

## Introduction: Representation in Volatile Economies

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 the president 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 also flowers. Peru is a major exporter of several minerals, Bolivia depends on minerals and natural gas, and Chile on copper. Uruguay exports are concentrated on meat, animal products, and pulp, while Argentina exports an assorted range of foodstuff. 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 directly impact 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 U.S. Federal Reserve Bank sharply raised interest rates to contain inflation in the late 1970s, previously abundant capital flows to the region dried up, governments faced extreme duress, and

countries entered a decade-long crisis. Most military regimes still in power collapsed; presidents governing through the hard times were extremely unpopular and had a dismal record electing their successors. In contrast, when international interest rates reached a new low in the early 1990s, capital flows rebounded in search of higher returns. The accumulation of massive international reserves allowed governments throughout the region to adopt exchange-rate-based stabilization plans, putting an end to long-lasting inflationary crises. Popular support for governments was such that numerous 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 that inflation was brought under control in most countries at roughly the same point in time.

The boom-bust cycle Latin America experienced in the 2000s is the most recent and maybe the most conspicuous illustration of the political consequences of what Reinhart calls a “double-bonanza” (Reinhart, Reinhart & Trebesch 2016, p. 574).<sup>1</sup> 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 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, which was triggered by fears that the U.S. 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 sitting out for one term, such as Michelle Bachelet in Chile or Tabaré Vazquez in Uruguay.

These narratives reflect the conventional wisdom that elections, and presidential popularity, for that matter, are referenda on the economy. 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 well-being of voters. Yet considering that these fluctuations are unambiguously exogenous to governments

<sup>1</sup> 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.

decisions, citizens should discount them when casting an economic vote. By not doing so, they risk judging incumbents for their luck, rather than merit.

From a normative perspective, the behavior just described defies the core justification for the relevance of the economic vote, which is its essential role in shaping electoral accountability (Anderson 2007, Healy & 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 economic voting theories anticipate.

This is a vexing problem because economic voting is generally regarded as a means to generate normatively 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 in which voters are not shielded from economic downturns due to low levels of social protection (Pacek & Radcliff 1995, Kayser & Wlezien 2011), and not particularly attached to parties (Kayser & Wlezien 2011), voters often have no other yardstick through 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 & Ratto (2013, p. 490), who conclude that evidence of 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.

In this book, we seek to establish the conditions under which a vote based on economic performance effectively delivers the promise of electoral accountability (Anderson 2007). In doing so, we do not delve into aspects of voting behavior — whether it is retrospective or prospective (Manin, Przeworski & Stokes 1999, Conover, Feldman & Knight 1987), egotropic or sociotropic (Kinder & Kiewiet 1981, Lewis-Beck & Ratto 2013, Singer & Carlin 2013, Gomez & Wilson 2001), or which indicators voters respond to (Conover, Feldman & Knight 1986, Singer 2013) — that have been exhaustively scrutinized by scholarly work. We also do not examine whether voter’s reactions to the economy are asymmetrical (Stevenson 2003), whether a fixed cost of governing exists (Nannestad & Paldam 2003), or whether institutional differences affect how voters attribute responsibility for economic outcomes.

We focus, instead, on the impact of aggregate economic performance, most often (but not only) captured by rates of economic growth, on the vote for and support for the chief executive. At a first glance, we acknowledge this may seem as a throwback to a bygone area of scholarly work for, 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 & Stevenson 2010). Ultimately, however, our goal is to determine structural conditions that prevent the economic vote from creating the incentives for good representation that formal theories anticipate (Ashworth & Bueno de Mesquita 2014, Healy & Malhotra 2013), and much of our argument pertains to structural and slow-changing characteristics of countries' economies. This book, therefore, is not about economic voting per se; it is about its limits as an instrument of representation.

Our central thesis is that in democracies with strong exposure to exogenous economic conditions, and particularly those with less institutionalized political systems, it may be rational for individuals to cast an economic vote even if this vote is a poor instrument of electoral accountability. 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 economic performance.

Our analyses offer extensive evidence of misattribution bias in Latin America; irregular terminations of governments, elections, and presidential popularity in the region are largely a function of fluctuations on commodity prices and international interest rates. Based on results of survey experiments, we conclude that this is more than a problem of information acquisition, also reflecting voters' cognitive limitations. The provision of relevant information has an impact on assessments of government performance, but this impact is restricted to sophisticated individuals. Even in these cases, results are very limited, reflecting hassles involved in updating information about leaders whose image is already affectively charged by the feel-good (or feel-bad) effects of exogenous economic conditions.

Irrespective of the reasons underlying individual behavior, our main point is that a vote based on economic outcomes that are beyond incumbent control does not create positive incentives to policymakers, and is not a satisfactory mechanism to select the

best incumbents. Arguably, this is not a vote individuals would cast had they all the relevant information at their disposal (Dahl 1989); by breaking the connection between competence and electoral success that is at the core of economic voting theories, the behavior we document should not produce the welfare enhancing incentives that these theories anticipate. All this points to the desirability of reducing voter misattribution bias.

In the conclusion, we review some policy alternatives to address this problem. We draw from the literature in Psychology that has established that correcting biases is harder than preventing them from forming in the first place (Wilson & Brekke 1994). As such, we consider initiatives that limit individuals' exposure to the well-being effects of exogenous shocks to hold more promise as a means to reduce misattribution, than the provision of relevant information to voters (assuming it was possible to do it). Countercyclical fiscal rules, in particular, are a promising if yet unproven example of such initiatives. By shielding the economy, even if only partially, from exogenous conditions such mechanisms have the potential to boost the quality of the economic vote as a mechanism of representation, without making taxing demands on the average voter.

In the remainder of this introduction we examine the state of the current theoretical and empirical debates on the role of economic voting as a mechanism of representation. We subsequently argue that vulnerability to exogenously induced economic volatility limits the capacity of voters to hold leaders accountable through elections. The final section details how the book is organized.

Before proceeding, however, we feel compelled to provide some encouragement to prospective readers from the several different potential audiences of this book. For students of economic voting, the 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 "modern" International Political Economic 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 grave political implications. Democratic institutions, in short, function differently in different

political-economic contexts. Our focus here is not simply on the deleterious consequences of economic busts, but on how the volatility that affects countries dependent on commodities and flows of foreign capital leads to low quality democracy. Booms and busts, common to most of the developing world, are two sides of the same commodity curse.

Democratic theorists and those interested in the “quality” of democracy might find interesting our argument of how economic volatility limits the potential of elections to serve as instruments of accountability. Retrospective economic voting theories suggest that electoral accountability might “work” even in low-information environments, but our argument is that high exogenously induced economic volatility makes it unlikely that leaders will be held accountable through retrospective economic voting, regardless of the amount of information that voters possess.

Finally, to Latin Americanists broadly considered, we believe the 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 in their daily routines or in their research: life in general, and politics in particular, is subject to wide swings and, to quote from Dornbusch & 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, we believe, cannot be pegged simply on diffusion, much less on coincidence.

### **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 variability 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 on commodities and reliant of foreign savings. Moreover, social protection institutions are much weaker — and some times non-existent — so large segments of the population bear the brunt of downturns.

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

A boom is more akin to a tsunami than to a tide that raises all boats. As prices of commodity exports rise, investment follows the potentially high returns leading to an inflow

of capital. The performance of companies, income of workers, and government revenues rise, and further reinforce each other. The currency appreciates, allowing many in the “middle-classes” to take international trips and increasing imports of all sorts of goods. Suddenly, many of the consumption trappings of developed societies become apparent.

Financial markets overheat, attracting the interest of foreign investors. International media coverage increases with the main 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, construction expands upwards and outwards towards the suburbs employing huge segments of the labor force (for construction, in the developing world, is extremely labor intensive). Job markets tighten and salaries rise.

Governments’ tax and royalties revenues increase markedly, allowing for lavish spending on necessities, expansion of services and benefits, luxuries and — as it typically emerges only later — corruption. International media feeds the frenzy with congratulatory coverage and the incensing of leaders for having broken long histories of failure, and succeeded in obtaining growth with social justice. Experts, journalists, and politicians attribute success to good institutions and good leadership. Optimism trickles down to ordinary folk, which 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 had left their regular jobs to start their own companies go bust. 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, they halt activities and 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 infra-structure fail as demand for air travel, roads, and other such projects falters.

Governments, at first, attempt to prop-up spending even though revenues are faltering. 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, which further depresses investment. Public debt explodes, all levels of government cut



Figure 1.1 A Chronicle of Boom and Bust Cycle

investment and contracting, which lead to even more joblessness. In some cases, unrest leads to additional uncertainty. There are calls for “reforms,” but little agreement as to which reforms or how to compensate its losers.

Not even when booms turn into busts does it become clear 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. Eventually, commodity prices begin rising again and or low interest rates in the developed world send investors looking for higher returns in the developing world. 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 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 low-savings-commodity-exporting countries. 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 14-page special report that answered this question positively.

This example raises a couple of 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?” articles 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, Oct 8 2015). This nuance, however, is usually lost on the catchy 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 a hypothetical reversal of the international scenario, as the main threat to the country’s future (Brazil Takes Off). In the “blown it” report, the long list of diagnostics that was offered was all domestic. In another article during the bust, the Economist wrote that “in some cases the woes are mainly self-inflicted” (The Economist, Oct 8 2015). The New York Times article that mentioned demand from China argued that it 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 spot what is visionary investment and what are reckless expenditures. The New York Times 2010 article on the Latin American boom, for example, dwelled on an 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 11-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 to work because of serious logistical and patrimonial problems” (La Republica, Dec 18 2016).<sup>2</sup>

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

<sup>2</sup> “Solo existen de nombre. Mejor dicho, solo en el papel. Nunca llegaron a funcionar por graves problemas logísticos y patrimoniales.”

neighbors for its controversial construction” (La Republica, Dec 18 2016).<sup>3</sup> According to El Comercio, 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 Feb 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 IMF Working Paper, for example, De Gregório (2013, p.1) argued 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 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.”

Specialists could observe policymaking, something that most voters can not, and 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 5-year window, as it happened in Ecuador between 2006 and 2010. A much more likely interpretation of the recovery was that the crisis did not really hit commodity exporting countries because demand from China continued strong and low international interest rates decreased even further after the crisis. For many countries in Latin America, especially those in the South, which have relatively stronger links with China and weaker links with the U.S. it was an externally induced “non-crisis.” The positive results, nonetheless, were pegged on domestic leaders by experts and by voters. Even worse, widespread praises created strong incentives for governments to keep doing what they were doing, even though a reversal triggered by Chinese slow down was on the way.

The point that we make in the book is that high economic volatility caused by exogenous

<sup>3</sup> “Solo un edificio que parece un elefante blanco, el cual es recordado por los vecinos debido a su polémica construcción.”

factors creates a very difficult problem even for well informed voters and for those that recognize the role of exogenous economic conditions. It is next to impossible to properly discount these factors. For instance, we 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. This same difficulty afflicts all types of experts (including journalists, politicians, and academics), but even more so the non-experts, which evidences how poorly economic performance signals government competence in Latin American countries.

## 1.2 Economic Voting and Representation

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 start 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*a*).

Latin American democracies have been the subject of very influential analyses of these two modes of accountability (O'Donnell 1994, O'Donnell 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). As the winner faces fewer constraints and greater expectations because “horizontal accountability characteristic of representative democracy is extremely weak or nonexistent” (p. 61), elections are even more consequential in these systems. As a result, delegative democracies 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 &

Figueiredo 2009). Still, even enthusiasts of horizontal accountability would agree that it is much better suited to ensure that government officials follow the rules, behave honestly, and refrain from engaging in power grabs than with aligning the preferences of the population and their government and to induce incumbents to make an effort to obtain good policy outcomes.

The notion that the relationship between voters and elected officials includes these dual tasks of aligning preferences and inducing effort is recurring in different strands of the 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 & 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 vertical accountability, we have chosen to refer to them as “representation.”

Representation — or vertical accountability — need not be exercised only through elections. Smulovitz & 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) also attributes improving responsiveness of local governments in Mexico to changes in patterns of “participatory politics”, and not to increased electoral competitiveness. Collective action costs are high, though, and there is no guarantee that social organizations will exist and perform as expected. We justify our focus on elections, therefore, by 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. In fact, empirical work on the region has also concluded that ex-post evaluations through elections are the main mechanism in the region to guarantee accountability (Stokes 2001, Murillo, Oliveros & Vaishnav 2010). And when it comes to elections, economic voting is a strong empirical regularity.<sup>4</sup>

Even though this general statement hides ongoing debates about the precise nature of the relationship between the economy and vote choice (Anderson 2007), evidence exists from around the world that economic performance is a strong predictor of electoral results (Duch & Stevenson 2008, Leigh 2009, Lewis-Beck & Stegmeier 2000). From a normative

<sup>4</sup> See Hibbs Jr. (2006) and (Lewis-Beck & Stegmeier 2000) for a review of economic voting theories and empirical evidence, respectively.

point of view, economic voting theory offers an optimistic perspective for democracies (Achen & 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 literature has evolved both theoretically and empirically towards 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 U.S. Kramer (1971) looked into the impact of aggregate economic outcomes on 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 with the similarity of results depending on the period analyzed and other research design choices.<sup>5</sup>

It was only almost a decade later that that studies of economic voting moved away from economic aggregates towards 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 & 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 it requires only that voters form impressions of how the economy is performing and how the administration is handling economic matters. Even in this scenario, sociotropic voting demands more sophistication than simply voting with one’s pocket.

Subsequent work reinforced the claims that American voters resemble the sociotropic ideal, responding to aggregate economic conditions more than to the circumstances of personal economic life (Lau & Sears 1981).<sup>6</sup> Feldman (1982) argued that this behavior reflects

<sup>5</sup> See (Fiorina 1978) for a review of this early literature.

<sup>6</sup> Hibbs Jr. (2006) contends that if voting behavior were egotropic, incentives for growth generation would be far

economic individualism, which leads people to accept personal responsibility for their economic conditions, therefore eliminating the connection between personal well-being and political evaluation. Among the few systematic studies of economic voting in Latin America, Lewis-Beck & Ratto (2013) also find evidence of the prevalence of a sociotropic vote in the region, and Singer & Carlin (2013) find the same, except in the poorest countries.

Overtime, the debate about the egotropic or sociotropic nature of the vote has progressively moved away from monolithic views of the electorate, towards distinguishing the individual drivers of voting decisions in a same polity. Considering that assessments of the economy include personal experiences and also perceptions about collective outcomes, authors contended 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 the information-poor, whereas the information-rich relied 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 findings were contested more recently by Gomez & Wilson (2001). The authors find widespread support for the sociotropic vote across levels of political sophistication, but in the opposite direction; sociotropic voting 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 than sociotropic voting, and is therefore the one most readily available to less sophisticated voter. Political sophisticates, conversely, are the ones are able to make the associative linkage between changes in their personal financial status and governmental policy, and therefore the most likely to vote with their pockets (Gomez & Wilson 2001, Gomez & Wilson 2006).

From an empirical point of view, the move towards individual level data offers many advantages. Surveys are by definition more frequent than elections, making for larger-N analyses, and release the researcher from establishing what is or not a measure of a "good economy." As Hansford & 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, because 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

weaker, and instead incumbents could play a divide and conquer strategy of pleasing some constituencies at the expense of others.

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 move towards 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 more recent literature. Duch & 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, 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 & Stevenson (2006) and which is key to the selection model of economic voting they employ.

More importantly, the scholarly literature has frequently challenged the objectivity of economic perceptions, showing that they are often biased by individuals’ prior allegiances and partisan preferences (Bartels 2002, Anderson, Mendes & Tverdova 2004, Evans & Andersen 2006, Fernández-Albertos, Kuo & Balcells 2013). Chzhen, Evans & Pickup (2014) observe these same biases, but in their analyses they depend on economic performance — biases diminish in “abnormal” times, when the state of the economy becomes uncontroversial — whereas Healy, Kuo & Malhotra (2014) find partisan bias to be strongest when officials are domain relevant. Likewise, Tilley & Hobolt (2011) reveal that partisan considerations also influence allocations of blame in the policy areas where incumbents from different spheres of government share responsibility.

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 & Knight 1986). As Holbrook & 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 with their pockets, conceptualizes accountability as the incentives 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 towards the maximizing of 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 that matter to voters is also ongoing, and moving towards 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 been particularly bad, 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 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. Moreover, the literature on the OECD has also found evidence that voters evaluate both actions/policies and outcomes of these policies (Sattler, Brandt & Freeman 2010), but considering the lower levels of information and education in the developing world, it is less plausible to suppose that voters look at anything but outcomes in these countries. Evidence presented later in the book supports this assessment.

Due to our central interest in the role of economic voting in promoting good representation, this book conceives economic voting as the impact of aggregate economic outcomes on presidential vote in Latin America. This design is compatible with findings that Latin American voters are sociotropic, and takes advantage of the fact that our indicator of exogenous conditions is associated with all major macroeconomic variables of interest — inflation, economic growth, employment and exchange rates. Based on this relatively sim-



ple design, our focus now turns to the problem of assignment of responsibility for economic performance, which is the core problem we intend to tackle with this research.

### 1.3 Assigning Responsibility for Economic Performance

Citizen capacity to evaluate and sanction elected politicians remains a central yet controversial topic in the study of democracy. As early as in 1973, Stigler questioned the rationality of voting based on economic outcomes that might as well lie beyond government control, which according to Fiorina's (1978, p. 429) critique revealed economists' "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 about political matters and want of a coherent ideological structure (Campbell, Converse, Miller & Stokes 1960, Converse 1969), and the retrospective voting literature, which contends that voters are capable of selecting the most competent leaders through the use of heuristics<sup>7</sup> — shortcuts and rules of thumb that simplify decision-making under limited cognitive capacity (Ferejohn 1986, Fearon 1999, Torsten, Roland & Tabellini 1997, Canes-Wrone, Herron & Shotts 2001).

Evidence that shortcuts and other strategies of simplification not rarely lead to systematic biases, however, points to the importance of establishing how and when voters use heuristics, and the extent to which they help or hurt (Redlawsk & Lau 2013). Notwithstanding 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 the incentives for good policymaking (Healy & Malhotra 2013).

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

The literature on clarity of responsibility looks into this problem from an institutional perspective. Authors contend that citizens are more likely to correctly assign responsibil-

<sup>7</sup> We follow Redlawsk & Lau's (2013) definition of decision rules as strategies that employ all available information, and decision heuristics as those that ignore some information.

ity the better they can identify the party responsible for economic conditions (Powell & 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 & Schwindt-Bayer 2009) affect voter capacity to attribute responsibility and to 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 & Singh 2015). This should come as no surprise, considering the institutional power in 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 if responsibility is clear, however, 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 punishing and rewarding incumbents for outcomes beyond their control. By breaking the linkage between incumbent action and electoral reward, this so-called “misattribution bias” distorts the welfare enhancing incentives anticipated by economic voting theories, and limits the role of the economic vote as a mechanism to promote accountability.

This has prompted another strand of the economic voting literature to investigate the conditions under which voters can actually make this distinction, i.e. to identify (and discount) exogenous components of their country’s economic performance. Alesina & Rosenthal (1995) offer a theoretical foundation for what they see as voters’ signal extraction problem, by modelling economic growth as a function of a natural rate plus unanticipated shocks, which are caused either by incumbent competence or by an exogenous element. In their model, voters cannot directly identify the components of economic shocks, but by knowing their distribution they can infer the strength of the competence signal.

Duch & Stevenson (2008) elaborated on the classic model by stressing 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 officials) from everything else that can be considered exogenous shocks. In countries where non-elected decision makers have relatively large influence over economic outcomes, the observed variance of exogenous shocks is substantially larger than the variance of the competency shocks. The authors argue that, in these settings, voters should weight the economy less heavily relative to alternative sources of information about competence such as manifestos, opponents or the media, and find evidence in support of this claim among

Europeans (Duch & Stevenson 2005). Moreover, whereas Alesina & Rosenthal assume that voters know the distribution of exogenous shocks, Duch & Stevenson's (2008) empirical analyses suggest that they learn it by "observing global economic outcomes" (p. 150). This implies that, even when the competency shock is substantial, voters can 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 & Samuels (2007), for instance, find that greater exposure to trade and capital flows, expected to weaken the competence signal, is associated to a decrease on the economic vote in a large sample of countries. Alcañiz & Hellwig (2011) show that economic integration is also associated with an increased propensity to blame non-elected agents (such as the IMF) for economic performance in Latin America, but also that latin americans are far more likely to blame economic outcomes of government policies than on any other factor/agent included such as the International Monetary Fund, banks and the WTO. Ebeid & Rodden (2005) demonstrate that the connection between macroeconomic performance and incumbent governor success is weak in states in the U.S. whose economy is based on natural resources and farming, but strong elsewhere in the country. More recently, Kayser & 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 authors are correct and 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 about 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 in the world.

In contrast, voters not exposed to such levels of economic integration and with less access to information about global economic outcomes are less likely to benchmark their country's economic performance, and therefore to punish and reward incumbents for factors they cannot control. Latin America, as an example, experienced inward-looking development models during much of the 20th century, and countries in the region still displays very limited levels of economic or political integration. Citizens' access to information — which is necessary to hold leaders accountable (Adserà, Boix & Payne 2003, Pande 2011, Khemani, Bó, Ferraz, Finan, Stephenson, Corinne, Odugbemi, Thapa & Abrahams 2016) — is generally low and, as a result of these factors, exposure to news about other economies is limited, at best.<sup>8</sup> In such scenario, we contend that voters are less likely to benchmark economic performance, and thus to distinguish competence from chance when assessing government's management of the economy.

One condition makes this problem of assignment of responsibility for the economy even more concerning in the developing world. As we show in Chapter 3, structural conditions such as a reliance on commodity exports and low credit-to-GDP ratios, leave developing countries' economies far more exposed to exogenous shocks than their developed counterparts. The consequences of this reality cannot be overstated; the affective effect of good or bad times is much more salient in these countries, making it even harder for voters to reason past their affective reactions. This is true even for voters that possess knowledge about the role of these exogenous factors, but much more so for the majority that does not. As a consequence, an economic vote in a highly volatile economy by definition 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 developed nations, in which the economy is far more stable and less subject to exogenous shocks.

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<sup>9</sup> far more often than those in Latin America.

<sup>8</sup> Average circulation of daily newspapers in the region is only about 54 per 1,000 people, compared to 289 in the United Kingdom, 267 in Germany, and 313 in the Netherlands (*Total average circulation per 1,000 inhabitants*, UIS Data Centre and UNESCO Institute for Statistics, available at <http://data.un.org/>). Internet penetration in Latin American countries stands, on average, at 48% of the population whereas in the European Union this figure is 75%, and reaches 90% in some Western European countries (*Internet users per 100 inhabitants*, World Development Indicators, available at <http://databank.worldbank.org>).

<sup>9</sup> Voting correctly, here, is understood here as reelecting a competent government and voting out an incompetent one.

## 1.4 Theoretical Contribution

Our central thesis is that in democracies with strong exposure to exogenous economic shocks voting with economic outcomes is a poor instrument of representation. Notwithstanding, and particularly in countries with less institutionalized political systems, it may still be rational for individuals to cast an economic vote.

Others scholars, of course, have made the point that economic vote might not ensure political accountability. Palmer & 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, they add, “any representation would be coincidental rather than a product of the electoral process.” The claim that economic voting is unlikely to promote accountability in countries vulnerable to exogenous shocks is not new either — on the contrary, it is rather well-established in the literature (Duch & Stevenson 2008).

The novelty of our theoretical contribution lies in questioning the conventional wisdom that under these conditions rational individuals should (and do) underweight economic performance in their voting decisions. We then show this is not what happens in much of the developing world, and examine the normative consequences of this reality.

Numerous reasons may explain why citizens in the developing world would cast an economic vote even when economic performance is largely driven by exogenous shocks. We know from the political psychology literature that the image of leaders is affectively charged (Lodge & Taber 2005), and that this affect is at least partly associated to the well-being citizens experience — or not — during their tenure (Healy, Malhotra & Mo 2010). As discussed in the previous section, in developing nations exogenous shocks have tremendous effects on well-being; as such, the affective impact of these shocks on incumbent image should be far stronger than in developed countries.

Still, even considered the connection between well-being and affect, it is not unlikely that information allows voters to filter these effects, at least to some extent. A voter who knows that most of her neighboring countries are doing better than her own, or that her country is experiencing an oil boom may feel less satisfied with the government than otherwise, even under a good economy. With this in mind, we follow retrospective voting theories to conjecture that misattribution biases can be partly prevented by individuals’ access to information that allows them to identify common trends in the world economy, and to discount the well-being effects associated with these trends. Even if this is true, though, low levels of political and economic integration and limited access to media suggest this

information might not be easily available in some developing countries. As a result, voters may just not have elements to make the distinction between what is merit and what is luck when observing economic outcomes.

At last, even if voters were able to identify exogenous shocks and realize that they largely drive economic outcomes, they may still lack alternative sources of information about government competence that allow them to underweight the economy in favor of other criteria. Lack of institutionalized opposition, or the absence of checks and balances, typical of inchoate democracies may leave the economy, though poor, as the only shortcut available to voters.

In sum, we propose that biased impressions about incumbent competence are formed to the extent that voters are not exposed to information that allows them to discount the well-being effects of exogenous shocks. We contend that the less informed voters are, and the stronger the well-being effect is — as it is true in Latin America — the more likely it is that misattribution biases are formed. Moreover, even if assessments of governments were unbiased, voters may still cast an economic vote for the lack of alternative proxies for government competence.

Irrespective of the reasons underlying individual behavior, however, the point we want to make is that a vote based on economic outcomes that are beyond incumbent control is not a satisfactory mechanism to sanction or select representatives. This vote will often lead to the rejection of competent leaders that rule in bad times, and to the reelection of incompetent leaders that govern during good times. As such, it is not a vote individuals would cast had they all the relevant information at their disposal. By breaking the connection between competence and electoral success that is at the core of economic voting theories, the behavior described should not produce the welfare enhancing incentives that these theories anticipate.

### **1.5 Empirical Contribution**

Our empirical analyses are devoted first to characterize, and then to explore the consequences of the economic vote under the circumstances just described. The amount of information that observable economic performance provides about incumbent competence — the so-called “competency signal” — varies tremendously worldwide. It is markedly stronger in developed than in less developed economies, and very weak in Latin America, due to its exposure to highly volatile exogenous conditions. Contrary to the conventional

wisdom, however, the economic vote is remarkably stable across countries, despite this variation in the competency signal.

This means 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 where the competency signal is comparably strong, it rewards luck in the developing world.

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, we focus on Latin America to delve into the rationale underlying voter behavior.

Multiple factors make the region an ideal venue for this study. First, Latin American economies are among the most vulnerable to exogenous economic shocks, offering a natural setting in which to explore voter’s capacity to discount “luck” when assessing government performance. In addition, they 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 most other emerging countries. This considerably reduces institutional variation that could affect voters’ capacity to assign responsibility for economic outcomes (Powell & 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 & Singh 2015).

At last, by concentrating on Latin America we can tap into a vast Economics literature that explores exogenous sources of domestic economic performance (Malan & Bonelli 1977, Gavin, Hausmann & Leiderman 1995, Maxfield 1998, Izquierdo, Romero & Talvo 2008, Reinhart, Reinhart & Trebesch 2016),<sup>10</sup> while also leveraging on the region’s diverging modes of insertion into the world economy — commodity exporters in South America and labor-intensive manufacturing exporters in Central America and Mexico — to explore variation in these effects and their political implications.

Not surprisingly, exogenous shocks largely determine presidential success in Latin American low-savings-commodity-exporting economies; presidents experience higher popular support and have better electoral prospects when commodity prices are high and international interest rates are low, even though they control neither of these factors. We leverage

<sup>10</sup> 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 both with price volatility and the (then seemingly secular) 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).

on variations in the levels of institutionalization of regional political systems to show that alternative sources of information about incumbents hardly change this picture.

Survey experiments conducted in Brazil and Ecuador indicate that misattribution bias, more than a problem of information acquisition, is a result of citizens' cognitive limitations. The provision of relevant information affects assessment of government performance only in the case of sophisticated individuals, who know how to appropriately process this information. For most respondents, new information had no effect whatsoever, suggesting that the prospects of correcting voter misattribution bias are meager. Still, effects of our treatment are very limited, revealing the difficulties of correction once bias are established.

This behavior has important implications for policymaking; the more success depends on 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 hard from them to infer prospects of reelection. Our theory suggests that, as certainty about electoral results increase, incentives for welfare maximization weaken in favor of rent-seeking activities that lead to waste and corruption. Anecdotal evidence and a laboratory experiment support this claim.

Rather than the provision of information, we conclude that policies that disconnect voter welfare from international booms and busts are the most promising initiatives to prevent bias formation, rather than correcting it, a more difficult endeavor. A example explored in the last chapter is that of countercyclical fiscal laws. By leveling incumbents' playing field, these policies potentially increase the information about competence voters can extract from economic outcomes. Ultimately, counter-cyclical fiscal laws may offer a path to reconnect merit and reward, producing the welfare enhancing incentives that are currently missing in developing resource-rich democracies, in Latin America and elsewhere.

## **1.6 Plan of the Book**

This book adopts a multi-method approach to examining the limits of the economic vote as an instrument of accountability. Chapter 2 examines theoretical models of economic vote to argue that, when alternative sources of information about 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 this is precisely what happens in most developing economies, where exogenous shocks are far more relevant to explain economic



outcomes than in developed ones. 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 exactly in polities that it was presumed to bring the most benefits.

Chapter 4 analyses how Latin American economies are exposed to exogenous conditions, and in the subsequent two chapters it examines how these conditions affect the success of presidents. Chapter 5 shows that Presidents that 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 is hardly under 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 a same country and the same mechanism is very different countries, and find little 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 create 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 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 summarizes the findings presented in the book and characterizes the limited incentives for good policymaking as a problem to be overcome. We then review different potential policy alternatives to address the problem. Although we dismiss initiatives such as protectionism/industrial policy and the provision of information to voters, we find some promise in counter-cyclical fiscal laws that could have the effect of leveling the playing field among incumbents and improving the capacity of Latin American to effectively infer competence from economic performance.