

Punished for austerity

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Introduction

About me

Previous research

Main results

Heterogenous effects

Transparency Accountability Partisan effects

About me

- PhD Candidate at Uppsala University.
- Background as an economist and feel at home within the political economy discourse.
- Election year = new influences and opportunities.
- NOPSA has been a crash course in elections and voter behaviour.



Introduction

About me

Previous research

Main results

Heterogenous effects

Transparency Accountability

All parties

About me

- Previously written papers on public finance and economic policymaking.
- Right now working on two field experiments to study the effects of door canvassing.
- This paper is an attempt to 'touch upon' both electoral studies and the public finance literature.



Introduction

About me

Previous research

Main results

Heterogenous effects

Transparency Accountability

All parties

The paper

- In the paper I analyse the electoral consequences of fiscal adjustments.
- That is: Do government parties lose votes, on average, after implementing tax hikes or cuts in public spending?
- It is the very first draft. Don't be fooled by the looks!



- About me
- Previous research
- Main results
- Heterogenous effects Transparency Accountability Partisan effects

- Seven previous studies that deal with this question.
- There are three cross-country ("The political economy of fiscal adjustments"; "The Electoral Consequences of Large Fiscal Adjustments"; "How do budget deficits and economic growth affect reelection prospects? Evidence from a large panel of countries") analyses and four studies using the within-country variation ("Voters as fiscal conservatives"; "Fiscal Policy Outcomes and Electoral Accountability in American States"; "The effect of fiscal performance on local government election results in Israel: 1989–1998"; "Electoral manipulation via voter-friendly spending: Theory and evidence").
- None of them finds that voters punish governments for fiscal adjustments.
- In addition, there is the retrenchment literature.



About me

Previous research

Main results

Heterogenous effects

Accountability Partisan effect

All parties

Why make another study?

- Results did not match my world view!
- Neither did they match the assumptions of *new politics*, *political business cycles* or the *public finance* literature.
- I found two reasons for why previous research could have underestimated the true effects.



About me

- Previous research
- Main results
- Heterogenous effects
- Accountability
- Partisan effects All parties

1 Cabinet changes instead of vote shares

- Several studies use the probability of re-election as dependent variable.
- Obvious risk of reverse causation: If parties know that they have a high probability of re-election, they might be more willing to implement fiscal adjustments.
- The problem remains but is smaller with changes in vote shares.
- Anyhow, the problem creates a bias towards fiscal conservatism.
- Using a dichotomous outcome also means throwing away scarce and valuable information.



About me

Previous research

Main results

Heterogenous effects Transparency Accountability

Partisan effects All parties

2 No cyclical adjustment of the budget balance

- All these studies measure fiscal adjustments as the accumulated change in the budget balance.
- Four of them do not adjust the budget balance for the state of the economy.
- Obvious risk of spurious relationship in the opposite direction: a decrease in unemployment improves the budget balance and increases support for the government.



My model

About me

Previous research

Main results

Heterogenous effects Transparency Accountability

Partisan effec

$$v_{p,e} = a + sbb_{p,e} + \phi_{p,e} + \chi_e + \psi_p + e_{p,e} \tag{1}$$

$$sbb_{p,e} = \sum_{c=1}^{n} (sbb_{last,c} - sbb_{first,c}) \times cab_{c}$$
 (2)



About me Previous research Main results

effects

Main results

	(1) Re-election	(2) Vote change	(3) Vote change	(4) Vote change
Change while in government				
Structural budget balance	0.06			-1.02***
	(0.06)			(0.25)
Non-adjusted budget balance		-0.21	-0.69***	
		(0.20)	(0.22)	
Unemployment rate	-0.06		-0.94**	-0.73*
	(0.07)		(0.40)	(0.38)
GDP growth	0.02		0.07	0.02
	(0.04)		(0.19)	(0.17)
Average GDP growth	-0.20^{**}		0.18	-0.29
	(0.08)		(0.51)	(0.49)
Right-wing party	0.34	1.16	1.06	1.01
	(0.22)	(0.85)	(0.79)	(0.75)
Constant	0.64**	-2.96***	-2.51^{*}	-0.79
	(0.28)	(0.66)	(1.31)	(1.31)
Observations	182	182	182	182
Adjusted R ²		0.006	0.143	0.182



Heterogeneous effects

About me

- Previous research
- Main results

Heterogenous effects

Transparency Accountability Partisan effects All parties

- It is a common assumption that voter reactions are stronger when policy changes are transparent and it is clear which party that is accountable.
- I include a wide range of indicators for both transparency and accountability.
- Admittedly, some of them are questionable and the interpretations are not always obvious.
- This part of the paper is more exploratory. I plan to narrow it, but I am not sure how.



Transparency

About me

- Previous research
- Main results
- Heterogenous effects
- Transparency Accountability Partisan effects

- Transparency is lower during episodes of fast economic growth.
- Transparency increases with the size of adjustments.
- A transparent budget process increases transparency of fiscal adjustments.
- Parties can announce their fiscal policy before being elected (a different kind of transparency[?]).



Transparency

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Previous research

Main results

Heterogenous effects

Transparency

Partisan effects

	(1)	(2)	(3)	(4)
Change while in government				
Structural budget balance	-1.11^{***}	-0.19	-0.42^{*}	-0.92**
	(0.22)	(0.48)	(0.22)	(0.32)
Unemployment rate	-0.51	-0.61	0.23	-0.76^{*}
	(0.42)	(0.41)	(0.30)	(0.44)
GDP growth	0.06	0.03	-0.29*	0.08
	(0.16)	(0.16)	(0.15)	(0.17)
nteraction with SBB				
$SBB \times Average growth$	0.16***			
	(0.05)			
$SBB \times SBB$		-0.10^{**}		
		(0.04)		
SBB \times Fiscal transparency			-0.38^{*}	
			(0.22)	
$SBB \times Austerity manifesto$				0.40**
				(0.19)
Fiscal transparency			0.01	
			(0.42)	
Austerity manifesto				-0.78^{*}
				(0.40)
Average GDP growth	-0.52	-0.29	0.74**	-0.54
	(0.47)	(0.49)	(0.33)	(0.53)
Right-wing party	0.73	0.76	0.49	0.72
	(0.71)	(0.72)	(0.57)	(0.69)
Constant	-0.45	-1.43	-2.91^{***}	-0.05
	(1.28)	(1.41)	(0.97)	(1.45)
Observations	182	182	147	162
Adjusted R ²	0.210	0.200	0.106	0.127



Accountability

- About me
- Previous research
- Main results
- Heterogenous effects
- Accountability
- Partisan effects All parties

- The PM's party is held accountable to a larger degree.
- Accountability is higher for majority governments.
- Accountability decreases with the number of government parties.
- Accountability is higher when a party has been in cabinet for a long time.



Accountability

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Previous research

Main results

Heterogenous effects

Transparency

Accountability

Partisan effects All parties

	(1)	(2)	(3)	(4)
Change while in government				
Structural budget balance	-0.44	-0.70	-1.38^{**}	-0.95**
	(0.32)	(0.45)	(0.53)	(0.27)
Unemployment rate	-0.66*	-0.72*	-0.60	-0.42
	(0.39)	(0.38)	(0.40)	(0.27)
GDP growth	0.02	0.02	0.08	-0.06
	(0.17)	(0.17)	(0.17)	(0.13)
Interaction with SBB				
$SBB \times PM$'s party	-0.87**			
	(0.41)			
$SBB \times Majority government$		-0.41		
		(0.51)		
$SBB \times Government parties$			0.20	
			(0.19)	
$SBB \times Incumbent last period$				-0.05
				(0.55)
Prime minister's party	0.00			
	(1.32)			
Majority government		0.16		
		(1.55)		
Government parties			0.59	
			(0.37)	
Incumbent last period				1.93
				(1.43)
Average GDP growth	-0.24	-0.28	-0.18	0.27
	(0.51)	(0.49)	(0.48)	(0.34)
Right-wing party	1.06	1.08	1.26*	1.34*
	(0.76)	(0.76)	(0.73)	(0.77)
Constant	-1.15	-0.91	-3.18^{*}	-3.40**
	(1.38)	(1.84)	(1.73)	(1.50)
Observations	182	179	182	171
Adjusted R ²	0.203	0.179	0.219	0.218



Accountability

- About me
- Previous research
- Main results
- Heterogenous effects
- Transparency
- Accountability
- Partisan effects All parties

- Voters should punish leftish governments for fiscal adjustments when there is a high risk of default.
- That risk is operationalized as the interest rate on government bonds (compared to Germany).



About me Previous research Main results

effects

Partisan effects

Partisan effects

	(1)	(2)	(3)
Change while in government			
Structural budget balance	-1.25^{***}	-1.76^{**}	-0.42
	(0.25)	(0.74)	(0.36)
$SBB imes Right ext{-wing}$	0.72*	1.56	-0.23
	(0.42)	(1.97)	(0.41)
Unemployment rate	-0.70^{*}	-0.94	-0.37
	(0.37)	(0.79)	(0.36)
GDP growth	0.03	0.54	-0.06
	(0.17)	(0.63)	(0.17)
Average GDP growth	-0.32	-0.90	0.19
	(0.48)	(1.30)	(0.43)
Right-wing party	-0.29	-2.28	1.43
	(1.01)	(3.37)	(1.07)
Constant	-0.26	0.22	-2.61*
	(1.33)	(3.64)	(1.35)
Observations	182	24	136
Adjusted R ²	0.189	0.525	0.017
Risk for default	-	Large	Small



All parties

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Main results

Heterogenous effects Transparency

Accountability

Partisan effec

All parties

(0.28)  (0.39)  (0.32)    Unemployment rate  -0.55  -0.57    (0.38)  (0.37)  (0.38)    (0.16)  (0.17)  (0.18)    Change during period  5  -0.57    Structural budget balance  0.31*  1.02***    (0.15)  (0.24)  (0.26)    Unenployment rate  0.00  0.01  (0.11)    GDP growth  0.03  0.03  0.03    SBB × Paliament experience  -0.62***  5    SBB × Right-wing scale  (0.39)  (0.01)    SBB × Distance from centre  (0.24)  (0.26)    Quartiment experience  -0.64*+  (0.11)    Parliament experience  -0.64*  (0.11)    SBB × Distance from centre  (0.24)  (0.26)    Government experience  0.29*  (0.24)		(1)	(2)	(3)
(0.28)  (0.39)  (0.32)    Unemployment rate  -0.55  -0.57    (0.38)  (0.37)  (0.38)    (0.16)  (0.17)  (0.18)    Change during period	Change while in government			
$\begin{array}{rrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrr$	Structural budget balance	$-1.53^{***}$	$-1.69^{***}$	$-1.53^{***}$
(0.38)  (0.37)  (0.38)    CDP growth  -0.18  -0.19  -0.18    Change during period  (0.17)  (0.17)  (0.17)    Structural budget balance  0.31**  1.02***  0.24    Unemployment rate  0.00  0.01  (0.12)    GDP growth  0.03  0.03  0.03    Interaction with SBB  (0.88)  (0.08)  (0.08)    SBB × Paliament experience  -0.42***  (0.26)    SBB × Right-wing scale  -0.03  (0.31)    SBB × Distance from centre  (0.04)  (0.01)    Paliament experience  -0.24  (0.26)    Government experience  0.24  (0.11)    Paliament experience  -0.04  (0.11)    Paliament experience  0.29  (0.08)	-	(0.28)	(0.39)	(0.32)
GDP growth  -0.18 (0.17)  -0.19 (0.17)  -0.18 (0.17)    Change during period  0.31**  1.02***  0.24    Structural budget balance  0.31**  1.02***  0.24    Unemployment rate  0.00  0.01  0.01    GDP growth  0.03  0.03  0.03    Interaction with SBB  0.08  (0.08)  0.08    SBB × Parliament experience  0.24  0.24    SBB × Right-wing scale  0.03  0.03    SBE × Distance from centre  (0.39)  0.01    Parliament experience  0.24  (0.01)    Ocorennment experience  0.24  (0.02)    SBE × Distance from centre  (0.03)  (0.01)    Query  0.03  (0.03)  (0.01)    Parliament experience  0.29  (0.04)  (0.01)	Unemployment rate	-0.55	-0.55	-0.57
(0.17)  (0.17)  (0.17)    Change during period  0.31**  1.02***  0.24    Structural badget balance  0.31**  1.02***  0.24    Unemployment rate  0.00  0.01  0.01    GDP growth  0.03  0.03  0.03    Interaction with SBB  0.08  (0.08)  (0.08)    SBB × Pailament experience  0.24  (2.26)    SBB × Right-wing scale  (0.05)  0.03    SBB × Distance from centre  (0.06)  (0.01)    Parliament experience  -5.06*+  (0.04)    Government experience  0.29  (0.24)    Government experience  0.29  (0.04)		(0.36)	(0.37)	(0.38)
Change during period  0.31**  1.02***  0.24    Structural budget balance  (0.15)  (0.24)  (0.26)    Unemployment rate  (0.00)  (0.01)  (0.11)  (0.12)    GDP growth  (0.03)  (0.03)  (0.03)  (0.03)  (0.08)    Interaction with SBB  (0.08)  (0.08)  (0.08)  (0.08)  (0.08)    SBB × Parliament experience  0.24***  (0.26)  (0.39)  (0.11)    SBB × Right-wing scale  (0.03)  (0.03)  (0.01)  (0.11)  (0.11)    Parliament experience  -5.96***  (0.04)  (0.01)  (0.11)    Parliament experience  0.29  (0.04)  (0.06)  (0.04)	GDP growth	-0.18	-0.19	-0.18
Structural backget balance  0.31**  1.02***  0.24    Unemployment rate  0.00  0.01  0.01    GDP growth  0.03  0.03  0.03    Interaction with SBB  0.08  (0.08)  (0.08)    SBB × Pailament experience  -0.82***  -0.82***    SBB × Right-wing scale  (0.09)  -0.03    SBB × Distance from centre  -0.04  (0.11)    Parliament experience  -0.04  (0.11)    Government experience  -0.04  (0.11)    Government experience  0.29  (0.29)    Government experience  0.29  (0.08)		(0.17)	(0.17)	(0.18)
(0.15)  (0.24)  (0.26)    Jumploymer rate  (0.00)  0.01  0.01    (0.10)  (0.11)  (0.12)  (0.12)    GDP growth  (0.03)  (0.08)  (0.08)  (0.08)    Interaction with SBB  (0.08)  (0.08)  (0.08)  (0.08)    SBB × Parliament experience  -0.22***  (0.35)  (0.38)    SBB × Right-wing scale  (0.39)  (0.01)  (0.11)    SBB × Distance from centre  -0.04  (0.01)  (0.11)    Parliament experience  -5.96***  (0.04)  (0.01)    Government experience  0.29  (0.06)  (0.06)	Change during period			
Unemployment rate  0.00  0.01  0.01    (0.10)  (0.11)  (0.12)  (0.11)  (0.12)    GDP growth  0.03  0.03  0.03  (0.08)  (0.08)    Interaction with SBB  SBB × Pailment experience  -0.82***  (0.05)  SBB × Right-wing scale  (0.25)    SBB × Right-wing scale  (0.05)  (0.03)  (0.01)  (0.12)    SBB × Distance from centre  -0.04  (0.01)  (0.11)    Parliament experience  -0.50***  (0.04)  (0.04)    Government experience  0.29  (0.04)  (0.04)	Structural budget balance	0.31**	1.02***	0.24
(0.10)  (0.11)  (0.12)    GDP growth  (0.03)  (0.03)  (0.03)    Interaction with SBB  (0.08)  (0.08)  (0.08)    SBB × Parliament experience  -0.82***  (0.26)    SBB × Right-wing scale  (0.39)  (0.39)    SBB × Distance from centre  -0.04  (0.01)    Parliament experience  -5.96***  (0.01)    Government experience  0.29  (0.04)    Government experience  0.29  (0.06)		(0.15)	(0.24)	(0.26)
CDP growth  0.03 (0.08)  0.03 (0.08)  0.03 (0.08)    Interaction with SBB SBB × Palinent experience  (0.08)  (0.08)    SBB × Palinent experience  (0.26)  (0.03)    SBB × Right-wing scale  (0.03)  (0.03)    SBB × Right-wing scale  (0.05)  (0.05)    SBB × Distance from centre  (0.06)  (0.01)    Parliament experience  0.29  (0.04)    Government experience  0.29  (0.06)	Unemployment rate	0.00	0.01	0.01
Interaction with SBB  (0.08)  (0.08)  (0.08)    Interaction with SBB  -0.82***  (0.06)    SBB × Availament experience  0.24  (0.39)    SBB × Right-wing scale  (0.08)  (0.01)    SBB × Distance from centre  -0.04  (0.01)    Parliament experience  -5.96***  (0.01)    Parliament experience  -0.04  (0.01)    Government experience  0.29  (0.08)    Government experience  0.29  (0.08)		(0.10)	(0.11)	(0.12)
Interaction with SBB  -0.82***    SBB × Pailment experience  -0.82***    SBB × Right-wing scale  0.03    SBB × Right-wing scale  (0.65)    SBB × Distance from centre  -0.04    Parliament experience  -0.04    Government experience  -0.04    Government experience  -0.04    Government experience  0.03)    Government experience  0.29    (0.66)  -0.04	GDP growth	0.03	0.03	0.03
SBB × Parliament experience  -0.82***    (0.26)  (0.26)    SBB × Government experience  0.24    SBB × Right-wing scale  (0.35)    SBB × Distance from centre  -0.04    Parliament experience  -5.96***    Government experience  0.29    Government experience  0.29    (0.66)  -		(0.08)	(0.08)	(0.08)
SBB × Government experience  (0.26) (0.39)    SBB × Right-wing scale  0.03 (0.05)    SBB × Distance from centre  -0.04 (0.11)    Parliament experience  -5.96*** (0.04)    Government experience  0.03 (0.06)    Government experience  0.29 (0.06)				
SBB × Government experience  0.24    SBB × Right-wing scale  (0.35)    SBB × Distance from centre  -0.04    Parliament experience  -0.04    Government experience  0.031    Government experience  0.29    (0.66)	SBB × Parliament experience		$-0.82^{***}$	
SBB × Right-wing scale  (0.39)    SBB × Distance from centre  -0.04    Parliament experience  -5.96***    (0.04)  Government experience    0.03  0.29    (0.06)  (0.06)				
SBB × Right-wing scale  0.03    5SB × Distance from centre  (0.05)    SSB × Distance from centre  -0.04    (0.11)  (0.11)    Parliament experience  -0.04    Government experience  0.29    (0.66)  -0.04	SBB × Government experience		0.24	
SB8 × Distance from centre  -0.04    Parliament experience  -5.96***    (0.24)  Government experience    0.29  0.068)			(0.39)	
SBB × Distance from centre 0.04    Parliament experience  -0.596***    (0.84)  Government experience    (0.68)  0.29    (0.68)  0.29	SBB $\times$ Right-wing scale			
(0.11) Parliament experience (0.84) Government experience 0.29 (0.08)				(0.05)
Parliament experience -5.96*** (0.84) Government experience 0.29 (0.68)	SBB × Distance from centre			
(0.84) Government experience 0.29 (0.68)				(0.11)
Government experience 0.29 (0.68)	Parliament experience			
(0.68)				
	Government experience			
			(0.68)	
	Right-wing scale			-0.07
(0.17)				
Distance from centre 0.05	Distance from centre			
(0.19)				
Average GDP growth -0.07 -0.05 -0.07	Average GDP growth			
(0.12) (0.13) (0.12)				
Right-wing party 0.90** 0.70 0.92	Right-wing party			
(0.44) (0.47) (0.78)				
Constant -0.35 5.49*** -0.13	Constant			
(0.45) (0.90) (0.81)		(0.45)	(0.90)	(0.81)
Observations 561 561 561	Observations	561	561	561
Adjusted R ² 0.159 0.169 0.154	Adjusted R ²	0.159	0.169	0.154