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How Can We Explain Regime Type Differences If Citizens Don't Vote Based on Foreign Economic Policy?

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Political economy research shows that more democratic governments generally have more open trade policies with more flexible exchange rate regimes, yet political behavior theory argues that citizens do not think of foreign economic policy as salient and do not cast their votes considering such issues. This note investigates the puzzle about how democracies could have different foreign economic policies than autocracies if citizens do not vote based on these international issues. Using a political model with two possible ways for societal actors to influence state policy (electoral and/or special interest pressure), it first considers how voting based on salient domestic outcomes like inflation and unemployment may lead democratic governments towards more open trade and flexible exchange rates. Second, if more societal groups are able to lobby as special interests in more democratic regimes, then governments may also be pushed toward these same foreign economic policies. Thus, there is no fundamental contradiction between the political economy empirical results and the political behavior theory, although scholars need to adjust their theories to explain foreign economic policy differences across political regime type.

The puzzle to be investigated in this research note begins with the empirical evidence showing that democracies have different foreign economic policies than autocracies.[1] In terms of international commerce, many scholars have offered results showing that more democratic governments generally hold more open trade policies (e.g., Mansfield, Milner, and Rosendorff 2000; Mansfield, Milner, and Rosendorff 2002; Milner and Kubota 2005; Kono 2006). In terms of

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[1] From the outset, we acknowledge that there is important variation within both democracies and dictatorships. But here we use a minimalist definition of political regimes (Cheibub, Gandhi, and Vreeland 2010), simply separating democracies from nondemocracies and considering the transition from the latter to the former (i.e., democratization).

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currency policy, scholars have also shown that more democratic governments tend to operate with more flexible exchange rate regimes (e.g., Broz 2002; Bearce and Hallerberg 2011; Bearce 2013; Steinberg and Malhotra 2014). Due to space constraints, this note will focus on regime type variation in trade and currency policy, but differences are also apparent for foreign direct investment and capital liberalization.[2]

To explain these observed differences, scholars have relied on arguments about voter pressure. As Kono (2006, 369) described the theories explaining why more democratic governments hold more open trade policies: "Voters as-consumers prefer liberal trade policies that lower prices and raise real incomes. Democratic politicians need votes to stay in power. Competition for votes should thus drive democratic leaders toward liberal policy positions." Likewise, as Bearce and Hallerberg (2011, 172) proposed for why more democratic governments should have more flexible exchange rates: "Voter/electoral pressure pushes more democratic governments to resolve this tradeoff [between exchange rate stability and domestic monetary policy autonomy given international capital mobility] in favor of domestic monetary autonomy, leading to less de facto exchange rate fixity, because the median voter is likely to be a domestically oriented producer with a preference for this policy outcome."

However, the political *economy* argument that more democratic governments hold more liberal trade policies and less fixed exchange rate regimes due to voter pressure for these specific policies must confront the political *behavior* argument that most citizens do not consider international trade and currency policy when casting their vote (Kleinberg and Fordham 2018). As Eichenberg (2016, 18) summarized, citizens "in most countries are not well informed on global issues, and on many issues, they are understandably ambivalent." Consistent with this understanding, Guisinger (2009, 533) studied American attitudes about the Central American Free Trade Agreement (CAFTA), finding: "trade policy salience to be relatively low in terms of stated importance, in voters' knowledge of their representatives' policy positions, and in its effect on voters' propensity to vote for the incumbent. The low salience of trade policy, particularly among highly affected groups, calls into question voter-driven models of trade policy."

Thus, we have two stylized facts that sit uneasily next to each other. First, citizens do not vote based on their foreign economic policy preferences. And second, democracies have different foreign economic policies from autocracies presumably based on voter pressure in the former for more open trade and flexible exchange rates. This note seeks to reconcile these two stylized facts by developing two arguments about why democracies might be expected to have more open trade policies and more flexible exchange rates *even if* citizens do not apply electoral pressure for these specific foreign economic policy outcomes.[3]

[2] In terms of investment, Pandya (2014) shows that democracies have fewer restrictions related to foreign direct investment inflows, while Pond (forthcoming) also shows that democracies have greater restrictions related to investment outflows. With regards to capital liberalization, Eichengreen and Leblang (2008) and Milner and Mukherjee (2009) demonstrate that democracies also have more open capital accounts.

[3] It is certainly possible that these two arguments need not be reconciled with each other. It may be the case that the observed correlation between more democratic regimes and more open trade policies with more flexible exchange rate regimes is simply spurious. All of the empirical analyses cited in the first paragraph used observational data, and perhaps these scholars failed to control for some variable, which explains both political regime type and foreign economic policy. One might also argue that the stylized fact from political behavior has been exaggerated since it is based largely on evidence from the United States, an *a*typical country in the global political economy. Responding to Guisinger (2009), even if Americans viewed CAFTA in 2006 as relatively unimportant, this was a lower-profile international trade agreement compared to the World Trade Organization, the North American Free Trade Agreement, and the Trans-Pacific Partnership. And even if Americans view all international trade agreements as low salience voting issues, this conclusion about foreign economic policy may not apply to voters in smaller, more exposed, national economies, such as Argentina (Schiumerini and Steinberg 2018).

The Political Model

Toward this end, we require a political model describing how societal preferences might get translated into state policy. This model should be both general—thus allowing us to make a comparison across stylized regime types (e.g., democratic and autocratic)—and realistic. With regards to the latter consideration, a political model that distinguishes democracies from dictatorships based only on electoral pressure is unrealistic because it ignores how special interests may also be able to influence state policy in democracies.

We thus make use of a political model built upon a basic state/society framework. The state sets policy, including foreign economic policy, with some input from society. Societal actors, including individuals and organized interests (e.g., firms and their lobbying associations), have diverse preferences about state policy (e.g., some favor free trade or, at least, policies consistent with reduced import restrictions, and some favor protected trade or, at least, policies consistent with greater import restrictions). Given competing preferences about policy, societal actors have two possible ways to influence the state. The first is by voting; hence individuals could transmit their policy preferences through a voter/electoral channel *where and when this mechanism exists.* The second is by lobbying; if they can organize, societal groups may be able to influence policy by making financial contributions to the state. Consequently, even more democratic regimes include a special interest channel, consistent with Grossman and Helpman's (1994) political model.[4]

Based on these two influence channels, the first and most obvious difference between democracies and dictatorships, as stylized political regimes, is that the former type includes a voter/electoral channel, and the latter type does not. On this point, it is important to note that many autocratic political regimes include voting; in some dictatorships, citizens are required to vote for the single candidate on the ballot. Scholars have argued that such autocratic electoral institutions are more than symbolic (e.g., Gandhi 2008), but mandatory voting for the incumbent does not make an autocratic regime more responsive to citizen policy preferences *compared to voting in true democratic regimes* (with multiple candidates representing different policy preferences), although such electoral institutions may make certain nondemocracies somewhat more representative *than other nondemocracies.* To reiterate, we are making a comparison *across* political regime types (i.e., democracies versus dictatorships) and not within each stylized type.

A second, and less often discussed, difference between democracies and dictatorships concerns the special interest channel. Both stylized political regimes have this channel, but special interest politics operate differently in an autocratic regime compared to a democratic one. Stated simply, the special interest channel is narrower in more autocratic regimes and wider in more democratic ones. A wider special interest channel means that more organized groups can access it with a greater range of interests potentially being able to transmit their preferences to the state, although it is important to state that the standard collective action problem (Olson 1971) still applies in democratic regimes, even with a wider special interest channel. Since this difference in special interest politics across stylized regimes is not completely obvious, some discussion is required.

The special interest channel is narrower in autocratic regimes, in part, due to repression. The nondemocratic state's restrictions on societal freedom make it harder for many potential groups to organize formally, even when they represent concentrated interests and would otherwise be able to overcome the collective action problem, and also to access the state even when they organize clandestinely. As described

[4] The political model developed here is generally consistent with selectorate theory (Bueno de Mesquita et al. 2005), although the latter does not make strong distinctions based on these two channels. The autocratic selectorate is small and not made up by voters but by a narrow slice of special interests. Conversely, the selectorate is larger in a democracy and based on voting. But a wider range of special interests also forms part of the democratic winning coalition.

by Thomas and Hrebenar (2008, 6), "special interests were often viewed with great suspicion and generally seen as illegitimate in authoritarian regimes and not just by the rulers but also by the people too" due to state socialization. Consequently, "a very *narrow* range of groups likely exists when the [authoritarian] system begins to transition to democracy" (Thomas and Hrebenar 2008, 7 *emphasis added*). As Wintrobe (1998, 153) similarly described: "Dictatorships typically impose restrictions on entry into competition for the rents given out by the state." But democracies impose "no restrictions on who can bid" (i.e., lobby) for these rents, or access the special interests channel.

The special interest channel is also wider in a democracy, due to the different structure of government.[5] Democracies include separate branches, following the principle of checks and balances, with multiple bureaucracies within each branch (e.g., cabinets in the executive branch and committees in the legislative branch). Likewise, democracies often share, or distribute, power among multiple political parties, both across branches and even within the same branch of government. Such democratic institutions create greater access points for societal interest groups, effectively lowering the costs of lobbying (Ehrlich 2007), which allows more groups, *representing a wider range of preferences*, to enter the special interest channel. Consistent with this understanding, Dür and De Bièvre (2007, 4) observe the larger interest group population in the advanced industrial democracies, discussing how "several layers of decision-making open up new channels of influence and make it easier for [even] diffuse interests to influence policy outcomes."

That said, our political model should not be read to imply that *all* societal interests can successfully use the wider special interest channel in more democratic regimes, fitting with theories of majoritarian interest group pluralism as discussed by Gilens and Page (2014, 566–67). Instead, a wider special interest channel in democracies may simply lead to "biased pluralism," where "business-oriented interest groups tend to prevail over ordinary citizens" (Gilens and Page 2014, 567). But businesses have different preferences in terms of foreign economic policy, and a more diverse set of concentrated interests may push democratic governments toward more open trade and more flexible exchange rates, as we will explain below.

Using this simple political model with two possible ways for societal actors to influence state policy and assuming that democracies have both a more representative voting/electoral channel and wider special interest channel compared to nondemocracies, we now consider two possible solutions to the puzzle of why democracies should have more open trade policies with more flexible exchange rates even when citizens do not vote directly on these foreign economic policy issues.

One Solution through Voting Pressure

Perhaps citizens do not vote for candidates based on nonsalient international economic issues, but the large literature on economic voting shows that citizens do perceive *domestic* economic policy as salient, casting their votes considering internal macroeconomic outcomes such as inflation and unemployment. While debate remains about whether such economic voting is more retrospective or prospective, more egocentric or sociotropic, the "economic voting paradigm is well established. [And f]ew social scientists question the general theoretical proposition that [domestic] economic conditions influence voters' evaluations of incumbent policy makers" (Palmer and Whitten 1999, 623).

This understanding that citizens vote based, at least in part, on domestic economic concerns provides one possible solution to the puzzle presented earlier. Democratic policymakers must provide their constituents with domestic price stability and fuller employment, while recognizing that there may be a short-term

[5] Democratic elections also provide an opportunity for lobbying through campaign contributions.

tradeoff between these macroeconomic outcomes (the Phillips [1958] curve), or these incumbents risk losing office in a democratic election. And their foreign economic policy choices have implications for being able to deliver on these macroeconomic outcomes demanded by voters, even if most citizens do not understand the connections between foreign and domestic economic policy.

This logic arguably works well to explain why more democratic governments tend toward flexible exchange rate regimes. Given international capital mobility, governments must choose between exchange rate stability and domestic monetary policy autonomy (Fleming 1962; Mundell 1968). Exchange rate stability refers to the government keeping the value of its national currency fixed relative to some external benchmark. Domestic monetary policy autonomy is defined as the government's ability to direct its monetary policy instrument toward an internal policy objective, which could be domestic price stability or fuller employment. Effectively, this monetary policy tradeoff derives from the fact that governments only have one monetary policy, and this single policy instrument can be directed toward only one economic target. With international capital mobility, governments can either use their monetary policy instrument for the external goal of exchange rate stability, leading to fixed exchange rates, or they can target it toward an internal objective such as low inflation or fuller employment, thus resulting in flexible (or variable) exchange rates.

To the extent that citizens want their government to address internal economic problems such as inflation or unemployment, and they can transmit this preference for internal economic management through the voter/electoral channel, then we would expect to observe more democratic governments opting for domestic monetary autonomy (over exchange rate stability) with international capital mobility. This choice does not occur because a majority of citizens are voting for more flexible exchange rates; indeed, it does not even require that they actually understand what "domestic monetary autonomy" means. It simply requires that democratic policymakers believe that they may lose their office if they do not tend to domestic economic problems and that they desire the use of the monetary policy instrument to achieve these ends.[6] Indeed, this logic holds even if successive democratic governments have different preferences concerning a lower inflation versus fuller employment tradeoff per the Phillips curve, with right-wing governments wanting lower inflation and left-wing governments preferring fuller employment. Both lower inflation and fuller employment could be achieved through changes in monetary policy and are thus consistent with domestic monetary policy autonomy.[7]

Switching the issue-area in foreign economic policy, a similar logic might be used to explain why more democratic governments have more open trade policies, *provided that the dominant internal macroeconomic consideration for voters is inflation* (and not unemployment). Tariffs, for example, are a tax on foreign producers, thus raising the price of imported goods much like other forms of trade protection (e.g., quotas by restricting supply). And with the higher cost for imports, domestic producers may also be able to raise their prices, while still keeping them below the same charged by foreign producers. Hence, trade protection is inflationary, and the empirical evidence shows a negative relationship between import competition and prices (e.g., Auer and Fischer 2010).

[6] One possible complication to this argument concerns fiscal policy, which is expected to become more effective with international capital mobility and fixed exchange rates. But if fiscal policy has become effectively immobilized (i.e., it cannot be easily expanded due to existing deficits and debt or quickly contracted due to the inertia of current spending priorities), then democratic governments are likely to favor the more usable instrument of monetary policy to address internal macroeconomic problems; hence, a democratic preference for domestic monetary autonomy with flexible exchange rates over a more effective fiscal policy with fixed exchange rates.

[7] The Phillips curve implies a set of inflation/unemployment combinations. Thus, there would be only one macroeconomic policy target (one's preferred inflation/unemployment combination along a one-dimensional line or curve), requiring only a single policy instrument (in this case, monetary policy).

If citizens are prepared to punish democratic policymakers for inflation, then the latter might be expected to lower tariffs *preemptively* (Bailey 2001), thus resulting in more open trade policies in democratic regimes. This argument does not require that citizens actually vote for commercial openness, thus allowing international trade to be a nonsalient voting issue as argued by Guisinger (2009, 2017). It also does not require citizens to understand the relationship between trade protection and prices in the domestic economy. Per the economic voting model, it only requires citizens to dislike rising prices and democratic policymakers to fear losing office due to inflation. In fact, this is the argument offered by Mansfield, Milner, and Rosendorff (2002) to explain why more democratic regimes are more likely to sign an international trade agreement. In their model, citizens are not voting directly for international trade openness; instead, they cast their vote based on domestic prices.

At this point, one might conclude that the puzzle described above has been solved. Even if most citizens do not treat international economics as a salient voting issue, they do care about the national economy and stand ready to vote out incumbents if and when the latter worsens. Democratic policymakers thus opt for monetary autonomy and open trade to forestall the electoral punishment expected from a weak domestic macroeconomy. Since nondemocratic policymakers are not subject to the same pressure through the voting/electoral channel, they are less constrained in terms of foreign economic policy, allowing them to choose fixed exchange rates and trade protection.

But this logic has problems in that it can also be used to make a contrary prediction on trade policy compared to what we observe in the empirical literature. Consider what should be the expected difference between democracies and autocracies if the median voter in a democracy is more concerned about rising unemployment and the job loss potentially associated with free trade (Bearce and Moya 2018).[8] While open international exchange offers a substantial (albeit diffuse) price benefit to consumers, it also threatens certain producers. Indeed, most political economy models of individual trade policy preferences focus on producer considerations, with citizens offering a scarce factor of production (per the factoral framework) or working in an import-competing industry (per the sectoral framework) expected to lose from less restricted cross-border exchange (Alt et al. 1996). Furthermore, citizens may think negatively about trade openness on a sociotropic basis (Mansfield and Mutz 2009), based on popular press coverage focusing more on employment costs than on consumer benefits (Guisinger 2017).

Indeed, the research on voting and trade policy, especially in the United States, tends to show that voters punish incumbents for unemployment in low-skilled manufacturing (Jensen, Quinn, and Weymouth 2017) and for import competition (Autor et al. 2016), leading legislators to vote in a more protectionist direction on trade bills (Feigenbaum and Hall 2015). From this evidence, one might expect democratic governments to close (not open) their markets due to voter pressure. Perhaps nondemocratic governments can afford to keep their markets open despite the negative job/income effects that many citizens associate with free trade because they do not face punishment through the electoral channel, but voters punish democratic incumbents for doing the same. It should be obvious that this argument builds from the same basic foundations as the logic for why more democratic policymakers open trade to forestall the electoral punishment expected with inflation, but it makes a very different prediction: more democratic regimes should be associated with greater (not lesser) trade protection, which is not what we tend to observe in the cross-national data.

[8] Although Down (2007) showed that trade openness can be associated with less price volatility, citizens may nonetheless be concerned that trade exposure increases price volatility, thus leading them to favor protection for price, in addition to employment, considerations.

Thus, while arguments that link more salient domestic economic outcomes to less salient foreign economic policy may provide some leverage in solving this puzzle for currency policy, the logic is potentially indeterminate for trade policy. This understanding means that we need to consider a different explanation for why democracies might tend toward more open trade with greater currency flexibility.

Another Solution Based on Interest Group Competition

Our political model described earlier identified two ways for societal actors to influence the state: by voting and through special interest activity. Here we assume that in terms of foreign economic policy, there is effectively no electoral pressure on democratic policymakers. Stated differently, we now accept that citizens may not be able to transmit any clear foreign economic policy preference by voting since they do not cast their ballots based on international trade or exchange rate regimes and because any indirect signal through domestic economic voting is ambiguous (e.g., collective citizen preferences for lower prices with fuller employment could be read as a preference both for and against open trade).

If voting does not transmit foreign economic policy preferences *even in a democracy*, then we can only compare across regime types based on special interest pressure. But our political model also described how interest group politics operate differently in democracies and autocracies. To reiterate, the special interest channel is narrower in an autocracy due to repression (preventing certain groups from organizing) and the structure of government (i.e., fewer access points). Conversely, it is wider in a democracy because more groups, representing a greater variety of preferences, can effectively lobby. Could a wider special interest channel explain why tariffs tend to be lower in more democratic regimes?

Our answer begins in an autocratic regime with its restrictions on special interest politics. Although most (potential) interest groups are unable to access the state, a small set of organized interests can transmit their policy preferences to the dictator. These groups can also be identified as the autocratic selectorate (Bueno de Mesquita et al. 2005): those actors in society who may be able to remove the dictator or whose support is required for the autocratic state to remain in power. To the extent that these groups obtain their preferred policy outcomes, they obviously form part of the autocratic winning coalition.

The literature on the actors whose support is required for autocratic survival regularly mentions the military. But in a basic state/society framework, as used here, the military forms part of the state. So we need to look within society, where models of democratization (e.g., Boix 2003, Acemoglu and Robinson 2006) often identify large business elites (e.g., the *chaebol* in the predemocratic Korean Republic, tradable industries in China) as within the dictator's political support base. The fact that these businesses are "large" and situated in "major" industries may appear to be endogenous since their size and importance is related to state support, but this positive relationship confirms that they are part of the autocratic winning coalition, receiving their preferred policy outcomes.

Although these large businesses may produce tradable goods, this does not mean that they necessarily favor an open domestic market. Instead, what these businesses broadly prefer, like most businesses, is restricted competition, even monopoly status (e.g., Rodrik 2011, 4–9). And in terms of international trade, this preference would translate into disadvantaging potential foreign competitors with import restrictions so that these favored businesses can charge higher prices (leading to larger profits) to domestic consumers, which is politically feasible since this latter group does not fall within the autocratic selectorate.

If these large businesses with protectionist interests effectively monopolize the narrow special interest channel in most autocratic regimes, then what would be the expected policy change with democratization, or when the special interest channel gets wider? Certainly, more societal groups with preferences for import restrictions could lobby the democratizing state, but their broad interest in terms of international trade is already reflected within the policymaking process. More importantly, new groups with open market preferences can now enter the special interest channel, thus pushing the democratic state away from its previously protectionist policies. As described by Frye and Mansfield (2003, 636), "the dispersion of power from protectionist elites affiliated with the prior regime has created political space for interest groups favouring openness to increase their influence over trade policy."

This simple story to explain why democracies tend to have more open trade policies relies only on the proposition that protectionist groups dominate the narrow special interest channel in autocracies. Thus, as the special interest channel gets wider with democratization, producer groups favoring more open markets (for whatever reason) gain a political voice that they lacked before. The special interest competition between free trade and protectionist producers in more democratic regimes can also explain Kono's (2006) results showing that while democracies are associated with lower tariffs, they also have higher nontariff barriers to trade. This latter outcome accommodates protectionist special interests, while the former meets the demands of various producers that prefer a more open domestic market. The key point here is that one can arrive at this same set of results without reference to the transmission of consumer preferences through voting. Special interest competition among producers with different trade preferences in more democratic regimes can also explain them.

If trade policy is determined by a narrow set of special interests in autocracies (i.e., only protectionists) but by wider range of special interests in democracies (protectionists plus free traders), then not only is "protection for sale" (Grossman and Helpman 1994) but so is liberalization in more democratic regimes (Plouffe 2017). This understanding also accords with the new evidence from Betz and Pond (2019) showing that while democracies may have lower average tariff rates, tariffs are also higher on products that have greater consumption shares, and that the positive relationship between product tariff and consumption share only gets stronger in more democratic regimes. On this basis, it becomes hard to see how the tariff variation at the product level reflects consumer interests, but it appears consistent with a special interest battle between certain producers who want protection and other producers who want an open market, with the former winning on products where domestic consumption is high and the latter winning on other products consistent with their exporting interests (e.g., lower tariffs in the domestic market may lead to reciprocation in foreign markets).

We can use a similar special interest theory to explain why more democratic (autocratic) governments tend toward flexible (fixed) exchange rate regimes. Starting again with the favored big business elites in a nondemocratic regime, these industrialists pressure the state for import restrictions to reduce the foreign competition in their domestic market, thus allowing them to charge high prices and earn greater profits. But if these same big businesses also want to reach foreign markets, exchange rate volatility only complicates their exporting efforts. Thus, industrialists pressure their autocratic state for exchange rate stability, which becomes an especially attractive option if the national currency can be fixed at a competitive (or undervalued) rate, thus making their goods appear less expensive to foreign consumers.

Steinberg and Shih (2012) trace this special interest pressure on the Chinese Communist Party government from tradable producers from 2003 to 2008. More broadly, Steinberg and Malhotra (2014) show that not only are nondemocratic governments more likely to choose a fixed exchange rate regime but they also maintain their currencies at more undervalued levels. It should be noted that this autocratic special interest story for exchange rate policy accords nicely with the same for trade policy, since a weak currency not only facilitates exporting but also makes imported goods appear more expensive, consistent with the understanding that an undervalued fixed exchange rate (like China's) is a form of trade protection. Indeed, with a narrow special interest channel where only one concentrated interest can transmit its preferences to the state, we should expect to observe that trade and currency policy function as complements to each other.

But as the political regime democratizes with its special interest channel widening, smaller and less internationally oriented producer groups with preferences consistent with domestic monetary autonomy also become able to access the state. It is important to understand that this additional lobbying pressure on the democratic state comes not from a diffuse interest in domestic monetary autonomy but from concentrated interests on a variety of internal issues (e.g., access to credit, deficit financing, inflation control) that would require the state to direct its monetary policy instrument away from the external target of exchange rate stability. On this basis, it becomes harder for the democratic state to accede to the special interest demand for a fixed and undervalued currency, thus leading to a more flexible exchange rate regime in most democracies.

This lobbying competition around monetary policy in democracies can also explain Bearce's (2013) results showing that more democratic governments experience both a greater "fear of fixing" and a greater "fear of floating" (de facto deviations from the de jure exchange rate regime).[9] Democratic governments may try to satisfy one set of special interests with the de jure regime, but they also face lobbying pressure from the other set of special interests, leading them to deviate from their official commitments, thus producing de jure / de facto exchange rate regime gaps. As noted above for Kono (2006) trade policy results, one can arrive at this collection of currency policy results without reference to the diffuse interest of consumers or a theory based on the voting power of citizens in a democracy. The varied and often contrary special interest pressures that are more present in democratic regimes (and less so in autocratic ones) may be sufficient to account for them.

Linking issue-areas, this special interest battle within more democratic regimes means that we should also be able to observe that democratic governments often use their various foreign economic policy instruments—including but not limited to trade and currency policy—as *substitutes* to appease different interest groups (and not so much as complements to satisfy a single special interest). This understanding is certainly consistent with the evidence of foreign policy "substitution" reported by Milner and Tingley (2015) for the American case. And given the propensity of democracies to sign preferential trading agreements (Mansfield, Milner, and Rosendorff 2002), it also accords with Copelovitch and Pevehouse's (2013) evidence that countries tend to float their currencies vis-à-vis their partners in a preferential trading agreement (PTA). Thus, we observe more democratic governments tending toward currency flexibility for domestic monetary policy autonomy to meet the demands of domestically oriented firms, while also engaging in freer trade through PTAs to meet the demands of internationally oriented firms, consistent with the wider special interest channel.

Discussion

We have considered two possible explanations for why democracies have systematically different foreign economic policies from autocracies, with a specific focus on trade and exchange rates. But this consideration also suggested that the second explanation, dealing with the regime type variation in lobbying, appears to represent

[9] The "fear of fixing" refers to making a de jure fixed commitment but then operating with a more flexible de facto regime (Alesina and Wagner 2006). Conversely, a "fear of floating" describes when government declares a de jure flexible regime but then uses monetary policy consistent with exchange rate stability, resulting in a more fixed de facto regime (Calvo and Reinhart 2002).

the better avenue going forward in this research program. We thus conclude with some brief discussion about how to further develop and test this special interest argument.

First, while many scholars (cited earlier) have proposed that democracies have wider special interest channels due to reduced restrictions on group organization and increased access points within the state, there is, thus far, little empirical evidence bearing on this proposition. The obvious difficulty is that while we can document trade policy lobbying in the United States (e.g., Kim 2017), for example, it is much harder to do the same in nondemocratic national contexts. Nonetheless, scholars need to better account for the lobbying differences across political regime types. Does the probability of firm lobbying increase with democratization and by how much?

Second, we also need to better account for the economic preferences of the firms that engage in lobbying (compared to those who do not). Can we observe, as argued here, that there are more firms favoring an open market within the special interest channel in more democratic regimes, potentially leading to more open trade policies? Likewise, are there more firms with an expected preference for domestic monetary autonomy within the special interest channel in more democratic regimes, potentially leading to more flexible exchange rates? While we certainly have models of firm preferences (e.g., factoral and/or sectoral), we cannot yet account for the relative balance of preferences (e.g., open versus closed trade) engaged in lobbying in democratic compared to autocratic political systems. These accountings stand as the next major steps to better explain the cross-national variation in trade, currency, investment, capital, and even immigration policy.

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