Democratic Default: Domestic Audiences and Compliance with International Agreements

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Draft. Comments Welcome!

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Abstract

This paper challenges an increasingly common claim about the relationship between domestic politics and foreign policy. Many political scientists argue that, in a democracy, domestic audiences constrain leaders to honor international commitments. I explain why this argument depends on three assumptions that are unlikely to hold in a wide range of cases. I then offer an alternative theory in which domestic audiences sometimes make compliance less rather than more likely, and I test it with a unique collection of public opinion polls about foreign debt in Argentina. The data reveal that domestic audiences prevented Argentina from suspending debt payments in 1999 but had the opposite effect two years later, when they contributed to the largest default in financial history. The results confirm the existence of a conditional, rather than direct, relationship between democratic accountability and compliance, and they suggest an important avenue for future research: investigating who favors default and when they are likely to become electorally decisive.
1. Introduction

A growing body of literature argues that democracies are more likely than authoritarian states to honor international agreements. Most justifications for this hypothesis invoke the concept of “domestic audience costs,” which Fearon (1994) used to explain military crises but others have modified to explain compliance with international agreements. In a democracy, it is argued, leaders that break international commitments will lose the support of constituents at home and damage their chances for reelection. The fear of being spurned by the domestic audience is thought to deter democratic leaders from violating commitments to foreigners. Incentives for promise keeping are purportedly weaker for autocrats, who “do not jeopardize their domestic political future when they abrogate international agreements or violate international norms” (McGillivray and Smith 2000: 821). Using this logic, researchers have predicted that democracies will repay their international debts (Jensen 2002; Schultz and Weingast 1996, 1998), comply with trade agreements (Mansfield, Milner, and Rosendorff 2002), honor their alliance commitments (Gaubatz 1996; Smith 1996), and otherwise cooperate more fully than autocratic states (Leeds 1999; McGillivray and Smith 2000).

This paper argues, in contrast, that democratic audiences do not exert a consistently positive effect on compliance. Existing theories presuppose that citizens in a democracy prefer compliance with international agreements and would remove leaders for breaking them. For three reasons this assumption is unlikely to hold across a wide range of cases. First, international agreements tend to be complex, and voters may not understand the stakes well enough to form opinions about them. Second, many factors influence the outcome of elections, and citizens may not view breaches of international agreements as important enough to sway their vote. Finally and most importantly, even knowledgeable and motivated voters may favor noncompliance as the best way to promote the national interest or their personal welfare. In fact, most international agreements have distributional consequences, creating domestic losers as well as winners, so we should expect part of the population in each country to regard noncompliance as the optimal policy. To the extent that democracy empowers those champions of noncompliance, it could make default more rather than less likely.

To shed light on how domestic audiences affect compliance with international agreements, the paper analyzes a unique collection of public opinion polls administered to Argentine voters between 1999 and 2002. Like many countries, Argentina borrowed money from private foreign lenders and multilateral organizations during the 1990s, and it vowed to repay the principal plus interest as stipulated in its loan contracts. After honoring the contracts for many years the Argentine government suspended payments on most of its foreign debt in December 2001, marking the largest default in financial history. The polls discussed this paper permit an unusually detailed look at how domestic audiences shaped foreign policy. They show, in particular, how popular attitudes about debt repayment evolved and influenced both election outcomes and government policy.

Analysis of these polls reveals that the Argentine default occurred in response to changing voter preferences about the value of compliance. Notwithstanding the complexities of international finance, most Argentine citizens had strong opinions about whether the debt should be repaid and let those opinions guide their votes. In 1999 a majority opposed default and turned against presidential candidate Eduardo Duhalde when he called for a suspension of debt payments. The eventual winner, Fernando de la Rúa, had campaigned on a platform of honoring the debt, but in 2001 his position became increasingly unpopular. When mass opinion tipped in
favor of default, citizens handed de la Rúa a devastating defeat in congressional elections, drove him to resign the presidency, and replaced him with a new leader who declared a moratorium as his first public act. The data thus show that even under “ideal” conditions, in which citizens formed opinions about international commitments and let those opinions affect their votes, domestic audiences did not behave as existing theories suggest. Voters blocked default at one moment but encouraged it at the next. The results thus point to a new direction for research. To better understand the effect of domestic audiences on international commitments, we must develop and test theories about who favors default and when they are likely to become electorally decisive.

The reminder of the paper is organized in five parts. Section 2 reviews recent work on democracy and commitment and explains why democratic audiences should promote compliance in some cases but play a neutral or negative role in others. Section 3 discusses how to test the conventional wisdom and the alternative in this paper, using evidence both across and within countries. Sections 4 and 5 examine how mass opinions shaped Argentine debt policy from 1999 through the end of 2001, and Section 6 concludes the paper.

2. Two Views About Domestic Audiences and Compliance

In recent years researchers have investigated how democratic institutions affect the maintenance of international agreements. Some have argued that the division of power between executive and legislature affects the likelihood of compliance (e.g. Cowhey 1993; Martin 2000), but most have focused the implications of elections, the hallmark democratic institution. Political scientists normally define democracy as a system in which citizens choose leaders through periodic competitive elections (Dahl 1971; Huntington 1991; Powell 2000; Przeworski et al. 2000). Countries that do not hold elections for public office are undemocratic, as are countries that prohibit political opposition or deny the franchise to a significant portion of the population. To understand the consequences of democracy for commitment, then, it seems essential to examine not only the interaction between executives and legislatures but also the preferences of the citizens who elect them. Elections are the sine qua non of democracy, and a complete theory of democratic commitments must take them into account.

The current wisdom holds that competitive elections make international commitments more credible (e.g. Gaubatz 1996; Leeds 1999; McGillivray and Smith 2000). Contributors to this literature observe that international leaders face two audiences, one external and one internal, and assert that domestic audiences will impose costs on leaders that break international agreements. These domestic audience costs are thought to be greater in democracies, where citizens could easily punish a promise-breaker by voting against him on election day, than in autocracies, where citizens might need a costly revolution, coup, or civil war to depose the leader. Since democratic leaders face higher domestic costs when they break commitments, they are more inclined than autocratic leaders to uphold international agreements. In existing work, then, democratic leaders are seen as more accountable to domestic audiences, and thus less likely to disappoint those audiences by violating international agreements.

This logic appears in recent work on many important topics on international relations, including sovereign debt, international trade, and military alliances. When a government borrows money from foreign lenders, it commits to repay the principal plus interest according to a schedule in the loan contract. Having received the money, however, the government could violate the contract by refusing to pay in full on time. Democracies are predicted to be more
trustworthy debtors because the domestic audience costs associated with default are higher for elected leaders than for authoritarian ones (Ferguson 2001; Jensen 2002; Schultz and Weingast 1996, 1998). As Schultz and Weingast (1998: 22-23) explain, “liberal political institutions provide a more effective punishment for enforcing sovereign loans because they make available a punishment of high magnitude and credibility: removal from office.”

By the same logic, democracies should show special reverence for trade agreements. A country that pledges to maintain free trade could subsequently cheat by raising barriers against imports. Mansfield, Milner, and Rosendorff (2002: 480) contend, however, that “cheating on trade agreements can generate domestic ‘audience costs’ for political leaders. Voters become aware that economic downturns may be attributable to leaders’ overtly protectionist policies and so become more likely to remove them from office…. These audience costs tend to be higher in democracies than in other regimes because the political survival of democratic leaders hinges more on election outcomes.” They conclude that “the superior ability of elections in democracies to constrain leaders prompts democratic rulers to be more cooperative internationally than their nondemocratic counterparts” (p. 478).

Parallel claims have gained prominence in the field of security studies, especially with regard to military alliances. Countries that enter alliances must decide whether to honor their commitments by remaining part of the pact and aiding partners in the event of conflict. Authors have conjectured that democracies are less likely than authoritarian states renege on the terms of an alliance, because citizens in a democracy can more readily impose costs on leaders that turn their backs on allies (e.g. Fearon 1994; Gaubatz 1996). As Smith (1996: 28-29) puts it, “democratic states face higher domestic costs for failing to honor alliance commitments. This means that democratic states should be more reliable alliance partners.”

These arguments, though innovative, portray democratic audiences too uniformly. This paper argues that citizens of a democracy sometimes encourage compliance with international agreements, but in other situations they do the opposite and in the balance of cases they play no role at all. To see why we should not expect democratic audiences to exert steady pressure in favor of compliance, the remainder of this section highlights three key assumptions in the existing literature and explains why they will not hold across a wide range of cases.

The conventional wisdom assumes that voters (1) understand the international issue well enough to form opinions about it, (2) regard the issue as sufficiently important to influence their vote, and (3) prefer compliance to default. When all three assumptions hold, domestic audiences should indeed deter democratic leaders from breaking international commitments. If any one of these assumptions fails, though, the relationship between elections and compliance could become either neutral or negative. Without assumptions (1) and (2), for example, leaders of the democracy would find themselves free to cheat on international agreements without provoking an electoral reaction. Without assumption (3), democratic accountability could actually make default more rather than less likely. Borrowing a term from astronomy, then, the conventional wisdom requires a “triple conjunction,” an alignment of three nontrivial assumptions.

These three assumptions almost certainly will not hold across a wide range of cases, however. Taking them in turn, assumption (1) requires that individuals know where they stand on the question of compliance with specific international agreements. Polls repeatedly show, however, that citizens are not well informed about world affairs. Most evidence on this question pertains to the United States, where we might expect the free flow of information to produce an especially knowledgeable electorate. Shortly after World War II, however, researchers estimated that 30% of American voters were “unaware of almost any given event in American foreign
policy” and another 45% were aware but unable to frame an intelligent argument (Kreisberg 1949). Despite the expansion of mass media in the past half century, research has not altered the conclusion that Americans know very little about international relations and even less about the details of treaties, conventions, and the like (Holsti 1996).

Under conditions of poor information, voters may not have genuine opinions about international agreements. During the 1990s, for example, nearly 40% of Americans confessed they “did not know enough to say” whether the principal commercial accord of the twentieth century, the General Agreement on Tariffs and Trade, was good or bad for the United States (Scheve and Slaughter 2001: 42). Moreover, even respondents who express opinions may not hold them firmly. As Converse (1964) argued in his classic study of nonattitudes, people sometimes conjure up random answers to survey questions, rather than admit to not having thought about the issue. Many citizens appear to have opinions about foreign policy in the grossest sense – should the country play an active role in the world, for example – but this is not the same as knowing whether the nation should honor certain international agreements. If most voters do not have firm and consistent views about compliance, or if they are not willing to make it a central part of the vote equation, they will not constrain democratic leaders in the way existing theories predict.

Nothing here implies that assumption (1) is unattainable, but it is most likely to hold during moments of crisis, when the decision to honor or abrogate an international agreement so profoundly affects the welfare of citizens that it becomes a leading issue of the day. Even Gabriel Almond, who depicted Americans are remarkably uninformed about international affairs, allowed that “when foreign policy questions assume the aspect of immediate threat to the normal conduct of affairs they break into the focus of attention and share the public consciousness with private and domestic concerns” (1950: 71-72). As we will see, the debt crisis in Argentina escalated to that level during the years 1999-2002, when loan repayment policies caused unemployment to soar and made the debate over compliance front-page news.

Assumption (2) requires citizens to vote on the issue of compliance with international agreements. This pattern of behavior is unlikely to emerge in most cases, however. People base their votes on many factors, including their preferences over domestic and foreign policy, their habits and partisan loyalties, and their impressions about the personal traits of candidates. Although researchers disagree about how extensively foreign policy affects election outcomes, even those who view it as highly important emphasize that foreign policy is one of many issues and more salient in some years than in others (e.g. Aldrich, Sullivan, and Borgida 1989; Hurwitz and Peffley 1987). At times voters do indeed focus on foreign affairs and, within that broad category, on compliance with international agreements. Argentina offers a clear example: the debate about debt repayment became not only front-page news but also a central campaign issue in 1999 and 2001. At other times, though, public attitudes toward international agreements take a back seat to other considerations, giving leaders more latitude to address commitments as they see fit.

It may seem that we could relax assumption (2) by interpreting the conventional wisdom as a claim about how leaders acquire reputations in the eyes of democratic audiences. Suppose that voters cannot directly measure the skills of elected leaders but can observe government

1 Voters are similarly uninformed about military affairs. When asked which country, the United States or the Soviet Union, was a member of the NATO alliance, only 47% of respondents correctly identified the United States (Washington Post 10/21/1981).
decisions about compliance with international agreements. Under such conditions, breaking an agreement could send a negative signal to voters. “For example, if a democratically elected government fails on its commitments in the international arena, the electorate might infer that the government lacks competence in matters of foreign policy or that the government’s foreign policy goals are inconsistent with the median voter’s” (Lohmann 1996: 60; See also Leeds 1999). Along these lines, Smith (1998: 623) theorized that “reneging on a commitment is a sign of incompetence, which the voters punish electorally.” From this perspective, citizens need not base their votes on compliance *per se* but on what it implies about skills of the leader.

This approach, though innovative, simply shifts the problem to a different level. Many factors influence the perceived competence of leaders, and those perceptions represent just one input into the vote equation. Unless compliance with international agreements weighs heavily in the minds of voters, the decision to break an international agreement will not sully the leader’s image enough to affect the outcome of an election. Moreover, it is not clear why voters would interpret the violation of an international agreement as evidence of incompetence. Those who oppose the agreement should in fact draw the opposite conclusion, which brings us to the final assumption in the existing literature.

According to assumption (3), citizens want their government to honor its international commitments. This rather strong assumption overlooks two facts: cheating is sometimes optimal for the country as a whole, and it will almost always be advantageous for part of the population. The first fact is widely accepted among scholars of international relations. A country that cheats in foreign relations may provoke retaliation or undermine its reputation, but it will also reap immediate benefits to its military security or standard of living. At times the aggregate gains from cheating will exceed the costs. When that happens, a domestic audience that has the best interest of the country at heart will call for default, contrary to assumption (3). The second fact is also widely accepted. Most international agreements have distributional consequences, creating losers as well as winners in each country. In the area of trade, for example, the Stolper-Samuelson theorem tells us that if a country has a comparative advantage in capital-intensive goods, trade liberalization will benefit capitalists but hurt workers (Rogowski 1989). From the standpoint of self-interest, it follows that capitalists should favor free trade agreements but workers should oppose them, a direct violation of assumption (3). On this issue and many others, some segments of the population favor compliance but others do not.

It should now be clear why, contrary to the prevailing wisdom, citizens in a democracy should not exert a consistently positive effect on compliance with international agreements. When citizens do not have genuine opinions about a particular agreement, or when they do not deem the issue as important enough to drive their votes, they will not impose binding constraints on leaders. In these cases both democratic and autocratic leaders will be free to make policy without much input from the domestic audience. If on the other hand citizens are both opinionated and motivated, they should be able to push their agenda, but the direction they push will depend on their preferences. Sometimes citizens will support the agreement, thereby making compliance more likely, but at other times they will oppose the agreement, turning the conventional wisdom on its head. Figure 1 summarizes these points.
Figure 1: How domestic audiences constrain democratic leaders

3. Tests Within and Across Countries

We can test the conventional wisdom and the alternative in Figure 1 by looking within a single country or by comparing across many. This paper adopts a within-country approach; it uses survey data to measure the preferences of Argentine voters and infer how they affected election outcomes and compliance decisions. Before turning to Argentina, though, it will be useful to review the available cross-country evidence. Several studies have used statistical analysis or paired case studies to investigate whether democracies uphold commitments more scrupulously than authoritarian states. These works contribute valuably to our understanding of the issue, but they also have shortcomings that this paper addresses. Without opinion data, cross-country studies cannot confirm that an apparent relationship between democracy and compliance arose because the preferences of domestic audiences constrained leaders with respect to commitments. The causal mechanism is assumed, not explicitly tested. The opinion data in this paper help us make sense of cross-country patterns that researchers have uncovered.

Although it has not been previously recognized, published studies are more consistent with Figure 1 than the conventional wisdom. Some work shows that democracies do indeed honor their international commitments more regularly than authoritarian states. But other work, covering different issues, countries, and historical periods, finds either a negative or a negligible correlation between democracy and compliance. Given the well-known tendency to publish statistically significant relationships, it is also possible – though we cannot know for sure – that additional papers finding no strong connection between democracy and compliance are tucked away in the hard drives or file cabinets of researchers, a phenomenon known as the “file drawer problem” (Gerber, Green, and Nickerson 2001; Scargle 2000). What evidence we do have,
though, reveals that the association between democracy and compliance is not as unidirectional and clear-cut as existing theories suggest.

In the area of sovereign debt, the conventional wisdom implies that democracies should get better marks from credit rating agencies, be able to borrow more money at lower interest rates than authoritarian states, and have a better track record of repayment on the loans they receive. The few empirical studies that examine these predictions reach contradictory conclusions, however. Some find that democracy enhances credit ratings (Jensen 2002), but others show that it does not (Brewer and Rivoli 1990). Democracy has improved access to capital for some countries in certain historical episodes (Schultz and Weingast 1998) but exhibited a negligible or even an adverse effect at other times and places (Stasavage 2001; Sussman and Yafeed 2000). Finally, democracies have defaulted less often or more often than authoritarian states, depending on the sample and statistical techniques that researchers use (Balkan 1992; Saiegh 2001).

Empirical work on the relationship between democracy and monetary commitments has yielded equally mixed results. In the half-century before World War I, democratic countries adhered to the gold standard somewhat more consistently than authoritarian states (Broz 2002), but the opposite occurred during the 1930s, when democracies appeared less able to withstand the domestic costs of remaining on gold (Simmons 1994). And in the late twentieth century, competitive elections contributed “little or nothing” to compliance with Article VIII of the IMF Agreement for a broad sample of countries, although in the subsample of nations that joined the International Monetary Fund before 1980, democracies showed a greater tendency to violate international commitments (Simmons 2000a, 2000b).

Results in other areas of international relations do not inspire confidence in the conventional wisdom. Some find that democracies cooperate more in the area of international trade and attribute this to “electoral control” by anti-protectionist voters (Mansfield, Milner, and Rosendorff 2002), but other researchers, working with different data, find little connection between democracy and commercial cooperation (Remmer 1998). And in studies of international security, democracies appear to be more durable alliance partners (Bennett 1997; Gaubatz 1996; Reed 1997), but they are less likely than authoritarian states to assist allies in a dispute (Gartzke and Gleditsch 2001; Smith 1996), a finding that seems to at odds with the conventional wisdom.

There are two ways to interpret these disparate findings. Perhaps the association between democracy and compliance is completely random. In any given sample, though, researchers will find a positive, negative, or neutral relationship, depending on the luck of the draw. This interpretation will serve as our null hypothesis. There is a second possibility, however, which the data in this paper tend to support: there is a systematic but conditional relationship between democratic institutions and compliance. When voters strongly favor compliance, their participation in democratic policymaking reinforces international agreements, but when they prefer default their influence reduces the probability that agreements are kept. And when they do not feel strongly about the issue one way or another, they do not have much impact at all. The data from Argentina allow us to test for these conditional relationships by monitoring changes in public opinion over time.

During the 1990s, the Argentine government entered a series of financial agreements with foreign banks, bondholders, and international organizations. The first important agreement took place in 1993, when the government restructured its external debt under the Brady Plan. Named after US Treasury Secretary Nicholas Brady, the plan enabled Argentina and other
developing countries to reduce their debts to commercial banks. In exchange for debt forgiveness, countries that participated in the plan agreed to convert their commercial bank loans into tradable instruments called Brady Bonds, secure the principal and interest by pledging US Treasury securities as collateral, and pursue a program of economic reform. The Brady Plan represented a reasonable settlement on commercial bank loans that had been in default since 1982, and it reopened capital markets to the Argentine government. From December 1993 through the end of 1998 the foreign obligations of the public sector grew by more than 50 percent to $83 billion (Ministerio de Economía 2002: A20). To service the expanded foreign debt and another $30 billion in domestic liabilities, the government had pay twice as much interest in 1999 as was required only five years earlier. At roughly the same time, export prices collapsed and the economy slipped into recession, leaving government authorities with a difficult choice: should they continue to honor their increasingly burdensome commitments to international creditors, or should they declare a moratorium on the public debt?

In situations like this, the conventional wisdom predicts that domestic audiences will oppose default and withhold votes from politicians who hold a different view of the matter. The evidence from Argentina strongly supports this prediction, at least during 1999. That year the foreign debt became a major campaign issue when Eduardo Duhalde, one of the two leading candidates for president, unexpectedly called for default. The proposal proved to be politically suicidal. After running neck-and-neck with opponent Fernando de la Rúa for many months, Duhalde plummeted in the polls and ultimately lost the election by more than 10 percentage points. Once inaugurated, de la Rúa carried out his promise to service the foreign debt despite difficult economic times. Thus, the experience of 1999 fits closely with the conventional wisdom. It also fits the theory in Figure 1, of which the conventional wisdom is a special case.

Section 4 examines in more detail how domestic audiences encouraged compliance in 1999, but Section 5 reveals that the logic reversed in 2001 when domestic audiences became a force for default. The juxtaposition of these two episodes confirms, as suggested in Figure 1, that democratic accountability has a conditional rather than unqualified effect on compliance, and pushes us to investigate more closely why citizens want to uphold international agreements in some cases, break them in other cases, and remain on the sidelines the rest of the time.

4. The Preference for Compliance and the Argentine Election of 1999

The Argentine presidential campaign of 1999 was a horse race between Eduardo Duhalde and Fernando de la Rúa, each backed by major political parties. Duhalde, governor of the Province of Buenos Aires, ran under the banner of the incumbent Peronist Party (PJ) whereas de la Rúa, mayor of the city of Buenos Aires, represented an opposition coalition called the Alliance. The election also involved a third candidate, Domingo Cavallo, who had served as finance minister of Argentina during the 1990s and devised the famous convertibility plan that pegged the peso to the dollar. Support for his candidacy never exceeded about ten percent, however, not only for political reasons but also for institutional ones. The constitutional reform of 1994 stipulated that the top two candidates would compete in a French-style runoff election (ballotage) unless one secured a plurality of 45 percent or a 10-point advantage in the first round. Designers predicted that this system would polarize the electorate and squeeze out minor presidential candidates.

Pre-election polls showed that the two sides were nearly tied during the first four months of 1999. Gallup Argentina conducted a national survey of 1506 voters in late January and
concluded that the Alliance enjoyed only a one-point advantage in the race for the presidency. It repeated the exercise in mid-March with a much larger sample of 2426 voters and confirmed that the contest was a dead heat, with the PJ and the Alliance each fetching 32 percent of vote intentions.

These early estimates were based on data about the party each voter would support for president because the official slates had not been set. Voters knew that de la Rúa, nominated at a party convention in November 1998, would represent the Alliance and run alongside vice presidential hopeful Carlos “Chacho” Alvarez. At the beginning of 1999 it was less clear whether the Peronists, who had not yet held their party convention, would select Duhalde as the official candidate or advance Senator Ramón Ortega in his place. Speculation ended in March when the two announced that they would not compete for the party nomination, but would instead run together on the same ticket. Henceforth pollsters switched from asking which party voters would support to inquiring about attitudes toward de la Rúa/Alvarez and Duhalde/Ortega.

Their new methodology in no way altered the conclusion that the election was a statistical tie, though. Gallup sampled 1525 citizens nationwide between April 30 and May 3 and learned that 39 percent of respondents favored the team of de la Rúa and Alvarez, whereas 38 percent supported Duhalde and Ortega. The firm also asked, for the first time, asked how voters would behave in the event of ballotage. Responses were split 45-44 in favor of de la Rúa/Alvarez, again suggesting that the two sides enjoyed approximately equal support from the electorate.

At that moment, however, Duhalde made what proved to be a fateful campaign error. In a press conference on May 15 he criticized the International Monetary Fund for “strangling Argentina year after year” and emphasized the need to be “much firmer” in negotiations with international organizations. He then proposed that nations of the region – especially members of the Mercosur customs union – renegotiate their foreign debts as a bloc. The two leading Argentine dailies, La Nación and Clarín, ran headlines announcing that “Duhalde wants the debt renegotiated” and identifying the issue as “A New Axis of Differentiation for Duhalde.” Both interpreted the speech as an attempt by Duhalde to move left of the Alliance candidate and establish a unique position in the fight for the presidency.

Duhalde returned to the theme with even greater force on June 25, when he complained that debt payments were “bleeding” Argentina, added that “with current levels of debt servicing there would be no possibility of recovery for our country,” and demanded that foreign creditors cancel the debt. On the same day de la Rúa offered a more cryptic proposal: the country should uphold its commitments, but it should also seek “financial reengineering” and reform of the IMF and the World Bank. Cavallo criticized these remarks and challenged the two leading candidates to a presidential debate about debt, prompting de la Rúa to clarify his position. “Argentina should honor the payment of its foreign debt and comply with its international obligations,” the Alliance candidate insisted. He denounced Duhalde’s proposal as utterly foolish – “un disparate total” – and said voters should under no circumstances think he and the governor agreed on the issue. To reinforce the difference, the economic advisor to de la Rúa told reporters that Argentina had to pay its debts and running mate Alvarez said talk of default “hurt Argentina and converted the electoral campaign into a demagogic festival.” Newspapers declared that the candidates had “again put the future of the public foreign debt at the center of the electoral fight” (La Nación, 29 June 1999). The battle lines were becoming clear.

Unfortunately for Duhalde, most voters opposed default in 1999. A Gallup survey of 1677 people nationwide at the end of July revealed that only 11 percent of the voting-age population supported a decision to stop paying the foreign debt. An equal fraction were not sure
of their views, and the remainder felt the government should pay the debt in its entirety or ask creditors for a partial reduction. And in August, a poll of 1800 citizens by Graciela Römer found that Argentines who knew of Duhalde’s proposal opposed it by a ratio of 2 to 1.

Duhalde’s speeches about debt forgiveness drew criticism not only from challengers such as de la Rúa but also from his own party. Carlos Menem, the incumbent president and leader of the PJ, rebuked the governor for suggesting default and sought to control the electoral damage. What Duhalde proposed, according to Menem, was “the view of only one candidate, not the position of the Peronist party. We could talk with our creditors about making debt payments more flexible, but we would never take this type of attitude or propose this type of measure.” Disagreements about the debt issue poisoned the PJ convention in July, when Duhalde threatened to quit because members of the party would not endorse his platform. Even Jorge Remes Lenikov, the man Duhalde picked to be future finance minister, refused to go along.

An increasingly isolated Duhalde took two steps to deflect criticism and regain support, but neither produced the desired results. First he tried to soften his position, but every moderating statement seemed to contain a mixed message. Duhalde denied that he wanted a fight with creditors, but also said poor countries that opposed debt forgiveness were “only helping those to whom they owed money.” He concurred with de la Rúa that Argentina should honor its debts but added that it “should also honor is children and the elderly.” When advisors drafted more conservative speeches Duhalde departed from the script, causing members of the campaign team to resign in frustration. Few seemed convinced after the initial barrage of radical proposals that Duhalde now wanted to repay the debt.

Second, he invoked the moral authority of Pope John Paul II. The pontiff had asked foreign creditors to forgive the debts of the poorest nations as a way to promote social justice and commemorate the Jubilee Year 2000. Duhalde linked his proposal to the Jubilee initiative through speeches in Argentina and in Italy, where he traveled to meet the Pope. The excursion to the Vatican and its antecedents rattled markets and voters, however. In a radio interview before the visit, Duhalde announced his desire for a Vatican-sponsored moratorium on debt payments for countries with problems like Argentina. Once he arrived in Rome, Duhalde not only offered unconditional support for the Papal position but also vowed that if elected he would seek a summit on international debt. Meanwhile de la Rúa continued to insist that he would honor the external debt, even if meant more austerity at home.

As a consequence de la Rúa surged ahead of Duhalde in the polls. Figure 2 displays the evolution of pre-election polls in Argentina during 1999. The horizontal axis measures time from the beginning of the year until the election on October 24, and the vertical axis gives the margin in percentage points by which de la Rúa led Duhalde. Each circle marks a survey by either Gallup or the Center for the Study of Public Opinion (CEOP), the official pollsters for La Nación and Clarín, with circle area proportional to size of the national sample. The figure shows that de la Rúa’s lead jumped at two critical moments, corresponding to the two waves of discussion about debt. The first jump occurred after Duhalde called for a debtor’s cartel in mid-May, and the second appeared after he presented the debt issue even more strongly at the end of June. Argentine journalist José Claudio Escribano expressed the relationship well. “Why, after being on par with his opponent in January and having prolonged that parity through April, did support for Duhalde begin to collapse in May? Each person can draw his on conclusion,” Escribano wrote, “but the only truly verifiable fact with respect to the evolution of the pre-election surveys is that Dr. Eduardo Duhalde’s support began to fall at precisely the moment...
when he inserted the theme of the foreign debt into the center of political discourse.” (La Nación, 30 Sept 1999).

Figure 2: De la Rúa surged in the polls when Duhalde called for default
(area of each circle is proportional to size of the sample)

![Graph showing the surge in polls for De la Rúa when Duhalde called for default.]

Source: Author’s calculations from Clarín, La Nación, and data provided by Gallup Argentina

Moreover, the surge correlated closely with newspaper coverage of the debt controversy. Figure 3 presents a count of articles in La Nación that referred to Duhalde and the foreign debt. To construct the figure I counted, on each Sunday of the campaign, the number of articles in the previous two weeks that contained the phrases “Duhalde” and “deuda externa.” Newspapers hardly mentioned Duhalde and debt in the same breath during the first months of 1999, and during that period the two frontrunners were tied in the polls. Only when papers began to associate the Peronist candidate with the foreign debt did the election prognosis begin to change. The speech by Duhalde on May 15 sparked an initial wave of media attention, followed by an even larger and more sustained period of coverage after June 25. By the end of July all the damage had been done. De la Rúa had amassed a lead of more than ten percentage points, which he carried with him into October.

De la Rúa won the election of 1999 in a landslide, with a final margin of 10.4 percentage points. His path to victory confirms that the conventional wisdom about domestic audiences is appropriate in at least some cases. Argentine citizens preferred to comply with their international financial agreements and used their electoral authority to help ensure that outcome. The next section shows, however, that two years later the domestic audience played the opposite role by ousting the advocates of compliance and replacing them with leaders who were willing to default.
5. The Preference for Default and the Argentine Decisions of 2001

By December 2001 Argentine opinion had turned overwhelmingly in favor of default. Facing a three-year economic recession that showed no signs of abating, citizens would no longer tolerate government spending cuts and tax increases, which de la Rúa had sought for the explicit purpose of repaying the foreign debt. Domestic audiences therefore demanded and received the largest default in the history of global finance. This section discusses four signs that domestic opinion changed in 2001 and shows how the shift in public sentiment helps explain both the fact and the timing of the debt moratorium.

First, pro-default strikes became increasingly frequent and militant, reaching their greatest intensity during the last six months of 2001. The strikes occurred largely in response to the government policy of honoring the debt during hard times. De la Rúa and his administration had slashed public sector jobs, salaries, pensions, and other benefits in an effort to avert default on the foreign debt. Workers and labor union leaders objected that the government had misplaced it priorities by paying foreign lenders at the expense of domestic workers, and they called for an immediate reversal of policy. Rodolfo Daer, head of the largest labor union in Argentina (the General Confederation of Labor or CGT), called finance minister Cavallo “the father of the external debt” and accused him of “negotiating on the backs of the people.” Daer vowed that his union would “support any initiative that aims to restructure the external debt.” These statements brought him in alignment with Hugo Moyano, leader of the dissident wing of the CGT, who had argued as early as July 2000 that the country should not pay the debt “with the blood, the suffering, and the lives of the people” and had urged all Argentines to “help save lives” by mobilizing against continued debt service.

Table 1 shows a sharp increase in the frequency of strikes just prior to the debt moratorium, which was announced in December 2001. The table gives a monthly tally of strikes
nationwide and, in the last column, expresses the total in 2001 relative to the average in the previous two years. This “factor increase” helps us infer whether strikes increased significantly during the final months of debt service. The data in Table 1 reveal that strikes were 2-3 times more frequent in July-December 2001 than in comparable months during the previous two years. The jump, sparked by a major new round of budget cuts and a “zero deficit” plan that the administration announced in July, confirms that workers were becoming less tolerant of the austerity needed to continue servicing the debt.

Table 1: Frequency of Strikes in Argentina, 1999-2001

<table>
<thead>
<tr>
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<th>1999</th>
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<th>2001</th>
<th>Factor increase</th>
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<tr>
<td>JAN</td>
<td>12</td>
<td>8</td>
<td>14</td>
<td>1</td>
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<td>FEB</td>
<td>21</td>
<td>11</td>
<td>13</td>
<td>1</td>
</tr>
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<td>MAR</td>
<td>17</td>
<td>25</td>
<td>28</td>
<td>1</td>
</tr>
<tr>
<td>APR</td>
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<td>21</td>
<td>27</td>
<td>2</td>
</tr>
<tr>
<td>MAY</td>
<td>18</td>
<td>24</td>
<td>24</td>
<td>1</td>
</tr>
<tr>
<td>JUN</td>
<td>27</td>
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</tr>
<tr>
<td>JUL</td>
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<td>2</td>
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<td>26</td>
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<tr>
<td>SEP</td>
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</tr>
<tr>
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<td>1</td>
<td>10</td>
<td>17</td>
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</tr>
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</table>

In a second major sign of changing domestic opinion, the ruling coalition collapsed in disagreement about how to approach the foreign debt. De la Rúa ran for president in 1999 as the candidate of the Alliance, a coalition of parties from the center and the left of the political spectrum. The president himself belonged to the centrist Unión Cívica Radical (UCR), senior partner in the coalition, but needed support from other parties to achieve a majority in the lower house of congress. As the president called for more austerity to avoid default, though, politicians defected from the Alliance. The Socialist and Christian Democratic parties predictably turned away first, followed by cabinet ministers and legislators from the left-wing FREPASO, the second largest party in the coalition. In the final months even members of the UCR openly broke with the president over the issue of debt. Most visibly, former Argentine president Raúl Alfonsín began to lobby for a default. “There is no other way to achieve sustained growth,” he said, and in a play on words recommended a policy of “zero hunger” rather than “zero deficit.” Not only were workers changing their views, but so too were politicians on which the president depended to push his agenda.

As a third sign that domestic preferences had shifted, voters handed de la Rúa and the remnants of his coalition a devastating defeat in the congressional elections of October 2001. That month, Argentines elected the entire senate and half of the 257-seat lower house. By nearly all accounts the contest had become a referendum on the austerity needed to meet IMF targets and remain current with creditors. All major parties addressed the default question in
their manifestoes, with some clinging to the status quo policy of payment and others seeking an immediate suspension of payments. Duhalde, then running for Senate seat from the Province of Buenos Aires, reiterated the pro-default rhetoric that had lost him the 1999 presidential election. Most opposition politicians took the same position, as did certain members of the president’s own party including Raúl Alfonsín and Rodolfo Terragno, who had served as cabinet chief during the first year of the de la Rúa presidency. Terragno made default, in his own words, “the leitmotif of my campaign.”

Voters overwhelmingly favored candidates who did not want to repay the foreign debt, and thus put the opposition in control of the legislature. The PJ became the largest party in the lower house whereas the Alliance, which had a near-majority of 125 seats after the 1999 election, saw its seat total fall to 87. The Peronists also retained control of the senate. Federico Storani, a Radical party leader in suburban Buenos Aires, said “With all humility we accept this result. This has been a plebiscite against the government’s economic policies.” Then, in what UCR president called a “blow below the belt,” the Peronists voted on November 28 to elect one of their own as head of the senate, breaking an 80-year-old tradition of picking a senate leader from the president’s party. The decision proved to be tremendously consequential. Vice President Alvarez had resigned his post during a corruption scandal in 2000 and had never been replaced. This left the Peronist senate leader as next in line to succeed to the presidency.

In a fourth sign of shifting domestic preferences, surveys of the Argentine public showed little support for continued payment. One poll, administered to 200 residents of the capital and Greater Buenos Aires on December 23, revealed that only 28 percent wanted to keep paying, whereas 63 percent favored a moratorium and the remaining 9 percent were not sure. Another poll, covering 610 people nationwide on December 21-22, allowed respondents to select among three debt policies. Support for the most compliant option – full payment – stood at only 5 percent, compared with 32 percent in July 1999, whereas public backing for a complete renunciation than doubled from 11 to 27 percent since the presidential election. Thus, all four signs point in the same direction. In the space of only two years, domestic preferences had turned in favor of default.

De la Rúa would not bow to popular pressure, however. Rather than follow the changing mood, he insisted on even further austerity to avoid default on the foreign debt. In a televised speech on July 16 he announced that his new package of budget cuts “not negotiable” because Argentina had “exhausted its financing.” “I am going to giving over my life to this struggle,” he said. The following month he referred to the issue as “a test of the moral fiber of our people” and said “we discard the idea of a devaluation or default.” Even after losing control of the congress, the president did not shift positions. In a nationally televised address at the beginning of November he confessed: “I know that many are not content with the government or with the form of my management and style,” but “it is time to face reality…. Argentina will not fall into a cessation of payments.”

By mid-December this unwavering commitment led to food riots, looting, and protests in several cities. The president suspended constitutional rights for 30-days and called in federal police to restore order, but citizens defied the state of seize and violence continued to escalate. He then made a last-ditch effort to form a unity government, but opposition legislators from the Peronist party declined the offer, eliminating any hope of retaining power.

De la Rúa resigned on December 20, half way through is presidential term. News of the resignation prompted celebrations throughout the country, as citizens waved flags and signs saying “Vamos Argentina!” (let’s go Argentina) and “no pagar la deuda externa” (don’t pay the
foreign debt). They had just removed from power the most significant obstacle to default. With the vice presidential post vacant, the line of succession fell to Ramon Puerta, head of the Senate, who served as interim president until the Peronist-controlled congress could elect a new leader. They chose Adolfo Rodríguez Saá, who assumed power on December 23.

The new president immediately declared a populist moratorium. The decision stop paying the foreign debt, which Rodríguez Saá announced during his inaugural address, prompted legislators to jump from their seats in the only standing ovation he received during his speech to Congress. Default had clearly become a popular option in Argentina. Moreover, Rodríguez Saá offered a populist rationale for the new policy. “I believe in an Argentina without unemployment, without misery,” he said. “I will govern for the most humble and for those who suffer,” and he called for “the suspension of payments on the foreign debt until all Argentines have jobs.” So doing, he catered to public opinion that had shifted overwhelmingly in favor of default and driven de la Rúa, a committed repayer, from the presidency. Thus, the largest default in financial history was a populist decision in a moment of severe economic strain, and it belies any consistent relationship between accountability and compliance.

6. Conclusions

The theory and evidence in this paper have challenged an increasingly common claim about the relationship between domestic politics and international relations. Many researchers argue that, in a democracy, domestic audiences constrain leaders to keep international commitments. This contention is overly general in three respects: it presumes that voters know where they stand on the question of compliance, regard it as important enough to sway their vote, and prefer compliance to default. When all three assumptions hold the conventional wisdom should as well. If any of these assumptions fails, though, voters in a democracy could exert either a negative or a neutral effect on compliance.

As the evidence from Argentina shows, the third presumption is especially problematic. In 1999 most Argentine voters preferred to honor the foreign debt and withheld power from the pro-default candidate for president, but two years later they preferred the opposite and elected leaders who would default. Existing theories, which presume that domestic audiences favor compliance, would not have predicted the largest default in financial history. The pattern of decisions in 1999 and 2001 seems much more consistent with a qualified theory in which the effect of democratic accountability depends on the knowledge and preferences of the voters.

The data from Argentina also have implications for broader debates about the dynamics of international relations. Regardless of whether they treats countries as unitary actors or allow some role for competing factions, most students of international relations presume that actors have relatively stable preferences, not only over outcomes but also over strategies. This makes it difficult to explain why relations change over time. The analysis of Argentina confirms that the attitudes of citizens can shift rapidly and have a profound impact on foreign policy, and thus pushes us to relax the assumption of static preferences and focus more attention on the dynamics of mass opinion.

Taken together, the results in this paper suggest a new avenue for research: rather than assume that domestic audiences want compliance across the board, social scientists must focus more attention the preferences of voters. Which segment of the electorate favors default, what causes their preferences to change, and under what conditions will the pro-default faction become decisive at the polls? The answers to these questions will contribute greatly to our
understanding of international relations, especially in world where democracy is spreading and giving voters more influence over foreign affairs.

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