

International Institutions and Political Liberalization: Evidence from the World Bank Loans Program

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Abstract

How do international institutions impact political liberalization in member states? Motivated by an examination of the World Bank loans program, we argue that institutions can confer prestige in exchange for political reforms. When institutions offer states the opportunity to receive a more prominent status, thereby improving their international and domestic reputations, states are willing to make policy concessions in exchange. To test our theory, we exploit a unique feature of the World Bank loan's program: when a loan recipient reaches a specified level of economic development, it becomes eligible to graduate from borrower status. Although this graduation entails losing access to loans, states typically rush to graduate from the loans program. We show that states view graduation as an indicator of their transition from a developing state to a developed state. Using a unique regression discontinuity design, we demonstrate that when states become eligible for graduation, they democratize to achieve this enhanced status. Our study thus highlights the importance of a state's perceived role in the international system.

Keywords: democracy, natural experiment, regression discontinuity, World Bank.

Do international institutions promote political liberalization among member states? In the present era of globalization in which institutions occupy a central role in influencing relations between states, this question is of paramount importance. Yet the answer is far from resolved, and empirical testing has remained difficult. The international institutions literature has pointed to three primary means through which institutions can foster democracy: institutions may apply direct pressure, serve as a commitment device to domestic elites, and enable socialization into democratic norms. In this paper, we argue that an additional mechanism exists through which institutions can foster political liberalization. Institutions may incentivize states to undergo political reforms by offering avenues to gain prestige within the international system.

As one of the largest, oldest, and most influential international institutions in the world, the World Bank provides an ideal setting in which to examine this mechanism. Beyond its importance on the world stage, the World Bank contains a unique feature whereby states are transformed from borrower status to lender status. Specifically, when a recipient reaches a specified level of economic development, it becomes eligible to “graduate” from the Bank’s International Bank for Reconstruction and Development (IBRD) loans program. While graduation entails the loss of access to these loans, countries often rush to graduate from the program. Why are countries so eager to lose access to World Bank loans?

We demonstrate that states and domestic populations view graduation from the World Bank loans program as an indicator that a state has transitioned from a “developing” state to a “developed” one. When institutions offer states the opportunity to receive a more preeminent status, thereby improving their international and domestic reputations, states are willing to make policy concessions in exchange. While desired as a end in and of itself, prestige also carries with it a host of domestic and international benefits for the leaders of the graduating country. Thus, the prospect of graduation is viewed positively by all parties, despite the fact that it results in a slight reduction of material goods provided by the institution.

The World Bank has a strict rule for which countries may be considered for graduation: only countries exceeding a given GNI level are eligible. When recipient countries cross the GNI thresh-

old for two years in a row – an event that cannot be precisely anticipated in advance – they enter into negotiations for graduation in the following year. It is this eligibility process that allows us to characterize the causal effects of the World Bank’s incentive structure. Using a regression discontinuity design, we are able to compare the political liberalization of countries barely eligible for graduation to those barely ineligible. The quasi-random manner in which countries are exposed to the World Bank’s graduation program provides a basis for estimation and causal inference.¹ And, indeed, we are able to clearly show that the World Bank’s graduation process is an effective motivator of political reform and democratization.

In what follows, we discuss the theoretical underpinnings of our argument that states adopt politically liberalizing reforms when doing so will enable them to enhance their status in the international and domestic communities. We then detail the World Bank’s graduation policies, describing the reputational incentives for loan recipients to graduate and providing a variety of real-world examples along the way. Next, we explain our empirical strategy and demonstrate that World Bank graduation eligibility improves democracy, conducting extensive robustness checks on our main result. We also investigate potential alternative mechanisms, examining whether governments democratize to signal credibility to financial markets or to compensate the domestic population for tax increases, and do not find support for these theories. Finally, we offer thoughts about directions for future research, explaining how our theory contains the potential to explain many other puzzling observations about state behavior within international institutions.

International Institutions and Political Liberalization

We offer a theory explaining how international institutions can enhance political liberalization by offering upgraded international and domestic status in exchange for political reforms. While we

¹Causal inference in the area of international institutions has remained difficult: field experiments in the domain of international institutions are virtually nonexistent, and while field experiments in the area of foreign aid in general have provided valuable insights, they have remained small-scale. See Blattman, Emeriau and Fiala (2012); Blattman, Fiala and Martinez (2011); Fearon, Humphreys and Weinstein (2009a) for interesting examples, and Hyde (2010); Humphreys and Weinstein (2009) for overviews.

focus the World Bank's promotion of democracy, the argument applies to international institutions more broadly, and can help to elucidate a range of state behaviors. In detailing an alternative means through which institutions can foster liberal behavior, this paper revises and extends the research agenda examining the link between international institutions and liberal reforms.

Previous theories linking international institutions and political liberalization highlight three mechanisms by which institutions can improve democracy. First, institutions may directly place pressure on states to liberalize in order to receive material benefits. Institutions such as the IMF, the EU, and the World Bank often attach conditions to their loans and foreign aid, for example, which require recipients to undergo liberalizing reforms.² Many institutions also exchange the benefits of membership in the institution for such reforms, requiring concessions in order to join (Kelley, 2004*a*; Koremenos et al., 2001; Levitz and Pop-Eleches, 2010*b*; Schimmelfennig, 2001; Schneider, 2009; Schneider and Urpelainen, 2012).³

Second, institutions may tie the hands of members who desire liberalization but face domestic barriers to doing so, reassuring domestic elites that liberalization will not lead to the loss of property rights. The idea that institutions can serve to commit leaders to specific policies has been applied to many areas. For example, states may seek a commitment device in order to receive cheaper loans (Broz, 2002; Tomz, 2007), to encourage partners to comply with mutually beneficial trade agreements (Goldstein and Gowa, 2002; Maggi, 1999; Mansfield, Milner and Rosendorff, 2002), or to receive other benefits (Dai, 2007; Mansfield, Milner and Rosendorff, 2002; Simmons, 2000). Institutions serve such a function through the provision of transparency and enforcement, allowing states and domestic actors to assess when a state is non-compliant with its agreements. By helping state leaders maintain commitments to domestic elites in this manner, institutions may therefore foster democracy.

Third, institutions provide fora within which states can interact, possibly socializing state leaders into accepting democratic norms (Gleditsch and Ward, 2006; Pevehouse, 2002; Checkel, 2005). Because institutions facilitate sharing ideas and beliefs, and allow states to maintain a political di-

²See Temple (2010) for a review of this large literature.

³Though see Davis and Wilf (2011), which challenges this view.

alogue, democratic norms may diffuse among members. State leaders and domestic elites may begin to share the political liberalizing views of their peers.

We demonstrate a fourth mechanism through which institutions can foster political liberalization: institutions can confer prestige in exchange for political reforms. When institutions offer states the opportunity to receive a more preeminent status, thereby improving their international and domestic reputations, states willingly make policy concessions in exchange. In fact, we show that states trade reforms for a favorable image even when they stand to *lose* material benefits conferred by the institution directly. Our study thus highlights the importance of a state's perceived role in the international system.

Our focus on reputation and identity is supported by a long tradition in international relations theory. While realists argue that institutions codify existing power relations (Mearsheimer, 1994), both neoliberalists and constructivists acknowledge that institutions can shape states' identities (Goldstein and Keohane, 1993). In fact, many scholars find that institutions play a primary role in forming state behavior and beliefs (Finnemore and Sikkink, 1998; Finnemore, 1996, 1993; Legro, 1997). By defining the relevant players, their roles, and the constraints on their behavior in specific situations, institutions can change state interests and actions (Arend, 1999; Onuf, 1989; Kratochwil and Ruggie, 1986; Ruggie, 1998, 1992, 1982; Wendt, 1999). Behaviors fostered and promoted by institutions can help to govern in the absence of a global government (Fearon and Wendt, 2002; Katzenstein, 1996; Katzenstein, Keohane and Krasner, 1998; Krasner, 1983; Kratochwil and Ruggie, 1986). Importantly for international relations theory, these ideas can influence states even when state policy-makers are rational (Goldstein and Keohane, 1993), as states may adopt behaviors after conducting a rational cost-benefit calculation.

But while both scholarly traditions recognize that understanding how specific institutions fit into "larger systems of norms and principles, such as the liberal economic order of the post-war period" (Simmons and Martin, 2002), these theories disagree about how and when institutions do so. Further, measurement and research-design in this area remain challenging (Abdelal et al.,

2009),⁴ such that adjudicating between existing theories has proven difficult. While scholars have demonstrated the liberalizing impact of joining institutions such as the European Union (Kelley, 2004*b*; Levitz and Pop-Eleches, 2010*a*; Schimmelfennig, 2005; Vachudova, 2005) and receiving foreign aid (Bermeo, 2011; Dunning, 2004; Fearon, Humphreys and Weinstein, 2009*b*; Wright, 2009) they have been largely unable to disentangle whether the effect is primarily due to the desire for a better reputation, or due to the direct and tangible material benefits at stake. To overcome these obstacles, we advance our theory of institutions and political liberalization by focusing on a specific, quasi-random process that occurs within the World Bank, which we explain in detail below.

Status, Reputation, and the World Bank

Unlike previous theories which focus on the impact of material incentives and socialization provided by institutions directly, we analyze the effect of reputational incentives conferred by institutions. Many states place large significance on demonstrating to the international community and domestic populations that they are important actors in international and regional communities (Acharya and Johnston, 2007). Institutional designations can confer such legitimacy and status. In fact, many countries form or join international institutions with the explicit purpose of increasing their global, regional and domestic social standing (Acharya and Johnston, 2007). Internationally, increased status may lead to greater power and influence, while domestically, an enhanced reputation can assist leaders in their quest to retain power.

Scholars in many fields have long recognized that states strongly desire international status and prestige (Abreu and Gul, 2000; Dafoe and Huth, 2013; Gilpin, 1981; Morgenthau, 1960; O'Neill, 2001; Sylvan, Graff and Pugliese, 1998), with many scholars conceptualizing the international

⁴For example, Simmons and Martin (2002) states that taking this “insight to the empirical realm highlights the research-design issues it creates. Admitting numerous feedback effects and complex, iterative interactions makes the design of positivist research nearly impossible. The tendency has been to rely heavily on individual case studies and counterfactual analyses.”

system as a hierarchy of states which all seek to attain loftier positions (Dore, 1975; Lake, 2013).⁵ Indeed, this goal is so important to states that it is shown to be a frequent source of inter-state conflict (East, 1972; Kang, 2010; Lebow, 2010; Volgy and Mayhall, 1995; Wallace, 1971), and can become an obsession among leaders (Tang, 2005). In these accounts, prestige is often desired for own sake, or because it confers social power and influence (Wood, 2013). A more prestigious, reputable state may also garner increased benefits from the international community, such as loans with lower interest rates, FDI, or trade concessions (Gray, 2009, 2013; Tomz, 2007).⁶

In addition to the international advantages of maintaining a high status, prestige can also provide domestic benefits. Status and prestige can be considered forms of nationalism, such that enhanced stature enables states and their citizens to feel pride in their country. Etzioni (1962) explains that “most citizens derive symbolic gratifications and depravations from changes in the international status of their nation.” Further, because citizens care about stature (Evans and Kelley, 2002; Trachtenberg, 2012), increased prestige can also contribute to the perceived legitimacy of a ruler (Acharya and Johnston, 2007). Legitimacy can, in turn, prolong a leader’s political survival, either because citizens credit the leader with enhancing prestige or because status may be interpreted as a signal of the leader’s quality (Dafoe and Caughey, 2010; Fearon, 1994). In particular, demonstrations of a state’s economic development can carry significant weight with a country’s citizens, as Evans and Kelley (2002) show that pride in a country’s economic achievements matters to citizens almost universally. Prestige can also help to overcome other divisions within a society, whether cultural, religious, or regional, to help unify a country around a common goal (Breiner, 2004).

Reputation and prestige are determined by a variety of factors such as a state’s economic development, political structure, culture, morality, ability to coerce, etc (Dore, 1975; Etzioni, 1962). Importantly, however, a state’s status is conferred in large part by others, such as the international

⁵Dafoe and Huth (2013, 14) notes that “if there is one feature of reputations and status that scholars are in agreement upon, it is that leaders, policy elites and national populations are often concerned, even obsessed, with their status and reputation.”

⁶Dafoe and Huth (2013) note that scholars often neglect reputation and status as motivations in international relations due to difficult inference problems. Dafoe and Huth (2013) calls for “more nuanced and productive questions of *when, how and why* reputation and status] matter.”

community or a group of states with high status (Lake, 2013; Volgy et al., 2010), and therefore depends on public observation of a state's behavior (Lee, Nowak and Pinker, 2012; Heffetz and Frank, 2008). International organizations, as collections of members of the international community that are typically run by states with high status, often possess the ability to shape a state's role in the international system (Hafner-Burton and Montgomery, 2006). These institutions can reflect the opinions of the international community, and can also inform international and domestic perceptions by credibly providing information about a state's type in a given issue area (Davis, 2006; Maggi, 1999; Stone, 2002).

The World Bank represents just such a case, as it works closely with states, monitoring their development, institutions, and governance.⁷ As a central actor in international affairs, the World Bank can provide information to the international community regarding a country's economic development, the quality of its institutions, etc. The Bank has consistent interaction with its members, evaluating their strengths and weaknesses, developing strategies of reform implementation, monitoring progress etc. Because the Bank possesses important information about its members, the Bank's assessment can help to form a country's reputation. States care deeply about their reputation (Tomz, 2007), as a positive reputation can "lead other to reward them" (Axelrod, 1986, 1106). While a poor economic and institutional assessment could cause to international isolation (Donno, 2010; McFaul, 2004; Pevehouse, 2002; Rich, 2001), a positive reputation may generate a variety of benefits such as increased FDI (Jensen, 2008; Li and Resnick, 2003*b*) and foreign aid (Dunning, 2004; Wright, 2009).

Due to its in-depth interaction with its members and its large influence, the World Bank is thus an ideal setting in which to test our theory. The Bank originated after World War II for the purpose of providing aid to Europe and evolved into a development organization. The Bank provides foreign assistance, typically in the form of loans, to developing countries both by borrowing money from the private market and re-lending it to recipients, and by allocating funds that are provided by its wealthiest members. While the Bank is owned and financed by its member countries, which

⁷For an overview of the World Banks governance and anti corruption agenda, see Kulkarni and Winters (2014).

include all countries except for Cuba, North Korea, and the micro states, the members that provide the Bank with most resources exert the greatest control over its operations. As the largest contributor, the United States exercises the highest level of influence, wielding a veto over changes to the articles of agreement (Nelson, 2012).⁸ Other large donors include Germany, the United Kingdom, Japan, Canada, and other European countries. These states, particularly the United States, exercise disproportionate control over the Bank's operations, as they hold the most voting power, choose the Bank's leadership and management officials, and wield considerable influence behind the scenes by, for example, threatening to cut the institution's funding. These developed donor states enable the Bank to administer loans to developing, recipient nations. Because the Bank is backed by large, credit-worthy governments, it receives the highest credit rating and can borrow at very low interest rates. It can therefore afford to re-lend at below-market rates, assisting countries that cannot access affordable private capital.

The Bank is comprised of two lending divisions: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). While the IDA supplies interest-free loans and grants to low income countries, the IBRD provides non-concessional loans primarily to middle income countries. Eligibility for these programs is based on a country's level of economic development. Countries at the lowest level of development are eligible for IDA loans. Once these countries grow past a specified threshold, they become "blend countries," that are eligible for assistance from both the IDA and IBRD. When countries develop further, they lose access to IDA programs, and then eventually lose access to both programs. Countries that are ineligible for either loans program are considered donor countries, as they exclusively contribute to World Bank funds rather than receiving these funds.⁹

We focus our examination on the impact of eligibility for graduation from the IBRD program, which allows us to isolate the effects of becoming qualified to switch from "borrower" status

⁸The Bank is managed by the Board of Governors, which must approve any major decisions in the Bank's operation, while the day-to-day policy-making is overseen by the Board of Executives (Nelson, 2012).

⁹Although note that these countries occasionally return to borrow from the Bank due to poor economic performance.

to “donor” status.¹⁰ Graduation from the IBRD program is perceived by many to represent an opportunity for countries to join the ranks of developed donor countries, as we detail in the next section. We demonstrate that states willingly adopt costly reforms due to the potential to receive enhanced stature in the international community.¹¹

Graduation and International Identity

Members of the World Bank are categorized into two types: borrowers and lenders. Lenders are comprised of wealthy nations, who provide borrowers with improved access to loans. Borrowers do not remain eligible for World Bank loans indefinitely, however. When a country becomes too wealthy, such that its gross national income (GNI) crosses a specific threshold set by the Bank, it begins a process of graduation from World Bank loan eligibility. Two primary types of graduation can occur: states may graduate from highly concessional IDA loans and begin borrowing from the IBRD, or they may graduate from IBRD loans to become a donor.

Since a country’s status within the Bank is based on its GNI, the status serves as an indicator of a state’s level of development. Graduating from one of the World Bank’s loans programs to receive a higher status within the Bank can therefore influence international and domestic perceptions of a state’s development. Examples abound: Vietnam’s change in status was cited as “a significant milestone” (Taipei Times, 2009), Bosnia and Herzegovina’s transition was a signal that “the country is moving in the right direction” (Balkan Insight, 2007), Sri Lanka’s status change occurred in recognition of its “remarkable rise” (The Sunday Leader, 2010), signaling “a new era of development” (Lanka Newspapers, 2010), and Ghana’s new status within the Bank was an “indicator of maturity” (Mensah, 2011).¹² Indeed, the Bank states that graduation from a loans program is “a

¹⁰The IBRD offers loans repayable over 12-25 years at about one half of 1% higher than the interest paid by the IBRD, which is typically around 7.5% (Sanford, 1997).

¹¹In addition to the reasons mentioned above, we also focus on the IBRD program because data on the GNI of IBRD recipients is highly reliable, whereas data on the GNI of IDA recipients is often questionable due to poor reporting practices (Jerven, 2013; Kerner and Beatty, 2014).

¹²These countries were graduating from IDA-only borrowing. Many of these countries seek eventual graduation from IBRD borrowing. For example, many policy officials in Ghana have the eventual goal of weaning the country off of the support of the Bank and other donors altogether (Mensah, 2011).

clear indicator of country success” (World Bank Development Committee, 2006, 2).

Because graduation represents an opportunity for states to alter their images, countries are often eager to graduate once they become eligible, despite the loss of World Bank assistance that graduation entails. States are particularly intent on graduating from the IBRD loans program, in order to join other economically advanced nations as donor states. Graduation to donor status represents an achievement in the eyes of both the graduate’s domestic population and the international community. The Bank labels graduates as developed countries, and receipt of this label can bolster “international prestige” and allow states “to be invited to the international fora and to be seen as an international member.”¹³ Because the World Bank is a venerable, respected international institution with considerable information about the potential graduates’ economic development and institutional quality, the Bank’s designation confers significant and visible status to the graduate. Improving a state’s status often requires “a focal and dramatic event” in order to alter the expectations of other states (Dafoe and Huth, 2013). Moreover, “the impetus is on benefit-seeking states to identify credible signals of their type” (Hyde, 2011), and graduation serves as such a signal. An official of the World Bank explained that countries “utilize the fact of graduation as a demonstration of maturity...With the Bank, there’s a focus on the poor. That’s like being in the wrong club. That’s why graduation tends to be something countries are happy to do.” He added, “Countries want the reputation from graduating.”¹⁴

Kuusik (2006, 57) emphasizes the significant prestige attached to graduating into aid donor status, highlighting the international perception that the world is divided starkly into countries who are donors, and those who are recipients, or those that are “rich” and those that are “poor.” He argues that donor status accords “superiority and power” to the donor, while recipient status signals “inferiority and powerlessness.” Similarly, Horký and Lightfoot (2012) explain that by becoming donors, states can change their label. They point out that labels matter greatly, citing the example of new EU members shunning the label “Eastern European” because they don’t want to be lumped together with less developed states, as well as the label “new member state” because they “want to

¹³Official of USAID. Interview by authors. February 10, 2012.

¹⁴Interview by authors. October 10, 2012.

be in the same club” as the other EU member states.

The ability of the “donor” label to signal advanced development is often emphasized upon graduation (Jolima, 2012). For example, when Japan graduated from the IBRD in 1964, the New York Times reported that Japan celebrated its “graduation from the ranks of the developing countries” (New York Times, 1964). Today, Japan continues to highlight the importance of its graduation; for instance, in a recent speech, Japan’s Minister of Finance cited World Bank graduation as a crucial step in the country’s prosperity (Jolima, 2012). Similarly, the Ministry of Foreign Affairs (MFA) of the Republic of Latvia stated that graduation represents the “date from which Latvia could become a full fledged donor country” (Kale, 2007), which representatives of Latvia’s MFA said is important for boosting “Latvia’s status and esteem” (Kale, 2007). In addition, upon Estonia’s graduation, the government began to provide disaster relief assistance, stating that the purpose is to “increase Estonia’s visibility in the international arena” by “support[ing] Estonia’s role from an aid recipient to a donor” (Kuusik, 2006, 57).

Since graduation reflects positively on state leaders, they take care to trumpet the event to their domestic populations through news reports and official statements. For example, the official international broadcasting station of the Czech Republic stated that the country’s 2005 graduation “marks an important shift in how the Czech Republic is viewed. Until now, the country was officially labelled a developing country...[but] on February 28th, the Czech Republic officially graduates to ‘developed.’” The broadcasting station further claimed that “The Czech Republic shifting from beneficiary to provider brings with it new responsibility” (Velinger, 2006). Other reports declared that “the Czech Republic’s days as a post-communist pauper are over” (BNS, 2006). Czech Finance Minister Bohuslav Sobotka announced that the Czech Republic could “reestablish its position among the world’s most developed economies” (Tuck-Primdahl, 2005). The government held a graduation ceremony with Bank officials, who also played up the significance of the graduation, stating, “The Czech Republic will transition from being a recipient of Bank financial and technical assistance to being an important partner and provider of development assistance” (Tuck-Primdahl, 2005). Indeed, graduation was such an important statement to the domestic population that “the

‘graduation ceremony’ was postponed until a formal affair could be held....at the ornate Czech National Bank in central Prague” (BNS, 2006).

Similarly, after graduating in 2007, Latvia reported that its “impressive levels of economic growth have been outlined on the day the Baltic nation’s graduation from the World Bank’s lending scheme was formalized....positioning it amongst the new generation of global partners” (KMS Baltics, 2007). Latvia also held a large graduation ceremony, and the World Bank vice president for the Europe and central Asia region stated that “the Baltic state had an important role to play in advancing priorities such as....sharing its knowledge and good practices with other emerging nations” (KMS Baltics, 2007). Newspapers blasted headlines such as “Latvia no longer dependent on World Bank” (BNS, 2006). Articles declared, “Latvia’s strengthening status on the world stage was confirmed on April 13 when the World Bank annulled its status as a borrower with the International Bank of Reconstruction and Development” (BNS, 2006).

Not only does graduation benefit a nation’s domestic reputation, but it is also recognized internationally as an important indicator. Upon its 1995 graduation, South Korea became a prominently cited World Bank success story. For example, the New York Times hailed its graduation as evidence that the country was “poised to rise again” (Lewis, 1995). Further, the managing director of the Bank stated that graduation showed “that it’s possible for a country to transform itself from poor debtor to international donor in less than a generation.” The director stated that graduation had occurred due to South Korea’s “investment in people, an outward orientation and long stretches of political stability” (By, 1995). The World Bank’s vice president for East Asia and the Pacific region stated, “What’s even more valuable is the experience and expertise that the Koreans can convey to other countries...they can all learn from the Korean model” (By, 1995). Indeed, graduating nations are often held up as examples for other nations to follow. For instance, upon graduating in 2004, Slovenia reported the World Bank’s determination that, “Slovenia has done a good job...and it can share its experience with other nations” (Slovenian Press Agency, 2004).

Because graduation boosts countries’ international reputations, it can carry many material benefits, as well, such as increased foreign aid, loans, and FDI. Upon crossing the threshold of gradua-

tion eligibility, the Slovakian ministry stated, “If Slovakia’s graduation is completed, Slovakia will be acknowledged as a developed country, which will provide a good signal for foreign investors and the global financial market” (The Slovak Spectator, 2008). Similarly, the Czech Republic expected its graduation to allow the country to “receive a better label on international markets” so that the country would “receive more foreign direct investment in future years” (Velinger, 2006).

For many countries, then, World Bank graduation serves as an important domestic and international event, both internationally and domestically, and states often rush to take advantage of this opportunity. For example, before its GNI had even crossed the graduation eligibility threshold, the Czech Republic announced its intention to graduate from the IBRD once it became eligible (Harmer and Cotterell, 2009). Similarly, Hungary’s 2007 graduation was seen by many as premature (Knack, Rogers and Heckelman, 2011), but the Bank nonetheless sped through the graduation process at Hungary’s request once it crossed the threshold (IMF, 2003). The Bank tries to prevent premature graduation (IMF, 2013), both because the Bank loses its leverage upon graduation, and because graduation is often a politically difficult process to reverse since doing so can incur substantial audience costs. For example, when Barbados, which graduated in 1994, desired greater borrowing abilities in 2009, it faced domestic resistance, as exemplified by an opinion article in the Barbados Advocate which sneered, “Maybe [Barbados] would like to turn back the clock and be seen as part of the world’s poor” (Jones, 2009).

Graduation and Political Liberalization

The prospect of graduation provides states with strong incentives to undergo political liberalization. As mentioned above, the graduation process commences once states cross a particular GNI level, but the GNI threshold serves “simply as a mechanical starting point for review of the country’s situation” (Shihata, 2000, 494). Once the threshold is crossed, the Bank reviews the country’s “overall economic situation and its capacity to sustain a long-term development progress with particular reference to two factors: (i) access to external capital markets on reasonable terms, and (ii) the extent of progress in establishing key institutions for economic and social development.”

(Shihata, 2000, 494)¹⁵ This policy “gives the Bank flexibility in making these assessments, [as] the decision on graduating a country rests with the Bank” (World Bank Development Committee, 2006, 2).

In practice, Knack, Rogers and Heckelman (2011) shows that “establishing key institutions” is interpreted to include democratization, which the Bank requires for two primary reasons: First, the Bank is run by states who actively promote political liberalization, and graduation provides the Bank with leverage to encourage these reforms. Indeed, not only do countries seek to graduate, as detailed above, but the failure to graduate once eligible can also have negative repercussions for a state’s reputation. Thus, the Bank may be able to coerce states to undergo reforms, inducing “quasi-voluntary compliance” (Levi, 1989) with the Bank’s demands, by implicitly threatening to prevent graduation. Leaders therefore have strong incentives to abide by the Bank’s demands prior to graduation, which often include improvements in rights and democracy. Indeed, in connection with its strong leadership by politically liberal states, the Bank has promoted political liberalization in many countries (Dollar, 1998; Kapur, 1997; Kapur, Lewis and Webb, 1997). Since the Bank’s inception, the Bank has embraced the norm of a community of liberal states, consistently affirming its donors’ commitments to this goal.¹⁶

A second reason that the Bank demands political liberalization is likely to ensure a country’s continued creditworthiness. A large literature shows that political liberalization serves as a signal

¹⁵See also (World Bank Development Committee, 2006, 2).

¹⁶For example, the 1994 Treasury budget justification stated: “The Clinton Administration believes that the multilateral development banks are the critical element in encouraging developing countries to undertake economic and political policies necessarily to become free market-oriented democracies.” (Babb, 2009, 150) In 1995, Secretary of Treasury Robert Rubin stated to Congress that the Bank “helps remake developing countries in the image of the United States and other industrialized democracies” (Babb, 2009, 151). The World Bank also emphasized rights and governance, including recommendations in a 1989 report on Africa for “good governance [including] a public service that is efficient, a judicial system that is reliable, and an administration that is accountable to the public” (Babb, 2009, 156). In 1993, the US Treasury told Congress that “with US approval [the Bank had increased] focus on institution-building” (Babb, 2009, 156). The Treasury also advocated an emphasis on governance through “day-to-day oversight of MDB operations, close involvement in MDB policy development, and strong advocacy in resource replenishment negotiations” (Babb, 2009, 160). The US passed legislation to this effect, as well. For example, the 1977 International Financial Act required the US executive directors of the Bank to vote no or abstain from votes on loans to countries that violated human rights. In response, among loans that the US opposed in the four multilateral development banks, human rights concerns made up 78% in the Carter administration and 28% in the Reagan administration. Also, in 1994, it passed an amendment directing the US executive directors of the Bank to “encourage borrowing countries to guarantee internationally recognized worker rights” (Babb, 2009, 170).

of credit-worthiness to investors (Tomz, 2007). This literature demonstrates the existence of a “democratic advantage” in borrowing, whereby democracies sell more bonds, receive better terms on their loans (Beaulieu, Cox and Saiegh, 2013; Stasavage, 2008, 2011; Schultz and Weingast, 2003; North and Weingast, 1989), and obtain more FDI than do autocracies (Li and Resnick, 2003a; Jensen, 2006). The Bank may therefore demand political liberalization to secure a country’s continued access to private markets.

Indeed, the strategy papers reviewed by the World Bank when determining whether to allow a country to graduate make frequent mention of elections, political stability, labor reform, judicial reform, and many other aspects of democracy.¹⁷ Countries therefore often cite their graduation as evidence of their political liberalization. For example, upon graduation, the Czech Republic reported to its domestic population that it had “transform[ed] to a market economy and...a full-fledged democracy” (Velinger, 2006). Many countries use their graduation as an impetus to apply to join democratic institutions; for example, the month after its graduation, South Korea used its new stature to formally applied for membership in the Organization for Economic Cooperation and Development (OECD), a group of countries committed to democracy.

Quasi-Experimental Evidence

Because graduation is a highly desirable public demonstration of a country’s membership into the club of developed donor countries, and requires political reforms, we expect countries eligible for graduation to undergo political liberalization. We therefore seek to test whether becoming eligible to graduate from recipient status in the World Bank improves democracy. However, disentangling the impact of international institutions on political liberalization is a difficult task. Joining international institutions is likely endogenous, as many states join once they are prepared to undertake liberalizing reforms. Indeed, many scholars show that democracies receive more material benefits (Donno, 2010) such as increased FDI (Jensen, 2008; Li and Resnick, 2003b) and better financial

¹⁷See, for example, CA Strategy (2000).

treatment (Beaulieu, Cox and Saiegh, 2013; Stasavage, 2008, 2011; Schultz and Weingast, 2003; North and Weingast, 1989), while non-democracies risk international isolation (McFaul, 2004; Pevehouse, 2002; Rich, 2001). States may join institutions because they seek these benefits. Our empirical strategy is unique in allowing us to overcome these common empirical challenges.

Our strategy rests on the fact that the ability to borrow from the World Bank is based in part on a country's GNI level. The World Bank records the GNIs of every member and determines a GNI level past which members automatically begin the process of graduation from the IBRD loans program. Once eligible, a country's graduation from the IBRD typically takes about five years and is determined by a variety of factors, such as its credit-worthiness and institutional development (Bank, 1998). However, it is important to note that the trigger to begin the graduation process occurs immediately and is based solely on a country's GNI.¹⁸ Furthermore, the World Bank's GNI-based thresholds are set on the basis of an exogenous formula and are therefore insensitive to conditions prevailing in countries that are poised to cross the threshold. Quoting from official documentation produced by the World Banks' OpenData program,¹⁹

The process of setting per capita income thresholds started [in 1970] with finding a stable relationship between a summary measure of well-being such as poverty incidence and infant mortality on the one hand and economic variables including per capita GNI estimated based on the Bank's Atlas method on the other [sic]. Based on such a relationship and the annual availability of Bank's resources, the original per capita income thresholds were established. Thereafter, the original thresholds have been updated every year to incorporate the effect of international inflation, which is now measured by the average inflation of Japan, the United Kingdom, the United States and the Euro Zone. Thus, the thresholds remain constant in real terms over time.

Countries who have just crossed the GNI eligibility threshold should in principle be similar to countries that are close to crossing the threshold. These two sets of countries are at virtually

¹⁸If a graduated country's GNI falls back below the GNI cut-point, the country may regain eligibility for loans once more (World Bank Group, 2012).

¹⁹The documentation are posted to <http://data.worldbank.org/about/country-classifications/>.

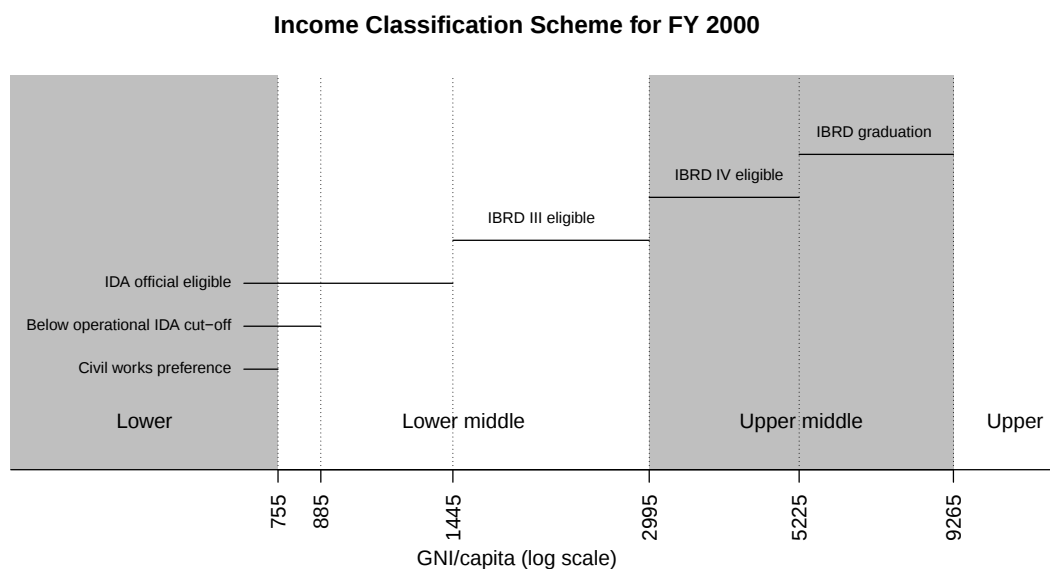


Figure 1: Illustration of how the World Bank classifications are set and loan eligibility determined by GNI per capita, using the classification thresholds for fiscal year 2000.

indistinguishable stages of development; the only major difference between them is that one set has become eligible for graduation. We are therefore able to exploit the quasi-random nature of graduation eligibility by using a regression discontinuity design.

Data

Our treatment variable is based on income classifications issued by the World Bank from 1987 to 2010. Figure 1 displays the World Bank’s entire income classification schedule for the the fiscal year 2000. The schedule for other years follows the same structure. As Figure 1 shows, there are different thresholds distinguishing different classifications. The full classification schedule is described in the appendix. The specific threshold that we consider is the transition from “IBRD IV eligible” to eligibility for “IBRD graduation,” shown in Figure 1 around a GNI per capita of \$5,225 for fiscal year 2000. This transition marks a state’s eligibility for graduation from the IBRD loans program.

Our data account for nuances in the way that the World Bank uses GNI data for classification

purposes.²⁰ World Bank income classifications are set each year on July 1 based on GNI per capita for the previous year. For the most part, GNI per capita estimates are released by mid-May prior to the July 1 classification. However, if actual GNI data are not available by classification date of July 1, temporary estimates are made for the purpose of classification. These analytical classifications remain fixed through the World Bank's ensuing fiscal year, which ends on June 30 of the following year. Thus countries remain in the categories in which they are classified on July 1 even if their temporary estimate was revised later in the year and suggested a different classification. While historical income classifications provided in current World Bank data are correct in terms of the Bank's best estimate of *actual* GNI levels, these GNI figures presented in current World Bank data include revisions made subsequent to July 1 of the given year. As such, one cannot use the GNI data available in current World Bank datasets to establish a country's position relative to the eligibility thresholds. One must use the *original* data that included the temporary GNI estimates that served as the basis of the July 1 classifications. We were provided with such historical data going back to 1987 by the World Bank Development Data Group. (Data from previous years were not accessible in existing archives.)

We are interested in the effect of World Bank graduation eligibility on political liberalization. We use two measures of political liberalization.²¹ The first is the Polity IV combined score (Marshall, Gurr and Jaggers, 2012). Polity scores are derived from several indicators: a state's regulation and competitiveness of participation, openness and competitiveness of executive recruitment, and constraints on the chief executive. We use it because it remains something of an "industry standard." However, Hadenius and Teorell (2005) note idiosyncrasies in the way Polity scores measure democracy over time, and in particular the ways violence and repression are factored in. For this reason, Hadenius and Teorell recommend a score that aggregates information from both Polity scores and Freedom House's civil liberties and political rights expert ratings. We also use this aggregate score as an alternative outcome measure. In both cases, raw scores range from -10 to

²⁰This explanation is based on authors' extensive correspondence and corroboration with staff at the World Bank Development Data Group.

²¹We obtained our outcome measures from the *Quality of Governance* dataset (Teorell et al., 2012).

10 from least to most democratic. In our analysis, we standardize the scores relative to the pooled mean and standard deviation of IBRD graduation eligible countries. This allows us to interpret effects in terms of graduation-eligible standard deviations.

Regression Discontinuity Design

We use a regression discontinuity design to estimate the effect of crossing the GNI threshold on political liberalization (Imbens and Lemieux, 2008; Lee and Lemieux, 2010). Regression discontinuity designs are increasingly common in political science, although as Caughey and Sekhon (2011) and Titiunik and Sekhon (2012) discuss convincingly, their proper application requires careful attention to whether the identifying assumptions hold in the case being examined. Because we are using panel data, there are nuances to such identifying conditions as well as the interpretation of effects. We explain these nuances in this section.

Formally, we suppose a random sample of countries indexed by i and observed over periods indexed by t . We define causal effects in terms of “potential outcomes,” following common practice in the treatment effects literature (Morgan and Winship, 2007; Sekhon, 2009). Let $(Y_{0i,t}, Y_{1i,t})$ denote potential outcomes for country i in period t under conditions of “IBRD graduation eligible in period t ” and “IBRD graduation ineligible in period t ,” respectively. Potential outcomes are defined in terms of eligibility at time t , where the treatment under consideration is commencing the graduation process. Note that country i ’s graduation eligibility in some period τ years ahead, that is $t + \tau$, may or may not be the same as it was in period t . Indeed, country i ’s eligibility in time $t + \tau$ may itself be a function of eligibility in time t . The effects that we estimate on political liberalization outcomes incorporate whatever consequences are mediated by effects on future graduation eligibility. This is one subtlety that arises by the fact that we are applying a regression discontinuity design to panel data. We denote as X_{it} country i ’s log income per capita in period t , while $\tilde{X}_{it} = X_{it} - c_t$ denotes country i ’s log income per capita in year t centered at the IBRD graduation eligibility threshold for year t , which we denote with c_t . Finally, Z_{it} is an indicator of being graduation eligible. By IBRD rules, $Z_{i,t} = 1(\tilde{X}_{i,t-2} > 0)$. Eligibility in year t is based on a

country's income 2 years prior. This lag is due to the following: if in year t a country's income crosses the threshold, then this becomes known to both the country in question and the World Bank in year $t + 1$, in which case the year $t + 2$ is the first year of eligibility for graduation. In the analyses below, we consider “instantaneous” effects for the year that the graduation eligibility change is in effect (setting $\tau = 2$) as well as effects two years out (setting $\tau = 4$). The deterministic nature of graduation eligibility allows us to use a regression discontinuity design, with the centered log income per capita variable ($\tilde{X}_{it}$) serving as the forcing variable.

Suppose $E[Y_{0i,t+\tau}|\tilde{X}_{it}] = f(\gamma_\tau; \tilde{X}_{it})$ and $E[Y_{1i,t+\tau}|\tilde{X}_{it}] = g(\lambda_\tau; \tilde{X}_{it})$, where γ_τ and λ_τ are coefficients that characterize the first-order (that is, linear) relationship between the outcome and income in the immediate vicinity of the cutpoint. The expectations, $E[\cdot]$, average over time periods and countries. Observed outcomes, $Y_{i,t+\tau}$ for units and periods indexed by i and t , respectively, must follow:

$$E[Y_{i,t+\tau}|\tilde{X}_{it}] = \begin{cases} f(\gamma_\tau; \tilde{X}_{it}) & \text{if } \tilde{X}_{it} \leq 0 \\ g(\lambda_\tau; \tilde{X}_{it}) & \text{if } \tilde{X}_{it} > 0 \end{cases}.$$

We make the standard regression discontinuity design assumption that both $f(\gamma_\tau; \tilde{X}_{it})$ and $g(\lambda_\tau; \tilde{X}_{it})$ are always smooth in the neighborhood of $\tilde{X}_{it} = 0$.²² Substantively, this means that other than the switch from graduation eligibility to ineligibility, nothing else that affects the expected value of the outcomes in period $t + \tau$ changes discontinuously as $\tilde{X}_{it}$ goes from just below zero to just above it. This assumption is justified if (i) the eligibility threshold is set by a genuinely exogenous process, (ii) it does not serve as the basis of any other institutional judgments other than those tied to World Bank classification and IBRD graduation eligibility, and (iii) a country's income trajectory cannot be manipulated precisely in the neighborhood of $\tilde{X}_{it} = 0$. The discussion above suggests that conditions (i) and (ii) can be reasonably assumed to hold, given the rather arbitrary pinning of the eligibility threshold to levels set decades ago. For condition (iii), a formal density test proposed by McCrary (2008) does not have us reject the null of no sorting ($p > .90$); informally, visual inspection of plots of countries' income trajectories does not suggest reason for concern either

²²Formally, this means that the conditional mean functions, $f(\cdot)$ and $g(\cdot)$, are continuous and differentiable and the limits, as one approaches $\tilde{X}_{it} = 0$ from the left and right, are equal for each derivative.

(Supporting Information, section B).

Given this smoothness assumption, the regression discontinuity design identifies the following conditional treatment effect (Imbens and Lemieux, 2008; Lee and Lemieux, 2010):

$$\beta_{1,\tau} = \lim_{\tilde{X}_{it} \downarrow 0} E[Y_{i,t+\tau} | \tilde{X}_{it}] - \lim_{\tilde{X}_{it} \uparrow 0} E[Y_{i,t+\tau} | \tilde{X}_{it}] = E[Y_{1i,t+\tau} - Y_{0i,t+\tau} | \tilde{X}_{it} = 0].$$

By the smoothness assumption and the fact that eligibility reclassifications are lagged by two years, we must have for $\underline{t} < t + 2$,

$$\lim_{\tilde{X}_{it} \downarrow 0} E[Y_{i,\underline{t}} | \tilde{X}_{it}] = \lim_{\tilde{X}_{it} \uparrow 0} E[Y_{i,\underline{t}} | \tilde{X}_{it}].$$

This condition is an implication of our broader smoothness assumption, but it is quite reasonable substantively. It holds if pre-treatment outcomes for countries that go from graduation eligible to barely ineligible in year t resemble, on average, lagged outcome from those that just missed crossing the threshold, and similar for countries that were moving in the direction of ineligible to eligible. This condition allows us to write the RDD conditional treatment effect in terms of changes rather than levels (Lee and Lemieux, 2010, pp. 297, 332-333):

$$\beta_{1,\tau} = \lim_{\tilde{X}_{it} \downarrow 0} E[Y_{i,t+\tau} - Y_{i,\underline{t}} | \tilde{X}_{it}] - \lim_{\tilde{X}_{it} \uparrow 0} E[Y_{i,t+\tau} - Y_{i,\underline{t}} | \tilde{X}_{it}].$$

Using changes instead of levels helps to control for country-specific heterogeneity, thereby increasing efficiency. In our analysis, we use $\underline{t} = t$, since it is the most proximate value available for which we can be sure that there is no effect of crossing the threshold, and therefore this ought to maximize efficiency. (The appendix includes analyses on level outcomes, which yields comparable conditional treatment effect estimates, albeit much noisier.)

We estimate $\beta_{1,\tau}$ using the local linear regression approach described in Imbens and Lemieux (2008) and Imbens and Kalyanaraman (2009). We use a constant bandwidth that corresponds to about $\pm\$500$ GNI/per capita or ± 0.10 on the $\log(\text{GNI/capita})$ scale. Not only is $\pm\$500$ an intuitively reasonable value, but it corresponds to a bandwidth for which we could test the smoothness

condition with reasonable power (Cattaneo, Frandsen and Titiunik, 2013). These tests are shown in the main results tables below, using as placebo outcomes the difference, $Y_{i,t} - Y_{i,t-2}$, analogous to the “instantaneous effect,” but in the reverse temporal direction. Keeping the bandwidth constant facilitates interpretation of the results, as all effects are being estimated from the same subpopulation.²³ Under the local linear specification, we have,

$$Y_{i,t+\tau} - Y_{i,t} = \beta_{0,\tau} + \beta_{1,\tau}Z_{it} + \gamma_{\tau}\tilde{X}_{it} + \lambda_{\tau}\tilde{X}_{it}Z_{it} + v_{\tau,it}, \quad (1)$$

for i inside the bandwidth, where $v_{\tau,it}$ is a mean zero error. Given the tight bandwidth and correspondingly low number of observations, we fit the local linear regressions with a rectangular kernel (Imbens and Lemieux, 2008). (The appendix shows results for a triangular kernel, which yields much noisier estimates although with very similar point estimates, as well as with alternative bandwidths.) Technically, by pooling time periods, the least squares estimators that we use will produce conditional treatment variance-weighted averages over different t (Angrist and Pischke, 2009, Ch. 3). For inference, we account for likely serial correlation in outcomes as well as X_{it} (and thus in Z_{it}) by estimating cluster-robust standard errors clustered by i .

In our analysis of alternative explanations below, we also study effects on outcome variances (rather than means) using an extension of the local linear regression approach. We begin with the variance decomposition,

$$\text{Var}[Y_{i,t+\tau}|Z_{it}, \tilde{X}_{it}] = E[Y_{i,t+\tau}^2|Z_{it}, \tilde{X}_{it}] - \{E[Y_{i,t+\tau}|Z_{it}, \tilde{X}_{it}]\}^2.$$

A working model for $E[Y_{i,t+\tau}|Z_{it}, \tilde{X}_{it}]$ is given by using expression (1), dropping $Y_{i,t}$ from the left hand side (i.e., a levels rather than a changes model), and then taking the expectation. A working

²³Because the right-hand-side specification of our regressions are the same regardless of outcomes, then the multiple regression weights of Aronow and Samii (2013) are in fact constant for all of our effect estimates. In principle, one could use a separate “optimal” bandwidth selection for each outcome. Doing so sometimes results in bandwidth choices that are wider than 0.10. The appendix shows robustness to different choices of bandwidth.

linear approximation for $E[Y_{i,t+\tau}^2|Z_{it},\tilde{X}_{it}]$ is given by

$$E[Y_{i,t+\tau}^2|Z_{it},\tilde{X}_{it}] = \alpha_{0,\tau} + \alpha_{1,\tau}Z_{it} + \alpha_{2,\tau}\tilde{X}_{it} + \alpha_{3,\tau}Z_{it}\tilde{X}_{it}.$$

Substituting the linear approximations into the variance decomposition, the difference in variances at the cut point equals (after some algebra),

$$\theta_\tau \equiv \alpha_{1,\tau} - 2\beta_{0,\tau,l}\beta_{1,\tau,l} - \beta_{1,\tau,l}^2.$$

where the $\beta_{k,\tau,l}$ refers to coefficients from the levels version of (1) (with $Y_{i,\underline{t}}$ dropped). For countries with log-income equal to c_t , θ_τ estimates the effect of being graduation-eligible versus graduation-ineligible on the variance of outcomes in period $t + \tau$. We fit the models for $E[Y_{i,t+\tau}|Z_{it},\tilde{X}_{it}]$ and $E[Y_{i,t+\tau}^2|Z_{it},\tilde{X}_{it}]$ jointly using ordinary least squares. We use a standard error estimator based on the delta method and cluster-robust covariance matrix. (See appendix for details.)

Results

Results for the analysis of the effects on political liberalization are displayed in Table 1. We show results for both the Polity score and the aggregate Polity-Freedom House index (“Aggregate”). As discussed above, the analysis was done on differences between lead and lag outcomes measured against outcomes in year t (hence the Δ symbols above the outcome headings). We include a “placebo” check using the lagged two-year difference ($Y_t - Y_{t-2}$), and then display the “instantaneous” effect and the effect two years forward. Recall that by instantaneous effects we mean effects in the year that the change in eligibility goes into effect, which would be two years forward from the time that a country’s GNI per capita crosses the threshold ($Y_{t+2} - Y_t$). The “two-years forward” effect is also defined in terms of the year that the change in eligibility goes into effect, and so this would be four years forward from the time that the country’s GNI per capita crosses the threshold ($Y_{t+4} - Y_t$). Figure 2 displays regression discontinuity plots for these same outcomes. Outcomes

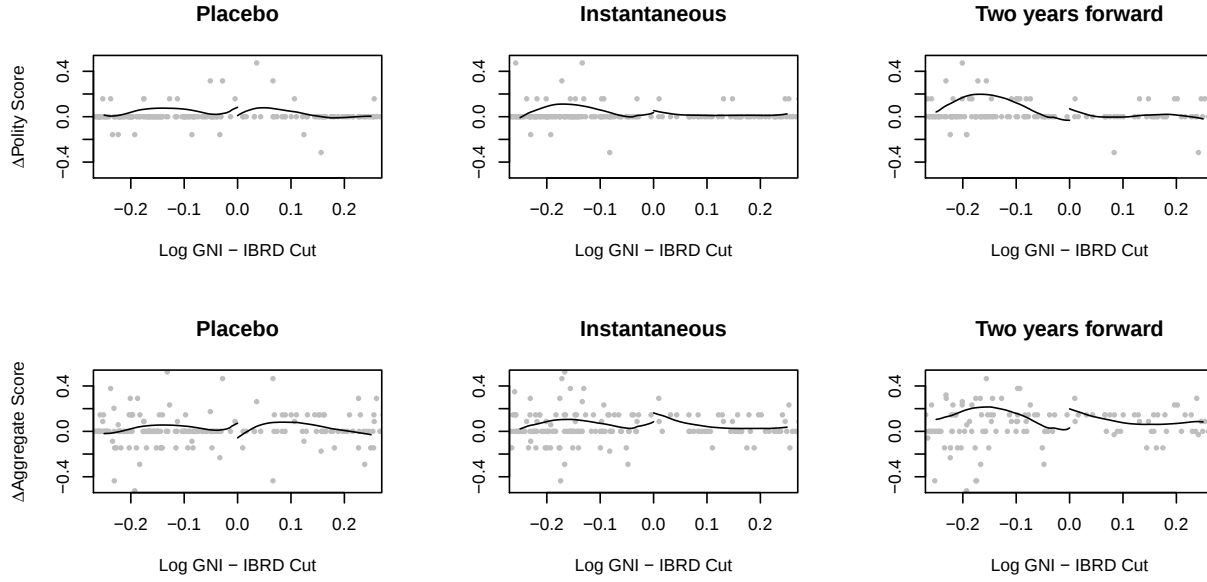


Figure 2: Changes in mean levels of political liberalization, measured in terms of Polity Score and the aggregated Polity and Freedom House Score (Aggregate), as a function of the distance between a country’s log GNI per capita and the IBRD graduation eligibility cut point. Outcomes are standardized relative to the mean and standard deviation of outcomes to the left of the cut point. Plots are given for changes from year $t - 2$ to t (placebo), t to $t + 2$ (instantaneous relative to eligibility change at $t + 2$), and t to $t + 4$ (two years forward relative to eligibility change at $t + 2$). The gray dots are country-year observations and black curves are local linear estimates of the conditional mean.

are standardized relative to the pooled mean and standard deviation of graduation-eligible countries. Therefore, coefficient estimates are to be interpreted in terms of “pre-treatment” standard deviations. Standard error estimates account for clustering and include a degrees of freedom adjustment to account for the relatively small sample sizes within the 0.10 bandwidth (Imbens and Kolesar, 2012). Section C in the appendix contains a table showing the list of country-year cases that fall within the bandwidth and for which complete data were available. The cases include upper middle income countries from all regions of the world over years spanning 1988 to 2007.

Our evidence suggests a boost to political liberalization that becomes apparent by two years after the change in graduation eligibility status. We find no compelling evidence of an instantaneous effect, whether in terms of the p -value or when comparing the size of the point estimates to the placebo test estimate. However, two years forward from the time of the eligibility change, we

Table 1: Effects on political liberalization

	Δ Polity			Δ Aggregate		
	Placebo	Instantaneous	Two yrs. fwd.	Placebo	Instantaneous	Two yrs. fwd.
IBRD grad elig.	−0.03 (0.07)	0.04 (0.04)	0.13* (0.06)	−0.10 (0.08)	0.10 (0.08)	0.24* (0.11)
Log GNI/cap. - c	0.93 (0.56)	0.06 (0.38)	−1.58* (0.68)	0.77 (0.76)	0.49 (0.62)	−1.95 (1.27)
Interaction term	0.03 (1.41)	−0.70 (0.69)	0.22 (0.95)	1.60 (1.57)	−2.07 (1.34)	0.14 (1.41)
(Constant)	0.07 (0.05)	0.01 (0.01)	−0.06 [†] (0.03)	0.05 (0.06)	0.06 (0.05)	−0.04 (0.09)
$N^{\ddagger}$	55	41	35	55	41	35
R^2	0.09	0.03	0.33	0.10	0.10	0.18

Ordinary least squares estimates within 0.10 bandwidth around cut point.

Standard errors account for clustering by country.

[†] significant at $p < .10$; * $p < .05$; ** $p < .01$; *** $p < .001$

[‡] missing data is due to either lead periods being beyond sample range or incidental missing values.

find evidence for an effect in the neighborhood of one- to two-tenths of a pre-treatment standard deviation. The effect of graduation eligibility is positive, as is expected from the “prestige” theory outlined above.²⁴

Figure 3 is a coefficient plot that displays results from a number of robustness checks. The point estimates remain quite stable. The triangular kernel leads to slightly smaller estimates. The estimates change only slightly when we adjust the bandwidth (note that a bandwidth smaller than .075 reduces us to only about a dozen observations, making the estimation highly unreliable). While the placebo tests in Table 1 would not have us reject the null hypothesis of no effect, the point estimates are not zero. Therefore, to assess sensitivity to possible “anticipation effects” (e.g., countries adjusting outcomes in anticipation of crossing the threshold), we fit the local linear regressions controlling for outcomes in the baseline year (Y_t , labeled as “lagged Y” in the coefficient

²⁴Note that we identify the effect off of changes in graduation eligibility, rather than actual graduation. This obviates potential concerns over whether the result represents a halo effect in the ratings that comes from the increased media coverage and publicity that graduation entails. Eligibility, however, does not bring such publicity. Further, examination of particular graduation-eligible countries reveals real and substantial changes in the quality of democracy; for example, many Eastern European states (Kaldor and Vejvoda, 2002), South Korea (Oh, 1999), Japan (Davis, 2014), Mexico (Lawson, 2002), and other graduation-eligible states made substantial reforms once they became eligible to graduate.

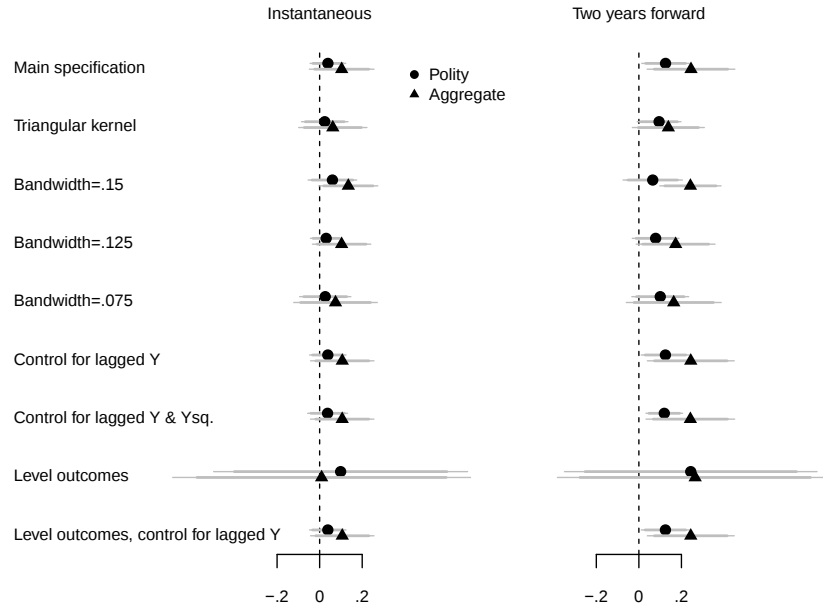


Figure 3: Coefficient plot of alternative estimates of the instantaneous and two-years forward effects on Polity scores (dots) and aggregate Polity-Freedom House scores (triangles). Think gray segments are 95% confidence intervals, and thicker gray segments are 90% confidence intervals. Main specification is the same as in Table 1. Full regression output for these estimates is displayed in the appendix.

plot). The estimates do not change appreciably. Estimates on the level outcomes (that is, not using the outcome differencing strategy) also yield similar point estimates. When we performed the analysis on levels, we did find some evidence of an unusual, negative placebo effect on the Y_t outcomes (Section D.4 in the appendix). Given the presence of this effect, one may worry that the effects that we estimate for the changes are tainted, perhaps reflecting mean reversion. To assess this possibility we estimated the level effects controlling for the Y_t outcomes, and the estimates did not change appreciably, which is similar to what we see when we control for Y_t in the regressions using the differenced outcomes.

Alternative Explanations

Our findings show that IBRD graduation eligibility, and therefore the initiation of the graduation process, is associated with a pronounced bump upward in political liberalization. We have proposed that this is due to state leaders' pursuit of prestige through the graduation process. In this section, we consider two alternative explanations for our findings. One potential alternative is that graduation eligibility causes governments to realize they will likely soon face reduced access to borrowing from the Bank. Governments may therefore try to substitute by turning to international financial markets. In order to do so, they may democratize and improve human rights in order to signal credibility and stability to these markets to attain a lower interest rate (Tomz, 2007). A second alternative explanation is that once countries become eligible to graduate, they may prepare to lose access to World Bank loans by increasing domestic taxes as an alternative source of funds. To compensate the domestic population for tax increases, states may provide greater political freedoms in return. This explanation is consistent with the literature linking increased taxation with greater political freedom (Ahmed, 2012; Morrison, 2009; Moore, 2004; North and Weingast, 1989; Ross, 2004; Smith, 2008; Stasavage, 2002; Timmons, 2005).

While both of these literatures have produced valuable insights into the determinants of political liberalization, we view these explanations as unlikely in this case, for several reasons. First, one criterion the Bank uses when determining whether countries may graduate is that they must have access to international capital markets already. Further, this requirement in practice means that recipients have not have borrowed from the Bank in several years. Thus, graduation does not actually imply a loss of much, if any, revenue.²⁵

Second, countries may use World Bank loans as a form of insurance when market-based lending dries up, but their ability to do this is largely unhampered by graduation. One official of the World Bank who worked with several countries eligible for graduation and one country that “de-graduated,” explained that in the event of a crisis “most of the governments would not shed many tears over no longer being IBRD eligible. Even though the interest rates may be below-market, the

²⁵Though note that the Bank can still address credit constraints during financial crises (Winters, 2012).

transaction costs for these loans are quite high. In addition, investment loans (non-budget support) are actually very costly for borrowers to manage....More than missing IBRD loans as a back-up source of money, what countries getting richer fast really want is the Bank's technical assistance. But that never goes away, since any country can get World Bank technical assistance whenever they want on a fee-for-service basis." In fact, the official noted, "One argument is that the IBRD needs these countries more than they need the IBRD—especially during global slowdowns—since the interest earnings pays for lots of other WB stuff, including the subsidy on IDA credits."²⁶

Third, we identify our effect off of the change in graduation *eligibility*. This change involves no immediate loss of revenues, so we would not expect an immediate effect on democracy. It is possible that countries are forward-looking, and alter their policies in anticipation of a future financial crisis, but this is unlikely since countries tend to graduate during boom times, and it is known that countries do not tend to anticipate crises (Reinhart and Rogoff, 2009). As an official of the World Bank noted, "Countries are very myopic."²⁷ Another official of the Bank noted that countries graduate because "they assume...they have reached a point where they dont need the Bank."²⁸

Nonetheless, we subject these two alternative explanations to empirical examination. If the first explanation were true, we would also expect to see countries adopt other policies to demonstrate credibility, such as "accepting the golden straightjacket" by reducing uncertainty through reducing policy variance (Friedman, 2000; Handley and Limão, 2012; Tomz, 2007), cleaning up corruption, and developing regulatory capacity. Further, if the purpose of introducing these policies were to improve access to private financial markets and FDI, we should see countries borrow more heavily from these markets, and increase FDI. If the second explanation were true, we would expect governments to receive higher tax revenues.

Table 2 presents conditional treatment effect estimates on a set of alternative outcomes to test these claims. As with our analysis of political liberalization effects, all outcomes are standard-

²⁶Interview by authors. July 30, 2012.

²⁷Interview by authors. August 6, 2012.

²⁸Interview by authors. October 10, 2012.

ized relative to the pooled means and standard deviations for countries ineligible to graduate. Sets I through III contain estimates that get at the first alternative explanation — the idea that governments will take actions to position themselves more favorably vis-a-vis international capital markets. Set I contains estimates of instantaneous and two-years forward conditional effect of graduation eligibility on the *variance* of countries' tariff rates. To the extent governments are required to “adopt the golden straightjacket” we should see convergence in policies such as tariff rates, in which case the sign on these effects should be negative. The evidence does provide clear indication of such convergence: none of the effects are statistically significant, and while the coefficients for total tariff rates are not substantially different than zero, they bounce around in their sign. Set II shows estimates of instantaneous and two-years forward conditional effects of graduation eligibility on mean levels of corruption, regulatory quality, strength of property rights, and strength of rule of law. Outcomes are much more variable for these indicators than for the political liberalization indicators, and so even though point estimates differ at times from zero, none are close to being statistically significant at conventional levels. Nonetheless, the point estimates do follow similar patterns as our political liberalization outcomes, with positive, if noisily estimated effects, suggested. However, these potentially positive effects may be further reflection of processes toward political liberalization. For the case to be strong that these patterns reflect restraint before international markets, we would expect to see countries taking in more FDI or international capital. The estimates in set III do not suggest that such increases in FDI inflows or reliance on international capital markets occurs. Finally, with respect to the domestic revenue raising argument, the estimates in set IV show no evidence of an increase in the tax take.

Conclusion

This paper uses the example of the World Bank loans program to argue that international institutions can induce states to adopt political reforms by offering states the chance to obtain a more prestigious status. We argue that states seek prominence in the international system both because

Table 2: Effects on alternative outcomes

Set	Outcome [†]	Coef.	Stand. Err.	N [‡]
I	Wtd. Total Tariff Rate ^a (Inst., var.)	-0.36	0.24	48
	Wtd. Total Tariff Rate ^a (2-yr fwd., var.)	0.27	0.62	37
	Total Tax Rate on Profit ^a (Inst., var.)	-0.02	0.12	28
	Total Tax Rate on Profit ^a (2-yr fwd., var.)	-0.06	0.19	21
II	Freedom From Corruption Index ^b (Inst., mean)	0.20	0.48	32
	Freedom From Corruption Index ^b (2-yr fwd., mean)	0.54	0.70	25
	Corruption Control Index ^c (Inst., mean)	-0.62	0.74	39
	Corruption Control Index ^c (2-yr fwd., mean)	0.10	0.44	34
	Regulatory Quality Index ^c (Inst., mean)	0.18	0.57	40
	Regulatory Quality Index ^c (2-yr fwd., mean)	0.37	0.54	35
	Property Rights Index ^b (Inst., mean)	-0.38	0.88	32
	Property Rights Index ^b (2-yr fwd., mean)	0.45	0.84	25
	Rule of Law Index ^c (Inst., mean)	0.08	0.59	39
	Rule of Law Index ^c (2-yr fwd., mean)	0.36	0.53	34
III	FDI Pct. GDP ^a (Inst., mean)	-0.84	0.55	69
	FDI Pct. GDP ^a (2-yr fwd., mean)	0.12	0.42	53
	Intl. Capital Pct. GDP ^a (Inst., mean)	0.17	0.31	51
	Intl. Capital Pct. GDP ^a (2-yr fwd., mean)	-0.33	0.20	35
IV	Total Tax Revenue ^a (Inst., mean)	-0.07	0.08	35
	Total Tax Revenue ^a (2-yr fwd., mean)	-0.06	0.09	34

Data sources: ^aWorld Bank Development Indicators; ^bHeritage Foundation; ^cWorld Bank Governance Indicators.

[†] outcomes are standardized relative to the pooled mean and standard deviation of graduation ineligible countries.

[‡] missing data is due to either lead periods being beyond sample range or incidental missing values.

prestige is desirable for its own sake, and because increased prestige can improve a state's international and domestic reputation, which can confer material benefits and prolong a leader's political survival. We test our theory using a distinctive aspect of the World Bank loans program, whereby loan recipients become eligible to graduate from the program upon achieving a pre-specified level of economic development. While graduation entails a loss of access to World Bank loans, states seek graduation due to the enhanced status it provides. Using a novel regression discontinuity design, we show that eligibility for graduation from the World Bank loans program improves democracy.

Our study has important implications for the large literature seeking to understand how the international community may alter states' behavior. While a variety of carrots and sticks have been proposed as tools of coercion, our study highlights the importance of a state's perceived

role in the international system. By simply offering states the opportunity to gain an enhanced status, we show that the international community can provoke significant improvements in political liberalization. Although we focus our analysis on the World Bank, our findings suggest that other institutions could potentially convince states to reform by adopting a similar approach of holding out recognition and prestige in exchange. For instance, perhaps the potential to join the United Nations Security Council, receive a seat on the Executive Board of the IMF, or become Secretary General of the WTO can similarly motivate states to adopt policy changes. Our study thus has important implications for the way in which the international community shapes the incentives and thereby behaviors of its members.

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International Institutions and Political Liberalization: Evidence from the World Bank Loans Program

Appendix of Supporting Information
(Not for publication)

A Complete World Bank income classification schedule

- `civil-inelig` and `L-LM` : Ineligible for civil works preference. Coincides with threshold between low and low-middle income. Civil works preferences: “Granting civil works preference to eligible domestic contractors in evaluating civil works bids procured under international competitive bidding” (`OFHIST.xls`).
- `IDA-inelig` : Income crossing this threshold disqualifies country for “deeply concessional...interest-free loans and grants for programs aimed at boosting economic growth and improving living conditions” (<http://data.worldbank.org/about/country-classifications>). Also no longer eligible for 20-year IBRD terms (`OFHIST.xls`).
- `IDA Allocation` : “Beginning in FY94, implemented as the effective operational cutoff for IDA eligibility” (`OFHIST.xls`).
- `ibrd-iii` : Crossing this threshold means no longer eligible for 17-year IBRD terms (`OFHIST.xls`).
- `IBRD-III-IV` and `LM-UM`: Crossing this threshold means no longer eligible for 15-year IBRD terms (`OFHIST.xls`). Coincides with low middle to upper middle income threshold.
- `ibrd-grad` : Crossing this threshold triggers initiation of IBRD graduation process. Cf. Knack et al. paper.
- `UM-H`

B Checking for manipulation of GNI values

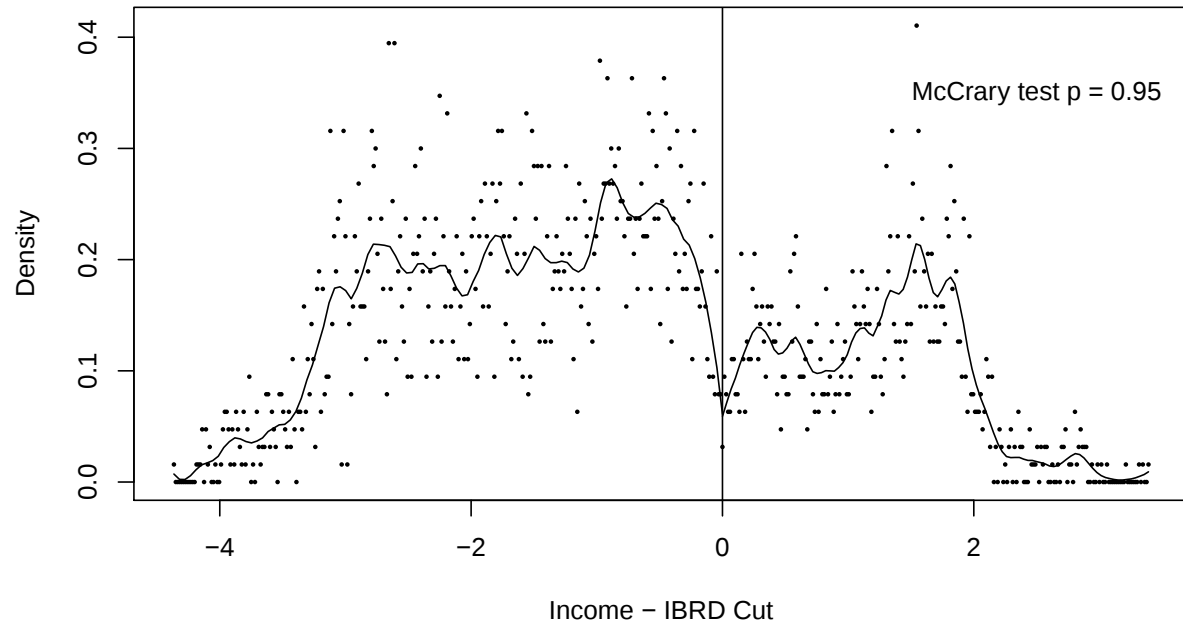


Figure 4: Graphical output from McCrary (2008)'s density test for sorting. x -axis is on the log scale, centered at IBRD graduation eligibility threshold. Test p -value $> .90$.

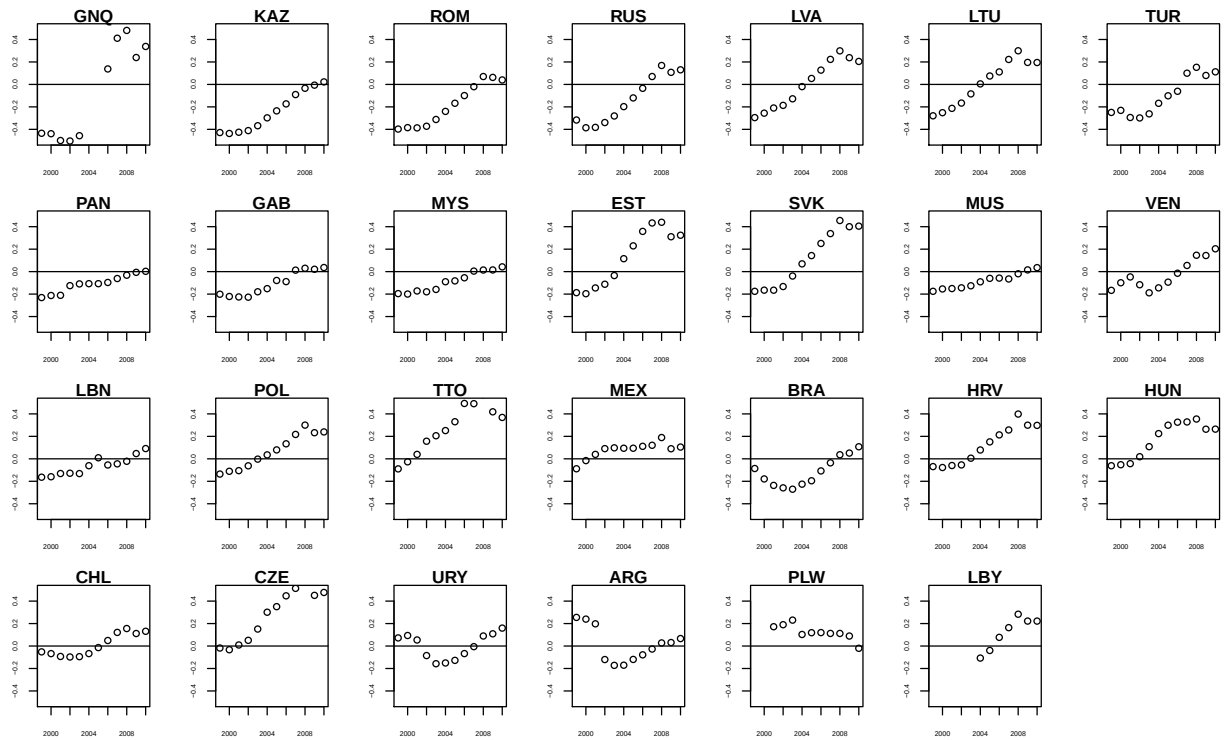


Figure 5: Income trajectories for the 27 countries that have crossed the IBRD graduation eligibility threshold since 1987. The graphs show that it is rare for countries to cross the graduation eligibility threshold more than once, although it has happened for Uruguay (URY) and Argentina (ARG). Income on the y-axis is measured in terms of gross national income (GNI) in 2000, standardized to the standard deviation of IBRD graduation-ineligible countries. There is no clear pattern of sorting around the threshold.

C Case table for main results

First set of columns below is for the placebo estimates, the second set of columns is for the instantaneous, and the third for the two years forward estimates.

	Country	Year	Ineligible	Country	Year	Ineligible	Country	Year	Ineligible
1	Argentina	2007	0	Botswana	2006	0	Chile	1996	0
2	Brazil	2007	0	Chile	1996	0	Chile	1997	0
3	Botswana	2006	0	Chile	1997	0	Chile	1998	0
4	Botswana	2008	0	Chile	1998	0	Chile	1999	0
5	Chile	1996	0	Chile	1999	0	Czech Republic	1997	0
6	Chile	1997	0	Chile	2005	0	Czech Republic	1998	0
7	Chile	1998	0	Czech Republic	1997	0	Czech Republic	1999	0
8	Chile	1999	0	Czech Republic	1998	0	Czech Republic	2000	0
9	Chile	2005	0	Czech Republic	1999	0	Estonia	2003	0
10	Czech Republic	1997	0	Czech Republic	2000	0	Gabon	1992	0
11	Czech Republic	1998	0	Estonia	2003	0	Croatia	2002	0
12	Czech Republic	1999	0	Gabon	1992	0	Hungary	2000	0
13	Czech Republic	2000	0	Croatia	2002	0	Hungary	2001	0
14	Estonia	2003	0	Hungary	2000	0	Libya	2002	0
15	Gabon	1992	0	Hungary	2001	0	Latvia	2004	0
16	Croatia	2002	0	Lebanon	2005	0	Mexico	2000	0
17	Hungary	2000	0	Libya	2002	0	Poland	2003	0
18	Hungary	2001	0	Libya	2005	0	Slovak Republic	2003	0
19	Kazakhstan	2008	0	Latvia	2004	0	Trinidad and Tobago	2000	0
20	Lebanon	2008	0	Mexico	2000	0	Uruguay	1994	0
21	Libya	2002	0	Poland	2003	0	Uruguay	1995	0
22	Libya	2005	0	Russian Federation	2006	0	Venezuela, RB	2001	0
23	Latvia	2004	0	Slovak Republic	2003	0	Czech Republic	2001	1
24	Mexico	2000	0	Trinidad and Tobago	2000	0	Czech Republic	2002	1
25	Montenegro	2008	0	Uruguay	1994	0	Croatia	2003	1
26	Mauritius	2008	0	Uruguay	1995	0	Hungary	2002	1
27	Panama	2008	0	Venezuela, RB	2001	0	Korea, Rep.	1988	1
28	Poland	2003	0	Venezuela, RB	2006	0	Korea, Rep.	1989	1
29	Romania	2007	0	Czech Republic	2001	1	Lithuania	2004	1
30	Russian Federation	2006	0	Czech Republic	2002	1	Mexico	2001	1
31	Slovak Republic	2003	0	Croatia	2003	1	Poland	2004	1
32	Trinidad and Tobago	2000	0	Hungary	2002	1	Portugal	1989	1
33	Uruguay	1994	0	Korea, Rep.	1988	1	Trinidad and Tobago	2001	1
34	Uruguay	1995	0	Korea, Rep.	1989	1	Uruguay	1996	1
35	Uruguay	2007	0	Lithuania	2004	1	Uruguay	2001	1
36	Venezuela, RB	2001	0	Mexico	2001	1			
37	Venezuela, RB	2006	0	Poland	2004	1			
38	Argentina	2008	1	Portugal	1989	1			
39	Brazil	2008	1	Trinidad and Tobago	2001	1			
40	Czech Republic	2001	1	Uruguay	1996	1			
41	Czech Republic	2002	1	Uruguay	2001	1			
42	Gabon	2007	1						
43	Gabon	2008	1						
44	Croatia	2003	1						
45	Hungary	2002	1						
46	Korea, Rep.	1989	1						
47	Lithuania	2004	1						
48	Mexico	2001	1						
49	Malaysia	2007	1						
50	Malaysia	2008	1						
51	Poland	2004	1						
52	Portugal	1989	1						
53	Trinidad and Tobago	2001	1						
54	Uruguay	1996	1						
55	Uruguay	2001	1						

D Robustness checks

D.1 Triangular kernel

(First three columns Polity, second three aggregate Polity-FH score.)

Table 3: Effects on political liberalization (triangular kernel)

	Placebo	Instant.	Two yr.	Placebo	Instant.	Two yr.
(Constant)	0.09 (0.06)	0.03 (0.03)	−0.02 (0.02)	0.08 (0.07)	0.10* (0.04)	0.06 (0.07)
IBRD Inelig.	−0.09 (0.07)	0.02 (0.06)	0.09† (0.05)	−0.14 (0.09)	0.06 (0.08)	0.14 (0.09)
Log GNI/cap. - c	1.32 (0.82)	0.59 (0.52)	−0.81 (0.52)	1.31 (0.91)	1.37† (0.75)	0.16 (1.24)
Interaction term	0.63 (1.48)	−1.49 (0.94)	−0.68 (0.94)	1.51 (1.90)	−2.91† (1.57)	−1.66 (1.67)
<i>N</i>	55	41	35	55	41	35
<i>R</i> ²	0.09	0.11	0.23	0.09	0.17	0.18
adj. <i>R</i> ²	0.04	0.04	0.16	0.04	0.10	0.10
Resid. sd	0.09	0.04	0.04	0.10	0.07	0.07

Weighted least squares estimates within 0.10 bandwidth around cut point.

Standard errors account for clustering by country.

† significant at $p < .10$; * $p < .05$; ** $p < .01$; *** $p < .001$

D.2 Alternative bandwidths

(First three columns Polity, second three aggregate Polity-FH score.) (First three columns Polity,

Table 4: Effects on political liberalization (alternative bandwidth)

	Placebo	Instant.	Two yr.	Placebo	Instant.	Two yr.
(Constant)	−0.09 (0.13)	−0.05 (0.04)	−0.07 (0.05)	−0.07 (0.10)	−0.02 (0.06)	−0.07 (0.07)
IBRD Inelig.	0.19 (0.12)	0.06 (0.06)	0.07 (0.07)	0.10 (0.11)	0.13† (0.07)	0.24** (0.07)
Log GNI/cap. - c	−2.06 (2.20)	−1.09† (0.65)	−1.84† (0.96)	−1.51 (1.76)	−0.97 (0.82)	−2.42** (0.90)
Interaction term	1.49 (2.34)	1.27* (0.63)	2.03* (0.94)	2.03 (1.71)	0.29 (1.12)	1.41 (1.26)
<i>N</i>	84	66	53	84	66	53
<i>R</i> ²	0.05	0.06	0.14	0.04	0.04	0.17
adj. <i>R</i> ²	0.02	0.01	0.08	0.00	−0.01	0.11
Resid. sd	0.29	0.16	0.18	0.26	0.18	0.19

Weighted least squares estimates within 0.15 bandwidth around cut point.

Standard errors account for clustering by country.

† significant at $p < .10$; * $p < .05$; ** $p < .01$; *** $p < .001$

second three aggregate Polity-FH score.) (First three columns Polity, second three aggregate Polity-FH score.)

Table 5: Effects on political liberalization (alternative bandwidth)

	Placebo	Instant.	Two yr.	Placebo	Instant.	Two yr.
(Constant)	-0.00 (0.07)	0.01 (0.01)	-0.03 (0.03)	-0.01 (0.08)	0.05 (0.05)	0.00 (0.07)
IBRD Inelig.	0.09 (0.08)	0.03 (0.04)	0.08 (0.06)	0.03 (0.09)	0.10 (0.07)	0.17 [†] (0.09)
Log GNI/cap. - c	-0.58 (1.14)	0.08 (0.17)	-1.06 [†] (0.61)	-0.60 (1.42)	0.29 (0.47)	-1.14 (0.96)
Interaction term	0.25 (1.42)	-0.54 (0.46)	0.19 (0.73)	1.47 (1.56)	-1.70 (1.03)	0.13 (1.10)
<i>N</i>	68	49	41	68	49	41
<i>R</i> ²	0.01	0.02	0.23	0.02	0.09	0.09
adj. <i>R</i> ²	-0.03	-0.04	0.17	-0.02	0.03	0.02
Resid. sd	0.19	0.07	0.08	0.22	0.11	0.12

Weighted least squares estimates within 0.125 bandwidth around cut point.

Standard errors account for clustering by country.

[†] significant at $p < .10$; * $p < .05$; ** $p < .01$; *** $p < .001$

Table 6: Effects on political liberalization (alternative bandwidth)

	Placebo	Instant.	Two yr.	Placebo	Instant.	Two yr.
(Constant)	0.08 (0.07)	0.03 (0.04)	-0.04 (0.04)	0.07 (0.09)	0.09 (0.07)	0.03 (0.11)
IBRD Inelig.	-0.05 (0.09)	0.03 (0.06)	0.10 (0.07)	-0.10 (0.13)	0.07 (0.10)	0.16 (0.11)
Log GNI/cap. - c	1.26 (1.19)	0.48 (0.57)	-1.25 (1.12)	1.31 (1.44)	1.27 (1.65)	-0.25 (2.44)
Interaction term	-0.53 (1.22)	-1.46 (1.07)	0.28 (1.38)	-0.24 (2.10)	-2.90 (2.34)	-1.25 (3.03)
<i>N</i>	35	23	20	35	23	20
<i>R</i> ²	0.04	0.13	0.23	0.02	0.13	0.16
adj. <i>R</i> ²	-0.05	-0.01	0.09	-0.07	-0.00	0.00
Resid. sd	0.13	0.05	0.05	0.16	0.12	0.13

Weighted least squares estimates within 0.075 bandwidth around cut point.

Standard errors account for clustering by country.

[†] significant at $p < .10$; * $p < .05$; ** $p < .01$; *** $p < .001$

D.3 Controlling for baseline

(First four columns Polity, second four aggregate Polity-FH score.)

Table 7: Effects on political liberalization (changes, controlling for baseline)

	Instant.	Two yr.	Instant.	Two yr.	Instant.	Two yr.	Instant.	Two yr.
(Constant)	0.00 (0.01)	-0.07 (0.04)	-0.01 (0.04)	0.04 (0.06)	0.02 (0.06)	-0.11 (0.10)	0.00 (0.07)	-0.09 (0.11)
IBRD Inelig.	0.04 (0.04)	0.12* (0.06)	0.04 (0.05)	0.12* (0.04)	0.11 (0.08)	0.24* (0.10)	0.11 (0.08)	0.24* (0.11)
Log GNI/cap. - c	0.03 (0.40)	-1.60* (0.71)	0.01 (0.35)	-1.29* (0.54)	0.22 (0.62)	-2.21 [†] (1.24)	0.20 (0.63)	-2.14 [†] (1.23)
Interaction term	0.01 (0.01)	0.00 (0.02)	0.01 (0.01)	0.02 [†] (0.01)	0.03 (0.02)	0.06* (0.02)	0.03 (0.02)	0.06* (0.03)
Lagged Y	-0.65 (0.74)	0.24 (1.00)	-0.60 (0.73)	-0.32 (1.02)	-1.77 (1.35)	0.47 (1.39)	-1.73 (1.38)	0.38 (1.38)
Lagged Y sq.			0.01 (0.03)	-0.07* (0.03)			0.01 (0.02)	-0.02 (0.03)
N	41	35	41	35	41	35	41	35
R ²	0.03	0.33	0.03	0.45	0.14	0.24	0.14	0.25
adj. R ²	-0.08	0.24	-0.11	0.36	0.04	0.14	0.02	0.12
Resid. sd	0.07	0.08	0.07	0.07	0.11	0.12	0.11	0.12

Ordinary least squares estimates within 0.10 bandwidth around cut point.

Standard errors account for clustering by country.

[†] significant at $p < .10$; * $p < .05$; ** $p < .01$; *** $p < .001$

D.4 Level Outcomes

(First three columns Polity, second three aggregate Polity-FH score.)

Table 8: Effects on political liberalization (level outcomes)

	Placebo	Instant.	Two yr.	Placebo	Instant.	Two yr.
(Constant)	1.36*** (0.24)	1.25*** (0.29)	1.12*** (0.29)	1.59*** (0.26)	1.57*** (0.32)	1.36*** (0.31)
IBRD Inelig.	-0.60 [†] (0.33)	0.10 (0.30)	0.24 (0.30)	-0.79 [†] (0.40)	0.01 (0.36)	0.26 (0.33)
Log GNI/cap. - c	7.94 (5.21)	5.95 (5.87)	1.84 (4.24)	10.28 [†] (5.83)	9.35 (6.78)	2.60 (5.04)
Interaction term	-6.05 (6.16)	-8.70 (6.37)	-5.31 (4.99)	-6.79 (6.97)	-12.38 (7.42)	-5.86 (5.89)
<i>N</i>	57	41	35	57	41	35
<i>R</i> ²	0.06	0.10	0.04	0.08	0.14	0.05
adj. <i>R</i> ²	0.00	0.02	-0.06	0.03	0.07	-0.04
Resid. sd	0.72	0.66	0.60	0.79	0.76	0.67

Ordinary least squares estimates within 0.10 bandwidth around cut point.

Standard errors account for clustering by country.

[†] significant at $p < .10$; * $p < .05$; ** $p < .01$; *** $p < .001$

(First two columns Polity, second two aggregate Polity-FH score.)

Table 9: Effects on political liberalization (level outcomes, controlling for baseline)

	Instant.	Two yr.	Instant.	Two yr.
(Constant)	0.00 (0.01)	-0.07 (0.04)	0.02 (0.06)	-0.11 (0.10)
IBRD Inelig.	0.04 (0.04)	0.12* (0.06)	0.11 (0.08)	0.24* (0.10)
Log GNI/cap. - c	0.03 (0.40)	-1.60* (0.71)	0.22 (0.62)	-2.21 [†] (1.24)
Interaction term	1.01*** (0.01)	1.00*** (0.02)	1.03*** (0.02)	1.06*** (0.02)
Lagged Y	-0.65 (0.74)	0.24 (1.00)	-1.77 (1.35)	0.47 (1.39)
<i>N</i>	41	35	41	35
<i>R</i> ²	0.99	0.99	0.98	0.97
adj. <i>R</i> ²	0.99	0.98	0.98	0.97
Resid. sd	0.07	0.08	0.11	0.12

Ordinary least squares estimates within 0.10 bandwidth around cut point.

Standard errors account for clustering by country.

[†] significant at $p < .10$; * $p < .05$; ** $p < .01$; *** $p < .001$