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Explaining Evaluations of the National Economy in Latin America and the Caribbean

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Executive Summary. Emerging from the 2008-09 global financial crisis relatively unscathed, many Latin American and Caribbean countries have experienced significant economic growth in recent years. Yet across all of these countries, citizens hold dramatically different views of the state of the national economy. This *Insights* report explores why individuals have differing evaluations of the national economy and the implications of these differing views for democratic accountability. Using data from the 2012 round of the AmericasBarometer survey, I find that one's personal economic situation is the most powerful predictor of her views of the national economy but that this view is also colored by politics, in particular whether or not the individual supports or voted for the incumbent.

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Critical to democratic accountability is that citizens are able to assess the performance of their governments and, based on that evaluation, either support or punish the incumbent at election time. It is therefore important to understand how individuals formulate their evaluations of government performance, in particular that of the national economy (Lewis-Beck and Paldam 2000). Interestingly, individuals within the same national economic community often differ in their assessments of how things are going. While some of this variation may be due to the prioritization of different indicators or different economic experiences, other explanations lie in politics.

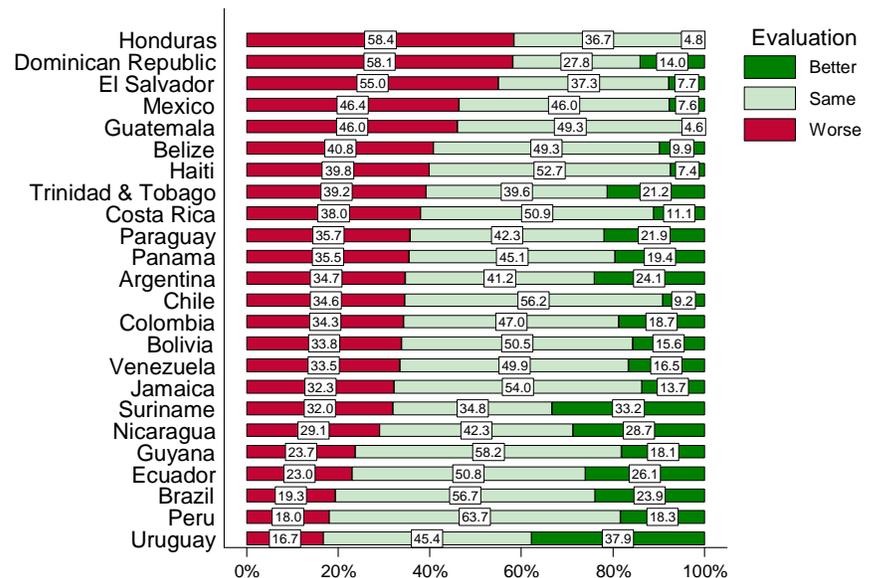
In this *Insights* report,¹ I first examine how evaluations of the economy vary along socioeconomic and demographic lines. I then extend this model to include personal economic, informational, and political factors. The key finding here is that the most decisive factor driving evaluations of the national economy is an individual's own economic situation. I also find, though, that national economic evaluations are filtered by an individual's partisan biases. The end result, then, is a complex mixture of one's own personal economic conditions and more subjective partisan biases, each serving as a basis for citizens' views of the national economy.

The key measure in this report is taken from the 2012 AmericasBarometer² survey, which

¹ Prior issues in the *Insights* Series can be found at: <http://www.vanderbilt.edu/lapop/insights.php>. The data on which they are based can be found at <http://www.vanderbilt.edu/lapop/survey-data.php>

² Funding for the 2012 round mainly came from the United States Agency for International Development (USAID).

Figure 1. Varying Retrospective Evaluations of the National Economy



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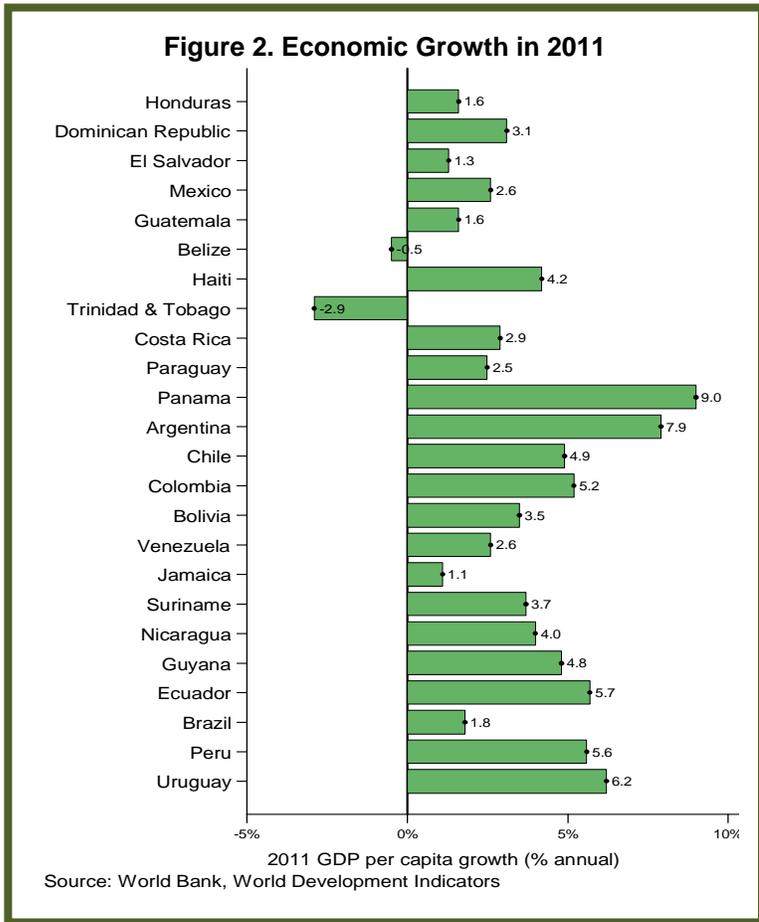
asked respondents from 24 Latin American and Caribbean countries the following question:

SOCT2. "Do you think that the country's current economic situation is better than, the same as, or worse than it was 12 months ago?"³

Figure 1 shows a bar chart that presents the share of respondents who believed the economy was doing worse, the same, or better within each country in the region. The patterns range from predominantly negative evaluations in the Central American countries of Honduras, El Salvador, Guatemala, Belize, and Mexico to significantly more positive evaluations in Uruguay, which had the highest percentage of respondents saying the economy was doing better than the previous year (37.9%).

Important sources of support were also the Inter-American Development Bank (IADB), the United Nations Development Program (UNDP), and Vanderbilt University.

³ The U.S. and Canada were also included in the study, but are excluded from analyses in this report. Non-response for the sample as a whole is 2.2%.



This latter result in particular maps well onto recent economic events in these countries. As Figure 2 shows, Uruguay experienced significantly better growth in 2011 than the Central American countries mentioned above. In short, the aggregation of Latin Americans' evaluations does seem to roughly capture the region's pattern of economic growth in 2011 and the particular countries that did relatively well that year. Yet, some countries with the highest rates of growth in the region, such as Panama and Argentina, only received lukewarm evaluations from citizens, with over one-third of respondents in those two countries viewing the national economy as worse off in 2012 than it was in 2011 despite the impressive macroeconomic figures.

Figure 1 also shows that there is substantial variation across the range of responses within each country despite the fact that the respondents reside within the same national economy. While there are a few countries in which one evaluation achieves a majority, in no case is there a clear consensus in how the economy is performing. The remainder of this report seeks to find answers to the question of what leads one individual to believe that the economy is doing well, whereas another individual in the same context believes the economy is doing poorly.

Individual Characteristics as Predictors of Evaluations of the National Economy

Are socioeconomic and demographic characteristics of individuals important predictors of their evaluations of the economy? Seligson et al. (2012) found that perceptions of severe economic crisis were higher among those with lower household wealth and women. To test the relevance of wealth and gender, along with age, education, and size of place of residence⁴ in predicting evaluations of the national economy, I use Ordinary Least Squares regression analysis. The dependent variable is based on the survey item discussed above. The response levels were coded from 0 ("Worse") to 50 ("Same") to 100 ("Better").⁵

⁴ Size of respondent's city or town of residence is coded as a five-category variable with 1 indicating a rural area, 2 signifying a small city, 3 indicating a medium sized city, 4 meaning a large city, and 5 meaning the national capital or metropolitan area. These categories were defined according to the definition in each country's census. Educational level is measured from 1 to 4, with 1 indicating that an individual has no education, 2 indicating primary schooling, 3 indicating secondary schooling, and 4 indicating that an individual has some amount of higher education.

⁵ Since the dependent variable is measured with three response categories that have ordinal but not cardinal values, I ran the same model with an ordered logit. The results support the same conclusions as those presented above. Country-level dummy variables are included in the regression model but are not shown here due to space limitations.

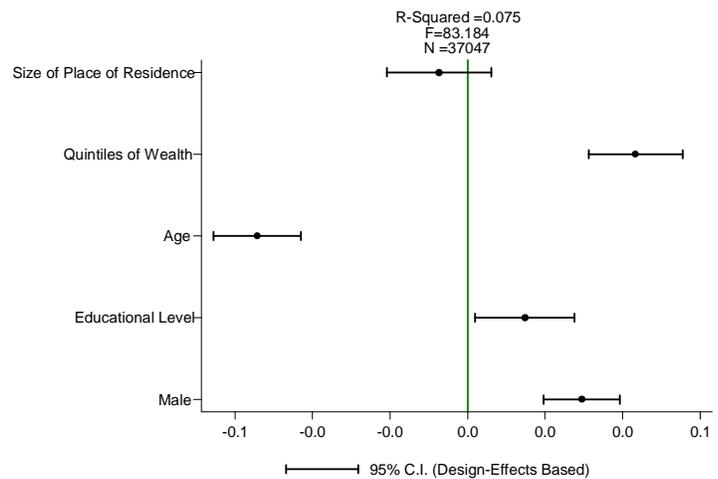
Figure 3 shows the normalized regression coefficients of the various socioeconomic and demographic variables' effects on evaluations of the national economy. From this figure we see that males, wealthier respondents, and those with high levels of education tend to offer more positive assessments of the economy while older respondents hold more negative views of the economy.

Taken together, these findings are consistent with previous research suggesting that those with privileged positions in society (the wealthier, the more educated, and males) tend to have more positive evaluations of the economy in both good economic times and bad (see e.g., Seligson et al. 2012). One implication is that a respondent's personal experiences seem to play an important role in determining how they assess the economy's performance. I explore this relationship in greater depth in the following section, extending the model to include respondents' personal economic experiences, information consumption patterns, and political leanings.

Information and Political Factors

A likely source of variation in people's evaluations of the economy are the differences in the information sources upon which they rely when making such an evaluation. The first, and perhaps most important, source of such information is an individual's personal economic situation. This "hard bit of data" is available and accessible to everyone (Fiorina 1981, 5). While it may be difficult to understand or gather objective information on the state of the national economy, people are well aware of economic fluctuations in their own lives. Thus, when a person is asked to think about the condition of the national economy, the most readily available information will likely be based on her own economic experiences. In the United States, Funk and Garcia-Monet (1997)

Figure 3. Socioeconomic and Demographic Model of Evaluations of the National Economy



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found that national evaluations are partially derived from one's personal financial situation. This leads to the expectation that in Latin America and the Caribbean, so-called "pocketbook evaluations" should be essential for understanding an individual's assessment of the national economy.

However, most people realize that their personal experiences cannot capture an entire country's economic situation. In order to make a more accurate judgment of aggregate economic events, an individual will often seek out external information about economic conditions outside of her own life. For many people, this entails consuming information from different media sources (television, newspapers, radio, etc.). Since news consumption provides information about aggregate economic events, I control for an individual's level of news consumption in the model that follows.⁶

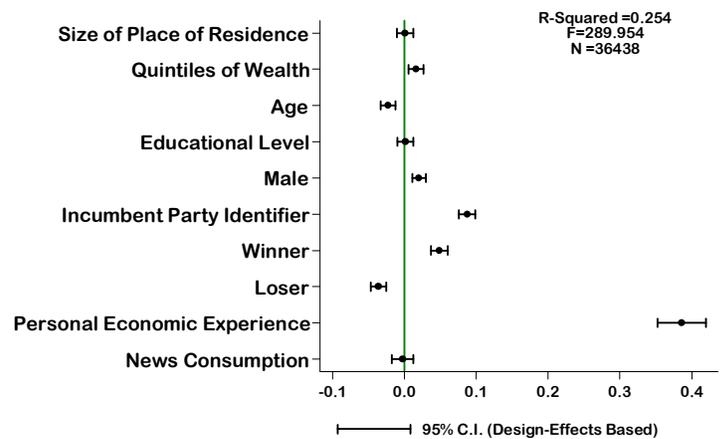
⁶ Because we cannot accurately measure the content of the news a person is exposed to, we must assume the news media in general will allow an individual to make a more informed assessment of the national economy. This assumption, though, does not allow for a directional hypothesis given the cross-national scope of the analysis – that is, a more informed assessment of the Guatemalan economy may contribute to a negative assessment by a

Aside from the informational sources on which individuals base their assessments of the national economy, there are also political factors that can lead people to have different evaluations of similar economic conditions. Here I focus on the role of partisanship and the distinction between electoral winners and losers. Partisanship has been found to shape the way individuals evaluate political objects and objective facts (Bartels 2002). A person who identifies with a party will have biased evaluations depending on how the issue relates to their party. With regards to the economy, a sympathizer with the incumbent party may be biased towards a more positive evaluation of the national economy than someone who does not hold such an attachment. In the United States, Duch et al. (2000) found that evaluations of the national economy are not purely objective but instead vary systematically along partisan lines. Though Latin America and the Caribbean tend to have weaker party systems than the United States, we should still find evidence of this partisan filter among respondents, where identification with the incumbent party should be associated with a more positive evaluation of the national economy's performance.

Similar to the role of partisanship, the difference between electoral winners and losers can be a source of variation in economic evaluations. Anderson et al. (2005) find that individuals who vote for the winning and losing parties in a national (presidential or legislative) election differ substantially in their subsequent evaluations of the political system, with winners viewing such things as the fairness of elections, the responsiveness of government, and the legitimacy of the political system in a much more positive light than those who voted for a losing candidate. This effect may also apply to the economic system, with losers having more negative evaluations and winners having more positive evaluations.

well-informed respondent while high levels of news consumption in Uruguay should produce a more positive view of the economy.

Figure 4. An Informational and Political Model of Evaluations of the National Economy



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Including the effect of electoral winners and losers (that is, those who voted for the incumbent and those who did not) is particularly important in Latin America and the Caribbean, where in many contexts partisan identities are not widespread or strongly held. Yet, lower levels of partisanship do not preclude the possibility of political factors influencing economic evaluations. Therefore it is important to include both types of political factors in the model. The expectation for their effects is similar: individuals seek consistency between their political choices and attitudes.

I again use OLS regression analysis to test the hypothesized effects of information and political factors on evaluations of the economy.⁷ Personal economic experience is operationalized using an item in the survey that mirrors the question on the national economy but asks about the respondent's personal situation (IDIO2). It is coded in the same way as evaluations of the national economy. News consumption is measured using an item that asks how often respondents pay attention to the news in several different

⁷ As with the first model, I also ran the second model using ordered logit. The results arrived at the same conclusions as those presented above.

media (GI0). The responses range from 0 ("Never") to 4 ("Daily"). As for the political variables, identification with the incumbent party is a dummy variable with those sympathizing with the party in power coded as 1 and all other respondents coded as 0. Political winners and losers are both dummy variables, capturing whether a respondent voted for the winning or losing side respectively in the most recent election for executive office. The reference category is non-voters.

Figure 4 presents the normalized regression coefficients from an analysis that includes all the variables from the prior analysis, plus these new indicators. Again, country level dummies are included in the model but not shown. The effects of the three political variables are all significant and in their expected directions. Identification with the incumbent party results in a more positive evaluation of the nation's economic performance and respondents who voted for the winner in the last national election also have a more positive evaluation of the economy relative to those who did not cast a vote. Those who voted for a losing candidate or party have a more negative evaluation compared to non-voters.

The results in Figure 4 also provide insights into the importance of individual information sources. We see a powerful effect of personal economic experience on national evaluations, even after controlling for the other factors included in the model.⁸ News consumption does not seem to have a discernible linear effect on economic evaluations.⁹ With respect to

information then, it seems clear that citizens rely heavily on their own personal economic experiences in evaluating their nation's economy.

Discussion

The above results provide the basis for some important conclusions regarding citizens' evaluations of the national economy. The significance of these evaluations is underscored by the emphasis placed on economic issues in political life. Indeed, in many national contexts, the state of the economy is often the most important predictor of presidential elections (Lewis-Beck and Stegmaier 2000). What I find across Latin America and the Caribbean is that a complex mix of political and experiential elements provides the basis for citizens' evaluations of the national economy. Political factors, such as partisanship and electoral outcomes, emerge as decisive sources of bias in individuals' national economic evaluations. Regardless of the actual state of the national economy, political supporters for the incumbent government will have more positive evaluations of it than opponents. This finding is particularly important for democratic accountability. If elections are meant for voters to either reward or punish their representatives based on performance (in this case, economic performance), political bias in those evaluations of performance poses a problem for this mechanism of accountability. However, it is possible that the direction of causality also runs from economic evaluations to partisan support. This type of sorting into political camps based on performance evaluations has much more benign implications for accountability. While this report cannot provide a definitive conclusion on the direction of causality, this question merits further research.

⁸ Given the proximity of the IDIO2 and SOCT2 items in the survey, it is possible that respondents are inclined to provide similar assessments. Therefore, the same regression analysis was run only replacing IDIO2 with Q10E, which asks about changes in the respondent's income in the previous year and is located further down the survey. The results of this analysis arrived at the same conclusions as those reported using IDIO2.

⁹ I do not find support for the possibility that the effect of personal experience is strengthened (as predicted by Mutz 1994) or attenuated (Conover et al. 1986) as an individual consumes more news. Rather, the effect of personal economic experience remains the same as a respondent consumes more news. This was tested with an interaction

of news consumption and personal experience that was included in the same model as the results we see in Figure 4 but not shown to save space.

More encouraging though is the fact that personal economic experience also emerges as a powerful predictor of one's assessment of the national economy. If we accept that most people, most of the time, will not be able to accurately evaluate the state of the national economy, then expecting voters to be able to effectively use the state of the national economy as a basis for holding their politicians accountable is perhaps unrealistic. A more modest, but perhaps just as effective, mechanism of democratic accountability may lie in the role an individual's assessment of her personal economic situation plays in her evaluation of the national economy. Respondents across the Americas appear to be most influenced by the one condition they know best, their own economic situation, when asked to evaluate the economy as a whole. Clear political biases exist in this evaluation, thus muddying the waters of accountability. However, at its core, an assessment of the national economy appears most driven by what is happening to citizens' personal economies on a daily basis.

Finally, this report was limited in its ability to study outside information sources that would be expected to influence national economic outlook. For example, there was no significant effect of news consumption. However, it may be that the content of news is more consequential for evaluations than consumption *per se*. There are likely national level indicators that are suggestive of the content of news within a given country. While this analysis focused solely on individual level explanations, contextual factors are likely to account for a substantial part of the variation in citizens' sociotropic opinions and they offer an avenue for further research.

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Appendix

Table 1. Predictors of Retrospective Evaluations of the National Economy in 2012

	Coefficient Figure 2	Standard Error Figure 2	Coefficient Figure 3	Standard Error Figure 3
Education Level	0.015*	0.007	0.001	0.006
Male	0.029*	0.005	0.020*	0.005
Age	-0.054*	0.006	-0.023*	0.005
Quintiles of Wealth	0.043*	0.006	0.016*	0.005
Size of Place of Residence	-0.007	0.007	0.001	0.006
Incumbent Party Identifier	--	--	0.087*	0.006
Winner	--	--	0.049*	0.006
Loser	--	--	-0.036*	0.005
Personal Economic Experience	--	--	0.386*	0.017
News Consumption	--	--	-0.003	0.008
Personal Experience x News Consumption	--	--	0.015	0.019
Mexico	-0.171*	0.008	-0.105*	0.007
Guatemala	-0.176*	0.007	-0.106*	0.007
El Salvador	-0.190*	0.007	-0.119*	0.006
Honduras	-0.223*	0.009	-0.139*	0.007
Nicaragua	-0.066*	0.009	-0.045*	0.007
Costa Rica	-0.131*	0.008	-0.088*	0.007
Panama	-0.110*	0.010	-0.059*	0.009
Colombia	-0.105*	0.008	-0.072*	0.008
Ecuador	-0.054*	0.009	-0.019*	0.007
Bolivia	-0.158*	0.011	-0.091*	0.009
Peru	-0.062*	0.008	-0.023*	0.007
Paraguay	-0.103*	0.009	-0.085*	0.008
Chile	-0.131*	0.009	-0.068*	0.008
Brazil	-0.050*	0.009	-0.038*	0.007
Venezuela	-0.109*	0.008	-0.073*	0.007
Argentina	-0.091*	0.010	-0.059*	0.008
Dominican Rep.	-0.184*	0.007	-0.127*	0.006
Haiti	-0.164*	0.009	-0.101*	0.008
Jamaica	-0.114*	0.010	-0.063*	0.008
Guyana	-0.080*	0.009	-0.033*	0.007
Trinidad & Tobago	-0.113*	0.009	-0.074*	0.007
Belize	-0.147*	0.007	-0.083*	0.006
Suriname	-0.057*	0.011	-0.016*	0.008
Constant	0.002	0.007	0.000	0.006
<i>R-squared</i>	0.075		0.254	
<i>Number of Observations</i>	37,047		36,438	

* p<0.05

Note: Coefficients are statistically significant at *p<0.05, two-tailed. Country of Reference: Uruguay