

How Presidents Answer the Call of International Capital

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Abstract

Recent scholarship has provided ample evidence that international capital can press Latin American governments to adopt market-oriented economic policies. Less is known however, about the ways in which governments manage expectations from international capital owners. Studying 67 annual state-of-the-union speeches in twelve Latin American countries between 1980 and 2014, we show how governments use prominent speeches to strategically communicate economic policy to capital markets. First, presidents carefully frame their message. When times are dire, they not only talk more about the economy and less about social policy, they also attempt to repaint other policies as an investment into the development of the country. Second, using our new method of automatically identifying and scaling sub-dimensions from political texts we analyze presidents' cues for economic policy-making more closely. While presidents generally prefer to respond to their electoral constituencies, economic turmoil encourages them to change tack and signal economic policies that appeal to international capital owners. Our findings have important implications not only for those studying political communication, but also for all those who are concerned about the quality of democratic representation more broadly.

Wordcount: 9'998 words

1 Introduction

For Latin American governments, access to international capital is crucial to finance state projects and to be able to underwrite current account deficits. Emerging markets, however, are perceived as risky and capital flows to the region tend to follow a pro-cyclical pattern; they flow in when times are good, and leave when times are bad, just when capital is most needed (Campello, 2013; Mosley, 2003; Wibbels, 2006). International capital pressures and the need to signal credibility to investors can therefore weigh heavily on government decision-making ranging from inflation control (Remmer, 2002; Stokes, 2001), to broader macroeconomic policies (Campello, 2015) to infrastructure reforms (Henisz et al., 2005). Even left-leaning governments cannot resist these pressures. There have been several well-documented cases of newly elected leftist presidents in Latin America implementing market policies that ran counter to their original state-oriented electoral platform in the face of severe economic pressure (Campello, 2015; Conaghan, 1996; O’Donell, 1994; Samuels and Shugart, 2010; Stokes, 1999). Indeed, many have argued that the pressures of international capital have played no small role in gradually pushing Latin America towards a more market-oriented economic model over the course of the last three decades (e.g. Huber et al., 2008; Ubiergo Segura, 2007).

International capital can impose constraints upon governments and can exert pressure on them to engage in policy changes (e.g. Santiso, 2003; Campello, 2013, 2015; Conaghan, 1996; Kaplan, 2013; O’Donell, 1994; Pinto, 2013; Remmer, 2002; Samuels and Shugart, 2010; Stokes, 1999, 2001)—and presidents are acutely aware of this. The former Brazilian president Fernando Henrique Cardoso, for example, affirms that in the 1990s, governments had to constantly reckon with the preferences of international capital owners: “If foreign investors saw that a country like Brazil was not doing enough to modernize its economy, they could turn their backs on us overnight” (Cardoso, 2006, 236). In order to prevent capital flight, therefore, Latin American governments need to aggressively signal economic credibility to capital owners. As Santiso (2003, 26) points out, “enjoying credibility, in other words, play-

ing the confidence game, means to signal to relevant actors [...] such as domestic and foreign investors”. And the vital signal in this game is the language and speeches used by governments to build and convey such confidence (Santiso, 2003, 34). Yet, while this account appears self-evident, we actually know very little about how governments engage in this ‘confidence game’, and manage the expectations of, and signal to, investors through their speeches. In fact, apart from some work on central bankers (Baerg, 2020; Morris and Shin, 2007; Myatt and Wallace, 2014), there is little to no scholarship exploring the mechanics of how governments try to convince capital that their country is a safe investment opportunity—in particular during times when economic risks are heightened and international capital flees to stabler climes.

We build on insights from recent work on the constraining effects of international capital to develop a theory of how presidents use their rhetoric to respond to pressures from international capital markets (e.g. Campello, 2013; Kaplan, 2013). In particular, we argue that presidents use highly visible government policy messages to manage the expectations of international capital across the business cycle. Presidents do this in two ways. Firstly, presidents will frame their speeches in a manner that makes them more compatible with what markets would like to hear and read. They will therefore prioritise and emphasize issues that are pertinent to investors. Presidents, however, will not only shift the focus of their attention, they will also change the very nature of the policies they are announcing and so secondly, when exposed to the pressures of international capital they will signal that market-friendly changes in their economic policy are on the way.

To test our argument, we analyse the underlying economic signal in the annual state-of-the-union addresses—a set of high profile policy speeches—of 67 Latin American presidents across twelve countries between 1980 and 2014.¹ These institutionalized messages are a particularly apt source for our purposes; they allow us, with the aid of structural topic

¹Across Latin American countries, these type of speeches are named differently, such as *Memoria del Gobierno*, *Informe del Gobierno* - both translatable into ‘government report’, *Informe Presidencial* - ‘presidential report,’ or *Estado de la Nación* - the most equivalent to state-of-the-union address.

models (Roberts et al., 2014a,b), to explore the saliency that presidents attach to different topics in their rhetoric. They also permit to derive the economic policy position of these presidents, which in turn enables us to analyze the determinants of changes in these economic signals.

Our paper makes two main contributions. Firstly, we add to the theoretical understanding as to how governments in emerging markets use language and speech to play the ‘confidence game’ (see Santiso, 2003; Blinder et al., 2008). Administrations that are exposed to constant market evaluations find themselves confronted with dramatically reduced financial room for manoeuvre. We show that governments use their speeches to carefully manage market expectations by signalling economic policy shifts and highlighting specific issue areas. In times of economic pressure, Latin American presidents emphasize the saliency of the economy and national development above all other topics. In addition, they shift their overall displayed economic position towards the preferences of the market. Interestingly, we also find that once this pressure begins to dissipate, whether presidents maintain this position or shift their rhetoric back towards the interests of their voters seems to be dependent on the nature of the economic pressures they previously faced. Currency crises compel presidents to maintain a favourable market signalling even after the pressures of the crisis have receded. In contrast, once credit crunches end, presidents, endowed with fresh funds, have greater freedom to shift their signal back towards the electorate.

Secondly, to isolate the economic signal of Latin American presidents, we develop a method of automatically identifying and scaling specific sub-dimensions from political texts. Using a dictionary approach, we first detect the sections in the speeches that address economic policies and then apply the *Wordfish* scaling model (Slapin and Proksch, 2008) to retrieve standardized, country-specific economic policy signals on a yearly basis. Due to the multi-dimensional nature of political text and thus the need to scale specific policy areas, scholars have recommended extracting the relevant passages prior to the application of scaling models—so far, however, by hand (e.g. Slapin and Proksch, 2008). Our method

automates the parsing of a specific sub-dimension and will help advance the large body of work on the identification and measurement of preferences from text (Grimmer and Stewart, 2013; Lucas et al., 2015), thereby complementing existing efforts to measure the policy position of Latin American political actors based on text (Arnold et al., 2017), expert surveys, (Coppedge, 1997; Wiesehomeier and Benoit, 2009), elite surveys (PELA, 2005; Power and Zucco Jr, 2009) and roll-call votes (Alemán et al., 2018). While we demonstrate the validity of this method in the context of economic policy, nothing prevents its wider use for other policy areas.

The paper is organized as follows. The next section outlines our theoretical argument regarding the pressures of international capital and its effect on the topics a president chooses as well as the economic policy position she will display. We then describe how we measure topics and preferences for economic policy making in those messages. Our analysis summarizes our findings across the twelve countries under investigation. The final section concludes.

2 The Pressure of International Capital

The policy pressures exerted on Latin American governments by the exit threat of international capital have been well documented. The collapse of Import Substitution Industrialization (ISI) across the region in the early 1980s precipitated a near uniform process of structural economic reform, which fundamentally altered the exposure of these economies to international markets (e.g. Santiso, 2003; Huber et al., 2008; Ubierno Segura, 2007). During the 1970s, many Latin American countries accumulated a large amount of debt (Gavin, 1997), and with the budget crises of the 1980s, Latin American governments defaulted on these debts. The need to attract inward investment and the lack of domestic savings, particularly when commodity prices are low and US interests are high (Campello, 2015), combined with the ease with which capital can move in and out of Latin American economies, induced

a notable shift in the political power of capital.

During periods of economic crises, when such tensions are heightened, this dependence has resulted in policy shifts towards more market-friendly policies among newly elected left-leaning presidents, reneging on their previous campaign promises (Campello, 2015; Samuels and Shugart, 2010; Stokes, 1999). When faced with funding restraints from global bond markets, stimulus-minded politicians were forced to engage in cycles of austerity (Kaplan, 2013). The inflow of portfolio capital has placed downward pressure on the tax share of capital across Latin America since 1978 (Wibbels and Arce, 2003), while Kaufman and Segura-Ubiergo (2001) have demonstrated that capital mobility has exacerbated the downward effect of trade openness on welfare spending. In sum, as long as economic times are good and commodity sales booming, there is no shortage of foreign exchange and governments enjoy access to bond and bank credit markets (Campello and Zucco Jr, 2016). Investments, both in the form of direct investment and portfolio investment, enter the country. This changes though in the light of a looming crisis. In such a context, the exit threat of international capital places severe pressure on Latin American governments, to the extent that even the prospect of a downturn, let alone an actual crisis, poses a formidable threat.

International capital pressure can come in the form of pressure on the national currency (Exchange Market Pressure, EMP) or pressure on access to the credit market (Credit Market Pressure, CMP). Exchange market crises matter, not only because capital inflows appear to react to them (Lipschitz et al., 2002), but also because Latin American trade portfolios are mostly commodity based.² Currency crises, either in the form of a depletion of a country's international reserves or a sharp devaluation, often follow a sudden change in the terms of trade and in light of this, export-led recovery of the balance of payments is not really an option (Campello, 2013, 266). Retrenching investments exert considerable pressure on exchange rates (Lipschitz et al., 2002), ensuring that governments find it increasingly difficult to access credit or loans to smooth the electorate's consumption and to mediate its risk.

²Campello (2013) provides an excellent discussion of the pressures currency crises exert in Latin America.

Compounding problems, many Latin American markets are viewed as risky even in good times, and when things go bad, capital tends to move towards the safer havens of the advanced industrial democracies (Wibbels, 2006, 444-445). And this can exacerbate credit market crises. Access to credit markets is essential for Latin American governments, because politically induced economic booms heavily rely on overspending and state expansion is an important means to counter economic downturns and stimulate the economy. However, with a view to securing the repayment of debts, capital, and in particular international capital, often comes with strings attached (Mosley, 2000, 2003; Wibbels, 2006). In this sense, the US government’s “Brady Plan”, which restructured Latin American debt from bank loans to bond-based debt, has drastically increased the power of creditors across the region, as bond holders can now rapidly dump the debt of uncooperative Latin American countries in secondary markets (Kaplan, 2013).

Such crises are key for Latin American incumbents—and can even be politically existential. Voters across the region tend to be highly sensitive to economic performance (Murillo et al., 2010; Remmer, 2002; Stokes, 2001). Latin American presidents are well aware that the economy matters for electoral calculations (Johnson and Schwindt-Bayer, 2009), and the link between the economy’s performance and governments’ popular support has been conclusively documented across the region (e.g. Carlin et al., 2015; Echegaray, 2005; Stokes, 1996; Weyland, 2003). Not only can severe economic conditions bring protests out onto the streets (Pérez-Liñán, 2007); recessions have also been found to correlate with the early end of presidential terms (Kim and Bahry, 2008; lvarez and Marsteintredet, 2009; Hochstetler and Edwards, 2009). Given the devastating economic effect of market crises in Latin America, and the potential existential political threat that such crises pose for incumbents, presidents have a clear incentive to send a strong competency signal to calm the nerves of capital.

3 Using Government Speeches as Economic Signals

It is no surprise then that the pressures of international capital often foreshadow comprehensive economic reforms in Latin America (Bates and Krueger, 1993; Drazen and Grilli, 1993; Remmer, 2002; Weyland, 1998). Structural economic reforms, however, are costly, politically risky, and take time to implement—time that governments often do not have in the midst of a fast moving crisis. But policy switches or more enduring structural reforms may not be the only means presidents have at their disposal to build confidence and to manage the expectations of capital owners (Broz et al., 2016; Walter, 2013). As Paul Krugman points out, “following an economic policy that makes sense in terms of the fundamentals is not enough to assure market confidence [...] one must cater to what one hopes will be the perceptions of the market” (Krugman in Santiso, 2003, 26). In other words, speeches and the language used by politicians are crucially important, and, as part and parcel of crises management, an efficient way to manage market expectations. They can help to reassure investors and assuage their fears, which in turn can reinforce the ‘cognitive regimes’ of market participants (Santiso, 2003, 34).

Indeed, recent work suggests that political elites are highly strategic in their use of communication. For example, electoral concerns have a significant effect on how parties and members of parliament use speeches on the floor. They not only affect senators’ choice of topics (Quinn et al., 2010), but they also shape the strategic allocation of plenary time and the messages conveyed on behalf of parties (Proksch and Slapin, 2012, 2015). Parties and presidents use speeches to manage coalitions (Arnold et al., 2017; Martin and Vanberg, 2008) and individual parliamentarians distinguish themselves from the party brand on the basis of their rhetoric (Maltzman and Sigelman, 1996).

Similarly, political elites have been shown to act in a highly strategic manner when using speeches to address the economic concerns of capital owners. To manage and shape the expectation of markets on a regular and fine-grained basis, governments rely on widely visible communications that highlight their economic policy (Baerg, 2014). After all, even

moderate increases in uncertainty about debt overhang may lead to a complete stop of further capital supply from risk averse international creditors (Aizenman and Marion, 2001). For economic elites, such as central bankers, communication constitutes a key means to manage expectations (Blinder et al., 2008). They resort to different communication channels (Reis, 2013), appeal to specific sectors rather than to the whole public (Morris and Shin, 2012) and sometimes even deliberately choose an optimal level of obfuscation in their communication (Morris and Shin, 2007; Myatt and Wallace, 2014).

Latin American presidents use important speeches in order to manage the expectations of investors in a similar vein, particularly during periods of economic downturns. As a core instrument in the governance of economic crises, speeches are a fundamental tool to manage the risk perception and risk sentiment of markets. Faced with pressures from international capital, presidents across the region make use of their speeches to outline their policy responses, strategically addressing the now salient preferences of capital owners as part of the ‘confidence game’. They do so by cultivating the approval of a relatively small and insular financial community (Santiso, 2013), trying to counter capital flight by emphasising the classic pull factors for capital—namely economic stability, openness, and credibility (Calvo et al., 1996).

In this sense, presidents can use their speeches to send signals in two different, albeit related, ways: adjusting saliency and shifting subject matter. Firstly, in light of international capital pressures, presidents will devote more attention to economic policy areas—to the detriment of other topics. Assuming that capital prefers certain economic environments, such as stability, low taxation, openness, labor flexibility and policies designed to stimulate growth, over others (Calvo et al., 1996), presidents will place the development of the country and the economy centre stage in their speeches. By shifting their focus in that way, incumbents can signal that they are addressing issues directly relevant to the interests of investors, offering a safe and promising environment for their assets. Of course, it is not only during crises that international markets want to be reassured (Büthe and Milner, 2008; Leblang and

Satyanath, 2006). But during a crisis, presidents will be particularly keen on forging a narrative, which emphasizes that the economy is front and center of the government's agenda, and dedicating more space to economic issues is a way of signalling just that. Even though incumbents might be under pressure to highlight some form of compensatory mechanism to mitigate the impact of the crisis on their citizens (e.g. Garrett, 1998), they will try to strike a balance by emphasizing social policy areas which have an explicit link to the competitiveness of the economy. For instance, focusing on topics related to the advancement of human capital via areas such as health or education ties these issues to the nation's economic well-being, while diminishing the space available to address traditional welfare topics.³ Therefore, we expect that:

Hypothesis 1: Faced with international capital pressure, presidents will devote more attention in their speeches to economic policies.

Highlighting the saliency of certain topics germane to the interests of capital, however, is only one part of the 'confidence game'. Crisis situations, particularly in emerging markets, will make investors fear a backlash against the market model, which could include the risk of nationalisation or default (Büthe and Milner, 2008; Leblang and Satyanath, 2006). Incumbents, therefore, need to send a strong and convincing signal to capital that they are pursuing an orthodox approach to recovery and are protecting investments. And so, secondly, we expect that presidents will shift their speeches towards the preferences of capital and emphasize market-friendly policies:

Hypothesis 2: Faced with international capital pressure, governments will adopt more market-oriented economic positions.

³For example, Avelino et al. (2005) demonstrates that trade openness is positively related to expenditures related to human capital formation.

4 Data and Models

To test our hypotheses about presidents’ use of rhetoric to manage capital owners’ expectations, we rely on a corpus of 276 state-of-the-union speeches from 67 presidents in twelve Latin American countries, from 1980 to 2014. State-of-the-union speeches are a particularly apt source for our purpose. The constitution of all countries in our study explicitly demands that heads of state summarize the state of affairs of the current government on a yearly basis. Presidents will address all salient policy areas, covering events in the recent past as well as outlining the program for the legislative year ahead. State-of-the-union speeches therefore represent important building blocks of political communication and strategic position taking (Arnold et al., 2017). As highly institutionalized events, these speeches are one of the most salient speeches a president can give.

Typically, state-of-the-union addresses are picked up by international media and presidents can be sure about the reach of their words. In fact, to probe this question, we used the comprehensive corpus from Reuters on financial news between October 2006 and November 2013 (106’521 documents). Collected by Ding et al. (2014), it covers all relevant international attention to financial and economic news over a considerable period of time, including the financial crisis of 2008. We measure attention from international financial media with a dictionary that contains the names of the respective president and its country $\langle country_name \rangle$, $\langle president_name \rangle$, adding also the terms ‘president’, and ‘message’. We selected all news articles that carry at least two of the respective terms and count them for the period one week before or after the respective state-of-the-union speech—which provides us with a time series from 2006 until 2013. The boxplot in Figure 1 displays the results for years without pressure from international capital on top and years with capital market pressure on the bottom.⁴ On average, we find 17.8 articles during a year with such pressure. In contrast, there are on average 13.07 articles during a year without pressure. A t-test on the difference between the sample means is significant ($t = 3.88$), suggesting that the

⁴Please see section 4.3 for more detail on how we operationalize international capital market pressure.

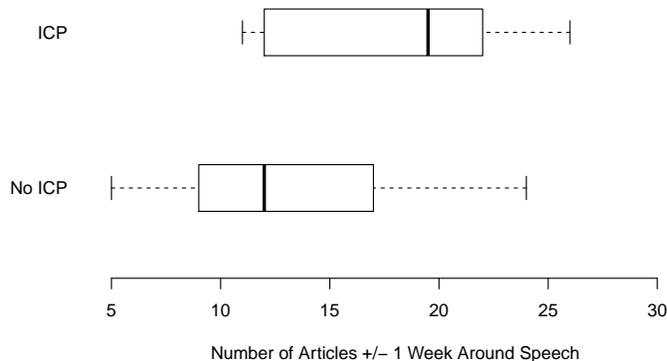


Figure 1: Media Attention to Presidential State-of-the-Union Speeches as Captured by Reuters Financial News Data (Ding et al., 2014). Number of Articles carrying at Least Two Keywords Out of the Set ($\langle country_name \rangle$, $\langle president_name \rangle$, 'president', 'message') During the Week Before or After the State-of-the-Union Speech.

true difference in means is different from zero. There does appear to be increased media attention to Latin American state-of-the-union speeches when international capital markets are turbulent.

State-of-the-union speeches are therefore particularly well suited to address international market concerns by calibrating the saliency of specific topics and the accentuation of the nature of specific economic policies. In March 2016, former Argentine president, Mauricio Macri, for instance, was compelled to discuss the legacy of Kirchnerism and Argentina's loss of economic credibility on the international stage.⁵ In a similar vein, in his 1998 state-of-the-union address, Mexico's Ernesto Zedillo defended budget cuts in the light of pressures from international capital.⁶ And in 2002, his successor, Vicente Fox, advocated for free-market reforms in his annual speech. Addressing an international audience, he stressed economic and political stability even in times of austere economic policies.⁷

Table 1 summarizes our sample of state-of-the-union addresses. We build on Arnold

⁵"At Last", *The Economist*, 5.3.2016.

⁶"Zedillo Tells Mexico Painful Economic Policies Are Farsighted", *The New York Times*, 2.9.1998

⁷"Free-Market Upheaval Grinds Mexico's Middle Class", *The New York Times*, 4.9.2002

Table 1: Countries and Time Period Under Consideration. Data from Arnold et al. (2017).

Country	Years
Argentina	1990 - 2014
Chile	1990 - 2013
Colombia	1991 - 2001 2003 - 2013
Costa Rica	1983 - 2013
Ecuador	1982 - 2012
Guatemala	1999 - 2014
Mexico	1989 - 2013
Peru	1980 - 1991 1994 - 2013
Paraguay	1992 - 2011
El Salvador	1995 - 2013
Uruguay	2001 - 2012
Venezuela	1987 - 1993 1995 - 2012 2014

et al. (2017), who collected these presidential speeches in twelve Latin American countries from websites and archives, covering the time period from the moment of each country’s re-democratization until 2014.⁸

Before analyzing the corpus, we pre-process the text. We remove accents on letters, subtract standard Spanish stop words⁹ and also add a list of bespoke stop words—in particular any word that is related to the transcription of the speech, i.e. any terms addressing honourees or verbatim numbers. Finally, we turn all text into lowercase and stem all words.

4.1 Measuring Topics

Topic models are one of the work horses in the analysis of text at large scale. They allow documents in a corpus to be clustered into topics, thereby enabling us to test our first

⁸We decide to not include Brazil into the sample for language reasons. The topic model requires one single joint corpus. In a similar vein, when estimating economic policy positions, the identification step is optimized for the Spanish corpus, only.

⁹We use the Spanish stop words in the Snowball stemmer.

hypothesis. Blei et al. (2003) introduced latent dirichlet allocation to model each document in a corpus as a finite mixture over an underlying set of topics. At the same time, each word in the vocabulary of a corpus is related to the topics. Extending this framework, the model of Roberts et al. (2014a) allows the mix of topics in each document (*topical prevalence*), and the words used in each topic (*topical content*) to depend on covariates.

In our application, we let topical prevalence covary with each president, capturing idiosyncratic preferences about the topics a president cares about. In addition, topical prevalence also depends on the general indicator for pressure from international capital, since it is reasonable to assume that during those years documents will have a different topic composition. We expect that topical content—the choice of words to describe a topic—will change during years of international capital pressure. We estimate the structural topic model using the complete corpus of all 276 speeches.¹⁰ To reduce noise from idiosyncratic terms and topics, Roberts et al. (2014b) suggest keeping only those terms that occur frequently enough across a certain number of documents in the corpus. Our analysis shows that retaining only those terms in the corpus that appear in at least 150 documents is a reasonable threshold, leaving us with a corpus that consists of all 276 documents and 728 different terms. We next search for an ideal number of topics k and find that 34 topics are a good fit for the data. National development proves to be the most popular baseline topic in the corpus.

4.2 Measuring Economic Policy Positions in Three Steps

We are, however, not only interested in issue attention, but also in the economic policy positions presidents announce. While there have been recent advancements in identifying the positions of Latin American presidents on a general left-right scale (Arnold et al., 2017; Power and Zucco, 2014), positions on particular policy sub-dimensions over a continuous period of time have proven much more difficult to measure. To retrieve economic policy positions, we preselect those text passages that relate to this specific policy area and then

¹⁰Please find further details on each of the steps of the analysis and a range of robustness checks in the Appendix.

use the *Wordfish* scaling model to quantify the latent ideal point (Slapin and Proksch, 2008). However, given the size of our corpus, reading and hand-coding hundreds of presidential speeches seemed prohibitive. We therefore develop an algorithm that takes over this task in three steps.¹¹

First, we determine key terms on economic policy making (*Dictionary Step*). Dictionaries have been widely used in Political Science and are a well established tool. Some scholars have employed them to directly infer different aspects of political ideologies (Burden and Sanberg, 2003; Kellstedt, 2000; Laver and Garry, 2000; Rooduijn and Pauwels, 2011; Young and Soroka, 2012). Others have used them to identify and select documents from a corpus that belong to a certain topic (e.g. Beauchamp, 2017; King et al., 2013; Puglisi and Snyder Jr, 2011), and might even scale preferences from their resulting subset (e.g. Eshbaugh-Soha, 2010; Ho et al., 2008). We, on the other hand, need to identify the *passages* in each document that deal with a particular policy area. With the goal of choosing terms that unequivocally identify economic policy making, we take our economic keywords from Laver and Garry (2000), from The Economist’s list of Economics A-Z terms¹² and from party manifestos¹³ and translate them into Spanish.

In a second step, we then use these words to deterministically identify the relevant passages on economic policy (*Identification Step*). When presidents speak about the economy, they do not change topics after each sentence. Instead, they address policy issues in one, or possibly more, paragraphs at a time. Using this insight, our approach is to search for clusters of key words to identify the relevant passages. The algorithm ‘learns’ to select an optimal area around the economic key words. We randomly select a set of speeches and code a training set by hand. Minimising misclassification, the algorithm then identifies a text string of length l around a given word i for a certain number of different terms m from our dictionary. It then identifies n terms in the vicinity of the word i as belonging to economic

¹¹See appendix for further details.

¹²<http://www.economist.com/economics-a-to-z>, last accessed 13.03.2020.

¹³<https://manifesto-project.wzb.eu/>, last accessed 13.03.2020.

policy making.

Finally, using the identified passages on economic policy making, we measure the economic position (*Scaling Step*) using the well established scaling model *Wordfish* (Slapin and Proksch, 2008). Estimating a separate model for each country, we retrieve a latent position of each speech on economic policy making. We identify each model by standardizing the values, setting the mean to 0 and the standard deviation to 1. Presidents' displayed preferences for economic policy are comparable within, but not across countries.

Figure 2 reports more state-oriented economic preferences in darker gray and more market-oriented economic preferences in lighter gray. The results are in line with substantive knowledge about Latin American politics. First, there is ample evidence for the "pink tide". While the 1990s are characterized by conservative, neo-liberal economic positions (here lighter gray), the new millennium clearly indicates a shift towards more leftist policies (here darker gray). More radical left-leaning presidents like the Kirchners in Argentina, Rafael Correa in Ecuador and Hugo Chávez in Venezuela, but also more moderate social democrats like Michelle Bachelet in Chile, all favor more state interventionist and redistributive economic policies (Weyland et al., 2010). Álvaro Uribe in Colombia is a particularly interesting case. The main ideological dimension in Colombia strongly relates to security concerns and Uribe is typically considered a conservative politician on this main dimension (Arnold et al., 2017). We find however, that his economic policies are much more moderate and place him on a scale more towards the average economic position of his colleagues.

We can now also measure the size, and ideological direction, of policy movements along this economic dimension by calculating the difference between time t and time t_{-1} for each individual president.¹⁴ Figure 3 provides a general overview of presidential shifts in economic preferences for our sample of 67 presidents. In this figure, negative values represent moves towards more state oriented economic policies, while positive values represent moves towards more market-oriented policies. Three clear patterns stand out. First, in a large proportion of

¹⁴We do not calculate differences *between* presidents, i.e. the last year of a resigning incumbent and the first year of a new president.

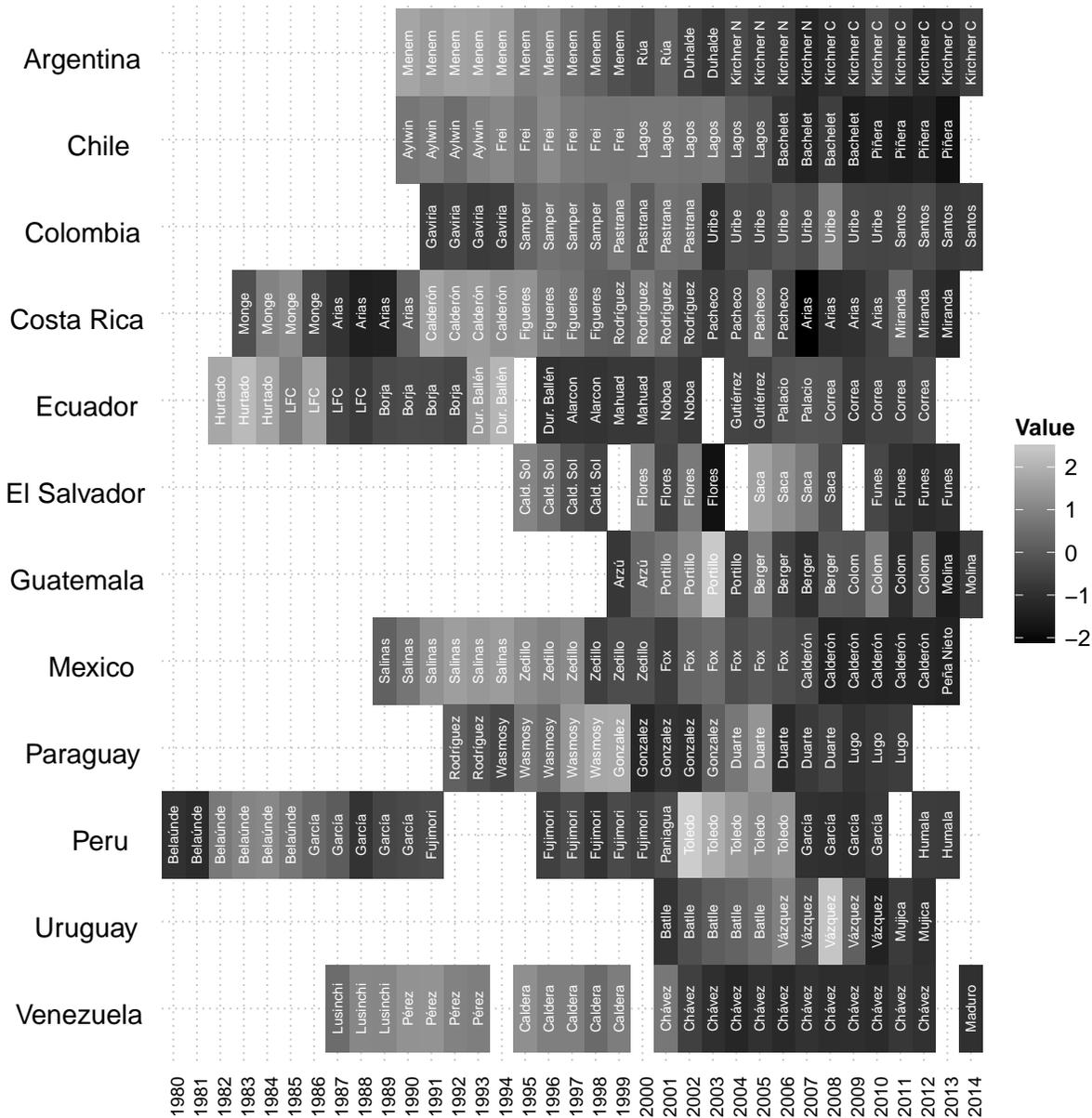


Figure 2: Economic Positions of Latin American Presidents. Data is Standardised as Countrywise z-Scores. The More Market-Oriented the Announced Economic Policy Positions, the Lighter the Shading; the More State-Oriented the Announced Economic Policy Positions, the Darker the Shading.

cases, we can observe only small shifts in presidents' economic policy positions. Second, not all policy movements are unidirectional. In fact, there are slightly more shifts to the economic left in our data, as there are to the economic right. Finally, not all policy movements are of the same magnitude. Some are very small indeed, while others represent significant jumps to either side of the economic left or right.

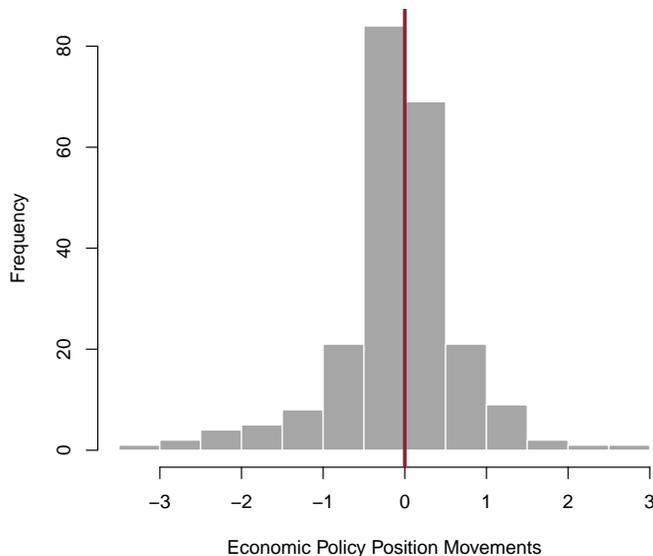


Figure 3: Shifts in Announced Economic Policy Positions Towards More Market-Oriented Policies (Right) or More State-Oriented Policies (Left).

It is difficult to validate our results as no comparable time-series of presidential economic policy positions currently exists. What we can do is to examine, firstly, how accurately the Coppedge time-series measure of ideology for Latin American parties (Coppedge, 1997) predicts our economic policy positions in a simple OLS regression with country and year fixed effects. We can also relate our estimates to economic trends we might expect given left or right economic policy-making and run a series of models in which we regress our economic positions on a number of key economic indicators, including credit worthiness, logged levels of inflation and market capitalization.¹⁵

The results corroborate our approach. The Coppedge (1997) measure is strongly related to our economic policy positions. Also, presidents who adopt positions on the economic right

¹⁵See appendix for further details.

have higher rankings for creditworthiness, higher market capitalization and lower levels of logged inflation, compared to left-leaning governments. We also examine whether changes in the economic positions that we measure relates to changes in key macroeconomic indicators. Indeed they do. When presidents move to the economic right, inflation decreases. Similarly, credit worthiness increases with movement to the economic right, as does market capitalization.

4.3 Measuring International Capital Pressure

Our theory centers on the pressure international capital is capable of exerting on governments. As discussed above, Latin American countries are typically subject to exchange market pressure (EMP) or credit market pressure (CMP), and we consider a government to be under stress if at least one of the two mechanisms are at play. The operationalization of both indicators follows a similar logic: a country is under pressure during a particular year whenever economic conditions exceed a specific threshold.¹⁶

In line with Campello (2013) and Eichengreen et al. (1995) we measure Exchange Market Pressure (EMP) as follows:

$$\text{EMP}_i = \frac{\Delta s_{i,t}}{\sigma \Delta s_i} - \frac{\Delta r_{i,t}}{\sigma \Delta r_i} \quad (1)$$

where s represents changes in the currency reserves, and r changes in the exchange rate. These observations are weighted with their respective standard deviations on the basis of annual averages. We then convert this measure into a dummy variable indicating exchange market pressure; whenever the index exceeds one standard deviation, scarcity of foreign currencies is imminent and the corresponding year is coded as 1, and all others as 0.

Credit Market Pressure (CMP), on the other hand, may stem from two different sources, when governments have to overly rely on borrowing from banks or the issue of bonds to raise money. We therefore build two indicators—a bank pressure index and a bond pressure

¹⁶Please see the Appendix for the validation of the two main explanatory variables.

index—in an identical manner to EMP above. We take the annual change in the bond and bank-lending as a percentage of GDP for each country and weight these annual changes with their respective standard deviations.¹⁷ We code Credit Market Pressure as 1 for any year with a severe credit crunch in either the bond markets or the banking sector.

Table 2 summarizes our two main explanatory variables. We do not observe any instance of international capital pressure in 245 cases. We observe credit market pressure during 32 years and exchange market pressure during 23 years, with an overlap of five cases.

Table 2: Frequency of Credit Market Pressure (CMP) and Exchange Market Pressure (EMP).

	No CMP	CMP	Sum
No EMP	245	32	277
EMP	23	5	28
Sum	268	37	305

5 Analysis of Presidential Speeches

We expect that presidents will tailor the saliency, and the subject matter, of their speeches during times of heightened international capital pressure. When faced with the threat of capital flight or credit shortages, presidents should devote more attention to economic policy making and announce a market oriented economic policy direction.

5.1 Presidents Highlight Economic Topics

What are the topics Latin American presidents address in their state-of-the-union speeches? While the model defines 34 topics, here we present only the topics where pressure from international capital systematically changes the likelihood of mentioning this topic.¹⁸ Figure 4 shows the overall expected topic proportions of the state-of-the-union speeches relative to all $k = 34$ topics of the model. Developing the country by supporting education and families

¹⁷This data comes from the World Bank’s World Development Indicators.

¹⁸See appendix for an overview.

(topic 23) and juvenile delinquency (topic 8) are mentioned most frequently. In comparison, improving the conditions of the poor and workers (topic 1) and pressures from globalisation (topic 20) are mentioned much less often.

Overall, we can cluster the relevant topics presidents address during times of crises into three semantically meaningful themes. First, and with regards to social policy, presidents talk about improving the conditions of the poor and workers, and discuss juvenile delinquency and the well-being of families. Second, presidents tend to link several distinct topics to the broad general theme of development and productivity. In this vein, the fight against crime, supporting education and families, transforming the environment and building infrastructure are repurposed for the economic well-being of the nation. Thirdly, presidents address six explicit economic topics; including stabilization, economic development through technology, improving productivity through education—an idiosyncratic topic related to economic development in Ecuador—in addition to pressures from globalisation and general difficulties for the domestic economy.

In addition, we can also explore the typical word usage presidents employ in their state-of-the-union addresses during years with pressure from international capital and contrast them with years without pressure (Table 3). Faced with international capital pressure, the core vocabulary of presidents relates to economic hardship and crisis, indicating that incumbents do indeed react to difficult economic times.

Table 3: Typical Terms During Years with Pressure from International Capital and Years Without Pressure from International Capital. Calculation Based on Structural Topic Model.

No Pressure	Pressure
priorid principi larg necesit	dificultad actitud cort esper
princip propuest luch con-	garanti crisi difcil sufr posi-
secu social aun continu priv-	bil dirig actu maner
ilegi	

To test our first hypothesis on saliency, however, we need to explore the impact of pressure from capital markets on topic proportions. Figure 5 depicts topics for which we find a system-



Figure 4: Expected Topic Proportions in State-of-the-Union Speeches Relative to the Overall Text Corpus. The Overall Number of Topics in the Model is $k = 34$. Figure Shows Only Topics That Receive Systematically Different Attention During Years of Pressure from International Capital.

atic difference in topic proportions between a year with pressure from international capital and a year without such pressure. The point estimate is represented with a circle, while the bar indicates uncertainty at the 90% confidence level. The results indicate that in the light of pressure from international capital, the two social policy topics—improving conditions of the poor and of workers, and juvenile delinquency—receive less attention in presidential speeches. Instead, presidents stress the development of the country. With regards to the economy, presidents systematically talk more about stabilising the country, developing the economy through technology and increasing productivity through investment in education. Interestingly, presidents also clearly avoid talking about pressures from globalisation and also about (general) difficulties for the domestic economy.

These findings are in line with our theoretical expectations and corroborate H1. Presidents generally try to cater to the needs of their electorate but at times, the interests of international capital take precedence. Exposed to economic pressures, presidents tone down all social policy topics. Yet, if such policies can be tied to developmental issues as, for instance, building human capital (topic 23 and topic 29), the topic receives more attention. In a similar vein, fighting conflict and crime (topic 18) is only salient if it has a clear link to the development of the country. Even if a topic is likely to go hand-in-hand with an expansion of the state—such as transforming the country’s infrastructure (topic 33)—presidents will pay more attention to it if it helps emphasise the competitiveness of the economy. In sum, presidents stress those topics that are in line with what international capital owners would want to hear. Quite tellingly, presidents tone down mention of pressures from globalisation and difficulties for the domestic economy, which may already hint at a substantive shift in their policy preferences—an aspect which we explore in the next section.

5.2 Economic Positions and Pressure from International Capital

What economic policy preferences do presidents display during times of crises? To explore this question, we use the change in the announced economic position of a president in a

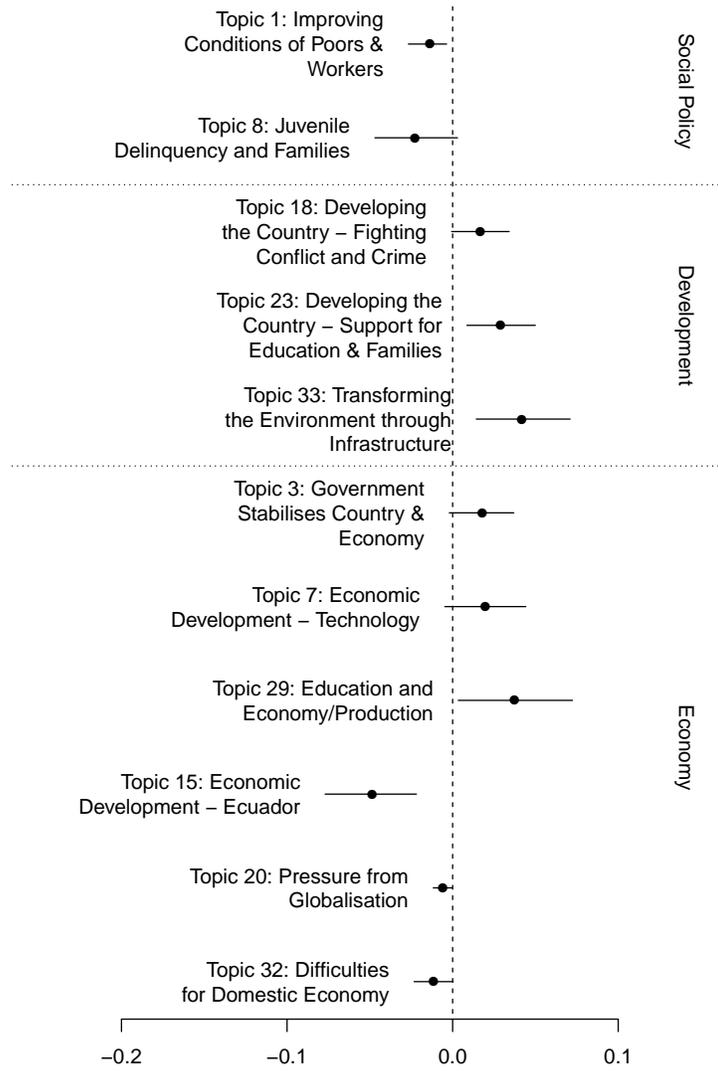


Figure 5: Expected Shifts in Topic Proportions in State-of-the-Union Speeches from Years Where Presidents Are Exposed to International Capital Pressure. Figure Shows Only Topics That Find Systematically Different Attention.

given year as our dependent variable. Our main independent variable is a dummy, which is coded as 1 if a country experienced EMP *or* CMP in a particular year and 0 otherwise. In addition, we include the lags of the disaggregated EMP and CMP dummies, in order to explore whether the effects of credit shortage or capital flight persist even after these crises have passed. We also add controls for different substantive mechanisms and fixed effects for years and countries.¹⁹

To account for potential political business cycles, we consider executive or legislative elections in a given year. The percentage of seats held by the executive's party in the legislature is an indicator of presidential strength. Together with the average age of political parties these two measures serve as a proxy for the stability of the political environment. These political variables are taken from the World Bank Dataset on Political Institutions (Beck et al., 2001). We further control for constitutional prerogatives using a measure of presidential power (Doyle and Elgie, 2014). Finally, GDP growth from the World Bank's World Development Indicators reflects the state of the economy.²⁰

Model 1 in Table 4 reports regression results for our main explanatory variables only. In line with our theoretical expectations, international capital pressure coincides with more market-oriented economic policies and the effect is statistically significantly different from 0. Model 2 in Table 4 controls for idiosyncratic effects with year and country fixed effects, which slightly increases the effect sizes, but otherwise confirms our results. The results remain robust when we add substantive control variables (model 3), combine both substantive variables and country and year fixed effects (model 4), and even when we distinguish between the kind of credit market pressure (model 5).²¹ During years of international capital pressure, presidents announce a change in economic policies towards more market oriented policies worth about one third of a standard deviation in the respective domestic policy space. All in all, these results indicate strong support for our second hypothesis.

¹⁹Full descriptive statistics for the additional variables can be found in the Appendix.

²⁰The results remain the same when we include a control for inflation.

²¹The number of cases drop due to missing data in some of the control variables, in particular due to lack of information on party age.

Table 4: Regression Results for the Main Effects.

	Model 1	Model 2	Model 3	Model 4	Model 5
ICP	0.260*	0.273	0.301*	0.344*	0.329*
	(0.124)	(0.144)	(0.146)	(0.163)	(0.164)
EMP (lag)	0.233	0.313	0.231	0.299	0.358
	(0.183)	(0.208)	(0.196)	(0.219)	(0.220)
CMP (lag)	-0.494**	-0.564**	-0.587**	-0.685**	
	(0.160)	(0.183)	(0.173)	(0.197)	
CMP-Bank (lag)					-0.891*
					(0.341)
CMP-Bond (lag)					-0.524*
					(0.233)
Exe. Election			-0.057	-0.055	-0.068
			(0.195)	(0.223)	(0.224)
Leg. Election			-0.086	-0.072	-0.067
			(0.177)	(0.213)	(0.213)
Party Age			0.001	0.002	0.001
			(0.002)	(0.003)	(0.003)
Exec. Seat Share			0.190	0.401	0.345
			(0.369)	(0.509)	(0.512)
GDP Growth			0.015	0.044*	0.041*
			(0.014)	(0.018)	(0.019)
Pres. Powers			-0.302	-0.939	-1.020
			(0.319)	(1.226)	(1.233)
Country-Year FE?	No	Yes	No	Yes	Yes
AIC	453.83	486.35	436.55	461.92	463.18
N	205	205	190	190	190
R-squared	0.072	0.278	0.106	0.343	0.346

**p < .01; *p < .05

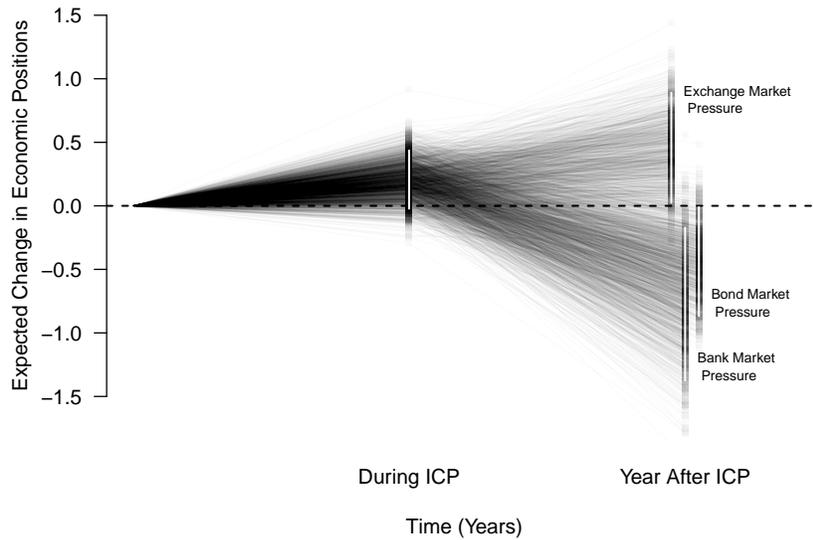


Figure 6: Expected Shifts in the Announced Economic Positions During International Capital Pressure. Distinction Between the Year After Exchange Market Pressure (EMP) and the Year After Credit Market Pressure (CMP). Confidence Level at 0.9.

The results for the lagged EMP and CMP variables are particularly noteworthy. Figure 6 visualizes our findings, displaying the simulated expected shifts in the economic policy space on the vertical axis and time since capital pressure on the horizontal axis. What we can observe from this figure is that in the year after a country was subject to exchange market pressure, presidents show a tendency to move *further* towards more market-oriented economic policies. In contrast, in the following year after credit market pressure, presidents announce more state oriented economic policies. And this proves to be the case for both bond and bank based pressure, although this effect is more dramatic in the case of credit crunches in the banking sector. Incumbents signal economic policies that are almost half a standard deviation more state oriented in terms of the normalised national economic policy space. This suggests that the durability of these economic signals will be dependent on the type of economic pressure that a president faces. The legacy of exchange market pressure would appear to compel presidents to continue to send market-friendly economic signals even after the moment of capital pressure has passed. The effects of credit market pressure appear to

be more fleeting. Once access to credit has been secured, presidents appear to revert back to expansionary policies.

It is difficult for us to say exactly what is happening here but we think an answer may lie in the work of Kaplan (2013). Kaplan (2013) has suggested that Latin American governments will find their spending habits constrained in different ways, dependent on the nature of their debt—that is, whether it is bond or bank-based. When foreign debt is largely comprised of bank loans, the small number of lenders ensures that the holders of these loans can coordinate their actions. Given each bank has a very high stake in the future solvency of the borrower, they do not act to withdraw funds in conjunction, but continue extending lifelines to the borrower in order to prevent a default. Banks therefore give rise to a moral hazard problem and allow stimulus-minded politicians to expand the public economy in line with traditional political business cycles (Kaplan, 2013, 46-47). In contrast, when foreign debt is largely held in bonds, then creditors in bond markets are atomized and have a significant collective action problem. Ironically, this means that creditors can easily dump the bonds of uncooperative national governments, compelling stimulus-minded politicians to adopt more cautious spending habits (Kaplan, 2013).

Some tentative evidence of this can be seen in our data. Once Latin American governments adopt a more market-friendly position in response to a loan crisis, banks continue to lend to the government to ensure its solvency. These loans change the viable policy portfolio and enable governments to restart spending and to shift their signal back towards the electorate and a more redistributive oriented stance. As a result, the newly signalled economic shifts are not enduring when debt is held by banks. Bonds are slightly different: the continued, and very real, threat of an immediate fire sale exerts a firmer grip over governments (Kaplan, 2013). In this scenario, the atomized nature of bond-holders ensures that shifts back towards more redistributive and state-oriented economic positions in the wake of difficulties in the bond market are far less pronounced.

6 Conclusion

Previous work has provided us with important insights into the economic (Stokes, 2001; Remmer, 2002), political (Samuels and Shugart, 2010) and international (Kaplan, 2013; Campello, 2013; Pinto, 2013) pressures on economic policy making in new democracies. But while we know that international capital imposes significant restraints upon governments, we lack theoretical and empirical understanding about how governments manage expectations from capital owners.

In this paper, we argue that rhetoric and speeches are a fundamental tool of risk management for presidents as part of the ‘confidence game’. Using a text corpus of 276 state-of-the-union speeches from 67 presidents in twelve Latin American countries, from 1980 to 2014, we examine how Latin American presidents use highly visible speeches as a signalling device, to reassure international capital owners in times of economic duress, when the threat of capital flight and credit shortages are highest.

In order to isolate the economic signal presidents send, our study showcases a method to automatically extract sub-dimensions in texts. Scaling preferences on a more fine grained level further diversifies the already existing toolkit for the analysis of political text (e.g. Grimmer and Stewart, 2013; Laver and Garry, 2000; Laver et al., 2003; Slapin and Proksch, 2008). With our novel method, we overcome previous empirical obstacles by providing the first cross-national time-series data on announced economic policy preferences in twelve Latin American countries since their redemocratisation.

Our results show that, as expected, presidents adjust the salience of topics in their speeches, but also shift their policy positions in response to the pressures of international capital during times of crises. Firstly, executives emphasize topics that directly appeal to capital holders. They tone down mentions of compensatory social policies and rather repack-age such topics in particular as a means for economic development. Fighting crime, support for education and families, and investments in infrastructure, for example, are forms of social policies, but they are disguised as economic policy and productive investment when times

are dire.

Secondly, we demonstrate that Latin American presidents also use policy positioning to manage the expectations of international capital markets. In an effort to secure the confidence of capital and to maintain access to credit, executives shift their economic policy positions towards market-friendly policies. Interestingly we find that the durability of these signals is dependent on the form that these economic pressures take. When they stem from exchange markets, Latin American presidents continue to signal to international capital, even after the crisis has waned. In contrast, when such pressure was exerted by credit markets and a credit crunch has passed, Latin American presidents use their renewed access to credit to shift their economic signal back towards the electorate, announcing redistributive and state-oriented economic policies.

The dynamics we describe in this paper further qualify the debate on economic policy switching in Latin America (Campello, 2013; Kaplan, 2013; Pinto, 2013; Remmer, 2002; Samuels and Shugart, 2010; Stokes, 2001). Presidents can signal a shift in economic position before such a shift materializes and they can do so even without a related shift in actual policy. Speeches may therefore be a cheap way for a government to cushion the blow of economic crises. Nevertheless, such a strategy may run the risk of gambling away the trust that governments are trying to build *vis-à-vis* actors with convincing exit options. The relationship between these speeches, actual changes in economic policy and economic outcomes is an important but complicated one. It is beyond the scope of this paper and we leave it for future research to explore.

Of course, given that Latin American presidents are directly elected and their popular mandate is usually related to their pre-election pledges, such shifts in policy positions in response to exogenous and unaccountable actors may undermine the quality of representation and accountability (e.g. Conaghan, 1996; Johnson and Schwindt-Bayer, 2009; O'Donnell, 1994). In this sense, our findings also add a further piece to the discussions around the so-called left turn (Baker and Greene, 2011; Murillo et al., 2010; Roberts, 2015; Wiesehomeier

and Doyle, 2013).

But the focus on appeasing the fears of international investors above other concerns may come with normative implications, not only in new democracies. The Latin American populist experience rooted in a crisis of representation merely preceded the European populist turn marked by the Great Recession and a lack of responsiveness towards the median voter (Clements and Real-Dato, 2018). It is no surprise that the (rather timid) calls for a renewed Bretton Wood system to reign in the primacy of the financial sector, which were unheeded at that time, are gaining prominence in the current crisis triggered by the Covid-19 outbreak. Our results underscore the power that in particular exchange markets are able to exert on otherwise sovereign governments.

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