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Introduction

PUBLIC OPINION OF MARKET REFORMS: A FRAMEWORK

Susan C. Stokes

The debate about how the economy shapes people's views of governments has been long and intense. Much, as we shall see, is at stake: whether citizens in democracies have the capacity to induce governments to act in their interest. The spread of democracy and the dramatic conversion of governments to pro-market economic policies offer new opportunities for understanding the link between economic performance and popular opinion. The authors of this book analyze the dynamics of public opinion in new democracies because we believe these experiences can shed light on enduring questions about how democracies work.

What we find in this study is the following. Governments that embark on painful adjustment are not always opposed by the public that must endure the pain. In the six new democracies pursuing market reforms that we study, people sometimes rally in support of governments and reforms when times are hard. Sometimes they do so because they believe that hard times now foreshadow good times ahead. Conversely, they may observe good times now but believe that good news is a prelude to disaster. Sometimes painful adjustment makes people pessimistic about the future but they still rally in support of the government, reasoning that the bad times they experience are not the government's fault. Rather, the government's reform program may be an antidote against today's ills and the force needed to counteract opposition to change. Some painful costs are just too

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high, such as when many people are thrown out of work. But people are also surprisingly aware of trade-offs in the economy and the complexities of political responsibility.

The picture that emerges from our studies is important for democratic theory. Democracy is more than a mechanism by which people impose their immediate will on government. It can instead function to encourage governments to pursue the public good over the longer term, to hold governments accountable when they cause hardships that are unnecessary, and to hold them accountable when they avoid hardships that are necessary.

This introduction is organized as follows. In the first section I discuss the debate over how economic change influences citizens' support of governments and argue that the received wisdom, that support for governments rises and falls on the basis of economic performance, is too simple. Because our knowledge was basically restricted to the advanced industrial democracies where economies were relatively stable and governments were plausibly in control, retrospective economic voting came to be seen as an inherent feature of democracy. But in view of new experiences we see that economic voting is a variable and retrospective economic voting – turning against the government when current economic conditions deteriorate – just one of several possible values or categories of this variable. The claim that retrospective economic voting solves problems of democratic accountability should also be reconsidered.

In the second section I explain why people in new democracies pursuing deep pro-market transformations may be particularly prone to a logic of economic voting different from normal retrospective economic voting. In the third section I present alternatives to retrospective economic voting, alternatives that we might expect to encounter when people think that economic change may not be linear and when they think that the government is not responsible for the economic outcomes they observe. In the fourth section I place in a comparative perspective the new democracies dealt with in this book, outline the methods we have used to study public support of governments and reforms, and provide an overview of the chapters.

The Limits of Retrospective Economic Voting

I define retrospective economic voting as the linear extrapolation of past economic performance to the future and the use of these predictions in formulating postures of support or opposition toward the government. A voter who follows the predictions of normal retrospective economic voting observes past performance, assumes that past trends will persist into the future if the government remains in power (or if its policies do not change), and derives an opinion (or voting intention) about the government based on the expected trend. When a retrospective economic voter observes bad performance of the economy, she predicts continued bad performance under this government or these policies and turns against the government. When she observes good performance, she predicts continued good performance and supports the government.

Although there are dissidents, the majority view has favored the retrospective voting paradigm. Several factors explain its hegemony. First, considerable evidence from advanced industrial democracies has accumulated showing that past economic performance influences people's vote decisions and their support for governments, as measured in public opinion polls (Chapell and Keech, 1985; Hibbs, 1987; Kiewet and Rivers, 1984; Lewis-Beck, 1988; Markus, 1988; Nannestad and Paldam, 1994; Paldam, 1991; Tufte, 1978). The impact of economic performance on electoral outcomes and future economic performance is less robust (see Bartels, 1988a; Cheibub and Przeworski, 1998; Host and Paldam, 1990; Powell and Whitten, 1993; Remmer, 1991). Writers often assume that if past performance has a significant impact on support, then prospective considerations are irrelevant, although logically both may affect support. In contrast to the extensive literature on retrospective economic voting, less has been done to study the impact of predictions of the future on voting and support, the influence of past performance on predictions (Bartels, 1988a; Bratton, 1994; Johnston, Feldman, and Knight, 1987; Langue, 1994; Lewis-Beck, 1988; Lockerbie, 1992; Mackuen, Erickson, and Stimson, 1992), and the role of campaign messages and other sorts of campaign-generated information on support (see Alvarez, 1997; Sniderman, Glaser, and Griffin, 1990).

Retrospective voting also seemed appealing because it held out the promise that retrospectively oriented voters would induce governments to be responsive. Theories of democracy, such as Downs's *Economic Theory of Voting* (1957), involved voters who were prospective (in that they paid attention to campaign promises) and governments that were responsive, because governments would try to pursue policies that were popular and hence allow them to be reelected.

Yet this model came under attack. Empirical studies of elections and voting behavior in the United States in the 1950s and 1960s painted a

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picture of voters as lacking information about candidates and policies and lacking preferences about policies (the Michigan School) and of campaigns as devoid of policy information and persuasive power (the Columbia School; for an excellent review see Alvarez, 1997). Voters were driven by party attachments inherited from their parents and by symbols, emotions, and what we would now call *identities* (Edelman, 1964). Later scholars pointed out that if officeholders had interests at odds with those of voters and their actions were not fully observable by voters, then candidates' policy pronouncements were not credible (Alesina, 1988; Ferejohn, 1986; see also McKelvey, 1976). Furthermore, democracies lack institutions to enforce imperative mandates (Manin, 1997). Prospective voting – listening to campaign policy pronouncements and voting for the candidate whose pronouncements most closely approximated one's own – appeared to be not just an unrealistic description of how people vote but a feeble mechanism of representation.

The retrospective voting model claimed to solve these problems and thus held out again the possibility of representative government. Voters simply set a standard for economic performance (or, more generically, welfare), observe their welfare at the end of the term, and reelect governments when performance meets the standard or elect challengers when performance falls below the standard. No one need have policy preferences or know the position of candidates or the policies enacted by incumbents. The anticipation of this retrospective evaluation will induce governments to work as hard as they can to improve voters' welfare (Fiorina, 1981; Key, 1996; Manin, 1997; Mayhew, 1974). Hence retrospective voting induces representation.

But in the enthusiasm for retrospective voting the importance of messages conveyed in campaigns, through the press, and from the opposition has been sold short. As an empirical matter, people seem to listen to what politicians say and pay attention to other cues in campaigns (Bartels, 1988b; Graber, 1980; Iyengar and Kinder, 1987; Sniderman, Glaser, and Griffin, 1990; Zaller, 1989). McGraw, Best, and Trimpone (1995) find that experimental subjects support a hypothetical legislator when the legislator offers ex post justifications of measures that had harmed voters. Sniderman et al. (1990) show that better-educated voters drew from a whole range of sources, and only indirectly from the past performance of the national economy, in deciding whom to vote for in the 1980 presidential election in the United States. Alvarez (1997) shows that campaigns reduce the ambiguity of candidate positions and that voters punish ambiguous campaigns. Fearon (1999)

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reasons that, in addition to providing information about the policy positions of candidates, campaigns can send signals to voters about the underlying characteristics of candidates, characteristics that have some bearing on how well they will perform. Arnold (1993:409) writes that activists and the opposition may inform inattentive voters "when things are seriously out of line," inducing "citizen control" over politicians.

Adherents of the retrospective voting paradigm doubt that voters *should* pay attention to what politicians say, as opposed to what they do: "Citizens are not fools. Having often observed political equivocation, if not outright lying, should they listen carefully to campaign promises?" (Fiorina, 1981:5). Yet we now know that voters have good reason to pay attention. In the advanced industrial democracies, party manifestos and campaign statements give reasonable predictions of what governments will do if they win the election (Budge, Robertson, and Hearl, 1987; Fishel, 1985; Klingemann, Hofferbert, and Budge, 1994; Krukones, 1984). And just as the desire for reelection may induce governments to behave in accord with citizens' interests, reelection pressures may also induce candidates to reveal in campaign messages their true intentions regarding policy (Harrington, 1993a, 1993b).

A certain revisionism also suggests that retrospective economic voting does not simplify the cognitive tasks facing voters as thoroughly as was once supposed. In the simple story, again, voters set a standard, observe their welfare at the end of the governmental term, and decide to reelect or reject the incumbent. But consider the following:

1. Empirical work in the United States and Europe shows that when people are retrospective, they pay attention not to their own welfare but to changes in the broader economy. In the terms coined by Meehl (1977), they are *sociotropic* and not *egocentric* (see Fiorina, 1981; Kinder and Kiewet, 1979; Lewis-Beck, 1988; Lockerbie, 1992). Sociotropism may enhance citizens' ability to control politicians (Ferejohn, 1986). And sociotropism may not be synonymous with altruism, as is typically supposed (see in particular Kramer, 1983). To see this, consider a person who thinks, not unreasonably, that the change in her family's income during a governmental term is jointly determined by idiosyncratic factors – the life cycle of the family's wage earners, the entry into or exit from the workforce of a family member – and overall trends in the economy. Overall economic performance, in turn, is jointly determined by the government's handling of economic policy and exogenous factors: a recession in a major trading power, the weather, and so on. Hence:

$$y_{it} = e_t + p_{it} \qquad (1)$$

$$e_t = g_t + s_t \qquad (2)$$

where y_{it} is the change in income to individual *i* during government term *t*, e_t is overall economic performance during the term, and p_{it} is the change in income of the individual during the term that is due to personal circumstances. In the second equation we treat overall economic change as due to government policy (g_t) and exogenous shocks (s_t).

If people are sociotropic – formulate opinions of the government based on overall economic performance, not their own – then they must know that general economic trends are only part of the story of their own fortunes, and that the government should be only partially exonerated or credited for economic performance. Yet even if people know this, they may not know what weights to attribute to each factor: Might I have gotten a bigger raise had the stock market performed better? Might the stock market have performed better had the government cut the deficit more quickly? Might I not have lost my job had my country not joined the European Economic Union? Our voter wants to use the vote to maximize her family income in the next governmental term: she is *ego*- or *family-centric*. Under full information she would simply reward a government that has maximized g_t (income due to government policy). But she does not observe g_t or know how it compares in magnitude to s_t (income due to external shocks). She observes her own income (y_{it}) but knows that it is a noisy signal of overall economic performance (e_t), let alone g_t. So she ignores it and instead uses e_t – itself a noisy signal of g_t but better than the change in her individual income during the term.

Hence if people are retrospective, sociotropic, and nonaltruistic but not fully informed, then they may (1) exonerate the government for changes in their private welfare over the past governmental term; (2) attribute general economic trends in the past to the government; but (3) forecast their private welfare in the future as a function of government policy. Such a thought process may not be unreasonable, but no formulation as simple as "observing one's welfare" captures these subtleties.

2. Sociotropism, as we have seen, means that people don't simply observe how their household income has changed, whether or not a family member has lost a job, or the height of their stack of unpaid bills. Instead they derive some notion of "the economy" (e_t in equation 2). Yet e_t itself is not an unambiguous fact that one simply observes, as any social scien-

tist who works with macroeconomic data knows. How do voters develop a notion of overall changes in the economy? Perhaps they focus on one variable, say the inflation rate, or unemployment, or the general trend in real wages, or some combination. Or perhaps they meld together these sorts of measures as well as other kinds of information to arrive at a general notion of economic performance. Which dimension of the economy they care about is politically consequential, because one party may be seen as good at controlling prices, its opponents at creating jobs. Ronald Reagan's *misery index* (inflation + unemployment) was one politician's effort to guide people in their retrospective estimations of the economy, but how in general such formulations work we do not know. Do people listen to political rhetoric? Observe prices at the grocery store? Listen to neighbors' stories of getting laid off? Or to news reports about "downsizing"? Again, nothing so simple as "observing one's welfare" is sufficient.[1]

3. Whether people are egocentric or sociotropic, it's hard to believe they attribute all economic change to actions of the government (see Harrington, 1993a, 1993b; Kramer, 1983). The Maastricht Treaty, a recession in Japan, conditions set by the International Monetary Funal (IMF), a fight with the boss – all these could reasonably enter a person's mind as causes of general or personal welfare. People may still rationally vote as though the government was to blame for everything as a way to invest in nonshirking by governments in the future (see Grossman and Noh, 1990; but see Przeworski, Manin, and Stokes, 1999). Yet under some conditions people may have compelling reasons to exonerate the government and cast blame elsewhere (see Anderson, 1995), and might reasonably support the government even when times are hard (see later).

[1] In his influential article defending the egocentric or nonsociotropic interpretation, Kramer (1983) usefully shows the advantages of aggregate time series over cross-sectional data in detecting the effects of general economic change as opposed to idiosyncratic factors (my e_t versus p_{it}) on the popularity of the incumbent. The authors of this volume for the most part follow this methodological lead. Yet Kramer is on shaky ground when he claims that sociotropism is merely a statistical artifact. Imagine a world, he suggests, in which people's perceptions of the economy are entirely shaped by partisan attachments. The hypothetical finding that, cross-sectionally, partisan attachments and not "actual, measurable economic events" explained all the variance in popularity for the incumbent would not be grounds for the inference that the economy had no impact on votes. This is because the relationship of interest, "how *real* economic outcomes affect *actual* voting decisions" and not "economic or perceptual imagery," is the phenomenon of interest (95; emphasis in the original). One wonders what mysterious mechanism would connect "actual economic events" to voting decisions if not individuals' perceptions of these events.

4. If people care about the future and use the past to make forecasts, we must wonder how this forecasting is carried out. The unstated assumption of the retrospective voting literature is that the process is one of simple extrapolation. But is it? People must assume that if they reelect the incumbent, policies will be stable or will only change appropriately as conditions change. Yet the government itself may tell people not to extrapolate; if the past has been bad, the government almost surely will make this claim. Governments frequently try to influence people's forecasts, usually so that they will be more optimistic but sometimes so that they will be more pessimistic. The Italian government of Romano Prodi tried to persuade voters that reducing the fiscal deficit would create not "paradise but a nice purgatory with air conditioning and decent toilets" (*New York Times*, May 5, 1998). And if people listen to the government's messages about the past and how to extrapolate to the future, then they may also listen to the messages of the opposition, the press, co-workers, and so on.

5. Let's assume, with the retrospective economic voting school, that people forecast the future from the past and that these forecasts generate the standard of retrospective performance for the next election. If these forecasts also are to induce good performance by the government, then they must be accurate. Yet evidence suggests that they are not so accurate. Jackman (1995), for example, shows that in the United States people consistently overestimate future unemployment and underestimate future inflation (see also Bartels, 1988a).

We have seen, then, that retrospective economic voting is neither simple nor always rational and does not necessarily imply citizen control over politicians. It is certainly conceivable, and seems to square with the facts in many countries, that "as the economy goes, so goes the election." But there are many steps between economic performance and people's postures toward their government, with many opportunities for popular opinion to turn in unexpected directions. The next section discusses how a context of recent transition to democracy and of pro-market reforms bring such opportunities to the fore.

Pro-Market Reforms, New Democracies, and Economic Voting

People in new democracies undergoing drastic pro-market transformations have especially good reasons to abstain sometimes from retrospective economic calculations. Oddly, however, the leading hypothesis in scholarship on the politics of reforms is that people are retrospective with regard to the economy. Because rising unemployment, falling wages, and higher prices of state-subsidized goods and services are the predictable short-term effects of fiscal adjustment and structural reforms, retrospective voters reject reforms. Yet over the long run, it is believed, reforms are good for most people: "From a long-term perspective, the social benefits of reform outweigh the costs" assert Haggard and Webb (1993:158). Hence the central paradox, as noted by Rodrik (1996), of the politics of reforms literature: those who contribute to this literature believe that under democracy, people reject reforms that are (in the long term) good for them.

Indeed, a common view is that it was a shortsighted economic vision that got the economy into trouble in the first place. In societies with maldistributed income and widespread poverty, the poor and working classes demand improvement in their material existence and ignore budget constraints (Berg and Sachs, 1988; Sachs, 1990). Citizens' myopia about the economy infects their voting behavior as well, producing the politics of populism (Dornbusch and Edwards, 1991; Sachs, 1990). Populist politicians spend public funds to mobilize votes and in so doing generate unsustainable budget deficits, inflation, and, in the end, the need for austerity. The populist "cycle" (Dornbusch and Edwards, 1991) is actually a downward spiral. And myopia is chronic: after the painful period of adjustment citizens will thirst for populist largesse, even though past largesse left them worse off than before the populist cycle started.

Faced with an economic crisis, the public, fixated on short-term pain and ignoring long-term benefits, wants to delay adjustment. People use whatever instruments of resistance are available: lobbying, strikes, looting, elections. Elected governments, with the time horizon of a single term, are as shortsighted as their constituents. Because elected officeholders are more vulnerable than dictators to populist pressures, in this view, macroeconomic instability is endemic to poor democracies. On a more optimistic note, myopia can also be turned to the advantage of reforms: politicians can manipulate a policy "business cycle," imposing painful reforms early in the term in anticipation of resumed growth in the period leading up to the next election. Hence the calls for swift, stealthy measures that will beat democracy to the punch.

The populist myopia explanation for resistance to purportedly beneficial reforms has been bolstered by some case studies (see Dornbusch and Edwards, 1991; Sachs, 1990; Skidmore, 1977). But skeptics abound. Two crossnational statistical studies find that democracies are not less likely than dictatorships to impose stabilization programs (Haggard and Kaufman, 1989; Remmer, 1990). And it is by no means inevitable that voters reject incumbents who have pursued reforms (Gervasoni, 1995; Nelson, 1992). In Latin America, voters reelected governments in Peru, Argentina, Bolivia, and Costa Rica that had pursued deep structural adjustment programs.

In addition to these empirical facts, scholars have raised a number of theoretical objections to the populist myopia view. One challenge derives from a special interest theory of democracy: elected governments in the developing world are sensitive not to "the whims of the voting majority" but to the military and business (Remmer, 1990:355). Sachs, writing about Venezuelan reforms, draws on a similar underlying theory of democracy, although the enemy of popular sovereignty in his case is not the military but parties and unions: "[T]he political parties and major corporatist interests in the society . . . had increasingly failed to 'aggregate' social interests in a truly pluralistic and democratic manner. Increasingly, they had become the leading participants in a feeding frenzy in which privileged groups plundered the dwindling resources of the ever-weakening state" (Sachs, 1993:3). For both Remmer and Sachs, if reforms are blocked it is not by the people but by special interests. A second objection is that voters may support governments that manage the economy well, even if good management means imposing austerity (Nelson, 1992). A sense of crisis may lead voters to favor reforms (Grindle and Thomas, 1991; Keeler, 1993; Nelson, 1992; Remmer, 1991). And in new democracies, the recent history of authoritarianism may lead people to cut elected governments some slack (Haggard and Kaufman, 1992; Powers and Cox, 1997; Remmer, 1991; Rose and Mishler, 1996a). Particular groups of citizens, moreover, may not know ex ante about how they will fare under reforms (Haggard and Kaufman, 1989; but see also Fernandez and Rodrik, 1991).

Another set of skeptics views reforms as imposing real, and not just short-term, costs on a large number of people. Hence resistance to reform reflects a conflict of interests, a conflict that is deeper and more legitimate than special interests in a feeding frenzy. The costs may be borne by the urban popular sectors (Walton and Ragin, 1989), the labor movement (Roxborough, 1989), the lower income strata (Berry, 1997; Cortes and Rubalcava, n.d.), all those who are uncertain ex ante whether they will be shielded from severe losses such as unemployment (Fernandez and Rodrik, 1991), or, more abstractly, those whose resources will be tapped for fiscal adjustment (Alesina and Drazen, 1991).