

How Presidents Answer the Call of International Capital

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Abstract

How do governments manage expectations from international capital keen on pressuring them into adopting market-oriented economic policies during times of crises? Studying executive communication in 67 annual state-of-the-union speeches in twelve Latin American countries between 1980 and 2014 reveals two broad options for strategic position-taking on economic policies. First, when times are dire, presidents not only talk more about the economy and less about social policy, but they also attempt to repurpose other policies as an investment in development. Second, economic turmoil encourages presidents to signal policies, which are appealing to international capital owners. However, while currency crises exert more enduring pressure, the effect from loan crises are more fleeting. Our results are particularly relevant to all who seek to understand how governments use public statements to address pressures from financial markets.

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). Signalling credibility to investors can therefore weigh heavily on government decision-making including inflation control (Remmer, 2002; Stokes, 2001), broader macroeconomic policies (Campello, 2015), infrastructure reforms (Henisz et al., 2005), or the exact terms of governmental debt issuance (Ballard-Rosa et al., 2022). Even left-leaning governments in the region cannot resist these pressures. Newly elected presidents need to appease volatile capital markets (Brooks et al., 2022) and in some countries, they have even abandoned their original state-oriented electoral platforms to address these pressures (Campello, 2015; Conaghan, 1996; Samuels and Shugart, 2010; Stokes, 1999). Indeed, many have argued that international capital has 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).

Governments are acutely aware that international capital can impose significant constraints on their policy options—even if some of their messages might get lost in translation (Naqvi, 2019). If incumbents are not perceived as favourable to capital, then this investment can pack up and move elsewhere (e.g. Santiso, 2003; Campello, 2013, 2015; Conaghan, 1996; Kaplan, 2013; Pinto, 2013; Remmer, 2002; Samuels and Shugart, 2010; Stokes, 1999, 2001). For example, the former Brazilian president, Fernando Henrique Cardoso, recalls 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).

And while we increasingly understand how governments strategically access loans (Brooks et al., 2022; Cormier, 2022; Ballard-Rosa et al., 2022) and how markets (mis)perceive governments (Naqvi, 2019; Ballard-Rosa et al., 2019), we still have very little knowledge about how governments actively manage their reputation (Mosley et al., 2020, 220). The vital signal in this game is the language and speeches used by governments to build such confidence (Santiso, 2003, 34). In fact, apart from some work on central bankers (Baerg, 2020; Morris and Shin, 2007; Myatt and Wallace, 2014), there is little scholarship exploring how governments try to convince capital that their country is a safe investment opportunity.

We build on insights from 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). When exposed to the pressures of international capital, presidents use highly visible government policy messages to manage expectations. Presidents frame their speeches in a manner that makes them more compatible with markets and therefore emphasize and frame issues pertinent to investors. In addition, presidents also change the very nature of the policies they are announcing and so signal that market-friendly changes in their economic policy are on the way. Once the pressure is off, however, presidents react according to the nature of the pressure. If the national currency market was under stress, presidents are still aware of the force of decentralised markets and will stick with their reform plans. If, however, the crisis was due to pressure from the credit market, presidents will use these new funds to expand the state and announce strong interventionist policies in the subsequent year—in particular if these funds came from centralised bank loans.

To test our argument, we analyse the underlying economic signal in the annual state-of-the-union addresses of 67 Latin American presidents across twelve countries between 1980 and 2014. These high profile institutionalized messages are a particularly apt source for our purposes; they allow us to explore the saliency attached to policy issues with structural topic models (Roberts et al., 2014) and they also permit us to scale the economic policy position of these presidents (Slapin and Proksch, 2008).

Our paper makes two main contributions. Firstly, we contribute to work exploring how governments in emerging markets use language and speech to play the ‘confidence game’ (see Santiso, 2003; Blinder et al., 2008). Governments use 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. They also shift their 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 back towards their original position, seems to be dependent on the nature of the economic pressures they faced. Currency crises compel presidents to maintain market signals even after the worst of the crisis has passed. In contrast, once credit crunches end, presidents, endowed with fresh funds, have greater freedom to revert back to their preferred position.

Secondly, to isolate the economic preferences 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. Our method automates what so far has been the manual parsing of a specific sub-dimension from texts. This will help advance the growing body of work on the identification and measurement of

preferences from text (Grimmer and Stewart, 2013; Lucas et al., 2015), complementing existing efforts to measure the policy position of Latin American political actors based on text (Arnold et al., 2017; Izumi and Medeiros, 2021), 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).

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 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; Ubiergo 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 combined with the lack of domestic savings, particularly during a time of low commodity prices and high US interests (Campello, 2015), resulted in a notable increase in the political power of capital, which could easily move in and out of Latin American economies.

During periods of economic crises, when such tensions are heightened, this dependence resulted in even left-leaning presidents reneging on their previous campaign promises (Campello, 2015; Samuels and Shugart, 2010; Stokes, 1999). When faced with funding constraints from global bond markets, stimulus-minded politicians were forced to engage in cycles of austerity (Kaplan, 2013). The increasing mobility of portfolio capital has therefore placed pressure on the tax share of capital across Latin America since 1978 (Wibbels and Arce, 2003) and has exacerbated the downward effect of trade openness on welfare spending

(Kaufman and Segura-Ubiergo, 2001). When 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 flow may subside, however, in the light of a looming crisis. In such contexts, the exit threat of international capital places severe pressure on Latin American governments.

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) (see Campello, 2013). 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. 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 to smooth the electorate's consumption.

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). 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. But this access comes at a price. Governments need to maintain the image as reliable debtors if they want access to capital. With a view to securing the repayment of debts, capital therefore reduces the room for maneuver of political elites (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 economic 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) and Latin American presidents are well aware that the economy matters for electoral calculations (Johnson and Schwindt-Bayer, 2009). 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; Alvarez and Marsteintredet, 2009; Hochstetler and Edwards, 2009). Given crises’ devastating economic effect and their potential existential political threat, 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 (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 this context, speeches and the language used by politicians are crucially important as part and parcel of crisis management and as an efficient way to manage market expectations. Government statements can help signal the commitment to low inflation and fiscal discipline, reassure investors and assuage their fears, which in turn can reinforce the ‘cognitive regimes’ of market participants (Santiso, 2003, 34). Speeches offer political elites a key opportunity to build a narrative about their economic reforms. While the policies themselves define the regulatory details, speeches allow for contextualization and provide a broader picture about where they want to lead the country. In short, we expect that prominent speeches play a key role in governments’ communication. Any change in economic policy making will always be accompanied by its respective communication. The question is, how will it look like?

Recent work suggests that political elites are indeed 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). Governments also rely on highly visible communications that highlight their economic policy to manage and shape the expectation of markets on a regular and fine-grained basis (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 creditors (Aizenman and Marion, 2001). For economic elites, such as central bankers, communication constitutes a key means to manage expectations (Blinder et al., 2008; Baerg, 2020). 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 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 sentiment of markets. Faced with pressures from international capital, presidents 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) and by trying to counter capital flight through an emphasis on 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: saliency and 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, incumbents signal that they are addressing issues relevant to the interests of investors. And secondly, the subject matter of their speeches will also shift and some topics should suffer to the detriment of others. For example, 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. 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 wellbeing, while diminishing the space available to address traditional welfare topics (Avelino et al., 2005).

Hypothesis 1: Faced with international capital pressure, presidents devote more attention in their speeches to the economy.

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. Presidents will not only emphasise the economy in their speeches; they will also signal a shift in their overall economic policy towards the market and the preferences of capital:

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

While governments may use their rhetoric to signal political reforms, these signals are not necessarily enduring. The structure of capital markets influences how much scope there is for politicians to abandon costly economic policy reforms. Kaplan (2013) suggested that Latin American governments will find their spending habits constrained by the centralisation of creditors. When foreign debt is largely comprised of bank loans, each bank has a very high stake in the future solvency of the borrower, and they continue extending lifelines to the borrower 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. Creditors can easily dump the bonds of uncooperative national governments, compelling stimulus-minded politicians to adopt more cautious spending habits (Kaplan 2013). Since the foreign currency market, just as the bond market, can be characterised by a high degree of decentralisation, we suggest that crises related to the exchange rate will have enduring effects on governments. Currency markets constantly monitor and evaluate the actions of the government. Thus, should presidents renounce their capital-friendly position, they run the likely risk of facing markets' immediate response. With a looming currency crisis, governments will tread carefully as they are eager not to lose the support and trust of international capital.

Hypothesis 3a: Following a currency crisis, a president's newly adopted market- friendly position is persistent.

After a loan crisis, presidents can access extra funds that can offer them a way out of austerity. The fresh capital changes the viable policy portfolio and enable governments to restart spending. Immediately after a loan crisis, Latin American governments spend this money and shift back towards more state oriented economic policy making in line with the preferences of the electoral constituency, and the newly intimated economic positions are not enduring.

Hypothesis 3b: After a loan crisis, the adoption of market-oriented economic positions is short lived and governments resort to more state oriented economic positions.

But, as Kaplan (2013) argues, not all loan crises are the same. Due to decentralised market structures, bond loans are able to exert stronger pressure on governments to remain with their market-based policy portfolio than bank loans.

Hypothesis 3c: After a bond loan crisis, governments revert less to state oriented policy making than after a bank loan crisis.

4 Data and Models

To test our hypotheses, we rely on a corpus of 276 state-of-the-union speeches from 67 presidents in twelve Latin American countries (1980--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 on a yearly basis. Presidents 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 and typically, these addresses are covered by domestic news and by the international financial media.

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. For example, in March 2016, former Argentine president, Mauricio Macri, was compelled to discuss the legacy of Kirchnerism and Argentina's loss of economic credibility on the international stage.¹ 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.² And in 2002, his successor, Vicente Fox, advocated for free-market reforms in his annual speech, stressing economic and political stability even in times of austere economic policies.³

Table 1 summarizes our sample of state-of-the-union addresses. We build on Arnold 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 redemocratization until 2014.⁴ Before analyzing the corpus, we pre-process the text, removing accents, turning all text into lowercase, reducing words to their stems, and subtracting Spanish stop words⁵ and any word that is related to the transcription of the speech.

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

4.1 Measuring Topics

We study the effect of economic crises on the choice of the topics in the state-of-the-union speeches with a structural topic model (Roberts et al. 2014). Building on Blei et al. (2003) who introduced latent dirichlet allocation to model each document in a corpus as a finite mixture over an underlying set of topics, their extended model allows the mix of topics in each document (*topical prevalence*), and the words used in each topic (*topical content*) to depend on covariates.

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 we want to study whether times of economic duress go hand-in-hand with a different topic composition. In addition, 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. Our analysis shows that 34 topics are a good fit for the data with national development being the most popular baseline topic in the corpus.⁶

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 and then use the *Wordfish* scaling model to quantify the latent ideal point (Slapin and Proksch, 2008). 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.⁷

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 to study political ideologies (Burden and Sanberg, 2003; Kellstedt, 2000; Laver and Garry, 2000; Rooduijn and Pauwels, 2011; Young and Soroka, 2012), to identify documents that relate to a certain topic (e.g. Beauchamp, 2017; King et al., 2013; Puglisi and Snyder Jr, 2011), or to scale

preferences (e.g. Eshbaugh-Soha, 2010; Ho et al., 2008). We, in contrast, want 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 terms⁸ and from party manifestos⁹ 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, but address policy issues in one or 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 from a random, manually annotated training set. Minimising misclassification, the algorithm identifies a text string of length l around a given word i for a certain number of different terms m from our dictionary, and then defines n terms in the vicinity of the word i as belonging to economic policy making.

Finally, using the identified passages on economic policy making, we measure the economic position (*Scaling Step*) with the *Wordfish* model (Slapin and Proksch, 2008). Estimating a separate model for each country, we retrieve a standardized, latent position of each speech on economic policy making. Presidents' displayed preferences for economic policy are comparable within, but not across countries. Figure 1 reports the results of this three step exercise. More state-oriented economic preferences are depicted in darker gray and more market-oriented economic preferences are in lighter gray. The results are in line with substantive knowledge about Latin American politics, be it the evidence for the pink tide in the new millenium or the positions of well-known individual presidents like the Kirchners in Argentina, Hugo Chávez in Venezuela, or the more moderate social democrat Michelle Bachelet in Chile. Alvaro 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.

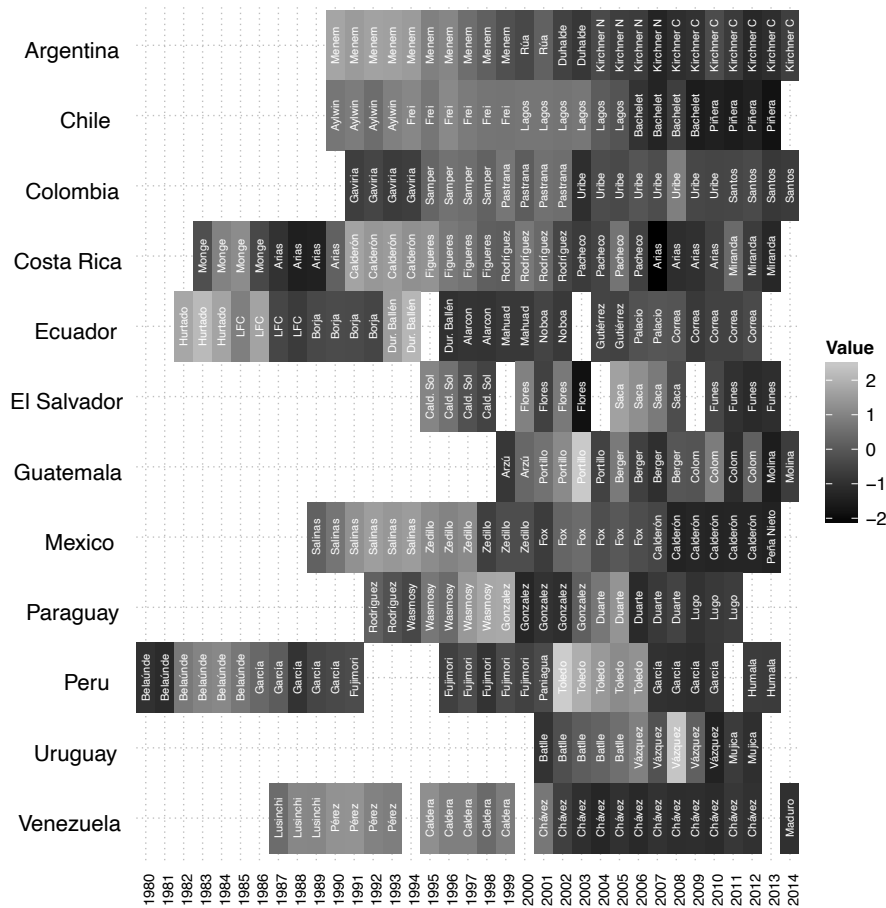


Figure 1: Economic Positions of Latin American Presidents. Data is Standardised as Countrywise z-Scores. The More Market-Oriented the Announced Economic Policy Positions, the Lighter the Shading; the More State-Oriented the Announced Economic Policy Positions, the Darker the Shading.

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.¹⁰ Figure 2 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. In a large proportion of cases, we can observe only small shifts in presidents' economic policy positions. But 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.

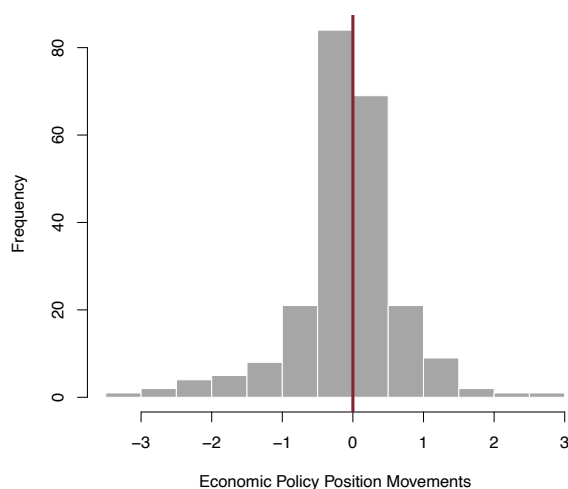


Figure 2: Shifts in Announced Economic Policy Positions Towards More Market-Oriented Policies (Right) or More State-Oriented Policies (Left).

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.¹¹ In line with Campello (2013) and Eichengreen et al. (1995) we measure Exchange Market Pressure (EMP) as

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

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. The authors then convert the measure into a dummy variable; 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) may stem from two different sources. To raise money, governments may have to rely on borrowing from banks or issue bonds. We therefore build two indicators—a bank pressure index and a bond pressure index—in a similar 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. 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 issues that Latin American presidents highlight in their speeches during economic crises? While the model overall defines 34 topics, only eleven of these topics appear salient during times of crises.¹² Figure 3 depicts all topics for which we find a systematic 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. 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. The fight against crime, supporting education and families, transforming the environment and building infrastructure are repurposed for the economic well-being of the nation. 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. Presidents avoid talking about pressures from globalisation and about (general) difficulties for the domestic economy.

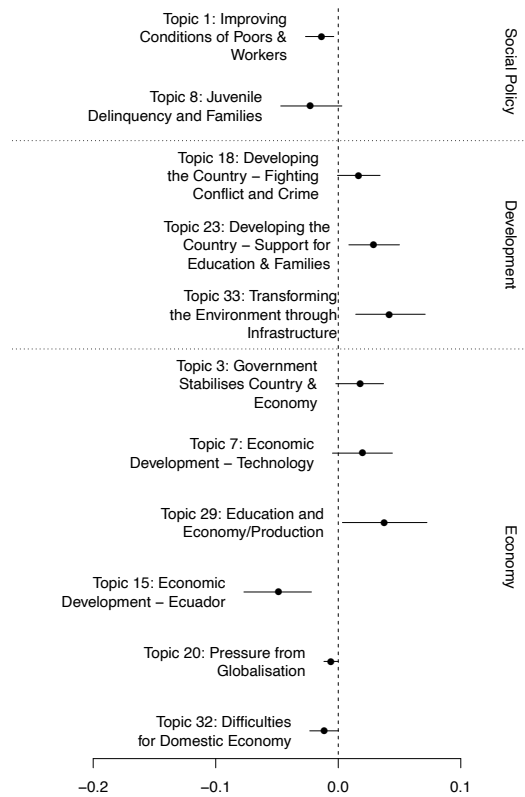


Figure 3: Expected Shifts in Topic Proportions in State-of-the-Union Speeches from Years When Presidents Are Exposed to International Capital Pressure. Figure Shows Only Those Topics That Find Systematically Different Attention. Confidence Level at 0.9. Mean Position as Point.

We can contrast the most frequent word usage of presidents in their state-of-the-union addresses during years with pressure from international capital and compare 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 necessit princip propuest luch consecu social aun continu privilegi	dificultad actitud cort esper garanti crisi dificil sufr posibil dirig actu maner

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. Fighting conflict and crime (topic 18) receives attention 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 emphasize the competitiveness of the economy. In sum, presidents stress those topics that are in line with what international capital owners 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

To study presidents' announced shifts in economic policy making, we run a regression analysis of the policy changes in a given year. 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, bank-CMP and bond-CMP dummies, 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. 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 legislative strength while the average age of political parties serves as a proxy for the stability of the political environment (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.¹³

We summarise our main findings in Figure 4.¹⁴ Based on 3000 simulations, it displays the expected shifts in the economic policy space on the vertical axis and time since capital pressure on the horizontal axis. 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 for the latter. Incumbents signal economic policies that are almost half a standard deviation more state oriented in terms of the normalised national economic policy space, suggesting that the durability of these economic signals will be dependent on the type of economic pressure they face. 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 are more fleeting. Once access to credit has been secured, presidents appear to revert back to expansionary policies.

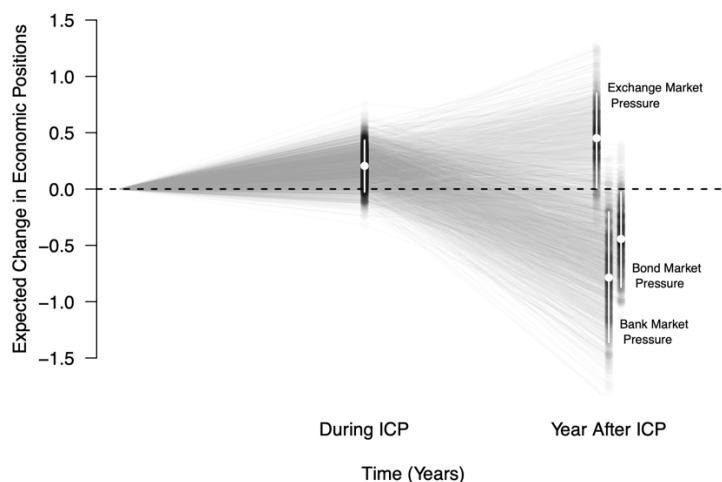


Figure 4: Expected Shifts in the Announced Economic Positions During International Capital Pressure. Distinction Between the Year After Exchange Market Pressure (EMP) and the Year After Credit Market Pressure (CMP). Confidence Level in White at 0.9. Mean Position as White Point.

5.3 Meaningful Economic Signal or Hot Air?

Our empirical analysis indicates that Latin American presidents tailor their economic signal depending on the circumstances facing their country. We are making the reasonable assumption that they highlight their market friendliness, to calm the fears of markets and investors in the wake of credit and exchange market crises. Of course, the question remains as to whether these signals are actually meaningful. If presidents are using these speeches to

signal to markets, then we might anticipate these signals would be noticed—otherwise, they are just hot air.

We do think that markets will react to these speeches. To establish this empirically, we would need to be able to isolate which aspect of the international capital markets is the accurate to examine and secondly, we would have to try and account for the positive signal that markets may already have inferred from the administration. That is, by the time the speech is delivered, the anticipation of a positive economic shift might already be baked into market movements.

One thing we can do however, is explore how the international financial media responds to these speeches. There are numerous studies demonstrating that markets react to stories in the international media (e.g. Zhang et al., 2016; Capelle-Blancard and Petit, 2019; Alomari et al., 2021) and it is not that great a leap of faith to suggest that if these speeches cause reactions in the financial press, then this might translate to actual market responses.¹⁵ To explore the effect of these speeches on the financial media, we analyse stories from the Reuters Financial News Collection (n=106,521), spanning the period from 2006 to 2012 (Ding et al., 2014). From this text corpus, we collect all news stories that carry the name of the country, the name of any president, the word 'message', or the word 'president' and then we select those news articles that have at least two of these terms during the 90 days before until the 90 days after the respective state-of-the-union speech.

We take a straightforward dictionary approach to measure the financial uncertainty of the financial newswire from Reuters. The starting point are all articles that we selected with our key words. Aggregating all articles of the same day and using the dictionary from Loughran and McDonald (2011), we then count how many terms that express uncertainty go out via the Reuters news wire on each day. Across the 180 days in the eleven countries over eight years, we can measure the daily financial uncertainty with regards to a particular country on

6263 days. As any count variable, our uncertainty measure is right skewed and has a minimum of 0, a maximum of 154, a median of 9 and a mean of 12.07.

With this data we then estimate the local average treatment effect (LATE) of the state-of-the-union speeches on the uncertainty expressed in the international financial media. We implement the non-parametric regression discontinuity design (RDD) framework (Calonico et al., 2014; Cattaneo et al., 2019), and use the date of the speech itself as the discontinuity. Those speeches that display a more market friendly position should be received differently from those speeches that take a more state oriented stance. To distinguish between more state-oriented messages and more market-oriented messages, we divided our sample on the grounds of a country-wise median of the preferences for economic policy making expressed in the speech.¹⁶ In addition, we also investigate the effect from crises. We thus calculate the LATE in six different samples. We distinguish between media reactions to all market-oriented speeches vs. media reactions to all state-oriented speeches. We also further subset each of these data sets and distinguish between speeches that were given during a year of financial crisis vs. a year without any financial crisis. We then analyse the RDD designs for each of these six scenarios with financial uncertainty as our dependent variable.

Figure 5 summarises our findings.¹⁷ A speech in which presidents announce state oriented economic policies on average tends to slightly increase the uncertainty in the international media. However, this effect is not distinguishable from zero on statistical grounds. In contrast, speeches that are explicitly making the case of a market oriented economic policy decrease media uncertainty. While the point estimates for the complete data set and the data on the years that are not in crisis show a similar reduction in uncertainty, the point estimate is the strongest during years of economic crisis. The effect for the complete data is distinguishable from zero at 95% confidence level. When splitting the sample, the reduced sample sizes naturally increase the margin of error, but the substantive message remains the

same and the results are in line with our theoretical expectations. If a speech conveys a state oriented economic policy platform, there is no effect from a presidential speech. But presidents do indeed manage to smooth the markets with their speeches when they announce more market oriented economic policies, effectively reducing the anxiety among international investors. When presidents signal more market-friendly positions or signal a move towards more market-friendly positions, then this results in lower levels of uncertainty in the international financial press.

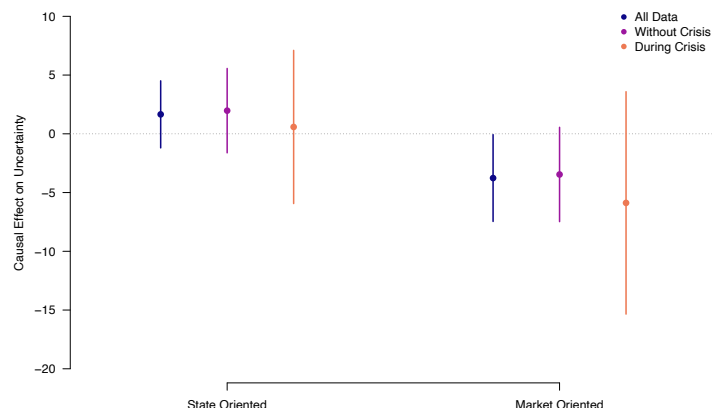


Figure 5: Causal Effects from the State-of-the-Union Speeches on the Uncertainty Expressed in Articles on the Respective Countries in the Reuters Financial News Corpus. Data Covers 2006-2012.

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 exactly governments manage expectations from capital owners (Mosley et al., 2020).

In this paper, we argue that rhetoric is a fundamental tool of risk management for presidents. 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 these governments 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.

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 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 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 repackage such topics 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 when times are dire they are disguised as economic policy and productive investment.

Secondly, in an effort to secure the confidence of capital and to maintain access to credit, Latin American presidents 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 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. 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 in turn undermine the quality of representation (e.g. Conaghan, 1996; Johnson and Schwindt-Bayer, 2009). In this sense, our findings also add to the discussions around the so-called left turn (Baker and Greene, 2011; Murillo et al., 2010; Roberts, 2015; Wiesehomeier and Doyle, 2013) and to more recent debates about voters' capabilities of attributing responsibility for economic performance (Campello and Zucco Jr, 2016; Zucco Jr and Campello, 2020; Hellwig and Carlin, 2020). 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.

The focus on appeasing the fears of international investors above other concerns may come with normative implications, above and beyond 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 et al., 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 exchange markets in particular are able to exert on otherwise sovereign governments.

Notes

¹”At Last”, *The Economist*, 5.3.2016.

²”Zedillo Tells Mexico Painful Economic Policies Are Farsighted”, *The New York Times*, 2.9.1998

³”Free-Market Upheaval Grinds Mexico’s Middle Class”, *The New York Times*, 4.9.2002

⁴Brazil not included for language reasons, since the topic model requires one single joint corpus. The identification step is optimized for the Spanish corpus, only.

⁵Snowball Stemmer.

⁶Please see the Appendix for further details.

⁷Please see the Appendix for further details.

⁸<http://www.economist.com/economics-a-to-z>, last accessed 19.07.2022.

⁹<https://manifesto-project.wzb.eu/>, last accessed 19.7.2022.

¹⁰We do not calculate differences *between* presidents, i.e. the last year of a resigning incumbent and the first year of a new president.

¹¹Data from the World Bank’s World Development Indicators. Please see the Appendix for the validation of the two main explanatory variables.

¹²Please see the Appendix for a full overview over all topics.

¹³Please see the Appendix for descriptive statistics.

¹⁴Please see the Appendix for the full results of the regression analysis.

¹⁵We can also explore how the economic position that presidents adopt in these speeches might relate to general economic trends that we expect to observe given these signals. Examining just the raw signal firstly, we can observe that presidents who adopt positions on the economic right have higher rankings for creditworthiness, higher market capitalization and lower levels of logged inflation, compared to governments leaning to the economic left. Please see the appendix for details.

¹⁶We also tested for a shift to more market or more state oriented policy making, but did not find any systematic differences.

¹⁷Please see the Appendix for further robustness checks.

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