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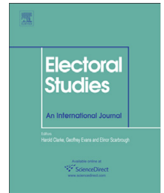

Partisan technocratic cycles in Latin America

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ABSTRACT

Given their powerful positions in presidential cabinets, technocrats are an important transmission mechanism for explaining economic policy choices, but have received less attention compared to other well-established channels such as elections or democratic tenure. I incorporate the role of technocratic advisors into a domestic policymaking framework. Specifically, I contend that left governments tend to appoint technocrats, or ministers with mainstream economics training, to signal their commitment to sound governance to the electorate. This partisan technocratic pattern, however, is conditioned by a country's place in its business cycle. During periods of high growth, left governments are more likely to align with their partisan preferences and appoint heterodox advisors that drift from fiscal discipline. Employing an originally constructed data index, the *Index of Economic Advisors*, I conduct a statistical test of 16 Latin American countries from 1960 to 2011, finding partisan shifts in technocratic appointments and fiscal governance that are conditioned by national business cycles.

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Following Brazil's closely-contested 2014 elections, President Dilma Rousseff unveiled a new economic cabinet in November amid sputtering economic growth and rising inflation. To head the new economic team as the country's finance minister, Rousseff selected University of Chicago-trained, orthodox economist Joaquim Levy who pledged to maintain “the sustainability of public finances” and “inflation vigilance.”[1] Why would a left government appoint such a hawkish advisor as minister of the economy? If the central programmatic aim of left governments is to “reduce social and economic inequalities” (Levistky and Roberts, 2011), why not appoint a more heterodox minister that is willing to use public finances to stimulate economic growth and job creation?

The appointment of technocrats, or ministers with specialized training in economics, has been a common reform strategy in Latin America in recent decades. In fact, there has been a fivefold increase in technocrats with advanced economics training serving as key members of Latin American presidential teams since 1970.[2] Such technocrats first emerged widely throughout the region following the 1980's debt crisis, when politicians hoped such expertise would help assuage foreign investors' concerns about economic turmoil undercutting their profitability (Schneider, 1998). Given their status as non-career politicians (Alexiadou, 2015), their professional training theoretically allows them to best diagnose economic problems (Dargent, 2014). However, technocrats are not exempt from ideological influences. They are often political too (Grindle, 1977; Camp, 1985; Domínguez, 2006), and tend to be aligned with certain ideological attitudes.

Macroeconomics is a profession that has been dominated by two major schools of thought, Keynesianism and monetarism. Both governance approaches have crisis roots, but they offer competing policy prescriptions. Keynesianism hopes to catalyze economic recovery through government stimulus, while monetarism hopes to control excessive expansion and inflation through austerity. The neoclassical synthesis in contemporary macroeconomics has sought to bridge the gap between these two schools of thought. Reticent about using fiscal policy to govern the economy, it has forged a mainstream consensus about the merits of principally conducting economic policy through an inflation-fighting independent central bank.

International institutions (Thacker, 1999; Vreeland, 2003) and global financial markets (Mahon, 1996; McNamara, 1998; Mosley, 2000, 2003; Wibbels, 2006; Kaplan 2013) have tended to link government financing to such mainstream economic approaches, which has been one common explanation for the global rise of centrist economic policies at the end of the 20th century. In developing countries, however, professionally-trained economists tend to have greater ideational diversity, with heterodox

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[1] *Reuters*, May 13, 2015.

[2] Author's calculations from *Index of Economic Advisors*.

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economists often criticizing the neoclassical synthesis for not being sufficiently interventionist. But, under what conditions do presidents appoint such heterodox economists? And why might left presidents surprisingly select more orthodox officials?

Today, the primary political aim of most left governments may be to target redistribution (Levistky and Roberts, 2011). However, in a region like Latin America where the degree of economic volatility is often two to three times higher than developed countries (Maddison, 2001), they also need to deliver economic stability. The political impetus to protect voters from negative income shocks can be as strong as the political incentive to pad their earnings. Moreover, prudent governance can also encourage investment by providing businesses with a stable operational environment. How does the left meet its redistributive goals, while also ensuring that they do not undercut economic stability?

In this paper, I theorize that left governments select mainstream economists to signal their commitment to sound governance. Their professional training emphasizes economic stability through fiscal discipline and inflation control, based on the foundational claim that large budget deficits are inflationary (Lucas, 1976; Sargent and Wallace, 1981). This macroeconomic consensus about fiscal policy is distinct from micro-level dimensions, such as privatization or public investment, where scholars have found that traditional partisanship is more likely to shape regulatory and policy outcomes (Murillo, 2009; Boix, 1998).

I find that this partisan technocratic pattern is conditioned by the national business cycle, which corresponds to the core findings of this symposium. While many of the contributions to the symposium address the 'demand side' consequences of such cycles (e.g. economic voting), this study examines economic swings from a 'supply side perspective', specifically the relationship between economic cycles and executive politics. The symposium finds that incumbents benefit from a strong economy because voters are more likely to positively assess their competence (Calvo, et al., 2016). By contrast, an economic downturn hurts the incumbent (Murillo and Visconti, 2016) amid heightened public saliency of economic issues (Singer, 2010). Notably, left governments tend to be more severely penalized for unemployment and poor economic conditions than their right-wing counterparts (Powell and Whitten, 1993; Abou-Chadi and Kayser, 2016), perhaps explaining why the left often tends to place relatively greater weight on economic issues during hard times (Castorena and Zechmeister, 2016).

In line with these 'demand side' incentives, my 'supply side' analysis expects that left governments often share a programmatic mission of reducing inequality (see Levistky and Roberts, 2011). In light of this goal, most left governments would prefer to hire heterodox economists that use fiscal expansion to deliver income redistribution and job creation. During periods of high economic growth when there is lower public scrutiny of economic issues (Singer, 2010), the left is most likely to align with these more traditional partisan priorities.

However, given public concerns about economic stability in Latin America, the left is often constrained by the state of the economy, and hence, tends to systematically appoints mainstream economists. In the 1990s, the economic volatility surrounding the region's debt crisis had ushered in a wave of market reforms that still resonates with much of the electorate today (Baker, 2008; Baker and Greene, 2011; Remmer, 2012). Redistribution is important, but not if it jeopardizes economic stability. The left's tendency to appoint mainstream fiscal conservatives intensifies during cyclical downturns, when they need to signal their capacity to protect voter incomes and promote a favorable business environment. Notably, this cyclical pattern corresponds with the history of procyclical fiscal spending in Latin America (Gavin and Perotti, 1997; Pinto, 2010), where budgetary expansions ebb and flow in line with the national economy.

In testing the theory, my analysis proceeds in two stages. I first examine the effect of partisanship on the professional orientation of ministers before exploring the independent effect of economic advisors on fiscal policy choices. During the first stage of this analysis, I also build on research that shows that policymakers' education is a proxy for their policy preferences (Chwieroth, 2007; Kogut and Macpherson, 2011; Nelson, 2014a, 2014b; and Alexiadou, 2015). In order to operationalize the policy orientation of key members of presidential economic teams, I employ a unique, novel dataset, dubbed the *Index of Economic Advisors.* This index characterizes the policy preferences of economic advisors (mainstream vs. heterodox) in Latin America over the last half century, based on their professional background and education credentials. To my knowledge, it's the first index of its kind to incorporate Latin American universities, which are also classified by ideological orientation through a series of in-country 2015-16 surveys of Latin America economists.

Using cross-national data from sixteen Latin American countries from 1961 to 2011, the empirical tests shows that left governments often appoint economic officials trained in mainstream economics, but the effect is conditioned by the state of the economy. The left tends to choose fiscal conservatives who systematically enforce budgetary restraint except for when the economy is in a cyclical upturn.

These findings mark a notable departure from the developed country literature on macroeconomic partisanship, providing evidence in support of the developing country scholarship that suggest that party systems are often less ideological than their European and U.S. counterparts (Roberts and Wibbels, 1999). In contrast to traditional models of the economy that expect a partisan split on inflation-control policies that favor businesses (Hibbs, 1977; Alesina, 1987; Bartels, 2008), these findings show that business cycle volatility can at times blur traditional class and partisan ideological differences.[3]

This investigation also offer new insights for studies examining globalization, neoliberalism, and the Latin American left, which have found considerable variation in the extent of government intervention in national economies. On one side of these debates, scholars have contended that economic integration (Rudra, 2002, 2008), global capital markets (Mahon, 1996; McNamara, 1998; Mosley, 2000, 2003; Wibbels, 2006), and international financial institutions (Thacker, 1999; Vreeland, 2003; Winters, 2010; Dietrich, 2013) have contributed to a retrenchment of Keynesian-style countercyclical fiscal policies in developing countries, including budget deficits and social safety nets. In support of this view, scholars have found that a variety of factors, including a weak labor movement (Roberts, 2002), party-brand dilution (Lupu, 2014), strong business interests (Thacker, 2000; Schneider, 2004; Fairfield, 2010), centrist voters and increasingly non-economic voters (Baker, 2008; Baker and Greene, 2011; Hellwig, 2014), and reform-seeking politicians (Corrales, 2000) helped facilitate a broad-based acceptance of this neoliberal consensus (Stokes, 2001; Murillo, 2002; Weyland, 2002; Levitsky, 2003; Roberts, 2012). Despite such policy retrenchment, other scholars have found that neoliberal reforms have not been uniform. Rather, many countries with import substitution industrialization legacies (ISI) have crafted political bargains (Frieden, 1991) that preserved supply side interventions in the economy, including industrial promotion, public employment (Kurtz and Brooks, 2008), labor protection

[3] Other forms of political manipulation (i.e. campaining with government resources) may be more common in these developing countries (Beaulieu and Hyde, 2008).

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