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The Electoral Consequences of the Washington Consensus

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Abstract[1]

This paper assesses how electoral outcomes in both presidential and legislative elections in Latin America have been affected by the adoption of economic policies that seek to improve macroeconomic stability and facilitate the functioning of markets. The database includes 17 Latin American countries for the period 1985-2002, and a total of 66 presidential and 81 legislative elections. The set of testable hypotheses is derived from a review of the literature and is structured around the hypothesis of economic voting. It is found that (i) the incumbent's party is rewarded for reductions in the rate of inflation and, to a lesser extent, for increases in the rate of growth; (ii) the more fragmented or ideologically polarized the party system, the higher the electoral rewards of reducing the inflation rate or raising the economic growth rate; (iii) voters care not only about economic outcomes, but also about some of the policies adopted: while the electorate seems blind to macroeconomic policies such as fiscal or exchange-rate policies, it is averse to pro-market policies, irrespective of their effects on growth or inflation; and (iv) the electorate is more tolerant of pro-market reforms when the incumbent's party has a more market-oriented ideology. These results suggest that reforming parties have paid a hefty price for the adoption of pro-market reforms, except when such reforms have been undertaken in conjunction with stabilization policies in high-inflation economies.

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1. Introduction

No country in Latin America escaped the dicta 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. It is a matter of debate whether this one-size-fits-all approach was imposed from outside or adopted willingly by the governments elected under the promise of improving the lot of their peoples. All sides, however, seem to agree on one point: the results of this recipe 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 came to be known as the Washington Consensus at the turn of the decade. Those two countries were undemocratic Chile and impoverished Bolivia, by then two of the most politically and economically unstable countries in, if not the world, then certainly Latin America. Extreme cases, extreme policies: that was a common interpretation of those two experiences. Less common was the expectation that those policies would be adopted by virtually every country in the next few years, both in those where democracy had been the rule for decades—such as Colombia, Costa Rica and Venezuela—and those in which the third wave of democratization was just arriving, as was the case for Argentina, Brazil and Uruguay.

The years of high expectations, both about democratization and about Washington Consensus-type policies, are over. Latin Americans are still confirmed democrats, but their 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 skeptical about the benefits of pro-market economic policies. Only one in every four considers privatization to have been beneficial for their countries, and barely 16 percent think that the market economy is doing a good job.[2]

Disquiet is gaining the upper hand in a number of places. Water privatizations were blocked in Arequipa (Peru) and Cochabamba (Bolivia) after violent clashes between vociferous opponents and the police. An ambitious project to attract foreign direct investment to the gas sector was derailed by the Indian communities in Bolivia. While these events may be discounted

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[2] Opinion data comes from the 2003 issue *of Latinobarómetro*.

as isolated phenomena, a recent vintage of presidents, from Néstor Kirchner in Argentina to Lucio Gutiérrez in Ecuador and Tabaré Vásquez in Uruguay, have won clear majorities in popular elections after campaigning against the excesses of market-oriented policies.

In an attempt to establish whether this disquiet is justified, economists have devoted substantial effort to assessing the economic and social consequences of Washington Consensus policies. The dominant view seems to be that they had positive effects on economic growth and income levels, though there is intense debate as to the scale of those effects, whether they are transient or permanent, and the importance of each of the components of the Washington Consensus. The dominant view also holds that the effects have been muted because of a lack of regulatory and institutional support for liberalization efforts, though the specific form that regulation and institutions should take for that purpose is far from clear. There is an even more intense debate on the social and distributional effects of fiscal stabilization and pro-market reforms, which are the two main pillars of the Washington Consensus.[3]

The future of these policies, however, will depend less on their efficacy than on whether they receive the support of the electorate. On this matter, the knowledge at hand is much more scant and fragmentary, as will be seen below. This paper attempts to help fill that gap by using econometric methods to evaluate the electoral consequences of the Washington Consensus. Although our approach is backward-looking, it will shed much light on the future. The paper will show that the electorate cares not only about the outcomes of the policies (and perhaps about only some outcomes, not others), but also about the policies themselves, irrespective of whether they have good or bad (observable) outcomes. The electorate, moreover, seems to care about whether the policies adopted by a government are in line with the ideology of the incumbent's party and with pre-election promises. Furthermore, since voters in presidential systems cast separate votes for the executive and the legislature, outcomes and policies affect each vote differently. The presidential vote is more volatile and more susceptible to economic outcomes and policies, but the vote for the legislature is not completely immune to them: policies in which the legislature plays a clearer role, such as privatization, tend to have electoral consequences. These results suggest a mixed future for Washington Consensus policies, one in which neither

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

bold reversals nor aggressive pro-market reforms should be expected in the future. Perhaps not only the time of high expectations is over, but also the time of deep reforms.

The next section of this paper presents a short survey of the literature on the electoral consequences of Washington Consensus policies and derives the empirical hypotheses. On that basis, Section 3 discusses the theoretical and econometric approaches that support the empirical analysis. Section 4 describes the data, Section 5 presents the econometric findings, and Section 6 concludes.

Before proceeding, a note on terminology is in order. "Neoliberal", "market-oriented", "orthodox" and a variety of other labels have been attached to the set of economic policies in vogue since the early 1990s in Latin America and elsewhere. We use these terms interchangeably, but not loosely: for the sake of clarity and concision this paper deals with the ten policies summarized in the classic article by Williamson (1990) that made the term "Washington Consensus" famous. We assume that all those labels refer to that same set of policies (see the section entitled "Data Definitions and Sources" for the complete list of policies and their measurement).

2. Empirical Literature Review and Testable Hypotheses

The most straightforward view of the electorate's response to economic policies is based on the economic-voting argument, according to which people base their electoral decisions on cost-benefit calculations. If the policies bring them net benefits, they cast their votes to support the government or party pursuing those policies; if the policies bring them losses, they lend their support to the candidate or party opposing them. Economic voting is usually thought to be retrospective: voters observe past performance and assume that past trends will persist into the future if the government (or party) remains in power. If those trends are deemed acceptable (given a set of standards or expectations), voters decide to reelect the incumbent (or the latter's party, if there is no re-election option). In retrospective economic voting, therefore, policies play no direct role because voters decide entirely on the basis of past outcomes.[4]

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[4] Stokes (2001a, Introduction) provides a concise review and discussion of the theoretical underpinnings of retrospective economic voting.

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 of 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 for developed countries consists of single-country analyses based either on time-series electoral outcomes or public opinion polls. The economic voting hypothesis is more robust when public opinion polls are used rather than actual electoral outcomes.[6] Empirical studies of electoral behavior using state-level data for the United States also lend support to the simple economic-voting hypothesis, in the sense that voters are able to assess their state's economic performance relative to the national economy. Furthermore, they (irrationally) reward state governors for economic fluctuations that are unrelated to gubernatorial actions, indicating that there are limitations on their capacity to filter aggregate economic information.[7] The ability of voters to gather information and remain informed is a central issue in the theoretical and empirical literature on economic voting.[8] Although there is some evidence that both retrospective and prospective behavior is present,[9] uncertainty about the working of the economy and the relative high cost to voters of gathering and processing the necessary information to forecast outcomes are consistent with the importance of retrospective voting in the empirical findings.

Empirical support for the economic-voting hypothesis in Latin America has been uncovered by Remmer (1991 and 2003), Coppedge (2001), Roberts and Wibbels (1999), and Stokes (2001a). A concise summary of the findings is presented in Table 1.

On the basis of data for 21 competitive elections between 1982 and 1990, Remmer (1991) found that economic crisis conditions undermine support for incumbents and prompt high levels of electoral volatility. The magnitude of the electoral change is found to be associated with the depth of the crisis in the pre-electoral period, while variations in exchange rates, GDP and inflation are highly correlated with various indicators of electoral outcomes. Her results also suggest that the effect of economic conditions on electoral instability is mediated by party system

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[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 (2001a, Introduction).
[7] Wolfers (2002).
[8] For a review of this debate see Duch and Stevenson (2004), and Keech (1995).
[9] For instance, Lewis-Beck (1988).

structure (insulating two-party systems from the volatility experienced by more fragmented systems).

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

Paper	Dependent Variable	Type of Election or Poll / Countries	Period	Estimation Method	Significant Results
Remmer (1991)	Electoral volatility	Presidential / 12 Latin American countries	1982-1990	Pooled OLS	Inflation (+) and GDP growth (-)[1]
Remmer (2003)	Vote shares	Presidential / 8	1983-1999	Pooled OLS	Inflation (-) and GDP growth (+)
Roberts & Wibbels (1999)	Electoral volatility	Congressional and Presidential / 16 countries	1980-1997	Pooled OLS	Inflation (-)1 and GDP growth (+)
Coppedge (2001)	Vote shares	Congressional / 11 countries	1978-1995	Pooled OLS	Inflation (crisis) (-)
Stokes (2001b)	Probability of a security-oriented candidate being elected	Presidential election polls / 15 countries	1982-1995	Probit	Inflation (-) and GDP growth (+)

[1] Non-significant.

As pointed out by Stokes (2001a, p. 27), however, her results are anomalous given the predictions of normal economic voting, since she "finds that incumbent parties suffered larger losses at the polls when inflation went *down* (significant) and when GDP *rose* (not significant)." Remmer (2003) presents new estimates of the influence of inflation and growth on the incumbent vote in presidential elections. Her new database comprises 49 elections in seven countries between 1983 and 1999. Her results indicate that after controlling for the advantage of incumbency, as well as major differences in party system structure, electoral outcomes are strongly influenced by macroeconomic performance in the year before the election in the expected direction. That is, inflation is found to be negatively correlated with electoral support, while 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, which indicates that the electorate's sensitivity to economic performance has increased rather than waned over time.

Coppedge's (2001) empirical work focuses on the impact of changes in inflation on changes in the shares of legislative votes. His dependent variable consists of 132 changes in legislative vote shares for major parties in 11 countries from 1978 to 1995. The only indicator of economic performance he uses 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 (either increases or decreases) in inflation affect electoral support for incumbents' parties in the expected way, while only increases in inflation improve the share of the vote cast for the opposition parties. These results, however, apply only to parties "with a fluid base"—that is, parties that lack a strong party identification. When there is such identification, "voters are reluctant to question their party identification even if their party wrecks the economy or someone else's party produces a boom."

Roberts and Wibbels (1999) consider economic voting as a possible explanation of electoral volatility in Latin America. Their database comprises 58 congressional elections and 43 presidential elections in 16 Latin American countries during the 1980s and 1990s. Their results show that economic performance affects electoral stability. Economic growth stabilizes partisan support in legislative elections, while sharp changes in the rate of inflation from one administration to the next, whether positive or negative, have the opposite effect. Short-term inflation influences the support for incumbent presidents, but changes in growth have only a weak effect on the vote for the incumbent, "which suggests that voters are more inclined to hold them directly accountable for monetary stability than economic growth" (p. 584). 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.

In her study *Mandates and Democracy: Neoliberalism by Surprise in Latin America*, Stokes (2001b) uses data on 23 elections in the 1980s and 1990s to assess how the electorate judges incumbents who, having campaigned for security-oriented policies, "switch" to market-oriented ones once they are in office. She finds that for both "switchers" and "non-switchers", economic growth and inflation affect their share of the vote in the expected way. Furthermore, voters are more sensitive to economic outcomes in the case of "switchers", although this result is not statistically significant (see below for more on these results).

Taken together, these empirical studies support 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. On the basis of these studies, therefore, two testable propositions are derived:

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

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 found in all six cases of market reforms in new democracies studied by Stokes (2001b), people sometimes react to economic deterioration by supporting the government more strongly and, conversely, they sometimes react to economic improvements with pessimism and opposition. Normal economic voting, though common, is not the only pattern, especially during processes of deep economic reform. If there are good reasons to believe 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 welfare in the future 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 or her party's ideology. These policy expectations may then be translated into expected outcomes with the help of 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 must aid understanding of people's electoral decisions. Economists have devoted much effort to evaluating the impact of Washington Consensus policies on economic growth, income

distribution, employment levels and a host of other variables.[10] No comparable effort has been made, however, to determine whether these results are consistent with how the electorate responds to those policies at the ballot box. The only study on the subject (Gervasoni, 1995, cited in Gervasoni, 1997) found positive correlations between several indicators of *heterodox* (that is, anti-neoliberal) policies and *declines* in the share of the vote cast for the parties of the incumbents who adopted those policies. The variable with the largest and most significant effect is growth in the money supply. Import-protection indicators are also significant, while the fiscal deficit and the state's share of 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 have positive economic effects. It is telling that the most significant policy variable is the money supply, because it is well known that inflation, in the final analysis, is a monetary phenomenon and because, as mentioned, empirical evidence suggests that inflation is a key economic outcome that influences electoral decisions.

It is a great leap of faith, however, to assume that people's beliefs conform to the actual consequences of policies. In observing the connections between policies and outcomes, ideology and leaders' opinions may be more important for most people than their limited understanding of how policies work through social and economic structures so as to affect production, employment or income distribution. Evidence of how those factors influence the response of the electorate to economic policies is very scant, though in-depth case studies on Argentina and Venezuela by Corrales (2002) clearly show that the electorate's reaction to the adoption of neoliberal economic policies in the 1990s was mediated by the party structure and other institutional factors. The cohesion and tactics of the Peronist party (the *Partido Justicialista*) help explain the support the electorate gave to 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, presidential candidates' policy announcements must be a key source of information. Campaign promises, however, are often poor predictors of policy decisions: according to Stokes (2001b), of 33 Latin American governments that adopted pro-market reforms between 1982 and 1995, only about half (17)

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[10] For surveys of the literature see IDB (2003, Chapter 5), Kuczynski and Williamson (2003), and Lora and Panizza (2002).

hinted during their campaigns that those reforms were going to be implemented. This raises several empirical issues. Since policy announcements are poor predictors of policies, it should be an empirical question whether they influence electoral decisions. Empirical evidence for the United States and other advanced industrialized economies shows that they do: people seem to form their opinions partly on the basis of campaign announcements, and voters punish ambiguous campaigns.[11] Of course, some promises may resonate more than others, depending on, among other factors, economic circumstances. For 38 elections in the 1980s and 1990s in Latin America, Stokes (2001a, pp. 93 ff.) has found that, the lower the rate of GDP growth and the lower the rate of inflation, the better the chance that security-oriented candidates (as opposed to market-oriented ones) will be elected. 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 yield a reward if they signal the incumbent's commitment to achieving highly desirable economic outcomes at the expense of more immediate partisan support.[12] According to Stokes (2001a, pp. 95 ff.), deviating from campaign promises does carry electoral costs, although the costs are not necessarily high. Since her estimates control for economic outcomes, however, this result implies that policy switches may still have a positive electoral pay-off if the new policies bring about a substantial improvement in economic conditions. "Neoliberalism by surprise" may still be a good political strategy (Cukierman and Tommasi, 1998; Navia and Velasco, 2003).

A common theme in the literature on economic voting is the conditional character 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, albeit weakly, on whether the policies adopted by the incumbent are in line with his or her campaign pronouncements. Another variation on this theme is that the electorate is more ready to support untested policies, even if they might cause short-term distress or run counter to established beliefs, when economic conditions have deteriorated.[13] Once conditions improve, however, or simply stabilize, tolerance subsides and support for further reforms wanes. While uncertainty is welcome at the outset of the reform

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[11] For a brief review of this topic, see Stokes (2001b), pp. 4-5.

[12] For a theoretical approach, see Cukierman and Tommasi (1998).

[13] This behavioral hypothesis is based on seminal work by Tahler et al. (1997), Kahneman and Tversky (1979), and Tversky and Kahneman (1981), who found that people are more prone, even eager, to assume risks after experiencing losses.

process, therefore, certainty is the key factor in its consolidation. On the basis of case studies of Peru and Argentina, Weyland (2002) offers persuasive evidence that the public supported the reform process while there was a perception of acute economic crisis. Although the reformers were re-elected, at that moment support for their economic programs was already diminishing. Corrales (2002) endorses this view in his analysis of the reform process in Argentina and Venezuela, although he recognizes that support for reform in Venezuela was never as strong.

The literature on economic voting thus suggests that policies, not only outcomes, may influence electoral decisions. As with outcomes, voters' attitudes toward policies may be mediated by a host of circumstances, including ideological considerations, policy pronouncements during election campaigns and the state of the economy at the time of elections. Hence the following testable propositions arise:

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

4. The tolerance of the electorate for unpopular policies depends on the ideology of the incumbent's party, his or her pre-election announcements and the initial state of the economy.

3. Empirical Approach

None of the empirical literature reviewed above offers a full-fledged theoretical model of electoral behavior, and we do not intend to provide one. However, the series of hypotheses arising from that literature can be organized in a simple framework, wherein 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 beginning of its term in office, X_t and X_{t-1} are the economic outcomes at the time of both elections, 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 desirable economic outcomes 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 greater the electorates' 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 into our framework 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 the election campaign, when they are in line with his or her party's ideology, or when the economy started from a situation of crisis.

Although our framework is general enough to test further hypotheses, for reasons of sample size constraints and for the sake of parsimony and tractability, we restrict its application to the hypotheses identified in the review of the literature.

Our economic voting framework is relevant for both presidential and legislative elections. An important feature of presidential systems is the separation of powers between the congress and the presidency, the aim being to impose checks and balances between the two powers in order to discipline parties and make them accountable (Persson, Roland and Tabellini, 1997). Since checks and balances work by forcing 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 relative to legislature elections will depend on whether a policy is controlled exclusively by the executive. While the legislature has very little influence on monetary, exchange rate and tariff policies in most Latin American countries, it does have a strong (even an overriding) influence on tax policies, privatization decisions and regulation of the financial, capital and labor markets. As Crisp and Johnson (2003) have shown, contrary to a

widespread belief, Latin American congresses use their powers to influence the timing and depth or pro-market reforms. Moreover, according to Roberts and Wibbels (1999), the electorate holds each branch of power more accountable for some outcomes than for others. 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 the congress (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 (log) change in votes for the incumbent party between t, the time when its performance is evaluated, and t-1, when it was elected to office; $d \log(X_t)$ and $d \log(P_t)$ are the (log) changes in 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 the panel data for 17 countries since the mid 1980s described in the next section. Potential problems of heteroskedasticity 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 using White robust standard errors. The endogeneity problem stems from potential omitted variables,[14] 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. This is partly dealt with by the inclusion as controls of a set of political variables (represented by F). Other country-related factors, however, might bias the estimations if correlated with the explanatory variables. To resolve this problem, we run all the regressions with country fixed effects (although, admittedly, our sample size is too small to secure a precise estimation of these effects).[15] Therefore our fixed-effects estimator is:

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

[15] All the regressions were also run without fixed effects: while virtually all the conclusions are the same, in the regressions without fixed effects, some of the explanatory variables (especially those measuring pro-market policies) show higher levels of significance. Results are available upon request to the authors. We also ran the regressions

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

where C is the set of country dummies.

4. Data Definitions and Sources

Table 2 presents the structure of the database, and Table 3 shows correlations between the more relevant variables. The database includes 17 Latin American countries for the period 1985-2002, and a total of 66 presidential and 81 legislative elections. Party alternation in power was moderate during the period: the average number of parties that held power/majority was 2.4 for presidential elections and 2.2 for legislative elections (with maximum values of 4 and minimum of 1). However, the effective number of parties[16] was higher, 3.4 on average, with maximum values of 8.3 in Brazil and 7.6 in Ecuador. Except for Mexico during the 1980s and Paraguay at the end of that decade, none of the 17 countries showed party fragmentation below 2, implying a healthy level of party competition in all other cases. The political system's level of ideological polarization 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 0 to 1 scale. The basis for the index is a classification of parties on an ideological scale (on which 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 of 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 of one.[17] The index's average value during the period and countries considered was 0.37, with a maximum of 0.58 for Nicaragua and a minimum of 0.16 for Chile and Colombia.

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including a common time trend, or including five-year period-fixed effects, without any significant change in the results presented below.

[16] The effective number of parties, also known as fragmentation of the political system, is calculated as 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 congress (from Payne et al., 2002).

[17] 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 that goes from -1 to $+1$, and 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 ALPR as:

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

A minimum of zero is reached when all the votes are in one ideological bloc, and 1, when half of the votes are in each of the extremes. The sources for ideological orientation are DPI (2002) and Coppedge (1997).

Table 2. Dataset Structure

Country	Number of elections and periods		Number of different parties that…		Effective number of parties in the legislature (fragmentation)			Polarization index
	Presidential	Legislative	… held the presidency	… held the largest share in the legislature	Mean	Min	Max	
Argentina	3 (1989-1999)	8 (1985-1999)	2	3	2.77	2.30	3.06	0.23
Bolivia	4 (1985-1997)	4 (1985-1997)	3	3	4.06	3.42	5.08	0.52
Brazil	3 (1989-1998)	4 (1986-1998)	2	2	6.60	2.76	8.27	0.25
Chile*	3 (1989-1999)	4 (1989-2001)	2	2	4.90	4.84	4.99	0.16
Colombia	5 (1986-2002)	5 (1986-1998)	2	1	2.66	2.21	3.09	0.16
Costa Rica	5 (1986-2002)	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 (1988-1998)	7 (1986-1998)	4	2	6.05	4.29	7.56	0.36
El Salvador	4 (1984-1999)	6 (1985-2000)	2	2	2.68	2.41	3.06	0.39
Guatemala	4 (1985-1999)	5 (1985-1997)	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 (1984-1999)	3 (1984-1999)	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 / average	66	81	2.4	2.2	3.39	2.62	4.11	0.37

* The number of effective parties in Chile differs from the number of coalitions (Concertación and Alianza por Chile), which are close to 2 in effective terms, from which only Concertación has held the presidency.
 Source: Payne et al. (2002) database, complemented with the Political Database of the Americas (OAS and Georgetown University).

Table 3. Correlations

	a- Presidential Elections											
	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)
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

	b- Legislative Elections											
	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)
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

Dependent Variable

This paper uses as dependent variable the change of the share (in logs) of votes[18] for the incumbent's party in presidential elections and for the major party in the congress in legislative elections. Since we use logs both for the dependent and (when possible) for the independent variables, the estimated coefficients can be interpreted as elasticities.

Some calculations were necessary 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 account for new independent parties. The calculations treat coalitions as regular parties. The vote for the coalition party in the election before its creation is simply computed as the sum of the votes of the allying 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 62-64 percent, with a mean of 35-36 percent for presidential and legislative elections, 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 review of the literature, they are to be included in the regressions 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 congress; extracted from Payne et al., 2002 database).[19]

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[18] The share of votes comes from Payne et al. (2002).

[19] Divided government is not frequent in Latin America, as it is in the United States (Alesina, Londregan and Rosenthal, 1993; Alesina and Rosenthal, 1995 and 1996; and Fiorina, 1992). There are only six cases, concentrated in Brazil and Ecuador, and one case in the Dominican Republic. More recently, the *Partido Revolucionario Institucional* (PRI) lost its monopoly power in Mexico.

Table 4. Summary Statistics

a-Presidential Elections						
Variable	Number of observations	Mean	Median	Standard deviation	Minimum	Maximum
Dependent Variable						
Votes (shares)	48	0.35	0.36	0.17	0.00	0.64
Political Variables						
Fragmentation	52	3.33	2.70	1.62	1.85	8.27
Polarization (0-1)	51	0.38	0.33	0.22	0.03	0.92
Divided government (Dummy)	47	0.13	0.00	0.34	0.00	1.00
Rule of law	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
Ideology (0-1)	42	0.60	0.50	0.33	0.00	1.00
Switch index with ideology (-1 +1)	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 Variables						
Inflation (log, change)	49	-0.09	-0.03	0.24	-0.74	0.32
Growth (log, change)	52	-0.01	-0.01	0.08	-0.25	0.14
Crisis	52	0.02	0.01	0.04	0.00	0.15
Unemployment (log, change)	44	0.00	0.00	0.03	-0.08	0.09
Gini index (log, change)	49	-0.01	-0.01	0.03	-0.10	0.10
Washington Consensus Variables						
Macro index (log, change)	51	0.12	0.06	0.40	-1.00	1.70
Structural fiscal balance (ratio to GDP, change)	44	0.00	0.00	0.04	-0.07	0.12
Real exchange rate (detrended in logs, change)	51	0.00	-0.04	0.26	-0.61	0.67
Social expenditures (share of GDP, change)	50	0.01	0.00	0.02	-0.02	0.05
Structural reforms index	49	0.23	0.19	0.21	-0.09	0.78
Structural reform index (log, change)	49	0.17	0.14	0.16	-0.07	0.58
Trade index (log, change)	49	0.18	0.06	0.30	-0.32	1.15
Financial index (log, change)	51	0.30	0.03	0.44	-0.15	1.38
Tax index (log, change)	52	0.10	0.06	0.23	-0.29	0.81
Privatizations index (change)	52	0.09	0.00	0.17	-0.03	0.97
Institutional index	51	0.27	0.19	0.35	-0.22	1.26

a-Legislative Elections						
Variable	Number of observations	Mean	Median	Standard deviation	Minimum	Maximum
Dependent Variable						
Votes (shares)	72	0.36	0.38	0.14	0.00	0.62
Political Variables						
Fragmentation	72	3.37	2.80	1.54	1.85	8.27
Polarization (0-1)	67	0.34	0.30	0.19	0.03	0.91
Divided government (Dummy)	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
Promises (0-1)	25	0.56	0.50	0.27	0.25	1.00
Ideology (0-1)	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
Outcome Variables						
Inflation (log, change)	71	-0.07	-0.04	0.20	-0.71	0.40
Growth (log, change)	72	-0.02	-0.02	0.06	-0.19	0.15
Crisis	72	-0.02	0.00	0.03	-0.14	0.00
Unemployment (log, change)	63	0.00	0.00	0.03	-0.06	0.07
Gini index (log, change)	69	0.00	-0.01	0.03	-0.10	0.10
Washington Consensus Variables						
Macro index (log, change)	70	0.08	0.04	0.34	-0.99	1.70
Structural fiscal balance (ratio to GDP, change)	63	0.00	0.00	0.03	-0.07	0.11
Real exchange rate (detrended in logs, change)	70	-0.01	-0.01	0.22	-0.61	0.67
Social expenditures (share of GDP, change)	69	0.01	0.00	0.02	-0.03	0.06
Structural reforms index	68	0.17	0.12	0.19	-0.09	0.78
Structural reform index (log, change)	67	0.12	0.09	0.14	-0.07	0.58
Trade index (log, change)	68	0.15	0.04	0.29	-0.24	1.15
Financial index (log, change)	70	0.23	0.03	0.35	-0.15	1.38
Tax index (log, change)	72	0.10	0.03	0.23	-0.29	0.71
Privatizations index (change)	72	0.06	0.00	0.15	-0.01	0.97
Institutional index	71	0.19	0.10	0.28	-0.51	0.93

We also use several variables that seek to measure the electorate's expectations of the future orientation of economic policies. The first of these, named "pro-market promises," measures the extent to which the positions adopted by the incumbents during their pre-electoral campaigns were pro-market, and is a re-scaled version of a variable computed by Stokes (2001b).[20] The second, named "right-oriented ideology", is a measure taken from World Bank (2000) and Coppedge (1997) that classifies parties on a left-to-right scale according to their economic ideology. In order to test Stokes's hypothesis on the electoral effects of "switching" we have created two types of "switch indices", one measuring the deviation between the amount of pro-market reforms implemented by the administration (see below for the description of this variable) and the pro-market promises during the campaign, and the other measuring the deviation between the reforms and the measure of right-oriented ideology of the party.[21] Note that only the latter version 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 cases of high or hyper-inflation. We apply the formula $1-(1/(1+\pi))$ where π is the price increase during the last year of the administration (from IMF, *World Economic Outlook*, online). Economic growth is measured as the annual rate of change (in logs) of GDP (taken from the same IMF source). In addition to inflation and growth, we test for the influence of two other outcomes: the unemployment rate (as reported by ECLAC, various years), and the Gini coefficient of distribution of per capita household incomes (as reported by Deininger and Squire, 1998).

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[20] On the basis of an ordinal variable computed by Stokes (2001b, p. 3) that classifies 40 presidential election campaigns according to the importance assigned by the candidates to issues of economic security relative to issues of economic efficiency, the promises variable takes values on a scale of 0 to 1, where higher values mean more efficiency-oriented campaign messages.

[21] The switch indices range from –1 (when, having adopted the most pro-efficiency stance during the campaign, the incumbent does not adopt any pro-market reform once in office) to +1 (after adopting the most pro-security position in the campaign, once in office becomes the most aggressive pro-market reformer). The formula is then: SI= [change in reforms - (promises-median (promises)]. An alternative index is also used, whereby the variable promises is replaced by our measure of party ideology.

Policy Variables

As mentioned in the introduction, we define the Washington Consensus in line with the list of policies included in Williamson (1991). Since those policies comprise a variety of areas, from fiscal to institutional, we use the following (admittedly somewhat arbitrary) classification (numbers in parenthesis 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 to achieve 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 reform**: deregulation of entry and exit (9) and property rights protection (10).

The most important distinction in this classification 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 on). The inclusion of "public expenditure on social services and infrastructure" as a macroeconomic policy is arbitrary but justifiable for the sake of simplicity. Institutional reform includes property rights protection, a policy that is not usually seen 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, refer to as "second generation reforms" (Naim, 1994). However, these also include regulatory institutions, the modernization of the state apparatus—especially for the provision of social services—and reform of the judiciary sector, none of which is considered here.

We use quantitative indicators to measure eight of the ten policies comprising the Washington Consensus, as well as a composite index for "macroeconomic policies" and a composite index for "structural reforms". We do not have quantitative indicators for foreign direct investment policies (7) or for deregulation of entry and exit (9). Hence these policies are not included in our reform indices. Following is a brief description of the policy indicators (further details are included as footnotes):

- Fiscal discipline (1) is measured by the fiscal balance of the central government, adjusted by the endogenous influence of the economic cycle and terms of trade changes 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.[22] Fiscal balance, fiscal revenue and GDP data used in this calculation come from World Bank, *World Development Indicators* (online data) and terms of trade data from ECLAC (various years).

- Public expenditure on social services (2) includes only education and health expenditures, using ECLAC data (various years), complemented with World Bank, *World Development Indicators* (online data).

- The measure of competitive exchange rates (5) is the log distance between the observed real exchange rate (taken from IMF, *World Economic Outlook*, online data) and its trend, computed with a standard Hodrick-Prescott filter.

- Tax reform (3) is taken from Lora (2001), who constructs a composite index of the levels and effectiveness of corporate, personal and value-added taxes.

- Interest rate liberalization (4) is measured by the index of financial liberalization constructed by Lora (2001), which includes information on interest rate freedom, reserve requirements and the quality of regulation and supervision of the financial sector.

- Trade liberalization (6) is taken from Lora (2001), who uses an index that combines import tariff averages and dispersion.

- Privatization (8) is measured as in Lora (2001), by an index of the cumulated value of the sales of state-owned firms to the private sector as a share of the GDP.

- Property rights protection (10) is taken from the International Country Risk Guide, and 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).

- The composite index of macroeconomic policies is a simple average of the indicators of its three components previously re-scaled on a 0-1 scale, on which 0 corresponds

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[22] Specifically, we subtract from the central government's fiscal balance the revenue associated with either the economic cycle or the terms of trade cycle (as obtained from an application of standard Hodrick-Prescott filters).

to the lowest observation and 1 to the highest observation for the whole period and set of countries in the sample.

- A composite index for structural reforms is calculated as the simple average of the indices for tax reform, financial liberalization, trade liberalization and privatization (each of which is also calculated on a scale from 0 to 1).[23]

All variables are measured as changes between the previous election year and the current election year. Since it is somewhat arbitrary to take the current year of the election, we check for the robustness of our main results by also using the previous election year.[24]

5.   Econometric Results

Before entering into a detailed discussion of the hypotheses, it is worth conveying the thrust of our findings. As summarized in regression (1) of Table 5, the electorate is highly sensitive to one economic outcome—inflation—and strongly rejects the adoption of pro-market policies. Our estimates imply that the typical reduction in the inflation rate—from, say, 20 percent to 8 percent during a president's term[25]—boosts the vote for his or her party by 21 percent. If that same incumbent also introduces the average number of pro-market reforms, however, the party loses 23 percent of the vote on that account. Put another way, adoption of the standard Washington Consensus package yields positive electoral rewards only when implemented in a period of high inflation. Thus, if the same dose of pro-market reform is taken as part of a policy package that reduces inflation from 100 percent to 8 percent, the net electoral effect is a handsome 82 percent increase of the vote share.

Admittedly, our basic regression overstates the negative effect of the pro-market policies, because those policies may help lower the inflation rate and raise the growth rate. Taken to the extreme, this argument would imply that the *total effect* of the adoption of pro-market policies would be the addition of the *direct effect* captured in the coefficient of regression (1) plus the *indirect effects* of going through the changes in the rates of inflation and growth. When this calculation is made (see Table 6) the total effect does turn out to be substantially milder: −0.97 instead of −1.57, but it would still be significant (as evident in column 2 of Table 4) and would

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[23] 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.

[24] The results, which are not included in this version of the paper, are available from the authors on request.

[25] Which corresponds to the average value of our measure of the change in inflation.

imply that the typical reformist government still sacrificed 15 percent of the vote for the sake of the reforms.[26] This calculation, however, most likely overestimates the effects of the reforms on growth and inflation, since we have not isolated the influence of other factors. Hence the main conclusion is that, even if we grant that the reforms have strong beneficial effects on growth and inflation, their electoral cost was far from negligible.

Table 5. The Impact of Economic Outcomes and Washington Consensus Policies in Presidential Elections (1985-2002): Country-Fixed Effects Regression Results

	Change in vote share [1/]	
Independent variables:	$(1)^{2/}$	$(2)^{2/}$
Economic outcomes		
Inflation [3/]	-2.030	-2.030
(change in loss of purchasing power)	(2.09)*	(2.09)*
Growth [3/]	-1.016	-1.016
(change in growth rate, log)	(0.74)	(0.74)
Washington Consensus reforms — *Direct effect* — *Total effect*		
Structural reforms index [4/]	-1.569	-0.971
(log, change)	(2.98)***	(2.64)**
Constant	0.627	0.899
	(0.85)	(1.12)
Number of observations	37	37
Number of countries	17	17
R-squared	0.80	0.80
Country fixed effects	Yes	Yes

Robust t-statistics in parentheses.

* significant at 10%; ** significant at 5%; *** significant at 1%.

Notes:

1/ The dependent variable in both regressions is the change in the log of the vote share of the incumbent president's party.

2/ Both regressions include as control variables measures of divided government, polarization, and fragmentation (see the text for definitions and calculation methods).

3/ In regression (2) inflation and growth are the residual components of these variables from the country fixed effect regressions on the structural reforms index shown in the notes to Table 6.

4/ In regression (1) the coefficient of this explanatory variable captures the direct effect only, while in regression (2) it captures the total effect (that is, including the indirect effect that occurs through the impact of reforms on inflation and growth).

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

Table 6. A Rough Estimate of the Total Effect of Pro-Market Reforms on the Presidential Vote (Elasticities)

	Inflation	Growth	Total
Effect of reforms on inflation or growth [1]	-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 and growth	0.733	-0.135	0.598
Direct effect as estimated in Table 5			-1.569
Total effect (indirect plus direct)			-0.971

Notes:

1/ These coefficients come from the following regressions:

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

Robust t-statistics in parentheses.

* significant at 10%; ** significant at 5%; *** significant at 1%.

Notes:

a/ The dependent variable in regression (1) is the same independent variable used in regression (1) of Table 5 (that is, the change in the inflation rate, where inflation is measured as the annual loss of purchasing power of the currency).

b/ The dependent variable in regression (2) is the same independent variable used in regression (1) of Table 5 (that is, the change in the growth rate, in logs).

Apart from pro-market reforms, the other Washington Consensus policies do not affect the electorate's behavior. Apart from inflation, moreover, no robust evidence is found that other economic outcomes affect the vote in presidential elections. We will also find evidence that these results are affected by some features of the political system. In legislative elections the results are less straightforward, since they are strongly mediated by several contextual and political variables. We can now proceed to a more detailed discussion of the hypotheses.

Do Outcomes Matter?

We start our empirical analysis by testing the simplest version of the economic-voting model, wherein voters update their opinion of the incumbent's party entirely on the basis of the changes observed since the last election in the key economic variables X_t. As additional controls we include 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[27] (lagged, which reduces endogeneity and better captures the political environment prevailing during the administration).[28] Since other country-specific factors may also influence the persistence of the vote for the incumbent's party, we attempt to isolate them by using fixed effects. Therefore we start by:

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

Table 7 lends some support to this simple version of the economic-voting hypothesis: in all regressions, changes in inflation have the expected sign and a significant impact on the presidential vote. Changes in growth rates are seldom significant, however, and when included in the same regression with inflation they 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 one. In legislative elections (Table 8) only growth is sometimes significant (but not when all economic variables are included in the same regression). Inflation and growth therefore 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 or her vote for each (additional) 1 percent of (annual) loss in the purchasing power of the currency in the last year of his or her administration (with respect to the loss in the year before the start of that administration). Similarly, the largest party in the legislature enjoys about a 1 percent increase in its share of seats 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 change in the unemployment rate nor income distribution appears to have a clear effect on electoral behavior.

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[27] Divided government is a dummy equal to 1 when the largest party in congress is not the incumbent's party. This is not usual in Latin America (in our database, it occurs in only six instances).
[28] In regressions not shown, a dummy for mid-term elections was also included in legislative elections; it was never significant and did not affect any of the results.

Table 7. The Impact of Economic Outcomes in Presidential Elections (1985-2002): Country-Fixed Effects Regression Results

Independent variables:[1/]	Dependent variable: change in the log of the vote share of the incumbent president's party								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Political control variables									
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)
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-squared	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

Robust t-statistics in parentheses.

* significant at 10%; ** significant at 5%; *** significant at 1%.

Notes: 1/ See the text for a description of the variables and how they are constructed.

Table 8. The Impact of Economic Outcomes in Legislative Elections (1985-2002): Country-Fixed Effects Regression Results

Independent variables:[1]	Dependent variable: change in the log of the vote share of the party that holds the largest number of seats in the legislature								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Political control variables									
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)**
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-squared	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

Robust t-statistics in parentheses.

* significant at 10%; ** significant at 5%; *** significant at 1%.
Notes: 1/ See the text for a description of the variables and how they are constructed.

These conclusions must now be qualified in line with our second hypothesis, namely that the response of the electorate 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),

$$\beta = v + \mu * \log(F_0)$$

Replacing β in the previous equations renders (with fixed effects):

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

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 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 in the expected manner. In presidential elections (Table 9), the more fragmented the party system, the harsher the electorate punishes the incumbent's party for a rise in the inflation rate.[29] The intuition behind this result is that in more fragmented party systems there is more competition for votes: probably too there is more information available to the voters and a wider choice of policy proposals; all these circumstances enhance the electorate's response to changes in the economic situation. We should expect this response to be stronger in presidential than in legislative elections, given the winner-take-all nature of the presidential poll. A divided government is another political feature that affects the electorate's response to inflation in a similar way. Because of the small number of cases of divided government (6), however, we do not attach much relevance to this result (furthermore, similar regressions for growth show implausibly high coefficients for the interaction term growth*divided government). Unlike 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.

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[29] However, this result does not hold in a similar regression without fixed effects. Results available upon request.

Table 9. The Impact of Economic Outcomes Interacted with Political Features in Presidential Elections (1985-2002): Country-Fixed Effects Regression Results

Independent variables:[1]	Dependent variable: change in the log of the vote share of the incumbent president's party					
	(1)	(2)	(3)	(4)	(5)	(6)
Political control variables						
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)
Number of observations	43	43	43	43	43	43
Number of countries	17	17	17	17	17	17
R-squared	0.80	0.70	0.87	0.49	0.49	0.59
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes

Robust t-statistics in parentheses.

* significant at 10%; ** significant at 5%; *** significant at 1%.

Notes: 1/ See the text for a description of the variables and how they are constructed.

Table 10. The Impact of Economic Outcomes Interacted with Political Features in Legislative Elections (1985-2002): Country Fixed Effects Regression Results

Independent variables:[1]	Dependent variable: change in the log of the vote share of the party that holds the largest number of seats in the legislature						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Political control variables							
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)**
Number of observations	71	71	71	71	71	71	71
Number of countries	17	17	17	17	17	17	17
R-squared	0.41	0.46	0.45	0.44	0.48	0.45	0.51
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Robust t-statistics in parentheses.
* significant at 10%; ** significant at 5%; *** significant at 1%.
Notes: 1/ See the text for a description of the variables and how they are constructed.

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 more strongly the electorate swings in response to changes in the macroeconomic outcomes. From regression 5, where 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 susceptible to inflation outcomes, depending on the party system's degree of ideological polarization (with an implied elasticity of –0.3 when polarization is high, and 0.38 when it is low, according to regression 2).

Summarizing, our results suggest that economic outcomes do matter both in presidential and in legislative elections, though in different ways. The executive is held more accountable for rises in inflation, and more so in highly fragmented party environments. The largest party in the legislature (which is usually the incumbent's)[30] is rewarded when economic growth improves, and this reaction seems to increase with the degree of ideological polarization. Party polarization even makes the legislative vote susceptible to changes in the inflation rate.[31] Our results therefore lend support to Hypotheses 1 and 2 above.

Do Policies Matter?

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

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

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[30] None of our main conclusions either in this or the following sections is altered when the regressions are run for the share of votes of the incumbent's party. Results available upon request.

[31] All these results remain when the set of political control variables are excluded from the regressions.

Table 11. The Impact of Economic Outcomes and Washington Consensus Policies in Presidential Elections (1985-2002): Country-Fixed Effects Regression Results

Independent variables:[1]	Dependent variable: Change in the log of the vote share of the incumbent president's party												
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Political control variables													
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 reforms													
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)
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-squared	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

Robust t-statistics in parentheses.
* significant at 10%; ** significant at 5%; *** significant at 1%.
Notes: 1/ See the text for a description of the variables and how they are constructed.

The first four regressions in Table 11 assess the influence on presidential elections of the set of macroeconomic policy indicators defined in a previous section. The only indicator that shows some significance is the structural fiscal balance, which appears with negative sign in regression 2, implying that the electorate reacts against fiscal restraint (the size of the coefficient, however, indicates 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). Although the electorate seems to care for price stability, therefore, it does not reward (and may even punish) the incumbent for some of the *macro policies* that may be needed to achieve those outcomes, such as a stronger fiscal balance.

The electorate is more emphatically opposed to some of the pro-market 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 for the former and –0.84 for the latter. Regression 5 was the basis for the analysis in Tables 3 and 4 above, in which we showed that the total electoral pay-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 pro-market 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 one standard deviation above the mean) sacrificed 40 percent of their vote on account of all the pro-market reforms (or 27 percent with the indirect effects). As the rest of this paper will show, the negative electoral pay-off of the adoption of pro-market reforms is a remarkably robust result.

Regression 10 evaluates the effect of property rights protection and finds that it does not influence the behavior of the electorate. Regression 11 is an attempt to summarize the influence of all Washington Consensus policies, using the composite indices for the macro and structural policies, along with the index of property rights. This regression indicates that while the electorate does not hold strong views on macro or property rights policies, it does on pro-market policies. Finally, the last two regressions in Table 11 test the robustness of the policy variables 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, particularly inflation, but punishes it for the adoption of the pro-market 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 above conclusion that the electorate does not care about these policies. In regression 3, however, the real exchange rate is significant at 10 percent with positive sign, suggesting that the electorate favors more depreciated exchange rates.[32] The set of regressions dealing with the various indicators of pro-market reforms suggest that these reforms do not entail electoral costs in legislative elections. Since some of these policies fall under the control of the executive, this result is not surprising. As we will see below, however, privatizations—which are strongly influenced by congress—do have electoral implications in some political contexts. As in the previous set of regressions, property rights policies do not have significant effects on the behavior of electors. The regressions that include the three summary indices confirm that none of them is significant. The two final regressions indicate that the real exchange rate index remains significant when other policy variables are included. Hence evidence of the consequences of Washington Consensus policies in legislative elections is not robust. Somewhat surprisingly, the policy indicator that turns out to be most robust is outside the direct influence of the legislature.

The main conclusion to emerge from the empirical evidence presented so far is that the electorate cares both for some economic outcomes and certain economic policies. Inflation and the spread of some pro-market reforms are key reasons for withdrawing support from the incumbent's largest party in presidential elections. (In legislative elections, the evidence so far is very scant, both for the outcomes and the policies). The negative pay-offs of pro-market reforms in presidential elections are very unlikely to be offset 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 pro-market policies irrespective of their results. These conclusions still require some additional testing, however, because the electorate's response may depend on political, institutional and economic circumstances as stated in Hypothesis 4.

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[32] However, this result does not hold in a similar regression without fixed effects.

Table 12. The Impact of Economic Outcomes and Washington Consensus Policies in Legislative Elections (1985-2002): Country-Fixed Effects Regression Results

Independent variables:[1]	Dependent variable: change in the log of the vote share of the party that holds the largest number of seats in the legislature												
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Political control variables													
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		0.314	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 reforms													
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)									

Table 12. (continued)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(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)**
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-squared	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

Robust t-statistics in parentheses.

* significant at 10%; ** significant at 5%; *** significant at 1%.

Notes: 1/ See the text for a description of the variables and how they are constructed.

Does Context Matter?

The electorate's sensitivity 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 a state of crisis at the moment of the previous elections.[33] As mentioned in a previous section, to treat this hypothesis we endogenize coefficient γ as follows:

$$\gamma = \rho + \tau * promises/ideo \log y + \zeta * crisis$$

Replacing γ in the previous equations render (with fixed effects):

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

Tables 13 and 14 present only the relevant results found with this specification.[34] 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 is when the tax reform index is interacted with our "switch" index, measured with respect to promises.[35] 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 for the adoption of pro-market policies, but carries losses when the incumbent has campaigned against them but "switches" once in power. In legislative elections, contextual factors seem to play an important role in the case of privatizations. In regression 1 of Table 14, the coefficient of the variable of privatizations is negative and significant, and the coefficient of the interaction term ideology*privatizations is positive and significant. The value of the coefficients suggests that, while privatizations do carry electoral costs, those costs fall 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 polarization*growth. 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 reform area in which the congress plays the most important role and where the public has the strongest views.

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[33] Crisis is measured by the (log) distance between GDP and its trend, when GDP is below its trend, and zero otherwise.

[34] A more complete set of results is available from the authors.

[35] See the definition above. We also tested a switch index measured with respect to the ideology of the party, and those same indices 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. The Impact of Washington Consensus Policies Interacted with Contextual Features in Presidential Elections (1985-2002): Country-Fixed Effects Regression Results

Independent variables:[1]	Dependent variable: change in the log of the vote share of the incumbent's party			
	(1)	(2)	(3)	(4)
Political control variables				
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 reforms				
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)**
Number of observations	27	38	26	38
Number of countries	14	17	14	17
R-squared	0.67	0.64	0.72	0.64
Country fixed effects	Yes	Yes	Yes	Yes

Robust t-statistics in parentheses.

* significant at 10%; ** significant at 5%; *** significant at 1%.

Notes: 1/ See the text for a description of the variables and how they are constructed.

Table 14. The Impact of Washington Consensus Policies Interacted with Contextual Features in Legislative Elections (1985-2002): Country-Fixed Effects Regression Results

Independent variables:[1]	Dependent variable: change in the log of the vote share of the party that holds the largest number of seats in the legislature			
	(1)	(2)	(3)	(4)
Political control variables				
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 reforms				
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)**
Number of observations	67	67	69	67
Number of countries	14	17	14	17
R-squared	0.54	0.5	0.5	0.58
Country fixed effects	Yes	Yes	Yes	Yes

Robust t-statistics in parentheses.

* significant at 10%; ** significant at 5%; *** significant at 1%.

Notes: 1/ See the text for a description of the variables and how they are constructed.

6. Conclusion

This paper has assessed the electoral consequences of Washington Consensus policies in Latin America on the basis of testable hypotheses derived from previous econometric analyses and case studies on the subject. Our results lend qualified support to the main four hypotheses identified:

1. *The better the aggregate economic outcomes during the incumbent's administration, the higher the electoral support for his or her party.* 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 unemployment nor income distribution changes appear to influence voters' behavior.

2. *The sensitivity of electoral support to the economic outcomes depends on the institutional characteristics of the political regime and the party system.* Our results support the hypothesis that, in presidential elections, the more fragmented the party system, the higher the pay-off of reductions in the inflation rate. There is also some evidence that in presidential elections a divided government increases the pay-off of declines in the inflation rate or increases in the rate of economic growth (although this evidence is based on a very small number of cases of divided government). In legislative elections, there is strong evidence that party polarization enhances the electoral pay-off of higher growth rates.

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 have found strong evidence that the electorate cares not only for the economic outcomes but also for some of the policies. The electorate seems to be blind to macroeconomic policies, but it is averse to pro-market policies, beyond their effects on growth or inflation. Pro-market 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 pay-offs in legislative elections is weak.

4. *The tolerance of the electorate for those unpopular policies depends on the ideology of the incumbent's party, his or her pre-election announcements and the initial state of the economy.* Ideology does influence the electorate's reaction 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 pro-market ideology. In presidential elections, there is some evidence that the electorate punishes the incumbent for the adoption of tax reforms when they run counter to his or her election campaign announcements.

In synthesis, adoption of the Washington Consensus was a costly affair for the reformers, although the costs were mitigated in some circumstances. The parties in power were able to reap abundant electoral rewards only when the government pursued ambitious stabilization policies in high-inflation economies. These findings seem to correspond well to the salient facts of the last two decades, whereby a few incumbents were favored by the electorate for their success in taming inflation, but little electoral recognition was accorded those who advanced the rest of the macroeconomic and structural policies deemed necessary to accelerate growth and assure stability. It might be tempting to conclude from this that the days of economic orthodoxy are numbered. This conclusion is not assured, however, because it is unclear that reversing the reforms will produce electoral benefits. The experience of reversals so far is limited to a few countries, and it is too soon to assess their political pay-off.

The strongest conclusion of this paper—that pro-market reforms carry large electoral costs, irrespective of their macroeconomic effects—may not be surprising for political scientists, but it certainly is for 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 simplest hypotheses that may be put forward to answer it are at best incomplete. It has been widely argued that the rejection is due to the social and distributional effects of the reforms,[36] but we have not found any evidence that voting decisions are directly affected by social or distributional outcomes, nor that the electorate's response to the reforms is influenced by them. It has also been argued that the frustration with the reforms stems from their weak economic impact in countries that lack the institutional

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[36] For a summary of these arguments see Lora and Panizza (2002); and Lora, Panizza and Quispe-Agnoli (2004).

support to reap the benefits of market liberalization. Again, no evidence is found to support this view. In a related argument, several authors have suggested that rejection of pro-market policies is stronger where those making the liberalization decisions or benefiting from them are perceived as corrupt. Di Tella and MacCulloch (2004) have uncovered empirical evidence consistent with this hypothesis. We do not find, however, that any measure of corruption perception helps explain the electorate's behavior or its response to the adoption of pro-market reforms.

Many other hypotheses beyond those that we have been able to test are possible. On the basis of psychological theory and experimentation, Pernice and Sturzenegger (2003) have argued that universal cognitive biases—confirmatory bias and self-serving bias—can explain why public opinion turns against a successful reform process if the principles of these reforms are at odds with the public's beliefs and self-serving world view. And Jain and Mukand (2003) 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. Why Latin Americans reject pro-market reforms at the ballot box, therefore, remains an open question.

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