Economic Voting Theory

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In the media..

- « Election Forecast Models Clouded by Economy’s Slow Growth » Bloomberg, September 12, 2012
- « Economics still underpin this election » The Guardian, April 14, 2010
- « Economy to dominate German election » Deutsche Press-Agentur, August 22, 2005
- « German elections boils down to jobs, economy » Associated Press, September 18, 2005
MSNBC (August 2012)
Predict Obama's odds in the 2012 election

Political scientists at George Washington, Yale and UCLA believe most elections can be predicted with just a few pieces of information. They created a formula that uses economic growth, presidential approval ratings in June and incumbency to forecast President Obama’s share of the two-party vote in the Nov. 6 election. Read more from Ezra Klein »

**Economic growth** Q1 through Q3 **-4.0**

- -4.0% change
- Pessimistic: '09 financial crisis
- Optimistic: Nixon landslide

**Obama's approval rating** **38%**

- 38 Obama's low:
- Aug. 2011
- 69 Obama's high:
- Jan. 2009

The model predicts that Obama will win **4.4 percent** of the time if the economic growth is -4 percent and his approval rating is 38 percent.

See how former incumbents fare on the elections predictor

http://www.washingtonpost.com/wp-srv/special/politics/2012-election-predictor/
Predict Obama's odds in the 2012 election

Political scientists at George Washington, Yale and UCLA believe most elections can be predicted with just a few pieces of information. They created a formula that uses economic growth, presidential approval ratings in June and incumbency to forecast President Obama's share of the two-party vote in the Nov. 6 election. Read more from Ezra Klein »

Economic growth Q1 through Q3 3.4

Obama's approval rating 69%

-4.0% change
Optimistic: Nixon landslide

Pessimistic: '09 financial crisis

3.4

38 Obama's low:
Aug. 2011

69 Obama's high:
Jan. 2009

The model predicts that Obama will win **99.5 percent** of the time if the economic growth is 3.4 percent and his approval rating is 69 percent.

See how former incumbents fare on the elections predictor

Plan of the presentation

1. Origins
2. Questions that the theory tries to explain
3. Main assumptions and variables
4. Contextual factors hindering economic voting
5. How economic voting theories are tested: a recently published example
In the discipline...

- **Sociological approach:** Columbia
  ‘The People’s Choice’ Lazarsfeld et al. 1944
  Social, demographic, economic variables

- **Psychological approach:** Michigan
  'The American Voter' Campbell
  Partisan identification

- **Rational approach:**
  Actors’ rationality: Maximizing the action’s utility

In time...

- **1940**

- **1950-1960**

- **1970-1980**
  Rising electoral volatility in Western Europe and decline of party identification in the US
Rational voters

- Economic voting is considered an individual level phenomenon
- Probability of voting for incumbents or for any party
- Economic perceptions (subjective) or situations (objective)
- Sanction vs. Selection
- Is it rational to decide the vote on the basis of the government’s past performance?
  - Moral hazard problem
Questions asked by Economic Voting Studies

<table>
<thead>
<tr>
<th>Party affected by State of the Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<tr>
<td><strong>Governing Status</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Party “type”</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Standard Economic Voting Hypotheses</strong></td>
</tr>
<tr>
<td>Do incumbent parties perform better <strong>if</strong> the economy is better?</td>
</tr>
<tr>
<td><strong>Conditional Economic Voting Hypotheses</strong></td>
</tr>
<tr>
<td><strong>Under what conditions</strong> do we find more support for the claim that incumbent parties perform better if the economy is better?</td>
</tr>
</tbody>
</table>

Source: Tucker 2006: 5
Three strands of research ‘VP functions’

- Aggregate studies of the economy and the government popularity
  - Popularity functions
    - P-Function was introduced simultaneously by Mueller (1970) and by Goodhart and Bhansali (1970)
    - Support for the government or for the parties in the polls

- Aggregate studies of the economy and electoral results
  - Vote functions
    - V-Function was introduced by Kramer (1971).
    - Evolution of the vote for incumbents or for parties (electoral results)

- Individual-level studies of economic perceptions and vote choice
Job Approval: George W. Bush

USA Gross domestic product 2009-2012

Approval rate: Obama 2009-2012

Source: US Department of Commerce (Bureau of Economic Analysis)
The American Presidency Project: http://www.presidency.ucsb.edu
Logical requirements for economic voting (I)

- The responsibility hypothesis:
  - Voters hold the government responsible for the economic development
  - The economy has to be an important issue in the moment of the elections.
Voters hold the government responsible for the economic development

Powell and Whitten 1993

Institutional factors determining how likely the ruling party should be able to implement its preferred policies at will:

- Voting cohesion on the part of the governing party (or parties)
- Nature of the committee system in parliament
- Presence of bicameral opposition
- Minority or coalition governments
Saliency: The economy has to be an important issue in the moment of the elections.

What Issue is Personally Most Important To You in Deciding Which Candidate You Will Support?
Logical requirements for economic voting (II)

- Clarity of responsibility
  - Voters have to be able to link governments or parties with policy outcomes and to link policy outcomes to different government levels. (Leon 2012)

![Graph showing decentralized design and clarity of responsibility over policy areas.](image-url)
Logical requirements for economic voting

(III)  How accurate are voters' perceptions of the ‘real’ economy? (Sanders 2000)

Figure 1: Subjective Unemployment Perceptions and Objective Unemployment, 1974

Objective Unemployment Scale not shown
The « big two »

- Inflation
- Unemployment
- Growth: multicolinearity problems

- the “selection of the “wrong” economic variables will generate inconsistent results.” (Lewis-Beck and Paldam 2000)

- Voters may pay more attention to different indicators at different times.
The controversies (I)

Origins: 1980s

<table>
<thead>
<tr>
<th></th>
<th>Egotropic</th>
<th>Sociotropic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retrospective</td>
<td>Household / past</td>
<td>Country / past</td>
</tr>
<tr>
<td>Prospective</td>
<td>Household / future</td>
<td>Country / future</td>
</tr>
</tbody>
</table>
The controversies (II): Retrospective voting

- Eurobarometer 14 to 42 (1980-1994):
  - As far as you are concerned, do you think that next year (19..) will be better or worse than (19..)?
    - better
    - worse
    - Same

- Eurobarometer 47 ff. (1997-):
  - If you compare your present situation with five years ago, would you say it has improved, stayed about the same or got worse?
    - Improve(d)
    - Stay(ed) about the same
    - Get (Got) worse
The controversies (III): Prospective voting

- Eurobarometer 34 to 42 (1990-1994):
  - And over the next 12 months, how do you think the general economic situation in this country will be? Would you say it will ...?
    - get a lot better
    - get a little better
    - stay the same
    - get a little worse
    - get a lot worse

- What are your expectations for the year to come (the next twelve months): will (...) be better, worse or the same, when it comes to ...?
  (economic situation in (our country)/financial situation of your household)
  - better
  - worse
  - same
The controversies (IV)

- Evolution of the explanations for the vote for incumbents

Evolution of the inclusion of the factors as independent variables explaining vote for incumbents in the journal Electoral Studies
The grievance asymmetry

- First motivated by psychological research which found that individuals responded differently to positive and negative stimuli
- Voters may react more to negative changes than to corresponding positive ones.

Two visions of the grievance asymmetry:
- Voters’ reaction to an economic variable depends on whether it is above or below a certain threshold (Mueller (1970))
- Voters focus on whether unemployment is rising or falling not on whether it is high or low (Bloom and Price (1975))
Some difficulties…
(Lewis-Beck and Paldam (2000) and Nannestad and Paldam (1994))

- **The Instability problem**
  - The Vp function lacks stability in cross country studies and over time

- **Voters’ myopia**
  - In the VP functions all effects decay very fast: voters have a short time horizon.
  - Only the most recent year or two seem to matter, and only changes in the economy (not levels) are influential. (short-term retrospective voting)
  - Politicians would pay off their interests groups for the first years of the term and then would be responsible only for the last two years before an election?
Contextual factors that may hinder the effect of the economic voting

- Rival explanations of voting behaviour
  - Party identification (ideology)
  - Social cleavages (social class, religion)

- Political factors:
  - Coalition governments
  - Decentralization

- Economic factors
  - Exogenous shocks affecting the macro economy.
    - 2008-2012 economic crisis?
  - Trade dependence
PIGS or not? Economic voting in Southern Europe (Michael S. Lewis-Beck and Richard Nadeau 2012) (I)

- ten European nation survey pool: block comparison within a region (Europe), contrasting the PIGS countries with the non-PIGS countries


- Britain, Denmark, France, Germany, Greece, The Netherlands, Ireland, Italy, Portugal, and Spain.
PIGS or not? Economic voting in Southern Europe (Lewis-Beck and Nadeau 2012) (II)

- **Expectations:**
  - Economic voting should be more important in Southern Europe than in the rest of the countries under analysis.

- **Why?**
  - Because economic voting is said to be more intense when:
    - the connection between the economy and the parties is clearer. (one party governments, like in Greece, Portugal and Spain)
    - the economy is performing poorly, because this issue is more salient to voters.
PIGS or not? Economic voting in Southern Europe (Lewis-Beck and Nadeau 2012) (III)

- Vote = \( f(\text{cleavages, ideology, economy, time}) \)

- Vote for a government coalition party

- Cleavages
  - Class: self-identification (working, lower middle, middle, upper middle, upper)
  - Religion: service attendance

- Ideology = respondent places self on a seven-point scale (from left to right)

- Economy = sociotropic evaluation (worse, same, better for 1988, 1994, 2004)

- Time = months from the last election
Table 1. The Magnitude of the Economic Voting Coefficient, by Country.

<table>
<thead>
<tr>
<th>Country</th>
<th>Logit</th>
<th>OLS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>1.82**</td>
<td>.36**</td>
</tr>
<tr>
<td>Italy</td>
<td>1.45**</td>
<td>.26**</td>
</tr>
<tr>
<td>Spain</td>
<td>1.37**</td>
<td>.28**</td>
</tr>
<tr>
<td>Portugal</td>
<td>1.32**</td>
<td>.24**</td>
</tr>
<tr>
<td>UK</td>
<td>1.21**</td>
<td>.23**</td>
</tr>
<tr>
<td>France</td>
<td>1.06**</td>
<td>.16**</td>
</tr>
<tr>
<td>Denmark</td>
<td>.67**</td>
<td>.13**</td>
</tr>
<tr>
<td>Germany</td>
<td>.67**</td>
<td>.12**</td>
</tr>
<tr>
<td>Ireland</td>
<td>.66**</td>
<td>.15**</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>.63**</td>
<td>.12**</td>
</tr>
<tr>
<td>PIGS</td>
<td>1.49</td>
<td>.29</td>
</tr>
<tr>
<td>Non-PIGS</td>
<td>.82</td>
<td>.15</td>
</tr>
<tr>
<td>All</td>
<td>1.09</td>
<td>.21</td>
</tr>
</tbody>
</table>

**p ≤ .01 (two-tailed test).

(Lewis-Beck and Nadeau 2012)
**PIGS or not? Economic voting in Southern Europe (Lewis-Beck and Nadeau 2012)**


<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ideology</strong></td>
<td>3.00** (.05)</td>
<td>2.98** (.05)</td>
<td>1.88** (.08)</td>
<td>1.83** (.08)</td>
</tr>
<tr>
<td><strong>Social class</strong></td>
<td>.35** (.04)</td>
<td>.35** (.04)</td>
<td>.26** (.06)</td>
<td>.24** (.06)</td>
</tr>
<tr>
<td><strong>Religion</strong></td>
<td>.60** (.04)</td>
<td>.58** (.04)</td>
<td>.46** (.08)</td>
<td>.42** (.07)</td>
</tr>
<tr>
<td><strong>Months since last election</strong></td>
<td>-.77** (.07)</td>
<td>-.89** (.07)</td>
<td>-.66** (.11)</td>
<td>-1.01** (.11)</td>
</tr>
<tr>
<td><strong>Economic perception</strong></td>
<td>1.02** (.03)</td>
<td>.85** (.04)</td>
<td>.85** (.06)</td>
<td>.67** (.06)</td>
</tr>
<tr>
<td><strong>PIGS</strong></td>
<td>_</td>
<td>-.14** (.05)</td>
<td>_</td>
<td>.09 (.08)</td>
</tr>
<tr>
<td><strong>PIGS × econ. perception</strong></td>
<td>_</td>
<td>.58** (.07)</td>
<td>_</td>
<td>.79** (.11)</td>
</tr>
<tr>
<td><strong>Vote (lagged)</strong></td>
<td></td>
<td></td>
<td>4.03** (.04)</td>
<td>4.09** (.04)</td>
</tr>
<tr>
<td><strong>Constant</strong></td>
<td>-2.71** (.05)</td>
<td>-2.61** (.05)</td>
<td>-4.02** (.09)</td>
<td>-3.93** (.09)</td>
</tr>
<tr>
<td><strong>Nagelkerke pseudo-( R^2 )</strong></td>
<td>.27</td>
<td>.27</td>
<td>.71</td>
<td>.71</td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>27,888</td>
<td>27,888</td>
<td>25,372</td>
<td>25,372</td>
</tr>
</tbody>
</table>

**p ≤ .01 (two-tailed tests). See the Appendix for data source and description of variables.**
## Summary

**Table 4: Main results in the literature**

<table>
<thead>
<tr>
<th>Section</th>
<th>Finding</th>
<th>Empirical status</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.</td>
<td><em>The big two:</em> Voters react to mainly unemployment and inflation</td>
<td>Uncontroversial</td>
</tr>
<tr>
<td>4.</td>
<td><em>Myopia:</em> The time horizon of voters is short — events more than 1 year from an election have small effects only</td>
<td>Uncontroversial</td>
</tr>
<tr>
<td>5.</td>
<td><em>Retrospective:</em> Voters react to past events more than to expected future ones, but the difference is small as expectations are stationary</td>
<td>Controversial</td>
</tr>
<tr>
<td>6.</td>
<td><em>Sociotropic:</em> In most countries voters are both sociotropic and egotropic(^a)</td>
<td>Controversial</td>
</tr>
<tr>
<td>7.</td>
<td><em>Low knowledge:</em> Voters know little about the (macro) economy</td>
<td>Uncontroversial</td>
</tr>
<tr>
<td>9.</td>
<td><em>Grievance asymmetry:</em> Voters punish the government more for a bad economic situation than they reward it for a similarly sized good one</td>
<td>Controversial</td>
</tr>
<tr>
<td>10.</td>
<td><em>Cost of ruling:</em> The average government ruling a normal 4-year period loses 2(\frac{1}{2})% of the votes. This result is independent of party system, voting law, country size, etc</td>
<td>Uncontroversial</td>
</tr>
</tbody>
</table>

**Not covered**

- *Context:* The VP-function only generalizes if set in the same context. In particular, the responsibility pattern generalizes if the government is *clearly* visible to the voter

*Note:* The status line indicates if the result is *controversial*, i.e., if a minority of the researchers in the field disagrees. The article only considers the responsibility pattern and thus assumes a simple setting where both the government and the opposition are well defined. Complex, changing coalitions and minority governments are not discussed.

\(^a\)Sociotropic: voters care about the national economy. Egotropic: voters care about their own economy.

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Some references


