

# RESEARCH INSIGHTS



## Can Voter Preferences Explain Why Governments Underinvest in Public Goods?



A new survey of 6,040 voting-age individuals conducted in seven Latin American metropolitan areas reveals that political and interpersonal mistrust, risk aversion and time impatience are strong predictors of voter preferences for public spending.



Respondents with higher mistrust or impatience are more likely to choose transfers over public goods; more impatient respondents are also more likely to choose current spending over public investment.



Randomized experiments providing information about the benefits of public investment have the expected average demand impacts. Respondents with high political mistrust or impatience increase their demand for public investment significantly less than others.

### CONTEXT

In Latin American countries, governments tend to focus on short-term public spending such as redistributive transfers. This often occurs at the expense of investment or capital spending, which can have high economic returns. A recent study estimated that over the 1980-2016 period, in developing countries, trend growth in public investment as a share of total government spending was 8.5 percentage points lower compared to trend growth in current spending—and 9.7 percentage points in Latin America and the Caribbean. It is necessary to identify the main determinants of these patterns so that policymakers can find solutions to correct this imbalance.

### PROJECT

We designed an original survey of voter spending preferences that was conducted in seven Latin American capitals through the Latin American Public Opinion Project (LAPOP) at Vanderbilt University. The survey offers choices among three types of public spending: spending with immediate and certain benefits, such as direct monetary transfers; short-term public goods (or public consumption), with immediate but uncertain benefits, such as buying new equipment; and long-term public goods (or public investment), with uncertain and future benefits, as with training programs and infrastructure investments.

#### Key Concept



#### POLITICAL MISTRUST

A voter's belief that politicians do not always fulfill policy promises made during election campaigns.

#### Key Concept



#### RISK AVERSION

An individual preference for a certain payment over an uncertain payment that has the same expected value.

## RESULTS

The survey offered respondents binary choices of hypothetical spending options, varying the uncertainty and timing of their benefits. For example, respondents chose between a tax credit allowing more personal spending on education (more certain benefits) and a tax increase to fund public education (more uncertain benefits), or between spending on hiring additional public employees (current benefits) and training existing employees (future benefits). The data show that respondents with low political trust and low interpersonal trust are more supportive of transfers at the expense of public goods. Respondents with high impatience are more supportive of transfers at the expense of public goods, and of short-term spending (transfers and public consumption) at the expense of long-term spending (public investment). The findings appear in two policy domains, education and security.

Two randomized experiments designed to increase demand for public investment generate further evidence on the role of trust and patience. In line with theory, the experimental evidence suggests that low-trust and either very patient or very impatient voters should be relatively less responsive to changes in the future benefits of public investment. In the first experiment, respondents were randomly assigned an informational treatment indicating that public investment spending has a relatively higher return. Low-trust respondents are less sensitive to the treatment, registering a smaller demand shift toward investment. In the other experiment, respondents were randomly assigned different time horizons (two or four years) for receiving the delayed benefits from public investment spending. Consistent with theory, extreme (very high and very low) discount rate respondents are less responsive to differences in time horizon and switch less to supporting public investment when the benefits timeframe shrinks.

### Key concept



#### TIME IMPATIENCE

An individual preference for a lower immediate payment over a higher but delayed payment.

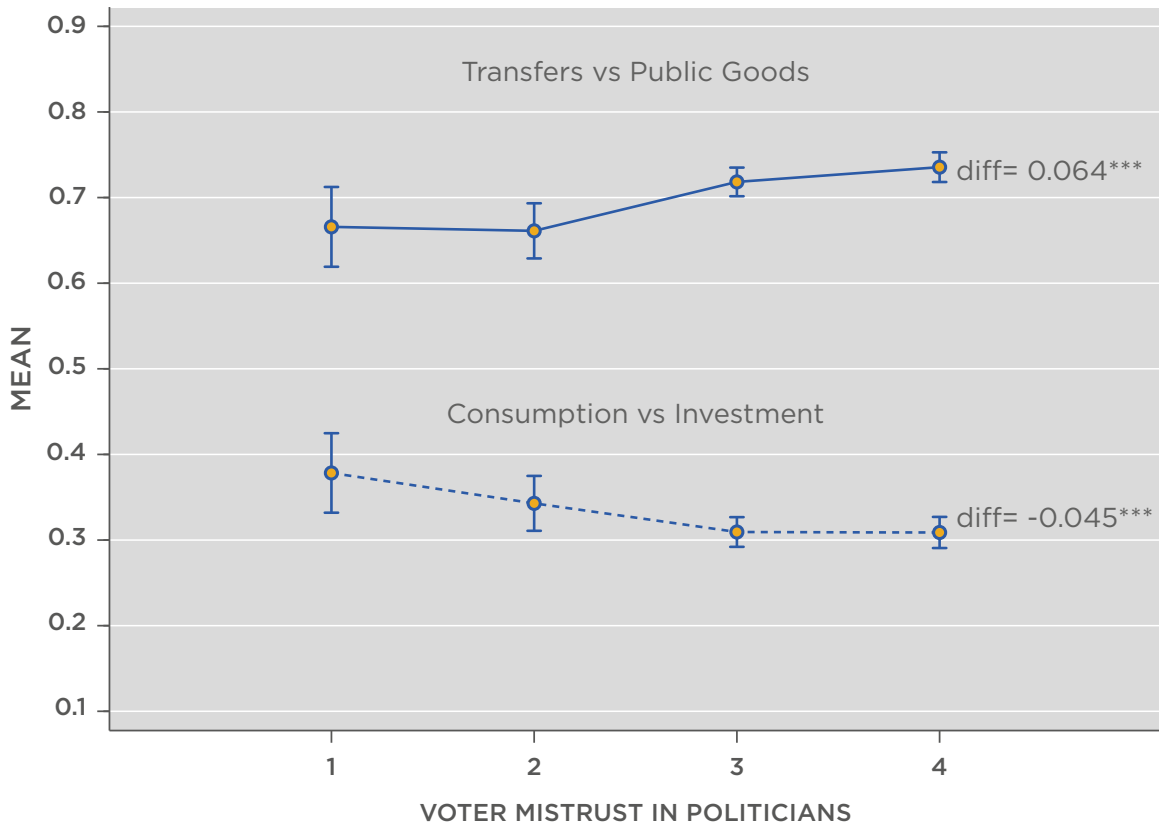
## POLICY IMPLICATIONS

Policymakers seeking to maximize social welfare need to understand the determinants of low trust in electoral promises and the factors that could mitigate it. The data presented in this study suggest that some of these determinants operate at the individual voter level, while others may be more systemic. Individual-level determinants may reflect lack of accurate information and could warrant behavioral interventions such as reminding voters in salient ways how public goods provided by the government are critical to economic growth and social infrastructure. The systemic component seems more complex. It may be rooted in social norms shaped by historical experiences or result from perceptions of low government performance: low trust gives political candidates electoral incentives to adopt inefficient policies, or it encourages individuals who prefer inefficient policies to enter politics. Low government performance in turn reinforces voters' low trust.

Individuals' risk aversion and time impatience can be mitigated by a stable macroeconomic environment—i.e., low inflation, low unemployment, and financial stability—as well as political stability and low crime and corruption. Since low incomes can also help to create a focus on short-term outcomes, governments that increase incomes in an equitable way could lengthen voters' time horizons.

Several concrete reform measures can build trust and develop policies that improve welfare in the region. These include strengthening the institutional framework, improving the communication of policy outcomes, encouraging citizen participation in elections and community meetings, promoting policies that discourage misbehavior by public employees, and modernizing the system of citizen interaction with the state. Digitalization of public services—if done well—provides an additional opportunity to reduce corruption and improve services. When citizens perceive that the government is operating efficiently and delivers public goods effectively, they are more likely to vote for candidates with strong public good platforms.

**Figure 1. Voter Demand for Different Types of Education Spending**



*Note:* Figures plot means of individual choices in spending tradeoffs against political mistrust. Ranges around means are 95 percent confidence intervals. Differences reported (diff) are between the mean for categories 3,4 versus mean for categories 1,2; the symbol \*\*\* indicates statistical significance at 1 percent level. Data are from the IDB-LAPOP Survey. Sample consists of 6,040 individuals from seven countries.



**FULL STUDY**

[Keefer, Philip, Carlos Scartascini, and Razvan Vlaicu. 2022. “Demand-Side Determinants of Public Spending Allocations: Voter Trust, Risk and Time Preferences.” \*Journal of Public Economics\* 206 \(February\): 104579.](#)

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