Regime Changes and Economic Preferences

Empirical Research Task presentation

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Economic preferences: patience, risk taking, positive reciprocity, negative reciprocity, altruism, trust

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

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

Treatment definition

- Initial approach: Regime change experienced between 3 –18 years old (democratization / autocratization)
  - ‣ Goal: identify whether an individual experienced a regime change during formative years (3-18)
    - – According to Lührmann et al. (2020): Evaluating differences of the LDI index at time **t** and **t-10** -> **confidence intervals** ->**no overlap** between them **AND** absolute value of the change in LDI is > 0.05 = identified as regime change
    - – Was individual's age between 3-18 during this identified year -> treated
- **New approach**: democratization / autocratization as a treatment

Methods 1

- Initial idea: DiD / event study with staggered treatment assignment

  ‣ Problematic: magnitude/year of treatment differs also within countries (groups) -> we captured democratization/autocratization trends rather than sudden changes of regimes

Methods 2

- New approach: **two way fixed effects**

  ‣ Causal inference possible if conditional independence assumption holds

Baseline model

$$Y_{ict} = \alpha + \beta \cdot \text{RegimeChange}_{ic} + \gamma_c + \delta_t + X_{ict} \cdot (\text{Controls}) + \varepsilon_{ict}$$

Where:

Y_ict: **Preference outcome** (trust, patience, etc.) for **individual** (i), **country** (c), **birth cohort** (t)

RegimeChange_{ic}: Binary treatment indicator (1 if experienced democratization/ autocratization during formative years, 0 otherwise)

γ_c : Country fixed effects

δ_t : Birth cohort fixed effects

X_{ict} : Controls including:

Average V-Dem democracy index score experienced during formative years (ages 3-18)

Average GDP between birth year and adult year

Subjective math skills (might be problematic)

β : Causal effect of interest

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