How conditions of the US economy affect presidential success in Mexico?

# Presidential Success and the World Economy (Authors: Daniela Campello; Cesar Zucco Jr., 2016)

## Abstract & Introduction

### Summary:

The research paper investigates the relationship between presidential success and the world economy in a subset of Latin American countries. The authors challenge the conventional view in political science that assumes economic performance is directly influenced by policy-making or that voters can accurately identify when this is not the case. Instead, they argue that in Latin American countries, presidential popularity and prospects of reelection are significantly influenced by factors beyond the president's control, such as international economic conditions.

The introduction provides a historical example of Carlos Andrés Pérez in Venezuela, illustrating how economic factors beyond the president's control, like oil prices, impacted his political fate. The paper highlights that Latin American economies are exposed to international conditions, such as commodity prices and interest rates, which are beyond the control of governments.

The authors develop a theoretically grounded indicator based on commodity prices and international interest rates to capture economic shocks affecting "low-savings–commodity-exporting" countries in Latin America. This indicator, considered exogenous to any Latin American president's influence, allows for a simple research design and bold claims of causal inference.

The empirical findings reveal that in these low-savings–commodity-exporting countries, voters tend to reward incumbents during periods of low international interest rates and high commodity prices. Conversely, they sanction incumbents when the opposite occurs. The authors argue that this predictability suggests voters overlook the impact of external shocks on domestic economic outcomes.

The paper concludes by emphasizing the normative implications of these findings, suggesting that voters in these countries do not appropriately sanction or reward performance. This challenges the traditional notion of retrospective economic voting as the main mechanism for ensuring democratic accountability in less developed democracies.

### Key Points:

1. Economic voting is a common phenomenon in political science, but the paper challenges the assumption that economic performance is directly influenced by policy-making or that voters accurately identify such situations.
2. The study focuses on a subset of Latin American countries where presidential success is argued to be influenced by factors beyond the president's control, such as international economic conditions.
3. Historical examples, such as Carlos Andrés Pérez in Venezuela, illustrate how economic factors like oil prices can impact presidential popularity and prospects of reelection.
4. Latin American economies are exposed to international conditions, such as commodity prices and interest rates, which are beyond the control of governments.
5. The authors develop an exogenous indicator based on commodity prices and international interest rates to capture economic shocks affecting specific countries in Latin America.
6. Empirical findings show that in low-savings–commodity-exporting countries, voters tend to reward incumbents during favorable international economic conditions and sanction them during unfavorable conditions.
7. The predictability of presidential success based on features of the world economy implies that voters may ignore the impact of external shocks on domestic economic outcomes.
8. The paper challenges the normative implications of these findings, suggesting that voters in these countries do not appropriately sanction or reward performance, contrary to the traditional notion of retrospective economic voting.

### Examples and Citations:

The paper refers to historical examples like Carlos Andrés Pérez in Venezuela to illustrate the impact of external economic factors on presidential success. Additionally, the authors draw on literature related to economic voting, citing scholars such as Kramer (1971), Powell and Whitten (1993), Ferejohn (1986), Ashworth (2012), Fearon (1999), Stokes (2001), and Mainwaring and Scully (1995) to provide theoretical and empirical context for their research.

## ASSIGNING RESPONSIBILITY FOR ECONOMIC PERFORMANCE

### Summary (Continued):

The continuation of the paper delves into the debate about voters' ability to evaluate and assign responsibility to elected officials for economic performance. Two contrasting viewpoints are discussed: the Michigan school, which suggests voters lack political acumen, and the retrospective voting literature, which argues that voters can use information and heuristic shortcuts to assess leaders' competence.

The literature on clarity of responsibility is introduced, proposing that economic voting is more effective in promoting accountability when citizens can identify the party responsible for economic conditions. In the context of presidential systems, factors like electoral laws and separation of powers affect voters' ability to attribute responsibility, with executives facing relatively greater sanctioning than legislators.

The paper then explores the conditions that enable voters to punish or reward governments exclusively for economic outcomes they can control or influence. Previous research by Alesina and Rosenthal (1995) and Duch and Stevenson (2008) is cited, suggesting that voters need to identify and distinguish competency shocks from exogenous shocks. The study argues that in countries with significant influence from non-elected decision-makers on economic outcomes, voters may not evaluate governments based on economic performance.

The authors cite various studies, including those by Hellwig and Samuels (2007), Alcañiz and Hellwig (2011), Ebeid and Rodden (2005), and Kayser and Peress (2012), to support the notion that economic integration and exposure to information about global economic outcomes impact voters' ability to assign responsibility for economic performance.

The study focuses on Latin America, where historical factors such as inward-looking development models and limited economic and political integration may affect voters' capacity to benchmark economic performance. The authors propose a research design to test the hypothesis that Latin American voters are less likely to distinguish competence from chance when assessing government's management of the economy compared to their European counterparts.

The paper concludes by highlighting the potential implications of the research design's findings for understanding voters' behavior in Latin America and contributing to a broader understanding of conditions under which voters can distinguish competence from chance in assessing government performance.

### Key Points (Continued):

1. The paper engages in the debate on voters' capacity to evaluate and assign responsibility for economic performance to elected officials, presenting contrasting viewpoints from the Michigan school and the retrospective voting literature.
2. The literature on clarity of responsibility suggests that economic voting is more effective in promoting accountability when citizens can identify the party responsible for economic conditions.
3. Factors like electoral laws and separation of powers in presidential systems affect voters' ability to attribute responsibility, with executives facing relatively greater sanctioning than legislators.
4. The study explores conditions that enable voters to punish or reward governments exclusively for economic outcomes they can control or influence.
5. Previous research by Alesina and Rosenthal (1995) and Duch and Stevenson (2008) is cited, emphasizing the need for voters to identify and distinguish competency shocks from exogenous shocks.
6. Studies by Hellwig and Samuels (2007), Alcañiz and Hellwig (2011), Ebeid and Rodden (2005), and Kayser and Peress (2012) are referenced to support the notion that economic integration and exposure to global economic information impact voters' ability to assign responsibility.
7. The focus shifts to Latin America, where historical factors like inward-looking development models and limited economic and political integration may affect voters' capacity to benchmark economic performance.
8. The authors propose a research design to test the hypothesis that Latin American voters are less likely to distinguish competence from chance when assessing government's management of the economy compared to their European counterparts.

### Examples and Citations (Continued):

The paper cites examples from the literature, including Healy and Malhotra (2013), Campbell et al. (1960), Converse (1969), Canes-Wrone, Herron, and Shotts (2001), Fearon (1999), Ferejohn (1986), Torsten, Roland, and Tabellini (1997), Benton (2005), Johnson and Schwindt-Bayer (2009), Samuels (2004), Alesina and Rosenthal (1995), Duch and Stevenson (2008), Hellwig and Samuels (2007), Alcañiz and Hellwig (2011), Ebeid and Rodden (2005), and Kayser and Peress (2012) to provide theoretical and empirical context for the ongoing discussion.

## EXOGENOUS DETERMINANTS OF ECONOMIC PERFORMANCE

### Summary (Continued):

In this section, the paper explores exogenous determinants of economic performance in Latin American countries. The authors refer to a substantial body of economic literature that suggests these countries generally perform well when international interest rates are low and commodity prices are high, and conversely face economic hardships when the opposite occurs.

To capture the conditions of the world economy facing Latin American countries, the authors introduce a "good economic times" (GET) index. This index combines commodity prices and US interest rates into a single indicator measured on a normalized scale, where higher values represent "good times" and lower values represent "bad times" for the region's economies.

The authors argue that while there is some loss of information in combining the variables into a single index, this approach is justified for its parsimony. They are more interested in capturing variation in international conditions than in the effects of commodity prices or international interest rates individually.

The GET index is shown to have varied over the past 30 years, reflecting economic conditions in Latin America. The authors highlight historical events, such as the debt crisis in the 1980s and the economic boom in the 2000s, to illustrate the index's behavior and its impact on the region's economies.

The paper emphasizes that the effects of commodity prices and international interest rates are contingent on a country's mode of insertion into the world economy. Countries heavily reliant on commodity exports or requiring significant foreign capital inflows are more exposed to variations in international prices and interest rates, respectively.

To classify countries based on these criteria, the authors use objective indicators such as the ratio of commodity exports to the total value of exports and the value of yearly debt service obligations divided by the total value of exports.

The study then introduces a classification of "low-savings–commodity-exporting" (LSCE) countries and a "comparison group." Statistical analyses, including ordinary least-squares (OLS) regressions, support this classification by demonstrating that the GET index significantly affects domestic economic indicators in the LSCE sample but not in the comparison group.

The authors conclude by stating their hypothesis that in countries where the GET index affects the economy, it should also influence presidential performance. The next section is expected to discuss how this hypothesis is tested.

### Key Points (Continued):

1. A vast economic literature suggests that Latin American countries generally fare well when international interest rates are low and commodity prices are high, and vice versa.
2. The authors introduce a "good economic times" (GET) index that combines commodity prices and US interest rates into a single indicator, representing economic conditions in Latin America.
3. The GET index is measured on a normalized scale, with higher values indicating "good times" and lower values indicating "bad times" for the region's economies.
4. The paper highlights the contingent effects of commodity prices and international interest rates on a country's mode of insertion into the world economy.
5. Objective indicators, such as the ratio of commodity exports to the total value of exports and the value of yearly debt service obligations divided by the total value of exports, are used to classify countries into "low-savings–commodity-exporting" (LSCE) and a "comparison group."
6. Statistical analyses, including ordinary least-squares (OLS) regressions, support this classification by demonstrating the significant impact of the GET index on domestic economic indicators in the LSCE sample but not in the comparison group.

### Examples and Citations (Continued):

The paper cites various economic studies, including Gavin, Hausmann, and Leiderman (1995), Izquierdo, Romero, and Talvi (2008), Maxfield (1998), Calvo, Leiderman, and Reinhart (1996), Santiso (2003), Okun (1971), and Hanke (2014), to provide theoretical and empirical context for their analysis of exogenous determinants of economic performance in Latin American countries.

## RESEARCH DESIGN

### Summary (Continued):

In this section, the paper outlines its research design to test the hypothesis that voters do not discount exogenous factors when evaluating presidents. The central idea is to examine whether factors beyond incumbents' control, specifically related to the world economy, influence presidential success.

The schematic description of the research design is presented in Figure 3, emphasizing that the "good economic times" (GET) index is treated as exogenous to any other variable of interest. The authors acknowledge that while international interest rates are unquestionably exogenous, the exogeneity of commodity prices could be debated (OPEC but still difficult for any single country like Venezuela or Ecuador to individually influence oil prices). However, they argue that policies to change a country's reliance on commodities are generally long-term, and presidents have limited ability to affect these changes in the short to medium term.

To ensure the exogeneity of GET, the authors use a composite commodity price index that is independent of any single government's actions. This index considers the prices of multiple commodities, guarding against the possibility that the actions of a single government could influence it.

The exogeneity of GET has two crucial consequences for the research design:

1. **No Control for Domestic Economic Factors:** Estimating the effects of the world economy on presidential success precludes controlling for the effect of domestic economic factors. This is because it is established that one should not condition on a consequence of the causal variable of interest when estimating causal effects.
2. **Examination of Total Effect:** The research design focuses on examining the total effect of GET on presidents' performance, regardless of whether this effect is channeled through different paths. It is not necessary to control for other determinants of presidential success that are causally unrelated to the international economy.

The resulting research design involves assessing whether GET is associated with presidents' electoral success and popularity in the "low-savings–commodity-exporting" (LSCE) countries. A positive finding would imply that voters fail to discount the world economy when evaluating presidents, rewarding and punishing them for factors beyond their control.

### Key Points (Continued):

1. The paper's research design aims to test the hypothesis that voters do not discount exogenous factors, specifically related to the world economy, when evaluating presidents.
2. The schematic description of the research design emphasizes the exogeneity of the "good economic times" (GET) index, which combines commodity prices and US interest rates.
3. The exogeneity of GET is crucial in precluding the control for domestic economic factors and allows for estimating the total effect of GET on presidential success.
4. The authors argue that while international interest rates are unquestionably exogenous, the exogeneity of commodity prices could be debated. However, they use a composite commodity price index to ensure independence from any single government's actions.
5. The research design focuses on assessing whether GET is associated with presidents' electoral success and popularity in "low-savings–commodity-exporting" (LSCE) countries.

### Examples and Citations (Continued):

The section does not explicitly provide examples or citations. Instead, it focuses on outlining the principles and rationale behind the research design.

## THE WORLD ECONOMY AND PRESIDENTIAL ELECTIONS

### Summary (Continued):

In this section, the paper examines the association between the "good economic times" (GET) index and the electoral success of presidents in Latin American countries between 1980 and 2012. The analysis covers 121 presidential elections in 18 countries, with a focus on identifying factors influencing presidential reelection rates.

* **Data Selection:** The study includes 107 elections deemed free of electoral process and franchise violations. Of these, 75 elections were in low-savings–commodity-exporting (LSCE) countries, and 42 were in a comparison group. Elections were coded as "reelection" if the candidate supported by the incumbent won.
* **Reelection Rates:** Figure 4 illustrates reelection rates by decade, indicating an increase in reelection rates in LSCE countries compared to stable rates in the comparison group. Reelection rates in LSCE countries increased from 22.2% in the worst period to 60% in the best period.
* **Logit Regressions:** Logit regressions were performed to estimate the effects of the average value of GET on the probability of reelection. The analysis included an interaction between GET and a binary indicator of whether the country was in the LSCE group. Various model specifications were employed, considering factors like incumbent candidacy and government ideology.
* **Results:** The results consistently showed a positive effect of GET on the probability of reelection in LSCE countries, but no such effect was observed in the comparison group. The differences in the effects of GET between the two groups were statistically significant.
* **Additional Controls:** Models included controls for incumbent candidacy and government ideology. The inclusion of ideology aimed to account for the potential impact of redistributive policies on electoral outcomes.
* **Magnitude of Effects:** The magnitude of the effects of GET on reelection probabilities was presented in terms of changes from "bad" to "good" international economic conditions. The effects were substantial in LSCE countries, ranging from 0.41 to 0.51, while effects in the comparison group were smaller and statistically insignificant.
* **Conclusion:** The main conclusion drawn from the analysis is that the GET index has a statistically significant and stable effect on presidential reelection probabilities in LSCE countries, particularly during favorable international economic conditions. The study suggests that the economic scenario of the 2000s played a crucial role in the reelection probabilities of incumbents in South America.
* **Challenges in Predicting Elections:** The paper acknowledges the challenges in predicting presidential elections, emphasizing that most empirical work on economic voting is better at predicting popularity than actual voting behavior. It also notes that voting decisions involve a comparison of prospects offered by all candidates, not solely retrospective evaluations of incumbents.
* **Ultimate Test:** The ultimate test of the argument proposed in the paper is suggested to rely on a more direct indicator of voters' assessment of presidents, moving beyond reelection rates.

### Key Points (Continued):

1. The analysis covers 121 presidential elections in 18 Latin American countries between 1980 and 2012.
2. Reelection rates increased in LSCE countries, reaching 60% in the best period, while remaining stable at around 40% in the comparison group.
3. Logit regressions consistently show a positive effect of the "good economic times" (GET) index on the probability of reelection in LSCE countries, with statistically significant differences compared to the comparison group.
4. Magnitude of effects is substantial in LSCE countries, ranging from 0.41 to 0.51, indicating changes in reelection probabilities during shifts from "bad" to "good" international economic conditions.
5. Challenges in predicting elections are acknowledged, with emphasis on the noisy link between the economy and elections.
6. The ultimate test of the argument is proposed to rely on a more direct indicator of voters' assessment of presidents.

### Examples and Citations (Continued):

The section provides specific details about the data used, the statistical analyses conducted, and the results obtained. It also discusses potential challenges and limitations in predicting electoral outcomes based on economic conditions.

## THE WORLD ECONOMY AND PRESIDENTIAL POPULARITY, CONCLUSIONS AND IMPLICATIONS

### Summary (Continued):

In this final section, the paper extends its analysis to examine the relationship between international factors and presidential popularity in Brazil and Mexico. Monthly presidential approval rates are scrutinized to assess whether fluctuations in the "good economic times" (GET) index can predict changes in popularity. The study includes detailed data collection and statistical analyses for both countries.

* **Brazil and Mexico Comparison:** Brazil, as a commodity-exporting country highly dependent on international capital flows, is expected to be influenced by the GET index. In contrast, Mexico, with ties to the U.S. consumer market, may not be significantly affected. The study aims to empirically assess this hypothesis.
* **Data Collection:** Approval ratings data for Brazilian presidents cover the period from March 1987 to December 2012, with 375 observations. For Mexico, 578 observations were collected since the late 1980s. Monthly observations were created by averaging multiple observations per calendar month.
* **OLS Model:** A simple Ordinary Least Squares (OLS) model, including only the monthly GET index as an independent variable, is initially employed. Results show a strong covariation between GET and popularity in Brazil (R2 = 0.63) but weak covariation in Mexico (R2 = 0.12). A domestic model with several economic variables in Brazil performs similarly to the GET model, emphasizing the impact of international economic conditions.
* **Time Series Analysis:** Time series analysis, considering the time structure in the data, reveals stationary but serially autocorrelated series. Lagged dependent variable models and ARMA models are utilized to address serial autocorrelation issues.
* **Results:** Time series estimates indicate a positive and significant coefficient on GET in Brazil, suggesting that changes in the international economic scenario significantly impact presidential popularity. In contrast, the coefficient for Mexico is null, supporting the hypothesis that GET has no effect on the popularity of Mexican presidents.
* **Impulse and Unit Response Functions:** Impulse and unit response functions illustrate the substantive impacts of GET on popularity in Brazil. A "permanent" increase in one unit of GET leads to a gradual increase in popularity, highlighting the substantial influence of international economic conditions on presidential popularity in LSCE countries.

### Conclusions and Implications:

The article concludes with a reflection on the implications of the findings for the study of democracy and electoral accountability in Latin America.

1. **Voters' Capacity to Assess Exogenous Factors:** The study supports the argument that voters in Latin America, due to inward-looking models of development, low media consumption, and limited political and economic integration, do not discount the impact of exogenous factors when assessing governments' competence in managing the economy.
2. **Incentives for Incumbents:** The results suggest that, similar to oil executives, presidents' behavior is likely influenced by the knowledge that performance evaluations are not solely based on their actions and choices. The article suggests that the incentives for incumbents to maximize voters' material conditions may be weaker when the link between electoral success and "good" policy making is broken.
3. **Challenges to Democratic Accountability:** The findings challenge the notion of "accountability ex-post," which assumes that voters can hold incumbents accountable based on economic outcomes. In scenarios where incumbents are rewarded for events beyond their control, the effectiveness of retrospective economic voting as a mechanism of accountability is questionable.
4. **Prioritization of Economic Conditions:** The study reinforces the idea that economic conditions take precedence over other considerations in influencing presidential popularity. Even in studies on non-economic drivers, such as corruption, economic conditions continue to play a significant role.
5. **Future Research Directions:** The article calls for additional research to explore factors explaining systematic variation in voters' capacity and willingness to benchmark their country's economy. It also raises questions about how incumbents and challengers behave in the face of threatening international environments and whether countercyclical economic policies can reduce the effect of international factors.

In summary, the main finding emphasizes the need to reassess the conditions under which democracy provides incentives for the best economic policy making.