

## **Economic Policy Voting and Incumbency: Unemployment in Western Europe**

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### **Abstract**

The economic voting literature has been dominated by the incumbency-oriented hypothesis, where voters reward or punish government at the ballot box according to economic performance. The alternative, policy-oriented hypothesis, where voters favor parties closest to their issue position, has been neglected in this literature. We explore policy voting with respect to an archetypal economic policy issue – unemployment. Voters who favor lower unemployment should tend to vote for left parties, since they “own” the issue. Examining a large time-series cross-sectional (TSCS) pool of Western European nations, we find some evidence for economic policy voting. However, it exists in a form conditioned by incumbency. According to varied tests, left incumbents actually experience a net electoral cost, if the unemployment rate climbs under their regime. Incumbency, then, serves to break any natural economic policy advantage that might accrue to the left due to the unemployment issue.

**Keywords:** Comparative Political Economy, Comparative Politics: Industrialized Countries, Comparative Politics: Political Institutions, Voting Behavior

# SUMMARY

## INTRODUCTION

Virtually all economic voting studies, and there are hundreds, examine a variant of the classic reward-punishment hypothesis. (See the reviews in Duch (2007); Hellwig (2010); Norpoth (1996); Lewis-Beck and Stegmaier (2000; 2007)). That is, voters are assumed to vote with the government when economic times are good, but vote against the government when economic times are bad. In his seminal work, Kiewiet (1983, 7-8) labelled this sort of economic voting as *incumbency-oriented*. However, he distinguished another kind of economic voting as *policy-oriented*. That is, voters are assumed to vote for the party closest to their economic policy position, regardless of whether it governs. Kiewiet (1983,13) goes on to note that studies of policy-oriented economic voting were rare. Writing over 25 years later, Lewis-Beck and Nadeau (2011, 288-290), in their literature review, observe that policy-oriented economic voting studies remain rare. They clarify, as well, that the incumbency-oriented hypothesis sees the economy as a valence issue, whereas the policy-oriented hypothesis sees the economy as a positional issue.

Valence connotes an issue where voters are in wide agreement, while position connotes an issue where voter are in wide disagreement. Pure policy-oriented economic voters, then, select a party closer to their issue position, regardless of its incumbency status. Further, policy-oriented economic voters may continue to select that same party, election after election, if that party appears to “own” the issue (Petrocik 1996). Such issue voters become the “clientele” of the party, continually favoring it at the ballot box, according to Rattinger (1991). As an empirical example, he records the link in Germany between the unemployment issue and vote for the Social Democratic Party (SPD). This early study is suggestive for the present investigation, as shall be seen.

We examine the impact of economic policy-oriented voters in Western European national elections, focusing on the unemployment question. While unemployment has of course been subject to other electoral research, that work has typically been in the context of unemployment as a classic valence issue, or as a trade-off issue vis-à-vis inflation. [The earliest efforts there are on the British case. See Butler and Stokes (1969) and Goodhart and Bhansali, 1970.)] However, the notion that unemployment stands as a positional issue along a left-right scale, in the

Downsian sense, has been virtually absent from the traditional economic voting literature (Downs, 1957). Here we expand this limited literature, bringing to it this positional perspective on unemployment. Specifically, we explore the connection between changes in the unemployment rate and left party voting, utilizing a large time-series cross-sectional pool. Below, we examine further the available literature, and formulate testable hypotheses. Then, we present our data and measures. After explicating our statistical methods, we show the results, and challenge them to different robustness checks. The policy issue of unemployment works to shape vote choice in these advanced democracies. However, perhaps unexpectedly, incumbency-oriented voting intrudes to condition this policy-oriented vote.

## **THEORY AND LITERATURE**

As Stokes (1963) long ago observed, the economy offers the perfect example of a valence issue. Among voters, consensus prevails, as everyone wants economic prosperity. While this clearly stands as a paramount idea, taken alone it limits the potential space of economic issues. In particular, it does not take into account differing voter positions on economic policy. As Stokes (1963, 373) himself explained, “Let us call ‘position issues’ those that involve advocacy of government actions from a set of alternatives over which a distribution of voter preferences is defined.” With respect to the economy, these position issues could include questions such as unemployment, regulation, taxation, or nationalization.

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Together, the foregoing studies suggest that unemployment change can influence the left vote. However, the studies vary by country and by time period. Further, they are inconclusive with respect to the form of the relationship takes, e.g., is positive, negative, or interactive? In answer, we propose to look at a large number of countries, over a long time period. First, taking inspiration from Kiewiet’s theoretical proposition linking unemployment to the vote, we offer for testing the following hypothesis:

**H1:** As the unemployment rate worsens, the left vote share increases.

As stated, H1 posits a general monotonic relationship between unemployment rate change and left vote. However, some of the above empirical case studies imply that incumbency itself may

condition the relationship (Arnesen 2012; Dassonneville and Hooghe 2012; Magalhães et al. 2012; Pacek and Radcliff 1999). In particular, it appears that when the Socialists are in office, they may benefit less electorally from worsening unemployment. Therefore, we offer a follow-up hypothesis:

**H2:** As the unemployment rate worsens, the left vote share increases less, under a left incumbent.

## **DATA AND MEASURES**

When investigating the electoral success of left parties, the definition of a left party needs to be clear. We use the classification of party families provided in the ParlGov dataset (Döring and Manow 2011). Their dataset distinguishes basic party categories, including Christian democratic, Communist/socialist, Conservative, Green/Ecologist, Liberal, Regional, Right-wing, Social democratic and Special issue parties.<sup>1</sup> For the calculation of the left vote share, we summed the electoral results of Communist/socialist and Social democratic parties.<sup>2</sup> Doing so, we focus on the traditional left vote. Data on electoral results (for legislative elections only) also come from the ParlGov database. We focus on established Western European democracies, with parties and voters accustomed to participating in legislative elections. As the histogram of Figure 1 shows, there is good variation in the dependent variable of left vote share, and the distribution approaches normality. (To allow for dynamic modeling, a lagged dependent variable is included in the data-set as well: the summed vote share of left parties in the previous legislative elections).

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## **METHODS**

The data analyzed are time series cross sectional (TSCS) data, with multiple elections observed for all countries. Different approaches can be taken for analysing such data (Bell and Jones 2012). Given that our interest concerns the causal effect of unemployment on left party voting regardless of contextual differences, we begin with a fixed effects approach. Thus, the variance at

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<sup>1</sup> Not all parties in their dataset have received a party family label; some are categorized as ‘no family’, others still have to be coded. Furthermore, electoral alliances between parties from different party families are coded as ‘electoral alliances’. Only parties that received more than 1% of the votes were included in the ‘Left parties’ vote share’.

<sup>2</sup> For an overview of which parties are included and the categories these parties are in, see the Appendix.

the country level is controlled for by means of country dummies, leaving just the within-country effects to be estimated (Allison 2009; Bell and Jones 2012). However, to provide robustness checks, we go on to include other approaches as well.

## **INITIAL RESULTS**

As a first step, we investigate the effect of unemployment rate change on left party vote share, without controlling for the lagged dependent variable. Results of Model I in Table 3 indicate a noteworthy unemployment rate effect. The coefficient, significant and in the expected direction, suggests that when the unemployment rate rises 1 percentage point, traditional leftist parties gain .41 of a percentage point in vote share. Hence our first hypothesis, H1, receives preliminary support. What about influence from the control variables? On the one hand, turnout does not seem to significantly affect the electoral success of left parties, contrary to earlier findings of Pacek and Radcliff (1995). The effective number of parties, on the other hand, quite logically has a strong and significant impact. Leftist parties obtain fewer voters as the number of parties in an electoral system increases. With respect to the other control variables, no significant effects appear. That is, no net incumbency effect emerges, i.e., leftist parties do not attain a significantly larger vote share as left parties gain majority seats in parliament. Finally, while the distance from the last election carries the expected (negative) sign, it falls short of significance. Apparently, no “disillusionment” of the left occurs with this passing of time.

Model II goes on to include a lagged dependent variable, so reducing omitted variable bias. This vote share of leftist parties at  $t-1$  is actually a strong control, making causality claims more convincing. Clearly, changes in the unemployment rate are still significantly related to left party vote share, with the effect at least as strong, when compared to the static model. (Furthermore, the significant negative effect of more parties in an electoral system holds). Lastly, the model fit shows a substantial boost, with the addition of this lagged term.

Model III adds an interaction effect between changes in unemployment rate and the incumbency dummy. Doing so allows us a first test of H2, the hypothesis that left parties benefit less from rising unemployment rates when a left party is in government. This hypothesis receives support. The main effect of an increasing unemployment rate remains significantly positive for the left. However, the interaction effect shows that, for a left incumbent, that effect diminishes

considerably. Indeed, the interaction effect more than cancels out the main effect (.97 – 1.46 = - .49), turning electoral benefits to the left into electoral costs.

**TABLE 3. Fixed effects regression of left voting, unemployment and incumbency effects**

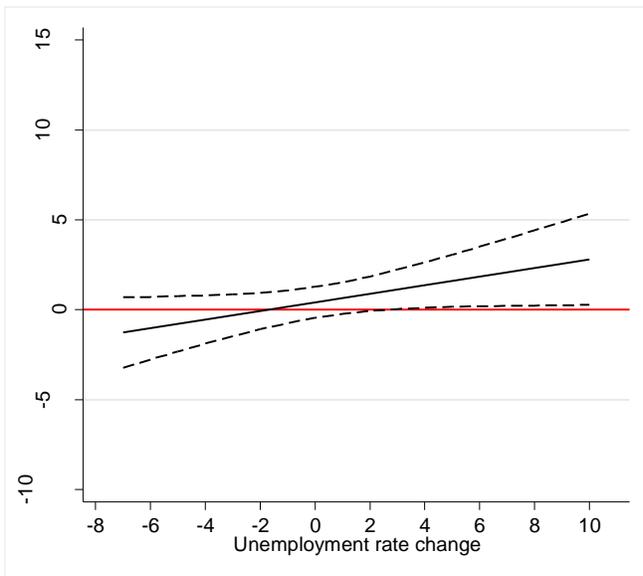
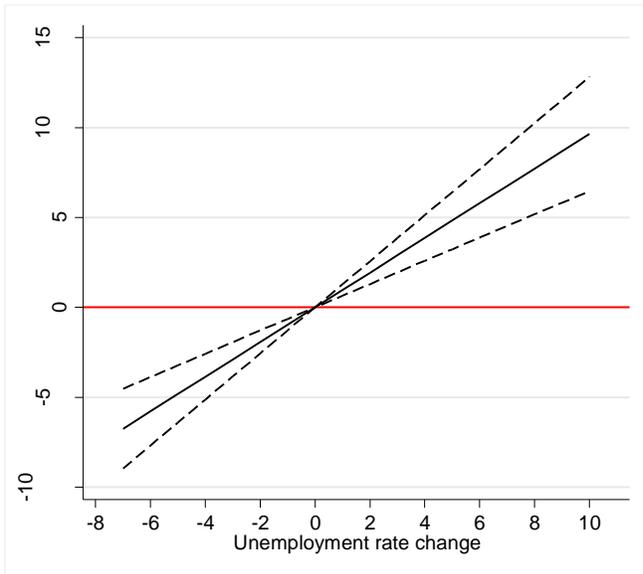
	<b>Model I</b> <i>Static FE</i>	<b>Model II</b> <i>Auto-regressive</i> <i>FE</i>	<b>Model III</b> <i>Interaction FE</i>
Constant	58.65*** (10.21)	56.58*** (10.63)	56.16*** (10.43)
Traditional left vote (E-1)		0.06 (0.10)	0.09 (0.09)
Δ Unemployment rate (legislative cycle)	0.41* (0.19)	0.42* (0.19)	0.97*** (0.25)
ENEP	-2.01** (0.58)	-1.97** (0.58)	-1.53** (0.58)
Turnout	-0.15 (0.11)	-0.15 (0.11)	-0.18 (0.11)
Time between elections	-0.03 (0.50)	-0.10 (0.51)	-0.14 (0.49)
Left incumbency share	1.13 (1.24)	0.76 (1.39)	0.79 (1.33)
Left incumbency share* Δ Unemployment rate			-1.46** (0.45)
N countries	21	21	21
N elections	149	149	149
R <sup>2</sup> within	0.11	0.11	0.18
R <sup>2</sup> between	0.09	0.18	0.14
R <sup>2</sup> overall	0.10	0.17	0.17
Rho	0.73	0.71	0.73

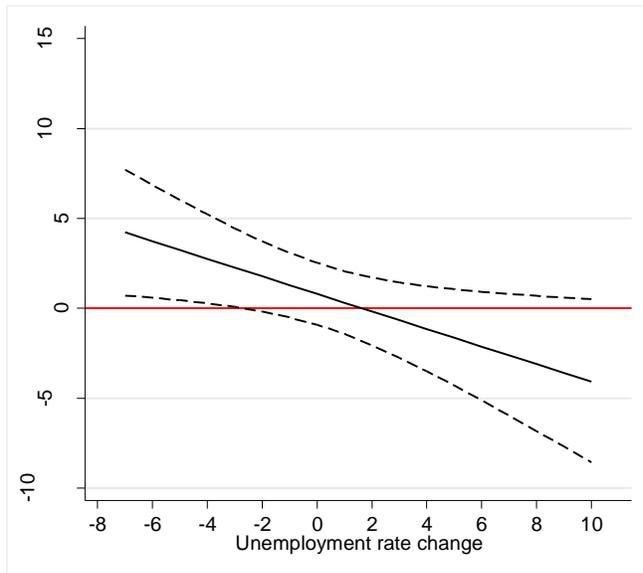
Estimates of a fixed effects regression in Stata. Significance levels \* p<0.05; \*\* p<0.01; \*\*\* p<0.001 (two-tailed test).

These effects are graphically presented in Figure 2. Initially, growing unemployment rates increase the vote share of leftist parties, if these are all in opposition. Further, decreasing unemployment rates are associated with a significantly smaller left vote share, if all left parties are in opposition (see Figure 2a). However, as the left incumbency share increases, the positive effect on the left vote share begins to decline (compare Figure 2a to Figure 2b). By the time the left incumbency share reaches 100 percent, the trend of left vote impact of rising unemployment is highly negative (see Figure 2c). Taking the confidence bands into account, the left only makes

gains in this graph at higher ends of decreasing unemployment, and that effect appears quite small.

**FIGURE 2 (a, b,c). Marginal effect of unemployment rate change on left vote share when governing majority is 0%, 50% and 100% left respectively**





## FIRST ROBUSTNESS CHECKS

The estimates of Table 3 support the hypothesis that economic policy-oriented voting may exist. In the face of a worsening unemployment rate, voters may turn leftward. However, this benefit to the left appears blunted, even reversed, as left assumes a larger role in government (see Model III). Thus, the left in office cannot depend on winning more support if unemployment rises, despite the fact that it might be perceived by some to “own” that issue. If such a proposition rings true, the finding certainly has implications for left policy strategy in government. Because of these implications, some caution is in order. Therefore, we perform additional analyses (on the specification of Model III, Table 3) in order to ascertain the robustness of these findings: a general random effects maximum likelihood estimation (MLE), a within-between random effects MLE, and a panel-corrected standard errors (PCSE) estimation. These new estimates appear in Table 4.

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## SECOND ROBUSTNESS CHECKS

Estimation using the various approaches of Table 4 suggest the soundness of the initial fixed effects result – under a left incumbency the impact of rising unemployment on left vote becomes unambiguously negative. Nevertheless, the finding may still be threatened by autocorrelation.

Therefore, in further testing, we examine three difference designs. We begin with a simple first differenced design, removing country level differences and autocorrelation at once. In this highly controlled specification, we regress (via ordinary least squares) change in unemployment rate on change in left vote share (reporting cluster-robust standard errors). Again we observe the earlier result: the estimated negative unemployment effect overwhelms the positive unemployment effect, under the condition of left incumbency. Moreover, the magnitude of the effect appears at least as strong ( $1.04 - 1.60 = -.54$ ).

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### **THE LEFT ELECTORAL STRATEGY VIS-À-VIS UNEMPLOYMENT**

The left vote share in these Western European nations responds to the unemployment picture. In particular, changes in the unemployment rate clearly reduce the left vote under a left incumbency. This circumstance raises a strategic question for left governments: what should they do when they face a rising unemployment rate? If they do nothing, they almost certainly will lose votes. So what if they make program changes, or initiate counter-cyclical policies, aimed at cushioning the unemployment shock, in that way perhaps saving votes for the left. We have evidence on two such strategies, one general and one specific. For the former, we distinguish between different types of welfare regimes. Ferrera (1996) offers the following Western European typology: Anglo-Saxon, Bismarckian, Scandinavian, and Southern.

Using this typology, we assign each country in the sample, creating a time-invariant variable situated at the country-level. Then, we explore a hierarchical linear model to investigate the effect of welfare system on left party vote share, adding these variables as main and interactive effects to our general multi-level model (Table 4, Model I). As expected, countries under certain welfare regimes, as a block, vote significantly more left in general, namely the Southern welfare regimes (Italy, Greece, Portugal, Spain, Cyprus and Malta). However, with respect to the cross-level interactions with the unemployment rate change variable, none are significant. Thus, welfare regime differences do not appear to alter the effect of unemployment rate change, with respect to the left vote. Rising unemployment, then, will hurt a left government just as much, regardless of the type of national welfare system it administers.

However, perhaps this finding on welfare regime type fails to be fine-grained enough to pick up policy differences. Therefore, we carried out analysis on a more direct measure- national public spending on unemployment policies (measured as a percentage of GDP according to OECD data). We include this variable as a main effect, and as an interaction effect with the unemployment rate change, in our baseline fixed effects model (Table 3, Model III). Because of missing data, the sample is reduced (121 elections, in 19 countries). The interaction term between spending on unemployment policies and change in unemployment rates attains marginal significance, also hinting at a collinearity problem ( $t = -.39/.19 = 2.05$ ). This result, though fragile, does suggest that left government spending on the negative consequences of rising unemployment can mitigate the vote losses they will suffer from this unemployment. Further, although these are macro-data, it does imply that unemployed individuals themselves can make some difference. However, in terms of strategies of the left in power, even this weak result sends a message: if it wishes to curb vote losses in the face of increasing unemployment, it should consider implementation of programs targeted at those most directly harmed by that unemployment.

## **CONCLUSION**

The policy-oriented hypothesis of economic voting receives naïve support, according to our initial analysis of this Western European pool. In general, an increase in the unemployment rate appears to lead voters to reward left parties. In particular, a percentage point increase in the unemployment rate is associated with just under a one-half percentage point rise in support for left parties. Thus, positional issues on the economy, as well as valence issues, can matter to voters. However, the presence of positional economic voting, as discerned here, remains far from a negation of incumbency-oriented voting.

We observe that, when left parties are in office, the left receives much less electoral benefit from rising unemployment. In fact, voters seem to hold the ruling left responsible, to considerable degree, for the deteriorating unemployment rate. At least a faction of them punish the left by withdrawing their support. Overall, the punishment is severe enough that it largely cancels out any long-term benefit coming from left “ownership” of the unemployment issue. According to our central finding, a finding sustained under tough statistical testing, the left in government clearly loses votes from hikes in the unemployment rate. They may own the issue, but since they

are not displaying “pride of ownership” in the face of growing unemployment under their leadership, they lose support.

Thus, they are judged as incumbents, failing in their responsibility to deliver good economic policy, and thereby held accountable at the ballot box. In this way, incumbency-oriented economic voting continues to operate, even in the face of policy-oriented economic voting undercurrents pulling in the opposite direction. Ultimately, the left parties appear not that special when it comes to unemployment issues. When they are in government, a decreasing unemployment rate benefits them, while an increasing unemployment rates costs them. Under this condition, unemployment operates as a valence issue, with incumbency-oriented economic voting trumping policy-oriented economic voting.