

The Mass Political Economy of Capital Controls

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Motivation

- Research Questions

- Do ordinary citizens care about capital controls?
- Who supports and who opposes?

- Importance of Capital Controls

- Increased prominence since global financial crisis
- Useful tool of macroeconomic management
- But k controls limit residents' investment options

- Conventional Wisdom

- Capital controls are highly complex, avg. individuals neither understand nor care about these policies (Brooks 2004; Brooks & Kurtz 2007; Broz et al. 2016; Chwieroth 2010; Helleiner 1994)

Preview

- Argument: Self-interest → individual attitudes towards capital controls
- Scope Conditions
 - **Emerging Markets**: Foreign currency is widely used in these economies
 - **Capital Outflow Controls**: Restrictions on residents' ability to exit the local financial system
- Evidence: New survey data from Argentina (2015 & 2016)
 - “Financialized” individuals more opposed to controls
 - Unemployed individuals more supportive of controls
 - Capital outflow controls are highly salient

Why Do Individual Interests Matter?

- Capital outflow controls are **not complicated**
 - Easy for people to understand personal effects of prohibitions on purchasing foreign currency
- Economic effects on individuals are **large**
 - When currency is depreciating, limits/bans on foreign currency purchases reduce value of peoples' savings
- Citizens should be able to identify their **interests** on this issue

Hypothesis 1: Financial Participation

- The “Financialized”: People with liquid assets value the ability to move funds across borders
- The “Unbanked”: Liberalization does not benefit people that do not participate in financial system
- Hypothesis: Individuals that participate in the financial system are more likely to oppose controls on capital outflows

Hypothesis 2: Labor Market Status

- Labor-Market Insecurity: Unemployment increases concern with macroeconomic performance (e.g. level of employment)
 - This increases support for policies that promote growth and employment
- Hypothesis: People without jobs are more likely to support controls on capital outflows

The Empirical Setting: Argentina



- Removing capital controls would “destroy the salary of all the population”

- Promised to dismantle capital controls on first day as President

The Survey Data

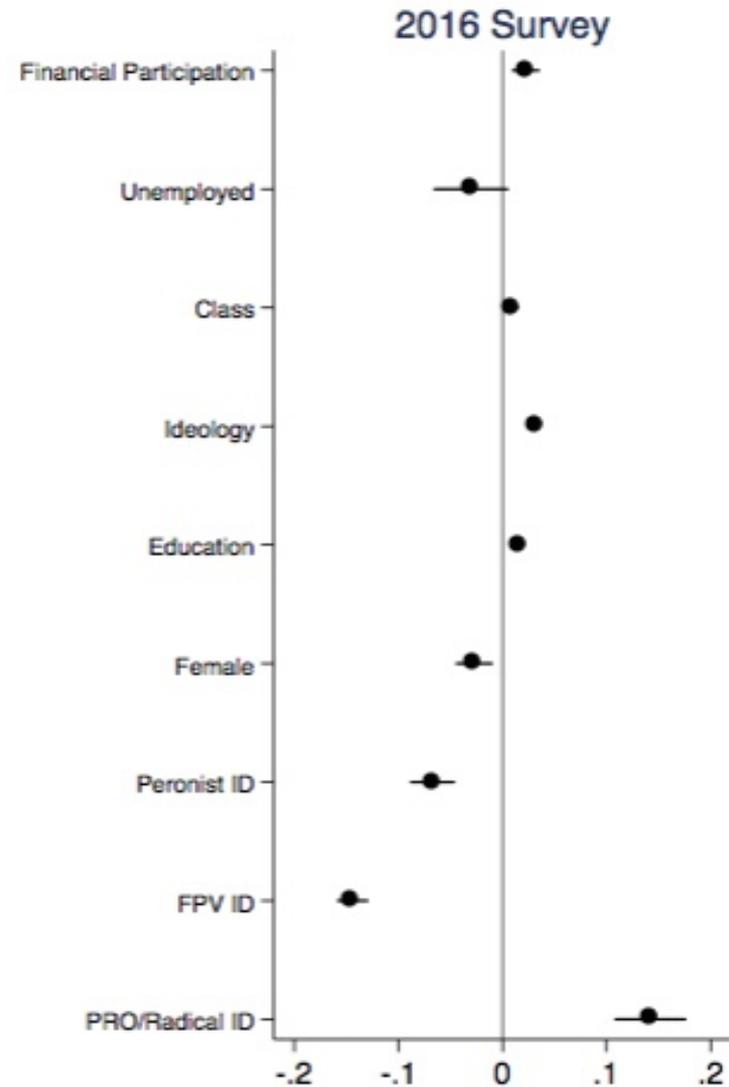
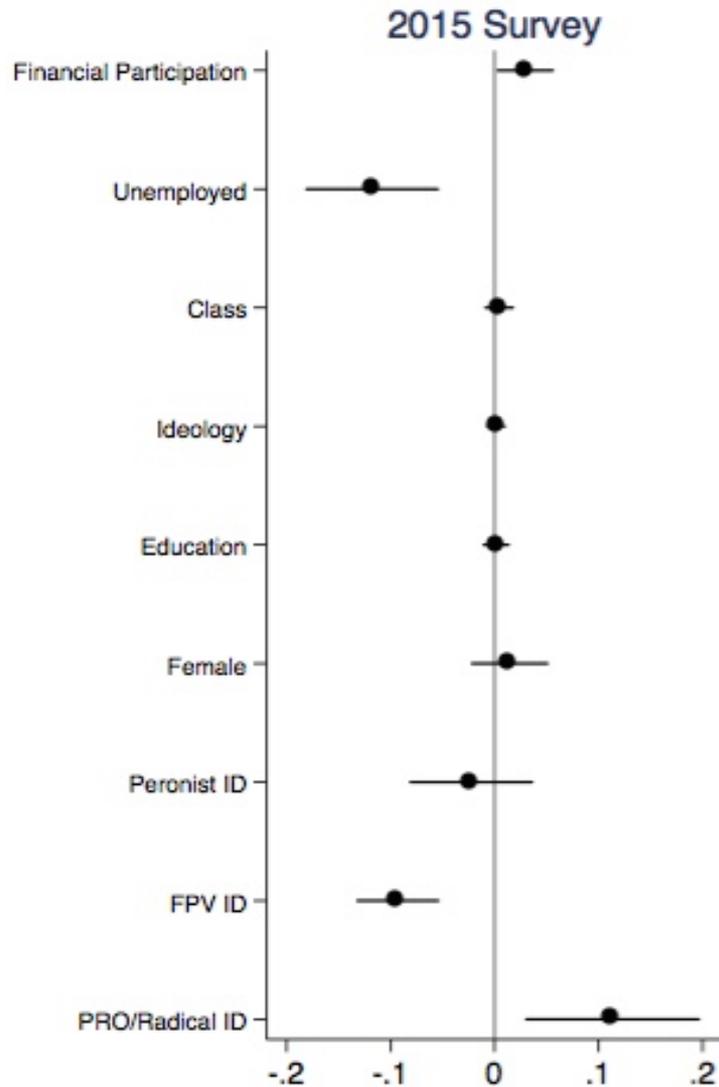
- Argentine Panel Election Survey: Nationally representative sample in July 2015 (N = 1,149)
- Isonomía Consultores: Nationally representative sample in June 2016 (N = 4,300)
- Different Contexts
 - **Policy Environment**: Capital controls were in place in July 2015; not in June 2016
 - **Information Environment**: 1st survey fielded *before* capital controls became major partisan issue; 2nd survey fielded after high-profile debate

The Variables

- Preferences (Survey 1): Should “citizens need to obtain permission from the national government and pay taxes to purchase dollars”?
 - **Five point scale**: (1) strongly agree ... (5) strongly disagree
- Financial Participation: Bank Account + Credit Card
- Labor-Market Insecurity: Unemployed
- Control Variables: Income, Ideology, Education, Gender, Party ID (and province-level fixed effects)

Evidence: Self-Interest Influences

Support for Capital Controls



Evidence: Capital Outflow Controls are Salient for Ordinary Citizens

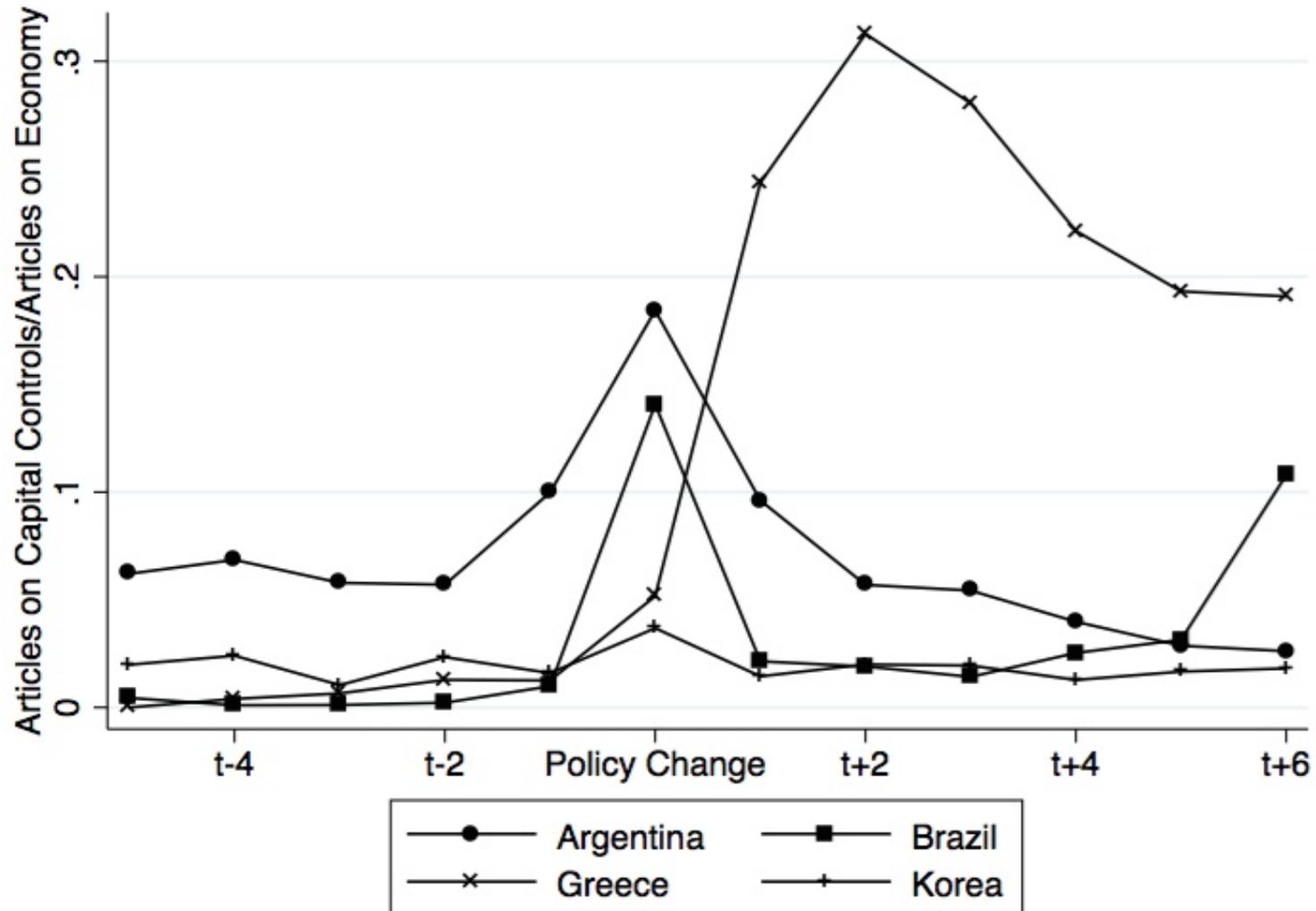
- List Experiment: 9.5% of Argentines evaded capital controls by purchasing dollars on the black market
- Knowledge: 66% of Argentines knew which President introduced the outflow controls
- Importance: Capital account liberalization was 3rd most common response to open-ended question about the “best thing” Pres. Macri had done
- Voting: Individuals that opposed capital controls were less likely to vote for incumbent party in 2015 election (controlling for party ID, etc.)

Conclusions

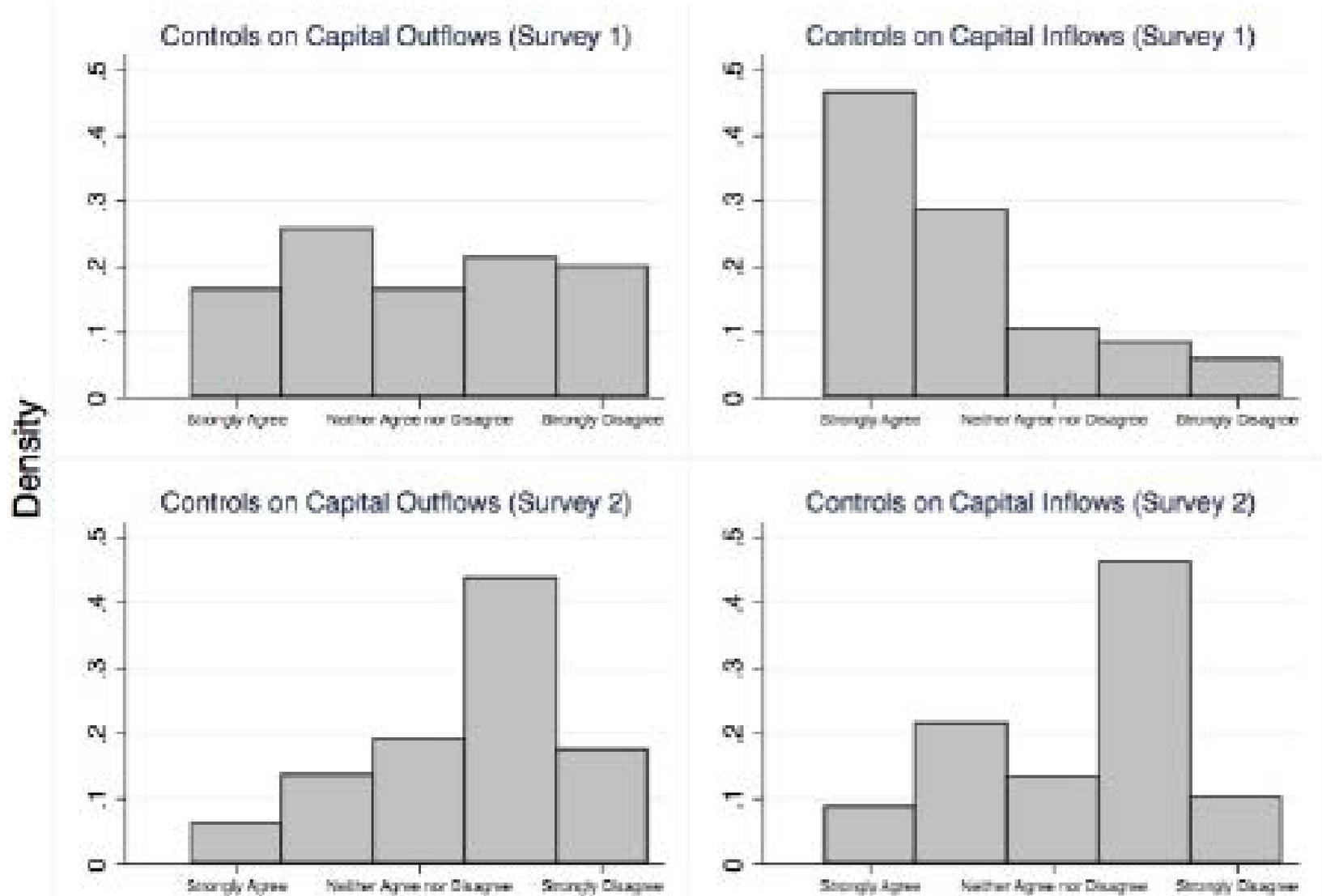
- Self-Interest: Influences support for capital outflow controls
- Saliency: Average citizens pay attention to and care about capital outflow controls
- These findings contradict the increasingly common view that “citizens have a difficult time linking their personal economic situations to public policies” (Mansfield & Mutz)

Appendix

Media Attention to Capital Controls



Agreement with Capital Controls



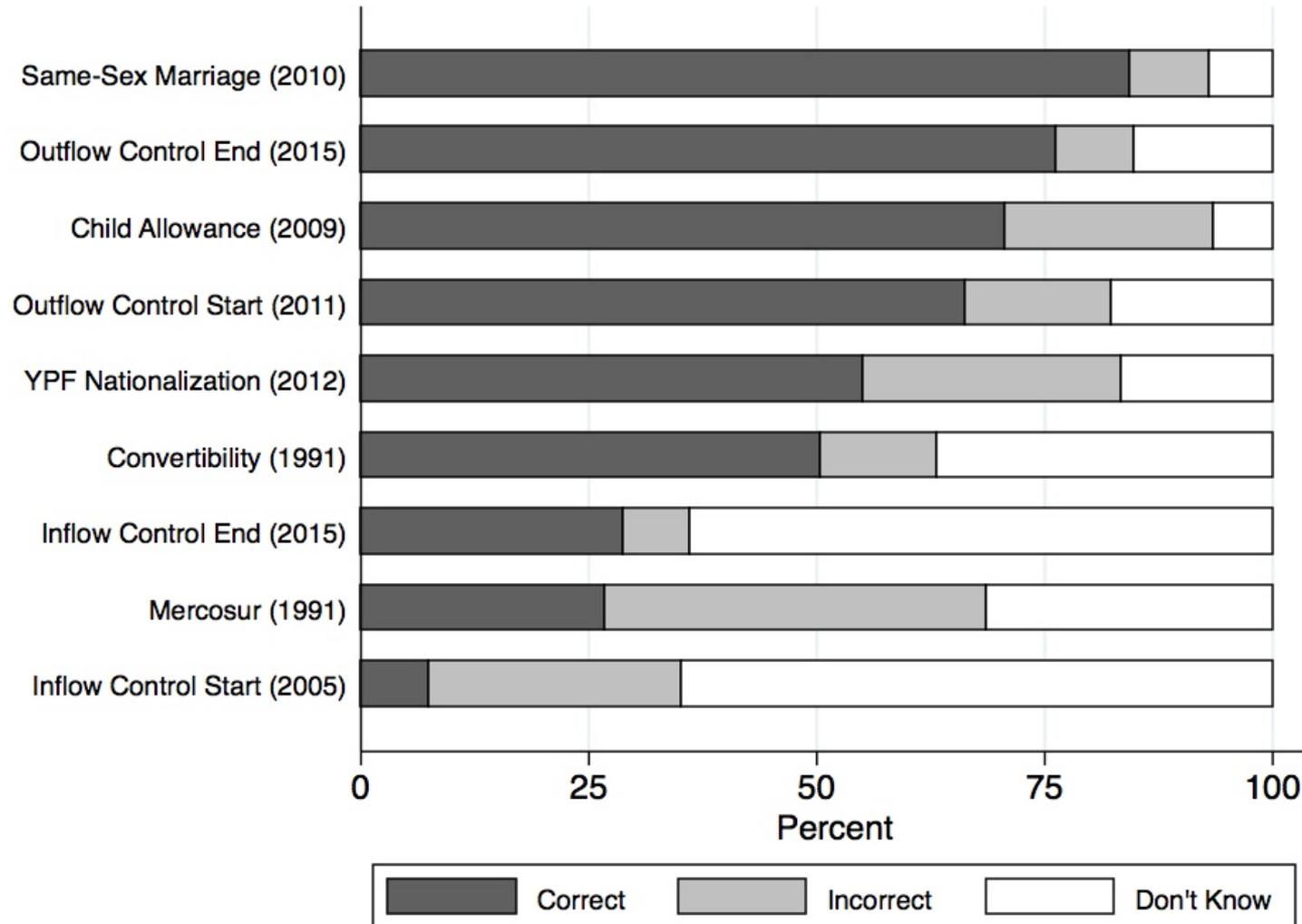
| | (1) | (2) | (3) | (4) |
|-------------------------|---------------------|---------------------|---------------------|---------------------|
| | Outflow Controls | Outflow Controls | Inflow Controls | Inflow Controls |
| Financial Participation | 0.20** [0.091] | 0.17*** [0.048] | -0.13 [0.094] | 0.02 [0.050] |
| Unemployed | -0.79*** [0.214] | -0.23* [0.138] | 0.07 [0.213] | -0.05 [0.142] |
| Class | 0.03 [0.045] | 0.07*** [0.023] | 0.14*** [0.047] | 0.08*** [0.024] |
| Ideology | 0.01 [0.029] | 0.24*** [0.015] | 0.08** [0.031] | 0.23*** [0.016] |
| Education | 0.01 [0.041] | 0.12*** [0.018] | -0.11** [0.043] | 0.02 [0.018] |
| Female | 0.10 [0.124] | -0.21*** [0.066] | -0.37*** [0.131] | -0.12* [0.068] |
| Peronist Party ID | -0.15 [0.201] | -0.62*** [0.111] | 0.09 [0.210] | -0.39*** [0.115] |
| FPV Party ID | -0.72*** [0.164] | -2.14*** [0.128] | -0.63*** [0.175] | -1.87*** [0.127] |
| PRO/Radical Party ID | 0.62*** [0.214] | 0.87*** [0.094] | -0.29 [0.223] | 0.87*** [0.098] |
| Pseudo R ² | 0.05 | 0.12 | 0.03 | 0.10 |
| Observations | 843 | 3,281 | 851 | 3,200 |

List Experiment: Capital Controls Are Relevant for Many Ordinary Citizens

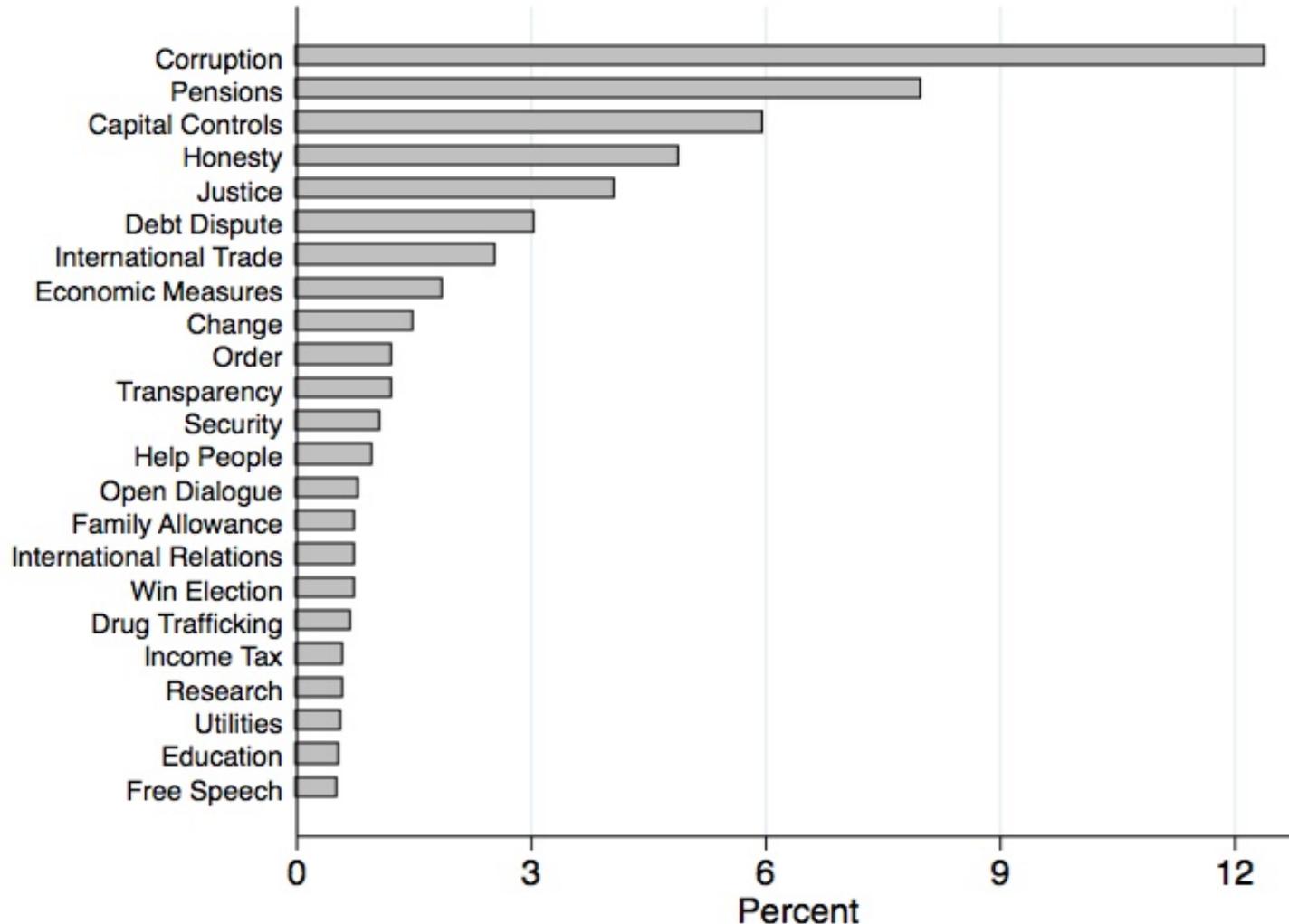
- Listed Activities: (1) Communicate with someone in another country; (2) travel to foreign country; (3) purchase foreign-made goods; (4) invest in foreign stock market; (5) *purchase currency on parallel market*

| | Treatment List | Control List | Treatment - Control |
|------------------------------|------------------------------|------------------------------|---------------------|
| All Respondents | 1.326 [0.029] N = 2063 | 1.231 [0.026] N = 2024 | 0.095** [0.039] |
| Low Financial Participation | 0.764 [0.034] N = 912 | 0.763 [0.032] N = 923 | 0.002 [0.047] |
| High Financial Participation | 1.791 [0.041] N = 1127 | 1.642 [0.036] N = 1076 | 0.148*** [0.055] |

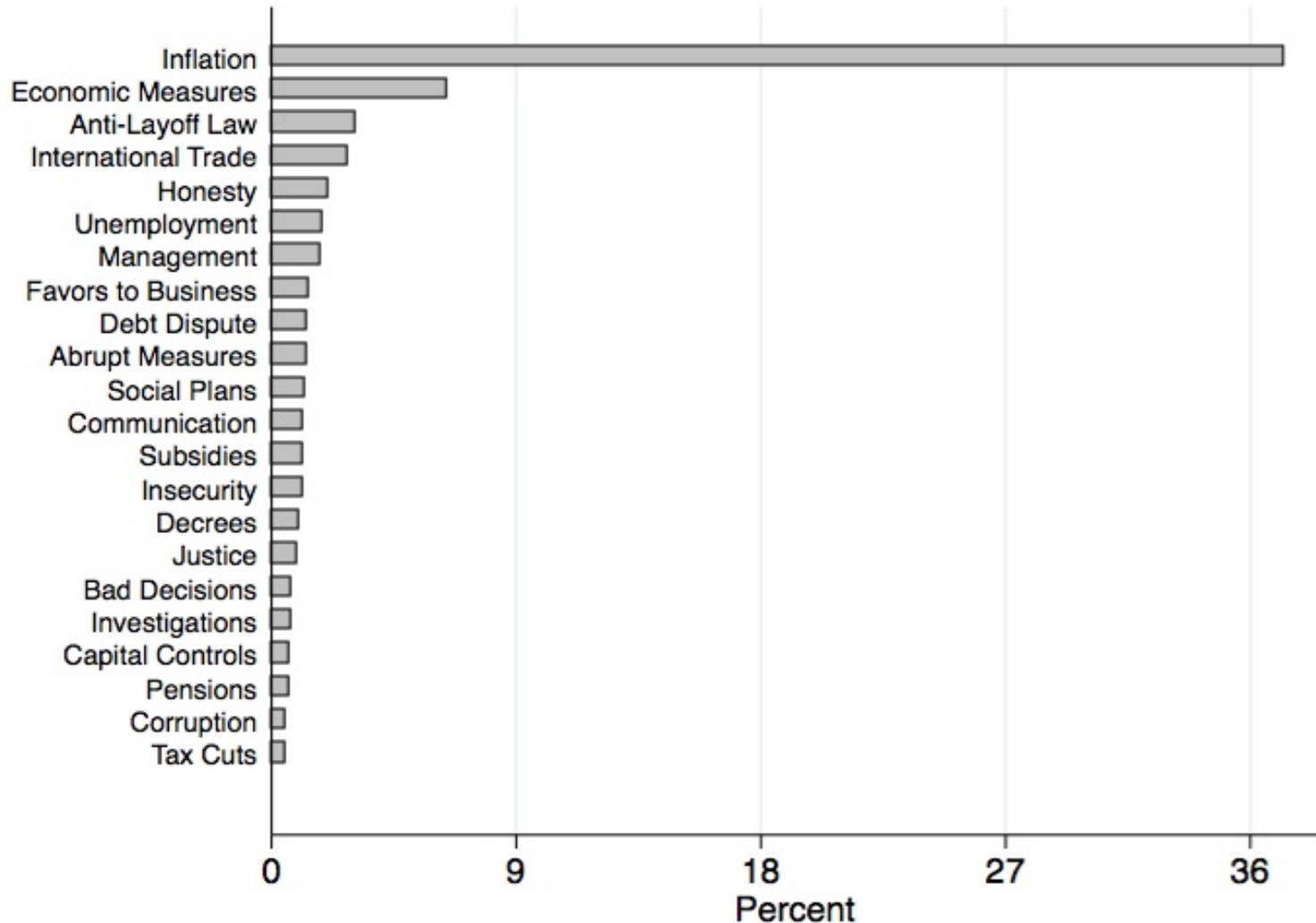
Knowledge About Capital Controls



Perceived Importance of Capital Controls: Government's Best Policy



Perceived Importance of Capital Controls: Government's Worst Policy



Capital Controls and Incumbent Vote

| | (1) | (2) | (3) | (4) |
|-------------------------|---------------------|---------------------|--------------------|--------------------|
| | Primary Election | General Election | Runoff Election | Runoff Election |
| Outflow Controls | -0.24*** [0.094] | -0.18** [0.071] | -0.16** [0.070] | -0.16** [0.077] |
| Inflow Controls | 0.06 [0.100] | 0.08 [0.077] | 0.09 [0.077] | 0.05 [0.085] |
| Financial Participation | -0.08 [0.170] | -0.09 [0.129] | -0.08 [0.128] | -0.10 [0.142] |
| Unemployed | 0.34 [0.398] | 0.34 [0.287] | 0.32 [0.287] | 0.36 [0.316] |
| Class | 0.25*** [0.084] | 0.05 [0.064] | 0.02 [0.065] | 0.02 [0.072] |
| Ideology | -0.05 [0.052] | 0.01 [0.040] | 0.00 [0.040] | -0.01 [0.043] |
| Education | -0.07 [0.076] | -0.04 [0.060] | -0.03 [0.059] | -0.03 [0.066] |
| Female | -0.20 [0.232] | 0.25 [0.178] | 0.20 [0.177] | 0.26 [0.193] |
| Peronist Party ID | 1.00*** [0.323] | 0.79*** [0.269] | 0.76*** [0.269] | 0.69** [0.303] |
| FPV Party ID | 3.31*** [0.406] | 1.27*** [0.215] | 1.10*** [0.217] | 0.66*** [0.255] |
| PRO/Radical Party ID | -2.06*** [0.568] | -0.64* [0.377] | -0.72** [0.366] | -0.37 [0.402] |
| Kirchner Vote | 1.69*** [0.253] | 0.51** [0.200] | 0.26 [0.201] | -0.20 [0.239] |
| Primary Election | | | | 1.22*** [0.264] |
| Pseudo R ² | 0.46 | 0.17 | 0.15 | 0.19 |
| Observations | 646 | 718 | 683 | 599 |

Political Consequences: Attitudes on Capital Controls Influence Voting

