Punished for austerity

Pär Nyman
par.nyman@statsvet.uu.se

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Introduction

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

- 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

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!

Previous research

- 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.

Previous research

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.

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Main results

Heterogenous effects

Transparency
Accountability
Partisan effects
All parties

Previous research

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.

Previous research

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

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

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

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

- 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

- 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[?]).

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Transparency

	(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)
Interaction with SBB				
SBB × Average growth	0.16***			
	(0.05)			
SBB × SBB		−0.10**		
		(0.04)		
SBB × Fiscal transparency			−0.38*	
			(0.22)	
SBB × 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

- 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

	(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 × PM's party	−0.87**			
	(0.41)			
SBB × Majority government		−0.41		
		(0.51)		
SBB × Government parties			0.20	
			(0.19)	
SBB × 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

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Accountability

- 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).

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	(1)	(2)	(3)
Change while in government			
Structural budget balance	-1.25^{***}	-1.76^{**}	-0.42
	(0.25)	(0.74)	(0.36)
SBB × Right-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

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	(1)	(2)	(3)
Change while in government			
Structural budget balance	−1.53***	−1.69***	−1.53***
	(0.28)	(0.39)	(0.32)
Unemployment rate	−0.55	−0.55	−0.57
	(0.36)	(0.37)	(0.38)
GDP growth	−0.18	−0.19	−0.18
	(0.17)	(0.17)	(0.18)
Change during period			
Structural budget balance	0.31**	1.02***	0.24
	(0.15)	(0.24)	(0.26)
Unemployment rate	0.00	0.01	0.01
	(0.10)	(0.11)	(0.12)
GDP growth	0.03	0.03	0.03
	(0.08)	(0.08)	(0.08)
Interaction with SBB			
SBB × Parliament experience		−0.82***	
		(0.26)	
SBB × Government experience		0.24	
		(0.39)	
SBB × Right-wing scale			0.03
			(0.05)
SBB × Distance from centre			−0.04
			(0.11)
Parliament experience		−5.96***	
		(0.84)	
Government experience		0.29	
		(0.68)	
Right-wing scale			−0.07
			(0.17)
Distance from centre			0.05
			(0.19)
Average GDP growth	−0.07	−0.05	−0.07
	(0.12)	(0.13)	(0.12)
Right-wing party	0.90**	0.70	0.92
	(0.44)	(0.47)	(0.78)
Constant	−0.35	5.49***	−0.13
	(0.45)	(0.90)	(0.81)
Observations	561	561	561
Adjusted R^2	0.159	0.169	0.154