The Debt Crisis and the Politics of Capital Account Liberalization in Latin America

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What explains the politics of capital account liberalization in Latin America? Since the 1970s the world has witnessed a remarkable reduction in the laws and regulations that states impose on capital account transactions. Political economists have offered a variety of explanations to account for this process. These explanations trace the causal factors to information technology and financial market developments (see, e.g., Bryant 1987; Andrews 1994; Goodman and Pauly 1993), societal interest group competition (e.g., Frieden 1991; Helleiner 1994; Goodman and Pauly 1993), policy diffusion originating from the US or others in the region (e.g., Sobel 1994; Elkins and Simmons 2003), domestic political and economic factors as well as various interactions among them (Haggard and Maxfield 1993; Alesina, Grilli and Milesi-Ferretti 1994; Grilli and Milesi-Ferretti 1995; Leblang 1997; Helleiner 1994; Brune et al. 2001; Quinn and Inclan 1997; Li and Smith 2002a; Oatley 1999; Kastner and Rector 2003; Brooks 2004).

These explanations offer useful insights into the causal process of capital account liberalization. But they suffer two important weaknesses. All these studies have been conducted in the context of OECD countries, with only a few exceptions (e.g., Haggard and Maxfield 1993; Brune et al. 2001; Leblang 1997; Li 2003; Brooks 2004). As such, our understanding of the politics of capital account liberalization in the developing world falls far behind of our knowledge of the process in the industrialized, developed countries. In addition, almost all studies have treated the effects of the different causal determinants as linear and stable over time. As a result, these models are not equipped to uncover nonlinear, regime-switching type of political processes.

While theoretical generalizations are desirable, huge contrasting economic and political disparities between the Latin American and the OECD countries will most likely defy simply

transplanting theories applicable in one area to another. To understand whether theoretical generalizations are plausible, we need to conduct more research into the causal processes that determine capital liberalization in Latin American countries.

One fundamental difference between Latin American and OECD countries is that the former suffered the most significant and direct hit from the debt crisis in the early 1980s, which we argue significantly altered the political economic dynamics in Latin America . It is not that previous scholars have ignored the impact of the debt crisis on these countries. But scholars have failed to fully and effectively incorporate the ramifications of the debt crisis into their theoretical and empirical analysis of the politics of capital account liberalization in this geographical area. As the debt crisis reverberated throughout Latin America it changed significantly the impact of external factors as well as the domestic political balance over capital account liberalization. This watershed event renders the political process highly nonlinear, invalidating any attempt to explain and estimate the political effects in a linear manner.

The rest of the paper proceeds as follows. In the first section we briefly review different approaches to studying capital liberalization and discuss why they may not be applicable to explaining the process in Latin America. In the second section, we offer our argument to account for the nonlinear political dynamics of capital account liberalization in Latin America. Next, we discuss the research design for our empirical analysis, and then present our empirical findings for 15 Latin America countries from 1975 to 1984 and then from 1985 to 2003. Finally we conclude our paper.

Literature Review

Explaining capital account liberalization has become an academic cottage industry. We will not attempt an exhaustive review of the literature here, but will highlight the existing different approaches and provide a rationale for how our analysis contributes additional understanding to the literature. Several types of explanations emerge from this very active research program. The first type of explanation attributes capital account liberalization to the progress in communication and information technologies, the rising competition among business and financial institutions for market shares and increasing innovations to evade state regulation. Consequently, states not only find capital controls ineffective, but also deregulate competitively in order to attract financial capital (see, e.g., Bryant 1987; Andrews 1994; Goodman and Pauly 1993). The second type of explanation argues that financial liberalization is an outcome of competition over public policy among interest groups, notably financial institutions and multination corporations (e.g., Frieden 1991; Helleiner 1994; Goodman and Pauly 1993). These interest groups benefit from financial liberalization and use their political power to influence government policymaking accordingly. A third type of explanation emphasizes how a few major states, particularly the United States played a leadership role in capital account liberalization, with their deregulation policies diffused to other countries (Sobel 1994; Elkins and Simmons 2003). A fourth type of explanation focuses on the role of domestic factors, including left-right political competition, domestic economic conditions and regime type (Haggard and Maxfield 1993; Alesina, Grilli and Milesi-Ferretti 1994; Grilli and Milesi-Ferretti 1995; Leblang 1997; Helleiner 1994; Brune et al. 2001; Quinn 2001). A fifth type of explanation examines how domestic politics and economics interact and how domestic and international factors interact to influence capital control policies. More specifically, political parties interact with societal preferences to co-determine capital liberalization (Quinn and Inclan 1997; Li and Smith 2002a), political parties interact with the

type of exchange rate regime in imposing capital controls (Oatley 1999), and domestic veto players interact with international constraints to affect capital control policy stability (Kastner and Rector 2003).

As noted, almost all these studies have focused on the OECD countries. Exceptions include Brune et al. (2001), Leblang (1997), and Li (2003), but these are large-N, pooled studies of a broad range of developing countries. Only Brooks (2004) focuses on a sample of Latin American countries. She argues that transitional costs in liberalization often stall the process, and so governments tend to liberalize when and where such costs are low. Brooks usefully highlights the role of labor unions and the presidents they support, the strength of the domestic financial sector, and various facilitating economic conditions. But she does not take into account how the debt crisis has changed the nature of the liberalization politics in this region.

Haggard and Maxfield (1993) highlights how economic crisis in individual countries serves as a catalyst pushing countries toward liberalization, but their empirical analysis is limited to four case studies, two in Asia and two in Latin America (Mexico and Chile). Their focus is on country-specific balance of payments crises, while we explore how the system wide debt crisis changed the political dynamics for liberal reforms throughout Latin America.

The Debt Crisis and Capital Account Liberalization in Latin America

During the 1970s, when the Arab oil producing countries drastically increased oil prices, the price hikes caused significant balance of payments deficits in Latin American countries. Meanwhile, however, surpluses from the price hike were funneled from the OPEC states to international banks in the developed countries and back to the Latin American economies in the form of external borrowing. From the early 1970s to the early 1980s Latin American debt

increased nearly nine times from 27 billion to over 230 billion. Eventually private banks and other external creditors limited their loans to the region, and in August 1982 Mexico announced to the world that it could not pay what it owed to international creditors. The so-called 'debt crisis' ensued, engulfing most of the region and a large portion of the developing world (Wiarda 1990).

Before the crisis, Latin American debt was primarily held by private commercial banks. As the debt crisis progressed, these banks became hesitant to continue lending, but struggling Latin American states increasingly needed loans to continue to finance development and meet previous loan payments. From 1980 to 1988 the share of the debt held by private banks decreased 8% from 76.4% to 70.2%.[1] In contrast the share of the debt held by the IMF increased 39% from 10.9% to 15.1%. Beyond the simple size of the debt held by each actor, the IMF has become the central agent in coordinating and collecting outstanding loans owed to multilateral, bilateral and private creditors. In other words, the debt crisis helped precipitate a role for the IMF as a global "loan officer" that advises creditors when they should or should not make loans to developing countries or whether these creditors should renegotiate previous loans with debtor countries (Bradshaw and Wahl 1991). Before the debt crisis, IMF loans were targeted towards Asia and Africa, but the crisis pushed the Latin America to become the major user of IMF financing from 1982 to 1986 (Bird 1996). From 1979 to 1981, or the years immediately proceeding the debt crisis, less than a third of the region was involved in one of the IMF programs. By 1983, however, over 75% of Latin America was involved in either a SBA or EFF which both required a high degree of conditionality (Pastor 1989).

The debt crisis has directly changed the capital account liberalization process in the Latin American countries. Figure 1 plots the widely used Chinn-Ito (2005) measure of capital account

[1] Source: World Bank Development Report

openness for 15 Latin American countries from 1975 to 2003. As Figure 1 shows, around the second oil crisis, regional openness started to decline precipitously, and the immediate effect of the debt crisis in 1982 was to further suppres the liberalization process. However, as the dust of the debt crisis started to settle around 1984, the liberalization process revived and the average level of openness has increased almost every year since then.

What explains this dramatic paradigmatic shift in the liberalization process? Previous scholarship either ignores this important empirical phenomenon or fails to provide a convincing theoretical story of the causal mechanisms that generated this dramatic liberalization throughout the region. We offer a theoretical story of the changing political dynamics that are responsible for this behavioral pattern of capital account policymaking.

The debt crisis produced two consequences that redefined the politics of capital account liberalization across Latin America. First, the crisis empowered an external political actor, the IMF, in terms of its ability to directly influence the economic policymaking in these countries. Second, the crisis changed the distribution of political power between opponents and proponents of capital account liberalization, tipping the balance in favor of the latter. Below we discuss each of these two consequences in detail and derive testable hypotheses.

Before the debt crisis, Latin American states were constrained by global forces, but they had competing models of economic development to choose from as well as a wider policy space in which to operate. Following the crisis, many governments turned to the IMF and while they helped with continued financing, there were strings attached. Most loans would be conditional on states agreeing to implement a suite of neoliberal policies which the IMF believed would resolve the underlying causes of the balance of payments problems. These policies were designed to meet short-term payments goals as well as to lay down the foundation for structural

changes in the economy. The so-called “Washington Consensus” prevailed (Pastor 1989; Nelson 1990; Williamson 1993). Policy prescriptions handed out by the IMF often included containing inflation, reducing debt, and carrying out systemic reforms.[2] The money was then disbursed in a phased manner to ensure compliance with the conditions outlined by the IMF. Capital liberalization was not necessarily an explicit condition for receiving loans, but it was often included in policy memoranda and guidelines given to governments requesting the loan (Li 2003; Joyce and Noy 2005). The IMF and international lenders advised states to open their capital accounts and to use a single exchange rate. Countries that participate in the longer term programs or the Structural Adjustment Facility (SAF) or Enhanced Structural Adjustment Facility (ESAF) find their loans conditional on reforming their capital markets. Fewer countries participated in these programs in the region, but regardless of the program type, Latin American states were being categorically advised to liberalize their capital markets. States throughout Latin America felt the pressure to reform and began doing so following the fallout from the debt crisis.

The IMF uses performance criteria to evaluate the compliance with a loan. One of the important structural performance criteria is improving financial sector operations (IMF 2005), and improving financial sector operations often means opening the capital account. Critics of this approach claim that this performance criteria helped precipitate some of the crises in the 1990s in Latin America (Desai 2003, Stiglitz 2002). Regardless, the IMF suggests liberalizing the capital market for countries that take part in their loan programs.

Before the debt crisis, loans could be more readily acquired from private banks. The clout of the IMF during this period was small. However, after the debt crisis, we expect that

[2] A more detailed description of conditionality and policy programs can be found on the IMF’s website or http://www.imf.org.

participation in an IMF programs is positively correlated with capital liberalization. The debt crisis signaled increased vulnerability of the Latin American economies to external shocks and, perversely, afforded the IMF unprecedented influence over economic policymaking in these countries. The 1982 debt crisis was followed by the 1994-1995 Mexican Peso crisis and the Tequila Effect to the 1997 Asian Flu to the 1999 Brazilian Real crisis to the 2001 Argentine Peso collapse. Teichman (2001, 49) notes that from 1982 to 1990 the "IMF became involved in almost every significant rescue package and the establishment of the various facilities linked to adjustment." These crises have perpetuated Latin American dependence on the IMF for assistance.

Hypothesis 1: Participation in an IMF program leads to capital account liberalization only after the debt crisis.

Throughout the developing world, but particularly in Latin America, many countries were still pursuing closed, import-substitution policies in the 1970s. With the debt crisis came the fall of these developmental strategies and the rise of the "Washington consensus" in the 1980s. This reduced the political clout of the previous opponents to liberalization and bolstered the proponents of liberalization. In the Latin American countries, the opponents of liberalization tend to be labor unions and their supported presidents. The proponents of liberalization tend to be the financial sectors that are strong and competitive (Brooks 2004). We argue that the debt crisis further strengthened the position of the proponents and mitigated the effect of the opponents.

Since the decline of all alternative models to neoliberalism, regardless of their partisan persuasion, Latin American leaders had to continue to work with Wall Street and international financial institutions to demonstrate their ongoing commitment to neoliberal policy (Martinez

and Santiso 2003). Domestic politics in Latin America have evolved in a way that is favorable to international capital, and opposition to these reforms has been highly muted in comparison to resistance to privatization (Aubrey, Kingstone, and Young 2004). After the debt crisis, the Latin American countries began reducing state involvement in the economy and lowering barriers to international transactions. As these economies opened up, the policy choices available to the governments were reduced.

The opposition of the union-supported presidents over liberalization started to decline while the impact of a strong and competitive financial sector started to increase. The interests of private domestic banks in liberalizing capital controls increased over the period as their transactions became increasingly international. One of the important consequences of the debt crisis was that private bankers throughout the region became more unified in their bargaining positions (Teichman 2001). This united front pushed for liberalization and a commitment to debt-servicing. In addition, most societal groups in favor of reform gained privileged access to the state and due to reduced costs of collective action were able to maintain their influence in this aspect of public policy (Schamis 1999). Similarly, as the domestic financial sector became stronger, liberalization should be more likely (Brooks 2004). In contrast, opposition by the union-supported presidents became much weaker. For example, immediately after the election of Luiz Inacio Da Silva (or Lula as he is commonly known) in Brazil in 2004, an avowed leftist with strong union ties, international financial markets downgraded Brazilian financial ratings. To assuage their concerns, Lula appointed an economic team that would maintain the neoliberal policies of his predecessor. This suggests that there may be little left for the left in determining financial policy. The neoliberal paradigm became dominant by the mid-1980s and seemed to have attained hegemonic status since the collapse of the Soviet Union in 1991. As these states

opened their economies and became tightly connected to the international economic system, policy choices which were available to governments opposing liberalization began to disappear. Capital control policies reflected more closely the preferences of the proponents of liberalization, and less so the opponents' positions.

> *Hypothesis 2*: The opposition of the union-supported presidents to capital liberalization was strong before the debt crisis, and declined after the debt crisis.
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> *Hypothesis 3*: The effect of the liberalization-prone financial sector became stronger after the debt crisis.

Research Design

To test these hypotheses, we use a time-series cross-sectional design. Our sample includes 15 Latin American countries spanning the years from 1975 to 2003.[3] To test the paradigmatic shift in the politics of capital account liberalization before and after the debt crisis, we conduct our analysis in two split sample periods, one from 1975 to 1984 and the other from 1985 to 2003.[4] The split sample analysis has the advantage that it allows us to not only capture the nonlinear effects of the key variables of interest but also the effects of the control variables whose effects could potentially shift and switch due to the systemic influence of the debt crisis.

Dependent Variable:

Most studies of capital liberalization use as their dependent variable some form of the IMF Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER). Some studies simply use the binary dependent variable for capital account openness (Alesina et al 1994, Grilli and Milesi-Ferrettu 1995, Leblang 1997, Li and Smtih 2002a) while others use an

[3] The countries included in our sample are: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Paraguay, Peru, Uruguay, Venezuela.
[4] Our results are not sensitive to where we cut the sample, so long it is near to the 1982 debt crisis.

index or compilation of arrangements and restrictions (Brune and Guisinger 2003, Brooks 2004, Abiad and Mody 2005, Joyce and Noy 2005). For our study, we use Chinn-Ito's (2005) KAOPEN measure which is a compilation of the four dichotomous variables accounting for restrictions on (1) capital and (2) current account transactions, (3) requiring surrendering of export proceeds, and (4) the presence of multiple exchange rates. Since these four binary variables account for the degree of control rather than openness, Chinn and Ito flip their values and construct an index based on the standardized principal components. Higher values correspond to greater openness while lower values signal the degree of closure. The values of their index range from -1.79 to 2.66.

Independent Variables

IMF program participation (IMF): IMF programs include Stand-By Arrangements (SBA), Extended Fund Facility (EFF), Structural Adjustment Facility (SAF), and Extended Structural Adjustment Facility (ESAF). The EFF and SBA are targeted to short-term balance of payments adjustments while the SAF and ESAF are longer-term and focus on structural change.[5] We include all of these programs in our analysis and code the variable as 1 if a country during a particular year is under a fund loan and 0 otherwise. As specified in hypothesis 1, we expect program participation to be positively correlated with liberalization only after the debt crisis.

Union-Supported President (UNIONPRES): The main opposition to neoliberal reforms in general has come from unions and the parties with historical links to unions. The variable UNIONPRES (Kaufman and Segura-Ubiergo 2001) is coded 1 if the traditional base of a

[5] The SAF and ESAF have been renamed the Poverty Reduction and Growth Facility (PRGF).

president's party includes unions and 0 if it does not.[6] In Latin America parties and presidents on both the right and the left have pursued neoliberal reforms. Therefore, a partisanship variable based on either a left-right continuum or a simple left-right dichotomy is unlikely to be as discriminating in the Latin American case as it has proved to be in certain OECD analyses. For Latin America, the UNIONPRES variable is a more accurate measure of the contending forces in the neoliberal debate. We expect that before the debt crisis the UNIONPRES variable will has a strong repressive effect on liberalization, but that effect should become weakened and muted after the debt crisis.

Ratio of domestic money bank assets to central bank assets (PRIVBANK): This variable represents the interests of the domestic group most interested in reform as it captures the importance of private versus public sector lending. We expect that states with stronger private financial sectors are likely to liberalize and the effect of this variable will be much stronger after the debt crisis.

Control Variables

To avoid spurious findings on our central variables, we also include a set of typical control variables in the model.

Regional Influences (REGION): As states become more open, the capital control policies of other states in the region should also become increasingly important. Whether these influences are conceived of as diffusion or policy competition (Li and Smith 2002b; Simmons and Elkins 2004), we expect that capital control policies of the others in the region should have an important influence on a state's decision to liberalize. Simmons and Elkins (2004) conclude

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[6] We thank Robert Kaufman for sharing his data from 1975 to 1997 with us. We used his coding rules to update the data to 2003.

that reform has continued throughout the region and the developing world due to policy diffusion. They claim that mechanisms driving this diffusion are policy learning or countries take cues from their neighbors and that neighbors adopting certain policies reduces the costs of adopting that same policy. Since all the states in Latin America are exposed to the same external environment, we assume that policies will diffuse across the region. To capture this process, we use the lagged average value of capital account liberalization in the region.

Ratio of central bank assets to gross domestic product (CB:GDP): This ratio is the key variable in Brooks' recent analysis where she argues that capital account liberalization results in significant transitional costs to Latin American governments. Those governments with significant central bank assets are better able to "mitigate the financial costs of liberalization" (2004: 412) and so the higher the ratio, the more likely a state is to liberalize its capital account.

Ratio of foreign reserves to GDP (RESERVES): Having significant international reserves helps cushion potential volatility and makes it easier for governments to decide to liberalize (Haggard and Maxfield 1996). The larger the ratio of reserves to GDP the greater the ability of governments to finance balance-of-payments deficits and as well as respond to financial shocks.

Ratio of government consumption to GDP (GOVCON): A large amount of government consumption to GDP signals a sizeable role for a government in an economy. High levels of government spending have been shown to negatively correlate with capital reforms (Klein and Olivei 1999).

Inflation rate (INFLATE): Latin America's unique experience with inflation suggests a need for this variable to be accounted for in our model. Biglaiser and Brown (forthcoming) argue that high inflation leads to more risk acceptant behavior by presidents attempting to end a

financial crisis.[7] Since neoliberal reform is often the only policy option, presidents reform when faced with high inflation.

Trade openness (TRADE). The ratio of exports plus imports to GDP is often used as an indicator of how tightly integrated a country is to the global economy. Most previous studies find that the larger the trade sector is to GDP the more likely a state is to open its capital account.

Gross Domestic Product (GDP): measures the size of the national economy.[8] Larger economies may be able to better insulate themselves from the global financial markets while smaller markets may be more likely to liberalize. We expect that, all other things constant, larger states like Brazil and Mexico can delay reform or liberalize more slowly than countries such as El Salvador or Costa Rica.

Models using a time-series cross-sectionl design may suffer from serial correlation and heteroscedasticity in the error term. The result could be biased standard errors for estimated coefficients. To control for this possibility, we estimate OLS with panel corrected standard errors (PCSE). The PCSE estimator assumes the variance of the error term is heteroscedastic and contemporaneously correlated across panels (countries) and homoscedastic within panels (Beck and Katz 1995). We also apply an AR(1) correction in the error term to control for serial correlation. Country dummy variables are included to control for country fixed effects. All independent variables are lagged one year to control for possible reverse causality.

Results

Table 1 presents our estimation results. Column 1 includes the estimates for the sample period from 1975 to 1984, while Column 2 are the results for the sample from 1985 to 2002. Assuming

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[7] Like Biglaiser and Brown, we use the natural log of the inflation rate.
[8] Following Brooks (2004) we use the natural log of GDP.

that the effects of the economic and political variables are stable before and after the debt crisis, Column 3 includes results based on the entire period.

The results from the split samples are quite consistent with our overall theoretical expectations. The IMF program variable in the period from 1975 to 1984 is negative but not significant. This corresponds with our expectation that before the debt crisis, the IMF's impact on the process of capital liberalization was limited. In the period from 1985 to 2003, the IMF variable is both positive and significant. This is consistent with our expectation of the salient impact of the IMF in this region after the debt crisis. The IMF became the lender of last resort for many of these governments attempting to service their debt. To meet the conditions of their loans, these governments were more likely to liberalize their capital markets.

The UNIONPRES variable is negative and significant in the first period (Column 1), confirming our belief that before the debt crisis, opposition to liberalization by union-supported parties was strong. However, during the post debt-crisis period (Column 2), this variable is insignificant and the coefficient is much smaller. In the pre-crisis period the model clearly distinguishing between those administrations which were supported by unions and those that were not. After the debt crisis, union supported Presidents have no discernible statistical impact on the likelihood of liberalization. This is consistent with our expectation that even those governments and societal groups which should be most opposed to liberalization were unable to influence the process after the debt crisis.

In contrast, the effect of PRIVBANK is statistically insignificant in the first period, but it is statistically significant and positive in the second period, as we expected. The domestic financial sector gained significant influence over capital account liberalization after the debt crisis.

The results for many control variables also reflect significant ramifications of the debt crisis. GDP is negative in the first period and positive in the second reflecting the groups of countries that liberalized. In the early period, Argentina, Costa Rica, and Guatemala were among the leading reformers whereas in the second period the larger economies reformed including Brazil, Mexico, and Colombia. The central bank assets variable is not significant in the first period but is significant and positive in the second period. The government, after the debt crisis, became more cautious when contemplating capital account policies. Having a large trade sector relative to GDP (TRADE) is positively associated with reform in the first period, but the impact is indeterminate in the second period. In contrast, the regional pressure variable remains positive and significant in both periods, suggesting that regardless the impact of the debt crisis, countries are influenced by their neighbors when they make their own policy choices.

Column 3 displays the results of the model that covers the entire sample period for reference. When the years from 1975 to 2002 are included, nearly all of the variables are in their correct theoretical direction, but few are statistically significant. Reserves have a strong positive effect on capital openness. We can infer from this that governments with a high ratio of reserves to GDP are likely to liberalize capital flows. The neighbor policies variable is strong and significant. The policies in the region from the previous year have an important impact on the policies of each government in the present year. These variables are significant in each of the sub-samples and so one would expect them to also be significant in the full sample. Although TRADE and PRIVBANK are not statistically significant, they are both positive, consistent with previous studies that show a large trade sector and strong financial system correlate with capital liberalization. The UNIONPRES variable also has the sign that we hypothesize it should, but we can not determine if this result is different than zero in the entire sample. Other variables exhibit

little effect on capital account policy. Overall, the results from the full sample, combined with the results from the two sub-samples, are consistent with our claim that the debt crisis in this region was a watershed event which altered the political dynamics of capital liberalization.

Conclusions

In this paper, we show how the debt crisis changed the nature of the politics of capital account liberalization in Latin America. We argue that this event has made the politics of capital liberalization in Latin America highly nonlinear. The effects of the IMF, and the societal actors who either oppose or support capital account liberalization are fundamentally different between the periods before and after the debt crisis. This analysis builds on the work of previous scholars (e.g., Brooks 2004), but demonstrates how once we take into account the impact of the debt crisis, the politics of capital account liberalization in Latin America look significantly different. Our research thus specifies the conditions under which the IMF and the societal actors opposing or supporting liberalization will or will not influence capital account liberalization.

The 1970s and early 1980s represented a specific period for capital liberalization with different determinants than the late 1980s and 1990s. An important question though remains: are we in the midst of a third wave of capital change? With Hugo Chavez in Venezuela, Nestor Kirchner in Argentina, Lula in Brazil and most recently the election of Evo Morales in Bolivia are we witnessing a "critical juncture" where capital reform will be rolled back? Or will international markets, the IMF, and pro-reform domestic groups constrain the preferences of these leaders and their supporters and keep financial markets open? (Ellner 2004) Countries' indices of capital reform show a great deal of convergence from the late 1990s to present. The recent resurgence of the left should provide researchers with more opportunities to trace

decisions to liberalize or to reverse liberalization both cross-nationally and through individual cases.

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Table 1:
The Debt Crisis and the Determinants of Capital Liberalization in Latin America

Dependent Variable:	KAOPEN	KAOPEN	KAOPEN
	1975-1984	**1985-2002**	**1975-2002**
UNIONPRES	-0.577	-0.090	-0.150
	(3.17)**	(0.63)	(1.25)
IMF	-0.214	0.184	-0.000
	(1.59)	(1.83)†	(0.00)
PRIVBANK	0.494	0.850	0.644
	(0.45)	(1.48)	(1.24)
RESERVES	8.994	5.133	5.218
	(1.88) †	(1.68)†	(1.99)*
GDP	-3.217	1.677	-0.401
	(4.40)**	(1.79)†	(0.83)
GOVCON	-0.021	-0.065	0.039
	(0.37)	(2.37)*	(1.54)
TRADE	0.031	-0.000	0.009
	(2.48)*	(0.01)	(1.46)
INFLATE	-0.139	0.017	-0.009
	(1.60)	(0.50)	(0.28)
REGION	0.708	0.593	0.673
	(3.61)**	(2.93)**	(4.64)**
CB:GDP	-1.053	2.638	0.394
	(0.43)	(2.11)*	(0.34)
Observations	140	251	391

z statistics in parentheses
* significant at 5%; ** significant at 1% (two-tailed test)
† significant at 5% (one-tailed test)

Appendix A

Variable Names, Descriptions and Sources

Variable	Description	Source
CB:GDP	Central Bank Assets to GDP	Beck, Demirgüç-Kunt and Levine (1999)
PRIVBANK	Deposit money bank vs. central bank assets	Beck, Demirgüç-Kunt and Levine (1999)
LNGDP	The natural log of the Gross Domestic Product in 1995 US Dollars	World Development Indicators (2003)
GOVCON	General government final consumption expenditure (% of GDP)	World Development Indicators (2003)
IMF	IMF All Programs, (1/0)	
INFLATE	Natural log of inflation	World Development Indicators (2003)
KAOPEN	Capital Liberalization Index (-1.79269--2.656628)	Chinn and Ito (2005)
UNIONPRES	Union-Supported President (0/1)	Kaufman and Segura-Ubiergo (2001)
REGION	Lagged value of the average Capital Liberalization Level for Latin America	Chinn and Ito (2005)
RES_GDP	Reserves divided by GDP	International Financial Statistics (2004)
TRADE	Imports+Exports/GDP	International Financial Statistics (2004)

Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
KAOPEN	391	-.02094	1.42389	-1.71111	2.68214
UNIONPRES	391	.28645	.45268	0	1
CB:GDP	391	.08909	.09032	.00019	.50206
PRIVBANK	391	.74811	.17605	.10422	.99909
RESERVES	391	.04004	.02825	.00179	.14554
GDP	391	24.04403	1.50091	21.60248	27.13599
GOVCON	391	11.25104	3.33296	2.97554	23.14655
TRADE	391	47.09795	18.79910	11.8	100.9
INFLATE	391	2.92282	2.50781	-20.72327	9.37158
IMF	391	.51662	.50036	0	1
REGION	391	-.09872	.74410	-1.14683	1.17492

Figure 1