Carlos Andrés Pérez governed oil-rich Venezuela, for the first time, between 1974 and 1979 during an unprecedented oil boom. A decade after leaving the presidency with high approval ratings, Pérez won another term on the promise of reviving the ‘good old days.’ His second government, however, coincided with the lowest oil prices in modern history, and he could not live up to this promise. After mass protests and two coup attempts, Pérez was forced out of office before finishing his term. Even though the president could not set oil prices, Venezuelans neither adjusted their expectations in the face of a rough economic scenario in the early 1990s, nor did they discount the impressive performance delivered in the 1970s.

Like Venezuela, Ecuador is heavily dependent on oil but also exports bananas and flowers. In addition to oil, Colombia exports coal, coffee, and flowers. Peru is a major exporter of several minerals, Bolivia depends on minerals and natural gas, and Chile on copper. Uruguay mainly exports meat, animal products, and pulp, while Argentina exports an assorted range of foodstuffs. Even Brazil, arguably one of the countries in the region that is the least dependent on commodities, earns most of its export revenues from selling soybeans, oil, beef, poultry, and iron ore in international markets. Not surprisingly, fluctuations in commodity prices have a direct impact on the economic performance of these countries.

Commodities are not the only path through which Latin American economies are exposed to international conditions beyond government control. When the US Federal Reserve Bank sharply increased interest rates to contain inflation in the late 1970s, previously abundant
capital flows to the dried-up region, governments faced extreme duress, and countries experienced a decade-long crisis. Most military regimes that were still in power collapsed; presidents governing through the hard times were extremely unpopular and had a dismal record of electing their successors. In contrast, when international interest rates reached a new low in the early 1990s, capital flows to the region rebounded in search of higher returns. The accumulation of massive international reserves allowed governments to adopt exchange-rate-based stabilization plans, putting an end to long-lasting inflationary crises. Popular support for these governments was such that several presidents spearheaded constitutional changes to allow for immediate reelection and, indeed, many were reelected. Voters neither discounted the fact that international conditions beyond the presidents’ control were very favorable, nor the fact that inflation was brought under control in most countries at roughly the same time.

The boom and bust cycle that Latin America experienced in the 2000s is the most recent, and maybe, the most conspicuous illustration of the political consequences of what Reinhardt calls a ‘double-bonanza’ (Reinhart, Reinhart and Trebesch 2016, p. 574). A sharp rise in commodity prices prompted by Chinese demand for primary products, this time coupled with historically low international interest rates, produced a uniquely favorable scenario for Latin American low-savings commodity-exporting (LSCE) economies. Again, presidential popularity soared in the region, regardless of whether the president was the right-wing Alvaro Uribe in Colombia or the leftist Hugo Chávez in Venezuela, and reelection rates were even higher than in the 1990s. This scenario reversed dramatically with a sudden drop in commodity prices in 2011, followed by markets’ ‘taper tantrum’ in 2013, that was triggered by fears that the US quantitative-easing strategy, initiated after the 2008 financial crisis, was coming to an end. Not surprisingly, leaders still in office by then, like Chávez or Rafael Correa in Ecuador, saw a sharp decline in popularity. A similar phenomenon also affected those reelected after having to sit out for one term, such as Michelle Bachelet in Chile or Tabaré Vazquez in Uruguay. No matter what policies presidents stood for, life became much harder in the 2010s than in the previous decade.

These narratives reflect the conventional wisdom that elections and presidential popularity, for that matter, are referenda on the economy.

1 A double-bonanza is a process that produces substantial inflows of dollars thanks to sharp increases in export revenues in parallel with large inflows of foreign capital.
They are also consistent with standard accounts of retrospective economic voting, which, at least since Kramer (1971), have established a positive correlation between economic outcomes and incumbent support. Fluctuations in commodity prices and international interest rates influence growth, employment, and inflation in Latin America, with a direct impact on voters’ well-being. However, considering that these fluctuations are unambiguously exogenous to governments, decisions, citizens should discount them when casting an economic vote. By not doing so, they risk judging incumbents for their luck, rather than merit.

The behavior that has just been described defies the core normative appeal of the economic vote, which plays an essential role in shaping electoral accountability (Anderson 2007; Healy and Malhotra 2010). There are few reasons to expect that incumbents selected on the basis of luck will be subject to the welfare maximizing incentives that are anticipated in economic voting theories. This is a vexing problem because economic voting is generally regarded as a means to generate good incentives for governments even when voters are ill-informed, or the institutional setting is not conducive to other forms of accountability. In particular, in countries where voters are not shielded from economic downturns due to low levels of social protection (Pacek and Radcliff 1995; Kayser and Wlezien 2011), and are not particularly attached to parties (Kayser and Wlezien 2011), they often have no other yardstick by which to judge the government. Stokes (2001), for example, argues that retrospective voting is the only means to hold governments accountable in inchoate and poorly institutionalized political systems, where weak party labels and vague campaigns fail to provide voters with cognitive shortcuts necessary to correctly assess the quality of their representatives. This view is reinforced in (Lewis-Beck and Ratto 2013, p. 490), who conclude that evidence of an economic vote ‘amounts to good news for Latin American democracy, where elected politicians have often been viewed as capricious rulers, without accountability to the citizens they rule.’ In light of the centrality assigned to economic voting as a mechanism of accountability in developing democracies, misattributing exogenous factors to government policy in these countries should be even more problematic.

Our central thesis is that, in democracies that are exposed to strong economic volatility driven by exogenous economic conditions, and particularly, those that also have weakly institutionalized political systems, the possibility of holding leaders accountable through economic voting is extremely limited. The empirical analyses that follow confirm that, contrary to conventional wisdom about what happens in developed
democracies, citizens in developing countries frequently judge their incumbents based on economic performance, even when this performance is mostly determined by factors beyond government control. We start with a general theory and cross-regional analysis, but eventually place our focus on Latin American countries and proceed to explore the political and normative consequences of what we call voter ‘misattribution bias,’ understood as the tendency to overestimate incumbent responsibility for large fluctuations on economic performance.

This book, therefore, is not about economic voting per se; it is about its limits as an instrument of representation. Understanding the conditions under which a vote based on economic performance effectively delivers the promise of electoral accountability is an essential part of our investigation (Anderson 2007). To do so, we do not delve into the aspects of voting behavior – whether it is retrospective or prospective (Conover, Feldman and Knight 1987; Manin, Przeworski and Stokes 1999), egotropic or sociotropic (Kinder and Kiewiet 1981; Gomez and Wilson 2001; Lewis-Beck and Ratto 2013; Singer and Carlin 2013), or which indicators voters respond to (Conover, Feldman and Knight 1986; Singer 2013) – that have been exhaustively scrutinized by scholarly work. We also do not examine whether voters’ reactions to the economy are asymmetrical regarding positive or negative economic performance (Stevenson 2003), or whether institutional differences affect how voters attribute responsibility for economic outcomes (Powell and Whitten 1993).

We focus, instead, on the impact of aggregate economic performance, most often (but not only) captured by economic growth rates, on the vote and support for the chief executive. At a first glance, we acknowledge that this may seem a throwback to a bygone area of scholarly work. After all, the literature on economic voting has moved from measures of aggregate economic performance to the analysis of more nuanced individual level attributes (e.g. Duch and Stevenson 2010). Ultimately, however, we are interested in the structural conditions that prevent the economic vote from creating the incentives for good representation that are anticipated in formal theories (Healy and Malhotra 2013; Ashworth and Bueno de Mesquita 2014), and these conditions, we argue, pertain to structural and slow-changing characteristics of countries’ economies.

In this introduction, we provide a picture of what it means to live under extreme exogenously induced economic volatility, and subsequently, examine the state of the current theoretical and empirical debates on the role of economic voting as a mechanism of representation. We then
Introduction

spell out in greater detail the argument that vulnerability to exogenously induced economic volatility limits the capacity of voters to hold leaders accountable through elections as anticipated in the theoretical, empirical, and policy contributions of the book. The final section describes how the book is organized.

Before proceeding, however, we feel compelled to provide some encouragement to prospective readers from the standpoint of several different potential audiences of this book. For students of economic voting, this book offers evidence that the context of developed democracies, which have been the focus of most theory building so far, is extremely atypical relative to the rest of the world (see Figure 3.1 for a cogent summary of this exceptionalism). By examining the implications of economic voting in countries with very high (exogenously induced) economic volatility, we offer a ‘take from the democratic periphery’ on themes and topics that have excited several generations of scholars working on established democracies.

For the students of international flows of goods and capital, including both International Political economic voting scholars and those interested in world systems and (inter) dependency, our account shows how certain modes of insertion into the world economy that are typical of most of Latin America and other developing countries have profound political implications.

Democratic theorists might engage with our argument that economic volatility – typical of countries dependent on commodity exports and foreign savings – limits the quality of democracy in the developing world. The conceptualization of economic boom and bust as two sides of the same volatility curse, typical of commodity-exporting countries, should draw the attention of students of the political implications of natural resource abundance.

Finally, to Latin Americanists in general, we believe this book provides copious systematic evidence and a simple unified statement and explanation for something that many already know or have felt to be true, be it in their daily routines or in their research: life in general, and politics in particular, is subject to wide swings. To quote from Dornbusch and Edwards (1990), “Latin America economic history seems to repeat itself endlessly, following irregular and dramatic cycles” (p. 7). Moreover, for country specialists, we provide evidence of common regional trends that can neither be pegged on the ability of leaders, nor on simply diffusion or coincidence. Many countries in the region are in the proverbial same boat, navigating in a sea of exogenously driven economic volatility.
1.1 LIVING IN GOOD TIMES, LIVING IN BAD TIMES

All economies face better and worse times. The difference between good and bad times in developing countries, however, is very intense. The volatility of economic outcomes, as we show later in the book, is at least an order of magnitude greater in the developing world, particularly in those countries that are dependent and reliant on commodity exports and foreign savings, respectively. Moreover, social protection institutions are much weaker – and sometimes non-existent – which imply that large segments of the population bear the brunt of downturns.

In the developed world, incumbents governing over bad economic times can campaign on wedge issues to distract attention from the economy. Challengers facing a strong economy may also attempt to raise insurgent issues (Vavreck 2009). However, there is absolutely no distraction possible from a commodity bust and very little room for criticism during a boom – and particularly during a double-bonanza – in the developing world.

A boom is more akin to a tsunami than to a tide that raises all boats. As prices of commodities rise, export revenues multiply along with foreign direct investment attracted by potentially high returns. Currency appreciation releases economic growth from inflationary pressures, and increases local-purchasing power; ‘middle-classes’ restricted to domestic vacations begin to travel internationally. Suddenly, many of the consumption trappings of developed societies become apparent.

Financial markets overheat, attracting foreign investors. International media coverage increases with international outlets opening (or reopening) local offices. Real estate prices soar, particularly in commodity-producing regions, driven by demand from local and foreign companies. Trendy bars open in hitherto inhospitable parts of cities; labor-intensive construction expands upward and outward toward the suburbs, employing huge segments of the labor force. Job markets tighten and salaries rise.

Governments’ tax and royalty revenues increase markedly, allowing for lavish spending on necessities, expansion of services and benefits, luxuries, and – as typically emerges only later – corruption. International media feeds the frenzy with congratulatory coverage and the extolling of leaders for having broken long histories of failure and succeeded in obtaining economic growth coupled with social justice. Experts, journalists, and politicians attribute success to good institutions,
good leadership, and ingenuity. Optimism trickles down to ordinary folk, who are reassured by many different signs of prosperity that things can only improve further.

The trigger for a reversal can be a rise in interest rates in the developed world, or a sudden fall in international commodity prices. Foreign investors sell off as companies become less profitable. Entrepreneurs that left their regular jobs to start their own companies go bankrupt. Bills go unpaid. Families that had finally decided to purchase homes still in construction realize they cannot meet their monthly obligations and opt out of long-term financing contracts. Construction companies’ revenues plunge and, as activities halt, thousands of workers that had seen salaries soar become unemployed. As the tide turns, foreigners leave, and countries disappear from the international media. New commercial buildings sit idle, concessions of infrastructure fail as demand for air travel, roads, and other such projects falters.

Governments, at first, attempt to prop up spending even though revenues are falling. Depending on the exchange rate regime, they make an effort to defend the currency, quickly burning through reserves. Such behavior is especially common if elections loom close. Eventually, however, revenues are hit increasingly hard and the fiscal adjustment becomes very demanding. Domestic interest rates rise as markets worry about repayment, further depressing business investment. Public debt explodes, and all levels of government cut investment and expenditures, which lead to even more joblessness. In some cases, unrest leads to additional uncertainty. There are calls for ‘reforms’, but minimal agreement as to which reforms or how to compensate its losers.

Not even when booms turn into busts does it become clear that those signs of prosperity were not really independent from each other, but highly correlated consequences of the same exogenous factors. Crisis is simply attributed to bad institutions and, especially, bad leadership, the easy scapegoats. Orthodox economists blame the downturn on overspending while the heterodox blame it on falling revenues and argue for more spending.

Eventually, the commodity prices start rising again and/or the lowering interest rates prompt investors back to developing economies, in search for higher returns. Investment starts picking up as a depreciated currency makes exporting attractive, even in sectors that are not particularly competitive. Lower unemployment and stronger activity help improve fiscal results, and most of the reforms that might – or might not – be needed are watered down, postponed, or forgotten.
The Economist’s coverage of Brazil exemplifies the extent to which good and bad times differ in countries susceptible to commodity shocks and strong reversions of capital flows. In November 2009, the magazine’s headline read ‘Brazil takes off,’ and the issue included a ’14-page special report on Latin America’s big success story’ (Figure 1.1). It stated that ‘forecasts vary, but sometime in the decade after 2014 – rather sooner than Goldman Sachs envisaged – Brazil is likely to become the world’s fifth-largest economy, overtaking Britain and France. By 2025, São Paulo will be its fifth-wealthiest city, according to PwC, a consultancy.’ Not even four years later, in October 2013, the magazine riffed on its own catchy cover with the ‘Has Brazil blown it?’ headline, and another fourteen-page special report that answered this question positively.

This example raises some more general points. First, specialized media coverage does recognize the exogenous nature of booms and busts. The ‘Brazil takes off’ report noted Lula’s luck for having governed over rising commodity prices, and the New York Times in 2010 mentioned ‘strong demand in Asia for commodities like iron ore, tin, and gold’ as drivers of the Latin American boom (Romero 2010). The ‘Has Brazil blown it?’ article mentioned that ‘all emerging economies have slowed’,
and in another article in *The Economist* in 2015, the question of ‘what went wrong in Latin America?’ was followed by ‘the short answer is China’s slowdown, which has punctured commodity prices and, with them, exports from and investment in South America’ (*The Economist*, April 13, 2013). This nuance, however, is usually lost in the covers and headlines, and even more so in less-specialized, day-to-day media coverage.

Second, although these exogenous shocks and common trends are noted, the focus of most descriptions is on domestic issues. Reporting on Lula during the boom identified ‘hubris’, and not the reversal of the international scenario, as the main threat to the country’s future. In the ‘blown it’ report, the long list of diagnostics that was offered was all domestic. In another article during the bust, *The Economist* noted that ‘in some cases the woes are mainly self-inflicted’ (*The Economist*, April 13, 2013). The cited New York Times article mentioned that the demand from China was ‘combined with policies in several Latin American economies that help control deficits and keep inflation low.’ What we claim, in this book, is that even these ‘good policies’ are made possible by the exogenous conditions.

During booming periods, it is also harder to distinguish visionary investments from reckless expenditures. The New York Times 2010 article on the Latin American boom, for example, dwelled on a catchy example of good use of revenues: ‘Some of what glitters in Peru’s boom seems to be paving the way for lasting prosperity. Felipe Castillo, 60, mayor of Los Olivos, is investing tax proceeds in a new low-tuition municipal university for 4,000 students. He gazed recently at the eleven-story structure, in a slum that has begun to take on the trappings of a lower-middle-class district’ (Romero 2010). Years later, in 2016, *La Republica* reported that the university, along with another one created at the end of the boom, was never implemented. ‘They only exist in name. Better said, only on paper. They never came into existence because of serious logistical and patrimonial problems’ (*La Republica*, December 18, 2016).²

The building that had been cited as an example of progress by the New York Times had become ‘only a building that looks like a white elephant, which is remembered by the neighbors for its controversial construction’

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² ‘Solo existen de nombre. Mejor dicho, solo en el papel. Nunca llegaron a funcionar por graves problemas logísticos y patrimoniales.’
According to *La Republica*, another major news outlet, funds for the construction of the building were appropriated without budgetary permission, and construction was executed without any legal bidding process (*El Comercio*, February 22, 2014).

The problem is not with the quality of journalism, but rather with the difficulty of the situation. In fact, it afflicts all types of experts. Reports by academics and multilateral institutions on the quick recovery from the 2008 world financial crisis pointed to domestic policies as the culprit. In an International Monetary Fund (IMF) Working Paper, for example, De Gregório (2013, p. 1) argues that ‘sound macroeconomic conditions, which allowed an unusual monetary and fiscal expansion, exchange rate flexibility, a strong and well-regulated financial system, high level of reserves, and a bit of luck coming from very high terms of trade, were central to good economic performance.’

In a report published by the Economic Commission for Latin America and the Caribbean (ECLAC), Porzecanski (2009, p. 26) concludes that Latin American unprecedented resilience to the 2008 crisis was explained by the ‘enormous progress made by many governments in the past decade to reduce currency mismatches, allow for more flexible exchange rate regimes, enhance the capitalization, funding, and supervision of their banking systems, encourage the development of local capital markets, and implement sounder and more credible monetary and fiscal policies.’

Even though specialists could observe policymaking – something that most voters cannot – they still missed the fact that many of the policies pointed as explanation for the ‘success’ were, to a large extent, enabled by exceptionally benign international conditions. For example, it is not very challenging to maintain a primary surplus when government revenues grow 7 p.p. as a share of GDP in a five-year window, as occurred in Ecuador between 2006 and 2010. A much more likely interpretation of the recovery after 2008 was that the crisis did not really hit commodity-exporting countries because the demand from China continued to be strong, and already low international interest rates decreased even further. For many countries in Latin America, especially those in the South, which have relatively stronger links with China and weaker links with the United States, it was an externally induced ‘non-crisis.’ The positive results, nonetheless, were pegged on domestic leaders by experts and

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3 ‘Solo un edifício que parece un elefante blanco, el cual es recordado por los vecinos debido a su polémica construcción.’
voters. Even worse, widespread praises created strong incentives for governments to keep doing what they were doing, even though a reversal triggered by a Chinese slowdown was on the way.

The central message of the book – and one to which we return over and over again – is that high levels of economic volatility caused by exogenous factors create a very difficult problem, even for well-informed voters and those who recognize the role of exogenous economic conditions. It is next to impossible to properly discount these factors. For instance, we (the authors) are particularly aware of the problem – this awareness prompted us to write this book and was strengthened during the process. Still, even we can hardly avoid the biases we observe in voter assessments of incumbents in Latin America – we also tend to see those governing during good times as more competent than others.

This same difficulty afflicts all types of experts (including journalists, politicians, and academics), but even more so the nonexperts, which provides evidence of how poorly economic performance signals government competence in Latin American countries.

1.2 Economic Voting and Representation

We have already stated that this book should be read as more about representation through elections than about economic voting. In this section, we clarify what we mean by representation, a word that has different connotations in different contexts, and justify our empirical focus on elections.

We begin from the idea of accountability. Although it always refers to notions of oversight by one individual or body over another, a distinction is commonly drawn between vertical and horizontal modes of accountability. Horizontal accountability is exercised by some state institutions on others, and its study typically focuses on auditors, comptrollers, courts, and the like. Vertical accountability, in contrast, refers to the relationship between voters, civil society, and elected officials, and is sometimes expanded to include the full chain of delegation that links voters to the bureaucracy (Strøm 2000).

Latin American democracies have been the subject of very influential analyses of these two modes of accountability (O’Donnell 1994; 1998). The irony is not lost on Latin Americanists when attempting to grapple with the fact that the word ‘accountability’ does not exist
in Spanish or Portuguese. Much of Latin America, and of the developing world for that matter, are described by O’Donnell as ‘delegative democracies’ (O’Donnell 1994). Election winners face fewer constraints and greater expectations relative to their counterparts in developed democracies because ‘horizontal accountability characteristic of representative democracy is extremely weak or nonexistent’ (p. 61). For this reason, elections are arguably even more consequential in delegative democracies, which can be characterized as ‘more democratic, but less liberal’ than full-fledged representative democracies (p. 60).

There are grounds to disagree with O’Donnell’s characterization of Latin American countries (e.g. Panizza 2000). After all, comptrollers, courts, and auditing bodies do exist, and the legislatures occasionally exert limits on executive authority (Melo, Pereira and Figueiredo 2009). Still, even enthusiasts of horizontal accountability would agree that it is much better at ensuring that government officials follow the rules, behave honestly, and refrain from engaging in power grabs than at aligning the preferences of the population and their government, or inducing incumbent effort to maximize public welfare.

The notion that the relationship between voters and elected officials includes these dual tasks of aligning preferences and inducing effort recurs in different strands of the relevant literature. Formal theory approaches, for instance, depict voters as either sanctioning or selecting incumbents, though, in this literature, the term accountability is often applied solely to sanctioning models. Przeworski, Stokes and Manin (1999) also speak of mandate and accountability roughly in terms of ex-ante alignment of preferences and ex-post evaluation of performance. While these dual tasks fall under the idea of vertical accountability, we have chosen to refer to them as ‘representation.’

Representation, in principle, need not be exercised only through elections. Smulovitz and Peruzzotti (2000) argue that it can also be achieved through what they refer to as ‘societal mechanisms’ that include the voicing of preferences and proposals, and oversight of government by NGO’s, social movements, and the media. Societal accountability can be ‘activated on demand and can be directed toward the control of single issues, policies, or functionaries’ (p. 150). Similarly, Cleary (2010) attributes improving responsiveness of local governments in Mexico to changes in patterns of ‘participatory politics,’ and not to increased electoral competitiveness.

The collective action costs implied by societal mechanisms of accountability are high, and there is no guarantee that social organizations
1.2 Economic Voting and Representation

will exist and perform as expected. We justify our focus on elections, therefore, with a simple analogy. If elections are the backbone of all minimal definitions of democracy, vertical accountability through elections has to be understood as the mechanism of last resort for aligning preferences and inducing positive economic performance. Moreover, empirical work on Latin America has often concluded that ex-post evaluations through elections are the main mechanisms that guarantee representation (Stokes 2001; Murillo, Oliveros and Vaishnav 2010). Further, when it comes to elections, economic voting is a strong empirical regularity.4

Evidence exists from around the world that economic performance is a strong predictor of electoral results (Lewis-Beck and Stegmeier 2000; Duch and Stevenson’s 2008; Leigh 2009), even if this general statement hides the fact that there are ongoing debates about the precise nature of the relationship between the economy and vote choice (Anderson 2007). From a normative point of view, economic voting theory offers an optimistic perspective for democracies (Achen and Bartels 2004); even if citizens lack a coherent set of preferences and are poorly informed about the consequences of government policies, they can still hold politicians accountable by the threat of voting them out if welfare decreases under their watch. At the risk of losing office, it is in the interest of rational incumbents to put all their efforts in the pursuit of good economic performance.

From this very basic perspective, the relevant literature has evolved both theoretically and empirically toward a more complex assessment of the nature of the economic vote. Scholars have debated whether voters respond to changes in their own welfare, or to ‘the country’s welfare,’ whether this vote aims to punish/reward past performance or select the best future incumbents, and examined which aspects of the economy actually matter to voters and under which circumstances. New forms to conceive and measure the economic vote developed alongside these debates.

In the first attempt to systematically test economic voting theory in the United States, Kramer (1971) looked into the impact of aggregate economic outcomes on the congressional vote, finding consistent effects of inflation and growth but not of employment levels on the share of Republican votes. Work that followed mostly adopted the same strategy

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4 See Hibbs Jr. (2006) and Lewis-Beck and Stegmeier (2000) for a review of economic voting theories and empirical evidence, respectively.
with similar results depending on the period analyzed and other research design choices.\footnote{See Fiorina (1978) for a review of this early literature.}

It was only almost a decade later that studies of economic voting moved away from economic aggregates toward individual level data. Using electoral surveys from the Michigan Survey Research Center, Fiorina (1978) found support for the existence of an economic vote but only in presidential elections. Kinder and Kiewiet (1981, p. 132), with a slightly larger sample, however, observed no connection between changes in individual welfare and the vote, and proposed for the first time the notion of a ‘sociotropic’ voter, who votes ‘according to the country’s pocketbook, not their own.’ In response to the critique that sociotropic voting places unreasonable informational demands on citizens, the authors contended that voters are only required to form impressions of how the economy is performing and how the administration is handling economic matters.

Subsequent work reinforced the claims that American voters resemble the sociotropic ideal, responding more to aggregate economic conditions than to the circumstances of personal economic life (Lau and Sears 1981).\footnote{Hibbs Jr. (2006) contends that if voting behavior were egotropic, incentives for growth generation would be far weaker, and instead incumbents could play a divide and conquer strategy of pleasing some constituencies at the expense of others.} Feldman (1982) argued that this behavior reflects economic individualism in which individuals take personal responsibility for their economic conditions and do not associate personal well-being with government decisions. Among the few systematic studies of economic voting in Latin America, Lewis-Beck and Ratto (2013) find evidence of the prevalence of a sociotropic vote in the region. Singer and Carlin (2013) reinforce these findings, except in the poorest countries of the region. Urdinez and Campello (2019) more recently documented sociotropic preferences formed at the local, rather than national, level in Brazil.

Over time, the debate about the egotropic or sociotropic nature of the vote has progressively moved from monolithic views of the electorate to distinguishing the individual drivers of voting decisions in the same polity. Considering that assessments of the economy include personal experiences and perceptions about collective outcomes, the authors contend that exposure to mass media and political sophistication should increase the weight of the sociotropic aspect of the vote. Personal experiences, thus, should weight more heavily in voting considerations among
1.2 Economic Voting and Representation

the information-poor, whereas the information-rich should rely on perceptions of collective economic conditions (Weatherford 1983). The media, by priming individuals’ collective perceptions and downplaying personal concerns, would ultimately depoliticize personal experiences (Mutz 1992).

These results were later contested by Gomez and Wilson (2001). The authors find widespread support for the sociotropic vote across levels of political sophistication, but also that it is more likely observed among the least sophisticated voters. Their argument is that pocketbook voting is a more intellectually demanding type of electoral decision-making compared to sociotropic voting, and is therefore the one that is most readily available to less sophisticated voters. Political sophisticates, conversely, are the ones who are able to make the associative linkage between changes in their personal financial status and governmental policy, and therefore the ones who are most likely to vote with their pockets (Gomez and Wilson 2001; Gomez and Wilson 2006).

From an empirical point of view, the move toward individual level data offers many advantages. Surveys occur more frequently than elections and have the advantage of releasing the researcher from establishing what is or not a measure of a ‘good economy.’ As Hansford and Gomez (2015) observe, data limitations can make objective economic conditions less useful in models of individual vote choice, particularly for studies focusing on a specific nation. The authors note that studies focusing on a single election cannot examine the effect of objective national conditions as these conditions do not vary between voters. Studies that attempt to overcome this limitation by pooling together individual level data over multiple elections can only include a small set of elections due to historical limits on the availability of survey data, limiting the variability of objective economic indicators.

A focus on economic aggregates also limits the ability to control for other election-specific effects that might confound the observed relationship between objective national conditions and vote choice. Conversely, perceptions of the economy vary between voters for a given election, and thus, offer greater empirical traction.

The focus on individual level data also has important theoretical implications; authors have argued that causal relations between economic conditions and voting decisions are necessarily mediated by individual perception (Fiorina 1978), an argument that still resonates in the more recent literature. Duch and Stevenson (2006, p. 529), for example, define economic voting as an ‘individual level phenomenon that is reflected
in the relationship between a person’s perception of the economy and the probability with which she votes for each of the available parties or candidates in an election.’

Even though these arguments are compelling, this choice is not without downsides. For those studying presidential systems, surveys of vote intentions are far less frequent than in parliamentary countries and are usually concentrated during electoral campaigns. In the period between elections, these surveys tend to focus on presidential popularity. Popularity may capture the sanctioning rationale of the economic vote but does not capture voter preference functions over different parties, as proposed in Duch and Stevenson (2006), which is key to the selection model of economic voting that they employ.

Moreover, the scholarly literature has increasingly challenged the objectivity of economic perceptions, showing that they are often biased by individuals’ prior allegiances and partisan preferences (Bartels 2002; Anderson, Mendes and Tverdova 2004; Evans and Andersen 2006; Fernández-Albertos, Kuo and Balcells 2013). Studies reveal that partisan bias is strongest when economic performance is more controversial (Chzhen, Evans and Pickup 2014) and when officials are ‘domain relevant’ (Healy, Kuo and Malhotra 2014). Likewise, Tilley and Hobolt (2011) show that partisan considerations often influence allocations of blame in the policy areas where incumbents from different spheres of government share responsibility.

Most importantly, for our purposes, whereas perceptions of the economy may offer an encompassing understanding of the mechanisms that underlie the economic vote, they are less compelling for an examination of electoral accountability (Conover, Feldman and Knight 1986). As Holbrook and Garand (1996, p. 325) put it, ‘although retrospective economic voting does not require voters to have precise information about recent economic conditions, the quality of retrospective voting as a democratic accountability mechanism hinges on the degree to which citizens have reasonably accurate perceptions of the state of the economy.’

The original formulation of retrospective voting, in which citizens create welfare-enhancing incentives for governments by judging them with their pockets, conceptualizes accountability as the incentive to engage in actual maximization of voter welfare and not that of maximizing voters’ perceptions of welfare. If perceptions accurately follow economic performance, the two are indistinguishable, and studies focused on actual or perceived performance should yield similar conclusions. The more
perceptions deviate from actual performance, however, the more office-seeking incumbents should deviate from welfare maximization toward maximizing the perceptions of welfare. This nuance justifies why studies of the role of economic voting and an instrument of accountability should privilege a focus on real economic performance.

Finally, the debate about which dimensions of the economy matter to voters is also ongoing and moving toward increasingly more complex specifications. Initial studies focused on the usual suspects – inflation, economic growth, and employment – whereas recent work has attempted to understand how and why voters’ concerns vary over time. For example, Singer (2013) argues that voters are more likely to prioritize elements of the economy that have recently performed particularly poorly, and place less weight on outcomes they perceive as more stable. In Latin America, this reinforces Remmer’s (1991) findings that voters mainly responded to inflation in the 1980s. Singer (2013) shows that rises in consumer prices remained the main driver of the vote in the 1990s, but were replaced by economic growth as inflation receded in the 2000s.

In sum, for all the reasons discussed above, in this book, the economic vote is conceived as the impact of aggregate economic outcomes on presidential success – measured in several ways – in Latin America. Based on this relatively simple design, our focus now turns to the problem of assignment of responsibility for economic performance.

1.3 ASSIGNED RESPONSIBILITY FOR ECONOMIC PERFORMANCE

Citizens’ capacity to evaluate and sanction elected politicians remains a central but controversial topic in the study of democracy. As early as in 1973, Stigler (1973) questioned the rationality of voting based on economic outcomes that might as well lie beyond government control, which according to Fiorina (1978, p. 429) critique revealed an economist’s ‘customary confusion between what people do and what he believes they should do.’

Since then, this debate evolved along the divide between the Michigan school, which asserts voters’ lack of knowledge on political matters and want of a coherent ideological structure (Campbell et al. 1960; Converse 1969), and the retrospective voting literature, which contends that voters are capable of selecting the most competent leaders through the use of
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heuristics\footnote{We follow Redlawsk and Lau’s (2013) definition of decision rules as strategies that employ all available information and decision heuristics as those that ignore some information.} – shortcuts and rules of thumb that simplify decision-making under limited cognitive capacity (Ferejohn 1986; Torsten, Roland and Tabellini 1997; Fearon 1999; Canes-Wrone, Herron and Shotts 2001).

Evidence on shortcuts and other strategies of simplification do not rarely lead to systematic biases; however, they point to the importance of establishing how and when voters use heuristics, and the extent to which they help or hurt (Redlawsk and Lau’s 2013). Accordingly, these mistakes the fact that voters sometimes – but not always – make mistakes when observing economic outcomes, assigning responsibility for them, and deciding to punish or reward incumbents accordingly; these mistakes only matter as long as they distort incentives for good policymaking (Healy and Malhotra 2013).

Along these lines, and largely influenced by the behavioral revolution, recent scholarly work has progressively moved toward exploring biases in voting behavior, and as such, establishing the conditions under which the economic vote can actually function as a mechanism for promoting representation. The fundamental notion underlying this agenda is that this only happens as long as voters sanction and select representatives based on the outcomes they effectively cause, that is, they correctly assign responsibility for economic performance. Deviations from this norm affect welfare enhancing incentives that are anticipated by economic voting theory and harm representation.

The literature on clarity of responsibility investigates this problem from an institutional perspective. Authors contend that the more likely citizens are to correctly assign responsibility, the better they can identify the party responsible for economic conditions (Powell and Whitten 1993). In the particular case of the presidential systems that are the focus of this book, scholars have examined how electoral laws (Benton 2005) and separation of powers (Samuels 2004; Johnson and Schwindt-Bayer 2009) affect voter capacity to attribute responsibility and hold representatives accountable. Among other conclusions, these works point to the clear predominance of the president, vis-à-vis legislators, as the main object of the economic vote in the region (Samuels 2004; Carlin and Singh 2015). This should come as no surprise, considering the institutional power in the hands of Latin American presidents, and the fact that central banks in the region are still very often under the influence of the executive.
Even when responsibility is clear, voters still need to distinguish and
discount economic performance that does not result from policymaking.
In case they fail to do so – over-attributing responsibility to presidents,
for instance – they risk sanctioning and selecting incumbents based on
outcomes beyond their control. By breaking the linkage between incum-
bent action and electoral reward, this so-called’ misattribution bias’
distorts the welfare enhancing incentives anticipated by economic-voting
theories, and limits the capacity of an economic vote to promote good
representation.

This problem has prompted another strand of the economic vot-
ing literature to investigate the conditions under which voters can
identify (and discount) exogenous components of their country’s eco-
foundation for what they see as voters’ signal extraction problem by
modeling economic growth as a function of a natural rate plus unan-
ticipated shocks, which are caused by either incumbent competence or
an exogenous element. In their model, voters cannot directly identify the
components of economic shocks. However, as voters know the distri-
bution of these shocks, they can infer the ‘strength of the competence
signal.’

Duch and Stevenson’s (2008) elaborate on the classic model by empha-
sizing that both elected and non-elected decision-makers influence the
domestic economy. The voters’ conundrum, in this case, is to identify
and distinguish competency shocks (those associated with elected offi-
cials) from everything else that can be considered as exogenous shocks.
The authors argue that, in countries where non-elected decision-makers
have a relatively large influence over economic outcomes, the observed
variance of exogenous shocks is substantially larger than the variance of
the competency shocks.

It follows that in these settings, voters should weight the economy
less heavily relative to alternative sources of information on competence
such as manifestos, opponents, or the media. Duch and Stevenson (2005)
present evidence that Europeans actually behave in this way. Moreover,
whereas Alesina and Rosenthal (1995) assume that voters know the distri-
bution of exogenous shocks, Duch and Stevenson’s (2008) empirical
analyses suggest that they learn it by ‘observing global economic out-
comes’ (p. 150). This implies that, even when the competency shock is
substantial, voters only extract the information necessary to reward or
punish the incumbent by observing economic performance over time and
comparing it to the performance of other countries.
The notion that the economic vote should be somehow associated with a strong competency signal resonates with studies that followed. Hellwig and Samuels (2007), for instance, find that greater exposure to trade and capital flows – expected to weaken the competence signal – is associated with a decrease in the economic vote in a large sample of countries. Alcañiz and Hellwig (2011) show that economic integration is also associated with an increased propensity to blame nonelected agents for economic performance in Latin America, but also that Latin Americans are far more likely to blame economic outcomes on government policies than on any other factor/agent, such as the IMF, banks, and the WTO. Ebeid and Rodden (2005) demonstrate that the connection between macroeconomic performance and incumbent governor success is weak in the states of the United States where the economy is based on natural resources and farming but strong elsewhere in the country. More recently, Kayser and Peress (2012) have shown that voters mostly punish and reward governments based on their country’s relative economic performance – deviations from a benchmark – which they interpret as a proxy for incumbent competence. From this perspective, the more integrated economies are, the less they will deviate from benchmarks, and therefore, the weaker the economic vote should be.

Still, if the authors are correct in the sense that extracting a competency signal from economic performance effectively requires a comparison of outcomes across countries and over time, there are reasons to suspect that Europeans’ behavior may constitute an exception rather than a rule in comparative perspective as the exposure of European citizens to information on neighboring economies is certainly not typical. The process of regional integration in Europe is unique and has deep historical roots; economic interdependence has been high for a longer period of time than in any other region, domestic markets have been integrated for decades, citizens of the European Union move freely within its borders, and Eurozone countries share a single currency and a central bank. As such, it is reasonable to argue that Europeans’ capacity and willingness to benchmark across borders is probably higher than that of citizens of most (if not all) other regions worldwide.

In contrast, voters that are not exposed to these levels of economic integration and with less access to information about global economic outcomes are less likely to benchmark their country’s economic performance. As such, they should be more susceptible to sanctioning and selecting incumbents based on outcomes they cannot influence. Latin
America, as an example, experienced inward-looking development models during much of the twentieth century, and countries in the region still display very limited levels of economic or political integration. Citizens’ access to information – which is necessary to hold leaders accountable (Adserà, Boix and Payne 2003; Pande 2011; Khemani et al. 2016) – is generally low and, as a result of these factors, exposure to news about other economies is limited, at best. In such a scenario, we contend that voters are less likely to benchmark economic performance, and thus, to distinguish competence from chance when casting an economic vote.

Another important but overlooked characteristic makes the problem of assigning responsibility for the economy even more concerning in the developing world. As we discuss in Chapter 3, structural factors make developing countries’ economies far more exposed to exogenous shocks than their developed counterparts. The consequences of this reality cannot be overstated; the welfare effect of good and bad times is much more salient in these countries, making it harder for voters to reason past their strong experiences. This is true even for voters that possess knowledge about the role of these exogenous factors, but much more so for the majority that do not. As a consequence, an economic vote in a highly volatile economy implies a higher potential of biased perceptions about incumbent quality. The potential for electing a bad representative under such conditions is substantially higher. This reality contrasts with that of the developed nations where more stable economies, in addition to a network of social protection, imply that individual welfare is only weakly influenced by exogenous conditions.

To put these diverging conditions in perspective, even if European citizens mistakenly attributed the totality of economic outcomes to government competence, they would still select the most competent incumbents far more often than those in Latin America.

1.4 THEORETICAL CONTRIBUTION

We are not the first to point out that economic voting may not always promote good representation. Palmer and Whitten (2003), for instance, argue that ‘this ideal requires that voters recognize the relevant policy outcomes and then accurately attribute policy-making responsibility for them’ (p. 65). In case they do not, ‘any representation would be

8 Voting correctly, here, is understood as reelecting a competent government and voting out an incompetent one.
coincidental rather than a product of the electoral process.’ Not even
the claim that economic voting is unlikely to promote accountability in
countries vulnerable to exogenous shocks is exactly new – on the con-
trary, it has become quite established in the relevant literature (Duch and
Stevenson’s 2008).

What our work does is challenge the conclusion that individuals will
refrain from casting an economic vote under these conditions. Instead,
we provide vast evidence that economic voting occurs even when the
economy is largely determined by exogenous conditions. We then exam-
ine the motives behind this behavior and its consequences for the quality
of representation in Latin American democracies.

We begin by asking ourselves what happens to political representa-
tion – conceived as the dual tasks of aligning preferences and inducing
effort – if the connection between policymaking and economic out-
comes assumed in rational models of voting is weakened. This theoretical
examination is conducted by modifying simple selection and sanctioning
models in which voters judge representatives based on economic perfor-
ance by increasing the share of variation in economic performance that
is derived from random noise. This simple tweak to established mod-
els shows that as noise increases, the quality of political representation
diminishes. That is, voters lose their capacity to prevent deviation from
their preferences in sanctioning models, and the probability of choosing
an inferior candidate in selection models increases.

However, why, then, would citizens cast an economic vote under these
circumstances? Without parting from the rational framework, we con-
sider the hypothesis that voters may simply have no other source of
information on incumbent competence, or may not have appropriate
information to discount exogenous shocks. To present our explanation
for why exposure to volatile exogenous conditions magnifies – instead of
limiting – economic voting, we then move toward behavioral models that
consider affective aspects of voting.

Our argument is that the welfare impact of large swings in exoge-
nous conditions, particularly in countries where voters that are not
protected by social policies, boosts affective responses to political lead-
ers. Once the image of the leader is affectively charged – positively or
negatively, depending on the shock – all additional information that
could illuminate judgments of competence will be observed through the
lens of this affect (Lodge and Taber 2005). Confirmation bias, in addi-
tion, will prompt voters to search for information that reinforces their
1.4 Theoretical Contribution

affective impressions. This being true, it follows that the greater the shocks, the stronger affective reactions will be, and the harder it will become for voters to incorporate information (assuming it is available) that allows them to separate the effect of exogenous conditions from competence.

The behavior that has just been described applies to more complex economies (such as Brazil) in which voters have a limited understanding of the impact of factors such as commodity prices to economic performance. It also applies, however, to countries like Venezuela, which rely on a single commodity export. Even citizens who are informed about oil prices and are aware of their overwhelming influence on economic performance cannot discount exogenous fluctuations when casting an economic vote.

It follows that in economies highly exposed to volatile exogenous conditions, it is hard to compare, let alone identify the competence of their governments based on the economy. The higher this volatility, the higher the relative capacity of a lucky but incompetent incumbent to deliver good outcomes, in comparison to an unlucky but competent one. This incapacity to judge and compare based on the simplest heuristic for government competence – the economy – is what we call the ‘volatility curse,’ a less explored aspect of the well-documented natural resource curse.

There is a tremendous difference between this scenario and that of developed economies in which lower volatility implies that welfare effects of exogenous shocks are limited, and so are voters’ affective responses to leaders. In such conditions, it is reasonable to expect that the rational processing of relevant information – such as on relative economic performance or exogenous shocks per se – allows for a better attribution of responsibility for the economy.

The implications of our theory cannot be overstated, much less considering that economic voting theories were formulated based on the experience of developed (and relatively stable) economies. It is past the time for reconsideration of theoretical conclusions from the perspective of the rest of the world in which exogenously driven economic volatility is the reality. By examining the consequences of economic voting under high economic volatility, our work contributes to establishing the scope conditions under which this vote can actually promote good representation. We conclude that this is not the case in the low-savings commodity-exporting Latin American countries.
Our empirical contributions are closely intertwined with our theoretical arguments. As we argue that exposure to exogenous shocks is a key structural distinction between developed and developing economies, it makes sense to begin by identifying patterns of variation in this exposure across countries and over time. Simply put, growth volatility is much larger in the developing world. It is also strongly associated with dependence on commodities and with variation in terms of trade, which we take as evidence that much of this volatility is, in fact, exogenously induced. As a consequence, voter capacity to infer government competence from economic outcomes is much lower in developing countries, and is particularly weak in Latin America. Contrary to predictions of rational models, however, the economic vote does not vary with exposure to shocks – instead, it is remarkably stable across countries.

All this implies that the economy influences the vote even when it is largely driven by factors beyond government control. As a result, whereas an economic vote potentially rewards competence in the developed democracies, it rewards luck in the developing world. In particular, aggregate strength of economic voting is very similar in Latin America and Organisation for Economic Co-operation and Development (OECD) nations, even though economic performance is much more dependent on exogenous factors in the latter. A Latin American voting while taking the economy into consideration is less likely to promote representation compared to a European behaving in the same way.

Having empirically established this distinction between the realities of developed and developing nations, which we believe contributes to explain the diverging results documented by studies about assignment of responsibility in each group of countries, we shift our focus to Latin America to delve into the rationale underlying voter behavior in the region.

Multiple factors make the region an ideal venue for this study. First, as just stated, Latin-American economies are among the most vulnerable to exogenous economic shocks, offering a natural setting in which to explore voters’ capacity to discount luck and ‘luck’, when assessing government performance. In addition, countries in the region share many institutional features – a presidential system with strong executives and relatively weak parties competing in mostly multiparty systems – and a democratic history that is shorter than that of Western Europe but longer than that of most other emerging countries. This considerably
reduces institutional variation that could affect voters’ capacity to assign responsibility for economic outcomes (Powell and Whitten 1993). There is also widespread consensus in the economic voting literature that presidents take most of the blame for economic performance in presidential systems, which further simplifies our analyses (Samuels 2004; Carlin and Singh 2015).

By concentrating on Latin America, we can also tap into a vast amount of literature that explores exogenous sources of domestic economic performance (Malan and Bonelli 1977; Gavin, Hausmann and Leiderman 1995; Maxfield 1998; Izquierdo, Romero and Talvo 2008; Reinhart, Reinhart and Trebesch 2016). Latin America’s dependence on commodity exports has been at the center of economic thinking about the region for decades. Dependency theorists, for instance, were concerned with both price volatility and the declining terms of trade, for which the natural remedy consisted of inward growth policies that reduced countries’ exposure to ‘unequal exchange’ conditions (Prebisch 1949; Singer 1950). This also allows us to leverage on the region’s diverging modes of insertion into the world economy – commodity exporters in South America and the maquila model of labor-intensive manufacturing exporters in Central America and Mexico – to explore the political implications of these differences. The same applies to the region’s insertion into the global financial markets as high-risk, high-return capital importers. As such, capital flows to the region are largely driven by fluctuations in international interest rates – financial investments flow into the region in search of higher returns when these rates are low and ‘flee to quality’ as they rise.

Not surprisingly, fluctuations in commodity prices and international interest rates are crucial factors that determine presidential success in Latin American LSCE economies; presidents experience higher popular support and have better chances of survival in office and electoral prospects when commodity prices are high and international interest rates are low, even though they do not have control over any of these factors.

Although our empirical analysis is mostly at the country level, we also examine individual level data and incumbent responses to voter behavior. With respect to voters, contrary to what we ourselves expected at the beginning of the project, misattribution bias – attributing economic performance to presidents even when it is driven by exogenous factors – is not a simple problem of lack of relevant information. Our own experimental results indicate that both cognitive limitations – the incapacity to
use the normative rules of inference developed in the literature, such as using relative performance as a proxy to competence – and limitations imposed by affective judgments matter.

Voter behavior has important implications for leaders’ conduct; the more success depends on exogenous conditions (which can be thought of as ‘luck’), the less we should expect representatives to maximize voter welfare. Latin American presidents are in a privileged position to observe the potential effect of exogenous shocks on exports, investment, and growth. Knowing that voters over-attribute economic outcomes to incumbents, it is not difficult for them to infer prospects of electoral success with this regard. Our theory suggests that, as certainty about electoral results increases, incentives for welfare maximization weaken in favor of rent-seeking activities that lead to waste and corruption. We rely on literature on electoral competitiveness, and on anecdotal evidence to illustrate these claims.

1.6 IMPLICATIONS FOR POLICY

The picture that emerges from our theoretical and empirical contributions is a normatively negative one. The chances of democracy working ‘well’ are slimmer in countries that are exposed to exogenously induced economic volatility. Moreover, these odds are defined by structural characteristics that are hard and slow to change – if this change is at all possible.

Although we do not have a detailed prescription, we would be remiss if we did not devote at least some thought to how to ameliorate this situation. We reckon that policy initiatives that limit individuals’ exposure to the well-being effects of exogenous shocks hold more promise than attempting to provide ex-post relevant information to voters and inducing them to use it when evaluating governments. Not only is it generally harder to ‘correct’ biases than to prevent them from forming in the first place (Wilson and Brekke 1994), but also the sheer magnitude of exogenously induced volatility is likely to create strong affective judgments that would be particularly hard to revert.

An example of a class of policies that might be employed to this end are countercyclical fiscal laws, which we briefly consider in the last chapter of the book. By leveling the incumbents’ playing field, these policies potentially increase the information on competence that voters can extract from economic outcomes, as well as comparability of incumbents,
1.7 Plan of the Book

with potentially positive consequences. Ultimately, countercyclical fiscal laws may offer a path to reconnect merit and reward, producing the welfare-enhancing incentives from economic voting that are currently missing in developing resource-rich democracies, in Latin America and elsewhere.

1.7 Plan of the Book

This book employs a multi-method approach to examine the limits of the economic vote as an instrument of accountability. Chapter 2 examines the theoretical models of economic voting to argue that, when alternative sources of information on the competence of incumbent governments are not available, it may be rational for citizens to cast an economic vote even if the economy is mostly determined by exogenous factors. This vote, however, is unlikely to promote electoral accountability. Chapter 3 shows that this is precisely what happens in most developing economies, where exogenous shocks are far more relevant to explain economic outcomes than in developed economies. We argue that, by sanctioning and selecting incumbents based on the economy, citizens are more likely to reward merit in developed nations, but luck elsewhere, and that the economic vote is a poor instrument of electoral accountability in polities in which it was presumed to bring the most benefits.

Chapter 4 analyzes how Latin American economies are exposed to exogenous conditions, and how these affect the likelihood of regular handovers of power during democratic and authoritarian periods alike. In the subsequent two chapters, we examine how these conditions affect other indicators of the success of presidents. Chapter 5 shows that presidents who govern over high commodity prices and low international interest rates have a substantially higher chance of being reelected than those that preside over the opposite conditions, irrespective of the fact that fluctuations in these two factors are hardly under the leaders’ control or even influence. Chapter 6 extends this analysis using presidential popularity as the dependent variable.

In Chapter 7, we investigate the micro-foundations of voters’ misattribution of responsibility in the region, and whether this behavior can be attributed to lack of information needed to correctly assign responsibility for the economy. We do so through three survey experiments aimed at testing different mechanisms in the same country, and the same mechanism in very different countries, and find minimal support for this
claim. Misattribution, if anything, seems to be more an issue of cognitive capacity than a simpler problem of lack of information.

Chapter 8 turns to the incentives that voter misattribution creates for incumbents. We show empirical evidence suggesting that Latin American presidents realize that voters do not distinguish ‘luck’ from merit, and that they are aware of the relevance of exogenous conditions to domestic economic performance. As a result, presidents are often able to anticipate their electoral prospects a few years ahead of the elections; they know that in very good times, reelection is often safe, and in very bad times, it is highly unlikely. In either scenario, certainty about electoral results reduces presidents’ incentives to maximize voter welfare, increasing the prospects of shirking, waste, and corruption.

The last chapter includes a summary of the findings presented in this book, and characterizes the limited incentives for good policymaking as a problem to overcome. We then review different potential policy alternatives to address the problem. We consider initiatives such as protectionism/industrial policy and the provision of information to voters, and find some promise in countercyclical fiscal laws that could have the effect of leveling the playing field among incumbents and improving the capacity of Latin Americans to effectively infer competence from economic performance.