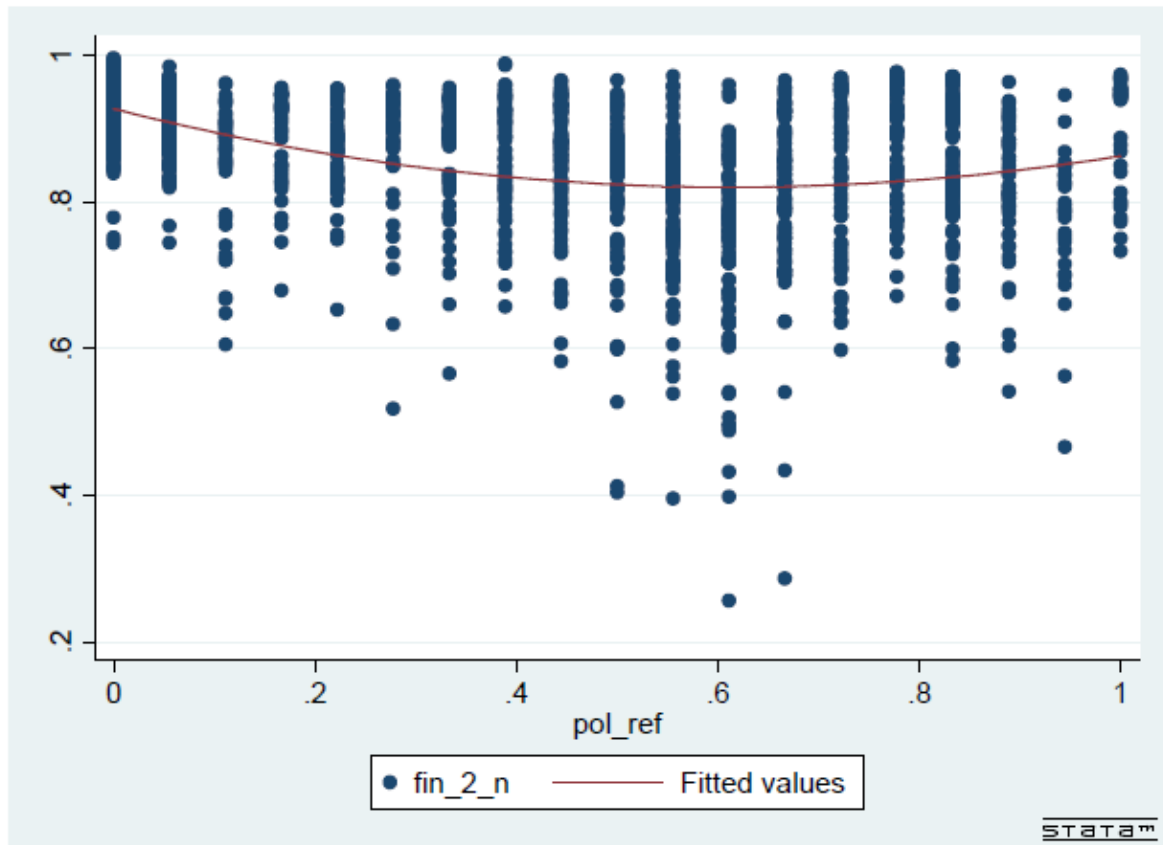


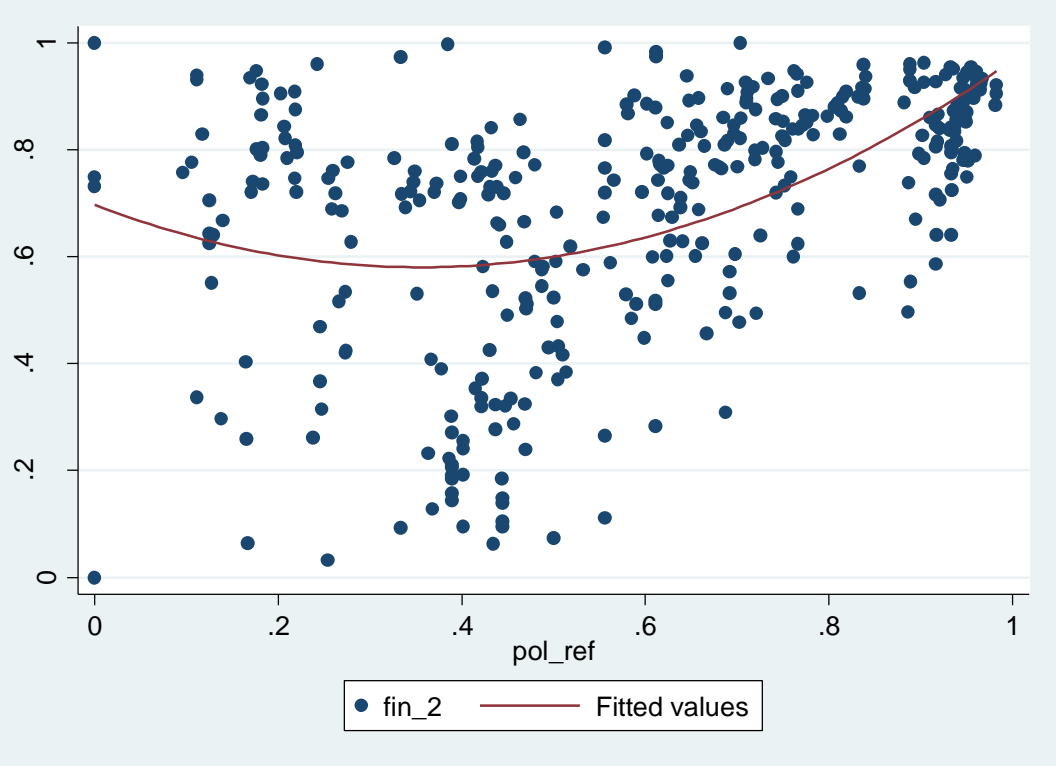
Appendix Figure 1

Whole world fixed-effects relationship between political and financial reforms (137 countries, yearly data from 1989 to 2005)



Appendix Figure 2

Transition countries fixed-effects relationship between political and financial reforms (23 countries, yearly data from 1989 to 2005)



Appendix Table 1

Tobit panel estimates with Polity 2 as the measure of political reform

and first year in office (dependent variable is financial efficiency)

VARIABLES	[1]	[2]	[3]	[4]	[5]	[6]	[7]
AMteta1	-0.106 [0.148]	-0.064 [0.147]	-0.119 [0.138]	-0.0949 [0.138]	-0.122 [0.138]	-0.112 [0.138]	-0.13 [0.138]
Political reform	-2.59*** [0.274]	-2.57*** [0.269]	-1.621*** [0.244]	-1.584*** [0.241]	-1.596*** [0.239]	-1.577*** [0.240]	-1.594*** [0.238]
Political reform squared	2.364*** [0.231]	2.334*** [0.227]	1.482*** [0.212]	1.413*** [0.211]	1.432*** [0.209]	1.419*** [0.210]	1.439*** [0.209]
Banking crisis		-0.07*** [0.0248]	-0.0482** [0.0217]	-0.0470** [0.0214]	-0.0522** [0.0215]	-0.0512** [0.0216]	-0.0543** [0.0216]
Debt crisis		0.107** [0.0488]	0.125*** [0.0426]	0.114*** [0.0421]	0.122*** [0.0422]	0.117*** [0.0421]	0.125*** [0.0424]
IMF Programme			0.0253 [0.0204]	0.0178 [0.0201]	0.0185 [0.0201]	0.0153 [0.0202]	0.0162 [0.0202]
U.S. interest rates			-0.01*** [0.00423]	-0.01*** [0.00444]	-0.016*** [0.00446]	-0.015*** [0.00445]	-0.016*** [0.00451]
Recession			-0.131*** [0.0158]	-0.0794*** [0.0214]	-0.0825*** [0.0214]	-0.0788*** [0.0214]	-0.0815*** [0.0215]
High inflation				-0.0668*** [0.0213]	-0.0663*** [0.0212]	-0.0678*** [0.0213]	-0.0673*** [0.0213]
Trade liberalization				0.0456 [0.0419]	0.0305 [0.0426]	0.0336 [0.0428]	0.0214 [0.0437]
Left-wing government						-0.023 [0.0177]	-0.0125 [0.0193]
Right-wing government					0.0390* [0.0222]		0.0333 [0.0242]
First year in office							-0.0114 [0.0178]
Constant	1.144*** [0.0797]	1.147*** [0.0787]	1.095*** [0.0676]	1.089*** [0.0709]	1.096*** [0.0702]	1.096*** [0.0706]	1.101*** [0.0702]
Observations	353	353	345	345	345	345	345
Number of country	23	23	23	23	23	23	23

Appendix Table 2

Fixed-effects panel estimates with lagged Polity 2 as the measure of political reform and first year in office, clustered standard errors (dependent variable is financial efficiency)

VARIABLES	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
AMteta1	-0.323 [0.406]	-0.26 [0.389]	-0.252 [0.378]	-0.259 [0.390]	-0.27 [0.393]	-0.261 [0.391]	-0.27 [0.393]	-0.27 [0.393]
Political reform	-2.158*** [0.659]	-2.086*** [0.620]	-1.590*** [0.536]	-1.479*** [0.518]	-1.475*** [0.515]	-1.475*** [0.519]	-1.475*** [0.518]	-1.478*** [0.521]
Political reform squared	1.914*** [0.546]	1.848*** [0.504]	1.330*** [0.434]	1.214*** [0.391]	1.214*** [0.387]	1.213*** [0.392]	1.214*** [0.388]	1.221*** [0.394]
Banking crisis		-0.0821** [0.0298]	-0.0579** [0.0250]	-0.0559** [0.0243]	-0.0575** [0.0252]	-0.0568** [0.0244]	-0.0577** [0.0249]	-0.0583** [0.0244]
Debt crisis		0.113** [0.0423]	0.114** [0.0410]	0.0964* [0.0500]	0.0993* [0.0489]	0.0975* [0.0495]	0.0994* [0.0487]	0.102** [0.0490]
IMF Programme			0.0347* [0.0171]	0.0244 [0.0177]	0.0246 [0.0178]	0.0238 [0.0179]	0.0244 [0.0185]	0.0236 [0.0184]
U.S. interest rates			-0.0131** [0.00597]	-0.0127* [0.00618]	-0.0131** [0.00625]	-0.0127* [0.00622]	-0.0130* [0.00643]	-0.0131* [0.00644]
Recession			-0.116*** [0.0262]	-0.0526** [0.0238]	-0.0538** [0.0240]	-0.0527** [0.0237]	-0.0537** [0.0242]	-0.0533** [0.0245]
High inflation				-0.0881** [0.0391]	-0.0876** [0.0394]	-0.0879** [0.0389]	-0.0876** [0.0394]	-0.0881** [0.0394]
Trade liberalization				0.0403 [0.0748]	0.0368 [0.0755]	0.0382 [0.0755]	0.0364 [0.0756]	0.0325 [0.0724]
Left-wing government						-0.00543 [0.0244]	-0.0014 [0.0325]	-0.00138 [0.0326]
Right-wing government					0.0135 [0.0249]		0.0128 [0.0361]	0.0131 [0.0361]
First year in office								-0.0101 [0.0148]
Constant	1.159*** [0.157]	1.142*** [0.153]	1.182*** [0.169]	1.160*** [0.176]	1.159*** [0.177]	1.160*** [0.175]	1.159*** [0.177]	1.161*** [0.176]
Observations	338	338	330	330	330	330	330	330
R-squared	0.191	0.227	0.415	0.452	0.453	0.452	0.453	0.453

Appendix Table 3

GMM panel estimates (dependent variable is financial efficiency)

VARIABLES	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Lag financial reform	-0.543***	-0.467***	-0.754***	-0.677***	-0.669***	-0.697***	-0.671***
Political reform	[0.0547]	[0.0596]	[0.0705]	[0.0707]	[0.0713]	[0.0717]	[0.0721]
	-0.565***	-0.619***	-0.403***	-0.456***	-0.465***	-0.437***	-0.468***
Political reform squared	[0.0621]	[0.0674]	[0.0795]	[0.0778]	[0.0785]	[0.0788]	[0.0793]
	0.817***	0.874***	0.610***	0.627***	0.632***	0.604***	0.616***
Banking crisis	[0.0536]	[0.0583]	[0.0689]	[0.0672]	[0.0674]	[0.0682]	[0.0681]
		-0.0961***	-0.0430***	-0.0276**	-0.0253*	-0.0395***	-0.0335**
Debt crisis		[0.0126]	[0.0142]	[0.0140]	[0.0142]	[0.0144]	[0.0145]
		0.138***	0.149***	0.124***	0.124***	0.133***	0.133***
IMF Programme		[0.0224]	[0.0250]	[0.0246]	[0.0246]	[0.0250]	[0.0250]
			0.00876	-0.00307	-0.00184	-0.00270	0.00222
U.S. interest rates			[0.0119]	[0.0117]	[0.0118]	[0.0118]	[0.0119]
			-0.0201***	-0.0225***	-0.0225***	-0.0244***	-0.0250***
Recession			[0.00236]	[0.00247]	[0.00247]	[0.00254]	[0.00254]
			-0.149***	-0.0808***	-0.0815***	-0.0846***	-0.0882***
High inflation			[0.00911]	[0.0126]	[0.0126]	[0.0128]	[0.0128]
				-0.111***	-0.110***	-0.112***	-0.109***
Trade liberalization				[0.0126]	[0.0127]	[0.0128]	[0.0128]
				0.00182	0.00694	-0.0231	-0.01000
Left-wing government				[0.0224]	[0.0233]	[0.0234]	[0.0238]
					0.00761		0.0299***
Right-wing government					[0.00942]		[0.0104]
						0.0541***	0.0693***
						[0.0120]	[0.0131]
Observations	338	338	330	330	330	330	330
R-squared	0.191	0.227	0.415	0.452	0.453	0.452	0.453

Appendix Table 4

GMM panel estimates (dependent variable is trade liberalization)

VARIABLES	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Lag trade lib	-0.0908*** [0.0129]	-0.0888*** [0.0128]	-0.0951*** [0.0149]	-0.0982*** [0.0158]	-0.0981*** [0.0155]	-0.0997*** [0.0162]	-0.0997*** [0.0161]
Political reform	-0.0654** [0.0292]	-0.0687** [0.0292]	-0.102*** [0.0372]	-0.103*** [0.0385]	-0.104*** [0.0383]	-0.102*** [0.0384]	-0.105*** [0.0382]
Political reform squared	0.0738** [0.0361]	0.0770** [0.0360]	0.116** [0.0463]	0.114** [0.0485]	0.115** [0.0481]	0.113** [0.0484]	0.113** [0.0480]
Banking crisis		0.0197*** [0.00704]	0.0247*** [0.00664]	0.0254*** [0.00706]	0.0255*** [0.00720]	0.0253*** [0.00697]	0.0256*** [0.00723]
Debt crisis		0.0221* [0.0126]	0.00880 [0.0108]	0.00904 [0.0112]	0.00934 [0.0115]	0.00790 [0.0110]	0.00803 [0.0115]
U.S. interest rates			-0.00190 [0.00759]	-0.00105 [0.00798]	-0.00137 [0.00807]	-0.000338 [0.00806]	-0.000681 [0.00807]
Recession				0.00136 [0.0157]	0.00199 [0.0150]	0.000807 [0.0157]	0.00194 [0.0147]
High inflation		0.0197*** [0.00704]	0.0247*** [0.00664]	0.0254*** [0.00706]	0.0255*** [0.00720]	0.0253*** [0.00697]	0.0256*** [0.00723]
Left-wing government				-0.00226 [0.00803]		-0.00544 [0.00979]	-0.00226 [0.00803]
Right-wing government					-0.00468 [0.00706]	-0.00724 [0.00884]	
Observations	943	943	702	676	676	676	676
R-squared	135	135	103	100	100	100	100

Appendix Table 5

Fixed-effects panel estimates (dependent variable is de jure financial liberalization from IMF)

	[1]	[2]	[3]	[4]	[5]	[6]	[7]
AMteta	0.333 [0.229]	0.35 [0.225]	0.131 [0.166]	0.035 [0.129]	0.0792 [0.127]	0.0473 [0.128]	0.0792 [0.127]
Political reform	-1.147*** [0.383]	-1.161*** [0.375]	-0.0306 [0.288]	0.0499 [0.221]	0.0238 [0.217]	-0.0867 [0.234]	-0.00438 [0.234]
Political reform squared	1.503*** [0.377]	1.468*** [0.369]	0.189 [0.279]	0.0201 [0.215]	0.0522 [0.211]	0.138 [0.225]	0.0759 [0.224]
Banking crisis		-0.0874** [0.0369]	-0.0292 [0.0257]	-0.0379* [0.0198]	-0.0297 [0.0196]	-0.032 [0.0200]	-0.0289 [0.0198]
Debt crisis		-0.171** [0.0794]	-0.0464 [0.0553]	-0.047 [0.0436]	-0.0639 [0.0431]	-0.0516 [0.0435]	-0.0639 [0.0432]
IMF Programme			0.034 [0.0240]	0.0156 [0.0185]	0.0173 [0.0182]	0.0189 [0.0185]	0.0179 [0.0183]
U.S. interest rates			-0.0294*** [0.00520]	-0.0185*** [0.00417]	-0.0166*** [0.00414]	-0.0180*** [0.00415]	-0.0166*** [0.00415]
Recession			-0.222*** [0.0189]	-0.0662*** [0.0208]	-0.0608*** [0.0205]	-0.0675*** [0.0207]	-0.0614*** [0.0206]
High inflation				-0.0743*** [0.0208]	-0.0773*** [0.0205]	-0.0755*** [0.0207]	-0.0774*** [0.0205]
Trade liberalization				0.410*** [0.0377]	0.432*** [0.0377]	0.419*** [0.0378]	0.432*** [0.0378]
Right-wing government					-0.0567*** [0.0189]		-0.0533** [0.0215]
Left-wing government						0.0293* [0.0172]	0.00638 [0.0193]
Constant	0.578*** [0.110]	0.613*** [0.108]	0.719*** [0.0819]	0.500*** [0.0671]	0.489*** [0.0660]	0.512*** [0.0672]	0.492*** [0.0669]
Observations	241	241	237	237	237	237	237
Number of countries	16	16	16	16	16	16	16
R-squared	0.088	0.133	0.578	0.754	0.764	0.757	0.764

Appendix Table 6

## Panel Data Instrumental Variables Estimates

Endogenous variables are changes in de facto financial reform and de jure financial reform measures

Standard errors in brackets and clustered at country level, robust to heteroscedasticity

(all RHS variables in first-stage lagged one-period, except political reform)

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
<i>PANEL A: Second-stage regressions</i>								
<i>(endogenous variable is changes in de facto financial reform index)</i>								
Financial reform (lag)	-0.17*** [0.057]	-0.145*** [0.053]	-0.116** [0.046]	-0.179*** [0.055]	-0.178*** [0.051]	-0.162*** [0.053]	-0.201*** [0.056]	-0.169*** [0.053]
Political reform	-0.374** [0.18]	-0.358** [0.18]	-0.275* [0.15]	-0.378** [0.19]	-0.351** [0.17]	-0.395*** [0.15]	-0.25 [0.16]	-0.337* [0.17]
Political reform squared	0.313** [0.15]	0.332* [0.17]	0.201* [0.12]	0.311* [0.16]	0.233 [0.15]	0.341** [0.15]	0.102 [0.13]	0.262* [0.14]
De jure financial reform	0.0896* [0.047]	0.0829** [0.038]	0.0973 [0.081]	0.0625*** [0.024]	0.0699*** [0.023]	0.0623*** [0.023]	0.114*** [0.039]	0.0973*** [0.038]
<i>PANEL B: First-stage regressions</i>								
<i>(endogenous variable is de jure financial reform measures from Abiad et al., 2008)</i>								
	<i>Capital controls</i>	<i>Interest rates</i>	<i>Compe- tition</i>	<i>Supervi- sion</i>	<i>Privatiza- tion</i>	<i>Capital flows</i>	<i>Securities</i>	<i>Fin. Lib Index</i>
<i>De jure financial reform</i>								
Financial reform (lag)	0.111 [0.152]	-.1442 [.1664]	-.354 [.279]	.076 [.141]	-.049 [.189]	.082 [.194]	.288* [.155]	-.070 [.0831]
Political reform	0.486 [0.757]	.171 [1.044]	-1.111 [1.298]	.293 [.790]	.064 [.946]	.1038 [.9079]	-.648 [.586]	-.0448 [.411]
Political reform squared	-0.442 [0.657]	-.655 [1.07]	1.29 [1.016]	-.371 [.845]	.621 [.838]	-.264 [.7628]	1.38** [.513]	.096 [.324]
Banking crisis	0.006 [0.044]	.0397 [.053]	-.076 [.0603]	-.084** [.0407]	-.057 [.068]	.0055 [.0725]	-.087 [.059]	-.035 [.0206]
Debt crisis	-0.25*** [0.082]	-.224** [.095]	-.158 [.276]	.0723 [.1201]	.223*** [.0616]	.095 [.0609]	.106** [.048]	-.058 [.097]
IMF Programme	-0.003 [0.021]	.104 *** [.032]	-.035 [.0205]	.0393 [.0365]	-.007 [.0359]	-.064 [.0417]	.002 [.025]	.019* [.0106]
U.S. interest rates	-0.015* [0.008]	.002 [.0102]	-.027 [.0168]	-.022 [.0133]	-.027 [.0162]	-.025* [.0116]	-.0005 [.011]	-.017** [.007]
Recession	-0.059* [0.030]	-.014 [.0473]	-.002 [.0519]	-.072 [.064]	-.197** [.072]	-.069 [.0638]	-.094* [.053]	-.066** [.027]
High inflation	-0.042 [0.035]	-.096* [.0501]	-.063 [.068]	-.131** [.057]	-.061 [.0744]	.008 [.0601]	.0677 [.057]	-.081** [.033]
Trade liberalization	0.329*** [0.082]	.437** [.2007]	.0897 [.095]	.761*** [.1305]	.649*** [.147]	.797*** [.158]	.454*** [.082]	.438*** [.0506]
Left-wing government	-0.064 [0.044]	-.0419 [.0804]	.0003 [.0727]	.051 [.0601]	.0673 [.0963]	.178* [.087]	-.037 [.085]	.0012 [.032]
Right-wing government	-0.085** [0.037]	-.076 [.103]	.009 [.0647]	-.075 [.0622]	.0673 [.0963]	.116* [.0617]	.072 [.064]	-.053 [.035]
F test of excluded instruments	8.240 [0.0002]	9.06 [0.0001]	5.17 [0.002]	16.12 [0.0000]	32.43 [0.0000]	39.85 [0.0000]	12.59 [0.0000]	38.18 [0.0000]
Hansen J statistic	9.590 [0.295]	6.993 [0.537]	7.902 [0.443]	6.127 [0.633]	4.619 [0.797]	5.578 [0.694]	3.774 [0.8769]	5.269 [0.7285]
Observations	237	237	237	237	237	237	237	237
Number of countries	16	16	16	16	16	16	16	16

Note: Standard errors in brackets, \*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.1