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The Electoral Consequences of the Washington Consensus

No country in Latin America escaped the dictums of the Washington Consensus. From Brazil under left-leaning Fernando Henrique Cardoso to Mexico under ultra-orthodox economist Ernesto Zedillo and Peru under Alberto Fujimori's yoke, macroeconomic imbalances were brought under control, barriers to international trade were lifted, and state-owned enterprises were privatized. Whether this one-size-fits-all prescription was imposed from outside or adopted at will by the governments elected on the promise of improving the lot of their peoples may be a matter of debate. But all sides seem to agree on one point: the results did not meet the expectations created both by outsiders and by those in power.

Up to the mid-1980s only two countries in Latin America had adopted a package of policies similar to what became to be known as the Washington Consensus at the turn of the decade. Those two were undemocratic Chile and impoverished Bolivia, by then among the most politically and economically unstable countries, if not in the world, then certainly in Latin America. Extreme cases, extreme policies: that was a common interpretation of the two experiences. Less common was the expectation that those policies were about to be adopted by virtually every Latin American country in the next few years, both those in which democracy had been the rule

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for decades, like Colombia, Costa Rica, and Venezuela, and those where the third wave of democratization was just arriving, such as Argentina, Brazil, and Uruguay.

The years of high expectations, both about democratization and about Washington Consensus–type policies, are over. Latin Americans are still convinced democrats, but enthusiasm has waned. Three out of every four Latin Americans see democracy as the best form of government—or rather, as the least bad, since 68 percent think that democracy is not functioning well in their countries. Latin Americans are even more sceptical about the benefits of promarket economic policies. Only one out of four Latin Americans considers privatization to have been beneficial for his or her country and barely 16 percent think that the market economy is doing a good job.[1]

Malaise is getting the upper hand in a number of places. Electricity and water privatizations were blocked in Arequipa (Peru) and Cochabamba (Bolivia), following violent clashes between vociferous opponents and the police. An ambitious project to attract foreign direct investment to Bolivia's gas sector was derailed by the Indian communities. While these events may be dismissed as isolated expressions of popular feeling, a new crop of presidents from Néstor Kirchner in Argentina to Lucio Gutiérrez in Ecuador and Tabaré Vásquez in Uruguay has won clear majorities in popular elections after campaigning against the excesses of market-oriented policies.

In an attempt to establish whether this malaise is justified or not, economists have devoted substantial effort to assessing the economic and social consequences of the Washington Consensus policies. The dominant view seems to be that they have had positive effects on economic growth and income levels, though there is intense debate over the size of those effects, over whether they are transient or permanent, and over the importance of each of the components of the Washington Consensus. The dominant view also holds that the effects have been muted by lack of regulatory and institutional support for the liberalization efforts, though the specific forms of regulation and institutions necessary for that purpose are far from clear. Even more intense is the debate over the social and distributional effects of fiscal stabilization and promarket reforms, which are the two main pillars of the Washington Consensus.[2]

1. Opinion data come from the 2003 issue of Latinobarómetro, a public opinion survey conducted by the Corporación Latinobarómetro, Santiago, Chile.

2. These debates are surveyed in Lora and Panizza (2002); Kuczynski and Williamson (2003); and Lora, Panizza and Quispe-Agnoli (2004).

However, the future of these policies will depend not so much on their efficacy but on whether they receive the support of the electorate. On this, the state of knowledge is much more scant and fragmentary, as will be seen below. This paper attempts to help fill that vacuum by evaluating through econometric methods the electoral consequences of the Washington Consensus. Although our approach is backward looking, it sheds considerable light on the future. Our study shows that the electorate cares not only about the outcomes of the policies (maybe about only some outcomes and not others), but also about the policies themselves, irrespective of whether they produce good or bad (observable) outcomes. In addition, the electorate seems to care about whether the policies adopted by a government are in line with the ideology of the incumbent's party and with preelectoral promises. Furthermore, in presidential regimes voters cast separate votes for the executive and the legislature, and outcomes and policies affect each vote differently. The presidential vote is more volatile and more susceptible to economic outcomes and policies, but votes for the legislature are not completely immune: policies in which the legislature clearly plays a role, such as privatizations, tend to have electoral consequences. These results provide a nuanced landscape for the future of Washington Consensus policies, where neither bold backslashes nor aggressive promarket reforms should be expected in the future. Not only is the time of high expectations over; perhaps the time for deep reforms is also past.

In the next section of the paper we present a short survey of the literature assessing the electoral consequences of the Washington Consensus policies and derive our empirical hypotheses. On that basis, we then discuss the theoretical and econometric approaches that support the empirical analysis. In subsequent sections we describe the data, present the econometric findings, and discuss our conclusions.

A note on terminology is in order before proceeding. "Neo-liberal," "market-oriented," "orthodox," and a variety of other labels have been attached to the set of economic policies in vogue since the early nineties in Latin America and elsewhere. We use these terms interchangeably, but not loosely: for the sake of clarity and brevity, this paper deals with the ten policies summarized in the classic article by Williamson that made the term "Washington Consensus" famous.[3] We assume that all those labels refer to that same set of policies (as detailed below in the section titled "Data").

3. Williamson (1990a).

Review of the Empirical Literature and Some Testable Hypotheses

The most straightforward view of the response of the electorate to economic policies is based on the "economic voting" argument: people base their electoral decisions on cost-benefit calculations. If the policies bring net benefits to them, they cast their votes to support the government, or the party, administering those policies; if the policies bring losses to them, they lend their support to the candidate, or the party, opposing them. Economic voting is usually assumed to be retrospective: voters observe past performance and assume that past trends will persist into the future if the government or the party remains in power. If those trends are deemed acceptable, given a set of standards or expectations voters decide to reelect the incumbent, or his party if the option of reelection does not exist. Therefore, in retrospective economic voting policies play no direct role, since voters decide entirely on the base of past outcomes.[4]

Considerable evidence from advanced industrial democracies supports the view that past economic performance influences people's voting decisions and their support for governments.[5] An important empirical finding from this literature is that voters base their decisions on aggregate (or "sociotropic") economic outcomes such as growth, inflation, and unemployment, rather than on individual (or "pocketbook") outcomes. Most of the empirical literature on developed countries comes from single-country analyses, based either on time-series electoral outcomes or public opinion polls. The economic voting hypothesis is more robust for public opinion polls than for actual electoral outcomes.[6] Empirical studies of electoral behavior in the United States using state-level data lend support to the simple economic voting hypothesis, in the sense that voters are able to evaluate their state's economic performance relative to that of the national economy. Furthermore, they (irrationally) reward state governors for economic fluctuations that are unrelated to gubernatorial actions, which implies that they have limited ability to filter aggregate economic information.[7] The ability of voters

4. Stokes (2001b, pp. 1–18) provides a concise review and discussion of the theoretical underpinnings of retrospective economic voting.

5. Based on the seminal work by Downs (1957); among the initial papers on economic voting in the United States are Kramer (1971); Meltzer and Vellrath (1975); and Arcelus and Meltzer (1975).

6. Lewis-Beck (1988) is a salient example of the early empirical literature based on opinion polls in European countries. For a review of this literature, see Stokes (2001b, pp. 2–8).

7. Wolfers (2002).

to gather and update information is a central issue in the theoretical and empirical literature on economic voting.[8] Although some evidence points out to the presence of prospective as well as retrospective behavior, uncertainty about the workings of the economy and the relatively high cost of gathering and processing the information necessary to forecast outcomes is consistent with the importance of retrospective voting in the empirical findings.[9]

Empirical support for the economic voting hypothesis in Latin America has been uncovered by Karen Remmer, Michael Coppedge, Kenneth Roberts and Erik Wibbels, and Susan Stokes.[10] A concise summary of these findings is presented in table 1. Based on data for twenty-one competitive elections between 1982 and 1990, Remmer has found that conditions of economic crisis undermine support for incumbents and provoke high levels of electoral volatility.[11] The magnitude of the electoral change is found to be associated with the depth of the crisis during the campaign period, with variations in exchange rates, GDP, and inflation highly correlated with various indicators of electoral outcomes. Her results also suggest that the effect of economic conditions on electoral instability are mediated by the structure of the party system (insulating two-party systems from the volatility experienced by more fragmented systems). However, as Stokes points out, these results are anomalous given the predictions of normal economic voting, as she "finds that incumbent parties suffered larger losses at the polls when inflation went *down* (significant) and when GDP *rose* (not significant)."[12]

In a subsequent paper, Remmer presents new estimates on the influence of inflation and growth on the incumbent vote in presidential elections.[13] Her new database covers forty-nine elections for seven countries between 1983 and 1999. Her results indicate that after controlling for the advantage of incumbency as well as major differences in the structure of party systems, electoral outcomes are strongly influenced, in the direction expected, by macroeconomic performance in the year before the election. That is, inflation is found to be negatively correlated with electoral support, whereas

8. For a review of this debate, see Duch and Stevenson (2004); and Keech (1995).
9. On prospective behavior, see, for instance, Lewis-Beck (1988).
10. Remmer (1991, 2003); Coppedge (2001); Roberts and Wibbels (1999); Stokes (2001b).
11. Remmer (1991).
12. Stokes (2001b, p. 27).
13. Remmer (2003).

TABLE 1. Summary of Empirical Findings on Economic Voting in Latin America

Study	*Dependent variable*	*Election type (number of countries)*	*Period*	*Estimation method*	*Main results*
Remmer (1991)	Electoral volatility	Presidential (12)	1982–90	Pooled OLS	Inflation –; GDP growth +[a]
Remmer (2003)	Vote shares	Presidential (8)	1983–99	Pooled OLS	Inflation –; GDP growth +
Roberts and Wibbels (1999)	Electoral volatility	Legislative and presidential (16)	1980–97	Pooled OLS	Inflation –[a]; GDP growth +
Coppedge (2001)	Vote shares	Legislative (11)	1978–95	Pooled OLS	Inflation
Stokes (2001b)	Probability of a security-oriented candidate being elected	Presidential (15)	1982–95	Probit	Inflation –; GDP growth +

Source: Authors' calculations.
a. Not significant.

growth is positively correlated with it. Furthermore, inflation is significant in all the regressions presented, while growth is more significant for the elections held in the 1990s than for those in the 1980s, indicating that the sensitivity of the electorate to economic performance has increased rather than waned over time.

Coppedge's empirical work focuses on the impact of changes in inflation on legislative vote shares. His dependent variable consists of 132 changes in legislative vote shares for major parties in eleven countries from 1978 to 1995. His only indicator of economic performance is the change in (the log of) inflation from the last year of the previous government to the last year of the current government. By interacting this variable with appropriate dummies, Coppedge finds that changes (whether increases or decreases) in inflation affect electoral support for the incumbents' parties in the expected way, while only increases in inflation improve the vote share of the opposition parties. However, these results apply only to parties "with a fluid base," that is, parties that do not count on a strong party identification. When there is such identification, voters are reluctant to question their party identification on the basis of macroeconomic outcomes.

Roberts and Wibbels consider economic voting as a possible explanation of electoral volatility in Latin America. Their database includes fifty-eight congressional elections and forty-three presidential elections in sixteen Latin American countries during the 1980s and 1990s. Their results show that economic performance has an effect on electoral stability. Economic growth stabilizes partisan support in legislative elections, whereas sharp

changes in the rate of inflation from one administration to the next, whether positive or negative, produce the opposite effect. Short-term inflation influences support for incumbent presidents, but growth changes have only a weak effect on the vote for incumbents, "which suggests that voters are more inclined to hold them directly accountable for monetary stability than economic growth." Although electoral volatility is influenced by economic performance, it is also related to the institutional characteristics of political regimes and party systems, and to the structure and organization of class cleavages.[14]

In her study of "neoliberalism by surprise," Stokes uses data from twenty-three elections in the 1980s and 1990s in order to assess how the electorate judges incumbents who, having campaigned for stability-oriented or protectionist policies, once in office switch to market-oriented ones. She finds that for both, "switchers" and "non-switchers," economic growth and inflation affect their vote share in the expected ways. Furthermore, voters are more sensitive to economic outcomes in the case of "switchers," although this result is not statistically significant (more on these results below).[15]

These empirical studies taken together lend support to the retrospective economic voting argument in both presidential and legislative elections. They make clear that voting decisions are also influenced by political, institutional, and structural factors and that some of these factors may influence the severity with which voters judge economic outcomes. Therefore, based on these studies, two testable propositions are derived:

1. Electoral support for the incumbent's party is higher, the better the aggregate economic outcomes during his or her administration.

2. The sensitivity of electoral support to economic outcomes depends on the institutional characteristics of the political regime and the party system.

As mentioned, in normal economic voting only past outcomes influence people's views. However, as in all six of the Stokes case studies on market reforms in new democracies, people sometimes react to economic deterioration by supporting the government more strongly; and conversely, they sometimes respond to economic improvements with pessimism and opposition.[16] Normal economic voting is not the only pattern, especially in the process of deep economic reform. If there are good reasons to believe

14. Roberts and Wibbels (1999), quote from p. 584.
15. Stokes (2001a).
16. Stokes (2001a).

that past circumstances are not good indicators of the future, information other than past economic outcomes may influence people's electoral decisions. For instance, voters may recognize that past circumstances were affected by factors beyond the government's control and exonerate the incumbent from the responsibility for past declines in their welfare. Voters may then forecast their future welfare as a function of government policy, rather than as an extrapolation of the past. This sounds simpler than it is, of course, because future government policies are unknown and because the relationship between policies and outcomes is diffuse. People's expectations of future policies may be formed on the basis of the policies adopted or announced by the incumbent or on the basis of his party's ideology. These policy expectations may then be translated into expected outcomes through a set of beliefs and hypotheses about their possible consequences.

It is often implicitly assumed that people's (average) beliefs conform to the actual functioning of the real world. If that is so, assessing the effects of economic policies would help explain voters' electoral decisions. Economists have devoted considerable effort to evaluating the impact of Washington Consensus policies on economic growth, income distribution, employment levels, and a host of other variables.[17] However, there has been no comparable effort to examine whether these results are consistent with how the electorate responds to those policies. The only study on the subject, by Carlos Gervasoni, has found positive correlations between several indicators of *heterodox* (that is, anti-neoliberal) policies and *losses* in the vote shares of the parties of the incumbents who adopted those policies.[18] The variable with the largest and most significant effect is money supply growth. Import protection indicators are also significant, whereas fiscal deficit and the share of the state in GDP are not significant. These results suggest that Washington Consensus policies do not entail electoral costs and may even produce electoral benefits, probably because they bring positive economic effects. It is suggestive that the most significant policy variable is the money supply, because it is well known that inflation is, ultimately, a monetary phenomenon, and as mentioned, empirical evidence suggests that inflation is a key economic outcome influencing electoral decisions.

17. For surveys of the literature, see Inter-American Development Bank (2003, chap. 5); Kuczynski and Williamson (2003); and Lora and Panizza (2002).

18. See Gervasoni (1997), citing a 1995 study.

However, it is a great leap of faith to assume that people's beliefs conform to the actual consequences of policies. In mapping policies on outcomes, ideology and leaders' opinions may be more important for most people than their limited understanding of how policies work their influence through the social and economic structures to affect production, employment, or income distribution. Evidence on how those factors influence electoral responses to economic policies is very scant. However, in-depth case studies on Argentina and Venezuela by Javier Corrales clearly show that the reaction of the electorate to the adoption of neoliberal economic policies in the 1990s was mediated by the party structure and other institutional factors.[19] The cohesion and tactics of the Partido Peronista help explain the electorate's support of the neoliberal reforms in Argentina in the early 1990s, as well as their demise a decade later. Venezuela's Acción Democrática lacked that cohesion, and its reforms were soon rejected by the electorate.

If voters care about policies and not only about past outcomes, the policy announcements of presidential candidates will be a key source of information. However, campaign promises are often poor predictors of actual policy: according to Stokes, of the thirty-three Latin American governments that adopted promarket reforms between 1982 and 1995, only about half (seventeen) hinted during their campaigns that such reforms were going to be implemented.[20] This raises several empirical issues. First, do policy announcements in fact influence electoral decisions? Empirical evidence from the United States and other advanced industrialized economies shows that they do: people seem to base their opinions in part on campaign announcements, and voters punish ambiguous campaigns.[21] Of course, some promises may resonate more than others, depending on, among other things, economic circumstances. For thirty-eight Latin American elections in the 1980s and 1990s, Stokes finds that stability-oriented candidates (as opposed to market-oriented ones) stand a better chance of being elected, the lower the rates of GDP growth and inflation.[22]

A second empirical issue is whether deviating from campaign promises carries electoral costs for the incumbent. Although deviations may in principle be costly, they may produce a positive payoff if they signal the

19. Corrales (2002).
20. Stokes (2001a).
21. For a brief review of this topic, see Stokes (2001a, pp. 4–5).
22. Stokes (2001a, pp. 93–97).

incumbent's commitment to achieving highly desirable economic outcomes at the expense of more immediate partisan support.[23] According to Stokes, deviating from campaign promises does carry electoral costs, although only weakly.[24] However, since her estimates control for economic outcomes, this result implies that policy switches may still have a positive electoral payoff if the new policies bring substantial economic improvement. Neoliberalism by surprise may still be a good political strategy.[25]

A common theme in the literature on economic voting is the conditional nature of voters' responses to economic outcomes and policies. As mentioned, the severity of their judgment depends on their attachment to the party in power, the structure of the party system, and other institutional considerations. It also depends, although weakly, on whether the policies adopted by the incumbent are in line with his campaign pronouncements. An additional variation on this theme holds that the electorate is better prepared to support untested policies, even if they may cause short-term duress or if they run counter to established beliefs, when economic conditions have deteriorated.[26] However, once conditions improve or simply stabilize, tolerance subsides and support for further reforms wanes. Therefore, while uncertainty is welcome at the outset of the reform process, certainty is the key factor for its consolidation. Based on case studies of Peru and Argentina, Kurt Weyland offers persuasive evidence that the public was supportive to the reform process while there was a perception of acute economic crisis.[27] Even though the reformers were reelected, support for their economic programs was already diminishing. Corrales endorses this view in his analysis of the reform process in Argentina and Venezuela, although he acknowledges that in the latter case support for reform was never very strong.[28]

Therefore, the literature on economic voting suggests that policies, not only outcomes, may influence electoral decisions. As with outcomes, voters' position with respect to policies may be mediated by a host of factors, including ideological considerations, policy pronouncements during the

23. For a theoretical approach, see Cukierman and Tommasi (1998).

24. Stokes (2001a, p. 95).

25. Cukierman and Tommasi (1998); Navia and Velasco (2003).

26. This behavioral hypothesis is based on seminal work by Thaler and others (1997), Kahneman and Tversky (1979), and Tversky and Kahneman (1991), who find that people are more prone, even eager, to assume risks after experiencing losses.

27. Weyland (2002).

28. Corrales (2002).

electoral campaign, and the state of the economy at the time of elections. This gives rise to the following additional testable propositions:

3. Electoral support for the incumbent's party depends on the economic policies adopted. Policies may carry electoral costs even when they deliver good economic outcomes.

4. The electorate's tolerance of unpopular policies depends on the ideology of the incumbent's party, his or her campaign statements, and the initial state of the economy.

Empirical Approach

None of the empirical literature just reviewed offers a full-fledged theoretical model of electoral behavior, and we have no intention of providing one. However, the series of hypotheses arising from that literature can be organized in a simple framework such that the persistence of the vote for the incumbent's party is a function of a vector of economic outcomes and a vector of policies (both relative to their past values):

$$\frac{V_t}{V_{t-1}} = A * \left(\frac{X_t}{X_{t-1}}\right)^{\beta} * \left(\frac{P_t}{P_{t-1}}\right)^{\gamma} * u_t,$$

where V_t and V_{t-1} are the share of the vote for the incumbent's party at the end and the beginning, respectively, of its term in office; X_t and X_{t-1} are the economic outcomes at the time of each election; and P_t and P_{t-1} are the policies at those two moments. A is the set of other parameters that may influence the stability of the vote for the party in office, and u_t is an error term. β and γ are our parameters of interest. In this simple framework, hypothesis 1 states that β is positive for economic outcomes that are desirable, such as growth, or negative for undesirable ones, such as inflation or unemployment (and assumes that γ is zero, since it ignores the influence of policies). Hypothesis 2 postulates that β is a function of some features of the political system, such as party fragmentation or the ideological polarization of the party system. The stronger these features, the higher the electorate's response to the economic outcomes. Hypothesis 3, which postulates that the electorate cares about the choice of policies, implies that γ is not zero but probably negative if the policies are market oriented. Finally, hypothesis 4 states that some aspects of the political and economic context when the incumbent's party was initially elected may affect the way the electorate judges the adoption of policies. This

hypothesis can be incorporated in our framework by assuming that γ is a function of those factors. More specifically, γ will be smaller (in absolute value) when the policies adopted were those announced by the incumbent during his election campaign, when they are in line with his party's ideology, or when the economy started from a situation of crisis. Although our framework is general enough to test further hypotheses, due to sample size limitations and for the sake of parsimony and tractability, we restrict its application to the hypotheses identified in the literature review.

Our economic voting framework is relevant both for presidential and for legislative elections. An important feature of presidential systems is the separation of powers between the legislative and the executive, aimed at imposing checks and balances in order to discipline parties and make them accountable.[29] Since checks and balances force the two powers to agree on policies, voters should be expected to pass judgment on the performance of the incumbent's party in both branches on the basis of economic outcomes and policy decisions. Of course, we should expect that the influence of each policy on presidential vis-à-vis legislative elections will depend on whether such policy is controlled exclusively by the executive or not. While legislatures have very little influence on monetary, exchange rate, and tariff policies in most Latin American countries, they do have a strong (even overriding) influence on tax policies, privatization decisions, and the regulation of financial, capital, and labor markets. As Brian Crisp and Gregg Johnson show, contrary to widespread belief, Latin American legislatures make use of their powers to influence the timing and depth of promarket reforms.[30] And according to Roberts and Wibbels, the electorate holds each branch of power more accountable for some outcomes than for others.[31] When assessing the role of the legislature in policy decisions in Latin America, it is important to keep in mind that the incumbent's party (or the coalition of parties backing the incumbent) usually holds the majority in that body (see below).

To estimate the relevant parameters, the previous expression can be written in logs as

$$d\log(V_t) = \alpha + \psi \log(F) + \beta * d\log(X_t) + \gamma * d\log(p_t) + \varepsilon_t,$$

where $d\log(V_t)$ corresponds to the change in (the log of) the share of votes for the incumbent party between *t,* the time when its performance is eval-

29. Persson, Roland, and Tabellini (1997).
30. Crisp and Johnson (2003).
31. Roberts and Wibbels (1999).

uated, and $t - 1$, when it was elected for office; $d \log(X_t)$ and $d \log(P_t)$ are the changes in (log measures of the) outcomes and policies, respectively; ε_t is equivalent to $\log(u_t)$; and $\alpha + \psi \log(F)$ is equal to $\log(A)$, with α as a constant parameter and F as a set of political control variables.

We estimate separate models for presidential and legislative elections with panel data for seventeen countries starting from the mid-1980s described below. Potential problems of heteroscedasticity and endogeneity need to be addressed in this type of specification. The former may arise from country or party heterogeneity and is dealt with by the use of White robust standard errors. The endogeneity problem stems from potential omitted variables, since differentiating countries solely by the economic and policy-related variables included in sets X and P may not capture all the sources of heterogeneity.[32] This is partly dealt with by the inclusion as controls of a set of political variables (represented by F). However, other country-related factors might bias the estimations if they are correlated with the explanatory variables. To take care of this problem, we run all the regressions with country fixed effects (although, admittedly, our sample size is too small to get precise estimation of these effects).[33] The fixed effects estimator is

$$d \log(V_t) = \alpha + \psi \log(F_t) + \beta * d \log(X_t) + \gamma * d \log(p_t) + \lambda C + \varepsilon_t,$$

where C is the set of country dummies.

Data and Sources

Table 2 presents the structure of our database, and table 3 shows correlations between the more relevant variables. The database includes a total of sixty-six presidential elections and eighty-one legislative elections in seventeen

32. We assume that the two other sources of endogeneity—reverse causality and measurement error—are not latent in our model. Reverse causality is not a concern, since voters evaluate the incumbent's behavior *after* policies and outcomes are known. Measurement error problems may be present, depending on the actual process of expectations formation. However, ample empirical evidence provides support for the hypotheses of retrospective voting, which for our framework implies that expectations are formed on the basis of past outcomes only.

33. All the regressions were also run without fixed effects: while virtually all the conclusions are the same, in these regressions, some of the explanatory variables (especially those measuring promarket policies) show higher levels of significance. We have also run the regressions including a common time trend, or including five-year period fixed effects, without any important divergence from the results presented below. Results are available upon request from the authors.

TABLE 2. Structure of the Data Set

	Number of elections (period)		*Number of parties that held . . .*		*Fragmentation*[a]			
Country	*Presidential*	*Legislative*	*Presidency*	*Largest share in the legislature*	*Mean*	*Minimum*	*Maximum*	*Polarization index*
Argentina	3 (1989–99)	8 (1985–99)	2	3	2.77	2.30	3.06	0.23
Bolivia	4 (1985–97)	4 (1985–97)	3	3	4.06	3.42	5.08	0.52
Brazil	3 (1989–98)	4 (1986–98)	2	2	6.60	2.76	8.27	0.25
Chile[b]	3 (1989–99)	4 (1989–2001)	2	2	4.90	4.84	4.99	0.16
Colombia	5 (1986–02)	5 (1986–98)	2	1	2.66	2.21	3.09	0.16
Costa Rica	5 (1986–02)	5 (1986–2002)	2	2	2.31	2.21	2.56	0.42
Dominican Republic	5 (1986–2000)	4 (1986–2000)	3	3	2.48	2.18	2.88	0.55
Ecuador	4 (1988–98)	7 (1986–98)	4	2	6.05	4.29	7.56	0.36
El Salvador	4 (1984–99)	6 (1985–2000)	2	2	2.68	2.41	3.06	0.39
Guatemala	4 (1985–99)	5 (1985–97)	4	4	3.31	2.35	4.44	0.24
Honduras	5 (1985–2001)	5 (1985–2001)	2	2	2.18	2.00	2.58	0.42
Mexico	3 (1988–2000)	6 (1985–2000)	2	1	2.38	1.85	2.82	0.32
Nicaragua	3 (1990–2001)	3 (1990–2001)	1	2	2.05	2.05	2.05	0.58
Peru	4 (1985–2000)	4 (1985–2000)	3	4	3.80	2.50	5.83	0.51
Paraguay	4 (1989–2003)	4 (1989–2003)	1	1	2.21	1.88	2.54	0.40
Uruguay	3 (1984–99)	3 (1984–99)	2	2	3.19	2.92	3.32	0.42
Venezuela	4 (1988–2000)	4 (1988–2000)	4	1	3.92	2.34	5.79	0.30
Total or average	66	81	2.4	2.2	3.39	2.62	4.11	0.37

Source: Payne and others (2002), complemented with the Political Database of the Americas (Organization of American States and Georgetown University).

a. Effective number of parties in the legislature.

b. In Chile, the effective number of parties differs from the number of coalitions (Concertación and Alianza por Chile), which are close to 2 in effective terms and of which only Concertación has held the presidency.

TABLE 3. Correlations

	Votes (share)	*Fragmentation*	*Polarization*	*Promises*	*Ideology*	*Growth (log, change)*	*Inflation (loss of purchasing power, change)*	*Unemployment (change)*	*Gini index (change)*	*Macro index (log, change)*	*Structural index (log, change)*	*Institutional index (log, change)*
Presidential elections												
Votes (share)	1.00											
Fragmentation	–0.32	1.00										
Polarization	–0.20	–0.09	1.00									
Promises	–0.16	–0.05	–0.32	1.00								
Ideology	–0.16	0.03	–0.45	0.37	1.00							
Growth (log, change)	0.21	–0.02	–0.06	0.25	0.14	1.00						
Inflation (loss of purchasing power, change)	–0.24	–0.55	0.33	0.02	–0.16	–0.41	1.00					
Unemployment (change)	–0.02	0.13	–0.46	–0.16	0.28	–0.27	–0.48	1.00				
Gini index (change)	–0.22	–0.16	–0.19	0.21	0.09	0.23	0.13	–0.09	1.00			
Macro index (log, change)	0.14	–0.25	–0.24	0.27	0.11	0.25	0.12	–0.27	0.00	1.00		
Structural index (log, change)	–0.24	–0.05	–0.27	0.08	–0.05	0.24	–0.26	0.33	0.37	–0.02	1.00	
Institutional Index (log, change)	–0.07	–0.18	0.09	–0.15	0.00	0.01	–0.10	0.24	–0.15	–0.03	0.44	1.00

(*continued*)

TABLE 3. Correlations (*continued*)

	Votes (share)	*Fragmentation*	*Polarization*	*Promises*	*Ideology*	*Growth (log, change)*	*Inflation (loss of purchasing power, change)*	*Unemployment (change)*	*Gini index (change)*	*Macro index (log, change)*	*Structural index (log, change)*	*Institutional index (log, change)*
Legislative elections												
Votes (share)	1.00											
Fragmentation	0.11	1.00										
Polarization	−0.43	−0.16	1.00									
Promises	−0.19	0.32	−0.40	1.00								
Ideology	0.09	−0.20	−0.38	0.36	1.00							
Growth (log, change)	0.19	0.33	−0.03	0.23	−0.05	1.00						
Inflation (loss of purchasing power, change)	−0.19	−0.38	0.34	−0.32	−0.24	−0.30	1.00					
Unemployment (change)	0.09	−0.18	−0.47	0.04	0.43	−0.38	−0.34	1.00				
Gini index (change)	−0.29	−0.17	−0.24	0.14	0.07	−0.01	0.17	0.18	1.00			
Macro index (log, change)	0.08	0.31	−0.13	0.26	0.08	0.83	−0.63	−0.10	−0.08	1.00		
Structural index (log, change)	−0.61	−0.07	−0.10	0.15	−0.34	−0.08	0.20	0.01	0.51	−0.15	1.00	
Institutional Index (log, change)	−0.26	0.12	0.29	−0.20	−0.21	−0.15	0.23	−0.47	−0.20	−0.29	0.32	1.00

Source: Authors' calculations.

Latin American countries over the period 1985–2002. Party alternation was moderate over this period: the average number of parties that held power or had a majority was 2.4 for presidential elections and 2.2 for legislative elections (with a maximum of 4 and a minimum of 1). However, the effective number of parties (also known as political fragmentation) was higher: 3.4 on average, with a maximum of 8.3 in Brazil and 7.6 in Ecuador.[34] Except for Mexico during the 1980s and Paraguay at the end on that decade, none of the seventeen countries showed party fragmentation below 2, implying a generally healthy level of political competition. The ideological polarization of the political system was low during the period, as measured by a polarization index that computes the (weighted average) distance between the ideological positions of the parties on a scale from 0 to 1; parties are classified as extreme left, center left, center right, or extreme right. When all the parties have the same ideological position, the index takes the value 0, when half of them (measured by the number of votes) are extreme left and the other half are extreme right, the index takes the value 1.[35] The average value of the index in our data set was 0.37, with a maximum of 0.58 for Nicaragua and a minimum of 0.16 for Chile and Colombia.

Dependent Variable

Our dependent variable is the change in the share (in logs) of votes[36] for the incumbent's party in presidential elections, and for the majority party

34. The effective number of parties is calculated using the Laako-Taagepera index, defined as the inverse of the sum of the squares of the shares (measured by the number of seats) of all the parties in the legislature; Payne and others (2002).

35. More precisely, the index is calculated in two steps. First, the average position of the electorate on a left-right scale (APLR) is calculated as a weighted average of the party positions on a scale from −1 to +1, where the weights are the shares of the votes:

APLR = −1*(% votes obtained by parties on the extreme left) − 0.5*(% votes for parties on the center left) + 0.5*(% votes for parties on the center right) + 1*(% votes for parties on the extreme right).

In the second step, the polarization index (IP) is calculated as a weighed deviation from the APLR:

IP = |−1 − APLR|*(% votes left) + |−0.5 − APLR|*(% votes center left) + |0.5 − APLR|*(% votes center right) + |1 − APLR|*(% votes right).

A minimum of 0 is reached when all the votes are in one ideological bloc; and a maximum of 1, when half of the votes are at each extreme. Ideological orientations are taken from Coppedge (1997) and the World Bank's Database of Political Institutions, 2002 (www.worldbank.org/research/bios/pkeefer.htm).

36. The share of votes comes from Payne and others (2002).

in the legislature in legislative elections. Since we use logs for both the dependent and (when possible) the independent variables, the estimated coefficients can be interpreted as elasticities.

Some calculations were necessary in order to compute the share of votes, especially for presidential elections, when party coalitions or party dissolutions had taken place before and after the elections, as well as to be able to account for new independent parties. These calculations treat coalitions as regular parties. The vote for the coalition party in the election previous to its creation is simply computed as the sum of the votes of the joining parties. When parties break up, the same procedure is used for the following elections. Table 4, which presents summary statistics for the most important variables, shows that the share of votes varies from 0 to 64 percent for presidential elections and 62 percent for legislative elections, with means of 35 percent and 36 percent, respectively.

Political Variables

The political variables used as independent variables attempt to measure key dimensions of the party system and the political environment. Following the literature review, they are to be included in the regressions both as independent controls and/or interacted with the variables measuring economic outcomes. Fragmentation (or the effective number of parties) and polarization, already described, are the two basic dimensions of the party system. In addition, we use a dummy for divided governments (when the president's party is not the largest party in the legislature).[37]

We also use several variables intended to measure the electorate's expectations about the future orientation of economic policies. The first, named "promarket promises," measures to what extent the positions adopted by incumbents during their election campaigns were promarket; it is a rescaled version of a variable computed by Stokes.[38] The second, named "right-oriented ideology," a measure taken from the World Bank's Database

37. Taken from Payne and others (2002). Divided government is not frequent in Latin America, in contrast to the United States; Alesina, Londregan, and Rosenthal (1993); Alesina and Rosenthal (1995, 1996); Fiorina (1992). The only cases in our data set are mainly concentrated in Brazil and Ecuador (six), with one in the Dominican Republic. More recently, the PRI lost its monopoly power in Mexico.

38. Based on an ordinal variable computed by Stokes (2001a, p. 3) that classifies forty presidential pre-electoral campaigns according to the importance assigned by the candidates to issues of economic security vis-à-vis economic efficiency, the promises variable takes values on a scale from 0 to 1, where higher values indicate more efficiency-oriented messages.

TABLE 4. Summary Statistics

	Presidential elections						*Legislative elections*					
Variable	*Number of observations*	*Mean*	*Median*	*Standard deviation*	*Minimum*	*Maximum*	*Number of observations*	*Mean*	*Median*	*Standard deviation*	*Minimum*	*Maximum*
Dependent												
Votes (shares)	48	0.35	0.36	0.17	0.00	0.64	72	0.36	0.38	0.14	0.00	0.62
Political												
Fragmentation	52	3.33	2.70	1.62	1.85	8.27	72	3.37	2.80	1.54	1.85	8.27
Polarization (0–1)	51	0.38	0.33	0.22	0.03	0.92	67	0.34	0.30	0.19	0.03	0.91
Divided government (dummy)	47	0.13	0.00	0.34	0.00	1.00	72	0.01	0.00	0.12	0.00	1.00
Rule of law	16	–0.23	–0.44	0.50	–0.81	1.19	16	–0.23	–0.44	0.50	–0.81	1.19
Promises (0–1)	33	0.55	0.50	0.26	0.25	1.00	25	0.56	0.50	0.27	0.25	1.00
Ideology (0–1)	42	0.60	0.50	0.33	0.00	1.00	68	0.55	0.33	0.32	0.00	1.00
Switch index with ideology (–1, +1)	39	0.00	0.00	0.08	–0.11	0.48	39	0.00	0.00	0.08	–0.11	0.48
Switch index with promises (–1, +1)	32	0.05	0.01	0.12	–0.06	0.24						
Outcome												
Inflation (log, change)	49	–0.09	–0.03	0.24	–0.74	0.32	71	–0.07	–0.04	0.20	–0.71	0.40
Growth (log, change)	52	–0.01	–0.01	0.08	–0.25	0.14	72	–0.02	–0.02	0.06	–0.19	0.15
Crisis	52	0.02	0.01	0.04	0.00	0.15	72	–0.02	0.00	0.03	–0.14	0.00
Unemployment (log, change)	44	0.00	0.00	0.03	–0.08	0.09	63	0.00	0.00	0.03	–0.06	0.07
Gini index (log, change)	49	–0.01	–0.01	0.03	–0.10	0.10	69	0.00	–0.01	0.03	–0.10	0.10
Washington Consensus												
Macro index (log, change)	51	0.12	0.06	0.40	–1.00	1.70	70	0.08	0.04	0.34	–0.99	1.70
Structural fiscal balance (ratio to GDP, change)	44	0.00	0.00	0.04	–0.07	0.12	63	0.00	0.00	0.03	–0.07	0.11
Real exchange rate (detrended in logs, change)	51	0.00	–0.04	0.26	–0.61	0.67	70	–0.01	–0.01	0.22	–0.61	0.67
Social expenditures (share of GDP, change)	50	0.01	0.00	0.02	–0.02	0.05	69	0.01	0.00	0.02	–0.03	0.06
Structural reforms index												
Structural reform index (log, change)	49	0.23	0.19	0.21	–0.09	0.78	68	0.17	0.12	0.19	–0.09	0.78
Trade index (log, change)	49	0.18	0.06	0.30	–0.32	1.15	68	0.15	0.04	0.29	–0.24	1.15
Financial index (log, change)	51	0.30	0.03	0.44	–0.15	1.38	70	0.23	0.03	0.35	–0.15	1.38
Tax index (log, change)	52	0.10	0.06	0.23	–0.29	0.81	72	0.10	0.03	0.23	–0.29	0.71
Privatizations index (change)	52	0.09	0.00	0.17	–0.03	0.97	72	0.06	0.00	0.15	–0.01	0.97
Institutional index	51	0.27	0.19	0.35	–0.22	1.26	71	0.19	0.10	0.28	–0.51	0.93

of Political Institutions and a study by Coppedge, classifies parties on a left to right scale according to their economic ideology.[39] In order to test the Stokes hypothesis on the electoral effects of switching, we have created two types of switch indexes, one measuring the deviation between the amount of promarket reforms implemented by the administration (see below for the description of this variable) and the promarket promises during the campaign, and the other measuring the deviation between the reforms and the measure of right-oriented ideology of the party.[40] Note that only the latter is applicable to legislative elections.

Economic Outcomes

Following the empirical literature on economic voting, we focus on inflation and growth as the two main economic outcomes of interest, but we also test other variables, such as unemployment and income concentration. We measure inflation as the average annual loss of purchasing power of a currency unit, rather than as the increase in the price index, since this reduces the extreme observation problem that arises with the cases of high or hyperinflation. We apply the formula $1 - (1/(1 + \pi))$, where π is the price increase during the last year of the administration. Economic growth is measured as the rate of annual change (in logs) in GDP. In addition to inflation and growth, we test for the influence of two other outcomes: the unemployment rate and the Gini coefficient of distribution of per capita household income.[41]

Policy Variables

As mentioned in the introduction, we define the Washington Consensus in accordance with the list of policies included in Williamson.[42] Since those policies cover a variety of areas, from fiscal to institutional, we use the

39. World Bank, Database of Political Institutions, 2002 (www.worldbank.org/research/bios/pkeefer.htm); Coppedge (1997).

40. The switch indexes range from −1 to +1. In the first type, −1 indicates that having adopted the most pro-efficiency stance during the campaign, the candidate does not implement any promarket reform once in office; +1 indicates that having adopted the most pro-security position in the campaign, the candidate once in office becomes the most aggressive promarket reformer. The formula is then SI = [change in reforms − (PROMISES − median PROMISES)]. In the other type of switch index, the variable PROMISES is replaced by our measure of party ideology.

41. Prices and GDP are taken from International Monetary Fund, *World Economic Outlook* (online). Unemployment is from ECLAC (various years). Gini coefficients for incomes are from Deininger and Squire (1998).

42. Williamson (1990a).

following—admittedly somewhat arbitrary—classification (numbers in parentheses refer to Williamson's list):

Macroeconomic policies: fiscal discipline (1), public expenditure on social services and infrastructure (2), and competitive exchange rates (5).

Structural reforms: tax reform (flat, low, and effective tax rates) (3), interest rate liberalization (4), trade liberalization (6), liberalization of foreign direct investment inflows (7), and privatization (8).

Institutional reforms: deregulation of entry and exit (9) and protection of property rights (10).

The most important distinction is that between macroeconomic policies and structural reforms, the latter referring to sectoral or microeconomic policies that affect the functioning of specific markets (imports, credit, infrastructure services, and so forth). The inclusion of public expenditure on social services and infrastructure as a macroeconomic policy is arbitrary but justifiable for the sake of simplicity. Institutional reforms include protection of property rights, a policy that is usually seen not as a core element of the Washington Consensus (as a matter of fact, it was added by Williamson as an afterthought) but rather as a key element of what analysts starting with Moisés Naim have referred to as second generation reforms.[43] However, these also include regulatory institutions, modernization of the state apparatus (especially for the provision of social services), and reform of the judiciary sector, none of which are considered here.

We use quantitative indicators to measure eight of the ten policies that constitute the Washington Consensus, as well as composite indexes for macroeconomic policies and structural reforms. We do not have quantitative indicators for foreign direct investment policies or deregulation of entry and exit. Therefore, these policies are not included in our reform indexes. A brief description of the policy indicators follows (further details are in the footnotes):

—Fiscal discipline is measured by the fiscal balance of the central government, adjusted by the endogenous influence of the economic cycle and changes in the terms of trade on fiscal revenues. The purpose of these adjustments is to isolate the exogenous or policy component of the fiscal balance, which is a better measure of fiscal discipline than the observed fiscal balance.[44] Fiscal balance, fiscal revenue, and GDP data

43. Naím (1994).

44. Specifically, we subtract from the fiscal balance of the central government the revenue that is associated with either the economic cycle or the terms of trade cycle (obtained applying standard Hodrick-Prescott filters).

used in this calculation are from the World Bank and terms of trade data are from the Economic Commission for Latin America and the Caribbean (ECLAC).[45]

—Public expenditure in social services includes only education and health expenditures, based on data from ECLAC and complemented with data from World Bank.[46]

—The measure of competitive exchange rates is the log distance between the observed real exchange rate and its trend, computed with a standard Hodrick-Prescott filter.[47]

—Tax reform is taken from previous work by Lora, who constructs a composite index of the levels and effectiveness of corporate, personal, and value added taxes.[48]

—Interest rate liberalization is measured by Lora's index of financial liberalization, which includes information on interest rate freedom, reserve requirements, and quality of regulation and supervision of the financial sector.

—Trade liberalization is also taken from Lora, who uses an index that combines import tariff averages and dispersion.

—Privatization is measured by Lora's index of the cumulated value of the sales of state-owned firms to the private sector, as a share of the GDP.

—Protection of property rights is a combined measure of the risk of expropriation and the risk of repudiation of government contracts, on a scale from 0 to 1 (the higher the index, the lower the risk).[49]

—The composite index of macroeconomic policies is a simple average of the indicators of its three components scaled from 0 to 1, where 0 corresponds to the lowest observation and 1 to the highest observation for the whole period and set of countries in the sample.

—The composite index for structural reforms is calculated as the simple average of the indexes for tax reform, financial liberalization, trade liberalization, and privatization (each of which is also calculated on a scale from 0 to 1).[50]

45. World Bank, *World Development Indicators* (online); ECLAC (various years).
46. World Bank, *World Development Indicators* (online); ECLAC (various years).
47. Real exchange rate data are from IMF, *World Economic Outlook* (online).
48. Tax reform, interest rate liberalization, and privatization are all from Lora (2001).
49. Taken from the *International Country Risk Guide, 2004* (www.icrgonline.com).
50. Note that this composite index is not identical to the total reform index computed by Lora (2001), since the latter includes labor reform, which is not among the Washington Consensus policies.

All variables are measured as changes between the previous election year and the current election year. Since taking the current election year is somewhat arbitrary, we checked the robustness of our main results by also using the year prior to the election year.[51]

Econometric Results

Before discussing the hypotheses in detail, it is helpful to convey the thrust of our findings. The regression summarized in table 5 indicates that the electorate is highly sensitive to one economic outcome—inflation—and strongly rejects the adoption of promarket policies. Our estimates imply that the typical reduction in the rate of inflation, from say 20 percent to 8 percent during a president's tenure, boosts the vote for his party by 21 percent.[52] However, if that same incumbent also introduces the average amount of promarket reform, the resultant party losses account for 23 percent of the vote. Put a different way, the adoption of the standard Washington Consensus package brings positive electoral payoffs only when implemented in a period of high inflation. Thus, if the same dose of promarket reform is adopted as part of a package that reduces inflation from 100 percent to 8 percent, the net electoral effect is a handsome 82 percent increase in vote share.

Admittedly, our basic regression overstates the negative effect of the promarket policies because those policies may help to reduce the rate of inflation and increase the rate of growth.[53] Taken to the extreme, this argument would imply that the total effect of the adoption of promarket policies would be the sum of the direct effect captured in the coefficient of the regression in table 5 and the indirect effects of the changes in the rates of inflation and growth. Based on this calculation (see tables 6A and 6B), the total effect does appear to be substantially milder: –0.97 instead of –1.57. Nevertheless, it would still be substantial, as it would imply that the typi-

51. These results, which are not included in this version of the paper, are available upon request from the authors.

52. This reduction corresponds to the average value of our measure of the change of inflation.

53. The regression includes several other control variables that may also affect the vote (see notes to table 5).

TABLE 5. Impact of Economic Outcomes and Washington Consensus Policies in Presidential Elections, 1985–2002: Country Fixed Effects Results

Independent variables[a]	*Dependent variable: Change in vote share*[b]
Economic outcomes	
Inflation (change in loss of purchasing power)	−2.030 (2.09)*
Growth (change in growth rate, log)	−1.016 (0.74)
Washington Consensus reforms	
Structural reforms index (log, change)	−1.569 (2.98)***
Constant	0.627 (0.85)
Summary statistic	
Number of observations	37
Number of countries	17
R^2	0.80
Country fixed effects	Yes

Source: Authors' calculations.

*Significant at 10 percent; ***significant at 1 percent.

a. The regression also includes as control variables measures of divided government, polarization, and fragmentation (see text for definitions and method of calculation).

b. The dependent variable is the change in the log of the vote share of the incumbent president's party. Robust *t* statistics are in parentheses.

cal reformist government must still sacrifice 15 percent of the vote for the sake of the reforms.[54] However, this calculation most likely overestimates the effects of the reforms on growth and inflation, as we have not isolated the influence of other factors on these two variables. Therefore, the central conclusion is that even if we grant that promarket reforms have strong beneficial effects on growth and inflation, their electoral cost is far from negligible.

Apart from promarket reforms, the other Washington Consensus *policies* do not affect the electorate's behavior. Likewise, we find no robust evidence that any economic *outcomes* other than inflation affect the vote in presidential elections. We do find that these results are affected by some features of the political system. In legislative elections the results are less straightforward, as they are strongly mediated by several contextual and political variables.

Do Outcomes Matter?

We start our empirical analysis by testing the simplest version of the economic voting model, in which voters update their opinion on the incumbent's party based entirely on the changes observed since the last election

54. Note that the total effect would be reduced only slightly (to –0.84) if the indirect effect through growth, which has the wrong sign, is not included.

TABLE 6A. Rough Estimate of Total Effect of Promarket Reforms on the Presidential Vote (Elasticities)

Effect	*Inflation*	*Growth*	*Total*
Effect of reforms on inflation or growth[a]	–0.361	0.133	
Effect of inflation or growth on the vote	–2.030	–1.016	
Indirect effect of reforms on the vote (via inflation or growth)	0.733	–0.135	0.598
Direct effect[b]			–1.569
Total effect (indirect + direct)			–0.971

Source: Authors' calculations.
a. See table 6B for regressions.
b. As estimated in table 5.

TABLE 6B. Estimates for Inflation and Growth Used in Table 6A

	Inflation[a] *(1)*	*Growth*[b] *(2)*
Structural reforms index (log, change)	–0.361 (1.88)*	0.133 (2.10)**
Constant	–0.103 (0.48)	–0.063 (0.78)
Summary statistic		
Number of observations	49	49
Number of countries	17	17
R^2	0.37	0.26
Country fixed effects	Yes	Yes

Source: Authors' calculations.
*Significant at 10 percent; **significant at 5 percent.
a. Dependent variable is the independent variable from table 5; that is, the change in the inflation rate, where inflation is measured as the annual loss of purchasing power of the currency. Robust *t* statistics are in parentheses.
b. Dependent variable is the independent variable from table 5; that is, the change in the growth rate, in logs. Robust *t* statistics are in parentheses.

in the key economic variables, X_t. As mentioned, we include as additional controls a set of political variables (represented by F below) that may affect the stability of the vote share, namely, our measures of political fragmentation, polarization, and divided government (lagged to reduce endogeneity and better capture the political environment prevailing during the administration).[55] Since other country-specific factors may also have an influence on the persistence of the vote for the incumbent's party, we attempt to isolate them by using fixed effects. We start with

$$d\log(V_t) = \alpha + \psi \log(F_{t-1}) + \beta * d\log(X_t) + \lambda C + \varepsilon_t.$$

55. Divided government is a dummy equal to 1 when the party with the greatest representation in the legislature is not the incumbent's party (this is unusual in Latin America: in our database, it occurs in only seven instances). In regressions not shown, a dummy for midterm elections was also included in legislative elections. It was never significant and it did not affect any of the results.

TABLE 7. Impact of Economic Outcomes in Presidential Elections, 1985–2002: Country Fixed Effects Results[a]

	Dependent variable: Change in log of vote share of incumbent president's party								
Independent variable	*(1)*	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*
Political									
Fragmentation (lagged)	0.588		0.588	0.121	0.589	0.669	−0.364	−0.546	0.023
	(1.31)		(1.19)	(0.18)	(1.14)	(1.19)	(0.45)	(0.59)	(0.04)
Polarization (lagged)		0.938	0.939	0.700	0.938	1.192	3.636	3.150	0.509
		(0.80)	(0.79)	(0.73)	(0.78)	(0.70)	(1.11)	(1.44)	(0.64)
Divided government (dummy, lagged)	−0.345	−0.442	−0.539	−0.451	−0.537	−0.584	0.629	0.171	−0.269
	(1.05)	(0.82)	(1.11)	(0.86)	(1.09)	(1.05)	(1.98)*	(0.48)	(0.76)
Economic outcomes									
Inflation (change in loss of purchasing power)				−1.127				−1.924	−1.674
				(1.80)*				(2.08)*	(1.91)*
Growth (change in growth rate, log)					−0.034			−2.683	−2.828
					(0.03)			(1.45)	(1.70)
Gini index (change)						0.624		−2.256	
						(0.23)		(0.70)	
Unemployment rate (change)							2.510	−4.307	
							(1.06)	(1.24)	
Constant	−0.804	−0.453	−1.028	−0.743	−1.030	−1.157	−0.824	−0.806	−0.786
	(1.73)*	(1.41)	(2.13)**	(1.30)	(1.99)*	(1.82)*	(1.01)	(0.99)	(1.56)
Summary statistic									
Number of observations	43	43	43	43	43	41	37	37	43
Number of countries	17	17	17	17	17	17	15	15	17
R^2	0.47	0.48	0.48	0.6	0.48	0.48	0.56	0.74	0.66
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Source: Authors' calculations.

*Significant at 10 percent; **significant at 5 percent.

a. See text for descriptions and method of construction of independent variables. Robust *t* statistics are in parentheses.

Table 7 lends some support to this simple version of the economic voting hypothesis: in all the regressions, changes in inflation have the expected sign and have a significant impact on the presidential vote. However, changes in growth rates are seldom significant and when included in a regression with inflation show the wrong sign. Results for unemployment and inequality are similarly weak. When all four economic variables are included in the same regression, inflation remains the only significant variable. In legislative elections (see table 8) growth is the only one that is sometimes significant—but it is not when all economic variables are included in the same regression. Therefore, inflation and growth seem to matter for the leading party or parties, but through different channels. The size of the coefficients suggests that the incumbent loses 1–2 percent of his vote for each (additional) 1 percent of (annual) loss in the purchasing power of the currency in the last year of his administration (with respect to the loss in the year prior to his administration). Likewise, the largest party in the legislature increases its share of seats by about 1 percent for each (additional) 1 percent of economic growth in the year before the election (with respect to the year immediately before the previous election). Neither changes in the unemployment rate nor income distribution changes appear to have a clear effect on electoral behavior.

These conclusions must now be qualified in accordance with our second hypothesis, namely, that the electorate's response to the economic outcomes, β, depends on several features of the political system, F (some of which, as tables 7 and 8 show, also have a direct influence on voters' behavior):

$$\beta = \nu + \mu * \log(F_0).$$

Replacing β in the previous equations gives (with fixed effects)

$$d\log(V_t) = \alpha + \psi * \log(F_{t-1}) + \nu * d\log(X_t) + \mu * \log(F_0) * d\log(X_t) + \lambda C + \varepsilon_t.$$

Note that in the interaction terms we use the values of F at the earliest period of our sample, F_0, in order to reduce endogeneity. However, we use the values of F at the beginning of each electoral cycle, F_{t-1}, to directly control for these variables, since the inclusion of country fixed effects

TABLE 8. Impact of Economic Outcomes in Legislative Elections, 1985–2002: Country Fixed Effects Results[a]

	Dependent variable: Change in log of vote share of party with most seats in legislature								
Independent variable	*(1)*	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*
Political									
Fragmentation (lagged)	0.868		0.894	0.572	0.507	0.915	1.056	0.705	0.529
	(3.86)***		(4.01)***	(2.99)***	(3.26)***	(4.23)***	(4.42)***	(2.87)***	(2.85)***
Polarization (lagged)		−0.068	0.240	0.157	0.125	0.304	1.116	0.853	0.120
		(0.21)	(0.70)	(0.53)	(0.49)	(0.78)	(2.26)**	(2.08)**	(0.46)
Divided government (dummy, lagged)	0.007	−0.279	0.014	−0.011	−0.052	0.017	0.029	−0.001	−0.051
	(0.05)	(1.52)	(0.09)	(0.08)	(0.41)	(0.12)	(0.19)	(0.00)	(0.40)
Economic outcomes									
Inflation (change in loss of purchasing power)				−0.086				−0.07	0.053
				(0.38)				(0.26)	(0.23)
Growth (change in growth rate, log)					0.861			−0.064	0.913
					(1.77)*			(0.10)	(1.64)
Gini index (change)						1.322		−0.043	
						(0.79)		(0.03)	
Unemployment (change)							−1.529	−1.070	
							(0.86)	(0.59)	
Constant	−0.911	0.204	−0.998	−0.649	−0.526	−1.027	−1.356	−0.937	−0.542
	(3.33)***	(1.19)	(3.31)***	(2.77)***	(2.26)**	(3.39)***	(3.69)***	(2.75)***	(2.33)**
Summary statistic									
Number of observations	74	74	74	71	71	72	65	62	71
Number of countries	17	17	17	17	17	17	15	15	17
R^2	0.53	0.30	0.53	0.40	0.43	0.55	0.60	0.47	0.43
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Source: Authors' calculations.

*Significant at 10 percent; **significant at 5 percent; ***significant at 1 percent.

a. See text for descriptions and method of construction of independent variables. Robust *t* statistics are in parentheses.

precludes the use of time-invariant F_0. None of the results reported below is sensitive to whether we include the set of F variables as direct controls.

Tables 9 and 10 suggest that the electorate's response to the economic outcomes is indeed affected by the structure of the political system, and in the expected manner. In presidential elections (table 9), the more fragmented the party system, the more harshly the electorate punishes the incumbent's party for an increase in the inflation rate.[56] The intuition behind this result is that in more fragmented party systems there is more competition for votes, and probably also more information available to the voters and a wider choice of policy proposals, all of which enhance the response of the electorate to changes in the economic situation. One should expect this response to be stronger in presidential than in legislative elections, given the winner-take-all nature of the former. A divided government affects the response of the electorate to inflation in a similar way. However, due to the small number of cases of divided government, we do not attach much relevance to this result.[57] In contrast to party fragmentation, the degree of polarization does not seem to have any significant influence on the electorate's response to the economic outcomes in presidential elections.

In legislative elections (table 10), the opposite is the case: while the interaction terms between economic outcomes and fragmentation are not significant, the interaction with ideological polarization is significant for inflation and for growth. This implies that the more distanced the economic policy platforms of the parties, the stronger the swings of the electorate in response to changes in the macroeconomic outcomes. From regression 5, when the degree of polarization is high (0.53), each percentage point of extra growth brings an increase of about 1 percent in the vote for the largest party in the legislature, while this elasticity becomes negative (–0.4) when the degree of polarization is low (0.15). Our results indicate that the legislative vote is also sensitive to inflation outcomes, depending on the degree of ideological polarization of the party system, with implied elasticities of –0.3 when polarization is high and 0.38 when polarization is low (regression 2).

To summarize, our results suggest that economic outcomes do matter in presidential as well as in legislative elections, though in different ways. The executive is held more accountable for increases in inflation, and

56. However, this result does not hold in a similar regression without fixed effects (results available from the authors upon request).

57. Furthermore, similar regressions for growth show implausibly high coefficients for the interaction term (GROWTH*DIVIDED GOVERNMENT).

TABLE 9. Impact of Economic Outcomes Interacted with Political Features in Presidential Elections, 1985–2002: Country Fixed Effects Results[a]

	Dependent variable: Change in log of vote share of incumbent president's party					
Independent variable	*(1)*	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
Political						
Fragmentation (lagged)	1.316	−0.187	0.692	0.732	0.667	−0.141
	(2.27)**	(0.24)	(1.53)	(1.15)	(1.35)	(0.19)
Polarization (lagged)	0.426	0.054	−0.205	1.002	1.04	1.518
	(0.77)	(0.08)	(0.40)	(0.83)	(0.78)	(1.11)
Divided government (dummy, lagged)	−0.5	−0.19	−0.373	−0.492	−0.664	−1.028
	(1.46)	(0.40)	(0.92)	(0.91)	(1.00)	(1.59)
Economic outcomes and interactions						
Inflation (change in loss of purchasing power)	3.153	−3.288	−0.402			
	(2.66)**	(1.86)*	(1.89)*			
Inflation*initial fragmentation	−3.351					
	(3.50)***					
Inflation*initial polarization		5.039				
		(1.62)				
Inflation*divided government			−4.868			
			(19.97)***			
Growth (change in growth rate, log)				−1.717	−1.198	1.032
				(0.48)	(0.49)	(0.95)
Growth*initial fragmentation				1.751		
				(0.40)		
Growth*initial polarization					2.849	
					(0.40)	

Growth*divided government						−36.076
						(1.80)*
Constant	−1.545	−0.474	−0.938	−1.191	−1.142	−0.427
	(2.45)**	(0.52)	(2.10)**	(1.95)*	(2.03)*	(0.67)
Summary statistic						
Number of observations	43	43	43	43	43	43
Number of countries	17	17	17	17	17	17
R^2	0.80	0.70	0.87	0.49	0.49	0.59
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes

Source: Authors' calculations.
*Significant at 10 percent; **significant at 5 percent; ***significant at 1 percent.
a. See text for descriptions and method of construction of independent variables. Robust *t* statistics are in parentheses.

TABLE 10. Impact of Economic Outcomes Interacted with Political Features in Legislative Elections, 1985–2002: Country Fixed Effects Results[a]

	Dependent variable: Change in log of vote share of party with most seats in legislature						
Independent variable	*(1)*	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*
Political							
Fragmentation (lagged)	0.606	0.566	0.565	0.523	0.566	0.468	0.557
	(3.25)***	(2.77)***	(2.96)***	(3.32)***	(3.75)***	(2.56)**	(2.82)***
Polarization (lagged)	0.135	0.205	0.132	0.124	0.078	0.066	0.127
	(0.45)	(0.76)	(0.52)	(0.48)	(0.35)	(0.25)	(0.57)
Divided government (dummy, lagged)	0.007	0.069	−0.039	−0.038	0.002	−0.158	0.044
	(0.05)	(0.50)	(0.31)	(0.29)	(0.02)	(1.05)	(0.31)
Economic outcomes and interactions							
Inflation (change in loss of purchasing power)	0.560	0.646	0.322				0.543
	(0.61)	(2.16)**	(1.14)				(1.68)*
Inflation*initial fragmentation	−0.680						
	(0.66)						
Inflation*initial polarization		−1.781					−1.263
		(3.03)***					(1.77)*
Inflation*divided government			−0.495				
			(1.37)				
Growth (change in growth rate, log)				−0.035	−1.024	2.678	−0.429
				(0.03)	(1.54)	(1.54)	(0.57)

Growth*initial fragmentation				0.981			
				(0.69)			
Growth*initial polarization					3.781		2.548
					(3.40)***		(1.80)*
Growth*divided government						−2.072	
						(1.15)	
Constant	−0.687	−0.699	−0.630	−0.553	−0.631	−0.340	−0.647
	(3.00)***	(2.89)***	(2.53)**	(2.32)**	(2.84)***	(1.26)	(2.66)**
Summary statistic							
Number of observations	71	71	71	71	71	71	71
Number of countries	17	17	17	17	17	17	17
R^2	0.41	0.46	0.45	0.44	0.48	0.45	0.51
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Source: Authors' calculations.
*Significant at 10 percent; **significant at 5 percent; ***significant at 1 percent.
a. See text for descriptions and method of construction of independent variables. Robust *t* statistics are in parentheses.

more so in highly fragmented party environments. The largest party in the legislature (which usually is the incumbent's) is rewarded when economic growth improves, and this reaction seems to increase with the degree of ideological polarization.[58] Party polarization even makes the legislative vote sensitive to changes in the inflation rate.[59] Our results thus lend support to hypotheses 1 and 2 above.

Do Policies Matter?

The next step is to establish whether the electorate cares about policies, and not only about outcomes. For parsimony, and given our limited sample sizes, we ignore the influence that the features of the political system may have on voters' sensitivity to the economic outcomes. We also ignore other factors that may affect how the electorate feels about the adoption of certain policies and focus on the direct electoral effects of the policies themselves, as captured in γ:

$$d\log(V_t) = \alpha + \psi \log(F_{t-1}) + \beta * d\log(X_t) + \gamma * d\log(P_t) + \lambda C + \varepsilon_t.$$

The first four regressions in table 11 assess the influence on presidential elections of the set of macroeconomic policy indicators defined earlier. The only indicator that shows some significance is the structural fiscal balance, which appears with a negative sign in regression 2, implying that the electorate reacts against fiscal restraint (however, the coefficient implies that this effect is very small). Note that inflation always keeps the right sign and remains significant in this particular regression, although it loses its significance in some others. Therefore, although the electorate seems to want price stability, it does not reward—and may even punish—an incumbent for some of the macroeconomic policies that may be needed to achieve those outcomes, such as stronger fiscal balance.

The electorate is more emphatically opposed to some of the promarket reforms, according to regressions 5 to 9. The coefficients for the total index of reforms and for trade liberalization policies are highly significant, with elasticities of −1.57 and −0.84, respectively. Regression 5 is the basis for the analysis in tables 3 and 4, where we show that the total electoral pay-

58. None of our main conclusions, in either this or the following sections, is altered when the regressions are run for the share of votes of the incumbent's party (results available from the authors upon request).

59. All these results persist when the set of political control variables is excluded from the regressions.

off of the reforms remains strongly negative, even if we take into account the full indirect effects implied in the correlations between the changes in the reform index and the changes in inflation and growth. As mentioned, the point estimate of the direct effect implies that the incumbent's party typically lost 23 percent of its vote in presidential elections on account of the average amount of promarket reforms introduced during its term (or 15 percent if we take into account our rough estimate of indirect effects). More aggressive reformers—say, those reforming 1 standard deviation above the mean—would sacrifice 40 percent of their vote on account of all the promarket reforms (or 27 percent with the indirect effects). As the remainder of the paper shows, the negative electoral payoff of the adoption of promarket reforms is a remarkably robust result.

Regression 10 evaluates the effect of the protection of property rights and finds that it does not influence the behavior of the electorate. Regression 11 is an attempt to summarize the influence of all the Washington Consensus policies, using the composite indexes for the macroeconomic and structural policies, along with the index of property rights. This regression indicates that while the electorate does not hold strong views on macroeconomic or property rights policies, it does on promarket policies. Finally, the last two regressions in table 11 test the robustness of the policy variables that were found to be significant in previous regressions, namely, the fiscal balance, the total reform index, and the trade liberalization index. Only the total reform index is robust to the inclusion of the other variables.

In summary, this evidence lends support to the hypothesis that the electorate rewards the incumbent's party for good macroeconomic results—inflation, in particular—but punishes it for the adoption of the promarket policies endorsed by the Washington Consensus.

Table 12 presents a similar set of regressions for legislative elections. Those that test the significance of the macroeconomic policy indicators are consistent with the conclusion that the electorate does not care about these policies. However, in regression 3 the real exchange rate is significant at 10 percent with a positive sign, suggesting that the electorate favors more depreciated exchange rates.[60] The set of regressions dealing with the various indicators of promarket reforms suggests that they do not carry electoral costs in legislative elections. Since some of these policies fall under the control of the executive, this result is not surprising. However, as we show below, privatizations, which are strongly influenced by the legislature, do

60. However, this result does not hold in a similar regression without fixed effects.

TABLE 11. Impact of Economic Outcomes and Washington Consensus Policies in Presidential Elections, 1985–2002: Country Fixed Effects Results[a]

	Dependent variable: Change in log of vote share of incumbent president's party												
Independent variable	*(1)*	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*	*(11)*	*(12)*	*(13)*
Political													
Fragmentation (lagged)	0.122	1.087	0.263	0.276	–1.436	–0.945	–0.043	0.099	–0.118	–0.052	–1.722	–1.347	–1.026
	(0.16)	(1.21)	(0.36)	(0.36)	(1.55)	(0.97)	(0.05)	(0.12)	(0.15)	(0.06)	(2.11)*	(1.93)*	(0.84)
Polarization (lagged)	0.341	0.934	0.365	0.391	2.298	1.834	0.165	0.35	0.608	0.159	2.114	3.357	4.456
	(0.42)	(0.95)	(0.48)	(0.48)	(1.72)	(1.21)	(0.23)	(0.42)	(0.61)	(0.21)	(2.17)**	(2.48)**	(2.60)**
Divided government (dummy, lagged)	–0.19	–0.695	–0.396	–0.211	0.103	–0.199	–0.177	–0.258	–0.401	–0.209	–0.107	–0.194	–0.404
	(0.51)	(1.99)*	(1.07)	(0.61)	(0.51)	(0.57)	(0.53)	(0.69)	(0.87)	(0.61)	(0.46)	(0.69)	(0.65)
Economic outcomes													
Inflation (change in loss of purchasing power)	–1.544	–1.82	–1.793	–1.558	–2.03	–1.736	–2.381	–1.674	–1.899	–2.424	–3.195	–2.735	–2.159
	(1.61)	(2.15)*	(1.54)	(1.35)	(2.09)*	(1.81)*	(2.00)*	(1.52)	(1.86)*	(2.10)*	(3.16)***	(3.82)***	(3.11)**
Growth (change in growth rate, log)	–2.861	–2.788	–2.14	–2.998	–1.016	–1.256	–3.447	–2.652	–2.54	–3.05	–1.793	–2.211	–2.003
	(1.75)*	(1.59)	(1.47)	(1.61)	(0.74)	(0.99)	(1.78)*	(1.55)	(1.63)	(1.82)*	(1.32)	(1.22)	(1.17)
Washington Consensus													
Macroeconomic reforms index (log, change)	–0.463										0.353		
	(1.72)										(1.43)		
Structural fiscal balance (ratio to GDP, change)		–0.066										–0.007	–0.012
		(2.20)**										(0.41)	(0.38)
Real exchange rate (detrended in logs, change)			0.403										
			(0.88)										
Social expenditures (share of GDP, change)				–6.79									
				(1.31)									
Structural reforms index (log, change)					–1.569						–1.938	–1.825	
					(2.98)***						(3.95)***	(4.23)***	
Trade reform index (log, change)						–0.844							–0.845
						(2.24)**							(1.82)

Financial reform index (log, change)							–0.073						
							(0.37)						
Privatizations index (change)								0.064					
								(0.09)					
Tax index (log, change)									–0.776				–0.877
									(1.50)				(1.43)
Institutional reforms index (log, change)										–0.232	–0.049		
										(0.73)	(0.20)		
Constant	–0.792	–1.837	–0.933	–0.85	0.627	–0.061	–0.759	–0.826	–0.647	–0.654	0.805	0.197	–0.62
	(1.18)	(1.83)*	(1.56)	(1.47)	(0.85)	(0.08)	(0.92)	(1.31)	(1.03)	(0.79)	(1.07)	(0.29)	(0.62)
Summary statistic													
Number of observations	40	33	40	39	37	37	39	40	40	39	36	31	31
Number of countries	15	15	17	16	17	17	17	17	17	16	15	15	15
R^2	0.67	0.79	0.64	0.64	0.80	0.76	0.70	0.63	0.69	0.71	0.89	0.91	0.91
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Source: Authors' calculations.

*Significant at 10 percent; **significant at 5 percent; ***significant at 1 percent.

a. See text for descriptions and method of construction of independent variables. Robust *t* statistics are in parentheses.

TABLE 12. Impact of Economic Outcomes and Washington Consensus Policies in Legislative Elections, 1985–2002: Country Fixed Effects Results[a]

	Dependent variable: Change in log of vote share of party with most seats in legislature												
Independent variable	*(1)*	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*	*(11)*	*(12)*	*(13)*
Political													
Fragmentation (lagged)	0.588	0.618	0.59	0.593	0.524	0.533	0.595	0.615	0.507	0.609	0.524	0.551	0.572
	(3.24)***	(3.01)***	(3.65)***	(3.19)***	(2.60)**	(2.43)**	(3.03)***	(3.15)***	(2.51)**	(3.19)***	(2.64)**	(3.00)***	(2.65)**
Polarization (lagged)	0.138	0.174	0.11	0.142	0.26	0.292	0.314	0.173	0.07	0.279	0.438	0.224	0.276
	(0.54)	(0.58)	(0.48)	(0.54)	(1.10)	(1.30)	(1.27)	(0.66)	(0.26)	(1.03)	(2.17)**	(1.04)	(1.35)
Divided government (dummy, lagged)	−0.038	−0.02	−0.034	−0.024	−0.043	−0.038	−0.021	−0.024	−0.061	−0.035	−0.033	−0.034	−0.018
	(0.29)	(0.12)	(0.27)	(0.17)	(0.32)	(0.29)	(0.16)	(0.18)	(0.48)	(0.26)	(0.23)	(0.25)	(0.13)
Economic outcomes													
Inflation (change in loss of purchasing power)	0.077	0.086	0.048	0.089	0.007	0.025	−0.023	0.051	0.018	0.025	−0.071	0.006	0.004
	(0.33)	(0.33)	(0.21)	(0.36)	(0.03)	(0.10)	(0.09)	(0.22)	(0.07)	(0.10)	(0.28)	(0.03)	(0.02)
Growth (change in growth rate, log)	0.948	1.037	0.916	1.034	0.786	0.712	0.599	1.086	1.084	0.703	0.133	0.693	0.653
	(1.60)	(1.50)	(1.69)*	(1.78)*	(1.26)	(1.16)	(1.05)	(1.84)*	(1.89)*	−1.16	(0.23)	(1.21)	(1.13)
Washington Consensus													
Macroeconomic reforms index (log, change)	0.08										0.167		
	(0.74)										(1.12)		
Structural fiscal balance (ratio to GDP, change)		−0.002											
		(0.20)											
Real exchange rate (detrended in logs, change)			0.281									0.327	0.305
			(1.78)*									(1.84)*	(1.78)*

Social expenditures (share of GDP, change)				0.283									
				(0.13)									
Structural reforms index (log, change)					−0.134						−0.296	−0.103	
					(0.71)						(1.44)	(0.58)	
Trade reform index (log, change)						−0.083							−0.087
						(0.73)							(0.71)
Financial reform index (log, change)							0.057						
							(0.66)						
Privatizations index (change)								−0.318					−0.23
								(1.03)					(0.78)
Tax index (log, change)									−0.131				
									(0.83)				
Institutional reforms index (log, change)										0.191	0.298		
										(1.12)	−1.6		
Constant	−0.634	−0.683	−0.615	−0.65	−0.583	−0.615	−0.718	−0.663	−0.518	−0.741	−0.7	−0.592	−0.638
	(2.69)***	(2.24)**	(2.86)***	(2.60)**	(2.27)**	(2.23)**	(3.06)***	(2.69)***	(2.01)**	(2.90)***	(2.45)**	(2.23)**	(2.26)**
Summary statistic													
Number of observations	68	61	68	67	65	65	67	69	69	68	63	64	64
Number of countries	15	15	17	16	17	17	17	17	17	16	15	15	15
R^2	0.45	0.41	0.49	0.41	0.48	0.48	0.46	0.47	0.46	0.47	0.53	0.52	0.53
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Source: Authors' calculations.

*Significant at 10 percent; **significant at 5 percent; ***significant at 1 percent.

a. See text for descriptions and method of construction of independent variables. Robust *t* statistics are in parentheses.

have electoral implications in some political contexts. As in the previous set of regressions, policies concerning property rights do not have significant effects on the behavior of voters. The regressions that include the three summary indexes confirm that none of them is significant. The two final regressions indicate that the real exchange rate index remains weakly significant when other policy variables are included. Therefore, evidence on the consequences of the Washington Consensus policies in legislative elections is not robust. Somewhat surprisingly, the policy indicator that turns out to be more robust is outside the direct influence of the legislature.

The main conclusion that emerges from the empirical evidence presented so far is that the electorate is in favor of some economic outcomes as well as some economic policies. Inflation and the advancement of some promarket reforms are key reasons for withdrawing support from the incumbent's party in presidential elections. (For legislative elections, the evidence so far is very scant, regarding both outcomes and policies). It is very unlikely that the negative payoffs of promarket reforms in presidential elections would be countered by their positive effects on inflation, growth, or other economic or social outcomes, because the electorate does not seem to be very sensitive to these variables. It is only fair to conclude that the electorate dislikes promarket policies, irrespective of their results. However, these conclusions require some additional testing, because the response of the electorate may depend on political, institutional, and economic circumstances, as stated in hypothesis 4.

Does Context Matter?

The sensitivity of the electorate to Washington Consensus policies may be influenced by a host of contextual variables, such as the ideology of the incumbent's party, the incumbent's promises during the election campaign, and whether the economy was in crisis at the time of the previous elections.[61] As mentioned above, to treat this hypothesis we endogenize the coefficient γ as follows:

$$\gamma = \rho + \tau * \text{PROMISES/IDEOLOGY} + \zeta * \text{CRISIS}.$$

Replacing γ in the previous equations gives (with fixed effects)

61. Crisis is measured as the (log) distance between GDP and its trend when GDP is below its trend, and 0 otherwise.

$$d\log(V_t) = \alpha + \psi \log(F_{t-1}) + \beta * d\log(X_t) + \rho * d\log(P_t) + \tau * \text{PROMISES} * d\log(P_t) + \zeta * \text{CRISIS} * d\log(P_t) + \lambda C + \varepsilon_t.$$

Tables 13 and 14 present the relevant results from this specification.[62] The context in which reforms take place does not seem to affect the electorate's sensitivity to those reforms. As shown in table 13, the only exception occurs when the tax reform index is interacted with our "switch" index, measured with respect to promises.[63] The negative coefficient in regression 3 implies that the adoption of measures that make the tax system more neutral and effective leads to vote gains when the incumbent has campaigned on the adoption of promarket policies, but brings losses when the incumbent has argued against them on campaign but switched once in power. In legislative elections, contextual factors seem to play an important role for privatizations. In regression 1 of table 14 the coefficient for the privatizations variable is negative and significant and the coefficient for the interaction term (IDEOLOGY*PRIVATIZATIONS) is positive and significant. The values of the coefficients suggest that while privatizations do carry electoral costs, these are reduced by about a third when the largest party in the legislature is market oriented. Regression 4 includes two interaction terms found significant in previous regressions, namely, (IDEOLOGY* PRIVATIZATIONS) and (GROWTH*POLARIZATION). It finds that both remain strongly significant. These results confirm the importance of ideology in legislative elections. It is revealing that the influence of ideology is detected in connection with privatizations, because this is the area of reform in which the legislature plays the most important role and on which public opinion is strongest.

Conclusion

This paper has assessed the electoral consequences of Washington Consensus policies in Latin America on the basis of testable hypotheses derived from econometric and case studies on the subject. The results lend qualified support for our main four hypotheses, as follows.

62. A more complete set of results is available from the authors upon request.

63. The switch indexes are defined above. We also tested a switch index measured with respect to the ideology of the party, and those same indexes in absolute values (which measure whether the incumbent has lied or not, regardless of the direction of the switch). None of these alternative measures was found to be significant.

TABLE 13. Impact of Washington Consensus Policies Interacted with Contextual Features in Presidential Elections, 1985–2002: Country Fixed Effects Results[a]

	Dependent variable: Change in log of vote share of incumbent president's party			
Independent variable	*(1)*	*(2)*	*(3)*	*(4)*
Political				
Fragmentation (lagged)	–0.377	0.762	–0.192	0.808
	(0.65)	(1.70)	(0.38)	(1.75)*
Polarization (lagged)	1.124	–0.156	1.143	–0.063
	(1.33)	(0.30)	(1.34)	(0.13)
Divided government (dummy, lagged)	0.000	–0.317	0.000	–0.382
	(0.00)	(0.91)	(0.00)	(1.19)
Economic outcomes				
Inflation (change in loss of purchasing power)	–0.696	–0.517	–0.701	–0.622
	(1.57)	(1.34)	(1.85)*	(1.50)
Growth (change in growth rate, log)	–0.524	–0.897	–0.319	–0.909
	(0.49)	(1.17)	(0.37)	(1.18)
Washington Consensus				
Tax index (log, change)	–1.564	0.283	–0.394	–0.061
	(1.92)*	(0.36)	(1.65)	(0.11)
Promises*tax reforms index	1.424			
	(1.62)			
Ideology*tax reforms index		–0.154		
		(0.65)		
Promises switch index*tax reforms index			–1.658	
			(2.72)**	
Crisis*tax reforms index				–6.489
				(0.48)
Constant	–0.190	–1.057	–0.371	–1.115
	(0.32)	(2.27)**	(0.67)	(2.31)**
Summary statistic				
Number of observations	27	38	26	38
Number of countries	14	17	14	17
R^2	0.67	0.64	0.72	0.64
Country fixed effects	Yes	Yes	Yes	Yes

Source: Authors' calculations.
*Significant at 10 percent; **significant at 5 percent.
a. See text for descriptions and method of construction of independent variables. Robust *t* statistics are in parentheses.

1. Electoral support for the incumbent's party is higher, the better the aggregate economic outcomes during his or her administration. The incumbent's party is rewarded in presidential elections for reductions in the rate of inflation; and in legislative elections, for increases in the rate of growth (although the latter result is not robust in this first hypothesis). Neither changes in unemployment nor changes in income distribution appear to influence voters' behavior.

TABLE 14. Impact of Washington Consensus Policies Interacted with Contextual Features in Legislative Elections, 1985–2002: Country Fixed Effects Results[a]

	Dependent variable: Change in log of vote share of party with most seats in legislature			
Independent variable	*(1)*	*(2)*	*(3)*	*(4)*
Political				
Fragmentation (lagged)	0.568	0.657	0.658	0.59
	(2.80)***	(3.36)***	(3.25)***	(2.90)***
Polarization (lagged)	–0.045	0.185	0.098	–0.003
	(0.16)	–0.7	(0.35)	–0.01
Divided government (dummy, lagged)	–0.104	–0.085	0.042	–0.018
	(0.79)	–0.62	(0.28)	–0.12
Economic outcomes				
Inflation (change in loss of purchasing power)	0.278	0.089	0.251	0.291
	(1.19)	–0.4	(0.94)	–1.32
Growth (change in growth rate, log)	1.168	1.198	0.638	–0.539
	(1.99)*	(2.05)**	(0.94)	–0.64
Washington Consensus				
Privatizations index (change)	–2.076	–0.333	–0.583	–2.068
	(2.97)***	–0.79	(1.61)	(3.01)***
Ideology*privatization reforms index	0.680			0.67
	(2.45)**			(2.48)**
Promises switch index*privatizations index		–0.046		
		–0.19		
Crisis*privatization reforms index			15.173	
			(1.61)	
Growth*polarization				3.546
				(3.12)***
Constant	–0.525	–0.684	–0.760	–0.626
	(2.04)**	(2.34)**	(2.90)***	(2.43)**
Summary statistic				
Number of observations	67	67	69	67
Number of countries	14	17	14	17
R^2	0.54	0.5	0.5	0.58
Country fixed effects	Yes	Yes	Yes	Yes

Source: Authors' calculations.
*Significant at 10 percent; **significant at 5 percent; ***significant at 1 percent.
a. See text for descriptions and method of construction of independent variables. Robust *t* statistics are in parentheses.

2. The sensitivity of electoral support to economic outcomes depends on the institutional characteristics of the political regime and the party system. We find that in presidential elections, the more fragmented the party system, the higher the payoff of inflation rate decreases. There is also some evidence that in presidential elections a divided government increases the payoff of the inflation rate decreases or increases in the rate of economic growth (however, this finding is based on a very small sample). In legislative

elections, there is strong evidence that party polarization enhances the electoral payoff of higher rates of growth.

3. Electoral support for the incumbent's party depends on the economic policies adopted. Policies may carry electoral costs even when they deliver good economic outcomes. We find strong evidence that voters care not only about economic outcomes but also, in some cases, about policies. While the electorate seems to be blind to macroeconomic policies, it is antagonistic to promarket policies beyond their effects on growth or inflation. Promarket reforms in general carry very large electoral costs for the incumbent's party in presidential elections. If the context of these reforms is not taken into consideration, the evidence of adverse payoffs in legislative elections is weak.

4. The electorate's tolerance of unpopular policies depends on the ideology of the incumbent's party, his or her campaign statements, and the initial state of the economy. Ideology does influence the reaction of the electorate in legislative elections, according to our results. While the electorate dislikes privatization measures, it is more tolerant of them when the largest party in the legislature has a promarket ideology. In presidential elections, some evidence suggests that the electorate punishes the incumbent for the adoption of tax reforms when they run counter to his or her campaign statements.

In synthesis, adopting the Washington Consensus was costly to the reformers, although these costs were mitigated in some circumstances. The parties in power were able to harvest juicy electoral dividends only when the government pursued ambitious stabilization policies in high-inflation economies. These findings seem to fit well the salient facts of the last two decades, where a few incumbents were favored by the electorate for their success in taming inflation, but little electoral recognition was given to those who advanced the other macroeconomic and structural policies deemed necessary to accelerate growth and ensure stability. It might be tempting to conclude that the days of economic orthodoxy are numbered. However, it is unclear that reversing the reforms will produce electoral benefits. To date, the experience of reversals is limited to a few countries, and it is too soon to assess their political payoffs.

The strongest conclusion of this paper—that promarket reforms carry large electoral costs, irrespective of their macroeconomic effects—may not surprise political scientists, but it certainly will surprise many economists: why should the electorate reject policies that improve aggregate economic outcomes and welfare? Although this paper does not address

this question, some results (not reported) suggest that many of the simpler hypotheses proposed to answer it are at best incomplete. It has been widely argued that such rejection is due to the social and distributional effects of the reforms, but we have not found any evidence either that voting decisions are directly affected by social or distributional outcomes or that the electorate's response to the reforms is influenced by them.[64] It has also been argued that frustration with the reforms is due to their weak economic impact in countries that lack the institutional support needed to harvest the benefits of market liberalization.[65] Again, we find no evidence in support of this view. Relatedly, several authors have suggested that opposition to promarket policies is stronger when those who make the liberalization decisions or benefit from them are perceived to be corrupt.[66] However, we do not find that any measure of perceived corruption helps explain the electorate's response to the adoption of promarket reforms.[67]

Many other hypotheses beyond those that we have been able to test are possible. Based on psychological theory and experimentation, Sergio Pernice and Federico Sturzenegger have argued that public opposition to a successful reform process can be explained by universal cognitive biases—confirmatory bias and self-serving bias—if the principles of the reform are at odds with their beliefs and self-serving view of the world.[68] And Sanjay Jain and Sharun Mukand have developed a theoretical model to explain why successful reforms may run aground: if the reform process tilts the political balance in a way that makes the redistribution of the benefits less likely, public opinion may turn against the continuation of the reform process.[69] Why Latin Americans reject promarket reforms at the polls remains an open question.

64. For a summary of such arguments, see Lora and Panizza (2002); and Lora, Panizza and Quispe-Agnoli (2004).

65. See Lora and Panizza (2002), on the basis of public opinion data.

66. Di Tella and MacCulloch (2004) have uncovered empirical evidence consistent with this hypothesis.

67. For instance, when we include the interaction between our measure of reform and a measure of control of corruption (taken from *International Country Risk Guide, 2004;* www.icrgonline.com) in the basic regression from table 5, the coefficient is positive but not significant.

68. Pernice and Sturzenegger (2003).

69. Jain and Mukand (2003).