Supplemental Information File: Market Inequality and Redistribution in Latin America and the Caribbean

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In this supplemental information file we provide some details of our analysis that could not be included in the published version of our paper due to space limitations. This file is divided into three sections. In the first section we provide information on the sources and coding for several of the explanatory variables in our models that were not central to our theoretical discussion. Second, we provide a table that presents information about the distribution of the variables within and across countries. Third, we discuss the use of error correction models in our analysis and present some analyses excluded from the paper that help to justify the use of this technique. Finally, we present the results from a modified jack-knife analysis in which one country at a time was dropped from the final models of Market Inequality, Redistribution, and Post-Redistribution Inequality that were reported in the paper.

Data Sources for Control Variables

Inflation. Our inflation data come from the International Financial Statistics series (International Monetary Fund 2008) and the Inter-American Development Bank (Blyde & Fernández-Arias 2004). Inflation is the annual percentage change in the consumer price index.

Unemployment. Unemployment, measured as the percentage of the workforce currently employed, is taken from the World Development Indicators (World Bank 2007).

Foreign Direct Investment. We measure FDI using inward investment as a percent of GDP. The data are taken from the United Nations Conference on Trade and Development (United Nations 2002) and supplemented by United Nations Centre on Transnational Corporations (United Nations Centre on Transnational

Corporations 1985).

Democracy. With regard to the regime type measure, we use the coding scheme from Rueschemeyer, Stephens & Stephens (1992), which classifies each country year as an authoritarian regime (coded 0), restricted democracy (coded 0.5), or full democracy (coded 1). As in previous work (Huber, Nielsen, Pribble & Stephens 2006), this measure is cumulative since 1945 to capture the history of regime type.

Right-wing authoritarianism. Of the country years that Rueschemeyer, Stephens & Stephens (1992) identify as authoritarian, country years with right-wing authoritarian regimes are coded 1 (0.5 if the regime was only present for half the year or less). This variable is accumulated over 15 years to capture the history of right-wing authoritarianism. These data come from Huber, Stephens, Mustillo & Pribble (2008).

Educational attainment. We measure educational attainment with the average years of education among those 25 years of age and older. These data are from Barro (2000). These data are available at five year intervals. For gaps in this dataset the missing years are imputed through linear interpolation within a country. Much of the year to year change in this variable, consequently, is generated by linear interpolation. Linear interpolation is appropriate here since changes in average years of education is necessarily gradual and incremental.

Age structure. Here we focus on the percent of the population aged 14 and younger. These data are from the World Development Indicators (World Bank 2007).

Ethnic composition. We use data from de Ferranti, Perry, Ferreira & Walton (2004) on ethnic heterogeneity. This variable is coded 1 if indigenous or African

heritage is between 20 and 80 percent of the population and 0 otherwise. There is insufficient data to create a variable with temporal variation within country.

Table 1: Mean and Range of Variables Included in Analysis

Variable	ARG	BOL	BRA	CHI	COL	CR	DR	ECU	ELS	GUA	HON
Market Gini	44.2	52.0	58.2	52.7	54.8	46.4	48.3	48.0	48.7	54.6	54.8
	[41.2,49.5]	[44.1,58.3]	[55.5,63.5]	[51.6,53.8]	[48.9,63.2]	[43.3,53.3]	[45.9,49.8]	[42.8,54.8]	[47.6,51.0]	[44.1,57.9]	[52.5,62.1]
Redistribution	3.4	4.8	11.1	2.3	6.8	6.3	4.1	-3.4	4.2	4.7	4.8
	[0.79,6.2]	[3.7,6.0]	[10.4,11.6]	[0.3,3.4]	[4.4,9.2]	[3.3,18.4]	[2.1,5.5]	[-13.9,3.8]	[2.0,5.9]	[-1.8,6.1]	[3.1,5.7]
Post-Redistribution Gini	42.7	49.5	51.6	51.5	50.5	42.3	46.3	49.5	46.8	54.1	51.3
	[39.6,46.4]	[42.2,55.5]	[49.3,55.8]	[50.3,52.1]	[45.4,55.8]	[38.9,44.7]	[44.5,47.5]	[45.4,52.8]	[45.9,47.9]	[52.3,55.2]	[50.1,53.6]
Legislative Balance (Cum.)	-0.91	-2.0	-1.0	-0.3	-2.8	1.4	0.7	-0.42	-4.2	-2.8	0.1
	[-2.93,-0.02]	[-4.1,0]	[-2.3,0]	[-2.4,1.3]	[-3.4,-2.2]	[0.7,2]	[0.1,2.0]	[-0.9,0.3]	[-8.5,0]	[-6.4,0]	[-1.1,0.5]
Human Capital Spending	7.3	6.0	5.8	5.6	5.1	10.1	3.5	5.1	3.3	2.7	6.5
	[3.8,9.7]	[3.2,11.8]	[2.6,8.7]	[4.5,7.4]	[3.7,9.5]	[8.4,13.4]	[2.2,4.9]	[4.3,6.1]	[2.5,4.9]	[1.7,3.8]	[5.2,7.6]
Transfer Spending	6.1	2.96	8.4	8.8	1.8	3.6	0.8	0.2	0.5	0.6	0.6
	[3.7,8.5]	[0.1,6.1]	[5.9,11.5]	[6.2,14.3]	[0.8,3.0]	[1.8,5.5]	[0.4,1.3]	[0.1,0.3]	[0.1,1.3]	[0.0,0.9]	[0.3,0.7]
GDP Per Capita	9.6	2.6	6.4	6.9	4.9	5.1	3.6	3.9	3.9	3.7	2.2
	[7.2,11.6]	[2.4,3.1]	[5.7,7.2]	[4.6,9.9]	[4.2,5.6]	[4.5,5.9]	[2.9,5.3]	[3.5,4.3]	[3.5,4.4]	[3.5,4.1]	[2.0,2.4]
Hyper-Inflation	0.04	0.07	0.06	0.00	0.00	0.00	0.00	0.00	0.00	0.13	0.00
	[0.0,0.3]	[0.0,1.2]	[0.0,0.3]	[0.0,0.0]	[0.0,0.0]	[0.0,0.01]	[0.0,0.01]	[0.0,0.01]	[0.0,0.0]	[0.0,0.0]	[0.0,0.0]
Unemployment	8.7	5.3	5.3	8.4	11.4	5.8	16.6	8.5	8.7	2.65	5.4
	[2.3,18.8]	[2,10.1]	[2.4,9.6]	[4.4,19.6]	[3.8,20.5]	[3.7,9.4]	[13.8,20.3]	[5.8,14]	[4.3,16.9]	[1.4,3.9]	[2.8,12.1]
FDI	0.09	0.22	0.10	0.21	0.08	0.18	0.08	0.17	0.04	0.12	0.10
	[0.03,0.26]	[0.07,0.60]	[0.04,0.33]	[0.03,0.6]	[0.02,0.23]	[0.09,0.33]	[0.03,0.26]	[0.07,0.44]	[0.02,0.15]	[0.06,0.18]	[0.03,0.25]
Democracy (Cum.)	17.3	12.9	14.3	18.1	18	40.5	12.0	14	3.9	7.4	7.5
	[10,27]	[8,21]	[9.5,23]	[16.5,22]	[13,23]	[30.5,50.5]	[3,20.5]	[9,19]	[0,10.5]	[4.5,12.5]	[3,12.5]
Right Authoritarianism (Cum.)	6.7	0	8.6	10.3	0	0	0	0	6.1	8.8	0
	[0,12.5]	—	[0,15]	[4,15]	—	—	—	—	[0,14]	[1,14.5]	—
Education	7.5	4.7	3.7	6.9	4.4	5.5	4.3	5.9	3.8	2.6	3.6
	[6.6,8.5]	[4,5.5]	[3.0,4.6]	[6.0,7.9]	[3.9,5.0]	[4.7,6.0]	[3.4,5.2]	[5.4,6.5]	[3.3,4.5]	[2.3,3.1]	[2.3,4.1]
Youth Population	30.0	41.1	34.6	30.2	36.3	35.3	38.9	38.8	40.5	45.2	44.9
	[28.0,31.0]	[39.6,42.5	[29.6,38.1]	[27.8,33.0]	[32.8,40.7]	[31.7,37.8]	[35.0,42.6]	[34.4,42.8]	[35.6,44.9]	[44.1,45.7]	[41.7,47.2]
Ethnic Heterogeneity	0	1	1	0	1	0	1	1	0	1	1
	—	—	—	—	—	—	—	—	—	—	—

Table 1: Mean and Range of Variables Included in Analysis (continued)

Variable	JAM	MEX	PAN	PAR	PER	TRI	URU	VEN
Market Gini	57.9	49.4	52.4	49.8	50.0	42.6	40.9	44.0
	[47.6,77.3]	[47.1,52.0]	[50.3,53.4]	[37.5,55.3]	[44.3,69.3]	[38.4,53.6]	[40.1,42.0]	[41.3,46.6]
Redistribution	NA	3.9	3.9	2.7	-0.57	5.0	NA	4.1
		[-0.3,5.2]	[2.5,7.9]	[2.4,3.6]	[-7.9,5.8]	[2.6,13.0]		[3.4,6.5]
Post-Redistribution Gini	49.8	47.3	49.5	48.5	49.0	38.6	40.9	42.3
	[37.9,72.2]	[44.5,49.5]	[43.4,51.7]	[36.2,54.0]	[41.8,60.4]	[37.2,41.6]	[40.5,41.7]	[39.7,45.1]
Legislative Balance (Cum.)	1.1	-0.3	-1.7	-1.8	1.6	6.4	0.52	2.8
	[-1.1,6.8]	[-1.7,0]	[-3.9,0]	[-5.8,0]	[-0.29,2.6]	[5.4,7.9]	[0.1,1.4]	[2.5,3.0]
Human Capital Spending	8.6	6.5	10.0	2.7	3.4	6.7	5.6	5.4
	[2.5,17.8]	[5.1,7.9]	[8.8,12.1]	[1.3,5.2]	[2,4.5]	[3.8,8.8]	[4.3,6.3]	[3.1,6.5]
Transfer Spending	0.5	2.8	4.5	2.3	1.3	3.3	15.1	2.1
	[0.4,0.8]	[2.1,3.4]	[2.8,5.4]	[1.1,3.7]	[0,2.9]	[1.6,4.6]	[10.6,19.7]	[1.2,3.0]
GDP Per Capita	3.7	7.6	5.6	4.8	4.4	9.7	8.0	7.1
	[3.3,4.1]	[7.0,8.8]	[4.9,6.1]	[4.3,5.4]	[3.6,5.2]	[8.1,11.2]	[6.2,10.2]	[6.4,8.0]
Hyper-Inflation	0.00	0.00	0.00	0.00	6.1	0.00	0.01	0.00
	[0.0,0.01]	[0.00,0.01]	[0.0,0.0]	[0.0,0.0]	[0.0,0.7]	[0.0,0.0]	[0.0,0.01]	[0.0,0.01]
Unemployment	19.9	3.3	13.0	5.8	7.6	16.2	10.1	10.1
	[15.3,35.5]	[2.1,5.8]	[8.4,16.3]	[4.1,8.3]	[4.8,9.9]	[10,22.3]	[8,13.6]	[5.9,14.9]
FDI	0.17	0.07	0.40	0.09	0.07	0.42	0.07	0.06
	[0.09,0.41]	[0.02,0.17]	[0.29,0.62]	[0.05,0.17]	[0.02,0.19]	[0.13,0.87]	[0.05,0.1]	[0.01,0.23]
Democracy (Cum.)	28	0.5	8.2	1.6	11.9	28	34.5	29
	[18,38]	[0,3]	[6,15]	[0,6]	[7.5,16]	[18,38]	[28,44]	[19,39]
Right Authoritarianism (Cum.)	0	0	0	11.3	0	0	7.0	0
	—	—	—	[3,15]	—	—	[0,11.5]	—
Education	4.5	5.5	7.0	5.4	6.2	6.8	6.6	5.2
	[3.6,5.2]	[4.0,6.7]	[5.9,7.9]	[4.6,5.8]	[5.44,7.33]	[6.4,7.6]	[5.8,7.3]	[4.9,5.6]
Youth Population	35.6	39.5	35.6	41.7	38.2	31.8	25.9	37.6
	[33.0,40.2]	[33.7,45.6]	[31.9,40.5]	[39.6,42.2]	[34.5,41.9]	[25.1,34.2]	[24.8,26.9]	[33.7,40.7]
Ethnic Heterogeneity	0	0	0	0	1	1	0	0
	—	—	—	—	—	—	—	—

Descriptive Statistics

To provide readers with more details about the statistical distribution of the variables included in our analysis, we report in Table 1 the mean and range of each variable within each country.

Error Correction Models

As discussed in the paper, ECMs can be applied to both stationary and integrated data. However, extra care must be taken to ensure that a true long-run relationship is present in ECMs estimated with integrated data. Specifically, the residuals of a regression in levels of the outcome variable on a unit-root explanatory variable must be stationary in order for an ECM to be an appropriate modeling strategy with integrated dependent or independent variables.

While De Boef & Keele (2008) state that "as the ECM is useful for stationary and integrated data alike, analysts need not enter debates about unit roots and cointegration to discuss long-run equilibria and rates of reequilibration." there are certainly plenty of contributors to this literature that suggest otherwise. Therefore, we have implemented a two-step process to justify our use of ECMs. We describe this two-step process below. The outcome of this two-step assessment process indicates that the use of ECMs is generally appropriate with our data.

First, we test the level form of each variable in our model for stationarity. We use the xtunitroot package of STATA 12.0, with the fisher option. We elected to conduct the test with a 2 lag autocorrelation structure, though this decision does not matter very much in practice (it certainly could, but it does not in our data). The test is based on the Dickey-Fuller test for unit roots. In Table 2 below

we present the results of this series of tests. A significant test-statistic indicates the rejection of the null hypothesis of a unit-root, or statistical confirmation of a stationary process.

Table 2: Unit Root Tests for All Variables Included in Models

Variable	Significance
Market Gini	0.00
Redistribution	0.00
Post-Redistribution Gini	0.00
Legislative Partisan Balance	0.00
Human Capital Spending	0.00
Transfer Spending	0.98
GDP Per Capita	0.93
Inflation	0.00
Unemployment	0.06
FDI	1.00
Democracy	1.00
Right Authoritarianism	0.03
Education	1.00
Youth Population	1.00
Ethnic Heterogeneity	1.00

Note: Fisher-type test with two lags, based on Dickey-Fuller tests (significant test-statistics robust to higher lag order). Null hypothesisis unit root. Significant test statistic (less than 0.05) indicates rejection of unit root.

The results suggest that most of the variables in our analysis (particularly the most theoretically relevant ones) are stationary and can be included in an ECM without reservation. However, some of the variables display evidence of a unit-root, meaning that we need to proceed to the second step of the diagnostic process.

The second step is to regress each of our dependent variables on the unit-root explanatory variables in level form, capture the residuals, and test those residuals for a unit-root using the same basic procedure as above. If the residuals from a regression like this are stationary, then this shows evidence that error correction is occurring and demonstrates that the use of an ECM appropriate. We do this for all three of the dependent variables in our analysis and the explanatory

variables that were identified as non-stationary in step 1 of the testing procedure: transfer spending, GDP per capita, unemployment, FDI, democracy, education, youth population, and ethnic heterogeneity.

The results of these tests are presented in Table 3 below. Again, we are looking for a significance level below 0.05 in order to be able to reject the null of a unit-root process in the residuals. We uncover just a couple of potentially problematic variables, variables for which an ECM specification is not fully justified. The residuals from all of the regressions in levels except for two can be confirmed as stationary. The two cases of non-stationarity both involve unemployment as an explanatory variable. The first issue is for unemployment as an explanation for market inequality. The test statistic is only significant at the 0.15 level, suggesting non-stationarity. The second issue is for unemployment as an explanation for post-redistribution inequality. Because this evidence suggests that it may be inappropriate to estimate an error correcting relationship between these two outcome variables and unemployment, we drop the lagged level of unemployment from our final models. This ensures that none of the long-run effects inserted into our final models could possibly be spurious due to a lack of equilibrium relationship. In our final models we maintain only the short-term effect of unemployment.

While ECMs are very flexible models that allow the estimation of both short and long-term effects, our choice to estimate ECMs is not without its trade-offs. First, gaps in the data can substantially reduce sample size and make it more difficult to discover long-run relationships in the analysis. We overcome this problem to the extent possible by using linear interpolation to fill in gaps in the data for variables that do not fluctuate a great deal over time. Educational attainment is the best example of this since it is measured only at five year intervals in its

Table 3: Unit Root Tests of Residuals from a Regression in Levels of the Dependent Variable on the Explanatory Variable

Dependent Variable	Explanatory Variable	Inverse Chi-Squared Significance
Market Gini	Transfer Spending	0.00
Redistribution	Transfer Spending	0.00
Post-Redistribution Gini	Transfer Spending	0.00
Market Gini	GDP Per Capita	0.00
Redistribution	GDP Per Capita	0.00
Post-Redistribution Gini	GDP Per Capita	0.01
Market Gini	Unemployment	0.15
Redistribution	Unemployment	0.00
Post-Redistribution Gini	Unemployment	0.82
Market Gini	FDI	0.00
Redistribution	FDI	0.00
Post-Redistribution Gini	FDI	0.00
Market Gini	Democracy	0.00
Redistribution	Democracy	0.00
Post-Redistribution Gini	Democracy	0.00
Market Gini	Education	0.00
Redistribution	Education	0.00
Post-Redistribution Gini	Education	0.00
Market Gini	Youth Population	0.00
Redistribution	Youth Population	0.00
Post-Redistribution Gini	Youth Population	0.01
Market Gini	Ethnic Heterogeneity	0.00
Redistribution	Ethnic Heterogeneity	0.00
Post-Redistribution Gini	Ethnic Heterogeneity	0.00

Note: Fisher-type test with two lags, based on Dickey-Fuller tests. Null hypothesis unit root. Significant test statistic (less than 0.05) indicates rejection of unit root.

original form. Second, since ECMs analyze a differenced dependent variable, the cross-national variation that exists at the beginning of the period analyzed is removed. If cross-national variation in the dependent variable is caused by variation in explanatory variables that existed at the beginning of the analysis (or before), these effects are lost in the first-differencing. This, according to Plümper, Troeger & Manow (2005), makes an ECM similar to estimation of fixed effects. This is likely why we find a null effect for democracy on inequality and redistribution while Huber et al. (2006) find that democracy reduces inequality using very similar data to ours.

Stability Analysis

An important concern in any TSCS analysis is the degree to which results are sensitive to the specific countries included in the analysis. In order to examine the sensitivity of our results based on the countries included, we re-estimated the final models for Market inequality, Redistribution, and Post-Redistribution inequality reported in the table dropping one country at a time. In Table 4 we present the results of this re-estimation by reporting for each independent variable the original coefficient estimate as well as the lowest and highest coefficient estimate and the name of the country excluded from the models producing the highest and lowest estimates.

Table 4: Jacknife Estimation of Key Models

	Δ Market Gini		Δ Redistribution		Δ Post-Redistribution Gini	
	Original Estimate		Original Estimate		Original Estimate	
	(Min)	(Max)	(Min)	(Max)	(Min)	(Max)
Market Gini_{t-1}	-0.07***					
	-0.08*** (ARG)	-0.05*** (PAR)				
$\text{Redistribution}_{t-1}$			-0.19***			
			-0.20*** (ECU)	-0.14*** (CR)		
Post-Redistribution Gini_{t-1}					-0.11**	
					-0.14*** (ARG)	-0.07** (PAR)
Δ Legislative Partisan Balance_t	-1.40***				-0.07	
	-1.79*** (ELS)	-1.08*** (PAR)			-1.05** (JAM)	0.25 (PAN)
Legislative Partisan Balance_{t-1}					-0.05	
					-0.09 (BRA)	-0.00 (DR)
Δ Human Capital Spending_t	0.74				1.99	
	0.05 (ELS)	1.96* (ARG)			0.82 (BRA)	4.03*** (VEN)
Human Capital Spending_{t-1}	-0.16**				-0.13**	
	-0.20*** (CHI)	-0.11** (CR)			-0.19** (BRA)	-0.03 (CR)
Δ Transfer Spending_t			0.23		-0.08	
			-0.004 (CR)	0.37** (BRA)	-0.13 (VEN)	-0.04 (JAM)
Transfer Spending_{t-1}			0.15**		0.03	
			0.10* (CHI)	0.26*** (BRA)	-0.02 (ARG)	0.08 (URU)
Δ GDP Per Capita_t	-0.04		0.04		0.21	
	-0.15 (BRA)	0.04 (URU)	-0.08 (ELS)	0.17 (JAM)	0.05 (CHI)	0.30 (PER)
GDP Per Capita_{t-1}			0.19*		-0.17*	
			0.10* (TRI)	0.25*** (BOL)	-0.30*** (VEN)	-0.08 (JAM)
Δ GDP_t*Human Capital_{t-1}	-0.24**				-0.23**	
	-0.34** (PAN)	-0.11 (ARG)			-0.30 (PAN)	-0.10 (ARG)
Δ Hyper-Inflation_t	0.02				0.04*	
	-0.01 (ARG)	0.02 (JAM)			0.01 (BRA)	0.04 (PAN)
Hyper-Inflation_{t-1}	-0.04***				-0.00	
	-0.06*	0.13			-0.02	0.05

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	Δ Market Gini		Δ Redistribution		Δ Post-Redistribution Gini	
	Original Estimate		Original Estimate		Original Estimate	
	(Min)	(Max)	(Min)	(Max)	(Min)	(Max)
	(BRA)	(ARG)			(BRA)	(ARG)
Δ Unemployment$_t$	0.03		0.02		0.06	
	0.01	0.04	-0.01	0.06	0.03	0.08*
	(JAM)	(COL)	(ARG)	(TRI)	(CR)	(COL)
Unemployment$_{t-1}$			0.05***		-0.00	
			0.04**	0.06***	-0.03	0.03
			(DR)	(BOL)	(CR)	(DR)
Δ FDI$_t$	0.64		0.34		7.39	
	-2.89	1.14	-1.62	2.59	3.40	9.68*
	(PAN)	(JAM)	(PAR)	(TRI)	(JAM)	(BOL)
FDI$_{t-1}$	2.45**		1.59		1.71*	
	1.78**	3.43**	0.41	2.80***	0.97	3.01**
	(CR)	(CHI)	(TRI)	(ARG)	(PAR)	(CHI)
Δ Democracy$_t$					-0.81	
					-1.31***	-0.50
					(VEN)	(PER)
Democracy$_{t-1}$					0.02	
					0.01	0.03
					(COL)	(BRA)
Δ Right Authoritarianism$_t$			-0.01		-0.08	
			-0.15	0.13	-0.46	0.12
			(CHI)	(VEN)	(CHI)	(ARG)
Right Authoritarianism$_{t-1}$					0.02	
					-0.02	0.04
					(CHI)	(PER)
Δ Education$_t$	2.26***		-3.96		1.94	
	1.85	2.97**	-5.88***	-1.60	0.74	2.90**
	(PER)	(PAR)	(VEN)	(TRI)	(VEN)	(JAM)
Education$_{t-1}$			-0.60***		0.31**	
			-0.80***	-0.44***	0.20**	0.56***
			(BRA)	(TRI)	(PER)	(BRA)
Δ Youth Population$_t$					-0.17	
					-0.47	0.19
					(JAM)	(BRA)
Youth Population$_{t-1}$					0.09	
					0.02	0.14**
					(VEN)	(BRA)
Ethnic Heterogeneity$_{t-1}$					0.09	
					-0.25	0.62**
					(BRA)	(JAM)

Note: Cells report minimum and maximum coefficient estimate of a jack-knife estimation dropping one country at a time from the analysis with the country dropped in parentheses. Constant estimated in models but not reported. Original estimates also reported.
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$, two-tailed significance levels

Generally speaking, our results are quite robust to the exclusion of certain countries. There are a handful of circumstances in which the exclusion of a country makes a coefficient reported as statistically significant in the paper non-significant. However, in these cases the evidence suggests that the excluded country strengthens a relationship that is likely present in the other countries as well, rather than singly driving the relationship. For example, the short-term coefficient for education was positive and significant in the model of market inequality reported in the paper. Excluding Peru renders the coefficient statistically insignificant, but the coefficient remains in the original direction and the estimate reported in the paper is about half-way between the lowest and highest estimate, consistent with what we would expect when conducting a regression analysis that is averaging effects across several countries. In a similar vein there are some coefficients that were reported as non-significant in the paper that become significant with the exclusion of a particular country. However, none of these results point to fundamentally different conclusions than those reached in the paper.

Another potential concern is that some of results in our final models may be driven by the exclusion of non-significant coefficients from our first, fully specified models. One factor that allays this concern is that, with one exception, there are no statistically insignificant variables in the full models that become significant in the restricted models. More importantly, it is appropriate to restrict the models as we do since the efficiency of regression estimates is harmed by including irrelevant variables. That is, standard errors are incorrectly inflated if insignificant variables are inappropriately included in the model. The inflation of standard errors in the

over-specified full model of Market Inequality likely explains why the partisan balance of power variable, which barely missed statistical significance in this initial model, becomes statistically significant in later models. That this variable was nearly significant even with the inclusion of several statistically irrelevant control variables suggests that this result is not merely an artifact of specification choices. Furthermore, in the model reported below (Table 5) including the GDP/human capital spending interaction term along with statistically insignificant control variables, the effect of partisan balance is significant in the expected direction. The model in Table 5 also demonstrates that the result for the interaction between GDP and human capital spending in the model of Market Inequality is robust to a specification including a wider variety of controls.

Table 5: Revised Model of Market Inequality

	(1)
Market Gini$_{t-1}$	-0.09^{**}
	(0.03)
Δ Legislative Partisan Balance$_t$	-1.35^{*}
	(0.75)
Legislative Partisan Balance$_{t-1}$	-0.05
	(0.06)
Δ Human Capital Spending$_t$	1.56
	(1.56)
Human Capital Spending$_{t-1}$	-0.14^{***}
	(0.05)
Δ Safety Net Spending$_t$	0.05
	(0.06)
Safety Net Spending$_{t-1}$	0.03
	(0.03)
Δ GDP Per Capita$_t$	0.20
	(0.24)
GDP Per Capita$_{t-1}$	-0.02
	(0.07)
Δ GDP$_t$*Human Capital$_{t-1}$	-0.19^{*}
	(0.10)
Δ Inflation$_t$	0.03^{**}
	(0.01)
Inflation$_{t-1}$	-0.03^{**}
	(0.01)
Δ Unemployment$_t$	0.06
	(0.04)
Unemployment$_{t-1}$	0.01
	(0.02)
Δ FDI$_t$	0.90
	(4.09)
FDI$_{t-1}$	2.14^{**}
	(0.82)
Δ Democracy$_t$	-0.17
	(0.35)
Democracy$_{t-1}$	0.01
	(0.01)
Δ Right Authoritarianism$_t$	0.26
	(0.17)
Right Authoritarianism$_{t-1}$	0.03
	(0.04)
Δ Education$_t$	2.24^{**}
	(0.90)
Education$_{t-1}$	0.13
	(0.14)
Δ Youth Population$_t$	-0.18
	(0.84)
Youth Population$_{t-1}$	0.07
	(0.08)
Ethnic Heterogeneity$_{t-1}$	0.29
	(0.22)
Constant	-0.08
	(4.08)
Observations	197
R^2	0.29

Standard errors in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$, two-tailed significance levels

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