The Economic Vote
How Political and Economic Institutions Condition Election Results

Raymond M. Duch and Randolph T. Stevenson
THE ECONOMIC VOTE

This book proposes a selection model for explaining cross-national variation in economic voting: Rational voters condition their economic vote on whether incumbents are responsible for economic outcomes because this is the optimal way to identify and elect competent economic managers under conditions of uncertainty. This model explores how political and economic institutions alter the quality of the signal that the previous economy provides about the competence of candidates. The rational economic voter is also attentive to strategic cues regarding the responsibility of parties for economic outcomes and their electoral competitiveness. Theoretical propositions are derived linking variation in economic and political institutions to variability in economic voting. The authors demonstrate that there is economic voting, and that it varies significantly across political contexts, and then test explanations for this variation derived from their theory. The data consist of 165 election studies conducted in 19 different countries over a 20-year time period.

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CAMBRIDGE UNIVERSITY PRESS
Dedicated to my parents, Duke and Shirley Duch
R. M. D.

Dedicated to Rick Gritz
R. T. S.
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Preface

As our friends, families, and colleagues will attest – and bemoan – this book has taken almost eight years to complete. The ultimate product has little in common with the initial idea that we intended to explore, which was examining the extent to which the impact of the “real” economy on political behavior is mediated by its representation in the electronic and print media. We got side-tracked with the question of whether there was, in fact, an economic vote and whether it varied across contexts in any significant fashion. And then we decided we needed to come up with a theory to explain this contextual variation.

Our treatment of the economic vote in this book is a significant departure from much of the comparative economic voting literature. One of its novel aspects is that it takes seriously the importance of writing down a rigorous theoretical model of the vote decision and of precisely how context conditions the importance of economic evaluations in the voter’s preference function.

We hope our readers will appreciate that this has been an ambitious project both in our effort at developing a theory of the economic vote and in our determination to assemble and analyze the appropriate data for testing these theoretical hypotheses. We could not have accomplished these tasks without generous support from a number of funding institutions and academic institutions. Most importantly, we benefited from a National Science Foundation grant (#SBR-0215633) that enabled us to undertake the ambitious data collection and analysis.

We also extend our sincere gratitude to our home academic institutions. They have been particularly supportive and patient – the University of Houston, where Ray was based for much of the project, as well as Nuffield College, Oxford University, where he has spent the past year, and Rice
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University, where Randy is based. The initial work on this project occurred while Ray, at the generous invitation of Dave Brady, was a visiting scholar at the Graduate School of Business, Stanford University.

We both owe a particular debt to our advisor, Bingham Powell, who, whether he likes it or not, is responsible for our commitment to a truly cross-national approach to explaining the economic vote. He has also been extremely supportive of the project and provided helpful comments. We are also indebted to Jim Alt who, very early in the project, took some time out from his busy American Political Science Association (APSA) schedule to have coffee with us. In his inimical fashion, he posed the obvious question: “Guys, why do you think anyone would be interested in this?” And then, of course, Jim proceeded to suggest precisely what questions about comparative economic voting are important and interesting. His early, very critical review of the manuscript proved particularly helpful. Michael Lewis-Beck has been wonderfully supportive of our project, and we have benefited tremendously from the wisdom of the “dude’s” many years studying the comparative economic vote. An early, and premature, APSA roundtable discussion (2005!) of the book “manuscript” provided invaluable insights at an important juncture in its development. In addition to Jim Alt, Michael Lewis-Beck, and Bingham Powell, we thank the additional roundtable participants Rob Franzese and Jonathan Nagler (and Doug Hibbs, who provided detailed comments in absentia). And, as we finally completed the manuscript, we were particularly heartened by the positive reaction we received from Steve Ansolabehere, who had just assumed the editorship of the Cambridge University Press Political Economy of Institutions and Decisions series.

We would like to acknowledge and thank the participants of seminars at the University of Houston (2002), Princeton University (2004), Université de Montréal (2004), New York University (2006), the European University Institute Conference on Contextual Effects in Electoral Research (2006), the Nuffield Politics Seminar Series (2006), Washington University (2006), the European University Institute Conference on Electoral Forecasting Models (2007), University of California, Los Angeles (2007), not to mention the participants on the countless panels at the annual meetings of the APSA and Midwest Political Science Association where we presented various versions of book chapters. Among the numerous participants at these venues who provided insightful comments we thank Ken Benoit, Geoff Evans, Mark Franklin, Mark Kayser, Orit Kedar, Michael Marsh, Harvey Palmer, Meredith Rolfe, Josh Tucker, Wouter van der Brug, Cees van der Eijk, Lynn Vavrek, and Guy Whitten.

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This project has involved the analysis of many public opinion surveys, and we are indebted to the various national and international entities that have funded these studies and made them widely available to the public. These include national elections studies that were initiated in the United States in 1948 but have since spread to most developed democracies in the world. Our study would have been impossible without the rich, comparative electoral data that are available in the Euro-Barometer Studies and in the studies that make up the Comparative Study of Electoral Systems. We hope this book and the findings we report here are testimony to the importance of continuing these and similar efforts at providing comparative electoral behavior data.

As a result of the proliferation of national election studies and multinational electoral surveys there exists an abundance of voter preference data. The challenge was collecting all of these data and getting them into a format that we could use to estimate the models that are the foundation of the empirical work in this book. And to estimate properly specified models employing these very diverse voter preference studies, we undertook an extensive review of the electoral behavior literature related to each of the 19 countries in our study. These data collection and cleaning tasks and detailed reviews of the electoral behavior literature were completed by our graduate students, to whom we are truly indebted. Accordingly, we thank Jeff May, Beth Miller, Chandru Swaminathan (our IT “guru”), Jessy Tyler, and Toshi Yuasa. We and our graduate students were also assisted by Guillermo Useche Gonzalez and Federico Orozco during our data-gathering efforts in Spain – we thank them for their help.

Much of the creative efforts and the more tedious data work associated with this project took place at Ray’s home, Le Tournié, in France. We and our graduate students owe a debt of gratitude to Crisanto Hernandez, who so competently managed the practical, day-to-day details of these research meetings. And finally, a special thanks to Scott Parris at Cambridge University Press, our editor, who at an early stage in the gestation of this project responded so positively to our efforts and continued to encourage us over the lengthy time it took us to complete the manuscript.
Introduction

It is virtually a universal belief among politicians, political commentators, and even voters that elections are referenda on the economy. Politicians fill their speeches with economic rhetoric; political commentators generate endless streams of economic analysis, and high-paid consultants base their statistical predictions on little else. The extent and depth of this belief is revealed most starkly when it appears to have been violated. When incumbents win despite a bad economy or lose despite a good one, we observe in the postelection hand-wringing a concerted search for *ad hoc* explanations that preserve the more fundamental belief that the economy matters. Perhaps voters’ perceptions of the “real” economy were distorted; foreign policy issues may have overshadowed its effects; or, maybe, ineffective campaign strategies undermined the expected economic vote. Ultimately, however, in most elections, the economy is thought to be determinate.

Popular beliefs, of course, are not social science laws and exceptions to economic determinism are easy to find, even if they are often explained away as idiosyncratic. More generally, the systematic empirical work on economic voting, conducted in most of the advanced democracies over the last thirty years, reveals not a universal law of economic voting but, rather, a conditional one. Economic voting is very likely widespread and often important; but, its magnitude and nature across elections is almost certainly variable (Duch, 2001; Lewis-Beck and Stegmaier, 2000, 2006). There are limits, however, to the guidance the extant empirical literature can give us. The description of economic voting that it provides across countries and over time is at best a sketch. In some countries and in some

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1 Examples in which each of these three excuses were prominent are the 1992 U.S. presidential election, the 2002 German Parliamentary elections, and the 2000 U.S. presidential election, respectively.
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periods, there are simply no data with which to describe the economic vote. In other cases, data exist but awaits a systematic analysis. In many other cases, the published estimates of the extent and nature of economic voting are simply not comparable to each other. Overall, the vast amount of data relevant to economic voting in the world’s advanced democracies has not yet been leveraged to describe variation in economic voting across countries and over time. Consequently, one of the major goals of this book is to provide a more complete and reliable description of the magnitude and nature of economic voting across a large number of countries (eighteen) and a long time period (1979–2001). With this goal in mind, our study for the first time reliably compares the extent and nature of this economic vote across a large number of cases, confirming that the economic vote is both widespread and variable.

If our description of economic voting reveals a conditional law, we do not yet know its conditions. Why was the effect of the economy so pronounced in the 1980 American presidential election and so surprisingly absent twenty years later? Why is it consistently more important to the electoral fortunes of British prime ministers but not their Dutch counterparts? Why, in short, does economic voting vary as it does? The second goal of this book is to answer these questions. We do this by offering a theory of how different political and economic institutions condition the economic vote and by testing hypotheses drawn from our theory. Our explanation is built on a long tradition of theoretical work that suggests economic voting is the result of instrumentally rational voters trying to use their votes to achieve the best possible economic future.

Within the family of rational choice explanations of economic voting, our contextual theory is a generalization of the competency model of rational retrospective economic voting that has been used informally by many scholars and formally by theorists studying political business cycles in the United States (e.g., Alesina and Rosenthal, 1995). The competency model suggests that rational voters condition their vote on the incumbent’s record of economic performance because this is the optimal way to identify and elect competent economic managers under conditions of uncertainty. Our generalization of this model explores how political and economic institutions alter the quality of the signal that the previous economy provides about the competence of candidates. Thus, both the rationality of voting in the competency model and its focus on the voter’s

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1 This murkiness is because much of the empirical literature consists of independent studies produced by researchers working with very different data and methodologies.
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desire for competent economic management lead to a set of theoretical propositions (and empirical hypotheses) that link variation in economic and political institutions to variability in the economic vote.

Overall, our contextual theory of rational economic voting provides a rigorous theoretical foundation for generating hypotheses about the kinds of political and economic contexts likely to condition the economic vote. Furthermore, our empirical map of economic voting provides the raw material for testing these hypotheses. In the rest of this chapter, we preview the potential usefulness of these contributions both to the study of comparative political behavior and to the understanding of specific elections, review the theoretical and empirical work that motivated the project and that define its contribution, describe the general theoretical approach that we take to explain economic voting, and give an overview of the organization of the rest of the book.

**ECONOMIC VOTING IN RECENT ELECTIONS: THE IMPORTANCE OF A COMPARATIVE PERSPECTIVE**

Although the main goal of this project is to produce a set of theoretically driven empirical generalizations about the nature and sources of economic voting in different contexts, we hope that it will also help us to better understand (and predict) the role of the economy in specific elections. Our premise, however, is that a proper understanding of specific elections requires that they be viewed in a comparative perspective. As an illustration, this section briefly compares two recent German and Italian parliamentary elections (held in September 2005 and May 2006, respectively) and asks what we can learn about them (and similar cases) from the kind of comparative analysis offered in the chapters that follow.

Economic performance leading up to the elections in both Germany and Italy had been quite poor. Despite turning in slightly improved performance over previous years, the 2005 German economy still grew by only a percentage point in real terms and unemployment rates were persistently above 10 percent. Similarly, real GDP in Italy actually contracted in 2005, while the country registered the lowest level of working-age employment in Western Europe (58 percent). Furthermore, as Figure 1.1

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3 Just before the Italian elections, *The Economist* noted, “But the biggest difference from the past is that the economy over which Mr. Berlusconi has presided has done so badly. Last year GDP growth was near-zero; this year’s forecast has just been cut from 1.5% to 1.3%. Italy deserves its title as the new sick man of Europe. It is in far
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Figure 1.1. Retrospective economic evaluations for Germany and Italy.

shows, voters were clearly aware of these trends. Public sentiment about the economy dropped precipitously in both countries after 2001. But German sentiment rebounded before the 2005 election, whereas Italian sentiment remained at historically low levels as the 2006 election campaign began.

Before the elections, pundits argued that these records of economic performance would result in a strong rejection of the incumbents.\(^4\) As it turned out, however, the German SPD trailed their CDU/CSU challengers by less than a percentage point (34.3 percent and 35.2 percent, respectively) and Italian Prime Minister Berlusconi’s incumbent coalition

worse shape than Germany or France. And the pressing need to find a cure for that sickness means that the outcome of next week’s election matters” (The Economist, April 18, 2006, 28).

\(^4\) Some representative (English-language) headlines: “Economy to dominate German election” (Deutsche Presse-Agentur, August 22, 2005); “German election boils down to jobs, economy” (Associated Press, September 18, 2005); “As Germans look toward national election, economy remains key issue” (Associated Press, September 11, 2005); “German jobs the focus of tight poll race: Unemployment and welfare state dominate election campaigns as Europe’s economic miracle turns sour” (The Guardian, September 9, 2005).