Elections and Capital Flows

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Abstract
This paper investigates the extent to which national elections affect capital flows. I find little evidence of political capital flow cycles in advanced economies. In emerging and developing countries, however, presidential elections have a significant impact on foreign direct investment (FDI) inflows but no effect on other types of capital flows. Specifically, FDI inflows contract by 11 percentage points in the year before an election compared to non-election periods, or, measured as a share of GDP, FDI contracts by 0.34 percentage points, which is almost a fifth its median value. Furthermore, I find evidence that these cycles are not caused by economic crises related to elections or pre-election manipulation of policy variables. These results suggest that uncertainty about future government policies, which is likely to have greater impact on more irreversible forms of capital flows like FDI, may be an important factor in generating this cycle. Finally, I find that relatively closed capital accounts, few constraints on the executive, and a weak rule of law strengthen the impact of elections on FDI.

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1. Introduction

There is a well-established literature exploring the relationship between national elections and key macroeconomic variables. One strand of the literature analyzes the effect of the state of the economy on election outcomes. Fair (1978), for example, finds that voting behavior in the U.S. is in general responsive to economic conditions. A second strand argues that elections themselves may influence the macroeconomy. In the political business cycle model of Nordhaus (1975), politicians attempt to lower the unemployment rate before elections to raise their chances of reelection. This manipulation can work, for example, through politicians' control over fiscal policy, creating political *budget* cycles (Alesina et al., 1997; Brender and Drazen, 2005a), or their influence over monetary policy when central bank independence is limited, creating political *monetary* cycles (Alesina and Roubini, 1992; Alpanda and Honig, 2009). In addition, elections can systematically affect the macroeconomy separately from direct pre-election manipulation of policy variables. A likely channel is that elections create uncertainty about future government policies, which can impact economic decisions of forward-looking agents before those policies go into effect (Drazen, 2000).[1]

In this paper, I emphasize this last channel and analyze the effect of elections on international capital flows, a potentially important determinant of economic growth but also a possible cause of instability (Prasad et al., 2004). To the best of my knowledge, this is the first paper to estimate the impact of elections on gross capital flows using a large panel dataset. Gauvin et al. (2014) find that policy uncertainty in the U.S. and the European Union affects capital flows to emerging economies, although they do not look at the effects of *election-related* policy uncertainty. In addition, they analyze uncertainty in the source country, not the recipient country. Julio and Yook (2013) look at the effect of policy uncertainty, proxied by host country

[1] In fact, there is a literature that uses elections to measure policy uncertainty (c.f. Durnev, 2010).

elections, on U.S. FDI in those countries, in particular the funds that U.S. parents provide to their foreign affiliates. In contrast, I consider *total* FDI flows to the recipient country as well as other types of international capital flows such as debt and equity flows. This paper also differs in that I account for different effects in advanced and emerging/developing nations and use daily election data to construct the election cycle indicator. Finally, the goal of this paper is to estimate the causal effect of elections on capital flows, not the causal effect of policy uncertainty, which I argue is the primary channel through which elections affect capital flows.

Using data from 1984 to 2016, I find little evidence of political capital flow cycles in 25 advanced economies regardless of the type of capital flow. The results, however, differ for emerging and developing (hereafter referred to as developing) nations where elections have a significant impact on foreign direct investment (FDI) but no effect on other types of capital flows such as portfolio investment.[2] Specifically, FDI inflows contract by 11 percentage points in the year before an election compared to non-election periods, or, measured as a share of GDP, FDI contracts by 0.34 percentage points, which is 18% of the median value for FDI/GDP. Given the growth-enhancing effects of FDI, this result suggests a channel through which elections adversely affect growth.

It is also important to note that I obtain this result without conditioning on the nature of the election such as the probability of a pro-business victory (Chang, 2010; Vaaler et al., 2005), for which I do not have large cross-country data. This stacks the cards against finding an impact of elections on capital flows since elections in which it is likely that pro-business leaders will be elected should not reduce pre-election FDI. I can, however, take into account the chief executive's party orientation with respect to economic policy. Although this variable does not

[2] In this paper, developing nations refers to either emerging or developing countries using the classification in Arnone et al. (2007).

provide the probability of a certain election outcome, it does suggest the possibility of policy changes that could impact FDI. For example, foreign investors may prefer right-wing governments who are friendly to investors. Therefore, an election that could result in a new left-wing government could have a larger effect on FDI. I can also interact elections with the level of political stability, which captures the odds of a government change. The other potential drawback of lack of information on the nature of the election is that if FDI falls before elections, it is not clear if this is related to policy uncertainty or the anticipation of anti-business party victories. However, as long as elections do not systematically tilt policies in one direction or another, the latter effects should cancel when estimating the average effect of elections. In contrast, at least some degree of uncertainty should accompany all free elections.

To illustrate these effects, consider the case of the Brazilian election in late 2002, which resulted in victory for the pro labor candidate, Lula de Silva. FDI inflows were 23% lower in 2002 than during 2001. The Morales Victory in the Bolivian election of 2005 was preceded by a collapse in FDI as a result of the anticipation of populist economic measures and expropriation, which ultimately came to fruition (Chang, 2010). In the Philippines, FDI has consistently contracted before elections.

The finding that FDI is more sensitive to elections than other capital flows is perhaps surprising given the conventional wisdom that FDI is more stable than short-term debt flows or "hot money" that have been associated with financial vulnerability in emerging market economies. For example, during the Latin American debt crises, the Mexican crisis of 1994-95, and the Asian financial crisis of 1997-98, FDI was remarkably stable while portfolio flows were subject to large reversals.

To explain these results, I investigate the channels through which elections affect FDI. While it is conceivable that politicians attempt to influence FDI before elections for political gain, it seems more likely that elections work through more indirect, unintended channels related to policy uncertainty. For example, elections can result in changes in tax treatment, regulations that impact the return to direct investment, or even outright confiscation of property. The resulting uncertainty can lead to a postponement of investment, especially for projects that are partially or completely irreversible (Bernanke, 1983; Cukierman, 1980; Rodrik, 1991). The fact that elections only affect FDI, the most irreversible type of capital flow and thus the most likely to be impacted by policy uncertainty, supports the policy uncertainty channel.[3] Furthermore, I find stronger effects of elections in countries with relatively closed capital accounts, fewer constraints on the executive, and a weak rule of law. Not only do these results shed light on the factors that determine the size of election-related FDI changes, they are also consistent with the uncertainty explanation. Capital controls make it more difficult for foreign investors to sell assets and reallocate their funds, making FDI less reversible and thus more vulnerable to policy uncertainty. Fewer constraints on the executive can generate greater policy uncertainty surrounding elections. Election-related uncertainty may have a stronger effect on FDI when the rule of law, which can also capture constraints on leaders, is weak.

While I cannot directly quantify the effect of policy uncertainty, I am able to rule out other channels such as pre-election manipulation of capital controls and of other variables from the political business cycle literature that could indirectly affect capital flows. I also attempt to rule out the effect of elections on economic risk. For example, elections could hinder effective reactions to adverse shocks, which could affect capital flows through default risk or the

[3] The return to portfolio investment may also be affected by policy changes after elections, but it is easier compared with FDI to rebalance positions later when it becomes clearer what the policy change will be, which can explain the absence of a pre-election effect.

profitability of investment. Finally, I control for any correlation between elections and economic crises and GDP growth. The strong residual effect of elections after controlling for these variables supports the view that elections affect FDI through policy uncertainty.

The rest of the paper is organized as follows: Section 2 introduces the data and the benchmark regression equation that I use to test for the effects of elections on capital flows. Section 3 presents the results and robustness tests. Section 4 concludes.

2. Effects of Elections on International Capital Flows

In this section, I introduce the benchmark model and the data used to test for the impact of elections on capital flows. I consider a regression of capital flows on an election-cycle variable, *EC*, and several control variables. The benchmark specification is given by

$$Capital\ flows_{i,t} = \beta_0 + \beta_1 \cdot EC_{i,t} + \beta_2 \cdot Controls_{i,t} + \delta_t + \alpha_i + \varepsilon_{it} \qquad (1)$$

where *i* indexes country and *t* indexes time. δ_t refers to a time effect, and α_i is a country-specific component of the error term. In the base regression, I limit to countries with presidential systems to address the endogenous timing of elections in parliamentary systems, resulting in 52 countries (4 advanced and 48 developing) for which all necessary data were available.[4] Including both types of electoral systems results in 104 countries (25 advanced and 79 developing). I use annual data for the years 1984 to 2016. The starting point, 1984, coincides with the earliest year for which there is data available for control variables taken from the International Country Risk Guide. The end date was restricted by the availability of the control variables and election cycle variable. In the default specification, I estimate the model using the fixed effects estimator with robust standard errors clustered at the country level.

2.1 Capital Flow Variables

[4] See the appendix for a list of countries and data sources.

I look at various forms and measures of capital flows, both gross capital outflows and gross capital inflows. The main categories of private capital flows are FDI, portfolio equity flows (equity holdings that are less than 10% of ownership of a firm), and debt securities. I do not consider the stock of foreign liabilities as this reflects the accumulation of past inflows; my focus is the short run effect of elections on capital flows.

In the baseline regression, the dependent variable is capital flows as a % of GDP. As a robustness test, I also consider the logarithm of capital flows to estimate the election-related percentage change in capital flows. The drawback of this approach is that gross capital flows can be negative so that observations are lost when taking the logarithm. For example, gross inflows can be negative if there is more disinvestment by foreigners than new investment. This is a much bigger issue for portfolio flows than FDI flows, which are usually positive, and so I limit this approach to the FDI regression.

2.2 Election Cycle Variables

I constructed a large database of election dates for the national leader (the president in a presidential system and the prime-minister in a parliamentary system). The primary source is the International Institute for Democracy and Electoral Assistance (International IDEA) whose Voter Turnout Database lists the years of parliamentary and presidential elections.

The main criterion for including an election in their sample is that "there was a degree of competitiveness"; that is, "more than one party contested the election, or one party and independents contested the elections, or the election was only contested by independent candidates". These elections are further categorized as free, partially free and not free based on the Political Rights and Civil Liberties indicators of Freedom House (range 1-7 with lower scores representing greater freedom) during these election years. Specifically, the IDEA database treats

elections as free or partly free if the average of these two indices is less than or equal to 5. I exclude elections designated as "not free" from the sample to focus on meaningful elections with at least some uncertainty about the outcome.[5]

I consider several election cycle indicator variables, which all take on a value between 0 and 1 for each year, depending on what fraction of that year is within an election cycle (Franzese, 2000). These variables differ only by what constitutes an election cycle. For example, *EC-2yearsbefore* defines the two years prior to an election day as the election cycle period associated with that election. If an election is held on January 31st of 2003, then *EC-2yearsbefore* is equal to 31/365 in 2003 (or 31/366 if 2003 were a leap year), equal to 1 in 2002, and equal to 1 – (31/365) in 2001. I also consider *EC-1yearbefore*, and *EC-1yearafter*.

If there are multiple elections in a given year (including run-off elections), then the period in-between the elections is also counted as part of the election cycle period, along with the two years prior to the *first* election of that year. Similarly, if there are overlaps between election cycles because of elections occurring within 2 years of each other, the whole period in-between is included in the election cycle.[6]

2.3 Control Variables and Channels

To isolate the causal effect of election-related policy uncertainty, I include variables that capture other potential channels through which elections influence capital flows, in addition to

[5] Even in democratic regimes, if the outcome of an election is fairly certain, there may be little uncertainty about future policy. Since I lack data on how close the outcomes of these elections are or were expected to be beforehand, I abstract from this issue. Note, however, that by possibly including in the sample elections whose outcomes are certain, I stack the cards against finding an impact of elections on capital flows. I do, however, control for political stability as an indicator of the uncertainty surrounding an election.

[6] Continuing the example, if there were an election on January 20th of 2005, then *EC-2yearsbefore* would be equal to one in 2003, since the election in 2003 occurred within two years of the next election. Therefore, all of 2003 is part of an election cycle. If on the other hand, the election in 2005 were held on February 20th, then *EC-2yearsbefore* in 2003 would be equal to (31/365) + (1-(51/366)), the first term reflecting the fraction from the election cycle associated with the election in 2003, and the second term reflecting the fraction from the election cycle associated with the election in 2005.

standard control variables from the literature on capital flows. I include the logarithm of real GDP to control for country and market size. This is important when I use the alternative dependent variable, the logarithm of capital flows, which is likely to be larger for larger countries. Since country size can partially be accounted for by country fixed effects, I also performed with estimation without this variable; the results were nearly identical. To capture capital account openness, which should be correlated with greater capital flows, I use the Chinn-Ito index.[7] The index ranges from 0-1 with higher values indicating greater openness. This variable also controls for possible election-related changes in capital controls that impact capital flows. For example, capital controls could be manipulated for political gain before elections, although this channel seems unlikely and I am unaware of this argument in the political economy literature. Country fixed effects account for time-invariant country factors that could influence capital flows such as shared history/language, geography, and legal origin. The presence of tax treaties or FTAs could possibly be captured by country fixed effects as well if their status is unchanged during the sample period.

In parliamentary systems, the timing of elections can be endogenous and related to the state of the economy, which could also affect capital flows. In the baseline regression, I therefore limit the sample to presidential systems. To control for this omitted variable bias in a larger sample of countries that includes parliamentary systems, I include both real GDP growth and indicators of debt, financial, and currency crises as regressors (the crisis variables are only available through 2011 and are therefore not included in the base specification). These variables also at least partially capture the economic risk channel in which elections create economic risk and uncertainty or even crises by, for example, hindering effective policy reactions to adverse

[7] The Chinn-Ito index is based on the intensity of controls reported by the IMF. The assumption behind this index is that the intensity of capital controls is correlated with the existence of other restrictions on international transactions.

shocks (Bussiere and Mulder, 2000). These in turn affect capital flows through default risk or the profitability of investment.

To further control for the economic risk channel, I include the risk premium on lending as a regressor, measured as the bank lending rate to the private sector minus the domestic treasury bill rate. Alternatively, I subtract the U.S. treasury bill rate. In both cases, the effect of elections was unchanged. I also control for political instability both because it addresses the endogeneity of parliamentary elections and because it captures the economic risk channel as instability can spill over to the real economy. Following Kaufmann et al. (2007), I measure political stability by summing indicators of ethnic tensions, internal conflict, external conflict, and government stability (which assesses both the government's ability to carry out its declared program(s), and its ability to stay in office) from the International Country Risk Guide (ICRG). The scale is 0-42 where higher values indicate more stability.

I include the budget surplus as a % of GDP to control for the possibility that political budget cycles could impact capital inflows, particularly debt inflows used to finance government borrowing. This variable also partially captures the economic risk channel if election-related budget expansions increase the risk of government default, which could influence capital flows. The inclusion of the short term real money market interest rate or alternatively the rate of money growth controls for the effect of political monetary cycles on capital flows and more generally the impact of real interest rates on capital inflows.

Finally, I attempt to control for different types of *policy* uncertainty. It is possible that elections lead to changes in corruption and the risk of expropriation, which could in turn affect capital flows and FDI in particular (Wei and Wu, 2002). For example, soon after his election in 2005, the Morales government in Bolivia announced in 2006 the nationalization of oil and gas

contracts with multinational corporations. Anticipation of this type of action had led to a sharp decline in FDI in 2005 (Chang, 2010). To control for this component of the policy risk channel, I include two variables from the ICRG: "corruption" (0-6, higher values indicate less corruption) and "investment profile" (0-12, higher values indicate less risk). The subcomponents of "investment profile" are contract Viability/Expropriation, profits repatriation, and payment delays. There could also be uncertainty about the imposition of capital controls, changes in government spending or taxes that impact FDI, or the level of foreign exchange reserves that can be run down to stimulate the economy. I therefore include capital account openness, government spending (% of GDP), corporate tax rates, and FX reserves (% of GDP) as regressors. It should be noted of course that contemporaneous values of these variables are not perfect measures of election-related uncertainty regarding the variables.

2.4 Interaction Terms

As I will discuss, I do not find an effect of elections on FDI inflows in advanced economies, while I do in developing countries. To explain this difference, I include a number of interactions with the election cycle variable to allow for differing effects of elections. First, I include an interaction with capital account openness. Capital controls make it more difficult for foreign investors to sell assets and reallocate their funds, making FDI more irreversible and thus more vulnerable to policy uncertainty. The fact that developing countries are far more closed suggests a stronger effect in these nations.[8]

Other explanations for the weaker results in advanced economies include stronger institutional constraints on the executive and higher levels of democracy, which should reduce policy uncertainty even when there is a change in leadership, a strong rule of law, and lower

[8] In the sample including all electoral systems, the mean of the capital account openness index for advanced economies is 0.86 (on a scale from 0-1) while the mean for developing countries is 0.47.

risks of expropriation and corruption. Although I do not have opinion poll data for a large panel of countries, I can partially account for the odds of a government change following an election using the political stability variable. The degree of political stability could explain heterogeneity in the effect of elections in advanced and developing economies by impacting the degree of policy uncertainty and economic uncertainty more broadly. To test for these differential effects, I interact the election cycle variable with indicators of constraints on the executive, the Freedom House democracy variable, the investment profile variable, law and order, corruption, and the political stability variable.

While I do not have large cross-country data on the probability of a pro-business victory that could impact FDI, I can include an interaction with the chief executive's party orientation with respect to economic policy (1=right, 2=center, 3=left) as this might induce heterogeneity in the impact of elections. Although this variable does not provide the probability of a certain election outcome, it does suggest the possibility of policy changes that could impact FDI. For example, foreign investors may prefer right-wing governments who are friendly to investors. Therefore, an election that could result in a new left-wing government could have a larger effect on FDI.

2.5 Summary Statistics

Summary statistics are provided in Tables 1A and 1B. Table 1A focuses on presidential systems, while Table 1B looks at all electoral systems, including both presidential and parliamentary. The sample period is 1984-2016 to match the sample period in the regression analysis. Advanced countries comprise 9% of all observations in Table 1A and 29% in Table 1B, reflecting the low number of advanced economies with presidential systems. There are 269 presidential elections in the sample and 673 elections overall. These numbers include multiple

elections in the same year. The average number of elections per year, presidential or overall, is roughly 0.25 for both advanced and developing nations. Advanced economies have higher levels of capital account openness, political stability, and investment profile, while they have lower levels of corruption (as indicated by higher values of this variable). Advanced economies also experience a lower incidence of banking, currency, and financial crises.[9] Finally, there is considerable variation in the institutional variables across the country groupings.

Tables 2A and 2B present the summary statistics broken up by type of country and then further by election periods vs. non-election periods, defined using *EC-1yearbefore*. Because the macro data are annual, while any given year can be comprised of both election and non-election periods (*EC-1yearbefore* is a continuous variable between 0 and 1), I define a year to be within an election period if *EC-1yearbefore* > 0.50. Focusing on presidential systems in Table 2A, FDI inflows/GDP (%) rise in advanced economies during election periods on average by 1.22 percentage points and rise in developing countries by 0.04 percentage points (although the regression results that control for other factors and that do not restrict the election cycle variable to be binary indicate a large drop in FDI in developing countries). Looking at all electoral systems in Table 2B, FDI inflows/GDP (%) fall by 0.26 percentage points in advanced economies and increase by 0.78 percentage points in developing countries. Finally, in both tables, GDP growth tends to fall during election periods in developing countries, providing evidence against the existence of economic expansions created by political business cycles.

Tables 3A and 3B presents the sample correlations for advanced countries and developing countries, both for presidential systems and all electoral systems. For presidential systems, election periods are associated with an increase in FDI inflows/GDP (%) in advanced

[9] The one exception is that the four advanced economies with presidential systems experienced a slightly higher incidence of banking crises than developing economies with presidential systems.

economies and a decrease in developing countries. The opposite is true for all electoral systems, although the correlations are small. Several of the independent variables are correlated, indicating the importance of using multivariate regression analysis. Elections, for example, are associated with a decline in political stability, unsurprisingly.

3. Results

Table 4A presents results from the estimation of equation (1) using the different types of capital flows as dependent variables, limiting the sample to presidential systems. For brevity, the coefficients of the control variables are not shown. In only one case do elections have a highly significant effect on capital flows: in the year before an election in a developing country, FDI inflows as a % of GDP decline significantly at the 5% significance level by 0.34 percentage points. This decline in FDI inflows/GDP represents 18% of the median value for the variable, revealing a sizeable economic impact. I find no effect of elections using other forms of capital flows or in advanced economies. The finding that elections impact only FDI inflows is consistent with election-related policy uncertainty since FDI is the most irreversible type of capital flow and thus more vulnerable to policy uncertainty. There is also a smaller and less significant effect on FDI inflows in the year after an election. As I discuss later, this could result from residual policy uncertainty after the election.

Limiting to presidential systems avoids the potential endogeneity of the timing of elections in parliamentary systems in which executives often have substantial discretion in choosing the date of their re-election within an existing term in office (Vaaler et al., 2005). In particular, the calling of elections could be related to economic factors that also affect capital flows. For completeness, however, Table 4B presents regression results for all electoral systems.

Adding parliamentary systems weakens the effect of the one year before elections on FDI inflows, which is now insignificant. Finally, other types of capital flows continue to be unaffected by elections.

Going forward, I limit attention to FDI inflows and to *EC-1yearbefore* as the election period indicator since this was the only specification in Table 4A with a highly significant election effect. I do, however, continue to present results for both presidential systems and all electoral systems and for both advanced and developing countries. Tables 5A and 5B specifications (2) and (4) present results including the control variables for the FDI inflow regressions from Tables 4A and 4B respectively. Columns (1) and (3) present the results without control variables to provide a comparison with the main specification. Restating the main results, elections have no effect on FDI in advanced economies for both presidential systems in Table 5A and all electoral systems in Table 5B. There also is no effect in unreported regressions when I limit to parliamentary systems only.

In contrast, FDI is significantly lower at the 5% significance level in the year before an election in developing countries with presidential systems (Table 5A). The effect, however, disappears when we include all electoral systems in Table 5B. A possible explanation is that in parliamentary systems, the potential for unanticipated elections could reduce the pre-election effect on FDI since there should be little uncertainty about the outcome of an election that has not yet been called. In addition, to the extent that parliamentary systems have more multi-party coalitions, there could be less political uncertainty because there will often be parties spanning governments if the coalition changes. In fact, if I limit to parliamentary systems only, elections have no significant effect in developing countries. That said, the endogenous timing of elections

in parliamentary systems makes it difficult to infer causality. I return to this issue in Section 3.1 on robustness tests.

All the control variables have the predicted sign or are insignificant. The indicators of debt, financial, and currency crises are only available through 2011 and are therefore not reported in the base specification but are included in unreported regressions. Surprisingly, crises are not associated with declines in FDI in developing countries. One possible explanation is multicollinearity, although the results are similar if I include only one crisis variable at a time. If I exclude GDP growth, the effect of debt crises becomes negative and significant in developing countries. The inclusion of the crisis variables strengthens the effect of elections, but this is due to the reduced sample size.

The control variables are meant to capture channels other than policy uncertainty through which elections could impact FDI and to address the endogeneity of the timing of elections in parliamentary systems. For example, elections could affect FDI through economic risk that impacts FDI through default risk or the profitability of investment. Pre-election manipulation of capital controls, monetary policy, or fiscal policy could also alter FDI. While I cannot directly quantify the effect of policy uncertainty, the strong residual effect of elections in Table 5A for developing countries after controlling for these variables supports the view that elections affect FDI through policy uncertainty. In fact, the inclusion of the control variables has little impact on the size or significance of the impact of elections. In unreported regression, the results were also similar when I included the budget surplus as a % of GDP, the rate of money growth, the real interest rate to control for political budget or monetary cycles, and the risk premium on lending to further control for the economic risk channel. Again, this suggests that elections work primarily through the uncertainty channel.

Along those lines, controlling for these channels by including them in the regression shuts them down when estimating the total effect of elections on FDI, which includes both the effect of electoral uncertainty and these other channels. While this can isolate the uncertainty channel of elections, it does not allow for an estimation of the total effect of elections. For this reason, I have excluded these channels in columns (1) and (3) of Tables 5A and 5B in order to estimate the total effect of elections. A comparison of these columns with columns (2) and (4), where the control variables are included, reveals that the inclusion of these variables has little impact on the estimated effect of elections, suggesting again that elections are working primarily through uncertainty. In addition, I estimated the indirect effect of elections working through these channels.[10] The indirect effects were insignificant and have little effect on the coefficient of the election cycle variable, suggesting again that elections work through other channels.

It is important to note, however, that even if policy uncertainty explains the negative impact of elections on pre-election FDI, it is difficult to infer the specific nature of the uncertainty. Uncertainty could stem from the possible confiscation of property, changes in government spending or higher taxes that impact FDI, the level of foreign exchange reserves that can be run down to stimulate the economy, regulations that affect investment, or the imposition of capital controls. However, to the extent that including current values of corruption, investment profile, corporate tax rates, government spending (% of GDP), FX reserves (% of GDP), and capital account openness as regressors captures policy uncertainty associated with election-related changes in these variables, we can rule out those policy uncertainty stories. Indeed, the inclusion of these three variables has no effect on the coefficient of the election cycle variable or

[10] The indirect effects are measured using residuals of these channels obtained through GMM, which uses internal instruments, and including them as variables in the main regression.

its significance, suggesting that other aspects of policy uncertainty such as regulations are more important.

A natural follow-up question is when do FDI inflows in developing countries recover following an election? Tables 4A and 4B reveal that the recovery does not occur in the one year immediately following an election as the coefficient of *EC-1yearafter* is negative and significant although only at the 10% significance level. The recovery occurs after that; in an unreported regression, the coefficients of election cycle variables indicating the 2nd and 3rd years after the election are positive. A possible explanation for the delayed recovery is that, while policy uncertainty before an election is typical, there may also be residual uncertainty after the election. For example, once in office, politicians may deviate from election promises either by choice or because the realities of governing require compromise, creating additional uncertainty in the aftermath of an election. Another explanation for the weaker post-election effect is that some elections are resolved in a way that discourages FDI, for example if an anti-business party is elected.

3.1 Robustness Tests

I performed a number of additional tests to check the robustness of the results. Results were similar when I included investment as a share of GDP, the secondary school enrollment ratio to capture human capital, the ratio of trade to GDP, labor productivity, and real GDP per capita, which controls for the effect of a host country's wealth on FDI (Julio and Yook, 2013). Results were also similar using the political competition/participation index from the Polity IV database to filter out autocracies as opposed to the Freedom house democracy indicator. Lagging the measure of capital account openness to address potential reverse causality (for example, liberalizing to increase low levels of FDI) also did not change the results.

I include the lag of FDI/GDP as a regressor in case there are unobserved factors picked up by lagged FDI/GDP that are both correlated with elections and affect current FDI. Because of the dynamic panel bias caused by the presence of the lagged dependent variable with fixed effects, I estimate the model using the GMM system estimator developed in Arellano and Bover (1995) and Blundell and Bond (1998). The results are presented in Table 7. The results indicate that again, elections only reduce pre-election FDI in developing countries with presidential systems. The results were also very similar in unreported regressions using the fixed effects estimator with a lagged dependent variable. While dynamic panel bias is an issue, this bias is insignificant for large T, and there are over 30 years in the sample.

In the baseline regression, the dependent variable is capital flows as a % of GDP. One issue is that it may be difficult to isolate the effect of elections on capital flows since elections may also impact GDP. For example, both FDI and domestic investment may contract before an election for similar reasons so that the ratio of FDI to GDP is not affected. Furthermore, the ratio of capital flows to GDP may reflect more structural characteristics of an economy, while the focus of this paper is on short term movements in capital inflows around elections. As robustness tests, I first scale FDI by lagged GDP. The results were nearly identical. Second, I consider the logarithm of FDI inflows (measured in 2010 dollars) to estimate the election-related percentage change in capital flows. The drawback of this approach is that gross FDI inflows can be negative if there is more disinvestment by foreigners than new investment, implying that observations are lost when taking the logarithm. That said, almost all observations of FDI inflows are positive, and so taking the logarithm reduces the sample size only marginally. The results using this alternative dependent variable are presented in Tables 6A and 6B. In both presidential systems and all electoral systems, elections significantly reduce FDI inflows at the 10% significance level

by about 10% in developing countries, in line with the results for FDI as a share of GDP in presidential systems. Again, there is no effect in advanced economies.

In addition to the distinction between parliamentary and presidential systems, I consider the distinction between proportional representation and plurality/first-past-the-post/winner-take-all systems. While the former typically generate one-party majority governments, the latter generate multi-party coalitions, which may result in less political uncertainty because there will often be parties spanning governments even if the coalition changes. There is some overlap between plurality and presidential systems, and I find that in the former, as in presidential systems, elections reduce FDI. In addition, just as in parliamentary systems, elections do not significantly affect FDI in proportional representation systems. A possible explanation is the reduced uncertainty stemming from multi-party coalitions. In addition, to the extent that parliamentary systems have more multi-party coalitions, these results could explain the weak election effect on FDI in parliamentary systems.

Finally, not all parliamentary systems allow governments to choose the timing of elections. Countries like Norway and Switzerland, for example, fall under this category, although overall the electoral system lines up quite closely with the ability to choose the timing of elections (in most parliamentary systems governments can choose the timing of elections). As a robustness test, I estimate the model with presidential systems and parliamentary systems in which governments *cannot* choose the timing of elections. Conversely, I estimate the model with parliamentary systems in which governments *can* choose the timing of elections. In both cases, the results were very similar to the results for presidential and parliamentary systems: elections reduce pre-election FDI in countries where governments cannot choose the timing, but do not affect pre-election FDI in countries where they cannot.

3.2 Interaction Term Results

To explain the differing effects of elections in advanced and developing countries, I include several interactions with the election cycle variable. Table 8 presents the results. For brevity and to avoid the endogenous timing of elections in parliamentary systems, I focus on presidential systems. I consider two measures of FDI, FDI as a % of GDP and the logarithm of FDI. First, I include an interaction with capital account openness. Higher values indicate greater openness (scale 0-1). Capital controls make it more difficult for foreign investors to sell assets and reallocate their funds, making FDI more irreversible and thus more vulnerable to policy uncertainty. The fact that developing countries are far more closed suggests a stronger effect in these nations. In this case, I expect a positive coefficient on the interaction term as more open capital accounts should counter the negative effect of elections on FDI. The results indicate that the coefficient is positive in three of the four specifications, although is never significant.

While the interaction term itself is not significant, the F-test indicates that for developing countries with intermediate values of $KAlib$ the total effect of elections, $\beta_{EC} + \beta_{EC \cdot KAlib} \cdot KAlib$, is negative and significant. The magnitude of the effect ranges from -0.33 to -0.62 as $KAlib$ varies from 0.44 to 0.85 in column (2) and from -0.13 to -0.10 as $KAlib$ varies from 0.20 to 0.59 in column (4), again suggesting a large effect of elections on FDI for these countries. Surprisingly, the effect is not significant for the smallest values of $KAlib$. A possible explanation is that the most closed economies receive less FDI to begin with and are less affected by the electoral cycle. For advanced economies, the F-test indicates that the total effect of elections, $\beta_{EC} + \beta_{EC \cdot KAlib} \cdot KAlib$, is never significant in columns (1) and (3). The results for both groups of countries, therefore, suggest that for the most part only a subset of developing countries experience an election-related FDI effect, those with intermediate levels of capital account

openness, which can help explain why advanced economies that are in general far more open do not experience such an effect. Based on the results in column (4), if developing countries increased their median capital account openness to the median of advanced countries, the effect of elections on FDI would weaken by 5 percentage points.

Second, I include an interaction with a measure of constraints on the executive from the Polity IV database, which ranges from 1 to 7 with higher values indicating greater restraints. More constraints on the executive should reduce policy uncertainty surrounding elections, and so I expect a positive coefficient on the interaction variable as greater executive constraints should reduce the negative effect of elections on FDI. Given that advanced economies have higher average constraints, this could explain the weaker effect of elections in those countries. The F-test in column (4) indicates that for developing countries with lower values of $EXCONST$, the total effect of elections, $\beta_{EC} + \beta_{EC \cdot EXCONST} \cdot EXCONST$, is negative and significant. The magnitude of the effect ranges from -0.44 to -0.13 as $EXCONST$ varies from 1 to 4.9 in column (4), again revealing a large effect of elections on FDI for these countries. For advanced economies, the F-test indicates that the total effect of elections is never significant in columns (1) and (3). The results for both groups of countries, therefore, indicate that only a subset of developing countries experience an election-related FDI effect, those with fewer constraints on the executive, which can help explain why advanced economies with greater constraints do not experience such an effect.

The third panel presents results when I include an interaction with "*law and order*". Higher values indicate a greater rule of law (scale 0-6). Election-related uncertainty may have a stronger effect on FDI when the rule of law, which can also capture constraints on leaders, is weak, suggesting a positive coefficient on the interaction term. While

the interaction term is insignificant in all four columns, the F-test in column (2) indicates that for developing countries, the total effect of elections is negative and significant for low values of *law and order*. Based on the results in column (2), if developing countries increased their median value for *law and order* to the median of advanced countries, the effect of elections on FDI/GDP would weaken by 0.30 percentage points and would become insignificant.

I also considered additional interaction terms, although they were not significant and are therefore excluded from the table. First, while I do not have large cross-country data on the probability of a pro-business victory that could affect FDI, I can include an interaction with the chief executive's party orientation with respect to economic policy as this might induce heterogeneity in the impact of elections. Although this variable does not provide the probability of a certain election outcome, it does suggest the possibility of policy changes that could impact FDI. For example, foreign investors may prefer right-wing governments who are friendly to investors. Therefore, an election that could result in a new left-wing government could have a larger effect on FDI, although the results indicate that this does not occur. Second, I can partially account for the odds of a government change using the political stability variable that sums indicators of ethnic tensions, internal conflict, external conflict, and government stability (which assesses both the government's ability to carry out its declared program(s), and its ability to stay in office). More political stability reduces election-related policy uncertainty. I included an interaction with corruption since election-related uncertainty may have a greater effect on FDI when corruption is already high. I included an interaction with "investment profile", whose subcomponents are contract Viability/Expropriation, profits repatriation, and payment delays. Election-related uncertainty may have a greater effect on FDI when investment risk is high. I examined whether heterogeneity in the effect of elections was created by the presence of new

democracies that have only recently transitioned from autocracies (Brender and Drazen, 2005a). I also included an interaction with the Freedom House democracy variable; elections may have a smaller effect in more democratic countries with more institutional constraints and therefore less policy uncertainty. Finally, there is evidence that there is a global financial cycle driven to a great extent by US monetary policy and uncertainty (Rey, 2013). I therefore examine whether the sensitivity of capital flows to elections differs with respect to the VIX index of uncertainty. Again, the results indicate that these variables do not alter the impact of elections on FDI.

Finally, I considered additional interaction terms to explain the insignificant effect of elections in parliamentary systems. First, I calculated the Herfindahl index for government parties, which is the sum of the squared seat shares of all parties in the government. The inverse of this index is a measure of political fragmentation. More fragmentation can mean more uncertainty and therefore a stronger effect of elections. The coefficient of the interaction term is expected to be negative (more uncertainty strengthens the negative impact of elections on FDI). However, it was insignificant for presidential systems, parliamentary systems, and both systems combined. As another measure of fragmentation, I included an interaction with the probability that two deputies picked at random from among the government parties will be of different parties. The coefficient is expected to be positive (less uncertainty weakens the impact). Again, the coefficient was insignificant for presidential systems, parliamentary systems, and both systems combined.

Second, I obtained data on the number of veto players (Tsebelis, 2002), defined as individual or collective actors who have to agree on a proposed policy change. More veto players make policy changes more difficult and therefore reduce uncertainty. The coefficient of the interaction term should therefore be positive. The coefficient, however, were insignificant. I also

included an interaction with the percent of veto players dropping from the government as a measure of policy stability, but again the results were insignificant. Third, I include an interaction with the number of political parties with representation in the national legislature or presidency that have publicly available party platforms (manifestos) that are publicized and relatively distinct from one another, either in terms of content or generalized ideology. The greater the ideological divide, the more uncertainty there is, suggesting a negative coefficient on the interaction term with the election cycle variable. Again, however, the interaction term was insignificant.

4. Conclusion

The first goal in this paper is to analyze the effect of elections on international capital flows. I find that elections only matter in developing countries and only for FDI inflows; non-FDI flows such as portfolio flows are not affected. The effect on FDI is large; in the year before elections FDI contracts by 11%. Furthermore, FDI as a % of GDP falls by 0.34 percentage points, which represents almost 20% of the median value.

I then investigate the possible channels through which elections lower FDI. I assert that the main channel is through election-related policy uncertainty. I present a number of arguments in support of this assertion. First, the fact that elections only affect FDI, the most irreversible type of capital flow and thus the most likely to be impacted by policy uncertainty, is consistent with this channel. Second, I control for other possible channels such as election-related changes in capital controls that impact capital inflows, the effects of political budget and monetary cycles on capital flows, and the economic risk channel in which elections create economic risk and uncertainty or even crises by, for example, hindering effective policy reactions to adverse shocks

(Bussiere and Mulder, 2000). These in turn affect capital flows through default risk or the profitability of investment. Controlling for these channels isolates the effects of policy uncertainty. Finally, I find stronger effects of elections in countries with relatively closed capital accounts, fewer constraints on the executive, and a weak rule of law. Not only do these results shed light on the factors that determine the size of election-related FDI changes, they are also consistent with the effects of election-related policy uncertainty. Capital controls make FDI more irreversible and thus more vulnerable to uncertainty, weaker executive constraints generate even greater uncertainty, and election-related uncertainty may have a stronger effect on FDI when the rule of law, which can also capture constraints on leaders, is weak.

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Table 1A: Summary Statistics - **Presidential Systems Only**

Advanced Countries (4)	obs.	mean	median	s.d.	min.	max.
FDI outflows/GDP (%)	111	3.25	1.88	16.31	-63.11	135.92
FDI inflows/GDP (%)	111	2.37	1.14	16.69	-78.75	140.66
Equity Security outflows/GDP (%)	107	0.70	0.41	1.94	-11.84	9.84
Equity Security inflows/GDP (%)	105	0.85	0.50	1.34	-3.33	5.69
Debt Security outflows/GDP (%)	107	1.27	0.57	12.59	-65.76	65.47
Debt Security inflows/GDP (%)	111	2.54	1.73	3.41	-8.43	17.18
# elections	111	0.24	0	0.53	0	2
EC1	111	0.20	0	0.33	0	1
KA liberalization	111	0.75	1.00	0.30	0	1
Political Stability	111	32.06	32.17	2.47	26.25	37.08
Corruption	111	4.01	4	1.01	2	6
Investment Profile	111	9.39	9.67	2.04	5.17	12.00
Banking Crisis	84	0.05	0	0.21	0	1
Currency Crisis	84	0.01	0	0.11	0	1
Debt Crisis	84	0.00	0	0.00	0	0
Growth Real GDP	111	3.35	2.86	3.27	-5.93	12.47
ln *Real GDP*	111	27.92	28.30	1.99	23.70	30.44

Developing Countries (48)	obs.	mean	median	s.d.	min.	max.
FDI outflows/GDP (%)	1,010	0.39	0.06	1.74	-10.36	33.67
FDI inflows/GDP (%)	1,059	2.89	1.94	3.99	-8.61	45.27
Equity Security outflows/GDP (%)	862	0.35	0.00	1.90	-5.84	22.54
Equity Security inflows/GDP (%)	850	0.13	0.00	0.69	-4.30	11.28
Debt Security outflows/GDP (%)	883	0.82	0.00	4.02	-27.54	45.00
Debt Security inflows/GDP (%)	925	0.54	0.00	2.33	-30.46	38.12
# elections	1,059	0.23	0	0.48	0	2
EC1	1,059	0.20	0	0.32	0	1
KA liberalization	1,059	0.47	0.41	0.34	0.00	1.00
Political Stability	1,059	29.59	30.50	5.23	5.83	39.25
Corruption	1,059	2.49	3	0.92	0	5
Investment Profile	1,059	6.95	7.00	1.98	1.17	11.50
Banking Crisis	902	0.04	0.00	0.19	0.00	1.00
Currency Crisis	902	0.05	0.00	0.23	0.00	1.00
Debt Crisis	902	0.01	0.00	0.12	0.00	1.00
Growth Real GDP	1,059	4.06	4.25	4.24	-14.80	33.99
ln *Real GDP*	1,059	24.15	23.72	1.65	19.81	28.52

NOTES:

1. Unless otherwise noted, all data are annual. Growth rates and ratios are expressed in percentage terms. The sample period is 1984 to 2016. There are 4 advanced countries and 48 developing countries (52 total) that had presidential systems during the sample period.

Table 1B: Summary Statistics - **All Electoral Systems**

Advanced Countries (25)	obs.	mean	median	s.d.	min.	max.
FDI outflows/GDP (%)	764	4.11	1.94	9.74	-63.11	135.92
FDI inflows/GDP (%)	752	3.57	1.54	9.07	-78.75	140.66
Equity Security outflows/GDP (%)	699	2.10	0.81	4.67	-13.52	36.48
Equity Security inflows/GDP (%)	652	1.61	0.56	7.19	-16.81	89.11
Debt Security outflows/GDP (%)	657	2.65	1.07	8.42	-65.76	83.19
Debt Security inflows/GDP (%)	734	3.28	2.12	11.38	-84.18	190.79
# elections	752	0.28	0	0.48	0	2
EC1	752	0.27	0	0.32	0	1
KA liberalization	752	0.86	1.00	0.25	0	1
Political Stability	752	34.54	34.52	3.06	26.25	41.00
Corruption	752	4.72	5	1.03	2	6
Investment Profile	752	9.24	9.42	2.31	3.00	12.00
Banking Crisis	641	0.03	0	0.18	0	1
Currency Crisis	641	0.01	0	0.09	0	1
Debt Crisis	641	0.00	0	0.00	0	0
Growth Real GDP	752	2.63	2.58	2.98	-9.13	25.56
ln *Real GDP*	752	26.95	26.86	1.55	22.61	30.44

Developing Countries (79)	obs.	mean	median	s.d.	min.	max.
FDI outflows/GDP (%)	1,765	0.83	0.09	10.57	-89.44	219.83
FDI inflows/GDP (%)	1,852	3.50	2.14	12.43	-55.30	451.72
Equity Security outflows/GDP (%)	1,519	1.09	0.00	10.65	-8.24	237.35
Equity Security inflows/GDP (%)	1,504	0.23	0.00	1.72	-22.98	32.55
Debt Security outflows/GDP (%)	1,574	0.96	0.00	4.68	-36.74	60.87
Debt Security inflows/GDP (%)	1,605	0.63	0.00	2.22	-30.46	38.12
# elections	1,852	0.25	0	0.49	0	2
EC1	1,852	0.22	0	0.32	0	1
KA liberalization	1,852	0.47	0.41	0.34	0.00	1.00
Political Stability	1,852	29.73	30.63	5.32	5.83	40.58
Corruption	1,852	2.57	3	0.93	0	5
Investment Profile	1,852	7.35	7.38	2.11	1.17	12.00
Banking Crisis	1,549	0.03	0.00	0.18	0.00	1.00
Currency Crisis	1,549	0.04	0.00	0.21	0.00	1.00
Debt Crisis	1,549	0.01	0.00	0.10	0.00	1.00
Growth Real GDP	1,852	3.96	4.20	4.29	-28.10	33.99
ln *Real GDP*	1,852	24.25	24.00	1.70	19.81	28.52

NOTES:

1. Unless otherwise noted, all data are annual. Growth rates and ratios are expressed in percentage terms. The sample period is 1984 to 2016. There are 25 advanced countries and 79 developing countries (104 total), combining both presidential and parliamentary systems.

Table 2A: Summary Statistics by election period - **Presidential Systems Only**

Advanced (4)		obs.	mean	median	s.d.	min.	max.
Non-Election Period	*FDI outflows/GDP (%)*	89	3.04	1.88	17.67	-63.11	135.92
	FDI inflows/GDP (%)	89	2.13	1.18	18.37	-78.75	140.66
	Equity Security outflows/GDP (%)	86	0.58	0.36	1.91	-11.84	9.84
	Equity Security inflows/GDP (%)	84	0.88	0.64	1.29	-3.33	5.69
	Debt Security outflows/GDP (%)	86	1.84	0.62	13.27	-65.76	65.47
	Debt Security inflows/GDP (%)	89	2.76	1.73	3.37	-5.75	17.18
	KA liberalization	89	0.75	1.00	0.30	0.165697	1
	Political Stability	89	32.10	32.25	2.42	26.25	37
	Corruption	89	3.99	4.00	1.01	2	6
	Investment Profile	89	9.37	9.67	2.02	5.33	12.00
	Banking Crisis	67	0.03	0	0.17	0	1
	Currency Crisis	67	0.01	0	0.12	0	1
	Debt Crisis	67	0.00	0	0.00	0	0
	Growth Real GDP	89	3.22	2.81	3.33	-5.93	11.90
	ln *Real GDP*	89	27.89	28.29	1.98	23.70	30.44
Election Period	*FDI outflows/GDP (%)*	22	4.11	1.90	9.17	0.32	44.35
	FDI inflows/GDP (%)	22	3.35	1.12	6.60	0.21	30.52
	Equity Security outflows/GDP (%)	21	1.18	0.50	2.03	-1.87	6.67
	Equity Security inflows/GDP (%)	21	0.76	0.38	1.54	-2.52	5.11
	Debt Security outflows/GDP (%)	21	-1.05	0.35	9.18	-38.57	10.89
	Debt Security inflows/GDP (%)	22	1.66	1.70	3.48	-8.43	6.75
	KA liberalization	22	0.75	1.00	0.33	0.165697	1
	Political Stability	22	31.87	32.00	2.71	27.50	37
	Corruption	22	4.07	4.00	1.03	2	6
	Investment Profile	22	9.45	10.00	2.18	5.17	12.00
	Banking Crisis	17	0.12	0	0.33	0	1
	Currency Crisis	17	0.00	0	0.00	0	0
	Debt Crisis	17	0.00	0	0.00	0	0
	Growth Real GDP	22	3.86	3.67	3.05	-3.06	12.47
	ln *Real GDP*	22	28.06	28.41	2.09	23.73	30.37
Developing (48)							
Non-Election Period	*FDI outflows/GDP (%)*	807	0.41	0.05	1.90	-10.36	33.67
	FDI inflows/GDP (%)	847	2.88	1.92	4.02	-8.61	45.27
	Equity Security outflows/GDP (%)	691	0.40	0.00	2.09	-5.84	22.54
	Equity Security inflows/GDP (%)	682	0.14	0.00	0.73	-4.30	11.28
	Debt Security outflows/GDP (%)	708	0.93	0.00	4.44	-27.54	45.00
	Debt Security inflows/GDP (%)	737	0.52	0.00	2.39	-30.46	38.12
	KA liberalization	847	0.47	0.41	0.34	0	1
	Political Stability	847	29.62	30.58	5.31	5.83	39
	Corruption	847	2.49	2.50	0.91	0	5
	Investment Profile	847	6.96	7.00	2.02	1.25	11.50
	Banking Crisis	723	0.04	0	0.19	0	1
	Currency Crisis	723	0.06	0	0.23	0	1
	Debt Crisis	723	0.01	0	0.12	0	1
	Growth Real GDP	847	4.08	4.24	4.30	-14.15	33.99
	ln *Real GDP per capita*	847	24.14	23.70	1.65	19.84	28.51
Election Period	*FDI outflows/GDP (%)*	203	0.29	0.06	0.83	-3.59	8.00
	FDI inflows/GDP (%)	212	2.92	2.06	3.88	-2.51	36.21
	Equity Security outflows/GDP (%)	171	0.15	0.00	0.78	-1.13	7.57
	Equity Security inflows/GDP (%)	168	0.08	0.00	0.45	-3.80	1.71
	Debt Security outflows/GDP (%)	175	0.34	0.00	1.20	-3.77	8.59

Debt Security inflows/GDP (%)	188	0.61	0.00	2.06	-5.12	19.19
KA liberalization	212	0.47	0.41	0.34	0	1
Political Stability	212	29.47	29.83	4.89	9.42	38
Corruption	212	2.48	2.50	0.93	0	5
Investment Profile	212	6.93	7.00	1.86	1.17	11.00
Banking Crisis	179	0.04	0	0.21	0	1
Currency Crisis	179	0.04	0	0.19	0	1
Debt Crisis	179	0.02	0	0.13	0	1
Growth Real GDP	212	3.98	4.28	4.00	-14.80	15.38
ln *Real GDP per capita*	212	24.19	23.82	1.67	19.81	28.52

NOTES:

1. See the notes in Table 1A.
2. Given that the macro data are annual, in order to compare summary statistics for election and non-election periods, in this table a year is defined to be within an election period if EC1 > 0.50. The regressions in later tables, however, use the continuous election cycle variables.

Table 2B: Summary Statistics by election period - **All Electoral Systems**

Advanced (25)		obs.	mean	median	s.d.	min.	max.
Non-Election Period	*FDI outflows/GDP (%)*	558	4.27	2.06	10.17	-63.11	135.92
	FDI inflows/GDP (%)	549	3.63	1.55	10.02	-78.75	140.66
	Equity Security outflows/GDP (%)	514	2.11	0.80	4.84	-11.84	36.48
	Equity Security inflows/GDP (%)	479	1.44	0.53	6.33	-16.81	89.11
	Debt Security outflows/GDP (%)	483	2.75	1.10	8.38	-65.76	75.29
	Debt Security inflows/GDP (%)	538	3.30	2.08	12.43	-84.18	190.79
	KA liberalization	549	0.86	1.00	0.25	0.165697	1
	Political Stability	549	34.59	34.54	3.05	26.25	41
	Corruption	549	4.72	5.00	1.02	2	6
	Investment Profile	549	9.25	9.25	2.28	3.00	12.00
	Banking Crisis	466	0.04	0	0.19	0	1
	Currency Crisis	466	0.01	0	0.09	0	1
	Debt Crisis	466	0.00	0	0.00	0	0
	Growth Real GDP	549	2.60	2.57	2.87	-8.27	11.90
	ln *Real GDP*	549	26.97	26.89	1.57	22.61	30.44
Election Period	*FDI outflows/GDP (%)*	206	3.67	1.79	8.45	-37.38	72.01
	FDI inflows/GDP (%)	203	3.38	1.50	5.82	-6.88	43.26
	Equity Security outflows/GDP (%)	185	2.05	0.90	4.21	-13.52	31.89
	Equity Security inflows/GDP (%)	173	2.05	0.61	9.18	-11.28	70.80
	Debt Security outflows/GDP (%)	174	2.35	0.93	8.55	-38.57	83.19
	Debt Security inflows/GDP (%)	196	3.23	2.41	7.84	-22.85	77.19
	KA liberalization	203	0.86	1.00	0.25	0.165697	1
	Political Stability	203	34.40	34.46	3.08	26.50	40
	Corruption	203	4.74	5.00	1.03	2	6
	Investment Profile	203	9.22	9.75	2.41	4.00	12.00
	Banking Crisis	175	0.03	0	0.17	0	1
	Currency Crisis	175	0.01	0	0.08	0	1
	Debt Crisis	175	0.00	0	0.00	0	0
	Growth Real GDP	203	2.71	2.58	3.28	-9.13	25.56
	ln *Real GDP*	203	26.92	26.78	1.51	22.70	30.37
Developing (79)							
Non-Election Period	*FDI outflows/GDP (%)*	1,370	0.87	0.08	10.61	-86.25	219.83
	FDI inflows/GDP (%)	1,440	3.33	2.14	7.28	-55.30	165.28
	Equity Security outflows/GDP (%)	1,182	1.06	0.00	9.52	-8.24	222.86
	Equity Security inflows/GDP (%)	1,169	0.21	0.00	1.65	-22.98	28.87
	Debt Security outflows/GDP (%)	1,223	1.08	0.00	5.17	-36.74	60.87
	Debt Security inflows/GDP (%)	1,243	0.62	0.00	2.26	-30.46	38.12
	KA liberalization	1440	0.47	0.41	0.34	0	1
	Political Stability	1440	29.81	30.75	5.35	5.83	41
	Corruption	1440	2.57	2.50	0.93	0	5
	Investment Profile	1440	7.34	7.42	2.12	1.25	12.00
	Banking Crisis	1208	0.03	0	0.17	0	1
	Currency Crisis	1208	0.04	0	0.21	0	1
	Debt Crisis	1208	0.01	0	0.10	0	1
	Growth Real GDP	1,440	3.98	4.23	4.36	-28.10	33.99
	ln *Real GDP*	1,440	24.22	23.93	1.70	19.84	28.51
Election Period	*FDI outflows/GDP (%)*	395	0.69	0.10	10.44	-89.44	185.80
	FDI inflows/GDP (%)	412	4.11	2.10	22.58	-19.83	451.72
	Equity Security outflows/GDP (%)	337	1.19	0.00	13.93	-1.35	237.35
	Equity Security inflows/GDP (%)	335	0.26	0.01	1.91	-5.73	32.55
	Debt Security outflows/GDP (%)	351	0.56	0.00	2.27	-8.89	29.06

Debt Security inflows/GDP (%)	362	0.66	0.00	2.07	-5.12	19.19
KA liberalization	412	0.47	0.41	0.35	0	1
Political Stability	412	29.46	30.27	5.18	9.42	40
Corruption	412	2.57	2.50	0.93	0	5
Investment Profile	412	7.40	7.21	2.06	1.17	11.58
Banking Crisis	341	0.03	0	0.18	0	1
Currency Crisis	341	0.04	0	0.21	0	1
Debt Crisis	341	0.01	0	0.11	0	1
Growth Real GDP	412	3.88	4.14	4.03	-14.80	15.38
ln *Real GDP*	412	24.36	24.20	1.72	19.81	28.52

NOTES:

1. See the notes in Table 1B.
2. Given that the macro data are annual, in order to compare summary statistics for election and non-election periods, in this table a year is defined to be within an election period if EC1 > 0.50. The regressions in later tables, however, use the continuous election cycle variables.

Table 3A - Correlation Matrix - **Presidential Systems Only**

Advanced	FDI/ *GDP(%)*	*EC1*	*KA lib.*	*Political Stability*	*Corruption*	*Investment Profile*	*Banking Crisis*	*Currency Crisis*	*Debt Crisis*	*Growth Real GDP*
EC1	0.02									
KA liberalization	0.06	0.00								
Political Stability	0.05	-0.04	0.24							
Corruption	0.00	0.02	0.29	0.35						
Investment Profile	0.16	0.01	0.34	-0.11	-0.27					
Banking Crisis	0.09	0.20	0.04	-0.09	0.09	0.08				
Currency Crisis	0.03	-0.07	-0.20	0.14	0.00	-0.17	-0.02			
Debt Crisis	.	.	.	.	.	.	.	.		
Growth Real GDP	0.02	0.07	-0.49	-0.02	-0.35	-0.16	-0.06	-0.31	.	
ln *Real GDP*	-0.13	0.04	0.47	0.40	0.26	0.01	0.08	-0.12	.	-0.10

Developing	FDI/ *GDP(%)*	*EC1*	*KA lib.*	*Political Stability*	*Corruption*	*Investment Profile*	*Banking Crisis*	*Currency Crisis*	*Debt Crisis*	*Growth Real GDP*
EC1	-0.00									
KA liberalization	0.23	0.00								
Political Stability	0.30	-0.01	0.25							
Corruption	-0.06	-0.01	-0.10	0.09						
Investment Profile	0.27	0.00	0.39	0.49	-0.11					
Banking Crisis	-0.03	0.02	-0.08	0.01	0.11	-0.09				
Currency Crisis	-0.07	-0.04	-0.12	-0.03	0.04	-0.12	0.13			
Debt Crisis	-0.05	-0.01	-0.03	0.00	-0.02	-0.04	0.27	0.22		
Growth Real GDP	0.20	-0.02	0.14	0.13	-0.06	0.14	-0.14	-0.24	-0.15	
ln *Real GDP*	-0.12	0.02	-0.04	0.07	-0.08	0.00	0.05	0.04	0.03	-0.06

NOTES:

1. See the notes in Table 1A.

Table 3B - Correlation Matrix - **All Electoral Systems**

Advanced	FDI/ *GDP(%)*	*EC1*	*KA lib.*	*Political Stability*	*Corruption*	*Investment Profile*	*Banking Crisis*	*Currency Crisis*	*Debt Crisis*	*Growth Real GDP*
EC1	-0.01									
KA liberalization	0.15	0.00								
Political Stability	0.07	-0.03	0.08							
Corruption	-0.04	0.01	0.01	0.41						
Investment Profile	0.17	0.00	0.38	-0.04	-0.20					
Banking Crisis	0.04	-0.01	0.02	-0.07	-0.05	0.10				
Currency Crisis	-0.04	-0.02	-0.15	0.04	0.06	-0.11	0.08			
Debt Crisis	.	.	.	.	.	.	.	.		
Growth Real GDP	0.16	0.03	-0.14	0.20	0.00	0.00	-0.14	-0.13	.	
ln *Real GDP*	-0.11	-0.01	0.38	-0.26	-0.25	0.18	0.05	-0.11	.	-0.12

Developing	FDI/ *GDP(%)*	*EC1*	*KA lib.*	*Political Stability*	*Corruption*	*Investment Profile*	*Banking Crisis*	*Currency Crisis*	*Debt Crisis*	*Growth Real GDP*
EC1	0.03									
KA liberalization	0.16	0.01								
Political Stability	0.15	-0.02	0.27							
Corruption	0.03	0.00	-0.02	0.17						
Investment Profile	0.19	0.02	0.45	0.49	-0.01					
Banking Crisis	0.02	0.00	-0.06	0.02	0.07	-0.07				
Currency Crisis	-0.08	-0.02	-0.12	-0.03	0.02	-0.14	0.12			
Debt Crisis	-0.03	-0.01	-0.02	0.01	-0.02	-0.05	0.19	0.16		
Growth Real GDP	0.04	-0.01	0.07	0.05	-0.03	0.08	-0.10	-0.19	-0.13	
ln *Real GDP*	-0.06	0.04	-0.03	0.02	0.05	0.10	0.04	0.00	0.00	0.01

NOTES:

1. See the notes in Table 1B.

Table 4A: Equation (1) - FE Estimation - Presidential Systems Only

Dependent variable: *Capital Flows* (% of GDP)				
	Advanced	**Developing**	**Advanced**	**Developing**
	FDI outflows		**FDI inflows**	
EC1=T-1 year, T	1.88	-0.02	2.47	-0.34
	(3.82)	(0.09)	(3.87)	(0.16)**
Observations	111	1010	111	1059
Countries	4	47	4	48
EC2=T, T+1 years	-1.62	-0.02	-1.68	-0.37
	(2.81)	(0.07)	(2.48)	(0.20)*
Observations	111	1010	111	1059
Countries	4	47	4	48
EC3=T-2 years, T	-3.69	-0.06	-2.64	-0.17
	(4.77)	(0.10)	(3.46)	(0.15)
Observations	111	1010	111	1059
Countries	4	47	4	48
	Equity Security Outflows (Assets)		**Equity Security Inflows (Liabilities)**	
EC1=T-1 year, T	0.58	-0.15	-0.11	-0.08
	(0.80)	(0.10)	(0.35)	(0.05)
Observations	107	862	105	850
Countries	4	47	4	47
EC2=T, T+1 years	-1.15	-0.18	-0.58	-0.02
	(1.31)	(0.11)	(0.26)	(0.04)
Observations	107	862	105	850
Countries	4	47	4	47
EC3=T-2 years, T	0.37	-0.10	-0.40	0.00
	(0.48)	(0.06)	(0.30)	(0.04)
Observations	107	862	105	850
Countries	4	47	4	47
	Debt Security Outflows (Assets)		**Debt Security Inflows (Liabilities)**	
EC1=T-1 year, T	-2.71	0.19	-0.79	-0.02
	(3.01)	(0.19)	(1.27)	(0.15)
Observations	107	883	111	925
Countries	4	47	4	47
EC2=T, T+1 years	4.24	-0.23	-1.33	-0.10
	(5.85)	(0.15)	(0.63)	(0.26)
Observations	107	883	111	925
Countries	4	47	4	47
EC3=T-2 years, T	-1.78	0.18	-0.48	0.00
	(1.92)	(0.14)	(0.63)	(0.14)
Observations	107	883	111	925
Countries	4	47	4	47

NOTES:
1. See the notes in Table 1A.
2. * significant at 10%; ** significant at 5%; *** significant at 1%.
3. Panel regression, 1984-2016, estimated by OLS with country and year fixed effects. Robust standard errors clustered at the country level in parentheses.
4. Results for control variables, country fixed effects, and year fixed effects not shown.

Table 4B: Equation (1) - FE Estimation - **All Electoral Systems**

Dependent variable: *Capital Flows* (% of GDP)				
	Advanced	**Developing**	**Advanced**	**Developing**
	FDI outflows		**FDI inflows**	
EC1=T-1 year, T	-0.39	-0.21	-0.62	0.92
	(0.45)	(0.21)	(0.59)	(1.21)
Observations	764	1765	752	1852
Countries	25	78	25	79
EC2=T, T+1 years	-0.02	-0.30	0.37	-0.67
	(0.99)	(0.23)	(1.12)	(0.44)
Observations	764	1765	752	1852
Countries	25	78	25	79
EC3=T-2 years, T	-0.53	-0.03	-0.88	0.42
	(0.74)	(0.14)	(0.83)	(0.59)
Observations	764	1765	752	1852
Countries	25	78	25	79
	Equity Security Outflows (Assets)		**Equity Security Inflows (Liabilities)**	
EC1=T-1 year, T	-0.19	-0.02	0.55	0.05
	(0.25)	(0.14)	(0.51)	(0.06)
Observations	699	1519	652	1504
Countries	25	78	25	78
EC2=T, T+1 years	-0.63	-1.14	-0.51	-0.16
	(0.41)	(1.05)	(0.41)	(0.24)
Observations	699	1519	652	1504
Countries	25	78	25	78
EC3=T-2 years, T	0.01	0.07	0.66	0.05
	(0.25)	(0.17)	(0.53)	(0.04)
Observations	699	1519	652	1504
Countries	25	78	25	78
	Debt Security Outflows (Assets)		**Debt Security Inflows (Liabilities)**	
EC1=T-1 year, T	-0.63	-0.28	-0.98	-0.01
	(0.72)	(0.34)	(0.66)	(0.11)
Observations	657	1574	734	1605
Countries	25	78	25	78
EC2=T, T+1 years	0.75	-0.21	-2.08	0.03
	(0.45)	(0.16)	(1.33)	(0.15)
Observations	657	1574	734	1605
Countries	25	78	25	78
EC3=T-2 years, T	-0.78	-0.24	-0.08	-0.07
	(0.77)	(0.33)	(0.41)	(0.11)
Observations	657	1574	734	1605
Countries	25	78	25	78

NOTES:
1. See the notes in Table 1B.
2. * significant at 10%; ** significant at 5%; *** significant at 1%.
3. Panel regression, 1984-2016, estimated by OLS with country and year fixed effects. Robust standard errors clustered at the country level in parentheses.
4. Results for control variables, country fixed effects, and year fixed effects not shown.

Table 5A: Equation (1) - FE Estimation (using *EC1* = T-1 years,T) **- Presidential Systems Only**

Dependent variable: **FDI inflows (% of GDP)**				
	Advanced		Developing	
	(1)	(2)	(3)	(4)
EC1	2.32	2.47	-0.31	-0.34
	(3.69)	(3.87)	(0.14)**	(0.16)**
KA liberalization		4.76		1.20
		(5.02)		(0.83)
Political Stability		0.16		0.05
		(0.43)		(0.05)
Corruption		-0.31		-0.10
		(0.36)		(0.23)
Investment Profile		2.32		0.19
		(2.48)		(0.14)
Growth Real GDP		0.03		0.02
		(0.61)		(0.04)
ln *Real GDP*		3.45		4.60
		(6.96)		(3.15)
Observations	111	111	1,059	1,059
Countries	4	4	48	48
R^2	0.25	0.28	0.19	0.25

NOTES:
1. See the notes in Table 1A.
2. * significant at 10%; ** significant at 5%; *** significant at 1%.
3. Panel regression, 1984-2016, estimated by OLS with country and year fixed effects. Robust standard errors clustered at the country level in parentheses.
4. Results for country fixed effects and year fixed effects not shown.

Table 5B: Equation (1) - FE Estimation (using *EC1* = T-1 years,T) **- All Electoral Systems**

Dependent variable: **FDI inflows (% of GDP)**				
	Advanced		Developing	
	(1)	(2)	(3)	(4)
EC1	-0.42	-0.62	0.92	0.92
	(0.52)	(0.59)	(1.21)	(1.21)
KA liberalization		2.08		4.62
		(2.32)		(3.80)
Political Stability		-0.12		0.04
		(0.18)		(0.07)
Corruption		-0.51		0.48
		(0.40)		(0.68)
Investment Profile		-0.12		0.57
		(0.41)		(0.28)*
Growth Real GDP		0.50		-0.03
		(0.17)***		(0.10)
ln *Real GDP*		7.84		1.18
		(3.39)**		(2.53)
Observations	752	752	1,852	1,852
Countries	25	25	79	79
R^2	0.08	0.11	0.04	0.06

NOTES:
1. See the notes in Table 1B.
2. * significant at 10%; ** significant at 5%; *** significant at 1%.
3. Panel regression, 1984-2016, estimated by OLS with country and year fixed effects. Robust standard errors clustered at the country level in parentheses.
4. Results for country fixed effects and year fixed effects not shown.

Table 6A: Equation (1) - FE Estimation (using *EC1* = T-1 years,T) - **Presidential Systems Only**

Dependent variable: **ln (*FDI inflows*)**				
	Advanced		Developing	
	(1)	(2)	(3)	(4)
EC1	0.04	0.07	-0.10	-0.11
	(0.06)	(0.09)	(0.05)*	(0.06)*
KA liberalization		0.17		0.64
		(0.47)		(0.35)*
Political Stability		0.08		-0.01
		(0.06)		(0.02)
Corruption		-0.18		0.10
		(0.09)		(0.08)
Investment Profile		0.08		0.06
		(0.11)		(0.05)
Growth Real GDP		-0.07		0.01
		(0.07)		(0.01)
ln *Real GDP*		0.81		1.10
		(0.38)		(0.54)**
Observations	109	109	986	986
Countries	4	4	47	47
R^2	0.73	0.81	0.59	0.62

NOTES:
1. See the notes in Table 1A.
2. * significant at 10%; ** significant at 5%; *** significant at 1%.
3. Panel regression, 1984-2016, estimated by OLS with country and year fixed effects. Robust standard errors clustered at the country level in parentheses.
4. Results for country fixed effects and year fixed effects not shown.

Table 6B: Equation (1) - FE Estimation (using *EC1* = T-1 years,T) - **All Electoral Systems**

Dependent variable: **ln (*FDI inflows*)**				
	Advanced		Developing	
	(1)	(2)	(3)	(4)
EC1	-0.11	-0.14	-0.10	-0.09
	(0.11)	(0.12)	(0.06)*	(0.06)*
KA liberalization		0.36		0.48
		(0.54)		(0.23)**
Political Stability		-0.03		0.00
		(0.04)		(0.01)
Corruption		-0.05		0.18
		(0.09)		(0.09)*
Investment Profile		-0.04		0.09
		(0.05)		(0.04)**
Growth Real GDP		0.04		0.02
		(0.01)***		(0.01)**
ln *Real GDP*		1.52		1.16
		(0.78)*		(0.43)***
Observations	698	698	1,721	1,721
Countries	25	25	78	78
R^2	0.52	0.54	0.52	0.56

NOTES:
1. See the notes in Table 1B.
2. * significant at 10%; ** significant at 5%; *** significant at 1%.
3. Panel regression, 1984-2016, estimated by OLS with country and year fixed effects. Robust standard errors clustered at the country level in parentheses.
4. Results for country fixed effects and year fixed effects not shown.

Table 7: Equation (1) - GMM Estimation (using *EC1* = T-1 years,T)

Dependent variable: **FDI inflows (% of GDP)**				
	Presidential		**All Systems**	
	Advanced	Developing	Advanced	Developing
	(1)	(2)	(3)	(4)
EC1	-1.03	-0.39	-0.60	0.84
	(1.04)	(0.18)**	(0.69)	(1.22)
lag FDI/GDP(%)	-0.51	0.76	-0.23	0.33
	(0.04)***	(0.09)***	(0.19)	(0.04)***
KA liberalization	12.46	0.06	-0.84	4.38
	(5.46)*	(0.43)	(3.84)	(3.53)
Political Stability	0.78	0.05	0.52	-0.16
	(0.78)	(0.03)	(0.26)*	(0.16)
Corruption	1.08	0.04	0.31	0.31
	(2.46)	(0.10)	(0.60)	(0.43)
Investment Profile	3.06	0.12	-0.26	0.59
	(3.01)	(0.06)**	(0.61)	(0.26)**
Growth Real GDP	0.20	0.03	0.74	0.03
	(0.77)	(0.02)	(0.25)***	(0.06)
ln *Real GDP*	-3.42	-0.15	-2.86	-0.66
	(0.32)***	(0.11)	(1.70)	(0.40)
Observations	111	1,058	750	1,851
Countries	4	48	25	79
AR(2) test p-value	0.11	0.32	0.02	0.30
Hansen J-test p-value	1.00	1.00	1.00	1.00

NOTES:
1. See the notes in Table 1A.
2. * significant at 10%; ** significant at 5%; *** significant at 1%.
3. Panel regression, 1984-2016, estimated by GMM. Robust standard errors in parentheses.
4. Results for year fixed effects not shown.

Table 8: Equation (1) - FE Estimation (using *EC1* = T-1 years,T) - Interaction Terms - **Presidential Systems Only**

Dependent variable:	**FDI inflows (% of GDP)**		**ln (FDI inflows)**	
	Advanced	**Developing**	**Advanced**	**Developing**
EC1	1.63	-0.01	-0.07	-0.15
	(3.21)	(0.34)	(0.35)	(0.11)
*EC1*KA liberalization*	1.16	-0.72	0.19	0.09
	(5.19)	(0.67)	(0.48)	(0.19)
KA liberalization (0-1)	4.49	1.37	0.12	0.62
	(5.42)	(0.87)	(0.52)	(0.36)*
Observations	111	1,059	109	986
Countries	4	48	4	47
$B_{EC}+B_{EC*KAlib}*KAlib$		**neg ** for KAlib ∈ [0.44, 0.85]**		**neg * for *KAlib* ∈ [0.20, 0.59]**
EC1	3.18	-0.20	0.08	-0.52
	(31.89)	(0.78)	(0.49)	(0.28)*
*EC1*EXCONST*	-0.09	-0.03	0.00	0.08
	(4.51)	(0.14)	(0.07)	(0.05)*
EXCONST (1-7)	-2.11	-0.04	0.05	-0.05
	(2.43)	(0.16)	(0.14)	(0.08)
Observations	110	1,027	108	957
Countries	4	46	4	45
$B_{EC}+B_{EC*EXCONST}*EXCONST$		**neg ** for *EXCONST* ∈ [5.2, 6.1]**		**neg * for *EXCONST* ∈ [1, 4.9]**
EC1	6.23	-0.79	0.19	-0.16
	(9.72)	(0.45)*	(0.65)	(0.28)
*EC1*law and order*	-0.76	0.15	-0.02	0.02
	(1.37)	(0.15)	(0.11)	(0.10)
law and order (0-6)	-0.94	0.14	0.00	0.08
	(1.04)	(0.21)	(0.05)	(0.11)
Observations	111	1,059	109	986
Countries	4	48	4	47
$B_{EC}+B_{EC*law\ and\ order}*law\ and\ order$		**neg ** for law and order ∈ [0.9, 3.1]**		

NOTES:
1. See the notes in Table 1A.
2. * significant at 10%; ** significant at 5%; *** significant at 1%.
3. Panel regression, 1984-2016, estimated by OLS with country and year fixed effects. Robust standard errors clustered at the country level in parentheses.
4. Results for control variables, country fixed effects, and year fixed effects not shown.

Table A1: Variables and Data Sources

Variable	Description and Source
Capital flow variables	Source: IFS.
EC1	The default one-year election cycle indicator. Main source - IDEA database. Additional data sources were used to obtain exact election dates and whether the country has a presidential or parliamentary system.
KA liberalization	Source: Chinn-Ito index.
Currency Crisis	Source: Laeven and Valencia (2013)
Debt Crisis	Source: Laeven and Valencia (2013)
Financial Crisis	Source: Laeven and Valencia (2013)
GROWTH	GDP growth (annual %). Source: WDI. NY.GDP.MKTP.KD.ZG
real GDP	Source: WDI. NY.GDP.MKTP.KD
Political Stability	Sum of ethnic tensions, internal conflict, external conflicts, and government stability. Source: ICRG published by the PRS group.
Corruption	Source: ICRG published by the PRS group.
Investment Profile	Subcomponents are contract Viability/Expropriation, profits repatriation, and payment delays. Source: ICRG published by the PRS group.
Money Growth	Annual % change in money. Source: WDI FMLBLMQMYZG (money and quasi money annual growth %) and FMLBLBMNYZG (broad money growth, annual %).
real interest rate	Money market interest rate (Source: IFS variables 60b) - CPI inflation (Source: IFS variables 64x)
risk premium	Risk premium on lending (prime rate minus treasury bill rate, %). Source: WDI.
budget deficit	Central government budget surplus (% of GDP). Source: IFS v80.
FX reserves (% of GDP)	Foreign exchange reserves and related items (% of GDP). Sources. WDI. BNRESINCLCD.
Government Spending (% of GDP)	General government final consumption expenditure (% of GDP). Source: WDI. NECONGOVTZS.
Tax Revenue (% of GDP)	Tax revenue as % of GDP. Source: WDI. GCTAXTOTLGDZS.
Corporate Tax Rate	WDI. ICTAXTOTLCPZS. Alternatively, KPMG website.
DEV	0 for advanced, 1 for developing or emerging economy based on the classification in Arnone, et al. (2007).
Political Rights	1 low 7 high. 1972-2005. Source: Freedom House.
Civil Liberties	1 low 7 high. 1972-2005. Source: Freedom House.
DEM	Average of Political Rights and Civil Liberties. Source: Freedom House.
Political Competition	1 low 10 high. Source: Polity IV database. The Polity dataset measures two dimensions of political competition: (1) the degree of institutionalization, or regulation, of political competition (PARREG) and (2) the extent of government restriction on political competition (PARCOMP). These two indicators were combined to identify 10 broad patterns of political competition scaled to roughly correspond with the degree of "democraticness" of political competition within the polity.
EXCONST	Executive constraints . 1. low 7 high. Source: Polity IV database.
# of veto players	Source: World Bank Database of Political Institutions (DPI).
% of veto players dropping from the government	Source: World Bank Database of Political Institutions (DPI).
Inverse Herfindahl	Inverse of the the sum of the squared seat shares of all parties in the government.Source: World Bank Database of Political Institutions (DPI).
govfrac	The probability that two deputies picked at random from among the government parties will be of different parties. Equals NA if there is no parliament. Source: World Bank Database of Political Institutions (DPI).
proportional representation	Dummy variable indicating proportional representation. Source: World Bank Database of Political Institutions (DPI).
plurality	Dummy variable indicating plurality. Source: World Bank Database of Political Institutions (DPI).
party differences	Number of political parties with representation in the national legislature or presidency that have publicly available party platforms (manifestos) that are publicized and relatively distinct from one another, either in terms of content or generalized ideology. Source: V-DEM Varieties of Democracy dataset.

Orientation	Chief executive's party orientation with respect to economic policy, coded based on the description of the party in the sources, using the following criteria: Right (value=1): for parties that are defined as conservative, Christian democratic, or right-wing. Left (value=3): for parties that are defined as communist, socialist, social democratic, or left-wing. Center (value=2): for parties that are defined as centrist or when party position can best be described as centrist (e.g. party advocates strengthening private enterprise in a social-liberal context). Source: World Bank DPI.

Table A2: Countries

Advanced (25)		**Emerging or Developing (79)**	
Presidential	**Parliamentary**	**Presidential**	**Parliamentary**
Cyprus	Australia	Algeria	Albania
France	Austria	Argentina	Bangladesh
Korea	Belgium	Armenia	Botswana
United States	Canada	Azerbaijan	Bulgaria
	Denmark	Bahrain	Croatia
	Finland	Bolivia	Czech Rep
	Germany	Brazil	Estonia
	Greece	Burkina Faso	Ethiopia
	Iceland	Costa Rica	Guinea-Bissau
	Ireland	Cote D'Ivoire	Guyana
	Italy	Croatia	Hungary
	Japan	Dominican Rep	India
	Netherlands	Ecuador	Israel
	New Zealand	Egypt	Jamaica
	Norway	Gabon	Latvia
	Portugal	Gambia	Lebanon
	Singapore	Ghana	Lithuania
	Spain	Guatemala	Malaysia
	Sweden	Haiti	Malta
	Switzerland	Honduras	Moldova
	United Kingdom	Indonesia	Morocco
		Jordan	Pakistan
		Kenya	Papua New G.
		Kuwait	Poland
		Madagascar	Romania
		Mali	Slovak Rep
		Mexico	Slovenia
		Mongolia	South Africa
		Mozambique	Suriname
		Namibia	Thailand
		Nicaragua	Trinidad Tob
		Nigeria	Turkey
		Panama	
		Paraguay	
		Peru	
		Philippines	
		Russia	
		Senegal	
		Sri Lanka	
		Sudan	
		Togo	
		Tunisia	
		Uganda	
		Ukraine	
		Uruguay	
		Venezuela	
		Zambia	
		Zimbabwe	

NOTES:
1. Croatia had both types of electoral systems during the sample period and is therefore listed twice.