Do Voters Dislike Liberalizing Reforms? New Evidence Using Data on Satisfaction with Democracy

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Do voters dislike liberalizing reforms? New evidence using data on satisfaction with democracy

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ABSTRACT

Since the early 1980s a wave of liberalizing reforms has swept over the world. While the stated motivation for these reforms has usually been to increase economic efficiency, some critics have instead inferred ulterior motives and a desire to enrich certain (already rich) people at the expense of others. This critique, coupled with the claim that many of the reforms have been undertaken during different crises so as to bypass potential opponents, suggests that people will dislike the reforms and even be less satisfied with democracy as such. We test this hypothesis empirically, using panel data from 30 European countries in the period 1993–2015. The dependent variable is the average satisfaction with democracy, while the reform measures are constructed as distinct changes in four policy areas: government size, the rule of law, openness and regulation. Our results indicate that while reforms of government size are not robustly related to satisfaction with democracy, reforms of the other three kinds are – and in a way that runs counter to the anti-liberalization claims. Reforms that reduce economic freedom are generally related to satisfaction with democracy in a negative way, while reforms that increase economic freedom are positively associated with satisfaction with democracy. Voters also react more negatively to left-wing governments introducing reforms that de-liberalize. It thus seems as if the hypothesis of a general negative reaction towards liberalizing reforms taking the form of reduced satisfaction with democracy does not stand up to empirical scrutiny, at least not in our European sample.

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1. Introduction

About a decade ago, Naomi Klein published her book *The Shock Doctrine* (Klein, 2007), in which she makes several stark claims about the character of liberalizing reforms – i.e., reforms that reduce the size of government, entail deregulation, strengthen the protection of property rights and open up the economy to international trade and capital movements. One of her main ideas is that since people in general dislike liberalizing reforms, the political sponsors of such reforms – whose goal, according to her, it is to make the rich richer – take advantage of, and even at times initiate, crises of various kinds to impose them on confused, ignorant and powerless voters. Klein cites Milton Friedman as an example of an economist who sees crises as opportunities for pushing through "neoliberal" reforms:

> Only a crisis – actual or perceived – produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes politically inevitable. (Friedman, 1982, p. ix)

If Klein's understanding of how the politics of reforms works is correct, such reforms are evidently illegitimate. It is therefore not unreasonable to expect voters overall, once they become aware of the nature of the implementation of these reforms, to reduce support for the political sponsors and to become less satisfied with the way democracy in their country works.[1]

This is a rather crude and extreme understanding of how liberalizing reforms come about. Yet, there are milder versions of the underlying idea that suggest that liberalizations may generate negative reactions by voters. For example, Kumlin and Rothstein (2005) propose that people in welfare states become less trusting, towards government officials and towards people in general, when reforms that introduce more selective welfare policies are implemented. Vis (2009) finds that a necessary condition for governments pursuing unpopular reforms is a deteriorating socioeconomic situation and that a sufficient condition, in addition, is that the political situation is deteriorating or that the government stands to the right ideologically. If voters see the reforms as having the potential to improve the

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[1] According to MacFarquhar (2008), Klein "has become the most visible and influential figure on the American left – what Howard Zinn and Noam Chomsky were thirty years ago". She has received support from many politicians on the left, including the leader of the British Labour Party, Jeremy Corbyn, who has said that she has been at the "forefront of championing equality, social justice and action on climate change" and who invited her as a keynote speaker to the party's main conference (Simons 2017).

socioeconomic situation, they will arguably be more supportive of the government, but if they see them as being "sneaked through" in a time of crisis, without the purpose or effect of improving the crisis situation, an opinion backlash is to be expected. Hollanders and Vis (2013) likewise find that unpopular reforms are undertaken during economic downturns, because it is probable that the government will be voted out of office in the next election anyway.

It is easy to see how voters may experience reduced confidence in democracy *if* what these studies point at is a consistent pattern. And there is further empirical support for the view of Friedman and others, that economic crises are drivers of market-oriented reforms: see, e.g., Drazen and Grilli (1993), Pitlik and Wirth (2003) and Pitlik (2008).[2] Moreover, Ponticelli and Voth (2011) detect a relationship between budget cuts and social unrest in Europe, indicating strong discontent with reductions in government expenditure, a frequent desideratum of many free-market advocates. Still, it is not certain that voters react with discontent when reforms are undertaken. If the motivations of the reformers and if the consequences of reforms are deemed satisfactory, it could be that people rather react favorably. For example, Buti et al. (2009) find that voters reward politicians who undertake structural reforms *if* financial markets are well-functioning, so as to "bring forward" future yields of reform to the present, thus allowing voters to put less weight on possible short-run costs.

Against this background, we develop a simple theoretical framework and investigate empirically how liberalizing reforms and satisfaction with democracy relate to each other. More specifically, we ask if voters react positively, negatively or not at all to such reforms, by measuring how confidence in democracy is affected. This research question stems from concerns, as implied by claims of Naomi Klein and others who oppose liberalizations on ideological grounds, but also by several of the studies mentioned above, that the reactions are predominantly negative. Whether this is the case has not, to our knowledge, so far been tested in a rigorous manner.

Our study makes use of panel data for 30 European countries in the period 1993–2015. The outcome variable is the question "On the whole, are you very satisfied, fairly satisfied, not very satisfied or not at all satisfied with the way democracy works (in your country)?" from the EuroBarometer. As measures of reform, we use distinct changes in the four separate components of the economic freedom index of the Heritage Foundation and Wall Street Journal, measuring government size, the rule of

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[2] As for the other causal direction, Bjørnskov (2016) finds that more economic freedom does not lead to crises; rather, if it comes in the former of deregulation, it tends to *shorten* crises.

law/protection of private property, openness and regulation.[3] We add a set of economic and political controls.

The findings reject Naomi Klein's claim of negative popular reactions against liberalizing reforms. Reforms that change the size of government are not related to satisfaction with democracy in a robust manner, but when there is statistical significance, the results imply that *expansions* of government are negatively related to our outcome variable. We find more robust results for the other three types of reforms. For these types, reforms that reduce economic freedom are generally related to satisfaction with democracy in a negative way, while reforms that increase economic freedom are positively associated with satisfaction with democracy. An interaction analysis moreover reveals that voters react more negatively to left-wing governments introducing reforms that de-liberalize, and that minority governments and elections years reduce the negative estimates of de-liberalizing reforms. Crises only matter in the case of expansions of government size, when they increase the negative estimate.

A central motivation for our study is that it provides new knowledge about how voters can be expected to react to decision-makers who contemplate reforms. Decision-makers arguably pay close attention to the perceived popularity of the policy changes they are considering, at least if they wish to remain in office. If they expect a measure to make them less popular, they may very well refrain from it even if it has beneficial welfare consequences; and if they expect a measure that has detrimental welfare consequences to make them more popular, they may very well implement it. But beliefs about voter reactions may be inaccurate, and since such beliefs are important determinants of whether reforms come about or not, it seems essential to provide accurate information about how voters really do react.

2. A simple theoretical framework

How can liberalizing reforms, and the democratic system in which they are produced, be linked to voters' assessments of how the democratic system of their country works? Our theoretical framework, which informs our ensuing empirical analysis, is presented in Fig. 1. It links reforms to voter satisfaction with democracy.

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[3] The Heritage Foundation refers to the four specific components of economic freedom as "columns" or "pillars". We prefer to use the more neutral "components".

A starting point is the formulation of political programs, typically by parties. Such programs are influenced by the motivations and beliefs about how the world works of the politicians of the different parties, who then compete in the electoral process, but also by the motivations and beliefs of voters and interest groups (Mueller, 2003). In other words, while politicians are intrinsically motivated to pursue a particular political program, they all strive to get political power by attracting as many voters as possible and by getting support from interest groups. This implies a possible trade-off when the political programs are decided on (cf. Peltzman, 1976). The politicians pick the program that gives them the highest expected welfare (broadly conceived), considering these three margins of adjustment.

We then arrive at the reforms, which we focus on in the present study. The political programs are inputs into the actual legislative decision-making process, which is affected by the design of the political institutions and the actual power distribution among parties (and other actors in the overall system of democratic governance). The party or parties in power try to implement reforms in accordance with their political program (influenced by their ideology/ideologies, traded-off against the perceived wishes of voters and interest groups, as expressed in the political program(s)). In this, they might be influenced by crises (cf. Friedman, 1982; Bjørnskov and Rode, 2016). They may, in theory, try to instigate crises in order to create a window of opportunity for reforms they think would be difficult to push through the legislature in normal times. Be that as it may, whatever the cause of a crisis, politicians may use it to facilitate acceptance in the legislature of reform proposals, either because voters and interest groups will be open to change in an adverse situation or because they will not pay attention in a time of crisis (which enables unpopular reforms to be pushed through). When a reform has been implemented, it has real consequences – affecting various socioeconomic outcomes such as economic growth, the income and wealth distribution, unemployment, welfare benefits, etc., but also affecting the freedom to act as a citizen: e.g., to start a business without too many hurdles.

Lastly, voters will assess the real outcomes of the democratic systems, revealing their degree of satisfaction with it.[4] The assessments can concern the outcomes as such, but also the manner in which

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[4] These assessments can concern the actual government rather than the democratic system, but as noted above, the latter is a more "demanding" type of attitude to take, in the sense that if one dislikes the system, one can be expected to dislike the government, but the reverse does not necessarily hold. This implies that satisfaction with democracy is a "lower-bound" estimate of voter attitudes. That real economic outcomes do influence people is clear from previous studies – e.g., that unemployment reduces life satisfaction (Kassenboehmer and Haisken-DeNew, 2009) and that higher income increases it (Frijters et al., 2004).

the reforms that brought about the outcomes came about – e.g., whether they were sneaked through or decided on in a transparent manner. It bears noting that satisfaction with democracy is a *subjective* variable: Real consequences (and the way in which reforms came about) do affect it, but depending on emotive and epistemic factors, the same real consequences (and ways in which reforms came about) can be perceived and evaluated differently by different voters. We capture this in the following way:

Satisfaction with democracy$_i$ = ψ_i(Real consequences of reforms and the way they came about),   (1)

where $\psi_i \in [0,1]$ denotes the degree of accuracy in voter i's perceptions of the real consequences of reforms and the way they came about.[5] One can distinguish between four "corner" settings:

i.   If the real consequences that voter i care about are objectively detrimental to voter i (e.g., if the politicians are motivated to favor others due to an ideological conviction or due to an alliance with some interest group) and if ψ_i is close to 1, then this voter will become less satisfied with democracy (especially if the detrimental reforms were undertaken in a manner that tried to hide either the decision process or the consequences from voters).

ii.   If the real consequences are beneficial and if ψ_i is close to 1, voter i will become more satisfied with democracy (especially if reformers made sure that the beneficial reforms were decided on in a transparent way).

iii. If the real consequences are detrimental and if ψ_i is close to 0, then voter i's satisfaction with democracy may increase or decrease, depending on what frame the he or she applies in evaluating the reforms and the way in which politics works. Populist politicians and the media may determine the frame applied.

iv.   If the real consequences are beneficial and if ψ_i is close to 0, then, as in case iii), it is basically uncertain how satisfaction with democracy will change.[6]

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[5] We do not know the values of ψ, but earlier studies suggest it to be generally low (see, e.g., Caplan, 2007). To this can be added that status quo bias (Kahneman et al., 1991) can also be relevant for voter attitudes towards reforms. As argued by Fernandez and Rodrik (1991), the closer ψ_i is to 0, the larger is the uncertainty regarding individual distributional consequences of reforms and, in the presence of status quo bias, the larger the resistance to reforms.

[6] The concept of accuracy here can also be interpreted in the temporal dimension, by capturing the degree of myopia. It may be that voters perceive real outcomes that are immediate but are oblivious to long-term effects. If so, this implies a ψ that is close to 1 with regard to short-term consequences and close to 0 with regard to long-term ones. This would entail a negative

It is not entirely clear whether the Naomi Klein thesis is most in line with setting i) or setting iii). By suggesting that politicians are able to use crises to take advantage of ignorant people, it may be taken to indicate that her view is that of setting iii) – in which case it actually becomes unclear whether they will become more or less satisfied with democracy after liberalizing reforms. It depends on who voters are influenced by. Maybe the rich elite favored by the politicians through the reforms also owns the media, through which they can portray what is going on as generally beneficial, which may then be believed by people in general. On the other hand, a part of her thesis is that liberalizing reforms not only hurt (many) voters but that they are in fact also disliked, which requires voter awareness and which speaks in favor of setting i). It might be, for instance, that even if politicians use crises to implement the reforms, they may still (passively) be noted; or that they will be noted *ex post*.[7] Or, if setting iii) is most apt, it might be that voters are affected by status quo bias in this setting of ignorance, which may lead them to put a low weight on reforms solely because they imply a replacement of the familiar by something largely unknown. If so, the content or direction of (proposed or implemented) reforms does not really matter, because it is reforms as such that are disliked. Hence, liberalizing and de-liberalizing reforms would both imply reduced satisfaction with democracy.

As for the reforms, they could be of any kind, depending on, first of all, the motivations of those in government: entailing more or less liberalization. An underlying assumption behind the Naomi Klein thesis, of liberalizing reforms being highly unpopular, favoring the rich few and being pushed through against the will of the people, is that the real outcomes of such reforms are (considered)

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attitude to liberalizing reforms with a J-curve distribution of effects. If empirical findings indicate a negative relationship between liberalizing reforms and voter satisfaction, there is a problem of interpretation, in the sense that we cannot disentangle whether the dissatisfaction is based on a "full-knowledge" evaluation of all effects (which would support a Naomi Klein interpretation) or on a "partial-knowledge" evaluation of only short-run effects. However, if the relationship has a positive sign, this problem of interpretation evaporates. Rather, such a result suggests one of three interpretations: that voters have full knowledge, across time and space; or, if they are myopic, that short-run effects are not of the J-curve type but objectively positive for them; or, if they have inaccurate or no knowledge of neither short- nor long-run effects, that they have been swayed by some influence to take a positive position for other reasons than factual knowledge.

[7] It bears noting that setting (iii) implies that Klein's description of reality may be correct but that people may still become more satisfied with democracy as a result of liberalizing reforms *due to deception*. An empirical test of the kind we undertake cannot reject her description of reality – most notably, we do not know the actual values of ψ and cannot show whether voters are *objectively* favored or hurt by reforms (although, as we point out in the next footnote, most studies on this topic find substantial economic as well as non-economic benefits of economic freedom). What we can evaluate is the claim that people become dissatisfied after the reforms.

adverse. A first reason to doubt this thesis is that there is a large empirical literature investigating the effects of more or less economic freedom (roughly corresponding to more or less economically liberal policies) that suggests that most real outcomes are, for most people, favorable or at least not unfavorable.[8] If so, one may interpret using crises to implement more liberal policies as a method to overcome *interest-group* resistance rather than voter resistance (cf., Olson, 1982). This means that the two relevant cases to consider in the list of four settings specified above is neither of the Naomi Klein ones but ii) or iv) – and with setting ii) we would expect liberalizations to bring about higher satisfaction with democracy, while setting iv) means that we cannot really say, because it depends on what voters perceive. (If they read Naomi Klein but little of the relevant research literature, they can be expected to experience lower satisfaction, in spite of objective improvements in consequences.)[9]

It may also matter who implements the reforms and under which conditions they are undertaken. While Klein and others argue that liberalizing reforms are never popular with voters, they may be undertaken to address very clear and visible problems. Not least, reforms during economic crises and downturns may be perceived differently than reforms undertaken during times with no major, visible problems. This difference was central to Friedman's (1962) original argument that outright economic problems would create a demand for new and different policies, i.e., for reforms. Many voters might realize that the underlying reason for reforms could be benign and that they might help in dismal economic times (or, in the case of little knowledge, they could be induced towards such an "understanding" by frame-setters).

Yet another aspect is that liberalizing reforms are traditionally believed to be in the interest of right-wing parties, while de-liberalizing reforms are associated with left-wing preferences for more extensive government control. As such, right-wing governments may not only be more likely to

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[8] For a comprehensive survey of the economic freedom literature, see Hall and Lawson (2014); and for studies that show that more economic freedom is related to higher degrees of happiness, see Gehring (2013) and Rode (2013), who, however, do not explicitly look at reforms. Giavazzi and Tabellini (2005) investigate the joint effects of both economic and political liberalization (where the latter means democratization) and find that countries that first liberalize the economy and then become democracies do much better than countries that pursue the opposite sequence. This somewhat undermines the thesis that economic liberalizations that are seemingly pushed through are necessarily unpopular: If their real consequences are favorable, which seems to be the case, they might still entail satisfied people (even though there may be a preference for democracy as well). Rode and Gwartney (2012) furthermore find that democratization is beneficial for economic liberalization, at least if it is of stable kind and at least for the first ten years or so. That is, more popular and transparent decision-making seems to go hand in hand with liberalizing reforms.

[9] A literature on rational ignorance and rational irrationality suggests that ψ_i for the typical i is low: see Caplan (2007) and Somin (2016). If so, this points at iv) being the most relevant setting for the typical case of liberalizing reform.

undertake liberalizing reforms (as indicated by Besley and Case, 2003, and Potrafke, 2010), but issue ownership theory in political science also theorizes that voters perceive right-wing parties to be more competent at handling reforms to, e.g., judicial, regulatory and economic policy (Petrocik, 1996; Stubager and Slothuus, 2013). Rather, it is argued, voters perceive left-wing parties to be better or more competent at handling *social* issues such as unemployment problems. Issue ownership theory thus implies that voters would be more likely to perceive liberalizing regulatory reforms, for example, in a positive light when undertaken by a right-wing government.

Conversely, Cukierman and Tomassi (1998) hypothesize that left-wing governments may be less likely to suffer losses of popularity or legitimacy when undertaking liberalizing reforms, and right-wing governments similarly would be more protected from popularity losses when expanding the size or scope of government. In their argument, which is colloquially known as the Nixon-goes-to-China effect, the ideologically "wrong" government is more likely to be able to credibly communicate to voters that such reforms are objectively necessary. Thus, issue ownership theory implies that liberalizing (de-liberalizing) reforms are more (less) popular when undertaken by a right-wing (left-wing) government, while the Nixon-goes-to-China argument holds the exact opposite implication.

To summarize, our simple theoretical framework helps us emphasize that the relationship between liberalizing reforms and satisfaction with democracy can be positive, negative or null. It depends on the real consequences of the reforms, the way in which the reforms were implemented, the preferences of the voters – but also on the degree to which voters are accurate in their beliefs about the consequences and the way in which democracy works, as well as by who implements the reforms and why. It remains an empirical issue what the relationship *de facto* looks like, and we now turn to the data.

3. Data and econometric approach

Our data cover 30 European countries observed between 1993 and 2015.[10] The dataset is an unbalanced panel, as not all countries are included in the dataset from 1993. Including a lagged dependent variable therefore yields a total of 454 observations with full data. Our dependent variable is

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[10] The countries included and the first year in which they appear in our dataset are: Austria (1995), Belgium (1993), Bulgaria (2004), Croatia (2004), Cyprus (2004), the Czech Republic (2004), Denmark (1993), Estonia (2004), Finland (1993), France (1993), Germany (1993), Greece (1993), Hungary (2004), Ireland (1993), Italy (1993), Latvia (2004), Lithuania (2004), Luxembourg (1993), Macedonia (2007), Malta (2004), the Netherlands (1993), Poland (2004), Portugal (1993), Romania (2004), Slovakia (2004), Slovenia (2004), Spain (1993), Sweden (1995), Turkey (2004), and the United Kingdom (1993).

a measure of satisfaction with democracy and is based on EuroBarometer (2017) data. The basic question is: "On the whole, are you very satisfied, fairly satisfied, not very satisfied or not at all satisfied with the way democracy works (in your country)?", with the reply alternatives coded as 4, 3, 2 and 1 in our data. These data vary between scores close to 1.6 in, for example, Bulgaria and Italy in recent years, to almost 3.3 in Denmark, Luxembourg and Sweden in the most recent years. However, the EuroBarometer has changed its main questionnaire several times, which means that this measure is not available for 1996, 2002–2003 or 2005–2011. Following the approach in Berggren et al. (2015), we therefore impute values, using answers to questions on how much confidence respondents have in either the parliament or the political parties. We document the imputation process and its precision in the Appendix.

Before proceeding, it is worth making a few clarifying remarks about our outcome variable. One can, in principle, investigate several types of popular reactions to liberalizing reforms where one type would be to measure voter evaluations of specific policies or governments. However, this kind of measure is not available for our sample. An alternative, which we use here, is measuring satisfaction with democracy in one's country, which we consider useful in at least two ways. On the one hand, the Naomi Klein argument largely concerns satisfaction with, or confidence in, the democratic system as such – especially since she stresses that liberalizing reforms are typically pushed through the political system in times of crises, when few are paying attention or when few have the ability to question what is being done. Klein's main point is that these reforms are democratically illegitimate, which would make voters less satisfied with their political institutions. On the other hand, even if one does not presume that liberal reforms are implemented in such a (by some regarded as undemocratic) manner, it is still possible to consider our satisfaction measure as a "lower-bound" type of measure of voter contentment. If we capture that voters become less confident in democracy as a system, it is highly likely that they also, prior to that, and quite strongly, have disliked specific policies, governments, or political processes. However, if we capture the opposite direction in the relationship – if voters come to appreciate the democratic system in their country more as a result of liberal reforms – this does not *necessarily* imply that they approve of specific policies or governments, but that they think the democratic system as such has worked well in relation to the adoption of these reforms. Yet, we find it plausible to believe that part of the reason for this is an actual approval of the reforms, e.g., through the consequences they are perceived to bring about. If a democratic system delivers results that people approve of, they are likely to approve of the democratic system.

Our main variable of interest is reforms and the degree to which they are liberalizing or de-liberalizing. The basic data derive from the Index of Economic Freedom published by the Heritage

Foundation (2017) annually since 1995, which provides one of the most used measures of the degree to which various policy areas are market-oriented or economically liberal (in the European sense of the term). We make use of the four components of this index: the size of government, the rule of law/protection of private property, market openness and regulation, each of them measured on a scale from 0 to 100 (increasing in economic freedom). The smaller the government, the stronger the rule of law/protection of private property, the more open the economy and the less regulations of the business sector, the higher is the score. Consistent with several studies exploring the dimensionality of economic freedom, we aggregate the rule of law, regulation and market openness indices into a single index while keeping government size separate (cf. Heckelman and Stroup, 2005; Rode and Coll, 2012; Sturm and de Haan, 2015; Ott, 2018). In further tests reported in the Appendix, we report estimates using all four components separately.

We next follow the main approach of Berggren and Bjørnskov (2017) to identify reforms, using dummy variables. The idea is to look at distinct, substantial changes in the four indicators of economic freedom and not just any continuous change. We create two sets of reform dummies by separating the observations of period-to-period changes in each economic freedom variable into three groups of equal size. We then form one set of dummies for large positive changes, which we denote "liberalizing reforms", and another set of large negative changes denoted "de-liberalizing reforms". We estimate their effects compared to the middle third of the observations with small or no changes in economic freedom.

We moreover include a set of control variables, capturing economic circumstances, political institutions and features of politics. More specifically, we employ a baseline that includes the lagged annual growth rate of GDP per capita, a dummy for crisis or recession (coded as one in all years in which growth is negative), both coded on the basis of PPP-adjusted GDP data from World Bank (2017); and government ideology, the Herfindahl index of the legislature and a dummy for minority government, which we all take from Berggren and Bjørnskov (2017). In further tests, we also include the inflation rate, the rate of unemployment – both from World Bank (2017) – and the Gini coefficient of net income inequality from the fifth edition of the SWIID database (Solt, 2009). We prefer to add these final variables as additional tests instead of as part of the baseline, as all three can be seen as likely transmission mechanisms between reforms and voters' satisfaction with democracy.[11]

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[11] While we are concerned with omitted variable bias, which would imply that we add more controls, we believe that bad control bias is a more salient problem in the present context (Angrist and Pischke, 2009, Ch. 3). If, for example, a reform is appreciated *per se* by voters, but it also creates unemployment in the short run, which voters dislike, a variable that captures unemployment added to the specification would be a bad control. The reason is that unemployment in this example is an

Our econometric approach consists in estimating the satisfaction of democracy including its one-year lagged value. We include a full set of year and country fixed effects such that all common shocks, such as business cycle fluctuations and common political influences are subsumed in the annual fixed effects. Likewise, all approximately time-invariant features (geography, constitutional features etc.) as well as country-specific long-run trends are subsumed in the country fixed effects. This choice also alleviates the ever-present endogeneity problem, as our approach effectively implies that we are regressing the effects of reforms on *subsequent* changes in satisfaction with democracy. This means that most sources of endogeneity bias, such as that arising when high levels of initial satisfaction with democracy potentially make reforms more likely, are taken care of by the lagged dependent variable. However, as a result of including a lagged dependent variable, our estimates will suffer from Nickell bias. We nevertheless believe that this is a negligible problem, as the size of Nickell bias is approximately 1/T, where T is the length of the panel. With a T of 22 years for most countries in the sample, the bias is approximately 5% and thus a small price to pay for alleviating the more serious endogeneity problem.

In a final set of estimates, we interact our reform variables with four factors that proxy for characteristics relevant to the perception of the reforms: a left-wing dummy, a crisis dummy, a dummy for minority government and a dummy for whether the year of the reform is an election year. The left-wing dummy captures the diverse implications of issue ownership theory and of potential Nixon-goes-to-China effects, while the crisis dummy captures Friedman's (1962) basic argument more precisely. Finally, the dummies for minority government and election years capture the fact that with either a minority government or an election, it is difficult for voters to assign blame or credit for reforms to any particular party, bloc or government. In the text, we interpret the interaction effects given their conditional standard errors calculated by the delta method (Brambor et al., 2006).

4. Main results

Our main results are presented in Table 2. As described in Section 3, we separate liberalizing and de-liberalizing reforms by introducing two dummies capturing whether reforms are in one or the

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unwanted side effect, and controlling for unemployment therefore biases the estimate of the full effect of liberalization. Economic growth and our recession variable conversely cannot be bad controls in this sense, as they are measured prior to the reform episodes and are thereby the result of processes operating temporally prior to the reforms. As such, neither measured growth nor recession can proxy for transmission mechanisms.

other direction. We look at government size (where a liberalization entails a reduction, and a de-liberalization entails an expansion) and the aggregate index of the three other components of economic freedom (rule of law/protection of private property, openness and regulation), as motivated in Section 3.

[Insert Table 2 about here]

First, we note that satisfaction with democracy is relatively stable over time, as indicated by the highly significant and sizeable coefficient on the lagged dependent variable. We also note that economic growth makes people more satisfied, while crises, defined as episodes of negative growth, do not do so in a stably significant way. Yet, we also find that the political situation matters, as both minority and left-wing governments are associated with lower satisfaction.

Looking at the main results, there are some indications that an expansion of government size is related to lower satisfaction with democracy, but the finding is not very robust. On the other hand, the aggregate measure containing the three other indicators of economic freedom seems rather robustly related to satisfaction with democracy, and in a largely symmetrical fashion: De-liberalizing reforms are negatively related to satisfaction with democracy, while liberalizing reforms are related to satisfaction with democracy in a positive way. We also observe that de-liberalizing reforms are more important than liberalizing, as a de-liberalizing reform on average leads to a decline in satisfaction with democracy of 0.25 points (on a 4-point scale) while a liberalizing reform leads to a 0.1-point increase. Thus, our findings do not corroborate the Naomi Klein thesis: If anything, the general pattern is the other way around. Nor do they support the idea that status quo bias is an important factor, since liberalizing and de-liberalizing reforms tend to have opposite effects whereas people who dislike change *per se* would be dissatisfied with both. Liberalizing reforms do not seem to come at a political cost; rather, the democratic system is deemed more satisfactory after their implementation.

Appendix Tables A1 and A2 provide disaggregated results, enabling us to see what specific type of reform that drives the results for the aggregate variables with three indicators of economic freedom. It turns out that the most immediately important type of reform here is liberalizations that increase market openness, such as reductions in protectionism and removal of obstacles to capital movements.[12]

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[12] Rodrik (1998) argued that more openness is associated with higher external risk for citizens, which explains a positive relationship between openness and government size (confirmed by Meinhard and Potrafke, 2012). Government expenditures are required to make people accept openness. While our finding that liberalizing reforms that increase openness are positively related to satisfaction with democracy may be taken to contradict the idea that voters dislike more

We nevertheless prefer not to interpret these differences strictly, since the way we code reforms implies that we do not pick up that the *size* of reforms differs across the three components. The time it takes to fully implement reforms can also differ, making it difficult to pinpoint the effects of an identifiable reform to a particular year, when reforms – as is often the case for regulatory changes, for example – are implemented over several years. In addition, there could also be some joint effect when reforms of the three types are undertaken together, or when specific types of reforms are substitutes, such that governments undertake either one or the other, that we miss when only looking at disaggregate results.[13]

As a sensitivity check, we have conducted a jackknife analysis, presented in Table A3 in the Appendix, in which we delete a single country at a time. We thereby make sure that the general results are not driven by single countries with very specific preferences or policy developments. These additional tests show that the effects of non-government size reforms are in general very robust. While the satisfaction changes following de-liberalizing reforms vary substantially depending on whether or not we include Italy and Greece, in particular, the positive effects of liberalizing reforms appear very precisely measured.

5. Interaction results

As indicated in Fig. 1, it could nevertheless be that the effect of reforms on satisfaction with democracy are influenced by other factors, such as government ideology, whether there is a crisis, the

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openness and need compensation to accept it, we cannot rule out that the positive association is at least partly driven by the presence of or an expansion of the welfare state. Yet, due to a lack of data, we cannot interact de-liberalizing reforms involving government size with liberalizing reforms involving openness, which could constitute a rough test of the Rodrik hypothesis in our context. However, within our sample, this combination is virtually never observed.

[13] Although we very much prefer the approach of Table 2 when investigating the link between reforms and satisfaction with democracy, with distinct reform measures, we have also used continuous versions of the four indicators of economic freedom. These results are not presented in the present paper but available upon request. We find that three of the indicators are not related to satisfaction with democracy, but the rule of law and protection of private property is, in a positive manner.

type of government and whether it is an election year. We therefore interact our reform dummies with these four variables, and present the results in Table 3.[14]

[Insert Table 3 about here]

Starting with government ideology, we use a dummy that takes the value 1 if the government is left-wing and 0 otherwise. We do so as left-wing governments may be able to signal more credibly to voters that liberalizing reforms are objectively necessary, and right-wing governments may be better able to communicate that de-liberalizing reforms may be necessary or objectively desirable (Cukierman and Tomassi, 1998). In other words, voters may be more likely to interpret de-liberalizing reforms as opportunistic when undertaken by left-wing governments, and liberalizing reforms as dubious when undertaken by right-wing governments. Conversely, issue ownership theory implies the opposite, such that right-wing governments undertaking liberalizing reforms would be judged more positively by voters (Petrocik, 1996). As can be seen in column (1), de-liberalizing reforms that involve the aggregate of three reform indicators other than changes in government size are negatively related to satisfaction with democracy – and much more so if the government is left-wing. This could be interpreted as voters being especially dissatisfied with de-liberalization if they occur in a context of general left-wing policies, which is consistent with issue ownership theory.[15] Moreover, liberalizing reforms are, again, shown to be positively related to satisfaction with democracy, but we find no difference depending on government ideology here.

Continuing with crises, we use the incidence of negative growth (a dummy variable) as the indicator, and find, in column (2), that reforms that increase the size of government and that are undertaken during crises are negatively related to satisfaction with democracy.[16] Otherwise, we find no

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[14] We refrain from discussing the control variables, as they remain similar in size and significance. In addition, adding the three additional control variables as in Table 2 (not shown) also changes very little and has no substantial bearing on our main findings.

[15] Our finding here can be compared to that of Knoll et al. (2013), who find that market-friendly (or right-wing) people benefit *less*, in terms of individual life satisfaction, from deregulation than people who claim to dislike market-oriented policies (or who are left-wing). They suggest that this result indicates miscalculations among voters of the effects of policies.

[16] It is worth noting that the table does not report any results of the impact of reforms, whether liberalizing or de-liberalizing, during crises and recessions. The simple reason is that non-government size reforms are so rare in crisis years that we do not observe a sufficient number in our sample to provide an estimate.

indication of crisis effects, but it is again confirmed that liberalizing reforms tend to relate positively, and de-liberalizing reforms tend to relate negatively, to satisfaction with democracy.

In column (3) we interact with minority government (a dummy variable). We do so for two reasons. First, it is possible that the presence of this type of government involves some understanding on the part of voters that minorities may, at times, have to act in ways that satisfy a majority, and hence, they cannot be held responsible to the same degree as other governments. Second, it also remains a possibility that minority governments are better at reaching and communicating a political consensus when implementing reforms, although it may entail higher costs (Kontopoulos and Perotti, 1999). Regardless which mechanism is at work, we find that while the estimate of de-liberalizing reforms involving the three types of reforms other than changes in government size again takes a negative sign, a minority government in fact reduces the size of the estimate.

Lastly, we look at whether an election year affects the relationship between reforms and satisfaction with democracy. We include this because estimates in election years are likely to be biased. If, for example, an unpopular reform occurs before an election and the incumbent government subsequently loses the election, satisfaction with democracy might increase despite the *a priori* negative reform effect. Voters may simply interpret the reform and election loss as an indication that democracy works as intended. We find an effect for de-liberalizing reforms of the three reform indicators other than changes in government size: An election year reduces the negative estimate. It could be that during election years, whatever is decided is fine-tuned to the desires of the voters, as there is more transparency due to campaign activities and media reports, which reduces discontent among voters.

Taken together, the pattern reported in Section 4 is confirmed here: Reforms that involve government size are rarely statistically significant; reforms that involve the other three reform areas typically are. The general pattern is that de-liberalizing reforms in this case stand in a negative relation to satisfaction to democracy, and that liberalizing reforms display a positive association with this outcome variable. Left-wing governments increase the negative estimate, while minority governments and election years reduce the size of the still negative estimates. Crises only seem to matter when government size increases, and then they make the effect on satisfaction with democracy much more negative. These findings are robust to a number of further tests with additional interacting factors and an alternative and broader measure of satisfaction with society.[17]

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[17] Among the additional tests we have conducted (not shown, but available upon request), we believe three are particularly pertinent. First, we have also conducted country jackknife tests for the interaction results in Table 3. These tests confirm the robustness of our main results, as no single country or country group drives particular results. Second, we have interacted the reform measures with a measure of press freedom available from Freedom House (2017). We do so because our

6. Concluding remarks

There are claims to the effect that reforms of economic liberalization give rise to consequences that are unfavorable to most people and that they are pushed through, often in conjunction with crises, in a non-transparent way. These characteristics make such reforms, it is averred, strongly disliked – even to the extent that voters will become less satisfied with the political system as such, either because the reforms are perceived as having been implemented in an illegitimate way or because the outcomes are regarded as detrimental. Although stated in different ways, these claims have been influential in recent years, in particular among left-wing parties and politicians in the Western hemisphere.

Against this background, our main question in this paper is if voters really and strongly dislike liberalizing reforms. We find no support for this contention. In contrast, our empirical analysis indicates that when there is a statistically significant and robust relationship, it tends to be positive in the case of liberalizing reforms and negative in the case of de-liberalizing reforms. Distinct increases in economic freedom hence seem to make voters more satisfied with the way their political system works, while distinct reductions in economic freedom have the opposite effect. If we focus on reforms that increase economic freedom, our result can be connected to the four "corner settings" discussed in our theoretical section: two with objectively beneficial outcomes of liberalizing reforms (one with accurate voter knowledge, one with ignorant voters) and two with objectively detrimental outcomes of liberalizing reforms (again, one with accurate voter knowledge, one with ignorant voters). If we take previous studies seriously, outcomes are generally beneficial, and since voters appear more satisfied with how their political system works after the reforms, this is either because they accurately assess the

theoretical framework stresses that voter knowledge matters in predictable ways for how they assess the consequences of political decisions, such as reforms, and because knowledge can be expected to be better where the media is free to report on matters political as they see fit. These tests do suggest that countries with more press freedom tend to see different reactions. However, these apparent differences turn out to be driven entirely by Turkey, which is the only country in our sample with substantially restricted press freedom. Hence, this test does not provide much empirically relevant information about the role of voter knowledge in their evaluation of democracy. Finally, we have performed what we think of as a placebo test by replacing the measure of satisfaction with democracy with the EuroBarometer measure of general life satisfaction. The background for this test is that the changes we observe might simply be reflections of general changes in citizens' overall evaluations of the broader society. If so, we would necessarily expect to observe very similar patterns when using life satisfaction instead of satisfaction with democracy. Yet, the life satisfaction results are reassuringly different from those in Tables 2 and 3, and only reveal economic growth as a common factor behind both satisfaction measures.

nature of the outcomes or because they do not really grasp it but hold positive views for other reasons (through being influenced by others, maybe through media). Another feature of this outcome is that voters apparently do not think that the reforms came about in "undemocratic" ways.

An interaction analysis furthermore indicates that if the government is left-wing, the negative effect of de-liberalization increases; that crises increase dissatisfaction with reforms that expand government size; and that minority governments and elections years decrease the negative effect of de-liberalization. In other words, this might be taken to suggest that voters for some reason pay attention to who decides and implements reforms, and under which economic and political conditions they do so – or at least that the outcomes that such circumstances give rise to are noticed and assessed.

Although there has been a lot of speculation, to our knowledge, this is the first empirical demonstration of what the relationship between reforms and satisfaction with democracy actually looks like. And it shows that the speculations proffered by Naomi Klein and others turned out to be erroneous, at least in the European context. Voters in general seem to be more satisfied with democracy when reforms introduce more economic freedom.

Acknowledgments

Appendix

As noted, we impute the values of satisfaction with democracy in the years in which the question was missing from the EuroBarometer questionnaire. In these years, we employ two questions capturing how much confidence respondents have in either the parliament or the political parties. The answers to both questions are measured on a four-point scale. The question of confidence in

parliament is available from 1994 and that of political parties from 1997. The overlap in coverage allows us to estimate the association between the first and the two latter questions.

We impute satisfaction with democracy using the following formula:

Imputed satisfaction with democracy = 1.57 + 1.67 * confidence in parliament + 0.87 * confidence in parties (2)

This formula yielded the best fit and derives from a set of OLS regressions using the observations from the mid-1990s in which both confidence questions and the question of satisfaction with democracy were asked. We then used the constant and coefficients from this regression reported in (2) to impute comparable scores for the whole period. In case none of the questions are available for a year, the observation is missing.

We note that the imputation works rather well for the years from 1995–2011 for which Berggren et al. (2015) derive the formula: The correlation between the imputation and actual satisfaction with democracy is 0.61, which we illustrate in Fig. A1 with the black dots. However, it is also worth noting that the formula does an even better job at forecasting satisfaction with democracy out of the sample in which it was originally estimated. The empty (white) dots in the figure illustrate the association between the imputed values and the actual scores for out-of-sample period of 2012–2017, where the correlation is 0.87. As such, the imputation approach appears strongly valid and produces relatively precise estimates of the confidence in democracy.

[Insert Fig. A1 about here]
[Insert Table A1 about here]
[Insert Table A2 about here]

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Tables and figures

Table 1. Descriptive statistics

	Mean	Standard deviation	Observations
Satisfaction with democracy	2.412	.370	530
Log GDP growth per capita	10.056	.493	690
Crisis (negative growth)	.191	.394	690
Government ideology	.285	.309	690
Government share	.463	.149	690
Minority government	.544	.498	690
Herfindahl index	.292	.107	690
Government size	50.483	16.122	673
Rule of law	64.685	18.973	673
Regulation	73.098	9.619	673
Market openness	73.307	9.042	673
Non-government size (rule of law, regulation and market openness)	70.569	10.504	673
Unemployment	9.729	5.549	673
Inflation	7.489	44.001	673
Income inequality	29.666	4.681	561

Table 2. Reforms and satisfaction with democracy

	1	2	3	4	5
Lagged satisfaction	.682***	.636***	.684***	.625***	.590***
	(.046)	(.066)	(.047)	(.066)	(.081)
Growth	.884***	.750**	.898***	.979***	.772**
	(.305)	(.341)	(.303)	(.332)	(.351)
Crisis	-.053*	-.045	-.052*	-.062*	-.048
	(.028)	(.027)	(.027)	(.032)	(.031)
Government ideology	.094***	.091***	.095***	.109***	.111***
	(.026)	(.027)	(.026)	(.036)	(.038)
Herfindahl index	.057	-.000	.048	.119	.081
	(.106)	(.109)	(.107)	(.156)	(.162)
Minority government	-.046**	-.045**	-.045**	-.059***	-.051**
	(.018)	(.018)	(.018)	(.020)	(.021)
De-lib. government size reform	-.053*	-.036	-.049*	-.057*	-.044
	(.028)	(.028)	(.027)	(.031)	(.033)
Lib. government size reform	.016	.022	.017	.032	.035
	(.019)	(.019)	(.019)	(.022)	(.021)
De-lib. non-gov. size reform	-.268***	-.256***	-.266***	-.288***	-.271***
	(.058)	(.057)	(.060)	(.051)	(.053)
Lib. non-gov. size reform	.102***	.115***	.097***	.108***	.165***
	(.018)	(.021)	(.018)	(.035)	(.026)
Unemployment		-.009**			-.011**
		(.004)			(.005)
Inflation			-.003		-.009
			(.004)		(.006)
Income inequality				.008	.011**
				(.006)	(.005)
Year FE	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes
Observations	454	454	454	377	377
Countries	30	30	30	30	30
Within R squared	.665	.671	.665	.623	.631
F statistic	1250.43	-	-	5063.07	-

Note: *** (**) [*] denote significance at $p<.01$ ($p<.05$) [$p<.10$].

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Table 3. Reforms and satisfaction with democracy, interaction results

	1	2	3	4
	Full specification included			
Left-wing dummy	-.046**			
	(.019)			
Crisis		-.042		
		(.029)		
Minority government			-.048**	
			(.019)	
Election year				.018
				(.019)
De-lib. government size reform	-.030	-.003	-.046	-.059**
	(.026)	(.029)	(.036)	(.029)
Ideology * de-lib. reform	-.056			
	(.051)			
Crisis * de-lib. reform		-.172***		
		(.053)		
Minority * de-lib. reform			-.010	
			(.046)	
Election * de-lib. reform				.082
				(.071)
Lib. government reform	.025	.013	-.009	.001
	(.021)	(.020)	(.021)	(.028)
Ideology * lib. reform	-.044			
	(.030)			
Crisis * lib. reform		.052		
		(.061)		
Minority * lib. reform			.047	
			(.029)	
Election * lib. reform				.028
				(.042)
De-lib. non-gov. size reform	-.208***	-.257***	-.357***	-.305***
	(.040)	(.059)	(.044)	(.054)
Ideology * de-lib. reform	-.152***			
	(.043)			
Crisis * de-lib. reform		-		
Minority * de-lib. reform			.139***	
			(.049)	
Election * de-lib. reform				.131*
				(.068)
Lib. non-gov. size reform	.072*	.089***	.075	.106***
	(.037)	(.017)	(.046)	(.031)
Ideology * lib. reform	.012			
	(.047)			
Crisis * lib. reform		-		
Minority * lib. reform			.008	
			(.058)	
Election * lib. reform				-.057
				(.041)
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Observations	454	454	454	454
Countries	30	30	30	30
Within R squared	.663	.667	.663	.665
F statistic	-	-	-	-

Note: *** (**) [*] denote significance at $p<.01$ ($p<.05$) [$p<.10$].

Table A1. Reforms and satisfaction with democracy, with separate reform indicators

	1	2	3	4
Lagged satisfaction	.682***	.683***	.680***	.685***
	(.046)	(.046)	(.045)	(.045)
Growth	.884***	.880***	.925***	.904***
	(.305)	(.317)	(.319)	(.323)
Crisis	-.053*	-.049*	-.049*	-.049*
	(.028)	(.027)	(.028)	(.028)
Government ideology	.094***	.091***	.088***	.090***
	(.026)	(.025)	(.025)	(.025)
Herfindahl index	.057	.011	.002	.025
	(.106)	(.112)	(.108)	(.102)
Minority government	-.046**	-.047***	-.045**	-.049**
	(.018)	(.017)	(.017)	(.019)
De-lib. government size reform	-.053*	-.049*	-.049*	-.049*
	(.028)	(.027)	(.027)	(.027)
Lib. government size reform	.016	.008	.007	.001
	(.019)	(.018)	(.018)	(.020)
De-lib. non-gov. size reform	-.268***			
	(.058)			
Lib. non-gov. size reform	.102***			
	(.018)			
De-lib. rule of law reform		-.038		
		(.029)		
Lib. rule of law reform		.013		
		(.026)		
De-lib. regulation reform			-.032	
			(.034)	
Lib. regulation reform			-.042	
			(.049)	
De-lib. market openness reform				-.153***
				(.050)
Lib. market openness reform				-.008
				(.042)
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Observations	454	450	450	450
Countries	30	30	30	30
Within R squared	.665	.656	.656	.664
F statistic	1250.43	34410.22	325.16	406.64

Note: *** (**) [*] denote significance at p<.01 (p<.05) [p<.10].

Table A2. Reforms and satisfaction with democracy, with separate reform indicators and additional controls

	1	2	3	4
Lagged satisfaction	.590***	.590***	.586***	.599***
	(.081)	(.080)	(.076)	(.078)
Growth	.772**	.863***	.838***	.878***
	(.351)	(.373)	(.369)	(.373)
Crisis	-.048	-.041	-.046	-.048
	(.031)	(.029)	(.031)	(.032)
Government ideology	.111***	.108***	.107***	.107***
	(.038)	(.036)	(.036)	(.035)
Herfindahl index	.081	-.012	-.003	.036
	(.162)	(.170)	(.173)	(.160)
Minority government	-.051	-.055***	-.053**	-.054**
	(.021)	(.020)	(.019)	(.021)
Unemployment	-.011**	-.011**	-.010**	-.008
	(.005)	(.005)	(.005)	(.005)
Inflation	-.009	-.009	-.009	-.008
	(.006)	(.006)	(.006)	(.006)
Income inequality	.011**	.011**	.009**	.008
	(.005)	(.005)	(.004)	(.005)
De-lib. government size reform	-.044	-.049	-.047	-.048
	(.033)	(.035)	(.035)	(.034)
Lib. government size reform	.035	.025	.026	.021
	(.021)	(.021)	(.022)	(.024)
De-lib. non-gov. size reform	-.271***			
	(.053)			
Lib. non-gov. size reform	.165***			
	(.026)			
De-lib. rule of law reform		-.049		
		(.039)		
Lib. rule of law reform		-.047		
		(.045)		
De-lib. regulation reform			-.014	
			(.034)	
Lib. regulation reform			-.072	
			(.059)	
De-lib. market openness reform				-.158**
				(.060)
Lib. market openness reform				-.008
				(.042)
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Observations	377	377	377	377
Countries	30	30	30	30
Within R squared	.631	.621	.619	.628
F statistic	-	-	-	-

Note: *** (**) [*] denote significance at p<.01 (p<.05) [p<.10].

Table A3. Jackknife results

	De-lib gov. size	Lib. gov. size	De-lib. non-gov. size	Lib non-gov. size
Smallest estimate	-.055**	.009	-.353***	.095***
	(.026)	(.019)	(.046)	(.017)
Country	Belgium	Luxembourg	Italy	Luxembourg
Largest estimate	-.034	.024	-.206***	.109***
	(.024)	(.019)	(.041)	(.019)
Country	Ireland	Germany	Greece	Romania

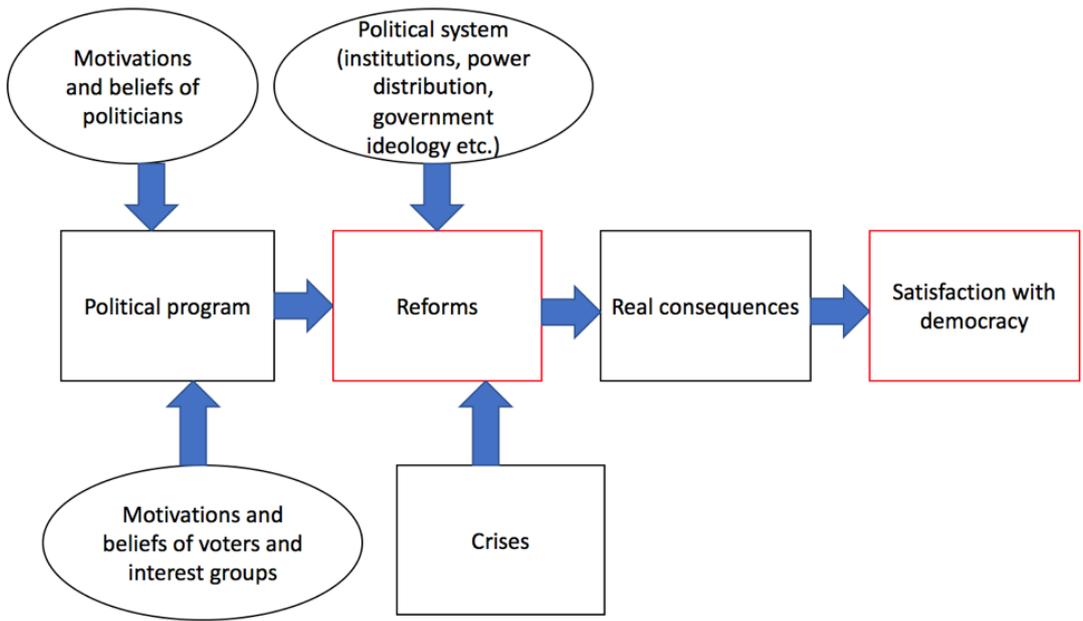Note: *** (**) [*] denote significance at p<.01 (p<.05) [p<.10].

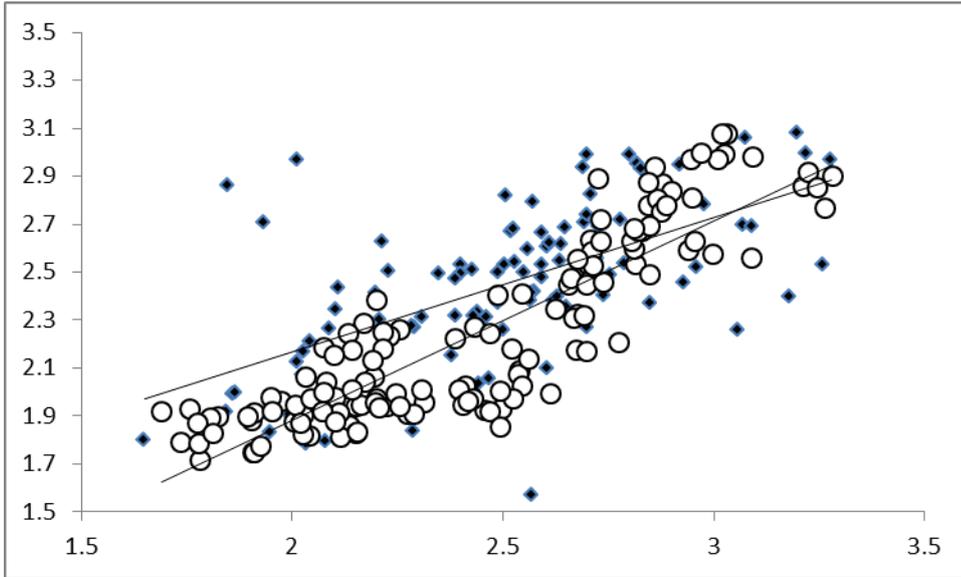**Fig. 1.** Reforms in the political process and satisfaction with democracy

Fig. A1. Imputed values and satisfaction with democracy, 1997–2017