Regime Changes and Economic Preferences
Empirical Research Task

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Research question:

Is there a causal link between experiencing regime changes and economic preferences?

V-Dem	General Preference Survey
Panel from 1789-now	Cross-section collected in 2012
Liberal Democracy Index (0 - 1)	6 economic preferences, country, age, math skills, gender

- Combination of both: approx **75.000 individuals** from **1910-2012** from **76 countries**

Structure of aggregation: Liberal Democracy Index

Various indicators:

Liberal democracy index	v2x_libdem	
Electoral democracy index	v2x_polyarchy	
Liberal component index	v2x_liberal	
Equality before the law and individual liberty index	v2xcl_rol	
Access to justice for men	v2clacjstm	0.254
Access to justice for women	v2clacjstw	0.254
Freedom of foreign movement	v2clfmove	0.444
Freedom from political killings	v2clkill	0.458
Property rights for men	v2clprptym	0.459
Property rights for women	v2clprptyw	0.459
Freedom of religion	v2clrelig	0.591
Freedom from forced labor for men	v2clslavem	0.512
Freedom from forced labor for women	v2clslavef	0.512
Freedom of domestic movement for men	v2cldmovem	0.423
Freedom of domestic movement for women	v2cldmovew	0.423
Rigorous and impartial public administration	v2clrspct	0.505
Freedom from torture	v2cltort	0.391
Transparent laws with predictable enforcement	v2cltrnslw	0.396
Judicial constraints on the executive index	v2x_jucon	
Executive respects constitution	v2exrescon	0.547
Compliance with judiciary	v2jucomp	0.336
Compliance with high court	v2juhccomp	0.341
High court independence	v2juhcind	0.416
Lower court independence	v2juncind	0.411
Legislative constraints on the executive index	v2xlg_legcon	
Legislature investigates in practice	v2lginvstp	0.284
Legislature opposition parties	v2lgoppart	0.434
Executive oversight	v2lgotovst	0.373
Legislature questions officials in practice	v2lgqstexp	0.526

Economic preferences

From General Preference Survey (2012)

Values for each preference derived from combination of responses to different survey measures

Patience	Risk Taking	Positive Reciprocity
hypothetical binary choice: immediate or delayed financial reward	Choices between fixed lottery payouts x or 0, or varying sure payments y	Imagine you got lost in an unfamiliar area - stranger offers to take them into their destination. How much eur to give stranger as a "thank you" self assesment: how willing are you to return a favor?

Negative Reciprocity	Altruism	Trust
self assesment: willingness to punish someone for unfair behavior prosocial punishment (similar concept to norm enforcement)	how willing would you be to give to good causes without expecting anything in return? unexpectedly receiving 1000 euros: how much to donate?	Do you assume people have only the best intentions? (Likert scale 0-10)

Treatment group

- **Goal**: identify whether an individual experienced a regime change during formative years (3-18)

  Methodology from Lührmann et al. (2020), we start on country level

  1. $\Delta\ \mathrm{LDI} = \mathrm{LDI}_t - \mathrm{LDI}_{t-10}$
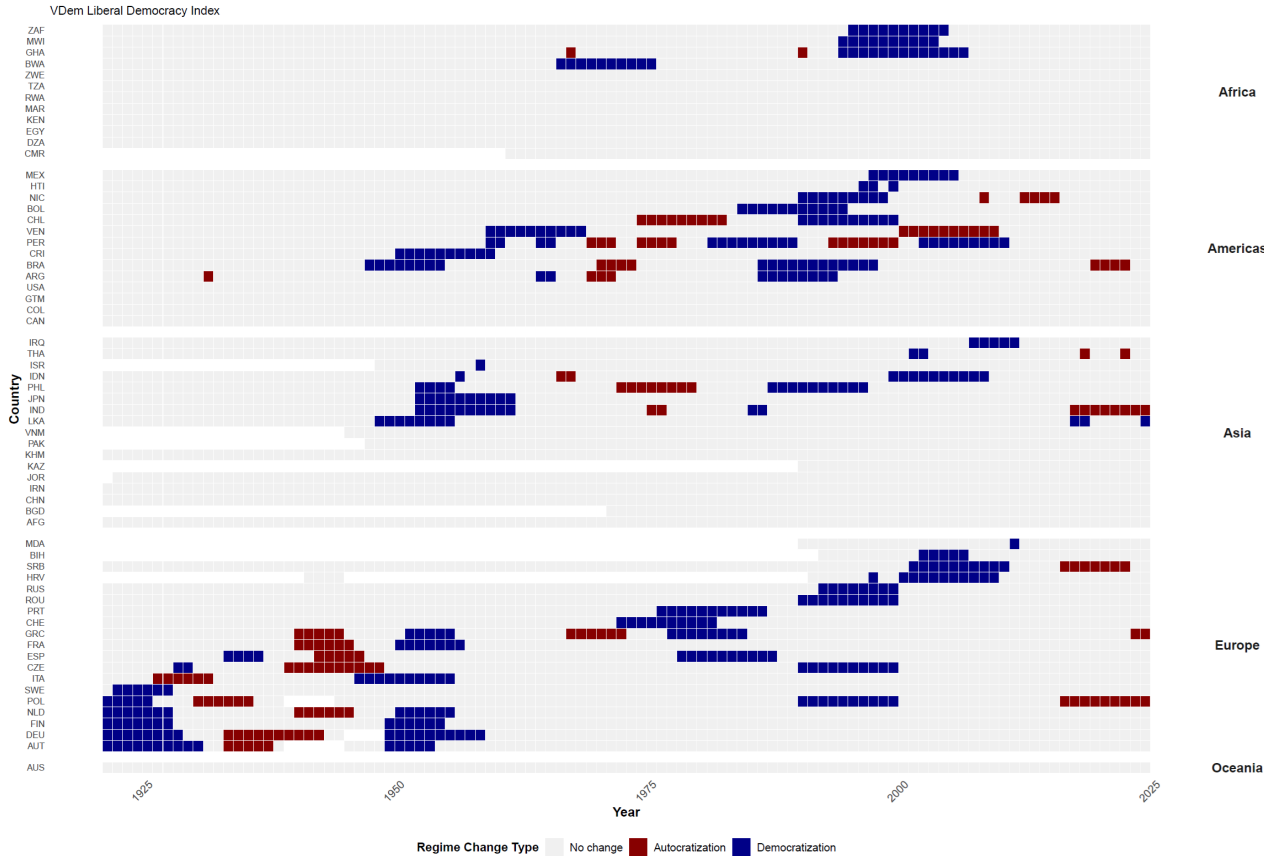 2. $|\Delta\ \mathrm{LDI}| > 0.2$
  3. Test for significant change:

  $$\mathrm{CI}_t = [\mathrm{LDI}_t - \mathrm{ME}_t, \mathrm{LDI}_t + \mathrm{ME}_t]$$
  $$\mathrm{CI}_{t-10} = [\mathrm{LDI}_{t-10} - \mathrm{ME}_{t-10}, \mathrm{LDI}_{t-10} + \mathrm{ME}_{t-10}]$$

  Significant if: $\mathrm{CI}_t \cap \mathrm{CI}_{t-10} = \emptyset$

Regime Changes by Country and Continent (Post−1920)

- next step: **connect with individual level data (GPS survey)**

  1. Evaluate age of each individual at regime change periods
  2. If between "formative age" (3-18 years) : treated

Economic preferences are formed during childhood + adolescence (Detlefsen et al., 2024)

Assumption: the individual was also born in the same country

Group	Number of observations
Treated: **Autocratization**	4 949
Treated: **Democratization**	17 344
No regime change experience	53 175

Control group

- **True controls**: Individuals from countries that never experienced any regime changes

- **Contaminated controls**: Individuals from countries that experienced a regime change, but these happen to be outside of their formative years period (3-18 years), **Removed from analysis**

Group	N	Countries
Treated: Autocratization	4 949	Turkey, France, Netherlands, Spain, Italy, Poland, Hungary, Czech Republic, Greece, Venezuela, Ghana, Uganda, Argentina, Austria, Chile, Estonia, Lithuania, Nicaragua, Peru, Suriname, Indonesia, Germany, India, Brazil, Philippines
Treated: Democratization	17 344	Turkey, France, Netherlands, Spain, Italy, Poland, Hungary, Czech Republic, Venezuela, Israel, Sri Lanka, Botswana, Georgia, Moldova, …
No regime change	**26876**	China, Kenya, Tanzania, Australia, Cambodia, Rwanda, Afghanistan, Kazakhstan, Ukraine, Colombia, Guatemala, United States, Morocco, Saudi Arabia, Jordan, Pakistan, Canada, …

Why removing so many observations?

Individuals might have indirect exposure effects to the regime changes, which could compromise the integrity of our study.

Baseline specification: TWFE

Errors clustered at country level

$$Y_{irt} = \alpha + \beta \cdot \text{Autocratization}_{ir} + \gamma_r + \delta_t + \varepsilon_{irt}$$

$$Y_{irt} = \alpha + \beta \cdot \text{Democratization}_{ir} + \gamma_r + \delta_t + \varepsilon_{irt}$$

Y_{ict}: **Preference outcome** for **individual** (i), **region** (r), **birth cohort** (t)

$\text{Autocratization}_{ir}$ or $\text{Democratization}_{ir}$: Binary treatment indicator

γ_r : Region fixed effects

δ_t : Birth cohort fixed effects

Specification with controls

Goal: Exploit cross-sectional variation between individuals who experienced regime changes and those who didn't, within the same region and birth cohort, while controlling for observed characteristics

$$Y_{irt} = \alpha + \beta \cdot \text{Democratization}_{ir} + \gamma_r + \delta_t + X_{irt} \cdot (\text{Controls}) + \varepsilon_{irt}$$

$$Y_{irt} = \alpha + \beta \cdot \text{Autocratization}_{ir} + \gamma_r + \delta_t + X_{irt} \cdot (\text{Controls}) + \varepsilon_{irt}$$

β : Causal effect of interest

X_{ict} : Controls including: **Average V-Dem LDI during formative years (ages 3-18)**

Log of average GDP per capita in formative years (ages 3-18)

Recession in formative years (ages 3-18)

1. Country specific recession threshold = Mean growth - (1,5 x standard deviation)

2. Recession: GDP $\text{growth}_{c,t} < \left(\mu_{\text{growth}_c} - 1.5 \times \sigma_{\text{growth}_c} \right)$

3. 1 if recession occured in formative years, 0 otherwise

= 47% of individuals experienced a recession during their formative years