UNIVERSIDADE DE LISBOA

Instituto de Ciências Sociais

Democracy, Populism, and Economic Globalization — An extension of the selectorate theory

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Tese especialmente elaborado para a obtenção do grau de Doutor no ramo de Ciência Política, na especialidade de Política Comparada

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"Festina lente"

Wise Roman Dude

Resumo

Os três capítulos desta tese investigam, sob perspectivas diferentes, a liberalização do comércio internacional como uma arena de lutas distributivas que está inter-relacionada com as lutas distributivas de mudança de regime. No seu conjunto, os capítulos estão subordinados à seguinte questão de investigação: qual é a relação entre democracia e globalização económica? Esta questão pode ser desmontada noutras questões subsidiárias como: a globalização económica promove a democratização e vice-versa? Como são os efeitos económicos da globalização internalizados por regimes democráticos em comparação com regimes não democráticos? Quão democrática é a decisão de participar na globalização económica? Como é que as democracias tratam os perdedores da globalização económica? Quais os efeitos políticos dos benefícios assimétricos da globalização?

Podemos pensar na globalização económica como um fenómeno que se dá em duas dimensões. A primeira corresponde aos fluxos concretos de bens e capital sob várias formas (investimento estrangeiro directo, compra de acções, remessas, etc). A segunda corresponde à malha de restrições a esse fluxo: barreiras às importações(e.g. tarifas e subsídios a certas indústrias), controlos de capital, impostos sobre comércio internacional, etc. A tese debruça-se sobretudo sobre a liberalização do comércio internacional, ora à luz da primeira dimensão do ponto de vista dos efeitos dos fluxos, ora á luz da segunda dimensão do ponto de vista das decisões políticas sobre restrições aos fluxos.

No capítulo 1 procede-se a uma revisão da literatura empírica sobre liberalização do comércio internacional e democracia com o objectivo de desenvolver uma teoria de regimes e comércio livre. Esta literatura é depois organizada em função do apoio que dá a uma das teorias centrais na economia política da democracia e liberalização do comércio internacional, que é lá baptizada de teoria Stolper-Samuelson-Meltzer-Richard (SSMR). O objectivo central é perceber até que ponto esta teoria que é das mais bem especificadas é comprovada empiricamente pela quantidade significativa de estudos existentes sobre a relação entre comércio livre e democracia.

A SSMR é uma combinação de dois teoremas muito apelativos e frequentemente usados para pensar sobre uma vasta gama de assuntos. O primeiro é o teorema de Stolper-Samuelson que pertence à teoria de Hecksher-Ohlin do comércio internacional. Este teorema, a partir das assunções da teoria Hecksher-Ohlin produz um corolário com implicações distributivas muito específicas e verificáveis. A ideia central que de lá se retira é que o comércio livre entre dois países gera perdedores e vencedores em cada país, e estes variam consoante o tipo de factor produtivo com que estão dotados (e.g. capital ou trabalho) e consoante a abundância desses factores relativa entre os dois países. O outro teorema é o do eleitor mediano, segundo o qual a decisão sobre um assunto (e.g. impostos) num sistema eleitoral maioritário corresponde sempre à preferida pelo eleitor mediano.

O emparelhamento destes dois teoremas é mais ou menos explicitamente usado para explicar uma regularidade empírica encontrada pela maioria dos estudos no assunto: nos países em desenvolvimento a democratização tende a ser sucedida pela liberalização do comércio. A explicação oferecida é então a de que quando um país se democratiza as políticas comerciais passam a reflectir melhor as preferências do eleitor mediano, que é relativamente mais bem dotado de trabalho do que de capital e por isso prefere uma política comercial que favoreça o trabalho. Segundo o teorema Stolper-Samuelson, porque os países em desenvolvimento são, comparados com o resto do mundo, abundantes em trabalho, essa política será a da liberalização do comércio internacional.

Mas a SSMR também foi usada para explicar a direcção causal oposta do nexo democracia/comércio. Aqui o raciocínio é o de que, se o comércio internacional gera perdedores e vencedores, em certas não-democracias a desigualdade criada pela liberalização cria uma pressão popular para a redistribuição que tem como compromisso redistributivo mais credível a longo prazo a democratização, porque esta funciona sob a lógica do eleitor mediano. Isto quer dizer que há uma versão SSMR para cada direcção causal. E os raciocínios das duas direcções são mutuamente exclusivos. Quando desdobrada em todas as suas implicações lógicas é possível confrontar com o depoimento dos estudos empíricos e verificar que o apoio é irregular e contraditório; enquanto algumas implicações são quase unanimemente secundadas pela literatura outras são liminarmente rejeitadas.

O capítulo dedica-se então a explorar as fraquezas da SSMR para a reconstruir de modo a que uma versão única se aplique às duas direcções causais, i.e. que reflicta a endogeneidade entre política de comércio internacional e mudanças de regime. Um

dos problemas centrais é o de que temos um modelo (o eleitor mediano) para pensar na redistribuição em democracias mas não em não-democracias. A solução proposta é a de que abdique do teorema do eleitor mediano como forma de pensar a luta redistributiva em democracia e se adopte uma teoria que exprima a luta distributiva para todos os tipos de regime de modo a que se possa usar o modelo para os dois momentos de uma transição de regime e assim explicar a política comercial antes e depois da transição (seja em que direcção for esta transição). Para substituir o teorema do eleitor mediano propõe-se emparelhar a teoria do selectorado (Mesquita et al 2003) com o teorema Stolper-Samuelson e de seguida ilustra-se como este emparelhamento pode mitigar as fraquezas da SSMR e ser mais fiel aos factos empíricos notados pelos estudos ali revistos.

O capítulo 2 desenvolve este emparelhamento introduzindo um outro mecanismo de liberalização do comércio internacional, que é a aprendizagem: a ideia de que os países observam o comportamento dos países vizinhos no que toca à sua performance económica e sua abertura comercial, para estimar qual seria o crescimento económico caso adoptassem uma política comercial fechada versus uma política comercial aberta. Esta explicação, comparada com as explicações centradas no teorema Stolper-Samuelson, sublinha outro aspecto do comércio internacional que é dos seus efeitos no crescimento económico. Ficamos assim com uma teoria que combina os dois aspectos centrais: o já referido efeito no crescimento económico e o aspecto (discutido no capítulo 1) dos efeitos distributivos.

A necessidade de incluir os dois numa explicação é ilustrada com o experiência Mexicana de liberalização do comércio na década de 1980. E com esta ilustração também se introduzem os elementos centrais da teoria que se desenvolve de seguida, sob forma de um modelo de teoria dos jogos, que são a ideia que num sistema capitalista cada regime exprime um compromisso de classe que é mapeável em função de poucas dimensões. Este mapeamento é feito a partir de uma extensão da teoria do selectorado um sistema coordenadas para todos os tipos de regime em função de dois eixos: o tamanho do selectorado e o tamanho da coligação vencedora. O selectorado é o conjunto de indivíduos numa sociedade que tem o direito formal de escolher a liderança política, e a coligação vencedora é um sub-conjunto de indivíduos do selectorado cujo apoio é necessário para o líder se manter em funções. Cada regime político exprime uma relação de tamanhos diferentes. O líder para garantir o apoio desta coligação vencedora vai produzindo um conjunto de políticas (taxa de impostos, bens públicos, bens privados) que maximizam o seu bem-estar.

Na teoria do selectorado a pertença a estas instituições determina a desigualdade política, e e extensão que se propõe da teoria do selectorado passa por introduzir um outro eixo que determine a desigualdade económica, e o faça em termos comuns á forma como esta desigualdade é expressa no teorema Stolper-Samuelson: a dotação individual dos factores de produão capital e trabalho. A outra principal mudança feita à teoria original do selectorado é incluir nas políticas (impostos, alocação de bens comuns e bens privados) que o líder tem de produzir para manter o apoio da sua coligação vencedora uma política comercial. Procede-se depois a uma análise dos equilíbrios do modelo, i.e. de qual é o conjunto de políticas que maximiza o bem estar da coligação vencedora quando: 1) varia o tamanho das meta-instituições do selectorado e coligação vencedora (mudança de regime); 2) varia a composição económica dessas instituições em função do número de trabalhadores e proprietários de capital (mudança de compromisso de classe); e 3) varia a aprendizagem que é feita sobre a política comercial (o quanto se espera que a economia cresça com determinada política comercial). Esta análise é feita com recurso a um programa de computador, desenhado para o efeito, e apresentada sob forma de gráficos, gerados por ele, que ilustram as relações de interesse.

Os resultados contradizem alguns corolários das explicações anteriores sobre democracia e comércio internacional e expandem outros. Desses sobressaem os seguintes: 1) a desigualdade de rendimentos interfere com os efeitos da aprendizagem e privilegia os interesses do capital; 2) a aprendizagem tem efeitos nas preferências individuais sobre política comercial (ao contrário da SSMR em que são estáticas) e também nas outras políticas (impostos e bens públicos/privados); 3) a democratização nem sempre transfere poder político para o trabalho no que toca a formulação destas políticas (ao contrário da SSMR); 4) as preferências redistributivas do capital interferem na ordem porque se dão os dois fenómenos: democratização e liberalização do comércio.

O capítulo 3 usa a teoria desenvolvida no capítulo 2 para investigar o populismo e a sua relação com a globalização. O capítulo pergunta se o populismo é por natureza anti-globalização e responde: depende do tipo de coligação de que é formado e da estrutura da economia doméstica.

O capítulo dedica-se então a responder o que determina o tipo de coligação de interesses em cada contexto nacional para perceber quando e porque são os populismos anti-globalização. A explicação comum, que representa um conjunto de outras mais sofisticadas e com mais nuances, é a de que os partidos populistas vão buscar votos

e simpatias a uma bolsa que contrai e expande consoante factores socio-económicos e culturais, e os partidos populistas tecem, como bons alfaiates, uma malha discursiva feita à medida do descontentamento dessa massa. É uma explicação em que os conceitos de oferta (a massa descontente) e procura (o partido/líder) do populismo estão bem estabelecidos e as razões apresentadas para o porquê do populismo ser de esquerda ou direita variam entre: 1) o contexto sócio-cultural determina o tipo de discurso que é mais fácil explorar (cf. Inglehart and Norris 2016; Rodrik 2017); 2) os contrangimentos institucionais são assimétricos para partidos populistas de direita e esquerda (cf. Alonso and Kaltwasser 2015); e, 3) os indivíduos já têm a orientação definida e portanto é uma questão determinada pela localização do descontentamento (se está no eleitorado de esquerda ou direita) (cf. Guiso et al. 2017).

O capítulo avança uma outra resposta, construindo a partir da perspectiva da teoria da escolha racional e subscrevendo desde o início a definição mínima de populismo: a de que é uma micro-ideologia que propõe uma visão que divide o mundo entre o povo puro e bom e o não-povo corrupto e vil, e que defende que a política deve reflectir a vontade geral desse povo.

A lógica que anima esta micro-ideologia é a da exclusão/inclusão, que necessariamente redefine as institutiçoes políticas, e portanto tem implicações distributivas. É por isso uma lógica de mudança de regime. Mas quer os aspectos concretos da exclusão/inclusão quer as implicações distributivas desta micro-ideologia, só se definem no contexto específico de uma luta distributiva. Quando assim acontece, o capítulo propõe, estamos na presença de populismos *context-specific*, e que à escala nacional se manifestam numa acção colectiva encabeçada por um partido, a que se pode chamar populista porque deu aspectos concretos á micro-ideologia que é o populismo. Esta é a razão porque um indivíduo não pode aderir ideologicamente ao populismo mas apenas a um populismo *context-specific*.

Os populismos *context-specific* exibem uma grande variação fenotípica em termos de estilo, discurso e logísticas mas também em termos do conteúdo específico que deram aos conceitos "povo" e "não-povo corrupto", e de como se propõem exprimir a "vontade geral". Como toda a variação fenotípica esta também é explicável por variáveis ambientais mas neste capítulo investiga-se na direcção das micro-fundações dessa variação e situa-as nas preferências estratégicas de agentes individuais.

Este tipo de explicação obriga a uma série de questões preliminares: 1) por que razões de ordem material é que um indivíduo adere a um populismo?; 2) quanto

do conteúdo desse populismo é determinado pelos que aderem (a procura) e pelos que organizam a adesão? 3) que compromisso de classe propõe cada populismo (ou como Inglehart (1971) diria: qual é a sua política materialista)? As respostas a estas questões fornecem uma base, ainda que muito provisória, para a proposta de um método de classificação de populismos *context-specific* consoante as suas implicações distributivas.

Esse método é amplamente baseado na extensão da teoria do selectorado desenvolvida no capítulo 2 e, a partir da classificação que estabelece, permite pensar na relação entre populismo e globalização económica. Este método é ilustrado com dois populismos Latino-Americanos e dois populismos Europeus, cada um representando um fenótipo de populismo *context-specific*. O capítulo conclui avançando com algumas previsões sobre o impacto de cada fenótipo no comércio internacional e, concomitantemente, na globalização económica.

palavras chave economia política, globalização económica, populismo, lutas distributivas, democracia, comércio internacional, teoria do selectorado.

Abstract

This dissertation presents a theory of regimes and trade liberalization in complementary stages. The three chapters share a unifying theme which is an approach to trade liberalization as a locus of distributive struggles that is interrelated with the distributive struggles of regime change. The first chapter is a conceptual piece on the relationship of democracy and globalization that includes a comprehensive review of the field. It proposes the coupling of a Stolper-Samuelson-inspired theory with the selectorate theory (Mesquita, 2003) as an avenue of theory-building that mitigates the weaknesses of previous theory and better reflects empirical evidence on democracy and trade. The second chapter develops a game-theoretic model of political regimes and trade liberalization — the extended selectorate theory (ESM) — and presents a computer program to study the model. Namely, it examines how the interaction of institutional variables, policy learning and inequality, influence policy output. The results contradict some features from previous explanations and build upon some others, indicating that: 1) inequality changes the effects of learning, and the latter are biased towards capital ; 2) learning from other countries trade policy experience changes individual preferences on trade policy and changes other redistributive policies ; 3) democratization does not equate to an increase in labor's leverage in trade policy making; 4) capital's preferences on redistribution influences which comes first: democracy or trade liberalization. The third and final chapter expands on the analytical utility of the model by offering an interpretation of populism and globalization based on its central predictions and underlying logic. A method for the classification of populist phenotypes, based on the ESM, is developed and illustrated with two European and two Latin American populism. It concludes with a short analysis on how different populist phenotypes may affect free trade and, concomitantly, economic globalization.

keywords political economy, economic globalization, populismo, distributive strugles, regime change, trade and inequality, selectorate theory.

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À minha comunidade, que me perdoe. Distraí-me....

Introduction

The Origins of my Dissertation Research

When I started working on this thesis the Memorandum of Understanding had been signed recently (May, 2011) and austerity was about to save Portugal and its people. It did not take an outstanding shrewdness to observe real tensions between the Portuguese democracy and the web of international compromises it had been caught up in. A web so complex and ubiquitous that seemed to over-determine politics at the national scale.

I was already familiar with Dani Rodrik's (2012) appealing argument of an impossible trinity of the world economy: the notion that between democracy, the nation state, and a global economy we can only have two, any two. The resonance with Portugal's politico-economic experience at the time seemed to confirm parts of it in an uncanny way. Globalization was openly eating up some vital space for democracy, not necessarily more than years before, just more visibly. The fact that we ended up calling this process the politics of TINA (there is no alternative) was soothing – the beast had a name – but not enlightening. The fact that Memorandum ceased in 2014 and austerity stopped making headlines in Portuguese papers did not bring the Panglossian reassurance that all had been for the best and, after some needed marital crisis, democracy and globalization would soon walk into the sunset in a sweet embrace, no: the cracks had been shown. Apparently, scholars of political economy had been looking at them for a long time.

However, there was no theory that fully addressed my vague but piercing research concerns: how compatible are democracy and economic globalization, if at all? When and how do the tensions start to show up? How consistent can the marriage of such distinct logics of social relations be? Coming from a more qualitative background in political science with little previous contact with political economy I never imagined I would pursue the answers with a game-theoretical approach. There were other alternatives in mind, I could have taken these matters in more empirical or more descriptive terms, some case-studies perhaps, some process tracing. . .

However, I already had the empirics nailed down, I was living them, I could see the manifestations of the daily marital tension in little details and solemn speeches. The nature of the problem demanded a lot of experimental thought. And game theory as Swedberg (2001: 323) put it fitted the bill: "The main strength of game theory lies (...) mainly as an analytical tool. Game theory, (...) is very good to raise "questions of the why type" as opposed to "questions of the how much type".

But the questions also demanded a narrower scope, so I concentrated on the dimension of ec<onomic globalization upon which scholarly studies had apparently garnered more theory and understanding: trade liberalization. The investigation here presented takes place in three independent chapters that taken together represent three stages of theory building. The first identifies promising building blocks for a theory of regimes and trade. The second chapter develops this theory and presents a game-theoretical model to answer why trade liberalization follows democratization in developing countries. The third chapter, informed by recent populist outbursts, grabs the theory developed in chapter 2 to provide an explanation of populism that is grounded on the interrelationship between regimes and trade.

Dissertation structure

As mentioned, this dissertation consists of three standalone yet highly concatenated chapters. I begin with a more conceptual piece on the relationship of democracy and globalization that includes a comprehensive review of the field. The subsequent chapter develops a game-theoretic model of political regimes and trade liberalization and presents a computer program to study the model. The third and final chapter expands on the analytical utility of the model by offering an interpretation of populism and globalization based on its central predictions and underlying theory.

Before I move on to describe the nature and purpose of each chapter I offer a discussion of the unifying theme of this three-legged body of work, which is: trade liberalization as a locus of distributive struggles that is interrelated with the distributive struggles of regime change. The theme regarding the distributive implications of trade bears little novelty. In fact, there is no exaggeration in stating that its birth coincides with that of the classical economics of Adam Smith and David Ricardo, among others. However, the precise nature of this conflict and whether international trade always generates winners and losers has never received the consensus of a scientifically settled matter.

Part of the reasons for this are political and ideological. To give an example, free trade was a crucial ingredient to the Washington Consensus' recipe[1], a reform package promoted by the International Monetary Fund, the World Bank, and the US Treasury Department for intervening in developing countries wrecked by crises. The benefits of trade liberalization were put alongside democracy's merits and, prior to the 2008, it was not uncommon in world leaders' speeches to see free trade and democracy as the twin principles of freedom[2].

But alongside political and ideological reasons, there are scientific reasons keeping the question around distributive implications of trade open. As the nature of the world economy evolves, concepts once useful grow outdated, and new facts emerge begging reconsideration of previous conclusions; after decades studying trade theory Paul Krugman, the 2008 recipient of the Nobel prize in economics stated that it is "no longer safe to assert that trade's impact on income distribution in wealthy countries is fairly minor. There is a good case that is big and getting bigger"(Krugman, 2007).

An even older theme than trade and its distributive effects is regime transition. We can date it, unsurprisingly, at least back to Plato and his description how five forms of government degenerate subsequently from aristocracy to tyranny (Republic, book VII). Its most modern version came to be known as transitology the study of regime change and, more specifically, democratization.

The first studies linking trade and political regimes appear in the 1980's. It was Wolfgang Mayer's (1984) formal model of the choice of import tariffs in democracies, and Ronald Rogowski's observations that the institutional variation across democracies was connected to trade exposure (Rogowski, 1987) and that international trade theory's story the winners and losers from trade liberalization fitted neatly with the patterns of political conflict, namely in what countries did class conflict occur and under what guise (Rogowski, 1989). None of these studies was specifically dealing with regime transition effects on trade policy nor with trade exposure effects on regime transition, but all the necessary ideas were in place: different institutions

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[1]See details of the package in Williamson (1993), a critique in Gore (2000) and its historical-ideological analysis in (Brenner, Peck, and Theodore, 2010: 336-339)

[2]A couple of examples to illustrate: "By joining the WTO, China is not simply agreeing to import more of our products; it is agreeing to import one of democracy's most cherished values—economic freedom. The more China liberalizes its economy, the more fully it will liberate the potential of its people...And when individuals have the power not just to dream, but to realize their dreams, they will demand a greater say." — President Bill Clinton at Paul H. Nitze School of International Studies, Washington D.C., March 2000; "When we open trade, we open minds. We trade with China because trade...is good policy for democracy...Free trade supports freedom in all its forms." —President George W. Bush. Los Angeles World Affairs Council. May 30, 2001.

choose different trade policies, and trade generates winners and losers with political effects.

By the end of the 1990's and early of 2000's scholars started a systematic empirical research on the relationship between democracy and trade. The motivating questions were simple and straightforward: 1) does democratization foster trade free trade? And 2) does free trade promote democratization. All these studies echoed in one or another Mayer's and Rogowski's insights but these had not developed into a full-fledged theory. Perhaps López-Córdova & Meissner (2008) best summarizes the then existing relationship between the empirical studies of the subject and the theory: "(...) however persuasive economic models on the subject appear to be, empirical evidence in support of each of the building blocks in those models is inconclusive. Therefore, asking whether democracy goes hand in hand with globalization is ultimately an empirical question."

However, no matter how much evidence can be adduced from empirical research any satisfactory explanation needs to address the why. The contribution of this thesis is to provide a why-type explanation to the empirical evidence on democracy and trade. And to be clear it carries extra-scientific concerns regarding what kind of democracy is possible in this increasingly economically integrated world order, and what sort of participation and openness to said globalized economy would better fit certain democratic projects.

A fair warning is due: no clear-cut answers are given. If anything, this thesis, can reassert its normative motivations and assuage those anxieties with the sheer hope that they may be intellectually manageable, if not practically addressed.

A little background

The central piece of theory offered in this thesis also circles around Wolfgang Mayer's and Ronald Rogowski's insight of the democracy/trade nexus — that links the structure of the domestic economy with the institutional design of the polity in a country — and relies on it to explain both causal directions (i.e. the effects of trade on regimes and the effects regime change on trade and trade policy). The relevant aspects of the structure of the domestic economy for this explanation are 1) the distribution of capital and labor (two factors of production that in some analyses are joined by a third, which is land) across the society, and b) how the abundance of said factors of production compares with that of other countries.

The link with the institutional design is established by three observations. The first is that trade liberalization generates winners and losers. There has been a long debate among economists regarding the precise mechanisms generating this unequal outcome, that was kick-started by the Stolper-Samuelson theorem (Stolper & Samuelson, 1941). It belongs to Hecksher-Ohlin trade theory and describes the winners and losers in terms of factor endowments of capital and labor, and its corollary implies that when a country opens trade with another it always benefits one factor and hurts the other; what determines which factor is rewarded is a relationship between the countries that is called factor abundance and describes how the ratios of capital to labor of each country compare.

While the theorem produces sharp predictions on the distributive effects of trade liberalization, it describes a very special case (a world with two factors of production and two goods) with little empirical counterparts and it has since been reworked in many ways and new trade theories have also shed light on different aspects of this complex phenomenon. However, because the central conclusion still holds, i.e. that with trade openness there is always at least on factor (and thus, the individuals endowed with that factor) that loses (Rodrik 2017), and because of its comparatively simpler framing the Stolper-Samuelson remains researchers' go-to model to think about the distributive implications of trade.

The second observation that links economic structure and institutional design in democracy/trade explanations is that, given that trade openness generates winners and losers, individuals have different preferences about trade policy (tariffs, trade barriers, subsidies, and so forth), and these preferences depend on which factor of production (e.g. capital or labor) they are relatively well endowed with. Some research has been devoted to determine whether (or how much) these individual preferences do in fact reflect individual factor endowments (see Scheve and Slaughter, 2001; Mayda and Rodrik, 2005), but the verdict is not reducible to a single stylized fact, and is most likely to vary historically and geographically.

The third and final observation is that if individual preferences vary then different methods of transforming preferences into decisions on trade policy produce different outputs. So, the institutional design will privilege some preferences over others. The synthesized conclusion of these observations is that the trade policy of a country is the product of an interaction between the structure of the economy and the institutional design.

This dissertation proposes that all approaches stemming from this conclusion can

be thought of as variations of what I dubbed the Stolper-Samuelson-Meltzer-Richard theory (SSMR). The SSMR is a straightforward theoretical coupling of the Stolper-Samuelson theorem with the median voter-theorem as used in Meltzer & Richard (1981) to explain how, in a majority voting system, the distribution of income determines the chosen tax policy. The median voter theorem states that, in a majority voting system, the selected outcome (e.g. the tax rate) will be that of the median voter (the one with as many voters wanting higher taxes as voters wanting lower taxes). Much like the Stolper-Samuelson theorem, the median voter theorem works for very strict conditions that pose serious challenges for its application to democracy and trade issues. Its two key conditions are that 1) only one issue is up for voting and 2) the preferences are single-peaked (i.e. individuals vote for the policy that is closer to their strongest preference). Also, similarly to the Stolper-Samuelson, despite its weaknesses and shortcomings the median voter theorem is the go-to model to think of policy output across many issues; mostly because "it captures the basic idea that any government is likely to be responsive to the wishes of the majority when key distributional issues are at stake"(Alesina & Rodrik, 1994: 466).

The coupling of both theorems produces a simple but strong prediction on democracy and trade: democratization in labor-abundant countries fosters trade liberalization. The reasoning is that when a country democratizes, policy making becomes more responsive to the preferences of the median voter, and this median voter is a worker who will vote for a labor-friendly trade policy; in a labor-abundant country this means voting for trade openness. However, this theoretical coupling has other implications too, that can be grouped in two distinct sets. One of this sets concerns the effects of regime change on trade liberalization, and the other concerns dyadic trade relationships (namely, which pairwise combination of political regime type make good trading partners).

I use the second part of this introduction to provide a more detailed description of each of the chapters to facilitate the reader's job. There, I take my time to introduce some concepts and methods that throughout the three chapters are used under the assumption of the reader's familiarity with them.

Chapter 1: Groundwork for a Theory of Democracy and Globalization

chapter 1 is a critical review of the literature on democracy and economic globalization, with a special focus on trade liberalization. This review of the empirical studies on democracy and trade shows a very puzzling picture: a) one prediction among the first set of SSMR predictions is largely supported by existing research (that which states that democratization in labor-abundant countries fosters trade liberalization), 2) the other predictions of this set have not been directly tested, and 3) the second set is apparently rejected by virtually every study (the ensemble of studies that support one and deny the other do not intersect).

The chapter then takes a closer look at the other causal direction of the democracy/trade nexus. Surprisingly, the SSMR is also the main source of theory on the effects of trade liberalization on political regimes. However, while the SSMR has been used to explain both causal directions of the democracy/trade nexus, each direction is explained by its own version of the SSMR, and both versions are mutually exclusive. One version exogenizes regime change to explain trade policy, the other exogenizes trade policy to explain regime change.

The story proposed by the SSMR, to explain the effects of trade liberalization on regimes, is one where trade liberalization occurs independently of domestic politics (i.e. is exogenous) and when occurs, it generates inequality. In dictatorships this inequality creates a popular pressure for democratization because democracy is the most credible compromise elites can make on future redistributions. The stylized conclusion is: trade liberalization fosters democratization. A review of empirical literature shows mixed results; even among studies that tested specifically for the SSMR logic (i.e. included factor-abundance variables). Despite this weak support from evidence the SSMR is still the only full-fledged explanation of the effects of trades on regimes.

One can describe the difference between the version of the SSMR, that explains effects of regime change on trade, and the version that describes the effects of trade on regime change, in terms of which aspect of redistribution they focus on: the former covers the workings of the distributive struggle on trade policy depending on regime type, and the other centers around the distributive struggle on regime choice depending on (trade-induced) inequality.

To clarify the incompatibility between these two versions of the SSMR, a fine-grained analysis is conducted on four different specifications of the SSMR. Based on the weaknesses and strengths of these specifications, a route is devised for building a theory that captures the endogeneity of the relationship between international trade and political regimes (instead of one version of SSMR for each causal direction). This route, the chapter proposes, implies the substitution of the median voter theorem with another theory of how political regimes aggregate preferences into policy-making: the Selectorate theory by Mesquita et al. (2003). This theory bears, inter alia, the clear advantages in that is valid across political regimes instead of just for majority rule voting systems, but also a clear disadvantage: unlike the coupling of the Stolper-Samuelson and median voter theorem, it requires a formal modeling to uncover its distributive implications. This is what chapter 2 sets out do.

Chapter 2: Democracy, Trade and Inequality: A computer-aided thought experiment

The second chapter develops a model that combines the Stolper-Samuelson logic with the Selectorate theory (explained in a couple of paragraphs below) and introduces elements from the learning thesis: the idea that countries observe other countries' trade policy and economic performance to form a belief, which is updated constantly, on how much growth will a given trade policy induce, and this belief heavily shapes the decision to liberalize trade.

Compared with Stolper-Samuelson explanations, the learning thesis usefully highlights an important feature of international trade: it impacts domestic economic performance. So, pairing the Stolper-Samuelson logic with the learning thesis leaves us with a theory that combines both the effects on distribution, and on economic growth. The need to include both in an explanation is illustrated with the Latin American experience of trade liberalization, and the chapter zooms in on Mexico to unravel the extended selectorate theory (ESM).

The ESM is grounded upon the idea that capitalist regimes always entail a class compromise and the different shapes of this compromise can be mapped. The mapping of class compromises is built upon the original selectorate theory's system of coordinates for all types of regime. The selectorate theory posits that there is a pair of meta-institutions across all types of political regime: the selectorate, and the winning coalition. The selectorate represents the set of individuals in a polity that have

a formal say in the selection of the leader, and the winning coalition is a subset of the selectorate whose support the leader of a polity depends on to remain in power. The leader maintains the support of the winning coalition by producing a platform of policies (taxes and a mix of private and public goods) that maximizes the welfare of members of winning coalition. The sizes of the selectorate and winning coalition vary from polity to polity, and the relationship of these sizes lets us know a lot about the politics going on: redistribution, public spending, kleptocracy, leadership survival rate, and some more.

In the selectorate theory the scarcity and distribution of membership in these two meta-institutions structures political inequality. The extended version here developed, the ESM introduces another axis to represent economic inequality, in a way that is amenable to the Stolper-Samuelson logic: factor ownership of labor and capital. Another addition to the original selectorate theory is the incorporation of trade policy in the platform of policies the leader must produce to cater winning coalition's preferences.

After a detailed formal presentation of the model the chapter proceeds to an analysis of the model equilibria with the aid of a computer program designed for this purpose. The goal is to know how the policies produced by the leader vary with: 1) the size of the two meta-institutions, 2) the number of workers and capital owners that are members of said institutions, 3) and the learning that is done on other countries trade policy (i.e. how much growth a given trade policy is expected to produce).

The results of the analysis contradict some corollaries of previous explanations and build upon some others, indicating that: 1) inequality changes the effects of learning, and the latter are biased towards capital; 2) learning from other countries' trade policy experience changes individual preferences on trade policy, and changes other redistributive policies; 3) democratization does not equate to an increase in labor's leverage in trade policy making; 4) capital's preferences on redistribution influences which comes first, democracy or trade liberalization.

Chapter 3: Populisms, Rational Choice and Reversed Globalization: Classifying the Distributive Politics of Populisms

The third chapter, uses the ESM to investigate populism and its relationship with economic globalization. The purpose there is to show the need to highlight the distributive implications of populism as a necessary step preceding any discussion of

its effects on economic globalization. An entry point to these distributive implications is the question of what interests are sheltered under populism in the national context, and why do these vary. The common explanation — representing a set of other more sophisticated and nuanced variations — states that populist parties' success depends on socio-economic factors that generate pockets of discontent which can be, in turn, capitalized into votes, provided politicians know the right choice of words and the skills of manipulation. In this explanation, the concepts of demand-side (the disgruntled mob) and supply-side (the party/or leader that capitalizes on the former) are well established and unproblematic, and the reasons put forth explaining why in some cases these two sides meet at the left and in others at the right of the political spectrum vary between: 1) the socio-cultural context determines the type of discourse that is more easily exploitable (Inglehart and Norris 2016; Rodrik 2017); 2) the institutional constraints are asymmetric (in some countries they may benefit the triumph of left and in others of right parties)(Alonso and Kaltwasser 2015); and 3), the claim that individuals are ideologically stable so what determines the success of right/left populism is in what end of the spectrum is there more disgruntlement (Guiso et al. 2017).

The chapter advances a fourth type of answer that stems from a rational choice approach and subscribes the definition of populism as a thin ideology: "an ideology that considers society to be ultimately separated into two homogeneous and antagonistic groups, 'the pure people' versus 'the corrupt elite', and which argues that politics should be an expression of the volonté générale (general will) of the people" (Mudde, 2004: 543).

The animating logic of this thin-ideology, the chapter proposes, is that of exclusion/inclusion. A logic that, if enacted upon, necessarily redefines political institutions and bears distributive implications. However, both the concrete aspects of the exclusion/inclusion and its distributive implications of this thin-ideology, are only actualized in the specific context of a distributive struggle. When this happens, we are in the presence of what the chapter calls context-specific populisms that at the national scale can be tied to a populist party, because this party has given concrete aspects to the thin-ideology that is populism; it has fattened it. Because of this context-specificity an individual can never ideologically adhere to populism per se, but only to context-specific populism.

Context-specific populisms exhibit phenotypical variation in terms of style, discourse and logistics and methods but also in terms of specific content with which

they fattened the three core concepts of the thin-ideology (the people, the corrupt elite, the general will). Like all phenotypical variation this one can also be tied to environmental factors, but the chapter explores instead the strategic agency-level micro-foundations of this variation.

This intellectual endeavor begets a set of preliminary questions: 1) what material reasons are there for individuals to adhere to context-specific populism?; 2) how much of its content is fattened by demand-side and supply-side?; 3) How does each context-specific populism mediate class conflict? The answers to these questions supply a very skeletal but enticing basis for a method of classification of context-specific populisms by their distributive implications. This method is widely anchored in the ESM as developed in chapter 2, but here used heuristically as an analytical framework that allows inquiry into relationship of populism and economic globalization. The method is illustrated with two Latin-American and two European context-specific populisms, each set representing a phenotype. The chapter concludes with a few predictions on the impact that each phenotype is bound to provoke in trade openness and, concomitantly, economic globalization.

CHAPTER 1

Groundwork for a Theory of Democracy and Globalization

Abstract. *This chapter critically examines the central theory on the political economy of democracy and trade liberalization, here dubbed the Stolper-Samuelson-Meltzer-Richards theory (SSMR). The SSMR has been used to explain both causal directions of the democracy/trade nexus. Each direction is explained by its own version of the SSMR, and both versions are mutually exclusive. An extensive review of empirical studies is presented to show that the predictions of the SSMR are met with a mix of support and rejection. The chapter then explores the weaknesses of the SSMR and how it can be refashioned to accommodate an endogenous relationship between regime change and trade liberalization. A coupling of a Stolper-Samuelson-inspired theory with the selectorate theory (Mesquita et al, 2003) is proposed as an avenue of future theory-building that mitigates the weaknesses of the SSMR and echoes the empirical findings on democracy and trade.*

Introduction

After two decades of a considerable amount of empirical studies on democracy and trade openness academic wisdom considers the effects of democracy on trade almost consensually as positive. In contrast, empirical results on the effects of trade on democracy are still contradictory. Democratization is hence good news to those who worry about the health of globalization, on the other hand those who fret about democracy are still left guessing on whether to cheer or fear the march of economic globalization. Maybe if we knew why democracy fosters free trade we would need not to worry. So do we know why? More or less, but what we do know does not seem to help understand the other causal direction.

The blueprint of the theory in the political economy of trade policy was already well established in the 1990's. In Rodrik (1995) we can see a taxonomy of models that is pretty much up to date. Since then new models have been added to the debate but they are variations - hardly finite - emphasizing different aspects of the dual stylized process of trade policy making: a) a demand-side composed of individual preferences and group preferences, and b) a supply side incumbency preferences and institutional settings. Rodrik (1995) organizes this variation in four families of causal arguments: 1) tariffs are determined by lobbies and the resources they allocate to tariff formation; 2) tariffs describe an equilibrium of sector-specific benefits and overall welfare losses; 3) campaign contributions influence or determine policy stance of incumbents; and, 4) voting rules and individual preferences determine trade policy.

To the student interested in the theory of political regimes and trade openness, models from the political economy of trade openness present two serious obstacles. The first is that unfortunately these four families of causal arguments are especially intended and mainly adequate - family-specific weaknesses notwithstanding - to describe trade policy making in democratic or quasi-democratic settings. So, to understand how regime change and trade policy are linked some adaptations would be in order. The second is that they are concerned with a one-way causal relationship whereas, as Rogowski(1987) first suggested, domestic institutions may be shaped by the nation's dependence on international trade. Rogowski (1987) claims that certain institutional designs (among which the assurance of proportional representation was deemed the fittest) are more suitable to trade-dependent countries, if they efficiently remove the most serious threats to trade openness. Translating to the above terminology, the potential aggregate gains from trade encourage the demand side of

policy-making to change the supply side (i.e. the institutional setting) in order to guarantee a certain orientation trade policy. These models are ill-equipped to deal with this type of endogeneity.

However, one of these families has indeed been used to theorize about both the effects of democratization on trade openness and the democratizing effects of trade openness on political regimes. This family focuses on voting rules and individual preferences and was developed by Mayer (1984). It combines the Stolper and Samuelson (1941) theorem in the Hecksher-Ohlin theory of international trade with the median voter theorem's use by Meltzer and Richard (1981), to characterize endogenous tariff formation. In this chapter, variations within this family, that combine the Stolper-Samuelson theorem with the Meltzer-Richard's strategy, will be dubbed as SSMR approaches.

I will provide a brief survey on how this family has been used in large-n empirical studies concerned with the relationship between democracy and economic globalization. It is perhaps unwarranted to classify the SSMR theory as the best available theory on the trade-political regime nexus. There is indeed no unshakable epistemological criterion by which it may earn this title, but the fact is that it is the most tested in this kind of studies,and it has the most specified causal mechanisms and the strongest predictive power.

After an initial description of the SSMR theory in the first section, the chapter proceeds by reviewing the two causal directions independently. The next section covers the direction regarding the effects of regime change on trade policy. This direction is the one that requires the simplest adaptation from the original SSMR model in Mayer (1984). I show that its logic implies two separate sets of predictions and that the empirical literature supports one but not the other. To understand why this happens some of the weaknesses of the SSMR approach are examined.

The third section reviews some explanations of the effects of trade policy on political regime that compete with the SSMR approaches. It shows that the abundance of theory is reflected on the overall picture of empirical findings with no hint of consensus: some studies show no democratizing effects, some produce evidence of trade-induced democratization and some other show a negative effect of trade on democracy.

The fourth section shows how the SSMR theory may explain this multimodal relationship and portrays the evolution of SSMR approaches applied to the democratizing effects of international trade. It reports that, mostly because of the causal

role ascribed to inequality the actual predictions have very little empirical counter-parts. More importantly, the opportunity for a synthesis of the SSMR approaches that applies to both causal directions is explored via Ahlquist and Wibbels' (2012) insightful integration of world trade cycles into the theory.

The last section before the conclusion identifies the features such synthesis has to exhibit and proposes an avenue for development that relies on the extension of the selectorate theory by Mesquita et al (2003) instead of relying on the Meltzer-Richard rationale. This synthesis describes a system of causality encompassing the two elements of a typical political-economy model of supply-side and demand-side, and both world trade cycles and trade policy.

What is the SSMR

The first clear formulation of the theoretical coupling of the Stolper-Samuelson theorem with the median voter theorem, used to explain the effects of democracy on trade policy, has been Mayer's (1984) model of endogenous tariff setting on a democracy. The idea of the model is that, much in the same way that the distribution of income and the voting rule in Meltzer and Richard (1981) determines the tax rate, the tariff rate will depend on factor ownership and extension of franchise.

The reasoning on how factor ownership influences voters' tariff preferences is borrowed from the Stolper-Samuelson theorem, a theorem that belongs to the Hecksher-Ohlin model of international trade. The Hecksher-Ohlin theory focuses on countries' productive factors such as labor and capital to explain the effects of trade and countries' trade behavior, namely what kinds of goods each country exports and imports. The model points out the fact that for every pair of countries one is relatively capital abundant and the other relatively labor abundant. This relative abundance is determined by the difference in the ratio of capital to labor in each country. (See equation 1).

$$K_A/L_A > K_B/L_B \qquad (1.1)$$

Equation describes a pair of countries where country A is capital abundant, because it has higher ratio of capital (K_A) over labor (L_A) than country B, which, by fiat,

is labor abundant. In an open trade relationship between the two countries, country A will export capital intensive goods and import labor intensive goods.

The Stolper-Samuelson theorem extends the original Hecksher-Ohlin model (H-O) to make predictions on the effects of trade on the returns to labor and capital. It demonstrates, given H-O assumptions, that if country A exports capital intensive goods, the price of these goods rises and so does the return to the factor intensively used in its production: capital. The opposite will happen in country B; with labor intensive products being exported it is the return to labor (i.e. wages) that is going to increase. We know empirically that, at the national scale, the distribution of these two factors is uneven across individuals: some individuals are relatively well endowed with labor and others are relatively well endowed with capital. So, concluding in somewhat broad strokes, the Stolper-Samuelson's corollary states that, when country A and country B engage in free trade, workers (owners) in the capital (labor) abundant country A (B) will see their wage (rent) decrease, whereas capital owners' (workers) rents (wages) will increase.

Synthesizing: Trade benefits workers in labor abundant countries and capital owners in capital abundant countries. The reason why this is of interest to a theory of democracy and economic globalization is that it provides a roadmap to determine the winners and losers of economic globalization.

Now back to Mayer (1984). The idea is that if we know the relative factor abundance of a country and we know the relative factor ownership of the median voter in that country we can predict tariff setting on import goods. Namely that if country A is capital abundant relative to country B, the lower his capital endowments the higher will the tariff be set. In virtually every country the median voter is relatively more endowed with labor than capital, i.e. her capital endowments are below the mean. This means that trade policy will follow a pro-labor stance: it will set high tariffs in the capital abundant country and low tariffs in labor abundant country.

The SSMR on the effects of regime transition on trade policy

The historiography of initial theorizing efforts of how political regimes may influence trade reforms is laid out in Milner and Muhkerjee (2009) as a gradual process. However the picture is not of incremental theory building but more of stylization of single

aspects of the demand side (individual preferences) and supply side (institutional output) of trade policy. Haggard (1990) stresses the role of incumbent's preferences in autocracies to argue for their greater propensity to liberalize trade. Prezworski (1991) emphasizes individual preferences to explain something of a rolled back liberalization prompted by the experience of individual losses from trade openness. Remmer (1998) places greater thrust in the institutional aspects of democracies as trade-enabling.

In Mayer (1984), as Rodrik (1995) puts it, we find an "exemplary [model] in that it is a fully-specified political-economic model, with no black boxes", it encompasses all these aspects of demand side and supply side at once. The arguments start to resemble an SSMR approach in Stokes (2001) and Weyland (2003), where the considerations of how democratization in Latin America disempowers groups that benefit from protectionism and favor trade reforms are formalized. However, for the Mayer-type model to be used in the analysis of regime change effects on trade, some adaptations are in order.

Expanding Mayer's model via the Selectorate theory

To be sure, the formal model in Mayer (1984) is unable to describe the effects of democratization on trade policy it merely posits how in a democracy trade policies are affected by the median voter's relative capital endowments.

For Mayer's (1984) framework to be extended to a theory describing the effects of regime transitions on trade policy we need to assume that the median voter theorem remains valid for any kind of majority rule voting systems even informal for voting systems. In its original formulation Mayer's model is only able to describe how democracies or, more broadly speaking, polities with electoral systems choose their tariffs. It disallows any kind of reasoning of how autocratic regimes set their trade policies.

Surely, the model in Mayer (1984) accounts for the effects of restrictions on franchise on the identity of the median voter. But a change in restrictions does not always equate to a regime change. This is the problem that Kono (2008) – following Milner and Kubota (2005) – tackled with an intuitive use of the selectorate theory from Mesquita et. al (2003).

The main theme of the selectorate theory is that there is a pair of meta-institutions that is common to all political regimes. This set is composed of the selectorate and

	Labor Abundant	Capital Abundant
Democratization	Open	Close
Democratic Reversal	Close	Open

TABLE 1.1: Effects of regime change on trade. **Predictions I**

the winning coalition. The selectorate is the set of individuals in a polity that has a formal say in the selection of the political leader. Now, as pointed out by Mesquita et al (2003) to gain or maintain office the leader needs the support of only a smaller subset of the selectorate, this smaller subset being called a winning coalition. Size changes in these two institutions could be understood, *sensu lato*, as changes in franchise restrictions. Consequently, in theory we could map political regimes along these two dimensions: size of selectorate and size of winning coalition.

In Kono (2008) the rationale laid out is that democratization equates to an extension of the "selectorate" thus moving the median voter closer to the median individual (in terms of its capital endowments) in the society. I.e. as the selectorate expands from an autocracy to a democracy the relative capital endowment of the median voter decreases.

The actual combination of the median voter theorem with the selectorate theory raises some issues in which Kono (2008) did not dwell. These issues arise from the fact that two different models of collective decision making are being combined without a full examination of what a conjoint formal model would actually look like. But, for the moment, we are strictly focused on Mayer's (1984) original formulation and how it can be used to describe a wider array of phenomena than initially purposed.

Namely that the interaction of the political regime with the relative abundance of productive factors determines trade policy orientation. This is the all-encompassing hypothesis of variations of the SSMR, and the predictions of this interaction would look like table 1.1.

Evidence and implications

In table 1.1 we have a two-by-two matrix of trade policy outcomes of the interaction of regime transition and relative factor abundance. These outcomes constitute the first set of predictions that the SSMR elicits (**Predictions I**). The central logic of the matrix is that in democracies, trade policy follows labor preferences, and autocracies

follow land or capital owners' preferences. While most empirical studies found support for the top row, this support has been more explicit regarding the left cell: that democratization in labor abundant countries promotes free trade. Specific tests to the predictions in the bottom row are to my knowledge nonexistent.

Support for the top row comes from a couple handful of studies. Milner and Mukherjee (2010) use a sample of 179 least developed countries (LDC) from 1970-1999 to test the effect of democratization on trade policy. According to this study an increase in the measure for democratization, prompts an increase in trade openness. Milner and Kubota (2005) with a sample of 130 developing countries ranging from 1975 to 2002 suggest the same positive influence of democracy on trade openness. Because both of these studies sampled only developing countries, they seem highly appropriate to test the SSMR prediction that democratization in labor abundant countries favours international trade.

Eichengreen and Leblang (2008) different sampling methods granted them a more economically diverse pool of countries. Despite that they also find a positive effect of democratization on trade openness, with the proviso in line with Stolper-Samuelson logic that the effects of democracy on openness seem contingent on the domestic economy's relative factor abundance. Rigobon and Rodrik (2005) consider that among the determinants of trade openness the variable democracy bears negligible effects but they did not control for SSMR factors nor is the sample restricted to LDC.

Also among the studies that explicitly include variables relevant in the Stolper-Samuelson logic are Kono (2008), Yu (2010) and O' Rourke and Taylor (2006). O' Rourke and Taylor (2006) set out to test the central predictions of Hecsher-Ohlin trade theory in the nineteenth century. This time frame, they argue, is a period where the identity of the median voter fluctuates with extensions and restrictions on franchise. The choice of this period compels them to include the factor land (in addition to capital and labor) in the analysis. Although their sample includes 35 developed and developing countries their most robust finding that the interaction of democracy and factor endowments is a statistically significant determinant of tariff setting in the way predicted by theory is drawn from a smaller sample that excludes countries without tariff autonomy. Somewhat contrary to other studies (such as Eichengreen and Leblang 2008; Milner and Kubota 2005; Milner and Mukherjee 2009) they also find that democracy alone cannot predict tariff choices. Reassuring the relevance of factor abundance on trade policies Dutt and Mitra (2006) find that even across

democracies there is variation in trade openness determined by the interaction of factor abundance and incumbency partisanship, with left governments, conditional on inequality, in labor abundant countries being more liberal and in capital abundant countries more protectionist than their right wing counterparts. Although evidence from both Baker and Greene (2009) and Galasso (2014) suggest that the role of ideology and partisanship is strongly determined by conjunctural economic factors that provoke a more erratic behavior than the factor abundance/ideology nexus proposes.

This overall consensus on the positive impact of democratization on trade openness has been noted elsewhere (Milner and Mukherjee, 2009), and at first glance it seems to be further supported by empirical studies that looked at dyadic trade relations. In effect, studies of dyadic trade relationship have corroborated, in slightly nuanced variations, the Kantian democratic peace theory that concerns international trade: pairs of democracies trade more with each other than other possible combinations of trade partnerships (Bliss and Russet (1998), Dixon and Moon (1993), Morrow et al (1998), Mansfield et al (2000), Decker and Lim (2008)).

But a closer look at the two by two outcome matrix seems at odds with this empirical regularity of dyadic international trade. What the table appears to suggest is that capital abundant democracies will adopt a more protectionist stance on trade policy. While the model in Mayer (1984) was not designed to explain dyadic trade it nevertheless bears some logical implications on the subject that should not be overlooked.

It takes two to tango

In fact, Kono (2008) taps into the SSMR overall rationale to explain dyadic trade relations. Kono (2008) envisions a model of dyadic trade sensitive to the relative factor abundance of trading partners. It thus renders the preferences of median voter's contingent on trade partners: the median voter in a democracy, relatively poorly endowed with capital as she is, should want to trade more with capital abundant countries and less with labour abundant countries.

These implications are laid out in table 1.2 and constitute a second set of predictions (**Predictions II**).

Because the rules of the General Agreement on Trades and Tariffs (GATT), and later of the World Trade Organization (WTO), make it difficult to discriminate among trading partners through tariff rates, for the preferences of the median voter to be

enacted countries would have to resort to non-tariff barriers to trade (NTBs). The hypothesis that democracy should promote dyadic liberalization when the home country has a capital-labor ratio lower than its trading partner is tested in a sample of developed and developing countries that extends from 1950 to 2000. The findings in support of the central theoretical predictions, show that "democracy has a highly significant positive impact on trade openness when Home is poorer than Foreign" an impact that "becomes smaller — and eventually negative — as the income ratio rises" (Kono, 2008: 12). Although crippled with severe limitations of data on the NTBs, the thesis that dyadic trade openness between democracy depends on the countries' relative factor abundance is strengthened. Less specified versions of this model that consider trade preferences as relative to the rest of the world instead of considering them as bilaterally determined can be found in Dutt and Mitra (2002), Rourke and Taylor (2006), and Milner and Kubota (2005).

But as table 1.2 illustrates, the median voter in capital abundant countries is in the very least a more reluctant free trade advocate. If trade policy were faithfully determined by the preferences of the median voter there would be little trade at all. Consider a set of individuals with different capital endowments where each individual only trades with wealthier individuals because trading with poorer individuals is bound to be harmful. The premises deny the possibility of trade. Dyadic trade outcomes would look like table 1.2. The most important piece missing from the theory is the size of the winning coalition of country A's trade partners. There is no reason to expect that the selectorate and winning coalition size would only play a role in trade policy formation in country A but not country B. Below, I will explore the full logical implications of the theoretical coupling of the selectorate theory with the Stolper-Samuelson theorem.

Kono acknowledges that his theory is unable to explain liberalization of wealthy democracies towards poorer countries and surmises that liberalization of the latter was seen as an opportunity for expanding the markets for capital-intensive goods. This supposition runs counter the SSMR theory but resonates with the Kantian perspective that peace, economic interdependence and the political stability offered by democracies are mutually reinforcing.The dyadic trade implications of the SSMR do indeed seem to fail empirically: Bliss and Russet (1998), and Morrow, Siverson and Tabares (1998) found that pairs of democracies trade more than other types of pairs. Mansfield, Milner and Rosendorf (2000) state that although they cannot compare with autocratic pairs, democratic pairs are found to trade more than mixed regime

A. Labor Abundant	Outcome	B. Capital Abundant
Autocracy	No Trade	Democracy
Democracy	No Trade	Democracy
Democracy	TRADE	Autocracy

TABLE 1.2: Outcomes in dyadic trade. **Predictions II**

pairs. Which adds a little nuance to the Kantian perspective: perhaps it is not democracy but close political systems and world views, that make better trading partners including autocracies. The idea of political similarity as determinant of trade integration was presented before by Dixon and Moon (1993), but their tests were conducted for the bilateral trade relations with the USA, and thus are also unable to determine whether political similarity also plays a role in non-democratic dyadic trade.

However these studies in dyadic trade are not entirely dissonant with the SSMR logic. Mansfield et al (2000) theorize that mixed pairs will have higher trade barriers (the tests are ran with trade volumes) than democratic pairs. My very simple dyadic analysis of the Stolper-Samuelson/median voter logic suggests that these trade barriers will be pretty much the same (except for the very rare cases of labor abundant democracies and capital abundant autocracies) in mixed or democratic pairs: high trade barriers. They control for a host of factors like distance, allegiance, GATT membership and so on. They do not control for wage difference: if the wages of the median voters in a pair of democracies are closer than the wages of the median voter in a mixed pair, the democratic pair would by our Stolper-Samuelson/median voter logic, and without any ad hoc hypothesis trade more than the other pair: as the wage differential decreases the median voter in the capital abundant country optimal tariff also decreases. The very simple dyadic model in table 2.2 also predicts that mixed pairs will trade little to nothing.

More in line with Stolper-Samuelson logic Yu (2010) suggests that labor friendly trading policies' effects on trade volumes may vary with economic sector. Using bilateral trade data and a gravity based model, his findings suggest that democratization in developed countries has a negative impact in imports for labor-intensive products from LDCs and, conversely, in poorer countries democratization has a positive impact on imports from capital abundant countries (Yu 2007, 2010).

What these latter findings suggest is that median voters in developed countries get

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Theory	Predictions I		Predictions II	
	For	Against	For	Against
Contingent on Factor Proportions	Dutt and Mitra (2006) O'Rourke and Taylor (2006) Eichengreen and Leblang (2008) Tavares (2008) Kono (2008) Yu (2007,2010) Milner and Mukerjee (2010) Milner and Kubota (2005) Stokes(2001) Weyland (2003)		Kono (2008)	
Elective Affinity (Dyadic Analysis)				Bliss and Russet (1998) Dixon and Moon (1993) Morrow et al (1998) Mansfield et al (2000) Decker and Lim (2008)
Not linked to theory	Rigobon and Rodrik (2005)	Giavazzi and Tabellini (2005)		

TABLE 1.3: Literature support for SSMR predictions on effects of democracy on trade.

a better bargain from free trade because while labor abundant democratizing countries manage to import more capital-intensive goods from capital abundant democracies they are unable to export their labor-intensive goods.

Endogenous trade policies may impact each other, so that trade among pairs of countries may be mutually determined by both political systems and the distribution of factor ownership at home. Mayer's approach to tariff formation assumes a country with no influence in foreign trade policies and not influenced by them. However, examples in tariff retaliation abound both among democratic pairs and non-democratic pairs. Wiberg (2005) argues that political variables at home shape foreign tariffs on domestic exports. This point is illustrated with a case from 2002. The Bush administration imposed a hike in tariffs from 8% to 30% in steel imports allegedly to harness the vote of swing states with strong stakes in the steel industry and the European Union threatened to retaliate with high tariffs on commodities that were directed at exports of other key swing states that would also hurt electoral chances. However, the United States eventually retracted. This latter case is also illustrative of an aspect of many tariff disputes: they are short spanned. Because of this they may not be that relevant in explaining overall trade integration between two countries.

Table 1.3 shows what kind of traction each set of prediction has from the literature: while the first set of predictions derived from the SSMR has a great deal of supporting evidence from different studies; as for the second set of predictions from the SSMR, besides Kono (2008), there is a significant number of studies providing evidence to the contrary and none in favor.

Median voters. Do they know their trade preferences? Do they matter?

Despite its utility - or on account of its pervasiveness - in modeling endogenous trade policies the use of the median voter has been called trivial: "no one is going to build a reputation formalizing such an obvious insight" (Nelson, 1999:7). Indeed, the median voter encapsulates some basic ideas that are paramount to the case of endogenous trade policy: government's responsiveness to preferences and the rationality of such preferences. However, when applied to trade preferences, ascertaining the validity of the assumptions is far from trivial. So far we have assumed that: 1) the voters know all about the Stolper-Samuelson dynamics; 2) that this knowledge is

the sole basis of trade preferences; and 3) that once economic globalization ensues these preferences remain unchanged.

Indeed, some simple facts about job migration may be almost universally understood. Brune et al. (2001) for instance, consider evidence indicating that in the USA "the majority of citizens are opposed to allowing multinationals to move money, production and jobs freely in and out of the country" to posit, that democracies are less likely to have open capital accounts. But, as Baker (2005) points out, globalization is fueled by consumerism and this engine is not typically accounted for on preference formation, and the evidence reports consumption patterns - exported versus imported - as sound predictors of individual-level protectionism/liberalism. In Mayda and Rodrik (2005) investigation of a wide spectrum of factors determining trade preferences, among the already mentioned determinants of rational preference formation, like factor endowments and consumerism, we also find the sector of employment. As expected, individuals employed in the non-tradable sector are the most enthusiast of trade openness, but Mayda and Rodrik (2005) also find that cultural variables such as nationalism and "neighborhood attachment" correlate with an anti-trade stance.

Besides these cultural variables there are also ideological factors that evade the SSMR logic of quantifiable or knowable material preferences. Armijo and Kearney (2008) argue, for instance, that economic globalization is regarded with suspicion by groups that would purportedly benefit from Stolper-Samuelson effects: Latin Americanists tend to equate economic globalization with neo-liberal reforms and inequality (p. 1002). So, arguably, as Harrison and Hanson (1999) documented for the unskilled workers in developing countries, many voters in the labor-abundant country may deliberately disregard the Stolper-Samuelson logic when forging their preference on trade policy or simply lack information of such future benefits from trade liberalization.

To wrap up the spectrum of factors that affect trade preferences we also need to account for conjunctural economic conditions that may have non-negligible psychological effects. Trade preferences may in effect be shaped by less structural factors like economic crises. The description of how crises throw incumbents in the domain of losses and increase risk acceptance Weyland (2003), as well the types of crises that trigger policy reform - "at extreme values of the inflation rate and the black market premium" but not with negative per capita growth or high current account deficit (Drazen and Easterly, 2001) - casts further doubt over the rationality of trade preferences.

Another little explored fact of trade policy preferences is how bounded they are and how by the uncertainty of the effects. Fernandez and Rodrik (1991) show that ex-ante uncertainties about ex-post benefits of trade reform may forestall reforms in developing countries – thus countering theoretical expectations of the SSMR. Even if voters took these expected benefits from trade reform as certainties we would also need to address the problem of how far does this foresight extends into the future.

Can voters foresee the full extent of the effects of the chosen policy course? So far the Stolper-Samuelson has had little support when it comes to the impact of trade on inequality, in fact the global trend of increasing within country inequality seems to hold even in labor abundant countries that liberalize trade (Goldberg and Pavcnik, 2007). Harrison and Hanson (1999) document, for instance document rising wage inequality in post-reform 1980's low-skilled labor abundant Mexico, contrary to the Stolper-Samuelson predictions. Trade liberalization triggers other phenomena that counter Stolper-Samuelson predictions on inequality. Harrison, McMillan and Mclaren (2010) compiles the mechanisms through which wage inequality increases with trade reform such as "within-industry effects due to heterogeneous firms; effects of offshoring of tasks; effects on incomplete contracting; and effects of labor-market frictions", and Martins (2011) offers an illustration of how income inequality and globalization are mutually reinforced in a process of cumulative causation.

If there is in fact a decisive voter in trade policy issues that acts with unbounded rationality it does not seem to be the median voter. To put it another way, as Armijo and Kearney (2008) suggest apropos of trade policy process evolution before and after democratization in Brazil: the change of regime only slowly and incrementally decentralized the locus of trade policy-making from the executive branch to the Congress and interest groups. In fact, first moves on trade liberalization are portrayed as strategies for regime stabilization and thus elite-based not median voter based. The median voter is, after all, according to Meltzer-Richards theory, an individual whose decision affects her less than every other individual because she is in the middle of distribution, unlike the extremely wealthy (Graetz and Shapiro, 2005). Additionally, the amount of resources necessary to predict the effects of trade policy may be too expensive for such decision to be completely informed.

In a theory of how preferences shape trade policy two sets of questions need to be addressed to which the SSMR constitutes one among other possible answers.

The first relates to actual individual preferences: whether the Stolper-Samuelson effects do materialize is secondary to whether individual preferences follow Stolper-Samuelson's logic or any of the above mentioned cultural, social or ideological variables. In any case, trade-induced inequality should not be viewed as proof of the argument that median voter determines trade policy because inequality was not the foundation of voter trade policies' preferences.

The second set of questions pertains to the matter of whether individual preferences on trade policy are more relevant than collective trade policy preferences. Grossman and Helpman (1984) characterize the distributive struggle over trade policy as quarrel between special interest groups, not individuals. These groups have more resources to determine the full consequences of trade policy upon their interests than the median voter and, unlike the median voter - the individual less affected by trade policy -, trade policy decisions affect them immensely. Trade policy output would under this line of reasoning be a function of the capacity of existing special interest groups to influence incumbents' decisions. The Special Interests theory (see Becker 1983) highlights the notion that because the ability to develop lobbying activities is easier for capital than labor we should expect pro-capital trade policies. The additional bargaining leverage on tax related issues that trade liberalization grants to capital, on account of its increased mobility is also a reasonable motivation for capital owners to pursue trade openness in newly democratized countries regardless of its domestic abundance.

The SSMR on the effects of international trade on political regimes

The most surprising fact about the empirical research on the effects of trade on democracy is that the only theory that has been explicitly tested is the SSMR. I am not particularly interested in the reasons of why this is so but before I describe how the SSMR was adapted to think about the opposite causal direction than initially devised, I would like to highlight that this is not due to scarcity of theory on the subject.

There is in fact an (over?) abundance of theory on the effects of trade liberalization on democracy; especially if we consider these effects as similar in nature to those attributed more generically to economic globalization as a whole. Indeed, most of these arguments are not specifically about trade openness's effects but rather on

the broader phenomenon of economic globalization. To the extent that they do not distinguish the effects of sub-dimensions of globalization, it is legitimate to think of them as arguments on the effects on trade openness. In fact, in most of them we can replace the term economic globalization by trade openness without any loss of meaning or pertinence, as can be ascertained below.

Li and Reuveny (2003) provide a comprehensive compilation of these arguments. On the side arguing for a positive link we find claims that economic globalization produces some intermediate cause which in turn promotes the appearance of democracy and/or the fall on authoritarian regime: economic development, state decentralization for more bureaucratic efficiency, reduced incentives for autocrats to remain in power, the rule of law, diffusion of democratic ideas, demands by the international businesses for democracy.

Looking at what are argued to be the negative effects of economic globalization on democracy we can almost perfectly correspond them to each of the above with its downside: exposure to economic crises, reduced state policy autonomy, the empowerment of multi-national corporations and private interests, social instability via increasing inequality, erosion of the concept of citizenship, inability to compensate the domestic losers of economic openness.

General formulation of SSMR explanations of trade effects on democracy

Acemoglu and Robinson (2002) was the first use of the SSMR underlying logic to explain how international trade with other countries may pave the way for democratic institutions, but the explanation is rather counter-intuitive. The argument runs as follow: when labor-scarce autocracies with low income inequality liberalize trade, inequality increases (as predicted by the Stolper-Samuelson) and the likelihood of a democratic transition increases because this inequality "contains the seeds of its own destruction" in that it induces a change in the political regime toward a more redistributive political system. Democracy in its most reduced form is an institutionalized promise of redistribution (as in Meltzer-Richards theorem).

Underscoring: the argument takes trade policy choices as exogenous; the political impact of trade depends on how trade policies affect income; the income effects are mediated by the country's factor abundance and may be mitigated or reversed by

redistributive policies; democracy is the most credible promise of redistribution (at least of a certain logic of redistribution: that where the median voter reigns supreme).

This argument raises three sets of issues. The first congregates most of the issues subsidiary to the matter of how we introduce economic globalization in our theoretical models: are free trade policies domestic choices or the result of external forces to which domestic actors' only allowed course of action are coping strategies?

A second set of issues that adds to the complexity of the problem is the implied endogeneity of free trade and democracy: since democracy is a credible promise of redistribution one of the redistributive instruments at its disposal is tariff setting. Yu, for instance alerts that "the studies that concentrate on a one-way effect could suffer from an estimation bias since globalization and democratization are mutually affected" (2007:3), and claims that "the positive effects of democracy on trade are under-estimated since they are undercut by the negative effects of trade on democracy" (2010: 296). If we add this claim to the suggestion in Przeworski (1991) that, once the costs of economic globalization incur in voters, democratizing countries will cool down reforms in this direction, we may even begin to formulate the idea of a "feedback thesis": democratization promotes economic openness up to a point from where any deeper economic integration starts to stifle democracy and/or democracy begins to paralyze or reverse openness.

These two issues are around assumptions that are mutually exclusive. But to choose the assumption that best fits reality we need to solve a third strand of issues that overlaps with these and pertains to how we conceptualize democratization. The strategy to tackle the former depends heavily on whether we take Acemoglu and Robinson (2002) reduced-form definition of democracy as a certain logic of redistribution or alternatively we approach democracy as a multi-dimensional concept. Most large-N empirical studies implicitly chose the latter by operationalizing their democracy variable with Polity data, but an analysis of their findings encourages choosing the former.

Previous research

The kind of consensus observed in the empirical research on the effects of democracy does not repeat itself in studies of the opposite causal direction. In what concerns the effects of trade openness on democratization we see pretty much a reflection of the *abundance* of theory described above. In table 1.4 we can see how the effects of trade

Theory	Effects		
	Positive	Negative	No effects
Not linked to any theory	Milner and Mukerjee (2010)* Papaioannou and Siourounis (2008)* Eichengreen and Leblang (2008) López-Córdova and Meissner (2008)	Li and Reuveny (2003) Rigobon and Rodrik (2005) Yu(2007, 2010)	Giavazzi and Tabellini (2005) López-Córdova and Meissner (2008) Decker and Lim (2007)
Contingent on Redistribution and Structure of the Economy	Rudra (2002, 2006) Adserá and Boix (2002)	Rudra (2002, 2006) Adserá and Boix (2002) López-Córdova and Meissner (2006)	Ahlquist and Wibbels (2012)

TABLE 1.4: Literature support for SSMR predictions on effects of trade on democracy.

on democracy are almost perfectly distributed among the three possible categories of effects. Among those studies, some report a positive but weak correlation between trade openness and democratization (Milner and Mukherjee 2009; Papaioannou and Siourounis 2008), others find an unequivocal positive effect running from openness to democracy (Eichengreen and Leblang 2008; López-Córdova and Meissner 2008, and a third group shows a negative effect (Reuveny and Li 2003; Rigobon and Rodrik 2005b; Yu 2007, 2010).

While the methodologies vary across studies, two things are pretty much invariant: the indicators for both the independent variable (trade volume), and the indicator for the dependent variable (scores from the Polity index). It could be argued that these contradictory findings are simply due to the fact that some of the studies did it right and others did not. But the way to disentangle ones from the others would be, aside from highly technical issues, to ascertain whether the chosen methodologies are adequate to verify a theory.

And, as the *abundance* of theoretical arguments linking international trade to democratization displays, free trade can indeed unravel phenomena that present a myriad of challenges and opportunities to domestic actors. At the individual and group-level these challenges vary with political regime and the relative position in the society. It would be slightly uncanny that in all domestic spaces the actors find the same type of solutions and strategies to the occasion thereby posed and that these solutions would relentlessly conduce to or constitute a democracy. We would be assuming that these domestic responses are non-contingent on domestic factors not

to mention historical context. Mutatis mutandis, the same could be said about the arguments advocating a negative impact of international trade on democracy.

If all these effects are in more or less relevant ways connected to democracy they are so because democracy is a multi-dimensional phenomenon. Perhaps the cautious way to test them would be to assess how different dimensions of democracy (representativeness, accountability, social justice, to give some examples) are affected by these effects. This has not been the case. In fact, of a universe of more than a dozen studies only two have designed methodologies that allow an observation of the effects of trade openness on different dimensions of democracy.

The first was López-Córdova and Meissner (2008) that reports a long-run positive effect while stressing two important aspects of this relationship. One aspect concerns the changing nature of this relationship over time. Indeed, in the period going from 1870 to 1913 there is no statistically significant correlation, a fact viewed by the authors as consistent with the hypothesis of highly lagged effects of globalization on democracy.

The second aspect pertains to how this changing nature of the democracy-trade relationship also manifests in the impact on different facets of the political system. López-Córdova and Meissner (2008) using Polity data for the variable of democracy and for the period of 1960-2000, find that in certain years the aggregate positive impact of globalization on democracy is driven solely by one of the facets of political system.

The other study that looked into different aspects of democracy was Bühlmann (2013) who introduces the democracy barometer, a measure more sensitive to differences in the quality of established democracies, and finds that economic globalization has a stronger impact in some aspects of democracy like governmental autonomy and transparency than others like individual liberty or participation.

Not only is democracy a multi-dimensional phenomenon as democratization is an historically contingent phenomenon. Is it warranted to conflate different waves of democratization, or even historically coincident but geographically distant democratization experiences? From the 70s onward democratization cohabits with what Evans (1997:) called the "neo-utilitarian version of neo-classical economy". If liberal democracy and neo-liberal economic reforms were mutually reinforcing ideologies from the 70s onwards why wouldn't democratization and trade openness be linked? Latin America, a region where democratization coincided historically to an astonishing degree with trade liberalization, may be considered as the first offspring of the

Washington consensus: the set of policies pushed by Washington-based institutions at the time, such as the International Monetary Fund, World Bank, and U.S. Treasury Department, as solutions to the economic and financial crises of the 1980s. Is it warranted to assume that the Washington Consensus played no role in the relationship of free trade and democratization?

The fact that several studies reported a changing relationship of economic globalization and democracy over time (López-Córdova and Meissner 2008; Bühlmann 2013; Quinn 2000; Li and Reuveny 2003) suggests unaccounted contingency. The same kind of inconstant relationship was observed about financial openness: Quinn (2003, p. 201) finds that "correlation of democracy with capital account openness varied by time: it was zero to moderately negative in 1890–1919 and 1949–1959, but moderately to strongly positive in 1920–1938 and 1960– 1999".

We can see in table 1.4 that the hypothesis development and methodology of most studies was not informed by any specified theory. More importantly, no study operationalizes democratization in the same strict vein as the SSMR would have us do: as changes in the identity of the median voter.

Although, as I will describe next, the studies in the bottom row of table 1.4 use bits and pieces of the SSMR logic to derive their hypothesis. To my knowledge the only study that examines the argument that the effect of trade openness on democratization is contingent on who benefits from Stolper-Samuelson effects is López-Córdova and Meissner (2008) reporting some feeble support for the hypothesis that trade openness countries has a positive effect on labor abundant countries and a negative effect on resource based economies (like oil exporting countries). This hypothesis also understands the effects of free trade as essentially mediated by its impact on inequality. However in this case it is not inequality that lays "the seeds of its own destruction" as in the original SSMR-based Acemoglu and Robinson (2002) argument. Acording to the Stolper-Samuelson logic, trade liberalization in the labor abundant countries reduces inequality, granting labor with additional political leverage and in labor scarce countries it further extends the power of elites.

Exogenous Globalization, Endogeneity, and the Role of Inequality

All theoretical variations that resort to insights from the SSMR provide different assumptions regarding the role of inequality, exogenous globalization, mutual determination of regime and trade policy, and the role of fiscal policies. In this section I review them and highlight these differences and its implications (and comparative outlook is set out in table 1.5). The models are Rudra (2002, 2005), Acemoglu and Robinson (2002, 2006), Adserá and Boix (2002), and Ahlquist and Wibbels (2012) and the common thread between them is the emphasis on the theme of redistribution to understand the trade/regime relationship.

The main goal of this review is to explore how we may use SSMR to explain both causal directions in the relationship between trade policy and regime. The theories here reviewed are unable to do so mostly on account of either the assumption of exogenous economic globalization or the explanatory power being limited to certain ideal types of relative factor abundance and political regime interaction.

Implicit Stolper-Samuelson logic

Rudra (2002, 2005) and Adserá and Boix (2002) do not explicitly incorporate Stolper-Samuelson because they only borrow from it the idea that trade policy has distributive consequences, generating winners and losers, but the models do not explicitly address how these consequences vary with relative factor abundance.

Rudra (2002, 2006) relies on the notion that there is a natural predisposition for democratization across social strata and globalization only presents an opportunity for it to come about. According to this mechanism, shocks generated by globalization challenge elite cohesiveness and disturb existing relationships between elites and non-elites. A number of assumptions complete the scenario proposed by this mechanism: globalization is exogenous; good economic performance is a government goal; elites prefer political liberalization; and social stability is highly desired.

Under these assumptions we should expect elites to favor political liberalization when the extension of franchise coupled with economic inequality does not threaten to overrule the undergoing logic of accumulation with the logic of distribution. Whenever increasing social spending is not feasible, governments in the face

of globalization will opt for more political repression (Rudra, 2002); that actual feasibility criteria are not explicitly stated, but we can probably think of them as akin to Przeworski (2005) concept of feasible redistributions.

The assumption of exogenous globalization, implies that trade policy is independent of median voter preferences. Its plausibility relies on the fact that significantly dissimilar economies and political systems, like Mexico, India, Korea, Philippines, Turkey, Chile, Ghana, Brazil, and Kenya embarked on economic liberalization by the same time in the nineties. However plausible, this assumption seems to run counter Quinn and Inclan's (1997) finding that political partisanship explains financial openness, and neglects significant research and theory on the domestic determinants of trade policy (see for instance Keohane and Milner 2002; Moravcsik 1997).

Assuming the opposite, i.e. that the setting of tariffs is endogenous as well as the setting of taxes, Adserá and Boix 2002 reach however very similar conclusions, namely that there are three possible strategies available for incumbents: 1) politicians choose semi-autarky, which, ceteris paribus, depresses the level of public spending; 2) politicians choose an open economy and entail a policy of compensation for the sectors left worse off through welfare policies; 3) politicians choose an open economy, and exclude through authoritarian rule the sectors that suffer the most from economic liberalization. What determines the chosen strategy is the ability to expand public spending which in turn is dependent on how well a country does in the global market: if the export competitiveness declines the country governments have to switch gears to either protectionism (strategy 1) or political repression (strategy 3). The calculations that affect the choice between strategy 1) and strategy 3) are explored below.

Both Rudra (2002, 2005) and Adserá and Boix (2002) use the median voter logic to build their arguments with some notable differences.

Rudra (2002,2005) assumes globalization as exogenous and in doing so removes choice of tariffs from the mechanisms associated with the median voter. In Adserá and Boix (2002) terms, Rudra (2002) proposes that there are only two available strategies for autocracies or hybrid regimes when faced with economic globalization: enhancing repression or increasing social spending. Again, in Rudra (2002), autarky or protectionism are not options, but the model is silent on the effects that this exogenous globalization would produce in democracies. Are they left with the same two alternatives: repress or spend? We could assume so. The median voter

	Models			
	Rudra (2002,2005)	Adserá and Boix (2002)	Acemoglu and Robinson (2002,2006)	Ahlquist and Wibbels (2012)
Exogenous Globalization	YES	YES and NO	YES	YES and NO
Mutually determined nexus	NO	YES	NO	YES
Type of Income Inequality	Actual trade-induced inequality (ATI)	Potential trade-induced inequality (PTI)	Actual trade induced inequality (ATI)	Potential trade-induced inequality (PTI)
Effects of Inequality	ATI decreases odds of democratic transition	PTI increases odds of autocratic reversal (not formally specified)	ATI has non-linear effect	PTI has non-linear effect
Stolper-Samuelson dynamics	NO	NO	YES	YES
Explanatory Power	Effect of trade on autocracies	Effect of trade on democracies	Effect of trade on autocracies	Effect of trade on autocracies

TABLE 1.5: Comparing SSMR models

in a democracy, if on the losing side of international trade, will push for higher social spending up to a point where political repression must take place to allow the continuous deepening of economic globalization.

The synthesis of these theoretical efforts renders a theory that essentially states that the effects of trade are mediated by taxes and political rights. The implication of this claim is that it is pointless for domestic free trade advocates to worry at all, because it is bound to happen. It is also pointless for those who seek democracy to worry: the country can either afford free trade in a democracy via its capacity for social spending or it can't and thus becomes an autocracy because of the repression that follows. Thus to trade liberalizing autocracies, democracy becomes a commodity that you can or cannot afford, and, when you can, the politics of redistribution are dictated by the predicaments imposed by free trade. The challenge for this theory would be to explain how political variables seem to explain trade patterns.

Adserá and Boix (2002) dual model also covers how the survivability of democracies is affected. The first half of the model specifies how taxes and tariffs are jointly chosen in a democracy and the second half how, under given policy choices, the odds of democracy survival are affected. These odds depend on the net gains from trade vis a vis autarky: as the individual welfare of the median voter under his preferred trade policy (say autarky) decreases, and as the gains to be made from trade increase, the cheaper it is to buy her preferences. But if net gains from trade decrease to the point where it is not possible to buy out median voter preferences, the more likely is an autocratic drift to force the coexistence of trade openness and low social spending.

It should be noted that, while the model rests on the assumption that the median voter is biased towards protectionism, we can extrapolate the model's conclusions to: 1) a scenario where her preferences are determined by factor ownership and relative factor abundance as in the SSMR central tenets; and 2) to its implications on the odds of survivability of a dictatorship. So what would happen under a protectionist dictatorship where the putative median voter of a democracy prefers an open economy, equivalent in SSMR terms to a labor abundant autocracy? For capital endowed elites in a labor abundant country, dictatorship becomes cheaper as the potential net gains from trade increase. Conversely, in capital abundant autocracies where the median voter prefers autarky, as net gains from trade increase the cheaper it is to buy out median voter's preferences compared to the costs of repression. So, in this extrapolation, the model would predict a trade-induced democratizing effect only in capital-abundant countries, i.e. where the median voter leans toward trade protection.

Because this effect is a function of net gains from trade, the main corollary then, is that odds of regime survivability are dependent on the world trade cycles. To be sure these extrapolations are not part of the formal model in Adserá and Boix (2002). The model only covers the effects of trade on democracies and world trade cycles only determine whether the polity will remain a democracy under autarky or transition to an autocracy under free trade.

Explicit Stolper-Samuelson logic

Ahlquist and Wibbels (2012) coupled this idea of a world trade cycles influence on domestic affairs with a full blown SSMR theory borrowed from Acemoglu and Robinson (2006). In this formulation of the SSMR, the Stolper-Samuelson dynamic and world trade cycles tell us how inequality would be affected if trade were liberalized and the Meltzer-Richard informs us on the individual costs of a democratic transition.

First let us see how Acemoglu and Robinson (2006) includes inequality in the causal chain and why Ahlquist and Wibbels (2012) expands the predictive power of the former.

In Acemoglu and Robinson (2006) the assumption of exogenous (or random) trade policy has the advantage of sidetracking the explanation of trade policy in autocratic regimes but, given the disadvantages of the assumption, it is worthwhile to observe what happens to the model when we drop it.

When we do incorporate trade policy endogeneity we do it at the expense of predictive power: if we consider endogenous trade policy, the theory has little empirical counterparts because it can only predict trade-induced democratization in labor-scarce countries – countries where the elites would benefit from trade liberalization – with pre-free-trade low inequality; admittedly a very low subset of the population of democratization experiences.

	Autocracy	Democracy
Labor Abundant	No effect	No effect
Capital Abundant	Increases Likelihood	No effect

TABLE 1.6: Acemoglu and Robinson (2006) modified theory: effects of free trade on regime change

The reason for this little predictive power lies in the role ascribed to inequality in regime transitions. As in the remaining three models analyzed here, inequality structures incentives for regime change, but according to Acemoglu and Robinson (2006) it does not operate in a linear fashion:

Low Inequality Low incentives for the poor to pursue regime change.

Medium Inequality Low incentives for the rich to resist democratization.

High Inequality High incentives for the rich to resist democratization

So extreme inequality reinforces the political status quo by presenting elites with high incentives to maintain the present state of redistribution and thus shy away from Meltzer-Richard effects that are expected to occur: the higher the inequality the bigger will redistribution be in a democracy. But very low inequality is also with inertia because the under-privileged have little to gain from chasing a democratic redistribution scheme. Accordingly, it is only when free trade pushes inequality to moderate levels that it is plausible to observe a democratizing effect. At this moderate level the elites are less apprehensive of redistribution effects and the non-elites have real material gains to actualize.

According to the Stolper-Samuelson logic it is only possible to observe a move from high inequality to medium inequality if elites adopt a trade policy that betrays its direct material interests by hurting the returns to the productive factor controlled by them. In a theory grounded on the assumption of rational, self-seeking wealth maximizers this possibility is excluded. So the only change in inequality caused by international trade allowed in this line of reasoning in autocracies is from low to moderate (or high) inequality; a move that economically benefits the elite. If we assume, what seems otherwise empirically sound, that elites are not endowed with labor but with some other factor of production like land or capital, the choice of free trade policies by the elite means under Stolper-Samuelson terms that the country is labor-scarce.

Table 1.6 summarizes the predictions of Acemoglu and Robinson (2006) modified theory with endogenous trade policy. As we can see, it is only a theory of the effects of trade on labor-scarce autocratic regimes as it is unable to utter any sort of effect that this particular aspect of economic globalization may have on democracies. Furthermore, the link that is established between trade and democracy is probabilistic and relies on the link between inequality and regime type. A link that, as Ahlquist and Wibbels (2012: 451) noted, is plagued by contradictory evidence.

Ahlquist and Wibbels (2012) model is something of a synthesis of the Rudra (2002) and the Adserá and Boix (2002) approaches and it has some advantages relative to Acemoglu and Robinson (2006). The substantial difference to Adserá and Boix (2002) is that the preferences in the model are shaped by factor ownership and factor abundance (instead of given or assumed), and while the tariff choices are endogenous, the actual effects of trade on regime manifest themselves despite trade policy and are exogenous: they depend on the world trade cycles. The way world trade cycles operate on the regime differs however from Adserá and Boix (2002) where these signal to the elites on a dictatorship how expensive it is the transition to a democracy. In Ahlquist and Wibbels (2012) it functions as a signal to non-elites to rebel. The idea is simply that when workers in an autocratic labor-abundant autarky witness an increase in world trade, an incentive for mounting a regime change looms because there are potential gains to realize if trade policy is reversed. Ahlquist and Wibbels (2012) combine endogenous trade policy with exogenous effects of world trade and thus lend the theory more predictive power without changing any other substantial premise, and by removing the causal onus from actual inequality and placing it on potential inequality that is a function of the interaction of relative labor abundance and world trade integration.

The analytical results in Adserá and Boix (2002) also imply these ideas of potential gains and exogenous effects, but they were left underdeveloped and given no attention on the empirical tests of their model.

However implausible it may seem that workers are vigilant of Stolper-Samuelson calculations when pondering about regime change – especially if we consider how ex-ante uncertainty about ex-post gains and losses is biased towards the status-quo (Fernandéz and Rodrik, 1991) – this idea dates back to Rogowski(1989) that adduces examples of how potential gains mobilized workers and induced trade unions to increase demands in Germany World War I, the United States World War II, and the United Kingdom in both. The matter of how potential gains thrust workers to action must however be dependent on the type of political regime.

The weakest spot in this variation of the SSMR is the unspecified role that actual inequality plays. The Meltzer-Richard considerations in Acemoglu and Robinson (2006) were used to think about the incentives of the non-elites and elites alike. It could have been used in the same vein in this new specification by Ahlquist and Wibbels (2012) via an interaction with relative factor abundance but was not.

Theoretically the interaction would preserve the non-linear relationship that Acemoglu and Robinson (2006) proposes: at high levels of inequality and high relative labor abundance the elites would have even more incentives not to open trade because the move to democracy would mean damaging tariffs and taxes; at low levels of inequality, a spike in world trade would more likely spark domestic conflicts in a labor abundant country than in a labor-scarce. The same exercise can be done to all possible combinations of relative labor abundance and inequality.

The isolated impact of inequality on democracy is in fact tested in Ahlquist and Wibbels (2012) and found to be none, a finding which may discourage the specification of new tests with this interaction of inequality and relative labor abundance in mind. But then again we would be left with no theory because Ahlquist and Wibbels (2012) failed to find any supporting evidence of their SSMR-based hypothesis that world trade cycles increase the risk of democratization in labor abundant autocracies.

However, the hypothesis that Ahlquist and Wibbels (2012) tests is not a complete picture of the theory from which it has been derived. The central aspect of the theory is that world trade cycles create pressures to (re)distribute, and democracy is only one possible avenue for (re)distribution, the other is of course trade openness. A possibility that is much more fluid than regime change in terms of its promises of (re)distribution and thus possibly seen in a better light by elites. Unfortunately, empirical tests in Ahlquist and Wibbels did not control for this possible outcome.

A synthesis

Ad-hoc hypothesizing may be endless but is definitely achieving some degree of exhaustion in the SSMR logic applied to this causal direction. However, as shown above, the application of the SSMR to the effect of democracy on trade openness was also plagued with its own issues: dyadic trade paradox, median voter propensity to learn of Stolper-Samuelson logic, the unaccounted leverage of capital mobility, and unaccounted increased inequality in liberalized labor abundant countries. The fortunate aspect of this theoretical landscape is that the flaws and virtues of each contribution do not coincide. So it is possible to envision the route for a synthesis that combines the strengths and, more importantly, mitigates the weaknesses.

A successful attempt of such synthesis would exhibit a theory with the ability to: 1) reconcile both causal directions without having to modify the initial assumptions when shifting direction; 2) formalize tariff setting across regime types (and not just

democracies); 3) formalize a simultaneous choice of tax and tariffs; 4) settle the dyadic trade paradox. At the risk of over-ambition, it would also be a much desired feature if the unpredicted rise in inequality after trade liberalization in labor abundant countries could be accounted for. Surely, this latter empirical fact can be attributed to other aspects of globalization (or market economies) but, if so, some explanations of whether these aspects are governed by the logic of the median voter and if they are why is the median voter voting for inequality will always be due.

Ditching the MR in the SSMR

While points 1) and 2) are necessary properties of a theory of political regimes and trade, point 3) lies at the very core of the SSMR albeit not always acknowledged and made explicit by the different variations. The SSMR approach has the undeniable merit of delivering an explicit link between trade policy and political regime by treating both as collective arrangements that impact the distribution of resources. The two separate parts of this approach have a clear explanatory jurisdiction. The Stolper-Samuelson theorem provides a starkly printed, albeit many times declared dead (Leontieff 1953, 1956; Bowen et. al, 1987; Davis and Mishra, 2007), map of the winners and losers of trade liberalization. Because of that, it allows predictions of the effects of trade liberalization, and as this predictions become guiding principles to the stakeholders of trade policy decisions the safer it is to assume that the Stolper-Samuelson logic informs these decisions. In such a light, tariff settings are choices of distributive consequence much like that of the tax rate. Meltzer and Richards (1981) is a theory of the size of government (the government understood as a redistributive apparatus, and the size as the equilibrium tax rate) therein posited as a function of the income of the median voter and the distribution of income, in a polity where this collective choice is determined by majority rule. The role that this theory plays in the SSMR is the – or better, a – specification of how economic inequality (the distribution of income) and political inequality (the way the decision rule determines the actual individual preference that is turned into policy) are mutually determined. The assumption of the majority decision rule is however very restrictive; it limits the analysis of this interaction between economic inequality and political inequality to a small sample of this historical experience. Additionally Acemoglu et. al (2015) shows how only part of this relationship is explained by Stigler's (1970) "Director's Law" that democracy empowers the middle class not the poor (the same idea behind

the MR theory). The other relevant part of this relationship can only be understood with models that deal with the capturing of democracy by elites, i.e. where the identity of the politically powerful median voter is formally known but inaccurate. The implication is that the existence of majority voting is not sufficient to determine the decisive voter.

If inequality is thought of as the phenomenon that mediates the effects of trade on regime and vice versa – namely in the way that it structures incentives for regime change (new redistributive configuration) and trade policy (new distributive configuration) – the two collective choices (taxes and tariffs) that determine inequality must be considered as simultaneous: for every given political regime, one implies the other, so that there may be multiple *equilibria* of varying number depending on regime type. Because of the assumptions of majority rule and single issue voting the Meltzer Richards is unable to contribute, respectively, for a theory valid across regime types (2), and where collective choice is exercised on multiple issues (3).

Extending the Selectorate Theory

In order to drop the median voter and maintain the SSMR main story – the interaction of economic inequality and political inequality mediated by taxes and tariffs – some other model of preference aggregation is needed. The aforementioned selectorate theory (Mesquita et al, 2003) has some advantages compared to the median voter theory, specifically regarding the two issues that impair the latter for our purposes: it models preference aggregation on multiple issues across regime types.

The most salient aspect of the selectorate theory is its emphasis on selection institutions: the selectorate, the winning coalition. The selectorate is the subset of the population at large, composed of individuals that have a formal say in the selection of the leader. The winning coalition, is a subset of the selectorate composed of individuals whose support is necessary for the leader to gain and maintain power. With the size of the selectorate (S) and the size of the winning coalition (W), selectorate theory intends to subsume all the infinite variety of institutional designs into a single coordinates system upon which we can map all different categories of political regimes like monarchies, democracies, dictatorships and so on. In such a coordinate system we would for instance place democracy in a large S, large W position; a monarchy in a small S, small W position; and a rigged-elections autocracy (RE autocracy) in large S small W position (see figure 1.1).
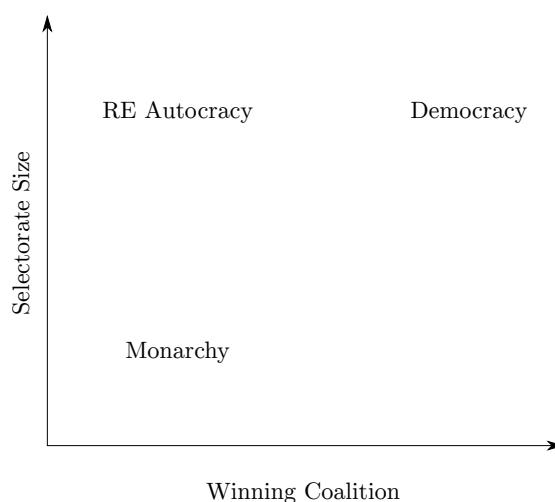
FIGURE 1.1: Mapping regime categories in the selectorate theory.

In the selectorate model, all individuals maximize their utility by function f (x, g, r, l). Here x is the amount of public goods produced by the leader, g is the amount of private goods distributed by the leader, r is the proposed tax rate of the leader and l is the leisure time each individual chooses to spend. We can think of this quadruple as an electoral platform. The incumbent stays in office if she maintains a coalition of size W by beating her opponent's offer with a more attractive electoral platform. Only membership in the winning coalition grants access to private goods whereas public goods are enjoyed by the selectorate at large. The incentives that leaders face in the allocation of public and private goods vary with the size of the winning coalition. With a small W the leader is able to placate the demands of the winning coalition mainly with private goods but as W increases the leader finds it cheaper to provide a mix of private and public goods. Her payoff, besides the intrinsic value of office, is the difference between total revenues and total expenditure in private and public goods. The predictions on countries' trade openness based on the selectorate model are based on the assumption that trade openness is a public good "in that it redounds in the benefit of all in society" (p.196). Accordingly, because trade openness is a public good it should be present in polities whose selection institutions favor the provision of public goods, i.e. systems with large winning coalitions. Later the assumption that trade benefits all is mitigated when reasoning that the "votes of producers who gain concentrated benefits from the absence of trade rarely add up to enough votes to provide the support needed to form a large coalition" (p.197). Admitting in passing that there are losers from trade they also expect that "helping those

who bear the brunt of the costs of trade means the politician is more likely to stay in office" (p. 196).

These exceptions to the assumption do not however change the expected probabilistic effect of selection institutions on trade openness. The empirical tests conducted (measuring trade openness in exports plus exports divided by GDP) largely confirm the predicted pattern that large coalition systems favor trade openness and align themselves with the empirical literature on the effects of democracy on trade liberalization. Interestingly, the constructed variable WS:DemRes that represents the part of a country's level of democracy that is not endogenous to W and S has a negative effect on trade openness. This piece of evidence does not in itself lend any support to the thesis that democracies open up trade because their institutional design promotes the provision of public goods: the distributive nature of trade policy prevents an assumption of it as public good.

The main task necessary to extend the selectorate model in order to accommodate the general logic of the SSMR is forcefully to drop the assumption of free trade as a public good. To do this two modifications are needed. One is to add a fifth dimension to the electoral platform, thus becoming a quintuple where we join trade policy to the previously mentioned tax rate, public and private good allocation and leisure time. This modification ensures the simultaneous choice of tax rate and trade policy advocated earlier.

The other modification is to add economic information to individuals, so that: 1) their choice of trade policy depends on their factor ownership, and that 2) the outputted trade policy depends on how the distribution of factor ownership is spread over the selection institutions.

To include the endogeneity of trade policy and political regime, the model would also need to make the choice between trade policies dependent on world trade dynamics as advocated by Ahlquist and Wibbels (2012).

Chapter conclusion

The main task of a theory of political regimes and international trade is to understand how the externalities produced by trade policy are internalized at the national scale through its decision making process. To perform this task it is not necessary to participate in the never ending stabilization and clarification and decontamination of the term democracy: it should not be a theory of *democracy* and globalization. What is

necessary is to model the universal aspects of decision making at the national scale. Such modeling will always be impaired by the contingency of the assumptions on individual rationality; rationality is historical and geographical and "all deliberation is permanently at the mercy of the cognitive resources available to its participants. (Dunn, 2007:13)". As reasoned above, individual preferences can be known but the models would have to be multiplied by the number of countries showing different preference distribution, multiplied to the point of uselessness. Given certain rationality assumptions it will nevertheless allow an investigation of which *equilibria* are logically possible in the political regime/trade openness nexus. An extension of the selectorate theory bears such promise while fulfilling the need to reconcile both causal directions under the same theoretical body.

CHAPTER 2

Democracy, Trade and Inequality – A Computer-aided Thought Experiment[1]

Abstract. *In developing countries, trade liberalization tends to follow democratization. This chapter unifies two explanations — the factors-based explanation and the learning thesis — into one theory. Each explanation highlights a different aspect of trade policy, respectively: distribution, and economic performance. We use the 1980's Mexican experience to illustrate the need of accounting for both. Extending Mesquita et al's (2003) selectorate game we integrate both aspects of trade policy and propose a model that, introducing factor ownership – capital owners and workers – and country factor abundance, examines how the interaction of institutional variables, policy learning and factor abundance influence policy output. The results contradict some features from the two explanations and build upon some others, indicating that: 1) inequality changes the effects of learning, and the latter are biased towards capital ; 2) learning from other countries trade policy experience changes individual preferences on trade policy and changes other redistributive policies ; 3) democratization does not equate to an increase in labor's leverage in trade policy making; 4) capital's preferences on redistribution influences which comes first: democracy or trade liberalization.*

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[1]This chapter is based on work done for an article co-authored with Bruno Loff (Universidade do Porto, Departamento de Ciências da Computação)

Introduction

In this chapter I explore the relationship between democracy, trade liberalization and inequality. Democratization has been found to foster international trade (O'Rourke and Taylor 2006, Milner and Mukherjee 2009, Dutt and Mitra, 2002). There are two kinds of story accounting for this fact. One is commonly dubbed the factor-based explanation (see a review in Ahlquist and Wibbels, 2012) and the other less treaded path is here abbreviated as the learning thesis.

The factor-based explanation is grounded on the theoretical coupling of the median voter theorem and the Stolper-Samuelson theorem from the Hecksher-Ohlin theory of international trade (Stolper and Samuelson, 1941). Its most basic statement is that the voting method determines which individual selfish economic interests (which stand to lose or gain from international trade) have better chances of shaping trade policy [see Milner and Kubota (2005), Brune et al. (2001), Kono (2008), Dutt and Mitra (2002)]. Its first clear formulation is Mayer's (1984) model of endogenous tariff setting on a democracy. The idea of the model is that much in the same way that the distribution of income and the voting rule in Meltzer and Richard (1981) determines the tax rate, the tariff rate will depend on factor ownership and extension of franchise.

The Stolper-Samuelson theorem extends the original Hecksher-Ohlin model to make predictions on the effects of trade on the returns to labor and capital (this theorem has been the subject of intense critique, for an example see Davis and Mishra, 2007). It reasons that if country A is going export capital intensive goods and the price of these goods is going to rise so is the return to the factor intensively used in its production: capital. The opposite will happen in country B; with labor-intensive products being exported it is the return to labor (i.e. wages) that is going to increase. Synthesizing in broad strokes: Trade benefits workers in labor abundant countries and capital owners in capital abundant countries. The reason why this is of interest to a theory of democracy and economic globalization is that it provides a roadmap to determine the winners and losers of economic globalization.

The learning thesis is stated and tested with favorable results in (Meseguer and Escribà-Folch, 2010) and it posits that democracies are more prone to learning than dictatorships. The rationale for this thesis stems from the selectorate theory (Mesquita, Smith, Siverson, and Morrow, 2003) and it argues that polities where the political leadership survival depends on the support of large coalitions have a greater incentive

to learn from other countries' experience than small-coalition polities. This means that if we consider two countries faced with the same information on the economic performance of a given trade policy the one with the larger coalition is more likely to adopt the policy that produces the most economic growth; i.e. dictatorships are more likely to stay on course with a poor economic policy.

The two explanations are not immediately mutually exclusive but they stress very different aspects of the political regime/trade liberalization nexus. The latter views trade policy as a means to achieve a public good (growth) and the former as the locus of conflict between two opposing interests. Trade policy is in fact both. Any model that picks and chooses is unable to explain how the distributive implications of trade interact with the economic performance implications to produce a given trade policy.

The formal model developed in this chapter encompasses these two aspects of trade liberalization and ties trade policy to leadership survival. I assume that all types of political regime learn just as well but the action derived from such learning differs according to the institutional design of the polity. Its macro-theoretical stance sees trade policy as part of a class compromise between workers and capitalists that is sensitive to overall prosperity and I explore the relationship between political regimes and trade by looking at the central features of this class compromise.

Every capitalist society has its own modality of class compromise between workers and capitalists, here understood in the terms that Przeworski and Wallerstein (1982: 236) stated: "Class compromise implies a particular organization of political relations, a particular relation between each class and the state, a particular set of institutions, and a particular set of policies". This definition was produced under the assumption that only democratic states are states with class compromise, I extend this assumption to all capitalist states, acknowledging of course that the terms of this compromise vary greatly.

This class compromise is constituted by the institution of private ownership (the institution that generates economic inequality) and the political institutions that mediate the opposing interests (the institutions that generate political inequality with material implications). The tools available to mediate the former are innumerous and vary historically but we can abstract four main categories of mediation: taxes, tariffs, and a mix of state-provided public and private goods.

The features of each specific class compromise vary with the number of workers and capitalists whose commitment to the compromise is necessary. These numbers in turn determine the output of taxes, tariffs and state-provided goods. Any variation

in these numbers corresponds to a different set of output policies.

To the extent that tariffs express trade liberalization we can model the latter as part of a quadruple of policies (taxes, tariffs, public and private goods) that is a function of the interaction between economic inequality and political inequality.

By drawing heavily from Mesquita et. al (2003) model of their *selectorate theory* we secure most of the tools necessary to our purposes: a system of coordinates able to map all kinds of political regimes (i.e. variation of political inequality), a theory linking institutional input to a redistribution policy output and a mechanism of preference aggregation. To this it is added: 1) a redistribution policy output working according with the Stolper-Samuelson logic (i.e. that produces losers and winners from free trade) 2) and information of the economic status of the individuals.

The central research question in this chapter is why does trade liberalization follow democratization in developing countries and the model is constructed so that the relationship between trade, regimes, inequality and learning can be explored. Because the model here developed is an extension of the selectorate theory it produces the same number of predictions of the original and a few more; and it is here dubbed as the extended selectorate model (ESM). Not all predictions will be explored here with the same degree of detail. The analysis of the relationship of interest is prioritized, and the other aspects of model predictions are only brought up in relation to it. The model analysis proceeds by comparative statics with the aid of a computer program — necessary on account of the model's tractability — where regime, inequality and learning take turns as the independent variable

The generalization is quite straightforward and the story is as follows. A society is composed of individuals from two economic classes, workers and owners, owning one of the two existing factors or production with different rates of return: labor and capital. The polity is characterized by the relative size of leader-selection institutions: the selectorate and the winning coalition. Members of the selectorate are the subset of the population that has a formal say in the selection of the leader. The winning coalition is the number of selectorate members whose support is necessary to win an election. The class composition of the selectorate and the winning coalition may be mixed or homogeneous.

In each election candidates present electoral platforms with redistribution proposals: a tax rate, a mix of private and public goods and a trade policy. The trade policy always benefits one economic class' interests *vis a vis* the other. If the leader manages to maintain the support of a winning coalition he stays in office. Otherwise,

incumbency is lost and the challenger becomes the leader.

The empirical motivations for these modeling choices and the ESM view of class compromise are illustrated with the case of Mexico's 71 years long dictatorship at the hands of the Partido Revolucionário Institucional and its decision to pursue trade liberalization.

The original selectorate model by Mesquita et al (2003) is introduced in section two, and section three presents the extended selectorate model. The fourth section proceeds to an analysis of the numerical simulations of the model and its main predictions on the relationship between political regime and trade policy. Section four adds some possible interpretations of the model. Section five offers final remarks.

Factors *vs* Learning, and the case of Mexico

The fact that trade policy generates winners and losers – the central explanandum of the factors-based explanation – and that it affects the domestic economic performance by exposing it to world trade cycles – a necessary staple for the learning thesis – is undisputable. These are two key aspects of trade policy. While it may seem forceful that any theory of regimes and trade must include both, most have not (notable exceptions are Adserà and Boix, 2002, and Ahlquist and Wibbels, 2012), so, to examine each separately, a bit further, can expose the blind spots generated by only looking at one aspect at a time.

A cursory look at Latin America's experience with democratization and trade liberalization makes a good case for both the factors-based explanation and the learning thesis. The bulk of trade liberalization in Latin America occurs in the period ranging from 1987 to 1992. In figure 2.1 we can see that this is a period where open economies are performing markedly better than closed economies and, during this period, eleven countries liberalize trade. Seven of those had democratized recently[2], a fact that strengthens both explanations. So maybe it was Stolper-Samuelson dynamics, maybe it was learning, maybe it was both.

The factors-based explanation, in its simplest formulation (the straightforward coupling of Stolper-Samuelson theorem and the median voter theorem) produces very clear implications (see table 2.1). While they fit neatly into the stylized fact of trade openness following democratization in developing countries, it does not prove difficult to find individual cases that do not follow the predictions in the table. The

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[2]Argentina, Bolivia, Brazil, El Salvador, Guatemala, Honduras, Nicaragua and Uruguay.

	Labor Abundant	Capital Abundant
Democratization	Open	Close
Democratic Reversal	Close	Open

TABLE 2.1: Effects of regime change on trade.

case of Argentina, for instance, a capital abundant country that witnessed four democratic reversals between 1954 and 1975 but only in 1991 did it liberalize trade, poses a great deal of questions: why did the Argentinian autocratic regimes did not liberalize trade and benefit capitalist elites? Why, once democratized, did the median voter chose an open trade policy deliberately hurting its factor endowment of labor?

Sticking with Latin America, and looking only at the indicators used in the studies of democracy and trade liberalization used to support the factors-based explanation [3] there are other cases that add to the puzzle: Colombia, labor-abundant, a democracy since 1957 took almost thirty years before it liberalized trade in 1986; labor-abundant Ecuador democratized in 1979 and reversed trade policy to closed in 1983 until it later liberalized trade again in 1992; Guatemala was democratic between 1966 and 1980 and failed to liberalize trade for this fourteen-year period, later after re-democratizing in 1986 it took only three years to liberalize trade in 1989.

The inclusion of more variables relevant for determining trade policy, or a detailed historical analysis would surely illuminate the questions that each of these cases raise, but the factors-based explanation cannot on its own account for them. While most empirical studies found support for the top row of table 2.1 above (Dutt and Mitra, 2006; Eichengreen and Leblang, 2008; Milner and Kubota, 2005; Milner and Mukherjee, 2009; O' Rourke and Taylor, 2006; Yu, 2010), this support has been more explicit regarding the left cell: that democratization in labor abundant countries promotes free trade (specific tests to the predictions in the bottom row are to best of knowledge nonexistent). Certainly, better indicators of political regime and a classification of factor abundance relative to countries that have open trade policies (instead of relative to the rest of the world) would also help in ascertaining how accurate are

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[3]For trade openness this is the updated index of Sachs and Warner (1995) by Horn and Wacziarg (2003). The index defines an economy as closed when: average tariff rates are 40 per cent or more; non-trade barriers cover more than 40 per cent of imports; the black market exchange rate depreciated by 20 per cent or more relative to the official exchange rate during the 1970s or 1980s; it has a socialist economic system; or there was a state monopoly on major exports. For political regime type it is the Polity IV dichotomized indicator of political regime.

the predictions of table 2.1.
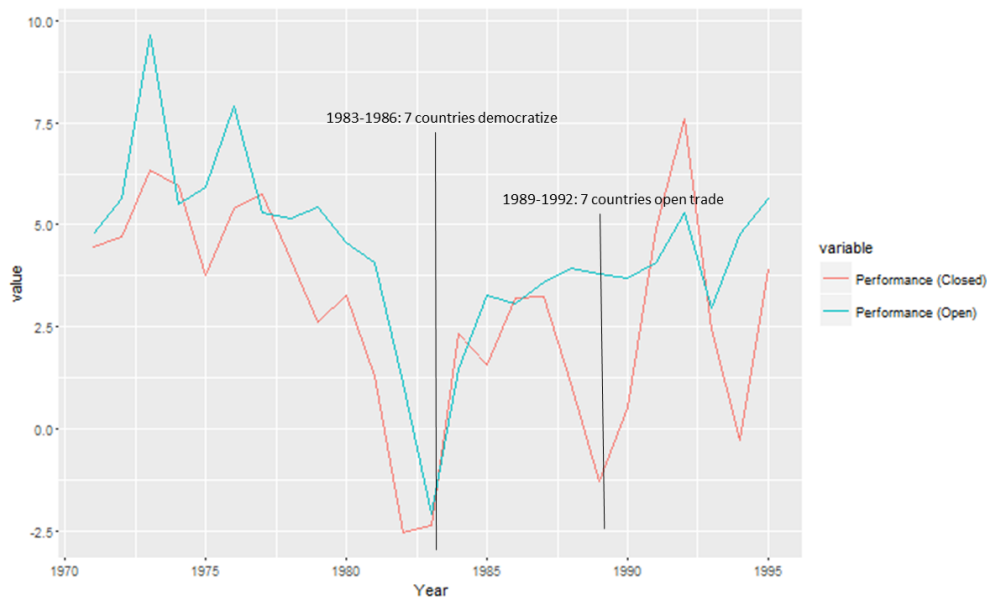
FIGURE 2.1: Trade Policies Performance in Latin America.

Adding more explanatory items to a story frequently helps in asserting that the empirical cases that do not fit the main theory do not threaten its validity because they are governed by some ad hoc phenomena that suspends or transforms the original theory. By adding learning to the factors-based explanation that is not what the ESM does. If one is convinced of the merits of both explanations, then one is also aware that some of the shortcomings of both are directly addressed by the other. Not all the shortcomings are however simply solved by integrating the two theories into one model. For instance, while the rendition above of the factors-based explanation helps to account for why regimes react differently to what they learn it does not provide a better understanding of how learning exactly takes place. Meseguer and Escribà-Folch (2010) propose an operationalization of learning that works regionally and is updated every year. This update is a function of observed economic performance of other countries in the region and the prior learning.

The observation is made in this way. Country A looks at the growth in GDP of all countries in its region with open (closed) trade and extracts the average growth of the countries, $\bar{x}_{ij}$ and updates its belief on how much growth trade openness (protection) would yield with a calculus that would resemble this equation:

$$\mu_{it} = \rho\mu_{it-1} + (1-\rho)\bar{x}_{ij}$$

This result, μ_{it}, is the belief on how much growth in GDP an open (close) trade policy is expected to bring, and ρ is the weight given to new information. Meseguer and Escribà-Folch (2010) assume, in a period of crisis countries pay more attention to new information, i.e. $1 - \rho$ grows. It is somewhat common knowledge that economic crises are determinant factors in market reforms such as trade liberalization (Drazen and Easterly, 2001; Haggard and Kaufman, 1997). However, it is the actual causal chains by which crises and reforms are linked that are not as consensual.

Galasso (2014) shows that during economic crises party preferences are turned upside down (the left and center become more prone to privatizations and liberalizations, and the right becomes less adept of reform than they would otherwise be in good times) and the willingness of actors to allow potentially self-inflicting reform increases. Galasso (2014) additionally speculates that once parties that are typically reform averse (say the left) revise their positions they may also be more persuading to actors that stand to lose from these reforms (say workers and unions). A possible reading from these results is that under crises, the ideological specter narrows down, and with it a general willingness to reform comes about. The direction of reform is however undetermined, crisis does not need to be followed by economic globalization. Rodrik (2011) points out the end of the Argentinian experiment of hyper-globalization in the 1990s under Domingo Cavallo's policies as case of rolled back economic globalization: the general willingness to reform was not in this case towards more liberalization (perhaps because that possibility had been exhausted). So, what determines the general direction of reform: liberalize or protect, globalize or insulate?

The answer provided by Meseguer and Escribà-Folch (2010) is that countries simply compare the beliefs of how much growth would a given trade policy yield and choose the highest; this is their proxy for learning. The probability of a country choosing the policy believed to bring the most growth, the authors add, is directly related to the size of its winning coalition. This hypothesis stems from two contradicting albeit usually entangled rationales. The first flows directly from the selectorate theory (Mesquita et al. 2003) and its idea that because trade policy is a public good and polities with large coalitions in large selectorates (typically democracies) produce more public goods than small coalitions. The second is the very same factors-based explanation that posits trade policy as the result of a distributive struggle. Because Meseguer and Escribà-Folch (2010) do not develop a formal model they did not have to deal with this conflicting aspect of trade.

Before we move on to the model some basic information on the case of Mexico is outlined illustrating the reasons behind the main modeling choices, namely: the integration of both aspects of trade policy; the rejection of the median voter mechanism; and the extension of the selectorate model by introducing economic classes. The case of Mexico is especially relevant because it is a non-democratic regime that liberalized trade around a period of crisis (the debt crisis of the early 1980's) under significant changes in the political arena. When examining a specific case like Mexico the plausibility of either of the explanations above depends on the verification of a handful of facts. The facts pertaining to the factors-based explanation are: 1) regimes determine the political weight of economic classes in policy-making; 2) democracies empower labor; 3) individual preferences are characterized by factor endowments (labor and capital), and the country's relative factor abundance. And the facts pertaining to the learning thesis are: 4) democratic leaders have more incentives to learn; 5) crisis crucially alter the learning process. Mexico appears to belie these facts except for 1) and 5).

The case of Mexico's trade liberalization.

Mexico has gone from one of the most closed economies to one of the most open economies in the developing world in little more than a decade (Thacker, 1999), roughly the 1980's. The party that oversaw the process of trade liberalization was the very same that espoused a policy of import-substitution industrialization, heavy tariffs, capital controls, and other restrictions to international trade for over forty years: the Partido Revolucionario Institucional (PRI). Since its foundation in 1929, PRI ruled Mexico for 71 years until its demise in 2000. Mario Vargas Llosa, the Peruvian writer, recipient of the Nobel Prize in Literature, called its regime "la dictadura perfecta" (the perfect dictatorship) (Cultura, 1990).

For illustrative purposes, let us go back a few years. Formed in the end of the Cristero War (1926-1929) – an aftershock of the Mexican Revolution – the PRI was designed to prevent further conflict as a grand coalition harboring different class interests. One of Mexico's arguably most popular presidents, Lázaro Cardenas (1934-1940), received ample support from working class and peasant groups and spite from the urban bourgeoisie and landed elites (Knight, 1998: 239). This spite had solid motivations: Cardenas embraced openly socialist policies, advocating the right to strike

and implementing massive land redistribution through the ejido (an area of communal land used for agriculture) system. This is to say that, while non-democratic, the rule of PRI was hardly seized by purely capitalist elites or interests; neither was it a proletariat dictatorship: under Cardenas, "fiscal policy, labor laws, trade protection, and other instruments were chosen to enhance the profitability of private investment" (Bazdresch and Levy, 1991).

The point of equilibrium between class interests, however, changed significantly over time. Fast-forwarding to the 1970's "when problems associated with the import-substituting industrialization began to mount", and faced with the 1973 oil crisis, the PRI had to arbiter "political struggles over national political economy" (Morton, 2003: 641). Between this convoluted sexenio under Luis Echeverría presidency (1970-1976) and the date of official membership in the General Agreement on Tariffs and Trade (GATT) in 1986, deep changes in the balance of class forces occurred.

During this period Mexico witnessed the rise of technocracy with (among other things like IMF intervention and extensive programs of student scholarships abroad) the creation of the Ministry of Programming and Budget (SPP) in 1976, and its transformation into a "pivotal camarilla (clique) within the organization of the state" (Morton, 2003: 638). The strong links between the SPP and sectors of transnational capital were instrumental in shaping the new accumulation strategy of export-oriented industrialization, and signaled an increase in capital's political standing.

This increase was accompanied by an ever-diminishing ability of labor to influence economic policy. Labor's swan song was probably the denouement of the "insurgencia obrera" after the summer strikes in 1983 when government's patience ran out and repression was unleashed (Mendoza, 2015). In Mexico, the "insurgencia obrera" had been itself a reaction to the sclerosis and atavism of state-recognized unions. Eventually the "capacity of labor to articulate an alternative vision for Mexican economic and social development through either official or independent unions evident in 1970's, thus declined throughout the 1980's to become scarcely evident a decade later" (Morton, 2003: 642). This does not mean that labor became politically dispensable: the Confederation of Mexican Workers led by Fidel Velázquez Sánchez, from 1948 until his death in 1997, continued to be instrumental to regime survival and, despite occasional dramatic threats and demands, did little to counter workers' decreasing real wages to half since 1982 (Rohter, 1987). Goldin (1990: 203) describes the PRI relationship to labor in these terms: "since the beginning of its rule the PRI recognizes the importance of the labor sector and has brought labor

leaders into public office. Because the labor sector was brought into the government during its infancy, the two institutions have developed together and have become intertwined".

Naturally the process of trade liberalization did not begin nor end with Mexico's entry in GATT, and it unraveled in so many different agreements (see Villarreal, 2017) that to give here an accurate portrait of business and labor participation is virtually impossible. Another difficult task is to know the actual determinants of labor and business preferences on trade policy. Whether the preferences on both sides were informed by Stolper-Samuelson considerations is hard to tell, not only from lack of evidence but also because of Mexico's actual relative factor abundance. Kono (2008) shows that relative factor abundance is relevant for trade policy making in relation to potential trade partners. So, for instance, when Mexico considers trade with the European Union (China), we would presume with little risk that Mexico is labor(capital)-abundant relative to the EU (China), which makes Mexican labor (capital) the interested party in free-trade. In the 1980's, Mexico is capital-abundant relative to the rest of the world (higher capital per worker compared to world) but labor-abundant relative to OECD countries (see Harrigan and Zakrajsek, 2000), a list that includes mostly GATT members. So any analysis of the Mexican centered on factor abundance is bound to a great degree of debate.

Nevertheless, while we cannot determine whether Stolper-Samuelson considerations were part of the agenda of labor and capital in Mexico's trade liberalization we can easily suppose that the level of expertise deployed in concrete trade deals must have not ignored it and we do have some impressionistic evidence that crisis and learning did have a significant role in the process. The Economic Solidarity Pact meetings – a crucial step to strengthening and accelerating trade liberalization undertaken in 1987 – were indeed tripartite, involving government, business and labor. Big capital and large firms were over-represented in the business side, and these large firms were the ones in the better position to "absorb the costs of economic liberalization" (Kaufman et al, 1994, cited in Thacker, 1999: 61). Their preferences were favorable to trade openness but reportedly this was seen a necessary item of a wider neoliberal package of reform for economic growth (Thacker, 1999). This package was capital-friendly and evidence of labor demands and preferences on trade is scarcer still.

While technocratic consensus is hardly a measure of good and efficient policy it can certainly be one of the prerequisites for a policy to be pursued. (Dargent,

2012) analyses the role of technocrats in Colombia and Peru and claims that a high level of technical complexity and high degree of consensus are two major factors in experts' autonomy in policy making. Granted this autonomy is not exclusively felt during economic crises, but if consensus is reform-oriented its effectiveness would surely benefit from a greater willingness on the part of stakeholders and politicians. According to Meseguer and Escribá-Folch (2010) this consensus may be the result of learning from the successes and failures of other countries in the same region; a process whereby beliefs are updated. The learning hypothesis is backed by experts' accounts of the 1980's crises in Latin America where policy-making learned both from the East Asia early successes of their export-oriented strategies and the failed "structuralist" policy approach of Brazil and Argentina.

Mexico in the 1980's witnessed a decreasing ability of labor to shape economic policies and a simultaneous increase of big capital. Whether this equates to an expansion of the winning coalition is highly doubtful (but impossible to dismiss with no further evidence) but it did in no way affect the ability to learn. Meseguer and Escribá-Folch (2010: 797), themselves, quote Pedro Aspe — who headed the Budget and Planning Secretariat Miguel de La Madrid's sexenio (1982-1988) — on the PRI's willingness to learn: "the government had followed closely the evolution of those South American economies [Argentine and Brazilian] trying to learn from their mistakes to make sure that Mexico did not suffer the same fate".

Framing the extended selectorate model (ESM)

Considering the longevity of the PRI rule in Mexico and looking at dichotomous indicators of political regime (Przeworski, 2000) we would believe these to be years of undisturbed stability: only in the year 2000 is any change of regime signaled, and common wisdom signals this year as the year Mexico democratized. Alternatively, following continuous indicators of regime and according with the Polity IV data, Mexico began a process of democratization in 1970's which roughly coincides with the government-led "apertura democrática" (democratic opening) of President Luis Echeverría Álvarez (1970-1976) essential for regime survival at the time (Díaz, 2011).

The factors-based explanation would mislead us into thinking that this democratic opening equates to the empowerment of labor. It does not. The tectonic shifts in class power that occurred during the "apertura democrática" and subsequent years cannot

be captured by political regime indicators but would, according with the underlying logic of the factors-based explanation, translate into huge differences in trade policy output. While trade policy in Mexico does in fact change, it does not change in the way the predictions in table 2.1 would have us believe.

The model of regimes and trade proposed in the next couple of sections thus integrates aspects of the factors-based explanation and of the learning thesis though not without some modifications. From the factors-based explanation, the median voter mechanism of policy making is dropped. The reasons for this choice have little to with the plausibility of its assumptions or the usefulness of its applicability to other matters; it is the logic implicit in its conclusion – the idea that democratization always empowers labor – that is reject. Mexico illustrates this point fully: processes like the "apertura democrática" that may signal democratization do not equate to the empowerment of labor. The balance of class power is not tied to the direction of regime change in the way the median voter theorem presupposes. From the Mexican case, we also learn that the coalitions supporting the regime may be composed of both classes, and that the weight of each class matters in policy making.

The two-goods, two-factors version of the Stolper-Samuelson theorem of trade effects on factor returns is kept, despite of its problematic assumptions. Surely more complex models would soften the implications for capital and labor losses. Notwithstanding the valid criticism that has been levelled against it, the central result that trade produces winners and losers stands firm (see Rodrik, 2017: 5). Surely, pro-(or anti-) trade coalitions may be composed of both workers and business owners —- and indeed the ESM allows for such possibility —- and this a very simplistic and unsophisticated view of class struggle. Nevertheless, abstracting from sub-classes of labor and capital is extremely worthwhile as a thought experiment on how the interaction of economic inequality and political inequality reproduces itself.

The learning thesis is also slightly modified. Meseguer and Escribá-Folch (2010) rely solely on the size of the winning coalition when hypothesizing on the interaction of polity and trade liberalization: "the size of the group to which politicians are directly accountable and whose support is needed to rule is positively related to less dogmatism and to the adoption of a policy that benefits the majority of the population" (p.782). The variety of material interests embedded in the winning coalition is thence disregarded. The reasons of why smaller winning coalitions do not follow policy trends in the region may not be related, as Meseguer and Escribá-Folch (2010) propose, with their ability to learn but rather with the material interests within

the winning coalition. Thus, the ESM does not distinguish regimes in terms of their ability to learn from other countries' experience with trade. Not only this difference in ability to learn does not seem to be accurate – and Mexico's case is once again illustrative of this point – the assumption is unnecessary to explain different behavior of regimes learning the same from others.

So, in the ESM, beliefs on policy performance don't determine preferences on their own, they merely inform individual preferences: i.e. the same beliefs on expected aggregate gains from trade produce different policies depending on regime and factor abundance and this in line with the findings of Eichengreen and Leblang, 2008; Kono, 2008; Milner and Mukherjee, 2009; O' Rourke and Taylor, 2006; Tavares, 2008.

The contention implied in the ESM is that the direction of reform depends on three factors or stages: 1) establishing beliefs on economic growth associated with policies via learning; 2) rational assessment of how different pairs of policies and growth impact individual welfare; and 3) maximization of the individual interests that are crucial for the leader's survival.

A new presentation of the selectorate model

The central insight of the selectorate theory is that there is a pair of meta-institutions that is common to all political regimes. This set is composed of the selectorate and the winning coalition. The selectorate is the set of individuals in a polity that has a formal say in the selection of the political leader. Now, as pointed out by to Mesquita et al (2003) to gain or maintain office the leader needs the support of only a smaller subset of the selectorate, this smaller subset is called a winning coalition. Size changes in these two institutions could be understood, *sensu lato*, as regime change. Provided we acknowledge some measure of these meta-institutions, political regimes can thus be mapped along these two dimensions: size of selectorate and size of winning coalition. One of the central research concerns of the selectorate theory is to explain policy performance variation across political regimes. The link between policy variation and political regime, the selectorate theory posits, is political survival of leaders: under certain institutions (a given size of selectorate and winning coalition) there is one set of policies that is optimal for political survival, and enables leaders to last longer in office.

The major upside of this approach is best stated by its own authors: "the possibility of mapping all nominal regime types onto a continuous two-dimensional space, creating an opportunity to integrate insights from democratic theory and from theories of autocracy, totalitarianism, monarchy, and military rule into a single analytic framework (p.42)"

This proposition of a set of meta-institutions shared by virtually all political regimes implies a degree of abstraction that is not purely demonstrable. It begs a great deal of example and illustration to persuade the reader that very different types of historical regimes can be approached with this analytical framework. The authors of the selectorate theory do just that before proceeding to formal analysis. However, this chapter pays more attention to the implications of the formal model and its extension than to providing historical illustrations for the ESM (or the original) modeling choices. Nonetheless the most problematic choices will be signaled, and (and the original model's) theoretical and methodological reasons briefly offered.

The *selectorate model* is defined in Mesquita, et. al (2003), as an infinite-round stochastic game involving many players. On each round of the game, two players, the *leader* and the *contender*, compete in an election. The *strategy* of each player is a sort of policy proposal (explained it in more detail below), and each voter chooses the player whose proposal he finds the most appealing. The winner of the election gets to play as leader in the following round, against a contender randomly-chosen among the player pool. This presentation is akin to how elections work but we can think of it as describing the mechanics of every political regime. In regimes with no elections leaders must still offer policies to their backers that beat the policy proposals of credible challengers. Mesquita, et. al (2003) shows, however, that the game is such that the leader's optimal strategy is unique and allows the leader to win always, regardless of who the contender is or how he chooses to play. The model is thus not fit nor intended to explain political succession within polities nor policy performance variation across leaders of the same polity: its analysis lets us know how the odds of political survival vary with regime type and which are the policies that would keep the leader in office under said regime in a very predictable world with no economic crises, no difference in competence or skills between leaders and challengers and no external (ethnic, cultural, historical and so on) factors shaping the affinities between leaders and followers. So, each round in the infinite-round game has the same outcome, provided the leader uses his optimal strategy, and it is thus legitimate to disregard the multi-round presentation of the game. Furthermore, Mesquita, et.

al (2003) also shows that the strategies of each player are solutions to convex optimization problems. This makes it possible to drop the game-theoretic presentation of the model altogether, and present it instead as the result of said convex optimization. This is what will done here, and it is done as such for two reasons:

1. The presentation of the model becomes shorter and more accessible.

2. It allows for an easy and natural generalization, which avoids certain problems that arise when trying to generalize the model via game theory.

The terms *game-theoretic presentation* and *optimization-theoretic presentation* are used when in need of contrasting the two different, albeit equivalent, presentations of the selectorate model. In appendix, the game-theoretic version of the selectorate model, is presented and shown that it is equivalent with the optimization-theoretic presentation that now follows.

The polity

The polity is defined by the design of the selection institutions. This design is characterized by the relative sizes of three sets of individuals. The population at large, of size N; the selectorate, which is the subset of the population that has a formal say in the selection of the political leader, is of size S; and the winning coalition, which is a subset of the selectorate whose support is necessary for the leader to maintain power, is of size W. Members of the selectorate are endowed with the qualities "institutionally required to choose the government's leadership" (Mesquita et al, 2003: 42) and, perhaps more importantly, that allow them the opportunity to be a member of the winning coalition. Historically, this set of qualities can be one or a mix of criteria related to age, gender, wealth, skills, beliefs, birthplace, lineage and more. The model is not sensitive to the combination of characteristics necessary to be a selectorate member but only to its size. In a democracy, we can easily identify every enfranchised individual as a selectorate member, but even across democracies the characteristics needed for enfranchisement may vary.

The leader of a polity, however, only needs the support of a fraction of the selectorate "of sufficient size such that the subset's support endows the leadership with political power over the remainder of the selectorate as well as over the disenfranchised members of the society" (Mesquita et al, 2003:51). A system that depends on control over weapons will thus have a winning coalition of individuals that together

possess a majority or supermajority of military power. Rigged electoral systems may engender all sort of mechanisms designed to create artificial scarcity of a quality necessary for membership in the wining coalition like, for instance, barriers to entry on the single party of a political system. In liberal democracies, the size of the winning coalition depends mostly on the electoral rules and formulas of vote conversion.

Threats to leadership survival come in the shape of a challenger. This challenger is not a revolutionary. His goal is not to change the political regime but to attain political leadership in the same polity design. Consequently, this is not a model of regime change, though it may allow inferences on regime change incentives. It is worth highlighting that the notion of regime change in this model is significantly different from traditional ones (see reviews in Kitschelt, 1992; Skaaning, 2006; Van den Bosch, 2013): here, every change in the size of selection institutions constitutes regime change.

A challenger is randomly chosen and his job is to attain leadership by forming a coalition of size *W* with at least one member from the leader's winning coalition. To persuade members of the winning coalition to vote for him, the challenger offers the most attractive policy proposal he can. This policy proposal is threefold: 1) it entails the tax rate, denoted by *r*, 2) the provision of public goods, *x*, which are enjoyed by the population at large, and 3) the provision of private goods, *g*, which are for the sole benefit of the members of the winning coalition. The leader's strategy is to output policies of taxes and goods, such that she can stave off defection by members of the winning coalition and maintain hold of political power.

The economy

The tax rate determines all things relevant to the economic structure of the model. Individuals must choose how much of their time goes to leisure and how much to productive effort. This choice is a function of the tax rate $r \in [0,1]$. Let us call it the *leisure-selection function*; for example:

$$\ell(r) = \frac{1}{2-r}.$$

For a given tax rate, r, individuals choose $\ell = \ell(r)$ leisure, their productive effort is $(1-\ell)$, their income is $y = (1-r)(1-\ell)$, the overall level of economic activity is

$E = N(1 - \ell)$, and the national budget is the concave function $B : \mathbb{R}^3 \to \mathbb{R}$ given by:

$$B(r, x, g) = r(1 - \ell(r))N - xP - gW. \tag{2.1}$$

where P, which is exogenously determined, is the *price of public goods* so that xP is how much is spent on public goods, and gW is how much is spent on private goods.

The elections

In each election the leader and the challenger, indexed by $i \in \{L, C\}$ propose a three-fold policy r_i, x_i, g_i. We can think of the proposals as simultaneous as it does not make a difference to the strategy of either the leader or the challenger which policy proposal is known first. Members of the winning coalition evaluate this policy with the help of the *candidate-evaluation function* $V : \mathbb{R}^4 \to \mathbb{R}$. The function V is an additively-separable function, where each component is a non-decreasing, continuously differentiable function. For our purposes we will use:

$$V(x, g, y, \ell) = \sqrt{x} + \sqrt{g} + \sqrt{y} + \sqrt{\ell}.$$

Concavity Requirements. However V and ℓ are to be chosen, it is *required* that (1) the composition $V(x, g, (1 - r)(1 - \ell(r)), \ell(r))$ is strictly concave; and (2) that $r(1 - \ell(r))$ is strictly concave and has a strictly positive maximum for r in the $(0, 1)$ interval. These requirements are satisfied by the two choices of ℓ and V given above. This requirement is essential to ensuring that the solutions to certain forthcoming optimization problems exist and are unique.

We let V_x, V_g, V_y and V_l denote each of the four components of V (which should be additively separable, as mentioned), so that

$$V(x, g, y, \ell) = V_x(x) + V_g(g) + V_y(y) + V_l(\ell).$$

Let $V^0(x, g, y, \ell) = V(x, g, y, \ell) - V_g(g)$. This function V^0 tells us how much a voter values a candidate, if he is not part of the winning coalition.

In the selectorate model, voters decide to vote on the candidate which gives them the greater *utility*. The *utility* of a certain candidate is calculated by measuring how much *value* the candidate has, not only now in the current election cycle, but also in

the future. The importance of the candidate's future value is weighted by a fraction $\delta \in [0, 1)$, called the *discount factor*: so if the value of the candidate's proposal next year is V', then this adds $\delta V'$ to his utility, and if the value of the candidate's proposal two years from now is also V', then this adds $\delta^2 V'$ to his utility, and so on, for a total contribution of $(\delta + \delta^2 + \delta^3 + \ldots)V' = \frac{1}{1-\delta}V'$.

Furthermore, voters who belong to the current leader's winning coalition predict that if the leader remains in power they will remain in winning coalition, and will thus partake in private goods in the future; voters who belong to the current leader's winning coalition predict that they will still continue being given private goods in the current year, but they make no assumptions on who will belong to the next winning coalition, and thus who will continue receiving private goods next year. So, they guess, there will be a W/S probability of being in the challenger's winning coalition in the future after he becomes leader, and $1 - (W/S)$ probability of being excluded. Furthermore, they assume that once the challenger enters office, his strategy will become identical to that of the leader.

This feature of the model effectively stacks the odds against the challenger. The rationale for it is twofold: 1) one strong reason comes from what Mesquita et al (2003) dubbed the "commitment problem" and is grounded on "inability of the challenger to guarantee that the prospective defectors will always be members of his winning coalition" (several historical examples of challengers that cut off individuals that helped attain leadership are offered therein (p. 60)); 2) another valid reason rests on the matters of personal affinity: they take time to be known so, admittedly the longer a leader stays in office the more reassured are the members in the winning coalition of the leader's willingness to keep them on board. Since the size of the selection institutions (W and S) do not change, if the challenger becomes leader he will adopt the leader's current optimal strategy.

From the above discussion we obtain the following rules for how voters compute the utility of a given candidate. Suppose that the challenger presents an electoral proposal resulting in some value $V_c = V(x_c, g_c, y_c, \ell_c)$, and the leader presents an electoral proposal with value $V_l = V(x_l, g_l, y_l, \ell_l)$. Let $V_l^0 = V^0(x_l, g_l, y_l, \ell_l)$ denote the value of the leader's offer for someone not benefiting from private goods. Then, for a member of the current winning coalition, the expected utility of voting for the challenger is:

$$U_c = V_c + \frac{1}{1-\delta}\left(\frac{W}{S}V_l + \left(1 - \frac{W}{S}\right)V_l^0\right) \tag{2.2}$$

and the expected utility of voting for the leader is:

$$U_l = V_l + \frac{1}{1-\delta} V_l, \qquad (2.3)$$

where δ is the discount factor.

Now, a member of the winning coalition will vote for the Leader if:

$$U_l \geq U_c$$

This inequality can be expanded (by 2.2 and 2.3) and rearranged into the following:

$$V_c \leq V_l + \frac{\delta}{1-\delta} \frac{S-W}{S} V_g(g_l) \qquad (2.4)$$

As it can be seen, in the selectorate model the challenger needs to present a strictly better offer than the leader, if he wishes to capture any vote from the leader's winning coalition. The right-most term of the right-side of the above inequality effectively works to the leader's advantage. In this chapter, this right-most term is here called the *leader's slack*, and denoted by $s(g)$. [4] The slack is essentially how much less the leader gets to offer to the members of the winning coalition with his policy proposal V_l compared to the challenger's V_c, and still win the election. Note that the smaller is the ratio W/S the larger is the leader's slack. This ratio is called the *loyalty norm* — the larger the loyalty norm the less risky is for members of the winning coalition to vote for the challenger.

The Policy

The challenger's job is hence to maximize the expected utility of members from the winning coalition. He does so by proposing a policy: a triple (r, x, g) of real numbers. The space $\mathscr{L} \subseteq \mathbb{R}^3$ of *legal policies* is the set of (r, x, g) that are *within the budget*, i.e., $B(r, x, g) \geq 0$. Because B is concave, $\mathscr{L}$ is a convex set. And the *challenger's policy* is the solution to the maximization problem:

$$\max_{r,x,g} \quad V(x, g, (1-r)(1-\ell(r)), \ell(r)) \qquad (2.5)$$

$$\text{s.t.} \quad B(r, x, g) \geq 0$$

---

[4]Recall that s is non-decreasing, strictly concave and continuously differentiable.

Because the function being optimized and the budget constraint function are both concave, by assumption, this is a convex maximization problem. It can be seen that the solution to this optimization problem exists and is unique [5].

Then denote the solution to this maximization problem with r_c^*, x_c^* and g_c^*, and the value of that solution with V_c^*. This will be the challenger's proposed policy.

The *Leader's response* is a strategy that matches the challenger's best offer, at least within the slack that the leader is allowed, and on top of that aims to maximize the leftover budget. This is a solution to the maximization problem:

$$\max_{r,x,g} \quad B(r,x,g) \tag{2.6}$$
$$\text{s.t.} \quad V(x,g,(1-r)(1-\ell(r)),l(r)) + s(g) \geq V_c^*$$

Again this is a convex optimization problem. Provided that the slack $s(g)$ is positive, the problem has a unique solution,[6] and that solution is within the budget. This effectively means that the leader always wins. While it seems paradoxical that in a model specifically concerned with leadership survival the leader always wins we must note that it models for leaders that always follow the optimal strategy. Though this not the case in reality – leaders make mistakes – the concern of the model is to characterize the best strategies for survival under different sizes of selection institutions and by doing so it also allows inferences on how these sizes affect the leader's odds for political survival. Namely, we can interpret the leader's slack, a quantity that depends on the ratio W/S, as a measure of how likely is the occurrence of leader turnover. This implication is in line with the fact that the democracies, having smaller slacks, have higher frequency of leadership turnover that systems with smaller winning coalition (see data on Mesquita et al, 2003:295).

Let us denote the solution to this maximization problem with r_l^*, x_l^* and g_l^*, and the value of that solution with B_l^*.

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[5]Note that Slater's condition is obeyed: because $z(1-\ell(z))$ has a positive maximum for $z \in (0,1)$, say $z = r^*$, the space of feasible solutions has an interior point, namely:

$$r = r^*, \quad x = \frac{r^*(1-\ell(r^*))N}{3P}, \quad g = \frac{r^*(1-\ell(r^*))N}{3W}.$$

This implies existence. Uniqueness follows because the function being optimized is *strictly* concave.

[6]Indeed, in this case, Slater's condition holds: the challenger's best offer r_c^*, x_c^* and g_c^* is a legal strategy, and an interior point of the space of feasible solutions of this maximization problem.

Summary of the model

The optimization-theoretic presentation of the selectorate model may be summarized as follows. The model has five exogenous input parameters: N, S, W are the sizes of the population, selectorate and winning coalition, respectively, P is the price of public goods, and δ is the discount factor.

From these parameters one may calculate the *challenger's policy*, which is the unique solution to the optimization problem (2.5) defined in page 66. This is a triple (r_c^*, x_c^*, g_c^*) where r_c^*, x_c^* and g_c^* are called the contender's tax-rate, public-goods and private-goods, respectively.

Given the contender's best offer, one may calculate the *leader's response*, which is the unique solution to the optimization problem (2.6) defined in page 67. This is a tripple (r_l^*, x_l^*, g_l^*), where r_l^*, x_l^* and g_l^* are called the leader's tax-rate, public-goods and private-goods, respectively. This solution is called a *legal strategy* when $B(r_l^*, x_l^*, g_l^*) \geq 0$, where B is the budget function (2.1) defined on page 64.

The challenger's policy and leader's response can be thought of as the *output* of the model, and understanding the model becomes synonymous with understanding its input-output behavior.

Summary of results from Mesquita et al. (2003)

Below, the results from Mesquita et al. (2003) are reformulated in a way suitable to the optimization-theoretic presentation of the selectorate model:

1. **(Mesquita, et. al, 2003: 83), Proposition (Existence of equilibrium).** For every $W \leq (S+1)/2$, the leader's response is always a legal strategy, i.e., $B_l^* = B(r_l^*, x_l^*, g_l^*) \geq 0$.

2. Public goods, x_l^*, increase as W increases.

3. Private goods, g_l^*, increase as W decreases.

4. Tax rates, r_l^*, decreases as W increases and as S decreases.

5. Leisure l decreases as W increases and as S decreases.

6. Total expenditure, $xP + gW$, increases with W and decrease as S increases.

7. The Leader's leftover budget, $B(r_l^*, x_l^*, g_l^*)$, decreases as W increases.

Selectorate model (2x2) with two economic classes and two economic policies

Now the selectorate model is generalized to a situation where, contrary to the standard model, individuals are not economically equal, and where the *proposed policy* must, in addition to establishing a tax rate and the mix of public and private goods, determine the trade policy.

In this model extension electoral platforms are still pretty much proposals on redistribution, only in this case the redistribution is inevitably class biased because the choice between autarky and free trade is bound to economically harm one factor and reward the other. Under Stolper-Samuelson logic if the polity is labor-abundant labor benefits from international trade, if the polity is capital-abundant the opposite happens. The ESM shares all of the results from the original model and produces a few more.

The introduction of economic classes also bears another important difference to the original model: instead of one there are two challengers. Analysis of ESM focuses on the most serious threats to leadership survival which are strategies that cater the interests of only one class in their policy proposals: the workers' challenger, and the capital owners' challenger. In the real world, there may in fact emerge more challengers that are not directing their policy-making to the interests of a single class, but for the leader to survive she needs only to worry about the class-oriented strategies that these challengers represent. If she can beat these, she can beat all other more realistic challengers, because the only guaranteed strategy for keeping a mixed-class winning coalition intact — i.e. not losing neither workers nor owners — is making policies that can beat the best offer of a challenger that channels all is resources to one or the other class. Every other challenger that does split his resources between the two classes is beatable by a strategy that beats a challenger focused solely on appealing to one class.

Before proceeding to the model itself, a word on the concept of regime change in this extension. In the original model changes in the size of selection institutions (the meta-institutions of the regime) equate to a regime change. In this extension there are two possible types of change in selection institutions: 1) of size (as in the original), and 2) of class composition (more workers or more capital owners). The matter of whether we consider drastic changes in the class composition of the winning coalition under the same size of W as regime change is up for debate. It is however hard

to imagine that if a winning coalition's class composition suddenly changed to be composed only of workers this would not entail a comprehensive change in the goals and organizational structures that characterize said regime to the point that we would call it regime change. The threshold of change in class composition where we decide to put the category for regime change is thus more definitional than empirical.

It is worth highlighting that stable class compositions of W (stable sizes of W_o and W_t) do not imply little or none policy variation. In this model all policies also depend on economic inequality (pre-taxes) which is exogenous and so when inequality changes so do the policies (even under invariant class compositions of invariant winning coalitions). Additionally, the list of relaxed assumptions for the original model in Mesquita et. al (2003) would also produce policy variation in the invariant coalitions, specifically if we introduced: 1) Economic shocks; 2) Leader and challenger's competence; 3) Challenger's ability to signal and commit to future winning coalitions.

The polity 2x2

The polity preserves the original logic and parameters N, S, W, P, δ, ℓ and V are as in the original selectorate model. Except for the following:

1. The population N is now composed of T-many workers and O-many capital owners; let $j \in \{t, o\}$ index workers and owners. The winning coalition may also be composed of both workers, W_t-many, and owners, W_o-many, so that $W_t + W_o = W$. The values W_t and W_o are fixed. So once a challenger is elected leader he chooses a wining coalition of size $W_t + W_o = W$ with the same composition.

2. The proposed policies are now fourfold (e, r, x, g) including an economic policy, indexed by $e \in \{0, 1\}$, stating whether the polity should engage in free trade with another country or not.

3. Instead of one, two challengers are selected, C^t and C^o, who are mandated to maximize the welfare of W_t and W_o respectively as a means to attain leadership. Challenger C^j is successful if he manages to persuade members from the class j of the winning coalition to defect and join his ranks. His new winning coalition of size W but no one (including himself) knows the class composition of his new winning coalition. Since the future class composition is unknown

when evaluating the utility of voting for the challenger, members of W make an informed guess: the class composition of the wining coalition will remain the same. Indeed Kollmeyer (2003) shows that class compromise (and we can think of the relative sizes of W_o and W_t as direct symptoms of class compromise) is stable in many democracies across time, and in the ones that display changes (the United States and the UK) the change is a gradual and slow process that is not determined by simple leadership turnover. It seems evident that leadership turnover in non-democratic regimes that does not entail regime change is also underscored by stability in class compromise.

The economy 2x2

Workers and capital owners have different factor endowments which in turn have different rates of return. Workers are endowed with labor and capital owners with capital. The wage rate of labor and the rental rate of capital are considered as rates of return to the productive effort of factors.

In the model the return to labor is denoted by R_t, and the return to capital R_o. Income inequality can be thought of as the ratio R_o/R_t. In the model this ratio only changes with the decision to engage in international trade, so we can think of trade-induced $\Delta R_o/R_t$ as the Stolper-Samuelson effects. These effects are known to the players but exogenous to the model.

When a tax rate is set individuals must choose how much of their factor endowment stays idle and how much goes into productive effort. This choice is a function of the tax rate and we can still think of it as the leisure-selection function of the original model: $\ell(r) = 1/(2-r)$. So, $(1-\ell)(T \times R_t)$, is the overall income to labor, $(1-\ell)(O \times R_o)$, is the overall income to capital, and their sum,

$$I = (1-\ell)(O \times R_o + T \times R_t), \tag{2.7}$$

is the pre-tax national income, or overall level of economic activity. We may also define E to be

$$E = O \times R_o + T \times R_t, \tag{2.8}$$

to be the (theoretical) maximum possible level of economic activity, which is here called *potential economic activity*.

To give an idea of how such an economy works, with ninety percent of workers and ten percent of owners, if national income is thirty percent capital income and seventy percent labor income, then $R_o/R_t = \frac{30}{10}/\frac{70}{90} \approx 3.86$.

According to the Stolper-Samuelson theorem, the choice between autarky and free trade with another country affects R_t and R_o. If the home country is labor abundant relative to foreign country, workers are interested in engaging in free trade because this will raise the worker-compensation R_t in absolute and relative terms decreasing income inequality R_o/R_t. Conversely if the country is capital abundant it is capital owners who will benefit from a raise in owner-compensation R_o and an increase in their relative wealth R_o/R_t if free trade is enacted. Trade policy is indexed by $e \in \{0,1\}$: $e = 0$ if autarky is chosen, and $e = 1$ if international trade is chosen. The overall levels of potential economic activity will be E_0 or E_1 depending on which trade policy e is followed and, similarly, the two budget functions are B_0 and B_1.

The budget function is now a bit different, to account for the fact that owners and workers are compensated differently from their productive effort.

The budget function is then:

$$B_e(r,x,g) = r(1 - \ell(r)) \times E_e - xP - gW. \qquad (2.9)$$

The set of legal strategies $\mathscr{L}$ is now the set of quadruples (e,r,x,g) such that $B_e(r,x,g) \geq 0$.

The elections 2x2

In each election the leader and both challengers, indexed by $i \in \{l, C^t, C^o\}$ propose a policy e_i, r_i, x_i, g_i. Members of the winning coalition evaluate this policy by the same function $V : \mathbb{R}^4 \to \mathbb{R}$ of the original model above:

$$V(x,g,y,l) = \sqrt{x} + \sqrt{g} + \sqrt{y} + \sqrt{l}. \qquad (2.10)$$

Voters give their vote to the contestant whose proposal has the greatest utility. In the 2x2 model, this is in almost every respect similar to the discussion in page 64, except now the winning coalition is itself divided into two economic classes. As before, members of the winning coalition know that if the leader remains in power they will still be part of the winning coalition whereas if the challenger is elected, given that W_t and W_o are fixed, they have a W_j/S_j probability of being in the challenger's

future coalition, and $1 - (W_j/S_j)$ probability of being excluded — where $j \in \{t,o\}$ is the economic class of a given member of the winning coalition. Since the size of the winning coalition does not change, if the challenger becomes leader he will adopt the leader's optimal strategy.

In light of the above, we obtain the following rules for how voters compute the utility of a given candidate. Suppose that each challenger C^j (for $j \in \{t,o\}$) presents an electoral proposal $(x_{cj}, g_{cj}, y_{cj}, \ell_{cj})$ resulting in some value $V_{C^j} = V(x_{cj}, g_{cj}, y_{cj}, \ell_{cj})$, and the leader presents an electoral proposal with value $V_l = V(x_1, g_1, y_1, \ell_1)$. Let $V_1^0 = V^0(x_1, g_1, y_1, \ell_1)$ denote the value of the leader's offer for someone not benefiting from private goods. Then, for a member of the current winning coalition, the expected utility of voting for the challenger C^j is:

$$U_{C^j} = V_{C^j} + \frac{1}{1-\delta}\left(\frac{W_j}{S_j}V_l + \left(1 - \frac{W_j}{S_j}\right)V_l^0\right) \tag{2.11}$$

and the expected utility of voting for the leader is:

$$U_l = V_l + \frac{1}{1-\delta}V_l \tag{2.12}$$

So a member of the winning coalition will vote for the Leader if:

$$U_l \geq U_{c^j}$$

This inequality can be rearranged in the same way as in the above section, so that:

$$V_{C^j} \leq V_l + \frac{1}{1-\delta}\frac{S_j - W_j}{S_j}V_g(g) \tag{2.13}$$

The right-hand side of the inequality is the *leader's slack*, denoted $s_j(g)$.[7] The slack tells us how much less the leader gets to offer to the members of the winning coalition of economic class j with his policy proposal V_l compared to the challenger that is maximizing the welfare of that class V_{C^j}, and still win the election. Note that the slack may be entirely different across economic classes. For instance if all the capital owners are in the winning coalition the slack is zero for capital owners, i.e. for the leader to keep the support of capital owners the proposed policy V_l will have to match the challengers V_{C^o}.

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[7]As before, s_j is non-decreasing, strictly concave and continuously differentiable.

The policy 2x2

In each election the contenders must present policy determining the tax rate $r \in [0,1]$, the amount of public and private goods provided, $x, g \in [0, +\infty]$, and the trade policy to be adopted, $e \in \{0,1\}$. Let R_e^j, where $e \in \{0,1\}$ and $j \in \{t, o\}$ denote the rate-of-return for factor j and trade policy e. Then, the *owners' policy* is the legal strategy which maximizes the candidate-evaluation of owners:

$$\max_{e,r,x,g} \quad V(x, g, (1-r)(1-\ell(r))R_e^o, \ell(r)) \tag{2.14}$$
$$\text{s.t.} \quad B_e(r, x, g) \geq 0.$$

And the *workers' policy* is the legal strategy which maximizes the candidate-evaluation of workers:

$$\max_{e,r,x,g} \quad V(x, g, (1-r)(1-\ell(r))R_e^t, \ell(r)) \tag{2.15}$$
$$\text{s.t.} \quad B_e(r, x, g) \geq 0.$$

These optimization problems always have solutions. The solutions are not necessarily unique: there may be at most two different solutions with the same value, one solution with closed borders ($e = 0$), and one with free trade ($e = 1$). The solutions may be found via numerical approximation, by first maximizing for autarky ($e = 0$), and then for free trade ($e = 1$) — both of these sub-problems have unique solutions that can be found numerically — and then choosing the solution having the maximum (or equal) value.

Let us use V_o^* and V_r^* to denote the value of the owners' and workers' policy, respectively. As before, the *Leader's response* is a strategy that matches both offers and maximizes the leftover budget. This is a solution to the maximization problem:

$$\max_{e,r,x,g} \quad B_e(r, x, g) \tag{2.16}$$
$$\text{s.t.} \quad V(x, g, (1-r)(1-\ell(r))R_e^o, l(r)) + s_o(g) \geq V_o^*$$
$$V(x, g, (1-r)(1-\ell(r))C_e^t, l(r)) + s_t(g) \geq V_t^*$$

Above, $s_t(g)$ is Leader's slack function for the workers' vote:

$$s_t(g) = \frac{\delta}{1-\delta} \frac{S_t - W_t}{S_t} V_g(g), \tag{2.17}$$

and $s_o(g)$ is the Leader's slack function for the owners' vote:

$$s_o(g) = \frac{\delta}{1-\delta} \frac{S_o - W_o}{S_o} V_g(g). \tag{2.18}$$

Again this is a convex optimization problem. Restricted to each value $e \in \{0,1\}$, the problem has a unique solution, because Slater's condition holds: for $r = 1/2$, $g = 0$ and any x large enough so that the constraints are both strictly satisfied, we have an interior point of the space of feasible solutions of this maximization problem. However the interior point may *not* be within the budget. Unlike in the simple selectorate model, the leader's response is not always a legal strategy — the leader is not always able to win without spending more than the budget.

Denote the leader's response with $r_1^*, x_1^*, g_1^*, e_1^*$, and let $B_l^* = B_{e_1^*}(r_1^*, x_1^*, g_1^*)$.

Observation 1 *To obtain the simple selectorate model as a special case of the selectorate model with two classes, it suffices to set the four R_e^t parameters both to 1, and let W be composed of members from workers only: $W_o = 0$ and $W_t = W$. In this case:*

1. *$E_0 = E_1 = N$, so the budget function is the same as in the simple selectorate model, regardless of trade policy.*

2. *The owners' and workers' policies are both equal to the contender's policy.*

3. *The leader's response is equal to the leader's response in the simple selectorate model.*

Summary of the model

The 2x2 selectorate model may be summarized as follows. The model has twelve exogenous input parameters: T, O, S_t, S_o, W_t, W_o are the sizes of the population, selectorate and winning coalition, of workers and owners, respectively; R_0^t, R_1^t, R_0^o and R_1^o are the return-rates to each factor, both in the open- and closed-borders scenario; P is the price of public goods, and δ is the discount factor.

From these parameters one may calculate the *owners' policy* and the *workers' policy*, which are solutions to the optimization problems (2.14) and (2.15) defined in page 74. Each such solution is a quadruple $(r_{cj}^*, x_{cj}^*, g_{cj}^*, e_{cj}^*)$ where $r_{cj}^*, x_{cj}^*, g_{cj}^*$ and e_{cj}^* are the tax-rate, public-goods, private-goods, and trade policy of contender C^j.

Given the contenders' policies, one may calculate the *leader's response*, which is the unique solution to the optimization problem (2.16) defined in page 74. This is a quadruple $(r_1^*, x_1^*, g_1^*, e_1^*$, whose elements are called the leader's tax-rate, public-goods, private-goods and trade policy, respectively. This solution is called a *legal strategy* when $B_{e_1^*}(r_l^*, x_l^*, g_l^*) \geq 0$, where B is the budget function (2.9) defined on page 72.

The owners' and workers' policies and the leader's response can be thought of as the *output* of the 2x2 selectorate model, and understanding this model becomes synonymous with understanding its input-output behavior.

Analysis

Mesquita et al. (2003) use Lagrange multipliers to analytically derive some properties of the optimal solution. However, the model here developed is more complicated, and the same approach quickly becomes unwieldy. So what can be done in this case? It has been shown that the optimization problem is convex, and hence it is still amiable to convex optimization techniques. This is a key property of the model — because of convexity, it becomes possible to build a computer program based on the model's equations which accepts as input hypothetical data for the various parameters of the model, and outputs a good approximation of the optimal solution.

The study of the model then proceeds via repeated experimentation: as different input parameters are tried, we can observe how the optimum behaves. While the specific values of the output are not very meaningful — as they are dependent on the specific input parameters given, such as population size, gross national product, etc. — by finding and recording these input-output relationships, we arrive at a number of scale-invariant consistent behaviors that are worth-noting. The simulator built for this purpose can be found online at

https://github.com/bloff/selectorate2x2

. Special attention was paid to two inputs:

- a) the aggregate gains from international trade;

- b) size and composition of the winning coalition,

and it was registered, how depending on the winning coalition type (mixed or homogeneous) and the country's factor abundance, these outputs were affected:

- a) Trade policy preferences, and policy output.

- b) Individual utility, individual welfare, and economic inequality.[8]

Additionally, how inequality in factor returns (R_o/R_t) affects trade policy preferences and output is also analyzed below.

For convenience purposes polities with a winning coalition composed solely of owners are called a *Plutocracy*, and a winning coalition of workers a *Dictatorship of the Proletariat* (DotP). In the simulations what determines the factor abundance of the country is an input parameter simply stating whether the returns to that factor vary positively or negatively with open trade. In a labor abundant country the returns to labor increase while the returns to capital decrease, and vice-versa for the capital abundant country. Additionally, the distinction of factors is assumed to be defined by this inequality $R_o \geq R_t$.

Aggregate gains from international trade

Introducing learning of expected aggregate gains from trade in a model is somewhat problematic because the amount of gains matters for individual preferences, and, for this amount to be the same across electoral platforms of both challengers and leader, there has to exist what is essentially a shared belief: that opening trade with country B has the knowable impact on country A's growth of a specific amount. The effects of this variable should consequently be interpreted with great caution and care: it tells us how would individuals with different interests behave under a shared belief. The model treats this shared belief as self-fulfilling. In other words it lets us see what happens if everyone is right.

Although it is impossible to establish what the levels of aggregate gains will be if certain trade policies are enacted it is reasonable to assume that the more optimistic is the population on the aggregate gains of trade the easier it is to implement an open trade policy. In simulations, increasing expected aggregate gains equate to the rise in GDP that is due to international trade. Since factor returns are computed as shares of the GDP this means that expectations on aggregate gains also entail different expectations on individual welfare across economic classes.

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[8]The difference between individual utility and individual welfare is that the former includes the future value of voting for the challenger or leader and the latter expresses the valuation of goods, leisure and income in the present moment.

One of the first things examined is what happens when the expected growth from opening trade compared to autarky is zero. With zero aggregate gains from trade expected, i.e. $\Delta E = 0$, trade preferences are easily observed and characterized: if the country is capital abundant, capital owners prefer open trade and workers prefer autarky. The opposite happens when the country is labor abundant. Most importantly, regardless of factor abundance, the Leader's response is always to follow the preferences of the capital owners (see table 2.2). Consequently, according to the model, two countries with winning coalitions composed of both workers and owners would not trade with each other.

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	Leader	Owners	Workers
Country A. is Capital Abundant	Open	Open	Close
Country B. is Labor Abundant	Close	Close	Open

TABLE 2.2: Group preferences on international trade with no aggregate gains

Thus to allow trade between democracies one would have to assume that international trade generates aggregate gains (or losses), an assumption which is in line with conventional wisdom on the subject (Yanikkaya, 2003; Wacziarg and Welch, 2003; Frankel and Romer, 1999) and despite some skepticism (Rodríguez, 2007; Rodríguez and Rodrik, 2000).

In the model simulations this equates to setting the national GDP in an open trade scenario to higher (or lower) levels than in a closed trade scenario and letting it expand (or contract) while checking how the other parameters behave. The situation where the economic performance of both trade policies is expected to be equal (same growth) is represented in the plots by $1:1$ in the x axis (see e.g. Figure 2.2); to the right of this point an open trade policy is expected to yield increasing growth compared to closed trade policy and to the left it is expected to produce decreasing growth compared to a closed trade policy. If we let the expected free-trade GDP rise to great heights every individual in the winning coalition, regardless of its economic class, will prefer a free trade policy because this means more of everything is available. We are, of course, interested mainly in what happens below the threshold levels of aggregate gains at which all preferences on trade policy are aligned. Below this

threshold even if the final outputted trade policy is to remain closed to international trade, the levels of expected aggregate gains still impact the redistribution policies. So when choosing closed economic borders the leader still as to beat electoral platforms advocating open trade and its corresponding higher levels of GDP.

Trade policy preferences and policy output

We can see that the expected aggregate gains affect policies even in closed trade situations. The horizontal axis is the value of expected aggregate gains ΔE if the country engages in international trade. The red dashed line and the green solid line represent the Leader's decision to, respectively, close and open economic borders at each value of ΔE. For every ΔE such that the leader chooses to remain in autarky the overall level of economic activity remains the same. So, what causes the policy to change along the red dashed line is not the economic output of the country but the pressure on redistribution caused by the expected economic impact of free trade. Along the green line the policy is being shaped by a growing economic output (remember that beliefs in this model come true) and by the threat of returning to autarky where $\Delta E = 0$. Every plot shows the threshold of ΔE above which workers (w) and capital owners (o) prefer an open trade policy by signaling a vertical dashed line.

FIGURE 2.2: ΔE and Policy Output in a Labor Abundant Country.

The Leader uses the tax rate to balance the losses of whichever factor stands to loose from her preferred trade policy. In the labor abundant country (see figure 2.2) as the expected gains from free trade for labor increase and trade remains closed, the Leader raises the tax rate to meet labor's ideal tax rate. The tax rate drops abruptly to more capital-friendly values when ΔE is so high that the Leader shifts to a labor-friendly trade policy.

The exact same type of strategy, happens in the capital abundant country (see figure 2.3). It is only in countries with homogeneous winning coalitions that this type of strategy does not happen, and the only case where public spending is not boosted by the decision to liberalize trade is in a labor abundant DotP (where the winning coalition is composed of workers only) where economic globalization is accompanied by a decrease in public spending.
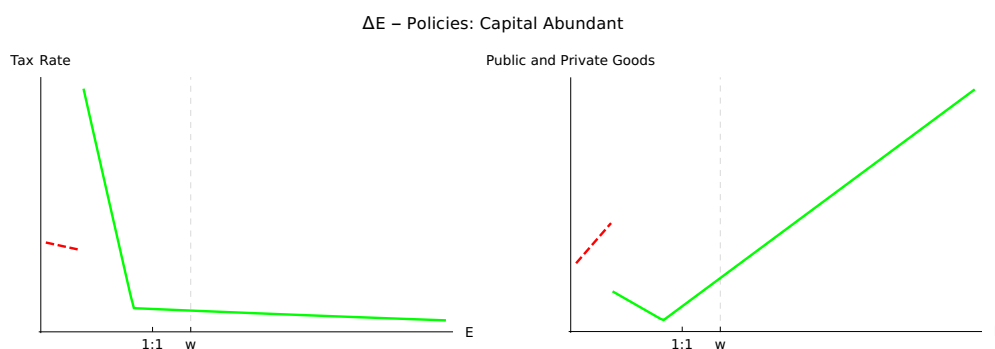

FIGURE 2.3: ΔE and Policy Output in a Capital Abundant Country.

The Leader's trade preference under rising levels of aggregate gains significantly differs depending on factor abundance of the country. In the capital abundant country at negative levels of expected aggregate gains the leader still decides to open up trade. Only under very strict conditions (high aggregate losses from trade, little difference between factor returns pre- and post-trade) will the leader counter the owners' preferred trade policy in a capital abundant country. A different story happens in the labor abundant country: the leader can support much higher ΔE values before adopting the workers' preferred policy. This happens because it is cheaper to run counter labor's trade preferences than to override capital owners' preferred trade policy.

Eventually for every country there is a ΔE for which the best policy is to liberalize trade (section "Inequality and Learning" studies how this threshold varies with inequality and factor abundance), even in the cases of homogeneous winning coalitions (like Plutocracies or Dictatorships of the Proletariat) where the terms of trade clearly harm its productive factor (see figure 2.4).
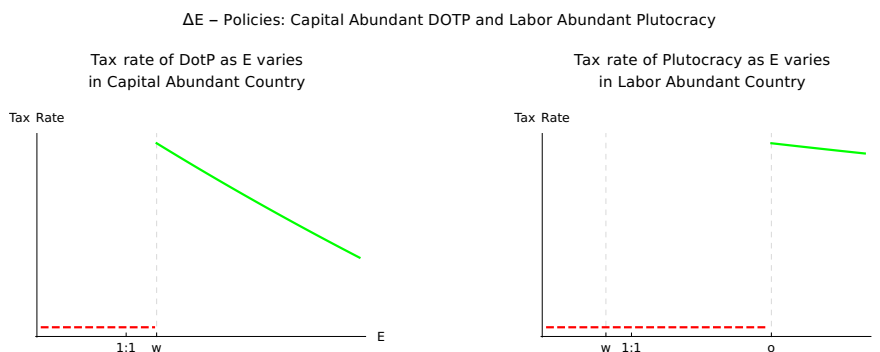
ΔE – Policies: Capital Abundant DOTP and Labor Abundant Plutocracy

Tax rate of DotP as E varies
in Capital Abundant Country

Tax rate of Plutocracy as E varies
in Labor Abundant Country

FIGURE 2.4: ΔE and Policy Output in a Labor Abundant Plutocracy
and a Capital Abundant DotP

Individual utility and economic inequality

a) Individual utility

The fact that workers trade preferences are more easily countered does not mean that their utility and economic inequality does not change with expected aggregate gains from trade when in autarky. As expected aggregate gains from trade rise so does pressure for redistribution. As we can see in figure 2.5, in the labor abundant country, workers' utility improves with expected gains from trade. However once free trade is adopted workers utility begins a downward journey mostly due to the fact that until the owners' preference switches to open trade the leader needs to buy off the owners trade preferences; this downward trend stops once the owners also prefer open trade. We can also see how in the capital abundant country only with high aggregate gains from international trade does the worker's utility reach the level previous to the opening of commercial borders. The rise in utility for workers before the capital abundant country opens trade takes place because the leader has to buy off owners preferences, when in autarky, with private goods, thus also benefiting workers in the winning coalition.
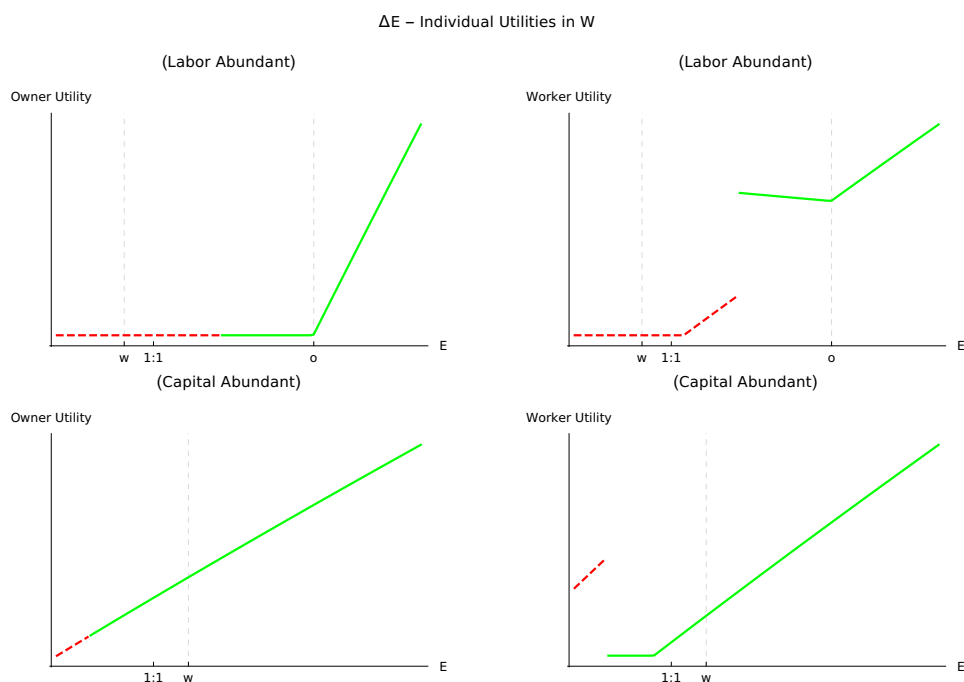
ΔE – Individual Utilities in W

FIGURE 2.5: Δ*E* and Winning Coalition Utility.

As for capital owners' utility in the capital abundant country their utility also rises along with the expected aggregate gains from trade even when in autarky (along the red line); this is due to the pressure exerted by policies proposed by the candidate for the owners. In the labor abundant country, as pressures to liberalize trade increase, their utility remains stable because the Leader is compensating capital owners with increased private goods. As real aggregate gains increase so does the utility of capital owners.

b) Inequality

The impact on inequality is as one would expect (see figure 2.6). In the capital abundant country Δ*E* exerts downward pressure on economic inequality inside the winning coalition, when in autarky, via increasing tax rates. With Δ*E* such that borders are open the tax rates fall with increasing aggregate gains from trade, which comparatively benefits owners in both capital and labor abundant countries. This means that, in the labor abundant country after an initial drop in inequality due to trade openness, inequality thereafter accompanies the direction of Δ*E*.

ΔE – Economic Inequality
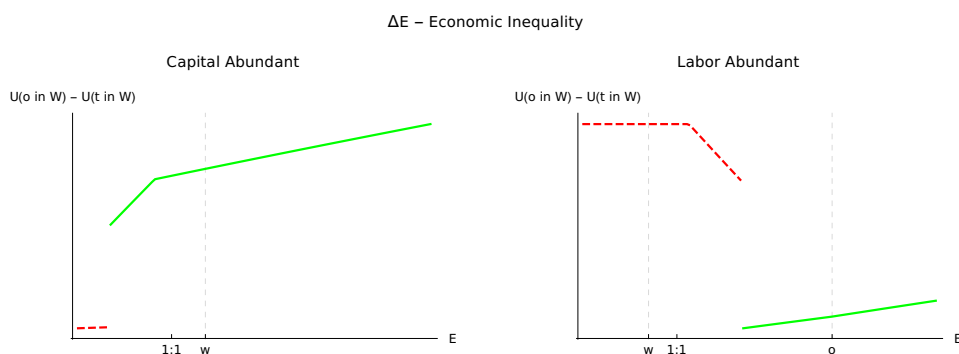
FIGURE 2.6: ΔE and Economic Inequality in the Winning Coalition

In political regimes with homogeneous winning coalitions (DotP and Plutocracy) in no occasion do we witness a decreasing trend in inequality (see figure 2.7). Sudden shifts in inequality occur with the decision to open economic borders: a very similar fall at the levels of ΔE at which labor abundant countries decide to liberalize trade whether they are a Plutocracy or a DotP; and in the capital abundant country a shift in the contrary direction occurs in the DotP. As may be also observed in figure 2.7 with open borders the model predicts that as aggregate gains rise so does inequality and vice-versa. As for the capital abundant Plutocracy it would be willing to incur in heavy aggregate losses from trade to benefit its winning coalition.

ΔE – Inequalities in Plutocracy and DotP

FIGURE 2.7: ΔE and Economic Inequality in a Plutocracy and a DotP

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Summary of model predictions for ΔE

- No beliefs in aggregate gains, no trade between democracies.

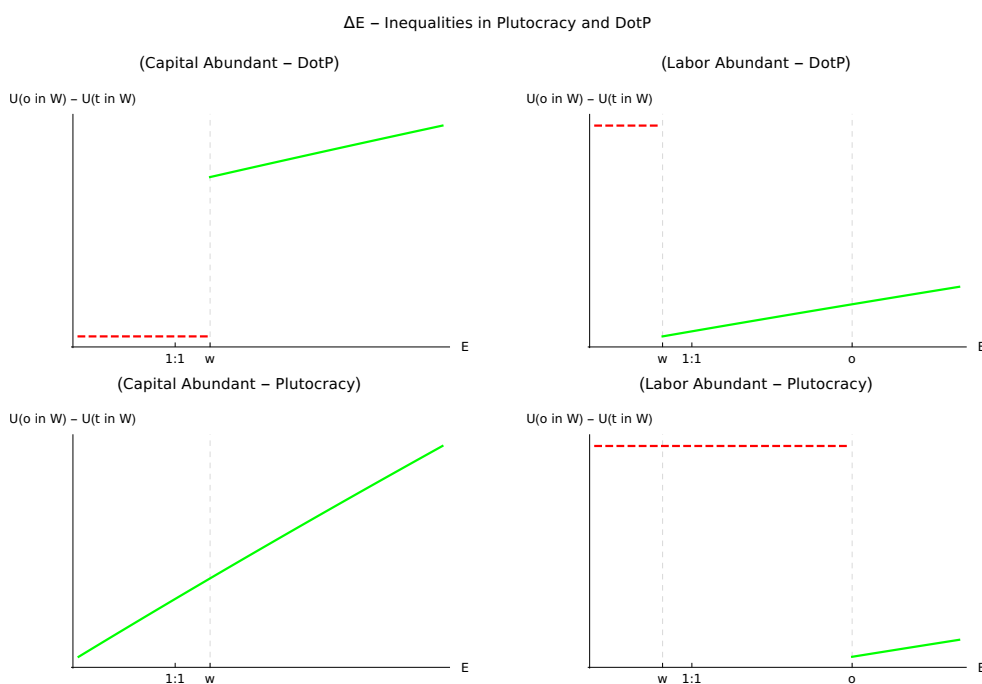- It is cheaper to run counter labor's trade preferences than to override capital owners' preferred policy.

- With the right ΔE every country liberalizes trade, even countries with homogeneous winning coalitions may adopt a trade policy that does not benefit their factor endowment.

- Lower levels of ΔE are necessary to open trade in the capital abundant country.

- Mixed coalitions need lower levels of ΔE to shift trade policy than homogeneous coalitions.

- In the labor abundant country trade liberalization is more likely to decrease inequality within the winning coalition.

- In the capital-abundant country trade liberalization is more likely to increase inequality within the winning coalition.

- With open economic borders as ΔE increases so does inequality.

Size and composition of the winning coalition

To observe the effects of winning coalition size we fix ΔE and then see how output behaves when we:

1. ΔW: vary the size of the winning coalition W proportionally (Wt/W and Wo/W remain constant and their sum equals one, as W increases)

2. ΔW_t: we increase the number of workers in W while keeping the number of owners constant, so W also increases.

3. ΔW_o we increase the number the number of owners in W while keeping the number of workers constant

The base parameters for class composition of the selectorate is of 10% owners and 90% workers which mimics the proportions in the base country as a whole.

Trade Policy Preferences and Policy Output

The original Mesquita et al (2003) model predicts that an increase in the size of the winning coalition will lower the provision of private goods as well as the tax rate and increase public goods. For the most part this happens in the model here developed too, although these reported trends may suffer significant changes due to shifts in trade policy. Additionally, in this model, the type of variation in the size of W is relevant, it brings about different outcomes that will be highlighted below.

a) ΔW

For instance, in the model simulations there is no set of parameters for which the increase of W, while keeping the loyalty norms equal, caused a shift in the country's trade policy to align with the workers' interest. This means that even by letting a great number of workers in the winning coalition the presumed effects of more labor friendly trade policy may be offset by the addition of much smaller numbers of owners. In fact under equal loyalty norms an increase in W will more likely result in a capital-friendly trade policy (see figure 2.8).

To plot these situations of trade policy shift it was necessary to tweak the selectorate size, ΔE, pre-trade inequality and the weight of Stolper-Samuelson effects. So there may be no empirical counterparts to these findings but there is hypothetical data for which these situations occur.

The question of when the trade policy turns in favor of the owners' preference is a matter of arithmetic: when the numbers of owners in the winning coalition grow too much for the leader to buy off their trade policy preferences. We are keeping the selectorate size constant, so in very small selectorates there might not be enough owners to, as W grows, change the leader's mind.

ΔW – Policies
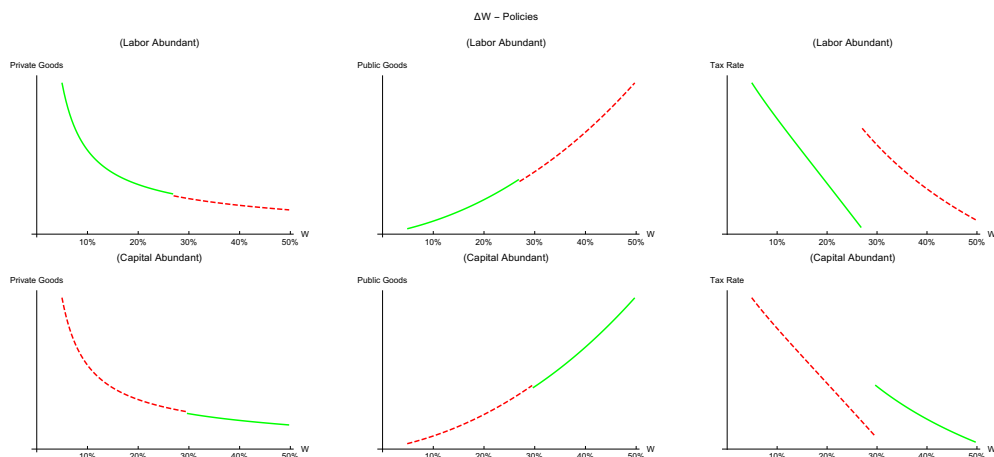
FIGURE 2.8: Δ*W* and Policy Output

b) ΔW_t

A labor-friendly trade policy may occur with an increase in the number of work-ers in the winning coalition, while maintaining the number of owners constant. This may take place regardless of the country's factor abundance (see figure 2.9): in the labor-abundant the leader as *Wt* grows the leader eventually chooses free trade bene-fiting labor, and in the capital-abundant as *Wt* grows labor is also eventually benefited by reversing trade openness. The policy output variation is very similar to the one in Δ*W*, except for the tax rate that behaves somewhat erratically (no plausible interpre-tation was found for that).

ΔW_t – Policies

FIGURE 2.9: Δ*W_t* and Policy Output

c) ΔW_o

ΔW_o is also able to push trade policy towards owners' preferences but bears other significant effects in terms of policy output in both the capital- and labor-abundant countries, specifically in the private goods provision. In figure 2.10 we can see how only this type of change in the winning coalition has a non-linear effect in the provision of private goods, and it is also the only that can bring about an increasing provision of private goods.
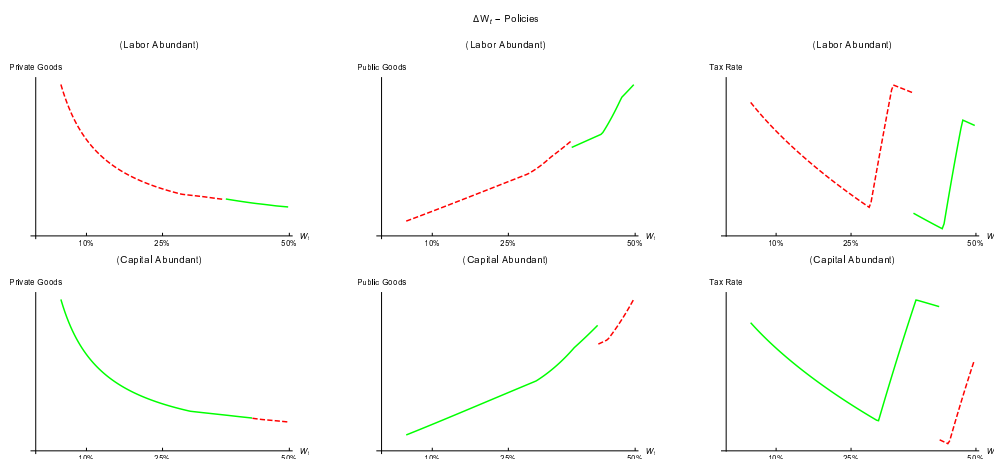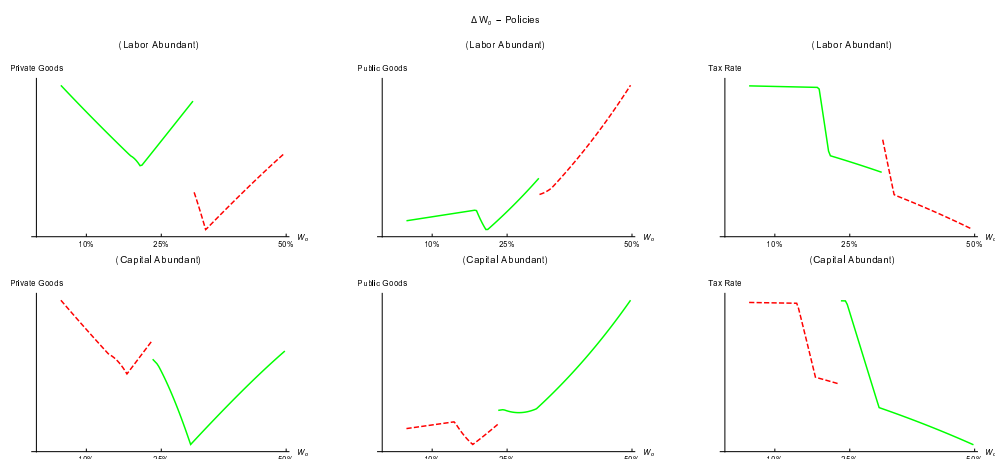

FIGURE 2.10: ΔW_o and Policy Output

d) Comparison to original selectorate model

The only deviations to the original model predictions on output policy (besides the sudden shifts in tax rate that a change in trade policy causes) are the tax rate in ΔW_t and the provision of private goods in ΔW_o. Regarding the tax rate behavior with ΔWt reasonable explanation for it could be adduced. As for the private goods provision in the ΔW_o plots show that not every increase in W implies a decreasing g. Depending on the number and factor endowment of the new members it may be cheaper to increase private goods than public goods.

Individual Welfare in the Winning Coalition

The most intriguing result is that every type of winning coalition expansion first decreases the individual welfare and then increases (see figure 2.11). This is the same pattern that Mesquita et al (2003) reported from their simulations and found empirically: a *check-mark shape* where at initial levels of growth in W the welfare of their members first decreases but as W continues to grow the trend eventually reverses.

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Mesquita et. al (2003) attribute this *check mark* effect to the weakening loyalty norm, W/S. As the loyalty norm decreases, the Leader has less opportunities for kleptocracy, the tax rate goes down and the provision of public goods increases. In the case of different types of variation a weakening loyalty norm for the owners (ΔW_o) makes the leader spend more on private goods as well as public goods whereas a weakening loyalty norm for the workers(ΔW_t) only forces the Leader to spend more on public goods and at a lower rate than with ΔW.

The point of reversal is never the same for owners and workers: With both ΔW and ΔW_o the owners welfare stops decreasing earlier than their fellow workers; the opposite happens with ΔW_t.

The effects of increasing W_t are more accurately described as a reversed "J" and they resonate strongly with Wright's (2000) "reversed J" model of class compromise depicting the relationship between working-class power and capitalist-interests: as the former increases, benefits to the latter decrease then increase. This curvilinear relationship is entirely at odds with conventional view of both neoclassical economists and traditional marxists that if the power of one class increases the other sees their interests harmed, and empirical evidence of it has also been advanced by a number of studies on union centralization and economic performance (see the references in Olin, 2000: 968). Another surprising aspect of the analysis is that the same reversed-J shape happens with workers' welfare in the winning coalition. The implications for worker's class loyalty are not very bright: only at great numbers of workers in the winning coalition, do the incentives to further increase their number emerge.
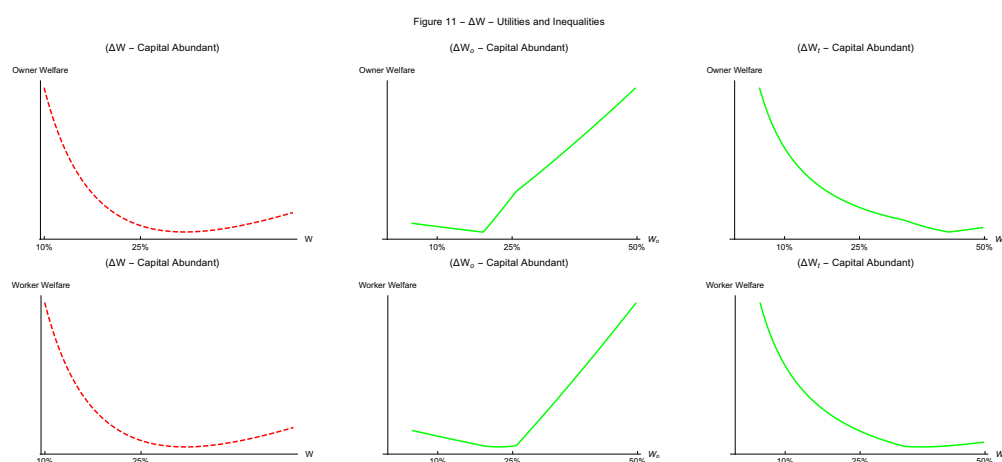

FIGURE 2.11: Coalition Welfare and Coalition Size

A direct implication of this result is that individual preferences regarding winning coalition expansion depend on where on the check mark is the actual size of the winning coalition. Above a certain threshold (where welfare starts increasing) individuals in the winning coalition would prefer an expansion but before that threshold they would likely resist such expansion. This resistance to expansion is even starker in expansions via increasing number of workers, where both classes of the winning coalition would only start benefiting from an expansion of winning coalition at levels much higher than other types of expansion.

Summary of Model Predictions

- An increase in W will more likely result in a capital-friendly trade policy.

- ΔW_t can only reverse trade policy to labor-friendly preferences.

- ΔW_o can only reverse trade policy to capital-friendly preferences.

- We can expect lower levels of welfare in the coalition when W expands via ΔW_t

- All three types of W expansion may bring about changes in trade policy but only ΔW_t can yield a labor-friendly shift.

- ΔW_o is the only type of W expansion that may lead to an increased provision of private goods.

- Both types of winning coalition expansion, decrease then increase the welfare of their members.

Inequality and Learning

Gauging factor endowments in the winning coalition may prove too difficult, however the effects attributed to increasing number of owners or workers in the winning coalition are equivalent to increasing or decreasing inequality: it renders the capital owners' interests more expensive to counter. Consequently inequality also decreases the tax rate, and thus produces less redistribution. Although this is contrary to the common understanding of the inequality and redistribution nexus (Meltzer and Richard, 1981; Milanovic, 2000) this negative relationship has also been reported

(Georgiadis and Manning, 2012) and modelled (Borck, 2007). The impact of distribution on growth has been modeled for instance in Alesina and Rodrik, 1994). Their model also shows that preferences on growth depend on economic status, and that the policy depends on inequality and redistribution. Its main result is that the tax rate increases with inequality and hence economic growth is slowed down. In the ESM, growth is to a large extent exogenous. What is endogenous about growth is that the decision on trade liberalization determines the economic output: below the level of aggregate gains where every individual prefers free trade, individuals are not just selecting a preferred trade policy they are also making a choice on economic growth.

In figure 2.12 we can see how as inequality increases (in the x axis) in the capital abundant country, the level of ΔE necessary for the leader to follow the capital owners' preferred trade policy decreases. The same thing happens in the labor abundant country (see figure 2.13), only this time the capital owners' preferred policy is to keep economic borders closed. The model thus suggests that the effect of inequality on growth is thus dependent on the country's factor abundance: in the capital abundant country the capital owners' preferred policy favors growth, in the labor abundant country it favors stagnation. Synthesizing:

- In the capital-abundant country, as inequality increases, lower levels of expected gains from trade are needed for the trade policy to benefit capital.

- In the labor-abundant country, as inequality increases, higher levels of expected gains from trade are needed for trade policy to benefit labor.
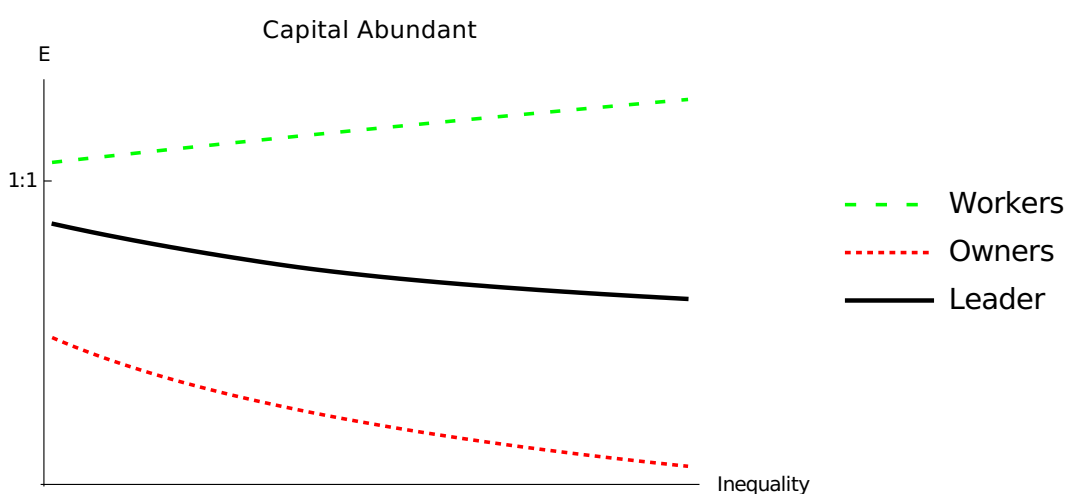

FIGURE 2.12: Threshold above which trade is liberalized as function
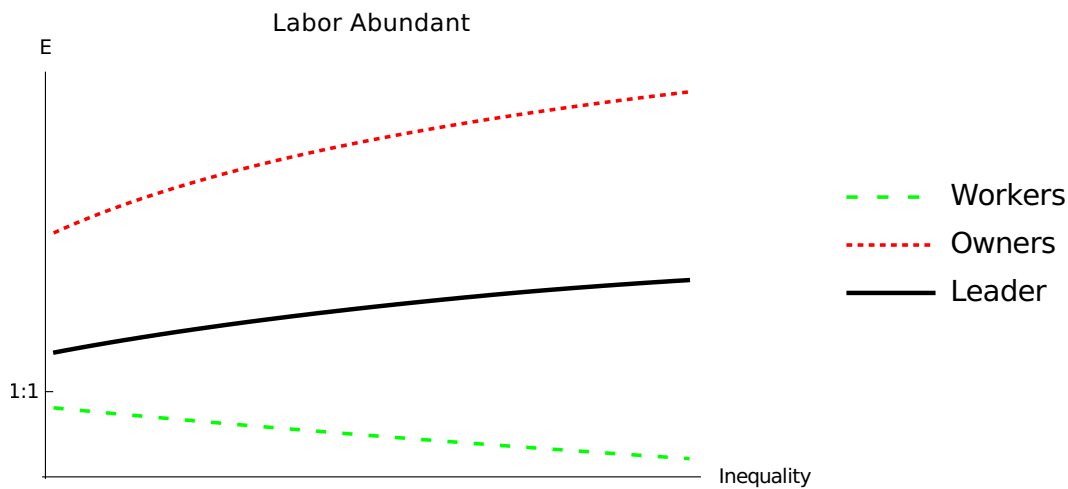of inequality (capital abundant country)

FIGURE 2.13: Threshold above which trade is liberalized as function
of inequality (labor abundant country)

This means that in Latin American typically labor-abundant countries we would
need to observe, besides democratization, much higher levels of ΔE than in Western European economies for trade liberalization and its promised aggregate gains to
take place. Weyland (2002), for instance, gives economic crises a central role in
explaining market reform in Argentina, Brazil, Venezuela and Peru. The argument
is based on prospect theory (Tversky and Kahneman, 1992): when people achieve
gains they become risk averse, when they face the prospect of losses they become
more risk acceptant. Indeed it seems that in certain countries something more drastic
has to occur for trade liberalization to take place. It is either people entering a severe
domain of losses (Weyland, 2002) or incumbents pursuing unannounced unpopular
reforms that are nevertheless better for their constituents and hence better for their
own chances of survival (Stokes, 1996). This could be due to structural societal and
political aspects, whereby vested interests are harder to disarticulate (Sachs, 1993)
and hence only major events like severe economic crises generate the conditions for
reform.

But it can also be like extended selectorate model suggests that it is the exact
same mechanism (as the one illustrated by figures 2.12 and 2.13) operating in both
Latin America and Europe only with different phenotypes. Another interesting fact
that emerges from the analysis is that ΔE may function as an incentive for inequality
and less redistribution. Whether the expected aggregate gains from growth turn out
to be right or not is secondary to the fact that these stylized individuals in the ESM
will vote for more inequality even when on the losing side of it if absolute gains are

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promised. The strength of the "trickle-down" and "tax relief for the job creators᾿ argument" lies surely in the same dynamics.

Interpreting regime change, trade liberalization, learning and inequality

The ESM prediction that for every country there is a certain ΔE for which trade is liberalized may seem redundant. It is in a sense subject to the same critique Rodrik (1996) produced on the claims that reforms are the response to economic crises – it is as tautological as saying that smoke follows fire – but it uncovers important differences between countries, and provides an explanation for why do some countries need higher levels of ΔE to liberalize than others. Model predictions render the effects of learning dependent on factor abundance. Because factor abundance determines the domestic winners of free trade and some losers are more easily compensated than others, lower levels of ΔE are necessary to shift trade policy from close to open in the capital abundant country than in the labor abundant country.

This prediction sheds new light on the role crises play in market reform. Economic crises are hardly ever mentioned as explanations of trade liberalization in Western democracies but in Latin America they are stressed as necessary elements to disrupt traditional vested interests. The model suggests that this may be due to relative factor abundance. Granted that crises undermine the discourse of traditional vested interests and open space for reform (Haggard and Kaufman, 1997; Fernandez and Rodrik, 1991) but in the light of the ESM some interests are weaker than others. In the European capital-abundant country a crisis-induced change of beliefs would need to be much weaker for trade liberalization to ensue than in the Latin American labor-abundant country because the economic class that is opposing liberalization in the former is labor (easier to compensate) and in the latter is capital owners (harder to compensate).

The prediction that in mixed coalitions (workers and owners) lower levels of ΔE are needed to shift trade policy than in homogeneous coalitions is in line with the finding that during crises fractionalized governments liberalize more (Galasso, 2014). They may do so because crises and multi-party government present a good opportunity for blame sharing/avoidance (Galasso, 2014: 163), but it could also be as in the ESM suggests that fractionalized governments need to comply with a more

diverse set of interests and that some interests are cheaper (workers) than others (capital owners).

All the predictions related to the size of the winning coalition and the numbers of owners and workers within it are derived from three stylized facts: 1) winning coalitions shelter different interests; 2) different interests weigh differently in policy output; 3) and a country's factor abundance weighs strongly and symmetrically in the preferred direction of change in trade policy for owners and workers. When the numbers of workers (capital owners) in the winning coalition expands so does their leverage in policy output. When both the numbers of workers and capital owners grow proportionally the model predicts that the capital owners' preferred trade policy will more likely be followed.

Theoretically this means that the sheer expansion of the winning coalition that happens with democratization may not in itself benefit labor, like the case of Mexico illustrates, if the resulting winning coalition does not significantly change the balance of interests of the previous one or if the expansion of the winning coalition is done by empowering capital.

But the effects of regime change in the model allow for another speculation regarding the central research question of why does trade liberalization follow democratization in developing countries, one that owes greatly to the main insight of the factors-based explanation: that both democratization and trade liberalization are also choices on redistribution. By highlighting the distributive aspects of both political regime and putting them in relation to each other (indeed in Adserá and Boix (2003) the choice of regime and tariffs is modeled as simultaneous) this means that there are situations where the improvement of individual welfare may be attained by one or the other.

The analysis shows that in labor-abundant countries there is a situation where capital owners would prefer increasing the power of labor than liberalizing trade, in other words: in labor-abundant countries there is a situation where capitalist elites prefer democratization over trade liberalization. The ESM cannot tell whether capital elites have the power to act upon this preference, but in case they do, this constitutes an additional explanation to the main theories that we integrated in the ESM to account for the fact that trade liberalization follows democratization in developing countries. Not only democratization increases the likelihood of trade liberalization, but also in labor-abundant countries democracy is more likely to occur before trade

liberalization on account of capitalist elites preferences on redistribution. This is especially more likely if these economies present high levels of inequality because as we have seen as inequality increases in labor-abundant countries so does capital's leverage in setting trade policy. This specific situation is visible in figure 2.11: there is a threshold of ΔWt above which capital owners in the winning coalition prefer an increase of Wt if faced with demands over redistribution. Liberalizing trade would probably diffuse workers' aspirations of better welfare and delay political change but it would decrease the welfare of capital owners, where simply increasing the number of workers Wt would increase the welfare of the owners and maintain their preferred trade policy.

Final Remarks

Formal models are typically designed to account for stylized facts. They rely on the ability of parsimonious assumptions to reproduce these stylized facts and legitimize the theory upon which these assumptions were grounded.

The stylized fact that we are here concerned with is that trade liberalization tends to follow democratization and it has indeed been reproduced by the model under special conditions. However, the assumptions upon which it has been constructed allow and suggest different interpretations from what the previous literature provides on this fact and its causes, namely in what concerns the role of two different phenomena: learning and inequality.

The learning thesis is that dictatorships are dogmatic and democracies are more willing to learn. The ESM assumes that that both regime types learn equally and shows why they must act differently upon it, based on the strategies that best increase their leadership survival. While this may be a terminological question tied to the correct meaning of learning (if we assume learning equates to following promising growth-inducing policies the discussion becomes more nuanced) it does produce starkly different predictions because it ties the adoption of growth-inducing policies to the obligations of the leader towards her winning coalition.

The ESM also clarifies the role that economic inequality plays in the nexus between regime and trade. Although democratization may empower labor depending on the type of coalition expansion, labor's actual political weight on trade policy-making depends on inequality. The greater the economic inequality the cheaper it is buy workers' trade policy preferences; the same effect is also visible in the tax rate.

Indeed one central result of the model analysis is that inequality within the winning coalition matters in growth-inducing policies. We have focused on trade liberalization but the same logic applies to any policy that pits two economic classes against each other. As inequality increases the cheaper it is to buy out policy preferences of the poorest group. Because of that, when such growth-inducing policy favors the poor, as inequality increases the larger must be the expected growth associated with that policy for it to be adopted.

The observation just stated, along with the result that workers are willing to vote for more inequality under trade-induced economic growth may be a useful add-on to existing explanations of rising inequality in democratic regimes with advanced economies. It may also go a long way in clarifying the link between globalization and recent outbursts of populism (Rodrik, 2017). Rising inequality changes the individual preferences of regime change, and in the ESM, if a regime generates policies of increasing inequality the only option of improving individual welfare is regime change. Reducing the size of the selectorate brings, according to the ESM, clear material gains to those that know will not be excluded like white native voters of Marine le Pen in France. Increasing the size of the winning coalition, in a smaller selectorate, via plebiscitarianism does just the same.

This is to say that while the model was built to study the effects of regime change on trade liberalization it still promises a great deal of room for exploration and inquiry on the opposite causal direction. An exploration I anticipate to be fruitful in understanding the effects of economic globalization on democracies.

CHAPTER 3

Populisms, Rational Choice and Reversed Globalization: Classifying the Distributive Politics of Populisms

Abstract. *The chapter addresses the questions of 1) what explains the phenotypical variation of populism and 2) how the phenotypes affect economic globalization. It develops a methodological individualist approach to populism that unravels its distributive implications without garbling its minimal definition as a thin-centered ideology. A method for the classification of populist phenotypes by their distributive implications is proposed, and phenotypical variation is explained in terms of individual institutional preferences. The method is illustrated with two European and two Latin American populisms, each representing a different phenotype, and a short analysis that introduces international trade theory considerations to speculate how each phenotype may affect free trade and, concomitantly, economic globalization.*

Introduction

Recent populist outbursts – the Trump victory, the Brexit referendum [1] and the rise of nationalist-populism in Europe – have been interpreted as obstacles to ongoing processes of deepening globalization. To some, populism has come to be the opposite of cosmopolitanism: The cultural cleavage divides Populism from Cosmopolitan Liberalism, which favors the free flow of people, ideas, capital, and cultures across national borders, and pluralistic forms of governance based on respect for the protection of minority rights and checks and balances in decision-making processes. (Inglehart and Norris, 2016: 17).

However, we know empirically that some populisms have embraced ideologies that facilitate economic liberalization and others adopted a more protectionist stance. An example of the former is the neopopulist neoliberalism push for deregulation and reform in 1990's Latin America (Knight 1998) and, falling in protectionist category we have the classic types of populism of early 20th century which promoted import substitution industrialization (for an overview see Grigera (2017: 2-5)). The populist stance on economic globalization shows a variation that is still underexamined. This chapter contributes to fill that gap by addressing the two following questions: 1) what explains the phenotypical variation of populism and 2) how the different phenotypes affect economic globalization.

Perhaps concomitantly to the idea that globalization is anathema to populism, populism has also been interpreted recently as the product of, inter alia, the globalization of trade and finance. The eminent economist Dani Rodrik understands populism as the political backlash of these liberalizing trends with manifestations at both ends of the left/right political spectrum. The left-wing denoting both Latin America's (with exceptions) long tradition, recent European parties like Podemos in Spain, Syriza in Greece and Bernie Sanders' 2016 presidential campaign in the USA; and the right-wing encompassing Donald Trump's presidency in the USA, Marine Le Pen's run for France's presidency, and the Brexit campaign for "leave ". Rodrik (2017) speculates that what causes populism to turn right or left is how the visibility of economic shocks can be explored (migration is more easily explored by right-wing

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[1] The actual meaning of Brexit in what regards economic integration has been interpreted both ways: either along Polanyi's idea of a double movement towards more liberalization and freer trade coupled with nationalism (Worth 2017), or as the result of popular dissatisfaction with the utopian ideal of autonomous markets (Pettifor 2016). As the British sociologist Jessop (2016: 7) put it: "Brexit is so polyvalent a notion and so complex a process that its present meaning is hard to define and its future trajectory hard to discern".

populism, and income inequality by left-wing populism). Guiso et al. (2017) also ties the explanation to economic shocks but stresses the role of demand-side over supply-side: market crises create an entry space for right-wing populism and state financial crisis do the same for left-wing populisms.

Economic globalization and populism likely form an endogenous causal relationship but there has been little research focusing on this aspect, as Rodrik himself notes: the classic book on the economics of populism is still Dornbusch and Edwards (1989). I believe some of the obstacles for this kind of research are created, paradoxically, by the academic literature on populism, namely in how it explains its phenotypical variation (typically conceived along the right-left dimension).

The questions this article addresses are concerned with explaining this phenotypical variation and with how it may relate to economic globalization. Every study or article on populism starts with some caveats observing how contested the concept is. Scholarship on populism has produced in fact numerous definitions (see reviews in Gidron and Bonikowski (2013) and Deiwiks (2009)). In this article I subscribe to what is commonly known as the minimal definition of populism (arguably the subject of some consensus, see Bonikowski and Gidron, 2016: 7), defined "as an ideology that considers society to be ultimately separated into two homogeneous and antagonistic groups, 'the pure people' versus 'the corrupt elite', and which argues that politics should be an expression of the volonté générale (general will) of the people" (Mudde, 2004: 543).

Taking this minimal definition as a starting point, I will develop methodological individualist approach that highlights populism's distributive implications. The underlying idea is that adherence to this ideology has economic roots (as argued in Rodrik, 2017) and distributive motives (see Grigera (2017) for a case study analysis of the distributional consequences of populisms in Brazil and Argentina), and that the interconnections between the two explain the phenotypical variation of populism, and cast some light on the relationship between populisms and economic globalization.

The underlying logic of this ideology is one of exclusion/inclusion that, if materialized in a political project, necessarily redefines political institutions and bears distributive implications. However, the concrete aspects of such exclusion/inclusion and its distributional adjustments are only defined in the specific context of a distributive struggle. It is in these contexts that we can witness events that I designate as context-specific populisms. At a national scale, context-specific populisms manifest

in a collective action, that may be headed by a party or a leader which may be called populist because it has fattened the thin-ideology; i.e. it filled with content its three core concepts (the people, the corrupt, and the expression of the general will). Thus, and contrary to other types of ideology, an individual cannot adhere to populism but only to context-specific populism.

The literature has looked at these context-specific populism as being constituted by demand-side and supply-side, a framework with advantages and disadvantages (more on this in section 1.2). I will follow the present terminology for the sake of dialogue with other studies. The demand-side of populism, I will argue, is generated by how material grievances caused by economic globalization (or other factors like technology or automation) change individual institutional preferences on redistribution and that these individual preferences determine the direction (right or left) of populism's most salient supply-side. The discourse provided by the supply-side echoes these preferred institutional changes in the way context-specific concept of "the pure people" is formulated by both supply and demand, and in how it proposes to express the general will. The literature typically refers to these preferred institutional changes as "unmet demands" (Panizza 2005). I contend that they are unmet because they are not possible under the existing political regime within which they are engendered. So, to put it bluntly, I argue that populism is the ideology of a politics of regime change.

The question that follows then is: why populism? Why not just socialism, or nationalism? I believe part of the answer is in populism's structure of incentives for adherence and mobilization to such project of change. Every politics of regime change must deal with the collective action problem of the free-rider (see Olson, 1971). Populist discourse has a strategic leverage compared to full-fledged ideologies in the solution to this problem, because the vagueness deployed in the definition of "the pure people" – what (Laclau 1996) described as an empty and floating signifier, a description that could also be applied to "the corrupt other" – renders political participation and mobilization as game of "dancing chairs": those who dance and race to the chair are rewarded with a seat at the table of "the pure people".

Methodological individualism is an especially useful approach to populism's material implications because it solicits an explanation of demand-side and supply-side in terms of intentions and goals as opposed to traditional accounts underlining manipulation, emotions, and attitudes. But is also poses many ontological and epistemological problems that rational choice models of populism left unaddressed. The

bulk of this discussion is in section 1, where I subsume these problems in four distinct categories and each provides an important piece of the puzzle of the distributive dimension of populism.

Section 2 proposes a method for the classification of populisms by their distributive implications and makes extensive use of the selectorate theory (Mesquita et al. 2003) and an extension of it that has been developed in Mendonça and Loff (2017), the extended selectorate theory (ESM). This theory is especially helpful in the development of the idea of regime change and in the excavation of the relationship between political regimes and trade liberalization. The ESM is the central piece of the framework I use to classify the type of regime change that each variety of populism puts forth. There, I show how the very useful typology of exclusive/inclusive populism developed by Mudde and Kaltwasser (2013) would translate into this taxonomical method.

Section 3 shows how the ESM, in line with the knowledge of standard theory on democracy and trade liberalization, allows some modest predictions on the impact of these two ideal types on trade liberalization. Section four concludes with a brief discussion on some of the weaknesses of this very skeletal interpretative scheme.

Populism and Rational Choice

Rational choice theory has a long tradition of modeling and analyzing distributive conflicts (Acemoglu and Robinson, 2002; Alesina and Rodrik, 1994; Benhabib and Przeworski, 2006; Benhabib and Rustichini, 1996; Persson and Tabellini, 1999) This fact along with its epistemological emphasis on explanations that are grounded upon "satisfactory microfoundations in acceptable individual explanatory factors" (Ylikoski, 2017: 12), makes rational choice theory a promising framework to unravel the distributive dimension of populism. The arguments in the present section have no intention of presenting rational choice theory as the only or best theory available to deal with populism but simply to stress its strengths and the possibilities that it opens.

The minimal definition allows us to identify populist phenomena. A populist discourse is one that offers a view of society as essentially antagonistic – us vs. them – where "the people" or "the oppressed" are in a struggle for dominance with the other, typically the elite, and no cooperation is possible ("la casta" for Podemos, the internal/external troika for Syriza). Accordingly, a leadership, campaign or party

movement is populist when it relies on populist discourses consistently and across contexts (see Bonikowski and Gidron, 2016b). However, the definition does not tell us when and why is this ideology utilized and adhered to and why is there phenotypical variation (i.e. when does it attach itself to right or left leaning views); it tells us little about its explanandum and even less on how far we can go with it as an explanans for other social phenomena like economic globalization. To study the distributive implications of an ideology (however thin) we need to characterize the distributive scheme that lurks within it and to clarify the role that adherence to ideology and political use of the ideology play in distributive struggles. To that extent, adherence to, or discursive deployment of such ideology is an individual strategy chosen among others in a distributive conflict.

The idea of populism as a strategy is not specific of a game-theoretic analysis and has been amply developed by Weyland (1999, 2001, 2003) who emphasizes the characterization of leadership and its relationship with organization: "a political strategy in which a personalistic leader seeks or exercises government power based on direct, unmediated, uninstitutionalized support from large numbers of mostly unorganized followers. This direct, quasi-personal relationship bypasses established intermediary organizations or deinstitutionalizes and subordinates them to the leader's personal will."

This definition of populism as a political strategy is in turn dismissed by adherents of the minimal definition of the thin-centered ideology like Mudde and Kaltwasser (2013) on the grounds that it leaves out important populist cases, because they may either lack charismatic leadership or, conversely, be highly organized; it also may lead to the inclusion of non-populist cases that present those same characteristics but lack the core aspects of the minimal definition: the embodiment of the general will and the central antagonism of the pure versus the corrupt.

While I agree with this critique of Weyland's definition I argue that the problem with the strategy-based definition in (Weyland 2001a) is the substance of the strategy not the notion that adherence to the populist ideologies (on both demand and supply sides) creates constraints and opportunities in strategies, and that these constraints and opportunities are patterned. Populism I argue is an ideology that proposes regime change, so adherence to it is a strategic action that inevitably develops into more strategies. The strategies are not in themselves populist but only amenable with the populist ideology.

The nature of this regime change is context-specific, i.e. only concrete uses of

this thin-ideology define the substantive content of its three core concepts: "the pure people", "the corrupt", and the general will. And this content alone, by codifying the criteria of exclusion/inclusion, expresses the nature of regime change. The challenge however is to acknowledge Mudde and Kaltwasser (2013) warnings, i.e. to develop the strategic implications of this ideology where, to borrow from Sartori (1970), the intention of the concept matches the extension of the minimal definition.

The substance of this ideology and its long history of epiphenomena pose several problems to the task of identifying its distributive implications. Firstly, the way success of supply-side populists seems to depend on the emotional and sometimes mystical appeal (Zúquete 2008) of its message, it suggests that the demand-side is being manipulated into irrationality, and ultimately out of the scope of rational choice modeling. Secondly, if the goal of the supply-side is to secure political power, we also have trouble explaining the strategic leverage of this ideology compared to others (emotionally charged or not). Thirdly, because the ideology depicts an antagonism (the pure vs. the corrupt) that is parallel to class struggle[2], it forces rational choice out of its comfort zone where it typically provides class-based accounts of distributive struggles. Finally, the core of the ideology denotes a project of political exclusion (of "the corrupt") and political inclusion (of "the pure") thereby suggesting that its adherence/deployment is a strategy employed to change the very rules of the game within which it is being played; to such extend it can be viewed as strategy in a nested game. I discuss each of these four problems – 1) demand-side rationality; 2) supply-side strategy; 3) distributive conflict modeling; 4) populism's nested game – below.

In the last few years there have been some rational choice approaches to populism but none took upon the minimal definition nor dealt with the entirety of the problems that it poses. Recent game-theoretic approaches have focused on the policy output aspect of populism and also on how the strategic intentions of demand-side and supply-side interconnect. To that extent they have addressed the first two problems listed above: 1) demand-side rationality, and 2) supply-side strategies (see Acemoglu, Egorov, and Sonin, (2013) and Guiso, Herrera, Morelli, and Sonno, 2017).

Their formal modeling, however, relies on an altogether different definition of populism that is significantly normative and interpretative rather than analytical, and

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[2]This means that the corrupt other is never capitalists or capital *tout court* but a subset of the rich. For Podemos in Spain, for instance, the corrupt other is La Casta the immoral political-economic elite, in Greece's Syriza it is the Internal/External Troika

stresses the irrational character of populist policies. Acemoglu, Egorov, and Sonin (2013: 772), defines it "as the implementation of policies receiving support from a significant fraction of the population, but ultimately hurting the economic interests of this majority" [3], and Guiso, Herrera, Morelli, and Sonno, (2017:2) emphasize the disregard for future consequences of populist demand-side. Additionally, in the Acemoglu, Egorov, and Sonin (2013: 772) model, the dichotomy of the people and the elite is defined a priori, meaning that populism does not contribute to shape the antagonism but merely feeds on it. Populism is therein posited as a reaction to corruption and clientelism that produces suboptimal economic results, so that we can only interpret it as a misguided treatment . In Guiso, Herrera, Morelli, and Sonno, (2017:2) the relevance of the anti-elite rhetoric ability to identify the corrupt who are to be excluded is also downplayed and is justified as strategic disinformation. Binswanger and Prüfer (2012) formal modeling also focus on the policy aspect of populism (as do Guiso, Herrera, Morelli, and Sonno, (2017), defining it as the extent to which policies are formulated to cater voters' prior beliefs, and an identical approach is put forth in Frisell (2009) formal modeling of populism as the incumbent's inclination to conform to popular wisdom [4].

Besides the understated idea of populism as pathology (an idea with mixed receptions, see Akkerman, 2015; Deiwiks, 2009; Rovira Kaltwasser, 2012) and its definition as a set of suboptimal policies – though with possible positive side effects (see Binswanger and Prüfer, 2012) – these formal modeling approaches also share the theorem of the median voter as a central technical apparatus. While useful for its tractability it tends to: 1) reduce the incentives, of adherence to populism, to single issue policies like taxes; and 2) treat the median voter as the ideologically neutral point in any issue (because if policy output reflects its preferences they are optimal and neither left nor right) so that we can identify left and right policies as to where they stand in relation to this neutral point (consequently, if policies are not aligned with the median voter they are anomalies) ; and 3) bring limited utility in explaining populism in autocracies because of their emphasis on electoral processes. The picture of populism that Acemoglu et al. (2013) put forth a) does not quite fit our knowledge

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[3] We can trace the origins of this definition at least back to (Dornbusch and Edwards 1991) book on the macroeconomics of Latin American populism.

[4]These game-theoretic approaches to populism by Frisell (2009), Sonno, Guiso, and Morelli (2017) and Binswanger and Prüfer (2012) are also at risk of conceptual stretching: any party that is responsive to voters policy demands qualifies as populist. Populism becomes a matter of degree, i.e. it is not about knowing whether a given party or leader is populist or not, but rather how populist it is.

that populism can produce multiple policies that spread across the right and left divide[5],and b) largely ignores one of the fundamental traits of populists which is their anti-status quo or anti-establishment thrust. The former (a) is a result of class-based analysis coupled with the median voter mechanism, and the latter (b) may be due to the fact that populism proposes change and formal modeling has a hard time with change[6], it thrives on comparative statics and its technical apparatus may be unsuited for the study of populism.

The remainder of the section addresses the four problems that populism poses to rational choice and how their solution contributes to a material interpretation of the minimal definition. These problems coincide with what Przeworski (1985) identified as the four categories of challenges posed by rational choice to Marxism: 1) the theory of individual action; 2) the ontology of collective actors; 3) the structure of class conflict and 4) game theory as technical apparatus. I elaborate on each of these challenges to produce a checklist of desirable characteristics for the formal modeling of populism, and develop its understanding as part of a politics of regime change.

Theory of Individual Action

Rational choice theory is "the theory that people faced with a choice of action do what they hope will succeed" (Aya, 2001: 148). If the idea that demand-side populism is irrational, emotional or directionless is correct, populism is therefore rendered impervious to rational choice approaches. According to Guiso et al. (2017) only recently did scholarly attention shift from supply-side to demand-side. Attention to the supply-side focused on institutional constraints, electoral dynamics, their organizational and mobilization methods, and strategies of populists in office, and of course their discourse and rethoric (see references in Guiso et al. 2017: 5).

The recent shift to demand-side obeys two main concerns: 1) determining the phenomena that generate a potential base for populism (crises and societal changes), and 2) abstract the individual traits of that base (their ethnic, religious, educational, economic, ad attitudinal background). The result of recent research endeavors can be succinctly described as the competition of two explanations of demand-side populism: 1) the economic inequality and deprivation thesis, and 2) the cultural backlash

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[5]Derks (2006), for instance, shows how a right-wing dissatisfaction with the welfare state and a left-wing rejection of globalization of free flowing capital and goods combine in the Flemish right-wing party in Belgium.

[6]A shortcoming already noted in Huber and Dion (2002) review of rational choice's contributions to the study of Latin American politics

thesis. The first – the economic explanation – finds that the profile of the populist voter is a loser of globalization seeking redress, the second – the cultural backlash thesis – that it is those who lost from the silent revolution of post-materialism (Inglehart, 1971).

This shift of attention to demand-side is, to be sure, a fundamental part of the answer to the questions: what choice of action are populist voters faced with?; and what do populist voters want and are hoping to achieve? Studying the determinants of populism allows us to produce the profile of the populist voter and gives us insight into plausible motives for adhering to populist parties, but oddly, explanations of demand-side never explicitly consider that the adherence to the thin-centered ideology of populism is a self-evident demonstration of intention to execute said ideology in the hope that it will succeed in solving concrete problems.

Agency in demand-side explanations of populism

The literature in both the economic insecurity and cultural backlash theses tends to muddle up agency in populist demand-side with one, or a combination, of the following procedures: depict demand-side as passive bearer of grievance to which the supply-side provides orientation and motive; formulate agency in terms foreign to the minimal definition of populism; show the demand-side as a pool of cultural losers that the supply-side can capitalize into votes; downplay the material implications of demand-side values; equate certain values and attitudes to demand for populism.

A convincing case for the economic insecurity thesis is made in Rodrik (2017: 21-5 and the references therein). Rodrik's exposition is focused specifically on the effects of economic globalization and cites a few important papers that link exposure to Chinese imports with the populist vote in different countries. Rodrik (2017: 3) goes on to say that exposure to globalization shocks is connected to how the grievances may be exploited, so that in countries where these shocks manifest in immigration and refugees, supply-side will offer nativism and the sort, and if shocks are especially felt in trade, finance and investment, supply-side provides classist rhetoric. The general assumption is that, even though "the economic anxiety and distributional struggles exacerbated by globalization generate a base for populism" they do not "necessarily determine its political orientation", supply-side does. Another perspective from the economic insecurity thesis is Guiso et al. (2017) game-theoretic approach. There, crises are cause of, simultaneously, distrust in mainstream parties and need for short-term protection. Distrust depresses electoral turnout which in turn

creates an "abstention-based entry space" for populist parties. If this entry space is created on the left (right) it opens space for a left (right)-wing populist party offer of short-term protection in the form of a "sharp change in the institutional constraints (e.g. implementing entry barriers to Chinese or foreign goods, exit from EU or Euro-Zone, building a border wall)" (Guiso et al. 2017: 12). In this theory, anti-elite (or establishment) sentiment is not part of the structure of incentives and goals of demand-side populists, it is only a strategy of supply-side to discredit the arguments from mainstream parties that denounce the costs of proposed populist policies. The strong exclusionary aspect of nativism in right-wing populism is also left out of the payoff structure of voting for populism. So, while this approach treats demand-side as conscious and intentional agents it leaves out one the central aspects of the minimal definition from this agency; i.e. populism is effectively left-out of populist adherence.

The main case for the cultural backlash thesis – a reaction to progressive cultural change[7](a view shared among others by Mudde and Kaltwasser, 2013: 167) – comes from Inglehart and Norris (2016) [8]. Their argument and findings also advance the idea that it is not growing economic inequality the main explanandum of recent populist successes (Trump, Brexit, Geert Wilders, Marine Le Pen): "contrary to the economic insecurity thesis, populists received significantly less support among those dependent on social benefits" (p.27).

The latter however does not disprove the link between trade exposure and populist success and only proves that populism does not equate with Socialism. The way Tea Party with its war on "entitlements" and vociferous "not my taxes" cry fails to capture the vote of those on welfare dependence, does not show that economic inequality is

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[7] The cultural backlash thesis is however at odds with, for instance, populist Geert Wilders' strong advocacy for women and LGBT rights in the Netherlands. While the progressive color of right-wing populism has been explained as being instrumental to advance its central anti-Islam agenda (Akkerman 2015), we are left wondering why and when does this reaction to post-materialism take a back seat to security issues.

[8] Inglehart and Norris, 2016:17) definition of populism is however ill-equipped to tackle their thesis, for the definition itself begs their conclusion. The definition starts pretty much with the one in this article but then moves to fill it with substantive ideological content: "Populism is conceptualized (. . .) as reflecting a loose political ideology emphasizing faith in the 'decent', 'ordinary' or 'little' people over the corrupt political and corporate establishment, nationalist interests (Us) over cosmopolitanism cooperation across borders (Them), protectionist policies regulating the movement of trade, people and finance over global free trade, xenophobia over tolerance of multiculturalism, strong individual leadership over diplomatic bargaining and flexible negotiations, isolationism in foreign and defense policies over international engagement, traditional sex roles for women and men over more fluid gender identities and roles, and traditional over progressive values.

not at the root of its growth[9].

The cultural backlash thesis is a demand-side explanation (that would apparently exclude from the picture most of left-wing populisms) that poses a challenge to rational choice explanations in its presentation of adherence to populism if the latter is understood as: 1) a mere reflection or visible side of attitudes; 2) an outlet of complex, culturally determined, emotions like nostalgia or resentment; 3) or the ideological fabrication and manipulation of those very emotions by an elite (see Silva and Vieira, 2017). Agency is left out of the picture and what remains is loud mourning, individuals as wandering headless chickens, or the wicked conversion of cultural behavior into votes. This ontological stance shares what Warren (1990) describes as the limits of Althusserian insight on ideology: "it requires that we view the world as lacking the possibility of autonomous agents" (p.603) because it subscribes to the underwritten assumption that "an ideology (is) being imposed on cognitively passive individuals by hegemonic classes or cultural structures" (p.602)[10].

The separation of populism into demand-side and supply-side is obviously very useful as a framework to discuss causality and agency but it also raises its own difficulties because it is hard to ascertain where the dividing line stands and how porous it is. Additionally, without an in-depth analysis of their relationship we cannot determine the endogenous aspects of it and go beyond the assertion that supply offers what demand wants. If a populist campaign runs on a fairness of trade platform, is it puzzling that individuals more severely hit by international trade vote for it? [11] Similarly if a populist right-wing ideology promises to protect welfare of natives and promote heteronormative legislation, should we be surprised that "Populist support is greatest among the older generation, men, the less educated, ethnic majority populations, and the religious"(Inglehart and Norris, 2016: 26)? While it enables verification of whether supply-side populists' reach to its targeted electoral market is being effective, it sidelines how the populist aspect of it is being specified by both supply and

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[9] A similar confusion is visible in Paul Krugman's (2014) words: "Trumpism is Faux Populism that appeals to white identity but actually serves plutocrats." There is nothing "Faux" about populism serving the material interests of a class that is a subset of what it loosely defined as "the people", but what is in fact noted is that serving the rich does not remove economic inequality from its causes, it only shows that populism does not mitigate economic inequality.

[10] To be sure, Warren (1990) also offers a critique of rational choice approach to ideology on the grounds that it is "indifferent to the ways that power relations can form subjectivity" (p.604). The critique is stimulating but unfortunately I cannot fully address it here.

[11] Burgoon (2011) shows that inequalities left uncheck increase the supply-side of anti-globalization of all parties across the political spectrum; Guiso et al. (2017:1) attribute this effect as a response from non-populists parties to "reduce the distance of their platform from that of new populist entrants."

demand. As "an ideology that considers society to be ultimately separated into two homogeneous and antagonistic groups, 'the pure people' versus 'the corrupt elite', and which argues that politics should be an expression of the volonté générale (general will) of the people", (Mudde, 2004: 543) the concrete aspects of how the corrupt and the pure are being defined and what institutional changes are being proposed to express the people's will should be central for research on demand-side populist preferences.

Besides the issue of whether adherence to populism is emotionally driven, answering these questions faces a larger theoretical obstacle which is the agent-structure problem (see Berejikian (1992: 647))[12] and, more specifically, its subsidiary idea that grievances are devoid of intention and susceptible to be electorally reaped. This equates to studying populism as a disease and supply-side as an infection vector whose rate of contamination depends on the risk factors of individuals. It is probably a useful epistemology to study some aspects of populism, like ideological diffusion, but it also obscures some others, namely the role of individual agency and strategy.

Fortunately, to provide a materialist interpretation of demand-side populism it is not necessary to devise a new general theory of action or solve the agent-structure problem, we just have to admit the possibility that there are real material motivations (to which values, resentment, and emotions are signs, symptoms and maybe even causes) to subscribe to the populist ideology. Below I sketch how a rational choice approach should position itself in relation to them without drifting away from the minimal definition.

Populist Intentions

A comparison with revolutions is most enlightening. Revolutions are mostly bloody business, certainly a lot of emotion going on amidst the violence, however historians' methods for the study of revolution since Thucydides rely on analyzing "the narrative history into strategic actions and reactions, explain these actions and reactions by rational choice, and document the explanation with direct and circumstantial evidence for hope of success" (Aya, 2001: 143). Rational choice theory is a general theory of human agency and while it is not a theory of how attitudes are formed nor preferences, it accepts both as facts. Unless adherence to populism is understood as an action rational choice has little use.

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[12]The problem of whether individuals act out norms and behavior conditioned by social structures or, are in turn, intentional, self-conscious agents.

While considering that adherence to populism is irrational leaves us with the impossibility of its theoretical proof, the rational choice hypothesis lets us see how far the fiction of welfare maximizing rational individuals leads us. Populism may be charged with emotion, and its adherence may stem from a subjective perception of reality, but as Aya (2001: 147) puts it "people act rationally in light of opinion – rationality of action is relative to cognitive frame of reference. Ideas motivate choice of action, but motivating ideas can be absurd." Perhaps supply-side populists contribute immensely to the cognitive frame of reference of demand-side populists; though one can reasonably assume that is one of the main goals of every supply-side politics[13], and while resentment and grievance are powerful drivers they change preferences but do not obliterate them.

Why does, for instance, the populist demand-side tilts to the left in some European countries and to the right in others? Certainly, constraints on the supply-side matter (Alonso and Rovira Kaltwasser 2015) and asymmetric disaffection from mainstream parties (Guiso et al. 2017) opens more space on one end of the ideological specter for populism. But is it the same action to vote right-wing or left-wing populism? I believe an obvious matter in this issue is being overlooked: left-wing and right-wing populists are subscribing to different political projects.

Populism is an ideology of political and material exclusion encoded in their pure/corrupt antagonism, and as such it entails a politics of institutional change. Rational choice modeling also needs to explain the direction populism takes in terms of individual preferences of institutional change. This is not possible if we reduce distributive struggles to taxes and tariffs like it is done in Acemoglu et al. (2013) because it does not account for the material benefits of political inclusion; it takes the institutional setting as granted and immune to change.

One promising approach is Mesquita, Smith, Siverson, and Morrow (2003) analysis of revolutions based on incentives for institutional change. In their model, individual incentives for regime change vary per political status and existing institutions. An explanation ceases to be circular if we can provide independent evidence that individuals vote on a populist party because they want to maximize their welfare through its project of exclusion/inclusion. While profiling the incentives and preferred direction of institutional change – where all demands, from issues on transparency and corruption to preferences for patriarchy to gender equality, constitute

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[13]The reasoning in this sentence and of most of this section is greatly indebted to Aya (2001) essay on the pervasiveness and inescapability of rational choice theory in historical accounts of revolution.

preferred directions of change with material implications – is not direct evidence of intention it certainly provides motive; motive that we can observe whether it is being acted upon.

The task at hand is to explain populism in a framework that shows how structure constrains choices, how preferences ascribe value to them, and how the welfare maximizing aggregate individual behavior produces events or macro-social phenomena (rational choice's basic modus operandi) that structure future preferences. Hints on how structure constrains choices come not only from the literature linking exposure to trade to populist success but also from other studies, like Swank and Betz (2003: 215), that point to how "universal welfare state directly depresses the vote for radical right-wing populist parties"(p.215). Evidence related to the cultural background of individuals lets us know a bit more about preferences and about the power structures in which they are embedded. But, and to conclude, if we want to explain the micro-social roots of a macro-social phenomena like wide-spread adherence to populism we need to show how individuals' preferred direction of regime change links to their welfare maximizing behavior[14] (more on this below).

The Ontology of Collective Actors

For rational choice theory, solidarity among individuals has rational motivations. This type of solidarity involves strategic calculation on how much to contribute to a common goal. In context-specific populisms, this common goal is loosely defined and the collective subject (the people) whose welfare this common goal is supposed to improve does not necessarily perfectly intersect with the individuals that mobilize to achieve it. This raises several problems for rational choice modeling, namely: a) who is the populist collective agent, b) how did it come to be, and c) what does it want? A typical rational choice answer would be: a) it is a subset of a population, b) whom, called to vote on an issue, c) prefers a populist policy. Because the populist collective agent is thus formed by means of sharing the same policy preference, the rhetoric of the pure and the corrupt and all things related with the thin-ideology are treated as epiphenomena and the problematic aspects of the relationship between demand-side and supply-side are left aside.

A different picture of the populist collective actor arises when we look at the role that the articulation of demand-side and supply-side plays in the context-specific

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[14] Note that I am not making any assumptions about the internal functioning of the behavior, it could be based on adaptive learning or cognitive processing psychologies (see Oliver, 1993)

formulation of the thin-ideology. This framework of analysis, whereby we assume there is a supply-side and a demand-side of the populist ideology creates obvious ontological difficulties when we move to the theme of collective action. We tend to think, of supply-side as an organization (even if strongly centralized in a leadership figure) and demand-side as atomized individuals. To that extent, it would be more appropriate to refer to demand and supply, respectively, as organizational recruitment and individual agents. This terminology allows for the idea that both supply and demand are being constantly redefined by way of its articulation instead of more rigid understanding of populism as a commodified finished product.

The articulation between supply and demand sides generates collective action, and every collective action faces the problem of the free-rider: the idea that, in a group, individuals may perceive one's effort or neglect to make little difference to the overall group's wellbeing. But groups also find their own practical solutions to it[15]. When considering populism as a part of politics of regime change it is worthwhile to explore what strategic leverage do its methods for solving free-ridership bear in relation to other politics of regime change like communism or nationalism. How does this ideology create a structure of selective incentives to reward participation? The problem with populism, however, is that before it can worry about free-ridership in a group it must constitute its own group. Contrary to socialism, for instance where the group membership requirements are clearly defined – and even there Marx himself noted that "separate individuals form a class only insofar as they have to carry a battle with another class" (quoted in (Przeworski, 1985: 392) – the populist ideology strives on not clearly defining the sufficient (it tends to provide some of the necessary characteristics which are not being part of "the corrupt") traits of membership.

The existence of this double movement of collectively imagining a group while generating incentives for solidarity within it, is why the articulation of supply and demand sides seems more relevant in the populist case than in other types of ideology. Obviously, the success of any populist movement lies in its capacity to mobilize individuals to vote. Current game-theoretical approaches focus on populist policy output so, in their account, a populist leader mobilizes individuals simply by offering

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[15] See canonical formulation in Olson (1971), and discussion of the free-rider problem in revolutions in Berejikian (1992). The theory of collective action has developed in leaps and bounds since Olson's seminal work to the point that the free-rider problem is no longer its central axis but part of a research on the conditions that allow collective action (see a recent review in Medina, 2013). In any case the free-rider problem allows for a stylized reflection of how populism differs in respect to other collective movements in its solution.

the policies in demand (by whatever reason) at the time, to achieve her primary goal of attaining or keeping office. It is a sound reasoning but it fails to explain why the antagonism between the "pure people" and the "corrupt other" is a necessary staple of populist campaigns. It does not illuminate its strategic value nor what it might be signaling to the demand-side.

The vagueness of the boundaries of the "pure people" or akin signifiers is essential for what Laclau (2006) calls the logic of equivalence: the process whereby a diverse set of claims coalesces around a symbol or theme. This logic of equivalence has strategic import in two ways: 1) it increases the payoff (more and more goods are being added in a non-exclusive way); 2) it creates an incentive to secure a position of membership to "the people" by allowing to add individual claims to the growing equivalential chain of claims. The growth of Syriza from a marginal leftist party to the head of Greek government was accompanied by the conspicuous adoption of the expression "the people" to refer to the interests that the party represented, in substitution of much less embracing signifiers like "the youth" or "the movements" of previous speeches and texts (Stavrakakis and Katsambekis, 2014: 127). Widening the vacancies to potential candidates of "the people" also means that its concrete specification is up for grabs, i.e. that a place at "the people's" table needs to be secured. A very different explanation of mobilization around populist leaders emerges if we interpret the reiterated antagonism of the "pure people" and "the corrupt other" as a clear agenda of change, political change.

To be sure an equal care must be put into the definition of the "corrupt other" so that it does not exclude vital support and/or presents "them" as beatable despite their inherent viciousness.

The more credible is the idea that change is going to come, the more palpable it is, the stronger the incentive to be part of "the people". This is how populism solves the problem of collective action: if the water is rising you want a place at the bigger boat and deal with the icebergs later . This is not to say that there may be non-material selective incentives (see Ethridge, 1987: 578-80) like moral highs, emotional outlets or social recognition in populist collective action, but only that they may not be necessary to explain it.

The nature of this solution is akin to the musical chairs game where players dance around fewer chairs than the number of players and when the music stops the players that fail to land on a chair are excluded. Those who find a chair are the group, but the group may have ended up with a set of heterogeneous interests. Hugo Chávez for

instance found himself with a multi-class coalition, while Evo Morales was backed by a coalition that was ethnic and class based (Cameron 2009). The modeling of populism needs to account for this possibility of great heterogeneity of coalition socio-economic background. When we account for that, it becomes difficult to talk about the ontology of collective populist actor because it is very hard to describe the group's interest beyond a vague direction of regime change. And this direction does not necessarily represent the optimal polity design for the majority or any of the individuals in the group but is either an improvement of the current design or a better alternative than what might have come if they had not joined the group. This is where its strategic leverage compare with other projects of regime change lies, but once in power it will likely have to deal with inconsistent demands (Bazdresch and Levy 1991) from different sectors in its ranks.

Exactly how much weight the supply and demand sides have in the context-specific definition of the "pure people" is surely subject to variation and each side has different strategy spaces but when we model supply-side strategy according to a single policy issue like taxes we fail to capture: 1) the possibility of a multiclass coalition; 2) the tension between different individual or sub-group interests; 3) the reasons behind the mixed (right/left) output of populist policies; 4) its strategic leverage compared with other projects of regime change.

The Structure of Class Conflict

Explanations of populism pose serious challenges to any method of analysis of regime and policy that is based in class conflict like most rational choice models of democracy. Rational choice models tend to posit democracy as an institutional solution to class conflict. One that constitutes a credible commitment to future redistribution (see Acemoglu, Naidu, Restrepo, and Robinson, 2015; and Acemoglu and Robinson, 2006). Democracy's odds for survival are also usually thought as function of factors that aggravate class conflict and narrow the range of feasible redistributions (see Benhabib and Przeworski, 2006; Przeworski, 2005). In these models, to reduce complexity, society is typically conceived as composed by the poor and the rich, or by labor and capital and the parties that represent these groups are the Left and the Right. Regarding populism the common procedure is to coerce it into one of these categories so that it forcefully is right-wing populism or left-wing populism, in relation to ideological zero that is the median voter, and consequently either pro-rich (or

capital) or pro-poor (or labor) (see Acemoglu et al., 2013).

The way populism constructs "the pure people" and "the corrupt other" does not fit neatly into these highly stylized schemata, as the existence of protectionist, anti-welfare populist parties demonstrates (Derks 2006). Populism combines different sectors of society in a way that to call it multiclass, while not very informative, is surely appropriate. This multiclass aspect of populism, once central in earlier definitions from Latin American scholars (Weyland 2001b), has been downplayed (Knight, 1998: 238-9) because it does not set it apart from non-populist political parties.

To the extent that successful non-populist parties are also multiclass coalitions, formal voting models, at the expense of sophistication and precision, also fail to address this important aspect of democratic politics. It is not, however, an unintended shortcoming. Their theoretical concern is not to explain how parties work but to study how and when, given the structural dependence of the state upon capital – the idea that the economy of a capitalist state heavily depends on the decisions of those who "own the productive wealth of society" (Przeworski and Wallerstein, 1988: 11) –, is class compromise possible, and what shape does it take in terms of redistributive output and its effects on less structural politico-economic phenomena like economic performance, public spending, leadership survival and so on. The electoral competition of multi-class composition of mainstream parties in democracies is 1) the practical reflection of this dependence upon capital, 2) a historical solution to class-conflict and, 3) as such, part of a specific form of class compromise. Instability in specific class compromises expectably open space for class-conflict but also to new projects of class compromise. Populism's logic of equivalence seems greatly apt for the sketching of such projects.

Przeworski and Wallerstein (1982) posed a challenge to Marxist orthodoxy with their description of class-conflict in capitalist democracies as a nonzero-sum game: workers accept the institution of profits so not to threaten investment and future gains and capitalists accept democracy as an alternative to radical action and militancy from labor. This compromise depends on the degree of unity of both labor and capital. If the workers are scattered across many unions or parties that compete for their allegiance, this increases capitalists' uncertainty regarding class compromise: it depends on the acquiescence of too many bodies (Przeworski and Wallerstein, 1982: 23). However, as is easily observable, full unity is not needed. It is legitimate to

suppose that unity has costs and the optimal level of unity is only the necessary minimum for the compromise to be honored. Of course, because the whole basis of the compromise hinges on future gains (namely in the shape of economic growth), any exogenous threat to future gains will also change this necessary minimum. The unexplored aspect of the optimal level of unity is that it entails a logic of exclusion: class compromise does not need the active support of all workers and all capitalists.

Democracies often have stable (not static) class compromises[16]. Class compromises may come in many guises and their study in political science has coalesced under the umbrellas of "varieties of capitalism" literature and its somewhat antecedent literature on corporatism (see Regini (2003) for a discussion of both). The specific form of class compromise is embedded in the broader political system and, naturally, the economy. Mainstream parties are interested in this stability because their success (as well as their organization, know-how and selective incentives) is rooted upon it. This stability is, however, presumably threatened by: a) the decreasing prospects of future gains; b) increasing heterogeneity of labor; c) growing divergence of the preferred regime of accumulation by capitalists.

Populism's key antagonism pure/corrupt posits a zero-sum game that does not take place between labor and capital. The pure will suffer if the corrupt are in charge and the corrupt will be brought to punishment as soon as the pure take the wheels of their fate. Populist parties differ from successful non-populists not because of their multiclass composition but because of their interest to change the existing class compromise; and they differ from other projects of regime change, like plutocracy or dictatorship of the proletariat, because of their multiclass composition.

According to the standard theory of democracy and trade liberalization, any change in class compromise is bound to change the policies that affect a polity's participation in globalization (Eichengreen and Leblang 2008; Milner and Kubota 2005; Milner and Mukherjee 2010; Rourke 2006; Tavares 2008) and the impact of any elected populism on the latter is a function of the new class compromise that it manages to establish (mechanisms are detailed in section 3). This line of reasoning has clear implications for the study of populism and economic globalization that I explore in sections two and three.

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[16]Indeed, (Kollmeyer 2003) shows that class compromise is stable in many democracies across time, and in the ones that display changes (the United States and the UK) the change is a gradual and slow process that is not determined by simple leadership turnover.

Game Theory as Technical Apparatus

When populism is conceived as the thin-ideology of a multiclass politics of regime change we need to make sense of is it that agents with significantly different material endowments and economic status are collectively pursuing a change in the institutional constraints that determine political inequality. This task challenges game theory's methodological modus operandi for two reasons: a) its political goal is to change the rules of the game, and b) its triumph is not achieved by one economic class over the other but by a cross-class coalition over another.

Game theory depicts class compromise in democracies with voting models where both workers and capitalists agree to the rules of voting and their outcome. Compliance to the outcome can also be described in a cost/benefit analysis of transitioning to authoritarian regime. The agent of this calculus is typically represented as a class (see Przeworski, 2005): labor and capital (or the poor and the rich) each do their own math to decide whether to comply or rebel. If they rebel, they must fight the other class. Thus, in a rather Marxian way, game theory grounds regime transition in the dialectics of capital and labor. A regime change, driven by a multiclass coalition , away from the existing class compromise (i.e. the current rules of the game) is therefore inconceivable, but as we discussed above, the dynamics of coalition building generated by populism beg for the inclusion of this modality of regime change.

Populist parties posit the political struggle as a non-zero sum game between "the pure" and "the corrupt"; a struggle determined by the material grievance that what would otherwise be public goods for "the pure" are being unrightfully appropriated by "the corrupt". If this struggle is won by the populist party, then "the pure" will reap the benefits, and if they lose then "the corrupt" shall carry on with their misdoings. This means that winning implies a change in the allocation mechanism of goods in the society, but this change is not necessarily more or less class-biased than the initial setting. The challenge to game theory is how to model this change.

Przeworski (2005) for instance, models regime transition as an end to the voting game altogether: the class that establishes dictatorship redistributes to their constituency and ascribes the leftovers to the dominated class. This does not necessarily reflect the behavior of most of elected populism (nor is it supposed to).

Acemoglu et al (2013) model the change in goods' allocation as an effect of beliefs and learning about the fairness of the regime. If voters believe politicians to be easily bought by some rich elite – a situation that is amped up by high levels of

inequality and weak political institutions – there is an incentive to signal incorruptibility by proposing a policy far off the interests of said rich elite (i.e to the left of the median voter, thus increasing tax on the rich). And voters have an incentive to vote for a harmful policy from an "honest" politician against a more advantageous policy proposal from a corruptible politician.

In this theory, if the populist policy wins, we witness what can only be described as a major shift of power (and money) away from some rich elite, but this theory does not describe this shift as a regime change or transition. Both the players and the rules of the game remain the same but we observe a motivational solution (the motivations of actors are affected by new information) as opposed to a structural solution (see Swedberg, 2001: 317) to the problem of corruption. The structural solution assumes that ceteris paribus, if the outcome changed then the structure of the game changed: either the population changed size or the conversion of votes into policy is made differently, or more games are being played. In Tsebelis (1990: 26) words: "(...) an actor's choice of an option which appears not to maximize his welfare is an indication of several games being played at the same time: a sub-optimal choice in the simple game may be the optimal choice in the more complicated, nested game in which the actor is involved."

Tsbebelis (1990) models a consociational democracy where elites play two games in two different arenas. One is the parliamentary where they interact with each other and the other is the electoral where they interact with their followers' policy demands. If the elites were only playing in the parliamentary arena their strategy would be entirely different. This game assumes that the society is fragmented into pillars or sections each having its own elite and leader selection mechanism. It does not structure society in a capital and labor divide but we can think of it as being diluted across the pillars. I believe this model is useful for all democracies not just the consociational ones, that is if we acknowledge the multiclass aspect of political parties. If this were the actual game where populists play, output policies would have to be considered in a whole different light from what is proposed in analysis relying on the median voter mechanism.

But populist politics have still another arena: that of regime change. Schedler (2002) draws from Tsebelis (1990) to advance the same idea of a nested game of electoral competition within a struggle for electoral reform but subordinate to a different research concern; that of democratization. The main difference to Tsebelis (1990) is that here the nested game structure has an impact not just on the strategies

of each game but also on the very rules of the game. It considers that the formation of this nested game comes from the pressures for institutional change induced by "the institutional ambivalence of flawed elections"(Schedler, 2002: 109). Schedler (2002) lays out "a menu of electoral manipulation" that describes how this institutional ambivalence of flawed election is created. It includes fraud, repression and other tactics that are typical of competitive authoritarianism and the sort. But democracies are also vulnerable to this feeling of ambivalence and the perception of a flawed electoral systems. While it is not the purpose of this article, a menu of electoral manipulation in democracies could also be created. One that includes age-old gerrymandering, racial profiling in legislation, lobbying, the politics of TINA, the capture of legislation by private companies, psyops in electoral campaigning, Super PACs and so on. This is to say that neither "the institutional ambivalence of flawed elections" nor the incentives to electoral reform are exclusive to autocracies.

If we assume without great risk that in democracies populist parties are playing a nested-game in a manifold arena – parliamentary, electoral, institutional reform, and class conflict – we may end up with a largely intractable and unwieldy model that would be based upon some variation of this sketch of premises: multiclass coalitions each with its own elite compete in elections for votes that strengthen their parliamentary leverage for pursuing three goals: 1) securing their place as the elite of a section of society, 2) securing and increasing their control of state apparatus, 3) mitigating class conflict. A game where visibility of elite bargaining and the monopoly of representation determine the responsiveness of elites to the electoral arena (as in Tsebelis, 1990: 12-13), and intra-elite strategies determine the degree of ambivalence of the elections. The competing parties are required to present policy proposals on redistribution and may or may not include policy proposals of electoral reform.

At this stage, we would have to characterize which type of strategies are available for a populist party. With its emphasis on the general will and the denouncement of lack of it on the specific political system, the populist ideology of a party or movement constrains the choice of strategy, in this nested game, to include both redistribution and electoral reform. The definitive character of such electoral reform is open-ended (and dependent on how specific the membership qualities of the "people" have been defined)[17]. Because reform is open ended, the redistributive policy

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[17] In a competitive autocracy, the incumbent government could also pursue such a strategy to deflate the impact of other electoral-reform strategies coming from the opposition or hamper other reform proposals designed to shorten the menu of electoral manipulation.

proposal is of secondary importance – its true character can only be known after the concrete result of the reform – and the fact of whether the proposed policies are realistic can only be determined in relation to the result of the reform and not in relation to the regime within which they are engendered.

I am not sure whether it is possible or even desirable to develop such a model where parties compete in a nested game with strategies that are constrained by its public adherence to ideologies; I will leave that to trained game theorists. What I wanted to highlight in this section is that the existing models of populism bypass the central role of the thin-ideology that animates context-specific populism.

As far I can see, to include these characteristics may clash with the technical limitations of game theory. As Przeworski (1985: 399) put it: "the technical apparatus of game theory is almost unusable for all situations that involve fewer than many but more than two actors". However, I believe that a heuristic analysis of models that exhibit the characteristics solicited by these challenges allows for a more fine-tuned taxonomy of the populist phenotypes and significant advances on how this variation relates to economic globalization. This is the sort of analysis conducted in Schedler (2002) and its method consists in identifying actors and characterizing their institutional preferences of regime change. As a basis for this analysis I use the extended selectorate model, essentially because besides meeting all the characteristics on the shortlist it is designed to study the relationship of political regime and trade liberalization, which is a main dimension of economic globalization.

Populisms' Regime Change

While populism is an ideology that is part of a politics of regime change, it does not presuppose a specific direction of change by itself. Only looking at context-specific populism and its definitions of the "pure people", the "corrupt" and the "general will" can we observe the direction of change. In this section I propose a method for the identification of types of regime change that context-specific populisms solicits. This method draws from the conclusions of the previous section, namely that : 1) context-specific populism reflects the institutional preferences of regime change of its existing and/or potential adherents; 2) because the context-specific definition of the "pure people" is collectively produced there are incentives for groups or individuals to adhere and shape it favorably to their preferences; 3) the context-specific definition of the "pure people" presupposes the establishment of an alternative class

compromise; 4) a populist candidate proposes policies that are impossible under the current regime but signal the direction of regime change.

The method I propose makes use of the extended selectorate model (ESM) by Mendonça and Loff (2017) which, because it was designed to study the distributive implications of regime change, is especially useful as a framework for analysis of institutional preferences (further described below).

We can talk of two distinct moments in this method: a) translate the processes of inclusion/exclusion of a context-specific populism into the model's terminology and characterize the type of regime change they entail; b) analyze institutional preferences regarding that type of regime change and determine who benefits from them.

After discussing in greater detail these two moments, I perform this method in two different types of populism identified by Mudde and Kaltwasser (2013): 1) the Exclusive type exemplified by the European parties of the France's Front Nationale and the Austrian Freedom Party; and the inclusive type from the Latin American populism of Presidents Evo Morales in Bolivia and Hugo Chávez in Venezuela.

The Extended Selectorate Model

The basic idea behind the ESM is that the intersection of political inequality and economic inequality, ceteris paribus, determines the distributive policy output. Political inequality is abstracted as membership in two meta-institutions – the selectorate and the winning coalition – and the polity is characterized by the relative size of these meta-selection institutions (for a lengthy discussion and description of these meta-institutions see the original work on the selectorate theory of Mesquita et al. 2003).

The selectorate is the set of individuals in a society that has a formal say in the selection of the leader. Each member of the selectorate has a small chance of entering in the winning coalition, which is a subset of the selectorate whose support is necessary for the leader to gain and maintain power. With the size of the selectorate (S) and the size of the winning coalition (W) the selectorate theory subsumes all the infinite variety of institutional designs into a single coordinates system of the size of two meta-institutions (selectorate and the winning coalition). Upon these coordinates, we can map all different categories of political regimes like monarchies, democracies, dictatorships and so on. In such a coordinate system, we would for instance place democracy in a large S, large W position; a monarchy in a small S,

small W position; and a rigged-elections autocracy (RE autocracy) in large S small W position (see figure 3.1)
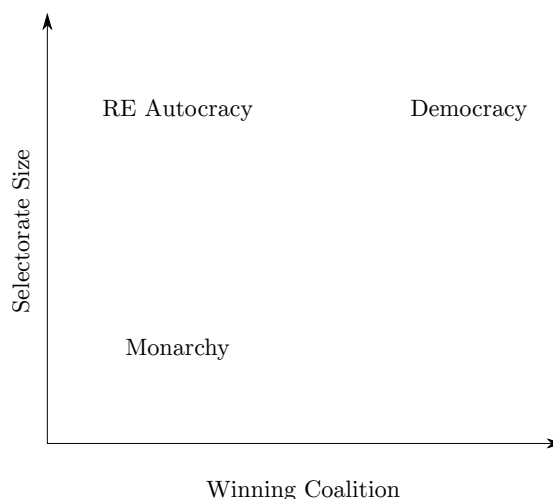

FIGURE 3.1: Mapping regime categories in the selectorate theory.

Individuals are not however economically equal and this inequality is abstracted in the ESM as membership in two economic classes, workers and capital owners, endowed with one of the two existing factors or production with different rates of return: labor and capital. The class composition of the selectorate and the winning coalition may be mixed, with both capital owners and workers, or homogeneous.

In each election, candidates and the incumbent leader present electoral platforms with redistribution proposals: a tax rate, a mix of private and public goods and a trade policy. The trade policy always benefits one economic class interest's by increasing the rate of return of one factor and decreasing the other. This means that specific economic-class composition of the selection institutions has a direct impact in the polity's integration in the world economy via its outputted trade policy, but also on the distribution of public and private goods.

Understanding populism's dynamics of political exclusion/inclusion is crucial to determine its effect on the distribution of public and private goods. This is because only membership in the winning coalition grants access to private goods whereas public goods are enjoyed by the population at large.

Because the leader only keeps her job if she manages to maintain the support of a winning coalition, the incentives that leaders face in the allocation of public and private goods thus vary with the relative size of the winning coalition and the selectorate. With a small W the leader is able to placate the demands of the winning

coalition mainly with private goods but as W increases the leader finds it cheaper to provide a mix of private and public goods.

We can see in figure 3.2 an illustration of the interaction of political and economic inequality in the ESM. We can see that this interaction produces five sets of institutional preferences: workers that are members of the selectorate but not of the winning coalition (So), workers that members of the selectorate and the winning coalition (Wt), capitalists that are members the selectorate but not of winning coalition (Wo), capitalists in the winning coalition (Wo), and the disenfranchised. The type of regime change that each context-specific populism (France's Front Nationale or Hugo Chávez in Venezuela) proposes affects each of these subsets differently.
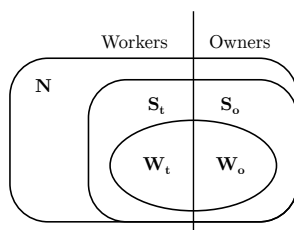

FIGURE 3.2: A map of society in the ESM

Regime Change and Institutional Preferences

In the ESM, a regime is hence defined by the size of its selection institutions (the selectorate and the winning coalition) and their respective membership numbers of workers and capitalists. We can think of membership in the winning coalition as the sectors of capital and labor that are politically represented in the polity, and that these sectors include a certain percentage of the population that benefits from targeted policies.

Shifts in the representation of sectors will typically involve a change in size of selection institutions because no sector is equal in size. Because in the ESM a regime is defined by the relative size and composition of selection institutions, any change in them represents a regime change, although not necessarily a regime transition.

Recently, we witnessed how the change of membership in the winning coalition occurred in Trump's administration. Trump established a cabinet with a basis on extractive capital ("a sector not previously elevated to high government positions", (Kotz, 2017: 6) and speculative capital instead of the long tradition that privileged financial and manufacturing capital. So, in the ESM framework, any rearrangement

in the size of the selection institutions constitutes regime change, but regime change does not equate to a clear-cut regime transition. While this definition of regime change poses serious measurement challenges for any large-N empirical study it may prove useful in case-study analyses.

The Gramscian concept of passive revolution aptly describes one process of regime change that flies under the radar of dichotomous indicators of regime – type like the Democracy-Dictatorship Dataset (Cheibub, Gandhi, and Vreeland 2009) and even perhaps of more fine-grained measures of the democraticness of regimes like the Polity IV data or the Democracy Barometer.

Callinicos (2010), while warning of the dangers of conceptual stretching, provides a neat and broad definition of passive revolution: "socio-political processes in which revolution-inducing strains are at once displaced and at least partially fulfilled" (p.498). Another student of Gramsci, Adam David Morton (2012), notes in a blog entry two different kind of processes that fall in the category:

1. "(...) a revolution without mass participation, or a 'revolution from above', involving elite engineered social and political reform that draws on foreign capital and associated ideas while lacking a national popular base".

2. "(...) a revolutionary form of political transformation is pressed into a conservative project of restoration but is linked to insurrectionary mass mobilization from below".

The description above, of changes in composition of the winning coalition following Trump's populist victory, seems to fit the category of passive revolution but we can find a more detailed description of one in Morton (2003) which is an interpretation of Mexico's 1980's and 1990's neoliberal turn as an example of a passive revolution of the first type of process (that led to, inter alia, trade reform). Ultimately, this regime change resulted into a regime transition in 2000. Brading (2014) also describes how Hugo Chávez populist electoral campaign in 1998 was taking shape as a passive revolution of the second type with a broad coalition of media groups, business sectors and unions but eventually went south (for some at least) turning into a "radical revolution" (p. 58-61) and excluded most capital sectors from the winning coalition.

All context-specific populisms seem to combine elements of change and restoration or the idea of restoration as change, even though one cannot state for sure that

all context-specific populisms can be thought of as projects of passive revolution or what is the precise degree of intersection between populism and passive revolution. However, it is noteworthy that the concept of passive revolution helps us conceive the idea of regime change with no regime transition that the populist ideology conveys – a needed correction to an otherwise perfect political system (see Rovira Kaltwasser ,2012) – and that the malleability, thinness and adaptable logic of exclusion of populism seems a perfect fit for projects of passive revolution.

For our purposes, populist projects of regime change are observable in the context-specific definitions of "the pure", "the corrupt", and the "general will". These definitions posit which individuals should be included and excluded from the selection institutions (the selectorate and the winning coalition). This means that the processes of exclusion promoted by populism are only relevant as far as they can be translated into changes in size and composition of the selection institutions, since their relative size is the relevant political variable for the output of economic policies and for leadership survival odds. So, the fundamental questions are about where and in what circumstances are workers and capitalists being excluded/included from, under a context-specific populism: the selectorate, the winning coalition, or both?

The identification of the loci of exclusion allow us to characterize the type regime change. But the ESM lets us go a bit further and characterize institutional preferences of regime change for individuals belonging to different selection institutions and economic classes. This characterization shows us who benefits from the type of regime change that a context-specific populism is proposing, and we can afterward examine the degree of intersection between who supports context-specific populism and the winners it would produce.

To characterize preferences, we need to look at each of the subsets produced by the interaction between economic inequality and political inequality (see figure 3.2) and see how a given change in the size of the selection institutions would affect: 1) their chances of becoming a member of the winning coalition; and 2) the welfare of individuals in the subset.

Before moving on to the actual characterization of preferences, a word on the relationship between the welfare of the members of the winning coalition and its size is necessary because it is non-linear.

Welfare in the winning Coalition

In the original selectorate model (no economic classes), Mesquita et al (2003) reported from their simulations: a check-mark shape where at initial levels of growth in W the welfare of their members first decreases but as W continues to grow the trend eventually reverses (see figure 3.3).
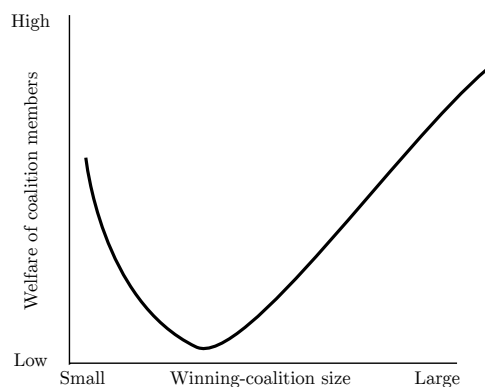

FIGURE 3.3: Size of winning coalition and welfare of its members

As the size of the winning coalition increases, the provision of private goods decreases and the provision of public goods increases. The global effect of the increasing size of the winning coalition on the welfare of its members is non-linear: as we move along the curve welfare drops up to an inflection point, above which the increase of public goods starts to improve welfare at a faster rate than the decrease of private goods.

To the left of the inflection point line, members of W will be against small expansions of the coalition size. While to the right, further expansions are welcomed. Near the inflection point, preferences are more muddled up; I call this area the "domain of losses". For the ESM, Mendonça e Loff (2017) shows that each class has its own welfare curve and that the shape of the curve is not the same for capitalists and workers. This means that, for instance, capitalists may be to the right of the inflection point while workers are to the left.

The other institutional preferences are bit less complex to characterize and I will go over them as I describe the regime change implications of two different types of populism identified by Mudde and Kaltwasser (2013): 1) the Exclusive type exemplified by the European parties of the France's Front Nationale and the Austrian Freedom Party; and the inclusive type from the Latin American populism of Presidents Evo Morales in Bolivia and Hugo Chávez in Venezuela.

The Distributive Politics of Populisms

The context-specific definition of the "people" the "corrupt other" and the "general will", though symbolically and rhetorically constructed seeks materialization through projects of exclusion/inclusion that take place in different contexts of distributive struggle and have distinct distributive implications. These two different types – the exclusive and the inclusive – are categories that represent a set of context-specific populisms that share key characteristics in their projects of exclusion/inclusion. Here they are treated as if they were a context-specific populism, but they are better thought of as ideal-types that serve the purpose of illustrating the method for classification of populisms as per their distributive politics.

A) Exclusive Populism (decreasing S, increasing W)

Mudde and Kaltwasser (2013) identify three key strategies of exclusion/inclusion in the two European cases of populism: voting restrictions; plebiscitarianism; and welfare chauvinism. How do these translate into the ESM? Well, voting restrictions are a clear-cut purge of mostly workers from the selectorate, designed to induce scarcity in selectorate membership. Workers that remain in selectorate will increase their chances of becoming members of the winning coalition, and workers in the winning coalition will also benefit because a W is decreasing relative to S and this means more private goods are coming their way.

Plebiscitarianism's translation in the ESM terminology is also straightforward: it increases the size of the winning coalition. The election of the incumbent comes to depend on the support of half the selectorate. This means increasing the number of both workers and capitalists in the winning coalition. The institutional preferences of individuals heavily depend on where the welfare of coalition members is situated in relation to the size of winning coalition (see figure 3.3). Looking at the workers first, if they are at the left of the inflection point point, the workers in Wt prefer a decrease of the size of Wt. Conversely if they are to the left of the inflection point, they prefer an expansion in the winning coalition. Workers outside of W always prefer an increase of Wt, because this increases their chances of entering W and increases the provision of public goods. The exact same preference formation happens to capitalists in relation to where they stand on the curve.

Things get more complicated if one class anticipates that the other is aiming at an expansion of their membership in the winning coalition because of the dynamics

of class conflict . If capitalists believe that Wt is going to increase, they have an extra incentive to increase their Wo; it is capitalists out of Wo who most fear an expansion of Wt.

Lastly, welfare chauvinism – restricting access to social services, social housing and jobs – is more indirectly related to actual changes in selection institutions but it does have the clear effect of limiting the ability of the disenfranchised to push their way back into the selectorate; if political participation is already coarcted by wealth considerations the artificial scarcity of the selectorate is further reinforced by this material exclusion.

So, what kind of selection institutions restructuring can we expect from this breed of populism, and from where will it draw its support? The welfare of members of the coalition is, inter alia, a function of private/public goods provision. If there is an exogenous shock limiting the ability to provide public goods and leaving little leeway to compensate with private goods, workers in the winning coalition enter the "domain of losses". Best and safer solution is purging the selectorate and increasing size of the winning coalition. This way they can artificially move to the right of the check-mark curve and increase their welfare. Besides the support from the workers in the selectorate that believe they will not be the target of a purge (say, because they fit the racial profile), they will find eager allies in the capitalists out of the winning coalition that fear worker-based increase in W will tip the scale in favor of labor. Below I discuss how a reconfiguration of the selection institutions along these lines impacts trade liberalization.

B) Inclusive Populism (Increasing Wt, Decreasing Wo)

It should be noted that the inclusive subtype examples used by Mudde and Kaltwasser (2013) – Bolivian President Evo Morales and the Movement for Socialism (MAS) and Venezuelan President Hugo Chávez and the United Socialist Party of Venezuela (PSUV) – were elected, so they constitute actual institutional change contrary to the two examples that inform the Exclusive type. Their inclusive efforts have been directed towards: 1) increasing the political participation, 2) plebiscitarianism, and 3) increased social spending (Mudde and Kaltwasser, 2013).

Efforts to promote or facilitate political participation are typically targeted to under-represented sectors of the population. While these efforts leave the selectorate intact, they do however influence, or attempt to influence, representation. This

equates to a change in the winning coalition, via an increase in the number of workers. The obvious beneficiaries of an increase in Wt are workers that enter the winning coalition but workers in the selectorate also see their chances of entering the winning coalition increase. Harder to interpret are the institutional preferences of workers already in the winning coalition. Once again their preferred direction of change is determined by where they stand in their welfare function. Admittedly in a system with a large selectorate, no rigged-elections, and little electoral manipulation, the winning coalition of workers is not particularly small and is likely to be at the right of the inflection point. Any increase in Wt will thus benefit them doubly: via increased public goods and by granting a stronger stance of labor in economic policy-making. One important question would be to ask why workers in the winning coalition do not also pursue a purge on the selectorate like their European counterparts. I can think of one very tentative basis for the answer. Exclusion based on birthplace sends clear to signs on who is going to survive the purge and remain in the selectorate. If a country has low levels of immigration, this type of purge will achieve little gains in welfare and any other type of purge would have to be equally reassuring as to whom would prevail as member of the selectorate.

Plebiscitarianism must be interpreted differently, depending on whether it is touted by the opposition or deployed by incumbency. Especially if referendums are designed to increase the discretion of the leader, i.e. a purge of the winning coalition. If the leader is signaling that this decrease will be at the expense of capitalists (the way Pan-americanismo seems to do by ostracizing capital with ties to former colonies of foreign enemies), the institutional preferences of workers will be aligned with those of the leader. High inequality accentuates these preferences because decreasing representation of capital in the winning coalition will render economic policies (tax rate and tariffs) more favorable to labor. Workers in the winning coalition will also benefit from the purge with more private goods going their way. Capitalist members of the winning coalition will put up a fight as they did in Venezuela, attempting an overthrow of Chávez (Brading, 2014: 58). Another group with high stakes in this purge is capitalists outside the winning coalition who will also take a big hit via taxes but have much to gain with entrance in the winning coalition. This idea fits James (2010) description of Hugo Chávez purge of capitalists in the winning coalition, a purge that despite its anti-neoliberal character promoted elite circulation among capitalists generating winners and losers.

The third inclusive effort, increased social spending, is better understood as a direct result of the institutional change and not as actual inclusion in the selectorate or the winning coalition. If the two above measures succeeded in increasing the number of workers in the winning coalition and trimming down capitalists' ranks, it follows that a higher tax rate and thus more redistribution will be generated. This redistribution is translated in both more private goods and public goods, and while knowing which is which is a hard task, we know that it is workers who, ceteris paribus, benefit the most from this change: regardless of whether the misiones bolivarianas (Blank, 2007) providing housing, sanitation, health and education are public, private or mixed goods we know that the bulk of the recipients are workers.

The two subtypes here discussed do not, of course, exhaust the variation of populist institutional change. However, each breed of populism can be examined with this same method and classified in terms of type of regime change. This would constitute a fine-tuning of Mudde and Kaltwasser (2013) proposed classification of exclusive/inclusive populism. As this kind of analysis shows, both populist subtypes are exclusive. The difference lies in where is this exclusion being sought and promoted, and from which groups in the polity may it garner support.

Populism and Globalization

When it comes to explain the relationship between political regimes and trade policy, agency-centered explanations characterize preferences in terms akin to class membership – workers and capitalists [18] – and describe trade policy as the result of the mediation of preferences by the political regimes given a certain domestic economic structure. The general argument relies heavily on the predictions of the Stolper-Samuelson theorem from Hecksher-Ohlin theory of international trade (Stolper and Samuelson 1941).

This domestic economic structure is typically conceived in very simple terms essentially reducing it to the relative abundance of factors of production (say capital and labor), so that a country is either capital abundant or labor abundant relative to the rest of the world. The reason why this classification is important is because it signals how trade liberalization will impact the returns to labor and capital. The

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[18]The original theory is from Mayer (1984), and individuals are characterized by their relative capital endowments, so, in effect no individual absolutely represents the interests of capital and labor in absolute terms.

	Capital Abundant	Labor Abundant
Increase ΔW_o	Move to Free Trade	Move to Autarky
Increase ΔW_o	Move to Autarky	Move to Free Trade

TABLE 3.1: Effects of regime change on trade openness.

Stolper-Samuelson theorem (part of the Hecksher-Ohlin theory) states that labor will benefit from trade liberalization in a labor abundant country and be harmed by it in a capital abundant one. The opposite happens with the returns to capital.

The major prediction following from this line of theory is that because democratization empowers labor, when a labor abundant country democratizes it will most likely liberalize trade. A number of studies provide supporting evidence (see Dutt and Mitra 2006; Eichengreen and Leblang 2008; Kono 2008; Milner and Kubota 2005; O' Rourke and Taylor 2006; Tavares 2008) Under the ESM, every regime change entails a different set of economic policies (taxes and trade) but the direction of trade policy reorientation depends on the interaction of said regime change with the structure of the economy. Roughly speaking in countries relatively abundant in capital as factor of production an increase in the number of capitalists in the winning coalition reshapes trade policy into a more capital friendly one: more liberal reforms. A decrease in the number of capitalists would have the opposite effect thus rolling back existing trade liberalization. The opposite happens in the labor abundant country. The effects of changes in winning coalition size on trade policy are laid out in table 3.1.

Conventional wisdom of the trade preferences of left and right-wing parties fits nicely into the predictions pertaining to capital abundant countries it does not however fit the labor abundant country spectrum of preferences. Moves to autarky via an increase of capitalists in the winning coalition are seemingly unlikely, however according to the Sachs and Warner openness index several countries experienced a reversal in open trade policy. Narrowing down to Latin America we see that seven countries that are labor abundant relative to the rest of the world – Ecuador, Costa Rica, Bolivia, El Salvador, Guatemala, Honduras, Nicaragua – did so. The question of what kind of winning coalition restructuring led to this reversal (i.e. who grew in political significance, labor or capital) begs a closer look to "the configuration of class forces that supports the basic structure of state–civil society relations" (Morton 2003). Only the type of analysis that Morton (2003) performs to Mexico's neoliberal

	Capital Abundant	Labor Abundant
Exclusive Populism	Move to Free Trade	Move to Autarky
Inclusive Populism	Move to Autarky	Move to Free Trade

TABLE 3.2: Effects of populist phenotypes on trade openness.

turn linking the form of the state to its accumulation strategy can unveil the role that these winning coalition tectonic shifts played in free trade reversal. Tectonic I call them because they do not represent major regime transitions capable of appearing for instance in Cheibub, Gandhi, and Vreeland (2009) dichotomous regime indicator. In fact, of the above seven countries that reversed trade policy in Latin America four of them – Costa Rica (coded as democracy), El Salvador (autocracy), Nicaragua (autocracy), Bolivia (autocracy) – have no such kind of major regime transition in the ten years before the trade policy reversal.

There is a strong tradition of explanations of trade policy that rely upon the interaction of country's factor abundance and regime type (see Dutt and Mitra 2006; Eichengreen and Leblang 2008; Kono 2008; Milner and Kubota 2005; O' Rourke and Taylor 2006; Tavares 2008; Acemoglu and Robinson 2006). While the general thrust of the argument is not here dismissed nor the utility of such simplifications, introducing the distinction of regime change and regime transition highlights the role of class structure and the institutions that mediate it in economic policy making. Relying solely on regime transition to explain a reversal in globalization would therefore be misguided and possibly obscures the overall relationship between democracy and economic globalization, i.e. while maintaining accurate predictions of the sort that democracies are more likely to liberalize trade we may be neglecting the actual events that result in free trade.

I have shown how the two types of populism represent different structural changes in the selection institutions: the selectorate and the winning coalition. Do they however equally beckon a movement against globalization? In what regards trade liberalization, and according to the ESM: no. Not only are the distinct types of populism expected to have different effects on economic integration via trade policy but also, within each type, we are expected to see variation depending of the country's relative factor abundance.

In the ideal type of inclusive populism, that includes France's Front Nationale and the Austrian Freedom Party, we witness an increase of workers in the winning

coalition and a decrease of capitalists (increase Wt and decrease Wo). This renders a shift to a labor friendly trade policy ever more likely.

In the ideal type of exclusive populism, that includes Evo Morales in Bolivia and Hugo Chávez in Venezuela, what is proposed is a decrease in the selectorate size and an increase in the winning coalition, unbiased towards labor or capital (increase Wt and Wo). This type of selection institution restructuring leads either to the maintenance of the status quo in trade policy or even to a more capital friendly trade policy because there needs to be a disproportionate increase in the number of workers to weight out every capitalist joining ranks. The outcomes would look like table 3.2 where we see how each type of populism interacts with the country's factor abundance.

Conclusion

The notion that populism is antagonistic to globalization is not uncommon and even creeps in some definitions of the concept. Considering the typical emphasis of research on values and emotions, the chapter highlighted the excavation of populism's distributive implications as a necessary step preceding any discussion of the relationship it may bear with economic globalization. While subscribing to the minimal definition of populism as thin ideology, the chapter introduced the notion that this ideology is adhered to and locally developed as part of a politics of regime change and forcefully with redistributive goals. The concrete aspects and direction of that change are encoded in the three core concepts of this thin ideology – the "people", the "corrupt", and the general will – and only come to be in context-specific populisms that exhibit phenotypical variation in terms of the specific content with which they fattened the three core concepts of the thin-ideology.

A note should be made regarding the critique, presented here, of previous formal models of populism. The single-policy game-theoretic models were confronted with the more comprehensive views of populism for two complementary reasons: the rational choice models have left central aspects of populism from their modeling, and most of the literature left out rational individuals from their analyses of populism. A good portion of this critique hinged on the inadequacy of class-based apparatus of formal models of regime change, so it may seem paradoxical that class-based terminology is also embedded in the method here proposed. The advantage of this method is that it does not assume regime transition to be the workings of one economic class

and explicitly acknowledges infinite situations of class compromise. Each context-specific populism advances its own proposition of class compromise.

In line with this idea the chapter also advanced an explanation of populism's advantages over other ideologies of regime change like socialism or nationalism: because of the open-ended character of its project of exclusion/inclusion, populism is better equipped to deal with the challenges of collective action. Populism musters the possibilities of regime change.

While the chapter advanced a method that uses the extended selectorate theory as a heuristic framework for the classification of context-specific populisms and their distributive implications, it is fair to point out that it does a better job at classifying variation than at explaining it. The explanation provided for the latter was tentative, and restricted itself to identifying the reasons for why the European phenotypes here examined would not make sense in the Latin America's case-studies (and vice-versa): the project of inclusion/exclusion encoded therein would do little to maximize welfare of significant portions of the selectorate and winning coalition and would, thus, be met with little traction and support. The predictions on the impact that each phenotype is bound to provoke in trade openness are admittedly modest in precision. The method here proposed is very skeletal but may prove enticing for future research on populism, that could very well profit from an agenda that brings (re)distribution to the fore of scientific inquiry.

Conclusion

This thesis is an oversimplified answer to an overwhelmingly complex question: how sustainable is the relationship between democracy and growing economic globalization? The question is motivated by the fact that, as a country becomes increasingly integrated in the world economy, its real space for economic policy choices narrows. Additionally, democracies must internalize effects of economic globalization that range from environmental issues to pressures coming from events as disparate as migration, cultural change and income inequality. And all this must be addressed at the domestic scale with considerably limited tools for the magnitude of the challenges. Conversely, economic globalization is also the result of a series of domestic decisions and, until proven otherwise, it can be reversed by them. In face of the vastness of the problematic tensions between the two phenomena the answer has focused on a single aspect of economic globalization, trade liberalization. It did so by looking at state of the art literature and identifying its weak spots, proposing a theory to overcome such weak spots, and examining the explanatory utility and versatility of that theory.

The choice to focus on trade liberalization was not haphazard. Trade liberalization can be considered as the gateway policy to increasing economic integration, so a better knowledge of the processes that lead up to this policy is a necessary staple for our understanding of democracy and economic globalization. Moreover, the nature of the relationship between trade and democracy is very much like that of democracy and globalization: trade agreements also (willingly) narrow the scope of freedom in economic policy, produce macro-effects that must be internalized at the domestic scale, and can be reversed by domestic decision-making.

The questions were then specified in terms of when and why do democracies choose an open trade policy, and when and why would they reverse it. This latter question had, at the start of the project, a counterfactual feel that now since Brexit and Trump's feels less so (although, in September of 2017, we cannot fully tell).

The goal, however, was to go beyond the statements that put democracy and free trade in terms of positive and negative effects of one upon the other, and provide a better grasping of the system of linkages among which these two phenomena emerge

and fade. This was pursued by emphasizing the interrelationship of the distributive struggles of trade liberalization and regime change and prioritizing this interrelationship as the site for theory building on democracy and trade.

The investigation started with the simultaneous cross-examination of the empirical literature and the theory on trade and democracy, and two conclusions emerged. The first was that there is one stylized empirical fact about this relationship: in developing countries trade liberalization tends to follow democratization; and the second was that the available theory displayed significant misconnection to empirical findings.

A closer look at the Latin American experience of trade liberalization revealed competing explanations of trade liberalization fitted the empirical pattern. But it also uncovered a few outliers, where trade liberalization preceded democratization. The outliers were an opportunity for the development of a theory with the ability to explain why in some cases trade liberalization occurs before democratization. To this effect, special attention was given to Mexico's case of trade reform, and an extension of the selectorate theory was there first applied to explain trade policy in terms of the political weight of capital and labor and their preferences on (re)distributive policies.

The Mexican case illustrated the fact that even under political systems with ,single-party rule, significant changes in the political weight of factors of production (capital and labor) materialize with effects on economic policy. It also showed that the fact that the regime is not a democracy is insufficient information regarding the political weight of labor and capital, and it portrayed these political movements as part of distributive struggles that unfolded in different loci, the institutional design and the making of economic policy. To study the interrelationship of these distributive struggles a much more fluid classification of political regimes than is typically the case in political science, needed to be adopted, and any change in political representation of factors of production came to be designated as regime change and differentiated from the more traditional meaning attributed to this concept which is regime transition.

The extended selectorate theory was then presented formally, in the shape of a model — the extended selectorate model (ESM) — akin to game-theoretical models, to excavate other implications of the extended selectorate theory. This was done by looking at how individual welfare, and individual preferences on trade and policy output, were affected by variables like economic inequality between factors of production, regime change, policy learning and economic crises.

The analysis showed, that under ESM assumptions, economic inequality tilts the

playing field of trade policy-making towards capital's interests. In the face of crises, countries are more likely to respond with whichever trade policy benefits capital even if it leads to poorer economic performance than an alternative policy. In the ESM, inequality favors growth-inducing policy in capital-abundant countries, and stagnant trade policies in labor-abundant countries. Additionally, as inequality increases capital's leverage in trade policy-making does too. This means that the higher the inequality the lower the prospects for a policy output that mitigates inequality.

The implications from the analysis were clear: economic inequality will not cause democracies to choose a trade policy that decreases it. In fact, in relatively capital-abundant countries, like the member countries of the European Union, as inequality increases only a catastrophic performance from open economies, accompanied by a stellar performance of closed economies would cause a trade policy reversal (what is in chapter 2 called policy learning). That, or regime change.

The attention shifts to populism, in the final piece of this thesis, because of the questions this conclusion unearthed. If democracies cannot deal with increasing economic inequality via policy making how are they dealing with it? And if an open trade policy can only be reversed by regime change or an improbable learning scenario, is every politics of trade policy reversal a politics of regime change?

These questions were the backcloth to the examination of populism's implicit logic of regime change and the fleshing out of its distributive implications. Populism's response is not redistributing to the destitute masses, it is to restructure how economic inequality intersects with political inequality. It proposes the political exclusion of sectors of the population and the inclusion of others in a process with corresponding material rewards, like welfare chauvinism in European populism and the *misiones sociales* in Venezuelan populism. The extended selectorate theory, because of its ability to map polities according to these two inequalities (the political and the economic) provides a neat framework for the classification of populisms' proposed regime change. Once the different types of regime change proposed by populisms can be characterized, the ESM can also be used to simulate how said regime change would impact trade policy. While this was done in a more illustrative fashion there is a lot terrain to explore in a comparative style with more detailed case studies of context-specific populisms with the method developed here and the use of the ESM simulator.

The piece on populism reinforced the main takeaway from this thesis: that we need to look simultaneously at the political ramifications of economic inequality and

the economic manifestations of political inequality to answer our questions of when and why do democracies reverse trade liberalization. The work done here suggests that democracies reverse trade policy when they undergo a process of regime change. This regime change may not be a regime transition (in the sense of democratic reversals) but a subtler redesign of institutions that we can we think of in terms of selectorate and the winning coalition size and how economic inequality intersects with these two meta-institutions.

The central insight in this thesis, stems from the analysis of this intersection, and it states that, across all types of capitalist regimes, as economic inequality grows, the political weight in policy-making of the less wealthy decreases. The implication is that the making of economic policies, including taxes, is not an avenue for the fight against inequality, regime change is.

Besides regime change, the ESM also recognizes the role that policy learning plays in trade policy-making. This thesis has not offered a full operationalization of policy learning because it was not called for but, admittedly, there is more work that can be done in terms of how this variable may be constructed: from what countries do policy makers learn to how do crises affect their learning. Moreover, this thesis has also downplayed the effect this variable may have in reversing a free trade policy, in the present political times. This is because it is assumed that learning takes place by looking at set of countries that has both trade policies (open/close), and while that might have been possible a decade ago, now it is unlikely to find a country with tight economic borders from which other countries could learn. The fact that is of most significance regarding policy learning is how it changes with economic inequality. The more unequal, the less responsive to act upon learning and choosing the growth-inducing trade policy is a country. This fact completes the picture of the policy bias in favor of capital delivered by the ESM.

While these results stressing the leverage of capital interests in a capitalist state may not come as a surprise, the literature in political science and political economy usually sees democracy as a solution to it and, to a certain extent, it is not wrong. Undoubtedly, when it comes to labor's interests, some political representation of labor beats none. But the theoretical overreliance on the notion that democratization empowers labor, troubled the explanation of why workers in capital-abundant countries would willingly pursue free trade with labor-abundant countries. Whenever this fact was acknowledged, ad-hoc explanations were adduced. In the ESM, the same exact mechanism explains why European (typically capital-abundant) countries did

not need economic crises to liberalize trade as their Latin America (typically labor-abundant) counterparts did: capital's leverage favored free trade in the former and closed borders in the former.

Still connected to the contrasting experience of trade liberalization in Latin America and Europe is another insight of the ESM that is most worthy of exploration: the actual sequence between democratization and trade liberalization may be less about their effects on one another than about what kind of solution they represent for specific distributive struggles. Indeed, the ESM analysis strongly suggests that in labor abundant countries, if faced with redistributive pressures, it may be more favorable to capitalist elites to democratize than to liberalize trade. This hypothesis sheds new light on the most consensual fact of the democracy and free trade literature — that democratization in developing countries fosters free trade. It is not simply a matter of the causal effects of democratization on economic policy making, but quite possibly of the preferences of groups that within a specific context of distributive struggle opt between regime change and policy reform.

The study of this hypothesis suggests a redirection of studies on democracy and economic globalization that moves from identifying constant conjunctions towards the better characterization of preferences, structural constraints on preferences, and available strategies in terms of regime change and economic policy; both in business-as-usual politics as in critical junctures.

The idea that each regime, with its size and class membership of meta-institutions, is bound to output a certain redistributive scheme is not novel but its implications on regime change have been overlooked. Because of this rigidity of feasible redistribution in political regimes, demands on redistribution are associated with institutional preferences. The regime changes that these preferences express may be sometimes drastic, sometimes subtle, and the extended selectorate theory can be a valuable tool to map them as it was done here with populism. The more the extended selectorate theory is used in case studies as a heuristic framework to excavate the distributive implications of regime change, the more its concepts can be fine-tuned, its logic tested, and its limits known.

Besides case-study analyses, extensive work can also be done both in terms of theory development and testing of the ESM predictions on regimes and redistribution. Regarding the latter, serious difficulties will arise when it comes to operationalize selectorate and winning coalition sizes and class membership. Indeed, the original selectorate theory, faced with a less complex job, was also troubled by many

difficulties in data availability and its actual measures for these two meta-institution sizes are somewhat distant proxies. Another difficulty in operationalization will lie in the distinction between the effects from inequality and from political weight of factors of production. This is because, in the ESM, these two variables have very similar effects, and one would be tempted to use the former as proxy for the latter.

In what concerns theory development, constant revisiting on the distributional effects of trade will always yield variations to the ESM here presented. One of the most unsettling weaknesses of the ESM is its overreliance in the Stolper-Samuelson corollary. The latter is effectively the building block of the ESM that is responsible for the characterization of individual preferences and the effects of trade on inequality. It remains to be determined how amenable is the ESM to a more sophisticated account of trade preferences and effects on inequality.

Nevertheless, this thesis' main contribution is the extended selectorate theory and, while trade theory development may reconfigure it, its heuristic utility in matters of regime change does not seem to depend on these reconfigurations. The thesis systematized previous insights on democratization and trade into a unified theory of regimes and trade, and formally developed it in a model that allows an exploration of its logical implications via a simulator, that was built and made available to the public. The ESM is a new theory on the political economy of regime change and trade that offers novel insights on capitalist democracies' capacity for addressing inequality under economic globalization, and it has been here used to propose an original interpretation of populism as an ideology of regime change that can be triggered by challenges of economic globalization to democracies.

Appendix

Selectorate model as a game

Let us first present the selectorate model as a a one-round game. The parameters for the game are the same as in Section .

A **Simple Selectorate Game** proceeds as follows:

1. Two players, the *leader* and the *challenger*, choose a *legal move* to play.

   A *move* is a tripple $\bar{m} = (r, x, g) \in [0, 1] \times [0, +\infty)^2$. A move is *legal* if it respects the *budget constraint*:

$$xP + gW \leq r(1 - \ell(r))N$$

2. Let $\bar{m}_l = (r_l, x_l, g_l)$ be the leader's move and $\bar{m}_c = (r_c, x_c, g_c)$ be the challenger's move. We define two *utility functions* U_l, U_c as follows. Abbreviate:

$$
\begin{aligned}
V_l &= V(x_l, g_l, r_l(1 - \ell(r_l)), \ell(r_l)) \\
V_c &= V(x_c, g_c, r_c(1 - \ell(r_c)), \ell(r_c)) \\
V_l^0 &= V(x_l, 0, r_l(1 - \ell(r_l)), \ell(r_l))
\end{aligned}
$$

   Then let:

$$
\begin{aligned}
U_l = U_l(\bar{m}_l, \bar{m}_c) &= \frac{1}{1 - \delta} V_l \\
U_c = U_c(\bar{m}_l, \bar{m}_c) &= V_c + \frac{\delta}{1 - \delta} \left(\frac{W}{S} V_l + \frac{S - W}{S} V_l^0 \right)
\end{aligned}
$$

3. Now, the leader wins if and only if

$$U_l \geq U_c.$$

4. The payoff for the winning player, when playing the legal move (r, x, g), is
   $r(1 - \ell(r))N - xP - gW$.

There are already several differences between this definition and the original, multi-round definition. Let us list the differences, and explain why this new game is equivalent:

1. The original game is a multi-round game, and this one is not. However, (REF) show that the leader always has a winning strategy, and so the behavior of the game for optimal players is fully described by their behavior for a single round.

2. In the original game, there is a base payoff Ψ which is obtained simply by winning the round (in addition to the payoff given above). The assumption that $\Psi = 0$ changes the game in no other way.

3. In the original game, the population and selectorate are sets (of people), rather than just numbers; the leader and challenger each have a subset, called *winning coalition*, which may vote for either player in an election. But (REF) show that the only case of interest is when both winning coalitions intersect, and in that case the leader will win if and only if $U_l \geq U_c$ for the quantities defined above. It then becomes clear that the specific choice of winning coallition is unimportant, and that the only important information to retain is the *size* of the winning coallition. This is what we denote by W.

Game-theoretic to optimization-theoretic presentation

Define a *winning strategy* to be a legal move for the leader whose utility matches the utility of any legal move put forward by the challenger, i.e., a legal move $\bar{m}_l$ such that $U_l \geq U_c$ for any legal move $\bar{m}_c$. Let us prove that such a winning strategy exists.

First of all, let us show that there exists a $\bar{m}_c = \bar{m}_c^*$ which maximizes U_c regardless of the choice of $\bar{m}_l$. This follows from two facts: (1) maximizing U_c is equivalent to maximizing V_c, and this value does not depend on $\bar{m}_l$; and (2) A solution to the optimization problem

$$\max_{r, x, g} \quad V_c$$
$$\text{s.t.} \quad (r, x, g) \text{ legal},$$

if one should exist, would maximize V_c. But such a solution exists and is unique, and it is what we have called the *challenger's best offer*. So $\bar{m}_c^*$ is the challenger's best offer; let V_c^* be the maximum which it attains.

It now follows that $U_l \geq U_c$ for every legal move $\bar{m}_c$ if and only if $U_l \geq U_c$ when $\bar{m}_c = \bar{m}_c^*$. But in this case, the inequality $U_l \geq U_c$ becomes

$$V_l \geq V_c^* + \frac{\delta}{1-\delta} \frac{S-W}{S} (V_l^0 - V_l),$$

which is equivalent to

$$V_l + s(g) \geq V_c^*,$$

where s is what we called the *leader's slack function*.

We may conclude that a any legal move $\bar{m}_l$ satisfying the constraint $V_l + s(g) \geq V_c^*$ will match the utility of any legal move played by the challenger, and thus is a winning strategy. Provided that the slack is non-negative, such a winning strategy exists (for instance $\bar{m}_l = \bar{m}_c^*$). What we have called the *leader's response* is simply the winning strategy which maximizes the payoff, and we have seen that such a strategy exists and is unique when if the slack is positive.

This establishes the equivalence of the two presentations of the simple selectorate model.

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