1990, 1993–1998; Benin, 1991, 1964–1998; *Latvia*, 1991, 1990–1998; Macedonia, 1991, 1992–1998; *Nepal*, 1991, 1962–1998; *Zambia*, 1991, 1964–1992; *Congo*, 1992, 1964–1992; *Estonia*, 1992, 1991–1998; *Lithuania*, 1992, 1992–1998; *Mali*, 1992, 1969–1998; *Romania*, 1992, 1977–1998; *Thailand*, 1992, 1977–1998; *Paraguay*, 1993, 1962–1998; Niger, 1993, 1962–1995; El Salvador, 1994, 1962–1998; *Malawi*, 1994, 1964–1998; *Panama*, 1994, 1962–1998; *South Africa*, 1994, 1962–1998; *Guatemala*, 1996, 1962–1998; *Honduras*, 1996, 1962–1998; *Senegal*, 1998, 1962–1998.

Notes

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1. The World Bank stopped publishing annual cross-national wage data in the mid-1990s, so data suitable for our purposes are not available. The International Labor Organization publishes annual cross-national strike data. Many factors affect the frequency of strikes in nondemocratic or democratizing countries, so strike data are not a good comparative indicator of worker sentiment. They also do not bear directly on macroeconomic conditions, as our other indicators do.
2. On learning and diffusion processes in related contexts, see Bermeo (1992), McCoy (2000), and Gleditsch and Ward (forthcoming).
3. In their review of democracy measures, Munck and Verkuilen (2001) criticize Gasiorowski for leaving unclear the attributes and coding rules he used to construct his dataset. They argue that this makes it impossible for independent researchers to replicate Gasiorowski's data. However, Reich replicated Gasiorowski's data independently, and he developed a clear set of attributes and coding rules, based on Gasiorowski's work. Of the 270 regime changes identified by Gasiorowski, Reich disagreed with only five. Consequently, we do not feel that these criticisms preclude our use of the Gasiorowski/Reich dataset.
4. Gasiorowski and Reich code democratic transitions as occurring on the dates when newly elected democratic governments are inaugurated.
5. Diamond (2002) and others make the distinction between "electoral democracy," a "minimalist" conception in which countries are considered democratic if they hold democratic elections, and "liberal democracy," where extensive civil and political liberties also must exist. The Gasiorowski/Reich dataset uses the latter criteria. Diamond (2002) goes on to discuss various types of "hybrid" regimes that do not fully meet either of these criteria. He then classifies all countries in the world in 2001 according to these criteria, which are based on the well-known Freedom House measures. Only two countries (Macedonia and Paraguay) classified as democratic at the end of the period covered by the Gasiorowski/Reich dataset are not classified as "liberal democracy" or "electoral democracy" by Diamond. Both are classified as "ambiguous regimes." Yet both had higher Freedom House democracy scores in the early 1990s, when their transitions occurred. Reich (2002: 13–18) compares the Gasiorowski/Reich dataset to several others (including Freedom House) and finds a high degree of correlation ($r \geq .75$) with each.
6. For example, Przeworski, et al. classify as democratic the Dominican Republic in 1966–1977; El Salvador in 1984–1990; Guatemala in 1958–1962 and 1966–1981; Honduras in 1982–1990; Nicaragua in 1984–1990; Panama in 1952–1967; and Uganda in 1980–1984. They also do not recognize the interruptions of democracy that occurred in India in 1975–1977 and Turkey in 1971–1974. Doorenspleet classifies as democratic Cambodia in 1993–1994; El Salvador in 1984–1992; Honduras in 1982–1994; India in 1975–1977; Kyrgyzstan in 1991–1994; Malaysia in 1971–1994; Pakistan in 1993–1994; Syria in 1954–1958; Thailand in 1988–1992; and Uganda in 1981–1985. She also classifies Estonia as authoritarian in 1991–1994.
7. Our regional dummy variables identify democratizing countries in Latin America (including the Caribbean), Western Europe, Eastern Europe (including former Soviet republics), the Middle East (i.e., Turkey), Africa, South Asia, and East and Southeast Asia. See Reich (2002) for details. Our World Gross Fixed Capital Formation, World GDP, and World GDP Deflator data are from International Monetary Fund (2002).
8. Although GDP per capita is often included in models of economic growth (see Levine and Renelt, 1992), we did not include it here because it was not statistically significant and it reduced our sample sizes.
9. We do not include countries that did not experience democratic transition. In cases where a new democratic regime broke down, we "censored" the data, beginning in the year of breakdown. The dataset is available at <http://www.artsci.lsu.edu/poli/people/gasiorowski.html>.
10. We decided to examine more directly whether Eastern Europe produced our findings. We ran the regressions shown in Models 5 and 7 of Table 1 on data from the eight Eastern European countries in our sample, excluding our regional control variables. The coefficients of Interval_{-5,-3} in these models were significantly positive, indicating that Fiscal Budget fell in transition year –2

in these countries. The coefficients of Interval_{1,7} were both insignificant, showing that Fiscal Budget neither rose nor fell during transition interval_{1,7}. These Eastern European countries do not account for the fourth-wave fiscal restraint discussed above. We examined various other post-transition intervals and found that Fiscal Budget was not clearly higher (or lower) in any one post-transition period than in any other in these Eastern European countries, except for a brief increase during transition year 7. We also examined Money Supply trends in these Eastern European countries and found that it increased significantly during transition interval_{1,3} and then fell significantly during transition interval_{4,7}, demonstrating that these countries actually experienced post-transition monetary stimulation rather than restraint. These findings show that Eastern Europe does not account for the diachronic change we found in post-transition fiscal policy. They also suggest that Bunce's argument that post-transition economic reform was more successful in Eastern Europe is not empirically accurate—at least not for fiscal and monetary policy in the countries we examined.

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