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Economic voting: an introduction

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1. The VP-function

The following volume defines the state of art in the field of *economic voting, as of 1998*. It is based upon a conference held in August 1998 at Sandbjerg Manor, Denmark. We are proud to have brought together the group that produced the 18 articles of this volume.[1] The group does not include everybody active in the field, but they are the lion's share of the leaders. Still, we are sure that there are new researchers in the field, whom we will soon learn about, hopefully as a result of this scholarly exchange. Our volume is a sequel to Norpoth et al. (1991), based upon a similar conference roughly 10 years before ours.

Economic voting is a field that mixes economics and political science and does so by means of econometrics. Political scientists analyze elections, and economists routinely use macro welfare functions, with little empirical basis. Further, for the political scientist it is wonderful to have explanatory variables that are well known, carefully collected and quantitative. For the economist, voting forms an important limiting case where people decide while having only a small and "intangible" interest in the outcome. Hence, it is no surprise that the subject has attracted many researchers from both disciplines. Indeed, more than 200 relevant books and papers have been published. The main findings from this literature are summarized in Table 1.

The last item on the list reveals the main reason why this research has shown no tendency to die. Many nice VP-functions have been found over the years, only to suddenly disappear. Several such relations exist in the social sciences (the Phillips

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[1] All papers in this volume were presented at the conference, with one exception. David Sanders presented his (1999) already published. However, his paper (pp. 275–294) is a direct continuation of the discussion on the conference. We are happy to say that the work on the matters covered in our volume is continuing.

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curve is a prominent case). We all prefer to think that the instability is *apparent* only. That is, it is due to something we are missing or doing wrongly — if we could just find the "trick", everything would be well. Such thinking is wishful if the instability of the VP-function is *inherent*, so that it is unstable at the core. Even so, we might learn *when* we can expect the function to behave, and *when* not. In the meantime we try, and these efforts have produced the list in Table 1. At the end we shall return to this crucial question: is the instability apparent or inherent? However, before this we shall quickly survey the 18 chapters of our volume.

2. A quick tour through 18 papers

Most of the findings in the table derive from estimates building upon the *Responsibility Hypothesis*: voters hold the government responsible for economic events. This hypothesis launched the literature, as it offers a simple reduced-form link between the economy and the vote. How it can be developed into a more complex theory is the theme of Nannestad and Paldam (pp. 123–140). The complexity starts when one moves into voter assessments, and it can be made as complicated as data allow. Using Danish monthly popularity data and rather detailed aggregate measures of the voter's perceptions of the economy, it is demonstrated that the causal links can become awfully blurred within the assessment complex. It is argued that little is learned by getting too refined in macro-studies of the VP-function. Refinements are for the micro-studies.

There are two main links in the causal chain: (i) from the economy to voter percep-

Table 1
The main stylized facts about the VP-function[a]

I.	Vote and popularity functions are basically similar, but the fit of popularity functions is better.
II.	*E-fraction*: economic changes explain about one-third of the change in the vote.
III.	*The big-two*: the vote reacts to a few macroeconomic variables — mainly unemployment/growth and inflation.
IV.	Voters are *myopic*, and so have a short time horizon.
V.	*Retrospective/prospective controversy*: voters react to past (retrospective) events more than to expected (prospective) ones, but the difference is small.
VI.	*Sociotropic/egotropic controversy*: sociotropic (national) economic voting is generally stronger than egotropic (personal) economic voting. However, there are some notable country exceptions.
VII.	*The grievance asymmetry*: voters may react more to negative changes than to corresponding positive ones.
VIII.	Little is known about the macroeconomic knowledge of voters and how it is obtained.
IX.	*The instability problem*: the main problem in the literature is that the VP-function lacks stability, both in cross-country studies and even in the same country over time.

[a] See Paldam (1981), Lewis-Beck (1988), Norpoth et al. (1991), Norpoth (1996) and Nannestad and Paldam (1994, 1997), Norpoth et al. (1991) and Nannestad and Paldam (1994, 1997), for literature surveys.

tions, and (ii) from voter perceptions to the vote: in the paper by Sanders on Britain (i) fails while (ii) is strong. However, in the paper by Nannestad and Paldam on Denmark (i) is strong while (ii) fails.

Another three papers deal with alternatives/amendments to the Responsibility Hypothesis. Carlsen (pp. 141–150) points out that parties have ideologies that lead them to assign different economic priorities. This is likely to cause the Responsibility Hypothesis to work asymmetrically for parties with different ideologies. Unfortunately, the asymmetry might work in two ways: consider Party X that cares most about variable x. *The clientele hypothesis* says that voters turn to Party X if x deteriorates. *The saliency hypothesis* says that voters punish Party X particularly strongly if x deteriorates, when X rules. Using popularity data for Australia, Canada, the UK and the USA, Carlsen finds some partisan effects — mostly of the clientele type.

Anderson (pp. 151–170) deals with another central problem: it is much more difficult to assign responsibility to the government in some systems than in others. The Responsibility Hypothesis is "perfectly" suited to explain economic voting in two-party-systems where the government is the one with the majority, but once there are minority governments with shifting coalitions, responsibility is illusive. Anderson explores several closely related theories using vote intention data from 13 Western European democracies. He concludes that there is a fairly strong clarity factor at work.

The French constitution has several unusual features, which allows tests of economic voting which are impossible in other democracies. Lewis-Beck and Nadeau (pp. 171–182) study some of these features, using a large micro data-set. The main point analyzed is the dual executive responsibility in the French system, where power is split between a powerful president and a powerful government. It is demonstrated that the allocation of responsibility here works to split the economic effect between the two rulers. For example, under "cohabitation", the impact of the economic vote for the Prime Minister's party is halved. This paper also analyzes other revealing features of the French system, such as the two rounds of voting, where the voters are shown to react in the same way to the economy.

Item I in Table 1 deals with the relation between vote and popularity functions. Two papers contain vote functions, and two more are vote-function related. In addition, Paldam and Nannestad (pp. 363–391) provide an example showing that voters' economic knowledge increases right before an election. Therefore, we should expect the "economic factor" to weigh differently, when the dependent variable is actual vote, rather than opinion in a poll.

Chappell and Veiga (pp. 183–197) look at elections in 13 West European countries. They explore an original idea — have the dramatic shifts in macroeconomic theorizing been reflected in changing economic vote functions? In particular, does the Lucas critique[2] apply to the vote function? Unfortunately only weak support appears for these promising ideas.

[2] Lucas' critique of macroeconomic models is — in a nutshell — that given full information, people who have rational expectations take the prevailing economic theories into consideration when they form their expectations. Hence, when theories change so do the macroeconomic relations!

Fidrmuc (pp. 199–217) analyzes the first two to three elections in four new democracies in Eastern Europe: the Czech Republic, Hungary, Poland and Slovakia. To get enough data to do statistical testing the election results are disaggregated to regions. The main concern of the article is to show how the support for reformers varies with economic conditions. It appears that economic developments do contribute a great deal to the ups and down of reform politics in the new democracies. The responsibility pattern explains less of the pattern found.

The Jerome's (pp. 219–236) deal with municipal and regional vote data from France, but interpreting these data in a national perspective — thereby wandering into virtually virgin land research-wise. Two notable results are found in these data: (1) they strongly reflect economic conditions, and (2) they show remarkably large variation.

However, the article by Alvarez, Nagler and Willette (pp. 237–253) is also a comparative study of elections, but it is based upon exit-polls in two Canadian elections. Using new statistical tools it is demonstrated that political issues and the economy are almost equally powerful, but quite asymmetrically for the different parties (cf. item II in Table 1). It also appears that the economy is a stronger factor during bad times than during good ones (cf. item VII).

Item II in Table 1 speaks of the interplay and relative importance of economic and political factors. It is the theme of "two-times-two" papers. Two popularity function papers for the UK and two for the US. Both pairs of papers highlight the vast efforts put into the study of these functions and the knowledge that has accumulated here.

Clarke, Ho and Stewart (pp. 255–273) and Sanders (pp. 275–294) analyze UK popularity series. The message of Clarke et al.'s paper is that a simple shift-variable measuring the personal "charisma" of top politicians is very powerful in these functions. The paper concentrates on the shift from Margaret Thatcher to John Major. Sanders (1999) looks at the sudden drop in the perceived Conservative economic management competence and the Labour party leader change to Tony Blair. This, of course, shows that unique "events" are important to include — bringing us uncannily close to history-writing. In the paper by Sanders, this analysis is continued by demonstrating that while the link from the economy to the vote is weak there is a strong link from the economy to the voters' perceptions of the economy, and from these perceptions to the vote, as already mentioned.

Erikson, MacKuen and Stimson (pp. 295–312) and Nickelsburg and Norpoth (pp. 313–332) analyze US popularity series. The differences in the two papers reflect the wealth of available series analyzing aspects of "government" popularity in the USA. It appears that different series tell different — partly contradictory (see Table 2) — pieces of a complex story. Erikson et al. concentrate on the formation of expectations behind the approval rate for the president. They conclude that the expectations are a good deal more complex and forward looking than mostly found in popularity function studies.

Nickelsburg and Norpoth look at series for the general approval rate for the President, and the rates of approval for his economic and foreign policies. It is demon-

Table 2
Results as regards two controversies[a]

		First controversy		Second controversy	
		Prospective	Retrospective	Egotropic	Sociotropic
Chappell and Veiga	**Comparative**	**NI**	**Present**	**NI**	**Present**
Fidrmuc	**Comparative**	**NI**	**Present**	**NI**	**Present**
Carlsen	**Comparative**	**NI**	**Present**	**NI**	**Present**
Sanders	**UK**	**Larger**	**Smaller**	**Larger**	**Smaller**
Clarke et al.	**UK**	**Same**	**Same**	**Larger**	**Smaller**
Nannestad and Paldam	**Denmark**	**Same**	**Same**	**Same**	**Same**
Feld and Kirchgässner	**Germany**	**NI**	**Larger**	**NI**	**NI**
Erikson et al.	**US**	**Larger**	**Smaller**	**NI**	**NI**
Nickelsburg and Norpoth	**US**	**Smaller**	**Larger**	**NI**	**NI**
Anderson	Comparative	NI	Present	NI	NI
Alvarez et al.	Canada	NI	Present	Same	Same
Lewis-Beck and Nadeau	France	NI	Present	Smaller	Larger
Paldam and Nannestad	Denmark	Same	Same	Some	Some

[a] The first column indicates the author of the study. The second column indicates the country sample. NI=not investigated. The portion of the table in bold type is macro.

strated that they have independent explanations and that they weight almost the same in the general approval rate. Here expectations are found to be retrospective.

Two papers deal with Item II, the "big-two" variables in these functions: unemployment and inflation. As inflation has virtually disappeared in the West during the last decade, unemployment has soared to the center stage as an explanatory variable. Paldam and Nannestad (pp. 363–391) look at people's knowledge about unemployment and inflation, and find that while people know unemployment rather well they do not know much about inflation. Feld and Kirchgässner (pp. 333–347) look at the whole 16 years of Helmut Kohl's rule. They represent the state of the art in German popularity functions, adding two new features: an analysis of data from the new republics in the Federation, and an analysis using alternative unemployment data trying to measure the hidden unemployment. Unemployment is both an "official/legal" concept and something very "real". However, the true unemployment is an elusive concept. In Germany a careful attempt has been made to construct an "unofficial" measure of unemployment that is closer to real unemployment than is the official series. It is demonstrated that the unofficial series work better in the popularity function than the official one. This is an important point we will return to below.

All the time-series articles included assume myopia (Item III in Table 1). Paldam and Nannestad (pp. 123–140) show that it might be due to the speed at which economic knowledge deteriorates.

Many of the papers deal with two controversies. Are voters retrospective or pro-

spective? (Item V). Are voters sociotropic or egotropic? (Item VI).[3] The "theoretically correct" economist believes in *rational expectations* so voters should not be retrospective, but prospective. Also, it is more theoretically correct to believe that people look at their own personal economy, rather than the economy of the nation, when they decide what to vote. However, most findings indicate that retrospective variables work better, if only marginally so. Further, most findings show that voters are more sociotropic than egotropic, as was originally reported by Roderick Kiewiet and Donald Kinder (1979). Nevertheless, recently the reverse result has consistently appeared in British as well as Danish data, causing a resurgence of the controversy.

Table 2 reports results on these controversies from the papers herein. It appears that we can safely continue with the two conclusions listed in Table 1. There is very little difference between retrospective and prospective expectations, as people have largely static expectations. The retrospective expectations are normally as good or better than the prospective ones and surely they are easier to work with. Also, it seems that it differs from one country to the next if people are more sociotropic or more egotropic. However, the cross-country pattern in this strange difference is not well understood.

After these controversies, Table 1 lists VII, on grievance asymmetry. Some scholars have specifically considered whether voters weight bad times differently from good times. The dominant finding is that they punish economic downturn more than they reward economic upturn. This helps explain why a government may be cast out even when the economy is performing rather well.

The penultimate item concerns the economic knowledge voters have (Item VIII, Table 1). What do they know about the economy, and what would it be realistic for them to know? This is the subject of two papers, a theoretical one by Aidt (pp. 349–362) and an empirical one by Paldam and Nannestad (pp. 363–391). First of all it appears that remarkably few studies have been made in this field. People appear to have a rather limited knowledge of macroeconomics. As demonstrated by Aidt, one should count on rational ignorance when analyzing the vote decision. The only big exception to the ignorance found appears to be unemployment, where the public's micro-observations pretty much square with the macro-facts. This result may explain the findings of Feld and Kirchgässner and Nickelsburg and Norpoth.

The remaining three papers are like twigs which have grown from the trunk of the economic voting literature. They are still only twigs, but may grow into major branches. The first two of these deal with complications in the VP-function: Fauvelle-Aymar, Lafay and Servais deal with a variable intermediate factor, that may cause instability, and Palmer and Whitten deal with a potential counter-causality bias.

Fauvelle-Aymar et al. (pp. 393–412) deal with the economic factor in the vote decision itself. If the economy and some political factors — not included in the political choice decision — are determining the vote decision, the traditional VP-

[3] The artificial word "sociotropic" is now accepted in the literature, but the corresponding — and equally artificial — word "egotropic" is often frowned upon. It is termed either "pocketbook", "egocentric", or "personal". We prefer "egotropic" as it is less emotionally loaded.

function is a reduced form of two very diverse parts. As a consequence, one may get important new insights by estimating the two parts separately by a two-stage procedure, as proposed in this paper. The model presented is then estimated on French data, showing substantial effects.

Palmer and Whitten (pp. 413–426) uses a cross-country sample to study if elections are called as a result of good economic conditions. It is shown that there is an effect. Obviously this gives a causality from economic conditions to elections, but not necessarily to election outcomes. Whether it influences our estimates of the VP-function by creating a counter-causality bias is not obvious.

Finally, Kiewiet (pp. 427–444) discusses the broader political economy issues in a cross-country setting. He discusses whether the typical findings for vote functions generate political business cycles, and how the issue of clarity enters. This is seen in relation to a number of institutional features characterizing the countries.

3. The crucial question: is the instability of the VP-function apparent or inherent?

Over the last 10 years, the number of papers on economics and elections has roughly doubled, from 100 to 200. Our conference papers further boost the total. Happily, the yield has been high. Methodologically, important advances have been made. More countries have been studied, comparatively as well as singly. Data have improved. There are longer, more relevant aggregate time series, and multiple and extensive public opinion polls. The enriched database has permitted elegant analysis, extending to pooled time series from many countries or massive election surveys where the voter faces several party choices. We have arrived at a point where some rather firm claims can be made. In terms of theory, it is clear that the economy is linked to the voter via the Responsibility Hypothesis. The voter observes the economy, judges its performance, and alters his or her vote accordingly. The dominant form of economic voting is reward or punishment of the incumbent. Electorates can be counted on to vote heavily against a government at the head of a declining economy.

Empirically, however, the data do not always give up the standard, reward–punishment of the incumbent result. Results may differ from country-to-country, or time-to-time. Thus, the charge has arisen that the vote or popularity functions are inherently unstable and that we might as well give up our search.

We reject this defeatism — great strides have been made toward stabilizing our estimates, and there is a lot more that can be done. Much of the observed instability is only apparent, a production of faulty measurement and deficient theory construction. With regard to measurement, the dependent variable must indicate the appropriate target of economic responsibility. For example, in an essentially two-party system, the economic voter acts for or against the party in government. In a multi-party system, the economic voter may target a whole coalition, a party within the coalition, or even assign a particular economic policy to a particular party. Once “responsibility” is properly understood, it can be properly modeled, thus eliminating one

source of superficially unstable results. Measurement is also an issue on the right-hand side of the equation. Selection of the "wrong" economic variables will generate inconsistent results. Voters do look at the economy, but they may emphasize different indicators at different times. For example, an election survey analyst who looks at inflation when the relevant variable has become unemployment may mistakenly conclude that the economic vote has vanished.

Measurement issues shade over into theory construction. First, of course, there is the obvious point that, to get unbiased economic estimates, the political independent variables must be properly specified. Fortunately, this is not a major concern in any of the papers at hand. The more subtle point has to do with the role of electoral institutions, and how they condition the economic effect. Essentially, electoral institutions may change the underlying economic coefficient, by blurring the lines of government responsibility for the economy. In a two-party parliamentary system with a government from the largest party, economic responsibility in a national election is directly assigned. By contrast, in a multi-party system with a minority government, the assignment of economic responsibility may be more indirect. For either case, the economic effects can be recovered, but proper modeling of the changing institutional conditions is necessary. Moreover it is worth noting that coalition formation issues do not exhaust institutional variation. For instance, a chief executive may have rivals for control, from another executive, another legislature, or an independent economic policy board. Also, the order of the election — is it national or local? — can condition the economic effect. Failure to specify institutional conditions can cause misestimation of economic effects, leading to the false conclusion that the vote function is unstable. Thus, much observed instability is only apparent, due to specification error.

Once this apparent instability is stripped away, how much inherent instability is left? We believe (hope) there is not much. A leading argument for the presence of considerable inherent instability is that economic issues vary in importance from election to election. One test of this proposition is to see how models that postulate a strict economic determinism perform. Such models in fact are able to capture a good amount of variation, and it is an amount which varies little from election to election. Furthermore, when joined with political independent variables, they compose models which have been able to forecast macro election results rather well. The predictability of and from the economic component reinforces our conclusion that the instability question is largely settled. Most of the observed instability is apparent, and can be taken account of by proper specification of institutional conditions. The remaining instability, which may be inherent, becomes so, mostly due to the routine sources of error which plague any sort of empirical work.

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