Interests, Information, and the Domestic Politics of International Agreements

Michael Tomz
Stanford University
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Abstract: This paper examines how citizens form preferences about compliance with international agreements. The paper argues that compliance creates domestic winners and losers through two channels, adjustment and reputation. It then shows that the preferences of citizens vary systematically with their exposure to the adjustment costs and reputational benefits of compliance. The relationship between personal interests and policy preferences holds mainly for the most informed portion of the electorate, though, whereas the preferences of less knowledgeable citizens are harder to reconcile with self-interest. This finding has potentially broad implications for models of policy choice.

1. Introduction

A growing literature argues that foreign policy depends not only on international factors but also on domestic politics. In particular, recent contributions emphasize the relevance of democracy for theories of war (Russett and Oneal 2001), debt (Schultz and Weingast 2003), exchange rates (Bernhard and Leblang 2002), foreign direct investment (Jensen 2003), military alliances (Gartzke and Gleditsch 2004), trade (Mansfield, Milner and Rosendorff 2002), and cooperation in general (Leeds 1999; Martin 2000; Lipson 2003). A focus on democracy is not only appropriate but also timely: over the past few decades, countries around the world have turned from authoritarianism to regimes with competitive elections. Today, one cannot understand interstate relations without taking democratic politics into account.

As work on the foreign policies of democracies has expanded, so has the need for theories and evidence about the preferences of citizens. If democracy empowers mass publics, policy output will vary according to what the people want. It is, therefore, important to place international relations theory on firm microfoundations by investigating the preferences of individuals and their interest groups (Moravcsik 1997; Lake and Powell 1999). Sophisticated work has emerged on public opinion toward trade policy (Baker 2003; Hiscox 2003; Scheve and Slaughter 2001a, 2001c) and regional economic integration (Gabel 1998a, 1988b, 2001; Tucker, Pacek and Berinsky 2002), but mass attitudes toward other areas of international political economy remain relatively unexplored. I extend this general line of inquiry by developing and testing a theory of citizen preferences about compliance with international agreements.

This paper makes three arguments. First, compliance creates domestic winners and losers: it improves the welfare of some citizens but undermines the position of others. On the one hand, a government that honors agreements can preserve its international reputation,

benefiting domestic constituents who value transactions with foreigners. On the other hand, compliance entails economic and political adjustment costs that fall more heavily on some citizens than on others. I illustrate these distributional asymmetries by showing how the repayment of foreign loans (e.g. Kahler 1985, 1998; Cohen 1986; Frieden 1989, 1991; Mosley 2003; Vreeland 2003) affects the domestic distribution of income.

Second, the preferences of citizens vary systematically with their exposure to the distributional effects of compliance. Using a unique collection of public opinion polls from Argentina, I show that citizens internalize the reputational benefits and adjustment costs of debt repayment. Those who value continued access to international capital tend to favor compliance, whereas those who bear the burden of adjustment typically lean toward default. These findings provide an empirical basis for the assumption that domestic actors think and behave according to their own interests, as shaped by interaction with the rest of the world.

Finally, the strength of the relationship between interests and policy preferences is conditional on individual information. Citizens are not equally informed about how foreign policy, including compliance with international agreements, affects them. The likelihood of drawing the appropriate inference, given a set of interests, increases with knowledge. I therefore develop and validate a two-factor theory of public preferences in which policy positions emerge from the interaction of interests and information. The paper concludes by calling attention to the potentially broad implications of this two-factor theory for models of policy choice.

2. Interests: The Distributional Effects of Compliance

There are two main channels through which compliance hurts some parts of the population while helping others. First, compliance requires economic and political *adjustment*, which imposes costs on sections of society. International trade agreements, for example, oblige

governments to reduce commercial barriers, exposing certain types of workers to foreign competition. Military alliances carry the expectation that, in wartime, each member will come to the aid of its partners, putting a burden on soldiers and their families. International environmental treaties mandate anti-pollution measures and currency unions require fiscal and monetary reforms, with costs falling more heavily on some domestic groups than others. In sum, keeping commitments abroad requires adjustments that have unequal effects at home.

Second, compliance can advance the national *reputation*, but the benefit to each domestic group depends on how highly it values interaction with foreigners. In international relations, where countries do not have complete information about the preferences and abilities of others, a state that keeps its agreements signals that it can be trusted. Its reputation for reliability can attract partners for future cooperation in the same issue area, and perhaps in other issue areas as well. A good reputation will be of special value to groups that profit from international exchange but bring little utility to groups that prefer autarky or isolationism. Thus, domestic groups do not share equally in the reputational gains from respecting international agreements.

I argue that mass preferences about compliance with international agreements reflect the distributional effects of adjustment and reputation. To make the argument concrete, I consider the decision to repay foreign debts. After explaining how repayment affects the distribution of income, I show that citizens are sensitive to these distributional concerns.

2.1 The Adjustment Channel and the Costs of Repayment

Repaying the foreign debt affects the welfare of citizens by creating a need for fiscal adjustment. To meet its foreign obligations, a government must acquire and then transfer funds equal to the interest and principal it owes. Leaders can achieve this objective during good times by contracting new loans and using the proceeds to service old obligations, a process called debt

rollover. When economic conditions sour, however, the supply of external finance dries up and the government can service its debts only by cutting spending in other areas and/or raising taxes. Consequently, debt repayment implies fiscal retrenchment, especially during the economic contractions that accompany crises in the developing world.

In recent years the International Monetary Fund (IMF) has reinforced the tradeoff between debt repayment and government programs by demanding fiscal austerity in exchange for a debt workout. When the economic and political burden of repayment becomes severe, governments seek to reschedule their debts; they ask international lenders to reduce interest rates, write off principal, or postpone scheduled payments. With few exceptions, private lenders will not consent to a restructuring unless the IMF approves, and the IMF will not approve unless the government curtails non-debt spending.

The costs of fiscal retrenchment do not fall evenly on society as a whole; instead, they hit certain groups with special force. The first victims of budget cuts are usually government employees. Before the Latin American crises of the 1980s, IMF economists concluded that "the brunt of any downward adjustment of government expenditure to GDP is most commonly borne by public sector employees…. Wage and salary earners in the public sector as a whole generally experience some decline in their real rate of remuneration, so that their relative income position tends to deteriorate" (Johnson and Salop 1980, 12). Events of the 1980s and 1990s confirmed this pattern. As country after country tried to meet IMF targets, public employees lost their jobs, and those who remained on the payroll experienced freezes or cuts in wages and benefits (Frieden 1989; Haggard and Kaufman 1992; Kaufman 1988; Nelson 1990).

The budget cuts required for debt repayment also hurt unemployed and poor citizens. Programs for these groups usually make up a large component of current spending and are,

therefore, targets for governments that need to impose austerity quickly. Careful empirical research confirms that IMF programs redistribute income away the unemployed and the working class (Vreeland 2002, 2003), and some call this "the single most consistent effect" of IMF-style policies in the developing world (Pastor 1987).[1]

In summary, debt repayment requires budget cuts that reduce the absolute and relative income of public sector employees, the unemployed and the poor. This leads to the first set of hypotheses: other factors equal, government employees and the unemployed/poor should be less inclined to repay the foreign debt than citizens who are less vulnerable to fiscal austerity.

2.2 The Reputation Channel and the Benefits of Repayment

If compliance with debt contracts requires fiscal retrenchment, why would voters and their political representatives ever prefer to pay? Much of the literature examines this question from an apolitical perspective, discussing the advantages of repayment for the country as a whole without considering the considerable heterogeneity in domestic preferences during real crises. By identifying the overall benefits of repayment, though, existing work provides a key ingredient for the analysis of domestic politics. One must know the aggregate gains before saying which groups are best positioned to tap them.

Some argue that compliance brings reputational benefits. A government that repays will preserve its image in the eyes of international lenders, increasing the likelihood of future loans and other foreign investments (e.g. Kletzer and Wright 2000). These infusions of foreign capital

[1] In addition to cutting spending, the government could increase taxes. There are limits to this option, though, especially during an economic recession when the tax base is shrinking and incentives for tax evasion are growing. Consequently, most public austerity programs focus more on cutting spending than on increasing revenue. Some governments do raise taxes, of course, but it is difficult to project who will be targeted and the historical record offers little guidance. We know from decades of experience that budget cuts usually hit government employees, the unemployed and the poor, but there is no similar regularity in the incidence of tax hikes. For these reasons, I focus on the anticipated effect of budget cuts.

could smooth consumption, support productive investments, or provide benefits to political supporters. Others contend that compliance is necessary to avoid direct sanctions such as lawsuits, trade embargoes, or diplomatic and military pressure (Bulow and Rogoff 1989).

These two perspectives are not mutually exclusive, but the available evidence is far more consistent with the reputational mechanism (English 1996; author). Countries that repay tend to attract future loans on progressively better terms. Countries that default, in contrast, lose access to capital markets and almost never reborrow without settling their arrears. Moreover, when defaulters return to the market, they face higher interest rates than countries with unblemished records. Significantly, creditors have almost never taken a sovereign debtor to court, attached its assets, impeded its trade, or imposed diplomatic and military sanctions in response to a default.

Given the growing evidence for reputation not only in debt but also in other areas of finance (e.g. Simmons 2000), it makes sense to test for reputational concerns in domestic politics. This leads to a second prediction. If the main reward for repaying the debt is continued access to foreign capital, citizens who value capital inflows should support repayment more strongly than citizens who see little benefit from capital infusions.

3. Information: A Condition for Self-Interested Preferences

I have argued that compliance with international agreements affects welfare through two main channels, adjustment and reputation, each exerting asymmetric effects on domestic groups. Repaying the foreign debt, for example, requires adjustments that hurt public employees, the unemployed and the poor. At the same time, repayment brings reputational benefits to citizens who value capital inflows but offers less to other domestic groups.

It is by no means obvious, however, that preferences about compliance will be sensitive to these distributional asymmetries. In fact, numerous studies of US attitudes toward domestic

policies and the Vietnam War have found only weak correlations between personal interests and policy opinions.[2] Sears and Funk (1991, 76) conclude their review of the literature by stating that "the general public seems to think about most political issues, most of the time, in a disinterested frame of mind." This null finding is not universal, though. Several recent papers show that the winners from government policy think and behave differently from the losers in domestic affairs (Campbell 2002; Iverson and Soskice 2001; Scheve 2004) and in foreign relations (Gabel 1998a, 1998b, 2001; Scheve and Slaughter 2001a, 2001b, 2001c; Tucker, Pacek and Berinsky 2002). Thus, the connection between self-interest and policy preferences remains an open question not simply for international relations but for political science more broadly.

We can approach an answer by investigating the conditions under which self-interest shapes policy preferences. Research has established that the effect of self-interest varies across issues, depending on the magnitude of the stakes and the behavior of elites. Expressed preferences are most likely to reflect self-interest when the policy has substantial and imminent material effects, and when citizens have been primed to think about personal costs and benefits (Chong, Citrin and Conley 2001).

I hypothesize that the effect of self-interest varies across individuals, as well. Those with a solid knowledge of economics and politics can accurately assess how government decisions affect their welfare, or at least follow cues from the media and opinion leaders. The same cannot be said of uninformed citizens, who are less capable of analyzing policy and have less exposure to the media and elites. It follows that the chance of drawing the appropriate policy inference, given any set of interests, should vary positively with the knowledge a citizen possesses.

[2] See reviews by Citrin and Green 1990; Kinder 1998, 800-803; Sears and Funk 1991.

This logic suggests a two-factor theory of public preferences, in which the impact of self-interest on expressed preferences increases with individual information. Applied to compliance with international agreements, the theory predicts that the adjustment and reputational channels will play a stronger and more systematic role in the preferences of informed citizens than of uninformed ones. The key variables for our analysis of debt – working in the public sector, being unemployed or poor, and benefiting from capital inflows – should, therefore, exert their most powerful effect among people with the greatest knowledge of economics.

In the empirical analysis that follows I test the two-factor theory directly, but previous work provides indirect support. Alt (1979), for example, showed that informed citizens have more realistic views about macroeconomic tradeoffs and conditions. They should, therefore, be in a better position to judge how government policy affects their interests. Bartels (1996) established that the effect of demographic variables on presidential voting depends on the information level of the voter.[3] The connection between self-interest and policy preferences could exhibit a similar conditional relationship.

Before turning to the evidence, it is important to recognize two alternatives to the hypotheses advanced in this paper. The first is "nonattitudes." Converse (1964) argued that most citizens do not have well-structured views about public policy. This pessimistic view is said to be especially apt for foreign affairs, which are complex and distant from the everyday experiences (Almond 1950). Perhaps citizens have no genuine views about compliance with debt agreements or other pacts. In that case, we should not be able to predict their preferences effectively.

[3] See also Delli Carpini and Keeter (1996) and Althaus (1998), who analyze the interaction between demographic variables and information.

The second alternative might be dubbed a "non-egoistic" approach to public preferences. Perhaps voters have genuine views about compliance with international agreements but tend not to base them on self-interest. Instead, they may be motivated by communitarian and nationalist considerations. Previous research suggests that nationalism is "a significant factor in the genesis of protectionist policy preferences" (O'Rourke and Sinnott 2001; Mayda and Rodrik 2002). In a similar way, nationalist sentiments might lead citizens to favor the abrogation of international agreements, regardless of how the decision would affect their own welfare. Of course, mass preferences could depend simultaneously on self-interest and nationalism. The more that non-egoistic considerations come to dominate public opinion, though, the less success we will have in detecting any relationship between personal circumstances and attitudes toward compliance.

4. Statistical Model

I propose a statistical model to estimate how the preferences of citizens vary, depending on their exposure to the costs and benefits of debt default, as well as their degree of economic knowledge. For each voter i, define $y_i^* \in (-\infty, \infty)$ as a latent variable that measures desire to repay the foreign debt. Let X_i be a vector of explanatory variables chosen to test the adjustment and reputational channels. Further, let the scalar k_i represent the voter's level of economic knowledge on a metric from 0 to 1. Given these definitions, I model y_i^* as a linear function of X_i, k_i, and the interaction of the two. The model allows additional control variables Z_i and includes a normally distributed error term ε_i, such that $y_i^* = \alpha X_i + \beta k_i + \delta X_i k_i + \phi Z_i + \varepsilon_i$.

To bring the conditional effects of X_i into sharper relief, I follow Bartels (1996) by applying a simple reparameterization. Specifically, let $\omega \equiv \alpha + \delta$. Substituting this quantity into the original equation and rearranging terms gives $y_i^* = \alpha X_i (1 - k_i) + \omega X_i k_i + \beta k_i + \phi Z_i + \varepsilon_i$. The vectors α and ω now have a natural interpretation. With economic knowledge k_i measured from

0 to 1, α represents the effect of X_i on y_i* for a person with almost no understanding of economic theory and policy (k_i=0), whereas ω quantifies the impact of X_i for someone with the highest level of knowledge (k_i=1). By comparing α and ω, we can easily see how the marginal effect of X_i differs between the least and the most informed segments of the population.

Not all voters occupy the extremes of k_i=0 or k_i=1. For others, the desire to repay is a weighted average of "low knowledge" and "high knowledge" effects, with weights given by each voter's own knowledge score, k_i. Intuitively, then, the parameters α and ω establish lower and upper bounds on the effects of X_i across the full range of economic knowledge. Later in the paper I report these bounds and plot the effects of X_i for all values of k_i. Readers curious about δ (the coefficient on a traditional interaction of X_i and k_i) need only subtract α from ω to obtain it.

One additional assumption is necessary to estimate α, ω, and other quantities of interest. In the public opinion surveys discussed later in the paper, respondents are asked whether their country should pay the foreign debt. Some surveys contain dichotomous response options, others offer three or more ordered possibilities, but none invites subjects to report the precise value of y_i* on an unbounded scale. To address this issue I treat the observed categorical response y_i as an imperfect measure of y_i*. Specifically, let j index the J response options in order from weakest to strongest preference for repaying the foreign debt. The following measurement equation maps y_i* onto y_i: $y_i = j$ if $\tau_{j-1} \leq y_i^* < \tau_j$ for $j = 1$ to J. In this equation the cutpoints or thresholds (τ's) break the latent variable into intervals, each corresponding to an observed response. The extreme categories 1 and J are defined by open-ended intervals with $\tau_0 = -\infty$ and $\tau_J = \infty$; the remaining thresholds are parameters to be estimated. This approach permits analysis of all the surveys within a single unified framework, via (ordered) probit regression.

5. Data

The principal data come from a specially designed survey of 442 eligible Argentine voters in July 2002. Only six months earlier the Argentine government had suspended service on nearly $100 billion in foreign bonds, triggering the largest default in international financial history. Responses to the survey are therefore of interest not only for testing theories about domestic preferences but also for understanding an event of signal importance in global finance.

The sample was drawn from residents of Capital Federal and Gran Buenos Aires, which together make up 32 percent of the national population. Interviews were performed face-to-face by the polling firm of Carlos Fara y Asociados in neighborhoods selected to match the true demographic and political profile of the region, as determined by the Argentine census and previous election results. On average, citizens in Capital Federal and Gran Buenos Aires have somewhat higher incomes and levels of education than people in other parts of the country. Later sections of the paper assess the generality of the findings by considering other surveys with different sample frames and from different historical moments.

5.1 Measuring preferences and circumstances

To measure the preferences of citizens regarding debt repayment, interviewers posed the following question: "The government has borrowed money from international creditors, including foreign banks and international organizations. I would like to know if you think this debt should be paid. Do you think Argentina should pay the debt, pay only if favorable conditions can be obtained, or not pay?"[4] Approximately 94 percent of subjects offered an opinion, with 3 percent saying they had not thought about the issue and the balance responding that they did not know. Henceforth all descriptive statistics and correlations pertain to the 415

[4] The full text, in Spanish, of all questions is available from the author.

citizens who expressed a preference. Within this group support for repayment was mixed, with 52 percent preferring to pay only under favorable terms and 19 percent opting not to pay.

If the anticipated costs of adjustment shape domestic preferences, the desire to repay should vary with the economic circumstances of the respondent. In approximately half the interviews the respondent was the head of household and main breadwinner. In the other half the respondent was a spouse, young adult or retiree who depended partly on the head of household but may have had independent sources of income in addition. I noted the economic position of the respondent and (when different) the head of household, and took both into account when constructing measures of economic circumstances.

Thus, the *public sector* dummy variable measured whether either the respondent or the principal breadwinner was working in the public sector or had worked there in his or her most recent job. In approximately 18 percent of cases, the locus of employment was the public sector. The dichotomous *unemployment* variable took a value of one if either the principal breadwinner or the respondent was unemployed at the time of the interview, or if either had a job but expected to lose it and be without work in the next three months. Given the severe economic strain in Argentina at the time of the survey, many people reported being unemployed or at high risk of losing their jobs. The variable was coded one in 48 percent of cases, with nearly as many respondents anticipating unemployment (21 percent) as actually experiencing it (27 percent).

The 2002 poll did not ask directly about personal and family income, but it did contain a useful measure of wealth: the number and kind of automobiles, goods and services in the household. Items were scored according to a point system developed by the Argentine Marketing Association and rescaled to fall between 0 and 1, with a mean value of 0.46.

The survey also included items to test the reputational channel. An ideal test would take the following form: identify socioeconomic characteristics that would lead someone to benefit from capital inflows, and see whether those characteristics predict preferences toward debt. For example, bankers who borrow abroad and relend at a markup would benefit from capital inflows, as would those who anticipate borrowing for future consumption or investment. Although capital inflows have distributional effects, standard survey instruments do not include questions to measure them precisely. I employed a reasonable proxy: whether citizens support the flow of foreign capital into Argentina. Support ranged from 0 to 1 with a mean of 0.66.

Finally, the survey included two questions that have been used to measure nationalism in previous research (Mayda and Rodrik 2002; O'Rourke and Sinnott 2001). Respondents were asked to what extent they agreed or disagreed with each of the following statements: "I prefer to be an Argentine citizen over being a citizen of any other country in the world" and "In general terms, Argentina is a better country than the majority of other countries." I constructed an overall measure of nationalism by adding the scores from both questions (each ranging from 0 to 4) and rescaling the sum on the 0-1 interval. Respondents inclined toward the nationalist pole, with a mean score of 0.73.[5] Interviewers also collected standard demographic variables, including gender and age, which I include as controls in the statistical analysis.

5.2 Measuring Economic Knowledge

The two-factor theory requires a measure of economic knowledge, which I obtained by scoring responses to a series of true-false statements. Table 1 lists the statements, indicates which ones were factual, gives the percentage of respondents who offered the correct answer,

[5] Respondents who did not know the answers to the reputational or nationalist questions were placed in an intermediate category, implying that they neither agreed nor disagreed, but conclusions remain the same if cases with missing values are either deleted or multiply imputed.

and indicates the share claiming not to know.[6] The distribution of correct responses was fairly symmetrical, with 171 respondents getting more than half the items right and 168 answering less than half correctly. To facilitate analysis I rescaled the variable on the unit interval, thereby measuring economic knowledge (k_i) as the proportion of questions the subject answered correctly. This variable has a mean of 0.49 and a standard deviation of 0.21.

TABLE 1 ABOUT HERE

Did some poor performers receive low scores because they refused to be tested? The positive correlation between education and economic knowledge helps allay this concern. None of the 28 citizens who skipped 7 or more items had a college degree, and only 4 had completed high school. On the whole, subjects who passed over a large percentage of questions were less educated than those who answered most items. We can, therefore, be confident that subjects scored poorly because they did not know answers, not because they refused the test.

6. Findings

To assess the impact of the adjustment and reputational channels, I estimated an ordered probit in which higher values of the dependent variable indicate a greater willingness to pay. Point estimates and standard errors appear in Table 2. As discussed previously, the table contains two parameters, α and ω, for each variable in the adjustment and reputation channels. The parameter α gives the effect on the latent desire to repay when knowledge is at a minimum (k_i=0), while ω represents the effect when knowledge is at its highest level (k_i=1).

[6] The table reports a fair percentage of "don't knows." In the most extreme case, 44 percent of voters professed ignorance when asked whether infusions of foreign capital tend to reduce domestic interest rates. This was not only the highest non-response rate on the quiz but also the last question in the battery, raising the possibility of respondent fatigue. A closer analysis finds little evidence of drop-off, however. Only 9 percent of subjects skipped the seventh item and only 20 percent skipped the ninth. Both figures were lower than the average non-response rate of 23 percent across all test questions.

Table 2 confirms that the policy preferences of citizens depend on the distributional effects of default versus repayment. Column (1), which uses employment variables to test the adjustment channel, exhibits two patterns typical of the table as a whole. First, the parameter estimates carry the hypothesized signs. On average, those working in the public sector show less inclination to repay than those in the private sector. Similarly, citizens who are unemployed or at risk of losing a job are less likely to support repayment than those with more secure employment. Second, each of the main variables exerts a stronger impact when knowledge is high than when it is low. For instance, when the respondent has a strong command of economics, being employed in the public sector reduces the desire to repay by 0.79 on the latent scale. The estimate is more than twice its standard error, giving confidence that the negative coefficient did not arise by chance alone. At the lowest level of knowledge, in contrast, the estimated effect is approximately zero. The unemployment variable exhibits a similar pattern.

Column (2) deepens the analysis by introducing household goods, a measure of wealth. If repaying the debt has a disproportionately adverse effect on the poor, we would expect the coefficient on household goods to have a positive sign. Indeed, richer citizens show a greater inclination to repay, but the effect is more pronounced among the highly informed. Overall, columns (1) and (2) provide solid support for the hypothesis that the preferences of voters – especially knowledgeable ones – depend on their exposure to the costs of adjustment.

Column (3), which tests the reputational channel, shows that citizens who value capital infusions have a much stronger preference for debt repayment than those who think little of capital inflows. Once again, the relationship depends on economic knowledge. Among the most informed, the estimated effect of the reputation variable is 1.82, more than three times its standard error. When knowledge is at its lowest level, though, the effect is nearly zero and has a

relatively large standard error. Thus, the reputational channel works like the adjustment channel, growing in importance as knowledge increases. The parameter estimates remain fairly stable when the two channels are tested simultaneously, as in column (4).

The final column, which investigates the effects of nationalism, reveals an interesting and somewhat surprising pattern. Among the less informed, nationalism reduces the desire to repay, but among the more informed the variable has the opposite effect.[7] These findings suggest that nationalism could mean different things to different people in a way that varies systematically with knowledge. Perhaps "sophisticated nationalism" does not imply hostility to outsiders, but connotes feelings of pride or loyalty and a desire to build success at home and abroad. "Unsophisticated nationalism," on the other hand, could be more akin to chauvinism, involving a strong dislike for outsiders and an ethnocentric sense of us versus them, manifested itself in attacks on immigration, free trade, and foreign finance. De Figueiredo and Elkins (2003) point out that national pride does not always involve prejudice. The estimates in column (5) suggest that knowledge could channel nationalism in a positive direction.

6.1 Effect on Probability of Full Compliance

The parameter estimates in Table 2 relate each regressor to the latent desire to repay, which is continuous and unbounded. In practice, though, policy options are often discrete. It is, therefore, useful to know where citizens stand on an especially fundamental choice: should the government honor its international agreements to the letter or not? I answer this question by computing how the key variables in Table 2 affect the *probability* of supporting payment, as

[7] Results are similar when we substitute two variables -- "Argentina is better than most other countries" and "I prefer to be an Argentine Citizen" -- for the single index of nationalism, although the parameter estimates become less precise due to collinearity. When both components appear in the equation simultaneously, the estimated values of ω and α are 0.84 (0.85) and –1.65 (0.91) for the first component and 1.38 (0.97) and –1.58 (1.06) for the second.

distinct from not paying or holding out for more favorable terms. As we will see, the effects are substantively large not only on the latent scale but also in real policy space.

Imagine two citizens who are alike and somewhat average in all respects, except that one works in the public sector while the other does not. To what extent do these individuals differ in their probabilities of supporting repayment? Using the parameter estimates in Table 2 column (5), I computed the answer for each level of economic knowledge on the 0-1 scale. When the knowledge score is 0, public and private sector employees are about equally likely to prefer full payment. As knowledge rises to 0.5, though, the probability of supporting repayment is 12 points lower (standard error 4 points) for public employees than for private ones, and when economic knowledge reaches its maximum the difference in probabilities grows to nearly 17 points. The substantive importance of other variables in the adjustment channel is similar.

An even more powerful effect emerges from the reputational channel. When knowledge is minimal there is no difference in policy preferences between those who strongly favor capital inflows and those who strongly oppose them. At the highest levels of knowledge, though, the probability of endorsing full compliance is a remarkable 43 points higher (standard error 13) for those who value capital inflows.

Finally, analysis reveals a transition point at which nationalists stop favoring default and start endorsing repayment. Among the least informed, support for full compliance is 53 points lower (s.e. 16) when the nationalism index is 1 than when it is 0. This negative effect weakens until knowledge reaches 0.6, a score typically attained by respondents with a high school degree. At that point the relationship reverses and nationalism becomes a force for compliance.

Figure 1 depicts these effects across the full range of economic knowledge. In each panel, the central curve gives the estimated change in probability of supporting repayment; the

bordering curves are 95 percent confidence intervals. Overall, the figure strongly supports the two-factor theory of public preferences about compliance with international agreements.

FIGURE 1 ABOUT HERE

6.2 Other Measures of Information

The analysis to this point has employed a domain-specific measure of information: the score each respondent attained on an objective test of economic knowledge. Some argue that citizens are information specialists, who know enough to make rational decisions in only a few areas; others contend that sophistication is a general trait, such that someone well informed on one subject is likely to be knowledgeable about others (see Gilens 2001 for a review). If the later view is correct, one could model policy preferences as the product of personal interests and *general* sophistication. Moreover, empirical analysis could rely on variables such as years of education, which are widely available in aggregate and micro-level datasets.

To explore this possibility I replaced economic knowledge with years of education, rescaled from 0 to 1. The education variable was had a long left tail, which pulled the mean of 0.58 somewhat left of the median, 0.67. In contrast, the true-false test yielded an almost perfectly normal distribution centered on 0.49. Notwithstanding these differences, the two variables were correlated at 0.44. I proceeded to ask whether one could proxy for the other.

Specifically, I estimated an ordered probit that resembled the specification in Table 2(5) but interacted the adjustment, reputation and nationalism variables with education, rather than economic knowledge. I then plotted the estimated impact of each explanatory variable on the probability of favoring full repayment. Figure 2, based on education, bears a striking similarity to Figure 1. The three elements of the adjustment channel – public sector, unemployment, and household goods – show almost identical patterns. The effect of the reputational channel is

comparable, as well, though the negative intercept in Figure 2 is somewhat implausible. At low levels of sophistication, why would voters who favor capital inflows be *less* likely to support full compliance than those who oppose capital inflows? The near-zero intercept in Figure 1 seems more in line with economic rationality, conditioned by sophistication. The most visible change from Figure 1 to Figure 2 concerns the effect of nationalism, which has become much weaker and less certain. As before, though, the nationalist variable slopes upward from a negative intercept, suggesting that nationalism means different things at different levels of education.

FIGURE 2 ABOUT HERE

Overall, the education variable performed well as a proxy for economic sophistication. This finding gives researchers some license to use education in tests of the two-factor theory, at least until more research compares the efficacy of general versus specific measures of knowledge.

7. Robustness across Time and Space

Would the patterns in the 2002 survey change with a different sampling frame (say, a national survey rather than a regional one) or with data from a different moment in Argentine history? Are the findings sensitive to the wording of the questionnaire? I explore these questions of external validity by examining two surveys from the 1980s. Both were national in scope and asked whether the foreign debt should be paid, but neither was designed to test theories about the domestic politics of compliance. Consequently, the set of explanatory variables is limited. Nonetheless, data from the 1980s corroborate the patterns from 2002.

7.1 National Survey in 1984

In October 1984 the firm of Manuel Mora y Araujo conducted face-to-face interviews with 800 Argentines. The survey, coming less than year after Argentina held democratic

elections to end military rule, asked citizens about the international debt problem. Like other countries in Latin America, Argentina had borrowed heavily from commercial banks during the 1970s. The confluence of higher interest rates and an international recession was making it hard to meet obligations. In this context, pollsters interviewed citizens not only in Capital Federal and Gran Buenos Aires, but also in Córdoba, Rosario, Mendoza, Paraná, and Tucumán.

Citizens were asked: "Do you agree that Argentina should arrange to pay the foreign debt in its entirety with no further delay?" The survey contained valid responses from 710 subjects, the focus of our analysis. Among them, 15 percent agreed strongly with the statement and 57 percent agreed somewhat, while the remaining 28 percent voiced mild or strong disagreement. Based on responses to this question, I created a four-point measure of willingness to pay with higher values indicating a greater commitment to meeting obligations in full and on time.

The survey also asked whether the respondent worked in the public sector, evoking a positive response in 10 percent of the cases. Since the respondent was not always the principal breadwinner, it would have been useful to know where the *principal sostén del hogar* worked, but interviewers did not record such information. Also of relevance for the adjustment channel, the survey measured household quality, a proxy for wealth, from 0 ("extremely poor") to 1 ("luxurious"). Finally, the survey asked whether it would be good for foreign capital to come to Argentina. Citizens were divided, resulting in a variable on the unit interval with a mean of 0.53 and a standard deviation of 0.27. In the absence of a knowledge test, I used education of the respondent (mean 0.45, s.d. 0.24) as a measure of information.

With one exception, the ordered probit estimates from 1984 are similar to those obtained from a different survey, with differently phrased questions, administered in a different part of the country by a different polling firm nearly two decades later. The first column of Table 3 tests the

adjustment channel. Among the most informed, employment in the public sector strongly reduces the desire to repay: the estimated value of ω is –0.69 and more than twice its standard error. In contrast, the point estimate for α is statistically indistinguishable from zero. House quality (column 2) increases the desire to repay among the highly educated, but – unlike in the 2002 study – exerts a stronger and more precise effect among the less educated. Overall, then, the first two columns corroborate the adjustment channel and provide partial support for the notion that marginal effects become stronger as knowledge increases.

TABLE 3 ABOUT HERE

Column (3) tests the reputational channel. When education is at its highest level, a preference for more capital inflows greatly increases the desire to repay, but among the least educated the effect is slightly negative and statistically insignificant at conventional levels. The estimated effects of "public sector" and "wants inflows" remain fairly stable in the combined model (4), and the parameter estimates for house quality, though fluctuating, remain positive nonetheless. In summary, data from 1984 help establish the external validity of the findings.

7.2 National Survey in 1985

As a final test of robustness, I analyzed a survey commissioned by the US Information Agency in November-December 1985. Fieldwork took place in the six largest cities of Argentina (Buenos Aires, Córdoba, Rosario, Mendoza, La Plata, and Tucumán), which collectively included more than 48 percent of the national population.

Citizens received the following question: "I am going to tell you about a few measures that might be taken in the future. I'd like you to tell me what you think about each one: if it would improve our situation with respect to the foreign debt, [or] if it would make the situation

worse." The first policy on the list was "not pay the foreign debt." I created a binary dependent variable coded 0 if respondents preferred this option (19 percent of cases) and 1 otherwise.

Like the 1984 study, the USIA survey contained a [0,1] measure of housing quality. No data on employment were available, either overall or by sector, but the survey did quantify views about capital inflows. "In the future, do you think we need a lot more foreign investment, somewhat more, a little more, or none at all?" The mean value on the unit interval was 0.57 (s.d. 0.33). Finally, educational attainment was scaled from 0 to 1 and used to quantify knowledge.[8]

Binary probit estimates appear in Table 3 columns 5-7, which show a now familiar pattern: the adjustment and reputational channels work as anticipated, and effects increase with knowledge. To gauge the substantive importance of these estimates, consider two males similar in all respects, except that one lives in a house of quality 0.6 (the 60th percentile in the sample), whereas the other lives in a house of quality 0.2 (the 10th percentile in the sample). If both have only an elementary school education, the probability of supporting repayment is only 2 points higher (standard error 4 points) for the first than for the second. When both have college degrees, though, the gap widens to 18 points with a standard error of 9. Given the extreme nature of the policy option, these effect sizes are striking. The reputational channel produces effects of similar magnitude, estimated with even greater precision. Thus, the findings in this paper are robust to changes in the sample, time period, survey house, and questionnaire.

8. Conclusion

The aim of this paper was to develop and test a theory of domestic preferences about compliance with international agreements. I argued that compliance creates winners and losers

[8] USIA interviewed 1400 Argentines, but filter questions and missing data reduced the usable sample to 1040. I analyzed the listwise-deleted data, but results are nearly identical when missing values are multiply imputed.

through two channels: adjustment and reputation. I then showed that the preferences of citizens vary systematically with their exposure to the adjustment costs and reputational benefits of compliance, and that the relationship grows stronger with individual information. According to the two-factor theory of public preferences, information increases the likelihood that citizens will select the policy most consonant with their own interests. As such, domestic preferences about international agreements emerge from the interaction of interests and information.

These findings suggest the need to modify two foundational assumptions in models about the domestic sources of foreign policy. The first assumption presumes that citizens have genuine opinions about international economic and security issues. This claim is a source of considerable controversy in academic literature. Some argue that US citizens have orderly and consequential foreign policy preferences (e.g. Aldrich et al. 1989; Holsti 1996; Hurwitz and Peffley 1987; Page and Shapiro 1992; Wittkopf 1990), but the classical view of Almond (1950), Converse (1964), Miller (1967), Zaller (1992) and others entails just the opposite: opinions about global affairs are shallow and unpredictable because the issues are complex and distant from daily concerns.

The theory and evidence in this paper imply that both sides of the controversy have merit, albeit for different segments of the population. On the one hand, I find that national preferences about compliance follow a clear pattern, with more structure than the classical perspective would imply. Considering the complexity of financial issues like international debt, the assumption of coherent preferences has passed a truly hard test. On the other hand, coherence varies markedly across segments of the population. The policy positions of knowledgeable citizens seem orderly and predictable, but the attitudes of less knowledgeable citizens are much harder to explain. Thus, a fundamental premise in democratic models of foreign policy may hold only – or hold most strongly – for aware and sophisticated portions of the electorate.

The second foundational assumption asserts that domestic actors think and act according to their own interests, as shaped by interaction with the rest of the world. In models of international economic relations, for example, citizens and their interest groups are presumed to prefer the foreign policy that maximizes their personal welfare, given their socioeconomic position. This, too, is a contentious supposition. An extensive literature, based mainly on evidence from the United States, challenges the axiom that selfish concerns govern attitudes and behavior. Across a wide range of issues, personal costs and benefits have been poor predictors of policy preferences (Citrin and Green 1990; Kinder 1998, 800-803; Sears and Funk 1991).

This paper provides evidence of self-interested policy preferences in the area of debt, just as others have done for international trade (Baker 2003; Scheve and Slaughter 2001a, 2001c) regional economic integration (Gabel 1998a, 1998b, 2001; Tucker, Pacek and Berinsky 2002), and immigration (Scheve and Slaughter 2001b). Nevertheless, the relationship between interests and preferences is highly conditional. Certain segments of the electorate possess the knowledge to judge foreign policy, but others do not draw the connections our theories presume. In fact, the marginal effects of self-interest measures are extremely weak, if not zero, for the least informed members of the population.

This result has potentially pivotal implications. The ability to reason from objective interests to policy preferences is not randomly distributed across the economy and society. Instead, it tends to be found in educated citizens, typically members of the middle and upper classes. Thus, a second major assumption in democratic theories of foreign policy may be appropriate for a select and identifiable group, rather than the country as a whole.

Revising these two assumptions in the ways described here could lead to significant changes in international relations theories, by refining our theoretical conceptualization of the

way domestic interests are aggregated into foreign policy. Previous research has shown that domestic institutions can bias representation, privileging the interests of some groups over others. The franchise, the electoral system, agenda-setting powers and decision rules such as supermajority requirements and veto points shape foreign policy by affecting whose interests matter and how they get weighed (Rogowski 1999). This paper suggests an independent, non-institutional source of bias: the differential ability of groups to identify the foreign policies that serve their interests.[9]

If the uninformed are less adept at translating their interests into foreign policy preferences, their needs and desires will be underrepresented. In elections and referenda, low-information citizens will be systematically less likely to know which policy or candidate to favor, and the apparently random nature of their expressed preferences may tend to be self-canceling. Moreover, uninformed citizens are less likely to create interest groups that lobby, protest, and use other channels of influence to affect the decisions of leaders. Finally, when they do communicate with party leaders and government officials, the uninformed are prone to send inconsistent or self-defeating signals about policies that would serve their interests. For these reasons, existing models about the democratic sources of foreign policy probably give too much weight to the interests of the uninformed. The two-factor theory helps correct this misspecification by making the link from interests to preferences conditional on information.

Future research on the two-factor theory should proceed along two lines. First, it would be instructive to test for similar patterns in other countries and policy domains. The evidence in this paper pertains to one important issue (compliance with international debt contracts) in one part of the world (Argentina). Within that context the findings are remarkably robust, surviving

[9] See also Lohmann (1998) and Grossman and Helpman (2001) for analyses of policy bias caused by information asymmetries.

changes in time period, sample frame, survey house, question wording and measurement techniques. Nevertheless, it remains to be seen whether similar findings emerge from different data. Further work could help assess the generality of the two-factor theory.

Second, studies could analyze the policy biases caused by the interaction of interests and information. Extending the work of Lohmann (1998) and Grossman and Helpman (2001), one could include knowledge as a parameter in democratic models of foreign policy, treating it as a necessary link between objective interests and policy preferences, and noting how the equilibrium changes with the distribution of knowledge across individuals and groups. It should also be possible to conduct empirical tests – either case studies or statistical work – by developing measures of the distribution of knowledge and using them to explain policy output.

This paper has focused on the microfoundations of policy choice in international relations, but the two-factor theory could have implications for a wider range of problems. For example, the notion that selfish motives govern human behavior pervades political science, especially in models of rational choice. The approach described here could help delineate the conditions under which the self-interest axiom is most appropriate, and when it is less likely to serve as a useful explanatory tool. The approach also has implications for the strategic behavior of candidates, political parties and interest groups, leading them to filter the policy demands they receive and tailor the campaign appeals they make, depending on constituents' knowledge. Finally, the two-factor theory could advance our understanding of representation: perhaps the pluralist choir "sings with a strong upper class accent" (Schattsnider 1960, 35) partly because the informed are better able to identify and advocate government policies that advance their interests. Future research should explore these and other implications of the interaction between interests and information.

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Table 1: True-False Test of Economic Sophistication

Statement	Correct answer	% correct	% DK/NA
1. Remes Lenikov is the Economy Minister of Argentina.	F	68	15
2. Mario Blejer is the president of the Central Bank of Argentina.	T	52	36
3. The name of the Brazilian currency is the Real.	T	72	16
4. Chile is a full member of MERCOSUR.	F	40	19
5. Most of the foreign debt of Argentina is owed to the IMF.	F	21	14
6. The argentine government is currently paying its debts to the IMF and the World Bank.	T	36	19
7. If my income doubles and the price of things I buy triples, my economic situation has gotten worse.	T	82	9
8. An increase in the interest rates that banks charge typically results in more investment.	F	40	37
9. If the Central Bank buys dollars, the value of the dollar will probably fall.	F	47	20
10. A sustained inflow of foreign capital will tend to reduce domestic interest rates.	T	32	44

Table 2: Preference for Repayment in 2002
(ω = high-information effect; α = low-information effect)

	(1)	(2)	(3)	(4)	(5)
Adjustment Channel					
ω: Public sector	-0.79	-0.70		-0.69	-0.63
	(0.35)	(0.35)		(0.34)	(0.35)
α: Public sector	0.00	-0.09		-0.08	-0.14
	(0.37)	(0.38)		(0.38)	(0.38)
ω: Unemployed	-0.56	-0.51		-0.51	-0.58
	(0.31)	(0.32)		(0.31)	(0.31)
α: Unemployed	-0.17	-0.13		-0.17	-0.06
	(0.32)	(0.33)		(0.33)	(0.33)
ω: Household goods		1.28		1.11	1.32
		(0.59)		(0.58)	(0.59)
α: Household goods		0.40		0.32	0.04
		(0.70)		(0.73)	(0.72)
Reputation Channel					
ω: Wants inflows			1.82	1.72	1.83
			(0.53)	(0.54)	(0.54)
α: Wants inflows			-0.05	-0.04	-0.14
			(0.53)	(0.55)	(0.54)
Other Parameters					
ω: Nationalism					1.09
					(0.58)
α: Nationalism					-1.62
					(0.63)
β: Economic knowledge	-0.23	-1.02	-1.96	-2.32	-4.63
	(0.47)	(0.77)	(0.72)	(0.96)	(1.39)
Female	-0.17	-0.18	-0.16	-0.18	-0.16
	(0.12)	(0.12)	(0.12)	(0.12)	(0.12)
Age	0.74	1.04	0.73	0.80	0.88
	(0.32)	(0.33)	(0.32)	(0.34)	(0.36)

Measure of economic knowledge is subject's score on true-false test. Robust standard errors appear in parentheses. Ancillary threshold parameters (τ's) not reported. Sample size: N=415.

Table 3: Preference for Repayment in 1984 and 1985
(ω = high-information effect; α = low-information effect)

	Estimates for 1984				Estimates for 1985		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Adjustment Channel							
ω: Public sector	-0.69	-0.66		-0.70			
	(0.28)	(0.29)		(0.31)			
α: Public sector	0.32	0.29		0.32			
	(0.36)	(0.36)		(0.38)			
ω: House quality		0.72		0.22	1.64		1.25
		(0.51)		(0.52)	(0.63)		(0.65)
α: House quality		0.82		1.00	-0.32		-0.31
		(0.33)		(0.34)	(0.65)		(0.66)
Reputation Channel							
ω: Wants inflows			1.66	1.77		1.09	1.00
			(0.42)	(0.44)		(0.28)	(0.29)
α: Wants inflows			-0.24	-0.42		0.16	0.19
			(0.36)	(0.38)		(0.28)	(0.29)
Other Parameters							
β: Education	-0.32	-0.66	-1.68	-1.48	-1.08	-0.71	-1.51
	(0.18)	(0.54)	(0.40)	(0.58)	(0.59)	(0.38)	(0.64)
Female	0.21	0.20	0.22	0.20	-0.02	0.02	0.01
	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)
Age	-0.13	-0.40	-0.33	-0.52	0.19	0.10	0.09
	(0.27)	(0.28)	(0.27)	(0.28)	(0.15)	(0.15)	(0.15)

Robust standard errors appear in parentheses. Ancillary threshold parameters (τ's) not reported. Sample size: N=710 for 1984 (columns 1-4) and N=1040 for 1985 (columns 5-7).

Figure 1: Effect on Probability of Choosing Full Compliance
(estimated change in probability and 95% confidence intervals)

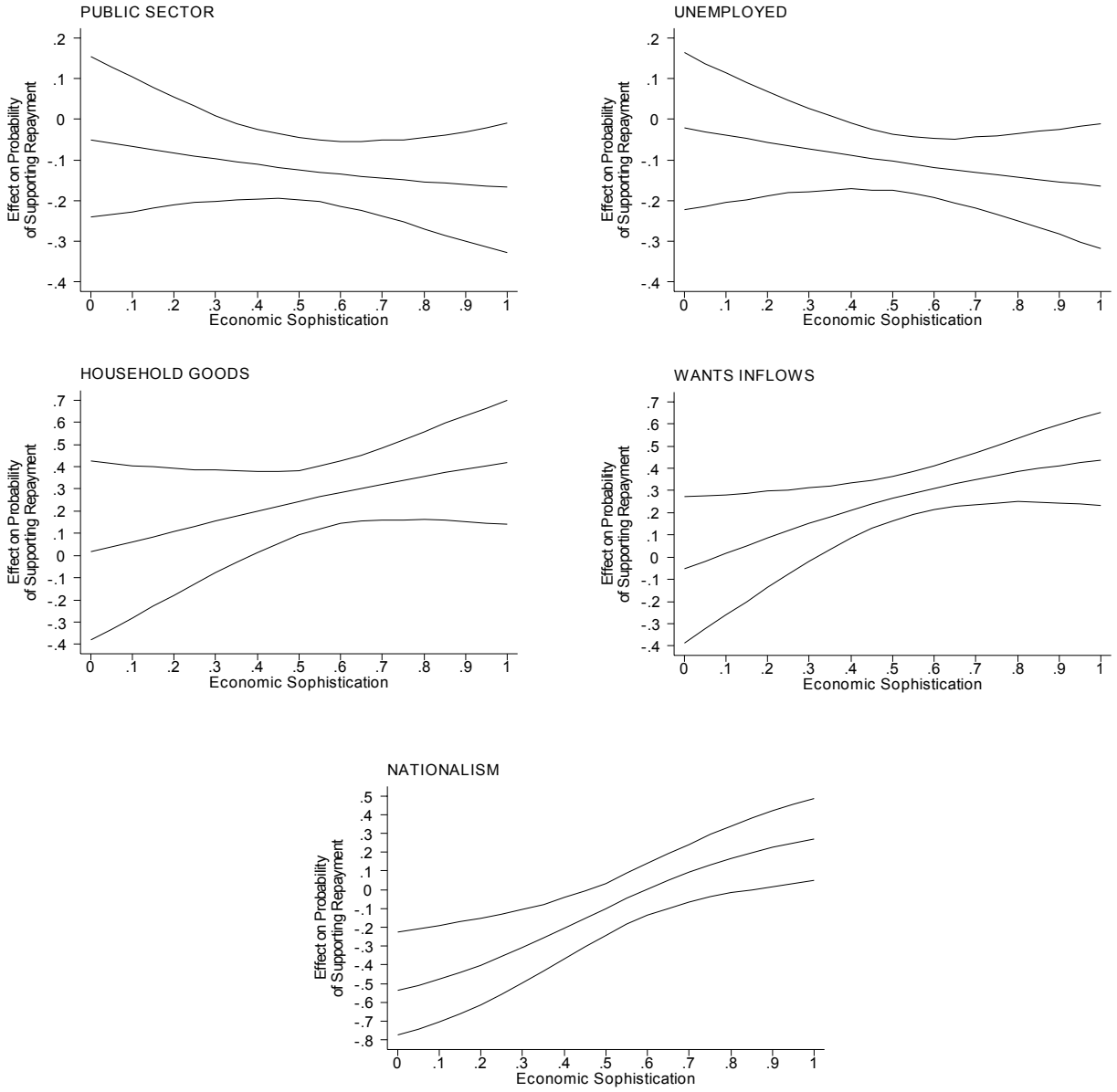

Figure 2: Effect when Education is Used in Place of Economic Knowledge
(estimated change in probability and 95% confidence intervals)