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## Groundwork for a New Theory of Democracy and Protectionism<sup>1</sup>

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### Abstract:

*Recent protectionist tendencies in affluent democracies challenge the mainstream consensus of democracy and free trade as a virtuous relationship. Attempts to pin this protectionism on the undemocratic nature of accompanying populism cannot really be backed by existing theory. This article argues there is a theoretical void concerning the nexus of political regimes and international trade that is clearly exposed by ongoing populist protectionism. The central theory on the political economy of democracy and trade liberalization, here dubbed the Stolper-Samuelson-Meltzer-Richards theory (SSMR) is critically examined. 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 these 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 paper 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 theory inspired by Stolper and Samuelson with the selectorate theory (Mesquita, 2003) is proposed as an avenue of future theory-building that mitigates the weaknesses of the SSMR and potentially explains populist protectionism.*

**Key words:** Protectionism; Democratization; selectorate theory; economic globalization

### Introduction

Long-established democracies are now flirting with protectionism. Among the most notable cases are of course former US President Donald Trump's trade wars and Brexit's overall implications on economic integration. In contrast, empirical studies have demonstrated again and again that democratization positively affects trade liberalization, to such an extent that any rolling back of free trade endangers conventional wisdom. The theory behind such stark results is however much less crystalline.

Most theoretical explanations revolve around the combination of the Stolper and Samuelson (1941) theorem and the median voter theorem's use by Meltzer and Richard (1981) (examples include Adserà and Boix 2002; Rudra 2002; 2005; Acemoglu and Robinson 2006; Ahlquist and Wibbels 2012). This combination (hereafter SSMR) was first posited in the seminal work of Mayer (1984) on endogenous tariff formation and

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has since influenced scholars to think about democracy and trade in terms of voting rules and individual preferences. Surprisingly, the SSMR has also been used, with varying results, to explain the effects of trade liberalization on democracy. Because recent populist protectionism seems to result from political shifts prompted by global economy shocks that feed back into the latter (Rodrik 2018), it is definitely worthwhile covering the SSMR formulations for both causal directions: the effects of regime change on trade and vice versa.

While acknowledging the merits of the SSMR to predict trade policy outcomes under specific conditions, this article exposes its numerous weaknesses when adopted as a go-to model for the nexus between political regimes and their trade policies. The article aims to argue that there is a theoretical void concerning the nexus between political regimes and trade, and to propose an avenue for future theory building. This argument is developed through a three-pronged strategy deployed for both causal directions that shall: 1) elaborate on and display the full logical implications of the SSMR; 2) show how these implications have been covered in the relevant empirical literature on the trade/regimes nexus and what kind of support they lend to them; and 3) briefly consider the explanatory strength of SSMR formulations regarding the recent protectionist stance in some democracies. A critical examination of its inner workings will show that no version of the SSMR can satisfactorily accommodate established evidence on the relationship between regimes and trade, thereby suggesting the need for a new theory. This need is explored in the fourth and fifth sections. The fourth section discusses what could be salvaged or improved upon in the SSMR for this theory to satisfy some desired traits. The fifth section offers insights from the Selectorate theory (Mesquita et al. 2003) that are here recuperated to put forward a candidate to replace the SSMR and contribute to the explanation of recent protectionist trends.

## What is the SSMR, and how is it used?

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, was 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 (capital and labor) 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 Heckscher-Ohlin model of international trade. The Heckscher-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 notes 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 a pair of countries, where country A is capital abundant, because it has higher ratio of capital over labor 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 Heckscher-Ohlin model (H-O) to make predictions on the effects of trade on 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 will increase. 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 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. This matters for a theory of political regimes because, unlike more up-to-date trade theories, it provides a politically meaningful roadmap of the winners and losers of trade liberalization.

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

But the SSMR overall logic has also been used to explain the opposite causal direction, i.e. the effects of trade liberalization upon regime change. Acemoglu and Robinson (2006) is an apt example of its use, in this sense, and it amounts to a somewhat counter-intuitive and nuanced explanation. In their models, the impact of trade on regimes is mediated by its effects on inequality. These effects are not solely dictated by Stolper-Samuelson mechanisms but also by the returns to skilled labor brought by technology transfers. To further complicate matters, the effect of inequality in regime stability is non-monotonic. One implication from their modeling is that trade-induced inequality can prompt a transition to democracy. Depending on the level of inequality, a democracy may have a hard time consolidating if it is far too redistributive for elites.

The next two sections expound on the major theoretical difficulties of the SSMR for both causal directions by fledging out its logical implications and confronting them with what we can know from established evidence in the relevant empirical literature on regimes and trade.

## **The SSMR on the effects of regime transition on trade policy**

The underlying logic in the SSMR elicits two different sets of predictions, laid out below, regarding the whole political regime/international trade nexus. The first set of predictions applies to regime change dynamics: democratization and restrictions on franchise produce and change, respectively, the identity of the decisive voter and her trade policy preferences. The second set of predictions considers SSMR implications for dyadic trade relations, i.e. the trade policy outcome given the political regime and relative factor abundance of a pair of countries. We now look at both sets of predictions in turn.

### Regime Change Dynamics

In **Table 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. Predictions in the bottom row have attracted little to no empirical attention.

**Table 1: Effects of Regime Change on trade. Predictions I**

	Labor Abundant	Capital Abundant
Democratization	Open	Close
Democratic Reversal	Close	Open

*Source: Author.*

Support for the top row of **Table 1** comes from a 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 from 1975–2002 suggest the same positive influence of democracy on trade openness. Because both studies sampled only developing countries, they seem highly appropriate to test the SSMR prediction that democratization in labor-abundant countries favors international trade.

Eichengreen and Leblang's (2008) different sampling methods secured 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 SSMR factors were not controlled for, nor is their sample restricted to LDCs.

Also, among the studies that explicitly include variables relevant in the Stolper-Samuelson logic are O' Rourke and Taylor 2006; Kono 2008; and Yu 2010. O' Rourke and Taylor (2006) set out to test the central predictions of Heckscher-Ohlin trade theory in the 19<sup>th</sup> 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 of land (in addition to capital and labor) in the analysis. Somewhat contrary to other studies (such as Eichengreen and Leblang 2008; Milner and Kubota 2004; Milner and Mukherjee 2009), they also find that democracy alone cannot predict tariff choices.

The relevance of factor abundance on trade policies seems to be strengthened by Dutt and Mitra (2006), who found that even across democracies there is variation in trade openness determined by the interaction of factor abundance and incumbency partisanship. They found left-wing governments (conditional on inequality) in labor-abundant countries

to be more liberal and in capital-abundant countries more protectionist than their right-wing counterparts. However, 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.

While empirical findings support part of the SSMR story, namely that democratization triggers trade liberalization in labor-abundant countries, the verification of the majority of SSMR logical outcomes remains untapped by large-n empirical studies. Moreover, **Predictions I** would lead us to believe that the recent protectionist trend in affluent democracies is caused by a wave of further democratization. This conclusion would further corroborate those who view populist electoral victories of Brexit and Donald Trump (with which protectionism is associated) as a democratic triumph (Todd, 2017: ch 14), but this view of populism as the furtherance of democracy is definitely not the mainstream perspective (see Mudde, 2004).

### ***It takes two to tango***

The consensus on the positive impact of democratization on trade seems to be further supported by empirical studies that look at dyadic trade relations. In effect, studies of dyadic trade relationship corroborate, in slightly nuanced variations, the Kantian democratic peace theory concerning international trade: pairs of democracies trade more with each other than other possible pairings (Dixon and Moon 1993; Bliss and Russett 1998; Morrow, Siverson and Tabares 1998; Mansfield, Milner and Rosendorff 2000; Decker and Lim 2008).

However, the set of predictions in **Table 1** seems at odds with this latter empirical regularity of dyadic international trade. The table appears to suggest 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 that should not be overlooked.

These SSMR implications for dyadic trade relations are laid out in **Table 2** and constitute the second set of predictions (**Predictions II**). **Table 2** illustrates that an SSMR model of dyadic trade renders trade preferences contingent on the relative factor abundance of 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 labor-abundant countries.

This line of reasoning is followed by Kono (2008). The hypothesis here is that for the preferences of the median voter to be enacted, countries would have to resort to non-tariff barriers to trade (NTBs). This is 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. The hypothesis that democracy promotes dyadic liberalization when the home country has a capital-labor ratio lower than its trading partner is tested in Kono (2008) in a sample of developed and developing countries that extends from 1950 to 2000. The findings indeed, 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 democracies 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), O’Rourke and Taylor (2006), and Milner and Kubota (2005).

But as **Table 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 her preferences, there would be hardly any trade at all. Consider a set of individuals with different capital endowments where everyone only trades with wealthier individuals because trading with poorer individuals is bound to be harmful. The premise denies the possibility of trade. Dyadic trade outcomes would look like **Table 2**.

Kono (2008) acknowledges that his theory is unable to explain liberalization of wealthy democracies towards poorer countries and surmises, in line with typical mainstream economic arguments, that liberalization of the latter was an opportunity for expanding the markets for capital-intensive goods. This supposition ultimately means that the relevant preferences for trade policymaking are not to be found in the median voter but elsewhere. It essentially runs counter to the SSMR theory and would only make sense under entirely different theoretical grounds. The dyadic trade implications of the SSMR do indeed seem to fail empirically: Bliss and Russett (1998), and Morrow, Siverson and Tabares (1998) found that pairs of democracies trade more than other types of pairs. Mansfield, Milner and Rosendorff (2000) state that although they cannot compare with autocratic pairs, democratic pairs are found to trade more than mixed-regime pairs. The latter conclusion adds a little nuance to the thesis of democracy and free trade’s virtuous relationship: perhaps it is not democracy but rather similar political systems and world views that make better trading partners. The idea of political similarity as determinant of trade integration was presented before by Dixon and Moon (1993), but their tests were conducted for 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. It should be stressed that this idea of political similarity – which is somewhat the general case of the Kantian hypothesis described above – is not quite compatible with the logical implications of the SSMR for dyadic trade (see **Table 2**).

**Table 2: Outcomes in dyadic trade. Predictions II**

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

*Source: Author.*

Evidence from these studies in dyadic trade is not, however, entirely dissonant with the SSMR logic. Mansfield, Milner and Rosendorff (2000) theorize that mixed pairs will show higher trade barriers than democratic pairs. The rudimentary dyadic analysis, in **Table 2**, of the SSMR logic suggests that trade barriers will be high (except for the rare dyads of labor-abundant democracies and capital-abundant autocracies) in either mixed or democratic pairs.

More in line with Stolper-Samuelson logic, Yu (2010) suggests that labor-friendly trading policies' effects on trade volumes may vary among economic sectors. Using bilateral trade data and a gravity-based model, Yu's 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 evince is that median voters in developed countries get a better bargain from free trade. This is because labor-abundant democratizing countries manage to import more capital-intensive goods from capital-abundant democracies but are unable to export their labor-intensive goods.

**Table 3: Literature support for SSMR predictions on effects of democracy and trade.**

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 Mukherjee (2010) Milner and Kubota (2005) Stokes (2001) Weyland (2003)		Kono (2008)	
Political Similarity (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)			

*Source: Author.*

**Table 3** shows what kind of traction each set of predictions has from the literature: 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. The juxtaposition of empirical results with the theoretical predictions of the SSMR shows significant contrast and advises great caution regarding the adoption of the SSMR to think about democracy and trade. Besides the support for one of its predictive clauses outlined above, the remainder of its theoretical implications is faced with either scant or contradictory evidence (a mismatch that is decidedly starker regarding dyadic trade theory and findings). Despite these hindrances, and because of the evident appeal of its simplicity, the SSMR has been used to make sense of the opposite causal direction.



## The SSMR on the effects of international trade on political regimes

The SSMR explanation for how trade liberalization affects regime stability also hinges on inequality and returns to factors of production. Here we can speak of two causal channels. In one channel, inequality informs individual preferences on redistribution and, because democracy offers a credible promise of redistribution, inequality ultimately structures incentives for regime change. The other channel concerns the cost of elite-led democratic reversal and how in an open-economy such costs disproportionately affect returns to capital and land.

This theory has thus essentially three moving parts. One pertains to how inequality exactly affects regimes and their stability. The other is by now the already familiar matter of how opening trade affects inequality for which the Stolper-Samuelson offers a clear if unsatisfying answer. And finally, there are the complications associated to knowing how and why countries open their economies for trade. Although all three of these are empirical matters, insufficient knowledge still forces modeling choices on each that generate significant theoretical variation with differing explanatory power. This variation will be further explored in the next section, but for now the exposition will stick to one theoretical version, delve a bit deeper into each moving part, flesh out some weaknesses and its overall compatibility with the SSMR on the opposite causal direction, and see how it would play out if mobilized to explain populist protectionism. The version in question is Acemoglu and Robinson (2006), which is arguably the first full-fledged articulation of the SSMR for the effects of trade on regimes.

**Table 4A. Acemoglu and Robinson (2006): Effects of free trade on regime change.**

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

Source: Author.

Since the effects of trade on regimes are conceived to be essentially mediated by inequality, the matter of how inequality affects regime stability is especially crucial for explanation. According to Acemoglu and Robinson (2006), although inequality structures incentives for regime change, its effect 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*

Extreme inequality gives elites strong incentives to resist democratization and its ensuing redistribution. Low inequality makes revolutionary efforts too costly for the masses considering the meagre gains to be made if a transition is successful. This means that the likelihood of democratization does not increase monotonically with inequality. Medium levels of inequality are the sweet spot for democratization, where the masses desire democracy enough and the rich are less afraid of its redistributive consequences. Admittedly, there are also levels so

high that make repression too costly, implicating that even in the interval at high levels this relationship is not linear. In unconsolidated democracies the same logic applies: medium-to-low levels of inequality decrease the pressure of redistribution, and the rich are less attracted by the prospects of coups. There are two major issues worth noting in this line of reasoning. First, as Ahlquist and Wibbels (2012: 451) summed up, the link between inequality and regime type and stability is plagued by contradictory evidence. Secondly, great challenges for empirical verification are therein raised: we can know the direction of change in trade-induced inequality but not exactly where it landed on the spectrum (medium-high-low).

Turning to the trade/inequality moving part, additional issues arise when we consider the possibility of causal channels other than the Stolper-Samuelson logic. Acemoglu and Robinson (2006) also offer an alternative model based on the notion that, parallel to Stolper-Samuelson, trade promotes technology transfers ultimately increasing the income of skilled labor and generating a middle class. Accordingly, even in capital- and land-abundant economies free trade will ease redistributive pressure through the creation of this middle class. Considering how inequality is affected by trade through the two channels, this theory expects trade to increase the likelihood of democratic transition in labor-abundant and capital- (or land-) abundant countries (see **Table 4A**). The reader may be wondering what happens to capital-abundant democracies when trade induces inequality. Acemoglu and Robinson (2006) consider Western democracies to be consolidated and essentially immune to the negative effects of trade.

**Table 4B: Acemoglu and Robinson (2006) modified theory: Effects of free trade on regime change.**

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

*Source: Author.*

The third moving part concerns whether domestic interests meaningfully define or shape a country's trade policy and its integration in the international economy. Modeling choices on this matter also greatly affect the theory's explanatory power. There are persuading arguments for both the notion of an endogenous trade policy and that of an exogenous trade policy. The former considers the overall outcome in openness as forged by the internal balance of forces and interests. The latter conceives trade openness as determined mostly by other phenomena, such as technology and international politics, that are essentially independent from domestic preferences (median voter or otherwise). The fact that significantly dissimilar economies and political systems such as Mexico, India, Korea, the Philippines, Turkey, Chile, Ghana, Brazil and Kenya had embarked on trade liberalization by the same time in the 1990s lends plausibility to the notion of exogenous trade policy. On the other hand, extensive work on the domestic determinants of trade (see Moravcsik 1997; Keohane and Milner 2002), favors the opposite notion of endogenous trade policy. In the end, any model that assumes exogenous trade policy is ultimately incompatible not just with the SSMR but with all explanations of the effects of regimes and regime changes on trade openness.

Considering the weaknesses associated with the assumption of exogenous trade policy, we could nonetheless adapt the overall logic of the Acemoglu and Robinson (2006) model to accommodate the effects of domestic preferences on trade outcomes.

However, if we were to assume endogenous trade policy, the predictive power of this model would be even thinner. If trade policy making is a top-down affair, rich elites will only open trade when it benefits their interests: in capital- or land-abundant countries. In these countries, when trade is liberalized inequality increases, perhaps increasing the costs of repression as well as the incentives for the masses to revolt and install democracy (no matter how short lived). Conversely, in labor-abundant countries, trade would never be liberalized by a rich elite. The implication is that the theory would only predict trade-induced democratization in labor-scarce countries, admittedly a very low subset of democratization experiences. **Table 4B** describes how the assumption of endogenous trade policy would further decrease the predictive power of the theory in Acemoglu and Robinson (2006).

Numerous difficulties populate each moving part, the most salient of which are the issues obscuring the operation of inequality and how it asymmetrically affects consolidated and non-consolidated democracies. The actual causal power of regime transition is redistributive pressure, and it may or may not be activated by changes in inequality, depending on its relative level (not too low and maybe not too high). The exact level of inequality that activates the right amount of redistributive pressure and resistance to that pressure may however be ultimately indeterminate.

Large-n empirical studies on the effects of trade on democracy and democratization, as an ensemble, also offer a very undefined and confusing picture of this relationship. A comprehensive set of empirical studies on the subject deemed to represent the field is summarized in **Table 5**. This heterogeneous ensemble of studies ranges from those reporting a positive but weak correlation between trade openness and democratization (Papaioannou, Siourounis 2008; Milner and Mukherjee 2009; signalled with an asterisk in **Table 5**), to those finding an unequivocal positive effect running from openness to democracy (Eichengreen, Leblang 2008; López-Córdova, Meissner 2008), those showing a negative effect (Reuveny, Li 2003; Rigobon, Rodrik 2005; Yu 2007; 2010) to those reporting no effects whatsoever (Giavazzi, Tabellini 2005; Decker, Lim 2008; López-Córdova, Meissner 2008). This ample variation can perhaps be explained by unaccounted degrees of inequality and its non-monotonic effects. A handful of these studies (last row of **Table 5**) were specifically designed to capture some mediating effects of inequality in trade/democracy nexus, but one can hardly observe unambiguous support for the Acemoglu and Robinson (2006) model in those (more on these below). One of the few examples that examines the argument on Stolper-Samuelson contingency of trade openness effects upon democratization is López-Córdova and Meissner (2008). There we can find some support for the hypothesis that trade openness has a positive effect on democracy for labor-abundant countries and a negative effect for resource-based economies (e.g. oil-exporting countries). These findings entail a rather straightforward linear effect of inequality with no need to account for technology transfer effects or unassailable pressure for redistribution resulting from extreme inequality: free trade grants labor additional political leverage in labor-abundant countries, paving the way to democracy, whereas in labor-scarce counties it further extends the power of elites. One implication that follows is that trade-induced inequality should cause a few negative effects in affluent, Western, labor-scarce democracies where free trade is prone to hurt labor (especially low-skilled labor). Rodrik (2018) does suggest that populism in

affluent democracies can indeed be interpreted as such an effect. However, as seen above, the Acemoglu and Robinson (2006) formulation of the SSMR is incapable of such analysis pertaining to consolidated democracies.

The impact of trade in consolidated democracies is considered marginal and glossed over in Acemoglu and Robinson (2006) because democratization/democracy is therein strictly conceived in terms of its redistributive consequences. Admittedly, though, inequality can erode multiple vital aspects of consolidated democracies before redistributive pressures from the masses force elites to consider a coup.

**Table 5: Literature support for the SSMR prediction on effects of trade on democracy.**

Theory	Effects		
	Positive	Negative	No effects
Not linked to any theory	Milner and Mukherjee (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 (2008)
Contingent on Redistribution and Relative Factor Abundance	Rudra (2002, 2005) Adserá and Boix (2002)	Rudra (2002, 2005) Adserá and Boix (2002) López-Córdova and Meissner (2008)	Ahlquist and Wibbels (2012)

Source: Author.

The many dimensions of democracy (representativeness, rule of law, accountability, social justice, and so on) can also presumably be affected by international trade through channels other than inequality, but few studies have been designed to observe the effects of trade openness across such dimensions. One such study that looked into different aspects of democracy was Bühlmann (2011), who introduces the democracy barometer. This measuring instrument is more sensitive to differences in the quality of established democracies. With it Bühlmann (2011) found economic globalization to have a stronger impact in some aspects of democracy (governmental autonomy and transparency) than in others (individual liberty or participation). Another study with a more nuanced conceptualization of democracy is López-Córdova and Meissner (2008), which not only shows trade effects to manifest differently across different facets of the political system but also hints at the aforementioned non-linearity of this effect. Using Polity IV data, López-Córdova and Meissner (2008) find that the aggregate positive impact of economic globalization is driven solely by one facet of the political system and that the relationship changes over time: in the period from 1870 to 1913 no statistical correlation was found. The authors attribute this to possible highly lagged effects, but the fact that several studies reported a changing relationship of economic globalization and democracy over time (Quinn 2000; Reuveny, Li 2003; López-Córdova, Meissner 2008; Bühlmann 2011) suggests unaccounted contingency that may be explained by the non-linear effects of inequality. The same kind of changing relationship was also observed regarding financial openness: Quinn (2003: 201), for instance, 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”.*

The *unconsolidation* of democracies can emerge from the erosion of only some dimensions of democracy. Electorally successful populism is arguably a symptom that the status of a democracy tilted towards non-consolidation. It should be noted however that populist projects typically require the complacency, if not active participation, of part of the elite. Thus, SSMR considerations that pit the mass of citizens versus the elite may not work very well with populism. Once a capital-abundant democracy is non-consolidated, trade effects on inequality can activate redistributive pressures that force elites to consider a coup. In such a scenario, protectionism could be pursued as an awkward and probably unsustainable compromise between a segment of the elite and the masses. A compromise that avoids or, as under President Trump’s tax cuts (Slemrod, 2018), even decreases ensuing redistribution. This type of explanation requires a theory that significantly differs from that of Acemoglu and Robinson (2006).

This section highlighted the difficulties associated with each moving part of the SSMR logic for the effect of trade on regimes: knowing the precise effect of inequality on democratization and democratic dimensions, the multiple and sometimes countervailing effects of trade on inequality, and exogeneity/endogeneity of trade policymaking. Some experimentation with these issues has occurred among variations of the SSMR, which is covered in the next section section (Adserà, Boix 2002; Rudra 2002; 2005; Ahlquist, Wibbels 2012). If we add up the SSMR’s weaknesses noted so far across both causal directions, we end up with a rather weak candidate for a unified theory of regimes and trade. This theoretical void on the regimes/trade nexus can be illustrated by the SSMR’s inability to explain either populism as an effect of trade-induced inequality or protectionism as a consequence of populist triumphs.

## Why is the SSMR failing?

Having confronted the SSMR’s logical implications with the empirical literature, it is now time to consider what could be salvaged or improved upon the SSMR for an adequate explanation of the nexus between regimes and trade. This is done here by looking closer at how existing SSMR (or SSMR-inspired) models coped with the issues generated by the coupling of two separate theories.

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 (Leontief 1956; Bowen, Leamer, Sveikauskas 1987; Davis, Mishra 2007) and resuscitated (Rodrik 2018) – map of the winners and losers of trade liberalization. Meltzer, 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.

While the greatest merit of the SSMR rests in the straightforward coupling of two reasonable abstractions, this coupling may be problematic on at least three grounds. The first concerns how accurate is the representation of trade effects by the Stolper-Samuelson

theorem. Concomitantly, the second pertains to the ability of the median-voter theorem to describe the actual process of trade policymaking. A third possible reason for SSMR failings may stem from the attempt to treat an endogenous relationship as if it were exogenous. As the three issues are discussed in turn, an outline of the necessary features for a theory of political regimes and trade policy is gradually drawn, while **Table 6** provides a comparison of the models discussed below.

**Table 6: Comparing SSMR models**

	MODELS			
	Rudra (2002, 2005)	Adserá & Boix (2002)	Acemoglu & Robinson (2006)	Ahlquist & Wibbels (2012)
<b>Exogenous Globalization</b>	YES	YES and NO	YES	YES and NO
<b>Mutually Determined Trade/Regime Nexus</b>	NO	YES	NO	YES
<b>Type of Income Inequality</b>	Actual trade-induce inequality (ATI)	Potential trade-induced inequality (PTI)	Actual trade-induce inequality (ATI)	Potential trade-induced inequality (PTI)
<b>Effects of Inequality</b>	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
<b>Stolper-Samuelson Dynamics</b>	NO	NO	YES	YES
<b>Explanatory Power</b>	Effect of trade on democracies	Effect of trade on democracies	Effect of trade on autocracies	Effect of trade on autocracies

Source: Author.

### ***Stolper-Samuelson Theorem is Wrong***

If we abandon the Stolper-Samuelson theorem because it is a poor description of how trade liberalization affects countries, we must necessarily provide further assumptions regarding how trade affects inequality and how preferences on it are shaped. This is what Adserà and Boix (2002), and Rudra (2002; 2005) attempt.

In Rudra (2002; 2005) the focus is not so much on inequality but on the fact that economic globalization is bound to produce losers, thus breeding social dissatisfaction or unrest. That leaves political leadership with only two possible strategies: either 1) buy out the dissatisfied sectors of society via social spending or 2) repress such dissatisfaction with authoritarian measures. The only strategy that benefits democracy or the odds for democratization is of course strategy 1), which implies that democracy is thus contingent on the contextual ability to increase social spending. Unfortunately, we cannot use Rudra's theory to think about recent protectionist deflagration, for it assumes economic globalization as exogenous and so it is silent about how political regimes choose their trade policies.

In Adserá and Boix (2002) we find a more nuanced theory that covers both causal directions in the trade/democracy nexus and still manages to eschew Stolper-Samuelson considerations. This model leads however to very similar conclusions as those found in Rudra (2002; 2005). If a country chooses to liberalize international trade, social spending considerations come to determine democracy's chances via the effect of world trade cycles. When the world trade cycle is favorable, social spending ability increases and with it so do the odds for democratic survival. When the world trade cycle is unfavorable, incumbents may still choose to steer towards autarky and skirt the repression that would accompany free trade enforcement with no counteracting social spending.

Even though the theory in Adserá & Boix (2002) manages to put forth an endogenous democracy/trade nexus while not relying on the Stolper-Samuelson theorem's logic, it is mainly a theory of how regimes cope with external economic shocks. In it we find that democracies deal with the pressures and shocks from the international economy by either compensating electorates or insulating domestic economies, while autocracies have more wiggle room to sail through the very same pressures by not having to assuage unsatisfied constituencies. Under Adserá & Boix (2002) the populist hatching of protectionism could be thought of as the result of an increasing inability to increase social spending and unwillingness to embark on an authoritarian drift.

By not replacing the Stolper-Samuelson logic with an alternative, theory-building is unable to account for the trajectories of trade-induced inequality and individual preferences on trade policy. Despite these relative weaknesses, these models lend an invaluable insight that is missing from the SSMR logic. Trade affects growth, and growth changes the field in which distributive struggles occur. This insight is not incompatible with the inclusion of the Stolper-Samuelson theorem, and future modeling should be mindful how individual preferences on trade policy are also shaped by how it affects domestic economic performance.

### ***Median-voter Theorem is Wrong***

This theorem plays an important part in the SSMR. It specifies how economic inequality (the distribution of income) and political inequality (the way the decision rule determines how individual preferences are funneled into policy) are mutually determined. The assumption of the majority decision rule in the median-voter theorem limits the analysis of regimes and trade to a very small sample of the historical experience of this interaction of political and economic inequality. Additionally, Acemoglu et al. (2015) shows how only part of this interaction is explained by Stigler's (1970) "*Director's Law*", where democracy empowers the middle class not the poor (the same idea behind the MR theory). Another relevant part of this interaction can only be understood with models that deal with the capturing of democracy by elites. The implication is that even in a majority voting system we may not have sufficient information to locate the decisive voter of such polity.

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, Meltzer-Richards is unable to contribute,

respectively, for a theory of regimes and trade that is valid across regime types, and for situations where collective choice is exercised on multiple issues.

A key takeaway from this discussion is that any theoretical substitute for the median voter theorem must do a better job at capturing the interaction of political and economic inequalities, most notably by considering taxes and tariffs as interdependent components of the same distributive policy, and do so across regime types.

### ***Endogenous SSMR***

The issue of whether it is acceptable for a theory to treat economic globalization as “*exogenous to a specific country and not amenable to control by politicians*” (Acemoglu, Robinson 2006: 281) has already been touched upon above. In Ahlquist and Wibbels (2012) we can find an explicit attempt to *endogenize* globalization by coupling the idea of world trade cycles influencing domestic affairs with a full-blown SSMR theory borrowed from Acemoglu and Robinson (2006).

The Ahlquist and Wibbels (2012) model is something of a synthesis of Rudra (2002) and the Adserá and Boix (2002) approaches with some advantages relative to Acemoglu and Robinson (2006). There are two substantial differences to Adserá and Boix (2002). One is that the preferences in the model are shaped by factor ownership and factor abundance (instead of given or assumed). The other is that, while tariff choices are endogenous, actual effects of trade on regime manifest themselves despite trade policy and are exogenous: they depend on world trade cycles. The way world trade cycles operate on the regime differs, however, from Adserá and Boix (2002). In the latter cycles signal to elites in an autocracy how expensive the transition is to a democracy. In Ahlquist and Wibbels (2012) world trade cycles function as a signal to non-elites to rebel. The idea is 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. This model combines the assumptions of a) endogenous trade policymaking with b) exogenous effects of world trade and thus lends the theory more explanatory power, leaving substantial premises unchanged. The analytical results in Adserá and Boix (2002) also imply these ideas of potential gains from trade and exogenous effects from the global economy, but they were left underdeveloped and given no attention through empirical tests of their model.

The idea that workers are vigilant of Stolper-Samuelson calculations when pondering regime change is somewhat implausible, especially if we consider how ex-ante uncertainty about ex-post gains and losses is biased towards the status-quo (Fernandez and Rodrik, 1991). This is nevertheless a relatively well-established notion that dates back to Rogowski (1989), who adduces examples of how potential gains had mobilized workers and induced trade unions to increase demands in Germany in World War I, the United States in World War II, and the United Kingdom in both great wars. The matter of how potential gains thrust workers’ action must however be dependent on political regime type.

The weakest spot in the Ahlquist and Wibbels (2012) variation of the SSMR concerns the understated importance of how incentives to rich elites are structured. Much like unrealized gains from trade can encourage the poor to pursue democratization with the subsequent removal of trade barriers, they also increase the incentives for elites to counter what would be a double redistribution of transition to democracy plus opening to trade. The stakes are higher for both sides.



However, the hypotheses that Ahlquist and Wibbels (2012) test are not a complete picture of the theory from which they have been derived. The central aspect of the theory is that world trade cycles create pressures to (re)distribute, and democracy is *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, and the strategies available, may be subtle combinations rather than clear-cut choices of the menu of democratize, repress, open trade, redistribute, that the theory implies. The implication, again, is that the distributive aspects of regimes and their trade policy work in tandem. While empirical tests in Ahlquist and Wibbels (2012) did not control for this outcome, this implication further strengthens the need to develop a theory that reconciles both causal directions.

To recap, the shortcomings associated with each of the three issues – Stolper-Samuelson theorem, the median voter theorem, and the matter of endogeneity – require a theory with the ability to, respectively: 1) acknowledge the effects of trade on domestic economic performance; 2) formalize a simultaneous choice of tax and tariffs across regime types (and not just democracies); and 3) reconcile both causal directions without having to modify the initial assumptions when shifting direction. Ideally, these developments would also help settle the dyadic trade paradox noted earlier and achieve an overall better fit between theory and evidence.

## A New Theory?

It is now time to briefly sketch how one could go about theory-building along the lines just listed above. The point is not to present a new model but only the contours of a branch from which a new family of models can stem. What is registered in the following lines is little more than one starting point among many other possibilities.

As noted above, trade policy can be seen both as an instrument for public good and – as in the SSMR approaches – a locus of conflict between two opposing interests. Trade policy is of course both. Any model that picks and chooses is unable to explain how the distributive implications of trade interact with effects on economic performance to produce a given trade policy or regime change dynamics. These two perspectives on trade policy can however be combined in future modeling efforts. One possible avenue could be for example to pick up where Meseguer and Escribà-Folch (2010) left off. Their central argument is that polities have greater incentives to learn from other countries' experience when leadership survival depends on the support of large coalitions than when it depends on small coalitions. Thus, if two countries are faced with the same information on the economic performance of a given trade policy, the one with the larger coalition will more likely adopt the policy that produces the most economic growth: i.e. democracies (large coalitions) are more prone to learning than dictatorships (small coalitions), which are more likely to stick with a poorly performing trade policy. The underlying rationale for this thesis draws from the selectorate theory (Mesquita *et al.*, 2003), which is a theory of how the policies that best guarantee leadership survival vary with the size of supporting coalitions.

Prior to any kind of development, the selectorate theory already stands as a viable substitute for the median voter theorem with the two notable advantages of being able to model the aggregation of individual preferences on multiple issues and doing so across regime types. Its formal modelling can be eventually extended to comply with

Stolper-Samuelson considerations by including the set of policies that the leadership must put forth to survive a 1) redistribution policy whose output works according to the Stolper-Samuelson logic, and 2) by adding information on the economic status of individuals (ownership of productive factors). The idea of learning as dependent on coalition size could also be gauged in a model of this sort by looking at how preferences on trade policy within a coalition change according to expected effects of trade-induced growth.

These developments would deliver a model that secures the tools necessary to study the regime/trade nexus, combining the selectorate model's ability to link institutional settings to redistributive policies across all kinds of political regimes with known effects of trade on inequality and economic growth. If the selectorate theory were successfully pieced together with the Stolper-Samuelson theorem, it could do a much better job at capturing the interaction of political and economic inequalities than existing SSMR approaches do.

A new theory of regimes and trade, it is here submitted, must encompass these two aspects of trade liberalization (redistributive and growth-related aspects) and tie trade policy to leadership survival. Regardless of how heavily its modeling may draw from the selectorate theory, its macro-theoretical stance posits trade policy as one component in a wider redistributive policy compromise of a coalition whose potential longevity is sensitive to its own overall prosperity.

The emphasis on coalitions from this theoretical development could shed new light into the nature of populist protectionism. Populism is a project of exclusion/inclusion that shows variation. Mudde and Kaltwasser (2013) delve into this aspect of populism and come up with a simple taxonomy of exclusionary and inclusionary populism typified, respectively, in right-wing European and left-wing Latin American populism. Exclusionary populism is therein characterized by voting restrictions, plebiscitarianism and welfare chauvinism. Whereas inclusionary populism also resorts to plebiscitarianism – but complemented by efforts to foster political participation and increase social spending. The success of these processes produces significant changes in the *de facto* size and composition of the winning coalition with consequences on its relative weight of capital and labor. With this in mind, we could for illustrative purposes reverse engineer the process of exclusion/inclusion capable of explaining the UK's Brexit experiment and President Trump's protectionist rhetoric and trade skirmishes. For two capital-abundant countries to retreat from international trade, changes in the winning coalition would have to disproportionately increase the weight of labor by, perhaps, excluding important parts of capital. This type of change would make it possible for political leadership to erect trade barriers and compensate capital that *did* remain in the winning coalition.

Overall, this theory would rely on the size and composition of the winning coalition to explain trade policy, but it could also explain trade effects on regimes by making returns to capital and labor dependent on world trade dynamics. This way, the odds of leadership survival and thus regime stability are also affected by exposure to the global economy.

## Conclusion

This article has argued that there is a theoretical void in the relevant literature regarding the nexus between political regimes and their respective trade policies. The full set of implications of the main and virtually only candidate to a unified theory of both causal directions in this nexus has been laid out here in detail. Its major inconsistencies and logical

incompatibilities have been discussed briefly, and a schematic literature review was brought up to drive home a few key points. On the effects of regimes on trade, two sets of predictions of the SSMR internal logic were laid out: one on the effects of regime change on trade liberalization and the other on dyadic trade relations. The juxtaposition of these predictions with existing studies showed: 1) that despite the centrality of the SSMR its full theoretical implications have been scarcely tested and explored; 2) that established evidence seems to contradict theoretical implications on dyadic trade; and 3) that it invites a counterintuitive interpretation of populism as democratic. On the effects of trade on regime, the argument showed the weak predictive ability of the SSMR, including its powerlessness to explain populist protectionism, and identified two areas from which these inabilities stem and where theoretical choices can be improved upon and made clearer: a) the role of inequality, and b) the conceptualization of democracy.

Based on the apparent disconnect between empirical studies and theoretical explorations on the nexus, future endeavors that address these weaknesses are especially welcomed. Worthwhile as that empirical research agenda may be, the article also raises some objections that question the validity of the whole SSMR enterprise. To that effect, an alternative avenue for theory-building centered around the selectorate model of leadership survival has been suggested here. The outline of an extension of the selectorate theory sketched above has the potential to display the desired traits for a theory on the regimes and trade nexus in that it is valid across causal directions and, because it conceptualizes democracy in terms of relative size of the supporting coalition, it is valid across political regime types. It could also open up new explanations of how inequality operates causally. Its central concept of coalition captures the interaction of political and economic inequality, the former being expressed in membership to the coalition and the latter cutting across members and non-members. An exposition of this avenue's potential to explain populist protectionism that calls particular attention to populist effort of exclusion/inclusion and coalition building has also been tentatively explored.

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