Merit, Luck, and the Exogenous Determinants of Government Success

Daniela Campello    Cesar Zucco

IPES
October 2013
Research Agenda

Question

- Can voters distinguish merit from luck in the management of the economy?
Research Agenda

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• Can voters distinguish merit from luck in the management of the economy?

Empirical strategy

• Impact of exogenous factors on presidential “success” (i.e. elections and popularity)
Research Agenda

Question

- Can voters distinguish merit from luck in the management of the economy?

Empirical strategy

- Impact of exogenous factors on presidential “success” (i.e. elections and popularity)—why Latin America?
Research Agenda

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- Can voters distinguish merit from luck in the management of the economy?

Empirical strategy

- Impact of exogenous factors on presidential “success” (i.e. elections and popularity)

Finding

- Voters often do not distinguish merit from luck, punishing and rewarding presidents for outcomes beyond their control
Research Agenda

Question
• Can voters distinguish merit from luck in the management of the economy?

Empirical strategy
• Impact of exogenous factors on presidential “success” (i.e. elections and popularity)

Implications
• Broken ties between performance and reward/punishment—waste, corruption
What do we know about economic voting?

Voters reward (punish) incumbents in good (bad) times
What do we know about economic voting?

Voters reward (punish) incumbents in good (bad) times

- Prospective or retrospective?
- Sociotropic or egotropic?
- What aspect of economic performance matters?
What do we know about economic voting?

Country’s Economic Performance \(\rightarrow\) Support for Incumbent

Voters reward (punish) incumbents in good (bad) times

- Assignment of responsibility
What do we know about economic voting?

Country’s Economic Performance → Support for Incumbent

Voters reward (punish) incumbents in good (bad) times

- Assignment of responsibility
  - Institutions
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  - Exogenous shocks vs. policymaking
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Voters reward (punish) incumbents in good (bad) times

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  - Institutions
  - Exogenous shocks vs. policymaking
What are we saying about economic voting?

This project: The world economy matters

- Noise vs. Competence signal
What are we saying about economic voting?

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- Noise vs. Competence signal
- Can voters recognize it?
What are we saying about economic voting?

This project: The world economy matters

- Noise vs. Competence signal
- Can voters recognize it? If not: luck, not merit
Research Design

World Economic Performance → Country’s Economic Performance → Support for Incumbent
Empirical Strategy
Roadmap to the rest of the talk

How can we test this?

• Assert lack of "direct effect" of international factors on incumbent success
• Show impact of international factors (or lack thereof) on economic performance
• Show impact of international factors (or lack thereof) on incumbent "re-election" (Part I)
• Presidential popularity (Part II)
Empirical Strategy
Roadmap to the rest of the talk

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  - Incumbent “re-election” (Part I)
  - Presidential popularity (Part II)
What International Economic Factors Matter?
South American countries: low-savings-commodity-exporters

Commodity Prices

US Interest Rates
### International Factors Determine Domestic Economy

<table>
<thead>
<tr>
<th>Country</th>
<th>Int. Rates</th>
<th>log(Comm)</th>
<th>Joint Test</th>
<th>Joint p-value</th>
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<td>103.03**</td>
<td>27.10</td>
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<td>8.04*</td>
<td>6.17</td>
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<tr>
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<td>11.33*</td>
<td>9.07</td>
<td>0.011*</td>
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<td>3.22</td>
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The “Good Economic Times” Index
A measure of the world economy as seen from Lat. Am
## Good Economic Times Index and GDP (1980–2011)

<table>
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<tr>
<th>Country</th>
<th>Coefficient on GET</th>
<th>p-value</th>
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<tbody>
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<td>Latin America</td>
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<td>Brazil</td>
<td>5.06</td>
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<td>4.70</td>
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<td>Chile</td>
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<td>Dominican Republic</td>
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<td>Mexico</td>
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<td>-1.36</td>
<td>0.240</td>
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</table>
Empirical Part I

International Determinants of Presidential Elections in Latin America
International Determinants of Presidential Elections

From Bad to Good Times...

Diagram showing trends in US International Rates, Commodities, and GET Index from 1980 to 2010.
International Determinants of Presidential Elections

From Bad to Good Times...

% Reelections

- US Int. Rates
- GET Index
- Commodities

- 1980s
- 1990s
- 2000s
International Determinants of Presidential Elections

From Bad to Good Times...

% Reelections

1980s 1990s 2000s

Determined Not Determined

0.0 0.2 0.4 0.6 0.8
Reelection Rates

1980s 1990s 2000s

Determined Not Determined
International Determinants of Presidential Elections

Probit Analysis of Chances of Election

Dependent Variable

- Presidential reelection OR election of candidate supported by president
- Period: 1980–2012
- Full sample: 106 free elections (out of 120) in 18 countries
- Determined: 63 free elections in 11 countries
- Non-Determined: 44 free elections in 7 countries
International Determinants of Presidential Elections
Probit Analysis of Chances of Election

Explanatory Variable

• GET index
• Controls for partisanship and quality of governance*
International Determinants of Presidential Elections

Probit Analysis of Chances of Election

Explanatory Variable

- GET index
- Controls for partisanship and quality of governance*

Dealing with the structure of the data

- Fixed effects
- Clustered SE’s
- Random effects
First Differences for GET
Effects of Changing from “Bad” to “Good” Economy on Reelection

- Determined
  - Mod. 1 Cl. SE
  - Mod. 2 Country FE
  - Mod. 3 Country RE
  - Mod. 4 Cl. SE with Ideology

- Non-Determined
  - Mod. 5 Cl. SE
  - Mod. 5 Country FE
Empirical Part II

International Determinants of Presidential Popularity in Brazil & Mexico
## International Determinants of Presidential Popularity

### Time Series Analysis of the Popularity of Presidents

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Determined)</td>
<td>(Non-Determined)</td>
<td></td>
</tr>
<tr>
<td><strong>Total Months</strong></td>
<td>310</td>
<td>290</td>
</tr>
<tr>
<td><strong>Raw Obs.</strong></td>
<td>374 (4 pollsters)</td>
<td>330 (4 pollsters)</td>
</tr>
<tr>
<td><strong>Monthly Obs.</strong></td>
<td>222</td>
<td>199</td>
</tr>
<tr>
<td><strong>Imputed Obs.</strong></td>
<td>88</td>
<td>91</td>
</tr>
</tbody>
</table>
Imputation of Dependent Variable

**Brazil**
- Sarney
- Collor
- Franco
- Cardoso
- Lula
- Dilma

**Mexico**
- Salinas
- Zedillo
- Fox
- Calderón
International Determinants of Presidential Popularity
Time Series Analysis of the Popularity of Brazilian Presidents

Modeling Strategy

- OLS for initial diagnostics
- Correct for time serial correlation/stationary issues
  - Lag DV (original and imputed data)
  - ARMA (imputed data)
- Examine residual autocorrelation
- Present results
  - For simplicity, only cleanest specification for each country
  - Full results in the paper, and here
International Determinants of Presidential Popularity

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Predicting Presidential Popularity

Effects of GET in the “cleanest” specification in each country

GET Index
(Coefficient)

Brazil
Mexico

to Extended Results
Illustrating the Effects

Brazil

Mexico

Popularity

R² = 0.63

R² = 0.11
Illustrating the Effects

Unlucky Cardoso...
Illustrating the Effects

Unlucky Cardoso...

- Financial crisis, contagion
- Low commodity prices
Illustrating the Effects

Unlucky Cardoso...

- In 2002: 24% approval
- 2010 conditions: 69%
Illustrating the Effects

Unlucky Cardoso...

- In 2002: 24% approval
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... and lucky Lula
Illustrating the Effects

Unlucky Cardoso...
- In 2002: 24% approval
- 2010 conditions: 69%

... and lucky Lula
- Commodity price boom
- Low interest rates
Illustrating the Effects

Unlucky Cardoso...
- In 2002: 24% approval
- 2010 conditions: 69%

... and lucky Lula
- In 2010: 83% approval
- 2002 conditions: 34%
Merit or Luck?

• Voters respond to *exogenously-determined* “good” and “bad” times
Punchlines

Merit or Luck?

- Voters respond to *exogenously-determined* “good” and “bad” times
- Domestic economic factors are not needed to explain the bulk of the variation in presidential success
• Voters do not distinguish merit from luck *in countries in which luck matters*
Implications

- Voters do not distinguish merit from luck *in countries in which luck matters*
  - Broken link between policymaking and voting
Implications

• Voters do not distinguish merit from luck *in countries in which luck matters*
  • Broken link between policymaking and voting
  • Potential room for rents, electioneering, etc...
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- Is accountability possible?
**Implications**

- Voters do not distinguish merit from luck *in countries in which luck matters*
  - Broken link between policymaking and voting
  - Potential room for rents, electioneering, etc.
- Is accountability possible?
- Can information about relative performance make a difference?
Voters do not distinguish merit from luck in countries in which luck matters
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Is accountability possible?

Can information about relative performance make a difference?
- Who can/should provide such information?
Implications

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  - Broken link between policymaking and voting
  - Potential room for rents, electioneering, etc.
- Is accountability possible?
- Can information about relative performance make a difference?
  - Who can/should provide such information?
  - Relative to whom?
Book Project

Chapter 1: International Factors and Economic Performance
Chapter 2: Economic Booms, Crises and Elections
Chapter 3: Economic Booms, Crises and Presidential Popularity
Chapter 4: Globalization and the impact of the international economy
Chapter 5: The mediating effect of institutional choices
Chapter 6: Relative performance in the political discourse
Chapter 7: The role of the media
Chapter 8: What if voters had the information? An experimental approach

Conclusion: Accountability ex-post as a normative horizon
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Thanks!
Theoretical Framework

Assuming voters care about economic performance

<table>
<thead>
<tr>
<th>Voters Aware</th>
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<tbody>
<tr>
<td>Yes</td>
<td>Strong</td>
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<tr>
<td></td>
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*assuming economic vote*
# Theoretical Framework

Assuming voters care about economic performance

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Voters Aware: Yes → ~ Economic Vote

Voters Aware: No

Int’l Factors: Strong

Int’l Factors: Weak
# Theoretical Framework

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<tr>
<td>No</td>
<td>Blind Retrospection</td>
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</tbody>
</table>
International Determinants of Presidential Elections

Probit Analysis of Chances of Election

Coding criteria

• Only free and fair elections (Mainwaring, Pérez-Liñan & Brink)
• Reelection and incumbent candidates
• Controversial cases
  • Multiple candidates
  • No incumbent candidate, no support for incumbent candidate
  • Support for candidate from different party
  • Military, interim and caretakers
The Raw Popularity Data (Brazil)
The Raw Popularity Data (Mexico)
International Factors and Popularity of US Presidents

Predicting Popularity

Essentially just “time in office”

Variable Coefficients

Orders of magnitude smaller!
Predicting Presidential Popularity
Effects of the GET Index under different specifications

Brazil

Mexico

GET Index

ARMA(1,1) (imputed data)
AR–1 (imputed data)
Lag–DV (imputed data)
Lag–DV (raw data)

Simplified Results